KEYNOTE INTERVIEW

A natural anchor for portfolio construction

After a period of repricing, residential real estate is reasserting itself globally as a key pillar of diversified investment portfolios, says UBS's Fergus Hicks

Against a backdrop of increased geopolitical tension, persistent inflationary pressures and a structural reset in real estate markets, the global living sector is increasingly in focus for investors. Housing's fundamental role in the economy, combined with supply shortages, demographic shifts and evolving tenant demand, has reinforced its position as a core allocation within diversified portfolios.

At the same time, the sector is not immune to macroeconomic headwinds. A higher interest rate environment, regulatory interventions and affordability constraints are reshaping investment strategies and development pipelines.

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For long-term capital, however, these dynamics are creating a potentially more compelling entry point, says Fergus Hicks, senior real estate strategist and portfolio manager at UBS Unified Global Alternatives.

Q How do you see ongoing geopolitical tensions, including the Middle East conflict, influencing global capital flows into residential real estate?

We are operating in an environment of exceptionally high uncertainty. Both economic policy unpredictability and geopolitical risk have risen sharply in recent years and remain elevated in 2026. That is weighing on growth expectations, while also keeping interest rates higher for longer.

The impact on residential will ultimately depend on how prolonged these tensions are and how they feed through to energy markets, inflation and broader economic activity. We are already seeing increased commodity price volatility and renewed concerns around stagflation, particularly in Europe, where energy costs

Q What about the Swiss residential market makes it attractive to investors?

Switzerland, UBS's home market, is a particularly interesting case. Housing demand is supported by factors such as net immigration, urbanization and demographic trends, including an aging population. Meanwhile, supply remains limited. Planning processes can be lengthy, and rising construction costs have dampened development activity in recent years. This has led to very low vacancy rates, especially in major cities, and sustained upward pressure on rents.

From an investment perspective, the Swiss market has shown strong momentum. Transaction volumes have recovered and residential-focused investment products have attracted significant inflows. Yield compression in defensive segments reflects the continued demand for stable, income-generating assets. In a global context, Switzerland's relative economic stability, low inflation and strong currency further enhance its appeal as a safe-haven market. While it is not the largest market globally, it is well-developed and offers attractive characteristics for long-term investors.

play a significant role in the consumer basket.

While higher energy costs can squeeze household budgets and affect affordability, they also increase construction costs and constrain new supply. That dynamic can support rental growth over time and help sustain investor interest, even in a more volatile macro environment.

Q Do you expect this environment to shift investor preference toward 'safe haven' residential markets?

Yes, and to some extent we are already seeing that play out. In periods of heightened uncertainty, investors tend to gravitate toward assets that offer stable, predictable income streams, and residential fits that profile well.

Markets with strong macro fundamentals and institutional transparency are particularly attractive. Switzerland is a good example. It combines a stable economy, low inflation and a strong currency, all of which reinforce its safe-haven status. Even in a challenging global environment, Swiss real estate has continued to attract capital, with particularly strong demand for residential-focused vehicles.

From a subsector perspective, mid-market or 'attainable' rental housing – positioned between affordable and prime – stands out as especially resilient. Senior living is another defensive segment, supported by long-term demographic trends and less exposure to cyclical volatility.

Q How does the residential sector compare to office, retail and industrial in terms of risk-adjusted returns?

Over the long term, real estate as an asset class tends to sit between bonds and equities in terms of returns, but with significantly lower volatility than equities. Residential, in particular, benefits from relatively stable income streams and consistent demand drivers, which support this profile. We think that residential therefore remains slightly better positioned on a risk-adjusted basis than other property sectors.

By contrast, we remain more cautious on offices, especially secondary assets, where structural challenges – such as changing workplace dynamics – persist, especially in the US. Prime office assets continue to outperform, but the sector overall faces greater uncertainty. Industrial and logistics remain attractive, supported by structural trends such as e-commerce and supply chain reconfiguration, but residential offers a more defensive and diversified exposure in the current cycle.

Q Do affordability constraints impact long-term growth, and are we seeing a shift from owning to renting?

Affordability is one of the defining themes in global housing markets today. Rising house prices and higher financing costs are making home ownership less accessible, particularly for younger generations. As a result, we are seeing a structural shift toward renting in many markets. Indeed, younger generations are often living in parental homes for much longer than

they would choose due to affordability constraints.

At the same time, supply constraints remain a critical issue. In many cities, planning restrictions, lengthy approval processes and increasing construction costs are limiting the pace of new development. This creates a structural imbalance between supply and demand, which supports both rental growth and long-term investment fundamentals.

However, affordability constraints can also act as a near-term brake on rent increases, particularly for lower-income households. So, while the overall direction of travel is supportive, it is important to consider income dynamics and tenant affordability at a granular level.

Q Has the higher interest rate environment affected residential valuations and deal activity?

The sharp rise in interest rates since 2022 has had a clear impact across all real estate sectors. We saw capital values decline and transaction activity slow significantly as financing costs increased and price discovery became more challenging.

More recently, we have seen some stabilization and a gradual recovery in both values and dealflow. However, elevated geopolitical uncertainty continues to create intermittent pauses in activity as investors reassess risk. In certain markets, demand has remained relatively strong despite these headwinds.

Q How do you view emerging and niche residential sectors such as build-to-rent, student housing and senior living?

These sectors are becoming increasingly important, driven by strong structural trends. Aging populations are supporting demand for senior housing globally, while student accommodation continues to benefit from international mobility and the growth of higher education.

In addition, we are seeing continued evolution in niche segments. In the US, age-restricted apartments and manufactured housing are attracting growing institutional interest. These sectors can offer diversification benefits, as well as exposure to specific demographic or affordability-driven demand.

Many of these asset classes are, however, more operationally intensive than traditional multifamily housing. Success often depends on having strong operating partners and the ability to deliver and manage high-quality product. As these sectors become more institutionalized, we are also seeing increased competition and, over time, some degree of yield compression.

Q Are niche sectors becoming institutionalized?

In markets like the US and the UK, sectors such as student housing are already well institutionalized, and that trend is extending to other regions and subsectors. As institutional capital enters these markets, it tends to drive improvements in asset quality and professional management standards. That is positive for tenants and can enhance the overall attractiveness of the sector.

However, increased competition can lead to pricing pressure and yield compression, so while institutionalization supports long-term growth and stability, it also raises the bar in terms of execution and asset selection.

Q Can investors incorporate regulatory risk into investment decisions?

Regulatory risk is an important consideration, but it is often more nuanced than many perceive it to be. Established regulatory frameworks, such as rent controls, can actually provide income visibility and support occupancy. The greater risk comes from unexpected regulatory changes, which can materially affect investment assumptions and valuations.

For example, sudden rent caps or zoning changes can impact future income streams and development potential. Therefore, it is critical to understand both the current regulatory environment and the likelihood of policy changes. That requires a market-specific approach and local expertise. Regulatory risk can also deter investment and result in badly needed new stock not being delivered to the market.

Q Where do you see the most attractive opportunities in the global living sector over the next three to five years?

Opportunities exist across regions, but selectivity is key. The US remains the largest and most liquid residential market globally, which naturally creates a broad opportunity set for investors. However, when you factor in financing conditions, Europe currently looks relatively attractive and sectors such as student housing in markets like Spain stand out. Borrowing costs are generally lower than in the US, which can support investment returns even as growth expectations have softened due to geopolitical and energy-related pressures.

Senior housing is another major theme globally, supported by demographic trends. In the US, age-restricted apartments represent an emerging opportunity with strong growth potential.

More broadly, we are coming out of a period of significant repricing, creating what some investors see as a generational entry point. At the same time, new supply is declining and demand drivers remain intact, particularly in the living sector. That combination of adjusted pricing, constrained supply and resilient demand can create compelling opportunities, but these need to be assessed on a deal-by-deal basis.

Across both private wealth and institutional investors, the appeal of residential today lies in its defensive characteristics, its potential for inflation-linked income and its diversification benefits within broader portfolios. ■