INSIDE REAL ESTATE OUTLOOK

Back to basics

Mid-year update: July 2025

Principal Asset Management℠

OVERVIEW

Fundamentals drive returns in an uncertain environment

We entered 2025 on a wave of optimism, but policy and geopolitical shifts have once again altered market dynamics, pushing investors to brace for a risk-off environment. That said, we believe commercial real estate (CRE) remains in a stronger position today than at any point in the past three years. Pricing in the private equity market has likely reached its trough, aggregate occupancy remains healthy, and operating income supports an investment performance rebound. Debt is readily available, and U.S. publicly listed REITs were resilient in the face of a challenging backdrop (+2.1% YTD) while European REITs performed admirably (25.4% USD / +12.8% EUR). The debt and public equity markets are historically leading indicators for private equity CRE.

The U.S. economy, for its part, has weathered the storm of tariff implementation, immigration reform, and higher borrowing costs. Globally, consumers have remained resilient in the face of heightened uncertainty and the specter of higher inflation. Fully employed labor markets have bought some time, but we believe slower growth lies ahead in the U.S., and the margin for error is narrower than it was at the start of the year. By comparison, Europe may be on relatively stronger footing given stimulus spending.

With this backdrop in mind, our mid-year update to our 2025 Real Estate Outlook explores the evolving macroeconomic environment and the CRE investment landscape. While 2025 has proven more challenging than initially anticipated, we reiterate that we're on the cusp of a turning point. A deeper understanding of systemic risks will help investors navigate this more nuanced environment—especially during the early stages of recovery. Fundamentals will be a primary driver of total returns versus the post-GFC financially engineered returns, that were driven by historically low interest rates. Property and market selection are therefore paramount.

In the U.S., we expect unlevered total returns of +/- 5% in 2025 driven primarily by income returns, although we also provide a scenario analysis based on the key factors that drive valuations. Europe may be closer to 6-7% given a combination of an improving economic outlook, wider cap rates, and declining interest rates. We continue to believe private debt is among the most attractive opportunities across the four quadrants.

Source: Principal Real Estate, July 2025

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Macroeconomic overview

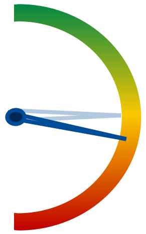
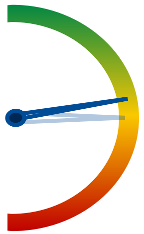
01

Steady but slower

Economic outlook for 2025 – 2026

January '25 vs July '25

- The economic outlook has grown more uncertain in 2025. While global labor markets remain healthy and consumers largely resilient, many of the tailwinds of 2024 have begun to fade amid elevated risks and a less accommodative policy environment.
- Real estate investors have continued to show confidence despite economic uncertainty, though that optimism has been more restrained than initially anticipated. A pause in central bank easing, coupled with renewed concerns about inflation, is likely to moderate the pace of recovery through the remainder of 2025.

	Outlook	Growth prospects across regions have begun to converge
N. America		**Moderating** A strong job market and resilient consumer spending remain the hallmarks of the U.S. economic expansion. However, growth is expected to slow to below-trend levels over the next 12 months. Divergent policy positions have introduced uncertainty for both investors and businesses, complicating efforts to assess the operating environment. With elevated interest rates and the potential for tariff-driven inflation, the risk of recession remains uncomfortably high.
Europe		**Stabilizing** The European economy has stabilized. Although expectations for 2025 remain modest, increased fiscal spending should boost growth in 2026 and thereafter. Meanwhile, labor markets remain fully employed, and consumers are cautiously optimistic. Inflationary pressures have been less acute than in the U.S. and policy makers have held steady on interest rate normalization, lessening pressure on businesses and households.
Asia Pacific		**Moderating** The APAC region will face increased challenges due to trade disruptions and weaker growth in Japan and China. Inflation remains a relative advantage compared with the U.S. and Europe, but uneven performance, and the addition of tariffs on export-based economies, will present challenges over the next 12 months.

A global growth shock materializes

Global economies are reeling from U.S. intentions to reorder global trade

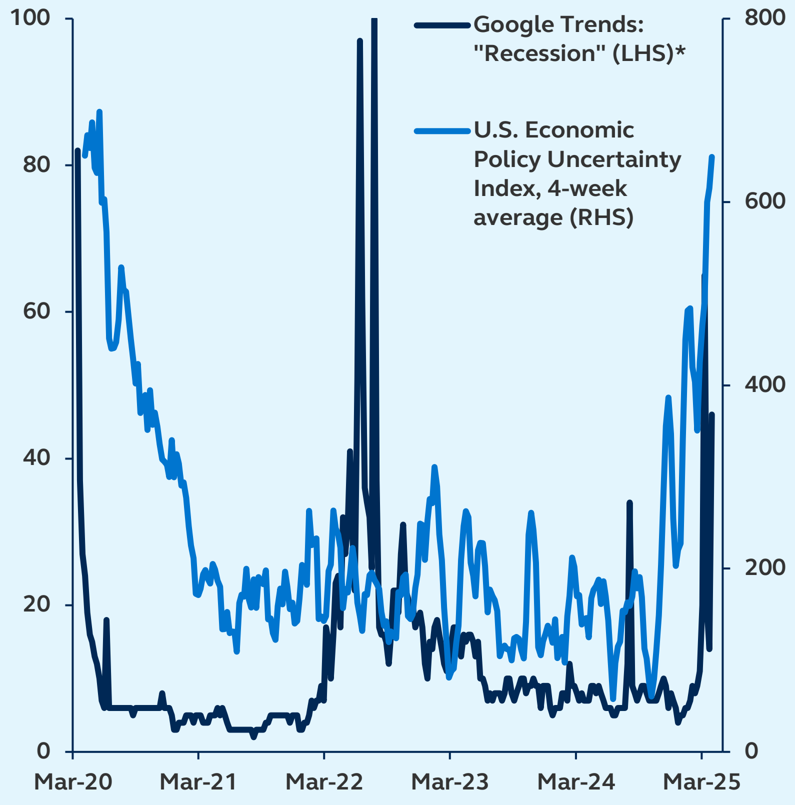
The implementation of U.S. tariffs on foreign economies is expected to exert significant pressure on global economic growth over the next 12 to 18 months.

As trade dynamics shift and the prospect of higher prices looms, global growth projections have been notably downgraded.

This recalibration of trade relationships has also heightened the risk of recession in the U.S., as key trading partners seek to forge new agreements and realign supply chains.

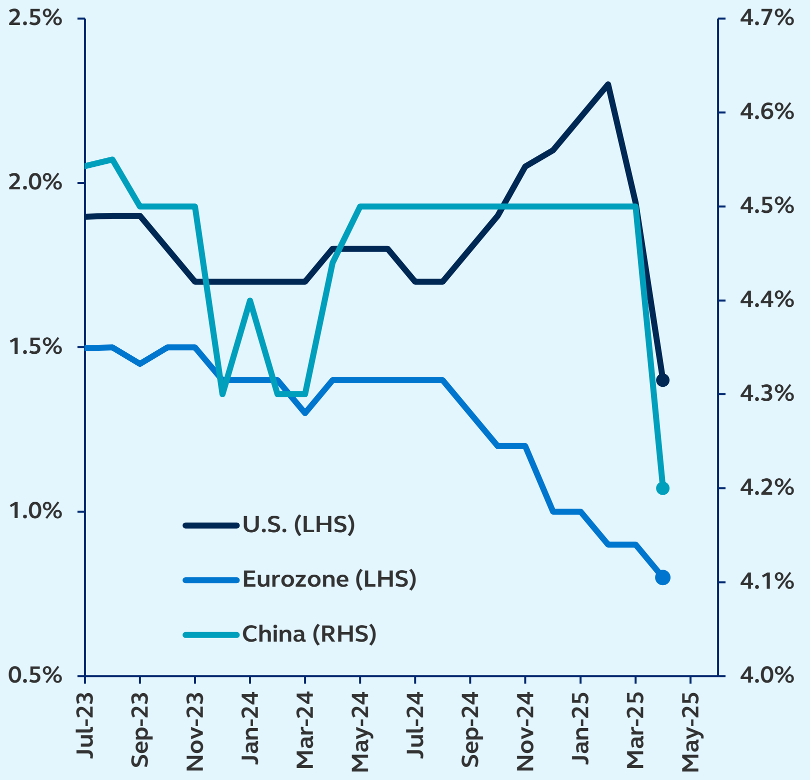
U.S. recession trends

Google trends popularity level and Uncertainty Index level



2025 GDP forecast

Consensus 2025 real GDP growth forecasts for U.S., Eurozone and China



Source: (Left chart) Bloomberg, Principal Asset Management. Data as of March 31, 2025. *Represents search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. 50 means the term is half as popular. (Right chart) Bloomberg, Principal Asset Management. Data as of April 30, 2025.

Tariffs—potentially a U.S. own goal

U.S. import tariffs, if maintained at current levels, imply elevated recession risk

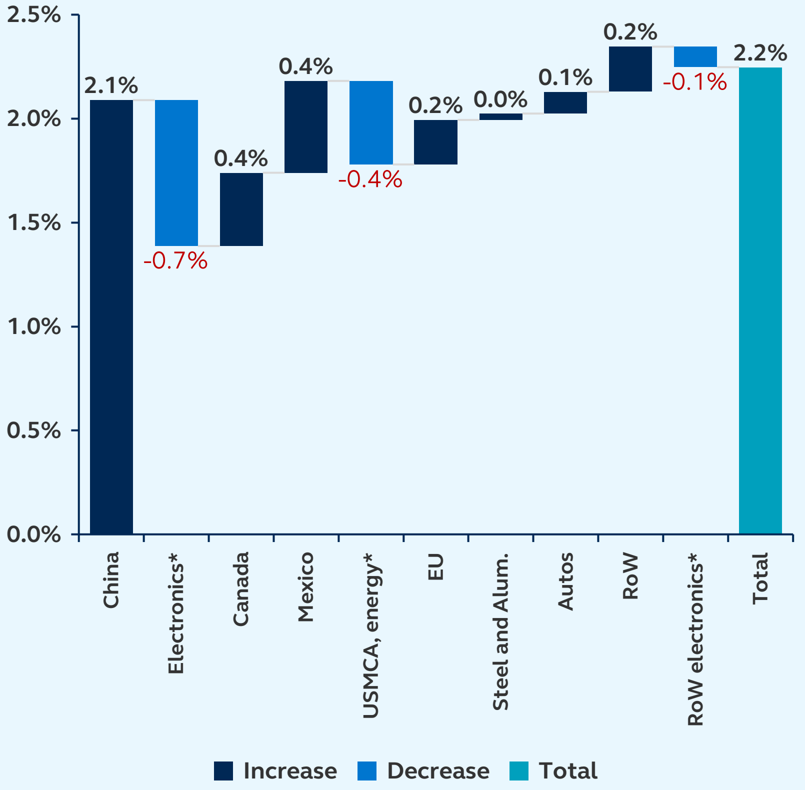
Following the April 2nd Liberation Day announcement, minimum tariffs increased from just over 2% to 10%. If all announced tariffs were to hold, they would be just over 20% or roughly in line with the 1930 Smooth-Hawley Act. We expect the tariff rate to settle in the mid-teens.

Tariffs would have a significant impact on potential GDP, subtracting 2.2 percentage points from top line growth if implemented as announced on April 11 (after adjusted for various exemptions).

While our house view remains cautiously optimistic, the proposed increases in the effective customs rate will increase the odds of recession in 2026.

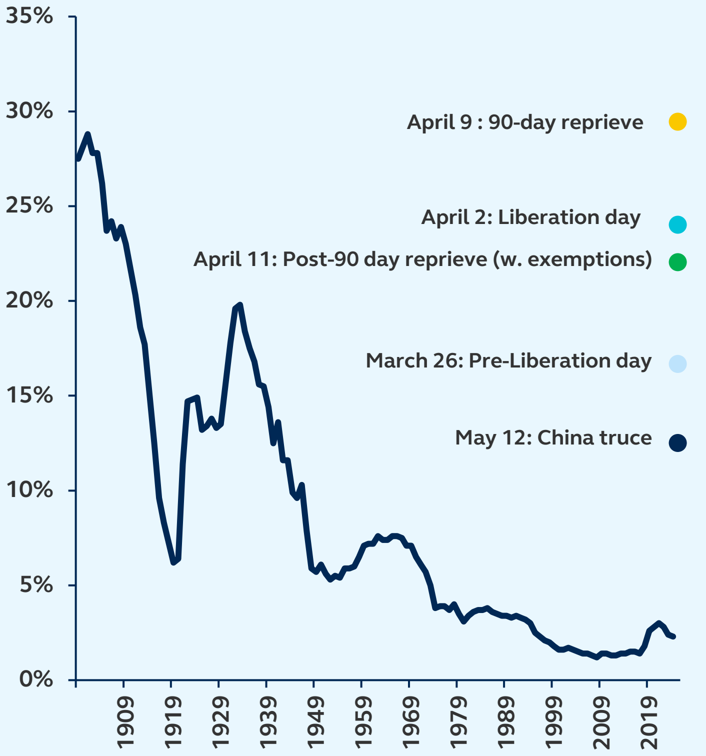
Negative impact of tariff increases on U.S. GDP

Percentage



U.S. average effective tariff rate and projections

1900–present



Source: (Left chart) International Monetary Fund, World Trade Organization, Census Bureau, Bloomberg, Principal Asset Management. Data as of April 16, 2025. Note: (*) refers to exemptions granted by the Trump administration. (Right chart) Bloomberg, Principal Asset Management. Data as of May 12, 2025

The Fed: Caught between inflation and a growth hit

Rate cuts will come, but the magnitude will be constrained by inflation concerns

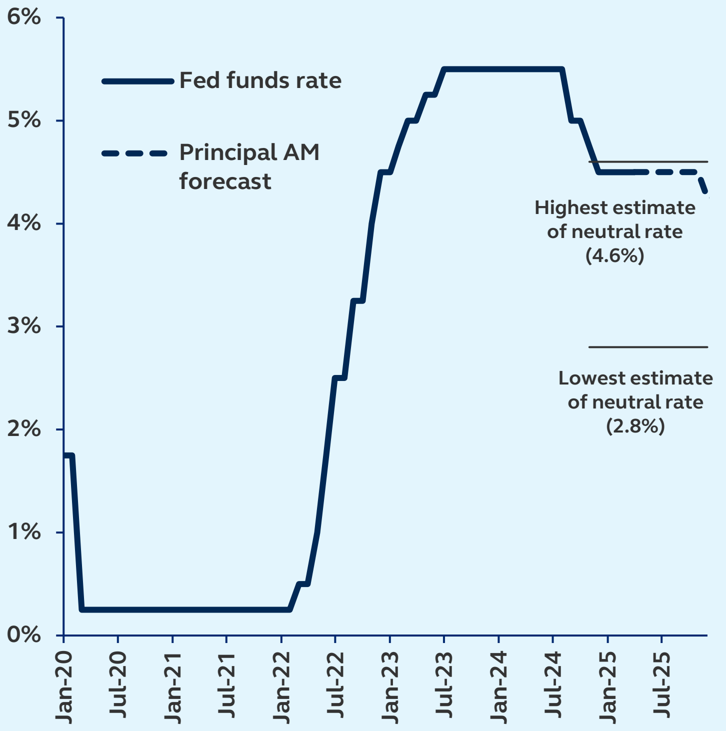
One of the primary challenges currently facing the economy and commercial real estate sector is the trajectory of interest rates. While initial forecasts anticipated approximately four rate cuts in 2025, the likelihood of even a single cut remains uncertain and widely debated.

The Federal Open Market Committee (FOMC) has paused its rate normalization efforts, largely due to inconsistent policy developments in Washington.

Although inflation has not fully materialized, pricing pressures are beginning to build as tariffs gradually become embedded in the cost structure.

Federal Reserve policy rate path

Fed funds rate and projections, 2020–present



Market Fed funds expectations

Number of 25bps moves expected by year-end December 2025, negative number = cut

Source: (Left chart) Federal Reserve, Bloomberg, Principal Asset Management. Highest and lowest neutral rate estimate levels are derived from a wide range of Wall Street analysts and models. Data as May 12, 2025. (Right chart) Federal Reserve, Bloomberg, Principal Asset Management. Data as April 25, 2025.

Offsetting policy stimulus increasingly in play

Fiscal spending in Europe expected to drive stronger growth in 2026/2027

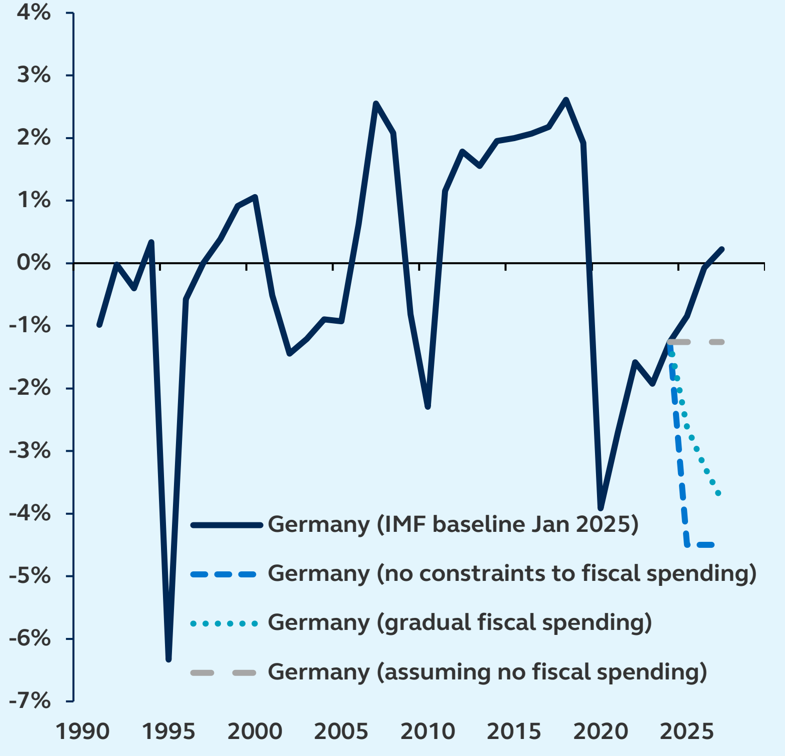
Despite global challenges, Europe should benefit from more accommodative policy on both the fiscal and monetary due to lingering challenges to potential growth.

As a result of a proactive policy stance, the region's economies are on stronger footing as global supply changes are in a state of uncertainty.

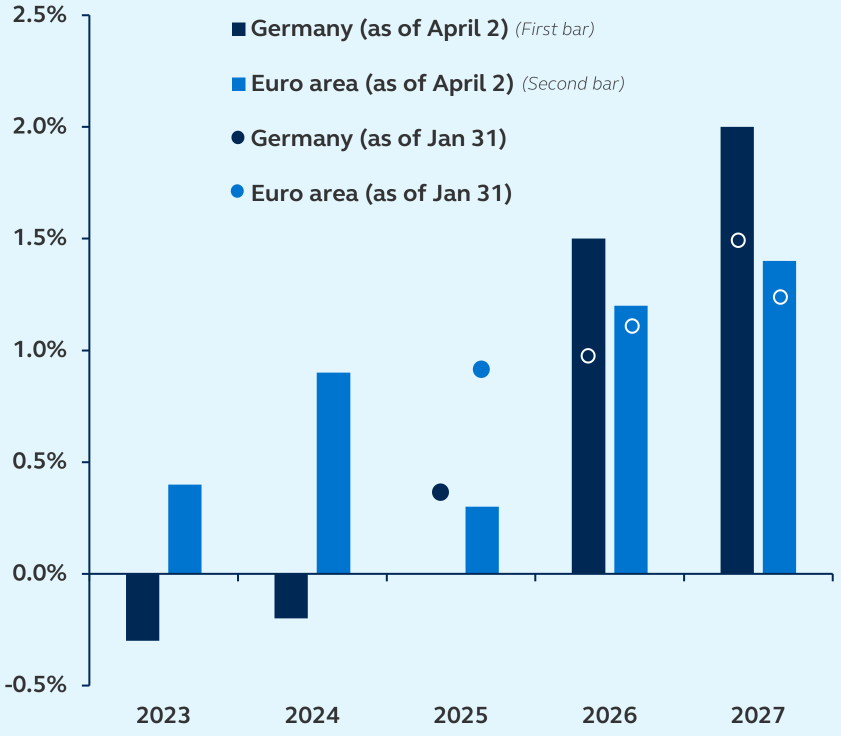
A more balanced policy and business environment will also help sustain investment flows, which will benefit the economy and commercial real estate valuations.

Germany primary balance scenarios

1990–present



Germany and Euro area GDP growth forecast revisions *2023–2027*



Source: (Left chart) Goldman Sachs, Bloomberg, Principal Asset Management. Data as of April 4, 2025. Note: The no constraints scenario assumes additional 2ppt in defense spending , 0.9ppt in infrastructure spending, and 0.25ppt in state spending. The gradual scenarios assumes a fiscal spending reach a total of 3.5ppt over five years. (Right chart) Bloomberg, Principal Asset Management. Data as of April 4, 2025.

The U.S. dollar—facing a global backlash

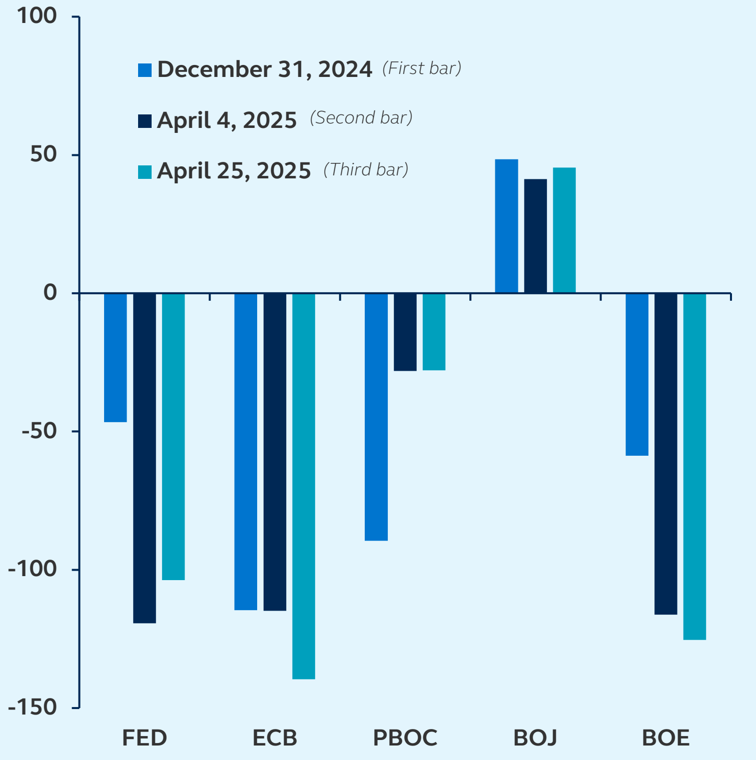
Further dollar weakness will depend on global confidence in U.S. policymaking

Foreign investors may seek to hedge the currency risk of U.S. commercial real estate. This comes at a cost.

Section 899 of the one "Big Beautiful Bill Act" imposes an additional withholding tax that escalates five percentage points annually on foreign individuals, governments, corporations, trust and foundations from certain countries. These retaliatory rates are capped at 20 points above the applicable statutory rate in the House version. The Senate version sets the max increase at 15 percentage points. The earliest the effective date in the House bill is January 1, 2026, whereas the Senate version delays the effective date until 2027.

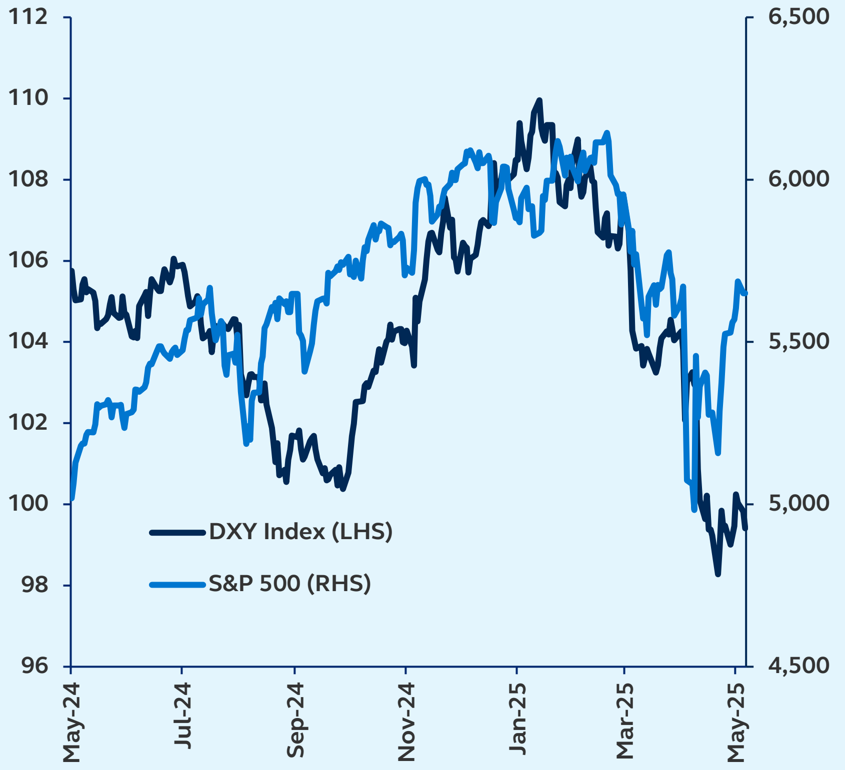
Market priced rate action in 2025

Expected policy rate move in 2025 for major central banks, basis points



U.S. dollar Spot Index, S&P 500, 10-year U.S. Treasury yield

May 2024–present



Source: (Left chart) Bloomberg, Principal Asset Allocation. Data as of April 25, 2025. (Right chart) Bloomberg, Principal Asset Management. Data as of May 6, 2025.

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Real estate capital markets

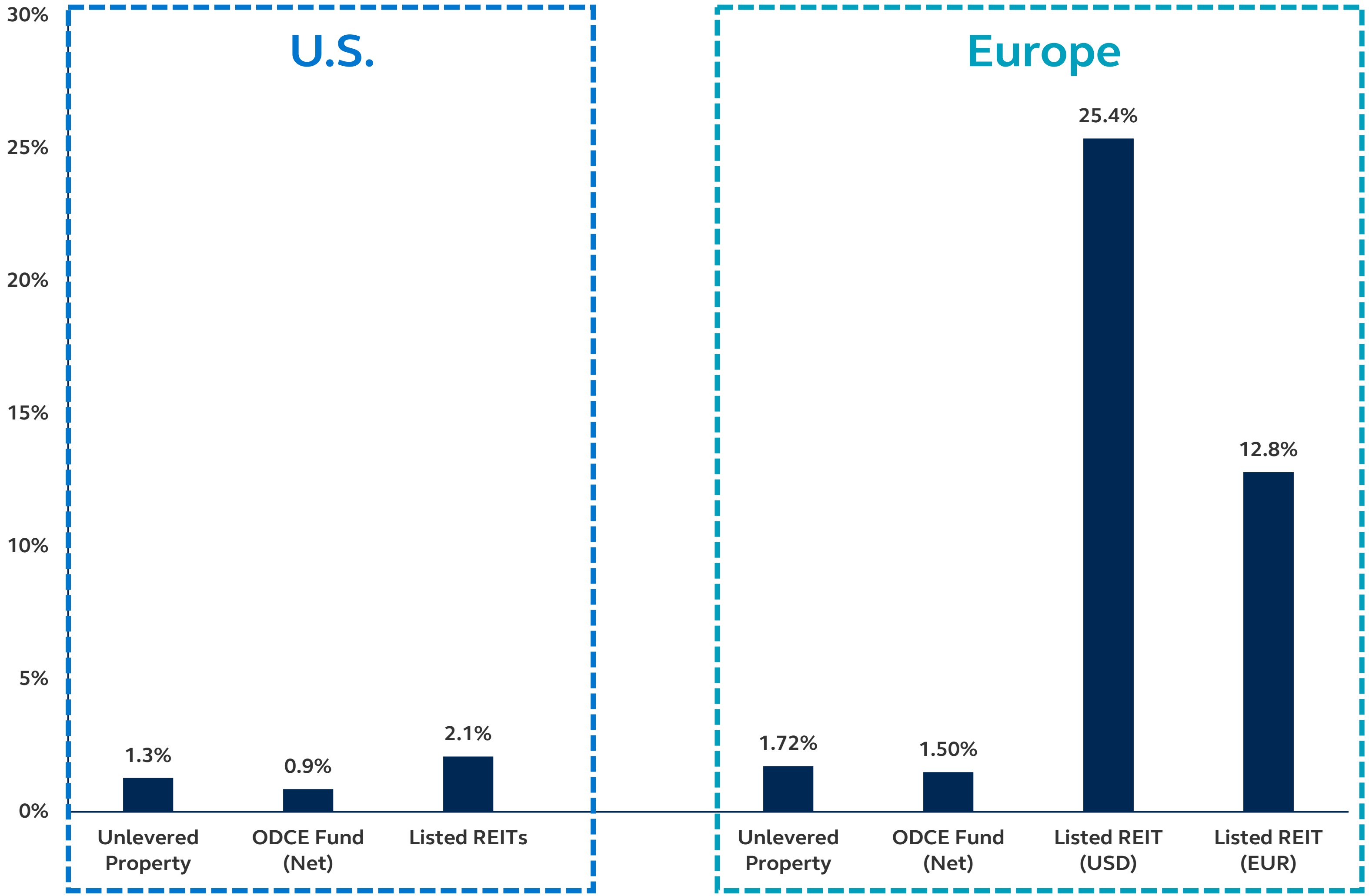
02

Snapshot of global YTD returns

U.S. listed REITs were resilient against a challenging backdrop as they returned +2.1% year-to-date. There was a +31.2-percentage point spread between the best and worst performing property types reinforcing that property type selection matters.

European REITs, on the other hand, performed admirably returning +25.4% on a USD basis and +12.8% on a EUR basis. This may reflect a stronger economic backdrop.

Unlevered property returns in the U.S. returned +1.3% in 1Q25 vs +1.7% for Europe. This is consistent with our projections of 5% unlevered total returns in the U.S. driven primarily by income returns. Europe may be closer to 6-7% given a combination of an improving economic outlook, wider cap rates, and declining interest rates.



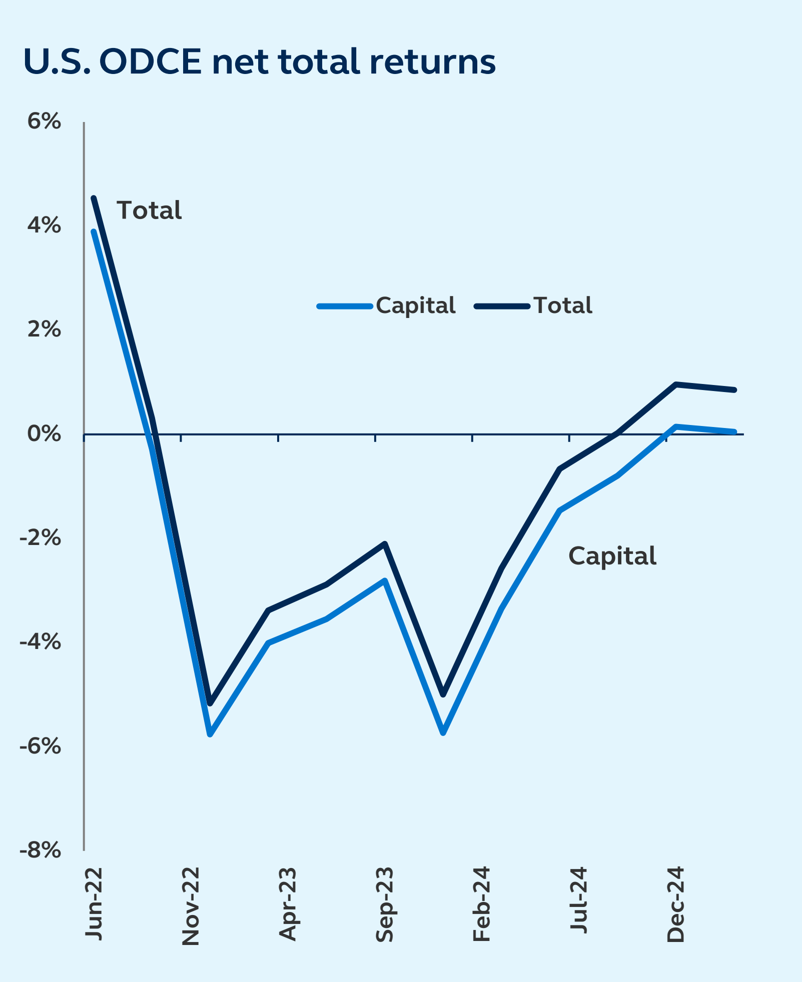
Source: NCREIF, InREV, Bloomberg, Principal Real Estate. Private CRE returns are as of 31 March 2025 while listed REIT returns are as of 18 June 2025. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

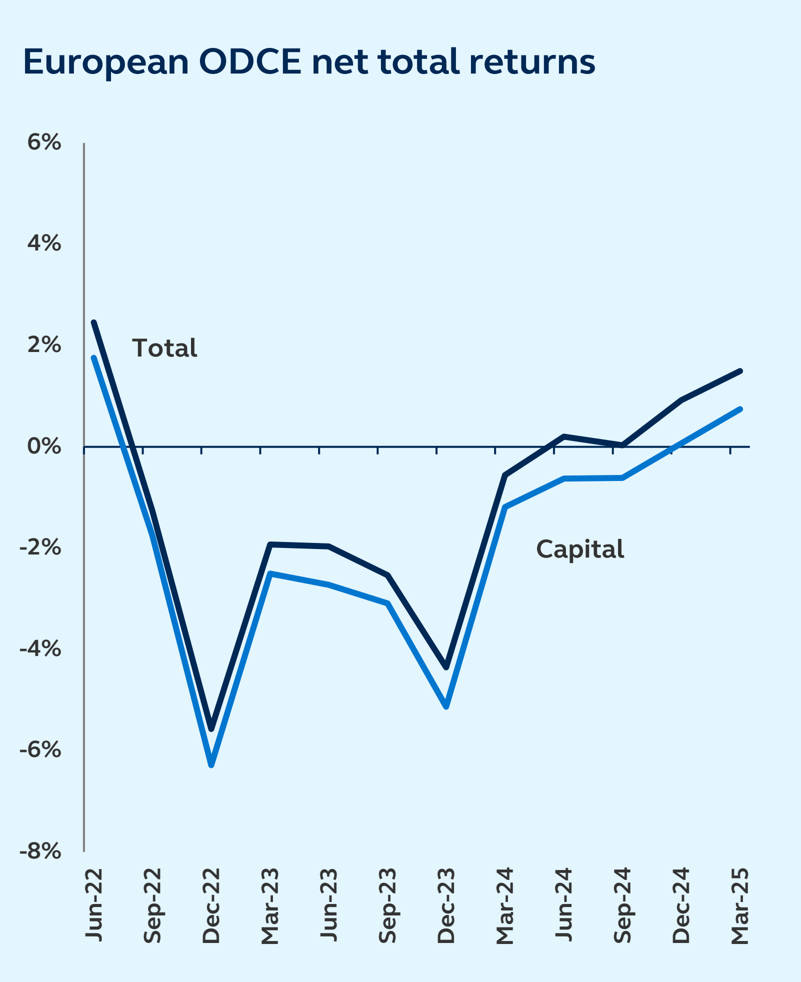
ODCE total returns have recently turned positive

U.S. ODCE capital returns declined for nine consecutive quarters from 3Q22 to 3Q24 by a cumulative -24.7%.

Similarly, European ODCE capital returns declined for nine consecutive quarters from 3Q22 to 3Q24 by a cumulative -20.7%.

However, returns have rebounded over the past several quarters. U.S. and European capital returns have risen over the prior two quarters (4Q24 and 1Q25) by +0.2% and +0.82%, respectively. Total returns (net) were positive over the three prior quarters (3Q24 – 1Q25) by +1.8% and +2.5%, respectively.





Source: NCREIF, InREV, Principal Real Estate, as of 31 March 2025. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

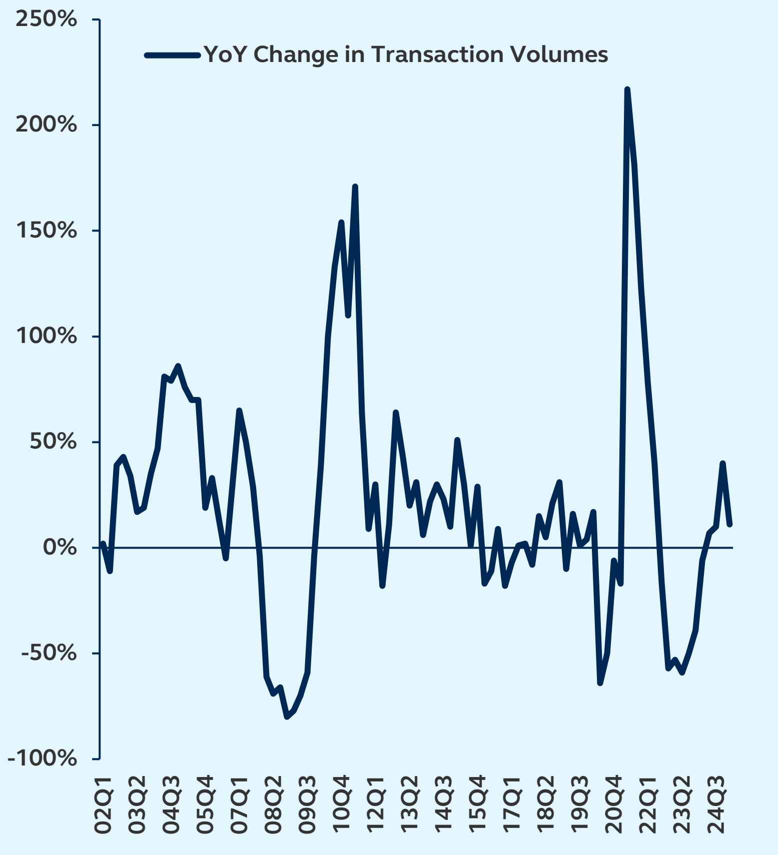
CRE capital markets conditions improving

Transactions rose and lending conditions are on the cusp of loosening

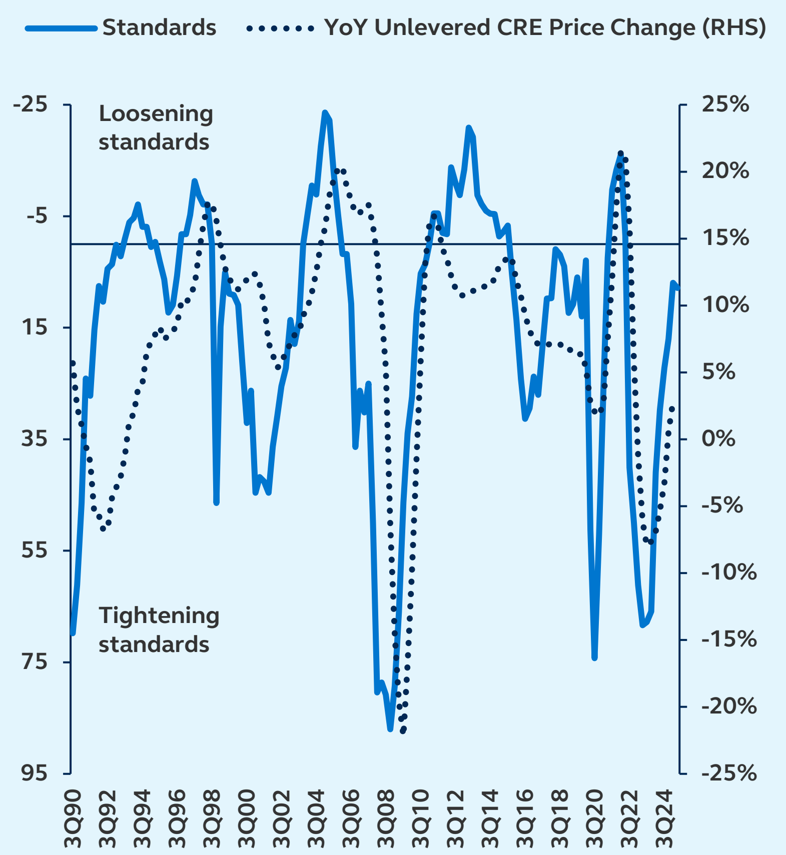
Transaction volumes rose year-over-year in both 2024 (+13%) and 1Q25 (+14%). And they were essentially flat in April '25. This may indicate that the prices sellers want to sell, and buyers want to buy has narrowed, helping to push property valuations higher.

At the same time, lending conditions improved throughout 2024 supporting a trough in year-over-year declines in property prices. Standards were stable in 1Q25 for the first time since 3Q23 amid tariff induced volatility. Large banks loosened standards while small banks tightened. By comparison, Banks tightened standards for corporate and consumer loans. Loan demand continued to improve.

Quarterly transaction volume change



Senior Loan Office Opinion Survey



Source: RCA, Federal Reserve, NCREIF, Principal Real Estate, as of 31 March 2025

Cross-border flows into the U.S. were already declining

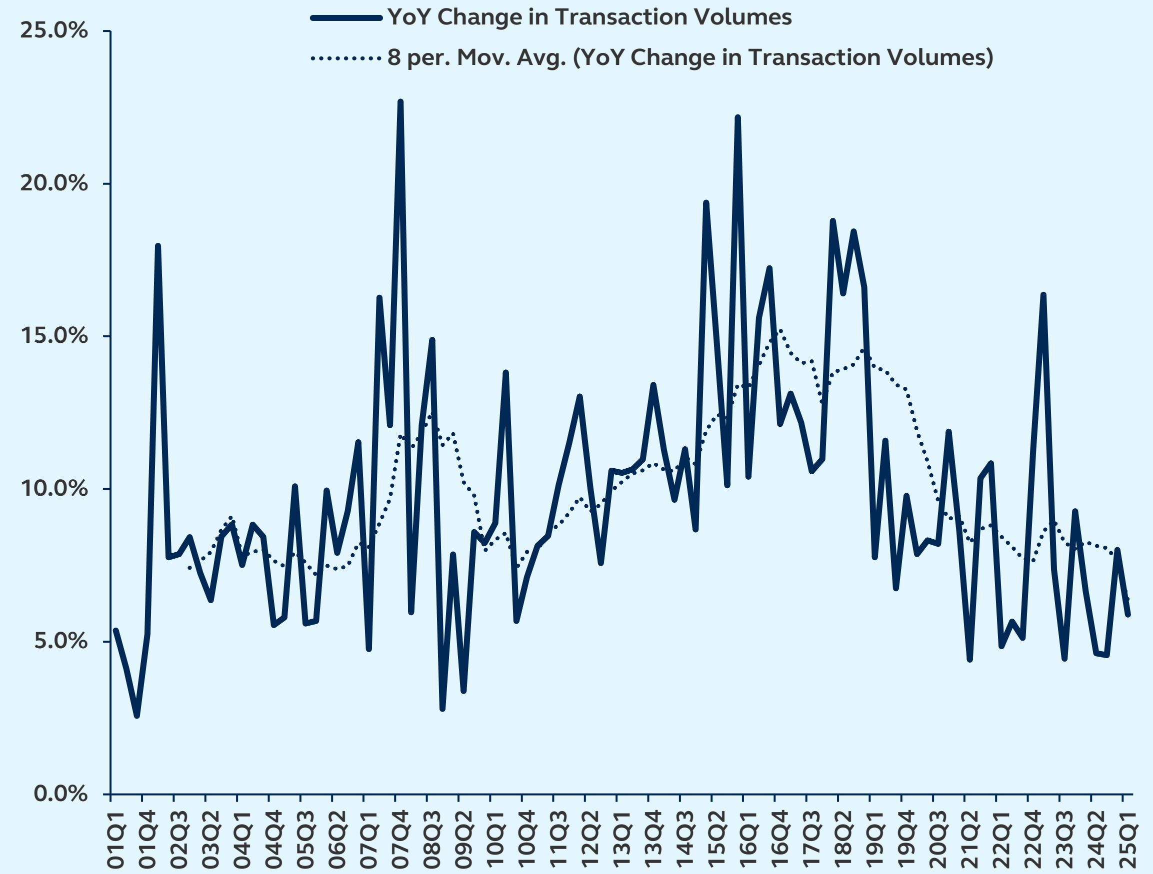
U.S. transactions volumes still rose in 2024 and 1Q25 even without foreign investment

Over the past 10-years, cross-border investors represented 10.9% of total U.S. CRE acquisitions according to Real Capital Analytics (RCA). This peaked at 17.5% in 2018 and stood at 6.1% in 2024.

Canada was the largest direct investor in 2024, representing 35% of cross-border volumes according to RCA, followed by Japan (10.4%), the U.K. (10.2%), Norway (7.4%), and Singapore (5.6%). This is before considering investment in funds and separate accounts managed by U.S. asset managers where the 2024 Global Fund Manager Survey Report presented by ANREV, INREV, and NCREIF[(1)] notes that 21% of North American AUM is domiciled in Europe and 15% is from Asia Pacific. Net-net, the 2025 *PREA Investment Intentions Survey* notes that Asian investors have a 17% current allocation to the U.S. and Europe stands at 14% across the range of vehicles including direct, funds, joint ventures / club deals, separate accounts, listed REITs, and debt.

Additionally, foreign banks are an important source of debt capital to the U.S. CRE market with share of total lending averaging ~6% from 2015 to 2024. A pullback on foreign investment in and lending to U.S. commercial real estate could therefore be a headwind to future capital appreciation, although we note direct U.S. transaction volumes still rose in 2024 and 1Q25 even without foreign investors.

Year-over-year change in U.S. transaction volumes



Source: RCA, PREA, Principal Real Estate, as of 31 March 2025.

Forthcoming loan maturities are a potential catalyst

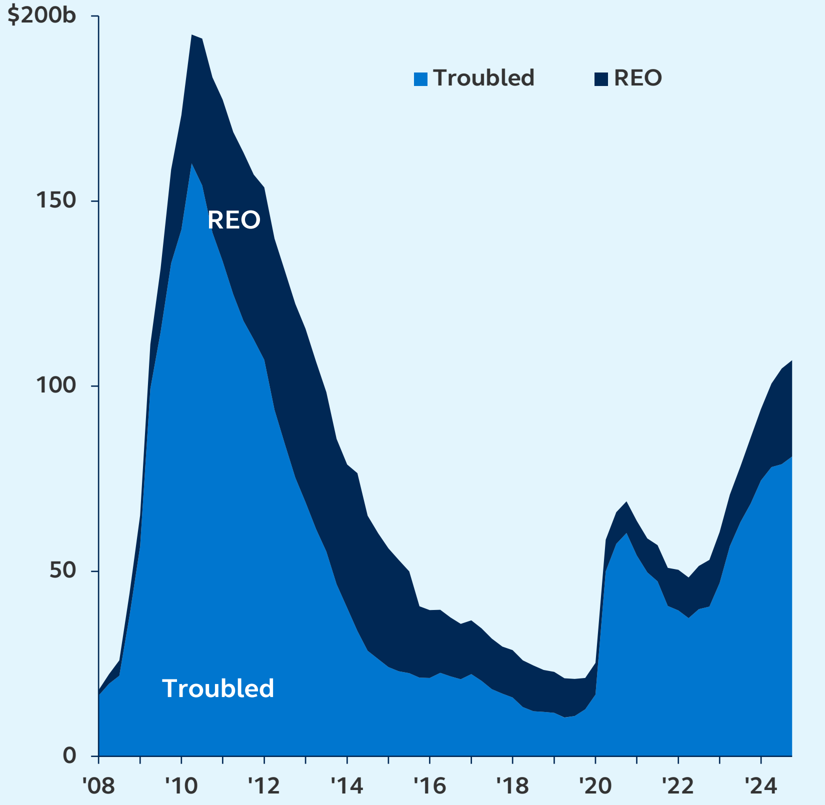
This provides opportunities for non-bank lenders

More than $2 trillion of loans are maturing from 2025 to 2027. Almost 50% of the loans are currently held on bank balance sheets.

At the same time, total U.S. distress reached $116.4 billion, a 23% increase relative to a year prior. There were net additions of $5bn in 1Q25, comprised of $7.2bn on resolutions and $12bn of newly troubled loans. The net change to distress of $5.0bn in 1Q25 is up from $4.5bn in 4Q24, while down -37% compared to 1Q24 (+$7.8bn).

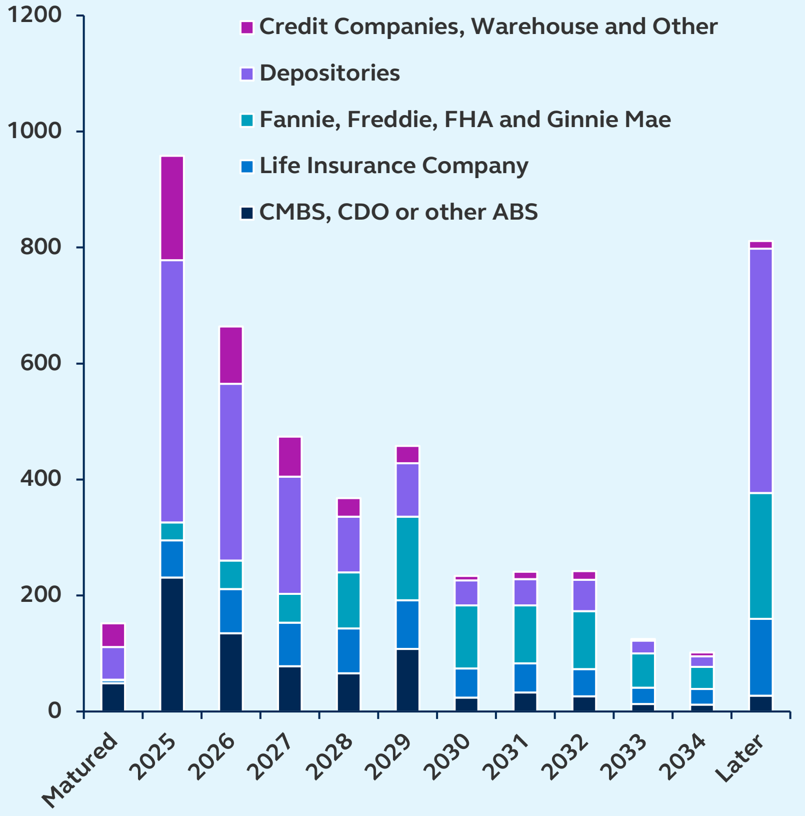
Distress sales as a % of total sales volumes stood at +2.4% in 1Q25 vs +3.5% in 1Q24 which was the highest since 4Q15.

Historical cumulative distress



Maturing loans by lender

($ billion)



Source: (Left chart) RCA, Principal Real Estate, as of Q1 2025. (Right chart) MBA, Principal Real Estate, as of 31 December 2024

U.S. NOI growth is solid for most property types

Growth prospects may normalize between the U.S. and Europe

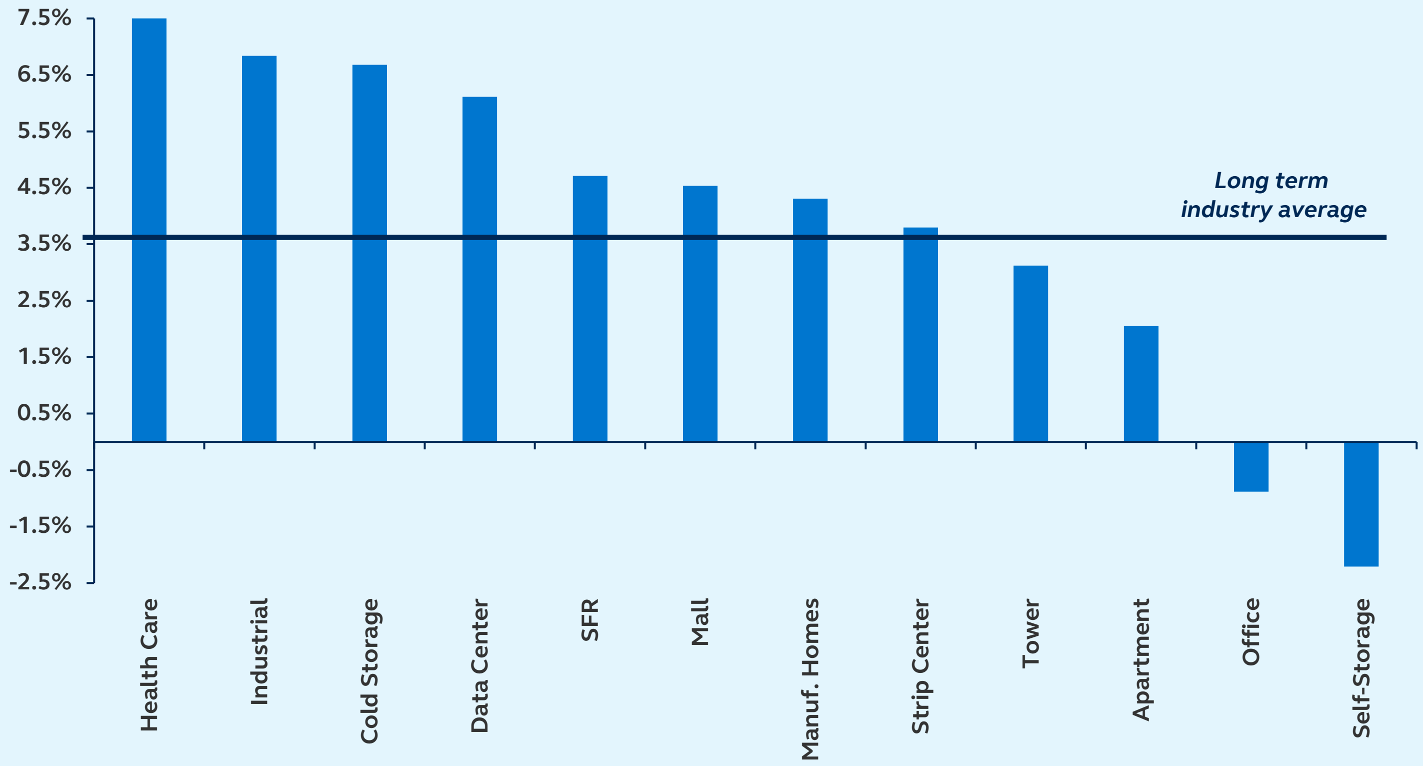
The U.S. commercial real estate market has become far more diversified over the past two decades. Indeed, nearly 70% of U.S. listed REIT market capitalization is now concentrated in alternative sectors and we estimate approximately 40% of the U.S. private market is now alternatives. Core funds, however, remain under allocated to these sectors.

Many of these sectors are generating strong net operating income growth. For instance, healthcare grew at +7.6% in 2024, compared to 6.7% for cold storage, 6.1% for data centers and 4.7% for single-family rentals (SFR). This is well above the long-term average for CRE overall at 2.5%.

We think the diversity of CRE will help to mitigate potential risks of an economic slowdown. That said, it's possible that NOI growth in the U.S. and Europe will converge in 2026 and 2027 as Europe is on stronger economic footing than the U.S.

Same property NOI growth by property sector

As of 2024



Source: Green Street, Principal Real Estate, as of 31 December 2024

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Strategic outlook

03

We continue to favor debt over equity...for now

Four quadrant outlook

Upgrading our outlook for CRE Equity

↑ Attractive ↗ Improving → Stable ↘ Deteriorating ↓ Challenged

		H1	H2
Private Equity	Core, Value-add, Opportunistic	↗	→
Public Equity	REITs	↗	→
Private Debt	Senior, Subordinate	↑	↑
Public Debt	CMBS	↑	↗

Private Equity: We continue to believe that, barring a significant economic downturn, the correction in private equity valuations is largely complete. In light of ongoing uncertainty in the capital markets, core strategies focused on income-driven returns are likely to remain among the most attractive investment approaches. We expect mid-single digit returns in 2025, driven by income, and believe 10-year annualized returns in line with the historical average of 8-9% are reasonable.

Public Equity: REIT valuations relative to equities have grown historically cheap in recent years. Earnings are on solid footing as they are relatively insulated from the direct impact of tariffs and other Trump policies. Balance sheets are strong. Interest rate uncertainty may act as a constraint on more robust returns, but alternative sectors are attractive. Global REITs provide a hedge against a potential de-risking of America by foreign investors and a U.S. economic recession.

Private Debt: Higher interest rates and elevated debt maturity schedules are creating a favorable environment for lenders. Current pricing remains attractive relative to other risk assets, and limited distress is helping to mitigate downside risk. Opportunities span a wide range of strategies. Lending standards are stable, but there are signs of increasing competition from various capital sources.

Public Debt: Despite wider spreads, the market remains fundamentally healthy. Office exposure should continue to be monitored, but public debt is generally well-positioned and attractively priced. Relative to corporate credit, pricing remains competitive and heightened market uncertainty has driven a notable shift toward higher-quality issuance.

Source: Principal Real Estate, July 2025

Active selection across four U.S. quadrants may add alpha

Performance among sectors in a given year can vary widely.

Dynamic allocation may provide investors the best possible outcomes by potentially maximizing the opportunity set in any given environment.

Note: Percentages shown in last row are the difference between the highest performing sub-asset class and the lowest for the relevant year

REITs | **Private real estate debt** | **Investment-grade CMBS** | **Private real estate equity**

Average performance spread across quadrants since 2007: 21.03%

Performance gross total return

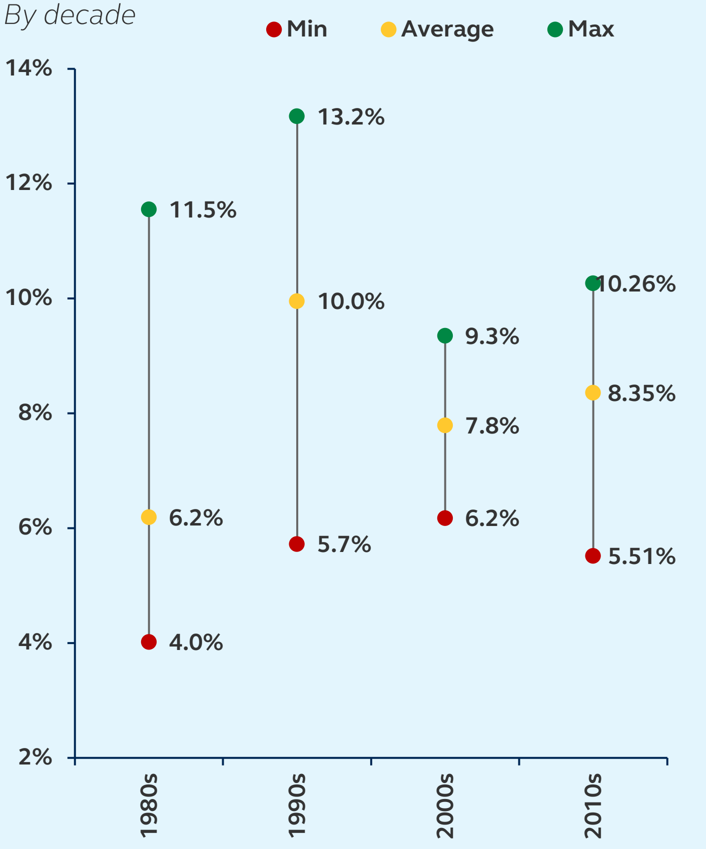
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
16.0%	-4.1%	37.1%	20.8%	16.0%	27.7%	13.9%	15.0%	15.0%	8.8%	10.4%	8.3%	21.9%	7.6%	26.1%	7.5%	9.7%	5.0%
5.7%	-10.0%	28.1%	19.6%	6.9%	10.9%	3.7%	12.5%	2.7%	4.1%	7.6%	2.6%	8.3%	6.3%	22.2%	-9.0%	5.6%	5.0%
4.6%	-22.7%	14.7%	16.4%	6.5%	10.0%	2.9%	7.4%	0.9%	3.5%	5.7%	1.0%	8.1%	1.2%	1.9%	-10.9%	5.3%	0.9%
-7.4%	-48.2%	-29.8%	10.2%	-6.5%	4.7%	0.2%	4.2%	-0.8%	2.9%	3.5%	-5.6%	5.3%	-9.0%	-0.9%	-25.1%	-12.0%	-1.4%
23.4%	44.1%	66.9%	10.6%	22.4%	23.1%	13.8%	10.8%	15.8%	5.9%	6.8%	14.0%	16.6%	16.6%	27.0%	32.6%	21.7%	6.4%

Source: Principal Real Estate, as of 31 December 2024. Indices: US REITs: U.S. REIT Linked Index; IG CMBS: Bloomberg US CMBS Investment Grade Index; Private RE Debt: Giliberto-Levy Index; Private RE Equity: ODCE variable-weight index. Past performance is not indicative of future performance. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

Historical U.S. CRE private equity returns

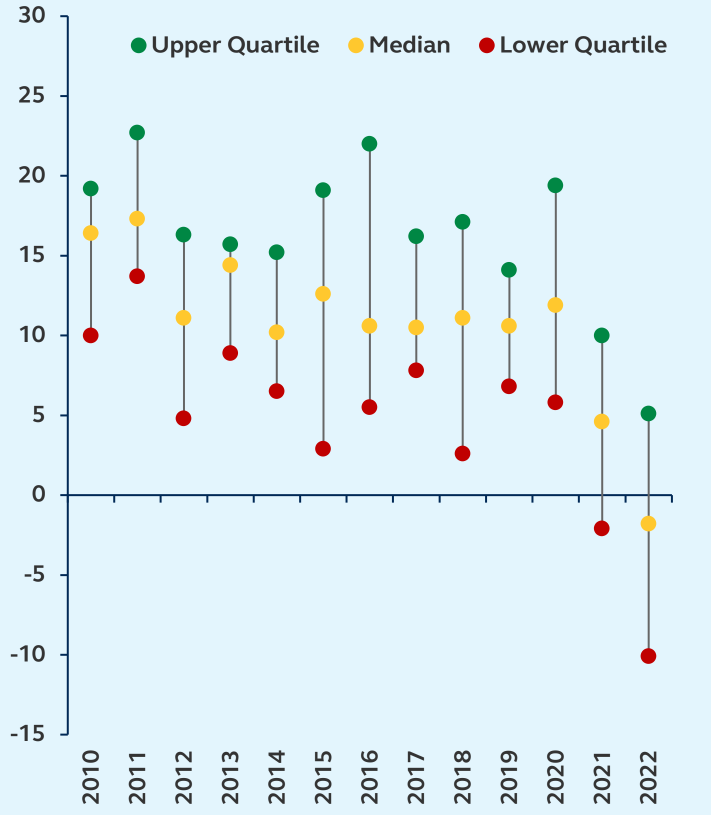
Average rolling annual unlevered 10-year "Core" returns

By decade



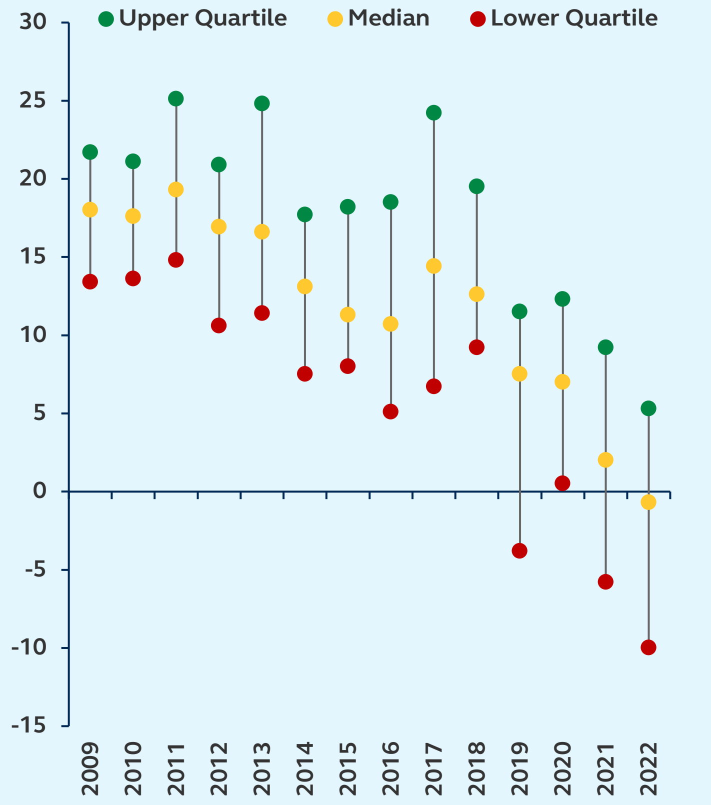
North American Opportunistic Funds

IRR (%)



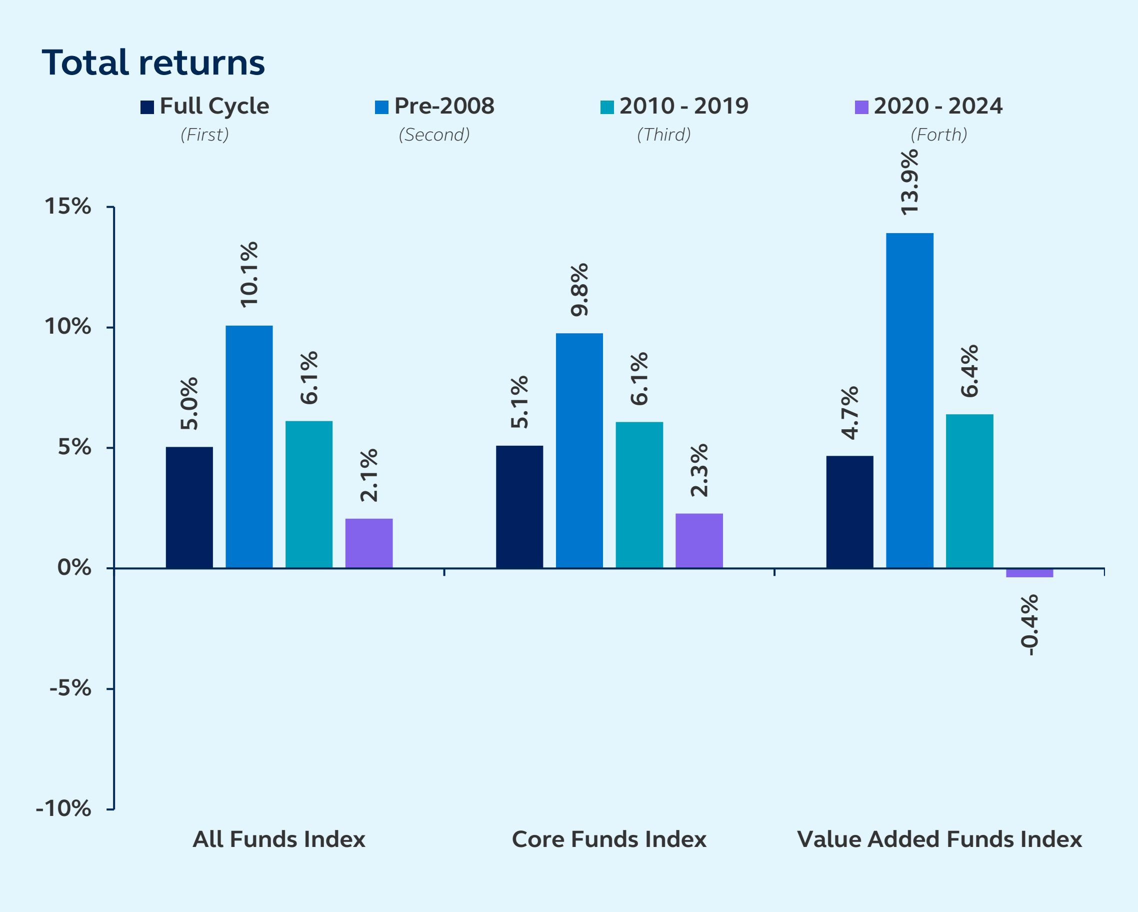
North American Value-Add Funds

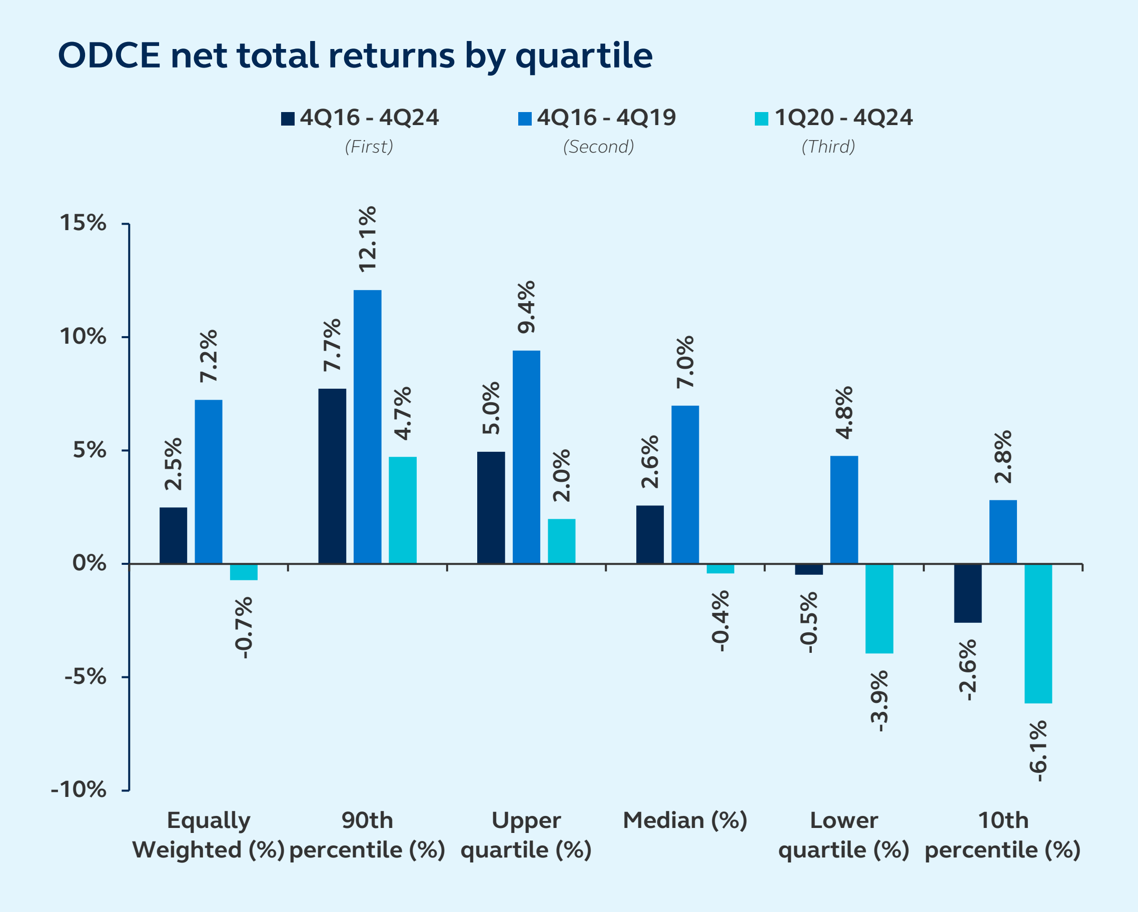
IRR (%)



Source: NCREIF, Preqin, Principal Real Estate, as of 31 March 2025.

Historical European fund returns across vehicle types





Source: InREV, Principal Real Estate, as of 30 May 2025.

Scenario analysis based on the key factors that drive U.S. CRE valuations

SCENARIO 1: Slowdown, but no recession (Base Case)

CRE total returns rise at an annual pace of roughly 5%, driven primarily by income returns as capital returns are muted. Interest rates are range bound, NOI growth is solid, and lending standards remain stable. This is supported by U.S. listed REITs, which have generated returns of +2% year-to-date, real rates have averaged 2.08% since "liberation day" ranging 1.92% to 2.23%, and credit spreads have tightened since mid-April. While this outcome may seem optimistic given pronounced uncertainty, it's important to remember that annualized 10-year returns have historically averaged 8-9% and CRE often produces the best returns in the aftermath of drawdowns, similar to what has recently occurred. So, this is relatively conservative in comparison.

SCENARIO 2: "No-landing" environment (Bull Case)

We envision an environment in which CRE delivers annualized returns between 7% and 10%, as investors gain greater confidence in both the economic outlook and asset pricing. In this scenario, the 10-year Treasury yield holds above 4%—remaining within an equilibrium range—while inflation stays persistently elevated, just above 3%. The broader economy remains supportive, with constrained unemployment levels helping to sustain demand-side drivers of NOI growth, effectively offsetting the impact of higher inflation and interest rates. This outlook reinforces CRE's role as an inflation hedge and evokes the "old normal" of the pre-Global Financial Crisis (GFC) era (1994–2003), when returns were fundamentally driven and property values appreciated steadily, even in the face of macroeconomic challenges.

SCENARIO 3: Stagflation (Bear Case 1)

Stagflation evokes memories of surging prices and the severe recession of the early 1980s. In a worst-case scenario, the Misery Index—which combines the unemployment and annual inflation rates—spikes, and the economy descends into disarray. If such conditions were to materialize, **CRE prices could decline by 10% or more, as persistent inflation, rising interest rates, and stalled economic growth converge.** This trifecta—elevated financing costs, tighter lending standards, and weakening NOI growth—would place significant downward pressure on valuations. The environment would resemble the conditions of 2022 and early 2023, when listed REITs sharply underperformed, offering an early warning sign for private market declines.

SCENARIO 4: Hard landing (Bear Case 2)

In this scenario, we envision a more traditional recessionary outcome: consumer sentiment weakens, and higher prices lead to a pullback in discretionary spending. Corporations respond by trimming payrolls to protect shrinking profit margins, setting off a negative feedback loop. The extent of CRE value declines would depend largely on the speed and effectiveness of the policy response. However, in this case, inflation moderates more quickly, allowing interest rates to ease. **As a result, CRE valuations would likely decline no more than 5% overall,** though performance would vary significantly by sector. We expect CRE to outperform other risk assets on a relative basis, as some downside has already been priced in. Cyclical sectors may experience steeper value declines due to weaker NOI and tighter credit, while sectors supported by secular demand tailwinds are likely to hold up better. A K-shaped recovery is atypical in CRE, but it appears increasingly plausible under this scenario.

Source: Principal Real Estate, July 2025

Principal Asset Management℠

Sector opportunities

04

State of the commercial real estate sectors

- High conviction opportunities
- Sectors in neutral
- Sectors warranting caution

United States

Data centers

The sector continues to exhibit mid-to-late cycle dynamics as values and rental growth continue to accelerate. Lack of supply remains a primary hurdle.

Residential

Following a challenging year, occupancy and rents are again improving. Valuations have bottomed, and the sector will see strong demand in 2025/26.

Healthcare

An aging population and a surge in outpatient demand, paired with limited construction, have supported the healthcare sector.

Retail

The sector remains well-positioned with strong foot traffic and limited development. It remains bifurcated and at risk of weaker consumer spending in 2025.

Industrial

Demand recovered and investor interest is high, but challenges stemming from supply and tariffs suggest a nuanced approach in the short term.

Student housing

Moderating enrollment trends present a headwind for the sector, making asset selection increasingly critical.

Life sciences

Venture capital remains selective, and vacancy is elevated. Short-term prospects remain challenged, particularly with government funding cuts.

Office

A recovery seemed imminent in 2025, but there is work to be done. Vacancy remains elevated for most assets. Leasing economics remain challenged.

Europe

Data centers

Continues to rank among the most attractive property types, owing to a supply-demand imbalance and vacancy rates trending towards record lows.

Residential

Housing affordability and availability challenges in several European markets underpin the case for investing in residential, alongside its resilient, anticyclical nature.

Logistics

Fundamentals appear in equilibrium. Short-term trade uncertainty should be more than offset by expansionary fiscal policy in 2026 and thereafter.

Hotel

Consumers continue to prioritize travel and experiences, but macro uncertainty warrants some caution regarding the hotel sector's short-term performance.

Retail

Secondary assets remain risky, while prime properties are on firmer footings, especially in major Southern European cities.

Student housing

The UK market commands some caution as new applications in medium and lower ranked universities have slowed.

Healthcare

Following a prolonged period of operational challenges, the sector is showing signs of stabilization and consolidation.

Office

Overall, the sector remains challenged, although a few select sub-markets and building types exhibit a brighter outlook.

Source: Principal Real Estate, July 2025

High conviction

U.S. data centers

Demand remains strong amid a shift in the market landscape

High development costs and long construction timelines set data centers apart from other property types, partly due to the need for significant electrical power capacity.

Data creation and consumption are accelerating faster than digital storage capacity, reinforcing a strong long-term outlook.

AI advancements, such as DeepSeek, introduce uncertainty about whether data growth will maintain its current trajectory.

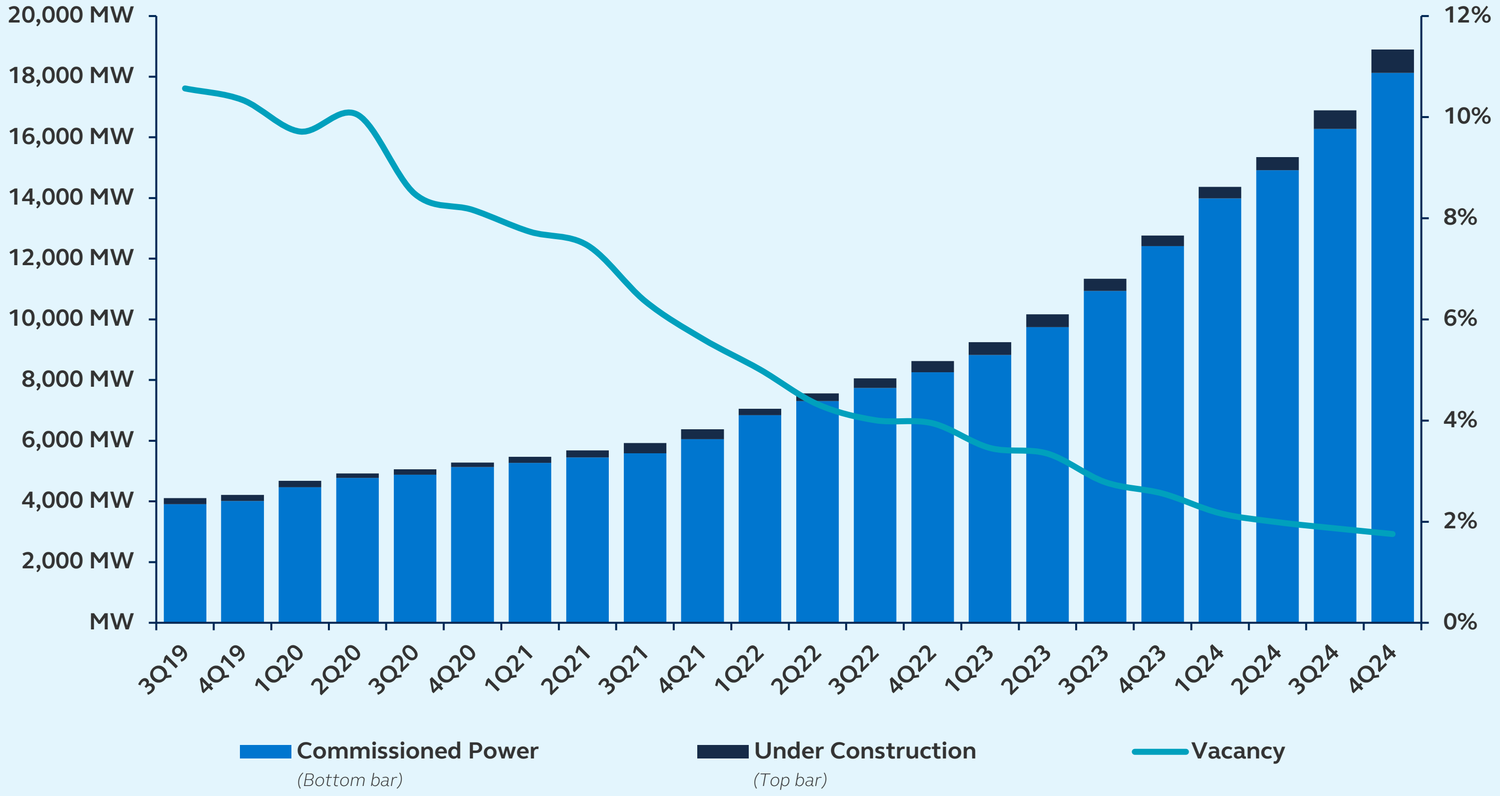
Hyperscalers have anchored market stability, but recent caution from major players like Microsoft signal potential shifts in sentiment.

Heavy capital inflows are under increased scrutiny, with concerns about whether investments have targeted the most strategic and high-quality assets.

Despite past outperformance, the sector must still prove its future resilience, particularly in sustaining global data demand growth.

Data center fundamentals

MW



Source: dataCenterHawk, Principal Real Estate, 4Q 2024.

High conviction

European data centers

Supply-demand imbalance deepens across Europe

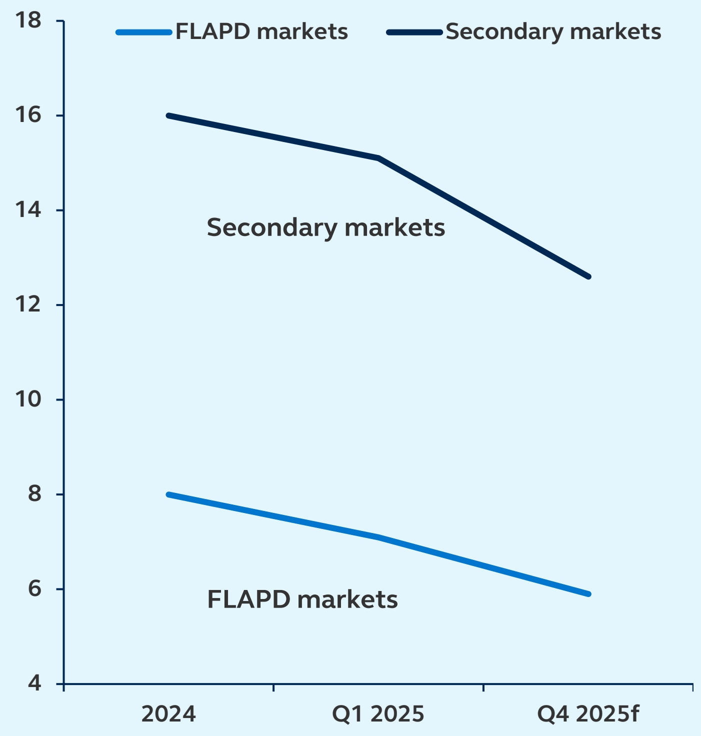
Across Europe, the supply-demand imbalance continues to widen, placing downward pressure on vacancy rates in both primary markets (FLAP-D) and secondary hubs, including Madrid, Berlin, and Milan.

While the expansion of hyperscale cloud infrastructure remains the primary driver of demand, AI service providers are emerging as an additional source of growth, particularly in markets with abundant land and access to renewable energy, such as Spain's Aragon region and the Nordics.

Nevertheless, we view cloud-oriented data centers more favorably than facilities developed solely for generative AI model training. The latter segment is more susceptible to rapid technological shifts, which could undermine forward-looking capacity projections.

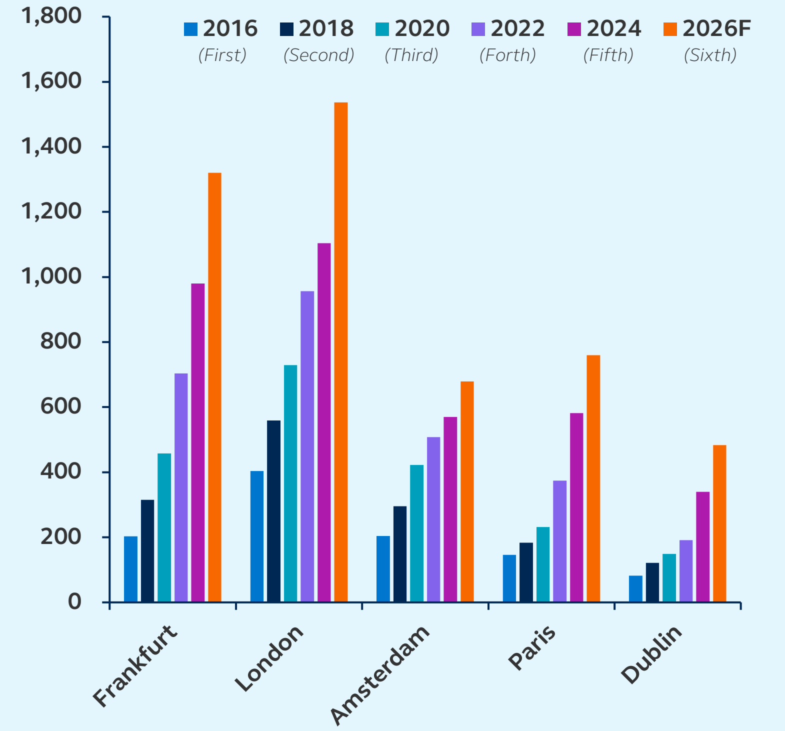
Vacancy rates

%



FLAPD total supply projections

(MW)



Source: CBRE, Principal Real Estate, Q1 2025. FLAP-D: Frankfurt, London, Amsterdam, Paris, and Dublin.

U.S. single-family rental

High conviction

Nascent challenges, but strong secular demand should drive returns

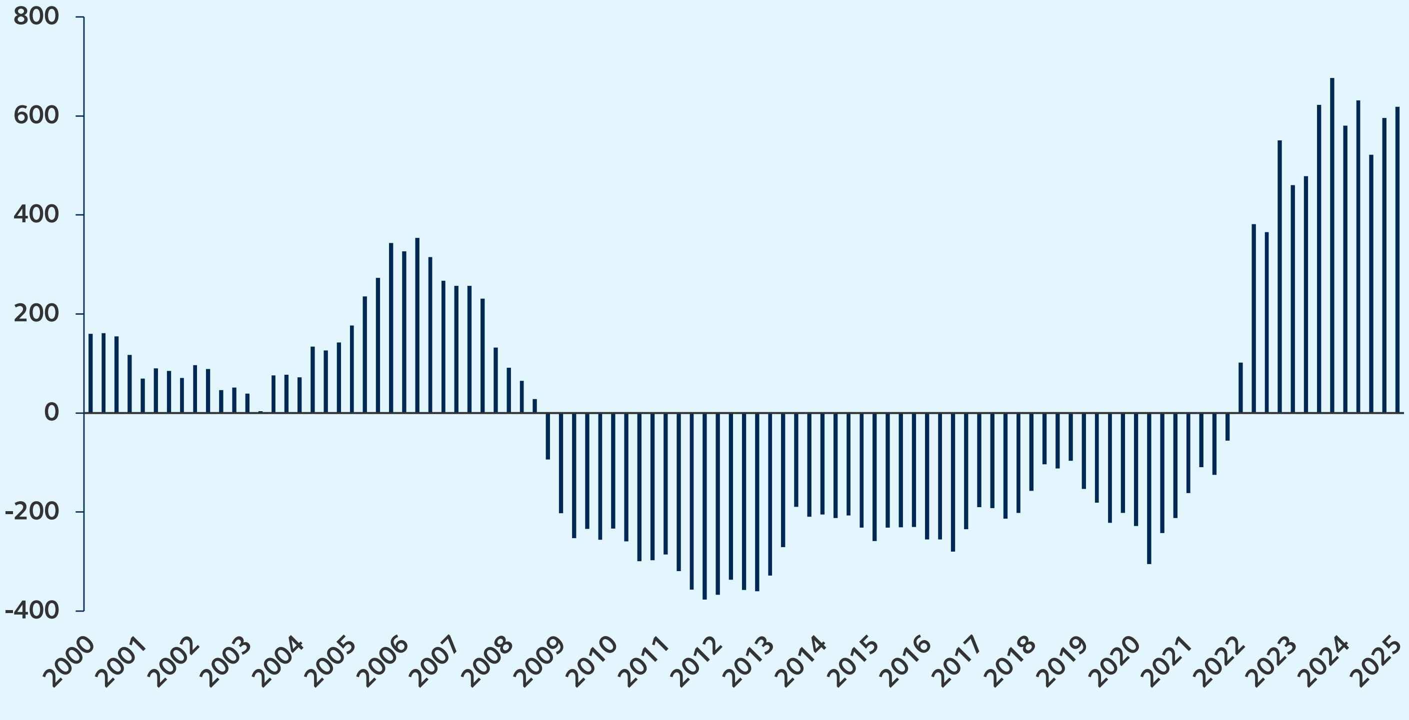
The single-family rental market remains well-positioned to capitalize on the affordability gap in the for-sale market. While the single-family market has seen price increases moderate due to increases in inventory, mortgage rates remain at a generational high.

Rent and NOI growth remain positive but have faced challenges in recent months. Overdevelopment of build-to-rent inventory in select Sunbelt metros has challenged the ability to increase rent on new leases.

Despite concerns that a larger inventory may negatively impact the sector, it has one of the more stable rental growth profiles across all residential subsectors. For-purchase affordability will remain a significant impediment for first-time buyers, which we believe will provide sustained demand for the sector.

National cost of owning vs. renting single-family starter home[1]

***Cost** of owning above average rent, $*



[1] Cost to own assumes purchase of a home at 80% of median home price, with a 5% down payment and a 30-year fixed rate mortgage. We include PMI insurance at 1% of loan value. Maintenance costs are included assume 1% of purchase price annually. Home-owners insurance of $1,353 in constant 2022 dollars and real estate taxes at a rate of 1.53% are also included in the payment.

Source: NAR, Federal Reserve, John Burns Consulting, Moody's Analytics, Principal Real Estate, Q1 2025.

U.S. residential

High conviction

Housing mismatch creates opportunity

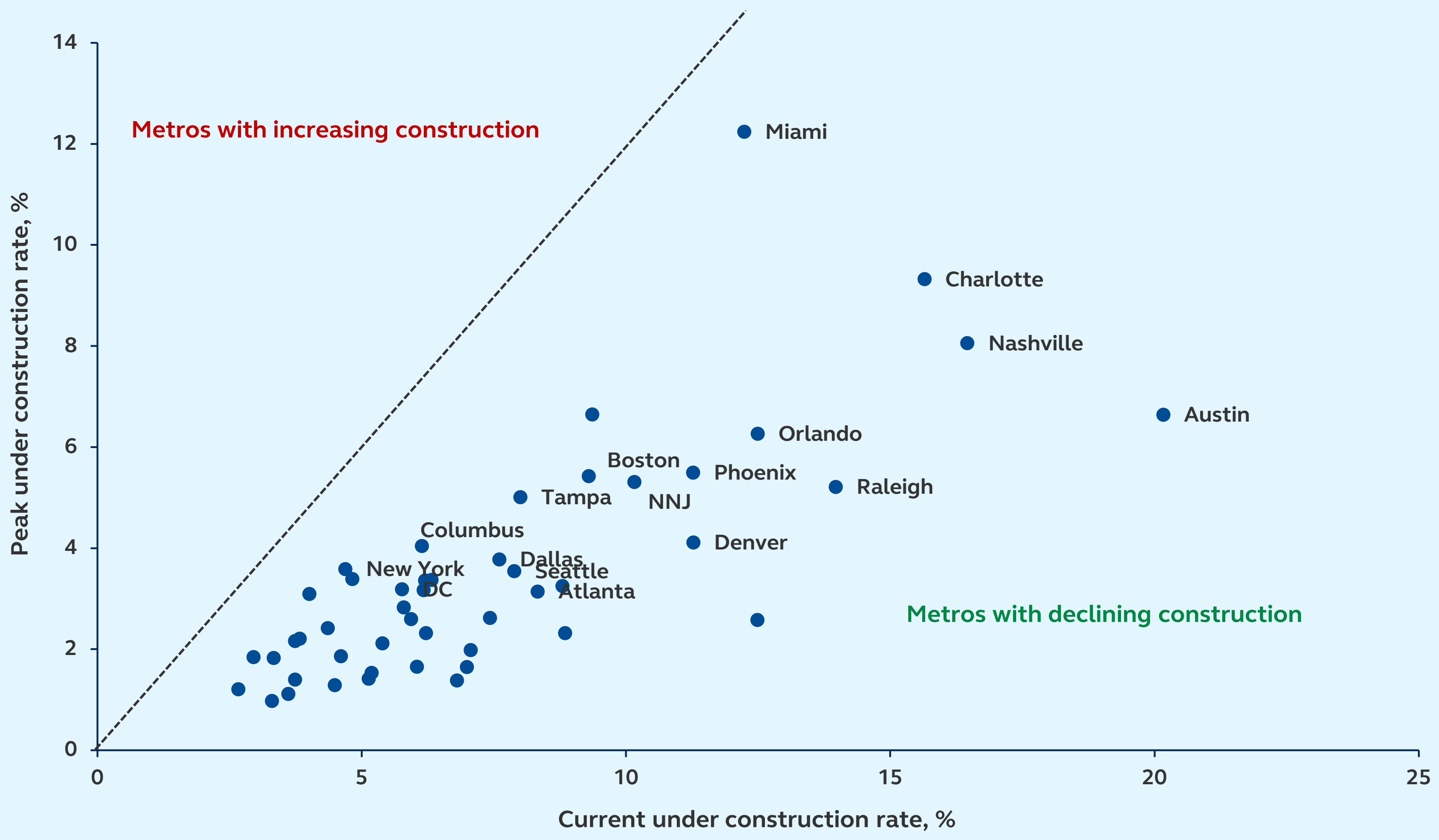
The residential sector remains both nuanced and wrought with opportunity. We believe that the challenges faced by the U.S. apartment sector last year stemmed largely from select overdevelopment. Higher capital costs and accelerating demand have spurred a recovery, even in the Sunbelt region where new supply was most acute.

Much like the single-family rental sector, traditional apartments will generate strong demand as economics within the for-sale market remain unfavorable for first-time buyers.

We believe that the residential sector remains underserved and mismatched across economic strata, which presents opportunities across a broad array of residential subsectors including apartments, SFR, manufactured housing, student housing, and senior housing.

Under construction rates by metro

%



Source: CoStar, Principal Real Estate, Q1 2025.

High conviction

European residential

Undersupply, stability, and rebalancing

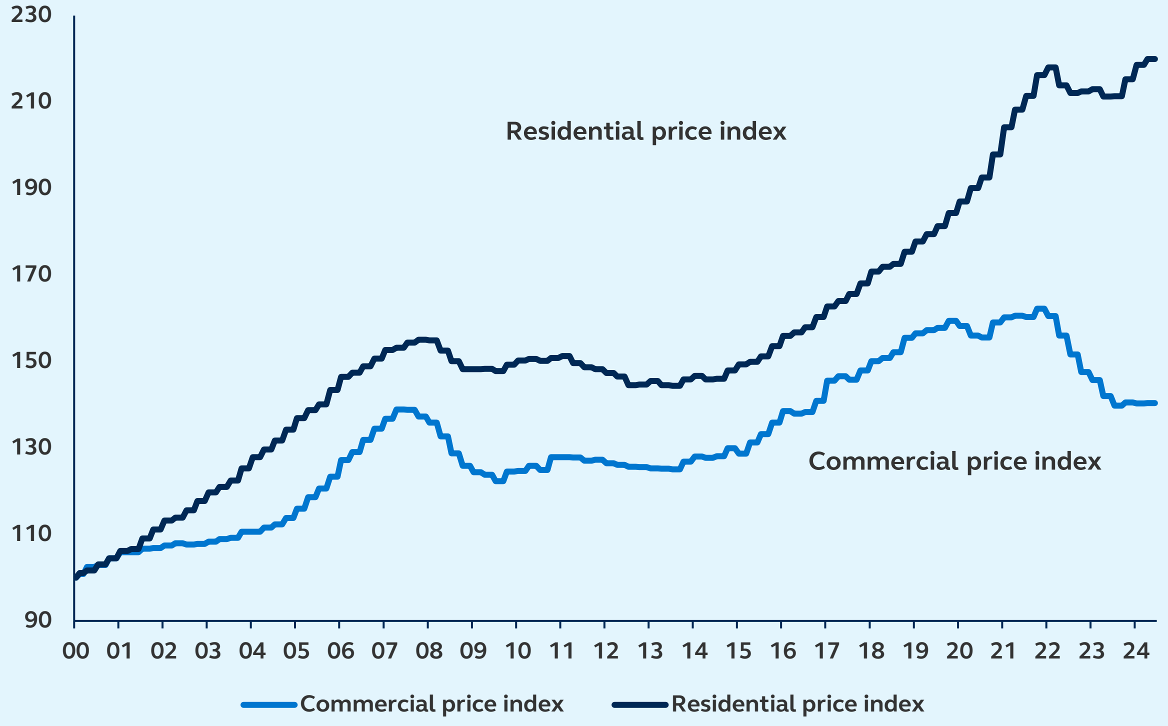
European residential property assets in Europe have demonstrated greater resilience over the past years compared to the average commercial real estate market trend. This performance has been driven by a structural shortage of housing supply across several European markets.

We expect demand to remain buoyant this year and thereafter, underpinned by migration, changing family structures, and urbanization. Additionally, extended rental periods are becoming more common, as affordability constraints continue to delay homeownership across many demographics.

Meanwhile, institutional interest and penetration in the residential sector are expected to continue rising, albeit from a low base. This trend is driven by two key factors: First, investors are seeking to rebalance portfolios that are typically overweight in traditional commercial property; second, in the current volatile global macroeconomic environment, the residential sector's defensive and counter-cyclical characteristics are proving attractive.

European residential and commercial price indexes

Euro Area 19, Jan 2000 = 100



Source: ECB, Principal Real Estate, December 2024. Euro Area 19 countries: Belgium, Germany, Ireland, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Greece, Slovenia, Cyprus, Malta, Slovakia, Estonia, Latvia, and Lithuania.

U.S. healthcare

High conviction

Aging demographics and limited supply

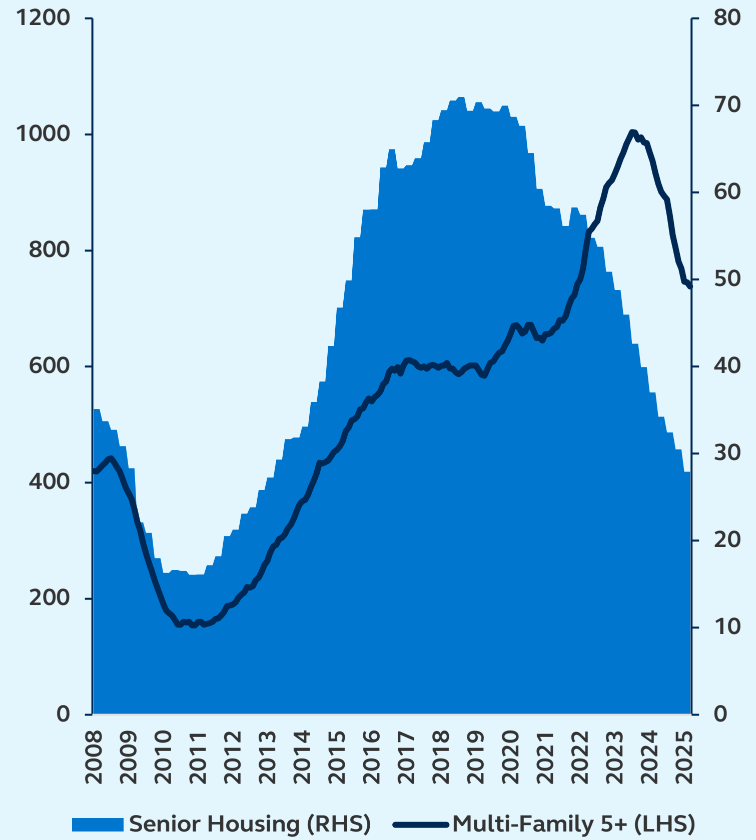
The U.S. healthcare sector, senior housing in particular, is experiencing a "golden era" following its post-pandemic correction. Since 2021, the sector has seen steady improvements in occupancy driven by an aging population and limited new construction. Rental growth is solidly in the double digits, and performance has consistently outpaced other NPI constituents.

The sector remains well-positioned, supported by strong fundamentals. Senior income growth and significant home price appreciation boost affordability. This should drive continued demand across the full spectrum of care over the next decade.

Lenders have grown increasingly comfortable underwriting senior housing assets. Current transaction volumes suggest the sector remains highly sought-after by investors.

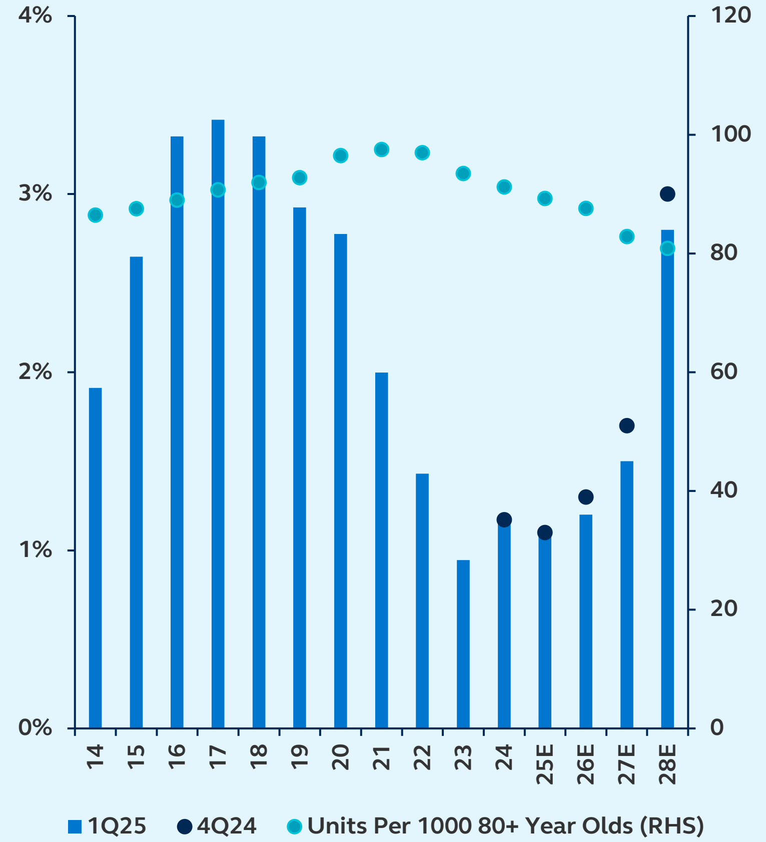
Units under construction

Thousands



Senior housing supply growth

%



Source: Census, NIC, MAP, Green Street, Principal Real Estate, May 2025.

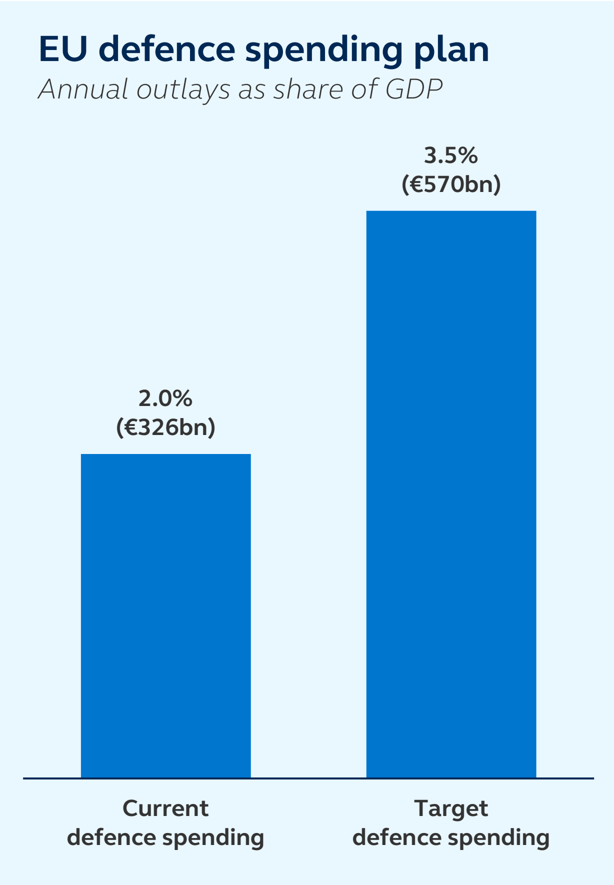
European logistics

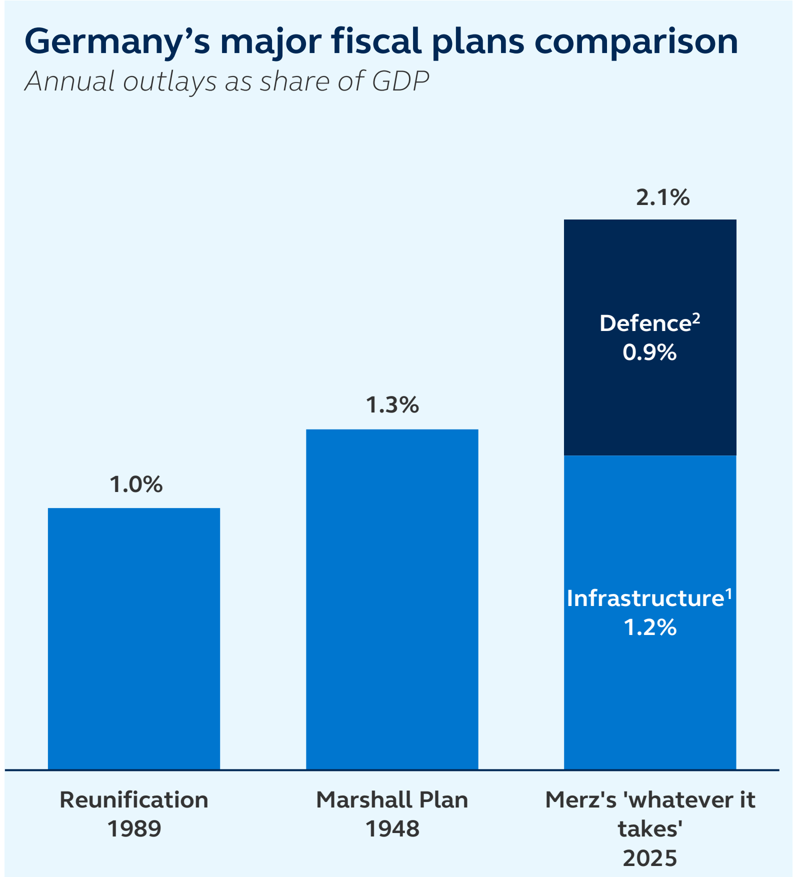
High conviction

Enduring structural tailwinds and fiscal windfall should boost logistics demand

Waning trust in the U.S. as a reliable military and trade partner had led to an historical turnaround in European fiscal policy, which is expected to sustain the European economy, manufacturing activity, and logistics demand in 2026 and thereafter. Other favorable structural trends include:

- **Europe's relatively low e-commerce penetration** still offers abundant opportunities.
- **AI and automation** in warehouses and distribution centers are expected to increase demand for modern, sustainable, flexible, and operationally efficient assets.
- **Sustainability standards** are expected to weigh on future supply, due to growing complexity of ground-up developments and expensive capex programs to bring older assets to standards.





[1] €500bn in 10 years. [2] Virtually uncapped. At 400bn per ten years (i.e. meeting a 3% NATO target) annual defence spending would be ca. 0.9% of GDP.
Source: European Commission, Principal Real Estate, April 2025

Principal Asset Management℠

Conclusion: Fundamental focus

05

Fundamental focus

01 Opportunities emerge but at a measured pace in 2025

We had anticipated 2025 to be a year of transition and opportunity. The current policy and geopolitical environments have presented challenges but have not halted the real estate recovery. Values are recovering, albeit slowly, due to still elevated capital costs and the possibility of higher inflation. To be sure, real estate is in a better position as of mid-year 2025 than it was just a year ago. Debt markets are functioning, and capital is flowing at an increasing rate, bid ask spreads have narrowed and while investors are cautious, they remain engaged.

02 Investor focus should remain firmly on emerging and structural trends

Data centers, residential, and healthcare sectors will remain among our highest conviction sectors for 2025. These sectors are driven by demographics and technology—the bedrock of the global economy and real estate demand.

03 Uncertainty; but we are at the beginning of a new cycle

If we have learned anything about real estate as an asset class, it is that it has historically generated excellent risk-adjusted returns across long expansionary cycles. We suggest that investors focus on quality and sector selection to hedge against near-term uncertainty.

Source: Principal Real Estate, July 2025

About Principal Real Estate

Access the full spectrum of today's commercial real estate investment opportunities.

Principal Real Estate is the dedicated real estate investment team within Principal Asset Management.

We have a 360° view of real estate, with capabilities that span the spectrum of public and private equity and debt investments. We seek to maximize opportunities and find the best relative value on behalf of our clients using our specialized market knowledge, dedicated and experienced teams around the globe, and extensive connections across all four real estate quadrants.

- Top 10 global manager of real estate [(1)]
- $101.3 billion in real estate assets under management [(2)]
- Over 60 years of real estate investment experience [(3)]
- More than $124 billion in real estate debt and equity transactions over the past decade [(4)]
- Recognized globally as a leader in sustainable investing [(5)]

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See important information for footnote references

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Index descriptions

NFI-ODCE: The NCREIF Fund Index (open end diversified core equity) is an index of 20+ institutional perpetual funds ("core funds") that pensions and endowments have invested in to get durable, income-oriented real estate exposure for the last 40 years.

MSCI Property index: Report the market returns of the 25 most mature real estate markets, together with Global and Pan-Europe composite indexes, measured by MSCI and their partners

FTSE EPRA/NAREIT REITs share price index: Is designed to represent general trends in listed real estate equities.

Bloomberg US CMBS Investment Grade Index: Measures the market of US Agency and US Non-Agency conduit and fusion CMBS deals with a minimum current deal size of $300mn

Bloomberg US Corporate High Yield Index: Measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Bloomberg US ABS Index: Is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index only includes ABS securities.

Bloomberg US Mortgage Backed Securities Index: Tracks fixed-rate agency mortgage-backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Important information

[1] Managers ranked by total worldwide real estate assets (net of leverage, including contributions committed or received, but not yet invested; REOCs are included with equity; REIT securities are excluded), as of 30 June 2024. “The Largest Real Estate Investment Managers,” Pensions & Investments, 7 October 2024.

[2] As of 31 March 2025. Includes clients of, and assets managed by, Principal Real Estate Europe Limited and its affiliates. Due to rounding, figures shown may not add to the total.

[3] Experience includes investment activities beginning in the real estate investment area of Principal Life Insurance Company and continuing through the firm to present.

[4] As of 31 December 2024. Excludes public REIT transaction volume.

[5] As recognized by 2024 Global Real Estate Sustainability Benchmark (GRESB) assessments representing data from 1 January 2023 to 31 December 2023. In order to receive a ranking, the firm paid GRESB an application fee to be evaluated and rights to use the rating. Principal Real Estate recognized as ENERGY STAR Partner of the Year 2016-2024, Sustained Excellence Award 2018-2024. The U.S. Environmental Protection Agency (EPA) annually honors organizations that have made outstanding contributions to protecting the environment through energy efficiency, April 2024.

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