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Office outlook 2025: “It feels like the needle is about to move”

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Will more investors get off the fence and into the conversation?

Oxford Properties' 32 rue Blanche in Paris

A degree of scepticism is healthy when considering the pros and cons of any asset class. But has any sector been viewed more dubiously than offices?

While sellers remain sceptical about the timing of going to market, buyers remain unconvinced about allocating capital to this asset, type especially when presented with other sectors displaying stronger tailwinds.

It is little wonder, therefore, that there has not been anywhere near the usual liquidity for blockbuster office transactions across Europe, as long-term issues such as working from home and stranded assets due to ESG considerations continue to be an issue.

Nevertheless, going into 2025 there is heightened talk about deployment in the office sector next year – enough to make some people feel the needle is about to move. In London, there is even talk of some big occupiers having gone too far in downsizing, and now looking to lease additional space.

The evidence for big ticket office transactions in 2025 is not present yet. But when the likes of Oxford Properties, backed by the deep pockets of Canadian capital, say they are ready to deploy again, it must count for something.

What is driving this narrative, though, and what else can we expect? *Green Street News* asked industry figures for their views about offices in 2025.

Eric Decouvelaere, head of EMEA urban destinations operator division, CBRE IM

> *“We expect Paris CBD, London City and some key German cities to be standout markets to watch in 2025”*

As we look ahead to 2025, the office real estate market is set for continued bifurcation. While lower-quality assets struggle to attract tenants, demand is

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clearly concentrated on best-in-class spaces in prime locations. CBRE's prime rent indices show an 8% year-on-year growth in European office rents for well-specified assets in core locations during Q3, suggesting prime offices may see more rental growth momentum than any other sector in Europe.

Hybrid working and sustainability requirements may already be priced into the market. The spread between eurozone prime office yields and government bond yields, which had narrowed to less than 50 basis points in 2022, has now returned to average levels seen throughout the 2010s.

Pricing is expected to stabilise and possibly improve slightly, though this will mask significant variations. As secondary value declines, opportunities for refurbishing and repositioning assets will grow, presenting a long-term investment strategy. However, the greater capital expenditure demands of today's office market means that a more active investment and operation approach is required.

Similarly to physical retail which has adapted to e-commerce, office needs to adapt to new ways of working. Close to transport hubs, successful urban destinations are thoughtfully curated and located in areas that appeal to workers, and occupiers alike.

As a result, we believe that, despite an overall underperformance of offices in return outlooks, select pockets of opportunity remain. We expect Paris CBD, London City, and some key German cities to be standout markets to watch in 2025.

Gabriele Bonfiglioli, chief investment officer, Coima

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> *“The big challenge the office market is facing is in transforming old brown buildings into modern future-proofed, sustainable workspaces”*

In Italy, as with other European countries, the key feature of the office market remains increasing polarisation, with demand for quality and sustainable space at levels higher than before the pandemic, while obsolete stock in secondary locations is seeing high levels of vacancy, pushing landlords to consider repurposing buildings for alternative uses.

This means we are seeing a growing number of tenants moving from peripheral secondary locations to better quality buildings in more central areas. They may end up spending as much as double on rent, but that will be across a reduced footprint.

Neighbourhoods characterised by good-quality transport, infrastructure, and services are attracting demand like we have never seen before, with rental growth and tenants competing for the best space. In Milan, for example, over 75% of the demand is concentrated on grade A stock, which only represents

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around 12% of the total available stock. In key locations, such as Porta Nuova and the historic CBD, vacancy is virtually zero and rents are up 30% from pre-Covid levels.

We continue to see a premium placed on sustainable real estate, amid tightening ESG regulations at a European level. The big challenge the office market is facing is in transforming old brown buildings into modern future-proofed, sustainable workspaces. There is an enormous opportunity for experienced asset managers to execute brown-to-green strategies in these markets, delivering highly sustainable buildings in well-connected locations with a range of amenities that can attract talent and allow businesses to flourish.

Dale Johnstone, partner commercial investment, Allsop

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> *“Lender appetite remains mixed, with US lenders cautious due to domestic vacancy rates. However, European and challenger banks are more open as sector repricing leads to improved debt terms”*

As we approach 2025, the European and UK office market shows some promising signs of recovery and transformation. The sector is experiencing an uptick in investor interest, particularly from mainland European and Middle Eastern sources. French open-ended funds and Middle Eastern high-net-worth individuals are increasingly active, especially in the long income market.

The occupational market is showing clear post-Covid space requirements, with location and quality emerging as key drivers. Limited grade A stock is fuelling competition among occupiers, while companies like Amazon are reinforcing the return-to-office narrative.

Lender appetite remains mixed, with US lenders cautious due to domestic vacancy rates. However, European and challenger banks are more open as sector repricing leads to improved debt terms.

Despite these positive trends, challenges persist. Refurbishment costs remain high, primarily due to rising labour costs. Nevertheless, with higher transaction volumes and larger lot sizes now returning in London for example, the market shows resilience and adaptability in the face of evolving demands and economic conditions.

As we enter 2025, the office market appears poised for a period of strategic growth. There is an ever-dwindling supply of “best in class stock” following a cycle of constrained office development. 2025 could see a period of selective yield compression for prime offices as more global capital switches attention back to the sector.

Jay Drexler, VP asset management, Oxford Properties

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> *“It feels like the needle is about to move. In terms of the bid-ask spread, at least people are getting comfortable with their underwriting”*

I think what we’re seeing is that there is not much liquidity on the big tickets across UK and Europe. But if I think about the institutional investor pool, there is a lot more talk at the end of this year about deployment next year. So, it feels like that needle is about to move. In terms of the bid-ask spread, at least people are getting comfortable with their underwriting, and this may be a potential structural change within Office. It feels like a shift though I think the evidence isn’t there yet.

But what are we doing? We’ve doubled down on the asset management component, so leaning into our core competencies.

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We have been understanding what the customer needs are. Rents and the economics that go with that are a by product. And it helps on the investment side, understanding what you can and cannot do. From the investment strategy perspective, we're now ready to deploy again in office. We have not said we're putting X amount towards it, or that we're going to buy on such and such a date because it will be opportunity-led.

But there's a very different narrative in our business in terms of interest level and likelihood of activity in the office space in 2025 and certainly compared to the last two years.

What is changing is there is some stability in yields – they are starting to come into a more predictable state. I think you can benchmark off that. It is possible to get comfortable with spreads compared to bonds and get comfortable that you are not overpaying. On the occupier-side, there is a distinct requirement. I think occupiers are focused on great location, decarbonisation, amenity and heavy on service.

Chris Brett, head of capital markets Europe, CBRE

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> *“There is a very different appetite from the banks in the US compared to Europe”*

It is still a logistics and living world, with the surprise sector this year probably being retail. That said, I was in New York recently for over a dozen investor meetings, and we were talking about offices. I have been in New York three times previously this year, and we were not. So that is different. There is definitely private capital and private equity-style capital that is prepared to look at office. The challenge, perhaps with the exception of Norges Bank, is where the institutional market is.

I would also say there is a very different appetite from the banks in the US compared to Europe. Banks in the US are still office shy, whereas we’ve done a ton of lending in the office space in both refinance and new purchases in both UK and Continental Europe this year, some of which has been public in the press such as AGC equity partners of the Vodafone Campus in Düsseldorf-Heerdt in Germany.

In summary, there is definitely more interest in office. I think 2025 will probably be a more active year in the office investment world.

Lucinda Pullinger, managing director, The Instant Group

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> *“Competition will continue to rise as more players try to enter the short-term lease and serviced office markets”*

2024 has confirmed that there is no new normal for occupiers of workspace.

Despite each business’ situation being particular to them, what will continue to be consistent through 2025 are the top three prerogatives and value drivers of workspace which are people, cost and carbon.

On the supply side we will see an increase in the variety of flex products and supply coming to market; the fastest growing of these products is likely to be short term leases; bridging the gap between traditional leasing and the serviced office market.

Competition will continue to rise as more players try to enter the short-term lease and serviced office markets and workspace owners will increasingly need to differentiate their spaces to attract customers.

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2025 will also see technology playing a bigger role in enabling a wider segment of the market to choose the workspaces that work for them.

Dan Rees, senior VP and co-head of UK offices, Trammell Crow Company

> *"While challenges persist, we are seeing liquidity return to parts of the market as some investors get off the fence and into the conversation"*

We are feeling a cautious sense of optimism about the direction the office market is taking. While challenges persist, we are seeing liquidity return to parts of the market as some investors get off the fence and into the conversation.

The current withdrawal of capital presents an opportunity for investors to acquire assets at attractive prices, particularly if they focus on top European

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cities, prime micro-locations, and the right product, positioning for significant upside when the capital markets reset.

As predicted, the first movers in the early part of the cycle were private investors who could act on instinct and not require a committee approval. More recently private equity has been increasing its activity in the UK office market, a trend expected to continue through 2025, particularly in London. While in regional markets, UK private equity are starting to take a lead on value-add opportunities.

In recent history London has continued to attract global capital through difficult economic times and we expect to see this again as the recovery continues. Although we are seeing some Hong Kong and Chinese parties looking to exit, there has been steady deployment from Japanese investors targeting the established London sub-markets of Soho, Fitzrovia, and Mayfair.

Other capital sources, such as Canadian pension funds, have limited appetite for new office investments but continue to invest in the UK with a focus on the alternative sectors of residential and logistics.

Ben Beck, managing partner, TriOffice

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> *"Institutional interest, which has already shown signs of recovery in London, is likely to expand into major regional cities"*

The UK office market offers significant opportunity, with a key emphasis on stock selection and micro location. If the right office assets can be acquired at this point in the cycle, they can offer compelling risk-adjusted returns.

While investment sentiment has materially improved, transaction volumes are not yet fully reflecting this renewed confidence. As 2025 progresses, we believe the gap between sentiment and activity will narrow, further energising the market throughout the year.

Institutional interest, which has already shown signs of recovery in London, is likely to expand into major regional cities. As pricing in London's core submarkets sharpens, larger regional cities will offer attractive pricing arbitrage.

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Challenges will persist for secondary cities, weaker office markets, and out-of-town locations, as well as for poor-quality assets in major cities. These offices may increasingly be explored for alternative uses, further reducing overall office stock.

Tristram Gethin, founding partner, Quadrant

> *"The office market has turned a corner in 2024, and investors are allocating capital to portfolios that can deliver secure long-term returns"*

The office market has turned a corner in 2024, and investors are allocating capital to portfolios that can deliver secure long-term returns. This is particularly the case for "patient capital" such as family offices who see now as an opportune time to enter the market, especially on office assets where value-add

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and asset management strategies can drive rental growth.

Earlier this year we received a London office investment focused mandate from a family office and this has been kicked off with the acquisition of 6 Gracechurch Street, a superb City of London standing office investment where there is the opportunity to deliver excellent returns long into the future. This is a trend we expect to continue in 2025.

Despite macroeconomic uncertainty, we expect demand for quality London office space in 2025 to be robust. Concerns around firms looking to reduce their footprint due to working from home and hybrid working are overplayed, backed by firms return-to-the-office mandates. News is also creeping through that some companies went too far, with whispers of several big occupiers looking to lease additional space after supposedly downsizing, fearing their new smaller HQs will prove too small.

Best businesses, particularly in buoyant high-growth sectors such as fintech, technology and life sciences, will continue to seek the best buildings, in the best locations to attract and retain talent and reduce their carbon emissions and energy costs.

Matthew Bonning-Snook, CEO, Helical

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> *“Take up is likely to be back to its 10-year average and active demand sits 35% above this, driven by a clear flight to quality as occupiers typically look for more space rather than less”*

As we approach the new year, we are feeling optimistic about the resurgence of the central London office market and are particularly encouraged by the positive momentum in the letting market, which we expect to continue into 2025. Take up is likely to be back to its 10-year average and active demand sits 35% above this, driven by a clear flight to quality as occupiers typically look for more space rather than less.

Modern occupiers want ESG-aligned office spaces with terraces and high quality amenity and this means there is intense competition for the best assets and tenants are prepared to pay premium rents.

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The investment market, while considerably below historical averages, is also showing signs of recovery and we expect this to continue as interest rates fall next year and investors benefit from rising rents.

Adnan Ozair, head of equity capital markets, Delancey

> *"Another interesting development in the market will be the loosening of what's considered a prime location"*

The opportunity in the office sector will be both cyclical and long-term and across the capital stack.

On the debt side, the market will continue to be characterised by a breadth of high-quality sponsors facing maturity and liquidity pressures.

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Readers don’t need telling that the equity opportunity will of course continue to be in grade A, where there is a large pipeline of state-of-the-art, prime-located stock that isn’t fully funded.

What isn’t being talked out is retrofit squared; that is, the requirement for light capex programmes at recently refurbished office assets that are considered prime but where owners overestimated the permanence of the work-from-home revolution.

Floor plans, amenities and designs that were adjusted to reflect falling occupancy levels now need to be revisited to capture the recovery in demand amongst leading occupiers.

That being said, the work-from-home revolution is still very real and an important part of the risk management process. To that end, another interesting development in the market will be the loosening of what’s considered a prime location.

Occupiers with a more flexible approach to being in the office are increasingly looking to zone two or three locations that have excellent connectivity but don’t sacrifice on sustainability or quality.

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