

U.S. CRE Cycle Monitor: 1Q26 – Recovery Intact



AUTHOR:

Rich Hill

Global Head of
Research & Strategy

Executive Summary

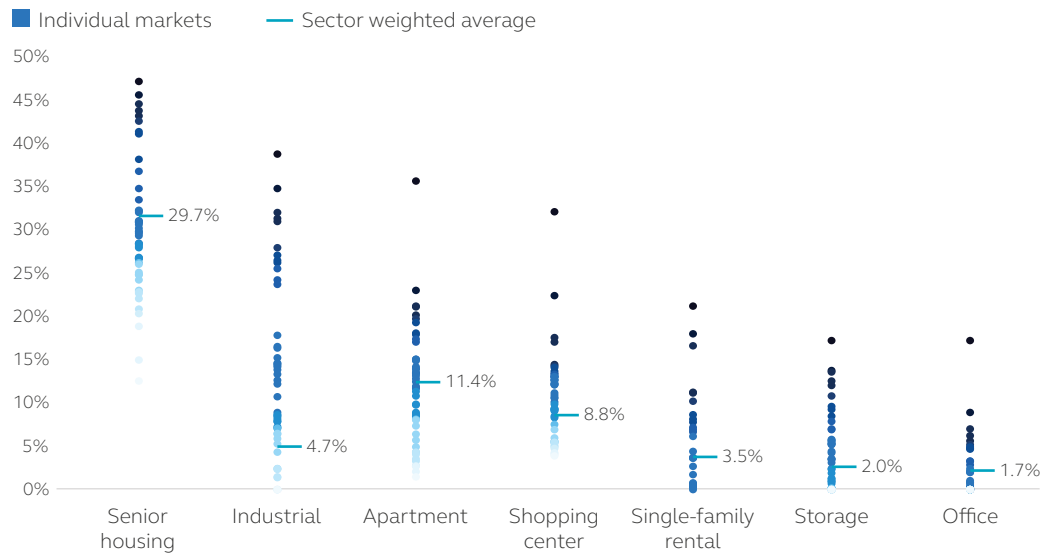
In our [2026 Global CRE Outlook](#), we argued that the CRE cycle had entered recovery by nearly every traditional measure. Our five signal market barometer suggests that recovery remained intact in 1Q26. No single signal is sufficient on its own, but their alignment and sequencing make a compelling case for the direction of commercial real estate. Bottom line, despite a volatile geopolitical backdrop, we believe the recovery remains intact and, in fact, has sustained momentum.

- 1 U.S. listed REITs, our leading indicator, transitioned from recovery into expansion.
- 2 All major private equity indices posted valuation gains in 1Q26, extending their rebound from the trough.
- 3 Debt markets remain open and liquid, especially among the largest banks.
- 4 Transaction volumes continued to rise.
- 5 Distress, a lagging indicator, is showing early signs of peaking.
- 6 Indicators of sentiment indicators show more deliberation, but not loss of conviction.

That said, a V-shaped recovery in headline valuations remains unlikely given the lack of meaningful stimulus. Instead, returns are expected to normalize gradually. While that may suggest a U-shaped path, widening dispersion across property types and markets points to something closer to a K-shaped recovery. As a result, headline returns understate underlying performance due to the law of averages.

EXHIBIT 1: Trough to current recovery in U.S. prices across property types

Top 50 markets

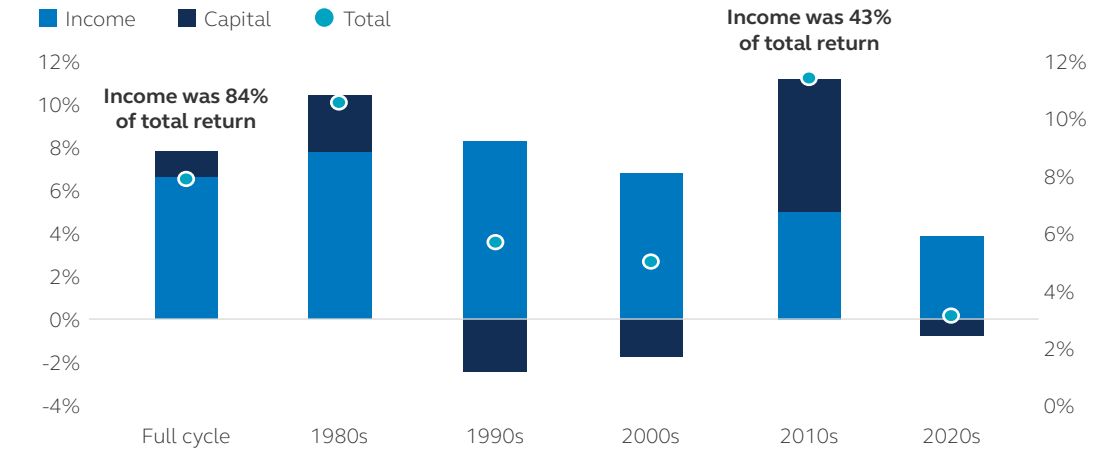


Source: Green Street, Principal Real Estate. As of Q1 2026.

This unevenness isn't a flaw in the cycle - it is the cycle. Unlike the post global financial crisis (GFC) period - when price returns were amplified by accommodative policy and financial engineering - the next phase of performance will hinge on property fundamentals and effective asset management. Net operating income will likely drive both income returns and capital returns in a higher for longer rate backdrop where cap rate compression is limited. Structural themes will remain important, but clearing return hurdles requires sharper focus and execution.

EXHIBIT 2: Annual returns by decade

As of 1Q26

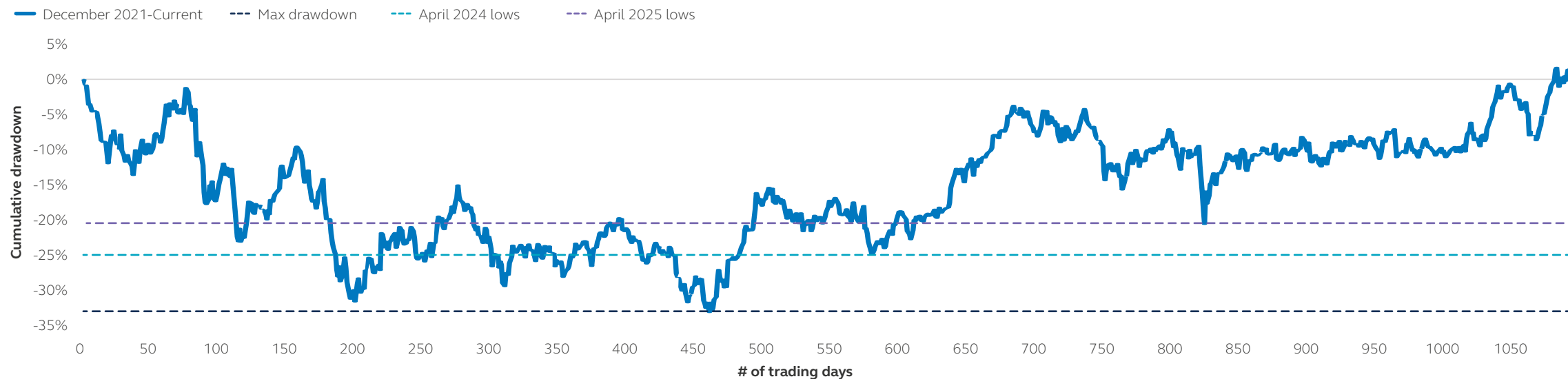


Source: NCREIF, Principal Real Estate.

U.S. listed REITs, which are leading indicators, moved from recovery to expansion.

The sector (as measured by the FTSE NAREIT All-Equity Total Return index) saw valuations rise above prior cycle highs in mid-April. New market highs are often mistaken for late-cycle signals, but history suggests they more often mark the end of the beginning, not the beginning of the end. Indeed, CRE has already undergone a valuation reset, while any other public and private markets have yet to experience a comparable repricing. The U.S. listed REIT market is now signaling a transition from recovery to expansion, as valuations move above prior cycle highs. Historical cycle analysis suggests that real estate recoveries average roughly 2 years, while expansions typically last 12-13 years and are long, durable periods supported not only by price appreciation but also by underappreciated income growth. In other words, the cycle remains early by historical standards.

EXHIBIT 3: U.S. listed REIT cumulative total returns since 12/31/2021



Source: Bloomberg, as of April 30, 2026.

Private CRE valuations continue through the recovery.

The NCREIF Property Index, which measured unlevered total returns, rose +1.2% in 1Q26 – the 7th consecutive quarter of increases and the NCREIF ODCE index, which tracks 25 open ended funds that own U.S. core commercial real estate, also rose +1.2% on a gross basis. Other major private CRE indices also recorded price indices with Green Street showing prices rising +0.5% and total returns of +1.9% in 1Q26, the Real Capital Analytics CPPI showing at +1.1% increase in price and the Costar index shows prices +0.9% during the quarter. Bottom line, while the indices have different methodologies, they all show a rising in valuations in 1Q26 and a sustained recovery from the trough.

EXHIBIT 4: Private CRE indices signal sustained valuation recovery

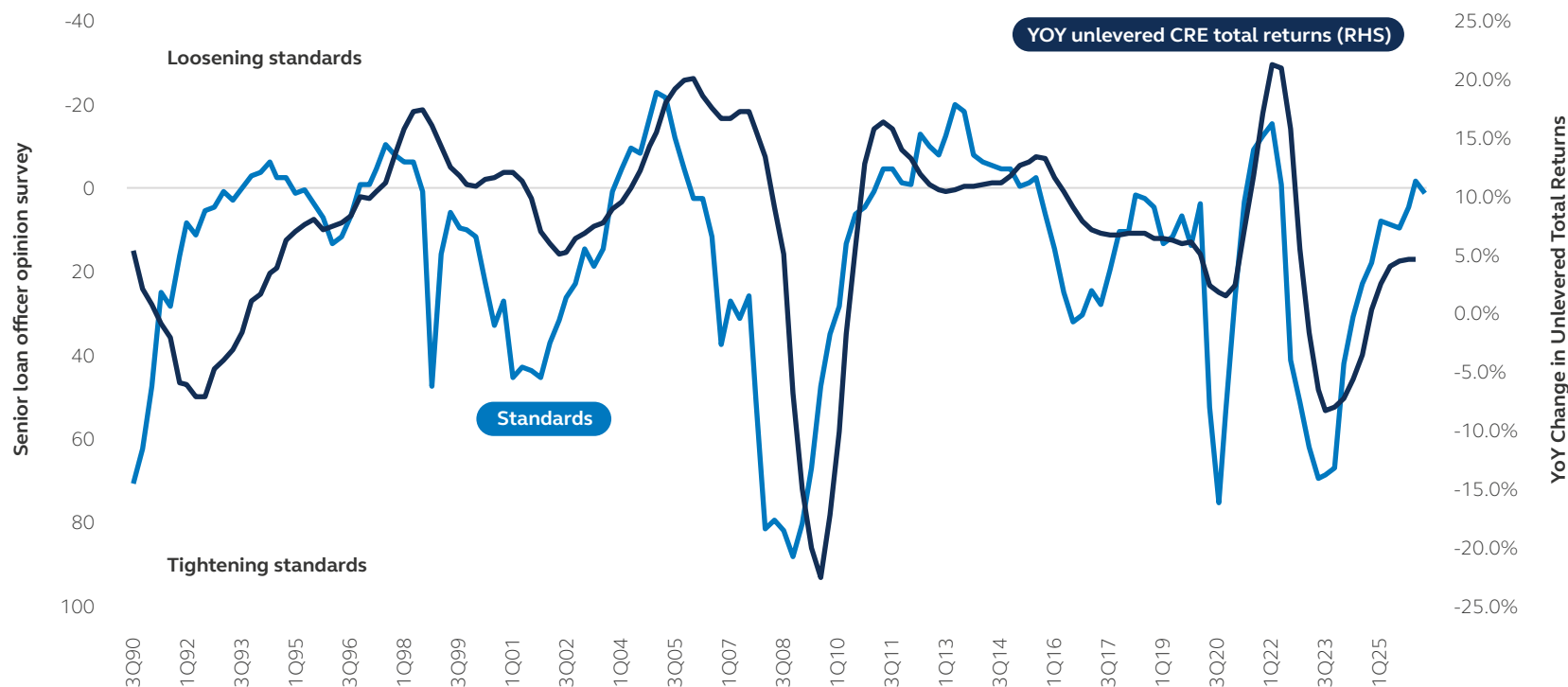
Index	Total Return		Price	
	1Q26	vs Trough	1Q26	vs Trough
NCREIF				
ODCE Index (Gross)	1.2%	6.6%	0.2%	0.1%
Unlevered property index	1.2%	8.1%	0.1%	0.3%
Green street	1.9%	22.1%	0.6%	7.9%
RCA	–	–	1.1%	2.5%
Costar	–	–	0.9%	7.1%

Source: NCREIF, RCA, Green street, Costar. As of 1Q26.

Debt market remain open and liquid

The Federal Reserve (Fed) released the Senior Loan Officer Opinion Survey for April. The report reinforces our view that the CRE lending environment is stabilizing and, in fact, selectively easing, even amid a more volatile macro backdrop. But the headline "unchanged" masks an important divergence beneath the surface. Large banks eased lending standards across all three CRE loan categories and reported significantly stronger demand for core commercial and multifamily loans. Smaller domestic and foreign banks, by contrast, moved in the opposite direction - tightening standards and reporting softer demand.

EXHIBIT 5: Senior Loan Officer Opinion Survey



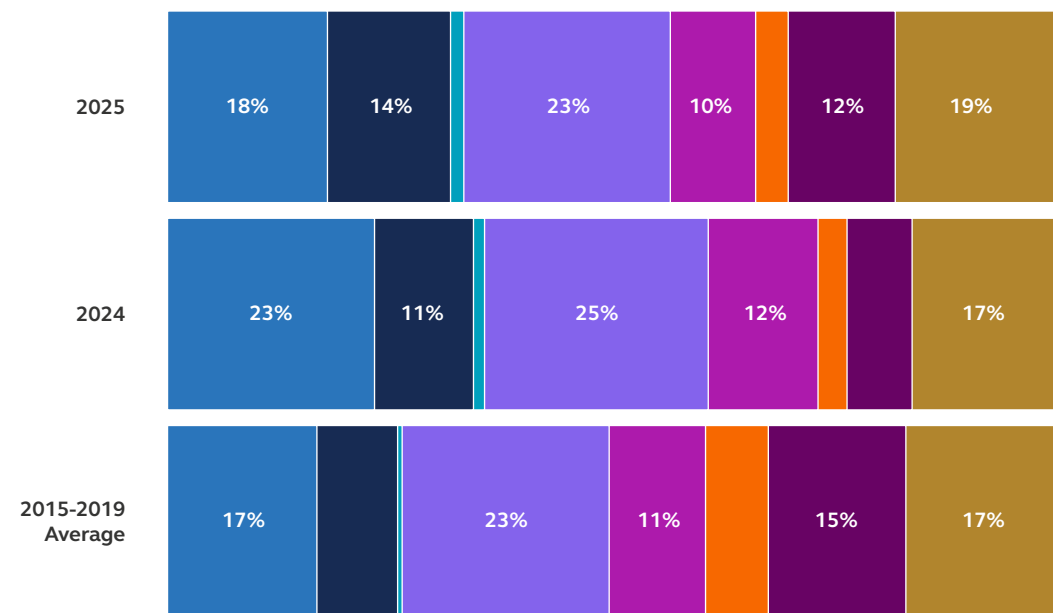
Source: Federal Reserve, Principal Real Estate. As of 1Q26.

Additionally, each April for the past 10-years, the Fed asks banks a supplemental set of questions on changes to CRE lending policies and loan demand over the prior 12 months. This showed that +90% of banks reported stable or easing lending standards over the past 12 months, including larger loan sizes, tighter spreads, and longer interest only payment periods. Furthermore, the gap between responses for large and other banks tightened versus last year, consisting with the view that small and regional banks became increasingly competitive in CRE lending. Indeed, Real Capital Analytics notes that regional and local bank share of total CRE lending rose to 19% in 2025 vs 17% in 2024 and the average from '15 to '19 of also 17%.

EXHIBIT 6: Rising competition reshapes CRE lending landscape

Legend reads from left to right:

- CMBS ■ Investor-driven ■ Private/other ■ Government agency ■ Insurance
- International bank ■ National bank ■ Regional/local bank



Source: Real Capital Analytics, Principal Real Estate. As of December 31, 2025.

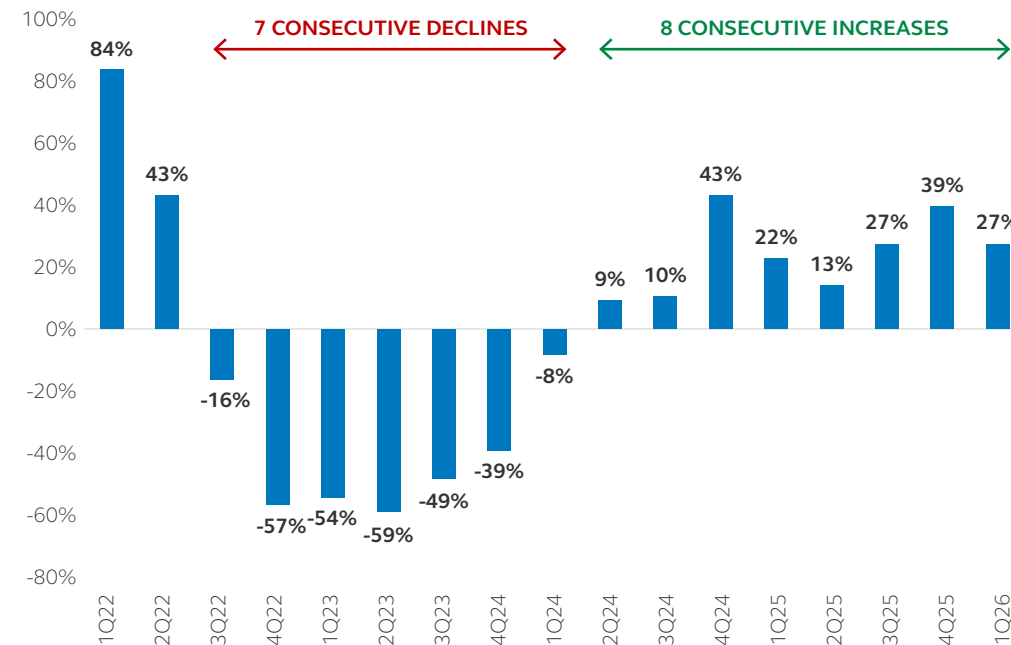
Finally, the most frequently cited driver of loosening standards over the past 12 months was aggressive competition from other banks and nonbank lenders. RCA notes that investor driven (i.e, debt funds) share of total lending increased to 14% in 2025 vs 11% in 2024 and a '15 to '19 average of 9%; we think it's likely even higher when you consider CRE CLO issuance that's included in CMBS market share that stood at 18% in 2025.

Bottom line, the debt markets were stable in 1Q26 and, in fact, the largest channels where institutional quality borrowers are most active are actively loosening standards.

Transaction volumes rose broadly.

Despite a volatile macro backdrop, U.S. CRE transaction volumes rose 27% YoY in 1Q26 to \$135.8bn. Breadth across property types reinforces our view that private real estate remains fully in recovery. Six of seven sectors posted higher YoY volumes in 1Q26, led by Senior Housing (+194%), Hotels (+64%), Office (+39%), and Industrial (+27%). Retail (+3%) and Apartments (+1%) also remained modestly positive. Data centers (-31%) were the lone decliner, reflecting the sector's inherently lumpy, large ticket transaction profile rather than a deterioration in fundamentals. While entity level transactions (i.e, M&A) rose +117% year-over-year, individual property and portfolio transactions still rose +22% and +32%, respectively.

EXHIBIT 7: YoY change in U.S. transaction volumes



Source: Real Capital Analytics, Principal Real Estate, as of March 31, 2026.

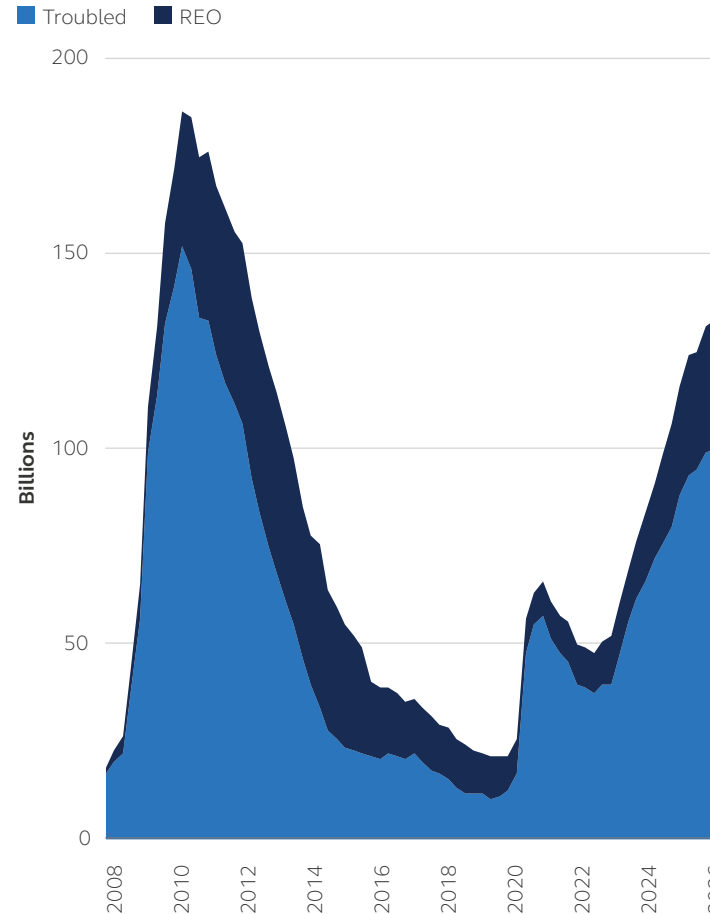
Distress shows signs of peaking.

Real Capital Analytics recently released its 1Q26 Distress Update, showing cumulative distress of approximately \$132 billion - roughly in line with levels last seen in 3Q12 in absolute terms, although much lower as a % of total transaction volumes (+2.9% today vs +11% in 3Q12 and a peak of nearly 20% post the GFC). We've long argued that distress is a lagging indicator, representing the final stage of the adjustment process: acceptance. Lenders are generally reluctant to resolve distressed loans in weak markets and instead prefer to transact once markets have stabilized. As a result, delinquency rates have historically peaked 12-24 months after private CRE valuations trough. Importantly, net distress declined in 1Q26 for the first time in 15 quarters. This inflection came six quarters after private unlevered capital returns troughed and eight quarters after unlevered total returns troughed. This is consistent with the expected lead-lag relationship. Notably, CMBS private label (conduit and SASB) +30 day delinquency rates also appear to have peaked at 7.1% in March 2026 before easing to 6.9% in April. This sequencing continues to reinforce our view that this cycle is playing out in largely textbook fashion, with private CRE now entering the recovery phase of the cycle.

EXHIBIT 8: Distress stands at +\$131.6bn, similar levels to 3Q12

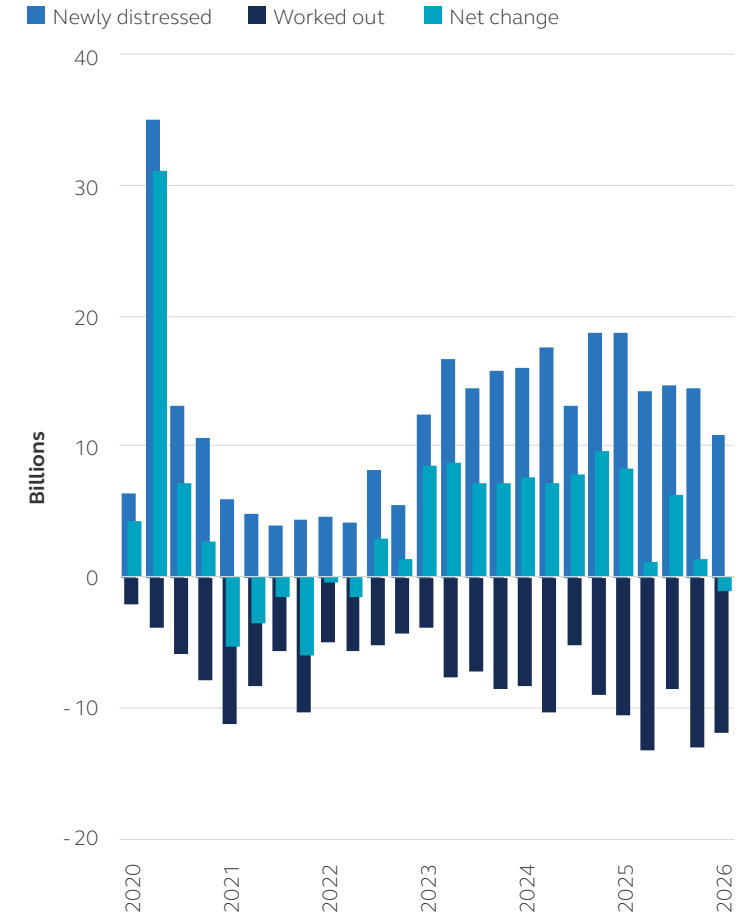
It declined in 1Q26 for the first time in 15 quarters

Historical cumulative distress



Source: RCA, Principal Real Estate. As of March 31, 2026.

Additions and reductions to distress



What are sentiment surveys telling us?

We like to point to the latest Real Estate Roundtable and CREFC sentiment surveys that paints a picture of a market that has become more deliberate in 1Q26, but not one that is losing conviction. The Roundtable, based on responses from senior industry executives, indicates that most participants view current conditions as stable to improving. Asset values are seen as largely unchanged from a year ago, with expectations for prices and market conditions to improve over the next 12 months. Access to debt capital is widely viewed as better than last year, and expectations for future capital availability remain constructive. The CREFC Sentiment Index, published by the trade association for the commercial real estate finance industry, showed a sharper near term pullback following the Iran conflict, but context matters. The index had reached near historical highs in 4Q25 before retreating to a more neutral position in 1Q26. The primary areas of focus are interest rates, liquidity, and the economic outlook. Even so, a majority of respondents still expect stronger investor and borrower demand over the next year.



Risk Considerations

Investing involves risk, including possible loss of Principal. Past Performance does not guarantee future return. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. All these risks can lead to a decline in the value of the real estate, a decline in the income produced by the real estate and declines in the value or total loss in value of securities derived from investments in real estate. Commercial real estate (CRE) investing carries several inherent risks, including those related to the economy, interest rates, market fluctuations, high upfront costs, and tenant-related issues like defaults or high turnover. Economic downturns can lead to decreased property values and increased vacancy rates, while financing costs, insurance expenses, and potential environmental or structural problems can also pose significant challenges. Private debt investments, like alternative investments are not suitable for all investors given they are speculative, subject to substantial risks including the risks associated with limited liquidity, the potential use of leverage, potential short sales, concentrated investments and may involve complex tax structures and investment strategies.

Important information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account.

Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided. All figures shown in this document are in U.S. dollars unless otherwise noted.

This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is issued in:

- The United States by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- Europe by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial
- Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorised and

regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).

- United Kingdom by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA").
- This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.
- United Arab Emirates by Principal Investor Management (DIFC) Limited, an entity registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as an Authorised Firm, in its capacity as distributor / promoter of the products and services of Principal Asset Management. This document is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organisation.
- Singapore by Principal Global Investors (Singapore) Limited (ACRA Reg. No. 199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act 2001. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- Australia by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.
- Hong Kong SAR by Principal Asset Management Company (Asia) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission. This document may only be distributed, circulated or issued to persons who are Professional Investors under the Securities and Futures Ordinance and any rules made under that Ordinance or as otherwise permitted by that Ordinance.
- Other APAC Countries/Jurisdictions, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

Principal Funds are distributed by Principal Funds Distributor, Inc.

© 2026 Principal Financial Services, Inc. Principal®, Principal Financial Group®, Principal Asset Management, and Principal and the logomark design are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company, in various countries around the world and may be used only with the permission of Principal Financial Services, Inc. Principal Asset ManagementSM is a trade name of Principal Global Investors, LLC. Principal Real Estate is a trade name of Principal Real Estate Investors, LLC, an affiliate of Principal Global Investors.

MM14982 | 05/2026 | 5473265-122027