



savills

GLOBAL CAPITAL MARKETS

EUROPE | Q1 2026



RESEARCH

GLOBAL SUMMARY

DELAYED NOT DESTROYED



OLIVER SALMON

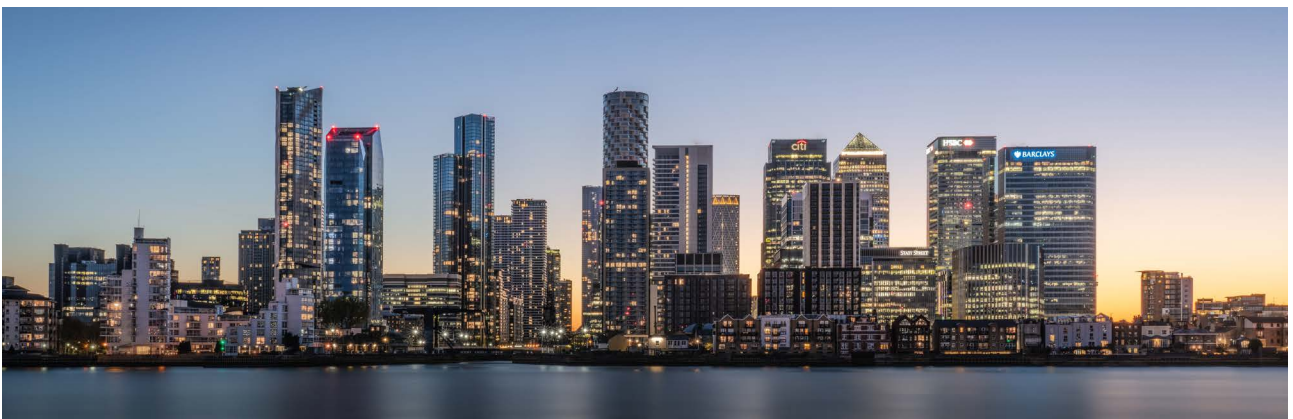
Director, World Research

The global economy began 2026 in a relatively steady state. Expectations were broadly in line with the previous year, with headwinds from tariffs, softening labour markets and weak underlying confidence offset by continued disinflation, easing financial conditions, supportive fiscal policy and the ongoing technology capital expenditure boom. Energy markets were accommodative, underpinned by a global supply overhang which was being reinforced by OPEC+ prioritising market share over price stability.

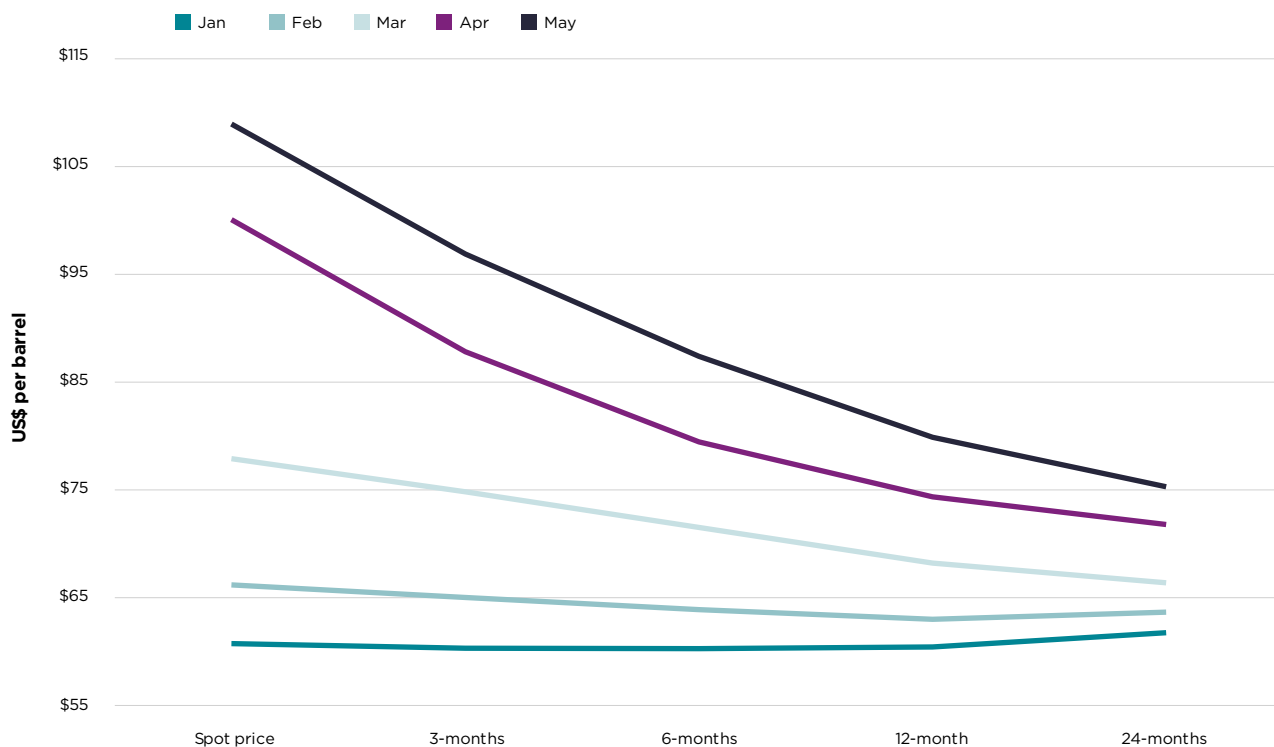
However, conflict in the Middle East introduced new headwinds to the global economy. The macro impact hinges on four conditions: the duration and scale of the conflict, and specifically disruption to the Strait of Hormuz; the country-level exposure to energy via net trade positions and GDP energy intensity; the policy responses across governments

and central banks; and the behavioural response of households and businesses. The latter is particularly important, albeit often underappreciated, as confidence shocks can act as a catalyst that can quickly amplify the scale of any downturn.

The consensus remains anchored to the expectation of a relatively swift de escalation, leading to the restoration in energy flows through the second half of this year. This is reflected in the backwardated oil futures curve, and the resilience of risk assets following early ceasefire signals. Under this scenario, the impact of the supply shock is largely transitory—headline inflation temporarily overshoots into the 3-5% range, allowing central banks to ‘look through’ the shock, while growth decelerates but avoids outright recession.



BRENT CRUDE OIL PRICE FUTURES PRICES



Source: Savills research using Macrobond

In this regard, context matters. Unlike in 2022, when the global economy was being propelled by post-Covid-19 revenge spending, the starting point today is disinflationary: labour market momentum is slowing, policy is more restrictive, and sentiment is subdued. Corporate and household pricing power is weaker as a result, limiting the risk of inflation becoming persistent. This creates a clear trade off for central banks and reduces the likelihood that supply-driven inflation translates into a sustained tightening in monetary policy. Policymakers suffering from recency bias, particularly in Europe, may however favour a more forceful initial response in order to anchor inflation expectations.

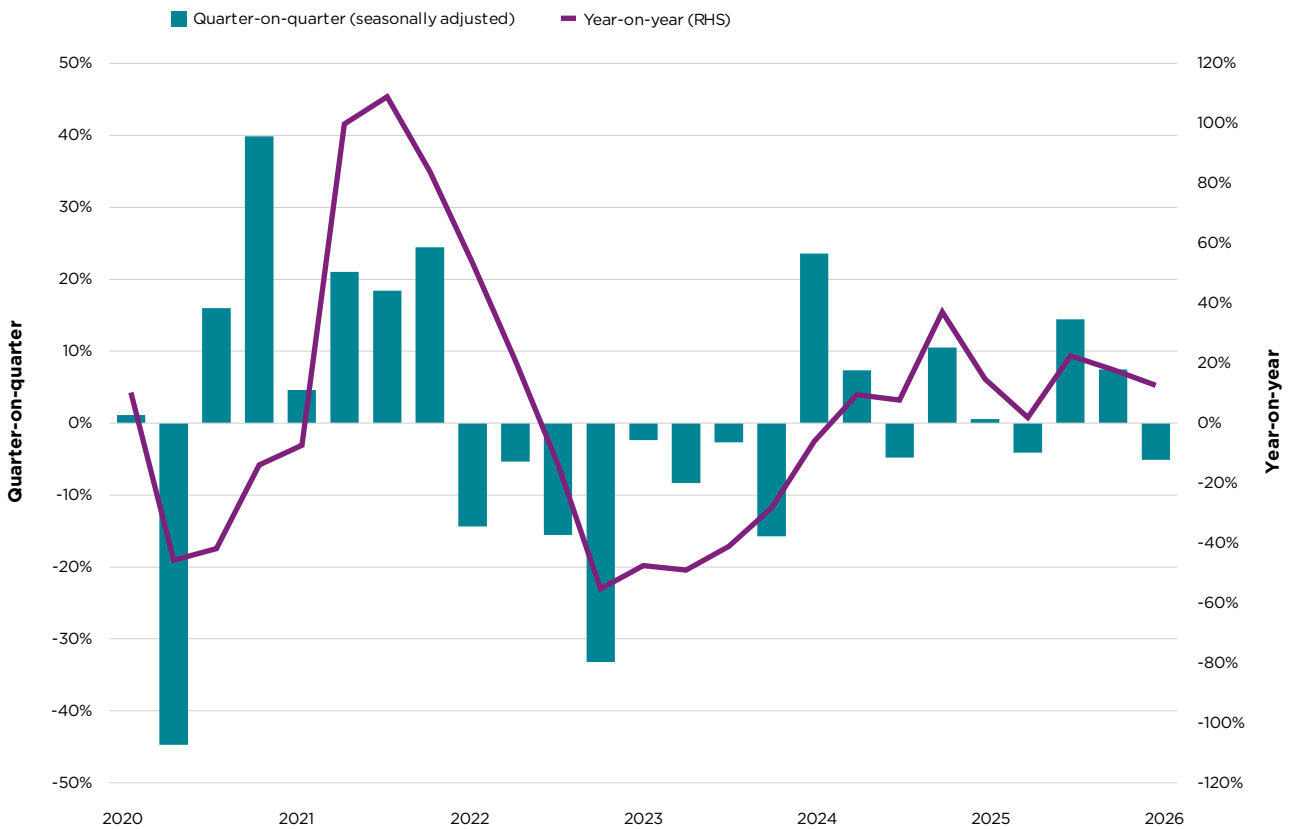
The regional implications are asymmetric. Major energy exporters such as Canada and Norway will benefit from favourable terms of trade effects, while net energy importers lose out. Many Asia Pacific economies are vulnerable due to their dependence on GCC supply, as well as high oil and gas GDP intensity, while European economies are also mostly net importers of energy, and are seeing renewed interest rate volatility and tighter financial conditions. In the US, while oil producers benefit from higher prices, these gains will be more than

offset by consumer losses, given the dominance of household consumption in GDP.

However, even a benign resolution implies a long tail of risk. Damage to infrastructure, delays in restarting production, and the reconfiguration of shipping routes point to a prolonged period of constrained supply. Meanwhile, persistent volatility in the region is likely in the absence of a definitive end to the conflict, implying a structurally higher risk premium in oil prices (not to mention elevated insurance costs, and the potential for a “Tehran toll”).

Downside risks are material. Around 20% of global oil and gas transits the Strait of Hormuz, with limited alternative routes. A sustained disruption would eclipse the 1970s oil crises in scale, leading to sharply higher prices, rationing, and additional supply chain disruption. Spillovers would extend beyond hydrocarbons to critical inputs including helium (semiconductors), fertilisers (food production) and petrochemicals (plastics). In a severe downside scenario, global growth could converge towards 2% in 2026–27, according to the IMF, a rate considered by many as recessionary.

GLOBAL REAL ESTATE INVESTMENT TURNOVER



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

The balance of risks is reflected in the real estate sentiment data. The prospect of economic stagflation is clearly negative for the sector, and this increases the opportunity cost of deploying capital, vs a ‘wait-and-see’ approach. Global investment of US\$230bn in Q1 represented a 5% decline on a sequential basis, when accounting for the normal seasonal pattern of activity, signalling a loss of momentum relative to the second half of last year.

Assuming the consensus is right on a swift de-escalation, the impact on investment activity should be equally short-lived. Pending deals data for Q2 2026 suggest there remains a robust pipeline of transactions, implying activity is being delayed rather than destroyed. This echoes the pattern seen following the ‘Liberation Day’ US tariff shock of April 2025, where first half weakness was replaced by second half strength.

Importantly, a swift de-escalation implies little change to the underlying fundamentals. Pricing is expected to hold firm, despite tight risk premiums and a higher risk free rate of return, and there

remains plenty of liquidity in debt capital markets (debt strategies continue to perform well in fundraising trends). Meanwhile, a constrained development pipeline will continue to provide an important anchor supporting rental growth, with heightened uncertainty, increased financing costs, and rising energy-linked construction costs further undermining development viability. This means that any near term softness in the outlook for rental growth should give way to renewed supply side tightness in the medium term.

Crucially, in the aftermath of ‘Liberation Day’, tariffs weren’t rolled back completely, but a series of bilateral trade agreements were signed, removing the most negative of downside risks and providing a more stable status-quo for investors to again underwrite new deals with more certainty. This shows a level of resilience in activity, with investors showing greater proclivity to trade through the cycle after several years of elevated volatility. We expect a similar dynamic to occur this year.

MARKET VIEW



RASHEED HASSAN

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



2026 started positively, building on the momentum that we witnessed in H2 2025. While the stats show a marginal seasonally-adjusted 5% drop in quarter-on-quarter activity overall, there have been some exceptional sector and geographical performers.

Putting 2025 into context, it was not without challenge. President Trump's tariff policies caused the market to pause and adjust, and this dampened Q2 activity levels. Despite this, investors found comfort in the strength of the underlying market fundamentals and helped by the abundance and pricing of debt capital, continued to transact.

Despite the positive start to the year, at the end of February further geopolitical conflict commenced in the Middle East, which gave the market another reason to need to rationalise and adjust to the implications of what this meant for the real estate markets.

Given the uncertainty around the potential extent and duration of the conflict, which remains today, the initial reaction was an element of pause, but one that was far less pronounced to that of the tariff shock. Deals that were under offer broadly remained so, and the pause was more pronounced in the agreement of new transactions.

However, as weeks have passed and with the emergence of ceasefires and negotiations between the key protagonists, the market has started to transact again, with deals that were under offer pre-conflict closing and new ones getting agreed. We have been closely monitoring, where we can, any price renegotiations from buyers on deals where pricing was agreed before the start of the conflict. We are not yet witnessing accepted price alterations outside of the 0-5% range and where there has been one it is more typically 1-3%. The change in the cost of financing has been the main reason given for the adjustment, where buyers can demonstrate a mathematical impact, as opposed to an adjustment purely for sentiment.

Despite the negative backdrop, there also continues to be a momentum in the larger transaction space, both for platform / portfolios and single assets, which is helping turnover figures.

As we look forward to the rest of the year, it is very hard to forecast activity levels and sentiment. The conflict is ongoing and there continues to be a good dose of geopolitical unrest. This creates a persistent environment of uncertainty. However, what is clear, is that investors are investing through the near term and really focusing on core market fundamentals, accepting that we are just in a more volatile world.

SELECTIVE LIQUIDITY AND AN UNEVEN MAP



LYDIA BRISSY

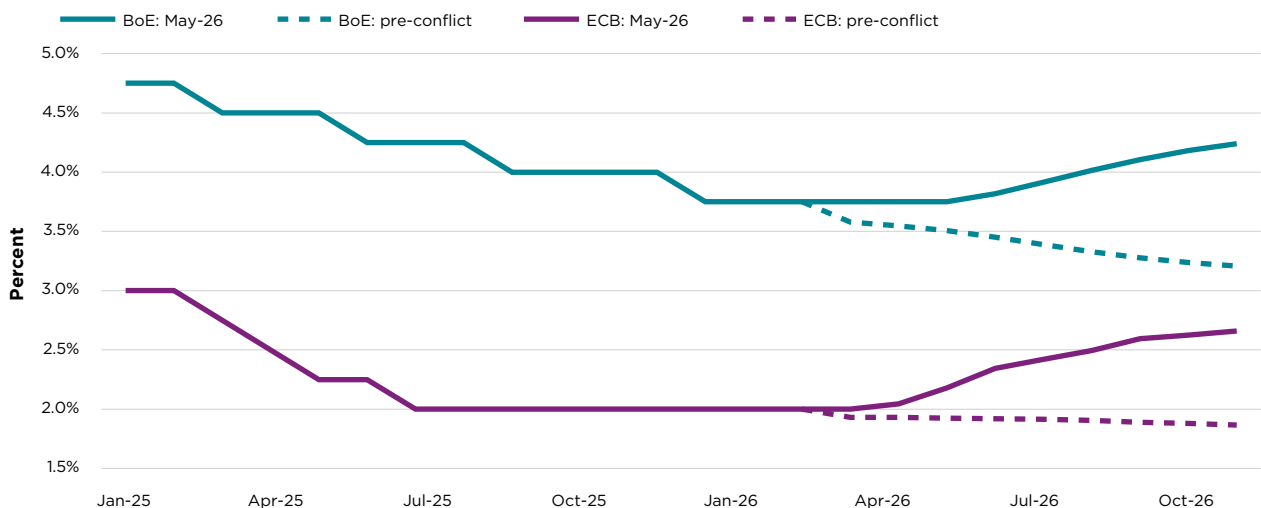
Director, European Research

European real estate investment reached approximately €48bn (US\$56bn) in Q1 2026, down 5% on the year. The quarter was characterised by slower processes, tighter underwriting and a higher bar for conviction. Sentiment remained cautious, but transactions continued, with longer decision-making and more late-stage renegotiations defining the market.

The main constraint remains the shift in interest rate expectations. Earlier hopes of UK policy rate cuts and Euro area stability have been replaced by the prospect of renewed tightening in 2026, softening buyer confidence and slowing momentum. Yet fundamentals

have improved. Pricing appears to have found a floor, total returns are back in positive territory, particularly in shopping centres and retail warehouses, and limited development activity is supporting rental growth across most sectors.

EUROPEAN INTEREST RATE EXPECTATIONS



Source: Savills Research using Macrobond and MSCI RCA

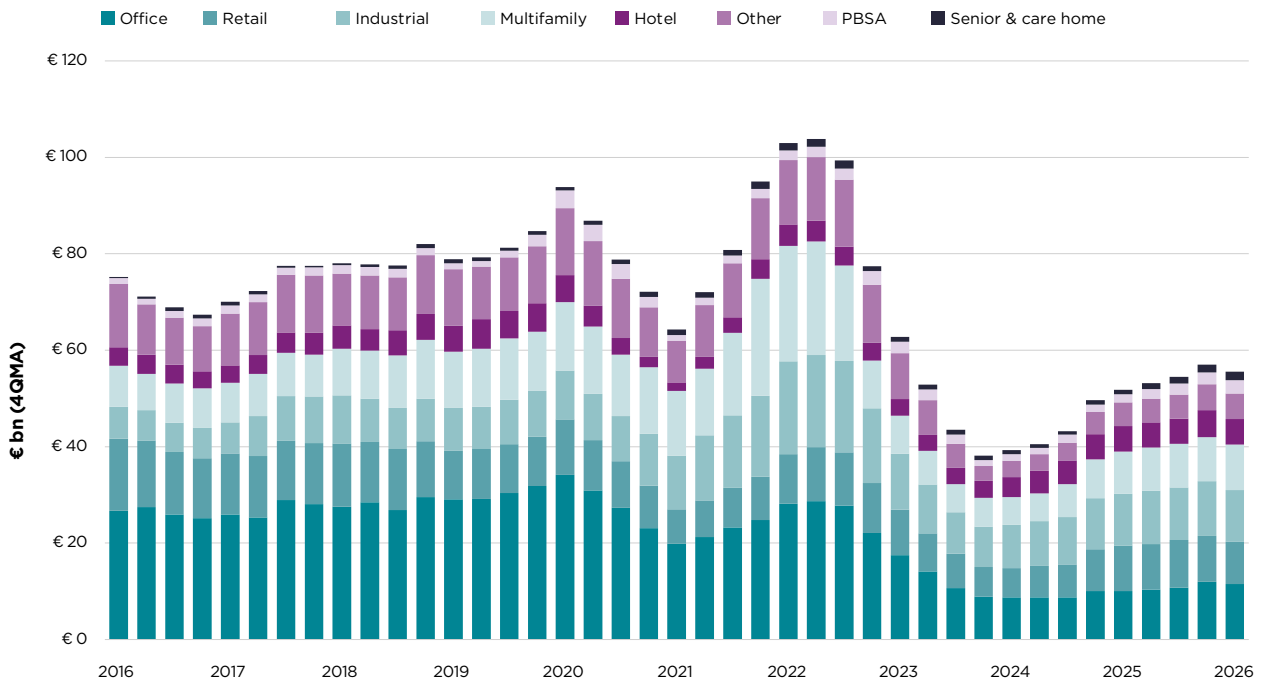
EUROPE

Debt markets are open, but not straightforward. Lending remains available, although higher all-in costs, tighter leverage assumptions and stronger covenants are shaping pricing and asset selection. This is encouraging lower leverage and a stronger focus on income durability. Hence, sector performance continues to favour income resilience and operational conviction.

Living segments remain dominant in supporting regional growth, with total investment in care homes more than doubling in the first quarter, relative to Q1 2025, while PBSA investment rose by 84% y/y, and multifamily by 20%. Activity was largely supported by portfolio activity, including Aedifica's acquisition of an 80% stake in Cofinimmo's €2.6bn (US\$3.0bn) pan-European healthcare portfolio. By contrast,

most other sectors recorded negative growth versus Q1 2025, notably retail at -30% y/y and logistics at -27%, albeit this data reflects more selective capital deployment rather than an overall lack of investor interest.

EUROPEAN REAL ESTATE INVESTMENT TURNOVER



Source: Savills Research

Beyond the living sectors, capital remains active where income visibility is strong. Retail is a clear example, benefiting from repricing, with Aware Super's acquisition of a 31% stake in the pan-European portfolio of 4 factory outlets, highlighting appetite for scaled, cashflow-led formats. The logistics sector remains attractive but more selective following repricing, while in offices, interest is gradually returning to prime assets, as illustrated by Criteria

Caixa's €385m (US\$450m) acquisition of the Estel Building in Barcelona, the largest office transaction ever completed in the city. However, overall liquidity remains constrained and highly bifurcated.

Geographically, dispersion was pronounced and arguably the most important story of the quarter. Activity across core markets continued to underperform expectations, with France down 36% y/y, the UK down 11% and Germany

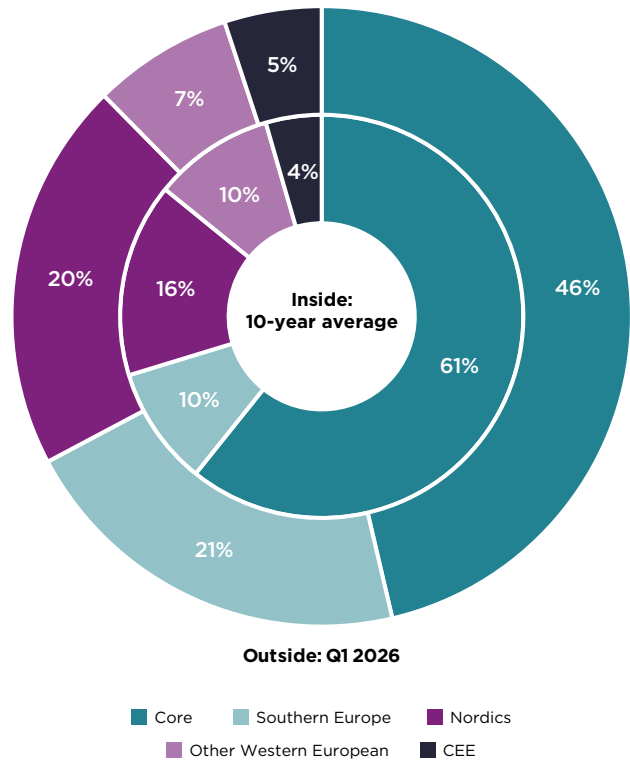
down 5%, albeit that this largely reflected delays in executing larger transactions, rather than a material withdrawal of capital. In contrast, momentum shifted decisively towards more peripheral and higher growth markets, with Finland, Poland, and Spain each recording annual increases of more than 50%.

At a subregional level, this rebalancing is reflected in the rising weight of Southern Europe and the Nordics in overall allocations, both accounting for slightly more than 20% of total European investment year-to-date, a record high for each. Southern Europe remained a key liquidity area, led by Spain, where turnover exceeded €6bn (US\$7bn) in the first quarter, up 58% y/y, supported by multiple transactions above €100m and a clear increase in international capital participation. Portugal also saw activity approach €1bn (US\$1.2m) in the quarter, up 39% y/y, with hospitality and retail together representing more than 70% of the country's investment. Italy, meanwhile, recorded around €2.7bn (US\$3.2bn), broadly stable on the year, with retail and hospitality again among the most active sectors and international investors accounting for approximately 70% of deployed capital.

In the Nordics, the recovery is more recent but increasingly visible. Finland stands out, with investment rising by around 150% y/y, supported by residential and logistics activity, as well as a meaningful contribution from cross-border capital, estimated at around 40%. Transaction evidence reinforces this trend, notably the €900m (US\$1.5bn) acquisition of a 60-asset mid-rise residential portfolio by Kojamo from Varma, alongside the disposal of a pan-Nordic industrial portfolio by Urban Partners for €830m (US\$970m) to Catena, marking the largest direct logistics portfolio transaction in the region since 2002. Together, these two deals point to a market increasingly driven by larger, high-value transactions.



EUROPEAN INVESTMENT BY REGION



Source: Savills Research

Indeed, deal momentum is increasingly concentrated in fewer, larger, high conviction transactions. This is evident in the rise of M&A, large portfolio and trophy asset deals, including the pan-European healthcare stake acquired by Aedifica, the pan-Nordic logistics portfolio, the Southern Europe factory outlet portfolio, several luxury retail deals, and the Estel office transaction in Barcelona.

This reflects a changing buyer base, with large institutions, including sovereign wealth funds, pension funds, and insurers, gradually returning to the market, albeit on a selective basis, mainly to core or core plus assets where income security is strong. Private equity funds and family offices remain important sources of equity, often less constrained by slower committee processes and able to move quickly on attractively priced assets. At the same time, a number of open-ended core funds in Europe are still facing redemption pressures and are expected to increasingly become net sellers, creating opportunities for more agile investors.

EUROPE

Cross-border capital accounted for 35% of Q1 investment turnover, below the long-run average generally north of 45%. The weakness was more pronounced in long-haul capital, with global inflows at only €6.9bn (US\$8.1bn), a record low, largely due to US inflows falling by more than 50% y/y. Continental European cross-border activity held up better, supported by capital from the UK, Sweden, and the Netherlands. Southern Europe continues to attract increasing international capital, mainly from European investors, with some participation from the Middle East.

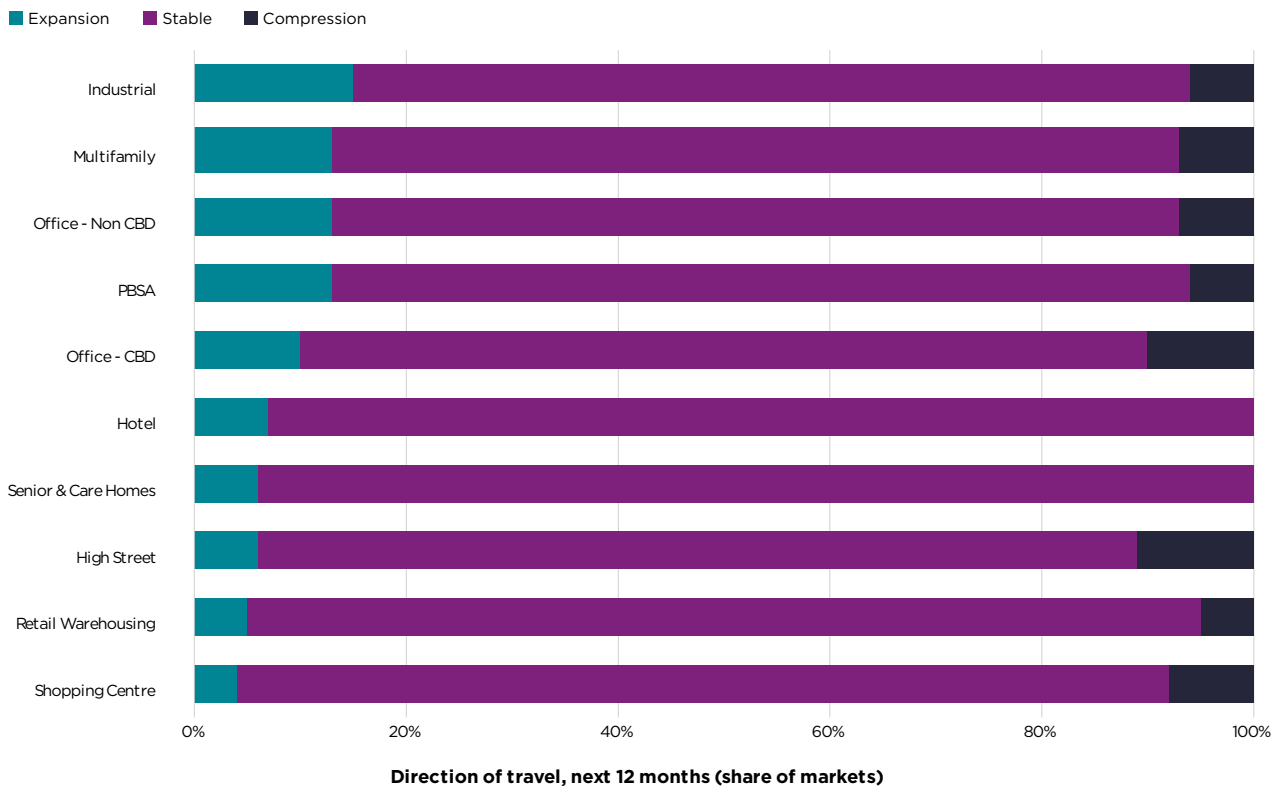
The fundraising backdrop helps explain current transaction dynamics. In Q1 2026, total fundraising reached US\$44bn, according to PERE. Europe-focused funds raised nearly

US\$7bn, around 16% of the total, indicating that Europe is attracting meaningful but not dominant allocations. The strategy mix is particularly telling, with value-add accounting for around 56% of capital raised and debt strategies at around 18%, while core and core plus strategies remain comparatively limited, at 8% and 18%, respectively. This aligns with transaction activity, where investors are prioritising strategies that can generate returns through active management, capital structure, and selective repricing, rather than relying on broad yield compression.

Given the current geopolitical backdrop, yields that were previously expected to harden in line with interest rates have now stabilised.

Prime retail warehouses are the main exception, with yields compressing by around 10bps since the end of 2025 to 5.7% on average across Europe in Q1. CBD office yields averaged 4.9%, while shopping centres stood at 6.1%, both broadly stable on the quarter. Industrial yields moved out slightly to 5.1%, luxury high street to 4.2%, multifamily to 4.3% and PBSA to 4.7%. The key message is that repricing has largely been absorbed, although there is some interest rate pressure in low yielding markets, and a broad yield compression cycle will remain on hold until the geopolitical and economic context improves. In some cases, late-stage price adjustments of around 1% to 5% are being agreed to bridge bid-ask gaps, given the shift in financing assumptions between signing and completion.

EUROPEAN PRIME YIELD EXPECTATIONS



Source: Savills Research. Yield outlook based on average of European prime markets

EUROPE

Overall, the outlook remains cautiously constructive, providing the conflict in the Middle East remains relatively short-lived. Investment should improve over the coming quarters as pricing has largely adjusted, debt markets have stabilised, and institutional capital remains relatively underallocated to real estate following several subdued years. However, full year performance is still likely to remain below initial expectations, as geopolitical tensions and ongoing volatility around

inflation and interest rate expectations continue to weigh on sentiment and early year activity.

The market is moving from forced repricing to selective deployment, with liquidity strongest where pricing, debt and income growth align. The recovery will therefore remain uneven, led by liquid cities, resilient subregions, and sectors where investors can underwrite durable income rather than rely solely on capital growth.

PRIME EUROPEAN YIELDS, Q1 2026 (AS AT END OF MARCH)

| 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% | 4.3% | 4.3% | 1.5% |
| Logistics | Madrid | 4.80% | No change | 55% | 4.7% | 4.7% | 1.3% |
| Logistics | Île-de-France | 5.00% | No change | 55% | 4.3% | 4.3% | 1.2% |
| Logistics | Amsterdam | 5.00% | Up | 55% | 4.3% | 4.3% | 1.9% |
| Logistics | London | 5.25% | No change | 60% | 5.7% | 5.7% | 0.3% |
| Office | Paris | 4.00% | No change | 55% | 4.3% | 4.3% | 0.2% |
| Office | Milan | 4.25% | Down | 55% | 4.9% | 4.9% | 0.3% |
| Office | Berlin | 4.40% | No change | 55% | 4.3% | 4.3% | 1.4% |
| Office | Frankfurt | 4.50% | No change | 55% | 4.3% | 4.3% | 1.5% |
| Office | Madrid | 4.65% | No change | 55% | 4.7% | 4.7% | 1.1% |
| Office | London (City) | 5.25% | Down | 60% | 5.7% | 5.7% | 0.3% |
| Multifamily | Berlin | 3.60% | No change | 55% | 4.3% | 4.3% | 0.6% |
| Multifamily | Copenhagen | 3.75% | No change | 63% | 3.9% | 3.9% | 0.9% |
| Multifamily | Madrid | 3.90% | No change | 55% | 4.7% | 4.7% | 0.4% |
| Multifamily | Paris | 4.25% | No change | 55% | 4.3% | 4.3% | 0.5% |
| Multifamily | Stockholm | 4.25% | Up | 60% | 3.8% | 3.8% | 1.4% |
| Multifamily | London | 4.50% | No change | 60% | 5.7% | 5.7% | -0.4% |
| Student | Paris | 4.50% | No change | 55% | 4.3% | 4.3% | 0.7% |
| Student | Berlin | 4.50% | No change | 55% | 4.3% | 4.3% | 1.5% |
| Student | Madrid | 4.50% | No change | 55% | 4.7% | 4.7% | 1.0% |
| Student | London | 4.75% | No change | 60% | 5.7% | 5.7% | -0.2% |

Source: Savills Research and Macrobond

CATENA / URBAN PARTNERS PORTFOLIO



Sector: Industrial and Logistics

Tenant: Multiple

Lease length (WAULT): 11 years

Area: 612,000 sqm (6.6m sqft)

Price/NIY:
€830m (US\$986m) / Undisclosed

Vendor: Urban Partners

Vendor nationality: Denmark

Purchaser: Catena

Purchaser nationality: Sweden

Other comments:

This marks the largest direct logistics portfolio transaction in the Nordics since 2021. Assets are high-spec, modern facilities with a vacancy rate of around 3.5% and high-quality tenants (e.g. Dagab, Dahl, Tokmanni).

AEDIFICA/COFINIMMO MERGER



Sector: Healthcare

Tenant: N/A

Lease length (WAULT): N/A

Area: Undisclosed

Price/NIY:
€2.6bn (US\$3.1bn) / Undisclosed

Vendor: Cofinimmo

Vendor nationality: Belgium

Purchaser: Aedifica

Purchaser nationality: Belgium

Other comments:

Merger by absorption following Aedifica acquiring 80% of Cofinimmo, creating Europe's largest healthcare REIT and the fourth-largest globally.

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 located in the CBD of over 50,000 sq ft 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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