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Principal Asset Management®

AUTUMN 2026

Europe Real Estate sector report

Four quadrant perspectives

Sector conditions and outlook*1

Office
Condition: Stable
Outlook: Negative

Industrial/Logistics
Condition: Stable
Outlook: Moderately positive

Residential
Condition: Stable
Outlook: Moderately positive

Hotel
Condition: Stable
Outlook: Moderately positive

Retail
Condition: Improving
Outlook: Moderately positive

Data centres
Condition: Improving
Outlook: Positive

Healthcare
Condition: Improving
Outlook: Moderately positive

Student housing
Condition: Improving
Outlook: Moderately positive

*1 Outlook refers to the next 12 months.

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Resilience in a higher-for-longer environment

If the global macroeconomic landscape feels unusually complex and disorderly, that is because it is. Several structural transformations are unfolding simultaneously and interacting in ways that are creating a more volatile and challenging investment environment than anticipated at the start of the year.

1. **Inflation has reaccelerated but remains relatively well anchored.** Eurozone inflation rose to 3.2% in August, primarily reflecting the economic consequences of the Middle East conflict. Indeed, energy inflation reached 14.3% in August, driven by higher oil and gas costs and wider refining margins. However, excluding energy and food, price pressure remains relatively contained at 2.4%, suggesting that the current spike is still predominantly energy driven. The risk of broader second-round effects, however, will depend on the conflict's length and intensity.
2. **Interest rates are rising for geopolitical and structural reasons.** After pausing for a year, the European Central Bank has raised its deposit rate twice in 2026, by a cumulative 50bps to 2.5%. Further tightening is likely, with markets pricing in two more hikes over the next six months. Other central banks have become more hawkish too, amid higher inflation expectations. However, the rise in global bond yields and widening of term premia reflect more than that. Structural factors are also at play, including rising public debt, substantial capital requirements associated with investment in AI, data centres and power infrastructure, as well as a shifting geopolitical landscape.
3. **Growth has proved more resilient than expected.** Despite the complex environment, the Eurozone and UK economies expanded by 0.6% (0.3% excluding Ireland) and 0.5% in the second quarter, respectively. Forward-looking indicators suggest that positive momentum will continue across countries and sectors, supported by rising defence, infrastructure and AI-related investment.

Against this backdrop, inflation and interest rates are likely to remain higher for longer. This has unsettled markets and revived concerns about a repeat of the post-pandemic repricing in commercial real estate (CRE). What makes this time different is that the CRE debt markets remain open, liquid, and competitive, and the banking system and corporate sector are in stronger condition than they were ahead of prior recessions. Credit availability does not insulate valuations from higher discount rates, but it can reduce the risk of forced sales and disorderly repricing.

Our base case is not a repeat of the post-pandemic correction, but neither is it a return to the low-rate environment that preceded it. Income should remain resilient, while durable NOI growth without excessive balance-sheet or capital-expenditure risk is likely to distinguish the strongest assets.

This elevates the importance of net operating income growth as a driver of total returns, which has been a defining attribute of the real estate asset class. Income returns have historically accounted for 80% of total returns over the past five decades. Moreover, this income return based on long-term leases has proved an effective feature, often offsetting periods of higher inflation and interest rates. In today's environment, where cap rate compression may be limited, NOI growth supports both income generation and asset appreciation. Achieving it requires not only selecting the right property types and markets but also creating value through active asset management and value-add strategies.

Many properties and markets may continue to benefit from an early-cycle environment characterized by rising rents and values. Others, however, may face a cycle that never fully materializes. This ultimately means investors should also expect a wider dispersion of returns.

Dispersion has always existed, but for much of the past thirty years it has often mattered less. Broad-based recoveries lifted most assets, while downturns weighed on nearly everything. The rapid recovery following the Global Financial Crisis that resembled a V-shape that looks much different than today. For the first time since the aftermath of the Savings & Loan crisis, avoiding the losers may be just as important as identifying the winners. In a market defined by structural change, selectivity matters more, and alpha is earned rather than given.

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Office

Sector rating
Moderately negative ↘

New supply*2
Moderately positive ↗

*2 New Supply: Red downward signifies new supply is currently high.

New demand
Neutral →

Rent growth
Neutral →

Capital values
Moderately negative ↘

REIT pricing relative to NAV*3
Negative ↓

*3 REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Sector overview

European offices remain highly polarised, with resilient demand and limited supply supporting prime assets. Conversely, secondary buildings face high vacancy, capital expenditure requirements and obsolescence risk. Overall, investment volumes fell by 7% year-on-year in H1 2026, yields edged slightly higher, and listed office companies continued to trade at substantial discounts to NAV. The recovery is likely to remain selective, with a constrained development pipeline supporting rental growth for modern, energy-efficient offices in the strongest locations.

Private equity

The latest INREV Consensus Indicator, which measures investor sentiment towards European commercial real estate, recovered some ground in Q3 2026 after the sharp deterioration in the prior quarter. However, sentiment remains in negative territory, driven by renewed inflationary pressures and higher borrowing costs. Indeed, the macroeconomic outlook remains uncertain, as the intensity and duration of the energy shock, together with its indirect and second-round effects, are difficult to predict while the conflict in the Middle East is not fully resolved.

Against this backdrop, European CRE transaction volumes have remained subdued so far this year. The office sector was not an exception, with capital flows declining by 18% in Q2 and by 7% in H1 2026, to approximately half the levels recorded during the previous market cycle. Deal selectivity reflects the bifurcated nature of the market, as investors have targeted either core-plus opportunities where returns can be generated through physical improvements, or prime assets in the best locations within major gateway cities, where vacancy rates are low, barriers to new supply are high, and rental growth is likely to remain robust. Conversely, secondary assets in weaker locations remain challenged by softer demand, higher vacancies, elevated capex requirements, and more limited financing availability.

Although employers have increased in-office requirements, hybrid working remains a lasting feature of the market, with occasional homeworking still elevated across Europe. Thus, despite employment reaching multi-year highs, apart from the notable exception of the UK, daily office occupancy remains below pre-pandemic levels in most markets. This trend is reinforcing demand for modern, well-located offices that justify commute times. On average, European prime office rents increased by 1.2% Q/Q and 4.5% Y/Y to June 2026, led by Berlin and Milan with 4.4% and 3.7% Q/Q, respectively. However, yields edged up by 3bps to 5.39%, with weakness more evident in French markets.

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Office

(continued)

Public equity

The office sector has underperformed the broader listed property index so far this year, with two notable exceptions. Swiss office companies have outperformed, largely reflecting the country's safe-haven status amid an uncertain macroeconomic environment. Prime London office companies have also benefited from robust fundamentals. Conversely, in Continental Europe, Paris-focused office companies have been particularly weak year-to-date, amid concerns about rising vacancy rates and slowing rental growth. Swedish office companies have also underperformed due to weak tenant demand and high vacancy rates.

Although vacancy remains elevated, there is substantial bifurcation within the market by asset quality and location. Newer, well-located, modern assets are favoured as both tenants and landlords increasingly value energy efficiency, while occupiers also prioritise their superior flexibility. Lower quality offices risk becoming stranded assets unless owners make substantial investments to counter obsolescence risks and falling values. The transaction market is improving for higher-quality and newer assets but remains challenged for secondary properties.

The listed office sector is trading at a discount to NAV of ~30% and typically owns assets at the better end of the quality spectrum, where tenant demand has been more resilient.



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Industrial/ Logistics

Sector rating

Moderately positive ↗

New supply*2

Moderately positive ↗

*2 New Supply: Red downward signifies new supply is currently high.

New demand

Neutral →

Rent growth

Moderately positive ↗

Capital values

Moderately negative ↘

REIT pricing relative to NAV*3

Negative ↓

*3 REIT pricing relative to NAV: Red/ downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Sector overview

Industrial fundamentals remain broadly balanced, although transaction volumes fell by 18% year-on-year in H1 2026 as geopolitical uncertainty, elevated interest rates and weaker economic growth weighed on investment activity. Occupier consolidation into modern and efficient facilities, together with subdued development activity, is driving greater sector polarization, with the vacancy rate gap between Grade A and average quality stock being as wide as 420bps in Spain, 370bps in France, and 340bps in Germany. The sector retains a moderately positive outlook, but we expect performance to diverge further between best-in-class assets in strategic locations and older facilities that no longer meet occupier requirements.

Private equity

Geopolitical tensions, trade policy uncertainty, higher interest rates and elevated government bond yields continue to weigh on the industrial sector. Transaction volumes declined by 18% in the first half of 2026 compared with the same period last year, reaching their lowest level since H1 2019, according to RCA. Capital flows were particularly weak in the UK, France, Italy and Germany, partially offset by improvements in the Nordics, the Netherlands and Ireland. Prime logistics yields softened by 6bps to 5.0% in Q2 2026, with weakness recorded in France and the UK.

Despite this challenging backdrop, fundamentals remain broadly balanced. Occupiers are not necessarily expanding their footprints, rather they continue to consolidate their portfolios into modern, more efficient facilities that offer greater operational efficiencies, automation and flexibility. Meanwhile, development activity appears to have stabilised at a lower level, after declining by around 20% in both 2024 and 2025. This trend is expected to limit the availability of modern space and support rental growth for this segment of the market.

At the European level, the vacancy rate tightened slightly in Q2 2026 to 6.7%, according to Savills. However, this headline figure conceals significant variation across asset qualities and markets. Much of the available space is concentrated either in older, less operationally efficient buildings that no longer meet evolving corporate requirements or in markets affected by high levels of legacy speculative development, including London, Madrid and Budapest.

Prime logistics rents increased by 0.6% quarter-on-quarter, broadly in line with the pace recorded over the previous four quarters, bringing annual growth to 2.4% as of June 2026. This rate is considerably lower than the post-pandemic annual average. However, best-in-class assets and top-tier locations have continued to achieve stronger rental growth.

These forces are driving a sharp performance divergence between high-quality, modern assets in strategic locations compared to legacy or secondary facilities that cannot meet evolving occupier requirements. The industrial sector therefore remains attractive, although investment decisions require greater selectivity than in the previous cycle, particularly regarding location, asset quality, power availability, automation potential, sustainability and access to labour.

Industrial/ Logistics

(continued)

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Public equity

The performance of industrial property has been mixed so far this year, with M&A activity dominating the headlines and supporting the share prices of takeover targets, which have clearly outperformed the rest. The largest European industrial REIT outperformed by nearly 40% YTD following a takeover approach by a US peer, which was finally agreed after a fourth offer. Another large deal saw Europe's third-largest industrial REIT agree to a friendly merger with a French industrial company, whose share price outperformed the broader sector index by ca. 20% so far this year. Similarly, companies with high occupancy, stable income and solid medium-term growth plans have outperformed their peers, although by a more modest margin, while those facing uncertainty over the lease-up of large development pipelines have underperformed.

Tenant demand has generally held up relatively well so far this year despite the Middle East conflict and a volatile macroeconomic backdrop, although new leases are taking longer to be signed. Overall supply levels remain relatively tight, with speculative development continuing to slow despite stabilizing construction costs. Industrial REITs typically trade at a ca. 20% discount to NAV.



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Residential

Sector rating

Moderately positive ↗

New supply*2

Positive ↑

*2 New Supply: Red downward signifies new supply is currently high.

New demand

Neutral →

Rent growth

Moderately positive ↗

Capital values

Moderately negative ↘

REIT pricing relative to NAV*3

Negative ↓

*3 REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Sector overview

The European residential sector recorded the strongest transaction momentum among the major property types in H1 2026, with investment volumes rising by 27% year-on-year to a level 10% above the ten-year first-half average. Demand remains supported by migration and declining household sizes, while housing shortages and limited new development have kept institutional multifamily vacancy rates close to 2.5%, on average. These structural imbalances support a positive outlook for the rental market, although higher financing costs and affordability constraints may weigh on valuations.

Private equity

The European residential sector remains relatively small and fragmented, with significant variation across countries. Institutional penetration is still materially lower than in the US, and the built-to-rent (BTR) stock remains limited. Nevertheless, the sector is attracting increasing investor interest, supported by structural supply–demand imbalances, persistent housing affordability and availability challenges, and its defensive characteristics.

Residential recorded the strongest transaction momentum among sectors in H1 2026, with investment volumes rising by 27% year-on-year to a level 10% above the ten-year first-half average. Capital flows were robust across most European markets, led by Spain, the UK and the Netherlands, while Germany and Sweden were the only major markets to record weaker activity. Spanish apartment investment increased by 400% in H1 2026, supported by several large transactions involving cross-border capital from North America and the UK. Investors were attracted by the country's resilient economy and favourable migration trends.

Fundamentals remain strong across Europe. Estimates based on major institutional multifamily portfolios indicate that the vacancy rate was approximately 2.5% in Q2 2026. The market is expected to remain extremely tight over the medium term, as building permits and completions continue to fall short of housing requirements in many countries. France and Germany, for example, are estimated to require approximately 518k and 400k new homes annually, respectively. Meanwhile, the Netherlands requires nearly one million additional homes by 2031 and Sweden more than 500k by 2033. However, actual delivery consistently falls short of these requirements, in some cases by as much as 50%. Furthermore, housing completions across the major European markets are forecast to decline by a further 5% in 2026, taking new supply to its lowest level in a decade.

At the same time, migration and declining household sizes have continued to support demand, particularly in densely populated urban areas and tourist destinations, where affordability and availability pressures are already acute. Recognising the challenges, the European Commission is preparing an Affordable Housing Act intended to give public authorities greater legal clarity on how to address housing stress, including through restrictions on short-term rentals in affected areas.

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Residential

(continued)

Public equity

The European housing sector has underperformed the broader property index so far this year. Since the escalation of the Middle East conflict, residential has been the weakest sector, pressured by rising borrowing costs and bond yields. Recent results from listed residential companies indicate that operating fundamentals remain broadly stable across Europe, although growth momentum continues to moderate.

In Germany, market rental growth has decelerated further, but regulated passing rents are expected to continue rising at a mid-single-digit pace, supported by indexation, reversionary potential, and persistent housing shortages. In the Nordics, residential markets have strengthened. For example, in Finland, occupancy improved during the summer leasing season, while apartment availability in Helsinki fell markedly year-on-year. Meanwhile, in the UK, residential rental growth remained in the low single digits, constrained by affordability pressures.

Going forward, residential valuations and transaction activity are likely to be inhibited by the higher borrowing costs. While debt capital markets remain open and credit spreads are supportive, many listed residential companies continue to prioritise deleveraging through selective asset sales, reflecting persistent double-digit discounts to gross asset values, with the sector trading at an average discount of ~51% to last published NAV.



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Hotel

Sector rating

Moderately positive ↗

New supply*2

Neutral →

*2 New Supply: Red downward signifies new supply is currently high.

New demand

Positive ↑

Rent growth

Positive ↑

Capital values

Moderately positive ↗

REIT pricing relative to NAV*3

Negative ↓

*3 REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Sector overview

European hotel fundamentals remained resilient in H1 2026, with investment volumes of approximately EUR 10 billion and RevPAR growth of 4.5%, driven primarily by higher average daily rates. Travel demand continues to support operating performance, but rising labour, energy and borrowing costs could compress margins, particularly for highly leveraged operators with limited pricing power. The strongest opportunities remain in well-located, underinvested assets where refurbishment, operational improvements and branding can enhance performance.

Private equity

The hotel sector's fundamentals remained resilient despite geopolitical uncertainty, rising energy costs and concerns about disruption to air travel. Investment volumes reached approximately €10 billion in H1 2026, exceeding the ten-year average but remaining slightly below the level recorded during the same period last year. Capital was concentrated in fewer, higher-quality assets. Upscale hotels were the most actively traded category, accounting for approximately 46% of total investment, followed by luxury and midscale hotels at 26% and 21%, respectively. Economy hotels represented the smallest share, at 7%.

Operating performance was positive and exceeded expectations, as weaker demand from the Middle East was more than offset by stronger intra-European travel and long-haul demand from the Americas. European RevPAR (the industry benchmark measuring revenue per available room) increased by 4.5% year-on-year in H1 2026, outperforming forecasts made at the beginning of the year, according to CBRE. Performance was primarily driven by ADR (average daily rate) growth of 3.2%, reflecting resilient demand as consumers continued to prioritise travel and leisure experiences despite the uncertain macroeconomic environment. Higher occupancy also contributed, although to a lesser extent, as already elevated occupancy levels leave progressively less scope for further improvement. ADR is therefore expected to remain the principal driver of performance over the short to medium term, particularly for high-end hotels benefiting from stronger pricing power. The European Commission's forthcoming Affordable Housing Act could provide an additional tailwind to the sector. The proposed legislation is expected to give national and local authorities a clearer framework for restricting short-term rentals in housing-constrained markets. A resulting reduction in competing accommodation supply could support hotel occupancy and room rates, particularly in tourism-intensive European cities.

Conversely, the more pressing challenge for operators in the months ahead lies on the cost side. This would be particularly relevant if geopolitical tensions persist for longer. Renewed inflationary pressures and a more hawkish stance from central banks could compress hotel operating margins through higher utility, labour and borrowing costs. In such a scenario, hotel operators with high levels of debt, limited pricing power, rigid cost structures and weak balance sheets are likely to face the greatest pressure. This backdrop reinforces our investment thesis, which centres on acquiring and repositioning underinvested, operationally inefficient assets in strong locations. Opportunities are particularly compelling in European gateway cities and selected secondary markets, where branded and chain-affiliated hotels still represent a relatively small share of the market compared with North America.

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Hotel

(continued)

Public equity

Hotels are a relatively small listed sector in Europe, with only one index play available (Swedish listed pan-European player Pandox, an asset-heavy non-REIT) while other non-index plays are mostly through asset-light operators. The sector has underperformed the broader property index YTD in 2026 on the back of broader macro concerns, and the potential for slower economic growth. Leisure transient has been relatively resilient in Europe YTD, relative to other regions, with strong intra-Europe travel and increased travel from North America making up for decreased travel through the Middle East due to the conflict in that region. Group and conference travel continues to improve and benefit midweek occupancy, but general business demand has reached more of a plateau post-COVID recovery. Growth YTD has been focused on rate growth, with occupancy growth relatively flat after strong growth over the last few years, driving low single-digit RevPAR improvements overall.

Hotel NAV estimates are gradually pushing higher due to rate growth gains. Asset-heavy hotel stocks currently trade at a ~20% discount to consensus NAV reflecting recent macro-economic concerns combined with current positive operating fundamentals. Asset-light players have generally outperformed asset-heavy peers by 10-15% YTD in 2026.



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Retail

Sector rating

Moderately positive ↗

New supply*2

Positive ↑

*2 New Supply: Red downward signifies new supply is currently high.

New demand

Neutral →

Rent growth

Moderately positive ↗

Capital values

Moderately positive ↗

REIT pricing relative to NAV*3

Neutral →

*3 REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Sector overview

Retail delivered the strongest quarterly unlevered return among the traditional sectors in Q2 2026, supported by improving capital growth, resilient occupier demand and a limited development pipeline. Performance remains highly polarised, with dominant shopping centres, retail parks and food-anchored assets outperforming weaker high-street and secondary schemes. The outlook is moderately positive, but investment selection remains critical, with the strongest prospects among retail parks, discounters and supermarkets in the UK and Germany, as well as leading shopping centres in Southern Europe.

Private equity

Retail continued to perform well, delivering the strongest performance in Q2 2026 among the traditional sectors, with unlevered total return reaching 1.97%, up by 50bps over the prior quarter, primarily driven by stronger capital growth, while income return remained stable. On an annualised basis, retail delivered the second-strongest performance, at 7.0%, behind only residential (7.9%), and above industrial (5.6%), and office (2.7%), according to INREV Asset Index.

Indeed, the sector is on a firmer footing following several years of structural headwinds, consolidation, and muted supply. Investor net sentiment towards retail was the highest among all sectors tracked by INREV in September, although it moderated slightly from the previous quarter, amid macroeconomic and geopolitical headwinds. Meanwhile, occupier demand remains robust for prime retail space across Europe, putting downward pressure on vacancy rates while supporting rental growth and valuations. However, average retail capital values across Europe remain at levels last recorded 15 years ago.

The shopping centre market remains highly polarised, with high-quality and dominant schemes outperforming the rest by a wide margin in terms of investor and occupier demand. Capital is selectively returning to the segment amid relatively attractive valuations (shopping centre prime yields remain more than 100bps above those for offices and logistics) and improving footfall, a key indicator of operating performance. Indeed, several European markets have recorded rising visitor numbers in the first half of 2026 compared to the same period last year, led by Spain and Italy. Conversely, in Germany, shopping centre footfall declined further, as consumer willingness to make major purchases remained at a low level for the fourth consecutive year.

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Retail

(continued)

Public equity

Retail REITs have outperformed again so far this year, although performance dispersion has increased relative to 2025. Owners of dominant regional malls and large-format shopping centres have been the strongest performers, reflecting superior operating fundamentals and greater embedded rental growth. Food-anchored neighbourhood and sub-regional shopping centre REITs have also outperformed most domestic property sectors, but to a lesser extent. High street retail portfolios have been the weakest.

Consumer spending has remained resilient despite higher inflation, elevated interest rates and renewed geopolitical uncertainty following the escalation of the conflict in the Middle East. Leasing markets remain healthy, with rental growth broadly in line with wider property market trends and reversionary potential continuing to improve. Stable property yields are supporting capital values, while growing rental income is driving earnings growth. As expected, higher-quality assets continue to deliver the strongest operational performance.

Improving investor sentiment has facilitated asset disposals, allowing companies to accelerate deleveraging. With balance sheets generally in stronger condition, better-capitalised landlords have resumed investment activity, both through redevelopment programmes and selective acquisitions. The sector also continues to unlock value through the repurposing of surplus retail space for alternative uses. Retail REITs have traded at an average discount of approximately 11% to reported NAV over the past year.



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Data centres

Sector rating

Positive ↑

New supply*2

Negative ↓

*2 New Supply: Red downward signifies new supply is currently high.

New demand

Positive ↑

Rent growth

Positive ↑

Capital values

Moderately positive ↗

REIT pricing relative to NAV*3

Not applicable

*3 REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Sector overview

European data centres continue to benefit from strong structural demand, driven by cloud computing, artificial intelligence, and an increasing focus on digital resilience and data sovereignty. Take-up across the primary FLAP-D markets exceeded new supply in the first half of the year and is projected to continue outpacing it, pushing vacancy to a record low of 5.2% by year-end. Against this backdrop, capital is increasingly moving further afield into secondary and tertiary markets in search of available power and land.

Private equity

The European data centre sector continues to experience strong structural demand, driven by the rapid adoption of cloud computing and artificial intelligence. Geopolitical uncertainty stemming from the conflicts in Eastern Europe and the Middle East, together with volatile relationships within the NATO alliance, has also increased Europe's focus on digital resilience and data sovereignty, further supporting data centre demand and capital flows going forward.

Across the primary markets, take-up reached 247MW in the first half of 2026, exceeding the 226MW of new supply, with demand particularly strong in London, Frankfurt and Amsterdam. CBRE expects full-year take-up to reach 588 MW, around 6% below the 2025 level. However, this decline reflects limited availability rather than weaker underlying demand. Indeed, available capacity across FLAP-D is expected to fall for a seventh consecutive year in 2026, as strong demand continues to outpace constrained supply. Thus, the vacancy rate is expected to reach a record low of 5.2% by year-end, equivalent to roughly half its level three years ago. Frankfurt is forecast to remain the tightest market, with its vacancy rate projected to decline from the current 4.6% to just 1.2% by year-end.

These dynamics are driving capacity expansion beyond the primary markets into secondary locations such as Barcelona and Milan, as well as into a broader range of tertiary markets, including Oslo, Stockholm and Lisbon, amid greater land availability and more competitive power costs. According to Green Street, the share of total European data centre capacity located in secondary markets increased from 20% to 27% over the past three years, while the share in tertiary markets rose from 5% to 8% over the same period. This trend is expected to accelerate as power constraints intensify in primary markets and large-scale AI infrastructure continues to be built across Europe. However, not all markets and data centres are equal. Our investment preference remains focused on tier-one and selected secondary markets, which are likely to continue benefiting from strong demand, network effects, high barriers to entry, and limited supply, even if AI investment moderates.

Europe is also at the forefront of data-centre sustainability, supported by a relatively advanced regulatory framework and established practices such as recovering waste heat from data centres to supply district-heating networks across the Nordic countries. Furthermore, as part of the Data Centre Energy Efficiency Package published in September, the European Commission adopted a delegated regulation establishing an EU-wide sustainability rating scheme for data centres with installed IT power demand of at least 500 kW. Subject to a two-month scrutiny period, the scheme is expected to provide greater transparency on energy and water efficiency, low-emission energy use and waste-heat reuse. The wider package also launched a consultation on potential mandatory minimum performance standards.

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Health care

Sector rating
Moderately positive ↗

New supply*2
Positive ↑

*2 New Supply: Red downward signifies new supply is currently high.

New demand
Moderately positive ↗

Rent growth
Neutral →

Capital values
Moderately positive ↗

REIT pricing relative to NAV*3
Neutral →

*3 REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Sector overview

Healthcare real estate conditions remained broadly positive in Q2 2026, with investment volumes reaching €7.8 billion in H1, around 60% above the same period last year, and yields compressing modestly. Occupancy has risen above pre-pandemic levels and is expected to improve further amid a widening imbalance between supply and demand. However, the near-term outlook is more mixed, as renewed inflationary pressures and higher borrowing costs may weigh on operator profitability.

Private equity

Conditions in the healthcare real estate sector remained broadly positive in the second quarter, although the near-term outlook is clouded by rising inflation and borrowing costs. Higher labour, energy and other operating costs could put pressure on operators' profitability as revenues are often determined by regulated fees, public-sector reimbursement arrangements or longer-term contracts that adjust only with a delay.

Investor sentiment towards the sector remains positive, although the net balance declined from 13% in June to 8% in September, slightly below its long-term average, according to INREV. Positive investor appetite was also evident in capital flows, with investment volumes reaching €7.8bn in the first half of 2026, a level 60% higher than in the same period last year. Activity was supported by industry consolidation and increased US penetration through platform acquisitions. Transaction volumes were particularly strong in the first quarter but moderated in the second as a weaker macroeconomic backdrop weighed on investor appetite. Nevertheless, yields compressed by 4bps in Q2, year-on-year, to 5.16%.

Meanwhile, the average occupancy rate across care homes and healthcare facilities stood above pre-pandemic levels and is likely to continue improving amid a widening imbalance between demand and available supply. New supply is required in many markets, but development is often uneconomic at current construction costs and achievable rents. Meanwhile, demand is projected to increase significantly over the medium to long term due to secular trends such as population ageing, rising healthcare expenditure and greater reliance on private healthcare provision. Additionally, the increasing frequency of extreme weather events, such as rising average temperatures and seasonal heatwaves, could place further pressure on healthcare systems and add to long-term demand.

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Health care

(continued)

REITs

Healthcare REITs have performed broadly in line with the EPRA index this year, following a period of outperformance in 2025. Performance has been underpinned by the sector's defensive characteristics: healthcare tends to perform best in lower-growth and medium-to-high inflation environments but usually lags during periods of stronger economic growth. Recent results indicate that operating fundamentals remain broadly stable, although rental growth is slowing as indexation moderates. The financial health of care home operators is also strengthening thanks to occupancy improvements. Debt markets have reopened and credit spreads have tightened, supporting refinancing activity and balance sheet management.

M&A has been a key theme within the healthcare sector, with contested bidding processes supporting the share price of target companies ahead of completion. Valuations are broadly neutral relative to the wider property sector as healthcare offers a higher starting yield than residential, but lower rental growth and greater exposure to operator and regulatory risks.

Overall, the worst of the valuation and financing pressure appears to have passed. However, deleveraging priorities, limited development economics and moderating indexation are likely to continue constraining near-term earnings growth. The sector trades closer to NAV.



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Student housing

Sector rating
Moderately positive ↗

New supply*2
Neutral →

*2 New Supply: Red downward signifies new supply is currently high.

New demand
Positive ↑

Rent growth
Moderately positive ↗

Capital values
Moderately negative ↘

REIT pricing relative to NAV*3
Negative ↓

*3 REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Sector overview

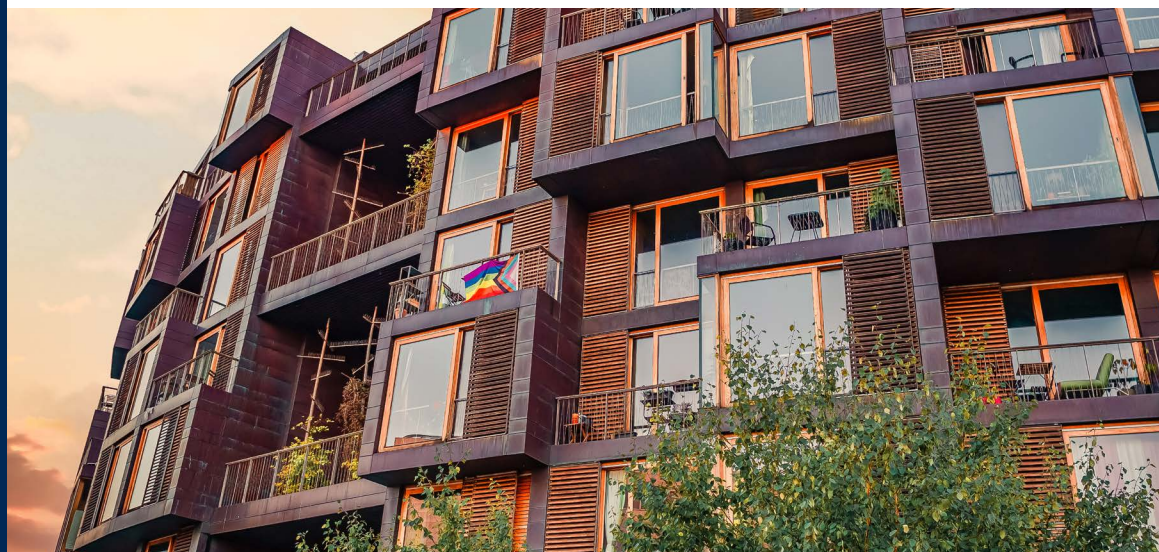
European student housing remains attractive, but investment momentum is shifting from the mature UK market towards less institutionalised and undersupplied markets in Continental Europe. Continental Europe overtook the UK in investment volumes in 2025 and retained its lead in H1 2026, while rental growth reached 3.5% compared with 2.8% in the UK. Acute housing shortages, low provision rates and supportive international-student policies underpin the Continental European outlook, while tighter visa rules and affordability pressures present greater challenges in the UK.

Private equity

Traditionally, the UK has been Europe's most mature and attractive purpose-built student accommodation (PBSA) market, supported by a large international student population, globally prestigious universities and its English-language advantage. However, recent editions of this report have highlighted a gradual shift in the sector, as market fundamentals and the investment environment have become relatively more favourable across Continental Europe. This shift is evident in capital flows: investment in Continental Europe overtook the UK in 2025 for the first time since records began and retained its lead during the first half of 2026. Rental performance provides further evidence, with rents increasing by 3.5% in Continental Europe, compared with 2.8% in the UK, according to PBSA data provider Bonard.

Two principal factors are driving this trend. First, PBSA remains an emerging and relatively less institutionalised sector in Continental Europe, with comparatively few privately operated assets and much lower provision rates. Since the pandemic, however, the need for dedicated student accommodation has become increasingly urgent as widespread housing shortages and affordability pressures have intensified. These challenges have left students living away from home—particularly those arriving from overseas—especially exposed.

Second, many Continental European markets offer lower tuition fees and living costs, alongside generally more supportive policies towards international students than some other major study destinations. US student-visa issuance fell by around one-third in 2025, while additional restrictions could make the country less attractive to prospective students. Similarly, UK sponsored study visa grants in 2025 remained around one-third below their 2023 peak. By contrast, several Continental European countries remain broadly supportive of international students, viewing them as an important source of talent and future skilled labour.



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