



HAYFIN

# Opportunities in European Real Estate

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Enhancing Opportunistic Credit portfolios  
by adapting to evolving markets

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## Part I Understanding the role of real estate in opportunistic private credit portfolios

Following a sharp correction in valuations that was driven by higher rates and reduced liquidity, real estate markets have begun to show signs of stabilisation. However, this stabilisation is occurring within a persistently volatile macroeconomic backdrop marked by geopolitical conflicts, inflationary pressures linked to deglobalisation, increasing energy demand, slow growth, and increasing fiscal constraints. Bank retrenching combined with muted private capital liquidity and fundraising has reduced the supply of capital. At the same time, there are several supply tailwinds supporting the long-term fundamentals in certain subsectors. We believe the combination of the macroeconomic environment with the sector-specific dynamics should continue to result in a favourable backdrop for investments in real estate.

In this paper, we outline how these dynamics drive an opportunity set that allows investors to incorporate real estate through an opportunistic credit portfolio. We also explain why the current cycle presents a differentiated market environment, providing examples of where we have used Hayfin's unique access and credit DNA to invest in compelling real estate opportunities across the capital structure.



70 St Mary Axe: London, United Kingdom

## Why is real estate an additive component in opportunistic credit portfolios?

Opportunistic credit strategies are designed to generate returns and consistent deployment through flexible allocations across a broad and diverse opportunity set. While they may include exposures to adjacent substrategies, the common thread is an emphasis on durable cash flows, robust documentation, and downside protection through collateral backing. Within this framework, we believe real estate debt and asset-backed investments represent a complementary extension of the opportunity set.

Real estate offers a combination of income generation and tangible asset backing that aligns closely with the core characteristics of opportunistic credit. Cash flows are typically contractual and, in many cases, benefit from inflation linkage through lease structures. This can support attractive current yield while providing a degree of protection against rising price environments.



BicoCCA Village: Milan, Italy

In addition to these structural attributes, real estate introduces meaningful diversification benefits. Returns are driven primarily by asset-level income and local supply-demand dynamics, rather than corporate earnings or broader credit market conditions. This can provide greater visibility on value realisation, particularly in stressed scenarios, where control over underlying assets and income streams becomes critical. Exposure to differing collateral types, end markets and geographies can provide an additional diversification through reduced correlation within a portfolio.

Finally, the addition of real estate to an opportunistic mandate broadens the investible universe, which is important for these strategies that must avoid market segments that are priced aggressively and rotate into those with more favourable supply-demand imbalances. Real estate – particularly in dislocated segments or environments – offers access to opportunities driven by refinancing needs, capital scarcity, and asset-level complexity that perform differently from traditional corporate credit cycles.

The inflation protection aspect of real estate exposure is a key advantage relative to other assets which may be negatively exposed to this risk factor. In addition to many lease contracts being indexed to inflation, exposure to rising replacement costs acts as “gravity” for the ultimate value of real estate assets. When costs are rising, they increase the economic hurdle for new supply and reinforce the competitive position of existing assets. The ability to acquire assets at a discount to their replacement cost can provide structural downside protection.

For institutional investors, private real estate and private real estate debt have exhibited moderate correlation to corporate private credit strategies and a negative correlation to public markets. Historical correlation data illustrate the diversification benefits of adding these exposures to an opportunistic private credit allocation.



“We apply Hayfin’s credit-oriented discipline to underwrite real estate, with a focus on cash flow, capital preservation and asset quality. We look to create exposures that are complementary within our opportunistic credit portfolios and differentiated from traditional real estate strategies.”

Carlos Pla

### Asset Class Correlations

|                          | Private Markets |                 | Public Markets  |                 |                 |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                          | Direct Lending  | Distressed Debt | Public Equities | Aggregate Bonds | Leveraged Loans |
| Private Real Estate      | 0.19            | 0.75            | -0.17           | -0.39           | -0.30           |
| Private Real Estate Debt | -0.38           | 0.37            | -0.17           | -0.39           | -0.36           |

Source: Investment News, quarterly data analysis from Q3 2009 to Q3 2024 based on USD total returns

In our experience, the diversification characteristics extend beyond asset-level performance. The investor bases for real estate and corporate credit can vary and result in complementary capital availability dynamics. Differing fundraising cycles, liquidity conditions and allocation shifts can create attractive relative value dynamics over long time periods.

### Hayfin’s approach

Hayfin evaluates investments in real estate by applying the same credit-oriented discipline that underpins its broader platform. We prioritise visibility and durability of cash flows, structures that offer downside protection and optionality, and attractive entry valuation that can provide a margin of safety. Hayfin’s real estate investments are not designed to replicate core or value-add real estate allocations, and we avoid opportunities with significant operational risk where our return is reliant on asset repositioning or development. Instead, we target situations where pricing dislocations, structural complexity, or capital scarcity create an opportunity to create a unique and durable return profile. We believe this approach will produce real estate exposure and returns that are both differentiated to traditional real estate strategies, and complementary in opportunistic credit portfolios.

## Opportunities in European Real Estate

## Part II Current market backdrop

Hayfin has long viewed real estate debt and asset ownership as attractive, but the current market environment is especially compelling for our opportunistic strategies. The current European real estate market is characterised by a rare combination of repricing, capital scarcity, and structural change. Unlike prior downturns – most notably the Global Financial Crisis – today's dislocation has not been driven by systemic oversupply or excessive leverage embedded in the system at the outset of the cycle. Instead, the correction has been triggered by a rapid increase in interest rates, shifts in occupier behaviour following the pandemic, and a meaningful contraction in capital availability.

As a result, the dislocation is more nuanced. While values have adjusted materially, the underlying imbalance is less about fundamental overbuilding and more about a reset in the cost and availability of capital. Consequently, pricing dislocations are occurring unevenly across sectors, geographies, and asset quality, leading to significant dispersion. We believe this creates a more attractive and differentiated opportunity set, where returns are driven by asset-level underwriting and capital solutions rather than broad market recovery.

### Constrained capital markets

The financing backdrop remains a key driver of this dynamic as it is in a transitional phase. A substantial volume of loans originated during the prolonged low-interest rate environment must now be refinanced under materially different conditions. This is particularly evident in the 2021–2022 vintages, where assets were financed at peak valuations and with underwriting assumptions that are no longer sustainable. Since then, higher base rates have been compounded by ongoing regulatory tightening, including the finalisation of Basel III (also called Basel IV), which has increased capital requirements for banks by shifting away from internal model-based risk weighting towards a more punitive, standardised, and LTV-sensitive treatment. In addition, a



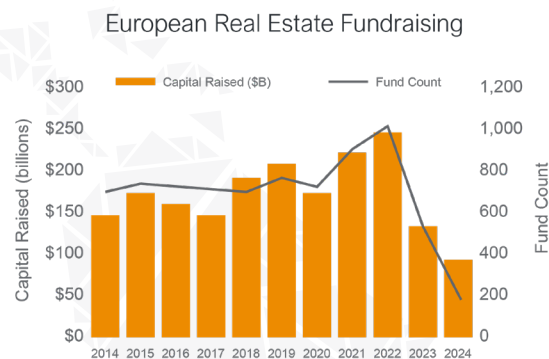
Beech House: Solihull, UK

decrease in real estate debt dry powder has widened the liquidity gap in parts of the market – particularly where borrowers require certainty of execution or flexible structuring. These trends are most prevalent in development financing, transitional assets, and higher loan-to-value structures.

At the same time, real estate asset owners are facing pressures on dual fronts to reposition their portfolios. At the asset level, certain sectors – most notably offices and parts of retail – continue to face scrutiny due to shifts in occupier behaviour. This has required managers to allocate time and capital to asset management, repositioning, or disposals in segments clouded by negative perception. At the real estate fund level, challenges are compounded by the need to generate liquidity for investors, either due to fund life limitations or to increase DPI to support new fundraising. Extended holding periods have led to many portfolios containing assets that would have otherwise been exited earlier in the cycle. This dynamic is creating pressure to transact, often on a timeline that is not fully aligned with optimal market conditions.

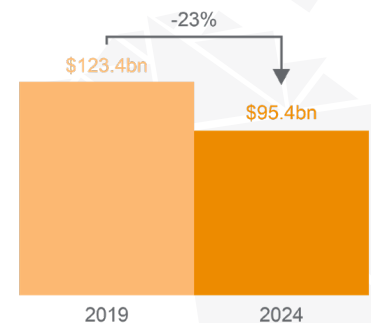
These dynamics have been catalysts for asset sales, opportunistic recapitalisations and capital solutions-oriented refinancings. We believe this illiquidity and build-up of assets in managers' legacy portfolios will persist and create an ongoing source of investment opportunities in the next several years. Furthermore, opportunities to earn attractive risk-adjusted returns are reinforced by the material slowdown in capital formation and the resultant decrease in real estate dry powder.

## Real Estate Fundraising vs. Fund Dry Powder



Source: Pitchbook, H2 2024 Global Real Estate

European Real Estate Fund Dry Powder



Source: Preqin 2024

## Reduced real estate supply

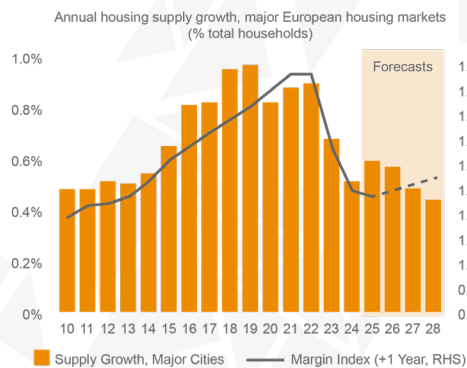
Supply dynamics provide support for the asset ownership opportunity. Elevated construction costs, combined with higher financing rates, have significantly reduced the feasibility of new development. This has led to a sharp slowdown in new supply across many European markets, particularly in office and residential sectors. Given long planning timelines and structural constraints, this reduction in development activity is likely to have a lasting impact, limiting future supply even as demand recovers.



“Many asset owners require creative solutions to capital structures that were set in a very low-interest rate environment and are no longer sustainable. An opportunistic and flexible real estate investor like Hayfin is well positioned to unlock value in these complex situations.”

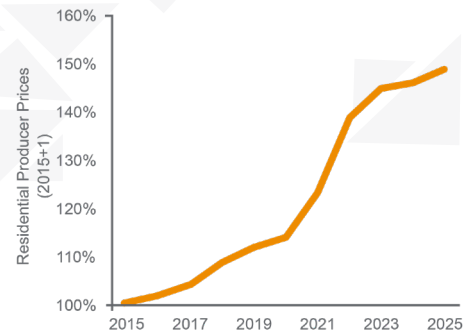
Carlos Colomer

## Housing Shortages Set to Persist



Source: PGIM Real Estate, 2025 Spotlight on Europe.

## Rising Construction Costs



Source: Eurostat Construction Producer Prices index, 2025

While demand dynamics have shifted in certain segments, they remain resilient, or even improving, in others. We are seeing particularly strong fundamentals in subsectors supported by structural tailwinds, as well as in high-quality assets that meet evolving occupier requirements. This divergence is contributing to increasing dispersion not only between sectors, but within them.

## Part III Compelling Opportunities across the capital structure

Hayfin invests across the real estate capital structure – from senior debt to equity – with a consistent focus on capital preservation and situations that lack competition from lower costs of capital. Within this context, there are currently three themes driving the most attractive opportunities we are finding today.

### Opportunity I: Replacing Core and Core Plus equity capital at opportunistic returns

In certain sectors, particularly offices and shopping centres, investor retrenchment has created opportunities to acquire stabilised, well-performing, cash-flowing assets at materially higher yields than in prior cycles. This repricing has been driven in part by ownership dynamics. Many large real estate funds have shifted their focus to subsectors with higher perceived growth opportunities, such as logistics and data centres. Funds nearing the end of their life, or structures facing refinancing pressure, may be required to transact regardless of underlying asset performance. As a result, assets are often brought to market for reasons unrelated to their underlying performance. When pricing is driven by technical factors rather than fundamental deterioration, rebased entry points enable investors to acquire Core or Core Plus assets with opportunistic return potential generated through income, without dependence on yield compression to achieve target returns at exit.

Even in sectors such as residential which are viewed as having more stable supply/demand dynamics, regulatory pressures, heterogeneous asset pools and unnatural ownership structures create opportunities to acquire assets at significant discounts.



Gropius Passagen: Berlin, Germany

## Case Study: Gropius Passagen, Quality Asset in a Dislocated Market



“With our established European footprint and deep local networks, Hayfin has developed trusted relationships with operating partners and advisers that support proprietary origination across nuanced real estate subsectors. Hayfin’s reputation for providing flexible capital in complex or transitional situations provides us with robust access to a range of opportunities.”

Antonio Gomez-Tembleque

Gropius Passagen is the largest shopping centre in Berlin and the prominent retail destination in the densely populated district of Neukölln, effectively serving as the “high street” for the surrounding residential catchment. The asset benefits from a necessity-led tenant mix, strong transport connectivity and consistently high footfall with limited direct competition. The majority of rental income is derived from non-fashion tenants, including discount retailers, health and beauty, food and beverage, and fitness operators.

Hayfin identified the opportunity to acquire Gropius Passagen from an institutional owner that made the strategic decision to exit its shopping centre portfolio. The sale process became dislocated after a prior bidder was unable to complete after an extended period of exclusivity. Despite strong underlying fundamentals, the broader flight of institutional capital from the European shopping centre segment created the opportunity for Hayfin. We were able to purchase the centre at an attractive yield with meaningful downside protection through our ability to secure a purchase price at a significant discount to the sellers’ original basis.

Following the acquisition, Hayfin appointed a specialist retail operating partner to work directly with our in-house asset management team to ensure hands-on oversight and alignment with Hayfin’s business plan. Occupancy at purchase was more than 90%, and prior to closing, we engaged with tenants to fill the small vacancy remaining.

We expect this, along with other asset management initiatives we are actively implementing, should increase our high single-digit creation NOI to approximately 10% by the time of our exit. We expect to recover over 60% of our basis from ongoing cash flow over a five-year period.



Gropius Passagen: Berlin, Germany

## Opportunity II: Bank capital replacement

Bank retrenchment from middle-market real estate lending has left asset owners and developers across Europe seeking alternative financing solutions, particularly in development or construction loans and bridge lending.

This financing void has created opportunities for private lenders to provide capital at attractive risk-adjusted returns. Hayfin focuses on situations with strong underlying asset liquidity and seeks to enhance downside protection through robust structuring. In the case of development or construction lending, loans are typically structured to have protective features such as construction and sales milestones, cost-overrun guarantees, and contractor performance bonds to provide de-risking opportunities or enhance capital preservation characteristics.

In bridge situations, many assets financed prior to 2022 carry leverage levels that are difficult to sustain at current interest rates, along with near-term maturities that create an imminent refinancing need. Where underlying fundamentals remain sound, short- to medium-term refinancing solutions can provide time for asset sales or deleveraging.



Wellcroft House: Slough, United Kingdom

### Case Study: Project Turnstile, Bridge Lending

In late 2022, a UK-based real estate investor approached Hayfin on a bilateral basis. The investor was facing a debt maturity that could not be addressed through traditional bank financing, given the need to refinance both senior and mezzanine debt, and the complex portfolio of twenty-three underlying assets across the industrial, office, leisure, and retail subsectors. The optimal solution was a bridge loan to provide time to optimise multiple ongoing sales processes, repay debt to de-lever, and ultimately secure a more sustainable, lower-cost capital structure.

Hayfin underwrote the portfolio on an asset-by-asset basis with varying tenant profiles, locations, and liquidity to assess valuations in downside scenarios. The opportunity for additional de-risking was available through ongoing sales processes involving two high-quality assets where the eventual proceeds would be used to partially pay down Hayfin's debt.

Hayfin structured a 2.5-year facility with a 10% cash yield, mid-teens minimum expected return, cash flow sweeps, sales milestones, and LTV-based covenants. Since closing our investment, the planned sales occurred ahead of our expectations, and the borrower was able to refinance our debt with a lower LTV bank loan achieving returns of 14% IRR and 1.3x.



Campo Alegre: Porto, Portugal

### Opportunity III: Illiquid secondary and transitional situations

Hayfin also sees compelling opportunities in secondary loan acquisitions and complex situations where sellers are motivated by liquidity needs, regulatory pressures, or fund lifecycle constraints.

These opportunities often arise from banks seeking to reduce loan exposure or private funds that must realise assets as they approach the end of their legal lives. Pricing in these cases can reflect seller-specific factors rather than deterioration in underlying asset fundamentals. Hayfin selectively acquires and underwrites these positions with a focus on collateral quality, documentation, and downside protection, often benefiting from discounted entry points.



DX Living Donnybrook: Dublin, Ireland

## Case Study: Fairfield



Fairfield is a platform created by a large private capital investor to originate commercial real estate loans to middle-market borrowers across Europe. The manager who built the platform was approaching the end of its fund life and was seeking to generate realisations on this large portfolio of loans.

Hayfin engaged in bilateral negotiations with the seller to self-select a portfolio of six performing loans based on each loan's performance history. Hayfin selected loans collateralised by high-quality assets with significant take-out visibility, including pre-leased and pre-sold developments.

Through the secondary purchase of the loans at a discount, we were able to create the blended portfolio of senior debt at approximately 60% LTV with expected returns in the high teens. This investment closed in the first quarter of 2025. As of July 2026, all loans have been repaid ahead of the original underwriting timeline, resulting in an overall return in excess of our initial expectations.

Real estate is a core vertical within Hayfin's broader credit platform. Over the past 15 years, the firm has invested more than €4bn across European real estate transactions, including debt and equity, primary and secondary markets, multiple jurisdictions, and a wide range of asset types and situations.

These investments are supported by an experienced real estate investment team and dedicated in-house asset management team with deep sector expertise and track record across market cycles. The team's capabilities are complemented by Hayfin's broader platform that benefits from local presence embedded across multiple European jurisdictions and longstanding relationships with banks, operating partners, sponsors, and advisers. This allows the team to leverage relationships and insights from our corporate credit activities, including access to situations where real estate forms part of a broader corporate opportunity.

The integration of the real estate strategy with the wider credit platform provides both breadth and diversification benefits for Hayfin's investment strategies. Hayfin's flexible mandate enables the team to respond to changing market conditions and dynamically allocate capital by focusing on areas where relative value is most compelling and avoiding those where competition erodes returns and increases risk.

Taken together, these attributes position Hayfin to source and execute differentiated real estate investments. For opportunistic private credit investors, this nuanced real estate exposure can facilitate portfolio resilience and complement more traditional real estate allocations throughout an institutional portfolio.



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### Case Studies

Case studies were selected for illustrative purposes based on their relevance to the current opportunity sets described herein that were executed from the last three years. Information regarding the full population of investments from which these case studies were drawn is available upon request.

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