Real Estate

Cautiously improving outlook

January 14, 2026

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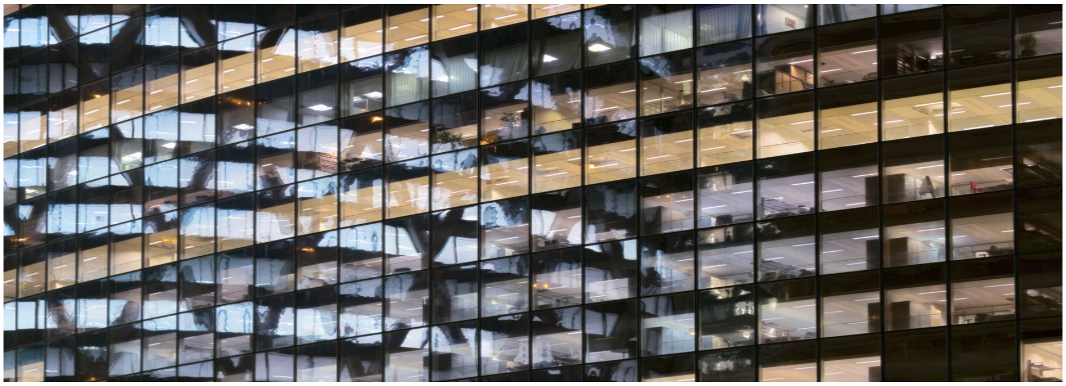


Contacts

Franck Delage
Paris
+33 1 4420 6778
franck.delage@spglobal.com

Michael Souers
New York
+1 (212) 438 2508
michael.souers@spglobal.com

Aldrin Ang
Melbourne
+61 3 9631 2006
aldrin.ang@spglobal.com

Sapna Jagtiani
Dubai
+971 501008825
sapna.jagtiani@pglobal.com

Gil Avrahami
Tel Aviv
+972 37539719
gil.avrahami@spglobal.com

What's changed?

The rating outlook bias has improved. This is due to a better operating environment--notably, rental resilience across most property segments, interest rate cuts, and lower refinancing risks.

Transaction activity has increased slightly. Europe, Middle East, and Africa, and Asia-Pacific attracted significantly higher levels of cross-border capital from the U.S., as anticipated, due to geopolitical uncertainties.

Valuations have bottomed out. Rate cuts and robust cash flow, supported by lower supply and indexation tailwinds, have helped valuations to stabilize after two years of significant pressure.

What are the key assumptions for 2026?

More modest rent increases. Rent growth should normalize at low single digits after a period of robust increases, as indexation-driven rent uplifts dwindle.

A focus on capital recycling rather than aggressive growth. Investments should increase, due to better funding conditions and a brighter market outlook, but focus on portfolio improvements.

Transaction activity should recover gradually. We anticipate a continued recovery in transaction activity, driven by improving economic conditions and rising investment volumes.

What are the key risks around the baseline?

Higher-than-expected interest rates. These could hurt REITs by hindering valuation improvements, increasing borrowing costs, and potentially dampening transaction activity.

Debt-financed acquisitions. These could weaken issuers' ratios and signal more aggressive financial policies.

Escalation of geopolitical conflicts and trade tariffs. Higher bond yields or weaker growth could adversely affect property valuations and halt the rebound of real estate investment markets.

Industry Outlook: U.S. REITs

Ratings trends and outlook

We maintain a slightly negative rating bias on U.S. REITs overall; 14% of rated U.S. REITs have a negative outlook, while just 9% have a positive outlook. This is driven by a heavier negative ratings bias on U.S. office REITs; about 45% of these ratings have a negative outlook. While many office REITs demonstrated improving operating performance in 2025, thanks to solid leasing efforts amid stronger tenant demand for high-quality buildings, leverage for office REITs remains elevated compared with other property types.

Moreover, while slightly improved from 2024 levels, tenant retention remains significantly weaker than pre-pandemic levels, and a softening U.S. labor market could slow the recovery. That said, access to capital for office REITs looking to refinance either secured or unsecured debt has improved modestly over the past year, reflecting interest rate cuts and the stabilization of property valuations.

In 2025, S&P Global Ratings upgraded nine U.S. REITs versus seven downgrades. This represents the first year since 2018 in which upgrades exceeded downgrades. All the downgrades were of speculative-grade office names, including multiple downgrades of an office REIT that filed for Chapter 11 bankruptcy protection in October. Conversely, we upgraded three retail REITs due to strong tenant demand for high-quality space and improving credit metrics. While our overall rating bias remains slightly negative due to some idiosyncratic risks across certain credits, we believe operating trends across most property types to be stable to slightly positive.

Main assumptions about 2026 and beyond

1. Interest rates are cut further.

Modest additional rate cuts should lead to improved borrowing costs and higher property valuations, potentially leading to increased transaction activity.

2. Resilient demand, along with decelerating new supply, drives solid operating results.

Demand has held steady across most real estate property types, and we expect this to continue, despite anticipated softness in consumer spending. Moreover, new supply is expected to materially decelerate, particularly for residential and industrial properties. These factors should drive modestly positive operating results for most REITs.

3. Capital recycling takes precedence over growth.

Most rated equity REITs experienced share price declines in 2025 and currently trade below analyst consensus estimates of net asset value (NAV). Barring a material improvement in their stock prices, we expect most REITs to focus on capital recycling to improve their portfolios, with little impact on key credit metrics.

Interest rate cuts should support valuations and lower borrowing costs. The Federal Reserve (Fed) cut interest rates by 25 basis point (bps) in December 2025, and we expect two additional cuts in the second half of 2026. The Fed is balancing its dual mandate of managing inflation (which remains persistently high at nearly 3%) and employment, as a weakening labor market increases the risks of recession. For REITs, additional rate cuts in 2026 should help improve borrowing costs and aid refinancing efforts. Moreover, a lower interest rate environment should further stabilize--and likely improve--asset valuations, potentially leading to increased transaction volumes.

We expect net operating income (NOI) growth will remain modestly positive, given resilient demand across most REIT property types. While we anticipate consumer spending will soften further (to projected growth of 2.5% in 2025 and 2.0% in 2026, from 3.0% in 2024), the impact on property-level demand should be muted. Retail REITs exhibited strong leasing activity throughout 2025, quickly backfilling the vacant space of bankrupt tenants and pushing occupancy to near-record highs.

While a softening labor market threatens demand for multifamily and office properties in 2026 (the two property types with the highest correlation to jobs growth), limited new supply should support growth prospects across most property types. For example, there has been a greater than 30% decline in multifamily units under construction since peak levels in 2024, and most Sunbelt markets should see positive absorption in 2026 following a challenging year in 2025. Industrial properties have seen an even more notable decrease in supply, as new construction starts are more than 70% below peak levels. Across our rated REIT universe, we project like-for-like property NOI growth will be about 1%-6% in 2026.

Transaction activity should increase further, but REITs remain disciplined. According to Coldwell Banker Richard Ellis (CBRE), commercial real estate investment volume in the third quarter of 2025 increased by 13% year over year to $112.1 billion. While this marks the second-highest quarterly volume since the fourth quarter of 2022, transactions remain below the quarterly average of approximately $150 billion for the past 10 years. While we think transaction volume is likely to increase further in 2026, buoyed by lower interest rates, we expect the REITs we rate will remain disciplined in terms of capital allocation, focusing more on asset recycling than growth. In 2025, the majority of REITs experienced share price declines--with an average decline of approximately 5%--and most trade below analyst consensus NAV estimates. Our broad expectation is that REITs will grow in a way that is neutral for leverage in 2026, as they are unwilling to give up the improvements made to their balance sheets since the pandemic.

Credit metrics and financial policy

We expect key credit metrics to remain relatively stable in 2026. While like-for-like property NOI growth of about 1%-6% across most property types will benefit EBITDA, we expect most REITs will fund any growth in a way that is neutral for leverage, keeping debt to EBITDA relatively stable. Moreover, while EBITDA interest coverage and fixed charge coverage may deteriorate slightly from current levels, most issuers are now refinancing with coupon rates near those of maturing debt, so any additional deterioration should be modest. The exceptions to this are fallen angels or issuers with deeply speculative-grade ratings for whom access to capital is more limited.

While borrowing conditions eased in 2025, some issuers facing sizable upcoming debt maturities experienced tighter liquidity and financial flexibility, particularly certain office REITs and speculative-grade issuers with more limited access to capital markets. In 2025, we applied a negative capital structure modifier to some REITs whose weighted average maturity of debt shortened to less than three years, and we continue to closely monitor capital structures and liquidity.

We expect the financing environment will improve in 2026 as additional rate cuts benefit REITs' access to capital markets. As financing costs decline, transaction activity could also gain momentum, with more price discovery due to an increased volume of transactions, which would support asset valuations. Historically, interest rate cuts have been positive for real estate, as a result of the sector's capital intensity. Given the trend in interest rates, we expect asset values will improve modestly for most property types, although certain geographic markets within office and life sciences could remain under pressure. We expect well-capitalized REITs with balance sheet capacity will pursue a more normal level of acquisitions following a period of muted activity.

Key risks or opportunities around the baseline

1. Interest rates are maintained near current levels.

Higher-than-expected inflation or weaker-than-expected jobs growth could keep interest rates near current levels, rather than declining as we project.

2. Leasing activity accelerates materially for office REITs.

Should leasing volumes accelerate materially from 2025 levels, the pace of improvement to occupancy will be faster than we expect. We caution that a weakening labor market could dampen tenants' needs for additional office space.

3. More aggressive growth results in elevated leverage.

Debt-financed acquisitions could pressure credit metrics and lead to negative credit rating actions.

S&P Global Ratings economists currently expect three additional rate cuts by year-end 2026, with the Federal funds rate expected to average 3.3% in the fourth quarter of 2026. However, we expect inflation to remain near 3% in the first half of 2026 before falling back toward 2%, which may keep the Fed from lowering rates too quickly. Moreover, a strengthening labor market could also stall additional rate cuts, as the Fed's actions remain data dependent.

The recovery in demand for office space could be stronger than expected if tenants decide to expand their footprints as employers implement stricter return-to-office policies. Leasing volumes--while still below pre-pandemic levels--rose meaningfully in 2025, suggesting strong occupancy gains in 2026. Our projections for operating metrics may prove conservative if 2026 leasing improves at a similar trajectory to 2025, as we currently project only slightly higher leasing volumes, due to a softening labor market.

Following relatively muted acquisition activity across most property types, we expect REITs will grow through higher acquisitions and development activity in 2026. While we anticipate rated REITs will remain disciplined in their growth strategies, larger-than-expected debt-funded acquisitions could pressure credit metrics.

Industry Outlook: European REITs

Ratings trends and outlook

The sector's rating outlook continues to improve, as 12% of rated companies have either a negative outlook or are on CreditWatch with negative implications, down from 27% at year-end 2024 and from a peak of 33% at the end of 2023.

Most negative outlooks highlight a risk of EBITDA interest coverage ratios remaining at or falling below our requirements for the respective current ratings, as companies' cost of debt is still adjusting to the higher rate environment. We also note that six out of the seven companies currently with a negative outlook or on CreditWatch negative are speculative grade.

Funding conditions improved further in 2025, with tighter credit spreads and abundant liquidity. With €23.8 billion in bond issuances by European REITs rated by S&P Global Ratings in 2025--up from €22.2 billion in 2024--REITs are better prepared to tackle future refinancing maturities.

Main assumptions about 2026 and beyond

1. Rents and valuation growth will normalize.

Rental growth will moderate further to low single digits, following three years of robust growth. This is because inflation is easing and uplifts due to indexation should therefore be smaller. Property valuations should remain broadly stable, as we expect long rates to remain stable and cash flow growth to moderate over the next two years.

2. Transaction activity should recover further.

Transaction activity is set to strengthen as economies recover and uncertainty eases. Investment volumes are rising across sectors due to major recent deals, renewed institutional interest, and more prime assets returning to the market.

3. Office vacancy rates could stabilize.

Vacancy rates in the office market are still growing but may soon start to stabilize amid low but positive GDP growth, slightly lower unemployment, and rising workplace attendance across main European cities supporting demand. Take-up is gradually recovering, while limited new supply and selective conversions could tighten vacancy rates. Prime and energy-efficient offices should prove most resilient to AI-driven transitions.

Tailwinds from inflation will fade for European REITs. We think eurozone inflation should stabilize at about 1.8%-1.9% in 2026-2027, down from its 5.4% peak in 2023. Indexation should be lower in France, where inflation should reach a particularly low 1% in 2026, and stronger in the U.K. and Poland, both of which are still facing inflation of over 3%. More moderate rental growth expectations will also likely result in lower valuation uplifts over the next two year. This assumes that the long rate will remain stable and have no, or only a minor, impact on valuations. Following two years of decline, valuations rose slightly in 2025, largely due to robust rental growth. As of June 30, 2025, valuations still averaged 9% below their mid-2022 peak.

Transaction activity should improve, as economies recover, and liquidity becomes more abundant. The investment market should therefore continue its recovery from the lows of 2023. Transaction volumes were particularly strong in the third quarter of 2025, with a 12% increase year on year, according to data from CBRE. While investments are growing in all property segments, housing is experiencing the greatest demand and retail is seeing a noticeable recovery. We believe investments in offices should also pick up, thanks to sizeable transactions closed on aggressive terms recently and renewed interest from large traditional institutional bidders. We also understand that more prime assets are back on the market and subject to competitive bidding processes.

The office market still faces challenges, but vacancy rates could peak. Following sluggish economic activity in 2024-2025, new office space should see tenant demand due to steady GDP growth (accelerating in Germany, slowing in Spain) and slightly declining unemployment in 2026-2027. Office utilization rates have been increasing as corporates expand their return to workplace policies in all main European cities. Increasingly, consultancies, banks, and investment managers are requiring employees to be in the office at least four days a week, according to a Savills report from November 2025. The volume of take-up has been increasing gradually in recent quarters, albeit remaining below the average for the five years before the COVID-19 pandemic. Political uncertainty weighed on tenants' real estate decisions in France in 2025, with take-up in Paris down 8% in the first nine months of 2025 year on year; any positive developments could therefore unlock potential.

On the supply side, the delivery of new office space will likely be low in major markets in 2026 and mostly consist of pre-let premises. We expect some office conversions to other uses to further reduce the stock of vacant space, although not significantly. The impact of AI adoption on tenant demand is somewhat unclear at this stage. We believe prime and centrally located offices will be better positioned to accommodate highly skilled, IT-related, or client-facing jobs, to the detriment of entry-level or repetitive jobs that are more vulnerable to automation. The increased energy demands of AI adoption will likely favor the most energy-efficient and cloud-ready properties.

Credit metrics and financial policy

Average EBITDA to interest should gradually bottom out at about 3x in 2026-27--a satisfactory level for investment grade ratings. We believe the ratio has already bottomed out for about half of issuers and should even rebound slightly in 2026. This is because of positive rental growth and rate stabilization, while companies are still refinancing their debt maturities at higher costs. Issuers with a high share of interest rate hedging and/or long-dated debt have been the least affected so far, but for most of them we expect their interest coverage ratios will weaken a little further in 2026-2027.

Average debt to EBITDA should continue to improve in 2026, albeit significantly more moderately. This is because rental growth should remain positive but lower than in previous years and investments are growing, albeit moderately. However, the return of acquisitions and high development capital expenditure (capex) could disrupt this trend.

Average debt to debt and equity should remain broadly stable in 2026, plateauing just below 45%. This level is satisfactory for investment grade ratings but is 4 percentage points higher than the low in 2021. This is mostly because we expect limited valuation movements in 2026.

Key risks or opportunities around the baseline

1. Share buybacks and mergers and acquisitions (M&A).

Share buybacks are becoming attractive amid improved fundamentals and discounted share prices, though they can weaken credit metrics by using cash and raising leverage. Most planned programs currently remain within acceptable ratio limits. M&A activity may rebound as conditions improve and funding access strengthens after three subdued years. Renewed interest from issuers or external buyers, including private equity, could raise leverage and pressure credit quality, even if deals are more cashflow accretive than during the era of low interest rates.

2. Geopolitical risks.

An escalation of geopolitical risks could disrupt the sector's recovery. This would notably be the case if there were a material increase in government bond yields or credit spreads, which could hinder companies' ability to dispose of assets quickly and could affect their valuations.

3. Higher-than-expected real rates.

Rising real rates, driven partly by volatile sovereign yields, would weaken REITs' interest coverage and valuations. In a low-inflation environment, limited rent indexation heightens the impact, especially on low-yield assets like residential properties, for which tight risk premiums and restricted rental growth amplify sensitivity.

Share buybacks and M&A could appear attractive as market fundamentals improve and share prices remain heavily discounted. A growing number of companies have announced potential share buybacks. While they may be compensated by lower dividends, share buybacks would be credit negative if they require more cash than we currently expect and they affect leverage ratios. For now, most anticipated share buybacks are within our ratio requirements. There could be a resurgence in M&A activity for the same reasons as share buybacks. There have been few M&A transactions over the past three years, given the pressure the sector has been facing. A renewed appetite from rated issuers--notably thanks to greater access to funding--could imply an impact on leverage, even though acquisitions would be more cashflow accretive than in the era of low interest rates. Furthermore, acquisitions by external parties, notably private equity, or by a weaker shareholder could also affect issuer credit quality.

Geopolitical developments could delay the recovery of the property sector by weighing on companies' real estate decisions, whether for investing or leasing. Growing pressure on governments' budgetary decisions could also affect government bond yields. Higher yields due to perceptions of greater sovereign risk would, in turn, weigh on asset revaluations, as property appraisers use these yields as risk-free rates in their property yield assumptions. A more hostile and uncertain global environment could further erode Europe's economic security, weigh on consumer confidence, and bolster savings at the expense of consumption and growth. Stagnating growth would be detrimental to corporate credit performance and could imply lower demand for commercial real estate.

Higher real rates would be detrimental to issuers' interest coverage ratios and property valuations. Higher rates are unfavorable for REITs, because they may affect property valuations and refinancing costs. The risk is particularly acute in a low-inflation environment, as low rent indexation cannot offset the cap rate increase in property appraisals. Low-yield assets, such as residential assets, are generally disproportionately affected because their risk premiums--the difference between the risk-free rate and property yields--are tighter and their capacity to increase rents is more limited than some other asset classes. Given the high refinancing activity in the sector, an increase in rates could also affect interest coverage ratios. The risk of interest coverage breaches is already captured in most of the negative outlooks. However, if refinancing rates were 50 basis points (bps) higher than we currently assume, the share of negative outlooks could expand by 6 percentage points, all else being equal.

Industry Outlook: Asia-Pacific REITs

Ratings trends and outlook

The negative rating bias of Asia-Pacific REITs has declined in 2025 to about 7% of the portfolio, compared with 13% in December 2024. There have been a number of factors driving stabilization: Improving macroeconomic and market conditions in Japan; the bottoming out and ongoing recovery of the Australian office sector, buoyed by asset sales; lower interest rates; and signs of capital flows returning to the broader real estate sector.

Structural changes in consumer spending patterns and supply-demand mismatches mean that credit quality and ratings trends are likely to remain divergent across regions such as Hong Kong and mainland China. Higher-rated landlords with stronger, higher-quality, and well-diversified asset portfolios continue to outperform peers in these regions.

The outlook for 2026 is closely aligned with economic performance and the recalibration of demand-supply dynamics across each region. Japan is seeing growth in corporations and in tourism. Meanwhile, a halt in new office developments and limited new retail shopping center opportunities in Australia should support rental growth. In addition, we expect Hong Kong's office and retail sectors will continue to face challenges owing to ample office supply and evolving local and tourist spending behaviors.

Main assumptions about 2026 and beyond

1. High vacancy rates of commercial office assets persist in key gateway cities.

The vacancy rates of commercial offices in key Chinese cities, Hong Kong, and Melbourne are likely to stabilize but remain elevated over the next 12 months.

2. Economic growth and resilience across most regions underpin leasing demand.

Despite a slowdown in much of the region in 2026, stemming from the U.S. tariffs, resilient corporate, consumer retail, and industrial sentiment should continue to support rental and leasing demand.

3. Near-term refinancing risk declines for landlords.

Debt maturity profiles are improving as issuers access longer-dated bank borrowing and debt capital markets. Banks remain supportive of prime commercial assets in key Asia-Pacific gateway cities.

Credit metrics and financial policy

Pacific: We anticipate the credit metrics of most rated Australian REITs (AREITs) will remain stable in 2026. This is supported by improving macroeconomic conditions, a strengthening industry outlook, and the sector's disciplined approach to capital management.

Rated issuers with prime, well-located office assets will continue to benefit from the demand-supply imbalance. High vacancy rates and construction costs across Sydney and Melbourne will limit new developments and projects until after 2030. Prime assets in sought-after precincts across these cities will continue to retain and attract tenants, commanding higher rents with lower reported vacancy rates, outperforming weaker assets.

Stabilizing cap rates, recovering valuations, and improving capital flows are helping restore market liquidity in the office segment, while asset sales and recent equity raises support the financial profiles of rated AREITs. Retail and industrial landlords should continue to generate moderately strong earnings growth, underpinned by moderating, yet robust, logistics demand and increased consumer retail spending due to lower interest rates.

We expect AREITs will focus on rebuilding credit metric headroom while cautiously pursuing growth. Capex will be directed toward refurbishing existing assets to enhance portfolio quality, occupancy, and rental growth. Refinancing remains manageable, with well-spread maturities supporting financial stability.

Hong Kong: The credit metric buffer for REITs and landlords could further erode in 2026 amid elevated vacancy rates and operational challenges. We anticipate further rental declines in both office and retail assets. Operational challenges will likely lead rated entities to prioritize occupancy over rental rates.

The REITs and landlords that we rate are better positioned, benefitting from their assets' prime locations, green building credentials, and diversification across offices, retail, and hotels. We believe our rated issuers will continue to have unfettered access to banks and debt capital markets. Access to bank funding is unlikely to be affected by industry headwinds and company-specific credit events, given our rated issuers' asset portfolio quality and high standing across funding markets. We believe funding access by Hong Kong developers and landlords will be increasingly polarized, as banks will reserve lending for higher-quality names.

We expect rated REITs and landlords will manage their debt leverage in a prudent manner. Unfavorable market conditions and diminishing rating headroom will limit their ability to make sizable, debt-funded acquisitions. Some rated landlords are proactively bolstering their financial position through asset sales, which will help them rebuild financial buffers.

China: High vacancy rates and the continued influx of new office supply will put pressure on the office sector in 2026. Soft leasing demand, reflecting economic uncertainties, is also contributing to this trend. Guangzhou's office vacancy rate increased to 20.8% in September 2025, from 18.9% at the beginning of the year. Office vacancy rates in key cities generally exceeded 20% in September 2025. Retail asset landlords are displaying some resilience, and we think they will maintain this by swiftly optimizing their tenant mix to capitalize on the spending patterns of consumers.

We expect the credit metrics of Yuexiu Real Estate Investment Trust (BBB-/Stable/--) will recover in 2026, supported by debt reductions through asset sales, which will offset operational challenges within its office asset portfolio. Other landlords and property firms may increasingly recycle their assets through newly established REIT platforms, facilitated by the ongoing refinement of government regulatory framework for China REITs.

Japan: We expect the credit quality of rated Japanese issuers will remain stable in 2026. Favorable market conditions and high-quality portfolios should support their credit profiles.

We expect occupancy rates and rents in Tokyo's office sector will continue their improving trend in 2026. In our view, steady demand for office space will be supported by sound corporate tenant performance, relocations, and increased office space requirements to attract talent through enhanced working environments. The office vacancy rate in Tokyo's five central wards declined to about 2.5% toward the end of 2025, from 4.0% at the end of 2024, and advertised rents increased by over 5.0%. This improving trend has continued since the end of 2023.

The performance of rated issuers should also benefit from their high-quality, well-located, and resilient asset portfolios, which we believe will continue in 2026.

Rated issuers will continue to fund new investments through debt, equity, and asset divestments, which will help them maintain credit metrics consistent with their financial policies. We expect strong interest coverage ratios, long average debt tenor, and a high proportion of fixed-rate debt for rated issuers to underpin their credit quality.

Singapore: The credit metrics for rated Singapore REITs' (SREITs) are likely to remain stable in 2026. This is supported by their sound portfolio quality and our expectation that they will maintain financial discipline even while pursuing growth.

In our view, rated REITs will continue to manage their aggregate leverage (ratio of gross borrowings to total deposited property value on a look-through basis) at close to 40%, which is considered average for SREITs.

We expect commercial office leasing conditions to remain resilient. A limited office supply pipeline in 2026 and 2027 will likely support modest office rent growth and keep vacancy rates low.

The suburban retail segment should remain resilient to macroeconomic uncertainties. In our view, the downtown retail segment could benefit from consumers' cautious optimism as macroeconomic conditions show more resilience than previously anticipated. Nonetheless, growth, which is subdued due to rising operating costs, will likely move in tandem with the pace of the recovery in tourism.

Similarly, revenue per available room and vacancy rates for hospitality assets stabilized in 2025 following a slowdown in the tourism recovery and will depend on a busy event calendar to support operating metrics in 2026.

Key risks or opportunities around the baseline

1. Excess office supply may constrain leasing demand in certain gateway cities.

Elevated office supply across Australia and Hong Kong is likely to suppress rental growth and occupancy rates. We expect the assets of higher-rated landlords to outperform peers.

2. A change in the portfolio earnings mix may increase volatility.

While they provide some diversification benefits, higher development and fund management earnings could increase lumpiness and volatility.

3. Capital inflows will improve market liquidity and strengthen balance sheets.

Stabilizing capitalization rates and recovering asset valuations will encourage the return of capital and improve market liquidity. This will support equity raising initiatives, which will bolster landlords' balance sheets.

Pacific: Growing fund management and development earnings for AREITs could provide more diversified income streams, though these earnings tend to be more volatile than rental income. We anticipate these AREITs will maintain prudent financial policies and ample liquidity to support these strategies.

Elevated lease incentives will likely persist in the Australian office sector. While occupancy in prime office locations should remain resilient, less central offices may need higher leasing incentives to drive occupancy.

Lower interest payments may provide some upside, although the full benefit of lower rates will take time to materialize as existing hedges expire. AREITs typically have hedging ratios above 50% and average terms exceeding two years.

Hong Kong: In our view, structural changes in local and tourist spending patterns present the most significant challenge for Hong Kong retail landlords. The city's retail sales are still struggling to recover to pre-pandemic levels. Competition from e-commerce and cross-border shopping in mainland China poses challenges to traditional retail landlords. Besides cutting rents, major landlords will likely invest in operational improvements and defend their occupancies with strategies to attract footfall, for example by introducing family- and pet-friendly amenities and introducing first-to-Hong Kong brands.

While office leasing demand is showing signs of recovery due to a rebound in IPOs and corporate activity, substantial office supply will weigh on rents and occupancy rates. About 4.6 million square feet of office properties will be launched over 2026-2027, compared with net absorption of 0.6 million square feet in the first three quarters of 2025, according to Cushman & Wakefield.

China: Downside risk remains prominent for China's retail consumption, which will put pressure on retail landlords. Although subsidies have boosted consumption in 2025, retail sales could weaken without further nationwide subsidies or incentives. Economic uncertainties could dampen consumption behavior. Examples include long-term concerns about retirement and healthcare, as well as short-term factors such as income and job prospects.

Weak office leasing demand will likely continue to drag on offices' operating conditions. Only premium office buildings in prime locations are likely to demonstrate resilience, in our view.

Japan: Larger-than-expected interest payments, operating costs, and capex among rated Japanese issuers would decrease leverage headroom and interest coverage ratios. Increasing net operating income and improved occupancy rates would not be sufficient to offset the effect.

Because rated landlords are focusing on profit growth and improving capital efficiency, more aggressive investments or shareholder returns could increase their debt burden relative to cash flows, and financial buffers would be constrained. Rated landlords could see higher volatility in earnings if their real estate development and sales business contribute more to their profits.

Despite robust economic conditions, U.S. tariffs and other geopolitical events could thwart the sector's ongoing recovery. Landlords need improving occupancy rates and higher rents to cover increased costs and higher interest rates.

Singapore: Rated SREITs are likely to remain focused on improving portfolio quality via acquisitions or asset enhancements. While debt-funded growth will stress credit metrics, rated SREITs have demonstrated their commitment to ratings through capital management initiatives such as equity raises and the divestment of weaker-performing assets.

Industry Outlook: Other Regions

Gulf Cooperation Council (GCC)

Credit and financing conditions remain supportive for GCC-based real estate companies. In the fourth quarter of 2025, three of our rated issuers tapped the market, successfully issuing hybrid bonds and sukuks. One of these, Private Department of H.E.SH. Mohamed Bin Khalid Al Nahyan LLC (BB-/Stable/--), was also upgraded due to its extended maturity profile and reduced interest costs.

Most GCC economies are experiencing good growth prospects, despite geopolitical fragmentation and inherent risks of a sudden escalation in regional conflicts, which remain significant tail risks with the potential to disrupt investment flows and market confidence. Growth rates are supported by government spending and growing infrastructure projects, despite softer oil prices driven by rising OPEC+ supply. The United Arab Emirates (UAE) and Saudi Arabia remain at the forefront of this growth, with real GDP growth of 4.1% and 4.1%, respectively, in 2025, and 4.7% and 4.0% forecast in 2026.

Demand for UAE real estate is resilient. The prime superregional and ultra-luxury retail sectors in Dubai and Abu Dhabi appear to be outperforming the rest of the space, supported by tourism and strong consumer spending. Vacancy rates in retail are the lowest since the pandemic. With limited new supply coming in the next two years (Dubai +4% of gross leasable area in 2026-2027, Abu Dhabi +3.6%), we expect upward pressure on rental rates over the next two years, which will support the cash flows of mall operators.

Given the positive non-oil growth dynamics in UAE, office demand remains strong. The market is favorable for landlords, as several international companies want to build a regional presence. UAE continues to attract high-net-worth individuals and family offices, which are spurring demand for grade A office space. Nevertheless, given the upward pressure on rents, market sentiment suggests we are nearing peak cycle conditions in both Abu Dhabi and Dubai.

Projects such as the Saadiyat Cultural District and Disney Park in Abu Dhabi, and the Wynn integrated resort in Ras Al Khaimah aim to boost tourism revenue for the UAE. The development of the gaming industry in the country is a significant boost for the residential sector, especially in Ras Al Khaima where the first integrated resort will be delivered in 2027. Residential rental rates in Dubai, on the other hand, moderated in 2025, given the expectation of new supply and tenant migration. Dubai, however, continues to offer very attractive rental yields and remains affordable versus other financial hubs around the world. The government's visa, social, and regulatory reforms support population growth for the next two years, and we therefore believe that the residential segment in Dubai will remain buoyant over 2026-2027, despite moderating demand and rentals.

Saudi Arabia's market trends are also supportive, but Riyadh-based real estate operators will suffer from the government's rental freeze. Strong demand for residential properties in Riyadh, resulting from internal migration and the city's financial significance, led to significant growth in prices and rental properties in 2025. The government implemented a five-year rental freeze on residential and commercial properties in Riyadh, effective from Sept. 25, 2025, to curb the growth momentum and inflation in real estate. This will restrict revenue growth for leased assets over this period.

The retail segment will be the most affected, as it did not experience the same growth as residential in previous years. Retail rents have increased by 5%-10% since 2020, mainly spurred by renovation and modernization and may now enter a stage of stagnation, barring higher maintenance fees or other charges to compensate. In addition, Saudi retail real estate could face oversupply. Knight Frank forecasts Riyadh's supply will grow by 50% by 2027 and Jeddah's will grow 75% over the same period.

The demand for office space was spurred by the government's Regional Headquarters program and a shortage of grade A office space. We expect new supply in Riyadh, where occupancy rates are at 97%, will increase by 70%-80% by 2027, with established developers reporting strong pre-leasing activity. This momentum has also spread to Jeddah, where occupancies were around 90%, with rental growth for grade A offices at about 10% in 2025 before the rental freeze; rental growth in Riyadh for the same period was about 15%.

Israel

The demonstrated resilience of the Israeli economy in the past two years, in addition to the military de-escalation, is supporting the credit quality of Israeli real estate companies. This is reflected by the decrease in negative outlooks to about 8% in 2025 from 21% at year-end 2024, similar to the pre-war level in 2022.

The office market remained challenging throughout 2025, mainly due to a substantial increase in office supply, the high uncertainty following the elevated geopolitical risks, and the slower growth of the domestic economy. Nevertheless, these factors did not have a significant impact on the occupancy rates of rated real estate companies, which mainly operate in high-demand areas with high-quality properties and a strong, diverse tenant base. In fact, office real estate companies have generally reported no major changes in NOI, primarily because of long-term contracts that are price indexed and relatively stable occupancy rates. However, filling new properties is proving difficult, especially in less central locations, and vacancy rates outside Tel-Aviv are still increasing and suffering from oversupply.

There are early signs of recovery in the office market amid the spike in private capital raises in the Israeli high-tech industry, which drives demand for domestic office space. The solid Israeli tech funding, the increasing trend of return-to-the-office polices, and the expectation of a strong rebound in the Israeli economy in 2026, supports a mild improvement in occupancies and rent levels, despite the high supply.

The performance of retail real estate companies remained solid in 2025, despite weaker growth in shopping center tenants' sales. The leading real estate companies in the sector continued to demonstrate solid operational performance, maintaining very high occupancy in most properties and increasing rents in contract renewals and new contracts. Overall, this resulted in approximately 5% growth in like-for-like property NOI.

The expectation of strong GDP growth in 2026 together with low unemployment should support consumer spending. Nevertheless, the expansion of tax exemptions on personal imports of products may have an impact on sales and profits for some shopping center tenants. However, we estimate that the impact on the performance of leading shopping centers will not be material, as shopping centers continue to evolve into places of entertainment and experience.

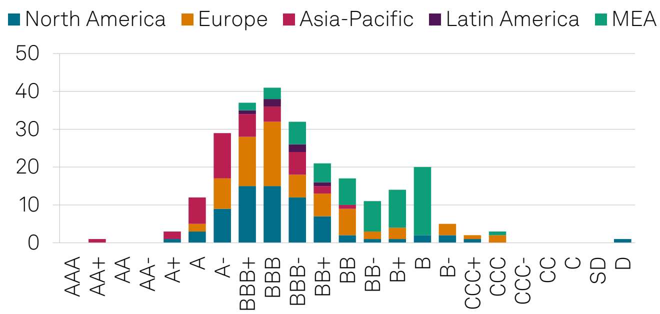
We expect higher earnings to support leverage in the real estate sector, as we anticipate stronger positive assets revaluations and lower finance expenses for rated companies. We anticipate this trend will be supported by moderating inflationary pressure, declining interest rates (which has already begun), a continued improvement in operating performance, and the maintenance of high occupancy rates (especially in prime assets). Overall, we expect to see an improvement in credit metrics for our rated real estate companies, given their strong portfolio characteristics. However, the pressure on value may continue in lower-quality assets or in weaker locations.

Related Research

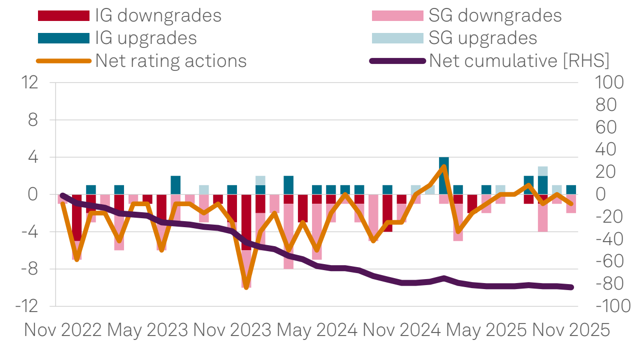
- European REIT 2026 Outlook: The recovery continues amid risks (SLIDES), Jan. 14, 2026
- European REITs' Interest Coverage: Still Weathering The Rate Hikes, Nov. 20, 2025
- Saudi REITs: A Market In The Making, Nov. 4, 2025
- Dubai Residential Real Estate: What Lies Beyond The Boom, Oct. 28, 2025
- Real Estate Monitor: Credit Quality Is Holding Up Amid Economic Headwinds, Sept. 4, 2025
- Global Office Market Regains Its Footing, Aug. 27, 2025
- Rated European Residential Real Estate Companies' Climate Transition Risks Appear Manageable In The Medium Term, July 10, 2025
- Asia-Pacific Real Estate's Uneven Revival, In Charts, July 9, 2025

Ratings Trends

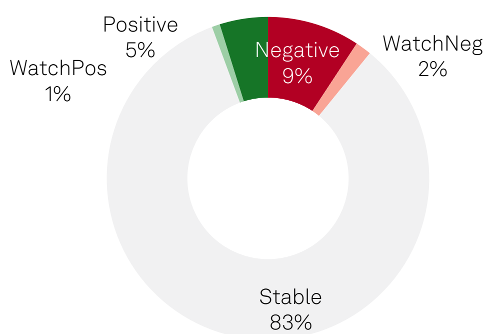
Ratings distribution



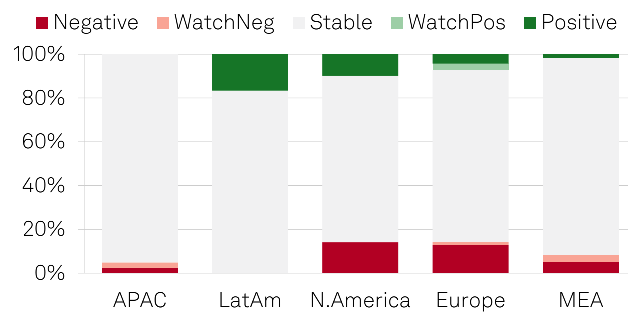
Ratings actions



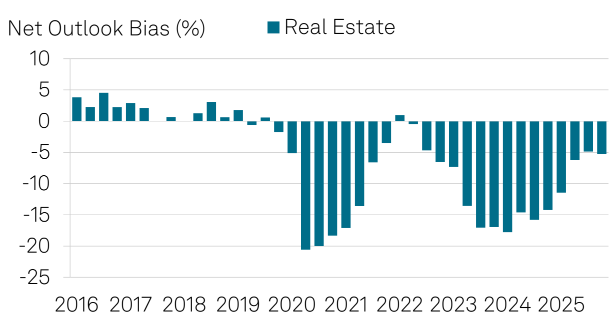
Ratings outlooks



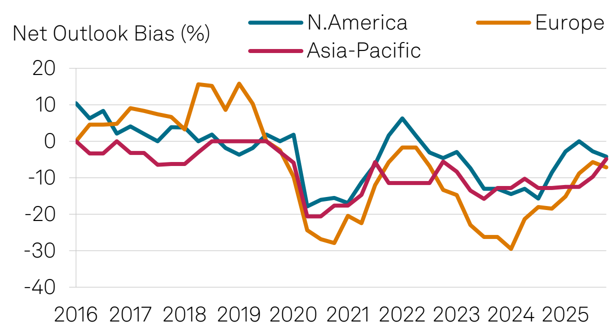
Ratings outlooks by region



Ratings outlook net bias



Ratings net outlook bias by region

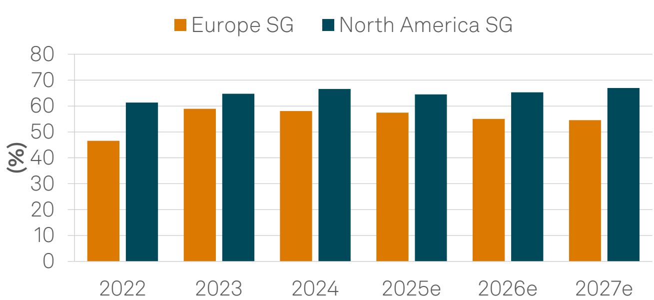


Source: S&P Global Ratings. Ratings data measured at quarter-end, except for ratings actions which are shown monthly.

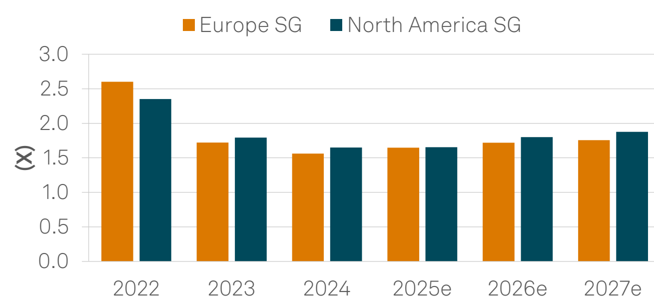
Industry Forecasts (Medians)

		All				Investment Grade				Speculative Grade			
		2024	2025e	2026e	2027e	2024	2025e	2026e	2027e	2024	2025e	2026e	2027e
Debt/Capital (%)	**Global**	**45.2**	**45.7**	**46.8**	**48.1**	**40.9**	**42.3**	**42.3**	**42.6**	**59.2**	**60.0**	**58.2**	**58.2**
	Asia-Pacific	30.9	29.8	30.7	31.8	31.7	32.5	30.9	32.2				
	Europe	44.0	43.7	43.7	44.4	41.8	41.9	42.7	43.1	58.1	57.4	55.0	54.6
	North America	47.3	49.2	50.8	52.4	44.8	45.9	47.4	49.7	66.6	64.5	65.3	67.0
EBITDA interest coverage (x)	**Global**	**3.1**	**3.0**	**3.1**	**3.2**	**3.8**	**4.0**	**3.9**	**3.8**	**1.5**	**1.6**	**1.7**	**1.8**
	Asia-Pacific	3.7	3.4	3.7	3.8	3.7	3.4	3.7	3.8				
	Europe	2.9	2.9	2.7	2.7	3.4	3.4	3.3	3.2	1.6	1.6	1.7	1.8
	North America	4.0	4.1	4.1	4.1	4.3	4.2	4.4	4.2	1.6	1.7	1.8	1.9
Debt/EBITDA (x)	**Global**	**8.2**	**8.0**	**7.9**	**7.5**	**6.3**	**6.1**	**6.2**	**6.1**	**11.5**	**10.1**	**10.5**	**10.1**
	Asia-Pacific	6.3	6.1	6.0	5.8	6.3	6.0	6.0	5.8				
	Europe	11.2	10.8	10.6	10.2	10.5	10.7	10.3	10.2	13.5	11.1	12.3	10.9
	North America	5.7	5.7	5.8	5.8	5.4	5.4	5.5	5.4	10.0	9.4	8.7	8.4
FFO/Debt (%)	**Global**	**7.9**	**7.7**	**8.2**	**8.3**	**10.9**	**11.7**	**11.3**	**11.4**	**3.2**	**3.6**	**4.1**	**4.8**
	Asia-Pacific	10.2	10.4	11.4	12.0	10.4	11.7	11.6	12.3				
	Europe	5.6	5.5	5.5	5.7	6.8	5.8	6.5	6.4	2.7	2.7	3.4	3.1
	North America	13.3	13.5	13.4	13.3	13.8	14.3	14.0	13.9	5.7	5.8	6.2	6.2

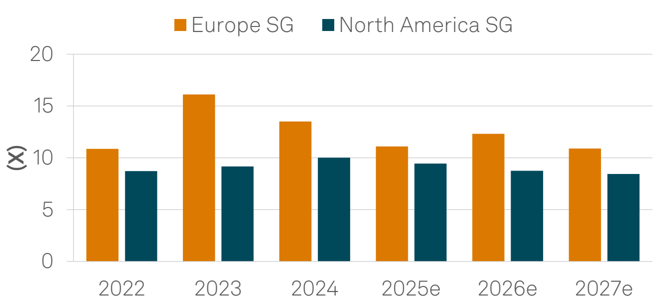
Debt/Capital



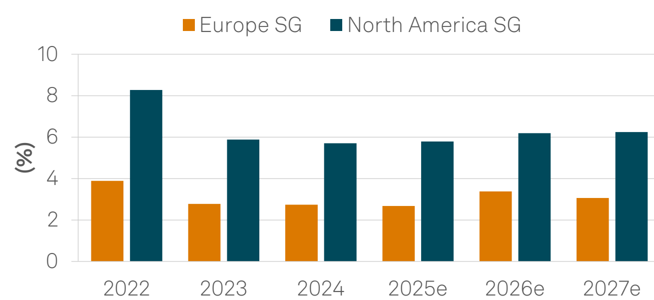
EBITDA interest coverage



Debt/EBITDA (adjusted)



FFO / Debt



Source: S&P Global Ratings. e--estimate. FFO—Funds from operations. FOCF—Free operating cash flow. Data as of Dec. 31, 2025.