



Catella House view

Office outlook

JUNE 2026

Office divergence between prime and secondary

A generational transformation is reshaping offices into an income-led opportunity, particularly in CBD locations.

Offices have navigated a decade of disruption – from Brexit and the pandemic to a sharp repricing driven by inflation, rising operating costs, and higher interest rates. In parallel, the sector has undergone a structural reset, shaped by hybrid working, sustainability requirements, and a flight to quality, redefining both demand and asset relevance. While leasing activity has stabilised (Figure 1), this transition is not yet complete with AI being the next major disruptor. Key occupier sectors – particularly

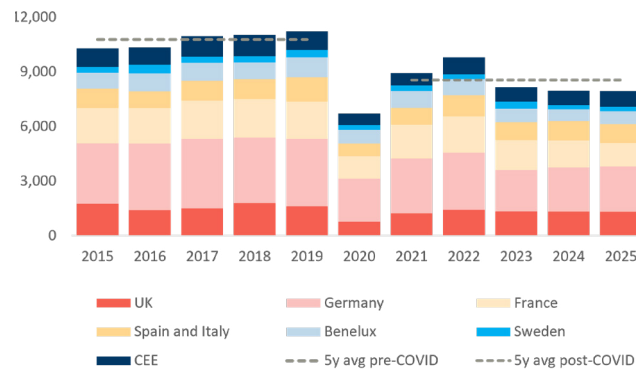
professional and financial services – are among the most exposed to the AI technological change. The impact is likely to be most visible in secondary assets, which typically house administrative and support functions. In contrast, prime assets are better positioned to adapt to evolving occupier requirements, with stronger rental growth, potentially supported by productivity gains linked to AI adoption.

As a result, the outlook for offices is diverging further. It is evidenced by a disproportionate share of take-up concentrated in modern stock; materially lower CBD vacancy rates relative to the broader market; and rental growth limited to high-quality assets. Often described as a K-shaped recovery, CBD office performance will be underpinned by contractually protected, inflation-linked leases and a structurally constrained pipeline. Key drivers that this report explores in detail.



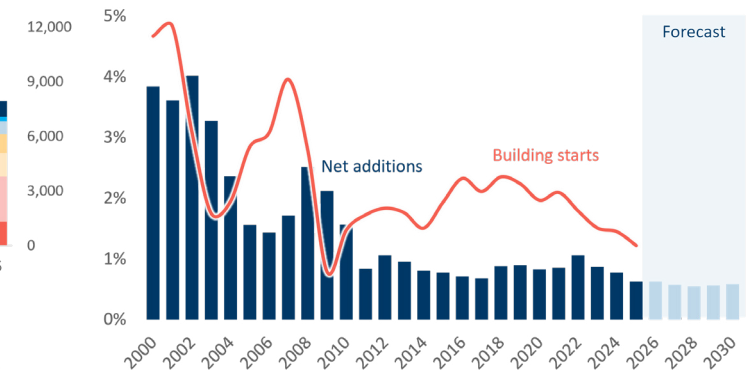
CATELLA HOUSE VIEW, JUNE 2026

FIGURE 1
OFFICE DEMAND STABILIZING
Office take-up in mil sqm; aggregate of 30 European centres



Source: PMA; Catella 05/2026

FIGURE 2
CONSTRAINED OFFICE DEVELOPMENT PIPELINE
Net additions vs Building starts; % of office stock; aggregate of 30 European centres



Source: PMA; Catella 05/2026

Offices still remain relevant – but in a redefined role

Less is more. Offices are increasingly seen as a strategic tool for occupiers, shaping culture, collaboration, and brand. The traditional role of the office is shifting towards a modern, high-quality environment, with occupiers prioritising better workplaces in well-connected locations at the expense of larger, more commoditised footprints.

Against this backdrop, the investment case for offices is defined by two key arguments:

- Structurally constrained development pipelines in central locations, supporting rental growth and income-led returns through relatively long leases and inflation-linked cash flows.
- Recent capital value declines are creating mispriced opportunities and providing an attractive entry point, albeit primarily within CBD markets.



Constrained development

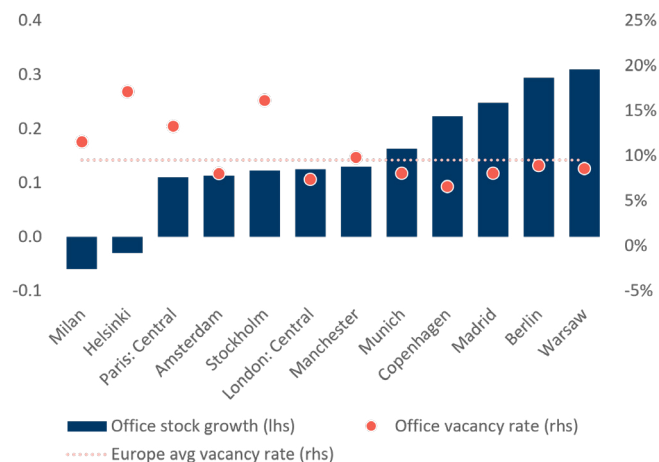
Limited new supply and high barriers to refurbishment are reinforcing rental growth in central modern offices across Europe.

Elevated construction and labour costs, alongside tighter financing conditions, have prevented the typical late cycle growth of new supply. The absence of any development cycle has left many office markets constrained. The supply tightness presents opportunities with reliable rental growth over the medium term (Figures 2 & 3). In this context, rental growth is expected to provide a structural income buffer and inflation hedge, mitigating risks associated with a more uncertain demand outlook. This is most notable in Amsterdam, Dublin, central London, Madrid and Milan.

The limited supply of new modern stock is reinforced by a prolonged period of underinvestment of a significant share of existing stock. It is clear that secondary office stock is paralysed by rising vacancy rates and higher-than-expected capital expenditures, with offices requiring the highest CAPEX in an institutional portfolio, at 16% of total rental income. Bringing this stock back to relevance is challenging, with refurbishment strategies largely confined to experienced value-add and opportunistic capital.

Prime office rents in Europe have grown above inflation, 6.5% annually since the scale-up of hybrid working in 2020¹. This headline growth, however, masks a clear divergence, as net effective rents – impacted by increasing incentives – and average rents in secondary stock lag materially behind (Figure 5). In all that, it is also important to recognise that leasing structures vary market by market. The UK stands out for its generally non-indexed and increasingly shorter leases, which elevates operational risk and rental volatility. In contrast, many EU markets benefit from longer, often inflation-linked leases.

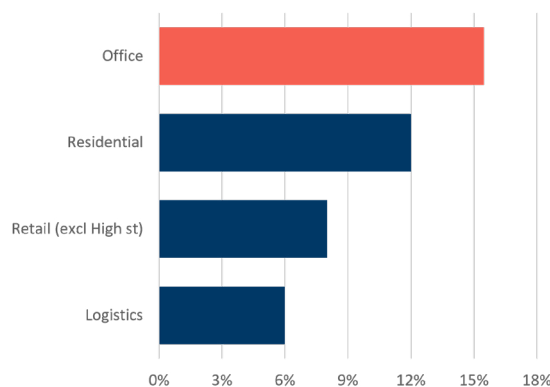
FIGURE 3
NEW SUPPLY SLOWING
Office stock growth 2025-28 vs Office vacancy in Q1'26, in %



Source: PMA; Catella 05/2026

Footnote¹: based on PMA prime office rental aggregate for Europe, Q1 2026

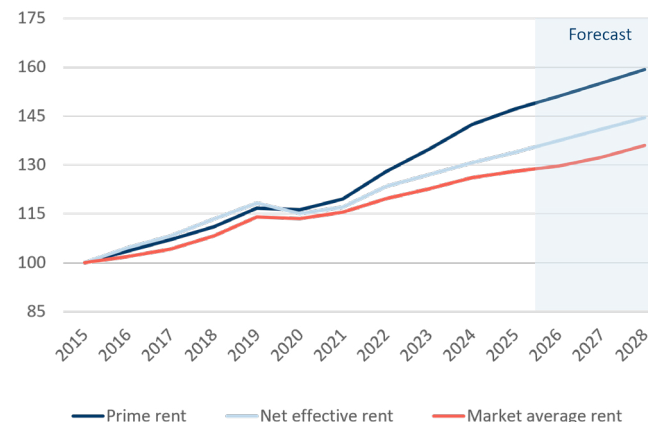
FIGURE 4
STRUCTURALLY HIGHER CAPEX
Invested CAPEX as % of Total Rental Income*; 2019-25



Note: *Based on INREV Asset Level Index; standing investments/operating assets only; in France, Germany and the Netherlands.

Source: INREV; Catella 05/2026

FIGURE 5
OFFICE RENTAL GROWTH DIVERGING
European annual office rental growth; Indexed to 2015



Source: PMA; Catella 05/2026

Relative mispricing creates selective entry-point opportunities

Prime offices are showing early signs of improving liquidity, enabling more reliable price discovery, especially in CBD locations.

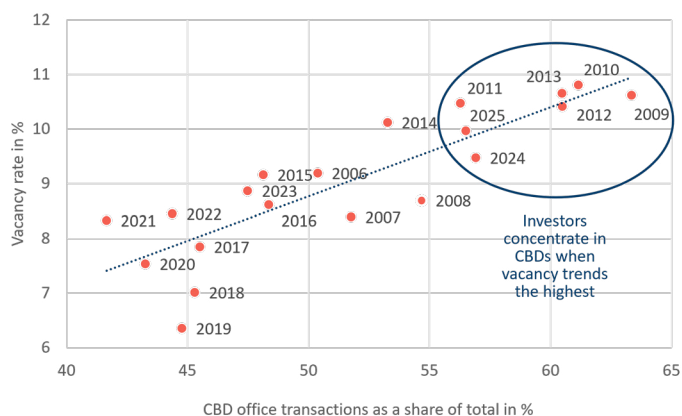
The European office investment market is improving, reflected in a gradual increase in transaction volumes. Over the past 12 months, office investments have increased by 19.5%². Activity, however, remains highly concentrated in CBD submarkets, where vacancy is lowest and income durability strongest – a pattern consistent with previous cycles (Figure 6). Re-entry into the sector is highly disciplined. Core capital will remain particularly cautious around the long-term role of offices, its returns and exit strategies. This is most evident in the UK, where

higher construction and lending costs as well as elevated CAPEX intensity add further risks.

Importantly, investors are moving away from treating offices as a homogeneous asset class. The divergence between prime and secondary stock is becoming increasingly evident in market pricing. On one side, prime office yields have already adjusted to the higher interest rate environment (Figure 7). In fact, further repricing appears limited unless interest rates shift materially in response

to ongoing geopolitical tensions in the Middle East and associated energy market volatility. Markets with tighter fundamentals, such as Copenhagen, Milan and Madrid, have even begun to see yields compressing. By contrast, average transaction yields have continued to move out, currently standing at around 6.9% across Europe. This reflects persistent pressure in secondary assets and suburban markets (Figure 8).

FIGURE 6
OFFICE TRANSACTIONS ACTIVITY VS. VACANCY
CBD office transactions vs. Office vacancy rate; Europe



Source: MSCI RCA, PMA; Catella 05/2026

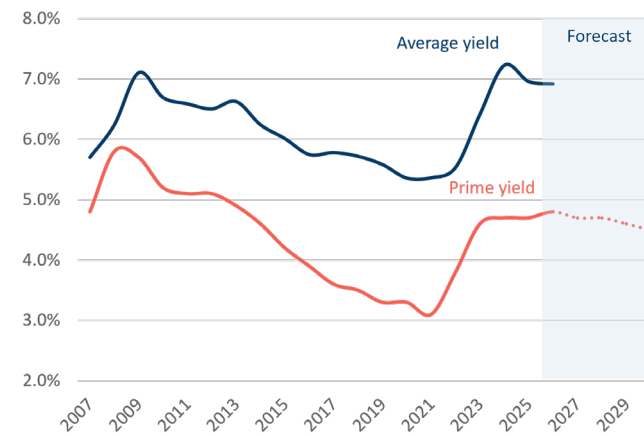
Footnote²: based on MSCI RCA office transactions as of 6 June 2026

FIGURE 7
PRIME OFFICE YIELDS STABILIZING
European prime office net initial yields



Source: MSCI RCA, PMA; Catella 05/2026

FIGURE 8
OFFICE YIELDS DIVERGENCE
European prime net initial yield vs. Average transaction yield



Source: MSCI RCA, PMA; Catella 05/2026



Investment conviction

Offices enter a new phase of highly concentrated demand and rental growth, with a clear focus on CBD locations, modern assets, and income visibility. Against this backdrop, three key conclusions emerge to shape the next stage.

Divergence between prime and secondary

The office market is clearly divided, with demand holding up in central locations and modern assets, while secondary stock faces weaker take-up, higher vacancy and rising CAPEX needs. This is making asset selection and micro-location increasingly important.

Limited supply supports rental growth

New development remains constrained due to higher construction costs and tighter financing, while a large share of existing stock is difficult to upgrade. In CBD locations, this supports stable rental growth, particularly where leases are long and index-linked, shifting return expectations towards income rather than yield compression.

Mispricing creates selective entry points

Offices have been treated as a single sector despite clear differences in underlying fundamentals. Pricing does not fully reflect this divergence, especially in modern CBD assets where liquidity is improving.

It is clear that broad sector allocation to offices is no longer sufficient. Defining what constitutes a fit-for-purpose office remains a key challenge, with success dependent on asset-level conviction, execution, and a granular understanding of local market dynamics. This investment conviction is currently more aligned with value-add and opportunistic strategies.



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