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SPRING 2026

U.S. Real Estate sector report

Four quadrant perspectives

Sector conditions and outlook*¹

Select a tile to access sector-specific insights.

¹ Outlook refers to the next 12 months



Geopolitical risk, market resilience, and impact on commercial real estate

Tensions in the Middle East remain top of mind for many investors, particularly given the potential implications for energy markets, global trade, and financial conditions. The recent escalation involving the United States, Israel, and Iran has heightened geopolitical uncertainty, raising questions about possible spillover effects on the broader economy and risk assets, including commercial real estate. That said, it remains early, and to date the impact on financial markets has been relatively contained, characterized more by volatility and limited repricing than by a deterioration in underlying economic fundamentals.

Near-term market dynamics have been driven primarily by concerns around energy prices, especially the risk of disruption to oil shipments through the Strait of Hormuz. A meaningful interruption to traffic through this critical route could result in higher oil prices for longer, with broader implications for inflation, global trade flows, and growth-sensitive assets. At present, however, the main transmission channel of geopolitical risk appears centered on commodity pricing rather than widespread supply chain or trade disruptions.

The ultimate economic impact will depend on the duration, intensity, and scope of geopolitical disruptions, particularly as they relate to energy markets, global trade, and interest rates. One area we are monitoring closely is the potential for heightened geopolitical risk to feed into higher long-term interest rates via increased term or risk premia. While this remains a risk scenario rather than a base case, a sustained rise in long-term rates could tighten financial conditions and weigh more broadly on asset valuations.

Against this backdrop, the overall assessment is that commercial real estate remains on a stable footing, and notably, our 2026 outlook has not materially changed. Publicly listed real estate has performed relatively well, suggesting the sector is being viewed as more defensive in the current environment. Historically, public market performance has also tended to serve as a leading indicator for private real estate valuations.

Within private markets, commercial real estate appears largely insulated at this stage of the cycle. Long-term lease structures continue to support income stability across most property types, and underlying fundamentals remain generally solid. Investor sentiment has been gradually improving alongside early signs of recovery in capital markets activity. While a prolonged or escalating conflict could undermine confidence or slow this recovery, current conditions remain supportive.

In this environment, investors are best served by focusing on what they can control: driving net operating income growth through active asset management, operational efficiency, and sector and market selection.



Apartment

Sector rating

Moderately positive ↗

New supply

Moderately positive ↗

New demand

Moderately positive ↗

Rent growth

Neutral →

Capital values

Neutral →

REIT pricing relative to NAV*

Negative ↓

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Positive ↑

Sector overview

The apartment sector is stabilizing as the development pipeline contracts significantly due to higher interest rates, elevated construction costs, and tighter lending conditions. While rent growth remains modest in the near term, declining new supply should allow vacancies to gradually move lower, positioning the sector for improved operating performance. Markets with limited new construction and solid job growth are expected to lead the recovery, while several overbuilt Sun Belt markets may take longer to stabilize.

Private equity

U.S. apartment supply and demand fundamentals are beginning to stabilize, and elevated home prices and mortgage rates continue to push would-be homebuyers into the rental market. New supply peaked in 2024–2025 and is now receding, with multifamily starts down roughly 70% to 75% from 2021 levels. This pullback in development should gradually allow the national vacancy rate, which approached roughly 9% in late 2025, to decline over time. At the same time, as new development has become largely uneconomical at current construction costs and financing rates, the opportunity to acquire existing assets at a discount to replacement costs appears increasingly attractive.

Our base case calls for modest rent growth of approximately 1% to 2% in 2026, as vacancies begin to edge down later in the year. Markets with limited new construction pipelines and solid job growth are expected to lead a recovery, while several overbuilt Sun Belt markets may not bottom until late in the year, as rent concessions remain prevalent in the near term.

As a complement to traditional multifamily investments, we continue to focus on alternative residential sectors, including age-restricted apartments, senior housing, single-family rentals, and manufactured housing. These sectors generally reported high occupancy levels—often 95% or higher—in 2025 and delivered above-average NOI growth. These niche residential segments are viewed as relatively resilient and remain a focus for portfolio expansion, particularly given the structural undersupply of affordable and family-oriented housing in many markets.

Private debt

Apartment lending remains attractive to many lenders, supported by affordability challenges in the for-sale housing market across most income groups—particularly among first-time homebuyers—along with favorable long-term demographic trends and strong market liquidity. Over the past year, solid tenant demand offset new supply in most markets, increasing lender confidence in apartment loans.

The government-sponsored entities (GSEs) currently offer the tightest spreads for most stabilized core apartment properties, sometimes in the low-100 basis point range for low- to moderate-leverage loans, reflecting their low cost of capital. Insurance companies and banks typically price core apartment commercial mortgages at spreads of approximately 115 to 145 basis points over the 10-year Treasury yield for LTVs between 50% and 65%. Higher leverage loans, in the high-60% to mid-70% LTV range, are generally available through the GSEs and CMBS conduits at spreads in the high-100s to low-200s basis points, while debt funds may offer stretch senior apartment loans up to 80% LTV at pricing in the high-200s basis points over SOFR.

With respect to loan proceeds, both GSE and CMBS lenders generally allow borrowers to buy down interest rates at closing to improve DSCRs, which can increase proceeds for loans that would otherwise be constrained by debt service coverage.



Apartment

(continued)

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REITs

Apartment REITs have significantly underperformed the broader REIT index year-to-date in 2026, as sentiment toward the sector has remained challenged. Slower job growth since mid-2025 and uncertainty surrounding the potential impact of AI on employment have contributed to investor concerns about demand growth. While the affordability gap between renting and homeownership continues to support stable occupancy and renewal rates, investor focus has shifted toward new lease pricing trends heading into the peak leasing season. Sentiment is likely to improve only once there are clearer signs of renewed pricing power.

Transaction markets remain open, and REITs continue to be active. Notably, Veris Residential entered into a definitive agreement to be acquired in an all-cash transaction valued at approximately \$3.4 billion at a mid-5% cap rate, providing an important valuation benchmark for institutional-quality multifamily assets.

Both coastal and Sunbelt apartment REITs have disappointed investors, with initial 2026 FFO and NOI guidance coming in below expectations. However, management teams have incorporated declining new supply and easier operating comparisons in the second half of the year into their 2026 outlook. Coastal markets are still expected to generate stronger near-term organic growth, while 2026 is increasingly viewed as a transition year for Sunbelt markets ahead of a more meaningful recovery. Apartment REITs are currently trading at roughly a 20% discount to consensus NAV estimates.

CMBS

The GSEs remain the dominant lenders in the multifamily sector, with approximately \$146 billion in approved lending capacity for 2025, although agency issuance has been constrained by low transaction volumes. Multifamily exposure in conduit and single-asset single-borrower (SASB) CMBS, while smaller in scale, remains significant at roughly \$66.9 billion outstanding, with multifamily accounting for approximately 22% of conduit issuance over the past five years.

Loan performance in fixed-rate multifamily CMBS remains solid. The conduit multifamily delinquency rate stands at approximately 5.4%, the second lowest among major property types, trailing only industrial. By contrast, some weakness is emerging in floating-rate SASB loans originated at tight debt yields during the low-interest rate environment. Rising interest rates have increased debt service burdens, constrained NOI growth, and created valuation pressure that has complicated refinancing. As a result, the SASB multifamily delinquency rate has risen to approximately 7.4%, driven primarily by maturity defaults.

Overall, multifamily remains a favored property type within fixed-rate conduit CMBS. Longer loan terms, fixed-rate structures, relatively stable NOI growth, limited affordability in the for-sale housing market, and relatively low exposure to rent-regulated properties continue to support the sector's relative performance.



Hotel

Sector rating

Neutral →

New supply

Neutral →

New demand

Moderately positive ↗

Rent growth

Neutral →

Capital values

Moderately negative ↘

REIT pricing relative to NAV*

Negative ↓

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Moderately positive ↗

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Sector overview

Hotel fundamentals remain stable, although growth is moderating as the post-pandemic recovery matures. Leisure and higher-income travel continue to support demand, while business travel is recovering gradually. RevPAR growth is increasingly being driven by room rates rather than occupancy gains, and performance is expected to remain stable but more moderate in the near term, with luxury and resort properties expected to outperform.

Private debt

Debt funds remain active hotel lenders in 2026, alongside banks, CMBS SASB lenders, CMBS conduits, and insurance companies. Overall liquidity for hotel lending improved during 2025 and remains healthy in early 2026, particularly for high-quality assets and experienced sponsors.

Debt funds typically prefer LTV ratios of 60% to 65% or lower for hotel loans, though leverage can reach as high as 75% in certain cases. Credit spreads over SOFR generally range from approximately 275 basis points for sub-50% LTV loans secured by high-quality hotels, to the more common low- to mid-300s basis point range, and up to roughly 450 basis points for loans in the 70% to 75% LTV range. Pricing is typically driven by a combination of in-place cash flow, loan basis, market conditions, asset quality, business plan, and sponsorship.

Bank appetite for hotel lending increased over the past six months, although most banks reserve non-recourse hotel loans for top-tier sponsors financing high-quality, stabilized properties. Loans in the 50% to 65% LTV range for stabilized assets typically price between 250 and 400 basis points over SOFR. Some banks also provide hotel construction financing, although these loans are generally more conservative, often capped at 40% to 50% LTV, typically require recourse, and are priced in the 500 to 700 basis point range over SOFR.

CMBS SASB lenders primarily target larger hotel loans, typically those exceeding \$200 million, and currently offer financing in the 50% to 70% LTV range with spreads generally ranging from the low-200s to low-400s basis points over SOFR. CMBS conduit pricing is broadly similar, though these lenders tend to focus heavily on in-place cash flow and are generally less willing than debt funds to finance transitional assets.

Several insurance companies have re-entered the hotel lending market, typically offering leverage up to 60-65% LTV for high quality, stabilized properties owned by strong sponsors, with spreads in the mid-200s to mid-300s over UST yields or SOFR.

REITs

Hotel REITs have modestly underperformed the broader REIT index year-to-date in 2026 following a difficult 2025. Operating fundamentals last year were pressured by policy uncertainty, weaker government-related demand, and unfavorable international travel trends. These largely one-time headwinds were compounded by share shifts toward alternative lodging options, including short-term rentals and cruise lines. At the same time, wage growth remained a headwind, contributing to an approximate 2% decline in property-level EBITDA for hotel REITs in 2025.

Looking ahead, 2026 is expected to be a stronger year for the sector, absent geopolitical shocks that disrupt travel patterns. The outlook is supported by easier year-over-year comparisons, demand tailwinds from major events such as the World Cup and America 250, and easing wage pressure in select markets. Through early 2026, RevPAR trends have been constructive, with industry growth running at roughly 2%, while the luxury segment



Hotel

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continues to outperform, with RevPAR up approximately 4% year-to-date after rising 5% in 2025. Given their portfolio concentration in higher-end assets, hotel REITs are positioned to benefit disproportionately from continued strength in higher-income consumer travel and still-muted new hotel supply. As a result, REITs are forecasting RevPAR growth of approximately 2% in 2026, compared to industrywide expectations of roughly 0.5% to 1%.

From a valuation perspective, hotel REIT multiples remain approximately 8% below long-term averages, while the sector trades at an average NAV discount of roughly 30%. The persistent discount to private market values has led REITs to become more active sellers of assets, with dispositions primarily focused on lower-yielding or underperforming assets, particularly in coastal markets such as San Francisco and Los Angeles, as well as certain luxury assets facing significant near-term capital expenditure requirements.

CMBS

Despite a moderation in demand from post-pandemic highs, hotel operating performance remains solid, with loan performance improving accordingly. The conduit hotel delinquency rate, which peaked near 20% in July 2020, has declined to approximately 7.3%, now sitting just above the overall conduit delinquency rate of 7.1% as of February 2026.

Leisure travel led to the initial recovery, particularly in destination markets, followed by a more gradual rebound in business travel. Hotel operators have sustained RevPAR growth primarily through increases in average daily rates, even as occupancy remains below pre-pandemic levels, particularly in higher-end segments. However, year-over-year RevPAR growth is beginning to stabilize as consumers have largely drawn down excess savings accumulated during the pandemic period.

CMBS issuance in 2020 and 2021 included minimal hotel exposure due to underwriting challenges and investor caution. As operating fundamentals have improved, hotel exposure has increased to approximately 11% of 2024 conduit issuance and 12.3% of 2025 issuance. Despite this improvement, hotel performance remains highly sensitive to broader economic conditions. In a slower-growth environment where discretionary spending weakens, the sector could face renewed pressure, underscoring the need for cautious underwriting and forward-looking credit assessments.





Industrial

Sector rating

Moderately positive ↗

New supply

Neutral →

New demand

Moderately positive ↗

Rent growth

Moderately positive ↗

Capital values

Neutral →

REIT pricing relative to NAV*

Neutral →

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Positive ↑

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Sector overview

The industrial sector is still absorbing elevated new supply and navigating some tenant uncertainty related to trade policy, but remains highly favored by both equity and debt capital. Longer-term performance will be driven by trade flows and economic growth, with modern logistics facilities expected to continue to outperform.

Private equity

The industrial sector remains one of the better-performing property types, supported by healthy tenant demand and continued positive net absorption in most markets. Portfolio performance has benefited from strong mark-to-market opportunities, with renewal leases often being signed at rents significantly above expiring levels, which has supported same-property NOI growth.

From a cycle perspective, we view industrial as being in the early stages of recovery. New construction has declined significantly from its 2023 peak, which should limit future supply and position the sector for gradually tightening market conditions by late 2026. Rent growth is normalizing toward a more sustainable pace following several years of outsized increases, although modern, well-located logistics facilities continue to command rental premiums relative to older assets.

We continue to selectively pursue development and value-add opportunities in the sector, with a focus on modern logistics facilities where design, functionality, and location remain key competitive advantages. As the sector matures and new supply has been absorbed, market selection, property specifications, and competitive positioning have become increasingly important, as industrial is no longer simply a broad cyclical recovery story.

Given the durability of long-term e-commerce and supply chain trends, both core and enhanced strategies are expected to maintain overweight allocations to industrial, supported by the sector's combination of stable income and long-term growth potential.

Private debt

Lenders continue to actively pursue industrial loans despite trade uncertainty affecting tenant demand in some markets. Positive national net absorption, a slower pace of new construction, still-healthy vacancy rates, and moderate forecast rent growth across most markets continue to support lender confidence in the sector.

Well-located, high-quality warehouse and logistics properties in major markets typically qualify for five- to ten-year fixed-rate financing from insurance companies and banks at 50% to 65% LTV, with spreads over U.S. Treasury yields generally in the 120 to 145 basis point range, resulting in all-in interest rates in the low- to mid-5% range. Higher leverage is generally available through CMBS conduits and debt funds, though at higher spreads and overall borrowing costs.



Industrial

(continued)

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REITs

Industrial REITs have modestly underperformed the broader REIT index year-to-date, giving back some of their late-2025 outperformance as sentiment softened amid macro uncertainty. Geopolitical tensions and higher oil prices are viewed as potential risks to net absorption, although REIT management teams generally view most markets as being near equilibrium. Vacancy appears to be at or near cyclical peak levels, and rent growth remains muted as excess supply delivered in recent years continues to be absorbed. Looking ahead, REITs expect rent growth to inflect over the next several quarters as demand begins to exceed new supply, leading to gradually tightening market conditions. The recovery is expected to be uneven, however, with Southern California markets likely to lag other coastal regions.

Against this backdrop, industrial REITs expect to deliver solid but moderating NOI and earnings growth. Companies continue to benefit from mark-to-market opportunities on lease rollovers, while occupancy is expected to stabilize at healthy levels in the 95% to 96% range. Development starts are projected to increase modestly but remain below long-term target levels, reflecting continued capital discipline. Some operators are also selectively exploring data center development as a longer-term growth opportunity. From a valuation perspective, industrial REITs currently trade at modest discounts to NAV, as investors balance gradually improving fundamentals against mixed leading indicators and a still-uncertain macro environment.

CMBS

Industrial loans currently carry the lowest delinquency rate in the CMBS universe at 1.76%, underscoring the sector's resilience relative to other traditional property types. While credit quality and investor demand remain strong, recent tariff implementations have introduced temporary headwinds. Trade-related disruptions have pressured supply chains and tenant operations, creating short-term uncertainty for leasing and rent growth. Even so, fundamentals remain solid, supported by long-term e-commerce adoption and sustained logistics demand.

Since 2020, the CMBS SASB market has supplied more than \$43.9 billion in floating-rate debt to industrial owners, providing an efficient vehicle for financing large portfolio deals. Blackstone has been a leading participant since early 2024, though a broader set of borrowers have since accessed the market for portfolio financing.

Conduit CMBS industrial allocations have normalized to the 6% to 7% range, consistent with pre-pandemic levels, after rising to approximately 10% in recent years. Conduit loans are typically smaller than SASB deals and often collateralized by properties in tertiary locations, with less functional layouts and non-investment-grade tenancy (frequently via sale-leasebacks). As a result, underwriting standards for conduit industrial loans have generally been more conservative than for SASB loans.

Overall, the sector continues to benefit from historically strong NOI growth, resilient cash flows, and supportive investor sentiment, positioning it as one of the most stable components of the CMBS market.



Office

Sector rating

Moderately negative ↘

New supply

Positive ↑

New demand

Moderately positive ↗

Rent growth

Moderately negative ↘

Capital values

Moderately negative ↘

REIT pricing relative to NAV*

Negative ↓

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Negative ↓

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Sector overview

Office fundamentals are stabilizing but remain weak, with vacancy just under 19% and leasing activity still modest. Capital markets activity has improved but remains concentrated in high-quality assets, while leasing economics continue to favor tenants. Limited new supply should support a gradual recovery, though performance will remain highly bifurcated by asset quality and location.

Private equity

The office sector continues to lag other property types. National vacancy reached a cyclical high near 19% in 2024 and only declined modestly to approximately 18.8% by late 2025, suggesting the sector may be in the early stages of a slow bottoming process. Any recovery is expected to be gradual and highly bifurcated. Well-located, amenity-rich buildings that are benefiting from the flight-to-quality trend should be better positioned to maintain occupancy and potentially capture rent growth, while commodity office buildings in secondary locations are likely to continue to face leasing challenges and value pressure.

Office demand may see some incremental improvement from return-to-office trends and growth in certain industries, although high lease procurement costs and continued uncertainty surrounding the long-term impact of AI on office-using employment contribute to a cautious outlook. Transaction activity improved in 2025, and pricing for top-tier assets appears to have stabilized, although distress remains evident among older and lower-quality assets.

Given these conditions, we remain underweight office and continue to focus our limited exposure on high-quality properties located in more resilient markets. We are not forecasting meaningful rent growth in 2026, with overall rents expected to remain roughly flat. Trophy assets may see modest rent growth, but broader effective rents are likely to remain under pressure. Portfolio strategy in the sector remains focused on proactive lease management, selective capital investment, and, where appropriate, exploring alternative uses or dispositions for underperforming assets.

Private debt

Despite continued distress in the broader U.S. office market, a limited number of high-quality office properties with strong leasing and institutional sponsorship are attracting lender interest, primarily from select insurance companies. This activity remains limited and conservative, with spreads typically 50 to 75 basis points wider than those for industrial or apartment loans of similar credit quality and duration. Underwriting for these loans focuses heavily on the durability of long-term cash flow rather than current net operating income, with loan-to-value ratios frequently capped in the 50% range based on today's lower valuations.

CMBS lenders continue to pursue office loans on a limited basis, as the CMBS bond market generally accepts office exposure of up to approximately 20% per issuance. Within that constraint, CMBS conduit lending is largely limited to higher-quality properties with strong in-place tenancy and stable cash flow.

Some debt funds remain willing to lend across a broader range of office properties, including transitional assets, although required yields are often higher than many properties' current economics can support. As a result, financing for lower-quality office assets remains extremely limited. Properties considered Class B or C, those with occupancy below roughly 80% to 85%, or those with weighted average remaining lease terms shorter than five to seven years generally face little to no traditional lender interest.



Office

(continued)

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As a result, a large share of office lending activity continues to consist of existing lenders refinancing their own loans, loan extensions, or seller financing provided as part of property sales.

REITs

Office REITs have meaningfully underperformed the broader REIT index since the fall of 2025, despite gradually improving fundamentals. Investor sentiment has remained negative due to weak job growth and concerns that AI-driven disintermediation could structurally reduce white-collar employment and office demand. To date, however, AI appears to be a net positive for leasing activity in certain markets, particularly San Francisco, where demand from fast-growing AI companies has become an important driver of the recovery. Office REITs also emphasize that their portfolios are concentrated in high-quality assets with limited exposure to back-office space, positioning them to benefit from the ongoing flight-to-quality trend and lack of new supply. Nevertheless, the narrative that AI represents an additional secular headwind—alongside remote work—continues to weigh on investor sentiment.

Despite the negative sentiment, the outlook for 2026 is becoming more constructive. Touring and leasing activity remain relatively healthy despite macro uncertainty, and most office REITs believe operating fundamentals have bottomed, with occupancy expected to improve meaningfully over time. New York-focused REITs continue to report strong pricing power, which has expanded beyond Park Avenue as Class A and trophy availability has tightened significantly. West Coast performance remains mixed, with San Francisco recovering more quickly while Los Angeles and Seattle continue to lag. Although leasing activity has improved over the past year, earnings and cash flow growth are expected to remain muted in 2026 due to weaker lease economics and the long lag between lease signing and rent commencement. From a valuation perspective, office REITs continue to trade at deeply discounted levels, generally at 30% to 50% discounts to NAV and implied cap rates in the high-single-digit to 10%+ range.

CMBS

Office exposure within conduit CMBS continues to face challenges due to ongoing secular headwinds. Conduit CMBS has historically averaged roughly 30% office exposure; however, issuers have reduced that allocation in recent years, with office exposure declining to 20% in 2023, 15% in 2024, and 16% in 2025, reflecting investor concerns and performance uncertainty. Delinquency rates remained relatively stable through the pandemic but have increased significantly since 2022, rising from approximately 1.9% to 14.9% for fixed-rate conduit transactions. Long-term leases, diversified rent rolls, and strong underwritten debt service coverage ratios have helped mitigate term default risk, but refinance risk remains elevated due to NOI pressure, constrained capital markets, and higher interest rates.

Floating-rate SASB office loans are more exposed to near-term default risk due to the sharp increase in short-term interest rates, which has reduced DSCRs and refinancing capacity. This dynamic has contributed to several high-profile defaults, pushing the SASB office delinquency rate to approximately 7.8%, with roughly half of these defaults occurring at loan maturity. Compared to pre-2022 conditions, this represents a meaningful shift in office credit risk, with maturity defaults now a primary concern.

Given the difficult refinancing environment, CMBS servicers have increasingly worked with borrowers through loan extensions in exchange for fresh equity contributions, cash flow sweeps, and other lender-friendly concessions. While these actions are intended to improve bondholder outcomes, they also extend resolution timelines and contribute to pricing uncertainty in the office sector.



Office

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Recently constructed Class A office assets have continued to perform relatively well, with some markets reporting positive net absorption and higher effective rents for newer, high-quality space. Notably, nearly half of conduit CMBS office exposure is classified as Class A, a factor not fully reflected in current market risk premiums. This performance disparity highlights the ongoing flight-to-quality trend, as tenants prioritize modern buildings with strong amenities, sustainability features, and prime locations.

For investors with the ability to take a long-term and selective approach, current pricing dislocations in the office sector may present opportunities. Strategies such as distressed debt acquisitions, recapitalizations, and structured equity investments may offer attractive risk-adjusted returns, particularly for high-quality assets located in markets showing early signs of recovery, such as New York City.

As a result, a large share of office lending activity continues to consist of existing lenders refinancing their own loans, loan extensions, or seller financing provided as part of property sales.





Retail

Sector rating

Moderately positive ↗

New supply

Positive ↑

New demand

Neutral →

Rent growth

Moderately positive ↗

Capital values

Moderately positive ↗

REIT pricing relative to NAV*

Neutral →

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Moderately positive ↗

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Sector overview

The retail sector continues to perform well and remains increasingly sought after by institutional investors, particularly in necessity-based and grocery-anchored formats that offer more defensive characteristics and lower exposure to e-commerce disruption. Limited new supply and healthy tenant demand continue to support strong occupancy and stable rent growth. While consumer sentiment has softened amid higher inflation, necessity-based and value-oriented retail formats are expected to remain more resilient in a slower-growth environment.

Private equity

Retail fundamentals remain strong, and the sector continues to serve as a reliable income generator within the portfolio. Our retail holdings remain well occupied, primarily anchored by grocery stores and other necessity-based retailers that continue to demonstrate stable tenant demand and sales performance.

At the national level, retail availability remains near multi-decade lows, supported by resilient consumer spending and a prolonged period of limited new construction. New development remains constrained, as current construction costs are difficult to justify given prevailing market rents. As a result, the sector continues to operate in a landlord-favorable environment, with limited new supply and steady tenant demand supporting high occupancy levels and moderate rent growth.

In addition, many leases scheduled to roll over in 2026 remain below current market rents, creating an opportunity for mark-to-market rent increases upon renewal. Given the sector's strong cash flow characteristics, relatively low vacancies, and steady contractual rent escalations, retail continues to offer attractive income and inflation-hedging characteristics and remains an important component of the portfolio.

Private debt

Lender appetite for retail properties has increased over the past year, particularly for properties anchored by grocery stores, home improvement retailers, and creditworthy discount department stores. Neighborhood and community shopping centers with strong tenant sales and longer weighted average lease terms (WALT) have been most sought after, particularly by insurance companies looking to diversify property type exposure. For grocery-anchored and other high-quality retail properties, spreads over U.S. Treasury yields typically range from 115 to 140 basis points for 50% to 65% LTV loans, often resulting in interest rates in the low- to mid-5% range—generally in line with, or slightly lower than, comparable industrial loans.

Debt for high street retail, power centers, and lifestyle centers typically prices 5 to 10 basis points wider than loans for well-anchored neighborhood and community shopping centers, although CMBS lenders have shown stronger relative interest in these property types. Financing for regional malls remains largely unavailable except for the highest-quality assets with top-tier operators. Across all retail property types, lenders remain highly focused on tenant creditworthiness, tenant sales performance, remaining lease term, and sponsor quality, resulting in a wide dispersion in loan terms and pricing.



Retail

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REITs

Retail REIT performance has been mixed year-to-date, with mall REITs modestly trailing the broader REIT index while shopping center REITs have outperformed. The sector continues to benefit from healthy operating fundamentals, with little evidence of slowing retailer demand despite ongoing concerns about the lower-income consumer in a “K-shaped” economy. The new minimal supply remains a key tailwind, keeping availability rates near historically low levels. In addition, following a wave of retailer bankruptcies in early 2025, tenant rosters have strengthened as higher-quality retailers have backfilled vacant anchor spaces. Supported by these favorable conditions, retail REITs maintain a positive outlook for 2026, with earnings growth expected to remain in the mid-single-digit range.

Institutional investor interest in the retail sector continues to increase, putting downward pressure on cap rates. While the higher cost of capital limits REITs’ ability to compete for core assets, many are successfully recycling capital into value-add opportunities or larger transactions where the buyer pool is smaller. These transactions often provide limited near-term earnings accretion but improve longer-term growth prospects. From a valuation perspective, mall REITs generally trade in line with NAV, while shopping center REITs continue to trade at double-digit discounts. This public-private valuation gap remains a catalyst for M&A activity, highlighted by a recent private equity acquisition of a grocery-anchored REIT based in Hawaii.

CMBS

Retail’s image has recovered significantly, fueled by a resilient consumer base, the spending drawdown in excess savings, and a robust labor market. Store closures have slowed dramatically over the past three years, and the entertainment-oriented transformation of malls has gotten back on track post-COVID. Retail conduit transactions made up a significant portion of exposure in prior years—29% in 2023 and 28% in 2024. However, in 2025, their share declined to just 18%, reflecting a notable shift in exposure composition. Interestingly, once out-of-favor malls grew to 13% of conduit issuance in 2023 relative to 3% in 2022, supported by generally positive sales trends along with conservative underwriting metrics of >2.0x DSCR and sub-50% LTV on average. Malls represented roughly 5% of total CMBS conduit issuance in 2025, reflecting continued lender selectivity and a preference for necessity based retail within conduit structures.

Maturity stress from some loans originated in 2013 and 2014 is still weighing on the conduit retail delinquency rate, which stands at 6.5%. CMBS servicers continue working with retail operators as loans approach maturity by providing loan extensions on performing properties, typically in exchange for fresh equity contributions. This approach seeks to maximize bondholder outcomes by keeping strong operators in place while avoiding near-term foreclosure at a time when valuations are depressed. Several regional malls currently facing refinancing challenges from these vintages have debt yields higher than 10%. Like the hotel sector, retail has benefited from the recent rise in economic activity. However, with growing concerns around consumer health and an elevated risk of economic pullback over the next year, spending trends should be closely monitored for early signs of weakening demand.



Single-family rentals

Sector rating

Moderately positive ↗

New supply

Moderately negative ↘

New demand

Moderately positive ↗

Rent growth

Neutral →

Capital values

Moderately positive ↗

REIT pricing relative to NAV*

Negative ↓

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Moderately positive ↗

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Sector overview

The single-family rental sector continues to demonstrate strong fundamentals, supported by the affordability gap in the for-sale housing market and limited supply of entry-level homes. Occupancy remains high and rent growth is expected to remain positive, although growth has moderated from its peak. Capital remains available for build-to-rent and larger portfolio transactions, though policy risk related to institutional ownership remains an area to monitor. The long-term outlook remains favorable given structural housing shortages and affordability constraints.

Private equity

The single-family rental (SFR) and build-to-rent (BTR) sector continues to demonstrate strong operating fundamentals. Portfolio occupancy remained very high through 2025, and rent growth has been solid as families continue to seek suburban rental housing options. The sector serves an important need for family-oriented housing at a time when the for-sale housing market remains supply constrained and increasingly unaffordable for many households.

The SFR/BTR sector benefits from higher tenant retention and lower turnover costs relative to traditional multifamily; however, rent growth expectations have moderated somewhat despite the relative value that single-family rentals continue to offer compared to homeownership. Institutional ownership still represents a relatively small share of the overall single-family housing stock, although ownership is more concentrated in certain Sun Belt markets. The sector is also facing some regulatory uncertainty, as policymakers continue to evaluate potential limitations on institutional ownership of single-family homes.

Demand for single-family rentals is expected to remain strong, supported by the affordability gap in the for-sale housing market and the limited availability of entry-level homes. Even if mortgage rates decline, elevated home prices and limited starter-home supply are likely to constrain renter-to-homeowner transitions. As a result, we expect occupancy to remain high across the SFR portfolio and are underwriting continued rent growth in the mid-single-digit range in 2026, particularly in markets benefiting from population and job growth.

Private debt

As demand for single-family rental properties has grown—driven in large part by households priced out of the for-sale housing market—institutional lenders have directed increasing amounts of capital toward the sector. CMBS lenders expanded their financing of single-family rental portfolios in 2025, while insurance companies and banks have increased their exposure more gradually. Financing remains primarily focused on build-to-rent communities and portfolios located on contiguous tracts and operated as single assets, rather than scattered-site portfolios. Lending terms continue to vary widely based on asset quality, scale, and the experience of the management platform.



Single-family rentals

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REITs

Single-family rental (SFR) REITs have materially underperformed the broader REIT index in 2026, despite fundamentals that remain somewhat stronger than those of traditional apartment REITs. A wide affordability gap, high tenant retention, and easing build-to-rent supply pressures continue to support the sector's long-term demand outlook. However, moderating operating trends, concerns around shadow supply resulting from weaker existing home sales, slower job growth, and—most notably—heightened and potentially lasting policy scrutiny of large institutional owners have weighed on share price performance.

SFR REITs are still expected to outpace traditional apartment REITs on organic growth in 2026, supported by stronger blended rent growth, although the growth differential has narrowed meaningfully. At the same time, the evolving policy environment surrounding acquisitions and development has increased uncertainty around the sector's external growth outlook. Currently, SFR REITs trade at approximately a 30% discount to consensus NAV estimates.





Data centers

Sector rating

Positive ↑

New supply

Positive ↑

New demand

Positive ↑

Rent growth

Positive ↑

Capital values

Moderately positive ↗

REIT pricing relative to NAV*

Positive ↑

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Moderately positive ↗

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Sector overview

The data center sector continues to demonstrate the strongest fundamentals across property types, supported by structural demand from cloud computing and artificial intelligence. Vacancy remains extremely low and development is constrained primarily by power availability, which continues to support rent growth. Capital remains highly attracted to the sector, although investment opportunities are often limited to smaller-scale or powered-shell developments due to the size of hyperscale projects. Despite elevated valuations, the sector continues to benefit from strong long-term demand drivers and high barriers to entry.

Private equity

Data centers remain the standout growth sector heading into 2026. Demand for data center space continues to expand rapidly, driven by cloud computing and artificial intelligence workloads, with absorption reaching record levels in 2025 and expected to remain strong in 2026. Vacancy rates in most major data center markets remain extremely low, and in some core markets available capacity is effectively fully leased. As a result, tenants—particularly hyperscale users—are increasingly leasing capacity several years in advance, and rental rates in top markets continue to grow at a strong pace.

The primary constraint on new development is power availability, as utilities in many markets are unable to expand infrastructure quickly enough to meet demand. As a result, access to power has become one of the most important drivers of value in the sector, and the ability to secure additional power at existing facilities can be highly accretive to investment returns.

At the same time, hyperscale development projects have grown significantly in size, making many of the largest projects difficult to access for diversified investment portfolios. However, select mid-sized opportunities remain attractive, particularly powered-shell developments where tenants fund a significant portion of the interior improvements. Given the sector's strong demand fundamentals and high barriers to entry, data centers continue to represent one of the most attractive long-term growth sectors within real estate, although investment opportunities remain highly dependent on power access, location, and tenant credit.

Private debt

Lender appetite for data center financing remains strong, although available financing terms vary significantly depending on whether the property is subject to a long-term lease—typically 15 years or more—with a major data center operator, as well as the degree of certainty around long-term power availability. Permanent financing for stabilized data centers is generally available from insurance companies and the CMBS market, often through single-asset, single-borrower (SASB) transactions due to large loan sizes. Permanent lenders typically require meaningful amortization to reduce exposure to the real estate beyond the primary lease term. Pricing for permanent debt varies significantly by operator credit quality, lease term, and power security, with the strongest terms generally reserved for assets leased to the largest and most creditworthy operators.



Data centers

(continued)

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REITs

Data center REITs have outperformed the broader real estate index year-to-date, supported by continued evidence of strong underlying demand, including AI-related deployments, robust leasing activity, growing development backlogs, and constructive 2026 outlooks. Recent announcements from large technology companies have reinforced confidence that AI will remain a meaningful long-term demand driver for the sector. At the same time, supply remains constrained in several key markets, supporting favorable rental rate growth and pricing dynamics.

Recent developments suggest sector fundamentals remain strong, with demand expanding beyond hyperscale customers into enterprise, interconnection, and other incremental deployments. Ongoing acquisition and development activity indicates that REITs remain confident in the durability of demand and are continuing to invest through the cycle. From a valuation perspective, pure-play data center REITs continue to trade at premium multiples and at higher premiums to NAV than most other property sectors, reflecting strong expected growth and favorable long-term fundamentals.

CMBS

Data centers have become one of the fastest growing property types in the CMBS market, driven by structural demand from cloud computing, AI workloads, and hyperscale users. While most data center securitizations historically migrated toward ABS structures, CMBS—primarily single asset, single borrower (SASB) deals—has gained meaningful traction since 2021, particularly for large, stabilized hyperscale facilities with long term, investment grade tenant leases. Investor appetite has remained strong given high barriers to entry, durable cash flows, and strategic asset importance, despite emerging risks around power availability, construction costs, and tenant concentration.





Student housing

Sector rating

Moderately positive ↗

New supply

Neutral →

New demand

Moderately positive ↗

Rent growth

Moderately positive ↗

Capital values

Moderately negative ↘

REIT pricing relative to NAV*

Not applicable

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Neutral →

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Sector overview

The student housing sector continues to exhibit solid fundamentals. However, it is becoming more competitive as much of the demand is now being met. Increased migration to southeastern states has generated optimism, particularly with students opting to stay closer to home. Despite these positive trends, we remain cautious about the sector due to moderating enrollment trends at four-year institutions.

Student housing fundamentals remain generally healthy, supported by stable enrollment at large public universities, limited new supply in many Tier 1 university markets, and the continued affordability advantage of renting by the bed. Demand has been strongest at flagship state universities and other large public institutions, particularly in the South and Southeast where enrollment trends have been more favorable. Preleasing for the 2025–2026 academic year was solid across most major university markets, and rent growth has remained positive, though more moderate than the outsized increases seen in the immediate post-pandemic period.

Capital availability for student housing remains good, although underwriting is disciplined and highly dependent on university quality, enrollment trends, and operator experience. The sector benefits from short lease terms that allow rents to reset annually, but this structure also introduces leasing risk each academic year. As a result, lenders and investors remain focused on properties located near large, well-funded universities with stable or growing enrollment and strong preleasing histories. Financing terms for top-tier student housing assets are often comparable to conventional multifamily, while properties located near smaller or less stable universities face more limited capital availability and lower leverage.

Looking ahead, the outlook for student housing remains positive for properties affiliated with large public universities, although demographic trends suggest that the number of college-aged students will flatten later this decade. As a result, performance across the student housing sector is likely to become increasingly dependent on university quality, enrollment trends, and barriers to entry, with greater performance dispersion between top-tier and lower-tier university markets.





Seniors housing

Sector rating

Positive ↑

New supply

Neutral →

New demand

Positive ↑

Rent growth

Moderately positive ↗

Capital values

Positive ↑

REIT pricing relative to NAV*

Negative ↓

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Neutral →

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Sector overview

Seniors housing fundamentals continue to improve as occupancy recovers and rent growth remains solid, supported by favorable demographic trends and limited new supply. Operational efficiency and expense management remain key drivers of NOI growth as the sector continues its recovery.

The seniors housing sector is in a recovery phase, with operating fundamentals continuing to improve. Occupancy increased meaningfully through 2025, and rent growth has been solid as operators have regained some pricing power. At the same time, rising labor and operating costs continue to pressure margins, making operational execution a key driver of performance.

The outlook for the sector remains positive, supported by favorable demographic trends as the baby boomer cohort continues to age into seniors housing. New supply remains limited due to high development costs and financing constraints, which should allow occupancy gains and rent growth to continue over the next several years.

From an investment perspective, seniors housing offers a combination of stable long-term demand and the potential for above-average growth as the demographic wave builds. Key areas of focus remain operational efficiency, particularly staffing and expense management, as well as careful selection of experienced operating partners to ensure that revenue growth translates into net operating income growth.





Life sciences

Sector rating

Negative ↓

New supply

Negative ↓

New demand

Moderately negative ↘

Rent growth

Moderately negative ↘

Capital values

Negative ↓

REIT pricing relative to NAV*

Negative ↓

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Debt availability

Moderately negative ↘

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Sector overview

The life science sector remains challenged by oversupply and reduced tenant demand following the slowdown in venture capital funding. New construction has slowed, which should help rebalance the market over time, but near-term leasing and rent growth will remain under pressure, particularly for older assets. Investment and lending activity remain focused on newer properties with strong tenant credit and long lease terms, while older properties continue to face elevated vacancy.

Private equity

The life science real estate market remains soft heading into 2026, as the sector continues to work through a period of oversupply and reduced tenant demand. Venture capital funding for biotech companies declined significantly over the past two years, leading many lab tenants to reduce space needs or delay expansion plans. As a result, vacancy rates in several major life science markets increased materially, and effective rents have come under pressure as landlords compete for a smaller pool of tenants.

New lab construction has slowed considerably, with many speculative projects placed on hold. This pullback in development should gradually help rebalance supply and demand; however, given the current elevated vacancy levels, rents are expected to remain flat or decline in many markets through 2026. Leasing activity is expected to be concentrated in newer, well-located, and highly amenitized lab facilities, while older lab properties are likely to remain under pressure.

Given these conditions, our near-term stance on the life science sector remains cautious. New acquisitions are limited, except potentially at significant discounts to replacement cost, with the current strategy focused on tenant retention, lease-up, and operational performance within the existing portfolio. While the long-term outlook for the sector remains positive, supported by continued demand for research and development space and favorable demographic trends, the sector is likely to remain challenging in the near term and will require a patient and highly selective investment approach.

Private debt

Lender appetite for life science properties remains limited, as space market fundamentals continue to soften across many major markets. Oversupply and negative net absorption in several markets over the past year have placed downward pressure on rents, while reduced venture capital funding for life sciences has further weakened tenant demand. As a result, lenders remain focused primarily on tenant creditworthiness, lease term, and sponsorship, with financing generally limited to well-leased properties with longer-term commitments. Borrowers seeking financing for properties that do not meet these standards are often required to provide recourse or other significant credit enhancements to obtain financing.



Life sciences

(continued)

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REITs

REITs with life science exposure have delivered mixed performance relative to the broader real estate index year-to-date, as operating fundamentals remain under pressure. The primary life science-focused REITs continue to report occupancy declines driven by tenant move-outs tied to funding challenges, renewal downsizing and churning, slower absorption of available space, and limited leasing activity across development and redevelopment projects. Leasing economics also remain pressured, particularly with respect to concessions and tenant improvement allowances.

Looking ahead, 2026 is expected to be another challenging year as the sector continues to work through oversupply and softer tenant demand across several major markets. That said, early signs of stabilization are beginning to emerge, including improving public market conditions for biotech and pharmaceutical companies, healthier venture capital funding activity, somewhat reduced policy and regulatory uncertainty, and a sharp slowdown in new lab deliveries across several major markets. In some cases, excess lab space is increasingly being repurposed for alternative uses. From a valuation perspective, life science-focused REITs continue to trade at meaningful discounts to NAV, reflecting ongoing near-term earnings pressure and leasing risk.

CMBS

Life science properties remain a meaningful component of the CMBS office landscape and continue to maintain a presence in the SASB market. Investors continue to require elevated risk premiums, reflecting both the sector's classification within office and growing supply pressure that is weighing on rent growth in several key markets. However, transactions involving investment-grade tenants on long-term leases in strong life science markets have generally been well received. As new supply continues to deliver, underwriting has become increasingly focused on location, tenant credit quality, lease duration, and sponsorship strength.



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