ZURICH

Zurich Real Estate Investments
Group Investment Management
January 2026

Zurich Real Estate Outlook H1 2026

Are We There Yet?

The Long Road to Market Recovery

After years of navigating global uncertainty, structural shifts, asset repricing, and of course having "survived to '25", real estate investors are right to ask the question: ***Are we there yet?*** The journey through recent market turbulence has certainly tested investor resolve, but as we enter 2026, the road ahead is finally revealing signs of promise. With economic fundamentals stabilizing and investment sentiment improving, **Zurich Real Estate Investment's Outlook** explores why the asset class is poised for recovery—and how 2026 could be the most compelling in years.

It All Starts with the Macro

The global economy enters 2026 on firmer footing than we had anticipated just a couple of quarters ago. Globalization is far from dead; most economies are adapting to tariff headwinds; corporate profitability is healthy; and consumers in key markets are proving resilient. Indeed, our assessment of macro conditions strikes a constructive tone and the impact on property markets is manifest. Economic growth is expected to hold up reasonably well in the coming year, underpinned by contained inflation, expansionary fiscal policy, and robust investment—especially in technology and infrastructure. Importantly, further rate cuts are expected, albeit the pace of global monetary loosening will begin to slow.

> *The global macro environment creates a clearer path for real estate markets in the coming year, driving both stronger investment liquidity and the potential for enhanced performance.*

Of course we wouldn't want to be considered Pollyannaish. If anything, the past year has taught us that heightened volitility will likely be the norm rather than exception. Fiscal spending continues to strain government finances in the UK, France and Japan at a time when bond markets are highly sensitive to debt sustainability. Sticky U.S. inflation, the increasing politicization of the Fed, and AI-related uncertainty are other risks that challenge our stance. These factors could easily distract real estate investors from the road ahead.

As we enter 2026, we remain positive but realistic about market conditions. While the macro backdrop should support real estate markets, investors will need to navigate an environment where volatility could periodically unsettle sentiment and activity. Zurich Insurance Group's **Economic and Market Outlook 2026**, characterizes the year ahead as "sunny with blustery showers." Real estate investors will be wise to prepare accordingly!

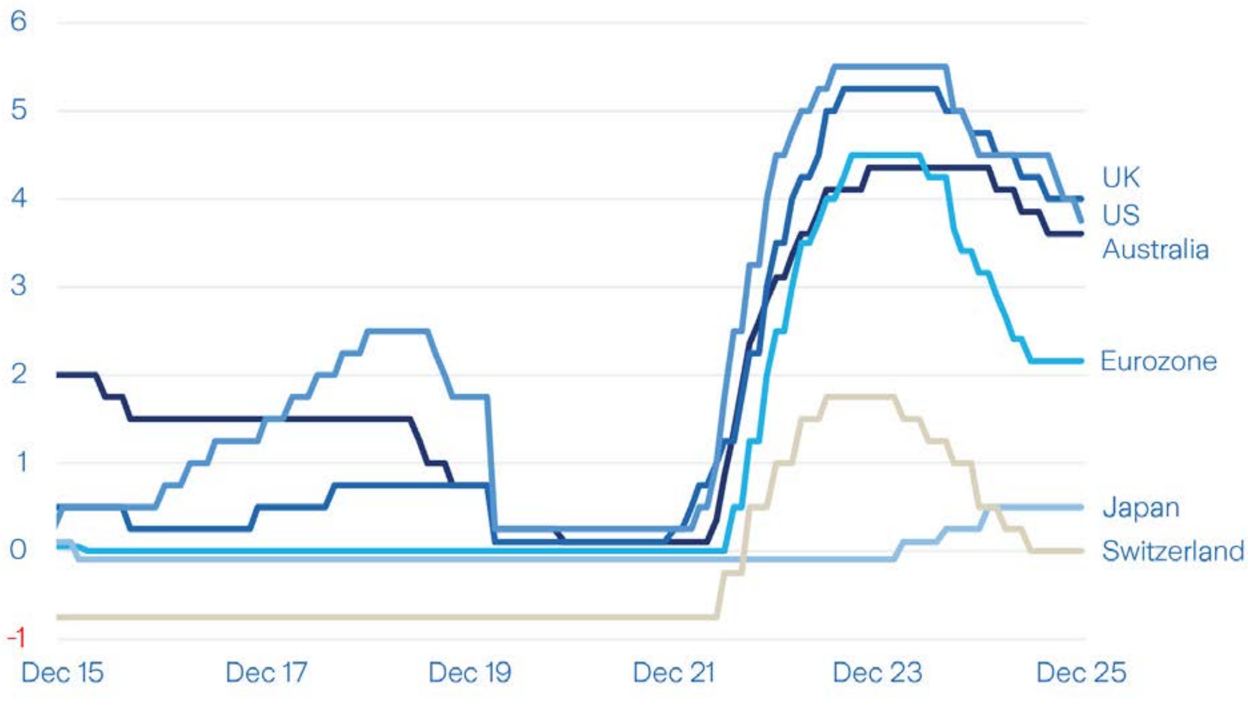
Capital Markets: Signs of Stabilization but Diverging Opportunities

Given our assessment of macroeconomic conditions, it shouldn't come as a great surprise that commercial real estate markets enter 2026 with clearer signs of stabilization. The improvement is grounded by lower financing costs, firmer asset pricing and a gradual resumption of deal activity. While the speed and nature of the recovery differ, the overall trend is positive. As a result, we expect the coming year to be the best since 2022 for deal volumes, capital raising and global all-property returns.

As it relates to monetary policy, differing interest rate paths are leading to distinct investment opportunities (Figure 1). The U.S. offers higher rates but also strong growth potential, particularly as fiscal stimulus gains traction and tariff headwinds calm. This suggests that NOI growth is likely to have an outsized role in driving returns in the year to come. In the Eurozone, interest rates are low enough to support day-one accretive financing (Figure 2). This should help reinvigorate core investment strategies and indeed fund-raising activity, after a period of dormancy. In recent years, Japan has held strong appeal for global investors due to ultra-low interest rates and a stable policy environment. However, a narrowing interest rate differential with other markets is beginning to dampen the market's appeal, despite still benefiting from strong domestic demand. And finally, Switzerland has returned to zero inflation, interest rates and bond yields. The result has been an influx of domestic capital into domestic strategies in search of relative yield. The notoriously low-levered institutional property market should continue to deliver predictable capital value growth, though foreign investors might struggle with currency-adjusted returns.

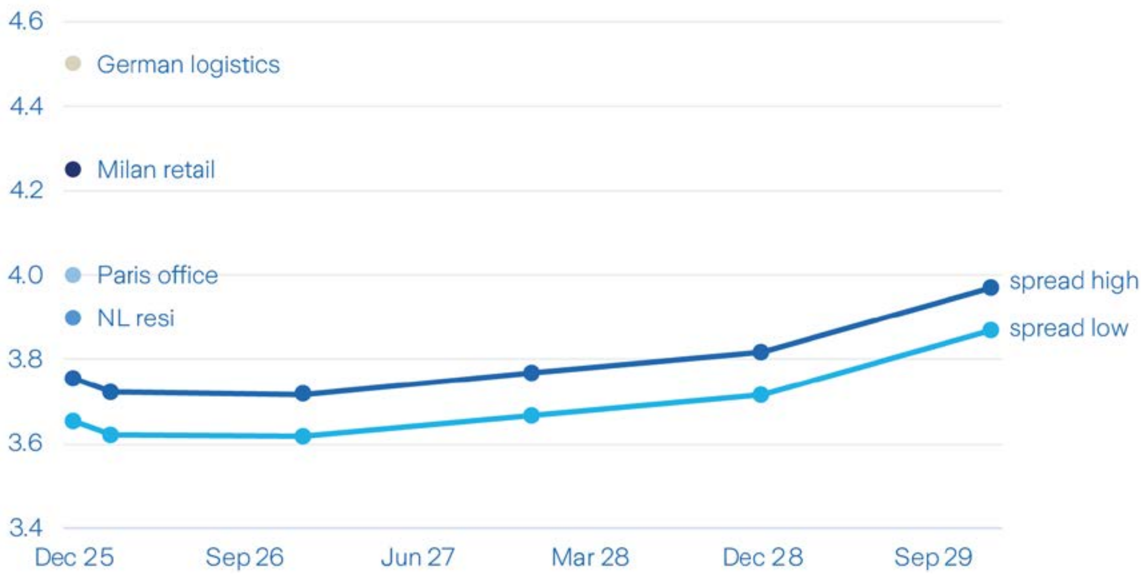
Current interest rate conditions and associated investment opportunities further underscore the advantages of a diversified real estate portfolio.

Figure 1: Policy rates, %



Source: Refinitiv Workspace

Figure 2: Prime European real estate financing costs as interpolated from the forward yield curve as of December 2025



Source: Refinitiv Workspace, JLL, Zurich Insurance Group

Nearly four years after global real estate markets reached a historic crescendo, current pricing is now bouncing around a cyclical bottom. According to Green Street's Commercial Property Price Index (CPPI), prices are now -22% versus their peak in Europe and -16% in the U.S., with both having improved during 2025 (Figure 3). Appraisal-based valuations historically lag market transactions. So, barring any unforeseen changes to the rates environment, we don't expect further significant value declines to commercial real estate values.

Greater certainty of where asset values sit is a critical component of attracting more investor participants back to the market. Also, the market-level distress that has occurred in recent years has not posed substantial challenges for most buyers and sellers, like it did in the aftermath of the Global Financial Crisis (GFC). This paves the way for an eventual recovery in investment activity. Indeed, as we move into 2026, we expect a greater acceptance of current real estate capital market realities. More motivated sellers will bring assets to market and more opportunistic buyers should emerge. To be fair, we suggested a similar prognosis last year. But as this Outlook will argue, with the foundations now firmer and market participants more attuned to the new environment (Figure 4), the stage is finally set for a meaningful rebound in market liquidity.

Figure 3: Green Street's Commercial Property Price Index (CPPI)

Source: Green Street, latest = November 2025

Figure 4: INREV Consensus Indicator, diffusion index

Source: INREV, latest = Q4 2025

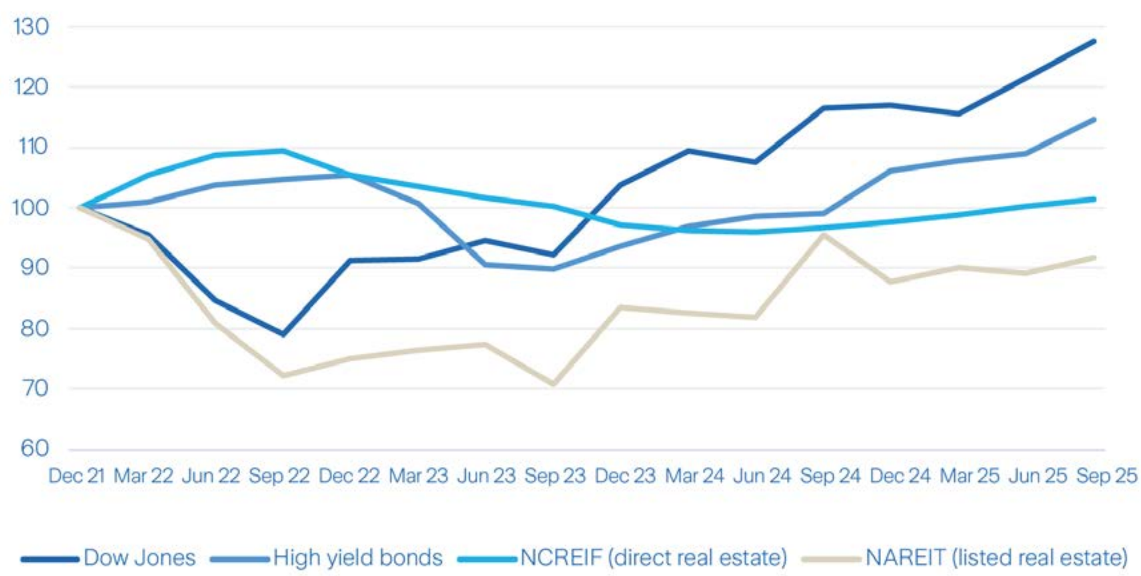
In the Rearview Mirror

While the intention of our annual outlook is to provide guidance as to how we see real estate markets evolving over the coming year, it is important to acknowledge how the asset class has recently fared. And candidly, performance has been lackluster. For a notoriously optimistic industry, this may come as a tough reality. On a trailing multi-year basis, real estate portfolios have underperformed other asset classes (Figures 5 and 6). Not only that, according to the Cornell University / Hodes Weill & Associates 2025 Institutional Real Estate Allocations Monitor, real estate has failed to meet institutional investors' target returns (Figure 7).

Figure 5: Global private capital closed-end fund returns, USD

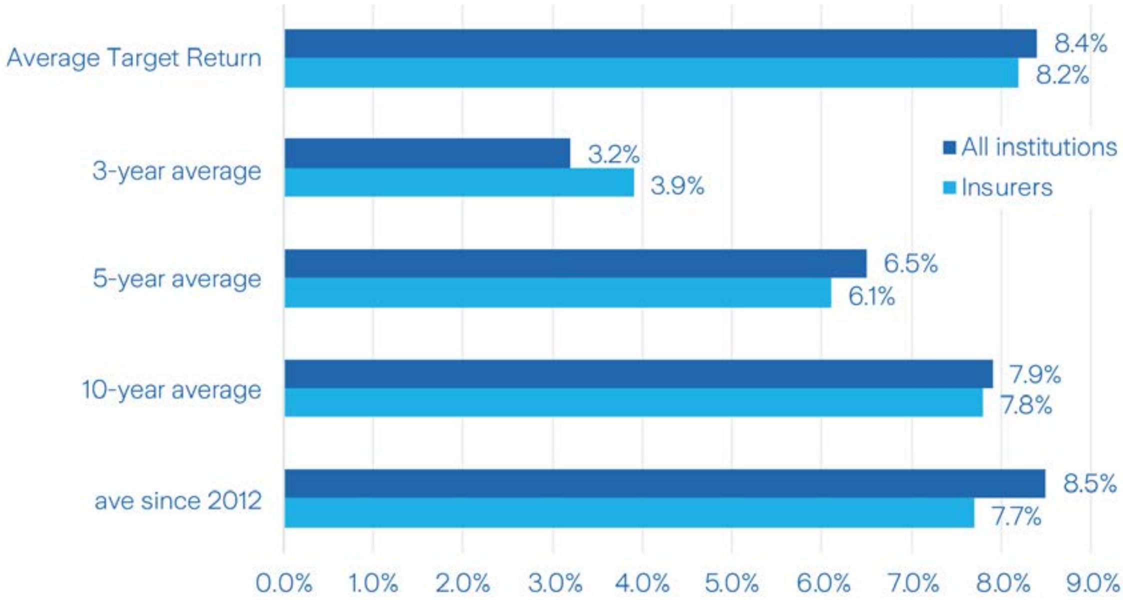
Source: MSCI, latest = Q2 2025

Figure 6: Comparative indexed total returns of select U.S. asset classes, 2021 Q4 = 100



Source: Refinitiv Workspace

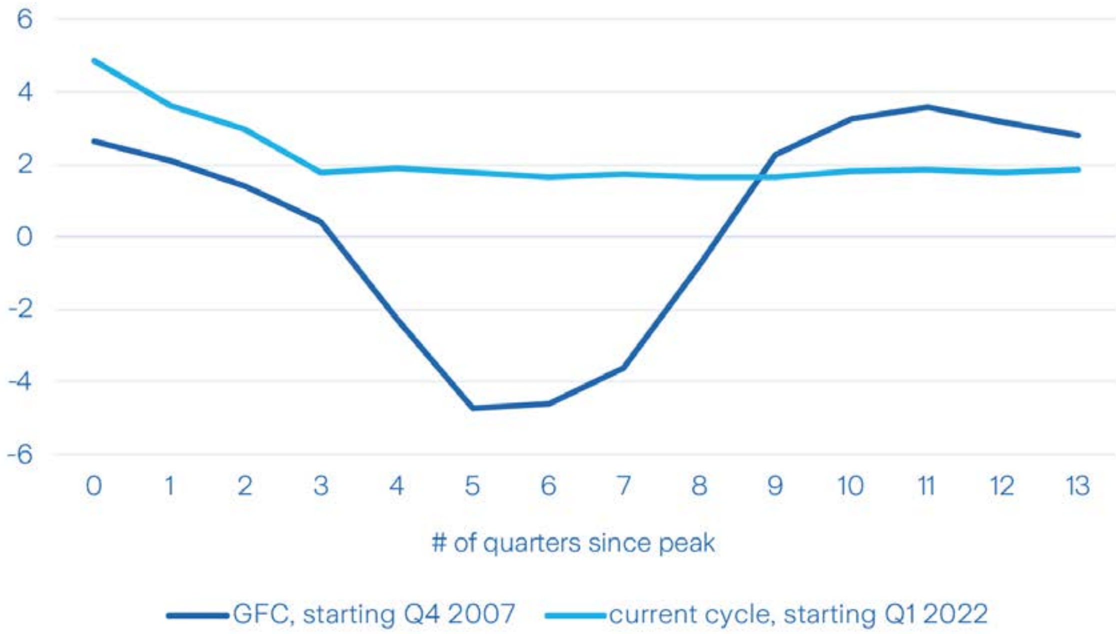
Figure 7: Average target return vs. reported average actual returns, %



Source: Corrnell University/Hodes Weil & Associates 2025 Institutional Real Estate Allocations Monitor Report

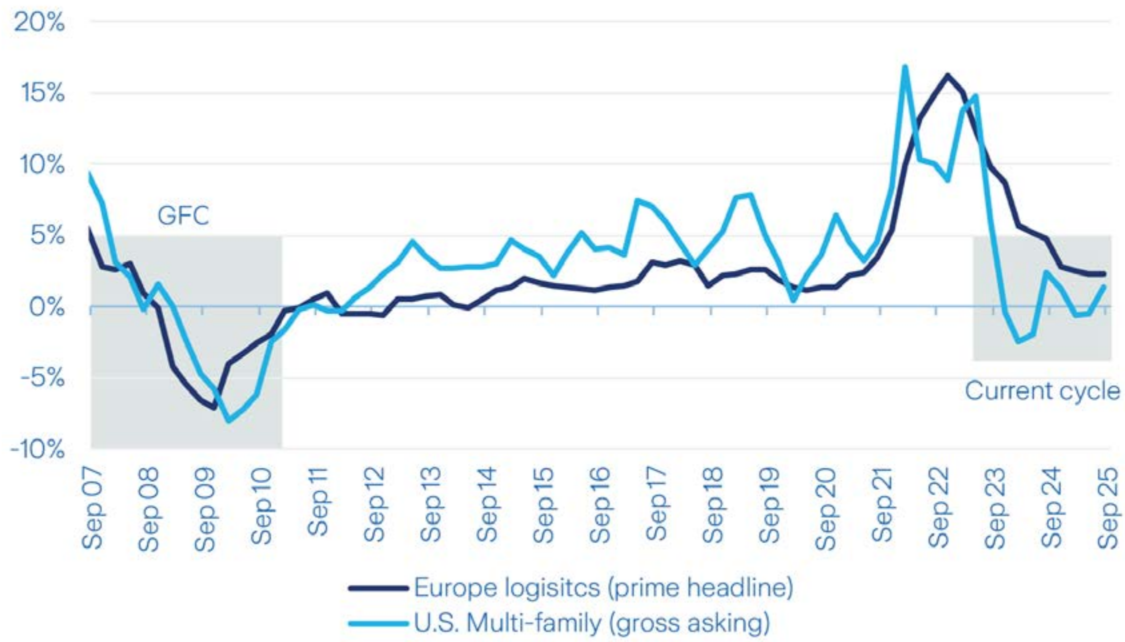
The underperformance is principally a function of yield-driven value corrections in 2022 and 2023 following a period when real estate prices reached historic highs. This differs significantly from the last major synchronized real estate downturn of the GFC. Firstly, as the name implies, there was a deep global recession, with GDP troughing at nearly -5% on an annualized basis (Figure 8). Not only that but it took nearly two years for an economic recovery to be sustained. This had a profound impact on real estate occupier markets and ultimately returns. In contrast, the current reflationary period has seen global growth remain largely flat at 2% since early 2022, even in the face of well-documented challenges. Notably, occupier markets—particularly for preferred sectors like European logistics and U.S. multi-family—have experienced much healthier rental dynamics (Figure 9).

Figure 8: OECD real GDP growth: GFC vs the recent cycle, %



Source: Refinitive Workspace

Figure 9: Change in market rent, % YoY



Source: Jll (Europe), CBRE EA (U.S.)

But as we are routinely reminded in the fine print of investment memoranda, past performance is not indicative of future results. So, let's look at the conditions underpinning future performance.

Put the Cork Back in the Bottle?

In our two recent **Real Estate Outlooks**, we argued based on evidence from the U.S. and Europe that the period immediately after large valuation drawdowns represents an attractive vintage for future five-year returns. Key to this argument is the role that interest rates have historically played.

After capital values rebase, more favorable financing conditions create a potent formula for improved future performance.

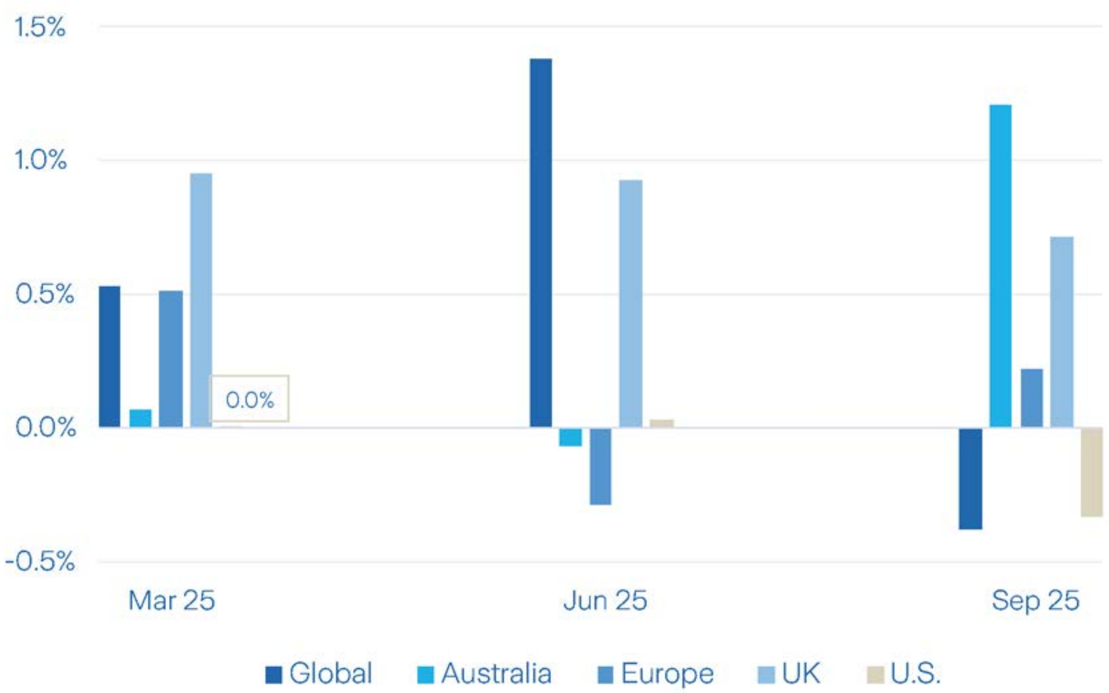
Based on evidence from our global portfolio we have a high degree of confidence that real estate repricing is largely complete. With interest rates having eased from recent cyclical highs in nearly all major markets, returns have already begun to improve. Looking ahead, 2026 should offer healthier performance prospects as the delayed impact of recent rate cuts percolates through to property.

But as we've seen, that doesn't mean the performance trajectory will be globally synchronized. Capital values have oscillated from marginally positive to marginally negative for core funds during 2025 (Figure 10). Geopolitics was the chief culprit, having influenced investor attitudes to varying degrees. This weighed on transactional activity and ultimately performance. Importantly though, the trend in valuations has been improving, and aligns with our thinking from a year ago.

Unlike some of the finest vintage wines with a singular time stamp, the recovery in global real estate markets is transpiring over multiple years. For those oenophiles, it's something akin to a prestige cuvée. In other words, the vintage argument still holds, it's just a more protracted affair. The good news for patient, long-term capital is it is still opportune to return to the market and secure a favorable capital value basis.

It's also a good reminder that successful core real estate strategies are those that invest through cycles, thereby mixing vintages and reducing portfolio volitility.

Figure 10: Quarterly capital value movements of open-ended core funds during 2025, %



Source: MSCI, ANREV, INREV, NCREIF, latest = Q3 2025

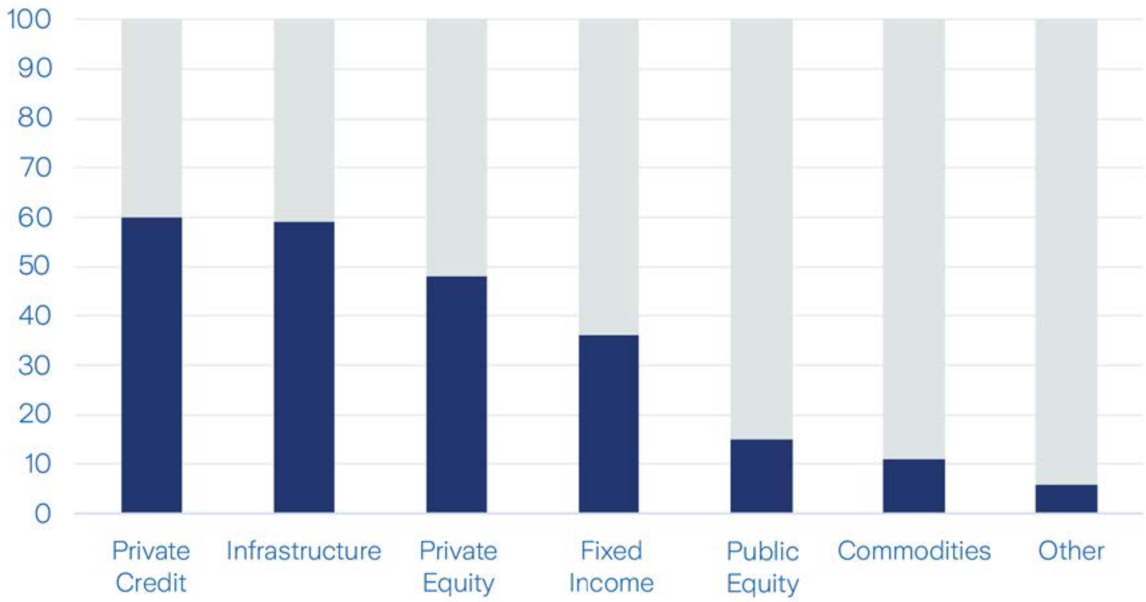
A Question of Allocation

If you want to know how real estate capital markets might evolve over the coming year, ask an allocation committee.

According to the previously mentioned Cornell University / Hodes Weill & Associates report, global institutions decreased their target allocations by 10 bps in 2025.[1] While this may not sound like a lot, it was the first time in the survey's 13-year history that this was the case. The recent softening of institutional attitudes towards real estate has been another headwind for the asset class. Unsurprisingly, survey respondents cited concerns regarding geopolitical risks and overall market uncertainty as key reasons for scaling back real estate investments. Amid such turbulence, it can be difficult to confidently underwrite a business plan for an illiquid asset class. Also, there is competition for allocations from other private market strategies including infrastructure and private credit (Figure 11).

From 2014 to early 2022, real estate took allocation from other asset classes. It is increasingly clear that for many investors, real estate is now giving some of that allocation back.

Figure 11: Percentage of institutions citing asset class as a competitor to real estate, %



Source: Corrnell University/Hodes Weil & Associates 2025 Institutional Real Estate Allocations Monitor Report

Public markets may also present a potential headwind. A sustained equity market correction, like what was experienced in 2022, could trigger another case of the 'denominator effect.' The potential trigger is well documented. Fears around a sharp correction to highly valued AI companies is fostering some unease. Concerns regarding the choice of the next Fed Chair haven't helped matters. While Zurich Insurance Group's Market Strategy and Macroeconomics team is broadly bullish on equities going into 2026, they acknowledge the likelihood of a more volatile period, punctuated with sizable wobbles. Such jitters could justify allocator unease and constrain real estate capital flows.

And then there is the issue of distributions. For many investors, future real estate allocations are reliant on legacy investment outcomes. For fund investors, especially in the enhanced return space, limited distributions have constrained new allocations, as managers have been slow to liquidate positions over the previous two years while waiting for improved liquidity prospects. According to private market advisor Stepstone, distributions from non-core real estate funds were 60% below long run trend during 2025 due to slow sales of highly leveraged assets.[2] The situation is not dissimilar for direct real estate investors, who face the proverbial "sell before you buy" scenario. A hypothetical investor wishing to buy Spanish residential may have to sell German office first. A stalemate lingers on. Furthermore, there is an expectation that recycled capital will partly come from realized gains on prior investments. Yet, if those investments were made during the run-up to the market peak in mid-2022, even successful exits likely fell short of initial performance expectations.

1 Real Estate Allocations Monitor | HodesWeill.com

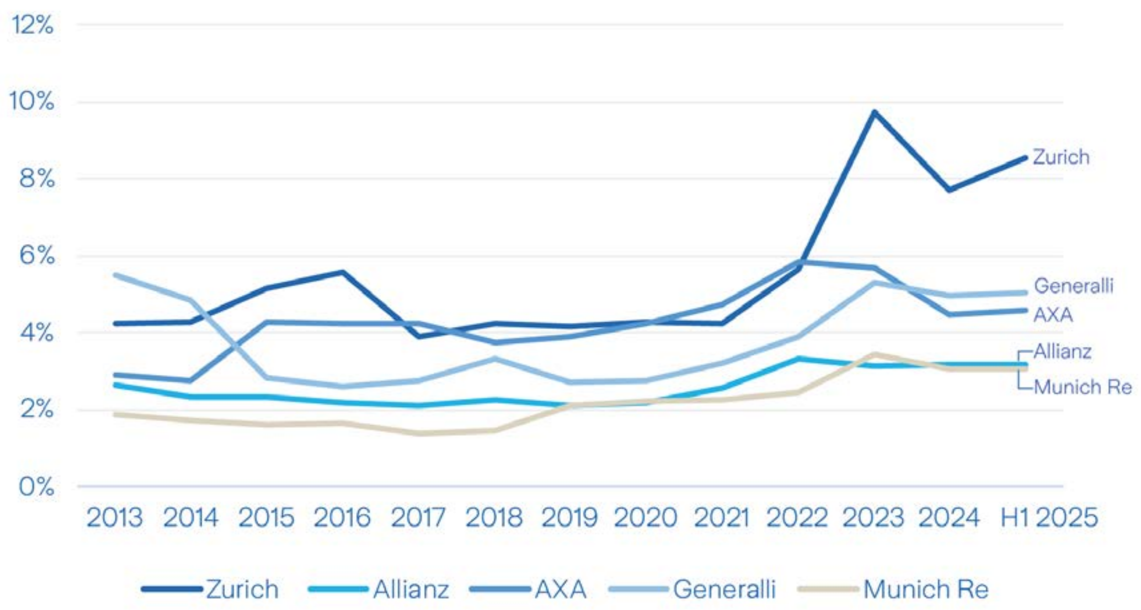
2 StepStone Real Estate Fall 2025 House Views – StepStone Group

So, as we enter 2026, at least from an allocator's perspective, challenges remain. Real estate investors may choose or indeed be forced to tread carefully as they consider committing capital. As a result, it is difficult to envision investment volumes increasing significantly from average levels of the past three years. However, it is precisely during periods like these when it is good to be reminded of the long-term attractiveness of the asset class.

> *We have no doubt that real estate will maintain its long-term role in diversified multi-asset class portfolios due to its ability to provide some inflation protection, deliver current income, while offering an attractive risk/return profile.*

While allocations to the asset class may be flat or even subside slightly from recent levels, real estate will surely continue to feature prominently in institutional portfolios. A look at the balance sheet positions of Europe's largest insurers (by policies written) supports such an assertion (Figure 12). Zurich Insurance Group is absolutely committed to investing in real estate on behalf of its balance sheet as well as third party investment partners. Surely, we are not alone.

Figure 12: Europe's five largest insurance companies (by premiums written) share of real estate of balance sheet investments, %



Source: Company reports

Building Less, Returning More

One of the key elements supporting many real estate markets globally is the supply situation. Construction pipelines, especially for traditional real estate sectors, have slowed considerably in sympathy with higher levels of macro uncertainty, elevated financing costs and structural disruption (Figures 13 and 14). Not only that but given valuation declines over the past three years and the overhang of construction inflation, there are now widespread gaps between current values and replacement costs. This differential has prevented marginal projects from getting out of the ground and is likely to complicate development economics over the coming years.

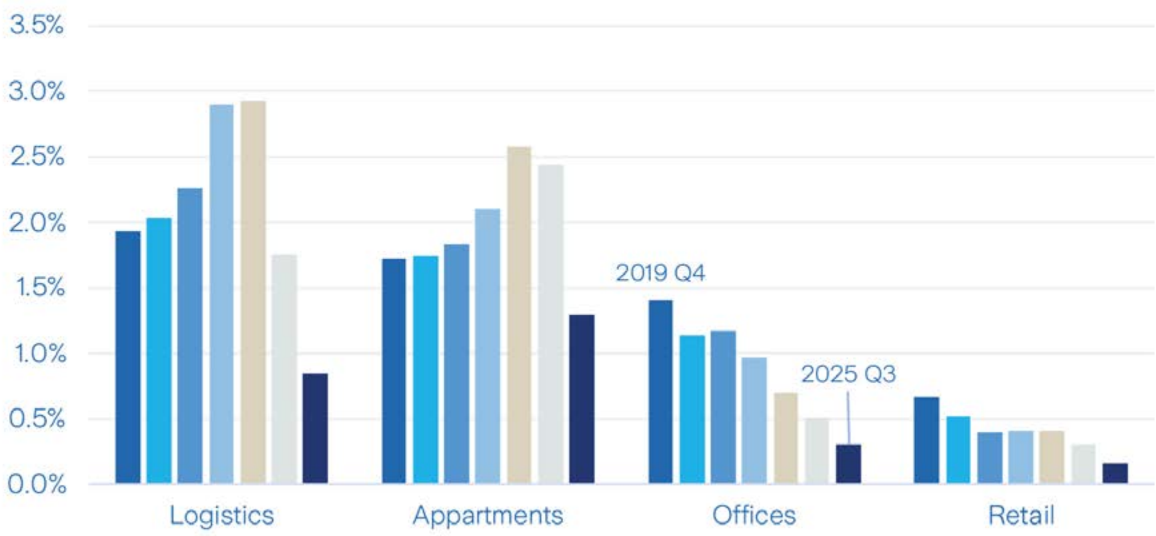
Those office occupiers who delayed leasing decisions during pandemic uncertainty, unsure of how future working trends would evolve, are now finding few options for their now more certain space needs. As a result, Grade A offices in many global gateway cities are commanding historic rents, despite elevated commodity office vacancy rates. In the retail sector, extremely limited construction and the repurposing of redundant stock are now equating to a dearth of suitable commercial space.

Both office and retail sectors faced existential threats over the past decade. However, much of the intensity surrounding such concerns has diminished, in large part to a reduction in available modern supply.

The situation is more nuanced for the multi-family sector. There is a broad shortage of housing of almost all types in many developed countries, with the quantum and quality of the inventory having failed to catch up with demographic shifts and migration. In markets like Madrid, Vienna and Zurich we see almost no leasing risk when developing market rate housing. The U.S. is an exception, with many markets having seen historic levels of apartment deliveries in 2024. While that has created pockets of oversupply and weighed on asking rents, near term pipelines have slowed materially, which suggests normalizing leasing dynamics in more markets.

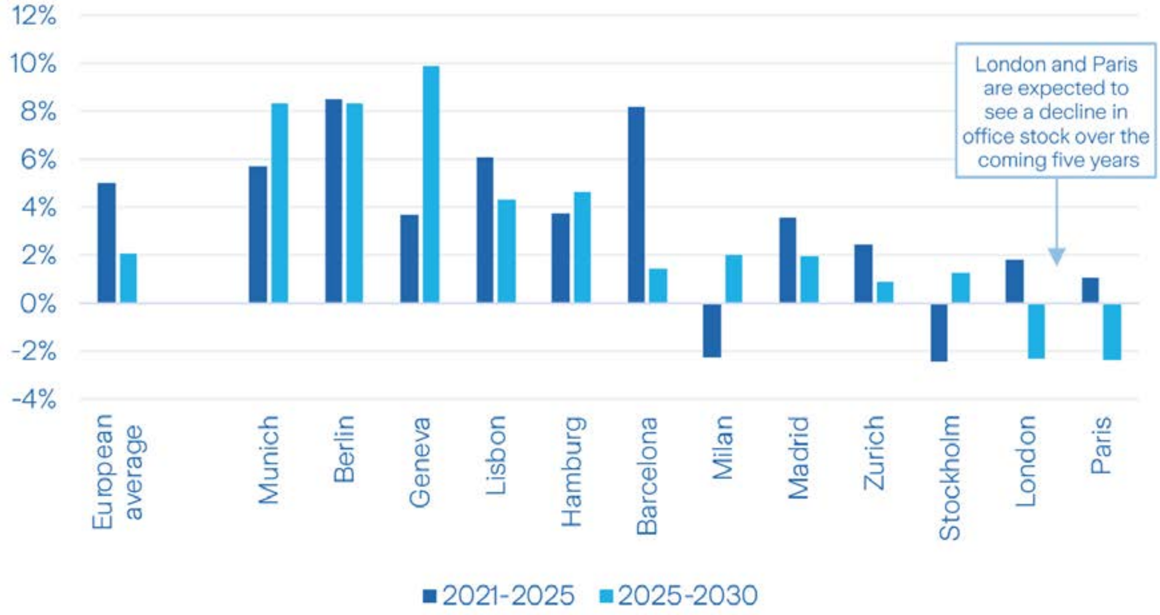
Taken together, less supply ultimately sets the stage for reasonably healthy levels of rental growth in the coming years, even with modest to below trend economic expansion. And this is important, because in a more stable interest rate environment, at least versus the previous real estate cycle, income will be the primary driver of returns. As it relates to our strategy, our preference is for growing in-place income or buying reversionary potential while avoiding big bets on lease-up assumptions or widespread market rent growth.

Figure 13: U.S. real estate supply by sector, 2019 Q4 – 2025 Q3 completions delivered over 4 quarters / inventory (net rentable area), %



Source: CBRE EA, latest = Q3 2025

Figure 14: Cummulative change in office stock by select European city, %



Source: JLL

Prompt: Describe The Role of Data Centers in an Institutional Core Real Estate Portfolio

Demand for cloud services and the advent of AI—with their mindboggling computing requirements—have propelled data centers to a prominent position in real estate investor surveys. The 2026 ULI/PwC Emerging Trends in Real Estate underscores what has become an enduring theme.[3] Data centers once again top investor shopping lists for the coming year. Within institutional portfolios, the sector has evolved from negligible to necessity. Intellectually this stated preference appears rational.

Digitization is an inescapable megatrend, and many real estate investors find themselves playing catchup.

In an environment where real estate allocations are under pressure, data center investments could come at the expense of more property types. The sector cannot be ignored.

However, as it relates to AI, it is far from clear how gains will be distributed. Vast capex requirements to construct data centers, challenging unit economics of AI investment and potential localized overcapacity suggests a wide range of outcomes. There is also the issue that the real estate component forms only a small proportion of the overall value of a data center; it can be less than 10 percent. Most value is in the internal infrastructure as well as power supply agreements. So, depending on the ownership structure, there is potentially significant value at risk associated with the operations.

For those allocating capital to data center strategies, the differences between winners and losers could be enormous.

This level of uncertainty alone should give long-term core real estate investors pause. But there are other issues that require attention.

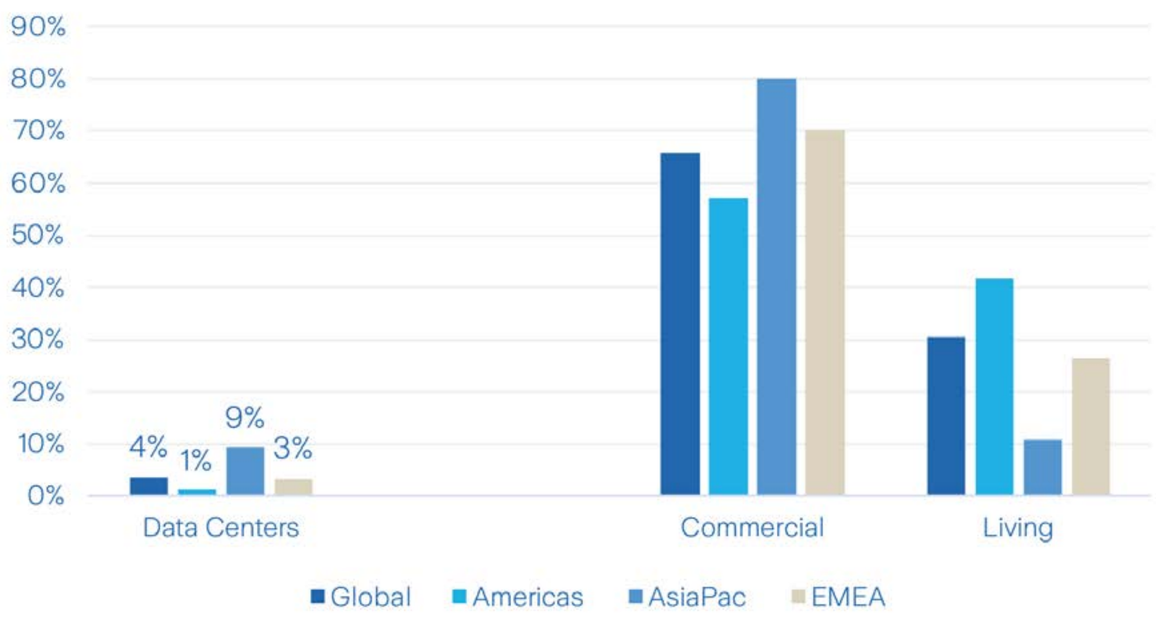
3 Emerging Trends in Real Estate® Europe 2026 | ULI Knowledge Finder

Sustainability is certainly a pressing issue. A recent MSCI report suggests that one 50-Megawatt hyperscale data center would have an annual carbon footprint equivalent to 100 energy-efficient office buildings[4]. This stark difference emphasizes the dual challenge faced by property investors looking to acquire data centers: how to capitalize on what seems to be an unstoppable growth trend while simultaneously meeting portfolio decarbonization objectives.

> *An investor having made great strides decarbonizing their real estate portfolio, could undue that work with one data center acquisition.*

Another current concern is the lack of historical performance data and limited market liquidity. As a proportion of transactional activity, little income producing stock is trading hands (Figure 15). For investors such as insurance companies, 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 16). To be fair, performance data and liquidity will eventually improve as more trades of income producing assets occur. But given data center entitlement and construction timelines, this process is likely to be protracted. In the interim, there is a risk of being an early mover in the sector, especially for long term core capital with immediate income requirements.

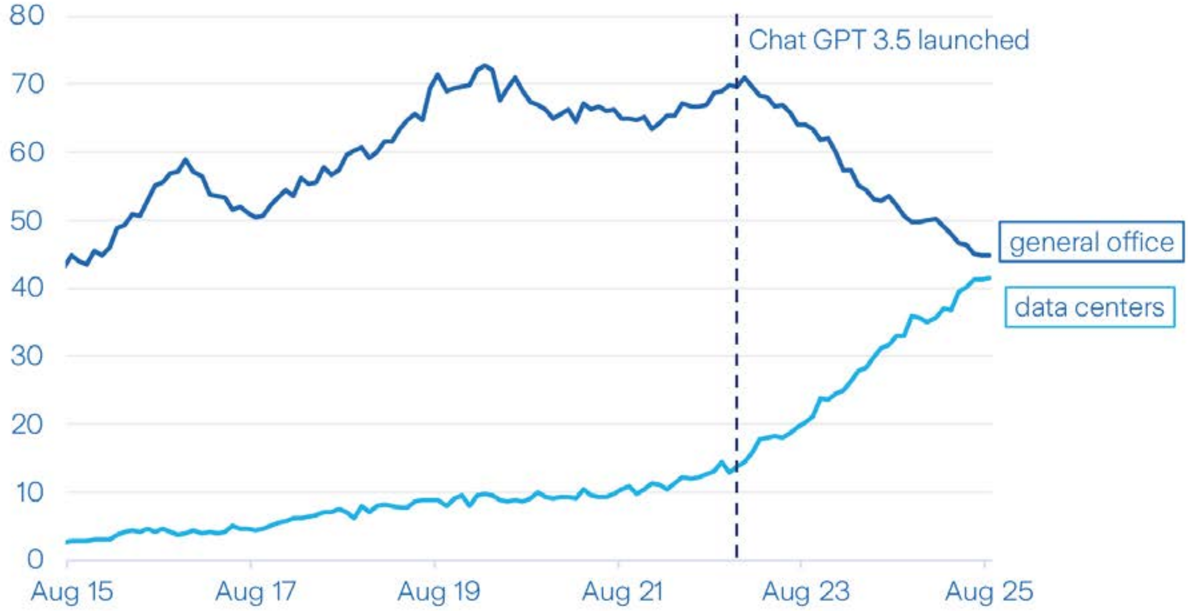
Figure 15: Transactions by income producing property type, year to September 2025, % of total



Source: MSCI, latest = Q2 2025

4 https://www.msci.com/research-and-insights/blog-post/desire-for-data-centers-creates-carbon-dilemma-for-property-investors

Figure 16: Construction spending, seasonally adjusted, USDbn



Source: U.S. Census Bureau

While data centers offer unique advantages—such as long-term, often indexed, leases to high-credit tenants—their fit within an institutional core real estate portfolio is complex. These assets can contribute to diversification and resilience, particularly as demand for cloud services and AI accelerates. However, investors must weigh the sector's distinct operational risks, including technological obsolescence, energy consumption, and regulatory scrutiny, against the potential for eventual stable income streams and capital appreciation.

As an insurer and multi-asset class investor, Zurich Insurance Group has multiple routes of accessing the data center theme. And we are doing just that. On the insurance side of the business, there is a huge opportunity managing complex exposures like energy demand, cyber resilience, and physical infrastructure risks. From an investment perspective, the sector allocation potentially fits better with infrastructure, private credit or private equity portfolios, where time horizons and return requirements differ from real estate. In other words, from a direct real estate perspective, our team does not have data center FOMO.

A Regional Précis

In 2026 we anticipate a divergence in the speed and magnitude of recovery across global property markets. This is largely a function of varying interest rate trajectories and the extent of recent valuation declines. But structural factors, including demographic trends as well as prominence of domestic capital, are also playing an influential role. Let's consider the countries and regions of greatest relevance to Zurich Insurance Group's real estate portfolio.

United States: less uncertainty, higher growth but with a higher cost of capital

A year into the current U.S. administration, we can equivocally say that the real economy has proven remarkably resilient to well documented challenges. Despite expectations that tariffs would trigger higher prices, inflationary pressures have so far remained relatively muted, at least compared to recent history. Of course, this will be a closely watched metric and any sharp increase in prices could serve to further temper policy. Importantly, however, as we enter 2026, tariff related headwinds are dissipating.

In fact, there are numerous reasons to be optimistic about the U.S. property market. For starters, we expect consumer spending to benefit from the wealth effects associated with equity markets testing all-time highs. Business investment is also expected to remain robust in the coming year, helped by several tax changes. And then there is AI. Although widespread productivity gains may take time to materialize, AI-related capital expenditures have already been a significant driver of growth, which is expected to continue. This should be net positive for the communities where data center construction is occurring and those office markets home to protagonists in the field.

As it relates to capital markets, the advanced nature of the current pricing correction and generally improving real estate fundamentals position the market for a favorable recovery. Though it is likely to be somewhat protracted as some investors choose to wait for clearer signals on the direction of monetary policy and the impact of tax and spending policies on the real economy. However, those able to move quicker will find a less competitive market than they were used to earlier in the decade. Equity buyers with a core risk/return profile should continue to enjoy a sweet spot. And even with the relative lull in deal activity, the U.S. stands out for its deep market liquidity and the maturity of its alternative property sectors—advantages that remain unmatched globally.

Eurozone: uneven economic performance but a lower cost of capital

The Eurozone enters 2026 facing persistent geopolitical tension and uneven economic performance. However, broader regional defense spending, overdue regulatory simplification ambitions, and rising business investment intentions all bode well. As our MSME team argues, there are more reasons for optimism than in many years, but the scope for disappointment is real and growing.

We anticipate business investment and government spending to be the drivers of growth over the medium term in the region. The former is likely to be more reliable as a base for permanent productivity enhancements. The latter could break Germany free from a six-year stretch of economic stagnation. Both should be net positive for real estate demand.

While prospects for the Eurozone are brighter in the years ahead, immediate challenges remain. The region is currently performing below trend, which has hindered a stronger cyclical recovery for real estate. There has also been a reversal of fortunes between northern and southern economies. German industrial and manufacturing activity is still heavily constrained while France is mired by debt sustainability concerns. Italy is a halfway house. The country is still seeing sluggish growth, though it is benefitting from the implementation of EU NextGen funds as well as a stable political environment. Both should support investor sentiment. Spain, on the other hand, will likely remain the fastest growing large national economy in the region as it benefits from strong tourism and favorable immigration trends. This is a key reason why capital flows into the living and hospitality sectors have been so buoyant recently and are likely to remain so.

The corollary of uneven and sluggish growth is that inflation has been pulled down and along with it, interest rates. A lower cost of capital is beneficial for real estate, which should hasten a broader property market recovery during 2026.

Switzerland: Rich capital values and a strong currency make it a domestic investors' market

Switzerland's economy is highly diversified and adaptable, meaning that it enters 2026 in a reasonably strong position despite external headwinds. Encouragingly, an agreement was reached with the U.S. to cut the reciprocal tariff from 39% to a maximum of 15%, which is aligned with EU tariffs. The agreement is positive for Swiss exporters and helps reduce economic uncertainty. At the margin, the thawing of political relations between the two countries may even make it easier for Swiss investors to consider U.S. real estate opportunities. Afterall, given the strengthening of the Swiss franc in 2025, they have more buying power.

But a strong currency introduces additional challenges. Once again, the franc has played the role of a safe haven instrument during times of uncertainty; it was up more than 13% in 2025 against the USD. This has kept domestic price pressures exceptionally low, but it has also challenged the export sector. Also, a strong currency has made Swiss assets more expensive to foreign investors. Given that Swiss real estate prices have not corrected as they have in other markets, foreign investors in Switzerland face a double high watermark. It wouldn't take much of a capital market or currency adjustment for a foreign investor to lose money in their local currency.

Considering the subdued inflation environment and ongoing global headwinds, interest rates are likely to stay at zero over the coming year. While the SNB has signaled that the hurdle for cutting rates into negative territory is higher compared to the past, it remains a tool should conditions warrant. History suggests that in a very low yielding environment, real estate should see increased capital inflows as well as valuation growth. In stark contrast to neighboring markets, capital raising for Swiss strategies from domestic investors reached a multi-year high in 2025. That trend should continue in the coming year.

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. 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 a compelling vintage opportunity, the recent value declines elsewhere could also be perceived as a cautionary signal.

The Swiss property market is indeed special.

Asia Pacific: A highly differentiated inter-regional outlook

As we know, generalizing economies and property markets in Asia Pacific is foolhardy. Just look at bond market signals as a proxy for both (Figure 17). 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 is more tenuous. That said, supply chains will evolve accordingly, which creates opportunities in the region.

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 2025. Japan of course is the exception, where a reflationary environment has resulted in monetary policy becoming more restrictive since the start of the year. While this hasn't dissuaded real estate investors, vigilance is warranted. The recent move in government bond yields suggests some potential real estate pricing pressure.

Core investors, navigating periodic episodes of global capital market volatility, should consider markets and property sectors in the region that are anchored by domestic demand and domestic capital.

Japanese residential and Australian logistics remain our current preferences. We see these segments offering the scale, liquidity and growth potential that we prize.

Often when we advocate investing in the Japanese residential sector, we are confronted with a common misconception that demographic decline necessarily undermines property market performance. Despite national population decreases for more than a decade, strong internal migration toward Tokyo and other metropolitan areas has driven continued growth and investment in its real-estate markets. Remember, the micro is as important as the macro.

Figure 17: 10 year government bond yields, %

Source: Refinitiv Workspace

Resilience Over Rhetoric: ESG's Next Chapter

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 tested investor resolve. 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 have complicated capex planning, particularly when the immediate performance gains are unclear. This challenge is compounded by the overhang 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 with their investment strategies accordingly, though they may be using different language and less fanfare to communicate progress. Also, we are seeing more investors thinking deeply about asset adaptation and resiliency because they directly influence long-term value, risk management, and returns.

Resilient assets tend to have lower operational risks, fewer unexpected capital expenditures, and better long-term cash flow stability.

Heading into 2026, we can expect further refinement of ESG practices. Real estate investors will likely prioritize investing where sustainability and profitability align, recognizing that, at a minimum, such practices can enhance investment outcomes. With regulatory requirements intensifying—particularly in Europe—compliance is essential. Importantly, we also expect that approaches to sustainability and asset adaptation will drive a greater divergence in performance across real estate assets. The disparity between winners and losers will become more pronounced.

Are We There Yet?

The question “are we there yet?” conveys both uncertainty and optimism, which is emblematic of the times we are navigating. In recent years, real estate has been profoundly shaped by structural change, geopolitical and financial market uncertainty as well as valuation declines. But as we’ve argued, the outlook for the asset class is the best it has been in recent years. Investment volumes, capital raising and performance are all sure to improve in 2026. Key to this is a favourable supply situation. The vintage argument still holds true while differing interest rate paths are leading to distinct investment opportunities. As a result, real estate should continue to feature prominently in institutional portfolios. But as we reflect on the current state of global real estate markets, it is clear that the journey still continues.

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P1136564 (01/26) TAG