
Real Estate: Iran war update

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The conflict in the Middle East is another reminder of the volatility of geopolitics and the fragility of global supply chains – as well as being a human catastrophe. We assess the likely impacts of the war on European real estate and consider the specific impacts on real estate sectors.

The macroeconomic backdrop

We are operating amid a fluid geopolitical situation. Most recently, the US and Iran have agreed a two-week ceasefire that would see the Strait of Hormuz open for 'safe passage' while negotiations on a permanent deal take place. This already appears fragile (as of 14 April 2026). Inconsistent messaging from both sides is reflected in volatile equity and bond market movements.

Regardless of the eventual outcome, the overall direction of macroeconomic indicators will likely be similar: growth is expected to slow and inflation to rise as oil and gas supplies are constrained – although a return to the double-digit inflation seen in 2022 is not anticipated.

Monetary policy expectations have adjusted accordingly, with interest rate rises now a possibility in 2026. This is a notable change from prior expectations of rate cuts by the Bank of England (BoE) and the European Central Bank (ECB). This is reflected in materially higher financing costs – UK and Euro five-year swaps are out around 65bps and 50bps respectively since the start of the conflict. However, policymakers are not starting from ultra-loose conditions: interest rates are close to neutral and labour markets have already slackened. Aggressive tightening would require a persistent shock and clear evidence that inflation expectations are becoming unanchored.

Real estate – a safe haven?

Investors are wise to the realisation that we are moving towards an environment of lower growth and higher inflation. This could combine with more fiscal stimulus and higher spending as governments look to soften the impact on voters. Could real estate offer a safe harbour for capital seeking refuge from this volatility?

The benefits of the asset class are well known. Contractual cash flows dampen volatility relative to other risk assets and provide partial inflation protection (especially with indexed leases), and there is the potential to generate capital growth through active management, asset repositioning and astute market timing. Real estate also offers portfolio diversification benefits and often behaves differently from equities and bonds. It can offer lower portfolio volatility while improving risk-adjusted returns.

Two cyclical benefits also currently apply. Firstly, European real estate is largely supply-constrained, with occupational demand in many sectors outstripping supply. This is helping to sustain and grow income. Secondly, investor demand is recovering from a cyclical low in 2023/24, with most investors having already 'right sized' their portfolios and now favourably considering new allocations to the asset class.

Starting from this position of relative stability, any negative impacts of the war are likely to be secondary (for example, a risk to tenant credits passed on via a higher cost of borrowing) and mitigated by strong real estate market fundamentals. In addition, any price softening may be perceived as a favourable entry point for incoming investors.






Are longer-term trends still valid?

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. For example, even in periods of volatility, long-term trends will continue to shape where people live and work, where goods are manufactured and how they are moved. In our view, seeing through the 'fog' and looking at trends arguably matters more during times of crisis.

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However, exposure needs to be precise, not generic. Historically, a structural trend such as urbanisation could benefit most assets within the relevant sector. Today, however, exposure to the same trend may equally erode value as fast as it could create it.

Our thoughts are reflected in more detail in the table below.

| | Thematic trend | Strategic opportunity |
|--|--|---|
| Retail  | <p>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.</p> | <p>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.</p> <p>Retail parks with repositioning potential supported by dominant and/or growing catchments.</p> |
| Industrial and logistics  | <p>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.</p> | <p>Mid-box, modern future-proofed logistics along arterial routes are popular, as are assets located around infrastructure nodes such as airports and ports.</p> <p>Multi-let industrial estates, secondary quality properties with rental reversion.</p> <p>Access to power is a defining factor in future proofing assets.</p> |
| Offices  | <p>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.</p> | <p>Focus on high quality assets or those that can be refurbished/repositioned to deliver in-demand ESG criteria.</p> <p>Central locations dominate and there is a rising risk around older stock and of obsolescence/stranded assets in second tier locations.</p> |
| Living  | <p>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.</p> <p>An ageing population is creating rising demand for specialised housing, while underinvestment in the student accommodation sector highlights selective opportunities.</p> | <p>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.</p> <p>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.</p> <p>Tactical allocation to senior housing – pricing is attractive but with a focus on well-managed assets of high quality.</p> |
| Hospitality  | <p>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.</p> | <p>Affordable and luxury hotels in business-centric cities and/or holiday destinations offer attractive returns.</p> <p>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.</p> |

Concluding thoughts

While the Middle East conflict adds to geopolitical volatility and near-term macroeconomic uncertainty, its implications for European real estate are likely to be indirect and manageable.

Slower growth, moderately higher inflation and shifting monetary policy expectations may affect pricing and financing conditions, but strong sector fundamentals, supply constraints and recovering investor appetite provide resilience.

Real estate's income characteristics, diversification benefits and partial inflation protection continue to support its role in portfolios, with any short-term price softening potentially creating an attractive entry point. Crucially, long-term demand will remain shaped by structural trends rather than geopolitical shocks. This makes precise, selective exposure more important than broad sector positioning.

The risk is not volatility; it is ignoring long-term fundamentals during volatile periods.



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