Principal
Asset Management℠

REIT MARKET PERSPECTIVES

A REIT Reawakening

Market update and look ahead: July 2026

OVERVIEW

A REIT reawakening: Positive signals suggest now is the time for listed REITs

TODD KELLENBERGER, CFA
Director, Client Portfolio Manager
Real Estate Securities

RICH HILL
Senior Managing Director
Global Head of Research & Strategy

A strong market rotation into listed REITs to start 2026 is prompting renewed investor interest in an asset class that has been overshadowed by artificial intelligence (AI) and private markets in recent years. With durable cash flows, improving fundamentals, and attractive relative valuations investors should revisit the asset class to diversify their portfolios and capture upside to the long real estate cycle ahead.

In this piece, we will examine the following key takeaways:

- **Rotation signals a new REIT cycle:** U.S. REITs are up 16% year-to-date, signaling a clear investor rotation back into the asset class. Yet, the REIT cycle is still quite young compared to the average historical cycle of ~18 years, suggesting a long runway ahead for the market.
- **Compelling diversifier in a late-cycle equity market:** Today's REIT market environment is reminiscent of the 1990s era when rates were higher, and equity markets were finishing up a bull market run in technology. This makes a compelling case for REITs today as AI diversifiers in equity portfolios, and current low correlations to the Mag 7 support it.
- **Attractive fundamentals and valuation setup:** Fundamentals and valuations are flashing green for REITs. Earnings are durable and inflecting higher while discounts to private market values are plentiful.
- **Active management opportunity expanding:** Actively managed REIT strategies make sense given the wide dispersion in returns amongst sectors, markets, and stocks. The REIT market cycle entering the expansion phase makes for a stock pickers market.
- **A strategic allocation enhancer to private real estate:** REITs have a place in institutional private real estate portfolios. The evidence is clear that portfolio outcomes can be meaningfully enhanced with a 20% allocation to listed REITs.

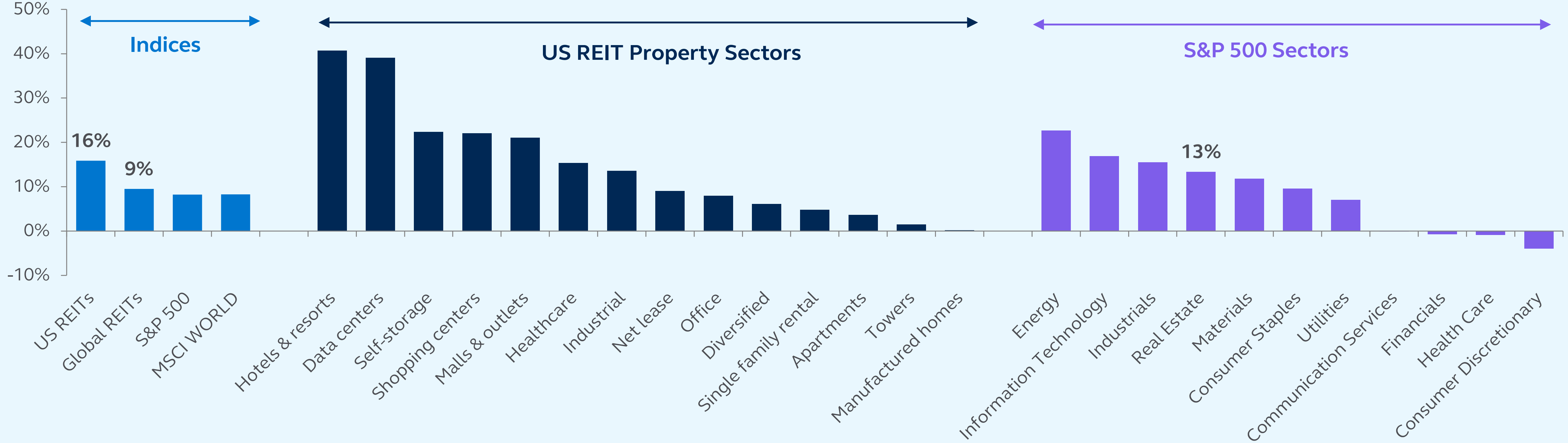
REITs are off to one of their strongest starts in history

Total returns from REITs this year have been broad-based, outperforming most sectors of the equity market

The listed REIT market has clearly woken up in 2026, with U.S. listed REITs returning +16% and positive performance across most sectors. The market's durable cash flows and income-driven returns are appreciated by investors seeking defense and diversification amongst an uncertain macro backdrop and AI market jitters.

Leadership within REITs this year has been a mix of cyclical sectors (hotels, retail) benefiting from rising demand and strong performance from sectors with large structural drivers, such as data centers (technology) and senior housing (demographics).

Year-to-date total returns



Source: FTSE, MSCI, S&P as of 23 June 2026. U.S. REIT Property Sectors represented by FTSE NAREIT All Equity Index. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

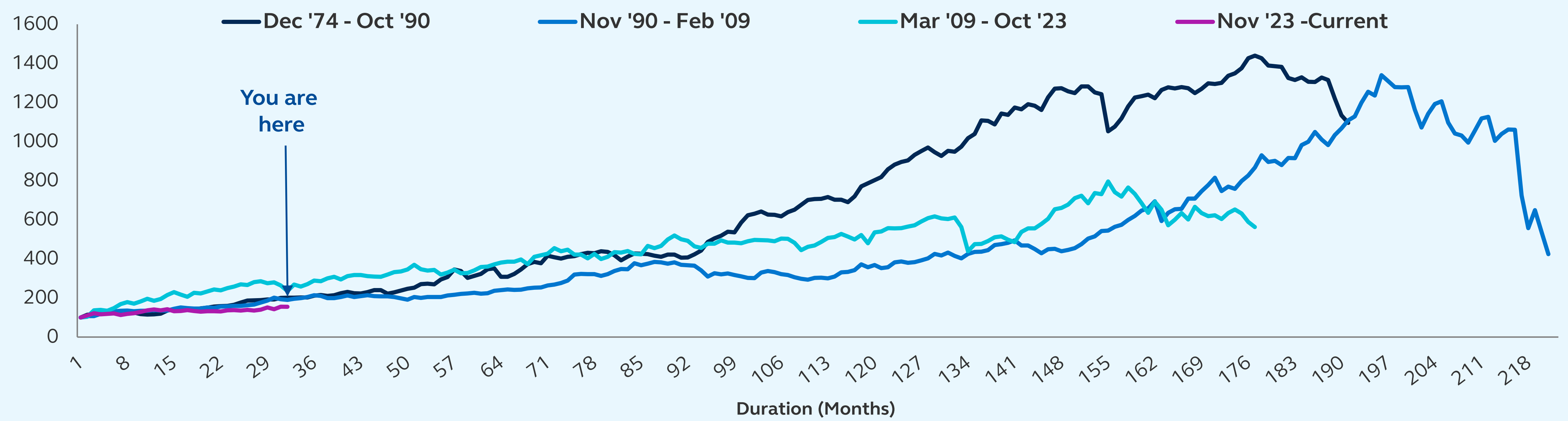
The current REIT cycle is early by historical standards

Cycles are long and durable, supported not just by price returns but also by underappreciated income returns.

U.S. listed REITs are almost three years past their October 2023 lows and recently transitioned from recovery to expansion mode after moving above prior cycle highs. Real estate cycles in the U.S. typically span roughly 18 years and progress through recovery (about 2-years), expansion (11-12 years on average), and downturn (about 1.5 years) phases. Returns are most substantial during recoveries, though expansions still deliver double-digit annualized performance even for investors who miss the recovery phase.

Historical U.S. listed REIT cycles

Beginning of cycle = 100



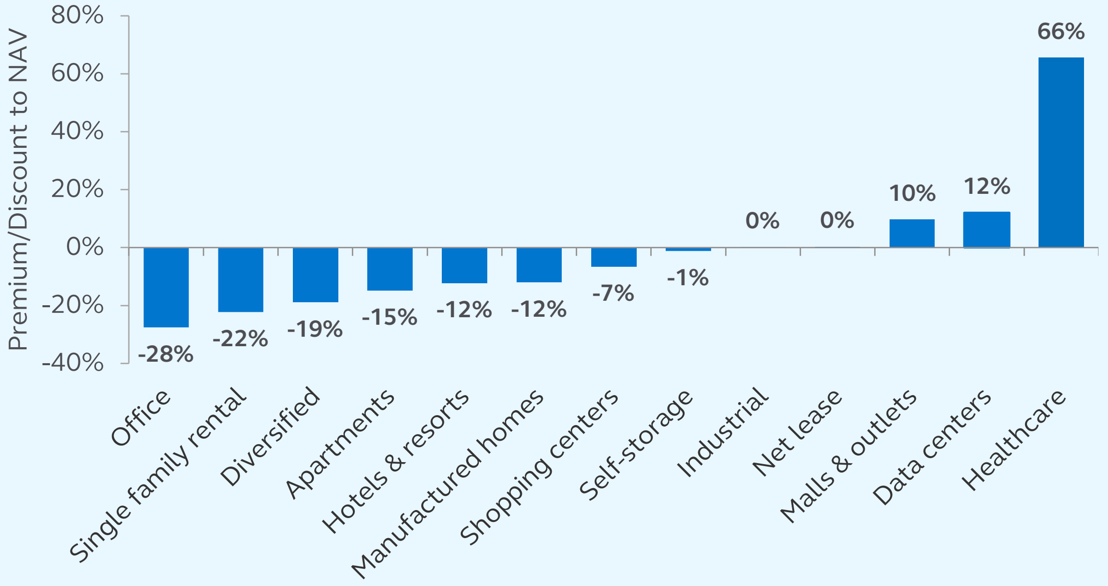
Source: Bloomberg, Principal Real Estate, Listed REIT returns as of 29 May 2026.

REIT valuations create an attractive entry point

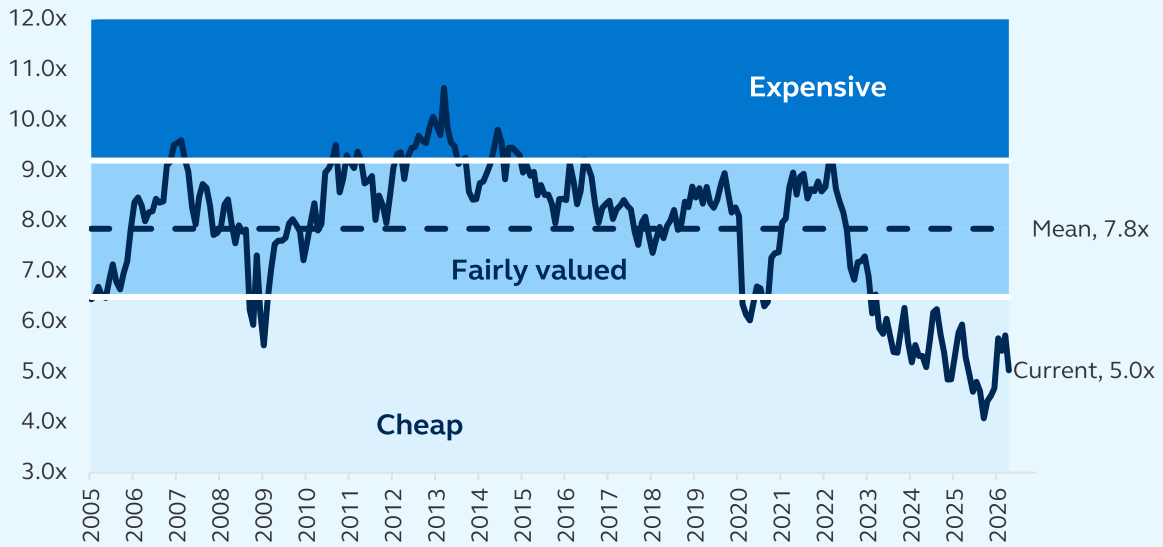
Despite the recent rally in REIT stocks, most REITs' share prices remain below their net asset value (NAV) estimates. Bids on properties have remained firm even as yields have moved up. Investors recognize that real estate is early in the cycle, and future property earnings growth will drive returns. Companies trading at large premiums (data centers, senior housing) stand to benefit from the most attractive growth trends in the years ahead, and they are using their cost of capital advantage to grow externally.

REIT price to earnings multiples trade very cheaply compared to long-term averages versus equities. The steady, durable earnings stream, supported by strong fundamentals, should be appreciated at these valuation levels.

Discounts are plentiful across REITs



Listed REIT valuations are still attractive relative to equities, even after the bounce back



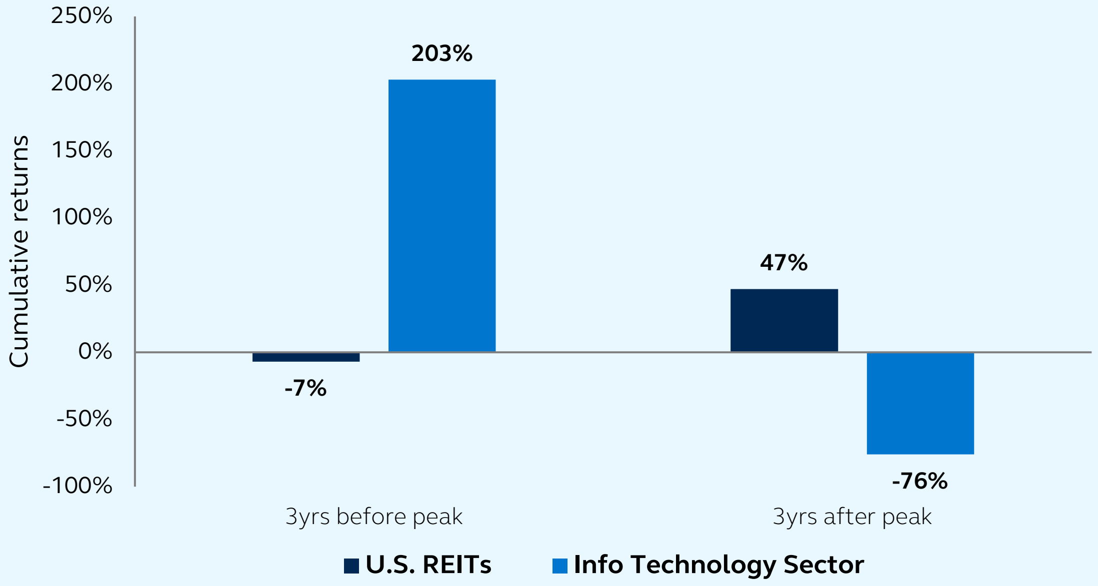
Left chart: Source: FactSet, as of 31 May 2026. Right chart: Source: FactSet, as of 31 May 2026. Enterprise Value (EV) to EBITDA price multiples are used to measure valuations. The spread plotted is the EV/EBITDA of the FTSE EPRA/NAREIT Developed index minus the EV/EBITDA of the MSCI World index. Expensive and cheap valuations are represented by spreads higher or lower than one standard deviation from the mean, respectively. Fair value is represented by valuations between one standard deviation from the mean. The average is since 28 February 2005.

Today's REITs vs equities environment has echoes of the late 1990s and early 2000s

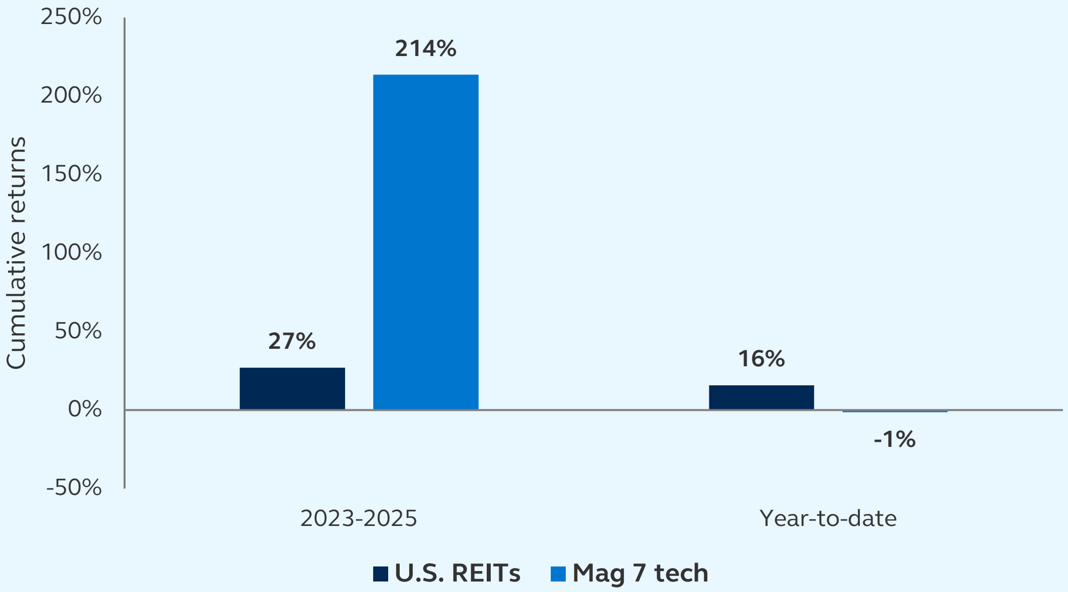
If history is a guide, when the tech market wobbles investors often seek the safety of real estate

The late-1990s tech boom and today's AI-driven market share some similarities: concentrated leadership, massive capital investment, and investor enthusiasm around transformative technology. History suggests that when growth expectations become crowded and relative valuation dispersions widen, yesterday's laggards often become tomorrow's leaders as investors re-appreciate diversification. Following the dot-com peak, REITs significantly outperformed when investors rotated toward tangible assets, durable cash flows, and more attractive valuations. Today, REITs offer a similar combination of attributes, and some sectors also stand to benefit from the very infrastructure that supports the AI economy.

Early 2000 Dot-com era



Current

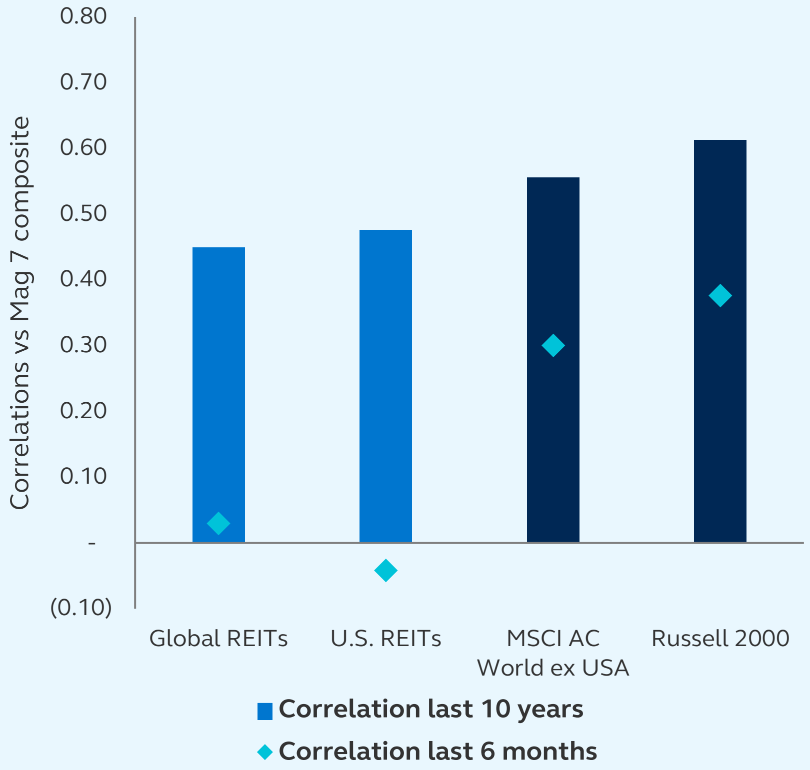


Left chart: Source: Factset. Peak is defined as 31 March 2000; Right chart: Source: Factset as of 23 June 2026.

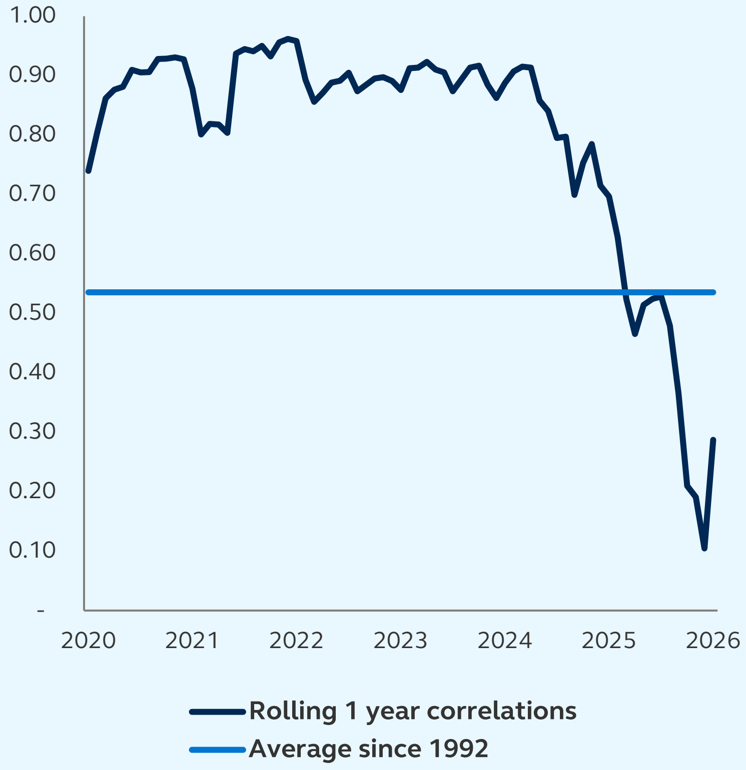
Diversifying with REITs is compelling today

The Magnificent (Mag) 7 continue to represent an outsized share of the S&P 500, leaving many investors with significant exposure to a handful of technology companies. We believe diversification remains one of the most effective tools for navigating changing market environments. REITs possess better diversification benefits than Mag 7 stocks compared to international equities or small-cap stocks. With income-driven total returns and contractual cash flow streams tied to real estate ownership, REITs are a great way to fortify investor portfolios. For investors seeking diversification, liquidity, income, and exposure to real assets, REITs continue to present a rare combination of quality and value.

REITs show low correlation with Mag 7 in past six months, outperforming int'l equities & U.S. small caps



After a period of an unusually high correlation with equities, REITs are reemerging as good portfolio diversifiers



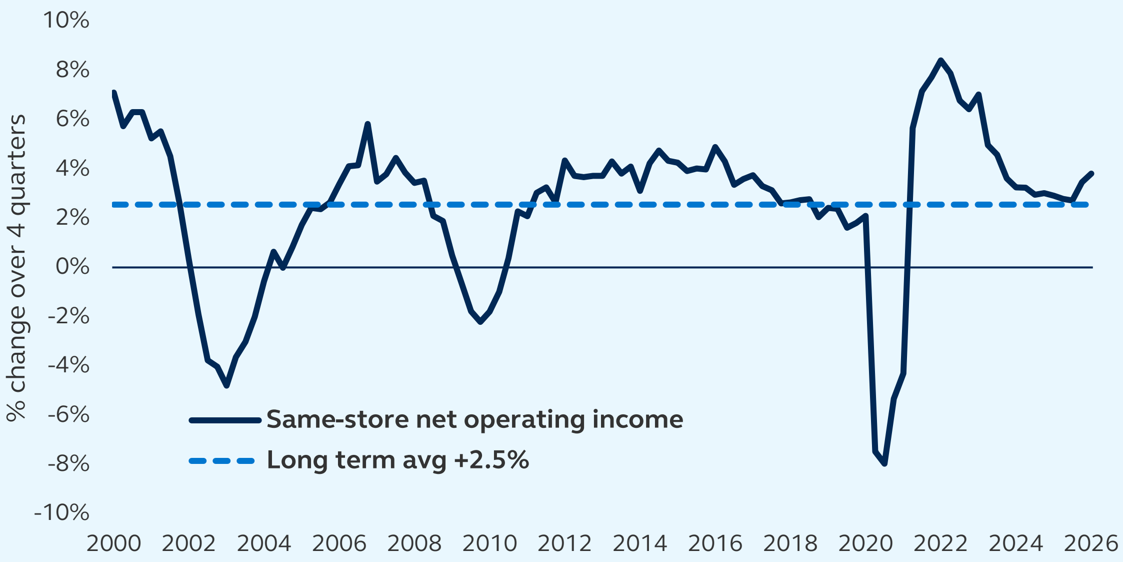
Left and right charts: Source: FactSet and Principal Asset Management as of 31 March 2026.

Company fundamentals are durable and earnings growth is picking up

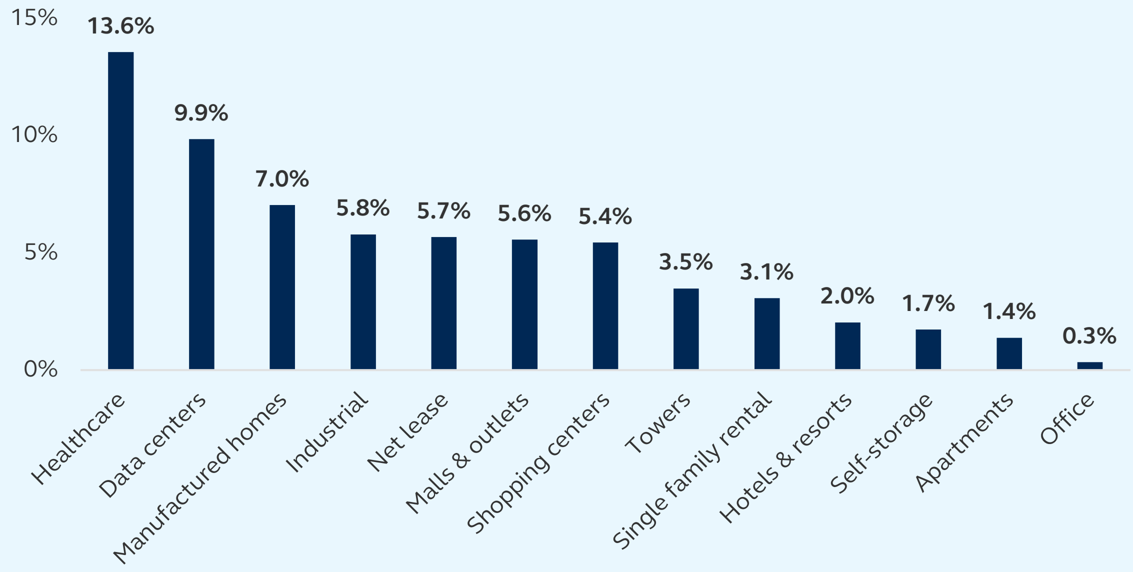
REIT earnings have normalized from post-pandemic peaks and are starting to inflect back up. REITs enjoy tailwinds of peaking or low supply in many markets and secular drivers to demand in alternative sectors (senior housing, data centers, etc.). Contributions from acquisitions, development projects, and modest leverage can increase company earnings. Currently, robust capital markets for real estate and rising transaction volumes are another source of growth.

The durability of real estate cash flows tied to contractual leases is a defining feature of owning REITs, always and now. Only during recessions have earnings dipped into modest negative territory.

REIT property earnings are inflecting up and above long-term average



Forecasted earnings growth over the next 12 months is positive for many sectors



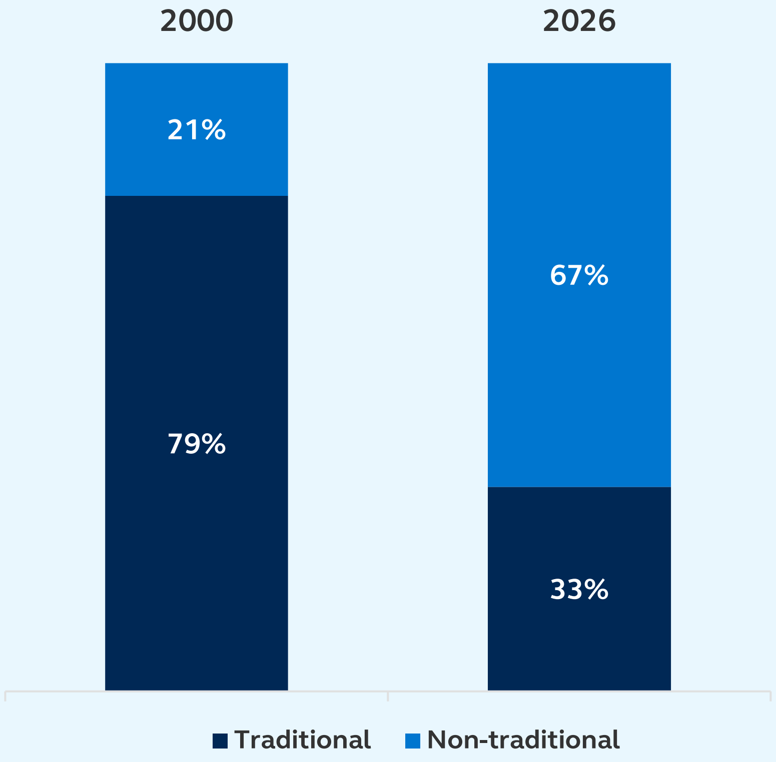
Left chart: Source: NAREIT as of 31 March 2026. Earnings growth represented by net operating income. Right chart: Source: FactSet as of 31 May 2026. Earnings growth based on estimated FFO per share growth for the next twelve months.

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

Today's public REIT market looks very different from what most investors expect. Sectors previously considered niche have become essential in today's economy and society. Capital flows continue to target sectors such as senior housing, data centers, and wireless towers. Traditional sectors remain relevant, but represent the minority of the public market, especially in the office sector.

We expect that in the years ahead, the structural demand drivers for non-traditional sectors will continue to grow, and investors will benefit from greater exposure to these sectors.

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



Sector weight	2000	2026
Healthcare	2%	17%
Data centers	3%	11%
Net lease	0%	11%
Towers	0%	10%
Self-storage	3%	6%
Other	9%	4%
Hotels & resorts	1%	3%
Single family rental	1%	2%
Manufactured homes	0%	2%
Land & timber	1%	2%
Industrial	11%	12%
Apartments	21%	8%
Malls & outlets	10%	5%
Shopping centers	7%	5%
Office	30%	3%

Source: FactSet. FTSE NAREIT Equity All REITs index, as of 31 May 2026.

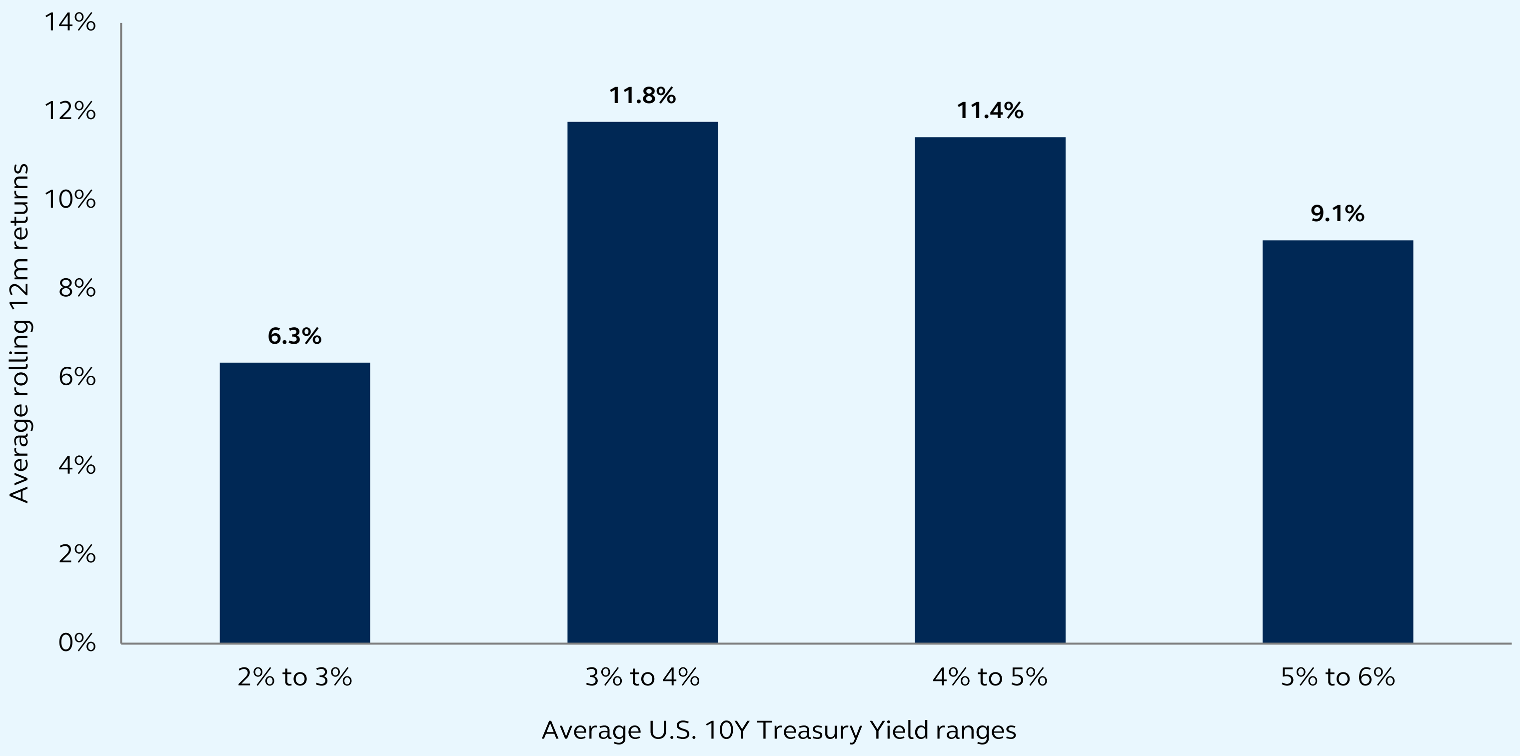
Higher for longer yields are usually a good thing for REITs

Today's higher interest-rate environment is another commonality with the 1990s cycle for REITs, an era of strong performance for the asset class.

In fact, higher interest rates are frequently associated with some of the strongest periods in REIT market returns. History also shows that REIT returns have been attractive across high-, moderate-, and low-yield regimes. Ultimately, fundamentals, capital markets, and valuations matter too.

Looking ahead, the direction of rates is a mystery and outside the control of any investor. We believe diversification is essential to portfolio success over the long term, and REITs have a place in portfolios under many rate environments.

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



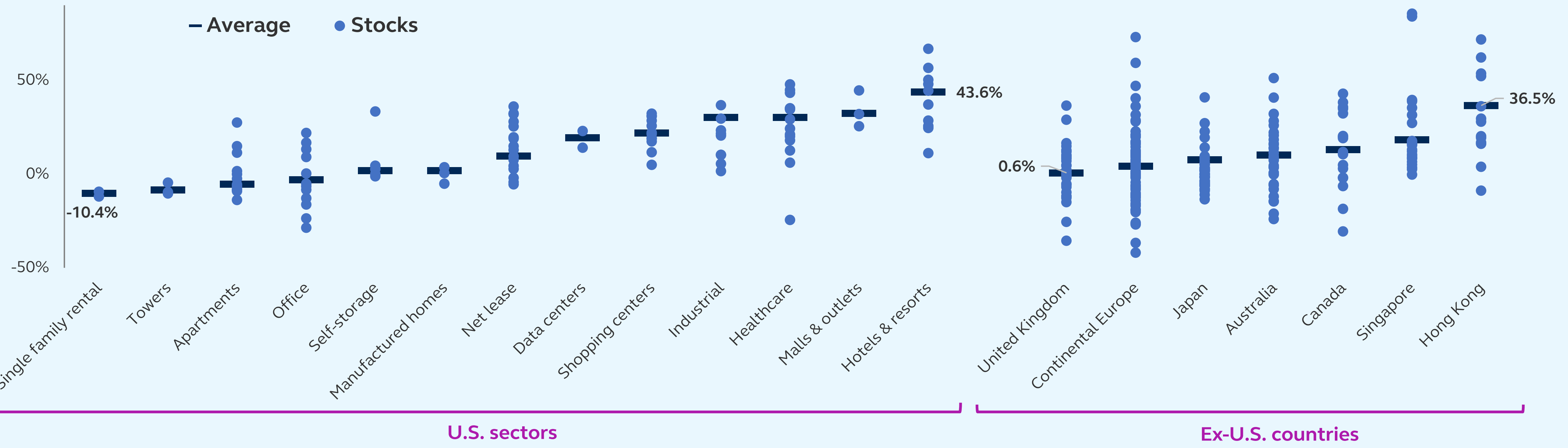
As of 31 March 2026. Source: FactSet. Returns data is showing FTSE NAREIT All Equity REITs average 12-month total returns moving quarterly during the average U.S. 10Y treasury yield during that period from 12/31/1992-3/31/2026. Past performance does not guarantee future results. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

Selectivity is key – active managers picking stocks and sectors will matter

Not all real estate companies are the same. Underlying property fundamentals, capital markets, business models, management skills, and other factors drive returns for a REIT security. This creates significant dispersion in total returns amongst countries, sectors, and, importantly, individual securities. It's why active management has historically worked well in listed REIT mandates to increase returns, mitigate drawdowns, and improve portfolio outcomes.*[1]

As the REIT cycle moves further into the expansion phase, we believe selectivity and active management will be more important than ever to optimize portfolio outcomes. REIT market leadership will be driven by earnings growth and fundamentals, and every company will face its own unique set of tailwinds and challenges.

Trailing 1 year total returns: U.S. sectors and international markets



Source: FactSet, as of 31 May 2026. *[1] The case for active REITs: Capitalizing on an inefficient market

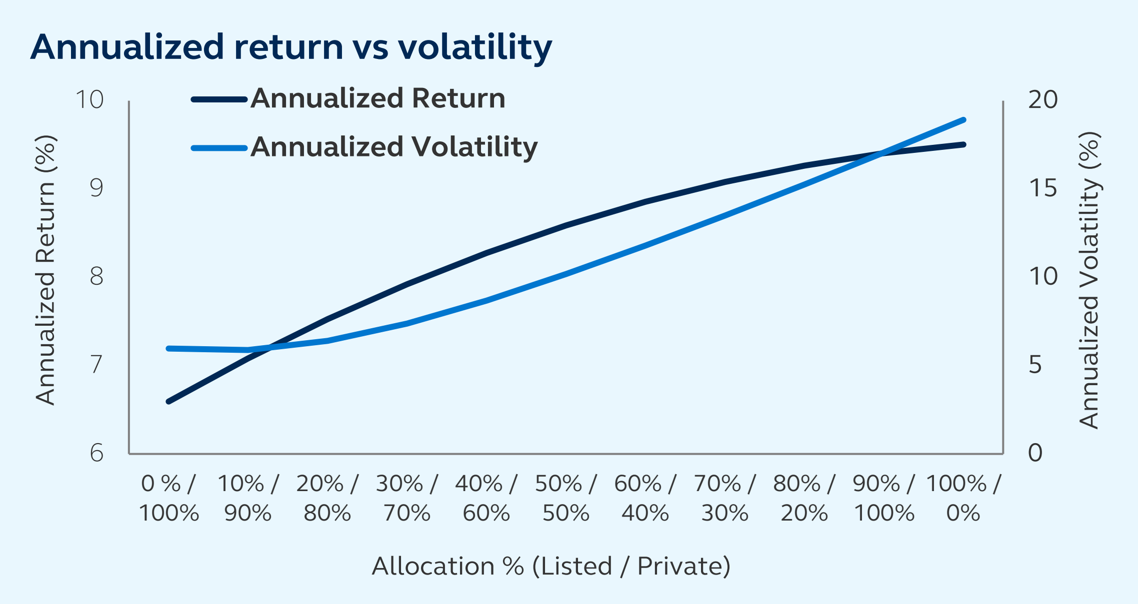
Integrating listed REITs with private equity optimizes portfolios

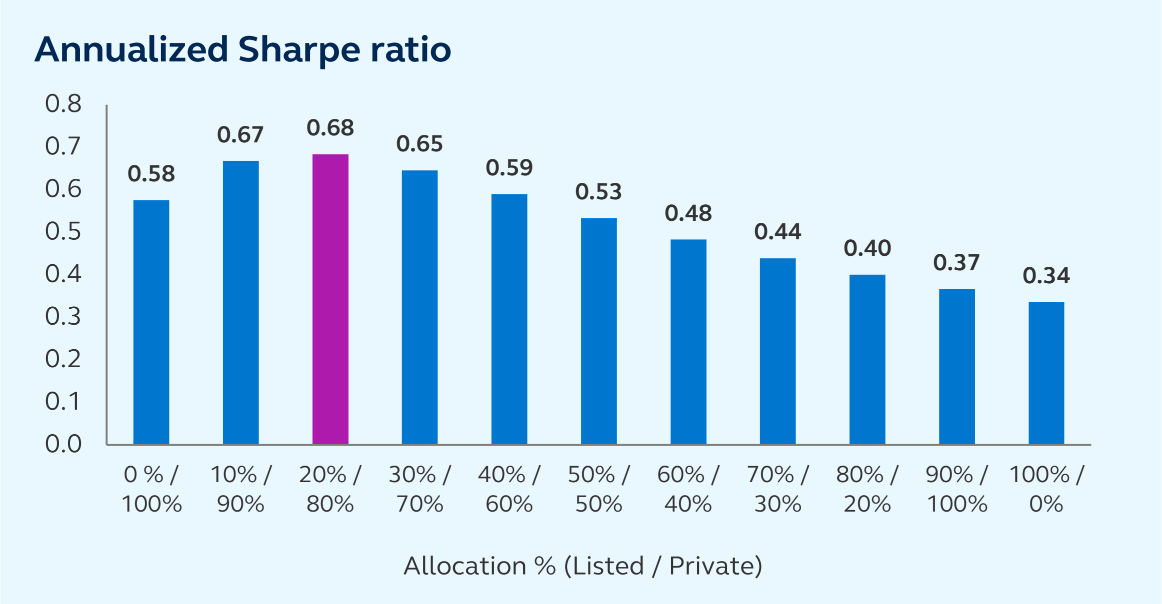
Optimizes portfolio outcomes by reducing volatility, increasing returns, and mitigating drawdown

Allocating to listed REITs within a private real estate portfolio enhances overall portfolio outcomes. Based on a full-cycle lookback (1Q90–1Q26), a 10% allocation to listed REITs reduces portfolio volatility by smoothing returns over time, leveraging the well-documented lead-lag relationship with private equity real estate. A 20% allocation maximizes the Sharpe ratio, as the incremental return more than offsets the marginal increase in volatility. Five- and ten-year lookback analyses corroborate these findings.

Allocation sensitivity analysis

Full cycle analysis – 1Q90 to 1Q26





Source: NCREIF, Bloomberg, Principal Real Estate, as of 31 March 2026. Past performance is not a guarantee of future results. No investment strategy can assure success or guarantee against loss in declining market environments. All investing is subject to market volatility, and it is always possible for an investor to lose their principal.

About Principal Real Estate

Global real estate investing backed by scale, expertise, and execution.

GLOBAL SCALE & REACH

- **Top-10** global real estate manager[1]
- **730+ clients** across **32 countries**[2]
- **480+ employees** in **12 countries**

$107.2 billion
Assets under management[2]

Private Equity
Core, Value-add, and Opportunistic Strategies
$57.3 billion

Private Debt
Commercial Mortgages and High Yield Debt
$22.5 billion

Public Equity
REIT and Infrastructure Securities
$20.0 billion

Public Debt
Commercial Mortgage-Backed Securities
$7.3 billion

DEPTH OF EXPERIENCE

- **65+ years** of global real estate investment experience **across market cycles** [3]
- **$122+ billion** in debt and equity transactions (10 years)[4]
- **$13.5 billion** in 2025 private real estate transaction volume [5]

PrincipalAM.com/RealEstate

See important information for footnote references.

Important information

[1] Managers ranked by total worldwide real estate assets (net of leverage, including contributions committed or received, but not yet invested; REOCs are included with equity; REIT securities are excluded), as of 30 June 2025. “The Largest Real Estate Investment Managers,” Pensions & Investments, 10 November 2025

[2] Includes clients of, and assets managed by, Principal Real Estate Europe Limited and its affiliates. Assets under management figures shown here may include model only assets.

[3] Experience includes investment activities beginning in the real estate investment area of Principal Life Insurance Company and continuing through the firm to present.

[4] As of 31 December 2025. This is an annual update. Excludes public REIT transaction volume.

[5] Includes only Principal Real Estate transactions for calendar year 2025.

Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

Index descriptions

S&P 500: A premier stock market index that tracks the performance of 503 of the largest publicly traded companies in the United States. It captures roughly 80% of the total U.S. equity market value, making it a leading barometer for the overall health of the American economy

MSCI World: The MSCI World Index is a widely followed global stock market index tracking over 1,300 large and mid-cap companies across 23 developed countries.

MSCI ACWI (All Country World Index) ex USA Index: A market-capitalization-weighted index that tracks the equity performance of large- and mid-cap stocks in global developed and emerging markets, excluding the United States.

FTSE EPRA/NAREIT Developed index: Tracks the performance of listed real estate companies (REITs and Real Estate Holding & Development firms) in developed markets globally, covering key regions like the Americas, EMEA, and Asia, focusing on ownership, development, and trading of income-producing properties, serving as a benchmark for index funds and performance measurement.

Russell 2000: A stock market index that tracks the value of approximately 2,000 US stocks with a small market capitalization.

Important information

Risk Considerations

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

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 intended for use 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").
- 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.
- This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.
- 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.

MM15029 | 07/2026 | 5595013 -122027