MARKET RESEARCH

EPRA Market Outlook

2026 – The year of ***Normalization***

In European Listed Real Estate

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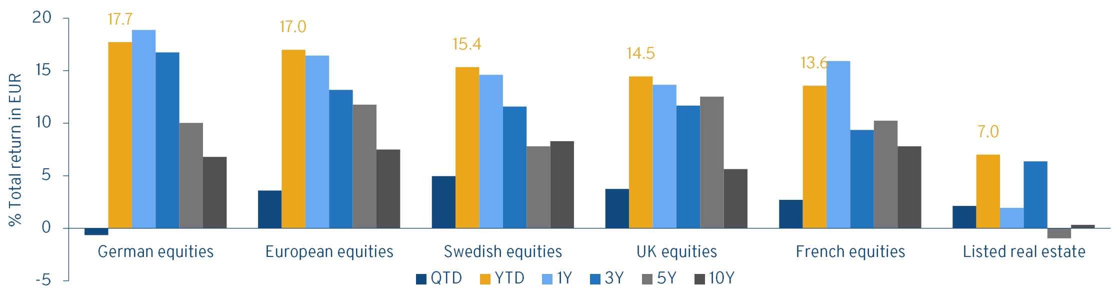
2026: THE YEAR OF NORMALISATION IN EUROPEAN LISTED REAL ESTATE

As 2025 draws to an end, it is natural to look backwards to assess performance and consider expectations for the year ahead. This year has been relatively positive for European listed real estate, with the FTSE EPRA Nareit Developed Europe Total Return Index up 7.01% in euros as of November 2025. This represents a solid rebound from last year's slightly negative performance. On a relative basis, the European Index has also outperformed the broader Developed Index, which remained broadly flat in euros as of month-end.

Despite these positive returns, European listed real estate underperformed general equities, as all major European equity markets also delivered strong positive returns year-to-date. This result likely reflects improving investor sentiment towards the region amid stabilising inflation and interest rates, but also some limited confidence towards REITs and listed property companies. We believe that this is mostly associated with ongoing uncertainty in some of the most important real estate fundamentals following nearly five years of abnormal market conditions. At EPRA, we expect 2026 to mark a year of *Normalisation*, during which many of the main drivers of listed real estate performance in Europe should return to their "normal" conditions, supporting a gradual mean reversion across the whole sector.

Total return of general equity indices and listed real estate[1]



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MACROECONOMIC OUTLOOK

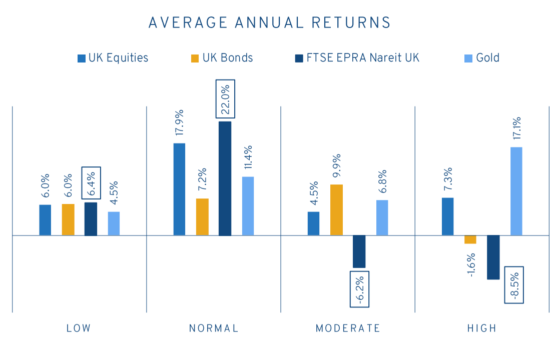
The macroeconomic context in Europe for 2026 is likely to be more positive and stable than in previous years, though paths may differ across the continent. The UK shows a modest outlook, with GDP expected to expand by **0.9–1.2%**, reflecting tighter fiscal policy and a softening labour market. Inflation is projected to fall close to the **2% target**, allowing the Bank of England to continue its cautious easing cycle, with policy rates likely settling around **3.0–3.25%** by year-end. Sweden, by contrast, is set for a stronger rebound, with GDP growth forecast at **2.6–3.1%**, supported by tax cuts, fiscal stimulus, and recovering household consumption. Inflation is expected to drop below **1%**, allowing the Riksbank to maintain a low policy rate near **2%**, reinforcing favourable financing conditions. Switzerland's outlook remains stable: GDP growth is projected at **1.5–1.7%**, while inflation hovers around **0.4–0.7%**, in line with the SNB's target range, which is expected to keep its policy rate at **0%** throughout 2026, preserving Switzerland's low-interest environment and supporting domestic demand despite persistent currency strength.

[1] EPRA Research, Bloomberg – All share indices

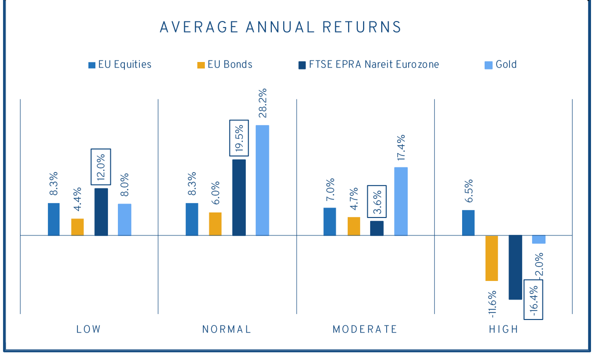
The euro area is expected to enter 2026 with a stabilising inflation environment and an improving growth outlook. The ECB projects headline inflation to average **1.7%**, slightly below its 2% target. Monetary policy remains broadly accommodative, with policy rates expected to remain close to **2.15%**, reflecting a data-dependent stance and limited scope for further cuts. GDP growth is forecast at **1.0–1.2%**, supported by resilient labour markets, rising real wages, and targeted fiscal stimulus, particularly infrastructure investment in Germany. However, trade uncertainty and a strong euro remain as significant headwinds for exports, leaving domestic demand as the primary growth driver. In short, economic growth across the continent is expected to remain positive and slightly accelerate, while inflation should align with the central banks' targets, entering into a more "*Normal*" inflation cycle, which represents a positive driver for the European listed real estate sector. According to our historical analysis, this normal cycle could imply an expected return for the FTSE EPRA Nareit Developed Europe Index in the range 6.4%-19.5% in 2026.

Historical Total Return of Listed RE under different inflation cycles

UK Inflation Cycle		Average annual total return (1990-2025)			
Average Inflation	Cycle	UK Equities	UK Bonds	FTSE EPRA Nareit UK	Gold
1.4%	Low	6.0%	6.0%	6.4%	4.5%
2.7%	Normal	17.9%	7.2%	22.0%	11.4%
4.7%	Moderate	4.5%	9.9%	-6.2%	6.8%
96.0%	High	7.3%	-1.6%	-8.5%	17.1%



Eurozone Inflation Cycle		Average annual total return (2002-2025)			
Average Inflation	Cycle	EU Equities	EU Bonds	FTSE EPRA Nareit Eurozone	Gold
1.0%	Low	8.3%	4.4%	12.0%	8.0%
2.2%	Normal	8.3%	6.0%	19.5%	28.2%
2.7%	Moderate	7.0%	4.7%	3.6%	17.4%
5.0%	High	6.5%	-11.6%	-16.4%	-2.0%



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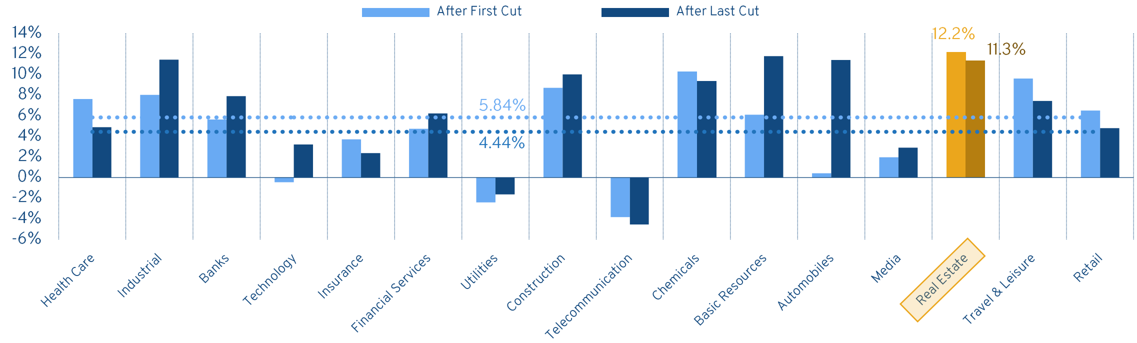
In terms of interest rates, as mentioned above, the easing cycle appears to be nearing its end, with major central banks expected to halt rate cuts between late 2025 and mid-2026. This environment has generally been supportive for European listed real estate. Our January 2025 research paper, Turning the tide, part of a series dedicated to macroeconomic shifts, explored how the sector performs across different phases of the interest rate cycle. The findings suggested that, on average, the FTSE EPRA Nareit Developed Europe Index delivered a **12.1%** total return one year after the first cut by the ECB, and an **11.3%** total return one year after the last one. Both figures are well above the historical average performance of other European equity sectors during the same stages of the cycle (5.8% and 4.4%, respectively).[2] For 2026, following the implied ECB interest rates from the swaps market, we consider the scenario of stability until Q3 and a 25 bps hike in Q4.

[2] EPRA Research, 2025 – Turning the tide – Listed real estate navigating today's interest rate cycle

Average performance of European equity sectors 1 year after the ECB cuts interest rates



* Cuts taken into consideration: Apr/01-Dec/01 (150 bps), Nov/02-Jul/03 (125 bps), Apr/08-Oct/08 (300 bps), Oct/11-Dec/12 (75bps), May/14-Apr/16 (40bps).
** Indexes used (price indexes): STOXX600 for the equity sectors and FTSE EPRA Nareit Developed Europe for Real Estate

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PROPERTY MARKETS: MARKET CONSENSUS

According to *ULI & PwC's 2026 Emerging Trends in Real Estate* Report[3], the European commercial real estate sector is expected to continue its recovery in 2026, but at a more measured pace than initially anticipated. Total returns are forecast to average around **6%**, driven primarily by income returns and rental growth (forecast at circa **6.4%** on average)[4] rather than capital appreciation. By sector, investment focus is expected to keep shifting toward data centres, student housing, and healthcare, supported by key megatrends such as digitalisation, energy transition, ageing population, and evolving student demographics.

The key catalyst for commercial real estate's improving outlook is the normalisation of the macroeconomic environment, characterised by lower inflation and more stable interest rates. These dynamics have eased borrowing costs and narrowed the debt funding gap, fostering renewed confidence across capital markets. As a result, real estate lending is expected to accelerate supported by the lower interest rates, with lending volumes expected to rise significantly as compared to equity raising.

In terms of risks facing European CRE in 2026[5], geopolitical instability, paired with political uncertainty around Europe, could weigh on European economic growth. According to the survey conducted by ULI and PwC, political instability ranks as the top concern for 90% of industry professionals, followed by an escalating US trade policy environment.

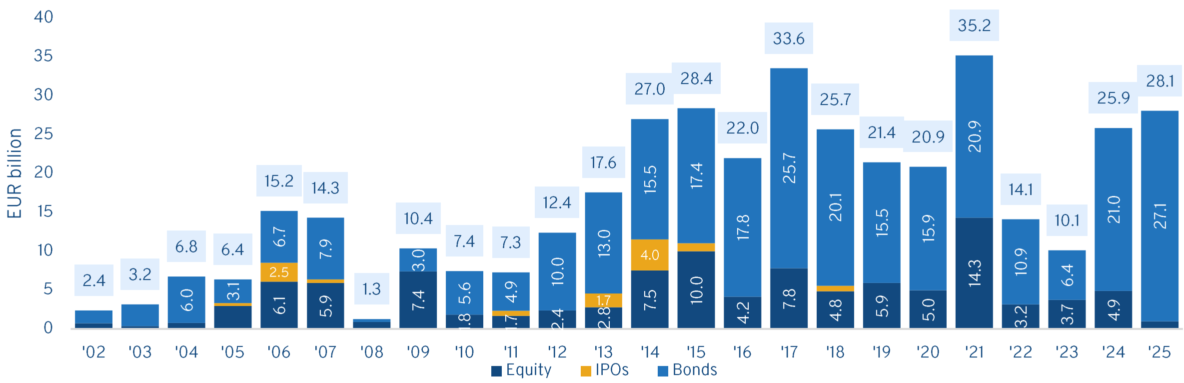
CAPITAL STRUCTURE: CAPITAL RAISING AND COST OF DEBT

This year has been positive not only in terms of performance, but also in terms of financing. Capital markets have recognised the strength and resilience of the sector, and constituents of the FTSE EPRA Nareit Developed Europe Index, benefitting from a more favourable interest

[3] PwC, & Urban Land Institute. (2025, November). Emerging Trends in Real Estate, Europe 2026.
[4] Average rental growth: Office, Residential, Industrial, Retail, and Hotel. Oxford Economics - Europe: Real Estate Chartbook: Q4 2025, AEW - 2026 European outlook, Cushman & Wakefield – European outlook 2026.
[5] PwC, & Urban Land Institute. (2025, November). Emerging Trends in Real Estate, Europe 2026.

rate environment, raised a four-year record of **EUR 28 billion** in 2025, up EUR 3 billion from 2024 and representing the third-highest amount of capital raised **over the past decade.**[6]

European listed real estate capital raising since 2002



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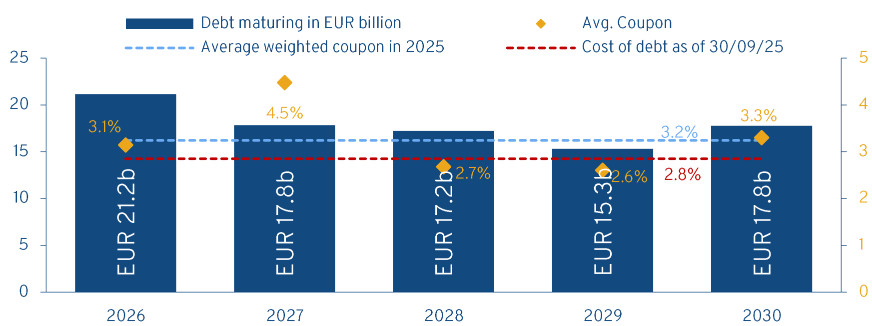
Looking ahead, we expect stability in the cost of debt over the coming year, as market consensus on interest rates indicates that most European central banks should maintain stable policy rates. As of Q3 2025, the average cost of debt reported by the constituents in the FTSE EPRA Nareit Developed Europe Index stood at 2.85%[7]. Furthermore, European property companies have circa EUR 33.9 billion in bonds maturing over the next 18 months, with an average weighted coupon of 3.1% for maturities in 2026 and 4.5% in 2027. This is almost at par with the average weighted coupon of debt issued in 2025 (3.2%), suggesting that, if current market conditions persist, companies will be able to refinance some of those liabilities maturing at a lower cost.

Bonds maturing in the next 5 years in EUR billion



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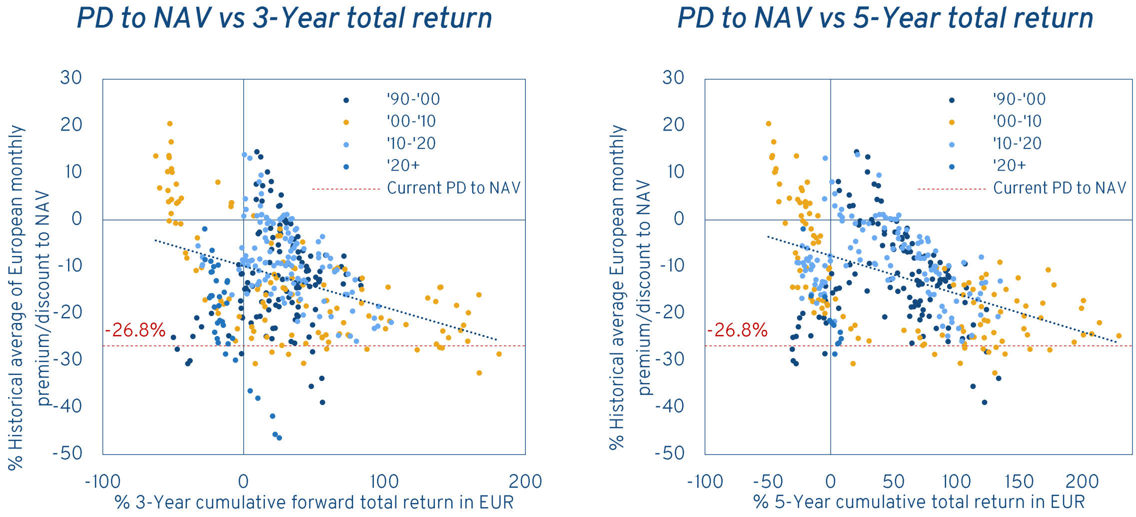
NAV & VALUATION

From a valuation perspective, the European listed real estate sector currently appears undervalued, both on an asset and earnings basis. On the assets' side, the average European discount to net asset value (NAV), which EPRA compiles on a monthly basis, stands at -

[6] EPRA Monthly LTV Monitor – December 2025
[7] EPRA Research – September 2025

26.8%[8], an unusually wide discount that has occurred in only about 12% of monthly observations since 1989. Historically, such wide discounts have been associated with positive future returns for the FTSE EPRA Nareit Developed Europe Index over one-, three-, and five-year horizons, with average annualised total returns of **17.9%**, **12.1%**, and **11.9%**, respectively. The charts below illustrate the relationship between the average European premium/discount to NAV and the total return in EUR of the FTSE EPRA Nareit Developed Europe Index over a three-, and five-year time horizons.



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EARNINGS, YIELDS, AND RETURNS

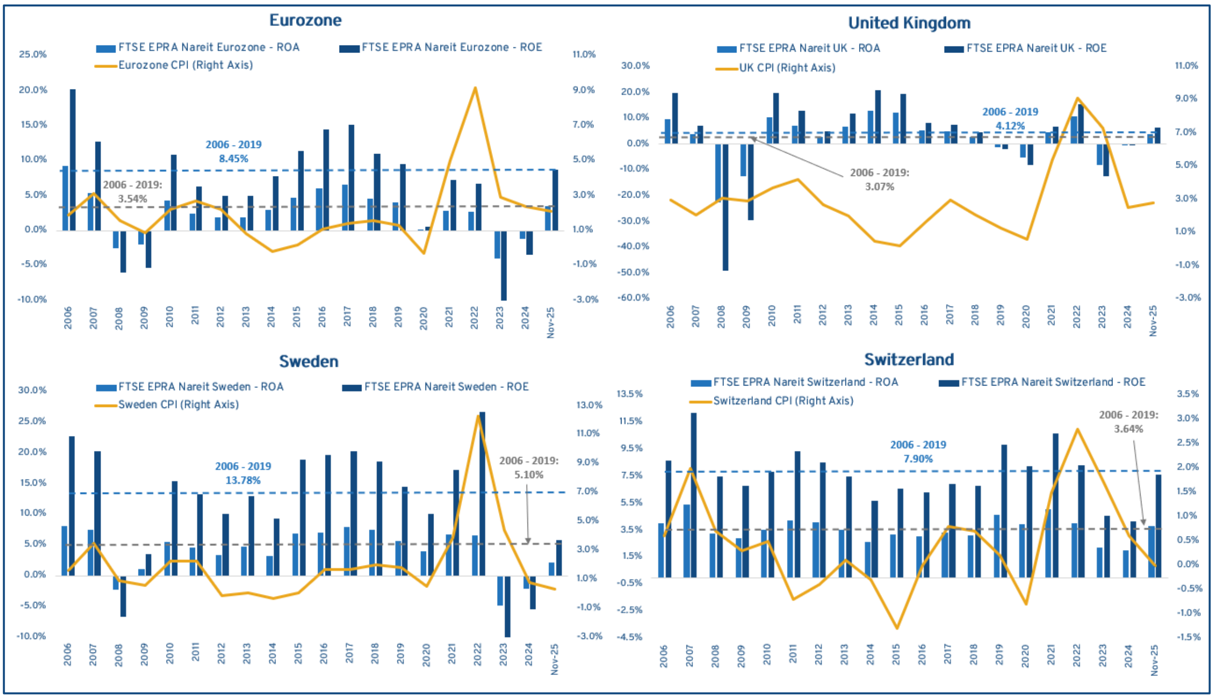
After some volatile post-pandemic years, the normalisation observed in inflation and economic growth is also starting to be reflected in the profitability of listed real estate companies. Both return on assets (ROA) and return on equity (ROE) of property companies show a positive trend across the four major sub-regions included in the FTSE EPRA Nareit Developed Europe Index. In this regard, Switzerland (ROA: 3.79%, ROE: 7.65%) and the Eurozone (ROA: 3.54%, ROE: 8.75%) are already showing levels aligned with pre-pandemic averages, while the UK (ROA: 4.06%, ROE: 6.49%) and Sweden (ROA: 2.24%, ROE: 5.80%) still show some distance from *Normal* levels. Therefore, supported by the expected macroeconomic stability, we expect the aggregated average ROA and ROE to increase by 43 bps and 139 bps, respectively.

On the earnings side, the average trailing price to EPRA earnings ratio[9] stood at 15.3 as of September 30, 2025, the lowest level observed in the past decade and nearly two standard deviations from the 10-year average of 19.3. In the following chart, we illustrate different return scenarios under various price to EPRA earnings multiples, assuming an earnings growth rate

[8] EPRA Research – Monthly NAV bulletin – November 2025
[9] Average of companies publishing EPRA Earnings per share on a quarterly and semi-annual basis

of 3.6%, which represents the market consensus based on guidance[10], and 2%, which represents the World Banks's forecast for inflation in 2026.

ROA and ROE for Listed RE and Inflation in Developed Europe



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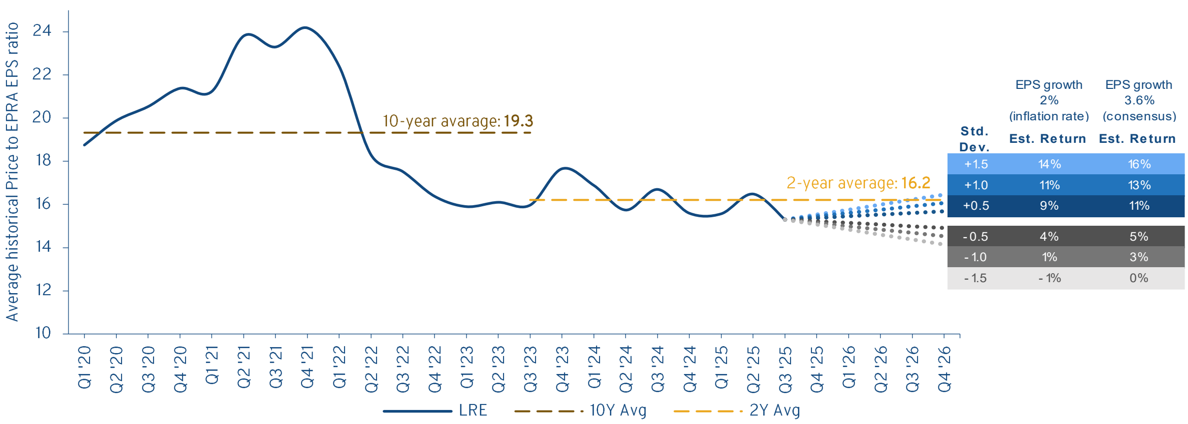
Assuming a general reversion to the recent average in price to EPRA Earnings multiple, thanks to more 'normal' macroeconomic conditions, we could expect a total return of **11%** under a scenario of EPS growth close to market consensus (3.6%), and of **9%** in a scenario in which EPS growth follows inflation (2%).

Historical quarterly average price to EPRA earnings ratio and estimates



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[10] EPRA Research – consensus following companies' own guidance and estimates

CONCLUSIONS

In summary, 2025 has marked a transition here for European listed real estate, supported by easing monetary policy, improved capital markets' confidence, and strong business fundamentals. Looking ahead, rental income is projected to grow 4.2%[11] year-over-year, well above the projected inflation of 2%[12] in the Eurozone and 2.5% in the UK. While the pace of monetary easing is expected to slow in 2026, the fiscal stimulus mentioned above should provide additional support for the listed real estate sector. Combined with attractive valuations, these factors suggest that European listed real estate is entering 2026 on a stronger and more positive note.

That said, while we believe the factors considered should be supportive of the sector, there are several others that warrant careful monitoring. Monetary policy uncertainty remains a key consideration, as "stickier" than expected inflation could lead to tighter conditions. For the ECB, we consider the scenario of stability until Q3 and a 25 bps hike in Q4, while for the BoE, the market consensus is around 50 bps cut in interest rates for 2026.

Geopolitical tensions and political uncertainty across major European countries also represent potential headwinds. Lastly, valuation risks also persist despite current attractive levels; as the macroeconomic environment evolves, so does investors' sentiment, which could shift relatively quickly if market expectations or economic data surprise to the downside. To conclude, the table below summarises the various metrics and variables discussed in this outlook, with our own expectations based on historical trends and market expectations.

2026 EPRA Estimates of total return for the LRE sector	
Based on PE Ratio (+0.5 Std. Dev.)	
EPS Growth at @ 3.6% (consensus)	10.5%
EPS Growth at @ 2% (inflation)	8.9%
Based on P/D to NAV	17.9%
Based on current inflation	19.50%
Based on the interest rate cycle	11.3%
Average of estimate on the upside	17.9% ~ 19.5%
Main scenario - Average estimate	**8.9% ~ 11.3%**
Average of estimate on the downside	-3% ~ 0%
2026 EPRA estimates for capital raising and fundamentals	
Capital raising	€21.2 ~ 33.8b
Cost of debt	2.8% ~ 3.0%
Rental growth (consensus)	4.2%
Earnings growth (consensus)	3.6%
Return on Assets (ROA)	+43 bps
Return on Equity (ROE)	+139 bps

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[11] EPRA Research – Companies' guidance and market consensus
[12] World Bank forecast - HICP