Real estate

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The next chapter

A new era for global real estate

UBS

Focus on income and value recovery

Repriced valuations and strengthening property fundamentals create opportunities in the global real estate asset class

Higher interest rates have driven a substantial repricing of private real estate values worldwide, while higher construction and financing costs have weighed on new development activity. As a result, entry pricing has reset, while rental growth prospects are strengthening. In our view, Swiss investors should consider using this window of opportunity to complement their domestic real estate allocation with global property investments.

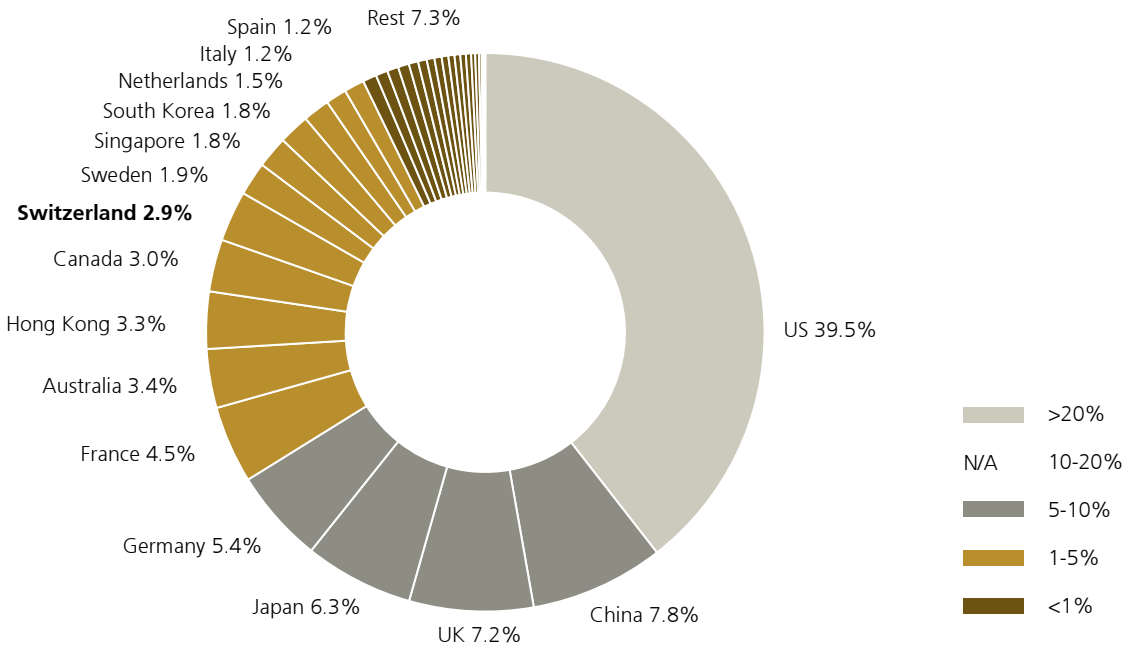
At the same time, future valuation upside will not rely on falling interest rates; instead, investors need to focus on rental income growth through proactive asset management. This requires selecting best-in-class local managers that provide diversification and access to property sectors benefitting from structural tailwinds.

Wide investment universe offers diversification benefits

A vast world to benefit from
Real estate has long been a core asset class for Swiss institutional investors. In 2025, Swiss pension funds allocated an average of 24.8% of their portfolios to real estate, up from 22.5% in 2016.[1] Yet only 2.0% of this allocation is invested outside Switzerland, despite the vast size of the global real estate universe and its modest correlation to Swiss real estate. This pronounced home bias is supported by several factors, including the remarkable resilience of the Swiss real estate market since the last downturn in the 1990s, as well as the perceived complexity of investing in real assets abroad and managing associated foreign currency exposure, which may be difficult and costly.

As a result, Swiss institutional investors concentrate approximately 92% of their real estate exposure in less than 3% of the globally investable universe (Figure 1). In an increasingly fragmented geopolitical environment, staying focused on familiar domestic opportunities is a natural instinct. However, this approach can amplify concentration risk and make capital deployment more challenging in an increasingly crowded market. In recent years, a recurring pattern of significantly oversubscribed capital raises for Swiss real estate investment funds and foundations has illustrated this dynamic. At a time when return drivers across global financial markets have become more concentrated, exemplified by the disproportionate contribution of AI-related stocks to global equity performance, investors should remain mindful of diversification across their portfolios as a whole. In our view, this supports considering a larger complementary allocation to global real estate alongside an existing Swiss real estate anchor.

Figure 1: Share of global real estate market



Source: MSCI; UBS Asset Management, as of December 2024.
Note: Based on MSCI market size estimates in USD at end-year exchange rates, includes professionally managed listed and unlisted real estate.

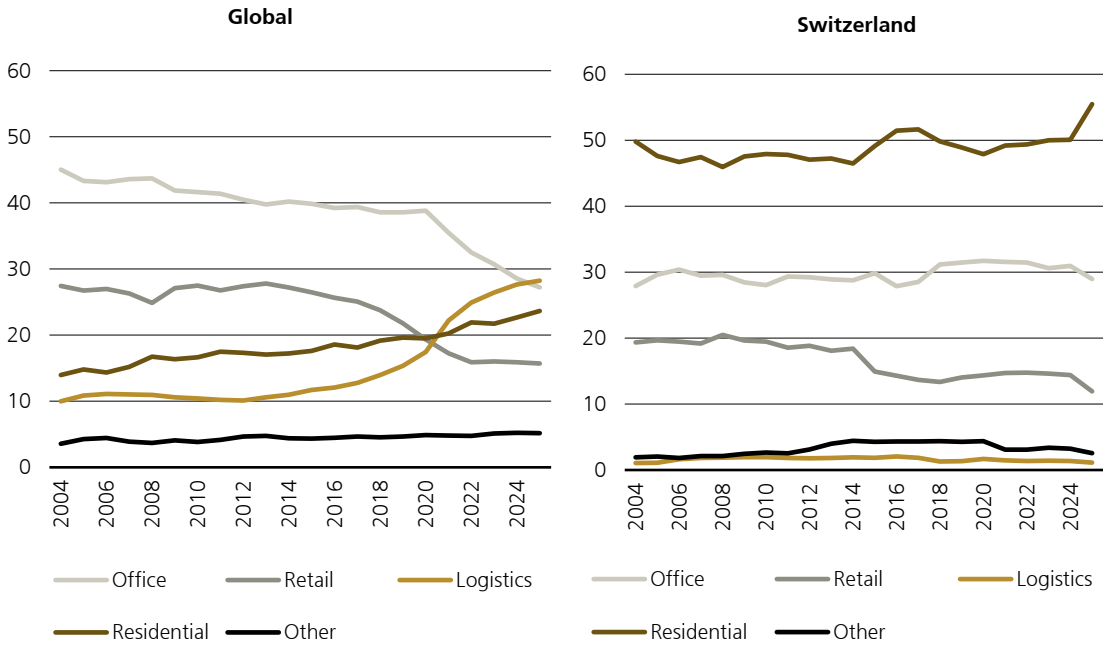
[1] Swisscanto/ZKB, Schweizer Pensionskassenstudie 2026.

Accessing sectors with dynamic growth

Swiss institutional investors benefit from more than just greater regional diversification when allocating part of their real estate exposure abroad. International markets also provide access to high-growth sectors that remain impossible to access at scale in Switzerland. A prime example is logistics. Driven by the rise of e-commerce, the global logistics sector expanded its share of the investable market from 10.0% in 2004 to 28.2% in 2025 (Figure 2). The sector has also evolved into a highly diversified asset class, spanning big-box distribution centers, multi-tenant light industrial schemes, cold storage, and industrial open storage (IOS) facilities in key freight hubs. In contrast, logistics remains a marginal sector in Switzerland, accounting for just 1% of the market as of 2025. Swiss industrial real estate is still predominantly owner-occupied, limiting institutional access. Residential real estate, the largest institutional sector in Switzerland, also differs significantly in a global context.

Internationally, the broader term 'living' better reflects the diversity of investable opportunities. Beyond traditional rental apartments, the global living sector includes single-family rental homes, purpose-built student housing, senior living residences across varying levels of care, and manufactured housing communities including amenities such as clubhouses and pools, while remaining affordable. Together, these formats provide attractive, dedicated housing solutions for a wide range of tenants. The flip side of this sectoral evolution is the need for proactive portfolio rebalancing. While Switzerland's sector allocation has remained remarkably stable over the past 20 years, global real estate markets have undergone substantial shifts, particularly in response to digitalization, which has transformed both consumption patterns through e-commerce and workplace dynamics through home office adoption. This evolution is mirrored in the declining shares of the office and retail market sectors, while logistics – as a beneficiary of e-commerce growth – and defensive residential sectors have become increasingly prominent.

Figure 2: Sector capital value weights in the global property market and Switzerland
%, 2008–25



Source: MSCI (MSCI/ Wüest Partner Switzerland Annual Property Index (Unfrozen) published Annually, MSCI Quarterly Property Index Global (Unfrozen; Weighting: Market Size) published Quarterly); Zurich Insurance; UBS Asset Management, August 2026.

Repriced opportunities with strengthening fundamentals

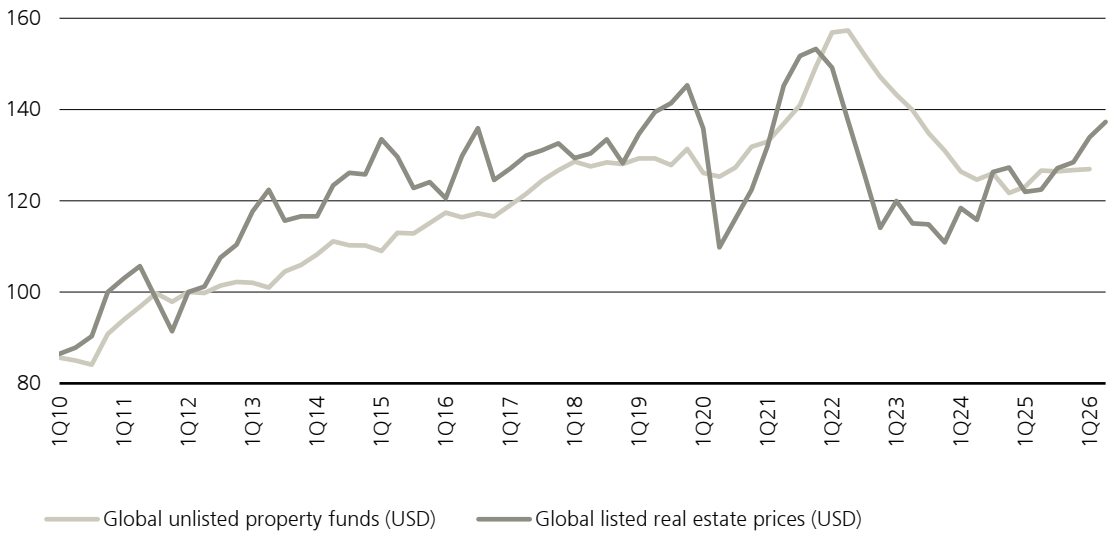
The reset to higher interest rates

Global real estate has faced significant headwinds since mid-2022 despite broadly resilient occupier fundamentals. Following the reopening of North American and European economies after COVID-19, strong fiscal stimulus and pent-up demand fueled inflation, while supply chains continued to suffer from two years of pandemic-related disruptions. In response, central banks tightened monetary policy aggressively. For instance, the US Federal Reserve raised policy rates by over 5% in just 18 months, triggering a sharp repricing across real estate markets. As a result, the global unlisted property fund index MSCI GPFI recorded a 22.6% peak-to-trough decline in capital values in USD terms (Figure 3). For Swiss investors, the cost of hedging foreign currency exposure has added to this correction. Importantly, occupier markets remained largely healthy, with weakness concentrated in only a few sectors and locations, most notably in parts of the US market and China.

Global property valuations are stabilizing

As interest-rate expectations stabilized, the asset class began to bottom out during 2024, with signs of a recovery gradually gaining traction from 2025 onwards. While geopolitical uncertainties, including US tariffs and conflicts in the Middle East, have tempered the pace of the improvement, they have not derailed it. Notably, signs of recovery have emerged despite bond yields remaining elevated and volatile. Consistent with typical market cycles, listed real estate has rebounded first and is already showing clearer signs of sustained recovery (Figure 3). Historically, listed real estate has generally been a leading indicator of future performance for the unlisted market.

Figure 3: Global unlisted property fund capital value index[1] (quarter-end, 1Q12 = 100) **and listed real estate price index[2]** (quarter average, 1Q12 = 100)**; As % of net asset value**



Source: MSCI; NCREIF; Refinitiv Datastream; UBS Asset Management, July 2026.
Notes: **1** MSCI Global Property Fund Index. **2** FTSE EPRA Nareit Developed Index. Please note that past performance is not a guide to the future. This does not constitute a guarantee by UBS Asset Management.

A new equilibrium for the global real estate risk premium

As evidence mounts that real estate has adapted to a higher-for-longer interest-rate environment, the risk premium offered by global real estate investments has also stabilized. Given the inflation-linked nature of property cash flows, the relevant metric is the real, rather than nominal yield spread over government bonds. As of 1Q26, this spread stood at almost 340 basis points (bps) across 23 major global markets. By comparison, it averaged almost 500bps in the post-GFC period and slightly below 400bps between 1995 and 2007. While the current premium appears lower than historical levels, several structural factors support a lower equilibrium spread between real estate and government bonds.

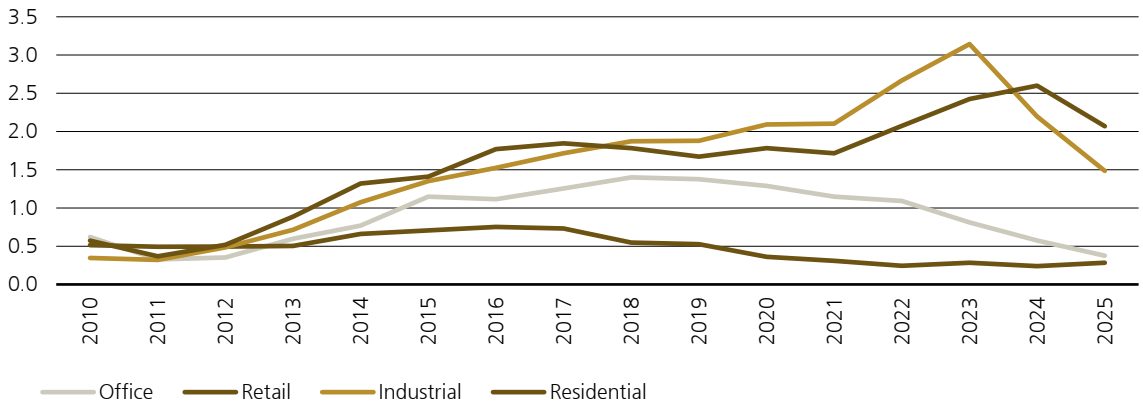
First, the elevated post-GFC premium reflected an exceptionally low interest-rate environment and is therefore not representative of longer-term market history. More importantly, the global real estate asset class has undergone a profound transformation since the 1995–2007 period. Investment property transaction volumes have increased significantly, the investor base has broadened considerably, investable markets and sectors have expanded and matured, and market data availability and transparency have improved markedly. Looking ahead, AI adoption is likely to enhance market transparency even further.[2] At the same time, the government bond asset class has evolved. Debt-to-GDP ratios have reached unprecedented levels in many jurisdictions, while persistent fiscal deficits and modest economic growth continue to raise questions about the long-term sustainability of public finances. In addition, government bonds have become increasingly exposed to policy-driven volatility, as illustrated by the UK gilt crisis (or 'mini-budget crisis') of September 2022. Together, these developments challenge the long-standing perception of government bonds as truly 'risk-free' assets across many markets.

Sharp decrease in construction activity to support broad-based rental growth

The interest-rate-driven repricing of real estate also weighed heavily on new developments. Amid valuation uncertainty and elevated financing costs, many investors and developers paused construction activity, contributing to tighter supply conditions in the years ahead. In the US (Figure 4), the world's largest investment market, completions have already declined significantly across all major property sectors. Even the previously high-growth industrial and residential sectors, where supply exceeded occupier demand in certain markets such as Southern California logistics and Sunbelt multifamily, are now seeing declining supply levels.

At the same time, occupier demand remains robust in sectors supported by structural growth drivers. These include prime logistics assets benefiting from e-commerce and re-shoring; living properties serving expanding rental cohorts amid ongoing urbanization, constrained affordability and shrinking household sizes; and grocery-anchored retail assets meeting necessity-based demand from a growing population. Even office properties, whose fundamentals have been challenged by the work-from-home trend, are seeing improving rental growth prospects for prime assets. While reliable data for the prime US office segment remains unavailable, real estate consultancy PMA forecasts rental growth significantly ahead of inflation across several prime office markets in continental Europe and APAC during 2026–2028.[3]

Figure 4: Completion as a % of stock in the US investment property market



Source: CBRE as at 1Q26; UBS Asset Management, July 2026. Note: **Past performance is not a guarantee for future results.**

[2] JLL, Global Real Estate Transparency Index 2024 – Transparency in a time of transition.
[3] PMA, Quarterly Property Forecasts, 1Q26.

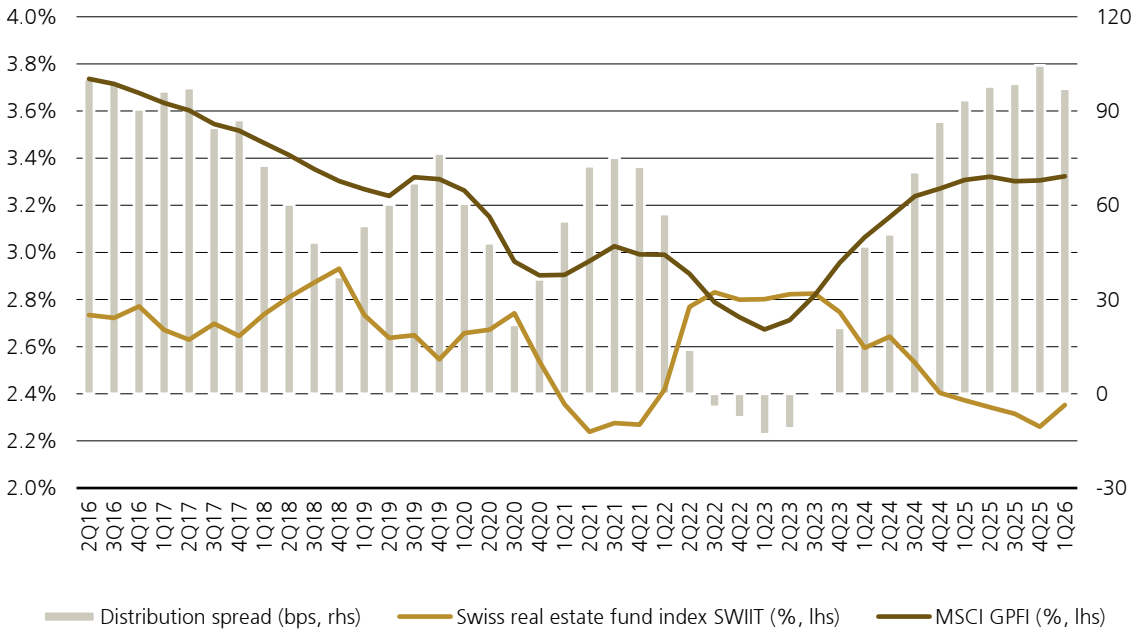
Resilient income and inflation protection

An income-driven asset class

Following the adjustment of global real estate markets to a higher-for-longer interest rate environment, the asset class is entering a new era. With interest rates expected to remain higher and more volatile than in recent history, investors can no longer depend on cap rate compression to generate outsized returns. As a result, the quality and growth of rental income are regaining center stage in successful real estate strategies. In many ways, this reflects a return to the core proposition of real estate investing: delivering resilient income throughout the cycle with the potential for value growth through active management. As shown in Figure 5, consistent distributions have been a defining characteristic of both Swiss and global real estate over the last 10 years, although income yields gradually compressed between 2016 and 2022 as property values rose significantly.

While a direct comparison in the unlisted market is challenging since the KGAST Immo Index[4] does not include a dividend yield time series, global real estate allocations have generally offered investors a distribution yield premium over the Swiss market, represented by the Swiss real estate fund index (SWIIT), with the notable exception of the early post-pandemic period. Beyond differences in sector composition (see page 4), this reflects distinct interest-rate environments and is also a consequence of higher volatility in global real estate values over the last 10 years. The yield gap has become more evident recently. As at 1Q26, the distribution spread between the constituents of the unlisted global property fund index MSCI GPFI and the Swiss real estate fund index SWIIT reached nearly 100bps, marking the highest dividend spread in a decade of recorded data.

Figure 5: Distribution spread between global real estate and Swiss real estate funds



Source: MSCI, UBS UGA – Real Estate as at 1Q26; UBS Asset Management, August 2026. **Past performance is not a guarantee for future results.**

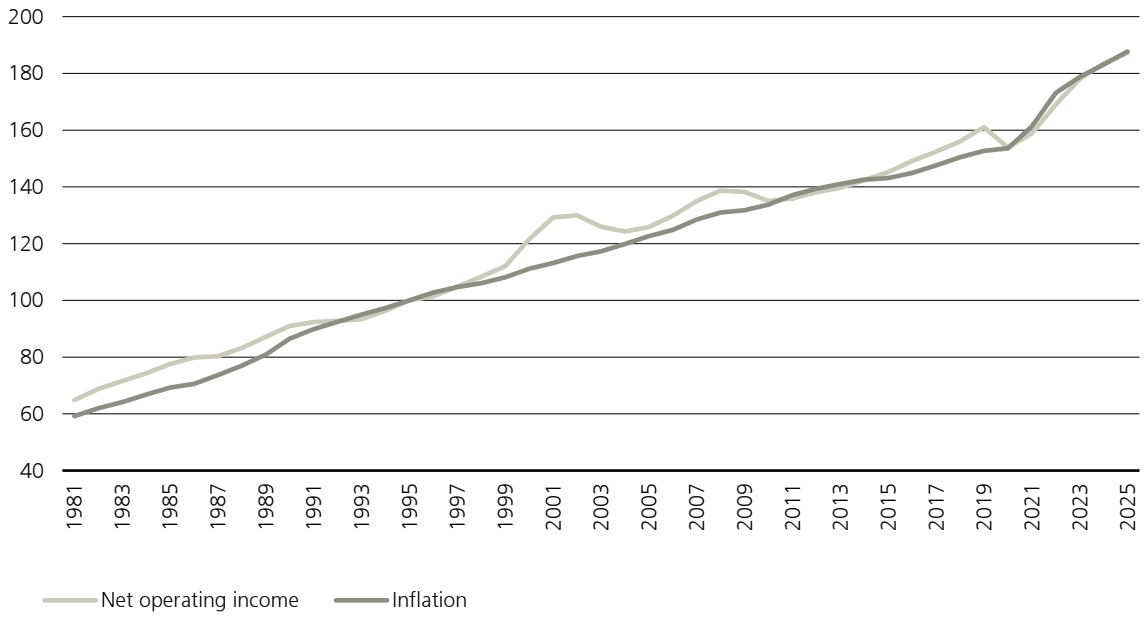
[4] Real Estate Index of the Swiss Conference of Managers of Investment Foundations (KGAST).

Growing cash flows supportive of inflation protection and stronger capital values

The distribution yield of institutional global real estate is more than a source of resilient income throughout the cycle. It can also provide an elevated degree of inflation protection, as shown in Figure 6. This resilience stems from lease structures that link rent growth to inflation in certain sectors and markets. Such mechanisms are common in several Continental European commercial real estate markets, as well as in Australia. In other segments, inflation protection is supported through annual contractual rent increases (e.g. in the logistics sector in the US) or is driven by frequent rent resets to market levels. Student housing, with leases typically lasting only a semester or an academic year, is a prime example of the latter. US rental apartments also experience significantly higher tenant turnover than in Switzerland, enabling rents to adjust more quickly to increasing market rates.

In this new era for global real estate, success will increasingly depend on the ability to generate sustainable rental growth. Achieving this requires not only investing in the right markets and sectors, but also executing proactive asset management strategies, including re-leasing initiatives and targeted value enhancement initiatives. These capabilities will be critical to maintaining robust income yields with inflation protection while also supporting capital appreciation through capitalized real rental growth.

Figure 6: Global real estate net operating income and inflation[1]
(local currency indices, 1995 = 100)



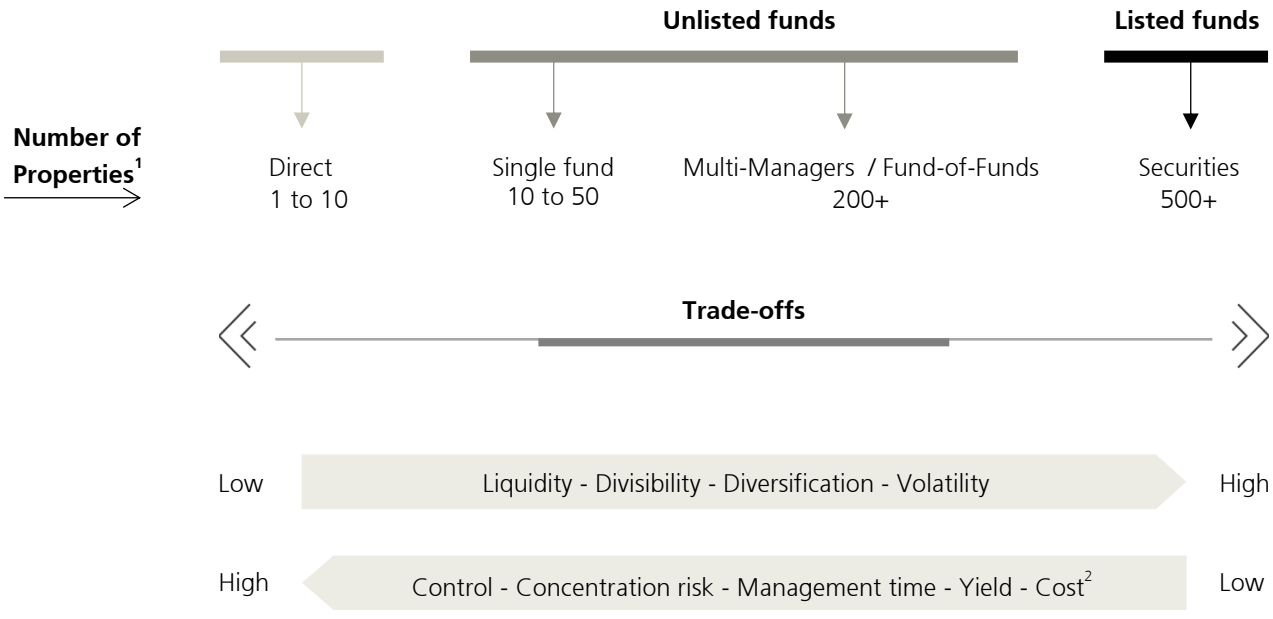
Source: MSCI, Oxford Economics; UBS Asset Management, June 2026.
Note: **1** Global aggregate across 22 markets weighted by estimated real estate market size. Please note that past performance is not a guide to the future. This does not constitute a guarantee by UBS Asset Management.

Robust investment strategy through local managers

Picking the right route
Keeping in mind the strong income yield and unique sectoral variety of the asset class, building a global real estate allocation can be a complex undertaking, given the challenges of investing across multiple jurisdictions and regulatory frameworks, managing operationally intensive sectors, and navigating foreign currency exposure. In the new investment era for global real estate, these challenges are further amplified by the growing necessity of effective property management strategies to unlock asset value and rental growth potential.

Against this backdrop, Swiss institutional investors can access global real estate through several routes (Figure 7), ranging from nimble, directly owned portfolios of a few properties to large, frequently traded real estate funds and securities. These approaches differ in terms of performance volatility, liquidity, diversification, control, and cost. For investors seeking lower return volatility, enhanced sector and regional diversification, and the benefits of proactive asset-level management, a selection of locally managed unlisted funds within a multi-manager structure may provide a robust approach to successfully navigating the new real estate era.

Figure 7: Investment approaches in the real estate asset class



Source: UBS Asset Management, August 2026.
Note: Investors should consider their own diversification strategy when making an investment decision. **1** Number of properties is illustrative only, beneficial scale based on degree of diversification. **2** Refers to implicit acquisition costs and management fees.

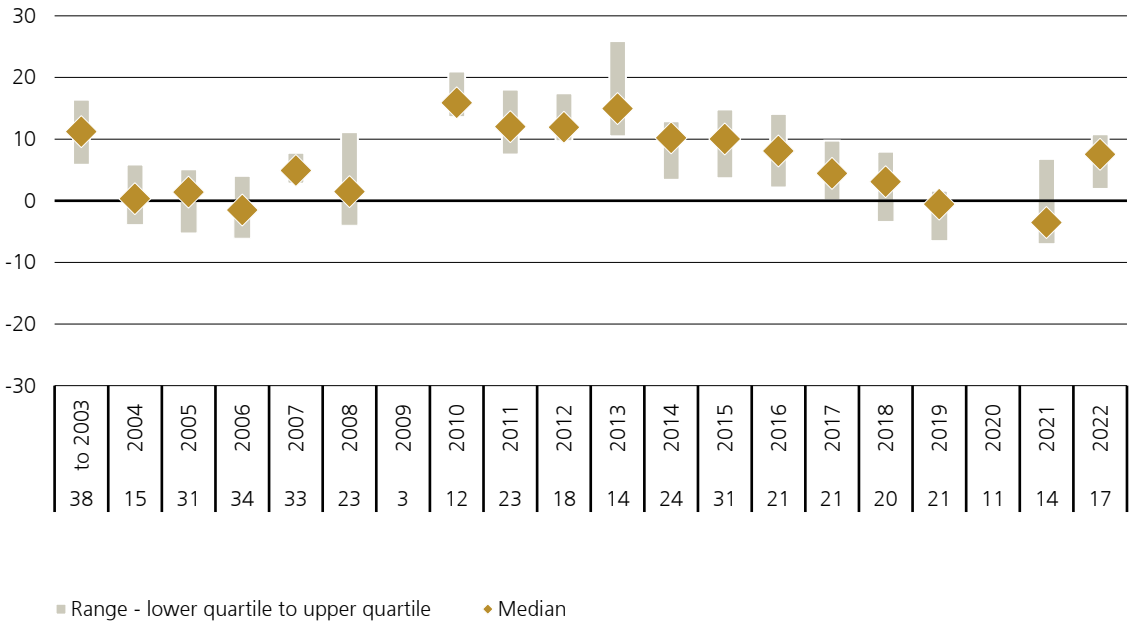
Focus on best-in class managers as a source of alpha

A multi-manager approach offers significant advantages for Swiss institutional investors accessing global real estate. First, it addresses tax considerations and foreign currency hedging at the structure level, removing much of the technical complexity associated with international real estate investing. In addition, a single investment provides access to broadly diversified portfolios of professionally managed properties across regions and sectors. This creates a unique real estate exposure in terms of properties, tenants, and sectoral and geographic diversification that would be difficult to replicate through direct ownership without sizeable capital commitments.

While this simplicity comes with an additional layer of fees to compensate the multi-manager structure, larger platforms are often able to negotiate more favorable terms with underlying investments, passing these savings on to end investors and offsetting a portion of the additional cost. Local manager partnerships are critical for accessing unique investment opportunities, whether through off-market transactions, large portfolio recapitalizations, or co-investments with preferential fee terms. They also enable proactive asset management by leveraging deep local market and regulatory expertise. This is typically driven by manager specialization, both sectorally and regionally.

Alongside a forward-looking sectoral and regional allocation, selecting best-in-class local managers is an important source of alpha in global real estate multi-manager strategies. This is particularly evident in the closed-ended non-core segment, as illustrated by the dispersion of since-inception returns within a given vintage (Figure 8). Even in the challenging 2019 vintage, top-performing managers delivered slightly positive since-inception returns. In the 2008 vintage, best-in-class strategies generated low double-digit returns, while the median return was close to 0%. Although drawn from the higher-risk non-core space, this evidence is also observed in core strategies, where long-term return dispersion remains significant across both diversified and specialist investment approaches.

Figure 8: Distribution of internal rates of returns (IRRs) for non-core[1] real estate funds since inception (% by vintage year to 1Q26, with number of funds per vintage)



Source: ANREV / INREV / NCREIF; UBS Asset Management, May 2026.
Notes: **1** Non-core refers to value-add and opportunistic funds. Please note that past performance is not a guide to the future. This does not constitute a guarantee by UBS Asset Management.

Time to consider the opportunity

For Swiss institutional investors, the adaptation of global real estate to a higher-for-longer interest-rate environment may provide a window of opportunity. As a complementary allocation to domestic holdings, it expands diversification, unlocks access to fast-growing sectors unavailable at scale in Switzerland, and offers the potential for robust income yields with inflation protection, as well as the potential for capital value recovery.

In an environment where returns will increasingly be driven by rental income growth and asset quality enhancement rather than interest-rate compression, active property-level management becomes a critical source of value creation. Yet capturing these opportunities requires navigating the complexity of global markets, regulations and currencies. A disciplined multi-manager approach, combining local market expertise with rigorous manager selection and thorough due diligence, provides a robust structural framework for accessing global real estate opportunities.

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