For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

U.S. Real Estate sector report

Four quadrant perspectives

SPRING 2025

Sector conditions and outlook

KEY:

● Improving ● Neutral ● Deteriorating

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

Sector		Current condition	Outlook
APARTMENT	The apartment sector is regaining momentum after a challenging operational year. Supply headwinds are beginning to subside, and concessions are giving way to rental inflation on newly signed leases as demand picks up. Valuations have stabilized, and the sector continues to attract liquidity from both private equity and debt investors.		
HOTEL	The hotel sector experienced a modest retracing in 2024 compared to its post-pandemic recovery. Occupancy rates remain generally healthy, but headwinds persist, keeping performance across most segments below pre-pandemic levels. These challenges could be further exacerbated in 2025 as booking windows shorten, driven by consumer uncertainty about the sustainability of the recovery.		
INDUSTRIAL	The industrial sector has demonstrated resilience following a pullback in demand to pre-pandemic levels and peak levels of new supply for the cycle. While vacancy rates have risen in several key markets, the sector remains one of the most sought-after by investors. Demand is also showing signs of improvement, as e-commerce and third-party logistics (3PLs) are once again in expansion mode after re-evaluating their space needs over the past 12 to 18 months.		
OFFICE	The much-maligned office sector is showing signs of life, though much work remains before a full recovery is realized. Elevated vacancy rates in key gateway markets and a lack of liquidity continue to challenge the sector, despite increases in office attendance. Lease economics will remain difficult for office landlords, and commodity office assets are likely to face ongoing headwinds. However, the limited new supply will benefit newer, high-quality assets in well-positioned locations.		
RETAIL	The retail sector has outperformed other sectors over the past year, largely due to the resilience of its non-discretionary subsectors. A lack of new development over the past decade, combined with improved flexibility from existing brick-and-mortar tenants, has helped elevate the sector post-pandemic. Consumers have remained resilient, though this will be tested in the coming months as economic growth slows under the pressure of new policies designed to boost domestic production and consumption. Despite these challenges, the sector enters 2025 on solid footing, with both debt and equity investors eager to pursue retail-focused strategies.		

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

Sector conditions and outlook continued

KEY:

Improving · Neutral · Deteriorating

Positive · Moderately positive · Neutral · Moderately negative · Negative

Sector		Current condition	Outlook
DATA CENTERS	The data center sector is experiencing significant demand driven primarily by the expansion of AI applications, with vacancy rates in top North American markets below 2% and double-digit rent growth. Institutional investors are increasingly attracted to data centers, which are among the few sectors showing positive capital appreciation, despite challenges posed by high development costs and lengthy construction timelines.		
LIFE SCIENCES	The sector is encountering substantial challenges after its robust performance during the pandemic. A lack of capital for start-ups has affected occupancy rates, especially with rapid development in many metropolitan areas. Although well-funded biotech and life sciences companies continue to perform well and draw tenant interest, the overall sector is facing difficulties. Additionally, hiring in life sciences roles has slowed, partly due to limited venture capital funding. Despite some improvement from its lowest levels, funding remains well below previous peaks.		
SINGLE-FAMILY RENTAL	The single-family and build-to-rent sectors are facing downward pressure on rental growth due to strong development activity in select metros. However, demand remains healthy, and vacancy rates are well within equilibrium, supporting rental inflation above broader consumer price increases. While moderating interest rates could improve affordability in the for-sale market, homeownership remains out of reach for many first-time buyers. The single-family rental sector continues to offer flexible housing options for those priced out of homeownership or seeking upgraded living spaces without the commitment of buying.		
STUDENT HOUSING	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.		

Source: Principal Real Estate, April 2025.

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

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 regaining momentum after a challenging operational year. Supply headwinds are beginning to subside, and concessions are giving way to rental inflation on newly signed leases as demand picks up. Valuations have stabilized, and the sector continues to attract liquidity from both private equity and debt investors.

Private equity

Apartment market fundamentals are improving in 2025 after a challenging 2024. Overdevelopment in recent years created imbalances in select metros, shifting pricing power toward tenants. However, with demand accelerating and most markets past peak deliveries, the pricing pendulum is reversing.

Occupancy rates are rebounding and rent growth has strengthened in the first half of the year.

The supply pipeline has slowed due to elevated financing costs. By mid-2025, multifamily construction starts are expected to be 74% below their 2021 peak and 30% below pre-pandemic levels (CBRE). As development slows, strong renter demand is expected to drive vacancy rates lower and support above-average rent growth into 2026.

Record-low housing affordability continues to bolster rental demand, as income growth has not kept pace with rising home prices. While declining interest rates could shift some demand back toward homeownership, the gap between income and elevated home prices will likely take years to reconcile.

Valuations stabilized in early 2025, and growing investor confidence could support appreciation by year-end. Demand for residential assets remains strong, with some investors accepting low yields—often below the cost of debt—for high-quality properties.

Private debt

Apartment lending remains attractive to many lenders, driven by persistent housing shortages, challenging affordability for first-time homebuyers, favorable long-term demand trends, and strong market liquidity. Concerns of oversupply in certain markets eased in the second half of 2024, further bolstering lender interest in the sector.

Broad-based lender demand, coupled with competitive pricing and enhanced liquidity from government-sponsored entities (GSEs), continues to keep multifamily lending rates the lowest among all property sectors. Currently, 10-year fixed-rate loans for high-quality, well-located apartment properties with 55% to 65% LTV are priced in the 5.5% to 5.7% range by insurance companies, with slightly higher rates from many banks. GSEs often offer even tighter pricing, with spreads 5-10 basis points (BPS) lower. Additionally, Fannie Mae and Freddie Mac provide financing up to 75% LTV for select multifamily properties, with rates near 6%, and may offer more competitive terms for properties with a strong affordability component aimed at lower-income households.

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

REITs

Apartment REITs have slightly underperformed the REIT index in 2025 after outperforming in 2024. New supply remains elevated, particularly in Sunbelt markets, but peak deliveries are believed to be in the rearview mirror. The wide affordability gap between renting and owning and strong job growth continue to support demand and have kept occupancy levels little changed. Pricing power on new leases remains weak but has held steady in the 3% to 5% range on renewals. Transaction markets remain active with pricing in the high 4% to low 5% range. REITs remain active participants in both acquisitions and dispositions, helped by accommodative capital markets.

Coastal markets are projected to maintain stronger internal growth than Sunbelt markets in 2025, driven by better pricing power and fewer supply headwinds. However, the Sunbelt region is anticipated to see a greater rebound in pricing power as supply pressures ease. Meanwhile, apartment REITs are currently trading approximately in line with consensus NAV estimates.

CMBS

The GSEs remain the dominant lenders in the multifamily sector, with $146 billion in approved lending capacity for 2025. However, combined agency issuance has been constrained by low transaction volumes. While smaller in scale, multifamily exposure in conduit and single-asset single-borrower (SASB) CMBS remains significant, with approximately $65 billion outstanding. Over the past five years, multifamily exposure in conduit deals has ranged from 22.6% in 2021 to 20.5% in 2024.

Loan performance remains strong in the fixed-rate segment, with the conduit multifamily delinquency rate at 3.97%—the second lowest among property sectors, behind industrial. However, some weakness is emerging in floating-rate SASB loans that were underwritten at tight debt yields during the low-interest-rate environment. Rising rates have significantly increased debt service burdens, cooling net operating income (NOI) growth prospects and creating valuation challenges that have made refinancing difficult. As a result, the SASB multifamily delinquency rate stands at 8.5%, driven primarily by maturity defaults.

Overall, multifamily remains a favored sector within fixed-rate conduit CMBS due to longer loan terms, fixed-rate coupons, historical NOI growth, poor single-family affordability in the for-sale market, and low exposure to rent-regulated properties.

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

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 saw a modest retracing in 2024 relative to its post pandemic recovery. Occupancy rates remain generally healthy, but headwinds remain persistent and have kept performance across most segments below pre-pandemic levels. Challenges may be exacerbated this year as booking windows narrow due to consumer uncertainty over the durability of the recovery.

Private debt

Hotel debt markets saw significantly greater activity in 2024 than in 2023, with debt funds and CMBS lenders remaining active while some regional banks and insurance companies re-entered the space. Large commercial and investment banks provided debt funds with lower-cost credit facilities, enabling them to compete more aggressively for new loan originations. Increased lender interest in the hotel sector compressed credit spreads, though underwriting standards generally remained robust.

Hotel loans may be structured with either variable or fixed interest rates. In early 2025, some stabilized hotel loans under $50 million with LTVs between 50% and 60% were being financed by regional banks with variable rate spreads in the low-200 to mid-300 Bps range, often requiring partial recourse. Several insurance companies offered non-recourse hotel loans up to 60% LTV, with fixed-rate spreads in the mid- to upper-200s or variable-rate spreads in the mid- to high-300s. CMBS lenders (both SASB and conduit) provided larger hotel loans, with fixed-rate spreads in the upper 200s to low 300s, or variable-rate spreads ranging from the low 200s to low 400s, depending on loan terms. Debt funds today offer 60% to 70% LTV financing, with spreads generally in the 300 to 400 Bps range for stabilized properties, while non-stabilized hotels typically see spreads between the high 400s and low 600s.

Despite the increased lending activity, construction financing for hotels remains largely unavailable due to higher perceived risk and lender caution.

REITs

Lodging REITs have underperformed early in 2025, extending their struggles from 2024. Revenue per available room (RevPAR) growth is expected to remain below inflation again this year and continue lagging expense growth of 4% to 6%, driven primarily by rising wages and benefits.

Group demand remains a key bright spot for the lodging sector, followed by business transient travel, with occupancy levels still recovering relative to 2019. In contrast, leisure RevPAR is expected to remain relatively stagnant in 2025, as both occupancy and rate growth normalize following exceptional post-pandemic performance.

The supply pipeline for REIT-comparable hotels remains limited and is contracting in select markets with weaker operational performance, which should support top-line growth over the intermediate term. However, uncertainty surrounding current operating fundamentals and persistently high interest rates has resulted in lackluster trading activity. Despite this, REITs generally anticipate higher acquisition and disposition volumes in 2025.

Hotel REITs continue to trade at significant discounts to consensus NAV estimates.

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

CMBS

Despite a slowdown in demand from post-COVID highs, hotel operations have continued to perform well, with loan performance following suit. The conduit hotel delinquency rate, which peaked near 20% in July 2020, has now declined to 5.3%—1.3 percentage points lower than the overall conduit delinquency rate. Leisure travel initially drove a strong recovery in vacation destination markets, followed by a gradual rebound in business travel.

Hotel operators have sustained RevPAR growth primarily by increasing average daily rates, even as occupancy levels remain below pre-pandemic levels, particularly in higher-end categories. However, year-over-year RevPAR growth appears to be stabilizing as consumers have largely depleted excess savings.

CMBS issuances in 2020 and 2021 had minimal hotel exposure due to underwriting challenges and investor skepticism. As fundamentals have improved, hotel loan contributions have risen to 12% of 2023 conduit issuance and 11% of 2024. While recent macroeconomic trends have been supportive, hotel performance remains closely tied to economic growth. A slower-growth environment, where discretionary spending becomes constrained, could negatively impact the sector, warranting a more cautious approach to underwriting and forward-looking credit assessments.

INDUSTRIAL

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 industrial sector has demonstrated resilience following a pullback in demand to pre-pandemic levels and peak levels of new supply for the cycle. While vacancy rates have risen in several key markets, the sector remains one of the most sought-after by investors. Demand is also showing signs of improvement, as e-commerce and third-party logistics (3PLs) are once again in expansion mode after re-evaluating their space needs over the past 12 to 18 months.

Private equity

The U.S. industrial sector remains resilient, with strong demand sustaining investment despite supply absorption challenges in select markets. Industrial properties continue to be a favored asset class nationally, supported by stable rent growth and robust tenant demand.

While some coastal markets—particularly the Inland Empire—have seen pockets of weakness, demand is rebounding. Longer-term fundamentals remain strong, driven by supply chain reconfiguration and e-commerce expansion. The sector is also benefiting from a sharp slowdown in new supply, with projects under construction down over 50% entering 2025 due to high capital costs and modest declines in capital values.

Tenant activity slowed in late 2024 as businesses awaited post-election economic clarity, but early 2025 has seen a marked increase in property tours, with decision-makers appearing ready to move forward with growth plans. While new policies aimed at higher trade barriers present risks to the sector, recent trade data show continued growth in goods imports, which are the primary driver of net demand for warehouse space.

A flight to quality is reshaping the market, with newer buildings capturing demand. In 2024, properties built before 2000 saw over 100 million sq. ft. of negative absorption, while those completed after 2022 recorded more than 200 million sq. ft. of positive absorption, according to the most recent CBRE data.

Private debt

The industrial sector—along with apartments—remains a top choice among lenders. While recent weaker demand and continued new supply have unsettled some lenders, most still view the sector's long-term fundamentals as favorable. High-quality, well-located warehouse and logistics properties in major markets today typically secure 10-year, fixed-rate financing with loan-to-value (LTV) ratios of 55% to 60% and interest rates ranging from 5.6% to 5.8%.

Pricing for industrial loans is generally less competitive than for multifamily properties, likely due to the absence of government-sponsored enterprises (GSEs) in the industrial sector, which provide additional liquidity for multifamily. However, industrial remains a close second to multifamily in lender preference and aggressive pricing.

REITs

Industrial REITs have outperformed the broader real estate index year-to-date, rebounding from significant underperformance in 2024. The sector sold off sharply in late 2024 after some companies withdrew long-term guidance due to disappointing rent growth,

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

particularly in Southern California. However, stocks recovered in early 2025, driven by more positive market commentary and improving tenant demand post-election, while supply pressures have started to ease.

Management teams believe market vacancy is nearing its peak and expect rent growth to rebound in the second half of 2025. While this outlook remains largely unchanged from prior quarters, confidence in a recovery has strengthened as supply and demand appear to be moving toward balance. REITs acknowledge that tariffs could introduce volatility or prompt tenants to pause expansion plans, but they have yet to see any material impact on demand.

Guidance for 2025 has been disappointing, as same-store NOI growth continues to decelerate compared to recent years. Occupancy levels are normalizing in the mid-90% range, and the mark-to-market opportunity is shrinking as REITs capture rent increases while market rents remain stagnant. Additionally, external growth has slowed due to rising capital costs and a competitive investment market. REITs are taking a measured approach to speculative development, given the slow leasing of newly delivered assets.

From a valuation perspective, industrial REITs are trading at a modest mid-single-digit discount to consensus NAV, reflecting concerns over slowing growth and uncertainty about the anticipated rent inflection later this year.

CMBS

Industrial loans currently have the lowest delinquency rate in the CMBS universe at 0.6% and remain one of the most resilient segments in commercial real estate, particularly compared to other traditional sectors. This stability is supported by favorable economic conditions, strong market fundamentals, and ample capital availability.

Since 2020, the CMBS SASB market has provided over $43.7 billion in floating-rate debt to industrial owners, serving as an efficient financing vehicle for large portfolio deals. A large player in the private markets business was an active participant in early 2024; however, multiple borrowers have since entered the market to finance industrial property portfolios.

In the conduit CMBS space, industrial allocations have increased to 10% since the pandemic, up from 6% to 7% before 2020. Conduit CMBS industrial loans tend to be smaller than large SASB deals and, in some cases, involve properties in tertiary locations, with less functional layouts and non-investment-grade tenancy (often via sale-leasebacks). As a result, underwriting standards for conduit industrial loans have typically been more conservative than those for SASB industrial loans.

Overall, the sector continues to benefit from historically strong NOI growth, resilient cash flows, and positive investor sentiment.

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

OFFICE

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 much-maligned office sector is showing signs of life, though much work remains before a full recovery is realized. Elevated vacancy rates in key gateway markets and a lack of liquidity continue to challenge the sector, despite increases in office attendance. Lease economics will remain difficult for office landlords, and commodity office assets are likely to face ongoing headwinds. However, the limited new supply will benefit newer, high-quality assets in well-positioned locations.

Private equity

Office sector fundamentals indicate the market may be near its trough. The sector's vacancy rate peaked at 19.0% in 2024 before edging down 0.1% by year-end—a modest but positive signal that the worst may be behind us. However, the outlook remains uncertain, and a full recovery will require significant progress. Net absorption in 2025 reached 6.7 million square feet, offering a rare bright spot for the struggling sector.

Early signs of demand recovery and improved liquidity provide some optimism, but a sustained turnaround remains elusive. Coastal office markets—particularly those with high tech concentrations—continued to struggle in 2024, as many tech tenants shed additional office space in response to remote work trends and budget tightening. As a result, overall vacancy and sublease availability rates remain at or near historic highs.

While remote work is likely to persist in some form, an increasing number of return-to-office (RTO) mandates could drive pent-up demand over the next few years. In 2024, major employers such as Amazon, Dell, JPMorgan, and Citi announced stricter in-office policies, most of which take effect in 2025. As these policies roll out, utilization rates should improve from current levels.

New supply remains limited. Projects under construction indicate that new office deliveries will decline to just 17 million square feet in 2025—the lowest level since 2011. The sector will remain bifurcated, with modern, highly amenitized assets outperforming aging, commoditized buildings that are increasingly approaching functional obsolescence.

Private debt

At the start of 2025 several large insurance companies re-entered the office market, offering new loans for the very best-of-the-best type office properties with strong leasing and strong sponsorship. This activity remains quite limited and typically carries spreads at least 50 Bps higher than those required for industrial or apartment loans with similar credit risk and tenor, but the re-entry of some insurance companies into office lending (albeit on a very small scale) may be seen as a positive development. Interest rates for these transactions tend to be in the low- to mid-6% range, with leverage frequently around 50% LTV.

CMBS lenders continue to pursue office loans on a limited basis as well, with the CMBS bond market generally accepting up to 20% office exposure in each CMBS bond issuance. With that limitation in place, CMBS conduit interest in office lending is reserved primarily for better quality properties with strong in-place leasing.

Certain debt funds have expressed a willingness to provide loans for a greater array of office properties, but their required yields are typically greater than the properties' existing economics will support.

Office buildings deemed class B or C in quality, those with occupancy below 85-90%, and those with weighted average remaining lease terms shorter than 5-7 years still generally find no lender interest.

Most office loans still involve existing lenders refinancing their own debt or sellers providing seller financing in connection with a disposition.

REITs

Office REITs have underperformed in early 2025, following strong outperformance in 2024. While fundamentals continue to improve, weak earnings and risk-off market sentiment have pressured office stocks. Most REITs reported their highest leasing volumes in 2024 since the start of the pandemic, as tenant demand has picked up—particularly for higher-quality buildings that REITs typically own.

New York and Sunbelt markets continue to outperform, with pricing power returning in select submarkets where trophy and Class A space remains scarce. Meanwhile, West Coast markets, though still lagging, appear to have bottomed, as downsizing pressures from tech firms moderate and AI-related demand grows rapidly.

Capital markets are also improving. The CMBS market has reopened, and large institutional investors have returned to the sector after a prolonged absence. Several REITs have leveraged an improved cost of capital by issuing equity at or above NAV to acquire high-quality buildings at attractive cap rates in the 7% to 9% range.

Despite these positive developments, office REIT guidance for 2025 fell well below expectations. Stronger leasing activity has yet to translate into significant occupancy gains, while higher interest expenses and elevated capital expenditures remain substantial headwinds to earnings growth and cash flow. These challenges are reflected in valuations, with the sector trading at an average discount to consensus NAV of 20% to 25%.

CMBS

Office exposure continues to present 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 10.9% for fixed-rate conduit transactions. Long-term leases, diversified rent rolls, and high underwritten debt service coverage ratios (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 10%, with nearly 70% 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.

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

RETAIL

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 retail sector has outperformed over the past year, largely due to the resilience of its non-discretionary subsectors. A lack of new development over the past decade, combined with improved flexibility from existing brick-and-mortar tenants, has helped elevate the sector post-pandemic. Consumers have remained resilient, though this will be tested in the coming months as economic growth slows under the pressure of new policies designed to boost domestic production and consumption. Despite these challenges, the sector enters 2025 on solid footing, with both debt and equity investors eager to pursue retail-focused strategies.

Private equity

From a macro perspective, the U.S. consumer remains resilient despite elevated interest rates and rising credit card debt. Shoppers have prioritized essentials and value-oriented retail—categories well-represented in neighborhood and strip centers. While household balance sheets have moderated post-pandemic, consumer spending has held steady. The potential for slower economic growth and easing inflation poses some risk, but the sector's focus on necessity-based retail should provide stability.

The retail availability rate ended 2024 at 4.7%—the lowest since CBRE began tracking retail data in 2005—driven by historically tight supply. With occupancy and tenant retention at record highs, landlords have gained significant bargaining power. Minimal new development has further strengthened fundamentals, with retail completions hitting a record low of 25 million square feet in 2024, providing a tailwind into 2025.

Retail continues to benefit from strong consumer spending and economic growth. In 2024, it was once again the top-performing sector among the four major property types in the NCREIF Property Index.

One challenge for the sector is its relatively high capital expenditure burden, particularly in strip centers, where retail's evolving nature demands frequent reinvestment. While replacing struggling tenants has been accretive to stronger rent growth, re-tenanting remains costly.

Private debt

Lender appetite for retail properties has increased in recent months as the sector continues to perform well and alternatives remain limited. Neighborhood and community shopping centers with strong tenants and healthy sales are in the highest demand. Properties anchored by major grocers, creditworthy discounters, and home improvement stores often attract competitive financing offers from lenders. Interest rates for grocery-anchored properties, as well as other high-quality retail assets, are typically in line with industrial property rates, ranging from 5.6% to 5.8% for 50% to 60% LTV loans.

Debt for high street properties, power centers, and lifestyle centers generally prices 5 to 15 Bps wider than debt for well-anchored neighborhood and community centers. However, CMBS lenders have shown increased interest in these assets. Debt for regional malls remains largely unavailable except for the highest-quality assets with top-tier operators. Lenders are placing significant emphasis on tenant creditworthiness, sales performance, remaining weighted-average lease terms (WALTs), and sponsor quality, leading to varied loan terms across the sector.

REITs

Retail REITs have underperformed year-to-date after strong outperformance in 2024, with malls outperforming shopping centers in both periods. An uptick in bankruptcy activity and store closings, combined with concerns about the consumer and cautious outlooks from retailers, have pressured stocks in recent months. However, fundamentals remain supportive as retailer demand continues to be robust and broad-based, while new supply is virtually non-existent. REIT management teams remain bullish as pricing power has improved amid historically low availability rates.

Disruption from recent bankruptcy events is manageable, and REITs expect to backfill vacant anchor boxes relatively quickly with stronger retailers at significantly higher rents. Favorable market conditions have also sparked M&A activity, with a major investment firm purchasing a grocery-anchored REIT on the West Coast for $4 billion. This transaction, at a mid-to-high 5% cap rate, provided evidence of strong private market values, which boosted stocks in late 2024.

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. In conjunction with conduit transaction office exposures falling in 2023 and 2024, retail exposure has increased back toward historical averages, with 2023 and 2024 exposure at 29% and 28%, respectively. 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 2012 and 2013 is still weighing on the conduit retail delinquency rate, which stands at 6.3%. 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%. Like the hotel sector, retail has benefited from the recent upside in economic activity. However, the health of the consumer and a potential pullback in spending need to be closely monitored for turning points.

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

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

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

Private equity

The data center sector continues to see significant demand, driven primarily by the expansion of AI applications. Vacancy rates in the top North American markets are approaching 1% in the top 10 markets, with double-digit rent growth. Institutional investors are increasingly attracted to data centers, which are among the few sectors showing positive capital appreciation.

While power scarcity, transmission bottlenecks, high development costs, and lengthy construction timelines limit supply, development finance presents opportunities for exposure to this growing sector.

Private debt

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

Construction loans for data centers with the best leasing and assured power sources tend to price between secured overnight financing rate (SOFR) + 225 and SOFR + 300 Bps for a loan-to-cost ratio near 60%. Financing for similar properties at up to 80-85% loan-to-cost is sometimes available with rates of SOFR + 400 to SOFR + 500 Bps, typically sourced from debt funds rather than banks at those higher leverage levels. Longer term permanent loans for data centers may be available from insurance companies or CMBS (conduit or SASB), 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 following strong outperformance during the second half of 2024. The selloff was sparked by several events that raised debate on the magnitude and duration of artificial intelligence (AI)-driven data center demand including: (1) the release of DeepSeek opensource AI models which surprised in both quality and (arguably) cost and resources to develop; (2) commentary from Microsoft's CEO that was interpreted as potentially signaling nearer-term oversupply of data center capacity relative to demand; and (3) reports that Microsoft is terminating some recently signed data center leases while slowing down its data center leasing activity.

Meanwhile, updates from other large technology companies remained supportive of optimism that AI will provide significant tailwinds for the sector. Commentary from REITs has indicated favorable supply and demand dynamics (and no loss of demand momentum) in many of their key markets, which is evidenced in favorable market rental rates and pricing conditions. Capital markets also remain open and accessible to help fund growth. From a valuation perspective, data center REITs trade at higher premiums to NAVs relative to other property types.

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

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 weak following a wave of overdevelopment and a current lack of new space supply. The vacancy rate for R&D lab space nationwide, according to CBRE, rose by 1.2 percentage points to 19.7% by the end of 2024. The sector is under significant stress, driven by a weak phase in the venture capital (VC) cycle post-pandemic, coupled with oversupply. Cash flow problems and overdevelopment continue to challenge the sector. Rising capital costs over the past year have stifled growth for many life sciences companies, and relief from the capital markets is urgently needed as balance sheets are strained by costly R&D expenses. However, metros with strong ties to prestigious universities may continue to perform well, as research costs are often absorbed at the university level.

Private debt

Lender appetite for life sciences property investments remains weak amid soft market conditions. For those properties that do attract lender interest, tenant creditworthiness is a primary focus due to the sector's reliance on venture capital financing. While life sciences properties in major research hubs may find receptive lenders, those in secondary markets will likely face challenges securing financing without recourse or other substantial credit enhancements.

REITs

Life sciences-focused REITs have seen mixed performance compared to the broader real estate index year-to-date, following underperformance in the second half of 2024. Leasing results reported by the REITs have also been mixed and not strong enough to change the narrative around the broader supply and demand imbalance. Elevated and still increasing availability rates in key markets remain a concern.

Against challenging market conditions in 2024, life sciences-focused REITs successfully defended leased rates of their core lab portfolios and sustained positive releasing spreads. Nonetheless, the 2025 outlooks put out by the REITs imply another challenging year ahead. As it relates to valuations, the life science REITs are trading at sizeable discounts to NAV.

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 and build-to-rent sectors are facing downward pressure on rental growth due to strong development activity in select metros. However, demand remains healthy, and vacancy rates are well within equilibrium, supporting rental inflation above broader consumer price increases. While moderating interest rates could improve affordability in the for-sale market, homeownership remains out of reach for many first-time buyers. The single-family rental sector continues to offer flexible housing options for those priced out of homeownership or seeking upgraded living spaces without the commitment of buying.

Private debt

Debt for single-family rental properties is available from banks, insurance companies, debt funds, CMBS, and government-sponsored enterprises (Fannie Mae and Freddie Mac), provided the properties are located on a contiguous tract of land and operate as a unified asset. Financing for scattered-site portfolios remains scarce, with debt funds and the GSEs serving as the primary capital sources.

Lenders sometimes classify top-tier single-family rental projects as a variation of multifamily housing, offering comparable loan terms. However, financing conditions vary widely based on property quality, operational performance, and management strength.

REITs

The single-family rental sector has slightly underperformed in early 2025 after lagging in 2024. Concerns over supply pressures from build-to-rent (BTR) developments and rising existing home listings remain key headwinds, as failed home sales can convert into rental inventory. The volatile interest rate environment has also weighed on sentiment—particularly during rate declines, which threaten to shrink the sizable rent-versus-own advantage.

Despite these challenges, single-family REIT fundamentals remain solid, with internal growth continuing to outpace traditional apartments, even as pricing power and occupancy experience slight declines. Lower expense growth has provided a tailwind to earnings, following years of elevated tax and insurance cost pressures.

For 2025, guidance suggests occupancy will remain flat to slightly down, while pricing power is expected to decelerate, but rental growth should remain above 3%. REITs remain active in transactions, capitalizing on strong pricing through sales to owner-occupiers. Single-family rental REITs currently trade at 10% to 15% discounts 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 strong, with room rates at institutionally managed properties continuing to rise. However, the sector is becoming more competitive, as much of the demand is now being met. Increased migration to southeastern states such as Florida and Georgia have generated optimism, while students opting to stay close to home often face limited housing options—a gap that developers are eager to address.

Despite these positive trends, we remain cautious about the sector due to rising investor competition, which is driving up pricing, and a secular stagnation in enrollment at four-year institutions. If these trends continue, they could present long-term challenges for property owners.

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. Fixed-income investment options that invest in mortgage securities, such as commercial mortgage-backed securities, are subject to increased risk due to real estate exposure. Floating rate debt instruments are subject to credit risk, interest rate risk, and impaired collateral risk, which means that the value of the collateral used to secure a loan held by the fund could decline over the course of the loan. Credit risk refers to an issuer's ability to make interest and principal payments when due.

Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account.

Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided. All figures shown in this document are in U.S. dollars unless otherwise noted.

This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections, and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is issued in:

- The United States by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- Europe by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorised and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).
- United Kingdom by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA").
- United Arab Emirates by Principal Investor Management (DIFC) Limited, an entity registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as an Authorised Firm, in its capacity as distributor / promoter of the products and services of Principal Asset Management. This document is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organisation.
- Singapore by Principal Global Investors (Singapore) Limited (ACRA Reg. No. 199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act 2001. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- Australia by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.
- This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.
- Hong Kong SAR (China) by Principal Asset Management Company (Asia) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission.
- Other APAC Countries/Jurisdictions, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

Principal Funds are distributed by Principal Funds Distributor, Inc.

© 2025 Principal Financial Services, Inc. Principal®, Principal Financial Group®, Principal Asset Management, and Principal and the logomark design are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company, in various countries around the world and may be used only with the permission of Principal Financial Services, Inc. Principal Asset Management℠ is a trade name of Principal Global Investors, LLC. Principal Real Estate is a trade name of Principal Real Estate Investors, LLC, an affiliate of Principal Global Investors.

MM11889-08 | 04/2025 | 4359829-042026