2025 mid-year outlook

Global M&A trends in real estate and real assets

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Capital in motion: Where are real estate investors pivoting for growth?

By Tim Bodner

Diverging dynamics within global real estate and real asset markets are creating new investment opportunities, including in international markets.

Real estate and real assets investors remain eager to deploy capital, but the optimism felt by dealmakers and across the industry in early 2025 has somewhat dissipated. In its place is a more cautious 'wait and see' attitude that stems from uncertainties around macroeconomic factors such as interest rates, GDP growth and unpredictable trade policies for some market participants. Yet many new and transformative opportunities beckon, and some international markets—from Japan and India to the Middle East—are attracting investor attention.

In the first quarter of 2025, global real estate deal volume for traditional asset classes and development assets increased by 3% compared with the same period in 2024, driven primarily by strong investment activity in the Americas and Asia Pacific regions, especially the US. However, deal volumes and values are expected to have declined in the second quarter, and they could potentially remain subdued through the rest of the year. Looking ahead to the second half of 2025, we anticipate that investors' heightened focus on market fundamentals—combined with a reallocation of capital globally—will increasingly favour international markets as key destinations for real estate M&A.

Our conviction is that the slowdown in real estate M&A activity in the first half of 2025 is not a result of weak investor demand—nor is it a reliable indicator of what lies ahead for the rest of the year. In fact, momentum is already building: according to Preqin's Investor Outlook: H1 2025, 34% of real estate investors and 37% of infrastructure investors plan to increase their capital commitments over the next 12 months.

Key themes driving M&A activity in real estate and real assets in 2025

Why the era of cap rate compression is over (for now)

The ability of real estate investors to rely on 'cap rate compression'—the decline in capitalisation rates, which are calculated as net operating income divided by property value—to drive returns has diminished significantly due to structural and macroeconomic shifts. Among these are rising long-term interest rates in the US, which have increased the cost of capital and made fixed-income alternatives more appealing, ultimately reducing buyers' willingness to pay premium prices. In a market in which property values are stabilising or declining—particularly in sectors such as office and select retail—investors can no longer depend on a passive holding strategy and market-driven appreciation to deliver returns. Instead, they must pivot to operational value creation, with a focus on real net operating income (NOI) growth. This more hands-on approach includes improving portfolio efficiency and implementing asset-specific strategies such as leasing optimisation and property repositioning.

As a result, real estate M&A activity is increasingly being driven by investors seeking strategic acquisitions that offer operational upside, platform efficiencies or repositioning opportunities.

Index

Real assets: Location, location, location

Investors are prioritising asset classes and geographies with strong fundamentals that support sustainable rent growth and resilient demand. Globally, demand for core real estate sectors is no longer uniform as investors reassess the relative appeal of each asset class and its geographic location. Understanding how these trends play out across each asset class provides insight into where capital is flowing—and why—around the world.

Office: The office sector shows the most pronounced divergence globally. In parts of Europe and Asia Pacific—particularly in cities such as Tokyo, Paris and Sydney—demand for office space is rebounding. This recovery is largely fueled by a flight to quality, with investors seeking high-quality buildings in prime locations. Meanwhile, the US office market presents a mixed picture: some areas continue to struggle with weak leasing activity, while others are beginning to show signs of improvement. Across all markets, however, those buildings that fall short of today's workplace standards and evolving tenant needs are creating greater uncertainty among investors around the growing risk of asset obsolescence.

Multifamily: The multifamily sector continues to attract investor interest globally. The sector is valued for its resilience, stable income and strong underlying demand for housing. Recent expansion into Asia Pacific and South America signals growing confidence in underinvested markets with long-term potential. Investor interest is also extending to multifamily-adjacent segments—such as student housing, senior living and co-living—which benefit from similar structural fundamentals as multifamily.

Retail: The retail real estate sector is undergoing a transformation. After several years of declining investor interest, the sector is making a comeback—particularly in high-quality, experience-led formats. In Europe, foot traffic has returned to prime locations, contributing to stronger performance. Retail properties that effectively integrate omnichannel strategies, last-mile logistics, and consumer data insights and analytics are outperforming their peers. At the same time, niche segments focussed on lifestyle, convenience and experiential retail are emerging as attractive investment opportunities.

Industrial: The global industrial sector is at a turning point. Rising trade tensions and proposed US tariff policies are accelerating the push for reshoring and nearshoring strategies, prompting investors to reassess supply chains and reevaluate the use of existing industrial assets. Industrial construction activity continues across developed Asia and parts of Europe, reinforcing confidence in the sector's fundamentals. At the same time, the data centre sector is expanding rapidly but showing regional variations: across Europe, development activity is surging, while in the US, shifts in trade policy are leading to some recalibration. Together, these forces are reshaping investor priorities across both traditional industrial assets and emerging digital infrastructure.

Chasing growth: Real estate capital moves beyond the US

Historically, the US real estate market has been viewed by both domestic and international investors as the primary destination for capital deployment. However, evolving US trade and interest rate policies—along with their impact on the US dollar—are prompting investors to broaden their mandates and take a more global approach in the near term. Increasingly, market fundamentals are shaping these investment strategies, with capital flowing towards regions that offer favourable interest-rate policies, positive demographics and strong growth potential. Key dealmaker considerations include:

Cost of capital: Over the past several months, we've seen Japan's central bank begin to raise interest rates, while others have taken action to reduce them. This decoupling of global monetary policies is creating differences in the cost of capital across regions. This in turn will influence global capital allocations decisions as investors seek markets with lower interest rates which can generate better return profiles.

Investment horizon: Amid heightened uncertainty and rising interest in capital-intensive real estate and infrastructure projects, investors are extending their investment timelines to accommodate longer value-creation cycles.

Favorable demographics: Markets experiencing rapid urbanisation and growing wealth—particularly in Asia and the Middle East—are creating demand for residential and office properties, which in turn is driving opportunities in supporting retail and industrial properties.

> 'High-growth markets are not just participating in the global real estate story, they're setting the pace. International investors are actively shaping global portfolios, with India, Japan and the Middle East firmly in their sights.'

Tim Bodner, Global Real Estate Deals Leader, PwC US

Spotlight on:

M&A markets to watch

Investor interest in Japan, India and the Middle East continues to gain traction, with recent deal activity underscoring the powerful trends shaping these high-growth markets as we move through the second half of 2025 and beyond.

Japan: Low rates and high confidence fuel real estate M&A

Index

Capital on the move: Pivoting to growth

Key M&A themes for real estate and real assets

Spotlight: Markets to watch

M&A outlook for real estate

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Japan remains a highly attractive real estate market, offering investors a rare combination of macroeconomic stability, low borrowing costs and resilient fundamentals. While the Bank of Japan began raising interest rates in March 2024—bringing them above 0% for the first time in eight years—Japan's cost of capital remains favourable compared with other major markets. This environment continues to support strong investor appetite, with deal volumes in the first quarter of 2025 rising 8% compared with the prior year period.

Investor confidence is underscored by several high-profile transactions. In February 2025, Blackstone closed on its acquisition of Tokyo Garden Terrace Kioicho, a 2.4-million-square-foot mixed-use property, for JPY400bn ($2.6bn). In the same month, Gaw Capital Partners closed on its acquisition of Tokyu Plaza Ginza, a 50,093 sqm retail asset, for more than $1bn.

Looking ahead, we expect residential, office and hotel assets to remain at the forefront of investor interest. Rents in the residential and office sectors are expected to rise further, driven by constrained supply and steady demand. Meanwhile, Japan's tourism industry is growing. According to data from the World Economic Forum, Japan's government is aiming to attract 60 million inbound visitors a year by 2030—a nearly 60% increase over 2024 levels. This surge in visitor numbers is poised to drive robust demand in the hotel sector and push average daily rates (ADR) higher over the coming years.

With its mature property markets, dense urban centres and position as a relative haven amid global volatility, Japan is likely to remain a key destination for real estate capital through 2025 and beyond.

India: Real estate's next big bet for global investors?

India's real estate sector is expected to maintain its strong growth trajectory, underpinned by demographic trends in urbanisation, rising wealth and a growing middle class—all of which are fueling demand across residential, office and hospitality asset classes. While capital from Western markets remains relatively expensive due to higher interest rates, the Reserve Bank of India's shift towards monetary easing has expanded the domestic capital pool and boosted investment activity.

India's buoyant capital markets are reflected in recent developments, including the proposed initial public offering of Knowledge Trust REIT, a joint venture between US-based Blackstone and India-based Sattva Group, targeting a raise of INR62bn ($710m). The REIT's seed portfolio comprises 48.1 million square feet of Class-A office space across 30 properties in six Indian cities, signaling strong confidence in the country's commercial real estate fundamentals.

The favourable dynamics are expected to attract increased international investment in the second half of 2025 and beyond. According to Preqin's Investor Outlook: H1 2025, approximately 40% of investors identified India as the most attractive opportunity among emerging markets. This growing interest is partly due to a shift in capital away from China, India's more favorable regulatory environment and increased activity from Japanese investors seeking access to India's growth potential.

Additionally, the Indian government's continued infrastructure investment—including a 10% increase in its capital expenditure allocation for 2026 focused on railways, roadways and power—further supports the real estate and real assets landscape. However, for India to solidify its position as a developed-market destination for capital, it will require sustained GDP growth of 8%, which could face headwinds from broader global macroeconomic influences.

Index

Middle East: Transformation acts as a magnet for real estate capital

The Middle East continues to attract strong domestic and international interest, driven by large-scale infrastructure projects, tourism growth and ambitious smart-city initiatives. While regional sovereign wealth funds and high-net-worth individuals remain active in global real estate markets, the second half of 2025 presents new opportunities for foreign investors to enter Middle Eastern markets.

In May 2025, Brookfield announced a $1bn joint venture with an Abu Dhabi–based alternative investment manager, to focus on developing and acquiring residential assets across the UAE, Saudia Arabia and other markets in the Middle East. This deal, among others, underscores the region's growing potential and its appeal as a long-term investment destination.

The Middle East's ability to sustain this growth trajectory and retain international capital will partly hinge on the stability of oil markets. As the region continues to evolve economically and attract global attention, we expect real estate investors to closely monitor opportunities that align with their long-term development priorities and that offer potential for stable, risk-adjusted returns.

M&A outlook for real estate in the second half of 2025

As we enter the second half of 2025, the global real estate landscape is shifting—and with it, so are the investment opportunities. Investors are increasingly looking beyond traditional real estate and local markets, aligning capital with asset classes and regions where growth is accelerating and fundamentals remain sound. Japan, India, and the Middle East are emerging as key markets in this rotation—driven by Japan's surging tourism sector, India's sustained economic expansion, and the Middle East's large-scale transformation initiatives. Dealmakers who act with focus and flexibility will be best positioned to benefit from this next chapter in real estate investment.

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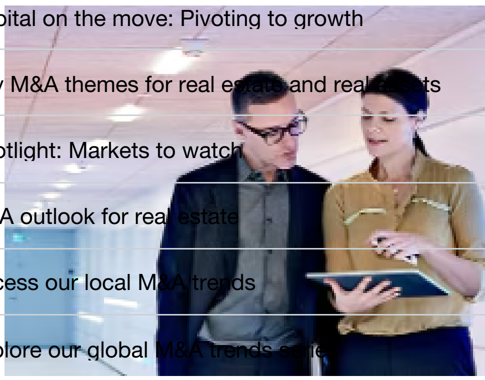

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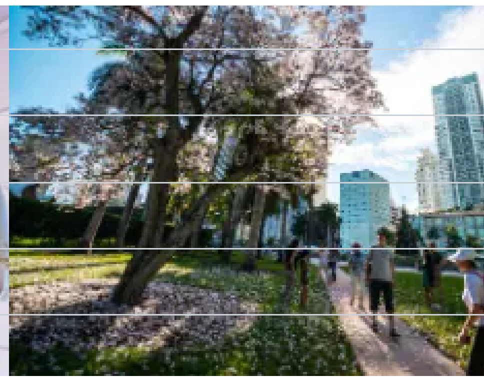

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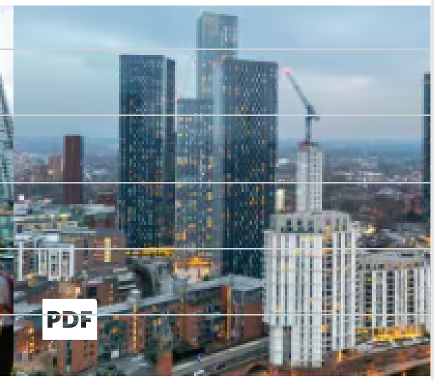

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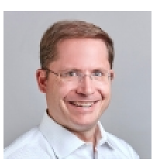

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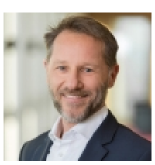

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Index