GLOBAL CAPITAL MARKETS

EUROPE | Q2 2026

RESEARCH

GLOBAL SUMMARY

CONFLICTING OPPORTUNITIES

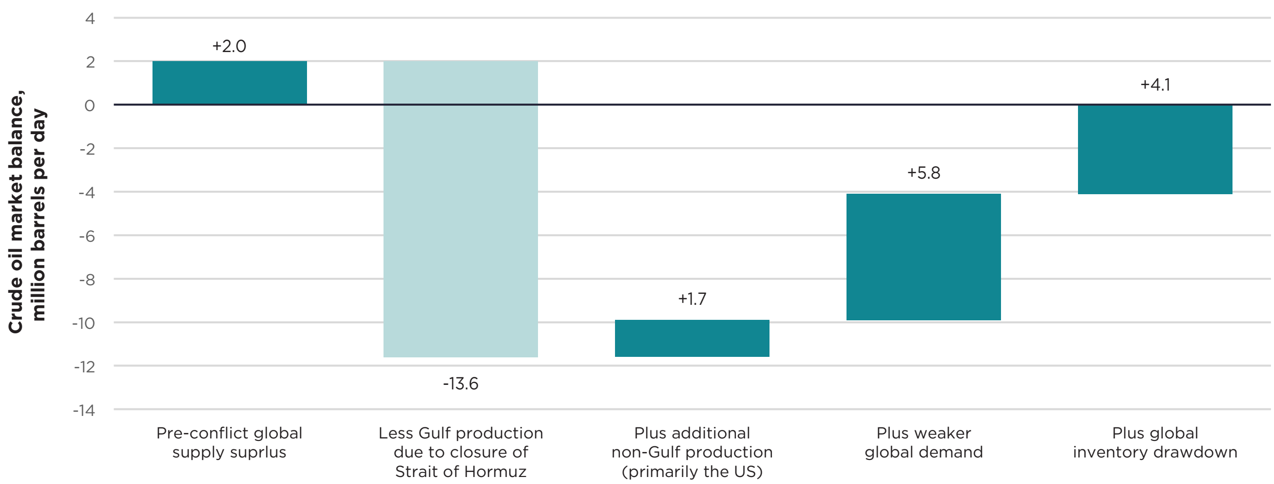
OLIVER SALMON
Director, World Research

As the year unfolds, conflict is becoming a defining global theme. Whether in trade, technology or geopolitics, competition and confrontation are increasingly shaping the economic outlook.

Beginning in Iran, hostilities resumed in July following a brief respite, sending energy prices sharply higher in the process. The global economy has so far proven resilient to what Fatih Birol, head of the International Energy Agency, described as the "biggest energy security threat in history". This resilience reflects weaker energy demand, particularly across Asia Pacific, as well as a substantial drawdown in global inventories, helping to keep the market broadly balanced.

However, reserves have fallen sharply, with inventories held by OECD nations reaching their lowest level since 1990, even before the recent US-Iran framework agreement. This places renewed focus on the duration of the conflict, as the oil market's ability to absorb disruption will diminish over time. The likely result is greater price volatility (even if we get a new deal), with implications extending well beyond energy markets through inflation, consumer and business sentiment, and the fiscal and monetary policy outlook.

GLOBAL OIL MARKET RESPONSE TO IRAN CONFLICT

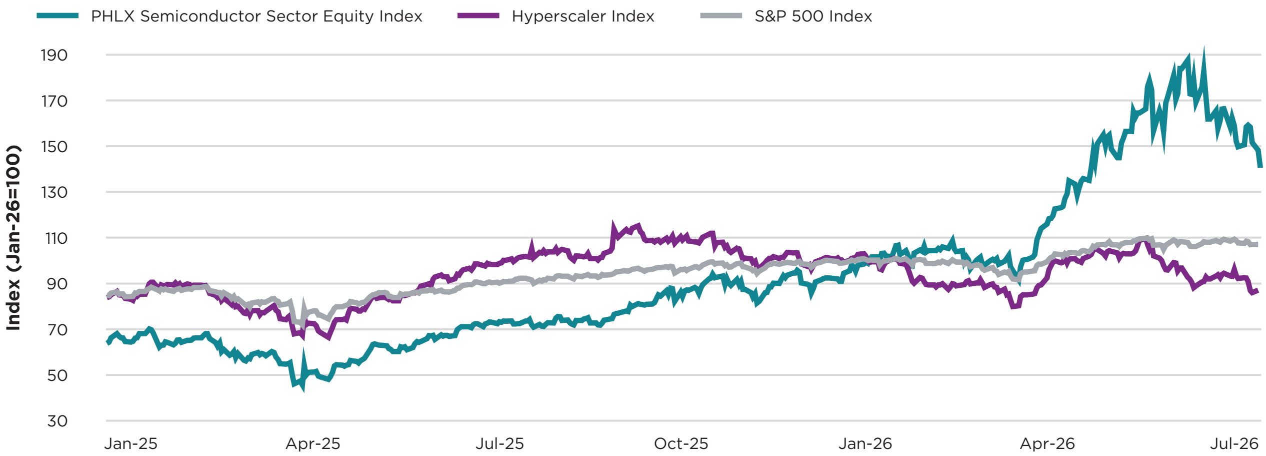


Source: Savills research using IMF. Based on comparison of market conditions in March-May 2026 period vs. January-February 2026.

While the conflict in Iran represents a clear headwind to the global economy, the risks surrounding AI are more balanced. AI remains firmly in a 'build-out' phase, with global hyperscalers competing aggressively for first-mover advantage. This race for technological leadership has already become a significant demand-side tailwind for global growth. The US sits at the centre of this trend, but China is not far behind, while other economies—particularly across East Asia—are benefitting through supply-chain exposure to a seemingly insatiable demand for semiconductors. The gains, however, are unevenly distributed, with other locations currently less exposed to the AI ecosystem and therefore capturing fewer benefits.

At the same time, the AI boom is creating growing concentration risks. Economic growth, corporate investment and equity market performance are becoming increasingly dependent on a small group of technology companies, while AI-related sectors continue to dominate stock market returns. The sustainability of this trend ultimately depends on whether AI can deliver meaningful productivity gains and whether firms can generate sufficient revenues to justify unprecedented levels of investment. While adoption is occurring faster than in previous technological revolutions, evidence of widespread productivity gains remains limited. Any disappointment in productivity, earnings or growth expectations could prompt a reassessment of valuations, reduce investment and tighten financial conditions, particularly as higher interest rates raise the cost of capital.

US EQUITY MARKETS



Source: Savills research using Macrobond. 'Hyperscaler Index' based on equally-weighted index of Microsoft, Amazon, Alphabet, Meta and Oracle.

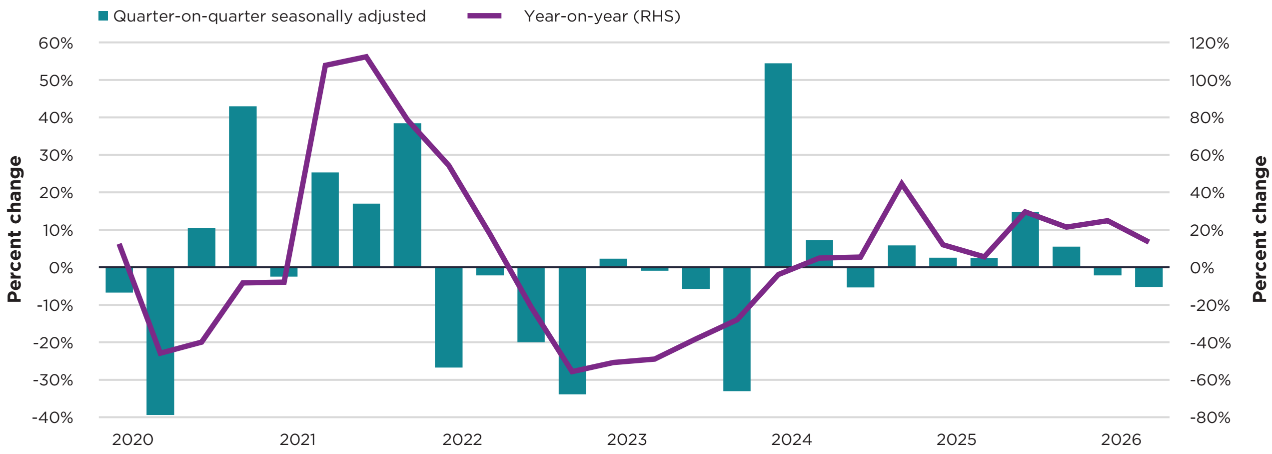
Finally, trade wars are back in the spotlight. US President Donald Trump has announced a new round of broad-based tariffs, using legislation originally designed to combat the use of forced labour. Levies of 10–12.5% have been applied to most US trading partners, replacing temporary rates that were due to expire after 150 days. The move represents the latest legal manoeuvre by the administration following the Supreme Court's decision to strike down the Liberation Day tariffs over the misuse of emergency powers earlier this year.

Tariffs have done little to reduce the US trade deficit or revive domestic manufacturing. However, they have become an important source of government revenue, helping to offset some of the fiscal costs associated with the One Big Beautiful Bill. As a result, while the latest measures do not materially alter the status quo, they signal a continued willingness by the administration to maintain—and potentially increase—tariff rates. Meanwhile, Europe is beginning to face a 'China Shock 2.0', as a wave of competitively priced Chinese exports puts pressure on domestic manufacturers. If met with additional trade barriers, this could become the catalyst for a much broader and more entrenched global trade war.

Against this backdrop, global real estate capital markets continue to display notable resilience. Sequential, seasonally adjusted investment growth fell into negative territory in early 2026, reflecting a deterioration in sentiment linked to the conflict in Iran. Yet the disruption has been relatively modest given the scale of the potential economic spillovers, and the broader trend remains positive. Global investment of approximately US$250bn in Q2 was 13% higher y/y. In addition, pending deals data—transactions under contract but not yet completed—points to an active pipeline entering the second half of the year, supporting our forecast for a 16% increase in global investment activity in the full year 2026.

Market activity is being supported by larger single-asset transactions and increased portfolio and M&A activity. This is somewhat counterintuitive in an environment characterised by elevated uncertainty and volatility, but it reflects a growing level of conviction in both market pricing and underlying fundamentals. Deal execution periods have lengthened, yet transactions are still progressing, while substantial pools of capital remain available despite a challenging fundraising environment. More fundamentally, the rebasing in activity that followed the rate-driven downturn of 2022–23 has left behind a more committed investor base that is willing and able to transact through the cycle.

GLOBAL REAL ESTATE INVESTMENT



Source: Savills research using MSCI RCA and Macrobond. Excludes development sites. Based on fixed exchange rates.

Ultimately, current macroeconomic conditions do not support indiscriminate risk-taking. Global growth remains positive, but not strong enough to drive a broad-based acceleration in leasing activity. Inflation risks remain skewed to the upside, keeping interest rates elevated, while geopolitical tensions are likely to remain a persistent source of volatility. The same is true of the financial risks associated with the AI build-out.

The key takeaway is that this is not a market devoid of opportunity, but one that places a greater premium on selectivity, conviction and a clear understanding of fundamentals as the anchor for income growth.

The fundamentals manifest in very different ways across sectors. Within the 'old economy' sectors, scarcity remains a major driver of opportunity, with location increasingly determining asset quality. Development activity across many retail and office markets has fallen sharply in recent years, creating pockets of value where occupiers compete aggressively for the best space.

In the 'new economy' sectors, by contrast, investors are focused more heavily on demand-side dynamics, supported by conviction in long-term structural growth drivers, whether demographic change or the rapid proliferation of new technologies. Investors are also widening their geographic search for value, meaning that while markets are becoming more selective, they are simultaneously broadening in scope.

Amid the noise, the foundations for the next phase of the cycle are being laid, leaving the market on a much healthier footing in the years ahead.

MARKET VIEW

RASHEED HASSAN
Managing Director, Global Capital Markets
shares his view on the market

The overriding theme for this last quarter is one of slight surprise. Since Covid-19, we've spoken often about the resilience of markets. However, that doesn't mean we haven't had 'buyer strikes' and periods of fast moving price falls, particularly after the Russian invasion of Ukraine and the resultant inflation shock and interest rate hikes.

However, overall, Q2 surprised on the upside. The implications of the situation in Iran are not local and the conflict has proven not to be the short, sharp process we were hoping for. Just before the war, oil was trading at c.$70 a barrel. It peaked at over $125, and although by the end of Q2 it was basically back down to where we started (note it has had some significant swings since), the conflict is not over and the World can see there is no simple and lasting resolution to pursue.

Beyond the oil price, the S&P500 was up to 7,500, up over c.7% from pre-war levels and almost 20% from its March low, in the early part of the conflict. Other markets have not had quite the same performance, but globally equity markets have shown strong recovery.

For real estate markets, the key benchmark is not the oil price, nor the equity indices. While these influence sentiment, the relevant risk free rate for government bonds is the measure against which yields/cap rates are compared. The most global metric is, of course, the 10 year US treasury yield. As at the end of Q2 this was up broadly 25bps on the start of the year. Given the macro situation, this doesn't feel dramatic.

When we look at benchmark real estate yields across the key markets and sectors globally, we haven't seen a uniform outward adjustment. Yields have broadly remained flat. I put this down to two things; the first is underlying rental growth/market dynamics, and the second is the low availability of assets to acquire.

To the first point, despite the resilience we speak of, the latest black swan event has knocked confidence again and reconfirmed that we live in a world of semi-permacrisis. The confidence knock affects the courage to develop new assets. Rising risk free rates and the prospect of interest rate rises, or at the very least the deferral of reductions, means aggressive exit underwriting is hard. The result is fewer development starts and those that do, need higher rents to be viable. Fewer starts means less stock availability, which means rising rents for existing assets too. Rising rents means investors can counter any increase in financing costs and exit yields in their underwriting.

The second point has been a feature of the market since 2022. Owners have been waiting for a 'better day' to sell, hoping for interest rates to fall and yields to follow.

As the wait continues, rents have been rising, which is helping asset values, as well as the justification to keep holding. The reduced flow of assets means that when something does become available it gets a greater amount of attention than it might otherwise get in a more liquid market.

Those investors that have equity to deploy and a conviction that now is the right time to enter, therefore have limited choices. Additionally, with a lack of new development, there are simply fewer examples of the very best brand new assets being created. Therefore, if one is released to the market, buyers that want the best don't have the luxury of waiting for another one to come along. This puts some of the power back with the vendor. All of this talks to price and is helping markets to withstand the broader turbulence.

This quarter has shown us that investors are trying to find ways to bid through the today and underwrite a better tomorrow, and we are seeing the effects of this in the numbers. For some, returning to my first point, this might be a surprise.

A CONFIDENCE SHOCK DELAYS THE RECOVERY

LYDIA BRISSY
Director, European Research

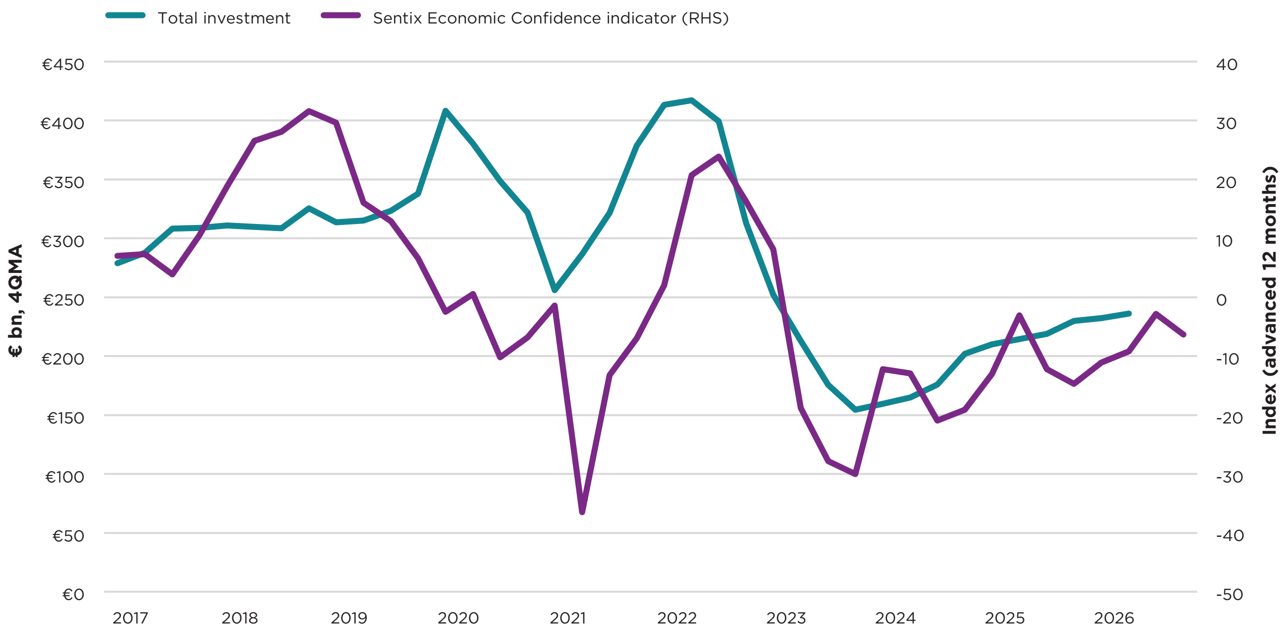
European real estate investment entered Q2 2026 with improving momentum, but market conditions became more fragmented as macroeconomic and geopolitical risks reasserted themselves. The escalation of conflict involving the US, Israel and Iran disrupted this improving backdrop, pushing energy prices higher, reviving inflation concerns and increasing volatility in government bond yields. For investors already assessing the pace of monetary easing and the sustainability of pricing adjustments, this created a more cautious deployment environment.

The ECB's June baseline forecast projected euro area inflation of 3.0% in 2026 and underlying core inflation of 2.5%. As a consequence, the ECB increased its policy rate by 25 basis points in June, bringing the deposit facility rate to 2.25%.

This partly reversed the monetary easing delivered in 2025 and challenged the earlier assumption that financing costs would continue to decline steadily through 2026. At its latest meeting, the central bank conveyed a hawkish message despite leaving the policy rate unchanged, suggesting a further rate increase is possible should energy prices remain elevated. Market pricing is aligned with this view.

In this context, the INREV Consensus Indicator fell from 54.7 in March to 41.0 in June, its lowest reading since the survey began in March 2023. All five sub-indicators weakened, with economic conditions at 24.0, new development at 29.3 and investment liquidity at 36.1, all well below the neutral threshold of 50.

EUROPEAN REAL ESTATE INVESTMENT AND SENTIMENT

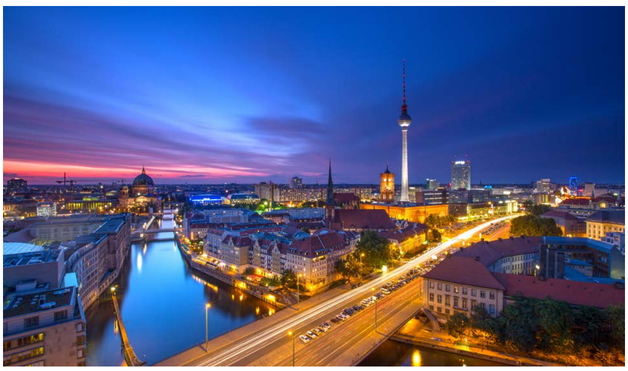


Source: Savills research using Macrobond

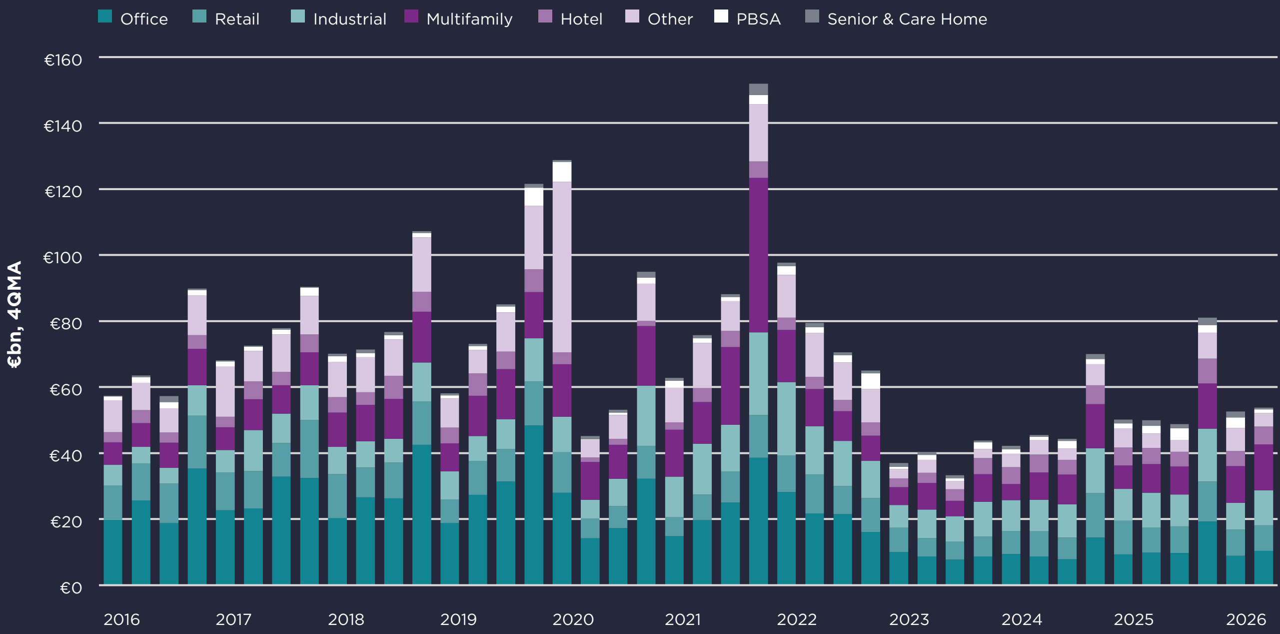
Against this backdrop, European investment activity looked subdued at the aggregate level but more resilient beneath the headline figures. Investors have not withdrawn from the asset class; they are concentrating on assets that combine secure income, transparent pricing and credible long-term demand. The recovery is therefore progressing in stages, led by conviction rather than broad-based risk appetite.

European transaction activity reached €54bn in Q2 2026, up 7.7% y/y. Given that Q2 is traditionally one of the most closely watched quarters for investment market momentum, as it generally sets the tone for the year, this represented a modest improvement rather than a decisive rebound. The recovery remained slower than initially expected, reflecting the combined impact of weaker sentiment, higher bond yields and delayed decision-making.

First-half investment totalled €106bn, 6.3% higher year on year. This pointed to a market that was broadly stable rather than rapidly rebounding. In practice, the European total concealed a more differentiated picture, with weakness concentrated in several major markets while others recorded strong growth from low bases, large portfolio transactions or improving investor appetite.



EUROPEAN REAL ESTATE INVESTMENT



Source: Savills research

Eleven of the nineteen European markets monitored recorded a year-on-year decline in the first half, confirming that the recovery has not yet broadened across the region. This divergence reinforces the importance of country-specific fundamentals and shows that capital is gravitating towards markets where pricing, economic prospects and occupational dynamics remain supportive.

The UK accounted for the largest share of the decline in activity. Investment fell by 16% y/y to £21bn (€24bn) in H1 2026, reducing European turnover by almost €5bn. Elsewhere, percentage falls were sharper but had a more limited impact on aggregate investment. Belgium and the Czech Republic recorded declines of 52% and 47%, respectively, following exceptionally strong comparable periods in 2025, while Denmark registered a 26% reduction in activity.

By contrast, several markets continued to perform strongly. Finland, Poland and Sweden recorded year-on-year growth of 100%, 93% and 80%, respectively. Spain remained one of Europe's strongest performers, with activity rising by 60% to €12.5bn, combining both scale and momentum. Germany and France recorded only modest growth of 3% y/y, leaving core markets as a drag on the broader recovery.

In these markets, activity remained 21% to 36% below their five-year averages, compared with a 7% gap for Europe overall.

Cross-border capital remained subdued by historical standards, accounting for approximately 45% of total European investment in H1 2026. Long-haul investors from the US, Canada and Singapore reduced activity as uncertainty around inflation, financing costs and global political risk lengthened decision-making. US investors nevertheless remained the largest source of cross-border capital into Europe.

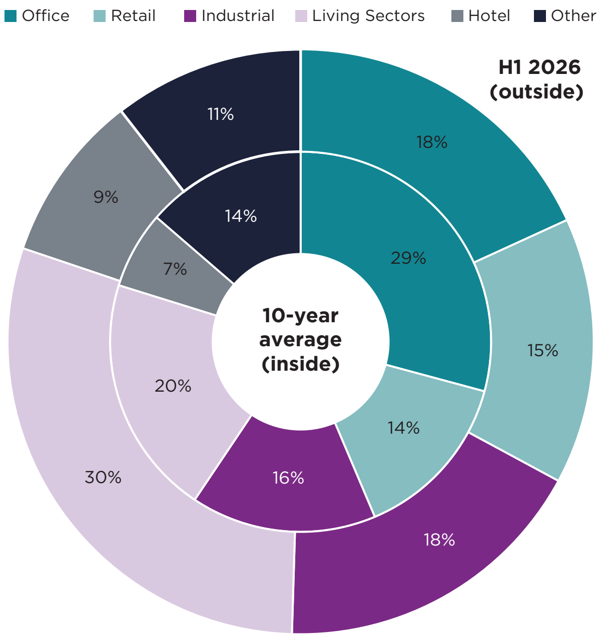
This caution reflects both cyclical and structural factors. Europe's subdued economic outlook, particularly in Germany and other mature economies, contrasts with technology- and infrastructure-led expansion in the US and stronger structural growth prospects in parts of Asia Pacific. The region's high-value manufacturing sector is steadily losing global competitiveness to China, with the intensifying challenge extending well beyond low-cost goods into the advanced industries that underpin Europe's industrial and export base.

Europe's investment case has therefore become more income defensive than growth-led. The region also remains more directly exposed to the economic consequences of the war in Ukraine and renewed instability in the Middle East, particularly through energy prices, inflation and industrial competitiveness. Together, these risks are encouraging some investors to postpone decisions until the outlook for rates, operating costs and tenant demand becomes clearer.

Within Europe, however, capital continued to move across borders. Dutch and French investors remained particularly active abroad, with transaction levels above their respective five-year averages.

Asset allocation trends continued to favour sectors with resilient occupational fundamentals. Living sectors, including multifamily, purpose-built student accommodation, care homes and senior living, accounted for 29% of total European investment during H1 2026. Strong rental growth prospects, constrained supply and stable income characteristics continued to underpin demand, supported by several large portfolio sales in Spain, Finland, France and Poland.

EUROPEAN ASSET ALLOCATION PATTERNS



Source: Savills research

Retail investment declined by 12% y/y after a strong first half in 2025, but investor appetite remained focused on prime flagship assets. Notable transactions included the €1.2bn sale of an 80% interest in Palazzo del Monte at Via Monte Napoleone in Milan, the €402m sale of 29-33 Avenue des Champs-Élysées in Paris, the €331m sale of Merry Hill shopping centre in Birmingham and the €329m sale of Islazul shopping centre in Madrid. These deals indicate that high-quality retail continues to attract capital where asset relevance, location quality and income durability are clear.

Logistics investment also moderated, with European activity declining by 7% y/y in H1 2026, despite one of the year's largest transactions: the €2.3bn acquisition of Proudreed's French logistics platform. Long-term drivers such as supply chain modernisation and e-commerce remain supportive, but the sector is now subject to greater pricing scrutiny after several years of exceptionally strong performance. The share of other asset classes remained broadly unchanged.

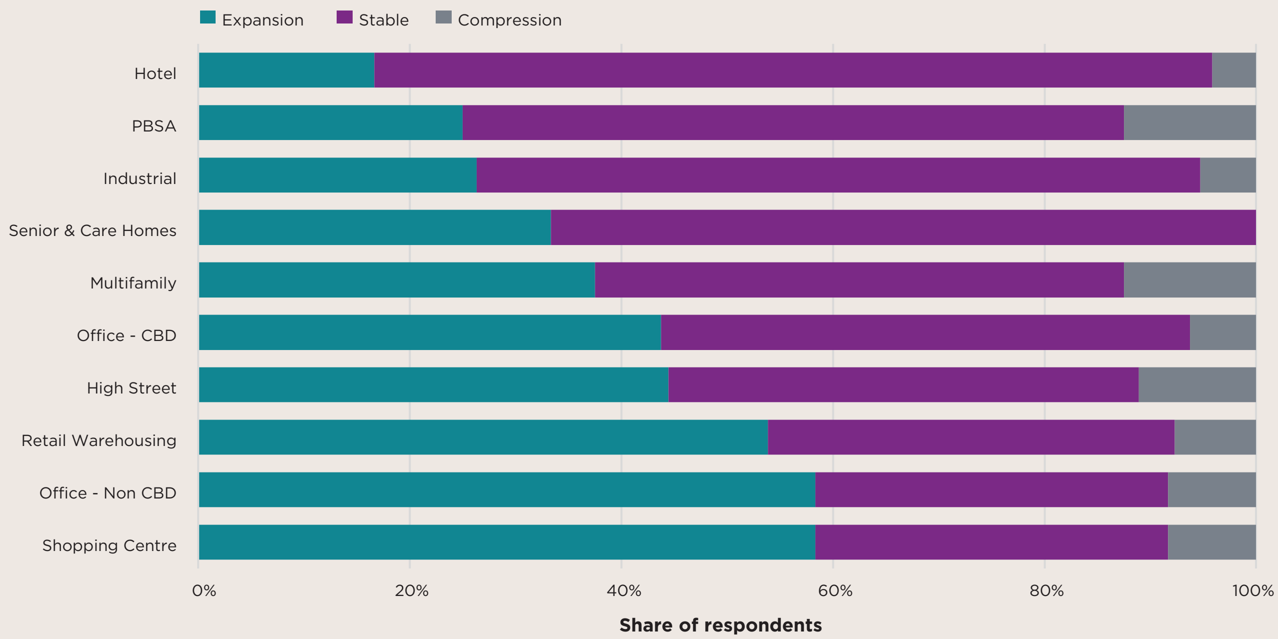
Large transactions continued to play an important role in market activity, showing that liquidity remains available for exceptional assets. Alongside Palazzo del Monte, notable Q2 transactions included Barclays' £750m (€866m) acquisition of One Churchill Place in London for owner occupation and the €430m acquisition of the Pullman Paris Tour Eiffel by a joint venture between Batipart, Caisse des Dépôts and Société Générale. These deals reinforce the continued depth of capital for trophy assets where pricing, quality and long-term income characteristics remain compelling.

The rise in government bond yields has slowed the expected improvement in real estate pricing. Although debt remains readily available for high-quality assets, lenders and investors are placing greater emphasis on income security, asset quality and entry pricing. The best assets can still trade, but secondary assets remain constrained by an incomplete repricing process and a persistent bid-ask gap.

Prime yield movement was limited during the quarter, with changes of less than 5 basis points across most sectors. On an annual basis, however, there were signs of selective compression in structurally supported segments: prime senior living yields moved in by 13 basis points, care homes by 11 basis points and retail warehouses by 10 basis points. By contrast, non-CBD offices moved out by 18 basis points, underlining the continued bifurcation between assets with resilient income prospects and those facing weaker demand.

Over the next 12 months, prime yields are expected to remain mostly stable with some expansion expected in both the retail and office segments and some isolated compression likely for exceptional assets. This points to a market where performance will be driven less by yield movement and more by income growth, active asset management and the ability to identify mispriced opportunities.

EUROPEAN 12-MONTH PRIME YIELD EXPECTATIONS



Source: Savills research

Fundamentally, Europe remains on investors' radar, but the threshold for deployment has risen. Capital is most likely to target markets where repricing has created a clearer entry point and where long-term demand is supported by structural growth, constrained supply and durable income.

Some transactions have been delayed rather than cancelled, leaving scope for activity to improve in the second half of the year if geopolitical conditions remain contained. Against this more selective backdrop, European investment is expected to reach €251bn in 2026 (+11% y/y) and €297bn in 2027 (+17 y/y).

PRIME EUROPEAN YIELDS, Q2 2026 (AS AT END OF JUNE)

Sector	City	Prime net initial yield	Outlook for yields, next 12 months	Typical LTV	Total cost of debt	Cash-on-cash yield	Risk premium
Logistics	Cologne	4.50%	No change	55%	4.0%	5.1%	1.6%
Logistics	Île-de-France	4.80%	No change	55%	4.0%	5.8%	1.2%
Logistics	Amsterdam	5.00%	Up	55%	4.0%	6.2%	2.0%
Logistics	Madrid	5.05%	No change	55%	4.4%	5.9%	1.8%
Logistics	London	5.25%	No change	60%	5.4%	5.1%	0.4%
Multifamily	Berlin	3.60%	Up	55%	4.0%	3.1%	0.7%
Multifamily	Copenhagen	3.75%	No change	63%	4.1%	3.2%	1.0%
Multifamily	Madrid	3.90%	No change	55%	4.4%	3.3%	0.6%
Multifamily	Paris	4.25%	No change	55%	4.0%	4.6%	0.6%
Multifamily	Stockholm	4.25%	Up	60%	3.5%	5.4%	1.6%
Multifamily	London	4.75%	No change	60%	5.4%	3.8%	-0.1%
Student	Paris	4.50%	No change	55%	4.0%	5.1%	0.9%
Student	Berlin	4.50%	No change	55%	4.0%	5.1%	1.6%
Student	Madrid	4.50%	No change	55%	4.4%	4.6%	1.2%
Student	London	4.75%	No change	60%	5.4%	3.8%	-0.1%
Office	Paris	4.00%	No change	55%	4.0%	4.0%	0.4%
Office	Milan	4.00%	No change	55%	4.6%	3.3%	0.4%
Office	Madrid	4.40%	No change	55%	4.4%	4.4%	1.1%
Office	Berlin	4.50%	Up	55%	4.0%	5.1%	1.6%
Office	Frankfurt	4.50%	Up	55%	4.0%	5.1%	1.6%
Office	London (City)	5.25%	No change	60%	5.4%	5.1%	0.4%

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.

PALAZZO DEL MONTE, MILAN, ITALY

Sector: Retail

Tenant: Saint Laurent, Prada, and Café Cova

Lease length (WAULT): N/A

Area: 11,800 sqm (127,000 sqft)

Price/NIY:
€729m (US$1.3bn) / Undisclosed

Vendor: Kering

Vendor nationality: France

Purchaser: Al Mrqab Projects Group

Purchaser nationality: Qatar

Other comments:
The transaction values the prime luxury retail asset, one of the largest properties on Via Monte Napoleone, at nearly €1.5bn, underscoring continued investor demand for trophy assets in Europe's leading luxury destinations. Kering will receive €729m at closing and a further €432m in five years' time, while retaining a 20% stake in the newly incorporated company holding the asset.

FIDERE SOCIMI PORTFOLIO, SPAIN

Fidere

Sector: Multifamily

Tenant: N/A

Lease length (WAULT): N/A

Area: 5,000 units

Price/NIY:
€1.2bn (US$1.4bn) / Undisclosed

Vendor: Blackstone

Vendor nationality: United States

Purchaser: Brookfield

Purchaser nationality: Canada

Other comments:
Blackstone has sold its Fidere residential portfolio to Brookfield in a transaction reported to be Spain's largest multifamily deal in almost 20 years, excluding Blackstone's acquisition of Testa Homes in 2018. The portfolio comprises around 5,000 units across 47 assets, predominantly located in the Madrid metropolitan area.

METHODOLOGY

Net initial yields are estimated by local Savills experts to represent the achievable yield, including transaction and non-recoverable costs, on a fully let hypothetical grade A asset; for logistics, this is a big-box facility located in a prime location, let to a single good profile tenant on a 10–15-year open-market lease, for office, it is a building a located in the CBD of over 50,000 sqft in size, and for living, it is an asset of institutional scale in a prime location. The typical LTV and cost of debt represent the anticipated 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. Yields may be different to quoted values in markets where the convention is to use a gross rather than net value. Data is end-of-quarter values.

Savills Research

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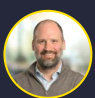

Oliver Salmon
Global Capital Markets
World Research
+44 (0) 20 7535 2984
oliver.salmon@savills.com

Lydia Brissy
Director
European Research
+33 1 44 51 73 11
lbrissy@savills.fr

Nicholas Wilson
Senior Director
Strategic Research & Advisory
+65 8669 9267
Nicholas.Wilson@savills.asia

Rasheed Hassan
Managing Director
Global Capital Markets
+44 (0) 20 7409 8836
rhassan@savills.com

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