Zurich Real Estate Investments
Group Investment Management
July 2026

# H2 2026 Global Real Estate Mid-year Outlook

## "We're on the Road to Nowhere"

A selective recovery in a world of shocks, scarcity and stuck capital markets

## **"There's Good Points, Some Bad Points":** Executive summary

As we move past the year's halfway point, we look to global property markets and assess how recent developments compare with the expectations set out in our annual Outlook. Put simply, conditions have not developed as expected. Whereas at the beginning of the year, we advocated 2026 as seeing an improvement in global transaction volumes, capital raising activity and ultimately performance, we now strike a more sober tone. The recalibration of course is principally a function of the secondary effects stemming from the war in Iran. Materially higher crude oil prices in the first half of the year, which have since moderated, challenged the inflation outlook and global central banks' monetary policy stance. Uncertainty regarding the intensity and duration of conflict have fuelled market volatility with stocks and bond yields highly sensitive to news developments. Real estate sentiment has deteriorated materially (Figure 1). After having "survived to '25", investors now find themselves in a "back to '22" moment.

But is that a fair assessment? The global economy and indeed property markets are in a much different position than they were four years ago. However, similarities cannot be ignored. Real estate is an interest rate sensitive asset class, so a shift from late 2025 easing expectations to a more cautious, if not hawkish, stance by more central banks, creates fresh headwinds for real estate investment and financing activity. Globally, a "higher for longer" rate environment is now being priced in (Figure 2). Furthermore, pronounced cross market dispersions creates obstacles for those wishing to hedge their real estate exposure. Some investors looking at opportunities abroad, will likely struggle even more to make overseas returns pencil in local currency.

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*"The global economy and indeed property markets are in a much different position than they were four years ago."*

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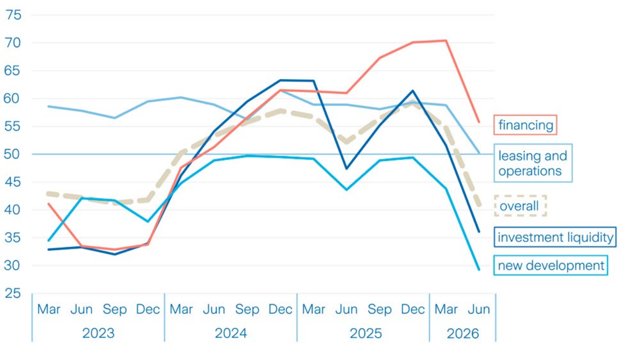
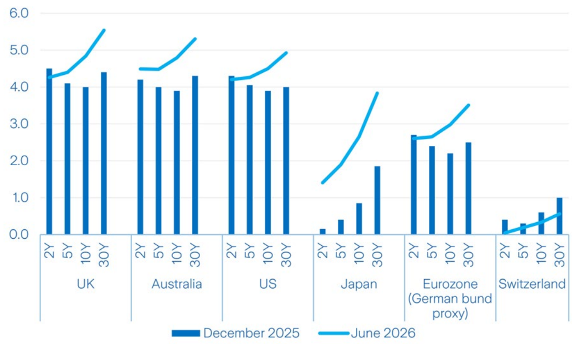
**Figure 1: INREV Consensus Indicator diffusion index**




Source: INREV Consensus Indicator, June 2026
INREV is the European Association for Investors in Non-Listed Real Estate Vehicles

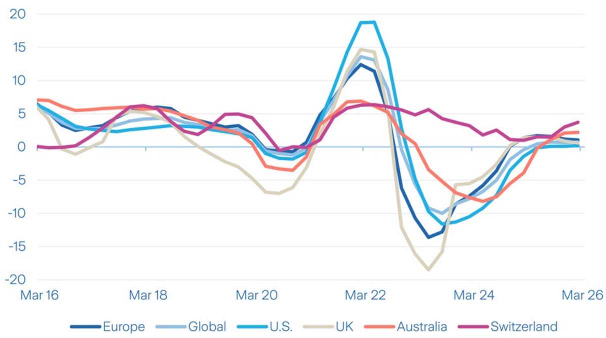
**Figure 2: Government bond yield curves,%**




Source: U.S. Treasury, Bank of England, Bundesbank, Bloomberg

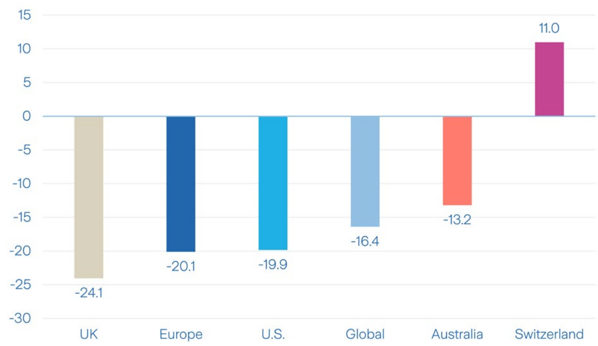
The fundamental difference to the 2022 inflection point is current valuations. In nearly all the markets where Zurich Insurance Group invests directly in real estate, there has been a meaningful yield-driven capital value correction. According to appraisal-based indices from MSCI, this ranges from between -24% in the UK to -13% in Australia from the 2022 peak to the 2024 trough (Figures 3 and 4). While higher costs of finance, inflationary pressures and wider geopolitical issues are exerting outward pressures on global property yields, the pressure to capital values should not be as great as what was witnessed earlier in the decade. While this is not the situation we had hoped to be in now, it certainly is not the same one as 2022.

**Figure 3: Real estate capital value change in local currency, % YoY**




Source: MSCI Property Indices as labeled, IAZI for Switzerland

**Figure 4: Cumulative capital value change from 2022 peak to 2024 trough, %**




Source: MSCI Property Indices as labeled
Note: Capital values in Switzerland did not experience a decline in the period from 2022 to 2024.

## **"Same As It Ever Was":** Supply, Shocks and AI

Of course, much of what we wrote just six months ago still resounds. Elevated geopolitical and economic policy risks remain a defining feature of markets, which continues to influence real estate investor attitudes. Interestingly though, these risks are not necessarily directly impacting real estate performance. The frequency of shocks is leaving many inured to elevated uncertainty. A look at global REIT performance after major geopolitical events, oil related or not, underscores this point. On average these haven't proven to be a major mover of Real Estate Investment Trust (REIT) indices (Table 1). Of course, that's not to minimise the influence of geopolitical events. In a more uncertain world, it is easier to justify inaction, which partly explains why global deal volumes have struggled to rebound more meaningfully and why transaction times are lengthening. Given that the current operating environment is less predictable and more fragmented, those active in the built environment are right to focus on what they can ultimately control. For property investors, this means carefully selecting assets for acquisition or disposition and managing income prudently. Given the importance of the theme, we'll explore drivers of income later in this report.

Arguably the most important element for global real estate markets that hasn't changed in the first half of the year is the supply situation. More precisely: there is a lack of modern supply in many of the cities and sectors where Zurich Insurance Group has historically prioritised investing. 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. This is reflected in sentiment. The previously referenced INREV sentiment indicator shows that attitudes toward new development have worsened to a new nadir. Less supply, all things equal, is supportive of real estate occupational dynamics. It strengthens the case for rental growth and ultimately helps put a floor on valuations. We'll also take a closer look at supply dynamics later in this Outlook.

*"... there is a lack of modern supply in many of the cities and sectors where Zurich Insurance Group has historically prioritised investing."*

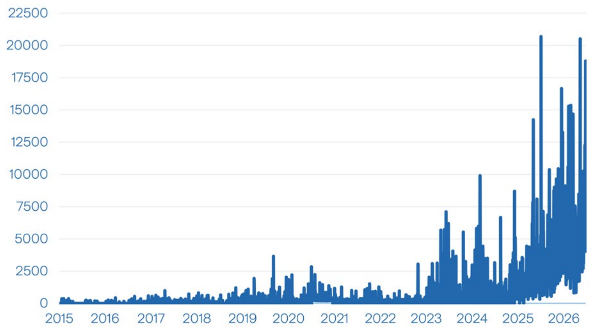
**Table 1: FTSE EPRA Nareit Global Index performance after major geopolitical events, % vs. starting date**

| Event | Date | 1 Day | 1 Month | 3 Month | 6 Month |
|---|---|---|---|---|---|
| Arab Spring | 17-Dec-10 | 1.4 | 3.4 | -1.8 | 1.5 |
| Intervention in Libya | 19-Mar-11 | 0.9 | 2.4 | 3.1 | -1.4 |
| Ukraine-Crimea Crisis | 27-Feb-14 | -0.2 | -1.0 | 6.6 | 13.3 |
| Brexit | 23-Jun-16 | -0.7 | 7.6 | 2.9 | 0.5 |
| Trump Surprise Election Win | 08-Nov-16 | -0.6 | 4.9 | 5.2 | 2.5 |
| Bombing of Syria | 07-Apr-17 | 0.5 | -4.4 | -8.6 | -9.8 |
| North Korea Missile Crisis | 28-Jul-17 | -0.4 | -3.0 | -1.3 | -5.8 |
| US-China Trade War | 22-Jan-18 | 0.8 | -6.6 | -5.4 | 5.0 |
| Saudi Aramco Drone Strike | 14-Sep-19 | 1.2 | 2.8 | -1.2 | -18.9 |
| Russia invades Ukraine | 16-Sep-19 | 1.3 | 4.7 | -2.9 | 1.8 |
| Jenin Incursion | 19-Jun-23 | -0.7 | 0.4 | -1.6 | 3.5 |
| Twelve Day War | 13-Jun-25 | -0.4 | -1.9 | 1.7 | -1.3 |
| Iran War | 28-Feb-26 | 1.0 | -6.7 | 1.5 | |
| **Average** | | **0.3** | **0.2** | **-0.1** | **-0.8** |

Source: LSEG Datastream, latest = June 30, 2026

Another important theme that has remained intact in the first half of the year is AI's continued dominance (Figure 5). This of course has clear implications for real assets. For starters, the U.S. economy has proven remarkably resilient to well-documented challenges in large part because AI-related capital expenditures have disproportionately supported growth, which has translated to surging share prices for those companies active in the space. Office submarkets home to those protagonists in the field are booming. Businesses providing "picks and shovels" for data centre development are also thriving in an otherwise challenging environment for construction. Data centres too have become a core frontier for Zurich Insurance Group. A striking example is that the average value of Zurich insured data centre projects has surged from around $150 million to $3 billion in just five years, highlighting the step change in capital intensity and risk exposure.[1] But the other side of the equation is that as data centres have evolved from negligible to necessity for real estate investors, other traditional sectors have fallen out of favour. In an environment where real estate allocations are under pressure, data centre investments could come at the expense of other property types. The sector cannot be ignored.

**Figure 5: Index of newspaper coverage frequency of artificial intelligence (intersection of AI, economics, and uncertainty)**




Source: www.policyuncertainty.com, latest = June 22, 2026

[Newspaper Coverage Frequency of Artificial Intelligence]

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*"In an environment where real estate allocations are under pressure, data centre investments could come at the expense of other property types."*

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1 Zurich shares firsthand insights in 'Data center risks right now'

## **“This Ain’t No Party, This Ain’t No Disco”:** selectivity replacing beta exposure

So, how have events in the first half of the year shifted the strategic implications for property investors? While the vintage investment argument that we have previously advocated still holds true, it does feel a bit trite to continue emphasising. As we previously pointed out, capital values have corrected in a profound manner, but a ‘V-shaped’ recovery like what was experienced after previous major property corrections hasn’t materialised. With sentiment having moderated in the first half of the year, a coordinated recovery looks further away still. This of course has a self-fulfilling influence. With little urgency to benefit from a cyclical upswing in real estate, multi-asset class investors are shifting priorities elsewhere.

*“While the vintage investment argument that we have previously advocated still holds true, it does feel a bit trite to continue emphasising.”*

Although a broad-based recovery remains elusive, opportunities for investment continue to exist. We see the prevailing themes as being selectivity replacing beta exposure and active asset management being the principal sources of out-performance. What does this mean in practice? Whereas the last property cycle was driven by sector allocation (such as logistics significantly outperforming offices or retail), we have returned to a more normal operating environment where asset selection will be the key differentiator. But to generate outsized returns, selecting the right asset is only the starting point; investors must also actively improve, reposition, or optimise it. Given rapidly evolving tenant expectations as it relates to location, quality of space, sustainability credentials, and required amenities, the difference in performance outcomes between best assets and the rest is expected to diverge further.

*“We see the prevailing themes as being selectivity replacing beta exposure and active asset management being the principal sources of out-performance.”*

And a final point, which is less of a strategic tilt and more of a reminder for sound portfolio construction is that diversification is as important as ever. Ongoing geopolitical uncertainty and financial market ructions underscore the importance of diversifying real estate exposure across multiple dimensions, be it geography, sector, currency or regulatory regime. In an environment where risks can shift quickly and unevenly across markets and within them, a well-diversified portfolio remains one of the most effective ways to ensure the strong performance outcomes while staying positioned for selective opportunities.

*“Ongoing geopolitical uncertainty and financial market ructions underscore the importance of diversifying real estate exposure across multiple dimensions...”*

## **“The Great Curve”:** Income drives returns

Real estate returns are structurally anchored to income (Figure 6). Capital growth is episodic and volatile, swinging with repricing or yield compression, while income persists across cycles. Following the 2022–23 correction of global real estate markets, that divide has widened. As Figure 3 showed, capital growth has flatlined in many markets, leaving income as the primary driver of total returns. In an elevated interest rate environment, at least compared to the previous property cycle, performance from here will be defined by cash flow durability and growth, not valuation tailwinds.

But not all income is created equal. Sector returns typically move in tandem at cyclical turning points, but in today’s market—with capital growth muted—correlations are falling and dispersion is widening, making income the primary differentiator of performance. The experience for U.S. offices is emblematic of this. Returns since 2015 show cash flows increasingly diverging on tenant quality, lease structures, market-rent exposure, and capital intensity (Figure 7). This bifurcation is structural. Assets with pricing power and low capex requirements are better able to convert income into resilient returns; the rest face greater volatility and income erosion. Performance is now defined by the quality, durability, and scalability of cash flows.

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*“... not all income is created equal.”*

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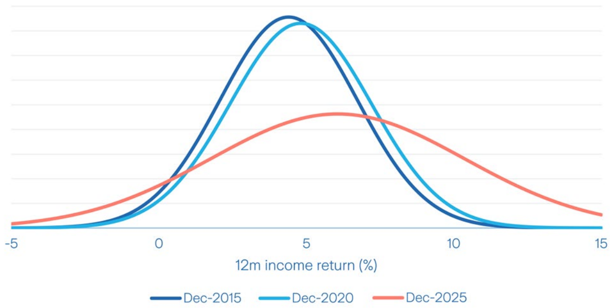
**Figure 6: Global total return breakdown 2010-25, %**


Source: MSCI Global Quarterly Property Index

**Figure 7: U.S. Office dispersion of income returns**




Source: Zurich Insurance Group interpolation using MSCI Assel Level index

## “Remain In Light”: Capturing income reversion

So how can income be captured? Lease expiry provides the key transmission point, allowing rents to adjust toward prevailing market levels where occupier demand and market conditions support it. The reversionary uplift available today is materially higher than at any point in the preceding decade, reflecting the cumulative rental growth embedded over the 2021–2025 period (Table 2). In contrast, leases expiring over the prior ten years were typically reset off a flatter rental trajectory, limiting the magnitude of uplift. The implication is that the current vintage of lease expiries can offer a compelling reversionary potential. We consider this to be a driver of relative performance as well as an important consideration for new investments.

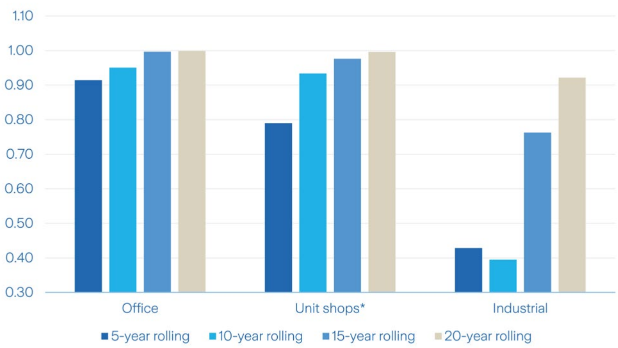
This dynamic is reinforced by the conditions under which rents can track inflation. Traditional real estate tends not to mechanically hedge inflation in the short term. But the linkage strengthens in markets where supply is structurally constrained by planning or physical limits to expansion, and demand has sufficient depth to absorb limited availability (Figure 8). In such markets, landlords are better able to reset rents as leases roll, enabling inflation to be translated into income growth over time. More institutionally established office markets typically exhibit the strongest transmission, followed by high street retail, while logistics, despite recently robust demand, tends to display a more responsive supply dynamic, moderating rental tension over the cycle. Looking ahead, dispersion in realised income outcomes is likely to persist.

**Table 2: European office markets reversionary potential & lease frameworks**

| | Rental growth | | |
|---|---|---|---|
| **Prime offices** | **Average 2011-20 (% pa)** | **Average 2021-25 (% pa)** | **Typical Lease Length (years)** |
| Munich | 3.5 | 8.0 | 5–7 |
| Paris CBD | 2.1 | 6.3 | 3-6–9 |
| London City | 1.6 | 6.0 | 5–10 |
| Amsterdam | 3.1 | 5.6 | 5 |
| Berlin | 6.5 | 4.3 | 5–7 |
| Geneva | -1.3 | 4.0 | 5–10 |
| Lisbon | 2.9 | 3.9 | 5 |
| Zurich | -1.4 | 2.8 | 7–10 |
| **Industrial** | **Average 2011-20 (% pa)** | **Average 2021-25 (% pa)** | **Typical Lease Length (years)** |
| Netherlands | -0.3 | 6.9 | 5–10 |
| UK (London/South East) | 2.9 | 6.8 | 5–10 |
| Germany (Hamburg/Big 5) | 0.4 | 5.7 | 3–5 |
| Greater Paris | 0.3 | 4.3 | 3–6-9 |
| Switzerland | 0.7 | 1.2 | 5–10 |

Source: JLL, MSCI, Zurich Insurance Group

**Figure 8: Correlation: Rents vs CPI levels**




Source: MSCI Eurozone Annual Property Index, JLL, ZIG, Bloomberg, Zurich Insurance Group

## **“Stop Making Sense”:** same assets, different marks

A key argument for incorporating private real estate into a multi-asset class portfolio is its different valuation frequency compared to liquid assets. We were reminded of this in 2022 when equities and bonds had one of their worst coordinated corrections in post-war history. At that time, real estate valuations adapted slower to a new interest rate reality. The following year was much more challenging for real estate as equities and bonds staged a more meaningful recovery, albeit with a different magnitude.

But unlike equities and bonds, where there is high frequency mark-to-market pricing, real estate’s value can be influenced by varying perceptions of capital market factors, vehicle type or even jurisdiction. In fact, it’s not uncommon that the same asset could be marked quite differently depending on how it’s being appraised. During normal market conditions—one where there is ample transactional evidence—such discrepancies tend to be relatively narrow.

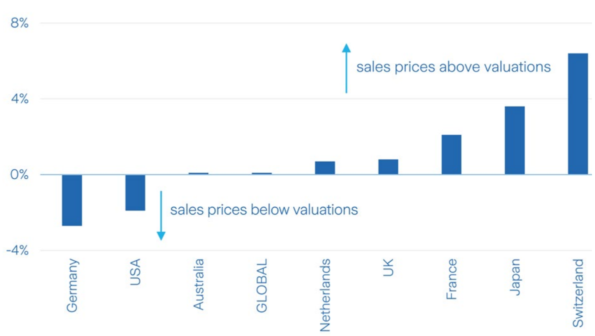
However, during inflection points when capital market conditions change fundamentally and there are fewer transactions, the difference in valuations can vary notably, and individual country discrepancies can persist longer (Figure 9). Typically, such periods only last for a couple of quarters before capital market conditions begin normalising. However, considering some of the forces we’ve highlighted in this Outlook, namely the repercussions of geopolitical and regulatory policy uncertainty, the current normalisation process has been more protracted than during prior cyclical inflection points. As a result, various signals are being sent from direct property indices, the listed market and secondary market trading activity of real estate funds.

The data that we’ve previously emphasised to assert real estate’s recent capital value correction are appraisal-based indices where market values are determined based on comparables, investment transactions, discounted cash flows or residual values. We prefer this reference point because it represents what we see as the broadest cross-section of the institutional investible universe. Of course, we accept the imperfections of this approach, which can include valuer subjectivity and a lag to real transaction prices.

Another popular valuation approach, common in German speaking countries and known as *Ertragswertverfahren,* places a strong emphasis on income capitalization with long-term assumptions. This is a preferred methodology for investors seeking lower volatility, such as insurers, pension funds or German mortgage banks. The criticism of this valuation approach is that it is slower to reflect real market conditions both on the way up and on the way down. During periods of price discovery, like we are currently witnessing, the German valuation approach is more insular.

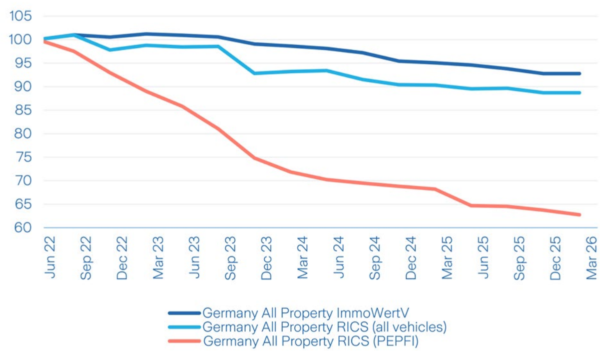
Differing approaches to real estate valuations may mean that one investor cohort is locked into a level that may not be comparable to another investor (Figure 10). This can foster the persistence of wide bid/ask spreads and in turn reduce transactional momentum. We see this as a particular challenge for the German office sector currently, where a substantial amount of institutionally backed equity and debt investments may not be marked at transactable levels. If you are a long-term investor, with no urgency to sell, this isn’t a problem. However, if liquidity is required there could be repercussions across a portfolio. Those multi-asset class investors accustomed to high frequency pricing may find this reality particularly difficult to reconcile.

**Figure 9: 2025 sales prices versus valuations: weighted average difference, % YoY**




Source: MSCI Valuation and Sale Price Comparison Analysis, June 2026
Note: WAD is the difference between market-adjusted valuation vs gross sales price

**Figure 10: Capital growth index for German real estate by valuation methodology, 100 = Q2 2022**



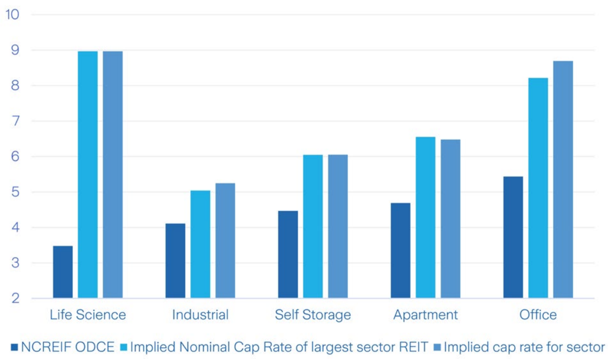

Source: INREV and MSCI, fund-level indices

*“During periods of price discovery, like we are currently witnessing, the German valuation approach is more insular.”*

During periods of illiquidity, real estate investors may look to the listed sector for guidance. In past Outlooks, we examined trends in the discounts or premiums that REITs traded to underlying net asset values. This can be a strong leading indicator to future movements of direct real estate values. Another approach would be to compare reported cap rates of listed real estate companies with those in the non-listed funds space. Such a snapshot could be useful when relative value investing with a four quadrants approach. It too could serve as a guide for future cap rate movements. Segments of the U.S. market make for an interesting case study (Figure 11). As of Q1 2026, life science cap rates in the non-listed NCREIF ODCE index were valued at 3.5%. Comparable last reported cap rates in the largest listed life science REIT were 9.0%. These are effectively the same type of assets, but with very different marks. Variations in other sectors also bare consideration.

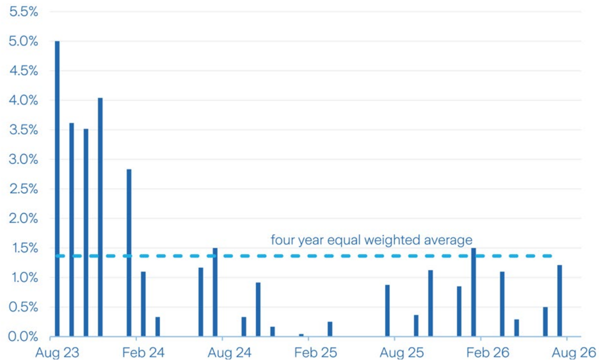
Another important forward-looking signal of real estate values is secondary market trading activity in non-listed funds. When discounts emerge, this can be read as investor uncertainty around valuations and potentially an urgent need for liquidity ahead of traditional redemption mechanisms. In the immediate aftermath of the 2022 inflationary spike, European core funds traded at discounts of up to 10%. Fast forward to mid-2026, and desired discounts in these same funds has generally narrowed to low single digits. Of course, in that intervening period fund valuations have also adjusted, so a narrowing was to be expected. We're interested in both the level of reported discounts, but also the range in trading interest (Figure 12). The narrowing of this bid/ask spread is an indication that market participants are generally more accepting of core fund valuations and current capital market realities. As desired discounts normalise, primary subscriptions into European core funds should pick up, which can be read as a pro-cyclical signal.

**Figure 11: Selected sector cap rate discrepancies between listed and non-listed real estate vehicles in the U.S.**




Source: NCREIF, Green Street, latest = Q1 2026

**Figure 12: Average historic range of reported bid/ask secondary trading spreads of the eight largest European core property funds, %**




Source: PropertyMatch, Zurich Insurance Group

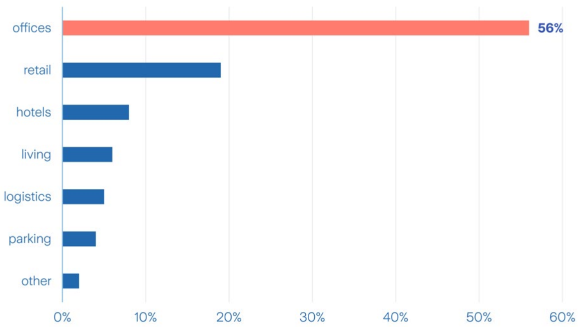
Note: National Council of Real Estate Investment Fiduciaries (NCREIF) Open End Diversified Core Equity (ODCE) fund index

## **“The Big Country”:** Germany’s office reckoning

Looking across European property markets, there is one sector that continues to cause consternation: German offices. We continue to highlight this segment of the market, given its prominence in institutional portfolios (Figure 13) as well as its relative performance in recent years (Figure 14). There is a good chance that an investment made in the German office sector in the five-year period up until mid-2022 is worth less today than its original purchase price. Given most investors’ sensitivity to realising losses, deal volumes have slowed significantly (Figure 15).

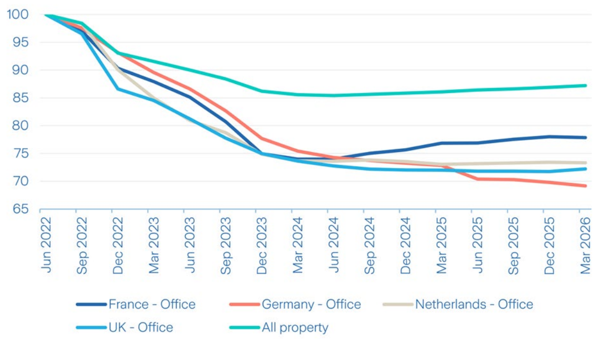
Occupationally, Germany’s office sector isn’t in dire shape, but it certainly has weakened since the start of the decade (Figure 16). Furthermore, uncertainty around remote working’s staying power and AI’s impact on future demand continues to generate headline risk. Taken together, this has further resulted in a thinning pool of active investors in the German office sector.

**Figure 13: Sector allocation of German open-ended real estate funds, %**



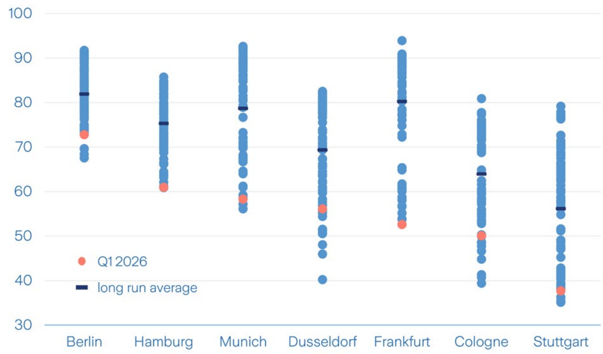

Source: Bundesverband Investment und Asset Management (BVI), latest – December 2025

**Figure 14: Capital value index of select property sectors, Q2 2022 = 100**



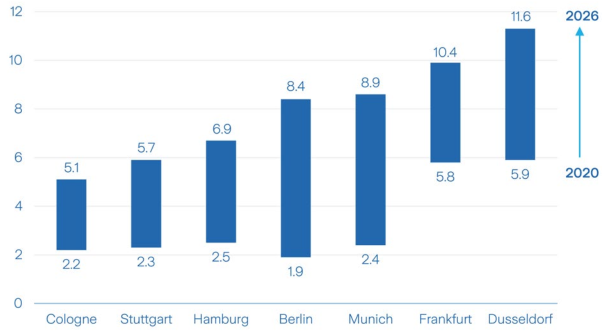

Source: MSCI European Quarterly Property Index, latest = Q1 2026

**Figure 15: German office liquidity scores Q1 2008 to Q1 2026**




Source: MSCI Real Capital Analytics, latest = Q1 2026; each dot represents a quarterly liquidity data point The capital liquidity score uses a combination of absolute and relative measures to calculate market liquidity. Assets with a value of $10 million or greater are considered. All quarterly inputs use 12-month trailing figures, and all measures are ranked using percentile calculations.

**Figure 16: German office vacancy rate change: Q1 2020 to Q1 2026, %**




Source: JLL, latest = Q1 2026

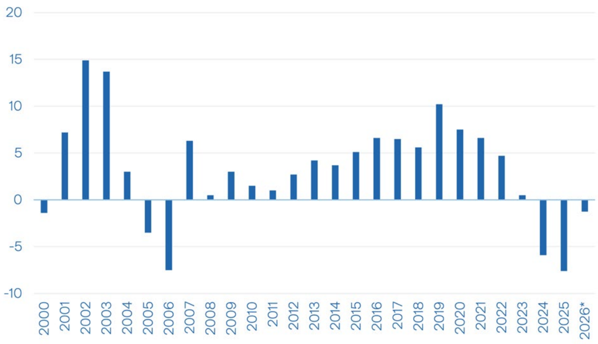
*“There is a good chance that an investment made in the German office sector in the five-year period up until mid-2022 is worth less today than its original purchase price.”*

As Eurozone interest rate expectations reversed and the cost of finance increased in the first half of 2026, numerous highly anticipated large German office transactions failed to complete, dashing hopes of much needed evidence to rebase values and unstick the transactional market. At the same time, German open-ended funds continue to suffer net outflows (Figure 17). Given the impasse with German offices, funds requiring liquidity are turning to other property sectors or other countries for sales, thus reinforcing the challenging predicament.

This of course has rippling effects, especially for investors facing a "sell-before-buy" scenario. A hypothetical investor wishing to acquire Southern European student accommodation may have to sell German offices first. With pricing in these segments diverging, investors face a twin risk: eroding performance where they have exposure and missed upside where they do not.

So, what will it take to unstick one of Europe's most important property sectors? For starters there needs to be a body of transactional evidence, especially for large lot size deals that signals real conviction from both equity and debt providers. Second, appraisers need to properly reflect clearing prices in asset valuations. And finally, German office owners need to come to terms with the new pricing reality. The recipe isn't complicated, but sourcing the ingredients may be.

**Figure 17: Net flows to German open-ended real estate funds, 2000-25, EURbn**




Source: Scope Fund Analysis, * data to Q1 2026

[Investitionen offener Immobilienfonds: Wohnen und Logistik im Fokus - ScopeExplorer]

## “True Stories”: replacement costs as a constraint on supply

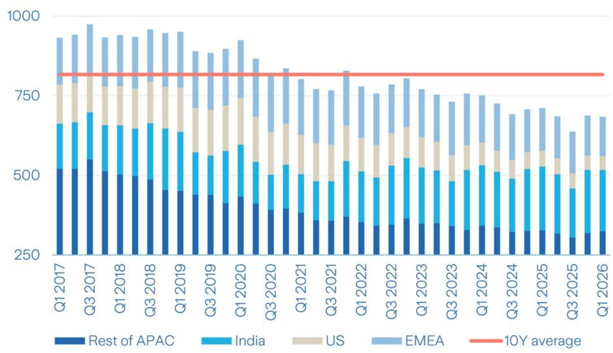
Earlier in this Outlook we asserted that one of the most important elements for real estate markets is limiting new construction pipelines. This is starkly evident in U.S. offices, Swiss residential, and Australian logistics, but the theme holds across virtually all major real estate markets globally. The supply side is increasingly being shaped by higher replacement costs, more stringent financing conditions and evolving sustainability requirements. Renewed construction cost pressures and supply chain disruptions because of geopolitical events create an additional hurdle (Figure 18). Together, these factors are changing both the economics of new development and the relative value of existing stock.

Office replacement costs, for example, have risen materially across global markets, driven by sustained construction inflation and more expensive financing. The impact is stark. Global office construction pipelines sit 16% below their long-run trend and 37% below their recent cyclical peak (Figure 19). In Europe, real estate consultancy service, Green Street, estimates that costs too have risen by c.15% since 2024, with broad-based increases across both hard costs and, in prime markets, land values (Figure 20). At the same time, higher exit yields have pushed required replacement rents above achievable levels in many submarkets, rendering speculative development increasingly uneconomic. This is good news for asset owners, as potentially competing supply is being held back. Developers, however, face a much harder task in timing tactical delivery to the market.

**Figure 18: Global supply chain pressure index and U.S inflation**


Source: Refinitiv Workspace, latest = May 2026

**Figure 19: Office space under construction, 000s sqm**

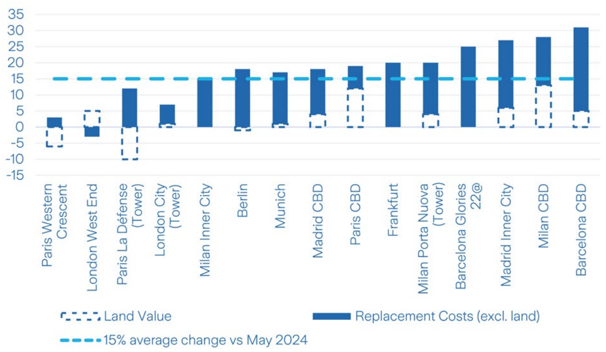



Source: Cushman & Wakefield, latest = Q1 2026

Higher replacement costs have not capped rental growth, however. On the contrary, prime office rents have continued to outpace inflation in recent years (Figure 21), but the outcome is uneven. Cities such as London, Paris and Milan, where dynamic occupier demand has supported a strong rental uplift, are contrasted with Central and Eastern European (CEE) markets where lower supply barriers and weaker demand has constrained rental growth. For Zurich Insurance Group, this reinforces a long-standing preference for occupationally diverse, liquid property markets with stronger structural barriers to entry.

Taken together, these dynamics make replacement costs a binding supply constraint, and a defining feature of the current cycle. For asset owners, the impact varies, but is generally positive: in stronger markets, constrained supply reinforces landlord pricing power; in weaker ones, it limits development and thus preserves real estate’s valuable income return.

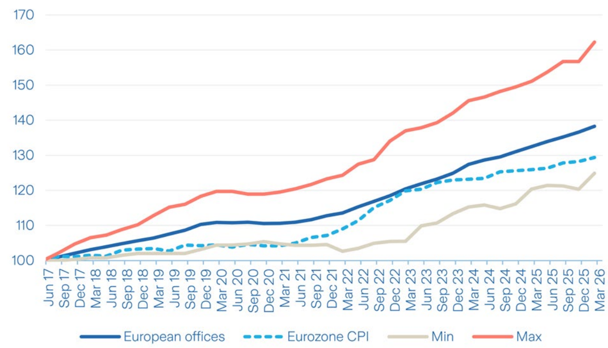
**Figure 20: Change in office replacement costs*, 2026 vs 2024 (%)**




Source: Green Street

*Replacement costs = Land + Hard + Soft + Finanacing + Tenant Incentives

**Figure 21: European offices: prime office headline rent indices**



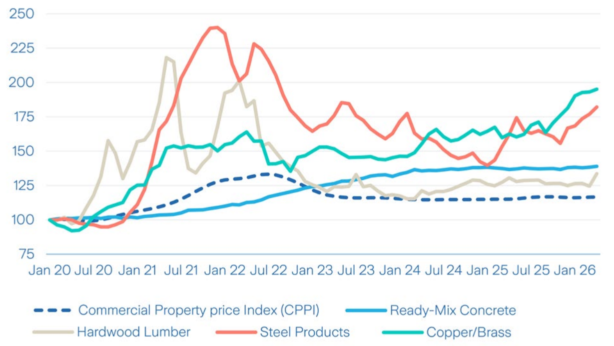

Source: Cushman & Wakefield

## “Houses In Motion”: refurbishment over new build

Against this backdrop, construction cost certainty and speed to market are the key development considerations. With new-build economics under pressure, refurbishment has become the more viable route to deliver Grade A space, benefiting from shorter timelines, lower capital intensity and reduced exposure to cost volatility.

At the last cyclical peak in 2022, U.S. commercial property prices and interest rates reset in tandem, but construction costs rose more sharply, compressing development margins (Figure 22). Since then, construction costs have remained elevated and have recently seen an uptick in pricing for selected materials, while real estate capital values have broadly stabilised following the repricing phase. As a result, the gap between build costs and asset values has widened further, reinforcing the challenge of making new development financially viable.

**Figure 22: U.S. construction cost inputs, index = Jan. 2020**

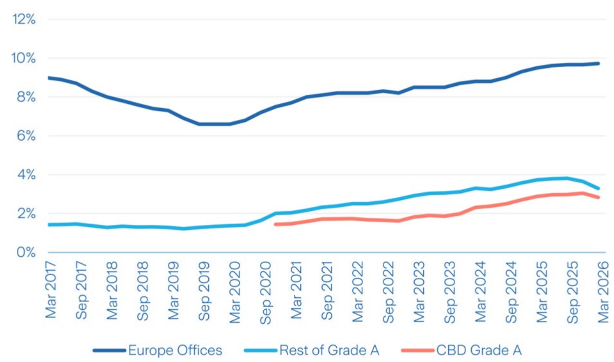



Source: Refinitiv Workspace,MSCI real Capital Analytics, latest = April 2026

This matters because supply/demand dynamics for high-quality space continue to tighten. Grade A office vacancy remains structurally low, particularly in core CBDs (Figure 23). This reinforces the opportunity cost of delayed delivery. Strategies that can reposition existing assets quickly are therefore better placed to capture the reversionary potential that a market may offer while mitigating execution risk. The investment implication is that refurbishment is no longer simply a cyclical response to elevated costs. It is becoming an attractive delivery model for Grade A supply, allowing investors to de-risk execution while preserving exposure to markets where income growth remains achievable. Asset owners are already adapting. In the UK, refurbishment now accounts for most of the development pipeline, rising from c.20–25% pre-2020 to over 50% today (Figures 24).

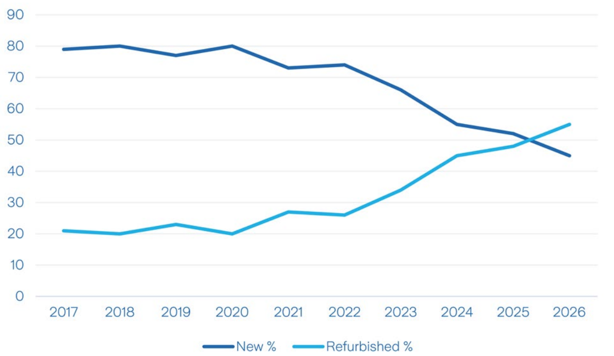
*“Grade A office vacancy remains structurally low, particularly in core CBDs.”*

**Figure 23: European offices vacancy rate (% stock)**




Source: Cushman & Wakefield, latest = Q1 2026

**Figure 24: Central London office space Under Construction**




Source: JLL

## **“Speaking In Tongues”:** Sustainability costs widen market dispersion

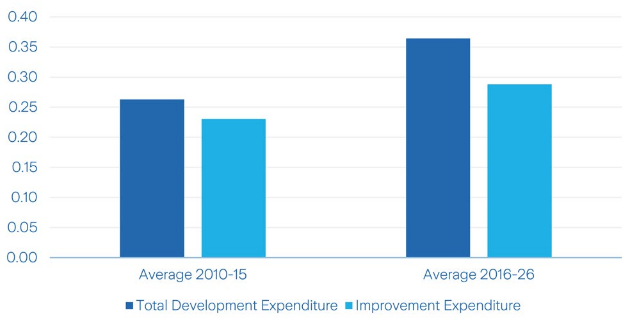
Cost pressures are also becoming structural. Sustainability has shifted from a value-enhancing component to a baseline requirement for institutional assets, with compliance costs embedded across building fabric, systems and operational performance (Figure 25). As a result, improvement capex has become an important day-one underwriting assumption rather than a discretionary enhancement.

Beyond headline construction inflation, project feasibility is increasingly shaped by resilience, insurability, regulatory compliance and futureproofing requirements. As highlighted in Zurich Insurance Group's Beyond 2030: The Future of Construction[2], these considerations are being embedded earlier in capital decisions, increasing the share of investment tied to sustainability and long-term asset performance.

Sustainability-related capital requirements are rising both in absolute terms and as a share of total investment. Real estate consultancy, Savills, estimates that the cost of upgrading European office buildings from EPC D to B has increased from c.€250-500 per sqm in 2022 to a current indicative range of €630–€1,260 per sqm (Figure 26). While part of this reflects broader inflation, the scale and dispersion of the increase point to a widening scope of works required to meet tighter energy standards, decarbonisation targets and occupier specifications.

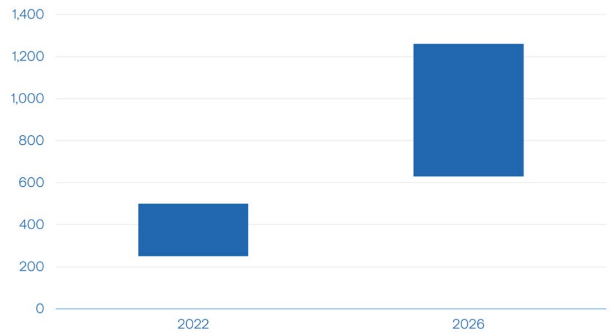
The result is a widening gap between compliant and non-compliant stock. The scale of required intervention varies materially across markets—for example, around 75% of office stock in Amsterdam requires investment to meet higher environmental standards, compared with c.60% in markets such as Boston (Figure 27). For investors, the key implication is that rising building costs do not affect all assets equally: they favour existing or repositionable assets in supply-constrained markets where the cost of compliance can be translated into durable income growth.

**Figure 25: European offices: development & improvement expenditure, % net capital value**



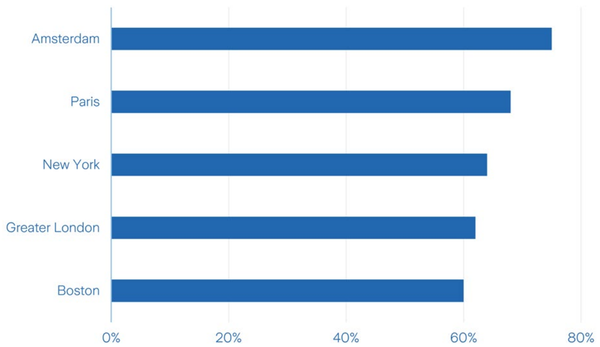

Source: MSCI

**Figure 26: Cost of upgrading European office buildings from EPC D to B, EUR psm pa**




Source: Savills

**Figure 27: Office stock requiring capital expenditure to meet regulatory standards by 2030, % total,**




Source: Savills, March 2026

2 Beyond 2030: The Future of Construction | Zurich Insurance

## **“This Must Be The Place”:** Case study – República 24, Lisbon

República 24, a former owner-occupied building, was repositioned during a period of subdued capital market liquidity into a LEED Gold-certified office asset with modern occupier amenities, outdoor terraces, energy-efficient building systems and renewable energy generation. Renewable energy now contributes approximately 65% of the building’s energy demand, improving sustainability performance.

By refurbishing an existing building rather than pursuing a ground-up development, ownership was able to deliver Grade A office space more quickly and with greater cost certainty. The asset was substantially pre-let ahead of completion and is now fully occupied, highlighting continued demand for high-quality sustainable workplaces.

República 24 also demonstrates the income opportunity created by refurbishment. Lisbon office rents have grown significantly faster over the past five years than during the preceding decade, while relatively short office lease terms, typically around five years, provide frequent opportunities to capture rental reversion.

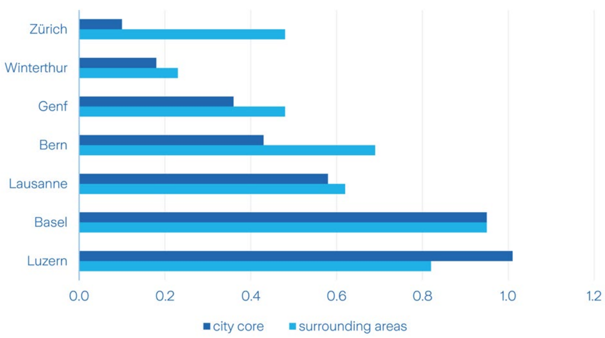
## **“Once In A Lifetime”:** political event risk in Switzerland

During the first half of the year, participants in Switzerland’s real estate market experienced an unusually anxious period. A historically stable operating environment was confronted by locally driven political event risk, before ultimately reverting to status quo. These challenges emerged from three distinct fronts.

The first was the “No 10-million Switzerland” initiative which sought to cap the country’s population by 2050. The debate was well chronicled in the foreign press, in part because of its global uniqueness. While an analogy of a Brexit-like event is imperfect, there were some similarities: both created uncertainty for businesses and investors; both were politically divisive, splitting parties, regions, and population groups; and ultimately both votes were close. But unlike Brexit, the Sustainability Initiative, as it was officially called, did not pass. For the local real estate market, the initiative was relevant because it had the potential to affect long-term demand for real estate, development activity and investment confidence. The unsuccessful referendum result came as a relief to many in the Swiss property industry.

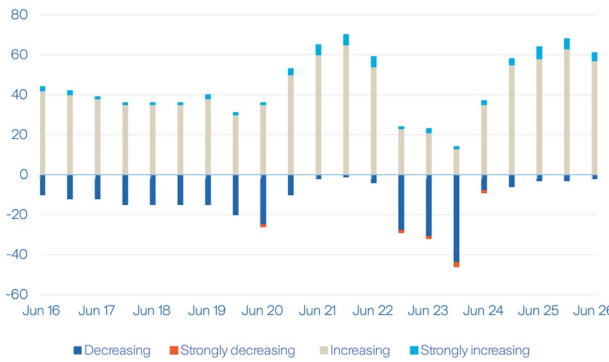
The second political instalment played out in the Canton of Zurich, where multiple initiatives were on the June ballot to address the local housing shortage. Like many European cities, affordable housing is a hot-button issue throughout the canton of Zurich, which is reflected in a local vacancy rate of less than 0.5% (Figure 28). One proposal would have adversely impacted the economics of apartment redevelopment, which was a real concern for institutional investors with aging portfolios. In the run up to the vote, many had avoided investment into the canton and city of Zurich. Given that all three housing initiatives failed, the situation for transactional activity should normalize with capital values likely to continue rising. (Figure 29). Affordability, however, will remain a pressing challenge for many—pointing to further local housing initiatives in the future. As in many global cities, residential regulatory uncertainty has become a feature of the market.

**Figure 28: Residential vacancy rates by location, %**




Source: Federal Statistical Office, latest = January 2026

**Figure 29: Survey of price expectations for apartment buildings in Switzerland: next 12 months, %**




Source: HEV Schweiz; FPRE, latest June 2026
n = 577 respondants; survey conducted after June 14, 2026
national and regional votes

*“As in many global cities, residential regulatory uncertainty has become a feature of the market.”*

It is important to note that unlike in previous referenda, the real estate industry, and institutional investors in particular, took an active role in the recent cantonal voting campaign. Under the leadership of the local chamber of commerce, the real estate industry clearly and publicly advocated its role in Zurich's economy. This level of engagement was an important factor in the voting outcome and points to the real estate industry's potential to act as a counterweight to future intervention in Zurich's residential sector.

Admittedly the final event risk that Switzerland experienced in the first half of 2026 hasn't been fully resolved at the time of writing. However, the results of June's national and local votes suggest a possible amicable resolution to the tightening of Switzerland's foreign real estate ownership rules, known as Lex Koller. The current proposal, which was in consultation until July 15, could significantly restrict foreign buyers of Swiss real estate, including indirect funds and listed property companies. In its most severe form, the rule change could lead to forced sales, company delistings, and a structural valuation discount for commercial real estate. This isn't a new phenomenon. Over the past twenty years, there have been several public initiatives seeking to tighten restrictions on foreign ownership of Swiss real estate. Though most have generally been neutralized during the parliamentary process and none has progressed to a nationwide public vote or a specific article of law. According to law firm, Baker McKenzie, the current proposed measures would set the Swiss real estate sector back 40 years[3]. Given this stark warning, combined with the tenor of recent referenda results and lobbying by the property industry, we suspect a significant watering down, if not annulment, of proposed restrictions on foreign investment into Swiss commercial real estate.

The political event risk that clouded the Swiss property industry in the first half of the year, has proven to be a bit of a damp squib. Long-standing demand drivers, particularly population growth, remain intact, and investor-unfriendly proposals of government intervention in Zurich's rental housing market ultimately did not gain traction. But events in the first half of the year show that real estate is vulnerable to shifts in political sentiment and that the prospect of regulatory intervention can unsettle even notoriously stable markets. As mentioned earlier, diversification remains an important consideration in navigating episodic regulatory risks. The strong fundamentals of the Swiss property market outweigh locally driven political event risk. Furthermore, any potential intervention in the residential rental market can be mitigated by an allocation to commercial real estate.

*"The political event risk that clouded the Swiss property industry in the first half of the year, has proven to be a bit of a damp squib."*

## **"Take Me To The River":** Conclusion

Global property markets are not in the situation we had hoped to be in by now. External factors, including geopolitics, changing interest rate expectations and regulatory uncertainty, continue to impede a broader recovery. The challenge for investors is therefore less about timing a cyclical rebound and more about identifying where income growth can be generated and costs can be underwritten with confidence. In this environment, disciplined asset selection, active management and diversification are the primary tools for delivering performance. Encouragingly, valuations have already corrected meaningfully, supply pipelines are constrained, so well-located assets with durable occupier demand retain the ability to convert scarcity into resilient cash flows. Investors with a long-term horizon and no immediate need to divest can focus on actively managing their portfolios until capital markets rebound.

3 Switzerland: What Lex Koller Tightening Means for Investors

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