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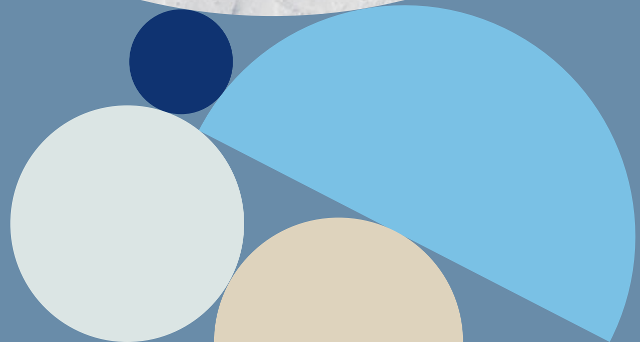
Real Estate Outlook 2025



Divergent Paths at an Inflection Point

Zurich Real Estate Investment's 2025 Outlook explores key trends that will influence real estate occupier and investor attitudes over the coming year. Titled **Divergent Paths at an Inflection Point**, this publication comes at what we see as a unique period for global real estate markets. After what has been a challenging few years for performance, there are strong reasons to believe that liquidity will improve and that a fine vintage for returns is in the making. The story, however, is complicated by geopolitics and structural challenges. But therein lies the opportunity. Our commentary spans the geographies where Zurich Insurance Group (Zurich) primarily invests and explores strategies where we have the greatest conviction. We hope that you enjoy the read.

Geopolitics Closer To Home

There is the temptation when speaking of geopolitical risk to focus on hotspots of conflict and instability. Events in far off places, often destinations seeing minimal real estate capital, can be used to rationalise investment inaction in highly institutionalised markets, often closer to home. The reality of course is more nuanced because geopolitical risks can take many forms and be compounded by other forces. **The World Economic Forum's Global Risks Perception Survey**, which was produced in strategic partnership with Zurich chronicles the interplay of economic, environmental, societal and technological risks. Geopolitics is often intermingled in all of these. So what does the coming year have in store for real estate investors?

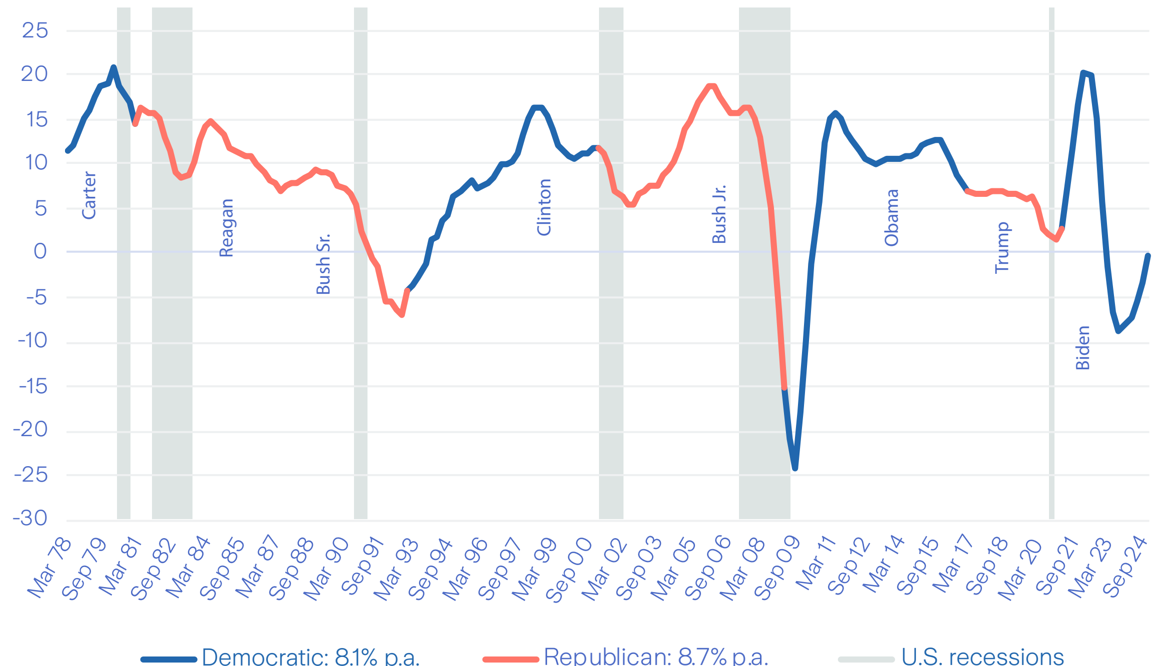
For starters, geopolitical risk isn't bound by the calendar. 2024 was a year when nearly half of the world's population in more than 70 countries went to the polls[1]. This year will be one when newly elected governments enact policy which begins to impact economic activity and ultimately influences investor attitudes.

Front and centre of mind for many is the U.S. As it relates to the world's largest institutional property market, our assessment of medium term performance prospects as a function of the incoming administration is not alarmist. That's because when assessing U.S. historic real estate returns through the lens of the political party of the presiding president, there is only a marginal difference in achieved nominal unlevered returns. According to the National Council of Real Estate Investment Fiduciaries (NCREIF), which established its property index in the late 1970s, the difference in returns under Republican (8.7%) and Democratic (8.1%) presidents was minimal (Figure 1). So historically speaking at least, politics don't seem to matter much when it comes to longer run property performance.

More importantly as it relates to investment decision making, having the U.S. election in the rear view mirror is better than still ahead of us.

We'll explore the U.S. real state market in greater depth later in this Outlook.

Figure 1: NCREIF Property Returns, annualised 4 quarter rolling, %

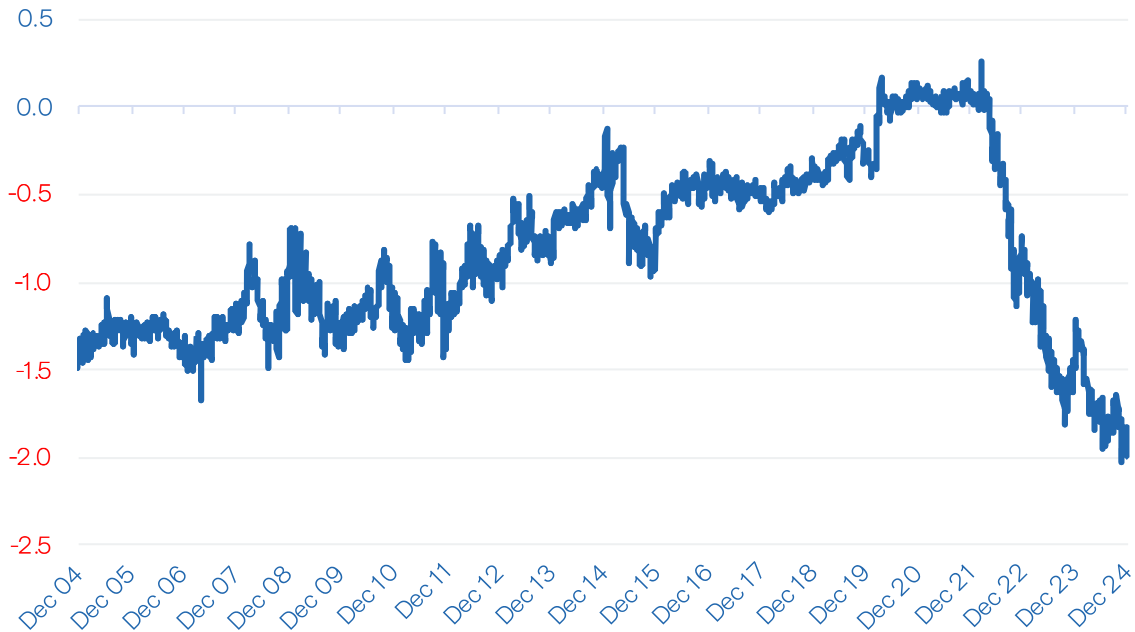


Source: NCREIF, latest = September 2024

From our perspective, one of the best charts that conveys the idiosyncrasies of current geopolitical risk is the spread between Swiss and German government bond yields (Figure 2). Hovering around -200bp, this is the widest it has been in the past twenty years. This simple chart conveys multiple powerful stories, key of course being inflation expectations and interest rate policy. Switzerland was the first major developed country seeing inflation fall and subsequently stay below central bank target. Moreover the SNB has not ruled out returning to negative interest rates. Consequently, Swiss government bond yields have already approached the zero bound.

1 The 2024 Global Elections Super-Cycle | International IDEA

Figure 2: Switzerland: Germany 10 year government bond yield spread, %



Source: Refinitiv Workspace

In Germany, Bund yields are up slightly in 2024. This is because the country has experienced a bumpier disinflationary journey, with the medium-term outlook having become more uncertain. This is a function of the country's energy mix. With Russian gas no longer a viable source, by necessity Germany has reverted to more costly and often dirtier sources of energy. Switzerland by comparison derives the majority of its energy from renewable or low-carbon sources. There is also a commentary of the vulnerabilities with major trading partners. Germany is overly reliant on the U.S. and China for commerce, while Switzerland is better diversified. Then of course there is an issue of domestic political stability. Germany has seen its coalition government collapse and faces a snap election early in 2025, while a consensus-driven approach ensures stability in Switzerland. Of course this is all reflected in the currency and asset prices. The Swiss Franc continues to appreciate against the Euro, while its property market saw one of the most benign corrections globally.

The manifestation of geopolitical risks takes many forms, and it will continue to influence investor attitudes over the coming year, both in hotspots of conflict and instability as well as closer to home.

Kudos To The European Core Funds!

The current interest rate tightening cycle has been the first meaningful liquidity squeeze that European core funds have experienced. And they're navigating it well. To appreciate just how, we need to rewind a bit.

2022 was one of the weakest years for global bond performance and stock portfolios also suffered major losses. As real estate valuations held up through the middle of that year, multi-asset class investors witnessed a sharp increase in real estate allocations, in some instances well ahead of strategic asset thresholds. For those investors that required rebalancing, open-ended real estate funds were an obvious source for liquidity. Yet, fund terms adopted in the aftermath of the global financial crisis (GFC) ensured that this be an orderly and ultimately drawn out process. Many core funds had the ability of paying out redemptions over multiple years. This acted as a disincentive for investors to make a run on the funds. As a result, remaining fund investors were protected and fire sales curtailed.

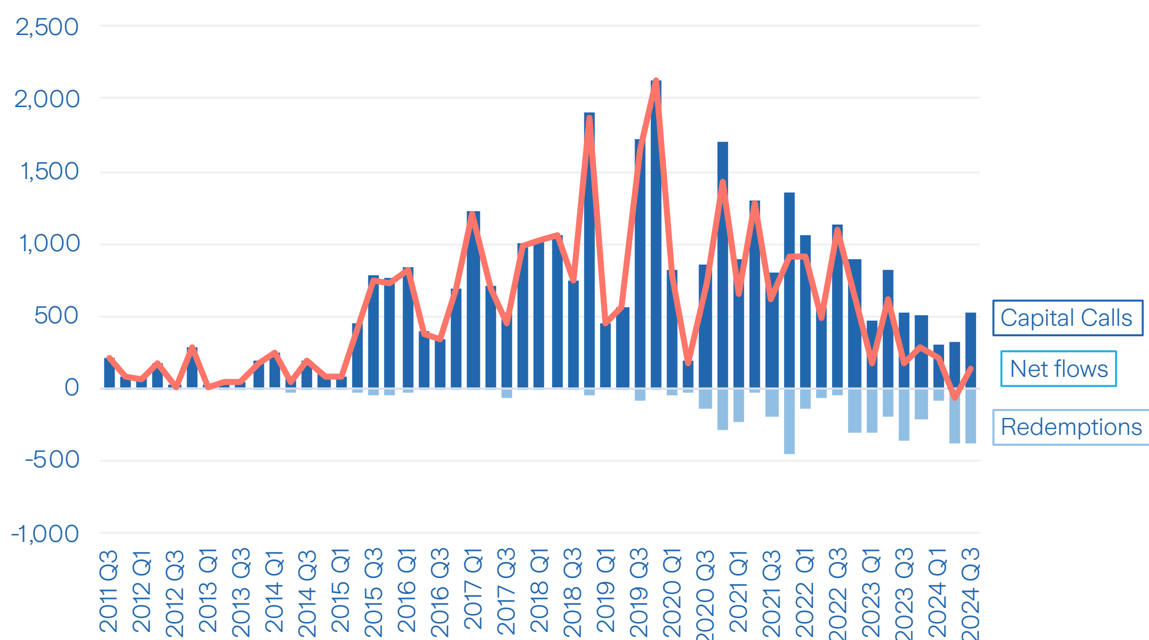
Since Q3 2022 when interest rates spiked, redemptions increased. European Association for Investors in Non-Listed Real Estate Vehicles (INREV) Open End Diversified Core Equity (ODCE) index funds saw redemptions as a share of gross asset value average just 0.6%. While this is higher than a since inception average of 0.3%, it's hardly alarming. Strikingly, negative net outflows were only a feature of the European market in one quarter (Figure 3). This is because capital calls remained healthy as pipelines were delivered. The balancing act that was achieved is a contributing factor why distress in the wider market has been less pronounced than some market participants had feared.

This is a fundamentally different picture than what is occurring in the U.S. core funds space. According to investment consultant Albourne, at the end of Q3 2024, redemption queues totalled more than $34bn across the 25 funds in the NCREIF ODCE Index.[2] This represented 17% of total ODCE index NAV and was the highest share since Albourne began tracking the metric in Q3 2018. The pronounced difference between the U.S. and Europe is a function of fund terms. In the U.S., there is first come-first-served protocol, which does not disincentivize submitting a redemption. While in Europe redemption requests are handled proportionally.

The manner with which European core funds have operated in recent years conveys confidence. Those fund investors who submitted redemptions in 2022 are being paid in line with fund terms.

> *The European core fund brand remains strong. In 2025, primary subscriptions are likely to pick up. Also new core fund managers may consider entering the market. Watch this space!*

Figure 3: In/out flows into INREV pan-European open end diversified core equity (ODCE) funds, EURmn



Source: INREV, data to Q3 2024

2 https://village-us.albourne.com/castle/cionotes/6922315

The Secondaries Ship Has Sailed

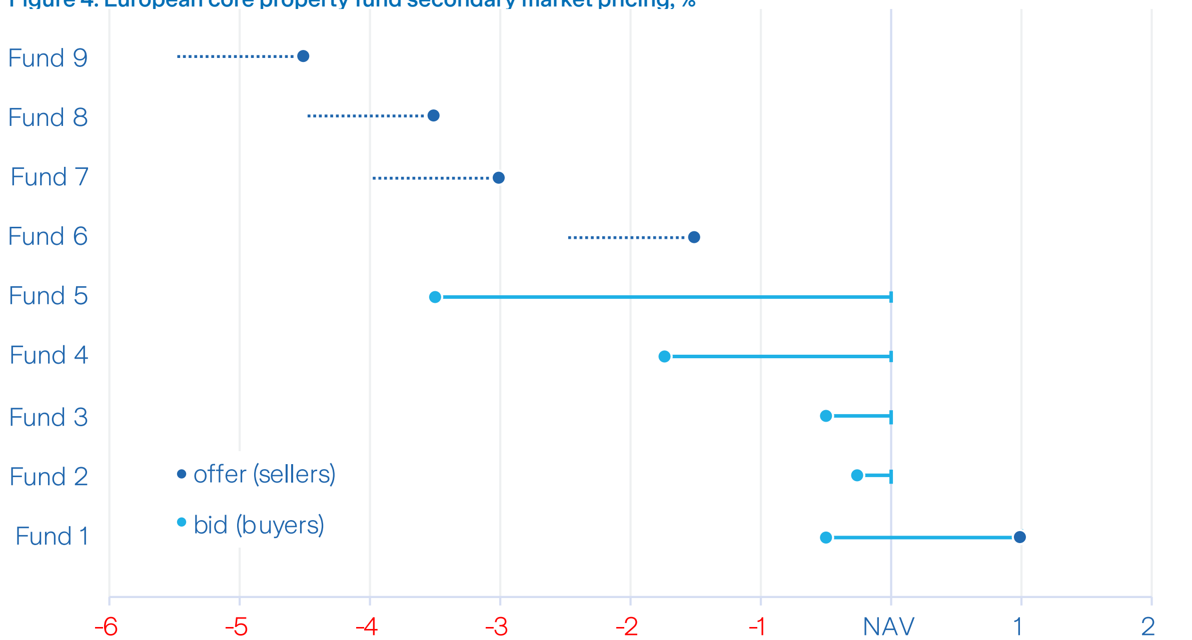
For those open ended fund investors motivated to skip the redemption queue and be made whole, the secondary market is of course an option. When there is a liquidity squeeze, like what we saw in 2022 and well into 2023, many hopeful sellers met few interested buyers. As a result the discount required to exit a position was steep, but much greater than the capital value declines that ultimately occurred. In our 2023 Mid-year Outlook, one of the strongest conviction investment calls that we advanced was buying (then deeply) discounted core fund secondaries. We knew then that the duration for this investment recommendation would be fleeting.

As core fund valuations adjusted in sympathy with market fundamentals and the "denominator effect" evolved favourably for multi-asset class investors, the urgency to sell dissipated, and so too did the discounts required to transact in the secondary market. At the end of 2024, many funds were trading broadly in line with historical secondary market norms. Encouragingly, one European core fund was even seeing potential interest at a slight premium to last reported NAV (Figure 4). This portends a healthier environment for primary fund subscriptions in the coming year as well as the outlook for returns.

The functioning of secondary markets and the evaporation of discounts required to transact is a clear sign of improving real estate capital markets.

Taken together we see healthier prospects for raising core capital in 2025.

Figure 4: European core property fund secondary market pricing, %



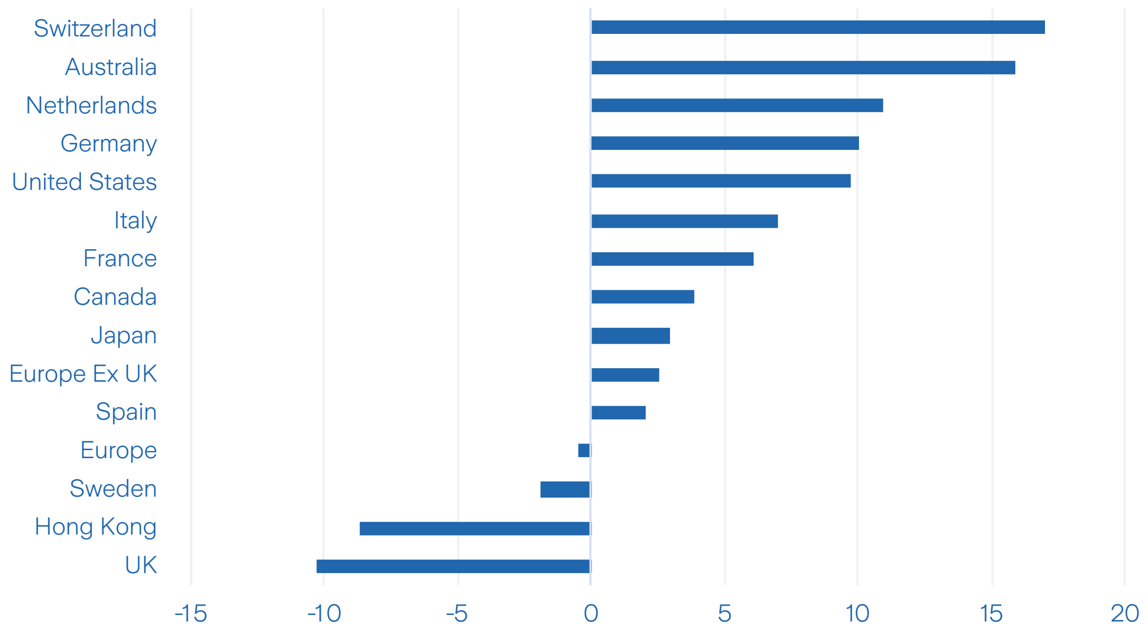
Source: Funds anonymized for compliance purposes

A Great Harbinger

Another important piece of the capital market puzzle is the listed real estate sector. Zurich uses REITs to strategically access markets and strategies where we may not have local expertise. We also look to listed markets to help colour our perception of direct real estate performance prospects. The signals from the end of 2024 portend good things.

For starters, REITs around the world staged a meaningful recovery in 2024 as the expectation of interest rate easing finally became reality (Figure 5). Globally REITs delivered a 12.4% return in 2024, with key markets to Zurich such as Switzerland, Germany and the U.S. all having performed well. There is a strong correlation between the performance of REITs and the valuation movements of direct real estate. We typically expect direct real estate to follow activity in the listed space by around six to nine months.

Figure 5: Global REIT total returns in 2024, %



Source: Refinitiv Workspace

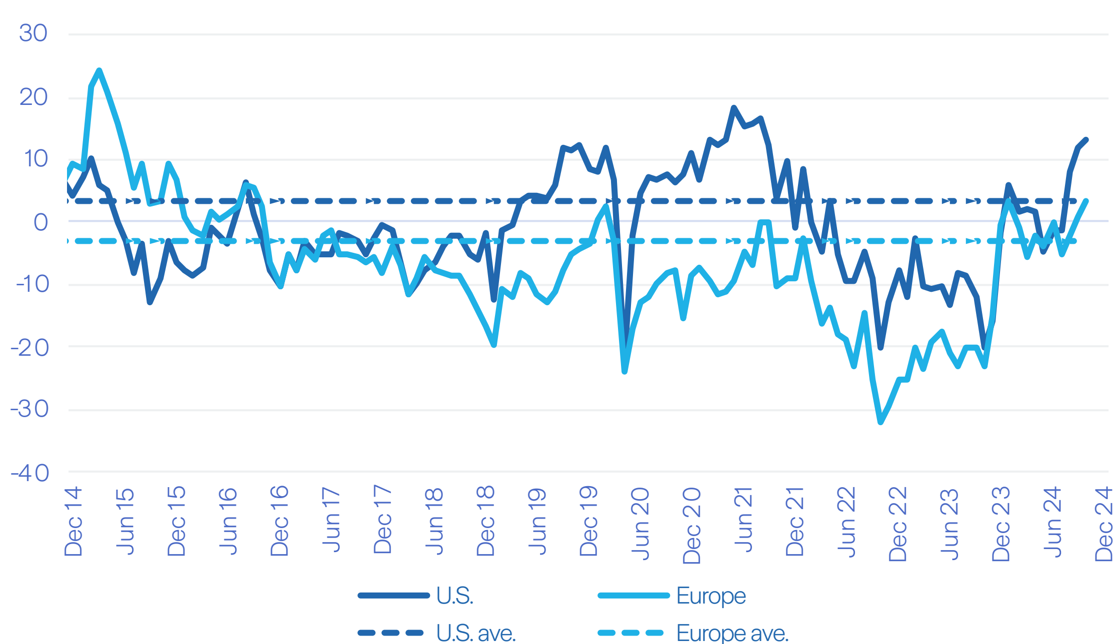
Looking at the UK, listed real estate companies staged a meaningful recovery after the first Bank of England interest rate cut last summer, with momentum continuing into the final quarter of the year (Figure 6). While capital values were still negative on an annualised basis according to the MSCI UK index, monthly numbers are showing a positive trend. After a challenging few years for UK real estate performance, we are increasingly confident that all property direct capital values should flip positive in 2025.

Figure 6: UK direct real estate capital value growth and listed price change, % YoY

Source: Refinitiv Workspace

Another important signal to consider from REITs is the discount or premium that they trade relative to underlying net asset value. While this metric can be volatile as it moves with broader equity markets, the current trend signals positive momentum for direct capital values. In both the U.S. and Europe, REITs are trading at premia ahead of long run averages (Figure 7). Of course there will be varying stories at regional and sector level, but the message from the broader market is certainly encouraging. This was a powerful leading indicator in April 2022 and compelling again as we start 2025.

Figure 7: Discount/premium to underlying REIT NAVs, %

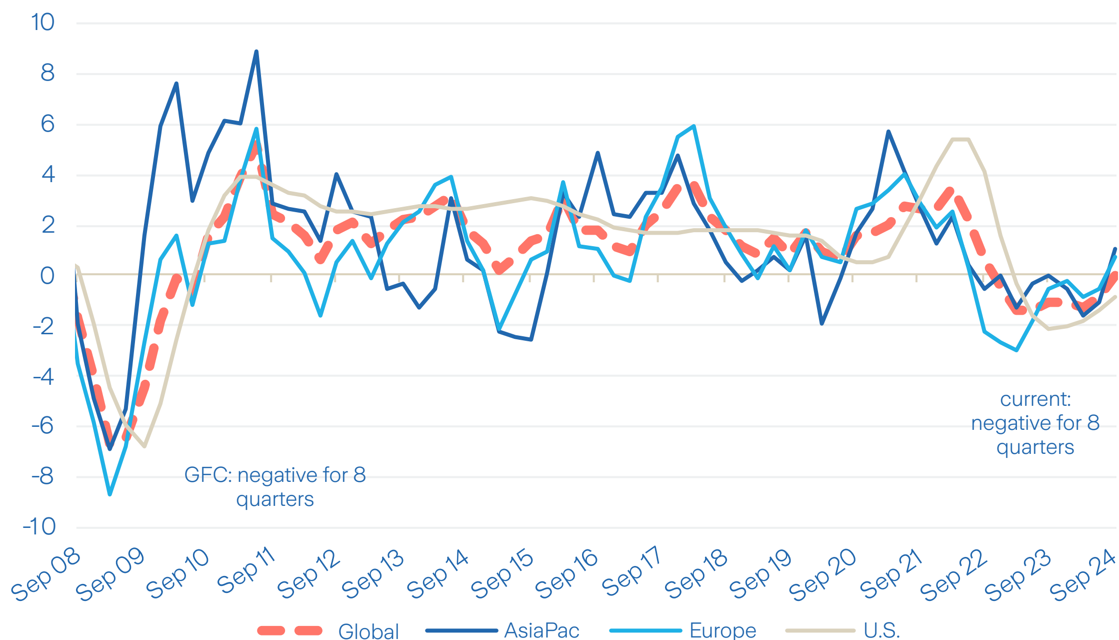


Source: Green Street

A Fine Vintage In The Making

It's been a challenging period for real estate performance. According to MSCI, global returns have had their worst run since the GFC (Figure 8). Though maybe a better way of viewing the situation, is that real estate had quite the decade run, that reached a crescendo with a once-in-a-century pandemic distortion requiring massive fiscal and monetary stimulus. A rewind was inevitable. But considering some of the forces that we've highlighted thus far in our Outlook, there are strong reasons to believe that we are reaching a turning point. In fact we'll argue that a fine vintage for real estate returns is in the making.

Figure 8: Global quarterly real estate returns in local currency, four quarter moving average, %



Source: MSCI, latest = Q3 2024

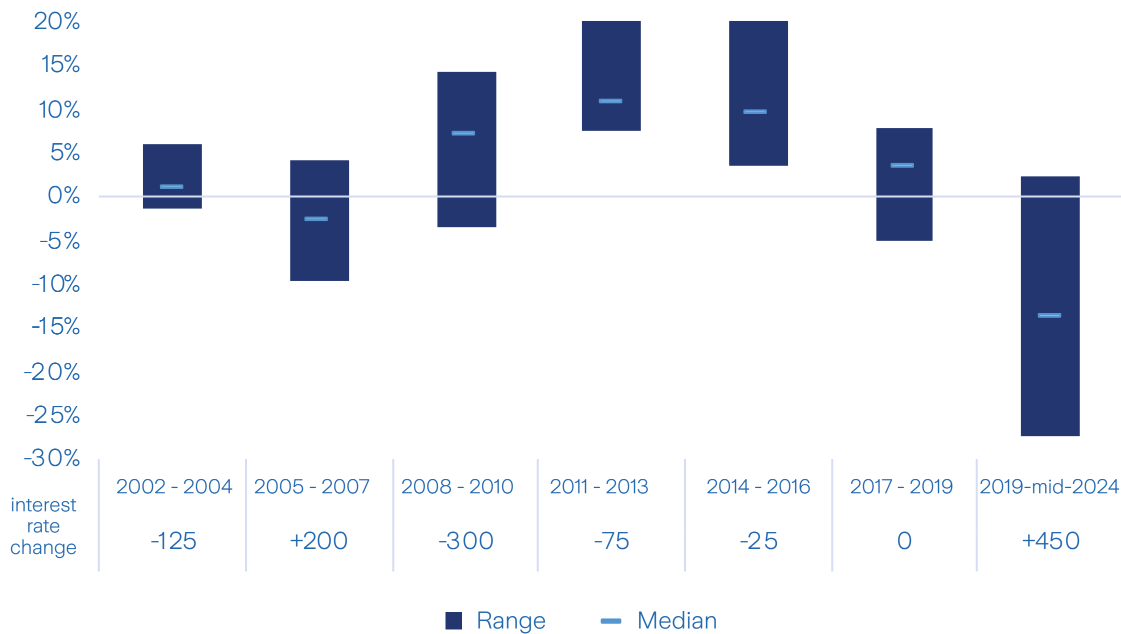
Key to the argument, unsurprisingly, is the interest rate environment.

Real estate performance is stronger in an interest rate easing environment.

Data from INREV for European funds by vintage shows just how strong the relationship is (Figure 9). In three year periods where interest rates were either flat or negative, medium fund returns were positive. When interest rates increased, such as in 2005-2007 or the post-2019 era, median returns were negative. With the European Central Bank having cut rates by 100bps in 2024 and intimating further easing this year, we are clearly moving into an environment where, at least historically speaking, real estate fund returns should perform well. Indeed, in Europe capital values have already started to increase in nearly 50% the city/sector combinations on the MSCI European Quarterly Property Index (Figure 10).

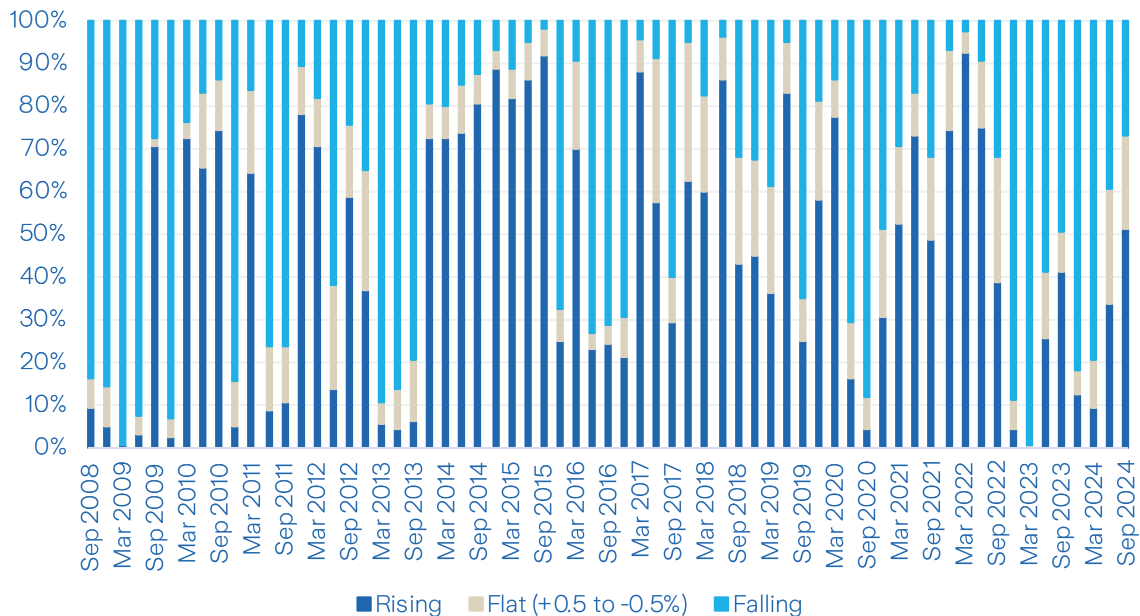
It's easier to justify an investment when market level capital values are growing.

Figure 9: European fund performance by vintage year (% IRR) and change in European interest rates, bps



Source: INREV, latest = Q2 2024; Zurich Insurance Group

Figure 10: Share of rising, flat or falling capital values.
Pan-European MSCI Global Property Classification sectors, %



Source: MSCI to Q3 2024

In the U.S., performance on the NCREIF property index after major value corrections also conveys a powerful story (Figure 11). The period immediately after capital values reached their trough represented a cyclically strong go-forward five-year return window. If you believe that capital values of appraisal based funds will soon find their floor, then the experience after the savings and loan, dotcom, and global financial crises would suggest that 2025 could be a very attractive time to deploy capital.

> *Astute investors with an eye on historical performance understand that the best cyclical returns can come from vintages after crises. We see that time as now.*

And this is augmented when structural change reaches an inflection point. The investible universe is expanding to include once-niche property types. Early-mover advantages are clear. The logistics and living sectors benefit from favourable long-term tailwinds. Retail is back, selectively. And the demise of the office story was woefully oversold.

Figure 11: Five year NCREIF NPI total return before and after capital value trough, %

		Savings & Loan Crisis		Dotcom Crisis		Global Financial Crisis	
	2023 Q3	1993 Q2	11.0%	2001 Q3	12.3%	2008 Q3	5.2%
	2024 Q1	1994 Q4	11.4%	2002 Q1	13.4%	2009 Q1	9.0%
	2024 Q3	1995 Q2	11.7%	2002 Q3	14.4%	2009 Q3	11.5%
Capital value trough	2025 Q1	1995 Q4	12.3%	2003 Q1	14.6%	2010 Q1	12.0%
	2025 Q3	1996 Q2	12.2%	2003 Q3	13.6%	2010 Q3	11.5%
	2026 Q1	1996 Q4	11.7%	2004 Q1	8.8%	2011 Q1	11.1%
	2026 Q3	1997 Q2	11.0%	2004 Q3	5.2%	2011 Q3	10.5%

Source: NCREIF to Q3 2024; Zurich Insurance Group

Return to Office!

In May of 2021, still under the cloud of the Covid pandemic, the CEO of an American investment bank called remote work "an aberration that we are going to correct as soon as possible".[3] At the time, still holed up in home offices due to mobility restrictions, this comment was detached from an experience that many were experiencing. It felt tone deaf to a then-new narrative of a flex-first office future. It was old school thinking at a time when all everyone was talking about was structural disruption. And it was certainly at odds with prognostications of office demand collapsing by nearly 40%.[4]

But situations evolve and so too have views of the office sector.

In hindsight, mass-remote working was an aberration.

It was born out of necessity, indeed survival. We collectively did it because we had to. But it's no longer required and it's increasingly being scrutinised. It's no wonder why more people are contemplating returning to the office (Figure 12).

Figure 12: Google trends search: Return to Office

Source: Google Trends, latest = Dec. 2, 2024

In 2025, we anticipate more companies requiring their employees to spend a greater amount of the work week in the office. Employers have more leverage. The "great resignation" is long over (Figure 13). Some will make the case for reinvigorating corporate culture while others argue that office presenteeism is a means of boosting productivity. The fact that the academic literature is far from in agreement on this point[5] [6] [7] may not matter. And some employers, especially owner occupiers, may simply want to drive greater value from their corporate estates. Whatever the rationale, the trend is clear.

Office-oriented employers are increasingly comfortable taking an interventionist approach.

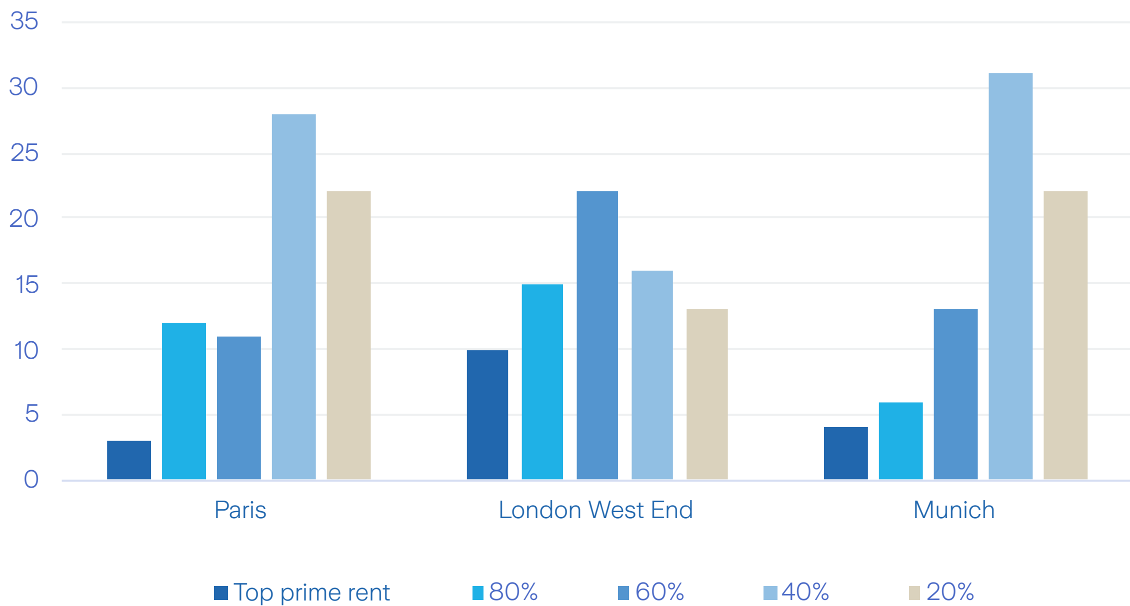
And because the balance of power is shifting, employers will not be required to offer the same degree of incentives to lure employees to the office. Well-located, healthy space is still relevant to employers seeking to achieve productivity gains, but the obsession with super-prime and highly amenitized space will surely moderate and find a new baseline. We're already seeing this expressed in leasing activity across Europe. Leases signed at top prime rents account for the minority of leasing activity. Most leases are at mid-range rental levels (Figure 14). In Paris and Munich, for example, the majority of leases signed in 2024 were at 40% or less of the market prime rent.

3 Goldman Sachs CEO Solomon calls working from home an 'aberration'
4 The pandemic's impact on retail space demand | McKinsey
5 Sumit S. Deole, Max Deter, Yue Huang, Home sweet home: Working from home and employee performance during the COVID-19 pandemic in the UK, Labour Economics, Volume 80, 2023, ISSN 0927-5371.
6 Barrero, José María, Nicholas Bloom, and Steven J. Davis. 2023. "The Evolution of Work from Home." *Journal of Economic Perspectives*, 37 (4): 23–50.
7 McPhail, R., Chan, X. W. (Carys), May, R., & Wilkinson, A. (2023). Post-COVID remote working and its impact on people, productivity, and the planet: an exploratory scoping review. *The International Journal of Human Resource Management*, 35 (1), 154–182.

Figure 13: United States total non-farm job quits, thousands, seasonally adjusted level

Source: Refinitiv Workspace

Figure 14: Rent distribution by rent level, # of leasing transactions in 2024



Source: JLL, data to Q3 2024

The good news regarding increased rates of return to office (RTO) is that there will be more people in office buildings. This will reinvigorate business districts and public transit usage, which have struggled for the past five years. It should also help bolster municipal tax receipts. And with more employees in the office, there may even be a reduction in insurance claims that resulted from unreported issues in underutilised space. However, the net impact on office demand is less clear cut. In the U.S., substantial amounts of vacant space need to be absorbed. In Europe, a sluggish economy will dampen a leasing relief rally. And because much of Asia is already back to pre-pandemic office activity levels, RTO gains have largely played out.

The office story continues to evolve and 2025 should be a year when market participants adopt a more constructive stance toward the sector.

All Eyes On America

Earlier in this Outlook, we reflected on historic U.S. real estate returns through the lens of the political party of the president. We led with this analysis as a way of suggesting that national politics have little bearing on property performance. Of course the situation is more nuanced, so let's scratch the surface a bit deeper to understand what will drive U.S. real estate returns over the medium term.

According to the **Economic and Market Outlook 2025** produced by Zurich's Market Strategy and Macroeconomics team, the U.S. economic cycle will be extended by fiscal measures to deliver above trend growth. But given that announced policies are inflationary, the Fed will be forced to proceed cautiously and indeed slower than what was implied ahead of the election. Bond yields, will remain volatile as investors consider these new realities along with an ever burgeoning fiscal deficit. These forces will impact real estate differently, let's take each in turn.

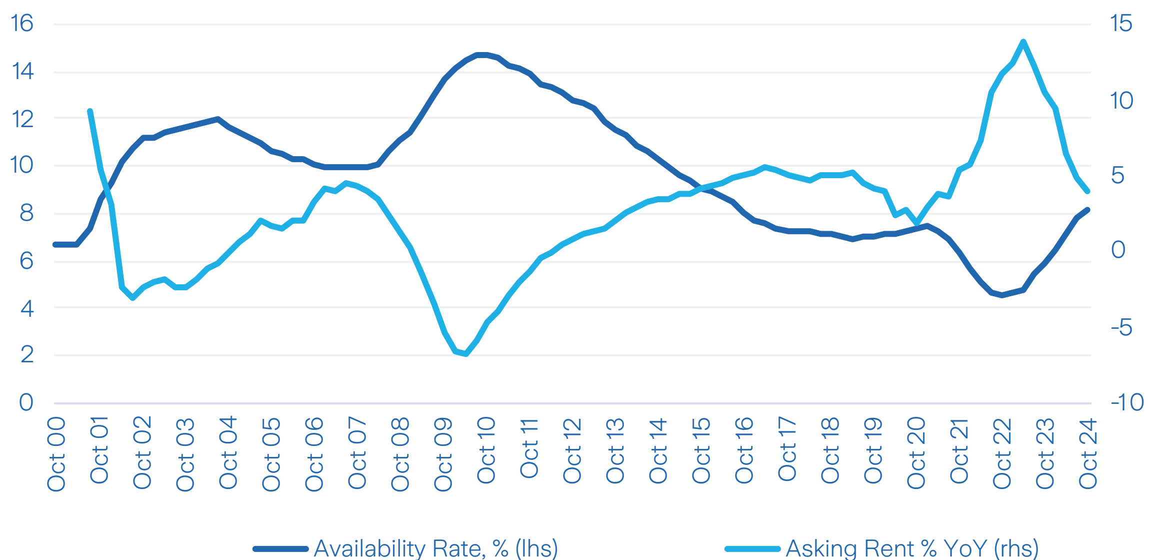
Above trend growth should help stimulate job creation, consumer spending and ultimately demand for space across traditional real estate sectors. For logistics and multi-family, this should help alleviate the current supply hangover and contribute to real rental growth in more markets (Figures 15 & 16). For offices and retail, a stronger economic backdrop should help hasten a much needed recovery. The pace may still be sluggish, but the outlook has certainly improved for these much-maligned sectors.

As it relates to the new U.S. administration's announced policy measures, increased tariffs and restrictions on immigration are inherently inflationary. While we expect financial markets to ultimately provide the checks and constraints on an ambitious political agenda, higher rates of inflation are likely to be a feature of the U.S. economy. The impact on real estate will vary. Operational real estate with short duration leases, such as student accommodation or hotels should stand to benefit. But assets with longer leases not benefiting from inflationary uplifts or those having significant cap ex budgets could struggle.

And what about "Survive to '25"? This often expressed adage in real estate circles implied a more manageable interest rate environment by now, the avoidance of widespread distress and the return of capital allocations. Does it still resonate? We expect that the Fed will be forced to proceed cautiously in what could be a tetchy inflationary environment. While a downward trend in rates is still our base case, the pace will likely be slower than last year's consensus thinking.

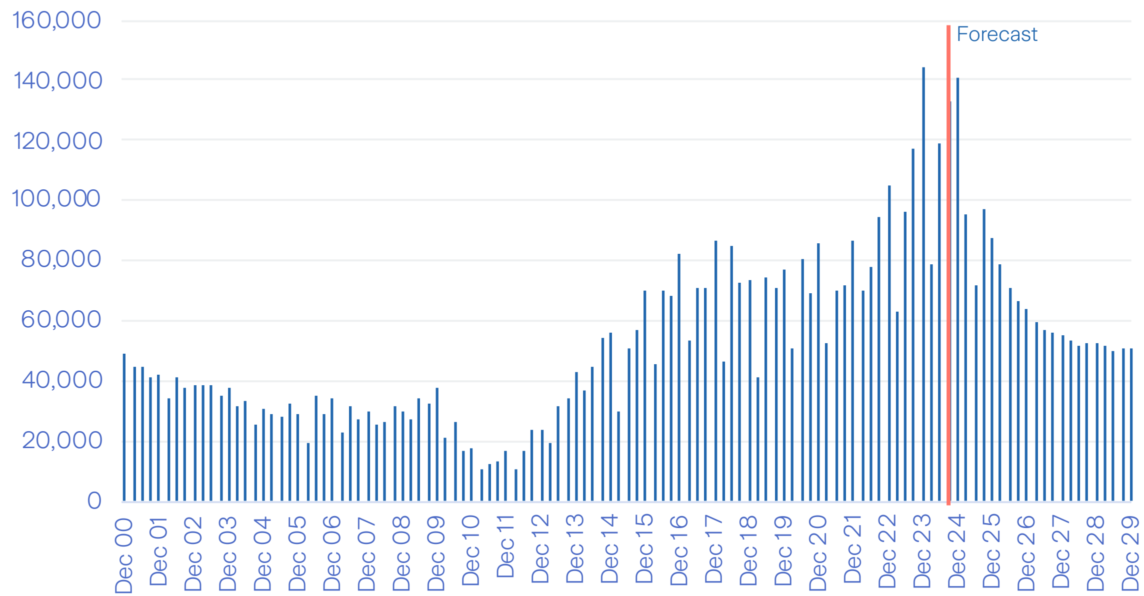
While "Survive to '26" doesn't have quite the same ring, you may be hearing it more frequently.

Figure 15: U.S. industrial availability and asking rent dynamics, %



Source: CBRE EA, latest = Q3 2024

Figure 16: U.S. rentable apartment completions, # of units



Source: CBRE EA, latest = Q3 2024

Important to note, although not our base case, strong economic growth in combination with a healthy labour market and re-accelerating inflation could even trigger a rate hike. Such a scenario would be disruptive for financial markets and could renew downward pressure on real estate capital values. With investors keeping an eye on this non-negligible risk, attitudes toward renewed allocations are likely to be mixed.

As a consequence of the forces we've highlighted here, not to mention a burgeoning fiscal deficit, U.S. Treasury yields are likely to remain volatile as they have been for the past few years (Figure 17). This suggests a more protracted real estate investment recovery timeline. While we anticipate 2025 being a better year in terms of deal flow, ultimately volumes will still lag averages seen earlier in the decade.

Figure 17: Merrill Lynch 3 month moving bond volatility index

Source: Refinitiv Workspace

But don't forget that timing matters. Given that the new U.S. administration is coming into power after the longest period of capital value declines since the GFC, it's not unreasonable to expect returns to perform in-line with past recoveries after deep property corrections. According to NCREIF, after capital values found their trough in Q1 2010, returns went onto average 12.0% p.a. over the following five years (Figure 11). That's considerably better than the average returns that either Democratic or Republican presidents have historically presided over!

Divergent Europe

Europe, in contrast to the U.S., has seen a downgrade in macro economic conditions since our last Midyear Outlook. Overall growth across much of the region was disappointing in 2024. This year looks set for more of the same: positive, but below-trend growth. This will limit the extent with which the European property market can bounce back from a multi-year funk. But, it's not all doom and gloom.

There are individual success stories across the region. Switzerland is outperforming European averages, due in part to what we chronicled earlier in the geopolitics chapter. The UK has emerged from recession, aided by a new government focussed on fiscal expansion. The all-important consumer sector is benefiting from real wage growth and an improving housing market. In the Eurozone, there has been an inversion of the rankings in the growth trajectories among the largest economies. Those responsible for last decade's sovereign debt crisis are now leading the pack as Germany and France grapple with their own structural challenges.

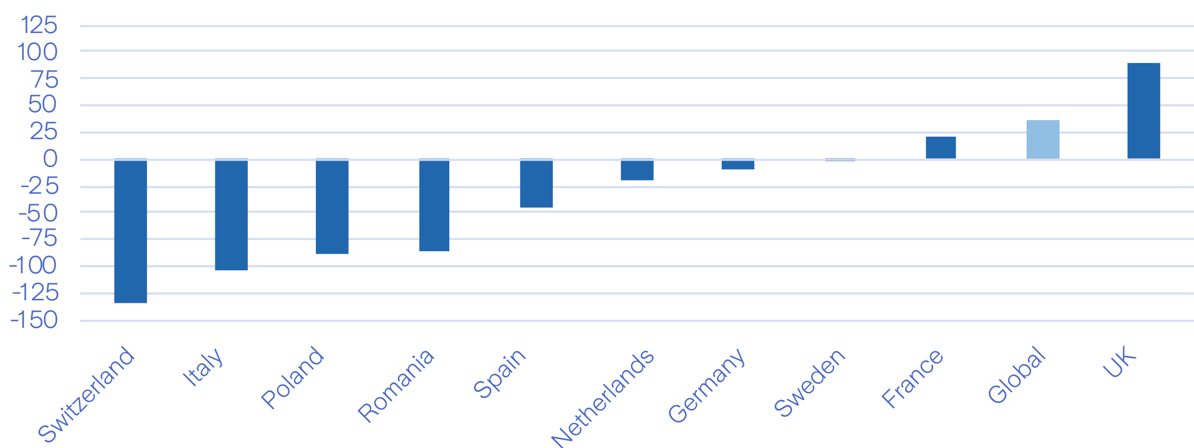
The current variation in economic activity, is a strong reminder for country diversification within a real estate portfolio.

Europe, again in contrast to the U.S., is benefiting sooner from falling interest rates. While this is a consequence of a sluggish economy, improving financing conditions will support both real estate occupational and investment dynamics. In anticipation of a lower rate regime, government bond yields have fallen during the course of 2024 across Europe (Figure 18). This means spreads to office and retail sectors are getting closer to historic averages (Figure 19). The European logistics sector differs as it has re-rated due to e-commerce induced structural disruption and unprecedented rental growth. The recent narrowing of property spreads augers well for renewed investment activity in 2025.

And where do we expect capital to flow? Investor intention surveys continue to signal new economy property sectors, including data centres, and green infrastructure for their allocations.[8] As we've **previously written**, while data centres clearly align with the advent of AI and the broader digitisation megatrend, the speed of technological advancement suggests that obsolescence risks may not be fully appreciated. Alternatively, green infrastructure offers investors a way to participate in one of the biggest investment theses of the day: the energy transition. If as an investor you have to deliver on ambitious decarbonization pledges, then green infrastructure offers an impactful outcome.

As it relates to traditional real estate, logistics and for-rent residential are still relevant, though enthusiasm for both has tempered as pandemic-related demand distortions fade. As we explored in the office chapter of the Outlook, the occupational story has evolved over the last year. It is right to expect an improvement in sentiment and ultimately investment activity. And don't forget about European retail. Grocery-anchored retail, in particular, has proven resilient despite the ease of ecommerce. And a lack of supply over the past decade means the prospect for net operating income growth is favourable as retailers right-size their space needs. In an environment where income will be the primary driver of returns, this should be prized.

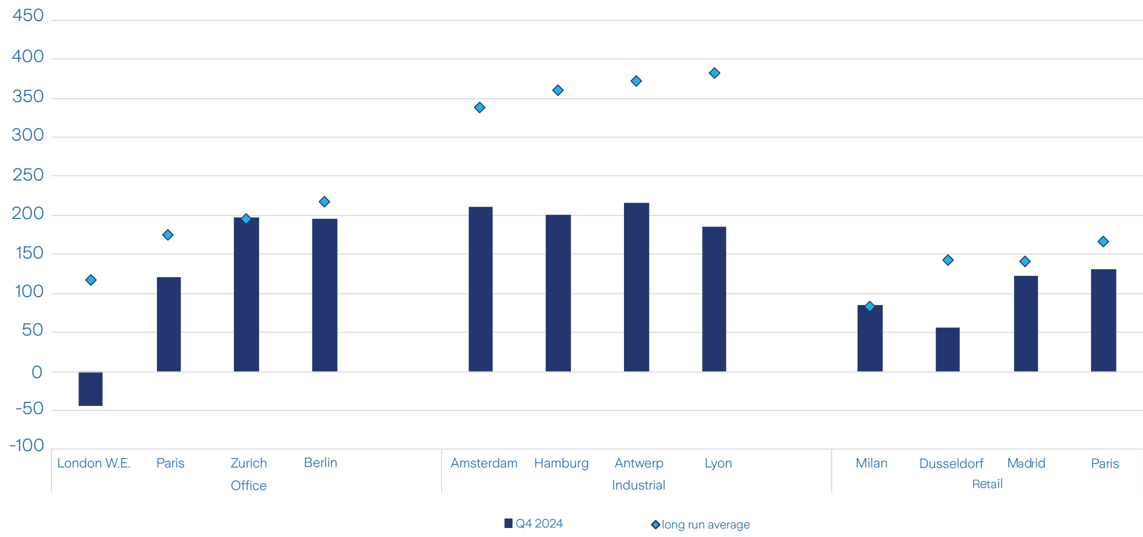
Figure 18: Change in 10 year government bond yields during 2024, bps



Source: Refinitiv Workspace

8 Emerging Trends in Real Estate®

Figure 19: Average European commercial property yield spreads to government bonds, bps.



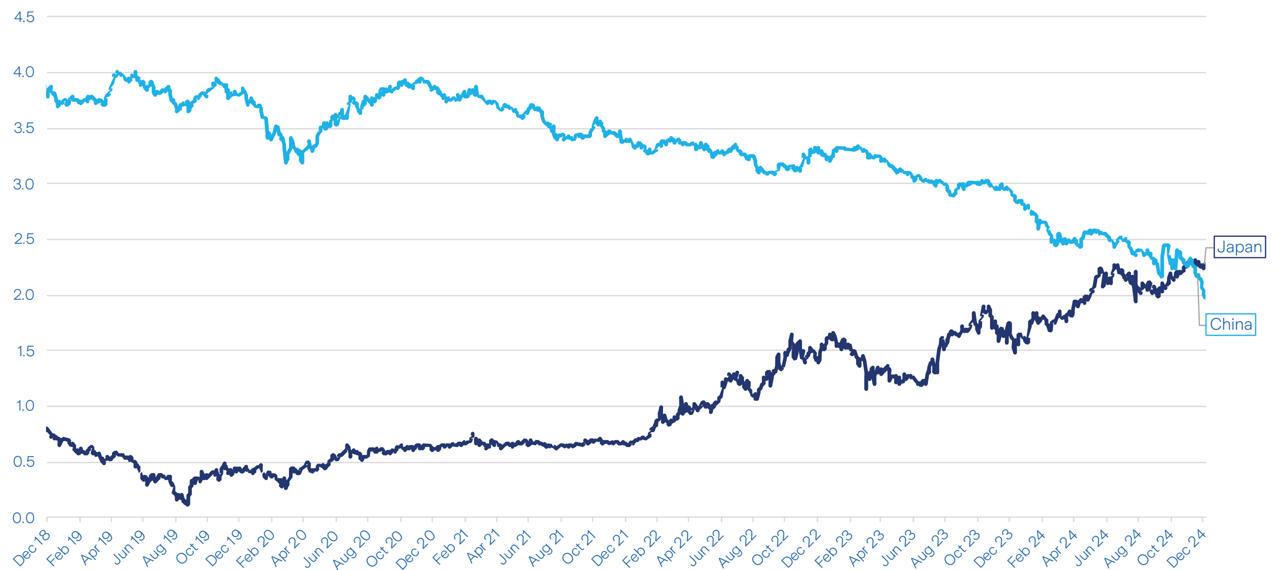
Source: JLL, Refinitiv Workspace, latest = Q3 2024

Asia Pacific: the relative winner

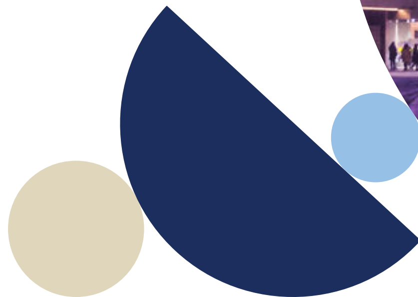
Developed Asia Pacific property markets have generally traversed the post-pandemic normalization phase better than North America and Europe. While the forces are myriad, the resilience is influenced by domestic forces, including the role of still-active local investors. But will the relative dynamism continue into 2025?

As we saw in Europe, a divergence is also visible in Asia, namely in the two largest economies. China could easily be mistaken for Japan a couple of decades ago, struggling with deflationary pressures and an eroding housing market. As a result, the People's Bank of China has pushed interest rates to record lows. In contrast, Japan appears to be exiting its roughly 30 year-long deflationary environment. Long-term borrowing costs in the two countries illustrate just how stark the change has been (Figure 20).

Figure 20: 30-year bond yields, %



Source: Refinitiv Workspace



This divergence is evident in the regional strategies that real estate fund managers are backing. China features much less prominently while Japan, despite an incrementally higher rates regime, receives greater allocation. In Japan, there is a growing confidence that while required returns are rising, rental growth should come through to deliver. This is a contributing factor why rising rates in Japan are not expected to be as detrimental to real estate performance as was recently the case in the Americas or Europe.

Elsewhere in AsiaPac, tailwinds should come from monetary and fiscal policies. South Korea and Hong Kong have already followed Western Central banks in easing interest rates. Australia and Singapore are expected to follow in 2025. The key risk of course is heightened economic uncertainty and capital market volatility resulting from the in-coming U.S. administration's trade policies. This could dampen momentum in cross-border real estate investment activity that easing rates would otherwise suggest.

There may be the temptation to view Asia Pac offices through rose-tinted glasses, especially when compared to U.S. or European markets. And while it is true that return to office rates in the region are the healthiest of the three,[9] there are other forces at play. Given the heterogeneity of the region, the office landscape in Asia Pacific is complex. Office markets in Seoul, Singapore and Japan are undergoing a typical property cycle, with new deliveries dictating vacancy and rental trends. Greater China is struggling under the weight of a weaker economy while Australia is experiencing structural change akin to Anglo-Saxon markets.

Living sectors across Asia Pacific arguably have more similarities. The region is undergoing a significant transformation driven by demographic shifts and policy intervention. Household sizes are shrinking in most markets due to delayed marriages and low birth rates. Housing affordability is a growing concern in more cities while evolving consumer preferences are also playing a role. The result is an inclination toward renting rather than owning.

Japan multi-family stands out as a highly institutional market where supply/demand balances can deliver stable net operating income. Despite well-documented demographic challenges, the market continues to be a suitable destination for core capital. Residential markets in the rest of the region are still in their infancy in terms of professionally managed multi-family rental units. This of course provides an interesting entry point. In Australia, despite the government adjusting immigration policy, we still see favorable prospects for the build-to-rent segment over the medium term.

9 Here's How People Are Returning to the Office Worldwide – The New York Times

Still Green?

The sustainability agenda is also at an inflection point. We have observed an evolution of the approach toward ESG investing within institutional real estate circles. While the effects of climate change are all around us, and acutely felt by insurance providers, there is a growing sensitivity around how the principles are discussed. In some jurisdictions ESG has become politicised and even deprioritised from investment decision-making.

> *"Greenhushing" is the latest expression to enter the vernacular.*

For other real estate investors, economic realities have hit hard. Higher interest rates have distracted some from prioritizing climate-oriented initiatives. Decarbonizing portfolios and making asset-level resiliency investments have cost components. Falling asset values because of capital market forces, complicate cap ex budgeting when there may be little perceived immediate performance benefit. This is further challenged by a lower growth environment as well as the overhang of recent build cost inflation.

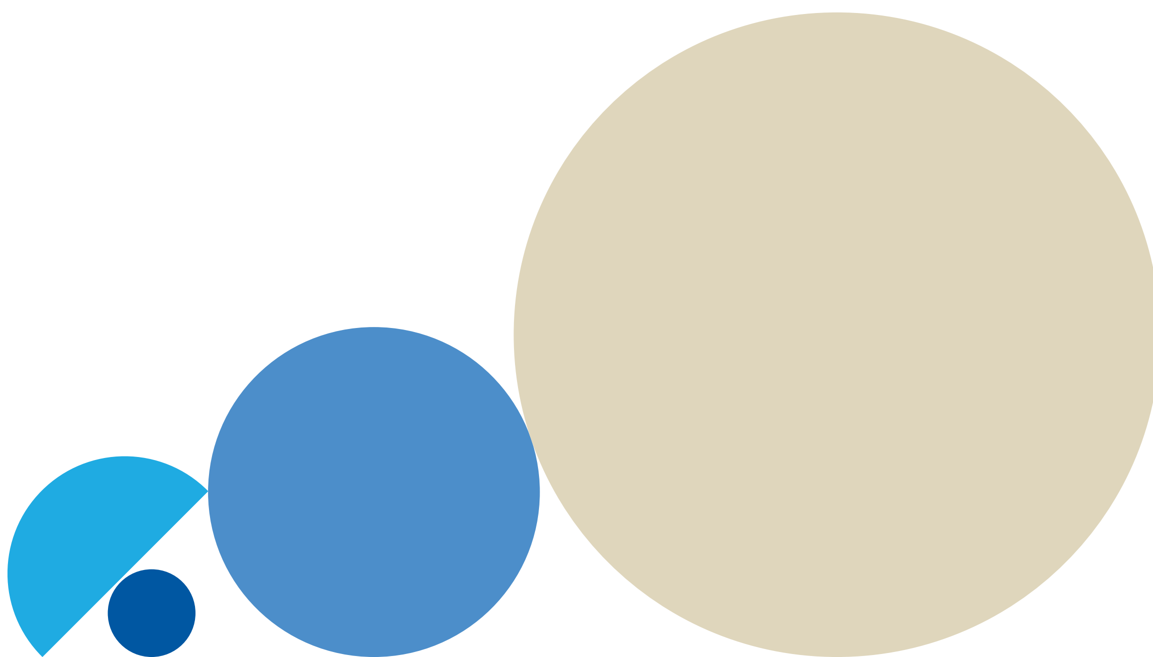
Of course this is not reflective of the entire real estate investment landscape. Corporates with a strategic focus on achieving net zero carbon targets are progressing investment strategies accordingly. In 2024, Zurich published its **Climate Transition Plan**. The direction is unequivocal. We seek to achieve carbon neutrality through sustainable practices, energy efficiency, renewable energy investments, and enhancing resilience to climate change impacts. The built environment plays a formative role in achieving this and it will continue to influence how we approach investing.

> *In 2025, we expect companies to continue pursuing ESG policies and strategies—though maybe not as loudly—if for no other reason than they see it as a good business practice.*

We also expect that the approach toward asset adaptation and decarbonization strategies will contribute to a greater divergence in real estate performance prospects.

Conclusion

After a challenging few years for the asset class, there are numerous reasons to believe that real estate markets are reaching an inflection point. In the geographies where Zurich primarily invests, valuations better reflect the current interest rate environment, occupier markets are holding up and supply pipelines have appropriately recalibrated. As a consequence, we see liquidity prospects improving and a fine vintage for returns in the making. But as we've chronicled, the story is complicated by geopolitics, structural disruption and even ESG adoption. Divergent paths ahead.



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