

European Investment Nowcast

Q3 2026 preliminary results

savills

Mixed signals, measured expectations

Stronger economies are supporting property income, but renewed rate pressure is keeping the recovery selective, prime-led and regionally uneven.

European real estate enters the final quarter of 2026 with a mixed picture. Economic growth has proved more resilient than expected, investor confidence has improved, and occupational fundamentals continue to support the investment case. Yet these more encouraging signals have not translated into stronger investment activity.

Economic resilience meets a higher cost of capital

According to Eurostat, euro area GDP grew by 1.2% year on year in Q2, revised upwards from earlier estimates of 1.0%. Sentix's euro area Economic Index rose for a fifth consecutive month in September to +5.1, its highest level since February 2022. INREV's Consensus Indicator also improved from 41.0 in June to 44.6 in September, although it remained below the 50-threshold associated with expansion. Leasing and operations, at 55.3, became the strongest sub-indicator, suggesting that confidence in property's operating fundamentals is firmer than confidence in the overall market.

Yet inflation is making an unwelcome return, taking some of the shine off the brighter economic picture. Indeed, Eurostat reported an increase in annual euro area inflation from 2.9% in July to 3.2% in August, with energy accounting for 1.29 percentage points of the annual rate. Persistent inflationary pressure linked to the energy shock prompted the ECB to raise its key rates by a further 25 basis points in September. Following two increases since June, the deposit rate now stands at 2.50%.

The UK faces a similar tension. The Bank of England maintained Bank Rate at 3.75% in September, although three members of its Monetary Policy Committee voted for an increase. Uncertainty about its next move is making financing and pricing decisions harder.

As a result, the prospect of declining borrowing costs, which had previously supported expectations of a more sustained recovery, has become less dependable.



€46BN
INVESTED IN EUROPE
IN Q3 2026



4% YOY
VS INVESTMENT
VOLUME IN
Q1-Q3 2025



Stronger fundamentals, softer volumes

According to our preliminary estimates, European investment volumes are expected to reach approximately €46bn in Q3, around 6% below the same quarter last year. This would bring investment over the first nine months to €156bn, up 4% year on year. Although cumulative activity remains above last year's level, the preliminary quarterly figures are subdued relative to the more encouraging economic backdrop.

These early figures may partly reflect greater caution in our estimates following the recent interest rate announcements. We continue to see significant transactions, although uncertainty over financing costs and pricing is keeping investment decisions measured and lengthening due diligence. Activity remains concentrated in the prime segment, where the supply of suitable assets is limited. The scarcity of well-located secondary assets at sufficiently attractive prices is also restraining activity. Additionally, Europe's three largest and most liquid markets are absent from the investment growth story, weighing on the overall expansion in investment volumes.

Europe's recovery follows different paths

The European aggregate conceals an increasingly uneven distribution of activity. Over the first nine months, investment in Central and Eastern Europe is expected to be 34% above the equivalent period last year, followed by the Nordics at 25% and Southern Europe at 20%. By contrast, investment in the core markets (UK, Germany and France) is down 8%, while the rest of Western Europe is down 5%. As a result, the core markets continue to weigh on overall European activity.

Spain continues to attract capital, supported by resilient economic activity and an attractive relative sovereign risk premium. In Italy, large transactions are supporting investment activity, with retail, particularly out-of-town, hospitality and logistics attracting interest. Value-add capital remains prominent, alongside a gradual return of core investors.

In the Nordics, Sweden's softer quarterly estimate follows a strong first half supported by several large transactions. We continue to see positive investor sentiment, with robust appetite from domestic and Norwegian groups and an active pipeline, with scope for an improvement in Q4. In CEE, Poland benefits from regional capital flows, particularly from Czech investors, while defence and manufacturing activity increasingly support the industrial demand outlook.

Elsewhere, investment activity has been more measured. Ireland's domestic economy remains resilient despite distortions in headline GDP, supporting expectations of higher annual investment. In the Netherlands, investor interest is improving, particularly in logistics, including demand from US buyers, while residential activity remains predominantly domestic.

More broadly, lengthy due diligence continues to delay converting investor interest into completed transactions.

A season for cherry-picking

Income security remains central to allocation decisions, keeping living firmly in investors' sights. We expect multifamily, purpose-built student accommodation,

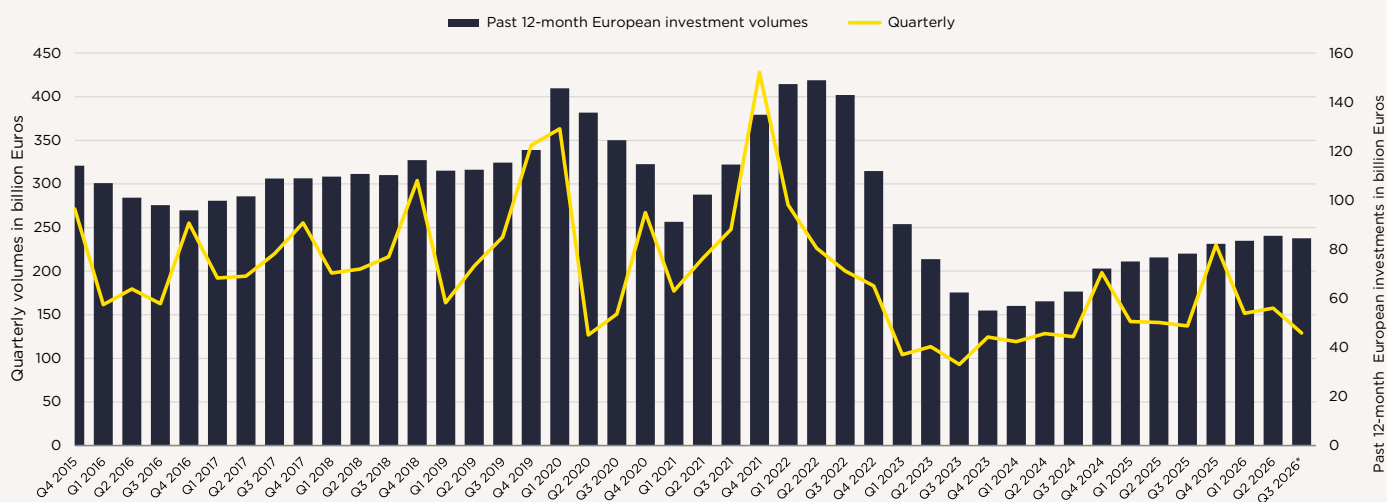
care homes and senior living together to account for more than 30% of European investment volumes over the first three quarters of 2026. Persistent supply shortages and resilient occupier demand continue to support rental growth prospects and reinforce these sectors' appeal.

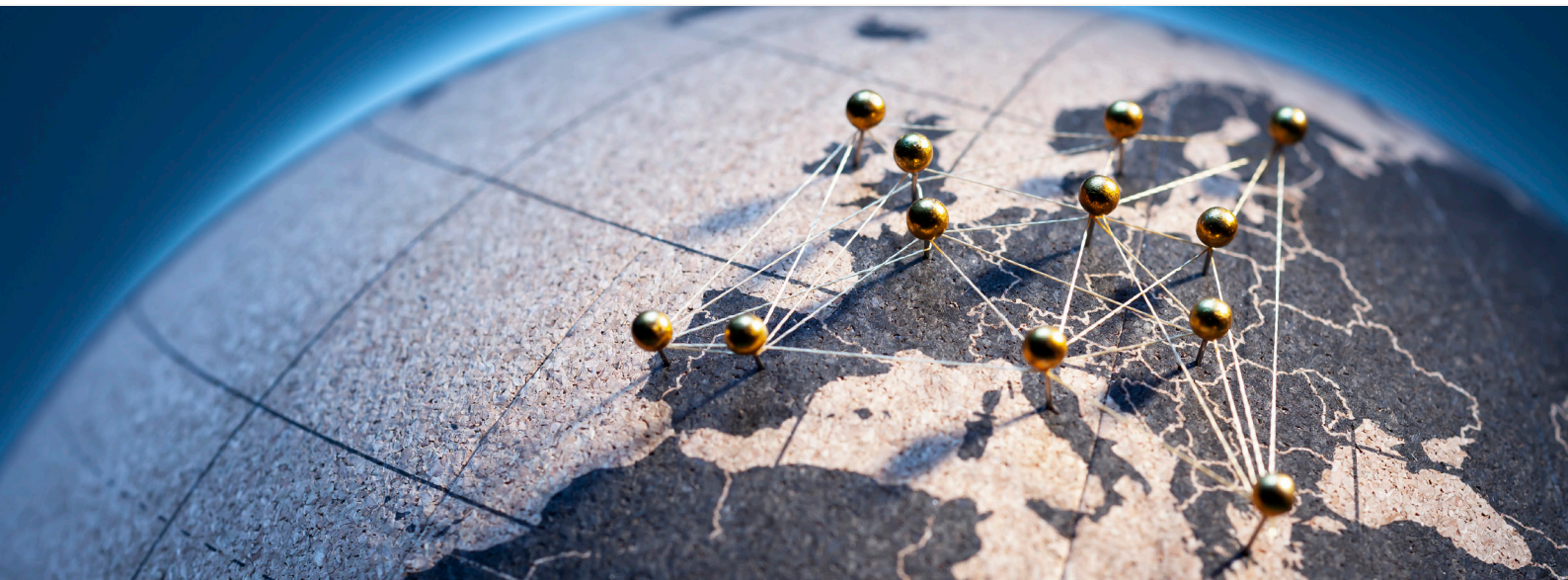
Investor appetite is nevertheless broadening. The revival in retail investment is gathering momentum, with retail warehouses and shopping centres attracting particular interest. Both segments still offer an attractive risk-return profile relative to other asset classes, while their strong total return performance, as recorded by MSCI, is reinforcing their appeal to investors.

Demand for prime office assets has strengthened, reflecting investors' willingness to target opportunities where location, building quality and income growth prospects align. However, this renewed appetite remains concentrated at the super-prime end of the market. While these assets continue to attract significant capital, their pricing leaves them more sensitive to fluctuations in government bond yields.

Logistics investment has lost some momentum, potentially reflecting a natural moderation following an extended period of strong activity. At the same time, geopolitical tensions, trade uncertainty, and higher energy and transport costs may be adding to investor caution by making occupier demand and rental growth harder to assess. Nevertheless, the sector's longer-term prospects remain underpinned by continued supply-chain restructuring.

EUROPEAN INVESTMENT ACTIVITY





Large deals underline selective conviction

The quarter has again featured major portfolio and trophy asset transactions, demonstrating that substantial capital can still be committed to selected opportunities. Among the largest is Blue Owl Capital's acquisition of a portfolio of 12 UK private hospitals from Malaysia's Employees Provident Fund for approximately €1.5bn. Recent portfolio activity also includes Greystar's acquisition of the 904-home Elephant Park rental housing portfolio in London from CPP Investments and Lendlease for approximately £500m.

Large transactions also feature in retail. Hammerson acquired a 50% interest in Manchester Arndale for £218m, at a topped-up net initial yield of 7.8%, while Rivoli Asset Management acquired Nuveen's remaining 50% interest in Madrid's Xanadú shopping centre for approximately €250m, taking full ownership. NEPI Rockcastle also agreed to acquire MegaPark Barakaldo, near Bilbao, from HLRE Socimi for €254m, marking the investor's entry into Spain. At the same time they sold a large shopping centre in the Baltics.

The growing number of trophy office transactions provides further evidence of liquidity for super prime assets. Pontegadea's acquisition of Capital 8 in Paris from Invesco Real Estate for a reported €820m stands out as continental Europe's largest single asset office transaction since 2022. Other notable deals include Icade's purchase of the remaining 49% interest in the fully let Tour EQHO for approximately €390m, and KKCG Real Estate Group's acquisition of 1 St James's Square in London for around €340m.

Together, these transactions illustrate the capacity to execute substantial deals within an otherwise subdued market.

A narrower field for international capital

Cross-border investment remains below historical norms, with international buyers estimated to have accounted for slightly less than 45% of European investment volumes during the first three quarters of 2026. This weakness extends to intra-European activity, although robust capital flows remain from UK, French, Swedish and German investors.

Europe's proximity to major geopolitical tensions is contributing to investor caution, while uncertainty surrounding inflation and financing costs is lengthening decision-making. At the same time, subdued activity in the UK, Germany and France, traditionally Europe's largest and most liquid markets, has restricted the supply of assets offering the scale required by major international investors. Weaker cross-border investment therefore reflects both greater caution and a narrower pool of suitable large-ticket opportunities.

US investors remain the largest source of international capital, while Canadian institutions, including CPP Investments and Brookfield Asset Management, have also been active this year. This activity could gain further support from closer transatlantic relations. On 16 September in Strasbourg, European Commission President Ursula von der Leyen proposed a strategic association between Canada and the EU covering trade, defence, technology and economic security. Although at an early stage, the initiative could help strengthen Canadian investors' confidence in Europe over the medium term.

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Robust intra-European capital flows continue, led by UK, French, Swedish and German investors, while North America remains the largest source of international capital, with Canadian investors expected to become increasingly active.

JAMES BURKE



< 45%

**SHARE OF CROSS
BORDER INVESTMENT
IN Q1-Q3**

Source: Savills Research

The slowdown in capital inflows is particularly significant for London, given its longstanding reliance on overseas buyers. Weaker cross-border flows have constrained activity in the capital and weighed on overall UK investment volumes.

Lending discipline keeps pricing under pressure

Debt remains available, but access is uneven, and the total cost of borrowing has risen. Lenders favour core assets with secure income and remain more cautious towards development, value-add strategies and properties exposed to leasing or capital expenditure risk. The availability of finance therefore offers only qualified support to investment activity.

The lending evidence reflects this mixed picture. The ECB's latest Bank Lending Survey recorded a net 6% of banks reporting tighter commercial real estate credit standards in the first half of 2026, the lowest reading since the first half of 2021. This indicates a more moderate pace of tightening, rather than an easing of standards. In Germany, the Q2 BF.Quartalsbarometer found that 46.2% of lenders considered financing conditions to have deteriorated, even as average loan-to-value ratios for standing assets remained at 64.2%.

Higher reference rates have increased the overall cost of borrowing, complicating the assessment of acceptable acquisition prices even where debt can be secured. Asset quality and income security remain important to lending decisions, but neither removes the pressure from higher financing costs.

Prospects for broad-based yield compression have faded, and outward movements are now expected across more markets and sectors. Offices and retail are likely to show the greatest divergence, as pricing increasingly distinguishes prime assets from weaker secondary stock. In this environment, investment performance will depend less on market-wide yield shifts and more on income growth, effective asset management and the ability to uncover opportunities where pricing does not fully reflect the underlying potential.

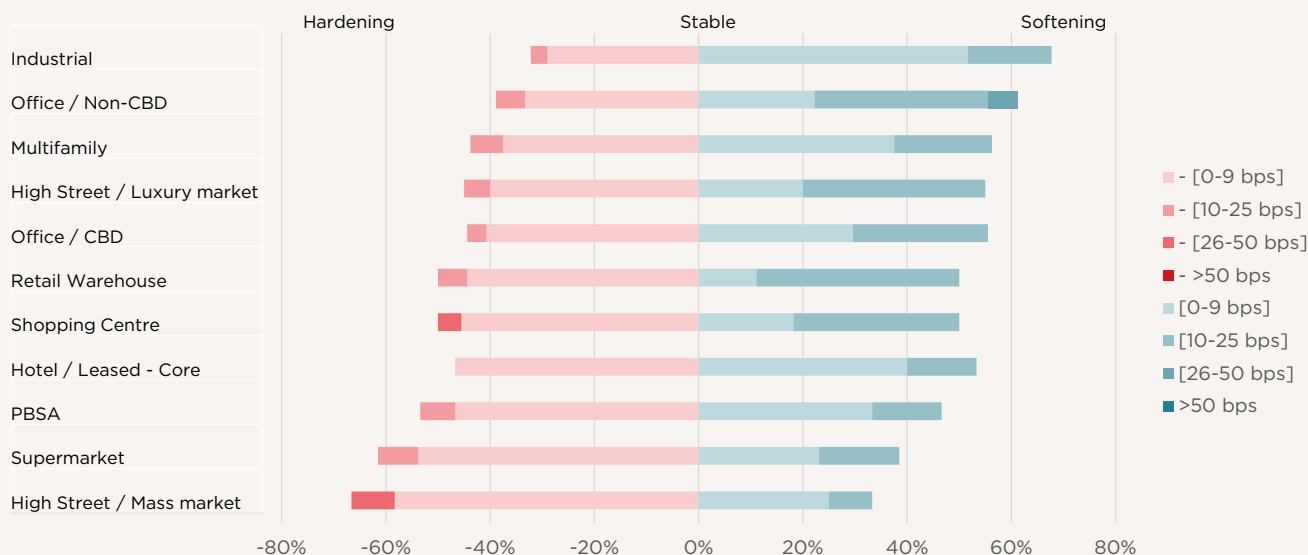


6%

OF BANKS REPORTING CREDIT STANDARDS TIGHTENING IN H1

Source: ECB Lending Survey

HOW DO YOU EXPECT THE CURRENT PRIME YIELDS TO TREND IN THE NEXT 12 MONTHS?



Source: Savills Research

Outlook remains tied to the largest markets

We retain a cautiously positive view for the remainder of the year. Q4 is traditionally a strong period for investment, and we continue to see significant transactions in the pipeline. Occupational resilience, constrained supply and income growth support demand for living and other structurally supported sectors. However, deployment is likely to remain measured, with activity concentrated in the prime segment while investors await greater geopolitical clarity.

The three core markets are expected to remain a drag on European investment activity, particularly France. Their prospects therefore remain central to the pace and breadth of the recovery. France presents a particularly challenging combination of financial and investment pressures. In September, the spread between French and German ten-year government bonds exceeded 100 basis points for the first time since 2012, while France's ten-year borrowing cost reached roughly 4.7%. The deterioration in the fiscal outlook introduces an additional country risk premium alongside the broader increase in European interest rates.

Domestic institutional demand is also weakening. According to the MSCI French Real Estate Investor Barometer, 46% of respondents intend to reduce their property allocation relative to equities and bonds, twice the proportion recorded in December 2025. Meanwhile, 58% plan to increase disposals, the most seller-oriented reading in three years. This may bring additional assets to market, but electoral uncertainty and weaker appetite suggest that liquidity will remain constrained for some time.

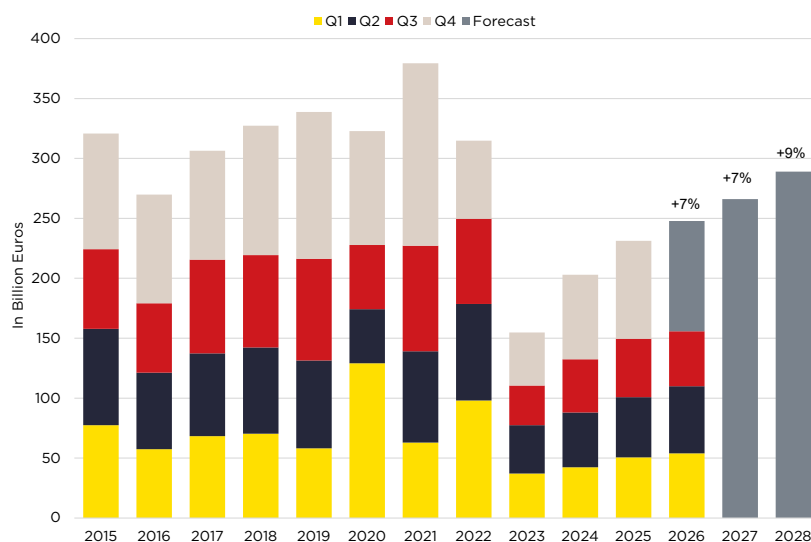
In the UK, weaker public finances and uncertainty ahead of the 28 October Budget add to investor caution. While the policy outlook remains uncertain, potential changes to property and business taxation, alongside public investment decisions, could become factors in underwriting considerations. Alongside London's exposure to subdued international flows and the limited availability of distressed opportunities, this continues to temper expectations for a stronger recovery.

Germany may see more opportunities emerge as fund liquidity comes under pressure. Investors have withdrawn approximately €17.3bn from the German open-ended property fund sector since early 2024. We expect further selling to bring more motivated opportunities to market over the medium term, creating openings for well-capitalised buyers. The pace at which these assets become available remains an important part of the investment outlook.

We have lowered our forecasts to reflect the continuing drag from the three core markets, particularly France. European investment is now expected to reach €248bn in 2026, representing growth of around 7%, followed by €266bn in 2027, a further increase of approximately 7%. CEE, the Nordics and Southern Europe are expected to provide the main impetus.

The outlook remains one of gradual progress. Stronger economic growth provides a firmer foundation for real estate income, but higher financing costs and uneven investor appetite continue to limit transaction momentum. The final quarter offers scope for improvement as pipeline deals close, while the broader recovery remains dependent on the largest markets regaining traction.

EUROPEAN INVESTMENT FORECASTS



Source: Savills Research

Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market. To view copies of our previous Spotlight publications, go to www.savills.co.uk/insight-and-opinion/



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