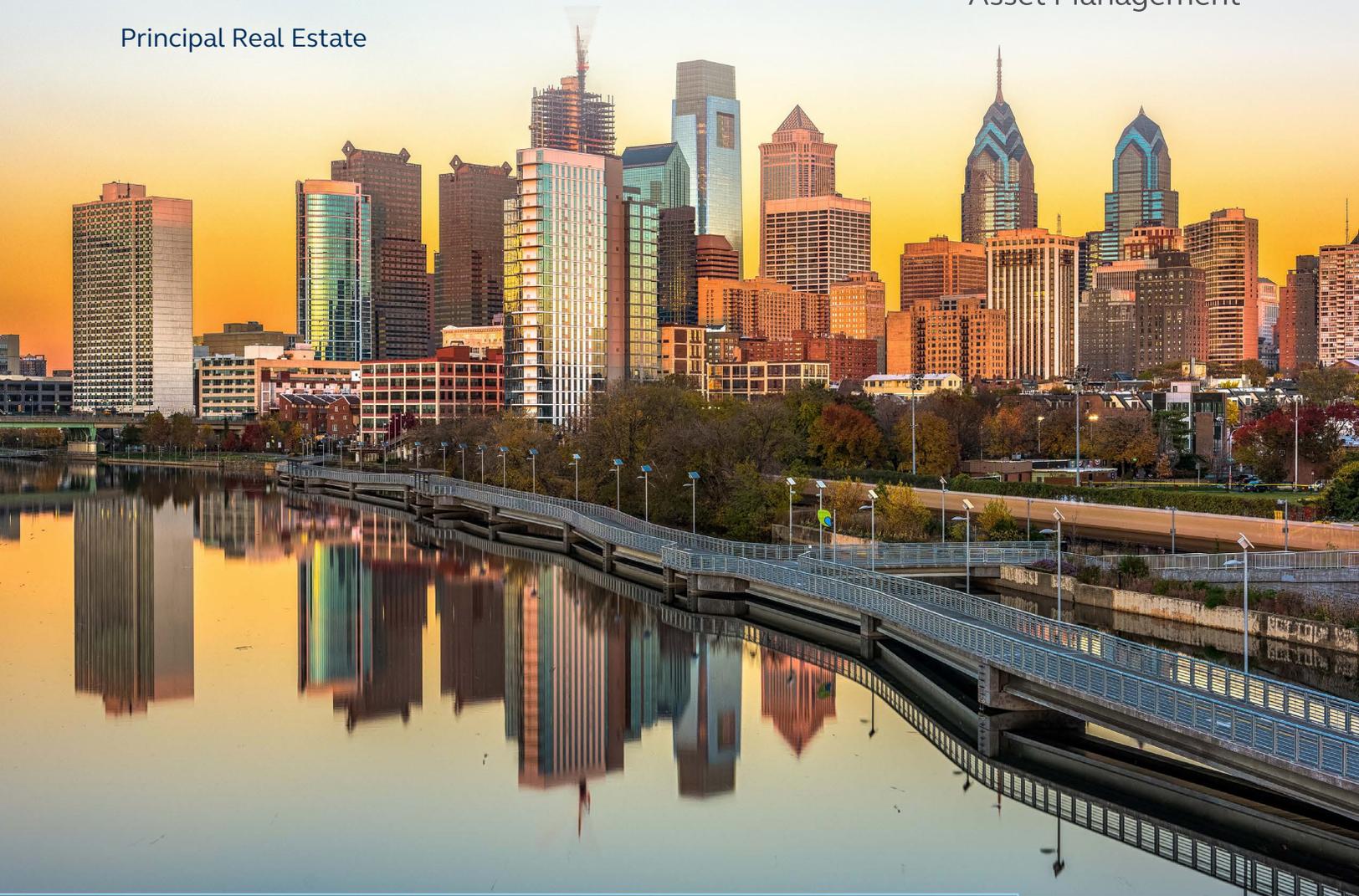


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Principal Real Estate



The (CRE)covery

How long do CRE cycles last?

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EXECUTIVE SUMMARY

Commercial real estate has entered a new phase of the cycle. The broad-based downturn that defined the past several years has passed, but the recovery is unfolding unevenly across property types, markets, and strategies. As a result, the opportunity set in CRE is no longer driven by beta, and it is increasingly shaped by dispersion.

Historical cycle analysis suggests that real estate recoveries (2 years on average) and expansions (12 to 13 years on average) are long, durable, and supported by prices but also underappreciated income.^{*1} Furthermore, public and private market data indicate that the current cycle remains early by historical standards, with valuations recovering but still below prior peaks and private markets lagging public markets in a familiar pattern. At the same time, divergent fundamentals are creating meaningful performance gaps beneath headline returns. The recovery is unlikely to be V-shaped, as in the aftermath of the Global Financial Crisis, or even U-shaped, but rather K-shaped, consistent with what's happening across the economic landscape.

Today's CRE cycle is also unfolding against an unusual backdrop. While CRE valuations have already reset lower, broader risk assets remain near historical highs. Although this disconnect raises valid concerns, history, particularly the early 2000s, shows that real estate can outperform even as broader markets struggle.

The next phase of the CRE cycle will not reward passive exposure. It will reward selectivity. Asset selection, market selection, and capital structure discipline will matter more than timing the cycle itself. For investors willing to engage this complexity, commercial real estate is no longer a blunt macro trade; it is an increasingly differentiated source of durable alpha.

From recession to recovery

In our [2026 Global CRE Outlook](#), we noted that the commercial real estate (CRE) cycle has entered a recovery phase, as indicated by nearly every traditional measure. REIT valuations, which typically serve as an early indicator of cyclical shifts, have risen meaningfully from their 2023 lows at nearly 40%. Major private valuation indices are rising, and credit markets are functioning again, supporting a pickup in transaction activity. At the same time, distress continues to increase, consistent with its role as a lagging indicator and reflecting the residual impact of the downturn.

Performance is increasingly uneven across sectors, regions, and fund strategies. This divergence is not a flaw in the cycle; it is the cycle. The broad-based downturn has passed, and the path forward may have a long runway, but what lies ahead is a market defined by dispersion. The next phase of the CRE cycle will likely be alpha-driven, meaning that real estate investors will need to borrow more from equity market playbooks: asset selection and market selection, rather than beta, will be central to generating returns.

Not surprisingly, attention has centered on which property types and markets are best positioned to deliver net operating income growth, the primary engine of both income and capital returns.

But a second, equally important question has re-emerged: how long do CRE cycles typically last?

^{*1} See Appendix A for a detailed analysis of cycles across both listed and private CRE.



What does academic research tell us?

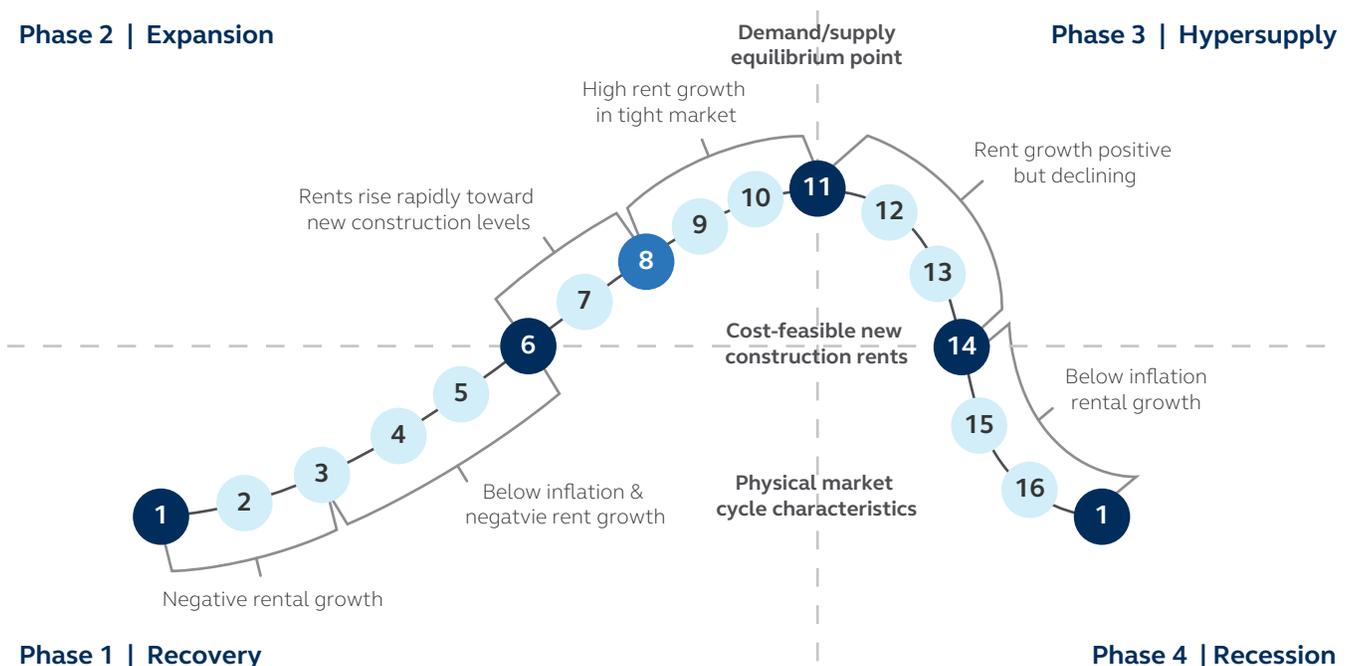
When questions like these arise, it is helpful to ground the discussion in academic research, particularly the Homer Hoyt Cycle framework, which was developed in the early 1930s. Based on Hoyt’s historical analysis of Chicago land values, the framework proposed that real estate cycles follow an approximately 18-year boom-bust pattern.

The framework has since been refined and expanded. Key contributions include William Wheaton’s work in the 1980s, which bridged Hoyt’s qualitative cycles with modern economic modeling; the seminal research of Karl Case and Robert Shiller on housing market valuations; Richard Kaiser’s 1997 report *The Long Cycle in Real Estate*; and the research of John F. McDonald and Daniel McMillen, including their book *Urban Economics and Real Estate*, first published in 2006.

Glenn Mueller’s work is particularly influential in suggesting that real estate cycles tend to be longer than standard business cycles, driven primarily by supply-demand imbalances rather than purely macroeconomic indicators. Mueller defined **four phases** of the real estate cycle:

- 1 | **Recovery** – rents stabilize, vacancies fall, and construction resumes;
- 2 | **Expansion** – strong demand pushes rents, prices, and construction activity higher;
- 3 | **Hypersupply** – construction continues, but demand begins to slow; vacancies rise; and
- 4 | **Recession** – oversupply leads to falling rents, prices, and construction.

EXHIBIT 1: CRE market cycle quadrants



Source: Mueller, *Real Estate Finance*, 1996.

It’s important to note that different property types in different markets can be at different stages of the real estate cycle at different times. While this underscores the importance of selectivity this cycle, in aggregate, there are also patterns the broad CRE market follows.

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Empirically, CRE valuations have shown a directional relationship with the business cycle. Exhibit 2 compares year-over-year changes in unlevered CRE total returns (as measured by the NCREIF Property Index) with Morgan Stanley’s business cycle framework. From 1980 through 2010, the relationship is clear. Since then, however, the linkage has weakened, reflecting several structural factors, including monetary stimulus, interest-rate dynamics, and the growing diversification of CRE into less cyclical property types.

EXHIBIT 2: CRE prices versus U.S. cycle indicator



Source: Morgan Stanley Research, Principal Asset Management. Data as of 3Q25.

At the same time, CRE valuations have historically exhibited less pronounced boom-and-bust behavior than both the S&P 500 and high-yield corporate bonds, as measured by five-year annualized returns. This suggests that while the business cycle matters, it is not the primary driver of long-term CRE performance.

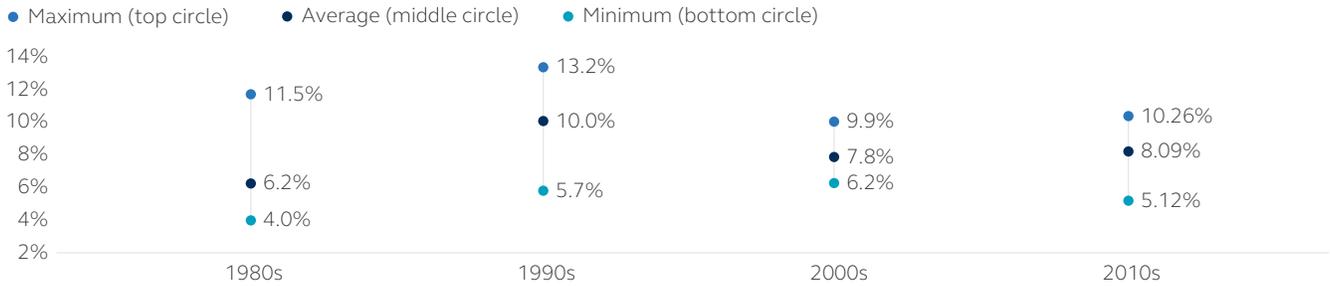
EXHIBIT 3: Rolling 5-year annual returns



Source: Bloomberg, NCREIF, Principal Asset Management. Data as of 3Q25.

Consistent with that view, annualized ten-year CRE total returns have never been negative. Even purchases made near prior peaks produced positive outcomes: approximately 4% annualized following the late-1980s S&L crisis, 6.2% following the 1Q08 GFC peak, and 5.1% over the trailing ten-year period. It’s worth highlighting that average rolling 10-year returns across the past three decades have been significantly higher in the 8-10% range and the best 10-year returns are in the low double digits. We expect unlevered CRE total returns to normalize higher over the next 10-years as discussed further in this report.

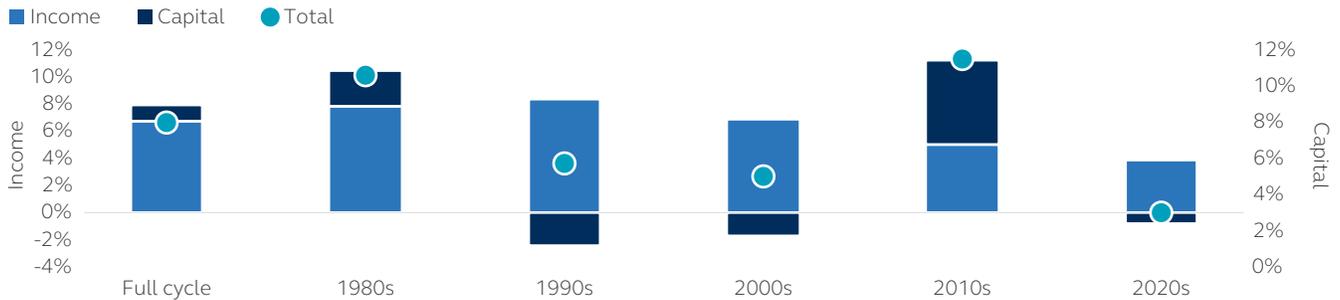
EXHIBIT 4: Average rolling annual 10-year return



Source: NCREIF, Principal Asset Management. Data as of 3Q25.

A key reason for this resilience is the role of income. From 2010 to 2019, income accounted for only 44% of total returns in the ODCE index, which tracks 25 open-ended U.S. core real estate funds. Over complete cycles, however, income has historically contributed more than 80% of total returns. This income dominance represents a structural strength of CRE rather than a limitation.

EXHIBIT 5: ODCE unlevered asset level annualized total returns by vintage



Source: NCREIF, Principal Asset Management. Data as of 3Q25.

If anything, CRE total returns appear more closely linked to lending standards, as measured by the Senior Loan Officer Opinion Survey. This relationship is intuitive: CRE is an inherently levered asset class, and the availability of debt capital directly influences both supply and demand. We note that lending conditions loosened in 4Q25 for the first time since 2022, which we think is an underappreciated tailwind for the CRE market.

EXHIBIT 6: Senior Loan Officer Opinion Survey



Source: Federal Reserve, Principal Real Estate. Data as of December 31, 2025.

Public markets as a long-term reference point

Public REIT markets provide the longest continuous and most transparent return history for commercial real estate. The NAREIT Index — now the FTSE NAREIT U.S. Real Estate Index Series — debuted in January 1972, providing the first benchmark to track REIT performance. At the time, mortgage and hybrid REITs dominated the market, accounting for nearly 80% of total market capitalization by the end of 1972. These vehicles, which were heavily involved in development and construction lending, were particularly vulnerable during the recession following the 1973 oil embargo. Equity REITs, while not immune, relatively outperformed during the 1973–1974 downturn.

Why REIT history matters for CRE cycle analysis

It's important to have a credible time series of returns that isolates property-level equity performance rather than debt-driven returns.

Two factors make the NAREIT Equity Index especially useful:

- 1 | Although the modern REIT era began in 1991, the NAREIT index provides a reliable return history extending back to the early 1970s, well before the NCREIF Property Index began in 1978.
- 2 | The Equity Index excludes mortgage and hybrid REITs, making it a cleaner benchmark for property-driven equity performance.

Note: We used the Equity vs. All-Equity index for this analysis since it meets minimum certain inevitability criteria, but the broad-based conclusions are similar.

A consistent cycle pattern

Using the NAREIT Equity Index, three complete real estate cycles can be identified on a trough-to-trough basis. Each cycle consists of three primary phases:

- 1 | recovery from trough to pre-downturn peak,
- 2 | expansion from recovery to a new market peak, and
- 3 | downturn from peak to trough.

While the catalysts of each cycle differ, their lengths and return profiles show notable consistency. Two conclusions stand out.

Cycles last an average of more than 16 years. The expansion phase, averaging nearly 13 years, is substantially longer than both recoveries (1.9 years) and downturns (1.7 years).

Full-cycle returns are attractive. Average annualized full-cycle returns are approximately +12%, with trough-to-peak returns near +18%. The strongest performance typically occurs during recoveries, but even excluding that phase, investors still see average expansion returns of roughly +15%. Although downturns are meaningful, with peak-to-trough declines averaging about –41%, they are ultimately outweighed by gains in the recovery and expansion phases.

A brief history of REITs

REITs were established in 1960, when President Dwight D. Eisenhower signed the REIT Act as part of the Cigar Excise Tax Extension. Congress created REITs to give all investors access to diversified portfolios of income-producing real estate. The National Association of Real Estate Investment Trusts (NAREIT) was formed later that year to represent the industry, and the first equity REITs began trading in the early 1960s, with Continental Mortgage Investors becoming the first REIT listed on the New York Stock Exchange in June 1965.

EXHIBIT 7: Duration of REIT cycles



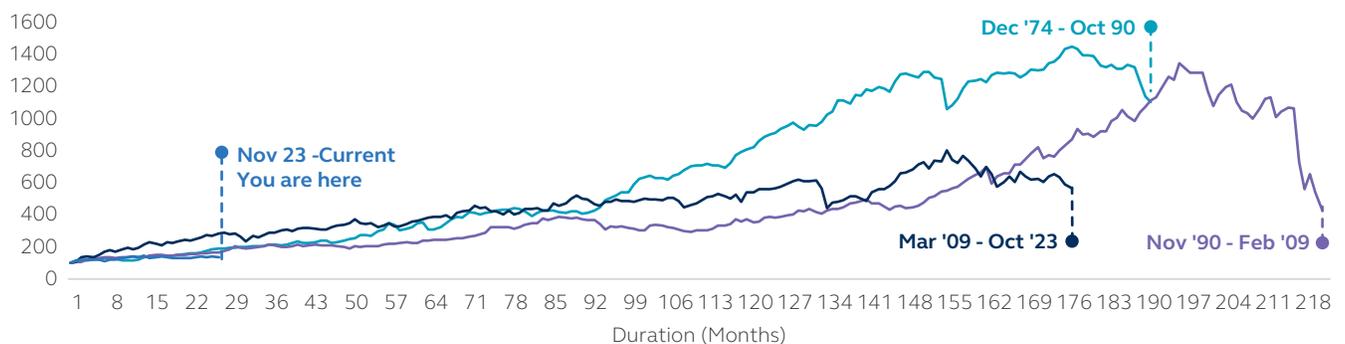
Source: NAREIT, Principal Asset Management. Data as of 4Q25.

Differences across cycles

There are, however, important differences across individual cycles:

- 2009–2023 (shortest cycle):** This cycle featured the longest recovery on record (3.4 years with annualized returns of +40%) following a –68% drawdown. The subsequent expansion lasted only 9.4 years, cut short by a rapid rise in interest rates that drove valuations roughly 30% lower between late 2021 and October 2023.
- 1990–2008 (longest cycle):** Despite the S&L crisis, the recovery phase was brief, supported by the emergence of the modern REIT structure and strong income returns in the early 1990s. The expansion lasted nearly 16 years, aided by a late-cycle, CDO-driven lending boom. The downturn that followed was both the longest (2.1 years) and most severe (–68%).
- 1974–1990 (middle cycle):** This nearly 16-year cycle included a two-year recovery, a thirteen-year expansion, and a one-year downturn. The early 1970s recession driven by the OPEC oil embargo, initially depressed valuations. Inflation then lifted nominal property values through much of the late 1970s despite rising borrowing costs. Tax reforms in 1981 and financial deregulation fueled a CRE boom in the 1980s, with cap rate spreads to Treasuries turning unusually narrow and even negative. Ultimately, overbuilding and the Tax Reform Act of 1986 triggered a valuation decline that culminated in the Savings & Loan crisis.

EXHIBIT 8: REIT performance by period, rebased to 100 at start



Source: NAREIT, Principal Asset Management. Data as of 4Q25.

How does this cycle compare to prior cycles?

The current cycle has lasted just over 2 years, with valuations currently more than 35% above the October 2023 trough as of 4Q25. That trough coincided with the 10-year Treasury briefly exceeding 5%, more than 400 basis points above levels at the end of 2021.

The recovery to prior peaks was relatively short, about 1.1 years, supported by strong real estate fundamentals and increasing confidence that the Federal Reserve would shift toward a more accommodative stance, which materialized in December 2024. Valuations stood as much as ~43% above the trough during the recovery.

The expansion phase is now roughly twelve months old, though it has been less smooth than in prior cycles. Valuations were -3.8% below the 2021 peak as of the end of 2025 and have not surpassed that level since November 2024, which marked the transition from recovery to expansion. That timing coincided with the 2024 U.S. presidential election, which introduced policy and geopolitical uncertainty into market pricing.

It is possible that the election outcome and the subsequent market response effectively pushed the cycle back into recovery, given that the expansion had only just begun. Periodic pullbacks are normal during expansions, and this one occurred unusually early in the cycle. With listed REIT markets now roughly 17% above their post-election lows on April 8, 2025, and with a cycle ending after only 35 months representing a historical anomaly, the expansion appears delayed rather than derailed. Indeed, it's worth highlighting that U.S.-listed REITs have risen by more than +4.5% at the start of 2026 and are now nearly back to their all-time highs as of February 5, 2026. If this assessment is correct, the market remains in the early stages of the current cycle.

What about private CRE markets?

Private market data, while shorter in history, show similar cycle dynamics. For this analysis, the expanded NCREIF Property Index (NPI) was used. Although it is not directly comparable to listed REITs, as the NPI is unlevered while REITs employ leverage, it is reasonably representative of how the market generally views private institutional real estate valuations. The NCREIF ODCE index, which tracks levered returns for 25 U.S. core real estate funds, represents a smaller subset of the U.S. commercial real estate universe.

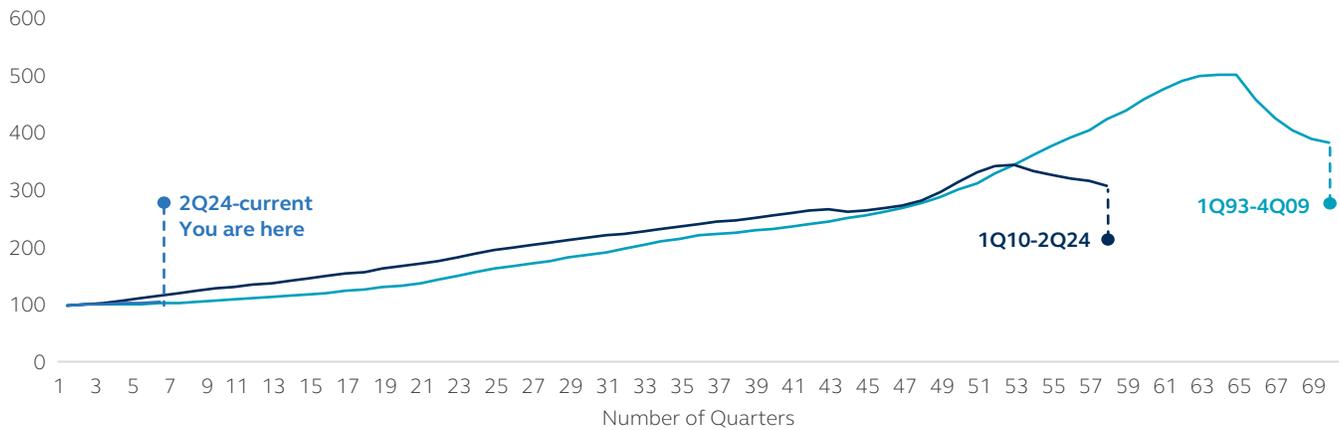
Private markets typically peak and trough later than public markets, and the duration of each phase can differ due to valuation smoothing and appraisal-based pricing. Two recent cycles illustrate this pattern:

- **1993–2009 cycle:** Private markets peaked more than a year after public markets (2Q08) and troughed a little more than one year later (4Q09). The full cycle lasted 17 years, slightly shorter than the public market cycle, driven by a shorter expansion but a longer recovery.
- **2010–2024 cycle:** Private markets again peaked (3Q22) and troughed almost a year after public markets (2Q24). The full cycle lasted 14.5 years, closely matching the public market cycle, with recovery, expansion, and downturn durations similar to those in the public market.

The current cycle appears to be following a similar path. Private market valuations remain approximately -6% below prior peaks as of 4Q25, indicating that the market is still in recovery. However, total returns have increased for six consecutive quarters, and cumulative capital returns have risen modestly over the past four quarters.



EXHIBIT 9: NPI returns by period, rebased to 100 at start



Source: NCREIF, Principal Asset Management. Data as of 3Q25.

This pattern is important. Following both the early-1990s S&L crisis and the GFC, once private CRE total returns turned positive, they remained positive throughout the recovery phase. The indices exhibit strong autoregressive behavior. Notably, cumulative returns in the current recovery after six quarters is slightly better than the early-1990s recovery: 6.9% today versus 4.3% then as of 4Q25.

Based on history, it would be unusual for private CRE total returns to turn negative at this stage of the cycle. Analysis of lending standards from the Senior Loan Officer Opinion Survey, alongside year-over-year changes in unlevered CRE valuations, suggests that valuations are likely to continue rising in the coming quarters, all else being equal. This supports the view that the late 2025 weakness in listed REIT valuations reflects public-market volatility more than underlying CRE fundamentals.

Return outlook

A V-shaped recovery in headline valuations remains unlikely given the lack of meaningful stimulus. Instead, returns are expected to normalize gradually. While that may suggest a U-shaped path, widening dispersion across property types and markets points to something closer to a K-shaped recovery. As a result, headline returns understate underlying performance due to the law of averages, which we discuss further below.

Consensus forecasts call for modest improvement over the next few years, with income continuing to drive the majority of total returns, while appreciation contributes more gradually. (For detailed projections by property type, please reference the Pension Real Estate Association Consensus Forecast Survey of the NCREIF Property Index, as of 4Q25.)

EXHIBIT 10: Consensus return expectations for the NCREIF Property Index

	2025	2026	2027	2025-2029
Total return	5.2%	5.9%	6.9%	6.5%
Income	4.9%	4.9%	4.9%	4.9%
Appreciation	0.3%	1.0%	2.0%	1.6%

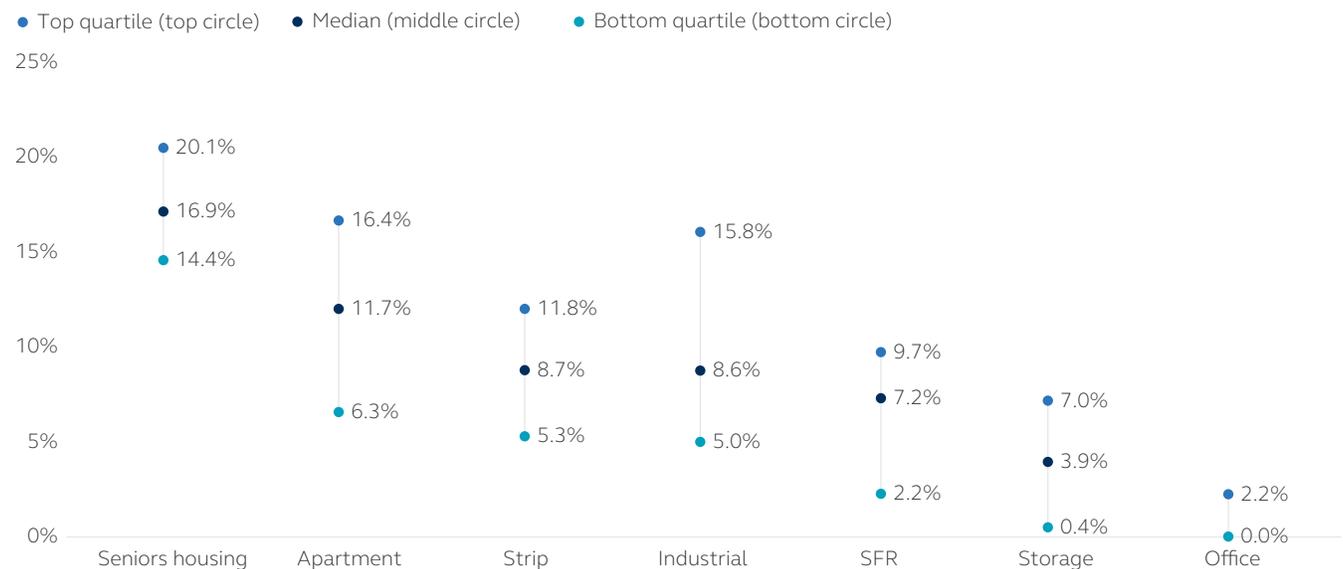
Source: PREA, Principal Asset Management as of 4Q25.

These returns reflect a recovery in headline capital returns that more closely follow the early 1990s rather than the post-GFC recovery. We believe this will primarily be driven by net operating income growth as cap rate compression will be limited against a higher-for-longer interest rate environment. Income returns are meaningfully lower than the 6.8% achieved in 2010 and the 8.2% realized in 1993, reflecting lower cap rates.

The projected rise in unlevered total returns is reasonable, as it reflects normalization from the depressed 5.1% annualized return over the past decade, closer to the 8-9% average rolling 10-year return that's historically been consistently achieved, regardless of start date.

Beneath headline returns, dispersion across property types, geographies, and fund strategies is widening sharply. Different property types and markets increasingly operate in different phases of the cycle simultaneously. While outside the scope of this analysis, identifying winners and laggards will be critical to generating outperformance in the next phase of the CRE cycle.

EXHIBIT 11: Trough to current price recovery across top 50 markets



Source: Green Street, Principal Asset Management. Data as of 3Q 2025.

Implications for investors:

The broad-based downturn that defined the last phase of the CRE cycle has passed. What lies ahead is a market shaped by dispersion across property types, markets, capital structures, and strategies. History suggests that cycles endure, income compounds, and recoveries persist longer than many expect. But history also makes clear that returns are rarely evenly distributed. In this environment, the next phase of the CRE cycle will not be defined by timing the market, but by selecting it. Investors who apply equity-style discipline to asset selection and market selection — while respecting the unique role of income and leverage in real estate — will be best positioned to generate durable alpha. The cycle is no longer a tide that lifts all boats; it is a filter that will increasingly separate portfolio outperformance from market exposure.

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Appendix: A

Cycle	Listed REITs (FTSE NAREIT Equity Index)				Private Real Estate (NCREIF Property Index)			Average Prior Cycle	
	December 1974 - October 1990	November 1990 - February 2009	March 2009 - October 2023	November 2023 - Current	1Q93 - 4Q09	1Q10 - 2Q24	3Q24 - current	Listed REIT Avg	Private CRE
Complete Cycle									
Duration (years)	15.8	18.3	14.7	2.2	17.0	14.5	1.5	16.3	15.8
Cumulative Return	995.8%	324.7%	463.3%	35.9%	285.0%	206.5%	6.8%	594.6%	245.7%
Annualized Return	16.3%	8.2%	12.5%	15.2%	8.3%	8.0%	4.5%	12.3%	8.1%
Recovery									
Duration (years)	1.8	0.4	3.4	1.1	2.5	2.3	1.5	1.9	2.4
Cumulative Return	58.0%	31.1%	217%	42.7%	12.5%	32.7%	6.8%	102.1%	22.6%
Annualized Return	29.9%	91.4%	40.2%	38.8%	4.8%	13.4%	4.5%	53.8%	9.1%
Expansion									
Duration (months)	12.9	15.8	9.4	1.1	13.0	10.5	-	12.7	11.8
Cumulative Return	811.3%	922.1%	150.8%	-4.7%	349.5%	161.6%	-	628.1%	255.5%
Annualized Return	18.7%	15.8%	10.3%	-4.4%	12.3%	9.6%	-	14.9%	10.9%
Trough-to-Peak									
Duration	14.7	16.3	12.8	-	15.5	12.8	-	14.6	14.1
Cumulative Return	1339.5%	1239.5%	695.9%	-	405.7%	247.1%	-	1091.6%	326.4%
Annualized Return	19.9%	17.3%	17.5%	-	11.0%	10.3%	-	18.3%	10.6%
Downturn									
Duration (months)	1.2	2.1	1.8	-	1.5	1.75	-	1.7	1.6
Cumulative Return	-23.9%	-68.3%	-29.2%	-	-23.9%	-11.7%	-	-40.5%	-17.8%
Annualized Return	-20.9%	-42.4%	-17.2%	-	-16.6%	-6.9%	-	-26.8%	-11.7%

Source: NAREIT, NCREIF, Principal Asset Management as of 4Q25.

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