Q2 2026 European Real Estate: Equity & Credit Trends

Stasis, shakeout and cherry picking: a market testing its double bottom

Market intelligence summary | Q2 2026

Market tone	Flatter and more fragile than Q1. The late-February shock bled through the whole quarter: absorption in April, stasis in May, divergence in June.
Where conviction sits	Living - with senior housing and care the stand-out - net lease and income strategies, data centres (capability permitting), urban logistics and prime retail. Office remains a recapitalisation and special situations market.
Capital and fundraising	Credit is abundant and hyper-competitive; equity conviction is the scarce commodity. Fundraising bifurcation widened further, and LP return appetite is migrating from 20%+ ambition towards 12% core-plus and value-add.
People implications	Hiring bars at record highs and searches failing on quality, while operational asset management, net lease and digital infrastructure talent is genuinely scarce. Interim and consultancy structures are becoming a mainstream bridge.

Core view: Q2 2026 was a quarter of suspended animation rather than capitulation. Prices did not collapse; decisions did. The winners kept executing - refinancing, managing assets harder, raising income-focused capital and hiring selectively - while others waited for certainty that never arrived.

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Executive summary

The clearest message from a quarter of conversations with senior leaders across real estate private equity, private credit, asset management and operating platforms: Q2 2026 was the quarter the market stopped waiting for a recovery and started organising around its absence. Deal launches were pushed to September, buyers withdrew from live processes, and investment committees demanded smaller positions and more certainty before committing. The late-February geopolitical shock reversed the optimism of January and February; Q2 absorbed the damage. Bid-ask spreads that had been narrowing re-widened as buyers priced real-time information against sellers anchored to pre-conflict numbers, and Middle Eastern capital paused in several mandates.

Beneath the stasis, the quarter produced real dispersion. One global senior living and care platform investor mapped a more than doubling of its investment and asset management teams. A credit-led net lease manager raised roughly $1bn towards a $1.5bn first close within months. A pan-European core-plus investor flipped from expected net seller to net buyer, with around €500m under exclusivity. Meanwhile other managers paused mandates over valuation credibility, shrank acquisition teams, or openly questioned viability if fundraising fails. The same market is producing expansion and redundancy simultaneously - often in the same week.

Three structural themes hardened. First, the liquidity bottleneck is now the market's organising problem: with roughly a third of exits made at a loss and DPI scarce, LPs are withholding commitments, which suppresses deployment, which delays exits - a loop only secondaries, refinancing and income strategies are currently breaking. Second, the asset management era has fully arrived: with buying suppressed, value must be manufactured from what is already owned, and demand for genuine operational asset managers visibly exceeds supply. Third, AI moved from experimentation to consequence - reshaping junior work, hiring criteria and, through the data centre build-out, the physical demand side of the market itself.

1. Market conditions: stasis, not capitulation

The words used most often this quarter were “limbo”, “holding pattern”, “stasis” and “dogfight”. Transactions did not die; they decelerated - more certainty demanded, more turns of negotiation, more fragility in every process. Valuations sat at the centre of it. Managers remain reluctant to mark to market and LP patience is thinning: one LP pulled a sizeable UK industrial mandate after concluding the fund's quoted valuations were optimistic - the word used was “betrayed”. Brokers spent the quarter doing more refinancing than new-money origination, a classic signature of a stagnant market.

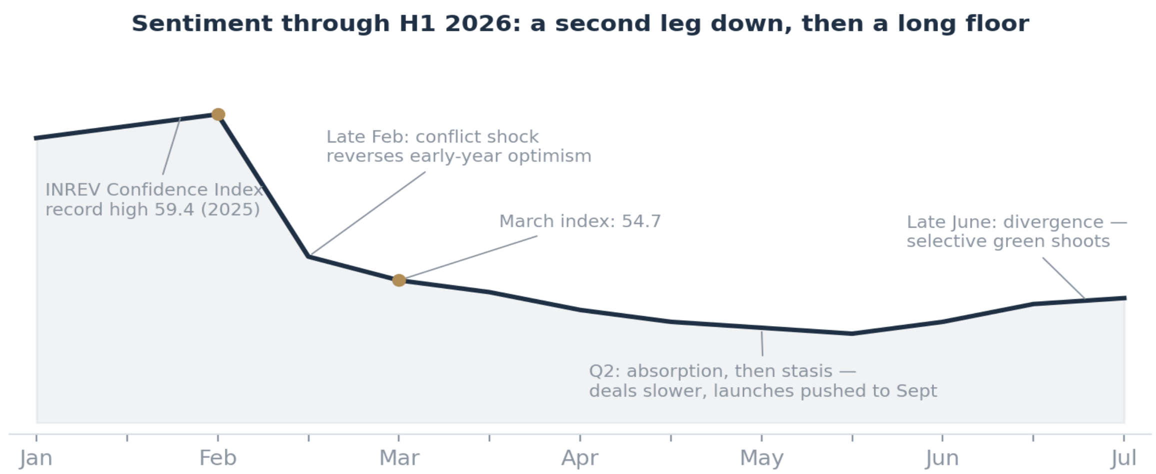
The numbers behind the mood are stark. Research from a major private markets investor, reported in May, showed 33.9% of private real estate exits in the first three quarters of 2025 were made at a loss - a whisker below the all-time record of 34.3% set in 2011, against a long-term average of around 10%. The 2019–21 vintages are the epicentre. This is why distributions are scarce, why LPs now scrutinise loss ratios rather than headline IRRs, and why "zombie" outcomes moved from taboo to openly discussed risk.

Source: PERE / StepStone research, reported by Bisnow (May 2026). 2019–21 vintages drive the current loss ratio.

Rates compounded the paralysis: the five-year SONIA swap moved from roughly 3.5% in January to around 4% - "a million miles too high" for meaningful recovery, in one portfolio manager's words - while German ten-year bund yields above 3% forced exit-yield renegotiations. As one net lease investor put it, "a 7% yield is now becoming an 8% yield." Yet capitulation never came. Occupiers proved notably less rattled than investors - London leasing conversations continued largely unaffected. Buyer pools on live deals shrank from sometimes double digit bidders to two/three, materially improving terms for those still standing. And by late June, LPs were beginning to lean back into equity as credit competition exhausts easy returns.

> **Sentiment destruction - or sentiment fatigue?**
> *After the summer 2024 trough, the market believed in a 2025–26 recovery. That belief has now been broken twice. Is confidence structurally damaged - or is this a double bottom, with exhaustion setting the base for the next vintage? Late June's evidence - LPs rotating towards equity, income strategies attracting real commitments, occupiers carrying on regardless - leans cautiously towards the latter.*

2. How the quarter moved



Illustrative sentiment path based on Q2 market conversations; anchored to INREV Investor Confidence Index readings.

Tracking the same conversations week by week reveals a three-phase arc: April absorbed the shock, May was the deepest stasis, and June brought divergence - the first genuinely two-directional month of the year.

3. Sector views: conviction narrows - and splits

Living. Still the deepest conviction, now with a clear internal ranking. Senior living and care was the quarter's most aggressive growth story with multiple £billions of deals in exclusivity spread across 2/3 investors. German residential - single-family rental especially - is "the current market flavour", drawing 25–30 investor conversations for one new venture alone, though institutions remain reluctant to back first-time platforms. BTR fundamentals held - and capital followed: UK BTR investment totalled £2.2bn in Q2 2026, the strongest second quarter on record, with North American capital accounting for c.60% of H1 volumes (Savills). Co-living was repeatedly cited as the one workable angle in an otherwise unviable resi development market. PBSA was the cautionary sub-sector: investment pullback and granular structuring demands, yet continued fund launches and allocator bolt-on appetite - discrimination, not exit.

Data centres. Still the market's magnetic north - and its biggest reality check. Development timelines run three to five years minimum; practitioners describe power agreements as "preliminary statements rather than binding commitments"; US entrants keep importing American playbooks without Europe's municipal and regulatory nuance. Industry research corroborates the squeeze: capacity costs in Europe's largest markets are expected to rise ~12% in 2026 even as a record ~750MW is delivered, with vacancy forecast at an all-time low of 6.5% (CBRE). Delivery - not demand - is now the constraint. Credit investors find risk-adjusted access difficult: pricing on the lower-risk opportunities is too tight for most return profiles. One special situations investor captured the ambivalence: a gold rush that will mature into an infrastructure income play - and, for some, a way of masking weaker performance elsewhere.

> **An AI bubble in bricks?**
> *The AI capex boom is real, but data centre delivery is proving slower and more expensive than headline announcements imply — power constraints, non-binding grid agreements, municipal politics and construction inflation all stretch timelines. If AI demand plateaus before Europe's pipeline lands, some late-cycle capital will be caught. The disciplined view from Q2: underwrite power and delivery risk like it is 2007 leverage — because in this sector, it is.*

Net lease and income. The quarter's structural winner. US capital is arriving in volume - multiple American investors entering or expanding, some building seed portfolios at current prices to prove alignment with LPs. The logic is rate-driven: high rates push corporates to refinance and lighten balance sheets, reviving sale-and-leaseback supply just as investors rotate towards income (W. P. Carey; Clarion Partners). The sceptics' case matters: the US is a huge, liquid market at c.10–12% returns; Europe is smaller, slower and fragmented across 27 countries, and large entrants targeting high-teens returns are struggling to build realistic pipelines.

Logistics, office, retail. Logistics remains structurally favoured - EQT closed the largest logistics-specific fund ever raised in Europe, oversubscribed at a €3.1bn hard cap - but operationally harder: nearly a million square feet of sheds struggling to lease at one platform, and seller expectations still gapped to market. Office is a stock-picker's market: prime City and West End are supply-constrained and highly competitive; everything else is a recapitalisation and special situations story. Retail is quietly the brightest corner: retail warehousing, destination leisure and dominant centres active with rental growth emerging.

4. Geographic trends: Germany and Southern Europe lead; the UK waits

Germany was the quarter's most-cited market: residential is the consensus favourite, the data centre market is among Europe's hottest, and credit investors report their best origination there. It also delivered the most instructive disappointment - the distress everyone expected never arrived, as a culture of “extend and pretend” keeps assets off the market. Southern Europe outperformed sentiment: Spain was repeatedly described as a strong deployment market, and Italy is the stand-out contrarian story - less saturated, wider cap rates, a huge owner-occupied industrial base ripe for sale-and-leaseback, with one global net lease investor now sourcing more volume there than anywhere in Europe.

The UK is the paradox: cheap, liquid in credit, institutionally deep - and becalmed. “Things are cheap and no one is making moves” was the most repeated UK observation, with political and regulatory uncertainty cascading into deals and hiring alike. Yet UK specialists in care, retail warehousing and urban logistics kept transacting, and M&A desks report completion ratios improving to roughly 50/50 in the £900m–£1bn band where pricing is decisive.

> **London's quiet tailwind**
> *Largely unremarked amid the gloom: London reclaimed its position as Europe's #1 tech ecosystem in 2026 (third or fourth globally depending on methodology), home to ~138 unicorns, with $17.7bn raised by its tech companies. If sustained, the downstream effects - office occupancy, GDP and tax uplift, talent attraction and retention - are a structural support that current pricing entirely ignores.*

5. Credit and capital markets: a borrower's market without borrowers

The defining image of Q2 credit: the most liquid, most competitive European real estate debt market in years - pointed at a shrinking pool of transactions. It is an amazing time to be a borrower, with every structure and pocket of capital available; but without equity conviction there is no deal to finance. Research corroborates the imbalance: 76% of European lenders expect to increase activity, with prime senior margins compressed towards the low-100s (JLL; CBRE). Challenger and high-street banks have pushed up the leverage curve into space debt funds used to own; development lenders have been forced from 70% to 75% LTV to stay relevant; banks aggressively defend back-books at refinancing. “Back-leverage” was the quarter's buzzword - banks originating and keeping the client while third-party capital takes the risk tranche, pushing headline LTVs towards 75% with balance-sheet exposure capped near 55%.

The rational response is migration up the complexity curve. The most interesting credit demand in Q2 was for flexible junior capital: preferred equity for sponsors whose business plans outran their equity, holdco loans, extension capital, and buy-and-build financing for platform aggregation in self-storage and serviced apartments. Discipline is the differentiator: lenders are increasingly extending credit that would have been declined in previous cycles, while the disciplined deliberately run below capacity - one senior lender completing 2–4% of deals seen, three year-to-date against a typical ten. When the cycle turns, that dispersion becomes performance dispersion.

6. Fundraising, liquidity and the DPI problem

Fundraising bifurcation became a chasm. At one extreme: a record logistics fund oversubscribed at €3.1bn; a net lease first close racing to $1bn; an open-ended core-plus vehicle that has never had a redemption fielding new Asian LP diligence. At the other: raises described as “fairly disappointing”, multiple value-add funds unlikely to close this year, and managers candid that viability depends on the raise. Industry data agrees: global capital raised has flatlined around €117bn for three consecutive years, with average fund sizes roughly half their 2020 peak (INREV). The root cause is the liquidity loop: LPs cannot commit capital they have not received back. The workarounds defined the quarter - co-investment and SMAs from LPs re-upping into strategies they already believe in, seed portfolios, continuation vehicles, and secondaries, where record dry powder (~$315bn) is functioning as the market's clearing mechanism (William Blair; Hamilton Lane).

Most strategically significant: return expectations are subtly capitulating, with LPs migrating from 20% opportunistic ambition towards 12% core-plus and value-add targets built on real income.

> **The opportunistic paradox**
> *A recurring Q2 observation: funds still marketing high-teens and 20%+ IRRs while displaying distinctly core-plus risk appetite - demanding opportunistic returns without accepting development, leasing or structural risk. In a 4% swap world, that arithmetic does not close. The credible are repricing honestly towards income-led strategies, or genuinely embracing complexity - special situations, secondaries, junior capital - where the returns actually live.*

7. AI: from tooling to operating model - and the data centre question

Q1's experimentation became Q2's operational reality. Firms now run enterprise AI licences, with the measurable effect concentrated where predicted: junior workload. One investment team credits AI with materially reducing screening and sourcing load across a fragmented market of nearly 1,000 counterparties - while emphatic that face-to-face broker relationships remain irreplaceable. The talent implications crystallised: roles built on order-taking and execution are most exposed; roles requiring commercial judgment are resilient - but judgment is learned by doing the work AI now does, a genuine development-pipeline problem. Survey evidence confirms the inversion: critical thinking (84%) and AI fluency (78%) now dominate financial modelling (31%) among skills firms hire for, and respondents estimate AI already handles ~40% of a first-year role, rising to ~53% within three years (CRE Analyst Q1 2026 survey). One caveat deserves airing: several contacts suspect the real estate cycle is wearing an AI mask - restructurings attributed to AI efficiency are often cyclical cost-cutting with better PR.

8. Recruitment and human capital

The recruitment market was a compressed version of the investment market: low volume, extreme selectivity, real scarcity in specific seams - and more movement beneath the surface than the calm suggests.

- **Hiring bars hit record highs - and searches failed on them.** Multiple processes reached case-study stage without a hire. Firms are benchmarking against strong incumbent teams and refusing to compromise: “any new hire must be genuinely impressive.”
- **Asset management is the demand centre.** The pivot from buying to managing has made genuine operational asset managers the scarcest mainstream profile. LPs explicitly want “real estate people, not just finance people” on their assets; platforms are institutionalising AM through country-level structures and portfolio-management functions.
- **Specialist seams are tight.** Data centres (experienced staff “nearly impossible” to find), European net lease (a thin pool suddenly demanded by arriving US capital) and senior living/care are candidate-scarce markets inside the broader buyer's market.
- **Flexible structures went mainstream.** Interim, consultancy and convert-to-permanent arrangements are bridging deal-contingent needs and fundraising-constrained budgets: hire when the deal lands, engage interim until it does.
- **Contraction continued in parallel.** Acquisition teams shrank; credit staff migrated into asset management; several strong professionals now sit in businesses whose viability is openly uncertain - a growing pool of high-quality availability contrarian hirers noticed by June.

- **Succession is sidelined.** Senior figures are entrenched, juniors sit beneath them with limited routes up, and nobody is bidding. When sentiment turns, pent-up mobility could release quickly - firms that maintained candidate relationships through the freeze will move first.

9. Compensation and retention

Stable on the surface, eroding underneath. Bases held and selective increases continued, but the recurring description was “standard - no cause for complaint, no exceptional upside”. With deal flow suppressed and 2019–21 vintages underwater, carry generation has stalled across much of the market; teams describe morale as “average” - not crisis, but drift. The retention risk is in the background: strong performers staying through bonus cycles while becoming systematically open to moves offering clearer economics or progression. The best people know their market value has not fallen as far as their firm's momentum.

10. Outlook: cherry picking into a new vintage

Almost nobody is calling a recovery; almost everybody with capital is positioning for one. The consensus places the next investable vintage 12–24 months out, with pricing and liquidity remaining bifurcated - making asset selection, basis and access the entire game. The visible playbook: raise income-led and net lease capital while LP appetite favours it; use secondaries and co-investment to bridge the liquidity gap; refinance rather than crystallise where marks are defensible; keep underwriting through the stasis so execution is immediate when clarity arrives. The risks are real - a prolonged geopolitical overhang, a further wave of capitulation sales, and an AI demand disappointment that would transmit through the data centre complex. But late June's signals were tangible: LPs rotating towards equity, buyers turning net-acquisitive, occupiers behaving as if the macro noise were someone else's problem. Twice-burned is not the same as broken - markets bottom on exhaustion more often than enthusiasm, and Q2 had exhaustion in abundance.

People, leadership, team and hiring implications

- **1. Build asset management like it is your investment team - because right now it is.** Value creation has moved from acquisition to operation; the best AM operators are scarce and courted.
- **2. Hire into the scarce seams before the crowd.** Data centres, European net lease and living/care are candidate-short today and will be more so when arriving capital converts to headcount. The cost of moving early is a salary; the cost of moving late is a strategy.
- **3. Use flexible structures as a strategic tool, not a compromise.** Interim and convert-to-perm arrangements secure capability against deal-contingent needs without permanent budget. The stigma is gone; the arbitrage is real.

- **4. Hold the bar, but fix the process.** Record-high standards are rational; six-month processes that lose the two genuinely impressive candidates are not. Speed between shortlist and offer is where searches are won.
- **5. Redesign the junior pipeline around AI, deliberately.** If AI handles 40% of a first-year role, the traditional apprenticeship is breaking. Firms need explicit answers on what juniors do, how they develop judgment, and how AI fluency is assessed in hiring.
- **6. Manage the retention risk you cannot see.** Flat bonuses, stalled carry and blocked promotions do not show in attrition data - until they do, when the market turns. Economics, progression clarity and honest communication are the levers; silence is the accelerant.
- **7. Leadership is being repriced.** This market rewards judgment over aggression, capital honesty over optimistic marks, and the discipline to keep executing without momentum. Leaders who protected credibility with LPs and their people this quarter are compounding the asset that matters most in the next vintage: trust.

Implications at a glance

Theme	Q2 2026 reality	People consequence
Market stasis	Decisions suspended, not repriced; launches pushed to September	Hiring freezes coexist with targeted, deal-contingent searches
Liquidity / DPI bottleneck	~34% of exits loss-making; LPs demand distributions before commitments	Fundraising, IR and secondaries capability at a premium
Asset management era	Value manufactured from held portfolios, not bought	AM talent scarce; LPs want 'real estate people, not just finance people'
Net lease & income shift	US capital inflow; LPs migrating from 20% to 12% targets	Thin European net lease talent pool suddenly in demand
Data centres	Delivery, power and talent are the constraints, not demand	Experienced professionals nearly impossible to source
AI adoption	Firm-wide licences; ~40% of a first-year role handled by AI	Junior pipeline redesign; critical thinking outranks modelling
Compensation drift	Flat bonuses, stalled carry, average morale	Quiet retention risk concentrated at mid/senior levels

Corroborating reading and sources

Perspectives in this report are drawn from Keythorpe Partners' Q2 2026 conversations with senior leaders across European real estate private equity, private credit, asset management and operating platforms. Published research corroborating key themes:

- INREV - Investor Confidence Index fell from a record 59.4 to 54.7 in March 2026; global capital raised flat at ~€117bn for a third year - link
- Aberdeen Investments, European Real Estate Market Outlook Q2 2026 - the interrupted recovery - link
- PERE / StepStone research, reported by Bisnow (May 2026) - 33.9% of exits in 9M 2025 made at a loss vs the 34.3% record (2011) and ~10% long-term average - link
- CBRE, European Real Estate Market Outlook 2026: Capital Markets - lender competition and margin compression - link
- CBRE, European Data Centres Figures Q1 2026 - capacity costs +12% in 2026; ~750MW record delivery; vacancy at an all-time-low 6.5% - link
- JLL, Competition intensifies for European real estate debt - 76% of lenders expect increased activity; prime senior margins toward the low-100s - link
- ECB, Euro Area Bank Lending Survey Q1 2026 - bank appetite and credit standards - link
- W. P. Carey, 2026 Net Lease Outlook - sale-leaseback growth as M&A recovers - link
- Clarion Partners, European Sale-and-Leaseback - corporate balance-sheet pressure driving supply - link
- William Blair, 2026 Secondary Market Report - record secondaries fundraising; ~$315bn dry powder - link
- Hamilton Lane, The GP-Led Secondary Market - continuation vehicles as a mainstream exit route - link
- CRE Analyst, Q1 2026 AI survey (via Bisnow) - critical thinking (84%) and AI fluency (78%) displacing financial modelling (31%); AI handling ~40% of first-year roles - link
- PwC, 2026 Global AI Jobs Barometer - AI-exposed junior roles 7x more likely to demand senior-level skills - link
- Dealroom Global Tech Ecosystem Index 2026 (via UKTN) - London reclaims Europe's #1 tech ecosystem; ~138 unicorns; $17.7bn raised - link
- Savills, UK BTR investment totals £2.2bn in strongest second quarter on record (July 2026) - North American capital c.60% of H1 volumes - link
- PwC & ULI, Emerging Trends in Real Estate Europe 2026 - sector conviction and the operational turn - link

About Keythorpe Partners

Keythorpe Partners is a retained search firm helping real estate investors and operators build high-performing teams for volatile and rapidly evolving markets - where execution speed, judgement and cultural fit directly impact returns. We deliver retained and multi-hire mandates that de-risk hiring decisions through market calibrated founder driven research, structured assessment and execution.

This report is based on proprietary conversations conducted throughout Q2 2026 with senior leaders across real estate debt and equity investment, asset management, capital markets and advisory. To discuss any theme, contact: **freddie@keythorpepartners.com**.