Beds, Sheds & Beyond

February 2026

IN A NUTSHELL

- Structural demand drivers, such as demographic shifts, technological innovation, and sustainability, have shaped real estate markets for decades, not just for a single cycle.
- Residential and industrial ("Beds & Sheds") remain one of our core investment themes. Their long-term outperformance – including subsectors like student housing – has been underpinned by enduring trends, not fleeting market sentiment.
- While investor preferences evolve, a key to sustained success often is recognising genuine structural change early, before it becomes mainstream.
- Major forces like ageing populations, migration, political fragmentation, climate awareness, and artificial intelligence are already transforming the sector and are expected to continue to do so for years to come.
- Other trends, such as autonomous vehicles or bioengineering, may take longer to materialise but could have profound future impacts.
- Staying ahead means balancing proven strategies with readiness to adapt, ensuring portfolios are positioned for both current resilience and future opportunity.

1 / Market Outlook

Global real estate now appears to be navigating the early stages of a new market cycle. After a period of correction, we are witnessing evidence a gradual return of liquidity and the first signs of upward price momentum. This transition naturally prompts investors to question what lies ahead, and whether the strategies that delivered results in the previous cycle remain fit for purpose. There is a strong temptation to believe that a new cycle demands a wholesale shift in approach, discarding established investment themes in favour of something novel or seemingly more dynamic.

While there is some merit to reassessing strategies in light of changing market conditions, it would be a mistake to assume that all previous themes have lost their relevance. Each cycle brings its own set of challenges, demand drivers, and capital market dynamics. For example, it is unlikely that interest rates will revert to the ultra-low levels that fuelled record real estate

transaction volumes in the early 2020s. However, the fundamental nature of long-term, structural demand drivers is that they tend to persist well beyond the boundaries of any single cycle.
Investment themes centred on residential and industrial, commonly referred to as “Beds & Sheds”, have been a focal point of discussion for nearly a decade. Their continued prominence is not simply a matter of inertia, but rather reflects the enduring influence of demographic, technological, and societal trends that underpin demand for these sectors. The recent outperformance of residential and industrial funds during the early phases of recovery may further reinforce their ongoing relevance.

This is not to suggest that investors should blindly adhere to the status quo. Structural demand drivers, while long-lived, are not permanent. Over time, new trends emerge, either augmenting or supplanting existing drivers, and may give rise to entirely new sectors or subsectors within the real estate landscape. The challenge for investors is to maintain a clear-sighted view of both the present and the future, to continue capitalising on proven themes while also developing the foresight to identify and position for the next wave of structural change.

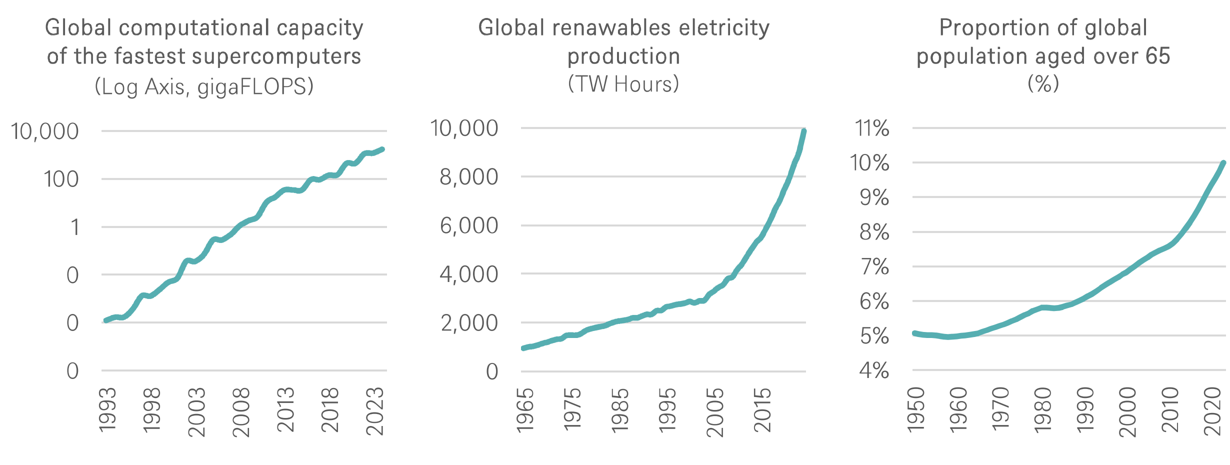
In this paper, we examine the historical performance of structural demand drivers across investment cycles, assessing whether or not established themes have delivered sustained outperformance. We also explore which emerging drivers could shape the future of real estate, evaluating their potential impact, timing, and the opportunities they may present.

1.1 Structural demand drivers last well beyond a single market cycle

How long will a structural demand driver last? There is no single answer to this question. Some may run for a short period, driven by unexpected events like the pandemic, but in most cases, significant shifts in the shape and structure of society may take several decades to fully materialise. Some, such as the Industrial Revolution, have lasted for more than a century.

Three examples from recent decades include the growth of digitalisation, the green transition, and the ageing population. All three have had a clear impact on real estate, affecting multiple sectors. From the way we use office space to the growth of e-commerce; from how we construct and operate buildings to how we care for and house a changing demographic profile, these trends are widely viewed as shaping the industry. Looking at the charts below, each of these structural changes has run for well over a decade, and in the case of digitalisation, for more than three decades, trending upwards throughout and largely unaffected by the wider economic cycle.

Examples of Structural Demand Drivers



Source: Our World in Data, UN, Energy Institute, DWS, As of November 2025

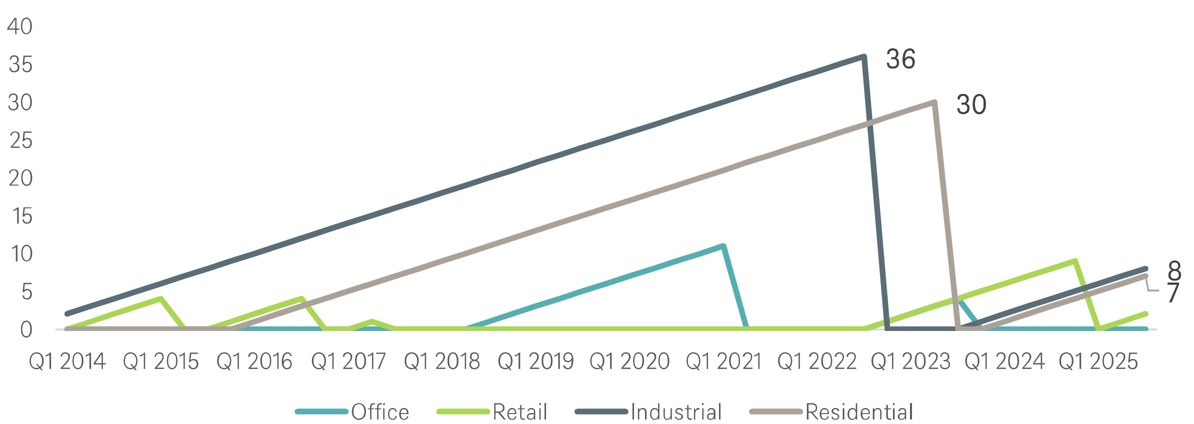
Long-term structural demand drivers have the potential to have a sustained positive impact on the performance of associated real estate sectors. The industrial sector is a clear example, having outperformed for an extended period, driven by the development of e-commerce since the early 2000s. Industrial real estate has moved from being a minor part of the institutional landscape to one of its largest, attracting new capital and occupier demand, and seeing a long period of outperformance after the Global Financial Crisis (GFC).

This is not only true for industrial. In recent decades, residential has also emerged globally as a major asset class, driven by changes in the way people live, such as smaller household sizes, and reduced access to mortgage finance after the GFC. However, these structural drivers are not always positive. The growth of e-commerce has weighed on retail performance, while trends in digitalisation, outsourcing, and flexible working have negatively affected parts of the office market, particularly out-of-town.

A trend may have been running for many years, but history suggests that the length of time a sector has been in favour is not, by itself, a reason to change investment strategy. Likewise, a long period of underperformance does not necessarily mean a sector will return to favour. Looking at the chart below, the annual total return of residential and industrial funds recorded thirty and thirty-six straight quarters of outperformance of the all-fund average. While this may have ended during the recent market correction, reflecting keen pricing during the upturn, both sectors seem to have reasserted themselves in the early phases of recovery and have recently outperformed for almost two years.

While total return is not the only metric relevant to investors, this chart reminds us that outperformance may persist for a long time. A market correction could lead to a short period of underperformance for previously highly rated sectors, but it does not necessarily mean these sectors will underperform in the next cycle.

Period of Fund Level Sector Total Return Outperformance (Number of Quarters, Rolling 4 Quarter Return)



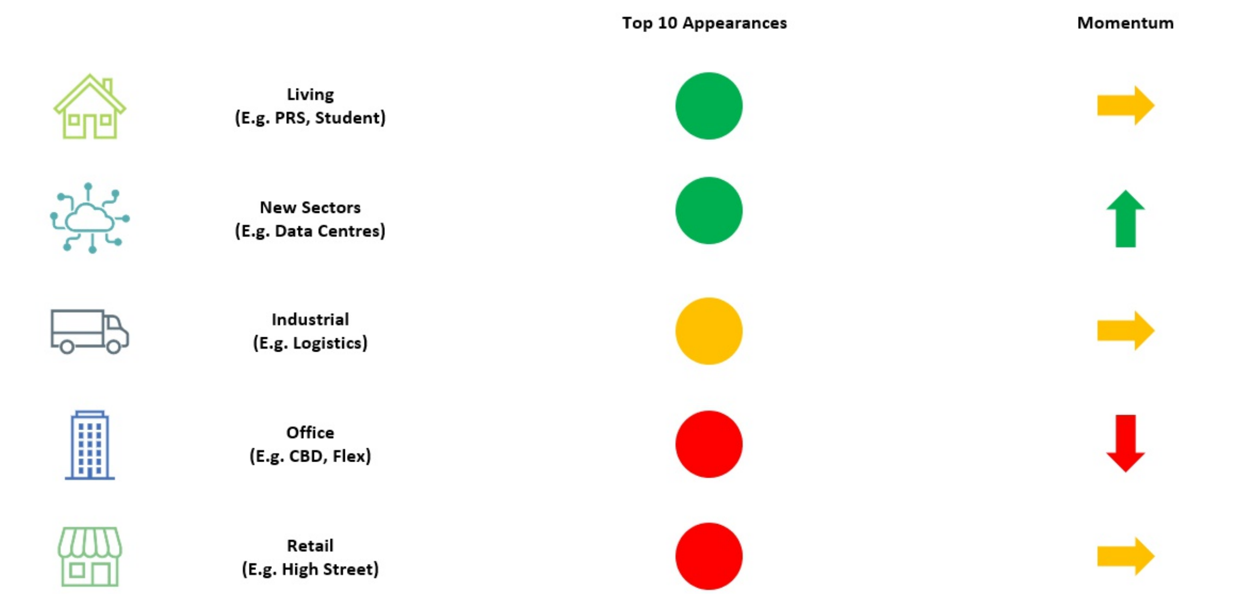
Source: INREV Fund Index, DWS, November 2025

1.2 But we shouldn't ignore the emergence of new structural demand drivers

The majority of investors are not disinterested in residential and logistics. Living and some industrial sectors continue to rank highly in investor intentions and prospects surveys. However, investor preferences tend to change over time as new structural demand drivers and investable sectors emerge. These shifts are often influenced by advances in technology, evolving social needs, and broader lifestyle trends. Going into the Global Financial Crisis, the industrial sector represented just sixteen percent of the Global MSCI Index compared to thirty-six percent today.[1]

It is important not to ignore these shifts in market conditions, structural changes, and evolving investor preferences. Staying ahead of the curve means identifying these changes before they fully materialise, which may enable early adoption and a competitive edge. History offers lessons: data centres ranked among the top ten sectors in the European ULI/PwC survey as early as 2014, at a time when most investors were absent from the space. Those who acted early appear to have captured significant upside as the sector institutionalised and demand surged. Anticipating such inflection points is generally viewed as important for positioning portfolios to potentially benefit from structural growth rather than chasing momentum.

ULI / PWC European Emerging Trends Surveys: Sector Prospects – Investment (2017-26)



Source: ULI, PWC, DWS, November 2025

Note: Multiple surveys of real estate investment professionals from 2017 to 2025. Colour represents the number of times the real estate group appeared in the top 10 of the ULI/PWC Sector Prospects for investment, green showing a high representation and red low representation. Momentum reflects the trend movement in ranking of each group over the ten-year period.

Early adoption, however, carries inherent risks. Moving too soon can expose investors to limited stock availability, operational inefficiencies, and low liquidity. Worse, it may lead to participation in unsustainable trends driven by hype rather than fundamentals. Careful evaluation of long-term viability is generally advisable before committing significant time or capital. Investors must distinguish between cyclical fads and structural shifts, ensuring that new sectors offer enduring demand drivers rather than short-lived enthusiasm. Discipline and rigorous analysis remain the cornerstone of successful innovation.

Nonetheless, when a trend demonstrates strong, sustainable fundamentals, allocating time and resources to build expertise can be highly rewarding. Convincing capital may initially prove challenging, but persistence can unlock opportunities for outsized returns and a prolonged period of superior performance. For investors willing to commit strategically, emerging sectors may represent not just diversification but the potential to capture transformational opportunities.

[1] MSCI, Global Property Index, November 2025

Looking beyond data centres, sectors such as student housing, healthcare, and retirement living have shown a persistently positive ranking in investor preference surveys, supported by clear demographic, social, and lifestyle trends. Alternative forms of industrial space, such as self-storage, have also shown strong momentum over the past decade.

This growth in investor interest in emerging sub-segments highlights that changing structural demand drivers may not necessarily lead to the creation of new sectors but rather could result in an evolution of the established order. This could be an important consideration for investors and managers looking to align their track record and skillset with the changing landscape. These considerations also apply in reverse. Once well-established and strongly performing sectors can see a sustained reversal in performance. The most obvious example of this over the past decade has been retail.

1.3 Future structural trends

As we look at trends emerging across the world, we can start to estimate how they may shape the future of real estate demand. The table below lists ten potential structural demand drivers. These span a wide spectrum, from economic to technological developments, and from social to geopolitical trends. Each could materially alter real estate requirements and the way we interact with the built environment. While most may not create entirely new investable sectors, many could shift the balance of demand across existing sectors or create adjacencies and subsectors within traditional categories.

Potential Structural Demand Drivers

Migration Global Domestic Students	**Aging** Care Lifestyle Labour Force	**Fragmentation** Militarisation Populism Regionalisation	**Environment** Climate Resilience Policy Divergence Carbon Reduction	**Data** AI Everywhere Quantum Computing Edge Computing
Health 3.0 Bio-tech Health-span Personalised Health	**Transport** Autonomous Vehicles Drones Personal Flight	**Emerging Markets** India & China Mega Cities Capital Sources	**Industry 4.0** Advanced Robotics Smart Manufacturing Bioengineering	**Space** Satellite Travel Conflict

Source: DWS, November 2025

Some of these drivers are already influencing real estate. The ageing population has been evident for years, migration remains a major political topic, political fragmentation and climate awareness have grown over the past decade, and the boom in artificial intelligence is one of the main talking points of recent years. As discussed in this paper, trends can run for multiple decades, so even if a subject like ageing has been covered repeatedly, its impact may only just be beginning in many countries.

Other drivers may take longer to materialise. The widespread availability of personalised healthcare, acceptance of modular housing, the rollout of autonomous vehicles, the institutionalisation of markets like India, or the development of bioengineered products may take a decade or more before having a significant impact on real estate. This creates uncertainty, but some investors may wish to start positioning for these trends now, developing knowledge and expertise, while those with a higher risk appetite may already want to invest in anticipation of potential outperformance.

Beyond these, the landscape becomes even more uncertain and less likely to offer immediate opportunities. Space, for example, could eventually become a new frontier for real estate investment. But in all these cases, there is a potentially strong link to the real estate industry. Some are clear, such as ageing and the growth of senior housing, others are more controversial, like military-linked logistics, while some are more speculative, such as the development of autonomous vehicle-enabled suburban residential areas or the creation of wellness hubs to support personalised healthcare.

The purpose of this report is not to fully answer the question of what comes next for the global real estate industry or where investors should focus their allocation strategies. For now, we continue to favour the residential and logistics sectors, forecasting that structural demand drivers have further to run. At the same time, we remain highly aware of emerging sectors linked to technology, demographics, and social change. We will explore the topic of what comes next in future reports, looking at potential developments, areas of growth, emerging sectors, and what these could mean for the real estate landscape.

Structural Demand Driver	Description	Real Estate Opportunities	Timing
Migration	Economic, climate, and social shifts are driving large-scale migration, reshaping cities and housing demand.	Modular Housing	●
Aging	Longer lifespans and ageing populations are boosting demand for senior housing and healthcare.	Intergenerational Living	●
Fragmentation	Geopolitical tensions and regionalisation are shifting capital flows and increasing demand for logistics.	Military-linked Logistics	●
Environment	Climate change and regulation are driving demand for sustainable, resilient buildings.	Proactive Resilience	●
Data	AI and technological change driving demand for high-capacity, resilient hyper and smaller scale data centres.	Edge Data Centres	●
Health 3.0	Advances in biotech and personalised care creating demand for wellness-focused real estate.	Wellness & Longevity Hubs	●

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Transport	Autonomous vehicles and drones are unlocking new locations, hubs, and advanced logistics facilities.	New Suburbs	●
Emerging Markets	Growth in markets like India and China could open new real estate investment frontiers.	Indian Tier 1	●
Industry 4.0	Robotics and smart manufacturing transforming factories and innovation spaces.	Tech-enabled Manufacturing	●
Space	Space tech expansion could create demand for ground stations and space-linked real estate.	Space Ports	●

- ● - Represents a potential Long-term effect
- ● - Represents a potential Emerging effect
- ● - Represents a potential Near-term effect

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