

Investment strategies for the new market cycle



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Trends in the institutional real estate markets.

The sentiment of institutional investors is improving. While recently mainly opportunistic and risk-taking players were active, the larger group of conservatively oriented and risk-averse institutional real estate investors is slowly returning to the markets. However, since classic investments for opportunistic investors, such as developments or extensive restructuring, are currently not available or do not meet the economic expectations, this group is increasingly looking for core properties again. As well as the classic core investors too. Even if the price expectations between buyers and sellers do not always align which is evident in the comparatively low transaction volume.

There are even relatively large mandates for actively managed real estate funds being observed – sometimes with volumes of up to EUR 1 billion. Diversified fund strategies are in demand, as well as the asset class office. The effects of home office on space demand have been overestimated. Despite what we consider to be an overly skeptical sentiment towards this asset class, some investors recognize the opportunities for a good entry point.

Office remains in demand

Price formation is largely completed, especially in the very stable logistics sector and in food-centered retail good prices can also be achieved for hotels. In the residential asset class expectations of buyers and sellers also match again. European residential real estate is particularly attractive for institutional investors. Many have already significantly expanded their German portfolios in this sector. In the metropolitan regions of Europe, we observe similar demographic and economic conditions for new constructions, while different regulatory and cultural characteristics offer significant diversification and risk management opportunities. Even large shopping centers have seen some transactions again. Demand is likely to increase further, as the asset class has become noticeably more resilient. Many shopping centers have strengthened themselves with grocery retailers, brought in new concepts, and increased their occupancy rates. Additionally, online retail has reached a sort of plateau, providing a manageable basis for space utilization.

Space-efficient office properties with flexibly usable space concepts in urban prime locations and with good ESG qualities are and will remain attractive. However, the spaces must be adapted to the changed user requirements: It can be observed that office spaces are increasingly being designed to create quality of stay similar to those in hotels. For this, spaces are needed – for encounters, for creativity, and other extras. Assuming the further recovery of the real estate markets, Union Investment also plans to make initial purchases again starting in 2026, including in the areas of hotels, local supply, logistics, and also offices. Long-term trends – such as urbanization, demographic change, and decarbonization – will continue to support positive performance of modern, future-proof real estate.

Initial yields between 4 to 5 percent

Currently, there is also an increased demand for bundling vehicles,

particularly from pension funds, insurance companies, and pension schemes. These vehicles offer institutional investors structural advantages in managing and developing their portfolios, whether in equity interests or directly held properties. Union Investment, for example, is at present transferring a German residential real estate portfolio into a special fund for an institutional investor – a volume of over EUR 1 billion.

Especially in the German real estate markets, the behavior of family offices is currently striking, as they have increasingly taken the opportunity to invest in long-term valuable and also iconic properties since 2022. These are exciting indicators. Nevertheless, expectations should remain realistic. For a core property in a good location with corresponding rental potential, initial yields between 4 to 5 percent are currently to be expected.

No return to rapid growth

The new market cycle will not bring a return to the rapid growth of the period before the interest rate turnaround. Rather, attractive yields and growth will primarily be determined by a smart selection of individual assets, their intelligent further development, and a risk-oriented balancing of existing portfolios. Furthermore, the development of the existing portfolio is gaining importance. This applies to the adaptation of spaces to changed user requirements, digitalization, and the area of social infrastructure is still underrepresented among many investors. Investments in the sustainable transformation of the existing stock also remain the order of the day. Because even if President Trump in the USA is apparently trying to turn back the clock, Europe remains committed to sustainability, not only due to regulation but also supported by tenant expectations.

Duets of infrastructure and real estate

To achieve global decarbonization goals, the expansion of infrastructure is crucial. However, there is a huge investment gap which cannot be closed without private capital. Union Investment is therefore intensively exploring the opportunities arising from the natural connection between real estate and infrastructure. After all, real estate are the synapses, the nodes where the nervous system of infrastructure converges. They never function in isolation but always in conjunction with networks (electricity, water, data) and good transport connections.

Healthy normalization

It is clear: The European real estate markets will not quickly return to the highs of 2018 to 2020 with record transaction volumes. These are good news, as a lot of capital was in the real estate market during this phase that investors would traditionally have invested in other asset classes, which were unattractive due to low interest rates. This capital has increasingly returned to interest-bearing products after the return of interest rates. This is a healthy normalization of the markets.

