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Global Real Estate Outlook Mid-Year 2025: Opportunity amidst uncertainty

Introduction

We are living through a period of unprecedented change, where accepted norms are challenged and new opportunities (and risks) continue to arise.

A key question for investors is how to distinguish between cyclical signals, structural trends, and short-term noise. Real estate markets remain close to cyclical lows, providing an attractive entry point, in our view. But to capitalise on this, investors must combine a top-down understanding of structural trends with bottom-up selectivity at an asset level, ensuring alignment between macro conviction and asset fundamentals. Our mid-year Global Real Estate Outlook 2025, featuring top sector and market picks, is designed to support this balance, helping investors to walk the fine line between caution and opportunity.

Yet we also witness a new dimension in which the dominance of the US as a destination for international capital is facing questions. Whilst some investors pause or reconsider their planned US commitments, other regions are coming into greater focus. There is potential for both European and Asia Pacific real estate markets to be a beneficiary of any recalibration – and we believe each offers a broad spectrum of opportunities to lean into.

I hope you find the report insightful, and welcome your take on the potential for opportunity amidst uncertainty.



Martin Towns
Global Head of Real Estate

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Overview

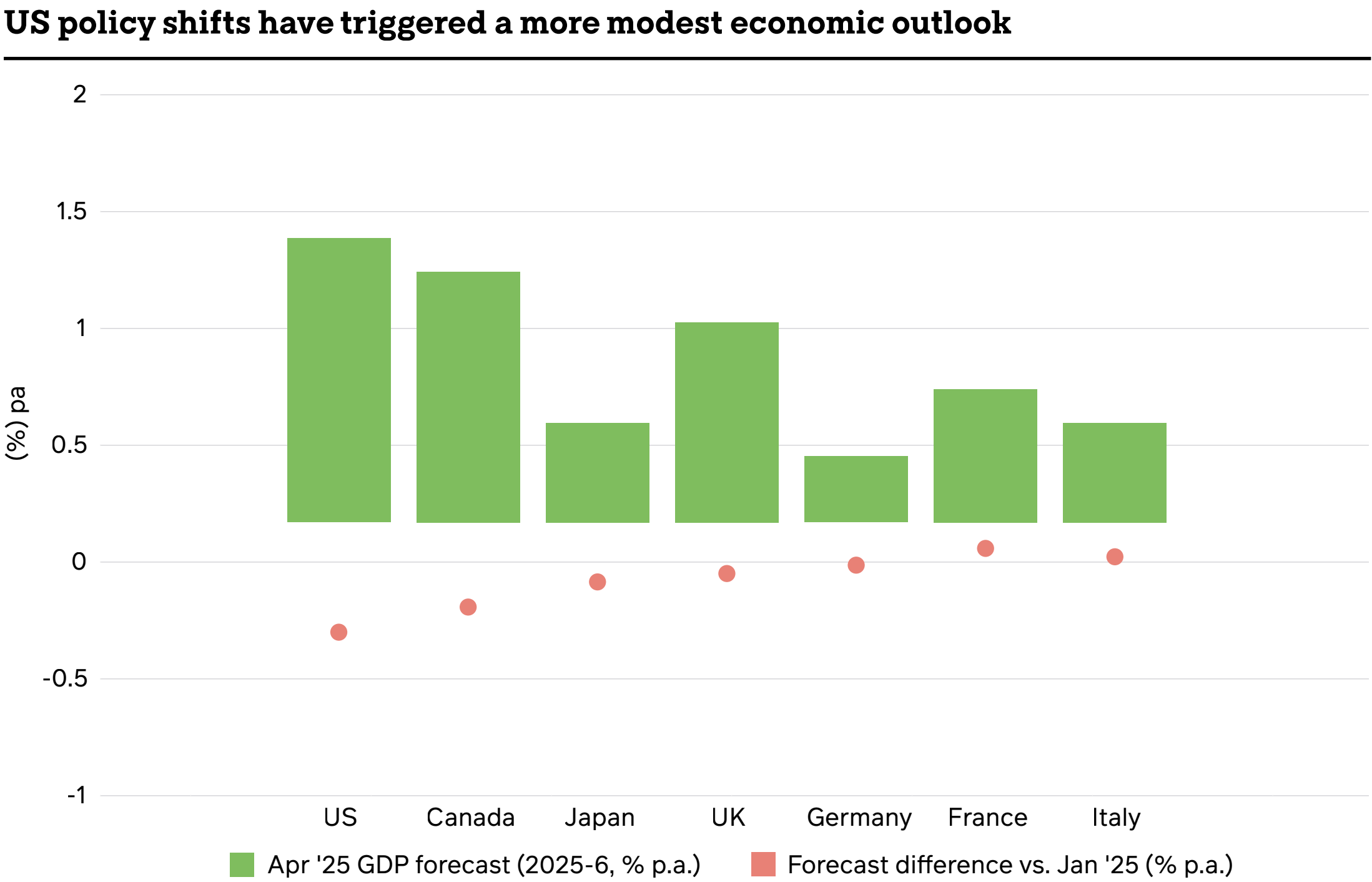
- With real estate generally viewed as fair value in Europe, the UK and APAC after ‘the big price reset’, we believe the recovery in real estate values is unlikely to be derailed, even if it struggles to gain as much traction in the near term.
- Robust underlying fundamentals continue to support income growth prospects and look set to persist, given a lack of new development.
- Questions over US policy and the economic outlook mean investors are showing greater interest in opportunities in markets such as Europe, the UK and APAC.
- Greater regional cohesion in Europe as well as APAC could boost long-term economic prospects and strengthen occupier fundamentals, while also driving stronger intra-regional and global investment flows.
- Investors are seeking to mitigate risks through greater diversification within their portfolios, including targeting exposure to real assets in an environment where inflation remains a risk.
- We see opportunities across many real estate strategies within Europe, the UK and APAC, with the current period presenting a rare chance to acquire assets at an attractive entry point.
- Targeting sub-markets with acute supply and demand imbalances of well-located, modern assets should form the backbone of a core investment thesis, we believe, offering the ability to tap into strong long-term rental growth potential.
- The current backdrop may also offer an extended buying window for investors seeking higher risk and return strategies, by repositioning assets to meet the needs of today’s occupiers or acquiring under-managed assets to unlock latent value.

Uncertainty as a catalyst: Rethinking regional opportunity

Sentiment dampened by US policy upheaval

2025 has brought renewed uncertainty. The dramatic overhaul in US policy (from trade to immigration and foreign policy), along with the erratic nature of policy announcements, have created a more unpredictable economic and business environment for the world's largest economy – and one that could remain throughout President Trump's term in office.

The result is the potential for economic inertia. In the US, businesses are slowing hiring and postponing investment, while consumer spending is expected to moderate on the back of higher import prices. This is being felt more widely too, with global GDP growth forecasts being tempered and concerns raised over the potential for renewed inflationary pressures.



Source: IMF World Economic Outlook, April 2025.

Impact of uncertainty to extend beyond economic momentum

Yet while there is a consensus view that global prospects for 2025 have softened, more significant questions remain around the longer-term impacts of a more inward-facing US. Signs are emerging that heightened uncertainty towards the US is beginning to reshape investor sentiment and capital flows. Institutional investor sentiment has already fallen sharply for the US, leading to an unusually stark regional divergence; something we believe will also be reflected in real estate. This could be a lasting change – and one which could provide compelling investment opportunities across other regions.

Stark divergence in investor sentiment could drive shifting capital flows



Source: Macrobond, sentix Sentiment Index, June 2025.

A catalyst for opportunity away from the US

In the face of shifting global dynamics, Europe is looking to bolster its own resilience. Structural reforms and a renewed drive by policymakers to deepen pan-regional cooperation – especially in areas like defence, energy transition and digital infrastructure – could lift productivity, enhance the region’s competitiveness and create closer ties across countries within the EU, and even between the EU and the UK. As well as boosting the long-term economic outlook, in turn strengthening occupier fundamentals, a reinvigorated Europe pushing for self-sufficiency and cohesion could serve as a catalyst for the re-orientation of global real estate investment demand towards key European hubs.

For APAC, under the stabilising influence of a fiscally-expansionary China, economic growth expectations remain robust, supporting an attractive occupational backdrop. As President Trump’s ‘America-first’ policies disrupt traditional global alliances, we could see greater regional cohesion here too, and together these factors could drive stronger intra-regional investment flows. With 43% of global capital raised in 2024 originating from APAC¹, a less compelling US opportunity set may shift Asian investors’ attention towards their own back yard (as well as Europe), just as it could divert investor demand from abroad into the APAC region.

Europe, the UK and APAC to benefit from diversifying migratory flows

Meanwhile, it’s not just capital that may be shifting away from the US. Emerging trends suggest that changing US immigration policy is already influencing migration patterns. There are signs that both international students who would have targeted the US – and domestic US students themselves – are increasingly looking to alternative destinations that also offer top-ranking universities, while tourism is being redirected towards other international markets².

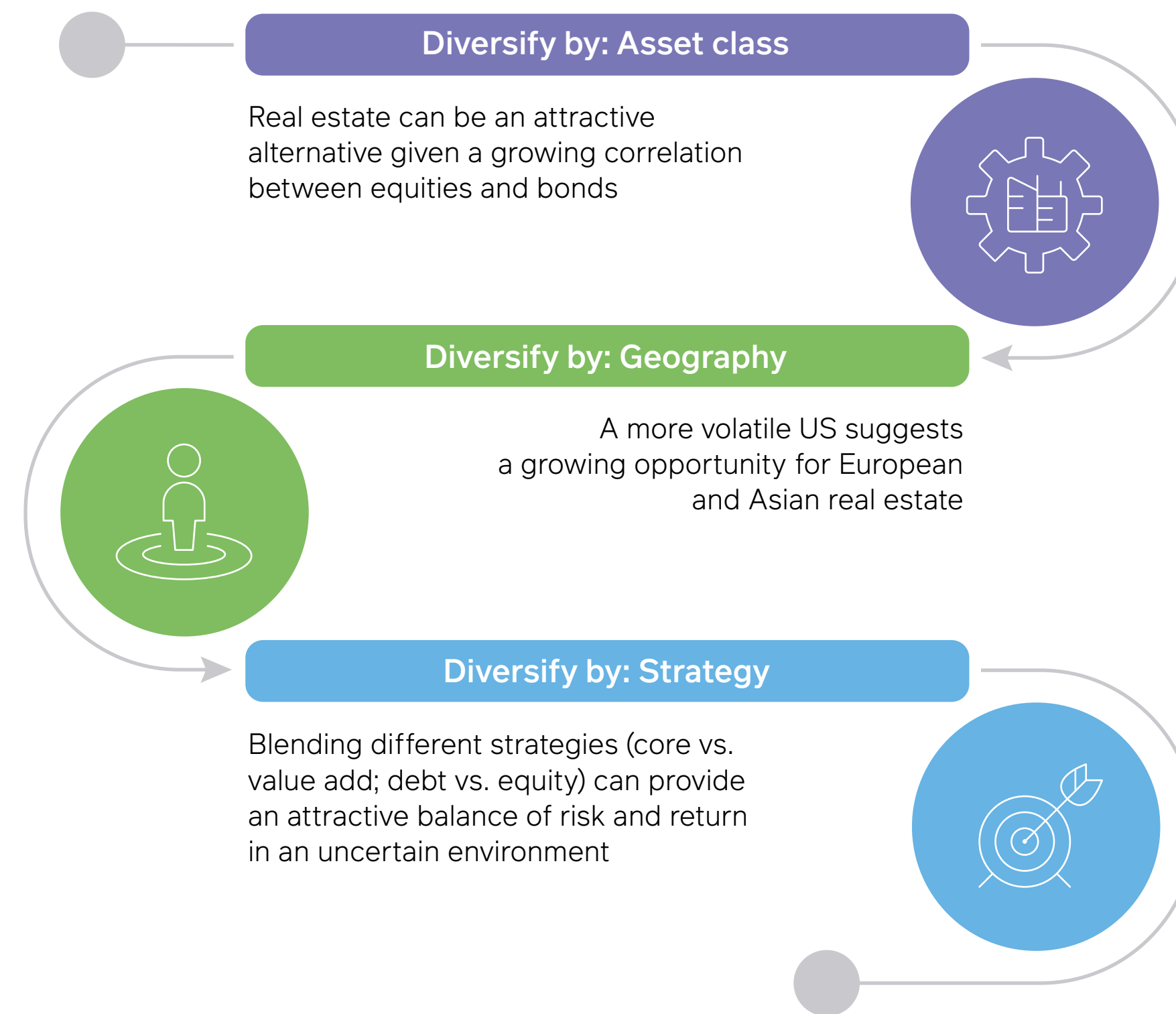
It’s not difficult to imagine this sentiment extending to more permanent migration: if the US is perceived as less welcoming, highly-skilled international workers may instead turn to Europe or Asia for employment opportunities. This could also have meaningful impacts on occupier demand, particularly for the living sectors, that last beyond the current volatility.

¹INREV, Capital Raising Survey 2025, April 2025.

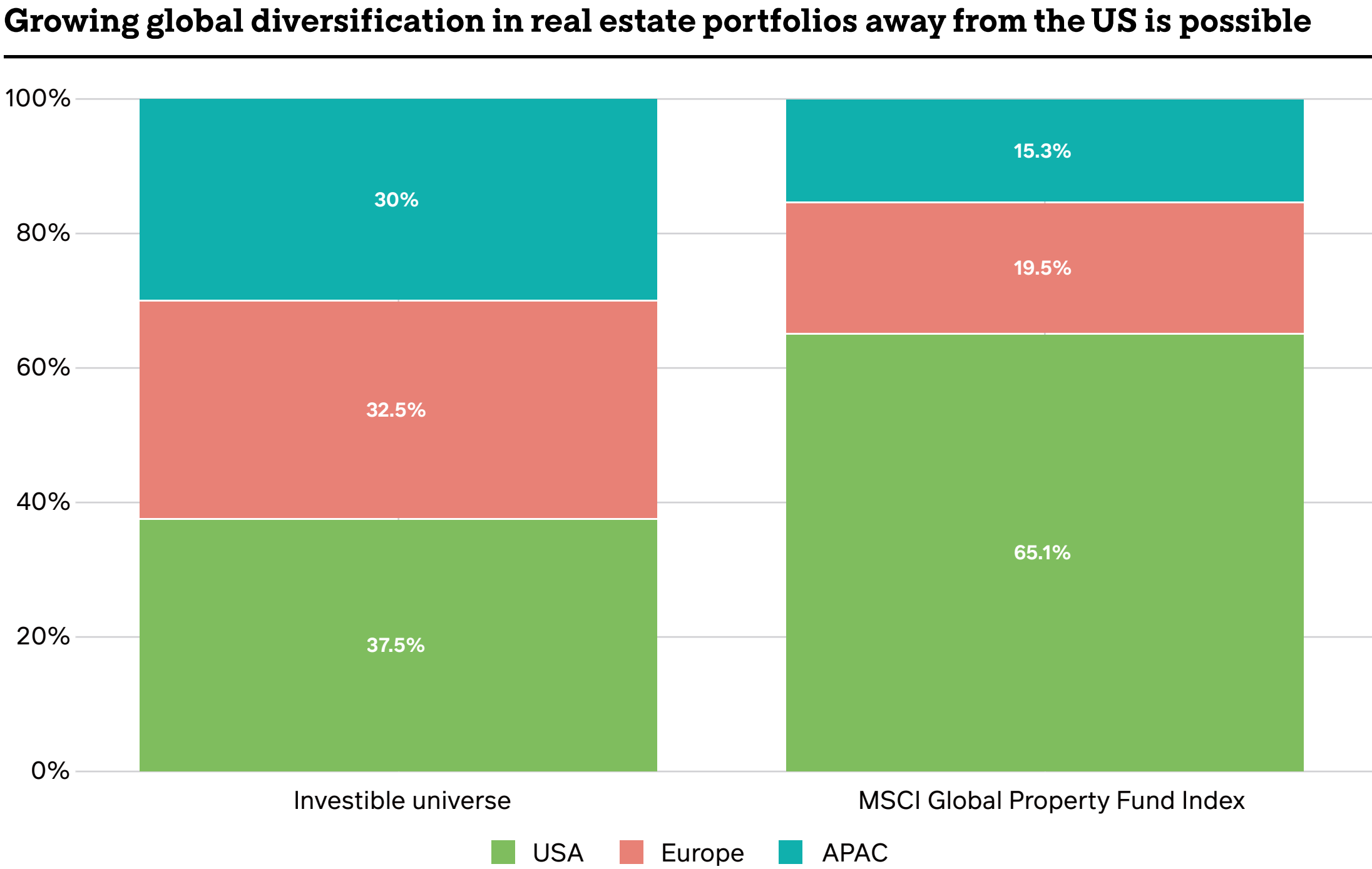
²Foreign travel spending in US to decline 7% in 2025, report says, (reuters.com), March 2025.

Real estate strategies: Windows of opportunity and managing risks

The evolution of global market events since April 2025 has prompted investors to consider ways to mitigate risks through greater diversification within their portfolios. As trade flows and inflation discover a new 'norm', this may encourage investors to increase exposures to asset classes beyond equities and bonds, such as real estate, which can provide real cash flows and diversification benefits in an inflationary environment.



It could also include reducing portfolio concentration to specific regions, countries or currencies – real estate portfolios are already disproportionately invested in the US³ – and reallocating to dynamic, growing economies in APAC, or stable and transparent economies in western Europe.



Source: PMA, Global Service – Forecasts, April 2025; MSCI, Global Quarterly Property Fund Index, March 2025.

³While only 38% of income-producing real estate is located in the Americas, 65% of MSCI Global Property Fund Annual Index assets under management are in North America

Despite uncertainty, real estate fundamentals remain robust

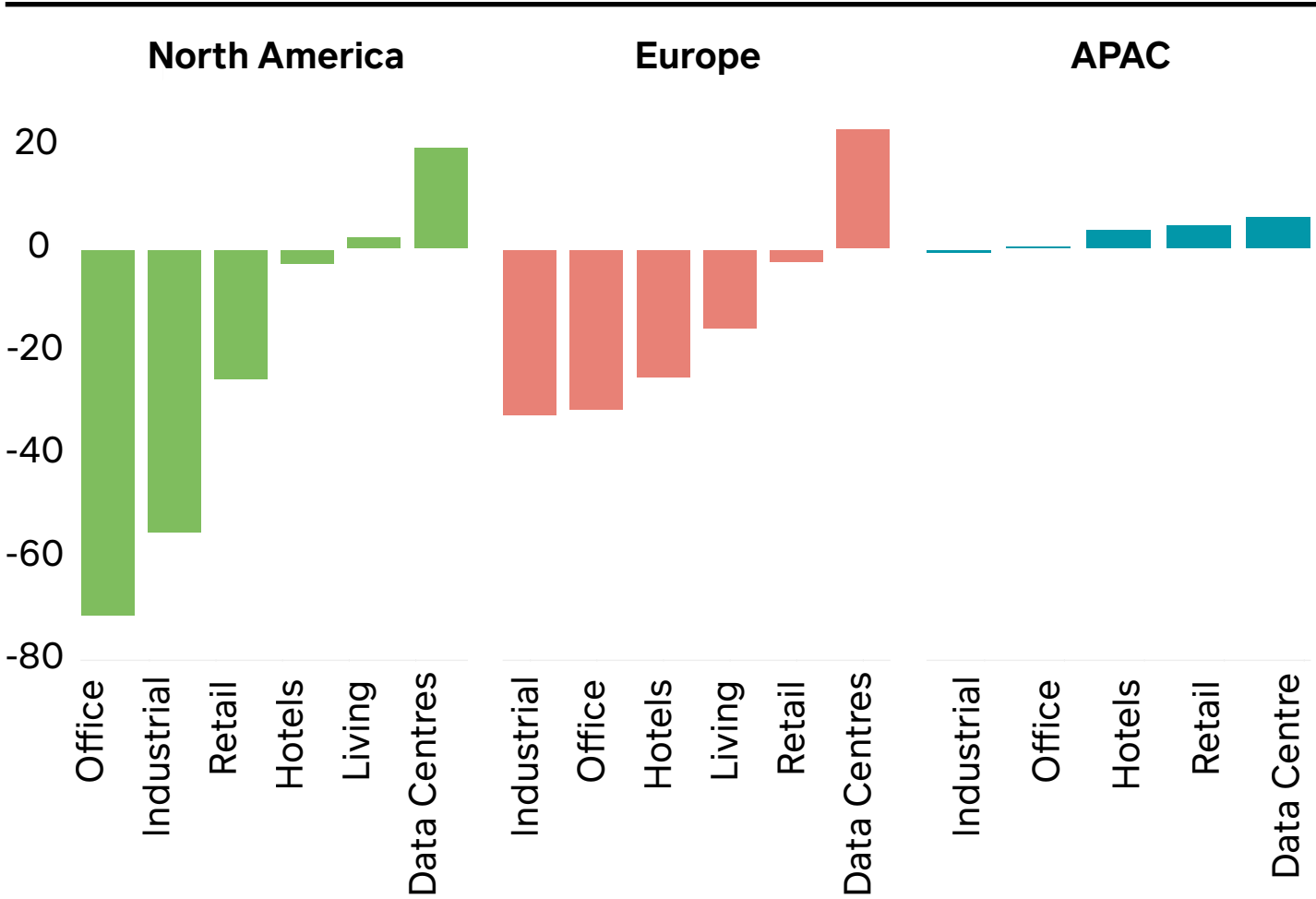
As an asset class, real estate has many strong links with the economy. An uncertainty-driven pause in business investment decision-making, for example, might soften occupier demand for office space, all else being equal, while consumer caution would likely translate into fewer retail sales, particularly for larger, discretionary items. Some sectors are less aligned with the short-term fluctuations in economic performance as well as being backed by long-term fundamentals, such as living or data centres.

We are, however, entering this period of moderate economic growth with many sectors globally out of balance and demand outstripping supply. Vacancy rates for prime property are at or near historic lows, new supply is starting to dry up, and demand – in particular, for the best quality space – remains robust.

Even through a period of dramatic monetary tightening, commercial tenant default rates have remained remarkably low, and the wider occupier picture is one of stability. We therefore believe materially weaker rental and vacancy prospects are far from inevitable. And even if the current environment were to soften tenant demand in some areas, as well as bringing the potential for further inflationary pressure, greater caution from developers may mean supply pipelines get slimmer still, further bolstering rental growth prospects.

In most parts of the market, we expect continued rental growth, and where vacancy rates may have risen, for example in the office and logistics sectors, we expect to see an imminent peak. For sectors that are less aligned to the economic cycle, notably privately rented housing or student accommodation, prevailing structural tailwinds are expected to continue to support growth in occupier demand despite a more muted economic environment.

Forecast 2025 completions vs peak (2021-24)



Source: JLL Research, Global Real Estate Outlook 2025, (December 2024)
North America = U.S., Canada; Retail = under construction vs previous under construction peak; Europe Living = Germany, UK Build-to-Rent; U.S. Living = Multihousing; Europe / Asia Pacific Retail = Shopping Centres; U.S. Retail = total retail

Real estate yields have reset and have room for compression

Values are now growing again following a period of acute correction, chiefly driven by rising rents, as well as some emergent yield compression. This is particularly the case in the UK and Europe, where benchmark prime yields have been sharpening – albeit selectively – since the second half of 2024. APAC saw a much milder correction – or even continued growth – in capital values versus other major global regions. Where prime yields did reset, notably in Australia and South Korea, signs of compression are also coming through.

Though heightened caution by some investors could potentially slow the pace of the still-nascent recovery in real estate values, at least in the near term, we don't expect it to be derailed, since real estate is largely now considered fairly priced in most global regions and across most sectors. What's more, falling debt costs have enabled leveraged buyers to fully re-engage with the markets in some parts of the world, notably across continental Europe.

A shot to the arm for the real estate industry, with the potential to support pricing, is the expectation of further cuts to policy interest rates in the coming months. Notably, financial markets are now pricing in the likelihood that the European Central Bank (ECB) will cut its key interest rate to below 2% this year, having already seen eight cuts in the last 12 months and standing at 4.5% as recently as June 2024.

The obvious global anomaly in the last few years has been Japan, where interest rates remained negative into 2024 – after the rest of the developed world's central banks had dramatically hiked rates – and only more recently has it been gradually tightening monetary policy. Yet, robust occupier demand in both the office and multi-family sectors is supporting stronger than expected rental growth, which could well offset any recalibration in capitalisation rates and protect real estate values.

Prioritising selectivity in a shifting market

From crosswinds to conviction

For institutional investors navigating today's environment, a key question is how to distinguish between cyclical signals, structural trends, and short-term noise. Real estate markets across the UK, Europe and APAC remain at a cyclical inflection point, with the current period continuing to present a rare opportunity to buy into real estate at attractive entry points, in our view. But to capitalise on this, investors must combine a top-down understanding of sector dynamics with bottom-up asset-level selectivity – ensuring alignment between macro conviction and asset fundamentals, such as cashflow quality, specification and micro-location.

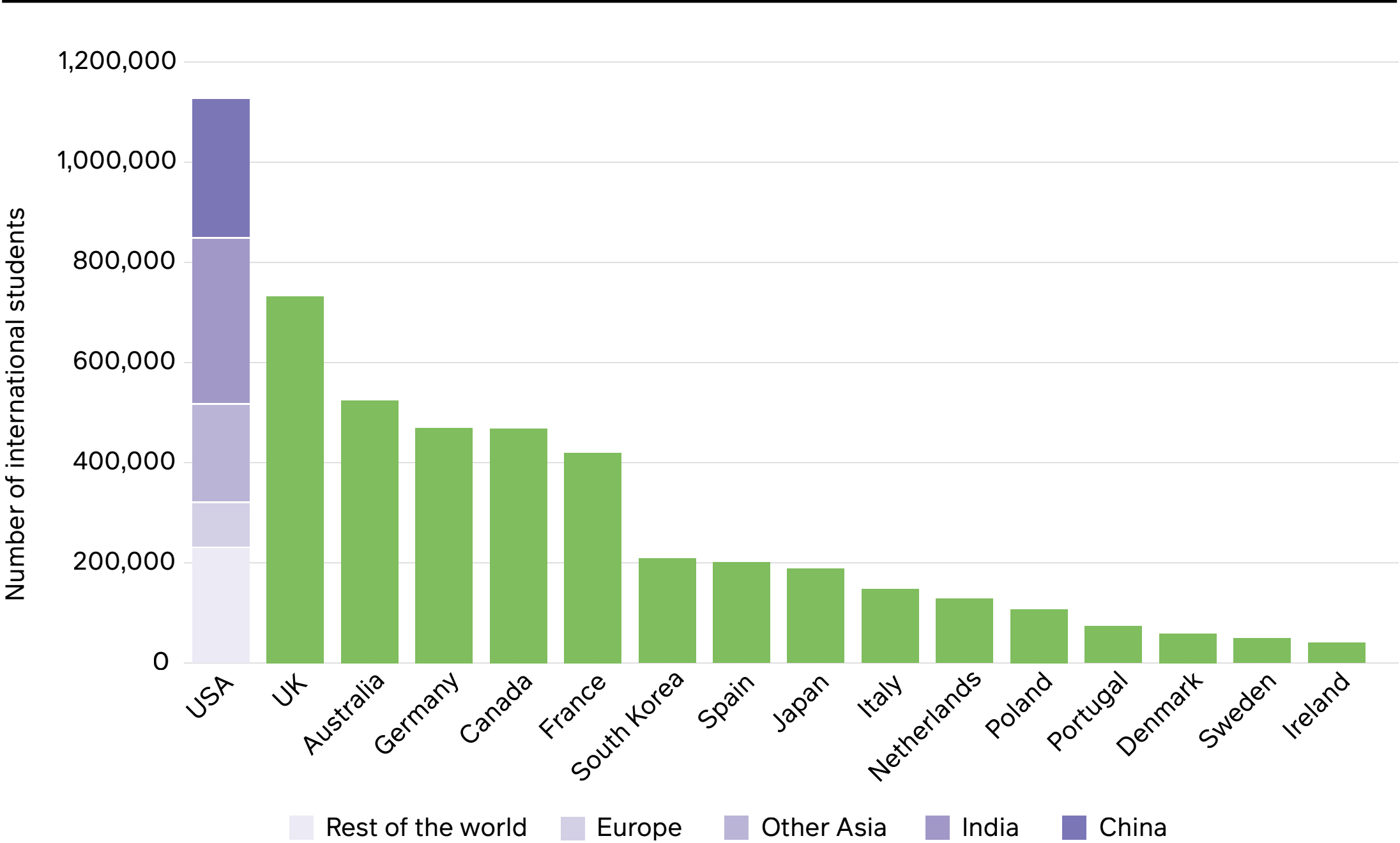
Living sectors to offer cyclical stability and structural growth

Living sector assets continue to demonstrate strong long-term occupier fundamentals, supported by structural undersupply, affordability constraints and evolving household formation trends across both Europe and APAC. These dynamics are most pronounced in larger urban centres, where population growth and housing demand continue to increase, driving long-term rental growth.

We also expect the wider living sector to offer a defensive play amidst current uncertainty, given its relative insulation from trade and cyclical volatility. Elevated borrowing costs and macro uncertainty are prompting many first-time buyers to delay home purchases, driving sustained demand in the rental market.

The same dynamic supports demand for purpose-built student accommodation (PBSA), as young people typically opt to stay in education rather than enter a weak job market. Moreover, longer-term international student mobility is expected to remain robust and, when combined with a potential shift in that demand away from the US, provides a meaningful tailwind for mature and emerging PBSA markets in Europe and APAC alike.

European and APAC PBSA markets to benefit from the US turning inwards?



Source: Institute of International Education, national statistical agencies, Project Atlas 2024, Open Doors 2004 International Student Census Tables, November 2024

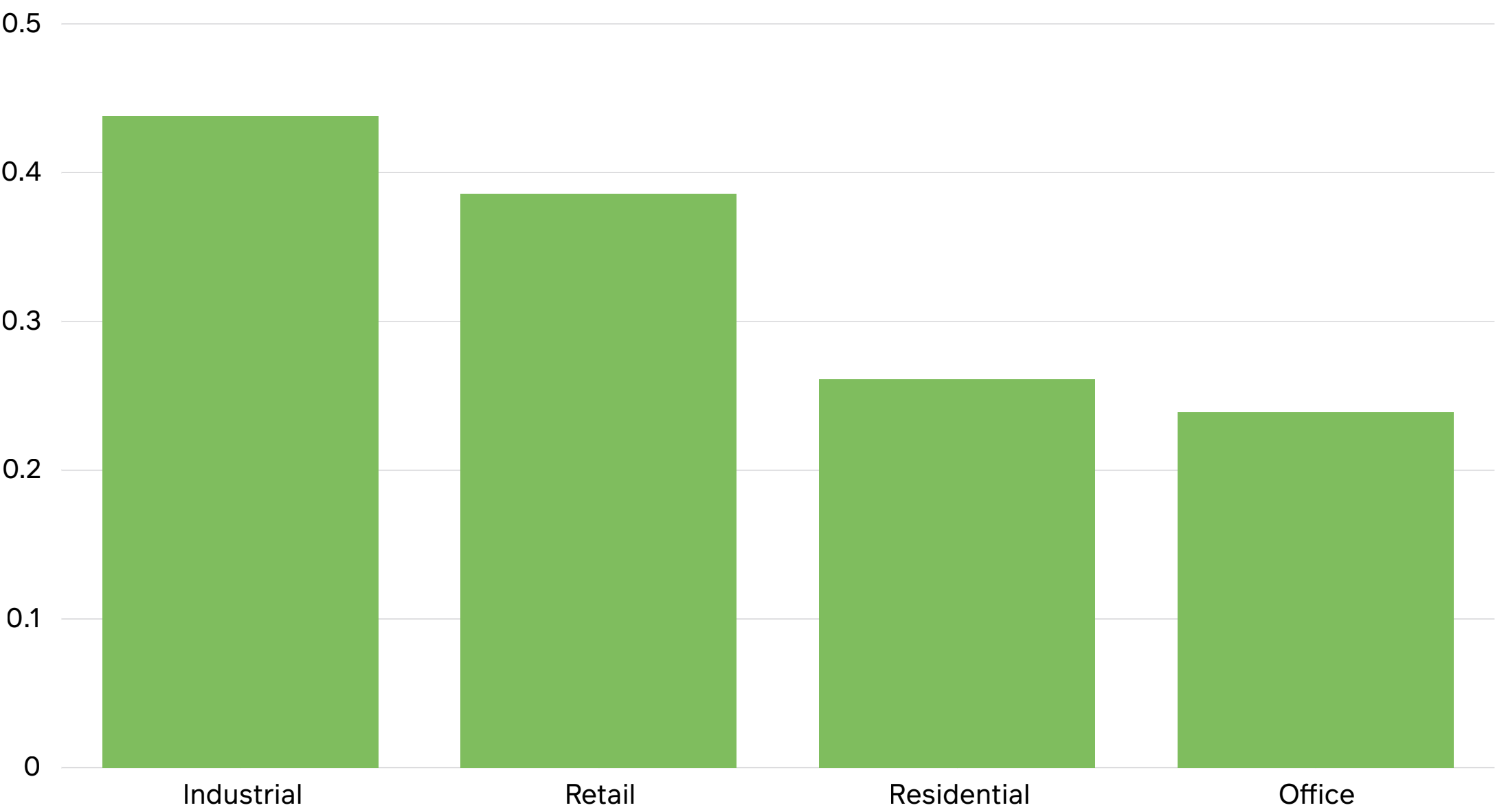
Risks vary across the traditional sectors

The outlook for logistics and industrial assets is less certain, despite ongoing structural tailwinds which will continue to support the sector’s income growth potential. Trade disruption – driven by US tariffs and potential broader protectionist shifts, in response – could weigh on port-adjacent hubs and export-focused markets, particularly in countries like Germany and South Korea, which have high exposure to US demand.

As global production networks continue to evolve, occupier demand in trade-reliant locations may soften relative to more domestic-oriented markets, with implications for rental growth prospects. However, this could be partially offset by precautionary stockpiling and ongoing supply chain diversification, which is likely to support demand for strategically-located warehouse space, particularly along nearshoring and reshoring corridors.

Industrial and retail property most closely linked to trade flows

25-year UK sector correlation between 12m rolling returns and trade volume growth



Source: ONS and MSCI UK Quarterly Property Index (2025).

Opportunities within the retail sector largely remain limited to certain segments, including dominant shopping centres and prime retail assets in major tourist destinations, where footfall and spending have been most resilient. However, the sector remains vulnerable to macro risks. Any sustained disruption to international trade, with broader knock-on effects on growth, inflation and consumer demand, could dampen the recent recovery in retail. In addition, as US consumers face mounting cost pressures, a slowdown in outbound tourism may weigh on retail and hotel demand across key destinations in Europe and APAC.

The office sector, meanwhile, is showing some signs of resilience, particularly outside of the US, defying the much-discussed structural headwinds associated with the rise of homeworking. Cyclically, office occupational performance remains closely tied to corporate sentiment and office-based employment. However, major service-oriented office markets are relatively well insulated from tariff-driven supply chain disruption, reducing exposure to recent volatility.

Accordingly, repositioning older, but well-located, office assets may offer a compelling opportunity to add value, and strong performance potential, in our view. While leasing volumes remain relatively modest and occupier expansion plans cautious, prime office space continues to outperform, supported by occupier preference, growing obsolescence among lower-grade stock and, importantly, tightening development pipelines. Indeed, office completions in major European markets over 2026 are forecast to be the lowest since 2017, supportive of healthy rental growth into the medium term⁴.

⁴Savills, Spotlight: European Office Development, May 2025

Boom in data centre sector shows no signs of slowing

The increasingly established data centre sector demonstrates greater resilience to the economic cycle, underpinned by the rapid expansion of demand from digitalisation, AI adoption and exponential data growth. The global data centre market is projected to grow by 15% annually⁵, yet supply is likely to continue to lag demand despite strong investor interest, with limited access to power having emerged as a key constraint. Looking ahead,






rising data sovereignty⁶ requirements are expected to accelerate the need for localised infrastructure, particularly across Europe and APAC. While challenges around power availability, ESG compliance and potential technological obsolescence remain, investors with the ability to access this specialised sector could be well-positioned to capture outsized returns over the medium term.

⁵JLL, 2025 Global Data Center Outlook, January 2025.





⁶Data sovereignty means that data is governed by the laws of the country where it is stored, which can restrict how and where organisations manage, transfer, or access that data.

Top sector and market picks

Tactical growth plays

	City of London offices	Rebased yields and a historically-wide yield spread vs. West End offer compression upside; prime supply constraints support rental growth potential
	Management contract hotels (key tourist cities)	Potential to drive NOI growth through operational enhancement of under performing core hotels in markets backed by strong demand fundamentals
	Australian offices (Sydney/Melbourne)	Attractive re-entry point as yields hit decade highs and firmer office attendance drives stronger occupier demand
	Dominant retail parks (W. Europe)	Robust occupier demand and attractive income yields present retail parks as the leading opportunity in the retail segment
	European CBD offices	Market vacancy rates are peaking and limited new supply of prime space in central locations allows room for value-add strategies

Tactical and structural opportunities

	Seoul MFH	Undermanaged assets near key university and major business districts offer compelling repositioning opportunities
	Japanese MFH (Tokyo, Osaka, Fukuoka)	Attractive rental upside supported by sustained wage growth and strong long-term urban housing demand
	Build-to-core London MFH	Rebased yields make development compelling as multi-decade low housing starts and falling rental supply meet structurally-rising rental demand.
	First generation UK PBSA (London, top tier cities)	Access value add returns by repositioning first generation assets in undersupplied core university towns
	Build-to-core PBSA (S. Europe)	With excess demand of over 2.5 million new beds throughout the continent, the need for new student housing has never been higher

Structural opportunities

	Japanese and Korean logistics	E-commerce growth and supply chain diversification to drive demand for strategically-located logistics assets along key reshoring corridors
	European data centres (core cities)	Long-term tailwinds, such as increased digitisation and AI-training needs, are causing the European market to grow at double digit annual rates
	European core city MFH	Persistent supply demand imbalances of rental homes in Europe's growing cities create an attractive investment backdrop and resilient income
	Last-mile / urban logistics (N. Europe)	Demand and supply remain out of balance in more constrained urban sub-markets, fostering strong growth potential
	UK multi-let industrial (major urban centres)	Supportive tailwinds driven by ecommerce and under supply; understanding location critical to capturing growth potential
	Australia PBSA (Sydney, Melbourne)	Australia's overseas student appeal and limited bed provision support growth potential – but selectivity key amidst evolving policy landscape

Source: M&G Real Estate, June 2025; MFH = Multi family housing; PBSA = Purpose-built student accomodation

Balancing caution and opportunity within real estate

While some parts of the investment community pause to understand and price risk, we see opportunities across many real estate strategies within Europe, the UK and APAC.

A renewal of risk-off attitudes could lead to more safe haven investing, which is likely to ultimately benefit the highest-quality real estate assets – and core, income-producing properties in particular.

With interest rates set to remain elevated versus the last cycle, income-driven investment strategies are likely to provide strong performance. In our view, the cornerstones of a core investment thesis should be holding assets with limited near-term leasing risk during the current uncertain period, as well as targeting sub-markets with the most acute supply-demand imbalances, offering strong long-term rental growth potential. Index-linked leases may also prove a winning strategy should tariffs drive renewed inflationary pressures, while the wider promise of real cashflow growth is likely to continue to attract further attention from investors.

The current backdrop may also offer an extended window of opportunity for investors seeking higher returns through value-add strategies. Attractive valuations, rising ESG requirements, and a persistent shortfall of capital required for the modernisation of stock are creating a growing opportunity for asset repositioning strategies, which can create the kind of space that will meet changing occupier demands. We believe deploying capex into transitional assets that already exist within portfolios, or acquiring under-managed assets trapped by either financial or ownership constraints, could offer strong performance potential for investors.

As one cycle closes and a new one begins, real estate continues to face challenges. Yet, challenge also fosters opportunity, with global real estate, in our view, well positioned to benefit from the changes that it brings.

Authors and Contributors



Richard Gwilliam
Head of Property Research and Chair
of Property Investment Committee



Jordan Rainey
Senior Associate: Property Research



Tom Kynaston
Senior Associate: Property Research



Regina Lim
Head of Property Research, Asia



Dickson Koh
Manager: Property Research, Asia



Emma Grew
Director: Property Research, UK



Tom Colthorpe
Associate Director:
Property Research, Europe



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