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REAL ESTATE CONVICTIONS



"While early 2026 was expected to mark the beginning of a recovery, rising geopolitical and financial uncertainties have led both real estate investors and occupiers to adopt a more cautious stance. In this environment, geopolitics is once again influencing markets, redefining how living and essential-services related assets are valued: occupiers are looking for greater flexibility without compromising efficiency, while investors are placing renewed emphasis on secure, income-generating assets. In a wait-and-see climate, the advantage may well go to those able to move swiftly and position themselves early in this new cycle of opportunities." Henry-Aurélien Natter, MRICS, Director of Research

INTERNATIONAL ENVIRONMENT: The Middle East conflict is reigniting uncertainty

While the market appeared to have entered a recovery phase at the end of 2025, with momentum expected to carry into 2026, confidence has been dampened by the outbreak of tensions in the Middle East. Despite the ceasefire signed in early April 2026 between Iran and the United States, the situation remains fragile, and the consequences of the conflict, particularly on energy and food markets in the near term, could continue to be felt for several months.

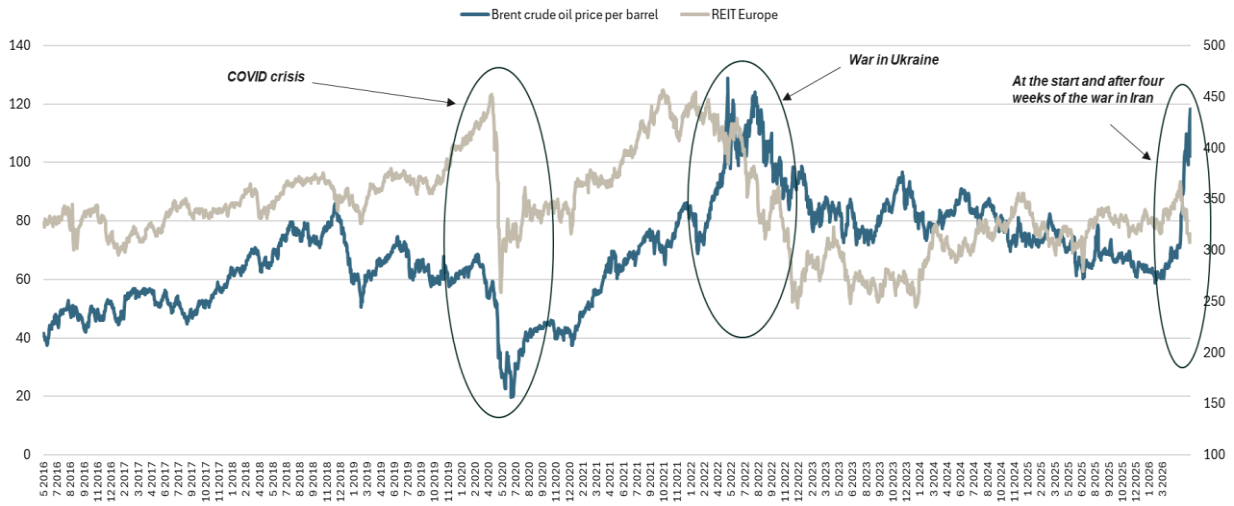
At this stage, the central economic outlook scenario remains that of a short-lived energy disruption, with limited macroeconomic and real estate impact. This assumption currently commands the broadest consensus. The key areas of concern are as follows: the duration of the conflict, the potential for a prolonged closure of the Strait of Hormuz, and the particular vulnerability of gas markets. At present, markets and economists are leaning toward a transitory shock scenario, while acknowledging that tail risks have increased. Two scenarios are prevailing. The first is the base case, involving disruptions to energy flows. The expected consequences would include logistical bottlenecks, heightened market volatility, and a limited economic impact.

The second scenario would involve a prolonged closure of the Strait of Hormuz or the destruction of energy infrastructure. Potential consequences would include oil prices exceeding $100 per barrel, a global inflationary shock, and a marked slowdown in growth. **The likelihood of this downside scenario has increased significantly in recent weeks.**

In this context, global GDP forecasts have been revised downward and are now expected to grow by just 2.9% in 2026 (vs. +3.3% in the previous quarter). Under its adverse scenario, the IMF does not rule out a broad-based recession in the event of a prolonged conflict, a situation that has occurred only four times since 1980. However, this is not the base case at this stage.

As for inflation, after having been considered under control, it has picked up again following the oil shock triggered by the conflict in Iran and is expected to continue rising, driven by energy prices and supply-side disruptions. While inflation is trending upward across all current scenarios and could potentially trigger a negative spiral, the magnitude of the increase varies. In the downside scenario, inflation would reach new highs, prompting central banks to adopt a markedly restrictive monetary stance. This could lead to sharp market reactions and further weigh on global demand.

Spikes in oil prices tend to coincide with sharp corrections in REITs



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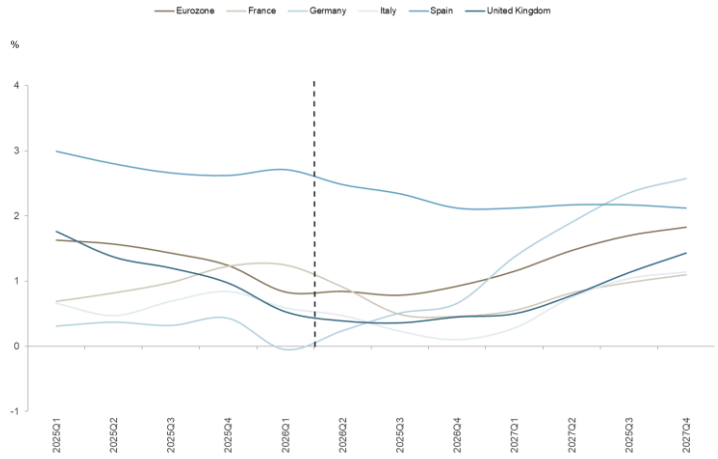
In this unsettled international context, growth in the euro area has also been revised downward to 0.8% for 2026 (vs. +1.0% in the previous quarter). The war in Iran could lead to sustained increases in oil and commodity prices, heightening the risk of persistently elevated inflation in Europe, given its strong reliance on energy imports. Against this backdrop, while the European Central Bank continues to allow room for de-escalation, it could be forced to adopt a less accommodative monetary policy if underlying inflation were to rise excessively. Despite these risks, the European economy is showing a degree of resilience, although growth remains fragile and constrained by limited fiscal headroom. Investment in infrastructure, the energy transition, and artificial intelligence nonetheless represent a medium-term support for economic activity.

After a period of slight compression, bond yields have come under upward pressure amid rising uncertainty. This shift reflects several dynamics: expectations of inflation now seen as higher due to the energy shock triggered by the conflict in the Middle East; the European Central Bank's willingness to maintain a restrictive stance for as long as necessary to secure its 2% inflation target over the long term; persistently elevated fiscal deficits; and a still-high level of overall uncertainty.

In this context, while real estate's structural advantage in periods of inflation was confirmed between 2022 and 2023 relative to other asset classes, it is not systematic. Asset selection has become more critical than before, and with vacancy risk remaining elevated across most segments, not all assets will display the necessary fundamentals. *Assets with long leases, strong tenants, and prime locations will offer a degree of protection, which is key to performance in the current cycle.*

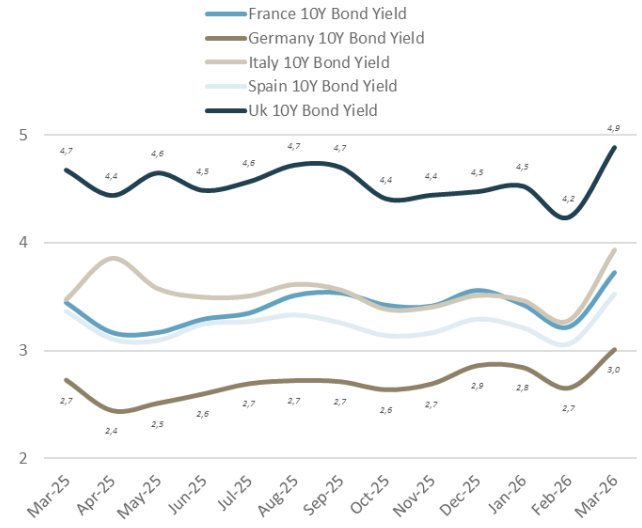
Quarterly GDP of the main countries in the eurozone (+UK)



Annual GDP of the main countries in the eurozone (%) (+UK)

Country	2025	2026 (p)	2027 (p)
Spain	2,7	2,4	2,1
Netherlands	1,9	1,4	1,2
United Kingdom	1,3	0,4	1,0
Euro zone	1,5	0,8	1,5
Italy	0,7	0,4	0,8
France	0,9	0,8	0,9
Germany	0,4	0,3	2,1

10-year government bond yields (%)



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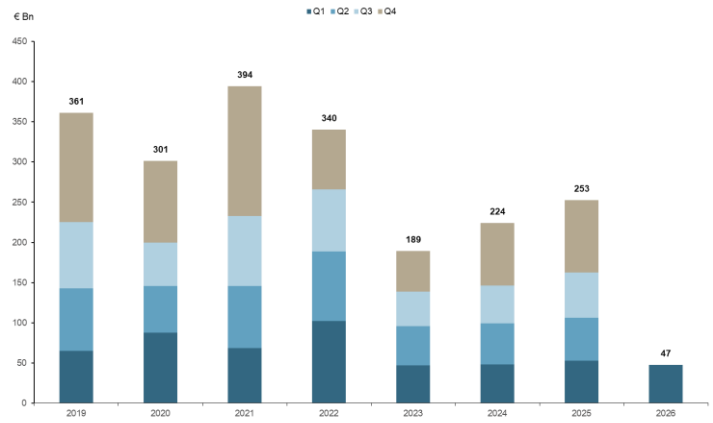
EUROPEAN REAL ESTATE: investment resilience driven by pre-conflict commitments, with a clearer trend expected in the coming quarters

Investment volumes across Europe reached €47 billion in Q1 2026 (down from €53 billion a year earlier). The bulk of real estate investment was concentrated in seven countries: the United Kingdom, Germany, France, Spain, the Netherlands, Sweden and Italy. Real estate investment in the UK appears resilient in the short term but may prove more vulnerable going forward due to a lagged adjustment effect and a high reliance on foreign capital. Germany has shown relative resilience, though it could face a gradual weakening as rising energy costs filter through the wider economy, compounded by higher interest rates. In France, activity has slowed markedly, primarily driven by domestic political shocks, which have led to a wait-and-see approach among both occupiers and investors.

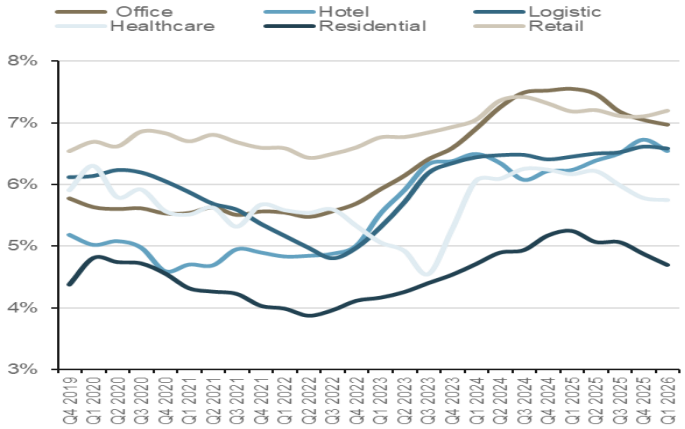
Investment allocation was distributed as follows: 40% in living sectors and operational real estate assets (residential, hospitality and healthcare), 34% in consumer-led sectors (retail, logistics and data centres), and 26% in offices and other development-stage assets. **In terms of average acquisition yields, the market is currently characterized by three distinct dynamics**: yield compression in sectors such as offices, residential and hotels, where investors are willing to pay a premium for prime-quality assets; stable yields in defensive sectors such as healthcare and logistics; and yield expansion in retail, where investors are demanding higher returns due to heightened risks around consumer spending, particularly in the context of inflation potentially eroding household purchasing power.

The market remains highly polarized, with a clear divide between highly sought-after prime assets in a context of increasing selectivity, and secondary assets experiencing valuation adjustments and persistently limited liquidity. **According to the INREV Consensus Indicator for March 2026, investor confidence has deteriorated amid a backdrop of geopolitical tension linked to the conflict in Iran**. Overall sentiment in the European non-listed real estate market has weakened, with four out of five sub-indicators declining. Only the financing conditions indicator improved, remaining the strongest component. The economic indicator recorded a sharp decline, reaching its lowest level since 2023, reflecting growing concerns over inflation and its anticipated negative impact on real estate fundamentals. Investment liquidity and development activity have both fallen back after a strong rebound in 2024, highlighting increased concerns around market liquidity. Finally, the leasing and operating segment saw a slight decline but remained in positive territory. Rents continued to rise overall, albeit at a more moderate pace.

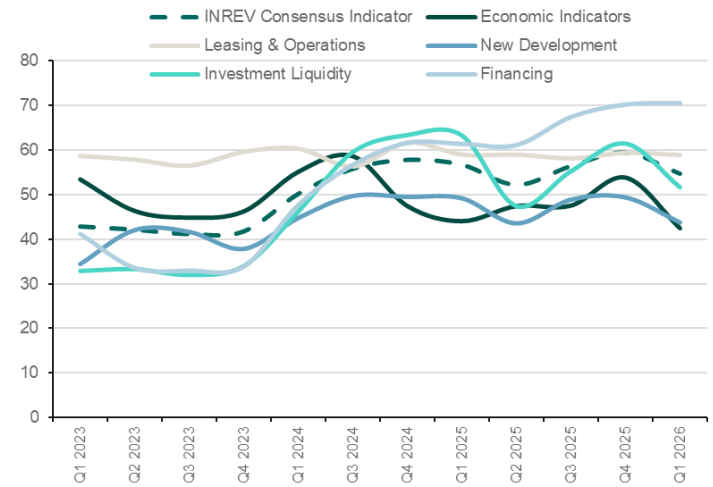
Total investment volumes across all real estate asset classes in Europe



Average acquisition cap rates



INREV « Consensus Indicator & Subindicators »



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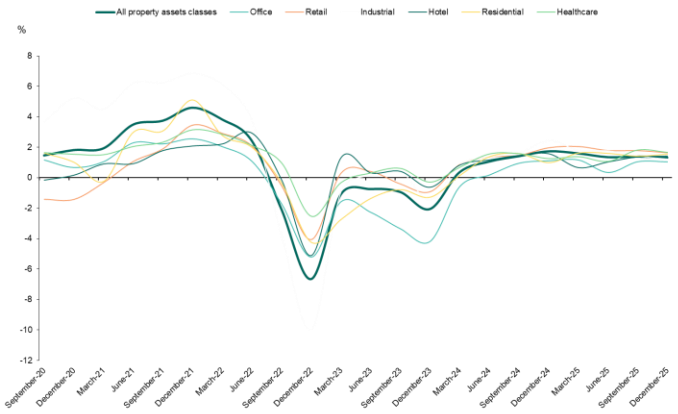
REAL ESTATE PERFORMANCE: increased capital sensitivity due to the war in Iran

Total European real estate performance remained positive at the end of 2025, supported by the income return component. However, leading indicators suggest that capital growth remains fragile, and valuation adjustments cannot be ruled out for certain asset classes, in line with the rise in 10-year government bond yields expected throughout 2026.
Depending on the duration and severity of the crisis, European real estate yields could therefore be impacted by approximately 10 to 80 basis points, according to initial estimates.

Total return on European real estate (quarterly)



EUROPEAN REAL ESTATE MARKETS: the market remains resilient, but signs of gradual weakening are emerging

OFFICES

Office investment volumes totalled nearly €11 billion at the start of 2026, down 2% year-on-year. More than 50% of investment volumes were directed towards CBD assets.

On the occupational market, the Paris office market, Europe's largest, recorded a decline, with 370,000 sqm let compared with 430,000 sqm a year earlier.

In terms of prime yields, compression ranging from 5 to 75 basis points was observed in Denmark, Germany, Greece, Ireland, Italy, the Netherlands, Spain and Sweden. All other markets remained broadly stable.

RESIDENTIAL

Eurozone house prices increased in Q1 2026 (+5.3% year-on-year).

block residential investment totalled just over €10 billion at the start of 2026, down 4% year-on-year. PBSA continues to attract capital, accounting for 25% of allocation.

In terms of prime yields, compression between 5 and 30 basis points was recorded in Austria, Denmark and Sweden, while yield decompression was observed in the UK.

HEALTHCARE

Healthcare real estate (senior housing and nursing homes) totalled nearly €5 billion at the start of 2026, representing a fourfold increase in capital volumes compared with the same period in 2025.

Prime yields remained broadly stable quarter-on-quarter, with the exception of the UK, where yields expanded.

HOTELS

Hotel investment volumes in Europe totalled just under €4 billion at the start of 2026, down 26% year-on-year.

Yield compression of 10 to 25 basis points was recorded in Denmark, Germany and Sweden, while other markets remained stable.

RETAIL

With just over €6 billion invested, European retail real estate volumes declined sharply (-39% year-on-year).

Prime yields compressed across Austria, Denmark, Finland, Greece, Italy, the Netherlands, Poland, Portugal, Sweden and the UK, ranging from 10 to 50 basis points.

LOGISTICS

Logistics investment volumes fell to €8 billion at the start of 2026, down 24% year-on-year.

On prime yields, compression of 15 to 25 basis points was observed in Finland, Greece, Italy and Portugal, while other markets remained stable

Sources used throughout the document: PRAEMIA REIM Recherche et Stratégie data based on Allianz, national e-commerce associations (FEVAD, BEVH, etc.), BCE, BNP, BFS, CBRE, CBS, Codata, Colliers International, CSB, CSO, CZSO, Destatis, DST, DZS, Eurostat, FED, FMI, Green Street, IEIF, Immostat, INE, INSEE, INREV, ISTAT, JLL, Knight Frank, KSH, MKG, MSCI, OECD, UNWTO, ONS, Oxford Economics, PMA, UN Tourism, RCA, Savills, SCB, SSB, Stat Poland, Statbel, Statista, Statistik Austria, Statistics Finland, Statistics Lithuania, STATEC, STR

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