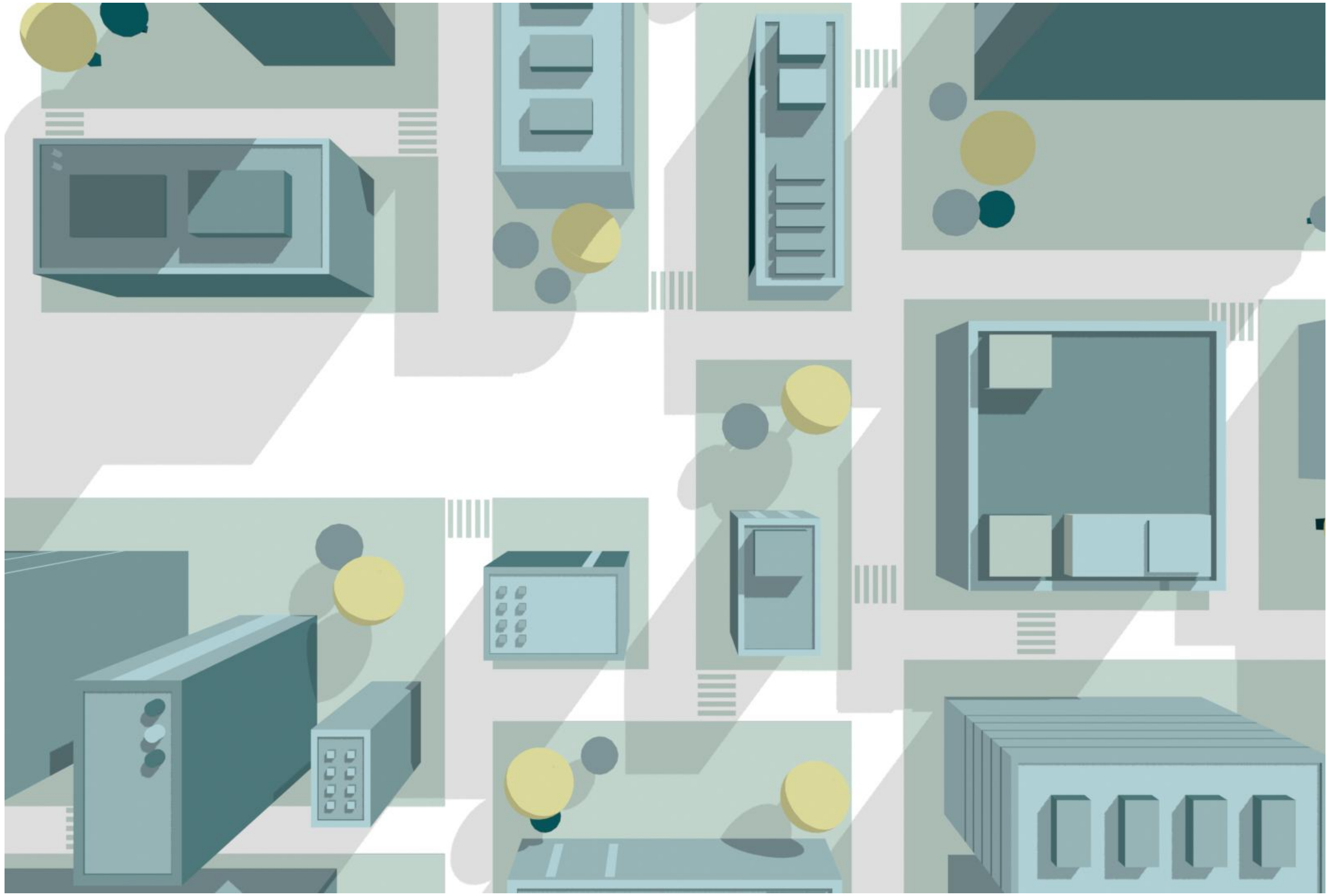
Intelligent Investment

2026 European Real Estate Market Outlook

REPORT

CBRE RESEARCH
JANUARY 2026

Contents



Executive Summary

- Europe's **Economy** faces slower growth this year amid global weakness, trade policy challenges, a strong Euro, and competitive pressures. We expect one further rate cut by the Bank of England (BOE) this year, though no further cuts by the European Central Bank (ECB). Long rates will remain elevated.

- Positive sentiment in real estate **Capital Markets** will continue, with a gradual recovery driven by income-focused strategies and strong lending appetite.

- A structural supply-demand imbalance will persist in the **Living** sector, sustaining rent growth despite increased development activity in select markets. Europe's ongoing appeal for international students will continue to act as a driver of demand **for Purpose-Built Student Accommodation (PBSA)**.

- **Logistics** take-up will see moderate improvement, though net absorption is not expected to recover until next year as occupiers upgrade their facilities, rather than expand. Prime rent growth is forecast to slow further, due to increased cost sensitivity.

- **Office** demand will benefit from employment growth and rising office utilisation, with spillover into less central areas due to low availability and strong rental growth in city centres. New supply continues to be higher outside Central Business Districts (CBDs).

- **Retail** sales growth will remain stable, with strong competition for prime high street units pushing rents above quoted levels. Prime shopping centre rents will trend stronger, while retail parks will outperform due to a persistent demand-supply imbalance.

- More measured growth is expected in **Hotel** operating performance, with increasing inbound travel acting as the main driver amid a disciplined development pipeline.

- AI growth will further strain capacity in **Data Centres**, with vacancy rates forecast to compress to a historic low by the end of the year, even amid a period of record-breaking new supply entering the market.

- **Sustainability** will continue to drive value creation in today's evolving regulatory landscape, with initiatives acting to strengthen resilience, reduce risk and protect asset value.

Introductory Note by

Tasos Vezyridis

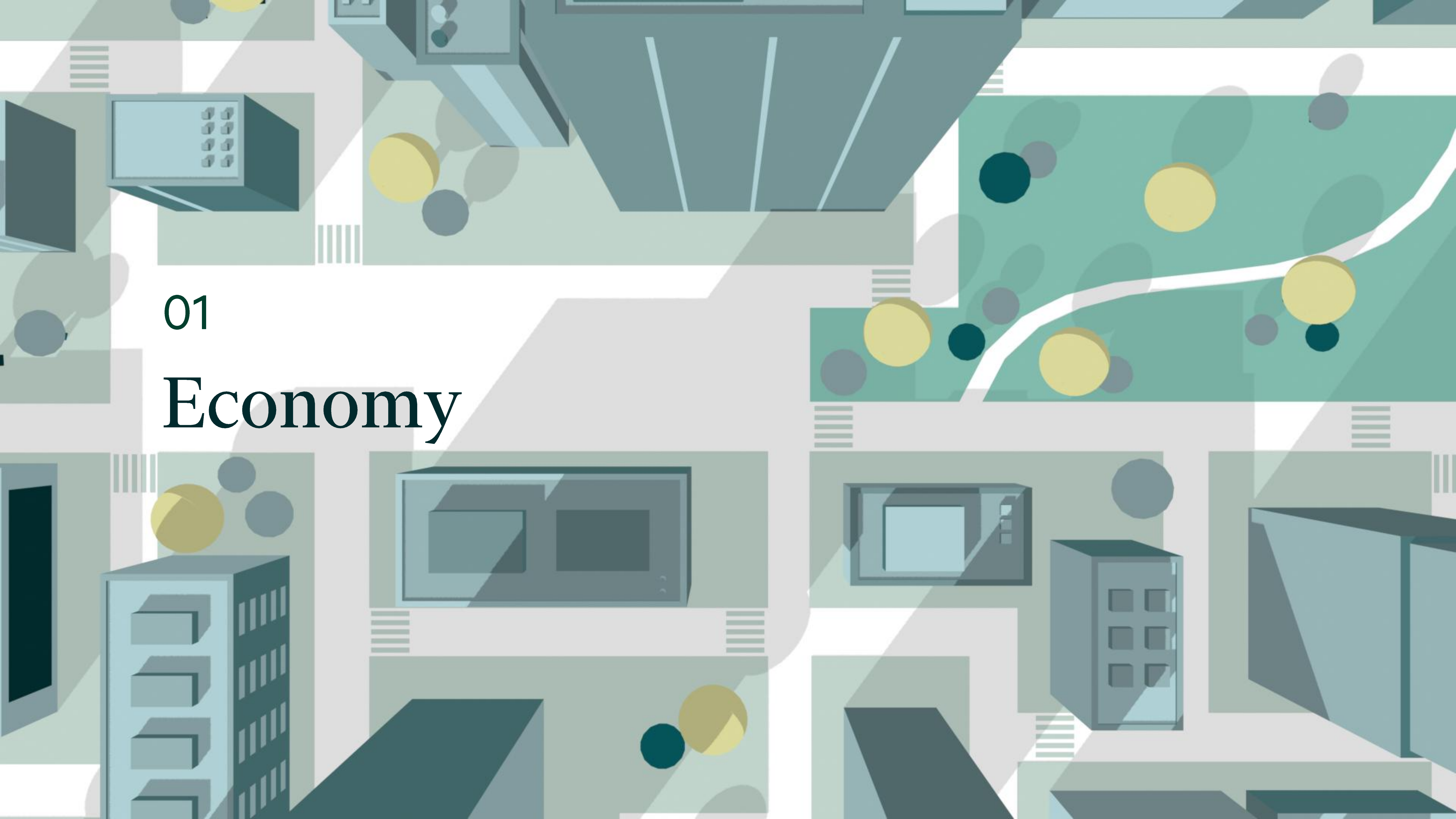
Head of Research,
UK&I and Continental Europe

Welcome to CBRE's European Real Estate Market Outlook 2026.

As we enter the year, the real estate market is now firmly into the next cycle. However, we expect differences in this cycle when compared to previous ones. Long-term interest rates are forecast to remain elevated, limiting the potential for yield compression. Instead, returns will be primarily income-driven, with stock selectivity and proactive asset management being key.

The investment market will continue to see a gradual improvement, with improving financing conditions being accretive to returns. The living sector has now cemented its position as Europe's largest investment sector, and we expect this to remain the case this year.

Occupational markets in most sectors are expected to see moderate improvement throughout the year, amid a somewhat weak macroeconomic backdrop. There are some standout segments, however, such as living, where an acute shortage of supply will promote rental growth. Rapidly growing demand in the data centres sector, fuelled chiefly by the AI boom, will also lead to upwards pressure in pricing in this sector.



01

Economy

01
Economy

Global weakness to weigh on Europe

The European economy is expected to deliver modest growth this year, with Eurozone GDP projected to expand by just under 1.0%, marking a slowdown compared to 2025. This deceleration is partly attributable to the lingering impact of tariffs, which are anticipated to weigh more heavily on activity in 2026 than in the prior year.

Performance will vary across markets, with some economies forecast to post weaker growth. Germany, for instance, enters the year following a prolonged period of stagnation driven by global uncertainty, subdued investment, and declining exports. However, increased public spending is now supporting domestic consumption and investment, offering a degree of resilience.

More positively, inflation on the continent has moderated significantly. Eurozone inflation is expected to average 1.5% in 2026, with UK inflation expected to be stickier at 2.5%. We do not expect any further rate cuts from the ECB, while a single rate cut is expected from the BOE. The lower inflation environment in Continental Europe is supporting real household incomes, which should underpin consumption growth throughout the year.

The unemployment rate remains relatively low across Europe, and is forecast to fall or remain stable in most countries except for the UK and France. Labour market conditions are expected to stay resilient, supported by ongoing employment growth.

Long-term interest rates remain elevated and have dislocated from short rates, given the bond markets' cautious views on government debt and political issues.

Europe is expected to continue to suffer from weaker global growth. The Eurozone's export prospects are still being dampened by higher US tariffs, the appreciation of the Euro, and persistent competitive pressures.

Under our upside scenario, the effective tariff rate falls to 8% by the second half of 2026. We expect a lift in business confidence and investment, supporting stronger economic growth and stable bond yields – conditions that are favourable for real estate markets. Under our downside scenario, the US reinstates more aggressive retaliatory tariffs on key trading partners. Inflationary pressures would likely return, driving bond yields higher and creating a challenging environment for real estate investment.

Figure 1: CBRE economic forecasts 2026

	Germany	France	Spain	Italy	UK	Eurozone
GDP growth (%)	0.7	0.8	2.2	0.7	1.2	0.9
CPI (%)	1.5	1.3	2.1	1.5	2.5	1.5
Unemployment (%)	3.7	7.7	10.3	6.1	5.1	NF*
10-year bond (%)	2.4	3.3	3.3	3.7	4.3	2.8

Source: CBRE Macroeconomic House View, December 2025
*Eurozone unemployment not forecasted

01
Economy

Trends to watch

— The possibility of faster-than-expected disinflation could prompt the ECB to make rate cuts in 2026. Recent inflation data confirms that price pressures continue to ease and may decline further. Should inflation fall more sharply than anticipated, the ECB could consider rate cuts to boost growth. Such a scenario would reinforce Europe's already competitive lending environment and provide further support for real estate investment activity.

— Persistent political uncertainty and elevated government debt levels in Europe could put further upward pressure on bond yields. For example, these factors have pushed French yields above those of Greece, with the spread over German Bunds surpassing 80 basis points – the widest differential since the Eurozone crisis in 2012. So, further political, or geopolitical, instability across Europe in 2026 could push yields higher and widen the gap between short- and long-term debt.

— While unemployment is expected to decline across most European economies in 2026, the accelerating adoption of Artificial Intelligence (AI) introduces a potential structural shift. Corporate announcements on AI implementation are increasing, and firms are therefore actively rightsizing operations through natural attrition or layoffs. This rapid evolution in the AI landscape warrants close attention. Beyond its immediate impact on employment, it could reshape demand patterns across different real estate segments in 2026 and beyond.

02

Capital Markets

02
Capital Markets

Positive sentiment to carry over into 2026

Positive investor sentiment in the European real estate investment market is set to continue this year, as the stabilisation in asset prices brings buyers and sellers closer together.

The recovery is still in an early stage, with deal volumes c. 40-45% below peak levels, and is reminiscent of 2013-2014 when the market was much less diversified in terms of its sector composition and capital base. With new sectors having emerged (see Figure 2) and a broad mix of investors targeting Europe, this leaves room for growth.

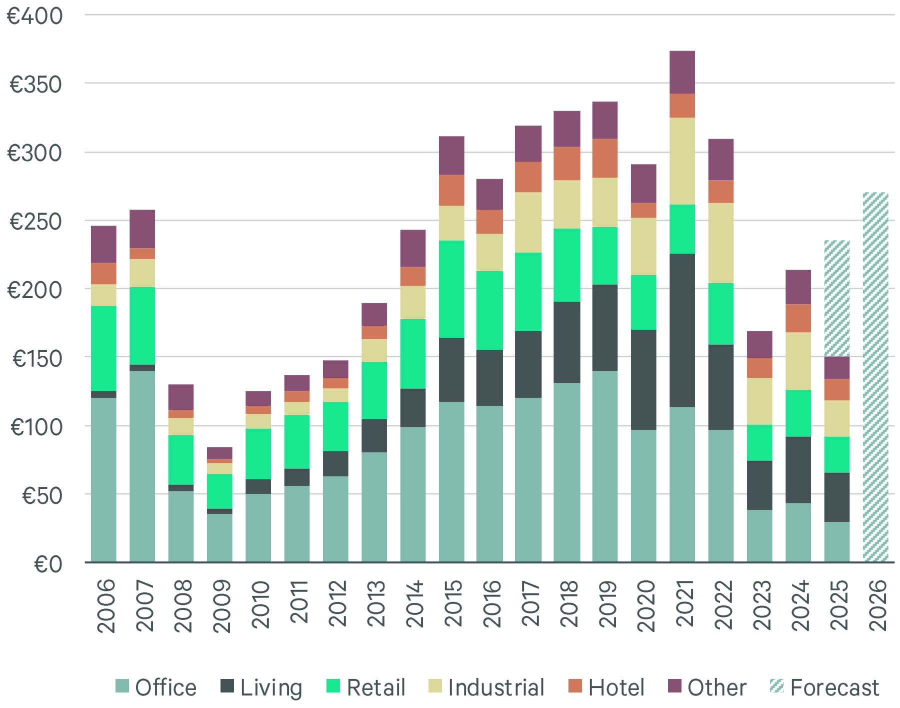
In line with our earlier predictions*, however, this recovery cycle is proving to be gradual. Investor interest is based on income-led performance rather than driven by yield compression and / or cheap debt on the back of low interest rates. We expect more product to be put up for sale this year, as sellers have adjusted to today's values. Debt maturities or equity rotation will remain the main reasons for investors deciding to sell.

Rental growth will continue to be the primary driver of capital value growth in 2026, which means investors with higher required returns will need to be creative to unlock value. This puts the emphasis on choosing the right operating partner. M&A activity will continue as buyers seek to take advantage of arbitrage opportunities in book values both in public and private markets, with several large platforms currently on the market.

Deal activity will be helped by a supportive real estate financing market, with debt funding available for a wide range of sectors and investment strategies. There is a strong willingness to lend, and growing competition among lenders is resulting in margin compression. Despite lower margins, borrowing costs are expected to decline only marginally in 2026 as we do not foresee a material fall in interest rates.

Note: *CBRE European Real Estate Market Outlook 2025

Figure 2: European real estate investment volumes (EUR billion)



Source: CBRE Research

02
Capital Markets

Trends to watch

— Growing competition in the lending market will maintain pressure on margins in 2026. Lenders are looking to increase origination activity, and the focus on refinancing in recent years should shift to a more equal balance between refinancing and acquisition loans.

— Living has cemented its position as the largest investment sector in Europe and is expected to remain the biggest driver of investment. €50-100m deal sizes are performing well at core yields, but larger portfolios are more challenging unless part of a privatisation strategy.

— Office investors will prioritise assets in the core-plus and value-add segments in prime locations. Larger tickets with reversionary potential are expected to attract strong competition from both domestic and international investors.

— Significant global capital remains targeted towards European logistics, and the debt market continues to be very supportive. Investors are therefore expected to prioritise deals that deliver their required returns through rental reversion or more intensive asset management, against a backdrop of slower occupational growth.

— We expect the resurgence in retail investment to continue, with interest driven by attractive price levels and solid operational performance. Large shopping centre deals will continue to make a comeback. Demand for retail parks will persist, with lack of product being the main issue.

— The hotel sector will continue to see strong structural investor demand across Europe as macro factors improve, with the main purchasers being specialised investors who can partner with developers for extensive refurbishments.

— Data centre investment is poised for growth, fuelled by AI demand and more favourable lending conditions. Partnerships between operators and lenders with a track record in the sector, or complementary sectors such as power infrastructure, will give operators access to favourable loan terms and unlock cross-industry synergies.

03

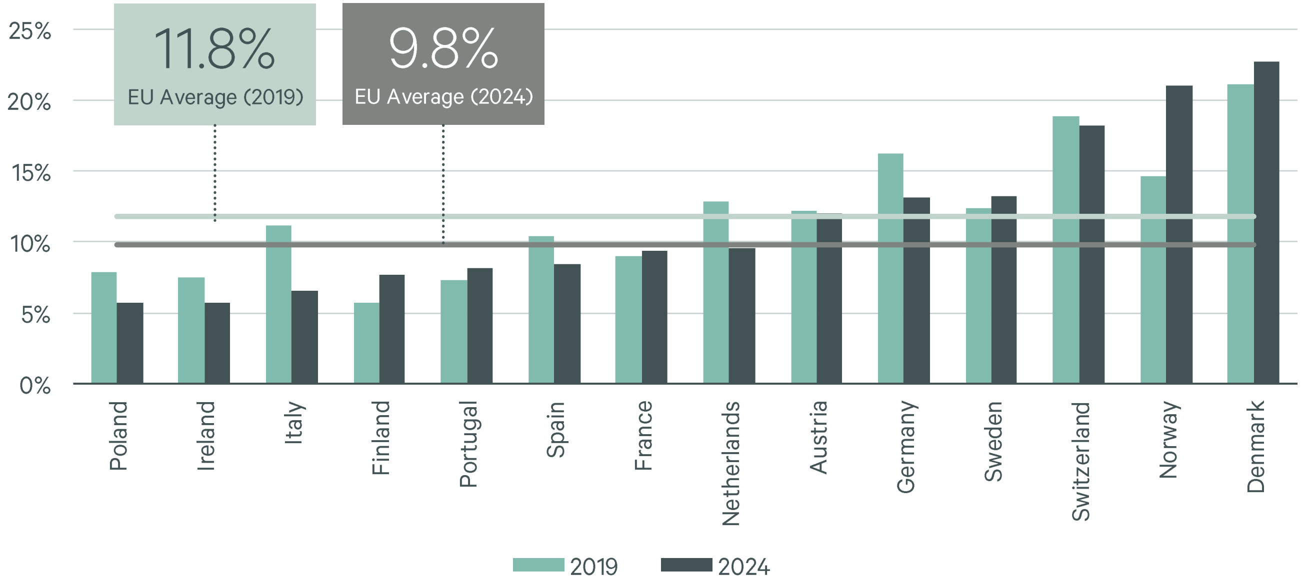
Living

03
Living

Continued housing shortage will place upwards pressure on rents

While pressure has been steadily alleviating for the most financially burdened households, **continued supply shortages will lead to rent increases**.

Figure 3: Housing cost overburden rate (%)



Source: Eurostat, CBRE Research

Note: the housing cost overburden rate is defined as the percentage of the population living in households where total housing costs represent more than 40% of disposable income.

Europe's housing shortage will continue to widen this year, despite an increase in forward funding and development activity over the last 12 months. Building permits and completions remain below target, with the EIB estimating a 925,000 unit gap between additional demand and completions in 2025, exacerbating an already severe level of undersupply.

Pressure will be further amplified by the increasing mismatch in housing stock and demand. Average household sizes continue to decline, driving demand for smaller units, while the current stock of housing remains unsuitable, with an over-supply of 3&4+ bedroom accommodation in a number of markets. In 2024, it was estimated that a third of the European population lived in accommodation too large for its household size. This fundamental mismatch will most likely reduce ramp-up periods and leasing voids in assets with strong single occupancy options.

Despite this, the housing cost overburden rate in many European countries is expected to either stabilise or continue to decline, suggesting alleviating pressure for the most financially stretched households. This is due to i) real wage growth, ii) rent regulation changes and caps in several jurisdictions, iii) landlords' improvement of tenant selection processes, and iv) smaller unit sizes with more appropriate single and dual occupancy stock coming to market. The overall picture remains one of a severe housing shortage, which will place further upward pressure on rents. Under our baseline forecast, we expect rents to increase by 2.4% at a European level this year. Our upside and downside scenarios, explored in the Economy section, see growth of 2.7% and 2.1% respectively.

03
Living

Trends to watch

- Due to a structural imbalance between the type of housing stock present in most European markets, and that demanded by the market, demand for alternative housing solutions will increase. Most European markets are experiencing an oversupply of larger homes (3–5 bedrooms) alongside a persistent shortage of smaller units (1–2 bedrooms). This misalignment is reflected in occupancy patterns. Around one-third of the EU population lives in under-occupied homes, with figures exceeding 50% in countries such as Spain and the Netherlands. Solutions include flex living, co-living models, and conversions from other asset classes, such as offices and hotels, to cater to single and dual occupiers.

- Housing cost overburden rates are on a downwards path for market-rent properties, suggesting alleviating pressure on the most financially stretched households. However, subsidised housing demand is rising, signalling continued pressure on lower-income segments.

- Digital leasing platforms, AI-driven tenant screening, and smart building technologies are becoming standard, improving operational efficiency and tenant experience. We expect increased uptake of these technologies by operators this year.

04

Purpose-Built Student Accomodation (PBSA)

04
PBSA

International student growth will continue to drive demand

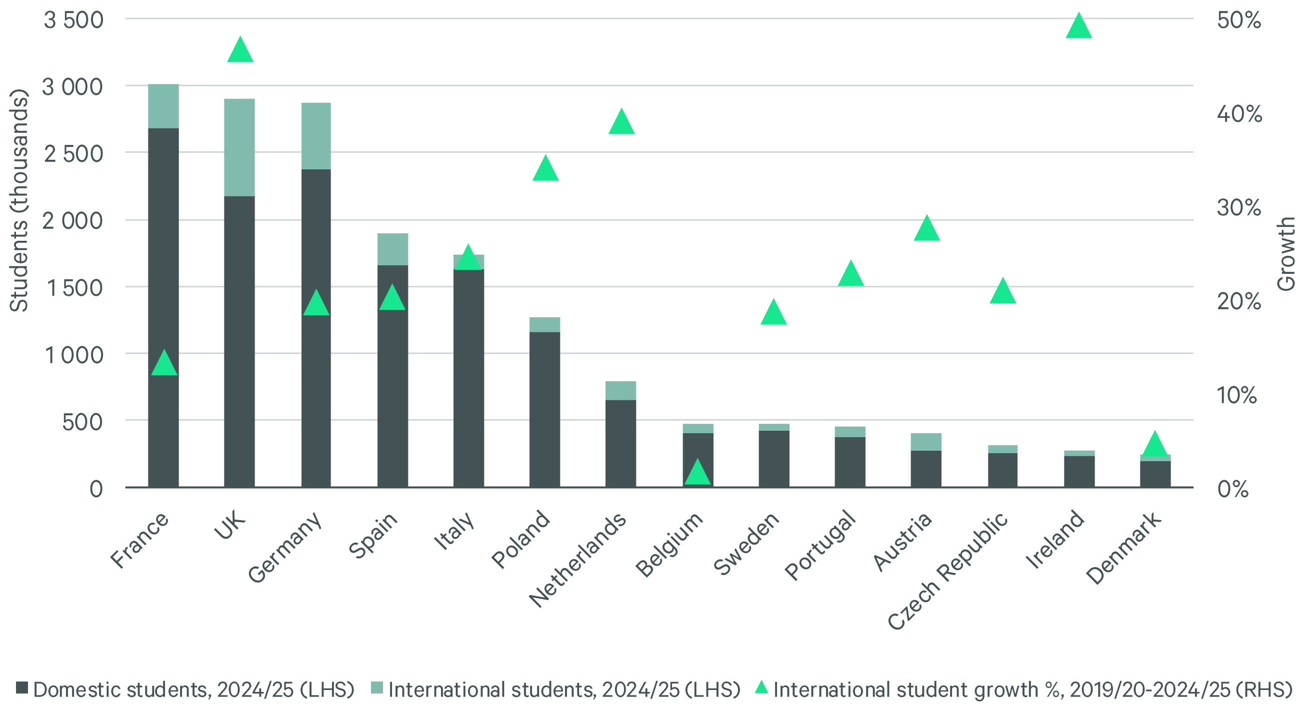
An ongoing undersupply of student housing will ensure already high occupancy remains **robust and underpin outsized rental growth**.

Demand for purpose-built student accommodation (PBSA) in Europe continues to experience significant growth, with international and domestic mobile students at the heart of this trend. Often with higher purchasing power, international students have and will continue to form a key part of the demand pool for PBSA product. The UK has historically been a leading global destination for international students. However, in recent years other major markets including Spain, Germany and France have seen a notable growth in international student numbers. Growth is set to continue, with international student enrolments in Europe forecast to grow by 5% annually to 2030, according to QS.

The appeal of Continental European universities will continue to be driven by factors such as the availability of English-taught programmes, quality of education and university rankings, post-graduate employability prospects, and affordability. Countries that successfully combine these will continue to be particularly attractive to international talent. This has been demonstrated by international student numbers in some of Europe's highest-ranked cities and institutions such as Berlin, Madrid and Milan.

The demographics of international students will also continue to evolve, with a projected rise in students from Asia, South America and Africa. This trend is evident in the UK, where non-EU students make up approximately 90% of the international student body. In response to these shifts, PBSA operators will increasingly tailor their sales strategies to cater to this diverse demographic, offering enhanced services such as multilingual customer support and relocation assistance.

Figure 4: Total number of students in higher education (thousands) and growth (%)



Source: National statistics compiled by CBRE
Note: United Kingdom and Belgium based on 2023/24 figures.

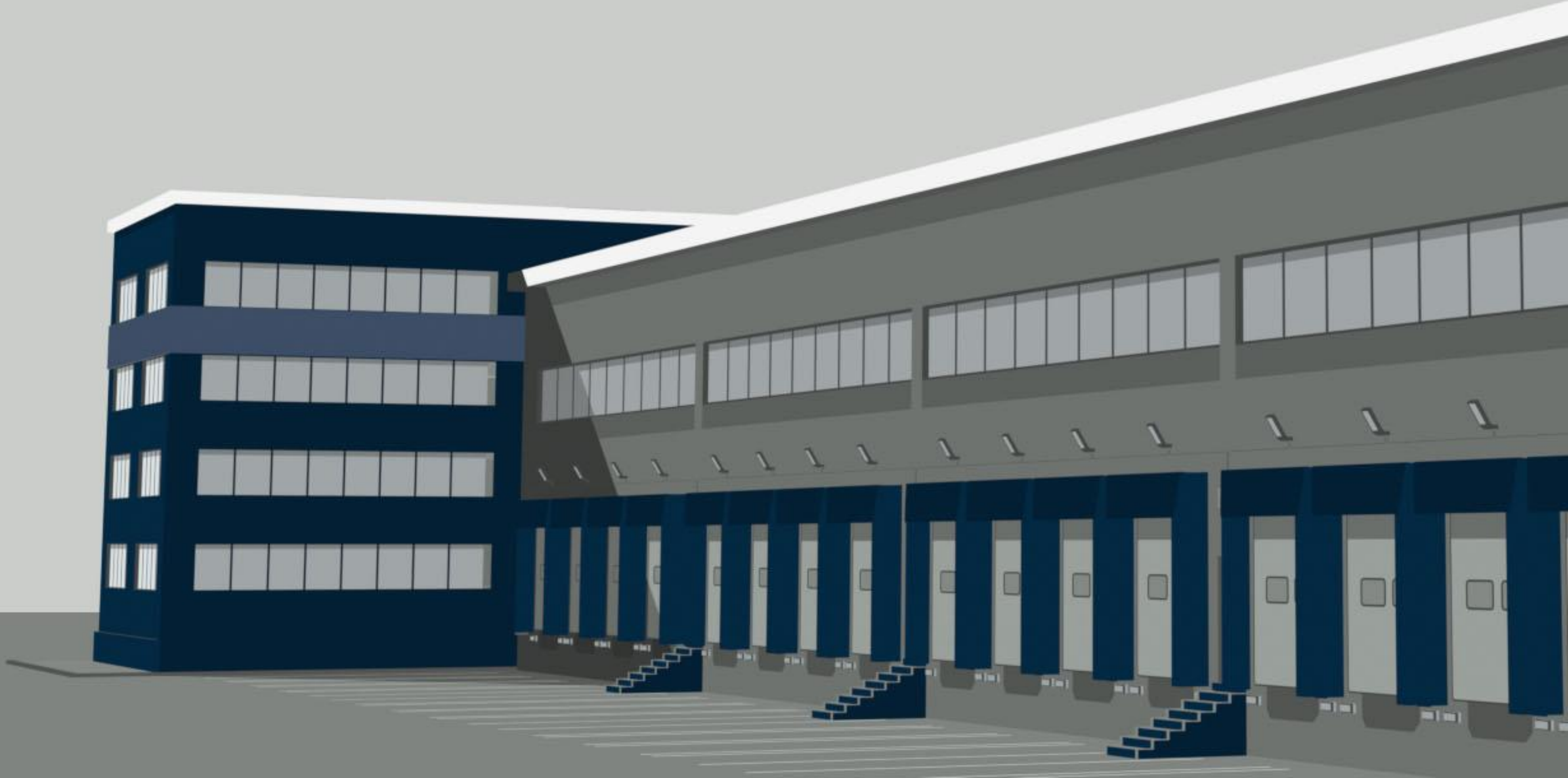
04
PBSA

Trends to watch

- Structural undersupply of student housing will continue to underpin high occupancy levels and sustained rental growth across core European markets such as the UK, Germany, France and Spain.
- While intra-European mobility remains stable, demand from Asia, Africa, and South America is expected to continue rising sharply, reinforcing the need for scalable PBSA solutions.
- The combination of comparatively low tuition fees, an increasing number of English taught programmes and strong academic reputation positions Europe as a preferred destination for globally mobile students seeking value and quality.
- The PBSA sector continues to evolve in many European countries. Demand will remain strongest in markets anchored by top-ranked universities. Investors should focus development-led strategies in these key markets, to deliver defensive PBSA assets.
- The emergence of market-leading operators and platforms will continue, as currently highly fragmented markets begin to consolidate.
- Owners and operators will increasingly focus on operational efficiency, optimising OpEx through energy efficiency and implementing new technologies to drive Net Operating Income (NOI) growth. Installing sensors and metering systems in rooms to turn off heating and lighting when students are not present, for example, reduces utilities costs and optimises OpEx, thereby improve NOI.

05

Logistics



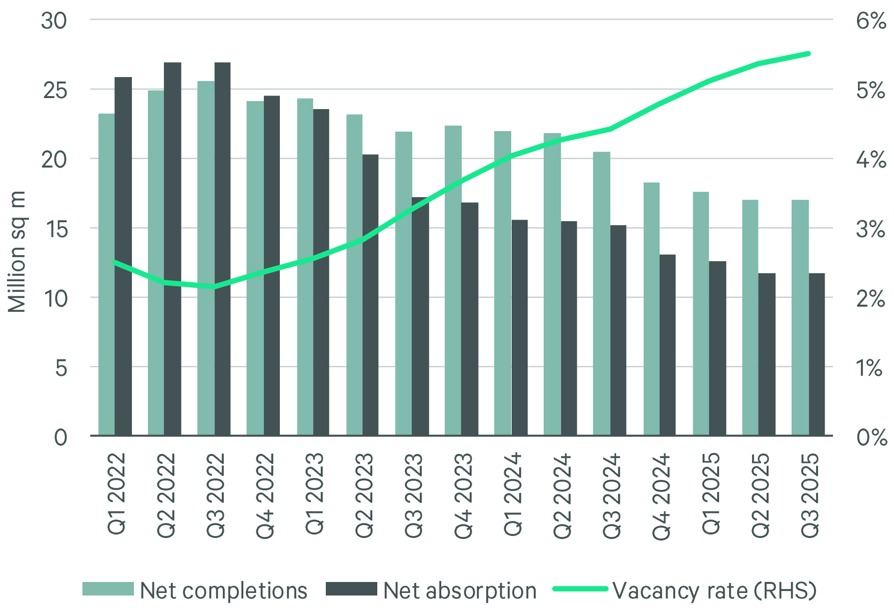
05

Logistics

Sluggish recovery of demand as development remains muted

In 2025, European logistics take-up stabilised at between 5 and 6m sq m per quarter, still well below the 9.6m sq m peak recorded in Q4 2021, **but showing a slight improvement on a challenging 2024**.

Figure 5: Net completions, net absorption (rolling 12 months), and vacancy rate (%)



Source: CBRE Research

Note: Data is a European aggregate that refers to 10 core European markets (United Kingdom, Germany, France, Netherlands, Spain, Italy, Belgium, Poland, Czech Republic, and Slovakia).

Our projections show a continuation of the trend of moderately growing take-up this year. However, there remains a downside risk should the macroeconomic and political instability persist.

Net absorption is not expected to recover until 2027, despite the increase in take-up. This reflects occupiers trading up facilities and vacating those that are less efficient or not future-ready, as opposed to expanding their footprint. With most European electricity grids close to or at capacity, securing energy for increasingly power-hungry warehouses is also considered critical.

Cost-reduction pressures across the supply chain will become even more prominent, often conflicting with the desire to improve efficiency or make warehouses more resilient to disruption. Automation is one of these conflicting investments; prohibitively expensive for many logistics occupiers, but with long-term savings and operational benefits.

Vacancy rates continued to rise during 2025, despite expectations of achieving a balance between weak net absorption and declining new supply. Such an equilibrium is now anticipated in the second half of the year, when 12 month rolling completions are expected to hit a nine-year low, due to the currently muted development pipeline.

A growing share of expected completions this year will be for already-committed space. Speculative development will remain tightly controlled, even in countries traditionally more receptive to it, such as Spain and Poland.

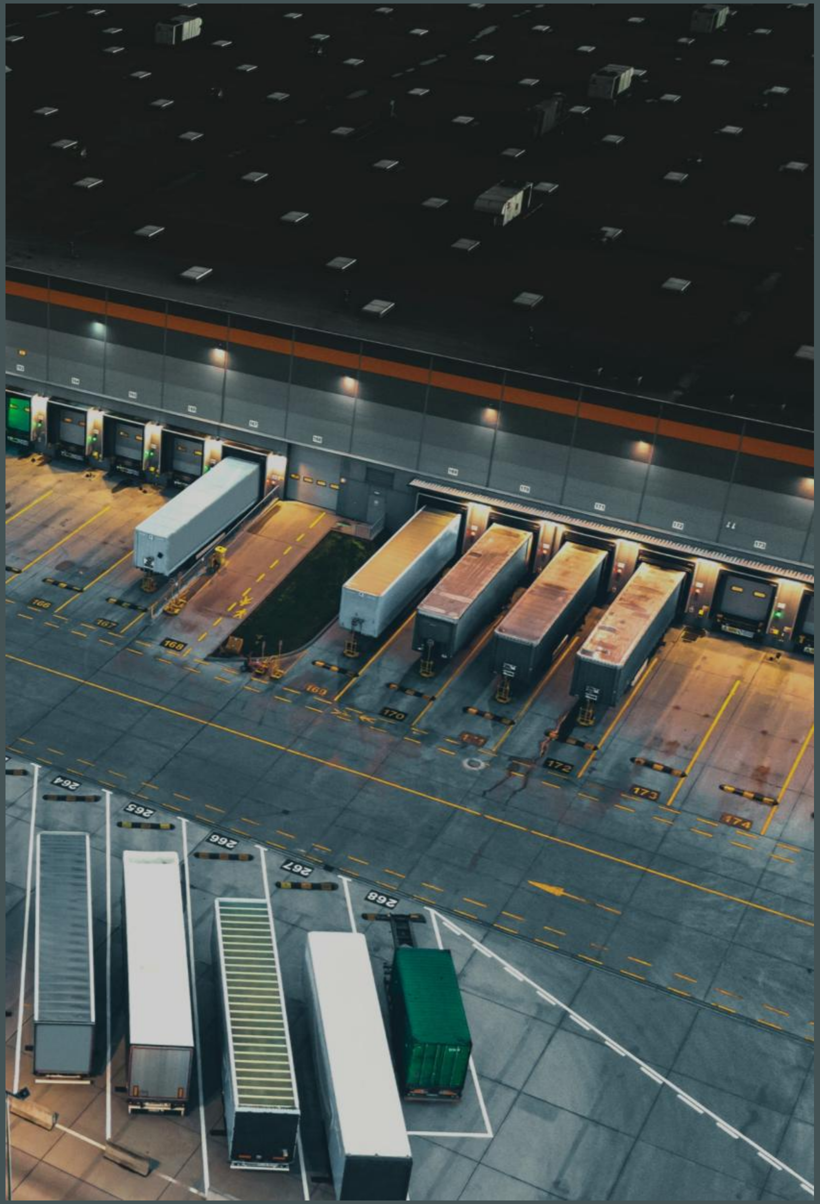
Our baseline scenario forecasts prime rental growth to further slow during 2026 at 1.8%, with headline prime rent outperformance expected in Iberia, Dublin, and select CEE markets. Conversely, incentives are likely to continue rising, particularly in locations with more abundant supply.

Our forecast scenarios, outlined in the Economy section, are for 2.1% growth under our upside scenario, and 0.3% under our downside scenario.

05

Logistics

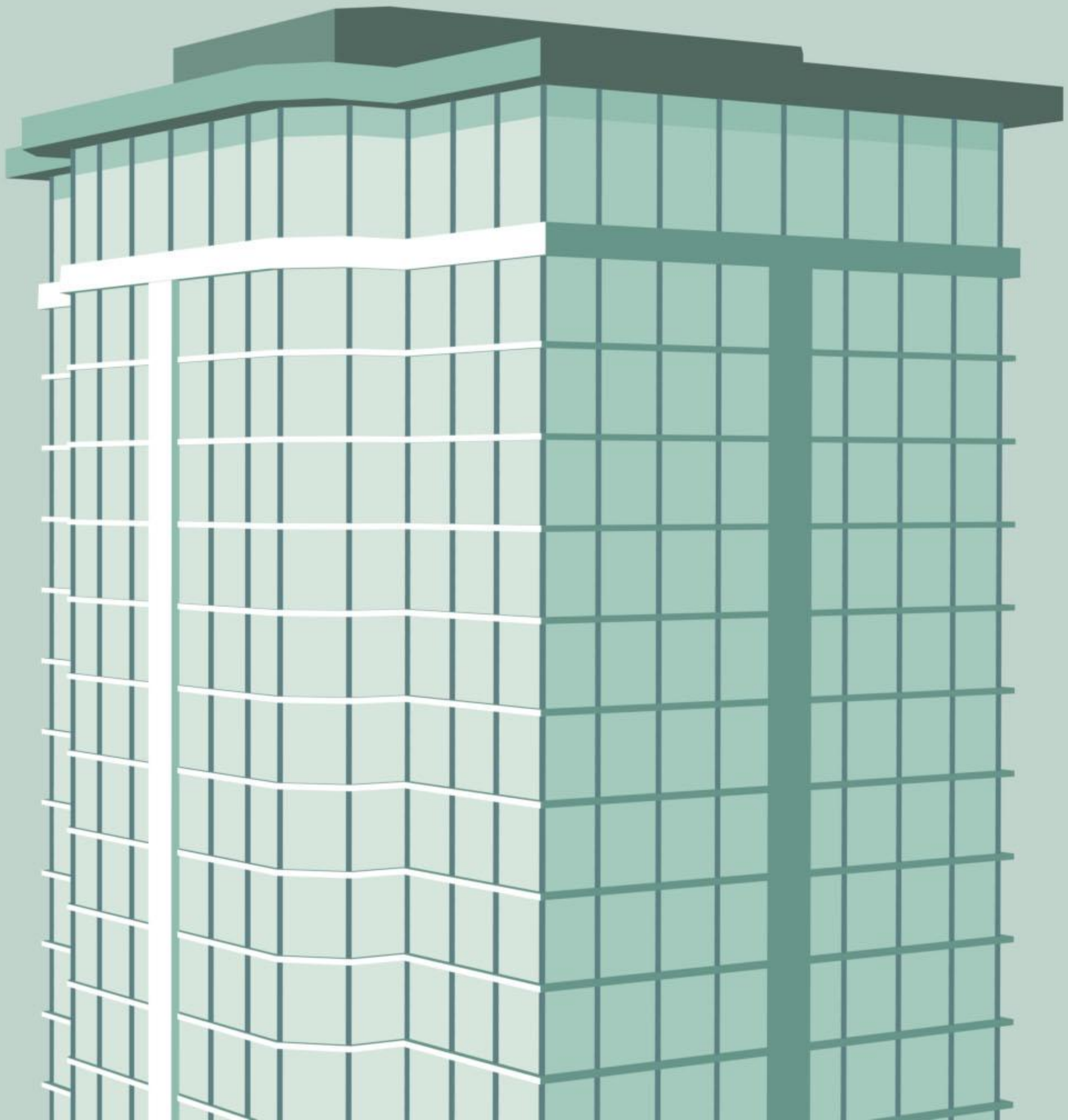
Trends to watch



- The gap between prime logistics assets and the wider market is likely to continue to expand, reinforcing the flight to quality. This trend will also create opportunities to reposition older but well-located properties to meet modern standards.
- Labour availability and cost will remain critical challenges for logistics occupiers. In established hubs, new developments may need to draw labour from existing facilities, adding pressure to recruitment and retention strategies.
- Securing reliable power supply will become increasingly important as electricity grids approach capacity. Self-sufficient and off-grid solutions are expected to gain traction, particularly in regions where grid limitations restrict new development.
- Competition for land and construction resources will intensify as logistics and data centre developers vie for prime sites and contractor services. This rivalry is likely to influence development costs and timelines across both sectors.
- Sustainability and resilience will shape strategic decisions. Geopolitical tensions and regulatory changes will drive the testing of alternative trade routes, such as Arctic shipping lanes, alongside initiatives like renewable-powered container vessels. At the same time, occupiers will shift focus from green certifications to pragmatic climate transition plans, recognising the significant capital investment required to achieve net zero targets.

06

Offices

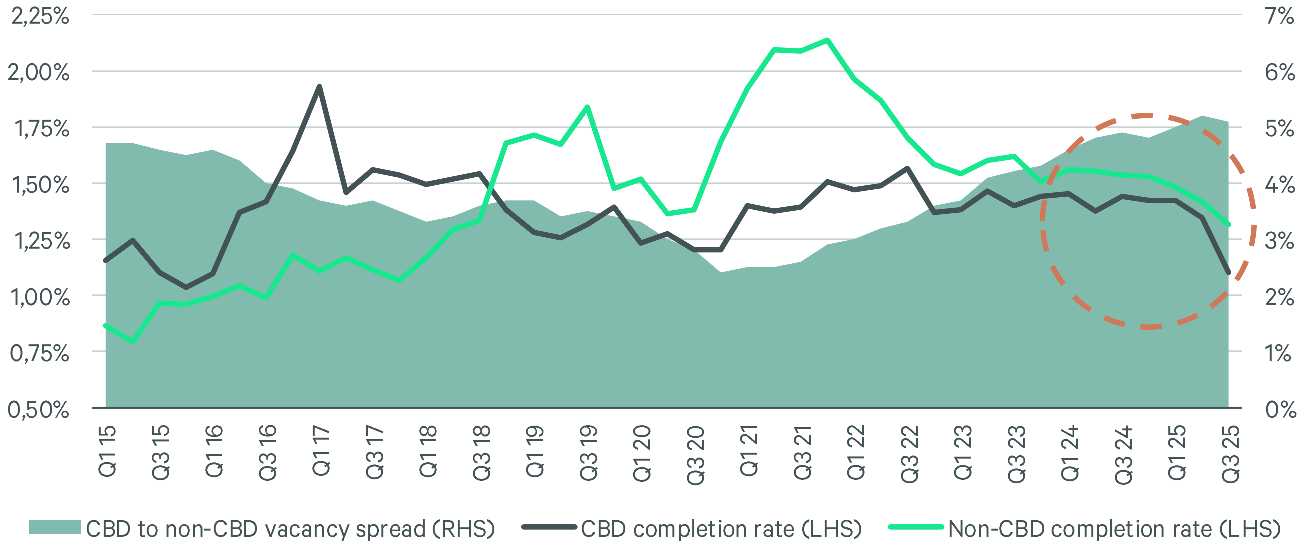


06
Offices

Supply conditions for new, centrally located offices will continue to tighten

Fiercer competition for new space expected, as supply has reached its lowest level since 2020 amid already tight central submarket vacancy.

Figure 6: CBD and non-CBD completion rates and spread between CBD and non-CBD vacancy



Source: CBRE Research

Note: Completion rates are four-quarter rolling completions as a percentage of existing stock. Data is an aggregate of 21 major European cities.

European office-based employment is expected to grow by 1.1% this year according to our forecasts, similar to the rate seen over the last two years. This is a slower rate of growth than the long-run average (1.7%), but still positive for demand. Approximately 350,000 new office jobs are expected to be created in 2026 across the 44 European cities tracked by CBRE.

Most offices are full on peak days and usage is expected to rise further, according to almost half of respondents in our 2025 European Office Occupier Sentiment Survey. Demand for office space will continue to be stronger in Central Business Districts (CBDs), as occupiers prioritise offices that offer the short commutes and attractive local amenities that will enable that increased attendance.

The historic trend of higher new supply as a proportion of total stock in CBDs versus non-CBDs reversed during 2018 (Figure 6), and has not reverted since, despite occupier demand being focused on those central submarkets. Demand will increasingly spill over into less central areas as low availability and strong rental growth in city centres pushes occupiers to consider other options.

As a result of stronger demand and tighter supply in central locations, our base case is for average European prime rental growth of 2.1% in the year ahead. In our upside scenario, explored in the Economy section, we forecast growth of 2.2%, while our downside scenario sees rental growth slow to just 0.2%.

06
Offices

Trends to watch

— More businesses will choose flexible office solutions, to allow them to respond to rapid market shifts. This agility is increasingly sought after by business leaders, whose companies are embedding flexibility in their portfolios by shifting a significant proportion of their footprint into flexible office space (21% on average according to our 2025 European Office Occupier Sentiment Survey, expected to rise to 29% in two years). Persistent uncertainty, coupled with options for capital-light real estate solutions, will drive further adoption of this strategy. Landlords can capture this demand by implementing an element of flex space in asset plans, either embedding their own product to offer managed/serviced suites or partnering with third-party operators to offer this amenity.

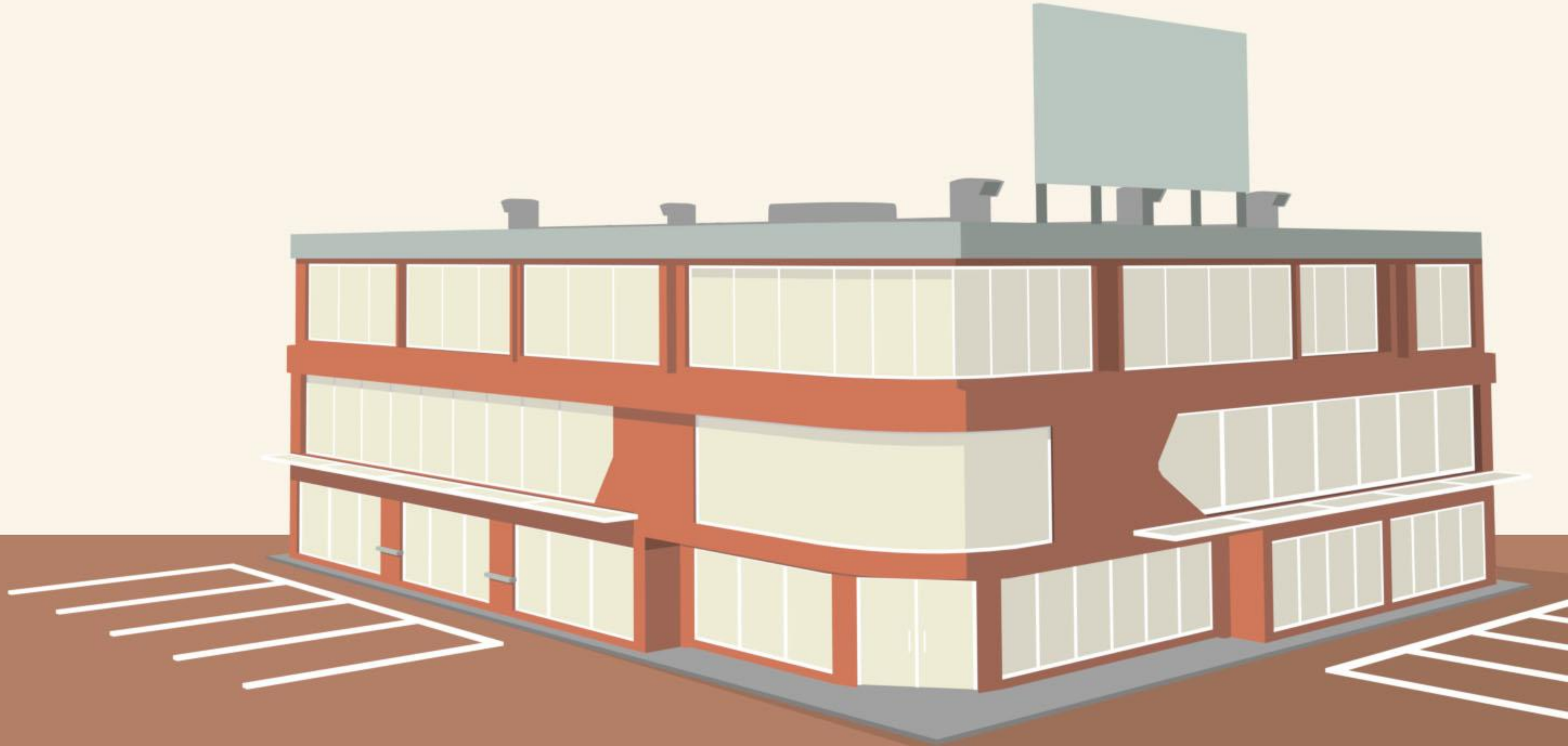
— Demand for office space from AI companies is expected to rise sharply, a trend we see beginning in gateway cities. Landlords looking to capture this demand will focus on current tech talent hubs and key cities in countries with regulatory regimes favourable to the development of AI companies and products.

— AI-enabled data analytics will be used to square the circle of expected increasing office usage and already high peak utilisation. Attendance patterns, required workspace types (desk, focus room, collaboration area) and planned and predicted interactions will be used to spread utilisation throughout the building and across the week. Flexible facilities management schedules will ramp up and down in response to these predicted patterns, enabling low-cost, low-waste operations.

— Many offices are already full on peak days, with increasing attendance expected. Where utilisation under hybrid working models exceeds practical space limits, more office space will be needed. 21% of companies in our 2025 European Office Occupier Survey were planning to increase office footprints because of this dynamic. With 47% of respondents to the same survey expecting office usage to increase, we see this trend continuing.

07

Retail



07
Retail

Continued focus on prime locations amid stable sales growth

Following a year of healthy retail sales growth and occupier expansion in 2025, we expect some stabilisation this year. Our baseline forecast is for retail sales volumes in Western Europe to grow by just under 2% this year, similar to last year's growth rate.

Risks are mildly skewed to the downside. Consumer confidence remains subdued, while real incomes are growing, but the rate of growth is moderating. Despite rate cuts over the past two years, household savings rates continue their upward trend. This suggests some degree of cautiousness among consumers, who may opt to hold back on discretionary spending.

Retailers will continue their expansion strategies, focusing on prime sites, and express willingness to compromise on unit size, but not on location. In the high street segment, strong competition for the best locations, combined with sub-5% vacancy rates on most prime streets, suggest rents for the best units will continue to be bid above quoted levels. Rome, Paris, and London are forecast to see the strongest high street rent growth this year.

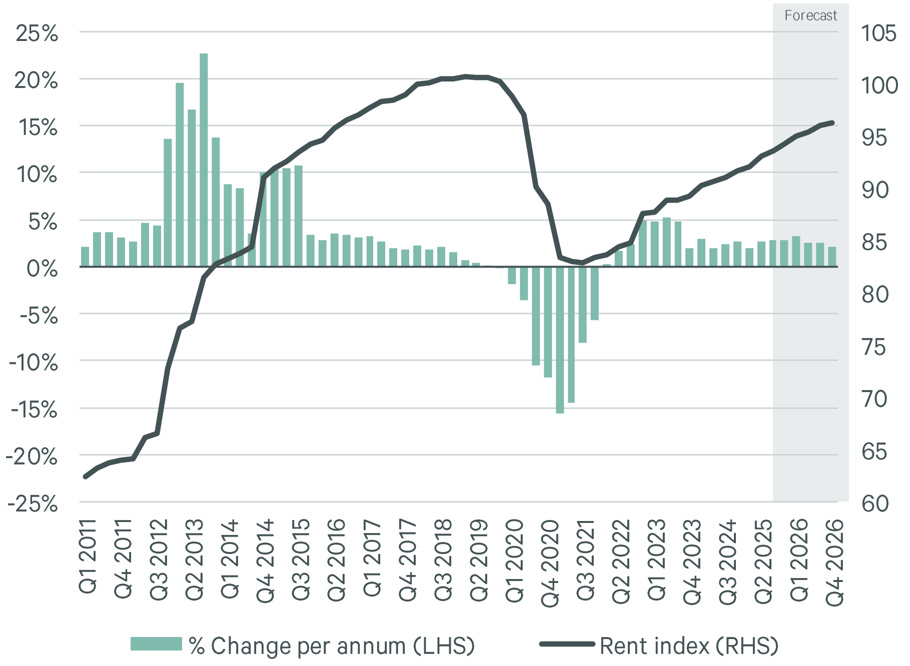
Shopping centre rents will also trend stronger, moving away from last year's convention where their growth was largely index-linked. Landlords will not hesitate to use their increased bargaining power to rotate weaker-performing retailers out of schemes, in order to attract stronger players willing to pay higher rents. Demand for secondary space will be subdued across both the high street and shopping centre segments.

Discounters will expand their area of focus from secondary locations to better quality shopping centres, taking space in "cold areas" of shopping centres that have typically seen lower footfall.

Retail parks continue to see strong occupier demand and virtually no vacancy. We see another year of rent growth outperformance in this segment, though certain markets may see flat rents due to a large amount of supply coming on stream.

Our base case forecast is for rents to grow by 2.1% at a European level (high street and shopping centre weighted average), with 2.7% growth under our upside scenario, and a 0.2% drop under our downside scenario, as explored in the Economy section.

Figure 7: European retail prime rent index (Q1 2018 = 100) and annual change (%)



Source: CBRE Forecasting

Note: weighted average of top European retail markets, 60/40 high street/shopping centre split.

07
Retail

Trends to watch

- Key money, payments made by prospective tenants to either landlords or outgoing tenants to secure a lease, will continue to make a return across Europe. Key money is used by retailers as a means of unlocking the very best prime high street units, amid fierce competition. Lease terms will also continue to shift in favour of landlords, with increased terms and longer periods to break becoming more common.

- Experiential retail will expand beyond Western Europe. At present, flagship stores in London and Paris typically feature an experiential element. Examples include events spaces, competitive socialising, and in-store fitness classes in the case of sports and athleisure brands. We expect to see this spreading to other parts of the continent. Food & Beverage (F&B) elements will continue to be incorporated into flagship stores.

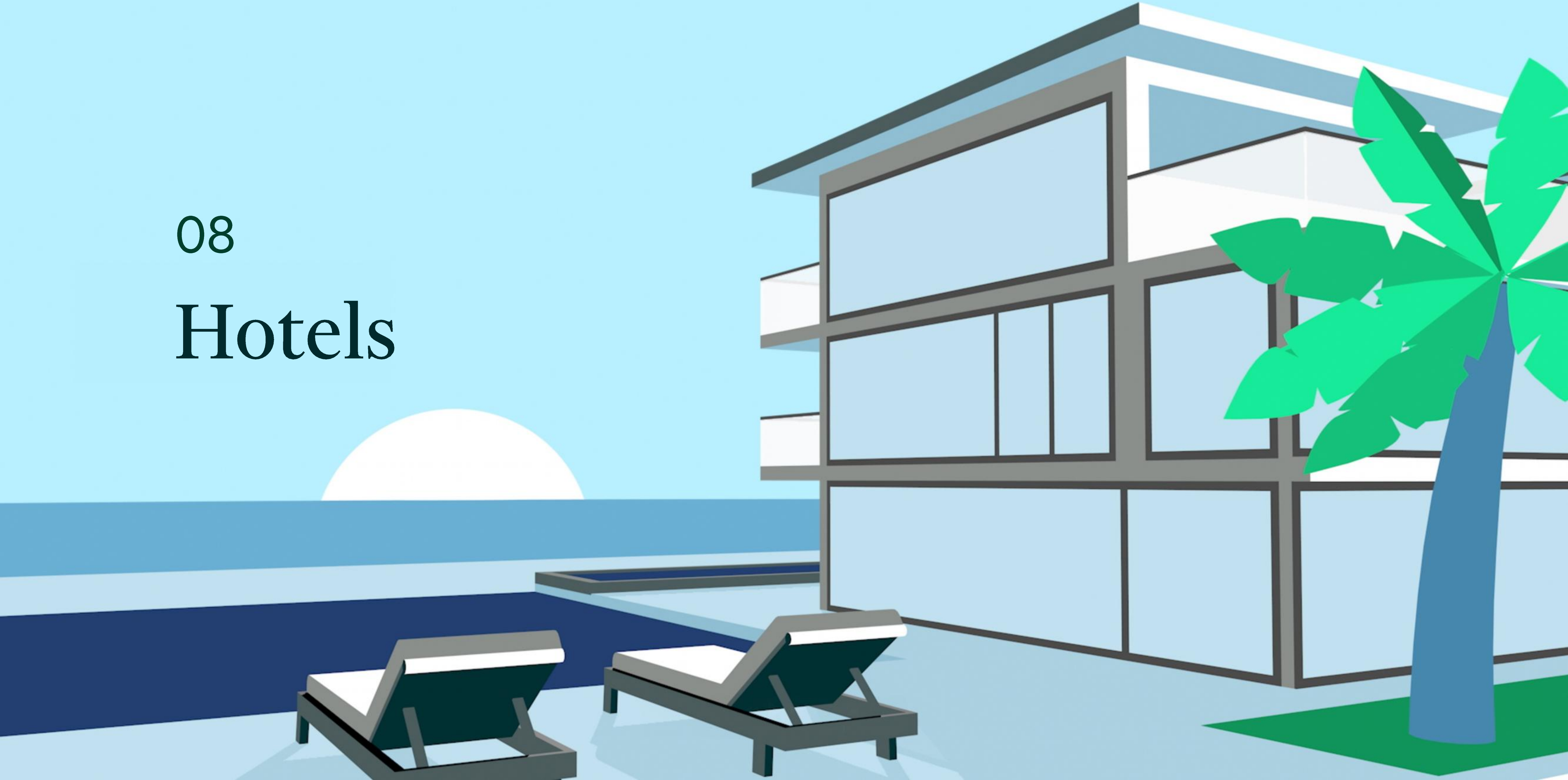
- Shopping centre owners will continue to work hard to widen their centre's offer and make their schemes more compelling to clients. This will primarily be achieved through an increased focus on F&B and leisure. These tenant types increase footfall, dwell time, and widen retail schemes' catchment areas.

- Brands will focus on a Direct-to-Consumer (DTC) approach, as opposed to selling stock through wholesale channels. Stores increasingly serve as a strategic expression of brand identity and experience. Selling directly, especially in flagship stores, allows brands to connect with their customers and showcase their values, increasingly the likelihood of acquiring a lifetime customer.

- Brands will increasingly look to close the analytics gap between their physical stores and online channels. Using technologies such as radio frequency identifiers, sensors, and AI-enabled computer vision, retailers can better track consumer behaviour in their stores, monitoring dwell times, flow patterns, and the movement of stock around the store. Combined with insights from the online channel, retailers will be able to fully optimise the customer experience and better understand demand and buying patterns.

08

Hotels



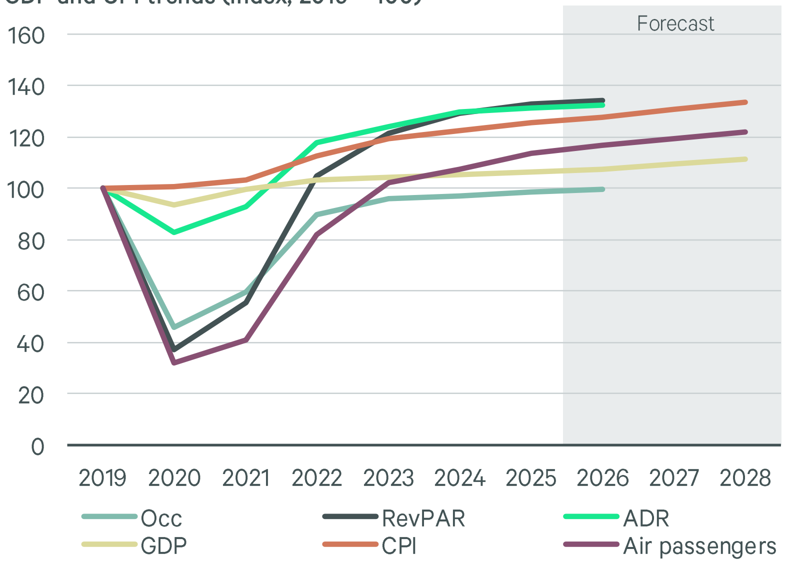
08

Hotels

Healthy demand-supply dynamic underpins a more measured growth outlook in 2026

After the double-digit growth years post-pandemic, Europe's hotel sector should **see measured growth in performance in 2026**.

Figure 8: European hotel performance, air passenger, GDP and CPI trends (Index, 2019 = 100)



Source: Oxford Economics, International Air Transport Association, HotStats, CBRE Research

Definitions: Occ = Occupancy, RevPAR = Revenue per Available Room, ADR = Average Daily Rate.

Demand looks robust, though the sources of growth have been shifting. Post-pandemic, most of the rebound was driven by intra-European travel. This year, it will be inbound travel – supported by the continued recovery of long-haul arrivals – that will grow at the relatively faster rate of 6%. From the historically important long-haul markets, arrivals from the US should still be strong (after several robust years), but the rate of growth may ease. On the other hand, growth from China and Japan is forecast to gradually pick back up, after a slower-than-expected recovery post-pandemic.

Central to growth in inbound figures is the revival of international business travel, which is forecast to see 10% year-on-year growth in 2026. On the leisure front, domestic growth remains slightly more important: inbound travel is expected to see 5% growth, while domestic is still forecast at a robust 7%.

From a supply perspective, hotel development remains broadly disciplined across Europe.

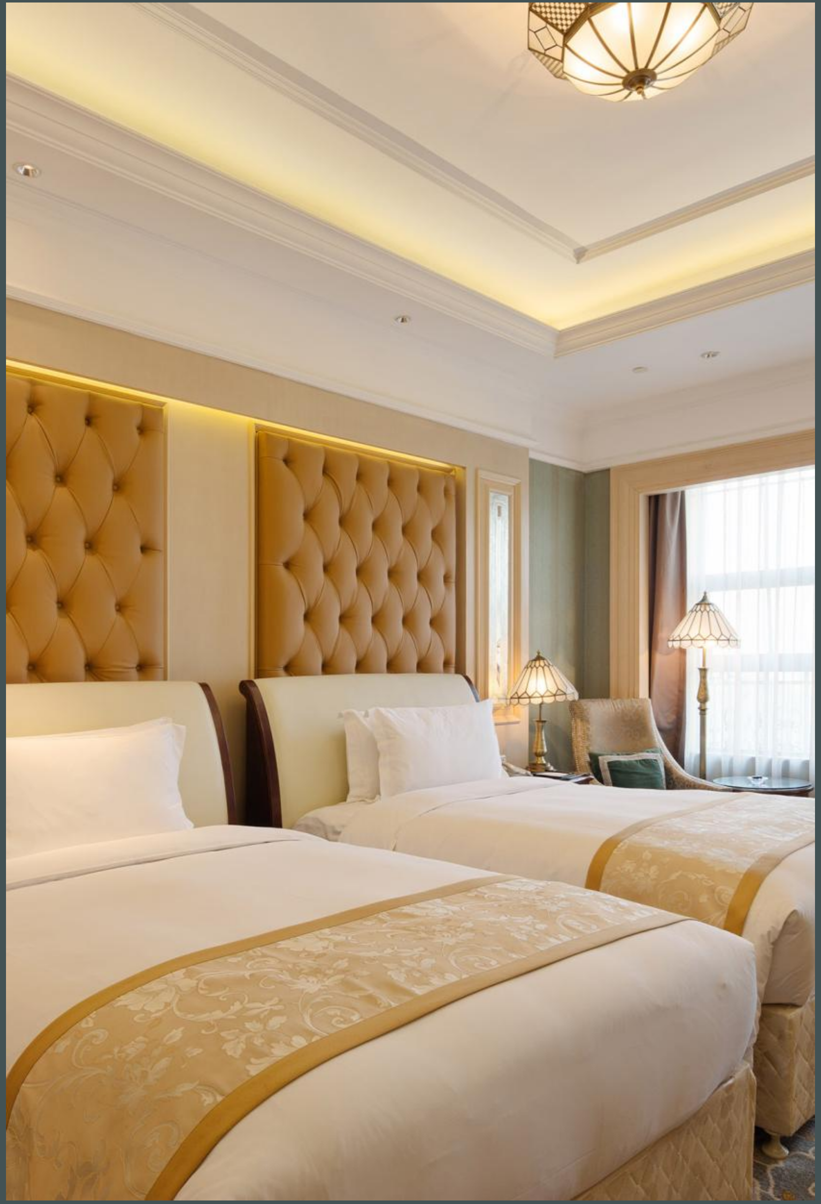
There are differences between markets, with the UK and Portugal showing modest pipeline ratios of c. 5% to 6% of existing supply, while markets like Ireland, Romania, and Poland see ratios of 7% to 10%. Nevertheless, most of the key European markets show low projected supply over the medium-term relative to historical averages. Across Europe as a whole, the projected five-year CAGR on room-night demand and travel spend significantly outstrips the same-period projection for growth in supply.

Despite the healthy demand dynamic, hotel performance is expected to see only modest gains, with Europe-wide Revenue per Available Room (RevPAR) forecast to increase by c. 1% to 3%. Growth will stem primarily from marginal Average Daily Rate (ADR) improvements in higher-growth markets, as occupancies appear to have largely stabilised at current levels. Some CEE markets are expected to perform more strongly, benefitting from strong seasonal demand, disciplined new supply, and competitive pricing. In contrast, many Western European gateways may see more stable RevPAR levels on the basis that they have ADR levels that are already high, in an environment where, for many segments, there is growing price sensitivity among travellers.

08
Hotels

Trends to watch

- The composition of travel demand is set to evolve further. Leisure travel will remain the main driver, while corporate travel is expected to strengthen as business events and international meetings continue to grow beyond pre-pandemic levels. The trend towards blended travel and extended stays is likely to deepen, benefitting lifestyle-oriented hotels that can seamlessly cater to both work and leisure needs within a single product, especially in destinations that are attractive for both corporate and leisure demand.
- Hotel performance may become increasingly differentiated across destinations and segments. Location type and brand positioning will play a more decisive role in shaping outcomes. Luxury and upper-upscale properties are expected to retain stronger pricing power in key gateways such as Paris, Milan, and Madrid, whereas midscale urban hotels may continue to face pressure from elevated operating costs and tighter margins.
- Renovation activity, which peaked before the pandemic, fell sharply during COVID and remained muted through 2023–2024 amid surging inflation that affected construction costs. While renovation costs remain stubbornly high, after a period of relative under-investment, the imperative to implement renovation projects will become much stronger for many owners if competitiveness is to be maintained.
- Social media will continue to shape destination appeal, particularly among younger travellers. This audience is drawn to hotels and locations with strong visual and social currency, where design, ambience, and F&B presentation translate into shareable moments and peer recognition. For operators, understanding and leveraging this influence will become increasingly important, as strategic engagement can amplify brand visibility and accelerate the rise of emerging destinations.
- The growing use of AI platforms, which now have the ability to generate entire travel itineraries based on user prompts, represents another challenge and opportunity for the brands. They must ensure that their products are being distributed through these new channels, too, and ideally by drawing on the social media assets already in play.



09

Data Centres

09
Data Centres

AI growth to further strain data centre capacity

AI adoption is **set to further increase data centre demand** in 2026, pushing vacancy to record lows.

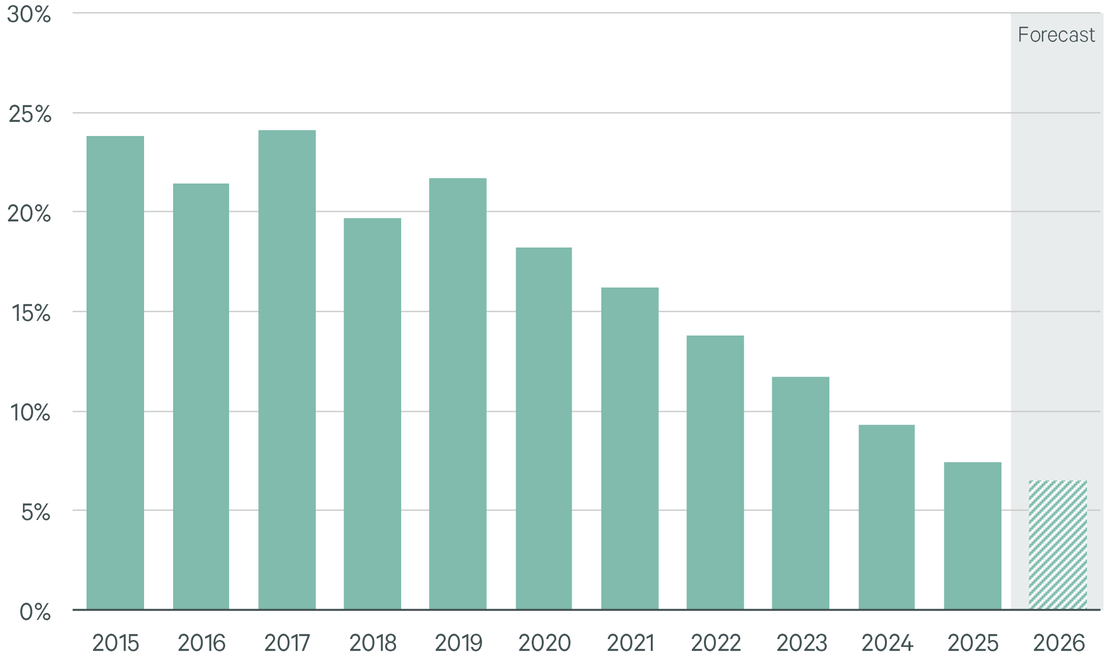
Data centres underpin the digital world, serving as the fundamental physical infrastructure for AI services. The burgeoning demand driven by the growth of AI, combined with the already escalating digitisation of economies, will place further strain on the data centre industry.

Vacancy rates within European data centres, across both primary and secondary markets, are projected to decline further this year. Having fallen below 10% for the first time in late 2024, the rate is forecast to reach an all-time low of 6.5% by the close of 2026. This is due to surging demand, compounded by bottlenecks in the electrical grid, which limits the volume of new capacity that can be brought to market. Construction and overall project lead times are increasing, while short-term requirements from customers are also on the rise.

Despite capacity constraints, the continued decrease in vacancy is occurring amid a period of record-breaking new supply entering the market. This year, we expect over 750MW of data centre capacity to be added across Europe. This volume is equivalent to the entire colocation data centre capacity of France as of 2025 being added in a single year.

The combination of escalating demand, increasing but constrained supply, and grid limitations is expected to fuel continued upwards pressure on pricing and the need for innovative solutions. The industry is likely to see further strategic partnerships as operators strive to secure both power and capacity in a competitive landscape.

Figure 9: Data centre vacancy rate among primary and secondary markets in Europe (%)



Source: CBRE Research
Note: 2025 value is estimate

09

Data centres

Trends to watch

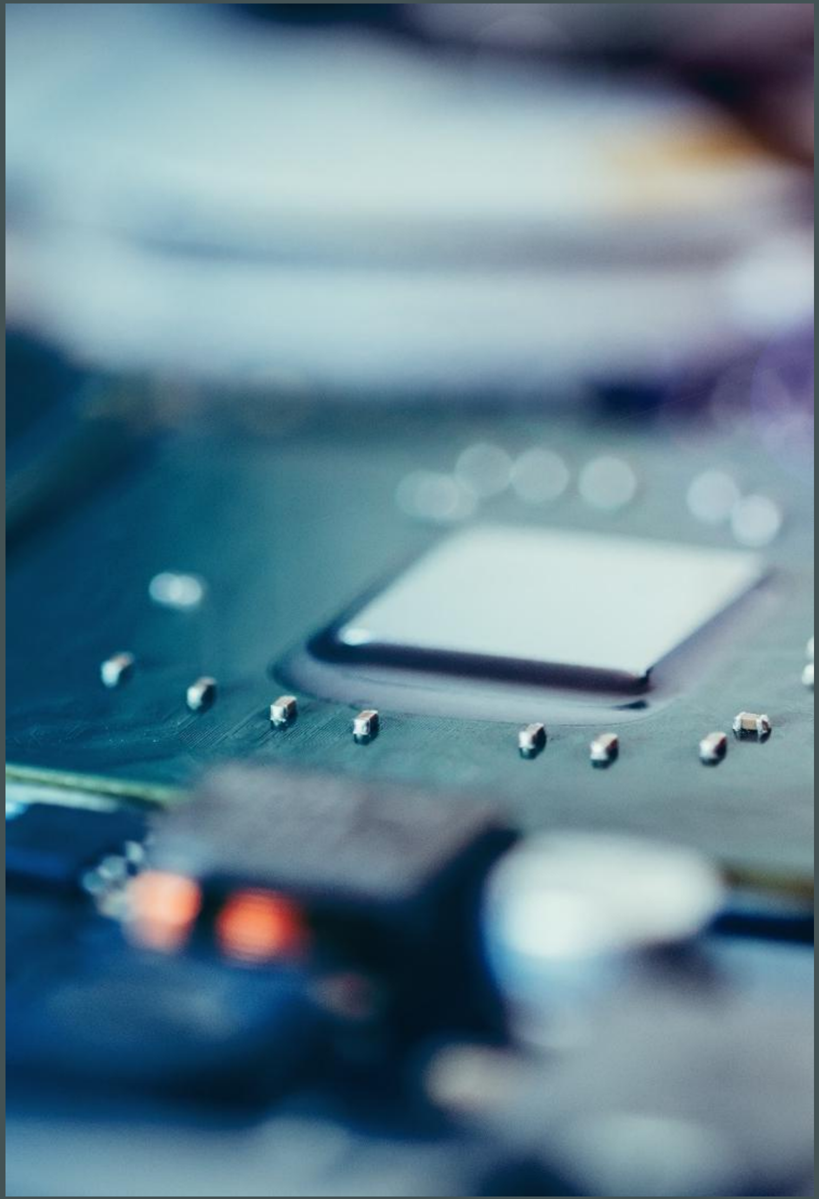
— The constraints of power availability, coupled with lengthy lead times for grid connections, are causing operators to explore on-site electricity generation as a practical alternative to reliance on the grid. Initially conceived as a transitional measure, some operators are now planning for long-term deployment. Despite certain disadvantages, such as more complex ability reporting and elevated costs when compared to the grid, we anticipate further proliferation of this technology, driven by growing tenant acceptance.

— Capacity at scale will become harder to source across Europe. The site selection process for tenants is becoming even more complex as viable alternatives are often spread across multiple submarkets, or even countries. Short-term availability commands a premium, while pricing is set to further increase due to a supply and demand imbalance.

— Alongside established hyperscale providers, a growing number of companies, such as GPUaaS providers, are now seeking double-digit megawatt capacity across Europe. This trend is expected to intensify, diversifying the wholesale tenant pool. These new entrants often have a limited operational history, potentially impacting their covenant strength. Consequently, robust risk management and evaluation strategies will become paramount for operators in the coming years.

— Despite strong demand, most operators are unwilling to undertake speculative data centre builds given the significant CapEx commitment required. Partial pre-let agreements are now commonplace. Because of the anticipated rise in short-term capacity requirements from emerging companies, this mismatch is projected to exacerbate the supply-demand imbalance in 2026.

— Power density requirements are escalating for specific applications, such as AI training or inference. The increase will further fragment the technological landscape within the industry, as some operators invest in infrastructure upgrades to accommodate these needs, while others focus on traditional low-density infrastructure.



10

Sustainability

10
Sustainability

Transition plans will catalyse value creation despite regulatory shifts

Transition plans will act as a catalyst for transformation – **an ambitious, forward-looking blueprint that harnesses data, portfolio intelligence, strategic investment planning, and strong governance to ensure real estate assets remain compliant, resilient, and high performing** in a net zero future.

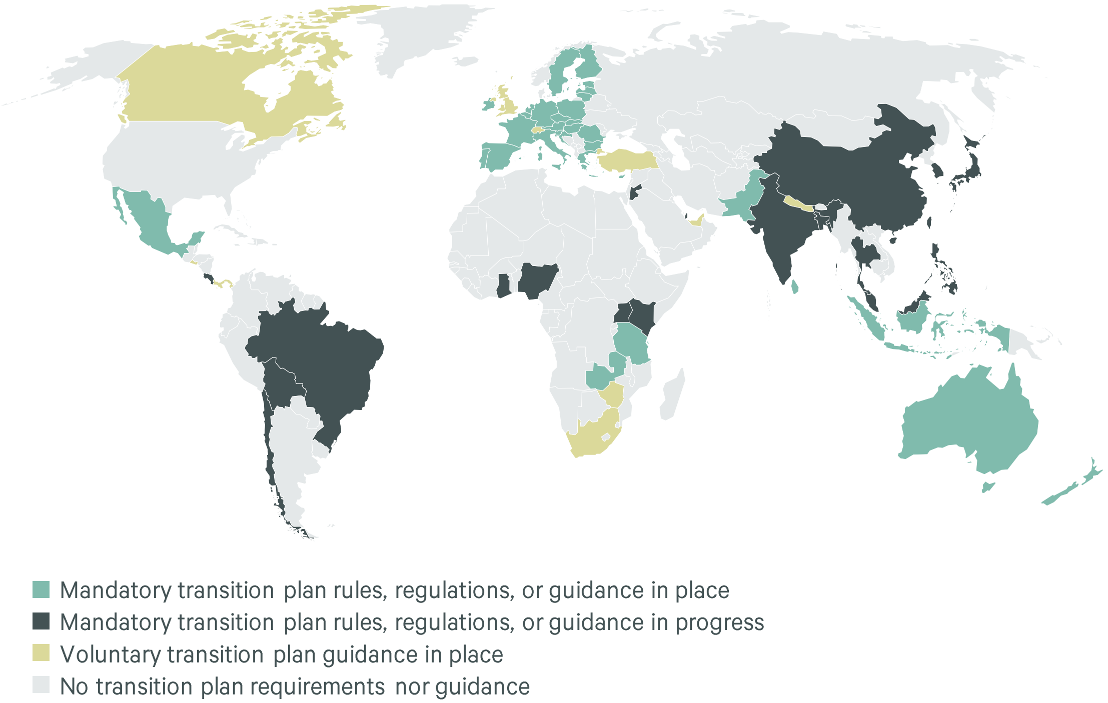
The Green Claims Directive, the Omnibus package negotiations, the SFDR 2.0 revision and the Energy Performance of Buildings Directive (EPBD) transpositions are all examples of either recent or proposed regulatory changes in Europe. They will increasingly influence real estate decisions for investors, developers, and occupiers this year and beyond.

Globally, more jurisdictions now require transition plan disclosures, with standards converging around the International Sustainability Standards Board as the baseline framework. While initial requirements target financial institutions and large listed companies, we expect smaller firms will follow.

In real estate, a transition plan serves as a strategic roadmap to align portfolios with a low-carbon economy and meet net-zero targets. The adoption of transition plans will continue despite regulatory shifts. They remain a critical tool for demonstrating credible climate commitments, managing long-term risks and identifying opportunities for value creation.

Investors, developers, and occupiers will need to implement solutions that simplify compliance, ensure consistent data quality, and provide a single source of truth for portfolio reporting. These solutions are likely to deliver measurable benefits, such as improved Net Operating Income, operational savings, and increased resilience, while enabling accurate financial risk quantification to inform valuation, insurance, and capital planning.

Figure 10: Global transition plan requirements



Source: ITPN - International Transition Plan Network

10
Sustainability

Trends to watch

— Embedding sustainability into real estate strategies is no longer optional, it is a critical consideration for both risk mitigation and value creation. By addressing sustainability factors, organisations reduce exposure to regulatory penalties, physical climate risks, reputational damage, protect property and rental values, and boost occupancy rates and leasing activity.

— Investors will increasingly act to improve their buildings' energy efficiency due to rising energy market volatility and the forthcoming implementation of the revised EPBD. The updated directive introduces phased minimum energy performance standards (MEPS) for existing buildings, based on nationally defined benchmarks. This regulatory framework aims to require the renovation of the least efficient buildings, specifically targeting the worst-performing 16% by 2030 and 26% by 2033.

— There will be increased focus on future-proofing real estate portfolios with a solid and robust transition plan. This is no longer just about compliance. Decarbonisation and climate risk management are becoming central priorities, particularly for vulnerable assets where climate hazards could impair long-term functionality and value.

— CapEx implementation will present challenges when organisations look to move from strategy to action. To overcome these hurdles, organisations can adopt phased investment strategies, prioritise projects with strong return on investment and compliance benefits, and leverage green financing instruments such as ability-linked loans or bonds. Digital energy performance monitoring and predictive maintenance can optimise capital allocation, while partnerships with technology providers and government incentive programs can further reduce financial risk.

— Biodiversity and social considerations are becoming increasingly valued in the real estate industry. Tools and methodologies such as biodiversity assessment frameworks, social impact metrics, and ability reporting standards, will enable stakeholders to quantify these impacts in a transparent and credible way. This data-driven approach can also become a decisive factor during building permit negotiations.

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