Savills Takes Stock: Global Capital Markets

Offices Q2 2025

OFFICES Q2 2025

Global outlook

Oliver Salmon

Director, World Research

Treading water in turbulent seas

The global economic narrative remains heavily influenced by the actions of the US President, fuelling geopolitical volatility and uncertainty around growth prospects. Despite emerging cracks, the global economy has shown resilience. Equity markets continue to rise and activity levels remain largely unaffected, despite sentiment-based indicators showing some weakness.

Amidst the uncertainty, global real estate markets are treading water, although several preconditions for recovery are in place. A base level of activity persists, with US$193bn transacted in Q2 2025. This is supported by improved sentiment and willingness to transact, a greater acceptance of pricing from both buyers and sellers, and continued broad strength in occupational markets. However, global investment declined by nearly 5% compared to Q2 2024, marking a reversal in momentum relative to the second half of last year.

Fundraising data reflects a similar trend. Nearly US$42bn was raised globally in Q2, according to RealfinX.

This marks the second consecutive quarter of growth, though the figure was boosted by the final close of Blackstone's latest European opportunistic fund. Fundamentally, cash being returned to LP's from existing investments is restricting the capital available for reinvestment. A sustained recovery in fundraising then depends on a revival in transactional activity.

This current state of inertia is underpinned by two factors. **First, long-term interest rates have remained largely unchanged since the start of the year, despite central bank rate cuts.** This is due to a rising term premium, particularly in the US, where concerns over fiscal sustainability have grown following the passage of the 'One Big Beautiful Bill'.

Fiscal sustainability concerns are not confined to the US. The UK, France and Japan face similar issues. Meanwhile in Germany, the relaxation of the debt brake will lead to a significant increase in debt issuance over the next decade to fund defence and infrastructure.

While default risk remains low, persistent fiscal deficits mean investors will demand higher compensation to absorb increased debt issuance, especially in a volatile macroeconomic environment and amid central bank balance sheet reduction.

This dynamic is compressing the risk premium at a time when it arguably should be expanding. Property yields have largely stabilised, except in markets with specific occupational challenges, suggesting a consensus forming on real estate values. However, the outward shift in yields over the last few years has not mirrored interest rate movements, possibly due to expectations of an overshoot in rates amid the global inflation battle.

The second factor behind the subdued transactional market is broader macroeconomic uncertainty. Real estate does not operate in a vacuum, and global instability is clearly weighing on activity. This is not just about tariffs, but the on-off nature of tariffs is not helping. Recent 'deals' with major trade partners, including the EU, Japan and China, should help in this regard. More than anything, investors are looking for certainty to make informed decisions about the future – it is probably naive to believe that these agreements will draw a line in the sand.

With tight risk premiums, there is limited room for yield compression. To meet return expectations, investors are relying on continued strength in occupational markets. From a demand perspective, this depends on the global economy's resilience, which supports leasing demand and rental growth. Elevated uncertainty, volatility and policy by social media clearly act as an impediment to a recovery in deal flow.

On the supply side, the outlook is more encouraging for investors. The same factors stalling transactions are also making new developments difficult. Many global markets face a shortage of the type and quality of buildings tenants seek. This is unlikely to change soon, given the data on new starts and the long lead times for completion.

Overall, the current environment favours a more discerning investor – with a clear understanding of supply-demand dynamics and a comfort with the underlying balance of risk. Investors with strong market presence and sector-specific expertise are best positioned to navigate these early-cycle dynamics. For others, the temptation to remain inactive persists. This may continue to limit the pace of the recovery.

The office: from stigma to stability

The office sector is showing signs of nascent recovery and growing confidence. In the second quarter, completed transactions totalled US$45bn, up 12% y/y, with the US seeing a notable 50% increase. Although this growth starts from a low base, especially in the US where sector challenges have been well documented, the stigma attached to office investments is quickly dissipating.

This recovery is supported by a strong occupational market and a rebasing of values, both in absolute terms and relative to other core sectors. A well-established trend is the flight-to-prime among major occupiers. Despite hybrid working, demand remains strong for best-in-class buildings, which are often in short supply in key global markets.

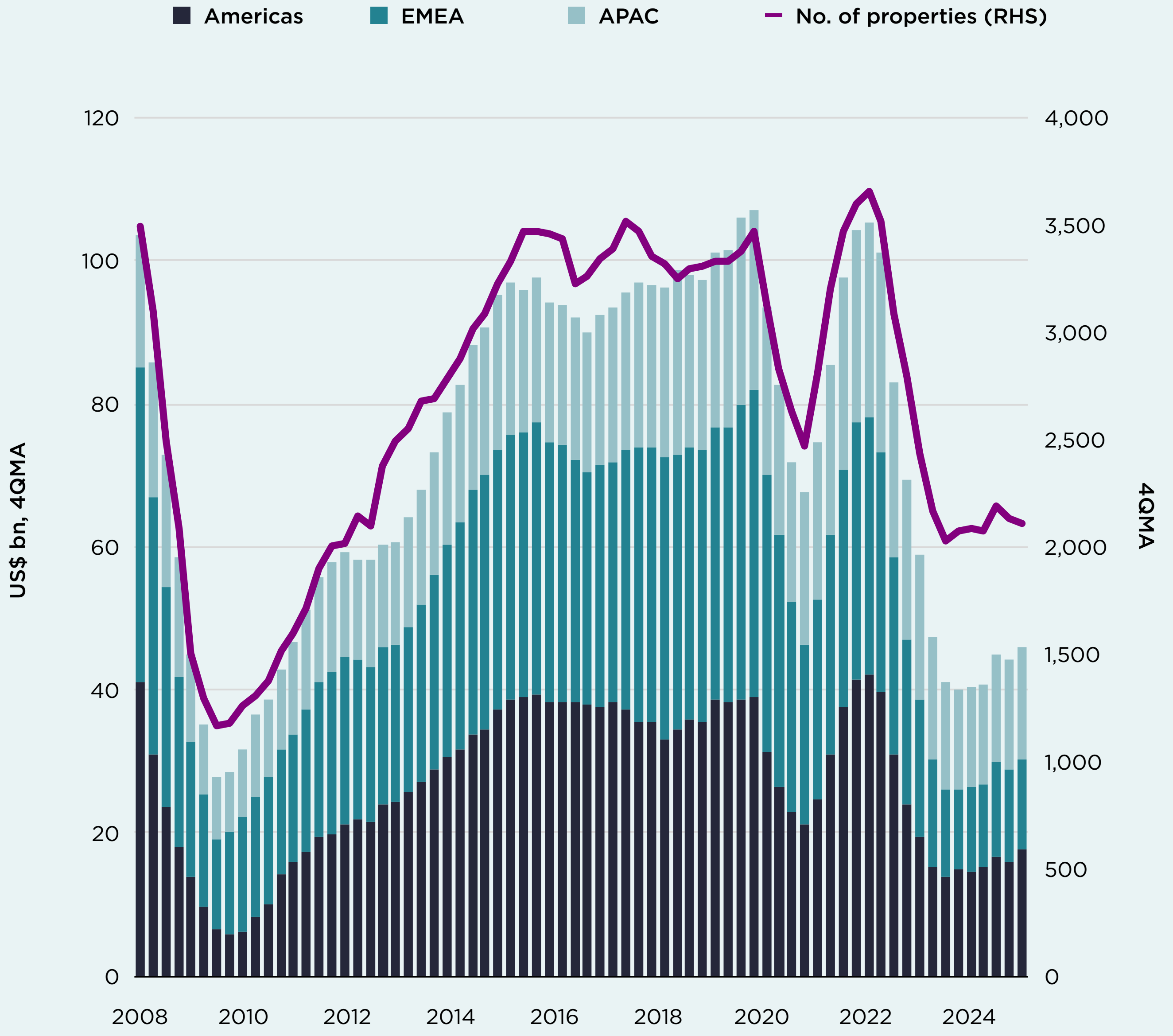
The key point of this narrative is that it is now well established, and the consistency in demand and income growth is attracting investors back. This is best typified by the actions of US private-equity, which began in Europe and is now increasingly active in the US.

Having been very vocal about their varying degrees of exposure to the sector (less was more), we are now seeing a pretty unanimous effort to acquire in gateway markets.

Limited supply is also bolstering the investment case, offering confidence in the outlook for sustained rental growth. In the US, speculative development is rare, and many markets are seeing declining inventory, as outdated buildings are repurposed or demolished. Europe shows a similar, though less pronounced, trend. Development remains constrained by financing and construction costs. However, the existing scarcity of quality prime assets in core CBD locations may encourage more developers to proceed with new projects.

In the APAC region, the outlook is mixed. Tokyo has a substantial pipeline due in the next 18 months, though pre-leasing rates are strong. Seoul expects no new supply this year, keeping vacancy rates low.

GLOBAL: OFFICE INVESTMENT TURNOVER



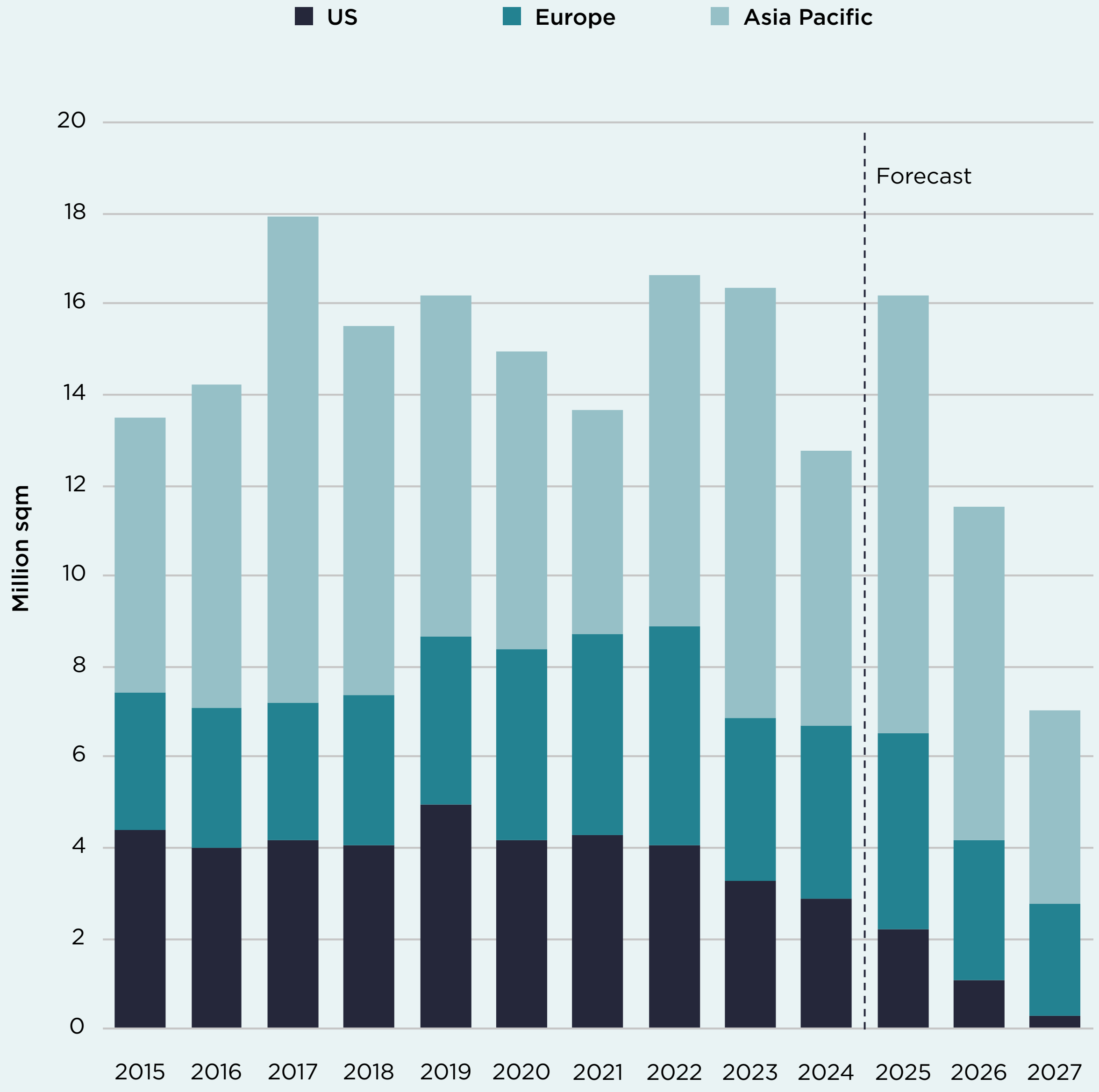
Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

Sydney has absorbed recent additions with minimal disruption and future supply is limited. Conversely, China and Hong Kong face continued oversupply, with significant new stock expected, which could challenge both occupancy and investor returns.

Meanwhile, the rebasing in values is, in many cases, providing an attractive re-entry point for investors. According to MSCI data, average capital values globally have fallen by over 30% since peaking in mid-2022, compared with 10–15% declines across the other major sectors.

Owner-occupiers are seizing the opportunity. These investors, largely corporates, now account for over 16% of global investment turnover – more than double the long-term average. In H1 2025, US$14.9bn of assets were acquired by owner-occupiers, a 35% increase from the same period last year. Notable transactions include Pacific Gas & Electric's US$985m acquisition of 300 Lakeside Drive in Oakland, California, deemed a lower-cost option compared to the ongoing leasing of the building. Several deals, each around US$500m, have also closed in central Seoul this year, and we have seen sizable acquisitions in London also.

GLOBAL: OFFICE DEVELOPMENT COMPLETIONS/PIPELINE



Source: Savills Research.

OFFICES Q2 2025

Regional outlook

EMEA

Office investment across EMEA totalled €11.1bn (US$12.4bn) in Q2, a 6% decline on the year. This followed an equally muted first quarter, leaving year-to-date turnover down by around 6%, marking the weakest first half year since 2009.

Despite this, sentiment is much improved. When good assets hit the market, there is a depth of demand driving competitive bidding and price appreciation. This quarter, prime yields for Paris and Madrid compressed by 25bps, while downward pressure remains in the UK and Italy. This is supported by a falling cost of debt, particularly in the euro area, even if core investors continue to struggle to hit hurdle rates amidst an elevated risk-free rate of return.

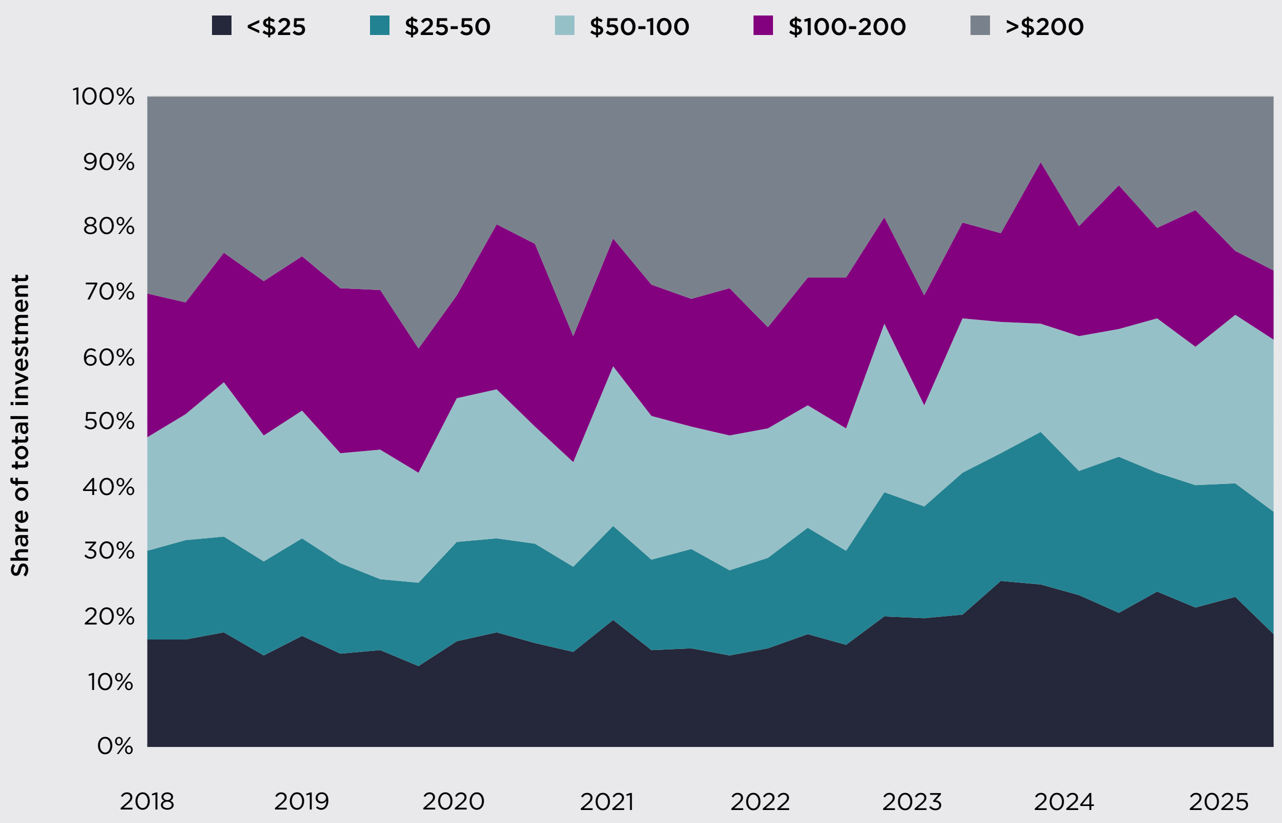
The shift in sentiment is reflected in an increase in liquidity for larger lot sizes, with major deals including Gecina's €435m (US$490m) acquisition of Le Solstys in Paris, and the sale of Upper West Berlin to the Schoeller Group for €450m (US$510m).

In London, 12 assets have already traded for over £100m in H1 - including State Street's purchase of 100 New Bridge Street for £382m (US$431m) - surpassing the four deals completed in H1 2024.

Each transaction helps to consolidate market pricing and boost vendor confidence. As a consequence, more deals are expected to come through in the second half, headlined by the impending sale of the Paris Trocadéro business centre in Paris – a mixed-use development that is reportedly under offer, following strong competition, to a major private-equity house for €705m (US$830m).

Trophy asset sales in an otherwise sluggish market are leading to some volatility in the country-level headline investment data. France, Italy and Spain all experienced solid growth in investment in the second quarter, while Germany and the Netherlands were more subdued.

EMEA: OFFICE INVESTMENT BY DEAL SIZE



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

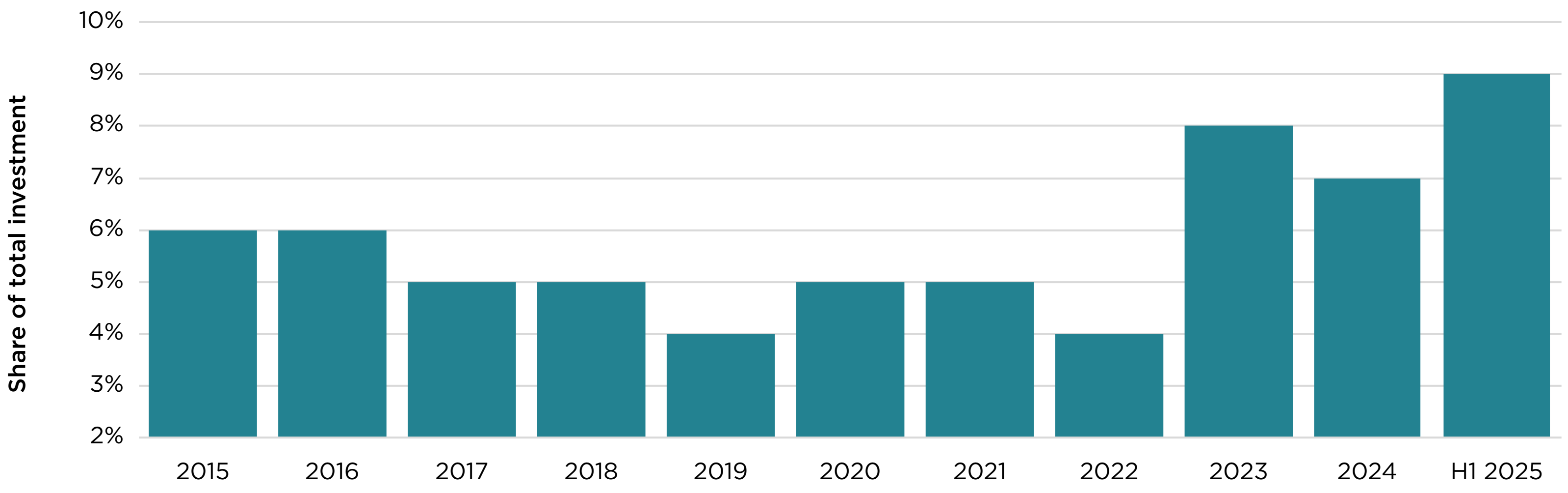
London remains below its long-term average, but posted a 50% increase in H1 investment, with a strong under-offer pipeline and rising level of stock boding well for H2.

However, as the saying goes, the data doesn't lie. Uncertainty persists and optimism is concentrated at the top end of the market. The definition of prime has narrowed considerably – assets lacking key attributes continue to struggle to meet vendor aspirations. Value-add capital is increasingly active, but location remains the critical factor as the one attribute that cannot be altered.

The investment market broadly mirrors the occupational market. Take-up across Europe rose by 10% y/y in Q2, leaving H1 up by nearly 8%. Core markets such as Amsterdam, Frankfurt, London City and Madrid led the recovery, driven by larger deals, although renewals still dominate overall leasing activity.

Vacancy rates have edged up, mainly due to older stock returning to the market. However, prime vacancy remains low at around 3% in core areas, and the development pipeline suggests little change ahead, barring a negative demand shock. In 2026, new completions are forecast to be the lowest in a decade, supporting rental growth of 4–5% on average. Growth is uneven, favouring undersupplied core CBDs in Western Europe. Tenant affordability is not a concern, with real rents still below 2019 levels.

EMEA: OFFICE DEALS FOR REDEVELOPMENT



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

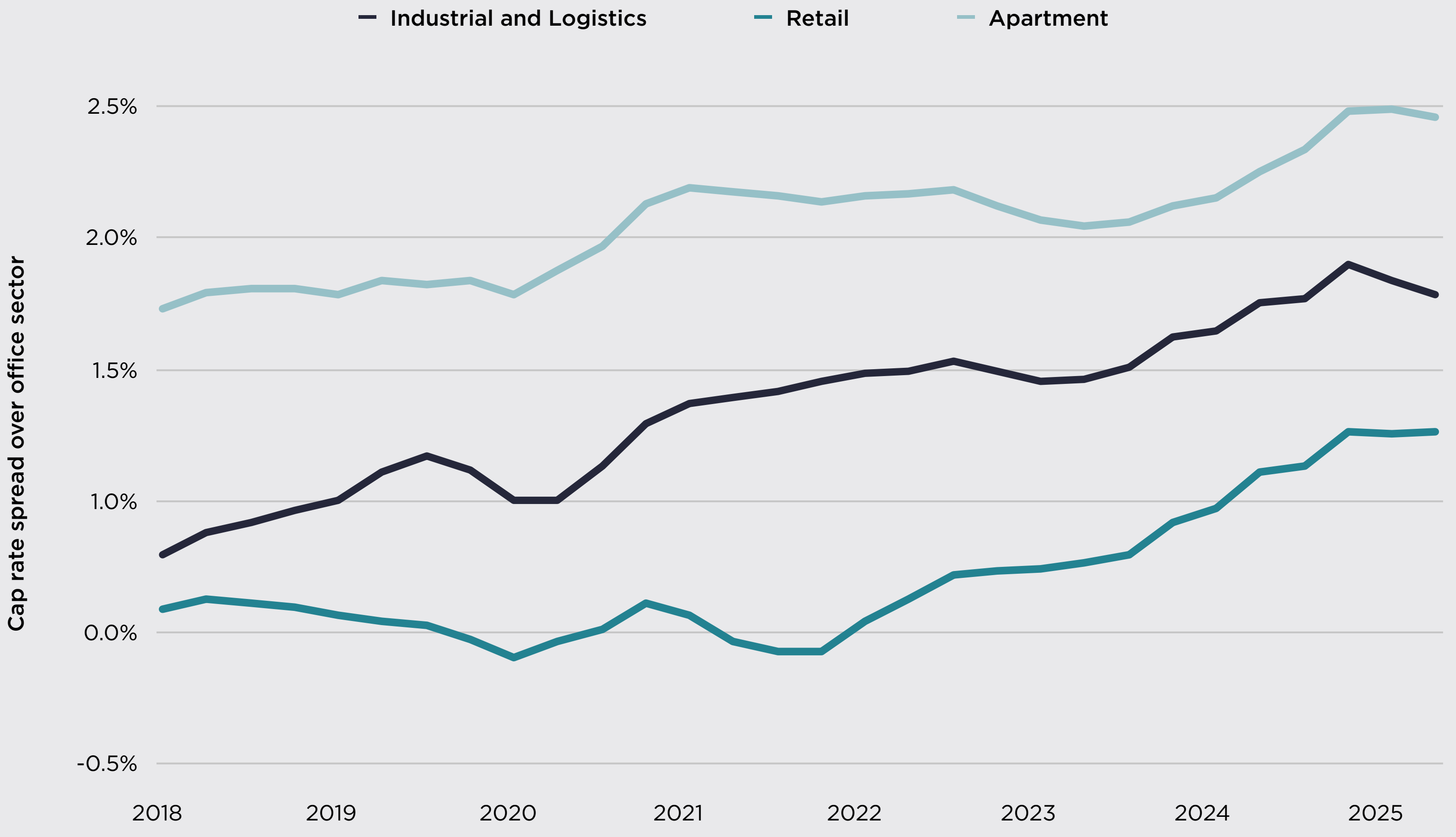
North America

There are signs of life returning to the US office market. Investment reached US$18.4bn in Q2, over 50% higher on the year, marking the third quarter of double-digit growth in the past 12 months – suggesting a trend rather than an anomaly. While this comes off a low base, with H1 investment still half of pre-Covid levels, sentiment is clearly shifting. This is supported by a rise in the number of assets trading and the average deal size.

New York is leading the recovery, accounting for 20% of year-to-date turnover, up from a long-term average of 15%. Three of the largest Q2 deals were in New York, including Blackstone's stake in 1345 Avenue of the Americas (which valued the property at US$1.4bn) and RXR Realty's purchase of 590 Madison Avenue for US$1.1bn – the first billion-dollar deal in New York in several years. Other active markets include San Francisco (+190% in H1 2025) and Los Angeles (+130%).

Several factors are supporting this nascent recovery. Office assets have repriced more than other sectors, with an average cap rate of 7.7%, according to MSCI – 80bps above retail, 130bps above industrial and logistics, and nearly 200bps above multifamily. Liquidity in debt markets has improved and CMBS issuance in early 2025 has been strong.

US: COMMERCIAL PROPERTY CAP RATES RELATIVE TO OFFICE



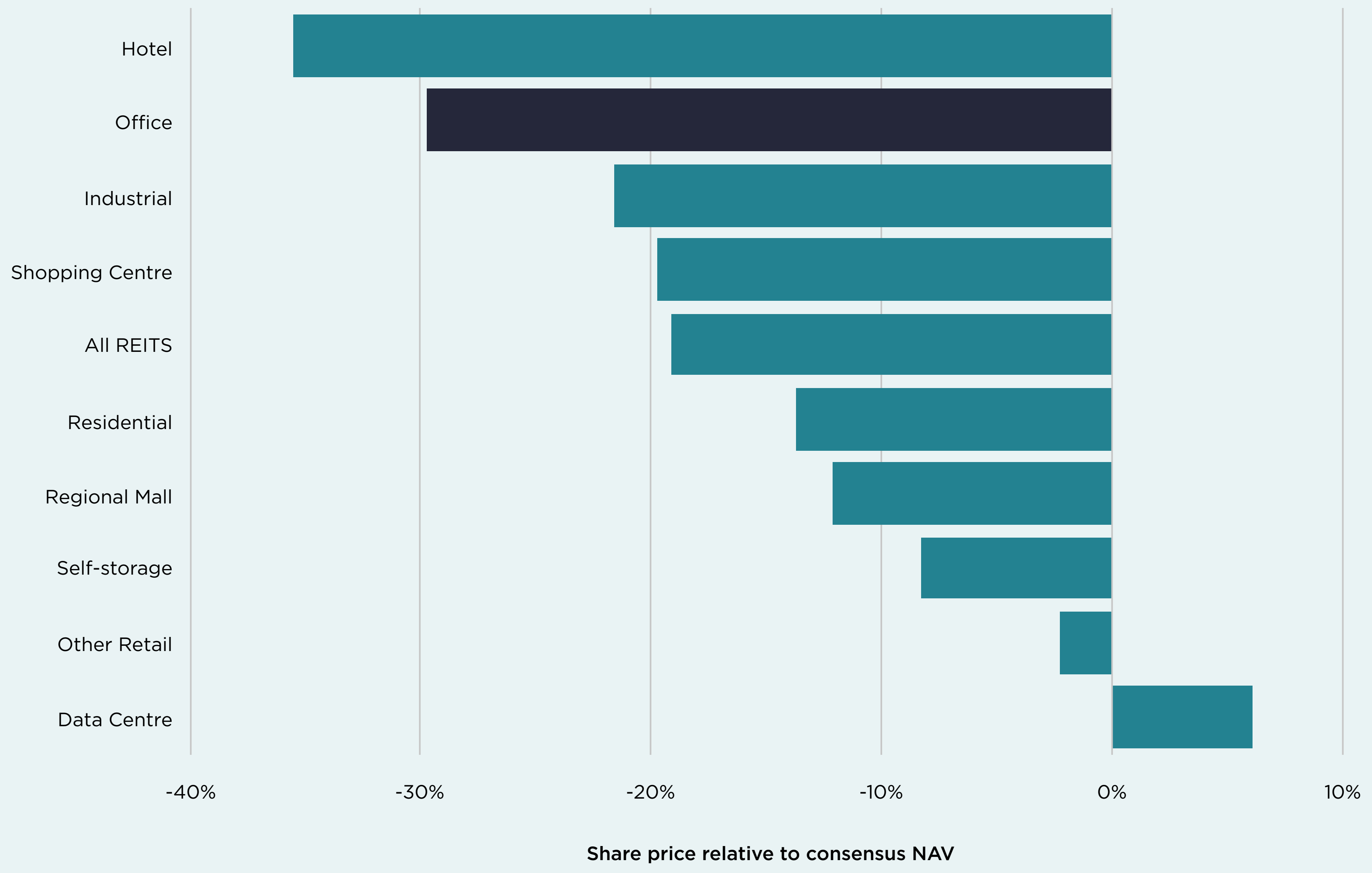
Source: Savills Research using MSCI RCA. Based on the modelled RCA Hedonic Series of cap rates.

This is prompting some investors to act, especially as the occupational market shows signs of improvement. Leasing activity in many markets now exceeds long-term averages. In New York, new leases and expansions make up two-thirds of leasing volume, mostly at the top end, although other segments are also seeing demand spill over. In San Francisco, a resurgent tech sector has pushed vacancy down by nearly 200bps over the past year.

However, the recovery remains uneven – focused on gateway markets and prime assets. Vacancy is still high and sustained leasing will be needed to absorb it, despite limited new supply. Office REITs continue to trade at a significant discount to NAV, reflecting ongoing investor caution. Notably, end-users have underwritten around 15% of acquisitions year-to-date, double the long-term average, indicating some opportunistic buying at rebased values.

Distress is also contributing to market liquidity. MSCI data shows 8% of Q2 transactions were linked to financial trouble. The CMBS delinquency rate remains elevated at 10.6% per Trepp, and S&P Global estimates bank NPLs tied to office assets are similarly high. Lenders still prefer workouts over forced sales, and MSCI reports that resolutions outpaced new distress in early 2025. Nonetheless, distress will continue to weigh on the market due to structurally vacant buildings and unserviceable loans.

US: MEDIAN PREMIUM/DISCOUNT TO NAV OF LISTED REITS



Source: Savills Research using S&P Global Market Intelligence. Based on end-June data. Residential includes multifamily, single family, and manufactured homes.

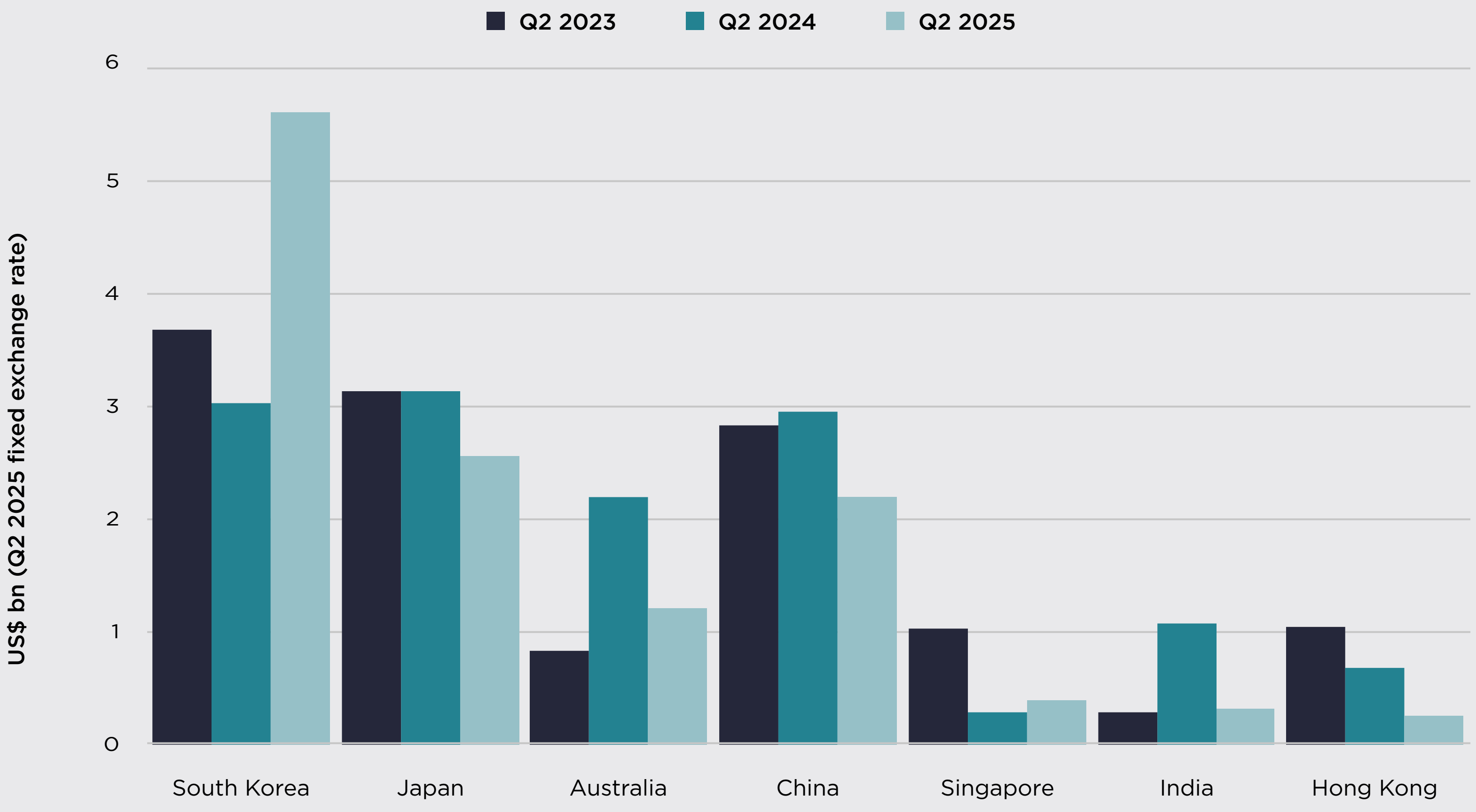
APAC

Office investment across the APAC region fell by 6% y/y in Q2, with US$12.8bn in office transactions completing in the quarter. This decline was largely due to reduced activity in Australia, China, India and Japan, though South Korea saw strong growth.

China's market was particularly subdued, with only CNY15.6bn (US$2.2bn) transacted in the quarter – over 27% down on the year. Foreign investors, responsible for about half of all sales, continue to seek exits, while domestic buyers, mainly insurers, are increasingly selective in their acquisitions. The weak occupational market is a key factor, with landlords cutting rents and offering greater concessions to attract tenants. Shanghai's grade A vacancy rate, currently 23.7%, is expected to rise further. This is pushing active capital towards better-performing sectors.

In contrast, Japan's occupational market remains strong, despite an 18% y/y decline in investment to JPY369bn (US$2.6bn) in Q2. However, this followed a strong Q1, leaving the half-year up by more than 7%. In Tokyo, robust pre-leasing is easing concerns about new supply in 2025. The vacancy rate in the central five wards fell 140bps over the past year to 1.5% in Q2. Rents have risen by more than 8% over the same period but remain 12% lower in real terms than in 2019, suggesting plenty of room for further growth. For context, corporate profits of office-based sectors across Japan have risen by more than 40% in this time.

APAC: TOTAL OFFICE INVESTMENT



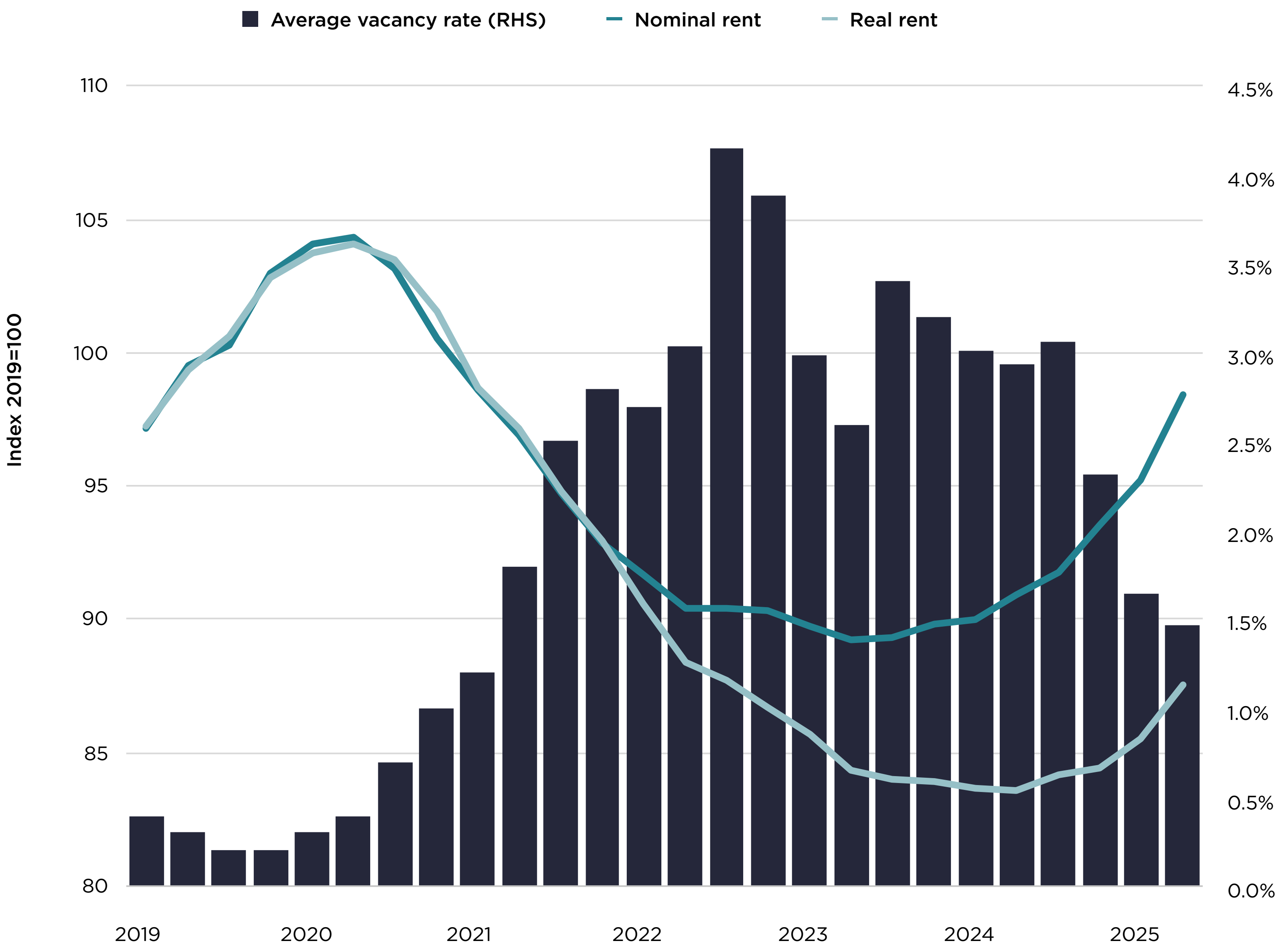
Source: Savills Research using MSCI RCA and Macrobond. Based on independent reports of properties and portfolios. Excluding development sites.

Low investment activity partly reflects limited opportunities, with landlords delaying exits due to favourable market dynamics. Bifurcation remains a key theme, and with the development pipeline thinning, value-add strategies are gaining traction. While location remains a critical differentiator, given increasingly tight leasing conditions at the top end of the market, the spotlight is falling on the potential repositioning opportunity of less accessible or older buildings.

In South Korea, investment rose by 86% on the year to KRW7.6tn (US$5.6bn), the strongest quarterly outturn in four years. Several large assets, each over KRW500bn, traded after extended marketing periods. In some instances, sellers were reported to have adjusted price expectations to close deals. Domestic investors continue to outbid international rivals, and end-users are particularly prominent in 2025, backing 40% of transactions this year to date –more than double the long-term average.

Market liquidity is supported by looser financial conditions. The Bank of Korea has cut the base rate four times since October, reducing debt costs by around 90bps. With prime yields stable at 4.25%, investors are achieving positive leverage and improved cash-on-cash returns. Despite a large volume of unsold assets, investor focus remains on core or attractively priced value-add opportunities. Several notable transactions, including the pending sale of the Pangyo Tech One Tower for around KRW2tn (US$1.5bn), will support turnover in the second half. From an occupational standpoint, the market remains landlord-friendly. Although income growth is softening and tenants are more sensitive to rent increases, limited new supply in 2025 is keeping vacancy below 4%.

JAPAN: TOKYO GRADE A OFFICE MARKET



Source: Savills Research using Macrobond

OFFICES Q2 2025

Market view

Rasheed Hassan

Head of Global Cross Border Investment
shares his view on the market

It is currently much harder than normal to extrapolate trends from data. Transaction levels remain so low, that the presence (or lack) of one or two large transactions in a given sector or geography is skewing data in disproportionate ways. As such, the stats are telling us less of a story right now.

My overwhelming feeling right now is the sense of acceptance is growing. Acceptance from sellers that interest rates are most likely going to remain higher than they had hoped and so pricing isn't going to dramatically change in the near term; and acceptance from buyers that there is very little desperation in the market and bold underwriting will need to be adopted to acquire assets that fall into an 'Investment Committee comfortable' category. The net result is relatively unexciting and we are collectively missing the momentum we crave.

The lack of available opportunities is the biggest factor in keeping the turnover levels where they are. There is definitely more capital than there is opportunity. We have said previously that there is a pent up body of assets that will need to be sold at some point, given the structures that they are held in. However, for now refinancing offers are looking more attractive than outright disposals.

This leads to another point around the abundance of capital, but this time in the credit space. Low transaction turnover is meaning lenders are struggling to find suitable situations to deploy the vast sums of equity raised for debt strategies. The result is that competition is pushing down margins, increasing LTV's and softening covenants. It is therefore somewhat predictable that sponsors are being pleasantly surprised on the upside, when doing hold / sell analyses.

So we end up in a market where pricing is pretty stable for now and it is hard to see what the catalyst will be for a major rise in transaction numbers. In order for that to happen, in my view the market needs is a shock, positive or negative.

PRIME OFFICE YIELDS, Q2 2025 (AS AT END-JUNE)

City	Prime net initial yield	Outlook for yields, next 12 months	Typical LTV	Total cost of debt	Cash-on-cash yield	Risk premium
Hong Kong	1.99%	→	40%	3.5%	1.0%	-0.9%
Tokyo	2.60%	→	60%	1.3%	4.6%	1.2%
Singapore	3.88%	→	55%	2.9%	5.0%	1.7%
Paris	4.00%	↓	55%	3.6%	4.5%	0.7%
Seoul	4.25%	→	60%	4.0%	4.6%	1.4%
Milan	4.25%	↓	55%	4.2%	4.3%	0.8%
Frankfurt	4.50%	→	55%	3.6%	5.6%	1.9%
Madrid	4.65%	↓	55%	4.0%	5.4%	1.5%
Shanghai (Lujiazui)	5.00%	↑	50%	3.5%	6.5%	3.4%
London (City)	5.25%	↓	60%	5.1%	5.5%	0.8%
New York	5.50%	→	55%	6.5%	4.3%	1.3%
Sydney	5.85%	↓	53%	5.4%	6.4%	1.7%
Dubai	6.75%	→	50%	7.0%	6.5%	2.5%
Los Angeles	8.00%	→	55%	6.5%	9.8%	3.8%
Mumbai	8.25%	↑	60%	9.5%	6.4%	1.8%

Source: Savills Research and Macrobond
Note: Yields may be different to quoted values in markets where the convention is to use a gross rather than net value. Values based on end-of-quarter data. See Methodology for details.

Methodology: Net initial yields are estimated by local Savills experts to represent the achievable yield, including transaction and non-recoverable costs, on a hypothetical grade A building located in the CBD, over 50,000 sq ft in size, fully let to a single good profile tenant on a long lease. The typical LTV and cost of debt represent the anticipated competitive lending terms available in each market. Cash-on-cash returns illustrate the initial yield on equity, assuming the aforementioned LTV and debt costs. The risk premium is calculated by subtracting the end-of-period domestic 10-year government bond yield (as a proxy for the relevant risk-free rate of return) from the net initial yield. Data is end-of-quarter values.

OFFICES Q2 2025

Key transactions

590 Madison Avenue, New York, US

Tenant:	Multiple including LVMH, American Securities, Apollo Global Management, the Corcoran Group.
Lease length (WAULT):	Undisclosed
Area:	1m sqft
Price / NIY:	US$1.1bn/Undisclosed
Vendor:	State Teachers Retirement System of Ohio and EJME
Vendor nationality:	US
Purchaser:	RXR Realty and Elliott Investment Management
Purchaser nationality:	US
Other comments:	The acquisition of 590 Madison Avenue, known as the former IBM building, is expected to be the first billion-dollar office transaction in New York in several years.

KDB Life Tower, Seoul, South Korea

Tenant:	Multiple including CJ Olive Young, KDB Life Insurance, Google Korea.
Lease length (WAULT):	Around three years
Area:	883,890 sqft
Price / NIY:	KRW674.4bn (US$497m)/4.1%
Vendor:	KB Asset Management
Vendor nationality:	South Korea
Purchaser:	CJ Corporation
Purchaser nationality:	South Korea
Other comments:	CJ Olive Young, one of the largest cosmetic and beauty product companies in South Korea, was selected in a competitive process ahead of four other bids, including a large institutional US investor. KDB Life Tower has been their headquarters since 2021 and the sale is indicative of a wider trend of own-occupiers acquiring their leased buildings. Savills acted on behalf of the purchaser.

Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors.

Oliver Salmon
Global Capital Markets
World Research
+44 (0) 20 7535 2984
oliver.salmon@savills.com

Rasheed Hassan
Global Capital Markets
Head of Global Cross
Border Investment
+44 (0) 20 7409 8836
rhassan@savills.com

Charlotte Rushton
Associate
World Research
+44 (0) 20 7016 3856
charlotte.rushton@savills.com