Principal Asset Management℠

EUROPEAN COMMERCIAL REAL ESTATE MARKET

Emerging opportunities in an evolving landscape

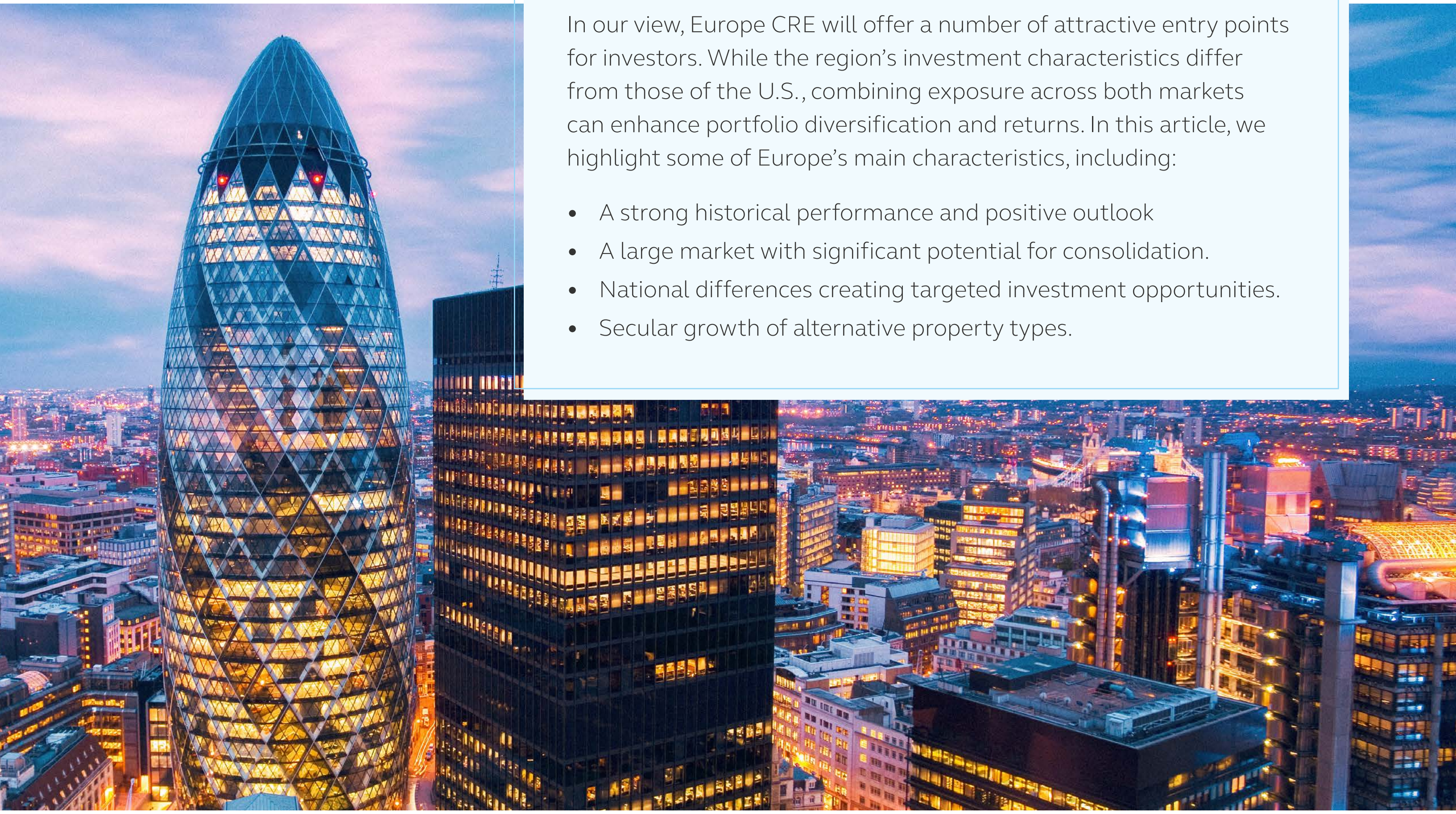
AUTHOR:

Daniel Tomaselli
Manager, Global Research

Europe's commercial real estate (CRE) market is vast, liquid, and increasingly diversified. Following two years of correction as a result of more restrictive monetary policy aimed at curbing elevated inflation, the market has stabilized and is now in the early stages of recovery. European CRE has entered a new cycle, and its momentum is poised to accelerate in the next 12 to 18 months, supported by lower inflation, more accommodative monetary policy, and increasing spending on defense, infrastructure, and sustainability projects.

In our view, Europe CRE will offer a number of attractive entry points for investors. While the region's investment characteristics differ from those of the U.S., combining exposure across both markets can enhance portfolio diversification and returns. In this article, we highlight some of Europe's main characteristics, including:

- A strong historical performance and positive outlook
- A large market with significant potential for consolidation.
- National differences creating targeted investment opportunities.
- Secular growth of alternative property types.

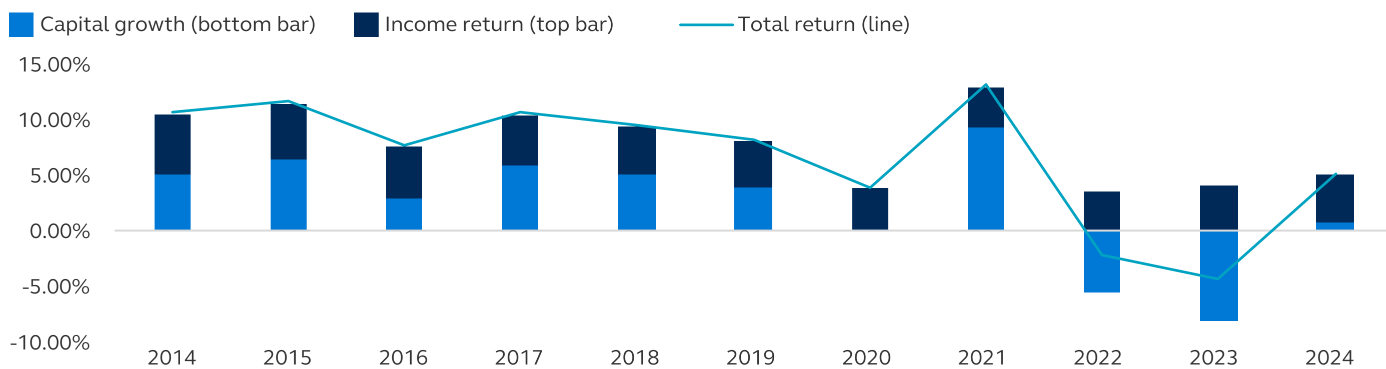


A strong historical performance and positive outlook

Europe CRE historical track record underscores the asset class's ability to preserve capital while providing income growth. Indeed, the asset class has historically delivered competitive risk-adjusted returns despite periods of economic volatility, underpinned by relatively stable income streams and the depth of Europe's capital markets. Over the last eleven years, unlevered total returns have averaged 6.6% annually, with a standard deviation of 0.055, according to InRev, the European Association for Investors in Non-Listed Real Estate Vehicles. Furthermore, the asset class recorded only seven quarters of negative returns, while the remaining 38 were all positive.

EXHIBIT 1: European CRE historical returns averaged 6.6% annually

European CRE total returns since 2014 (%)



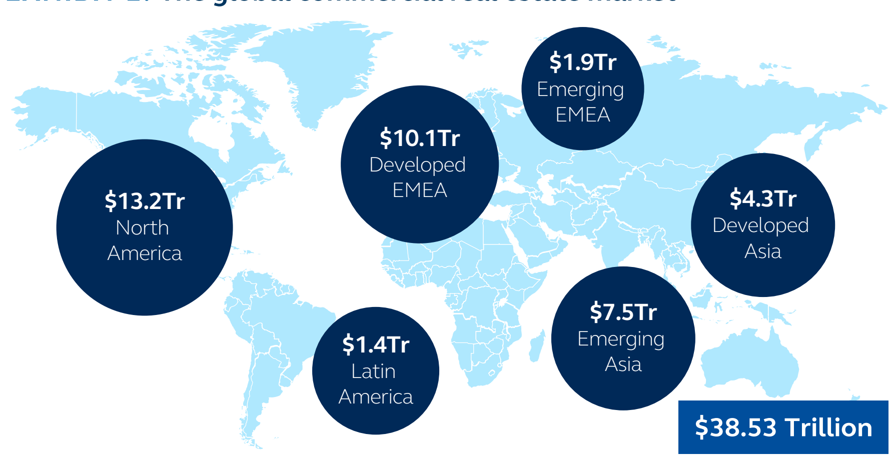
Source: InRev Asset Level Index, Q4 2024

More recently, the market endured a period of capital depreciation and negative returns. The correction was entirely driven by a reset in interest rates, while the occupier demand remained resilient, supported by healthy economic growth. During the course of 2024, as inflation receded and interest rates normalized, real estate transitioned from correction to recovery and delivered positive returns of 5.0%. We believe that performance will continue to improve at a measured pace in 2025, before accelerating into a more robust recovery in 2026 and 2027.

A large market with significant room for consolidation

Europe CRE market is the second largest globally, after the U.S., with an estimated value of over $10 trillion(1). Although comparable in size, Europe is much more fragmented and less institutionalized, with local owner-occupiers and small investors accounting for a large share of the market — particularly in less mature sectors such as residential, hotels, and healthcare. This fragmentation creates opportunities for professional capital to penetrate the market, consolidate ownership, and unlock value through active asset management and optimization.

EXHIBIT 2: The global commercial real estate market



(1) The figure refers to Developed EMEA, defined as Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Israel, Luxembourg, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, and the UK.

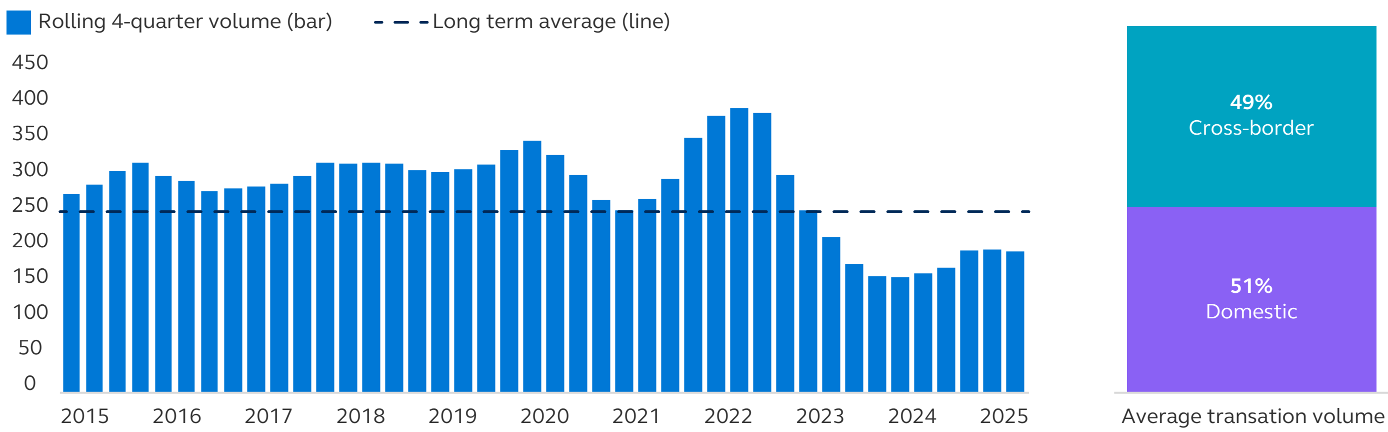
Source: EPRA Global Real Estate Total Markets Table, Q4 2025. Due to rounding, figures shown may not add up to the total shown.

The European CRE market is liquid, with a high degree of capital composition diversity that helps ensure the market remains relatively active even in times of localized distress. Over the past 15 years, transaction volume has averaged €240 billion annually. Cross-border investment typically accounts for approximately half of the total annual amount, with the largest share of overseas capital originating from the United States. American private equity companies (PE) are particularly active in Europe during the early stages of a market recovery, as these companies are less risk-adverse, more agile, and ready to seize price dislocation opportunities. Typically, PE players invest in Europe in emerging real estate segments that are already mature in the U.S., such as data centers, life sciences, and single-family housing. This enables them to deploy proven operating models and scale quickly.

Domestic investors account for the other half of the transaction volume in Europe. This group comprises institutional capital (pensions, insurance companies, banks, and fund managers), listed companies, and private investors. Usually, these players invest in real estate to secure a reliable income stream over the long term, typically ten years or more. Thus, they primarily target core assets in mature sectors.

EXHIBIT 3: CRE capital flow averaged €240bn over the last 15 years

European CRE transaction volume, rolling four quarter, €bn

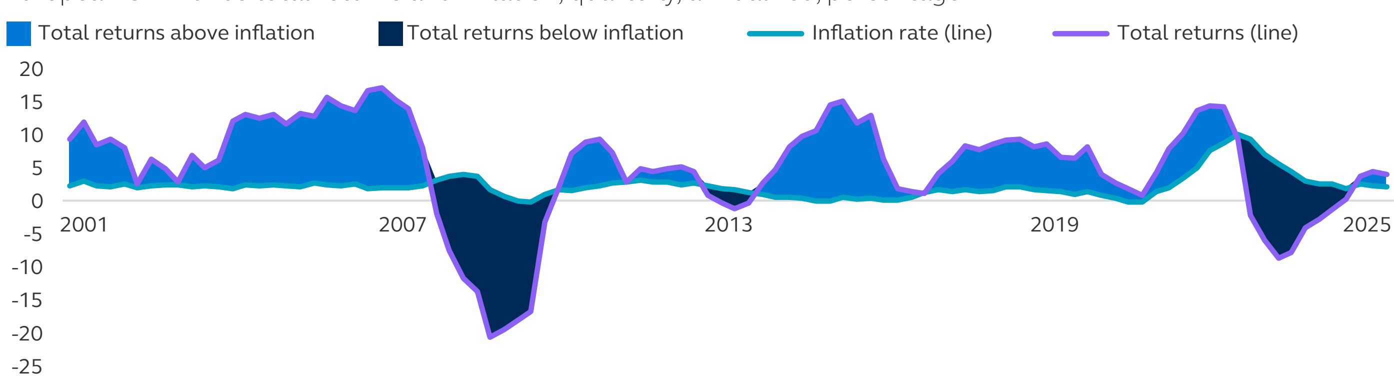


Source: RCA, Principal Real Estate, Q3 2025.

European CRE has historically distinguished itself among asset classes by offering a stable and predictable income profile. Unlike equities, where returns rely more heavily on capital appreciation, or fixed income, where coupon payments are fixed and vulnerable to rising inflation, real estate generates recurring rental income often supported by inflation-linked leases. This structure allows cash flows to adjust in line with rising price levels. In fact, commercial real estate has exceeded inflation in 72% of quarters since 2001, helping to preserve purchasing power and asset values, as shown in the exhibit below.

EXHIBIT 4: CRE can provide a hedge against market volatility and inflation

European CRE funds total returns and inflation, quarterly, annualized, percentage



Source: InRev All Funds Quarterly index, Eurostat, Q2 2025

National differences create targeted investment opportunities

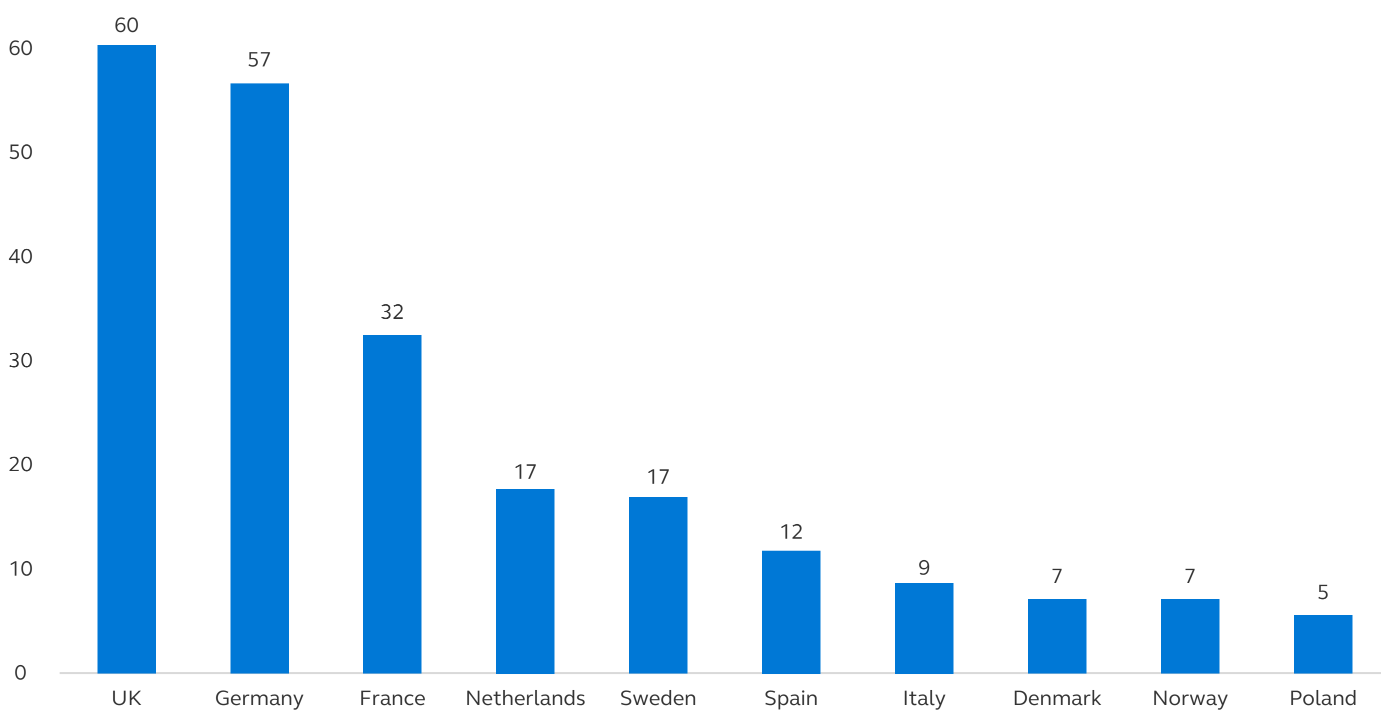
The European CRE comprises multiple national markets, each with distinct legal, tax, and economic regimes. This is in strong contrast with the U.S., which largely operates under a single legal and economic framework. The national differences create challenges and complexities for cross-border investors. But they also offer unique opportunities to target idiosyncratic themes driven by local fundamentals, including macroeconomic conditions, demographic trends, policy cycles, and currencies.

Historically, the five largest European CRE markets, measured as the average volume of properties transacted each year, are the UK, Germany, France, the Netherlands, and Sweden. Yet, since the global pandemic, Southern Europe has become an increasingly important recipient of institutional interest. Capital has partially rotated towards Spain, Italy, and Portugal amid a solid economic performance, net positive migration, and generally lower property prices.

Each of these markets offers scale, deep liquidity, and a broad range of property types, alongside country-specific opportunities arising from national, cultural, and regulatory differences. For example, the UK hosts Europe's most mature student-housing market, accounting for roughly 60% of the total European investment volume in the sector, underpinned by world-renowned universities and an international student population of about 700,000. In continental Europe, Germany boasts the largest multifamily market, supported by comparatively low homeownership (only 50% of households own their homes, compared to over 70% in Spain and Italy), a long-established rental culture, and a rigorous yet stable legislative framework. In the Netherlands, instead, the logistics sector plays a particularly prominent role. The country is the primary gateway for global trade entering Europe and, as a result, has by far the highest level of logistics stock on a per capita basis.

EXHIBIT 5: Top ten European CRE markets

CRE transaction volume, last five year average, €bn



Source: RCA, Principal Real Estate, Q2 2025

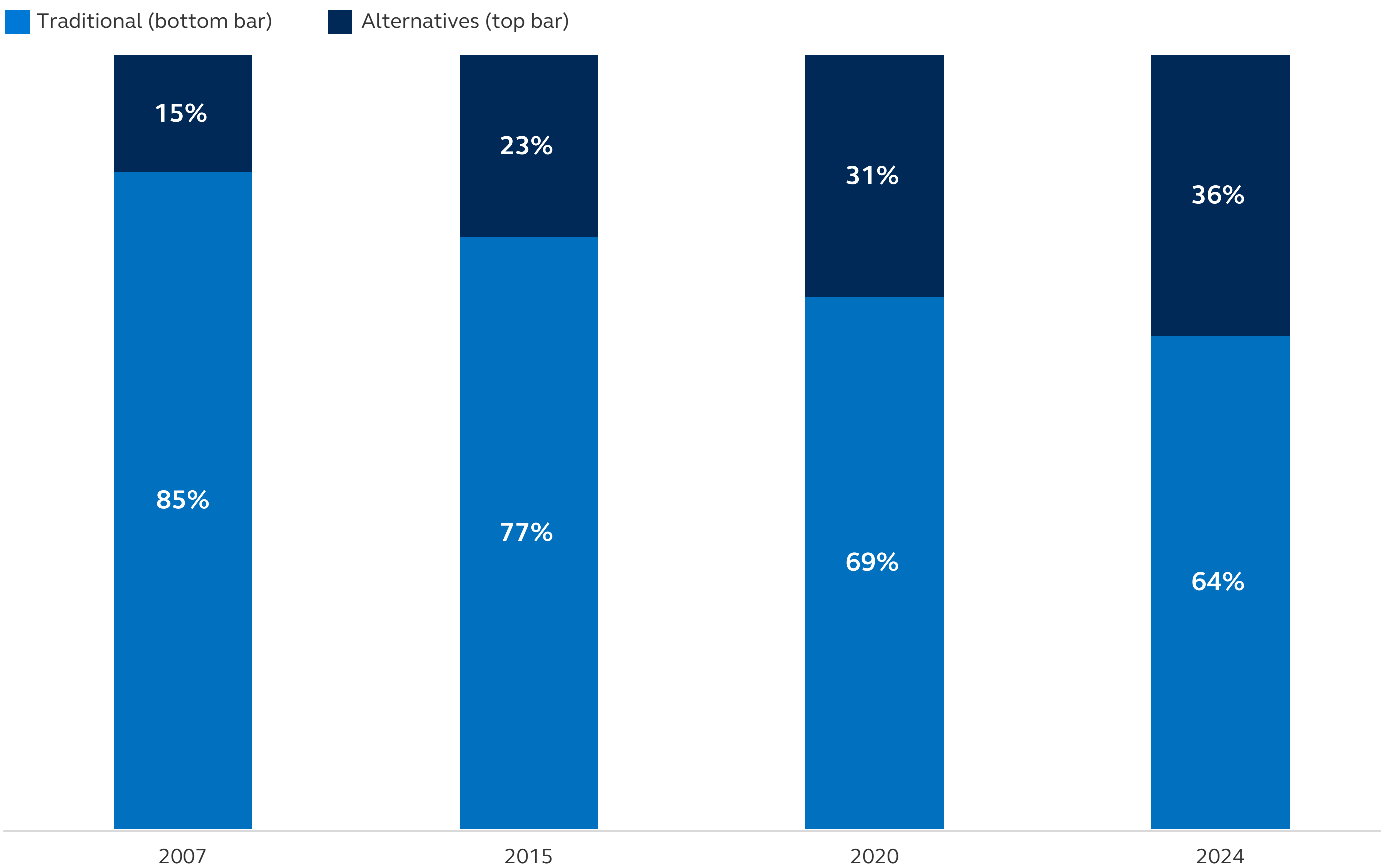
Alternative property types are growing rapidly and becoming more mainstream

Historically, Europe's commercial real estate market was highly concentrated in three 'traditional' sectors—offices, retail, and logistics—which together accounted for over 85% of investment activity. That is no longer the case. Over the past two decades, structural trends such as technological advancement, ageing demographics, shrinking household sizes, and continued urbanization have reshaped occupier demand and broadened the real estate investable universe. Thus, a new set of real estate sectors, commonly referred to as 'alternatives', has become increasingly important in investors' strategies. These include student housing, care homes, life sciences, data centers, multifamily/BTR, hospitality, and other niche property types.

Alternatives are underpinned by positive structural forces that make them a very attractive investment over the medium to long term. In Europe, this realization has driven a steady rotation of capital towards alternatives, whose share of investment rose from under 15% before the Global Financial Crisis (GFC) to 36% in 2024. The majority of these property types remain early in their maturity cycle and have very little institutional penetration but offer substantial room for growth across Europe. As this shift unfolds, the real estate landscape will increasingly become more diversified and specialized. Thematically driven investment strategies across geographies will be paramount to achieving attractive returns.

EXHIBIT 6: The rise of alternatives

CRE investment volume broken down by property type



Source: RCA, Principal Real Estate, Q4 2024

Risk Considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. All these risks can lead to a decline in the value of the real estate, a decline in the income produced by the real estate and declines in the value or total loss in value of securities derived from investments in real estate. Commercial real estate lending involves several risks, including market volatility, credit risk, operational challenges, and legal/regulatory compliance. Additionally, rising interest rates, refinancing pressures, and potential defaults can exacerbate these risks. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards.

Important information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account.

Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided. All figures shown in this document are in U.S. dollars unless otherwise noted.

This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is issued in:

- The United States by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- Europe by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorised and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).
- United Kingdom by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA").
- This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.
- United Arab Emirates by Principal Investor Management (DIFC) Limited, an entity registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as an Authorised Firm, in its capacity as distributor / promoter of the products and services of Principal Asset Management. This document is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organisation.
- Singapore by Principal Global Investors (Singapore) Limited (ACRA Reg. No. 199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act 2001. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- Australia by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.
- Hong Kong SAR by Principal Asset Management Company (Asia) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission. This document may only be distributed, circulated or issued to persons who are Professional Investors under the Securities and Futures Ordinance and any rules made under that Ordinance or as otherwise permitted by that Ordinance.
- Other APAC Countries/Jurisdictions, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

MM14693 | 09/2025 | 4823882–092026