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Looking Beyond the US:

WHY CAPITAL
IS PIVOTING TO EUROPE



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Global markets are yet again facing an unpredictable near-term outlook characterized by political instability, shifting strategic alliances, and economic volatility. In this environment of numerous “unprecedented” events, investors are reevaluating the traditional appeal of private investments into the US and taking a more defensive stance by increasing their allocations to cash and lower-risk assets. In doing so, they will continue to search for regions of relative stability in making decisions to protect and grow their capital.

European commercial real estate—high-quality assets offering strong risk-adjusted returns and long a cornerstone of global wealth preservation—has in recent years experienced an interest rate–related pricing correction more acute than in the US or Asia-Pacific, positioning the sector squarely into this desired category of lower-risk assets presenting a compelling opportunity against a backdrop of global instability.

As well as being a net beneficiary of the current geopolitical turmoil, the sector’s appeal is being driven by the short-term position of the economic cycle, the longer-term structural outlook, and stability relative to other global markets. These attractive cyclical characteristics, when considered along with Europe’s defensive combination of legal protections, robust infrastructure, and long-term growth potential, present favorable conditions for investing in European real estate at a seemingly opportune time.

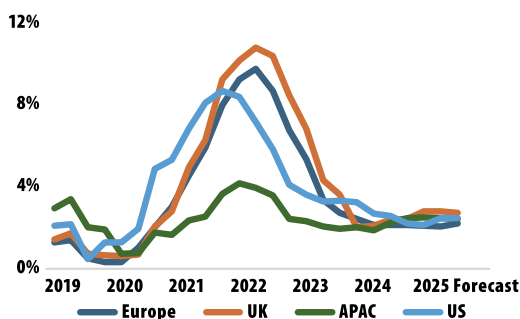
Europe’s Recovery Trends Upward

Inflation and GDP Growth

As macro indicators start to normalize, Europe is expected to be in a stronger relative position, with stabilizing inflation (Exhibit 1) and improving growth (Exhibit 2) relative to other regions. Although European growth still lags other regions, its forecast is trending upward in 2025 while the outlook for the US and Asia is uncertain because of recent geopolitical events. Europe also benefits from more relative economic and political stability versus the volatility observed in other regions.

Exhibit 1: Rolling Inflation 2019–2025F

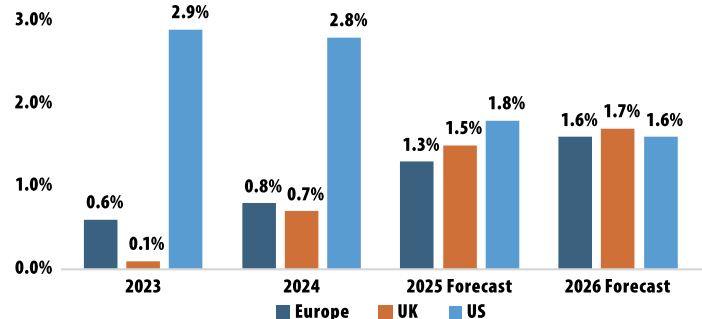
Inflation is stabilizing.



Sources: Moody’s, BlackRock, Cushman & Wakefield; as of 2Q2025

Exhibit 2: GDP Growth 2023–2026F

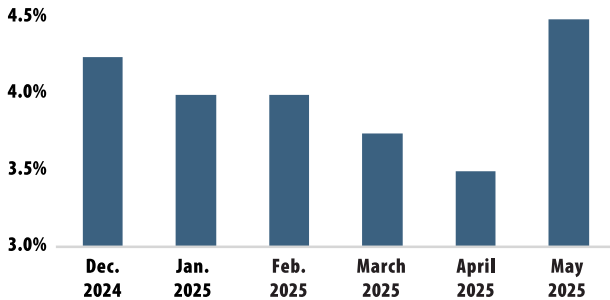
European growth is projected to match that of the US.



Sources: European Commission, Office for National Statistics, International Monetary Fund; as of 2Q2025

Exhibit 3: Expected US Federal Funds Rate at Year-End 2025 (Upper Bound)

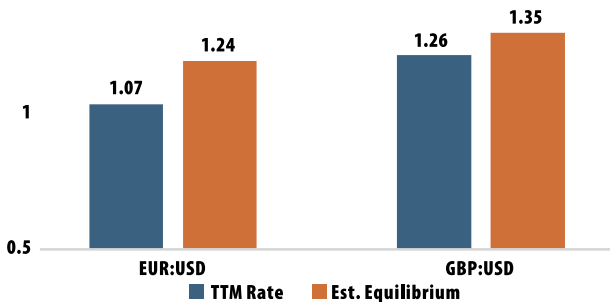
US interest rate expectations reflect market instability.
5.0%



Source: Bloomberg; as of 2Q2025

Exhibit 4: Trailing 12-Month Currency Exchange Rate Versus Expected Equilibrium

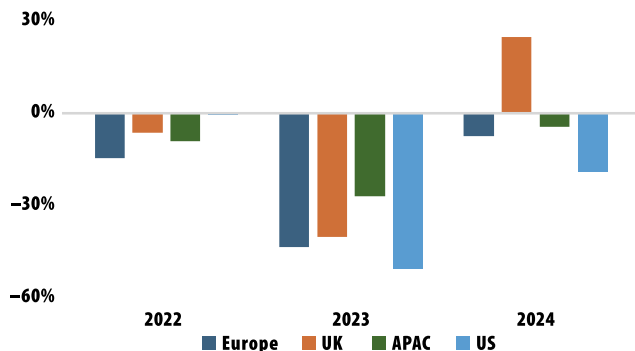
European currency is undervalued relative to the US dollar.
1.5



Sources: X-Rates, Crédit Agricole, BBVA Research; as of 2Q2025

Exhibit 5: Global Real Estate Transaction Volume Year-Over-Year Change

UK transaction activity is recovering faster than other markets.



Sources: Moody's, Cushman & Wakefield; as of 2Q2025

Interest Rates, Monetary Policy, and Financing Conditions

The US Federal Reserve continues to grapple with persistent inflation and higher interest rates (Exhibit 3), while the European Central Bank has been able to take a more balanced approach. Normalization of inflation in Europe has already led to an improved financing environment, and the resulting lower borrowing costs have started to enhance leveraged cash margins for investors and are expected to tighten yields over time, driving higher rates of total returns.

The Euro Advantage and Currency Diversification

Currency relationships are important for real estate investors because fluctuations directly impact the cost and value of international investments and capital allocations. As the euro and the British pound remain undervalued relative to the US dollar, they provide dollar-based investors an immediate pricing advantage and allow them to acquire high-quality European real estate at a discount, with the added upside potential of currency appreciation over time (Exhibit 4). In contrast, the strength of the US dollar has made US real estate more expensive for international investors. As the US dollar faces a period of volatility and concerns of devaluation, euro-denominated assets present a valuable opportunity for diversification.

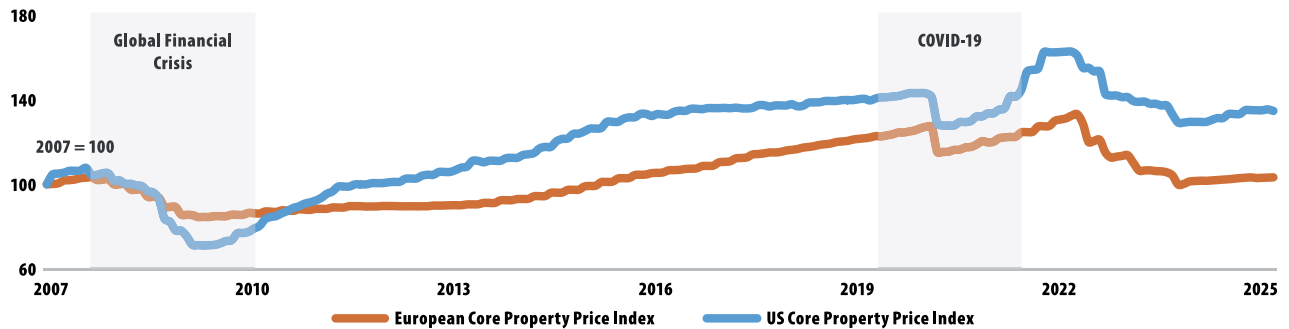
Repricing Drives Recovery

Over the past five years, global real estate transactions and valuations have displayed similar cyclical trends across regions but with slightly different profiles of initial declines and subsequent recoveries. The UK market was first to reprice downward in 2022 but since 2023 has largely stabilized, and yields are significantly higher than historical norms, with transaction volumes up 25% in the past year as of 4Q2024 (Exhibit 5).

In a prolonged higher-rate environment, this dynamic offers attractive low-risk or core returns. However, given the attractive entry basis resulting from the aforementioned repricing, value-added and opportunistic returns are achievable through potential financing gains and future value growth through valuation yield / cap rate compression.

Exhibit 6: Green Street US and European Core Property Price Index

Europe repriced and stabilized faster.



Source: Green Street Advisors; as of 2Q2025

In this context, looking back at historical real estate revaluation cycles is helpful (Exhibit 6). Through the global financial crisis, the US corrected more aggressively than Europe and stabilized faster, supported by rapid policy response. Today, Europe has led this correction, presenting a unique window for institutional investors, especially as the outlook in the US remains unclear.

Unlike in previous cycles, Europe is now positioned at the intersection of cyclical distress and structural resilience. Assets are trading at historically wide discounts to replacement costs, valuation yields have crested and are beginning to normalize, and capital markets are recovering. For investors, this represents the “perfect storm”: discounted entry points in high-quality assets, with the potential for outsized returns as fundamentals continue to improve and catch up with price.

A Shift in Global Allocations

The US has historically offered strong liquidity and institutional depth, but the current environment presents a different profile. Persistent inflation, policy uncertainty, and delayed pricing corrections have resulted in tighter cap rate spreads relative to risk-free rates. In many sectors, income stability has weakened while refinancing risks have grown, undermining investor confidence. The result is a market where valuations no longer adequately compensate for the rising macro and sector-specific risks, prompting investors to demand higher returns or redirect capital elsewhere.

Moreover, US real estate is exhibiting pockets of structural weakness. Office vacancy remains elevated in many large US cities, and supply imbalances are emerging in some multifamily markets. In contrast, most large European cities continue to struggle with chronic and persistent housing undersupply. Urban populations are growing faster than new housing developments can keep up, which we can observe in key capital cities such as Berlin, Amsterdam, and Stockholm. While demand continues to rise in these locations, supply remains limited by regulatory constraints, creating the conditions for sustained rental growth and long-term capital appreciation.

Finally, US political dysfunction coupled with regulatory fragmentation (especially around environmental, social, and governance policy; taxation; and trade) have introduced new layers of uncertainty. European real estate allows investors to rebalance their portfolios and acts as a risk mitigant.

The Future of Real Estate Lies in European Cities

Europe’s gateway cities—London, Berlin, Paris, Amsterdam, and Madrid, among others—should and will dominate investor wish lists. They tend to offer greater liquidity, transparency, and safety, with strong protections for investors and businesses in place with resilience across market cycles.

At the same time, the leading cities of the future are likely to be diverse, cosmopolitan global cities with strong political as well as educational and cultural

Exhibit 7: Comparison of Global Gateway Cities

Rank of Top Global Cities	Economic Scale	Finance Hub	Technology Hub	Air Connectivity	Quality of Life	Innovation	Green Finance	Fintech
	OEI 2024	Z/Yen 2024	C&W 2022	OAG 2023	OEI 2024	2thinknow 2023	Z/Yen 2024	Findexable 2021
New York	1	1	3	2	23	3	3	3
London	4	2	2	1	25	2	1	2
San Francisco	3	5	1	14	7	9	9	1
Singapore	23	3	4	10	2	5	4	8
Paris	6	12	17	7	4	4	13	17
Chicago	5	8	9	8	22	11	8	13
Tokyo	7	15	7	4	18	1	24	12
Los Angeles	2	7	19	26	24	6	6	6
Boston	9	16	12	19	10	7	18	5
Zurich	14	13	10	26	1	24	2	14
Seoul	21	9	13	6	21	8	16	16
Amsterdam	19	18	18	3	3	18	11	10
Toronto	11	17	15	9	17	13	12	15
Sydney	12	15	11	12	20	16	17	9
Stockholm	13	23	14	26	6	12	7	11
Hong Kong	24	4	5	16	12	25	22	7
Berlin	18	19	7	26	8	10	25	4
Washington DC	8	10	20	26	19	22	5	26
Copenhagen	10	21	16	26	15	21	10	21
Munich	15	20	25	11	9	14	21	24
Shanghai	25	6	8	15	26	23	20	22
Frankfurt	22	11	21	5	16	26	14	23
Vancouver	16	22	24	17	5	20	15	19
Madrid	20	24	26	13	14	17	19	18
Vienna	17	26	22	26	11	15	23	20
Milan	26	25	23	18	13	19	26	25

Sources: Oxford Economics Forecast, Z/Yen, Cushman & Wakefield, Official Aviation Guide, 2thinknow, Findexable

influence. Today, across a range of variables—such as economic scale, air connectivity, green finance, and innovation—these cities score highly relative to their counterparts in other regions (Exhibit 7).

European cities also score highly relative to their global counterparts on what is likely to be a key driver of investment during the next cycle—quality of life. The cities ranking highest are midsize in wealthier countries, such as Zurich, Amsterdam, Stockholm, and Munich. There is increasing competition based on key issues such as cost, education, innovation, and connectivity. As wellness real estate booms, so does the

livability and attractiveness of a city, which also plays a role in migration patterns and talent retention. The Global Wellness Institute suggests that the sector could nearly double in value to \$913 billion by 2029.

Although it may be far too early to draw conclusions, the ongoing tariff threat has the potential to further position the UK and Europe as relatively more attractive. The former—with London continuing to be viewed as an important component of any real estate portfolio—could act as a suitable hedge against the impact of tariffs on other sectors. Europe, led by Germany, is being forced to focus more on domestic industries

and security, with the knock-on effect being greater investment in infrastructure and associated real estate.

More broadly, the sector is experiencing a potentially seismic shift. Property performance has historically been a product of the economic cycle to a very significant degree; at present, structural changes influence property demand. Behavioral, cultural, and technological changes are altering how people work, shop, play, and live, which in turn demands new real estate responses. These shifts are driving capital away from the conventional commercial real estate sectors, such as traditional office and retail, and toward sectors with compelling long-term fundamentals, such as industrial, living, and digital infrastructure.

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Challenges and Considerations

European real estate offers compelling advantages; however, it is not without challenges. The regulatory complexity varies by country, tax treatment for foreign investors can be opaque, and legal frameworks require local expertise. Nevertheless, these are operational challenges, not structural weaknesses, and can be mitigated through partnerships with experienced regional asset managers or real estate funds.

Looking Ahead

The case for increasing investment in European real estate is no longer contrarian—it has become a flight to quality. Earlier repricing, supportive monetary trends, and structural undersupply all contribute to Europe's growing appeal. At the same time, expanding US risk premiums and diminished clarity on policy and growth are prompting a rethink among global investors.

As recent events are proving, major macro issues and trends are reshaping both society and the economy. These issues could either be tackled or lead to further polarization among markets based on the local response. The effects of international tariffs on global real estate markets will be felt on everything from construction costs and house prices to interest rates and financing costs. However, with futures markets predicting numerous rate cuts in 2025 by most global central banks in an effort to provide support to ailing economies, the elevated financing costs plaguing real estate markets in recent years are set to become much less of an issue.

At the same time, there is a once-in-a-generation opportunity for European governments to push through with their planned monetary stimulus and reforms to strengthen domestic economies and therefore the European Union as a whole. Although still early in this process, investors, ranging from ultra-high-net-worth individuals to fund managers, have already started making a sharp pivot from the US to Europe over concerns around domestic growth prospects and unfavorable policy and regulatory proposals.

In this context, Europe's growing focus on modernizing its housing stock, enhancing industrial capacity as the global trade order reshuffles, and accelerating digital infrastructure offers a rare convergence of long-term economic upside and support for real estate values in the near to medium term.

As capital continues to seek relative value, defensive income, and long-term alignment with macro trends, European commercial real estate is poised to benefit. For institutional limited partners looking to reposition portfolios for the next cycle, the current window into European markets may be among the most attractive in a decade. ■

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