

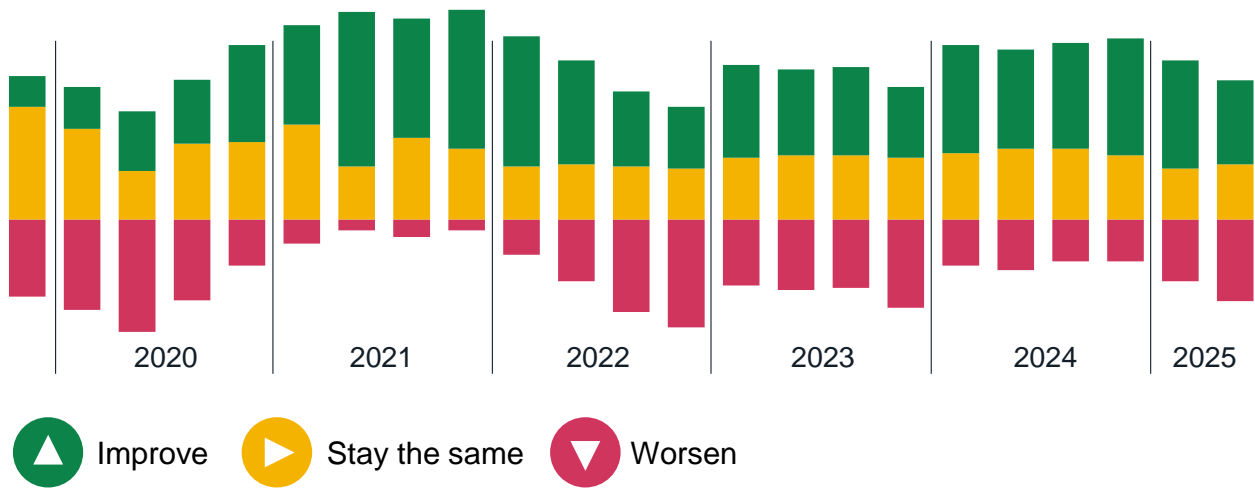
Global real estate outlook

Mid-year update

The first half of 2025 was more disrupted and less predictable than anyone anticipated despite our expectations of heightened uncertainty at the start of the year. Changes to U.S. trade and tariff policy have dominated the global economic and geopolitical narrative, while regulatory, fiscal and tax policies have also shifted rapidly. Additionally, there remain ongoing and potential conflicts around the world. Despite this, real estate markets have proved resilient, albeit with a diverse range of impacts and effects across geographies, markets and asset types.

Market volatility has weighed on business confidence

JLL’s Global Real Estate Sentiment Survey: Over the next six months, how do you think market conditions will evolve? (% of respondents)



Source: JLL Research, 2025

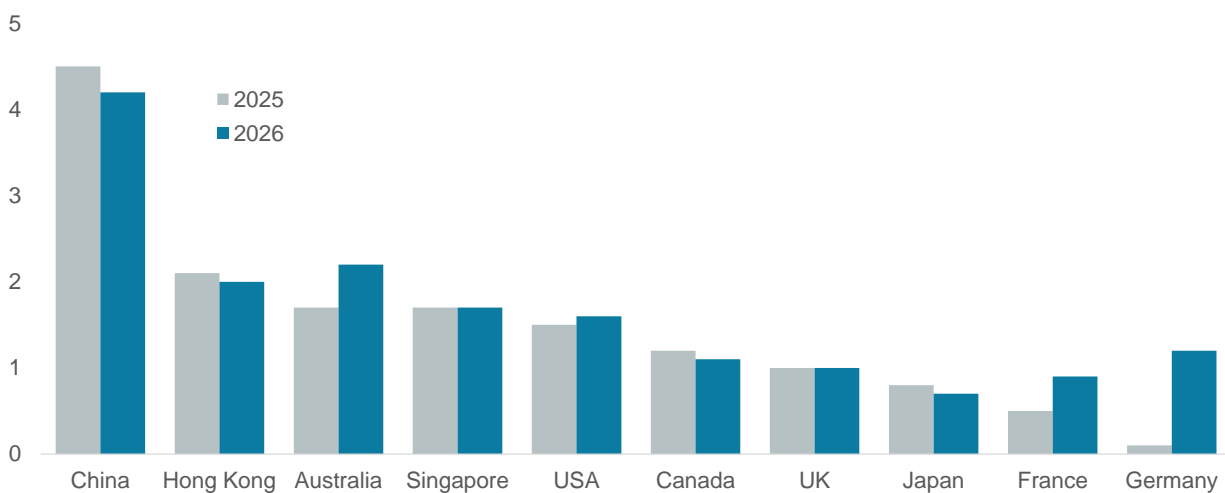
Trade-related uncertainty has affected nearly every country in the world and many sectors of the global economy. With the prospect of reciprocal tariffs, the potential for protracted trade agreement negotiations and the threat of legal challenges to trade policy, the volatility is unlikely to abate any time soon. As a result, we anticipate three primary drivers of change for the real estate sector over the rest of this year:

1. Elevated uncertainty isn't going away any time soon
2. Economic growth will likely be weaker than previously estimated – but not uniformly so
3. High prices in construction will persist and inflation is likely to be more volatile than expected

We continue to believe that there will be plenty of opportunities over the remainder of 2025 for real estate participants who are able to understand the details and nuances at the market, asset and space levels in addition to the secular trends. In a context of elevated uncertainty, it will be increasingly crucial to maintain flexibility, agility and selectivity. To put it another way, those businesses that can avoid becoming too distracted by the volatility and noise, and are able to act with conviction about the medium term, are likely to do well.

Economic growth expectations for 2026 have remained broadly stable with forecasts for some countries revised upward

GDP Growth Forecast 2025 and 2026 (% y-o-y)



Source: Consensus Forecasts, June 2025

Implications for real estate

What do these drivers mean for real estate? First, if we accept that economic and geopolitical uncertainty will likely remain unusually high for the foreseeable future, we must recognize that we can't just wait this out. Real estate actors need to adapt their decision-making in this dynamic and unpredictable environment as lease events will continue to occur, portfolios and space will need to be refreshed to meet changing enterprise needs, and capital will need to be deployed.

We have already seen the impacts of this volatility over the past quarter, with some businesses pausing decisions, slowing down investments, or cancelling plans as they contend with evolving costs and supply chain challenges. But this focus on short-term reactions is not the whole picture. Major logistics and distribution companies are continuing to sign large deals in several markets as their clients lean on them for supply chain support. For example, in the second quarter Panattoni leased 885,000 square feet to GXO Logistics in the UK; LXP Industrial leased 1.1 million square feet to a global logistics provider in Greenville, South Carolina; and BroadRange Logistics preleased 309,000 square feet in Atlanta. Manufacturing requirements are also rising in some locations. Furthermore, many sectors have limited exposure to the current trade and tariff challenges and benefit from other trends. Rising defense spending presents opportunities for expansion in Europe, and in Germany in particular. Living markets are benefiting from an expanding asset base, high investor demand and the demands of a growing and aging urban population. And the supply of data centers can't keep pace with demand.

Second, a less predictable growth and inflation environment means a greater focus on cost optimization. According to our occupier Pulse Survey, 40% of respondents in the U.S. have taken measures to shore up their business position, from reducing hiring to adjusting supply chains and pausing transactions. For APAC and EMEA, the figures are 54% and 57% of respondents respectively. But while some office occupiers are opting to delay space requirements, this is far from universal. We expect global leasing volumes over 2025 to be higher than last year, with robust demand in many CBD markets. For example, KPMG concluded a deal in Frankfurt during H1 to relocate from the airport to the heart of the city, in a megadeal that secured 33,000 square meters of prime office space.

Third, it means an increased desire for flexibility and adaptability. Businesses are looking to be more agile and to de-risk longer-term space and capex decisions. The use of Flex space in the office market, while still small, is on the rise, with growing demand for managed space solutions as well as more interest in flexible leasing solutions across the office and industrial sectors. Companies are, sensibly, paying to keep their future options open. For the industrial market, flexibility is key for organizations more exposed to short-term disruption. To deal with the uncertainty around tariffs, shipments, and supply chains, some companies have been looking for short-term overspill space (such as that provided by 3PLs), some have rerouted shipments to free trade zones or bonded warehouses, and others have taken short-term lease extensions.

From a position of resilience

The real estate sector is well positioned for the challenges this year presents. Property values have adjusted considerably over the last few years, meaning that further valuation risk is low: real estate is well priced and the risk of additional declines is modest in most major markets. Supply-side risk is also limited. At the start of previous periods of heightened uncertainty, the construction pipeline was large. This time the pipeline is declining, at least in North America and EMEA, meaning very little risk of oversupply or excess new space hitting the market, lying empty and pushing down rents. While this lack of supply is a positive for investors, it creates a risk for tenants, who need to get ahead of the market in

portfolio and lease planning given the lack of suitable upcoming space. In APAC, a larger pipeline is being matched by demand for new space in many markets. On the demand side more broadly, risk is neither acute nor concentrated, with most real estate sectors having limited direct risk exposure to trade disruption beyond the indirect economic effects. Some sectors, like Living, should be largely immune, and others which are more impacted, such as logistics, will also see upside and opportunity. Lastly, as debt costs continue to trend downward, this will provide another pillar of support to the real estate sector.

Revisiting this year’s predictions

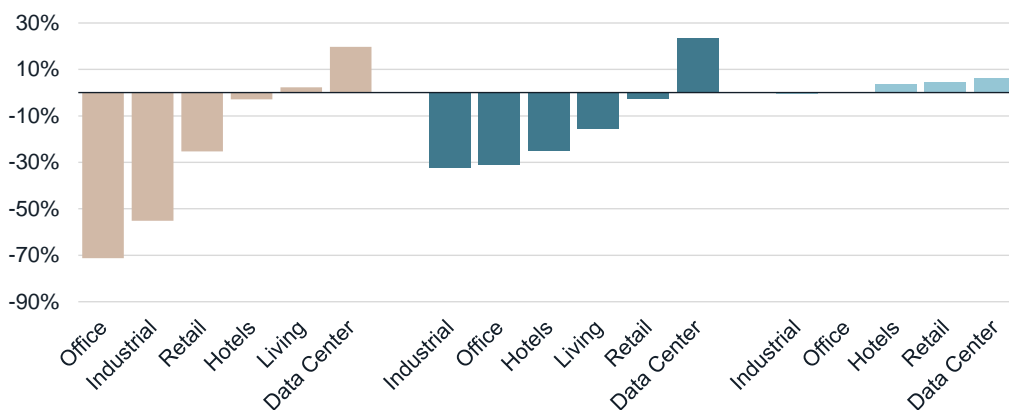
In January we called out five predictions for the year. We think these remain broadly valid, though more nuanced in terms of how they will play out.

1. Supply shortages will worsen for in-demand sectors across property types in 2025

A decline in new supply will impact almost all commercial real estate sectors in North America and Europe. The supply pipeline has, if anything, hollowed out further as the year has progressed due to several factors. First, trade-related and economic uncertainty has caused some businesses to pause development decisions or cut capital expenditure. Second, construction costs have increased and the inflation risk has risen, challenging the affordability of marginal schemes. Third, in the U.S. at least, debt costs have not fallen as quickly as was expected at the start of the year, meaning a higher-than-planned cost of leverage.

New supply will decline across most property types

2025 forecast completions vs 2021-2024 peak

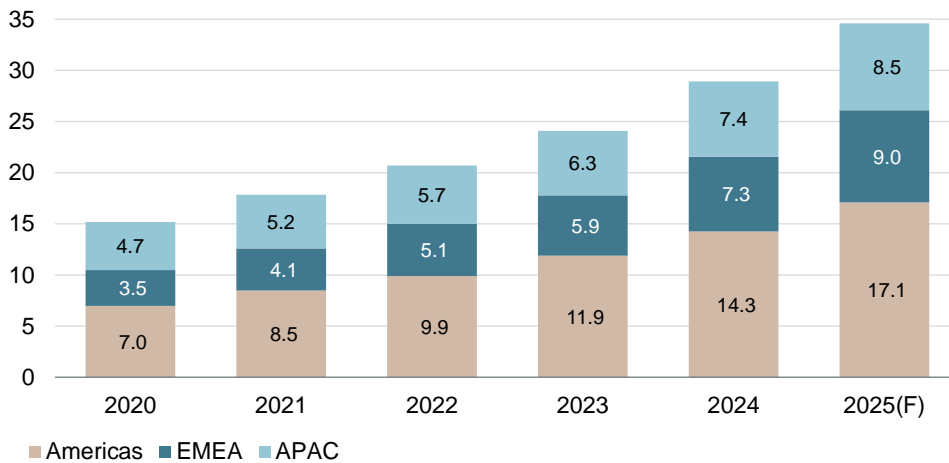


Source: JLL Research, 2024. North America = U.S., Canada; Retail = under construction vs previous under construction peak; Europe Living = Germany, UK Build-to-Rent; U.S. Living = Multihousing; Europe / Asia Pacific Retail = Shopping Centers; U.S. Retail = total retail

Data centers continue to buck this trend, with critical supply shortages in many markets around the world as extremely high demand exceeds even robust supply growth. H1 saw considerable investment: Blackstone’s £10 billion mega data center in North-East England has been given the green light by UK planners with construction expected to begin later this year. The Universities Superannuation Scheme, the UK’s largest pension fund, has committed to investing up to £250 million in the scheme. In the United States, JLL Capital Markets has arranged more than \$1.2 billion in construction financing to support The BlackChamber Group’s continued expansion of its data center in Northern Virginia, the world’s largest data center market. The funds will drive the development of four hyperscale powered shell campuses, collectively designed to deliver over 740 megawatts of capacity.

Data center inventory will expand, but we expect strong competition as demand continues to outstrip supply

Global colocation facilities (GW)



Source: JLL Research 2024; Note: Americas = 35 markets; EMEA = 31 markets; APAC = 12 markets

2. For investors, the early-mover advantage may peak in 2025

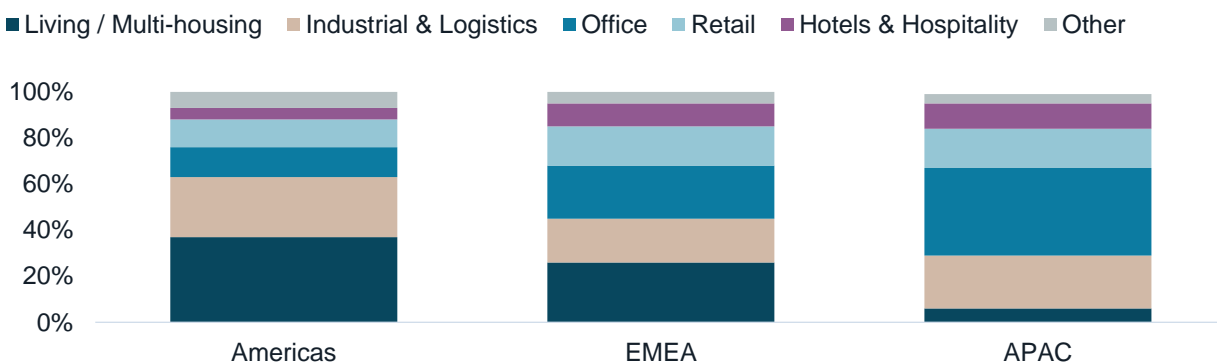
According to our research, commercial real estate investments have a long track record of outperforming on returns and adding stability and diversification to overall investment portfolios. Some of the highest five-year returns over the last cycle were achieved with investments transacted in the immediate aftermath of the Global Financial Crisis.

At the start of this year, we said that investors deploying capital in 2025 were likely to see an early-mover advantage in terms of returns that will diminish as the cycles matures. The cycle is now not likely to mature quite as quickly as we anticipated, meaning the window for maximum returns is likely to be open for longer than we previously expected.

Increased uncertainty has given investors reasons to pause, but not indefinitely: capital will need to be deployed and opportunities will continue to arise. The debt backdrop will become increasingly supportive of leverage. Policy interest rates have been cut in Europe and Australia and although the U.S. Federal Reserve has paused in its easing of policy, the next few moves in rates are still forecast to be downward. Furthermore, credit markets remain open, with banks competing with debt funds, which is compressing spreads at the same time that lending standards continue to be loosened.

We expect a more drawn-out upswing, with the best time to invest being this year and next. The Tokyo office market has benefited early, with foreign investors taking advantage of low borrowing costs, strong rental growth and minimal vacancy rates. According to our survey, real estate investment in Japan exceeded 2 trillion yen for the first time in Q1 2025, a 23% year-on-year jump. Some markets are already heating up.

Real estate investment over the past 12 months, by sector (%)



Source: JLL Research 2025, data as at Q1 2025

3. Growing corporate confidence in portfolio requirements will accelerate decision-making

The trend toward increased office presence is being buffeted by a desire for increased cost control. Firms mandating their staff to be in the office more days per week are having to weigh this against space budgets and, in some cases, reluctance to commit to capex if this can be postponed.

According to a recent survey, 34% of JLL's corporate occupier clients in EMEA have put transactions on hold and 23% have delayed signing contracts. However, in Asia, only 20% have put transactions on hold. And in the U.S., confidence remains more buoyant; only 6% of clients have put transactions on hold. The larger U.S. domestic market and positive policy changes offsetting trade-related uncertainty has left many U.S. corporates well-placed to stick to their original plans for the year.

Elsewhere in the world, the short-term focus on portfolio rightsizing and transforming spaces into fit-for-purpose workspaces hasn't gone away, but, for now at least, increased geopolitical and business uncertainty has placed a premium on agility. Some firms are looking for flexibility and adaptability and are willing to pay to keep their options open.

4. Tackling cost pressures and energy security will drive decarbonization efforts

In January we highlighted the growing desire for decarbonization investments to pay for themselves in lower operational costs and increased energy security. The concept of decarbonization is transforming from solely a sustainability consideration to a critical component of operational and risk management.

As spending and cost prioritization has moved up the agenda this year, investments that make sense across multiple criteria will be the highest priority and most important to put into practice. As we highlighted at the start of the year, organizations' 2025 priority should be comprehensive energy audits and feasibility studies to identify the retrofit opportunities with the highest potential returns and then put these into practice. They will serve both the CFO's objective of cutting operating costs and the Board's objective of achieving its climate goals on the road to net zero.

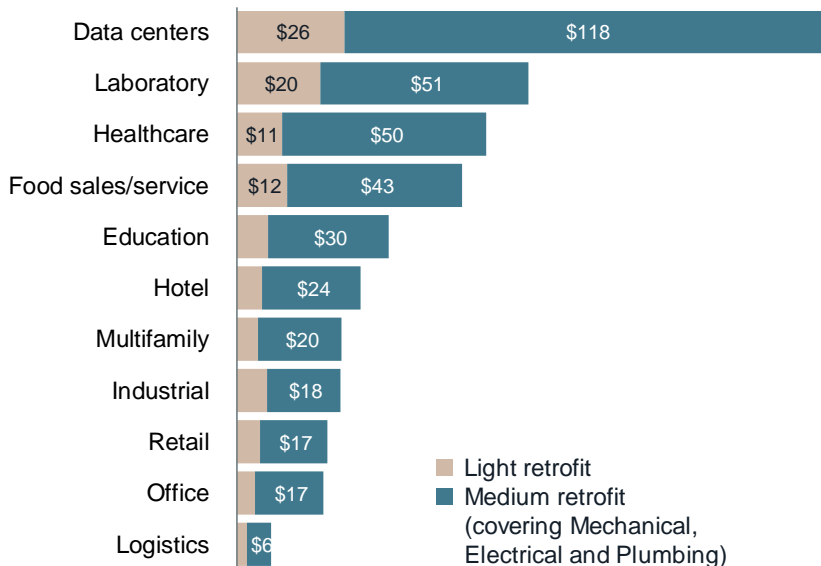
5. Multiple converging factors will encourage action to mitigate risk of obsolescence

Our final prediction at the start of this year was about the scale of the obsolescence risk and the investment required to mitigate it. Given the 322 to 425 million square meters of existing office space across 66 key markets that requires substantial investment, mitigating the obsolescence risk will be a multi-year, if not multi-decade, endeavor.

The near-term impact of elevated uncertainty and a less predictable cost and revenue outlook is ambiguous. Higher fit-out and build costs may delay moves from older space, but the increased drive for operational cost savings could mean older space is given up entirely. In practice, we expect the share of lease renewals will continue to increase given rising costs and limited supply in North America and EMEA. But with more limited new-build construction in these areas, refurbishment and repositioning of well-located space will be increasingly important in filling the supply gap. Technology is also emerging as a key determinant of a building’s attractiveness as companies explore how to integrate AI into building management and portfolio planning.

Light to medium retrofits can unlock between 10% to 40% in energy savings

Energy savings potential (US\$/sq ft)



Source: JLL Research 2024. *Industrial includes manufacturing; Logistics is warehouse and distribution. Based on an analysis of 46,000 building in 14 cities globally: Amsterdam, Paris, Rotterdam, Sydney, Melbourne, Singapore, Boston, Chicago, Denver, New York, Los Angeles, San Francisco, Seattle and Washington, D.C.

Risk, resilience and agility will be key themes for H2 2025

The three themes we highlighted at the start of the year were Recovery, Risk and Resilience. For H2, we would slightly update these to Risk, Resilience and Agility.

We believe the rest of the year will continue to be characterized by geopolitical and economic risk. Real estate participants need to adapt their decision-making in this environment. They are doing so from a starting position of resilience: valuation risk is low, supply-side risk is low, demand-side risk is limited, and credit costs are falling. A focus on flexibility, agility and optionality will see us through to the recovery phase.

Performance will vary across geographies and property types, and in some cases differ at the sub-market and sub-sector level. Strong fundamentals and stable-to-improving conditions for the best spaces and locations across many major markets will provide considerable opportunities for investors and developers (see below for examples of markets and sectors where we expect to see an improvement in fundamentals in 2025). These same conditions may require more proactive planning by corporate occupiers, but we expect the flight-to-quality and portfolio optimization trends to continue. Those who understand the highly nuanced market dynamics and are able to leverage first-mover advantage will be able to reap the rewards and create value in the next real estate cycle.

Major markets with expected improvement in fundamentals by sector during 2025

We define ‘Improving’ as markets seeing strengthening fundamentals: rising occupier demand; supply or vacancy stable to declining; and increasing rents or income.



Source: JLL Research, 2025 | Note: Not an exhaustive list, markets are shown by region in alphabetical order. This is a broad outlook at the sector level; market dynamics are highly nuanced and will vary at the submarket and subsector level; outlook for specific geographies may change as the year progresses.

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Research at JLL

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