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NEW YORK LIFE REAL ESTATE INVESTORS STRATEGY AND RESEARCH GROUP
2026 MACROECONOMIC AND CRE REVIEW AND OUTLOOK

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The U.S. economy demonstrated resilience in 2025, despite tariffs, and we are cautiously optimistic for 2026. While tariffs remain a concern, recently enacted tax cuts under the One, Big, Beautiful Bill Act ("OBBBA"), ongoing deregulation, equity market gains, a nascent manufacturing revival, and advancements in Artificial Intelligence ("AI") should support GDP growth and the commercial real estate sector. However, several economic measures require monitoring, including softening job creation and inflation remaining higher than target. Key challenges to the U.S. economy include a high government debt to GDP ratio, income inequality (K-shaped economy), and widespread housing unaffordability (a positive for the multifamily sector).

The construction pipeline has declined for all property types which supports rental growth. Beyond fundamentals, CRE investors remain focused on disciplined capital deployment, emphasizing active asset management, strategic leasing, and selective repositioning. The return of liquidity to the lending market—coupled with a more accommodative interest rate outlook—is helping to reprice risk and revive transaction pipelines. We anticipate increased price discovery to set the stage for a potential inflection point for transaction volume in 2026.

Key Takeaways

Macroeconomics

- The **U.S. economy** resisted a slowdown in 2025 as the impact of tariffs was offset by AI, tax cuts, deregulation, and equity market gains. We are cautiously optimistic about 2026, despite several economic measures softening.
- The U.S. continues to demonstrate global economic leadership, supported by strong productivity growth, innovation, and a business-friendly regulatory environment. The GDP per capita gap with the EU has widened markedly, rising from roughly 30% in 2008 to nearly double today. This divergence is also evident in capital markets, with U.S. equities accounting for 48% of global stock market capitalization as of December 2025, up from less than 30% in 2010.
- The dollar remains the world's reserve currency with all the associated benefits for the U.S.
- The Federal Reserve has lowered **interest rates** by 175 basis points since September 2024, providing support to many sectors of the economy, including CRE, that were battered by the

unprecedented rate rise cycle of 2022-2023. Long-term rates, however, remain above September 2024 levels.
- **Inflation** remains above the Federal Reserve's 2% target, and we expect more of the same in 2026, as rising costs are driven by several long-term trends and increased tariffs.
- The **immigration** slowdown and repatriation (following the unprecedented surge during 2022-2024) have thus far not had a perceptible negative impact on GDP and housing demand.
- The **federal debt** to GDP ratio remains near record highs at 121%. The U.S. federal debt level of $37.6 trillion as of 3Q 2025 is at an all-time high and may need to be refinanced at higher rates.
- **Geopolitical** concerns eased in the Middle East, though conflict in Eastern Europe remains heightened. In addition to the Russia-Ukraine war, "Grey Zone" attacks between Russia and several western European countries continue. There is the potential for U.S. conflict with Venezuela, which could impact oil prices. Low level conflict between China and Taiwan or other nations in the South China Sea remains and escalation is a concern. Conflicts have consequences for economies as they pertain to trade, inflation, and interest rates.
- **Deglobalization** accelerated in 2025 and is expected to continue into 2026. While generally inflationary, this trend has supported the reshoring of some manufacturing.
- Challenges to the economy include a softening job market, sticky inflation, high government debt, income inequality (K-shaped economy), elevated consumer and student debt, and housing unaffordability. AI has both benefited and challenged the economy, as it has boosted GDP and increased productivity but has been a drag on employment levels and new hiring.

Commercial Real Estate (CRE)

- We have **a more positive outlook for 2026** than we had for 2025. The U.S. economy remains strong, demand is healthy, and the construction pipeline has declined for all property types. With tariffs becoming less uncertain and the administration's tax cuts and deregulation taking effect, GDP should remain healthy and as a corollary benefit CRE. Lower short-term **interest rates** experienced in 2025 are likely to continue in 2026, boosting liquidity and supporting the sector.
- Capital markets fundamentals, including active debt markets and rising bidding competitiveness, are projected to underpin growth in global CRE investment flows into U.S. assets throughout 2026.
- Substantial prospects for investing at a low basis have manifested but so have the potential pitfalls. Therefore, it is vital that investors are discerning and rely on the **keen investment expertise** of advisors who can differentiate true opportunities from potential minefields.
- There are **major demographic trends impacting the economy and CRE,** alongside amplified fiscal, regulatory, and legal differences between states. Discerning CRE investors and developers can capitalize on these major trends.

CRE Sectors and Opportunities

- Opportunities for low-basis entry points are manifesting **in the apartment sector as** rent growth has moderated overall and declined year-over-year in 27 of the top 88 markets. Vacancy rates are up 150 basis points from pre-COVID levels. The above notwithstanding, the near-record affordability challenges of single-family homes and the structural shortage of multifamily units have been tailwinds for the multifamily sector. Many Coastal and Midwest markets are benefiting from limited supply **sparked by lower construction** activity compared to the Sunbelt. There remains a shortage of multifamily CRE in certain markets and an oversupply in others, including many in the Sunbelt (we still believe these markets are good long-term investments). The Federal Housing Finance Agency announced that multifamily loan purchase caps for Fannie Mae and Freddie Mac will rise 20.5% in 2026 to $88 billion each. The combined $176 billion will be available as support for the apartment market.

- **Industrial sector** demand and rent growth are moderating as unprecedented supply has been added to the market over the past several years. The vacancy rate is 230 basis points higher than pre-COVID. **New supply is moderating**, and the **trend toward nearshoring** some share of manufacturing and trade to the U.S. and Mexico could benefit demand for manufacturing and warehousing in certain markets in the Southeast, Southwest, and Midwest as well as logistics properties in border states like Texas, Arizona, and California. We favor targeted investment in select markets in these regions. In 2026, we expect industrial sector rent growth to moderate further but remain positive.
- The **office sector** continues to be challenged, and the back-to-office trend is progressing slowly. The sector has undergone a notable revaluation, with default rates rising and expected to increase further in 2026. However, the supply side is beginning to recalibrate, as long-term vacancy is driving office conversions and demolitions that now exceed new supply additions, with most projects repurposed to apartments. Values of many older office buildings with a high level of functional obsolescence are in freefall and there have been a consequential number of property sales at 25% to 50% of pre-pandemic values. **Carefully calibrated investment in such buildings in healthy submarkets may provide the opportunity for substantial gains.**
- In the **retail sector**, vacancy rates remain historically tight and below pre-COVID levels but are beginning to rise. Supply risk is limited, with construction activity still below the 15-year historical average. **In 2026, we expect retail sector investments to remain attractive**, given limited new supply and resilient retail spending of upper-income American consumers. We are favorably disposed to grocery-anchored shopping centers in areas with growing populations.
- We believe there are opportunities in alternative asset types. **Single-Family Rentals (SFR)** are benefitting from the housing affordability gap and low inventory, particularly in the Midwest and coastal markets where home values continue to rise faster than other regions, such as the Sunbelt.
- Opportunities abound in the **medical office** and **senior housing** sectors (our focus is on Independent Living Facilities (ILFs) and Assisted Living Facilities (ALFs)), as demand has increased as result of the substantial expansion of the age 65+ population.
- **Self-storage** generally has lower operating expense ratios and labor costs, but home sales activity at multi-decade lows has weighed on demand for storage space in 2025.
- Substantial demand for **data center space** is expected to continue through 2026, fueled by AI. However, we believe this is more of an infrastructure-type investment and we are concerned that evolving technology could result in an accelerated rate of obsolescence.
- **Expense growth** has slowed across property types over the past year but still outpaced income growth in the industrial and office sectors. Operating expense ratios remain above pre-pandemic levels for all sectors except industrial. **Investors and advisors that have a keen awareness of the subtleties of regional, sector, and individual property cost structures have an advantage.**
- As values recalibrate and lenders and owners' needs for liquidity mount, **generationally attractive investment opportunities have manifested**. We believe this dynamic should accelerate in 2026. Certain sectors, in particular markets, may have reached their valuation troughs for this real estate cycle. Investors who can play up and down the capital stack and across the risk spectrum can capitalize on the market disruption.
- Market selection is as important as sector choice. Investors with deep knowledge of metros and submarkets are in a position to maximize returns and avoid pitfalls.
- Investment opportunities include providing **preferred equity** capital to high-quality sponsors to bridge the capitalization gap to allow for business plan completion. We are focusing mostly on multifamily and industrial segments and are typically seeing returns in the 12-15% range with 20% or more of equity protection.

New York Life Real Estate Investors
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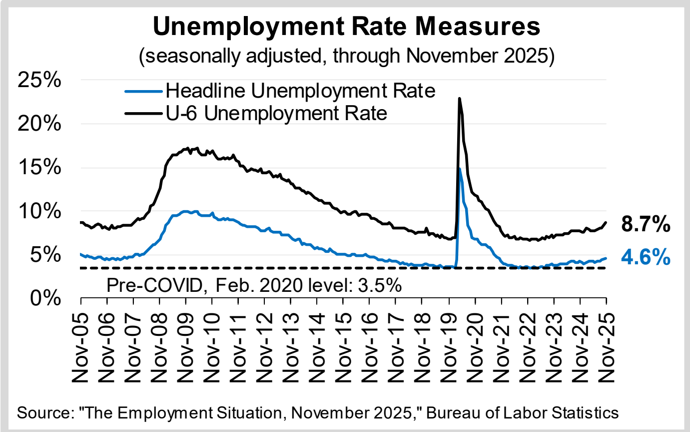
Macroeconomics

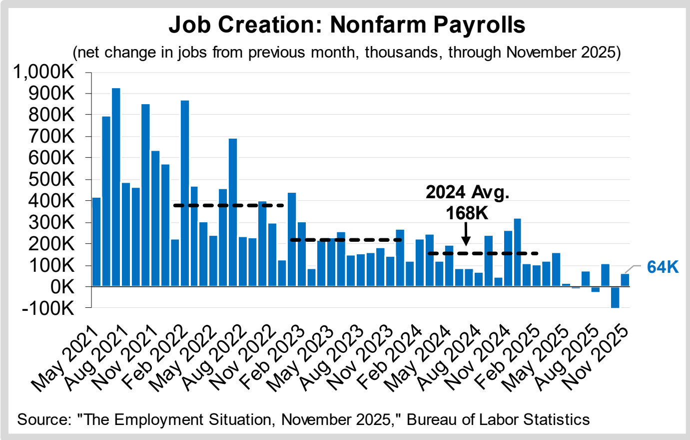
The U.S. economy demonstrated resilience in 2025, despite tariffs. However, several economic measures including job creation are softening and inflation remains above target. Other challenges to the U.S. economy include high government debt and a K-shaped pattern in which those in lower income brackets are experiencing stagnant wages and suffer more from inflation, while those in upper income categories have continued to spend. In addition, elevated consumer debt is curtailing personal consumption and preventing many from entering the highly unaffordable housing market. Nevertheless, we are cautiously optimistic about 2026. Although tariffs remain a concern, tax cuts, deregulation, a budding manufacturing revival, and AI should buttress the economy and support GDP growth.

The U.S. continues to demonstrate global economic leadership, supported by strong productivity growth, innovation, and a business-friendly regulatory environment. The GDP per capita gap with the EU has widened markedly, rising from roughly 30% in 2008 to nearly double today. This divergence is also evident in capital markets, with U.S. equities accounting for 48% of global stock market capitalization as of December 2025, up from less than 30% in 2010.

Real GDP growth of 4.3% at an annual rate in the third quarter following 2Q's 3.8% rebound from a tariff-influenced contraction reveals the resilience of the U.S. economy through 2025. Although GDP growth this year has been higher than initial expectations, we anticipate the measure to remain positive in the fourth quarter and into 2026.

The labor market has begun to show signs of softening as the headline U.S. unemployment measure – the "U3" rate –notched up from 4.0% in January to 4.6% in November 2025, now in line with the 10-year average. The broader "U6" measure of unemployment – a proxy for underemployment – rose from 7.5% to 8.7% over the same period.[1] Job creation has slowed notably, averaging just 22,000 per month over the past three months compared with a 10-year monthly average of 145,000.





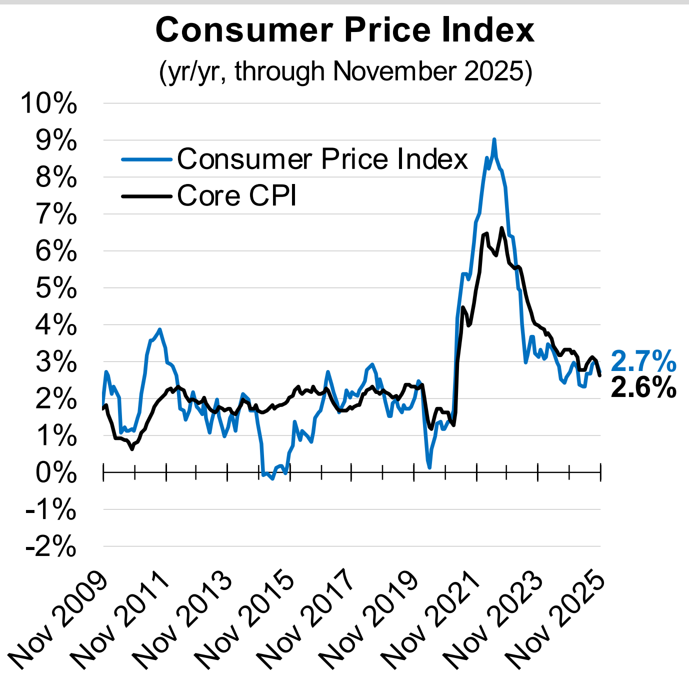
The situation appears more negative than it truly is, as much of the hiring slowdown reflects reductions in government positions. The private sector generated 225,000 net new jobs over the three-month period, while government employment declined by 158,000. The majority of these reductions occurred at the federal level and had been largely anticipated earlier in the year, when the Department of Government Efficiency (DOGE) disruptions affected agency operations. Many federal employees remained on payroll through the close of the fiscal year on September 30, resulting in their displacement being reflected in October's employment data.

The disparity between the weak number of monthly net new jobs and healthy GDP growth can be explained by greater productivity. In addition, the closing of the southern border and the repatriation of undocumented workers has resulted in less net new jobs but has not meaningfully impacted the unemployment rate.

[1] "U3" unemployment rate is the headline measure of unemployment. "U6" is a broader measure intended to capture underemployment.

Although the labor market is exhibiting signs of weakness, it may prove far more resilient this cycle than in the past. Nevertheless, we expect hiring to continue to slow in 2026 as labor supply slows.

Inflation has retreated from multi-decade highs. Headline Consumer Price Index ("CPI") inflation, measured on a year-over-year basis, returned to 2.7% as of the November reading from the U.S. Bureau of Labor Statistics, back to its June level after reaching 3.0% in September (see chart below). Core CPI inflation, which excludes the more volatile food and energy categories, though also elevated, eased from 2.9% to 2.6% over the same period. While inflation continues to trend below recent highs, the latest data suggest that further improvement may be challenged by shelter costs and the inflationary impact of tariffs.



Source: "Consumer Price Index," U.S. Bureau of Labor Statistics

The Fed's preferred measure of inflation, core Personal Consumption Expenditures ("PCE"), was 2.8% as of the most recent September reading, slightly down from 2.9% in August and comfortably below the 39-year high of 5.6% in February 2022. The most recent University of Michigan Survey of Consumer Inflation Expectations in December 2025 indicated that Americans expect prices to rise at an annual rate of 4.2% over the next year and 3.2% over the next five years. U.S. Treasury Breakeven Rates (5-Year Treasury-TIPS) imply investor-expected inflation to average 2.27% per year over the next five years.

Low-cost labor, goods, and capital helped keep inflation near 2% for roughly two decades, but those forces have faded. This long period of low inflation and easy financial conditions came to an end in 2022, when the Federal Reserve raised interest rates by 525 basis points between March 2022 and July 2023 to counter multigenerational high inflation. The Fed's efforts have borne fruit, and inflation has moderated but is still above the 2% target. Inflation may prove stubborn and may even rise in 2026 with much dependent on trade agreements, deficits, and government policy.

The Fed began lowering rates in September 2024, took a pause, and resumed lowering in September 2025, pushing the federal funds rate down to 3.50%-3.75%, or 175 basis points lower than its peak range of 5.25-5.50%. However, long-term rates have risen, and the 10-year Treasury yield is roughly 50 basis points higher than the most recent low point of 3.6% in September 2024.

Fed Chair Jerome Powell indicated that internal Fed analysis suggests federal employment data may be overstating monthly job gains by as much as 60,000 positions. Given reported average job growth of roughly 40,000 per month since April, actual labor market conditions could reflect a contraction of approximately 20,000 jobs per month.[2] Powell noted that the labor market has already decelerated materially from the post-pandemic hiring surge, and that slower growth makes the data more vulnerable to downward revisions that could reveal net job losses rather than gains. He described the current environment as complex and atypical, with mounting pressure on the labor market and the possibility that job creation is turning negative. These concerns contributed to the Federal Reserve's decision to implement a third consecutive interest-rate cut, despite headline indicators that still appear relatively stable.

[2] https://www.wsj.com/economy/jobs/fed-chair-jerome-powell-says-u-s-may-be-drastically-overstating-jobs-numbers-741c635d?mod=Searchresults&pos=1&page=1

The next Fed Chair, scheduled to be seated in the middle of 2026, is likely to be more accommodating. The appointment of a more dovish Fed Chair and the possibility that some of the other Fed members are replaced would likely accelerate rate cuts and result in a materially easier monetary stance, with policy more tightly aligned to pro-growth fiscal and tax initiatives. It would expand credit availability and have a policy orientation aimed at stimulating investment, GDP growth, and labor market activity. However, it would potentially expose the economy to higher inflation, currency softness, and greater asset-price volatility and asset bubbles. Some are concerned that a new Fed Chair may try to influence others to lower interest rates to unwarranted levels because of political reasons. Threats to Fed independence could pressure long rates higher by eroding confidence in the Fed's long-term inflation-fighting abilities.

Lower interest rates are particularly important considering the size of the federal debt. The federal debt-to-GDP ratio remained elevated at 121% as of Q3 2025, hovering near its highest level outside of the COVID-related peak of 132.7% in Q2 2020. However, debt is not exclusively an American issue. Many wealthy countries are living beyond their means and have racked up substantial budgetary shortfalls, and the risk of a bond-market crisis is growing. A substantial expansion in fixed-income supply may result—driven by widening government deficits and increased issuance—and is likely to exert upward pressure on interest rates and credit spreads. The risk of a significant fiscal event occurring in a major global economy is rising.

Consumer conditions have grown more uneven. Lower-income households face stagnant wages and greater exposure to inflation, while upper-income households continue to support spending. Retail sales, a measure that is more heavily weighted toward goods than services, began to soften from July through October following an unusual pattern driven by tariff-related responses in the first half of 2025. Overall retail sales growth slowed from a 0.5% month-over-month real increase in July to 0.2% in August. Sales then contracted by -0.2% month over month in both September and October as consumer activity began to cool.[3]

Political sentiment has shifted notably. The 2025 elections in New York, New Jersey, Virginia, Georgia, and Miami represent a rebuke to the current administration's handling of the economy as concerns over prices and job losses resulted in democratic party victories.

U.S. manufacturing activity contracted for the ninth consecutive month in November, reflecting ongoing tariff-related pressures and shifting demand among businesses and consumers, according to the latest Institute for Supply Management report. The ISM manufacturing index registered 48.2 for November, a slight decline from October's reading of 48.7. Since readings below 50 signal contraction, the results indicate continued softness in production costs, new orders, and other key operational metrics. A nascent manufacturing revival has not yet been strong enough to lift the index into expansion.

Although manufacturing growth has stalled amid the fading boost from the CHIPS Act and ongoing trade uncertainty, we believe the emerging revival may strengthen in 2026, though this outcome is not assured. Durable goods orders totaled $307 billion in October. While this represented a decline from September, orders were 4.8% higher than in October 2024, and every month in 2025 has recorded a year-over-year increase. Reshoring and renewed industrial activity will center on national security industries including aerospace, defense, biotech, technology, automation, pharmaceuticals, and medical devices.

Semiconductor manufacturing has emerged as a cornerstone of potential industrial resurgence, serving as the foundation of the modern digital economy. Copper, aluminum, and steel remain critical inputs for current and future infrastructure development, particularly for data centers. Capital spending on computing and communications technologies—including semiconductors, data center construction, grid modernization, and AI-related software—has been a significant contributor to GDP growth over the past year and is likely to remain a key driver in 2026.

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[3] October retail sales were adjusted using the November 2025 CPI level, due to the unavailability of the October CPI report.

AI has both benefited and challenged the economy, as it has boosted GDP and increased productivity but has been a drag on employment levels and new hiring. The AI boom has spurred significant construction of data centers and energy infrastructure, while record-high stock prices continue to support consumer spending. However, an AI-related correction in equity markets would threaten these gains and weigh on capital expenditures.

The immigration slowdown and repatriation following the unprecedented surge from 2022-2024 has thus far not caused a drawdown of GDP, but that may change. Recent immigration policy has been a tailwind for wage growth but is inflationary and has contributed to softer housing demand.

Uncertainty related to trade has decreased but remains a challenge. The 43-day government shutdown during October and November created a data fog by significantly delaying the release of key economic metrics. Tax cuts and deregulation enacted by the administration have supported the economy and lifted GDP growth, while tariffs have produced mixed effects by adding economic and inflation pressures even as they encourage reshoring and manufacturing investment. The spending associated with tax cuts and rebates will flow more fully through the financial system at the start of next year, providing another boost to GDP but adding to inflation risk.

Overall, we remain cautiously optimistic about 2026. AI, tax cuts, reshoring, and deregulation have continued to buttress the economy despite tariff-related headwinds, and the full impact of the tax cuts should materialize next year, positioning the economy for further gains.

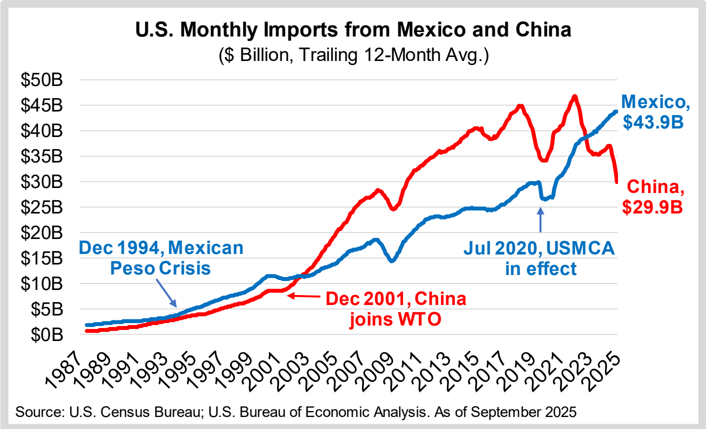
Tariffs

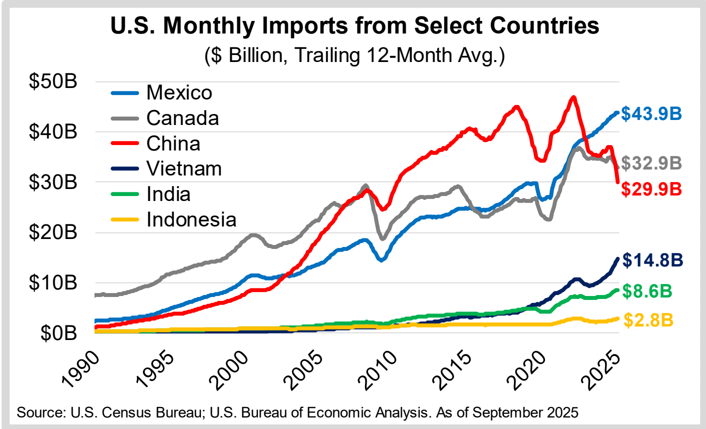
There is some level of bipartisan agreement that onshoring of manufacturing in certain sectors represents a national security imperative—one unlikely to be reversed. Since 2017, and accelerating in the wake of the pandemic, the U.S. has sought to reduce its reliance on China and other countries for critical supplies, including semiconductor chips, active pharmaceutical ingredients, generic medicines, naval vessels, drones, and personal protective equipment.

Similarly, the U.S. has been actively working to lessen its reliance on imports for critical materials such as aluminum and steel. These efforts are driven by concerns over national security, supply chain resilience, economic independence, and geopolitical tension. The strategies involve a combination of domestic investment, trade policy shifts, and international partnerships.

The full extent of the shift away from China has yet to be determined, and there is constant news of adjustments to proposed tariff levels. This ongoing negotiation—often conducted openly, almost theatrically, in the public sphere—has fueled uncertainty. Investors observe every move, every opening bid, every counter, and react with anxiety or at some point resignation, even exhaustion. For manufacturers, this creates a dilemma of trust and timing. Since April 2, when tariffs were announced on every nation in the world with elevated levies on Chinese imports, the President has been negotiating with many nations and has reached agreements or trade frameworks with the European Union, United Kingdom, Japan, Indonesia, Vietnam, and other countries. These agreements have resulted in less uncertainty; however, with the administration’s tariffs now before the Supreme Court – the outcome is not firm.

The impact of tariffs and sanctions is reflected in the weak U.S. dollar. The U.S. dollar index (DXY), which measures the value of the dollar relative to a basket of major foreign currencies including the euro, Japanese yen, Canadian dollar, British pound, Swedish krona, and Swiss franc, has declined 9.7% through 2025. A weaker dollar makes U.S. exports more competitive and imports more expensive, which pushes the trade deficit lower. The effects of tariffs on trade since the first Trump administration are demonstrated in the charts below. Notice the shift away from China that has benefitted other countries such as Mexico.





While the retail and industrial sectors are more directly impacted by tariffs, all CRE is influenced by broader macroeconomic trends that tariffs influence, including inflation, interest rates, and capital flows. Certain sectors and regions may start showing signs of resilience or vulnerability depending on their exposure to global trade and sensitivity to construction costs. Although unlikely, a tariff induced recession would weigh on property fundamentals, yet real estate's contractual cash flows, inflation resistance, and domestic orientation offer some protective characteristics. Investors and operators must remain vigilant as these broad economic forces shape investment outcomes. Uncertainty around tariff policy can cause investors to pause, particularly foreign investors in U.S. real estate.

Tariff-related economic pressures are reshaping U.S. real estate, creating both risks and opportunities across sectors. In multifamily, employment fears and weaker rent growth are tempered by a construction slowdown driven by high material costs and more limited labor availability. Overall, higher input costs and elevated rates are thinning project pipelines, reinforcing the relative value of stabilized assets. In contrast, retail, office, and lodging face more direct headwinds. Retail sits on the front lines of tariffs, with import-dependent categories like apparel and electronics seeing higher costs, weaker margins, and potential demand erosion—favoring local, service-oriented, and experiential tenants. The office sector remains in flux amid remote work trends, with metros like New York and Dallas showing resilience while government-driven markets like D.C. lag. Tariffs may add uncertainty, delaying leasing and hiring decisions, especially in trade-exposed cities. Meanwhile, lodging feels the impact early in downturns as business and leisure travel soften; higher costs for imported furnishings and supplies further strain margins.

In November 2025, former U.S. Commerce Secretary Gina Raimondo remarked that President Donald Trump's tariff policies are likely to persist well beyond his administration. She noted that political considerations—particularly concerns about alienating workers fearful of job displacement from offshoring and artificial intelligence—make it unlikely that future administrations, regardless of party, will reverse these measures. Speaking at the Bloomberg New Economy Forum in Singapore, Raimondo acknowledged that tariffs can provide targeted protection for strategic sectors such as semiconductors and pharmaceuticals. However, she questioned their broader utility in revitalizing U.S. manufacturing, emphasizing that higher input costs caused by tariffs often undermine the competitiveness of domestic producers that rely on imported components.

There has been substantial debate about whether tariffs would push the U.S. economy into recession. That outcome has not materialized. Instead, the economy has demonstrated resilience, continuing to expand.

Deregulation

President Trump has favored many forms of deregulation, particularly those pertaining to the environment and financial markets. He also seeks to streamline federal bureaucracy and reduce government costs. Consistent with this approach, the administration has advanced a broad deregulatory strategy across the energy and environmental sectors. For example, the Unleashing American Energy executive order instructs federal agencies to expedite permitting processes for fossil-fuel production, energy infrastructure projects, and mining activities.

The Environmental Protection Agency (EPA) has also rolled back—or indicated plans to reevaluate—key climate-related regulations, including vehicle emissions standards and the Clean Air Act's greenhouse-gas "endangerment finding." In parallel, the Securities and Exchange Commission (SEC) has opted to discontinue its defense of a climate-disclosure requirement mandating that publicly traded companies report greenhouse-gas emissions and climate-related risks. Overall, the administration's efforts are aimed at easing regulatory constraints on drilling, hydraulic fracturing, and other fossil-fuel development activities. Supports for fossil fuels and deregulation could lead to lower energy costs, lower inflation, and more American jobs. Deregulation in many categories could charge the U.S. economy in 2026 and beyond. In the financial sector, deregulation is likely to take the form of lower bank capital requirements, potentially fueling loan growth, share buybacks, and dividends.

The U.S. is seeking to reduce its reliance on China and other countries for critical supplies including semiconductor chips, active pharmaceutical ingredients, generic medicines, and personal protective equipment. This trend has been accelerated by geopolitics and national security considerations. The administration's policies signal even greater deglobalization with higher tariffs and other protectionist policies. A 21st century form of quasi-mercantilism could be setting in as more countries focus on home or near shoring of manufacturing, defense, and control of supply chains.

Shadow Banking

Certain loan structures and lending practices within the private credit, or "shadow banking," market have emerged as areas of concern. These non-bank institutions compete with highly regulated banks and the more transparent public bond markets in extending credit to corporate borrowers. However, rising apprehension surrounds their underwriting standards, risk management practices, and the overall lack of transparency in this segment of the financial system.

Geopolitics

Geopolitical concerns include escalation at global flash points including Eastern Europe, the South China Sea, and the Korean Peninsula are noted. Expansion of the conflict in Eastern Europe has the potential to negatively impact the global economy. "Grey Zone" attacks short of war continue between Russia and certain European countries involving aggression in the form of cutting undersea cables, deployment of drones at airports, and cyber-attacks. These ambiguous, sub-threshold attacks may lead to escalation. The potential for substantial escalation in the South China Sea as well as the Korean Peninsula could potentially have great negative global implications. China's aggressive moves in the South China Sea are now being met with pushback by its neighbors. Aggressive posturing by nuclear armed North Korea towards its southern neighbor has accelerated.

The economy is growing, and company earnings have been resilient, but businesses are facing headwinds from slower growth, operating uncertainty, and tariffs – nonetheless corporate liquidity remains well above the pre-pandemic trend, and small business optimism remains slightly elevated, but fragile.[4] Liquidity remains abundant, reducing the likelihood of significant credit stress this cycle. Defaults are low and credit spreads remain tight.[5]

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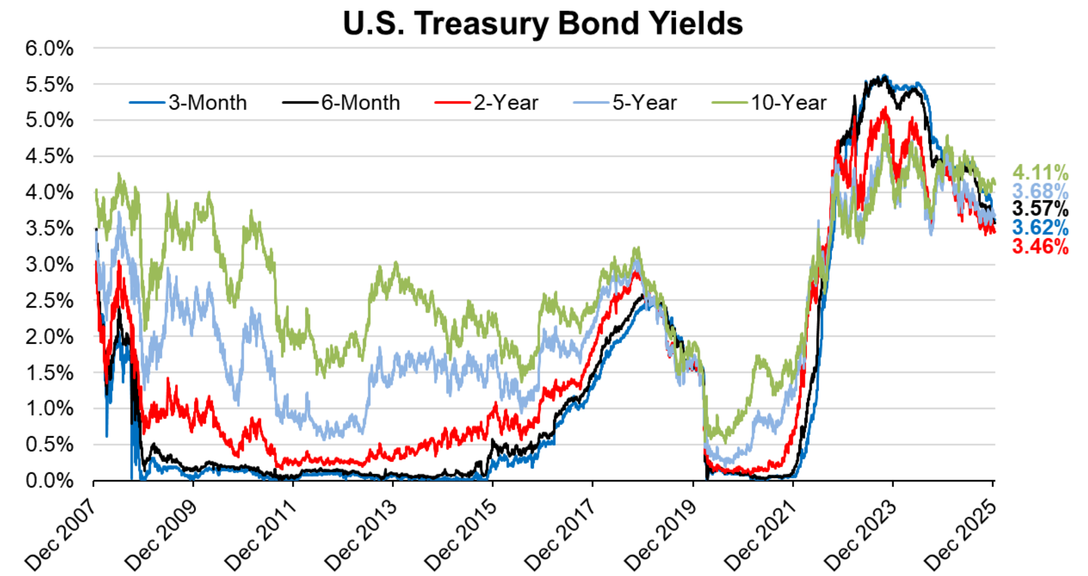
[4] https://www.nfib.com/news/press-release/new-nfib-survey-small-business-optimism-takes-a-small-step-back-as-uncertainty-eases-in-october
[5] https://www.newyorklifeinvestments.com/assets/documents/perspectives/gms-from-the-desk-credit-cycle.pdf

Cost of Capital and its Economic Impact

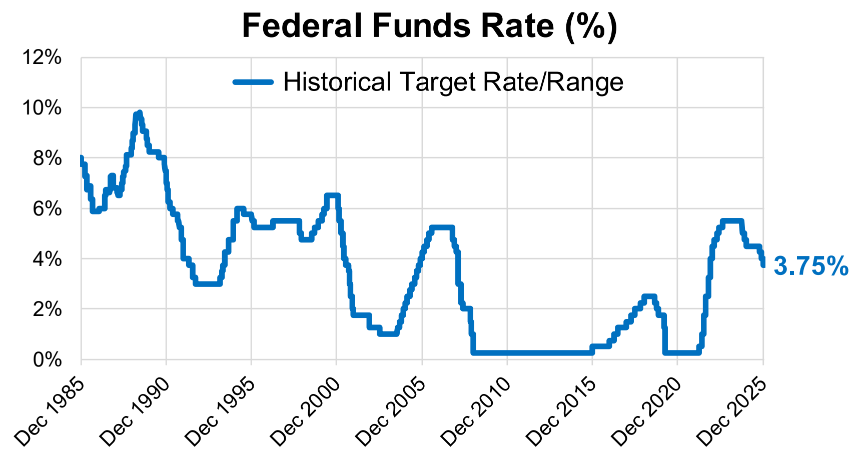
The elevated cost of capital remained a significant economic factor in 2025. Although rates in 2025 continued their decline somewhat from the highs seen in 2023, all forms of debt, including government, corporate, and consumer, will need to be refinanced at higher rates, which will put strain on deficits, budgets, and earnings. CRE could turn out to be both a perpetrator and a victim of potential crisis. CRE is distributed throughout the U.S. and can have a broad impact. Should rates remain elevated for an extended period, this type of crisis could become more likely.



Source: Federal Reserve Economic Research, Bloomberg, as of December 29, 2025

The rates in place from 2008 to 2022 were atypical in the extreme, and the current interest rate regime is more characteristic of most of the post-WWII history. The yield on the 10-year Treasury fell to 3.6% in September 2024, prior to the FOMC's 50-basis-point rate cut, which triggered a rally on the long end of the curve. Yields climbed more than 100 basis points over the following four months, peaking at 4.76% on January 10, 2025. The rate then bottomed at 4.0% on April 4 before rising to 4.5% by June 6. Since then, it has trended lower, standing at 4.11% as of December 29.

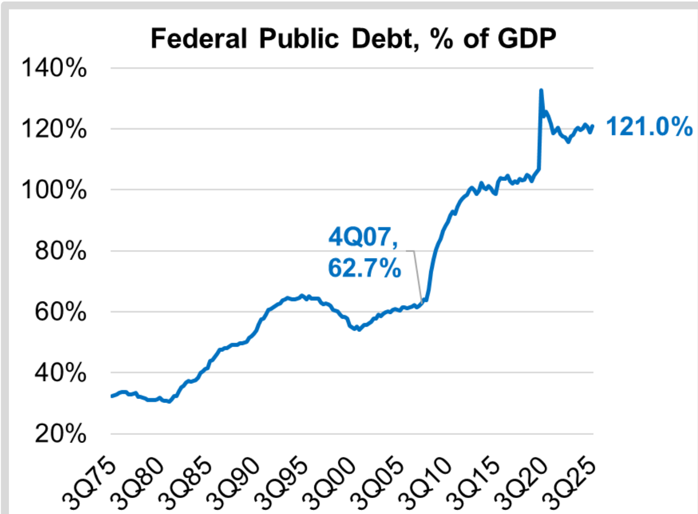
Government debt issuance is likely to stay elevated because of increasing costs, including higher average interest costs on outstanding debt, infrastructure spending, and defense spending and lower revenues due to OBBBA. The situation is concerning because much of the government's debt will be repriced at higher interest rates than those in place during the 12-year period ending in 2022. The increased cost of capital has implications for all loans and debt including government, corporate, CRE, and consumer debt.



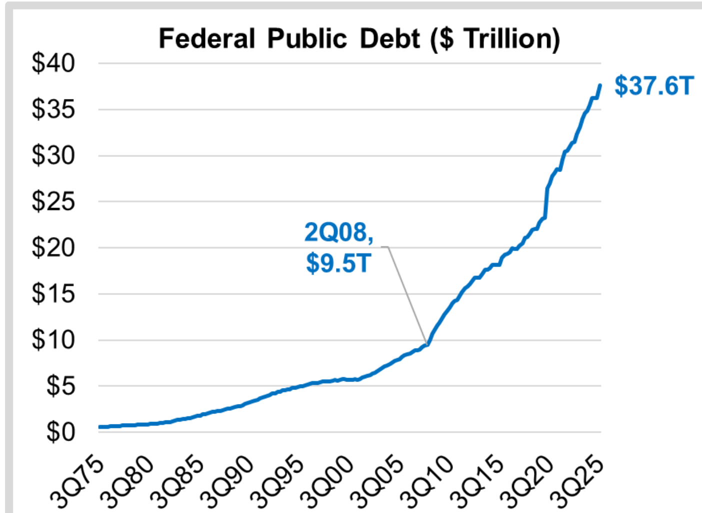
Source: Federal Reserve Economic Data. As of December 2025.

Federal Government Debt

The still relatively high interest rates compared to the period that ended in 2022 present a challenge for the U.S. budget. The last extended period in which yields were this high in 4Q2008, the federal government debt level was just 73% of GDP, compared with 121% as of 3Q2025, with federal debt totaling $37.6 trillion.

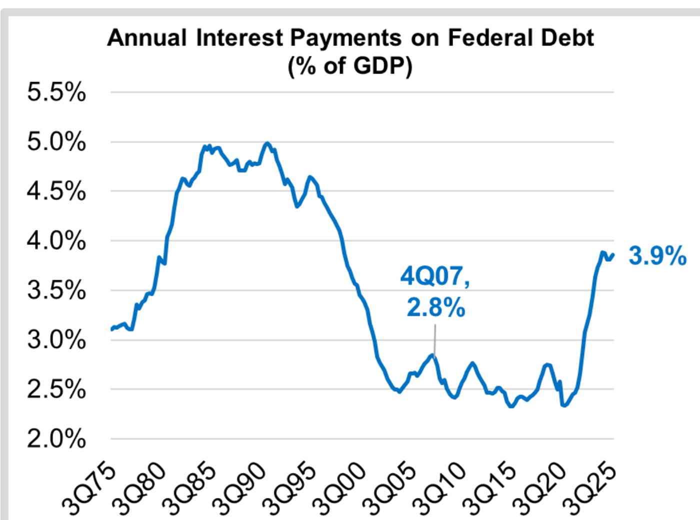


Source: U.S. Department of the Treasury. As of Q3 2025

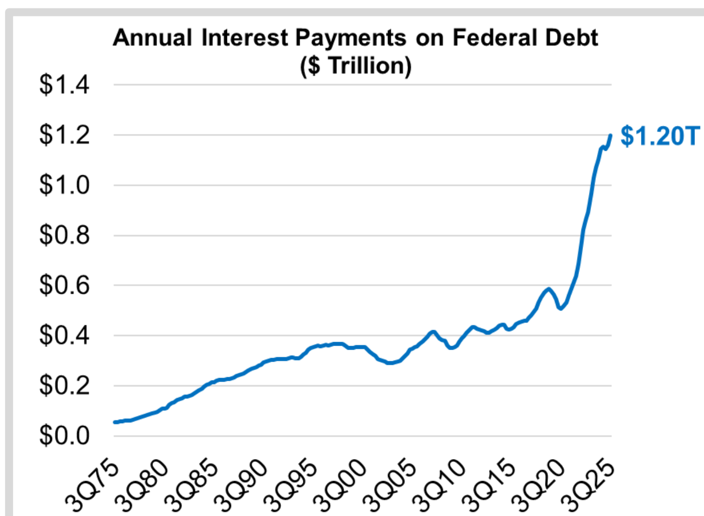


Source: U.S. Department of the Treasury. As of Q3 2025

Since the U.S. government continues to borrow and spend at elevated levels and the federal deficit is growing (currently $1.78 trillion in fiscal year 2025), a meaningful decline in long-term interest rates appears unlikely to happen in the near term. Interest costs reached $1.2 trillion as of 3Q2025, representing 3.9% of GDP, and Fed officials expect these costs to remain elevated for some time.



Source: U.S. Bureau of Economic Analysis. As of Q3 2025



Source: U.S. Bureau of Economic Analysis. As of Q3 2025

The $1.2 trillion in annual interest payments remains roughly on par with U.S. national defense outlays. Public debt levels are unlikely to decline meaningfully, and debt service costs will continue to rise as existing obligations are refinanced at higher rates.

Debt and Deficit Are a Major Concern

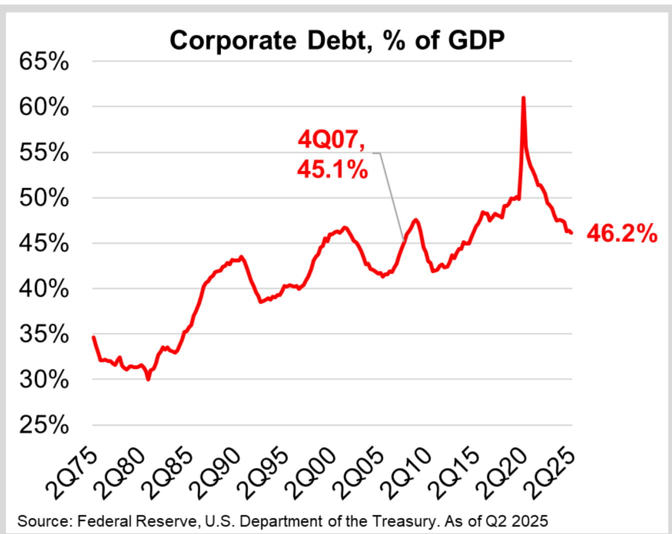
The Congressional Budget Office (CBO) estimates that the federal budget deficit in fiscal year 2025 is $1.9 trillion. Adjusted to exclude the effects of shifts in the timing of certain payments, the deficit grows to $2.7 trillion by 2035. With such adjustments, deficits equal 6.2% of GDP in 2025 and 5.2% of GDP in 2027, as revenues increase faster than outlays. By 2035, the adjusted deficit equals 6.1% of GDP—significantly more than the 3.8% that deficits have averaged over the past 50 years.[6] The federal debt and deficit as well as the high level of debt held by other countries act as tailwind for the cost of capital and as a corollary, for inflation.

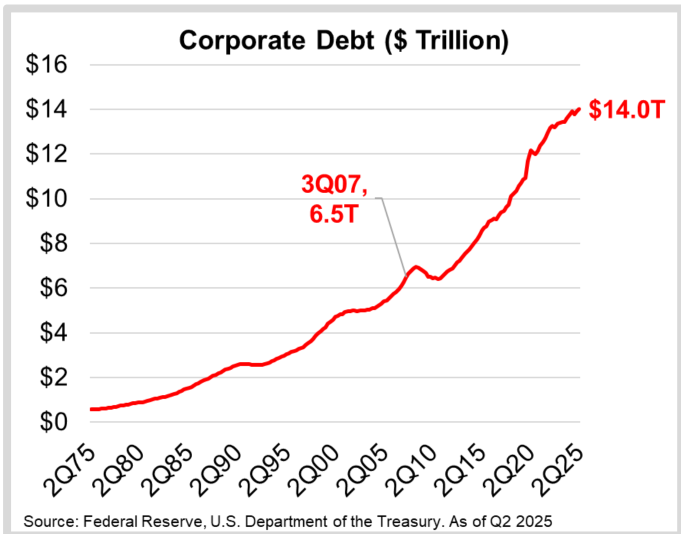
The U.S. M2 money supply and debt-to-GDP ratio are near their highest levels and have contributed to high inflation.[7] Demographic trends in the U.S. and worldwide make labor scarcer and more expensive, which may become an additional inflationary catalyst.[8]

Corporate Debt

Corporate debt also rose in 2025. U.S. companies have issued more than $1.499 trillion in investment-grade bonds this year, slightly edging 2024's total and marking the second-highest yearly level ever, according to Bloomberg.[9] The above notwithstanding, corporate debt represents 46.2% of GDP, not much above the 45.1% in 4Q2007.

Companies that borrowed funds at low interest rates must now refinance at substantially higher rates. At the very least, these increased costs will weigh on profitability. However, it may also lead to default and insolvency, particularly for smaller, weaker, more highly levered companies. According to the Federal Reserve, outstanding corporate debt has risen to $14.0 trillion as of mid-year 2025.





Other sources of stress include companies that borrowed at very low rates during the pandemic and used funds for private-equity buyouts. Many of these companies have low credit ratings and high levels of adjustable-rate debt, subjecting them to elevated interest payments. Lower short-term rates expected in 2026 should alleviate some of this pressure.

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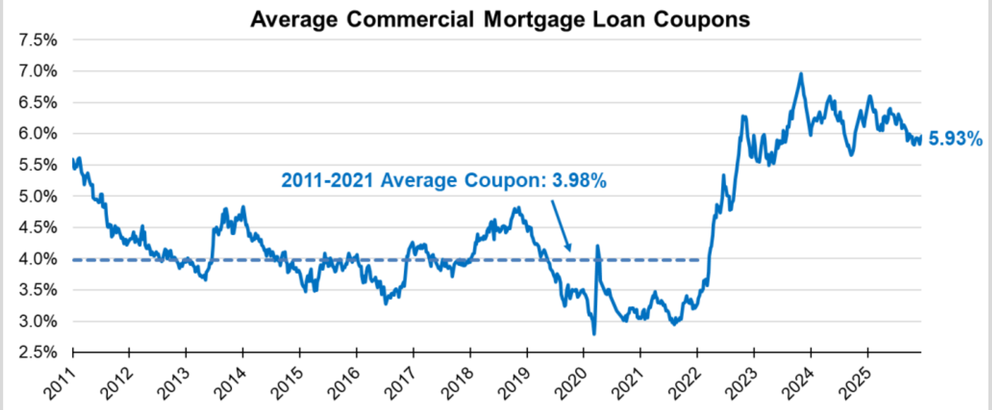
[6] https://www.cbo.gov/publication/60870
[7] M2 is a measure of the U.S. money stock that includes M1 (currency and coins held by the non-bank public, checkable deposits, and travelers' checks) plus savings deposits (including money market deposit accounts), small time deposits under $100,000, and shares in retail money market mutual funds.
[8] Other inflationary tailwinds may include "greedflation" which is when companies raise prices substantially more than necessary as well as climate change causing droughts and other weather-related factors that impact prices for food, insurance, and other products.
[9] https://www.bloomberg.com/news/articles/2025-11-12/us-high-grade-bond-sales-reach-their-highest-level-since-2020

Commercial Real Estate Debt[10]

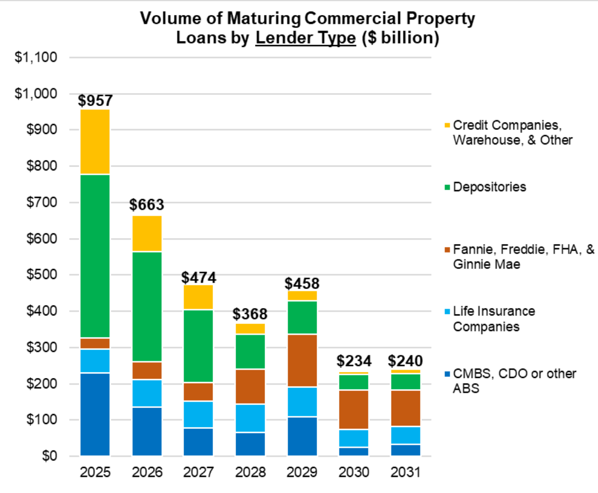
CRE loans originated during the thirteen-year period of near-zero interest rates face refinancing challenges in today's higher-rate environment. As of December 2025, the average fixed-rate commercial mortgage stands at 5.9%. This is down from the 2024 average of 6.15% but well above the 3.8% average recorded from 2014 to 2021 (see chart below). For much of the decade prior to 2022, Debt Service Coverage Ratio (DSCR) was rarely a major lending constraint because coupons were low. While improving, it remains a significant hurdle.



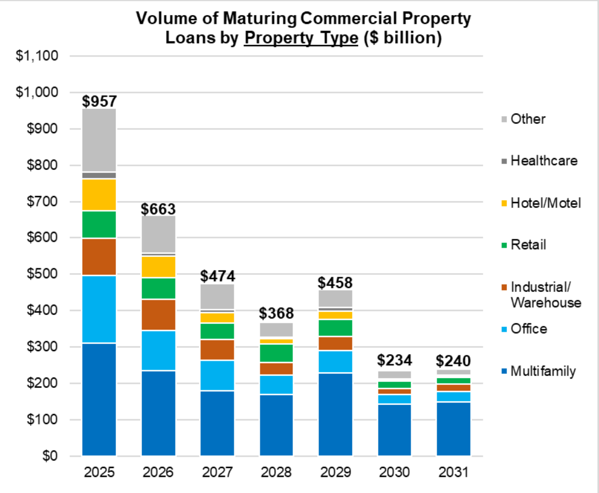
Source: Trepp-i. As of December 12th, 2025
Note: Includes conventional secured CML's 60-65% LTV, amortizing, average coupons for office, retail, industrial, and multifamily sectors.

Borrowers who used floating-rate loans are seeing some relief as short-term rates decline. The floating Secured Overnight Financing Rate (SOFR) is currently 3.7%, roughly 55 basis points lower than at year-end 2024 and about 155 basis points below the 5.3% range seen from mid-2023 to mid-2024. This decline reduces the cost of floating-rate capital, a key driver of buyer demand in the CRE market.

Nearly $1 trillion in CRE debt maturities were expected to come due in 2025, with another $663 billion scheduled for 2026. Many of the 2025 maturities were extended. In addition, a sizable amount of 2026 maturities are likely to be extended by lenders, but pressure to resolve a portion of these loans remains. Assets purchased or financed at very low yields with short-term debt may require recapitalization through substantial new equity and/or third-party rescue capital.



Source: Mortgage Bankers Association. Annual data as of year-end 2024.



Source: Mortgage Bankers Association. Annual data as of year-end 2024.

A CRE debt crisis could emerge if elevated defaults materialize, whether from an inability to refinance ("balloon default") or from insufficient income to meet debt service ("term default"). Either outcome can negatively affect the banking system. Of the major sources of CRE debt financing, including insurance companies, banks, non-banks, and commercial mortgage-backed securities (CMBS), insurance companies and CMBS (particularly SASB) are most active with banks and debt funds becoming more active.

[10] Commercial real estate debt has implications to the broader macroeconomy and is therefore covered here, as opposed to the later section on CRE.

Consumer Debt: Auto Loans, Credit Cards, Residential Mortgages, and Student Loans

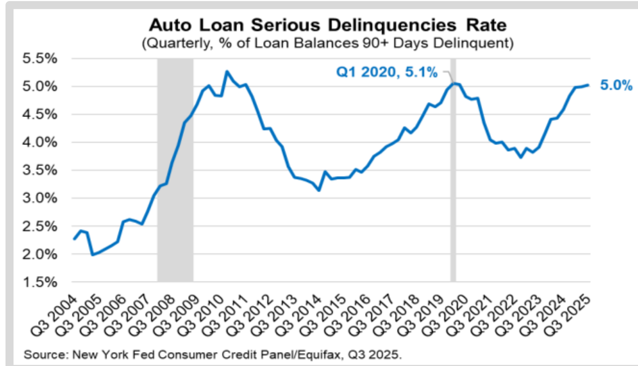
High auto loan delinquency rates indicate that household financial conditions have continued to weaken. The 90+ day auto loan delinquency rate stands just above 5%, after steadily rising since late 2022. It now hovers just below the pre-COVID level of 5.1% and is approaching levels seen during the Global Financial Crisis. New delinquencies (30+ days) have already moved above pre-pandemic levels. The surge in missed payments is particularly concerning given that a car remains essential for daily life in most parts of the U.S. A recent study by VantageScore found that auto loan delinquencies have risen roughly 50% over the past 15 years, turning what was once among the safest forms of consumer credit into one of the riskiest.[11] Among subprime borrowers, typically lower-income households with weak credit profiles, delinquencies have reached record highs. According to Fitch Ratings, the subprime auto loan delinquency rate (60+ days past due) climbed to 6.5% as of September 2025, up from 6.1% a year earlier and exceeding the February 2024 peak of 6.4%.[12]

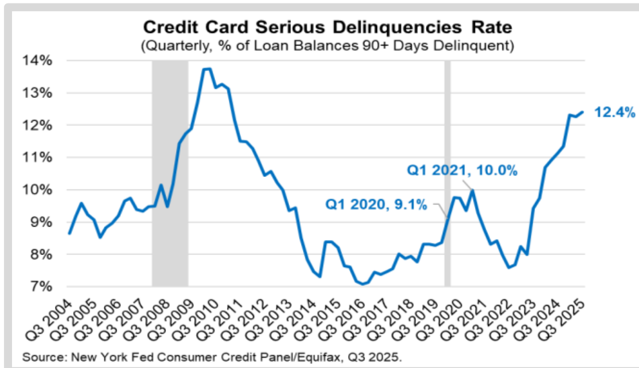
Credit card delinquencies tell a similar story. The 90+ day delinquency rate across all age groups is now 12.4%, up from 10% before the pandemic. Over the same period, credit card balances have increased by $89 billion to $1.23 trillion as banks promoted new card openings and raised limits on existing accounts.

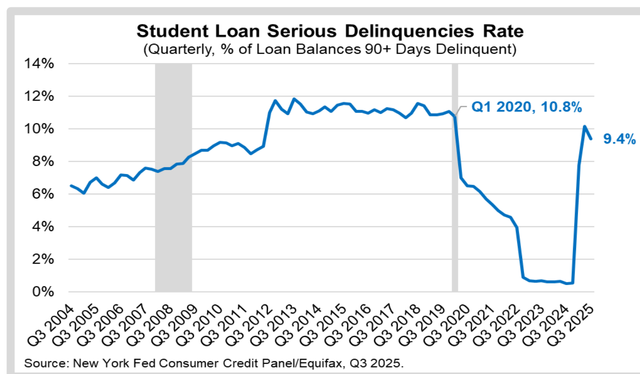
On the student debt side, the resumption of repayments after roughly five years of suspension has triggered a sharp rise in delinquencies. In 4Q2024, the overall delinquency rate was just 0.5%, but since the U.S. Department of Education resumed collections on defaulted federal student loans, the 90+ day delinquency rate has climbed to 9.4%, while new delinquencies (30+ days) have risen to 14.4%, the highest level in the New York Fed's data history.

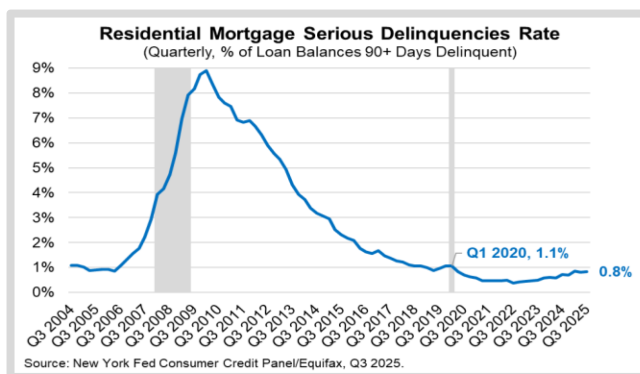
Meanwhile, mortgage loan delinquencies, another gauge of household financial stress, remain comparatively low. Mortgage defaults are minimal as most borrowers are locked into historically low rates. According to the Federal Housing Finance Agency (FHFA), about 70% of mortgage holders have interest rates below 5%, and roughly 53% hold rates below 4%.

Rising delinquency rates signal a weakening consumer with less capacity and willingness to spend, which is a negative indicator for the broader economy. This remains most acute for lower-income and younger consumers.









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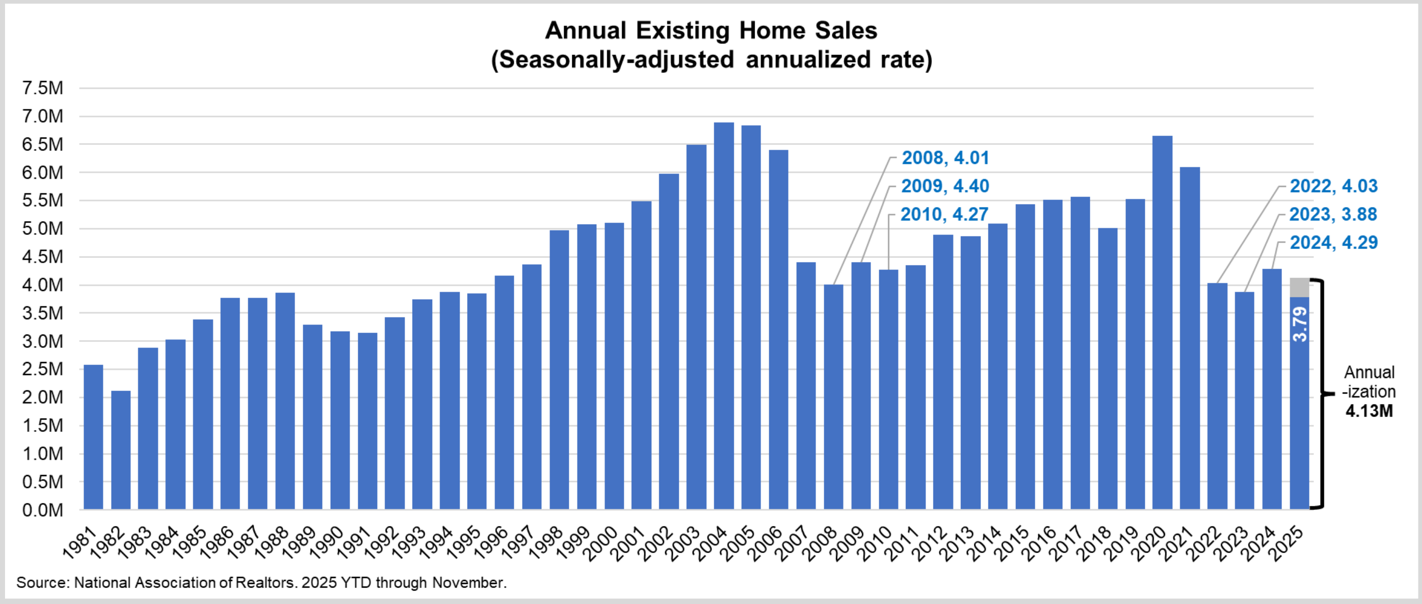
[11] https://vantagescore.com/resources/knowledge-center/auto-loan-delinquencies-increased-over-50-percent-since-2010

[12] https://wolfstreet.com/2025/11/10/how-americans-handled-their-auto-loans-leases-in-q3-2025-subprime-prime-delinquency-rates-balances-and-burden

Residential Housing Market

Activity in the residential housing market did not improve meaningfully in 2025. The Average 30-year mortgage rate trended lower from January through April before rising after Liberation Day. Since the recent peak of 6.89% on May 29, it has moved down, with only slight increases following the Fed's 25 basis point cuts in September and October. As of December 18, the 30-year fixed rate stands at 6.18%. Although the current rate is over 160 basis points below the October 2023 peak of 7.8%, the decline has not produced meaningful progress toward normalization in the housing market.



Source: National Association of Realtors. 2025 YTD through November.

Homeowners with fixed mortgages at below market rates have been hesitant to move, as they appreciate the asset in the mortgage they hold. Therefore, the inventory of homes for sale has been historically low, which has resulted in low sales volume. In 2025, existing home sales are expected to remain sluggish, totaling 4.13 million. This continues a trend that has persisted since the Federal Reserve's post-COVID interest rate hikes in 2022, with sales levels in recent years resembling those seen during the GFC era. The combination of high mortgage rates and high prices has led to a significant slowdown in the market, making it increasingly difficult for new buyers to enter and for existing homeowners to upgrade. The high cost of single-family homes has acted as a tailwind for the multifamily sector.

The Path Forward

The Trump administration is impacting the economy and CRE through various policies on trade, fiscal matters, environment, monetary regulation, immigration, and industry. Key policies that have been implemented include high tariffs on imports, tax cuts, support for fossil fuels, and deregulation. So far, these policies have not led to a resurgence in inflation, however, they have contributed to its stubborn resilience and to higher deficits. Restrictive immigration policy and repatriation may have contributed to increased wages and lower unemployment, but also to higher inflation, and likely created added costs in hospitality, manufacturing, construction, food service, lodging, and agriculture sectors.

In 2025, the U.S. economy grew while job increases stagnated. This is a sign of a pattern consistent with rising productivity and a smaller labor pool following the slowdown in immigration flows. Manufacturing GDP increased despite flat employment in the sector, highlighting the growing role of automation and robotics.

The effects of the One, Big, Beautiful Bill Act (OBBBA) will be pronounced in early 2026. Americans may see an extra $50 billion boost in tax refunds, which equates to an 18% increase from the $275 billion in refunds the IRS distributed for 2024 income.[13] More favorable treatment of tips and overtime income, along with a larger standard deduction for seniors, will drive this refund surge. This is windfall cash that consumers will start receiving in February and continue through April, a period when 70% of tax refunds get paid out. This will benefit consumer spending and the economy overall. This windfall is likely to bolster consumer spending and support overall economic activity. The Congressional Budget Office (CBO) projects that the One, Big, Beautiful Bill Act will increase GDP growth by 0.9% next year. A key driver of this projected impact is the bill's provision allowing businesses, beginning January 1, 2026, to immediately expense capital investments, including equipment purchases and R&D spending. This change is expected to provide a meaningful stimulus to economic activity in 2026. This will be a particular benefit to CRE.

While trade and supply-chain pressures have eased compared with prior years, unexpected policy actions or court-driven tariff adjustments still pose risks to development timelines, construction costs, and tenant planning. Elevated logistics expenses and ongoing legal uncertainty continue to create operational challenges for occupiers and investors. Despite the rollbacks on particular goods and potential supreme court actions we expect tariff rates to remain elevated next year.

The economy has so far remained resilient despite the tariffs announced in April. New trade frameworks have been executed with several nations, and tariffs are being reduced on items such as coffee, bananas, avocados, and more than one hundred agricultural and other products that cannot be produced in the U.S. or in sufficient volumes. These reductions likely mark the beginning of a wider rollback of tariffs on goods with high relevance for households.

The U.S. economy faces challenges in the near-term, including a softening job market, persistent inflation, still relatively high interest rates, a K-shaped consumer spending pattern, high government and consumer debt, , geopolitical uncertainty, and the risks associated with tariffs. On the positive side, AI, deregulation, tax cuts, infrastructure investment, and a nascent manufacturing sector resurgence are expected to provide meaningful support. We are generally optimistic about banking and private credit given the deregulatory push and underlying corporate health and profitability.

We expect U.S. capital market conditions to remain supportive through 2026, aided by incremental Fed easing, ongoing liquidity provisions, and a pro-cyclical fiscal stance heading into the midterm election cycle. This policy mix should help sustain robust corporate earnings and mitigate the risk of a material rise in layoffs. In our view, AI will likely continue to serve as a dominant driver of market liquidity and risk appetite, as the sector's reinforcing cycle of outsized earnings growth and elevated capital expenditure plans continues to be greatly rewarded by investors.

Within the AI-driven expansion cycle, extraordinary growth expectations, market concentration among a small set of hyperscalers, power-availability constraints, and speculative behavior in parts of the technology supply chain could contribute to near-term volatility in data center demand, construction pipelines, and capital allocation decisions. AI's broader influence on labor markets—including its contribution to more moderate hiring—remains difficult to quantify, creating additional uncertainty for office absorption and corporate space planning.

The U.S. dollar, supported by solid domestic growth but clouded by policy ambiguity, will shape cross-border investment flows, return differentials, and the relative attractiveness of U.S. CRE assets. Global capital flows and central bank positioning will play an increasingly decisive role in asset-level pricing and liquidity.

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[13] https://money.com/bigger-tax-refunds-in-2026-withholding/, https://www.newsweek.com/americans-may-get-bigger-tax-refunds-in-2026-who-is-impacted-most-10929189

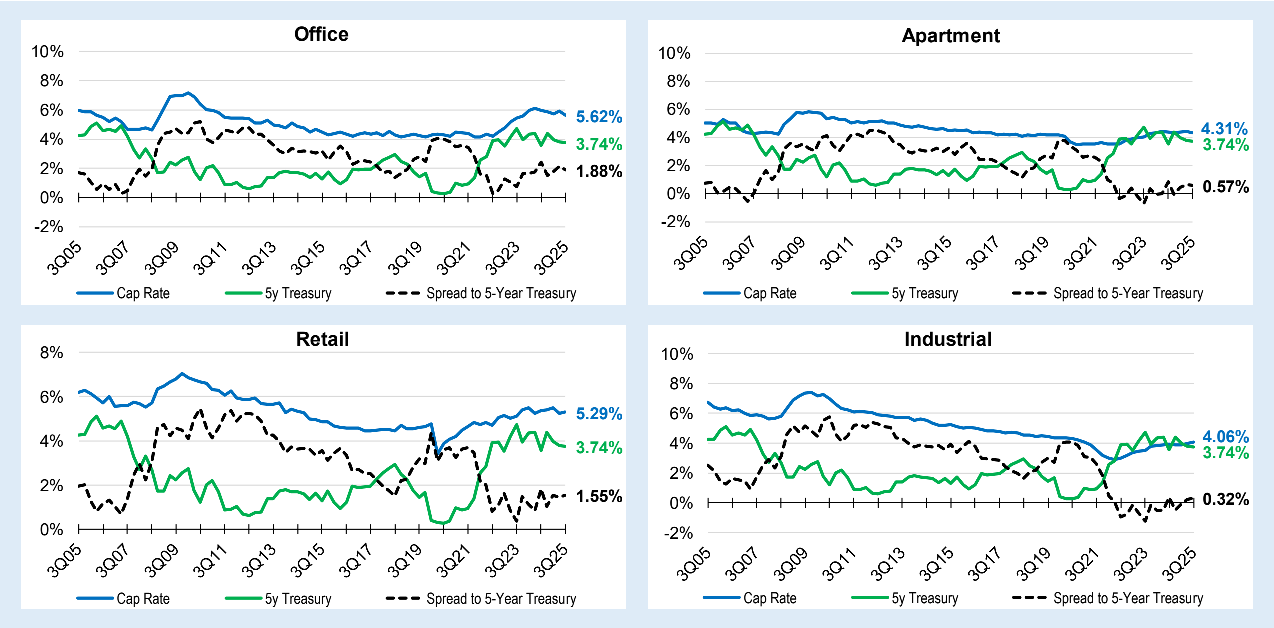
As the U.S. midterm elections approach, fiscal policy is expected to remain generally supportive; however, the pace and orientation of policy changes could introduce volatility into CRE capital markets. A perceived risk to Federal Reserve independence represents a meaningful downside concern, given its implications for financing conditions and investor confidence. Conversely, potential deregulatory measures could deliver a short-term boost to transaction activity, development feasibility, and business performance.

Commercial Real Estate

CRE is a reaction to the economy, so GDP growth is a broad-based benefit to the sector going into 2026. The momentum surrounding artificial intelligence is expected to remain a significant market catalyst next year. Within the broader traditional economy, CRE may serve as a near-term hedge against concentrated AI-driven market exposures. We anticipate a stable outlook for CRE fundamentals and valuations, with ample opportunities for investment and alpha generation in overlooked markets with strong growth potential. Investors should be positioned to take advantage of market pullbacks to add to positions.

The Federal Reserve's federal funds rate increases have impacted lending costs, loan refinanceability, cap rates, values and monthly payments. Since September 2024, the Fed has lowered rates 175 basis points (including 75 basis points since September 2025). These lower borrowing costs have provided some relief to hammered rate-sensitive industries, including real estate. While short term rates have declined by over 180 basis points from their peak in September 2024, long-term rates have remained stubbornly high.

In our view, a still significant issue confronting U.S. CRE is the cost of capital. Higher borrowing costs impacts value in the form of higher caps rates, which are necessary to provide a premium over the elevated risk-free rate represented by Treasury yields. Higher cap rates result in lower values. Since industrial and apartment properties traded at lower cap rates pre-Fed rate rise, cap rate inflation is impacting these property types in a bigger way than office, retail, and lodging. In the industrial and apartment sectors, average cap rates based on NCREIF data are currently only somewhat above the 5-year Treasury yield, which may imply that values based on such low cap rates have further to fall if Treasurys remain elevated (see chart below).[14]

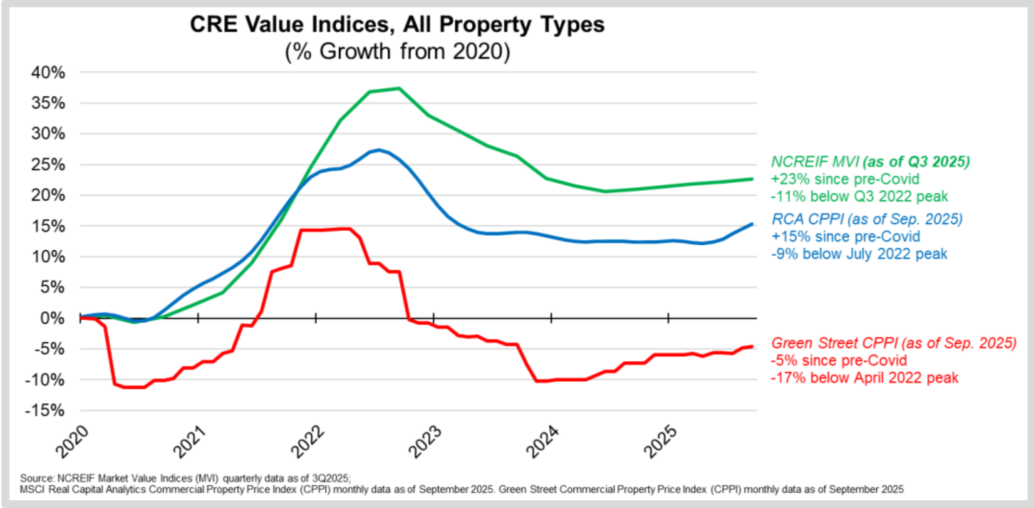


Source: NCREIF Market Value-Weighted Cap Rates, Federal Reserve, As of 3Q25
Note: Past performance is not indicative of future results

[14] Properties with embedded rent increases or with realistic upside potential would theoretically temper decline.

Although the Fed has lowered short term rates (which impact SOFR and the ability to finance short term adjustable-rate mortgages), it has little influence over long term rates which have increased by roughly 50 basis points[15] since September 2024. The perception that rates will remain at elevated levels has investors focused on a revaluation of all asset classes. Negative leverage is an issue as interest rates are relatively high, and sellers are reluctant to divest for cap rates that reflect a premium over the risk-free rate.

When we examine how much values have changed, we track three major value indexes: NCREIF Market Value Index (MVI)[16], MSCI RCA CPPI[17], and Green Street CPPI[18]. NCREIF MVI focuses on valuations, MSCI RCA CPPI on repeat sales, and Green Street CPPI spotlights public markets. Therefore, the three indexes reveal different estimates of value change (see chart to the right).



Life science has suffered the greatest loss in value over the past year, and smaller losses were experienced by the lodging and mall sectors according to Green Street (see table below).

Change in Green Street CPPI Through November 2025

Property Type	1 Month	3 Month	6 Month	1 Year (Nov '24 - Nov '25)	Previous 1 Year (Nov '23 - Nov '24)	2 Year (Cumulative)	Pre-Covid (Feb '20 - Nov '25)	10 Year (Cumulative)
All Property	0.8%	1.2%	2.1%	**2.4%**	4.8%	7.4%	-3.6%	3.9%
Apartment	-0.4%	-0.4%	0.1%	**0.4%**	14.1%	14.6%	-0.5%	14.0%
Industrial	1.0%	1.0%	2.0%	**2.5%**	1.1%	3.6%	34.3%	98.5%
Office	1.8%	1.8%	3.8%	**1.9%**	-1.1%	0.9%	-36.7%	-30.6%
Mall	1.5%	0.3%	-0.6%	**-0.3%**	17.0%	16.6%	-10.8%	-35.9%
Strip Center	1.0%	1.0%	3.5%	**4.9%**	7.6%	12.8%	9.8%	4.9%
Health Care	0.7%	2.7%	3.6%	**6.0%**	4.0%	10.2%	-6.9%	2.1%
Life Science	-8.0%	-8.0%	-8.0%	**-12.7%**	-1.3%	-13.8%	-8.7%	30.7%
Lodging	0.3%	0.3%	1.5%	**-0.4%**	-3.0%	-3.3%	-6.4%	-12.3%
Manufactured Homes	1.0%	1.0%	1.0%	**2.6%**	1.3%	4.0%	19.9%	108.4%
Self-Storage	0.8%	4.6%	4.8%	**2.2%**	-2.4%	-0.3%	32.6%	54.6%

Source: Green Street

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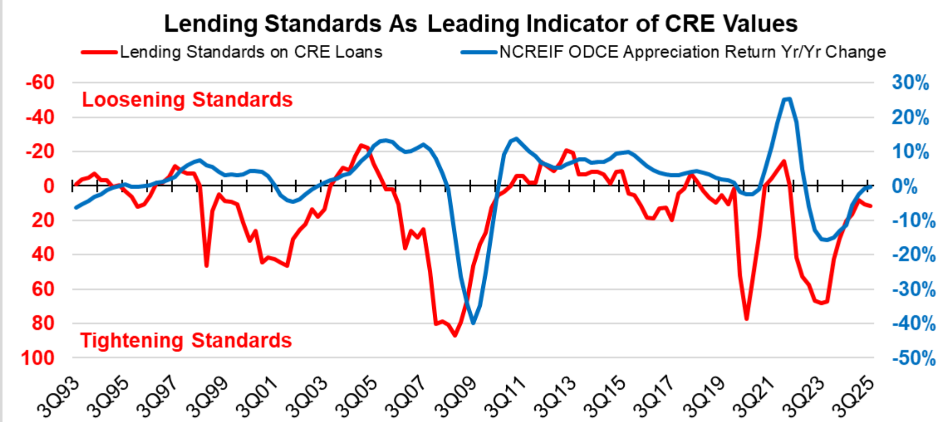
[15] As of December 29, 2025
[16] NCRIEF Market Value Index/Indices are a NCREIF quarterly measure of property value change based on same-property appraisals (excluding properties with CapEx)
[17] MSCI RCA CPPI is a value index based on same-property transactions compiled by MSCI Real Assets.
[18] Green Street CPPI: Green Street's Commercial Property Price Index is a time series of unleveraged U.S. commercial property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted. Features that differentiate this index are its timeliness, its emphasis on high-quality properties, and its ability to capture changes in the aggregate value of the commercial property sector. It is not possible to invest in an index.

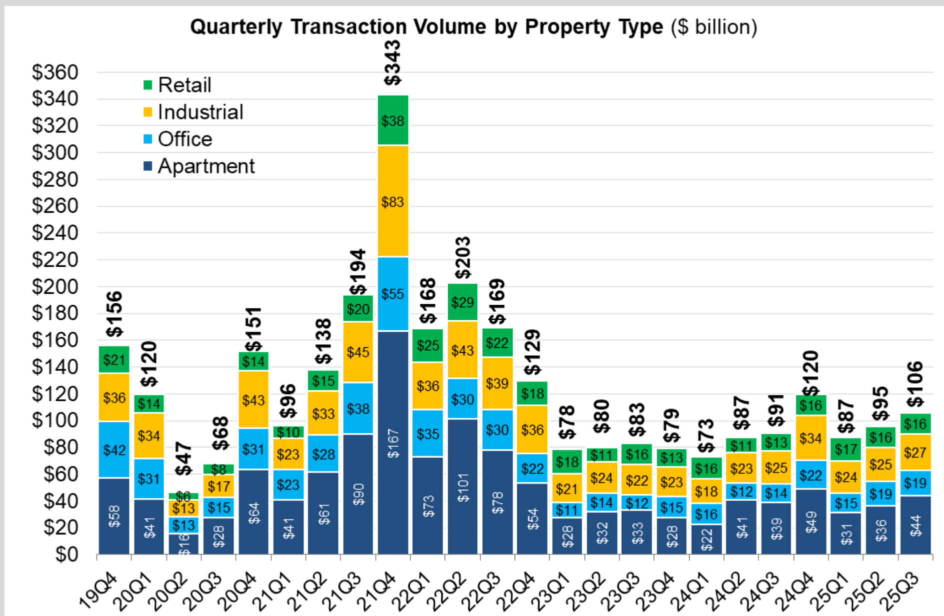
NEW YORK LIFE INVESTMENTS

When the Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS) shows a tightening of lending standards, it is typically associated not only with a higher risk of recession but also with declining CRE values. The SLOOS has reported tighter standards over the past two quarters, following seven consecutive quarters of loosening since 3Q2023. Although the year-over-year decline is moderating and approaching zero, NCREIF ODCE appreciation returns remain negative, as they have been since 1Q2023. (see chart below).



Source: NCREIF ODCE Annual Appreciation Return; Federal Reserve Senior Loan Officer Opinion Survey. As of Q3 2025.
NFI-ODCE is a capitalization-weighted, gross of fee, time-weighted return index with an inception date of December 31, 1977. Open-end funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests, thereby providing a degree of potential investment liquidity. The term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties diversified across regions and property types. The NFI-ODCE, like the NCREIF Property Index (NPI) and other stock and bond indices, is a capitalization-weighted index based on each fund's net invested capital, which is defined as beginning market value net assets (BMV), adjusted for weighted cash flows (WCF) during the period. Past performance is not a guarantee of future results.

Transaction volume across the major property types rose year over year in the third quarter, from $95 billion to $106 billion (an 11% increase). This continues the slow but steady growth activity that has been occurring for nearly the past two years. Transaction volumes were up across all major property types from the previous quarter, led by apartment (21%), industrial (7%), retail (4%), and office (3%). This increase in activity is contributing to greater clarity on pricing. Financing availability improved which buttressed transaction volume during 2025.



Source: MSCI Real Assets, through Q3 2025.
Note: Includes Apartment, Office, Industrial, and Retail property types

The reduction in deal activity over the past few years has reflected a durability test between buyers and sellers: significant amounts of capital were raised with the intent of capitalizing on emerging distress, while many owners held out for a return to a lower interest rate environment. In recent quarters, some of this standoff has eased. Bid-ask spreads have narrowed, some forced sales are emerging, and more investors are stepping off the sidelines. Looking ahead, improving capital markets fundamentals, including active debt markets and rising bidding competitiveness, are expected to underpin growth in global CRE investment flows into U.S. assets throughout 2026.

Despite this momentum, a still-restrictive financing environment continues to shape the transaction market. Long-term interest rates remain elevated, and banks continue to exhibit caution, keeping borrowing costs high. Bank lending volumes are still subdued and are expected to remain so as the financial sector navigates increased regulatory scrutiny and the prospect of higher capital requirements. Meanwhile, insurance companies and private credit providers remain active, but are highly selective in their allocations. In good news for the multifamily sector, The Federal Housing Administration announced that lending capacities for Fannie Mae and Freddie Mac are increasing by 20.5% in 2026.

As property values recalibrate and both lenders and owners face mounting needs for liquidity, notable investment opportunities are starting to emerge. This dynamic is expected to accelerate in 2026. Those investors with the ability to play up and down the capital stack and adjust for a range of risks will be well-positioned to capitalize on ongoing market dislocation.

Delinquency rates for mortgages backed by commercial and apartment properties increased markedly in 2025, representing the mounting challenges facing CRE this year. CMBS loan balances which were 30 days or more delinquent rose from 6.6% at the end of 2024 to 7.3% as of November 2025, according to Trepp data. Apartment investments delinquency rates increased the most, from 4.6% to 7%, while office delinquency rates remain above 11%. According to Trepp, major markets with the greatest share of non-current CMBS loans in 2025 were Chicago, Pittsburgh, and Minneapolis.

OBBBA Benefits CRE

The OBBBA tax bill is a particular benefit to CRE. The legislation restores 100% bonus depreciation, enabling full expensing of qualifying property in the first year rather than requiring depreciation over an extended recovery period. This reinstatement, which reverses the prior phase-out after 2022, materially enhances upfront tax efficiency for capital investments. The provision is particularly impactful when combined with cost-segregation studies, which reclassify components of a commercial building into shorter-lived asset categories.

Through this process, elements such as portions of electrical and lighting systems, HVAC components, interior finishes, specialty plumbing, flooring, technology and security systems, parking lot improvements, and equipment used in warehouse or manufacturing environments may qualify for immediate expensing. As a result, costs that would ordinarily be depreciated over 5, 7, or 15 years can instead be deducted entirely in Year 1, significantly reducing taxable income in the early stages of property ownership.

In addition, the legislation accelerates deductions for certain non-structural improvements to CRE. Enhanced expensing provisions apply to qualified improvement property (QIP), selected building systems, and a broad range of interior renovations. Notably, QIP once again qualifies for 100% bonus depreciation, allowing businesses to immediately deduct the full cost of office remodels, retail buildouts, and comparable interior enhancements. This change meaningfully improves after-tax cash flow for organizations undertaking modernization efforts or tenant-driven upgrades.

Impact on CRE

The administration's fiscal and deregulatory policies are providing a tailwind to the economy, supporting stronger GDP growth and rising demand for CRE. While the net impact on CRE in 2026 is likely to be positive and broad-based, expanding fiscal deficits could push inflation higher, which in turn may lead to higher long-term interest rates. Although the Fed has continued to lower short-term rates, long-term yields have remained elevated, and larger deficits would add further upward pressure. In such an environment, CRE property yields would need to move higher to maintain an appropriate risk premium over 10-year Treasuries. Higher mortgage rates would complicate financing conditions, and rising cap rates would put downward pressure on property values. Conversely, sustained price increases may render CRE attractive to investors as a hedge if inflated rents exceed expense growth.

Across capital sources, CMBS continues to exhibit the highest delinquency rates. Delinquencies on GSE-backed loans have increased slightly, while those for loans held by banks and thrifts and by life insurance companies have edged down modestly.

OERs Changing

Another issue challenging CRE is substantially higher operating expense ratios (OERs).[19] This has manifested differently for various property types. The higher the operating expense ratio, the more sensitive the property's NOI is to a decline in Effective Gross Income (EGI). Accordingly, hotels, and to a lesser extent offices, are the most sensitive. Property types with low OERs such as logistics and self-storage facilities are the least sensitive. In the middle are apartment and retail properties.

Though expense growth across property types has slowed from its rapid pace over the past year, it still outpaced income growth in the industrial and office sectors from 3Q2024 to 3Q2025. Despite the deceleration, operating expense ratios remain above pre-pandemic levels for all property types except industrial, where the current ratio of 25.2% is only 40 basis points below its pre-pandemic level of 25.6%.

Although a relatively small portion of overall expenses, insurance has grown faster than all other expenses. Other major expense growth contributors include maintenance, administrative costs, and utilities. Real estate taxes – typically the largest expense category – have increased the most in the industrial sector. Since the pandemic, industrial owners pay 34% more in taxes, far above the increase in the apartment space (9%). Over the past year, industrial still leads the pack in tax expense growth, with a 6% gain.

However, the rise in property insurance cost has been the most pronounced across all expense categories. Since early 2020, insurance costs have more than doubled for all property groups (except office), led by the 147% spike in apartment properties. Notably, industrial (-6.5%), office (-4.5%), and apartment (-4.0%) owners have seen their insurance expenses decline over the past year, while insurance spend for retail properties edged up 3.4%.

The table below summarizes cumulative income and expense growth per square foot over the past one and five years. Over the five-year period, industrial was the only sector where income growth outpaced expenses. However, during the past year, both the retail and apartment sectors recorded income gains exceeding expense growth. In contrast, industrial expenses rose faster than income, while the office sector experienced a decline in income alongside a modest increase in expenses.

[19] See: Stewart Rubin and Dakota Firenze "Operating Expenses Rising," November 2023.

Income & Expense Growth				
	% YOY		1Q20-3Q25 (Prior 5 Years)	
	Income	***Expenses***	***Income***	***Expenses***
Apartment	*2.3%*	*1.9%*	*22.4%*	*26.6%*
Industrial	*5.4%*	*6.3%*	*42.8%*	*39.1%*
Office	*-1.6%*	*0.9%*	*9.4%*	*15.2%*
Retail	*3.8%*	*2.5%*	*12.9%*	*17.0%*

Source: NCREIF Property Index, Data access via Query Tool. Data through Q3 2025.

The following table compares the change in average OERs by property type. The decrease in industrial sector OER is indicative of income growth in excess of expense growth over the past five years.

Operating Expense Ratios			
Property Type	***1Q20***	***3Q25***	***Change***
Apartment	*42.3%*	*44.6%*	↑
Industrial	*25.6%*	*25.2%*	↓
Office	*41.7%*	*44.4%*	↑
Retail	*33.0%*	*33.8%*	↑

Source: NCREIF Property Index, Data access via Query Tool. Data through Q3 2025.

The following table compares expense growth over various time periods. Industrial expenses grew the most relative to their historical averages.

Operating Expense Growth (Growth by SF)				
	Apartment	***Industrial***	***Office***	***Retail***
*Cumulative **Past 6 Years** (3Q19-3Q25)*	*25.6%*	*42.4%*	*16.5%*	*19.2%*
*CAGR **Past 6 Years** (3Q19-3Q25)*	*3.9%*	*6.1%*	*2.6%*	*3.0%*
*CAGR **Past 2 Years** (3Q23-3Q25)*	*2.1%*	*5.2%*	*1.7%*	*3.5%*
*CAGR **18 Years Before Covid** (3Q01-3Q19)*	*4.5%*	*0.9%*	*3.7%*	*2.9%*

Source: NCREIF Property Index, Data access via Query Tool. Data through Q3 2025

It is important to note that, ultimately, expense reimbursement does not compensate for increased expenses, since gross rent must adjust to maintain market levels. We expect OERs to remain elevated into 2026 and for expense growth to continue to exceed income growth for the industrial and office sectors.

Demographic/Migration

The U.S. is younger demographically than other advanced economies, despite the anemic growth of its working age population. Accordingly, it is important to highlight where growth is taking place within the U.S. We expect migration from Coastal and Midwestern metros to Sunbelt states such as Arizona, Texas, Georgia, North Carolina, South Carolina, Florida, and Tennessee to continue, albeit at a slower pace compared to previous years. The migration of people of various ages and education levels both precipitates, and is in response to, the relocation of businesses.

A shift in finance jobs has become evident as more corporate headquarters and jobs migrate to Texas, Florida, Tennessee, and Arizona. Likewise, tech jobs are also shifting, with California losing share and Florida, Texas, and Tennessee gaining. With migration of jobs and people comes a reallocation of income and tax revenue. We expect the net migration to the Sunbelt and the Intermountain West to continue, albeit at a slower rate relative to the past few years. Although suffering losses, coastal markets including the Bay Area are very relevant.

Other major demographic trends impacting CRE include the cessation of the unprecedented level of international immigration, and inter-metro migration to suburbs/exurbs. The astounding number of remote workers is influencing locational demand points, and the aging population is impacting CRE demand and will have implications for the future. The high number of Americans living alone and/or without children should likewise influence apartment demand.

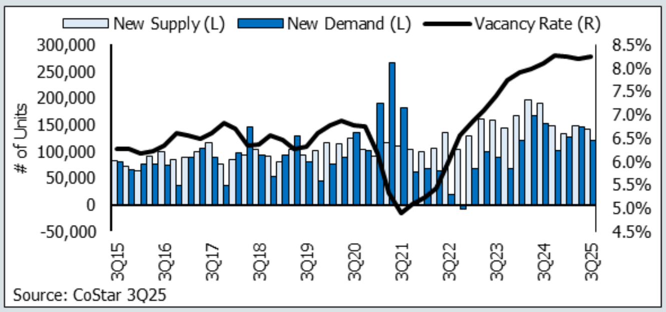
Cities

Cities, particularly urban cores, have suffered from an increase in violent crime, homelessness, inadequate facilities for migrants, less pedestrian traffic, vacant office space, and less economic activity stemming from relatively fewer workers in central business districts (CBDs). Certain cities have reversed the negative trends and have made concerted efforts to fight crime, help the homeless, and progress in lessening public drug use. In addition to elevating the quality of life, some cities have succeeded in keeping taxes at reasonable levels.

Apartment Sector

Apartment Properties: Performance in the Benchmark	Quarter	1-Year Period Ending				
	3Q25	3Q25	3Q24	3Q23	3Q22	3Q21
Income Return	1.09%	4.48%	4.39%	3.88%	3.77%	3.68%
Appreciation Return	0.39%	0.97%	-6.85%	-11.10%	14.02%	9.43%
Total Return	1.47%	5.48%	-2.69%	-7.55%	18.17%	13.37%
Garden	1.39%	5.38%	-2.29%	-6.51%	24.24%	21.19%
High and Low-Rise	1.51%	5.53%	-2.89%	-8.06%	15.55%	10.31%
Rent Growth		0.65%	1.22%	1.24%	5.46%	8.44%
NOI Growth		3.26%	5.16%	3.25%	17.37%	10.57%
Benchmark comparison:						
Total Return, All Properties	1.19%	4.65%	-3.47%	-8.39%	16.08%	12.15%

Source: NCREIF 2Q25; CoStar Group 3Q25

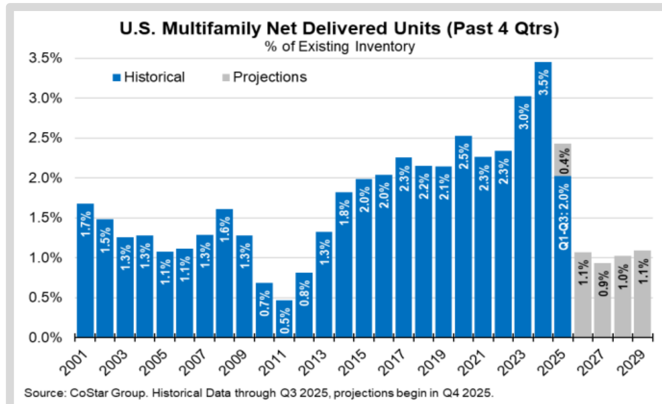


Apartment inventory growth nationally cooled in 2025 from an all-time high pace of project completions in the previous year. Markets with outsize gains in inventory levels, particularly across the Sunbelt, have seen rental performance decelerate the most. However, the pace of new project deliveries continued to moderate, and the pipeline of future deliveries is pulling back materially.

The average national apartment vacancy rate held at 8.2% in 3Q, unchanged since 1Q and down 10 basis points from the level posted at the end of 2024. Average apartment asking rents grew 0.6% year-over year as of 3Q2025, down from 1.1% growth through this time last year.

Net absorption totaled 494,000 units over the four quarters ending in 3Q. Though solid, this marks the first trailing four quarter period in which less than 500,000 units were absorbed since 2Q2024. Despite the decline, net absorption over the past 12 months equaled 2.4% of inventory, which remains above the 25-year average of 1.5%. Construction activity has slowed from its historic highs, with units under construction now representing 2.7% of inventory, down sharply from the 6.2% peak in 1Q23 and below the long-term average of 2.9%.

The top ten markets with the most robust construction pipelines are located in the Sunbelt. Four of the five top markets are located in Florida, and have at least 8.4% of existing inventory under construction, more than three times the national average, according to CoStar data. Markets with the highest level of new supply include Fort Myers (12.4% of existing inventory under construction), Lakeland (9.3%), and Sarasota (9.3%). This oversupply has led to declining rents, including in markets like Phoenix (-3.2%), Austin (-3.9%), Denver (-4.1%), Colorado Springs (-4.5%), Sarasota (-5.9%), and Fort Myers (-6%).

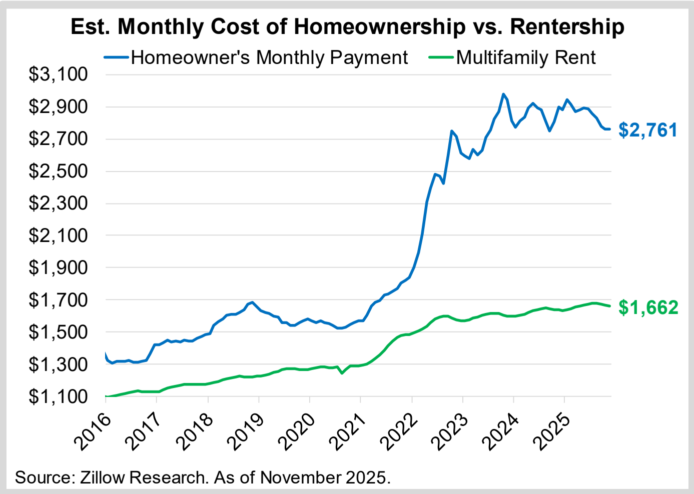


Midwest and Northeast markets saw more balanced supply and demand conditions, supporting healthy rent growth over the past year. Rochester (+3.9%), Chicago (+3.9%), Grand Rapids (+3.4%), and Providence (+3.3%) all recorded solid year-over-year gains, aided by relatively limited new construction. The Bay Area also rebounded from steep pandemic-era losses, with San Francisco (+6.3%) and San Jose (+3.9%) posting strong rent increases over the past year.

Net absorption of Class B&C units remained solid through 2025, recovering from negative levels at the end of 2022, while absorption of Class A units has cooled since mid-2024. Class B&C rent growth continued to outpace Class A on a year-over-year basis, enforcing a trend that has persisted since 1Q2022. Alongside slowly improving office attendance rates over the past year, asking rent growth in CBDs has outperformed urban and suburban locations in the past year. However, that gap is expected to close by the middle of 2026 as CBD areas continue to digest elevated project completions of high-end units that should keep vacancies elevated in many markets.

Population growth of the 25–34-year-old age cohort, which traditionally favors renting, is expected to slow in the coming years, which could impact rent growth prospects.

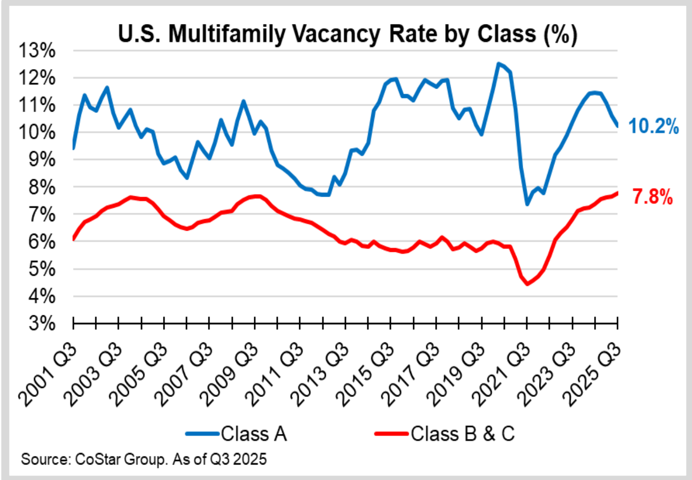
However, elevated homeownership costs may help stabilize the sector and limit further softening. Residential mortgage rates are nearly triple their pre-pandemic level, while home values have seen limited correction in many markets. As a result, the principal and interest payment on an average-priced existing home is up more than 76% since early 2021 across metros with populations of 750,000 or more (see chart below). The increasing difficulty of buying a home continues to support apartment demand.



We expect apartment sector rent growth to continue to soften in the beginning of 2026, but then to accelerate through the end of the year, and for vacancy rates to remain largely unchanged as supply and demand find equilibrium. However, this balancing act will be uneven when looking at different price points.

With inflation still elevated heading into year-end and household budgets coming under increasing pressure from rising consumer debt levels, we expect tempered demand for high-end units over the next twelve months. Renters are likely to seek modern spaces but without the full amenity package.

Against this backdrop, we believe owners of mid- and lower-price units stand to benefit from tightening fundamentals, while Class A operators continue to navigate double-digit vacancies.



Many smaller markets have balanced construction pipelines and stable demand resulting in rent growth. This contrasts with many Sunbelt cities dealing with oversupply.

Regulatory Update

In November 2025, the Los Angeles City Council approved, by a 12–2 vote, a comprehensive reform of the city's rent-control framework. The measure substantially reduces allowable annual rent increases for units governed by the Rent Stabilization Ordinance. Under the revised policy—pending final ratification—landlords of covered residential properties will be limited to annual rent adjustments ranging from 1% to 4%, depending on the rate of inflation. This represents a significant reduction from the previously permitted range of approximately 3% to 8%. The updated regulations apply to an estimated three-quarters of all rental units in Los Angeles that fall under the city's rent stabilization program. Washington State enacted rent control on a statewide basis equating to the lesser of 7% plus inflation or 10% annually.

Meanwhile, tenant advocates in Massachusetts garnered enough signatures and a rent control proposal will be on the ballot in November 2026, putting more pressure on property owners at a time of subdued tenant demand. The proposal aims to limit rent increases to 5%, or the annual gain in the Consumer Price Index, whichever is lower. Should it pass, it would become the most restrictive rent control measure in the country, and mark an about-face from 1994, when voters repealed the policy.

The Boston apartment market is suffering this year due to a demand shortage stemming from federal cuts to research funding and a loss of foreign students at numerous state universities. Property owners across the region are confronting demand headwinds from the new administration's federal policies and not a supply-side driven imbalance that's weighing on rent growth in many Sunbelt markets.

Operating Expenses

Operating expenses across property types have generally grown at a faster pace since COVID, relative to previous years, with the greatest increases experienced in the industrial and apartment sectors. Over the past year, operating expenses at apartment properties increased 1.9%, relative to 4.5% (CAGR) annually over the 18-year period prior to COVID. It is likely that expenses will continue to push higher over the next year, which could result in even higher OERs, and put pressure on NOI growth. According to projections from Green Street, same-unit property expenses for apartment REITs are expected to grow 3.9% in full-year 2025 and are expected to grow 3.5% and 3.4% annually in 2026 and 2027, respectively.

Investment Returns/Valuations

Like other asset classes, the apartment sector is not immune to the effects of higher cost of capital. Investments in the apartment sector produced a four-quarter unlevered property-level total return of 5.48% as of 3Q2025, much improved from the -2.69% four-quarter return as of this time in 2024.

However, investors must remain mindful of capital expenditure (CapEx) levels that remain higher than pre-COVID. Green Street data reveals that apartment REITs spend roughly 17% of net operating income (NOI) annually on CapEx, though pro formas tend to underestimate this measure leading to overvaluation. In the past few years, REIT CapEx as a share of NOI has been much higher in Sunbelt markets, such as Austin (26%), Dallas (25%), and Atlanta (22%), than in coastal markets like New York (11%) and the Bay Area (12%).

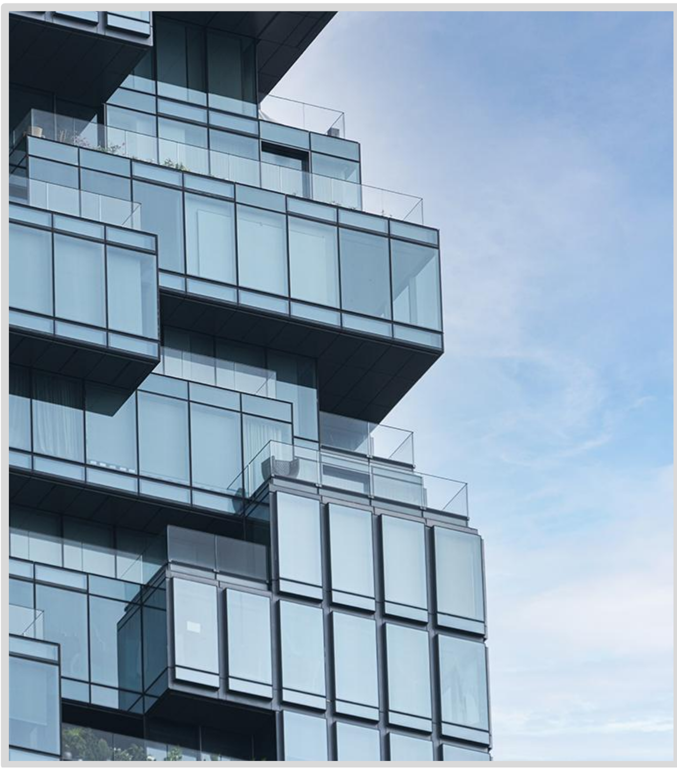
According to the NCREIF Market Value Index, apartment sector property values are down -13.7% from the peak achieved in 3Q2022, shortly after the Fed began raising interest rates, increasing the cost of capital. Over the past four quarters, apartment values are down -4.2%. However, values are still 9.6% above pre-COVID level as of 3Q2025. Value change in this sector is very dependent on geography and observation period, as seen below.

NCREIF Market Value Index (MVI), As of 2025 Q3

Property Type Region	Decline From Recent Peak	Recent Peak Quarter	% Change From Pre-Covid (4Q19)
Apartment	-13.7%	2022 Q3	9.6%
Northeast	-10.9%	2022 Q3	2.1%
Mideast	-9.4%	2022 Q3	18.6%
East North Central	-5.8%	2022 Q3	0.9%
West North Central	-16.0%	2022 Q2	-7.0%
Southeast	-12.4%	2022 Q3	25.3%
Southwest	-11.8%	2022 Q3	15.5%
Mountain	-19.0%	2022 Q3	21.2%
Pacific	-18.9%	2022 Q2	-3.5%

Modest rent growth is expected in 2026. Market positives include the unaffordability of single-family homes while immigrant demand declining has negatively impacted the market.

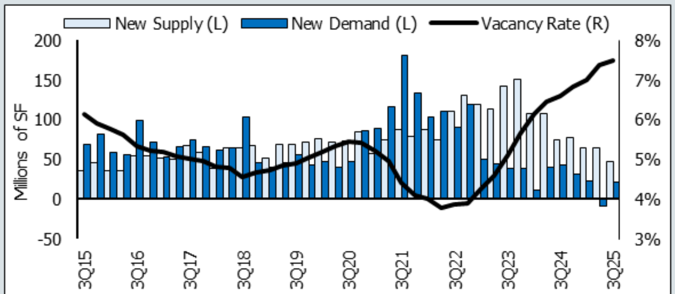
On the federal level, the Federal Housing Finance Agency announced that multifamily loan purchase caps for Fannie Mae and Freddie Mac will rise 20.5% in 2026 to $88 billion each. The combined $176 billion will be available as support for the apartment market.



Industrial Sector

Industrial Properties: Performance in the Benchmark	Quarter	1-Year Period Ending				
	3Q25	3Q25	3Q24	3Q23	3Q22	3Q21
Income Return	1.02%	4.10%	3.96%	3.37%	3.34%	4.30%
Appreciation Return	0.02%	0.48%	-4.68%	-8.46%	30.56%	27.22%
Total Return	1.04%	4.59%	-0.86%	-5.30%	34.62%	32.38%
Rent Growth		1.65%	3.95%	8.25%	10.14%	7.95%
NOI Growth		5.40%	8.76%	9.76%	13.61%	10.17%
Benchmark comparison:						
Total Return, All Properties	1.19%	4.65%	-3.47%	-8.39%	16.08%	12.15%

Source: NCREIF 2Q25; CoStar Group 3Q25



Source: CoStar 3Q25

The industrial sector in 2025 continued to benefit from rising e-commerce demand, though rent growth is moderating amid heavy construction. Notwithstanding the above, there is hope for improvement as the pace of new deliveries continues to slow.

Industrial vacancy rates increased to 7.5% in 3Q2025, up from 6.8% in 2024 and well above both the COVID-era low of 3.8% and the pre-COVID level of 5.2%. Rent growth has also slowed, from 3.2% in 2024 to 1.7% year-over-year as of 3Q2025. In 2026, we expect vacancy rates to continue to rise and nominal asking rent growth to moderate further.

The recent supply wave that has pressured fundamentals appears to have peaked, with a net 54 million square feet delivered in 3Q2025, the first quarter since 1Q2021 with less than 60 million square feet delivered. Between January and September, 182 million square feet has been delivered, far exceeding net absorption of 35 million square feet. Even so, this represents an improvement from the same period last year, when 290 million square feet was delivered and only 94 million square feet was absorbed.

As new projects reach completion, the active construction pipeline has declined sharply from 3.9% of existing inventory in 3Q2022 to 1.6% as of 3Q2025, as developers have been slow to pursue new permits. However, supply remains a near-term concern in select markets such as Austin, where roughly 10% of existing inventory is still under construction.

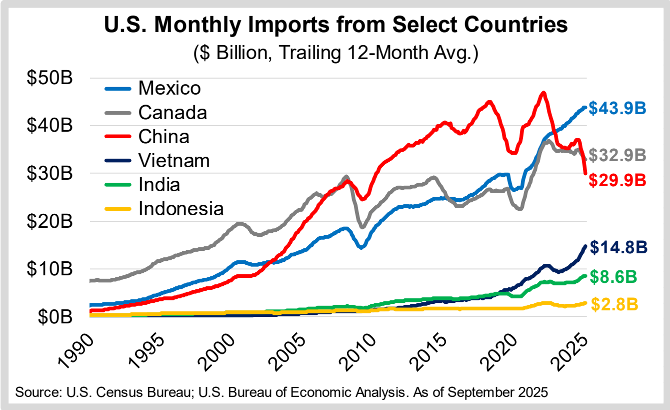
Despite macro headwinds, the National Retail Federation projects another record year for consumer spending during the holiday season. The retail trade association expending core retail sales between November 1st and December 31st to surpass $1 trillion for the first time, rising between 3.7% and 4.2% from last year.[20] Separately, Deloitte is forecasting totaling holiday sales between November and January of about $1.6 trillion, with nearly one-fifth coming from ecommerce.[21]

There has been diversification of manufacturing away from China and toward certain other trading partners in the wake of COVID, including Mexico. In 2023, imports from Mexico into the U.S. surpassed those from China (on a customs value basis) for the first time since China joined the WTO nearly 24 years ago (see chart below). Since 2018, import volume from Mexico has increased 67%, while China saw volume decline by -30%. Other trading partners like Vietnam, India, and Indonesia saw their import volume rapidly increase, but remain relatively small as a share.

The trend toward nearshoring some share of manufacturing and trade to Mexico and other trading partners could benefit demand for logistics properties in border states like Texas, Arizona, and California. This will also benefit the local Mexican logistics market. According to Prologis, every $1 billion invested in Mexican Auto Factories may generate 5-10 million square feet of additional Mexican logistics demand.[22]

Meanwhile, the boom in construction spending on data center build-outs reached a record $40 billion at a seasonally adjusted annual rate in August. Southern states, such as Louisiana, Texas, and Virigina, have been the primary beneficiaries recently, while Illinois is expected to emerge as a leader in the Midwest.[23]

[20] https://nrf.com/media-center/press-releases/nrf-expects-holiday-sales-to-surpass-1-trillion-for-the-first-time-in-2025
[21] https://www.deloitte.com/us/en/about/press-room/deloitte-holiday-retail-forecast-2025.html
[22] https://www.prologis.com/insights/global-insights-research/impacts-nearshoring-demand-mexican-logistics-real-estate
[23] https://news.constructconnect.com/data-center-spending-in-august-reaches-13b-as-costs-rise-constructconnect-report-finds



In 2026, we anticipate industrial sector rent growth to moderate further, as unprecedented supply is absorbed into the market. It is likely that industrial vacancy may rise further in 2026 before improving. Multiple headwinds will pose challenges for property owners over the coming months, including elevated sublease space availability and anticipated completions of large-box speculative developments. Overall, we expect the small-bay segment to outperform, particularly in Florida markets, Charlotte, and Nashville.

Operating Expenses

The industrial sector is the only sector to experience income growth that has exceeded expense growth since COVID. Over the past six years, operating expenses at industrial properties increased a cumulative 39.1%, while income rose 42.8%. Over the past year, this dynamic has reversed. As of 3Q2025, expenses are up 6.3% year-over-year, while income is up 5.4%.

Investment Returns/Valuations

Although industrial investments have significantly outperformed the other major property types since COVID began, no asset class is immune from the rising cost of capital. Industrial investments posted a four-quarter total return of -4.59% as of 3Q2025, thanks to seven consecutive positive quarters that came after five quarters of negative performance.

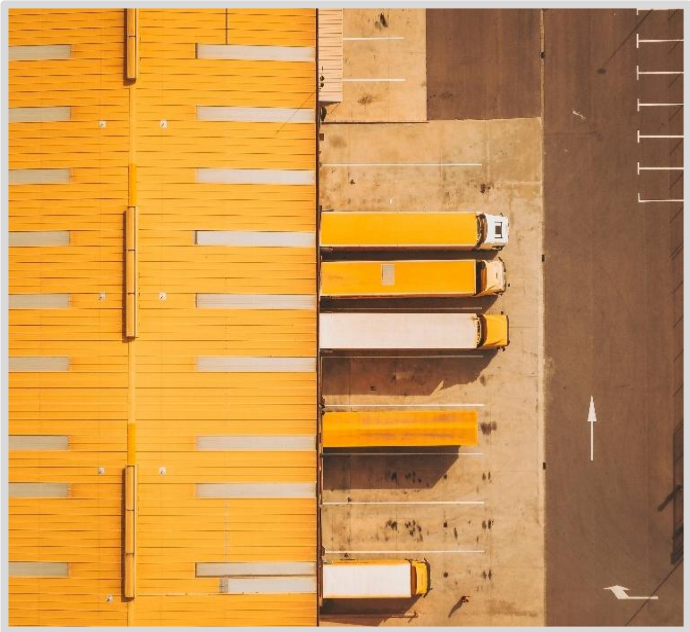
According to the NCREIF Market Value Index, industrial sector property values are down -5.5% from the peak achieved in 3Q2022, shortly after the Fed began raising interest rates, increasing the cost of capital. Over the past four quarters, industrial values have risen 2.1% and remain an impressive 63% above pre-COVID levels, less than six years ago.

Regulatory Update

Opposition to the construction of Warehouse distribution/Logistics facilities remains elevated in local communities across the country. In the past few years, warehouse bans have been enacted in parts of Southern California and Georgia, and the subject remains top of mind in New Jersey as the state begins to welcome a new administration. Governor-elect Mikie Sherrill has previously signaled her support for a moratorium on warehouse development, drawing immediate pushback from business coalitions.

The repercussions of any state-wide limitations would have an immense impact on the regional economy. The Garden State is home to the county's second-busiest port and is within a 24-hour drive of nearly three-quarters of the U.S. population. Any restriction on new logistics development would weigh on New Jersey's labor market, which has more jobs tied to the transport and storage of goods than any other state.

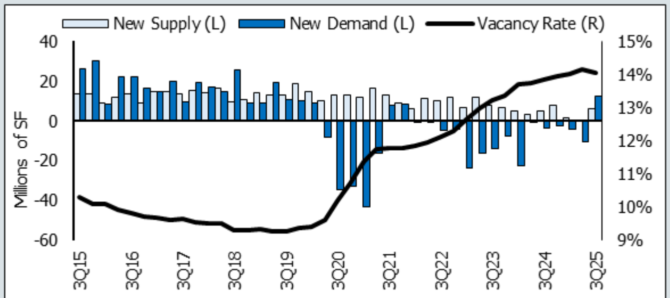
New Jersey is a home-rule state, which dictates that zoning regulations are crafted at the municipal level. While officials in Trenton have failed in years to enact state-wide regulations on warehouse development, local lawmakers are stepping up. In March, a bill was introduced to prevent approval of logistics construction within 1,000 feet of historic districts. New Jersey S4048 was favorably reported from the Senate Budget and Appropriations Committee in June and continues to move through the legislative process.



Office Sector

Office Properties: Performance in the Benchmark	Quarter	1-Year Period Ending				
	3Q25	3Q25	3Q24	3Q23	3Q22	3Q21
Income Return	1.40%	5.92%	5.84%	4.79%	4.30%	4.50%
Appreciation Return	-0.49%	-3.91%	-17.17%	-21.12%	-1.06%	0.35%
Total Return	0.91%	1.83%	-12.09%	-17.11%	3.21%	4.86%
CBD	0.89%	1.88%	-14.78%	-20.55%	0.81%	2.27%
Suburban	0.93%	1.80%	-9.15%	-12.98%	6.33%	8.47%
Rent Growth		0.74%	1.97%	1.38%	1.92%	1.05%
NOI Growth		-5.20%	-4.26%	4.47%	-0.80%	3.44%
Benchmark comparison:						
Total Return, All Properties	1.19%	4.65%	-3.47%	-8.39%	16.08%	12.15%

Source: NCREIF 2Q25; CoStar Group 3Q25



Source: CoStar 3Q25

The office sector continues to face significant challenges and an uncertain outlook. In the third quarter of 2025, office net absorption turned positive for the first time after declines in 19 of the past 21 quarters. National absorption totaled 12.5 million square feet, the highest level since the second quarter of 2019.

The direct office vacancy rate rose from 13.9% at the end of 2024 to a new record 14.1%, meanwhile, the availability rate, which includes space offered for sublease, fell slightly from 16.3% in 3Q2024, to 15.7% in 3Q2025. Vacancy rates will potentially begin to normalize at a higher level, once some of the excess amount of office inventory has been removed, as discussed in more detail by the *REI Strategy and Research Group* in our article "Not Back to the Office" in IRE Americas magazine.[24]

Return-to-office physical occupancy has improved marginally in 2025 compared to last year, with the most notable gains coming after the summer months. Since September, companies spanning a swath of industries, including Intel, Bank of New York Mellon, Ford, and Starbucks, require their corporate employees to come into the office at least four days a week. These initiatives helped nudge Kastle's Back to Work Barometer to 55% early in December, led by strength in the Texas markets (Austin, Dallas, and Houston).

Another proxy for "return-to-office" is average weekday ridership in major U.S. metro areas, which continue to vary widely across the nation. In New York, ridership on MTA commuter railroads (LIRR and Metro North) averaged 87% of pre-pandemic level on weekdays in October 2025, an improvement over 78% in January (see chart below). In Boston, MBTA weekday ridership remains lower at 70% of pre-COVID levels, while the Washington, D.C. Metrorail and Chicago Metra had weekday ridership rates of 69% and 64%, respectively (based on most recent data available). The Bay Area's BART system lags other major metros at only 47%. According to other sources attempting to quantify the return-to-office trend, *WFH Research* found workers spent 27% of days working remotely as of November 2025.[25] The *Flex Index* has found 34% of U.S. based companies require their employees to be in the office full-time, while 42% had a structured hybrid schedule, and the remaining 24% were either fully-remote or employee's choice, as of 3Q2025.[26]

Post-Covid Transit Ridership in Major U.S. Investment Markets
(% of Pre-Covid Level)

Transit Agency	Weekdays Only - For Select Months							
	Oct '22	Oct '23	Oct '24	Feb '25	Apr '25	June '25	Aug '25	Oct '25
MTA LIRR (NYC)	61%	74%	84%	81%	87%	87%	90%	92%
MTA Metro-North (NYC)	59%	71%	80%	77%	80%	81%	78%	83%
Chicago Metra	*41%*	*56%*	*63%*	*57%*	*62%*	*59%*	62%	64%
D.C. Metrorail	*40%*	*53%*	*64%*	*69%*	*80%*	*76%*	*75%*	*69%*
San Francisco BART	*37%*	*40%*	*44%*	*42%*	*44%*	*43%*	*45%*	*47%*
Boston MBTA	*61%*	*62%*	*69%*	*67%*	*68%*	*65%*	71%	73%

Source: MTA, Chicago Metra, D.C. Metrorail, San Francisco BART, Boston MBA

Occupancy gains over the past year have been most pronounced in New York, Dallas, Charlotte, and Houston. Conversely, among the largest office markets, Washington DC, Chicago, Los Angeles, and Boston continue to see tenant move-outs outpace move-ins.

[24] See: Stewart Rubin and Dakota Firenze, "Not Back to the Office," IRE Americas, November 2024.

[25] https://wfhresearch.com/

[26] https://www.flexindex.com/stats

The nation's capital remains a laggard, as agency consolidations, lower federal employment, and reductions in government-owned and leased space, weigh on fundamentals. The Washington D.C. office market is particularly exposed to changing policies at the federal level.

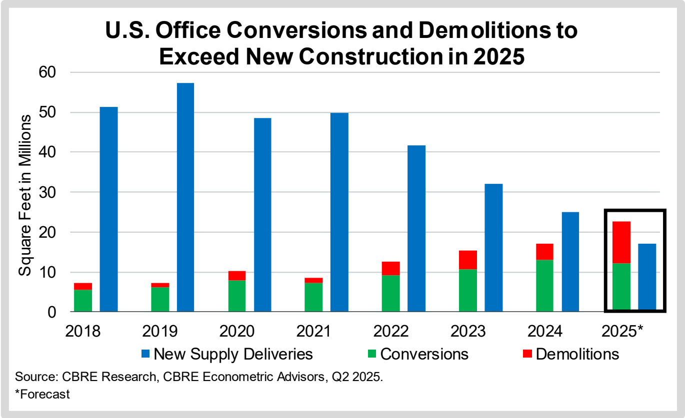
In 2025, artificial intelligence companies emerged as a growing office demand generator. This is a hopeful sign for the Bay Area, which retains its long-standing reputation for access to abundant tech talent and venture capital funding.

In addition to remote work trends, continuing tenant flight to higher-quality office buildings, and existing and expanding environmental emissions laws will likely challenge the performance of older office buildings, particularly Class B and C buildings. Newer, top-shelf Class A office buildings will likely outperform in 2026. Furthermore, office properties located in metros with shorter and more pleasant commutes as well as office tenants with greater security needs are more likely to have higher office attendance. Life science properties, which have heretofore exhibited strength, are beginning to weaken in the face of robust construction and less venture capital funding allocated to the sector.

Office owners across the country are taking steps to address the over-supply of underutilized properties. For some in attractive locations, it makes sense to renovate the building and introduce modern amenities to boost occupancy.

In many cases, however, long-term vacancy dictates that struggling office buildings may need to be repurposed into alternate use. CBRE data shows, that first time, office conversions (12.8 million SF) and demolitions (10.5 million SF) will outpace new supply additions (12.7 million SF) this year. More than two-thirds of planned and ongoing conversion projects are to apartments, with much of the activity concentrated in Manhattan and Washington, D.C.

This net reduction in office space has been accelerating since the pandemic and is expected to continue. While there's an abundance of projects in the planning stage, increasing material costs, labor shortages, and elevated interest rates may force developers to wait until the macro conditions improve before putting shovels in the ground.



As a result of these evolving secular challenges, in our view the office sector could become a more "managed" asset class. Office will require more, active consistent effort for landlords to continue to attract tenants to its buildings. This could result in certain office assets moving to buyers who are better capable of managing the increased complexity of these assets (i.e., REITs, Life Companies).

Regulatory Update

In Boston, newly reelected mayor Michelle Wu is pressing for amendments to state law Proposition 2.5, which caps the annual growth in a municipality's tax levy. At issue is the continued decline in commercial building values, which are projected to fall 6% in fiscal 2026 after a 5% decline in the previous year.

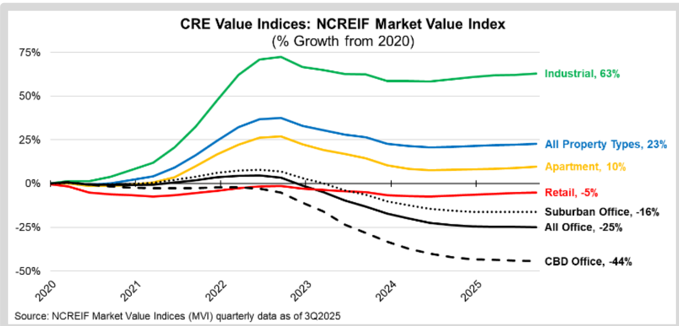
Roughly a third of Boston's tax revenue comes from commercial property taxes, among the highest rates of major U.S. cities. Coupled with an ongoing rise in residential property values, homeowners' share of the tax load is the largest in at least 40 years.

Massachusetts state law limits Boston's ability to rebalance its rates, which Wu hopes to address and lessen the burden on homeowners. She seeks more flexibility for Boston to increase tax rates for commercial and residential properties.

Returns/Valuations

Investments in the office sector produced a four-quarter unlevered property-level total return of 1.83% as of 3Q2025, a sharp improvement from -12.09% a year earlier. On a quarterly basis, total return has been positive for 3 consecutive quarters following 10 straight quarters of decline.

Office valuations, on a national level, continue to decline as associated user demand continues to be negative. According to the NCREIF Market Value Index, office sector values are down -28.2% from the peak achieved in 2Q2022, before the Fed began raising interest rates, with offices in central business district (CBD) locations down -44.9%, and suburban office properties down -22.3% over that same period. In some badly impacted office markets, for example in the San Francisco CBD, the values of office properties are down almost 54% from their 2020 peak, according to the NCREIF MVI.



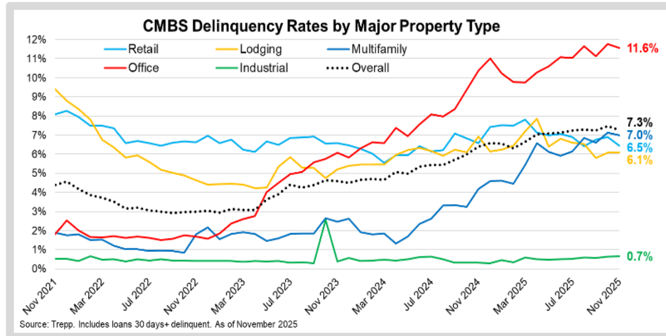
Operating Expenses

Another factor negatively impacting the office sector, like other property sectors, is rising operating expenses. Since COVID, office expenses have risen faster than income. Over the past five years, operating expenses at office properties have risen a cumulative 15.2%, compared with a 9.4% increase in income. Over the past year, however, this trend has reversed: as of 3Q2025, expenses are up just 0.9% year-over-year, while income is down 1.6%. It is likely that expenses will continue to rise faster than trend over the next year, which could result in even higher OERs, and put pressure on NOI growth. According to projections from Green Street, same-unit property expenses for office REITs are expected to grow 3.2% in full-year 2024 and are expected to grow 3.0% and 2.9% annually in 2025 and 2026 respectively.

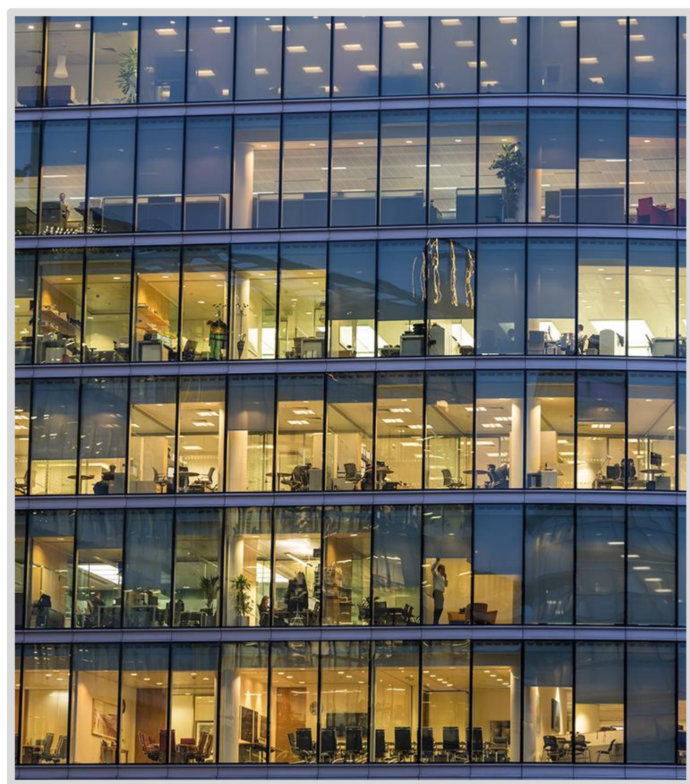
Stress in the Office Sector

We believe the pace of office asset sales is likely to accelerate in 2026, with an increasing number of deals being brought to market in search of qualified buyers. Furthermore, the number of stressed office assets for sale is also expected to continue to rise in 2025.

At the start of the year, the CMBS delinquency rate on office loans was 10.2%. As of October, the rate is 11.8%, up 70 basis points from the prior month and remaining above the high of 10.7% experienced during the height of the Global Financial Crisis, according to data from Trepp.



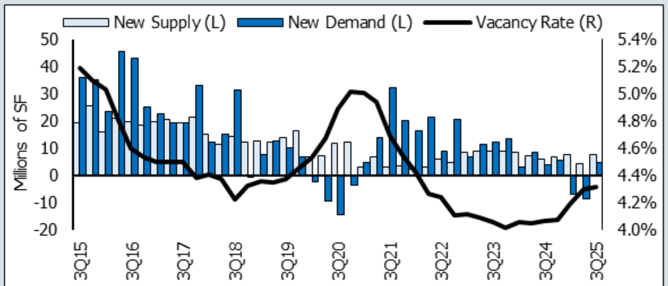
Amid these challenges, value-add and opportunistic plays remain the more favored strategy for buyers, owing to their stabilized basis and total return potential. Office values are still 40% to 45% below the peak, derived from CoStar's value-weighted repeat sale index, as evidenced by distressed sales recently in San Francisco, Philadelphia, Charlotte, and Nashville.



Retail Sector

Retail Properties: Performance in the Benchmark	Quarter	1-Year Period Ending				
	3Q25	3Q25	3Q24	3Q23	3Q22	3Q21
Income Return	1.35%	5.61%	5.53%	5.19%	4.98%	4.49%
Appreciation Return	-0.05%	1.38%	-3.14%	-6.33%	1.60%	-3.62%
Total Return	1.31%	7.05%	2.26%	-1.39%	6.65%	0.74%
Malls**	1.36%	6.94%	1.20%	-2.47%	4.78%	-2.62%
Non-Malls**	1.24%	7.11%	3.14%	-0.48%	8.38%	4.20%
Rent Growth		1.91%	3.19%	3.91%	4.16%	3.12%
NOI Growth		1.02%	3.97%	4.12%	4.01%	17.46%
Benchmark comparison:						
Total Return, All Properties	1.19%	4.65%	-3.47%	-8.39%	16.08%	12.15%

Source: NCREIF 2Q25; CoStar Group 3Q25



Source: CoStar 3Q25

The retail sector has proved resilient despite the impact of cumulative inflation on consumers. The latest retail sales report, released late due to the government shutdown, showed that inflation-adjusted retail sales growth declined for the fourth consecutive month, contracting -0.2% in both September and October. Additionally, the measure pulled back year over year to 0.8% from the prior month's 1.2%.[27] Although record high stock prices have propped up retail spending, consumers are showing signs of fatigue as tariff-related price hikes strain household budgets and curb discretionary spending. Other risks include a softer labor market, slower wage growth and slower population growth.

Digging deeper, retail reports reveal that sales growth is generally supported by higher prices and not an increase in the number of items sold. That's largely driven by cautious middle- and lower-income consumers' retreat from discretionary purchases, helping to buoy results at value chains like Dollar Tree, Dollar General, and TJ Maxx. In early December, Dollar General reported a year-over-year jump of 9.4% in revenue during the third quarter, with the company's CEO its strong value proposition in a "budget-constrained environment."

In terms of occupancy, the retail sector has performed the best, the only property type to experience tighter occupancy relative to pre-COVID, supported by low net new supply and durable demand. Retail sector fundamentals had relatively strong 3Q2025 with the average vacancy rate remaining at 4.3%, unchanged from the prior quarter, and only slightly above the record low 4.0% achieved in 4Q2023.

New supply remains minimal, with construction below the 15-year historical average, adding just 20 million SF (net) so far in 2025. In addition, 106 million SF of obsolete retail space has been demolished over the past four years (290 million SF over past decade), which reduces overall supply and supports remaining inventory.

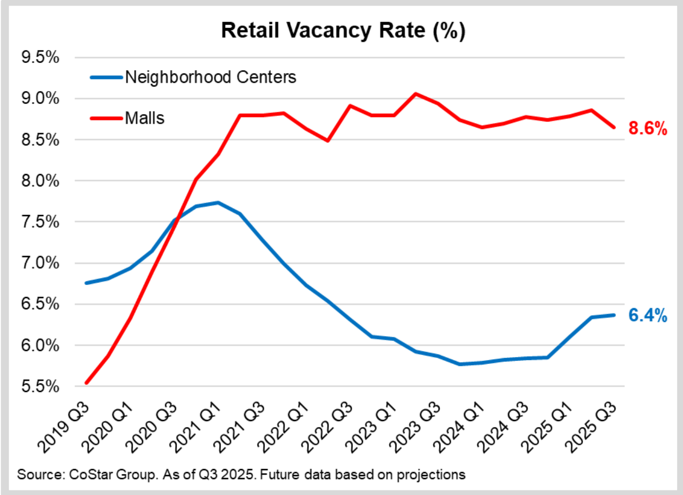
Retail owners have also benefited from the slowing pace of bankruptcy-related closures. Closing announcements dominated the headlines in the first half of 2025 and the empty spaces have been leasing up at a record pace. CoStar reported in October that the measure of median months to lease hit an all-time low of 7.1 months, far below the historic average of 9.8 months.

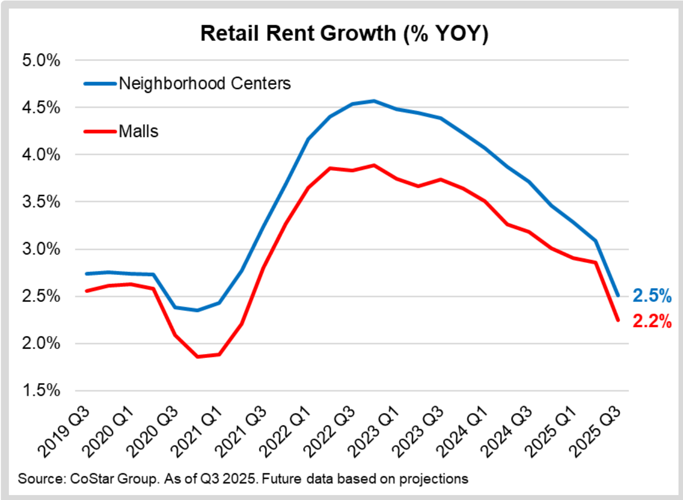
Over the past decade, the rate of population growth has outpaced the growth rate of new retail space in 64 of the top 88 markets. Of the 10 markets with population growth greater than 20% over this period, only Austin, Boise, Dallas, and Jacksonville had retail inventory growth that surpassed 10%. Generally, metro areas where population growth outstrips retail construction may be at less risk of oversupply, as discussed in *REI Strategy and Research Group's* article "Wholesale Change" in the AFIRE Summit Journal.[28]

[27] October retail sales were adjusted using the November 2025 CPI level, due to the unavailability of the October CPI report.

[28] See: Rubin, Stewart and Dakota Firenze, "Wholesale Change," AFIRE Summit Journal, Winter 2025.

Overbuilt retail markets in the U.S. tend to be concentrated in areas that have experienced stagnant to declining population change. In general, these markets include features of post-industrial economies. The pandemic was also a catalyst for migration. In the period from 2019 to 2025, the U.S. population grew 3.5%, while some markets with high retail per capita saw population growth which was slower or declined, like Dayton (+1.1%), Albany (+1.4%), Birmingham (+1.6%), Rochester, NY (-1.0%), Milwaukee (0.0%), Cleveland (-0.7%), Memphis (-0.2%), and Buffalo (-0.3%). In fact, eight of the ten markets with the highest retail per capita also had population growth below the national average over the 2019-2025 time period. Looking ahead, strong demographic momentum and job growth are expected to drive retail rent growth in Austin, Raleigh, Dallas, Orlando, and other fast-growing metros.





Highest Retail Per Capita

Rank from Top	Metro Area	Retail Per Capita (SF/Person)
1	Dayton - OH	73.6
2	Little Rock - AR	72.4
3	Birmingham - AL	70.9
4	Milwaukee - WI	70.5
5	Albany - NY	70.3
6	Memphis - TN	68.9
7	Tulsa - OK	68.8
8	Rochester - NY	68.8
9	Cleveland - OH	68.1
10	New Orleans - LA	68.1
11	Oklahoma City - OK	66.8
12	Pittsburgh - PA	66.6
13	Greensboro - NC	66.0
14	Buffalo - NY	65.0
15	Savannah - GA	64.7
	88 Market Average	**55.2**

Source: CoStar Group. As of Q3 2025

Lowest Retail Per Capita

Rank from Bottom	Metro Area	Retail Per Capita (SF/Person)
1	Stockton - CA	38.4
2	Bakersfield - CA	38.6
3	Lakeland - FL	39.3
4	New York - NY	39.4
5	San Jose - CA	39.4
6	Honolulu - HI	39.5
7	Washington - DC	39.9
8	San Diego - CA	41.3
9	Seattle - WA	41.4
10	Inland Empire - CA	42.8
11	East Bay - CA	43.1
12	Sacramento - CA	45.3
13	Orange County - CA	45.5
14	Los Angeles - CA	45.6
15	Phoenix - AZ	46.5
	88 Market Average	**55.2**

Source: CoStar Group. As of Q3 2025

According to Green Street, foot traffic remains below 2019 levels across A, B, and C class malls as well as outlet centers, with lower-quality properties seeing the sharpest declines. Conversely, neighborhood centers are benefiting from remote and hybrid work schedules that keep more consumers closer to home during the day. Grocery-anchored centers remain favored. Though the gap has narrowed as retail rent growth softens nationwide, neighborhood centers' asking rents rose 2.5% year-over-year as of 3Q2025, outpacing mall rent growth of 2.2%, maintaining this advantage since the start of COVID. Similarly, neighborhood center vacancy rates average 6.4%, compared with 8.6% for mall retail.

In 2026, we expect the retail sector investments to continue to outperform, given limited new supply and resilient retail spending of American consumers. Challenges in the office sector, coupled with supply woes in the apartment and industrial sectors, have driven renewed institutional interest in retail investments. The average vacancy rate rose 30 basis points year over year in 2025 but remains comfortably below 4.5%. The measure is expected to hover at current levels through 2026, as inventory expansion of nearly 22 million square feet is projected to come in just above net absorption of 20 million square feet. Suburban retail will likely continue to outperform, including neighborhood centers that are benefiting from remote work. Grocery-anchored shopping centers are favored.

Returns/Valuations

Despite solid fundamentals, the retail sector is not immune to the effects of higher cost of capital. Investments in the retail sector generated a four-quarter unlevered property-level total return of 7.05% as of 3Q2025, the strongest performance among the four major property types. On a quarterly basis, total returns have been positive for seven consecutive quarters, though the pace of growth has begun to slow. Given this outperformance, institutional interest in retail strip centers is on the rise, as evidenced by Blackstone's $4 billion purchase of Retail Opportunity Investments Corp (ROIC), which owns 93 shopping centers focused on the West Coast; that transaction closed in February.

Elsewhere, a joint venture between Elmsford, New York-based DLC Management and a fund managed by DRA Advisors announced in October that it's acquiring a portfolio of prime grocery-anchored shopping centers across California and Washington for $625 million. Then, in early December, the pair teamed up again to purchase a portfolio of eight shopping centers from Kite Realty for $429 million. The assets span five southern states and total 2.1 million square feet.

Changes in retail property values differ geographically, with certain regions benefitting more from population growth and elevated consumer spending. According to the NCREIF Market Value Index, retail sector values are down -5.1% from pre-COVID levels in 4Q2019. Declines were most significant in the Northeast and East North Central regions, -14.8%, and -20.5%, respectively. Conversely, the Southwest and Southeast were the only regions to see retail values rise, up 1.4% and 9.7% respectively since before the pandemic began. We expect continued migration to the Sunbelt to provide a broad tailwind to the retail sector.

Operating Expenses

Another factor negatively impacting the retail sector, like the industrial and apartment sectors, is rising operating expenses. Since COVID, retail expenses have risen faster than income. Over the past five years, operating expenses at office properties increased by a cumulative 17%, while income rose 12.9%. However, over the past year, retail income growth has exceeded expense growth, 3.8% versus 2.5%, respectively. This shows OERs in the retail sector have recently declined and may provide a tailwind for NOI growth in the near-term.

Lodging

In 2025, hotel RevPAR has declined 0.8% year-over-year as of October. Over the past six years, RevPAR is up 19.9%, driven by a 24.2% increase in ADR offset by a 3.5% drop in average occupancy. Luxury hotels have been the clear outperformers over the past six years.

In 2026, hotel occupancy is expected to hold steady or rise modestly among lower-tier chains, while luxury chains are projected to see stronger occupancy gains, according to CoStar projections. Additionally, ADR is projected to rise only marginally, resulting in RevPAR growth of less than 1% in 2026, with economy and upper midscale segments expected to outperform. Construction across hotel scales is down meaningfully and more in-line with 2018 levels, which is a tailwind to the sector.

Tourism has rebounded across most major U.S. destinations but remains below pre-pandemic levels overall. For full-year 2025, visitation in New York City is projected to exceed 2019 levels, while Los Angeles and San Francisco are expected to remain below their pre-pandemic benchmarks. RevPAR growth over the past six years has been highest in New York (Midtown West/Times Square, +25.1%) compared to more muted gains in Seattle (+8.1%), Washington, D.C. (+3.8%), and Los Angeles (+5.8%), while San Francisco's Market Street remains well below pre-COVID performance (-34.6% RevPAR).

Alternative Property Types

Data center construction activity remained elevated in October, pacing the fourth quarter for a strong end to 2025. ConstructConnect reported aggregate construction starts spending on data centers of $10.8 billion in October, up from just $2.9 billion last year. Meanwhile, year-to-date spending totals $43.8 billion, more than double the $19.9 billion posted in the comparable period in 2024. Louisiana, Virginia, and Mississippi have been the epicenters of construction activity this year, as tech companies prioritize timely access to large blocks of power.

ConstructConnect anticipates that Illinois, Virginia, Texas, and Arizona will account for the bulk of new groundbreakings over the next six months. Texas **has** emerged a favored destination for technology companies recently, owing to its vast open space, comparatively cheap energy, and a favorable business climate. In November, Google disclosed plans to spend $40 billion to build three additional data centers in the state, part of a strategy to expand its AI computing power and move beyond its legacy search advertising business.

The demand backdrop remains positive heading into 2026, with new leasing being driven by hyperscale and neocloud tenants. A lack of capacity among hyperscalers, led by Alphabet, Amazon, Meta, and Microsoft, is fueling ever-expanding CapEx budgets and demand spillovers from primary markets like Northern Virginia and Atlanta to much smaller remote markets.[29] As vacancy rates hover near all-time lows, Green Street anticipates data center landlords to continue pushing rental rates higher, with growth in the mid-to-high single digits expected through 2029. However, we believe data centers are more of an infrastructure type investment and we are concerned that evolving technology could result in an accelerated rate of obsolescence.

Self-storage properties posted the highest average annual returns of any commercial property type in the past 20 years, according to NCREIF research. More recently, 3Q data shows the segment recorded a total return of 1.7%, trailing only senior housing (2.9%) and hotels (2.1%). Additionally, this sector generally has lower operating expense ratios and labor costs, making it particularly attractive as operating expenses rise across different property sectors.

While expense growth this year, at 3.1%, is lower than initially expected, it's still above the historical average of ~2%. That's primarily driven by property taxes, as well as rising advertising expenditures amid a competitive backdrop. Expense growth is widely outpacing revenue growth this year, though the gap should begin to narrow starting in 2026. Same-store revenue growth is improving but will likely end 2025 in the red, marking the second-straight year of declines.

A lack of a housing recovery is the main culprit weighing on occupancy. Homeownership and overall mobility have been historically correlated with move-in rents, and as home sales are at 30-year lows, the occupancy ceiling appears capped. However, new supply will be held in check over the next few years, averaging just 1.5% of existing inventory.[30] A gradual recovery in home sales, spurred by slowly improving mortgage costs, should help push revenue growth back into the black starting in 2026.

Single-family rentals (SFR) are benefiting from the gap in housing affordability and low inventory. Since the start of 2020, the principal and interest mortgage payment on a median-price existing home, with a 20% down payment, has increased by 60%. Demand for SFRs is driven by renters seeking specific neighborhoods or school districts where traditional apartment options are limited. Additionally, SFRs provide more living space for growing families and those frequently working remotely.

According to Green Street, the SFR sector is among the most attractively valued in the entire REIT universe, having traded at an average 17% discount to asset value since mid-2022. With that said, the SFR lease pricing spread over Sunbelt apartments has narrowed to just 300 basis points in the third quarter, after averaging 425 basis points over the past three years, suggesting some top-line pressure owing to a cooling labor market and declining immigration. Nonetheless, we remain positive on the sector in 2026.

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[29] Examples include Shackelford County, TX; Cheyenne, WY; Ellendale, ND; and Lancaster, PA.

[30] Green Street: Self-Storage Sector Update, November 20, 2025

Senior housing has seen increased investor demand and outsized returns due to favorable demographics. For every 100 people of working age (25-64) in the U.S., there are 35 people age 65+. This ratio is projected to increase to 44 per 100 by 2050. Moreover, very low construction means new supply is diminished. According to Green Street, annual supply growth should total around 1% between 2025-2027, below the mid-3% average recorded the period from 2016 to 2018. Meanwhile, overall occupancy improved this year and is now about 100 basis points above 2018 levels, driven by Northeast markets. Additionally, headline rent growth of 4% year-to-date continues to outpace the long-term historical average of 3%. The lack of new construction and increasing life expectancies allow us to remain positive on the sector in 2026, as discussed in *REI Strategy and Research Group's* recent article "Capitalizing on Dynamics" in the AFIRE Summit Journal.[31]

Medical Office properties benefit from some of the same favorable demographic tailwinds as senior housing, including an aging demographic. Medical office properties offer better fundamentals and have experienced cap rate stabilization more quickly than traditional office. National occupancy of 91% at medical office properties far outstrips 85% traditional office occupancy, and the spread between the two has been at least 500 basis points since 2Q2023, according to a CoStar analysis. Strengthening demand for outpatient facilities away from hospital campuses has fostered medical office rent growth to outperform relative to traditional office, which we expect to continue over the next 12 months. We remain positive on the sector in 2026, as discussed in *REI Strategy and Research Group's* recent article "Booming Senior Demographics" in IRE Americas Magazine.[32]

Student Housing: Demographic and educational trends point to a slowdown in college attendance and, as a corollary, the demand for student housing. College enrollment peaked at 12.6 million in 2011 and has declined substantially in the past 14 years. In addition, there is a decline in international enrollment. There are less high school seniors expected over the next several years and for the foreseeable future as the fertility rate has declined considerably. In addition, the loss of confidence in college degrees leading to better employment prospects post-graduation, has weighed on the size of the college population, as discussed in *REI Strategy and Research Group's* recent whitepaper "Higher Education in Retreat" in IRE Americas Magazine.[33]

Following several years of above-average rent growth (gains in the high single digits), expectations are for rental performance to moderate to roughly 3% growth over the coming years, matching the historic average seen in the 10-year period leading up to the pandemic. According to Green Street, elevated apartment inventory expansion in urban areas has created a shadow supply effect, weighing on demand of pure-play student housing product. Collegiate markets have been more insulated from this competition and rent growth has been approximately 150 basis points higher than in urban markets. Furthermore, the differences between university growth levels, proximity to campus, and barriers to entry demonstrate to the need for caution as well discernment when approaching the asset class in 2026.

[31] See: Rubin, Stewart, "Capitalizing on Dynamics," AFIRE Summit Journal, Fall 2025.
[32] See: Rubin, Stewart and Dakota Firenze, "Booming Senior Demographics," IRE Americas, October 2025.
[33] See: Rubin, Stewart and Dakota Firenze, "Higher Education in Retreat," IRE Americas, June 2025.

CRE Opportunities and Risks for 2026

CRE is confronted by several challenges in the coming year, including long-term interest rates remaining high relative to the recent past and adversely impacting values, loan defaults increasing because of high refinance rates, tighter local regulations, the impact of tariffs on spending, inflation, and higher operating expenses.

On balance, the CRE sector stands to benefit from anticipated GDP expansion, tax reductions associated with the OBBBA, the resurgence of domestic manufacturing and logistics activity, and an increasingly deregulated federal environment. That said, the office sector continues to face material headwinds driven by the structural shift toward remote and hybrid work. These disruptions, however, may create compelling opportunities for disciplined capital deployment—particularly in assets with significantly reset valuations, attractive cost bases, and identifiable value-creation levers.

In multifamily, a structural housing shortage and elevated barriers to homeownership are expected to support sector performance through 2026. Additional tailwinds include expanded GSE lending capacity, with Fannie Mae and Freddie Mac allocations increasing by 20.5% next year. Nonetheless, affordability pressures are dampening absorption in some markets and contributing to stricter rent-control regimes. Oversupply in portions of the Sunbelt and Mountain West is constraining near-term performance, though these high-growth regions remain attractive over the long term. Select markets with higher barriers to entry also provide potential for durable returns.

Industrial real estate is positioned for continued strength, supported by rising tenant demand and a moderation in new deliveries. The above notwithstanding the large oversupply will take time to digest. Opportunities are particularly evident in supply-constrained markets such as New Jersey, as well as regions poised to benefit from near-shoring dynamics—including strategic nodes in Texas and Arizona. The broader reshoring and manufacturing revival is likely to concentrate in national-security-aligned sectors such as aerospace, defense, advanced manufacturing, biotech, automation technologies, pharmaceuticals, and medical devices—positioning markets with these clusters for outsized investment activity.

Finally, alternative property types—including medical office, seniors housing, data centers, and single-family rentals—remain underpinned by powerful demographic and technological megatrends that should drive sustained investor interest.

During the era of low rates, which was accompanied by an expanding economic backdrop, many investors benefitted from rising values across asset classes. In the new paradigm of higher long-term rates, a still well-performing economy, and declined values, prospects for investing at a low basis have manifested, but so are the potential pitfalls. Therefore, it is vital that investors are discerning and rely on the keen investment expertise of advisors who can differentiate true opportunities from potential minefields.

Investors remain focused on fundamentals, seeking opportunities to create value through active asset management, strategic leasing, and targeted repositioning. Despite current headwinds, we remain cautiously optimistic, identifying targeted opportunities where pricing dislocation aligns with long-term fundamentals.

Disclosures

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