

Europe Real Estate Debt Market Update

November 2025

IN A NUTSHELL

- Prime lending margins have tightened in 2025 due to increased competition and low transaction volume. But we expect investment volumes to recover as an increasing number of loans originated during the low-interest era will mature soon.
 - Growing appetite for bridge-to-sell loans and lease-up strategies can be observed, accompanied by an increased use of back leverage to facilitate larger loan sizes. Loan covenants have started to ease, reflecting a shift towards more flexible underwriting standards.
 - Given increased competition in the prime segment, our preference has shifted toward more complex, non-plain-vanilla strategies that require greater understanding of real estate market or structuring capabilities – including development financing.
 - At the sector level, we prefer commuter and affordable residential, big box & urban logistics and prime office properties while hotels and niche sectors may offer selective opportunities.
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Current Market Conditions

Supportive real estate fundamentals

The second and third quarters of 2025 marked a period of cautious optimism across European financial markets. While the euro area and the UK faced distinct macroeconomic pressures, both regions saw monetary policy easing and improving credit conditions, albeit with nuanced trajectories. In the euro area, the ECB has held its deposit facility rate steady at 2.00% in September, marking the second consecutive meeting without a rate change. This follows a series of cuts that began in June 2024, reducing rates from a peak of 4%. The ECB is now widely seen as having reached a neutral level—a rate that neither stimulates nor restricts economic activity.

Meanwhile, the UK economy traded sideways and the BoE's August rate cut—25 basis points—was narrowly approved by the Monetary Policy Committee (MPC), with one member initially advocating for a more aggressive 50 bp reduction. This split vote underscores the delicate balance the BoE must strike between persistent inflation and weakening growth. Weak GDP data from Q2 2025 and subdued consumer sentiment have reinforced expectations for further easing. However, the MPC remains forward-looking, emphasizing medium-term inflation sustainability over short-term volatility. As Q3 2025 closes, both the euro area and UK appear poised to benefit from looser monetary policy and improving credit conditions. While

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structural challenges persist, the current environment may present a window of opportunity for strategic allocation—particularly in real estate debt instruments.

The European real estate market continues to navigate a complex macroeconomic and geopolitical landscape. Total transaction volume declined by 10% yoy in the first half of 2025, with U.S. cross-border acquisition dropping 29% and private equity participation notably reduced.¹ The second quarter marked the lowest number of active buyers and sellers in Europe in over a decade. While U.S.-based investors have shown a more measured approach toward European property markets in recent quarters, Japanese institutions have notably increased their exposure—reaching record levels in the first half of the year. Despite overall weakness in European office transactions, selective recovery is emerging in prime markets. The UK remained the most liquid market, outperforming France and Germany combined, with office sales up 27% year-over-year. This resilience signals a potential turning point.

Looking ahead, we anticipate a recovery in transaction activity as a growing number of assets come to market, which could unlock fresh opportunities for capital deployment. A key forward-looking indicator is the volume of in-contract and pending deals, which historically aligns with year-end completions. As of June 30, pending deals totaled just over €17 billion—the highest since 2022—suggesting a moderate rebound in deal activity in the second half.²

Real estate fundamentals appear resilient, underpinned by supply-side constraints. Development margins have come under pressure as exit values declined by approximately 20% and construction costs rose by more than 20% since 2021. This margin compression is expected to reduce new supply by 25–30% over the next five years, tightening already constrained markets and reinforcing the outlook for rental growth. With liquidity conditions improving and structural tailwinds intact, European real estate continues to offer compelling returns in a global investment context.

Real Estate Debt Market

Non-bank lenders on the rise, competition results in margin compression

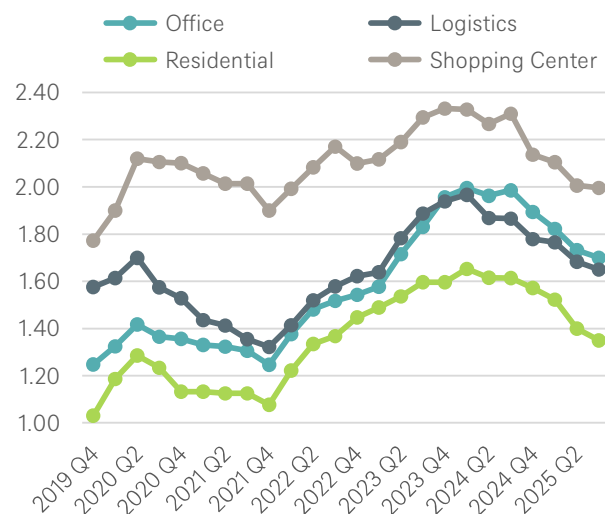
In the debt space, competitive dynamics have intensified across banks, debt funds, and insurers, while acquisition opportunities remained scarce. Private debt vehicles—especially those backed by sovereign wealth and pension funds—are entering the market with substantial capacity, often providing loans exceeding €100 million at competitive rates. This influx of capital fosters a highly competitive lending environment, enabling borrowers to secure favorable terms while these funds increasingly fill gaps left by traditional banks. Investor behavior is also evolving, with some participants moving up the risk curve—embracing more leveraged structures and expressing renewed interest in value-add and development strategies. The shift reflects a broader trend: capital providers are becoming more aggressive in pricing to secure transactions, even as risk-adjusted returns narrow.

¹ RCA, Capital Trends Europe, Q2 2025

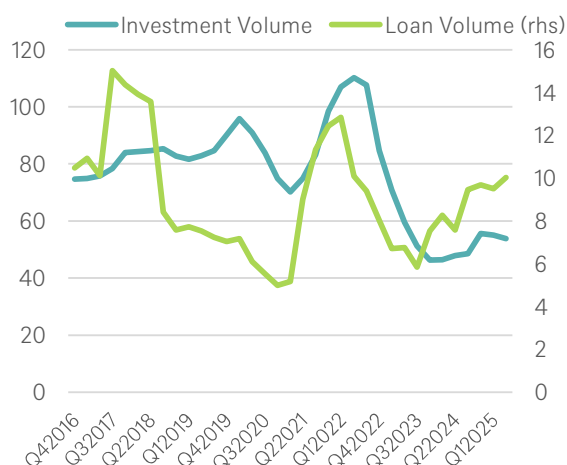
² RCA, Capital Trends, Q2 2025

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European Prime Senior Loan Margins
(Weighted Average in %)



Europe: Transaction Volume vs Loan Volume
(4q-rolling EUR bn)



Sources: DWS, CBRE, Deloitte, Chatham, RCA, Real Capital News, September 2025

The evolving dynamics in European real estate finance reflect a growing confidence in the sector's recovery and the relative strength of its fundamentals. Non-bank lenders have emerged as pivotal players in this transformation, now representing 42% of UK loan books and 16% across the EU.³ Their ability to deliver tailored financing solutions and greater structural flexibility has enhanced market liquidity and broadened funding access across the capital stack. This shift has contributed to a broad-based tightening in loan margins, particularly within the prime segment. Over the past 12 months, senior loan margins for core assets compressed by more than 30 basis points, even as leverage levels increased. Loan-to-value ratios (LTVs) for senior loans now range between 55% and 65%, including in traditionally conservative asset classes such as offices—signaling a notable recalibration in lender risk appetite. Despite recent market shifts, long-term margins in European real estate debt remain compelling—particularly in submarkets aligned with alternative lenders. The current environment may offer attractive total return and spread opportunities, supported by recent repricing that has significantly reduced credit risk.

Margins on senior loans have compressed most notably in the residential and logistics sectors. The divergence in financing conditions based on asset quality continues to be high. Margins in the mid-market whole-loan segment have remained largely stable, which we believe currently offers a relatively attractive risk-return profile for some alternative lenders. Office and retail assets continue to exhibit greater volatility, reflecting shifts in underlying fundamentals and investor sentiment. In the mezzanine financing space, lenders have adopted a more selective and risk-aware approach. Interest coverage ratios and the credibility of underlying business plans remain key. Despite falling base rates, pricing has remained firm, with margins ranging between 5% and 8%. These mechanisms reflect a broader shift toward more structured and resilient financing models, tailored to navigate ongoing market uncertainty. Refinancing loans remained the most active financing purpose in 2025, reflecting subdued transaction volumes across the continent. This trend underscores the importance of liquidity preservation and balance sheet optimization in a low-activity environment.

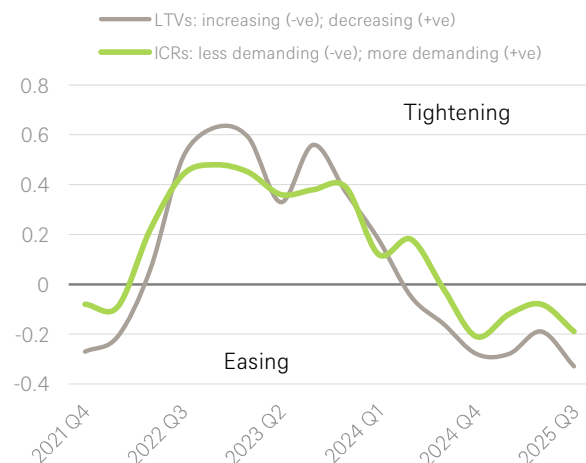
³ INREV, Non-bank lenders as an integral component of the European commercial real estate debt market, 2025

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Financial Covenants and New Loan Demand

Credit Standards

(Sentiment Index Score)

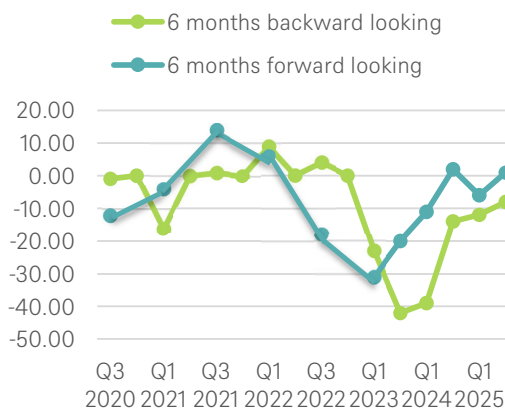


Source: Real Capital News, CREFC, September 2025

*Weighted net percentage (tightened minus eased or reverse) based on the share of each country in the total loan outstanding amounts of the area aggregate

CRE Loan Demand Euro Area Enterprises

(Net percentage*)



Source: ECB, Bank lending Survey Q3 2025

As macroeconomic conditions stabilize and investor sentiment recalibrates, the European commercial real estate debt market appears to be showing signs of renewed momentum. The latest data from the ECB Bank Lending Survey (Q3 2025) and Real Capital News reveals a nuanced landscape where loan demand, credit standards, and financing conditions are evolving in tandem.

CRE loan demand, measured on a net percentage basis, contracted sharply through late 2022 amid rising rates and muted transaction activity. However, especially forward-looking indicators point to a gradual recovery beginning in early 2024, driven by refinancing needs and opportunistic capital deployment.

Financial covenants—particularly Loan-to-Value and Interest Coverage Ratio thresholds—tightened significantly through mid-2023, reflecting heightened lender caution. Since then, conditions have moderately eased, signaling a more balanced risk posture and selective re-engagement by lenders. Financing conditions have improved, supported by lower interest rates and compressed margins. The European Central Bank's rate cuts have eased funding costs, which we believe has made real estate debt a relatively attractive proposition for some investors seeking positive leverage. Liquidity has returned to the market, with lenders competing for high-quality transactions, and borrowers potentially benefiting from a more stable lending environment.

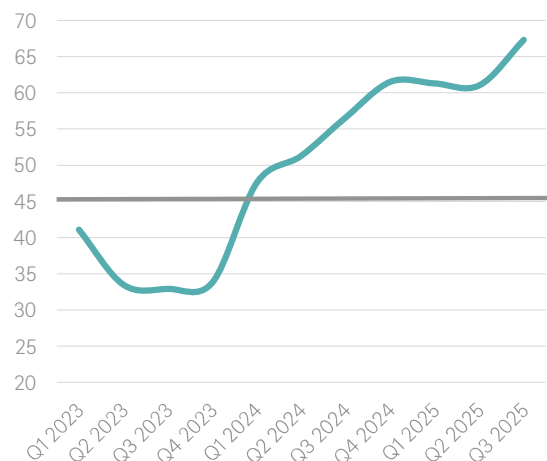
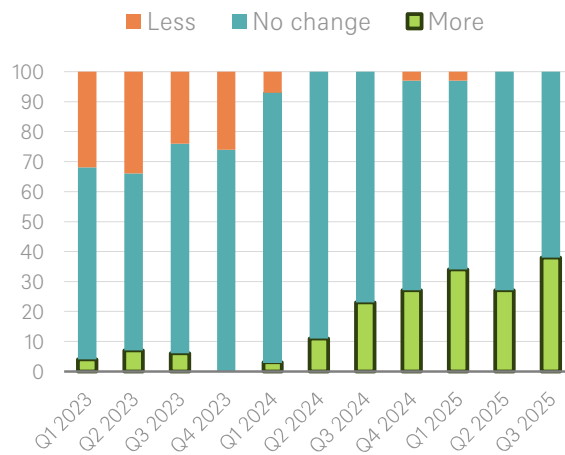
Whole loan and mezzanine strategies appear to be gaining traction—particularly in Germany, Spain, and Italy—as investors seek to limit capital outlay and diversify risk. This trend reflects a broader shift toward capital-efficient structures and flexible underwriting, aligned with the need for balance sheet optimization in a low-activity environment.

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INREV CONSENSUS INDICATOR

Financing

(Sub indicator*)

Availability of financing changed over the last quarter
(share of respondents)

Source: INREV Consensus Indicator, September 2025 (survey responses from 10 global investors and 23 global fund manager)

*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.

Investor confidence in commercial property financing has reached its highest level since March 2023, according to INREV's Q3 2025 Market Insights. The financing sentiment score climbed to 67.3 from 61 in June, while the consensus score rose to 56.4 from 52.2—comfortably above the 50-point threshold that signals positive sentiment. Notably, 27% of respondents reported improved financing conditions, including higher loan-to-value ratios and more flexible covenant structures, up from 19% in the previous quarter.⁴

Alternative lenders appear to be gaining traction, with 40% of respondents citing increased availability from non-bank sources and 48% noting greater access to bank financing. Lenders continue to favor lower-risk transactions: 42% of respondents saw better financing for core strategies, compared to 28% for value-add and just 13% for opportunistic deals. Loan activity surged, with €17.9 billion in debt capital deployed across 80 transactions between June and mid-August—nearly double the €9.3 billion recorded in the prior period. Despite this uptick, competition for deals remains intense due to limited acquisition opportunities. While investment volume rose 6.6% year-on-year, it remains 30% below the 10-year average.

Recent market observations in Germany reveal that changes in LTV ratios are even more pronounced in the value-add segment than in core investments. Residential assets continue to command the highest LTVs—averaging around 63%—followed by logistics at 60%. Office assets remain at the lower end of the spectrum, with average LTVs of approximately 57%. This divergence underscores a broader trend: financing parameters are becoming increasingly flexible. Lenders are showing a growing willingness to approve higher LTVs on a case-by-case basis, a notable shift from the rigid underwriting standards seen just months ago. This evolution suggests that typical LTV thresholds may rise modestly in the coming quarters. At the same time, margins are trending downward across all asset classes compared to the previous survey in Q2 2024. This applies to both core and value-add segments, with the latter experiencing more significant compression. The

⁴ Source: INREV Consensus Indicator, September 2025 (survey responses from 10 investors and 23 fund managers globally)

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decline in margins reflects heightened competition among lenders and a recalibration of risk premiums in response to stabilizing market fundamentals.⁵

Sustainability continues to influence real estate lending practices, even if it currently receives less emphasis from a broader market perspective. Initially rooted in corporate and investment-grade segments, ESG criteria have steadily expanded into property debt, reflecting their enduring relevance for both lenders and borrowers. Recent findings from the ECB's Bank Lending Survey reinforce this trajectory. Lending conditions have become more favorable for assets with strong energy performance, while tightening for those with weaker ratings. Banks reported a net easing of credit standards for energy-efficient buildings (–14%), contrasted by a tightening effect for low-performing assets (+25%). These developments highlight a growing differentiation in financing terms based on sustainability credentials—underscoring the strategic importance of ESG integration in underwriting and portfolio construction. Similar to the impact on credit standards, banks also reported a net easing impact on their credit terms and conditions for housing loans for buildings with high energy performance and, to a small extent, for buildings with medium energy performance over the past 12 months.⁶

While we are currently observing signs of individual distress in the market, the overall extent appears manageable. The most vulnerable positions have already undergone restructuring or are in the process of being restructured—including credit defaults among mezzanine lenders. In some higher-risk credit exposures, issues have been deferred through loan extensions. Due to increasing polarization in the office segment—driven by tenant “flight to quality” toward prime assets, resulting in persistent declines in occupancy for secondary locations and older buildings—and in light of upcoming loan maturities, the non-performing loan (NPL) ratio in this segment has risen.

Debt sentiment continues improvement

Market shows cautious optimism

The European real estate debt sentiment in the second half of 2025 appears to be characterized by a sense of cautious optimism. After a period of pronounced volatility triggered by trade disruptions and macroeconomic uncertainty, market sentiment has stabilized. The latest CREFC Europe sentiment survey reveals that participants have largely adapted to the new environment, recalibrating their expectations and strategies in response to evolving risks and opportunities. The Q3 survey indicates a rebound in sentiment compared to the previous quarter, which was marked by a sharp deterioration following trade tariff announcements. 51% of respondents believe market conditions have improved in the past three months, up from 33% in the prior quarter, while only 16% see further deterioration. The initial negative reaction to trade policy uncertainty has given way to a more nuanced, measured outlook, as market participants adapt to ongoing volatility.⁷

⁵ Source: JLL, HWWI, DIFI Report Q2 2025

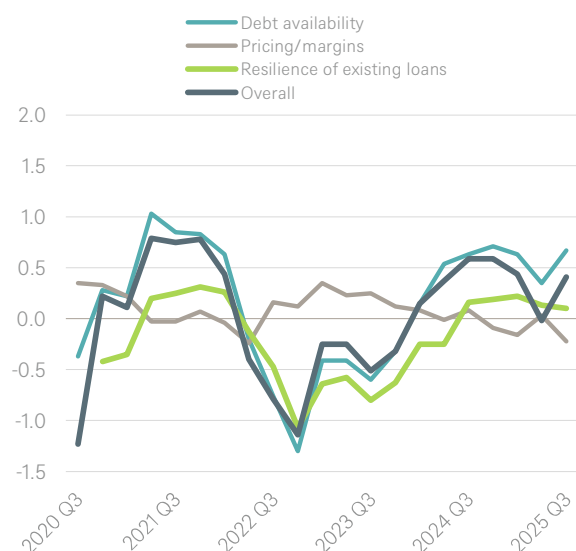
⁶ Source: ECB, bank lending survey, July 2025 (survey responses from c. 150 banks across the Euro Area)

⁷ Source: Real Capital News, CREFC, September 2025 (survey responses from 97 lenders across Europe)

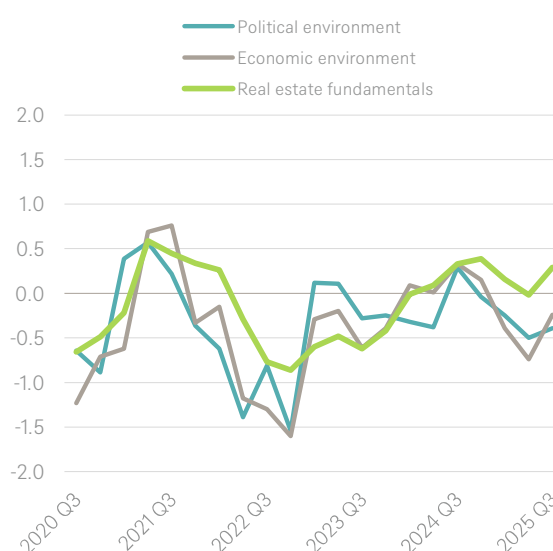
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European Commercial Real Estate Debt Market Sentiment

Selected Sentiment Indicators



Macro Environment



Source: Real Capital News, CREFC, September 2025

The initial shock of global trade tensions and tariff announcements led to a sharp deterioration in market mood at the start of the year. However, as the year progressed, lenders and borrowers demonstrated resilience, with confidence gradually returning to the market. The survey shows that a majority of respondents now perceive conditions as having improved, reflecting a collective ability to price in risk and move forward. This stabilization is underpinned by robust real estate fundamentals. Respondents report renewed confidence in property market fundamentals, with the sentiment index for real estate bouncing back into positive territory. The macroeconomic sentiment index, while still negative, has improved, reflecting a less pronounced concern about the broader economic environment. Political risk remains a concern, but its impact on sentiment has lessened compared to the previous quarter.

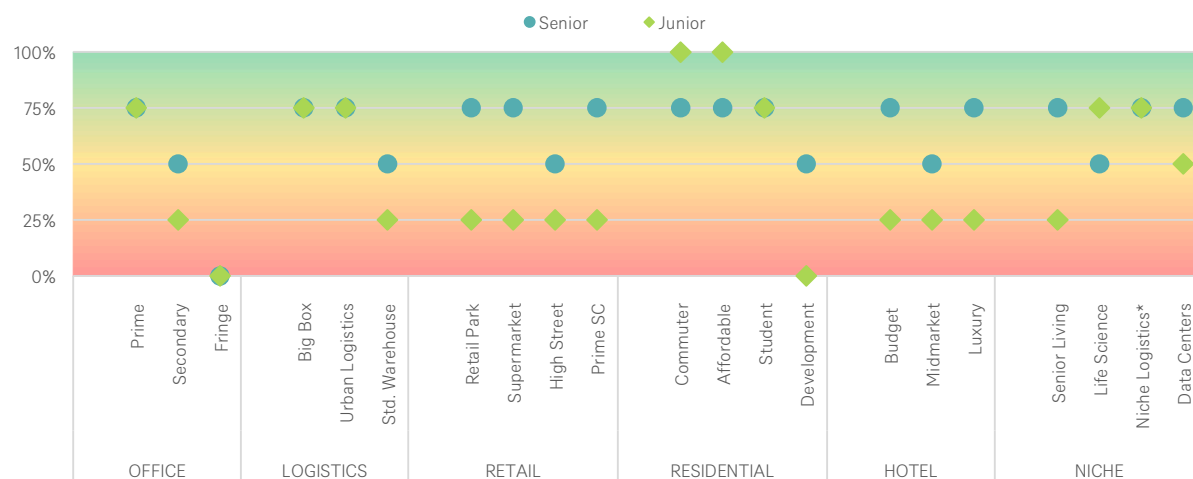
Investment strategy

Development loan may appear attractive

As prime senior loans become increasingly competitive, particularly for core office, residential and logistics assets, margin compression in these segments has led us to focus on more complex, non-standard loan structures. These transactions require greater flexibility in structuring and often demand rapid execution—especially in markets where credit is limited. In such environments, lenders gain stronger negotiating leverage, which may create relatively attractive opportunities, particularly where traditional banks remain cautious or are pulling back.

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



*Cold Storage, Self-Storage, Airport Logistics

Source: DWS Real Estate Research, October 2025

Residential developments in most supply constrained markets such as Germany top 7 cities, Madrid, Copenhagen and Dublin currently appear to exemplify this dynamic. Despite limited access to conventional debt financing, these projects are supported by which we view as robust fundamentals and have continued to attract alternative capital sources. These dynamics have catalyzed alternative capital inflows, with senior and whole-loan structures gaining traction. Our preference currently leans toward commuter belts and affordable housing formats in regional growth hubs such as Leipzig, Valencia, and Birmingham—where demographic tailwinds and affordability gaps and are expected to support long-term demand.

Logistics, while still underpinned by structural demand, is increasingly polarized. Specialized assets—those requiring operational sophistication and domain expertise—may offer differentiated underwriting potential and pricing power. We maintain a constructive view, albeit more selective, given elevated supply in certain corridors and macro uncertainties linked to global trade. In this context, we currently favor senior and whole-loan structures over junior tranches, reflecting a preference for more secure capital stacks amid shifting risk profiles. From a research perspective, our strategic focus remains on consumer and defense-linked logistics nodes, particularly in Paris, Milan, and the southern and western regions of Germany, where industrial depth and infrastructure investment appear to support demand. We tend to prioritize big-box assets in major logistics corridors and urban logistics in densely populated metropolitan areas, which may benefit from last-mile delivery dynamics and resilient occupier fundamentals. Southern European growth cities such as Marseille and Barcelona stand out for their strong logistics connectivity and low vacancy rates, while Dublin and Warsaw are emerging as markets to watch due to elevated forward-looking return potential and nearshoring tailwinds.

Core office assets with leasing risks in illiquid submarkets also may present opportunities for investors willing to engage in repositioning strategies and navigate structural challenges. We currently favor prime-scarcity locations and high-productivity global gateways—London and Madrid—as well as tech-performer cities like Munich and Paris, where innovation clusters and talent density are expected to support long-term value creation.

We also hold a constructive view on retail properties in central urban locations. Food-anchored retail formats appear to continue to benefit from resilient footfall, while retail parks may offer secure income streams and attractive margins. Although rental growth remains subdued, price corrections appear largely complete, potentially creating a more stable environment for capital values. Dominant shopping centres in prime areas have gained appeal, as elevated acquisition yields

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may improve interest coverage, reduce credit risk, and enable lenders to offer more flexible financing structures—including higher loan-to-value ratios and whole-loan options. Regionally, we see economic outperformance and consumer spending as key drivers. Established performers such as Spain and Ireland continue to lead, while Poland and the broader CEE region may present catch-up potential, supported by strong domestic demand and underpenetrated retail markets.

We remain positive on hotels, particularly leisure-focused properties operated by strong brands. The recent uptick in transaction volume suggests that attractive opportunities may emerge in this segment.

Currently, we favor the mid-size whole-loan segment as competition is less pronounced here. These loans allow for bespoke structuring and targeted execution, which may unlock risk-adjusted returns. Whole-loan strategies are particularly well-positioned to fill the financing gap left by traditional lenders, especially in jurisdictions such as UK, Germany, France, Spain, and the Nordics. As the market continues to stabilize, European debt vehicles appear to be gaining traction, with non-listed debt strategies accounting for a growing share of capital raised. This trend appears to reflect a broader shift toward alternative lending platforms and private vehicles, which are increasingly viewed as integral components of the commercial real estate financing landscape. In this context, real estate debt is not merely a defensive allocation—it may serve as a strategic lever for navigating complexity and capturing value in a transforming market.

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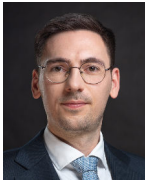
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Risk factors – Private Debt

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 issuer’s 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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