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Principal Real Estate

REIT Market Perspectives

Market update and a look ahead

DECEMBER 2025

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A back-to-basics REITs story: durable fundamentals and stock selection drives returns

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In 2025, equity markets were captivated with the AI phenomenon, with relatively few stocks pushing equity markets to new records. By comparison, positive returns from listed REITs are easy to overlook.

Year-to-date returns across the REIT market varied remarkably, with large gains from non-U.S. REITs and U.S. healthcare REITs, while U.S. residential and data center sectors were notable laggards. As is often the case, fundamentals and valuations matter in driving returns. We believe that will be true again in the year ahead, and investors should be selective with stock picking and allocations to markets and sectors. At Principal, we highlight the U.S. senior housing sector as looking particularly attractive today.

Looking ahead, we see a favorable path for listed REITs if inflation remains in check, allowing the Fed to focus on the employment side of their mandate and provide rate cuts as needed to lift the economy. A growing economy, contained inflation, and stable or moderating interest rates is a positive backdrop that leads to steady price appreciation for REITs, driven by income growth and capital inflows. Importantly, new supply trends are favorable, capital markets for real estate are wide open, and transaction activity is picking up – all three are tailwinds for property values.

We expect in the year ahead that the durable fundamentals of REITs and low correlations with the Mag 7 stocks may prove attractive to investors seeking diversification away from AI risks in their portfolios. For many private real estate investors, listed REITs hold appeal given attractive relative value, liquidity, and significant exposure to alternative sectors that are essential in today's economy and society.

Potential risks worth noting would be if stagflation emerges or an economic recession. However, we believe REITs are likely outperformers in a down market under a recession scenario.

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Big picture: The macro backdrop is supportive of public real estate markets

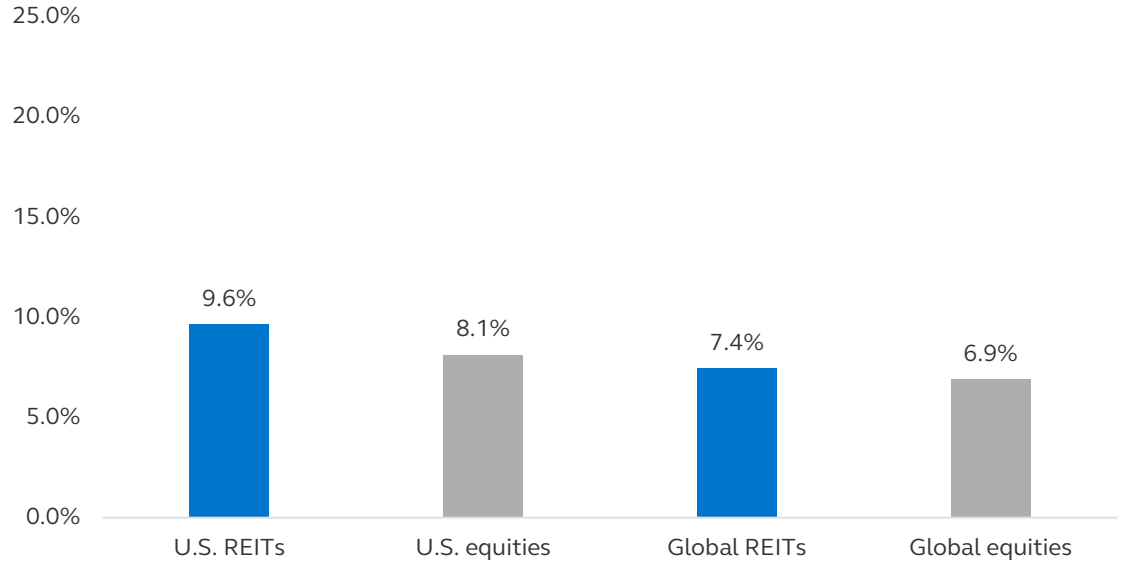
Macro expectations:	Impact on REITs	Comments
Slow, but positive GDP growth	Neutral	Economic expansion improves demand for real estate. Stock picking is important, as some sectors will be impacted differently and structural drivers can provide defensive growth.
Softening U.S. labor markets	Neutral	Labor markets are a demand driver for space absorption. The impact can be nuanced by the relative job sensitivity of various sectors.
Fed rate cuts	Positive	Real estate is capital intensive and longer duration, so it's more rate sensitive. Fed rate cuts help, but the long end of treasury curve always matters more.
Moderating inflation	Neutral	Inflation is usually a good thing for REIT earnings, but upside surprises to inflation is a risk which could push long-term rates higher.
Tariffs	Neutral	Tariffs have limited direct impact as real estate demand is mostly domestic. De-escalation of tariff wars is helpful for industrial.
Big Beautiful Bill	Positive	Limited impact for listed REITs with a continuation of favorable tax plans, but tax breaks for increased capital spending is a positive.
Open credit conditions	Positive	Open credit market conditions are typically a good catalyst for real estate transaction markets and rising property values.
Attractive valuations	Positive	Trading at very attractive relative valuations, offering a compelling entry point.

REITs: Long-term outperformers, recent laggards

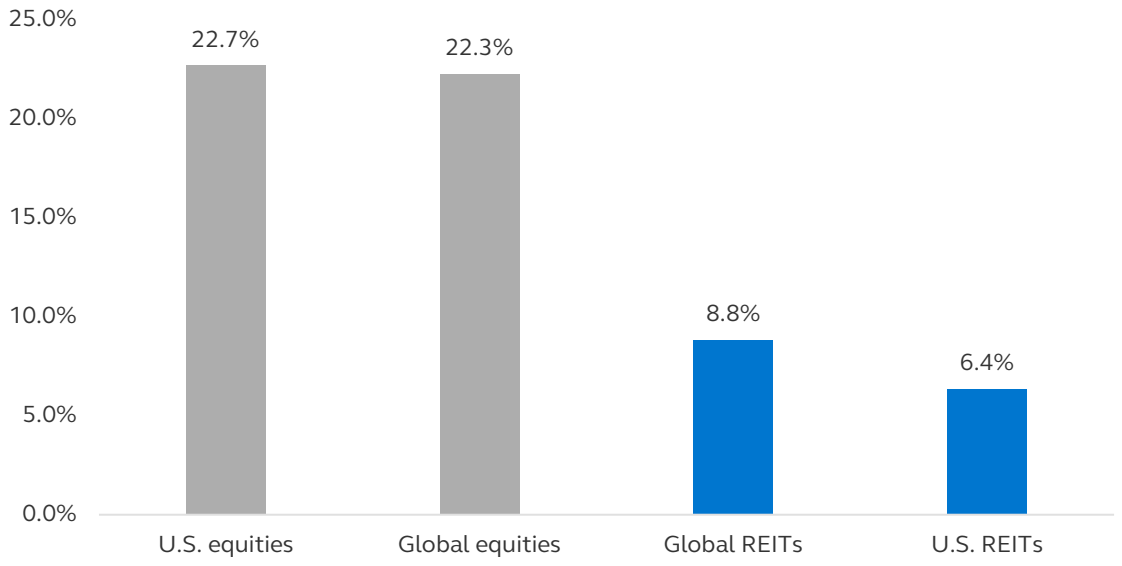
In the last three years, there have been two major forces impacting the performance of equity markets and real estate. First is the phenomenon of AI, which has driven a concentrated number of large cap AI stocks and equity markets to new highs. Second, is real estate markets starting to emerge from the significant interest rate-driven repricing cycle. Listed REITs have performed well with moderating rates and healthy fundamentals tailwinds, but returns haven't kept pace with the bull market for AI equities. We believe markets go in cycles and as equity market returns normalize going forward, investors should remember listed REITs have been a long-term outperforming asset class.

Broader equity market returns the past three years have well-exceeded long-term averages while REIT market returns have been more normalized

Annualized total return since 2000



Annualized total returns last 3 years



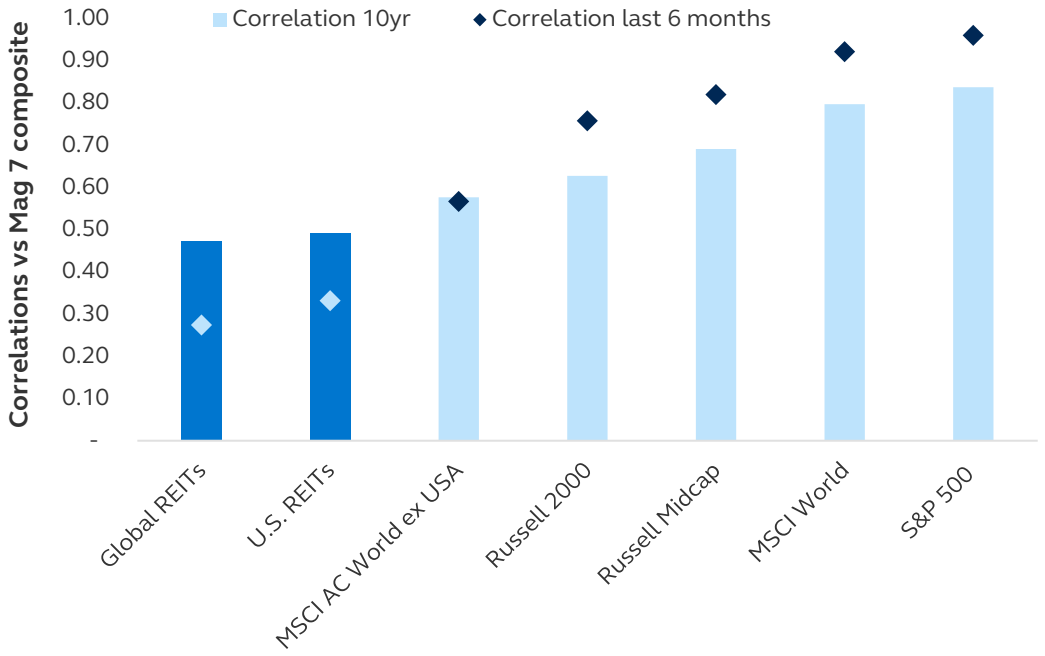
As of 31 October 2025. Source: FactSet. U.S. equities (S&P 500), U.S. REITs (FTSE NAREIT All Equity REITs), Global equities (MSCI World), Global REITs (FTSE EPRA NAREIT Developed).

Diversification with REITs has rarely looked so attractive

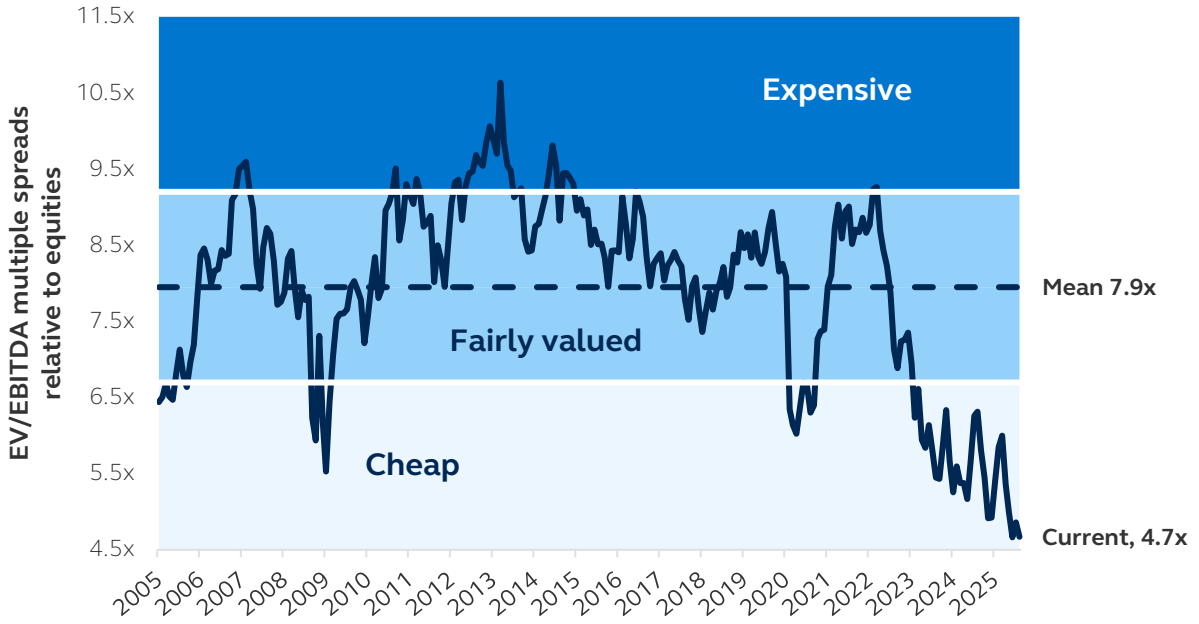
The Mag 7 share of the S&P 500 market cap is over 30%, an extreme level of concentration. While AI may ultimately change our future, many investors likely have an abundance of exposure to AI and Mag 7 stocks in their portfolios. We believe diversification is key to long term successful outcomes as markets go in cycles.

REITs provide a compelling alternative with low correlations to these mega-cap tech names, offering a differentiated return profile. This makes REITs an attractive option for investors seeking both liquidity and the stability of real assets in a portfolio. Importantly, this diversification comes at a historical discount today, with the earnings multiple spread between REITs and equities at record lows compared to the last 20 years.

Real estate stocks have lower correlations to the Mag 7 stocks than other equity indices



Listed global REITs are trading near historically cheap relative valuations to equities

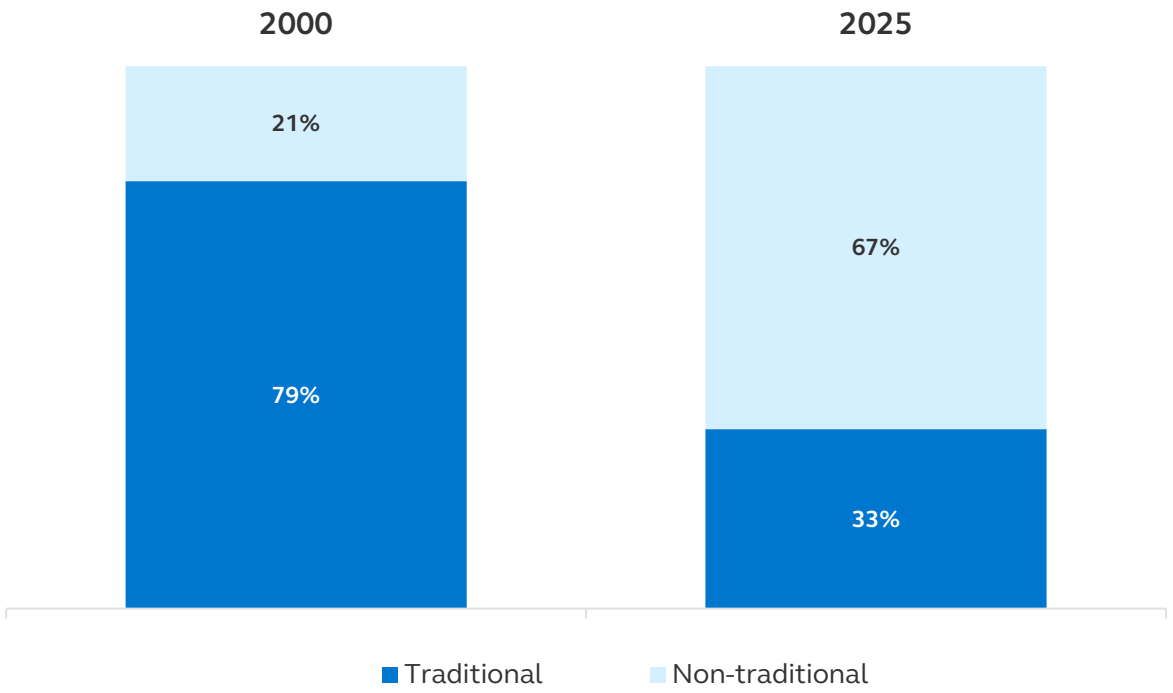


Left chart: As of 30 September 2025. Source: FactSet. Right chart: As of 31 October 2025. Source: FactSet. Enterprise Value (EV) to EBITDA price multiples are used to measure valuations. The spread plotted is the EV/EBITDA of the FTSE EPRA/NAREIT Developed index minus the EV/EBITDA of the MSCI World index. Expensive and cheap valuations are represented by spreads higher or lower than one standard deviation from the mean, respectively. Fair value is represented by valuations between one standard deviation from the mean. The average is since 28 February 2005.

We see opportunities in essential sectors and REITs with resilient, structural growth

Today's public REIT market looks a lot different than what most investors expect. Sectors previously considered niche have grown to be essential in today's economy and society. Capital flows continue to target sectors such as senior housing, wireless towers, data centers, and many more. Traditional sectors remain relevant, but represent the minority of the public market, especially office. We expect in the years ahead the structural demand drivers for non-traditional sectors to continue growing and investors would benefit from more exposure to these sectors.

Non-traditional sectors have grown rapidly, particularly in U.S. REIT markets



Sector weight	2000	2025
Healthcare	2%	16%
Net lease	3%	12%
Towers	0%	11%
Data centers	0%	10%
Self-storage	3%	6%
Other	9%	3%
Land & timber	1%	2%
Hotels & resorts	1%	2%
Single-family rental	0%	2%
Manufactured homes	1%	2%
Industrial	11%	11%
Apartments	21%	9%
Malls & outlets	10%	5%
Shopping centers	7%	5%
Office	30%	3%

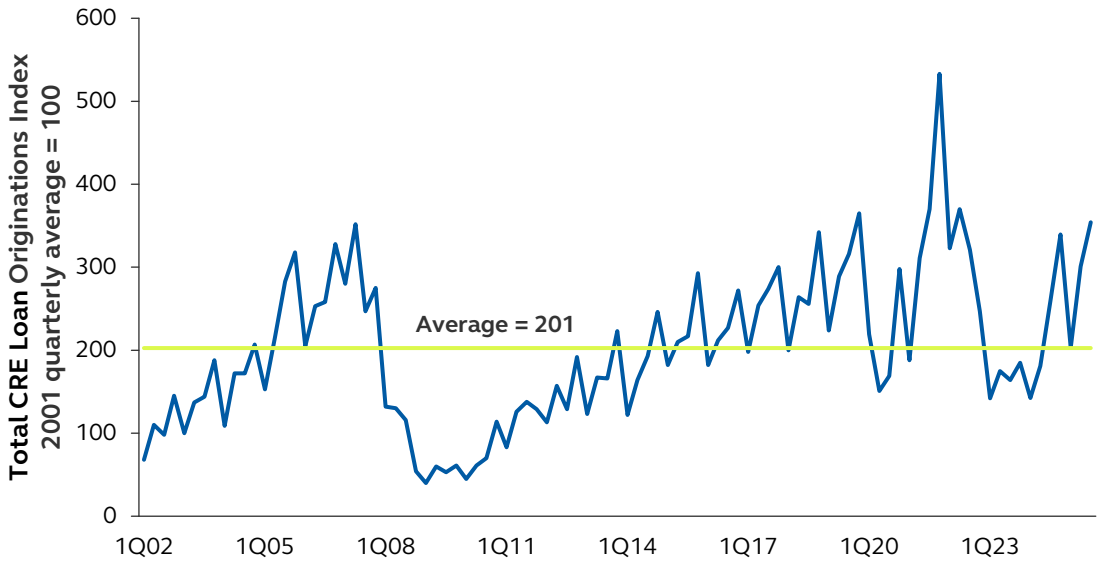
As of 30 September 2025. Source: FactSet. FTSE NAREIT Equity All REITs index.

Company fundamentals are steady, and capital markets are wide open

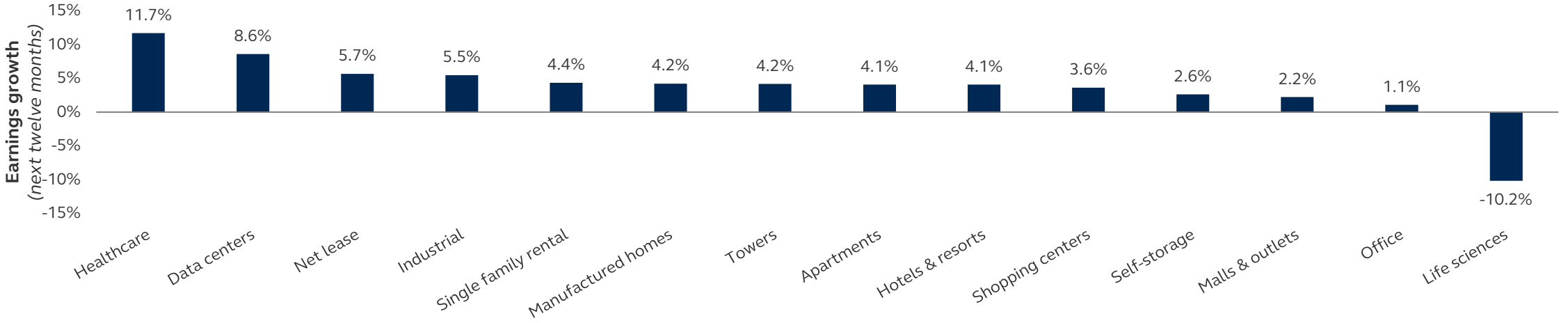
Currently, REIT earnings have tailwinds of peaking or low supply in many markets and secular drivers to demand in alternative sectors. Earnings are durable and relatively defensive should the economy slow further. If growth accelerates, then we expect upside surprise to earnings.

REIT balance sheets and their ability to access debt and equity capital have been in great shape the last few years. There are strong signals of improvement for the broader real estate market as well, with loan originations surging. These trends reinforce our view that the real estate capital markets remains open and liquid, supported by broader property price recovery, rising transaction volumes, and solid underlying fundamentals.

Real estate loan originations are on the rise



Earnings growth is expected to be positive in most REIT sectors across the world



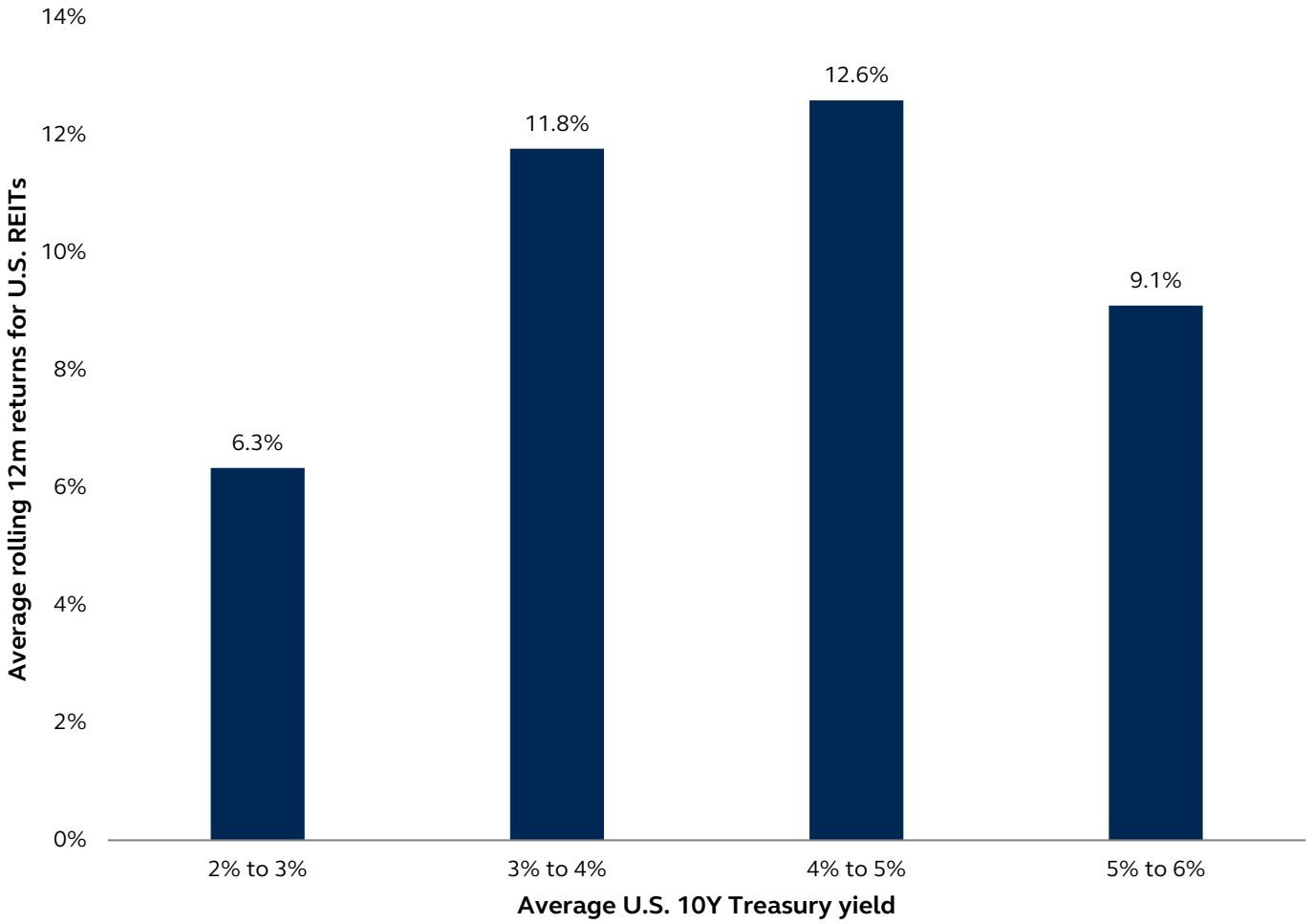
Top chart: As of 30 September 2025. Source: Mortgage Bankers Association, Principal Real Estate. Bottom chart: As of 31 October 2025. Source: FactSet, Principal Asset Management. Earnings growth from the FTSE EPRA/NAREIT Developed Extended Index.

Rate cuts and stable 10-year yields are a positive catalyst

Since the end of 2021, nominal and real yields have been volatile from one quarter to the next and have directionally moved higher year-after-year. This rate cycle drove a significant downward repricing of real estate values in recent years. This appears to have come to an end, and we expect more stability in rates over the next five years, with the potential for modest declines in the near term.

The end of yields marching higher is a very important catalyst for REITs as REIT prices have already reset. REITs don't require meaningful declines in yields either to generate positive returns. In fact, history would show that REIT returns have been attractive under both high, moderate, and low yield regimes. Ultimately, fundamentals, capital markets and valuations matter too.

Long-term bond yields might remain sticky and that's okay. Treasury yields between 3-5% is typically a sweet spot for REIT returns.



As of 30 June 2025. Source: FactSet. Returns data is showing FTSE NAREIT All Equity REITs average 12-month total returns moving quarterly during the average U.S. 10Y treasury yield during that period from 12/31/1992-6/30/2025. Past performance does not guarantee future results. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

Where are we deploying capital?

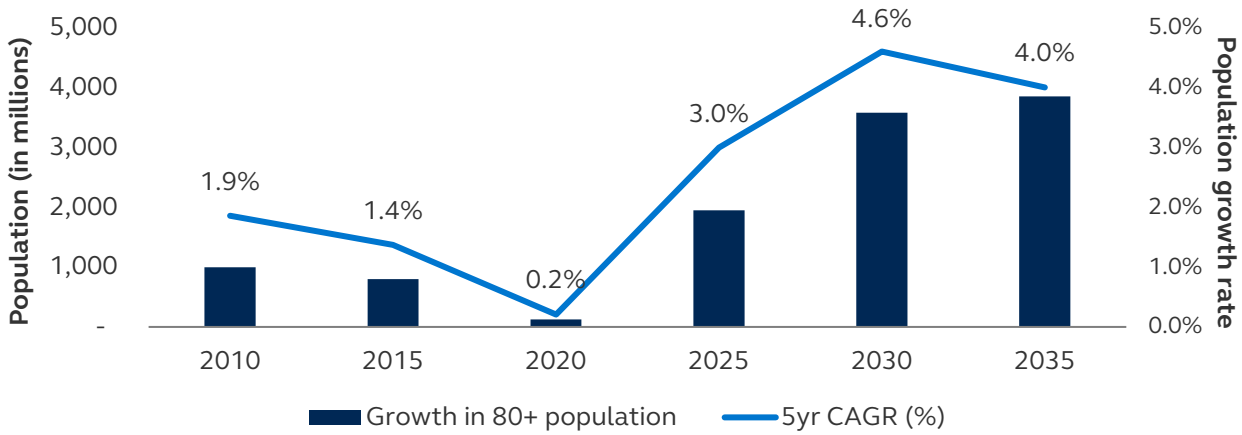
U.S. seniors housing is in a Goldilocks period

The U.S. healthcare sector, senior housing in particular, is experiencing a "golden era" following its post-pandemic correction. Since 2021, the sector has seen steady improvements in occupancy driven by an aging population and limited new construction. With occupancy gains and rising rents, REIT senior housing earnings growth has recently outpaced the REIT market with double-digit gains.

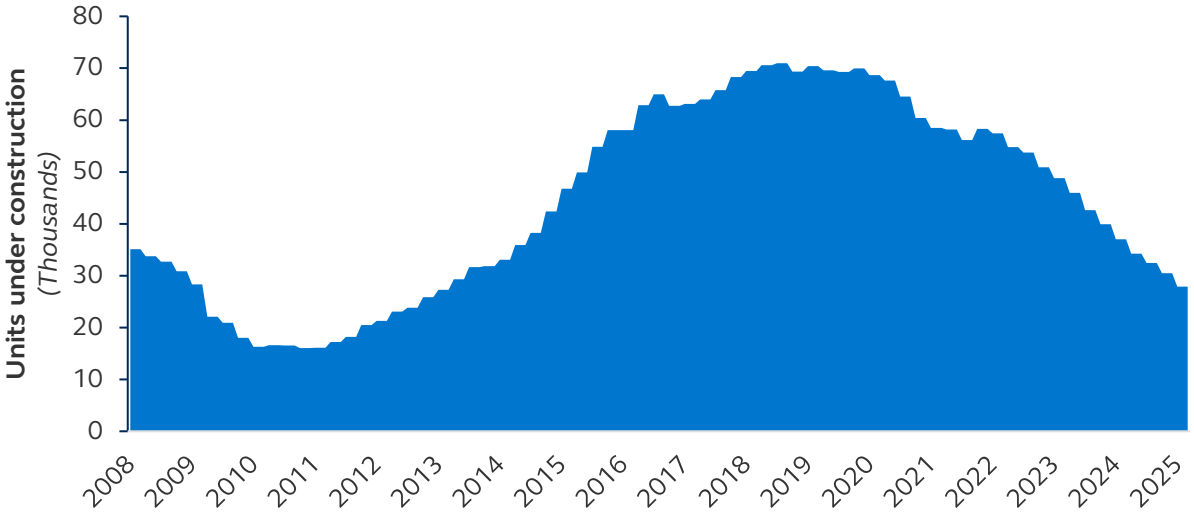
The sector remains well-positioned, supported by favorable demand vs supply fundamentals in the years ahead. Gains in wages and stock markets, plus significant home price appreciation helps boost affordability for seniors. This should drive continued demand across the full spectrum of care.

Plentiful opportunities exist for REITs to acquire assets at attractive values, as other private market owners face issues with operational complexities, lower occupancies, and maturing loans.

In the next five years it's estimated there will be 3.5 million more people age 80 and older - growing at a 4.6% annual rate



Meanwhile, supply growth for senior housing has slowed remarkably post-COVID with only 29k units under current construction, far below expected demand



Top chart: As of November 2025. Source: U.S. Census Bureau (BOC); Moody's Analytics Forecasted. Bottom chart: As of 31 March 2025. Source: Principal Real Estate, GreenStreet.

Important information

Risk Considerations

Investing involves risk, including possible loss of principal. Real estate investment options are subject to some risks inherent in real estate and real estate investment trusts (REITs), such as risks associated with general and local economic conditions. Investing in REITs involves special risks, including interest rate fluctuation, credit risks, and liquidity risks, including interest conditions on real estate values and occupancy rates.

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