

Global Commercial Real Estate Outlook: Autumn 2025

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Examining recent events for potential impacts on real estate performance

Historically, income has driven 78% of long-term returns in global real estate investments.¹ While this share of returns tended to be lower during periods of higher growth and declining long-term interest rates, the current economic outlook is for growth to remain constrained and interest rates to remain elevated (relative to the prior decade). 2025 has seen significant shifts in global trading and economic growth patterns. Tariffs and trade wars have disrupted global trade flows, raising costs for importers and exporters alike, and contributing to slower growth in key economies, leading to a net decline in gross domestic product (GDP)². Meanwhile regional conflicts continue to drive financial market volatility.

To translate how these geopolitical and macro-economic trends (a) could or would impact property investments, and (b) where we see greatest relative value and opportunity for value creation, we applied the following framework across the global real estate markets and sectors:

- Potential impacts on structural growth trends, and the implications of this for sector level real estate net operating income (NOI) growth³.
- The potential impact on economic growth in different countries, and the implications of this for market-level real estate NOI growth.
- The potential for real estate cap rate⁴ compression to drive value growth.

As a result, we believe achieving the best real estate return potential, relative to the respective local market, will require a focus on property income growth and reliance on secular demand drivers that can mitigate an easing of the economic cycle. It also elevates the need to seek differentiated performance through market selection, and recent valuation evidence across our regions has shown an increasingly significant gap between top- and bottom-performing markets.

Trends potentially impacting NOI growth

Identifying income trends starts with examining multi-year structural growth patterns which drive the demand to occupy real estate, such as demographics, technology shifts, and sustainability requirements. However, the focus of this note is on more recent events, so we want to consider how these longer-term secular trends might be impacted by shorter- or medium-term changes, including:

- **Tariffs and trade flows:** Companies around the world are starting to respond to US trade policy shifts. Overall, the impact is likely to be lower economic growth globally, though the wider implications on inflation and price levels are less clear.
- **Immigration and demographic changes:** Many countries are seeing populist movements aimed at slowing immigration. Changes to the availability of foreign-born workers potentially place incremental pressure on those sectors of the economy which are typically most reliant on lower-skilled labor, including construction and manufacturing, as well as risking a “brain drain”, particularly in tech related sectors.
- **Housing affordability:** Global house prices saw a strong upward trend during the last decade, fueled by low interest rates. While the recent correction in interest rates has seen prices slow in some countries, limited new supply means that most markets are seeing prices remain elevated, which combines with higher interest rates to compound the impact on the cost of home ownership.
- **Construction remains slow:** Elevated interest rates and tight construction labor availability continue to weigh on developer confidence. We expect many markets to continue to see limited new supply growth until either these key constraints reverse, or local rents rise high enough to enable development to earn an appropriate risk-adjusted return.
- **Artificial intelligence (AI) and technology change:** A number of markets are introducing policy measures to encourage further investment in this space, not least with respect to protecting and developing national or regional interests.
- **Climate risk:** The populist policies we are seeing around the world often include a backlash against Environmental, Social, and Governance (ESG), just at a time when significant climate events are causing significant increases to insurance costs in certain locations.

Trends potentially impacting pricing

After identifying the scope for income growth, we then consider the relative pricing of real estate investments. Again, we see the potential for pricing impacts from shorter-term factors such as:

- **Inflation and interest rates:** Global inflation is unlikely to return sustainably below central banks' target levels, constraining how far central banks can cut base rates relative to recent history. In addition, efforts by central banks to shrink their balance sheets has consequential impacts on longer-term interest rates. Steeper yield curves⁵ limit the scope for real estate cap rates to compress.
- **Cross border capital flows:** Recent shifts in investor sentiment towards the US are driving a pullback by cross-border investors from the US. The sheer size gap between the US commercial real estate (CRE) market and others would mean that a reallocation of capital out of the US would likely have a significant market impact in the next most liquid global CRE markets.
- **Long-term return requirements:** Ultra-low interest rates and global diversification created an environment of lower risk and therefore lower required returns. Unwinding this means investors seek higher required returns to compensate for the increase in risk.
- **The starting point matters:** Sectors which are already seeing tight cap rates and hence lower income returns (driven by investor interest/capital flows) are less likely to see cap rate compression. Meanwhile some “out of favor” sectors, previously retail, now office, have initial higher income returns, as evidenced by recent relative changes in cap rates across markets, which also enables investors to add accretive debt to enhance return potential, and as a result investor interest is gaining pace which improves the probability of seeing some yield compression in the near term.

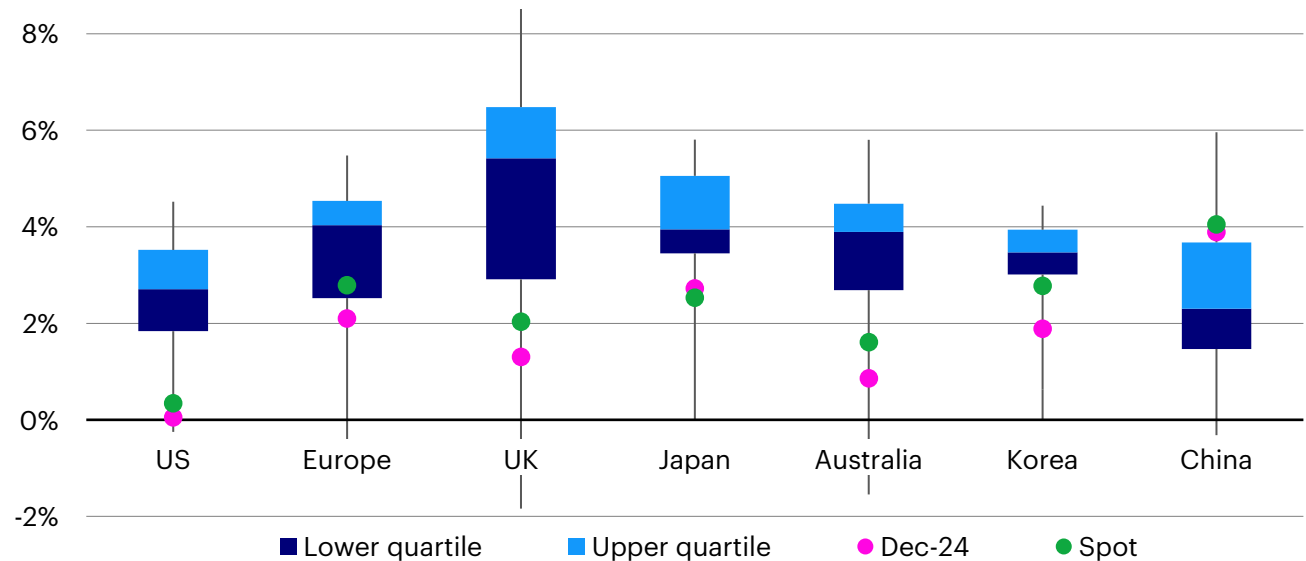
Bringing this together to identify relative value

The discussion above is a very brief look at only a selection of the shorter-term fluctuations which are driving financial markets today. Such short-term dynamics do not preclude investment in long-term assets, but we believe successful strategies need to (a) be clear on the trends they are investing into, and (b) minimize exposures to “known unknowns”. Across both markets and real estate sectors, these trends will manifest differently and drive deviations in relative returns, hence our view that global investors need to increasingly consider the relative outlooks between different markets.

Considerations of where and how to invest in real estate need to consider the current relative pricing, which varies considerably by market, as we see below.

Current cap rate spreads versus history

Outside of China, spreads are below historic ranges but to varying degrees
Current cap rate spreads vs long term ranges



Source: Invesco Real Estate using cap rate data from NCREIF, CBRE and PMA, interest rate data from Citi, Bank of England, and Macrobond.
Notes: Spot is June '25 cap rates, December '25 for AsiaPac (Australia, Japan, Korea, and China), and interest rates from 11 August '25. Spreads relative to 3-month money market rates, except US which uses 10-yr Treasuries and UK uses Sterling Overnight Index Average (SONIA). SONIA is a benchmark interest rate in the United Kingdom that represents the average interest rate banks pay when borrowing British currency. US, Europe and UK are quarterly spreads since 2000, AsiaPac markets are annual spreads since 2000 for Australia, 2003 for Japan, 2004 for Korea and 2006 for China. US cap rate data is the NCREIF weighted average market, Europe is CBRE's weighted average prime, other markets are an unweighted average of key city cap rates (minimum of three of office, logistics, retail and residential).

At the time of this writing, market expectations are for the spot interest rates in most markets to reduce further. While this supports the argument that the current spot interest rates remain elevated, the spread of real estate cap rates over interest rates remains tight in some markets, even adjusting for expected rate cuts.

A normalization of these relative spreads over long-term interest rates, especially in the US, is important as the inversion of debt costs above cap rates has nullified the ability of financial leverage to enhance real estate equity returns, which in turn has sharply slowed the pace of transaction activity.

Furthermore, even in markets where cap rate spreads over interest rates remain below long-term trends, we still see good opportunities for real estate investment. However, in those markets where spreads are tight, we place a greater focus on real estate sectors with a higher starting cap rate, supported by a stable income stream; lower starting cap rates rely on stronger NOI growth to deliver equivalent returns, and therefore care is needed to select those assets and locations where this can be achieved.

Importantly, even in Europe, where cap rate spreads are back to within historic quartile ranges over interest rates, transaction volumes remain slow to recover as a result of cross-border capital flows remaining limited. As such, while we believe the relative pricing between different markets provides interesting opportunities for capital allocators, we remain of a view that real estate transaction volumes will see a broader global recovery across all regions.

Conclusion: Solving to maximize income returns and income growth

Our approach to real estate investment focuses on both optimizing income yield and income growth, and also minimizing our reliance on cap rate movement as the driver of returns. In seeking property income growth, we look for assets and opportunities which are either supported by long-term structural drivers of occupier demand, or where active asset management can drive improvements in the cash flows.

Geopolitical shifts continue to make the outlook volatile, but we believe that in this environment, a disciplined approach to asset selection and strong local knowledge will enable us to deliver relative outperformance potential.

Sector Considerations**Industrial:**

- Historically this has been a more cyclical sector; slower GDP growth and ongoing higher interest rates are likely to reduce demand in aggregate.
- Expect leasing for logistics space to be shaped by shifts to global trade flows and how these impact volumes at key port and transit locations.
- Moves towards more domestic manufacturing and improved certainty in supply chains will increase space demands in target markets over the mid-long term.

Residential:

- Ongoing elevated interest rates are likely to result in a higher proportion of households remaining in rental housing as (a) the rental sector will continue to attract a higher share of new household formation than has seen historically, and (b) renters will remain renters for a longer period.
- However, lower economic growth, and higher costs in certain markets, will mean that housing affordability is likely to remain an issue for many.

Office:

- Historically this has been a more cyclical sector, though more recently demand has been shaped by shifting working patterns.
- Demand is already bifurcating between Grade A⁶ and secondary space; ongoing low levels of new supply will likely continue to drive this gap.
- Technological advancements and AI are likely to see new jobs being created while others are rendered obsolete; the net impact on office demand is unclear at this stage.

Retail:

- Slower economic growth and ongoing higher costs, including from ongoing elevated interest rates, is likely to limit the recovery in consumer confidence and therefore in retail spending.
- In many markets, vacancy remains close to historic lows and supply is almost nonexistent.

Specialty sectors:

- Data centers are the property sector poised to benefit most from AI investment, subject to constraints of power and water availability.
- Ongoing limited housing supply drives an ongoing need to provide specialist accommodation for certain populations, e.g. student or senior housing.

Regional Considerations

North America:

- Trump policy uncertainty continues to negatively impact business and consumer sentiment, elevating risks to growth.
- Ultimate impacts of U.S. tariffs on inflation and growth remain unclear; Federal Reserve (Fed) easing⁷ in “wait and see mode”.
- Investors adopting a more cautious stance amid policy noise; y-o-y transaction volumes increased at a modest pace; yields remaining largely stable.
- Expect both residential and commercial tenants to exercise additional caution in this environment. Deliveries continue to fall; starts remain limited.
- What this means for investment execution:
 - Slower revenue growth expectations require greater selectivity regarding locations and assets.
 - Consider high cap rate sectors with stable incomes to hedge the potential for persistent higher interest rates.
 - We believe real estate credit provides better relative value than equity, though price gains from last year have partially reduced the relative value gap.

Europe:

- European recovery is ongoing; some concerns remain around manufacturing though investment in defense / infrastructure will at least partially offset this.
- Inflation is moderating; the European Central Bank (ECB) and Bank of England (BoE) made rate cuts in 2024 and 2025, and the debate from here is on the speed of further adjustment from going forward.
- Cap rates have been stable since March 2024, but capital demand is recovering slowly; we continue to regard cap rate compression as more of an upside case.
- Real estate markets are likely to remain in risk-off mode, with limited new development supply. This will drive positive rental growth for Grade A space but weakening trends for lower quality or non-core locations.
- Our key priority in 2025-26 is to exploit those opportunities that will arise from the current market repricing and dislocation. The key longer-term investment drivers we are focusing on are:
 - Target demand driven by demographic changes and urbanization.
 - Play the consumer demand for experiential leisure and travel.
 - Non-traditional real estate sectors will continue to grow market share.

Asia-Pacific:

- APAC economies see mixed impacts from new US tariffs. Australia remains relatively insulated. China benefits from front-loaded exports and a truce extension, though growth challenges persist. Japan and Korea negotiated partial tariff relief but still face substantial costs on key exports. Tariff-related noise is likely to continue.
- Regional central banks adopt more measured actions. The Reserve Bank of Australia (RBA) delivered an expected cut, while the Bank of Korea (BOK) and Bank of Japan (BOJ) held off on rate adjustments, signaling a wait-and-see stance.
- We target opportunities driven by secular trends. Focus areas include demographic shifts (e.g. living sectors in Korea, Australia, China and Japan) and digitalization (e.g. data centers). We prioritize low-beta sectors⁸ with wide supply-demand gaps and minimal geopolitical exposure, while also pursuing tactical plays from reset pricing and funding gaps in selected markets.

Defined Terms and Notes:

1. Per MSCI Global Annual Property Index data, earliest data point January 1, 2001, latest data point December 31, 2024. The MSCI Global Annual Property Index is a market-weighted index that tracks the performance of directly held property investments across 25 global countries. Past performance does not guarantee future results. An investment cannot be made into an index.
2. Gross domestic product (GDP) is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period of time.
3. Net operating income (NOI) growth is the increase in a property's NOI over time. NOI measures the profitability of an asset or an investment after subtracting operating expenses from income.
4. Capitalization rates (cap rates) is the quotient of a property's net operating income divided by the property's estimate value.
5. The yield curve plots interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.
6. Grade A refers to higher quality buildings in their market and area, generally newer properties with desirable amenities and tenants.
7. Easing typically involves lowering interest rates or increasing the money supply to stimulate the economy.
8. Low beta sectors refer to sectors that are less volatile than the overall market.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer's opinion and may not be realised.

Generally, real estate assets are illiquid in nature. Although certain kinds of investments are expected to generate current income, the return of capital and the realization of gains, if any, from an investment will often occur upon the partial or complete disposition of such investment.

Investing in real estate typically involves a moderate to high degree of risk. The possibility of partial or total loss of capital will exist.

Investing in commercial real estate assets involves certain risks, including but not limited to: tenants' inability to pay rent; increases in interest rates and lack of availability of financing; tenant turnover and vacancies; and changes in supply of or demand for similar property types in a given market.

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