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# European Real Estate 2026 Outlook

Resilience as a source of return:  
Real Estate investment for a volatile world



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## Looking through the noise

### Why long-term investors must focus on structural change

The first half of the 2020s has tested real estate investors' ability to react to short-term shocks and their macro-economic and geopolitical consequences. The pandemic, geopolitical conflict, inflation shocks, trade tensions and rapid technological change such as AI have all played out over a relatively short time period. Yet, real estate investing remains inherently a long-term game. So, the critical question for investors today is not how to react to each new shock, but how to position portfolios for resilience - the ability of assets to adapt, recover and thrive amid disruption.

We believe European real estate is entering the next phase of the cycle with valuations reset, macro conditions stabilising and long-term themes that make European real estate well suited to provide resilience in a world of structural change. While the environment remains challenging, it is increasingly one where the right selection of properties and active management will be rewarded.

## A stabilising macro backdrop

### Europe's transition year before growth returns

Economic growth in Europe has remained subdued given the economic and geopolitical challenges of 2025, but outcomes have actually surprised to the upside when compared with forecast growth at the beginning of the year. There have been some bright spots, such as the strength of the Spanish economy, and some distortions as companies raced to beat threatened US tariffs.

Looking ahead, 2026 is likely to be a year of transition rather than acceleration. Trade frictions, including the ongoing impact of US tariffs and the risk of tensions with China over dumping, will weigh on growth, with Eurozone GDP forecast at just under 1%.

Beyond the near term, however, the outlook improves. Germany's commitment to higher spending on defence and infrastructure is likely to provide a meaningful boost to European growth from 2027 onwards. Growth in 2027 and 2028 is forecast to be 1.6% and 1.7% respectively, which is above the 10-year average of 1.4% achieved post Global Financial Crisis<sup>1</sup>.

This should create additional momentum for European real estate markets both from an occupier demand and investment perspective.

Interest rates are also expected to be supportive of the real estate investment market. In the Eurozone it is widely expected that rates will remain unchanged at 2.0%, with over three-quarters of forecasters expecting interest rates to be at current levels at the end of 2026<sup>2</sup>. However, Fidelity believes that there is a significant chance that the ECB will choose to cut rates at least twice in 2026 given the near-term economic weakness, combined with Euro appreciation against the US dollar, and a more doveish Federal Reserve. The stability and possible undershoot of inflation give the ECB some room for manoeuvre.

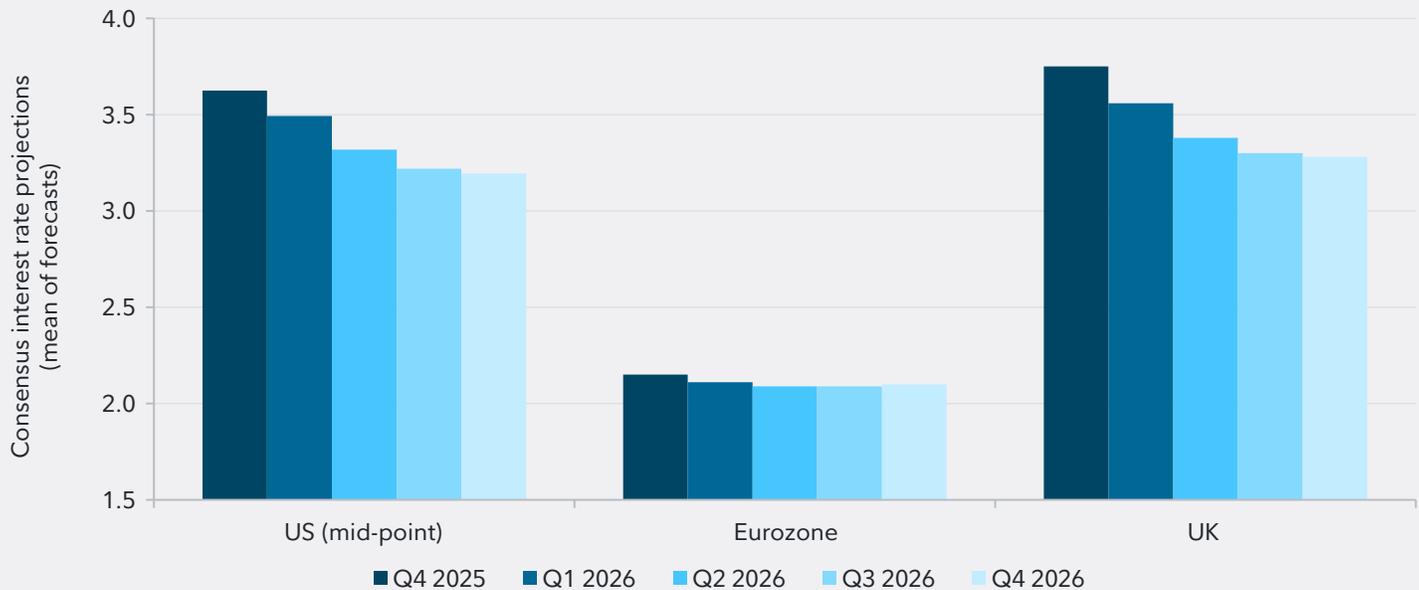


<sup>1</sup> Average annual Eurozone GDP growth from year end 2009 to year end 2019. Source: Eurostat.

<sup>2</sup> Reuters Central Bank Poll, December 2025.

Compared with the uncertainty surrounding US fiscal and monetary policy and the independence of the Federal Reserve, Europe's relative stability and its favourable financing environment due to lower interest rates should help underpin liquidity and global capital allocations to the region.

### Low and stable Eurozone interest rates should support liquidity in the real estate market



In the UK, a further two cuts in interest rates are expected over the next year<sup>3</sup> given the weakening economic outlook and evidence that inflationary pressures are starting to ease.

Long term interest rates are expected to remain broadly stable in the Eurozone, with UK 10-year government bond yields easing modestly. Relative to government and corporate bond yields, European real estate appears fairly priced, pointing to stable real estate yields ahead. Unlike the previous cycle - when falling interest rates drove yield compression and capital growth - we do not expect inward yield shift at a market level to be a major contributor to real estate performance in this cycle.

### An investment market still trying to find momentum

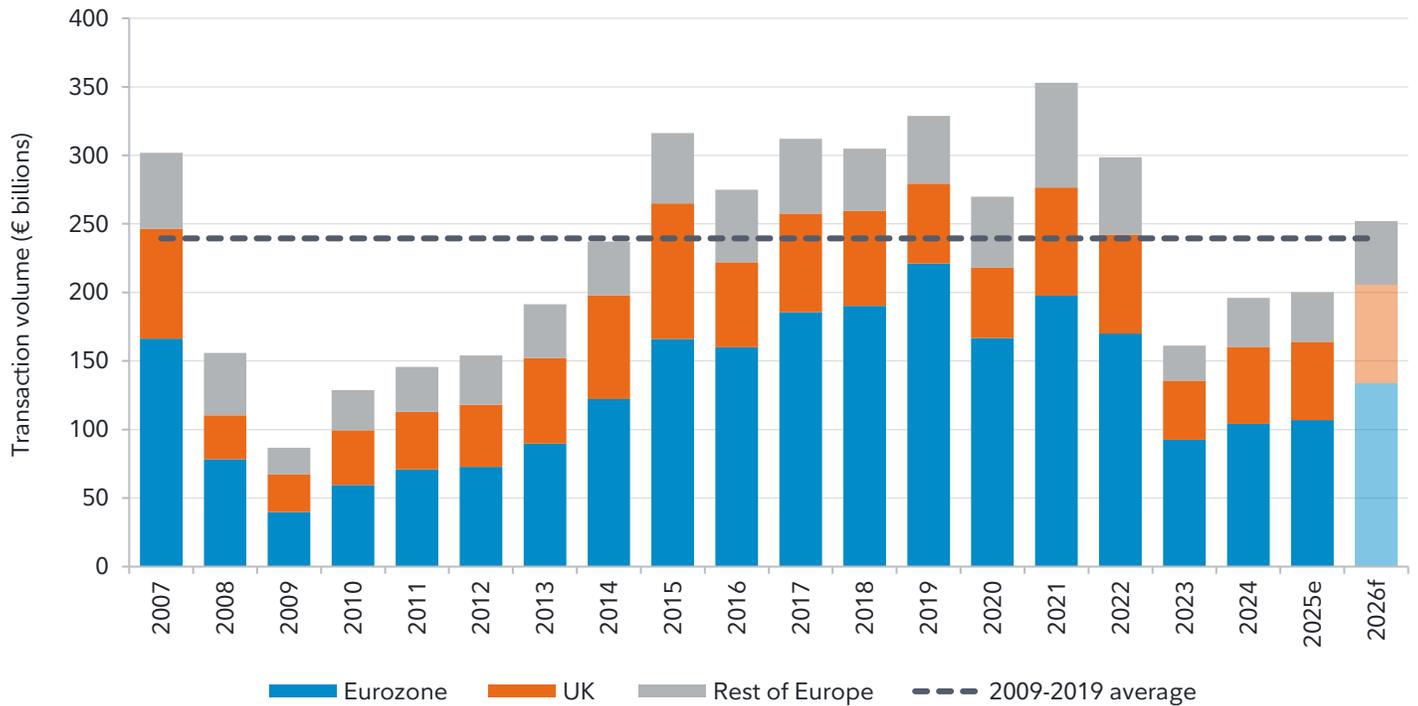
The real estate investment market has been stuck in a rut for the past three years. The repricing that began in the second half of 2022 resulted in value declines of around 20% - modest compared to some of the losses seen in US office markets - and investors have spent the past three years addressing legacy portfolio issues.

In the UK, open-ended real estate funds redemptions linked to DB pension scheme buy-outs appear to be easing, suggesting this headwind is nearing its end. While appetite for balanced, single-country European funds remains limited - partly due to currency risk - the UK's attractive income returns and deep liquidity should draw a broader range of capital toward selective opportunities in 2026.

Across Europe, amongst established funds that repositioned their portfolios, demand and competition remained firmly focused on industrial and residential assets, while offices and retail continue to face weak appetite. Given the office sector's historic dominance - accounting for more than 40% of the investment volumes in Europe - this remains a significant drag on overall European investment market activity, as the residential and logistics markets are not large enough to make up the short fall.

<sup>3</sup> Reuters Central Bank Poll - United Kingdom - December 2025.

Activity in 2025 is expected to have slightly exceeded 2024 levels. Momentum improved in the final quarter, particularly in the UK and non-eurozone European markets. But the Eurozone remained comparatively subdued, not quite achieving the late-2024 activity levels. Nevertheless, momentum is carrying into 2026. Savills forecasts a modestly stronger end to 2025 and a more buoyant 2026. They forecast that 2025 volumes will be up 9% year on year and that there will be a further 18% increase in 2026, returning activity to around the 10-year average.



Source: Fidelity International, MSCI Real Capital Analytics, Savills, January 2026.

## From cycle to conviction

### Resilience – the new imperative

This real estate cycle is set to be driven by individual asset selection as well as rental and net income growth, rather than the yield compression that characterised the post-GFC period. The last cycle was shaped by a low-interest-rate environment and major structural shifts, notably the rise of e-commerce, which favoured industrial and logistics assets at the expense of retail.

Looking ahead, the key themes shaping the next five years are clear: sustainability, technological change, ageing demographics and geopolitics. Their interplay is likely to increase volatility and reinforces the importance of building resilient, well-positioned portfolios.



# Sustainability: Shifting focus on outcomes

Obsolescence risk rises as green premiums emerge.

Sustainability - particularly the delivery of operationally net zero carbon buildings - remains a priority for occupiers and investors alike, despite the backlash in the US. Climate resilience is also rising in importance as extreme weather events become more frequent and costly with economic losses in Europe increasing by 3.4% p.a. over the past 15 years and totalling €44.9 billion over the past five years<sup>4</sup>.

Industry focus is now shifting to action and impact. Frameworks such as the Global Real Estate Sustainability Benchmark (GRESB) have improved governance and standards around collecting sustainability data, but expectations are increasingly centred on emissions reduction and putting assets on a trajectory towards being operationally net zero carbon.

This transition doesn't come without cost, contributing to investors' caution towards offices, where refurbishment costs to meet the high expectations from occupiers around both the green credentials as well as the wellness credentials of the building must be weighed against uncertainty around future space demand and the impact of hybrid working and AI. Furthermore, in smaller markets, rents will have to rise further, or values fall further, to make the level of refurbishment required economically viable. This, therefore, creates significant uncertainty in placing value on these assets.

However, there remains a real scarcity of assets that meet occupiers' sustainability and wellness requirements, and therefore, we expect strong rental growth for well-located, best-in-class office assets over the next five years. Value-add and opportunistic capital is already targeting offices suited to sustainable refurbishment, with upgraded assets expected to attract core investors once stabilised.

It is not just office buildings that need sustainable upgrades. Sustainability is also becoming central to industrial and logistics demand. As occupiers in this sector are shifting from expansion, triggered by the restructuring of supply chains during the pandemic and as a result of the Ukraine war, to consolidation, they are looking for buildings that allow them to be operationally efficient. This requires highly accessible locations with abundant power capacity (to support more automation and use of AI), efficient floorplates, and buildings that are operationally net-zero carbon to meet client contractual requirements. Evidence suggests occupiers

are willing to pay a "green premium" for buildings that deliver operational savings, such as access to onsite renewable power generation, while applying a "brown discount" to poorly specified assets.

Over the long term, asset resilience will increasingly depend on the ability to retrofit buildings effectively and cost-efficiently to meet regulatory standards and occupier expectations - not only on energy and emissions, but also climate resilience, biodiversity and social outcomes.



Investors should therefore be reviewing their portfolios to assess the capital expenditure required to transition assets to operational net zero carbon. Within open-ended core portfolios that expenditure needs to be carefully timed and managed at a portfolio level. Where assets are deemed to be too costly to renovate investors will need to determine the optimal point of exit, balancing near-term asset management initiatives against the risk of an expanding "brown discount" over the medium to longer term. At the same time, there is a clear opportunity to pursue value add strategies with explicit climate impact objectives, delivering refurbished product that meets the aims of Article 8 and Article 9 funds.

<sup>4</sup> European Environment Agency, Economic losses from weather and climate related extremes in Europe, October 2025

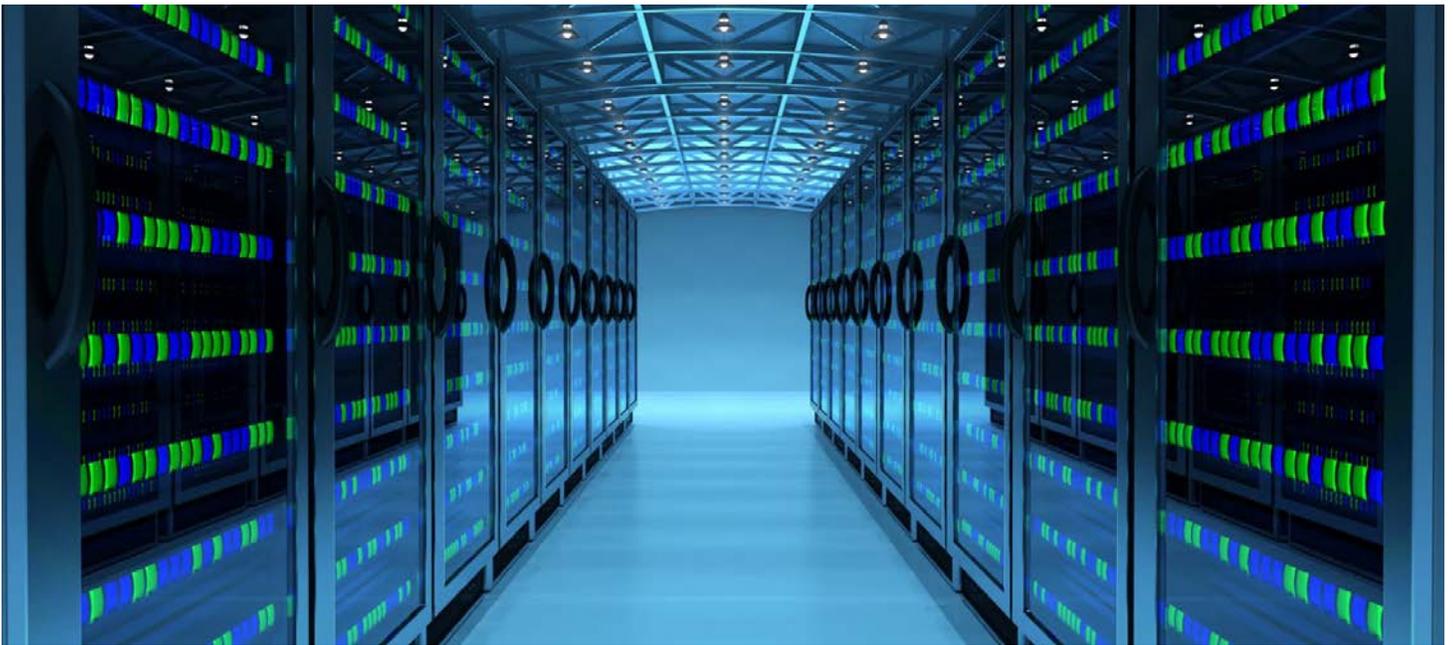
# Technology reshapes the real estate map

Power, connectivity and adaptability matter more than ever

Technological change is accelerating, with advances in AI, robotics, biotech and quantum technologies driving automation, productivity gains and new economic opportunities. These technologies could support decarbonisation and better health outcomes, but are also emerging as geopolitical tools, prompting a growing regulatory focus on European “strategic autonomy” in areas such as AI.

The most immediate real estate impact is demand for data centres as critical national infrastructure, with

further policy support likely. However, Europe faces structural constraints - planning, land, power and water - which limit hyperscale development and mean data centres are unlikely to deliver US-style economic spillovers. While the sector tops investor opportunity rankings<sup>5</sup>, access is often via infrastructure rather than traditional real estate vehicles, and hyperscale assets may not sit comfortably within a traditional European open ended fund structure given their scale and the differences in typical leasing structures.



Opportunities may instead lie in edge data centre facilities, including repurposed urban offices, and in upgrading existing enterprise data centres which are no longer required by corporate owners/occupiers, but have the benefit of power and connectivity, converting them to colocation facilities. Even so, successful investment requires specialist expertise or partnership to ensure that performance is maximised. It is therefore no surprise that the number of real estate transactions in the sector remains very modest, and while it might be flagged as a strong growth prospect, opportunities to invest may remain quite limited.

Beyond data centres, technology is reshaping other sectors: AI may reduce and reconfigure office demand, warehouse automation is increasing power requirements in logistics assets, and over the longer term, autonomous vehicles could alter location dynamics for logistics facilities as constraints on drivers’ hours diminish. While the scale and timing of these changes are difficult to quantify, they reinforce the case for sector-level diversification as a source of portfolio resilience.

Assets in the living sector appear less exposed to some of these technological shifts, which may further support European core funds’ decisions to increase their allocation to residential real estate.

<sup>5</sup> PwC Emerging Trends in Real Estate – Europe – 2026.

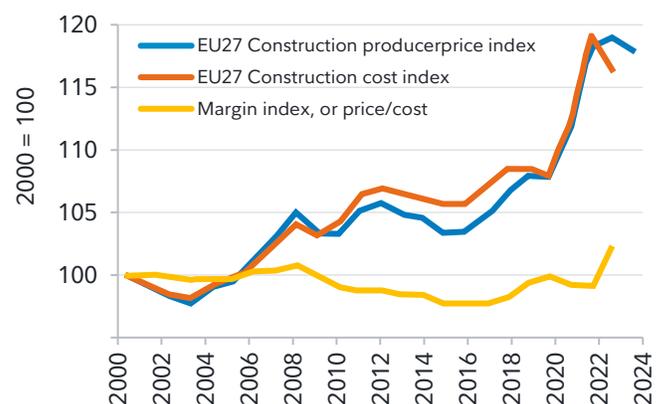
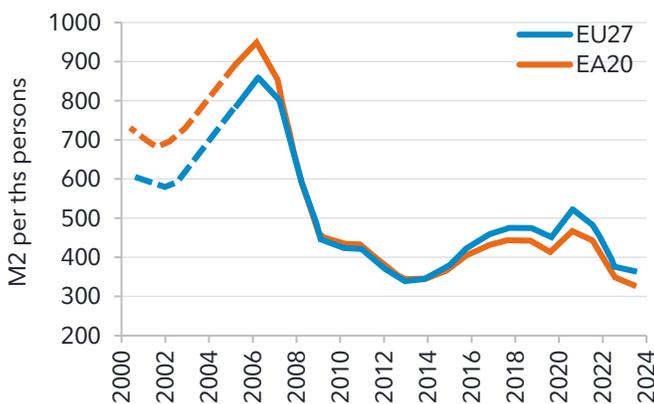
# Demographics unlock diversification

## Housing, senior living and life sciences take on a diversifying role

Europe's ageing population presents an opportunity to broaden portfolios beyond traditional commercial real estate. While investing in multifamily assets might be the most obvious exposure to the theme of demographic change, student accommodation, senior living and life science assets also offer compelling long-term investment opportunities.

An aging population does not automatically imply weaker demand for housing. Urbanisation continues to drive population growth in most major cities; with smaller household sizes increasing the demand for housing. Housing supply, however, is lagging across much of Europe due to regulatory constraints, rising construction and land costs, labour shortages and inefficiencies in the construction sector.

### Building permits are at record lows and inflation-adjusted construction costs have risen sharply



Source: Housing in the European Union: Market Developments, Underlying Drivers & Policies, European Commission, October 2025.

As a result, rental growth remains robust, even in regulated markets. CBRE forecasts average residential rental growth of 3.1% per annum over the next five years<sup>6</sup>, comfortably ahead of inflation. As investors seek to diversify portfolios away from offices and retail, they are increasingly turning to multifamily assets, which not only offer strong rental growth prospects, but also tend to be less exposed to macroeconomic cycles. Reflecting this, residential exposure in the MSCI Pan-European Property Fund Index (PEPFI) has risen from 7.4% to 18.5% over the past five years. While this is still well short of the c.30% exposure in the equivalent US ODCE index, we expect the European index to continue converging toward US levels. This will also help to drive demand for multifamily assets.

Within residential, demand is also growing for specialist segments. Purpose-built student accommodation (PBSA) is benefiting from rising student numbers, with the 18–24 age cohort expected to grow into the early 2030s and international demand potentially boosted by tighter US visa policies.

Senior living faces structural undersupply in many markets and offers resilient, often index-linked income alongside clear demographic tailwinds, given the rate at which the European population is aging. Furthermore, for investors seeking to demonstrate social impact, senior living can be an attractive prospect. The sector offers a range of options from nursing homes to independent living. However, it is important to develop good partnerships with operators, given there are considerable operational and reputational risks.

Life sciences real estate provides a further route to capture ageing-related demand. Despite recent headwinds and fears around US tariffs, Europe's strong research base and the sector's growing strategic importance support long-term prospects. Occupiers tend to stay in their buildings for the long term given the investment they put into the buildings and the importance of agglomeration economies for the sector. For real estate investors, understanding the occupier's business model is key to understanding the income risk of life science assets.

<sup>6</sup> CBRE European Multifamily/Residential Forecasts, Q4 2025.

# Portfolio implications: Adaptability is the new measure of quality

## Resilience is no longer defensive – it is strategic

Despite uncertainties and challenges, real estate market forecasts still indicate that returns from real estate are likely to be favourable vs. other asset classes in the medium term and as part of a private asset allocation, the asset class offers strong diversification benefits. In Continental Europe, real estate also continues to offer an element of inflation hedging given the indexed nature of leases.

The European real estate market is well positioned to deliver both financial performance and positive environmental and social impacts over the next five years. We are still close to the bottom of the cycle, but clearly in the recovery phase, providing investors the opportunity to invest with considerable upside still available. In a cycle where yield shift is likely to be limited, stock selection and active asset management will be important in delivering performance through rental value growth and value enhancing capital expenditure, and building resilience will be key to successful long-term investment.

In a rapidly changing world, portfolio managers and investors will need to consider carefully the ability of assets to weather the scale and pace of change expected over the next cycle. Existing assets should be carefully scrutinised to assess their suitability for a net zero carbon world, and their adaptability to some of the major themes we have identified. Portfolio strategy should also consider these themes as portfolios are repositioned going into the new cycle. Unlike the last cycle, where an early rotation out of retail and into logistics was a key driver of performance, we believe the current cycle will not be defined by a single dominant theme. Instead, success will depend on identifying and managing multiple factors in parallel. Resilience will be a key investment lens, informing decisions around diversification, ESG strategy, and active asset management strategies that help future-proof buildings.

By the end of the current cycle, we expect core portfolios to have increased exposure to residential and alternative asset classes, alongside continued investor demand for niche strategies that capitalise on the long-term trends we have identified.

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