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Principal Asset Management®

The U.S. CRE Health Index: Taking the market's pulse

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Introducing the U.S. CRE Health Index

- The U.S. CRE Health Index is a tool that evaluates U.S. commercial real estate for 15 different factors across five pillars: **Capital Markets, Transactions & Flows, Debt & Distress, Fundamentals, and Sentiment.**
- The index has historically led changes in commercial property prices by approximately one quarter and currently scores 46/100, placing the market on the slightly cautious side of neutral.
- The strongest buying opportunities have occurred when index readings are at their lowest levels and market conditions appear most challenged, while the greatest downside risk has emerged when readings are elevated and optimism is widespread.
- While higher interest rates are likely to create modest headwinds for headline property prices, we believe the more important story is growing dispersion across assets and markets. Investors focused on net operating income (NOI) growth, asset selection, and active management should increasingly be able to differentiate themselves from the broader market.

U.S. CRE Health Index

Neutral

Overall score: **46**



0-20 = Stress
21-40 = Below Trend
41-60 = Neutral
61-80 = Above Trend
81-100 = Strong

Historical scores are distributed across 0-100 scale to determine bounds.

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What is driving the index today?

Five pillars	SCORE	LEVEL	DIRECTION
Capital Markets Elevated Treasury yields are putting upward pressure on cap rates and downward pressure on property values.	**33/100**	Below trend	Stable
Transactions & Flows Headline transaction activity remains healthy, although growth is being driven disproportionately by portfolio- and entity-level transactions rather than individual property sales.	**52/100**	Neutral	Improving *Steady*
Debt & Distress Debt capital markets remain open and liquid, though lending standards may start to tighten and distress remains elevated.	**60/100**	Neutral	Stable
Fundamentals Property fundamentals remain on solid footing, supported by positive rent growth and absorption trends across most sectors.	**51/100**	Neutral	Improving *Accelerating*
Sentiment Investor sentiment has softened as rates have moved higher, although current conditions remain better than many investors anticipated.	**49/100**	Neutral	Deteriorating *Accelerating*

Source: CBRE EA, CREFC, Federal Reserve, Green Street, Mortgage Bankers Association, NCREIF, Real Capital Analytics, Real Estate Roundtable, Securities and Exchange Commission, Principal Real Estate. As of October 2026.

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Taking stock of the U.S. CRE market

Following the jump in U.S. Treasury yields to ~5.3%, the highest level in more than 20-years, there is increasing angst among market participants that there will be renewed headwinds to CRE prices. We have sympathy with this sentiment, and our analysis of unlevered IRRs vs bond yields reflects the potential for downward pressure. Furthermore, the U.S. REIT market, a leading indicator for private real estate, has retraced roughly 9% since its late-July peak as interest rates moved higher. Despite the correction, year-to-date returns remain close to 10%.

However, rates alone can sometimes lead to false negative signals for the private CRE market, and the listed REIT market may overreact (both to the upside and downside) over short time periods. Indeed, in our most recent note titled Commercial real estate under higher inflation and interest rates, we argued that performance depends not simply on the level of inflation or interest rates, but on their direction, the speed of change, credit availability, and the underlying health of the economy. Bottom line, there are many tools to assess where the CRE market may be headed, and one alone is often too blunt.

We are therefore introducing a proprietary index that measures the health of U.S. CRE based on 15 different data points across five pillars: **Capital Markets, Debt & Distress, Transactions & Flows, Fundamentals, and Sentiment.** This tool serves as an overall signal that can be picked apart into each of its individual components to understand what is driving each aspect of the market.

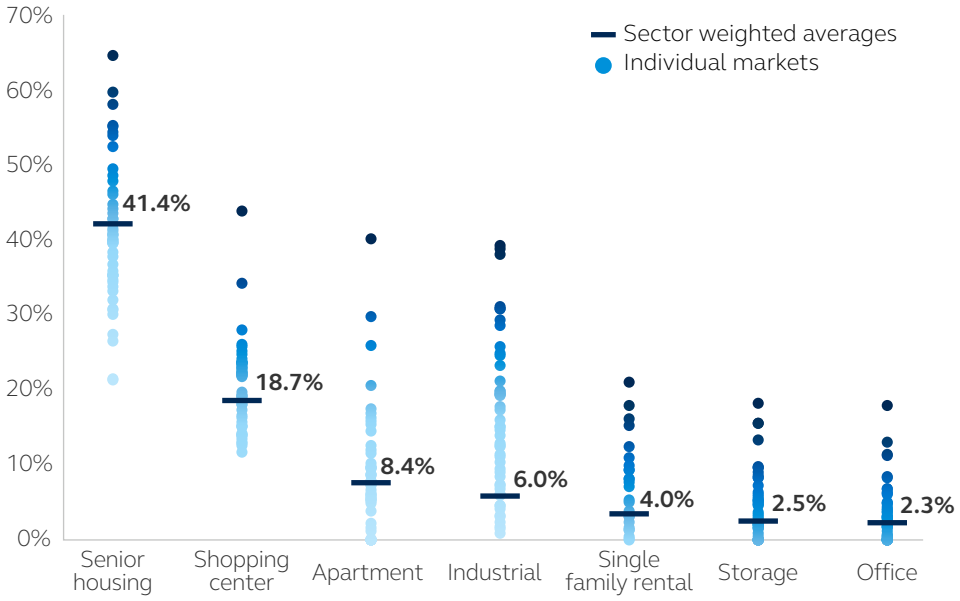
Importantly, our health index is highly correlated to future changes in property prices—the R^2 of the index relative to the Green Street CPPI on a one-quarter lead is 0.67. Other factors, in isolation, only have correlations closer to 0.2-0.3.

With all that said, the index currently stands on the slightly cautious side of neutral at a score of 46 out of 100. CRE unlevered IRRs look expensive relative to bond yields and REIT total returns are pulling back from higher levels earlier this year. While total transaction volumes are up year-over-year, the growth is driven by increased portfolio- and entity-level sales. Individual property sales drive more of the weight in our index as they track most directly with CRE pricing, and are at levels in line with historical norms, unpacking the story behind headline total transaction volume figures. Debt capital markets are open and liquid, but lending standards are showing signs of tightening, and overall sentiment for CRE is beginning to diminish. Property fundamentals remain steady and improving broadly, but asset selection will be increasingly important as income returns drive this cycle.

Net-net, we expect property values to face modest headwinds, though income returns should more than offset that pressure, potentially resulting in positive total returns. However, this misses an important point. Stronger properties generating higher net operating income growth will continue to benefit from an early cycle environment. Others, however, may face a cycle that never fully materializes. This dispersion in prices existed prior to the rise in rates and it will likely widen even further.

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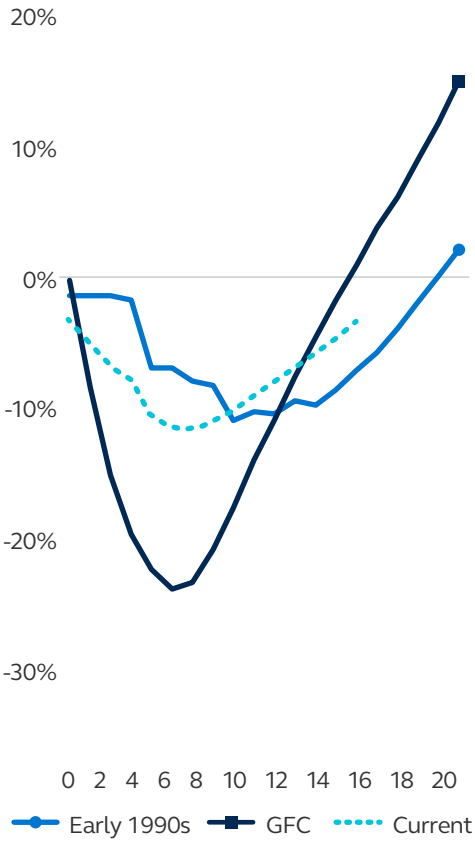
Trough to current recovery in U.S. prices across property types



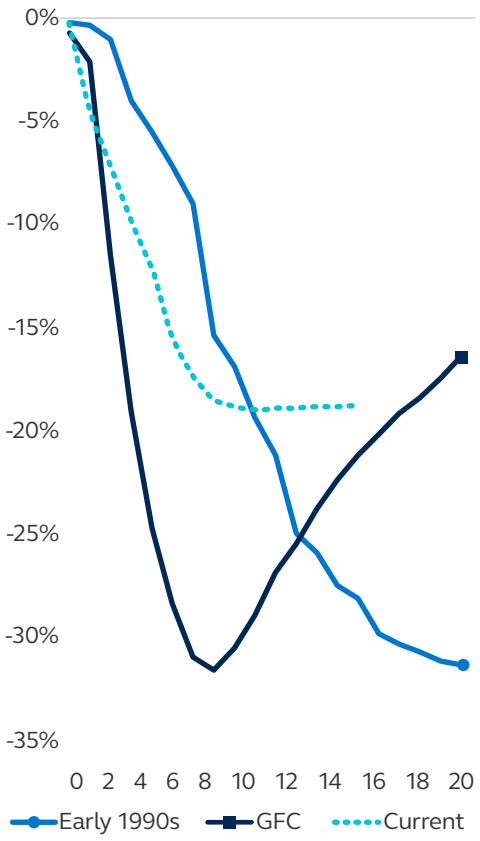
Source: Green Street, Principal Real Estate. As of October 2026.

In many respects, today's recovery in total returns resembles the early 1990s. While income returns are not as high today as then, we do not expect capital returns to be pressured to the same degree as 30-years ago as the banking system is much stronger than what occurred in the aftermath of the S&L crisis.

U.S. cumulative total returns



U.S. cumulative capital returns



Source: NCREIF, Principal Real Estate. As of June 2026.

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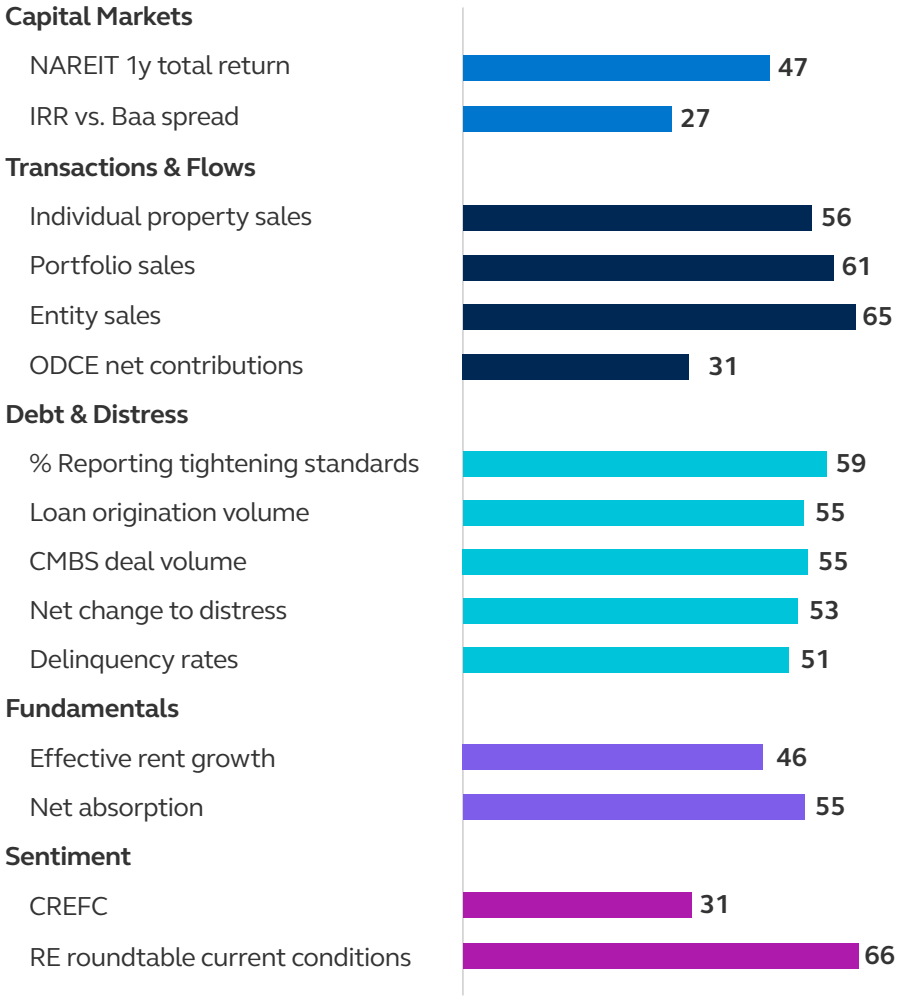
U.S. CRE Health Index: Overview

Despite rapidly rising interest rates and cost of capital concerns, the U.S. CRE Health Index indicates that CRE sits on the slightly cautious side of neutral relative to its history over the last cycle at a score of 46 on a scale of 0-100. Conditions across capital markets have softened and the transaction market is showing signs of slowing, but resilient and stable fundamentals should provide an important cushion for investors.

The Health Index is comprised of five pillars: Capital Markets, Transactions & Flows, Debt & Distress, Fundamentals, and Sentiment that total in 15 datapoints across all aspects of the CRE market. The index scoring ranges from 0-100, with direction and momentum indicators derived from the trend of datapoints for each of the five pillars.

In the Factor scores chart, we show the score for all 15 factors included in the U.S. CRE health index.

Factor scores

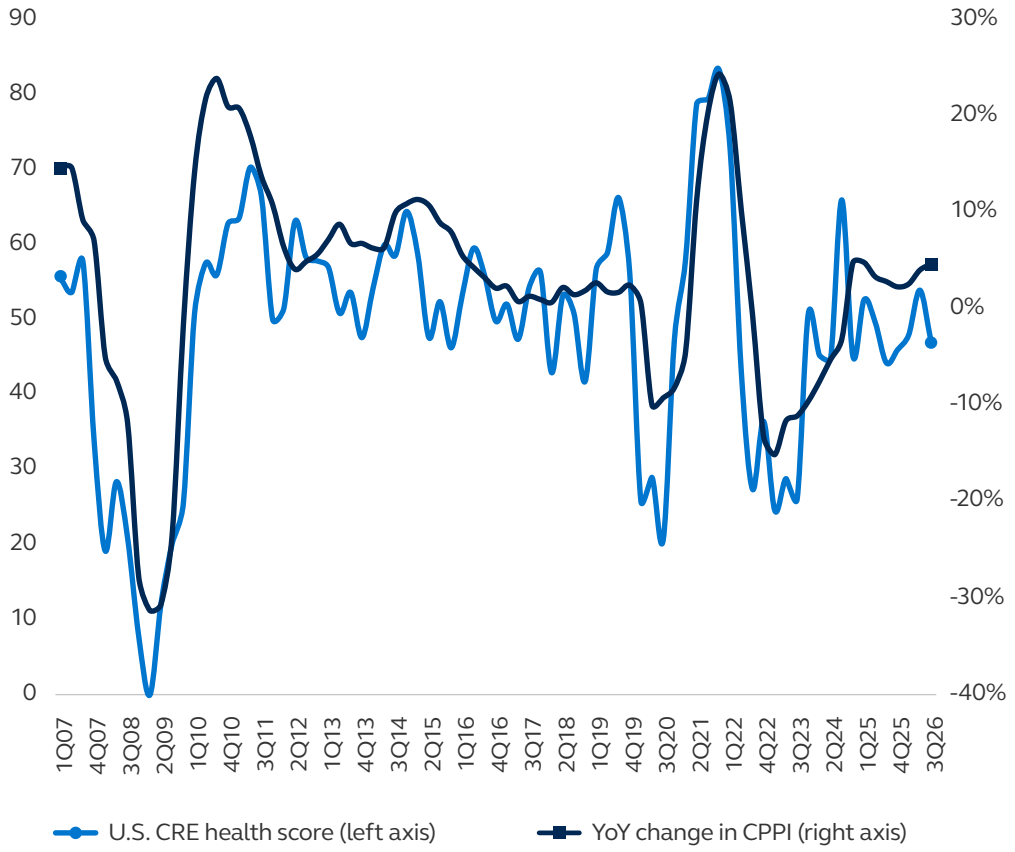


Source: CBRE EA, CREFC, Federal Reserve, Green Street, Mortgage Bankers Association, NCREIF, Real Capital Analytics, Real Estate Roundtable, Securities and Exchange Commission, Principal Real Estate. As of October 2026.

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We back-tested the U.S. CRE Health Index against year-over-year changes in property prices, as measured by the Green Street CPPI. To extend the analysis over a 20-year period, we excluded the sentiment pillar, which has a more limited history, and evenly redistributed its 10% weight, the lowest of the five pillars, across the remaining four. The analysis indicates that the index has led property prices by one quarter, with an R^2 of 0.67. We believe the index's predictive strength reflects the breadth of indicators it incorporates across different dimensions of the CRE market, rather than reliance on any single factor. Importantly, the longer historical period provides a more rigorous test of whether this relationship persists across different market environments.

U.S. CRE Health Index (excl. Sentiment) vs. property prices

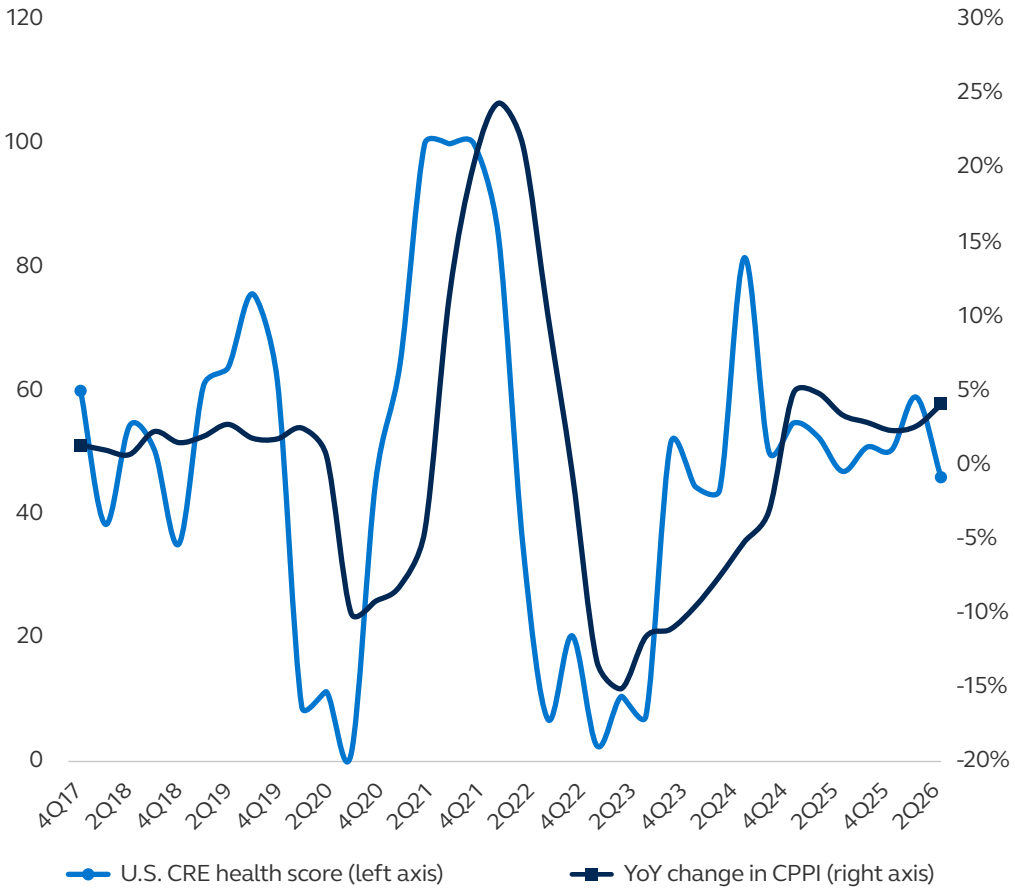


Source: Bank of America, CBRE EA, CREFC, Federal Reserve, Green Street, Mortgage Bankers Association, NCREIF, Real Capital Analytics, Real Estate Roundtable, Securities and Exchange Commission, Principal Real Estate. As of October 2026.

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That said, the full U.S. CRE Health Index, including the Sentiment pillar, is shown below over its available 10-year history. Over this period, the index leads year-over-year changes in property prices by one quarter with an R^2 of 0.54, while the relationship strengthens considerably at a two-quarter lead, with an R^2 of 0.80. While the shorter history limits our ability to draw firmer conclusions over multiple quarters, the results suggest that the full U.S. CRE Health Index may lead changes in property prices by as much as two quarters. Taken together with the 20-year back test, the two analyses provide support for the validity of the index and suggest a lead time of approximately one to two quarters.

U.S. CRE Health Index vs. property prices



Source: CBRE EA, CREFC, Federal Reserve, Green Street, Mortgage Bankers Association, NCREIF, Real Capital Analytics, Real Estate Roundtable, Securities and Exchange Commission, Principal Real Estate. As of October 2026.

Importantly, our index is a contrarian indicator relative to prices: a U.S. CRE Health score closer to 0 has been associated with buying opportunities while a score closer to 100 may indicate prices are approaching a peak and could signal a potential selling opportunity. Our neutral score suggests that selectivity is required.

The five pillars of our framework: A detailed explanation of the five pillars and what they currently indicate follows.

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1. Capital Markets: 30% weight

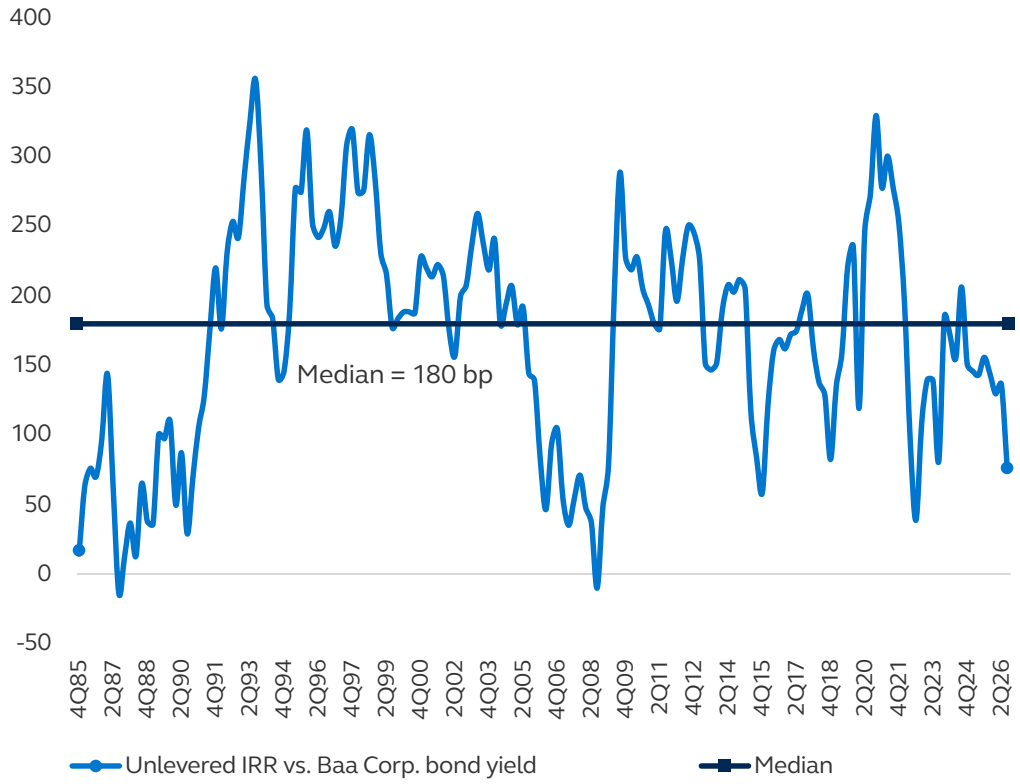
Components:

- One-year FTSE NAREIT All Equity Total Return (60% weight)
- Quarter-over-quarter change in the UIRR (Green Street) vs. Baa corporate bond yield spread relative to its long-term history (40% weight)

The Capital Markets pillar combines valuation signals from the public market and the bond market to understand what direction private CRE prices may be trending. The REIT market is considered a leading indicator in the direction of private real estate and is consequently awarded most of the weight in this pillar. A comparison of CRE unlevered IRRs and Baa corporate bond yields help us understand how investors are pricing risk into their investment decisions.

While private commercial real estate values exhibit a meaningful degree of autocorrelation and remain an important signal of market conditions, the U.S. CRE Health Index intentionally excludes contemporaneous changes in private market property prices. We've back tested the index against year-over-year changes in property prices for validity. The U.S. CRE Health score vs. year-over-year changes in Green Street's CPPI results in an R^2 of 0.67 on a one-quarter lag. This relationship suggests that the index captures many of the underlying forces driving private market valuation changes while avoiding the circularity associated with directly incorporating property prices.

Unlevered IRR vs. Baa corp. bond yield



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

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The Capital Markets pillar currently scores below trend, with a score of 33 out of 100, the lowest score of all five pillars. As of the end of September, the FTSE NAREIT All-Equity REIT index one-year total return was +5.6%, compared to the +15.4% observed halfway through the year. The ~50 bp increase in the 10-year Treasury during September pressured public market returns, a potential signal that private market valuations could face headwinds. That said, REITs remain up nearly 10% year-to-date as of October 13, 2026, suggesting the recent selloff represents a partial retracement of prior gains rather than a broader reassessment of market fundamentals.

33/100

The bond market indicates that private market CRE unlevered IRRs are currently rich relative to Baa corporate bond yields, and property prices require a decline of ~13% for CRE returns to be aligned with this historical relationship. This is because elevated interest rates have increased investors' required returns in the bond market, and cap rates theoretically face upward pressure as private CRE investors do the same, all else being equal.

The Capital Markets pillar shows the most sign of strain for CRE health, and it provides some strong leading indication that prices may face headwinds. While there are currently no major signs of the factors included in this pillar deteriorating further, the current rate environment and expectation of elevated interest rates for longer does suggest potential for upward pressure on cap rates.

2. Transactions & Flows (15% weight)

Components:

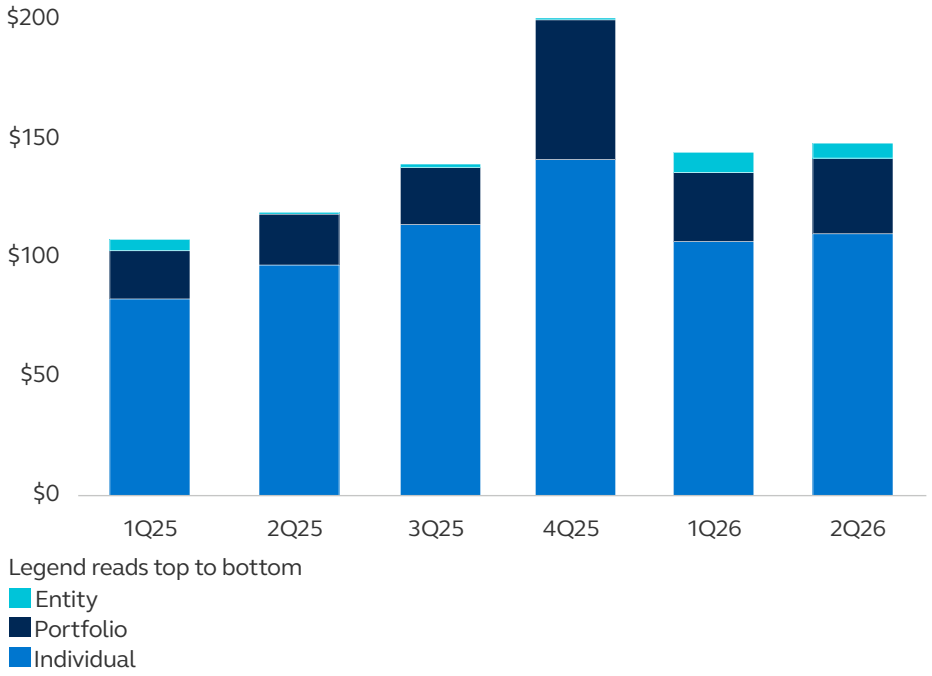
- Year-over-year change in trailing four-quarter individual property sales (RCA) (60% weight)
- Year-over-year change in trailing four-quarter portfolio sales (RCA) (10% weight)
- Year-over-year change in trailing four-quarter entity-level sales (RCA) (10% weight)
- ODCE net contributions as a % of beginning NAV (NCREIF) (20% weight)

Transaction volumes and fund flows provide important insight into investor demand for commercial real estate and the extent to which buyer and seller expectations have converged sufficiently for transactions to occur. Because aggregate transaction activity can be distorted by the episodic nature of large entity and portfolio transactions, the U.S. CRE Health Index evaluates entity, portfolio, and individual property sales separately. More than half of the transaction pillar's weight is allocated to individual property sales, which we view as the lifeblood of the CRE market and a critical mechanism for price discovery. Looking ahead, individual asset transactions may remain under pressure, while entity and portfolio activity could benefit from well-capitalized investors seeking to take advantage of the current market environment. We also incorporate fund flows using the NCREIF Open-End Diversified Core Equity (ODCE) Index, which tracks 25 open-ended core real estate funds and provides an additional measure of investor sentiment and capital allocation trends.

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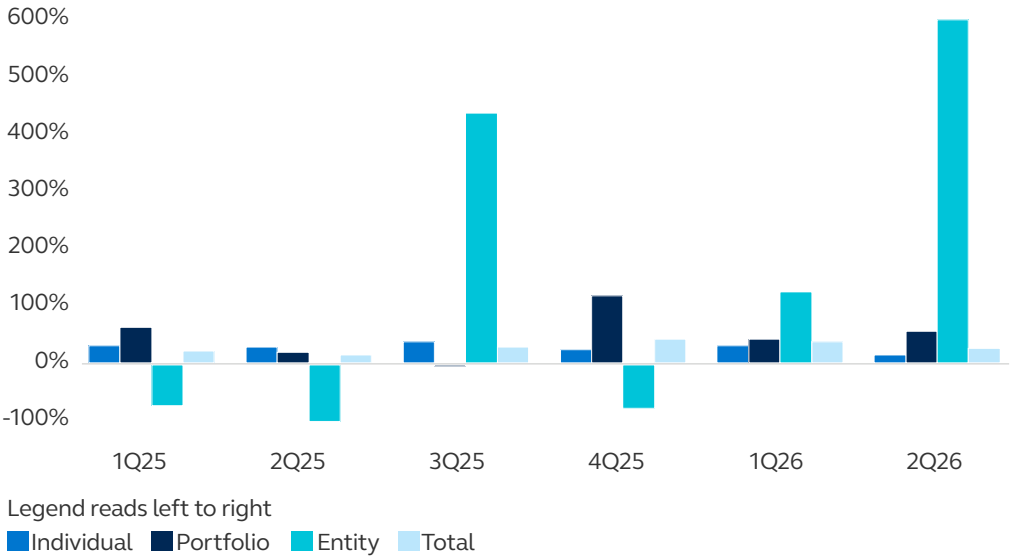
Transaction volume by type

$ billion



Year-over-year growth

Percentage



Source: RCA, Principal Real Estate. As of 23 September 2026.

52/100

The Transactions & Flows pillar currently reads neutral with a score of 52 out of 100. Overall transaction volumes over the last four quarters vs. the prior four quarters are up 32% as of the end of 2Q26. Entity-level transactions are up 155% and portfolio volumes are up 53% over the same time period. Individual property sales are positive as well but are only up 24.4% on a trailing four-quarter year-over-year basis and declined meaningfully in August 2026. Net-net, we believe headline transaction volumes are likely to remain positive but may be weaker below the surface.

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ODCE fund flows tell a weaker story, as net contributions have been negative since the middle of 2022, and the share of negative contributions as a function of underlying value has only increased.

While fund flows remain depressed relative to history, transaction volume growth is positive on a weighted basis and elevated vs. historical trends across individual, entity, and portfolio sales. Conflicting and unextreme signals in this pillar reflect a neutral read, with a stable outlook in the near term.

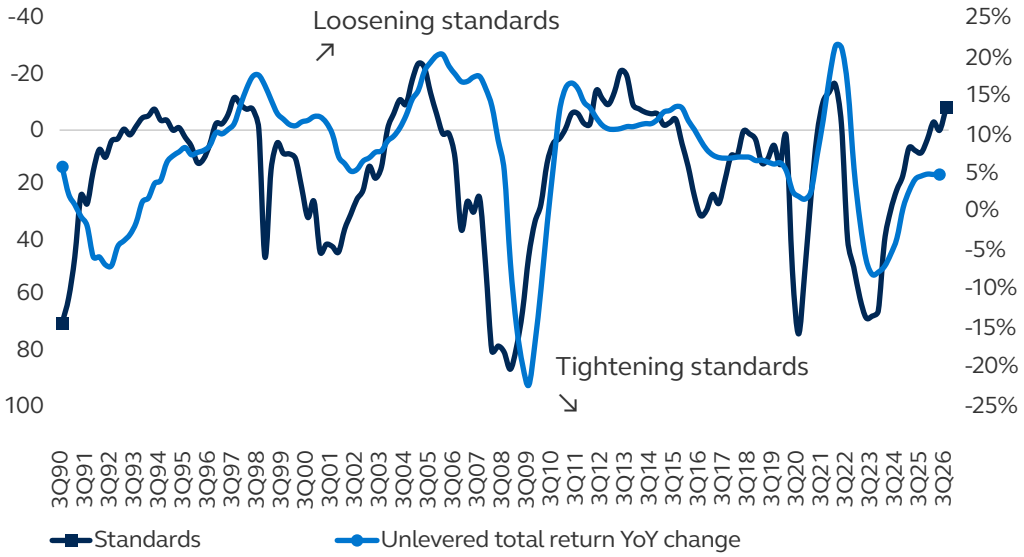
3. Debt & Distress (25% weight)

Components:

- Quarter-over-quarter change in % reporting tightening lending standards from the Senior Loan Officer Opinion Survey (50% weight)
- Year-over-year change in multi and core commercial loan originations (MBA) (20% weight)
- Year-over-year change in CMBS deal volume (10% weight)
- Trailing four-quarter net change to distress as a % of total transaction volume (RCA) (10% weight)
- Year-over-year change in delinquency rate (MBA) (10% weight)

Half the weight of Debt & Distress is ascribed to changes in lending standards, as the willingness of lenders to provide financing is a leading indicator for year-over-year changes in unlevered CRE total returns. Loan originations and CMBS issuance provide insight into the availability of credit and the overall health of lending markets, while delinquency and distress metrics help gauge the extent of market dislocation already absorbed and the sector's capacity to withstand additional stress. A well-rounded view of the debt market is important, as it is not uncommon for these signals to conflict. For example, delinquency and distress metrics are often lagging indicators, particularly in early cycle environments where property values are rising and lending conditions are improving. In such environments, elevated distress levels may reflect past market conditions rather than the current health of debt markets.

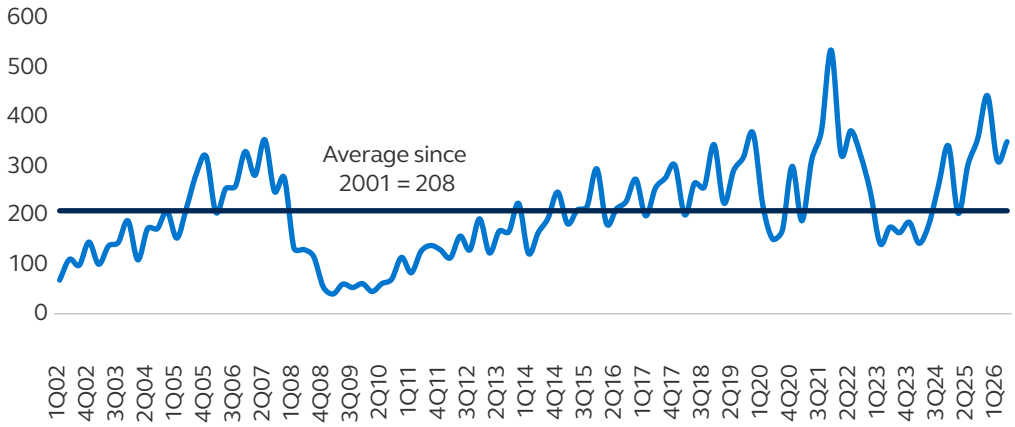
Senior loan officer opinion survey



Source: RCA, Mortgage Bankers Association, NCREIF, Principal Real Estate, as of June 2026.

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Total loan originations



Source: RCA, Mortgage Bankers Association, NCREIF, Principal Real Estate, as of June 2026.

60/100

Debt & Distress is currently neutral to slightly positive relative to history in the U.S. CRE Health Index, scoring 60 out of 100. Loan originations and CMBS deal volume have grown steadily over the last 18 months, but distress as a percentage of transaction volume continues to grow and delinquencies remain elevated, at a rate of 6.5% as of 2Q26. While delinquencies and distress are high, they have decelerated over the last few quarters, with net additions to distress at the middle of the year only 25% as large as their 2025 full-year total. The recent Senior Loan Officer Opinion Survey for the third quarter also reported that banks are net loosening standards.

While many indicators point to a stable to improving debt market, current market conditions are changing quickly in this rate environment, and investors should remain wary when looking to the debt markets for solace. An increase in interest rates alone provides some worry that lending will become more restrictive, and it is likely that distress will increase under these conditions. As stated previously, no one approach can perfectly predict where the CRE market is headed, and while that is a limitation of many tools in this space, we believe the ability to combine many aspects in the market into one encompassing the U.S. CRE Health Index provides a useful framework that investors can pick apart and break down.

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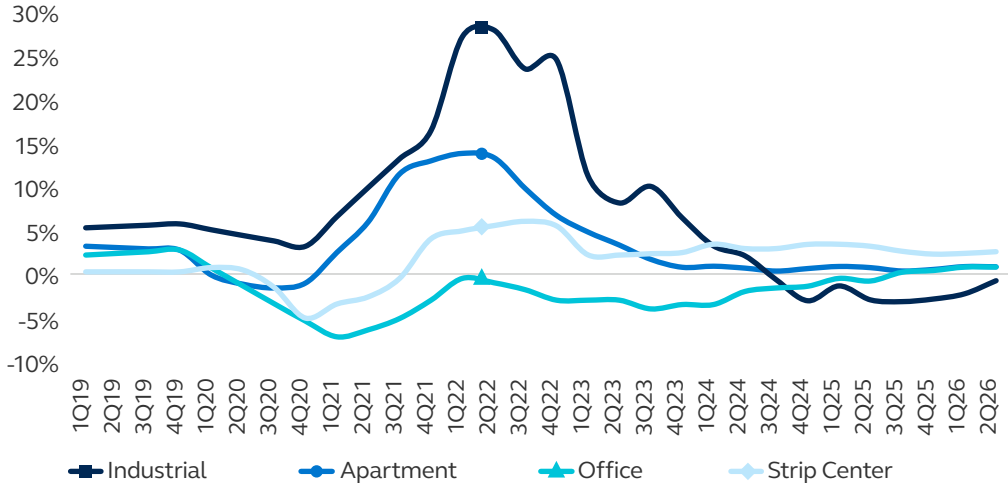
4. Fundamentals (20% weight)

Components:

- Year-over-year effective rent growth (Green Street) (50% weight)
- Net absorption as a % of total stock (CBRE EA) (50% weight)

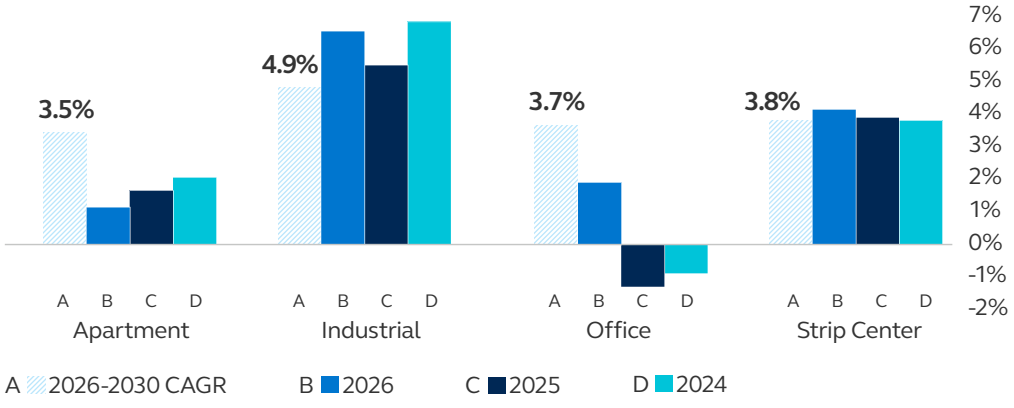
Fundamentals are split between effective rent growth and net absorption as a percentage of total stock, both measured as an average across multifamily, industrial, office, and retail. This allows for a full picture of the current environment – where rents are headed, how strong demand is relative to new supply, and, consequently, where that leaves vacancy. It's worth highlighting that rent growth and NOI growth are usually correlated, but not always. For instance, NOI growth for industrial has been strong given in place rents are below market rents creating an embedded mark-to-market, but effective new lease rent growth has faced headwinds in recent years given supply pressures. We think effective rent growth is a more appropriate indicator of current supply vs demand dynamics.

Year-over-year effective rent growth



NOI growth by property sector

As of 2Q 26



Source: Green Street, Principal Real Estate. As of 2Q26.

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The Fundamentals pillar is another neutral spot of the U.S. CRE Health Index, scoring 51 out of 100. Effective rents are mostly up across the four core sectors year-over-year, with retail leading the pack at 2.6%. The industrial sector has faced effective rent declines since the middle of 2024, but a positive read is forecasted as the sector works through a glut of oversupply. While net absorption is low relative to history, it still reads positive across the core sectors and has recovered broadly in the apartment sector as the Sun Belt digests elevated delivery levels that occurred over the last few years.

51/100

As effective rents regain their footing in the industrial sector and continue to accelerate across apartment, office, and retail properties, CRE fundamentals appear to be stable and on a continued upward trajectory. Positive net absorption and lower supply growth, especially in the apartment and industrial sectors, will continue to support vacancy declines and rent increases. While the U.S. CRE Health Index provides a broad view of real estate fundamentals, dispersion will remain a key driver of returns in this environment, and investors will benefit from deliberate selection at the asset level as picking the winners and avoiding the losers becomes increasingly important.

5. Sentiment (10% weight)

Components:

- CREFC Board of Governors Overall Sentiment Index (50% weight)
- Real Estate Roundtable Current Conditions Sentiment Index (50% weight)

Sentiment provides an important view of investor appetite in the current market. That said, "feelings" are fickle as evident by the volatility of the index in recent years, and we therefore assign it the lowest weighting in our index. Sentiment is split evenly between two widely regarded indices in the industry: the CREFC Overall Sentiment Index and the Real Estate Roundtable Sentiment Index. Each provides insight into "feelings" regarding the totality of the market – economic conditions, debt availability, liquidity, and fundamentals.

Sentiment remains at a neutral reading this quarter, although its score has declined slightly, currently at 49 out of 100. This is the only pillar in the index that is showing true signals of deterioration going forward as investor sentiment continues to fall in this elevated interest rate environment. The CREFC Sentiment Index fell significantly in the third quarter, 17.5% below 2Q26 results and at a three-year low. Questions surrounding the economy and interest rates are accountable for most of this drop. The Real Estate Roundtable Index was unchanged this quarter, but further breakdown reveals an increase in sentiment around current conditions and a slightly more negative outlook on the future. The rapid increase in interest rates has concerned investors, although current real estate conditions are playing out to be better than previously predicted.

49/100

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Conclusion

The U.S. CRE Health Index currently scores U.S. commercial real estate at **46 out of 100**, placing the market on the slightly cautious side of neutral. While higher interest rates are creating headwinds for valuations and capital markets remain the weakest component of the index, the broader market is holding up better than rate headlines alone would suggest. Debt markets remain functional, transaction activity is positive, and property fundamentals continue to stabilize and improve.

The more important story, however, is not the direction of headline prices but the growing dispersion beneath them. Recent property value declines have been uneven across sectors and markets, reinforcing our view that this cycle will not unfold uniformly. Some sectors and assets are benefiting from improving fundamentals and stronger NOI growth, while others continue to face structural challenges.

Because the index has historically led property prices by roughly one quarter, we expect headline valuations to face continued pressure in the near term. However, we do not believe the current environment resembles prior periods of systemic real estate stress. A stronger banking system, open debt markets, and improving property fundamentals should help limit the downside. In our view, this cycle will be defined less by broad market beta and more by asset selection, NOI growth, and execution.

Methodology footnote: The U.S. CRE Health Index uses a z-score methodology to compare current conditions relative to data collected throughout the last cycle. Weightings vary across data points. A score of 0-20 indicates CRE is in a state of stress, 21-40 = below trend, 41-60 = neutral, 61-80 = above trend, and 81-100 = strong.

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Risk considerations
Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. All these risks can lead to a decline in the value of the real estate, a decline in the income produced by the real estate and declines in the value or total loss in value of securities derived from investments in real estate.

Commercial real estate (CRE) investing carries several inherent risks, including those related to the economy, interest rates, market fluctuations, high upfront costs, and tenant-related issues like defaults or high turnover. Economic downturns can lead to decreased property values and increased vacancy rates, while financing costs, insurance expenses, and potential environmental or structural problems can also pose significant challenges. All these factors and risks can impact rental income and overall investment returns. Inflation and other economic cycles and conditions are difficult to predict and there Is no guarantee that any inflation mitigation/protection strategy will be successful.

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MM15176 | 10/2026 | 6025481-122028