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Principal Real Estate

The next chapter for global office

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EXECUTIVE SUMMARY

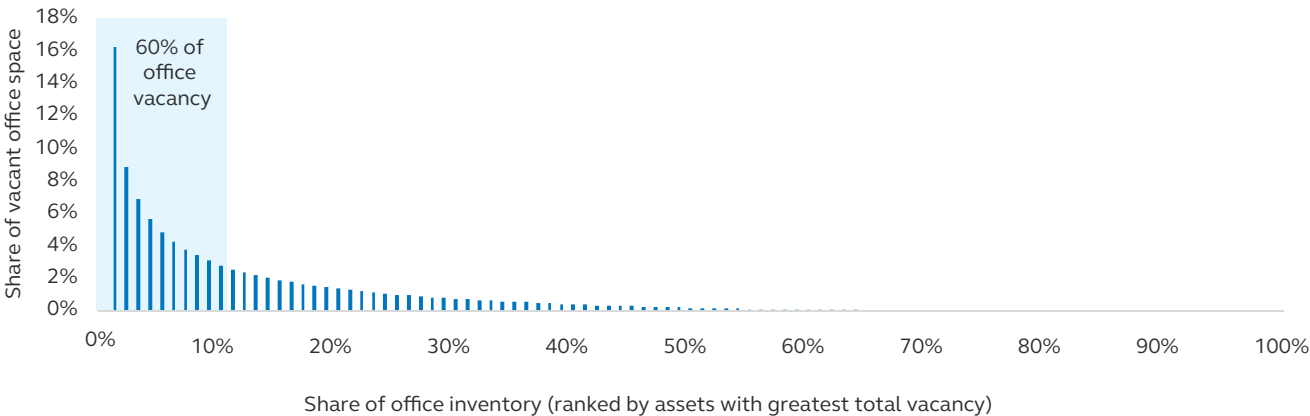
- The global office market is moving from a period of correction toward recovery, although the progression will be highly selective and will create different opportunities across regions, markets, and investment segments.
- The recovery will be determined principally by market, location, and asset quality. Limited development pipelines and a shortage of modern space should support select development and repositioning opportunities, but only where achievable rents justify construction and capital costs.
- We are increasingly supportive of selective re-entry into the sector. However, performance will vary materially by region, metropolitan market, micro location, building quality, and tenant profile.
- Prime and secondary office assets should be treated as fundamentally different investment propositions. Their pricing, leasing prospects, capital requirements, financing availability, and potential exit liquidity are increasingly divergent, placing greater importance on strategy and deal-level underwriting.
- Office will remain operationally complex, capital intensive, and expensive to lease, maintain, and reposition. Investors should favor assets with durable contractual income, strong tenant credit, manageable lease-expiration schedules, and sufficient capital reserves. Longer weighted-average lease terms can provide income visibility and downside protection, while shorter leases may offer greater mark-to-market potential in markets with strong rental growth.
- The preferred route of entry will depend heavily on the investment quadrant. Private and public debt may offer superior risk-adjusted opportunities in many markets by providing income and structural protection. Private equity acquisitions and development will require extensive due diligence and a high degree of conviction regarding location, asset competitiveness, leasing assumptions, capital needs, and exit value.

Global office recovery: Setting the stage

The global office market is moving past its post-pandemic malaise and is engaged in the early stages of recovery. Leasing activity is improving, transaction markets are beginning to reopen, credit is increasingly available, and capital values are stabilizing across a growing number of markets. Several years of limited development have also reduced new supply, creating pockets of scarcity as occupiers continue to prioritize modern, well-located office space. These conditions are creating a more constructive backdrop for the sector, although the recovery remains highly selective and considerably more nuanced than in prior cycles.

The recovery has varied materially across regions, metropolitan markets, micro-locations, and individual assets. Asia Pacific has generally experienced the strongest post-pandemic occupier recovery, supported by higher office attendance and stronger economic growth, although conditions differ significantly by market. Europe offers some of the clearest examples of constrained prime supply and robust rental performance. In the United States, improving leasing and absorption across select gateway and growth markets are encouraging, but elevated vacancy, weak office-using employment growth, and lower attendance continue to constrain the broader recovery. Vacancy is also highly concentrated: according to JLL, 10% of U.S. office buildings account for more than 60% of national vacancy, 30% account for 90%, and nearly 40% report no vacancy. These figures underscore that office is not a single, uniform market, despite what headline statistics may imply.

EXHIBIT 1: Office vacancy concentration by share of total U.S. vacancy



Source: RCA, CoStar, Principal Real Estate, Q1 2026.

Occupiers are increasingly consolidating into buildings that offer the location, efficiency, amenities, sustainability credentials, and workplace experience necessary to attract employees and justify the commute. This flight to quality has created a growing divide between prime and secondary offices. In many markets, high-quality buildings face limited availability and improving rental prospects, while less competitive assets continue to experience weak demand, significant capital requirements, and reduced financing and exit liquidity. Prime and secondary offices should therefore be viewed as fundamentally different investment propositions rather than as variations within a single sector.

Despite improving fundamentals, office assets remain operationally complex, capital intensive, and expensive to lease, maintain, and reposition. Tenant improvements, leasing commissions, recurring capital expenditure, sustainability requirements, and extended lease-up periods can materially affect returns. Successful investment strategies will therefore require more detailed asset-level underwriting, greater conviction regarding location and building competitiveness, and a realistic assessment of the capital required to sustain occupancy and income.

The office sector opportunity cannot be evaluated solely through a regional or market-level view; and, the preferred approach to re-entry will also depend on both strategy and risk profile. Private equity may offer substantial upside where assets can be acquired at significant discounts and repositioned tactically, but it carries the greatest operating and execution risk. Public equity can provide liquid exposure to experienced platforms and high-quality portfolios. Private and public debt will likely offer more attractive risk-adjusted exposure in many markets by providing current income and greater structural protection while the recovery matures.

In this report, we examine the underlying drivers of the office recovery and compare conditions across the United States, Europe, and select markets in the Asia-Pacific region. We also consider relative value and opportunities across major investment markets through both private and public markets.

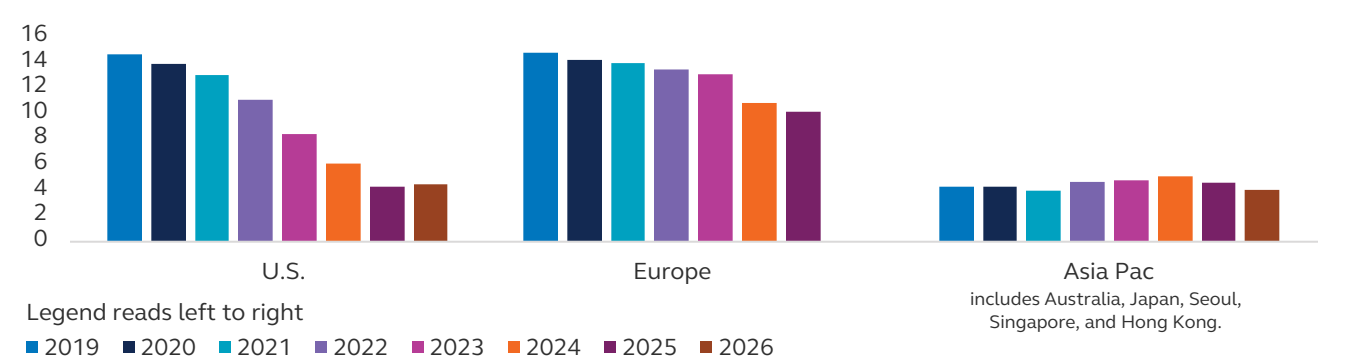
New supply has helped during this cycle

A distinctive feature of the current office cycle is the material lack of new development across most major global markets. This supply restraint reflects both cyclical and structural forces. In many developed markets, office construction never fully regained its pre-Global Financial Crisis (GFC) momentum, while the pre-pandemic adoption of workplace technologies had already enabled occupiers to reduce space allocations per worker.

The pandemic accelerated this shift dramatically by normalizing remote and hybrid work arrangements, further clouding long-term demand expectations. At the same time, sharp declines in capital values pushed many assets to substantial discounts to replacement cost, making new development economically difficult to justify. Conversions of obsolete office buildings to residential and other uses are also reducing available office space. Although these projects remain modest relative to total inventory, their effect on availability can be material in certain markets. As a result, the next phase of the office cycle is likely to be shaped not only by recovering demand, but also by the removal of obsolete space and a limited pipeline of modern, high-quality buildings.

In the U.S. office market, new development has fallen to a cyclical low, with roughly 48 msf, or 4.4 million sqm, currently under construction, equivalent to only 0.6% of total inventory. Although estimates vary depending on market coverage, CBRE Econometric Advisors reports that 63% of the construction pipeline it tracks is already preleased, further limiting the amount of new space available to tenants. This represents the lowest level of development activity since the GFC, when speculative office construction largely came to a standstill. A similar pattern is evident in Europe, where office space under construction declined from 14.6 million sqm in 2019 to 10.0 million sqm in 2025. In Asia Pacific, the pipeline has also moderated, falling from 5.1 million sqm in 2024 to a projected 4.0 million sqm in 2026. Supply restraint is most visible in Australia, where space under construction has dropped to record-low levels, as well as in Tokyo, Singapore, and Hong Kong, where development pipelines have been progressively scaled back despite accelerating rents.

EXHIBIT 2: Office space under construction, million meters

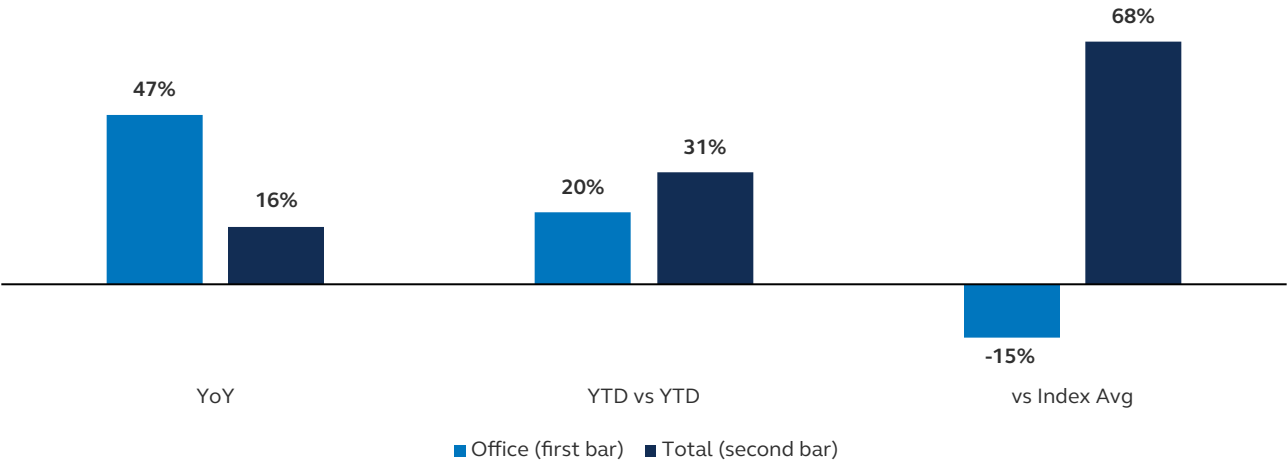


Nearly half a decade of minimal new supply, combined with a measured recovery in office occupancy, has gradually pushed global office market fundamentals toward a new equilibrium. The market is on more solid ground, and pockets of strength are beginning to emerge. However, the recovery remains nuanced and uneven. Globally, highly amenitized office assets in core locations are exhibiting stronger leasing performance, greater pricing power, and more durable growth in operating income.

We believe supply pipelines will remain largely constrained over the next 12 to 18 months due to several factors. First, development economics remains challenged. Even setting aside widespread discounts to replacement cost, inflation continues to affect both commodity prices and labor costs, making new projects difficult to underwrite with confidence. Even in markets where rents and net operating income are beginning to rise, return thresholds for new development remain difficult to achieve.

Debt availability has also improved – in Exhibit 3 below, we show the Mortgage Bankers Association’s Commercial / Multifamily Loan Origination index comparing total originations to office originations. It shows that office loan originations increased 47% year over year and 23% quarter over quarter in Q2 2026, signaling renewed lender appetite for the sector that’s kept up with the broader rebound in CRE loan originations.

EXHIBIT 3: Office and total loan origination comparisons



Source: Mortgage Bankers Association, Principal Real Estate, Q2 2026.

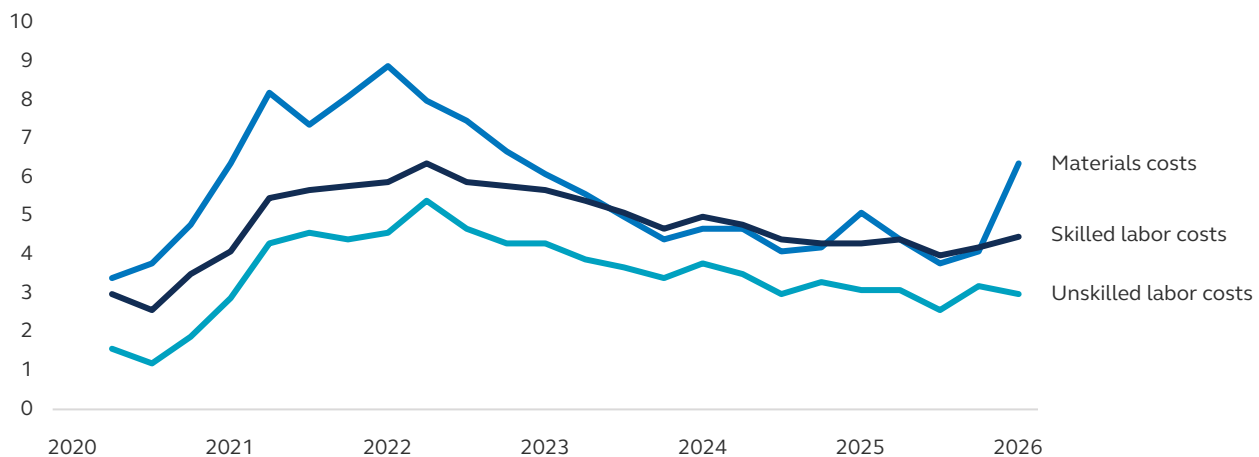
The recovery is particularly evident in the U.S. commercial mortgage-backed securities (CMBS) market: through the first seven months of 2026, private-label issuance reached \$76.2 billion, with office accounting for \$17.3 billion, or 22.7% of the total—the largest share of any property type, according to [Trepp](#).

That said, capital remains selective, and cap rates for institutional-quality office assets remain relatively tight. In the United States, listed office REITs traded at an implied cap rate of 7.7% in Q2 2026, compared with 7.2% for comparable-quality private-market assets. Appraisal-based cap rates for office properties in the NCREIF Property Index were lower still, at 6.2% on an equal-weighted basis and 6.0% on a value-weighted basis. Transaction cap rates were materially higher, 8.1% equal-weighted and 7.3% value-weighted, and were more consistent with Green Street’s estimates, highlighting the gap between appraisal-based values and executable market pricing. A similar pattern is evident in Europe: listed office REIT implied cap rates declined to 4.9% in August 2026, 17 basis points lower than a year earlier. This was broadly in line with the 4.75% prime net initial yield—5.17% in the United Kingdom and 4.64% across the rest of Western Europe—but well below the 7.3% transaction cap rate reported by the MSCI RCA hedonic series for Q2 2026.



Finally, valid concerns remain around labor market dynamics, especially given the impact of AI and in-office worker attendance. In the U.S., for example, office-using industries — the primary driver of net new demand — have failed to add any net new jobs over the past two years. While office utilization rates have improved, future demand growth will ultimately depend on renewed hiring and new business formation that require additional space.

EXHIBIT 4: Global construction cost projections over the next 12 months

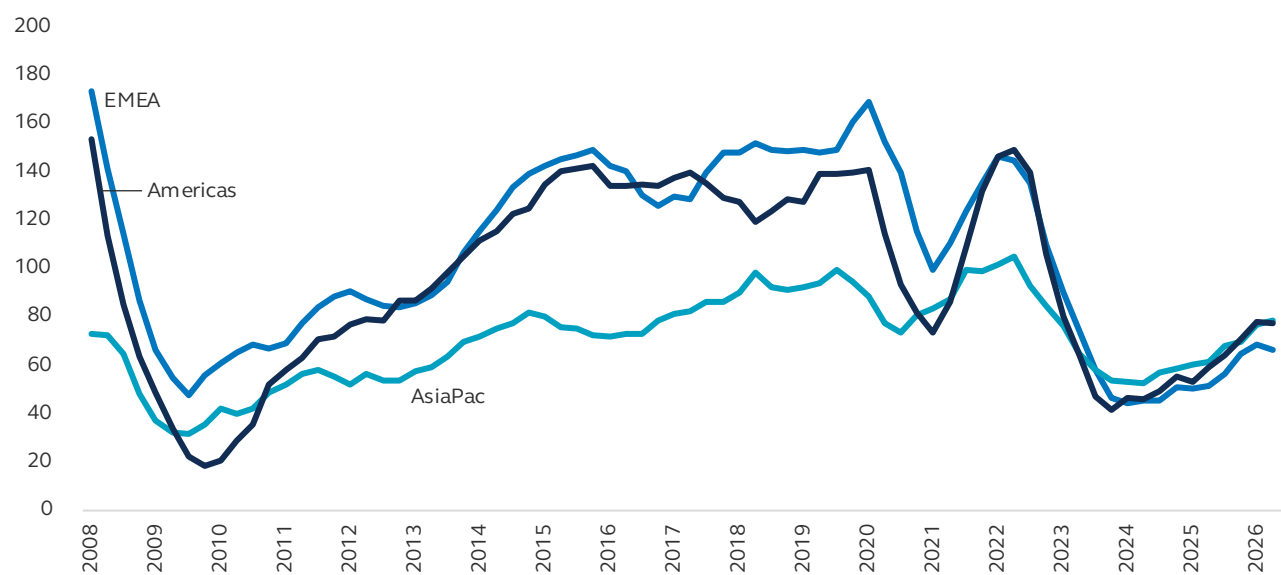


Source: RICS, Q1 2026

Capital markets reach an inflection point

Office transaction volumes have been highly volatile since 2019, reflecting both cyclical and structural pressures. The pandemic initially triggered a steep decline in investment activity in 2020 as lockdowns disrupted leasing markets and investors reassessed the long-term implications of remote and hybrid work. Volumes rebounded sharply in 2021, supported by expansionary monetary and fiscal policy, abundant liquidity, and a broader recovery in risk appetite. However, that rebound proved short-lived. The subsequent surge in inflation and interest rates triggered a broad correction in real estate values, while offices faced the added burden of persistent occupancy uncertainty, rising capex requirements, and growing concerns around functional obsolescence. From peak to trough, office transaction volumes declined by roughly 70% in the U.S. and Europe and by approximately 50% in Asia Pacific.

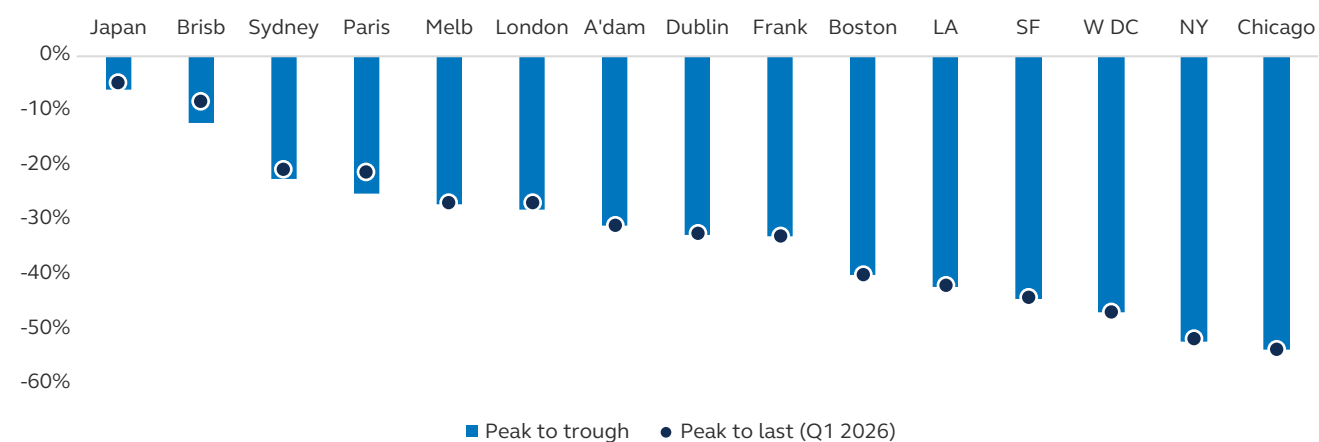
EXHIBIT 5: Office transaction volume by region, rolling 4-quarter, \$bn



Source: RCA, Q2 2026

The sector now appears to be moving from correction toward stabilization. Although office deal activity remains low by historical standards, capital began to return selectively in 2025 and the first half of 2026. Office’s share of total global real estate investment volume increased from 21% in 2024 to 23% in 2025. At the same time, investor sentiment improved, with offices ranking third among globally preferred sectors in the 2026 INREV Investment Intentions Survey, up from fifth place a year earlier. This does not represent a broad reopening of the office capital market. Rather, liquidity is returning first to prime assets in the most desirable business districts of major gateway cities, where investors have greater confidence in occupier demand, income durability, and exit liquidity.

EXHIBIT 6: Office capital value correction since COVID-19, percentage change



Source: MSCI Global Property Index, Q1 2026

This selective recovery reflects the increasingly bifurcated nature of the office market. Best-in-class assets are benefiting from resilient leasing demand, limited availability, and improving rental growth, particularly in markets where occupiers are competing for undersupplied high-quality space. By contrast, secondary assets in weaker locations remain challenged by softer demand, higher vacancies, elevated capex requirements, and more limited financing availability. As a result, the office capital market has reopened, but only for the right assets in the right locations.

Positive momentum is most evident in supply-constrained gateway markets. In Asia Pacific, Tokyo Grade A offices are operating near capacity, supporting rent growth of 5.2% in Q1 2026 and 13.2% on a year-over-year basis, according to JLL. In the U.S., New York has stood out for stronger leasing momentum and tightening vacancy, with rents increasing by 1.0% in Q1 2026 and 4.9% year over year, according to Savills. Best-in-class assets recorded the strongest gains, reflecting continued occupier preference for high-quality space in the most liquid

submarkets. Manhattan's prime office vacancy rate fell to 2.9%, compared with 12.4% for the broader market so far this year.

A similar divergence is evident across Europe, where occupiers continue to prioritize the best-quality space by both location and specification. London is a clear example. With Grade A availability estimated at around 1% of total stock, competition for prime buildings has intensified, creating a sharp divide between prime and secondary performance. In the City of London, prime assets recorded rental growth of 8.6% and total returns of 17.1% over the twelve months to Q1 2026.

In our view, capital will continue to return selectively as office values stabilize, rental growth remains elevated in supply-constrained markets, and investors gain confidence that the sector's structural headwinds have moderated. However, the recovery is likely to remain K-shaped. Liquidity, pricing power, and income growth are improving for high-quality assets in core locations, while weaker assets remain impaired by uncertain demand, higher capital expenditure needs, and more challenging debt conditions.

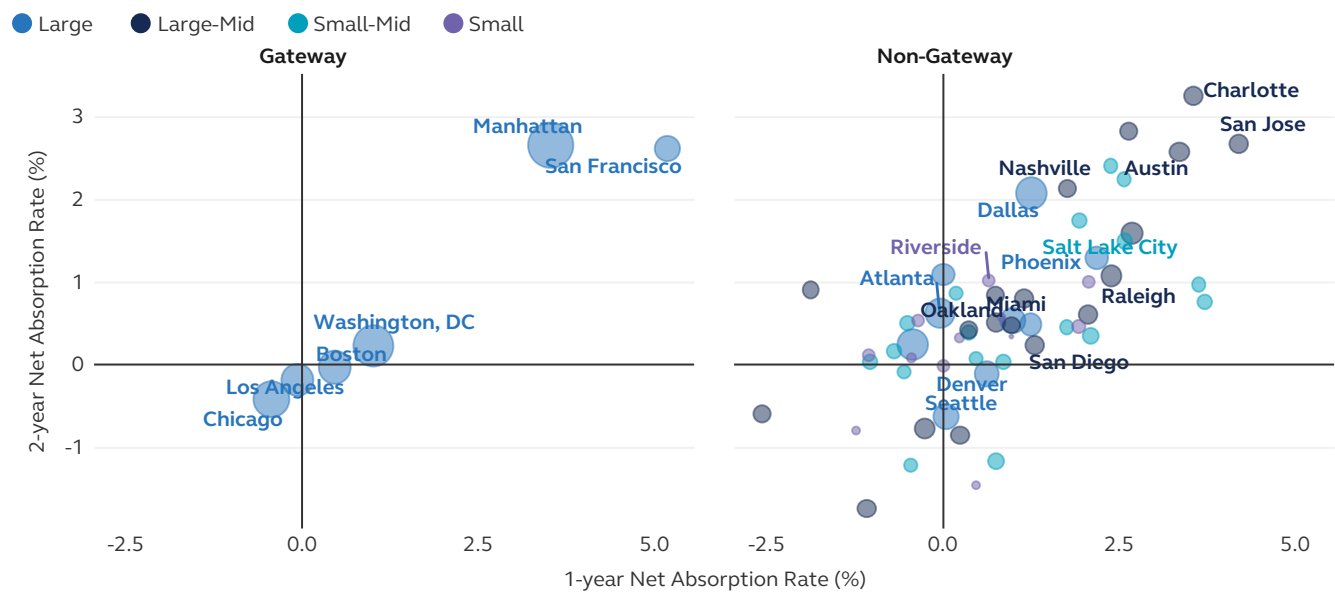
Regional comparison

United States

The U.S. office recovery has gained traction over the past two years as leasing activity has accelerated across several major metropolitan areas and employers have increased return-to-office requirements, typically within modified or hybrid work arrangements. Office attendance remains below other major regions however; with recent estimates indicating that worker traffic is still roughly 80% of pre-pandemic levels. Recovery has also varied considerably by market. Southern and Southwestern metros have generally recorded stronger in-person attendance, while global gateway cities such as Manhattan, San Francisco, and Seattle have posted notable gains in both worker traffic and leasing activity. In West Coast markets, demand has been supported by expansion among large-cap technology and AI-focused companies, particularly in the Bay Area.

Despite this improvement, U.S. occupancy remains challenged. National office demand has been positive since 2024, with approximately 41 million square feet absorbed, but the market remains roughly 70 million square feet below its pre-pandemic occupancy level. According to CBRE EA, the national vacancy rate stood at 18.3% in Q2 2026, approximately 400 basis points above the estimated equilibrium rate associated with inflation-like rent growth.

EXHIBIT 7: Office net absorption rate, annualized, % change in occupied stock

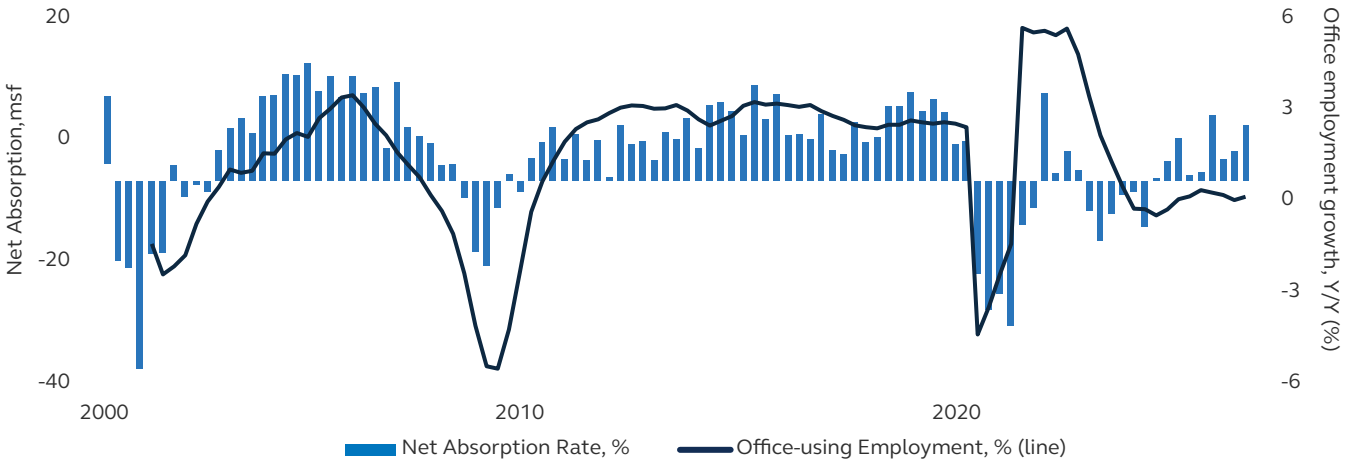


Source: CBRE EA, Principal Real Estate, Q1 2026.

Our view of the U.S. office market remains nuanced. Demand is improving, but likely to remain concentrated in high-quality, well-located properties, particularly in markets positioned to benefit from growth in technology and emerging AI-related industries. Higher-quality office space is already outperforming the broader market, while commodity and less well-located assets continue to face weaker demand, elevated vacancy, and more limited pricing power.

A key constraint on further improvement is the continued weakness in office-using employment, which remains an important driver of incremental office demand. Since 2023, office-using industries have shed nearly 700,000 jobs, equivalent to roughly 1.8% of total office-using payrolls. Although there are signs that hiring may be stabilizing, slower labor-force growth, more restrictive immigration policy, and a potential plateau in return-to-office attendance could all constrain future leasing activity.

EXHIBIT 8: U.S. Office net absorption and employment growth



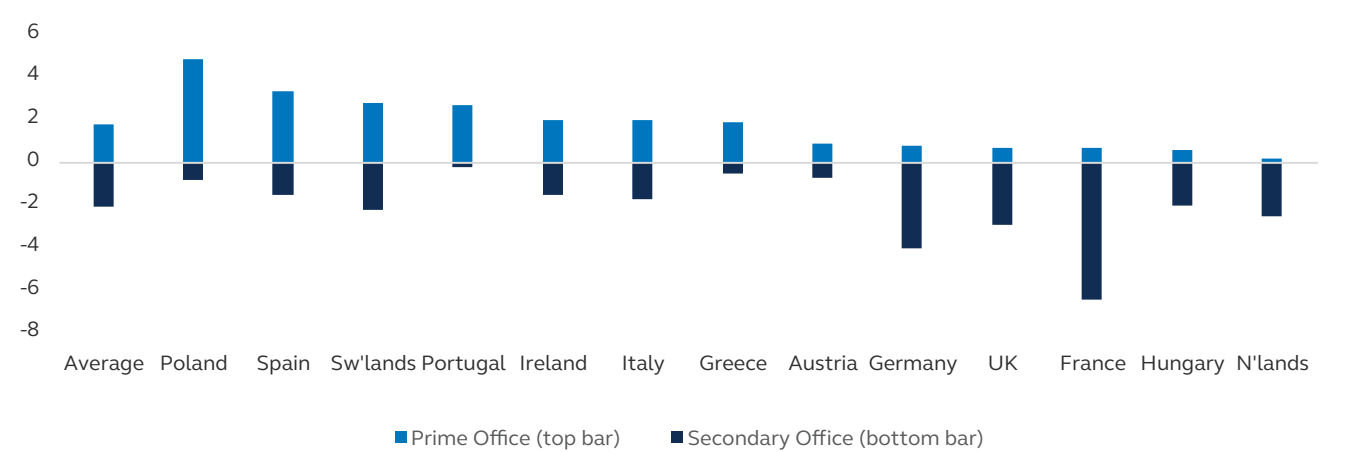
Source: CBRE EA, Principal Real Estate, Q2 2026.

Europe

The European office sector is perhaps the clearest illustration of one of the defining features of the current cycle: performance divergence by market, location, and asset quality. At the regional level, the sector has yet to enter a broad-based recovery. Valuations remain near the trough, transaction volumes are still well below their ten-year average, and vacancy rates are hovering in the low double digits. Beneath the surface, however, performance varies materially, reflecting occupiers’ strong preference for modern, efficient, and well-located space.

The latest RICS survey results, released in May 2026, provide further evidence of this polarization. Respondents expect capital values for prime offices to increase over the next 12 months across all major European markets, led by Poland and Spain. By contrast, secondary assets are expected to continue losing value, particularly in France and Germany, where expectations point to declines of 6.4% and 4.0%, respectively.

EXHIBIT 9: Office capital growth expectations by type, next 12 months, %



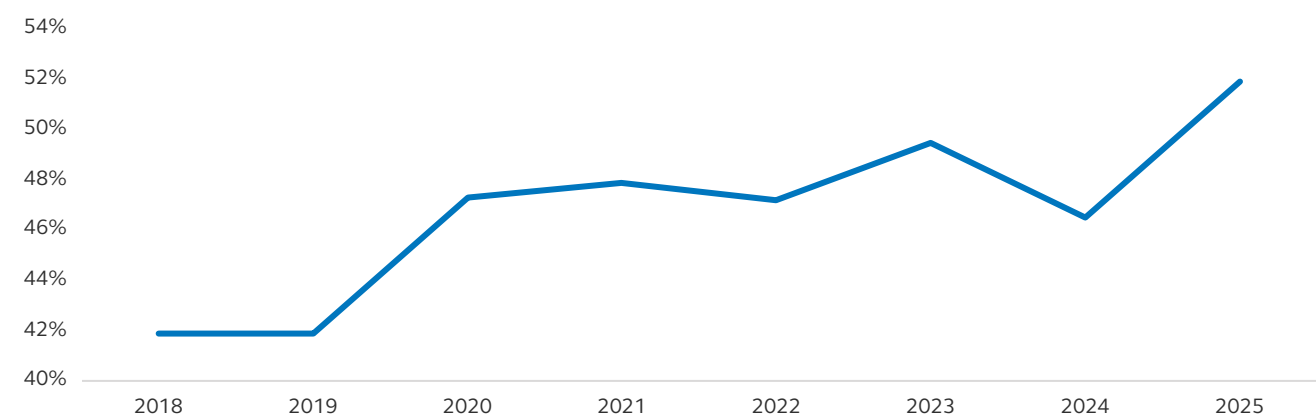
Source: RICS, Q1 2026

The outperformance of prime offices is most evident in supply-constrained CBDs, which continue to benefit from resilient occupier demand, limited availability, and strong rental growth. Average vacancies across European CBDs stood at 5.6% in Q1 2026, compared with 11.2% in secondary markets. Availability of modern space is even tighter, averaging 3.5% across Europe, with newly built availability as low as 0.9% in Paris and 1.1% in London CBDs, according to Cushman & Wakefield and JLL.

This divergence suggests that the flight to quality has evolved from a cyclical leasing trend into a structural feature of the European office market. Occupiers are competing for higher-quality offices in prime CBD locations to strengthen their workplace proposition, retain existing staff, and attract new talent. At the same time, tightening energy-performance requirements are creating a growing capex burden for older and secondary offices, with some assets at risk of becoming harder to lease without material upgrades. The rising share of Grade A offices of total European take-up presented in the exhibit below provides clear evidence of this shift.



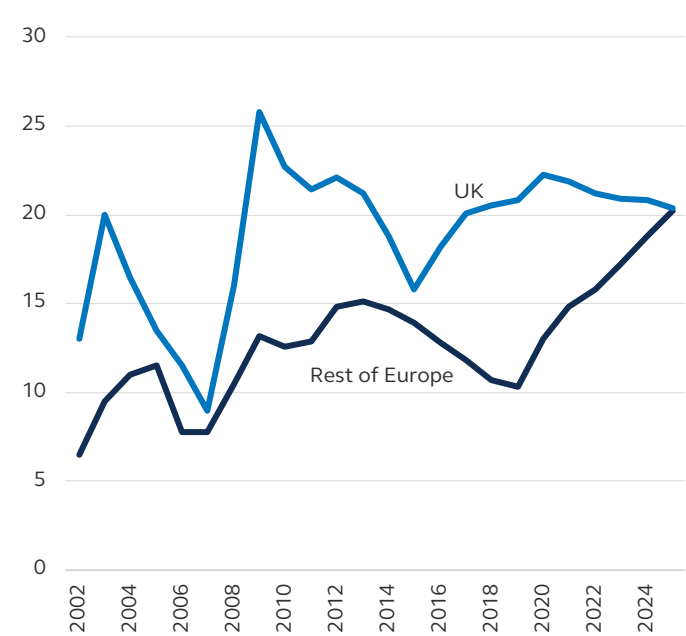
EXHIBIT 10: Grade A share of total European office take-up



Source: Cushman & Wakefield, Q4 2025

Quality and location divergence is also clear when looking at leasing incentives as a share of rent. In mainland Europe, incentives reached an all-time high in 2025. This partly reflects weaker occupier demand in certain markets, where landlords have been forced to offer more attractive terms to secure tenants. For example, in some German markets, such as Munich and Frankfurt, incentives have more than tripled since the pandemic, partially offsetting the strong headline rental growth. However, asset quality is also an important driver. As occupiers are increasingly attracted to higher-quality specs and fit-outs, landlords are forced to offer more generous incentive packages to fund these upgrades.

EXHIBIT 11: Office sector incentives as share of rent, %



Source: PMA, Q4 2025

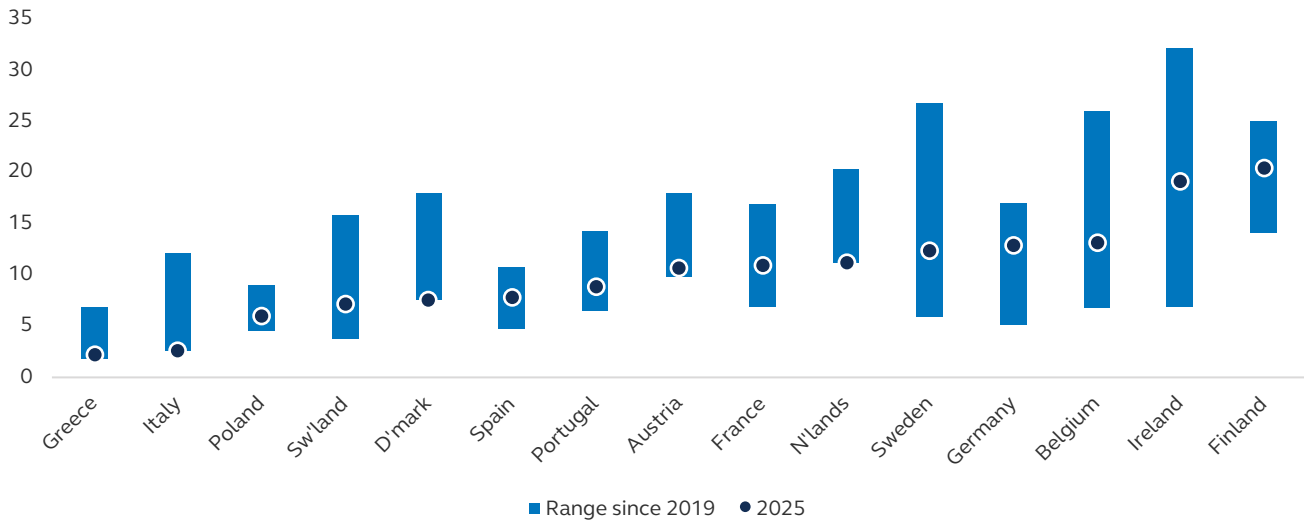
Selected European office markets ranked by incentive share of rent in 2025, %

	2019	2024	2025
Paris La Défense	23	36	37
London Docklands	27	30	30
Stockholm	13	19	22
London West End & Midtown	22	20	20
London City	22	21	20
Glasgow	18	21	20
Birmingham	20	20	20
Milan	15	20	20
Paris: CBD	10	17	20
Barcelona	9	20	19
Madrid	10	19	18
Manchester	20	18	19
Berlin	3	15	17
Lyon	12	16	17
Vienna	13	17	17
Amsterdam	9	16	16
Hamburg	5	14	16
Frankfurt	6	17	15
Munich	3	13	15
Dublin	10	17	15

Recent results from listed landlords show the divide between the best offices versus the rest. A major UK REIT with a portfolio concentrated in London’s strongest office submarkets reported occupancy of 98.6% for the fiscal year ended March 2026, its highest level in twenty years and up from 97.2% a year earlier. Similarly, one of France’s largest REITs reported record occupancy across its central Paris assets, partially offset by weaker performance in less attractive suburban locations.

More broadly, hybrid working remains a lasting feature of occupier behavior. Although the share of employees who usually work from home has declined materially across Europe as employers have increased in-office requirements, occasional homeworking remains elevated. Rather than reducing demand uniformly, hybrid work is reinforcing consolidation into modern, well-located offices and raising the quality threshold required to justify commute times.

EXHIBIT 12: Share of employed people usually working from home, %



Source: Eurostat, Q4 2025

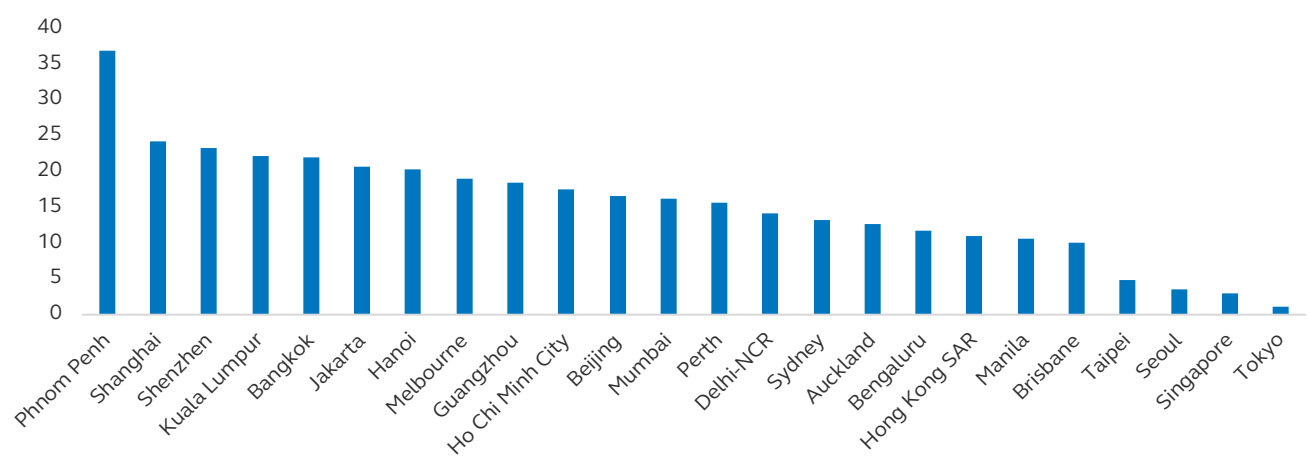
For investors, these trends reinforce the importance of asset selection. The European office market is not undergoing a broad recovery, but it does offer some of the clearest examples of prime-market scarcity. Modern, well-located CBD assets are benefiting from limited supply and improving occupier demand, while older secondary assets continue to face weaker leasing prospects, higher capital expenditure needs, and a greater risk of value impairment.

Asia Pacific

Asia Pacific has delivered the strongest post-pandemic office recovery among the major regions, although conditions vary significantly by market. The region has benefited from stronger economic and employment growth, faster urbanization, and a more complete recovery in office attendance than the U.S. or Europe. In many Asian cities, higher density, smaller living spaces, and stronger in-office work norms have made remote work less persistent, supporting a faster recovery in occupier demand.

Regional trends, however, mask important differences. The strongest office markets include Tokyo, Singapore, and Seoul, where fundamentals are supported by tight availability, resilient leasing demand, and continued flight to quality. In Tokyo, Grade A offices are virtually fully occupied. In Singapore, vacancy stood at a record low of 3.3% in Q2 2026 amid steady demand from banking and financial services occupiers, while Seoul has also benefited from stronger absorption in the prime office segment.

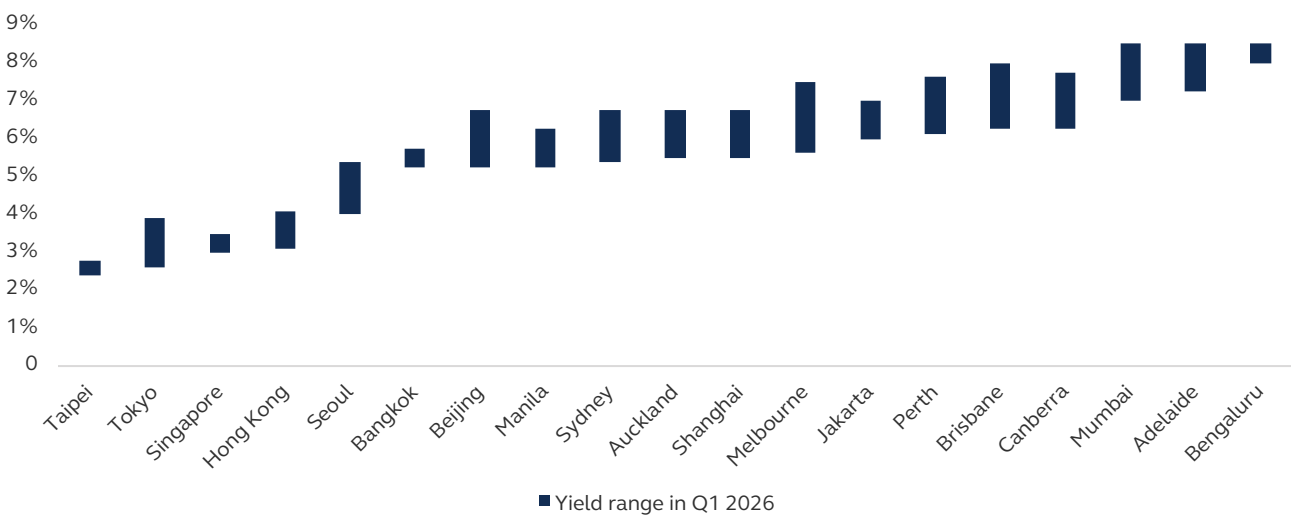
EXHIBIT 13: Asia Pacific prime office vacancy rate by market, %



Source: Knight Frank, Q1 2026

By contrast, several markets continue to face weaker fundamentals. Hanoi, Shanghai, Bangkok, and Shenzhen remain challenged by elevated new supply and softer occupier sentiment. This dispersion reinforces the importance of market selection within Asia Pacific. The region may offer the strongest operating backdrop globally, but its investment appeal varies materially by city, supply pipeline, tenant demand, and entry yield.

EXHIBIT 14: Office yields range in Q1 2026, %



Source: Colliers, Q1 2026

For investors, Asia Pacific should therefore be approached selectively rather than as a uniform regional recovery. Tokyo, Singapore, and Seoul offer some of the most compelling prime-office fundamentals globally, while Sydney and other supply-constrained markets may also benefit as pipelines remain limited. Markets facing elevated vacancy and sustained new supply should be treated more cautiously, even where headline yields appear attractive.

Relative value and investment implications

Europe: strongest combination of fundamentals and pricing

Europe may offer the most compelling risk-adjusted relative value, particularly in prime CBD offices. Attendance and in-person work patterns have recovered more fully than in the U.S., while the availability of modern space remains tight in markets such as London and Paris. European CBD vacancy is approximately 5.6%, compared with 11.2% in secondary markets, with newly built availability particularly scarce in major gateway cities.

At the same time, valuations remain near cyclical lows and transaction activity remains subdued, suggesting that improving prime fundamentals may not yet be fully reflected in pricing. This creates an attractive combination of strengthening occupier conditions and still-recovering valuations. Select private and public equity exposure, which appears attractive, while private debt may also offer compelling entry points with additional downside protection.

That said, Europe is not a broad office recovery. Weak economic and employment growth continue to weigh on many markets, and vacancy remains elevated or rising in several locations from already high starting levels. Historically, those conditions have limited rental growth, particularly outside the strongest CBD submarkets. The opportunity is therefore concentrated in the highest-quality assets in the most supply-constrained locations, rather than across the broader European office sector.

This distinction is especially important in listed markets. European office REITs typically own higher-quality assets and should benefit from the continued bifurcation between prime CBD buildings and weaker secondary stock. However, real rental growth remains limited across much of the region, with central London standing out as one of the few markets showing clear momentum. With office REITs trading at meaningful discounts to both intrinsic value and replacement cost, external growth remains constrained for many companies. Some platforms are instead selling assets to fund share buybacks, which can create value where disposals are executed at attractive prices and balance

sheets remain sound.

As a result, we are selective in European listed office exposure. We find the most attractive opportunities in REITs with concentrated exposure to prime London offices, as well as companies with credible value-creation strategies, including large-scale office sales used to fund accretive share repurchases. More broadly, Europe's appeal lies less in a region-wide office recovery and more in the combination of scarce prime CBD space, discounted valuations, and disciplined access through the appropriate vehicle and capital structure.

Asia Pacific: strongest operating fundamentals, but not always the best value

Asia Pacific has the strongest overall occupier backdrop among the major regions. Higher office attendance, stronger economic and employment growth, and limited high-quality availability continue to support demand in Tokyo, Singapore, Seoul, and selected Australian markets. Tokyo Grade A space is nearly fully occupied, Singapore Core CBD Grade A vacancy is approximately 3.3%, and Seoul is benefiting from improving prime absorption. Sydney and Brisbane also remain relatively well positioned, supported by demand for prime CBD space and constrained development pipelines.

Tokyo and Singapore rank particularly highly on fundamentals. In Tokyo, occupier demand remains firm, as companies invest in higher-quality workplaces to attract and retain talent amid a structural labor shortage. Central Tokyo vacancy stood at just 1.95% in July 2026, while rents increased 11.4% year over year. The strongest performance remains concentrated in modern, well-located buildings in prime districts such as Marunouchi, Nihonbashi, and Yaesu, although the recovery has broadened across much of Greater Tokyo. In Singapore, Marina Bay is the strongest-performing submarket, with low-single-digit vacancy as occupiers continue to consolidate into newer, greener towers. More broadly, Core CBD Grade A rents have risen for six consecutive quarters, supported by a near-term supply gap and limited new Grade A CBD supply over the next three years.

Australia offers a more mixed but improving backdrop. Brisbane CBD is the standout market, supported by

tightening vacancy, above-trend leasing demand, and limited prime-grade supply. Sydney CBD is also solid and improving, with premium space especially tight and commanding the highest rents among the major Australian CBDs. Melbourne CBD remains weaker, with elevated vacancy, modest demand, and a more entrenched hybrid-working culture following Victoria's prolonged COVID lockdowns.

The regional picture is not uniformly strong. Hong Kong is bifurcated, with Central showing a genuine recovery supported by financial institutions, wealth management, hedge funds, insurance firms, a healthier IPO pipeline, and mainland wealth inflows. However, decentralized markets such as Kowloon East remain challenged by vacancy near 20% and weaker rents. Similarly, Shanghai, Shenzhen, and other supply-heavy markets warrant greater caution, as elevated construction pipelines and softer occupier sentiment continue to weigh on fundamentals.

For investors, Asia Pacific should therefore be approached selectively rather than as a uniform regional recovery. High-quality equity and credit exposure remain preferred in Tokyo, Singapore, Seoul, and selected Australian CBDs where low vacancy, limited supply, and flight-to-quality demand support income growth. Markets with elevated vacancy, substantial new supply, or weaker occupier demand may offer higher yields, but those yields do not necessarily represent attractive value if income durability and exit liquidity remain uncertain.

United States: greatest repricing, but widest dispersion of outcomes

On paper, the U.S. may offer the greatest opportunity set and potential for value recovery, but it also carries the widest range of outcomes across the office sector. Capital values have corrected much more sharply in most U.S. markets than in Europe or Asia Pacific, creating potentially attractive entry points where the underlying asset remains competitive. Yet national vacancy remains elevated, office attendance is comparatively weak, and office-using employment has contracted.

The U.S. office market should therefore be approached with caution and nuance, rather than as a broad opportunity to acquire assets at discounts to pre-pandemic values. Vacancy is largely concentrated

in commodity space with limited tenant appeal, substantial capital requirements, and uncertain residual value. Low levels of new construction may help the market move gradually toward equilibrium, but they do not eliminate the existing surplus of obsolete or functionally disadvantaged buildings.

This is particularly important when evaluating headline pricing. Nominal cap rates can appear attractive relative to recent history, but economic cap rates may be meaningfully lower after adjusting for tenant improvements, leasing commissions, deferred maintenance, sustainability upgrades, and other capital expenditures required to retain or attract tenants. In many cases, the question is not simply whether an asset can be acquired at a discount, but whether the required capital plan can generate an adequate return after fully accounting for the cost of re-leasing, repositioning, and eventual exit liquidity.

Our view is that investors should adopt a highly selective approach to U.S. office equity, concentrated in modern, well-amenitized assets in well-located submarkets within key cities. The most compelling equity opportunities are likely to be situations where basis has reset meaningfully, the asset remains competitive with current occupier requirements, and the business plan is supported by realistic leasing, capital expenditure, and exit assumptions. Even then, private equity exposure requires a high degree of conviction given the wide dispersion in outcomes across assets and markets.

By contrast, private debt may offer a more attractive risk-adjusted route to the U.S. office recovery. Lending markets can provide exposure to assets whose basis has already reset meaningfully lower, while offering elevated yields supported by higher risk-free rates and still-wide lending margins. Conservative underwriting, lower attachment points, and structural protections may provide a more favorable balance of income, downside protection, and recovery participation than direct equity ownership in many cases.

Within public credit, CMBS offers selective opportunities, particularly in the Single-Asset, Single-Borrower market, where investors can underwrite asset quality, sponsorship, market position, and capital structure with greater specificity. Bonds backed by high-quality New York City assets are trading at the

tighter end of the office universe, and while fundamentals in those assets remain strong, there may be limited room for additional spread tightening in the current environment. More appealing value may be available in bonds backed by high-quality real estate and institutional sponsorship in alternative major markets where recoveries are still underway and spreads offer better compensation for risk.

Public equity may also provide selective opportunities. U.S. office REITs are generally concentrated in Class A and trophy assets across better-performing, well-amenitized submarkets, positioning them to benefit from improving fundamentals and the ongoing flight-to-quality trend. Despite these favorable dynamics, the sector continues to trade at meaningful discounts to both net asset value and replacement cost, with implied cap rates that are generally higher than those observed in private markets. Within the sector, we favor relatively well-capitalized REITs with high-quality portfolios in submarkets with favorable supply-demand dynamics and improving pricing power, such as Midtown Manhattan, as well as select Sunbelt markets benefiting from secular migration trends. Balance sheet capacity remains important, as successful platforms will need to fund leasing capital while preserving flexibility to pursue accretive external growth opportunities.

Regional relative value

These differences in fundamentals, pricing, and risk translate into a clear regional relative-value hierarchy. Asia Pacific leads on operating fundamentals, European prime CBD office offers the strongest combination of improving fundamentals and still-recovering pricing, while the U.S. provides the deepest discounts but requires the greatest asset-level selectivity.

EXHIBIT 15: Global office regional relative value

Region/opportunity	Investment attractiveness	Relative-value view	Preferred exposure
Europe/prime CBD office	High	Probably the best combination of improving fundamentals and still-recovering pricing.	Select private and public equity; private debt, preferably in London, Madrid, Amsterdam, Frankfurt and Milan.
Asia Pacific/prime CBD office	Medium	Attractive, but entry pricing may already reflect much of the fundamental strength.	Select equity and high-quality credit, especially in Tokyo, Singapore, Seoul and Sydney.
United States/prime gateway assets	Mixed/improving	Potentially high upside because discounts are deepest, but outcomes are highly asset-specific.	Select equity; private debt often preferably in top performing markets like, Charlotte, Dallas, Manhattan, Miami and the Bay Area.
Europe/secondary office	Weak	Potential value traps despite low pricing, particularly where regulatory and modernization capex is high.	Underweight; highly selective redevelopment only.
United States/commodity office	Challenged	Cheap for a reason; discounts may not compensate for leasing, capex, and obsolescence risk.	Avoid, or pursue only at land or credible conversion value.
Asia Pacific/weaker or supply-heavy markets	Challenged	Higher yields do not necessarily represent value where new supply and occupier sentiment remain weak.	Underweight.

Methodology: The attractiveness ranking reflects fundamental indicators such as office attendance, demand momentum, vacancy, development supply, and the degree of asset-quality divergence. Relative value also incorporates current pricing, operating complexity, capital expenditure, financing conditions, and exit liquidity. Ratings are preliminary and intended to support the strategy discussion rather than serve as formal investment recommendations.

Source: Principal Real Estate, Q2 2026

Across all regions, the emerging opportunity is defined less by broad geographic exposure than by the divide between competitive and obsolete stock. Prime office is increasingly benefiting from limited new supply, occupier consolidation, and a growing preference for modern, high-quality space. Commodity office, by contrast, may require substantial repricing, significant capital investment, conversion, or eventual removal from the market before broader equilibrium can be restored.

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