

2026 CRE Outlook

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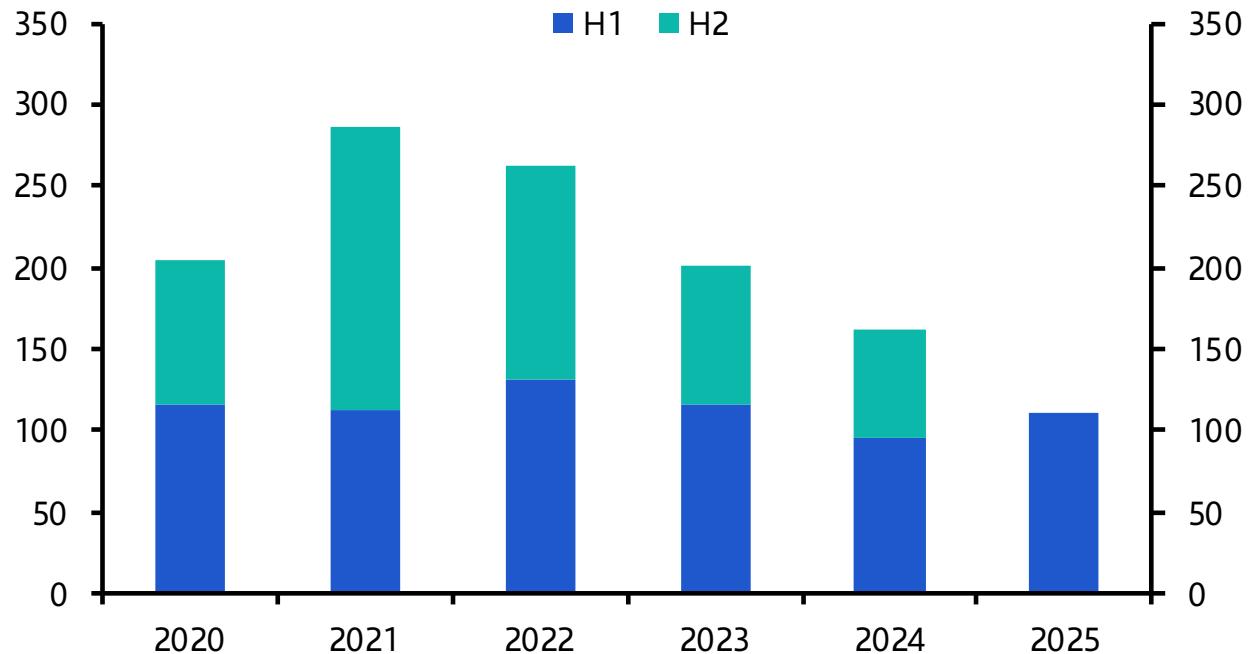
5th November 2025



Agenda

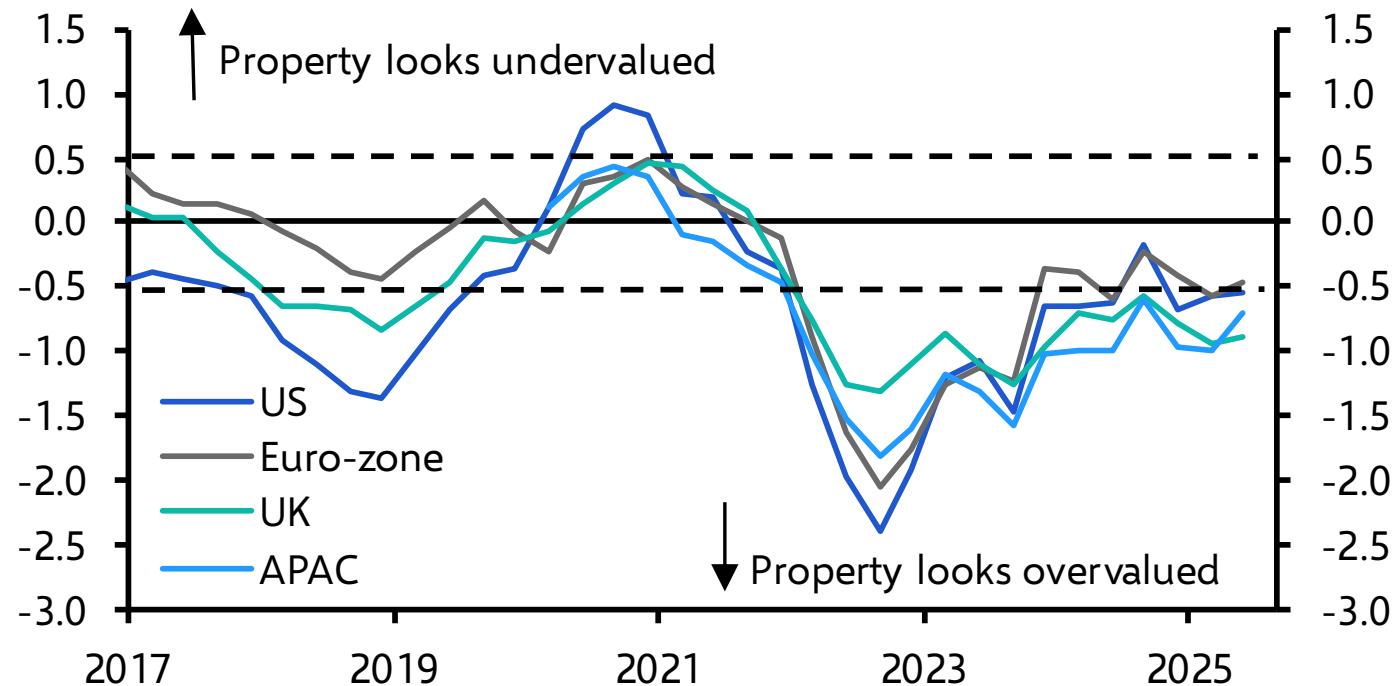
- The capital markets and the interest rate backdrop.
- The UK commercial property outlook.
- The outlook for the UK and Europe in a global context.
- Questions and Discussion.

Global Private Real Estate Fundraising



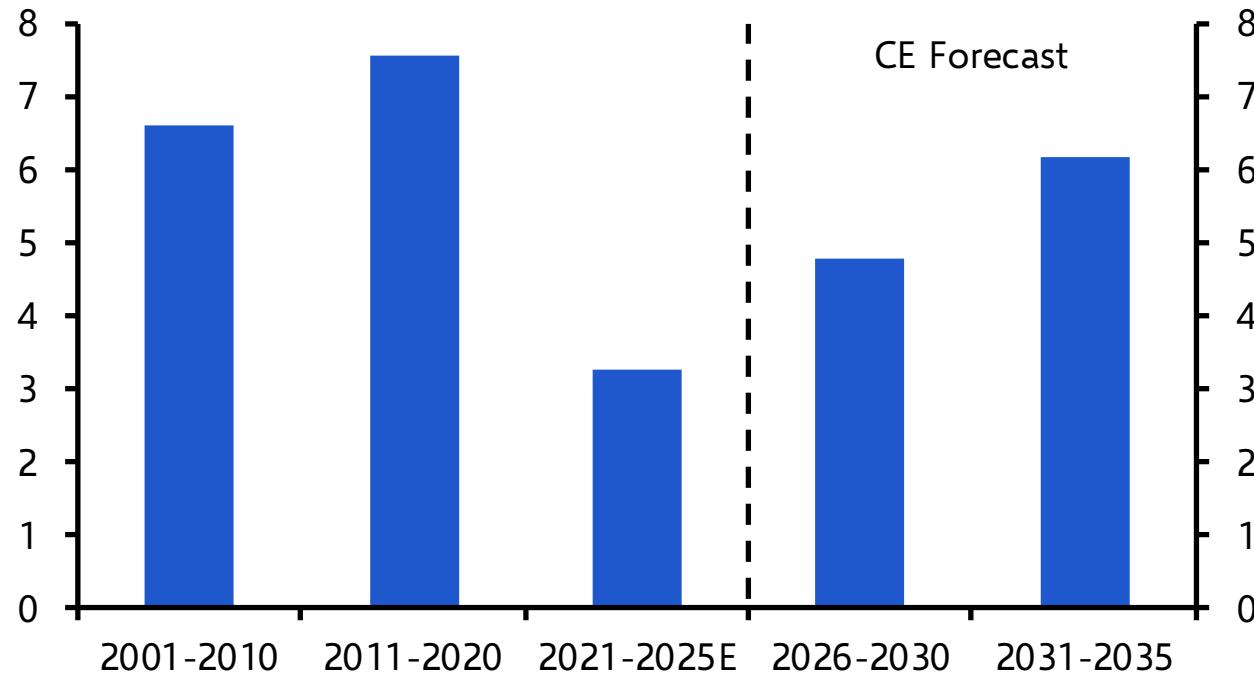
Source: PERE

All-Property Valuation Scores by Region



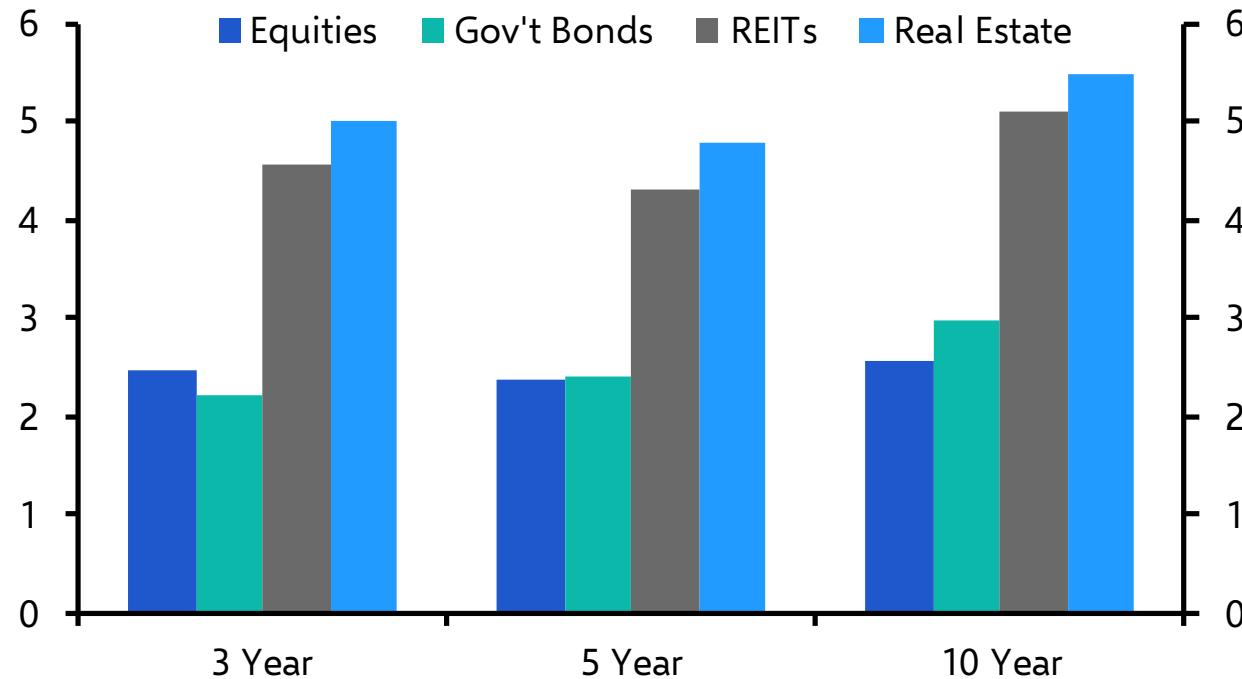
Source: Capital Economics

Global Commercial Real Estate Total Returns (% p.a.)



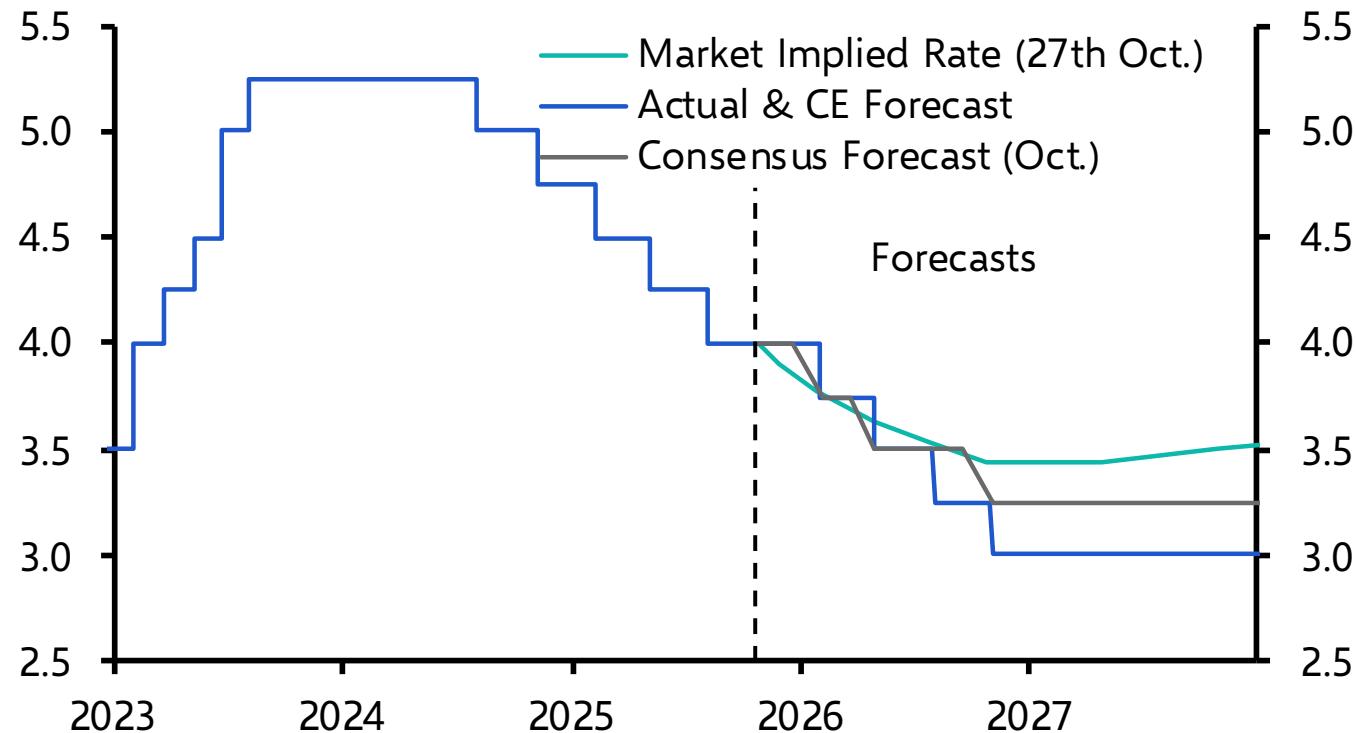
Sources: MSCI, Capital Economics

Cross-Asset Total Returns Forecasts, 2026 onward (% p.a.)



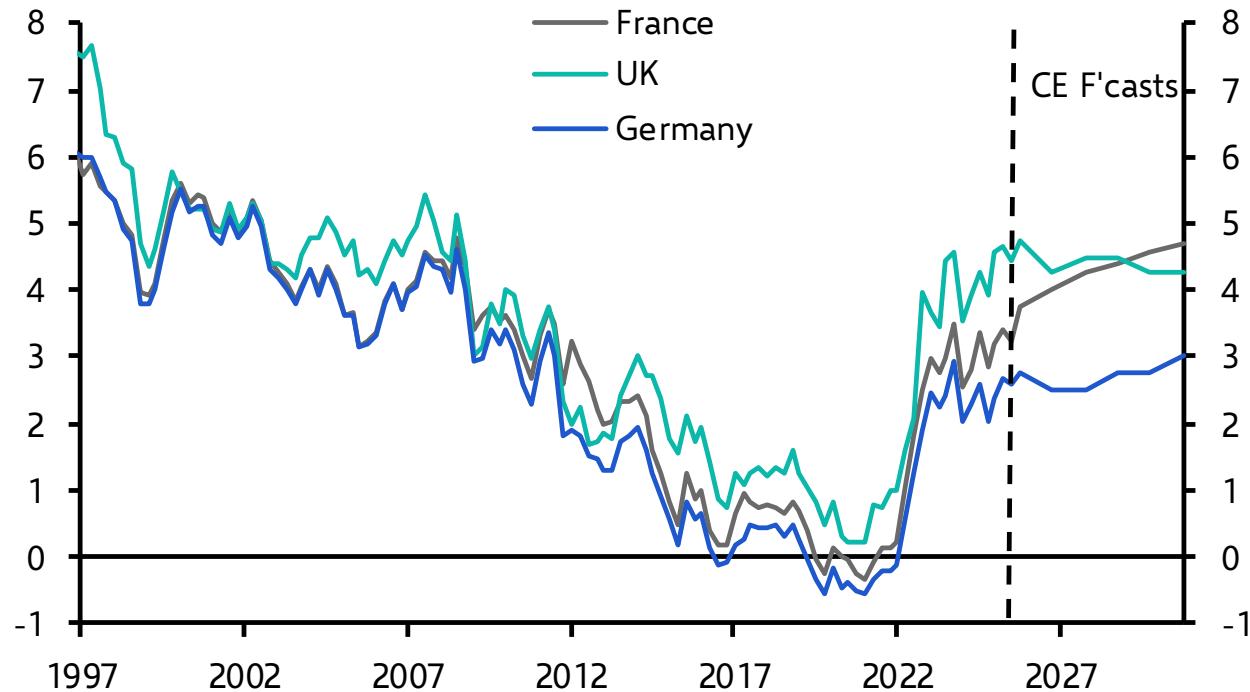
Source: Capital Economics

UK Bank Rate Expectations (%)



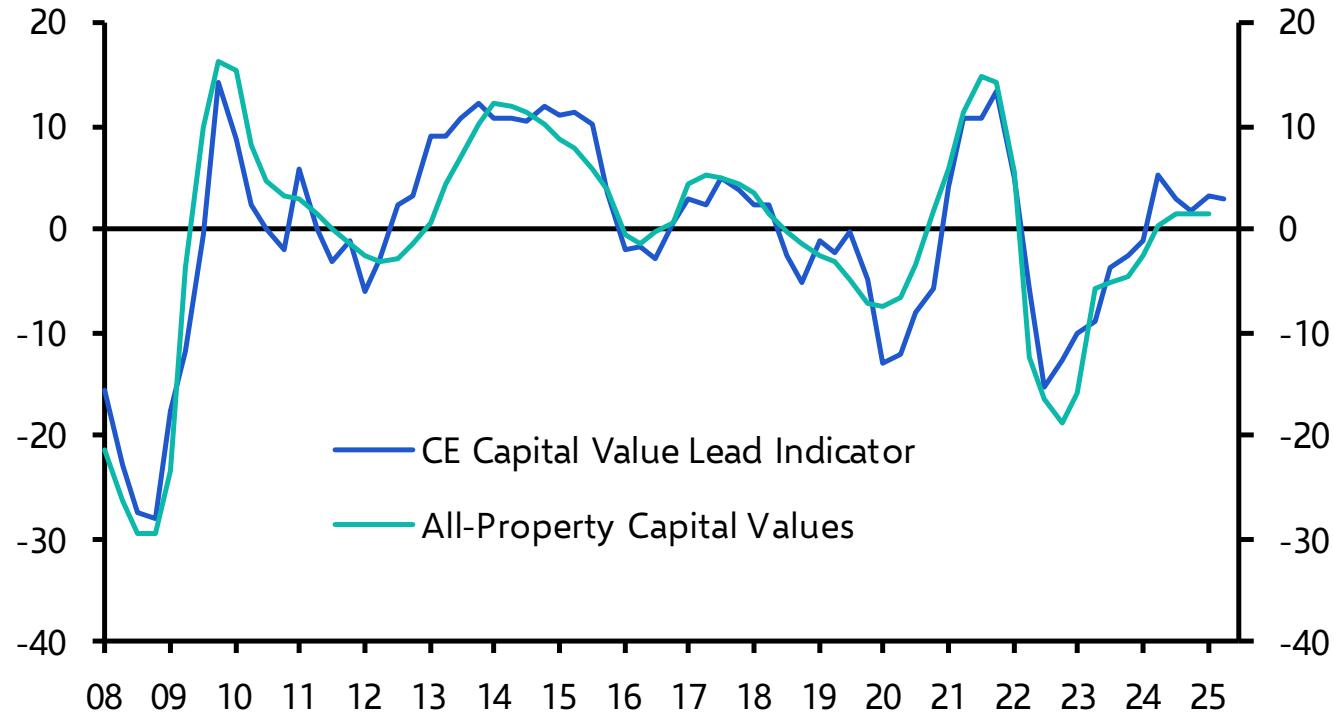
Sources: MSCI, LSEG Data & Analytics, Capital Economics

10-Year Government Bond Yields (%)



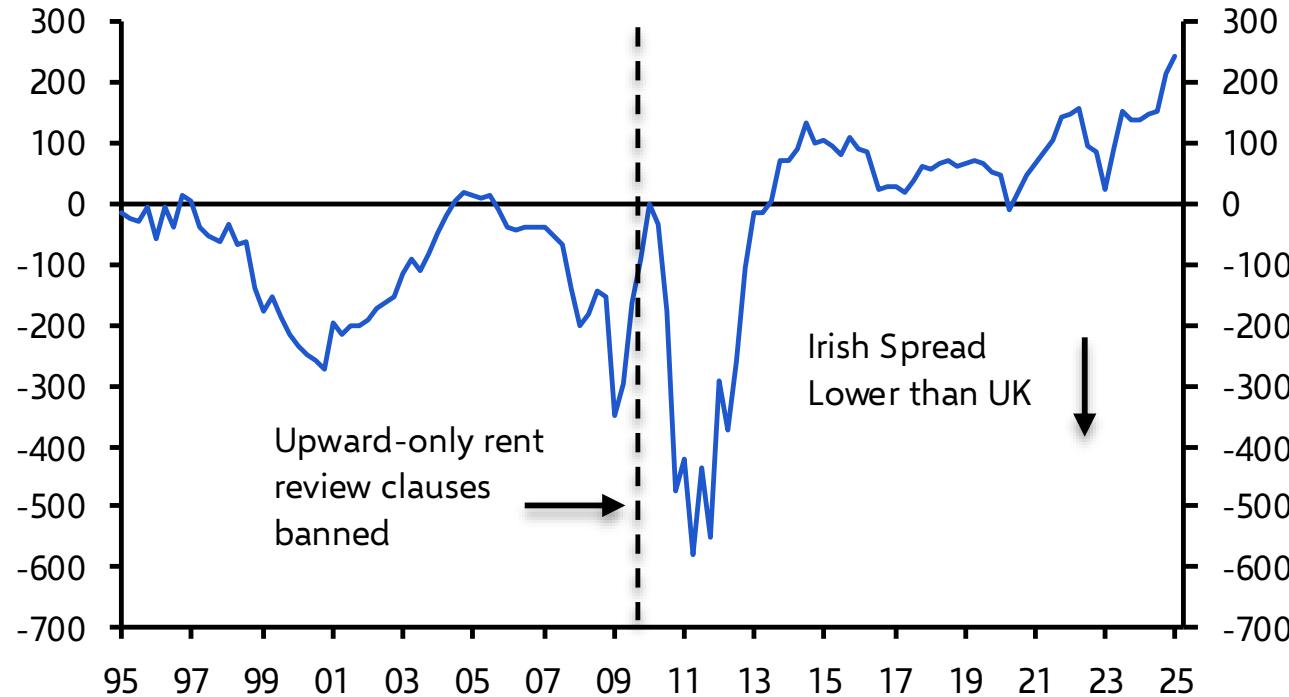
Sources: LSEG Data & Analytics, Capital Economics

CE UK Capital Value Lead Indicator (% y/y)



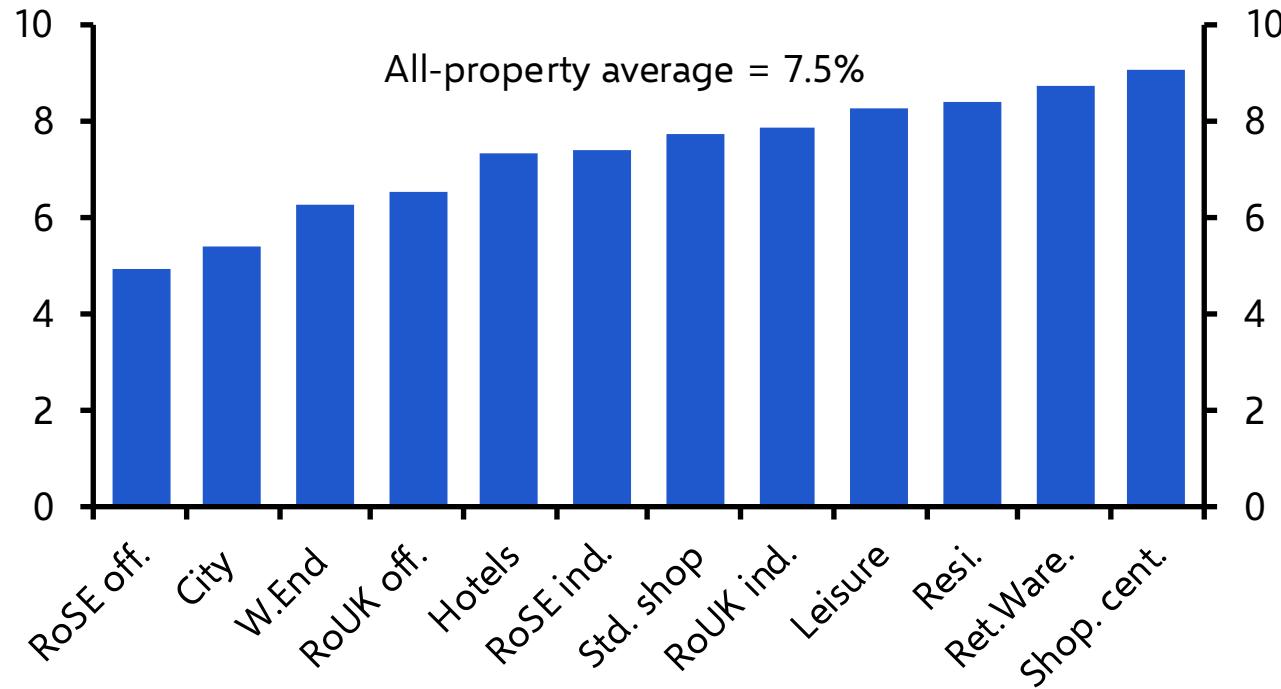
Sources: Bank of England, RICS, MSCI, Capital Economics

Diff. Between Ire. and UK All-Prop / 10-Yr Govt. Bond Spread (Bps)



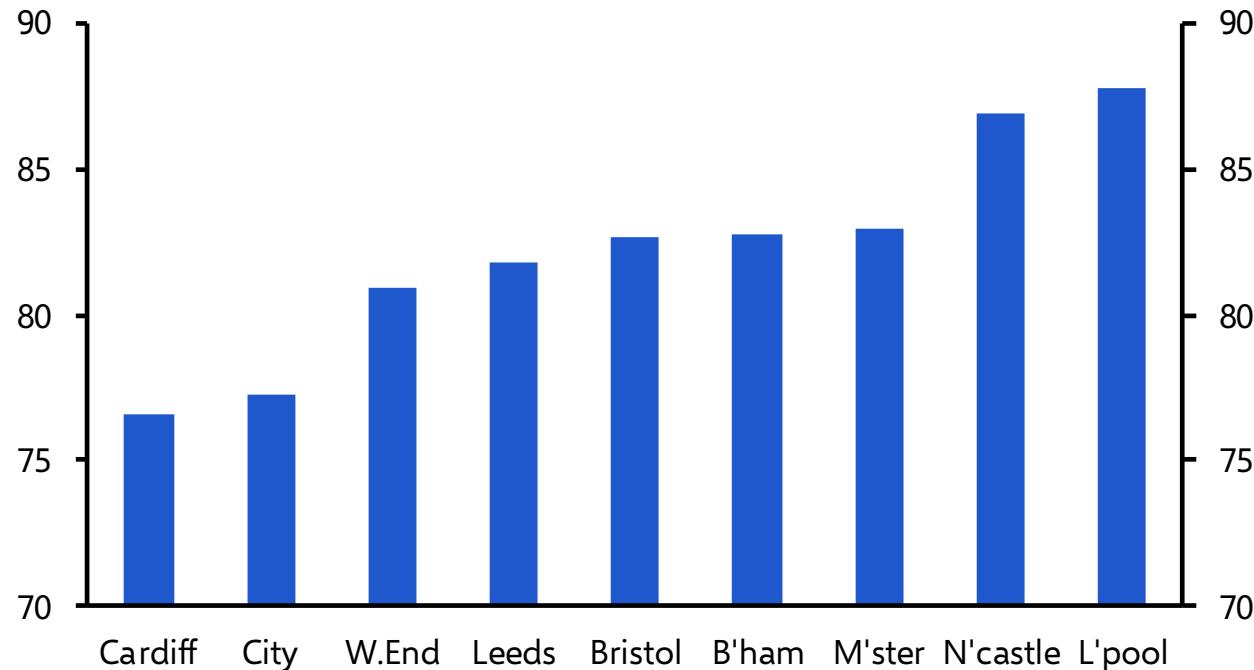
Sources: MSCI, Capital Economics

UK Total Return Forecasts (% p.a., 2025-29)



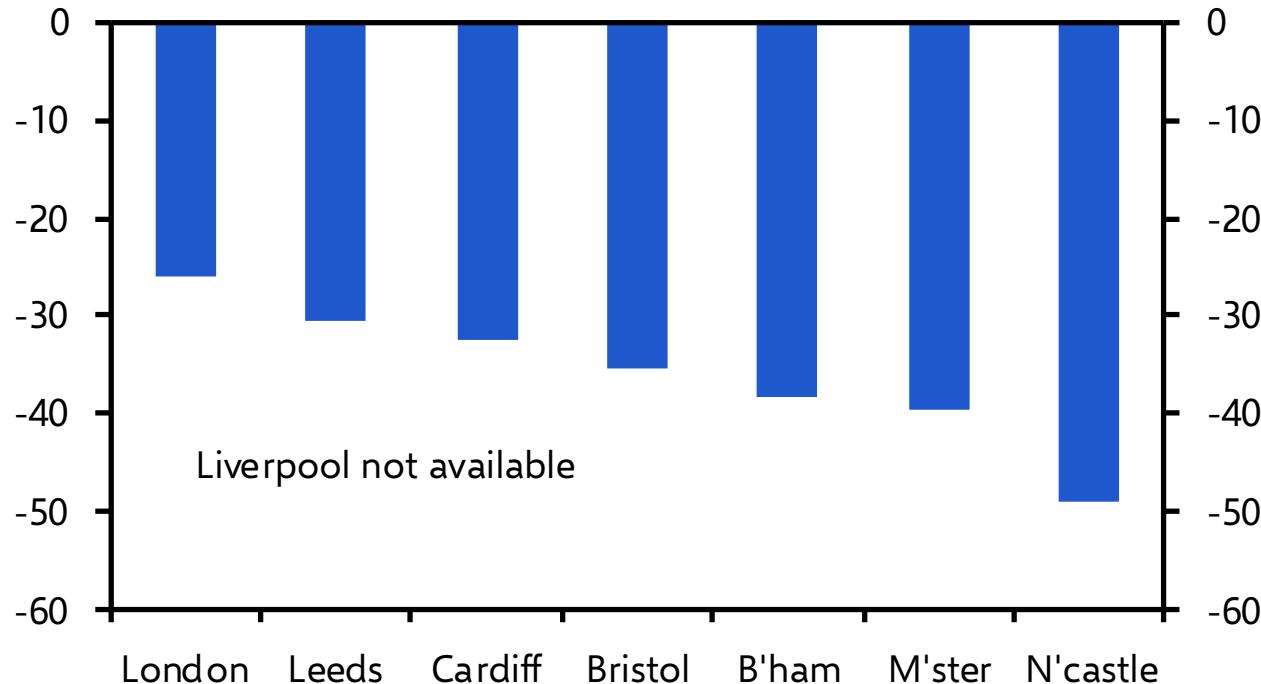
Sources: MSCI, Capital Economics

Share of Offices with EPC Below a B (Floor Area, %)



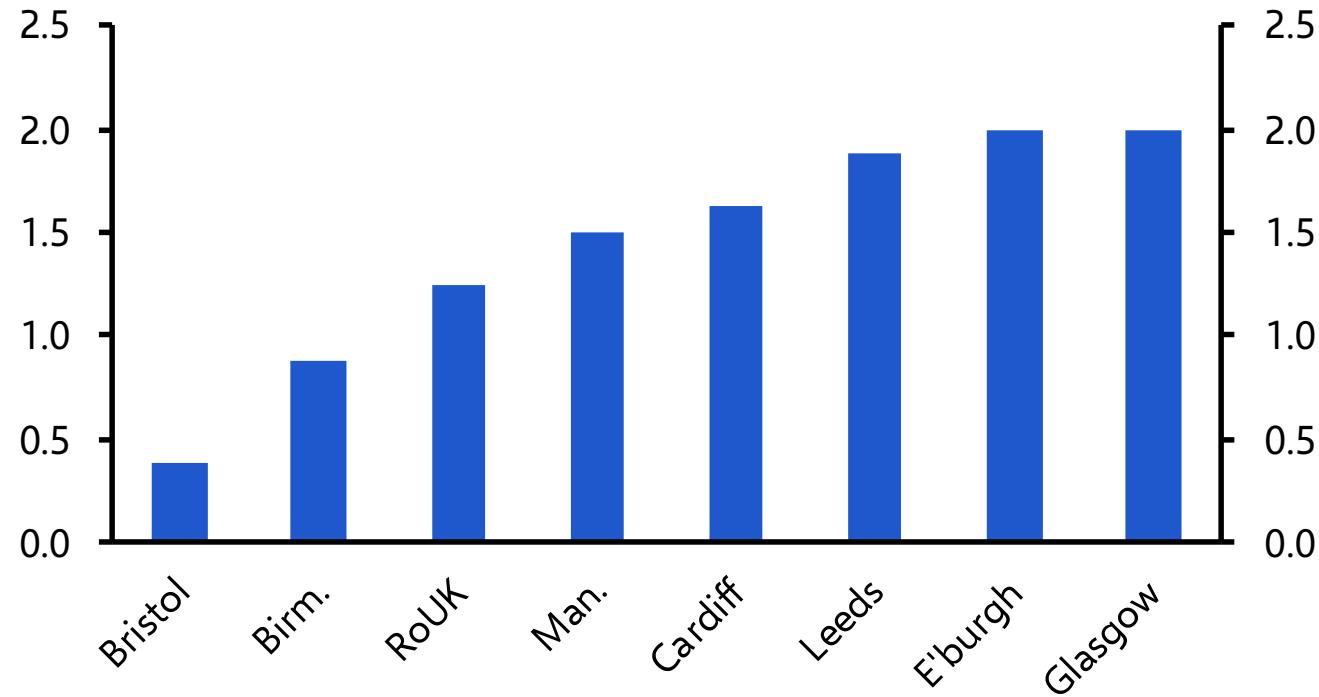
Sources: MHCLG, [Capital Economics](#)

Change in Office Capital Values Q4 2019 to Q2 2025 (%)



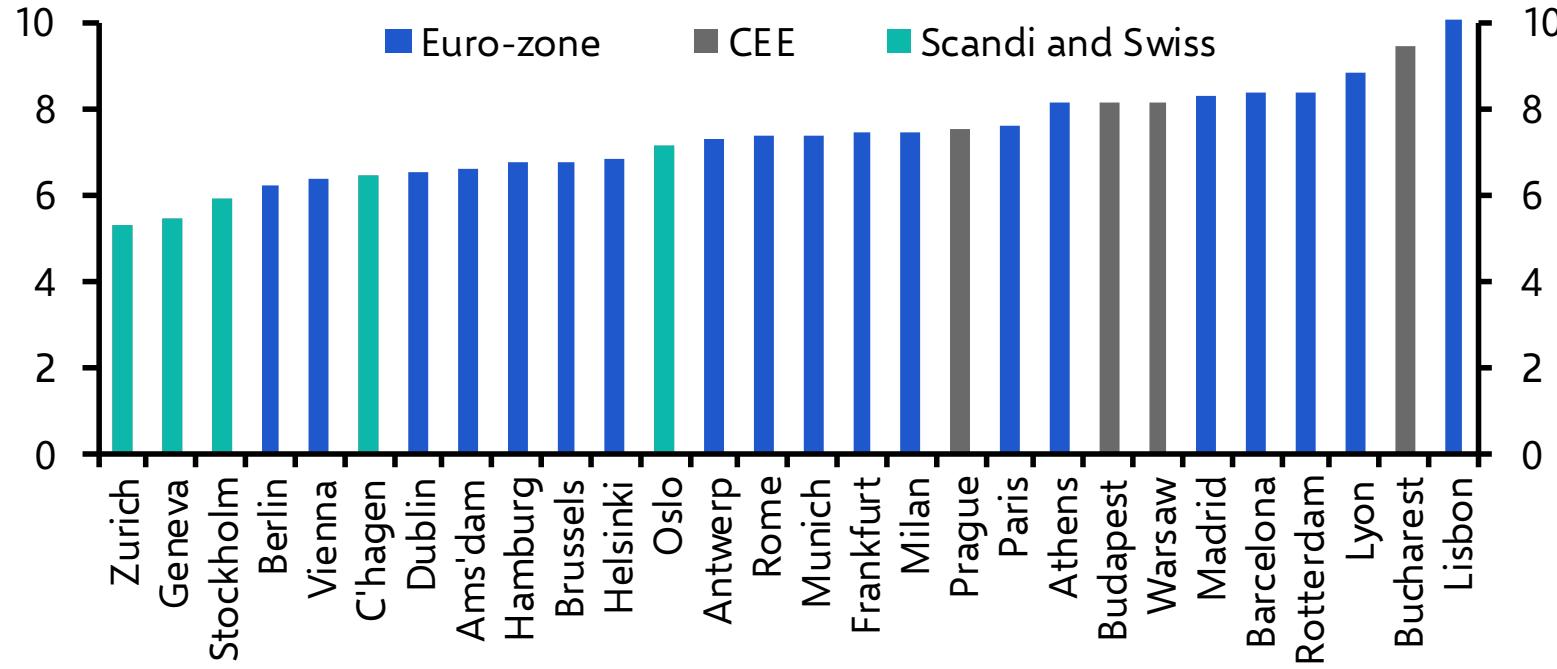
Sources: MSCI, Capital Economics

UK City Office Rent Forecasts (% p.a., 2026-29)



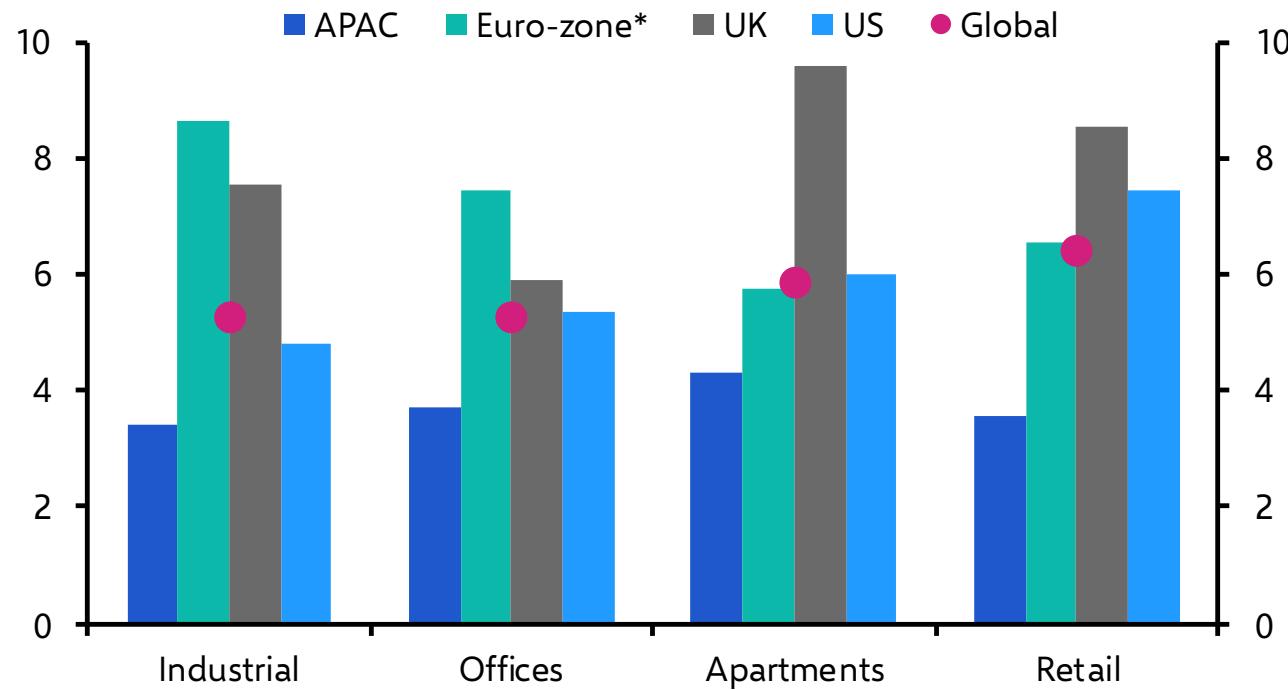
Source: Capital Economics

Forecast All-Property Total Returns, 2025-29 (% p.a.)



Source: Capital Economics

Forecast Total Returns by Region & Sector, 2025-29 (% p.a.)



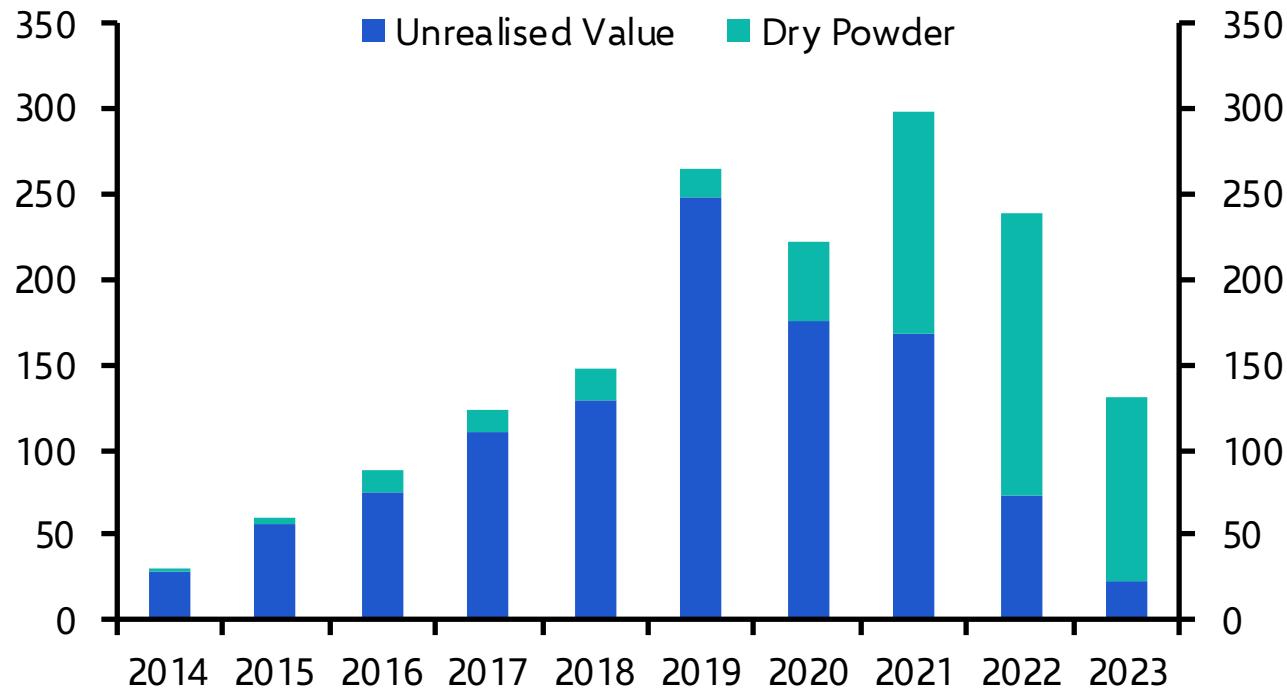
Source: Capital Economics

Global Overview Summary

- High and stable risk-free rates mean CRE valuations remain stretched.
- While a recovery is underway, we continue to expect a weak one by past standards.
- Nevertheless, over the medium-to-long term, global CRE stacks up well against other asset classes.
- UK performance will be led by retail and residential.
- Iberia will lead in the rest of Europe, with second tier cities Lyon and Rotterdam also performing well.

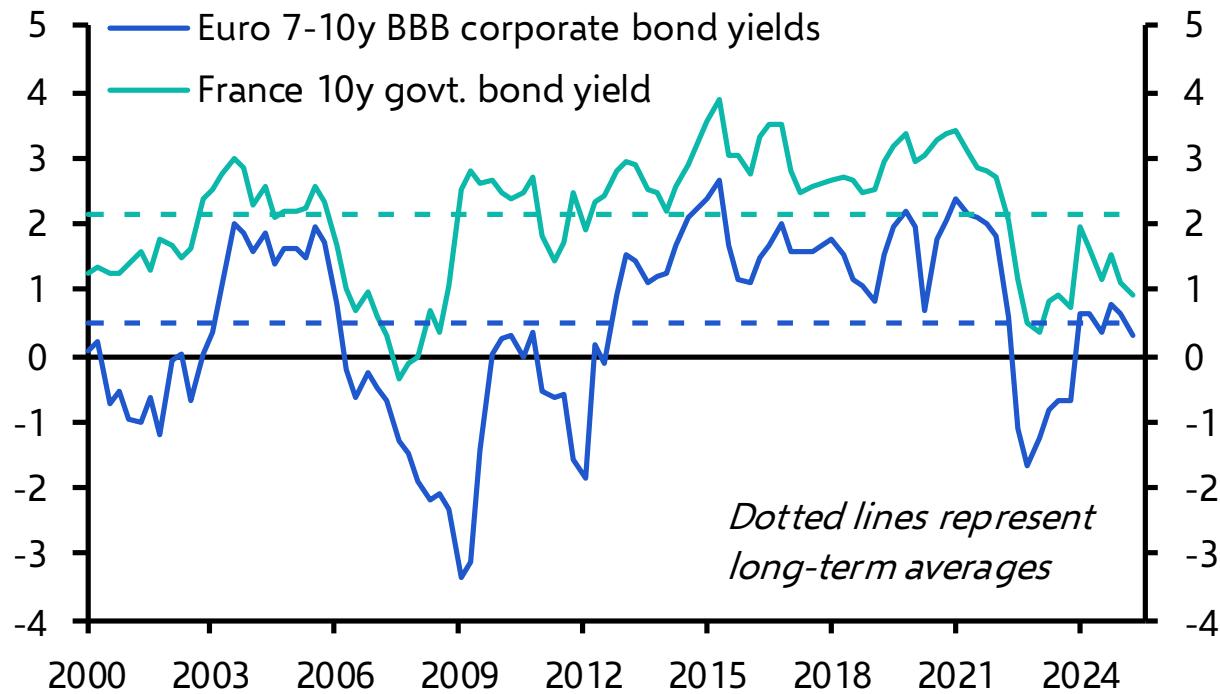
Additional Material

Global Private Real Estate Fund Exposure by Vintage



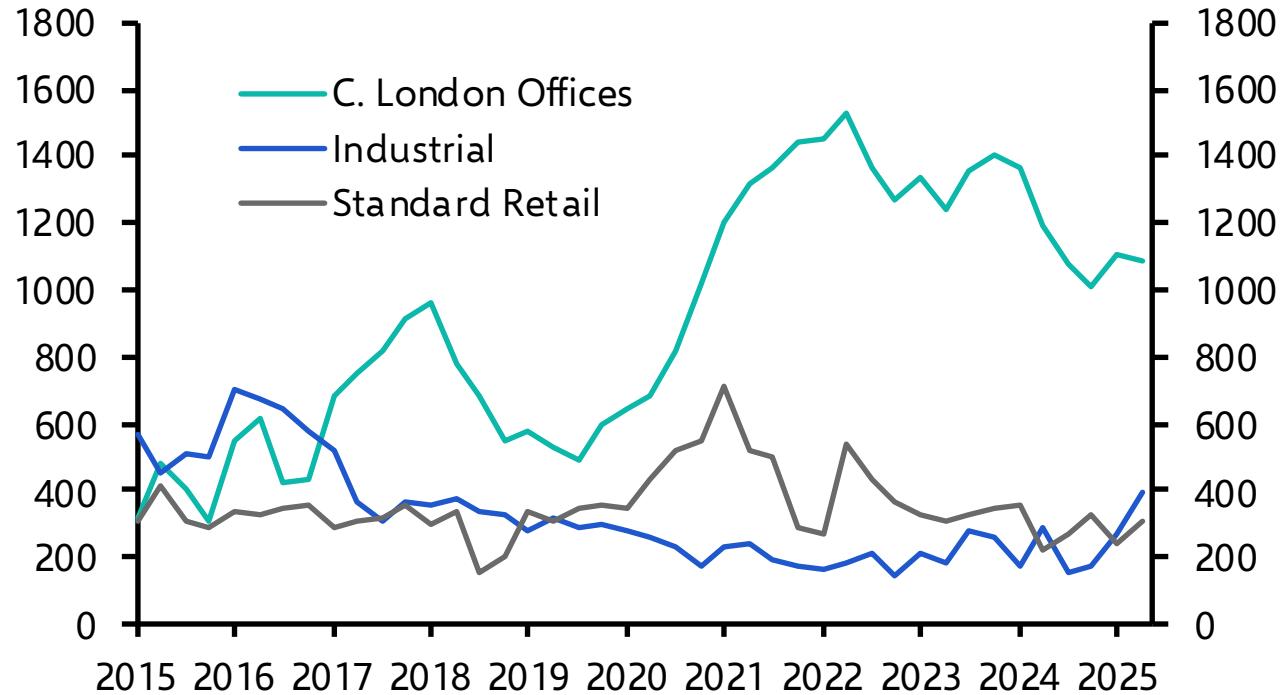
Source: Stepstone Group

Paris All-Property Yield Spreads (%-pts)



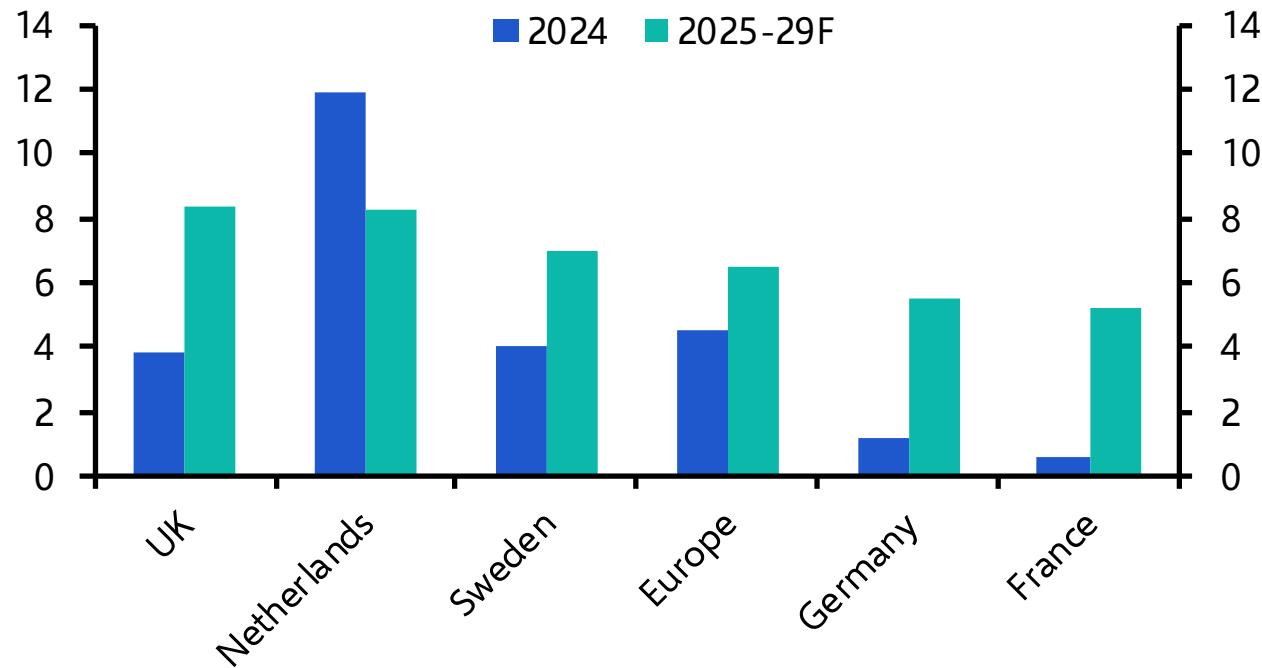
Sources: LSEG, Capital Economics

UK Prime / Non-Prime Vacancy Rate Spread (bps)



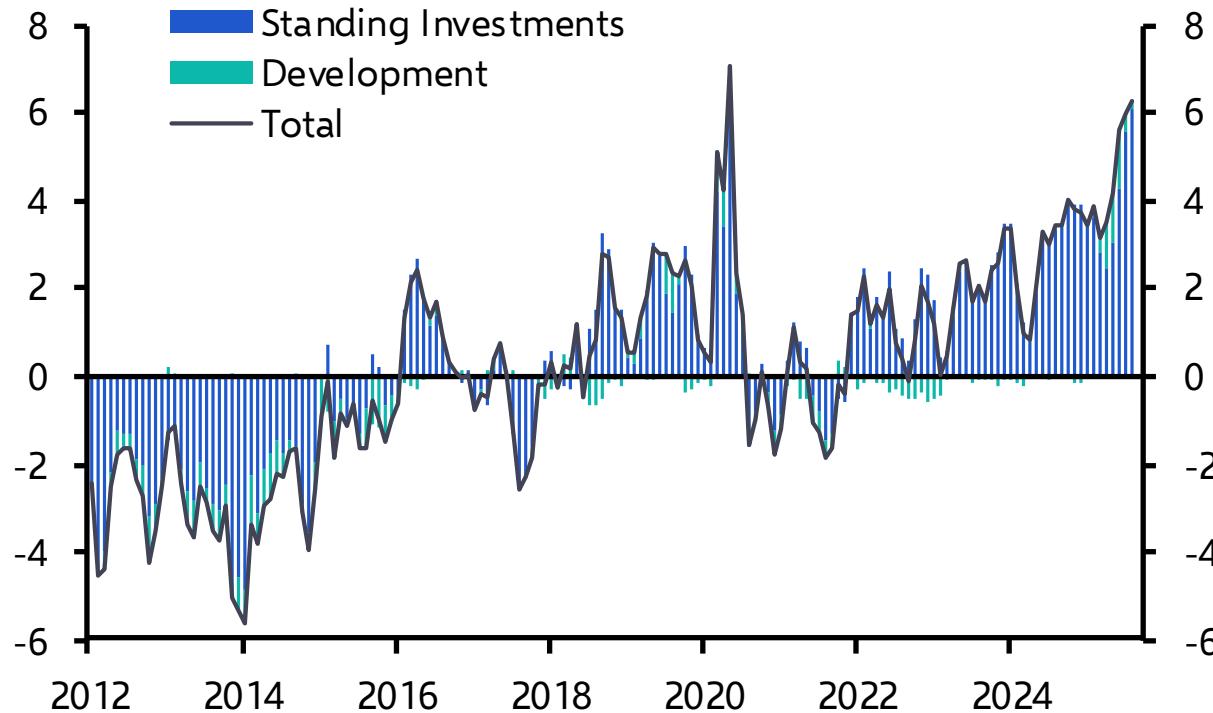
Sources: MSCI, Capital Economics

Residential Total Returns (% p.a.)



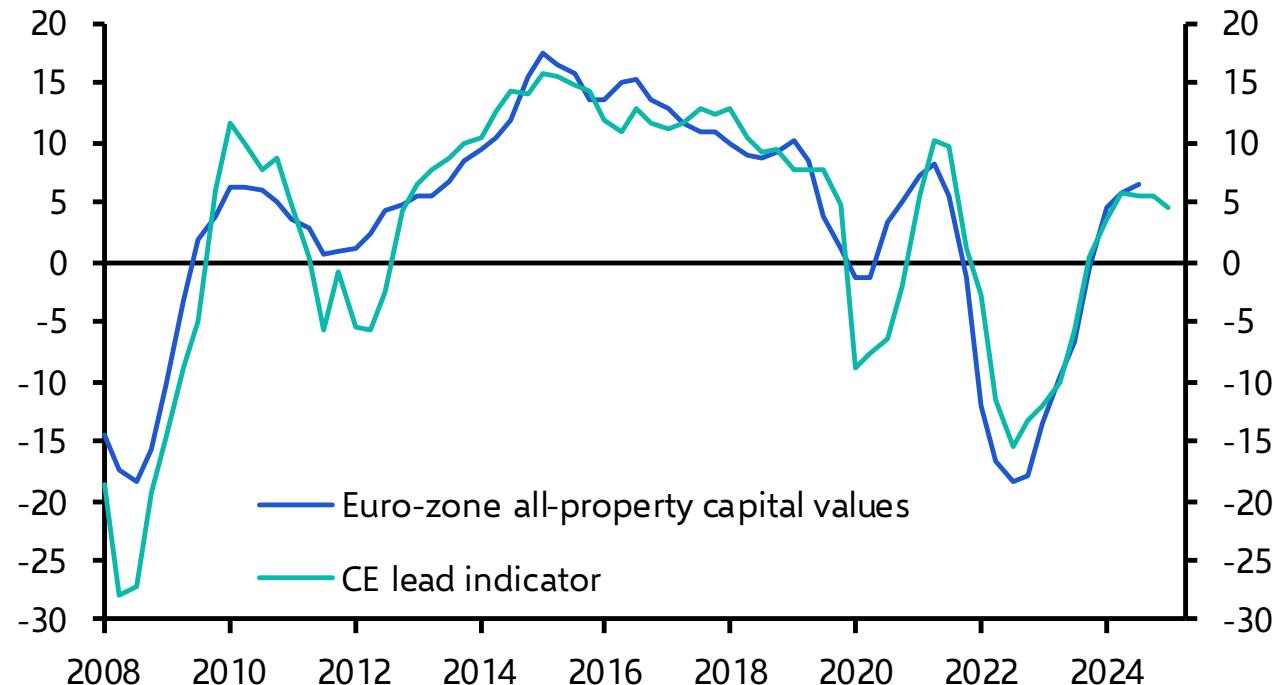
Sources: MSCI, Capital Economics

Net Lending to Commercial Property Firms (3-Mth Sum, £bn)

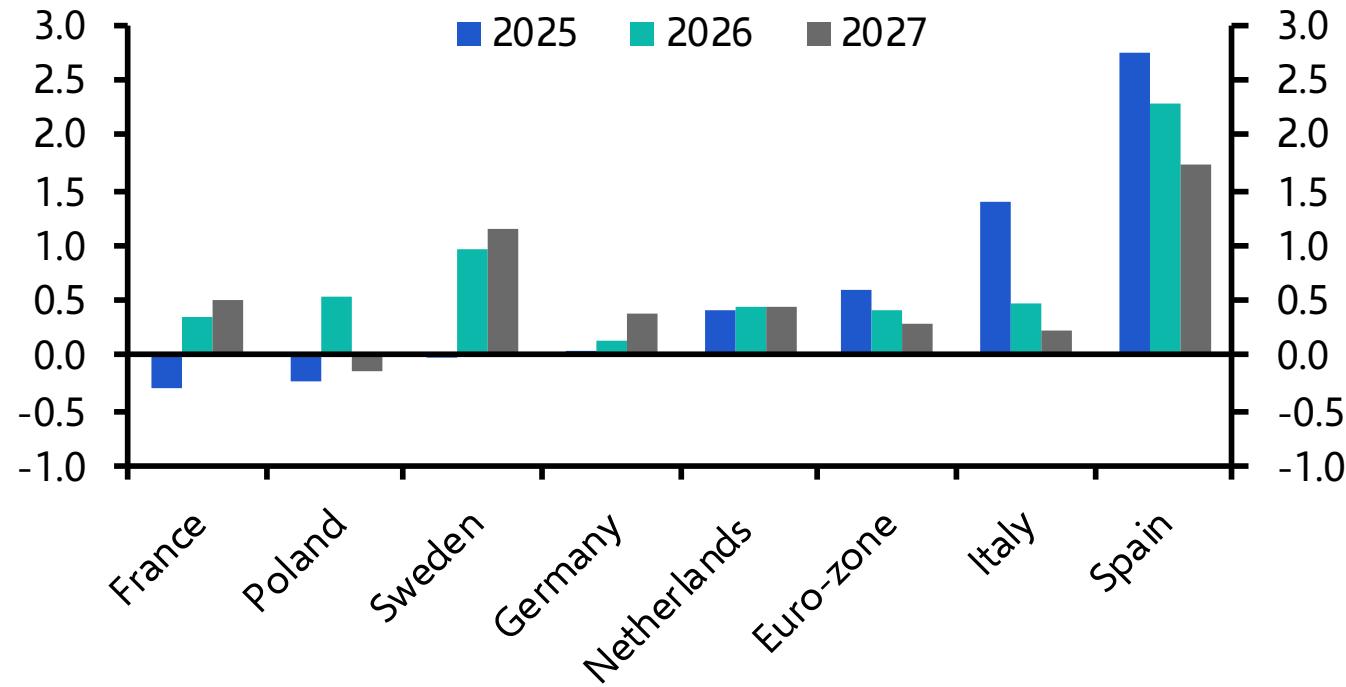


Sources: Bank of England, Capital Economics

CE Euro-zone Capital Value Lead Indicator



Employment Growth Forecasts (% y/y)



Sources: MSCI, Capital Economics

AI and Potential Implications for Property

All: Potential for cutting running costs by automating processes, replacing some currently staffed roles.

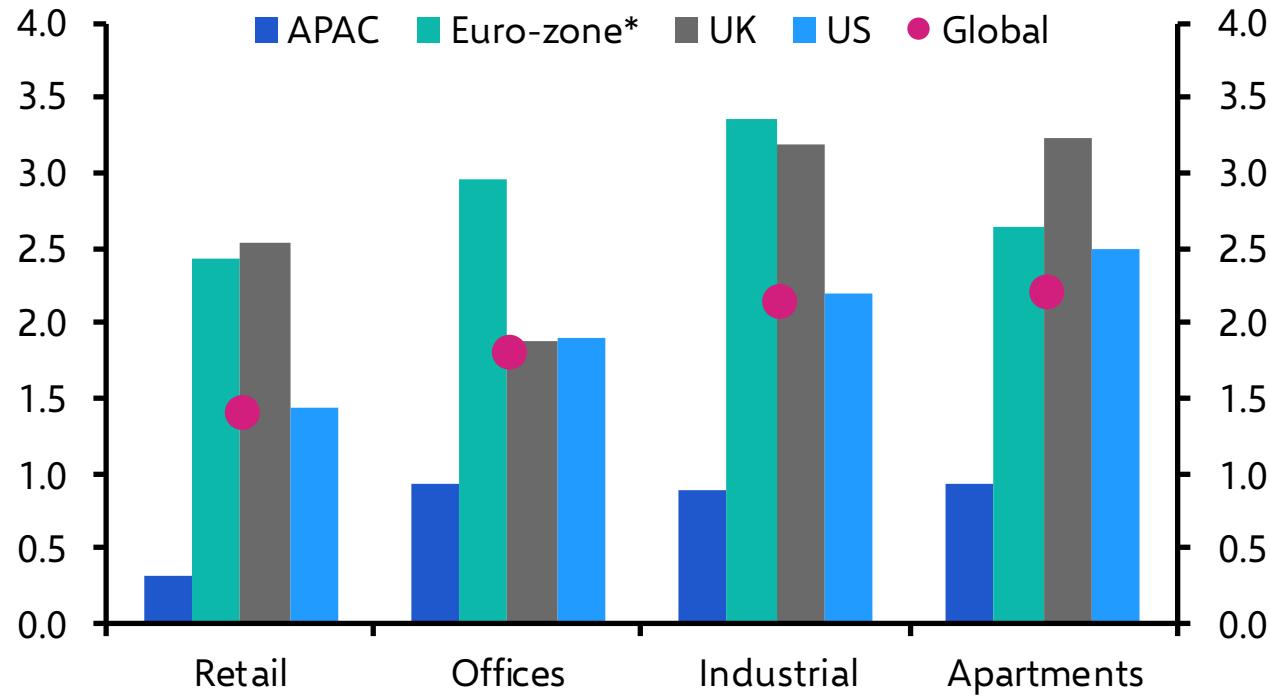
Offices: If office-based employment cut, lower overall office demand. Implies shift to smaller, prime offices in central locations will continue.

Retail: Demand could take a hit if employment falls and boost to GDP doesn't feed through to higher earnings. Potential widening in inequality would lead luxury retail and discount stores to outperform.

Industrial: Obvious direct impact on data centres. But perhaps AI can lead to further improvements in automation of warehouses. Would suggest more rapid obsolescence/depreciation, so increased costs but also higher rents.

Hotels/Leisure: If Holy Grail of AI replacing jobs, but boosting GDP, happens then households should have more leisure time, boosting demand for leisure assets.

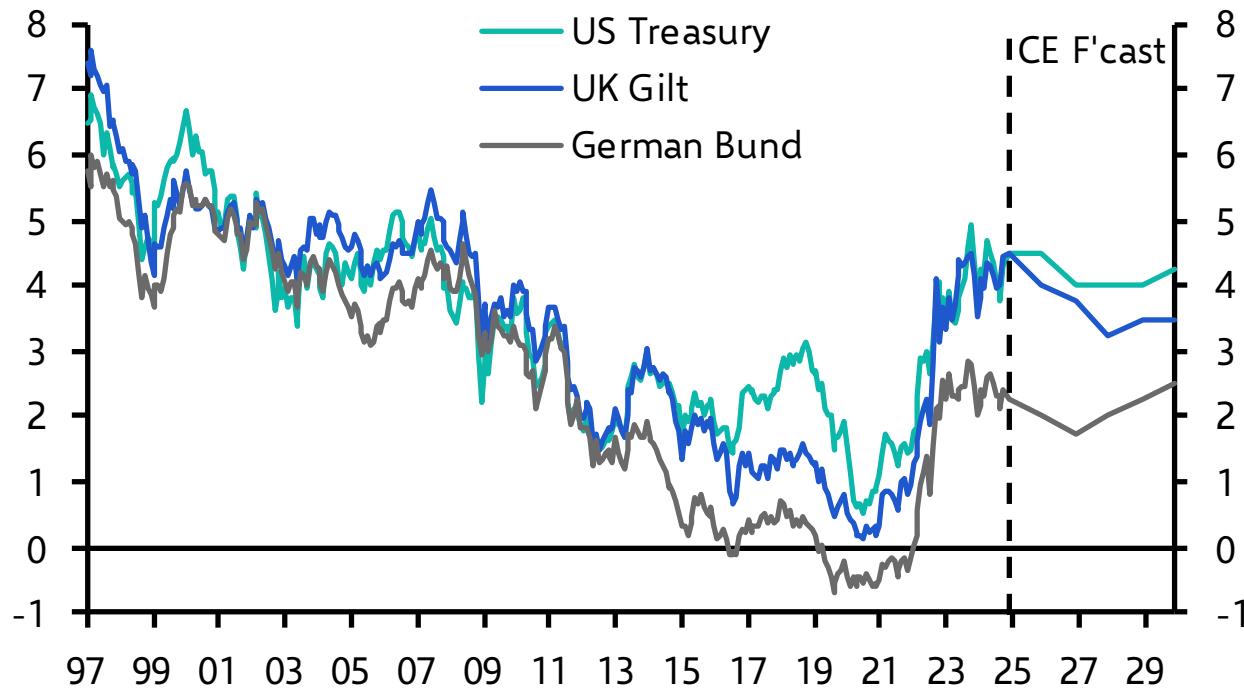
Forecast Rental Growth by Sector & Region, 2025-29 (% p.a.)



Source: Capital Economics

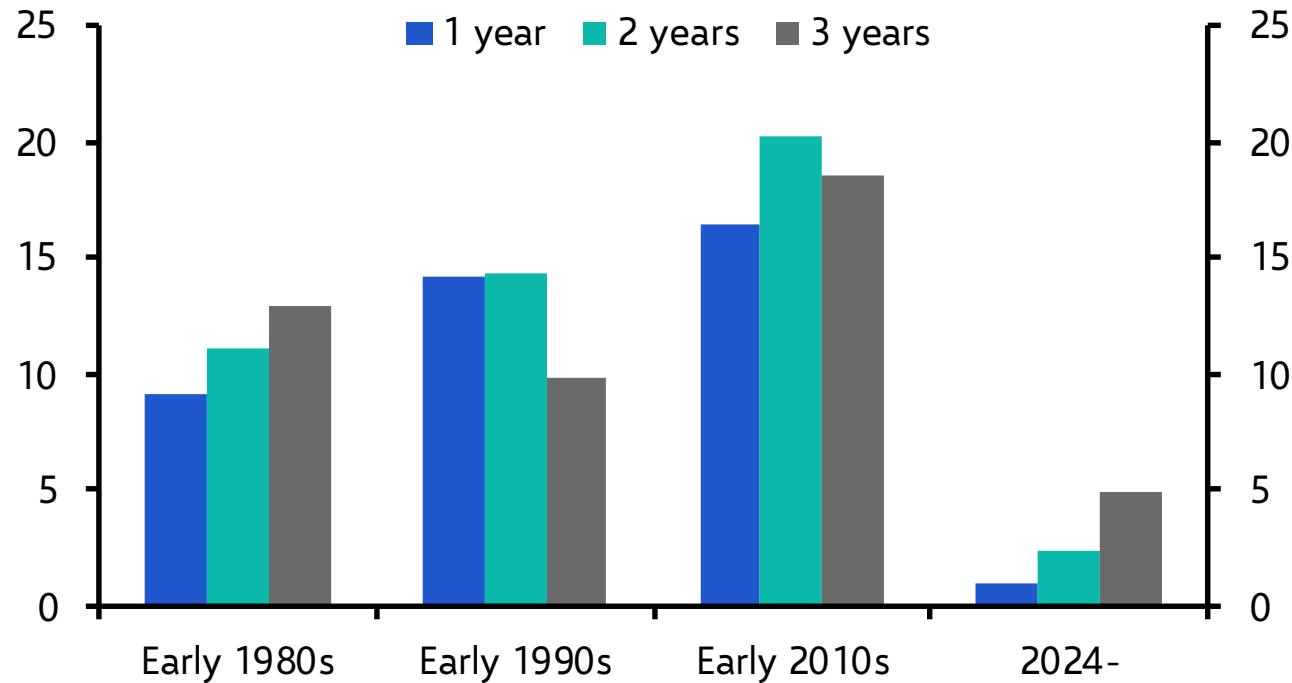
Old slides below

10-Year Government Bond Yields (%)



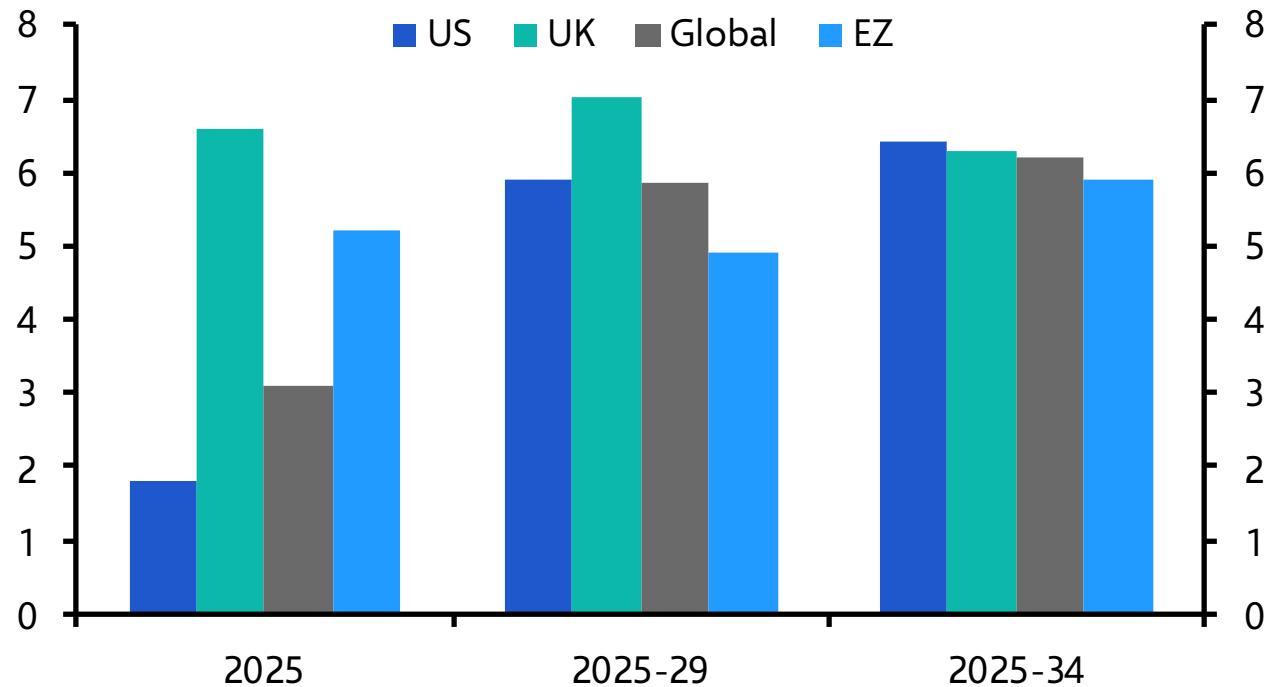
Sources: LSEG, Capital Economics

UK All-Property Capital Values (% Cumulative)



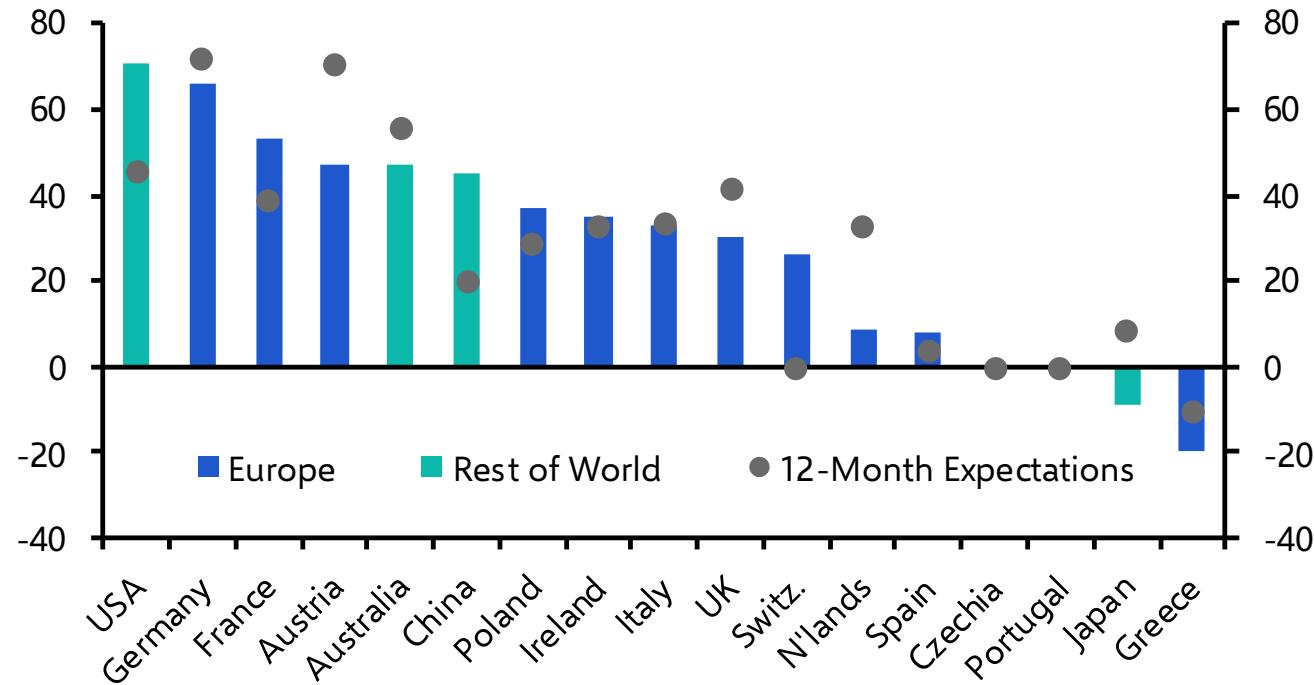
Sources: MSCI, Capital Economics

MSCI-based All-Property Forecasts (% p.a.)



Source: Capital Economics

Change in Forced Asset Sales in Last 12 Mths (% Net Bal.)

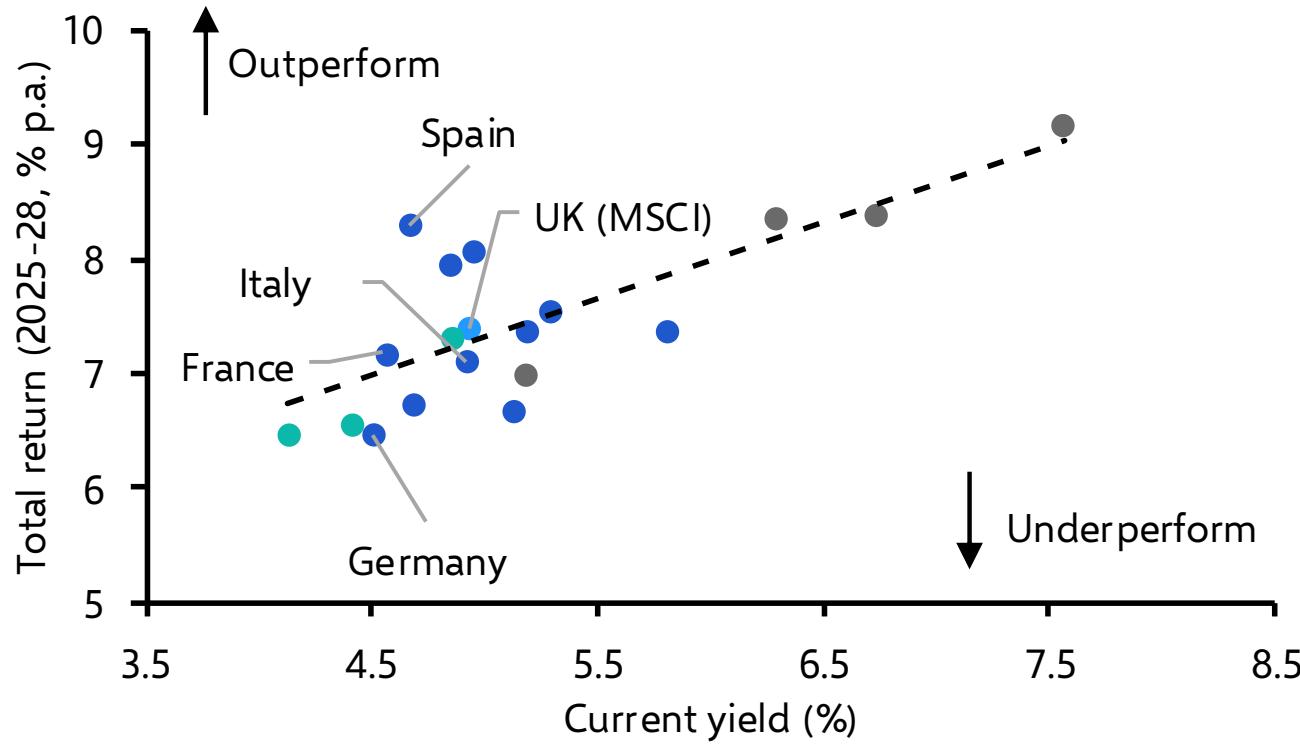


Sources: RICS, Capital Economics

Global Overview Summary

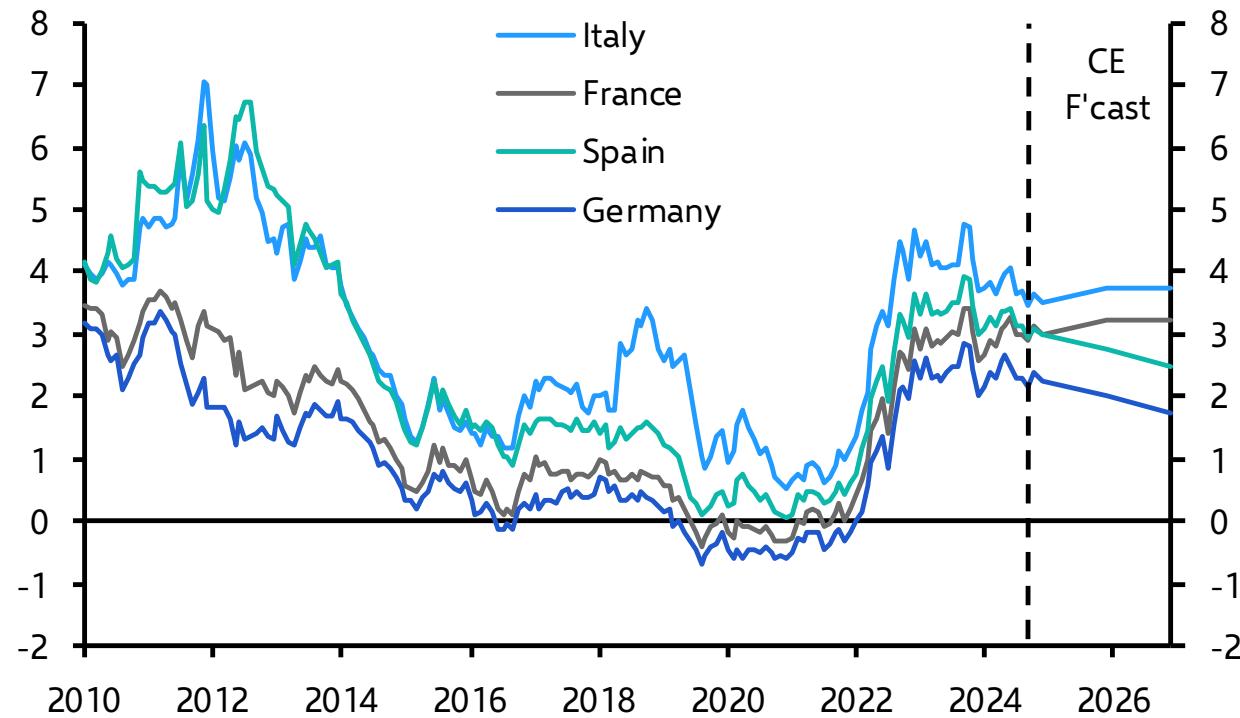
- Interest rates have peaked.
- Commercial property pricing has reached a floor and is set for recovery.
- But the recovery will be a weak one by past standards.
- The UK will lead again in 2025 but will eventually be caught up with.
- More forced sales than expected would pose a downside risk to the recovery.

All-Property Total Returns and Yields



Sources: MSCI, Capital Economics

10-Year Government Bond Yields (%)

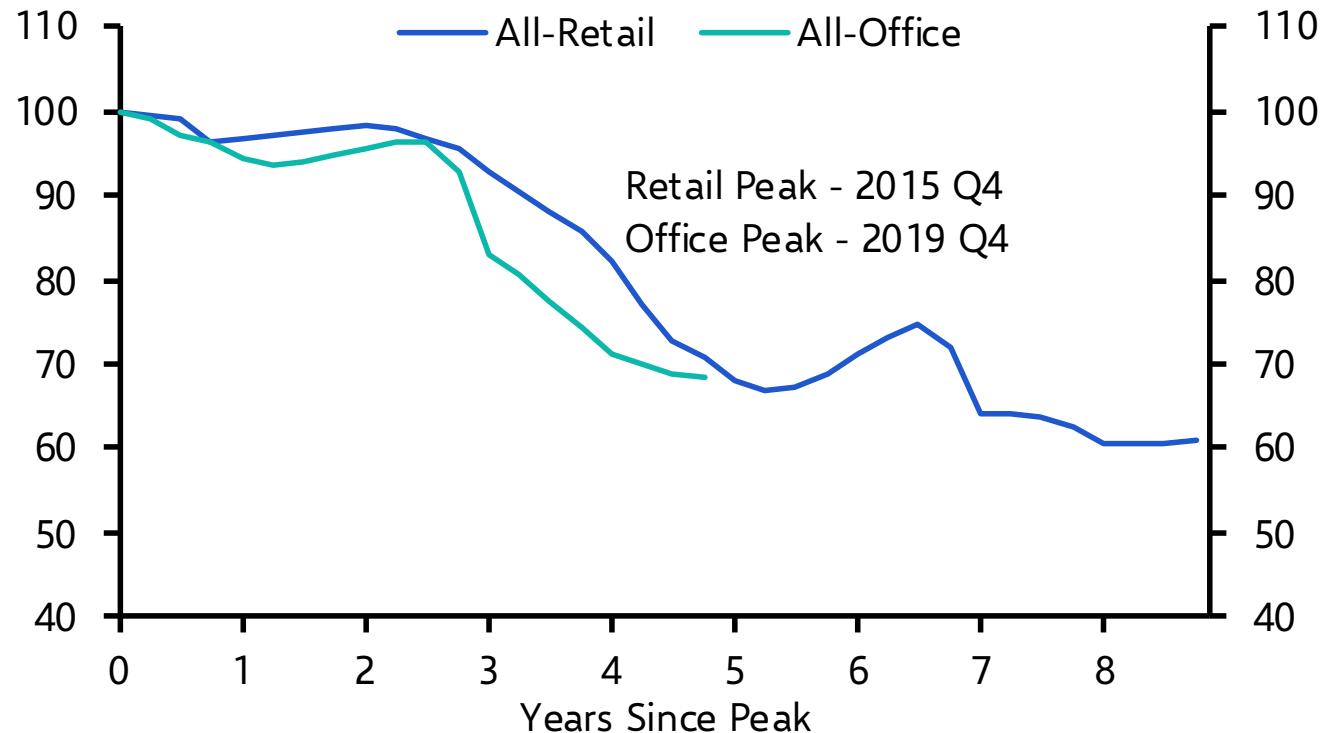


Sources: LSEG, Capital Economics

Office Outlook Still Challenging

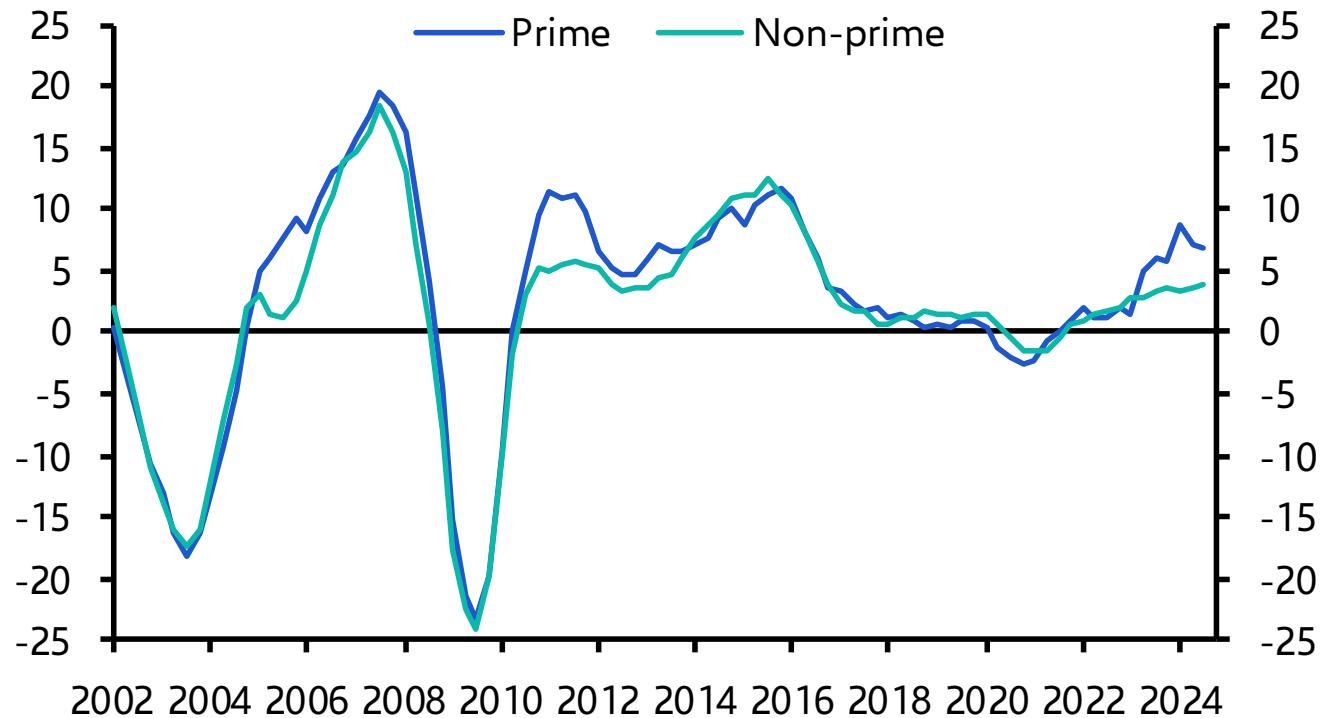
- Remote work represents a structural hit to demand.
- Employment growth has been slow.
- ESG and the risk of stranded assets.
- Capital values have therefore seen a relatively large fall.

UK Capital Values (Index, Respective Peaks = 100)



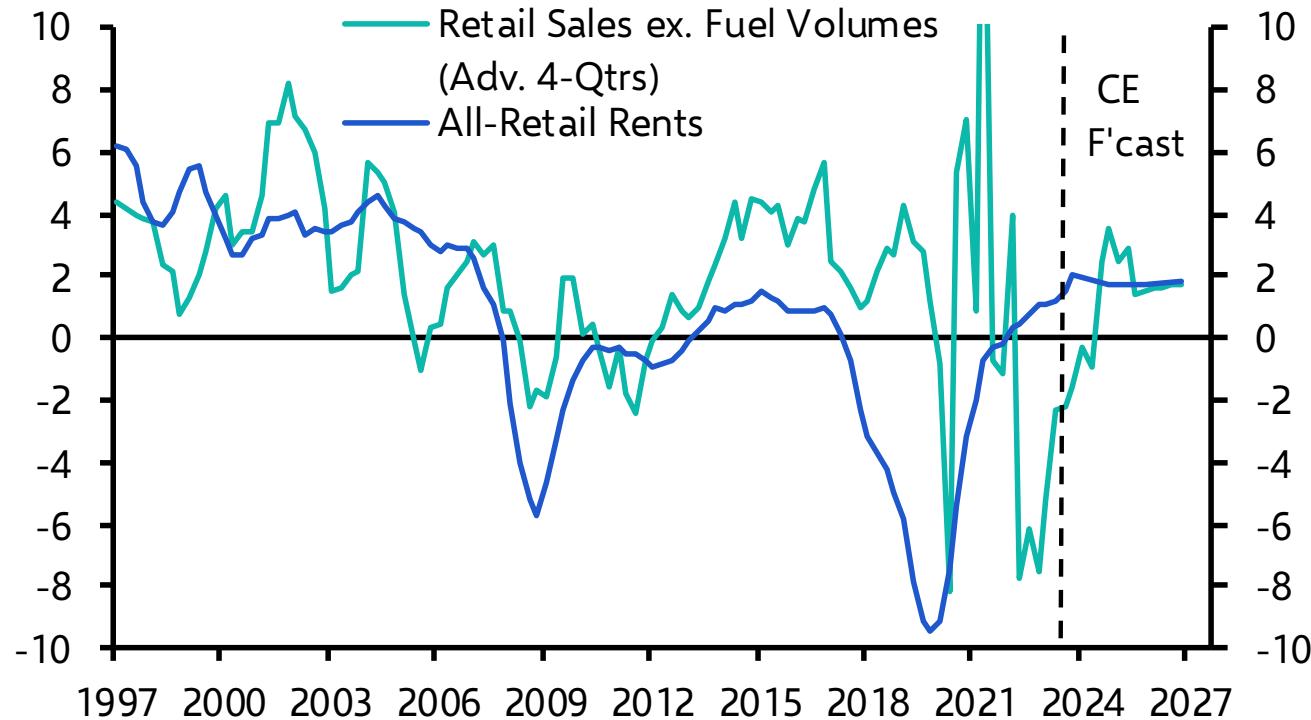
Sources: MSCI, Capital Economics

Central London Office Rental Growth (% y/y)



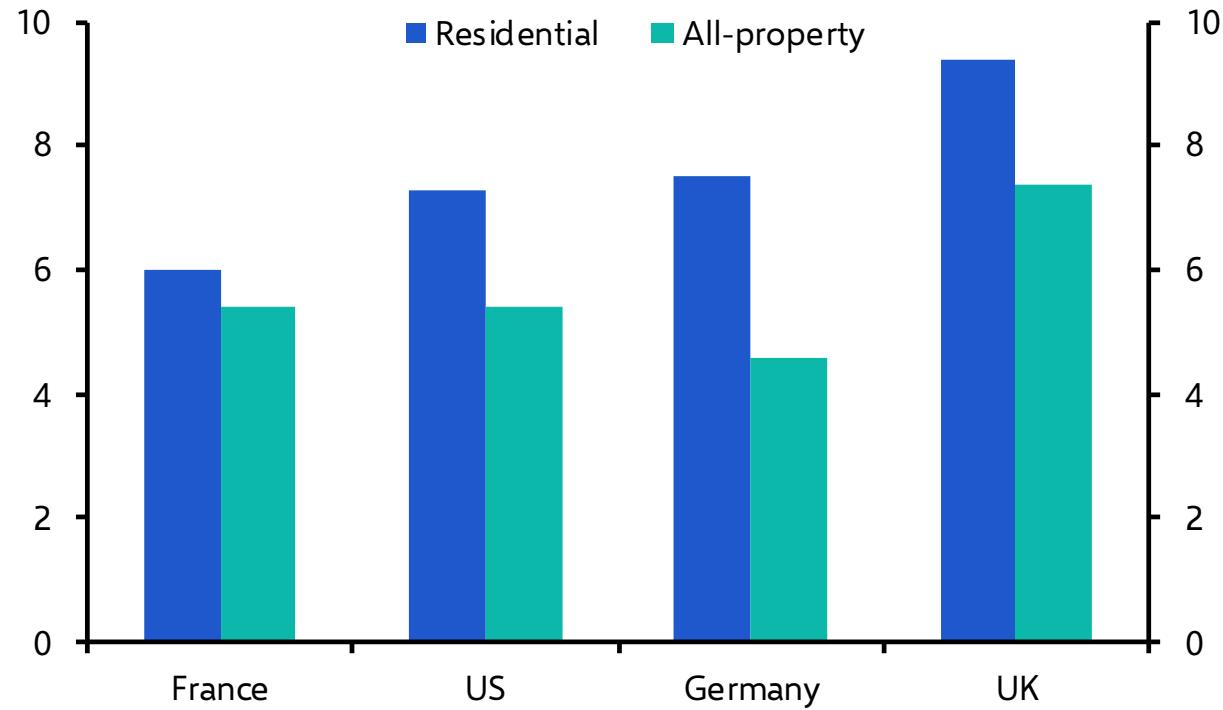
Sources: MSCI, Capital Economics

Retail Sales & All-Retail Rents (% y/y)



Sources: ONS, MSCI, Capital Economics

Residential and All-Property Returns (2025-28, % p.a.)



Source: Capital Economics

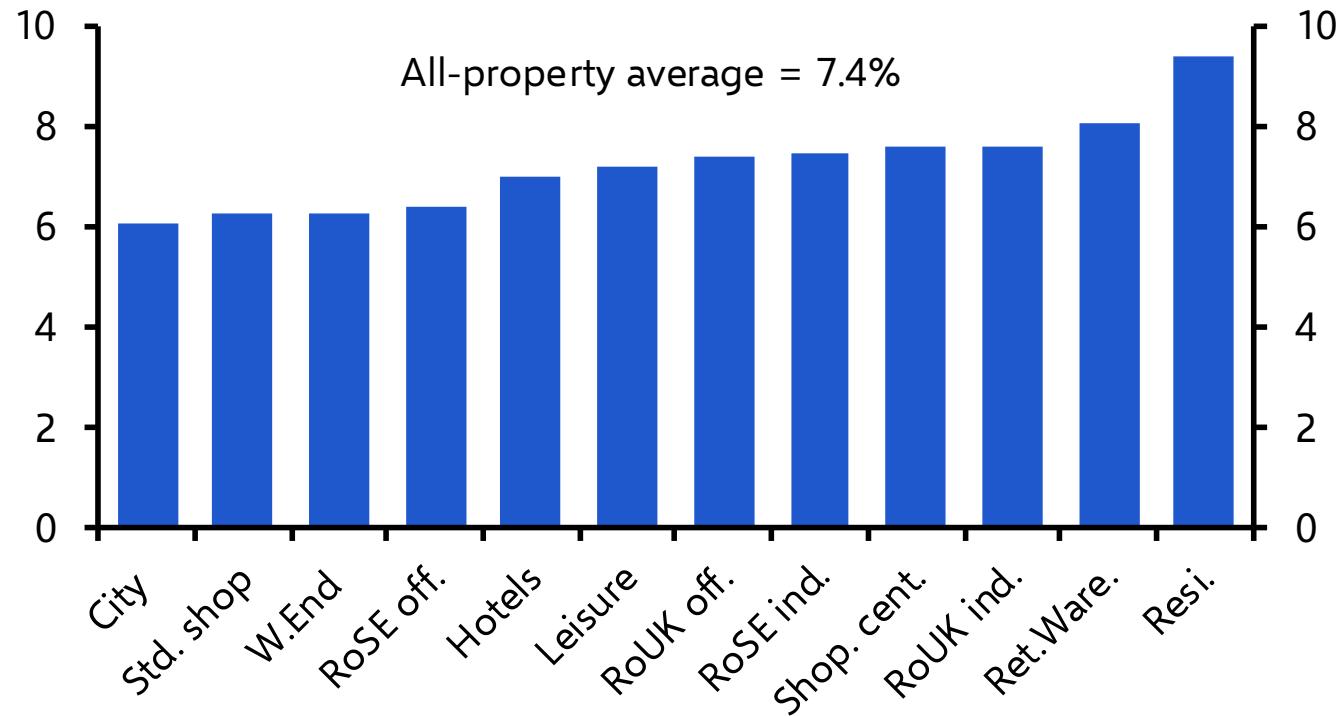
Conclusions

- Commercial property is primed for recovery.
- However, the higher interest rate environment means this will be the weakest property recovery since at least 1980.
- We expect Germany to underperform over the coming years, while Spain outperforms. The UK will sit roughly in the middle.
- Offices will fare poorly as their structural adjustment continues.
- Retail and residential stand out as winners, albeit for very different reasons.

Additional Material

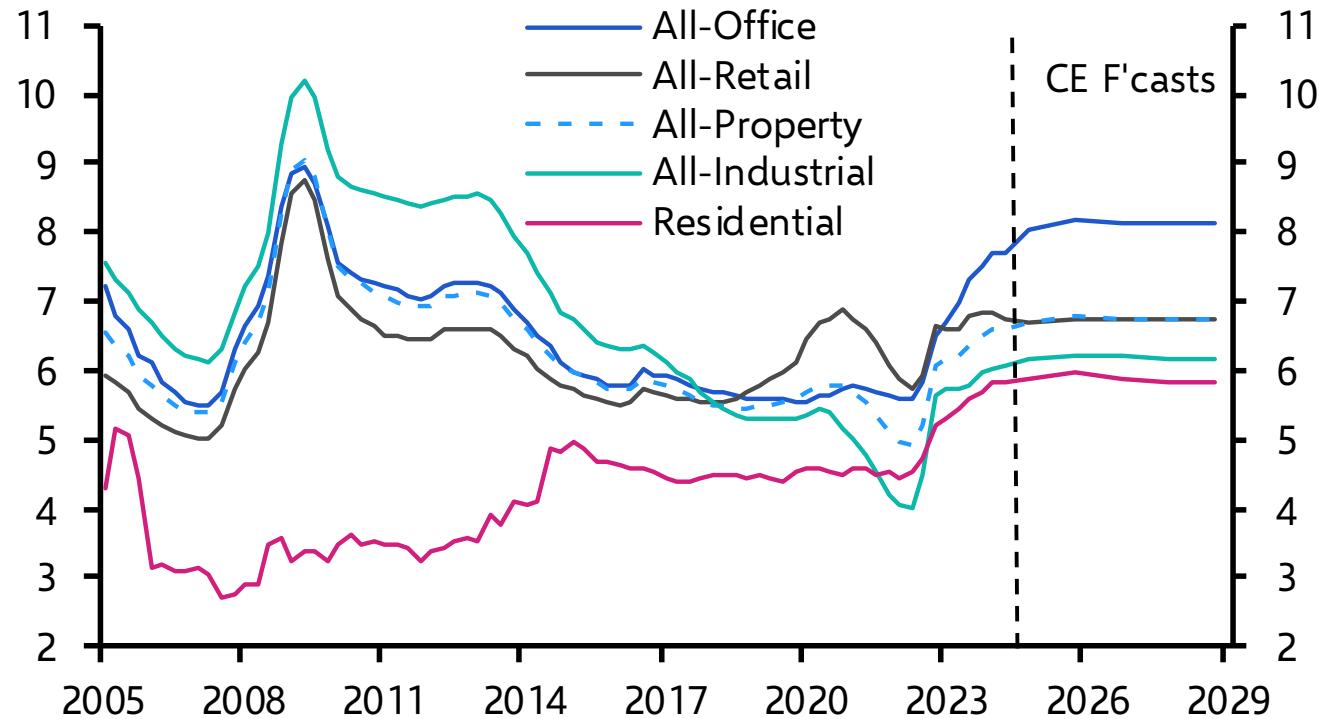
UK

UK Total Return Forecasts 2025-28 (% p.a.)



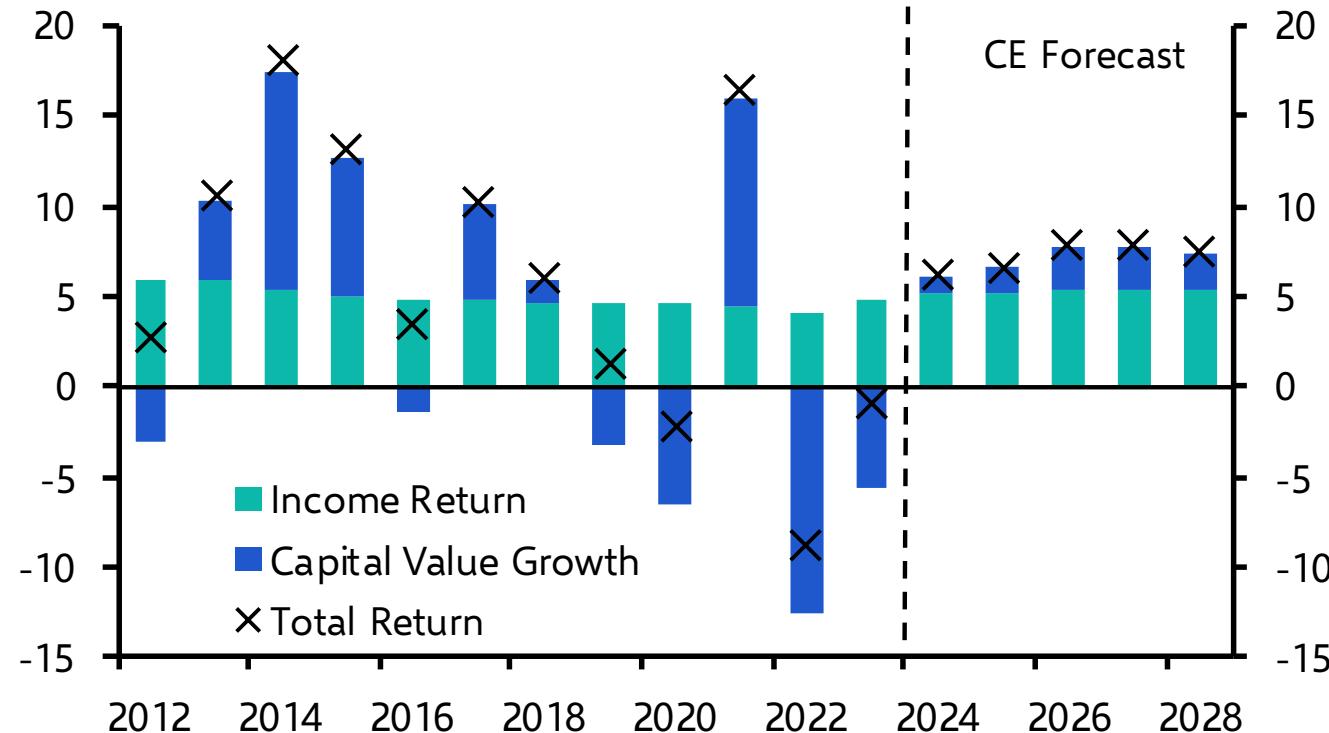
Sources: MSCI, Capital Economics

UK Equivalent Yields by Sector



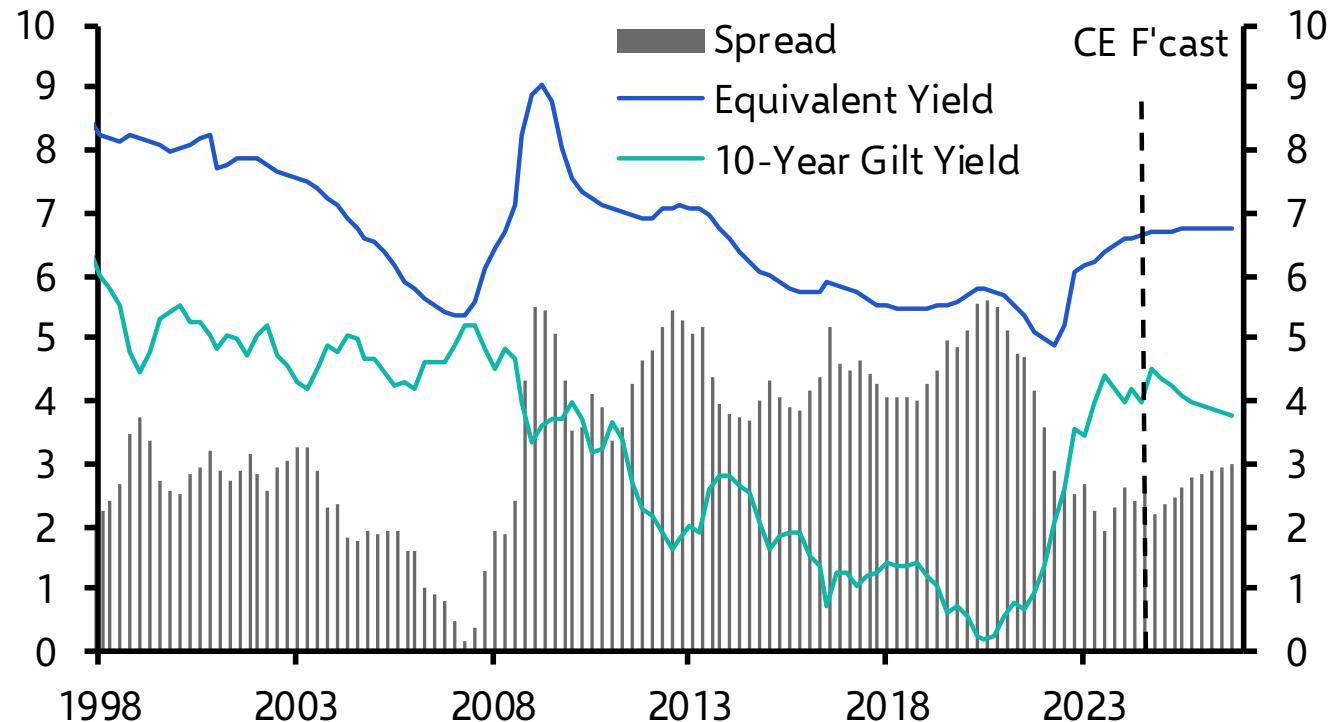
Sources: MSCI, Capital Economics

UK All-Property Total Returns Breakdown (% y/y)



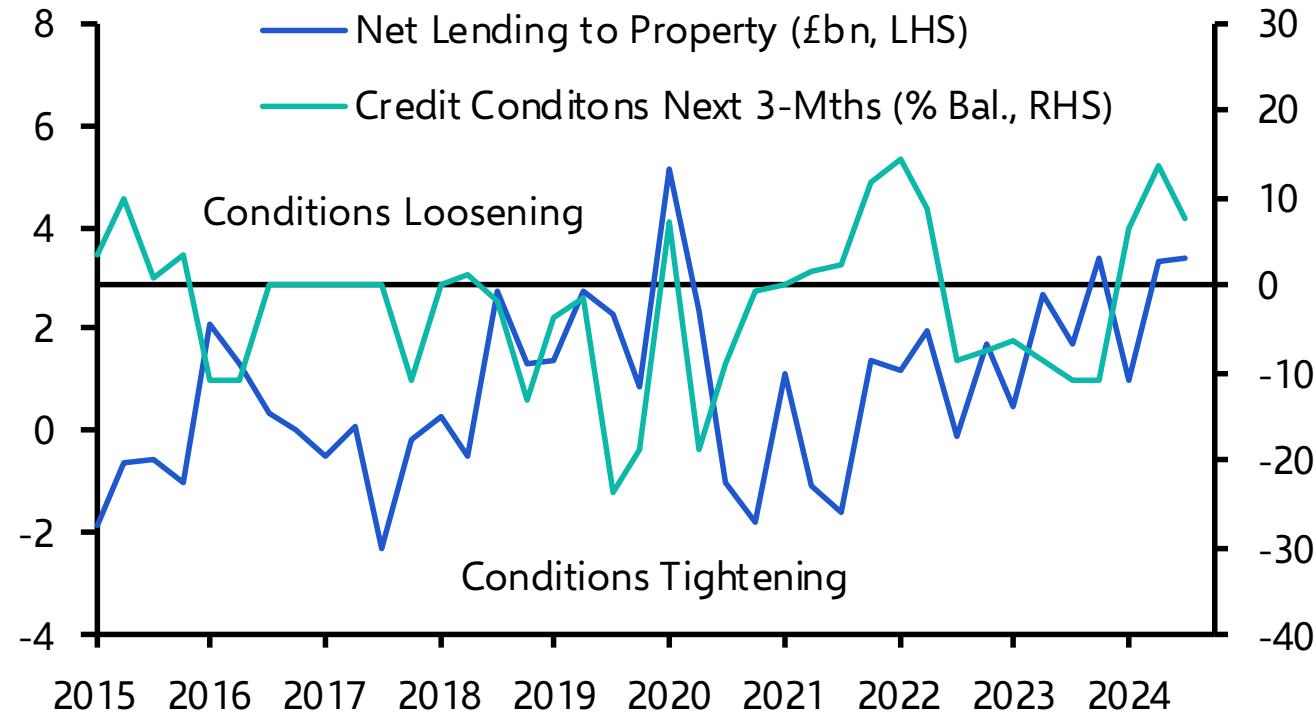
Sources: MSCI, Capital Economics

All-Property Equivalent Yield & 10-Year Gilt Yield (%)



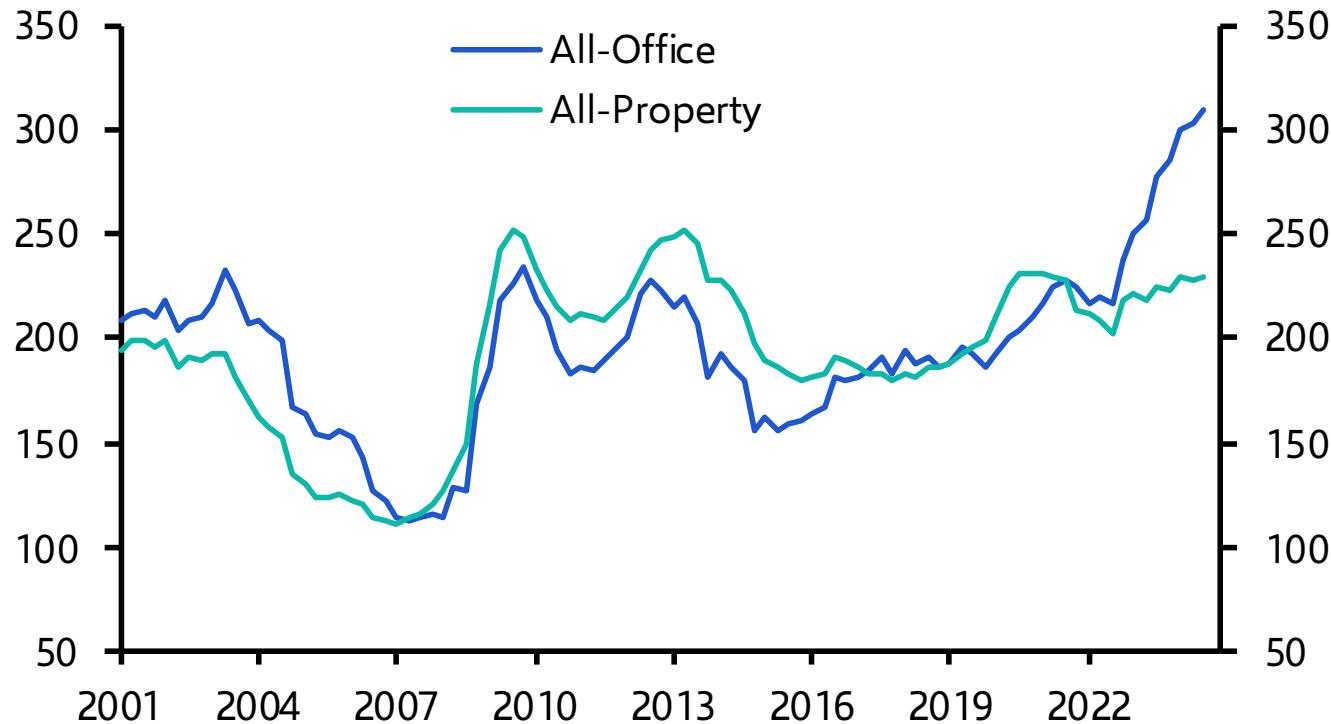
Sources: LSEG Data, MSCI, Capital Economics

Commercial Real Estate Net Lending & Credit Conditions



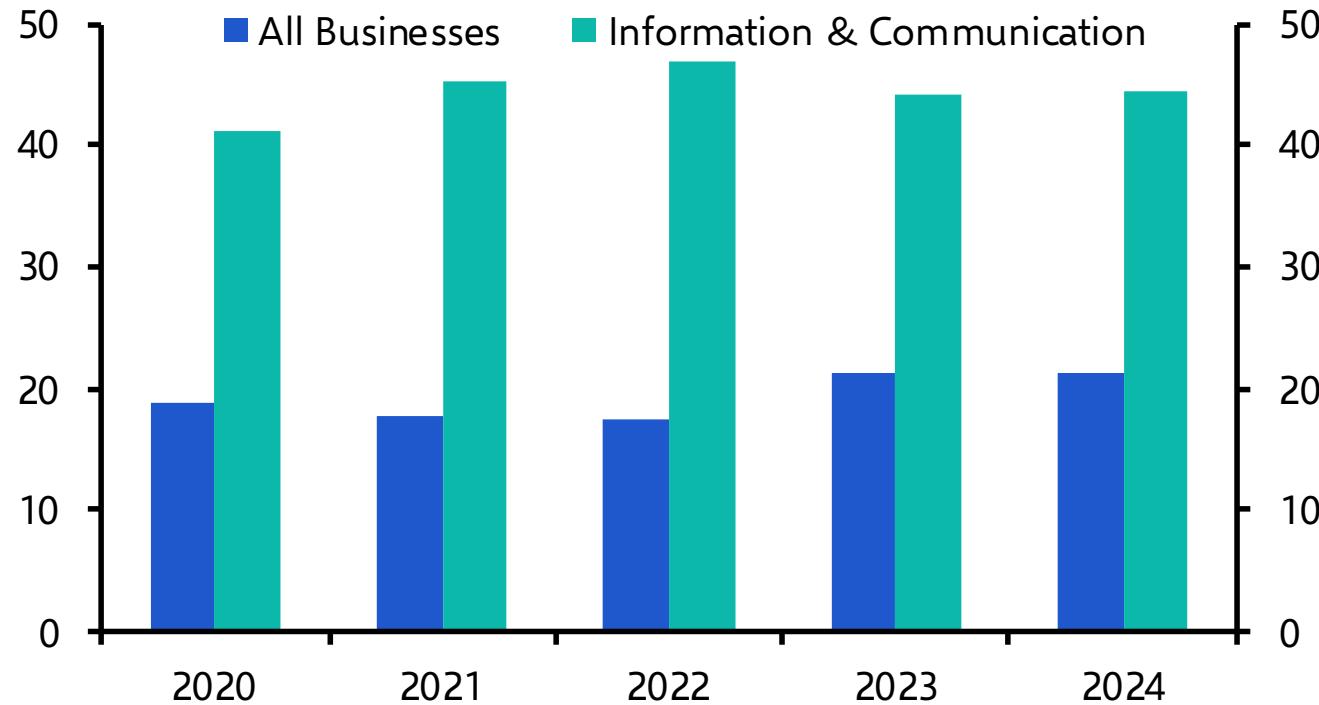
Source: Bank of England

UK Prime/Non-Prime Equivalent Yield Spread (bps)



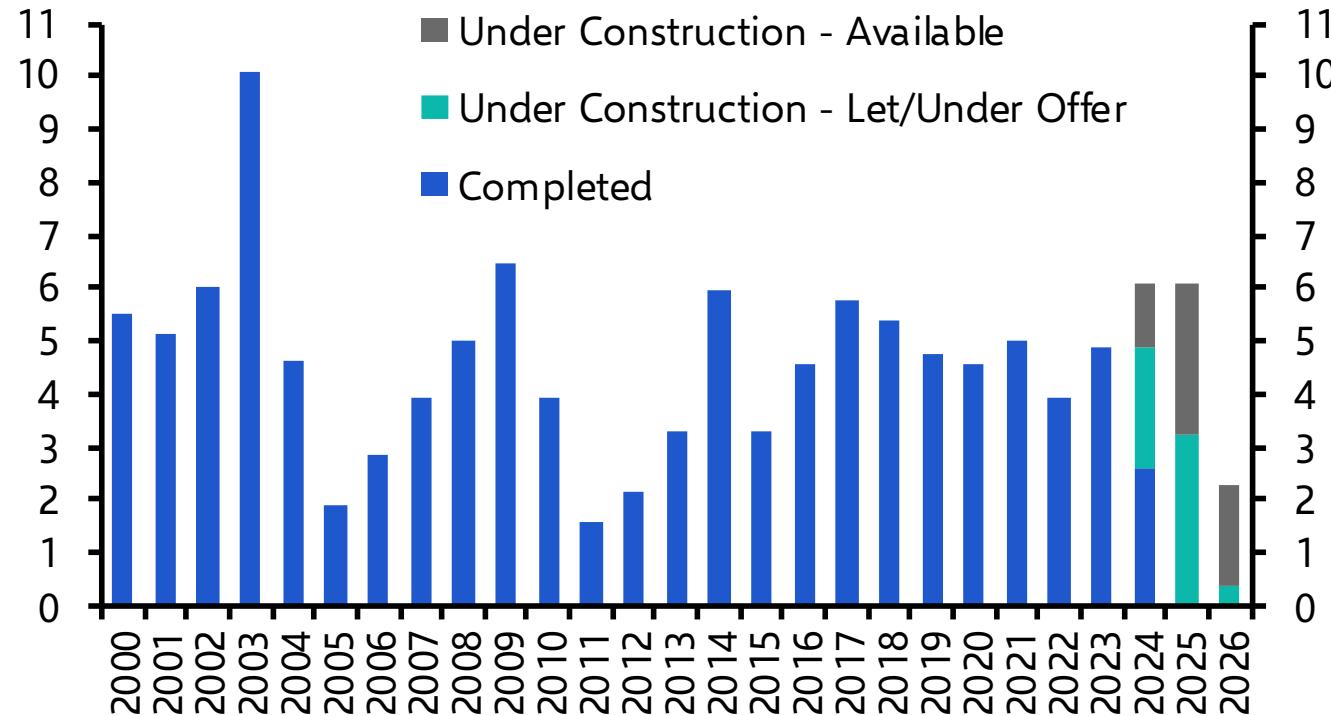
Sources: MSCI, Capital Economics

Share of Businesses Using Remote Work Permanently (%)



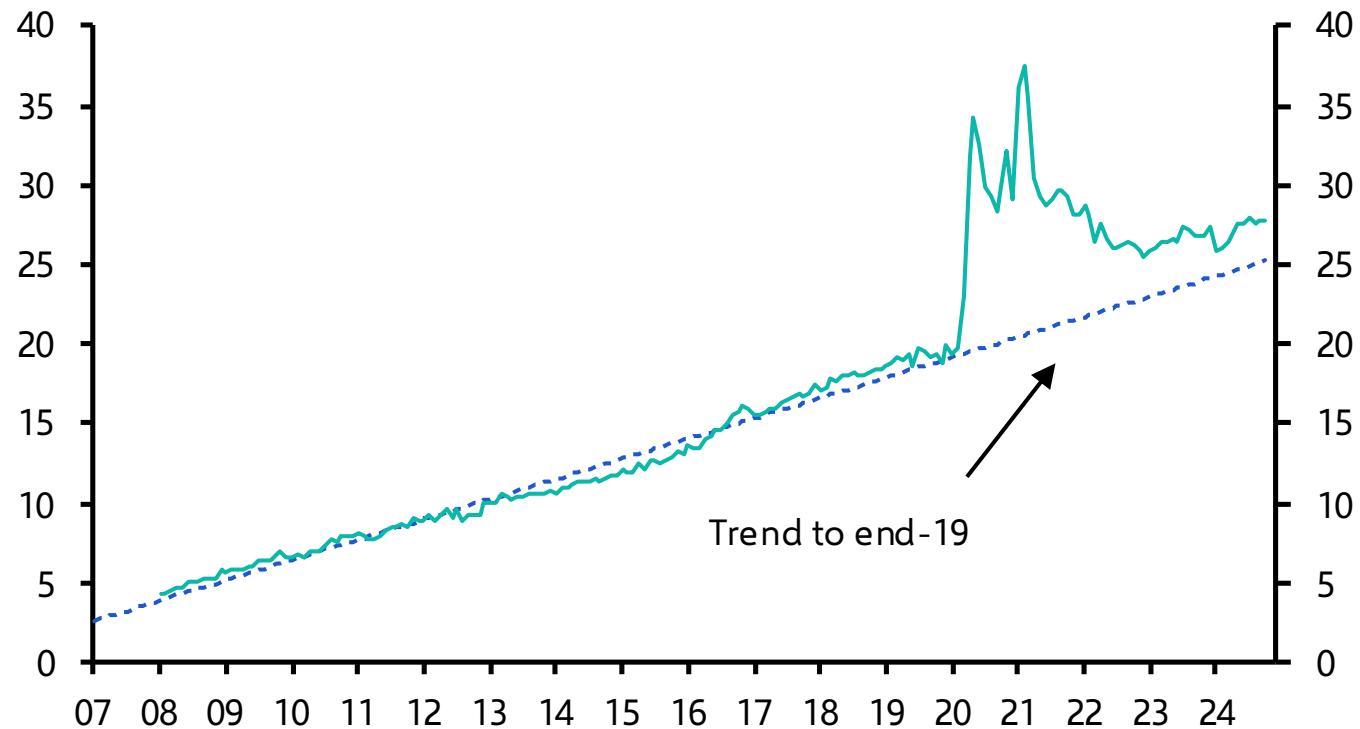
Source: ONS

Central London Development Pipeline (M. Sq. Ft.)



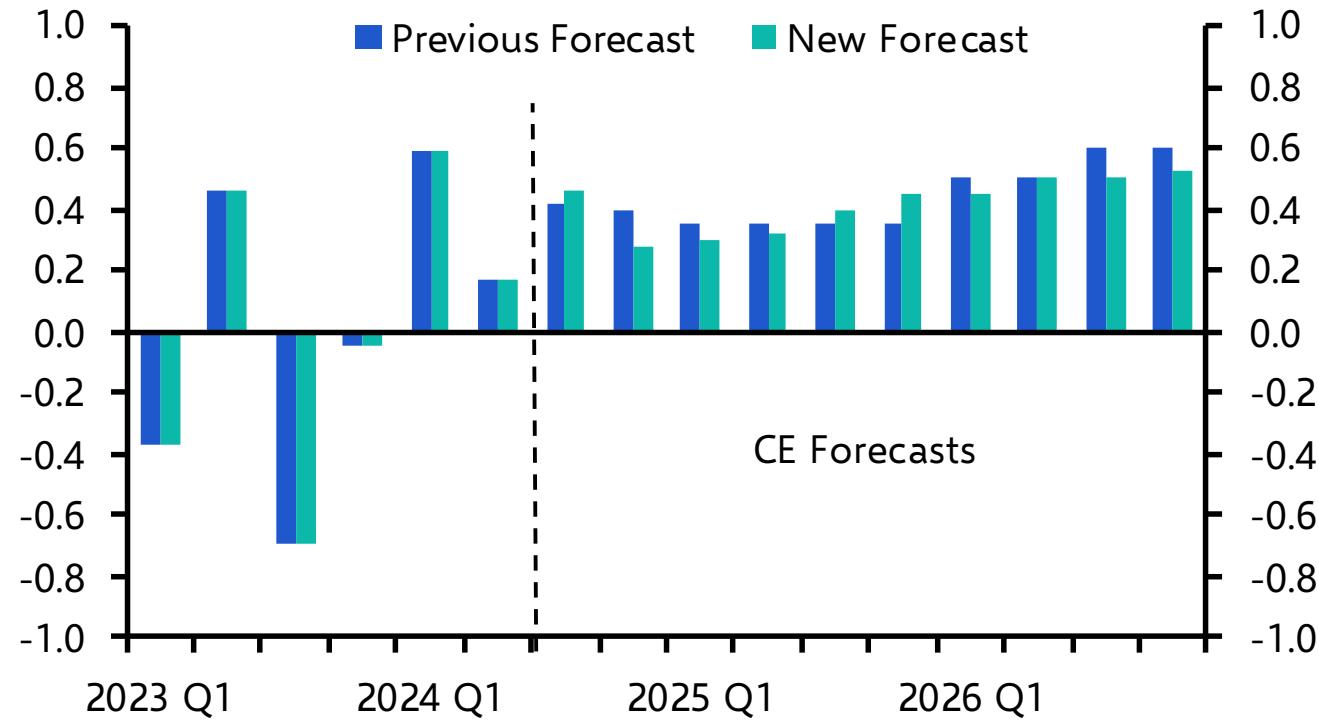
Source: CBRE

Online Share of Retail Sales (%)



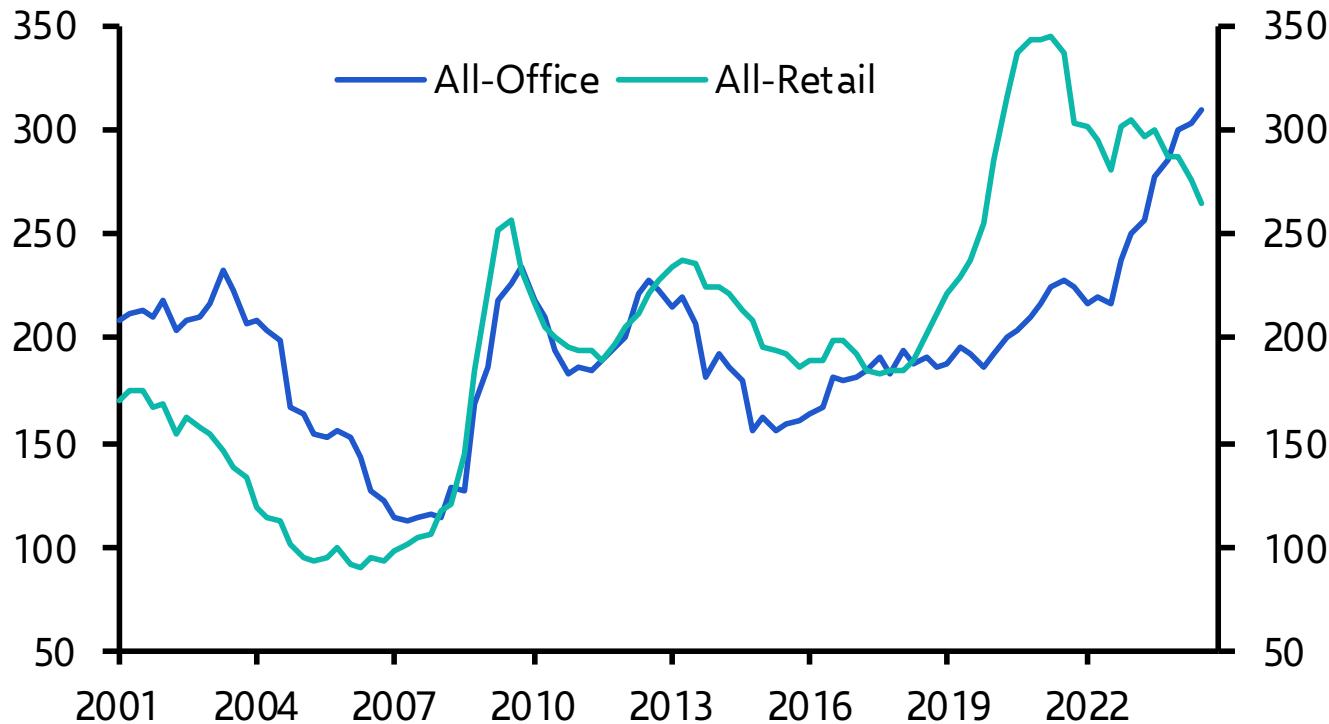
Sources: ONS, Capital Economics

UK Consumption Growth (% q/q)



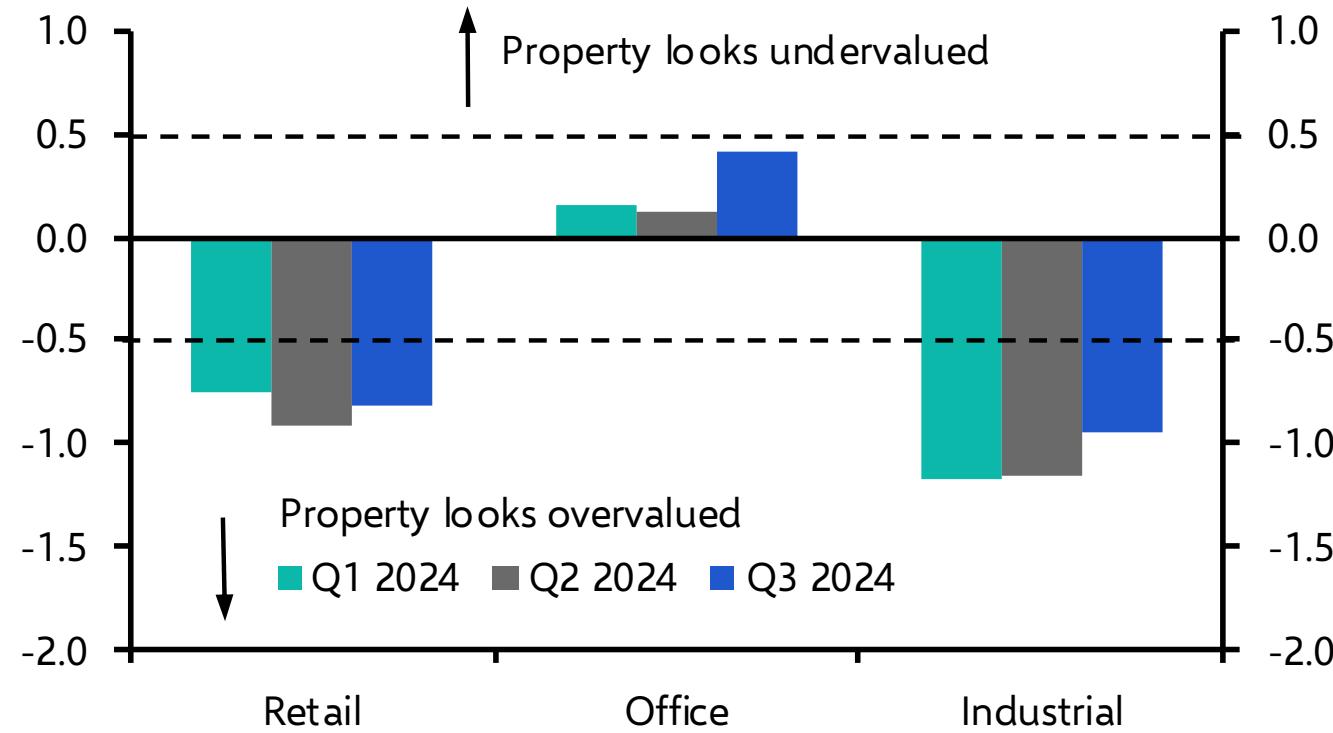
Sources: ONS, Capital Economics

UK Prime / Non-Prime Equivalent Yield Spread (bps)



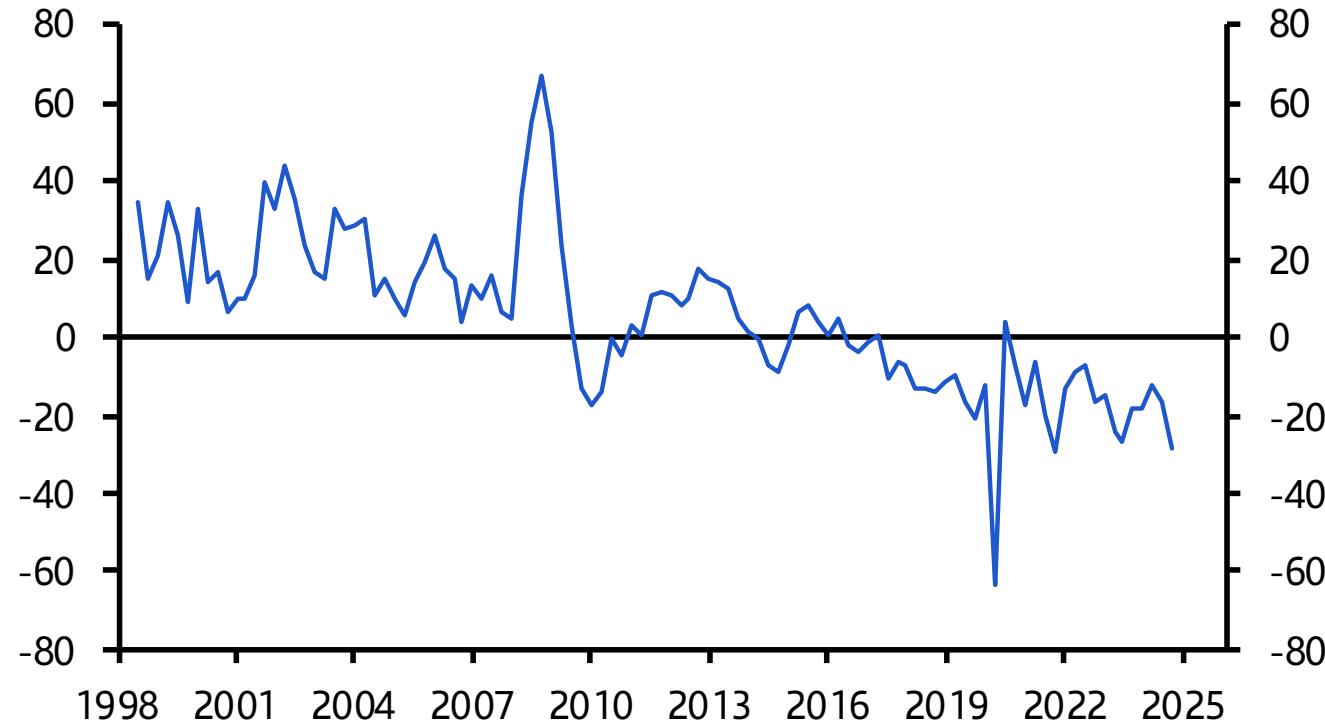
Sources: MSCI, Capital Economics

Sector Valuation Scores



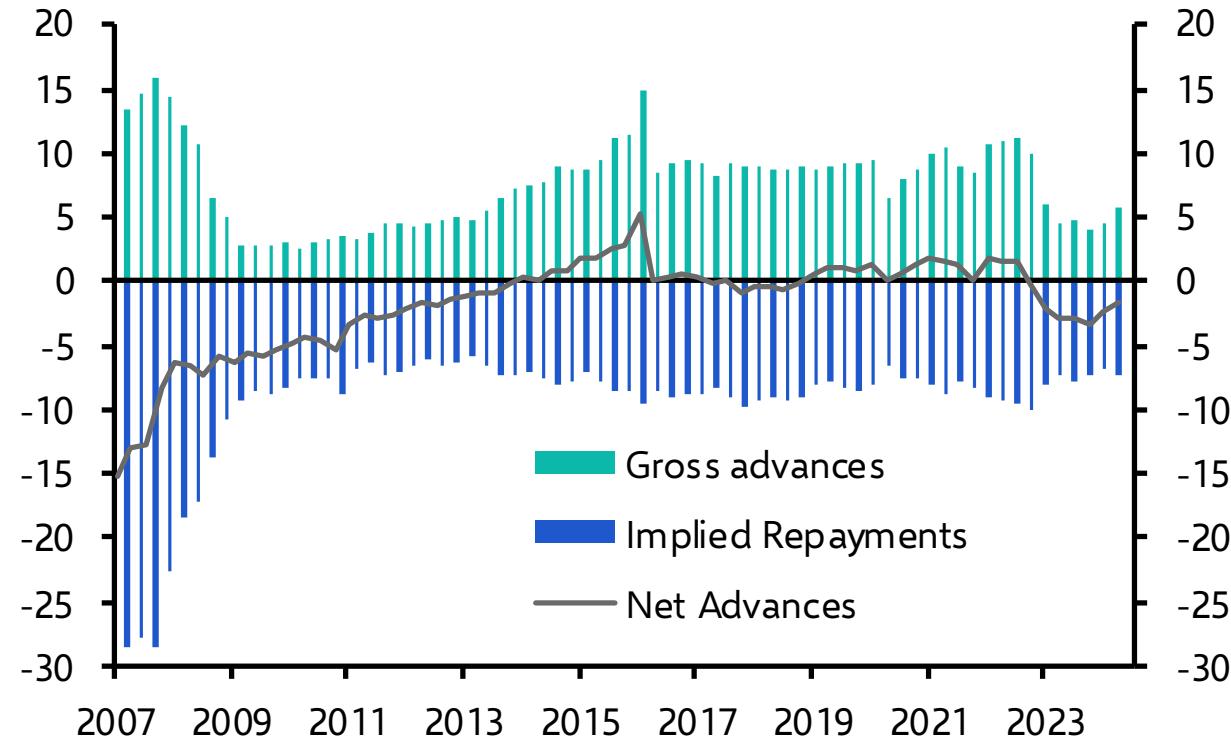
Source: Capital Economics

RICS Landlord Instructions (% Bal.)



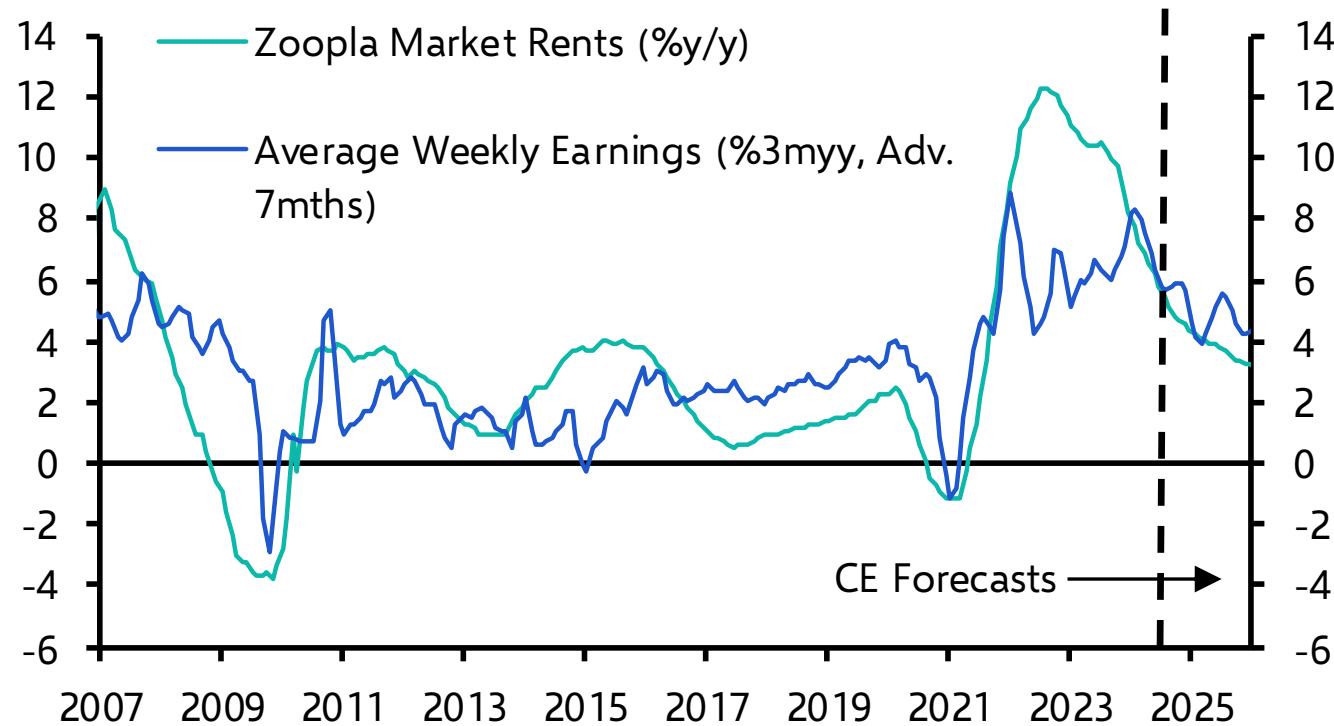
Source: RICS

Unregulated (i.e. BTL) Mortgage Lending (£bn)



Sources: Bank of England, Capital Economics

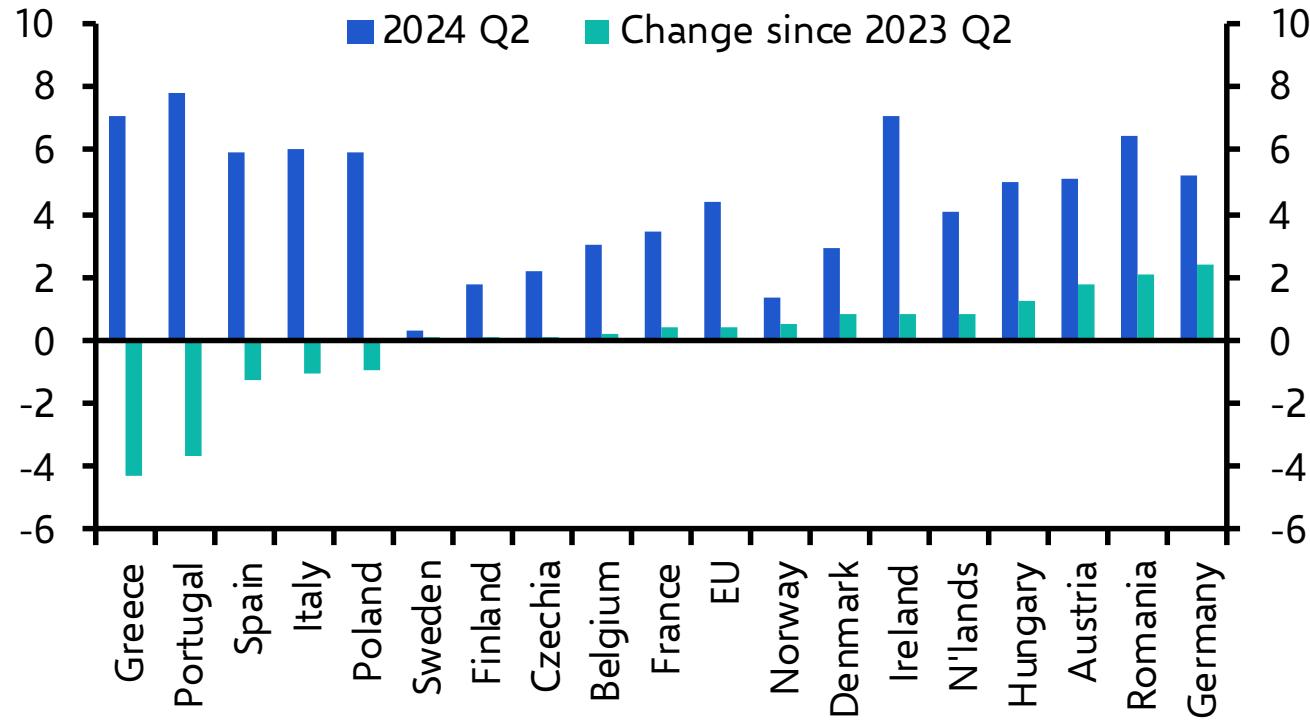
Average Weekly Earnings & Private Market Rent



Sources: LSEG Data, Zoopla, Capital Economics

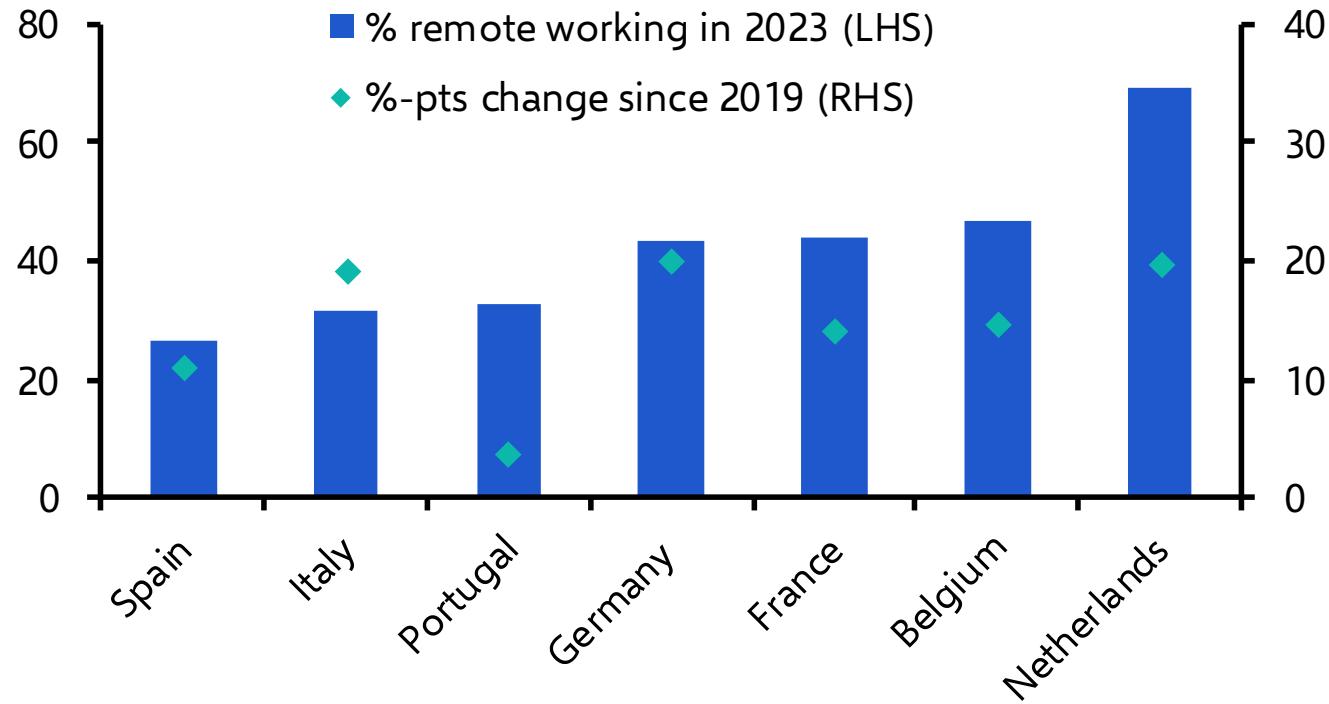
Europe

NPL Ratio on Commercial Lending (%)



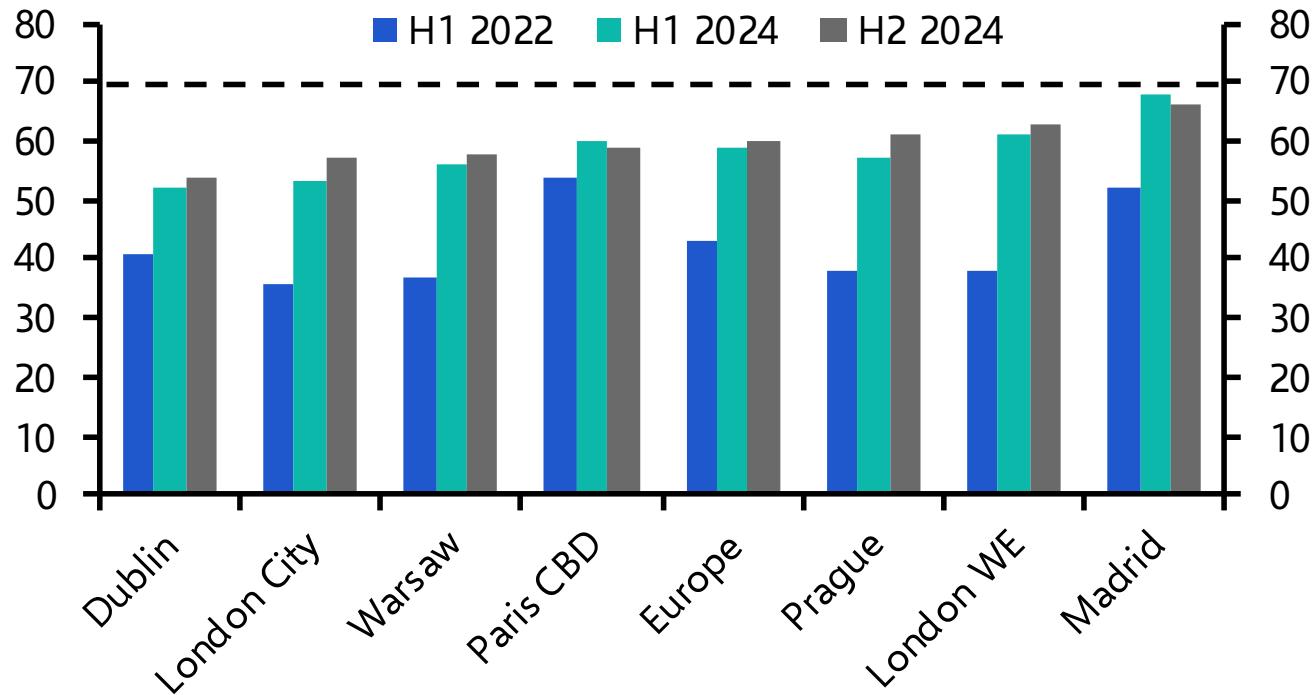
Source: EBA

Share of WFH in Office Based Sectors (%)



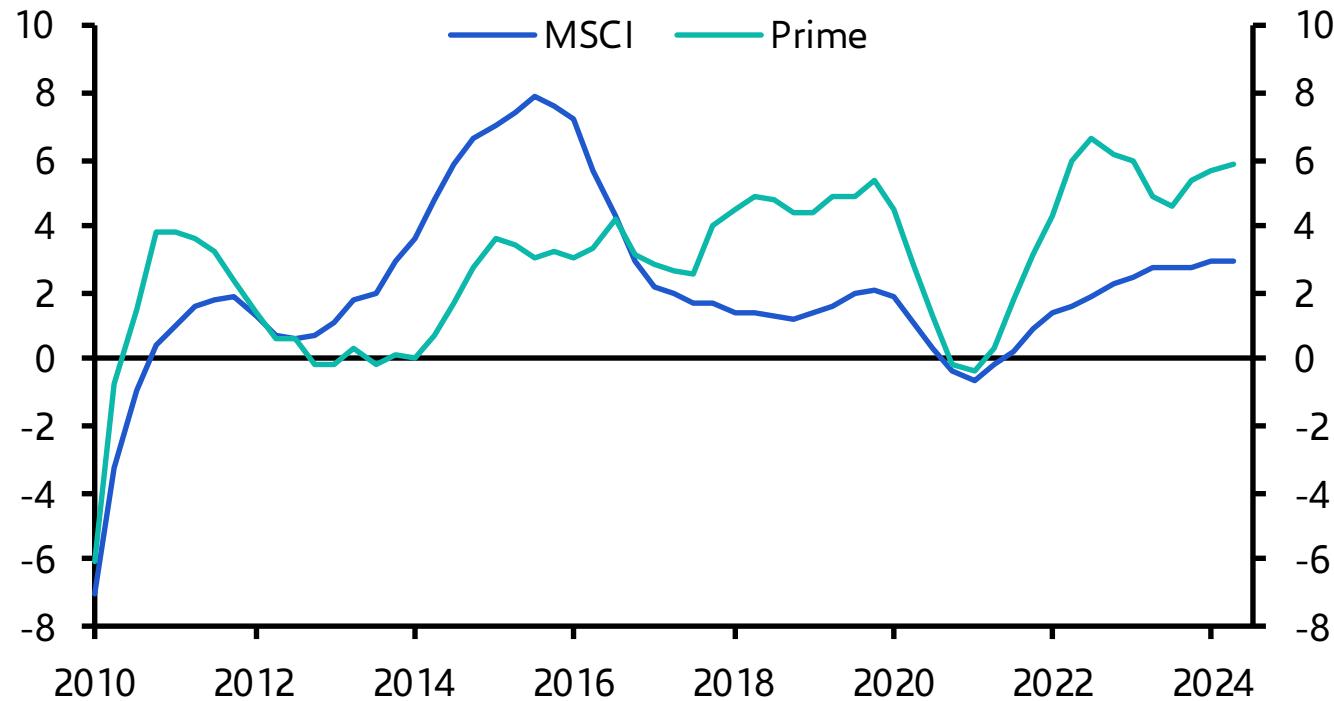
Sources: Eurostat, Capital Economics

Europe Office Occupancy Rates (%)



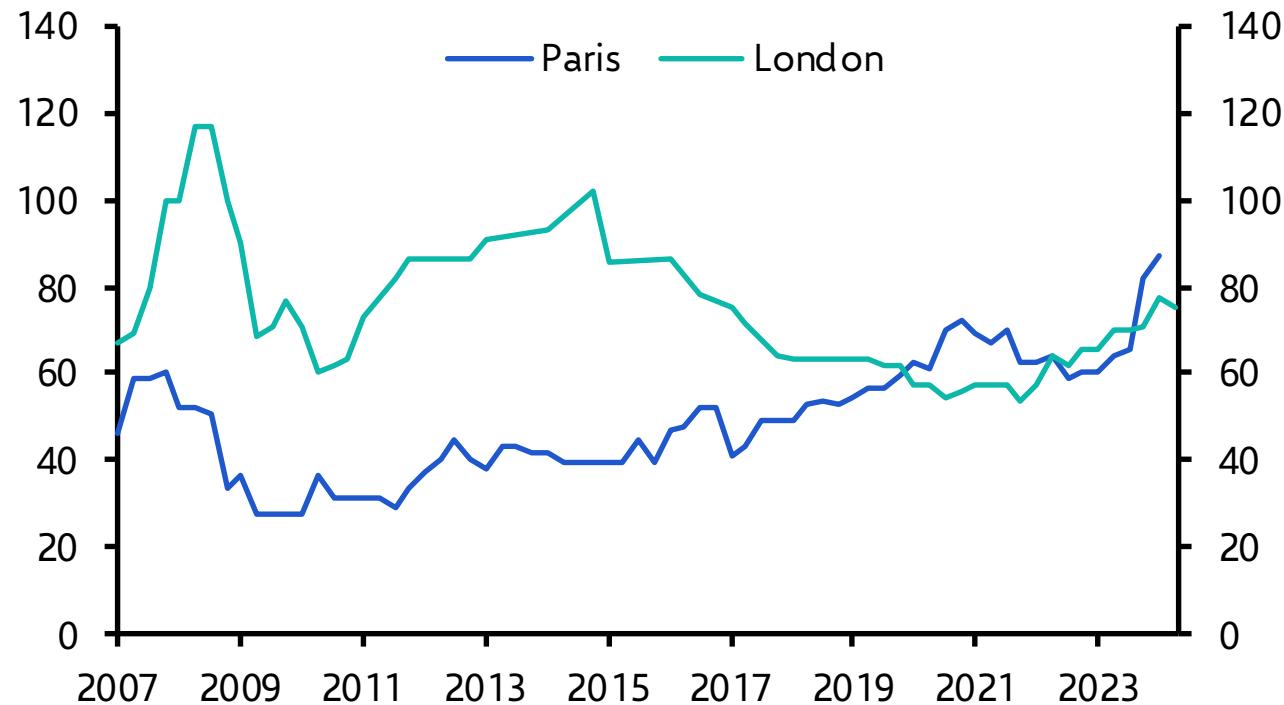
Source: Savills

Europe Prime vs Average Office Rental Value Growth (% y/y)



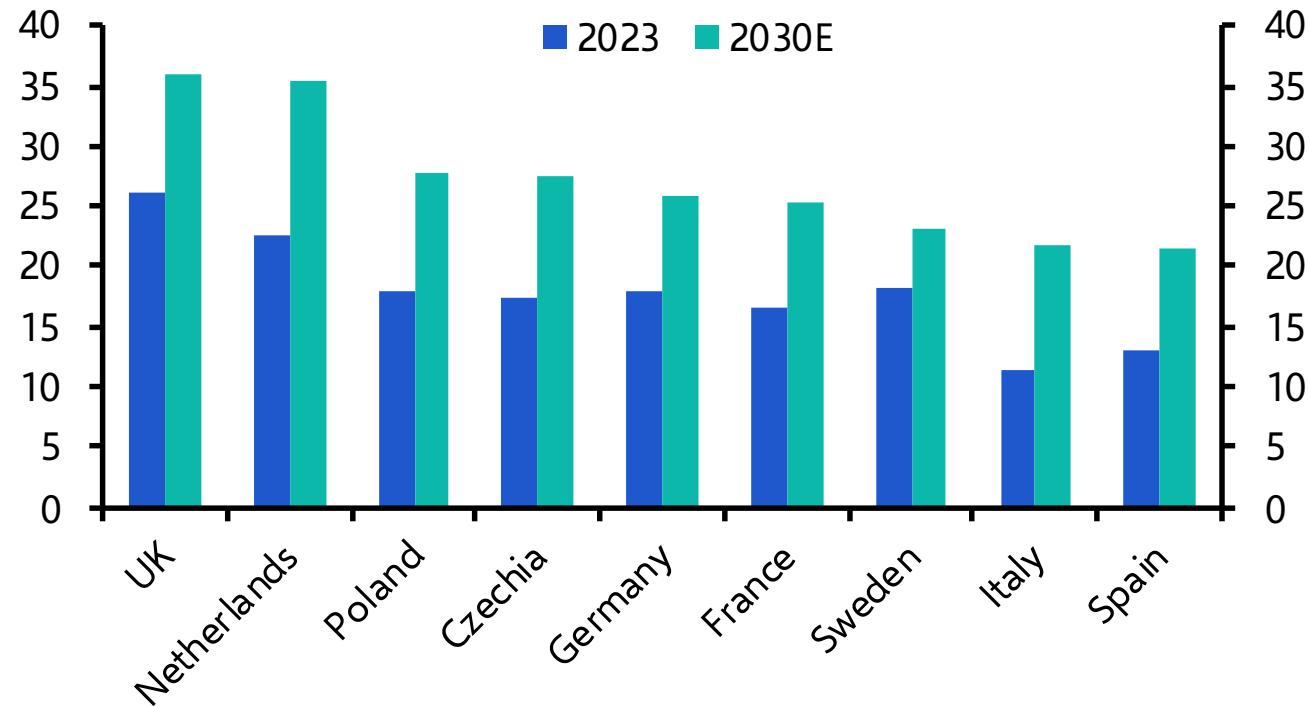
Sources: MSCI, Capital Economics

CBD Rent Premium* (Average %)



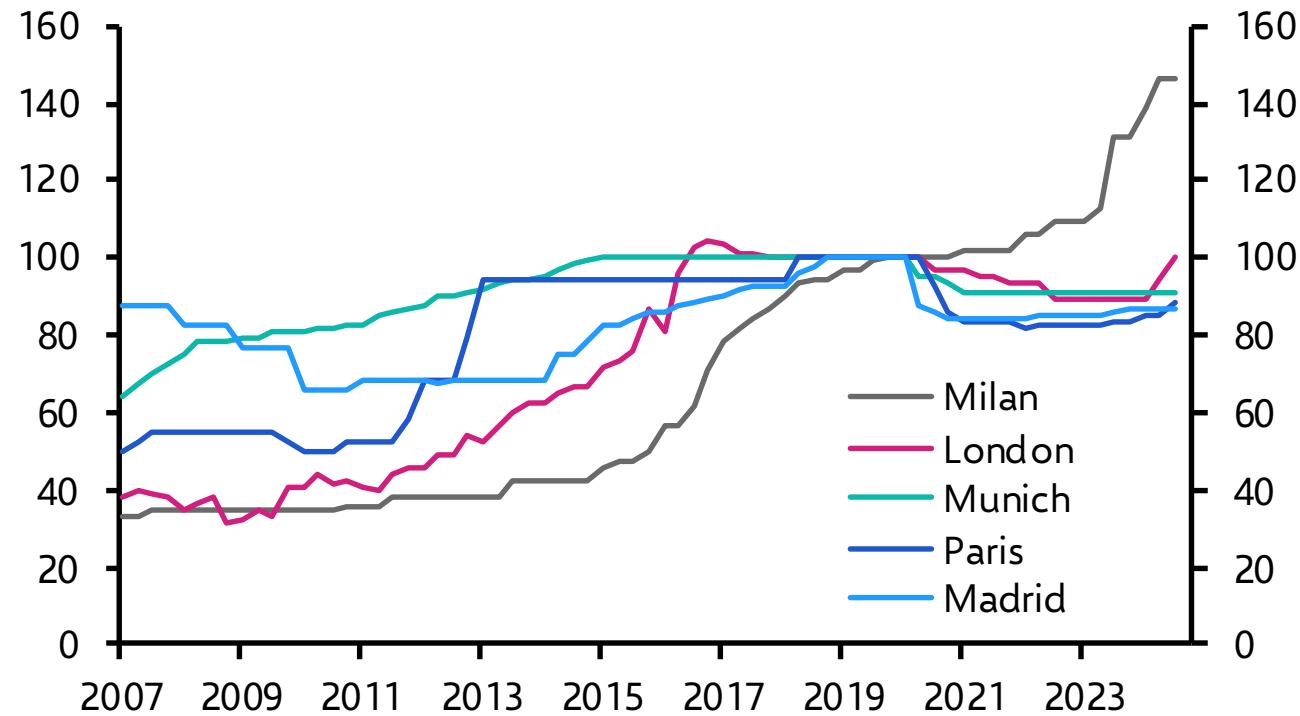
Sources: Various Agents, CE *over next most expensive submarket

Online Retail Shares (%)



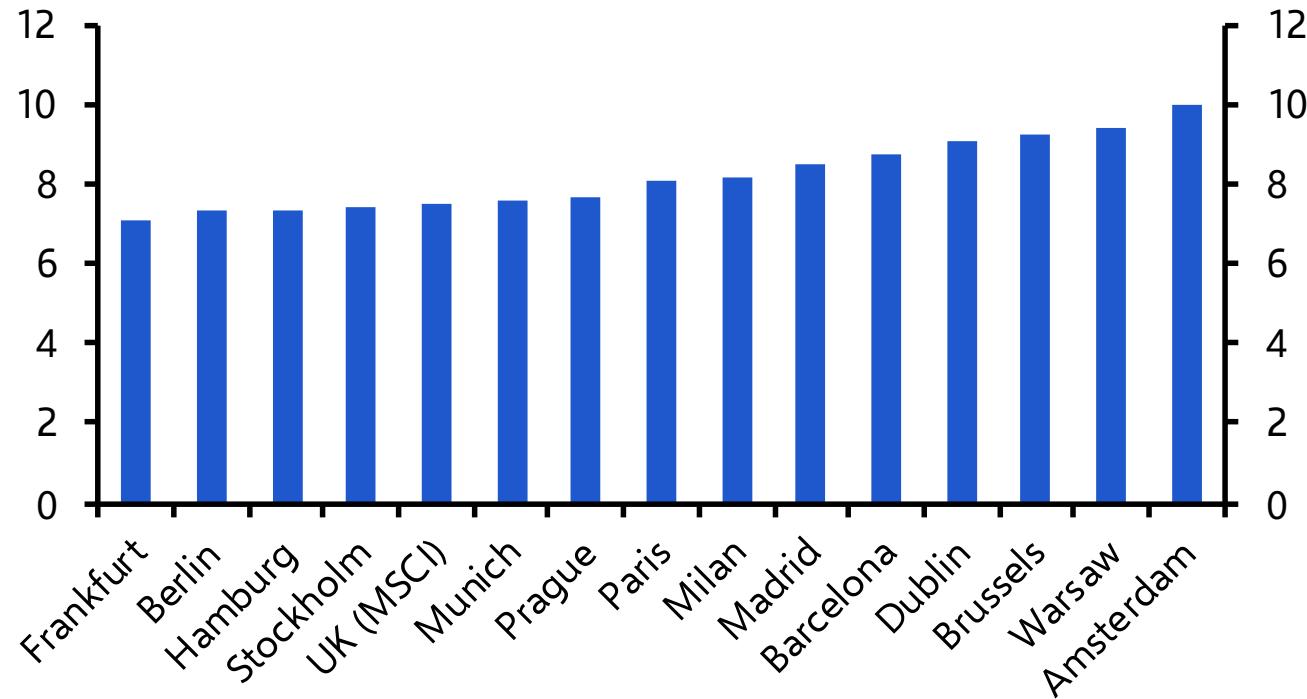
Source: Garbe

Prime High Street Rents (2019 Q4 = 100)



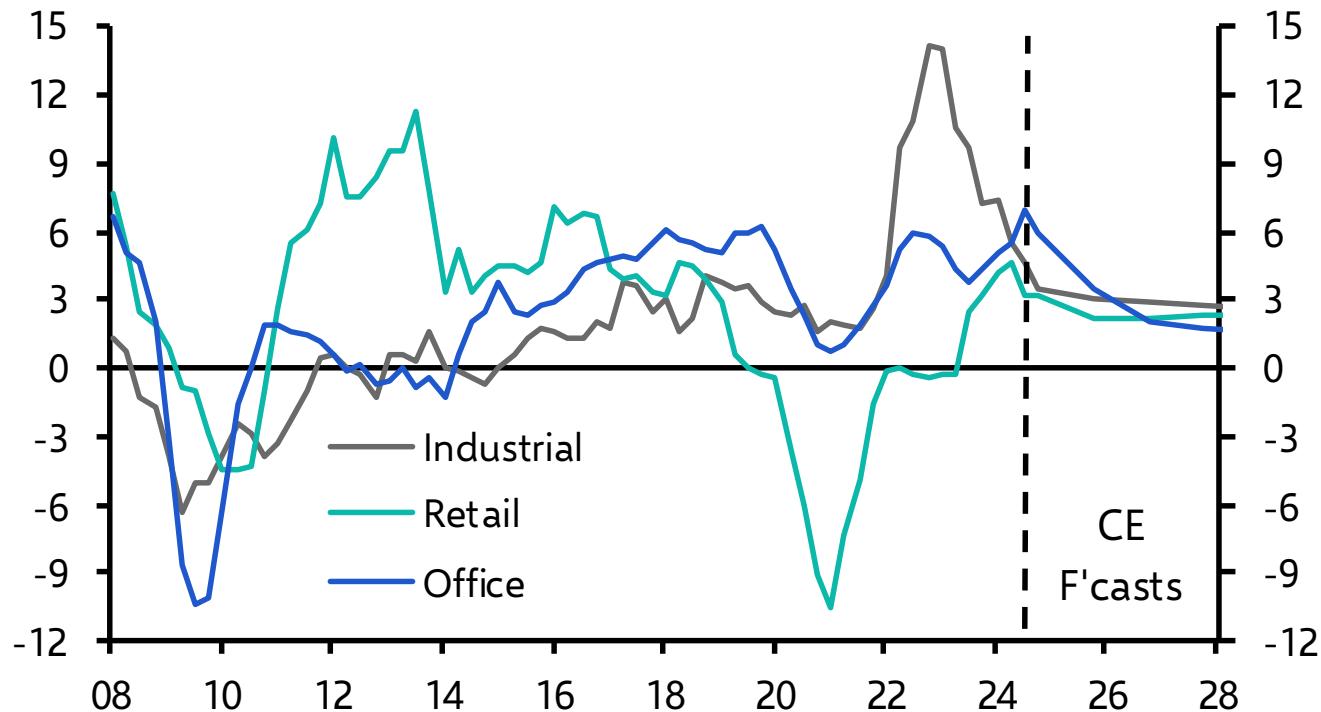
Sources: Various Agents, Capital Economics

Industrial Returns (2025-28, % p.a.)

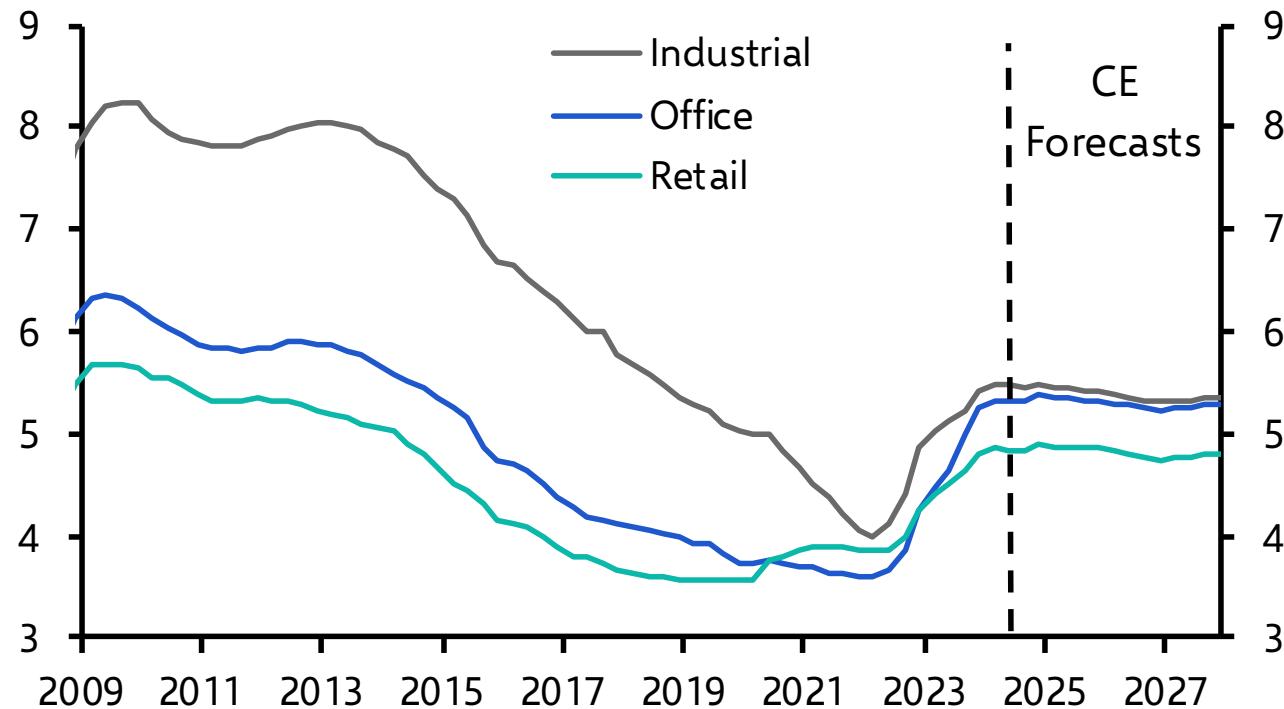


Source: Capital Economics

Euro-zone Prime Rental Growth (% y/y)

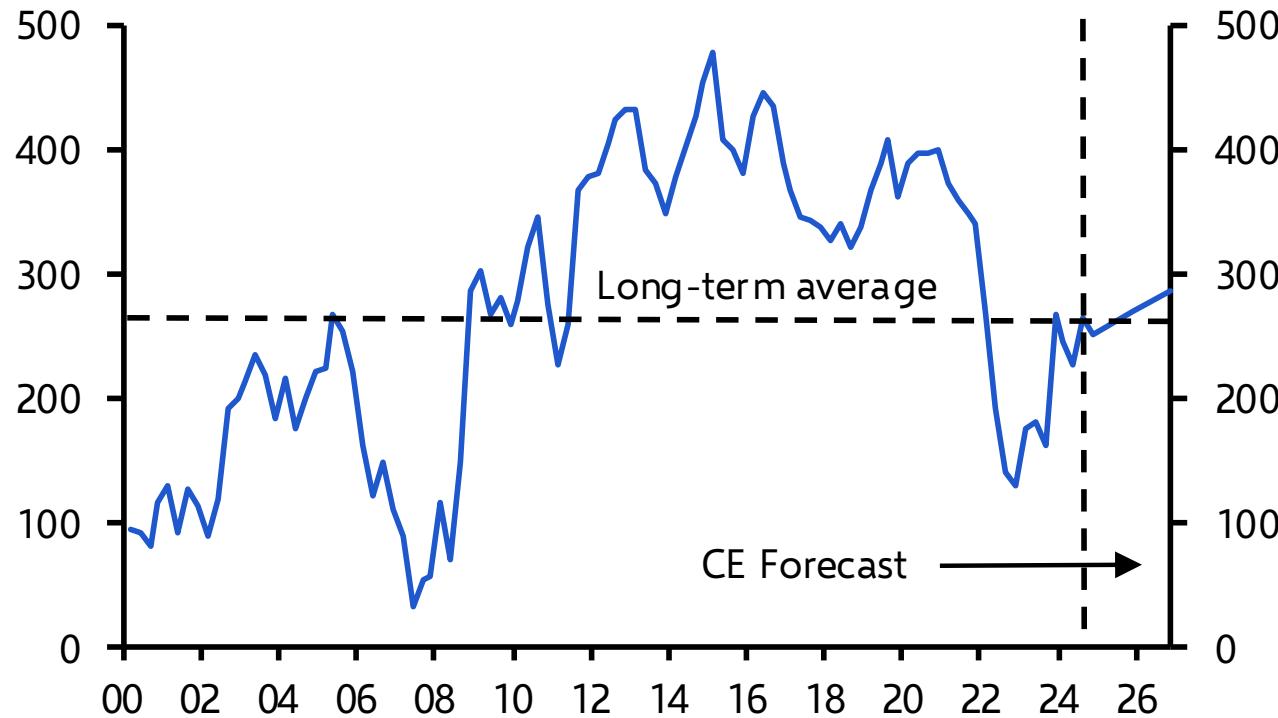


Euro-zone Prime Yields (%)



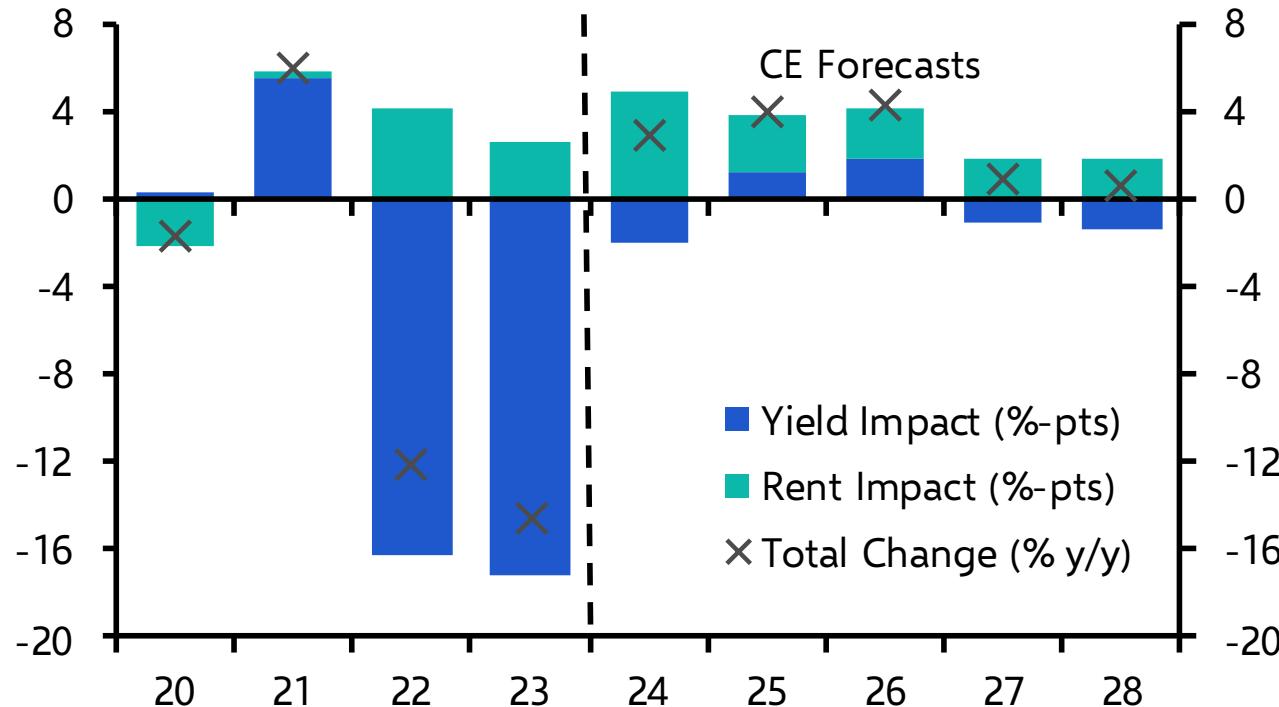
Source: Capital Economics

Euro-zone All-Property to Bund Yield Spread (Bps)



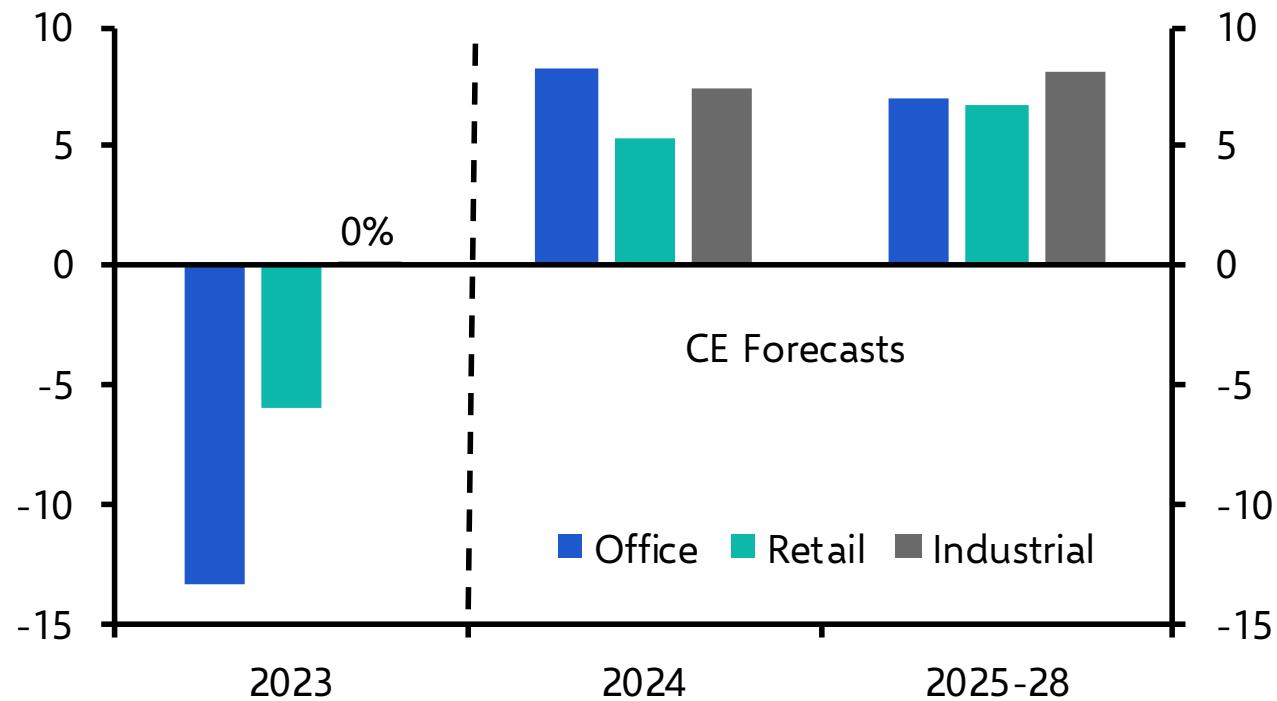
Sources: LSEG, Capital Economics

Contributions to EZ All-Property Capital Value Growth



Source: Capital Economics

Euro-zone Total Returns by Sector (% p.a.)



Source: Capital Economics

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