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Real Estate Pulse
Q1 2026

Poised for a Positive 2026



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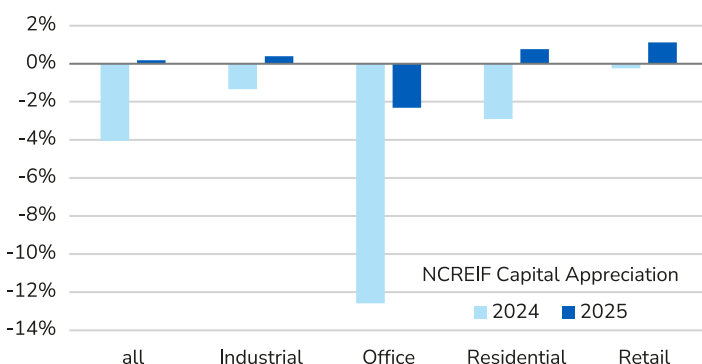
Key takeaways

- Fourth-quarter investment performance metrics for US commercial real estate (CRE) portray a continuation of the cycle upturn reported in prior quarters. Total return hit 4.9% for the year and capital appreciation returned to positive territory for the first time since 2022.
- Solid transactions activity and improving valuations contributed to the positive results and provided a foundation for optimistic investor sentiment. Expectations for further interest rate cuts along with the ongoing shrinkage in the construction pipeline also bode well for 2026.
- Demand-side expectations are less favorable. US economic growth weakened in 2025 versus 2024, and job creation slumped, especially in the second half of the year, leaving economic growth dependent on productivity improvement. Forecasters expect 2026 to produce somewhat better results, but with considerable uncertainty.
- Overall, currently available metrics show solid footing for CRE investment performance for 2026, but with weakening forward momentum that could be further exacerbated by worries over the Iran war and energy supply disruption.

The US commercial real estate (CRE) cycle upturn continued in the fourth quarter of 2025 as expected, according to NCREIF-Expanded Index metrics. With the fourth quarter’s contribution, the benchmark NCREIF National Property Index (NPI) posted total return of 4.9% for the year, including positive, albeit small, capital appreciation of 0.2%. Positive four-quarter capital appreciation was last reported for 2022.

Of the four major property sectors, only office posted negative capital performance for full-year 2025. Retail sector appreciation was the strongest at 1.1%, followed by residential at 0.8%, and then industrial at 0.4%. Capital appreciation performance in 2025 stands in sharp contrast to 2024’s decay and affirms the cyclical upturn (see Figure 1).

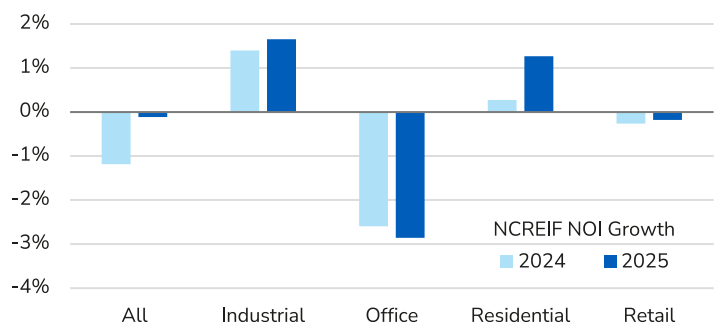
Figure 1 – Capital appreciation performance in 2025 contrasts with 2024’s erosion



Source: NCREIF. Data as of December 31, 2025.

Solid growth in net operating income (NOI) supported capital appreciation in 2025 in the industrial and residential sectors (see Figure 2). Office NOI continued to shrink, while retail sector NOI was nearly flat.

Figure 2 – Solid growth in NOI in the industrial and residential sectors



Source: NCREIF. Data as of December 31, 2025.

Solid transactions activity, especially the 2025 resumption of net buying by institutional investors, helped to establish enough consensus on pricing to drive transactions. For the year, Green Street reported a 2.0% price increase, while RCA reported a 0.2% improvement but with a strong pop in the third quarter.

Investor sentiment optimistic but demand prospects wavering

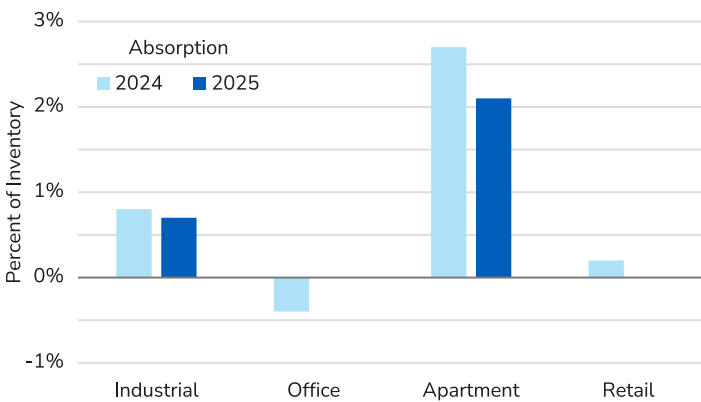
Sentiment in the CRE sector held up well through the fourth quarter, as reported in the Real Estate Round Table index. Fourth-quarter readings were unchanged from the prior quarter for the overall index, but within its components, 72% of respondents expect higher prices over the next year, up from 59% reporting that optimism in the third quarter. Positive sentiment is also evident in PREA’s Investor Intentions Survey showing that 72% of responding institutional investors plan to invest as much, or more, in 2026–2027 versus 2025.

Such optimism is supported by the hope of further cuts in US interest rates along with shrinkage in the construction pipeline. After three rate cuts in 2025, the Federal Reserve did not deliver another rate cut in January, but its projections offered hope of further cuts ahead. The projections for rate cuts align with an

expected decline in inflation. The shrinkage in the construction pipeline is less uncertain, with diminishing activity already underway. Green Street calculates that construction starts are down 40% from the 2022 peak across the four major sectors.

But at the same time, demand prospects are more tenuous. US real GDP growth of 2.1% in 2025 lagged the 2.8% clocked for 2024. With job creation especially weak in 2025, growth was reliant on productivity advances. Nonetheless, industrial space absorption amounted to 88% of 2024's pace, while apartment absorption hit 81% of the 2024 pace. Office continued to shed tenants, but the negative absorption was essentially zero percent of inventory, suggesting a bottoming in the office sector's post-COVID retrenchment (see Figure 3). Retail absorption was also essentially zero percent of inventory, following 2024's weak net gain.

Figure 3 – The office sector's post-COVID retrenchment may have bottomed

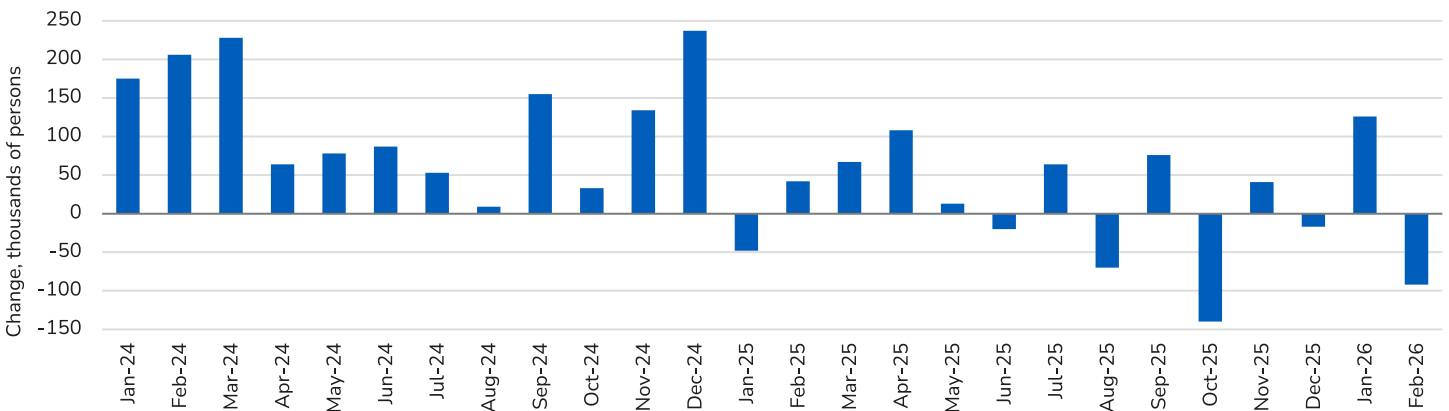


Source: Costar. Data as of December 31, 2025.

Wimpy job creation remains challenging

Solid economic growth for this year is required to support investor optimism. Forecasters on record remain cautious but foresee at least a repeat of 2025 growth as achievable. But those forecasts predate the war with Iran and its impact on global oil supply. Achieving the forecasted outcome under current geopolitical circumstances will require US growth drivers to be especially robust.

Figure 4 – Monthly jobs creation fell in February 2026



Source: US Bureau of Labor Statistics. Data as of February 28, 2026.

Growth drivers that propelled 2025 include ongoing strong investment in AI-related tools, data centers and electricity infrastructure. In addition, the performance of the stock market and its strong flow of wealth for stockholders are vital for consumer spending, which is the most important driver of economic growth. Analysis from the Federal Reserve and Moody's Analytics shows that growth in real consumer spending has been driven by households in the top 10% of the income distribution; spending from the remaining 90% is just keeping up with inflation.

The reliance of consumer spending on high-income households reflects both the wealth effect from stock holdings and the relative weakness in employment growth that influences spending capacity for lower-income households. Job creation over the latter part of 2025 slumped materially, as shown in Figure 4. Over 2024, monthly job creation averaged 121,500. The pace slipped to 42,000 over the first four months of 2025 and then tumbled to minus 5,000 for the remaining eight months of the year. January 2026 provided some relief, with a 126,000 increase, but February registered a decline of 92,000 jobs.

Possible reasons for the employment slump include the impact of tariffs and erratic tariff policies, uncertainty related to AI, the elimination of excess hiring accumulated during the aftermath of COVID, and disruption related to shrinkage in immigration and in the foreign-born labor force. Productivity improvements compensated enough for the weak job creation to produce 2025's respectable GDP growth. Forecasters are betting that 2026 will bring a repeat combination of just enough employment growth and just enough productivity growth to support expected 2026 GDP growth.

Varying implications for CRE performance across sectors

Employment growth is a crucial factor driving CRE performance. Apartment demand and office space demand are particularly sensitive to the pace of job creation. For retail and industrial, the relationship is less direct. For retail, the income growth associated with new jobs is crucial while for industrial the flow of goods is crucial. Both are also influenced by the availability of workers to staff their establishments. The slower pace of space absorption in 2025 versus 2024 reflects slower employment growth among other factors.

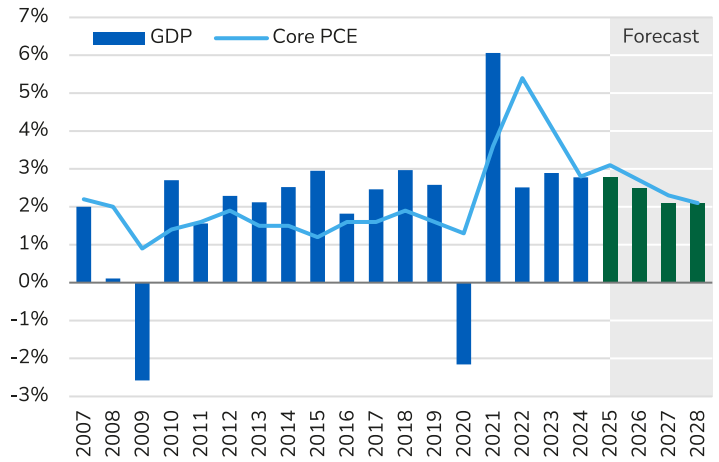
Macroeconomy

Figure 5 shows forecasted GDP growth and inflation data from the Federal Reserve of Philadelphia’s first-quarter 2026 Survey of Professional Forecasters. The median real GDP growth forecast for 2026, at 2.5%, is an improvement over the prior forecast released in November. However, it does not reflect the war with Iran that began a few days before the Survey’s publication. Amending the forecasts will require weighing the robustness of growth drivers underway before the shocks against the potential downside forces.

Forecasting tools are ill-suited for dealing with geopolitical shocks. At best, the impact of oil price changes on US growth and inflation can be estimated with some confidence using historical relationships. However, the impacts of the entirety of the shocks on interest rates, consumer spending and investor confidence are unpredictable. The uncertainty is heightened well beyond the existing challenges associated with US tariffs and the pressures on consumers from expiring healthcare subsidies.

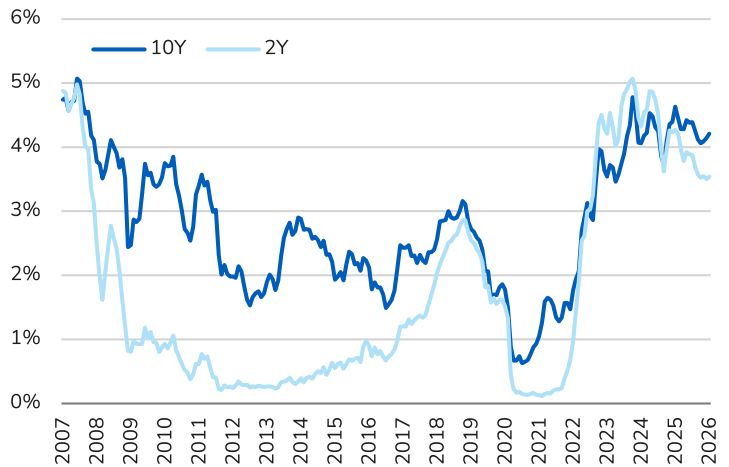
Figure 6 shows the modest decline in the 10-year Treasury yield since its 4.80% peak in October 2023 at the beginning of the Federal Reserve’s interest rate cuts. The shorter term 2-year yield has declined more, indicating a steepening yield curve. The decline in interest rates has been positive for CRE investors. Lower Treasury yields help bring down the cost of CRE borrowing and indicate that policymakers are helping to buoy economic growth prospects. These factors are also stimulating availability of debt for CRE investors, both via CMBS issuers and private debt sources.

Figure 5 – US real GDP and core PCE (annual)



Source: Federal Reserve Bank of Philadelphia, First Quarter 2026 Survey of Professional Forecasters; St. Louis FRED (March 2026).

Figure 6 – US 10-year and 2-year Treasuries (monthly yields)



Source: St. Louis FRED. Data as of February 2026.

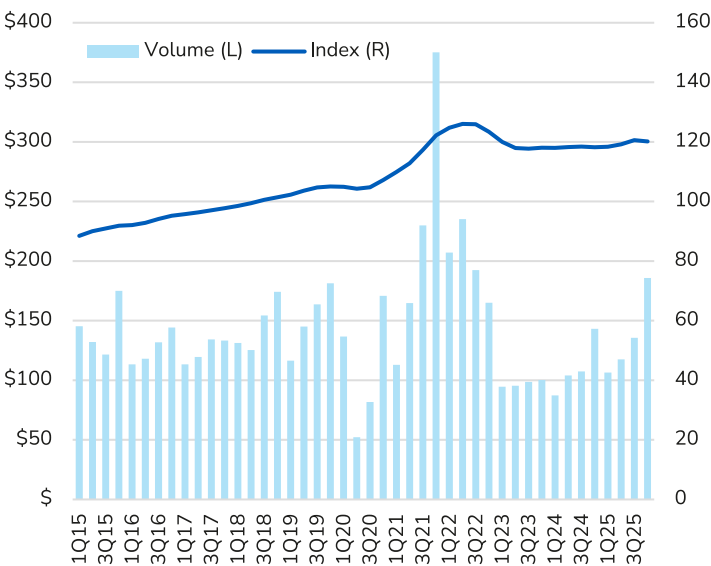




CRE transactions and pricing

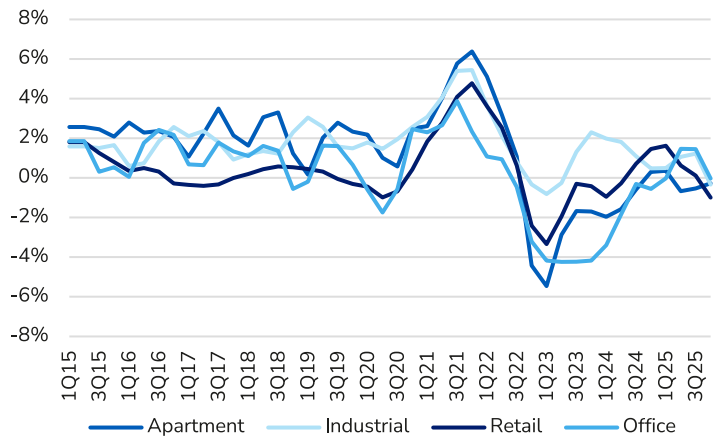
Figure 7 shows that the volume of CRE transactions improved through all four quarters of 2025 after weak volume in 2023-2024. The improved flow of transactions coincides with the positive sentiment expressed by CRE investors and reflects the benefits of the decline in interest rates and ready availability of debt. Improving transactions validate the upturn in the CRE cycle.

Figure 7 – Transaction volume (quarterly, \$b)



Source: Real Capital Analytics. Data as of February 2026.
Index = RCA CPPI Core Commercial Index.

Figure 8 – RCA CPPI (% change quarter-over-quarter)



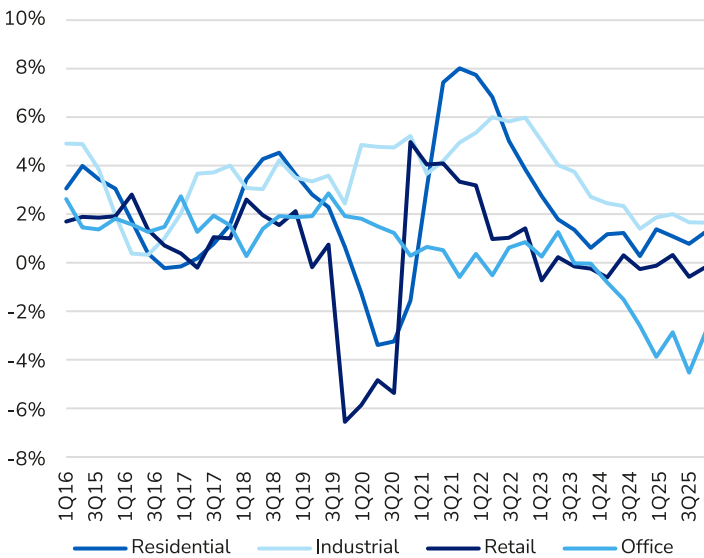
Source: Red Capital Analytics. Data as of February 2026.

Figure 8 shows very modest declines in property prices for the fourth quarter of 2025, reported by MSCI-RCA. The minor magnitude suggests that the changes might amount to noise embedded in transactions negotiations. As shown in the figure, the big change in pricing coincided with the COVID-related interest rate cuts in 2020-2021 and their subsequent reversal. For 2025, sector pricing changes were modest with a 0.2% increase reported in the RCA all-property average. The relative stability of pricing suggests an emerging equilibrium that has been supporting the cycle upturn.

Property performance in positive territory

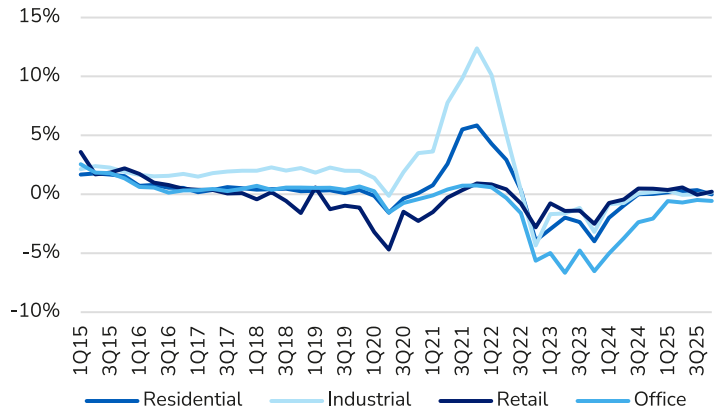
Figure 9 shows largely positive but anemic growth in NOI for the residential, industrial and retail property sectors, and the office NOI change still negative but less so. NOI growth is one of the drivers of CRE investment performance. However, the pace of NOI growth is not quite matching inflation, even for industrial, the strongest sector. Challenges to NOI growth include the persistence of supply-demand mismatches in many metro markets, expiring higher rent leases turning over to lower rent ones, and ongoing anemic and uncertain macroeconomic growth prospects.

Figure 9 – NCREIF-Expanded NPI NOI growth (rolling four-quarter average)



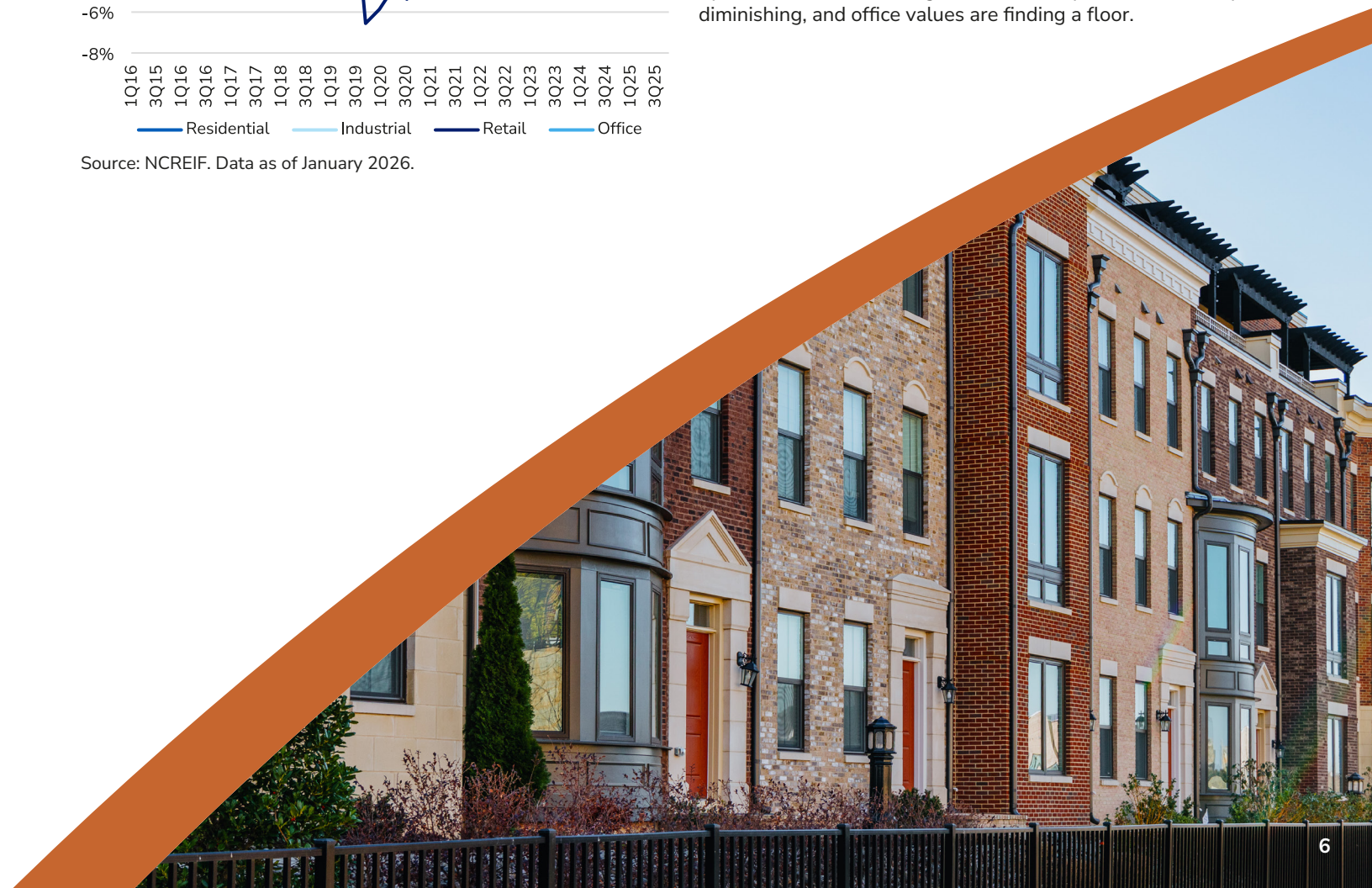
Source: NCREIF. Data as of January 2026.

Figure 10 – NCREIF-Expanded NPI capital return



Source: NCREIF. Data as of January 2026.

Figure 10 shows the capital appreciation component of the NCREIF National Property Index, which reflects changes in property values reported in property appraisals. The figure shows stabilizing values with the office sector still slightly negative. The improvement in the office sector is noteworthy after the sharp drop in office values in 2023-2024, as COVID-related work-from-home (WFH) policies drained demand for office space. Most recent surveys show 25% of employees have retained hybrid schedules allowing some WFH days. But uncertainty is diminishing, and office values are finding a floor.

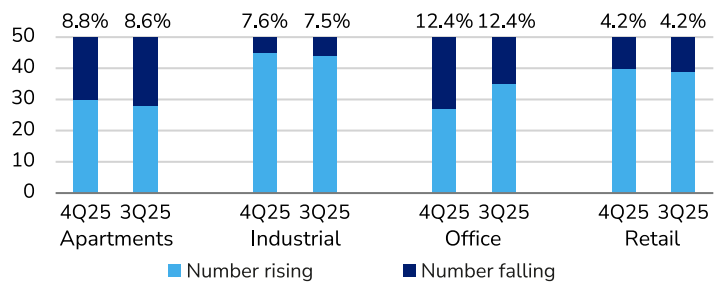


Negative metro market vacancy and rent changes still dominate

Figures 11 and 12 together show changes in property market vacancy and rent growth fundamentals across the top 50 metros by population for the fourth quarter of 2025 versus the third quarter. Altogether these readings indicate only minor changes for the quarter, some office sector changes are notable, with fewer metros showing rising office vacancy rates and the data showing stronger office rent growth on average.

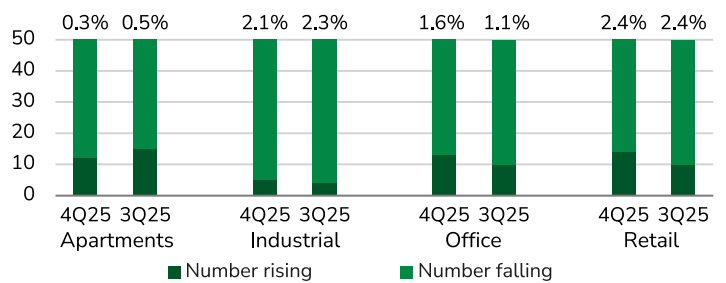
The roughly stable fundamentals across the top 50 metros do indicate that CRE investment performance is on solid footing for 2026. However, the relatively stable readings for the fourth quarter suggest weak forward momentum. Increasing metro vacancy rates and declining metro rents remained pervasive across metros but without enough force to change the averages. The absence of momentum perhaps reflects 2025's very weak pace of job creation and ongoing labor market uncertainty.

Figure 11: Vacancy rate changes (top 50 metros)



Source: CoStar, Q4 2025 vs. Q3 2025.

Figure 12: YoY rent growth changes (top 50 metros)



Source: CoStar, Q4 2025 vs. Q3 2025.



Our assessment process

Analysis of real estate investment prospects commonly starts with a review of recent and expected macroeconomic performance. That starting point reflects the importance of the macroeconomy as a driver of the supply and demand forces that determine property investment performance. The macroeconomic environment influences those drivers and propels a national real estate cycle. That cycle is the dominant influence on performance with property sector and local geographic influences following in importance. At the same time, the idiosyncratic characteristics of specific properties and their specific locations combine with the national cycle feeding each property's bottom line. These diverse influences encourage investors to evaluate both the "top-down" macro environment and the "bottom-up" characteristics of each individual investment under consideration.

Economic growth affects property sectors through varying channels. For apartments, demand drivers include employment and income growth that enable maturing young people to form households along with the absolute number of that population cohort. Interest rates are also important as they influence the cost of buying a home versus renting. Stronger economic growth fuels both employment and income growth. Employment and income growth along with population growth also influence prospects for the retail sector. But growth that is too strong can promote inflation leading to rising interest rates which put a lid on growth.

The industrial sector depends on the widest definition of GDP including the international trade sector. Industrial space demand reflects the flow of goods through the domestic economy. Industrial space demand is very responsive to the macroeconomy in part because the sector can build new space quickly when compared with other types of structures. This responsiveness contrasts sharply with office space where construction lags dampen responsiveness to the macroeconomy.

But, at the same time, there are structural forces of various strengths affecting each sector. For apartments, the strongest is the ongoing shortfall in the supply of housing due to weak construction following the 2008 recession. For industrial, the adjustment to more online shopping and demand for faster delivery is an ongoing tailwind. For office, work-from-home appetite is still uncertain and space obsolescence is a mounting concern. Finally, the retail sector is enjoying a tailwind from disparate population growth contributing demand for space in growing localities while the headwind of excess space in declining areas and shrinking venues is ongoing.



Martha Peyton

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Martha Peyton is a Research Consultant to the firm's Real Estate Equity team. In this role, she is responsible for US economic and property market research, which is a foundation for the team's investment strategy.

Between 2018 and mid-2023, Martha was Managing Director of Applied Research for Aegon Real Assets US, primarily responsible for the development and application of research to real asset strategies. Between 1993 and 2016, Martha was Managing Director, Head of Real Estate and Global Real Assets Research for TIAA-Nuveen. While at TIAA, she built and oversaw the research function for the commercial mortgage loan and real estate businesses. This included managing research staff, setting the research agenda, conducting ongoing monitoring and analysis of the investment environment and asset class performance and authoring white papers and research publications.

Martha earned her BA, MA and PhD in Economics from Fordham University. She is a Counselor of Real Estate (CRE) and is a Fellow and past president of the Real Estate Research Institute.



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