Market Insights on European non-listed real estate in September 2026

Non-listed real estate performance moderates but remains positive

The latest edition of INREV Market Insights points to a broadly unchanged market environment compared with June. While fund and asset level performance remained positive in Q2 2026, returns softened from the previous quarter as capital growth lost momentum. Market sentiment remained subdued, although the deterioration observed earlier in the year appears to have eased.

The INREV Consensus Indicator rose from 41.0 in June to 44.6 in September. Four of the five subindicators improved this September, albeit three remain well below the 50 growth threshold. (see p.5 for further details).

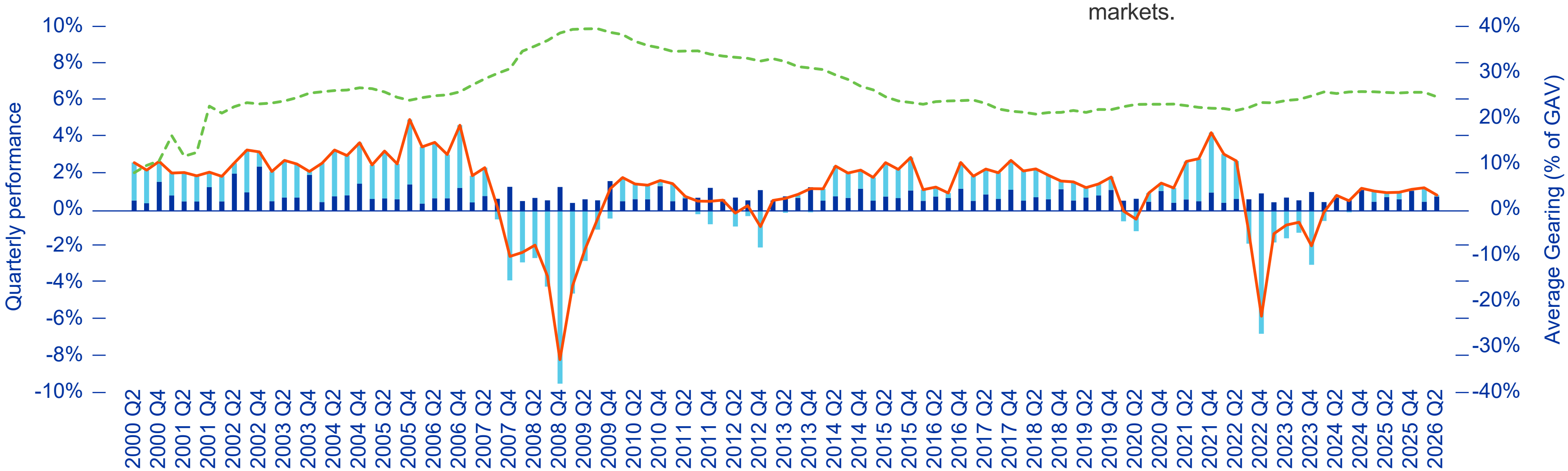
The Q2 2026 INREV Quarterly Fund Index posted a total return of 0.87%, down from 1.27% in Q1 2026. While this marks the first quarterly decline following three consecutive quarters of improvement, European non-listed real estate funds continued to deliver positive performance.

All sector specialist funds remained in positive territory during the quarter. Retail focused funds were the strongest performers, delivering a total return of 1.32% and extending the sector's recent momentum. Industrial/logistics and residential funds also posted positive returns, although performance softened compared with Q1. Office funds' returns remained positive for a seventh consecutive quarter, albeit continuing to lag other sectors.

Across markets, all major single-country strategies recorded positive returns. UK focused funds outperformed their peers with a return of 1.30%, while Nordic funds delivered the strongest performance among the wider regional strategies, at 2.78%, highlighting the continued resilience of selected European markets.

Figure 1: European non-listed real estate performance

Distributed Income Return (LHS)
Capital Growth (LHS)
Total Return (LHS)
Average Gearing (% of GAV), RHS



Source: INREV Quarterly Fund Index, Q2 2026

Southern Europe leads as the UK trails behind

The [INREV European Quarterly Asset Level Index] recorded a total return of 1.11% in Q2 2026, down 55 bps from the previous quarter.

Performance remained positive across all major markets, supported by income returns of 1.02%, while capital growth eased to 0.09%. Despite the moderation, capital growth remained positive for the ninth consecutive quarter, indicating continued resilience in European real estate values.

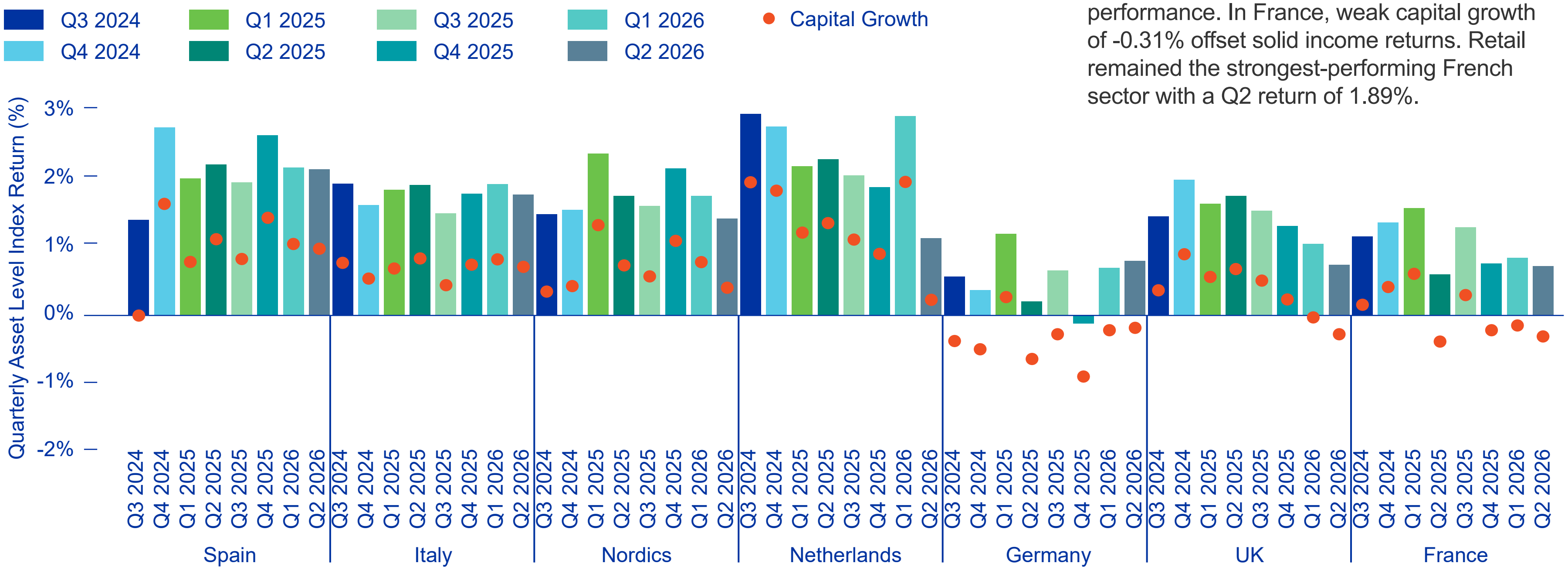
At a country level, Southern European markets outperformed in Q2. Spain delivered the strongest return among the main markets at 2.15%, supported by capital growth of 0.98%. Italy followed with a total return of 1.77%, driven primarily by the industrial/logistics sector, with 2.08%, which represents a significant portion of the country's market exposure.

The Nordics region remained among the top performers, returning 1.42%, although down from 1.76% in Q1. Meanwhile, the Netherlands moved from first place in the previous quarter to fourth, recording a still healthy return of 1.13%.

German assets continued their recovery, delivering improved performance compared with Q1. Retail and industrial/logistics assets returned 1.47% and 1.36%, respectively. In contrast, the market's sizeable office allocation continued to weigh on overall results, with the sector returning just 0.15% in Q2.

The UK and France reported similar quarterly returns of 0.74% and 0.72%, respectively. In both markets, performance moderated from Q1 as capital growth remained negative, reflecting a more subdued valuation environment during the quarter. In the UK, capital growth fell to -0.28%, as outward yield movements continued to weigh on values despite resilient income returns and relatively strong retail performance. In France, weak capital growth of -0.31% offset solid income returns. Retail remained the strongest-performing French sector with a Q2 return of 1.89%.

Figure 2: European real estate asset performance by country



Source: INREV Quarterly Asset Level Index, Q2 2026

European retail holds steady

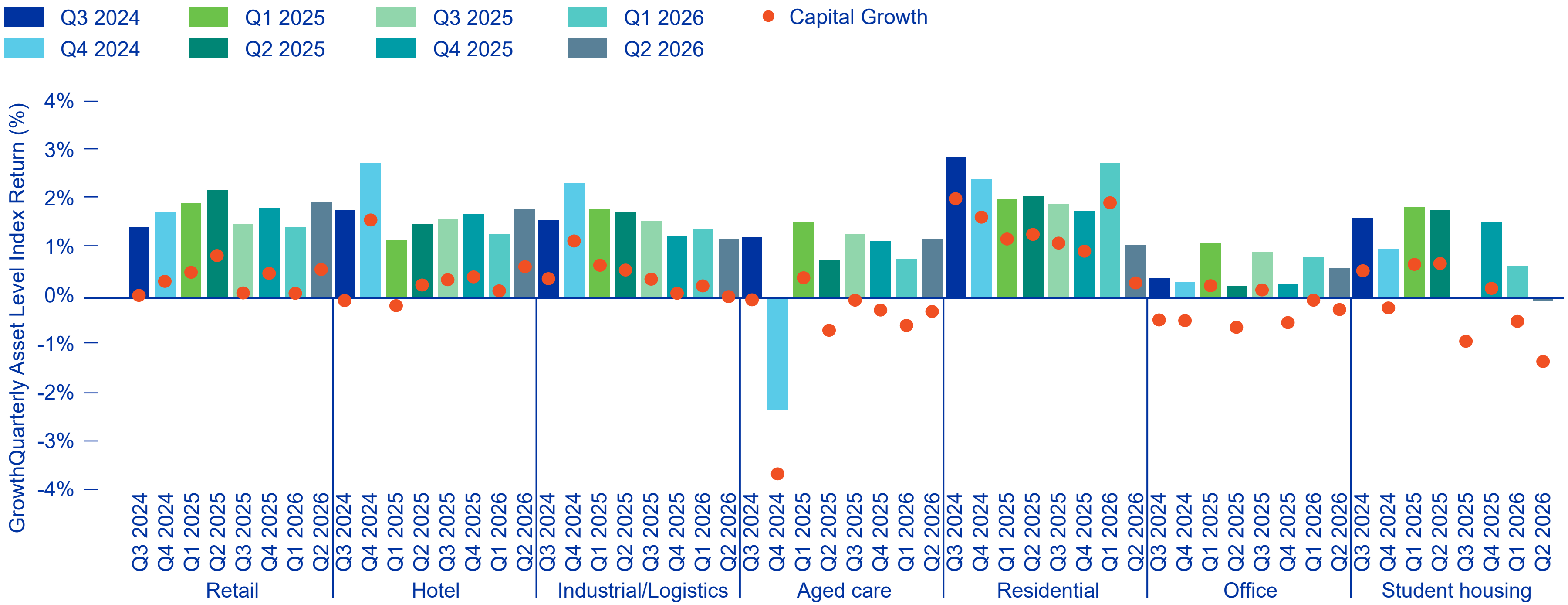
Retail assets recorded the strongest performance in Q2 2026 across main sectors, delivering a total return of 1.97%, up 50 bps quarter-on-quarter. The improvement was primarily driven by stronger capital growth, which increased to 0.59% from 0.10% in Q1, while income return remained stable at 1.37%. The sector's Q2 outcome represents its highest quarterly result since Q2 2025. Performance continued to benefit from robust occupier demand for prime retail space across Europe, where low vacancy rates and rental growth have supported capital values.

Industrial/logistics assets followed with a total return of 1.21%, down 22 bps from the previous quarter. Despite the moderation in performance, capital growth remained positive at 0.03%, while income return was unchanged at 1.18%.

Residential assets returned 1.10% in Q2 2026, compared with 2.79% in Q1, when the sector led all property types, driven by Dutch assets. The slowdown was largely due to weaker capital growth, which fell from 1.97% to 0.32%, alongside a decline in income return to 0.78%.

Office assets delivered a total return of 0.62%, remaining in positive territory for an eighth consecutive quarter. Performance softened from 0.85% in Q1 as capital growth slid further into the negative, at -0.23%, although income return remained relatively stable at 0.86%. The sector continues to face a selective recovery, with investor and occupier demand concentrated on high-quality assets.

Figure 3: European real estate asset performance by sector



Source: INREV Quarterly Asset Level Index, Q2 2026

Data Centres: Navigating a fluid asset class

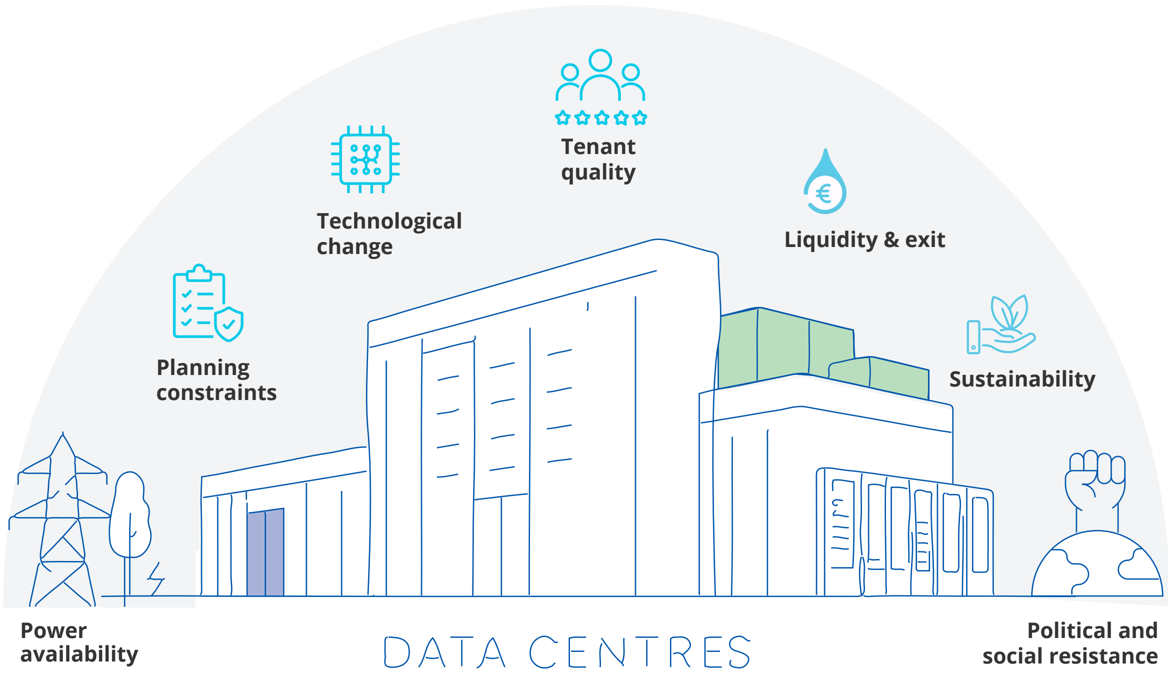
The structural importance of data centres, combined with the rapid growth of cloud computing and AI, has created compelling long-term tailwinds. Data centres have become fundamental to society and the modern economy. They provide the physical infrastructure underpinning cloud computing, digital services and artificial intelligence (AI). As digitalisation continues and AI accelerates demand for computing capacity, the sector is moving from being a relatively specialised part of the digital economy towards critical infrastructure on which businesses, governments and consumers increasingly depend.

INREV's latest research 'Data Centres: Navigating a fluid asset class' explains that data centre classification ranges from real estate or infrastructure to private equity. Classification is increasingly fluid, with the appropriate investment lens varying according to the asset's lifecycle, investment strategy, investor requirements and organisational structure. Rather than fueling uncertainty, the fluidity in classification is driving interest from real estate market participants as well as those in infrastructure and private equity.

Understanding the inherent complexity of risks and determining the appropriate scale and route of data centre exposure is key. Investors should resist treating data centres as an asset class that every institutional portfolio should necessarily hold. Power and grid connectivity, technological change, tenant quality, along with planning constraints, liquidity and sustainability and potential political or social resistance, are key risks investors need to understand, not only as they are today but also through their constant evolution. Where these risks can be adequately assessed and managed, and the opportunity fits within an investor's broader portfolio objectives, data centres can offer a compelling allocation opportunity.

Overall, the research finds that the case for allocating to data centres is investor specific. The decision ultimately depends on whether data centres fit the portfolio and whether the investor is equipped to underwrite and manage the sector's distinct risks. Read the full paper for deeper insights into the sector and implications for institutional investors.

Figure 4: Data Centre Risks



Source: INREV, 'Data centres: Navigating a fluid asset class', 2026

INREV Consensus Indicator rises to 44.6, signalling a lacklustre improvement in sentiment

The September INREV Consensus Indicator recorded a headline reading of 44.6, a marked improvement from June's record low of 41.0. This represents the first uptick since December 2025, although the indicator remains below the neutral 50 threshold for a second successive quarter.

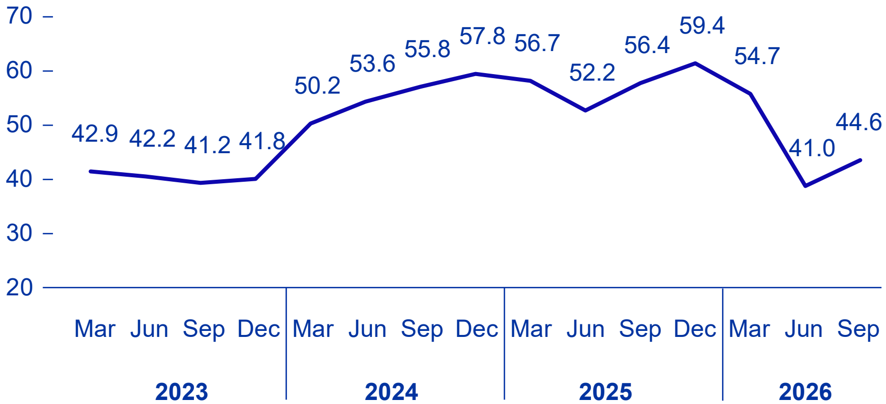
Positive momentum was evident across four of the five subindicators in September, though three remain well below the 50 growth threshold, reflecting the continued tentative recovery.

The economic subindicator saw the most pronounced improvement from a historic low of 24.0 in June to 38.0 in September. This was underpinned by a substantial reduction in the proportion of respondents anticipating weaker European GDP growth over the next 12 months, down to 26% in September from 83% in June, with a further 13% now anticipating an improvement. The inflation outlook also softened, with 54% still viewing it as a net negative for real estate performance, down from 71% in June.

The leasing and operations subindicator increased to 55.3 from 50.3, displacing financing as the strongest subindicator for the first time since June 2024. This improvement was driven by strengthening rental growth momentum, with 47% of respondents reporting an increase in net effective rent across their portfolios, compared with 27% in June.

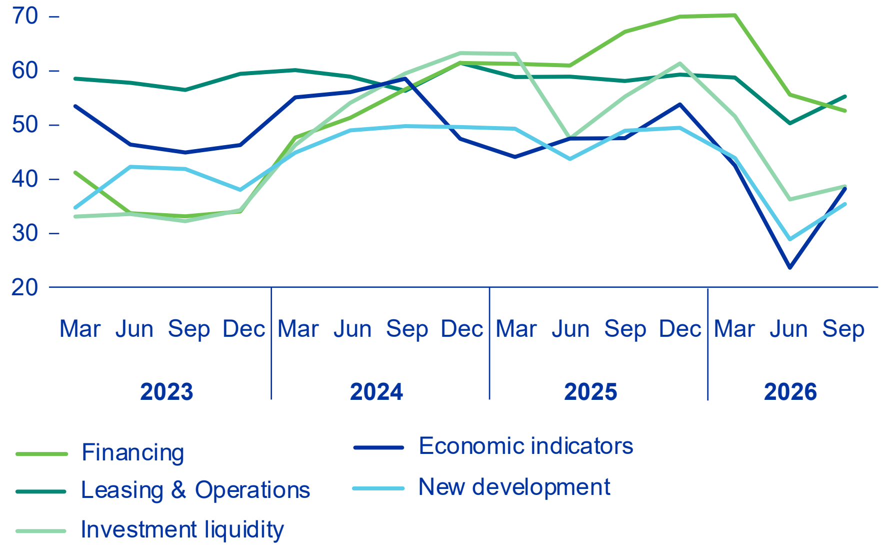
Financing subindicator eased modestly to 52.6 from 55.8 in June, though it remains in expansion territory. Investment liquidity edged a little higher to 38.5 from 36.1 in June. This slight positive adjustment is mainly attributed to easing concerns about liquidity in the direct European real estate market, from 71% in June to 42% in September.

Figure 5: INREV Consensus Indicator*



*A Consensus Indicator of above 50 represents growth, while a reading of 50 represents no change. A reading of under 50 indicates contraction. The further away from the 50 mark the results, the greater the level of change.

Figure 6 : INREV Consensus subindicators



Source: INREV Consensus Indicator, 2026

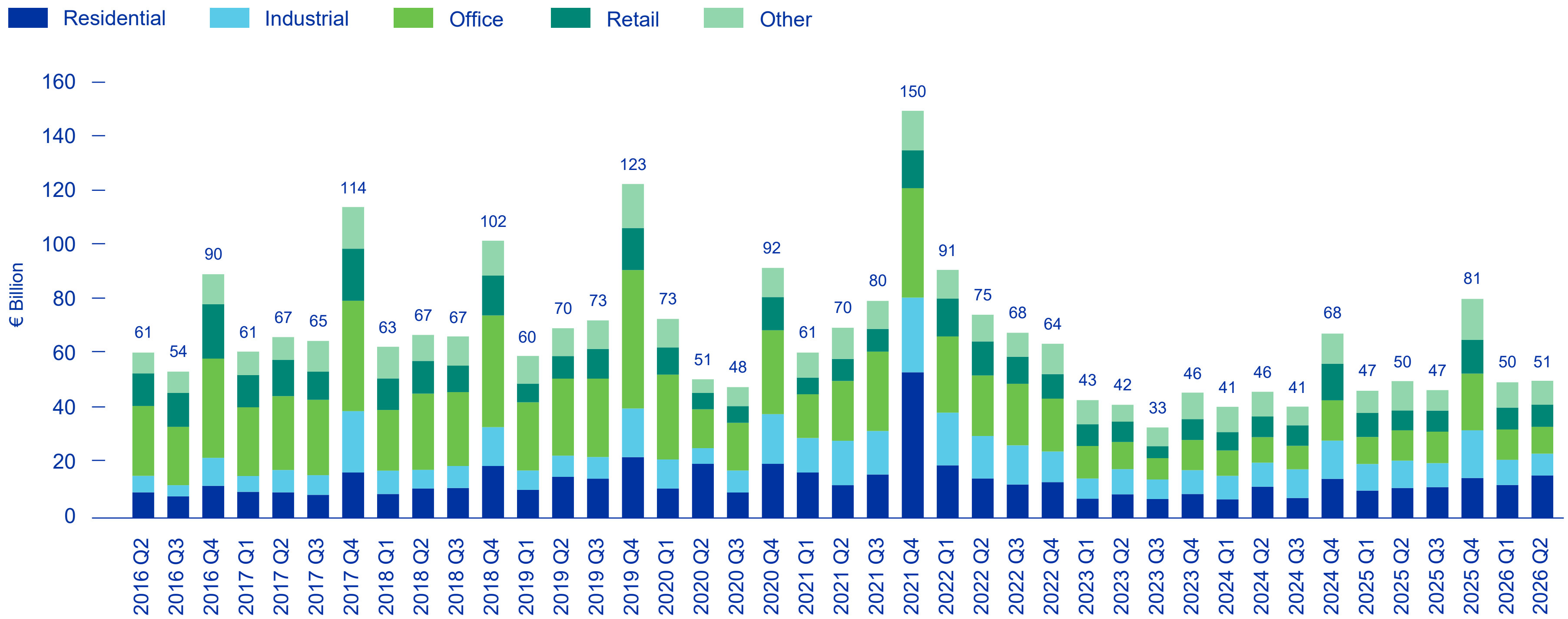
Transaction volumes show no signs of recovery

European transaction volumes totalled €50.5 billion in Q2 2026, broadly in line with €50.0 billion in the previous quarter and largely unchanged from €50.4 billion recorded in the corresponding quarter of 2025.

At €50.5 billion, volumes remain approximately €17 billion below the ten-year quarterly average of €67.9 billion, underscoring that while the deterioration in transaction activity has ceased, there are no signs of a substantive recovery.

This subdued backdrop aligns with the broader sentiment captured by the September Consensus Indicator, where the investment liquidity subindicator rose to 38.5 from 36.1 in June (see page 5). The uptick suggests that concerns weighing on direct market liquidity through the first half of the year are beginning to ease a little, even as the subindicator remains firmly in contraction territory.

Figure 7: European direct real estate transaction volumes by sector



Source: MSCI Real Assets, September 2026

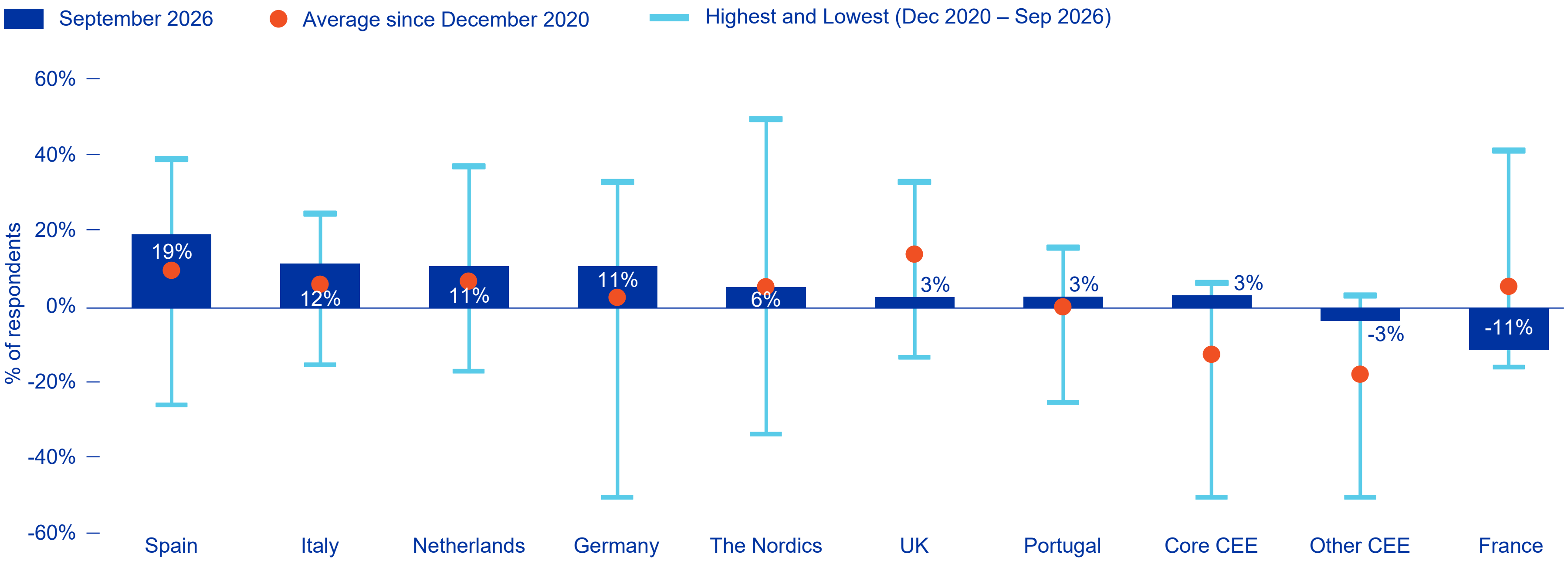
Strengthening of sentiment across main markets

Investor sentiment across European real estate markets strengthened in September 2026, with Spain returning to the top of the ranking at a net sentiment reading of 19%. This represents a notable improvement from June and places the market comfortably above its long-term average of 10%. Italy followed with a reading of 12%, maintaining its position as one of the most favoured markets in recent quarters and remaining well above its historical average of 6%. Germany and the Netherlands both recorded net sentiment readings of 11%, with the latter marking a particularly strong recovery from the negative territory reported in June.

The Nordics remained broadly stable at 6%, while the United Kingdom moved back into positive territory at 3% after recording a negative reading in June. Although the improvement suggests stabilising investor confidence, sentiment towards the UK remains substantially below its long-term average of 14%. The UK assets have also been underperforming relative to other main countries, as seen on page 2.

Across Central and Eastern Europe, sentiment remained mixed. Core CEE retained a positive reading of 3%, significantly above its long-term average of -12%, and higher than its four quarter average of -1%. Fringe CEE slipped marginally into negative territory at -3%.

Figure 8: Net sentiment towards European real estate by geography



Source: INREV Consensus Indicator Survey, September 2026

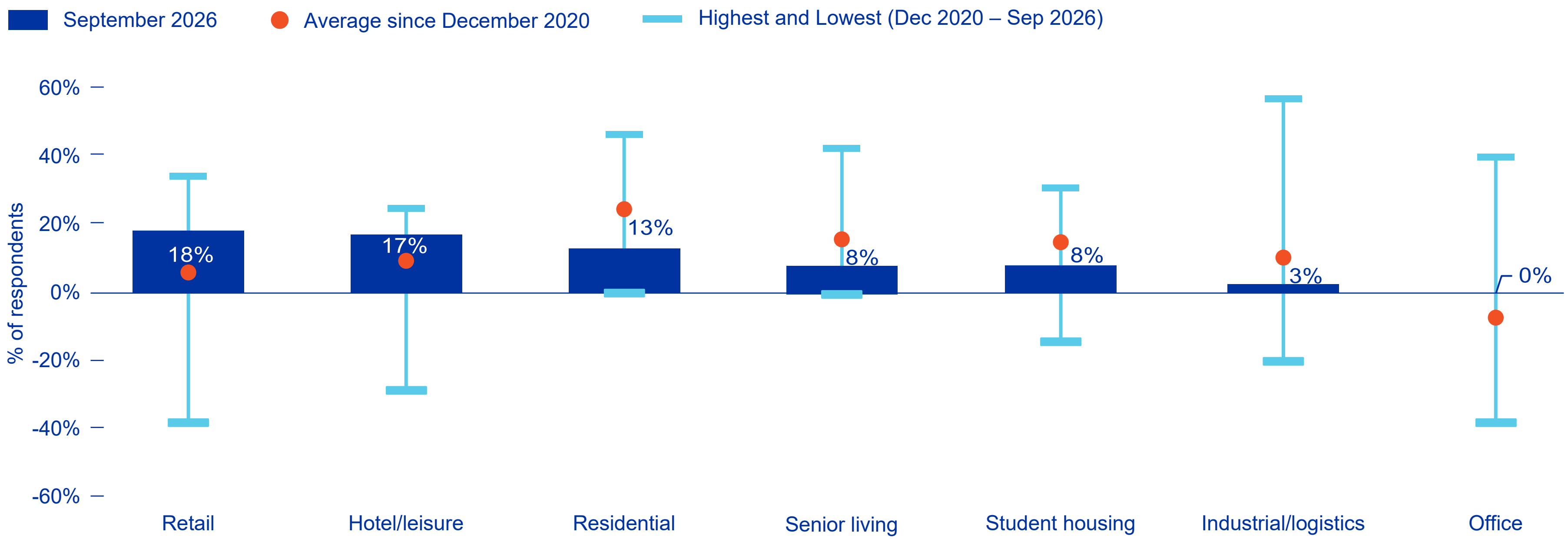
Sentiment turns positive across all sectors

The September survey recorded a notable improvement in sentiment, with every sector posting positive net sentiment for the first time since September 2025. Retail retained the top position, although its reading eased to 18% from 27% in June, as broader improvement across other sectors narrowed the gap that had previously distinguished it from the rest.

The most pronounced shift was recorded in hotel/leisure, which rose to 17% from -3% in June, placing it marginally behind retail as the second most favoured sector. Residential edged higher to 13% from 12%, though it remains below its average of 25%. Senior living and student housing converged at 8% apiece, having moved in opposite directions over the quarter: senior living eased back from 13% in June, while student housing improved from 6%.

Two sectors that had recorded negative sentiment in recent quarters returned to positive territory. Industrial/logistics improved to 3% from -9%, its first positive reading following three consecutive quarters of decline. Offices recorded the sharpest recovery among all sectors, rising to 0% from -15% and moving above its average.

Figure 9: Net sentiment towards European real estate by sector



Source: INREV Consensus Indicator Survey, September 2026

Key 13 questions to understand the risk of investing in real estate debt funds

Private real estate debt has attracted increasing investor interest in recent years, reflecting the continued evolution of the real estate investment industry. Although debt investments benefit from higher priority in the capital stack than equity investments, they remain exposed to a range of risk factors, including market, structuring and deal specific risks. Understanding these underlying risks is essential for accurately assessing the risk-return profile of real estate debt investments, and INREV's latest research 'Baker's dozen - Key 13 questions to understand the risk of investing in real estate debt funds' aims to do exactly that. The paper's primary goal is to examine the risks associated with private real estate debt and to provide a high-level framework of key questions that investors should consider when assessing these risks.

The various risks and the supporting questions can be grouped in three different categories: market, deal specific and structuring.

Market risk encompasses a broad range of factors related to sector and geographic exposure. While traditional real estate analysis focuses primarily on property fundamentals, investing in real estate debt requires an additional layer of assessment.

This includes evaluating financing conditions across different property sectors, understanding legal and regulatory frameworks in various jurisdictions, and assessing the liquidity profile of the investment.

Deal specific risks span across several different aspects of each financing/facility. They start with the assessment of the sponsor and the expected business plan and extend to the alignment between the sponsor and the lender, and how this relationship may change over the lifespan of the financing/facility.

Structuring risk in real estate debt investments are determined by the design of the financing/facility itself and the contractual relationship between lender and sponsor. Among the most important considerations are the covenant structure, the position in the capital stack, the presence of other lenders in the capital structure and the use of any back leverage which may affect the financing/facility's priority or recoverability.

INREV would like to thank the INREV Debt Funds Committee for its input and work in producing this paper.

Figure 10. Key 13 questions to understand the risk of investing in real estate debt funds

Market Risks:
- Which sectors do you plan to invest in?
- Which geographies do you plan to invest in?
- What is your capital deployment strategy?
- What is your intended exit strategy?

Deal Specific Risks:
- Who are the target sponsors?
- What is the sponsor's financial position?
- What is the sponsor's track record?
- How credible and robust is the sponsor's business plan?
- How closely aligned do you expect to be with the sponsor throughout the life of the financing/facility?

Structuring Risks:
- What security and covenant package do you plan to implement?
- What is your target position in the capital structure?
- How many lenders will participate in the capital structure? What is the relationship between the lenders (i.e. co-lenders, senior/junior, etc.)
- Do you plan to use back financing? And if yes, what are the economic terms, key considerations and how these would be implemented/tested for?

Source: INREV, 'Baker's dozen - Key 13 questions to understand the risk of investing in real estate debt funds', 2026

Risk perceptions ease but remain elevated

Sentiment towards European non-listed real estate remained in negative territory this September, although it improved from the record low recorded in June. The net outlook for market performance remains subdued. Perceptions of investment risk followed a similar trend. While risk concerns eased compared with June, the net reading remained negative at -28%, indicating that a sizeable proportion of respondents still expect a challenging investment environment. The improvement in sentiment nevertheless suggests that the sharp deterioration observed earlier in the year has begun to stabilise.

As we move towards the end of 2026, respondents continue to balance the resilience of underlying real estate performance against a backdrop of persistent economic and geopolitical uncertainty. While short-term expectations remain subdued, both asset and fund level returns have continued to deliver positive results. This ongoing disconnect between market sentiment and realised performance suggests that investor caution remains elevated.

This update highlights the latest results from the INREV European Quarterly Asset Level Index Q2 2026, INREV Quarterly Fund Index Q2 2026, INREV Quarterly German Vehicle Index Q2 2026, INREV Consensus Indicator September 2026 and INREV Data centres: Navigating a fluid asset class, INREV Baker's dozen" - Key 13 questions to understand the risk of investing in real estate debt funds 2026.

Figure 11: Net view on European real estate performance

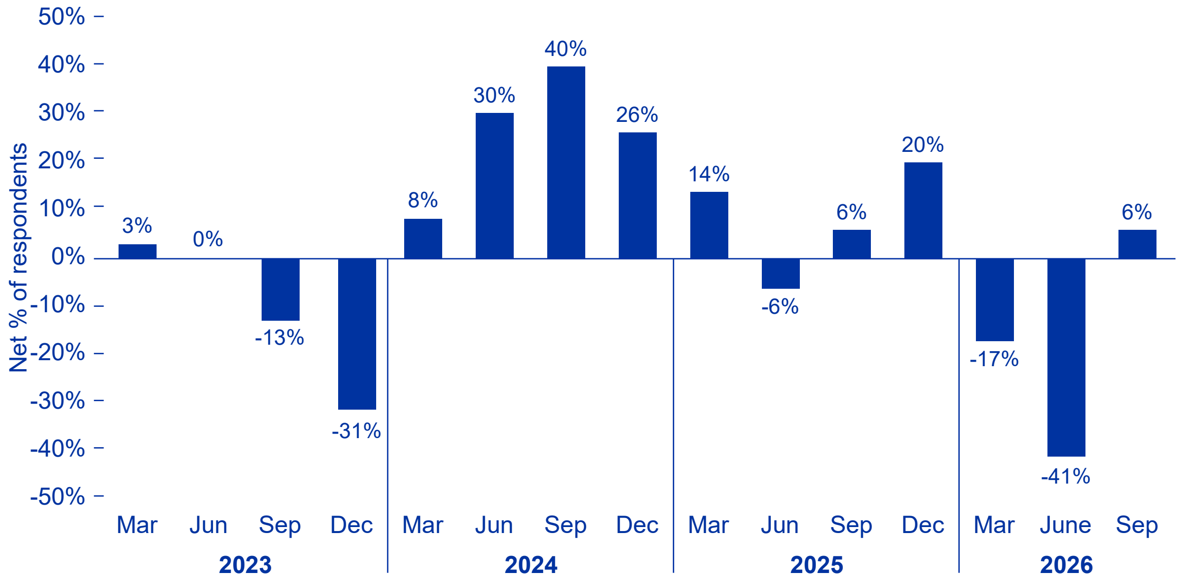
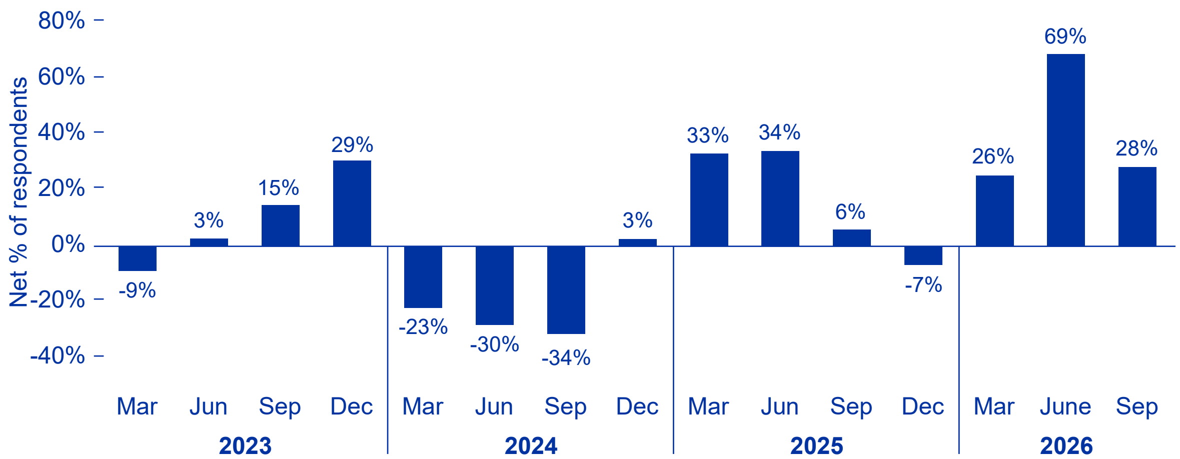


Figure 12: Net assessment of investment risk for European real estate



Source: INREV Consensus Indicator Survey, 2026