



 **AFFINIUS**
CAPITAL

2026

HOUSE VIEW

From Disruption
to Opportunity

EUROPEAN PROPERTY MARKET OUTLOOK

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EXECUTIVE SUMMARY

We are pleased to share our **2026 European House View**, an annual publication that offers our outlook on the European economy and commercial real estate (CRE) market, including major trends and emerging opportunities; and outlines our high conviction themes and preferred investment strategies.

REPORT HIGHLIGHTS:

- 1 Signals for 2026 point to an inflection point in the market**, as easing financial conditions, shifting trade dynamics, and evolving geopolitical risks set the stage for the next wave of investment opportunities.
- 2 Europe is emerging as a focal point in the global investment landscape**, supported by more accommodative fiscal policies, declining interest rates, and growing confidence that real estate values have reached their trough. The recent correction has absorbed much of the downside risk, creating a solid foundation for recovery amid significant dry powder waiting to be deployed.
- 3 European logistics** markets experienced a short-term softening in tenant demand, yet **strong structural drivers**, including e-commerce growth, technological innovation, defence-related demand, and supply-chain regionalisation, combined with **tightening new supply** and persistent land and power constraints, position modern, well-located assets for sustained rental growth and long-term resilience.
- 4 Data centres are transitioning from niche to mainstream, fuelled by structural growth in cloud computing and AI adoption.** Demand is outpacing supply, constrained by power availability, reinforcing pricing power for developers with secured capacity. As digital infrastructure becomes central to Europe's competitiveness, the sector offers durable, long-term opportunities for investors able to deliver mission-critical facilities in both primary hubs and fast-growing secondary markets.
- 5 Real estate lending has evolved to become an important component of portfolio construction**, offering durable income, capital preservation, and risk-adjusted returns that investors may find attractive in a market still working toward equilibrium. Regulatory changes are reducing traditional banks' lending capacity, creating a structural funding gap that positions private lenders to play a critical role in the European market.
- 6 Europe's housing shortage is intensifying, driven by funding constraints, lengthy planning processes, and demographic shifts.** Development viability challenges, regulatory delays, and cost inflation remain significant hurdles, favouring well-capitalised investors who can navigate complexity and deliver high-quality rental accommodation.

EUROPEAN ECONOMIC CONDITIONS: TURNING DISRUPTION INTO OPPORTUNITY

Over the past decade, Europe has endured repeated periods of disruption, from Brexit and sovereign debt crises to the war in Ukraine, energy shocks, a global pandemic, and rising political polarisation. Considerable stimulus and supply shocks fuelled inflation and the sharpest monetary tightening in decades, while geopolitical tensions deepened volatility and stalled CRE markets. **Against that backdrop, one of our core disciplines has remained unchanged: separating the signal from the noise.** This has not been a straightforward exercise. Recovery has seen several false starts, when liquidity seemed to return and confidence began to build, only to be derailed by fresh policy shocks or macro crosscurrents. 2025 was marked by ongoing volatility, yet as 2026 begins, there are clear signs supporting a more cautiously optimistic outlook. Capital is gradually returning to the market and both economic and property fundamentals have proven more resilient than expected amid recent turbulence.

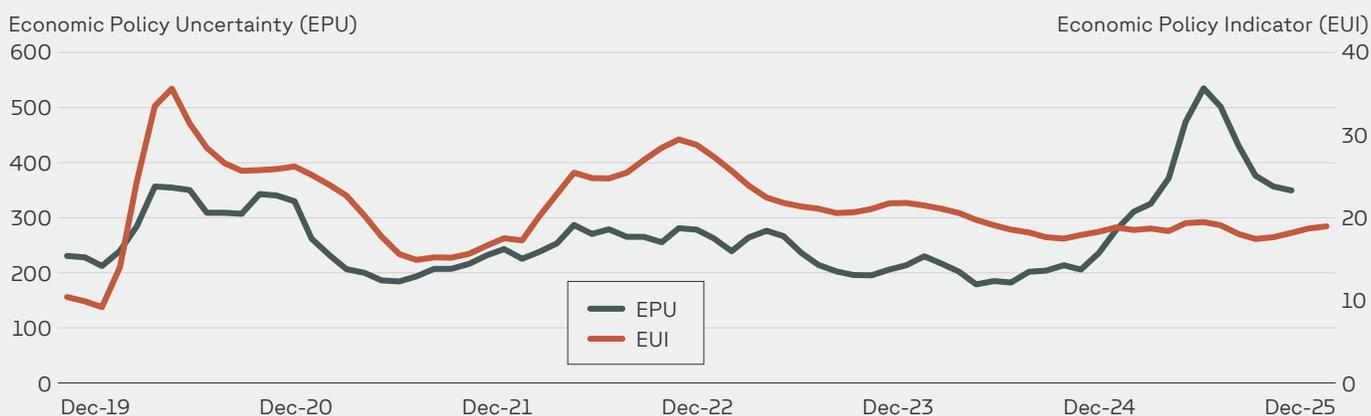
It is important to note that the majority of the research and data underpinning this report were finalized prior to the onset and subsequent escalation of the current conflict involving Iran. As such, the views presented herein do not fully reflect the potential implications of this evolving geopolitical backdrop. **While our core themes and convictions remain intact, we would highlight the below areas where recent developments could intersect with, and potentially influence, the outlook presented in the European House View:**

- A sustained disruption to global energy flows, particularly continued blockage of the Strait of Hormuz, could reinforce upward pressure on inflation and delay the path to monetary easing. The 10-year U.S. Treasury has increased from 3.96% prior to the conflict to 4.43% as of March 27th; if maintained this disruption may stall recent transaction market momentum.
- Elevated uncertainty and higher input costs may weigh on business investment and consumer confidence, particularly in more energy-sensitive European economies. The decline in public equity markets to date may reflect this risk.
- The escalation is consistent with our broader view of an increasingly fractured and regionalized global economy, one already driving higher defense spending and reinforcing demand for logistics and supply chain infrastructure as countries prioritize resilience, redundancy, and domestic capacity.



While European GDP growth in 2025 was modest at around 1.5%, it highlights the region's ability to withstand significant global uncertainty and maintain stability.¹ The widely recognised Economic Policy Uncertainty (EPU) Index provides a measure of uncertainty reported by European newspapers, enabling us to track changes in perceived policy risk over time. The EPU rose in 2022 amid inflationary pressures and interest rate hikes, reaching its peak in April 2025 following U.S. tariff announcements. In contrast, the Economic Uncertainty Indicator (EUI) provides a different perspective of business and consumer sentiment. The index reflects **strong post-COVID resilience despite a persistently challenging policy environment and elevated uncertainty in news flow (Exhibit 1)**. This resilience persists despite a heightened volume of volatile news headlines, suggesting that elevated uncertainty in the media has not translated into a meaningful pullback in business and consumer sentiment.

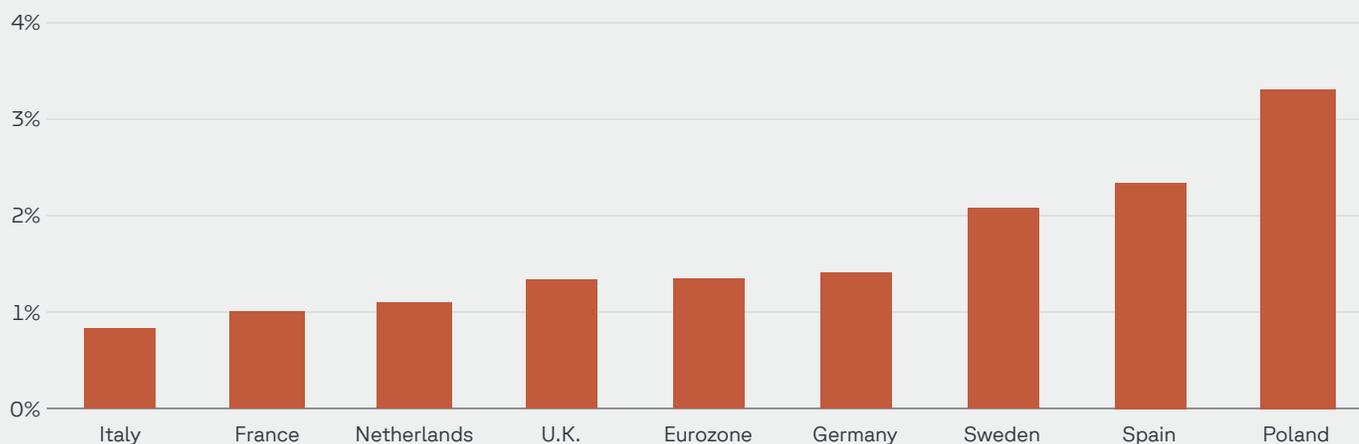
EXHIBIT 1: NEWS-BASED ECONOMIC POLICY UNCERTAINTY VS. SENTIMENT-BASED ECONOMIC UNCERTAINTY INDICATOR (EUI), 3M TRAILING AVERAGE



Source: European Commission (EUI), Davis Economic Policy Index EPU (2016), Affinius Capital Research

Europe is expected to maintain a two-speed economy, with GDP growth forecast at 1.5% per annum over the next two years.² While Italy, France and the U.K. are likely to underperform, economies such as Spain and Germany are set to grow more rapidly (Exhibit 2). The region's growth will be driven primarily by household consumption, supported by solid labour markets and real income gains, though consumer caution and high savings rates will keep spending moderate.

EXHIBIT 2: GDP GROWTH FORECAST 2026-2027 (% ANNUALISED)



Source: Oxford Economics, February 2026

1. Oxford Economics, February 2026. European average reflects EU27
 2. Ibid

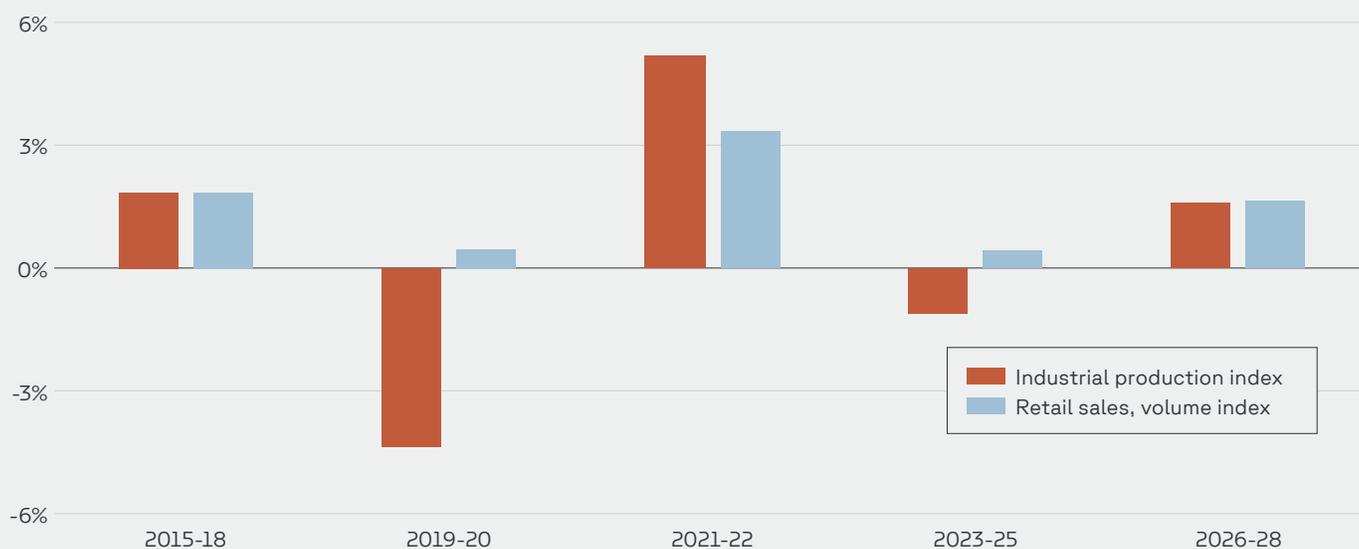
Eurozone unemployment is expected to fall to an all-time low of 6.0%, with U.K. rates returning to 4.4% over the next five years. Eurozone employment growth in 2025 showed a trend of slow but consistent job creation. Employers remain cautious about hiring due to concerns over a potential economic slowdown, and focus has shifted to efficiency creation and higher productivity available through technology (partially AI and automation), yet they are equally reluctant to implement major job cuts, given the severe labour shortages that followed the post-pandemic rebound.

Looking ahead, **2026 is expected to mark a turning point, supported by emerging cyclical and structural tailwinds.** Eurozone industrial output and retail sales are expected to regain momentum over the next three years, approaching the pre-pandemic pace seen between 2015 and 2018 (**Exhibit 3**). This steady recovery, though moderate, signals renewed consumer confidence and will act as a strong tailwind for both logistics and retailer occupier demand.³

This optimism is further reflected among business leaders. Industry confidence stabilised in February due to a marked improvement in managers' production expectations and assessments of order books.⁴ Recent data from the European Central Bank (ECB) also show an uptick in bank lending to businesses – an encouraging sign that confidence is improving.⁵ **This offers a glimpse into economic activity in the months ahead with investor confidence trending in the right direction despite the persistence of uncertainty.**



EXHIBIT 3: INDUSTRIAL OUTPUT AND RETAIL SALES GROWTH (% ANNUALISED)

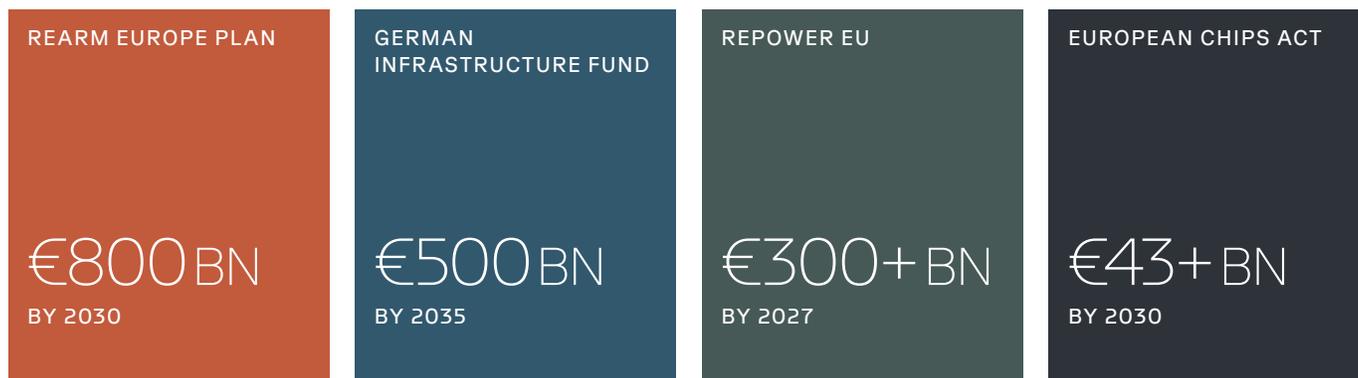


Source: Oxford Economics, February 2026

3. Oxford Economics, January 2026
 4. European Commission, Business & Consumer Survey, February 2026
 5. European Central Bank, Economic Bulletin Issue 1, 2026

Europe's pivot from austerity to expansionary fiscal policy represents a key shift with higher spending on defence and energy transition initiatives set to lift aggregate demand and provide fresh momentum for stable growth. Fiscal stimulus measures are aimed at boosting infrastructure investment, defence spending, renewable energy and bolstering semiconductor competitiveness. Planned investments in Europe's strategic autonomy amount to over €1.6 trillion (**Exhibit 4**).⁶ This marks a significant departure from previous fiscal conservatism, signalling a more expansionary and unified approach to address urgent challenges and stimulate economic growth. This should have trickle down benefits to some real estate sectors, but it could also lead to increased construction costs, if infrastructure projects compete for labour and materials.

EXHIBIT 4: PLANNED INVESTMENTS IN EUROPE

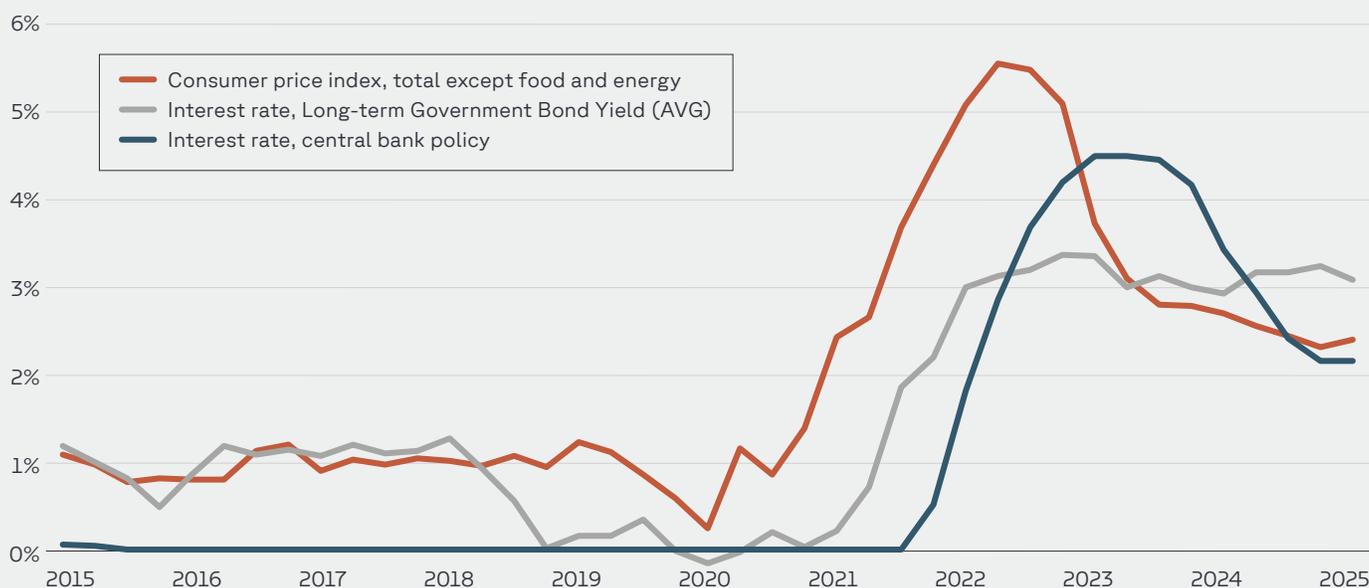


Source: European Commission, Affinius Capital Research

The acceleration of monetary easing in Europe has created a more supportive backdrop for real estate investment, with lower interest rates improving financing conditions. We believe European markets are relatively well positioned to capture capital flows and benefit from renewed investor confidence as liquidity gradually improves throughout 2026.

Core inflation has eased significantly in the Eurozone and U.K., however upside risks to the inflation outlook remain (**Exhibit 5**). In bond markets, rising government debt levels, persistent trade uncertainty, and lingering inflation concerns continue to weigh on the market, limiting the likelihood of a meaningful tightening in government bond yields.

EXHIBIT 5: EUROZONE CORE INFLATION, 10-YEAR GOVERNMENT BONDS AND ECB INTEREST RATE (%)



Source: Oxford Economics, December 2025

Geopolitical Risks Impacting Real Estate

Sentiment toward European real estate is shifting again to a more cautiously optimistic outlook in 2026, with expectations for renewed investment activity tempered by elevated uncertainty and geopolitical tensions. To cite a few pertinent examples:

- The recent shifts in global power dynamics and the increasingly assertive actions of major nations signal a broader escalation in geopolitical risk. For investors, this environment amplifies volatility and unsettles market sentiment, injecting additional complexity into investment decisions. There is a view that uncertainty over the future direction of U.S. policy may, over time, redirect capital flows toward Europe and support increased inward investment; however, to date, capital flows and pricing data does not reflect a material shift.
- While the U.S. trade relationship with Europe is now more settled, the focus is turning towards China. Chinese exports to Europe are on the rise again, and are more than double Europe's exports to China, which are in decline. While increased imports may challenge domestic manufacturing and prompt policy responses, they are also fuelling logistics activity. Platforms such as Temu, Shein, and AliExpress are driving demand for logistics infrastructure, creating strong tailwinds for warehouse and distribution investments across Europe. In the short-term, this trend signals a structural shift toward supply chain realignment, positioning European logistics real estate as a key beneficiary of evolving trade dynamics. Longer term, advancements in automation and AI-enabled manufacturing could gradually reduce Western economies' reliance on lower-cost overseas production, a shift that may ultimately support sustained demand for modern logistics capacity in Europe.
- The war in Ukraine, now in its fifth year, remains a major strategic challenge. With U.S. efforts to negotiate stalled, Europe has taken a larger role in supporting Ukraine, raising questions about NATO's posture. The ongoing conflict is likely to exacerbate market volatility. Furthermore, sustained energy price fluctuations, material shortages, and labour constraints are likely to drive continued construction cost inflation and persistent supply chain disruptions through 2026.

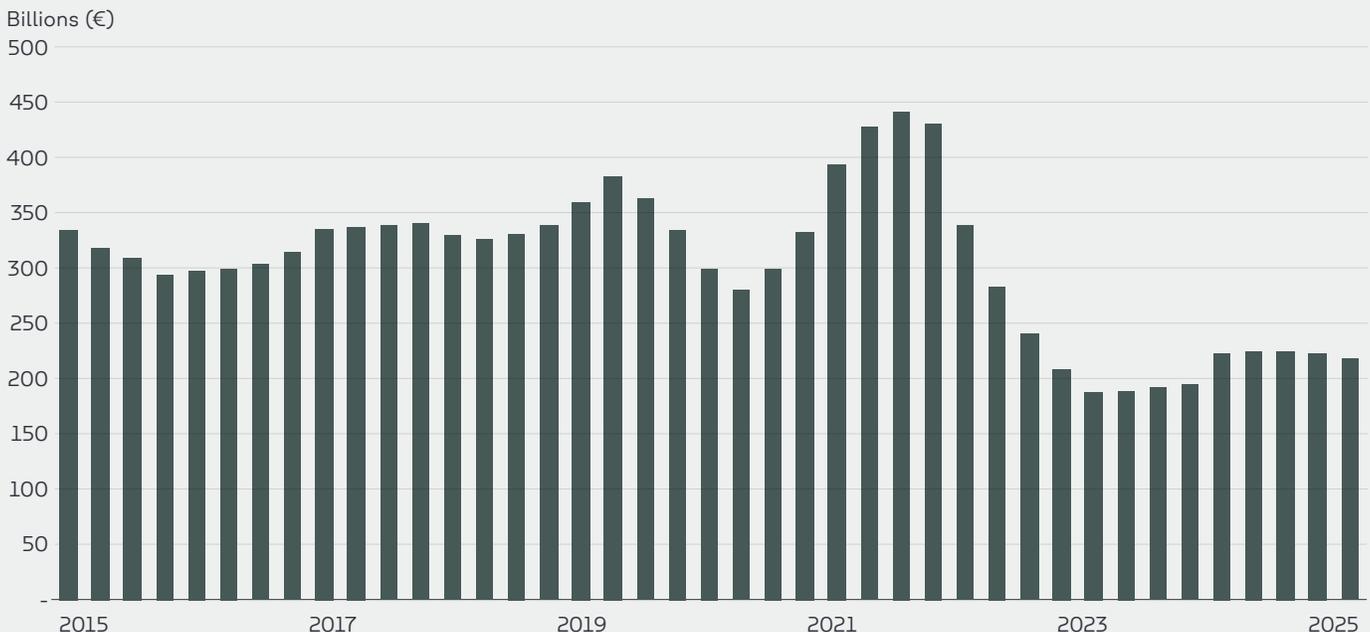


CRE Capital Markets

Real estate investment activity has been slow to rebound, held back by elevated uncertainty, capital constraints, and a disconnect between seller pricing expectations and investor requirements. While 2025 saw uneven transaction patterns, we anticipate greater consistency in 2026 as pricing adjusts and appropriately valued assets attract renewed buyer interest. Progress is now evident across several aspects of market activity and investor sentiment:

- **2025 has been a strong year for real estate lending, although Europe-wide data is limited, there was a 33% year-over-year increase in origination in the U.K. market in the first half of 2025,**⁷ reflecting both borrower demand and the growing role of non-bank lenders.
- **Capital raised for European real estate doubled** in 2025 compared to 2024.⁸
- European real estate transaction volumes in 2025 were flat versus 2024. Nevertheless, **deal volumes through 2025 have risen in four of the top five country markets**, with only Spain seeing a slowdown in comparison with 2024. Activity remains well below the 2021–2022 peak and continues to signal a market still working toward recovery (**Exhibit 6**).
- Private real estate market indices have continued their positive momentum. The INREV asset-level index has maintained **positive capital value growth for six consecutive quarters**, and MSCI's European index has also maintained a positive trajectory in capital value growth since September 2024.⁹
- Assets in the MSCI Europe Quarterly Property Index continue to show **strong market-value rental growth** at an annualised rate of 3.5% across all sectors, helping to reinforce the investment case for real estate.¹⁰
- Investor sentiment has followed, with the **INREV Consensus Indicator showing a second consecutive quarterly improvement and setting a new all-time high** since tracking began in March 2023. As a directional gauge of trends in the European non-listed real estate market, the index is a leading indicator for European non-listed real estate. The investment liquidity sub indicator registered a significant uptick from 55.2 in September to 61.4 in December driven by fewer concerns regarding near term liquidity, alongside **47% of respondents indicating plans to increase investments in European real estate in the coming quarter**.

EXHIBIT 6: EUROPEAN COMMERCIAL REAL ESTATE TRANSACTION VOLUMES (12-MONTH ROLLING € BILLIONS)



Source: MSCI Real Assets, Q4 2025

7. Bayes Business School, Lending surges in U.K. commercial real estate market. 22 October 2025

8. PERE. Fundraising Report 2024 vs 2025

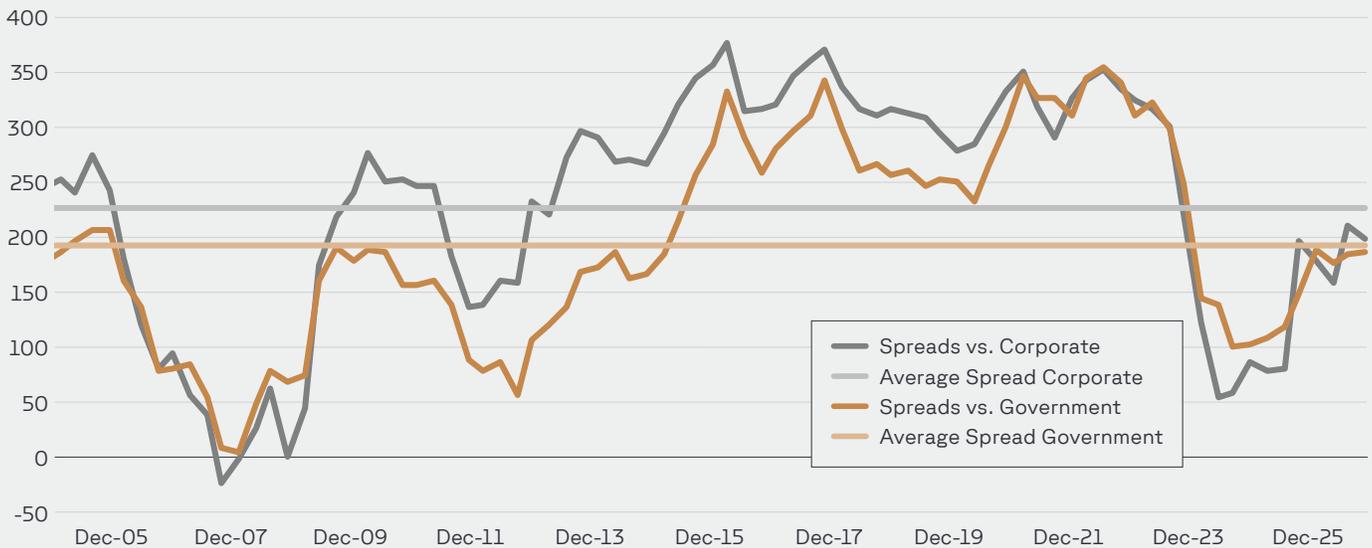
9. INREV Quarterly Asset Level Index Q3 2025 and MSCI European Quarterly Property Index Q4 2025

10. MSCI European Quarterly Property Index Q4 2025

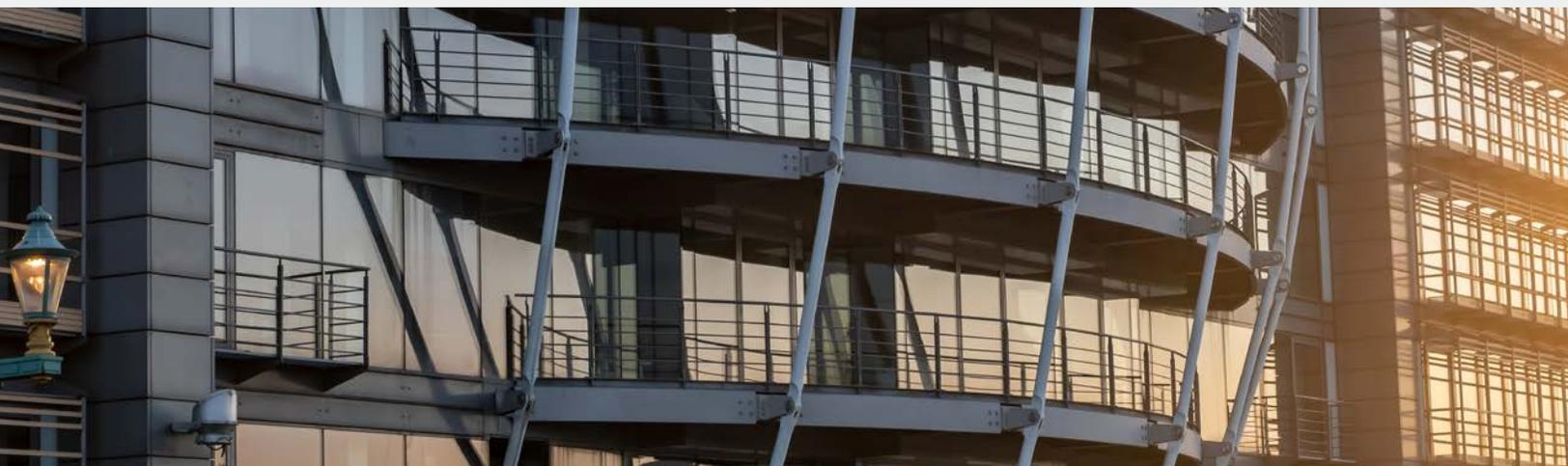
The European CRE market continues to show signs of recovery, but progress remains uneven and inconsistent. Investors remain selective, with capital deployment focused primarily on opportunities where fundamentals are resilient, rather than a broad-based return to risk. **Market sentiment suggests that value-add capital is eager to enter early and capture returns at the start of the recovery cycle, while core capital has been slower to re-engage.**

Following a sharp correction in asset values, valuations have stabilised, helping to establish a firmer platform for recovery. MSCI and listed REIT data indicate valuations may have found a floor, with European private values up 1.7% year-over-year.¹¹ As valuations stabilise, investor focus is shifting toward relative value, where private real estate often looks more compelling than headline yield comparisons imply. Despite lower than average yield spreads between CRE and investment-grade fixed income or government bonds (**Exhibit 7**), the relative return outlook for CRE is promising, as demonstrated in our **RESEARCH** paper. The inflation-hedging attributes of real estate, such as income growth and lease resets, support structurally tighter yield spreads at this stage of the cycle. There is also meaningful reversionary potential across many leases, with mark-to-market rent gaps offering a clear opportunity to capture net operating income increases as leases roll. Moreover, private real estate valuations remain roughly 15% below their peak,¹² compared to the S&P Europe 350 stock index, which has risen more than 60% from its 2022 trough. Viewed through this lens, private real estate offers attractive relative value versus both equities and investment-grade fixed income.

EXHIBIT 7: EUROPEAN CAPITALIZATION RATE SPREADS TO 10-YEAR GOVERNMENT BONDS AND CORPORATE BONDS



Source: CBRE, Bloomberg, Affinius Capital Research. Compares CBRE European All Property Yields with Bloomberg Euro-Aggregate Corporate Bond Index and 10-year Eurozone government bond yields.



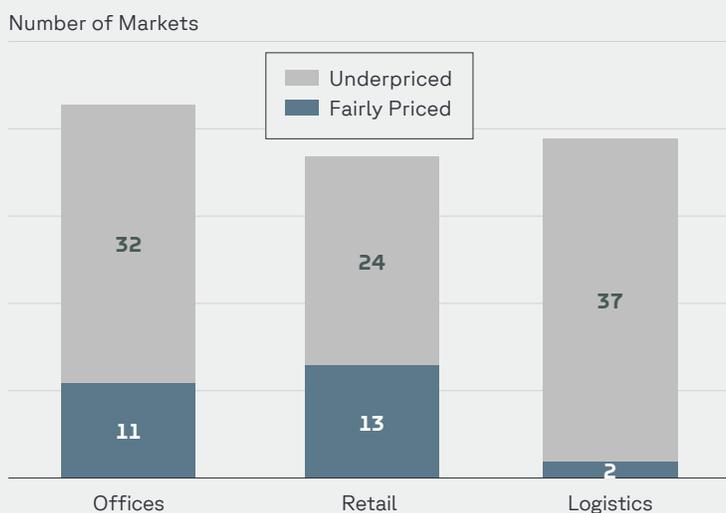
11. MSCI Europe Quarterly Property Index (Unfrozen), September 2025
 12. INREV Quarterly Asset Level Index Q3 2025



TRENDS,
OPPORTUNITIES,
AND STRATEGIES

After a period of illiquidity in Europe’s commercial real estate markets, conditions appear to be approaching a turning point, with Europe well positioned to benefit as recovery gains momentum. Cushman & Wakefield’s Fair Value Index shows that 78% of the 119 European markets tracked are underpriced and the remaining 22% are at fair value, underscoring the breadth of investment opportunity (**Exhibit 8**).¹³ Germany stands out as underpriced due to significant repricing through 2023 and 2024, while no market was classified as fully priced. Despite the higher cost of debt in the U.K., we believe the market appears attractively priced given earlier price corrections. **Strengthening total returns, driven by stabilising capital values, easing borrowing costs, and solid rental growth in supply-constrained sectors, are creating what investors may view as attractive long-term opportunities.** European real estate returns reached 5.8% over the year to December 2025, outperforming the long-term average of 5.4%. This was heavily skewed by improving performance from retail and industrial/logistics, which returned 7.5% and 6.4% respectively, while residential recorded 5.6%. Offices continue to lag with 3.7% returns, although this was a notable increase and closes the gap on the other sectors.¹⁴

EXHIBIT 8: EUROPEAN FAIR VALUE INDEX: SECTOR LEVEL PRICE CLASSIFICATIONS



Source: Cushman & Wakefield Q3 2025

“We believe our investments in logistics and data centres, in Europe in particular, will continue to benefit from the combination of strong demand driven by the digital economy and limited supply.”

JUSTIN HILDEBRANDT, Senior Managing Director, Head of Europe

We believe Europe’s CRE investment market is at an inflection point, which should restore the traditional importance of development and value-add capabilities and other opportunities associated with hands-on asset management. Investors are increasingly discerning and selective, prioritising quality future-proofed assets in strong locations, a trend that aligns strongly with our development strategy. We will continue our emphasis on value creation and investment themes driven by strong demand and growth characteristics, such as the intersection of real estate and technology in the digital economy.

Technology and Real Estate

The global economy is increasingly driven by technology and digitisation, reshaping traditional industries and creating entirely new markets. The rapid advancement of artificial intelligence, cloud computing, and big data analytics is transforming how businesses operate and redefining consumer experiences. Companies across sectors are leveraging digital tools to streamline processes, enhance productivity, and scale operations globally. The proliferation of e-commerce, along with traditional sectors such as manufacturing and healthcare leveraging technology to improve efficiency and deliver new products and services, demonstrates how digital platforms have become embedded in everyday life, accelerating economic activity and innovation. The adoption and integration of these platforms is profoundly influencing real estate demand. In light of the ongoing market volatility, our conviction around the intersection of real estate and technology has grown even stronger.

13. Cushman & Wakefield. The Investment Atlas. Note: Compares forecast 5-year total return with the fair total return. The fair total return is based on the five-year government bond yield plus the premiums an investor would demand to invest in CRE, such as illiquidity, depreciation, and transaction costs. The forecast total return is based of Cushman & Wakefield forecasts. Markets where forecast returns exceed fair returns by more than 5% are classified as underpriced; those falling below by more than 5% are fully priced.

14. MSCI Europe Quarterly Property Index (Unfrozen), December 2025

LOGISTICS

Logistics real estate faced the greatest impact from trade policy volatility in 2025, as shifting tariffs, uncertain global trade relationships, and evolving industrial policies caused hesitation and deferred decision making among occupiers, leading to slower lease execution and delayed demand while tenants awaited clarity on sourcing, pricing, and long-term location strategies. This hesitancy suggests the presence of latent demand, with the potential for a rebound in activity once market conditions stabilise.

Our **RESEARCH**  highlights several longer-term trends such as regionalisation of high-value manufacturing, growth in e-commerce, and increased defence spending continue to support leasing fundamentals. In an increasingly turbulent geopolitical environment, logistics assets are likely to gain renewed importance as critical enablers of supply chain security. This is especially true of essential goods sectors such as pharmaceuticals and grocery, technology, and data centre supplies, which need to be kept in higher quantities and proximate. We see several positive themes emerging for demand in the sector:

- There remains significant potential for growth in **Europe's e-commerce markets**, particularly from major players like Amazon, which currently accounts for 20% of the European e-commerce market compared to 40% in the U.S. In the near term, Amazon plans to expand its logistics footprint by approximately 1.8 million square meters (19 million square feet) across select European countries.¹⁵ **Historically, Amazon's expansion has acted as a catalyst, spurring activity among other occupiers and driving demand across logistics markets, creating positive ripple effects for logistics real estate more broadly.**
- Recent technology developments could create further upside to e-commerce driven demand. **Autonomous vehicles** are still in their infancy but are gaining ground and could enable faster, more efficient and cost-effective delivery. Similarly, **agentic commerce**, powered by AI, is showing promise and could facilitate the online purchasing experience via automation.
- Amid elevated geopolitical uncertainty and rising government spending on national security, defence firms and their supply chains are becoming a notable source of logistics demand. Increased defence spending is expected to generate around 37 million square meters of additional logistics requirements across Europe over the next seven years,¹⁶ with U.K. data already showing a more than 70% rise in defence-related take-up since the Ukraine conflict began in 2022.¹⁷ Although defence occupiers often have specialised and more complex real estate needs, this trend represents a meaningful tailwind for the logistics sector and, similar to e-commerce's early stages, can create positive knock-on demand across the wider market.
- China is actively increasing its investment in European supply chains, particularly in the electric vehicle and battery sectors. Despite the introduction of EU tariffs on Chinese EV manufacturers in 2024, the sector is increasingly important to the **China-Europe trade corridor**. Companies including BYD, Nio, XPeng, MG (SAIC) and Great Wall Motor have expanded rapidly, investing in research, development and supply chain infrastructure.



15. Green Street. Industrial Insights. 21 August 2025. Includes France, Germany, Italy, Spain and the U.K.

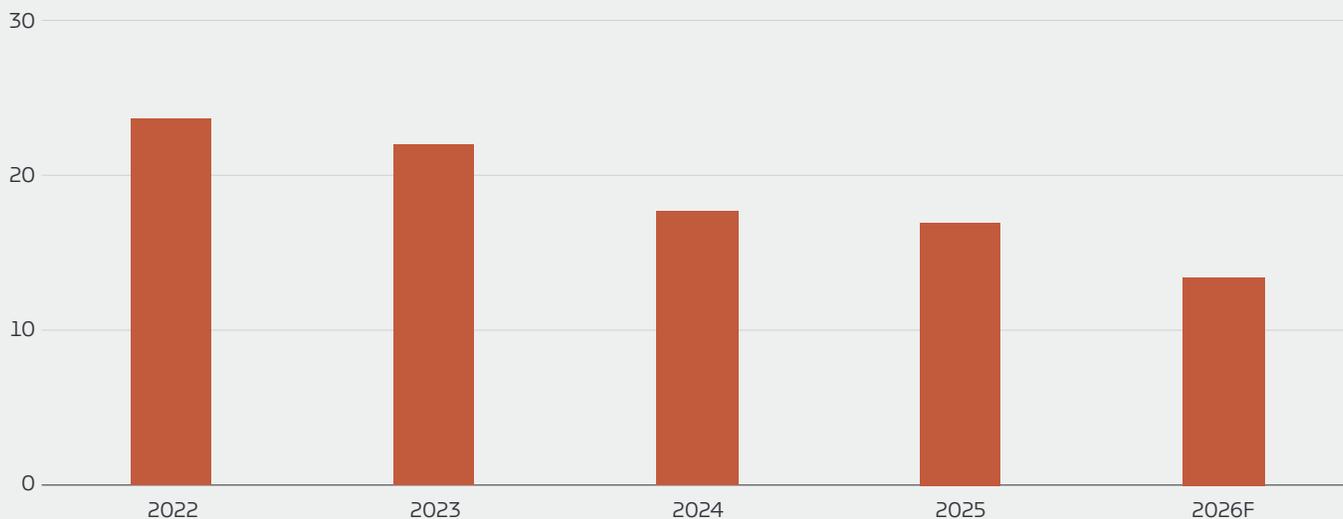
16. Savills. 24 September 2025

17. CoStar. Ministry of Defence investment sparks industrial demand boom across defence supply chain. 6 January 2026

This long-term demand backdrop now intersects with a meaningful supply-side adjustment. Construction starts remain low, with 2026 deliveries projected to decline by 40% on average from the 2022 peak, and by more than 60% in some markets (**Exhibit 9**).¹⁸ With new supply tightening, the availability of such space is likely to fall short of evolving demand. Notably, industrial land pricing has generally held across most markets despite significant prime yield expansion in the preceding years, signalling that capital continues to underwrite continued rental growth and recognise that consented and importantly powered land are scarce and critical to being able to develop to meet the expected occupier demand.

EXHIBIT 9: EUROPEAN LOGISTICS COMPLETIONS

Millions SM



Source: CBRE, Q4 2025

This environment is particularly supportive of modern, Class A industrial assets. Our **RESEARCH**  shows that **newer, well-located facilities consistently outperform in the early stages of real estate recoveries**. With new supply deliveries sharply curtailed, competition for high-quality space diminishes just as tenant demand begins to re-engage, allowing modern assets to capture leasing velocity, occupancy gains, and rent growth ahead of the broader market. This dynamic reinforces the persistent flight to quality observed across leasing activity. In the U.K., net absorption over the last five years has been focused on assets built in the 2020s, and anything built earlier than 2015 has seen negative net absorption since the pandemic.¹⁹

This dynamic is particularly evident in Europe, where we see strong prospects for rental growth supported by natural barriers to supply, including power and planning constraints. Europe's higher population density (112 people per km² compared to around 38 people per km² in the U.S.) combined with competing land uses and regulatory hurdles creates significant constraints on logistics development. Europe still trails North America, with warehouse space per capita at only one-third of U.S. levels. Competition for land is intensifying, particularly from data centres, which share similar locational requirements with logistics assets. As a result, brownfield redevelopment is emerging as a strategic solution, though it remains complex and capital-intensive. **Supply-side limitations extend beyond land. Power availability and grid capacity are becoming critical constraints for logistics development, especially for warehouse automation and EV charging infrastructure.** Together, these factors reinforce scarcity in key locations and amplify the value of deliverable land and modern, well-located stock. This structural imbalance underscores the long-term growth opportunity for high-quality logistics assets in Europe.

Since 2014, Affinius Capital has invested in European logistics, mainly through development. Alongside our wholly owned affiliate **Mountpark**, we are well-positioned to deliver premier logistics development projects throughout the U.K. and Europe. Affiliates such as Mountpark allow us to unlock unique opportunities and execute on higher-returning developments. Our strategically located network of logistics projects currently spans six countries, providing access across Europe's major supply-chain corridors.

18. CBRE Forecasting, Q4 2025

19. CoStar, Affinius Capital Research

DATA CENTRES

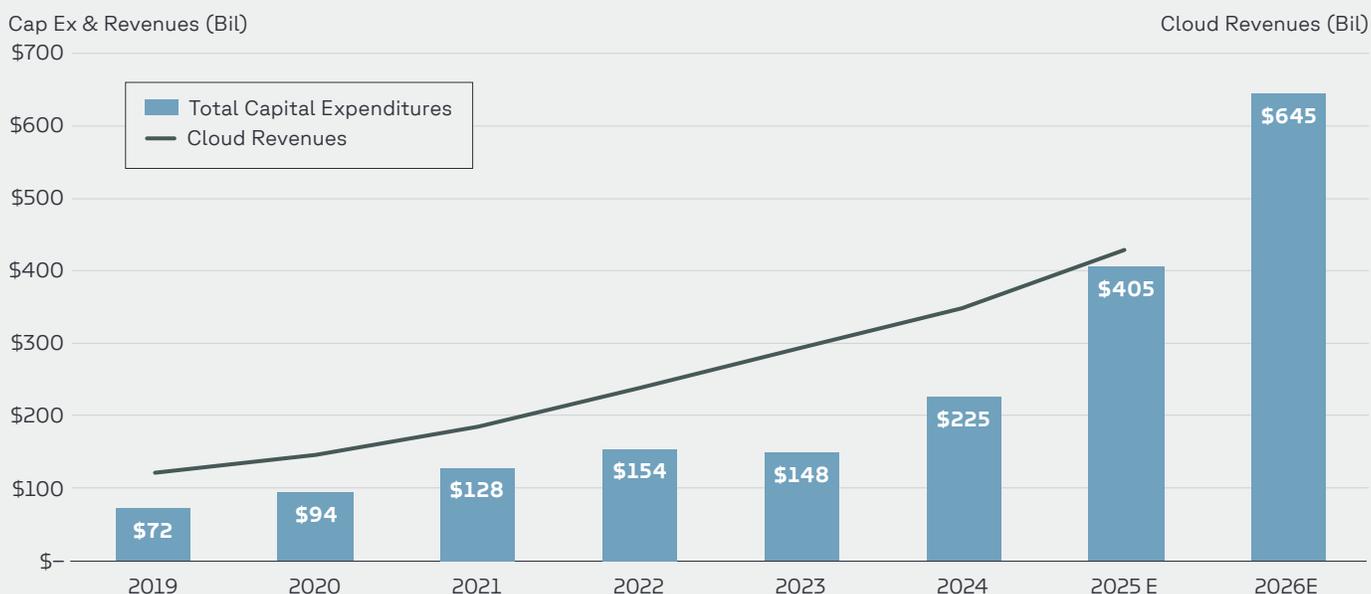
Data centres and digital infrastructure are increasingly recognized as essential to Europe’s digital strategy and long-term competitiveness. For the second consecutive year, data centres ranked as the most favoured sector in Europe in the ULI Emerging Trends in Europe report.²⁰ The sector is rapidly evolving from a niche play to a mainstream asset class, driven by a growing pool of investors, managers, and developers eager to participate in this structural growth story. The European data centre market is still catching up to the rapid expansion seen in the U.S., mirroring the lagged growth pattern previously observed in European logistics.

Data centre demand continues to accelerate, propelled by two primary tailwinds:

 **Cloud computing** has become a foundational component of the global economy over the past decade. The four largest cloud providers²¹ have turned digital infrastructure into a core utility, with combined cloud revenue run rates at \$440 billion annually, and growing at a compounded 22% rate since 2016.²² Cloud revenue growth has kept pace with rising capital expenditures, as shown in **Exhibit 10**.

 **Generative AI** has accelerated this trend, requiring immense computational power and storage capacity to train and deploy advanced models. A single large-language-model query consumes roughly ten times the power of a standard web search. Enterprises are embedding AI into their core operations, causing demand for high-performance, low-latency infrastructure to soar, fuelling the acceleration in both cloud revenues and hyperscaler capital expenditures. While this demand is accelerating globally, Europe has so far captured a relatively modest share, with approximately 1.6 GW of data centre absorption in 2025 compared with around 17 GW in the U.S.²³ It is our view that AI driven real estate absorption in Europe remains limited today and that scaling will require the assemblage of large, contiguous sites with access to significant power capacity.

EXHIBIT 10: HYPERSCALER CLOUD REVENUES AND CAPITAL EXPENDITURES TREND



Source: Company Filings, Bank of America, Affinius Capital Research

20. ULI. Emerging Trends in Real Estate Europe 2026

21. Amazon Web Services, Microsoft Azure, Google Cloud, and Oracle

22. Through Q3 2025, per company financials

23. datacenterHawk, Q4 2025

Demand for data centre capacity has continued to **accelerate at an unprecedented pace**. This step change represents the convergence of the buildout of AI training infrastructure, the ongoing migration of enterprise workloads to the cloud, and rapidly growing inference applications as large language models move from development to production deployment. The supply response, while aggressive by historical standards, has been unable to keep pace, not due to lack of capital or developer activity, but because power has become the binding constraint.

In Europe, demand for data centres is expected to grow to approximately 35 gigawatts (GW) by 2030, up from 10 GW today. To meet this new IT load demand, more than \$250 to \$300 billion of investment will be needed in data centre infrastructure, excluding power generation capacity.²⁴ **Within the EU, wait times for securing a grid connection can range from two to ten years, depending on the country. In the “FLAP-D” data centre hubs, developers face queues to obtain a connection that averages seven to ten years.**²⁵ As a result, vacancy rates have fallen below 1% in many key markets, and developers with permitted sites and secured power allocations are commanding unprecedented pricing power, while hyperscalers increasingly redirect capital toward secondary markets offering faster paths to energised capacity.²⁶ Europe’s second tier markets account for around 15% of the total operational capacity in the region comprising 1,587 MW live capacity, however they are on track to more than double in size if the development pipeline (3,678 MW) is built out.²⁷ European secondary data centre markets like **Madrid, Milan, Oslo, Warsaw, Berlin, Brussels, Munich, Stockholm, Vienna, and Zurich** are rapidly scaling as primary hubs, as **London, Frankfurt, Paris, Amsterdam, Dublin** face power and land constraints.

Despite this compelling supply-demand imbalance, media sceptics have begun questioning whether an “AI bubble” is inflating, arguing that hyperscaler capital spending has outpaced plausible revenue trajectories and will inevitably result in stranded capacity. While capital markets have historically overbuilt during technological inflection points, and not every AI venture will deliver on its promise, this concern misreads both the current capacity deficit and the nature of the opportunity. Much of the capacity being delivered today is best understood as the **foundation layer**, which is the buildout required to train and deploy large language models, rather than the full expression of AI demand. The next leg of growth is likely to be driven less by training and more by **inference at scale**, as AI applications, tools, and agentic workflows become embedded across enterprise and consumer use cases. Importantly, hyperscalers are not building ahead of this future, they are playing catch-up to current demand, constrained more by power and delivery timelines than by customer appetites.



24. McKinsey. The role of power in unlocking the European AI revolution. 24 October 2024

25. International Energy Agency. Overcoming energy constraints is key to delivering on Europe’s data centre goals. 16 November 2025. Note: FLAP-D includes Frankfurt, London, Amsterdam, Paris & Dublin

26. datacenterHawk

27. Cushman & Wakefield. EMEA Data Centre H1 2025. Note: includes Lisbon, Madrid, Helsinki, Oslo, Berlin, Dubai, Abu Dhabi, Johannesburg, Stockholm, and Cardiff Newport

Our direct conversations with hyperscale operators consistently reveal the same dynamic: they are failing to meet internal deployment targets, constrained by power availability, and are generating strong returns on incremental investments. This dynamic is reinforced by management commentary: both Microsoft and Amazon have signalled that they expect to roughly double their data centre footprint over the next two years, underscoring that leading operators view today's capacity as insufficient for the deployment targets already in motion. The below excerpts from Q3 2025 earnings calls highlight this dynamic:

aws "We're going to continue to be very aggressive investing in capacity because we see the demand... as fast as we're adding capacity right now, we're monetizing it...it's still quite early."

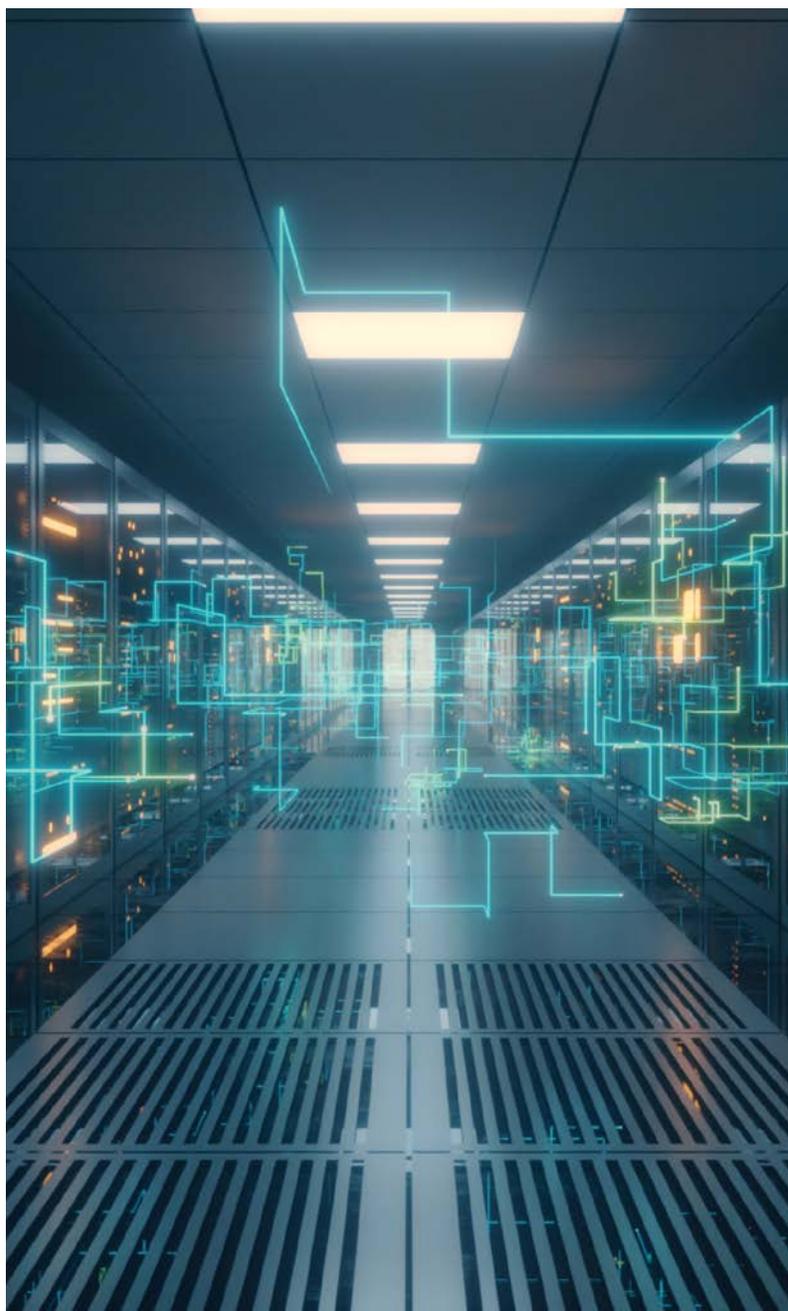
A "Demand again exceeded supply across workloads, even as we brought more capacity online."

Alphabet "Google Cloud's backlog increased...reaching **\$155 billion**...driven primarily by strong demand for enterprise AI," and "we've signed more billion-dollar deals in the first nine months of 2025 than in the past two years combined."

Meta "We are...operating...in a compute-starved state," and "there's a lot more compute that we could put towards these that would unlock a huge amount of opportunity in the core business."

As an emerging sector, there are fewer examples of fully realised investment cycles and successful exits at scale. However, our **RESEARCH** suggests capital formation is deepening rapidly, with institutional allocators increasingly comfortable underwriting data centre investments at both the development and stabilised income producing stages and a growing universe of buyers, from REITs to infrastructure funds to hyperscalers themselves pursuing forward acquisitions, providing liquidity for those seeking to monetise assets. The sector's maturation is proceeding quickly, and we expect exit markets to continue broadening as operational track records lengthen and the asset class becomes better understood by traditional real estate capital.

Data centre development exemplifies Affinius Capital's investment philosophy: identifying sectors where technology is fundamentally reshaping demand for physical infrastructure. Together with our affiliate Corscale,²⁸ we operate a vertically integrated platform controlling the entire development and investment process, from site selection and design through construction, leasing, capital markets and asset management. While powered shells presently represent the majority of our activity, one of our competitive advantages is our ability to create bespoke turnkey solutions for hyperscalers utilizing creative lease and ownership structures, a flexibility that has strengthened partnerships with industry leaders. This is not speculative development; it is build-to-suit and pre-leased construction backed by investment-grade tenants signing long-term leases, generating durable cash flows with embedded growth as power costs and scarcity drive rental escalations. The sector's extraordinary growth trajectory, combined with our operational capabilities and tenant relationships, positions data centres as a core component of our strategy for 2026 and beyond.



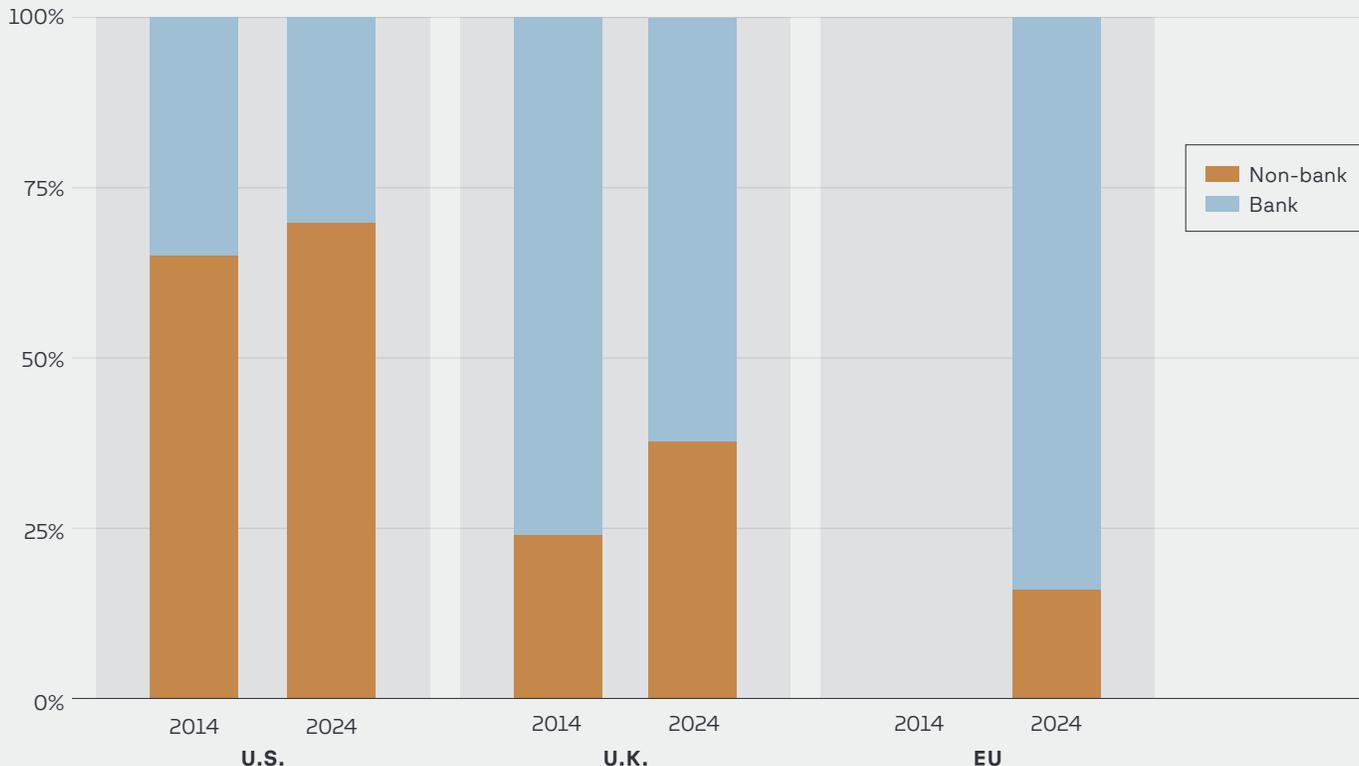
28. Corscale, LLC and Patrinely Group, LLC are subsidiaries of the same parent company, Crimson Interests, LLC. Affinius Capital owns a minority interest in Crimson Interests, LLC. Another company controlled by certain owners of Affinius Capital has a separate ownership interest, and combined, these companies own a majority interest in Crimson Interests, LLC. Please see Part 2A of Affinius Capital Advisors Form ADV for more information

REAL ESTATE LENDING

Real estate lending has evolved beyond a cyclical play to become a core component of portfolio construction, offering durable income, capital preservation, and attractive risk-adjusted returns in a market still working toward equilibrium. According to the INREV Debt Vehicles Universe 2025, global allocations towards **real estate debt funds reached €442 billion, more than doubling over the past five years.**²⁹ Lending for real estate in Europe has typically been the domain of banks, life insurance companies, and some pension funds. However, regulatory changes have significantly constrained traditional lenders' appetite and ability to deploy balance-sheet capital at scale, most notably for value-add and development lending. This has created an opportunity for non-bank lenders to capitalize on this market need while working with banks and life insurance companies that receive better regulatory treatment by providing the senior back leverage to the non-bank lenders.

Non-bank market share varies significantly across regions, partly due to differences in regulatory frameworks that shape traditional banks' capacity and risk appetite for CRE lending. Currently, non-bank lenders account for approximately 70% of the real estate debt market in the U.S., 40% in the U.K., and just 16% in continental Europe.³⁰ Relative to the U.S. and U.K., Europe remains notably behind this trend. While the European real estate debt market remains dominated by banks, increasing regulatory pressures have already started to lead to a change (**Exhibit 11**).

EXHIBIT 11: NON-BANK VS. BANK % OF LENDING BY REGION



Source: Real Capital Analytics, Bayes Business School Commercial Real Estate Lending Report, European CRE Lending Report 2025, U.S. Federal Reserve Flow of Funds Q3 2025, Affinius Capital Research. Note: No data available for Europe in 2014

29. INREV Debt Vehicles Universe 2025

30. Real Capital Analytics, Bayes Business School Commercial Real Estate Lending Report, European CRE Lending Report 2025, U.S. Federal Reserve Flow of Funds Q3 2025, Affinius Capital Research

The implementation of Basel IV, including revisions under the Capital Requirements Regulation III, introduces stricter requirements for banks to incorporate external data in monitoring asset market values and establishes an output floor for risk-weighted asset models.³¹ Starting in 2026, the Capital Requirements Directive 6 will further tighten oversight by increasing supervisory and reporting obligations for third-country branches.³² As a result, banks are expected to scale back to preserve capital ratios, creating a structural funding gap.

CRE debt combines many of the attractions offered by both commercial real estate equity and fixed income; this includes stable, historically strong income returns while maintaining a level of downside protection from real asset exposure and enhanced diversification potential. This provides resilience during periods of market volatility, making CRE debt a defensive allocation compared to equity strategies that rely heavily on valuation growth. In an environment where capital discipline is once again being tested, we believe real estate credit remains one of the most compelling opportunities for investors seeking income, resilience, and consistency. We expect the development of credit products in Europe will stand as a strong complement to our existing European equity strategies and vice versa. **The opportunity within the European CRE debt market not only appears highly favourable in the current market environment but also boasts an impressive decade-long track record of delivering strong returns relative to other asset classes (Exhibit 12).**



EXHIBIT 12: RETURN/RISK COMPARISON OF ASSET CLASSES, 15 YEARS TO Q2 2025



Source: Bloomberg, Preqin, NAREIT,. Note: All returns are total returns. Real Estate Debt is based on global debt fund performance from Preqin, U.S. stocks is S&P 500, European stocks is S&P Europe 350, U.S. bonds is Bloomberg U.S. Aggregate, European bonds is Bloomberg EuroAgg Index, U.S. REITs is U.S. NAREIT All-Equity index, European REITs is FTSE EPRA NAREIT Europe REITs index, European Core Private Real Estate is MSCI Quarterly European Index

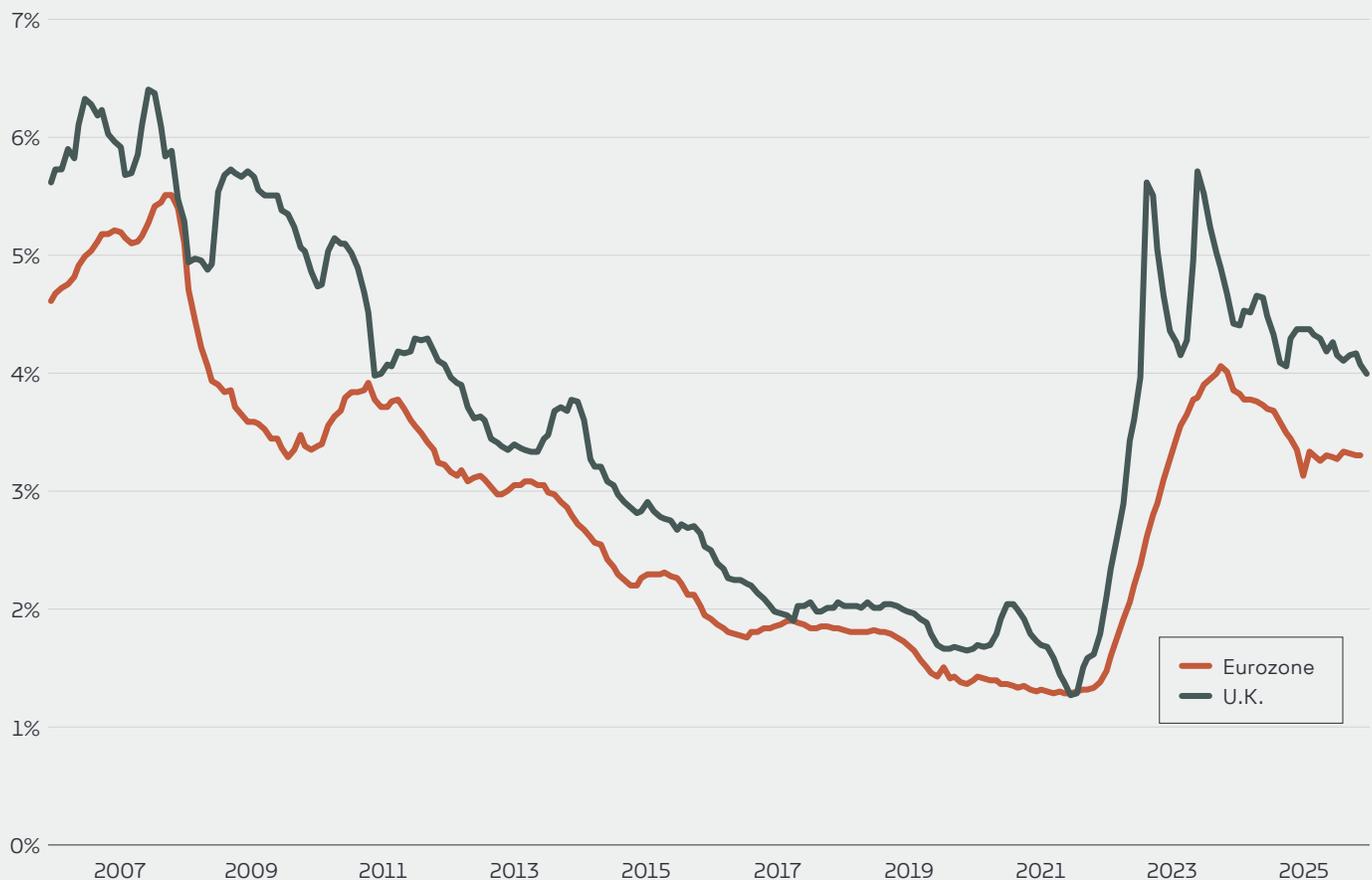
31. Global Institute of Credit Professionals. European banks: Navigating Basel 4. 14 December 2024

32. DLA Piper. The Revised Capital Requirements Directive (CRD6): Key considerations ahead of its application. 18 December 2025

HOUSING

Europe is grappling with a shortage of housing due to a lack of funding, lengthy planning procedures, and rising demand. Strong growth in household formation over the last decade has led to an increased need for housing. Demographic trends, including an aging population and a rise in the number of single-person households, are also reshaping housing demand. **We expect demand for the private rented sector to increase as households continue to struggle to afford a mortgage in the current lending environment.** While rates have eased since peaking in 2023, they remain elevated for homebuyers compared to the low-rate environment of 2019–2021 period, before the ECB began tightening policy (**Exhibit 13**).³³

EXHIBIT 13: LOCAL BANK HOME MORTGAGE RATES



Source: Bank of England, European Central Bank. December 2025. U.K. rate is 5 year (75% LTV) fixed rate mortgage

We see opportunities to develop institutional quality multifamily residences in select European markets based on compelling demographics and supply/demand factors, particularly in the U.K., where strong growth potential in private renting is evident. The U.K. has consistently failed to meet house-building targets, resulting in a housing supply gap the size of London (4.3 million homes), which is staggering considering the size of the U.K. population at 67 million. This has led to strong house price inflation, which, combined with elevated mortgage interest rates has pushed many towards renting for longer. A range of rental housing solutions will be required to meet demand, but given our strong U.S. multifamily track record, we see a particular opportunity to deliver purpose-built multifamily rental housing, referred to in the U.K. as Build-to-Rent (BTR).

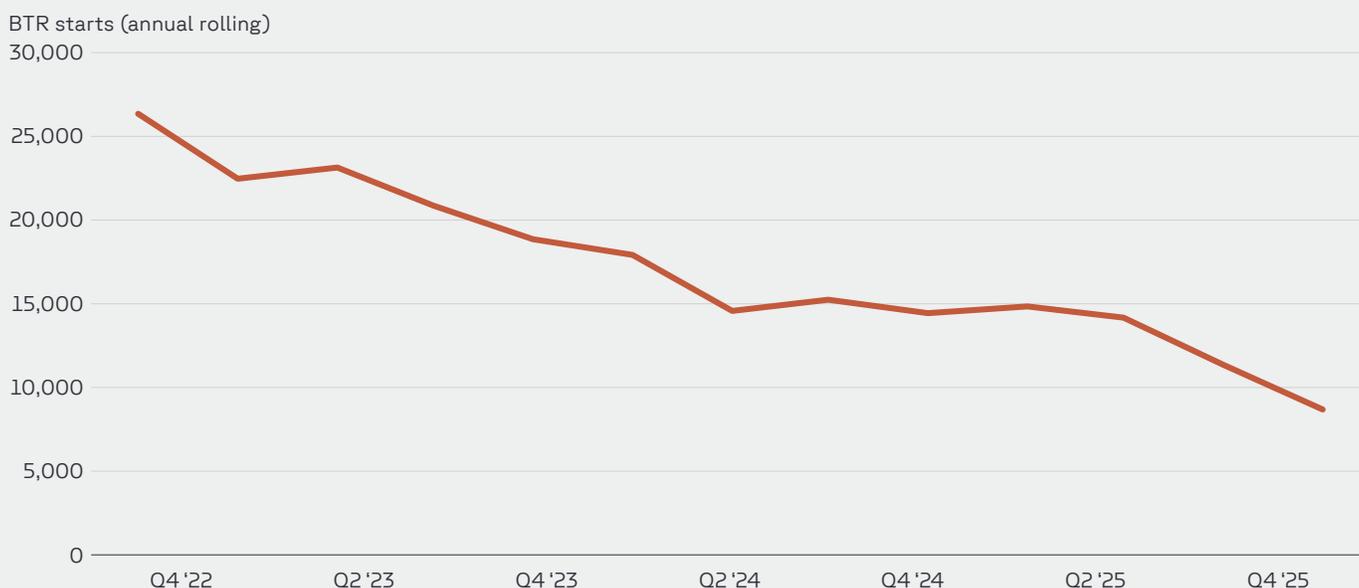
33. European Central Bank Data Portal. January 2026

The U.K. BTR sector remains relatively small, with just 139,000 completed homes, only a fraction of the private rental market, which comprises approximately 4.4 million households.³⁴ Delivery challenges persist, and the outlook for new BTR development remains constrained. Significant delays at the Building Safety Regulator (BSR) are slowing progress, while concerns over development viability, driven by rising construction costs and broader economic uncertainty, are contributing to a more cautious market. **These factors are slowing delivery with the level of construction starts down 70% compared to 2022 levels (Exhibit 14).**³⁵ Current challenges in development viability are likely to further constrain new housing supply, reinforcing potential rental growth.

Positively, the U.K. BTR sector retains strong momentum, with 64,000 consented homes currently in the construction pipeline.³⁶ While planning permissions typically expire after three years, unlocking this backlog represents a significant opportunity. **Converting these consents into active developments will require funding solutions, creating a clear entry point for investors who prefer to avoid planning risk.** This dynamic positions well-capitalized investors to play a pivotal role in accelerating delivery and capturing attractive returns in a growing rental housing market. Despite these headwinds, residential remains the most favoured mainstream real estate segment, accounting for five of Europe's top ten promising sectors for 2026: student housing, serviced apartments, retirement and assisted living, co-living, and affordable housing.³⁷ The U.K. BTR sector continues to evolve, and we expect other housing formats to gain traction as investors seek to meet growing renter demand.



EXHIBIT 14: U.K. BTR STARTS DOWN 70% SINCE 2022 PEAK



Source: Savills, Affinius Capital Research Q4 2025

34. Savills. U.K. Build to Rent Market Update Q3 2025 and English Housing Survey 2024-25
 35. Savills Q4 2025
 36. Savills. U.K. Build to Rent Market Update Q3 2025
 37. ULI. Emerging Trends in Real Estate Europe 2026



CONCLUSION

Periods of volatility and the beginning of recovery cycles have consistently proven to be catalysts for some of the most compelling investment opportunities. Today, the market is entering a new phase. With repricing largely complete, improving debt opportunities, and occupational fundamentals intact, the conditions for gradual recovery are in place. Unlike the prior decade of ultra-low rates, this cycle will reward operational excellence, value creation, and income durability rather than yield compression. **Europe is well positioned to play a leading role in the global rebound, presenting investors with a unique window to capture performance by focusing on sectors where supply constraints and strong fundamentals can drive meaningful rental growth.**

The most promising opportunities lie in areas where structural undersupply intersects with operational capability. Logistics assets continue to benefit from limited land availability, power constraints, the ongoing expansion of e-commerce and a diverse complement of other occupational sectors. Data centres and digital infrastructure have become critical to Europe's competitiveness, with power availability and connectivity emerging as key differentiators. Alternative lenders are also poised to play an increasingly prominent role in Europe's real estate debt market, filling the funding gap left by banks and offering compelling risk-adjusted returns while preserving downside protection. Meanwhile, select living segments such as BTR remain supported by persistent undersupply and demographic tailwinds.

Looking ahead, we believe rapid technological shifts and inevitable disruptions will continue to shape the market. However, history demonstrates that those prepared to adapt and innovate will not only weather turbulence but thrive in it. For investors, the imperative is clear: act decisively, align with partners who excel in operational execution, and position portfolios to capture opportunity in Europe's next cycle of growth.



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