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Insights
Strategy
Analysis

OUTLOOK EUROPE 2025

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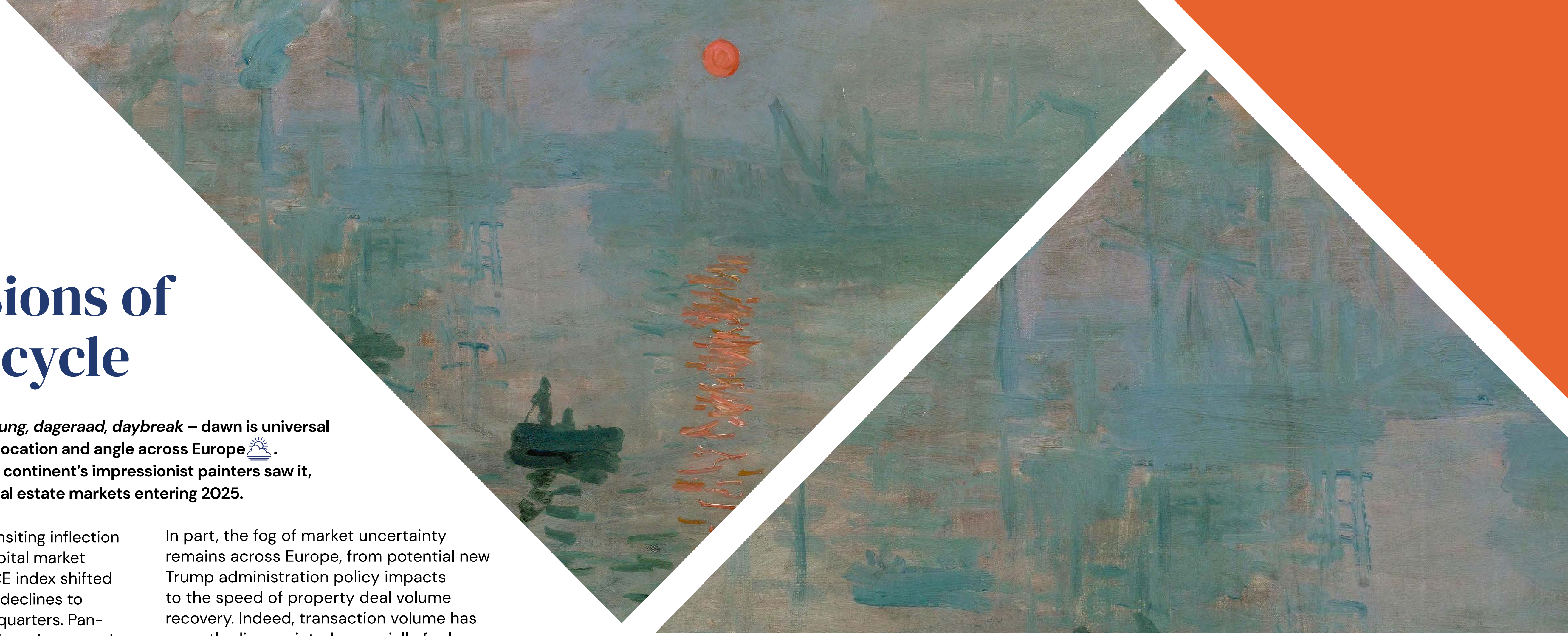


Impression, Sunrise
Claude Monet

EUROPE

Impressions of a rising cycle

L'*aube, Morgendämmerung, dageraad, daybreak* – dawn is universal but different for every location and angle across Europe. This was certainly how the continent's impressionist painters saw it, and it is true of Europe's real estate markets entering 2025.

European real estate is transiting inflection points following a deep capital market correction. The INREV ODCE index shifted in the latest quarters from declines to positive after seven down quarters. Pan-European real rent growth has also turned. Data tracked by LaSalle's asset managers show 2024 rents for new and renewed commercial leases across LaSalle's European portfolio grew 2.7% relative to expiring passing rent, representing a return to an above-inflation pace.

Against this backdrop of a new cycle for real estate equity, real estate debt's strong and steady performance – lighting the way through the recent correction – stands out (see exhibit EU-a).

In part, the fog of market uncertainty remains across Europe, from potential new Trump administration policy impacts to the speed of property deal volume recovery. Indeed, transaction volume has recently disappointed, especially for larger office lot sizes. London saw no office sales over £100 million in the first half of 2024 for the first time in 25 years.[1] But this fog is burning off. Europe-wide trailing year investment volume ticked up in Q3 2024 after seven consecutive declines.[2] Capital is slowly returning to the market as real estate return and yield spreads now exceed their long-term averages. We believe expected go-forward returns for the overall European property market are now at their highest level in over a decade[3] – favoring **early bird** investors.

Our *ISA Outlook 2025* global chapter focuses on four themes for the year ahead. Look for these icons throughout this chapter whenever we tie back our observations for Europe to these global themes.

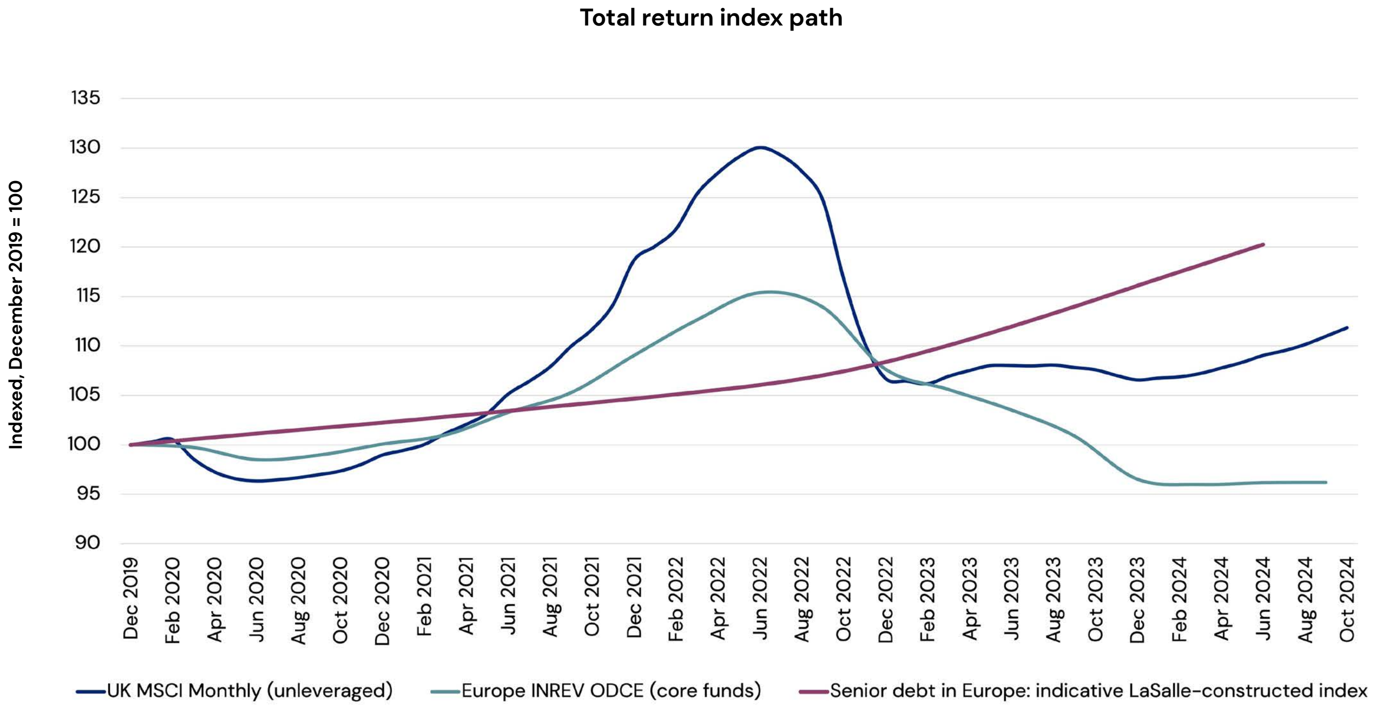
THE MORNING SKY
Falling rates but risks on the horizon

THE CAPITAL STACK HANGOVER
Clear-headed investors have an advantage

THE BREAKFAST MENU
Making sense of complex investment options

THE EARLY BIRD
The best market entry points tend to be early in the cycle

EU-a | European real estate has likely found a bottom



Source: LaSalle analysis of INREV and MSCI data. UK data is monthly (based on trailing three months) to October 2024. INREV to Q3 2024. The LaSalle constructed indicative senior debt index is based on blended European swap rates in each quarter and senior debt margins for the relevant period. No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

1. Data from LaSalle Asset Management Leasing Tracker based on 2024 leases through September.
2. Based on MSCI Real Capital Analytics data, for existing assets.
3. Based on LaSalle's Europe fair value analysis, and consistent with Green Street Advisors' real estate spread analysis.

In this, the Europe chapter of the *ISA Outlook 2025*, we take a closer look at what makes the region's real estate market different: where it leads as well as where it lags. And then we share our 2025 Europe strategy picks.

Our conviction recommendations span every major property type, like a breakfast buffet covering all food groups. Mispricing still exists in the fragmented European market, but it is now more likely to be present across risk style, metro, micro-location and asset profile factors than it is along property-type lines. The moniker "beds and sheds" may bring an element of insight in a strategic approach to allocation, but it is just too reductive to accurately describe the European opportunity set today.

Seeing compelling opportunities across property types should not be confused with an argument for blanket diversification for diversification's sake. It is a market conducive to situational opportunities across a variety of sectors. We recommend combining a specific array of the best strategies, from debt to outlets, flexible living to storage, and logistics to Paris office development. We use our fair value analysis to zero in, interrogate and update these target strategies. Crowdsourcing knowledge across the LaSalle platform into our own estimates of market pricing and market forecasts are key inputs to this process, which we regularly backtest against actual results.

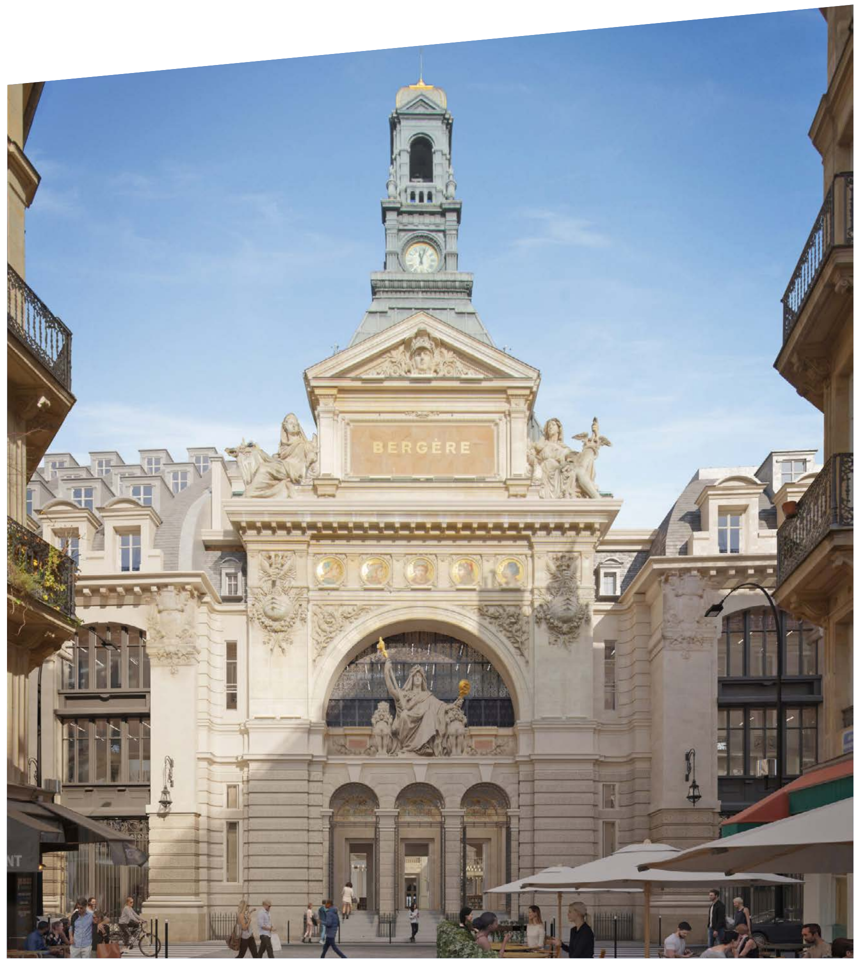
IN HINDSIGHT

Looking back on key calls from last year's *ISA Outlook* Europe chapter.

Right / Mostly right | Remains to be seen | Not right / Not quite right

"We expect headwinds to have the upper hand over the coming year… higher ECB and other central bank policy rates…are just beginning to bite." ([ISA Outlook 2024 p. EU-30](#))

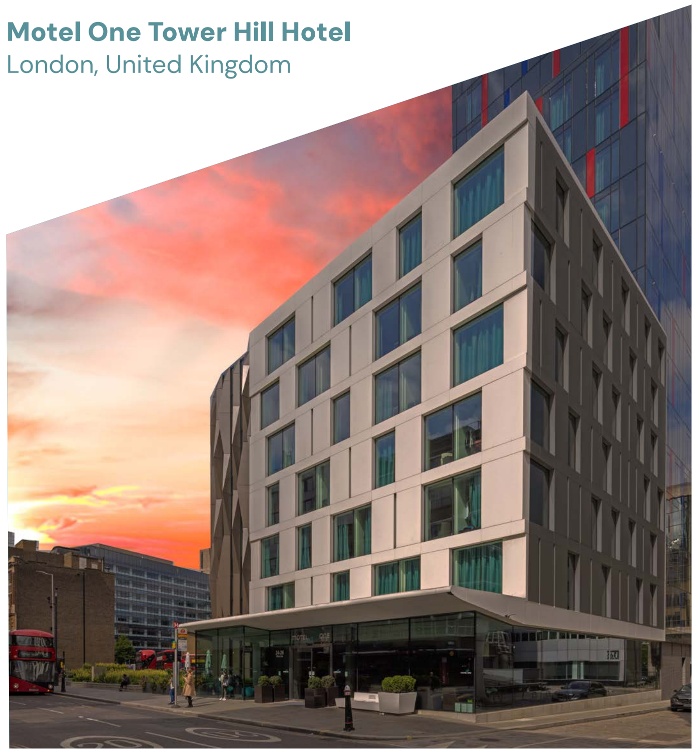
Tight monetary policy has impacted Europe's real economy with a lag, as expected. Looking back at 2024, Germany has seen near zero GDP growth for the second straight year. This tight monetary policy has also helped to bring inflation back in line with ECB and Bank of England targets.



Bergère
Paris, France

Early and late risers

When it comes to the drivers behind space demand and capital markets, both cyclical and structural, Europe shines brightly in some areas and stumbles badly in others. We examine three examples of each in this section, and what they mean for real estate strategy. The incoming US Trump administration's potential 10-20% tariffs on Eurozone goods exports are a notable economic vulnerability, though as described below, expected real estate demand impacts in Europe are not all negative. Seeing the market for what it is – and not necessarily how we might wish it to be – is the first step toward investment strategies that make the most of the true opportunity set.



Motel One Tower Hill Hotel
London, United Kingdom

EARLY RISERS

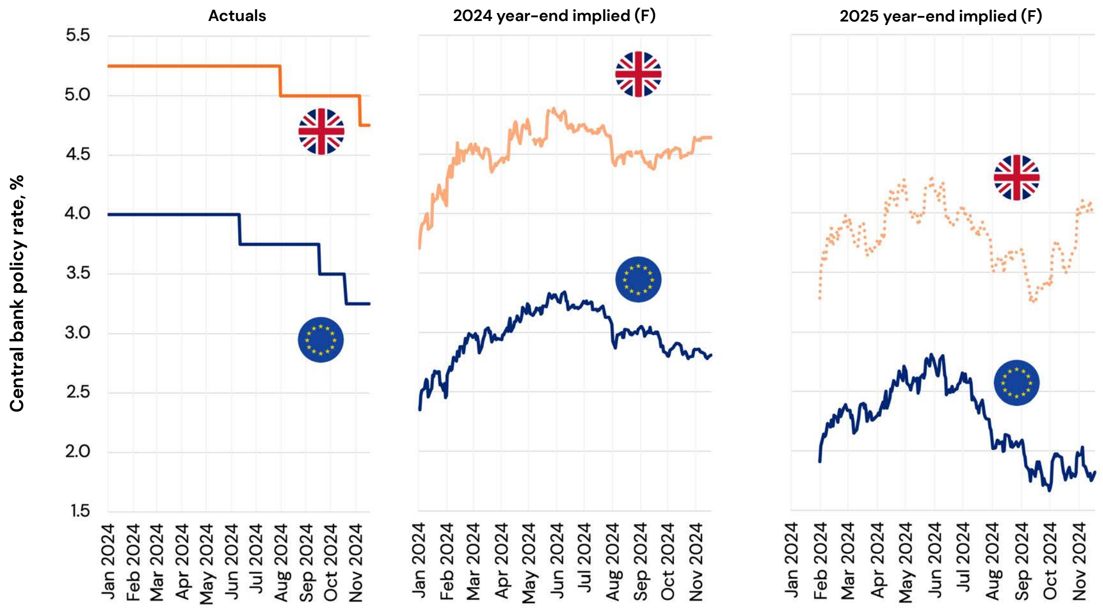
In our view, European markets are leading the way into 2025 across three spheres.

EARLY RISER 1

The monetary backdrop in Europe is at an inflection point. Falling inflation enabled the European Central Bank to cut policy rates first among the major central banks this cycle, followed by the Bank of England in August. These expected declines (see exhibit EU-b) are reflected in longer term swap rates.[4]

Real estate implications Debt has become more accretive to go-forward returns this year in the Eurozone, where swap rates are over 200 basis points lower than in the UK.[5] And real estate yields are changing direction. Real estate indices in the UK proved the fastest to incorporate this cycle's pricing adjustment among major markets globally. Indices have adjusted more slowly in the Eurozone, but average prime yields, based on estimated market pricing, have stabilized (see exhibit EU-c). As we anticipated a year ago, a few sectors have already started to see yields decline in late 2024, notably German and Dutch logistics and UK retail warehouses.[6]

EU-b | Market implied rate expectations on downward path

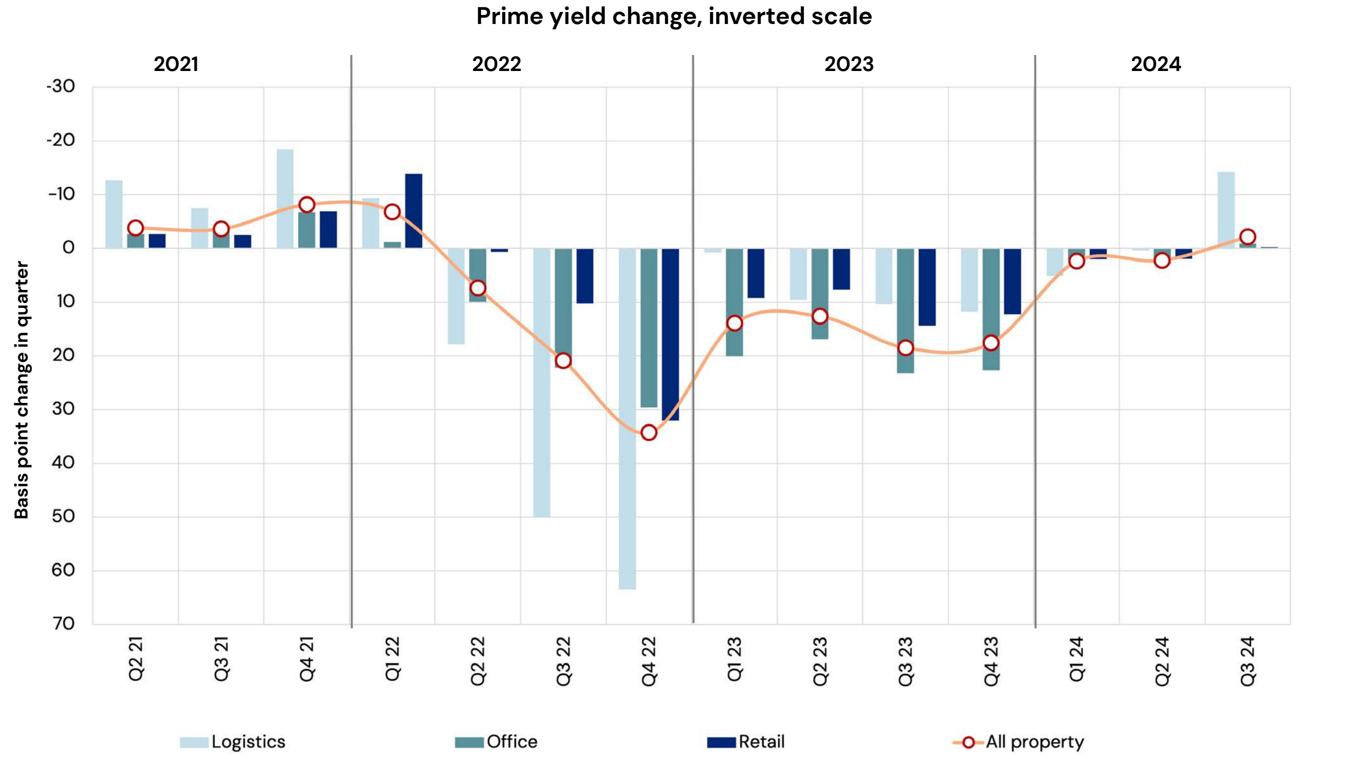


Source: Refinitiv Eikon LSEG Latest data available as of November 19, 2024.

No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

4. SONIA and EURIBOR swaps, in the UK and Eurozone respectively, embed expectations regarding policy rates and serve as the base rate for real estate debt pricing.
5. As at the time of writing, based on source data tracked by LSEG data and analytics.
6. Based on LaSalle analysis of JLL, Cushman & Wakefield, and CBRE yield estimates.

EU-c | Europe prime yields stabilize



Source: LaSalle analysis of JLL estimates through Q3 2024.

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EARLY RISER 2

The **magnetism of Europe's central cities** – fueled by one-of-a-kind urban spaces, a robust return to the office, high-quality transport, public safety, high-income residents and creative cultural events – remains exceptional. A gravitational momentum is attracting office tenants, visitors and residents to city centers to a degree that distinguishes Europe. Barcelona recorded its highest ever number of overnight stays this past summer, with expenditures by international travelers in Spain up by over 40% from 2019.[7] And passenger traffic at London Zone 1 tube stations served by the Elizabeth Line is up 10% relative to a year ago.[8]

Real estate implications Positive feedback loops in central locations make properties there likely to benefit first from improving liquidity and yield compression. Paris central business district (CBD) net office absorption easily outstripped that of all peripheral Paris submarkets in the first half of 2024, despite extremely low availability. Redeveloping top quality office space in these locations is often compelling.

EARLY RISER 3

Europe is pushing ahead with the **decarbonization** of the electricity grid, the primary driver of Scope 2 emissions for building occupiers. This was exemplified by a recent UK milestone. Nearly a century and a half ago, the world's first coal power plant was built in the UK, in London's Holborn. But in 2024, the country became the first G7 economy to close its last coal power plant, at Ratcliffe-on-Soar. Europe overall generated 66% of its energy last year from renewables, nuclear and hydro power, about double the global average.[9]

Real estate implications Europe's real estate investors and occupiers have strongly prioritized decarbonization and signed up to ambitious emissions reduction goals. For tenants, changing the carbon intensity of space they occupy – helped by the improving grid – is often one of the most direct levers to follow through on those commitments. JLL estimates that tenant demand for low carbon office space in Paris through 2030 is likely be double the expected supply, supporting take-up and rents for top-decile offices.

7. Barcelona City Council data as of July 2024, and CaixaBank analysis through August 2024.
8. LaSalle analysis of Transport for London data. Based on 30-day trailing average to end of August 2024.
9. Based on the 2024 Statistical Review of World Energy published by the Energy Institute.

IN HINDSIGHT

"2024 is also likely to see other sectors begin to turn the corner, with a few sectors likely to see slight yield compression later in 2024." (ISA Outlook 2023 p. EU-38)

This was a somewhat edgy prediction one year ago, when yields were moving outward for nearly all property types. By Q3 2024, prime yields began to decline for German and Dutch logistics, UK retail warehouses, and Paris CBD offices.[10]

LATE RISERS

So, if those are the areas the region is seizing the day, in what ways is Europe a sleepier, later riser?

LATE RISER 1

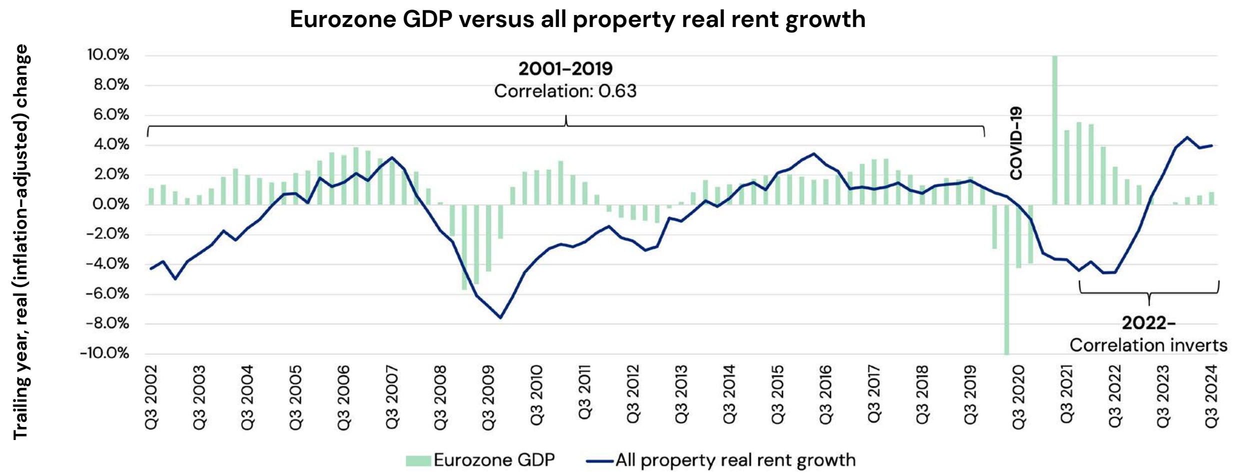
A clear area of lagging performance is Europe's **economic growth**. It has been measly in Europe in aggregate, just below 1% in 2024 and expected to be slightly above 1% in 2025.[11] In contrast to the US, there simply has not been much "cycle" to Europe's economic cycle. While the European economy has proven resilient to the energy price shock after Russia invaded Ukraine in 2022, recent performance has been sluggish and its global competitiveness has eroded.[12] Within Europe, however, there are both bright and dim spots; Germany has been a 2024 laggard, whereas growth in Spain, Poland and Denmark performed notably better. Potential new US tariffs are likely to reinforce this pattern, weighing on German exports while a stronger US dollar could be a net positive for international tourism to Europe.

Real estate implications We expect the low-growth environment to persist – constrained by demographics, fiscal contraints and vulnerability to potential new goods tariffs from the US. However, the underwhelming rate of growth has decoupled from real estate fundamentals since the pandemic (see exhibit EU-d). GDP was positively correlated with rents in Europe most of the time from 2001-2019, but then it became uncorrelated during the pandemic and this is likely to continue in 2025.

We believe this is driven by a lack of supply in central locations, which drives prime rents. And structural changes, such as polarization by quality, have confounded the direct correlation with GDP. Even as new US tariffs may weigh on GDP, a stronger dollar could boost demand for European student accommodation.

We expect that weak GDP growth next year will reinforce occupier demand patterns toward the nucleus of each market from the periphery across Europe, weighing heavily on edge-of-center locations but with less drag on the center. In the long term, low growth in Europe may eventually imply a lower neutral rate of interest, and therefore also lower property yields.[13]

EU-d | Occupier markets have decoupled from GDP since before the pandemic



Source: LaSalle analysis of JLL and Oxford Economics data to Q3 2024.

No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

10. Source: Yield estimates from JLL, CBRE and Cushman & Wakefield.
11. Based on forecasts from both Oxford Economics and the European Central Bank.
12. As highlighted in a landmark 2024 European Commission report assembled by Mario Draghi.
13. Risk-free rates impact property yields via both relative and absolute channels. In the widest, relative sense, risk-free rates set the price of systemic risk in an economy, and so falling rates lead to a fall in investors' required returns, allowing property yields to fall. In a practical sense, policy rates are the common reference point for floating-rate loans, which in turn impact a leveraged purchaser's willingness and ability to pay a given yield.

LATE RISER 2

Structural fractures are festering in Europe. The EU's pace of progress toward an integrated single market has slowed, and in some areas the bloc is trending toward fragmentation. Recent elections, notably in France, have produced gains for parties on the wings of the political spectrum. And opposition to banking consolidation highlights how the region remains quite far from being a single market in many sectors. In post-Brexit Britain, jumpy bond markets are passing stern judgment on budgets and expecting long-term inflation to be significantly higher than in the Eurozone. In Germany, differences between coalition partners on fiscal policy details has also led to the dissolution of Scholz's coalition and new elections.

Real estate implications Nothwithstanding negative effects on efficiency and fiscal maneuvering room, fragmentation may also contribute to more meaningful potential diversification benefits, as markets move to their own beat. We also believe that alternative credit strategies able to select risk and returns across markets, where local banking sector differences produce different credit environments, may see more mispriced opportunities as a result.

LATE RISER 3

Lastly, **housing construction** has declined across Europe. Regulatory and zoning obstacles give NIMBY[14] interests outsized blocking power, with some planning bodies having little incentive to support growth. Widening gaps between market and in-place rents in regulated markets can make finding an apartment an onerous six-month gauntlet for would-be tenants. Housing underproduction has become such a structural problem in Europe that fixing it formed a key plank in the UK Labour party's winning 2024 election platform.

Real estate implications We believe flows of institutional capital will be crucial to improve these housing market imbalances. The dysfunction also supports demand for more creative approaches to address housing needs, such as flexible living concepts. Unfortunately, in some cases, policy responses that seem to address dysfunctional housing markets – like rent controls – backfire and have the opposite of the intended effect.[15] The imbalances are so deep that improvement is likely to be gradual, suggesting that the challenges and opportunities are likely to persist for the foreseeable future.

14. NIMBY, or "not in my back yard," views are characterized by mechanical, automatic support for strict land use regulation and opposition to new housing development.
15. Scotland's rent controls are a notable case: they contributed to a sharp drop in construction and a subsequent spike in market rents.

Strategy themes for 2025

Taking these market forces for what they are, we recommend a European investment strategy built around five themes in 2025.

These strategies throw light on the ways that the simple, and successful, European "beds and sheds" strategy is no longer sufficient for today's market in Europe. Consider that office rent growth has been stronger than logistics over the last year in numerous cases. Prime office rent growth in London, Paris and Amsterdam exceeded prime logistics rent growth in Warsaw, Brussels and Madrid.[16] The same surprising reversal has occurred for other property types. MSCI data show trailing-year retail returns for Stockholm, Manchester and Hamburg well ahead of residential returns in Frankfurt and Paris.[17]

These observations reflect that markets adapt and have priced in changing expectations, and that segmentation is more complex than only along property-type lines. We use our fair value analysis to consistently compare required and expected returns across nearly 100 European market/sector combinations, and to spot areas of mispricing and attractive value.

1. Don't forget a (real estate debt) umbrella
2. Follow the hexagons for logistics
3. Retail back on the menu
4. Master adapters: How Europe's office markets are different
5. A residential and living smörgåsbord

16. Based on LaSalle analysis of JLL prime rent data through Q3 2024.
17. Based on LaSalle analysis of MSCI Europe quarterly index total returns through Q2 2024.

Project Garnet
Logistics portfolio in Sweden, Spain, Germany and Poland

1.

PREPARING FOR EUROPE'S VARIABLE WEATHER

Don't forget a (real estate debt) umbrella

Glancing out of the window at daybreak, one might wonder what the weather has in store for real estate's new cycle. Should we bring sunglasses or an umbrella? Having access to both might be prudent: recent experience has shown that real estate investors can guard against inclement market conditions by allocating to credit, putting a proportion of their assets beneath a protective layer of equity.

Credit strategies have matured significantly since the Global Financial Crisis. In prior real estate cycles, the lending market was dominated by regulated banks, reducing the option set available to institutional investors. LaSalle's research (see our *ISA Focus: Investing in real estate debt*) has documented the wider variety of lending opportunities open to private credit providers in this changing regulatory landscape. Alternative lenders in the UK now hold over 42% of outstanding debt, compared to the 37% held by domestic banks.[18] In Europe outside the UK, the opportunity remains for significant growth of non-bank lender market share.

As the lender base has diversified, so too has the spread between the property types with the largest and smallest debt margins; that difference was 120 basis points in 2012 but widened to over 300 basis points in 2023.[18] Lenders with real estate expertise can play this diversity, taking informed views on how pricing aligns with actual risk. These points of differentiation may not be reflected in other facets of real estate markets. For example, recent experience has shown that hotels with a management agreement structure in place are often better able to grow revenue per available room (RevPAR) than those that are leased, yet these hotels have historically traded at higher yields than leased properties. These experiences can be rapidly incorporated into lending terms.

New performance data for European debt funds shows the benefits of preparedness; MSCI's senior debt fund index has outperformed European real estate equity indices by a wide margin since 2022. Debt investors are also taking advantage of the choice between fixed-rate and floating-rate lending positions and the diversification benefits of investing in both.

LaSalle's research has also found that debt funds play a vital role in financing development by stepping in for banks, whose risk appetite has changed in response to regulation. Access to this financing is a vital enabler of the new real estate cycle in Europe.

18. Based on data in Bayes Business School's survey of CRE lending in the UK.

2.

THE INDUSTRIAL OUTLOOK CHANGES SHAPE

Follow the hexagons

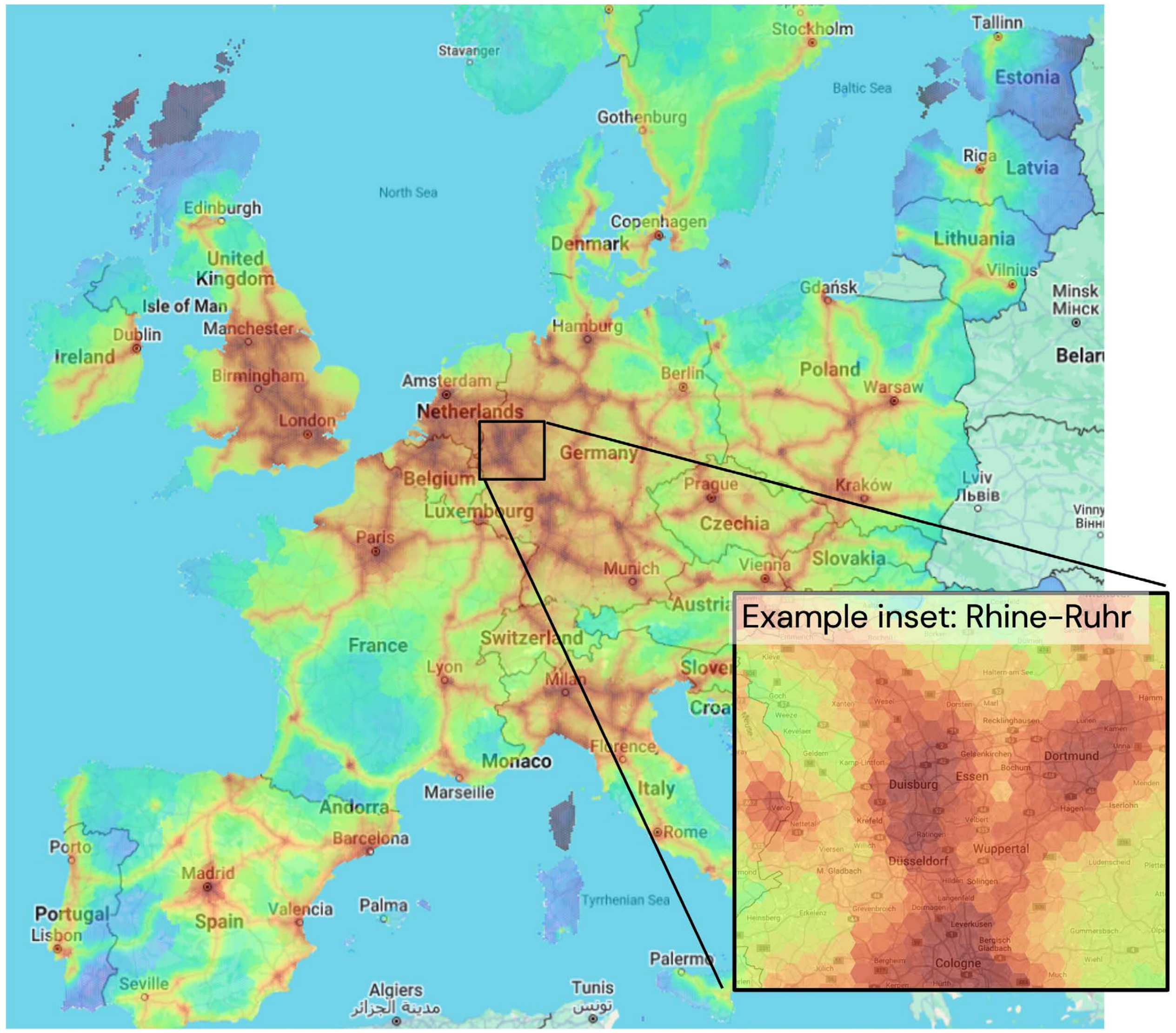
European logistics real estate has earned a larger role in investor portfolios; indeed, it had the highest returns of any European property type in eight of the last 10 years (see exhibit G-k). Yet this landscape is changing, and industrial's advantage has eroded. The logistics vacancy rate in Europe rose 170 basis points in the past year, the sharpest change of any property type. Rent growth has cooled and is now near the pace of inflation. It looks likely that industrial will lose its crown as the best performing property type when year-end 2024 figures are in.

These are cyclical headwinds and we remain convinced that industrial income growth will likely beat all-property averages over a five-year horizon. Absolute vacancy rates are low and e-commerce demand is picking back up. Yet logistics will likely outperform by a narrower margin going forward. To do better than the average in this sector, we believe that industrial location selection is crucial.

That is why we recommend 'following the hexagons'. Our [Paths of Distribution Score analysis] (see exhibit EU-e) maps Europe into 158,455 hexagons with a 10-kilometer width. It scores them on their centrality, from an occupier perspective, for distributing goods to the most consumers at the lowest cost. We favor logistics strategies that focus on top-scoring hexagons within the highest ranked markets in our Fair Value analysis: France, the Netherlands and Germany.

EU-e | Logistics location matters

LaSalle Paths of Distribution score



Source: Persyn, D., Díaz-Lanchas, J., and Barbero, J. (2019). Estimating road transport costs between EU regions. JRC Working Papers on Territorial Modelling and Analysis No. 04/2019, European Commission, Seville, 2019, JRC114409; openrouteservice.org by HeiGIT; https://human-settlement.emergency.copernicus.eu/; LaSalle, 2024.

3. Retail back on the menu

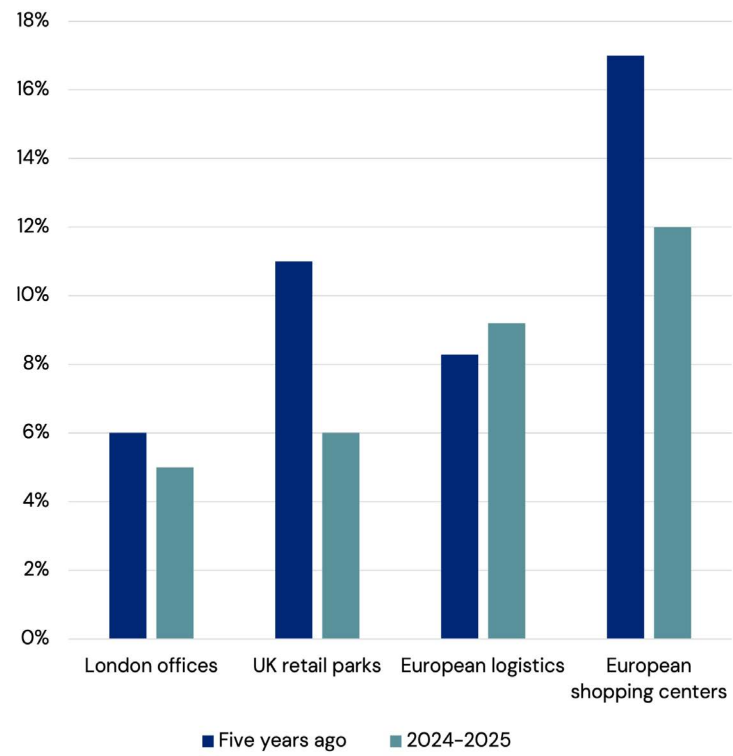
After facing stiff headwinds and false dawns, European retail has been through a deep reset. Looking ahead, select retail formats now look too attractive to ignore in 2025 – a shift we anticipated a year ago. Over the past year, European retail rents saw their strongest growth in 10 years. And some retail sectors, like UK retail warehouses, were among the first this cycle to see yield compression.

In fact, retail rents – when considered as a share of tenant revenue – have converged with European logistics (see exhibit EU-f). The retailers left standing have been thoroughly tested by 20 years of rapid growth in e-commerce penetration, Covid-19 and a cost-of-living crisis. And they are now spending much less on rent. Headwinds from e-commerce have not gone away, but the pace of change has slowed significantly.

Investors should and can still be choosy on retail strategies given low expected rent growth. But several niche retail formats stand out as especially attractive to us in 2025, led by outlet centers across both Western Europe and the UK. These offer visitors a differentiated experience from commodity shopping centers, have proven resilient to e-commerce penetration, and offer strong alignment between tenants and operators to maximize sales and income. Spanish and French retail parks, and convenience shopping centers in the Netherlands, are also attractive high income return strategies.

EU-f | Retail occupier costs converging with logistics

Rent share of occupier revenue



Source: LaSalle Research and Strategy analysis of data from ONS, British Land and PMA. No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

IN HINDSIGHT

"Retail investments are likely to improve on relative value metrics over the next year." ([ISA Outlook 2024 p. EU-38])

European retail rents grew 2.4% year-over-year in Q3 2024, compared to a 10 year average of 0.4%, and this improvement is expected to be sustained. Retail yields stabilized (and even declined in the case of UK retail warehouses) in 2024 at the highest levels for any property type.[19]

19. Source: LaSalle analysis of JLL data to Q3 2024.

4.

HOW EUROPE'S OFFICE MARKETS ARE DIFFERENT

Master adapters

The urban fabric of Europe's most desirable office locations is predominantly mid-rise and mixed-use, making it different from that of many other parts of the world. In Paris CBD, classic Haussmannian buildings do not wear their use on their sleeves – a given asset could be an office, apartments, hotel or something else. Similarly, Munich, Amsterdam and Madrid's centers might not have Haussmann's design imprint, but they do tend to have moderately sized buildings under 10 stories with a large variety of nearby amenities.

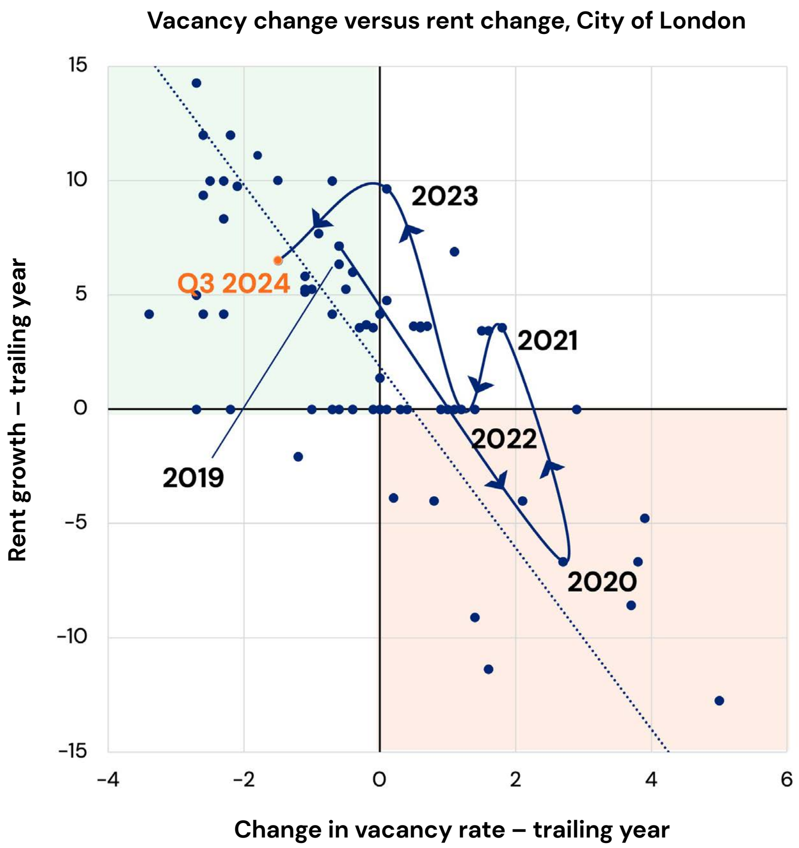
This fabric has long created a fluidity of uses that can facilitate rebalancing away from oversupplied sectors. Across Europe, about 1% of office stock each year has been repurposed into other uses for the last decade, a dynamic supported by high land prices and regulatory constraints on density. European office markets are therefore leading the way toward a rebalanced office market.[20]

Rebalancing is not a distant next buyer prospect for many of Europe's office markets — it is arriving now. This is evident in return-to-office figures as well as property fundamentals. The City of London office market vacancy has now declined for five consecutive quarters. There is a strong historical relationship in this market between periods of vacancy decline and prime rent growth (see exhibit EU-g).

As the City of London's vacancy increased in 2020-22, rents fell or stagnated. But as vacancy has begun to fall, prime rent growth has turned positive and the market appears to be reaching a sweet spot for rental growth potential. The City of London and central Amsterdam are our top picks for stabilized offices in 2025. While we continue to expect subdued demand for commodity office stock, renovation strategies in central locations allow investors to swim with the tide of rising tenant expectations for quality and low carbon intensity space.

69 Haussmann
Paris, France

EU-g | City of London occupier conditions move into strong upper left quadrant



10 Greycoat Place
London, United Kingdom

Source: LaSalle analysis of JLL data through Q3 3024. No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

20. Our latest *ISA Focus* report, "Rebalancing Past and Present" takes a closer look at these historical patterns of rebalancing.

5. A residential and living smörgåsbord

European residential (or living) is not really a single property type; it is a large collection of sub-sectors with widely varying cash flow profiles, pricing, regulation and target occupiers. The range of strategies on offer is highlighted in exhibit EU-h.

In the UK during 2024, purpose-built student accommodation (PBSA) transaction volume exceeded that of multi-family build-to-rent. This showcases how some alternative sub-sectors can match the maturity of more conventional sectors. And indeed, other sub-types are continuing to "go mainstream" quickly: UK single-family rental (SFR) investment volume also surged to nearly the same total as multi-family rentals.[21]

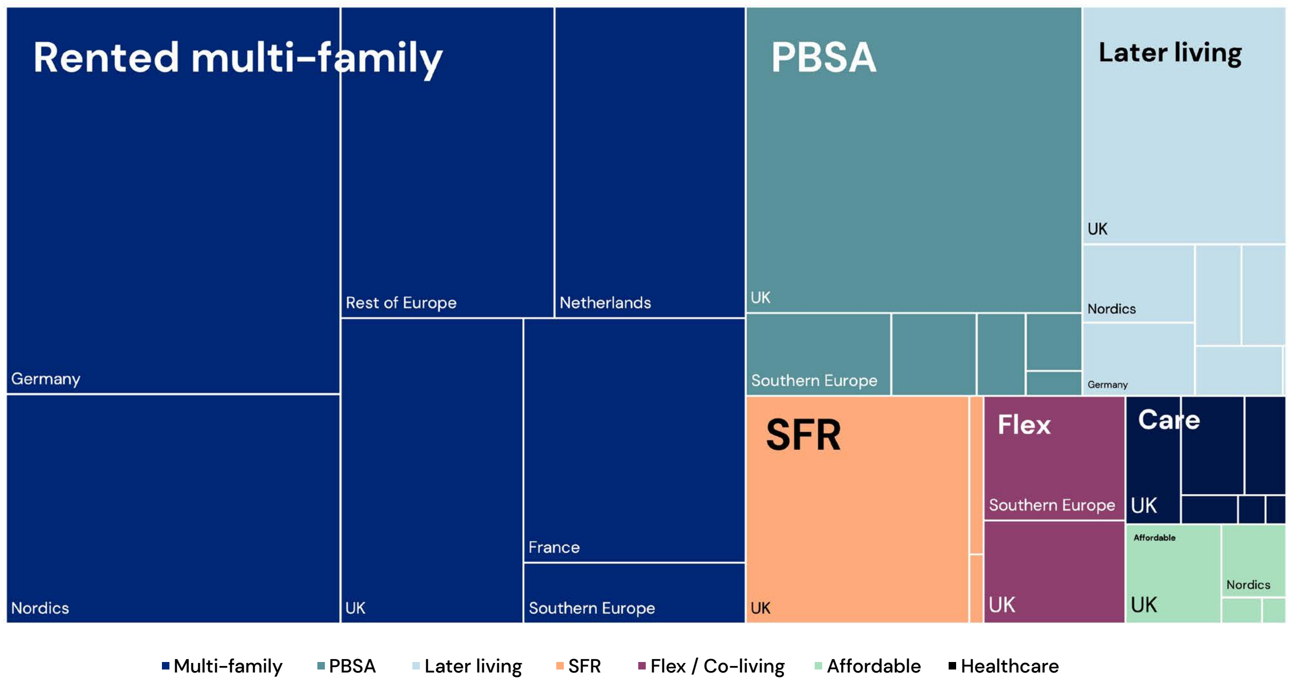
A blanket allocation shift toward European regulated residential would not enhance nominal returns, because yields tend to be below the all-property average. For example, average Dutch and French multi-family rental yields are below 4%.[22] As such, European living's inclusion in portfolios needs to be predicated on a risk-adjusted view underpinned by structural undersupply. Even on a risk-adjusted basis, returns can be tight; for example, in some cases prices for rented residential assets have been bid up by buyers looking to break them up for individual sale.

This makes sector selection within residential paramount; we use our fair value analysis to build our conviction in specific locations and market segments. For 2025, student accommodation in Spain and Germany stands out as attractively positioned (we sized up the PBSA opportunity in our *ISA Briefing: Head of the class*). Flexible living concepts also jump out as being worthy of over-weights. These emerging types play an essential role in giving residents a housing solution when facing fierce competition for limited available regulated units.

21. Based on JLL Capital Markets data.
22. Based on LaSalle analysis of JLL, Cushman & Wakefield, and CBRE yield estimates.

EU-h | Fragmented residential transaction activity

Europe living sectors – rectangles sized by 1H 2024 transaction volume



Source: JLL. Southern Europe = Spain, Italy, Portugal. Rest of Europe = Austria, Belgium, Czech Rep. Poland, Switzerland, Ireland. Nordics = Norway, Sweden, Finland, Denmark. No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

LOOKING AHEAD

- Europe offers its own takes on early birds. In Sweden – *morgonstund har guld i mun* – morning hours come with gold in hand. And this spirit is evocatively captured in the French expression: *l'avenir appartient à ceux qui se lèvent tôt*: the future belongs to those who wake early. We believe the future does belong to real estate investors who can take advantage of improving capital markets and a return to attractive relative return spreads for real estate (see exhibit EU-i).

- The investment menu has become more scrambled. There are specific compelling sector opportunities within each major property type in Europe. There is also notable convergence in outlook between recently favored sectors, living and logistics, and formerly out-of-favor sectors. The spectrum of risk-return within each sector goes beyond even "trifurcation." Look for more retail and office niches, in some specific locations, to flip the script on relative performance in 2025. And expect the most central locations – for transacting business and shipping goods – to continue turning the corner first.

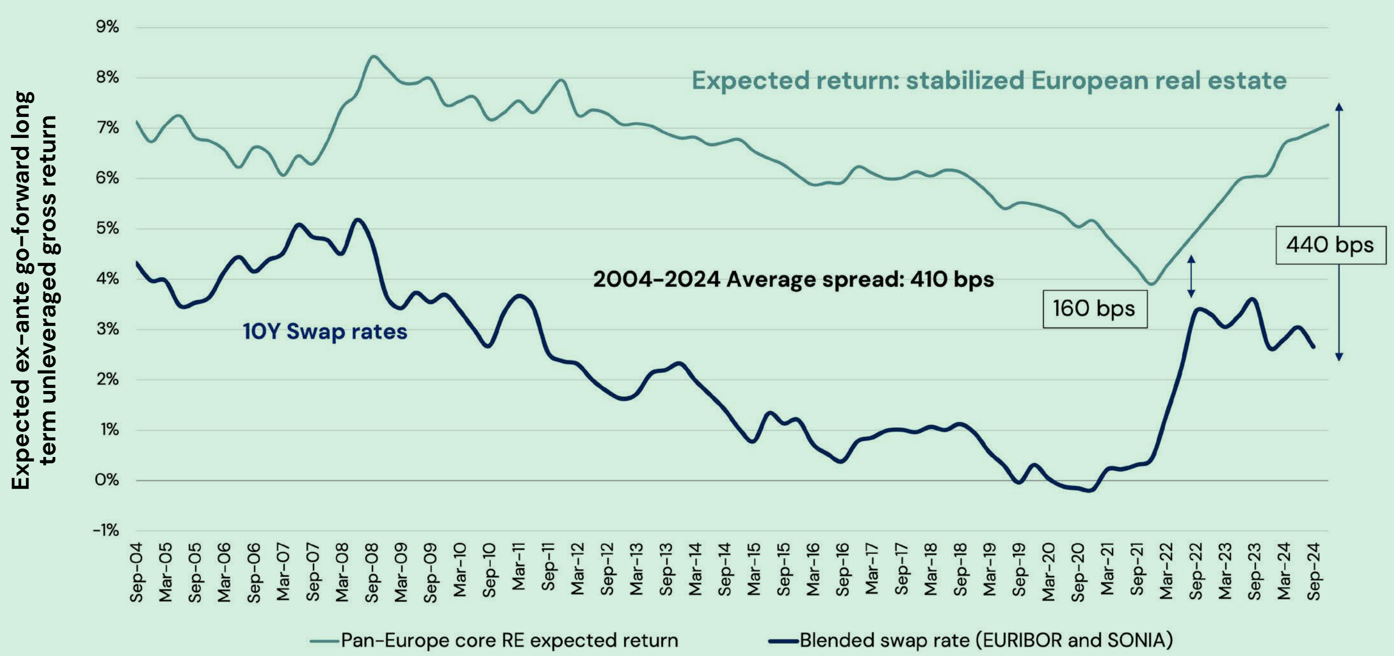
- Watch for European market fundamentals to diverge from a sluggish economic growth backdrop. Structural trends in preferences for low carbon emission offices, a slowing e-commerce transition and supply barriers are interacting with cyclical vacancy rates to drive fundamentals more than GDP growth.

- Our top Europe strategy recommendations include student accommodation and flexible living, office repositioning in central London and Paris, German and Dutch logistics, and outlet centers.

- Don't forget a "debt" umbrella! Investment in debt has proven a powerful diversifier through the storm of the recent capital market correction for equity. Solving capital stack problems for borrowers continues to offer healthy go-forward returns, and adding real estate credit strategies builds more resilient portfolios, according to our analysis (see our recent *ISA Focus: Investing in real estate debt*, on the topic).

EU-i | European real estate moves back to fair value

Europe core real estate expected return versus swaps



Source: LaSalle analysis of LSEG Eikon and Green Street data to September 2024, and LaSalle's fair value analysis as of November 2024.

No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

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