Market Insights on European non-listed real estate in September 2025

Cautious optimism as performance holds positive

The latest edition of the INREV Market Insights presents a nuanced picture of the European real estate landscape. While overall market performance remains in positive territory, sentiment remains cautious, with timid signs of improvement.

The INREV Consensus Indicator rose from 52.2 in June to 56.4 in September, supported by an improved availability of financing and a notable uptick in confidence over the liquidity in the direct European real estate market.

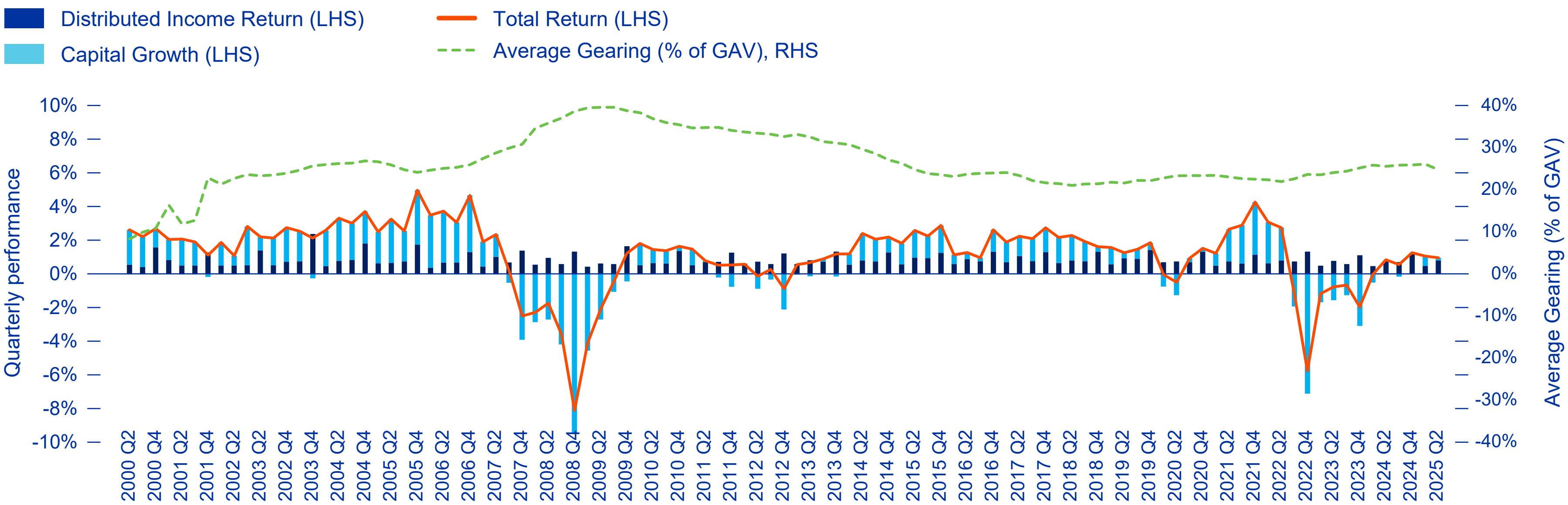
According to the Q2 2025 INREV Quarterly Fund Index, total returns reached 0.98%, slightly lower than the 1.08% recorded in the previous quarter. Capital growth eased to 0.17%, a decline of 41 basis points quarter-on-quarter. On a one year rolling basis, capital growth continued to remain just in positive territory at 0.58%, highlighting a fragile recovery after an extended period of repricing.

Distributed income return increased to 0.82% in Q2 2025, compared with 0.50% a quarter earlier.

At a sector level, all single sector funds delivered positive Q2 returns, with residential vehicles in the lead with 1.95%. Notably, office specialist funds returned to positive territory, with 0.58%.

Geographically, Finnish and Dutch focused funds stood out with the strongest quarterly results at 3.71% and 2.15%, respectively.

Figure 1: European non-listed real estate performance



Source: INREV Quarterly Fund Index, Q2 2025

European performance softens, with France and Germany reporting negative capital growth

[The INREV European Quarterly Asset Level Index] posted a total return of 1.54% in Q2 2025, moderating from 1.73% in Q1 2025. The slowdown was primarily driven by weaker performance in France and Germany, reflecting a sharp decline in capital growth (Figure 2).

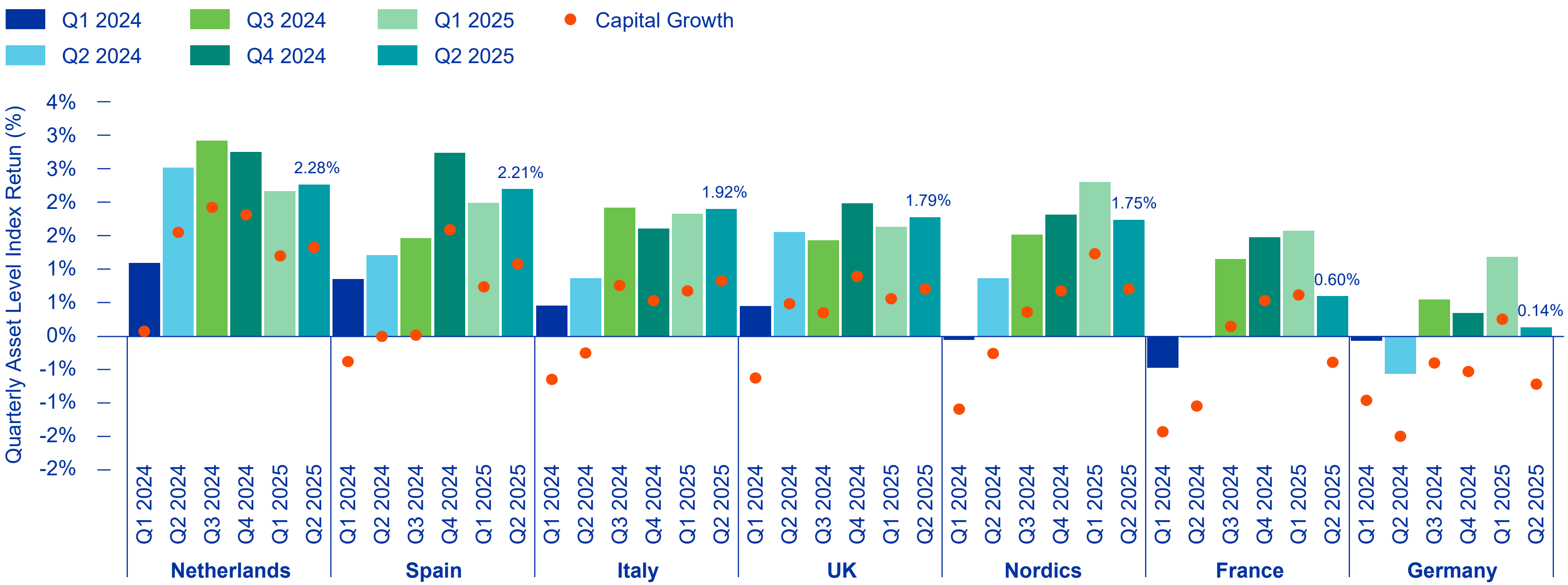
In contrast, several markets, including the Netherlands, Spain, Italy, the UK, and the Nordics, recorded stronger quarterly results, supported by positive capital value growth.

France and Germany both registered significant quarter-on-quarter total return declines (-98 bps and -106 bps, respectively). However, despite weak Q2 performance, sentiment indicators for both markets improved in the September INREV Consensus Indicator Survey (see p.8). The recent falls in values may be approaching the threshold at which investors consider re-entering, with pricing appearing more attractive relative to previous levels, a possible turning point in the cycle.

Performance in both countries was weighed down by their sizeable office exposure. French office capital growth registered -0.90%, while for German offices capital growth fell more sharply to -2.06%. Other main sectors remained positive, with industrial/logistics in the lead, with total returns of 1.37% in Germany and 1.21% in France.

The Netherlands and Spain outperformed, delivering Q2 total returns of 2.28% and 2.21%, respectively, the highest among the major European markets. Dutch performance was largely underpinned by the strength of the residential sector, complemented by contributions from the industrial/logistics sector. Spain continued to deliver solid returns across sectors, in line with its persistently positive investment sentiment (see p.8).

Figure 2: European real estate asset performance by country



Source: INREV Quarterly Asset Level Index, Q2 2025

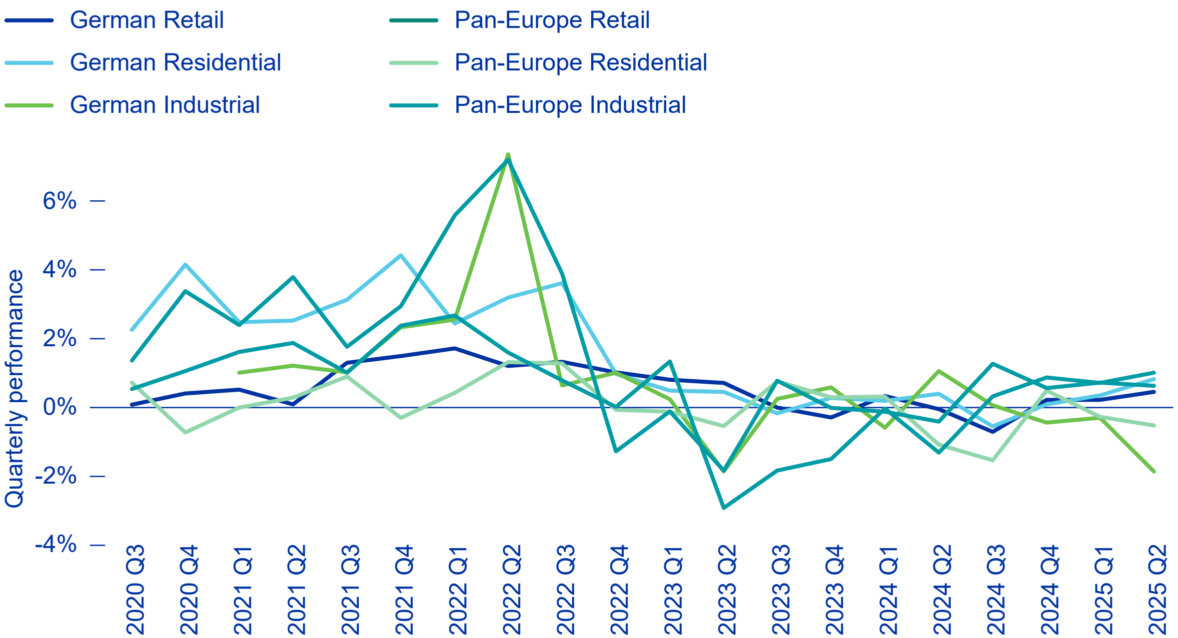
German real estate funds: Spezialfonds vs. Publikumsfonds

The Q2 INREV German Vehicles Index posted a total return of 0.06%, a decline from 0.24% in the first quarter of the year. Within this, Spezialfonds achieved 0.33%, outperforming the overall German Vehicles index, while Publikumsfonds recorded –0.16%, marking their first negative result since the final quarter of 2014.

With the new filter of the INREV Fund Analysis Tool, the distinction between institutional Spezialfonds and retail investor oriented Publikumsfonds provides a more detailed picture of fund level dynamics in Germany. Spezialfonds investing exclusively in Germany returned 0.45%, outperforming pan-European strategies and beating the overall German Vehicles Index for the first time since late 2023.

Residential focused Spezialfonds delivered the strongest Q2 returns (0.87%), supported by continued demand and relative stability in the housing market. Office funds followed with 0.45%, showing moderate gains, while industrial and logistics strategies slid into the negative territory (-0.06%).

Figure 3: European real estate asset performance by sector



Source: INREV German Vehicles Index, Q2 2025

1 The enhanced tool enables deeper insights by applying additional filters for geographic and sector strategies or a combination of both.

Furthering transparency on the pan-European open end diversified core equity (ODCE) funds' redemption mechanisms

Redemption queues and deferrals have historically been a point of concern during periods of market stress, making it critical for investors to understand the mechanics of exiting open ended real estate funds. Two of the most important concerns of investors when investing in open ended funds are the timeframe within which they can expect to receive a redemption payment and the fees they may be obliged to pay for the redemption to be fulfilled. Yet, accessible insights into redemption mechanisms remain limited.

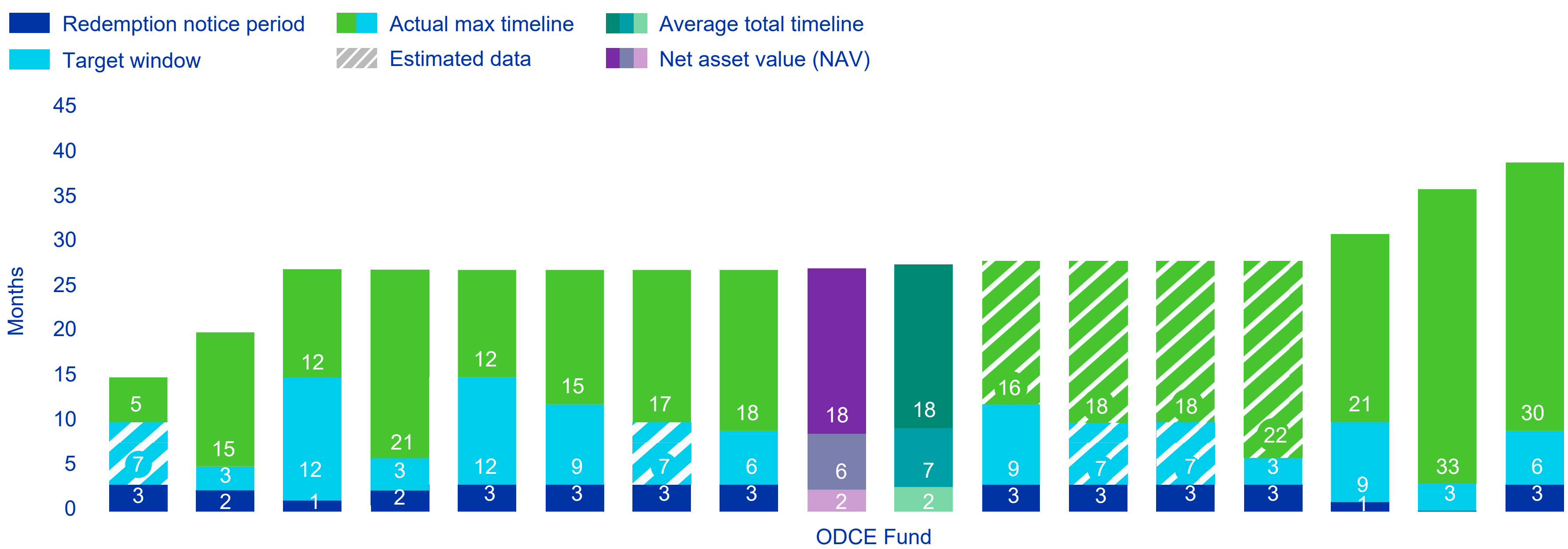
'A deep dive into INREV ODCE funds' redemption mechanisms' paper published earlier this year analyses the extent to which the 15 European ODCE funds' redemption mechanisms are similar or different, to enhance transparency for the ODCE peer group, investors, and the wider market in general.

The below results are indicative of the maximum redemption timelines during which an investor can expect to receive a redemption payment as per funds' documentation. It spans the period immediately after submitting a redemption request until the maximum allowed deferral period has been reached. Each stacked bar represents an individual fund contributing to the INREV ODCE Index, and each part of the bar represents one stage of the total redemption timeline.

Despite some clear structural differences for target windows and deferral periods, the overall maximum redemption timelines remain comparable and broadly similar across most ODCE funds, averaging at around 28 months. The NAV weighted total timeline and average total timeline are broadly similar, suggesting fund size does not significantly impact the results.

The average cash or cash equivalent as a percentage of the Gross Asset Value (GAV) hovers at around 6.1% at the INREV ODCE Index level.

Figure 4: Total redemption timeline comparison across 15 ODCE funds



Source: INREV, July 2025

INREV Consensus Indicator marks the first uptick in three quarters

The September INREV Consensus Indicator recorded a headline reading of 56.4, up from 52.2 in June. This represents the first increase following two consecutive quarters of decline, though still short of the record high of 57.8 observed in December 2024.

For the first time since September 2024, four out of the five subindicators registered positive momentum. Investment liquidity posted the most pronounced improvement, rising to 55.2 after slipping below the neutral 50 mark in June. The Financing subindicator continued to lead, climbing to 67.3, the strongest reading of any subindicator since we started to track the market in March 2023 (see p.6 for more details).

Leasing and operations was the only subindicator to deteriorate in September, sliding to 58.1 from 58.9 in June. It still ranks second highest among the five subindicators.

New development recorded a marked improvement, rising to 48.9 from 43.6 in June, edging closer to expansionary territory and no longer ranking as the weakest subindicator. The economic subindicator also improved, rising modestly to 47.5 (47.4 in June. However, both remain below the 50 threshold, indicating continued contraction.

Figure 5: INREV Consensus Indicator

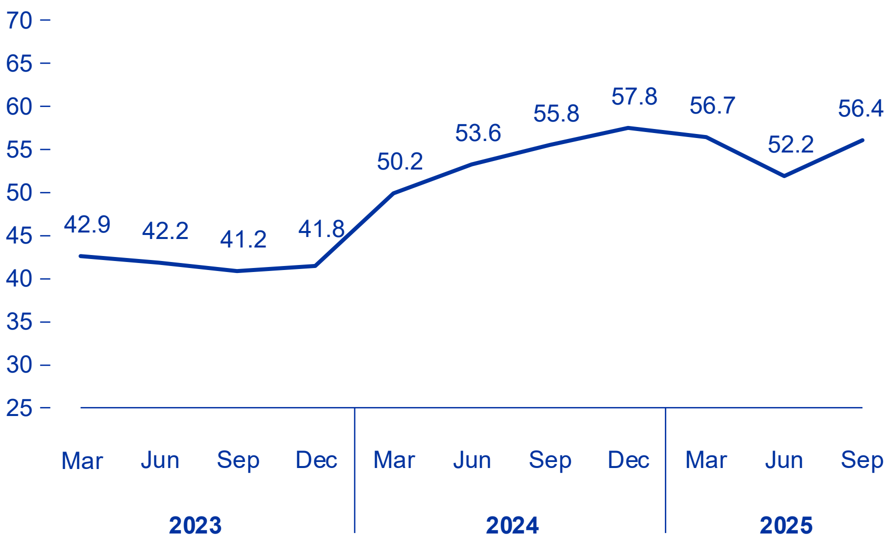


Figure 6 : INREV Consensus subindicators

Source: INREV Consensus Indicator, 2025

Robust financing sentiment highlights increased activity across lenders

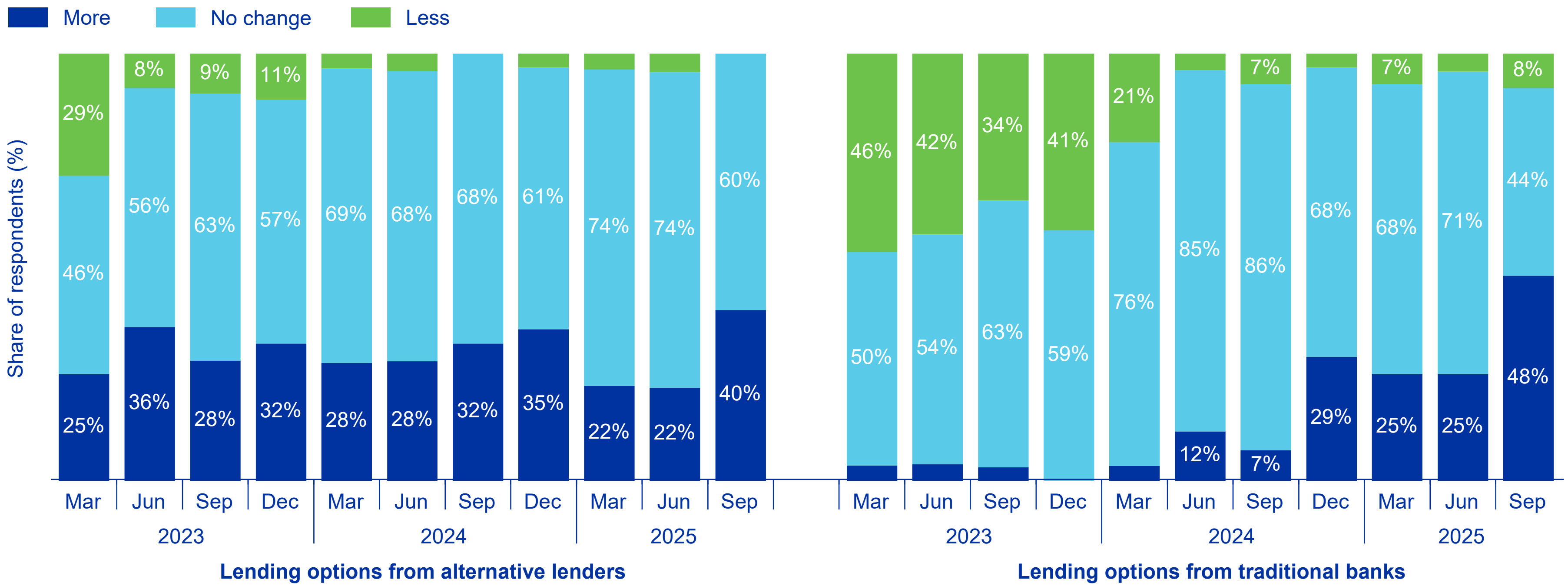
The financing subindicator maintained its leading position this quarter, displaying the highest reading out of all the subindicators since we started to track the market in March 2023. With a September reading of 67.3, up from 61.0 in June, 38% of respondents noted improved financing conditions from both traditional and non-bank lenders.

More than 40% of respondents suggested that not only traditional lenders but alternative lenders, ie debt funds, have started to be more active in providing financing opportunities. The increase was especially notable for the traditional lenders, with 48% of respondents highlighting an increased availability of financing options. INREV's latest 'Non-bank lenders as an integral component of the European commercial real estate debt market' paper highlights their increasing significance as a source of financing, the strategies they pursue, and the implications for investors and managers alike.

In terms of investment strategies, 42% of respondents indicated improved availability of financing for core strategies, compared with 28% for value added and 13% for opportunistic. This reflects lenders' continued preference for lower risk.

The September Consensus Indicator Survey results also showed that 27% of respondents observed financing conditions characterised by higher LTVs and looser covenant structures, up from 19% in the previous quarter.

Figure 7: Change in the availability of financing (q-on-q)



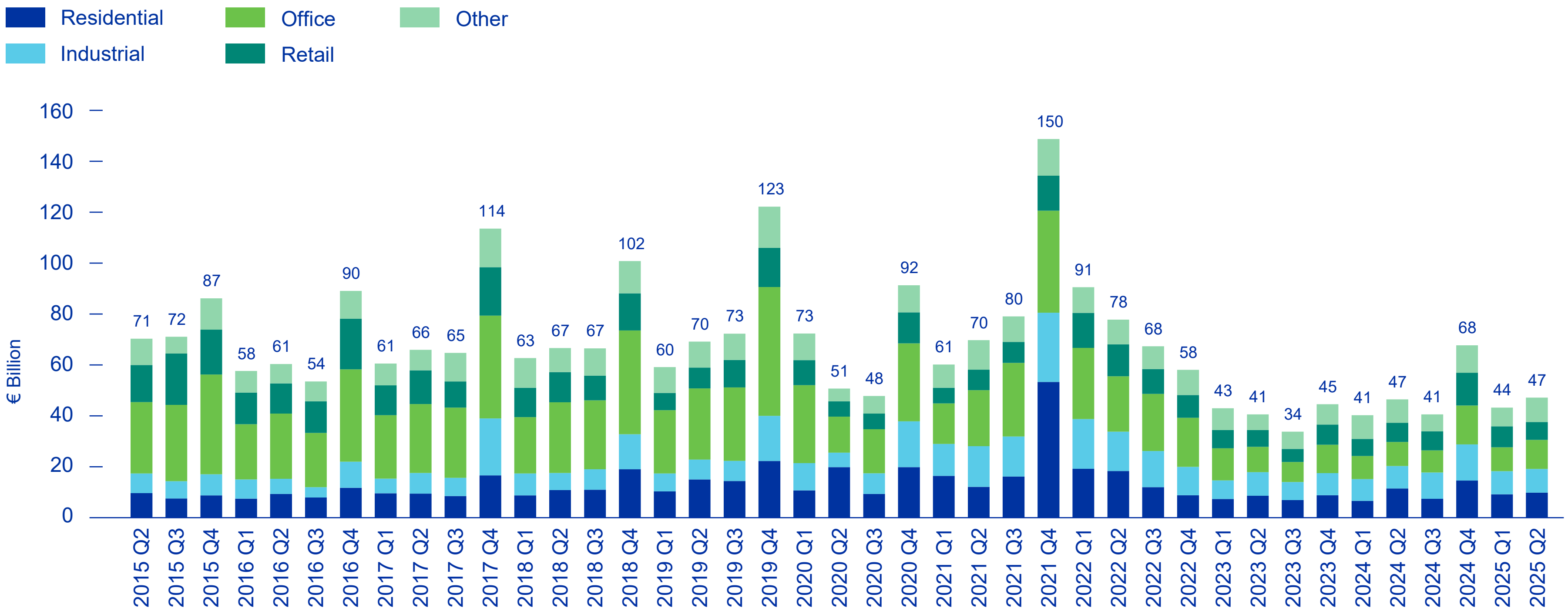
Source: INREV Consensus Indicator Survey, September 2025

A timid pick up in European transaction volumes

European transaction volumes increased to €47.5 billion in Q2 2025, up from €43.6 billion in Q1 2025. The quarter-on-quarter increase remains subtle, although it stands close to the three-year average of €48.0 billion. Notably, the office sector saw the highest transactional volume in Q2 (€11.5 billion), driven by the UK, Germany, France, and Spain. On the other hand, retail was the only main sector to see a decrease in transaction volumes from Q1 2025 (€-1.27 billion).

The investment sentiment subindicator (see p.5) moved back into growth territory above the neutral 50 mark this September, indicating confidence. The significant level of recent repricing and growing availability of assets for sale, especially in Germany and France, might lead to an uptick in transaction numbers in the second half of the year.

Figure 8: European direct real estate transaction volumes by sector



Source: MSCI Real Assets, September 2025

Southern Europe drives positive sentiment

Spain regained the top spot for net positive sentiment among the main European markets this September. A net 23% of respondents indicated an intention to increase investment in the Spanish market. This is a further improvement on the 20% equivalent reported back in June and well above its long-term average of 8%. This comes as no surprise this quarter, as Spain has seen high investor interest since March 2024, and the latest asset level performance results are equally convincing.

Italy followed closely, recording a net 17% positive sentiment, reinforcing the positive outlook across most of Southern Europe. Portugal, however, slipped back to neutral sentiment at 0%, in line with its long-term average.

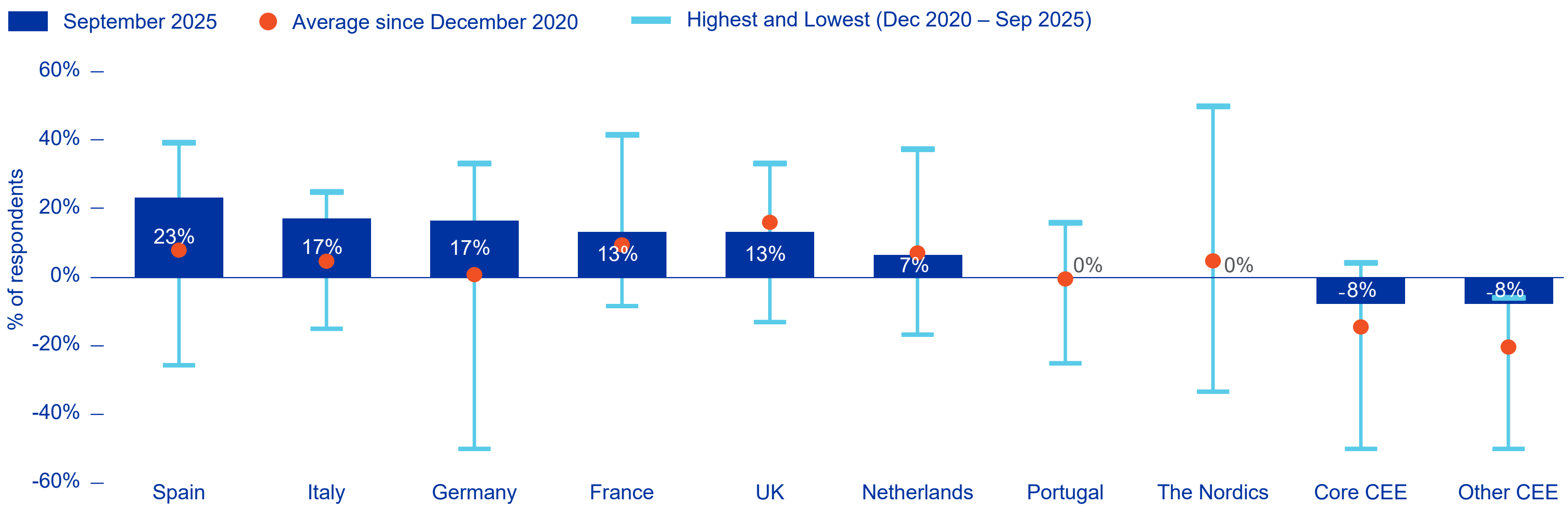
Germany also maintained a strong position at 17% (down from 20% in June). Despite weaker asset-level performance (see Figure 2), sentiment towards the German market remains resilient, as explained on p.3.

France has underperformed European peers for several years at the asset level, yet sentiment is beginning to improve. Net sentiment reached 13% this September, surpassing its long-term average of 10% and marking the strongest reading since March 2023.

The recent falls in values reported in both Germany and France may be indicative of a possible turning point in the cycle, hence the improving sentiment as investors start to consider re-entering.

The sentiment towards Central and Eastern Europe remained negative but showed signs of recovery. Core CEE and Fringe CEE both improved from -19% in June to -8% in September. While drawing less investor interest in the current cycle than the Western European markets, these regions continue to play an important role, especially given the notable size of their industrial/logistics markets.

Figure 9: Net sentiment towards European real estate by geography



Source: INREV Consensus Indicator Survey, September 2025

Residential leads living sectors as investor appetite broadens

As of September 2025, sentiment towards the living sectors remains positive. Residential emerged as the most preferred sector, attracting 39% net interest, a 14% increase since June and well above its long-term average of 27%. Residential has maintained its position as the most favoured sector for three consecutive years, underscoring its continued resilience.

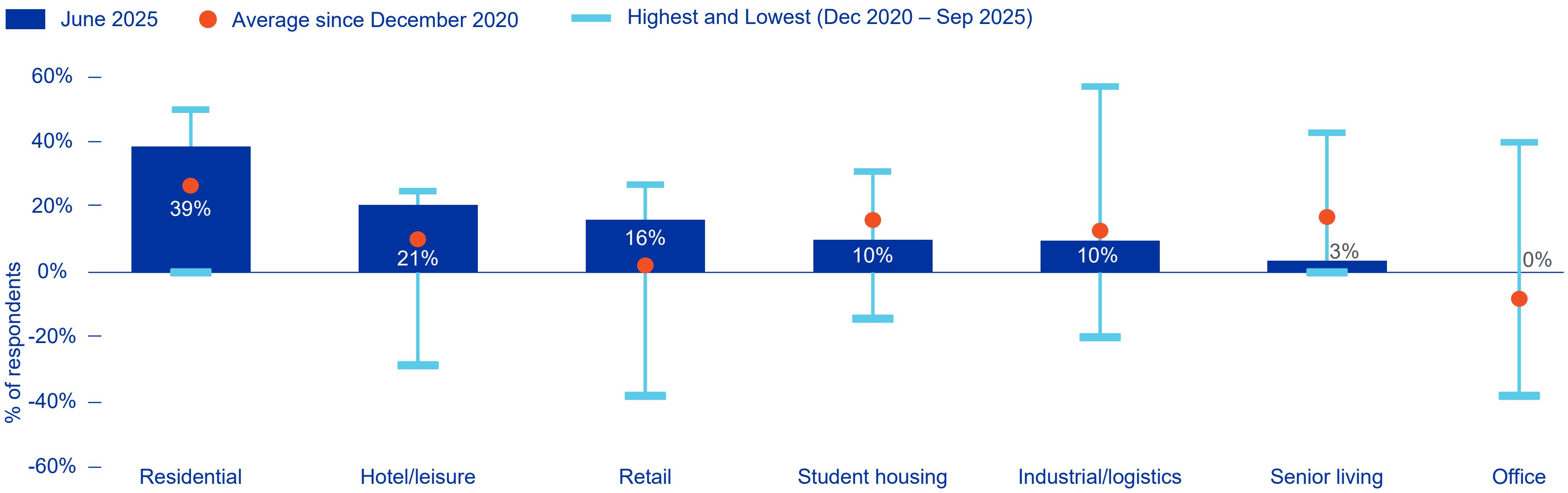
Hotel/leisure followed as the second most preferred sector, with 21% of respondents indicating plans to increase investments in the sector. This is more than double its long-term average of 10%, suggesting that investor appetite continues to broaden beyond traditional main sectors.

Retail retained its third position, with net interest increasing to 16% in September. The stronger sentiment is underpinned by consistent performance, as reflected in the INREV Asset Level Index, where the sector delivered a Q3 total return of 2.27%, the highest since Q1 2022. This was supported by capital growth of 0.91%, marking the fourth consecutive quarter of appreciation and signalling a steady recovery in investor confidence towards the retail sector.

Student housing, despite losing its leading position this quarter, remained in favourable territory, with net 10% of respondents indicating expansion plans. This is slightly below its long-term average of 16%, however, it is still reflective of its strong role within the living sectors.

The office sector showed signs of stabilisation. Net sentiment improved from -10% in June to 0% in September, placing it modestly above its long-term average of -8%. While challenges remain, the rebound signals tentative signs of renewed confidence in selected parts of the office market.

Figure 10: Net sentiment towards European real estate by geography



Source: INREV Consensus Indicator Survey, September 2025

Improved outlook as risk sentiment moderates

The performance expectations for European non-listed real estate picked up slightly this September, with net 6% of surveyed participants anticipating an improved outlook (see Figure 11). This marks an uptick from -6% in June, but sentiment remains weak compared with a year ago, when the figure stood at 40% (September 2024). The recent figures highlight the loss of momentum. The weak economic outlook in several European markets, combined with uncertainty around the latest tariff impacts, is hindering the European real estate recovery.

From the assessment of investment risk, the latest results highlight the fourth consecutive quarter of anticipated risk increase. At 6%, the latest result is slightly more moderate than in the previous two quarters (see Figure 12). Meanwhile, the share of respondents indicating no change in investment risk grew to 75.8% from 53.1% in June.

Figure 11: View on European real estate performance

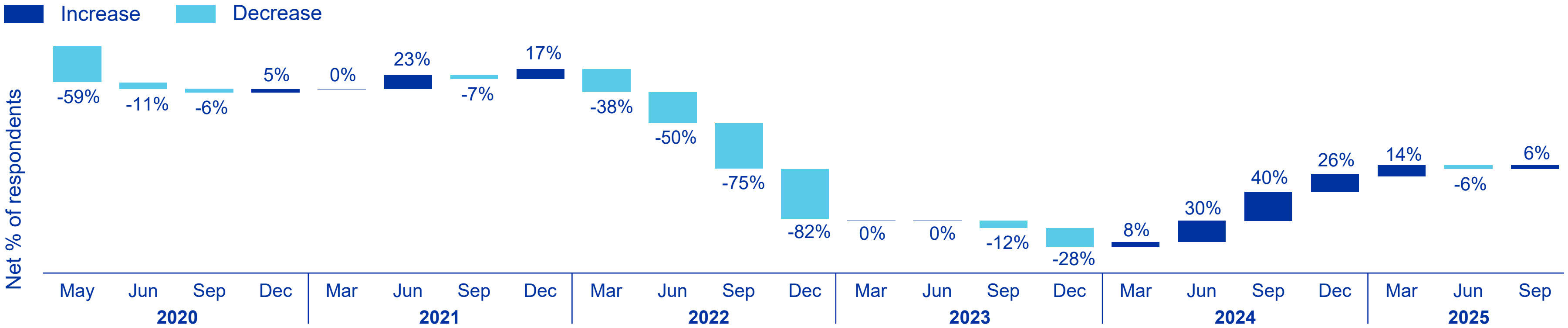
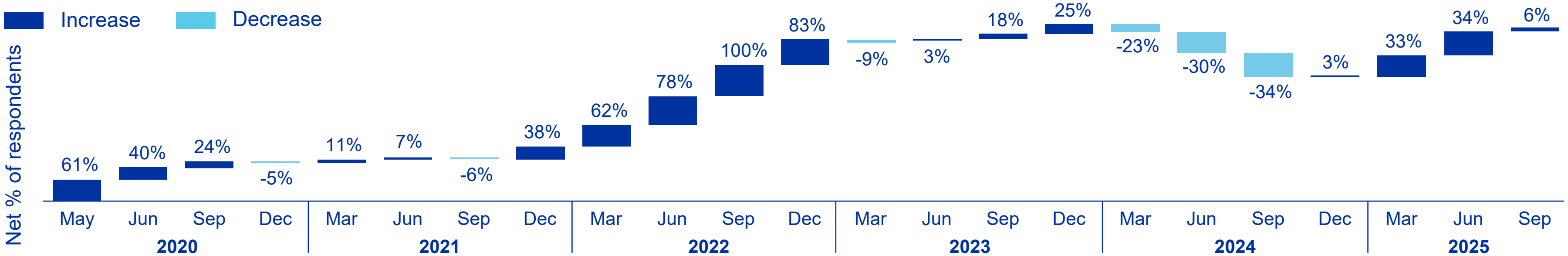


Figure 12: Assessment of investment risk for European real estate



Source: INREV Consensus Indicator Survey, 2025

This update highlights the latest results from the INREV European Quarterly Asset Level Index Q2 2025, INREV Quarterly Fund Index Q2 2025, INREV Quarterly German Vehicle Index Q2 2025 and INREV Consensus Indicator September 2025 to illustrate the impact on market performance, investment plans and operations.