






U.S. Real Estate sector report

Four quadrant perspectives

FALL 2025





Sector conditions and outlook

		Current condition	Outlook
<strong>KEY:</strong> ● Improving ● Neutral ● Deteriorating ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative			
<div>APARTMENT</div> <div></div>	The apartment sector is experiencing a surge in demand through the halfway point of 2025. Vacancy rates have declined sharply in the past 12 months and supply pipelines are seeing significant declines in new projects. Higher interest rates, as well as material and labor costs are the primary factors. Although rental growth has remained pressured, the sector is poised to see stronger operational performance over the balance of this year.	●	↗
<div>HOTEL</div> <div></div>	Hotel sector performance remains nuanced, largely due to policy uncertainty and declining savings rates among middle-income households. While travel data has been supportive and occupancy levels have stayed relatively healthy, ongoing caution around the economic outlook and policy-related headwinds continue to constrain more robust sector performance.	●	↘
<div>INDUSTRIAL</div> <div></div>	The industrial sector is facing headwinds associated with strong new supply in select metros and tenant uncertainty surrounding the impact of tariffs, which is complicating longer-term leasing conditions. Despite these challenges and higher vacancies, the sector remains sought after by both equity investors and lenders. Sector performance will be determined by both trade flows and economic growth, which we believe will drive continued leasing for larger and more modern warehouse facilities.	●	↗
<div>OFFICE</div> <div></div>	Although office fundamentals show signs of stabilization, they remain weak due to a lack of hiring in traditional office-using occupations and a lack of traction in the return to the workplace. Vacancy rates remain elevated in the low-19% range as leasing activity remains soft. Liquidity within the sector has been mixed with some improvement in sales volume, but it has been limited to portfolio level activity and core assets, which are trading selectively. Leasing economics remains a challenge for owners as the pricing pendulum continues to tilt toward tenants. Limited new supply will help in the nascent recovery, but only for the most well positioned assets.	●	→
<div>RETAIL</div> <div></div>	The retail sector continues to exhibit strong performance and has become more sought after by institutional investors due to outperformance in 2024. The sector's unique position as a diversified sector continues to attract investors toward its cyclically resistant formats, which are also more defensively positioned against e-commerce penetration. Consumer resilience, however, is being tested as evidenced by a flattening of sentiment in the specter of higher inflation, which could erode discretionary spending power below all but the top income groups.	●	↗

## Sector conditions and outlook continued

KEY:

● Improving ● Neutral ● Deteriorating  
↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

		Current condition	Outlook
<div><div>SINGLE-FAMILY RENTAL</div><div></div></div>	<p>The single-family rental (SFR) sector has performed well over the past 12 months but faces modest headwinds in select metros due to overdevelopment, which has tempered projected rental growth. Vacancy rates in most regions remain near equilibrium, and stable demand continues to support the sector’s income profile.</p>	●	↗
<div><div>DATA CENTERS</div><div></div></div>	<p>Data center demand remains strong as new demand continues to outpace the pace of new supply. At present the top-10 U.S. markets have less than 10MW of power available, which equates to a vacancy rate of roughly 2%. The number of tenants in space continues to expand powered by both cloud computing and AI related companies. Hyperscalers and intermediaries are leasing power to satisfy short-term AI contracts.</p>	●	↑
<div><div>STUDENT HOUSING</div><div></div></div>	<p>The student housing sector continues to exhibit solid fundamentals. However, it is becoming more competitive as much of the demand is now being met. Increased migration to southeastern states has generated optimism, particularly with students opting to stay closer to home. Despite these positive trends, we remain cautious about the sector due to moderating enrollment trends at four-year institutions.</p>	●	→
<div><div>LIFE SCIENCES</div><div></div></div>	<p>Fundamentals in the life sciences sector remain under pressure following a wave of overdevelopment and limited new space supply. Nationwide R&amp;D lab vacancies, according to CBRE, reached 22.7% as of mid-year despite an increase in total leasing activity. However, net absorption remained negative due to lease expirations. The sector continues to face stress from persistently soft post-pandemic venture capital funding trends.</p>	●	↓

Source: Principal Real Estate, September 2025.

# APARTMENT

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*	Debt availability
↗	↗	↑	↗	↗	↘	↑

**Key:** ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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

## Sector overview

The apartment sector is experiencing a surge in demand through the halfway point of 2025. Vacancy rates have declined sharply in the past 12 months and supply pipelines are seeing significant declines in new projects. Higher interest rates, as well as material and labor costs are the primary factors. Although rental growth has remained pressured, the sector is poised to see stronger operational performance over the balance of this year.

## Private equity

Following a challenging 2024, apartment occupancy and rents are showing improvement, signaling a potential turning point driven by stronger demand and a slowdown in new supply across most regions. The vacancy rate has declined for the first time in two years, and rental growth is beginning to accelerate as market conditions move back toward equilibrium. On the operational side, Q2 trade-outs were positive for both renewals and new leases. Expense ratios have also improved over the past two quarters, supported by rising revenue and stabilized costs.

Many of the headwinds that weighed on the sector over the past two years are now fading. Overdevelopment—concentrated in the Sunbelt—has slowed meaningfully as higher capital costs constrain new starts. This easing in supply comes just as net demand has reached its strongest pace in several years.

That said, performance continues to vary widely by metro and submarket, with a broad gap between the

strongest and weakest markets. In addition, expanding supply from the single-family rental (SFR) and build-to-rent (BTR) sectors is creating added competition for apartments, particularly in larger floorplan segments.

## Private debt

Apartment lending remains appealing to many lenders who favor the property sector based on housing shortages nationally, challenging economics for first-time home buyers, favorable long-term trends and robust market liquidity. Strong tenant demand has effectively countered new supply in most markets over the past year, making lenders more confident about placing money in apartment loans. Although the lending was down nearly 20% during 2025 Q2 versus the year-prior period, excluding several large portfolio transactions apartment lending was 7% higher during Q2 2025 than the year-prior period.

Government-sponsored entities (GSEs) are currently offering the lowest spreads for most stabilized core apartment properties – sometimes in the low 100 basis point (BPS) range for low-to-moderate leverage facilitated by the GSE’s low cost of capital. Insurance company and bank pricing for core apartment commercial mortgage loans (CML) tend to be closer in the 125 to 150 BPS range over UST yields for loan-to-values (LTV) between 50% and 65%. LTVs in the high-60s to mid-70s % may be offered by the GSEs and CMBS conduits with spreads in the high 100 to low 200 BPS range, while debt funds sometimes offer “stretch senior” apartment loans up to 80% LTV with pricing in the high 200's over SOFR.

## APARTMENT (continued)

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Regarding loan proceeds, the GSEs and CMBS lenders both allow borrowers to “buy down” interest rates at closing to improve debt service coverage ratios (DSCR), thus allowing borrowers to increase proceeds for loans that would otherwise be DSCR-constrained.

### REITs

Apartment REITs have significantly underperformed against the broader REIT index year-to-date in 2025. Market sentiment has deteriorated following recent earnings releases, primarily due to two factors: the peak leasing season ended earlier than usual, and a slowdown in the job market has hindered the expected recovery following heavy supply. The wide affordability gap between buying and renting continues to favor the rental market, helping maintain stable occupancy levels and steady renewal rates. However, investors are increasingly concerned about a potential decrease in pricing power during the second half of the year, which could impact growth projections for 2026.

Both Coastal and Sunbelt REITs have disappointed investors with their revenue trends. Coastal REITs failed to meet high expectations, while Sunbelt REITs showed slower-than-anticipated recovery. However, lower property tax and insurance expenses have partially offset these challenges. Coastal markets are projected to maintain stronger organic growth, as Sunbelt markets continue to work through their supply pipeline. Currently, Apartment REITs are trading at a mid-teen discount compared to consensus estimates.

### CMBS

The GSEs remain the dominant lenders in the multifamily sector, with \$146 billion in approved lending capacity for 2025. However, agency issuance has been constrained by low transaction volumes. Multifamily exposure in conduit and single-asset single-borrower (SASB) CMBS, while smaller in scale, is still significant at roughly \$67.5 billion outstanding. Over the past five years, multifamily’s share of conduit issuance has ranged from 22.6% in 2021 to 23.8% in 2025.

Loan performance in the fixed-rate segment remains solid. The conduit multifamily delinquency rate stands at 4.77%, the second lowest among property sectors, trailing only industrial. By contrast, some weakness is emerging in floating-rate SASB loans originated at tight debt yields during the low-interest-rate environment. Rising rates have sharply increased debt service burdens, constrained NOI growth, and created valuation pressures that complicate refinancing. As a result, the SASB multifamily delinquency rate has climbed to 8.0%, driven primarily by maturity defaults.

Overall, multifamily remains a favored sector within fixed-rate conduit CMBS. Longer loan terms, fixed-rate coupons, consistent NOI growth, limited affordability in the for-sale housing market, and relatively low exposure to rent-regulated properties all continue to support its relative strength.

# HOTEL

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*	Debt availability
→	→	↗	→	↘	↘	↗

**Key:** ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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

## Sector overview

Hotel sector performance remains nuanced, largely due to policy uncertainty and declining savings rates among middle-income households. While travel data has been supportive and occupancy levels have stayed relatively healthy, ongoing caution around the economic outlook and policy-related headwinds continue to constrain more robust sector performance.

## Private debt

Debt funds have been the most active hotel lenders in recent months with some hotel debt also supplied by CMBS conduits, CMBS SASB, insurance companies and banks. Overall hotel lending has been down in 2025 due to a dearth of large SASB transactions (relative to 2024 activity), but a healthy volume of smaller hotel loans continues to be originated.

Debt funds generally prefer LTV ratios of 60% to 65% or less for hotels but occasionally extend as high as 75%. Their credit spread over SOFR tends to range between the high 200 BPS range for the best-of-the-best hotel loans, to the more common low-to-mid 300 BPS range, to spreads in the mid-to-high 400 range with LTVs at the higher end of the acceptable range or for more transitional properties. Debt funds frequently determine pricing requirements based on a combination of property cash flow, loan basis, market, asset quality, business plan, and sponsorship.

CMBS single asset single borrower (SASB) lenders target hotel loans more than \$200-250 million. Today they may offer 50% to 70% LTV financing with spreads between 200 to 300+ BPS over SOFR. CMBS conduit pricing is similar. CMBS sources tend to focus

heavily on cash flow with less willingness to consider transitional assets than debt funds will consider.

Banks have recommended originating a small volume of hotel construction loans but typically limit LTVs to 40% to 50% with significant structural requirements, including interest carry reserves and recourse. Spreads for non-recourse hotel construction loans range between the 500 and 800 BPS range based on leverage, project quality and sponsorship.

## REITs

Lodging REITs have underperformed the broader REIT market year-to-date, primarily due to slowing RevPAR (Revenue Per Available Room) projections for late 2025 and 2026, coupled with persistently high operating expenses. Market performance shows distinct variation across segments, with luxury hotels maintaining solid mid-single digit growth vs. midscale and economy hotels posting low-single-digit declines. This divergence reflects stronger consumer dynamics in the luxury segment, where travelers maintain spending power through higher savings and net worth, while budget-conscious consumers and businesses have shifted toward more affordable accommodations. Industry forecasters, including STR, expect this trend to continue through 2026. However, given a broader slowdown in key lodging macro drivers such as business capex, disposable income growth, international inbound travel, and weaker government bookings, higher end hotels are not expected to be fully immune from sector-wide uncertainty.

## HOTEL (continued)

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Recent months have shown decreased business transient demand, though airline companies and hotel brands report improving booking trends for the fall season. Group travel remains a projected leader into 2026, supported by previously booked high-rate contracts, despite slowing near-term booking activity. While corporations and associations maintain future booking activity, government-related group demand remains weak. The leisure travel segment shows mixed performance, with the luxury segment maintaining resilience with minimal price sensitivity, while the lower-end market shows increased price sensitivity and demand softness. This divergence in performance across segments and travel types suggests a complex market environment heading into 2026, helping explain the group trading at roughly 10% discounts to NAV, with clear advantages for REITs focused on higher-end properties despite broader market uncertainties.

## CMBS

Despite a slowdown in demand from post-COVID highs, hotel operations continue to perform well, with loan performance improving accordingly. The conduit hotel delinquency rate, which peaked near 20% in July 2020, has declined to 5.95%—1.28 percentage points below the overall conduit delinquency rate. Leisure travel initially led

the recovery in destination markets, followed by a gradual rebound in business travel.

Hotel operators have sustained RevPAR growth largely by raising average daily rates, even as occupancy remains below pre-pandemic levels, particularly in higher-end categories. That said, year-over-year RevPAR growth is beginning to stabilize as consumers have largely drawn down excess savings.

CMBS issuance in 2020 and 2021 included minimal hotel exposure due to underwriting challenges and investor caution. As fundamentals have improved, hotel contributions have risen to 11% of 2024 conduit issuance and 10.6% of year-to-date 2025 issuance. Still, hotel performance remains highly sensitive to economic conditions. In a slower-growth environment where discretionary spending softens, the sector could face renewed pressure—underscoring the need for cautious underwriting and forward-looking credit assessments.

# INDUSTRIAL

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*	Debt availability
↗	→	→	↗	→	↘	↑

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## Sector overview

The industrial sector is facing headwinds associated with strong new supply in select metros and tenant uncertainty surrounding the impact of tariffs, which is complicating longer-term leasing conditions. Despite these challenges and higher vacancies, the sector remains sought after by both equity investors and lenders. Sector performance will be determined by both trade flows and economic growth, which we believe will drive continued leasing for larger and more modern warehouse facilities.

## Private equity

The industrial sector is entering a new phase of more nuanced performance across most markets. Overdevelopment in key port locations, combined with increased tariff uncertainty, has made leasing dynamics more difficult to assess and created headwinds for net absorption in certain regions. Coastal hubs such as the Ports of Los Angeles and New York/New Jersey have experienced rising vacancy rates. New supply is expected to outpace demand again in 2025; however, projects under construction are declining rapidly due to pricing and underwriting pressures, which should allow the sector to regain a measure of equilibrium in 2026.

On a more positive note, new industrial leases continue to feature healthy contractual rent steps—often exceeding 3% annually, compared with sub-2% escalations in most other sectors. In addition, the number of markets where rents surpass \$10 per square foot has expanded significantly and is now the norm for Class A assets across most top-50 metros.

Even so, the outlook remains more moderate due to elevated construction in recent years and shifting sentiment tied to policy uncertainty. While the sector remains highly sought after by investors, fundamentals are now balanced at a point where market rent growth is expected to taper to inflationary levels—or below—in the near-term.

## Private debt

Lenders continue to aggressively pursue loans on industrial properties despite tariff-induced uncertainty affecting tenant demand in several key port markets. Still-positive national net absorption, a slower pace of new construction activity, still-healthy vacancy rates, and moderate forecast rental rate growth in most markets continue to bolster lender confidence in the property sector.

Well-located, high-quality warehouses and large logistics properties in major markets today often garner 7- to 10-year fixed rate financing from insurance companies and banks with 50% to 65% LTV ratios and spreads over U.S. Treasury yields near 130 to 150 basis points (producing interest rates in the low- to mid- 5% range). Higher leverage is often available from CMBS conduits and debt funds at somewhat higher spreads and rates.

## REITs

Industrial REITs have outperformed the REIT index year-to-date, partially recovering from their 2024 underperformance. While initial optimism for second-half rent growth improvement faded after a sharp post-Liberation Day leasing slowdown, sentiment has recently improved as market conditions exceeded

## INDUSTRIAL (continued)

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feared scenarios. Despite slow tenant decision-making, REITs anticipate pent-up demand activation, with potential catalysts including tariff clarity and Fed rate cuts. Operating results continue decelerating but have exceeded expectations, leading to raised 2025 guidance reflecting both year-to-date outperformance and previous conservative outlooks.

The slower operating environment has reduced development starts, while higher capital costs are limiting acquisition opportunities. REITs are trading at mid- to high-single digit discounts to NAV, reflecting macro-uncertainty and tariff volatility. These discounted valuations have attracted investor interest, evidenced by an unsolicited private equity bid for a small-cap industrial REIT and activist involvement in a Southern California-focused REIT.

### CMBS

Industrial loans currently carry the lowest delinquency rate in the CMBS universe at 1.05%, underscoring the sector's resilience relative to other traditional property types. While credit quality and investor demand remain strong, recent tariff implementations have introduced temporary headwinds. Trade-related disruptions have pressured supply chains and tenant operations, creating short-term uncertainty for leasing and rent growth. Even so, fundamentals remain solid, supported by long-term e-commerce adoption and sustained logistics demand.

Since 2020, the CMBS SASB market has supplied more than \$43.7 billion in floating-rate debt to industrial owners, providing an efficient vehicle for financing large portfolio deals. Blackstone was a leading participant in early 2024, though a broader set of borrowers has since accessed the market for portfolio financing.

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

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

## OFFICE

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*	Debt availability
↓	↑	↘	↓	↘	↘	↓

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### Sector overview

Although office fundamentals show signs of stabilization, they remain weak due to a lack of hiring in traditional office-using occupations and a lack of traction in the return to the workplace. Vacancy rates remain elevated in the low-19% range as leasing activity remains soft. Liquidity within the sector has been mixed with some improvement in sales volume, but it has been limited to portfolio level activity and core assets, which are trading selectively. Leasing economics remains a challenge for owners as the pricing pendulum continues to tilt toward tenants. Limited new supply will help in the nascent recovery, but only for the most well positioned assets.

### Private equity

Despite stabilization in vacancy rates, tenants continue to return space to the market—even upon lease renewals. Many occupiers are still rightsizing their office footprints to align with utilization metrics that remain well below pre-pandemic levels. Inducement costs such as free rent, tenant improvements, and delayed start dates remain elevated, posing challenges for owners. Capitalization on new leases is at a generational high, reflecting weak tenant leverage and ongoing uncertainty. Outside of a handful of top-tier new buildings in major markets, rents are largely flat, though record pricing continues to be set at the high end of the market.

Adding to the sector's challenges is a slowing labor market. Office-using employment is no longer driving a recovery in demand, as corporations have paused hiring amid near-term economic uncertainty and are slow to backfill open positions. The health of the labor market is being closely monitored, given its potential implications for future office demand.

### Private debt

Despite ongoing stress in the national office market, select high-quality properties with strong leasing fundamentals and experienced sponsorship have attracted limited lender interest from insurance companies. This activity remains sparse, typically requiring spreads about 75 basis points above comparable industrial or apartment loans of similar credit risk and tenor. Still, 2025 has marked the cautious reentry of some insurers into office lending. Underwriting standards are conservative, with a focus on the durability of property cash flow rather than net operating income, and loan-to-value ratios often capped around 50%.

CMBS lenders have also returned on a constrained basis, as the CMBS bond market generally permits up to 20% office exposure per issuance. Within that framework, conduit lending is largely reserved for higher-quality assets supported by solid in-place leasing.

Certain debt funds have expressed willingness to finance a broader range of office properties, though required yields frequently exceed what property cash flows can support. Class B and C buildings, assets with occupancy below 80%, or properties with weighted average lease terms under five to seven years, continue to attract little to no lender interest. As a result, most office transactions still rely on existing lenders refinancing their own loans or sellers providing financing to facilitate dispositions.

### REITs

Office REITs have underperformed the broader REIT index year-to-date. While fundamentals are gradually improving, this has not yet translated into meaningful

## OFFICE (continued)

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gains in occupancy or earnings growth. Cash flows remain under pressure as higher leasing activity drives elevated capex. Even so, REIT portfolios continue to benefit from the flight-to-quality trend, materially outperforming the broader office market. With new supply at historically low levels in the coming years, management teams remain optimistic about the near- to medium-term outlook.

New York continues to lead the recovery, with strong tenant demand and limited availability of trophy and Class A space supporting healthy rent growth. Investor enthusiasm, however, is somewhat tempered by uncertainty surrounding upcoming mayoral elections and potential economic implications. San Francisco has emerged as the next recovery story, supported by AI-driven expansion, stronger return-to-office momentum, and policy initiatives. Yet availability remains elevated, leaving landlords with limited pricing power.

Investment activity has increased, with several REITs acquiring properties at significant discounts to pre-pandemic pricing and well below replacement cost. At the same time, improving fundamentals and capital markets have attracted institutional investors back to the office sector, driving cap rate compression for core assets. With REITs trading at mid-teens discounts to NAV, return hurdles remain high, prompting many to pursue developments and redevelopments in search of opportunistic returns.

### CMBS

Office exposure continues to face challenges due to ongoing secular headwinds. Conduit CMBS has historically averaged roughly 30% office exposure; however, issuers have responded by limiting office exposure, which declined to 20% in 2023 and 15% in 2024, reflecting investor concerns and performance uncertainty. Delinquency rates remained remarkably stable throughout the pandemic but have trended up since 2022 from 1.9% to 13.5% for fixed-rate conduit transactions. Long-term leases, diversified rent rolls, and high underwritten DSCRs help to significantly

mitigate term default risk. However, refinance risk remains elevated given NOI pressure, constrained capital markets, and higher interest rates.

Floating rate SASB loans are significantly more exposed to near-term default risk due to the sharp increase in short-term interest rates, leading to a substantial drop in DSCRs. This dynamic has resulted in several high-profile defaults, pushing the SASB office delinquency rate to 7.7% with half of these defaults occurring at loan maturity. Compared to pre-2022 levels, this marks a substantial shift in risk dynamics.

Given the difficult refinance environment, CMBS servicers are actively working with borrowers by offering loan extensions in exchange for fresh equity contributions, cash flow sweeps, and other lender-friendly concessions. While these measures aim to improve bondholder outcomes, they also create timing uncertainty, contributing to pricing concessions.

Recently constructed Class A office assets have continued to perform well, exhibiting positive net absorption and significantly higher market rents. Notably, nearly 50% of conduit CMBS office exposure is classified as Class A, a factor that is not fully reflected in elevated market risk premiums. This performance disparity highlights a flight to quality, where tenants prioritize modern amenities, sustainability features, and prime locations.

Investors who can approach office exposure with a discerning viewpoint are well-positioned to capitalize on current pricing dislocations over the longer term. Additionally, there is a growing trend of investor demand for high-quality, newly originated office assets in recovery markets such as New York City. Strategic investment approaches, including distressed debt acquisitions, recapitalizations, and structured equity solutions, may offer compelling opportunities in the evolving office landscape.

# RETAIL

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*	Debt availability
↗	↑	↗	↗	↗	→	↗

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## Sector overview

The retail sector continues to exhibit strong performance and has become more sought after by institutional investors due to outperformance in 2024. The sector’s unique position as a diversified sector continues to attract investors toward its cyclically resistant formats, which are also more defensively positioned against e-commerce penetration. Consumer resilience, however, is being tested as evidenced by a flattening of sentiment in the specter of higher inflation, which could erode discretionary spending power below all but the top income groups.

## Private equity

Retail continues to draw investor attention in the first half of 2025. Following its position as the top-performing primary property sector last year—and a close second to select emerging growth segments—it is once again off to a strong start this year. Net demand remains positive, and availability rates are holding near cyclical lows. While bankruptcies have created some pockets of vacancy, space has generally been backfilled quickly, often at materially higher rents due to favorable mark-to-market conditions.

The absence of meaningful development over the past decade is a defining factor supporting sector strength. Sustained demand for quality floor plans among brick-and-mortar operators has provided landlords with significant pricing power. In some cases, newly vacated spaces are subject to active competition among multiple tenants. Most remaining vacancies are structural in nature, and many tenants now report a shortage of high-quality space—a dynamic amplified by limited new construction.

## Private debt

Lender appetite for retail properties continues to grow, particularly for those retail properties anchored by grocery stores, home improvement stores, and creditworthy discount department stores. Neighborhood and community shopping centers that demonstrate strong tenant sales histories and significant remaining weighted average lease terms (WALT) have been most in demand by insurance companies seeking to diversify their portfolios. Interest rates for grocery-anchored and other high quality retail properties are often now lower than interest rates for industrial properties, with spreads over U.S. Treasury yields often near 125 to 150 BPS for 50% to 65% LTV loans (producing interest rates in the low- to mid-5% range).

Debt for high street properties, power centers, and lifestyle centers tends to price 5 to 15 BPS wider than debt for well-anchored neighborhood and community shopping centers. However, CMBS lenders have shown stronger interest in those properties. Debt for regional malls remains largely unavailable for all but the very best assets with top operators. Lenders focus heavily on tenant creditworthiness, tenant sales history, remaining WALTs and sponsor quality, with disparate loan terms offered.

## REITs

Retail REIT performance has been mixed year-to-date. Mall REITs have outperformed the broader real estate index, while shopping center REITs have lagged. Although tariffs and consumer health concerns remain topical, leasing activity has not yet been materially affected. Operating fundamentals remain healthy, supported by robust retailer demand and

## RETAIL (continued)

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minimal new supply. Occupancy is at or near record levels, even following recent retailer bankruptcies, as REITs have backfilled vacancies with more desirable tenants—often at significantly higher rents. Management teams remain confident that 2026 will be another strong year, with sizeable pipelines of signed leases yet to commence providing visibility into continued growth over the next 12 months.

Investment markets remain competitive. Several shopping center REITs are responding by divesting lower-growth or non-strategic properties to recycle capital into core-plus or value-add deals, or larger assets with less competitive pressure. Despite strong operating performance and a favorable outlook, shopping center REITs continue to trade at double-digit discounts to NAV, reflecting macroeconomic concerns rather than underlying fundamentals. In contrast, mall REITs are trading at a modest premium to NAV.

### CMBS

Retail's image has recovered significantly, fueled by a resilient consumer base, the spending drawdown in excess savings, and a robust labor market. Store closures have slowed dramatically over the past three years, and the entertainment-oriented transformation of malls has gotten back on track post-COVID. Retail conduit transactions made up a significant portion of

exposure in prior years—29% in 2023 and 28% in 2024. However, year-to-date in 2025, their share has declined to just 15%, reflecting a notable shift in exposure composition. Interestingly, once out-of-favor malls grew to 13% of conduit issuance in 2023 relative to 3% in 2022, supported by generally positive sales trends along with conservative underwriting metrics of >2.0x DSCR and sub-50% LTV on average.

Maturity stress from some loans originated in 2013 and 2014 is still weighing on the conduit retail delinquency rate, which stands at 6%. CMBS servicers continue working with retail operators as loans approach maturity by providing loan extensions on performing properties, typically in exchange for fresh equity contributions. This approach seeks to maximize bondholder outcomes by keeping strong operators in place while avoiding near-term foreclosure at a time when valuations are depressed. Several regional malls currently facing refinancing challenges from these vintages have debt yields higher than 10%. Similar to the hotel sector, retail has benefited from the recent upside in economic activity. However, with growing concerns around consumer health and an elevated risk of economic pullback over the next year, spending trends should be closely monitored for early signs of weakening demand.

# DATA CENTERS

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*	Debt availability
↑	↑	↑	↑	↗	↑	↗

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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## Private equity

Data center demand remains strong as new demand continues to outpace the pace of new supply. At present the top-10 U.S. markets have less than 10MW of power available, which equates to a vacancy rate of roughly 2%. The number of tenants in the space continues to expand powered by both cloud computing and AI related companies. Hyperscalers and intermediaries are leasing power to satisfy short-term AI contracts.

Power capacity constraints continue to drive aggressive pre-leasing and are extending new construction timelines to 2027 and beyond. Across regions, cloud providers and AI-related companies are racing to lock in space early, leading to historically high net absorption.

## Private debt

Lender appetite for data center financing remains robust, although available financing terms vary widely based on whether the property has been leased long-term (typically 15 years or more) to one of the seven largest data center operators or by another operator, and whether the property’s power supply is assured. 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.

## REITs

Data center REITs have underperformed the broader real estate index year-to-date, retracing some of their strong 2024 gains. Investor debate has centered on the tradeoff between near-term earnings dilution from a major investment cycle from one company and the potential for substantial long-term value creation. Further, new leasing activity slowed in 2Q relative to the robust activity seen earlier in the year, though this appears to be timing-related rather than any change in underlying demand.

On the positive side, updates from large technology companies reinforce optimism that AI will deliver meaningful demand tailwinds for the sector. Further, supply in key markets remains tight, supporting favorable rental and pricing dynamics, while capital markets remain accessible to fund growth. From a valuation standpoint, the pure-play data center REITs continue to trade at premium valuation multiples relative to other property types.

## □ LIFE SCIENCES

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*	Debt availability
↓	↓	↘	↘	↓	↓	↘

**Key:** ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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

### Private equity

Fundamentals in the life sciences sector remain under pressure following a wave of overdevelopment and limited new space supply. Nationwide R&D lab vacancies, according to CBRE, reached 22.7% as of mid-year despite an increase in total leasing activity, according to CBRE. However, net absorption remained negative due to lease expirations. The sector continues to face stress from persistently soft post-pandemic venture capital funding trends.

The reversal in the early venture capital recovery is concerning but not entirely surprising, given the close synergy between NIH funding, major research universities, and the proliferation of startups. Meanwhile, hiring in STEM-related occupations has flattened, with total life sciences payrolls expanding only 0.3% in Q2, and biotech R&D jobs remaining flat.

Policy uncertainty and funding cuts continue to weigh on sector expansion, delaying a sustained recovery. While demographic tailwinds and the growing need for advanced healthcare solutions suggest long-term potential, the timeline for meaningful recovery remains uncertain.

### Private debt

The life sciences sector continues to be challenged, and tenant demand remains tepid in part due to the significant amount of uncertainty across the pharma and biotech industries stemming from recent actions taken by the new administration. Reduced VC funding has also weighed on demand and resulted in less activity and smaller space requirements.

### REITs

Life sciences-focused REITs have trailed the broader real estate index year-to-date, pressured by sluggish demand for lab space and underwhelming leasing results—particularly in new and expansion activity. The funding environment has also weighed on the group, with smaller biotech tenants facing capital-raising challenges that, in some cases, have led to tenant departures. Elevated availability rates across key markets have further added to the headwinds.

Looking forward, investor sentiment toward the life sciences sector remains cautious, dampened by concerns over FDA and CDC leadership turnover, potential NIH funding cuts, and the implications of the Most Favored Nation drug pricing executive order. On valuations, life sciences-focused REITs trade at meaningful discounts to NAV. Offsetting these pressures, the group retains competitive advantages through prime market positioning, strong tenant relationships, and healthy balance sheets.

### CMBS

Life sciences properties continue to be a significant player in the CMBS office landscape and maintain a role in the SASB market. Investors are still requiring elevated risk premiums to compensate for the sector being categorized as office and the growing supply pressure on rent growth.

However, deals involving investment-grade tenants on long leases in strong markets have been well received. Location, tenancy, and sponsorship are becoming increasingly important as more square footage is added to the life sciences sector.

# SINGLE-FAMILY RENTALS

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*	Debt availability
↗	↘	↗	→	↗	↓	→

**Key:** ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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

## Private equity

The single-family rental (SFR) sector has performed well over the past 12 months but faces modest headwinds in select metros due to overdevelopment, which has tempered projected rental growth. Vacancy rates in most regions remain near equilibrium, and stable demand continues to support the sector's income profile.

Operationally, the sector remains strong across diverse SFR strategies. Rental homes continue to provide value relative to other housing options, often priced competitively with larger multifamily units while offering amenities sought by families. The sector is also well positioned to serve potential first-time homebuyers currently priced out of the for-sale market, as pricing dislocations remain near generational highs despite lower mortgage rates.

On the capital markets side, the SFR sector remains dominated by smaller investors operating portfolios of fewer than 10 homes, who collectively hold approximately 77% of rental stock. Institutional-scale investment activity has flattened, with transaction volumes remaining below 2022 peaks. On a positive note, a high percentage of real estate tax appeals have been successful, helping to curb expense growth and preserve net operating income.

## Private debt

As demand for SFR properties has grown from a tenant base often unable to afford purchasing properties, institutional lenders have steered a growing amount of capital toward the sector.

CMBS lenders have bolstered their financing of SFRs in 2025, while insurance companies and banks have increased their focus on the sector more modestly. 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.

## REITs

SFR REITs have significantly underperformed against the broader REIT index in 2025. Despite maintaining fundamental strengths including wide affordability gaps, strong tenant retention rates, and moderating build-to-rent supply pressures, the sector faces several challenges. These headwinds include increasing shadow inventory from rising existing home listings, softening job growth, and the potential impact of lower mortgage rates to stimulate incremental home ownership.

SFR REITs continue to outperform traditional apartment REITs in organic growth, demonstrating stronger blended lease rate increases and higher new lease rate growth. The REITs also remain active in portfolio management, pursuing external growth opportunities while capitalizing on strong pricing through strategic sales to owner-occupiers. Currently, SFR REITs trade at approximately 20% discount to consensus NAV estimates.

# STUDENT HOUSING

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*	Debt availability
→	→	→	↗	↘	N/A	→

**Key:** ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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

Student housing fundamentals remain healthy. Occupancy is holding in the mid- to low-90% range, while rental rates have increased 3.4% per bed year-over-year. Regional performance varies, with the Southeast leading the sector as key universities report occupancy in the high 90% range.

Despite recent strength, caution is warranted. Rising investor competition and stagnant enrollment growth at four-year institutions are making sector performance more difficult to assess. Institutional investors will need to focus closely on individual universities and assets to evaluate enrollment dynamics and the balance of pricing power.

### 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.

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MM11889-09 | 09/2025 | 4857659-122026