

European Real Estate in 2026

Back to Fundamentals,
Forward with Selective Growth

This document is issued by the Edmond de Rothschild Group. This content has no contractual value and is designed for information purposes only. This material may not be communicated to persons in jurisdictions where it would constitute a recommendation, an offer of products or services or a solicitation and where its communication would therefore contravene applicable legal and regulatory provisions. This material has not been reviewed or approved by any regulator in any jurisdiction. The figures, comments, opinions and/or analyses contained in this document reflect the Edmond de Rothschild Group's view of market trends based on its expertise, economic analyses and the information in its possession at the date of preparation of this document and may change at any time without notice. They may no longer be accurate or relevant at the time of publication, particularly in view of the date of preparation of this document or due to market developments. This document is intended solely to provide general and preliminary information to those who consult it and should not be used as a basis for any investment, disinvestment or holding decision. The Edmond de Rothschild Group shall not be held liable for any investment, disinvestment or holding decision taken on the basis of such comments and analyses. The Edmond de Rothschild Group therefore recommends that all investors obtain the various regulatory descriptions of each financial product before investing, in order to analyse the associated risks and form their own opinion independently of the Edmond de Rothschild Group. It is recommended to obtain independent advice from specialised professionals before entering into any transaction based on the information contained in this document, in order to ensure that the investment is suitable for the investor's financial and tax situation. Past performance and volatility are not indicative of future performance and volatility and are not constant over time and may be independently affected by changes in exchange rates. Source of information: unless otherwise indicated, the sources used in this document are those of the Edmond de Rothschild Group. This document and its contents may not be reproduced or used in whole or in part without the permission of the Edmond de Rothschild Group. Copyright © Edmond de Rothschild Group - All rights reserved



EDMOND
DE ROTHSCHILD



Why income resilience, positioning, disciplined allocation and active asset management will define returns

Klaus Schmitz

Chief Investment Officer Europe and Chief Executive UK for Edmond de Rothschild REIM, on what will drive markets this year.

This article first appeared exclusively in Green Street News on 21 January 2026.

Introduction: Fundamentally right (or wrong)

In 2026, European real estate returns are once again driven by fundamentals. With interest rates stabilising, performance depends less on timing the macro cycle and more on income resilience, and dynamism of operational execution. Differentiation across countries, sectors, cities and asset quality—not cycle-calling—will shape outcomes. The key questions for investors are simple: a) Where is income supported by demand/supply imbalances, solid affordability, and limited capex and b) where is operating income growth genuinely visible?

Macro Environment: Growth Without Exuberance

Despite geopolitical risk, the European macro environment in 2026 is supportive for real estate, but it is not a boom. Growth is expected to improve modestly across the Euro area, with Germany playing an outsized role through infrastructure, energy transition, and defence-related public investment spending. Inflation continues to normalise, and monetary policy moves gradually toward neutral. Policy rates stabilise at higher-for-longer levels.

For occupiers, the macro mix implies demand should hold up across many sectors — but rental growth will not be universal. This is not a “beta year” but one where modest growth translates into pricing power only where vacancy is tight and supply is constrained, and sector micro-dynamics determine who benefits.

On the capital side, higher-for-longer interest rates mean capital is more expensive and liquidity more selective. As a result, returns driven primarily by yield compression are unreliable. The more consistent



drivers of performance in 2026 are high quality and defensive income and credible NOI growth.

As investor focus is moving from “timing the cycle” to income and growth, finding pockets of value will be key. In this case, the relevant unit of analysis is country, city, submarket and asset quality.

Living and industrial: Durable Income plus growth

Living remains one of the cleanest expressions of carry plus growth in 2026. Household formation continues even in modest GDP environments, and structural undersupply across many European cities supports occupancy and rent growth.

Germany is a relevant example of collapsing supply in the residential sector. This has driven down average vacancy; however, the picture is very different for places like Dresden (c. 2% vacancy) and the communal area of Meissen (c. 15% vacancy) – although only 25km separate the two.

The key risk is political rather than economic. Affordability pressures translate into regulation and rent controls, which must be underwritten explicitly. Where that risk is understood and priced, living offers durable income and visible growth.

Logistics / Industrial remains attractive but submarket selection, supply discipline, and functionality will drive returns.

Investment and infrastructure spending support demand, but recent speculative development has created pockets of oversupply. Assets exposed to weak micro-locations or functional obsolescence behave very differently from last-mile and constrained nodes. Opportunities are location and vintage specific with older vintages sometimes offering better locations than recent speculative supply. In these segments, older but well-located assets can also offer meaningful rent reversion and enhancement potential, particularly where functionality can be improved without full redevelopment.

Urban mid-box assets with up to 20,000 sqm of lettable area, for example, offers consistent yield spread over big-box assets and demand is underpinned by SME market dynamics. Mid-market tenants offer a diversified occupier base which tends to be more insulated from global supply chain shocks and stickier due to proximity to customers, suppliers and workforce.

The Capital Cycle: Why Dispersion Persists

Capital availability remains uneven. Banks are selective, refinancing risk is real, and equity capital is more discriminating. Similar assets



can trade at materially different prices depending on capital structure, sponsor strength, and timing.

Risk premia remain elevated for assets with leasing risk, capex uncertainty, or near-term refinancing needs. Liquidity therefore becomes a differentiator: assets that are readily financeable reprice earlier; others lag.

Debt availability has improved, and financing costs have come down versus 2023. This has generally lowered the bid-ask spread and helped bring liquidity into the market.

Exactly this refinancing pressure creates buying opportunities for mispriced assets — but only for investors with the right type of capital and execution capability. This environment also creates opportunities for investors able to deploy flexible or credit-like capital into refinancing stress, where equity markets alone may not clear efficiently.

Implications for Capital Allocation in 2026

If discount rates stabilise rather than materially decline, the hierarchy of underwriting becomes clear:

- Quality of income — lease structure, indexation, tenant credit, and capex.
- Visibility of NOI growth — based on an analysis of the demand/supply dynamics.
- Balance-sheet resilience — maturity profiles, hedging, and refinancing optionality. A defensive capital structure is a key return differentiator.

Conclusion: Fundamentals First, Allocation Second, Timing Last

As Europe transitions into a phase where fundamentals once again dominate returns, the opportunity for investors lies not in timing the macro cycle but in understanding the micro. Quality of income, visibility of growth, and positioning will differentiate outcomes in 2026. For allocators, this is a year to be selective, disciplined, and operationally strong — and a year where patient capital should be rewarded.