ZURICH

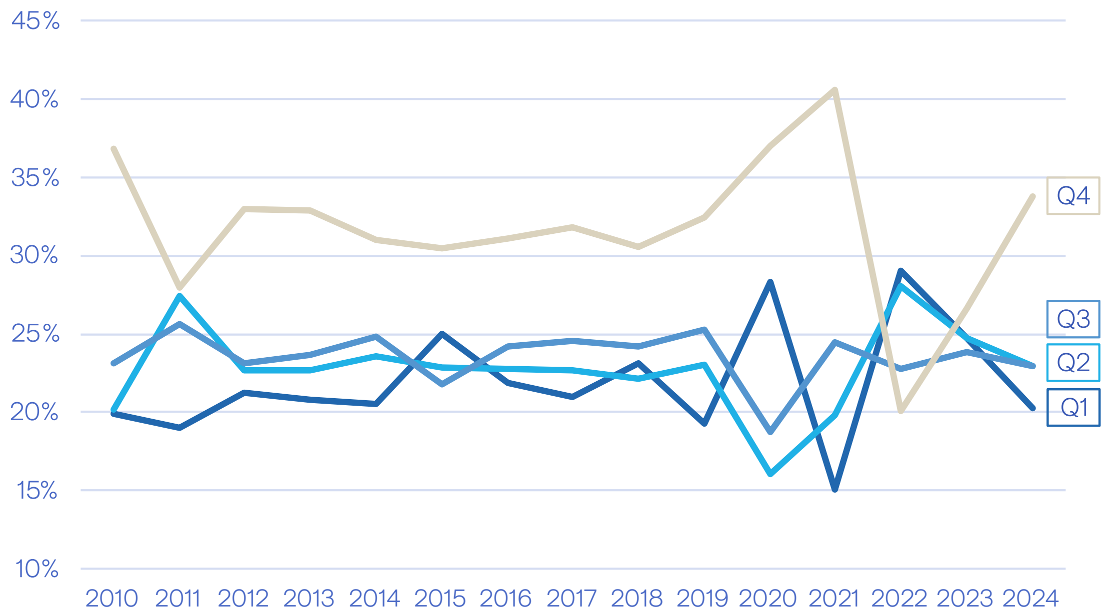
Zurich Real Estate Investments
Group Investment Management
September 2025

Zurich Real Estate Outlook H2 2025
Back-to-School Edition

An investor syllabus for navigating real estate markets

September often signals the beginning of a busy season in real estate. As market participants return to their desks after what has hopefully been a rejuvenating summer break, there is the opportunity for a fresh perspective. A back-to-school feeling is in the air. The final quarter of the year is when transactional activity peaks [Fig. 1] as allocations—which are proving incredibly precious these days—are either invested or feared reclaimed. This is also a time of year when annually valued portfolios typically receive their marks. These report cards should offer valuable insights into how the current property cycle is unfolding. With our latest Outlook, we sharpen the pencils and dig into the real estate investor syllabus for the remainder of the year.

Figure 1: Share of global real estate deal activity by quarter (2007-24), %

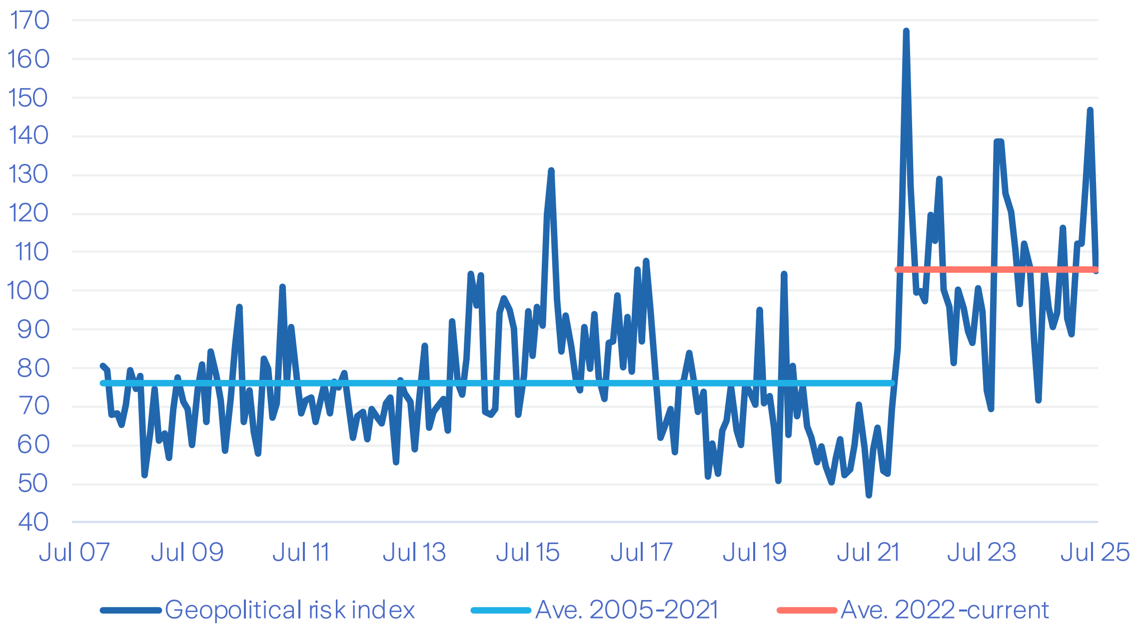


Source: MSCI latest = 2024

School Assembly: The Big Picture

This publication comes at what we see as another inflection point for global real estate markets. After what had been a precarious period for the asset class, we entered 2025 hopeful that investment liquidity would improve and that performance prospects would strengthen in more segments of the global property market. This feeling was predicated on valuation declines on appraisal-based indices having seemingly run their course, reasonably robust occupational dynamics, and supply being kept at bay. Of course, we also expected easing monetary policy to provide some respite to the interest rate sensitive asset class. However, constantly shifting geopolitical dynamics and periods of extreme financial market volatility have stolen attention and shaped prevailing attitudes [Figs. 2 and 3]. Indeed, real estate investor sentiment has subsided from recent highs as liquidity prospects diminished [Fig. 4].

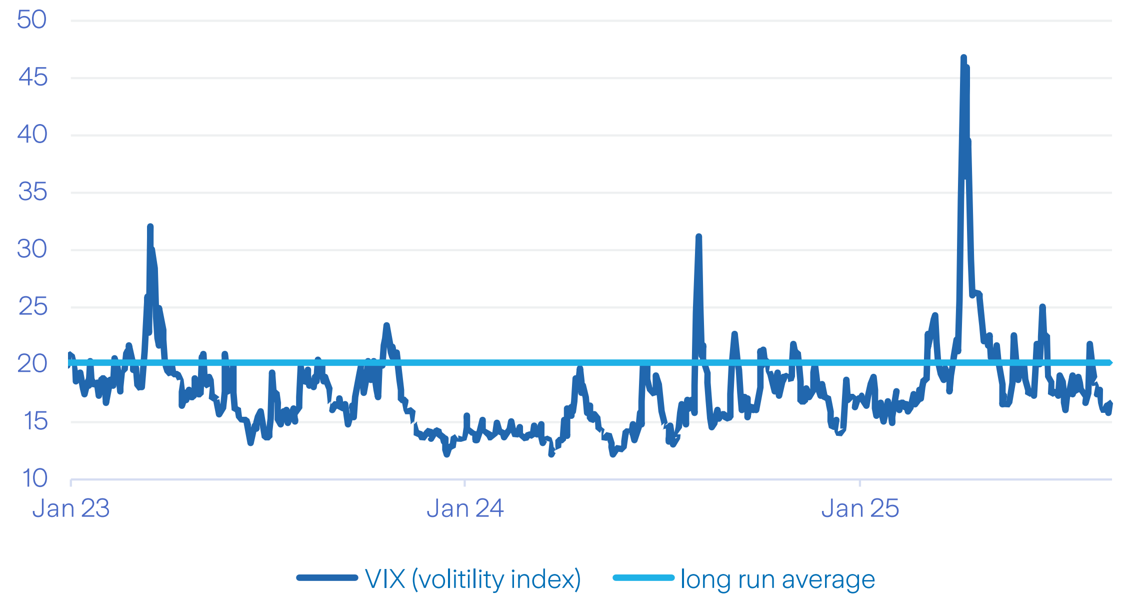
Figure 2: Geopolitical Risk Index*, latest=July 2024



Source: Citi Research, latest = July 2025

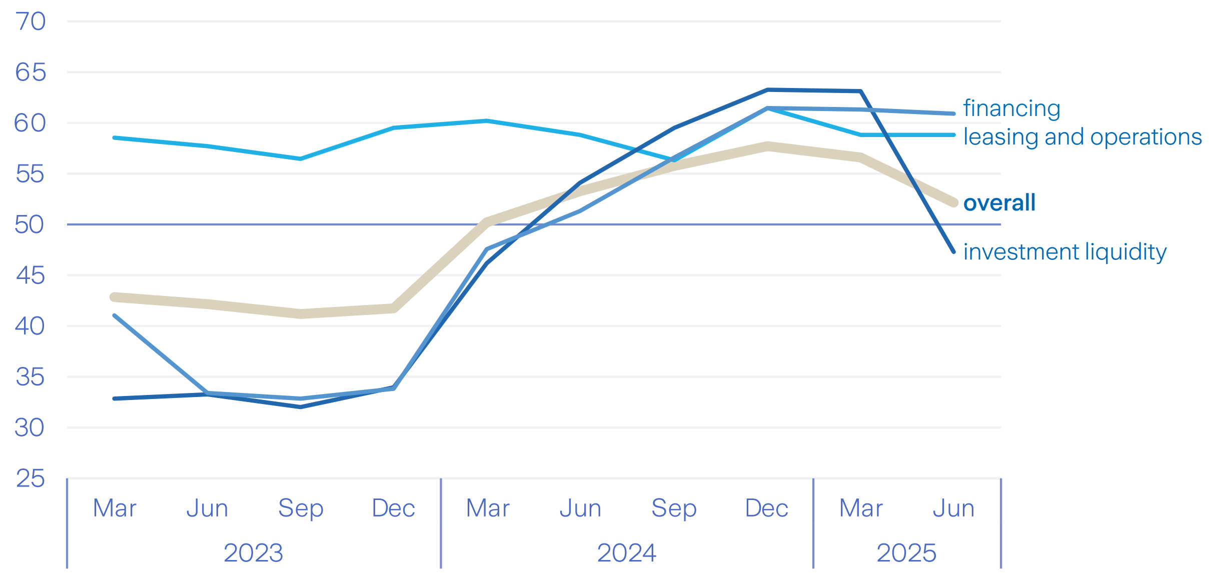
* The Geopolitical Risk Index is a news-based metric created to quantify the threat and realization of adverse geopolitical events on a global and country-specific scale. It is constructed by counting the monthly share of news articles from major global newspapers that mention keywords associated with geopolitical tensions.

Figure 3: The VIX (volitility index)



Source: Refinitiv Workspace, latest = August 21, 2025

Figure 4: INREV Consensus Indicator, diffusion index



Source: INREV, latest = Q2 2025

As we begin the new semester, are we still warranted in maintaining a constructive stance toward real estate despite ongoing distractions? Or have conditions changed materially enough to warrant a revision of our last term paper? Afterall, as Zurich Insurance Group's Market Strategy and Macroeconomics (MSME) team writes in their Mid-year Outlook, entitled **Living in a Land of Confusion**, many of the accepted norms of the prevailing world order have been shaken by a U.S. administration attempting to rewrite the rule book. U.S. exceptionalism, so heavily embraced at the end of last year, is being questioned, while debt sustainability has become a broader concern in more countries.

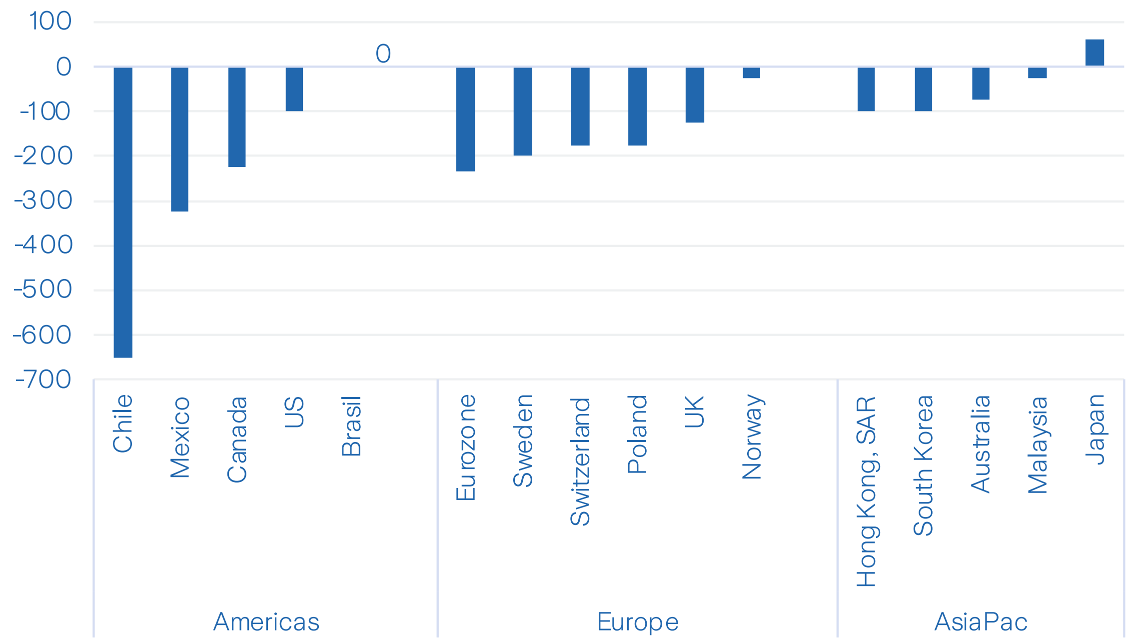
Economics 101: Growth, inflation and interest rates

As we had expected, financial markets have to a large degree provided some checks and constraints on the current U.S. administration's ambitious political agenda. While at times this has proven to be an arduous journey, the global economy has held up reasonably well. Growth is only modestly below trend and inflation is returning to targets in many countries. Widespread cuts to policy rates have helped cushion economic activity [Fig. 5]. Globalization is far from dead, and most economies are expected to adapt to tariff headwinds. But don't expect a smooth ride. Heightened volitility will likely continue for the foreseeable future.

It's worth reiterating that many of the positive drivers we were optimistic about at the start of the year continue to persist—and in some cases, have strengthened further. Supply pipelines in many real estate segments around the world have fallen considerably while demand has held up. In other words, real estate markets have proven resilient amid recent turbulence. This serves as a powerful reminder of the role that private real estate plays in a multi-asset class portfolio. Asset owners can, to some extent, ride out short-term volatility. Also remember, there has been a meaningful repricing across many commercial property markets over the past three years.

Barring any unforeseen changes to the rates environment, we don't expect further significant value declines.

Figure 5: Select central bank policy rate change since 2024, bps.



Source: Refinitiv Workspace, latest = August 21, 2025

Geography Class: Mapping the differences of global property markets

In contrast to the previous real estate cycles, we now anticipate a greater regional divergence in the speed and magnitude of recovery. This is largely a function of varying interest rate trajectories and the extent of recent valuation declines. But structural factors, including demographic trends or prominence of domestic capital, are also playing an influential role. Let's pull out the map and assess the countries and regions of greatest relevance to Zurich Insurance Group's real estate portfolio.

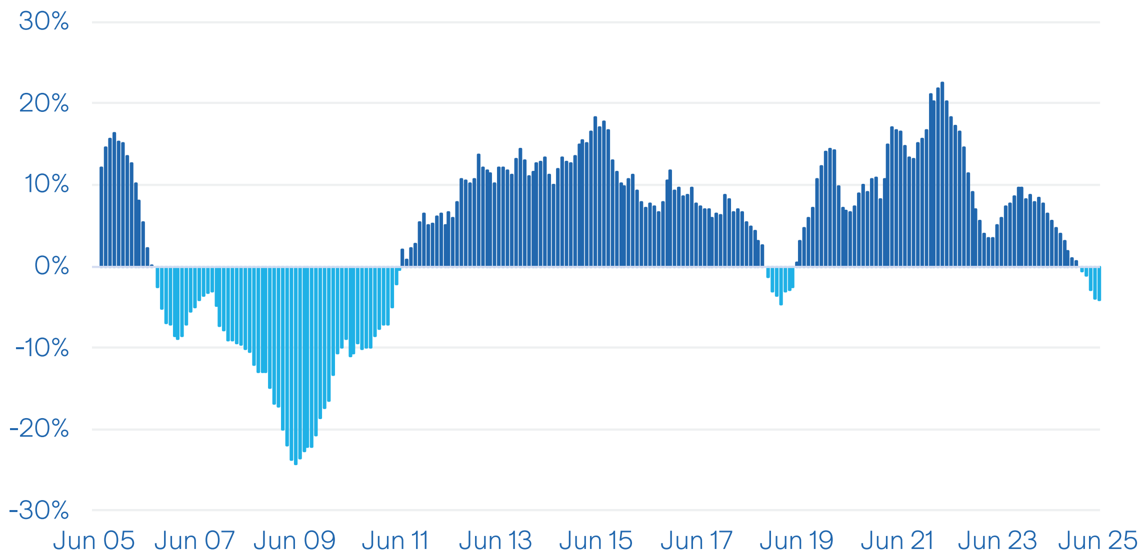
United States: higher growth potential but with a higher cost of capital

To date, the impact of trade policy uncertainty on the real economy has been much more benign than what volatile financial market activity might suggest. Despite expectations that tariffs would trigger higher prices, inflationary pressures have so far remained relatively muted compared to recent trend. Of course, this will be a closely watched metric and any sharp increase in prices could serve to temper tariff policy. Against an increasingly politicized backdrop, the Fed is likely to tread carefully. So, we expect interest rates will remain higher than what was penciled at the start of the year. Also, in contrast to our earlier thinking, elevated economic and policy uncertainty will weigh more on the near-term outlook. However, given massive AI investment (which we'll explore later) as well as still-favorable demographic trends despite immigration crackdowns, the growth potential of the U.S. remains attractive.

In terms of property markets, we do not expect tariff policy to materially undermine pricing. This is largely due to the extent of the current pricing correction but also generally healthy real estate fundamentals. Key to which is the pullback in construction activity [Fig. 6]. However, transaction timelines could become protracted as investors wait for clearer signals on the direction of policy and ultimately the health of the economy. This will likely mean that total deal volumes track last year's cyclically low level, which is a more cautious assessment than what we had expected at the beginning of this year. However, investors able to overlook near-term macroeconomic and policy uncertainty will find a less competitive market. And even with the relative lull in deal activity, the U.S. continues to stand out for its deep market liquidity and the maturity of its alternative property sectors—advantages that remain unmatched in other global markets.

Equity buyers with a core risk/return profile should enjoy a sweet spot.

Figure 6: U.S. construction spending, YoY change, %
excludes construction types such as education, religious, transportation and power



Source: Refinitiv Workspace, latest = June 2025

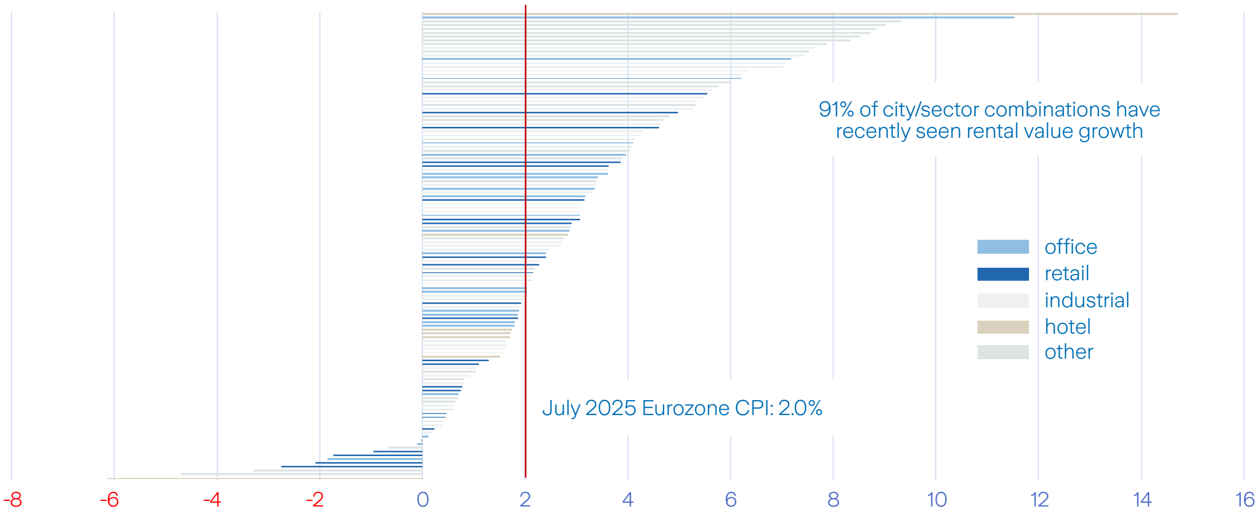
Eurozone: Low current growth but a lower cost of capital

One consequence of the U.S. administration's approach to global affairs is that it has forced Europe closer together. It is now aligning on key priorities, reducing external dependencies, and investing in growth. The speed of change has been remarkable and as our MSME team argues, Europe is changing for the better.

Germany's dramatic shift toward greater public investment and spending marks a transformative change. The planned EUR1 trillion+ spending over the next 12 years for defense and infrastructure should help reposition the country. While implementation risks remain and we are cautious about any immediate boost to, say, office demand, a looser fiscal policy environment is undeniably supportive of the broader economy.

While prospects for the Eurozone look notably brighter in the years ahead, more immediate challenges remain. The region is currently performing below trend, and this is hampering a more cyclically pronounced recovery for real estate. German industrial and manufacturing activity is still heavily constrained, France is mired by debt sustainability concerns, Italy appears overly reliant on EU NextGen funds for growth, while activity in Spain has cooled after last year's robust expansion. The corollary is that inflation has been pulled down, and along with falling wage growth and slack in the economy, interest rates should become incrementally more accommodative. A lower cost of capital is net positive for real estate. Along with Europe's healthy occupational backdrop which is resulting in rental growth in most property segments [Fig. 7], the region is well-positioned to attract global capital as sentiment improves.

Figure 7: European property market: annual market rental value growth Q2 2025, %



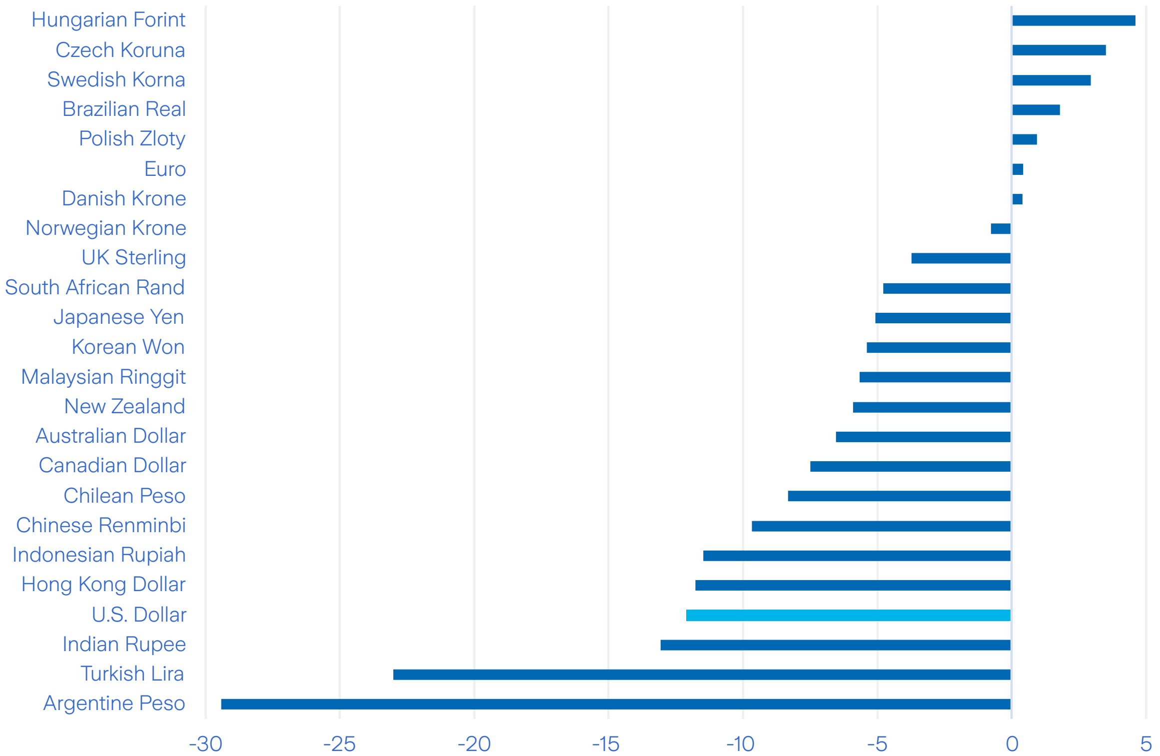
Source: MSCI European Quarterly Property Index. Q2 2025

Switzerland: Very low rates and a strong currency but with U.S. tariff headwinds

Switzerland's economy is highly diversified and adaptable, meaning that it entered 2025 in a reasonably strong position relative to well documented challenges. But things took a surprising turn when the U.S. imposed 39% tariffs on goods from Switzerland. Diplomatic efforts will surely seek to ameliorate the situation, but as it currently stands, Swiss export firms face revenue declines, suggesting slightly dampened job growth prospects and a potential wider economic slowdown. Though important to emphasize, is that while the U.S. is an important market for Swiss companies, it isn't the only one. This suggests that downside risks to the local economy can be contained.

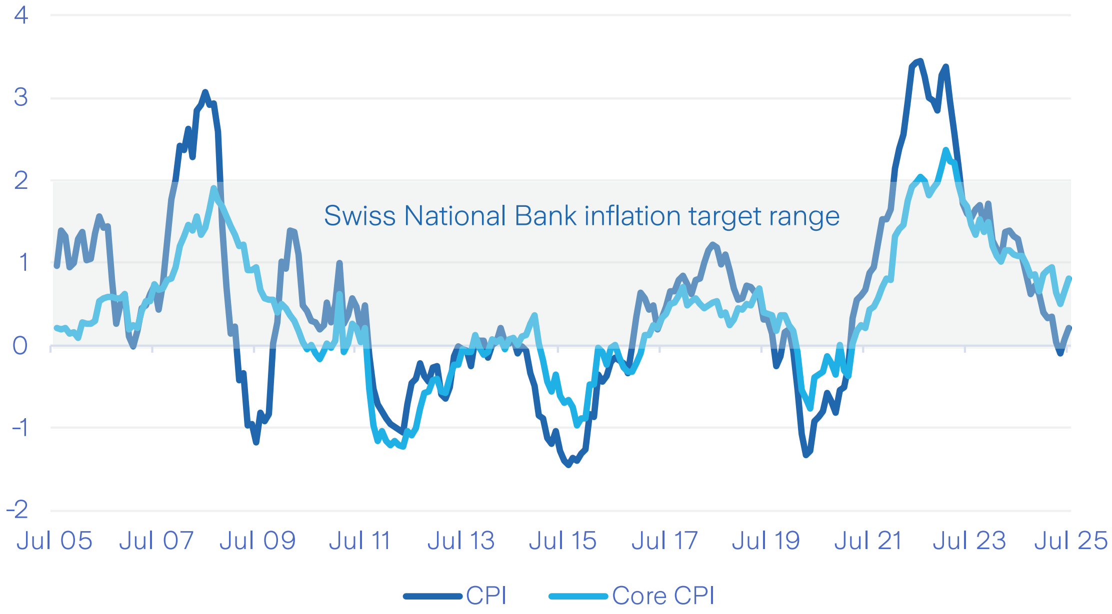
Another important, though related, development during 2025 has been the strengthening of the Swiss Franc. Against the U.S. Dollar, it is up more than 12% year-to-date [Fig. 8]. Once again, the currency plays the role of a safe haven instrument during times of uncertainty. This has kept domestic prices exceptionally low but has also made Swiss assets more expensive to foreign investors. And they could get yet more expensive. Given the low inflationary backdrop [Fig. 9], but with the economy facing a potential slowdown, interest rates could return to negative territory. This should help buffer real estate values and may even catalyse increased domestic allocations over the medium term.

Figure 8: Select currencies against the Swiss Franc, % change YTD



Source: Refinitiv Workspace, latest = August 21, 2025

Figure 9: Swiss inflation, % YoY

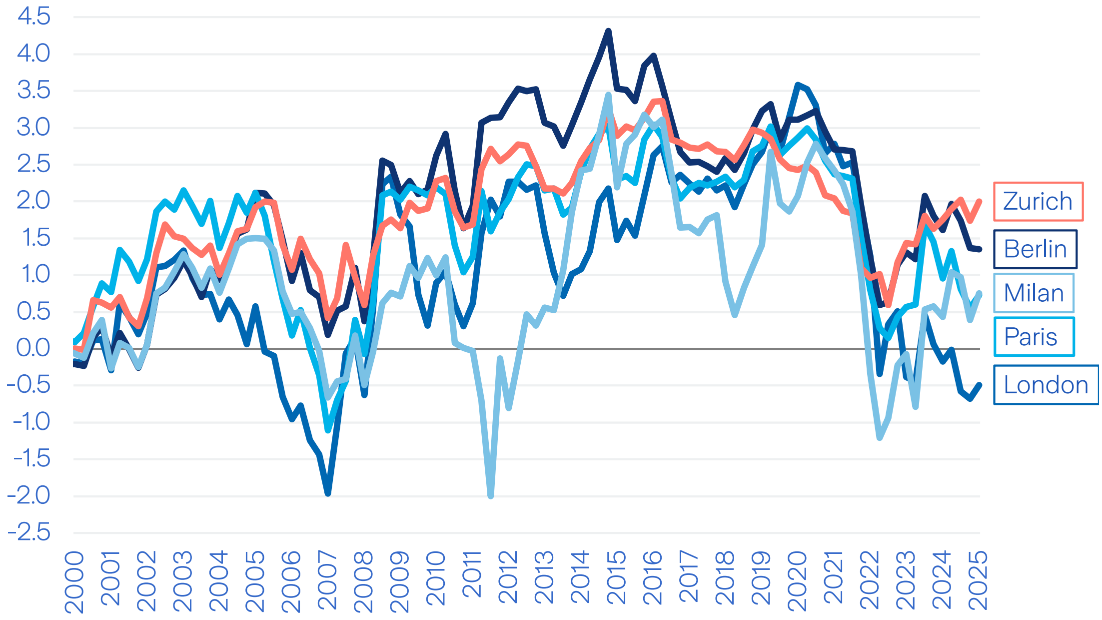


Source: Refinitiv Workspace, latest = July 2025

We anticipate that the country's deep domestic investor base will continue to exert home bias. This is due in part to the attractive relative yield spread that property offers to domestic government bond yields. [Fig. 10]. Historically stable domestic property performance and the absence of currency risk may further reinforce investor attitudes. Also, while we may argue that the repricing in global property markets creates opportunity, the recent value declines could also be perceived as a cautionary signal. And of course there is the political dimension.

How attractive is a U.S. investment given the current policy stance toward Switzerland?

Figure 10: Prime office yield spread to local 10 year government bond, %



Source: JLL, Refinitiv Workspace, latest = Q2 2025

Asia Pacific: A highly differentiated inter-regional outlook

As we know, generalizing economies and property markets in Asia Pacific is folly. Interest rates and real estate sector dynamics are evolving at different speeds. While geopolitical uncertainty and tariff risks are evident across the region, they are manifesting differently. Australia is more insulated given the nature of its historic trading relationship with the U.S., while the situation with both China and India remains more tenuous.

Of course there are some commonalities. Real estate capital market liquidity has generally fared better than in other parts of the world, which is a function of active domestic investors. Another is interest rate movements. Across much of the region, they continued to fall through H1 2025. Japan of course is the exception, where a reflationary environment has resulted in monetary policy becoming slightly more restrictive since the start of the year. This hasn't dissuaded real estate investors. On the contrary there is growing confidence that while required returns have risen, rental growth should benefit from a higher inflationary environment.

Core investors, navigating periodic episodes of global capital market volatility, should consider markets and property sectors that are anchored by domestic demand and domestic capital. Japanese residential and Australian logistics are our current preferences. We see these market segments as offering the scale, liquidity and growth potential that we require.

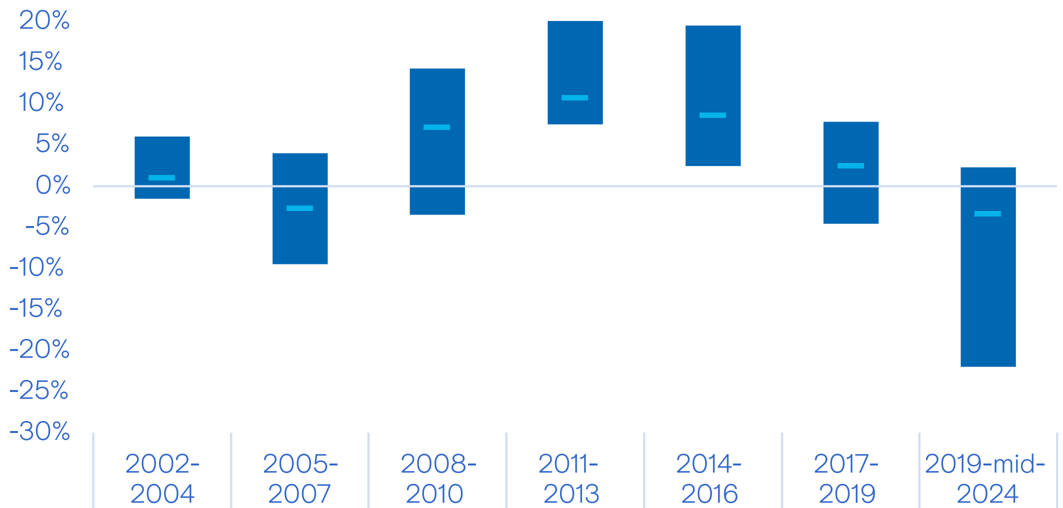
In a different vein, we are also focusing on learning more about India's property market. The country's scale, thriving services sector, as well as recent regulatory reforms make it an interesting destination for capital allocations. Although the market faces constraints due to a shortage of high-quality assets, this also presents a tactical entry point.

History Lesson – learning from past property cycles

In our **Real Estate Outlook 2025**, we argued strongly that a fine vintage for real estate returns was in the making. That argument still rings true, especially as the ongoing recovery is unfolding more gradually than expected. The good news for patient capital is that the window of opportunity remains open.

Key to our vintage argument, unsurprisingly, is interest rates. Updating our previous analysis of European funds by vintage shows just how strong the relationship is [Fig. 11]. In three year periods when interest rates were either flat or negative, median fund returns were positive. When interest rates increased, such as in 2005-2007 or 2019-mid 2024, median returns were negative. With the European Central Bank having already cut rates by 235bps since their 2024 peak, we have clearly moved into an era when, at least

Figure 11: European fund performance by vintage year (% IRR) and change in European interest rates, bps



	2002-2004	2005-2007	2008-2010	2011-2013	2014-2016	2017-2019	2019-mid-2024
Interest rate change	-125	+200	-300	-75	-25	0	+450

■ Range – Median

Source: INREV to Q1 2025; Zurich Insurance Group historically speaking, real estate fund returns should perform positively. To be fair, that doesn't mean the performance trajectory will be uniformly positive. Indeed, returns were weaker for European funds in Q2 2025 versus the previous quarter as capital values turned marginally negative again.

Real estate performance is stronger in an interest rate easing environment.

In the U.S., performance on the NCREIF property index after major value corrections also conveys a powerful story [Fig. 12]. The period immediately after capital values reached their trough represented a cyclically strong go-forward five-year return window. If you believe that capital values of appraisal-based funds have found their floor, then the experience after the savings and loan, dotcom, and global financial crises would suggest that 2025-26 could be a very attractive time to deploy capital.

We continue to see that time as now. Admittedly, in the current environment it may take a degree of courage to act. But for those investors with a medium to longer term investment horizon, today's entry point looks compelling when compared to previous cycles.

Astute investors with an eye on historical performance understand that the best cyclical returns can come from vintages after crises.

Figure 12: Reproduce this chart from the H1 2025 Outlook

		Savings & Loan Crisis		Dotcom Crisis		Global Financial Crisis	
	2024 Q1	1993 Q2	11.0%	2001 Q3	12.3%	2008 Q3	5.2%
	2024 Q3	1994 Q4	11.4%	2002 Q1	13.4%	2009 Q1	9.0%
	2025 Q1	1995 Q2	11.7%	2002 Q3	14.4%	2009 Q3	11.5%
Capital value trough	2025 Q3	1995 Q4	12.3%	2003 Q1	14.6%	2010 Q1	12.0%
	2026 Q1	1996 Q2	12.2%	2003 Q3	13.6%	2010 Q3	11.5%
	2026Q3	1996 Q4	11.7%	2004 Q1	8.8%	2011 Q1	11.1%
	2027 Q1	1997 Q2	11.0%	2004 Q3	5.2%	2011 Q3	10.5%

Source: NCREIF; Zurich Insurance Group

Social Studies: checking in on ESG trends

We continue to witness an evolution regarding the approach toward ESG investing within institutional real estate circles. While the effects of climate change are all around us, and acutely felt by insurers, there is a growing sensitivity around how the principles are discussed. In some jurisdictions ESG has become politicized and even deprioritized from investment decision making. Certain stakeholders may even express ESG fatigue, especially when it comes to reporting burdens. You may have even noticed certain service providers rebranding their business proposition: net zero solutions are out, while intelligent cap ex budgeting is in.

For some real estate investors, capital market realities have taken a toll. Elevated interest rates have diverted attention away from climate-focused initiatives. Decarbonizing portfolios and making asset-level resiliency investments can be expensive. Declining asset values driven by capital market pressures are complicating capex planning, particularly when the immediate performance gains are unclear. This challenge is compounded by a subdued growth outlook and the lingering impact of construction cost inflation.

Of course, this is not reflective of the entire real estate investment landscape. Corporates with a strategic focus on achieving net zero carbon targets are progressing investment strategies accordingly, though maybe using different language to communicate progress. In 2024, Zurich Insurance published its **Climate Transition Plan**. This is based on four pillars: enabling an economy-wide transition to net-zero, making society more resilient, advocating for supportive policies and evolving how we operate.

We anticipate that real estate investors will continue to pursue ESG policies and strategies—albeit with less fanfare—recognizing that, at a minimum, such practices support sound business fundamentals and can enhance investment outcomes. Importantly,

> *we also expect that approaches to asset adaptation and decarbonization will drive a greater divergence in performance across real estate assets.*

Intro to Philosophy: Questioning assumptions and seeking returns

Return to office

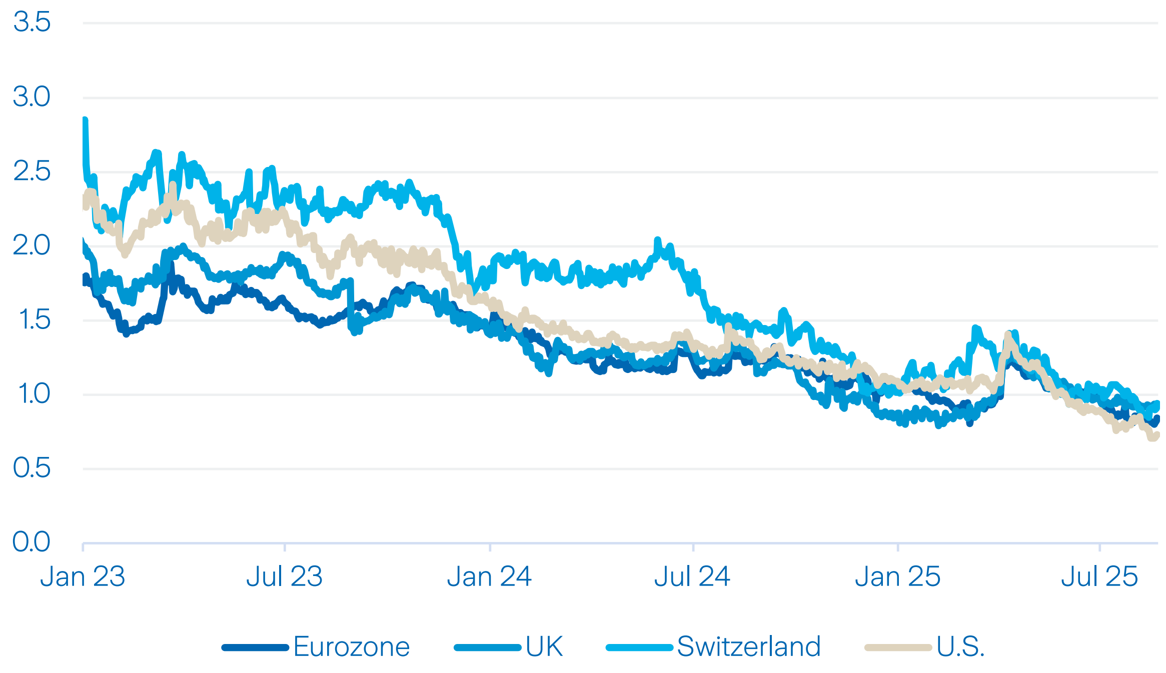
When comparing investment recommendations of leading sell-side real estate managers, the office sector rarely features prominently. In part, this is why we hold an increasingly favorable stance toward the sector. But improving fundamentals are also at play.

Limited competition for core and core+ office assets creates an attractive gap in the market which we see being more pronounced than in previous property cycles.

There are enough proof points that employers are comfortable requiring their employees to spend a greater amount of the work week in the office. Importantly, the emotional friction around such mandates appears to be dissipating. Before the pandemic, we rarely questioned office working arrangements. As we move further away from pandemic-induced mobility restrictions, that level of normalcy is re-emerging.

While the office recovery has had a few false starts in recent years, stable valuations reflect the makings of a nascent recovery. This is further supported by the relative financial health of office occupiers. Easing BBB corporate bond spreads can be read positively for the relative strength of corporate tenants [Fig. 13]. Simply stated, companies able to borrow on favorable terms should also be better prepared to meet rental obligations.

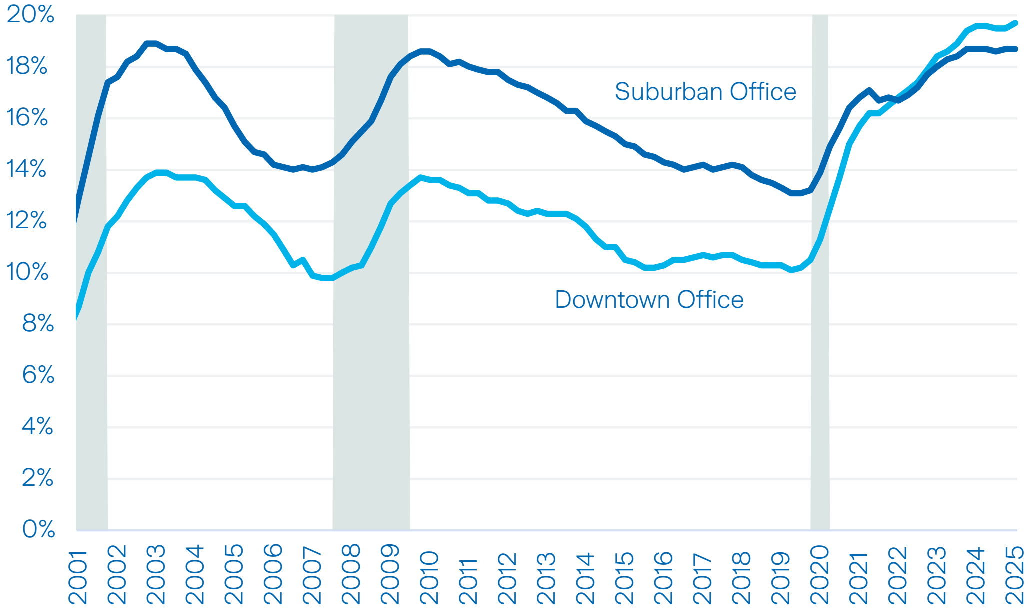
Figure 13: BBB Corporate Bond Spreads, % pts above government bonds



Source: Refinitiv Workspace, latest = August 21, 2025

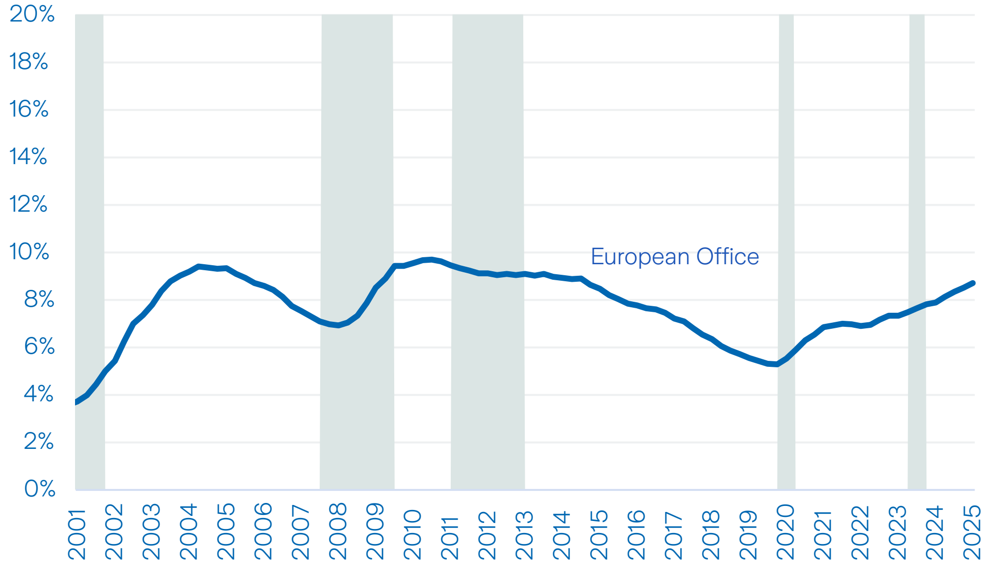
Another piece to the office story is an appreciation for the diversity of global office markets [Figs. 14, 15 and 16]. Because there isn't one global office market, the sector shouldn't be painted with one broad brush.

Figure 14: U.S. office vacancy rates, %



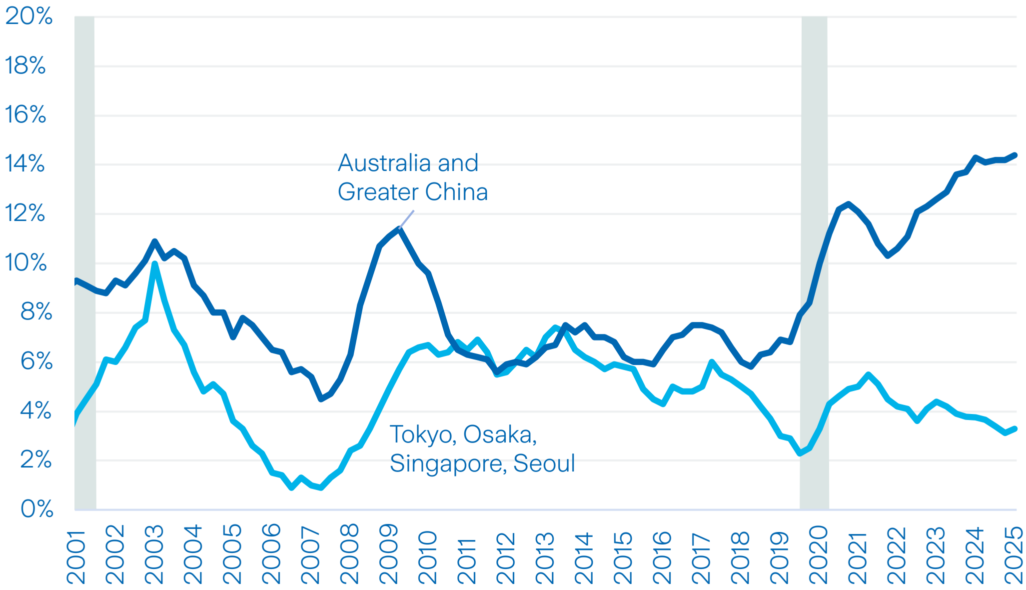
Source: CBRE EA, latest = Q2 2025

Figure 15: European office vacancy rate, %



Source: JLL, latest = Q2 2025

Figure 16: AsiaPac office vacancy rates, %



Source: JLL Reis, latest = Q2 2025

In the U.S., the national vacancy rate has essentially been flat for the past 18 months as positive net absorption has gained momentum. With new completions having fallen sharply, we continue to believe that 2025 will be the high-water mark for vacancies. This suggests a much-anticipated improvement in the tenor of leasing discussions.

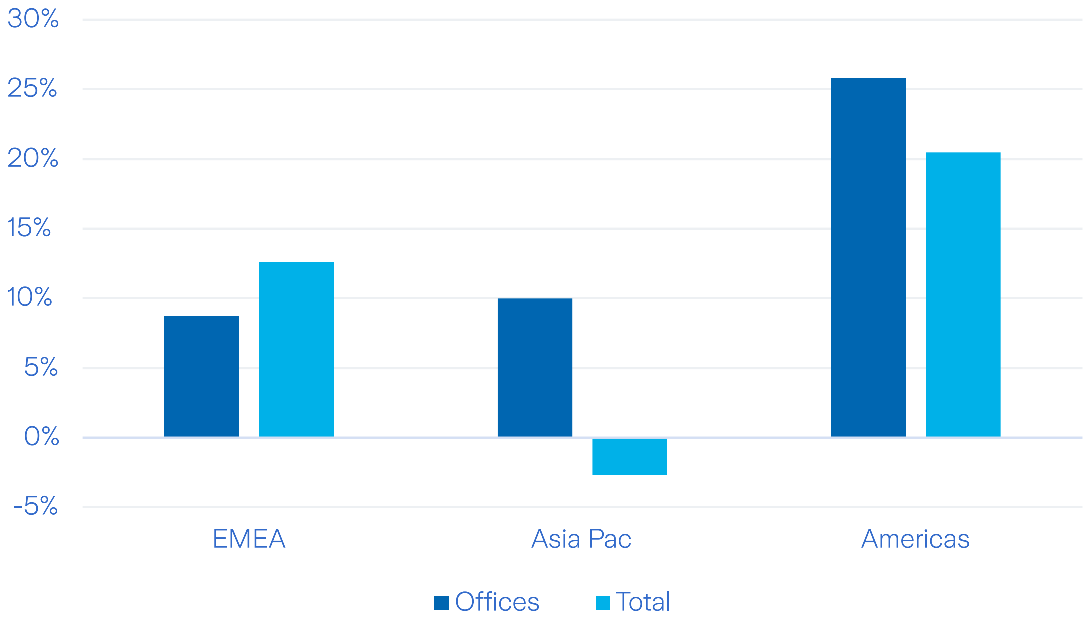
In Europe, while vacancies are still gradually edging upward, they remain below those seen during both the Global Financial and Eurozone Sovereign Debt Crises. Arguably the more important metric is rental growth. Across the region on average, it has been exceeding inflation for the past two years. This is a function of Grade A vacancy rates being materially lower than average office stock.

The flight to quality pushes on.

Given the heterogeneity of the Asia Pacific, the office landscape in the region is similarly varied. Office markets in Japan, Singapore and Seoul are undergoing a typical property cycle, with new deliveries dictating vacancy and rental trends. The office market in Greater China is struggling due to a weaker economy while Australia is still under the weight of structural challenges felt by other Anglo-Saxon markets in recent years.

After what has been a very challenging five-year period, offices are finally becoming a less emotionally charged sector and investor attitudes are improving. In the year to June 2025, office investment activity has improved globally [Fig. 17]. The recovery is aided by the fact that average transaction prices seem to have bottomed out in several gateway cities in the second half of 2024 and first half of 2025. This, combined with improved metrics from the occupier market, has drawn some traditional early movers back in. It will take time for offices to reclaim their previous standing in portfolios, given the lingering influence of legacy investments. While our increasingly constructive stance on the sector may seem contrarian today, we believe more investors will come to share our view.

Figure 17: Change in investment activity in the year to June 2025, %

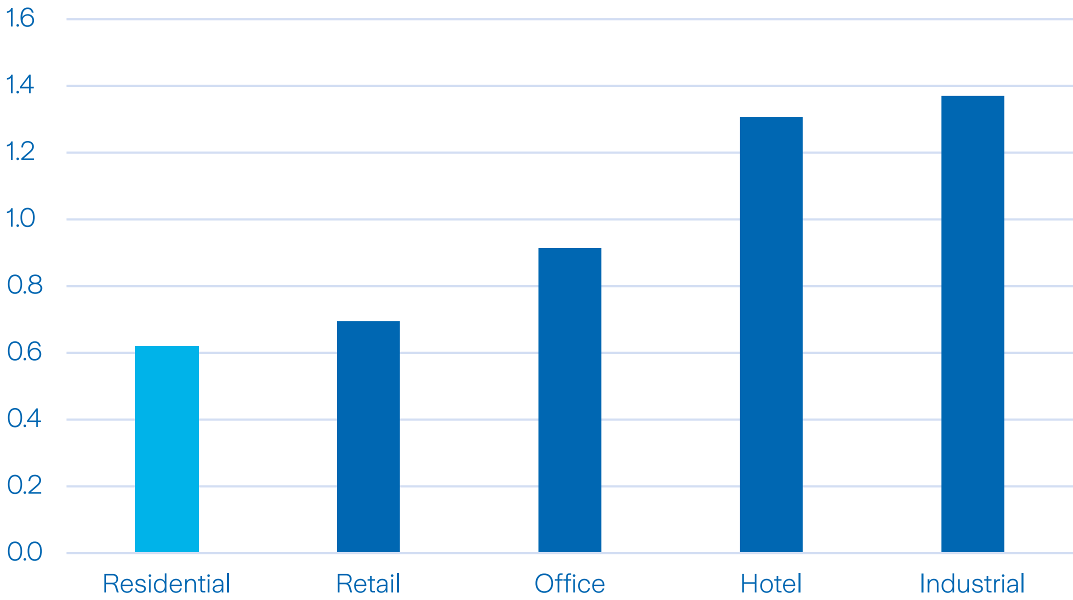


Source: MSCI, latest = Q2 2025

Living Large

From Austin to Zurich and Zug to Amsterdam, residential has long played an important role in delivering performance for our balance sheet investments. Within the wider portfolio, the sector has been the most defensive to yield impact over the past three years. This is because occupational fundamentals have remained incredibly resilient. In the markets where we operate, vacancy rates range from the frictional one percent in top European metros to around five percent in U.S. markets. At these levels, this offers a highly attractive income return, with stability consistent with long-term trends [Fig. 18]. Also given the availability of financing, private capital has enabled favorable exit outcomes that ultimately support standing asset valuations.

Figure 18: Volitility (standard deviation) of income return for the MSCI Global Quarterly Property Index, 2008-24



Source: MSCI Global Quarterly Property Index, latest ´ Q1 2025

While we remain convicted to the living sector, there are a few important elements to keep an eye on. Chief among these are changes to the regulatory environment. The prevailing direction in recent years has been greater regulation. In some cases, this has limited the ability to unlock previously pencilled rental reversion. In others it has eroded investor confidence to deter the construction of much needed housing supply. Changes to the transfer tax regime can also be punitive, as has been the case in Barcelona. Against this backdrop, we are actively seeking to diversify our regulatory risk exposure. This means considering new markets as well as residential tenures, including purpose built student accommodation (PBSA) or serviced apartments.

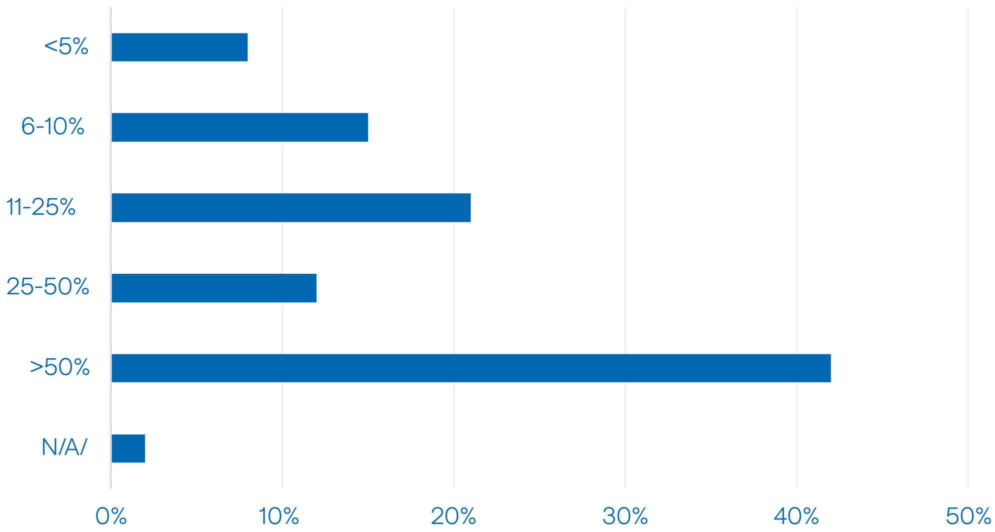
Because housing affordability is such a hot button issue in many cities around the world, it has been ripe for government interference.

As it relates to PBSA, it has been an investors' darling in recent years. In Europe and Australia numerous mega portfolios have transacted. We continue to like the sector from a diversification perspective and see early mover advantages in undersupplied or non-institutionalized markets. Switzerland, Italy, Canada, and even India are all worth exploring. But there are two points to be mindful of. Given higher operational intensity than traditional for-rent residential, the sector is susceptible to cost pressures. Also, the success of PBSA is reliant on external forces. University financing troubles, which is increasingly an issue in some countries, or planned immigration reform could present challenges.

Data Center Dilemma

AI's poster child, Chat GPT was released only three years ago and today it is proving an indispensable tool for workflow automation, data analysis and content creation. The advent of AI, with its massive computing requirements, has translated into data centers featuring prominently in real estate investor intention surveys. According to CBRE's 2025 Global Data Center Investor Survey (admittedly a partial audience), respondents are looking to increase their exposure to the sector substantially over the coming five years [Fig. 19]. In an environment where real estate allocations are under pressure, data center investments could come at the expense of traditional real estate. AI cannot be ignored and neither can investor intents.

Figure 19: What is your organisation's five-year target ratio of data centers as a percentage of real estate assets under management?



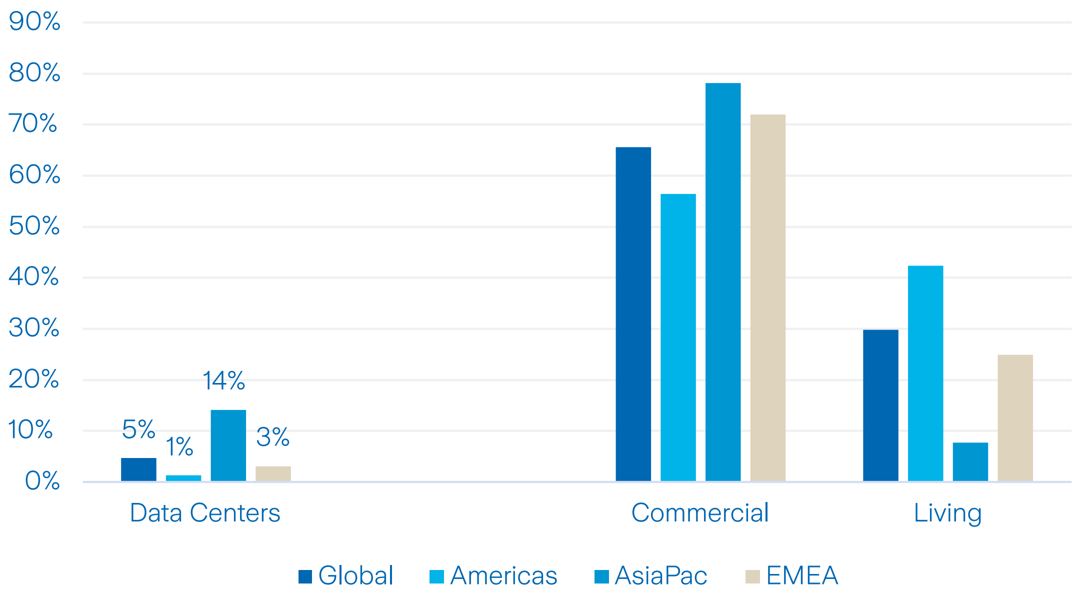
Source: CBRE 2025 Global Data Center Investor Intentions Survey

The money being allocated to data center development is mind boggling. According to Morgan Stanley, the top hyperscalers (AWS, Microsoft, Google, and Meta) are expected to spend a combined $325 billion in 2025 on data centers.[1] Previously such firms self-funded the development of their data centers. But given that the new generation of computing needs are so great, and the cost of building so high, more private capital is entering the space.

One might think that given all the hype around AI and the amount that is being spent to increase data center capacity, the sector would account for the lion's share of real estate investment activity. Far from it. As a proportion of transactional activity, little income producing stock is trading hands [Fig. 20]. For investors, such as insurance companies or pension funds, who prize liquidity, this is concerning.

It seems more attention has been spent on getting money into data center development than considering what an exit outcome might look like.

Figure 20: Transactions by income producing property type, year to June 2025, % of total



Source: MSCI, latest = Q2 2025

In previous Outlooks we emphasized the increasing role that data centers may play in institutional portfolios as investors pivot to new economy real estate. But we also acknowledged the challenges that carbon intense data centers can present to those focused on decarbonizing their portfolios. More recently attention has focused on the speed of technological advancement to better understand the risk of obsolescence. Also, there is the reality that the profits from AI investment, while hyped as gargantuan, are unproven. A recent report from MIT concludes that despite $30-40 billion in enterprise spending on generative AI, 95% of organizations see no business return.[2] If AI spending were to slow materially and real estate investor sentiment cooled in sympathy, a tremendous amount of today's invested capital could be lost.

Remember, after the dotcom boom came a ferocious bust.

It's fair to say that we have held a skeptical view of the data center sector for long term direct real estate investment. A lack of historical performance data as well as current limited market liquidity justify caution. But don't accuse our real estate team of being a bunch of Luddites either. As a multi-asset class investor, we can use a full suite of investment options to access the data center theme. And we are doing just that. The sector allocation may fit better with infrastructure, private credit or private equity portfolios, where investment horizons and return requirements differ from real estate.

1 2025 – A Pivotal Year
2 The GenAI Divide, State of AI In Business 2025, MIT NANDA, July 2025

Class Dismissed

Thanks for not skipping class. If you've made it this far, you deserve some extra credit. We hope you enjoyed our latest perspectives on global real estate markets. Despite persistent geopolitical uncertainty and episodic financial market volatility, the fundamental drivers of real estate performance remain broadly supportive. Valuation corrections have largely run their course, supply pipelines are constrained, and less restrictive monetary policy is reinforcing resilience across many markets. While regional divergences in recovery speed and capital flows are likely, history suggests that periods following significant repricing often present compelling opportunities for patient, long-term investors. That time is now.

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