

H2 2025

CBRE Investment
Management

EMEA

Real Estate House View



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Introduction and key calls



KEY CALL 1

Amidst uncertainty, Europe proves its resilience

Europe’s economy has been resilient in the face of uncertainty and conditions remain conducive to accelerating growth ahead. Uncertainty has paused the improving liquidity trend and the positive pricing momentum seen earlier in the year has faded slightly.

KEY CALL 2

Compelling return outlook driven by occupier market strength

Prime rent growth in Europe has outpaced that seen in other regions. Our forecast is for further robust growth, in particular, because the supply outlook is constrained. Combined with sensible pricing compared to other asset classes and widely accretive debt, we believe now is an excellent time to deploy capital in European real estate markets.



KEY CALL 3

Wide opportunity set across sectors

Going forward, performance will not be dictated to the same extent by allocating to the right sectors, but rather require being in the right markets and assets within each sector. Since asset-level performance will be mixed, matching occupier expectations will be critical. Asset selection, deal sourcing and asset management excellence are more important now than ever.

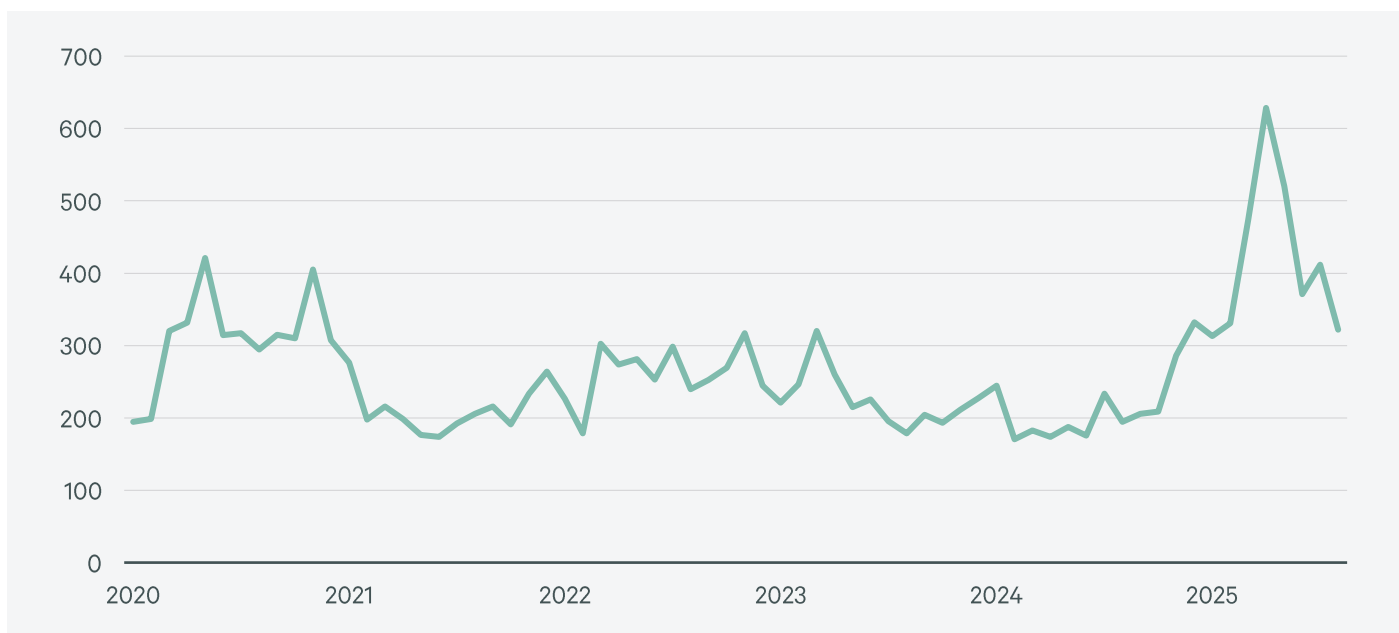
Amidst uncertainty, Europe proves its resilience

Economic resilience with stimulus yet to come

Europe’s economy has continued to grow through 2025, despite unprecedented economic policy uncertainty (**Figure 1**). U.S. trade policy did not derail activity in the Eurozone as had been expected. Economic data has exceeded expectations through most of 2025. Overall, growth has been modest though and we still await a genuine acceleration.

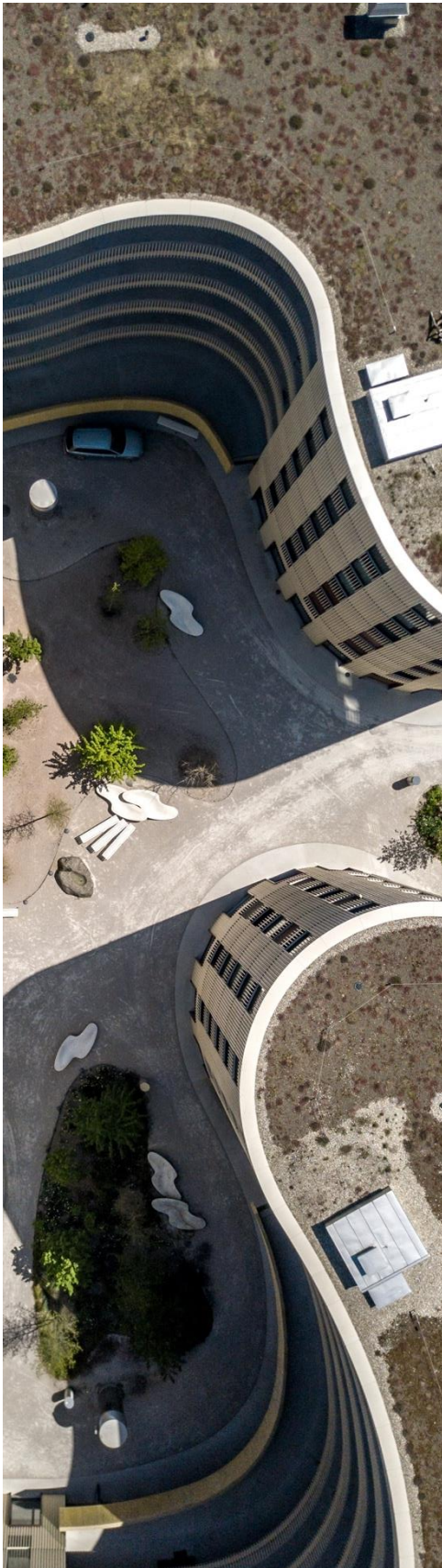


Figure 1: Economic Policy Uncertainty Index, 100 = 1997-2015 average



Source: policyuncertainty.com as of Q3 2025.
Based on the subjective judgment of CBRE Investment Management professionals and subject to change.

The GDP growth outlook has hardly changed from our H1 view, with conditions in place for accelerating growth ahead. The Eurozone economy is becoming more driven by domestic demand and we believe that higher public investment, especially in Germany, will be a catalyst for stronger growth. This new tailwind is likely to be reflected in data from the second half of 2026.

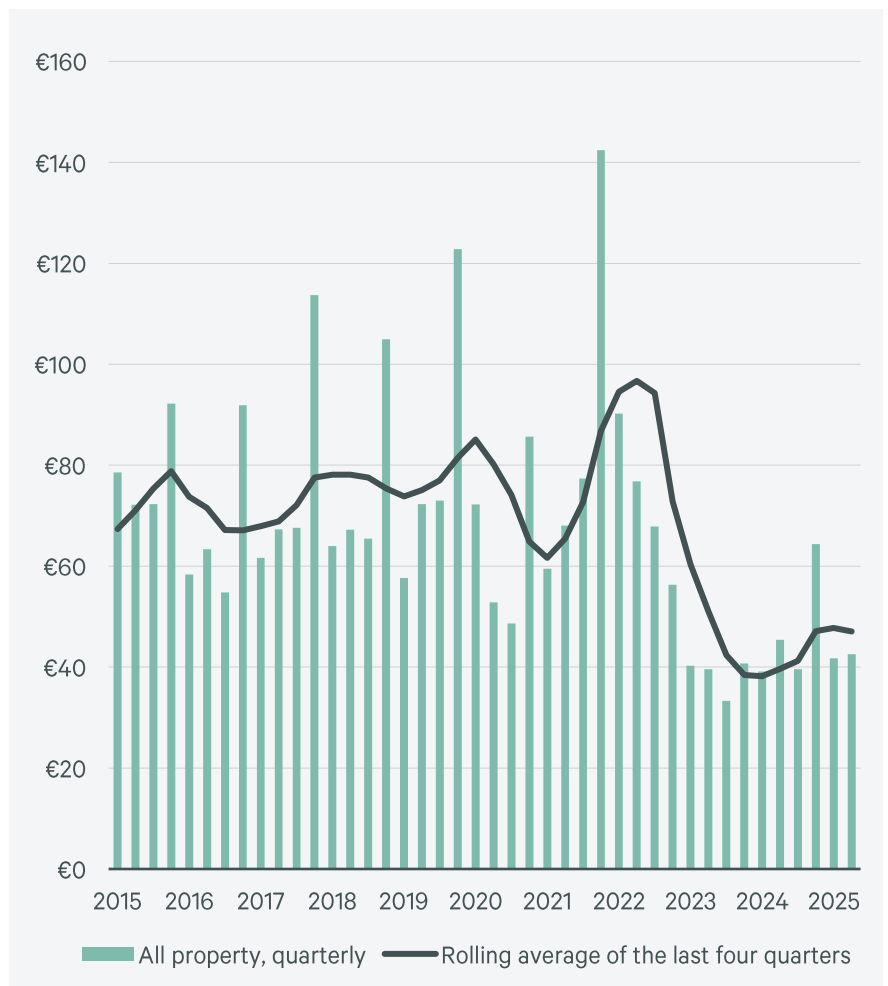


Liquidity improvement on pause

The uncertain backdrop has interrupted the recovery in investment market activity. The upwards trend in annual European real estate investment volumes has stalled (**Figure 2**), with activity in the first half of 2025 broadly in line with the first half of 2024.

We view this as a temporary pause and expect the trend of improving liquidity to resume through late-2025 and into 2026. Uncertainty has receded from its recent peak with the range of trade policy outcomes narrowing. Investors are adapting to operating in this new environment, which bodes well for the expectation of continued future U.S. tariff changes and policy surprises. Against this backdrop, we expect Europe’s stability to be viewed favorably by global investors.

Figure 2: Investment volumes, Europe, € in billions



Source: RCA, CBRE Investment Management as of Q3 2025.
Based on the subjective judgement of CBRE Investment Management professionals and subject to change.

Prime pricing is firm

The positive pricing momentum we saw around the turn of the year has faded slightly. Across 440 prime European markets tracked by CBRE’s valuation team, fewer are now trending stronger than earlier in the year and almost no markets are trending weaker. The big picture is one of yield stability.

European real estate pricing looks comfortable relative to fixed income markets. Looking ahead, we are not counting on falling interest rates as a major driver of returns. We expect European government bond yields to move broadly sideways over the forecast period, resulting in only marginal real estate yield compression included in the aggregate outlook (**Figure 3**). The return outlook is still compelling in this scenario, as rebased ingoing yields combine with robust income growth prospects.

European real estate pricing looks comfortable relative to fixed income markets.

Figure 3: Sector prime yield forecasts, Europe, %



The yield shift shown in the legend relates to the period Q3 2025–Q3 2030.

Source: MSCI, CBRE, CBRE Investment Management forecasts as of H2 2025. For illustrative purposes only. Based on CBRE Investment Management’s subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change

Compelling return outlook driven by occupier market strength

Income growth to drive returns

Figure 4 puts European prime rent growth in a global context. We see moderation globally for logistics and residential, but with signs of growth rate stabilization. For offices, growth has been accelerating slightly. Retail varies by market. Europe leads the other regions for recent rent growth, outperforming in three sectors and close to the top in the fourth. These rates of rent growth have been delivered in challenging economic circumstances, so we are confident of further robust growth ahead.

We expect prime rent growth over the coming five years to average 2.5% per annum (p.a.). Across the sectors, prospects are quite tightly clustered but we expect the strongest rent growth for residential (2.9% p.a.). The undersupply of housing across Europe’s cities is unchanged and household incomes are forecast to grow comfortably ahead of inflation. Logistics, which has consistently topped this hierarchy over recent years, now drops back to marginally below the all property average (2.3% p.a.). We remain positive on the outlook for modern logistics in key hubs, but the same optimism does not stretch to older assets in second tier markets.

2.5% p.a.

average prime rent growth over the coming five years

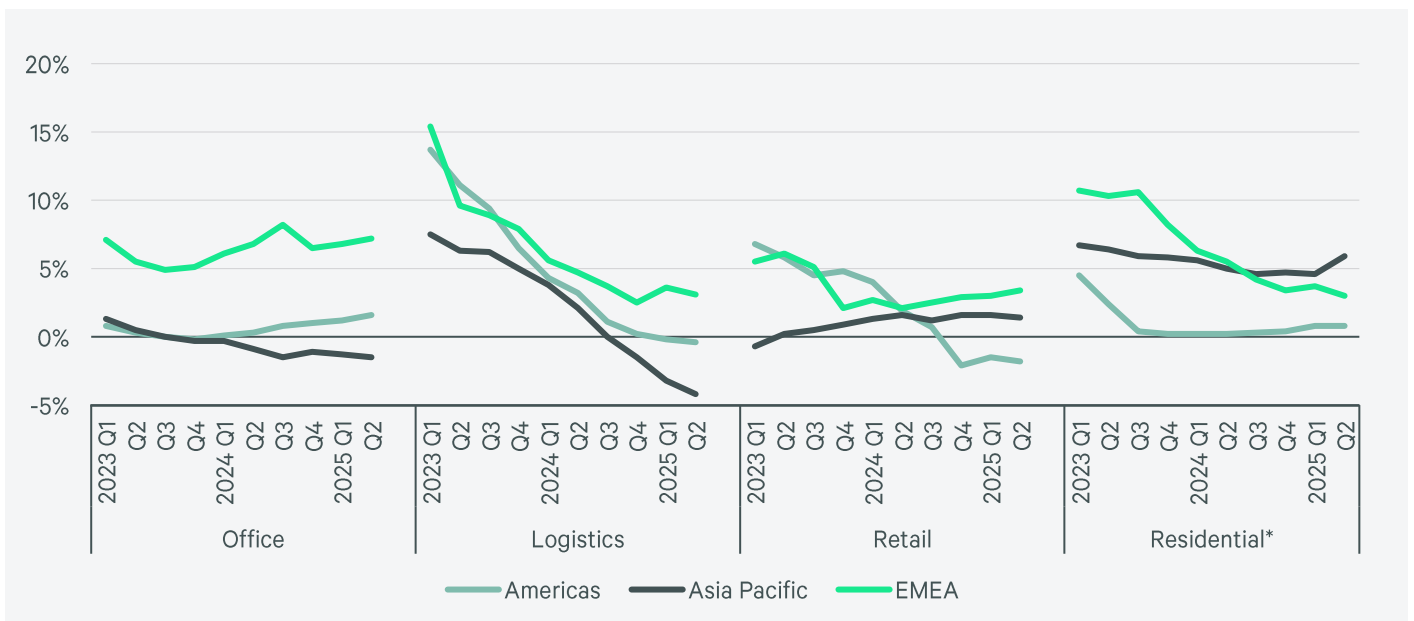


2.9% p.a.

strongest rent growth for residential expected



Figure 4: Global prime rent growth, % Y-o-Y



*Residential data comes from mixed sources.

Source: CBRE, RealPage, CBRE Investment Management as of Q3 2025.

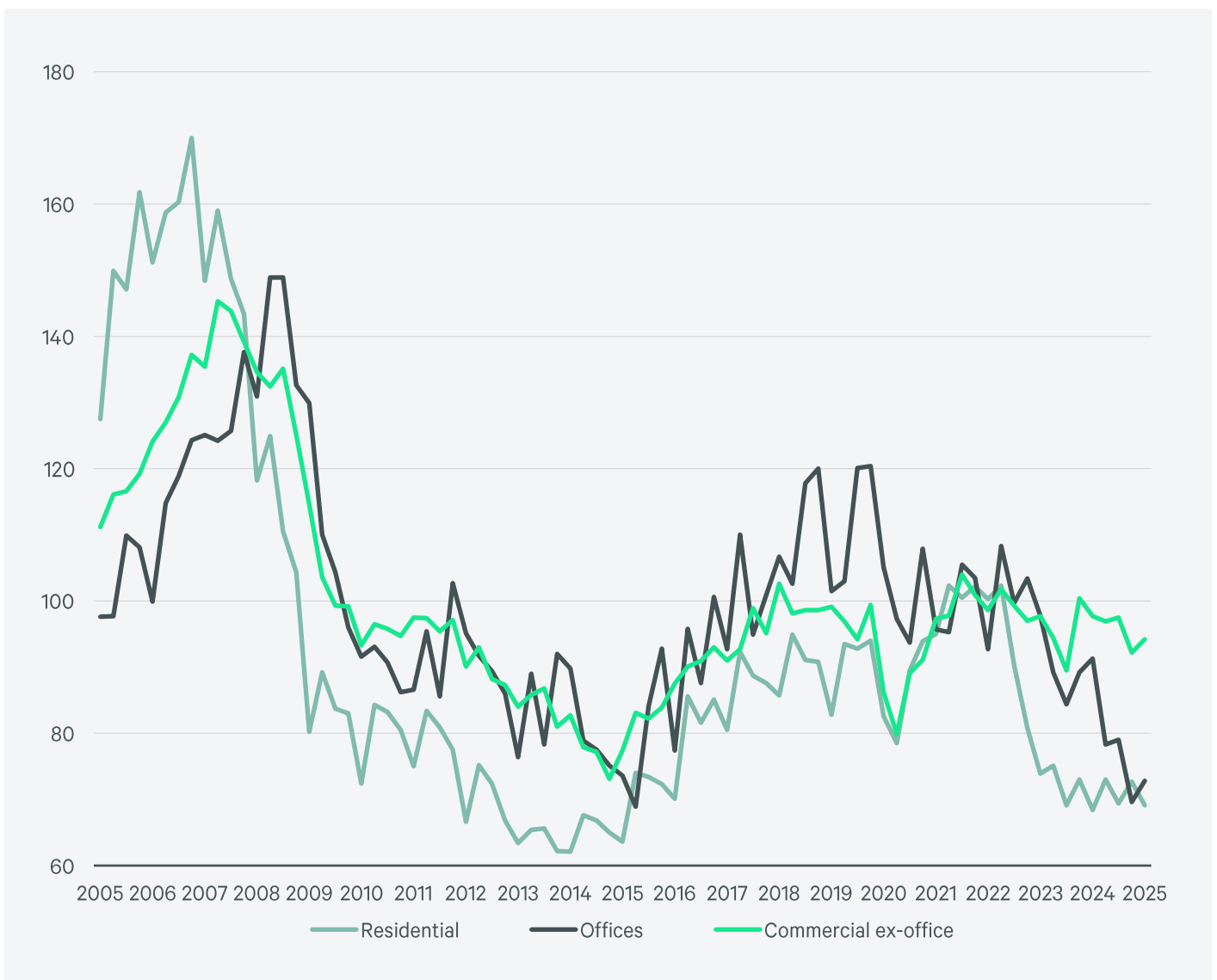
Based on the subjective judgement of CBRE Investment Management professionals and subject to change.

Lack of new supply to become more acute

The supply backdrop remains subdued. The last of the pipeline started in the lower interest rate environment is now being completed, with little follow-on supply. The quantity of new permits issued across Europe for residential and office construction are close to their lowest levels recorded over the past 20 years (**Figure 5**). In both cases, supply shortages will become more acute over the next few years. The trend for ‘commercial excluding offices,’ which is driven by logistics construction, is less stark. Even here though, construction activity has slowed and the upward trend in vacancy is likely to end later this year.

Overall, with supply shortages set to become more acute, it is likely that where we see pockets of strong demand, we will get spikes of rent growth well in excess of the average rates discussed above. This will drive greater dispersion of market- and asset-level performance within each of the sectors.

Figure 5: European construction permits index, 100 = 2021



Source: Eurostat, CBRE Investment Management as of Q3 2025. Based on the subjective judgment of CBRE Investment Management professionals and subject to change.

Compelling return outlook, supported by accretive debt

The aggregate European total return outlook is almost unchanged from H1, at 7.4% p.a. for the coming five years on a gross unlevered basis. This is stronger than the outlook for other global regions, as was the case in our H1 outlook. Most sector outlooks have been downgraded slightly as yield compression has been reduced to reflect changing conditions in fixed income markets. Modern offices are the exception, with a notable upgrade offsetting downgrades elsewhere.

The persistent operational strength of best-in-class offices is the key factor for office performance. Office occupiers are still looking to trade-up in terms of quality, location or both. Vacancy in the CBDs of Paris, Munich, Milan, Madrid and London (West End) all remain at or below 5%. Consequently, there are already early signs that the very strong performance of the prime end of the market may begin to spill over to support the next tier of buildings and locations.

Adding to the appeal of European real estate, leverage is accretive to returns across most markets. Falling swap rates brought down debt costs through 2024. In 2025, margins have compressed reducing costs further as competition has increased among lenders.

Leverage is accretive to returns across most markets.

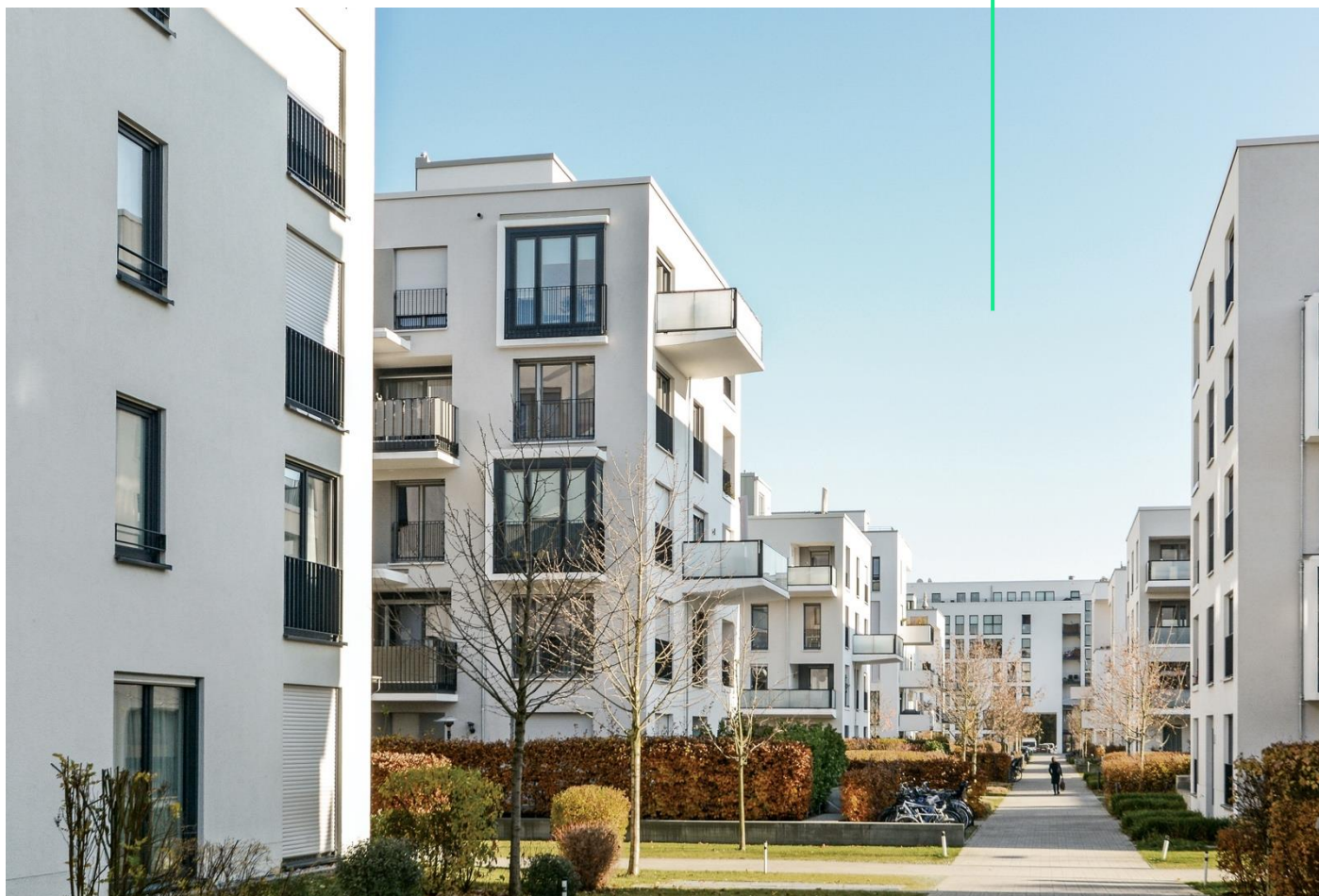


Figure 6 shows the return outlook across selected markets on both an unlevered and levered basis. For continental European markets, the leverage effect, shown in bright green, often adds significantly to the expected annual return over the forecast period. This is less true of the U.K. or U.S.

Figure 6: Core total returns and breakdown, average for Q4 2025–Q3 2030, levered (30% LTV for residential, 50% otherwise), % Y-o-Y



Total return figures are in local currency, levered and for passive, fully invested good quality institutional portfolios before fees and taxes. Source: CBRE Investment Management forecasts as of H2 2025. Debt cost based on CBRE IM Treasury input. Debt cost as of end of August 2025. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Wide opportunity set across sectors

Sector outlooks converge further

With values rebased, sensible pricing compared to other asset classes, ongoing rent growth and debt widely accretive to returns, we believe now is an excellent time to deploy capital in European real estate markets. We see the opportunity set as wide and reaching across all sectors. Already in our previous House Views, we were becoming more sector agnostic. Now with the improved outlook for offices, that view is accentuated further.

Our proprietary RARE tool compares the total return outlook to a required return for each market, with a selection shown in **Figure 7**. According to this analysis, across Europe, 25% of covered markets are expected to deliver returns of more than 1% p.a. above their calculated required return over the next five years. A further 45% of markets are expected to deliver returns within 1% p.a. of their required returns, so they are likely to include attractive opportunities even if the whole market does not screen as attractive. For context, in 2022 more than 60% of markets screened unattractive and only 8% screened attractive.



25%

of covered markets across Europe are expected to deliver returns of more than 1% p.a. above their calculated required return

45%

of markets are expected to deliver returns within 1% p.a. of their required returns

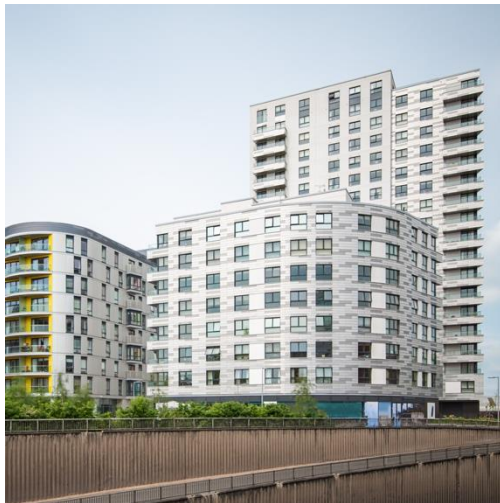


Figure 7: Required return and total return, main sectors, Q4 2025-Q3 2030



PBSA stands for purpose-built student accommodation. HS = High street retail.

Total returns reflect unlevered property returns of a passive, fully invested portfolio before fees and taxes. The return is the five-year average per annum for the period Q2 2025-Q1 2030. Assumptions are generalized to provide a consistent market outlook and asset-specific strategies have not been taken into account.

Absolute RARE line: Markets above the line are expected to generate returns higher than their required return.

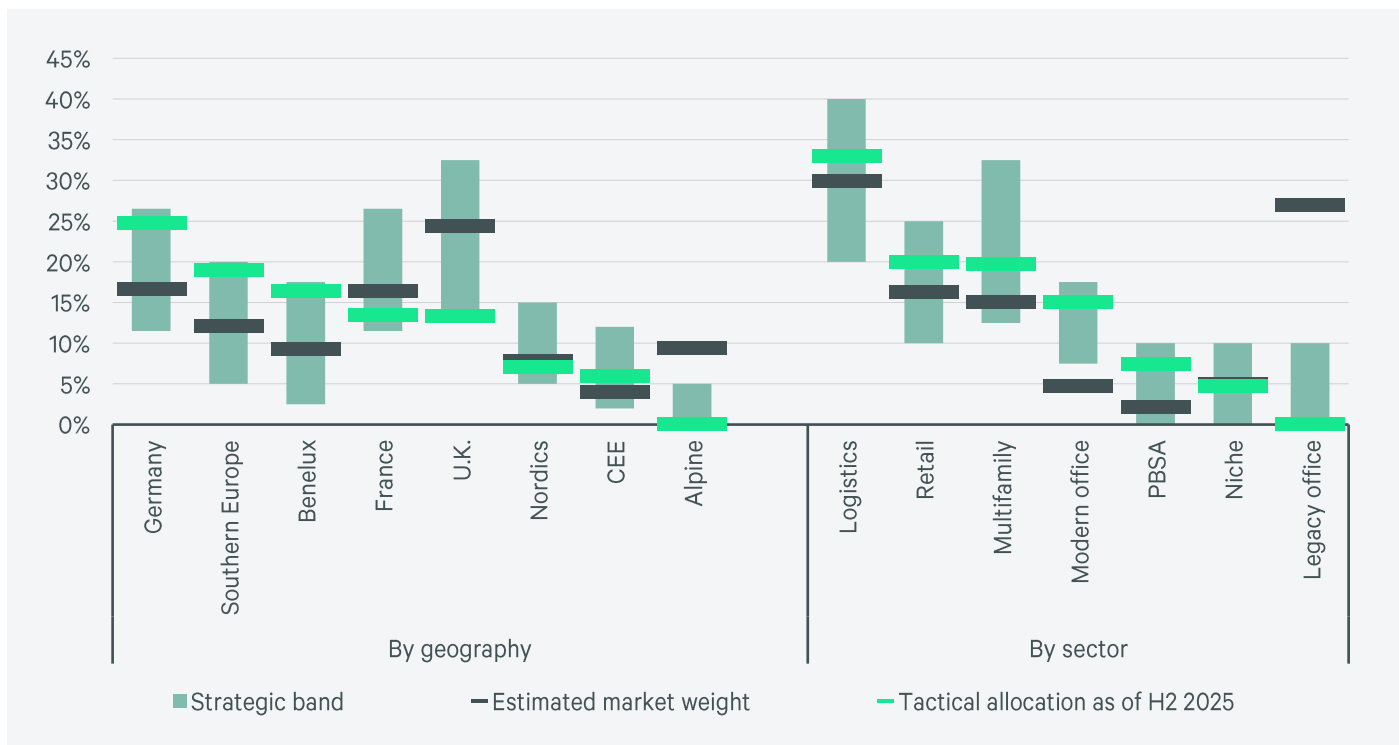
Relative RARE line: During late cycle phases, markets may not achieve required returns given high pricing. The relative analysis takes the average gap between required and forecasted return (the benchmark bubble) as a given for all markets when setting the hurdle (the benchmark line). Hence, markets above the line are expected to perform relatively better than markets below the line.

Source: CBRE Investment Management forecasts as of H2 2025. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Model portfolio shows smaller sector calls and bigger country calls

Residential remains the largest sector overweight position in our European model portfolio, shown in **Figure 8**. We are overweight to both multifamily and student accommodation. The extent of the logistics overweight is reduced as a consequence of modest downgrades to the total return outlook. Retail maintains its overweight position.

Figure 8: Europe model portfolio for core unlevered local currency investors, tactical positioning, % of GAV



Niche refers to the sectors classified as hotel, data center and other in the MSCI index.

PBSA stands for purpose-built student accommodation.

Source: MSCI Pan European Property index. CBRE Investment Management, as of H2 2025. For illustrative purposes only.

Modern office sees the biggest allocation change, moving from 10% to 15%, driven by the improved outlook already outlined. For offices in aggregate, however, we remain significantly underweight. Our view is not to allocate to legacy offices, even though we estimate they account for almost 30% of the European invested universe.

Across countries, we have reduced our U.K. allocation in response to the outlook for government bond yields being revised higher. Similarly, our France allocation is moved further underweight. Sooner or later the bond market will force public spending restraint which will be a headwind to growth.

Germany is the main beneficiary. Our tactical allocation here is revised higher, becoming the largest geographical component of the model portfolio. We see current pricing as compelling and anticipate economic conditions improving from 2026. Southern Europe and Benelux both maintain significant overweight allocations.

Allocating according to the model portfolio offers a return premium of 70 bps over the coming five years in our forecasts, taking the total return outlook from 7.4% p.a. to 8.1% p.a. This underlines the strong case for now being an attractive window to deploy capital in European markets.

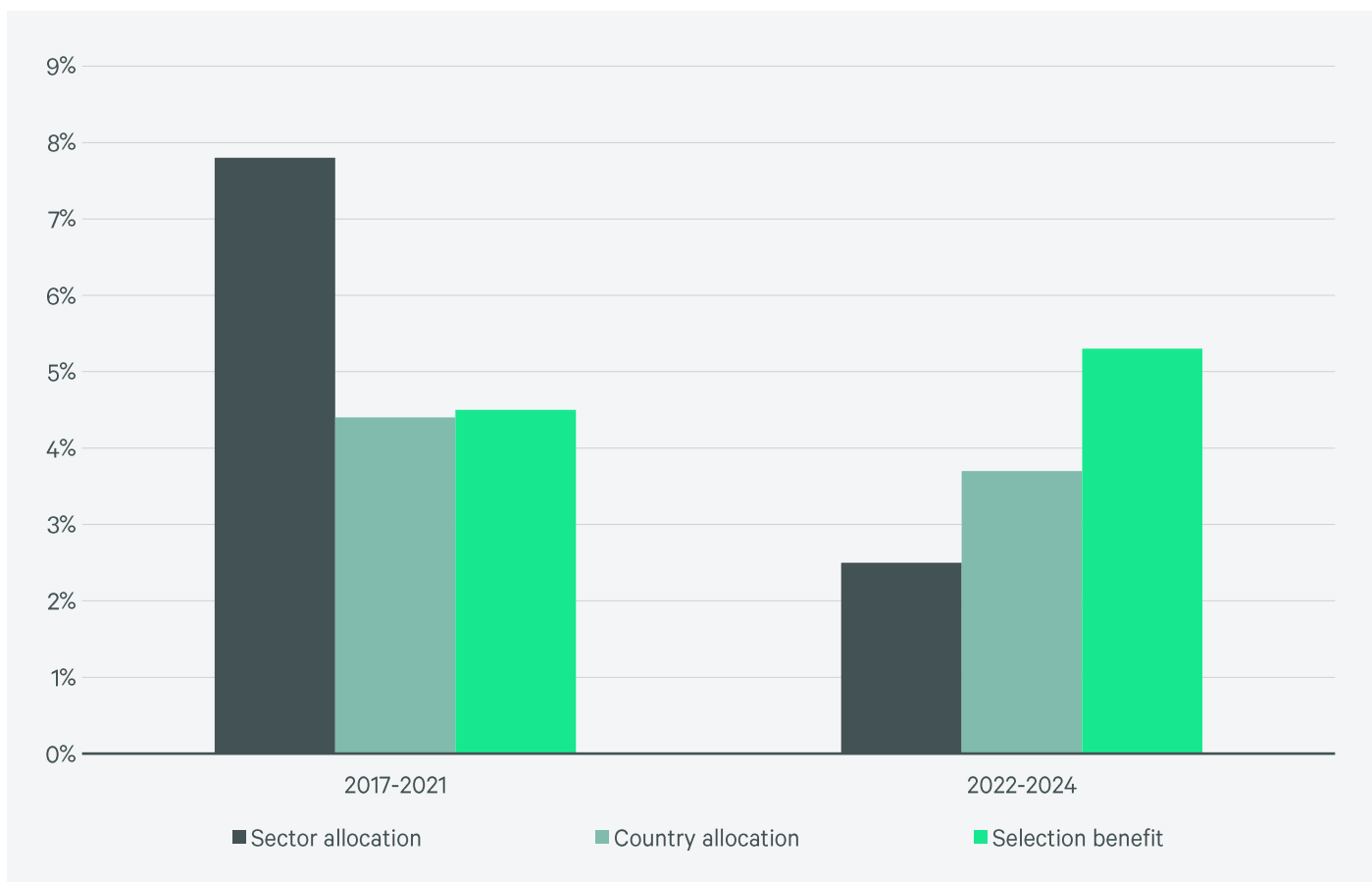
Outperformance driven at the asset level

Within this top-down view, asset-level performance dispersion is increasing. In this environment, asset selection should be guided by a focus on what is most desirable to occupiers. Occupiers have become increasingly discerning and are demanding space that maximizes productivity, improves staff wellbeing, enhances brand, offers flexibility, and has the right sustainability credentials for all asset types.

Figure 9 shows how sector allocation has become less powerful as a driver of relative performance. From 2017-2021, sector allocation was almost as powerful as country and asset selection combined. This was an unprecedented period as investors allocated away from retail and into logistics en masse. Since 2022, we’ve seen sector allocation become the least powerful driver of relative performance. Asset selection leads the way, followed by country selection.

With attractive opportunities across sectors and relative performance driven at a more granular level, asset selection, deal sourcing and asset management excellence are more important now than ever.

Figure 9: European allocation and selection impacts on annual returns, % p.a.



Allocation benefit represents the average uplift of moving from a non-top performing sector or country into a top-performing sector or country (averaged across the sectors/countries). Selection benefit represents the average uplift of moving from the 50th percentile asset to the 75th percentile asset within a sector or country (averaged across the sectors/countries).

Sectors are retail, office, industrial, residential and hotel.

Countries are France, Germany, Italy, Netherlands, Spain and U.K.

Source: MSCI, CBRE Investment Management as at Q3 2025. Based on the subjective judgment of CBRE Investment Management professionals and subject to change.

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