



A C T I V E

C A P I T A L

The \$144bn question: How do global investors plan to deploy in 2026?

Welcome to the Knight Frank Active Capital Survey

The Knight Frank Active Capital Survey 2026 represents the views of **119 global investors, covering \$1.4tn+** of commercial real estate and tracking **\$144bn of planned global capital.**

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1

Key findings

Global capital is set to focus on strategies anchored in income resilience, sectoral transformation and long-term structural themes.

1

87% of investors, by AUM, plan to increase investment and 62% by responses expect to be net buyers. This rises to 74% for core investors, signalling heightened competition for prime assets amid potential for a supply – demand imbalance in some markets.

6

Return requirements are a critical determinant of transaction activity – and we hold the insight. Active Capital provides the analysis behind these dynamics to help clients and investors navigate the market with confidence.

2

More than 2/3rds of respondents would consider partnerships or joint ventures as a means to access new markets, scale and complexity. This equates to \$94bn of AUM.

7

Offices are set to be the most targeted sector (69%) but with selective conviction and a focus on prime, ESG-compliant assets in core CBDs, and repriced secondary assets with repositioning potential.

3

The UK tops the list globally for our survey respondents 60% are planning to target the UK in 2026, with Germany close behind. Beyond Europe, Australia and Japan break into the top ten destinations.

8

Living Sectors are the second most targeted sector (65%) with multifamily (46%) and student accommodation (35%) attracting the most planned investment by number of responses.

4

Core is back with \$37bn planned investment targeting this strategy. Core retains the highest average portfolio weighting (51%) among those targeting it.

9

Industrial / Logistics remains a high-conviction play with 63% targeting the sector. Meanwhile, retail is back on the radar with 56% of investors planning allocations.

5

Expect dispersion in core hurdle rates. Unlike Core Plus and Value Add, which exhibit relatively tight clustering, Core hurdle rates show wider dispersion across sectors and geographies reflecting variations in risk-free rates and liquidity conditions.

10

Operational real estate gains traction as investors widen their net to capture structural tailwinds.

2

Capital on the move: How investors are targeting direct commercial real estate in 2026

Net buyers

87% of respondents by AUM plan to increase investment in direct CRE in 2026. 62% expect to be net buyers and only 12% expect to be net sellers, potentially creating a structural imbalance that could tilt certain markets towards a seller's advantage.

Liquidity is back, but uneven

The headline signals strength, but supply constraints and execution risk – the challenges of sourcing, competing, structuring and closing deals – will shape outcomes. Weighted by AUM, North American investors account for almost half of the capital planning to increase investment. More than 90% of respondents set to increase investment, weighted by AUM, aim to target Europe, including the UK.

Investment Managers and institutional capital more likely to increase investment

Investment Managers and institutions are more evident among investors planning to increase allocations in 2026 than in the overall survey.

Of those signalling an increase, 53% are investment managers by AUM. Institutional capital also carries greater weight by AUM, accounting for 24% of planned increases versus 21% in the full survey.

This reinforces the likelihood of competitive bidding for Core and Core Plus assets, given institutional preference for defensive strategies and the scale of capital they control.

Offices and industrial/logistics are top of the hit-list for 2026

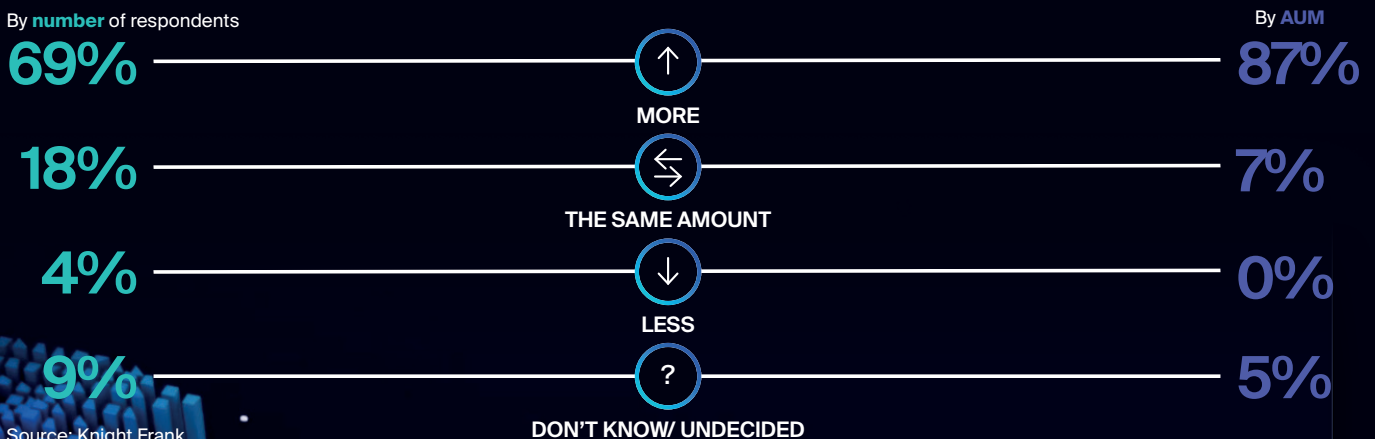
Just under two-thirds of investors planning to increase allocations in 2026 intend to target both industrial/logistics and offices, ranking them as joint top sectors. However, this reflects overall targeting rather than a guarantee that these sectors are where incremental capital will be deployed.

Strategies reflect tactical behaviour

Investors in the survey planning to increase investment favour Core Plus (81% by number and 88% weighted by AUM of investors set to increase) and Value Add (75% by number and 86% weighted by AUM of investors set to increase). However, just under two thirds of investors looking to increase investment by number and just over three-quarters of investors looking to increase investment by AUM plan to target Core, signalling renewed appetite here as well.

87% of investors expect to increase investment in 2026

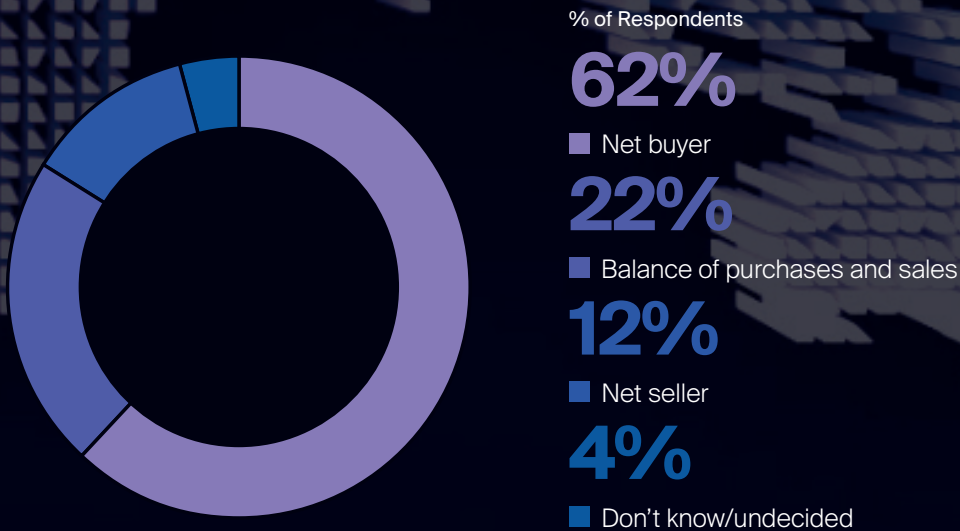
How much, by value, do you expect to invest in direct commercial real estate globally in 2026 compared to 2025?



Source: Knight Frank

62% of respondents planning to increase investment in 2026 expect to be net buyers

Do you expect to be a net buyer or net seller in 2026?



Source: Knight Frank

Smaller investors lead the charge – direct CRE allocations also set to rise for over 40% of mixed asset investors.

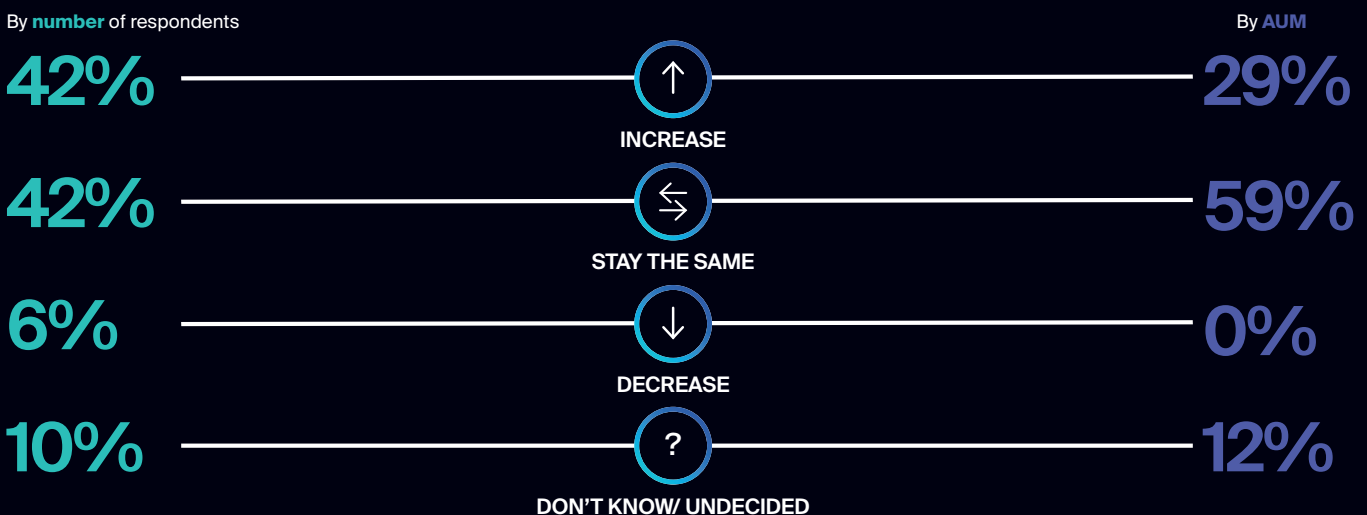
42% of respondents who are not pure direct CRE investors by number plan to increase allocations in 2026 and 29% when weighted by AUM.

This indicates that optimism is concentrated among smaller investors, although institutional (traditional Core investors) mixed-asset investors dominate by AUM.

For those which are not pure direct CRE investors, mean allocations to direct real estate are 54%.

42% of mixed-asset investors expect to increase allocation to direct CRE in 2026

How do you expect your percentage share of AUM allocated to direct CRE to change over 2026?



Source: Knight Frank

How do these allocations compare?

Survey respondents exhibit significantly higher allocations to direct CRE than industry benchmarks suggest. According to PERE data, allocations for broad-based mixed-asset investors have historically hovered between 7.5% and 9.5% of total AUM, with target allocations typically in the 9–10% range.

Recent PERE analysis, by fund vintage, indicates that actual allocations to direct CRE have declined as a percentage of total AUM in recent years, but the long-term linear trend indicates that both target and actual allocations are increasing, albeit at difference paces.

The gap between target allocations and actual allocations is also narrowing, suggesting increased alignment between investor intent and execution. This also means that even if target allocations stabilise, there is likely to be latent capacity for increased demand for direct CRE in the coming years from a higher proportion of target allocations being realised through actual allocation.

The gap between target allocation and actual allocations is narrowing

Target vs current allocations by fund vintage %



Source: PERE, Knight Frank

3

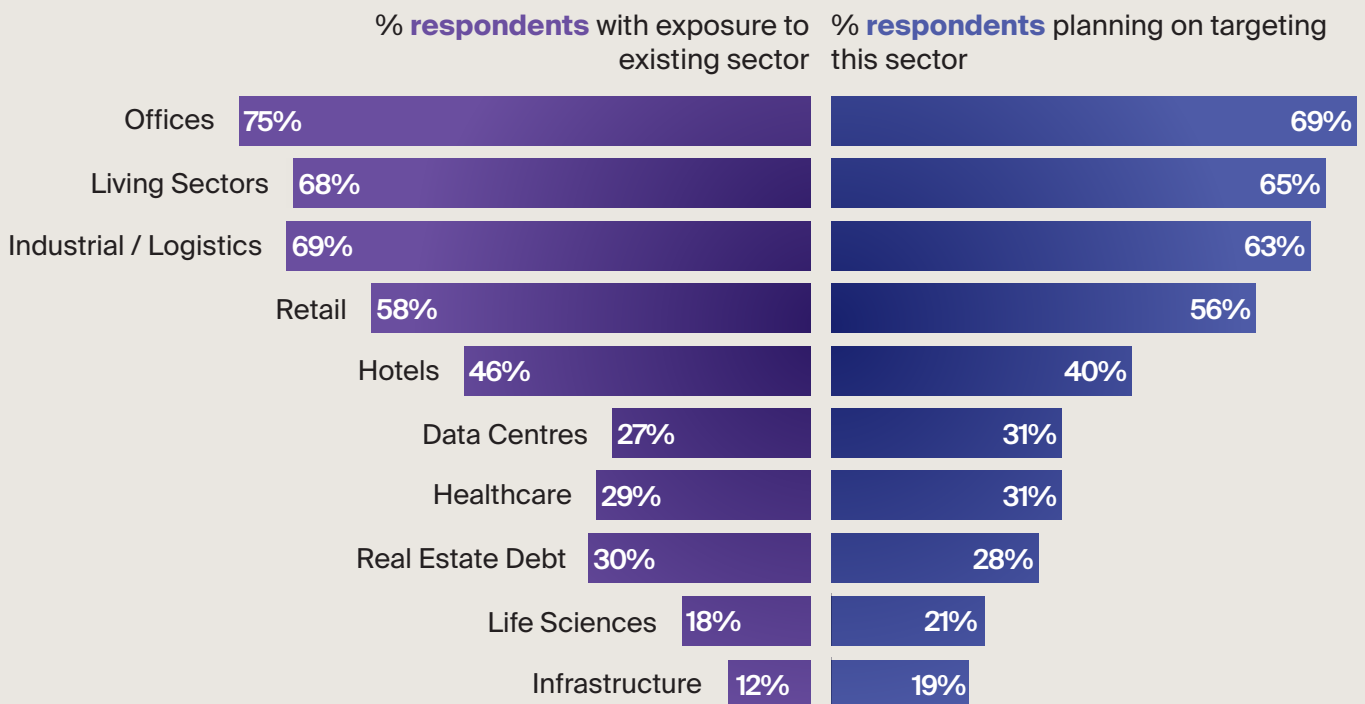
Sector strategy for 2026: Offices to anchor allocations as demographics and technology drive diversification

Offices back on the wish list

Offices are set to be the top targeted sector in 2026. While being top of the wish list, this is a smaller proportion of respondents than those with existing office holdings (75% of respondents) suggesting conviction remains selective. Investors, particularly institutional are likely to focus on prime,

ESG-compliant assets in core CBDs, where there is income resilience. Well-located assets with good bones in secondary geographies, where pricing has adjusted to a level to make refurbishing or repricing accretive are also likely to be of interest.

Offices set to be the most targeted sector in 2026



Source: Knight Frank

Logistics and living still conviction themes

Logistics and living sectors are set to continue to anchor planned investment allocations for 2026. Multifamily dominates planned investment allocations, most commonly in the 10–20% band. Within the living sectors, Single-family rental is seeing the most notable increase in interest.

In terms of living sub-sectors:

Multifamily dominates planned investment allocations, most commonly in the 10–20% band

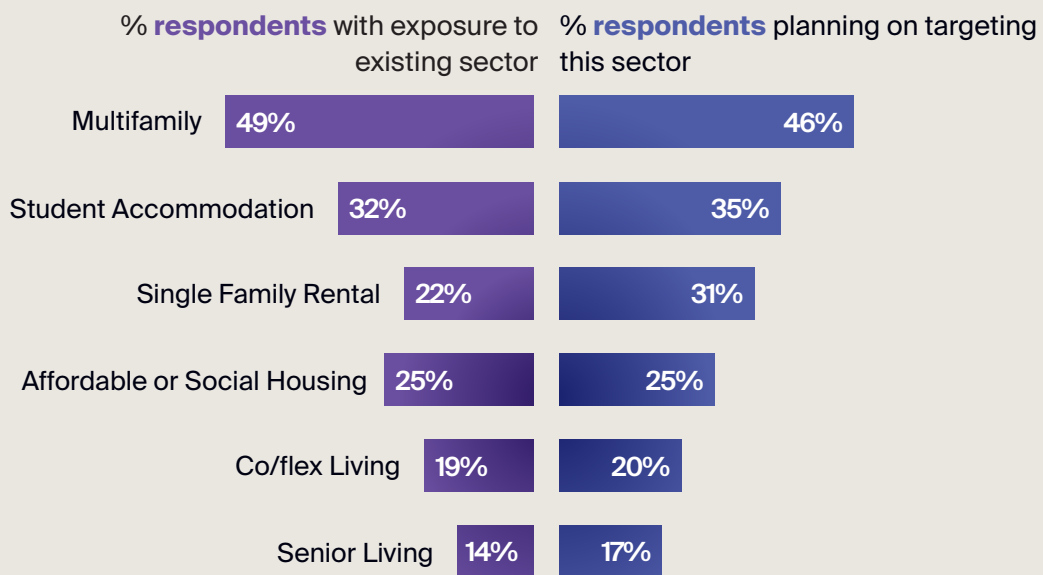
Student accommodation: 35% of respondents plan to target this (up from 32% with existing exposure)

Single-family rental: 31% (up from 22%), this is a notable increase in interest

Senior Living: 17% (up from 14% with existing exposure).

Multifamily set to be the most targeted Living Sector in 2026

Living Sectors



Source: Knight Frank

Operational sectors continue to attract new investors

From data centres to infrastructure, investors are widening their net to capture structural headwinds:

Data centres: 31% plan to target (vs 29% current exposure)

Healthcare: 31% (vs 27%)

Life Sciences: 21% (vs 18%)

Infrastructure: 19% (vs 12%)

Senior Living: 17% (vs 14%)

While planned investment allocations are set to remain modest on average (typically 1–10%), their inclusion signals a structural shift towards thematic growth and income resilience. The above highlights that demographic changes and technology adoption are shaping sector strategies at least at the fringe.

“The survey results indicate that investors are prioritising lot sizes that allow speed, flexibility, and the ability to layer capital across multiple positions.”

Diversification – a strategic imperative, with nuance

The survey results indicate that while traditional sectors for now remain the stalwart, thematic diversification and exposure is increasingly on the agenda. Execution risk is likely to be highest in sectors requiring operational expertise, reinforcing the need for partnerships and specialist capability to manage this risk and unlock the necessary returns.

Mid-market deals anchor deployment across target sectors

Mid-market deals (50<100 million in respondents chosen currency) will remain the engine of global deployment, striking the balance between meaningful scale and execution efficiency. The survey finds that larger tickets (250 million +) will concentrate in industrial / logistics, offices and retail, while living and operational sectors add depth at smaller sizes

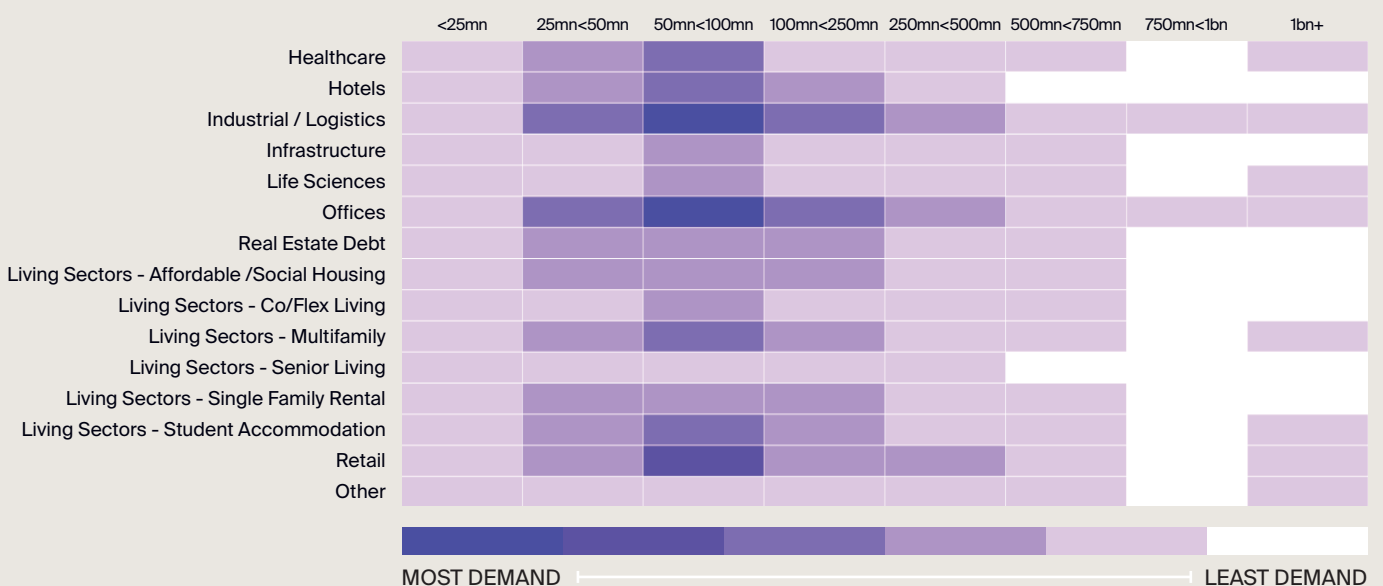
on average. Deals in the 50<100 million bracket dominate. The next most liquid ranges are 25<50 million and 100<250 million.

This reflects a market where pricing clarity is emerging selectively and the investment committee favours relatively more bite-sized execution over single-ticket concentration.

Based on survey intentions, the mid-market is forecast to remain the liquid centre of global CRE investment. The survey does indicate appetite for larger transactions to occur – and this is typical at this stage of the cycle, but it is likely these will occur selectively. They are likely to be anchored in sectors with structural tailwinds and pricing clarity. This also indicates that for some investors, deploying at scale will mean multiple mid-sized positions and / or partnering for access to larger, more complex opportunities.

Mid-market deals most liquid

Targeted lot size by number of respondents



Source: Knight Frank, Lot sizes in chosen currency (Eur, GBP, USD etc). Investors could choose multiple options.

4

Capital strategies: Defensive anchors, opportunistic plays and the rise of partnerships

The Active Capital Survey 2026 indicates an investor base delicately balanced between caution and conviction.

Planned investment allocations split almost evenly between defensive strategies and higher-risk approaches, a structural reality in an environment where ongoing resilience matters as much as outright return.

Capital runs along the spectrum from stability to opportunity

Planned capital deployment for 2026 is split across risk strategies.

26% planned of investment is set to target Core (\$37 bn), 23% Core Plus (\$33 bn), 19% Value Add (\$27 bn) and 28% Opportunistic (\$40 bn).

This reflects a complex, early cycle market where investors are managing downside risk and looking for income, while positioning for opportunities in sectors with structural tailwinds.

Core Plus leads intent, but core remains the anchor

Core Plus dominates intent (69% of respondents), yet Core retains the highest average portfolio weighting, 51% among those planning to target core in 2026. This underscores Core's enduring role as a stabiliser, a hedge against volatility and a foundation for income resilience.

Opportunistic strategies – target repricing and complexity

Opportunistic strategies, targeted by 28% of respondents, are likely to be focused on repricing and thematic growth, particularly in offices with repositioning potential, logistics in Europe and the US, and living sectors such as multifamily and co/flex-living.

Return targets highlight the risk premium

Respondent IRR expectations scale predictably with risk:

Core: mean 7.4% unlevered; 9.5% levered

Core Plus: 9.1% unlevered; 11.7% levered

Value Add: 11.7% unlevered; 16.1% levered

Opportunistic: 15.3% unlevered; 20.1% levered

The gap across strategies, up to more than ten percentage points on a levered basis, reflects liquidity, complexity, execution risk and market volatility, reinforcing the need for disciplined underwriting and selective positioning.

The required returns also indicate that investors less reliant on leverage retain a pricing edge in competitive bidding, particularly for higher-risk strategies where debt cost volatility can materially impact outcomes.

For a deeper dive into how return strategy analysis underpins these decisions, [see page 12](#).

“This willingness to collaborate is likely to also unlock new sources of capital for commercial real estate and potentially stimulate selling activity through selling down stakes in assets to release capital for redeployment.”

Partnerships to become strategic accelerators?

68% of survey respondents indicated they would consider joint ventures or capital partnerships, with only 10% ruling them out entirely. These structures are increasingly attractive because they deliver three key benefits.

First, they provide access to specialist expertise, enabling investors to enter sectors benefiting from structural tailwinds, such as data centres. Second, they allow for diversification across sectors and the risk spectrum, which is particularly valuable in an environment where resilience and balance are priorities. Third, they create the ability to access large lot sizes, a critical factor in capital-intensive sectors where ticket sizes can otherwise be prohibitive for individual investors.

Restraints on transactions over the past 18–24 months have also resulted in some investors holding assets longer than initially anticipated. In many cases, these assets fall outside their typical business focus, creating a mismatch between operational expertise and strategic intent. Bringing in specialist expertise and/or fresh capital to carry through the next business plan is often the most effective solution. This dynamic reinforces the appeal of partnerships, not only as a means of accessing new sectors but as a pragmatic response to legacy holdings that require repositioning or active asset management to unlock value.

The high proportion of respondents open to these structures underscores that partnerships will become increasingly central, not only for higher-return repositioning strategies but also for core approaches seeking scale, local expertise or diversification.

At a glance

Core poised for recovery – but gradual, not a big bang

After a prolonged period of retrenchment, Core investment is set to regain momentum in 2026, driven by stabilising debt costs, narrowing bid-ask spreads and improving return profiles. Liquidity will return selectively, anchored in markets with transparency and pricing clarity.

Investor conviction strengthens

63% of respondents intend to include Core within their investment strategies

This equates to \$37bn of deployable capital among survey participants

74% of Core investors expect to be net buyers in 2026, signalling heightened competition for prime assets

Average planned allocation to Core among those targeting it is 51% – the highest of any strategy

Risk appetite rebalances

Planned capital deployment for 2026 is split across the different risk strategies. 26% planned of investment is set to target Core (\$37 billion), 23% Core Plus (\$33 billion), 19% Value Add (\$27 billion) and 28% Opportunistic (\$40 billion) (does not total 100% as not all investors specified strategy percentages).

Core sector priorities

Offices, logistics and living sectors anchor allocations

Emerging plays include single-family rental and infrastructure, albeit at modest weights

Core geographic focus

UK and Germany lead core destination rankings, followed by France, Spain and the Netherlands

Japan and Australia emerge as diversification plays

Who is driving Core allocations?

Investment managers dominate by number and AUM; institutions add weight, prioritising stability and liability matching

North American capital expected to shape liquidity in Europe and Asia-Pacific

Strategic implications

Early positioning in prime assets likely key as competition set to intensify

Partnerships and collaborative structures likely to accelerate access to scale and complexity

5

Core capital returns: The outlook for core liquidity, recovery and strategy in 2026

Core by numbers: What the Active Capital Survey data reveals

The overall survey captured the intentions of 119 global investors, collectively representing more than \$1.4 trillion of AUM and dry powder of \$144 billion to deploy in 2026.

Within this:

- 63% of respondents stated they intend to target Core as a strategy in 2026

- An estimated \$37bn of investment capital within the survey pointed towards targeting core strategies in 2026

- For investors targeting Core, the average planned proportion of investment spend is 51%, the highest of any strategy

- 74% of investors targeting core are set to be net buyers in 2026

This reflects strong conviction in Core strategies but also points to a structural challenge if demand outstrips available stock for sale. While the imbalance may be less severe than headline figures suggest, as many sellers may not be targeting core, so not captured in this statistic, the result is likely heightened competition for prime assets, particularly in gateway markets. For investors, this underscores the need for early positioning and, in some cases, partnership structures to secure scale.

A look back on activity

Core capital has seen a significant reduction in activity over recent years, a pattern largely shared across the risk spectrum.

Rising interest rates and bond yields, pauses in activity amid uncertainty, limiting comparables and increasing opacity, as well as persistent bid-ask spreads have all contributed to constrained deployment. This led to retrenchment for both Core and non-Core investors alike. The difference lies in the pace of recovery. Non-Core investors, while still not back at pre-pandemic levels, have been re-engaging more quickly.

These investor types include private equity, which traditionally focuses on value add and opportunistic strategies albeit, in recent years, broadened its remit to include Core Plus and selectively, Core strategies. Private equity's ability to be nimble, capture early-cycle opportunities and create product in newer sectors typically sets the stage for more defensive, institutional capital to follow – also acting as a leading indicator of cycle turns.

Core investors, such as sovereign wealth funds, pension funds and insurers, typically operate under mandates prioritising income stability and capital preservation. Their decision-making processes involve multiple layers of investment committees and pre-agreed strategies, requiring clear evidence of recovery and pricing stability before action. This structural caution explains why Core volumes reached a trough towards the end of 2024 and have been slower to rebound, even as opportunistic and value add capital turned the corner in late 2023.

Mercer's 'Top considerations for Insurers 2025' reinforces this outlook, noting that US 10-year Treasury yields reduced to around 4.0% by late 2025 (down 50bps since the start of the year) and that "a steady decline in base rates is the most likely scenario" into 2026. While bond yields remain elevated compared to pre-2022 norms, they suggest that the trend is towards moderation rather than further sharp increases. This compresses the relative advantage of fixed income and strengthens the case for Core real estate as a defensive allocation with long-duration income streams.

Indeed stabilising bond yields help narrow bid-ask spreads, support restoration of confidence in valuations and likely help unlock investment committee approvals in governance-heavy institutions.

Portfolio rebalancing by institutional investors

Some institutional capital such as pension funds and insurers, may have needed to dispose of liquid, more quickly saleable, prime assets over the last few years to rebalance portfolios against strategy constraints and liquidity needs. This means that some may hold a higher proportion of secondary or Core Plus assets which do not meet their long-term risk and liability matching requirements. This is likely to support rotation out of secondary/Core Plus and back into Core over 2026 as governance frameworks prioritise stability and income.

Indeed, Mercer's 'Themes and opportunities 2026' and 'Top considerations for insurers 2025' both emphasise governance-led prioritisation of stability and liability matching as volatility subsides. Insurers are advised to "stay close to strategic asset allocations, maintain liquidity discipline, and deploy longer-term assets effectively."

Sector focus for Core investors remains anchored in traditional segments:

Offices: 63% of Core investors plan to target this sector (versus 69% overall)

Living sectors : 60% (versus 65% overall)

Industrial/logistics: 59%

Retail: 54%

Why core capital is set for conviction

The reasons are both performance-led and structural:

Sustained positive total returns and early signs of return of capital value growth.

Recent trends in global core property funds point to a sustained recovery in total returns, with early signs of improvement in capital growth, a critical component for core investors. Based on the MSCI Global Quarterly Property Fund Index (Unfrozen), most regional and sector clusters have delivered positive annualised total returns for two consecutive quarters (albeit with Asia Pacific and North America 'Other' as exceptions).

At a global level, retail led the turnaround in total return from mid-2024, followed by logistics and hotels later that year, residential towards year-end, and offices returning to positive territory by summer 2025. This core story has been largely income return, with capital growth dragging total returns temporarily into negative territory. Indeed annual income returns in the MSCI Global Quarterly Property Fund Index (Unfrozen) at the sector level have remained consistently positive since the inception of the index in 2008.

The capital growth picture is more nuanced but also increasingly encouraging. Logistics, retail and residential sectors moved back into positive growth during 2024, while offices remain marginally negative at the time of writing. The nuance is that office capital growth has improved significantly from deep negative territory in early 2024 to near-neutral levels by Q3 2025. This trajectory suggests that the missing piece for core investors, capital appreciation, is beginning to re-emerge, reinforcing confidence for investment activity by core investors in 2026.

Five questions that define the future of core capital

To understand the contours of Core's resurgence, we examine five critical questions. Each reveals where liquidity will originate, which markets will lead recovery and how investor behaviour is set to evolve.

1.

Where is Core capital coming from?

Europe dominates by count, North America drives scale.

Core capital for 2026 is concentrated in two regions based on the Active Capital survey results, although the picture is more nuanced than headline numbers suggest. European-headquartered investors account for more than 70 per cent of those planning to target Core as their only or one of multiple strategies. However, this may partly reflect survey composition, as around 71% of all respondents have headquarters in Europe.

Analysing PERE, of the 27 PERE 2025 vintage core funds, 42% of institutions by value are based in Europe, 35% in North America and 20% APAC.

By scale, North America punches above its weight. While only 10 per cent of Core Active Capital survey respondents by number are headquartered in the region, they account for 18 per cent of planned Core investment. North American capital over the year ahead is likely to drive scale and accelerate early-cycle opportunities, particularly in Europe and select Asia-Pacific markets. For investors, the implication is that competition for prime assets will be shaped by governance priorities on one side and deployment speed on the other. Those who act early and who embrace collaborative structures to access complexity and scale, are more likely to secure a liquidity premium before it is fully priced in.

2.

Which markets will Core investors prioritise first?

Gateway locations to lead the charge, Asia-Pacific adds selective growth.

The Active Capital Survey evidence points to a clear centre of gravity for capital which will target core as their only or one of multiple strategies in 2026. The UK and Germany dominate destination rankings, followed by France, Spain and the Netherlands. These markets combine liquidity, transparency and repricing, creating early-cycle entry points where pricing clarity and depth of demand converge. Among Core investors, the UK captures around 60% of planned Core allocations, signalling strong conviction in markets where governance frameworks and transparency align with income resilience. The UK has been the top destination for international capital in recent years and Germany the top mainland destination, underpinning their long-term liquidity.

Beyond Europe, Japan and Australia feature prominently. Both markets offer structural growth drivers and for Japan particularly, favourable debt costs, making Core strategies relatively more accretive relative to other geographies. This reflects a broader trend identified in the survey: investors are prioritising markets where swap rates and financing conditions support underwriting discipline, particularly for long-duration income streams.

3.

Which sectors will Core investors target?

Traditional sectors remain the anchor, with nuanced differences compared to the wider market.

The Active Capital Survey indicates that investors who are set to target Core as their only or one of multiple strategies will prioritise sectors that combine liquidity, income resilience and pricing clarity.

Offices: 63% of investors who will target Core, plan to invest in the offices sector. The most common office range of total investment for core investors is 10-20%, but just under 30% of investors will be targeting a higher proportion than this over the year ahead.

Living: 60% of investors who will target Core plan on investing in this sector, versus 65% overall. Core investors remain active in living sectors, particularly multifamily and co/flex-living, but with slightly less breadth than the wider market.

Industrial/Logistics: 59% of investors who will target Core plan on investing in this sector, versus 63% overall. While 'traditional sectors' are most frequently set to see core investors invest 10% to 20% in these, for Industrial / Logistics up to 40% of planned investment will be targeted by a significant proportion of core investors as well. This underscores that investors see a continued place for logistics in their portfolios driven by ongoing trade frictions and in some global locations, enhanced defence spending and continued e-commerce tailwinds.

Retail: 54% of investors who will target Core plan on investing in this sector, versus 56% overall.

Compared to the overall survey respondents, Core investors also indicate they plan to marginally narrow their sector focus, reducing from an existing average of five sectors to four in 2026. Despite this the results suggest some core investors will newly target Single Family rental, infrastructure and 'other'. While selective diversification into single-family rental and infrastructure is emerging, planned investment allocations remain relatively modest compared to traditional sectors apart from infrastructure, which is set to receive up to 20% of planned investment by investors.

Offices, logistics and living sectors will anchor allocations, while retail offers tactical upside in markets where repricing has created entry points and selective 'newer' sectors with structural tailwinds will provide exposure to underlying long term growth. For investors, this again indicates that early positioning in prime assets and readiness to act will be important, particularly in gateway locations and logistics hubs where competition for Core product is likely to intensify.

“Overall, survey respondents indicate that Core investors will concentrate on sectors where transparency, liquidity and income resilience converge.”

Gateway locations to lead the charge for core respondents

Top 10 core destinations

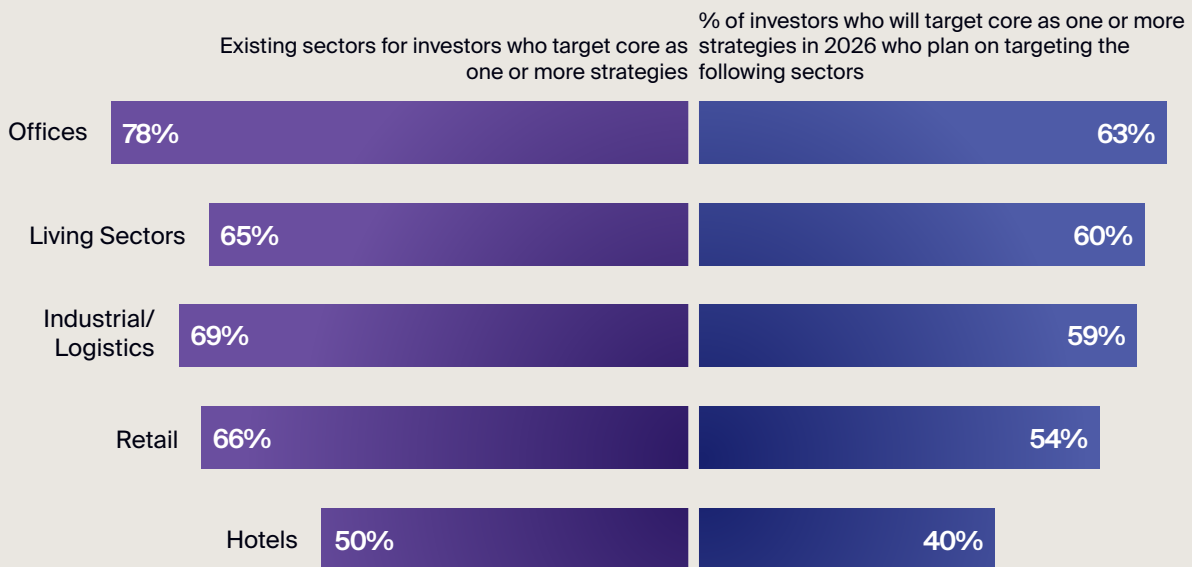
- 01 UK
- 02 GERMANY
- 03 FRANCE
- 04 SPAIN
- 05 NETHERLANDS
- 06 AUSTRALIA
- 07 JAPAN
- 08 IRELAND
- 09 ITALY
- 10 SINGAPORE
- DENMARK
- POLAND
- UNITED STATES



Source: Knight Frank

Offices, Living Sectors and Industrial / Logistics top sectors for core investors

Top 5 sectors targeted by core investors in 2026 by number of respondents



Source: Knight Frank

4.

How is risk appetite shifting across strategies?

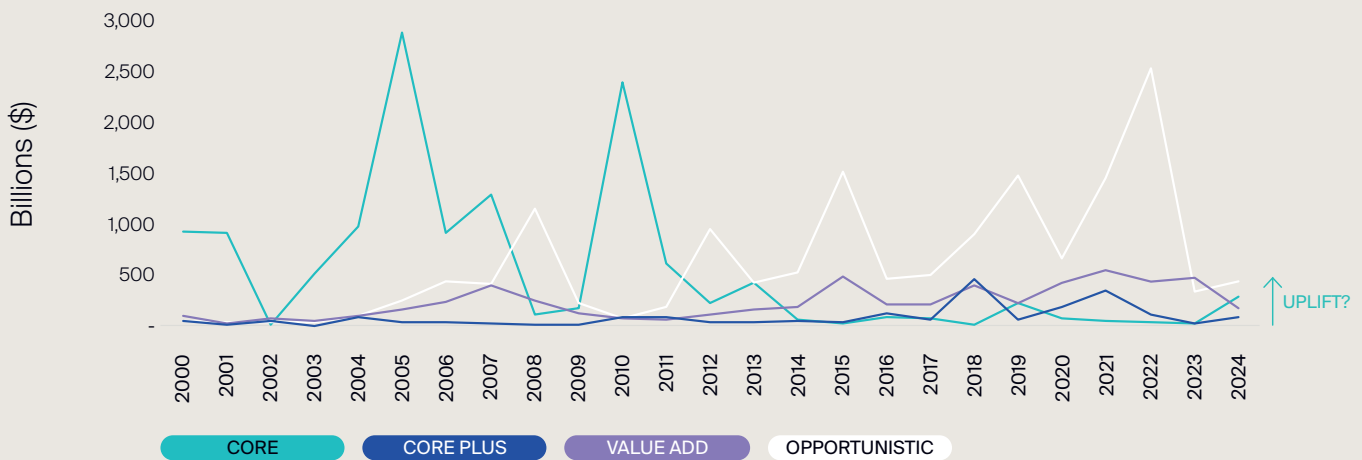
Traditional sectors remain the anchor, with nuanced differences compared to the wider market.

Planned capital deployment for 2026 is split across the different risk strategies. 26% planned of investment is set to target Core (\$37 bn), 23% Core Plus (\$33 bn), 19% Value Add (\$27 bn) and 28% Opportunistic (\$40 bn)¹.

Analysis of PERE data by vintage year underscores this trend:

Core poised for a comeback?

Fund value by vintage and strategy targeted



Source: PERE, Knight Frank

Timeline

2000-2007

Core dominance and stability: Recovery from the dot-com bubble and structural investor preference drives core.

Core strategies accounted for the largest share of fund size, reflecting a period of recovery from the earlier dot-com bubble, relative stability and economic expansion. Core strategies dominated due to structural investor preference, rather than the ultra-low cost of capital that defined the post-global financial crisis (GFC) cycle.

2000-2012

Pivot to Opportunistic

Opportunistic allocations increased, initially as investors sought higher returns in a crowded market, and then as they targeted distressed and repricing plays through the GFC.

2015-onwards

Opportunistic capital peaks in 2021-2022

Opportunistic funds continued to capture the lion's share of capital, peaking in 2021-2022, while Core and Core Plus strategies remained relatively niche.

2023-2024

Momentum starts to shift to lower risk strategies but opportunistic still dominates

Early signs of moderation appear, with Core allocations increasing modestly, but Opportunistic still dominates absolute fund size in the PERE database.

2026

Core poised for a comeback

Survey signals the start of rebalancing. Core set to find favour as debt costs ease, returns improve and investors gain confidence through an improving track record.

¹ Does not total 100% as not all investors specified strategy percentages

Core Plus leads intent for 2026, while core is predicted to anchor investment allocations

The Active Capital Survey finds that Core Plus will be targeted by 69% of respondents, but Core retains the highest average investment allocation at 51% of planned investment among those targeting it. Among investors planning to increase investment, Core is targeted by 76% by AUM.

This analysis reinforces the wider narrative - while fundraising trends have favoured opportunistic strategies mirroring the risk in Private Equity might, survey evidence suggests Core is regaining relevance in direct investment intentions, driven by stabilising debt costs, likely narrowing bid-ask spreads and a growing track record of performance. The interplay between historical capital formation and current investor behaviour highlights a critical question for 2026, will execution follow intent, especially given the high proportion (74%) of self identified net buyers targeting core?

IRR return requirements match relative risk

Core strategies are set to continue to anchor institutional portfolios, supported by the lowest hurdle rates across the risk spectrum. Survey data indicates average unlevered IRR requirements of 7.4% (range 4%-9%) and levered IRRs of 9.5% (4% - 20%), compared with double-digit targets for higher-risk strategies.

Dispersion in core hurdle rates

Unlike Core Plus and Value Add, which exhibit relatively tight clustering, Core hurdle rates show wider dispersion across sectors and geographies. This reflects variations in risk-free rates and liquidity conditions. For example:

Sectoral differences: Average levered Core IRRs range from ~7.5% (4% - 10%) for investors focused on student accommodation to 9%+ for those including offices and logistics (range 4 - 20%).

Geographic variation: Investors targeting Australasia report average levered IRRs of 8.5% (range 4% - 10%), compared with 9.6% for Asia range (4% - 20%). These differences highlight Core's heightened sensitivity to local interest rate environments and liquidity, where sovereign risk premiums and swap rates remain elevated.

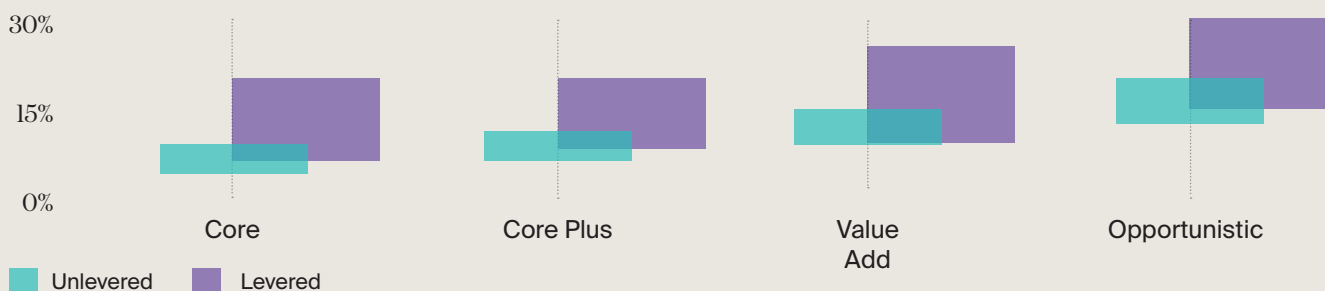
Relative return

With government bond yields easing from recent highs, debt costs nudging lower, and pricing adjusting, Core's 210bps differential between average unlevered and levered IRR target return is significant. The spread between Core and Opportunistic strategies of 10-12 percentage points on a levered basis, also remains material.

Incremental return requirements for leverage range from +2.1% for Core to +4.8% for Opportunistic, underscoring that investors less reliant on debt retain a structural advantage in competitive bidding. While this is most pronounced for higher-risk strategies, it also benefits Core investors who can deploy equity without leverage.

Investor hurdle rates follow a clear hierarchy across strategies

Range of IRR required returns by strategy (%)



5.

Who is set to invest in Core?

Investment managers dominate; institutions add weight.

The profile of Core investor-type adds another layer of insight. Investment managers dominate, representing 60 per cent by share of planned Core investment, underscoring their role as liquidity providers and execution specialists.

Institutional investors account for 23 per cent by planned investment, reflecting stability, income and liability matching priorities. Multi-strategy investors dominate by number, particularly blending Core with Core Plus and Value Add.

Core's strategic reset: Act early or miss the window?

Liquidity is returning, competition will define the winners.

Core is not just recovering, it is set to shape the investment playbook over the year ahead. With \$37 bn of capital committed and 74% of core investors signalling net buying intent, the race for prime assets is on. Europe will lead by breadth, North America by depth, driving flows into gateway markets where transparency and repricing converge.

Stabilising debt costs and narrowing bid-ask spreads are set to enhance activity, but the imbalance between intent and available stock will intensify competition. Those who embrace partnerships and collaborative structures will secure scale and complexity before pricing fully adjusts.

This is not a “big bang” rebound, but it is a strategic inflection point. Core is set to reassert its role as the cornerstone of institutional portfolios, offering resilience and liability matching. For those prepared to act decisively, 2026 looks set to offer an opportunity to shape the next cycle.

“Investor responses reflected a clear playbook - move early and move smart.”

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From core to complexity: What investor hurdle rates tell us about 2026

Required returns scale with risk

The average gap across strategies, up to more than ten percentage points on a levered basis, reflects liquidity, complexity, execution risk and market volatility. This reinforces the need for disciplined underwriting and selective positioning.

For the following analysis, we focus on levered IRR return requirements, as this was the most reported metric. However, investors use a variety of measures, including unlevered IRR, Equity Multiple and Cash-on-Cash.

For some Core investors, including sovereign wealth funds, timing of cash flows is less relevant, making cash-on-cash a preferred metric. This explains why there is less levered IRR required return data at the Core end of the tables that follow.

Levered Return Analysis

1. Returns are broadly consistent across key sectors: Offices, logistics and residential show tight clustering of average levered IRR required returns for Core Plus ($\approx 11\%$) and Value Add ($\approx 16\%$), while the ranges for these sectors span 8%-20% for Core Plus and 10%-25% for Value Add. This consistency of average returns for each strategy suggests investors price risk similarly for liquid, transparent sectors.

2. Core shows wider variation: Core average levered IRR hurdle rates range from 7.5% in living sectors to over 9% in offices/logistics, the ranges for these sectors are 4% - 15% and 4% - 30%, respectively.

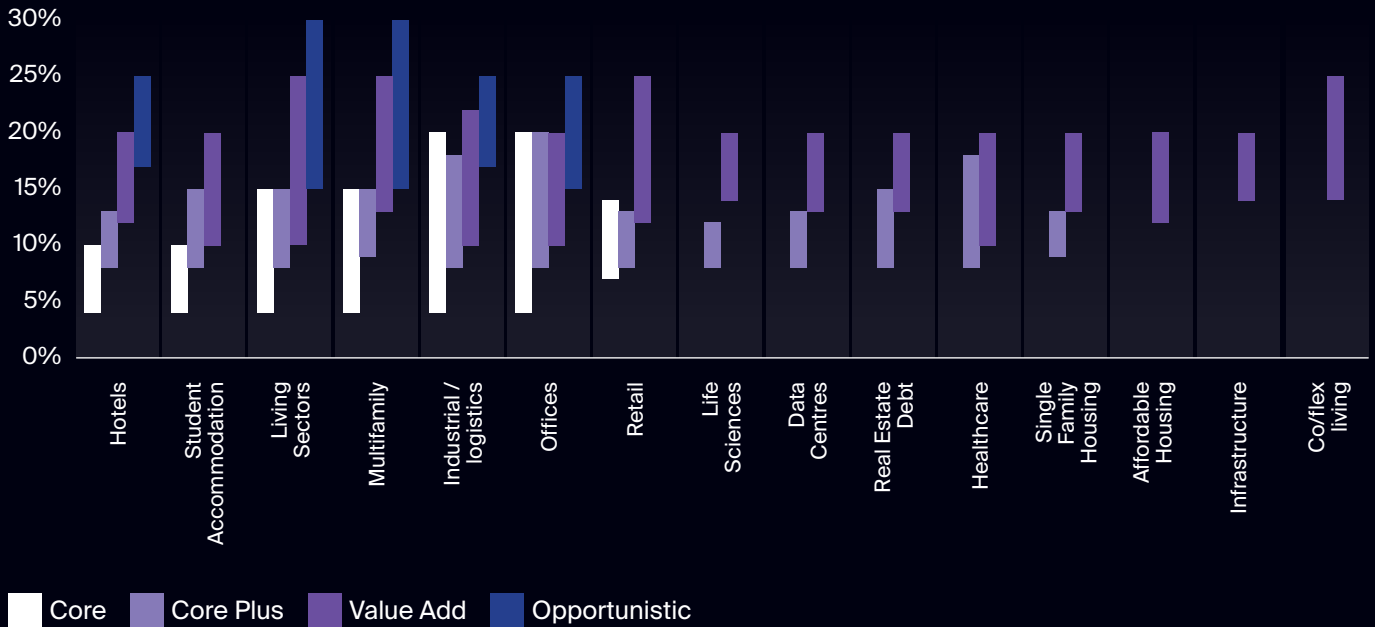
This reflects sensitivity to country risk premiums and liquidity differences. This indicates it is important to stress / scenario core assumptions against interest rate movements and liquidity outlooks.

3. Living sectors stand out: Student accommodation and multifamily have lower average Core IRR hurdles (7.5%-8.7%) (ranging between 4%-10% and 4%-13%, respectively), signalling perceived income resilience and demographic-driven demand. Value Add average IRR hurdles rise above other sectors however, potentially reflecting operational complexity and nascent product in some markets at this level of risk.

4. Operational sectors demand higher returns at riskier strategies: Investors targeting Data centres, healthcare, life sciences and infrastructure have average levered required returns in excess of 16% for Value Add (Value add across these sectors range from 13/14% - 20%, apart from healthcare which ranges from 10% - 20%). However, Core Plus hurdles appear relatively competitive by contrast (\approx averaging 10-11% and ranging between 8% - 13% for Data Centres, 8% - 18% for healthcare, 8% - 12% for Life Sciences and 8% - 15% for Infrastructure), indicating risk escalates more sharply than some other types of sectors. Investors indicate that JV and capital partnering structures which tap into specific expertise, are likely to be key across these sectors.

“Non-IRR metrics and unlevered IRR required return are more common for lower-risk strategies, where incorporating time value of money, or leverage, has more recently been less accretive.”

Target return spread by sector



Source: Knight Frank

Caveat

These figures are not returns for each sector alone. They represent the average levered IRR required return for investors who include these sectors within multi-sector allocations. This may 'hide' or distort some of the relative differences in sector targets. Sector-specific pricing will vary by asset quality, geography and execution complexity.

Capital sources and return requirements

Location of investor appears to have greater impact on required return than investor-type, while acknowledging that leveraged IRR required return comparables are more limited as investors use a range of return target types across strategies not captured here.

Investor HQ location

UK-headquartered investors report materially higher average leveraged hurdle rates for core plus (c.5%) compared with other European peers at c. average 10.7%, although the ranges are similar, with UK core plus HQ responses ranging from (10% - 18%) and Europe excl. UK responses ranging from (9% - 18%).

A key driver of the difference in averages is likely due to the swap rate differential with average 5-year swap rate for Euribor opening the year at around 2.37% while 5-year Sonia sat at 3.58%.

This also likely explains why interest rates are listed by 51% of investors as being a top three thematic driving commercial real estate investment. Hedging costs are also likely to be a focus of cross-border investors too.

Levered return analysis by destination

Similar to the sector-level analysis, average levered Core IRR required return requirements by destination vary more widely (c.119 bps) than Core Plus or Value Add.

This dispersion at the Core end likely reflects the influence of the risk-free rate, which varies across locations and forms a more significant share of the required return than the risk premium alone. Country risk premiums embedded within the risk-free rate, alongside the explicit risk premium, may amplify these differences.

1. Core: Destinations including Asia have the highest average Core levered IRR required return at 9.64% (ranging from 4% - 20%), compared with 8.45% for Australasia (range 4% - 10%). Because of the range of targets for core and higher proportion of unlevered targets, we have not presented comparable analysis for Europe excluding the UK or North America. The implication again is that core pricing is sensitive to local interest rate environments and sovereign risk. Investors targeting Core in higher-rate jurisdictions will need to stress-test assumptions against rate volatility and liquidity outlook.

2. Core Plus: The differential between average IRR Core Plus required return tightens to 89 bps, with destinations including Europe excluding the UK showing the lowest average levered IRR hurdle rate (range 9% - 18%).

3. Value Add: The average spread across destinations is also 90bps, with destinations including APAC (Asia and Australasia) posting the two lowest average levered hurdle rates. This suggests Value Add offers a relatively globally consistent risk-return

profile, at least at the more regional level. APAC markets may provide relative value for investors seeking upside without full risk. This reflects confidence in demand fundamentals and liquidity in these regions.

Caveat

These figures are not returns for the destination alone. They represent the average levered required return for investors who include these regions within multi-destination allocations. This may 'hide' or distort some of the relative differences in geographic targets.

Core variation stands out against consistency beyond?

Investor hurdle rates tell a story of consistency and divergence. Across sectors and destinations, average Core Plus and Value Add strategies cluster relatively tightly, even if the ranges vary, indicating there may be commonalities in risk premia calculations that transcend borders and sectors, albeit it may be because the returns are not specifically for individual sectors and destinations. By contrast, average Core hurdles vary more widely, likely reflecting sensitivity to local interest rate environments and embedded country risk premiums in the risk-free rate, which itself will typically be a larger proportion of the required return in relative terms than for higher risk strategies.

For Value Add, the relative uniformity of average hurdle rates globally signals opportunity. APAC markets, with the lowest average Value Add hurdles, offer relative value for investors seeking upside. Conversely, UK and North America carry a slight premium, although they come with the benefit of liquidity and being top global destinations, the UK at number one for cross-border capital flows.

“This variability highlights the importance of stress-testing Core assumptions against rate volatility and liquidity outlooks”

Structural growth sectors are driving capital rotation

Investors are also set to target sectors aligned with demographic and technological tailwinds:

Logistics: Supported by e-commerce and supply chain resilience, with Europe and the US as key destinations.

Living strategies: Multifamily and co/flex-living dominate allocations, alongside single-family rental. Affordable housing was also flagged as an area of interest.

Operational real estate: From data centres to infrastructure, investor responses indicate these are moving from niche to necessity, further supported by free-text responses, offering thematic upside and inflation-hedging potential. AI-linked real estate appears as an emerging theme, signalling the convergence of technology and property.

Strategic priorities for converting opportunity into performance

Speed and selectivity to define success:

Countercyclical tactical plays in prime offices and retail require rapid execution and conviction.

Partnerships will be critical for complexity: The right joint ventures and co-investment structures will be essential to access operational sectors and scale.

Thematic diversification firmly on the agenda:

Investor responses indicate that logistics, living and operational real estate are structural growth engines, demanding specialist expertise and long-term positioning.

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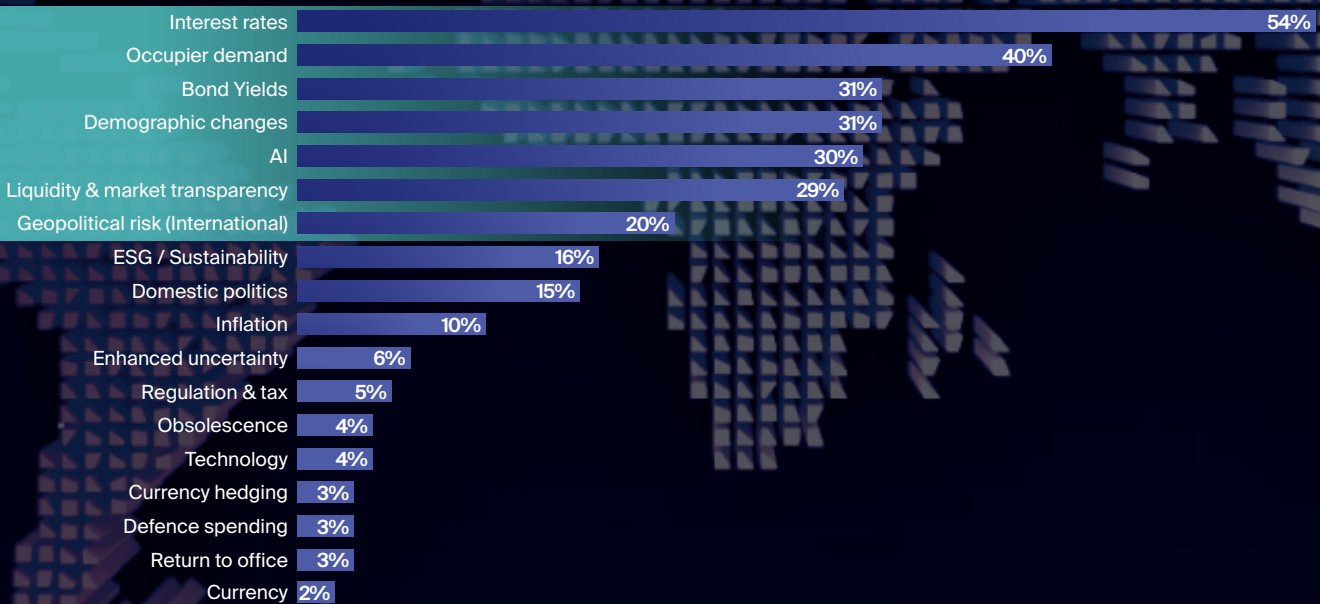
Top themes: Seven forces shaping capital decisions in 2026

The Knight Frank Active Capital Survey 2026 identifies seven tightly clustered forces that will define investment decisions in the year ahead.

Seven forces form the strategic backdrop for capital deployment, where macro-economic and financial anchors meet geopolitical headwinds and structural tailwinds. If you'd like a deeper dive into these themes, head to www.knightfrank.co.uk/active-capital.

Seven forces shaping capital decisions in 2026

What top three themes are most influencing your real estate investment decisions?



Source: Knight Frank

Strategic priorities for 2026

Based on the survey responses the following emerge as strategic priorities for 2026:

Follow the cost of capital: Pricing clarity will emerge first in markets where debt costs stabilise and swap rates are accretive. We are already seeing this in Euro-denominated countries, Singapore and Japan.

Underwrite income quality: Occupier fundamentals – such as portfolio rightsizing, navigating changing global trading arrangements, enhancing the quality

of occupied space to support employee wellbeing, and using the office as a locus for employee upskilling and reskilling - will drive resilience in offices, retail and logistics.

Position for structural tailwinds: Living sectors and digital infrastructure are on the radar of a widening set of commercial real estate investors.

Stay agile: Liquidity and transparency dictates where capital can move quickly; geopolitical risk to a lesser extent determines how.

The defining themes of 2026 will be shaped by the interplay of seven structural forces. Success depends on understanding how these dynamics influence capital flows and investor behaviour.

Investors who incorporate these forces into portfolio construction, balancing defensive allocations with thematic growth and maintaining tactical agility within a strategic framework aligned to structural trends, will likely be better positioned to navigate a backdrop characterised by repricing, ongoing uncertainty and transformation.

Acting decisively to build resilience while capturing growth opportunities can create a robust foundation as structural change accelerates.

From intention to action



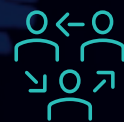
Act where pricing clarity is real:

Bid-ask spreads will not close uniformly. Markets with transparency and liquidity will lead recovery, particularly in Europe and the UK.



Blend resilience with thematic growth:

Diversification into living sectors, logistics/industrial and operational real estate is set to accelerate, driven by demographic shifts and technology adoption. At the same time, there is renewed space in investor strategies for offices and retail, reflecting selective confidence in repriced sectors.



Leverage partnerships as accelerators:

With 68% of respondents open to joint ventures or co-investment, the majority of investors see careful and considered partnering as a key option for accessing complexity and scale in sectors from data centres to healthcare, infrastructure and beyond.

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