Offices on the rebound

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Office trends shaping European capital markets

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Foreword

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The European office market has experienced a challenging few years, shaped by COVID-19 and the rise of flexible working, weaker economic growth and higher interest rates.

Office investment volumes fell from a peak of €147 billion in 2019 to less than a third of that figure in 2024, according to MSCI Real Capital Analytics, with the office share of transactions shrinking from around 43% in 2019 to 23% at the end of last year. Values declined by 25-30% and, in some markets, yields softened by 200-250 basis points.

Signs of improvement, however, are beginning to emerge, with the strongest momentum coming from cross-border capital. Office attendance continues to rise, prime yields have stabilised, and rental growth in core office markets has been outpacing logistics since 2023.

Large-scale transactions are reappearing across Europe and office investment volumes in 2025 are up 5% in the first nine months compared to the same period last year. Institutional investors are now also re-engaging with the sector after a subdued period, suggesting that the office sector may indeed be turning a corner.

Renewed confidence is emerging in the office sector, though it remains concentrated in prime locations where supply is constrained, and rental growth is evident.

The sector is beginning to shed its Covid-era stigma as it becomes clear that offices remain essential - provided they align with occupiers' evolving post-pandemic requirements.

While activity in the office sector has by no means returned to pre-Covid levels, momentum is building in certain areas, and investor interest is beginning to strengthen markedly.

This paper explores the market dynamics and recovery signals across Europe, drawing on insights from our local experts.

There is certainly heightened activity across the continent compared to this time 12 months ago, hopefully this is set to continue.

Offices on the rebound

INVESTMENT ACTIVITY: FROM LOWS TO RENEWED MOMENTUM
Although European office investment remains well below its long-term average, early signs of recovery are clear.

In the first nine months of 2025, total European office transactions were up 5% year-on-year for the same period. However, the momentum is coming from cross-border capital. Inbound investment volumes increased by 39% to €10.5bn year-on-year, with relative liquidity concentrated in the UK, France, Germany, Italy and Spain.

Globally, too, offices are regaining favour, ranking as the second-most invested sector for international capital by the end of Q3 2025 behind logistics, up from third position at the end of last year.

+39%

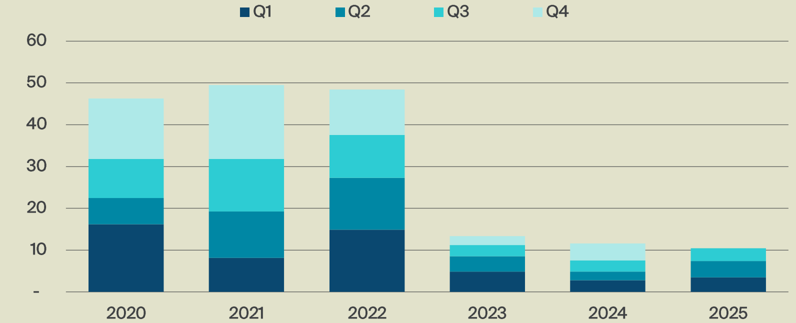
Year-on-year increase in European office cross-border investment in Q1-Q3 2025.
MSCI Real Capital Analytics

EVOLVING CAPITAL: LONDON PAVES THE WAY
London has traditionally acted as a bellwether for the European office market, often setting the tone for trends that later play out across the continent.

In 2024, Central London recorded its weakest year on record, with transaction volumes of just £6.2 billion, compared with a long-term average of £12-13 billion. Even at the height of the pandemic, volumes reached around £9 billion.
The picture in 2025 looks more positive. By the end of the first half of this year, investment volumes in Central London had already surpassed the previous year's total, reaching £6.3 billion, with momentum continuing for the rest of the year. This recovery highlights a renewed depth of demand for London offices from both domestic and international investors.

The composition of capital investing in offices has shifted markedly since the downturn. During 2023, equity-rich private investors dominated activity, taking advantage of a less crowded market. In 2024, private equity firms became the most active buyers, targeting scale and seeking opportunistic entry points into prime locations. By 2025, traditional funds- many of which had been net sellers in previous years- have begun to re-enter the market.

Office cross-border investment is seeing renewed momentum
Europe cross-border office investment (€bn)



Source: MSCI Real Capital Analytics, Knight Frank Insight

> *"In London, 2023 was the year of private capital, with 58% of transactions driven by private investors. In 2024, the spotlight shifted to private equity, with firms such as Blackstone and Ares signalling an opportune point in the cycle to invest. Now, in 2025, we are witnessing the return of UK funds."*
>
> OLLIE THORNTON, PARTNER
> LONDON CAPITAL MARKETS & DEVELOPMENT

In London, for instance, several large UK funds that had disposed of multiple assets since 2020 have now resumed buying, such as Aberdeen's £48 million acquisition of 27 Mortimer Street in London's West End.

Sovereign wealth funds are also re-emerging, highlighting that less leveraged capital has been quicker to re-enter the market.

Capital sources into the London office market are broadening, with overseas investors playing a key role. Both Japanese and Australian investors have been notably more active this year, with investment volumes well above the 10-year average, according to MSCI Real Capital Analytics.

This gradual layering of different capital sources highlights both a return of confidence and a still-fragile recovery. While a wide range of players are active again, institutional money has not yet returned in full force, particularly at the core end of the market.

LARGER LOT SIZES RETURN

Capital is now beginning to flow across to the continent, with private equity targeting core markets including Paris and Amsterdam. This signals growing confidence in European office markets as investors look to deploy capital where opportunities are emerging.

European office transactions above €200mln rose by 20% to nearly €6.2bn in the first nine months of the year, up from €5.1bn, a year earlier, according to MSCI Real Capital Analytics, pointing to renewed investor appetite for larger assets.

+20%

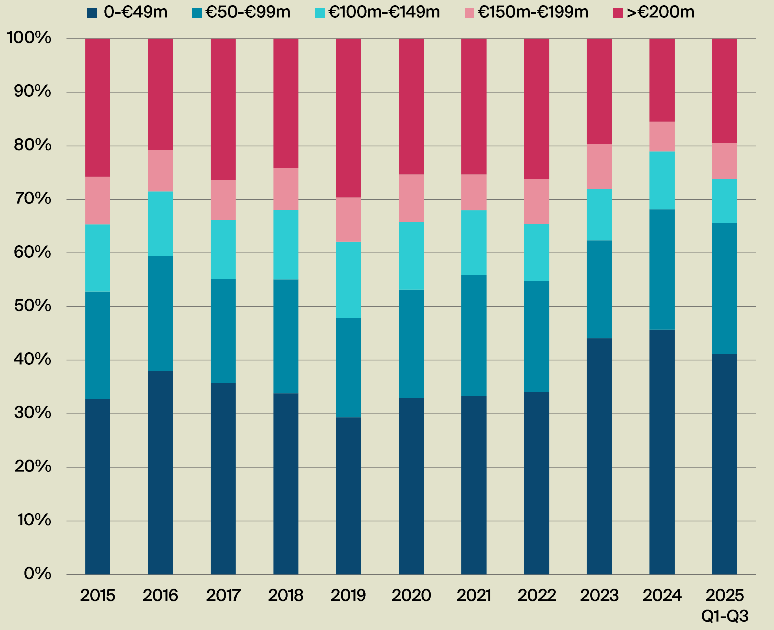
Increase in European office transactions above €200mln year-on-year in Q1-Q3 2025
MSCI Real Capital Analytics

A good example of this is Blackstone's €700mln acquisition of the Trocadéro building in Paris which represents one of the largest and most symbolic office transactions in Europe this year. The deal also marks Blackstone's recommitment to the Paris office market, their first acquisition since 2018.

The Trocadéro deal also reflects a broader pattern emerging across Europe, with the reappearance of "big ticket" transactions. In Germany, Frankfurt's Opernturm owned in JV by J.P. Morgan and GIC is on the market for €900mln and Invesco's Die Welle for €400mln. In Amsterdam Blackstone has recently traded their iconic Weesperstaete to a Japanese private investor for ca. €100mln.

Across all European key markets demand is clustering around opportunities that combine quality locations with clear upside, while outdated stock remains difficult to trade.

Smaller deals dominate but larger transactions gain momentum
European office investment by deal size, % share of total



Source: MSCI Real Capital Analytics, Knight Frank Insight

> ***"After two relatively subdued years, office assets have regained significance, accounting for around 50% of the total transaction volume in Munich at the end of Q3 2025. Major deals include the development project "Momenturm" at Rosenheimer Straße 139 (ca. €150 million) and "Novella 7" at Leopoldstraße 7 (over €100 million)."***
>
> Sarah Červinka, Managing Partner, KNIGHT FRANK MUNICH

Centre d'Affaires Paris Trocadéro Office Sale to Blackstone

Source: Union Investment

RENTAL GROWTH DRIVING INVESTMENT MOMENTUM

Investor appetite is currently concentrated in prime CBD assets and core plus / value-add opportunities. Core assets remain thinly traded, and activity is largely led by private investors rather than institutions.

Strong rental growth in several European capital cities is attracting considerable interest from investors seeking to capitalise on the upswing in prime rents in core locations. Assets that can be repositioned to capture this rental growth are in high in demand from the core plus investor community.

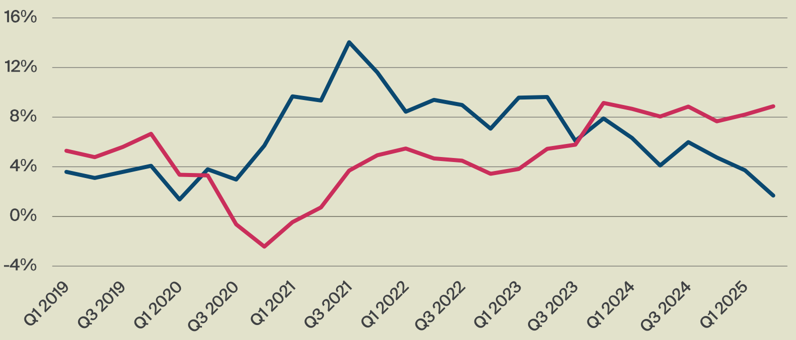
Average European prime office rents rose 8.9% y/y in Q2 2025 and nearly 18% since Q2 2023, outpacing logistics. However, rental growth is even more pronounced in core locations, such as London, Paris CBD and Munich where rents have increased by 34%, 20% and 24%, respectively, since Q2 2023.

This surge in prime rents demonstrates that despite structural changes in working habits, high-quality offices remain central to corporate strategies. Occupiers are using space more selectively but are willing to pay more for best-in-class environments that support talent attraction and retention.

In London, rental growth in both the City and the West End has provided the confidence that funds and institutional investors have needed to return.

Average European prime office rental growth outpaces logistics

Average European prime rental growth (%, y/y)



*Europe includes key cities: Amsterdam, Barcelona, Berlin, Brussels, Budapest, Dublin, London, Munich, Paris, Prague, Vienna, Warsaw

Source: Knight Frank Insight

While prime CBD locations continue to be in demand, peripheral markets are seeing a slower and more uneven pace of activity.

In London, Canary Wharf, which had struggled in recent years, is beginning to see renewed momentum as major occupiers such as HSBC and Revolut recommit to space.

In Munich, urban fringe locations close to universities and talent pools are proving attractive at around €35 per sqm per month, although large decentralised complexes with weaker transport connections continue to struggle.

This divergence shows that while affordability and accessibility can revive peripheral submarkets, quality and connectivity remain non-negotiable. Investors are cautious in these areas, often focusing on assets with conversion potential to residential, serviced accommodation, or healthcare rather than pure office plays.

"In Paris, La Défense offers a compelling value proposition: occupiers can secure best-in-class offices at less than half the rent of CBD space, along with generous incentives, and investors are starting to take notice."

DANIEL ERITH, PARTNER HEAD OF OFFICE INVESTMENT, KNIGHT FRANK PARIS

"Record rents are being achieved across Europe's most sought-after city-centre locations. In Munich for example, prime rents have risen from €40 per sqm per month before the pandemic to €55 per sqm per month in 2025, with a handful of transactions recorded as high as €70 per sqm per month. Paris now stands at €1,200 per sqm per annum."

RICHARD STEWART, PARTNER CAPITAL MARKETS

SUPPLY DYNAMICS

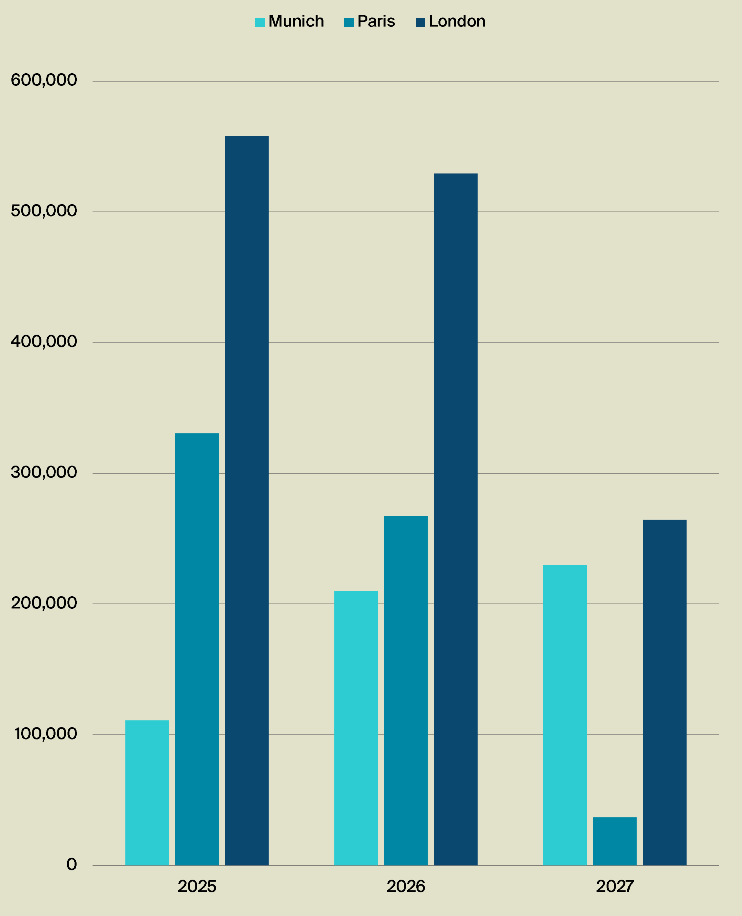
The supply of high-quality office space remains constrained in many European markets.

In Munich, development activity remains slow. Fewer projects are breaking ground as rising financing costs, market uncertainty and selective investor sentiment weigh on developer confidence. Many planned schemes have been postponed or cancelled altogether, suggesting further declines in the years ahead. At the same time, completed projects are being absorbed rapidly, particularly those in prime locations along the western edge of the historic city centre

In Paris, the CBD continues to record strong pre-letting activity, with 62% of leases signed before completion, ahead of the wider Île-de-France market. The 2025 delivery pipeline is almost entirely let, with very little space still available, particularly in the 9th arrondissement. Companies seeking new-build space will therefore shift their focus to 2026 projects, although only a limited share of the expected supply remains available, most of it located in the Étoile sector. In addition, upcoming supply will be complemented by refurbished space returning to the market, including several large buildings offering over 1,000 sq. m.

European cities development pipeline

sqm, as of Q2 2025



Paris comprises CBD and La Défense

Source: Knight Frank Insight

MARKET VIEW

Debt perspective: New appetite for financing office assets

Lisa Attenborough, Partner, Knight Frank Capital Advisory, explores the current landscape of the European debt market

The European debt market is benefiting from previously unseen levels of liquidity. Recent market dynamics - rising interest rates, lower transaction volumes - have led to an abundance of credit and a reduction in demand for debt, the outcome of which is driving competitive financing terms across Europe. This appetite extends to financing office assets. Lenders can see that occupier trends have shifted and in many major cities across Europe, there is insufficient supply of high-quality and ESG appropriate offices. A reduction in development activity in recent years will only exacerbate the demand / supply imbalance. As a result, we have seen new lending grow across the continent, with bank lenders offering tight pricing for core office acquisitions / refinancings, and non-bank lenders backing value add business plans for well-located opportunities. Macro and micro location is key.

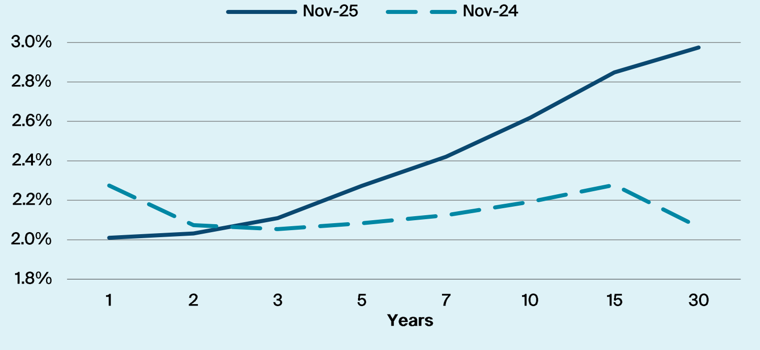
Whilst lender appetite has improved since the start of the year, pricing has come in. Margins for core assets in major cities across Europe are in the mid-100s and for well-located value-add assets are in the mid to high-200s. Tighter pricing coupled with reducing interest rates, means that debt is now broadly accretive. This is supporting the resurgence of larger ticket (€200m+) trades.

Despite the shifting positive sentiment, there is less liquidity for financing assets in peripheral locations. For these assets, we have seen lenders provide finance where there is conversion potential for residential or hospitality-led opportunities. On the basis that funding requests are supported by a clear and viable business plan, this is pathway to obtaining a competitive financing package to support asset repositioning.

Swap rates have come down
5-year Euribor swap rate (%)

Source: Macrobond, Knight Frank Insight

Euribor swap curve lower in the short-term
3-month Euribor swap curve (%)



Source: Chatham Financial, Knight Frank Insight
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Recent research

The Brussels Office Market

Fresh data and insights on the capital of Europe.

Prague Office Market

A regular quarterly update on the Prague office market looking at supply and demand patterns and analysing major occupier trends.

Munich Office Spotlight

Spotlight Munich highlights the key issues in the Munich office market - supply, demand and prices are examined from the past, present and future.

Paris CBD Office Market

A detailed overview of the latest trends shaping the Paris CBD office market.

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