

Income-generating real estate strategies in an uncertain world

In a risk-averse macro environment, investors are prioritising income stability. LaSalle Investment Management's debt and core equity leaders across Europe and North America discuss where and how capital can be deployed to target reliable returns.



Matthew Sgrizzi, Fund Manager for LaSalle Encore+

Q. *Greater consensus around long-term interest rate expectations has helped European core capital return to the market. With growing geopolitical instability, do you still have the confidence to actively deploy capital?*

A. We do have confidence, though it requires discipline and selectivity. We're prioritising assets where cash flow resilience can withstand modest rate volatility – the quality of income and tenant covenant strength have always been paramount in our underwriting, and that discipline is even more critical now. The key is distinguishing between short-term noise and structural repricing. Geopolitical events create headline risk, but the underlying supply-demand dynamics in our target sectors remain supportive.

Q. *Core strategies are increasingly expected to deliver both income resilience and participation in recovery. How are you balancing those objectives in today's market?*

A. Core-plus sits exactly at that intersection – portfolios with a meaningful income foundation, while maintaining flexibility to capture value creation through active asset management. That means favouring assets with embedded operational upside. We're looking at strong core locations with buildings that need modest capex to reach market rents, or where there are opportunities to reposition assets to pursue higher and better use, accessing attractive sectors at materially better pricing. The emphasis is on protecting investor capital while participating in the market recovery.



Dave White, Head of Real Estate Debt Strategies, Europe

Q. *How are ongoing interest rate volatility and widening credit spreads influencing how debt is structured in Europe today?*

A. We're seeing that borrowers are increasingly favouring shorter-term, floating-rate facilities that preserve flexibility – and they are coming to the table with more equity and greater realism about debt costs. We're generally observing LTV levels in the 50-60% range for stabilised assets, versus the 65-75% that was common pre-2022. For income-focused investors, this environment creates attractive risk-adjusted returns – significant first loss positions sitting in front of debt offer downside protection, coupled with meaningfully higher yields than what was being achieved in a low-interest rate environment. This arguably makes debt a compelling income generator that deserves permanent portfolio allocation for investors.

Q. *Europe remains a fragmented and often opaque lending market. How does that complexity influence where and how you deploy capital?*

A. The fragmentation is actually a source of opportunity if you have the right infrastructure. Banks remain selective across markets, which creates gaps that non-bank lenders can fill – but only if you have local presence and relationships to source deals effectively. The complexity demands market-by-market expertise and consistent risk standards need to be applied across the platform.

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Craig Oram, Head of Real Estate Debt Strategies, Americas

Q. *In the US, how has interest rate volatility changed the way lenders assess risk, and what matters more now in underwriting than it did in a stable rate environment?*

A. Volatility has elevated stress testing and exit underwriting to the forefront of risk assessment. We're spending significantly more time modeling refinancing scenarios under various rate environments and ensuring debt service coverage ratios provide adequate cushion. What matters most now is asset quality and sponsorship – the ability of both the property and the borrower to weather uncertainty. In a stable rate environment, you could rely more heavily on refinancing assumptions. Today, we underwrite to scenarios where capital markets remain challenging at maturity.

Q. *Does continued rate uncertainty create more opportunity or risk in US real estate credit, and where are you seeing that balance play out most clearly?*

A. It creates both, and the balance depends entirely on positioning. For lenders focused on income generation, uncertainty has actually improved the opportunity set – spreads are wider, leverage is lower and loan structures are more conservative. The risk emerges when lenders stretch for yield by moving down the capital stack or compromising on asset quality. We're seeing the most attractive risk-adjusted opportunities in refinancing brand-new properties coming off construction – no construction risk, incredibly low basis relative to replacement cost and strong income generation.



Jim Garvey, Portfolio Manager and President, LaSalle Property Fund

Q. *For US core investment, has pricing fully adjusted to the increase in interest rates that followed the pandemic?*

A. Pricing has improved meaningfully since peak values were reached in 2022. We're seeing more motivated sellers, creating opportunities to acquire quality assets at yields that deliver attractive income from day one. Average cap rates are now near 5%, and we're buying properties at or below replacement cost. For income-focused core investors, this represents a significant shift – we can now underwrite to attractive current income and, with healthy fundamentals, participate in meaningful growth forward.

Q. *Given the dispersion across sectors, where are you leaning in with the highest conviction, and where are you remaining cautious?*

A. Conviction is highest in sectors where income visibility is strong and supply-demand fundamentals support occupancy and rent growth: logistics, multifamily in supply-constrained markets, and alternatives like affordable housing and self-storage. We remain cautious on office broadly and, given geopolitical risk, we're also avoiding assets with meaningful near-term leasing risk, preferring properties that are 95%+ leased with limited rollover in the next 18 months. For investors today, the macro environment favours strategies that generate income from day one – whether through debt or core equity, the emphasis should be on cash flow quality, tenant strength and structural resilience.