

# European Real Estate **2026**

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Half-year health check



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“Risks have not disappeared, but markets are adapting. Investors also need to adapt to this changing environment”

Milliners Yard, Liverpool, United Kingdom



# Our key takeaways for the second half of 2026

Fountain Retail Park, Tunbridge Wells, United Kingdom

## 1

The macroeconomic backdrop has weakened, impacting performance. Where returns were previously around 8%, they are now closer to 6%-7%. However, there are still parts of the market that offer opportunities: pockets of mispricing and localised supply-demand imbalances continue to present opportunities for outsized returns. A clear focus on stock selection should allow us to continue to deliver outperformance.

## 2

There is a solid base for recovery – a recovery that has been put back rather than put off. European real estate property investment fundamentals have been moving in the right direction – performance is in positive territory, capital values have stabilised and rental growth is largely positive due to a chronic undersupply of appropriate stock.

## 3

The sector is poised for growth when the recovery gains momentum. European real estate markets are largely characterised by an undersupply of quality space and the paucity of recent development means there are pockets of positive rental growth on which to capitalise and drive performance.

## 4

Risks have not disappeared, but markets are adapting. Investors also need to adapt to this changing environment and exploit the long-term structural trends already reshaping society, and capitalise on the opportunities offered by the current dislocation in real estate.

## 5

Sovereign geopolitical risk and higher levels of macroeconomic uncertainty are now part of the new operating system and a permanent feature of any capital allocation to real estate. So far, central banks are staying measured, although interest rate rises are now a distinct possibility.



Maybachufer, Berlin, Germany

# Macroeconomic environment

A geopolitical standoff is affecting the global economy. At the time of writing<sup>1</sup>, Washington is blocking Iran's oil income while Tehran threatens the world's oil artery, effectively blockading the Strait of Hormuz. Talks are ongoing to end the conflict and governments around the world are wondering how high inflation could go and what levers they have to tame inflation and support economic growth. There is no single, straightforward answer and the direction of travel will hinge on two things: how much longer the conflict goes on for, and how much damage physical infrastructure sustains and how quickly it can be rectified.

Even if the war ended tomorrow, with limited damage to infrastructure and the Strait of Hormuz reopened, it would still be an estimated eight to 10 months before physical energy supplies and distribution 'normalise'. As a result, headwinds include rising inflation risks and central banks under pressure to respond, along with higher borrowing costs and more volatility in financial markets. Central banks have so far been measured in their responses, but we must consider when they might act and what this could mean for economic growth

and on diminished consumer purchasing power and household spending decisions. Interest rate cuts are now off the table, with increases largely anticipated. This environment is not new, however. The past five years have been defined by a return to structurally higher inflation and a rebasing of interest rates with volatility now part of the new operating system.

Stock markets are clearly monitoring the situation closely but somewhat surprisingly appear unfazed by the choking of global oil markets – while prices have risen, they are not as high as they were following Russia's invasion of Ukraine in 2023. When the attacks on Iran began in late February, inventories were high and oil markets were well supplied. Financial markets are signalling that they expect the war and disruption to stop before inventories show the strain – as it stands the spot price for oil has increased but the future prices for delivery are falling (Figure 1).

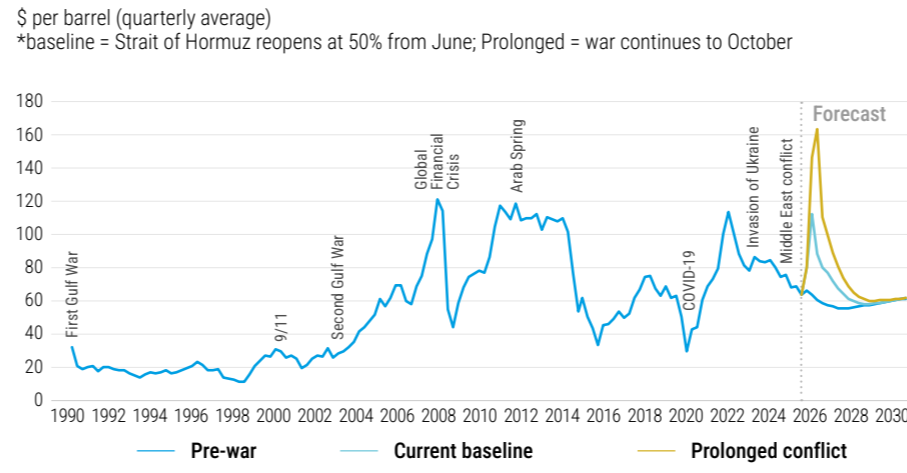
Of course, this could change depending on how long the conflict continues. For now, however, the VIX Chicago Board Options Exchange (COBE) Volatility Index, a 30-day forward-looking measure of expected

market volatility, rose from less than 20, which it was at for much of 2025, to a peak of 31 on 27 March, although it retreated to 25 on 31 March. A score above 30 represents heightened volatility and market uncertainty, while less than 20 generally corresponds to stable market periods. Through April the Index averaged 19.8, falling to an average of 17.2 in May. Across June (to the 7th of the month) the Index decreased further to an average 16.1 (Figure 2).

What is clearer is that the fundamental rules shaping how economies and financial markets behave have shifted. Investor assumptions about how different parts of the system interact are being challenged. But, while risks remain, markets are adjusting.

So far we have seen higher fuel and energy prices, and higher inflation levels across Europe. In this instance, higher energy costs are not an indication of a strong economy increasing demand and pushing up prices. Rather, they are being driven by a tightening in supply with economic growth generally muted across many European countries. Governments are reacting, where they can, to help shield households from the knock-on effects of rising household bills, but the response has been varied as governments contend with already high debt burdens. Spain has implemented a €5 billion relief plan, including a reduction on energy taxes as well as rebates for professional drivers. Italy has sought to return extra tax revenue from fuel to consumers and Germany enacted a bill on 1 April that limits the frequency of fuel price increases to once a day. This has been met with a mixed reaction.

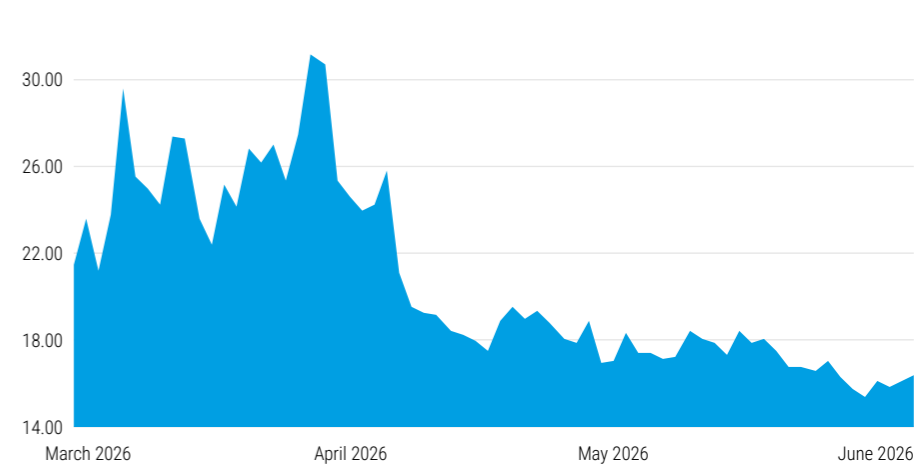
**Figure 1: World Brent oil price**  
 \$ per barrel (quarterly average)  
 \*baseline = Strait of Hormuz reopens at 50% from June; Prolonged = war continues to October



Source: Oxford Economics, May 2026

1. 29 May 2026

**Figure 2: The VIX (Chicago Board Options Exchange Volatility Index)**



Source: Chicago Board Options Exchange, 4 June 2026

The Bow, Strandkai, Hamburg, Germany



# Real Estate: overview and outlook

Going into 2026, market momentum across European real estate was positive and gathering pace, building on the confidence evident in the second part of 2025. This was curtailed by the largely unexpected start of the conflict in the Middle East, the immediate result of which was volatility in global financial markets and an energy-driven supply shock. This changed the outlook for inflation and growth and the narrative on interest rates from anticipated cuts to potential rises.

The geopolitical upheaval in the Middle East generated largely negative headlines relating to real estate; however, this is not how we are assessing the situation.

Property offers an inherent strength as a solid diversifier to other asset classes. The combination of income, tangible value and portfolio diversification is once again becoming central to institutional asset allocation. The sector operates more slowly in terms of pricing, unlike equities which suffer more intensely in volatile times from daily trading. Real estate has the advantage

of allowing investors to look through short-term uncertainty and secure opportunities for the longer term, taking advantage of any price dislocation that may come from the wider volatility.

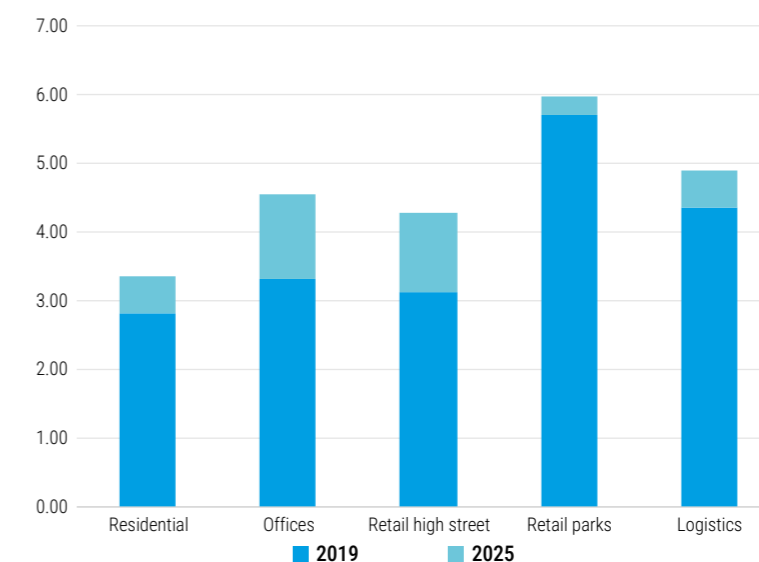
Real estate is now in a stronger position than in previous years. Figure 4 shows the performance of the European real estate market at a sector level. On a total returns basis, over the next five years all sectors are expected to outperform their five-year averages, and all sectors except logistics are forecast to exceed their 10-year averages.

The real estate sector has been dealing with constant and unexpected events for the past five years. Arguably, investors and occupiers are better equipped than others to deal with the higher level of uncertainty in a world where change is more certain. However, investors must now consider sovereign geopolitical risk as a permanent structural factor to be priced into their decision making, and those decisions must be more precise.

Market participants have learnt that doing nothing until 'normality' has been resumed will not pay dividends. Real estate has the resilience to withstand economic cycles, but investors need to be more precise in both location and asset selection when allocating capital. Capital values may remain volatile in the short term, but they can be protected and enhanced through active asset management and repositioning strategies. Income, which is crucial to underpinning performance, provides a counterbalance to the current capital environment, providing steady returns during periods of uncertainty. Over the next five years income is anticipated to be the driver of performance across all sectors, which is critical in an environment of higher debt costs and limited yield compression (Figure 5).

It is difficult to accurately predict how events will unfold and what the ultimate outcome of the conflict will be. However, rising inflation, higher gilt yields and increased finance costs have changed the outlook for 2026. At

Figure 3: Prime (net) yields, actual 2019 versus 2025



Source: Property Market Analysis, April 2026 forecasts

## Real Estate: overview and outlook (continued)

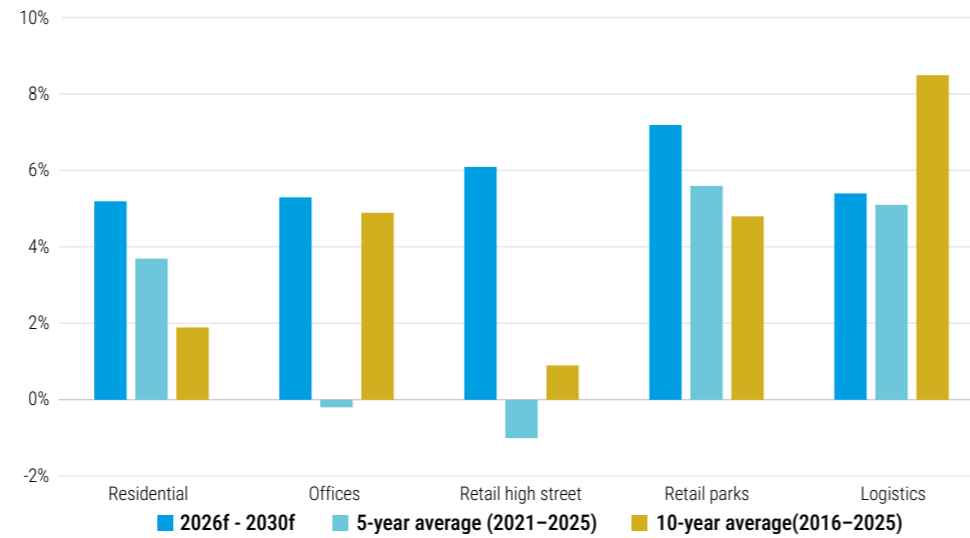
the beginning of the year the consensus view was that yields would compress, but this now seems unlikely. However, the strength of the European occupational market means that once there is less volatility and more stability, capital is expected to return. The second quarter will most likely see some uncertainty around pricing, but from there we expect momentum to pick up relatively quickly. Recently revised total returns for European real estate show that the weakened macroeconomic backdrop has impacted performance. Where returns were previously around 8%, they are now closer to 6%-7% per annum. However, there are still parts of the market that offer opportunities – pockets of mispricing and localised supply–demand imbalances continue to present opportunities for outsized returns and with a clear focus on stock selection should allow us to continue to deliver outperformance. This demonstrates the sector’s ability to withstand macroeconomic pressures from external shocks, due to solid income yields and rental growth projections.

European markets are generally supply constrained across all sectors, providing a solid basis for current and future rental growth. With elevated construction costs still a defining feature, little supply will be ‘turned on’ even as energy markets stabilise, helping to moderate inflation. At the same time, declining new development and the removal of older stock are reducing vacancy rates across Europe. This is underpinning solid rental growth projections across sectors and markets.

The outlook is highlighted by a GRI Institute poll asking how investors are adapting their real assets strategy to a more dynamic global environment (Figure 6). The results showcase a profoundly steady hand among institutional leaders.

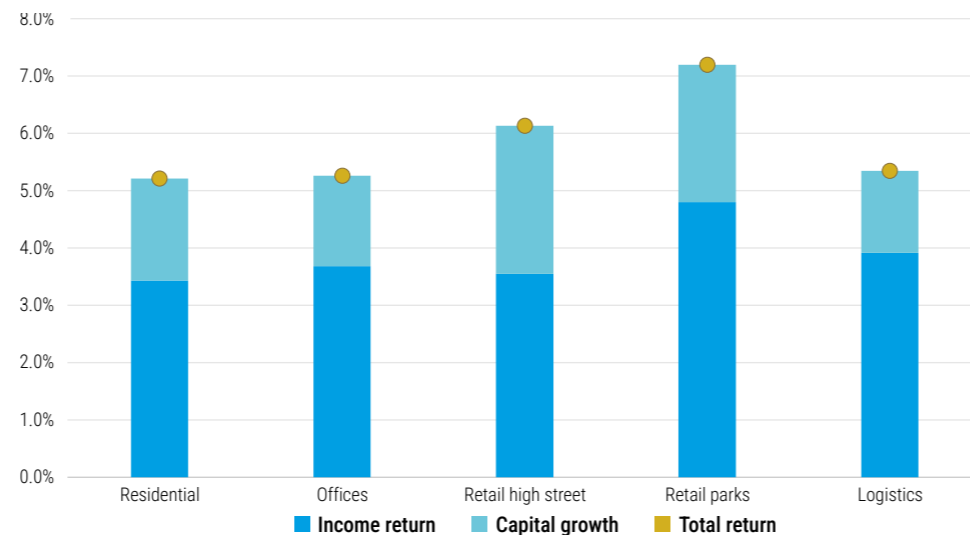
The largest cohort, 34%, is maintaining a long-term strategy with minimal changes. A further 31% are observing trends before making major adjustments, with 25% refining and stress-testing existing approaches. It is only a marginal 9% that are fundamentally reshaping their investment frameworks.

Figure 4: European total returns by sector



Source: Property Market Analysis, April 2026 forecasts

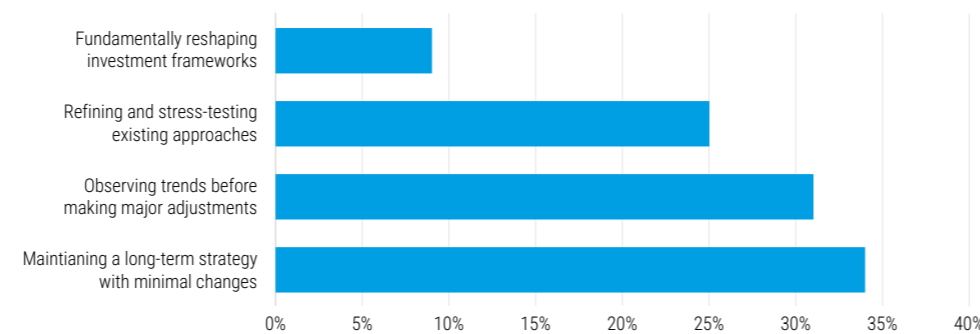
Figure 5: European sector performance 2026-2030, per annum average



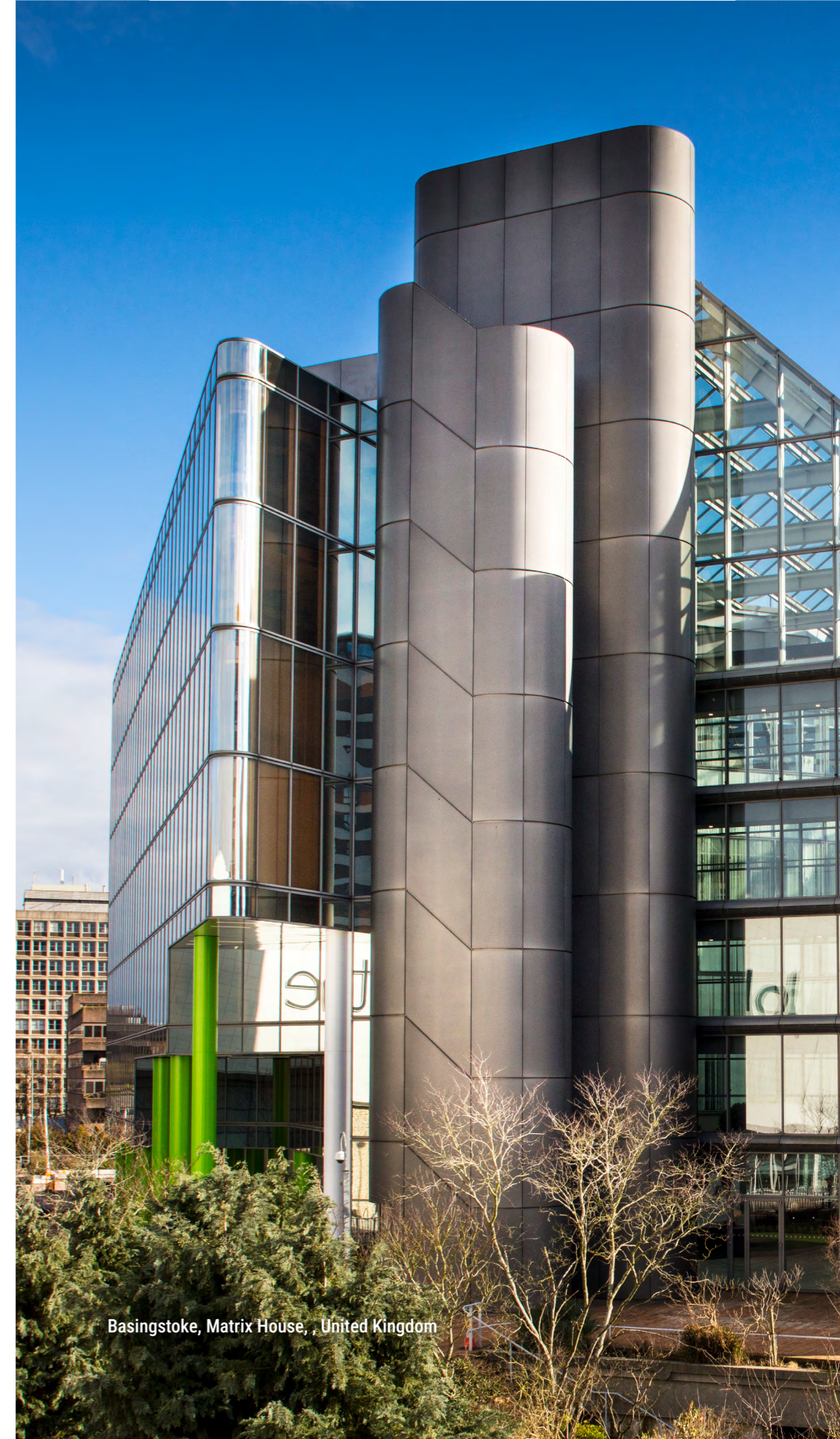
Source: Property Market Analysis, April 2026 forecasts

Figure 6: US-Iran conflict barometer

How are you adapting your real assets strategy to a more dynamic global environment?



Source: GRI Institute, 14 April 2026



Basingstoke, Matrix House, United Kingdom

# Real Estate: opportunities

Geopolitical shocks influence the timing and pricing of real estate, not the direction of long-term supply and demand balance, which is driven by structural forces. The impact of the current geopolitical environment on real estate sectors will be uneven – here is a summary of our thoughts on key real estate sectors outlining trends and opportunities



## Retail

### Thematic trend

Changing consumer dynamics results in a focus on both ends of the retail spectrum: prime, high-footfall streets in tourist-backed locations, and retail parks able to offer a value proposition given changing consumer behaviours.

### Strategic opportunity

Expansion strategies focus on high footfall streets with retailers having to act early on strategic business plans given the low vacancy rates and limited opportunities.

Retail parks with repositioning potential supported by dominant and/or growing catchments.



## Industrial and logistics

Retailers need more capacity to support the growth of omnichannel delivery to consumers, as well as some near-shoring and the need to build efficiency and resilience into supply chains.

Mid-box, modern future-proofed logistics along arterial routes are popular, as are assets located around infrastructure nodes such as airports and ports.

Multi-let industrial estates, secondary quality properties with rental reversion.

Access to power is a defining factor in future proofing assets.



## Offices

Rising office attendance focuses demand on well-located buildings in central business districts. Occupiers are prioritising space that offers attractive local amenities and helps attract and retain talent.

Focus on high quality assets or those that can be refurbished/repositioned to deliver in-demand ESG criteria.

Central locations dominate and there is a rising risk around older stock and of obsolescence/stranded assets in second tier locations.



## Living

Chronic undersupply across the sector is compounded by a lack of the right quality of stock in the right locations. This intensifies the mismatch in stock and demand.

An ageing population is creating rising demand for specialised housing, while underinvestment in the student accommodation sector highlights selective opportunities.

Affordability pressures are beginning to ease via wage growth and rental regulation, but new supply is constrained. Continued rental growth to be captured across multi-family and increasingly single-family housing.

Purpose-built student accommodation (PBSA): Target cities with multiple universities where there is a lack of student housing and housing supply in general, as well as first-generation PBSA that can be improved/repositioned.

Tactical allocation to senior housing – pricing is attractive but with a focus on well-managed assets of high quality.



## Hospitality

Leisure travel continues to be the main driver, but the outlook is supported by the revival of international business travel. This is expected to strengthen as business events and international meetings continue to grow beyond pre-pandemic levels.

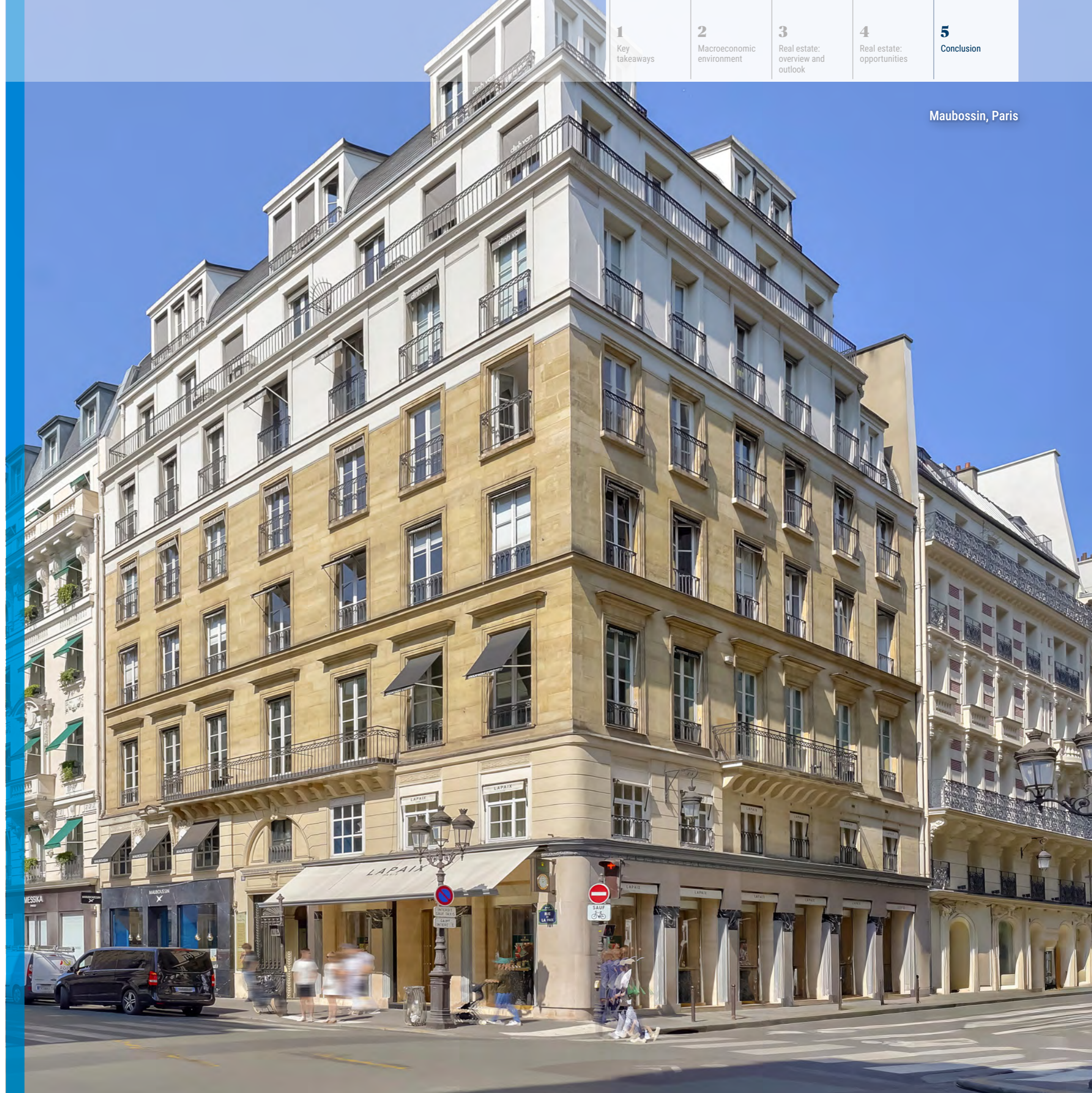
Affordable and luxury hotels in business-centric cities and/or holiday destinations offer attractive returns.

Performance will vary across destinations and hotel segments. European gateway cities are expected to be key targets for luxury and upper/upscale properties able to retain stronger pricing power. Mid-market hotels are likely to face pressure from elevated operating costs and a squeeze on margins.

# Conclusion

Geopolitical shocks influence the timing and pricing of real estate, not the direction of long-term supply and demand balance, which is driven by structural forces. Geopolitics is, however, a factor that now sits at the core of any property investment strategy.

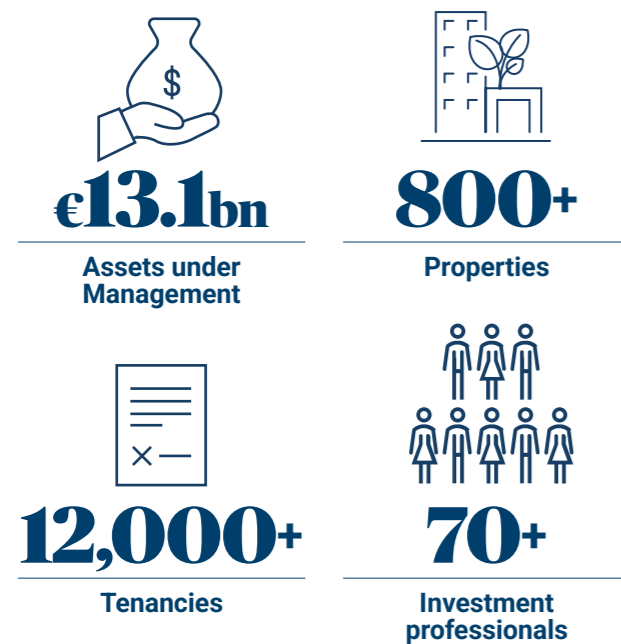
Allocation to real estate needs to be precise not generic, and while current market conditions have delayed market momentum, and we are likely to see lower investment volumes as a result, we do not believe momentum has been derailed. Instead, scope remains for uncertainty to give way to urgency. This cycle has seen a few stops and starts, and no doubt there will be future challenges, but the risk is not volatility, it is ignoring long term fundamentals during volatile periods.



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