



Hines

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Perspectives

Seizing the European Prime Office Opportunity



By **Alfonso Munk**
Co-Head of Investment Management

James Purvis
Head of European Research

Anthony Witkowski
Research Senior Associate

Seizing the European Prime Office Opportunity

Prime office properties in supply-constrained, centrally located European submarkets could offer a compelling outlook for rent growth.

The global office sector has been the focus of extensive debate and discussion in recent years. Many market observers anticipated a permanent rise in working from home, reduced demand, elevated vacancy, and even widespread obsolescence. The major end-of-cycle correction across global real estate markets compounded these pressures, with more recent attention turning to AI's impact on office employment.

Amid these foundational shifts, a compelling equity opportunity has emerged in the European office sector: Pricing is attractive while fundamentals are showing convincing signs of strength. In fact, prime, well-located European office assets are delivering some of the strongest rent growth in

the region. But this is not uniform; bright spots in occupier markets and liquidity have become uneven across the sector, with a clear gap emerging between target markets and those likely to experience a slower recovery.

While a "flight to quality" is a familiar refrain across most European real estate sectors, the bifurcation of the office sector has been by far the greatest, in our view, driven both by the quality of stock and location. Commercial property price indexes show a significant divergence between prime and average office values compared with other property types (see Figure 1).

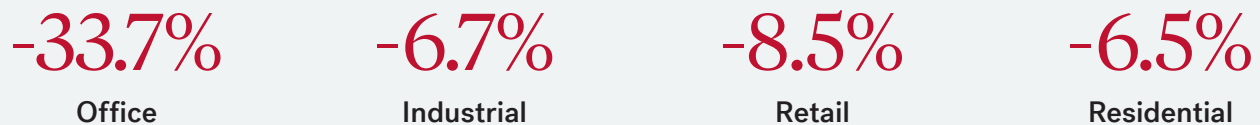
Key Takeaways

Hybrid working has reduced aggregate demand but sharpened occupier preferences, leading to consolidation into high-quality, centrally located spaces.

Bifurcation between prime and secondary offices has continued to widen, with prime now displaying the strongest market conditions of *any European real estate sector*, according to our research.

As AI adoption accelerates, high-quality, well-located offices are likely to remain the most resilient, with supply constraints reinforcing rent growth, in our view.

Figure 1: Office Shows the Largest Prime–Secondary Value Gap Across Sectors
(Cumulative difference between average and Prime CPPI since Q4 2019)



Sources: CBRE, Green Street, and Hines Research. As of Q4 2025.

Demand Has Pushed Prime Offices Ahead of the Rest

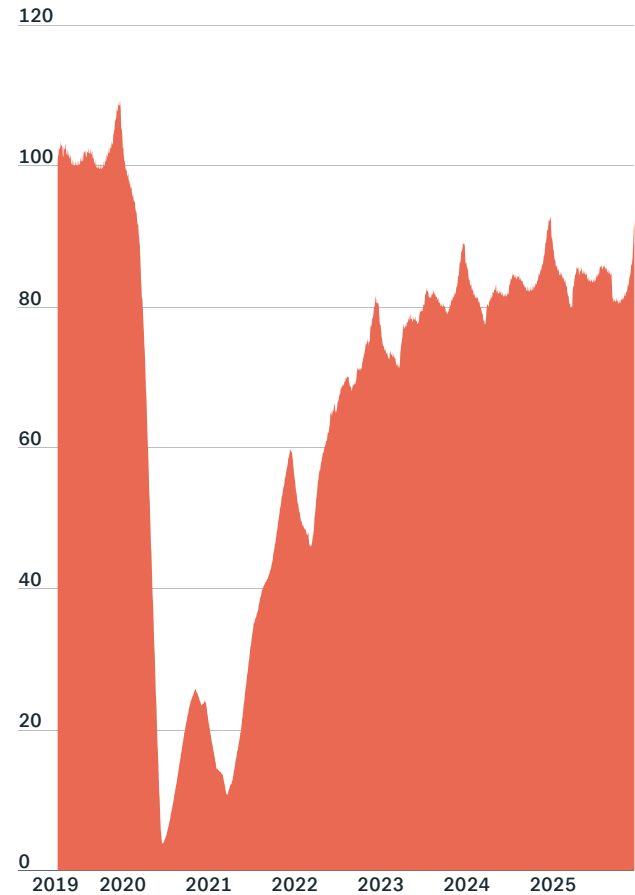
Despite some lingering negative perception of the office sector, the debate over working-from-home trends has abated as workers have largely returned to city center offices. Employers recognize the importance of office space to attract and retain talent and foster company culture, and many have implemented return-to-office mandates.

We see some lasting effects of the rise in working from home on city centers. In London, tube station foot traffic has held a modest upward trend since early 2023 but is still significantly below pre-pandemic levels (see Figure 2)—though it’s important to note that some of this decline can be attributed to the rise in cycling as a means of transport. Saturdays and Sundays are the most popular days to ride the tube, almost on par with pre-pandemic levels. Mondays and Fridays, meanwhile, are the least popular (see Figure 3).

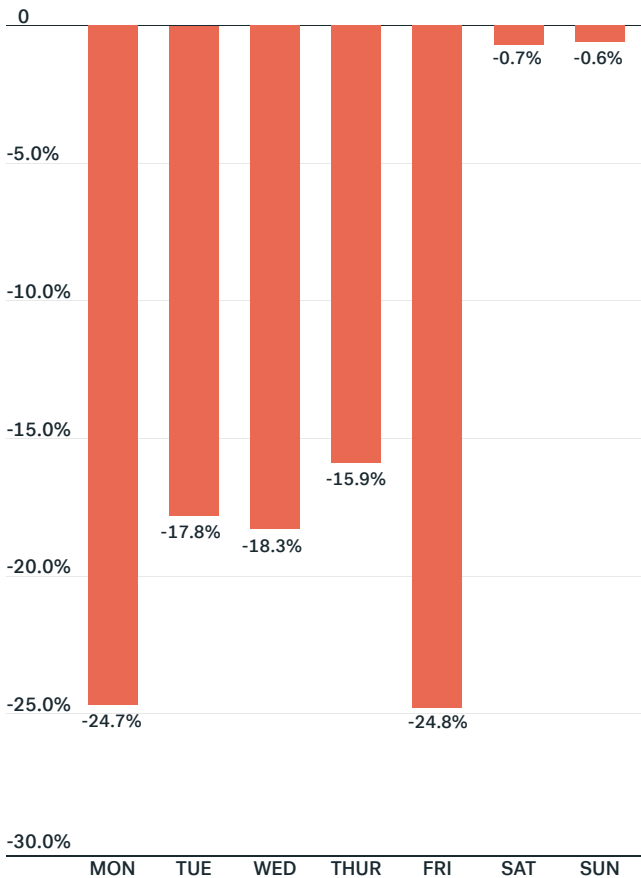
With office attendance seemingly concentrated toward the middle of the week, occupiers face limits on how much they can reduce space as leases expire—since even offices with hybrid schedules require seven days of leased space. Even so, average floorspace per worker in London has declined by a similar proportion to peak day attendance, down 13.8% since 2019. Markets with preexisting hybrid working cultures, such as Berlin and Amsterdam, have seen smaller reductions, as have certain industries, but the

Figures 2 & 3: Trends and Patterns in Tube Station Foot Traffic

Index of Central London Tube Journeys (2019=100, 3M Rolling Avg.)



Central London Tube Journeys 2025 Vs. 2019 (% Avg.)



Sources: Transport For London and Hines Research. As of December 2025.

downward trend is broad-based across Europe (see Figure 4). It's important to note, however, that this trend has been going on for decades.

More recently, anxieties have mounted about the impact of AI on white-collar work and, by extension, office demand. So far, any employment effects have been concentrated in tasks such as routine analysis, administration, and entry-level duties. Looking ahead, back-office and processing-heavy locations are likely to be most exposed, while judgment-heavy, collaborative, and client-facing work may become more valuable, increasing the importance of high-quality, well-located offices. As some industries face potential disruption

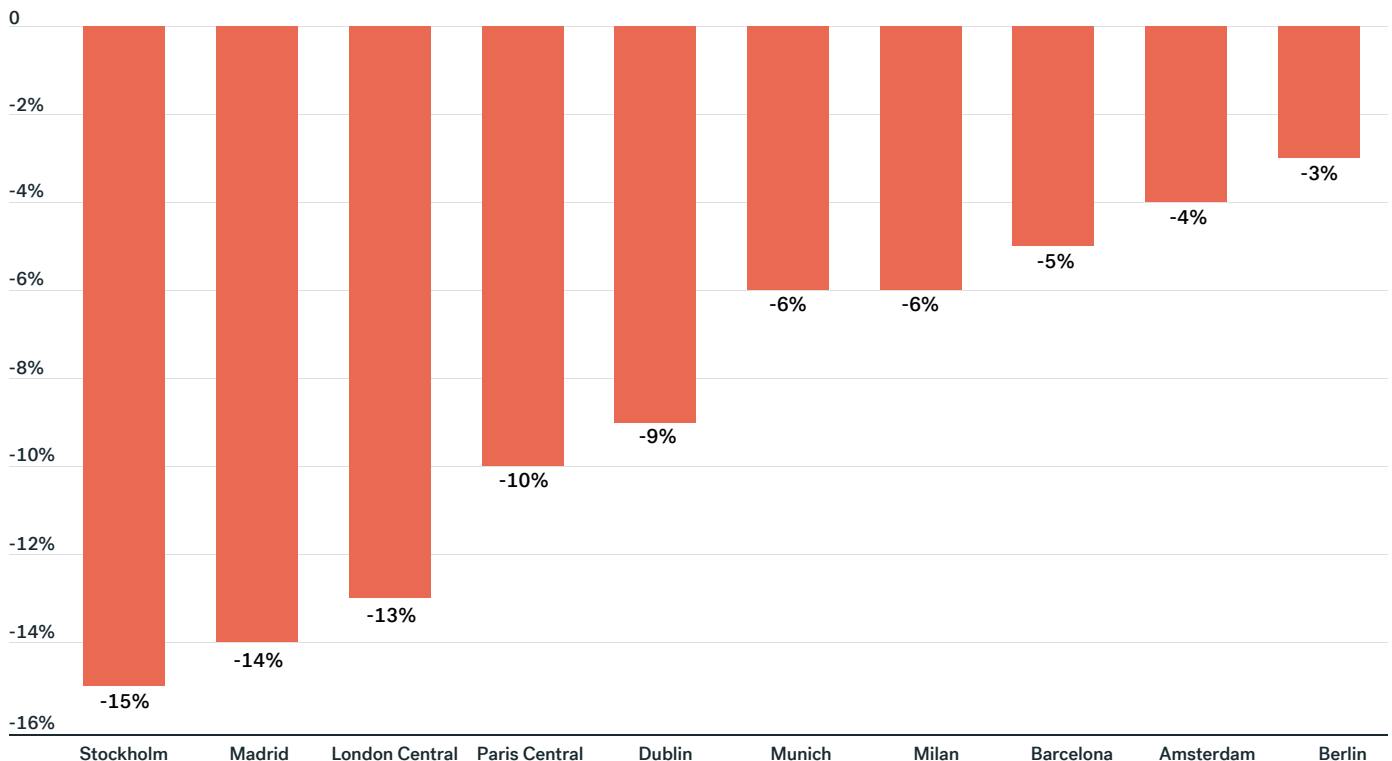
and others may benefit from productivity gains, we expect the spread between gateway office

markets with a diverse demand base and smaller secondary markets to widen even further.



The combination of concentrated demand and minimal new stock appears to be driving the European prime office rebound and is likely to continue placing upward rent pressure on the sector.

Figure 4: Floorspace Per Worker Has Trended Down Since 2019 (% Change)



Sources: CBRE and Hines Research. As of Q4 2025.

A Shortage of Desirable Space Is Driving Rents

Historically, the relationship between overall vacancy and forward rent growth was robust. Softening leasing health along with oversupply was a reliable predictor of short-term rents. However, over the past five years, that relationship has started to break down as bifurcation between prime and secondary office stock distorted traditional indicators. This becomes even more apparent when focusing on the relationship between recent rent growth and high-quality, or Grade A, office supply, where the relationship has been far stronger. Specifically, areas with less vacancy in higher quality space are experiencing stronger rent growth.

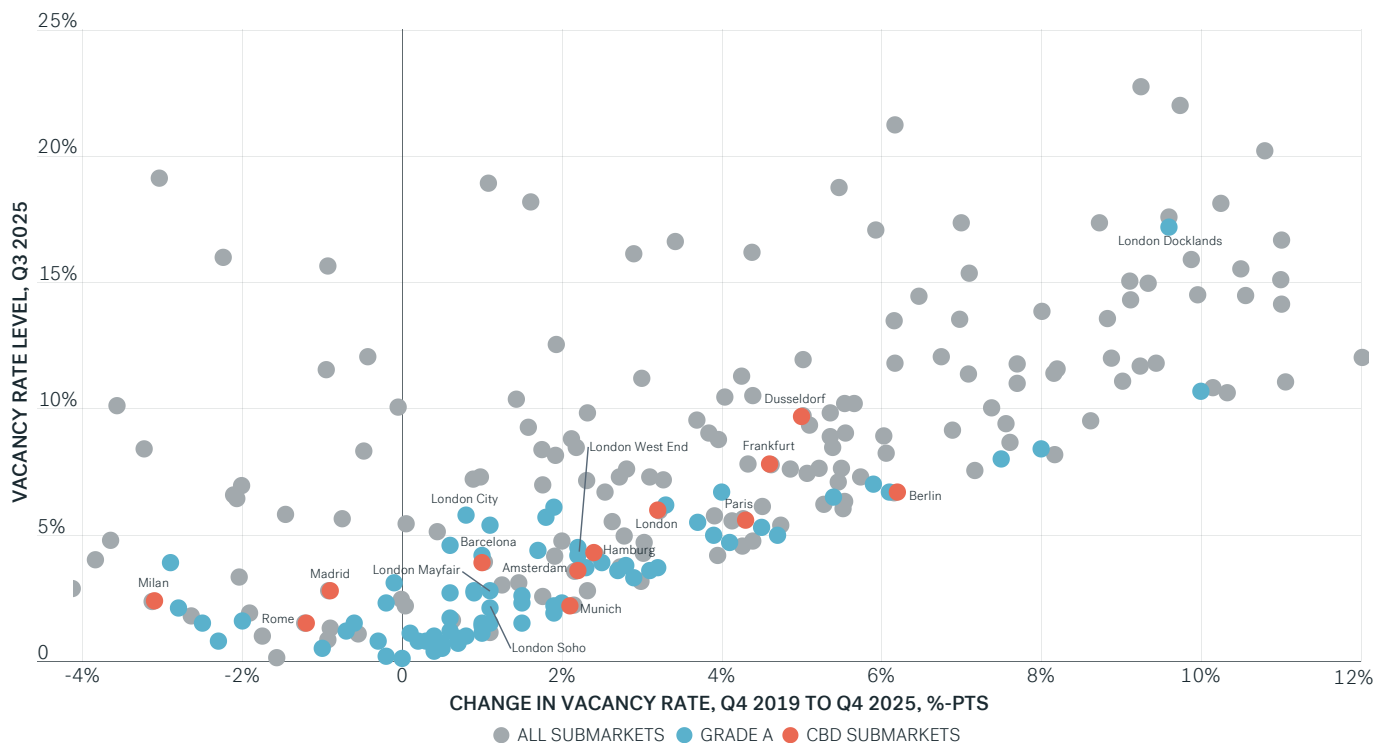
In fact, demand has consistently outpaced what has been relatively low supply. Grade A shortages have worsened as higher financing and construction costs (combined with the broader market downturn) have curtailed new development. What's more, many European central business districts (CBDs) are historic and dense, which deters development. Housing shortages have also played a role, with some local authorities (such as in Paris) discouraging new office development or requiring new developments to have mixed-use allocations.

Grade A stock across the broader sample of European submarkets has experienced a consistently low absolute vacancy rate over the past five years (see Figure 5). Shares of new stock under five

years old in London's West End, Dusseldorf's CBD, and Amsterdam's Zuidas have fallen below 3% of the total, resulting in strong upward competitive rental tension for space (see Figure 6). Prime rents in London's Mayfair have grown by almost 90% cumulatively over the past five years, even as rates of remote work have settled at far higher levels. Prime rent growth across the weighted EU-15 index has totaled 35.6% since Q4 2019, with the latest year-on-year growth coming in at 7.1%, by far the strongest among the major property types.¹

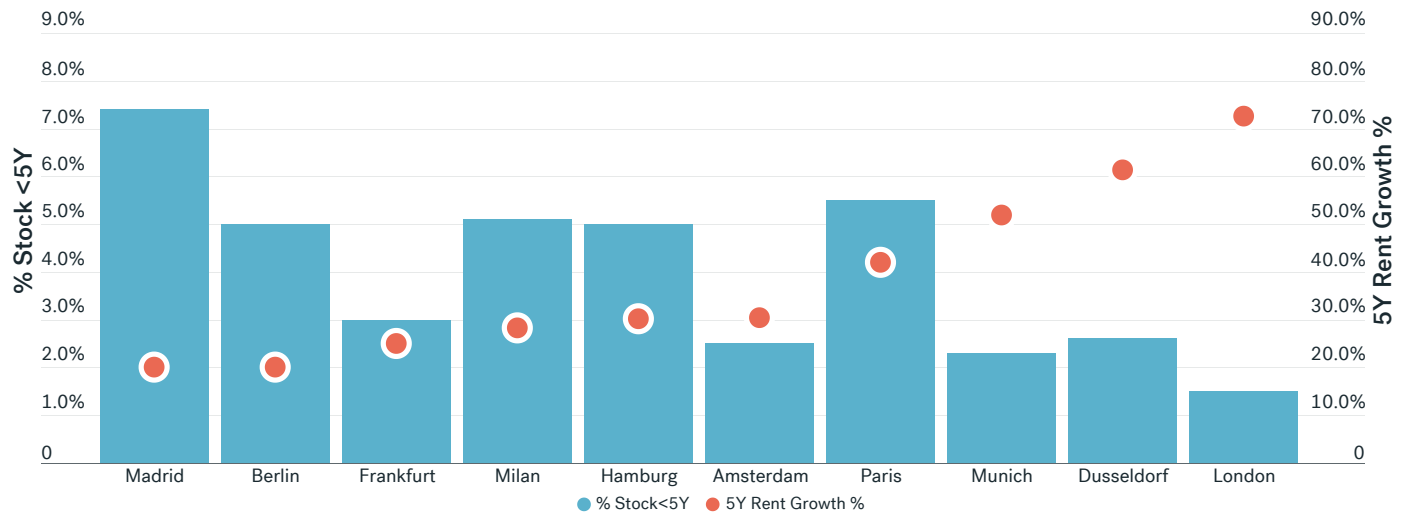
Given all this, along with higher inflation, we expect many tenants to choose to stay put rather than seek new office space.

Figure 5: Grade A Offices Show Relatively Low Vacancy Rates



Sources: CBRE and Hines Research. As of Q4 2025.

Figure 6: Newer Stock Tends to Command Higher Rents



Sources: CBRE and Hines Research. As of Q4 2025.

We expect upward leasing momentum to continue given future supply shortages. Office development in European markets has gradually trended down since its 2009 peak, which has driven the proportion of newer stock lower. In many markets, this has resulted in a significant share of outdated inventory that no longer meets modern occupier requirements.

Recent starts data suggest that this supply shortage is likely to worsen, with office starts down 80% from their recent peak, the steepest decline among the major sectors.² Given that the previous supply cycle was already muted, this downturn in construction activity is all the more extraordinary. Assets have been, in many cases, trading at a meaningful discount to replacement cost, limiting the economic incentive to develop new supply while providing a cushion on the downside for existing assets. The resulting combination of concentrated demand and minimal new stock is spurring the European prime office rebound and is likely to continue to drive rents up.

The stretched supply/demand fundamentals of core city center submarkets may also bode well for more affordable, adjacent submarkets with strong transport connectivity. Indeed, prime rents across central transport hubs have grown at a comparable rate to their adjacent CBD markets.³

Given that starting rents were significantly lower, many of these markets present significant discounts to CBD. For instance, prime rents in Frankfurt's

Hauptbahnhof are 23% below those of the CBD, while those closer to London's Kings Cross reflect a 37% discount to the wider West End.⁴ While some occupiers will continue to prioritize the most prestigious locations, the potential for these gaps to narrow could be significant. In this context, the European office opportunity set should not be framed solely in terms of the core CBD submarket, but in terms of well-connected city centers.



Diagonal Vertical: *Repositioning a Trophy Office Building in Barcelona*

Diagonal Vertical is a historic trophy office tower in Barcelona's Central Business District.

[!\[\]\(35dc653d59570f8f891c312eeece91a2_img.jpg\) Click Here to Learn More](#)

A Closer Look at Rent Growth Potential

How high can rents go? Benchmarking rents against corporate earnings provides useful insight (see Figure 7). In some markets like Paris, rents have gone from very affordable levels in Q4 2022 to only slightly above average at the end of 2025, suggesting that occupiers could absorb further increases. Elsewhere in Europe, rents have been relatively low on this basis, despite recent strong growth rates. Furthermore, current headline rents have grown by significantly less in real terms, and any recent real increases have largely been mitigated by shrinking occupier floor space requirements. This suggests there could be significant headroom for sustainable rent growth.

Investment Implications: *'Buy' Signs Emerge*

Hines Research has developed a Buy/Hold/Sell model that identifies when equity investment is most compelling in any given market. A market moves into the "Buy" phase when pricing is cheap but fundamentals are showing signs of momentum. The office sector has looked compelling for a couple of years across all global regions given the scale of



83 Avenue Marceau: *Securing a Super-Prime Trophy Asset in Paris' Golden Triangle*

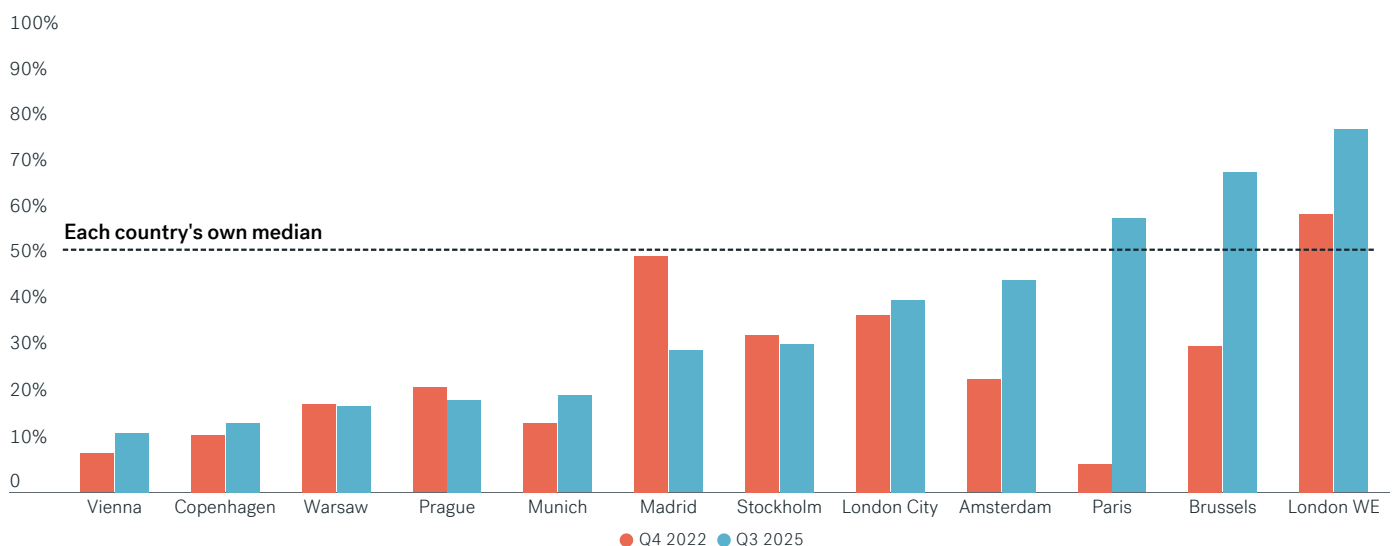
83 Avenue Marceau is a prestigious office and mixed-use property in Paris' 16th arrondissement.

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the pricing reset, driven by expanding cap rates. The sector's fundamentals have, however, been weak until recently, and Hines had sequenced into the office investment opportunity, starting with lending.

Income returns have reset higher, and fundamentals have been improving, creating a more favorable entry point than earlier in the cycle, when pricing had

Figure 7: Benchmarking Prime Rents Against Corporate Earnings




Source: Hines Research. As of Q3 2025.

adjusted but leasing momentum had not yet followed. As a result, some segments of the European office sector now appear convincingly positioned in the “Buy” phase of the investment cycle, displaying some of the strongest fundamentals across all major property types. Also, we believe offices are exceptionally well-positioned to benefit from tightening supply/demand dynamics in the years ahead. **Given these trends, Hines Research would call this a potentially “Strong Buy” opportunity.**

If there is any risk that could slow the recovery in pricing, it would be low liquidity as investors remain cautious. And we continue to monitor ongoing geopolitical uncertainty, including developments in the Middle East. (On the other hand, government spending on infrastructure and defense in response to rising geopolitical volatility could provide a broad tailwind to economic growth, employment and, ultimately, office demand in countries like Germany.)

However, we have seen signs of robust activity in core submarkets like London’s West End, Paris’ CBD, and Madrid’s CBD, while earlier evidence of improvement has emerged in London City, Milan, Amsterdam, and others (see Figure 8). We are more



B’ella Berlin: Driving Growth in Berlin’s Office Sector

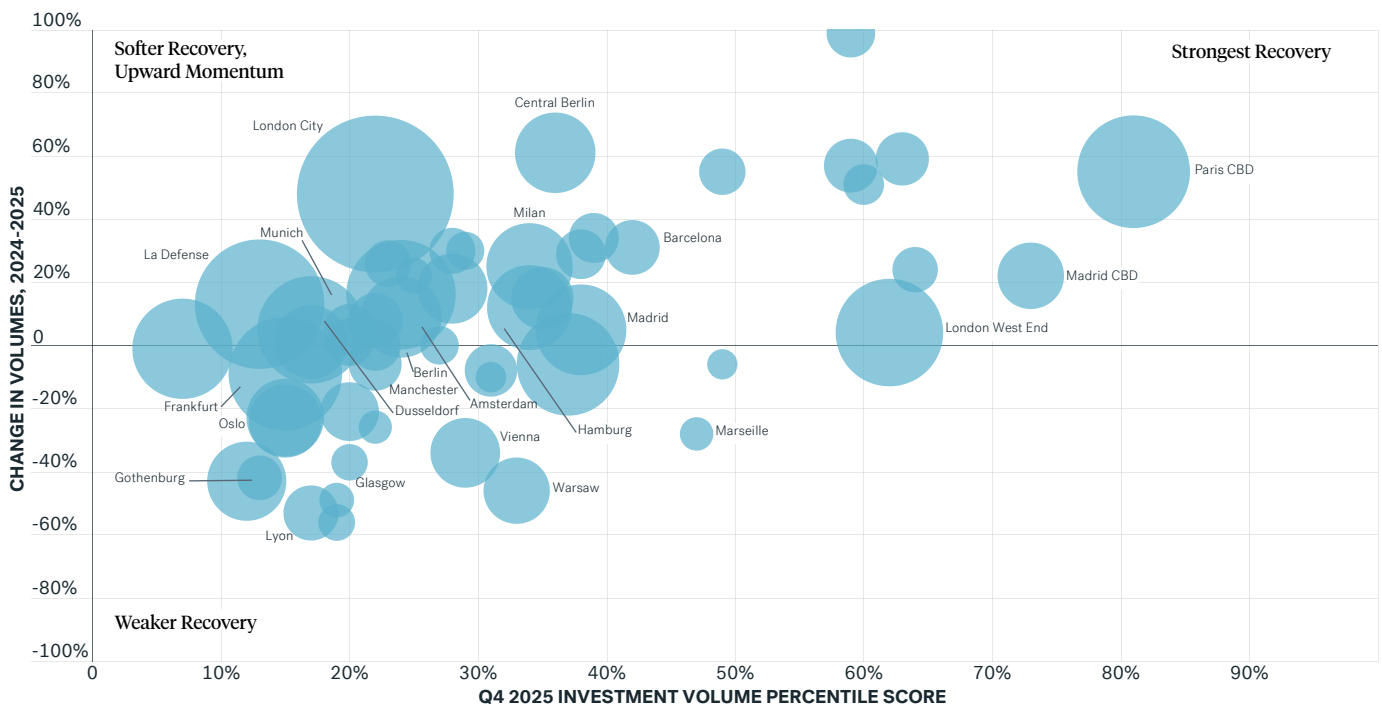
Berlin’s Grade A office market has experienced a notable supply-demand imbalance.

[Click Here to Learn More](#)

cautious on smaller or less core locations where momentum has been weaker.

Markets with thinner liquidity but demonstrated upward momentum and strong underlying

Figure 8: Evaluating Office Investment by Market



Sources: RCA and Hines Research. As of Q4 2025. Bubble size = 10-year average office investment volume.

fundamentals may also present compelling opportunities across the risk spectrum. However, exit assumptions need to be considered carefully and illiquidity risks compensated accordingly.

By evaluating the sector through the dual lens of fundamentals and liquidity, we can position capital where both forces are working in our favor—by capturing outperformance today while ensuring that the exit environment is equally supportive tomorrow.

Moving with Conviction

Offices remain integral to the functioning of major urban economies. The opportunity set is now highly selective, but the prospects, in our view, are exceptional in segments with strengthening fundamentals and repriced assets. Specifically, our

research finds that prime offices in supply constrained, centrally located submarkets are offering among the most compelling outlooks for rent growth across the European real estate universe. This opportunity is concentrated in the segment of the market that combines quality, location, and modern specification.

Our analysis gives us the clarity to move, with conviction, into the “Buy” phase of the cycle. This means pursuing equity investments with conviction, targeting the right buildings in the right submarkets, and pricing risk with discipline. By combining research insights with a focused investment lens, we can position capital where structural tailwinds, liquidity, and rent growth are aligned—turning a once-challenging narrative into a compelling opportunity.

While the role of office space will evolve as AI adoption accelerates, demand for centrally

located, collaborative, client-facing environments is expected to remain strong. The confluence of these forces will likely accelerate the divide between spaces that truly add value—and those that do not.

About the Hines Proprietary Research Team

Joshua Scoville and his team, including Anthony Witkowski, the lead author of this paper, and James Purvis, a lead contributor, are responsible for constructing the Hines macroeconomic view and the outlook for commercial real estate market fundamentals and pricing.

Hines Research is also responsible for assisting with the development of investment strategies for the firm’s investment programs; working closely with the local and fund management teams, clients, and partners; and

supporting geographic leaders in identifying market/submarket opportunities and risks.

The views of the local and fund management teams on the latest market developments are exchanged regularly via biweekly conference calls and quarterly market updates and are essential for reviewing investment strategies and fund portfolio allocations.

Additional members of Hines’ Proprietary Research team include Michael Hudgins, Tim Jowett, Ryan McCullough, Michael Spellane, and Erik Thomas.

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Endnotes

1. Source: CBRE. As of Q4 2025.
2. Sources: RCA and Hines Research. As of Q4 2025.
3. Sources: CBRE and Hines Research. As of Q4 2025.
4. Source: CBRE. As of Q4 2025.