ROUNDTABLE

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European debt markets look to maintain discipline amid the storm

As conflict and raised interest rates reshape expectations, alternative lenders are competing harder for deals while underwriting cautiously, say participants in PERE Credit's Europe roundtable. Stuart Watson reports

European private real estate markets began 2026 in optimistic mood. The trade disruption caused by US tariffs had begun to settle, transaction activity was picking up and interest rates were expected to fall.

But the outbreak of war in the Middle East at the end of February quickly dampened spirits. Fears grew that the oil price shock would fuel inflation and central banks responded by tightening monetary policy. In June, the European Central Bank increased its deposit rate by 25 basis points to 2.25 percent, and a further quarter-point increase is expected in September. Meanwhile, the Bank of England has held rates steady at 3.75 percent, but has signaled that they could rise if the conflict escalates.

The news on real estate investment volumes is not all negative, though. CBRE research shows €59.1 billion of European commercial real estate traded in Q2 2026, 10 percent more than in Q2 2025.

However, that figure is still 8 percent lower than the 10-year Q2 average, and the prevailing sentiment among the market participants gathered for *PERE Credit's* European roundtable discussion is that new loan originations have subsequently failed to gain momentum.

"At the beginning of the year, we saw the highest proportion of new acquisitions in [the] pipeline since we started our debt fund in Europe. But a

PHOTOGRAPHY: **RICHARD BOLL**

Alessandro Luca

Managing director and co-head of European real estate debt, Ares Real Estate

Based in London, Luca co-heads Ares' European real estate debt platform. The asset manager's real estate arm has $121 billion in assets, including around $10 billion in European private real estate credit across a range of risk profiles, from core to opportunistic debt.

Aparna Sehgal

Partner, Winston Taylor

Law firm Winston Taylor was formed by the merger of Winston & Strawn and Taylor Wessing's UK-led business in June. Sehgal is chair of the firm's UK and European structured finance and real estate finance practice, advising on the financing of complex commercial real estate-backed assets and on back leverage arrangements.

Andrew Radkiewicz

Global head of private debt strategy and investor solutions, PGIM

Based in London, Radkiewicz is responsible for developing and implementing PGIM's real estate debt fund product architecture and strategic solutions for global investors. The manager's private real estate debt platform has originated around $20 billion of loans in Europe and the US.

Stefano Lombardo

Head of debt sector and portfolio management, Generali Real Estate SGR

Lombardo runs the €2.5 billion pan-European credit platform at Generali Real Estate SGR, which provides senior debt across core, core plus and value-add risk profiles. Based in Italy and with operations across Europe, Generali Real Estate has total AUM of €37.3 billion.

Mark Posniak

Managing director, bridge lending, Arrow Global

Posniak leads the bridge lending business at Arrow Global, a European alternative asset manager specializing in private credit and real estate, with approximately €125 billion of assets under management.

Richard Craddock

Head of real estate debt, Redevco

Craddock leads privately owned real estate asset manager Redevco's real estate debt business in Europe. It focuses on transitional development or retrofit financing with an emphasis on sustainability. The firm launched its European credit platform in 2025, which has since grown to around €300 million of AUM.

significant portion have either stalled or still haven't closed yet, with many continuing to evolve as market conditions shift," says Alessandro Luca, co-head of European real estate debt at Los Angeles-headquartered manager Ares Real Estate.

That has challenged alternative lenders, whose speed and certainty of execution gives them an advantage over slower-moving banks on acquisition financing deals, but which have less of an edge in drawn-out refinancing situations, he adds. "That said, our pipeline has continued to grow healthily because credit and back leverage markets are competitive – sponsors recognize it is a good time to bring financings to market."

An environment in which lenders cannot assume that interest rates will come down, or that property values will increase sharply, makes underwriting more complicated, he adds. He expects acquisitions to pick up again in September through to the year-end, however, as the market becomes accustomed to the prevailing conditions.

Stefano Lombardo, head of debt sector and portfolio management at Generali Real Estate SGR, says that while he has not noticed a significant reduction in investment appetite from sponsors, the timeline for some acquisitions has expanded. "We did not see any cancellations in our pipeline; rather, the execution of some acquisitions may require a bit more time."

Meanwhile, he has witnessed much more selectivity, with capital flowing toward core assets in tier one locations. "There is an evident flight to quality nowadays, with both sponsors and lenders moving toward higher scrutiny in terms of asset, local market and value creation strategy."

Weathering the 'poly-crisis'

Credit markets are operating in a "poly-crisis" environment, in which any lending strategy must account for the probability of macroeconomic disruption, says Andrew Radkiewicz, global head of private debt strategy and investor solutions at PGIM.

While the market has bottomed out, lenders would be wise not to underwrite a big bounce-back in capital values, he argues. "That makes us laser-focused on the income stream and the exit liquidity," he says.

Therefore, PGIM is lending against assets that will become "enduring prime" with sustainable credentials that will underpin occupier demand and liquidity in the long term.

European banks back in the equation

Traditional lenders are back in the market and showing greater willingness to partner with debt funds

Mark Posniak: We have seen banks return selectively, principally for lower risk, straightforward transactions. We are also seeing greater collaboration between banks and debt funds, enabling facilities that are tailored more closely to individual transactions. Liquidity is available, although banks remain highly selective and typically less flexible.

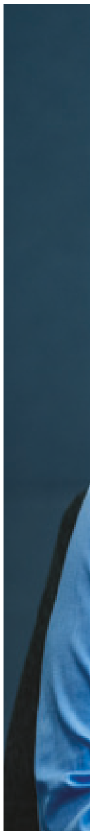
Andrew Radkiewicz: Our main strategy is funding development, lease up and stabilization, and we have seen the banks provide our sponsors with a lot of exit liquidity. Capital charges are lower for European banks lending to a debt fund than lending directly, so they are providing back leverage because their return on capital is much better.

Richard Craddock: The banking market has realized that private credit is now a permanent feature of European real estate finance, so they are generally going down one of three pathways. They can focus on back leverage and finance debt funds, use their generally lower cost of capital to win low-leverage deals, or be more creative and partner with debt funds via syndication or even creating their own fund-like product.

Alessandro Luca: Banks have returned to the market, but primarily for core clients and domestic transactions. Cross-border deals and more complex financings continue to see limited bank appetite, with only a handful of US investment banks and European lenders willing to underwrite beyond standard risk parameters.

Aparna Sehgal: We are seeing partnerships evolve where a debt fund originates a deal and is then syndicating a piece to a bank, whether that's through an A/B note, senior-mezzanine financing or back leverage. The bank wants to understand the debt fund's underwriting, but is generally comfortable with it. Banks have a really important role to play, particularly in contributing to big ticket deals.

Stefano Lombardo: The relationship between banks and non-bank lenders is becoming increasingly complementary. For core assets, sometimes we are pooling with other lenders or taking tranches of loans originated and executed by traditional lenders, in financing structures where both types of capital have an important role to play.



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> **APARNA SEHGAL**
> **Winston Taylor**

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>
> **STEFANO LOMBARDO**
> **Generali**

The Iran war's role in destabilizing the interest rate environment has undoubtedly had a negative impact on investment activity and reduced dealflow for lenders, notes Richard Craddock, head of real estate debt at Amsterdam-based manager Redevco. But he believes the market is increasingly thick-skinned after enduring "one black swan event after another" over recent years.

"We don't underwrite yield compression; we underwrite income, and then we assess what our risk position looks like relative to where we determine income will stabilize. So, from an underwriting perspective, it doesn't radically alter our approach," he says.

Aparna Sehgal, a partner at law firm Winston Talyor, says lenders are responding to uncertainty by becoming much more focused on structuring loans in response to the borrower's operating strategy. "There is a lot of thought going into what the business plan means for underwriting. For example, lenders are looking much more closely at how this translates into rental income and rental growth, rather than simply assuming capital appreciation."

Mark Posniak, managing director for bridge lending at Arrow Global, says the London-based manager's bridge and development lending businesses are also leaning towards quality. "There remains significant opportunity in bridge lending. The key is disciplined selection of sponsors, assets and exit routes. A credible and well evidenced exit is fundamental."

He believes the perception that the market cycle is at its lowest point is encouraging sponsors that have been sitting on cash to finally put business plans for their assets into operation, providing opportunities for transitional lending against high-quality assets.

"In short-term lending, certainty of execution is a critical differentiator. Price is rarely the sole consideration, which allows us to focus on high-quality transactions at conservative loan-to-value ratios."

Back leverage grows

The participants agree that banks are once again keen to lend against European real estate assets, although for direct finance, most tend to prefer straightforward situations and core assets. They are also increasingly likely to follow the example of their US counterparts by participating as providers of back leverage for real estate debt funds.

"There is a deeper understanding of the back leverage market across the entire lending ecosystem, and more participants are comfortable with it," says Sehgal. Whereas previously conversations about back leverage were often limited to the debt fund and back leverage provider, there is growing transparency among all the parties involved in a transaction, which is helping to reduce deal friction, she adds.

Sehgal believes if a syndication market for back leverage positions develops in Europe, that will help bring in banks that are interested in this part of the capital stack, but not yet active in this market.

Some of the large US investment banks providing back leverage to Ares have already begun to explore syndication to move loans off their balance sheets and release further capacity. But unlike the US, Europe does not have a well-established commercial real estate CLO market through which these positions can easily be distributed. Instead, they are syndicating loans to Middle Eastern or Asian banks, says Luca.

Will a European securitization market emerge for back leverage? Probably not on the same scale as the US, where most debt funds use back leverage, and its lower cost means there are more situations in which it can be employed, says Radkiewicz. In addition, with the European loan-on-loan market being in its early stages, few back leverage providers have yet reached the point where syndication becomes necessary, he adds.

Competition among lenders

CBRE's European lenders survey, published in June, revealed that 72 percent of respondents expect to increase their origination volume compared with 2025 levels, which suggests not only greater liquidity for borrowers, but also heightened competition among lenders.

"The market is even more competitive than before, due in part to banks being back in the market, especially for core assets," says Lombardo. Increased competition has compressed margins, but opportunities remain for alternative lenders to bring their advantages to bear, he argues.

"For example, when a sponsor wants their lender to hold a large loan until maturity without syndicating it, so that they only need to deal with one counterparty, we can do that." Alternative lenders are also able to provide certainty of execution, underwriting

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> **PGIM**

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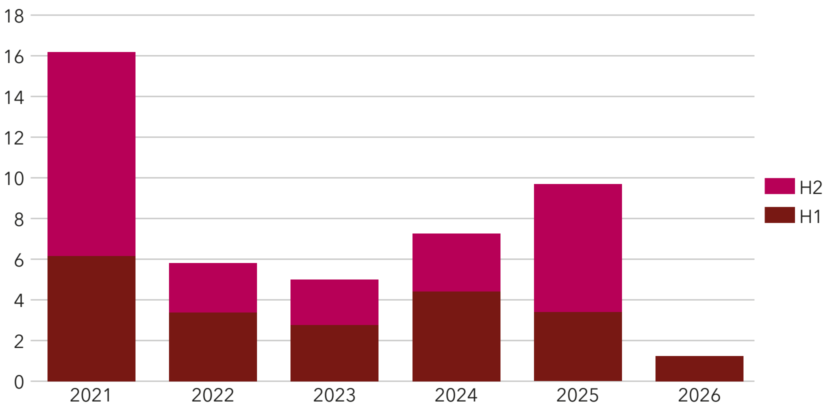
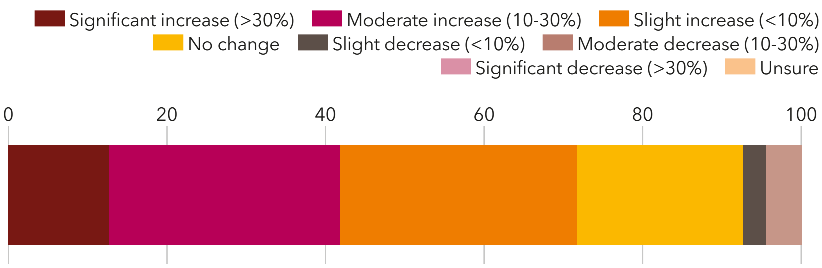
> **Arrow Global**

Only $1.23bn was raised for Europe-focused debt funds in the first half of 2026, down from $3.39bn in H1 2025 ($bn)



Source: PEI Group

Lending activity is set to rise as 72% of lenders surveyed by CBRE expect to increase their European origination activity compared with 2025 (%)



Source: European Lender Intentions Survey 2026, CBRE Research

flexibility and the ability to understand more complex business plans, he adds.

Competition is also fierce in the bridge finance market, says Posniak, particularly in mature markets such as the UK and Ireland, with a lot of lenders chasing the same deals. As in the senior debt market, pricing is not the only important factor in winning deals, however. "We differentiate through the strength of our team, our understanding of the transaction, the asset and the borrower, and our ability to deliver. A small difference in pricing is not always the deciding factor."

A thorough knowledge of any transaction's fundamentals is indispensable, argues Radkiewicz. "If you understand what you're lending against, who you're lending to and what your exit is, you can structure it the right way. You can give a couple of extra basis points here. You can go slightly higher up the risk curve there. Then you will win more transactions than you lose."

Sehgal says her team recently undertook an exercise using AI to compare term sheets from multiple lenders for a client. What was interesting, she says, is that when the results were in, the client's focus on pricing was matched by an increased emphasis on the operational flexibility that the competing loan structures would permit.

Covenant-light loans have become common among a small group of the industry's largest sponsors, but asset quality remains the key consideration. "Even with the largest sponsors, we would only consider a covenant-light structure in sectors or assets with exceptionally strong fundamentals," says Luca. "A large, granular residential portfolio is one example where greater flexibility may be appropriate."

Because the European market is more heavily brokered than previously, it tends to drive competition, but for the most part, underwriting remains disciplined, says Redevco's Craddock, because equity investors are acutely aware of the risks of excessive leverage from the recent past. "That is putting a brake on the sort of leverage creep which we saw pre-GFC. By and large you will see terms clustering around a certain price and leverage point."

Investor perspective

Amid the turbulent geopolitical climate, fundraising for European-focused credit vehicles made a slow start to 2026. Only $1.23 billion was committed in the first six months of the year, down 63 percent on H1 2025 according to PEI Group figures.

Nevertheless, from an investor perspective, the real estate debt story still looks potentially favorable when compared with equity, says Radkiewicz. "In the current environment it's difficult to find scenarios where real estate equity would outperform current pricing on real estate debt."

He observes that some Middle Eastern and Asian investors have pivoted almost their entire real estate allocations to credit. "Because of interest rates, absolute returns are high, even

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ALESSANDRO LUCA
Ares Real Estate

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Redevco

Looking beyond sectors

While some participants still favor certain property types, they agree that today asset-focused underwriting trumps a sector-based approach

Alessandro Luca: Retail is a particularly compelling sector for us, and not just from a credit perspective. We are also deploying significant capital into the sector on the equity side.

That said, investment success is increasingly determined at the asset level rather than by broad sector allocations. Attractive opportunities exist across virtually every sector when the underlying real estate is compelling, while some of the weakest opportunities are often found in the market's most fashionable sectors, where pricing and assumptions can become overly aggressive.

Stefano Lombardo: We remain very active in offices, logistics, retail, residential and hospitality. Office is still one of the major sectors and an asset class for which we still have an appetite. But you need to be very focused on asset selection. If the location is strong and there is an ESG angle, there are very good deals to be made, including in the transitional space.

Andrew Radkiewicz: We have pivoted heavily toward all sorts of logistics, student accommodation, housing and co-living. But if you focus on tenant demand and exit strategy as your two key considerations, the sector becomes less relevant because you can consider any asset for which there is strong tenant demand, but not much competition from new development.

Mark Posniak: Our focus includes living, including co-living, and logistics. We will also consider compelling office or hotel opportunities where there is clear demand and a robust lease or operating structure. Our underwriting is driven more by the quality of the asset and sponsor than by broad sector labels.

Richard Craddock: In the recent past, a momentum play in sectors like logistics and PBSA would work because markets weren't at risk of saturation and a rising tide lifts all boats. But now that supply and demand are starting to balance, and there is oversupply in certain markets, stock selection is much more important.

Aparna Sehgal: We see term sheets across all sectors, but what we hear again and again is that it is not the sector that matters most, it is the quality of the asset and the track record of the sponsor that drives the credit decision.

ignoring the downside protection."

But investors switching real estate equity allocations to debt is not the only source of increased capital flows into the space, says Lombardo. He believes investors are increasingly considering real estate debt as part of their strategic asset allocation in its own right, a trend that will further boost inflows.

A growing cohort of private credit investors is looking towards asset-backed lending generally, and real estate credit in particular, says Luca. "Investors have increasingly recognised that real estate debt can complement an already diversified portfolio. In many cases, it offers comparable return potential to other areas of private credit, but with the added benefit of being secured against hard assets, which can improve the overall quality and resilience of portfolio returns."

Unlike corporate credit, if you remove all the cashflow from a property, you still ultimately have an asset, adds Craddock. And from a real estate allocation perspective, debt provides a partial hedge against possible interest rate increases that would negatively impact the value of equity assets.

He observes that LPs are becoming more discerning about the kind of real estate debt strategies that they will back. Raising capital for pure-play generalist credit strategies has become challenging for middle-market managers, with investors favoring separate accounts and joint ventures. "The biggest managers still have the capacity to raise capital for commingled funds. But more LPs are looking for something more bespoke and aligned with a differentiated, focused underlying strategy," he says.

Geopolitical shocks and an uncertain interest rate outlook have delayed transactions and tempered expectations, but they have not undermined the appeal of European real estate debt. Instead, lenders are doubling down on disciplined underwriting, sponsors are prioritizing quality, and investors continue to increase allocations to a space that offers both attractive income and downside protection.

In a market where capital growth can no longer be taken for granted, success will depend on understanding assets, structuring loans intelligently and delivering with certainty – qualities that suggest Europe's private real estate debt market is becoming more sophisticated, not simply more cautious. ■