VAN LANSCHOT KEMPEN

INVESTMENT MANAGEMENT

Market Musings 09/26

For Professional Investors only

The real estate paradox

Why has listed real estate thrived in a higher-rate world?

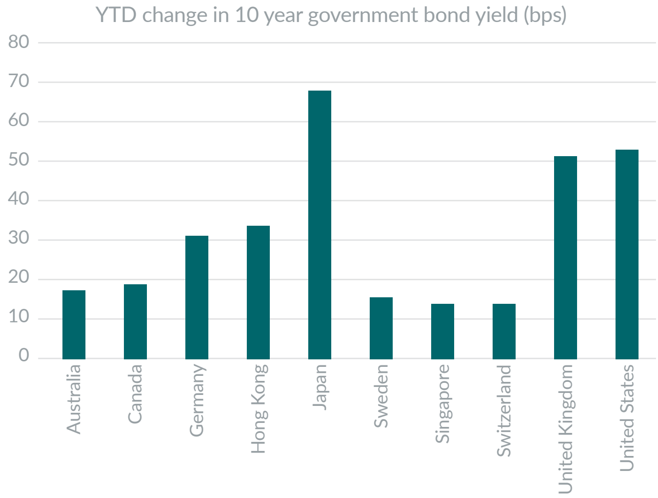
Higher interest rates were supposed to be bad news for listed real estate. The logic seemed straightforward: higher borrowing costs, lower property valuations and more attractive alternatives for income-seeking investors.

Yet despite bond yields rising across developed markets, listed real estate has returned around 16% this year[1]. For an asset class widely viewed as one of the most interest-rate-sensitive parts of the market, that is a surprising outcome.

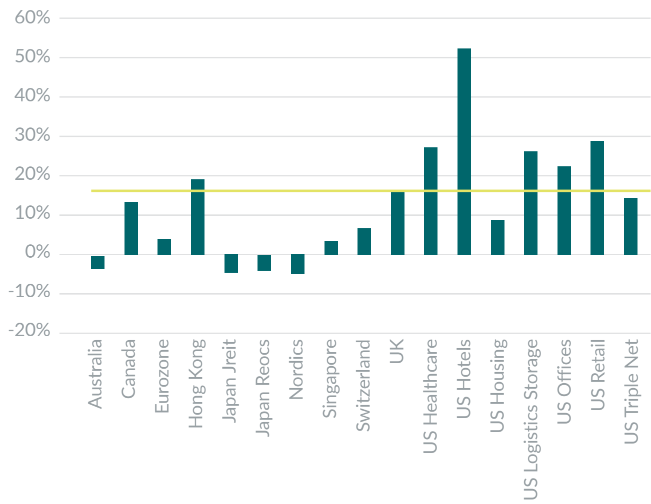
The explanation may be that investors have been asking the wrong question. While attention has been fixed on borrowing costs and valuations, less attention has been paid to what higher rates mean for development, future supply and the changing nature of the listed real estate market itself.

A year that shouldn't have happened

Higher interest rates across developed economies*



Absolute returns of global real estate at c.16% YTD*



Source: Van Lanschot Kempen Investment Management, data FTSE EPRA Global in EUR. Notes *Changes in bond yields and absolute return figures are calculated between 1/1/2026 and 31/7/2026

Bond yields rose across every developed market shown, creating what should have been a difficult backdrop for listed real estate. Yet global listed real estate returned around 16% over the same period. Performance varied by markets, but the overall result challenges one of real estate investing's most widely held assumptions: higher yields do not automatically mean lower returns.

1. FTSE EPRA Global in EUR, changes in bond yields and absolute return figures are calculated between 1/1/2026 and 31/7/2026

The other side of higher rates

Higher interest rates have undoubtedly created challenges for real estate, putting pressure on valuations and increasing financing costs.

But the same conditions that have weighed on valuations have also dramatically reduced new development activity. Construction costs have risen, financing has become more expensive and many projects no longer meet required returns. As a result, development activity has fallen sharply. Across sectors such as apartments, logistics, retail and offices, new supply is estimated to be between 50% and 70% below previous levels.

Fewer developments today mean fewer buildings competing for tenants tomorrow, helping existing assets maintain occupancy and pricing power.

> Higher rates may be slowing development just as much as they are slowing investment.

Rather than ignoring higher rates, the market may simply be recognising their full impact. They create challenges, but they can also create scarcity. And in real estate, scarcity can be a powerful driver of value.

More than a rate story

If higher rates alone determined listed real estate performance, this year's returns would be difficult to explain. Today's listed real estate market is increasingly being shaped by long-term demand trends that have little to do with the next interest-rate move.

- **AI is creating demand for real assets:** AI may be a technology story, but it is also becoming a real estate story. Every AI model needs computing power. Computing power needs data centres. Data centres need specialist buildings, power and connectivity. As demand for AI grows, so does demand for the physical infrastructure that makes it possible.
- **Data centres are changing the market:** Data centres now account for around 15% of the global listed real estate universe, and their importance continues to grow. Digital infrastructure has become one of the defining themes reshaping the sector.
- **Structural demand doesn't wait for rates:** Senior housing, residential and student accommodation are also benefiting from long-term demand drivers that existed before rates began rising and are likely to remain long after they fall, for example demographics and housing shortages.

That is why listed real estate increasingly behaves as a collection of specialist sectors with different drivers, rather than a single asset class moving in lockstep with bond yields. Interest rates still matter, but they are no longer the only story investors need to understand.

Looking beyond rates

For the past three years, investors have focused on interest rates. Meanwhile, supply tightened, demand evolved and the listed real estate market changed.

Data centres, residential and senior housing have become increasingly important parts of the investment universe, while slower development has limited new supply and supported existing assets.

Interest rates remain important, but they are no longer the only force shaping returns. For investors, listed real estate may increasingly need to be viewed as a collection of specialist sectors rather than a simple interest-rate trade.

The real estate paradox is not that listed property has performed well. The real paradox is that so many investors are still surprised by it.

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