Principal Asset Management[SM]

U.S. COMMERCIAL REAL ESTATE MARKET

Liquidity, scalability, and innovation drive performance and opportunity

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The global commercial real estate (CRE) market is emerging from a two-year, capital market-driven correction. Nowhere has this been felt more acutely than in the U.S., where high inflation and aggressive interest rate normalization have disrupted clarity around pricing and investment flows in private markets.

The good news is that pricing has largely reset, and private equity commercial real estate returns have turned the corner—from a corrective phase into recovery. If history is any guide, this transition offers an attractive entry point into U.S. real estate and positions the market for a sustained period of growth.

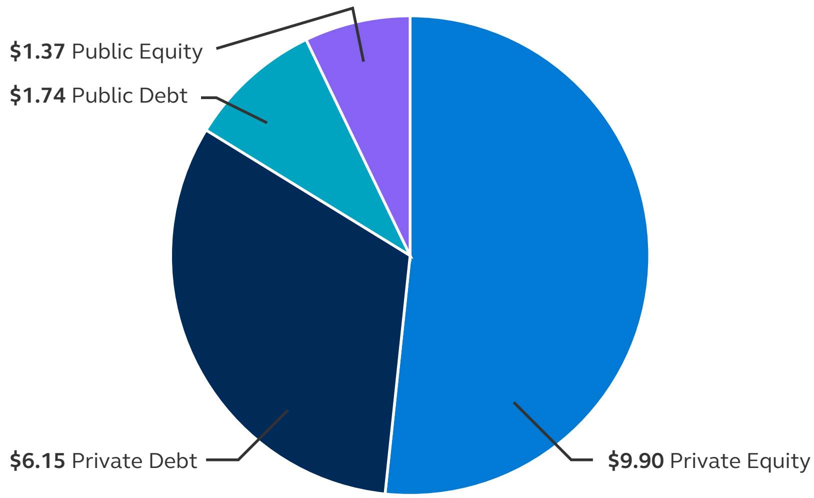
In this short paper, we highlight the dynamics that continue to make U.S. commercial real estate an attractive investment landscape, including:

- Large and liquid investment universe
- Diverse economic demand drivers that support a wide array of property types
- A sustained track record of solid, risk-adjusted returns across market cycles
- An expanding private real estate universe that includes high-growth alternative sectors

A large and diverse investable universe

Based on our analysis of the investable commercial real estate universe, the U.S. market remains the largest market globally. We estimate that the current size is approximately $19 trillion, which accounts for 16.2% of all U.S. risk assets available to investors. The size of the U.S. market is the largest of any single country and similar to that of other developed economic regions. Moreover, those assets span all four quadrants of the real estate market, which include private equity, real estate investment trusts (REITs), private debt, and commercial mortgage-backed securities (CBMS).

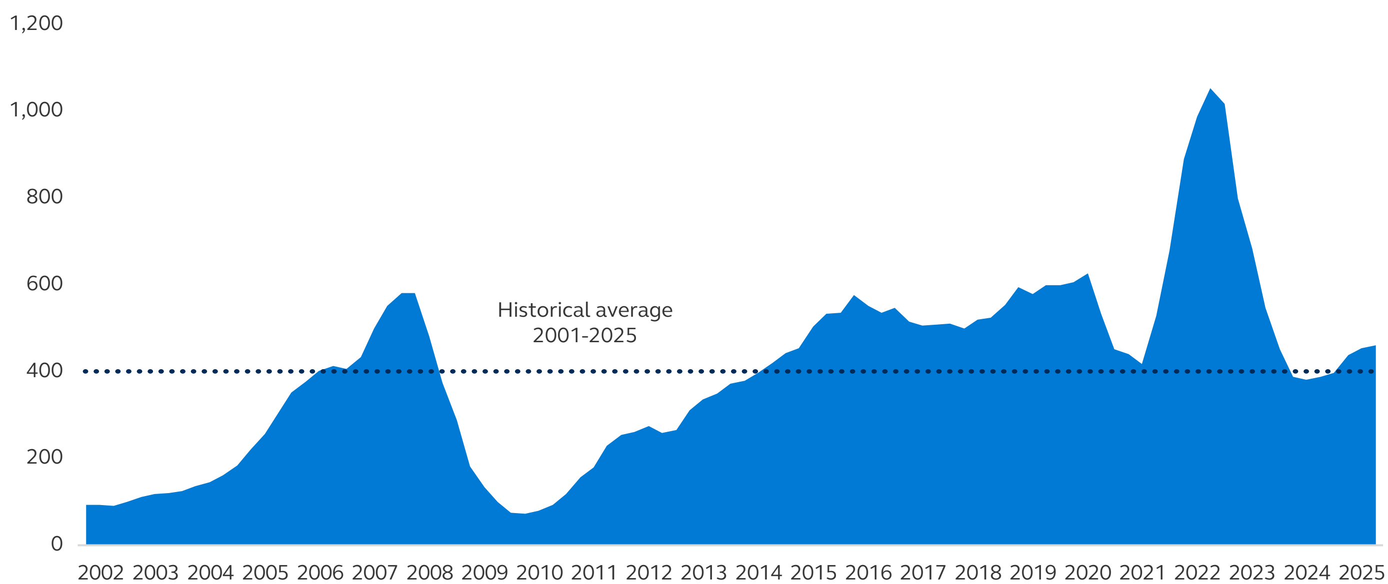
EXHIBIT 1: The U.S. CRE opportunity set is large and varied, tn. of USD



Source: NAIREIT, NCREIF, CoStar, Federal Reserve, Principal Real Estate, Jan 2025

The U.S. CRE market is also incredibly liquid. Over the past 20 years, the market has averaged approximately $400 billion in transactions on an annual basis. While the past two years have been challenging, sales over the past 12 months have accelerated and promise to exceed their trend level over the next several years. Such a liquid market is a testament to the maturity and desirability of the U.S. market. It also speaks to the dynamics of the market, which attracts both domestic and foreign investors who place a high premium on liquidity and the ability to alter portfolios to achieve optimal returns.

EXHIBIT 2: U.S. transaction volume highlights the market's liquidity, bil. of USD



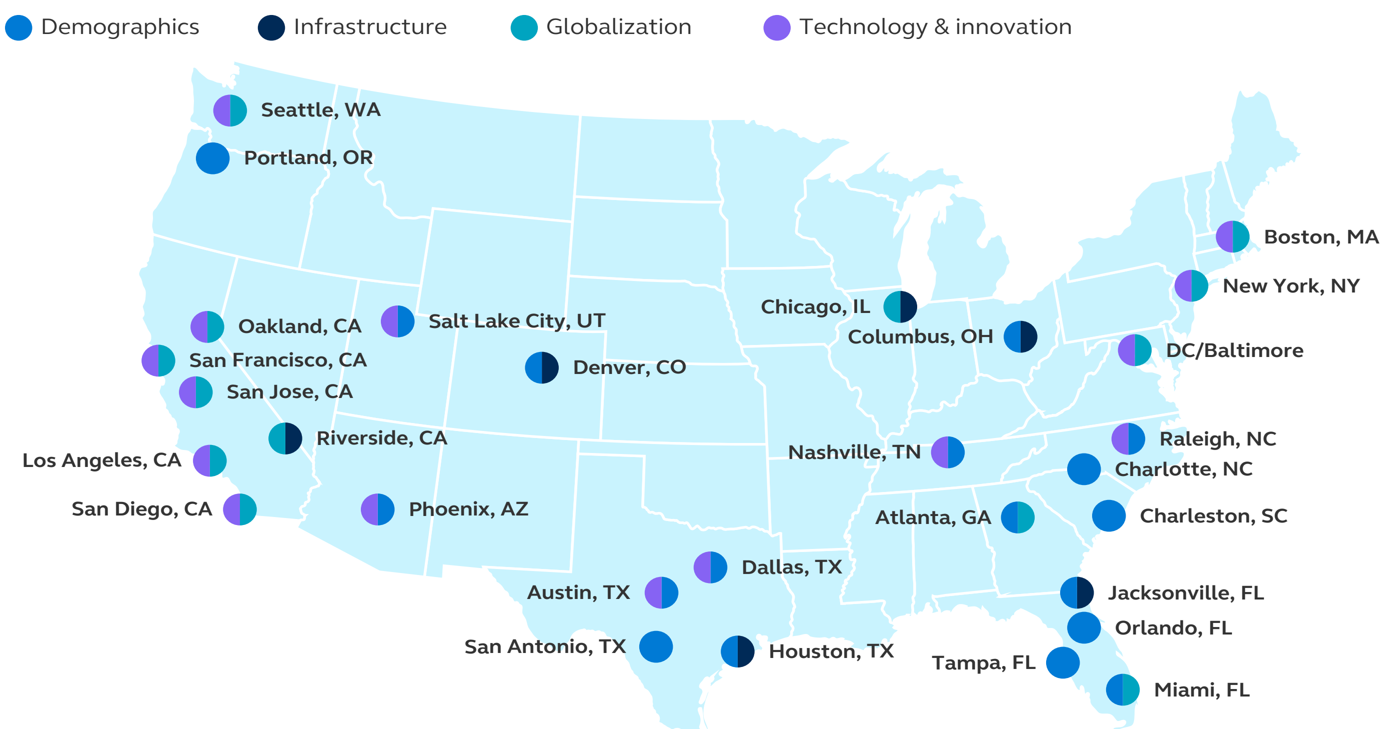
Source: Real Capital Analytics, Principal Real Estate, Q2 2025

Economic strength and diversity

The U.S. economy remains the largest and most dynamic in the world, with a gross domestic product (GDP) of $27.7 trillion and deep, liquid capital markets that support investment across the risk spectrum. Its economic engine is fueled by a broad array of industries and regional clusters—from financial services in global gateway cities to advanced manufacturing, technology, life sciences, and health care. This diversity fosters resilience throughout business cycles. While long-term growth is underpinned by population gains and productivity, the scale and variety of the U.S. labor market provide a strong foundation for sustained demand across commercial real estate sectors.

Private equity real estate investors typically focus on approximately 50 primary metro areas, each characterized by distinct demand drivers that support a range of property types. In the Northeast, for example, high income levels drive robust retail spending and demand for upscale residential rentals. In contrast, the South and West benefit from strong household formation, fueling demand across apartments, retail, and health care sectors. The map below highlights key metro areas, their primary demand drivers, and the dominant property sectors supported by demographic trends.

EXHIBIT 3: U.S. market diversity



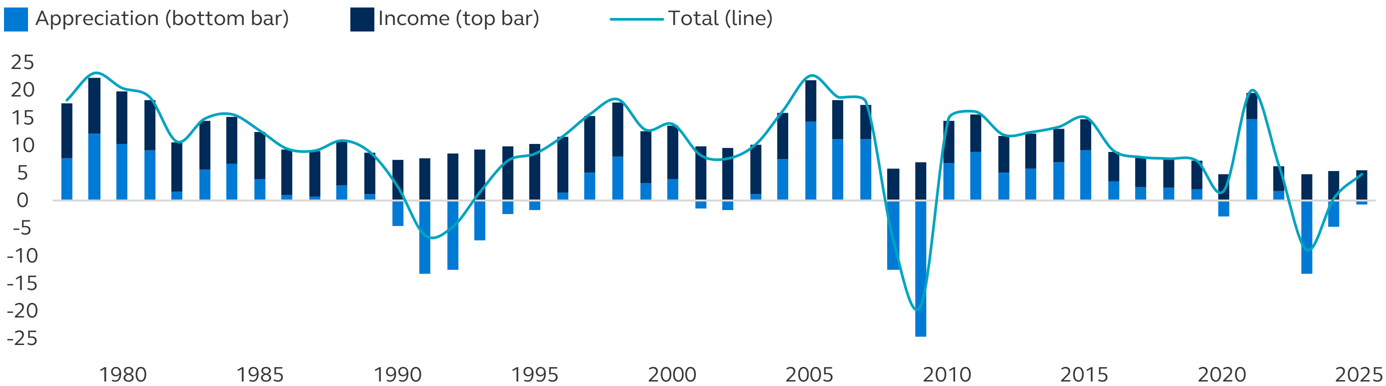
Source: Real Capital Analytics, Principal Real Estate, Q3 2025

U.S. real estate has an outstanding track record

Perhaps as important as its diversity and liquidity is U.S. commercial real estate's resilience among risk assets. Since its inception in 1978, the National Property Index (NPI) has shown a full negative calendar year return only six times, with the average length of a recovery spanning roughly 10 years, with an average return of nearly 11% during each recovery. In fact, since inception, the index has exhibited a total return of 8.4% on an average annual basis, with a standard deviation of 4.3% well below that of other risk assets.[1]

[1] As of Q2 2025. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index

EXHIBIT 4: Long-term private commercial real estate investors have benefited from stable income returns



Source: NCREIF NPI, Principal Real Estate, Q2 2025

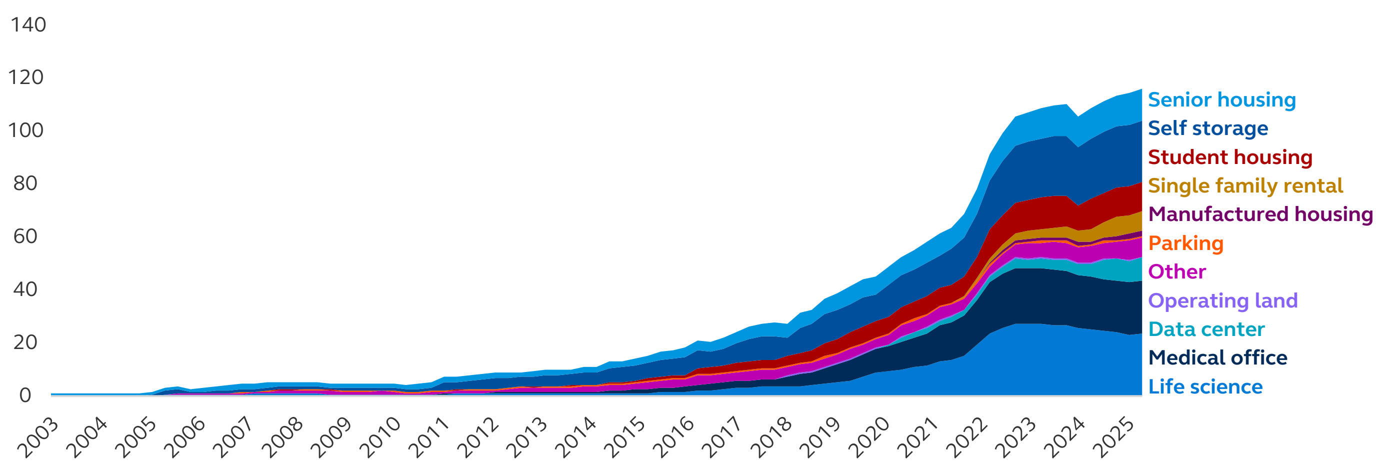
The resilience of U.S. commercial real estate can be traced to its consistent and stable income return, which accounts for approximately 80% of total returns historically. Real estate income is generated by long-term leases, which are negotiated between tenants and landlords, often accounting for changes in prices, which allows real estate to act as a hedge against most types of inflation.

An evolving and expanding investable universe

While we have discussed the ample liquidity in the U.S. commercial real estate market, we feel that it is poised to expand further. Over the past two decades, private equity investors have rapidly expanded their portfolios to include alternative property sectors such as health care/medical office, data centers, student housing and senior housing. These changes reflect a maturing demographic and its expanded needs, which presents interesting and unique opportunities for real estate investors.

While these sectors account for just 12.9% of the overall NPI today in the U.S., they will continue to expand as these emerging sectors become more sought after. Listed REITs are often a reliable predictor of private real estate—today public real estate portfolios are comprised of 64% of what were once considered alternative sectors, up from 21% in 2000. If history is any guide, we should anticipate private real estate to follow a similar path.

EXHIBIT 5: U.S. alternative property sectors are rapidly blending into core, bil. of USD



Source: NCREIF, Principal Real Estate, Q2 2025. Chart reflects increasing allocations to the core segment of the CRE investable universe.

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 lending involves several risks, including market volatility, credit risk, operational challenges, and legal/regulatory compliance. Additionally, rising interest rates, refinancing pressures, and potential defaults can exacerbate these risks.

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