Global Real Estate Strategic Outlook

January 2026

IN A NUTSHELL

- Global real estate markets returned to growth in 2025, signaling the end of correction and the start of a growth phase.
- Attractive entry yields, rent growth, and anticipated interest rate cuts are expected to create conditions that may support point to an above average annual return over the next five years, across the US, Europe, and APAC.
- Success is likely to hinge on city and sector selection. Global markets to watch include Miami, Atlanta, Berlin, London, Seoul, and Sydney, while we continue to favour Residential and Industrial globally.
- Limited development pipelines and rising construction costs are contributing to acute shortages, particularly in Residential, which may support rental growth as well as active strategies like refurbishment and development.
- Demographics, geopolitics, and technology are redefining investment themes, from migration-driven housing demand to tech-enabled logistics and evolving office preferences.

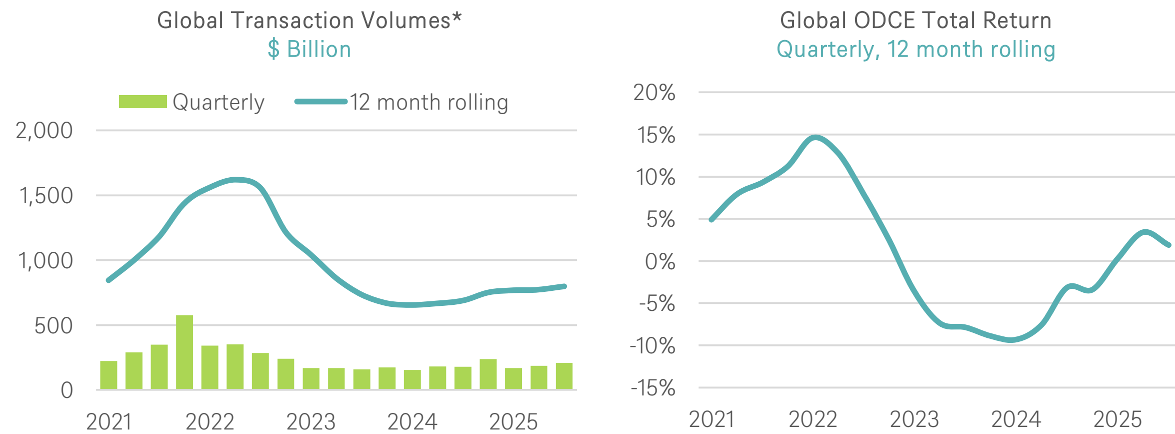
The global real estate market appears to be firmly in recovery. During the first three quarters of 2025, global real estate showed a return of 4%, a marked improvement on -1% recorded over the same period in 2024.[1] And while the market may not yet be booming, with the first chapter coming to an end, the story appears to be developing into one of growth and opportunity. Led by higher rents, all regions have experienced positive capital appreciation, often enhanced by the return of liquidity and yield compression.

As we look forward to 2026, and across the second half of this decade, we expect the potential for a period of elevated performance. Attractive entry yields, strong fundamentals, and anticipated interest rate cuts could bode well for real estate performance. Importantly we see this outcome as plausible across all three regions we cover – the US, Europe and Asia Pacific – with no major differences anticipate in aggregated performance.

But this does not mean all cities and sectors will perform alike. Already evident during the recovery, we strongly believe that without the relentless impact of negative interest rates seen during the previous cycle, long-term demand could be the dominant force driving the success of investment strategies.

[1] Global ODCE Index, INREV, ANREV and NCREIF, December 2025

Exhibit 1: Real Estate Transactions and Returns



Source: DWS, Broker Sources, MSCI, INREV, ANREV, NCREIF, As of December 2025
Note: *Excludes development sites and land

1.1 Value Growth

Over the coming five years we forecast that the global real estate market could record an average annual unlevered net return of around 7.5%. With entry yields for better quality stock today around 100 basis points higher than the lows of 2021, and rents projected to grow by around 3% per annum, these two factors are expected to be the main drivers of this projected return. And while lower interest rates, reduced debt margins, and the return of liquidity may provide additional support to the outlook, given the uncertainty around medium-term monetary policy, we're reluctant to factor in considerable yield compression.

The European market may have been a step ahead in its recovery but looking forward all three regions are projected to see broadly similar returns over the coming five years. This is particularly true if we only focus on core APAC markets – excluding an anticipated continuation of the weak performance being seen across Chinese markets – and once again stressing the importance of looking beyond the regional headlines.

We expect to see considerable differences in performance within all three regions. Cities such as Miami, Atlanta and Nashville in the US, Berlin, Madrid and London in Europe, and Seoul, Sydney and Brisbane in APAC, are among those projected to see some of the strongest returns globally over the coming five years. And while we may have a less positive outlook for some major markets including New York, Paris and Tokyo all three may still offer selective opportunities.

All sectors are forecast to experience some value growth over the coming five years, but at the global level we once again favour Residential and Industrial. However, the sector outlook is now less uniform across each of the regions, with Retail leading in the US, and Office performing well in North Asia.

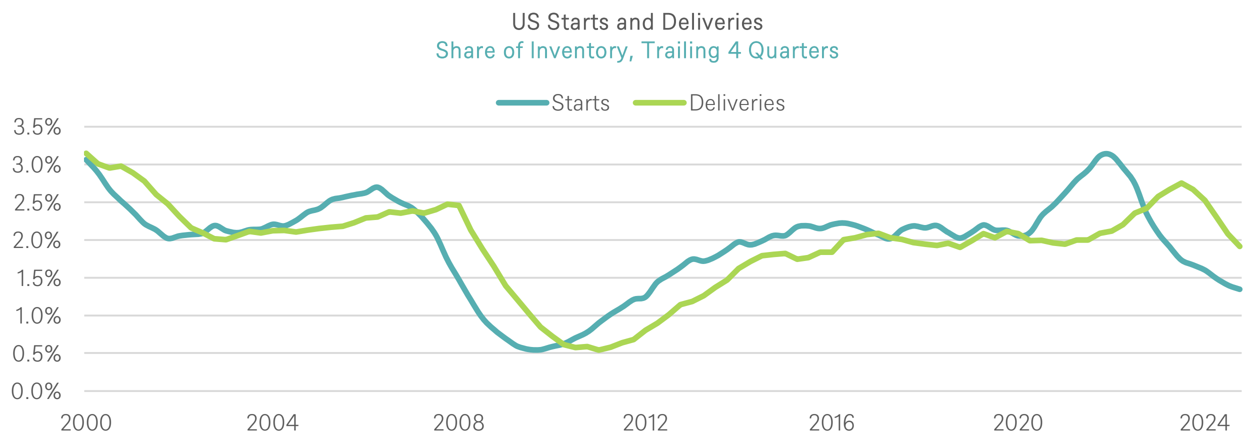
Despite some small upsides taken during the early phase of recovery, this outlook for growth suggests that this may represent a compelling point in the cycle invest into real estate equity. Indeed, with momentum building, we would expect to see a gradual but consistent increase of both core and value add capital moving into the sector.

This may lead some to conclude that equity investment now trumps real estate debt, but we feel this would be the wrong conclusion. Debt margins may have compressed with the return of some traditional lenders, but with greater clarity over valuations and rising prices, increased origination, and a clustering of lenders in the lower risk spectrum, there remain opportunities for alternative lenders with real estate expertise to potentially achieve attractive returns across the capital stack.

1.2 Supply Shortages

A feature of almost every market that we cover is that over recent years there has been a material reduction in development. Risk, repricing and a sharp increase in construction costs, developers have struggled to bring new projects onstream, resulting in a growing lack of new build stock and a supply pipeline that is expected to deliver a much lower delivery of space over the coming years, and the prospect of shortages. Indeed, the market is already so tight, that it is not unusual to see record high rents being recorded across multiple cities – particularly for residential – but also for the once beleaguered office sector.

Exhibit 2: Real Estate Development



Source: DWS, Broker Sources, MSCI, INREV, ANREV, NCREIF, As of December 2025
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These shortages are likely to be a key driver of the real estate growth story. For some investors this may be enough as they seek to take advantage of rising rents and improving net operating incomes to pursue performance. But again, the supply picture should influence the approach, including both market selection as well as investment approach. This backdrop could help to facilitate more active management strategies – such as reletting, refurbishment and development – with the aim of supporting higher risk-adjusted returns, particularly in those cities and sectors where supply shortages coincide with a sustained level of demand.

This dynamic is most evident across Residential with many major cities projected to see acute shortages of rental housing as already tight markets face both rising rental demand as well as a much-reduced supply pipeline. Our positive US call comes despite the record 2024 wave of new construction, as high absorption levels have already pushed vacancy levels back down below the historical average – with further falls expected over the coming years. In all regions, this lack of available stock may provide a positive backdrop for some form of active management, while potentially supporting a move into other Living segments such as student housing.

Having seen a wave of new deliveries in the years following the pandemic, Industrial has not generally faced the same shortages. Vacancy rates have been moving higher across all three regions, with the US average hitting double-digits during

2025, and parts of North Asia – such as Seoul – recording levels in the high teens. Add to this the uncertainty over trade and tariffs and some investors have understandably expressed nervousness about this sector. However, we do see this as a potential opportunity to acquire high quality assets in anticipation that Industrial performance could reassert itself over the coming years.

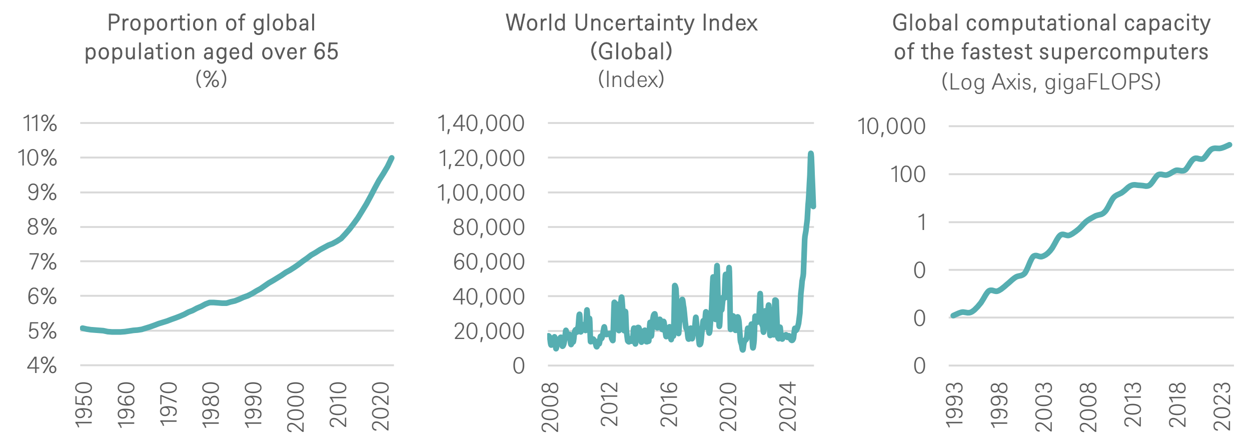
The overhang of Industrial supply in US and North Asia is projected to fall back sharply, with many developers no longer able to profitably deliver at current market rents. And while for now, many may wish to take a cautious approach to leasing and development, as time progresses, those with the ability to deliver stock, may be positioned to capture considerable rental upsides.

While also evident across the less favoured Office and Retail sectors, this hasn't yet led us to take universally positive positions on either. However, we see clear opportunities in US retail – facilitated by a sustained period of minimal net additions – as well as centrally located office in North Asia, Sydney, and the big European capitals. In cities like London, Paris and Tokyo, where rents seem to have smashed through the previous highs, we increasingly favour providing a light refresh to centrally located Grade B office, aiming to deliver attractively priced stock, accessible to a wide range of corporate tenants.

1.3 Structural Change

After a period of correction, this 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 requires 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, but the fundamental nature of long-term, structural demand drivers is that they tend to persist well beyond a single cycle.

Exhibit 3: Potential Structural Demand Drivers



Source: Our World in Data, World Uncertainty Index, UN, DWS, As of December 2025

Demographics: A powerful driver of real estate trends that extend far beyond aging populations. Migration flows have surged since the pandemic and are expected to remain strong. These shifts are reshaping housing demand globally. In the U.S., fast-growing Sunbelt cities are attracting millennials and remote workers, fuelling demand for suburban single-family homes. Similarly, Australia's major cities, such as Sydney, are seeing new suburban developments driven by global migration. In

Europe, cities like Madrid appear to be benefiting from South American immigration, while Japan faces internal migration toward major urban centres as some smaller cities shrink.

Migration also influences niche real estate segments. Increased mobility and global connectivity are boosting demand for co-living catering to digital nomads, student housing for international learners, and even self-storage solutions for transient lifestyles. Meanwhile, aging populations are shaping demand for senior housing. Growing suburbs, including those with an older demographics, may also support service-led retail, particularly health and wellness offerings. We strongly favour neighbourhood retail in the US, with retail parks in parts of Europe and Australia also standing to potentially benefit from these demographic shifts, as they integrate into expanding suburban communities and cater to changing consumer needs.

Geopolitics: While it may be premature to conclude that the surge in geopolitical risk over recent years marks a structural shift, its influence on economic and social policy is undeniable, and real estate is feeling the impact. Issues such as tariffs, trade disruptions, military spending, migration, and soft power dynamics are reshaping investor strategies. These factors can ripple through sectors from logistics and manufacturing to residential and hospitality, while uncertainty weighs on global capital flows.

In 2025, this was most evident in the U.S. tariff policy's effect on logistics, where sentiment weakened throughout much of the year. Although concerns have eased, long-term implications remain. Potential nearshoring – compounded by lingering COVID-related constraints – alongside restrictions on small parcel flows and reduced port throughput could redefine supply chains. For real estate investors, this could translate into a preference for urban and infill logistics assets, cost-efficient manufacturing hubs such as Poland, and strategic locations like Southern Germany, which may benefit from increased defence spending.

Technology: While the rise of artificial intelligence (AI) often draws attention to the rapid growth of the data centre market – often classified as infrastructure rather than traditional real estate – the structural changes underway extend far beyond this. AI's influence is reshaping demand patterns across multiple sectors. Automation and AI-driven efficiencies may reduce the need for certain office-based roles, lowering demand for generic back-office space. Conversely, productivity gains in knowledge-intensive roles may drive a preference for high-quality, centrally located offices in global technology hubs such as Seoul, Tokyo, London, Berlin, Seattle, and San Francisco, supporting higher offices occupancy and rents across these markets.

Industrial real estate is also evolving. Technology-enabled manufacturing and the continued expansion of e-commerce are fuelling demand for modern, tech-ready facilities, particularly urban and infill logistics locations. Older, inefficient stock may face declining relevance, although potentially creating opportunities for repositioning. Longer term, emerging technologies like autonomous vehicles, which are already prevalent in the U.S. and China and expected in Europe by 2026, could reshape urban landscapes, potentially unlocking residential opportunities, reposition retail, and altering logistics corridors. Technology could also be central to addressing environmental challenges, enabling buildings that both mitigate climate impact, as well adapting to physical risks.

As we enter 2026, it is important that we consider both the cyclical as well as the structural drivers of the real estate market. Real estate appears to be going through a period of recovery, with opportunities across regions and sectors, however technology, as well as these other structural changes, could redefine investment strategies for decades to come influencing where to invest, sectors to prioritise, and how we create resilient, future-ready assets.

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