

# 2026: A year of normalisation for European listed real estate

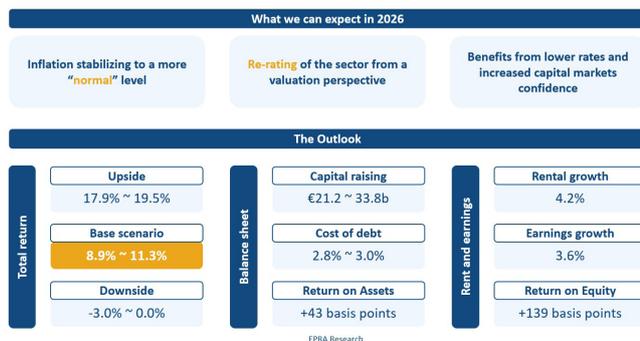
After several years of unusual economic conditions, shifting monetary policy, and heightened geopolitical uncertainty, 2026 is shaping up to be the long awaited year of normalisation for European listed real estate. The sector enters the new year with improved fundamentals, stronger investor sentiment, and clearer macroeconomic visibility, setting the stage for a more balanced and sustainable growth cycle.

One of the strongest tailwinds for listed real estate in 2026 is the stabilisation of Europe's macro environment. Inflation is aligning with central bank targets, with euro area headline inflation projected at 1.7%, slightly below the ECB's 2% objective. A return to a normal inflation cycle reduces uncertainty, supports consumer confidence, and provides a healthier foundation for corporate planning.

Growth, while moderate, remains constructive. The ECB projects GDP expansion of 1.0–1.2%, supported by resilient labour markets, rising real wages, and fiscal stimulus in several of Europe's largest economies. Non-eurozone markets show stronger momentum: Sweden is forecast to grow 2.6–3.1%, and Switzerland 1.5–1.7% with ultra-low inflation. The interest rate easing cycle is nearing its end, with major central banks expected to pause cuts until at least mid-2026. Europe is not booming, but it is stabilising — and for real estate, stability is positive.

## A sector poised for mean reversion

LRE's performance in 2025 offered hints of the positive shift underway. The



FEN Developed Europe Index delivered a **6.8% total return in euros** in 2025, marking a solid rebound from the slight decline in 2024. Importantly, the sector outperformed the broader Developed Index, signalling renewed investor confidence.

Yet, despite progress, RE still lagged general equities, what can be mostly associated with ongoing uncertainty in some of the most important real estate fundamentals following nearly five years of abnormal market conditions. This gap between sentiment and intrinsic performance creates fertile ground for **mean reversion** in 2026.

EPRA's analysis suggests that under a "normal" inflation cycle, the sector has historically delivered **6.4–19.5% total returns**, implying a wide, but favourable potential range for the year ahead.

## Normalising property markets and structural tailwinds

Property market consensus points toward a steady, income driven recovery. According to the ULI & PwC Emerging Trends in Real Estate Europe 2026 report, total returns for European CRE are projected to average **around 6.4%**, supported mainly by rental growth, rather than capital appreciation. Demand continues to shift toward structurally supported sectors such as:

- **Data centres**, driven by AI and cloud expansion
- **Student housing**, supported by demographic and mobility trends
- **Healthcare**, benefiting from ageing populations

The key catalyst for commercial real estate's improving outlook is the normalisation of the macroeconomic environment, characterised by lower

inflation and more stable interest rates. These dynamics have eased borrowing costs and narrowed the debt funding gap, fostering renewed confidence across capital markets. investors.

Another encouraging sign: **capital raising activity surged in 2025**, reaching **EUR 29.7 billion**, the highest level in four years and the third highest over the past decade. This rebound reflects both improved investor appetite and greater stability in financing conditions.

The average cost of debt across the FEN Developed Europe Index stands at **2.85%**, and refinancing risks appear manageable. With EUR 33.9 billion of bonds maturing over the next 18 months, at coupons broadly aligned with current rates, most companies should be able to refinance without meaningful pressure.

This is a key break from the tightening cycle of 2022–2023, during which higher yields strained balance sheets and valuation models. In 2026, **financing is no longer a headwind**.

## Valuations and profitability look strikingly attractive

Perhaps the strongest argument for optimism lies in valuation. As of late 2025, the European listed real estate sector trades at an average **26.8% discount to NAV**, a level observed in only 12% of monthly observations since 1989. Historically, such wide discounts have been followed by strong future returns:

- **17.9% average annualized return over 1 year**
- **12.1% over 3 years**
- **11.9% over 5 years**

Similarly, the sector's trailing **price to EPRA earnings ratio stands at 15.3**, well below the 10 year average of 19.3. Assuming an EPS growth rate aligned with consensus (**3.6%**), a return to typical valuation multiples would imply approximately **11% total returns** for 2026.

In terms of profitability, EPRA expects **ROA to increase by 43 bps and ROE by 139 bps** in 2026. Combined with rising rental income, projected at **4.2% growth** well above inflation, earnings power should strengthen across the sector. Together, these metrics suggest a market that is not only stable, but meaningfully undervalued.

## Forward Looking Outlook

EPRA's combined scenario analysis points to a **base case return range of 8.9% to 11.3% for 2026**, with upside scenarios reaching **17.9%–19.5%** depending on valuation normalization, inflation cycles, and earnings trajectories.

Key risks remain real: monetary policy uncertainty, geopolitical tensions, and sentiment shifts. But compared to the challenges of recent years, these risks feel more familiar, better understood, and easier to navigate.

European listed real estate enters 2026 with clearer visibility, healthier balance sheets, stronger fundamentals, and compelling valuations. The sector is no longer recovering from shocks, it is re aligning with long term norms. For all market participants, 2026 offers something invaluable: a return to normality supported by stable cashflow generation, revenues and earnings growth and alignment with long-term megatrends.

