MSCI

Q1 2026

Capital Trends

Europe

€47.3b Transaction volume

-10% YOY volume change

It is Groundhog Day again for European real estate. First-quarter investment volume was down 10% in comparison with the same period a year earlier, a disappointing start to 2026 after momentum had built up at the end of 2025. Fourth-quarter investment volume had reached €90b and was at the highest level since the first quarter of 2022, indicating that the market may have been poised to break free from its shackles since the inflationary spike put an end to the last property cycle in 2022.

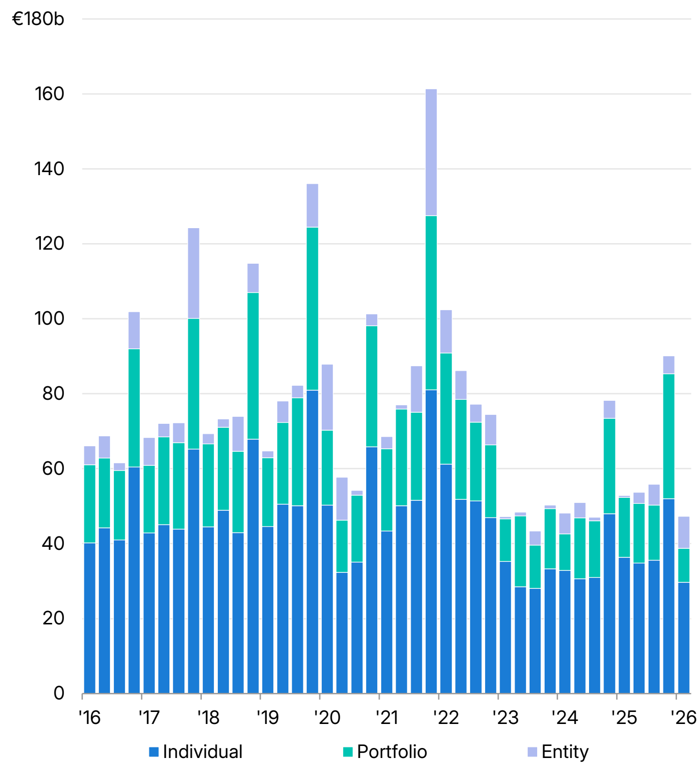
It is external volatility, principally the conflict in Iran, that has once again spooked the market and caused the slowdown in dealmaking. This is a familiar story for a market that has spent much of the last two to three years waiting for a clearer macro environment in which to recover. The closure of the Strait of Hormuz has led to an increase in oil and other commodity prices, which has unsettled bond markets and muddied the outlook for interest rates.

The European property market has been highly sensitive to changing interest rate expectations. The reversal from anticipated U.K. cuts and eurozone stability to the potential for rate hikes in 2026 has inevitably dampened buyer sentiment. Deals that would otherwise have closed in March are reportedly on hold while parties wait for a more settled outlook. The relative illiquidity and lack of pricing pressure mean there appears to be little penalty for buyers who wish to hold off on deals.

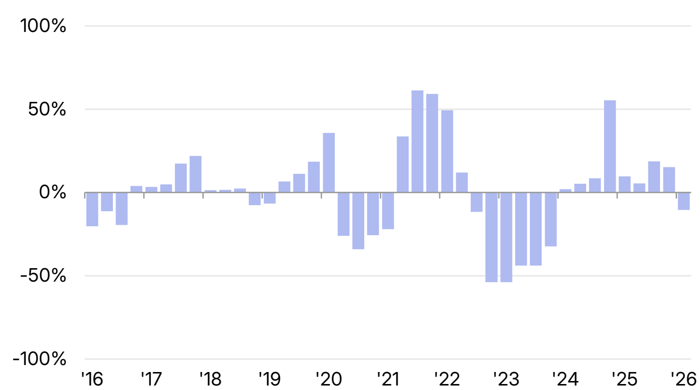
The two largest European property markets, the U.K. and Germany, are also some of the economies most exposed to the impact of the ongoing crisis in the Middle East. The IMF downgraded 2026 GDP growth prospects for Germany by 0.3% and for the U.K. by 0.5%, and neither economy is expected to grow by more than 1% in 2026. As such, property investment slowed in both markets in the first quarter. U.K. deals were down 7% but German acquisitions dropped by 30%. France is less exposed to global energy markets; nevertheless, French deal volume also dropped, falling 24% compared to the first quarter of 2025.

Notwithstanding the broader turbulence, European property investment fundamentals have been moving in the right direction. Capital values have stabilized, returns are back in positive territory, and the paucity of recent development means there are pockets of rental growth on which to capitalize. However, the shift to a more volatile and potentially more inflationary world means that investing in real estate will remain challenging amid a competitive environment for capital raising. The key question for property investors is how they adapt to this changed environment and exploit the structural trends already starting to reshape society.

Quarterly Transaction Volume



Year-Over-Year Change



Transactions by Deal Type

	Q1 2026 Volume		Past 12 Mths Volume	
	€b	YOY	€b	YOY
Single Asset	29.7	-18%	152.2	4%
Portfolio	9.0	-44%	72.9	0%
Entity	8.6	1548%	21.9	113%
Total	47.3	-10%	247.0	8%