

THE INCOME ERA

The Next Phase of European Living





FIVE INSIGHTS SHAPING THE NEXT PHASE OF EUROPEAN LIVING

01

LIVING HAS BECOME A CORE INSTITUTIONAL ASSET CLASS

Growing scale, diversification and liquidity have transformed Living from a niche allocation into a core component of institutional real estate portfolios.

02

STRUCTURAL DEMAND REMAINS FIRMLY INTACT

Population growth, urbanisation, affordability pressures and persistent housing shortages continue to underpin long-term demand across European Living markets.

03

THE ERA OF INCOME DRIVEN RETURNS IS HERE

In a higher for longer interest rate environment future performance will rest more on income.

04

OPERATIONAL EXCELLENCE IS BECOMING MORE IMPORTANT

The most efficient assets generated roughly double the income return of the least efficient assets across markets and years.

05

ASSET SELECTION INCREASINGLY OUTWEIGHS MARKET SELECTION

Being in the most efficient cost to income quartile delivers far superior returns.

The next phase of European Living investment will be defined less by market-wide yield compression and more by the ability to grow and protect income through high-quality assets, operational excellence and effective execution.



EXECUTIVE SUMMARY

- Living has moved from a **niche allocation to one of the largest components** of the European real estate investment universe.
- The **structural drivers of demand** remain firmly intact.
- **Undersupply remains the defining challenge.** Development pipelines sit below historical norms and supply-demand imbalances are likely to persist, or even worsen, over the medium term.
- The sector has delivered the **strongest risk-adjusted performance** of all the major sectors in European real estate.
- In a **higher for longer** interest rate environment, the room for yield compression is limited.
- **Operational efficiency** was the clearest return differentiator - our analysis of MSCI data shows that asset selection is a more powerful driver of outperformance than market selection.
- **Energy efficiency** is now a key commercial advantage as well as a regulatory requirement given that newer stock runs at materially lower operating costs than older stock.
- **Outperformance in the next decade will be driven by growth in net operating income.** That puts the premium on asset selection and operational execution, for investors, developers and operators alike.

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01

THE INSTITUTIONALISATION OF LIVING

KEY MESSAGES

Living has moved from a niche allocation to one of the largest components of the European real estate investment universe.

The investment case has broadened. Defensive qualities remain central, but investors are increasingly drawn to the sector's long-term structural growth drivers.

Greater scale, maturing operating platforms and a widening set of subsectors have opened the sector to institutional capital.

FROM NICHE TO CORE

The European living sector has undergone a significant transformation over the past two decades. What was once viewed primarily as a niche allocation within real estate portfolios is increasingly regarded as a core component of institutional investment strategies.

The shift reflects the sector's growing scale, its expansion into a range of subsectors and the recognition that many of the forces supporting housing demand are structural and long lasting.

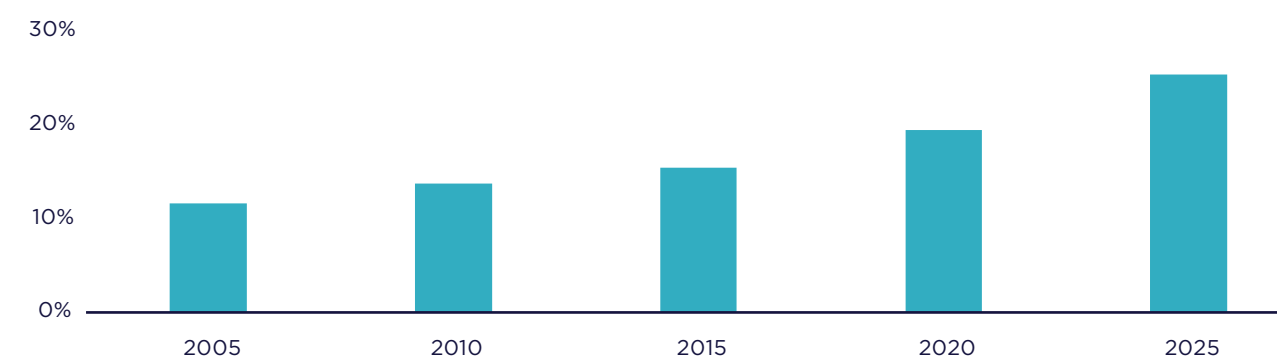
Historically, the investment case for the sector revolved around its resilience. Housing demand proved more durable than many other forms of real estate demand during periods of economic weakness, while income streams were typically less volatile than those generated by sectors more closely tied to business investment or consumer spending. These defensive characteristics remain important, arguably more so in an era of greater economic and geopolitical volatility. But they are no longer the sole reasons investors allocate capital to the sector.

Institutional investors increasingly view living as a long-term growth opportunity supported by a range of demographic, societal and economic trends. Population growth, educational achievement, urbanisation, changing household structures, rising mobility, rising longevity and affordability constraints all underpin demand across a broad range of housing tenures and living formats. At the same time, persistent housing shortages across much of Europe are limiting the ability of supply to respond to that demand. The result has been a sustained period of rental growth, high occupancy and increasing investor interest across multiple living subsectors.

RISING ALLOCATIONS AND TRANSACTION ACTIVITY

This growing conviction is increasingly visible in portfolio construction. Living allocations now represent a meaningful share of many institutional real estate portfolios and benchmarks (see chart 1) and our own research¹ confirms that investors expect this trend to accelerate. Importantly, investors continue to stress return stability and demographic resilience as the primary attractions of the sector. They also increasingly recognise that housing can offer exposure to long-term structural themes that may be difficult to access elsewhere in the real estate market.

CHART 1: LIVING'S WEIGHT IN EUROPEAN REAL ESTATE BENCHMARKS HAS CONSISTENTLY GROWN*



Source: MSCI, September 2026 *Residential Weight in Annual MSCI Europe Index, All Assets

The sector's increasing importance is also evident in transaction activity. Over the past several years, living has consistently accounted for a growing share of European investment volumes, and this remains the case in 2026². This is notable given the backdrop of higher interest rates and financing costs.



SCALE AND A BROADER INVESTABLE UNIVERSE

The emergence of scale has been an important part of this evolution. One of the historical barriers to institutional investment in housing was the fragmented nature of many residential markets. This remains a challenge, particularly in some of the less mature European markets. Over time, investment platforms have become more sophisticated, operating models have matured and portfolio sizes have increased. As a result, residential assets have become more accessible to the types of institutional investors that require scale, liquidity and operational consistency.

At the same time, the investable living universe has broadened considerably. Multifamily housing and purpose-built student accommodation remain the largest and most established sectors, but institutional capital is increasingly being deployed into adjacent formats including affordable housing, co-living, single-family rental and senior living. While these sectors are supported by slightly different demand drivers, they share many of the unifying characteristics that have attracted investors to living more generally: demographic support, recurring income and relatively favourable long-term supply-demand dynamics.

SUSTAINABILITY AND SOCIAL IMPACT

Sustainability and social impact considerations have also supported institutionalisation. The living sector is unusual within commercial real estate.

It can contribute to environmental and social objectives while delivering institutional-quality income streams. Energy-efficient buildings can help reduce operating costs and improve environmental performance, while investment into new housing can also contribute to broader social objectives around housing accessibility and affordability. Consequently, the living sector aligns naturally with wider ESG objectives as well as financial return targets. In the UK, for example, regional pension schemes are actively looking to invest in residential assets within their own areas to help alleviate local housing shortages.

PERFORMANCE AND THE NEXT PHASE

Performance has also supported the sector's growing prominence. As we highlight in the next chapter, Europe's living sector has consistently generated attractive risk-adjusted returns through a combination of capital appreciation, rental growth, income resilience and operational performance.

The relative importance of these return drivers has not been static, however. Understanding how they are evolving will be critical to investment success. We explore this in Chapters 3 and 4.

Taken together, this points to a sector that has moved beyond its origins as a niche, defensive real estate allocation. Living is now one of the largest components of the European investment universe, supported by improving market liquidity, a growing range of investable subsectors and strong long-term demand fundamentals. Just as importantly, it increasingly offers investors the ability to align portfolio performance objectives with broader sustainability and social impact goals.

Yet institutionalisation is only part of the story. The more important question is what will determine investment success as Europe's living sector matures. The rest of this report addresses that question. We examine the structural forces supporting demand, the changing composition of returns, and the growing importance of operational performance.

02

STRUCTURAL DEMAND DRIVERS AND HOUSING CHALLENGES

KEY MESSAGES

The structural drivers of housing demand, including population growth, urbanisation and smaller households, remain firmly intact.

Affordability pressures are keeping households in rental accommodation for longer, deepening demand for professionally managed rental housing.

Undersupply remains the defining challenge. Development pipelines sit below historical norms and supply-demand imbalances are likely to persist over the medium term.

THE LONG-TERM OUTLOOK FOR THE EUROPEAN LIVING SECTOR IS UNDERPINNED BY A COMBINATION OF FAVOURABLE DEMOGRAPHIC, ECONOMIC AND SOCIETAL TRENDS.

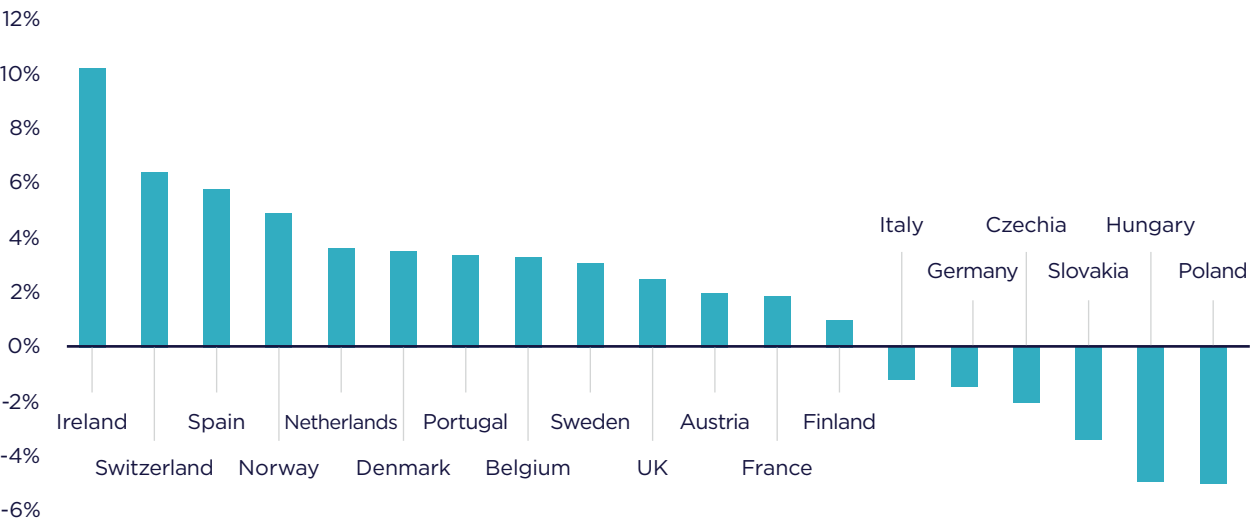
While cyclical factors such as financing and construction costs remain short-term headwinds, the structural drivers of demand remain firmly intact. Population growth, urbanisation, changing household structures, higher house price to income ratios, growing participation in education and increasing international student mobility are all expected to sustain stronger long-term demand for housing across much of Europe. These trends are also driving growth across a broader range of living sectors, including purpose-built student accommodation (PBSA), affordable housing and senior living.



DEMOGRAPHICS AND HOUSEHOLD CHANGE

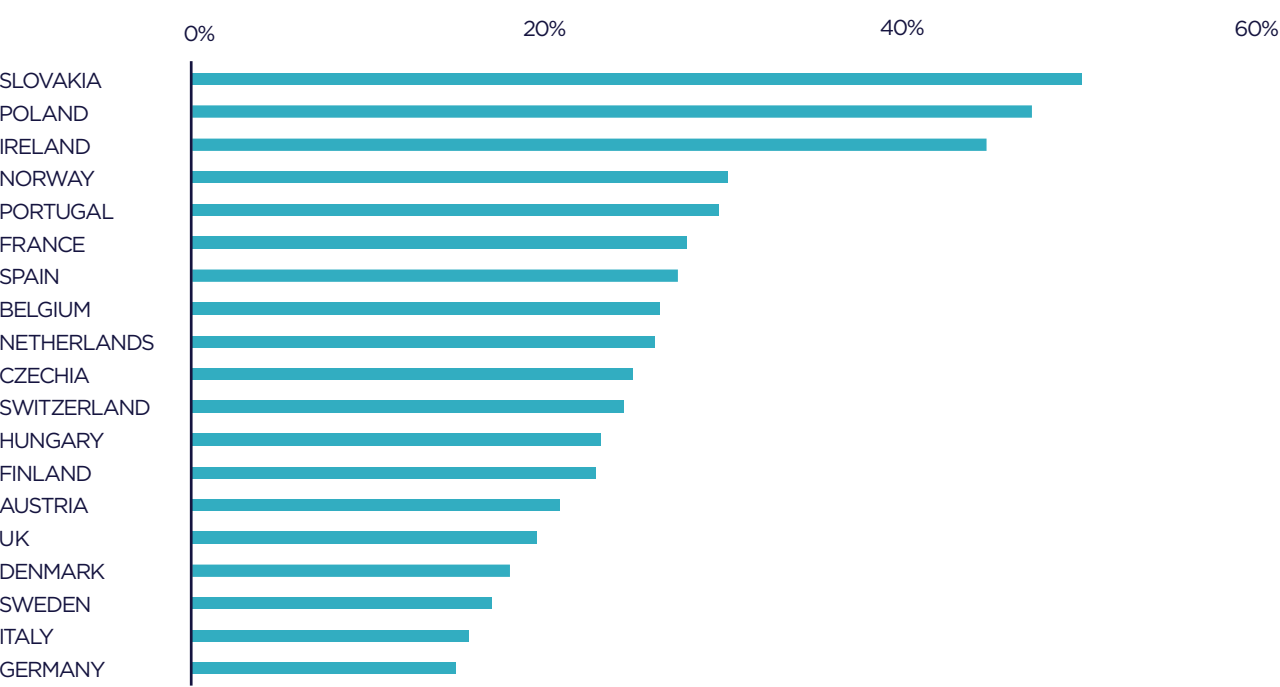
Demographics remain a key driver of housing demand, although population growth alone does not tell the full story. Countries including Ireland, the UK, the Netherlands and the Nordics are projected to record relatively strong population growth over the next decade, while trends are more mixed elsewhere (see chart 2). Household formation patterns also contribute to demand for both owner-occupied and rental housing, with the key 25-39 age cohort still accounting for a significant share of the population across Europe. Europe’s ageing population (see the forecast increase in numbers of over 75s in chart 3) also has important implications for senior living demand, a segment that has so far attracted less investor attention than other areas of the living sector.

CHART 2: FORECAST CHANGE IN POPULATION 2025-2035



Source: Eurostat and ONS, September 2026

CHART 3: FORECAST CHANGE IN OVER 75s POPULATION 2025-2035

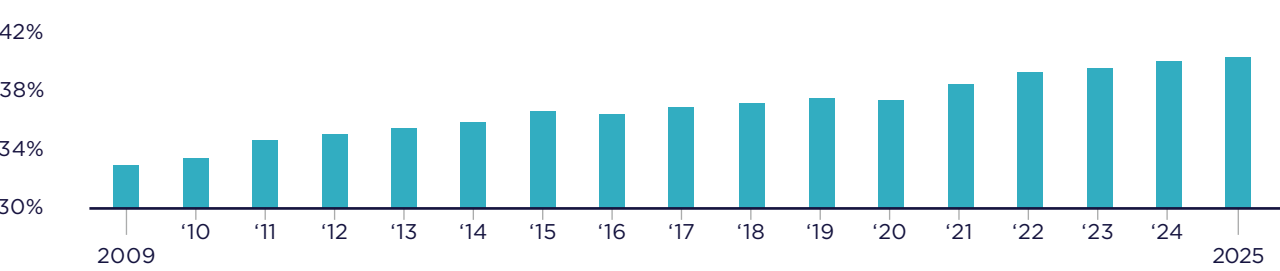


Source: Eurostat, ONS, September 2026

URBANISATION AND SOCIETAL SHIFTS

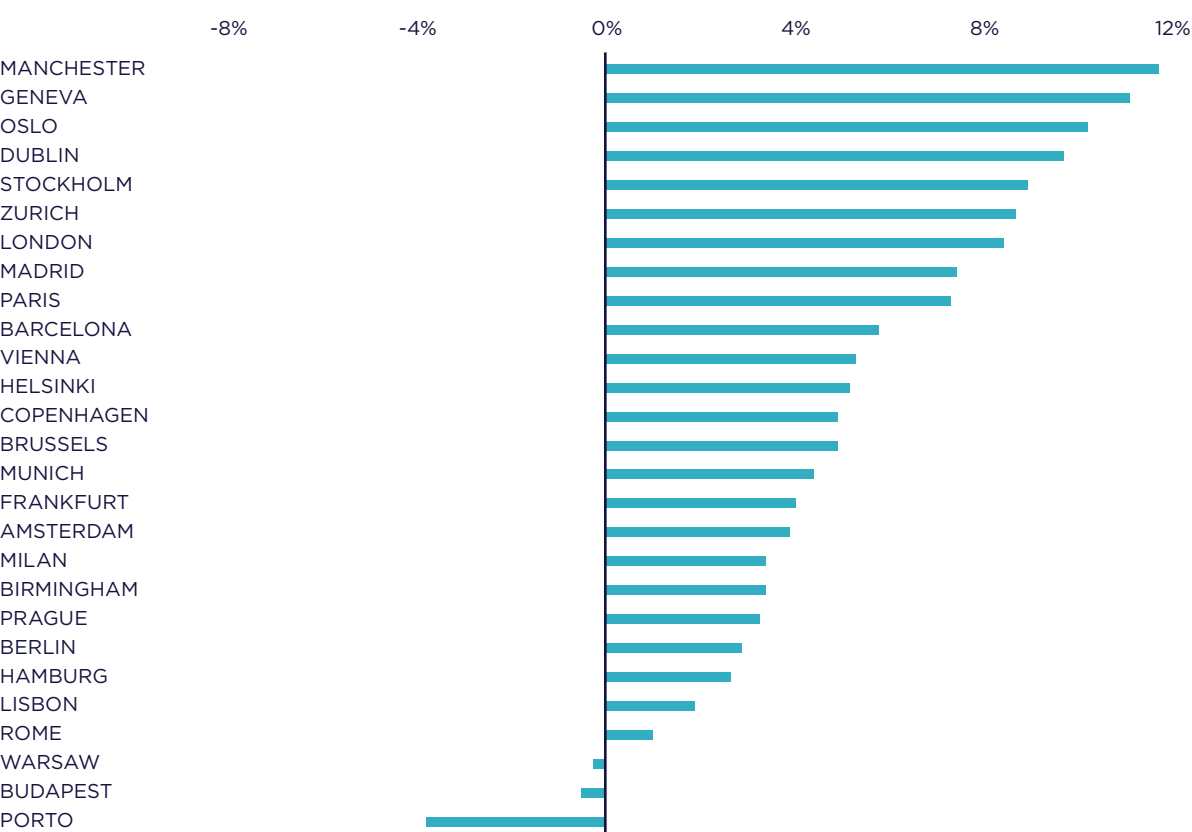
Societal shifts are reshaping demand as well. Household sizes are declining and one-person households are becoming more common (see Chart 4), increasing apartment demand. Meanwhile, the appeal of major cities remains undiminished, with most European urban centres projected to grow strongly as they continue to attract residents through employment opportunities, education and lifestyle amenities (see Chart 5). Growing participation in higher education and rising international student numbers represent another of these shifts³. They are likely to boost demand for student housing, particularly in major university cities.

CHART 4: HOUSEHOLD SIZES ARE SHRINKING - PERCENTAGE OF ONE ADULT HOUSEHOLDS IN THE EU



Source: Eurostat, September 2026

CHART 5: URBANISATION LIKELY TO CONTINUE - CITIES ARE PROJECTED TO GROW OVER THE NEXT TEN YEARS



Source: Eurostat (2025-35) and ONS (2022-32) projections

AFFORDABILITY PRESSURES

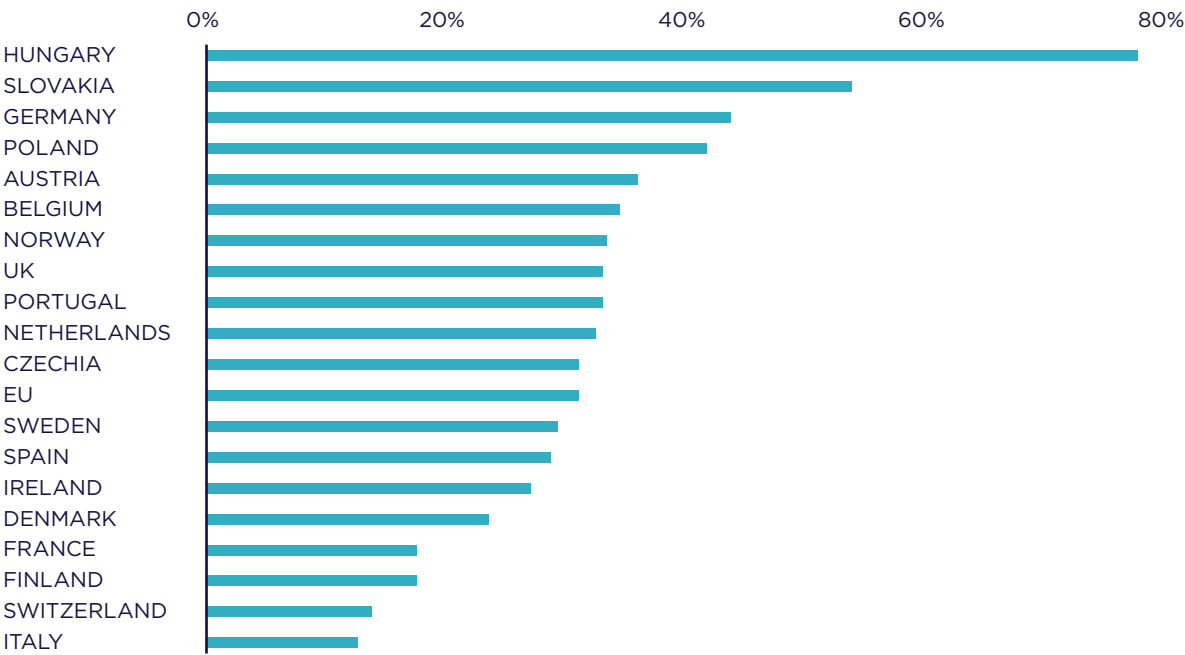
Affordability pressures are further reinforcing demand for professionally managed rental housing. House prices and rents have generally grown faster than household incomes over the past decade, while tighter lending conditions and higher financing costs have reduced mortgage affordability in many markets. As a result, households are renting for longer and the age of first-time buyers continues to rise across much of Europe.

PERSISTENT UNDERSUPPLY

At the same time, structural undersupply remains the defining challenge across much of Europe’s residential market.

A combination of planning constraints, infrastructure requirements, labour shortages and elevated finance and development costs (see chart 6) has limited the sector’s ability to respond to demand, contributing to a decline in housing starts and permits across many markets in recent years. As a result, housing shortages have become increasingly pronounced, particularly in major urban centres.

CHART 6: CHANGE IN RESIDENTIAL CONSTRUCTION COSTS, 2020-2025*



Source: *Eurostat (Change in construction producer prices for new residential buildings) and UK ONS (New work output prices for housing), September 2026

There are some early signs that housing delivery may now be stabilising in parts of Europe. Residential permit activity has started to recover in several markets, while housing starts and completions are showing some signs of improvement following a period of significant weakness. Nevertheless, development pipelines remain below historical norms in many countries and are generally still insufficient to meet current levels of housing demand. As a result, supply-demand imbalances are likely to persist or even worsen across much of Europe over the medium term.



HOUSING MOVES UP THE POLICY AGENDA

Housing has moved higher up the policy agenda across Europe, reflecting growing concerns around both affordability and availability. A range of initiatives are being explored at both national and European levels, including planning reforms, support for affordable housing delivery and measures designed to mobilise additional public and private investment. Attention is also turning to the economics of housing delivery itself.

While policy responses differ across markets, the challenge is increasingly the same: improving development viability and attracting sufficient capital to increase housing supply. Policymakers need to explore a range of solutions, including public lending programmes, development finance initiatives, public-private partnerships and targeted fiscal measures designed to support housing delivery.

IMPLICATIONS FOR INVESTORS

While financing conditions and development activity represent current headwinds, the underlying characteristics of the living sector continue to strengthen. Growing demand, limited new supply and increasing affordability pressures are extending the role of rental housing across many European markets and broadening opportunities across the wider living spectrum. For investors, these dynamics are shaping market performance through higher occupancy, longer-term income resilience and stronger rental growth prospects. The next chapter examines how these trends have translated into investment returns and why income growth is likely to become an increasingly important driver of future performance.

03

INCOME BECOMES THE ANCHOR

KEY MESSAGES

Living has delivered an average total return of 6.4% a year over the past twenty years, with the strongest risk-adjusted performance of the major property sectors.

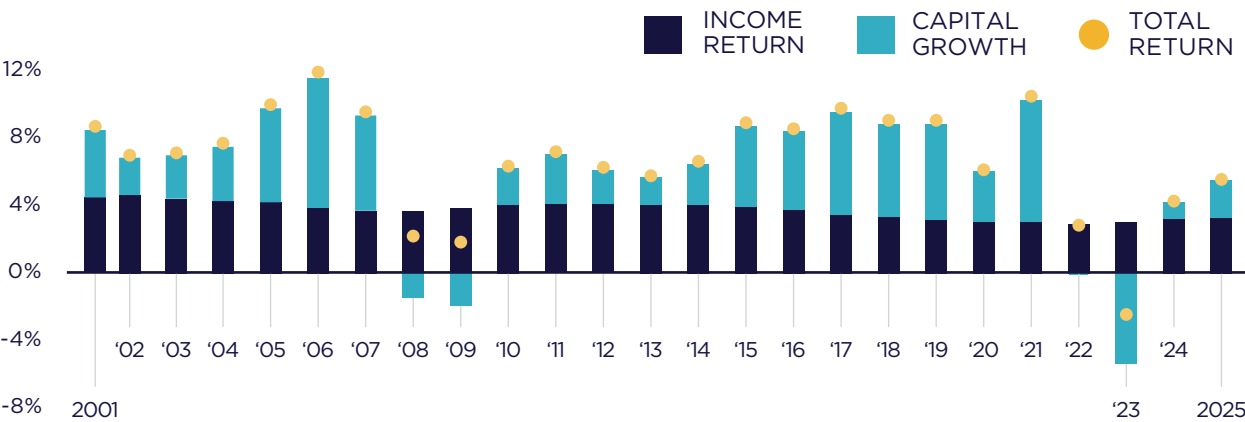
In a higher for longer interest rate environment, the room for yield compression is limited.

Future performance will therefore rest increasingly on income. Converting rental growth into net operating income growth will be the key differentiator.

TWO DECADES OF HIGH-QUALITY RETURNS

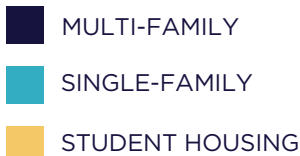
Over the past two decades the living sector has generated one of the highest-quality return streams in European commercial property. In absolute terms the sector has delivered an average total return of 6.4% a year over the past twenty years (see chart 7), outperforming most commercial real estate sectors over that period. While the MSCI Europe Living universe remains predominantly weighted towards multi-family housing, the sector has become increasingly diverse over time, with student housing accounting for a growing share of the investable market (see chart 8).

CHART 7: THE LIVING SECTOR HAS GENERATED ONE OF THE HIGHEST QUALITY RETURN STREAMS IN EUROPEAN COMMERCIAL REAL ESTATE



Source: MSCI, September 2026

CHART 8: SUBSECTOR BREAKDOWN OF MSCI EUROPEAN LIVING UNIVERSE*



Source: MSCI, September 2026, *Breakdown at end 2025

However, the sector's outperformance is even more evident on a risk-adjusted basis (Table 1). When measured as average annual total return relative to return volatility, the living sector has consistently delivered the strongest risk-adjusted performance, supported by significantly lower volatility than the other major commercial real estate sectors. The relatively shallow downturns experienced during both the Global Financial Crisis and the recent interest rate hiking cycle further highlight the sector's defensive characteristics.

TABLE 1: RISK ADJUSTED PERFORMANCE RANKINGS

SECTOR	10 YEAR	20 YEAR
LIVING**	1.6	1.9
OFFICE	0.8	1.0
RETAIL	0.7	0.8
INDUSTRIAL	1.0	0.9

Source: MSCI, September 2026 Standing Assets Data
*Calculated as average annual performance divided by volatility of annual returns over that period
**MSCI Residential sector performance and volatility

PERFORMANCE BY SUBSECTOR AND MARKET

Within the European living sector, single-family housing has generated the strongest returns over the past ten years, but this has come with higher volatility (Table 2), a trend also seen in other markets such as the US. On a risk-adjusted basis, multifamily and student housing have outperformed, reflecting the benefits of greater tenant diversification. Student housing delivered the highest return-to-risk ratio over this period.

TABLE 2: SUBSECTOR PERFORMANCE, LAST 10 YEARS

	AVE. ANNUAL TOTAL RETURN	RETURN TO RISK RATIO
MULTI-FAMILY HOUSING	6.2%	1.7
SINGLE-FAMILY HOUSING	9.1%	1.5
STUDENT HOUSING	6.4%	1.9

Source: MSCI, September 2026 Standing Assets Data

Several themes emerge at the country level within multifamily. The German, Dutch and Scandinavian markets have been among the strongest performers over the past twenty years (see table 3). Yield compression was a key contributor to their strong returns, particularly before the Global Financial Crisis and during the years of zero interest rates in the late 2010s.

TABLE 3: GERMANY, NETHERLANDS AND SCANDINAVIAN COUNTRIES HAVE GENERATED HIGHEST RETURNS IN THE PAST DECADE

COUNTRY	20 YEAR AVERAGE MULTI-FAMILY TOTAL RETURN
SWEDEN	7.7%
NETHERLANDS	7.0%
GERMANY	7.0%
DENMARK	6.4%
UK	6.0%
FRANCE	5.9%

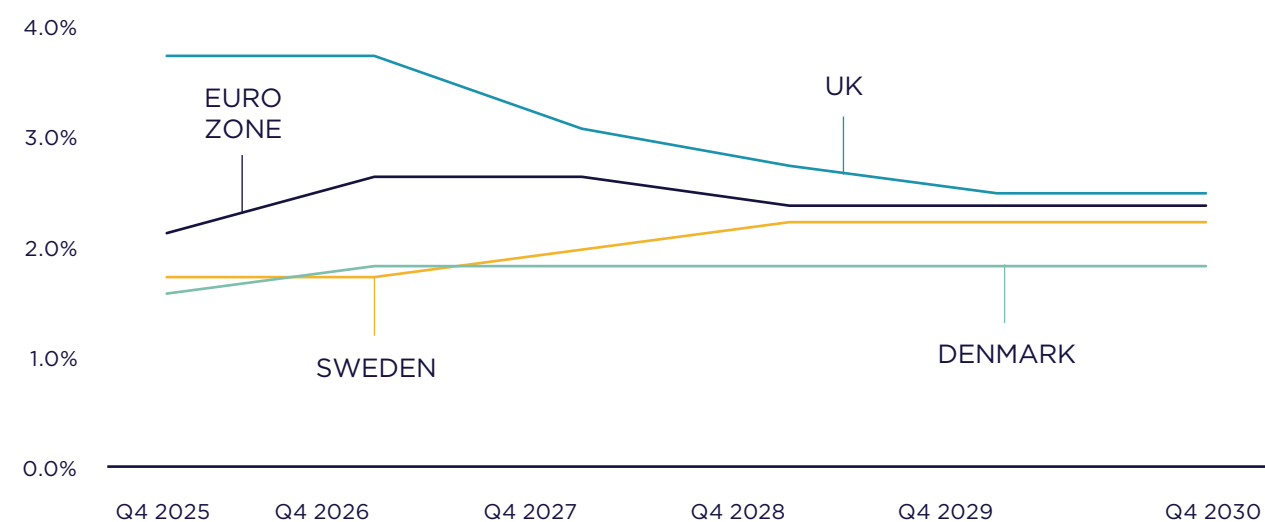
Source: MSCI, September 2026 Standing Assets Data

This reliance on yield compression became evident in 2023 and 2024. As central banks tightened monetary policy, yields rose and capital values fell. As the UK multifamily market has matured, returns have become more driven by income growth and cash flow generation.

INTEREST RATES AND THE PRICING OUTLOOK

Looking ahead, the path for benchmark interest rates and longer-term financing costs is likely to remain an important influence on living sector performance. Current forecasts (see chart 9) suggest interest rates could remain at or modestly above current levels across much of Europe over the next five years. A similar picture emerges for longer-dated government bond yields. The main exception may be the UK, where rates appear more restrictive and further reductions look more likely.

CHART 9: FORECASTS POINT TO LITTLE CHANGE IN EUROPEAN INTEREST RATES THROUGH 2030, WITH THE POSSIBLE EXCEPTION OF THE UK



Source: Moodys Analytics (Baseline Scenario), September 2026

This has important implications for pricing. Historically, living sector yields have shown a strong relationship with 10-year government bond yields. With government bond yields expected to remain relatively elevated, the scope for a material decline in living sector yields appears limited in the near term.

Moreover, the spread between multi-family yields and 10 year government bond yields also currently sits towards the lower end of its historical range in many markets. Even if bond yields ease over time, there may be limited room for further yield compression without spreads tightening to levels that would look stretched by historical standards.



FROM YIELD COMPRESSION TO INCOME GROWTH

Nevertheless, the outlook for financing costs represents only one component of future performance. While a more stable interest rate environment may imply less scope for broad-based yield compression, the living sector continues to benefit from the powerful structural drivers discussed in Chapter 2. We expect these factors to support medium-term rental growth across much of Europe.

However, rental growth alone is unlikely to determine future investment performance. As the sector matures, returns are likely to become increasingly differentiated at the asset, subsector and market level. Markets with the greatest imbalance between housing demand and future supply may offer the strongest revenue growth prospects, but the ability to convert revenue growth into net operating income growth will in our view become equally important.

Evidence from European living markets already suggests that operational performance matters. Assets that can maintain high occupancy, control operating costs and efficiently manage turnover are likely to be better positioned to capture the full benefit of market conditions.



In contrast, assets facing higher running costs, growing capital expenditure requirements or operational inefficiencies may struggle to translate strong rental growth into equivalent income growth. Construction and labour costs are likely to remain elevated, putting upward pressure on operating costs and capital expenditure. Controlling cost leakage will therefore become even more important.

Against this backdrop, net operating income growth is likely to become an increasingly important driver of future returns. The key challenge for investors is shifting. Identifying markets capable of delivering rental growth remains necessary. Identifying the assets and operating platforms that can convert that growth into sustainable income will matter more. As the European living sector continues to mature, this ability to grow and protect net operating income is likely to become one of the most important determinants of relative investment performance. The next chapter explores why operational efficiency, asset quality and cost management are already emerging as critical drivers of success.

04

WHAT WILL DEFINE FUTURE OUTPERFORMANCE

KEY MESSAGES

Rental growth has largely tracked inflation, but faster rental growth has not reliably translated into higher total returns in recent years.

Capital growth was the most volatile and least predictable component of returns.

Cost efficiency consistently produced superior income returns. The most efficient quartile of assets earned roughly double the income return of the least efficient, in every market and in every year we analysed.

THUS FAR WE HAVE ARGUED THAT INCOME IS LIKELY TO ACCOUNT FOR A GREATER SHARE OF LIVING SECTOR RETURNS. THE CRITICAL NEXT QUESTION IS WHAT DETERMINES THE INCOME INVESTORS ULTIMATELY RETAIN (GROSS TO NET).

To answer it, we analysed European multifamily returns over the past four years (a period roughly corresponding to the post COVID era), grouping assets into quartiles based on operating costs as a share of gross income. The evidence suggests that future outperformance will depend less on capturing rental growth and more on converting it into net operating income. The rest of this chapter sets out the evidence and what it means for portfolio allocation.

FLAT YIELDS PUT A GREATER BURDEN ON INCOME TO DRIVE RETURNS

The shift from yield-driven to income-driven returns changes what distinguishes an outperforming living investment from an underperforming one. If exit yields are broadly flat across Europe over the coming years, total returns will depend on income growth. European multifamily net operating income (NOI) yields stood at 3.0% at the end of 2025. A total return of 6% to 7% therefore requires NOI growth of 3% to 4% a year.

The starting point is encouraging. Living income has been the most consistent in European real estate. MSCI Data indicate that residential market rental values have risen every year since 2008. Office, retail and industrial rents have each fallen in several of those years. That consistency, more than the level of rental growth, underpins the sector's claim to a core allocation.

RENTAL GROWTH TRACKED INFLATION

Rental growth varied between markets as did inflation rates (see table 4). Inflation largely passed through into rents in most markets in the period we analysed (2022-2025).

But rental growth did not reliably translate into excess returns. Across the European sample, rental growth outperformance did not reliably translate into total return outperformance. The UK combined the fastest rental growth with a total return of 1.9% a year. Switzerland combined the slowest rental growth with a total return of 4.5%, the highest of the six.



TABLE 4: RENTAL GROWTH, INFLATION AND TOTAL RETURN BY MARKET, EUROPEAN MULTIFAMILY, ANNUALISED DECEMBER 2022 TO DECEMBER 2025

MARKET	MARKET RENTAL VALUE GROWTH	AVERAGE CPI 2022 TO 2025	DIFFERENCE	TOTAL RETURN
UK	6.3%	5.6%	+0.7pp	1.9%
NETHERLANDS	5.7%	5.1%	+0.6pp	4.1%
SWEDEN	4.8%	5.1%	-0.3pp	0.3%
GERMANY	3.8%	4.3%	-0.5pp	0.9%
FRANCE	3.0%	3.3%	-0.2pp	0.2%
SWITZERLAND	2.2%	1.5%	+0.7pp	4.5%

Source: MSCI, national statistical offices, Cushman & Wakefield analysis. All assets. CPI is the average of annual rates for 2022 to 2025. Markets shown are those with more than 250 properties in the MSCI sample at December 2025. CPI includes actual rentals as a component, with a weight of roughly 6% to 7% in the euro area.

CAPITAL GROWTH WAS VOLATILE

Capital growth drove most of the difference in total return between markets. This was driven by large movements in yields across the real estate market in this period, during a period of changing interest rates by central banks.

Across the six larger markets, the spread in annual capital growth was between eight and ten percentage points in each of the four years. In contrast, the spread in income return was only about 1 percentage point.

That capital dispersion could not have been forecast from the starting point. The UK ranked first of six for capital

growth in 2022 and sixth in 2025.

Every year, country rankings by capital growth changed significantly.

The Netherlands ranked fifth and sixth in the first two years, then first in both 2024 and 2025 (Table 5). Over the full period Switzerland led with an average capital value growth of +1.5% a year.

Once results are compared within each market, the most efficient quartile showed no capital growth advantage over the least efficient. **Efficient assets earned their advantage through income.**

TABLE 5: CAPITAL GROWTH RANK BY MARKET AND YEAR, EUROPEAN MULTIFAMILY, STANDING INVESTMENTS. RANK 1 IS THE HIGHEST OF SIX

MARKET	2022	2023	2024	2025	FOUR-YEAR ANNUALISED
UK	1	2	4	6	-0.9%
GERMANY	2	3	5	5	-1.4%
SWITZERLAND	3	1	2	2	+1.5%
FRANCE	4	4	6	4	-2.2%
NETHERLANDS	5	6	1	1	+0.9%
SWEDEN	6	5	3	3	-2.7%
SPREAD BETWEEN MARKETS	7.9pp	7.8pp	9.7pp	9.1pp	

Source: MSCI, Cushman & Wakefield analysis.

COST EFFICIENCY DOUBLED INCOME RETURN

In contrast, grouping European multi-family assets by cost efficiency (total net operating cost as a share of gross income) produces a clear relationship (table 6). Over the four years to December 2025 the most efficient quartile delivered an annualised total return of 3.9%. The least efficient delivered 0.9%. A large proportion of that gap came from income. The most efficient quartile earned an income return of 3.4%.

The least efficient quartile also had the fastest rental growth, at 4.0% a year against 3.1% for the most efficient. Converting top line rental growth into excess returns is dependent on operational efficiency, highlighted in table 6 which shows the strong relationship between efficiency and outperformance.

TABLE 6: PERFORMANCE BY COST TO INCOME QUARTILE, PAN-EUROPEAN MULTIFAMILY, ANNUALISED DECEMBER 2022 TO DECEMBER 2025

COST TO INCOME QUARTILE	TOTAL RETURN	INCOME RETURN	CAPITAL GROWTH	MARKET RENTAL VALUE GROWTH
MOST EFFICIENT	3.9%	3.4%	0.4%	3.1%
SECOND	3.7%	3.3%	0.3%	3.6%
THIRD	2.5%	3.0%	-0.5%	4.0%
LEAST EFFICIENT	0.9%	1.7%	-0.8%	4.0%

Source: MSCI, Cushman & Wakefield analysis. Standing investments.
Assets quartiled on total net operating cost as a percentage of gross income. Four annual observations.

THE INCOME EFFECT HOLDS IN EVERY MARKET

A pan-European ranking however also combines two effects. Cost ratios can differ by country as well as by asset. Operating costs averaged 22.4% of gross income in Switzerland and 24.7% in the Netherlands over the period, against 36.1% in Germany, 36.8% in the UK and 41.5% in Sweden. A pan-European cost quartile split therefore sorts partly by country. The critical test is whether the result persists when we examine individual markets.

On income return, the evidence suggests it does. MSCI reports both the most and least efficient quartiles for five markets. In each one, the most efficient assets earned between 1.5 and 1.8 percentage points more income return than the least efficient (Table 7).

The result also held in every year. That covers both the hiking and the cutting phase of the recent interest rate cycle, and five different rent-setting regimes, from the French Indice de Référence des Loyers (IRL) and the German Mietspiegel to the Dutch points system and the open UK market.

Cost efficiency quartile also mattered more than country selection. Across the larger markets, income return ranged from 2.3% in Germany to 3.2% in the Netherlands, a spread of 0.9 percentage points between countries. Within a single market, the spread in income return across the four cost quartiles averaged 1.8 percentage points. **Being in the most efficient cost to income quartile delivered far superior income returns.**

TABLE 7: INCOME RETURN BY COST TO INCOME QUARTILE AND MARKET, EUROPEAN MULTIFAMILY, ANNUALISED DECEMBER 2022 TO DECEMBER 2025

MARKET	MOST EFFICIENT	SECOND	THIRD	LEAST EFFICIENT	GAP	MULTIPLE
NETHERLANDS	3.7%	3.4%	3.1%	2.0%	+1.7pp	1.9x
UK	3.7%	4.0%	3.7%	1.9%	+1.8pp	1.9x
FRANCE	3.3%	2.9%	2.5%	1.7%	+1.5pp	1.9x
SWITZERLAND	3.3%	3.2%	3.0%	1.5%	+1.8pp	2.2x
GERMANY	3.2%	3.0%	2.5%	1.4%	+1.8pp	2.3x
EUROPE	3.4%	3.3%	3.0%	1.7%	+1.7pp	2.0x

Table 7: Income return by cost to income quartile and market, European multifamily, annualised December 2022 to December 2025

WHERE THE COST ADVANTAGE COMES FROM

Net running costs are the largest component of operating costs across the European sample, at 57% to 80% of the total depending on the age of the stock (Table 8). Management costs are the next largest, at 14% to 17%. Running costs depend on a building’s physical characteristics and how well it is operated, so they are the clearest source of differentiation between assets.

Newer stock has a lasting advantage. Running costs for stock built after 2019 are 47% lower per square metre than for stock built before 1970. Management costs are 39% lower. Total operating costs absorb 22% of gross income for the newest cohort and 31% for the oldest. Letting costs are the exception. They run at roughly twice the level of older stock, which may reflect newer buildings that are not yet fully stabilised.

TABLE 8: COMPOSITION OF NET OPERATING COSTS BY CONSTRUCTION COHORT, EUROPEAN MULTIFAMILY, EUROS PER SQUARE METRE, DECEMBER 2025

CONSTRUCTION COHORT	RUNNING	OTHER	MANAGEMENT	LETTING	TOTAL	RUNNING AS % OF TOTAL
CONSTRUCTION COHORT	Running	Other	Management	Letting	Total	Running as % of total
POST-2019	28.7	11.2	7.8	2.6	50.3	57%
2010 TO 2019	32.8	9.9	7.8	1.4	51.9	63%
2000 TO 2009	44.1	4.9	8.4	1.1	58.5	75%
1990 TO 1999	46.2	6.6	8.7	1.5	63.0	73%
1980 TO 1989	56.1	2.0	11.0	0.8	70.0	80%
1970 TO 1979	45.5	3.6	10.4	1.0	60.4	75%
PRE-1970	54.1	8.8	12.8	1.3	77.1	70%

Source: MSCI, Cushman & Wakefield analysis. Cross-section at December 2025, same store. Cost components in euros per square metre.

The question is whether that operating advantage is retained in net operating income or simply “given back” through lower rents. In most markets it is retained. In the Netherlands, post-2019 stock generates 54% more NOI per square metre than pre-1970 stock. In Sweden the advantage is 73% (Table 9). France is the exception. Newer French stock generates 26% less NOI per square metre than older stock, most likely because the older sample is concentrated in prime Paris locations. At the pan-European level the advantage narrows to 2%, which again reflects geography, with older stock concentrated in higher-rent locations.

TABLE 9: IMPLIED NET OPERATING INCOME BY CONSTRUCTION COHORT, DECEMBER 2025

MARKET	COST RATIO, NEW / OLD	NOI DIFFERENCE
NETHERLANDS	19% / 30%	+54%
SWEDEN	26% / 45%	+73%
GERMANY	24% / 73%	+225%
FRANCE	18% / 309%	-26%
EUROPE (MSCI AGGREGATE)	22% / 31%	+2%

Source: MSCI, Cushman & Wakefield analysis. “New” is stock built after 2019, “old” is stock built before 1970. Gross rent per square metre is derived as total net operating cost per square metre divided by the cost to income ratio, and NOI per square metre as the residual

WHAT IT MEANS FOR ALLOCATION

The evidence points to clear conclusions. Market selection over this period delivered two things: an inflation exposure that generally passed through into rents, and a capital cycle that could not be timed. Neither differentiated one investor from another on total returns.

Asset selection, in contrast, was the main differentiator. A cost-efficient asset earned roughly twice the income return of an inefficient one, in every market and every year, whatever the regulatory regime.

With yields broadly flat and rental growth achievable, future relative performance is likely, in our view, to be decided by operational execution. The ability to control running costs, manage turnover and limit future capital expenditure could matter more than acquisition yield or rental growth forecasts. This also strengthens the commercial case for sustainability, as the most energy-efficient assets appear to be the cheapest to run.

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WHAT THE FINDINGS MEAN FOR INVESTORS, DEVELOPERS AND OPERATORS

KEY MESSAGES

For investors, asset selection and operational execution will matter more than market selection or timing of the capital cycle.

For developers, persistent undersupply and the durable cost advantage of new stock support long-term demand for efficient new buildings.

For operators, cost control is now a core driver of returns. The gap between efficient and inefficient assets is wide, persistent and measurable.

FOR INVESTORS

The case for a core allocation to living is intact. The sector has delivered the strongest risk-adjusted returns of the major property sectors, and its income has been the most consistent in European real estate. The structural drivers behind that record remain firmly in place.

How that allocation earns its return is changing. In a higher for longer interest rate environment, future performance will rest on income. Underwriting should therefore be built on income growth, with rental growth assumptions anchored close to inflation in most markets. Consistent capital growth cannot be automatically assumed.

The clearest lesson concerns asset selection. Cost-efficient assets earned roughly twice the income return of inefficient ones. Being in the most efficient cost to income quartile delivered far superior income returns. Due diligence should weigh operating cost ratios, building age and energy efficiency as heavily as location and market forecasts.

The findings in this report carry practical implications for every part of the living market. **We set them out below for investors, developers and operators.**

FOR DEVELOPERS

Structural undersupply is the defining feature of Europe's housing market and is likely to persist over the medium term. Demand is deep and broadening across formats, from multifamily and student housing to affordable, single-family and senior living. For developers able to make schemes viable, the demand backdrop is highly supportive.

The evidence on operating costs strengthens the case for new stock. Buildings completed after 2019 run at materially lower cost than older stock, and in most markets that advantage is retained in net operating income. Design choices that reduce running costs create lasting value for future owners, and the most energy-efficient assets appear to be the cheapest to run. Sustainability is therefore a commercial advantage as well as a regulatory requirement.

Policy is also moving in developers' favour. Attention is turning to the economics of housing delivery, with public lending programmes, development finance initiatives and public-private partnerships all under discussion. Developers who can partner with public capital and institutional investors will be best placed to build through the viability constraints.



FOR OPERATORS

Operational performance is now the main differentiator of returns. Rental growth was widely available over the past four years. Converting it into net operating income was far less common.

The operators who control running costs, manage turnover and limit cost leakage will capture the value that the market alone cannot deliver.

The gap is measurable. The most efficient quartile of assets earned an annualised total return three percentage points above the least efficient, with much of this coming through income. The income advantage held in every market.

Newer buildings help, but the advantage still has to be managed. Elevated letting costs in recently completed stock suggest that stabilisation takes time and skill. As construction and labour costs stay elevated, the premium on operating capability will only grow.

THE COMMON THREAD

Across all three groups the conclusion is the same. Europe's living sector offers deep demand, consistent income and a maturing investment market. The next decade will reward those who select, build and run assets well. Income is the anchor of future returns, and operational execution will decide who captures it.

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STRUCTURAL DEMAND
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THE INCOME ERA

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