

## Europe Real Estate Debt Strategic Outlook

May 2026

### IN A NUTSHELL

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- Middle East tensions may slow the market recovery and reinforce the focus on resilient capital structures. Debt liquidity may tighten in the near term, while remaining supportive for core assets and fluid over the longer term.
  - Conditions for new lending remains attractive, supported by higher short-term rates and broadly stable capital values while demand for refinancings, prolongations and bridge-to-sale financings expected to remain high.
  - Prime margin compression has likely stalled, with 10–15 bps widening now plausible, while stressed legacy loans face rising extension or selective sale risk—particularly in weaker office and retail assets.
  - Our focus remains on residential subsegments, urban logistics and prime office locations, while more cautious on non-food-anchored retail and luxury hotels due to weaker fundamentals.
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### Current conditions – Middle East

#### Geopolitics offer risks and opportunities

The past six months were marked of cautious optimism, slowly recovering real estate markets, easing credit conditions and supportive fundamentals. The loan market saw ample liquidity with a broad universe of lenders, a rapidly growing risk-transfer market as well as active bond and CMBS markets. This supported prime margin compression and the availability of more accretive lending terms, as recovering debt supply coincided with subdued transaction volumes in an increasingly competitive lending environment. Debt funds increasingly implemented interest-rate floors of 1–2%, moving away from the traditional 0% floor to protect all-in returns while pricing for core assets and prime sponsors remained competitive.

Volatility and geopolitical risk accelerated most recently with the war in middle east and the impact on global growth, energy inflation and interest rates. While real estate fundamentals remain supportive and real estate debt - especially first-ranking loans - may benefit from its defensive character, we expect the Middle East conflict to negatively affect short-term liquidity conditions. Five-year swap rates have widened by around 80 bps for SONIA and 60 bps for Euribor since February 2026, although part of this move has since been reversed.<sup>1</sup> Volatility related to the Iran conflict has prompted some lenders to pause or withdraw quotes, while higher rates and anticipated cost pressures have increased sponsor caution, particularly for

<sup>1</sup> Source: Macrobond, April 2026

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speculative development projects. We expect the overall market recovery to slow and be pushed out as higher interest rates and elevated uncertainty continue to weigh on lender and sponsor activity.

#### Baseline scenario

In our baseline scenario, near-term debt liquidity is expected to tighten modestly, while margin compression in prime segments should partially reverse; however, the refinancing of high-quality assets is expected to remain orderly. By contrast, weaker office and retail assets, value-add strategies and development loans books are likely to come under pressure, and we could see selectively more sales. Markets are currently pricing in about two interest rate hikes for a short period, which we consider likely, reflecting higher energy-driven inflation and a more hawkish monetary stance aimed at avoiding a repeat of the post-Covid “transitory” narrative. As oil prices are expected to moderate over the near term, longer-term interest rates and inflation expectations are also forecast to ease again. We don’t expect a repricing in the prime segment, although selective price adjustments of around 5% can still be observed in ongoing negotiations.

As the anticipated recovery is now likely to be delayed once again, we could see rising number of assets affected by the “refinancing gap” come to market, as the outlook for capital appreciation has not materially improved. While some lenders may accept selective haircuts on legacy loan books, conditions for new lending remain highly attractive due to higher front-end yields while our medium/long-term outlook on rates is broadly unchanged.

Credit spreads have widened but remain tight in a historical context. Markets continue to treat the recent oil-price shock as largely temporary, pricing in limited second-round effects on consumer fundamentals. However, spreads could widen further should the conflict persist and the Strait of Hormuz remain closed for an extended period, with risks intensifying the longer hostilities continue. Public credit markets have already begun to adjust in a measured manner, reflecting a modest decline in risk appetite following the Iran conflict. By contrast, private debt markets typically react with a lag. In euro-denominated real estate bond market, spreads peaked at around 125 basis points at end-March before tightening to approximately 100 basis points—only about 10 basis points wider than pre-Iran war levels.<sup>2</sup>

#### Downside Scenario

In a prolonged Iran-war scenario—considered a low-probability outcome (~5%)—energy prices would rise more sharply, potentially peaking above USD 160 per barrel by the end of Q3 2026 before easing thereafter. Euro-area inflation could increase to around 4.2% and pushing German 10-year yields towards 3.7%. This environment would imply a more pronounced tightening of real estate credit conditions into end-2026, with wider margins, lower loan-to-value ratios and higher debt-yield requirements. Lending volumes would likely decline further, while refinancing stress would intensify, particularly for office assets, secondary stock and highly leveraged structures. Transaction and investment activity would be expected to stall, potentially leading to price corrections.

For banks, higher default risk, declining collateral values and rating migration would translate into rising risk-weighted assets (RWAs), increasing capital consumption and further discouraging balance-sheet lending. While prime assets would remain financeable, underwriting standards would become more conservative and credit availability more selective. Higher construction costs and rising cap rates would further weigh on asset values, constraining development and refinancing activity. Overall, the market would tilt towards defensive assets and well-capitalised sponsors, with lower leverage.

<sup>2</sup> Bloomberg, as of 04.24.2026

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	February 2026	Base case (end 2026)	Prolonged War (end 2026)
Oil price (brent)	70\$	88\$	163\$*
CPI (euro area)	2%	3.2%	6.2%
10y bond (Germany)	2.6%	2.9%	3.7%
ECB deposit rate	2.0%	2.5%	3.0%
Prime margin (SL**)	1.6%	1.6- 1.7%	1.7-1.9%
LTV (SL)	55-65%	55-60%	45-55%
Debt yield (SL)	6-7	7%	8-9%
Lending volumes	100%	95%	65-75%
Cap rates (all-properties)	4.9%	4.9%	-6%
Construction costs	100%	105-110%	110-120%

\*End of Q3 2026 and then falling back \*\* SL = Senior loans Source: DWS, Oxford Economics, ECB, as of 04.24.2026

Despite recent turbulence, our base case assumes a timely de-escalation of the conflict, with the European real estate remaining well positioned over the medium to long term. Asset values have undergone a broad base repricing, bringing valuations to cyclical lows and potentially offering a cushion against potential future shocks. Vacancy rates – particularly for prime, high-quality assets – currently remain low, while new supply is constrained across most major markets. Taken together, these dynamics may help de-risk real estate as an asset class, potentially enhancing its appeal for investors seeking stability and resilience. However, we expect short-term debt liquidity to tighten, alongside selective realisation of credit losses in weaker assets.

#### Capital optimization trend offers opportunities for private lenders

Alternative lenders continue to gain relevance, increasingly filling gaps left by more constrained bank balance sheets. In periods of elevated uncertainty, banks may become more risk-averse and tightening their focus on capital requirements, which may create opportunities in more complex or challenged loans. As banks manage real estate exposure more conservatively and loan extensions are no longer automatic, proactive capital planning and asset quality have become critical. While banks remain dominant in absolute balance-sheet size, non-bank lenders are playing a growing role through more flexible and transitional financing structures across the capital stack.

This trend is also reflected in the expanding risk-transfer market, where banks transfer CRE exposure to third-party investors such as credit funds. These transactions are typically structured as Significant Risk Transfers (SRTs) and are often synthetic, with banks selling first-loss exposure on a reference portfolio of loans. While corporate and SME loans still account for the lion's share of reference portfolios, real estate has grown to become the second-largest asset class, supported by a broad collateral mix that includes CRE loans and fund financing. In return for assuming credit risk, SRT investors receive a premium from originating banks, akin to a credit default swap. In Europe, transactions are either cash-collateralised or unfunded (premium-only), and are generally bespoke structures negotiated bilaterally. Issuance is expected to accelerate further in 2026.<sup>3</sup>

<sup>3</sup> Greenstreet, Flow Tracker, March 2026

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Both the CMBS market and the use of back leverage have expanded rapidly. The CMBS market recorded a bumper year in 2025, with issuance exceeding €10 bn—more than double the average of the past five years.<sup>4</sup> Strong investor demand resulted in consistently oversubscribed order books and margin compression through much of the year, highlighting the relative appeal of CRE risk compared with broadly syndicated corporate credit. Usage of back leverage also increased, especially among closed-end funds, with activity concentrated in warehouse facilities and loan-on-loan structures. This reflects a broader shift by debt funds toward whole-loan origination and the synthetic replication of mezzanine exposure via senior-tranche sell-downs, rather than direct mezzanine lending. Outstanding back-leverage volumes are estimated at around €32 bn according to CREFC Europe, nearly double the €18 bn reported in 2024. However, the true scale of the market remains difficult to assess given divergent geographic remits across funds and limited transparency.

In Germany, back leverage remains uncommon, as institutional investors are cautious about the higher risk exposure associated with synthetic junior positions—particularly in a volatile environment characterised by elevated short-term rates and increased default risks. Additional layers of leverage can amplify losses, elevate liquidity and contagion risks, and obscure the true transmission of credit risk within an increasingly opaque financing ecosystem. As activity continues to migrate outside the traditional regulatory perimeter, idiosyncratic shocks at individual lenders or funds could propagate more broadly than anticipated. These dynamics underscore the ECB’s concerns that back leverage may act as a channel through which financial stress is transmitted, amplified and redistributed across the wider financial system.

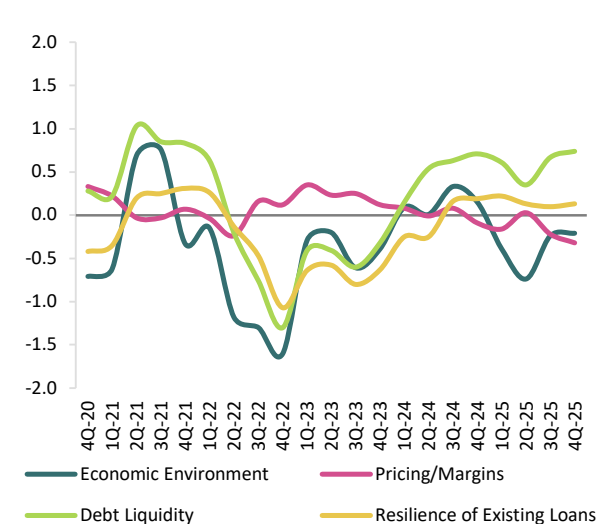
### Market sentiment

#### Debt mood is expected to drop in the short-term

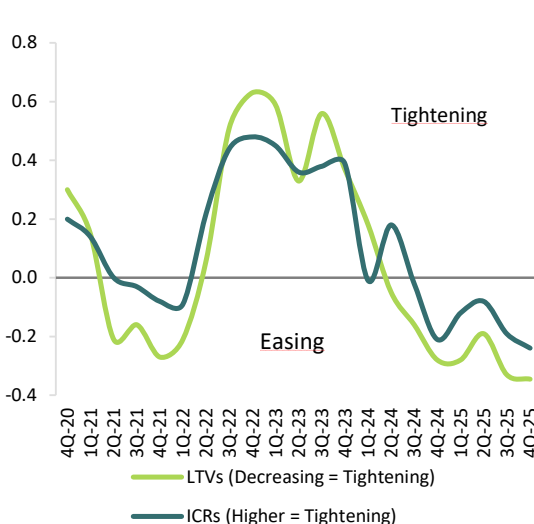
Overall conditions in the European CRE debt market continued to improve through 2025, with the availability of debt showing the strongest positive momentum. Market participants reported a constructive outlook for new business volumes, supported by stabilising macro conditions and improved financing economics. The resilience of existing loan books against financial covenant tests was viewed as stable and, in some cases, marginally improving. Pricing sentiment for prime assets remained favourable, with margins and lending terms easing further amid heightened competition and improved valuation visibility.

### European Commercial Real Estate Debt Market Sentiment

Selected Sentiment Indicators



Covenants



Source: CREFC, March 2026

<sup>4</sup> Greenstreet, Flow Tracker, March 2026

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On a sector basis, office sentiment improved most markedly, outpacing retail and multifamily, although lender appetite remains highly selective and focused on high-quality, well-leased assets. The CREFC Survey pointed to continued easing in loan-to-value and interest-coverage constraints, particularly in the core segment, reflecting greater lender comfort with stabilised valuations. The BF Quarters barometer survey echoed these trends, showing a modest increase in average LTVs for income-producing assets, while development finance remains constrained, characterised by elevated margins and more conservative loan-to-cost ratios.

We expect market sentiment to have weakened materially in March and April 2026, reflecting the negative macro and financial market implications of the Middle East conflict. While no European debt sentiment survey that captures the prolonged disruption in the Strait of Hormuz has been published at the time of writing, rising interest rates, persistent inflationary pressures and heightened geopolitical uncertainty are likely to have weighed on market confidence. The impact is expected to be most pronounced in structurally challenged segments such as office and retail, as well as in higher-leverage exposures, including value-add and development financings.

As a proxy, the U.S. CREFC Financing Sentiment Index provides a useful reference point. In April 2026, the index declined by 20.2% quarter-on-quarter to 100.1, down from 125.4 in Q4 2025, effectively reverting to its long-term baseline and erasing gains accumulated over the preceding three quarters. The deterioration was broad-based, with all nine core indicators weakening, led by sharp pullbacks in views on interest rates, overall industry sentiment, liquidity and the economic outlook. Notably, market liquidity expectations reversed meaningfully, with only 20% of respondents expecting improvement, compared with 69% in the prior quarter.<sup>5</sup>

The March 2026 INREV Consensus Indicator declined to 54.7, down from the all-time high of 59.4 recorded in December and marking the first pullback since June 2025 after two consecutive quarters of improvement.<sup>6</sup> This softening likely reflects geopolitical uncertainty, as the majority of responses were submitted after the outbreak of the Iran war, weighing on near-term expectations. Despite the broader deterioration in sentiment—four of the five sub-indicators declined—financing stood out as the sole area of improvement. The financing sub-indicator rose to 70.4, remaining the only measure above the 70 threshold and continuing to signal the strongest sentiment across the market. This highlights that, even as overall confidence moderates, access to debt and financing conditions are viewed as robust.

## Credit conditions

### Margin compression may revert in the short-term

We estimate that prime senior lending margins have compressed by around 40 basis points from their 2024 peak, declining to approximately 1.6% and now sitting slightly below long-term average levels. Market polarisation by asset quality and location remains pronounced and is clearly reflected in credit standards. This is most evident in the residential sector, where defensive fundamentals and stable income characteristics continue to support lender appetite. Prime residential margins have reached around 1.3% for 55% LTV structures. While overall margins remained broadly stable in the first quarter of 2026, conditions have begun to diverge beneath the surface. In the value-add segment, margins appear to have already widened, financing conditions have become more restrictive, and execution timelines have lengthened materially. This tightening is concentrated in non-core and capex-intensive assets, while prime senior lending margins have, to date, remained resilient.

One supporting factor of margin compression last year has been the increasing use of back leverage and structured financing as described before. Margins on back leverage compressed by 50–75 bps during 2025, declining to 130–150 basis points. The most competitive prime structures achieved margins of around +100 bps at an 80% advance rate, measured as back-leverage LTV relative to the underlying loan pool. At an 80% back-leverage advance rate on loan pools originated at c.55–60% LTV, the implied look-through leverage to the underlying real estate would translate to around 45–50%, supporting

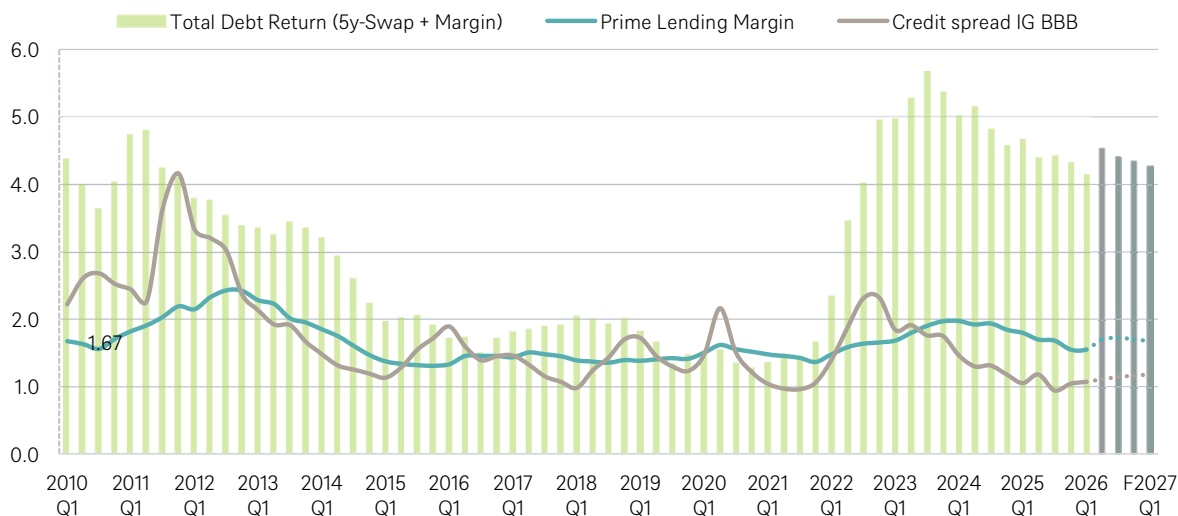
<sup>5</sup> CREFC, CREFC Board of Governors Sentiment Index Survey Q1 2026, April 2026

<sup>6</sup> INREV Consensus Indicator, March 2026

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low-risk positioning despite high loan-on-loan leverage. Back-leverage and whole-loan margins are inherently linked, with intensifying competition across both markets continuing to drive tighter pricing.<sup>7</sup>

**Weighted Average European Prime Senior Lending Margins All Properties (%)**



Source: Oxford Economics, CBRE, DWS, April 2026

Since the outbreak of the Middle East war, back-leverage margins have reportedly widened by 10–15 bps, reflecting concerns around energy-shock-exposed collateral. In practice, many debt funds appear to have absorbed the higher costs to remain competitive, while lenders that repriced have, in some cases, lost transactions. Although there remains scope for higher risk weightings to still deliver a return premium to banks, any convergence towards direct CRE lending assumptions could dampen liquidity. Separately, new AIFMD II leverage limits are expected to cap advance rates at around 60–70%, posing a modest headwind to demand.

**Outlook:** While financing conditions for prime assets should remain firm, we believe that the phase of margin compression has largely come to an end. In our base case, prime lending margins are expected to widen modestly by around 10–15 bps, reflecting tighter liquidity, higher rates and uncertainty in the short-term. Financing conditions for secondary assets are likely to soften more as lenders may adopt a more cautious stance amid rising non-performing loan volumes. At the same time, higher interest rates are making refinancing gaps more visible and are expected to drive additional margin widening for highly leveraged structures.

A significant volume of loans originated during the ultra-low-interest rate environment will continue to mature through 2026–2027, often against rebased asset values. This creates ongoing risks, particularly for assets with weaker fundamentals, where full recovery appears unlikely. In this context, we expect more, but selective realisation of credit losses, which in fact could result again in new lending opportunities. We don't expect a systemic shortage of debt capital. Banks may remain active, albeit selective, with a clear focus on prime assets, preferred sectors and strong sponsors—an approach increasingly complemented by a growing emphasis on ESG criteria and asset transformation strategies.

<sup>7</sup> Greenstreet, Conference Insights, April 2026

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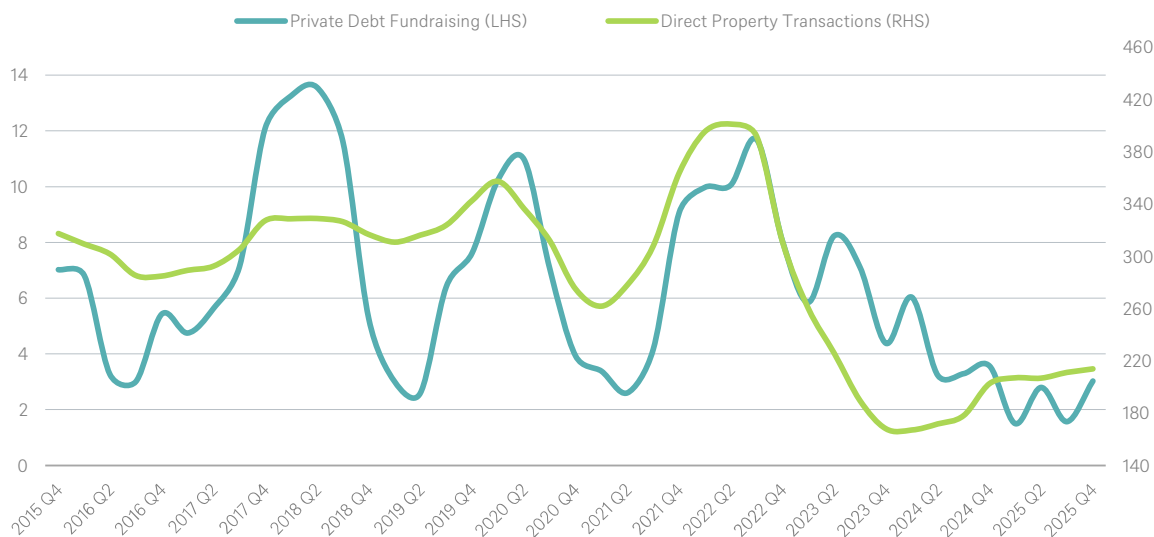
## Fundraising momentum

### Many new funds, little capital raised

Fundraising activity in European real estate debt has remained elevated over the past two years, with more than 30 funds currently in market. While capital raised has so far been moderate—reflecting constrained investor balance sheets, delayed distributions amid limited exit activity, higher interest rates, the denominator effect and existing over-allocations to alternatives—investor interest in the asset class remains intact. Real estate debt continues to compete within a wider private credit universe, including infrastructure and asset-based lending, where certain segments may provide comparable risk characteristics. This has increased the emphasis on clearly articulated strategies and differentiation. At the same time, investors are closely monitoring the timing and magnitude of credit loss realisation from the 2021–2022 vintages. This heightened scrutiny has slowed decision-making but is increasingly favouring established platforms with strong underwriting discipline and proven restructuring and loss-management capabilities, positioning the sector well for renewed capital deployment as visibility improves.

Sentiment remains broadly supportive, and fundraising activity is expected to pick up in line with the gradual recovery of European property markets. This view is reflected in the INREV Investment Intentions Survey 2026, where real estate debt funds are identified as the most attractive route for accessing European real estate. Investor preference has strengthened notably, with debt strategies regaining the top position amid ongoing concerns around market volatility and capital preservation. Their appeal is underpinned by improved risk-adjusted returns, senior positioning within the capital structure, and the ability to capitalise on refinancing gaps created by constrained bank balance sheets. As a result, real estate debt is increasingly viewed as a resilient and flexible way to gain exposure to European real estate while limiting downside risk.<sup>8</sup>

### European CRE Private Debt Fundraising & Direct Property Transactions (12-month rolling, €bn)



Source: Preqin, Real Capital Analytics, March 2026.

<sup>8</sup> INREV, Investment Intentions Survey 2026, January 2026

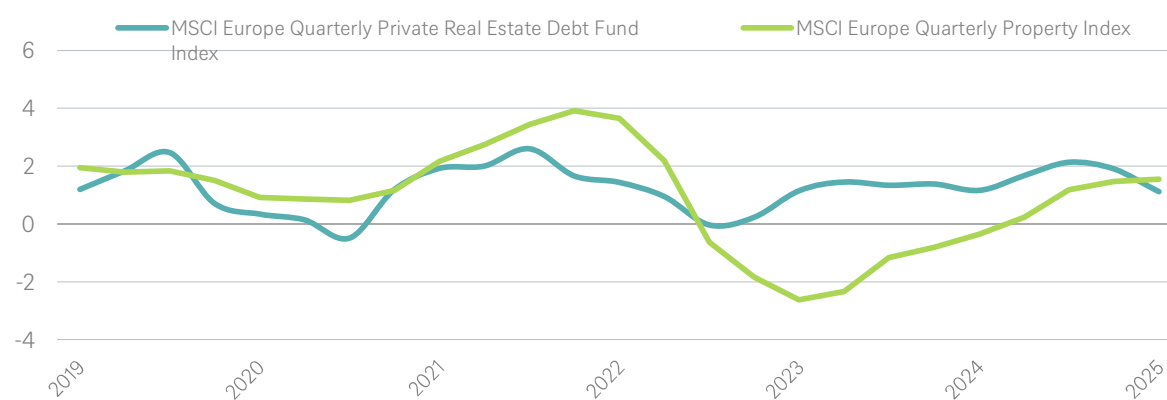
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## Real estate debt returns

### Real estate debt market outperformed property returns

Real-estate debt funds have outperformed private-equity real estate in phases of rising interest rates, benefiting from greater insulation against asset-price declines following sharp interest-rate increases. Renewed geopolitical tensions in the Middle East have pushed interest-rate expectations higher again, re-introducing repricing risks across property markets. In this environment, investor demand is likely to shift further towards debt strategies, where risk-return profiles appear more attractive. Managing exposure to valuation downside is increasingly critical, and a fund's position in the capital stack plays a decisive role. Senior debt offers the most defensive exposure, with potential value declines absorbed by subordinate capital layers, reinforcing its appeal in a higher-rate, more volatile market backdrop.

### Quarterly Total Return



Source: MSCI, March 2026

**Return Outlook:** Real estate debt returns are expected to remain strong in the near to medium term, supported by higher short-term interest rates and the predominantly floating-rate nature of debt strategies. As illustrated by the MSCI indices, private real estate debt has delivered more stable and resilient total returns through recent market volatility, while equity returns have been more exposed to valuation adjustments. Looking ahead, the scope for further yield compression in direct real estate appears limited and may be delayed as heightened geopolitical risks—particularly related to the Iran conflict—continue to weigh on investor sentiment and risk pricing.

In this environment, total returns are likely to be driven more by income than capital appreciation, favouring debt strategies that benefit from contractual cash flows, senior positioning in the capital stack and limited valuation downside. As a result, real estate debt remains well positioned to deliver attractive risk-adjusted returns relative to direct real estate, particularly while uncertainty keeps yield compression postponed rather than reversed.

## Investment strategy

### Logistics, Office and Residential subsegments

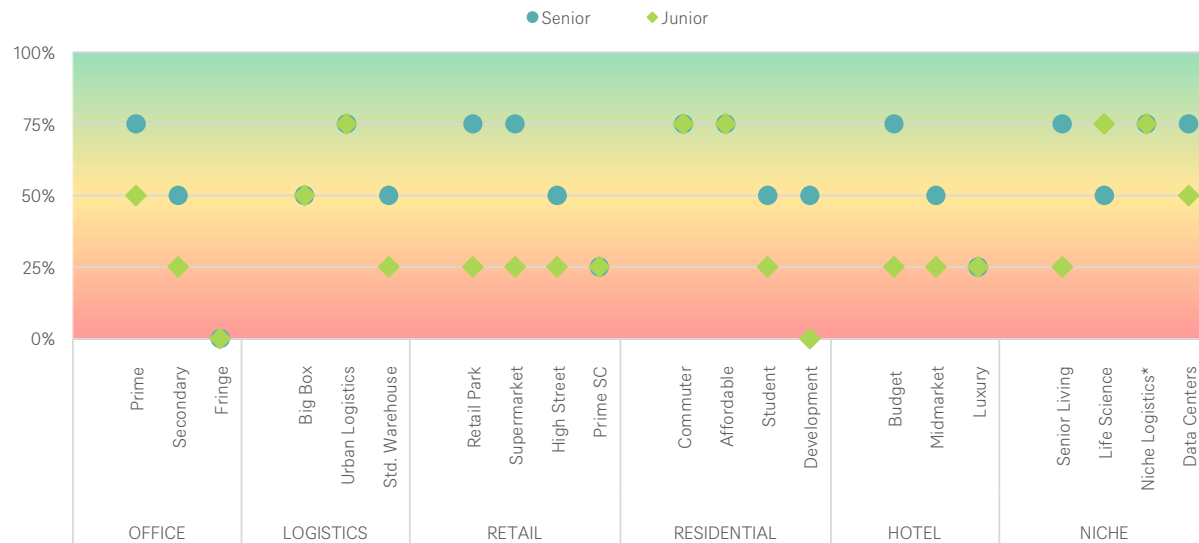
While macro uncertainty continues to shape investor sentiment, our sector outlook for European real estate debt is increasingly driven by relative scarcity, income durability and downside protection, rather than by prime-yield compression. We see a particularly attractive window for new real estate debt origination in Europe. Our view is that underlying property values have largely corrected and are now broadly stable, while short-term interest rates have risen sharply, with 2-year EUR swap rates increasing by around 60 basis points since the end of February. Looking ahead, we expect geopolitical tensions in the Middle East to ease and inflation to come down. In this environment, new lending benefits from more attractive entry pricing and stronger structuring, while existing loan portfolios—originated at tighter margins and higher valuations—may face selective pressure, creating additional opportunity sets.

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We therefore favour whole-loan strategies, which offer compelling risk-adjusted returns at leverage levels of up to ~70-75% LTV, compared with senior loans that are typically constrained to 55-60% LTV. Whole loans allow lenders to optimise attachment points, capture wider all-in margins and retain strong downside protection through structuring rather than incremental leverage. Within first-ranking loans, we favour transitional loans secured against well-located, centrally positioned assets. These loans typically finance property retrofits, leasing execution, vacancy reduction and/or repositioning to highest and best use, with the objective of maximising cash flow and, ultimately, asset value.

**Key strategy changes:** We have downgraded PBSA, driven primarily by weakening fundamentals in the UK, while Western Europe remains comparatively attractive. We have also downgraded luxury hotels, reflecting softer international travel demand, particularly from the Middle East and other overseas markets. In contrast, well-located four-star hotels in Western European leisure destinations could benefit. Our stance on shopping centres has turned more cautious amid weak consumer sentiment, elevated savings rates and lower disposable income due to high energy costs. In logistics, we have become more selective on big-box assets as slower economic growth and weaker global trade reduce demand.

**Private Debt Strategies by Subsector (Level of Conviction, %)**



\*Cold Storage, Self-Storage, Airport Logistics

Source: DWS, April 2026

Overall, we believe this combination of stabilising values, higher short-term rates, sector polarisation and constrained bank lending creates a favourable environment for selectively deployed European real estate debt capital, with the potential to generate strong risk-adjusted returns through disciplined underwriting and structuring.

**Residential:** Persistent housing shortages, particularly in urban centres, combined with demographic demand and affordability pressures, underpin robust occupancy and rental growth across most residential subsectors. Debt opportunity remains compelling due to stable cash flows, index-linked income and defensive demand dynamics. It offers high visibility on debt serviceability, even as regulatory interventions introduce localised headline risk. Importantly, the asset class benefits from continued institutional capital support, while selective whole-loan strategies allow lenders to optimise attachment points without compromising downside protection. Subsectors such as affordable housing, student accommodation and senior living further strengthen portfolio resilience, supported by differentiated and more stable demand drivers. We favour Ireland, Germany and Southern Europe, with Spain benefitting in particular from continued migration from Latin America.

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**Logistics** has been an early beneficiary of the post-correction recovery, supported by long-term e-commerce trends and ongoing supply-chain reconfiguration. However, the sector now requires greater selectivity than in prior cycles. While prime distribution assets remain well bid, demand has softened in globally exposed, port- and trade-sensitive locations, reflecting macro uncertainty, slower world trade and higher energy costs.

A slowdown in development activity should support fundamentals over time, reinforced by additional demand linked to the accelerating data-centre build-out. That said, we are more cautious on big-box logistics assets in the near term given weaker economic growth dynamics. We favour multi-let and light-industrial assets, where diversified income streams, local demand drivers and short re-letting periods underpin cash-flow durability. Although headline rental growth expectations are moderating, persistent supply constraints in infill locations continue to support income stability, favouring well-structured loans with conservative underwriting and enhanced covenant protection.

**Office markets** across Europe remain highly polarised. While aggregate sentiment has improved modestly, most notably in core markets, capital remains highly selective and transaction volumes subdued. Shortages of high-quality, energy-efficient space in central locations contrast sharply with obsolescence risks in peripheral or secondary stock. In offices, our focus remains firmly on prime locations, where demand for high-quality, energy-efficient space persists despite elevated vacancy levels in parts of the market. Here, we are comfortable underwriting business plans that assume leasing-up of existing vacancy or capture of reversionary upside where assets remain under-rented, provided sponsor quality, location and asset fundamentals are compelling.

Prime, well-located office assets with strong ESG credentials are better positioned to sustain stable income profiles, particularly when supported by conservative leverage structures and strong sponsor alignment. Persistent demand for centrally connected space—driven by technology, professional services and life-science tenants—continues to underpin rents, even as hybrid working reshapes overall space utilisation. Selective exposure to assets with manageable vacancy, reversionary income or clearly under writeable business plans can materially enhance risk-adjusted returns in an otherwise challenging office landscape.

**Retail** remains the structural underperformer at headline level, but the sector has undergone an extended period of adjustments that is now offering selective opportunities for lenders. Years of repricing, rebasing of rents and reduced development activity have significantly lowered break-even levels across many retail subsegments. But we remain cautious in the near term, as rising inflation continues to weigh on consumer confidence and high energy costs reduce disposable incomes. Retail parks and convenience-led schemes stand out, benefit from accessible locations, affordable occupancy costs and growing exposure to service-oriented uses such as leisure, health and everyday retail. These assets offer attractive entry yields and resilient cash flows, with modest capital expenditure requirements relative to regional shopping centres. This supports debt structures with strong income cover and limited downside risk.

**Within hospitality**, we adopt a more selective and differentiated view. We are currently more cautious on luxury and upper-upscale hotels, given their higher exposure to international long-haul travel and, in particular reduced visitor flows from the Middle East following recent geopolitical tensions. These assets often rely on discretionary, high-spend demand and can exhibit greater earnings volatility in periods of travel disruption.

By contrast, we see more attractive near-term fundamentals in the upper-midscale and four-star segment, particularly in Western European gateway cities such as Paris, Barcelona, Nice and Vienna, but also in leisure destinations like Palma Mallorca. In the current environment, these destinations are benefiting from short-haul European travel, redirected tourism flows and substitution effects, as higher costs and disruption on routes to Asia and the Middle East encourage travellers to favour closer, well-connected urban leisure markets. As a result, occupancy and rate performance in this segment appears more resilient, supporting stable cash flows and improved debt service visibility.

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## Risk factors – Private Debt

All investments involve risk, including possible loss of principal. Private Credit, Direct Lending investments are “private” and may not be appropriate or available for retail investors in the U.S. Investments in Private Credit are subject to various risks including but not limited to market risk, general economic and market conditions, economic recession risk, inflation/deflation risk, and:

**Counterparty risk** – A financial institution or other counterparty that underwrites, distributes, or guarantees any private credit investments or contracts that the strategy owns or is otherwise exposed to, may decline in financial health, and become unable to honor its commitments. This could cause losses or could delay the return or delivery of collateral or other assets.

**Prepayment and extension risk** – When interest rates fall, issuers of high interest debt obligations may pay off the debts earlier than expected (prepayment risk), and the strategy may have to reinvest the proceeds at lower yields. When interest rates rise, issuers of lower interest debt obligations may pay off the debts later than expected (extension risk), thus keeping the strategy’s assets tied up in lower interest debt obligations. Ultimately, any unexpected behavior in interest rates could increase the volatility of the strategy’s yield and could hurt performance. Prepayments could also create capital gains tax liability in some instances.

**Debt securities risk** – Debt securities are subject to the risk of the issuers or a guarantor’s inability to meet principal and interest payments on its obligations and to price volatility.

**Default risk** – The issuers or guarantors of debt securities may fail to make payments or fulfil other contractual obligations.

**Secured debt risk** – Although secured debt generally will be secured by specific collateral, there can be no assurance that liquidation of such collateral would satisfy the borrower’s obligation in the event of non-payment of scheduled interest or principal or that such collateral could be readily liquidated.

**Second lien and subordinated loans risk** – Second lien loans generally are subject to similar risks as those associated with investments in senior loans, and, because they are subordinated or unsecured and lower in priority of payment to senior loans, they are subject to additional risks, including the risk that the borrower may be unable to meet scheduled payments, price volatility, illiquidity, and the inability of the originators to sell participations in such loans.

**Private investment risk** – Private investments are highly competitive, less transparent, and illiquid.

**PIK interest risk** – Loans with a payment in kind (“PIK”) interest component generally represent a significantly higher credit risk than coupon loans; may have unreliable valuations requiring continuing judgments about collectability and the value of any associated collateral; and the borrower could still default when the actual payment is due at maturity.

**Direct lending risk** – The lender in privately offered debt is responsible for the expense of servicing that debt, including, taking legal actions to foreclose on any security instrument securing the debt. This may increase the risk and expense compared to syndicated or publicly offered debt.

**Interest rate risk** – In general, rising interest rates in the market will negatively affect the price of the direct lending investments. Sensitivity to a change in interest rates is more pronounced and less predictable in instruments with uncertain payment (or prepayment) schedules. Central bank monetary policy, rising inflation rates, and general economic conditions may cause interest rates to rise.

**Illiquid portfolio investments risk** – Private credit investments generally will be long-term and highly illiquid.

**Valuation risk** – There is no central place or exchange for private credit investments to trade. Uncertainties in financial market conditions, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate pricing and other market participants may value direct lending investments differently.

**High-yield debt risk** – High yield debt securities have historically experienced greater default rates than investment grade securities and are subject to additional liquidity and volatility risk.

**Reinvestment risk** – During periods of declining interest rates, an issuer of debt obligations may exercise an option to redeem prior to maturity, which could result in new investments with lower-yields.

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