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CREDIT REAL ESTATE

European real estate now has real momentum as liquidity and sentiment improve

Real estate enters 2026 on firmer foundations, with companies shifting back into expansion mode. Balance sheets are strengthening, bond markets have recovered, and issuance is set to rise. But elevated rates mean the sector must keep adapting



Berlin's Covivio skyscraper rises amid a European real estate revival.

European real estate at a glance

European real estate is expected to see a further recovery this year, following cautious progress in 2025. Here's what we're looking at in this report:

A more predictable rate environment is supporting recovery

The ECB's policy rate is expected to remain stable at 2%, keeping inflation near target and reducing uncertainty for the sector. While long-term yields may drift higher, the overall rate backdrop remains far more stable than in recent years.

Transaction activity is accelerating, though a full recovery will take time

After a strong 4Q25, 2026 volumes are expected to rise, supported by narrowing bid-ask spreads, improving liquidity, institutional capital returning, and steadier funding costs. However, activity remains below the 2016–22 average.

Sector rotation continues - residential stays dominant; offices stabilise

Residential was the largest sector in 2025 and is expected to lead again this year. Offices may see a pick-up as sentiment improves, but structural headwinds remain.

Funding conditions improve, helping corporates rebuild

Record-low spreads, stronger balance sheets and a healthier bond market underpin the 2026 outlook. Bond supply is expected to reach €40bn, the second-highest on record.

Solid rental growth adds support as supply remains tight

Rental growth is forecast at 3 to 4% as indexation moderates, new development pipelines remain subdued, and forced sales stay limited.

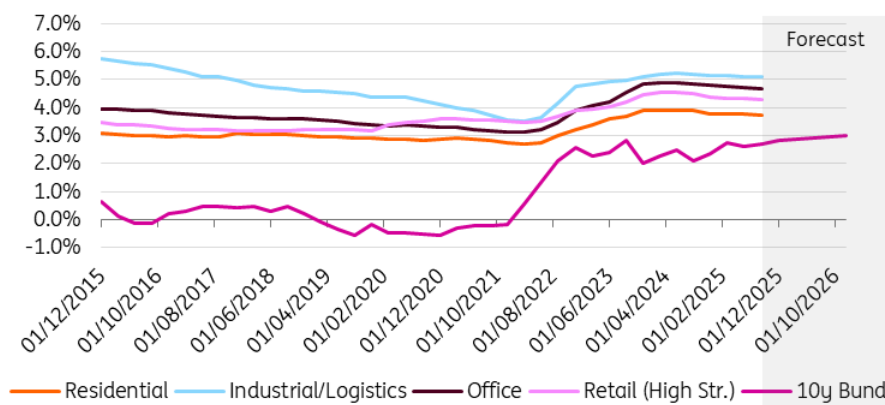
European real estate is set for further recovery in 2026 after cautious progress last year. The latest data is encouraging, with strong 4Q25 transaction volumes, a solid start to bond issuance, and relatively stable interest rates. After several challenging years, many performance drivers are normalising, including rental growth, stronger balance sheets, stable funding costs and steadier valuations, and that's supporting a more constructive outlook.

Risks do remain, though. Rates are still fairly elevated and inflation may prove sticky. Companies are adapting by prioritising income over asset appreciation, though some segments will inevitably lag. The ECB has brought inflation back to 2% and is expected to keep its policy rate there, and that brings the sector welcome stability. However, long-term yields are likely to edge higher, with the 10-year Bund seen trending toward 3%, which could be something of a mild headwind. Even so, the macro backdrop is surprisingly resilient, with growth around potential and inflation comfortable, leaving the overall environment for European real estate in 2026 broadly solid.

Yields saw some compression in 2025, potential for a grind tighter in 2026

Prime yields have compressed over 2025, albeit modestly, with Offices seeing the largest year-to-date compression (11bp), followed by Logistics & Retail (both 6bp) and Residential (4bp), according to CBRE data. This has come despite a rise in interest rates, as overall funding costs have declined. However, with the expectation of a further marginal increase in long-term interest rates, we see a bit more room for yield compression in 2026.

Prime yields vs the 10y Bund



Source: CBRE, ING

Transaction volumes kicked into gear in the fourth quarter

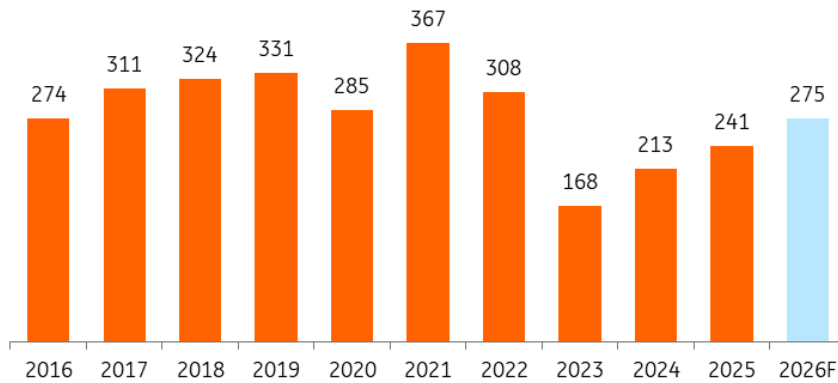
2025 saw a further recovery in transaction volumes, with CBRE data showing a 13% increase in volumes compared to 2024. Fourth quarter volumes of €86bn were strong, the highest quarter since the first quarter of 2022, as momentum is clearly building into 2026. What is also apparent is that the momentum seems broad-based, with all sectors seeing a pickup, including Healthcare which at €15.8bn had the highest quarter on record.

We expect transaction volumes to grow by around 14% this year

In 2026, we expect transaction volumes to grow by around 14% to €275bn. Supported by relatively stable funding costs, returning institutional capital, bid-ask spreads narrowing and improving liquidity as lending appetite continues to improve. Still, the recovery in volumes remains gradual, with overall volumes well below the 2016-2022 average of c.€315bn, as external factors, including fiscal and geopolitical worries, alongside structural headwinds for some sectors such as Offices, may weigh on sentiment.

Transaction volumes set to rise, but remain below the multi-year average

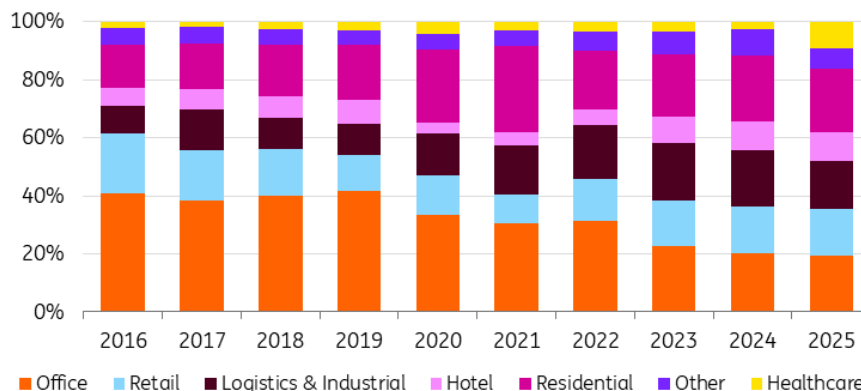
Transactions in EURbn



Source: CBRE, ING forecast

The real estate sector has experienced a pronounced shift in asset allocation in recent years. Pre-Covid, Offices dominated transaction volumes, accounting for between 30-40% of total volumes. Yet in recent years, the Residential sector has cemented its place as the leading segment. Totalling €53bn in 2025, it is the largest sector with a 22% share, ahead of Offices at 19%. In 2026, we think the Residential sector will continue to dominate, while Offices could see growth as sentiment improves. Hotels, Healthcare and, more recently, Data Centres have grown, leading to greater diversification within real estate, a trend we expect to continue in 2026.

The Residential sector has grown to become the largest sector by volume



Source: CBRE, ING

By geography, the major markets saw differing performance in 2025. Spain, Sweden, Italy and

the Netherlands posted solid growth in volumes, with the UK also growing, supported by a strong final quarter. However, and perhaps surprisingly, Germany and France experienced small declines. Looking ahead, we think sentiment will continue to improve in 2026, but fiscal, economic, and political concerns could linger in some countries.

Capital markets improve

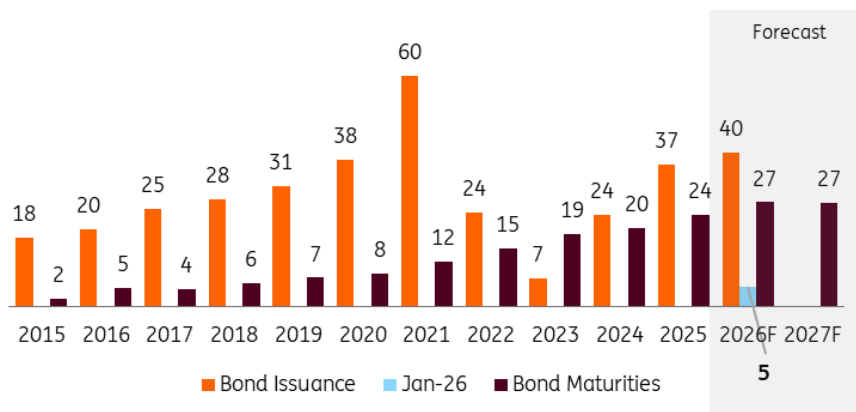
Bond markets have also come back to life in a meaningful way, with real estate companies increasingly active in raising capital in 2025. Last year, listed companies issued around €37bn in bonds, the highest level since 2021.

We forecast real estate bond supply to reach €40bn

In 2026, we forecast real estate bond supply to reach €40bn, which would be the second-highest level on record after 2021. If January is anything to go by, with over €5bn issued already, the €40bn target should be quite easily attainable, and we would not be surprised if it is surpassed. However, we maintain our €40bn forecast for now as real estate bond spreads are at historically tight levels. And so, while not our base case, if spreads do widen (i.e. due to interest rates or geopolitical volatility), this could put something of a spanner in the works.

Real estate bond supply has started the year strongly

Bond supply data in EURbn

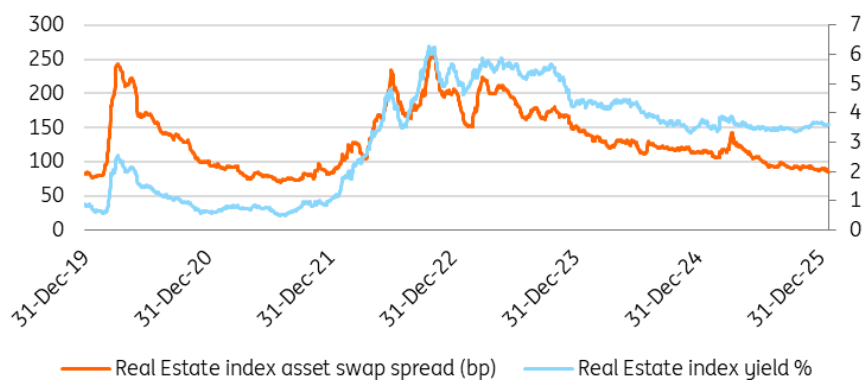


Source: Dealogic, ING

The significant increase in issuance has come as bond spreads declined in 2025 and into 2026 to multi-year lows. The euro-denominated real estate index currently stands at an asset swap spread of 89bp, only around 15bp off the five-year tights in 2021 and around 30bp lower than at the start of 2025. While all-in yields (coupons) remain quite high at around 3.6%, this is still quite a lot lower than the 4.4% average over the three previous years. Funding costs have come down materially from their peaks while capital markets have rekindled their love for real

estate bonds, and it is worth noting more companies are shifting gears towards growth mode again.

Real estate bonds trading at low spreads and yields



Source: Refinitiv, ING

2026 gears up for a busy hybrid bond maturity schedule

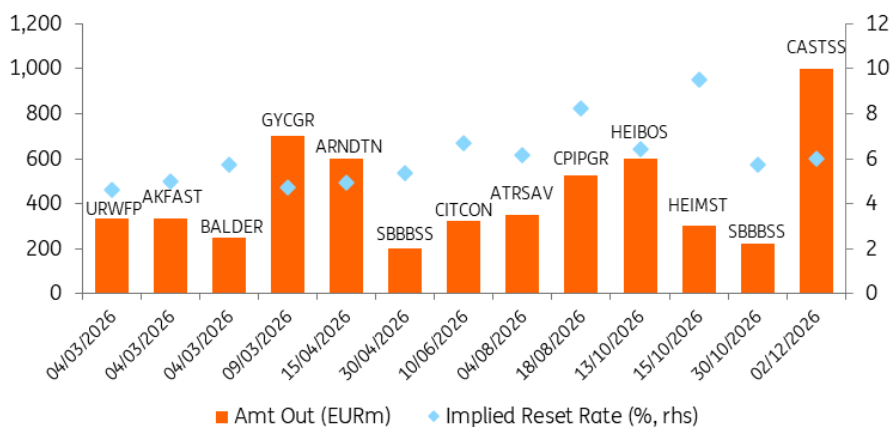
Last year, real estate companies offered to repurchase a record 25 hybrid bonds, according to Bloomberg data. As rates and spreads came down, buying back bonds below par and refinancing with lower coupons has become a useful exercise to manage interest costs as companies focus on managing their liability stack. With the sector's outlook stabilising and credit markets improving, we saw significant buyback activity in the hybrid bond space.

2026 will be a busy year for hybrid bonds

This year will be a busy year again for hybrids, as over EUR6bn of real estate hybrid bonds are callable in 2026, which is the highest on record after companies fuelled growth with these junior bonds in the period 2019-2021. Many of these bonds are now callable this year, although many have already (partly) been bought back. Still, around 15 bonds have their first call date this year.

So far this year, the market has been accommodating, with landlords including Heimstaden Bostad and Aroundtown already coming back to the market, opting to issue new hybrid bonds and tender existing bonds. These moves have generally been well received by investors, and we do not foresee any issues with companies not being able to call and refinance hybrid bonds this year. However, the risk remains that the bond market turns more negative, which could put refinancing under pressure.

2026 has a busy hybrid bond call schedule



Source: Refinitiv, ING

Equity remains important for funding, as we could see more M&A

While equity raising was lower compared to 2024, there have been a few higher-profile share-based deals, including Aedifica's merger with Cofinimmo, Tritax BigBox acquiring a £1bn portfolio from Blackstone, and PHP acquiring Assura for £1.8bn, showing the market remained active. In 2026, British Land also announced the acquisition of Life Science REIT for £150m, signalling that the ongoing consolidation wave in the UK may be set to continue this year.

In M&A, we see potential for more activity this year. The stable funding backdrop, alongside the more pragmatic approach that both acquirers and targets are likely to take in terms of valuations and opportunities, provides an impetus for more deals.

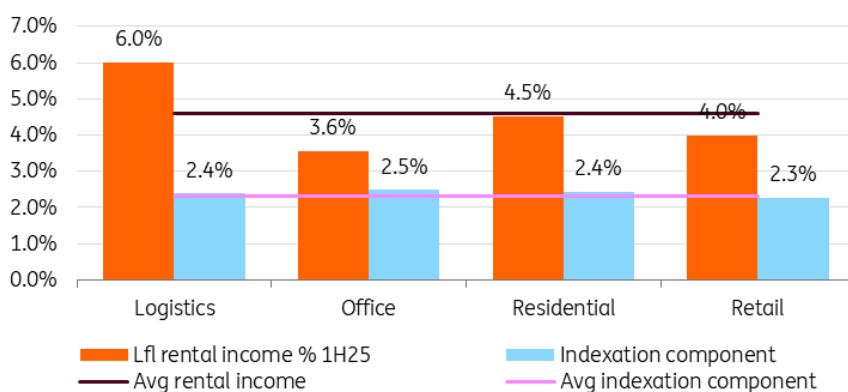
Furthermore, arbitrage opportunities are available in both the public and private markets, and we see more room than in previous years for public companies to be more active again. That said, we think M&A and JV activity will primarily focus on selectivity, with acquirers eyeing income-anchored platforms or targets as cash flow-producing investments take the upper hand, and big, pan-European transformational deals are unlikely.

Sectors where we think there is more scope for larger investments or transactions include the living, healthcare and logistics sectors, with the possibility that more companies consider the data centre route. Some companies in our coverage have started shifting their capital allocation focus towards growth, possibly also hinting at acquisitions. Companies including Gecina, Klepierre, CTP, Segro, Aroundtown and Balder, among others, look more ready to invest. Others, such as Heimstaden Bostad, Vonovia, Castellum, CPI and Icade could remain less active as they focus on stabilising or improving credit metrics.

Positive rental growth amid slowing inflation

2026 is expected to bring a further normalisation of rental income. Against the backdrop of lower inflation, we see rental growth around 3-4%, driven mainly by declines in indexation. Higher investments could support rents while forced asset sales remain few and far between. Furthermore, the slowdown in new developments and modest delivery of new additions to stock may also support solid rents.

With inflation moderating, rental income growth normalises



Source: company reports, ING

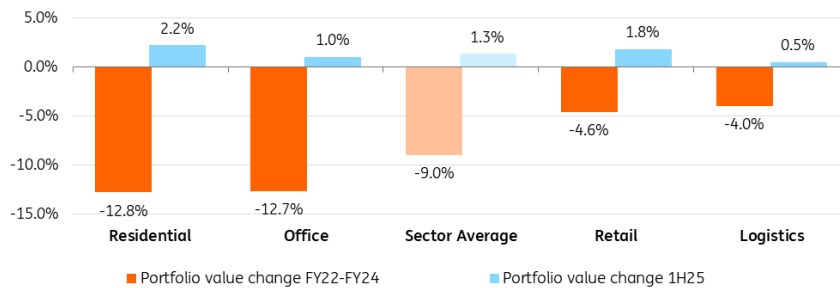
The Logistics sector posted the strongest growth in rental income last year, followed by Residential. Offices and Retail were lower but still saw solid rental growth. Average rental income growth was 4.6%, compared to indexation of 2.3%.

Property values turn the corner, with differing performance ahead

This year, we see room for property valuations to increase further at a moderate pace. Some market segments, including Offices, will see an uneven rebound, with an unpredictable transaction market in some geographies and continued pressure on occupancy in non-prime segments, potentially leading to moderate declines. We expect income and cash flows to increasingly drive valuations in this next part of the cycle.

Property valuations improved in 2025, a positive change compared to the significant declines incurred from the middle of 2022 until roughly the third quarter of 2024. On average, valuations for 25 companies used in the analysis were revalued up +1.3% in 1H25, compared to an average revaluation down by -9.0% during the period FY22-FY24. However, not all companies in the analysis saw portfolio values rebound in 2025, with some, including Icade, Castellum, Akelius and Blackstone Property Partners Europe, still reporting declines.

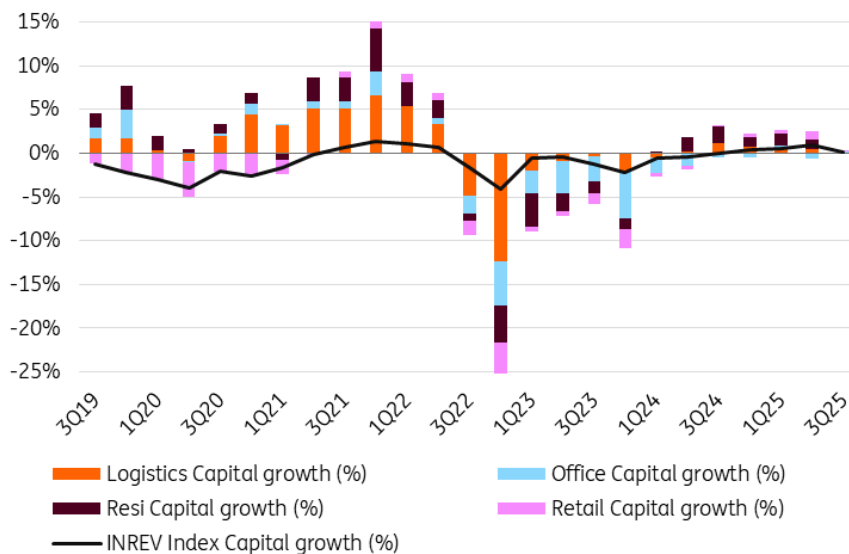
Property valuations marginally higher in the first half of 2025



Source: company reports, ING

The INREV Capital growth data, measuring the performance of non-listed European real estate funds, also indicates a bit of an uneven rebound in 2025. For data up to 9M25, Offices reported a marginal capital decline (-0.2%), with the other sectors reporting higher capital values, led by Residential (+2.5%).

Unlisted real estate funds' capital growth has turned marginally positive in recent quarters



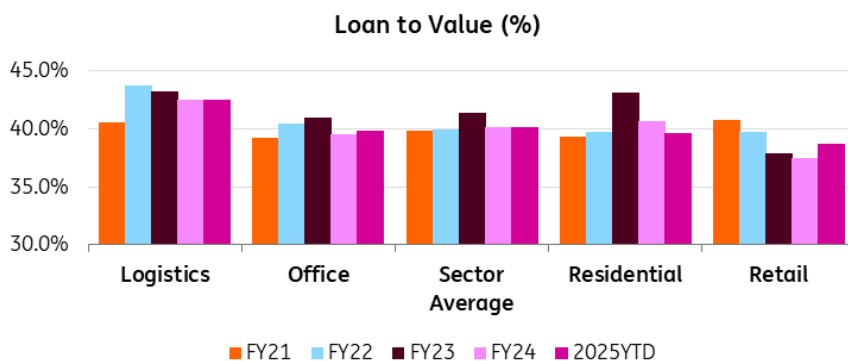
Source: INREV

Deleveraging cycle coming to an end

In recent years, European real estate companies have been largely in defence mode, focusing on net debt reduction to stem the impact of the large correction in property values. In 2025, leverage levels have broadly stabilised, with positive property revaluations marginally offset by flat to slightly higher net debt. Still, leverage levels remain a bit higher than before the inflation cycle, while more companies are signalling a step-up in investments and/or shareholder

returns (where possible) this year.

Loan-to-value levels stabilise



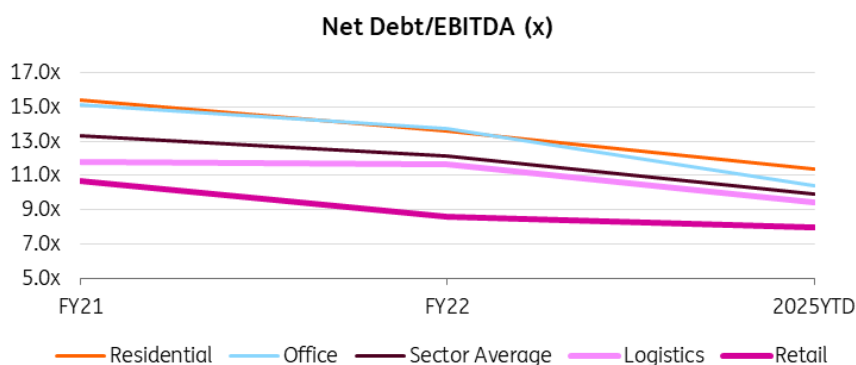
Source: company reports, ING

While this is understandable given the improvement in leverage levels, and limited direct pressure on credit ratings, we are a bit cautious given the real estate sector's historical propensity to re-leverage (a bit) too quickly... this is particularly something to watch for names which were punished harder through the reflation cycle (i.e. Aroundtown, Castellum).

Looking at Net Debt/EBITDA leverage, another important metric, the picture is quite encouraging. Data for the companies used in the sample shows that, as per the chart below, Net Debt/EBITDA leverage has meaningfully decreased compared to 2021 and 2022. The sector average Net Debt/EBITDA metric is down from 13.3x in 2021 to 9.9x in 2025 YTD, with Offices and Residential companies deleveraging the most (by 4.6x and 4.1x respectively since 2021).

We think Net Debt/EBITDA could arguably become a more important debt metric for companies in 2026. Investors are increasingly turning to earnings-based metrics to analyse performance, including how quickly a company can pay off debt, rather than through the crystallisation of property value gains.

Net Debt/EBITDA has clearly improved



Source: com

Interest coverage ratios in focus in 2026

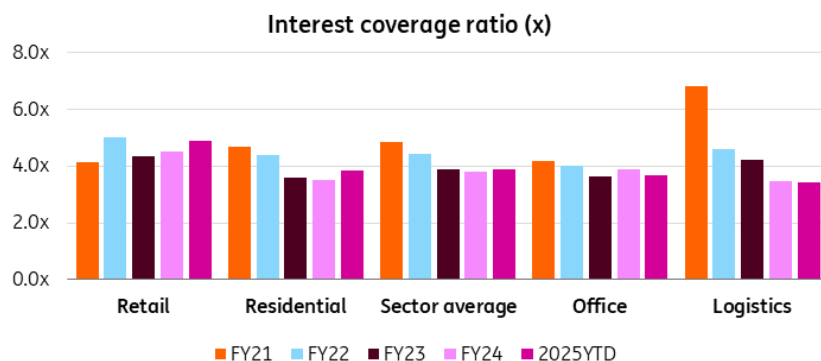
Interest coverage ratios have been under pressure in recent years as companies have refinanced older, cheaper debt at higher rates. The good news is that the decline in interest coverage ratios (ICRs) slowed in 1H25.

Improved funding conditions

Funding conditions have improved: both bank lending and bond markets are offering lower marginal funding costs than in recent years. As a result, sector-level ICRs have shown some early signs of stabilising in 2025. Still, the picture is uneven. Companies with large upcoming refinancing needs and a wide gap between their average and marginal cost of debt continue to face pressure.

Highly leveraged firms or those with meaningful maturities in the next few years may still see ICR headwinds. Nordic names such as Balder, Heimstaden Bostad and Castellum were hit hardest earlier in the reflation cycle due to their higher rate sensitivity. Their situation has eased thanks to lower rates, liability-management exercises, and tighter spreads. If rates or spreads were to rise again in 2026, some pressure would likely return. Other companies, including Logikor and Unibail, also face some ICR strain. Overall, while pockets of risk remain, we see less downside pressure on credit ratings this year from ICR weakness.

Interest coverage ratios could still decline in parts of the sector



Source: company reports, ING

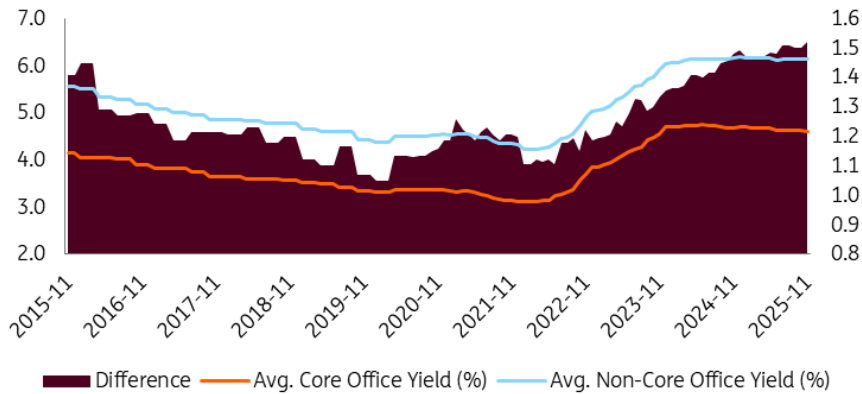
Office outlook improves, amid ongoing bifurcation

The outlook for European offices is cautiously improving, with sentiment rising in 2026, amid a gradual shift towards more office attendance. Still, the sector is expected to remain bifurcated between prime and secondary markets. Demand for modern, energy-efficient and well-located buildings is outstripping supply, and we expect yields to compress slightly for prime segments, while rental growth remains robust. Vacancy remains elevated across the sector, however, and while take-up is improving, net absorption is still soft in many markets, including prime segments. Furthermore, AI is expected to increase job displacement in the short to medium-term. Offsetting this is a continued decline in new office completions in the coming years.

In terms of companies, we could see a bit more pressure on names such as Castellum, Icade,, and Aroundtown, driven by soft local markets and higher vacancy. On the other hand, companies such as Gecina, with strong balance sheets and high-quality office portfolios, could benefit from the improving demand.

Core vs Non-Core Office Yields

Data for six large office markets including London, Paris, Madrid, Amsterdam, Stockholm and Helsinki



Source: Builder

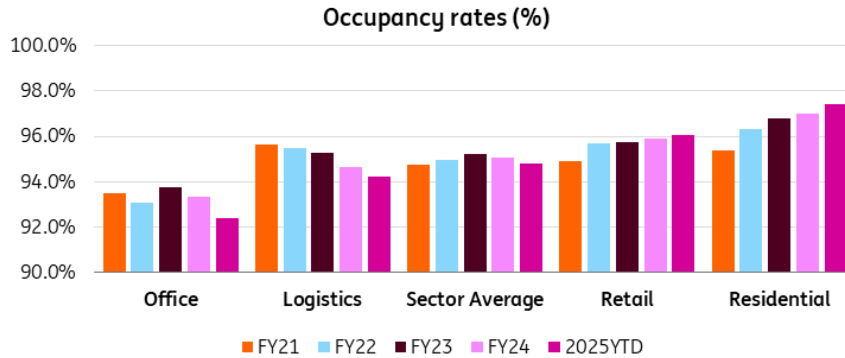
Residential forecast to remain the largest sector in 2026

Demand across the Residential sector is forecast to remain strong in 2026, as structural undersupply continues to be outstripped by sticky demand. In terms of transaction volumes, the Residential sector is forecast to remain the largest in 2026. Factors, including demographic and societal shifts, further support the sector.

European residential real estate companies are also in good shape, with stable rental growth, high occupancy, and improved balance sheets. However, some markets still face pressure, including in Finland, where the oversupply of rental properties in the last few years has softened market dynamics.

Overall, we remain comfortable with the residential sector, as structural demand drivers are unlikely to change. In addition, occupancy levels continue to outperform other sectors (as you can see in the chart below), paving the way for further rental growth.

Occupancy rates in the Residential sector continue to outperform



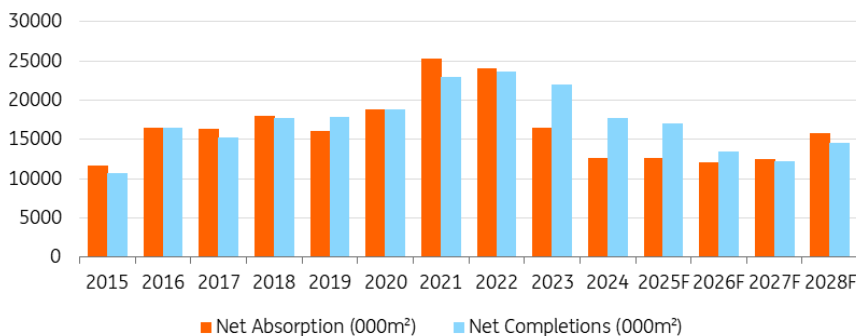
Source: company reports, ING

Logistics demand stabilises in 2026

Logistics demand is set to stabilise in 2026. Vacancy levels have ticked up across Europe, partly due to tariff and macroeconomic uncertainties in 2025, but we expect to see improving dynamics in 2026. Tenant decision-making could improve, while net absorption looks set to improve, as new supply is slowly coming down. Drivers such as near-shoring, defence spending, and Asian businesses moving supply chains towards Europe could improve occupier activity.

Logistics net absorption levels set to outstrip new supply in the coming years

Net absorption = the difference between total space leased vs total space vacated



Source: Builder

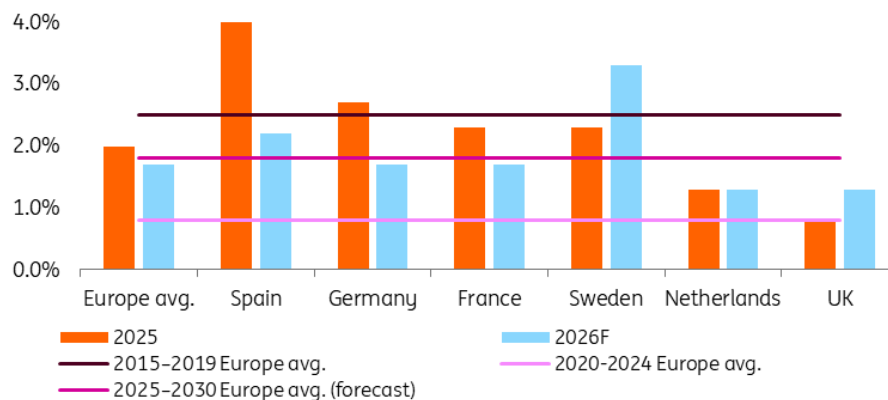
Retail enters 2026 on solid footing despite fragile consumer spending

Retail real estate faces a broadly positive 2026, supported by a solid macro backdrop and gradually improving consumer confidence. Make no mistake, the latest EU consumer confidence indicator in January remains well below the long-term average, but it has increased recently as concerns about hiring intentions and geopolitics have eased somewhat. Also, with price inflation slowing, including for groceries, the outlook for retailers is somewhat better.

Retail sales are also expected to stabilise at around 1.8% over the period through 2030. While below the pre-pandemic average of 2.5%, this is still ahead of the slow growth we have seen in recent years. As such, retail appears set for further recovery this year, with demand for space in premium retail real estate most in demand.

This should bode well for large retail landlords such as Klepierre and Unibail.

European retail sales levels back to normalised levels



Source: Oxford Economics

So, look forward to a brighter 2026

The European real estate sector enters 2026 with an expectation of continued progress. While the recovery in 2025 was perhaps slower than expected, we are cautiously optimistic for this year. With rates expected to remain elevated, the sector is adapting to this new reality as it enters a new cycle. Income and cash flow generation will drive performance, with many companies pivoting their strategies. While geopolitical and trade uncertainty have led to volatility, we expect increased interest in real estate, driven by the sector's limited (direct) exposure to tariffs, solid rental growth and improved asset quality. Still, the sector faces structural headwinds, and we expect more divergence between core and non-core segments in 2026.

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