

FALL 2026

U.S. Real Estate sector report

Four quadrant perspectives

Sector conditions and outlook^{*1}

Select a tile to access sector-specific insights.

Hotel



Condition: **Stable** ○

Outlook: **Neutral** →

Industrial



Condition: **Stabilizing** ○

Outlook: **Moderately positive** ↗

Apartment



Condition: **Improving** ⊕

Outlook: **Moderately positive** ↗

Office



Condition: **Improving** ⊕

Outlook: **Moderately positive** ↗

Retail



Condition: **Improving** ⊕

Outlook: **Moderately positive** ↗

Single-family rental



Condition: **Stable** ○

Outlook: **Moderately positive** ↗

Data centers



Condition: **Improving** ⊕

Outlook: **Positive** ↑

Student housing



Condition: **Stable** ○

Outlook: **Neutral** →

Seniors housing



Condition: **Improving** ⊕

Outlook: **Positive** ↑

Life sciences



Condition: **Challenged** ⊖

Outlook: **Negative** ↓

^{*1} Outlook refers to the next 12 months

Resilience in a higher-for-longer environment

If the global macro landscape feels unusually complex and disorderly, that's because it is. We're not imagining the heightened uncertainty. We're watching several structural transformations unfold simultaneously, interacting with one another in ways that create a more volatile and difficult investment environment than investors have experienced for much of the past three decades.

1. Inflation has become more complicated. Recent inflationary pressures have been driven by factors largely outside the Fed's direct control, including energy prices and, increasingly, trade policy. Yet the picture is more nuanced than headline CPI suggests. Our decomposition estimates indicate that CPI excluding energy and estimated tariff effects is running closer to 2.2%—closely aligned to the Fed's broad inflation target, suggesting underlying inflation pressures are more contained than aggregate measures imply.

2. Interest rates are rising for structural and geopolitical reasons. Higher neutral rates, wider term premia, and firmer inflation expectations have all contributed to the move higher in yields. Some of this increase is directly related to the U.S. war with Iran, which has impacted global commodity prices and duration premia, resulting in a nearly 100 bps increase in yields since March. Additionally, today's environment resembles other periods of transformational infrastructure investment. Whether railroads in the nineteenth century, highways in the 1950s, telecommunications networks in the 1990s, or AI, data centers, and power infrastructure today, a common pattern emerges: when demand for investment capital grows faster than available savings, real interest rates tend to move higher.

3. Growth remains surprisingly resilient. While some traditional economic indicators have softened, headline economic performance remains strong. A significant driver has been the surge in AI-related investment spending, which has become an increasingly important contributor to overall economic performance—adding nearly a quarter percent to GDP growth on an annual basis since 2023.

Against this backdrop, inflation and interest rates are likely to remain higher for longer. This has unsettled markets and revived concerns about a repeat of the post-pandemic repricing in commercial real estate (CRE). What makes this

time different is that the CRE debt markets remain open, liquid, and competitive, and the banking system and corporate sector are in stronger condition than they were ahead of prior balance-sheet recessions. Credit availability does not insulate valuations from higher discount rates, but it can reduce the risk of forced sales and disorderly repricing.

Our base case is not a repeat of the post-pandemic correction, but neither is it a return to the low-rate environment that preceded it. Income should remain resilient, while durable NOI growth without excessive balance-sheet or capital-expenditure risk is likely to distinguish the strongest assets.

This elevates the importance of net operating income growth as a driver of total returns, which has been a defining attribute of the real estate asset class. Income returns have historically accounted for 80% of total returns over the past five decades. Moreover, this income return based on long-term leases has proved an effective feature, often offsetting periods of higher inflation and interest rates. In today's environment, where cap rate compression may be limited, NOI growth supports both income generation and asset appreciation. Achieving it requires not only selecting the right property types and markets but also creating value through active asset management and value-add strategies.

Many properties and markets continue to benefit from an early-cycle environment characterized by rising rents and values. Others, however, may face a cycle that never fully materializes. This ultimately means investors should also expect a wider dispersion of returns.

Dispersion has always existed, but for much of the past thirty years it has often mattered less. Broad-based recoveries lifted most assets, while downturns weighed on nearly everything. The V-shaped recovery following the Global Financial Crisis looked much different than today's recovery. For the first time since the aftermath of the Savings & Loan crisis, avoiding the losers may be just as important as identifying the winners. In a market defined by structural change, selectivity matters more, and alpha is earned rather than given.



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 continues to stabilize as the construction pipeline contracts and the recent wave of new deliveries begins to recede. Demand remains healthy, although near-term rent growth is still modest, particularly in overbuilt Sun Belt markets. As supply growth slows, vacancies should gradually decline. Markets with limited construction and solid job growth are likely to lead the recovery, supporting firmer operating performance over the coming year.

Private equity

Broader apartment fundamentals are gradually improving as the wave of new supply delivered over the past several years recedes and development activity remains well below recent peaks. Near-term rent growth is expected to remain modest as markets absorb recent deliveries, but conditions are becoming increasingly differentiated by region. Coastal markets, particularly along the West Coast, are benefiting from limited new supply and strengthening demand, while many Sun Belt markets continue to work through elevated construction pipelines. Select Midwest markets have also performed well, supported by limited new supply and relative affordability. Over the medium term, slower supply growth, challenging development economics, and persistent housing affordability pressures should support higher occupancy, stronger rent growth, and a more constructive investment environment.

Apartment transaction activity increased modestly during the first half of 2026. Trailing 12-month transaction volume totaled \$174 billion, an increase of 11.1% from a year earlier. Pricing at a discount to replacement cost continues to create selective acquisition opportunities, with investor interest gravitating toward high-quality assets in supply-constrained markets. National apartment vacancy stood at 4.3%, modestly higher over the trailing 12 months, while net absorption totaled approximately 294,600 units during the same period.

Property-level operating trends through the second quarter of 2026 also point to a gradual improvement in apartment fundamentals. Occupancy trended higher across a broad group of residential assets, while same-property NOI growth remained solid in several markets. Performance benefited from lease-up progress at recently delivered properties and continued rent growth on renewals. Results varied across residential subtypes, however. Conventional renter-by-choice apartments generated more moderate tenant retention than alternative residential segments, highlighting the diversification benefits of a broader residential allocation.

Alternative and demographically supported residential strategies continued to deliver attractive relative performance. Age-restricted properties recorded meaningfully higher tenant retention than conventional apartments, supported by favorable demographic trends. Manufactured housing also maintains a constructive outlook, reflecting structural supply constraints and resilient, affordability-driven demand.

Private debt

Apartment lending remains attractive to many lenders because of the national housing shortage, challenging economics for first-time homebuyers, positive year-to-date net absorption in nearly all markets, relatively low vacancy rates, and strong market liquidity. Although apartment investment sales have remained subdued, strong lender demand has sustained robust competition for multifamily loans.

Government-sponsored enterprises (GSEs) generally offer the lowest spreads on stabilized, core apartment properties. Pricing can reach the low-100-basis-point (bp) range for loans with low to moderate leverage, supported by the GSEs' low cost of capital. Insurance companies and banks typically price core apartment commercial mortgage loans at spreads



Apartment

(continued)

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of 110 to 135 bps over U.S. Treasury yields for loan-to-value ratios between 50% and 65%. For leverage ranging from the upper 60s to the mid-70s, GSEs and commercial mortgage-backed securities conduits may offer spreads in the upper-100 to low-200 bp range. Debt funds sometimes provide stretch-senior apartment loans at leverage of up to 80%, with pricing in the mid- to upper-200 bp range over SOFR.

The GSEs and commercial mortgage-backed securities lenders also allow borrowers to buy down interest rates at closing. This can improve debt-service coverage ratios and increase proceeds on loans that would otherwise be constrained by debt-service requirements.

REITs

Apartment REITs have lagged the broader all-sector index in 2026, although sentiment has improved as investors have grown more confident that supply pressures have peaked and fundamentals will strengthen as new deliveries decline through 2027. Despite slower job creation, the low-layoff environment continues to support full employment and household formation. Apartments' significant affordability advantage over homeownership, combined with high occupancy and solid renewal rent growth, has also sustained demand. Investor attention remains focused on new-lease pricing and blended leasing spreads, where recovery has been gradual and uneven across several supply-affected Sun Belt markets. Recent earnings reports indicate that conditions are stabilizing, but evidence of sustained pricing power remains limited.

Private-market values have remained relatively resilient, with institutional-quality multifamily assets generally trading at capitalization rates in the upper-4% to low-5% range. Public apartment REITs, however, continue to trade at materially higher implied capitalization rates. This valuation gap has encouraged asset dispositions, share repurchases, and other capital-recycling initiatives intended to improve shareholder value.

Northern California and New York remain the strongest apartment markets, benefiting from limited new supply, high occupancy, and improving pricing power. In contrast, many Sun Belt markets are only beginning to stabilize as deliveries moderate and concessions remain elevated. Management teams increasingly expect improving supply-and-demand conditions to support stronger growth through 2027. Nevertheless, apartment REITs continue to trade at discounts of approximately 15 to 20% to net asset value, reflecting investor concerns about the pace of job growth, the timing of a meaningful recovery in leasing spreads and revenue growth, and recent movements in interest rates.

CMBS

The GSEs remain the dominant lenders in the multifamily sector, with approximately \$176 billion of combined lending capacity for 2026. This represents a 20.5% increase from their combined capacity of \$146 billion in 2025. Multifamily exposure within conduit and single-asset, single-borrower (SASB) commercial mortgage-backed securities remains significant, although smaller in scale, with approximately \$76.2 billion outstanding. Multifamily has accounted for approximately 19% of conduit issuance over the past five years.

Multifamily continues to perform relatively well within the fixed-rate CMBS market. At approximately 6.6%, the conduit multifamily delinquency rate remains among the lowest of the major property types, with only industrial recording a lower rate.

Some weakness is emerging, however, among floating-rate SASB loans originated at low debt yields during the low-interest-rate environment. Higher interest rates have increased debt-service burdens, while modest NOI growth and valuation pressure have complicated refinancing. Consequently, the SASB multifamily delinquency rate has risen to approximately 6.4%, driven primarily by maturity defaults.

Multifamily fundamentals are improving as supply pressures ease, but future CMBS credit performance will increasingly depend on borrowers' ability to refinance, local supply conditions, and sponsors' access to capital—not occupancy risk alone.



Hotel

Sector rating

Neutral →

New supply

Neutral →

New demand

Moderately positive ↗

Rent growth

Positive ↑

Capital values

Moderately negative ↘

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

Hotel fundamentals remain stable, supported by stronger-than-expected RevPAR growth, limited new supply, and healthy leisure and group demand. Performance in 2026 has benefited from major events, easier comparisons, and continued strength among higher-income consumers. Average daily rates remain the primary source of RevPAR growth, as occupancy has yet to fully return to pre-pandemic levels. Growth is expected to moderate in 2027 as event-related demand normalizes and comparisons become more challenging. Nevertheless, limited supply growth and continued improvement in business travel should support positive RevPAR growth, with luxury and resort properties expected to outperform.

Private debt

Hotel debt is actively supplied by debt funds, banks, CMBS SASB, CMBS conduits and a few insurance companies today. Lenders focus heavily on the quality of the property, brand and operator, with available debt terms varying widely based on the strength of each of those factors. Available LTV ratios range from lower than 50% for some properties to the more common 50 to 65% range, and occasionally as high as 75%, depending on property, brand, operator and sponsor. Spreads over SOFR typically range from the high 200s basis points to the mid-400s basis points for most hotel loans with LTVs under 65%. Recourse requirements vary by type of lender, with banks usually reserving non-recourse hotel loans for their best customers. Some banks offer hotel construction loans, although most of those are capped at 40 to 50% LTV, require recourse, and are priced in the 500 to 700 bps range over SOFR.

REITs

Hotel REITs have materially outperformed the broader REIT market year to date, supported by much stronger-than-expected RevPAR growth. Industry RevPAR is on track to increase approximately 5% in 2026, well above initial expectations of 1% to 2%. Several factors have contributed to this acceleration: demand associated with major events, including the World Cup and America 250; easier comparisons following the slowdown in business and group travel after the April 2025 tariff announcements; favorable calendar and holiday shifts; limited new hotel supply; continued strength among higher-income consumers; and a healthy corporate investment cycle. Security concerns in international destinations, particularly the Middle East, Africa, and Mexico, have also shifted some leisure demand toward the United States. Expense pressure remains a challenge, with hotel REIT wage rates increasing approximately 5% in 2026. Even so, efficiency initiatives and healthy revenue growth have supported solid profitability gains.

Industry growth is expected to moderate in 2027 as demand normalizes and comparisons with major-event periods become more difficult. Nevertheless, the corporate capital-expenditure cycle remains healthy, even excluding AI-related investment, while hotel supply is forecast to grow by less than 1%. These conditions should support RevPAR growth near its historical low- to mid-single-digit rate. Following strong year-to-date share-price performance, discounts to net asset value have narrowed materially. Valuations remain mixed, however, with several lodging REITs approaching net asset value while much of the sector continues to trade at modest discounts. Capital-allocation strategies vary based on leverage, relative valuation, and available opportunities. Companies trading closer to net asset value are better positioned to pursue acquisitions, while those at wider discounts may favor asset sales, debt reduction, or share repurchases through year-end and into early 2027.



Hotel

(continued)

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CMBS

Despite moderating from post-pandemic highs, hotel demand and operating performance remain solid, supporting an improvement in loan performance. The conduit hotel delinquency rate, which peaked near 20% in July 2020, has declined to approximately 6.7%. As of August 2026, this was below the overall conduit delinquency rate of 7.6%.

Leisure travel led the initial recovery, particularly in destination markets, while business travel has rebounded more gradually. Hotel operators have sustained RevPAR growth primarily through increases in average daily rates, even as occupancy remains below pre-pandemic levels, especially in higher-end segments. Year-over-year RevPAR growth is beginning to normalize as consumers have largely depleted the excess savings accumulated during the pandemic.

CMBS issuance in 2020 and 2021 included minimal hotel exposure because of underwriting challenges and investor caution. As operating fundamentals improved, hotels accounted for approximately 11% of conduit issuance in 2024 and 12.3% in 2025. The share has since moderated to approximately 8.3% of year-to-date issuance in 2026.

The lodging sector is transitioning from post-pandemic recovery to normalized growth. Limited new supply, improving business and group travel, and strong luxury-hotel performance continue to support fundamentals. CMBS credit outcomes will increasingly depend on asset quality and borrowers' ability to execute refinancings rather than on broad sector recovery trends.





Industrial

Sector rating

Moderately positive ↗

New supply

Improving ➕

New demand

Moderately positive ↗

Rent growth

Stable ➡

Capital values

Neutral ➡

REIT pricing relative to NAV*

Modestly 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

Industrial fundamentals remain stable as the sector absorbs the elevated supply delivered over the past several years and tenants navigate uncertainty related to trade policy and economic growth. Leasing velocity and large-format demand have improved, vacancy appears to have peaked, and the sharp slowdown in new construction should support a gradual tightening of market conditions beginning in late 2026 and continuing into 2027. The sector remains strongly supported by equity and debt capital, while e-commerce, supply-chain modernization, advanced manufacturing, and data-center-related demand provide favorable long-term growth drivers. Well-located, modern logistics facilities should continue to outperform older, less-functional assets.

Private equity

Industrial fundamentals remain stable as the sector works through the substantial volume of new supply delivered over the past several years. Demand is healthy, supported by e-commerce, logistics modernization, supply-chain reconfiguration, and take-up associated with data-center development. New construction has slowed substantially from peak levels, which should allow the supply-and-demand balance to improve beginning in late 2026 and continuing into 2027. Rent growth has moderated from the exceptional gains recorded during the pandemic, although well-located, modern logistics facilities continue to outperform older assets.

Industrial investment activity remains strong, with transaction volume increasing 24% year over year in the second quarter and approaching record levels despite modest pricing pressure and somewhat higher capitalization rates. National industrial vacancy stood at 9.2%, unchanged over the trailing 12 months, while net absorption totaled approximately 190.9 million square feet nationally during the same period. Although trade-policy uncertainty and slower economic growth present near-term risks, industrial properties continue to benefit from favorable long-term demand drivers and attract substantial institutional capital.

Industrial operating performance remained healthy through the second quarter, with occupancy holding at solid levels and same-property NOI continuing to grow year over year. Income growth has been supported by contractual rent escalations, lease renewals executed above expiring rents, and the continued lease-up of vacant and recently delivered space. Demand for large-format facilities has also increased, with a notable year-to-date pickup in leases exceeding 300,000 square feet as pent-up requirements from prior years have translated into completed transactions.

Looking ahead, the sector retains substantial mark-to-market potential because rents on many leases approaching expiration remain below current market levels. This gap should support continued income growth as leases roll through 2026 and 2027, provided underlying space-market fundamentals remain favorable. Development and value-add opportunities also remain attractive on a selective basis, particularly for modern logistics facilities where location, design, and functionality provide meaningful competitive advantages.

Private debt

Lenders continue to actively pursue loans secured by industrial properties. Positive national net absorption, the slowest pace of construction completions in a decade, relatively healthy vacancy rates, favorable lease-renewal activity, and moderate projected rent growth continue to support lender confidence in the sector.



Industrial

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Well-located, high-quality warehouse and logistics properties in major markets can often obtain 5- to 10-year, fixed-rate financing from insurance companies and banks. Loan-to-value ratios generally range from 50 to 65%, with spreads of approximately 120 to 145 bps over U.S. Treasury yields and interest rates typically ranging from 5.75 to 6.25%. Higher leverage is often available from CMBS conduits and debt funds, although at wider spreads and higher interest rates.

REITs

Industrial REITs have underperformed the broader REIT index year to date, even as fundamentals appear to be moving from stabilization into the early stages of recovery. Tenant decision-making and leasing velocity have improved as companies make longer-term supply-chain commitments despite continued macroeconomic uncertainty, elevated energy costs, and higher interest rates. Meanwhile, limited new construction appears to have allowed vacancy to peak. Industrial REITs identify e-commerce, advanced manufacturing, aerospace and defense, and data-center development as important drivers of stronger-than-expected net absorption. Data-center-related industrial leasing has become a particularly meaningful and potentially durable source of incremental demand. Estimates vary by geographic exposure but generally range from 5 to 15% of net absorption.

Looking ahead, management teams are increasingly confident that market conditions have reached an inflection point and expect rent growth to accelerate over the next 12 to 18 months. Southern California continues to underperform, although several REITs believe fundamentals have bottomed as vacancies appear to have peaked and rent declines have moderated following three years of pressure. Improving operating conditions have also increased confidence in speculative development, prompting several REITs to raise their guidance for 2026 development starts meaningfully. Combined with income growth from embedded mark-to-market opportunities as below-market leases expire, these trends position industrial REITs for stronger growth in the coming years. Macroeconomic concerns continue to weigh on investor sentiment, however, leaving the sector trading at an estimated 5% discount to net asset value.

CMBS

Industrial loans continue to record the lowest delinquency rate in the CMBS market at 2.65%, demonstrating the sector's resilience relative to other traditional property types. Although credit quality and investor demand remain strong, the implementation of new tariffs has created near-term headwinds. Trade disruptions have affected supply chains and tenant operations, introducing uncertainty around leasing activity and rent growth. Longer-term fundamentals remain solid, supported by continued e-commerce adoption and sustained demand for logistics space.

Since 2020, the SASB CMBS market has provided more than \$43.2 billion in floating-rate financing to industrial owners, serving as an efficient source of capital for large portfolio transactions. Issuance was initially concentrated among a small number of large institutional borrowers, but participation has broadened since early 2024 as more sponsors have accessed the market for portfolio financing.

Industrial allocations within conduit CMBS have normalized to approximately 6 to 7%, consistent with pre-pandemic levels, after reaching roughly 10% in recent years. Conduit loans are typically smaller than SASB transactions and are often secured by properties in tertiary locations, assets with less-functional layouts, or properties occupied by non-investment-grade tenants, including those involved in sale-leaseback transactions. Consequently, underwriting standards for conduit industrial loans have generally been more conservative than those for SASB financing.

The industrial sector is moving from normalization toward recovery as declining construction and improving leasing demand gradually tighten market conditions. Conduit and SASB credit performance remains supported by sound asset quality and resilient tenant demand, with industrial continuing to record the strongest loan performance among the major commercial real estate property types.



Office

Sector rating

Moderately Improving ↗

New supply

Positive ↑

New demand

Moderately improving ↗

Rent growth

Neutral →

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 ↘

Sector overview

Office fundamentals are beginning to improve, although the recovery remains uneven. National vacancy has declined to 18.3%, net absorption has turned positive, and leasing activity is accelerating across a broader range of markets. Transaction activity and debt availability have also improved but remain concentrated among high-quality, well-leased properties. Premier buildings are achieving stronger rent growth and improved lease economics, while older commodity assets continue to face elevated concessions, weak demand, and refinancing pressure. Historically low new supply and a backlog of signed leases should support further occupancy gains, but performance will remain highly differentiated by asset quality and location.

Private equity

Office fundamentals are showing signs of improvement. National leasing activity has increased, net absorption has turned positive, and occupancy is slowly improving, supported by the continued flight to quality and increased attendance. National utilization remains below pre-pandemic levels, however, and slower growth in office-using employment is likely to limit the pace of recovery. Capital-markets activity has also improved, with U.S. office transaction volume totaling \$40.1 billion during the first half of 2026, an increase of 14% from a year earlier. Investor demand remains concentrated in high-quality, amenity-rich properties in leading markets, while commodity office assets continue to face leasing challenges, elevated capital costs, and refinancing pressure.

Pricing indicators suggest that investor sentiment may be reaching an inflection point, with values beginning to recover modestly in select central business districts and suburban markets. Values remain well below pre-pandemic levels, however, and the recovery continues to vary significantly by market and asset quality. National office vacancy stands at 18.3%, down 70 bps over the trailing 12 months, while net absorption totaled nearly 40 msf nationally during the same period.

Property-level operating performance remains uneven, reflecting the bifurcated nature of the office recovery. Higher-quality, well-located properties continue to generate stronger leasing activity and tenant retention than older commodity assets. Select opportunities are emerging among premier gateway-market properties, well-leased Sun Belt assets, and structured or distressed investments. Underperforming properties may require more active lease management, targeted capital investment, conversion to alternative uses, or disposition.

Private debt

Despite continued distress across the national office market, select insurance companies have shown interest in financing the highest-quality properties with strong leasing profiles and experienced sponsorship. This activity remains limited, and spreads are typically 30 to 75 bps wider than those on industrial or apartment loans with similar credit risk and tenor. Insurance-company underwriting remains highly conservative, with a strong emphasis on the durability of property cash flow rather than current NOI alone. Loan-to-value ratios are frequently capped in the 50% range based on current, lower property valuations.

CMBS lenders also continue to pursue office loans selectively. The CMBS bond market generally accepts office exposure of up to 20% within an individual conduit transaction, limiting lender capacity. Available financing is therefore concentrated among higher-quality properties with strong in-place leasing.



Office

(continued)

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Certain debt funds are willing to finance a broader range of office properties, but their required yields often exceed what the properties' existing economics can support.

Class B and C office buildings, properties with occupancy below approximately 80 to 85%, and assets with weighted-average remaining lease terms of less than five to seven years generally attract little or no lender interest. Most office financing continues to involve incumbent lenders extending or refinancing their existing loans.

REITs

Office REITs have underperformed the broader REIT index year to date despite a meaningful recovery since late March. The sector came under pressure in early 2026 amid concerns that AI-related disruption could structurally reduce office-using employment and demand. Those concerns have since moderated as evidence of near-term displacement remains limited, while demand from AI companies has provided a meaningful tailwind in select markets. Higher interest rates remain an earnings constraint because of the sector's above-average leverage, partially offsetting recent operating improvements.

Office fundamentals continue to strengthen as leasing activity accelerates and broadens across markets. New York remains the strongest major market, while San Francisco is recovering rapidly as the availability of high-quality space declines and demand from AI-related tenants increases. Several Sun Belt markets are also benefiting from renewed migration and business expansion, supporting additional demand for Class A space in cities such as Dallas, Charlotte, and Nashville.

The outlook remains constructive. Leading indicators, including property tours and leasing pipelines, point to sustained momentum, while the development pipeline remains near historical lows. Management commentary has become increasingly optimistic, with several experienced executives describing current supply-and-demand conditions as among the most favorable of their careers. Premier buildings in stronger submarkets are achieving double-digit rent growth and improving leasing spreads. Landlords are also beginning to reduce concession packages, strengthening overall lease economics.

Occupancy is rising and should continue to improve over the next 12 to 24 months as a substantial backlog of signed leases commences. Earnings growth has turned positive following several years of decline, and cash-flow growth should follow as leasing capital expenditures appear to have peaked. Despite these improvements, office REITs generally continue to trade at discounts of approximately 15% to 30% to net asset value, limiting external growth opportunities. Most companies are therefore emphasizing capital recycling by selling noncore assets and directing proceeds toward higher-quality properties and largely preleased development projects.

CMBS

Office exposure within conduit CMBS remains challenged by persistent secular headwinds. Office properties historically represented approximately 30% of conduit collateral, but the share fell to 20% in 2023, 15% in 2024, and 16% in 2025 before increasing modestly to 18% year to date in 2026. Delinquencies have also risen sharply since 2022, with the fixed-rate conduit office delinquency rate increasing from approximately 1.9% to 15.0%. Long-term leases, diversified rent rolls, and strong underwritten debt-service coverage ratios have helped limit defaults during loan terms, but pressure on NOI, constrained capital availability, and higher interest rates continue to create significant refinancing risk.

Floating-rate SASB office loans face additional pressure because higher short-term interest rates have reduced debt-service coverage ratios and refinancing capacity. The SASB office delinquency rate has reached approximately 7.3%, with roughly one-third of defaults occurring at maturity. CMBS servicers have increasingly granted extensions in exchange for additional



Office

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borrower equity, cash-flow sweeps, and other lender protections. These measures may improve bondholder recoveries but also lengthen resolution timelines and prolong uncertainty around office valuations.

Credit performance remains highly differentiated by asset quality. Recently constructed Class A properties continue to outperform, with some markets reporting positive net absorption and higher effective rents for newer space. Nearly half of conduit CMBS office exposure is classified as Class A, a distinction that may not be fully reflected in current risk premiums. Tenants continue to favor modern buildings with strong amenities, sustainability features, and prime locations, while older commodity assets face greater leasing and refinancing challenges.

The office sector is moving from broad deterioration toward a selective recovery, creating potential opportunities in distressed debt, recapitalizations, and structured equity. The most attractive opportunities are likely to involve high-quality assets in markets showing early improvement, including New York City and San Francisco. Conduit and SASB credit performance will remain primarily a refinancing story, with outcomes determined by asset quality, lease durability, sponsor support, and local market conditions.





Retail

Sector rating

Moderately positive ↗

New supply

Positive ↑

New demand

Moderately positive ↗

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

Retail fundamentals remain strong and stable, supported by limited new supply, high occupancy, and healthy tenant demand. Grocery-anchored, necessity-based, and open-air formats continue to outperform because of defensive demand and limited e-commerce exposure. Transaction activity and lender appetite remain healthy but favor high-quality assets, while weaker regional malls face refinancing pressure. The outlook remains moderately positive, although future growth will depend more on rent gains, redevelopment, and capital deployment as occupancy nears its practical ceiling and consumers become more selective.

Private equity

Retail fundamentals continue to be shaped by a shortage of high-quality space. Availability remains near historical lows, while elevated construction costs, financing constraints, and limited project feasibility continue to restrict new development. This has created one of the most supply-constrained environments in commercial real estate. Tenant demand remains healthy despite more selective consumer spending. Vacated space is generally re-leased quickly, particularly in grocery-anchored centers, neighborhood retail properties, and high-traffic locations, supporting occupancy and allowing landlords to capture rent growth through renewals and lease rollover.

Capital-markets activity has increased as investors target retail's durable cash flows, attractive yields, and embedded rent-growth potential. Demand remains strongest for necessity-based, grocery-anchored, and open-air formats. Trailing 12-month national transaction volume totaled \$76.5 billion, an increase of 22.5% from a year earlier. National retail vacancy remained unchanged at 6.8%, while net absorption totaled approximately 6.3 msf during the same period.

Property-level performance remains strong, with occupancy holding near historical highs across high-quality retail formats. Although leasing volume has been modest, this largely reflects limited available space rather than weakening tenant demand. Select opportunities remain in core-plus acquisitions priced below replacement cost and new development in high-growth suburban markets, particularly where supply constraints support durable occupancy and rent growth.

Private debt

Lender appetite for necessity-oriented retail properties, particularly grocery-anchored centers, has remained strong this year. Neighborhood and community shopping centers with strong tenant sales histories and long weighted-average lease terms (WALTs) have attracted the greatest interest from insurance companies seeking to diversify their commercial real estate exposure. Grocery-anchored and other high-quality retail properties frequently obtain lower interest rates than comparable industrial assets. For loans with LTV ratios of 50 to 65%, spreads generally range from 115 to 135 bps over U.S. Treasury yields, resulting in interest rates of approximately 5.7 to 6.2%.

Loans secured by high-street retail, power centers, and lifestyle centers generally price 10 to 15 bps wider than financing for well-anchored neighborhood and community shopping centers, although CMBS lenders remain active in these formats. Financing for regional malls remains largely unavailable except for the highest-quality assets operated by experienced sponsors. Across retail formats, lenders focus heavily on tenant creditworthiness, historical sales performance, remaining WALT, and sponsor quality.



Retail

(continued)

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REITs

Retail REITs have modestly outperformed the broader REIT index year to date, driven by strong mall REIT performance, while shopping center REITs have performed in line with the broader market. Despite concerns about lower-income consumers and mixed retailer results, property fundamentals remain solid. There is little evidence of a broad-based slowdown in tenant demand, bankruptcy activity remains limited, tenant watch lists are manageable, and new supply is minimal. Occupancy and leased rates are at or near record highs following several years of favorable operating conditions, but management teams continue to see incremental upside because of the depth and breadth of tenant demand. Landlords also retain meaningful pricing power, reflected in leasing spreads in the low-teens range and same-property NOI growth that remains well above historical averages.

Conditions are expected to remain largely stable, provided the U.S. economy remains resilient. Retail REITs appear well positioned to generate continued earnings growth through healthy property-level performance and accretive capital deployment. Investment markets are becoming more competitive, particularly for high-quality grocery-anchored shopping centers. Even so, REITs continue to create value through development and redevelopment projects and capital-recycling strategies, including selling lower-growth assets at attractive capitalization rates and reinvesting the proceeds in properties with stronger growth potential. Mall REITs generally trade near net asset value, while shopping center REITs trade at discounts of approximately 10 to 15%. These discounts likely reflect macroeconomic uncertainty and concern that sector growth may be approaching a peak as further occupancy gains become more difficult to achieve.

CMBS

Investor perception of retail has improved significantly, supported by resilient consumer spending and a healthy labor market. The drawdown of pandemic-era excess savings also supported spending during the recovery, although that benefit is fading. Store closures have slowed considerably over the past three years, while the transformation of malls toward entertainment and experiential uses has resumed following the pandemic. Retail represented 29% of conduit issuance in 2023 and 28% in 2024, but its share subsequently declined to 18% in 2025 and 14.7% year to date in 2026, reflecting a shift in collateral composition.

Mall exposure rose from 3% of conduit issuance in 2022 to 13% in 2023, supported by positive tenant sales and conservative underwriting, including average debt-service coverage ratios above 2.0x and LTV ratios below 50%. Malls accounted for approximately 5% of total conduit issuance in both 2025 and year to date in 2026, reflecting continued lender selectivity and a preference for necessity-based retail.

Maturity pressure from loans originated in 2013 and 2014 continues to weigh on the conduit retail delinquency rate, which stands at 6.7%. As performing loans approach maturity, CMBS servicers have granted extensions in exchange for additional borrower equity and other lender protections. This approach can improve bondholder recoveries by retaining capable operators and avoiding near-term foreclosures while property values remain depressed. Several regional malls from these vintages continue to face refinancing challenges even though their debt yields exceed 10%.

Retail remains one of the more fundamentally sound property types in the conduit and SASB markets, supported by minimal new supply, resilient consumer demand, and stable occupancy. Credit performance will increasingly depend on tenant quality, asset positioning, and competitive relevance rather than broad-based sector trends.



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 prior peaks. 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

Single-family rental and build-to-rent properties continue to benefit from elevated homeownership barriers, as high mortgage rates and home prices direct many households to the rental market. Looking ahead, sustained affordability constraints and limited turnover into homeownership should support steady demand, and rent growth is expected to normalize as multifamily supply pressures recede and rental housing alternatives grow in competitiveness.

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. 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 21st Century ROAD to Housing Act was enacted in July, bringing clarity to policy uncertainty. The Act places certain limits on institutional investor acquisitions of single-family rentals but was viewed as relatively investor-friendly, especially with respect to build-to-rent properties and contemplated downside scenarios.

Private debt

Supply and demand fundamentals for single family rental properties remain healthy, driven by general housing shortages, unaffordable (to many) starter home prices and elevated mortgage rates. Those factors encourage lending in the sector. Financing remains primarily focused on properties located on contiguous tracts of land and operated essentially as single properties rather than scattered site properties. Lending terms vary widely based on property and management quality, with lenders generally focusing more on current cash flow and less on expected appreciation as they underwrite single family rental properties today.



Single-family rentals

(continued)

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REITs

SFR REITs recovered from the sharp selloff triggered by regulatory concerns earlier in the year, but have continued to underperform the broader REIT index in 2026. Demand remains healthy, supported by a significant affordability advantage relative to homeownership, strong resident retention and limited for-sale housing inventory. However, investor concerns remain focused on slowing job growth, elevated levels of shadow rental supply in certain markets and the ongoing moderation in new lease and blended lease spreads, which has tempered expectations for near-term revenue acceleration.

Capital allocation has become the dominant investment theme within the sector. With public market valuations remaining well below private market values, SFR REITs have increasingly prioritized portfolio recycling initiatives, selectively selling homes at attractive valuations and using proceeds to fund substantial share repurchase programs. Combined with persistent NAV discounts, heightened regulatory scrutiny and the implications of the ROAD to Housing Act, acquisition activity has become increasingly selective. Build-to-rent platforms are expected to remain the primary avenue for external growth. Despite slower rent growth, SFR REITs continue to outperform traditional apartment REITs on blended leasing spreads and organic growth metrics, yet the sector trades a steeper discount to NAV (25-30%) than the apartment REITs.





Data centers

Sector rating

Positive ↑

New supply

Modestly positive ↗

New demand

Positive ↑

Rent growth

Positive ↑

Capital values

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 exhibit some of the strongest fundamentals across real estate, supported by structural demand from cloud computing and AI. Vacancy remains near historic lows, while power availability and lengthy interconnection timelines constrain new capacity and support rent growth. Capital-market activity remains robust across equity, debt, and CMBS channels, although large hyperscale projects can be difficult for diversified investors to access. Despite premium valuations, the sector offers compelling long-term growth supported by high barriers to entry, with performance increasingly dependent on power access, development execution, tenant credit, and the timely conversion of contracted capacity into revenue.

Private equity

Record levels of capital continue to flow into the data center sector, supporting robust development activity, which is necessary to meet current demand trends. Vacancy remains near historic lows across major markets as demand continues to outpace available capacity, supporting rent growth and expectations for mid-single-digit NOI growth.

Operating performance remains exceptionally strong, with same-property NOI growth benefiting as tenants occupy previously contracted capacity and pursue additional power commitments. Limited power availability, lengthy interconnection timelines, and development constraints continue to create significant barriers to entry and support the value of existing capacity.

Although large hyperscale projects can be difficult for diversified real estate investors to access, select mid-sized opportunities remain attractive, particularly powered-shell developments in which tenants fund a substantial portion of interior improvements. Data centers remain one of real estate's most compelling long-term growth sectors, although investment performance will depend heavily on power access, location, development execution, and tenant credit.

Private debt

Lender appetite for data center financing remains robust, although available financing terms vary widely based on whether the property has assured power sources and whether it has been leased long-term (typically 15+ years) to one of the seven largest data center operators or by another operator. Longer term permanent loans for data centers may be available from insurance companies or CMBS (frequently SASB due to investment sizes), with longer-term permanent lenders typically requiring significant amortization to limit their exposure to the real estate once the operator's primary lease term expires. Pricing for permanent debt varies largely by operator.



Data centers

(continued)

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REITs

Data center REITs have outperformed the broader REIT index year to date, although relative performance has moderated since mid-April. The pullback appears to reflect technical factors—including competition for investor capital from new data center and AI infrastructure offerings—rather than weakening fundamentals. Results through the first half of 2026 remained strong, supported by robust leasing, favorable renewal pricing, expanding backlogs, and broad-based demand across hyperscale, enterprise, and interconnection deployments.

Power availability and development execution remain the primary constraints as demand continues to outpace capacity across key markets, supporting pricing power. REITs are expanding their development pipelines and increasingly using joint ventures and private capital to fund growth, while AI inference demand adds to continued cloud and hyperscale expansion. Principal risks include development delays, significant capital requirements, and the timely conversion of contracted backlogs into revenue. Established platforms continue to command premium valuation multiples and trade above NAV, while newer or more highly leveraged operators trade at discounts reflecting execution and funding risk.

CMBS

Issuance has remained active in 2026, supported by large transactions financing stabilized hyperscale facilities with long-term leases and substantial tenant capital investment. Investor appetite remains strong, reflecting high barriers to entry, durable contractual cash flows, and the strategic importance of these facilities. Underwriting remains highly asset-specific, however, with particular attention to power availability and reliability, tenant and lease concentration, renewal risk, technological obsolescence, insurance coverage, and refinancing execution. The limited seasoning of recent CMBS vintages and rapidly changing infrastructure requirements make disciplined underwriting increasingly important, even as data centers become a more established component of the CMBS market.





Student housing

Sector rating

Neutral



New supply

Neutral



New demand

Moderately positive ↗

Rent growth

Stable



Capital values

Neutral



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

Student housing fundamentals remain generally healthy, supported by stable enrollment at large public universities, limited new supply across many Tier 1 markets, and the affordability benefits of renting by the bed. Demand has been strongest at flagship state universities and other large public institutions, particularly across the South and Southeast, where population migration and students' preference to remain closer to home have supported enrollment. Recent preleasing activity has remained solid, while rent growth continues at a more moderate pace following the outsized gains of the immediate post-pandemic period.

The investment environment has become increasingly competitive as institutional interest has expanded and much of the previously unmet demand has been addressed. Performance is also becoming more differentiated. Properties within walking distance of growing universities continue to benefit from strong occupancy and pricing power, while assets serving smaller or less competitive institutions face greater exposure to moderating four-year enrollment trends.

Lender appetite has increased as capital providers seek greater exposure to alternative property types. Active lenders include the GSEs, insurance companies, banks, debt funds, and CMBS conduits. Underwriting remains selective, with a strong preference for purpose-built properties near major universities—particularly Power Four institutions—with growing enrollment, strong leasing histories, and stable occupancy. Loan terms vary considerably based on the strength of these attributes.

The outlook remains constructive for properties serving large, well-capitalized public universities, but demographic headwinds are likely to flatten the college-aged population later this decade. Performance will therefore depend increasingly on university quality, enrollment growth, proximity to campus, and barriers to entry, resulting in wider dispersion between leading and lower-tier university markets.





Seniors housing

Sector rating

Positive



New supply

Positive



New demand

Positive



Rent growth

Moderately positive ↗

Capital values

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

Neutral



Sector overview

Seniors housing fundamentals continue to strengthen as sustained demand growth outpaces new supply. National seniors housing occupancy reached 90.1% during the second quarter of 2026, an increase of approximately 170 bps over the past 12 months. Occupied units increased 4.3% during the same period, compared with 2.3% inventory growth, demonstrating that the recovery remains demand driven.

The sector has also become one of the most active and sought-after sectors among institutional investors. According to the NCREIF NPI, the sector generated a trailing one-year total return of 14.8%, the highest among all property types. This included an 8.7% appreciation return and a 5.7% income return, demonstrating strong value growth despite higher interest rates.

The supply outlook remains favorable. Approximately 24,600 units were under construction during the second quarter, down 11.4% from a year earlier and roughly 65% below the 2018 peak. Demand growth exceeded new supply across the vast majority of markets, although performance continues to vary by location. Washington, Nashville, Denver, and several West Coast markets recorded strong absorption, while a smaller group of markets experienced declining occupancy.

Rent growth also remains broad based, with every market included in the analysis recording positive annual growth and the median increase measuring approximately 4.5%. Favorable demographics, limited development, and continued occupancy gains should support further rent and NOI growth. Seniors housing remains operationally intensive, however, making staffing, expense management, and operator quality critical to translating favorable market conditions into sustainable property performance.





Life sciences

Sector rating

Negative



New supply

Moderately 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

Negative



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Sector overview

The life science sector remains challenged by excess supply, elevated vacancy, and subdued tenant demand, although improving venture capital activity and a sharply reduced construction pipeline provide early signs of stabilization. Near-term leasing economics and rents will remain under pressure, particularly for older or less differentiated properties. Investment and lending activity should remain concentrated in modern, well-located assets with creditworthy tenants and durable leases, while a broader recovery will depend on the absorption of excess laboratory space.

Private equity

The life science real estate market remains challenged as the sector works through elevated vacancy and subdued tenant demand. The sharp pullback in venture capital funding led many biotechnology companies to reduce or defer their space requirements, placing pressure on effective rents across several major markets. More recently, trailing four-quarter venture capital funding has begun to improve, although this has not yet translated into a broad leasing recovery.

The construction pipeline has contracted substantially, which should gradually improve the supply-demand balance. Near-term conditions are likely to remain soft, however, given elevated vacancy and negative net absorption. Leasing activity should remain concentrated in newer, well-located, highly amenitized facilities, while older or less differentiated properties face greater pressure. Alternative users may provide incremental demand for high-quality space in select markets.

The near-term outlook remains cautious. Investment opportunities are likely to be selective and weighted toward high-quality assets available at meaningful discounts to replacement cost. Tenant retention, lease-up execution, and asset-level differentiation will remain critical until demand more clearly recovers.

Private debt

Lender appetite for life science properties remains extremely limited, reflecting weak space-market fundamentals. Elevated supply and negative net absorption across many markets continue to pressure rents, while constrained venture capital funding has weighed on tenant demand. Financing remains concentrated in properties with creditworthy tenants and durable, longer-term leases. Borrowers seeking financing for assets that do not meet these standards may need to provide recourse, additional equity, or other substantial credit enhancements.



Life sciences

(continued)

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REITs

REITs with life science exposure have delivered mixed performance relative to the broader REIT index year to date, although share prices have generally recovered since early May. Leasing momentum improved during Q2, supported by stronger new and renewal activity and broader tenant pipelines. Occupancy trends remained mixed, however, as move-outs offset leasing gains. Negative re-leasing spreads, elevated tenant improvement allowances and concessions, and extended downtime continue to pressure leasing economics.

Excess supply, elevated vacancy, and declining rents remain significant near-term headwinds. However, new deliveries have slowed sharply, while excess laboratory space is increasingly being repurposed or leased to alternative users. Improving public capital-raising conditions, healthier venture capital activity, and increased tenant requirements offer early signs of demand recovery, although policy and regulatory uncertainty persist. REIT valuations remain at meaningful discounts to NAV, while slower disposition activity and asset impairments indicate that price discovery remains incomplete and bid-ask gaps persist.

CMBS

Life science properties remain a meaningful component of CMBS office exposure and continue to appear in the SASB market. Investors require elevated risk premiums, reflecting the sector's classification as office collateral and the supply pressures weighing on occupancy and rent growth across several major markets.

The sector may be approaching an inflection point as new supply slows and capital-markets activity improves, but a broad recovery has yet to emerge. Credit performance will remain highly dependent on asset quality, tenant creditworthiness, market concentration, lease durability, and the pace at which excess laboratory space is absorbed.



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