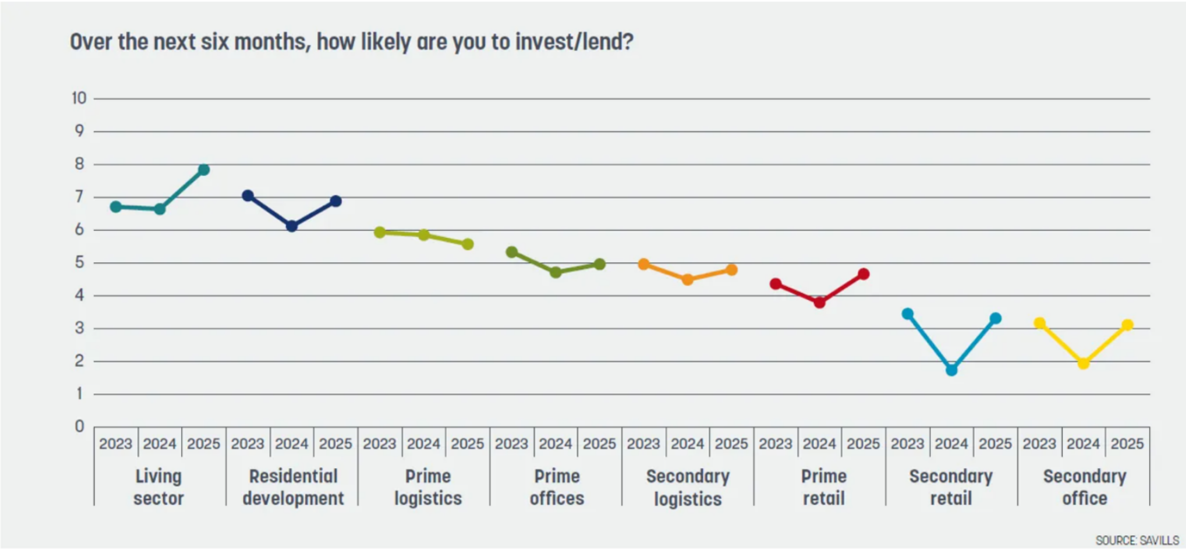
Property Week

European real estate debt holds its appeal amid uncertainty in markets

25 Jun 2025By Madeleine Knight

The stated goal of US president Donald Trump's trade tariff policies has been to put America first, so it seems highly unlikely he intended to boost the appeal of European real estate debt to investors at the same time.



However, the events that rattled global equity markets and fuelled market uncertainty have led capital to rotate into assets that offer stability and predictable returns. European real estate debt fits that bill.

Unlike direct real estate ownership, real estate debt avoids operational complexity while retaining asset-backed security. And as investors begin to reassess how much risk they are willing to take and what returns they expect, real estate debt provides an increasingly predictable return profile.

Dan Austin, chief executive and co-founder at specialist property lender ASK Partners, says: “Even as structural challenges persist, like the UK’s Building Safety Act complicating refurbishment and construction, the broader risk-reward profile still heavily favours debt strategies over more volatile or opaque assets. In short, real estate debt is becoming the ballast in otherwise stormy portfolios.”

Real estate debt is becoming the ballast in otherwise stormy portfolios
Dan Austin, ASK Partners

He adds that global market uncertainty is creating a flight to safety. “Real estate debt offers a compelling hybrid: it’s anchored by physical assets and delivers predictable, contractual cashflows,” he explains. “This dynamic is particularly appealing when equity markets are erratic and conventional bond returns are compressing.”

Real estate debt is mostly uncorrelated to the property cycle. But if the property cycle is too volatile, as it has been in the US recently, it becomes harder to deliver this uncorrelated product. For example, if values fall more than 50% from their peak, it is hard to avoid some losses even in senior real estate loans – those, usually from a bank, that have a higher priority in repayment than other types of debt.

Vincent Nobel, head of asset-based lending at investment manager Federated Hermes, says: “The European real estate market has not seen losses as high as in the US, which has made it possible for real estate debt providers to come through this period unscathed. That is the real value of an allocation to European real estate debt.”

UK increasingly attractive

In particular, the UK market, which is legally mature and transparent, is becoming increasingly attractive against this volatile backdrop. While the Bank of England recently decided to hold base rates at 4.25%, they have been generally falling from a peak of 5.25% last year and could hit 3.5% by mid-2026, according to Jackie Bowie, managing partner and head of EMEA at Chatham Financial, alongside other market analysts. So, the risk-adjusted return on real estate debt stands out.

Austin says ASK Partners has noted an upward trend in loan sizes and stronger-quality sponsors entering the market, which he believes "further underlines the appeal of these strategies during periods of economic dislocation and panic in investor markets".

Pluto Finance chief executive Justin Faiz adds: "We are also seeing no increase in distressed loans in our underwriting practices or weekly watchlist reviews. These factors make UK real estate debt a compelling destination for investors seeking yield and downside protection."

The types of debt best positioned now largely depend on loan-to-value (LTV) levels. Senior secured lenders are usually capped at 60% to 65% LTV ratios, with mezzanine or junior debt filling the gap above that.

When markets are in risk-off mode, speculative projects are the first to suffer
Jackie Bowie, Chatham Financial

Bowie observes that LTV levels are middling – not too low, not too high. "We've seen some movement as senior LTVs had dropped to around 50%, but now we're seeing deals at 55% again, depending on the asset class and deal structure," she says.

"There's still a role for mezzanine [a hybrid of debt and equity financing that gives a lender the right to convert debt to an equity interest in case of default], especially from debt funds providing whole-loan structures. These might combine senior and mezzanine risk in one facility, but price each tranche accordingly."

Research from Savills shows investors and lenders will be most active in the living and residential sectors over the next six months (see box). Faiz says the UK residential sector is underpinned by undersupply, resilient pricing and well-capitalised lending structures.

One area that is still struggling, however, is speculative development. Development costs, such as materials, labour and financing, have been too high over the past couple of years to make many projects stack up.

Spec development suffering

“Now that inflation has eased slightly and interest rates are beginning to stabilise, there’s a bit more interest,” Bowie says. “But speculative development [without pre-lets or guaranteed income] is still very risky.

“When markets are in risk-off mode, speculative projects are the first to suffer. The only development we’re seeing now tends to have pre-lets in place or a clear exit strategy.”

Meanwhile, for many global investors, changing investment allocations is a slow process – especially in private markets. Federated Hermes reports investors talking about making new allocations away from the US, with some starting to make this change.

Nobel suggests this may have more to do with the US administration’s apparent disregard for the rule of law, and less directly its trade policies. “Particularly in real estate debt, tariff policies are less likely to impact returns than an arbitrary or unpredictable application of the law,” Nobel says.

Bowie also highlights concern about the bond market. Long-term US bond yields are rising, which is being partly reflected in the UK. Bowie says: “I’d argue the real story for real estate isn’t just tariffs; it’s what’s happening in the bond markets. That has a much more direct effect on valuations and the cost of debt. Real estate seems to just recover from one shock only to get hit by another. The cost of debt is a huge question for all real estate investors.”

Lending market remains ‘very active’, Savills says

Savills’ Financing Property 2025 report, published earlier this month, shows that the real estate lending market remains “very active”, with lenders from 47 countries seeking to deploy debt capital into UK property – the largest number in terms of geographical diversity on record.
The variety of lender activity in the UK property market suggests that the sector can fulfil investors’ requirements across a broad range of debt types and risk appetites.
According to Nick Harris, Savills’ head of UK and cross-border valuation, many lenders seem reassured by the fact the UK is further along in its repricing cycle than Europe.

“Some prime sectors are even experiencing a rise in values,” he says. “However, pricing uncertainty persists in certain areas, which may be dampening transaction volumes. This, in turn, is causing frustration among lenders due to the limited lending opportunities for new acquisitions.”

Meanwhile, research from Bayes Business School shows that just over £36bn of property loans were written in the UK in 2024, which was up on 2023 levels. But only 31% of that 2024 total related to new acquisitions, which highlights the volume of refinancing activity now under way.

Additionally, the use of back leverage – debt funds borrowing money from third-party lenders – is becoming a notable feature in lending activity.