ISA by LaSalle

Insights
Strategy
Analysis

GLOBAL Outlook 2026

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Have we seen this movie before?

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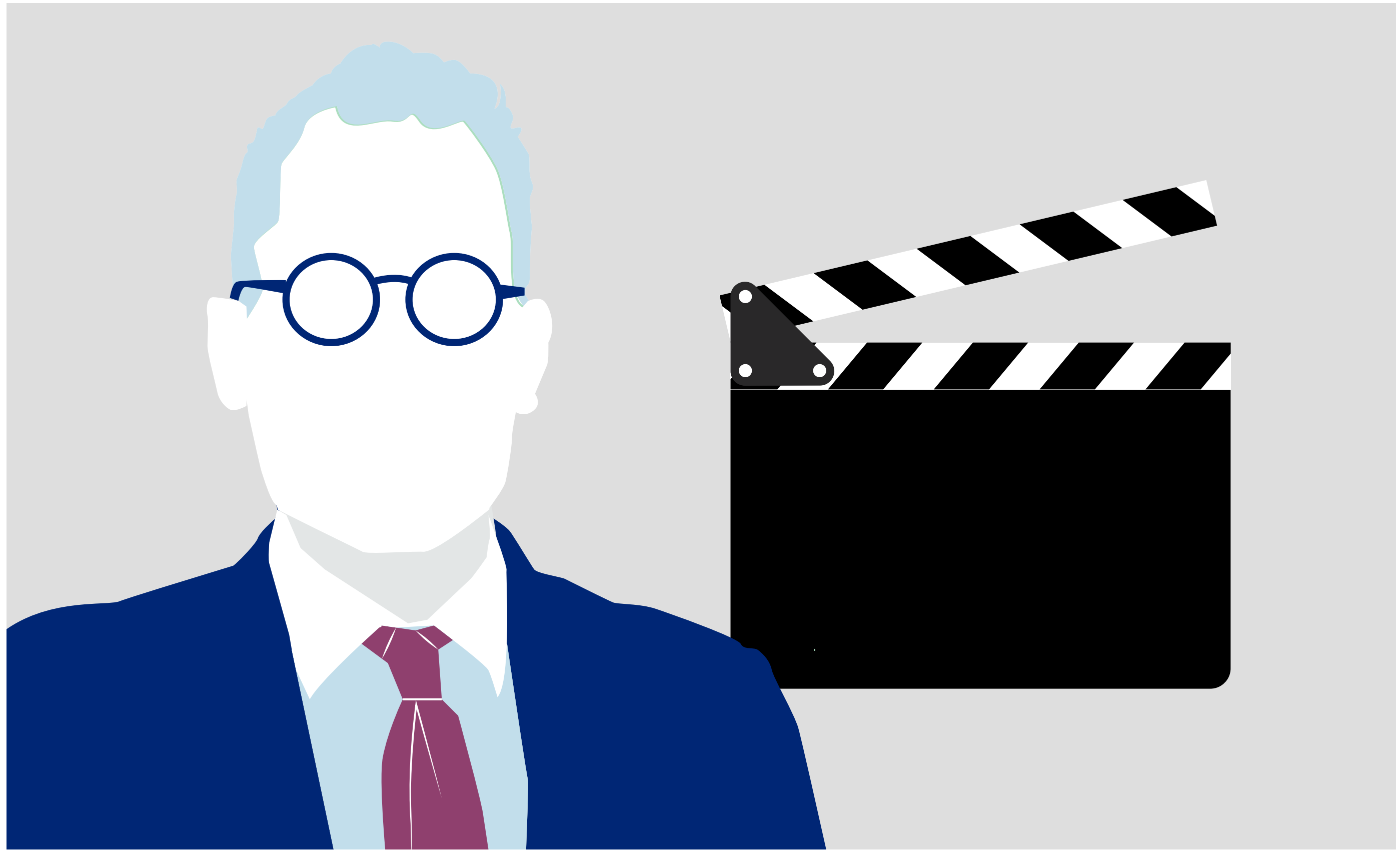
LIGHTS, CAMERA, *ACTION!*

Last year, we anticipated the dawn of a new real estate cycle. As 2025 delivered a slower recovery than many had hoped, a sense of *déjà vu* has set in, prompting the skeptical question:

"Have we seen this movie before?"

Our answer is a firm no. While 2025 may have felt like a "false dawn," values have at least now clearly bottomed. Looking ahead, fundamental conditions are aligned for a genuine turning point. Repricing is largely complete, the groundwork for strengthening occupational fundamentals is in place, and debt capital is more readily available.

We do not expect this cycle to be a sequel to past recoveries; the unique mix of drivers and risks points to an all-original story.



This year's *ISA Outlook* creatively draws on cinematic themes. We find these narratives provide a compelling framework for navigating the market's plot twists and identifying the key themes for the year ahead:

- **We're not stuck on repeat**. We continue to say, like last year, that we sit at the dawn of a new real estate cycle. However, we recognize that it may feel like we are, like **Groundhog Day**, stuck in a loop of optimism and disappointment. But we think the market will finally escape this trap and exhibit a steeper recovery trajectory.

- **Stagflation is The Phantom Menace** that stalks the global economy. We identify the primary macroeconomic risks and opportunities that real estate faces, especially political uncertainty, while assessing the powerful influence of artificial intelligence.

- **If you build it, they will come… but not without higher rents.** It is not a **Field of Dreams** for developers out there today. We expect a critical plot twist for the coming cycle—a sharp decline in new development supply—which sets the stage for stronger rental growth in the years ahead.

- **A Theory of Everything**: We explain how our Fair Value Analysis (FVA) acts as a unifying framework to screen, debate and test investment ideas across the vast universe of real estate opportunities, and how this backs up our recommendations for 2026.

- We explore these themes, and other plots and subplots, throughout this *ISA Outlook 2026*. In this report, our global team of researchers and strategists distills insights from around the world, leveraging our on-the-ground intelligence and proprietary data from the assets we manage. Our goal is to provide you, our investors and partners, a clear, forward-looking perspective on the opportunities and challenges that will shape global real estate markets. As always, we look forward to your feedback and meeting with you throughout 2026 as we take advantage of this new cycle.

Warm regards and best wishes for a successful 2026.

Brian Klinksiek
Global Head of Research and Strategy

Groundhog Day and the dawn of a new real estate cycle

"Nice goin' boys, you're playing yesterday's tape."

– Bill Murray's character Phil Connors after waking up on **Groundhog Day** for the second time in a row hearing the same radio program[1]

The global cinematic box office in 2025 has been dominated by sequels, remakes and reboots. These include **Mission Impossible: The Final Reckoning**, **Jurassic World: Rebirth**, **Zootopia 2**, **Avatar: Fire and Ash**, and **Superman**. It's only fair that we also be allowed a near repeat:

Almost four years after interest rates began to spike leading into the Great Tightening Cycle (GTC), the dawn of a new real estate cycle is clearly visible on the horizon. In LaSalle's ISA Outlook 2026, we look at how to make the most of this new dawn and the opportunities it may present, but with a watchful eye on ways the new day could go off track.

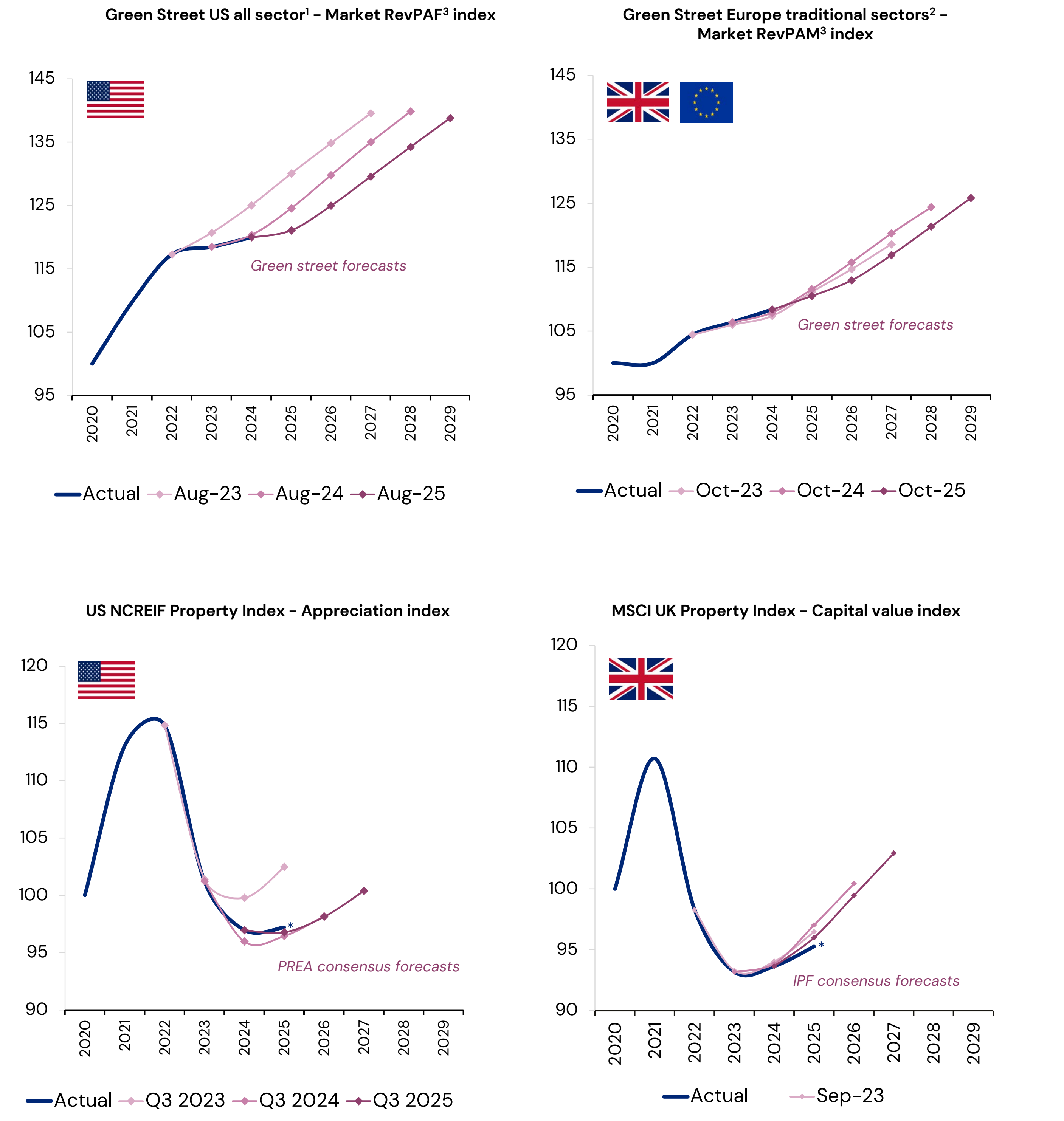
We started last year's *ISA Outlook* with almost exactly those words – we only had to flip over the counter from three to four years since the rate hike cycle began. But we're not mistakenly playing a shameless rerun! We stand by what we wrote a year ago and believe it continues to apply today.

This is true despite a rocky 2025, filled with trade policy uncertainty – peaking with the so-called "Liberation Day" – as well as political turbulence

1. Throughout this report, we reference films to help tell the story of the real estate market. In doing so, we are inspired by the writing style of Real Estate Benchmarx, the real estate strategy blog written by our friend and former colleague Simon Marx. Simon deserves credit for his excellent interweaving of market commentary and links to pop culture. All movie quotes are sourced from their respective films.

G-a | Waiting for Godot? Expected recovery keep getting delayed

Recovery forecasts by vintage, 2020=100



(1) Weighted average of 19 sectors that Green Street covers. (2) Simple average of industrial, office, residential and retail. (3) RevPAF / RevPAM stands for revenue per available foot/meter. Market RevPAF/RevPAM is a metric that combines the changes in market rents and occupancy rates to create an accurate measure of a real estate market's health. It is the combined effect of two key indicators, market rents and occupancy rates.* For NCREIF and MSCI actuals series, 2025 level is linear extrapolation of H1 appreciation.

Sources: Green Street Advisors, NCREIF, MSCI, PREA, IPF. No assurances are given that these trends will continue or materialize as expected.

“What if there is no tomorrow? There wasn’t one today!”

– Phil Connors dismayed about being stuck in a loop

IN HINDSIGHT

Looking back on key calls from last year’s *ISA Outlook* global chapter

Right / Mostly right | Remains to be seen | Not right / Not quite right

“Global transaction volumes, a backward-looking indicator of market activity, do not yet show much evidence of a recovery. However, more forward-looking indicators are starting to turn positive. For example, surveys of global real estate sentiment are now gradually improving following a long period of negativity. Our colleagues at JLL, who have a large proprietary data set on bidding trends, are seeing more bidders in transactions and a narrowing bid-ask spread.” – *ISA Outlook 2025*, page G-18

☒ Surveys of real estate sentiment were disrupted by the sudden onset of sweeping changes to US tariff policy, though have subsequently improved once more. A trend towards more competition for deals has continued in both debt and equity, but global transaction volumes are only slightly above 2024; though with important differences by sector, as fewer industrial transactions are balanced by capital returning to the office sector.

and fallout from global conflicts.[2] These events have set back the new cycle. Expectations of recoveries in fundamentals and asset values – including our own forecasts, those of external providers and consensus aggregates – have been repeatedly pushed further out into the future, especially in the United States (**see exhibit G-a** on the prior page). While values have bottomed, the recovery realized to date remains muted.

It might be reasonable to ask whether we are stuck in an unending loop; is a turning point delayed actually a turning point canceled? Like Phil Connors in **Groundhog Day**, forward progress is only achieved if we can escape the loop and start afresh. What will it take to break the cycle of optimism and disappointment? For Phil, it required a shift from self-centeredness to compassion, forming genuine connections with people and performing acts of kindness.

While those acts may be noble and lead to a better world, to break the cycle for real estate – which is often the venue for these acts of kindness and compassion – a different set of criteria must be met; at a high level we see three main ones:

1. **Repricing must be largely complete**, appropriately aligning expected real estate returns with those of other asset classes, especially bonds, while real estate valuations should begin to line up with transacted prices.
2. The conditions for **strengthening occupational fundamentals** should be in place.
3. And finally, **debt capital should be readily available** for a large swath of the real estate opportunity set.

2. For a review of the turbulent 2025 and its impacts on real estate, see our ISA Briefing publications over this period. Immediately before ‘Liberation Day’, we published a note on the impact of policy uncertainty, ISA Briefing: Working backwards: Dealing with unprecedented policy uncertainty. We looked at relative degrees of tariff-related impacts on real estate in our note, ISA Briefing: The trade war, relatively speaking: Tariffs and real estate fair value. And finally, we examined signals from the bond markets, with a focus on fiscal issues and central bank independence, in our note, ISA Briefing: Intimidating everybody? Bond markets and the real estate outlook.

In our view, these three conditions are in place today across many of the markets and sectors in which we invest. Therefore, we expect that over the course of 2026, capital markets should be kinder to real estate.

However, other hoped-for improvement factors should neither be expected nor relied upon. Luckily, they are not necessary. A reduction in overall economic uncertainty would help, but the resilience that financial markets have shown through a period of volatility[3] is encouraging. Similarly, a clear trend of falling interest rates would certainly be positive for real estate values, but it is not necessary given that value recovery can also be driven by other factors, such as income growth.

All this is why, despite the slow progress of the rebound so far, we believe that we still sit at a cyclical turning point for global real estate as a whole – even if ‘point’ is arguably a less accurate way to think of it than the bottom part of a U-shaped recovery.

Have we seen this movie before?

One reason recovery predictions have run ahead of reality is that observers were taking old market recovery templates and applying them to today. Drawing on established narratives from the past may be a safe choice for film studios looking to churn out a reliable hit. However, for forecasters of economies, financial markets and real estate markets, expecting history to repeat itself is often a problematic (if sometimes useful) approach.

As we also warned last year, we should not expect the slowly emerging new cycle to be a repeat of old ones. Many sequels are actually quite different from earlier films in their franchise; we expect this recovery to be different from earlier ones as well. The post-Great Recession recovery was driven by unprecedented monetary stimulus. The post-pandemic recovery was also supported by monetary loosening, alongside fiscal largesse and the reopening boost. Today’s unfolding recovery has a different mix of drivers and risks; it is likely to follow a different – and probably shallower – path. **While there are lessons we can learn from old ”movies,” this film will probably be an all-original**.

In this global chapter to the *ISA Outlook 2026*, we lay out our expectations for the big narrative arc of real estate’s continuing recovery. In the regional chapters, we will dig into the important subplots and side stories that make up the whole.

3. Our mid-year macro update, ISA Briefing: Keep calm and carry on? the *ISA Outlook*, six months in, pointed to a significant reduction in financial market volatility even though measures of uncertainty only declined moderately.

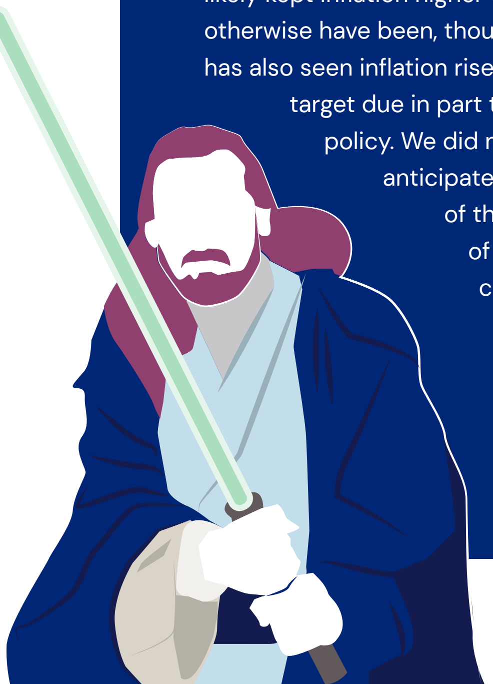
Stagflation is the **Phantom Menace** in the global economy

Recession and inflation – either in combination (as stagflation) or as opposing scenarios – are the villains that stalk the global economy. However, so far these adversaries have not made a clear appearance in the recent economic data. After moving quickly over the past five years from contractionary to inflationary shock, global growth and inflation have settled back to near where they started (**see exhibit G-b**). Global GDP forecasts have stabilized, although they have also flattened into a gradual slowing as prospects for a bounce-back from rate cuts fade (**see exhibit G-c**).

This relative calm could be because conditions are indeed set to be more benign than many fear, despite turbulent policy and geopolitical change. Or it could be owing to compounding lags – between news and its real economy impact, and between real economy impact and empirical measurability – that mean it will only be a matter of time before impacts are observed. Either way the phantom menaces of recession and inflation continue to haunt central bankers, politicians, investors and households.

"That is the sound of a thousand terrible things headed this way."

– Qui-Gon reacts to a surprise attack in **Star Wars Episode I: The Phantom Menace**

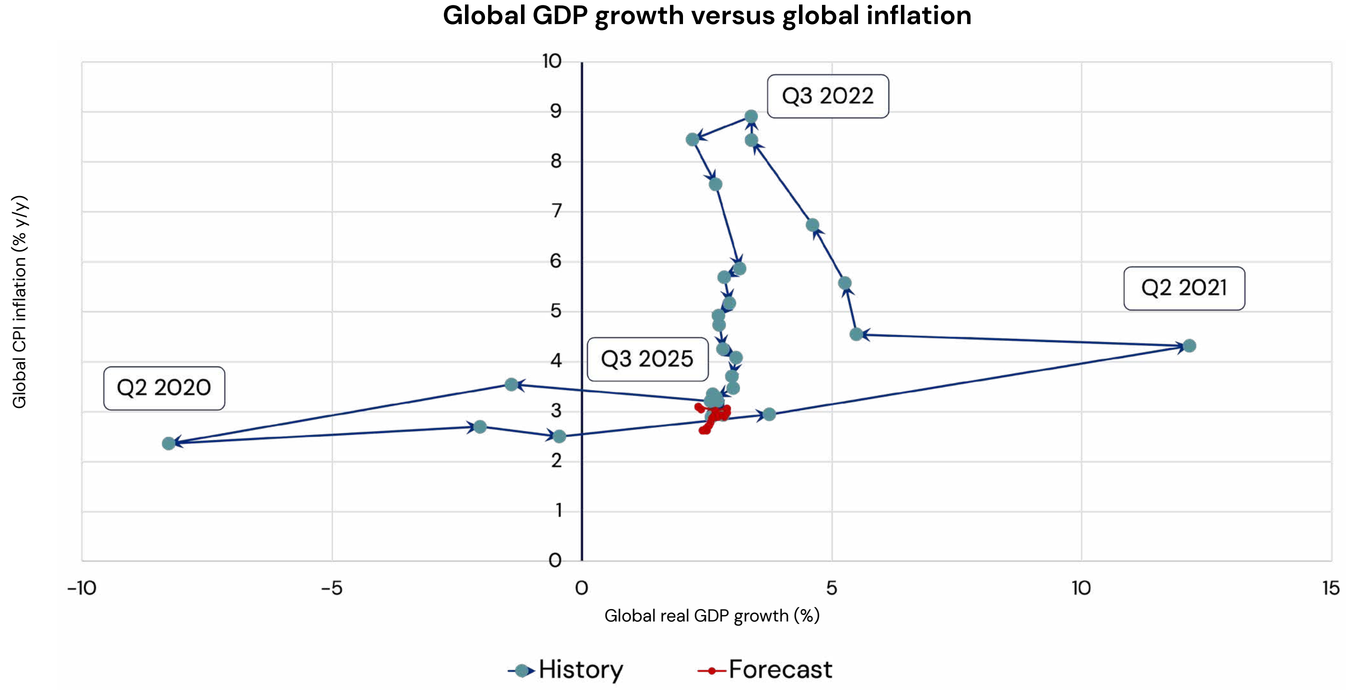


IN HINDSIGHT

"In our view, monetary policymakers are unlikely this time to cut [policy rates] as steeply, or to such a low level. And as we wrote in an ISA Briefing note, "The 'Red Sweep' and real estate," the US election result, all else equal, points to incrementally higher growth, inflation and rates." – *ISA Outlook 2025, page G-11*

As we expected, rates have fallen neither as far or as fast as the emergency cutting cycles that followed the onset of the GFC and the Covid-19 pandemic. US trade policy has likely kept inflation higher than it would otherwise have been, though the UK has also seen inflation rise back above target due in part to government policy. We did not however anticipate the magnitude of the impact of AI-focused capex spending by tech companies on US growth.

G-b There and back again: An unexpected journey by the global economy



Source: Oxford Economics, October 2025, data from Q4 2018 to Q4 2030F. No assurances are given that these trends will continue or materialize as expected.

G-c Extend and to trend – global GDP debounces

Source: Oxford Economics, latest as of September 2025. No assurances are given that these trends will continue or materialize as expected.

Following 2024's record year for democracy,[4] voters are at this moment far from satisfied with their elected leaders. There are turbulent coalitions in France and Japan, an unpopular UK government facing fiscal constraints and extreme polarization in the US. The fractious political scene is linked to a global Overton Window[5] for policy outcomes whose bounds now feel like they are in a galaxy far, far away from the mild, consensual policymaking of the pre-Great Recession world.

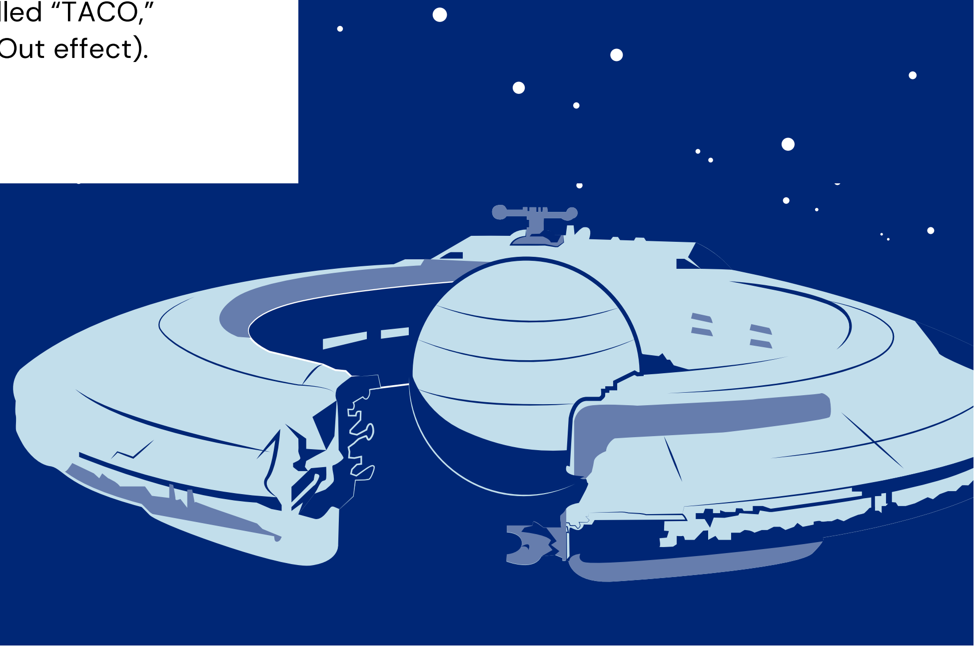
The essential example of the shifting Overton Window is the Trump administration's approach to US trade relations. The "Liberation Day" tariff announcements, though widely telegraphed, nevertheless surprised equity and bond markets with their extent. Subsequent events established a pattern that has been repeated in other contexts:

1. The US administration makes a declaration of policy via an informal medium, or outside the bounds of typical administrative process.
2. Markets take a view on the impact of that policy, tempered by a subjective assessment of the likelihood of implementation.
3. The administration modifies its policy stance seemingly in part based on that market reaction (the so-called "TACO," or Trump Always Chickens Out effect).

Though this pattern has resulted in significant modifications to several new US policies, such as the canceled Section 899 tax on foreign investors,[6] it is too blasé to assume that there are no lasting consequences from abandoned initiatives. US tariffs are much higher than at the beginning of the year; they have already distorted consumer and corporate behavior, pulling forward imports to before implementation dates, and caused shifts in global supply chains, such as Apple's relocation of iPhone production to India.[7] They have also probably contributed to US inflation.[8]

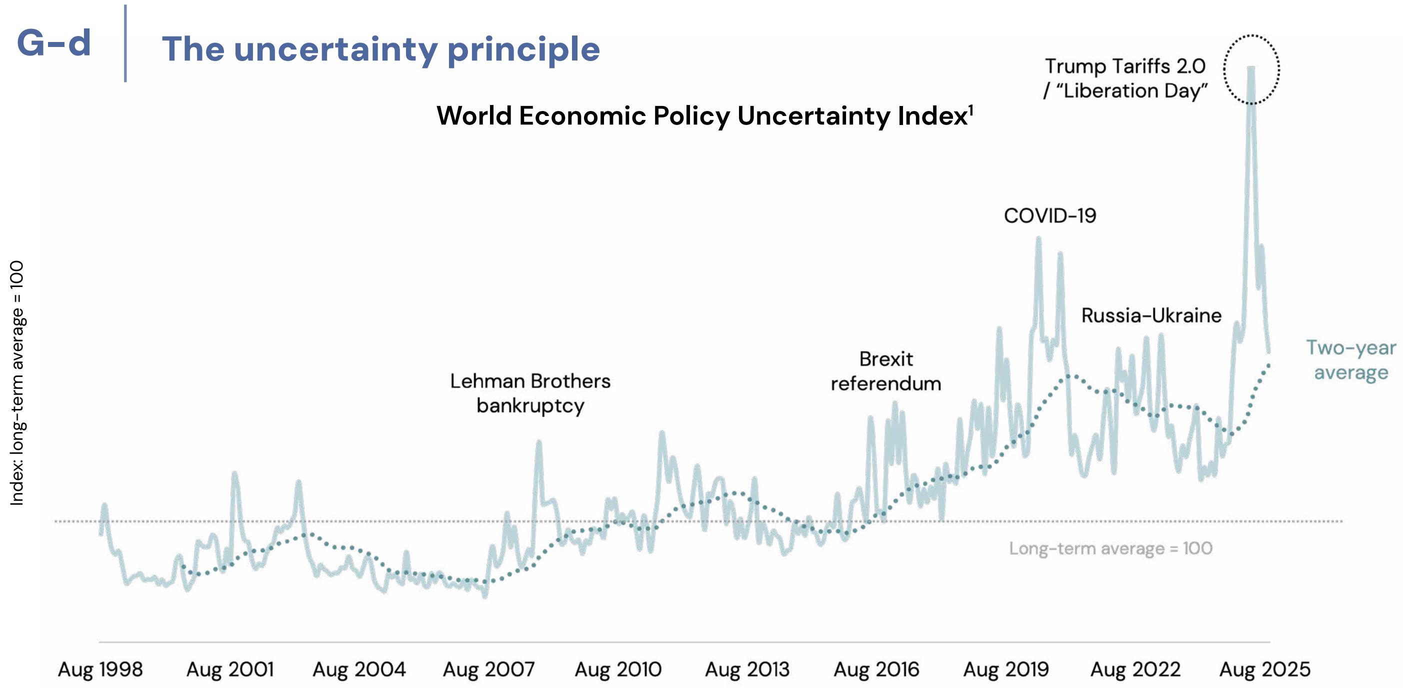
"How do you think this trade viceroy will deal with the chancellor's demands?"

- Obi-Wan Kenobi while boarding the Trade Federation ship



4. For discussion of the blockbuster 2024 election year, and how we think about political risk generally, see our ISA Briefing: Elections everywhere, all at once: Geopolitics and risk.
5. The Overton Window is a political theory that describes the range of policy ideas the public will find acceptable. This concept originated in the mid-1990s with Joseph Overton of the Mackinac Center for Public Policy. The "window" frames the array of policies a politician can support without being seen as too extreme, and the theory's central idea is that this window can be deliberately shifted over time to make once-unthinkable policies become the new norm.
6. Source: Signum Global Advisors.
7. Source: Reuters.
8. Source: Federal Reserve Bank of St Louis.

G-d | The uncertainty principle



(1) EPU Index is a GDP-weighted average of national EPU indices for 21 countries and reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy (E), policy (P) and uncertainty (U).

Source: Baker, Bloom and Davis (www.policyuncertainty.com) as of October 2025. No assurances are given that these trends will continue or materialize as expected.

Financial markets have at times seemed too sanguine about unprecedented political changes – in our mid-year update we asked whether the zeitgeist of "Keep Calm and Carry On" had gone too far.[9] Despite near-constant, almost frantic shifts in policy, financial markets were in many ways remarkably stable; US tech equities marched relentlessly upward, while corporate credit was priced at near-record tight spreads. Where bond markets have drawn a line in the sand, it has been with respect to government fiscal sustainability.[10]

Perhaps the most significant impact of 2025's policy volatility comes from the cost of uncertainty itself. Lack of policy clarity delays business investment decisions, slows hiring and causes households to delay consumption decisions.

Research suggests that a one-standard-deviation increase in a widely cited uncertainty measure – considerably smaller than recent uncertainty shocks (**see exhibit G-d**) – has historically led to a fall in business investment of the order of half a percentage point.[11] Uncertainty looks unlikely to abate any time soon. Even assuming tariff announcements are primarily a mechanism to extract concessions, periodic new threats remind us that no "deal" is permanent and raise the specter that some of the levies may stick. Meanwhile, at the time of writing, markets were awaiting several consequential US Supreme Court decisions on matters such as the legality of many of the tariff increases[12] and on the dismissal of Federal Reserve (Fed) Governor Lisa Cook.

"My lord, is that … legal? / I will make it legal."

- Nute Gunray asks whether the invasion of Naboo is permitted under law

9. See our ISA Briefing and mid-year update, ISA Briefing: Keep calm and carry on? The *ISA Outlook*, six months in
10. For more discussion of fiscal sustainability considerations, see our ISA Briefing: Intimidating everybody? Bond markets and the real estate outlook.
11. According to work by economists at the Federal Reserve Board of Governors that uses the Baker, Bloom & Davis policy uncertainty measures (available at https://www.policyuncertainty.com/).
12. Specifically, tariffs enacted under the International Emergency Economic Powers Act (IEEPA) are being challenged. If these are struck down, it is likely that the administration may try to ratchet up tariffs enacted under other statutes, according to Signum Global Advisors.

Other than any comfort taken from the TACO thesis, why has all this uncertainty not derailed the global economy? In part, it may be because the marginal impact of incremental uncertainty is less when the level of uncertainty is already so elevated, as firms and households get accustomed to it and gain confidence to press ahead regardless. Or there could a backlog of pent-up, unmade decisions, delayed during the pandemic and in the Great Tightening Cycle, that simply need to get decided.

Another reason for resilience could be the economic impact of artificial intelligence (AI); we break this down into three components:

1. Soaring stock markets pricing in a long-term earnings gain from AI is driving an **expectations-driven wealth effect**. The benefits of this wealth effect are concentrated, both in a small number of companies (primarily the so-called "Magnificent Seven") and in their shareholders' part of the income distribution. This may be a key reason why the top 10% of the US households by earning accounts for over 50% of consumer spending.[13]

2. There is an **investment boom** in direct spending on AI-related hardware, software and infrastructure. Unlike the asset-light dotcom bubble, AI involves significant capital expenditure including in physical assets. For example, capital expenditure to construct, power and operate data centers has been described as a "private-sector stimulus scheme,"[14] without which US GDP growth would have meaningfully slowed in 2025.

3. Both of the preceding are predicated on **expected productivity gains** from the actual implementation of AI throughout the real economy. Even if many AI use cases are extremely promising, hard evidence of AI-driven productivity improvement remains limited so far. Moreover, it is far from clear how AI gains will be distributed, across both firms and households. Vast capex requirements, rapid chip obsolescence and challenging unit economics suggest the largest firms may benefit the most. For households, productivity gains have tended to be accompanied by wage growth, but early indications that entry-level professional jobs will be most affected by the generative AI rollout may bode ill for recent and near-future graduates.[15]

We share in the general mood of techno-futuristic optimism; AI is probably best seen as a transformative technology that fits the mold of a "general purpose technology."[16] But the centrality of AI in the economic narrative – especially that of the US leaves equity and bond markets, GDP growth and employment vulnerable to a shift in sentiment.

**Logiport Toma Mizuno
Tokyo, Japan**

13. Source: analysis by Moody's Analytics chief economist Mark Zandi.
14. Attributed to Paul Kedrosky of MIT's Institute for the Digital Economy, the quote highlights the importance of downstream spending by the recipients of AI capex, whether corporates or households.
15. The Financial Times has referred to this effect as a "Graduate Jobpocalypse."
16. A "general purpose technology" is one with broad applicability across multiple economic sectors that enables complementary innovations and productivity gains over time. Historical examples include electricity and the internet.

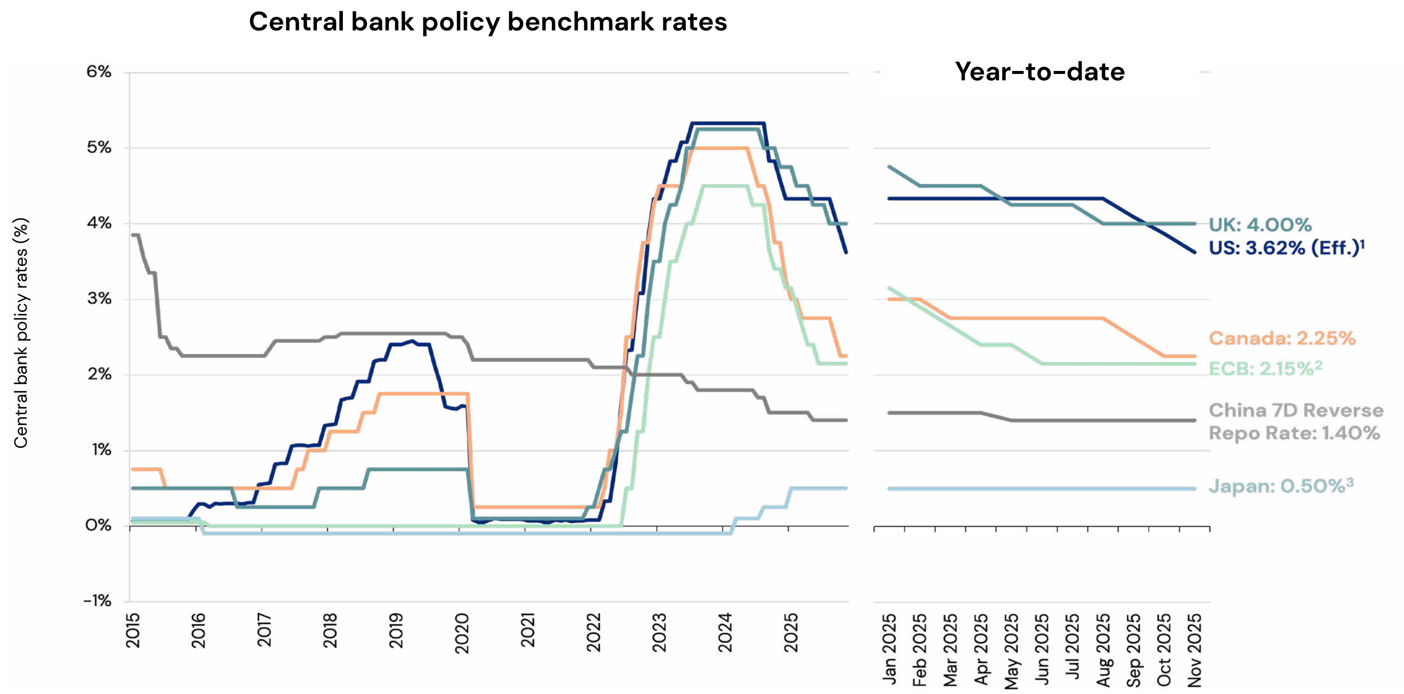
Rate divergence, hard decisions for central banks

Differing paths for, and a lack of clarity on, inflation and growth have led to widened interest rate divergences across countries, with consequences for real estate. We now see widespread year-one positive leverage in many eurozone property markets, but we cannot yet say this about the US broadly. Interest rate divergence has also influenced the relative yield impact of currency hedging, changing (for investors who hedge) the comparative attractiveness of countries.

Why the rates divide? Some central banks, notably the European Central Bank (ECB) and the Bank of Canada, were able to cut rates owing to clearly moderating inflation; they are now substantially ahead of the Fed and the Bank of England in easing (**see exhibit G-e**). But the job of the US central bank is more difficult. As in the Phantom Menace film, the Fed can try to wave a hand to attempt to steer the dice of US economic outcomes, but the tension between its dual full-employment and inflation-targeting mandates has not allowed for the uncomplicated rate cuts made elsewhere.

We consistently caution against real estate investors predicating investment decisions on specific central bank actions or on interest rate calls generally. Nevertheless, a study of the Fed's past actions can shed light on how policy may unfold. We use a Taylor Rule-style decomposition to look at how the bank has behaved when the two parts of its mandate are in conflict (**see exhibit G-f on the following page**). Overlaying actual policy on the employment gap component suggests that, even without the current dovish political pressure, Fed policymakers have treated supporting employment as their more important goal.[17] **This suggests that of the two phantom menaces, investors should perhaps put greater stock in the risk of higher inflation, than in recession risk.**

G-e | The end of lockstep monetary policy

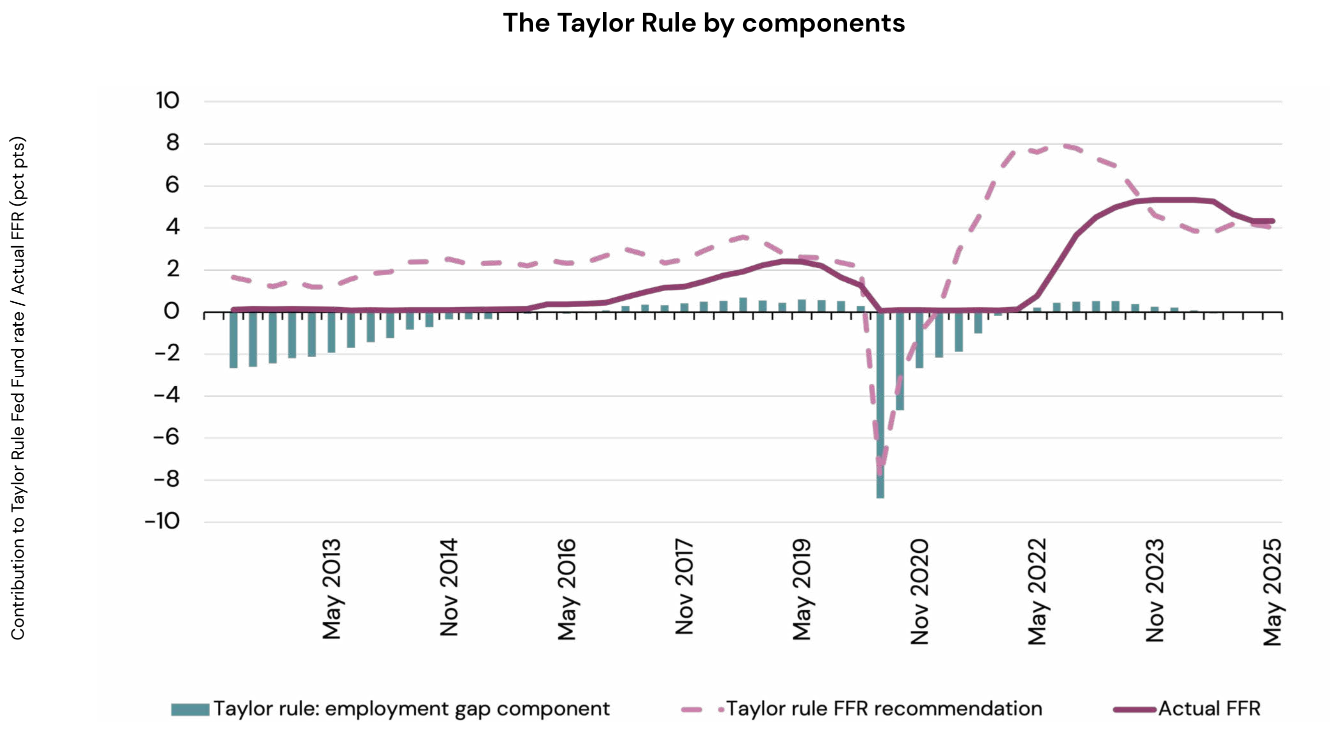


Notes 1. Effective Fed Funds rate shown rather than target range. 2. ECB main refinancing rate shown. 3. Negative interest rates in Japan apply to marginal increases to reserves. Japan cash rate / complementary Deposit Facility.

Source: Refinitiv, central bank websites, LaSalle. Data as of September 30, 2025. No assurances are given that these trends will continue or materialize as expected.

17. The Taylor Rule framework, introduced by John B. Taylor in 1993, holds that the US target Fed Funds rate decision can be decomposed into three terms: the nominal neutral rate term, gap between current inflation and target inflation, and the divergence of output from potential output (or of unemployment from full-employment). Various modifications of the original Taylor Rule have been proposed; altering the weights on the latter two terms generates different policy rate recommendations. Data and further information are available from the Federal Reserve Bank of Atlanta: https://www.atlantafed.org/cqer/research/taylor-rule. Our Taylor Rule specification above closely follows Taylor's 1993 paper – phrased in terms of the Atlanta Fed variables, we define: FFR recommendation=(RstarFOMCMedian+2%)+(0.5 *U3gapFOMC)+(1.5 *(CorePCEInflation -2%)).

G-f | Payrolls over prices at the Fed



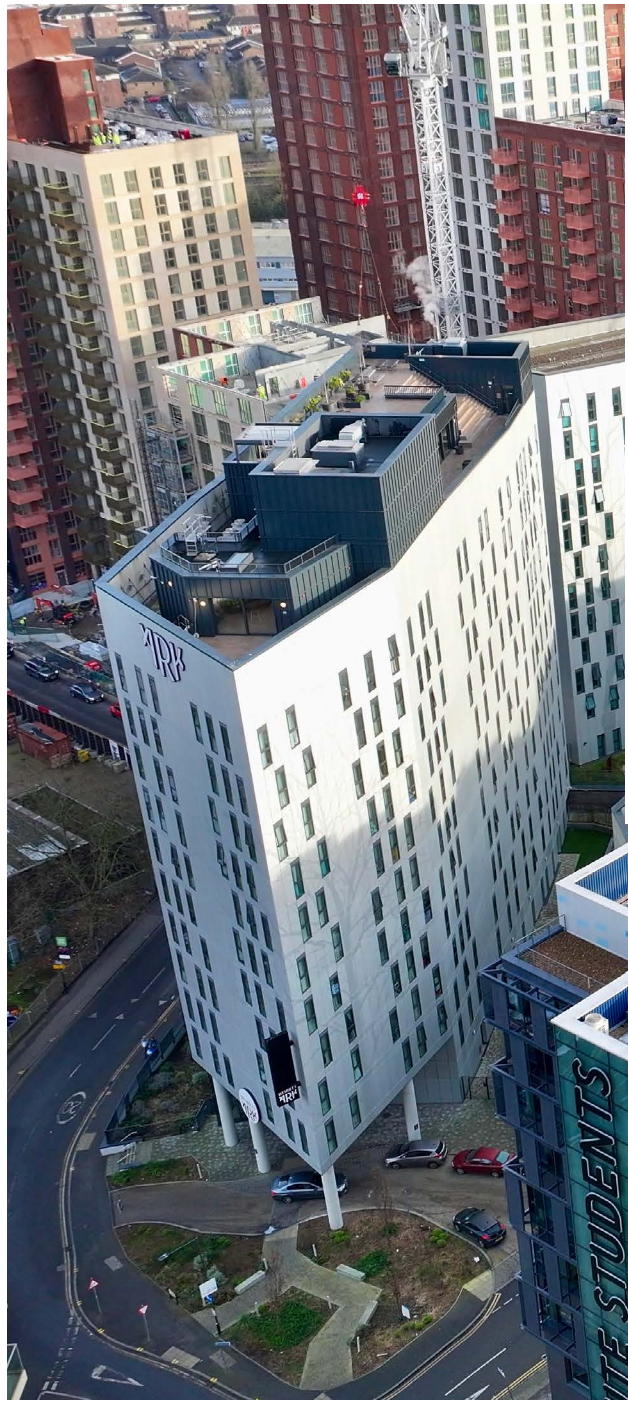
Source: Federal Reserve System, data to May 2025. No assurances are given that these trends will continue or materialize as expected.

Keeping focus amidst the noise

"Don't center on your anxieties, Obi-Wan. Keep your concentration here and now, where it belongs."

- Advice from Qui-Gon about retaining focus on what matters

Despite day-to-day noise and changeable policy announcements, the data continue to point to solid (if unimpressive) economic growth and inflation that is a little elevated but generally cooling or stable. This environment has contributed to a mostly sideways, but gradually softening, trend in long interest rates. Slower-burn worries like the long-run cost of trade barriers and fiscal sustainability issues are, of course, legitimate. But they are best seen as increasing the likelihood of incrementally elevated and relatively volatile inflation compared to history. As we have often said, such a world is not necessarily a losing one for real estate, given the asset class has the propensity to pass through inflation into cash flows.[18]




Pavilion Court
London, UK

18. There is an abundant academic literature on the question of real estate and inflation hedging. Amongst these articles are W. Brueggeman, A. Chen and T. Thibodeau. (1984), R. Fogler (1983), D. Hartzell, J. Hekman and M. Miles (1987), CH Liu, DJ Hartzell, ME Hoesli (1997) and many others. We cover the topic in greater depth in our *ISA Portfolio View 2025.*

Some markets are **Lost in Translation**

"I'm glad you're having fun. / It's not fun, it's just … it's just very, very different."

– Bill Murray's character Bob Harris responds to his wife on the phone from Tokyo in **Lost in Translation**

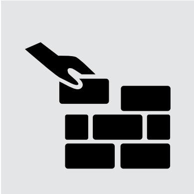
Engaging in pattern recognition allows us to find common global threads and observe how trends in one part of the world might apply to another. But we also find great value in identifying exceptions to global themes, where structural differences or other factors mean the local storyline diverges from the global plot. Three key divergences from the big picture of this global chapter are worth calling out; we will cover each in greater depth in the regional chapters that follow.

- **Japan** is learning to live with inflation. After over three decades of flirting with deflation, the country appears to have finally escaped from it. This has made Japan unique as the only major economy experiencing rising interest rates. Many aspects of its economy and real estate markets remain set up for the now extinct era of low/no inflation, causing growing pains for households, policymakers and investors. But the transition also creates opportunities for those able to transform obsolete business models; in real estate, this means identifying ways to drive rent growth in a market unaccustomed to it.

- **China** seeks to shift balance of its growth drivers. China is still working through a severe hangover from an investment and construction credit boom. While it is the US's closest competitor in the AI race, tech investment can only do so much for growth in the face of muted consumption. As such, policy has moved to be more accommodative, with the unexpected outcome that falling Chinese interest rates are converging with Japan's gradually rising ones. We see the market recovery slowly making progress in China, and in time expect it to tip into attractive value; however, opportunities are most likely to be taken advantage of by domestic capital.

European markets are diverging on several dimensions. Germany's fiscal headroom has allowed for a notable shift in fiscal policy, leading to expectations of increased public investment and defense spending. Meanwhile, many countries most afflicted by the euro crisis a decade ago, such as Spain and Italy, are now improving through growth and primary surpluses. At the same time, fiscal concerns swirl around France and the UK. All that said, this mix of positive and negative macro developments may be less directly consequential for real estate than one might expect. We have observed that the correlation between Europe's economic growth and real estate fundamentals seems to have weakened, with European property fundamentals remaining remarkably resilient in recent quarters.

To read more on these important subplots, see our forthcoming regional chapters



If you build it, they will come ... but you won't build it without higher rents

Molly Brook on Belmont
New Jersey, USA

At first glance, global real estate occupational fundamentals look like watching a sequel – arguably an unimaginative, repetitive one – of last year's plotlines. Many of the trends in key indicators such as vacancy (**see exhibit G-g**) that we highlighted in last year's *ISA Outlook* continue:

- Once-hard-hit sectors are starting to improve, with tentative stabilization evident in **office** markets and sustained tightening in many retail locations and sub-sectors.
- Global conditions in **logistics** real estate have continued to remain somewhat soft, at least relative to a long period of strength; the sector has been hit by the impact of oversupply and normalizing demand. There are tentative signs of improvement, but the logistics market is not nearly as tight as it was a few years ago.
- The rental market for US **apartments**, despite demand that surprised on the upside, continues to be much looser than during the post-Covid boom, driven mostly by excess supply. We also have seen softening in residential fundamentals in some other markets, such as the UK. As we showed in **exhibit G-a**, expectations of an improvement in fundamentals have been successively pushed out into the future over several forecast revisions.[19]

But we anticipate a twist in the plot that could make this movie anything but a repeat of last year. The key actors in this drama will be the developers, if only through their absence. Because of the current difficulty making the returns on development "pencil" – meaning hit appropriately underwritten profitability targets – they are mostly going to sit out the action until things get more exciting.

IN HINDSIGHT

"After a long period of persistent performance leadership by [the residential and logistics] sectors… we may be entering a period of less consistent relative sector performance and a narrower range of dispersion among sectors." – *ISA Outlook 2025, page G-25*

The retail and industrial sectors have been the strongest performers in the US, UK and Australia in 2025 to date, but perhaps a more noteworthy fulfilment of this call is that the range and dispersion of returns by sector across these indices is strikingly lower in 2025 compared to 2024 - a pattern we expect to continue.

19. See our latest European Cities Growth Index (ECGI) for an evaluation of the impacts of increased defense spendings on various European geographies

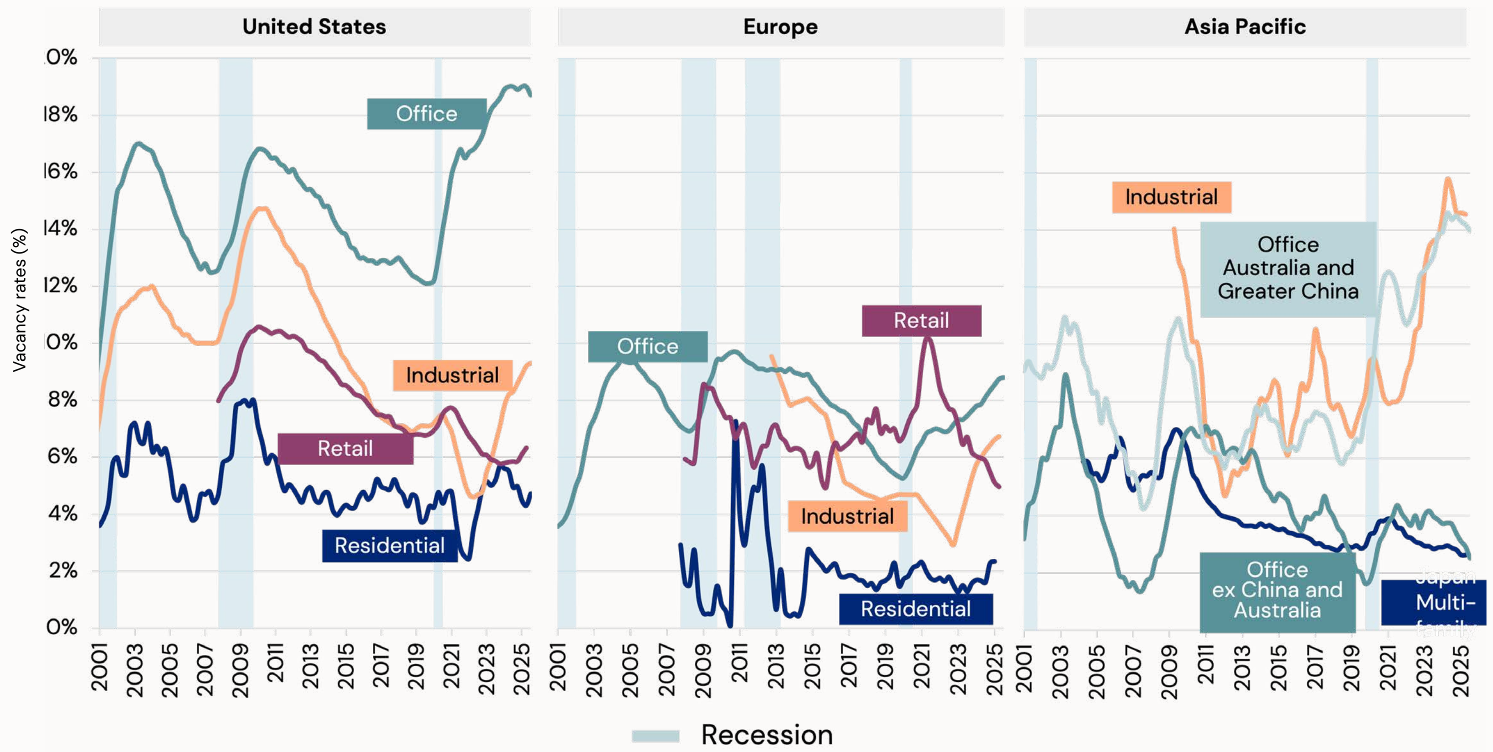
"People will come. / What people, sweetheart? / From all over!"

- Kevin Costner's character Ray Kinsella insists that people will come to his new baseball diamond in Field of Dreams

For developers, a plot of land is a Field of Dreams upon which something of greater value can be constructed. Like Ray Kinsella in the 1989 film of that title, they risk significant financial loss to create something they expect will attract users, but cannot know for sure. They take this risk because they stand to gain handsomely if they are right and manage to create new real estate assets that are in demand from occupiers and investors.

G-g | Pockets of strength, stress and stabilization

Vacancy/availability rates by sector and region



Notes: Availability shown for industrial and retail; Retail includes community and neighborhood centers.

Source: The Association for Real Estate Securitization (Japan multifamily), as of Q2 2025; Ichigo Real Estate Services (Japan logistics), as of Q2 2025; JLL REIS (all other markets except Japan logistics and multifamily), as of Q3 2025. CBRE-EA (Sum of Markets), CoStar, RealPage Analytics, LaSalle, JLL (Europe office and industrial), MSCI (Europe residential and retail). Data through Q3 2025. No assurances are given that these trends will continue or materialize as expected.

Tri Postal Apartments
Bordeaux, France

Across global real estate markets, we see many examples of locations and sectors where there is strong underlying demand for real estate relative to the available supply. For example, there is a broad shortage of housing of almost all types in many developed countries, with the quantum and quality of the inventory having failed to catch up with demographic shifts and migration. Even in the office sector, we see a shortage in many markets of the very best quality workspace, space that facilitates collaboration and makes coming to the office compelling.

But despite this strong demand, at today's rents the profitability math of development does not work in many sectors and geographies. This is due to a combination of factors, including construction cost inflation, costlier development debt and higher exit yield assumptions.

One side effect of generally unattractive development economics is that there are widespread gaps between current values and replacement cost. This environment has created challenges for development firms that go beyond the short-term issue of having few viable projects to pursue today, to include questions about how they will pay for maintaining the organization's capabilities and be ready for when the numbers do work again.

"We are having moderate to heavy financial difficulties here!"

- Ray's wife Annie warns him against continuing to build the baseball diamond

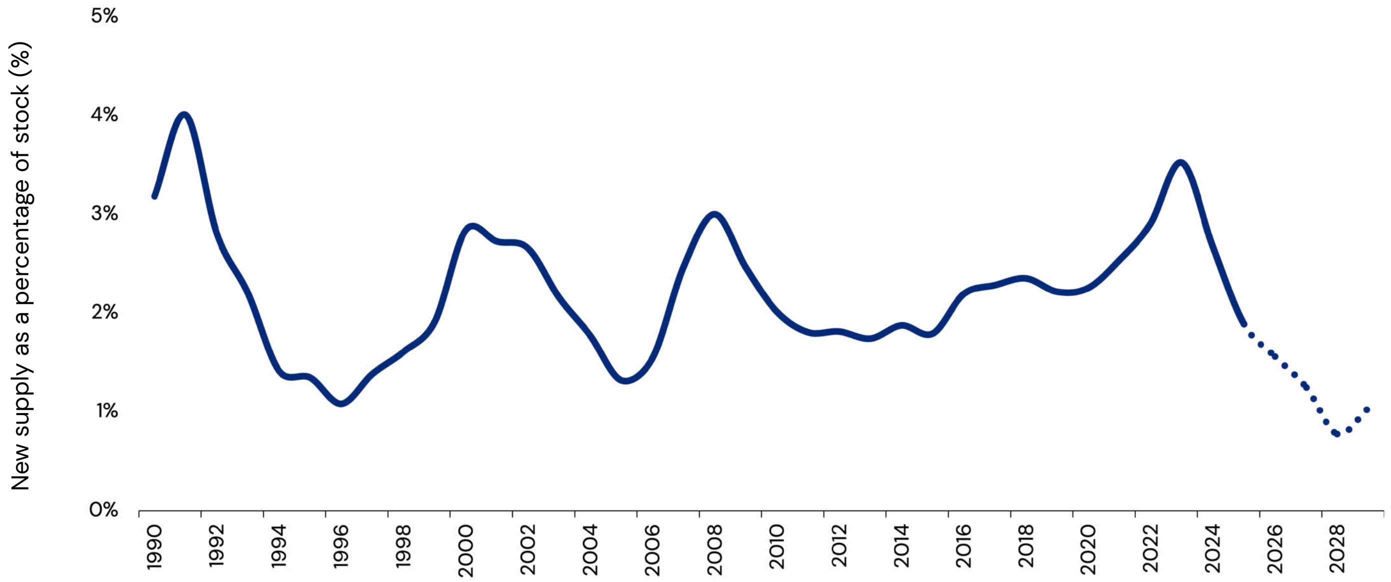
The net result of this is that supply is falling sharply across a great many of the sectors and markets we track, and it is expected to continue to decline (**see exhibit G-h**). Moreover, projections suggest that new supply is likely to continue falling for some time, possibly to all-time lows. This sets up the likelihood of stronger rental growth. Simply put, unless cap rates fall significantly, **rents must grow if incremental new demand for space is going to be met.**

The challenges faced by the development market also imply that, wherever the numbers do happen to work, there may be attractive investment opportunities to participate in funding development projects or recently delivered assets in their early stabilization phase. One way to play this that insulates the investor from making precise bets on uncertain development is to do so through debt; this allows for structuring around differences between a sponsor's more bullish expectations and the lender's more conservative view. In addition to debt, we see expanded opportunities for repositioning, repurposing and conversion as stand-ins for development.

Like in the **Field of Dreams**, if you build it, they will (probably) come. But in many markets, the rents need to be higher if you are going to build it!

G-h | If they come, will you build it? Post-pandemic construction boom abates

Global new supply as percentage of stock



Sources: Data through 1990 to 2029F. MSCI, JLL, PMA, LSEG, LaSalle calculations. Includes data on office, residential, retail, industrial stock in Europe, US, Canada, Australia, China, Hong Kong, Japan, Singapore, South Korea as available, weighted by LaSalle's estimates of the institutional real estate investment universe. 'New supply' may mean net change in stock, net additions, or completions as data availability allows. No assurances are given that these trends will continue or materialize as expected.

Fair value as **The Theory of Everything**

The macro environment is characterized by both reasons for optimism and causes for concern; real estate income fundamentals are mostly solid and likely to be supported further by a dearth of new supply. Against this backdrop, what should an investor buy from the vast menu of options? And what should they sell?

Scanning the whole investable universe of real estate for opportunity is no small task in an asset class defined by heterogeneity. Our most recent work estimates that there is over US $66 trillion of income-producing property in the world, and the future of each property is determined by a galaxy of factors at scales from the global to the purely idiosyncratic. However, as in quantum theory, even knowing the whole history of these factors cannot convey certainty over the future trajectory.

Malera Gifu
Motosu, Japan

"One single unifying equation that explains everything in the Universe."

– Eddie Redmayne's Stephen Hawking in **The Theory of Everything**, explaining what cosmologists worship

IN HINDSIGHT

"Although REITs now trade at a premium to net asset value (NAV), listed real estate appears primed for a strong run. While a superficial view of NAV premia suggest that REITs again look expensive relative to private real estate, a recent move to an NAV premium can also be interpreted as a strongly positive sign for REITs and real estate as a whole." – *ISA Outlook 2025, page G-33*

Though REITs were trading at a premium to NAV when we wrote last year's outlook, listed real estate as a whole endured a re-rating following the inauguration of the new US administration, and along with the rest of the "S&P 493," has remained outside of the narrowly-distributed pricing gains that have accrued to the tech sector. However, we continue to believe that real estate securities are well-equipped to perform strongly.

While it's not possible to reduce the entire investment decision-making and strategy-setting process to a single equation, the Law of One Price gets us close. To be attractive, an investment must be anticipated to generate a prospective return that is at a minimum commensurate with the returns available on other similarly risky assets. Discounts and premia to the appropriate risk-adjusted return level should converge over time to fair value, creating opportunities for outsized returns, or at least outperformance versus the competition.

Fair Value Analysis (FVA) – our Theory of Everything – is a comparison between two estimated values. On the one hand is **expected returns**, our best-effort forecasts of the returns to different property types in different geographic zones. On the other is **required returns**, a build-up from bond yields that adds a premium for the risk involved. Our FVA process is designed to be flexible enough to incorporate both quantitative and qualitative insights from a wide a range of colleagues across the firm.

As important as the final point estimates produced by the analysis is the discussion around the inputs and decisions about how to weigh different views of the future. Like Russell Crowe's John Nash in A Beautiful Mind, FVA believes in assigning a value to things. These can be flexibly updated to reflect different views, untangling myriad possible future states. Will bond yields be lower? This may allow yields to contract, but what does it imply about growth? If inflation is higher, will the income effect predominate, or will financial conditions tighten as central bank intervention is priced?

To the extent that FVA reflects market medians, it can also highlight deal-specific characteristics that may help an investment outperform. Can an asset be secured for a below-market price? Can income grow faster than forecast via refurbishment or repositioning? Does cost of capital or currency characteristics systematically alter our required return? Our FVA estimates are not deterministic, and merely vanishing below the expected return < required return "event horizon" does not mean a segment is lost forever. On the contrary, if our FVA assumptions are anything close to correct, the return of overpriced and underpriced assets back to equilibrium would be the expected outcome of being right!

"I don't believe in luck, but I do believe in assigning value to things."

– Russell Crowe's mathematician John Nash in **A Beautiful Mind**

Our picks for 2026

Our strategic recommendations for 2026 are summarized in exhibit G-i. Each of these is supported by deep-dive analysis by LaSalle's Research and Strategy team and enhanced by on-the-ground intelligence from our investment teams. However, the key prism through which ideas are screened, debated and tested is that of our theory of everything: Fair Value Analysis. Our recommendations for the year ahead include:

- Identifying top conviction **segments of the market with uniquely compelling risk/return drivers** that drive exceptional demand and/or unique supply constraints, such as industrial outdoor storage (IOS), US affordable housing and European outlet centers.
- Building a **permanent allocation to real estate debt** for its attractive risk-adjusted profile and overall stabilizing contribution to portfolio performance.
- Targeting strategies that **respond to unique macro themes**, such as seeking growing cash flows from Japan's return to inflation through living sectors investment or identifying markets in Europe positioned to benefit from increased defense spending.[20]
- With real estate broadly repriced, more **generalized investment into fairly-priced segments** of the market makes sense for core and core-plus investors with medium- to long-term time horizons. In some segments, attractive value is fairly broadly available (such as in much of logistics); in others, more narrowly selective market-targeting is required (e.g., self-storage, US apartments, and Japan/Australia retail).

The specific recommendations will be explored in greater depth and detail in the regional chapters.

20. See our latest European Cities Growth Index (ECGI) for an evaluation of the impacts of increased defense spendings on various European geographies.

G-i Theory into action

LaSalle's global strategy recommendation matrix – 2026

	North America	Europe	Asia Pacific
Top conviction calls	Industrial outdoor storage US affordable housing	Leveraged core Outlet centers London and Paris, central office repositioning Back-leveraged debt	Japan living and hospitality strategies in high-demand locations
	Active listed securities as attractive entry point		
Attractive relative value	Logistics US and new generation Canada apartments Senior housing Transitional lending	Multi-tenant logistics Flexible living in Spain and Portugal Continental retail	Singapore CBD repositioning Australia PBSA and other living
Selectively attractive value	Self-storage Medical offices Canada office Development	Mispriced high street Conversion of offices to living Leased hotels	Seoul and Japan office Japan and Australia non-discretionary retail
Caution	US office Life science	Offices in peripheral locations, secondary cities Full-service hotels on management agreements	China and Hong Kong (excluding rental residential) Australia office

LOOKING AHEAD

"Do you know what today is? / No, what? / Today is tomorrow. It happened!"

– Phil Connors wakes up to find that this morning is not yet another repeat of **Groundhog Day**

- Characterizing 2025 as a "false dawn" does not give the past year enough credit for progress made. Indices of asset value bottomed out and are gradually turning positive in key markets, and debt availability returned in earnest. Repricing is mostly complete, and values are now better aligned with pricing. **Will the groundhog see his shadow, signaling six more weeks (or months or years) of real estate winter? We don't think so.**
- Though the world economy appears to be in a mostly sanguine balance of solid growth, elevated but not uncontrolled inflation, and easing financial conditions, there are reasons to think this status may be fragile. Vulnerability could come from both new policy shocks, or simply the costs of extended adaptation to already known changes, such as new barriers to trade and immigration.
- While we would caution against becoming paralyzed by all the noise, investors should certainly seek strategies resilient to volatility. In the longer term, the likelihood of relatively elevated inflation makes investments whose income is more likely to "float" with nominal incomes especially attractive.
- After racking up success after success after the Great Recession, tracking real estate as an asset class over the past few years has felt like watching an underdog flick. Despite our optimism for a new cycle, real estate still feels like a scrappy contender compared to recent champions like large-cap US tech stocks. But like underdogs such as the 1995 Springbok rugby team in **Invictus**, or Rocky Balboa in the **Rocky** films, real estate has a secret weapon. That secret advantage is its cash flows' propensity to pass through inflation.
- **In a world where inflation is likely to remain elevated and volatile relative to history, we recommend a laser focus on real estate cash flows.** Realizing growth in them through market action or active management is a far more viable path to victory than waiting for yields to collapse.

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