



**Real Estate Pulse**  
Q2 2026

# Stable performance as uncertainty rises



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## Key takeaways

- US commercial real estate (CRE) investment performance held steady in the first quarter of 2026, with the NCREIF National Property Index total return holding at 4.9% for the year ending March 31.
- Property appreciation was slightly positive after flat appreciation in the fourth quarter of 2025. Retail and industrial were the strongest sectors followed by residential, with office still lagging.
- The pace of transactions increased at a solid pace and property pricing edged up. On balance, first-quarter results demonstrate an ongoing CRE cycle upswing, albeit at a subdued pace.
- US macroeconomic growth at a 1.6% rate for real GDP supported the first-quarter CRE performance despite very weak employment growth and higher inflation and interest rates than expected.
- The ongoing US war with Iran intensifies uncertainty surrounding future CRE performance, with prospects dependent on how high oil and other commodity prices go and how long they stay elevated.

US commercial real estate (CRE) delivered stable returns in the first quarter, according to NCREIF-Expanded Index metrics, with the benchmark one-year NCREIF National Property Index (NPI) posting total return of 4.9% for a second quarter in a row. Property appreciation inched up to slightly positive for the quarter, bringing one-year appreciation to 0.2%. The quarter's only surprise: the sharp decline in hotel sector performance, which represents a very small part of the NPI.

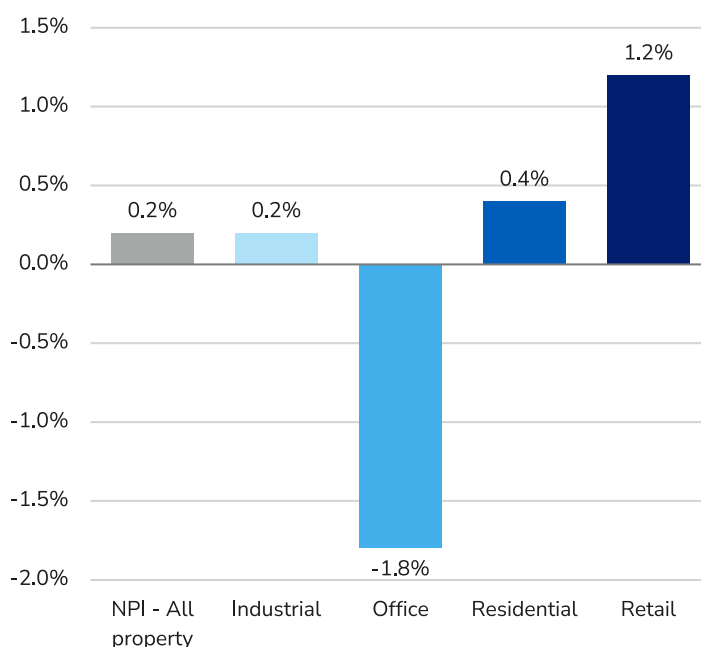
Capital appreciation varied across the four major property sectors. Retail led with a gain that brought its one-year appreciation to 1.2%, followed by industrial, which also saw a positive contributing to its 0.2% four-quarter improvement. Residential reported a slight quarterly decline, reducing its four-quarter result to 0.4%. The office sector also reported a negative quarterly appreciation but saw its best performance since the beginning of CRE negative investment performance in 2022.

These appreciation updates point to ongoing resolution of the disruptions visited on US CRE following the pandemic. Industrial space demand is equilibrating after the mushrooming in inline sales and onshoring of critical products promoted overbuilding in some metros. Excess residential apartment supply built in some metros in response to population movements and to the surge in household formation post COVID is also resolving. Office space demand is recovering as well after cratering as work-from-home was necessitated by the COVID lockdown and then embraced afterward in hybrid work schedules. Improving appreciation testifies to continuing recovery. Meanwhile, the retail sector was a steadier performer through the pandemic challenges and continues to be so.

Transactions data emitted similar vibes with solid increases in the year-over-year pace of office and industrial sales, minimal increases in retail and apartment sales, and modest price increases reported in the MSCI-RCA CPPI (2.1% for the year ending March 31, 2026). On balance, first-quarter results demonstrate an ongoing CRE cycle upswing, albeit at a subdued pace.

**Figure 1: Capital appreciation varied across the four major property sectors**

One year ending 1Q2026

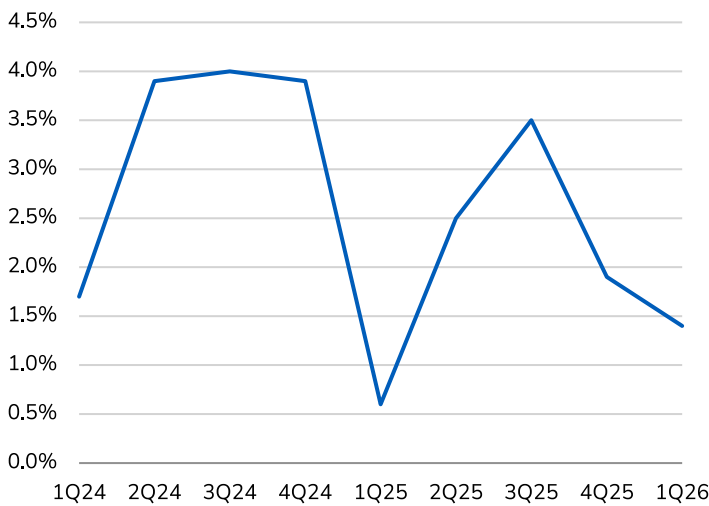


Source: NCREIF. Data as of March 31, 2026.

**Iran war clouds macroeconomic growth prospects**

The US macroeconomy provided a confusing array of considerations for property investors. Economic growth rebounded in the first quarter to a solid 2.0% pace after the fourth quarter's weak 0.5%. But consumer spending growth, shown in Figure 2, lagged, with a 1.4% growth rate after a 1.9% in the fourth quarter. Lackluster consumer activity mirrors the ongoing dearth in job creation. Payroll jobs increased by 73,000 per month during the first quarter, following 2025's weak 10,000 monthly adds. In 2024, average monthly job additions totaled 122,000. The first quarter's weak consumer spending growth contrasts with roaring investment activity propelled by equipment and software purchases that were likely AI-related.

**Figure 2: Consumer spending lagged in the first quarter of 2026**  
Consumer expenditures - real growth rate annualized

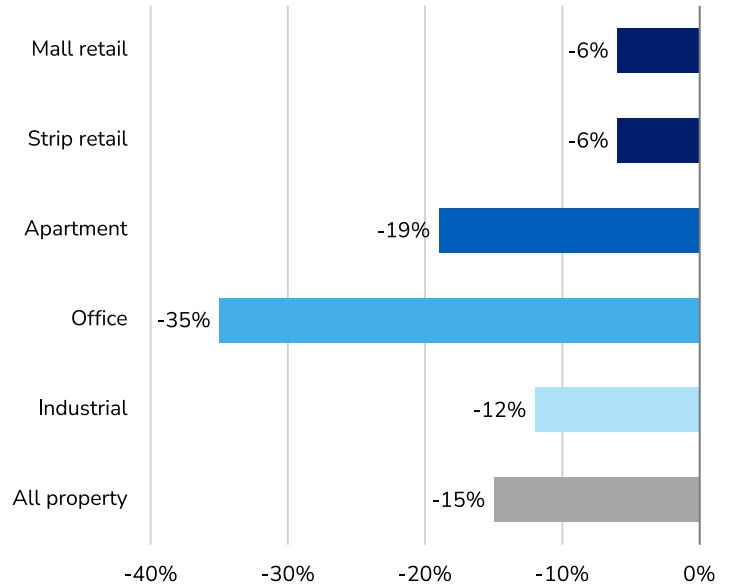


Source: BEA.

Looking forward, geopolitical events have imposed heavy challenges on the growth outlook. The outbreak of the war with Iran sent oil prices skyrocketing and the vital Strait of Hormuz remains blockaded by both sides as of this writing. The Strait is the pathway for 20% of global oil supply along with a variety of other important materials. The hostilities contributed to the elevated US inflation rate beginning in March and boosted interest rates. Stock market volatility has also spiked in this environment, but equity indexes are still performing well amid investor optimism.

Economic forecasters are less sanguine, suggesting that oil prices need to reverse quickly to protect 2026 economic growth prospects. Federal Reserve policymakers are hedging, as shown in the decision to leave rates unchanged at all three FOMC meetings this year so far. Real estate investors appear unperturbed so far, though the relatively weak pace of first-quarter transactions growth in retail and apartments might be recognition that those sectors are most vulnerable to ongoing economic challenges. The latter include not only the war-related stresses but also the weak employment growth prospects, tariff and immigration unsettledness, and dismal consumer sentiment that were already in play before the Iran complications. At the same time, property pricing remains attractive, as shown in Figure 3: None of the four major sectors has yet regained 2022 peak values.

**Figure 3: Property pricing remains attractive**  
Commercial property values March 2026 vs 2022 peak



Source: Green Street.

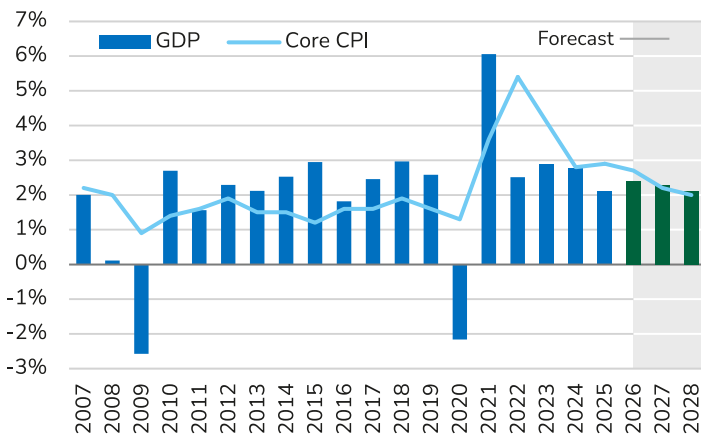


# Macroeconomy

Figure 4 shows the forecasts for GDP growth and inflation reported in the Federal Reserve’s “Economic Projections” used at its March 2026 policy meeting. Those projections contain little insight into the potential impact of the war on the US economy. The only hint is the higher inflation projections reported here versus the Fed’s December projections. Note that the Fed focuses on “core” inflation, which excludes food and energy prices. The increase suggests the Fed’s expectation that the change in the economic environment between December and March boosted core inflation prospects, as the oil price spike and the ongoing tariff situation fed into other sectors.

With the war and trade disruption still underway as of this writing, the impact on second-quarter economic growth is still cloudy. The impact on consumer spending remains key after the first quarter’s anemic results. So far in the second quarter, retail sales growth was weak in April after a strong March. But the March results were distorted by a double-digit increase in gasoline purchases reflecting the surge in oil prices as the war began. In April, gasoline purchases leveled out and consumers adjusted their budgets by cutting back on cars, furniture and clothing purchases. The shift in consumer purchases will affect real economic growth with the degree depending on how long

**Figure 4: US real GDP and core PCE (annual)**

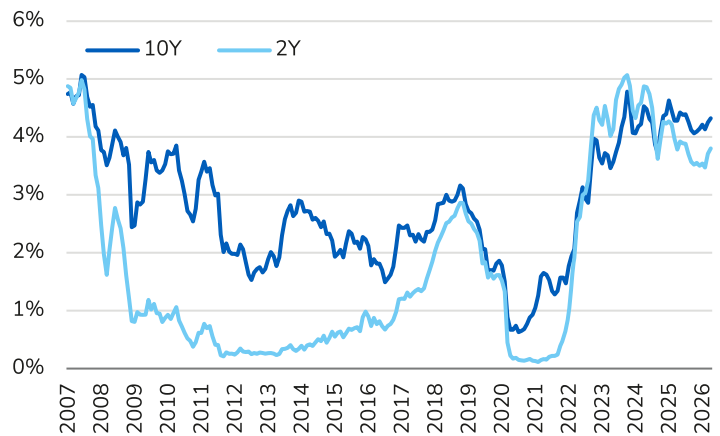


Source: Federal Reserve Bank of Philadelphia, First Quarter 2026 Survey of Professional Forecasters; St. Louis FRED (March 2026).

oil prices remain high. Note also that consumer credit card debt spiked in March, suggesting that higher-priced gas was charged. When combined with weak employment growth and the lowest consumer sentiment on record, consumers are unlikely to provide strong growth momentum for the remainder of the year.

Figure 5 shows monthly Treasury yields through April, which reflect the impact of the war, the disruption in global oil prices and the ensuing spike in inflation. While economic growth expectations remain roiled by war- and oil-related uncertainties, financial markets have been reacting to day-to-day developments. The 10-year Treasury, which is most relevant for property investors, traded at a 3.97% yield on February 27, the day before the Iran conflict erupted. By the end of April, the yield reached 4.40% in response to the ongoing war-related disruptions and the resulting spike in inflation. The US consumer price index posted a 3.8% year-over-year increase in April driven by a 17.9% increase in energy prices. At the same time, hopes for Fed rate cuts over the remainder of 2026 evaporated as the April FOMC meeting brought no rate changes. Shorter-term Treasury yields followed a similar pattern.

**Figure 5: US 10-year and 2-year Treasuries (monthly yields)**



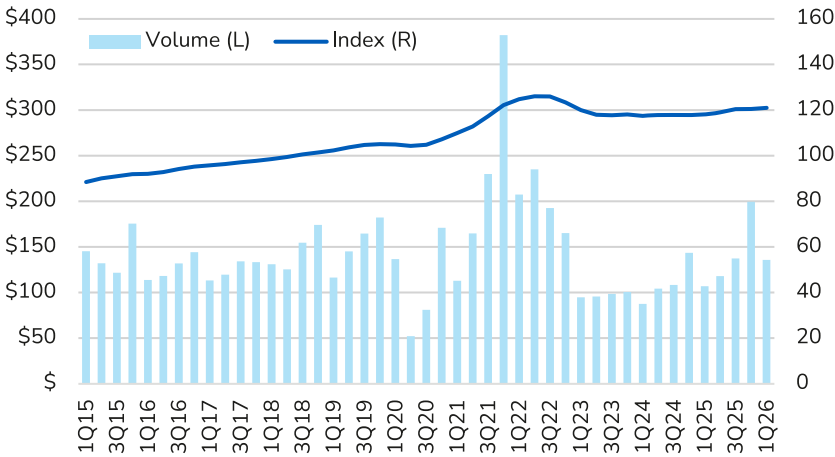
Source: St. Louis FRED. Data as of May 2026.



## CRE transactions and pricing

Figure 6 shows transactions volume eased in the first quarter of 2026 versus the prior quarter, but volume remained substantially stronger on a year-over-year (YoY) basis. According to MSCI-RCA, office sector transactions popped 39% YoY, accompanied by widening quality-adjusted cap rates that suggest buyers and sellers letting go of unrealistic expectations for the sector. At the same time, apartment and retail sector transactions held roughly steady with very minor adjustments in quality-adjusted cap rates. Investor appetite for industrial properties continued strong with a 27% YoY increase in transactions and roughly stable cap rates.

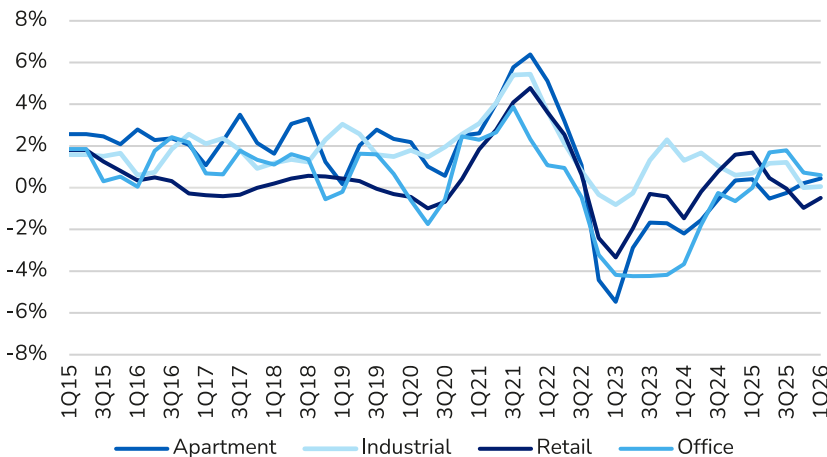
**Figure 6: Transaction volume (quarterly, \$b)**



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

Figure 7 shows the MSCI-RCA Commercial Property Price Index through first-quarter 2026. The top line index for all properties posted a 1.1% increase for the quarter and a 2.1% increase YoY. Quarterly price changes were positive for all sectors except hotels. Green Street's price index posted a stronger YoY gain of 3%, but the two metrics are not contradictory.

**Figure 7: RCA CPPI (% change quarter-over-quarter)**



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

Both transactions and property pricing data for the first quarter support the cycle upturn in US CRE but the data do not yet reflect the response of investors to the war-related surge in oil prices, trade disruption and macroeconomic uncertainty.

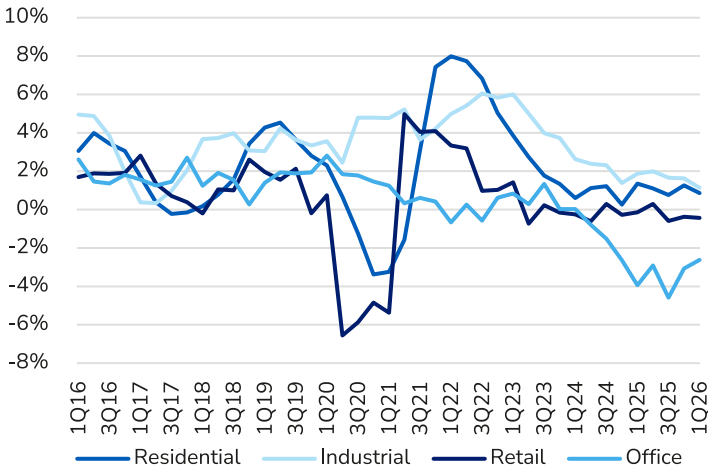


# Property performance

Figure 8 shows property sector NOI growth on a four-quarter rolling basis with data through the first quarter of 2026. The figure identifies a continuation of the improvement in office sector NOI, but it remains in negative territory. Industrial and residential sectors show slightly weaker NOI growth through March 31, but their trends remain positive. The retail sector NOI growth remains slightly negative. The first-quarter changes in NOI growth reflect the expiration of longer-dated leases rolling to the lower rent levels produced by the cycle downturn. It will take time for the cycle upturn to generate momentum to push rents to new highs.

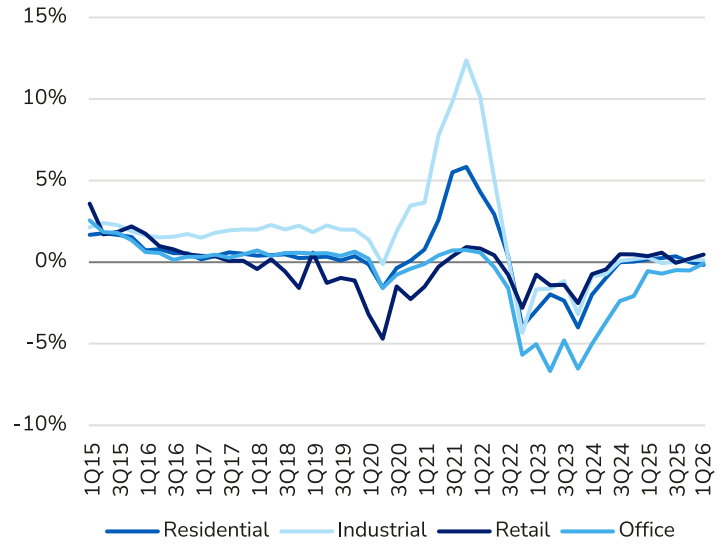
Figure 9 shows the path of NCREIF capital appreciation by property sector. The figure clearly portrays the cycle peak in 2021 and subsequent trough in 2023. That pattern was driven by the zero interest rates associated with COVID along with the changes in ecommerce, work-from-home, and household formation also associated with the pandemic. First-quarter data continue the appreciation pattern that took hold after the trough, with retail leading appreciation, office slowly improving but still negative, and industrial and residential in between.

**Figure 8: NCREIF-Expanded NPI NOI growth (rolling four-quarter average)**



Source: NCREIF. Data as of May 2026.

**Figure 9: NCREIF-Expanded NPI capital return**



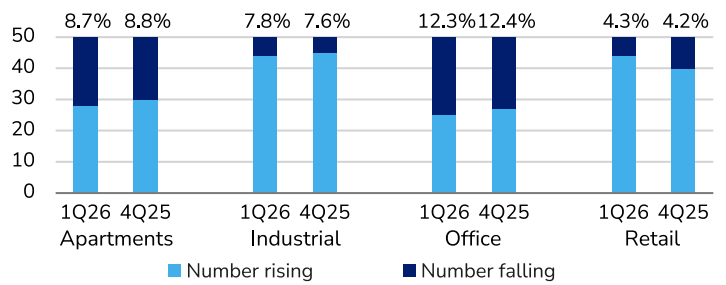
Source: NCREIF. Data as of May 2026.



# Metro market rent growth and vacancy rates change little in Q1

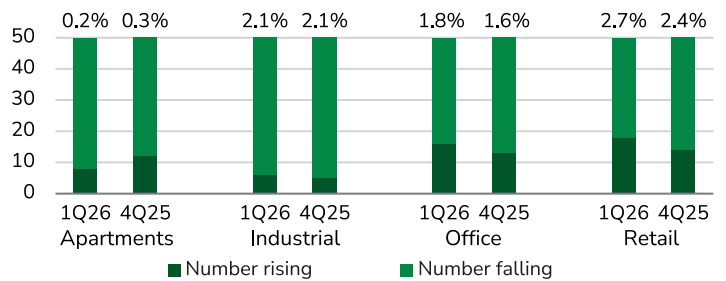
Figures 10 and 11 together show changes in property market vacancy and rent growth fundamentals across the top 50 metros by population for the first quarter of 2026 versus fourth-quarter 2025. Altogether these readings continue to indicate only minor changes over recent quarters. Apartment vacancy rates are inching down in more metros as rents and concessions fill excess supply. The industrial sector is also digesting excess supply, with most metros showing rent declining even with the average rent change holding steady.

**Figure 10: Vacancy rate changes (top 50 metros)**



Source: CoStar, Q12026 vs. Q4 2025.

**Figure 11: YoY rent growth changes (top 50 metros)**



Source: CoStar, Q12026 vs. Q4 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.



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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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