Global Market Insights
October 2025

Valuation Stabilisation Puts Focus on Individual Markets for Growth

The gentle recovery in global non-listed real estate performance continued in the second quarter of 2025 with growth across all three regions, reflecting the fact that in most markets the valuation decline has come to an end and the positive performance is being driven by income returns.

The Global Real Estate Funds Index (GREFI) returned 1.01% in Q2 2025 up from 0.94% in the first quarter of the year. Asia Pacific led the pack with a return of 1.91%, the strongest performance since the final quarter of 2021. Europe and the US dipped slightly from the first quarter but remained in positive territory.

Interestingly core funds continue to slightly outperform non-core funds despite the continued lack of transactional activity in many core locations and property types. Sentiment globally remains fixated on the movement of short and long term interest rates, which are also influencing the attractiveness of other asset classes such as fixed income and infrastructure in direct comparison to commercial real estate.

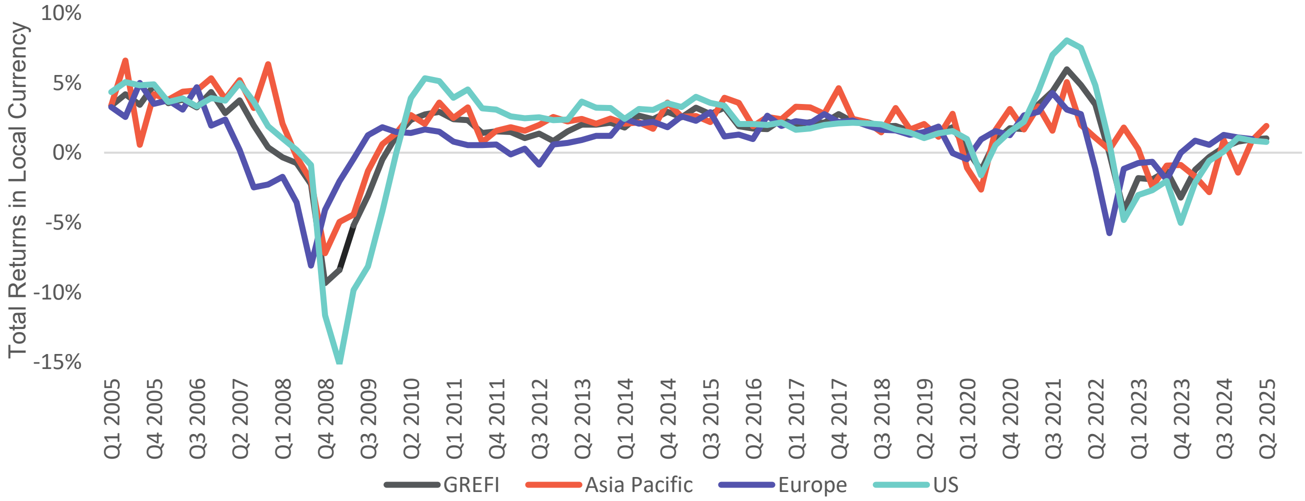
In an environment where regional and global returns have generally stabilised, attention turns to which locations are going to see the strongest rental growth over the short to medium term. Negotiating power remains with tenants who are seeking ever bigger incentives to commit to a particular building or location.

Emerging markets have struggled to capture investors attention over recent years, with activity focused on developed markets where a wider range of property types are becoming investible, such as student housing in Hong Kong and residential in Southern Europe. Raised capital is targeting opportunities in residential, logistics, data centers and operating platforms within developed markets.

Real estate strategies continue to evolve with flexibility a key requirement as diverse opportunities present themselves. The balance of power remains with investors who seek more control and influence over investment strategies.

With debt having been so supportive to real estate returns during the last cycle, the shifting costs of financing and access to debt has opened the door to more institutional investors in the non-bank lending space, outside of the US especially. Investors are increasingly looking at what will drive returns whether that be on the debt or equity side rather than fixating on one or the other.

Figure 1 : GREFI Total Returns by Region, 2005-2025



Source: Global Real Estate Fund Index Q2 2025

Will 2025 Prove To Be A Good Vintage?

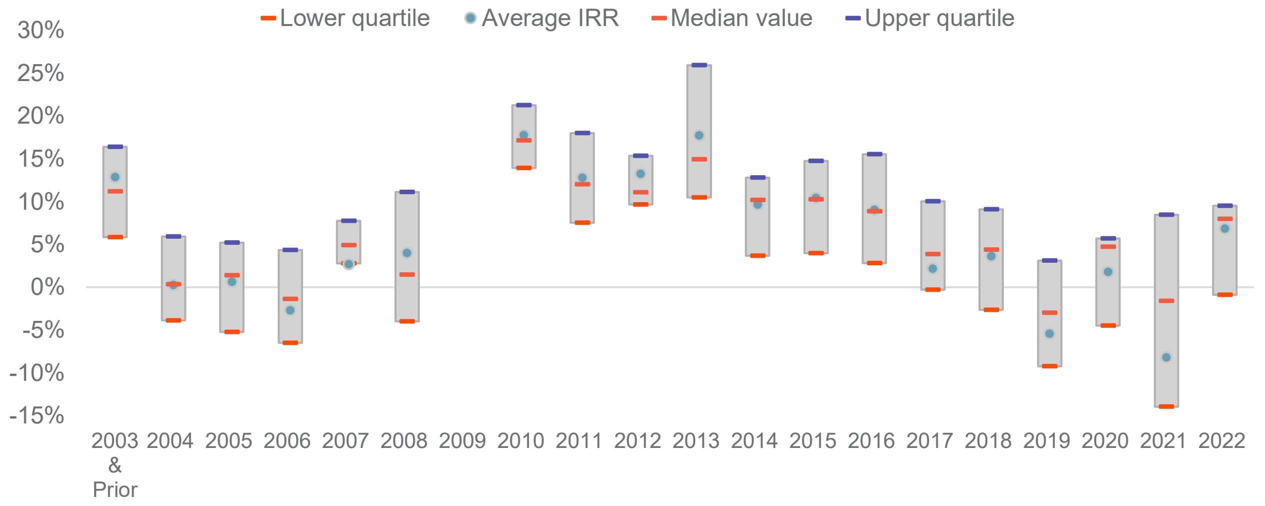
Are we at the bottom? Is now the best time to buy? Will we have more clarity next year? The questions around when to invest in commercial real estate with conviction remains. Given the nature of holding fixed real estate assets, timing is crucial with the long investment and divestment processes.

The Global IRR Index for Q2 2025, which covers 411 closed end funds, shows how important timing is given the cyclical nature of real estate. The post GFC out-performance vintage of funds launched between 2010 and 2013 is clear as market values recovered rapidly. The US 2008-2010 vintage of funds remains the best performing globally with an IRR of 18.19%.

More recently we are seeing the biggest movements in funds launched in 2021 and 2022. 2021 vintages have seen the largest quarter on quarter decline taking the average IRR's down to -8.22%. Meanwhile those funds launched in 2022 improved the most, up from 2.10% to 6.84%.

The appeal of closed end funds is being closely monitored, given the difficulties some investors have faced redeeming funds from other vehicles during the downturn. Most of the funds in our sample follow value add and single country and property type strategies, emphasising the focus and specialist/niche nature of many of the fund managers and funds.

Figure 2: Distribution of Since Inception IRR



Source: Global IRR Index Q2 2025

Global Research Committee's Review

Building for Tomorrows Core - As we enter the new real estate cycle, value-add strategies are set to play a central role in shaping tomorrow's core. The previous cycle was characterised by debt availability and broad-based yield compression, which limited performance dispersion across markets and asset classes. Today the environment is different, valuations have stabilised, recoveries vary by region, and income generation has become the principal driver of returns.

This shift is prompting investors to actively rebalance portfolios, reducing office exposure and reallocating capital toward logistics, residential, and alternatives. Yet core product in these sectors remains scarce, often priced at a premium, and frequently misaligned with occupier expectations around flexibility, sustainability, and operational performance. Value-add strategies are therefore critical. By repositioning and upgrading assets, they create the future-proof stock that long-term capital demands. In doing so, value-add not only captures opportunities from current market dislocation but also builds the core product that will anchor portfolios in the new cycle.

In Europe, residential is a clear example of where value-add is essential to creating tomorrow's core. Structural undersupply continues to drive demand from institutional investors, yet investible core stock is limited. Much of the opportunity lies in development or repositioning, where the risk profile is not aligned with core mandates. Value-add managers can assume construction risk, delivering modern residential assets that meet long-term demand. Crucially, liquidity is strong at the exit as core capital is actively seeking greater exposure to residential for its stable income streams and frequent rent resets which provides a hedge against inflation.