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GLOBAL CAPITAL MARKETS

EUROPE | Q3 2026



RESILIENCE UNDER PRESSURE



OLIVER SALMON
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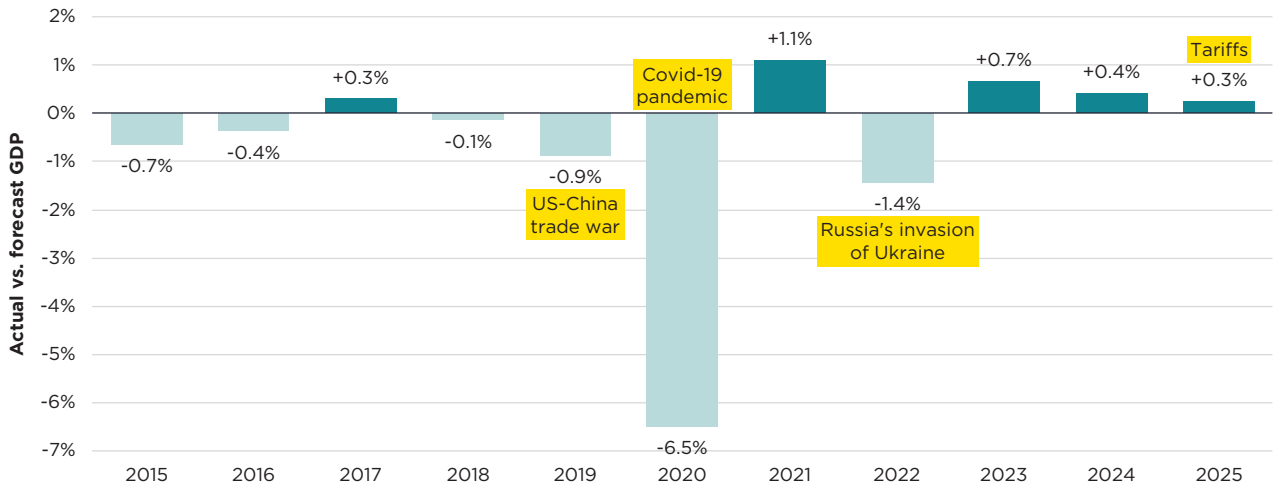
Resilience remains a defining feature of the current cycle, with the global economy continuing to withstand repeated shocks. Activity has again held up better than expected this year, despite the drag from war in the Middle East. As highlighted in our previous report, conflict, whether in trade, technology or geopolitics, is playing an increasingly important role in shaping the global outlook. So far, however, it has done more to redistribute activity than restrain it.

The continued build-out of AI has provided an important counterweight, delivering a powerful demand-side stimulus, although the benefits remain unevenly shared. Economies embedded in global technology supply chains are outperforming, while energy exporters outside the Gulf are benefiting from a positive terms-of-trade shock.

Yet resilience extends beyond this relatively narrow group; activity in Europe, for example, has also held up reasonably well, as households and businesses show some capacity to accommodate higher energy prices.

This resilience is once again being tested. Inflation is rising, squeezing household incomes and leaving policymakers with increasingly difficult fiscal and monetary trade-offs. Geopolitical risk remains elevated, while the depletion of global energy inventories leaves the world economy increasingly exposed to prolonged disruption in the Middle East. Meanwhile, the AI boom is adding to inflationary pressures and increasing the concentration of growth and financial-market gains, while vast sums are being borrowed to finance the infrastructure build-out in the US.

IMF GLOBAL GDP FORECAST ERRORS



Source: Savills research using IMF WEO October 2026

The clearest manifestation of these pressures has been the sharp rise in global bond yields, tightening financial conditions across the global economy. There are plenty of competing theories for why yields have risen so much this year. Optimists would argue that it reflects stronger real economic growth. But while the US economy has remained robust, growth is increasingly concentrated around the AI build-out, and there is little to suggest that bond markets are pricing in a significant AI-driven productivity boom.

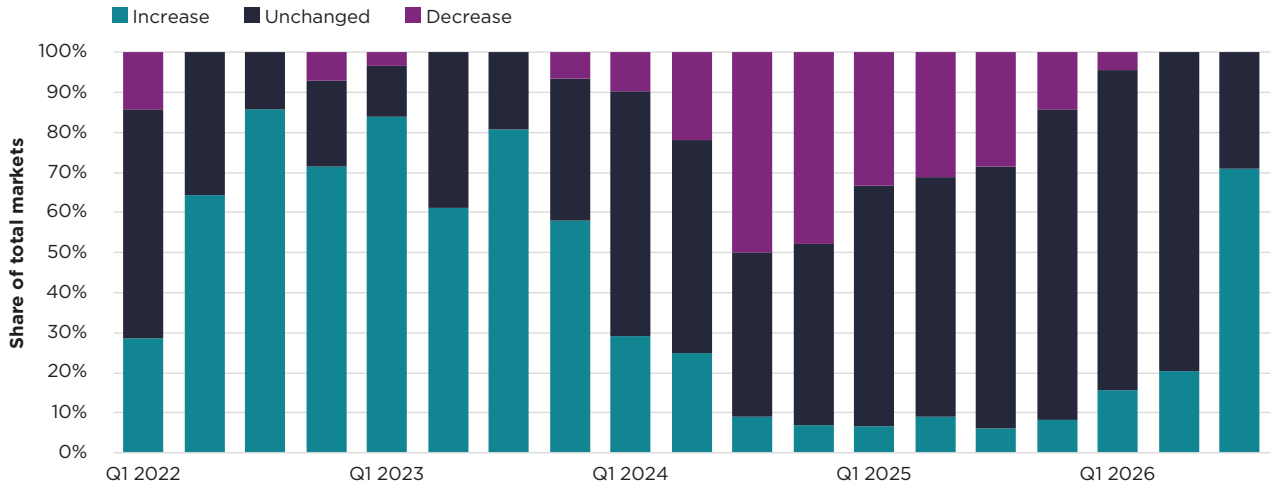
Instead, the recent rise in yields looks more problematic. The initial move was predominantly inflation-led, as the war in Iran pushed up energy prices and inflation expectations, prompting a sharp repricing of the policy-rate outlook. Since then, other forces have added to the pressure. Significant AI-related corporate bond issuance is competing for investor capital when markets are already being asked to absorb large amounts of government debt. Concerns over fiscal sustainability have also pushed up term premiums. A hawkish speech from Fed chair Kevin Warsh at Jackson Hole added further pressure. Ultimately, investors are demanding greater compensation for holding government debt.

For commercial real estate, the distinction matters. Higher yields driven by stronger growth can be absorbed through occupier demand and rental growth. But higher yields driven by inflation, fiscal risk and rising term premiums are harder to accommodate. And that pressure is beginning to feed through into pricing, with the speed and scale of the move increasingly difficult to ignore.

The market is entering another period of price discovery. Price adjustments are already apparent in ongoing transactions, but have generally been contained and not sufficient to derail deals. The greater risk is to new transactions, where uncertainty over where pricing settles may delay deals coming to market and weaken the usual seasonal peak in Q4 activity.

Look beneath the headline figures, and there are already signs that greater uncertainty is weighing on sentiment and activity. Global investment reached approximately US$375bn in Q3, around 40% higher than a year earlier. But around US$100bn came from just two major US transactions.

GLOBAL PRIME YIELD EXPECTATIONS FOR THE NEXT 12 MONTH PERIOD

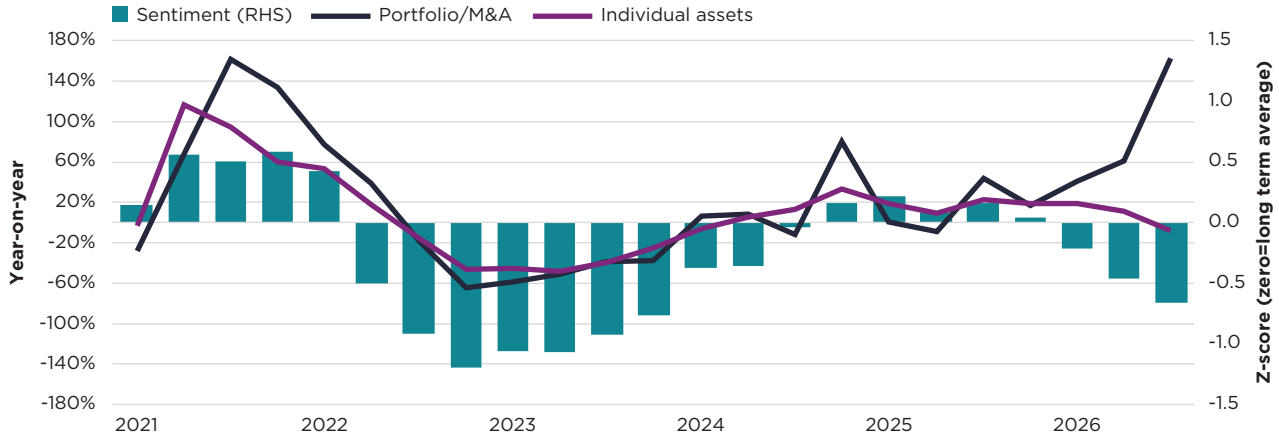


Source: Savills research, based on around 50 global markets across all property sectors.

These transactions reinforce the trend towards larger portfolio, entity-level and operational real estate deals highlighted last quarter. But once excluded, underlying activity was considerably more modest in the quarter.

Individual asset sales, which account for the majority of transactions and provide the comparable evidence through which pricing is established, have slowed in line with weaker market sentiment.

GLOBAL REAL ESTATE INVESTMENT AND SENTIMENT



Source: Savills research using MSCI RCA, Macrobond, and Property Council Australia. Excludes development sites. Data converted to fixed exchange rates.

Importantly, however, this is not a repeat of 2022. Bond yields already incorporate a significant degree of policy tightening over the next 12 months. That outlook looks increasingly difficult to reconcile with an energy-price shock that has so far remained relatively contained, with limited evidence of broader second-round inflationary pressures. This sets a relatively high bar for bond yields to move materially higher from here. Meanwhile, the market itself is also in a different position; values have already rebased, leverage is generally lower and the more committed investor base that emerged from the 2022–23 downturn remains in place.

The adjustment required in property markets should therefore be more manageable. Any increase in property yields will be smaller than in 2022 and start from a much higher base, while strong rental growth, low vacancy and growing constraints on new development should provide some cushion for valuations. The fundamentals have not materially changed, but the cost of capital has. Investors are adjusting to that new reality.

Nor is there an obvious shortage of capital. Debt markets remain liquid and substantial equity is still seeking deployment. But the rise in bond yields has given investors another reason to wait, reinforcing the selectivity already evident last quarter. Real estate is also competing for capital with private credit, as well as traditional and digital infrastructure, raising the hurdle for deployment. Investors increasingly require a credible operating plan, conviction in income growth and returns that offer a sufficient premium over debt and other alternatives.

As a result, the bar for getting deals done remains high. Capital continues to favour high-quality assets, experienced operators and opportunities with a compelling relative-value story, including assets available at a discount to replacement cost. The availability of capital is not necessarily the constraint. The challenge is finding opportunities where the risk and return stack up.

That leaves the outlook cautiously positive, albeit less certain than it appeared three months ago. The transaction pipeline is healthy, and significant capital remains available to deploy. But uncertainty around rates and pricing could encourage investors to sit on their hands for longer, pushing some transactions from Q4 into 2027.

There are also more routes to liquidity than outright asset sales. Refinancings, recapitalisations and secondary transactions should become increasingly important as loan maturities, fund-life pressures and investor demand for distributions provide catalysts for activity. This should create opportunities for capital to be deployed, but selectively rather than through widespread distress.

Ultimately, a more sustained recovery will require greater stability in inflation, energy prices and bond yields. The ingredients for higher transaction activity remain in place. But investors have another excuse to wait, and uncertainty around the cost of capital means the recovery is likely to be more selective and more stop-start than previously expected.

GROWTH HOLDS UP AS CONFIDENCE LOSES GROUND



LYDIA BRISSY
Director, European Research

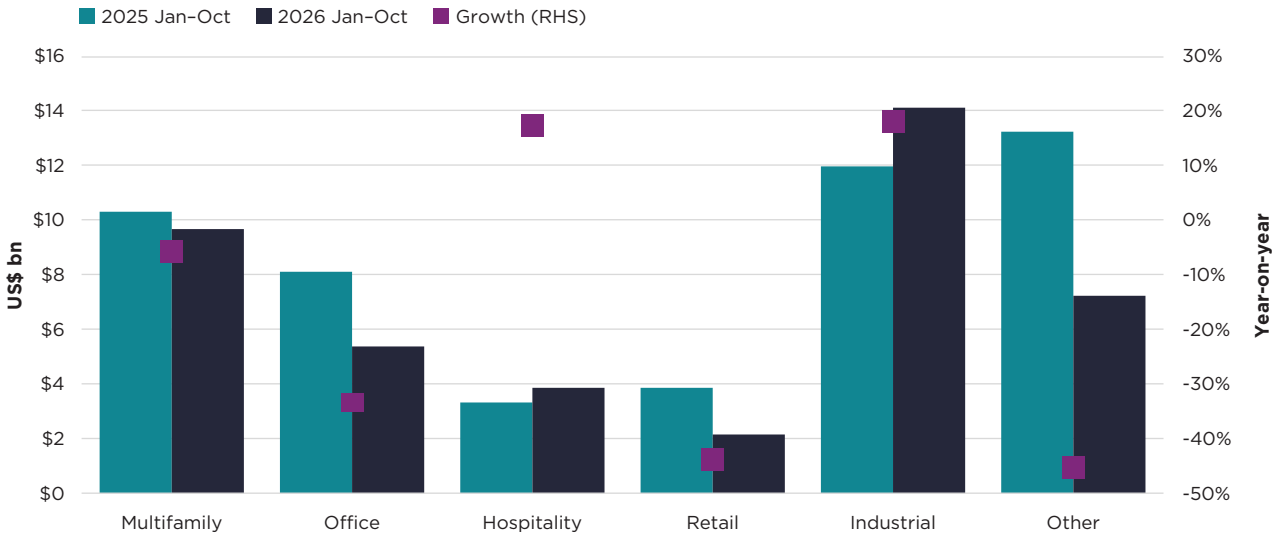
Europe's economy has held up better than expected, but confidence in the outlook is weakening. The IMF raised its euro area growth forecast to 1.1% for this year, although sentiment and consumer confidence have deteriorated. At the same time, inflation rose to 3.8% in September, largely reflecting higher energy costs rather than a broader acceleration in prices. Nevertheless, rising household bills and business costs are creating a less favourable backdrop for consumption and corporate confidence.

Meanwhile, the effects of higher interest rates are becoming clearer in the wider economy. The ECB's October Bank Lending Survey showed that corporate credit standards tightened during Q3, reflecting heightened perceptions of risk and reduced willingness to lend. At the same time, demand for business loans declined, and banks expected further tightening in the final quarter.

For investors, higher rates are translating into more expensive and complex financing decisions, putting pressure on the prices they can justify. Debt remains available, particularly for core properties with secure income, but securing it on terms that make an acquisition viable has become more demanding given the recent rise in swap rates. Lenders remain cautious about development, value-add strategies, and assets with significant leasing or capital expenditure requirements. Access to finance therefore provides only qualified support to pricing, even where lenders are willing to fund transactions.

Lending activity also remains uneven, reflecting both softer transaction activity and continued lender selectivity. PERE Credit's latest Lending Barometer recorded a 16% year-on-year decline in commercial real estate lending between January and October, with growth in industrial and hospitality lending offset by falls in other sectors, notably office and retail.

COMMERCIAL REAL ESTATE LOANS IN EUROPE

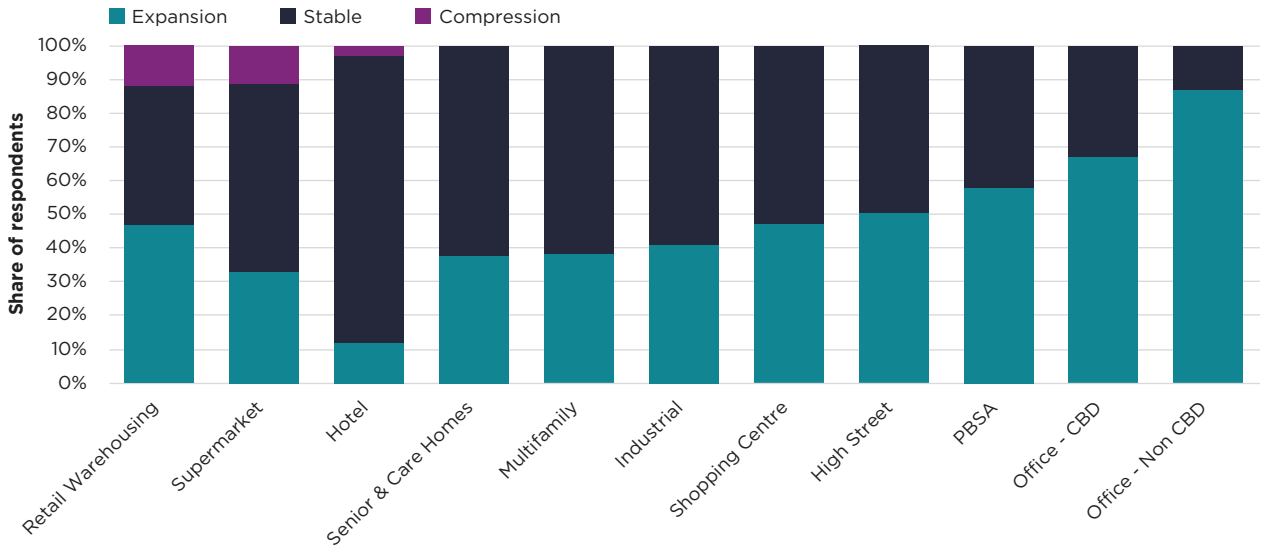


Source: Savills research using PERE's Lending Barometer

With financing costs constraining purchasing power, the scope for broad yield compression has narrowed. Outward adjustments are likely to vary considerably across markets and sectors, with particularly pronounced differences between prime and secondary office properties. Secure income and limited expenditure requirements should offer some resilience, while assets with weaker fundamentals face greater pressure.

Overall, yield stability remains the prevailing expectation, although anticipated movements are firmly weighted toward softening. On average across all asset types, yields are expected to remain stable in around half of all market and sector pairs in Europe, with softening in the majority of the rest. The few areas where we expect some yield hardening over the next 12 months are concentrated in retail warehouses and, to a lesser extent, hotels. This cautious outlook is consistent with a transactional market that has yet to build sustained momentum.

EUROPEAN 12 MONTH PRIME YIELD EXPECTATIONS



Source: Savills research

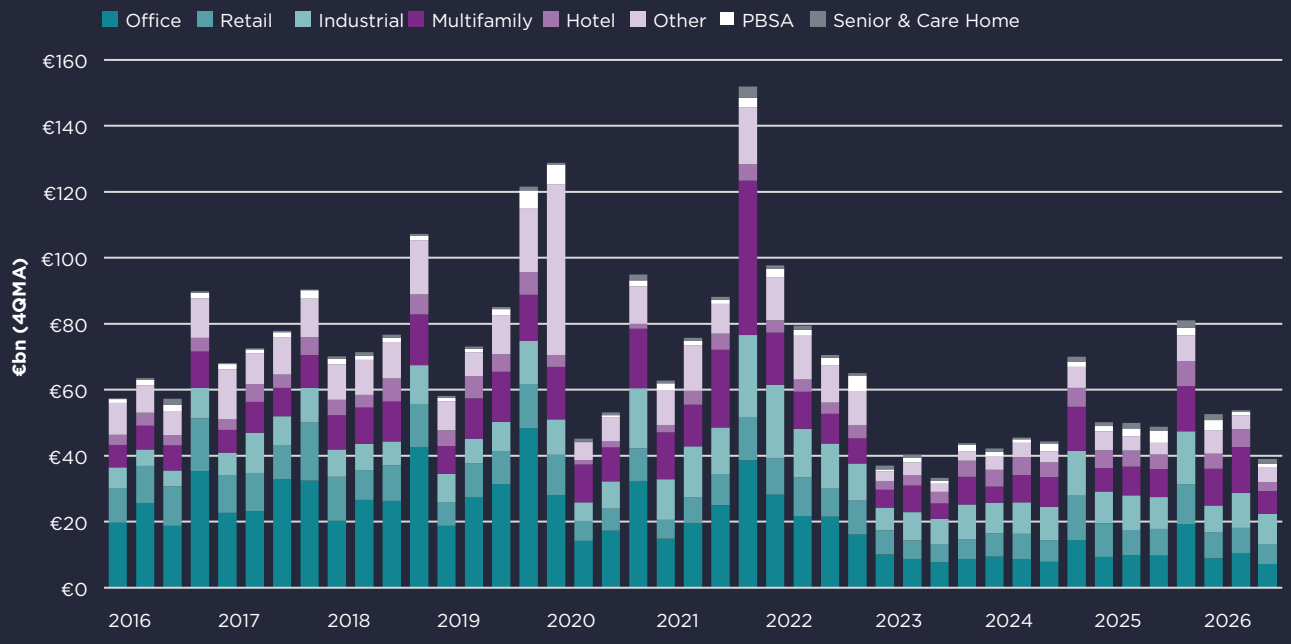
European investment activity reached €43bn in Q3, around 10% below the same quarter last year. This brought activity over the first nine months to slightly more than €153bn, up 4% year on year. The annual increase masks a slowdown in momentum, with final third quarter investment turnover coming in around €2bn below our preliminary estimate.

The shortfall points to a more hesitant investment market. Recent interest rate developments, and the associated uncertainty over financing costs and pricing, are encouraging buyers to proceed selectively. Significant transactions continue to take place, but investment decisions remain measured and due diligence is taking longer.

Activity remains concentrated in prime assets, where the limited availability of suitable assets for sale is constraining the volume of transactions. Opportunities further along the risk spectrum are also restricted by a shortage of well-located secondary properties at prices buyers consider sufficiently attractive. This leaves capital targeting a relatively narrow pool of suitable assets.

The recovery also remains narrow geographically. Europe's three largest and most liquid investment markets are not contributing to the increase in regional activity, with growth reliant on stronger performance elsewhere.

EUROPEAN REAL ESTATE INVESTMENT



Source: Savills research

Southern Europe, the Nordics and CEE are playing a larger role in European investment. Together, these regions have accounted for over 45% of regional investment in 2026, compared with an annual average of around one-third over 2021–25. Their combined contribution now almost matches that of the core markets, whose share has fallen from 58% to 46% over the same period.

Within Southern Europe, Spain continues to attract capital, supported by resilient economic activity and an attractive relative sovereign risk premium. Italy's performance is being driven by large transactions, with particular interest in retail warehouses, hospitality and logistics. Strategies focused on improving assets remain prominent in Italy, although core investors are gradually returning to the market.

In the Nordics, Sweden's softer Q3 outturn follows a strong first half, boosted by several large transactions. Investor sentiment remains positive, and an active pipeline offers scope for a strong end to the year. Poland, meanwhile, continues to benefit from regional capital inflows, particularly from Czech investors, while expanding defence and manufacturing activity supports the outlook for industrial demand.

Conditions elsewhere are more measured. Ireland's resilient domestic economy supports expectations of higher investment activity. In the Netherlands, interest is improving in logistics, including among US buyers, while residential investment remains predominantly domestic driven. Meanwhile, activity remains subdued in the UK, Germany and France, which have traditionally been key destinations for international capital because of their scale and liquidity.

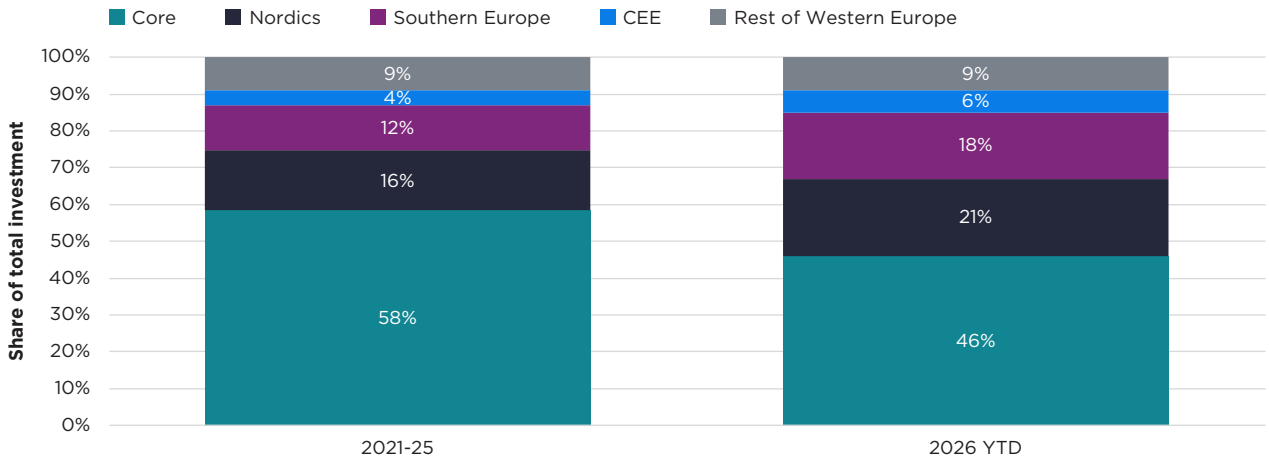
Cross-border investment reached approximately €58bn in the first nine months of 2026, up 14% year on year, although its share remained slightly below 45% of total investment, low by historical standards. Intra-European flows rose by 15%, led by UK, French, Swedish and German outbound investors. European investors were the largest source of cross-border capital in the region, ahead of the Americas, where inflows declined by 3% (a decline in inbound US investment was offset by strong growth from Canada). Meanwhile, investment from the Middle East rose by 195% over the same period.

Alongside this geographic selectivity, capital is also becoming increasingly concentrated in those sectors offering dependable income and strong rental growth. Living remains central to these allocation decisions, with combined investment in multifamily, purpose-built student accommodation, care homes and senior living up 23% year on year in the first three quarters of 2026, accounting for over one-quarter of total European investment. This growth contrasts with declining activity across the other commercial sectors, as persistent supply shortages and resilient occupier demand continue to underpin living's appeal.

Within retail, investors are reassessing the sector's pricing and income potential. Retail warehouses and shopping centres continue to attract investor interest, supported by competitive pricing (relative to other asset classes) and a strong total return performance, as recorded by MSCI. Office demand is also strengthening, although appetite remains concentrated at the prime end of the market. Location, building quality and income security continue to determine where investors are prepared to commit capital.

Logistics investment has lost some momentum following an extended period of robust activity. Geopolitical tensions, trade uncertainty and higher energy and transport costs may be adding to caution by making occupier demand and rental growth harder to assess. The continued restructuring of global supply chains nevertheless supports the sector's longer-term prospects.

EUROPEAN INVESTMENT BY REGION



Source: Savills research



This selectivity has not prevented capital from being deployed at scale, with larger transactions becoming a more prominent feature of the overall market. Deals exceeding €500m accounted for approximately 12.5% of total European investment in the first half of 2026, compared with 8.5% in the same period of 2025. Recent transactions reinforce this trend, with investors showing a willingness to deploy capital at scale across portfolios, individual assets and sizeable ownership stakes.

Portfolio acquisitions have included Blue Owl Capital's purchase of 12 UK private hospitals from Malaysia's Employees Provident Fund for approximately €1.5bn, alongside Greystar's acquisition of the 904-home Elephant Park rental portfolio in London from CPP Investments and Lendlease for approximately £500m.

The scale of individual asset transactions is also notable. Pontegadea's reported €820m acquisition of Capital 8 in Paris from Invesco Real Estate stands out as continental Europe's largest single-asset office transaction since 2022. KKCG Real Estate Group's purchase of 1 St James's Square in London for around €340m provides another example of substantial capital being deployed into a single property.

Large ownership stakes are also changing hands. Icade acquired the remaining 49% interest in the fully let Tour EQHO for approximately €390m, while Hammerson purchased a 50% interest in Manchester Arndale for £218m. Rivoli Asset Management took full ownership of Madrid's Xanadú shopping centre by acquiring Nuveen's remaining 50% stake for approximately €250m.

The appetite for larger opportunities is also encouraging more joint ventures, allowing investors to pool capital and share exposure. Execution remains protracted, however, with lengthy due diligence continuing to delay the conversion of investor interest into completed transactions. Yet while investors remain cautious about committing capital, there is also a growing cost to remaining on the sidelines.

For investors holding unspent capital, postponing acquisitions offers no assurance of better conditions ahead. Continued fundraising adds to the pressure to invest, while persistent inflation and expectations of further interest rate rises could make waiting more costly. Some buyers may therefore choose to secure suitable assets in Q4 before financing conditions become more demanding.

Several significant transactions remain in the pipeline, and the usual concentration of activity towards year-end should support completions. Resilient occupational markets also underpin the income case for acquisitions. Together, these factors leave scope for a stronger final quarter, even as buyers remain selective about pricing and asset quality.

The first nine months nevertheless point to a more modest annual expansion than previously anticipated. Continued weakness in Europe's three core markets has prompted us to revise our expectations, with CEE, the Nordics and Southern Europe expected to provide the main impetus for growth. We now forecast European investment of €248bn in 2026, around 7% above 2025.

PRIME EUROPEAN YIELDS, Q3 2026 (AS AT END OF SEPTEMBER)

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	4.60%	Up	55%	4.8%	4.4%	1.0%
Logistics	Île-de-France	4.85%	No change	55%	4.8%	4.9%	0.0%
Logistics	Amsterdam	4.90%	No change	0%	0.0%	4.9%	1.2%
Logistics	Madrid	5.05%	Up	55%	5.2%	4.9%	0.9%
Logistics	London	5.50%	Up	60%	6.1%	4.6%	0.1%
Multifamily	Copenhagen	3.50%	Up	63%	4.5%	1.8%	0.1%
Multifamily	Berlin	3.70%	Up	55%	4.8%	2.4%	0.1%
Multifamily	Madrid	4.00%	Up	55%	5.2%	2.5%	-0.1%
Multifamily	Stockholm	4.00%	No change	60%	3.2%	5.3%	0.8%
Multifamily	Paris	4.50%	No change	55%	4.8%	4.1%	-0.3%
Multifamily	London	4.75%	No change	60%	6.1%	2.7%	-0.7%
Office	Milan	4.00%	No change	55%	5.4%	2.3%	-0.6%
Office	Madrid	4.40%	Up	55%	5.2%	3.4%	0.3%
Office	Paris	4.50%	No change	55%	4.8%	4.1%	-0.3%
Office	Berlin	4.60%	Up	55%	4.8%	4.4%	1.0%
Office	Frankfurt	4.60%	Up	55%	4.8%	4.4%	1.0%
Office	London (City)	5.50%	Up	60%	6.1%	4.6%	0.1%
Student	Berlin	4.50%	Up	55%	4.8%	4.1%	0.9%
Student	Madrid	4.60%	Up	55%	5.2%	3.9%	0.5%
Student	Paris	4.75%	No change	55%	4.8%	4.7%	-0.1%
Student	London	5.00%	Up	60%	6.1%	3.4%	-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.

CAPITAL 8 (MONCEAU-MURAT), PARIS



Sector: Office

Tenant: Tikehau Capital, Mitsubishi, Standard Chartered, NatWest, Investec and CMA CGM

Lease length (WAULT): Undisclosed

Area: 45,000 sqm (481,000 sqft)

Price/NIY: €800m (US$880m) / 5.0%

Vendor: Invesco Real Estate

Vendor nationality: United States

Purchaser: Pontegadea

Purchaser nationality: Spain

Other comments: Reportedly the largest single-asset office transaction in continental Europe since 2022. The asset was around 95% occupied and demonstrates continued appetite among international investors to deploy capital into large, high-quality, centrally located office assets.

CPP IB JV LENDLEASE ELEPHANT PARK PORTFOLIO, LONDON



Sector: Multifamily

Tenant: N/A

Lease length (WAULT): N/A

Area: 904 units

Price/NIY: £500m (US$662m) / Undisclosed

Vendor: Lendlease JV CPP IB

Vendor nationality: Australia and Canada

Purchaser: Greystar

Purchaser nationality: United States

Other comments: The four buildings were completed between 2021 and 2024 as part of the £2.5bn Elephant Park regeneration scheme. All four have EPC B ratings and WELL certification, with amenities including gyms, co-working areas, resident lounges and landscaped gardens.

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.



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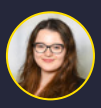
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