CATELLA

Catella House view

Cities outlook

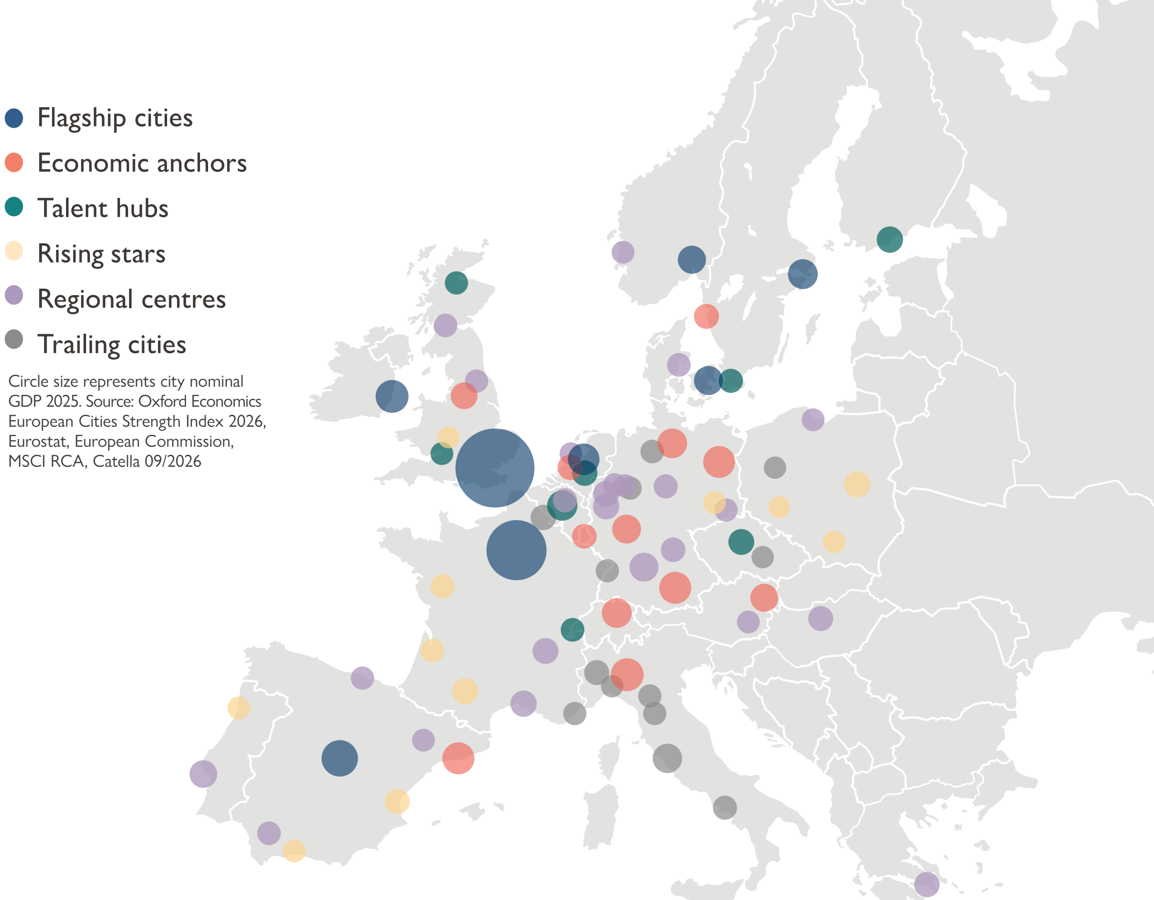
SEPTEMBER 2026

Why cities matter?

The cities attracting people, businesses and capital are also the cities creating the strongest occupier demand.

Successful real estate investment themes of the last decade revolved around getting sector calls right. Beds & Sheds strategies dominated: residential was supported by chronic housing undersupply and affordability challenges, while logistics benefited from the rise of e-commerce and supply chain adjustments. These secular trends remain intact, yet an increasing divergence in economic performance means location is becoming an equally important driver of real estate returns.

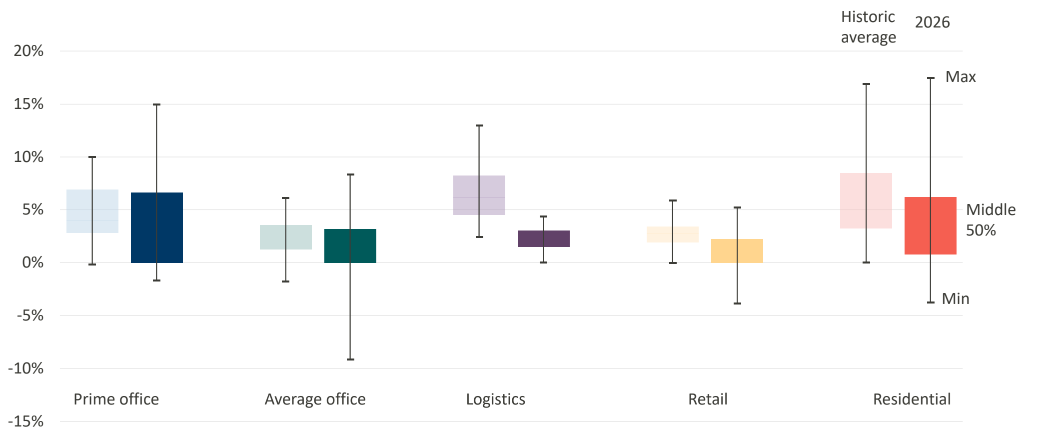
Cities are where economic, demographic and technological trends translate into occupier demand and rental growth. Yet European real estate markets are often viewed through broad national narratives that can mask an important investment principle: not all cities are equally positioned for future growth. As evidenced by rental growth, a single European cycle has given way to many different local cycles. Plotting five years of market rental growth reveals the widening variations in income growth across cities and property types (Figure 1), highlighting that city selection is increasingly as important as sector allocation in driving investment outcomes.



Circle size represents city nominal GDP 2025. Source: Oxford Economics European Cities Strength Index 2026, Eurostat, European Commission, MSCI RCA, Catella 09/2026

FIGURE 1: DIVERGENCE ACROSS EUROPEAN RENTAL CYCLES

Annualized rental growth; left column average % p.a. 2020-25; right column % p.a. 2026

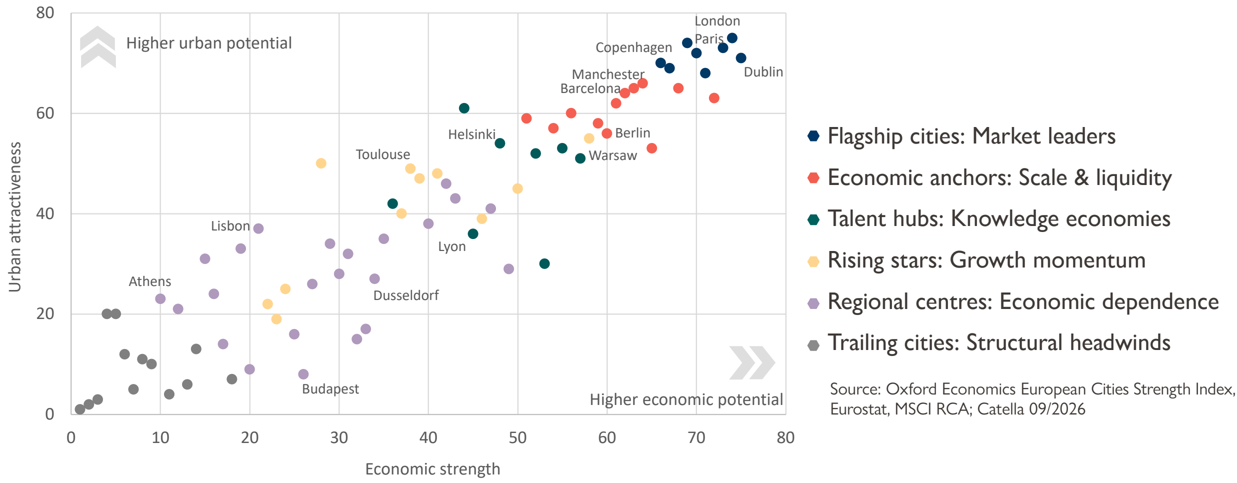


Note: Left column = 5-year average of annualized rental growth Q2'20 to Q2'25. Right column = 4-quarters annualized rental growth Q3'25 to Q2'26. Selected European city markets. Source: PMA; Catella 09/2026

This House View provides insights into Catella's location investment rationale while building on the sector convictions set out in our March House View.

It is a practical framework for real estate strategy by grouping Europe's cities into six distinct clusters (Figure 2). It is not a city ranking, however. The report addresses the strengths and weaknesses for the cities in each of cluster separately. City-level strategies are also presented to show how these themes can be translated into investment opportunities.

FIGURE 2: EUROPEAN CITIES CLUSTERS Economic, population and household forecasts



Source: Oxford Economics European Cities Strength Index, Eurostat, MSCI RCA; Catella 09/2026

1 Flagship cities

Defensive Core for capital preservation

Flagship cities combine economic scale, deep labour markets and global connectivity in a way that few European markets can replicate. They attract a disproportionate share of institutional capital, not because they offer the highest returns, but because they offer resilience, liquidity and transparency. Flagship cities are even more dominant in capital flows, accounting for 29% of deal activity (Figure 3). For investors, this combination supports long-term capital preservation but high entry pricing limits future returns.

The Flagship cities cluster consists of eight cities, where business and financial services translate into demand for CBD offices, urbanization supports large-scale residential investment particularly affordable housing, business and leisure travel translates into hotel demand, while high urban density drives last-mile logistics.

London and Paris remain Europe's key gateway cities, while Dublin joins the cluster thanks to exceptional economic growth and positive demographics. Copenhagen, Oslo and Stockholm demonstrate that Nordic capitals can compete through wealth and quality of life.

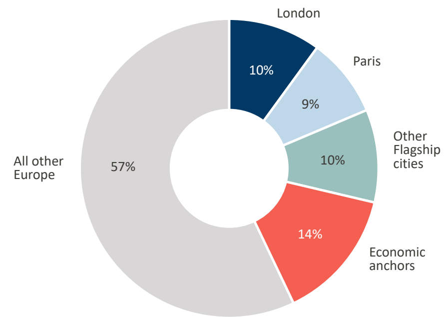
- Amsterdam
- Copenhagen
- Dublin
- London
- Madrid
- Oslo
- Paris
- Stockholm

WELL-SUITED STRATEGIES:

- **CBD offices**
- **Build-to-rent residential & hotels**
- **Last-mile logistics**

Amsterdam combines a highly international economy with an innovative business environment while Madrid benefits from strong domestic demand and consumer spending.

FIGURE 3: INVESTMENT TRANSACTION ACTIVITY
Cumulative deal volume 2020-26



Source: MSCI RCA 7/2026; Catella 09/2026

2 Economic anchors

Core and Core+ relative value opportunities

Economic anchors sit just below Europe's gateway markets but, in many cases, offer some of Europe's most attractive risk-adjusted opportunities. They combine lower entry pricing than many Flagship cities, but similar occupier conditions for long-term income growth, hence reinforcing a relative value proposition.

Their diverse employment base and positive office net absorption throughout create investment conviction for CBD offices. Large population catchments create favourable conditions for affordable housing and advanced infrastructure support expansion of regional logistics hubs. However, slower economic growth (Figure 4) and the risk of oversupply highlight the importance of a tactical approach, making investment timing critical.

Barcelona, Manchester, Milan and Munich lead the cluster characterised by established economic roles within their respective countries. Hamburg, Gothenburg and Rotterdam benefit from their strategic positions within global supply chain networks. Berlin combines capital-city scale with strong technology and residential demand drivers, while Frankfurt, Luxembourg and Zurich remain cornerstones of European finance.

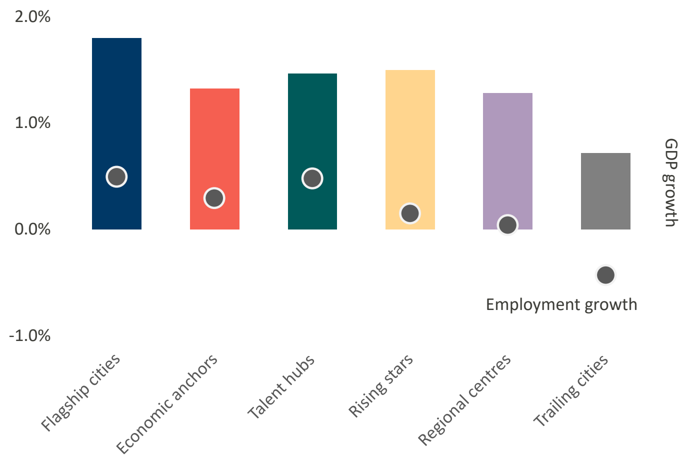
- Barcelona
- Berlin
- Frankfurt
- Gothenburg
- Hamburg
- Luxembourg
- Manchester
- Milan
- Munich
- Rotterdam
- Vienna
- Zurich

WELL-SUITED STRATEGIES:

- **Affordable housing**
- **Regional distribution logistics**
- **CBD offices**

FIGURE 4: ECONOMIC GROWTH OUTLOOK

2026-50, % p.a.



Source: Oxford Economics European City Strength index; Catella 09/2026

3 Talent hubs

Thematic investments through knowledge economies

If innovation is the defining economic resource of the future, Talent hubs represent its strongest concentrations. Their economic scale may be smaller, but they possess a disproportionate share of knowledge-based industries.

These strengths support demand aligned with long-term secular trends, including flexible living, student accommodation (Figure 5), life sciences as well as specialised offices. That said, lower liquidity and narrower investor base require a pricing advantage to larger institutional markets to compensate for the additional risk.

The Talent hub cluster is defined less by population size and more by intellectual capital. Strong universities, established research ecosystems and internationally mobile talent have helped create a diverse, highly skilled workforce that underpins innovation-led growth.

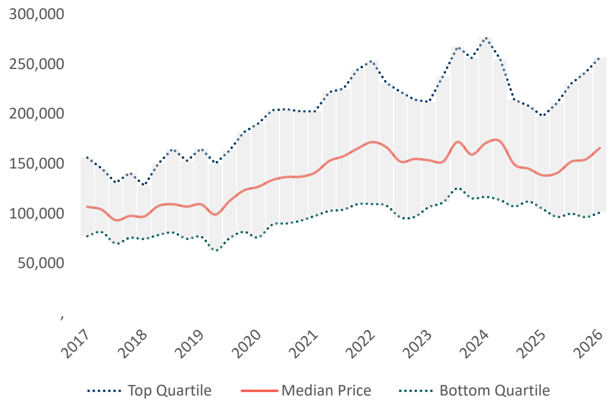
- Bristol
- Brussels
- Edinburgh
- Geneva
- Helsinki
- Malmo
- Prague
- Utrecht

WELL-SUITED STRATEGIES:

- Student accommodation
- Operational living
- Life sciences and flexible workspace

FIGURE 5: PRICE OF STUDENT ACCOMMODATION UNITS

Price per unit in EUR, rolling annual average



Source: MSCI RCA 7/2026, Bonard; Catella 09/2026

4 Rising stars

Value-add and Opportunistic growth allocations

Rising stars are benefitting from structural tailwinds. Economic convergence, nearshoring and technology investment are reshaping these markets.While risk is higher than in more established markets, so is the potential for rental growth and yield compression. Population growth and inward migration support residential demand, rising consumer spending underpins demand in retail parks, while expanding tourism creates opportunities across serviced apartments and hotels.

Warsaw leads the cluster on the back of strong economic growth and rising income. Malaga, Porto and Valencia are benefitting from lifestyle migration and improving international connectivity. Leipzig continues to outperform many German peers through industrial investment and demographic growth, while Krakow and Wroclaw are strengthening their position through economic convergence and improving competitiveness. Toulouse demonstrate how advanced manufacturing and technology investment can support urban growth.

- Birmingham
- Bordeaux
- Krakow
- Leipzig
- Malaga
- Nantes
- Porto
- Toulouse
- Valencia
- Warsaw
- Wroclaw

WELL-SUITED STRATEGIES:

- Affordable housing
- Retail parks
- Service appartments & hotels

5 Regional centres

Selective asset-specific opportunities

Regional centres may not dominate at a national level but are supported by productive local economies. Unlike Europe's larger markets, real estate performance is driven less by broad market momentum and more by asset selection, local supply dynamics and active operational asset management, creating opportunities for investors with strong local market knowledge. Athens, Budapest, Lisbon, Lyon, The Hague and Stuttgart highlight the diversity of the cluster. Despite their different economic drivers, they share a common trait: strong regional significance, specialised industries and affluent populations (Figure 6).

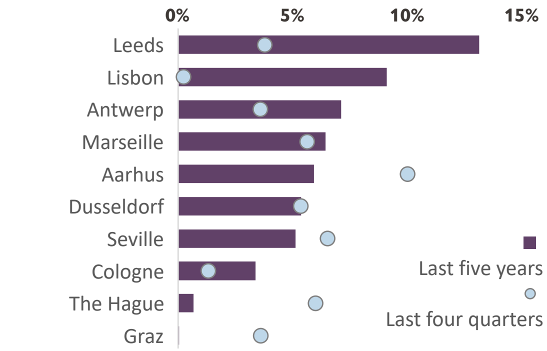
- Aarhus
- Antwerp
- Athens
- Bergen
- Bilbao
- Budapest
- Cologne
- Dortmund
- Dresden
- Dusseldorf
- Gdansk
- Glasgow
- Graz
- Hannover
- Leeds
- Lisbon
- Lyon
- Marseille
- Nuremburg
- Seville
- Stuttgart
- The Hague
- Zaragoza

WELL-SUITED STRATEGIES:

- Income-oriented residential
- Operational real estate

FIGURE 6: RESIDENTIAL RENTAL GROWTH

Average monthly rent, €/sqm, selected European cities



Source: Catella 09/2026

6 Trailing cities

Opportunistic repositioning and recovery plays

The final cluster comprises cities facing more pronounced demographic, economic or competitiveness challenges than their European peers. Many remain important administrative, cultural or tourism centres. However, broad market appreciation is unlikely to drive returns. Instead, returns will depend on active asset management, redevelopment and repositioning strategies capable of unlocking value where structural growth is limited.

- Bologna
- Bremen
- Brno
- Essen
- Florence
- Genova
- Lille
- Naples
- Nice
- Poznan
- Rome
- Strasbourg
- Turin

WELL-SUITED STRATEGIES:

- Office-to-residential conversions
- Urban regeneration projects

Investment convictions

European real estate has entered a new phase of increasingly concentrated economic growth, occupier demand and liquidity, resulting in greater differentiation between cities. Some cities are better suited to capital preservation, others to income generation or value creation. Against this backdrop, three investment convictions shape the next stage of real estate investment.

LOCATION DRIVES INVESTMENT OUTCOME

Location has always driven investment performance. However, the divergence in economic performance, demographic trends and infrastructure quality across Europe means that a single market cycle is giving way to many different local cycles. As differences between markets widen, city selection should become a central component of investment strategy.

CITIES PLAY DIFFERENT PORTFOLIO ROLES

The six city clusters illustrate that cities fulfil different functions within a portfolio. Flagship cities and Economic anchors provide scale, liquidity and long-term stability, Talent hubs offer exposure to innovation-led growth, Rising stars support higher-growth strategies, while Regional centres and Trailing cities create opportunities through local expertise and asset selection.

CATELLA'S RECOMMENDATION

Our recommendation is to remain sector agnostic while placing greater emphasis on city selection.Within the six-cluster framework, Catella favours Economic anchors for their attractive risk-adjusted returns. For investments with a higher risk tolerance, Talent hubs and Rising stars offer stronger returns.

An analysis that covers 75 metropolitan areas across 20 European countries

The analysis covers 75 metropolitan areas across 20 European countries, representing an estimated population of approximately 350 million people. Cities were primarily assessed at the NUTS3 regional level. In selected cases, including London, Paris and Manchester, alternative geographic definitions were used. Cities were evaluated across two complementary dimensions: Economic Strength and Urban Attractiveness and scored from 75 (the highest) to 1 (the lowest). Economic Strength captures the scale, competitiveness and growth potential of metropolitan economies, while Urban Attractiveness reflects the characteristics that support talent attraction, demographic resilience and quality of life.

The analysis incorporates 16 economic, demographic, social and real estate indicators, including GDP size, GDP growth, productivity, employment growth, population growth, educational attainment, household income, housing market performance and real estate investment activity. Indicators were normalised and equally weighted within each category.

Category scores were then combined to create the overall city framework used for clustering. Rather than producing a ranking, metropolitan areas were grouped into clusters based on shared characteristics. The resulting clusters reflect different combinations of economic strength, urban liveability and investment market depth, recognising the diverse roles cities can play within real estate portfolios.

Sources: Oxford Economics, Eurostat, European Commission, MSCI and national statistical agencies.

CATELLA AB

Box 5894
SE-102 40 Stockholm
Street adress:
Birger Jarlsgatan 6

CONTACT

Petra Blazkova
Head of Market Strategy
& Product Development
petra.blazkova@catella.com