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# 2026 Real Estate Market Outlook

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## A Bifurcated Market Provides Opportunities

The headwinds encountered for real estate investment over the last few years seem to be receding. Compared to the beginning of 2025, interest rates are lower, real estate liquidity is improving, the economy is growing, and new construction is decelerating materially.

Our cautious optimism for 2026 is tempered with competing views. On the one hand, the economy is performing well. At the same time, excess inventory has led to lower rents and lower occupancy rates in some markets across property sectors. These conditions are leading to a more bifurcated real estate market. However, a bifurcated market can provide investors with clear signals on relative value. As we describe below, cities and sectors that have higher occupancy, less new construction and more resilient tenant demand provide a foundation for better relative results.

- We believe the economy may grow between 2.0% - 2.3% in 2026. Household balance sheets remain resilient and higher tax refunds this year could support stable growth in personal consumption.
- While unemployment rates have risen slightly, they remain equal to their 10-year average of 4.6%. We expect lower job growth in the range of 0.6% - 0.8% in 2026.
- Notably, employment growth in the Sunbelt cities averaged 1.0% over the last year compared to the non-Sunbelt cities which grew by 0.5% below the national average of 0.8%.<sup>1</sup>
- Shelter rent inflation has decelerated while prices on other inflation components increased due to tariffs. At 2.7%,<sup>2</sup> inflation remains above the Federal Reserve's target rate. Without lower inflation, the chance of more than one interest rate cut seems low.

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<sup>1</sup> Bureau of Labor Statistics ("BLS"), September 2025 reflecting the latest data available.

<sup>2</sup> BLS, November 2025

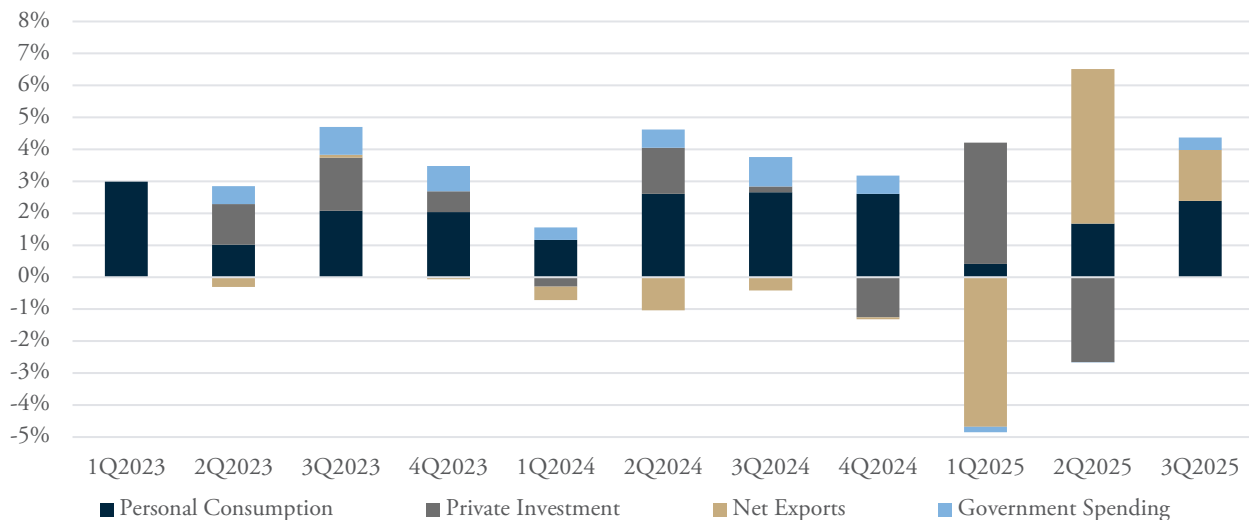
- The retail sector remains attractive. There is a deficit of space available to lease and occupancy rates remain above average, leading to higher rents. Further, cap rates appear high versus other sectors.
- Due to the lack of housing affordability, multifamily and manufactured housing had strong tenant demand in 2025 and that demand is likely to persist. With less new supply, occupancy and rents could rise.
- Due to tariff uncertainty, warehouse net absorption was below average in 2025, and new construction has declined. Still, tenant demand for modern efficient space remains strong, leading to higher rents.
- For office, 2025 marked the fifth consecutive year of negative tenant demand. With weak fundamentals across most cities, investing in office assets remains more asset specific and less of a sector strategy.

## 2026 Economic Outlook – Less Policy Uncertainty

The U.S. economy remains resilient, avoiding the adverse outcomes associated with tariff shocks and other uncertainties in 2025. However, growth is increasingly bifurcated, with economic output expanding even as job creation slows. At the beginning of 2025, we expected to see lower growth in government spending, stable growth in personal consumption, and positive business investment with the economy growing by 2.2%.<sup>3</sup>

While Gross Domestic Product (“GDP”) declined -0.6% in the first quarter, it rebounded by 3.8% in Q2 2025 and 4.3% in Q3 2025.<sup>4</sup> To address the budget and trade deficits, the White House and Congress made dramatic policy shifts on government spending, trade and tax policies. The impact of these policies materialized quickly.

**Exhibit 1: Tariffs & Tax Policy Shifted GDP Growth in 2025<sup>5</sup>**



To mitigate the risk of proposed tariffs, imports surged in the first quarter, growing 38%. Because imports exceeded exports, the trade deficit contributed to a -4.7% decline in economic growth.

Conversely, the White House proposed 100% bonus depreciation for business investment in March 2025.<sup>6</sup> As such, private investment spending grew a staggering 23% in the first quarter and contributed 3.8% to economic

<sup>3</sup> Crow Holdings Capital “2025 Real Estate Outlook”, January 2025.

<sup>4</sup> Bureau of Economic Analysis (“BEA”), quarter over quarter, seasonally adjusted annual rate as of Dec. 23, 2025.

<sup>5</sup> Ibid.

<sup>6</sup> President Trump’s address to Congress on March 4, 2025, proposed “100% expensing” for equipment and manufacturing investments retroactive to Jan. 19, 2025. This was ultimately signed into law in July 2025.

growth, offsetting the drag from import growth. At the same time, government spending did not increase in the first half of 2025. More recently, personal spending continues to underpin economic growth, increasing 2.5% and 3.5% in the second and third quarters of 2025.<sup>7</sup>

The impact of these policy shifts may linger in 2026. Higher tariffs are likely to result in lower import growth and reduce the drag on the economy, while lower growth in government spending may restrain economic growth. Also, tax policy favors business investment and consumer spending. Indeed, the tax bill passed in July 2025 will likely lead to higher tax refunds in 2026 and support consumer spending.

When we consider several factors influencing the economy, we believe the economy will grow between 2.0% and 2.3% in 2026. Households continue to provide a solid source of economic growth as wages are growing, and balance sheets are solid. Wages grew 0.8% faster than inflation over the last year, and slightly ahead of their 10-year average of 0.7%.<sup>8</sup> Productivity also increased 1.5% over the last year<sup>9</sup> allowing disposable income to grow 1.9%.<sup>10</sup>

Household balance sheets also remain resilient. Household debt-to-GDP was only 67.4% and well below its peak of 97.7% in June 2009.<sup>11</sup> Due to lower debt levels, household debt service payments as a percentage of disposable personal income remain low at 11.2% compared to the December 2007 peak of 15.8%.<sup>12</sup>

One area of caution is job growth. Compared to a year ago, the unemployment rate has increased from 4.1% to 4.6% and is equal to its 10-year average of 4.6%.<sup>13</sup> The pace of employment growth has decelerated to 0.6% over the last year compared to its 10-year average of 1.1% and the number of new jobs created monthly averaged 78,000 compared to the 10-year average of 139,500.<sup>14</sup> Still, there were 7.7 million jobs available across a range of industries at the end of October 2025, slightly greater than the number of those unemployed.<sup>15</sup>

Because unemployment remains at its 10-year average, we expect lower job growth between 0.6% and 0.8% in 2026. However, if labor force participation rises, we could see higher job growth. Employment growth in the largest Sunbelt cities averaged 1.0% over the last year compared to the non-Sunbelt cities, which averaged 0.5%. Likewise, the unemployment rate in the Sunbelt cities averaged 4.1% versus 4.7% in the non-Sunbelt cities.

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<sup>7</sup> BEA, contributions to percent change in real gross domestic product, Dec. 23, 2025.

<sup>8</sup> BLS, September 2025 reflecting the latest data available.

<sup>9</sup> Ibid., June 30, 2025, reflecting the most recent data available.

<sup>10</sup> Bureau of Economic Analysis ("BEA"), Sept. 30, 2025.

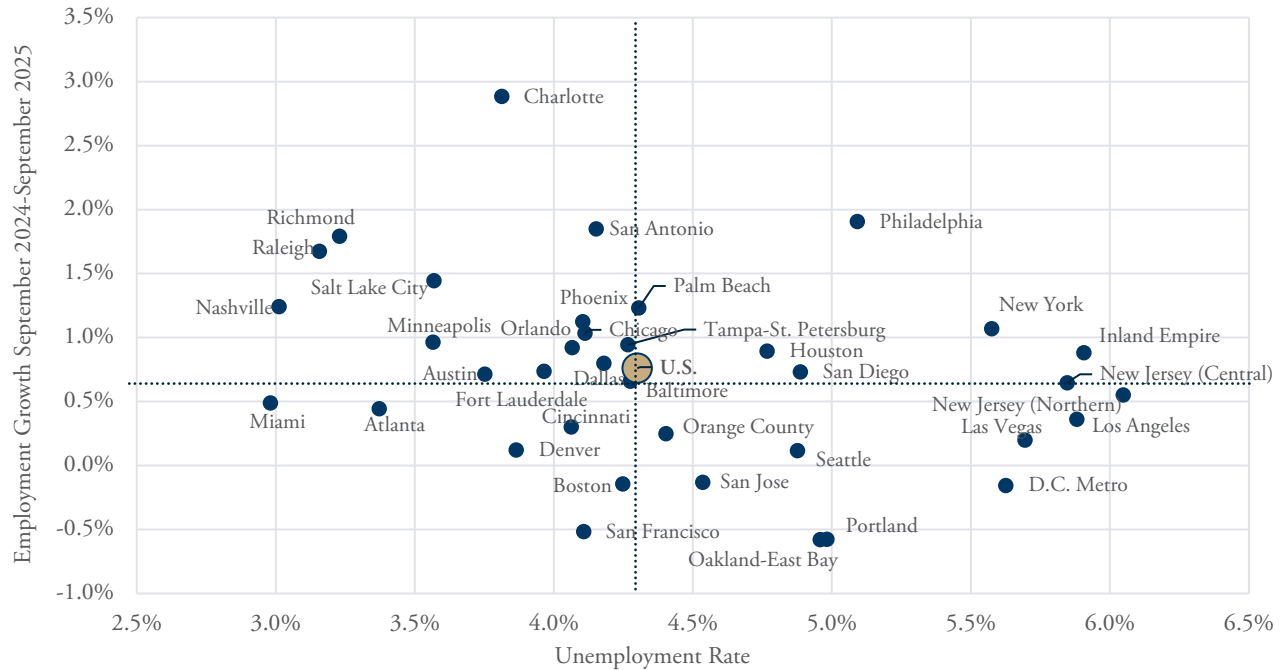
<sup>11</sup> Bloomberg, June 30, 2025, reflecting the latest data available.

<sup>12</sup> Board of Governors of the U.S. Federal Reserve as of June 30, 2025, reflecting the latest data available.

<sup>13</sup> BLS as of Nov. 30, 2025.

<sup>14</sup> Ibid.

<sup>15</sup> BLS, U.S. Job Openings by Industry, October 2025.

Exhibit 2: Job Growth by City vs Unemployment<sup>16</sup>

## Capital Market Trends & Interest Rates

At the beginning of 2025, the Federal Funds rate range was 4.25% - 4.5% and the 10-year Treasury yield was roughly 4.7%. As noted in January, we believed the 10-year Treasury yield was oversold and could decline to between 4.0% and 4.25% while the Federal Funds rate could decline to a range of 3.5% - 4.0% by year-end.<sup>17</sup>

Since then, the Federal Reserve has lowered interest rates three times to a range of 3.5%-3.75% and the 10-Year Treasury yield has been trading in a range of 4.0% - 4.2% since September.<sup>18</sup> Admittedly, we believed rates would decline due to lower inflation though inflation remains elevated at 2.7%.<sup>19</sup> Instead, concerns over employment growth have driven interest rates lower.

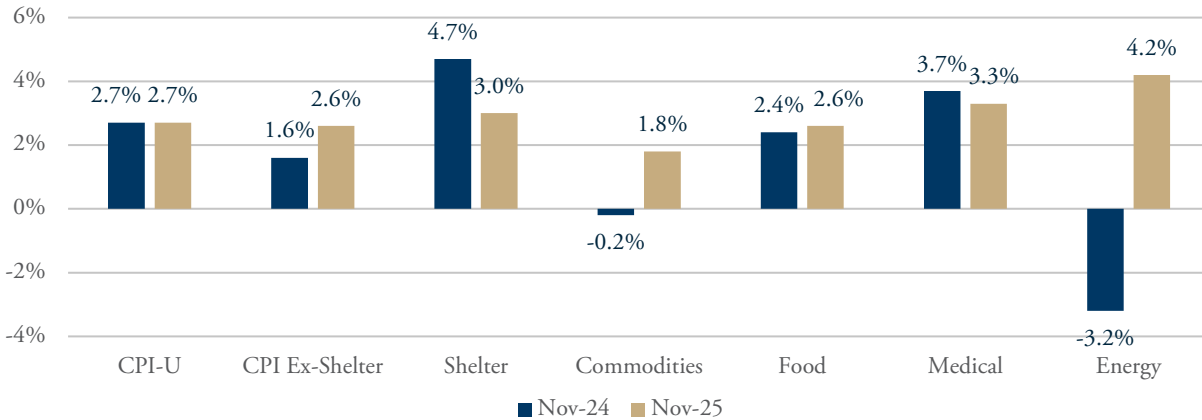
At the same time, tariffs are impacting inflation. A year ago, shelter rents drove inflation. In November 2024, year-over-year inflation for shelter rents was 4.7% and has since dissipated to 3.0% by the end of November 2025. Conversely, the Consumer Price Index ("CPI") ex-Shelter was only 1.6% a year ago and has accelerated to 2.6%, driven by price increases across commodities, food, and energy compared to a year ago.

<sup>16</sup> Crow Holdings Capital Research & Strategy using data from the Bureau of Labor Statistics accessed through Greenstreet. The year-over-year employment growth reflects the change from September 2024 to September 2025 and unemployment by metro is as of September 2025, the latest data available.

<sup>17</sup> Crow Holdings Capital "2025 Real Estate Outlook", January 2025.

<sup>18</sup> Bloomberg as of Dec. 12, 2025.

<sup>19</sup> BLS, November 2025, released on Dec. 18, 2025.

**Exhibit 3: Year-Over-Year Inflation: Shelter Costs Lower, Tariffs Increasing Other Components<sup>20</sup>**

Tariffs have been applied on a range of goods causing prices to rise. For example, coffee prices are 18% higher compared to a year ago, audio equipment is up 14%, motor vehicle parts and repair are up 11.5%, while prices on new cars and trucks rose 12.6%.<sup>21</sup> Conversely, price increases on many construction materials like lumber, plywood, brick and gypsum declined or rose modestly over the last year.<sup>22</sup>

Looking at a range of indicators, inflation expectations are likely to remain anchored to higher levels until the impact of tariffs is absorbed. Consensus forecasts call for inflation of 2.7% in 2026, while various breakeven inflation rates range from 2.3% to 2.7%.<sup>23</sup> With elevated inflation expectations, the Federal Reserve may only reduce interest rates by 0.25% to a range of 3.25% - 3.5% by year-end 2026. The difference between the Fed Funds rate and inflation reflects the real, inflation-adjusted interest rate. Given the recent rate cut, interest rate policy is more accommodating with real interest rates of 0.60%. Without lower inflation, the chance of more than one interest rate cut seems low.

Assuming the Federal Funds rate remains in an effective range of 3.375% - 3.625%, our base case for the 10-year Treasury yield in 2026 remains in a narrow range of 4.15% - 4.30%.<sup>24</sup> We don't anticipate major shifts in the 10-year Treasury yield unless inflation falls substantially or unemployment rises more than expected.

Over the last 10 years, the current value cap rates within the NCREIF Index averaged 4.64% and provided nearly a 200-basis-point spread over the 10-year Treasury yield, which averaged 2.65%. At the end of Q3 2025, current value cap rates were 4.6% and provided a spread of only 40 basis points ("bps") over the 10-Year Treasury yield.

<sup>20</sup> Ibid.

<sup>21</sup> BLS, Sept. 30, 2025

<sup>22</sup> Bloomberg using the Producer Price Indices for the year ending September 2025, softwood lumber and insulation prices were down -1%, plywood and gypsum up 1%, while brick and concrete were up 2% and 4%, respectively.

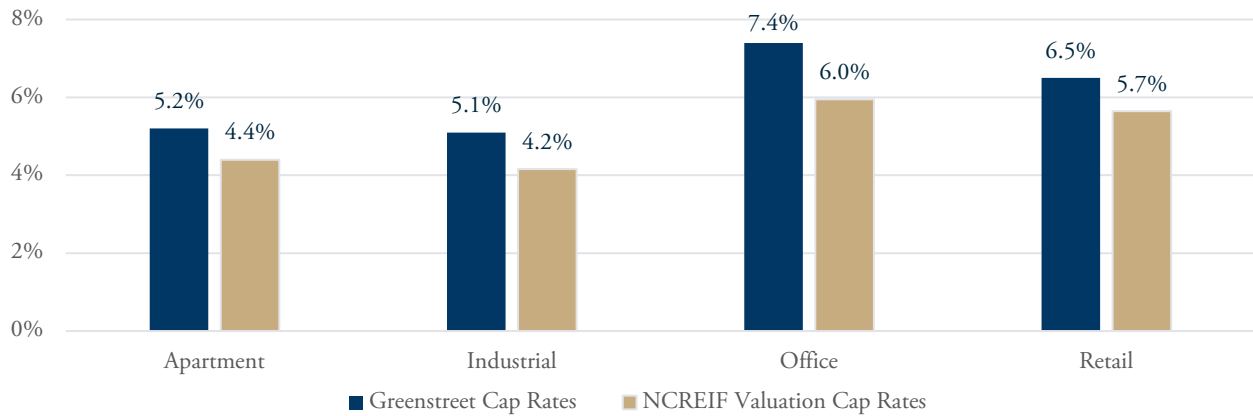
<sup>23</sup> Bloomberg for the Consensus Forecast as well as the U.S. Federal Reserve Five-Year Forward and the 5-year breakeven inflation rate, as of Dec. 12, 2025. The median inflation forecast for 2026 from the U.S. Federal Reserve's latest Summary of Economic Projections ("SEP") was 2.5% with a range of 2.2%-2.7%, released Dec. 10, 2025.

<sup>24</sup> Crow Holdings Capital Research & Strategy using a 30-year analysis (1995-2025) of the difference between the 10-Year Treasury yield and the Fed Funds rate. Over this time, the Fed Funds averaged 2.44% and the 10-year Treasury yield was 1.19% higher at 3.64%. Since the Fed Funds rate is higher at between 3.38% and 3.64%, the spread is narrower. At these levels the spread to the 10-year Treasury narrows to a historical of between 0.70% - 0.80%.

Looking ahead, assuming the 10-year Treasury yield averages 4.25%, then current value cap rates within the index should range between 5.15% and 6.25%.<sup>25</sup>

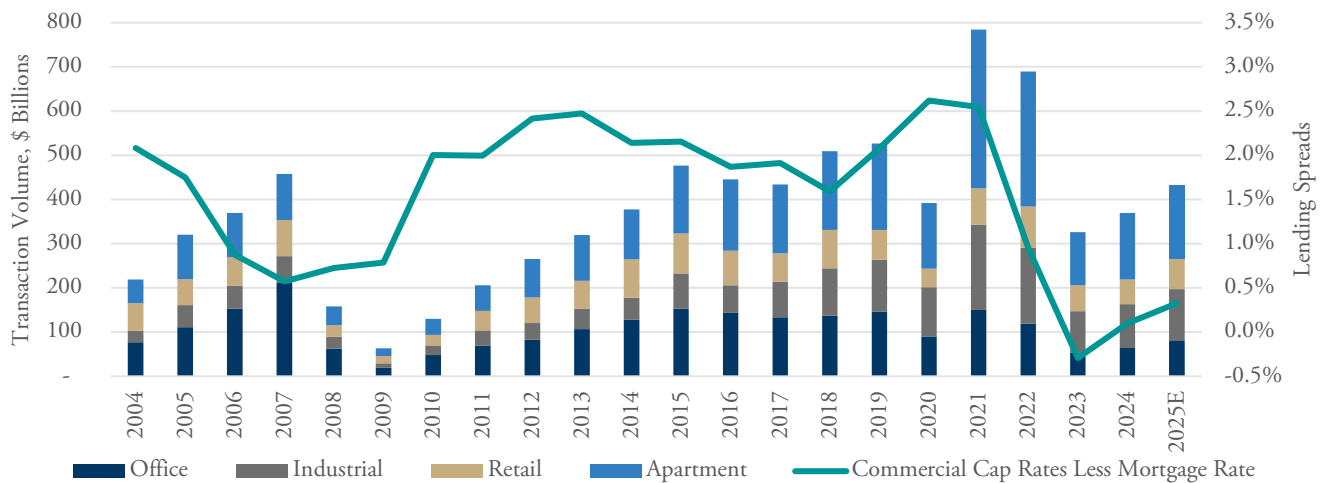
Conversely, assets in the transaction market seem to be trading at higher cap rates than those within the index. As seen in Exhibit 4, assets in the transaction market have been repriced to more favorable levels and seem to provide a healthier risk premium over the 10-year Treasury yield.

**Exhibit 4: Transaction Cap Rates Remain Higher than Valuation Cap Rates**



With interest rates and mortgage rates declining in 2025, there was a meaningful rebound in transaction activity. Liquidity improved across most sectors. Through Sept. 30, 2025, transaction volume reached \$353 billion, up 18% year-over-year, yet remained 12% below the 2015-2019 average.<sup>26</sup>

**Exhibit 5: Transaction Volumes Were 18% Higher in 2025<sup>27</sup>**



<sup>25</sup> Crow Holdings Capital Research and Strategy using data from NCREIF and Bloomberg from 4Q 1978 – 3Q 2025. Over this time, the level of the 10-year Treasury yield and year-over-year inflation explained 81% of the variation in NCREIF current value cap rate spreads to the 10-year Treasury yield. The coefficients were significant at the 1% level, and the signs were intuitive – higher interest rates and higher inflation typically lead to a lower spread to Treasuries and vice versa.

<sup>26</sup> MSCI Real Capital Analytics, as of 3Q 2025

<sup>27</sup> Source: Crow Holdings Research & Strategy using data from MSCI/RCA as of September 2025. Estimated transaction volume figures for 2025 annualize the total transaction volume for the first three quarters of the year.

Lenders remain active but selective, concentrating capital in markets and property types with stable fundamentals. Lending rates have declined 50-100 bps from their 2023 highs to +/-5.5% for apartments and +/-6.6% for other property types.<sup>28</sup> With lower lending rates, higher debt-service coverage, less new construction, stable to rising occupancy rates and additional capital available from core and non-core funds, we expect to see slightly higher transaction volume in 2026.

### Is It a Good Time to Allocate Capital to Real Estate?

We believe it is a good time to allocate capital to real estate as valuation adjustments have occurred while greater transaction volume has led to better price discovery. Also, with transaction cap rates of 5.25% or higher, real estate seems to provide good relative value compared to equities and fixed income. As equities have broadly rallied, the earnings yield for the S&P has fallen to 3.9%, well below the 10-year average of 4.8%, while posting a dividend yield of only 1.15%.<sup>29</sup>

Similarly, fixed income valuations are above average as investors' anticipation of rate cuts and a stronger economy has led to a decline in credit spreads. Corporate bond yield spreads now stand at 80 bps, which is lower than the 10-year average of 117 bps.<sup>30</sup>

The public market is signaling positive signs for real estate as public REITs were trading at a 10% premium to their net asset value at the end of September.<sup>31</sup> Despite trading at a premium to net asset value, listed REITs are trading at an earnings yield of 5.9% compared to their 10-year average of 5.7% and provide a dividend yield of 4.04%.<sup>32</sup> As seen in the following table, our leading real estate indicators also suggest it is a positive environment for investing in real estate in 2026.

**Exhibit 6: Real Estate Cycle Leading Indicators Remain Positive**

	LEADING INDICATOR	20-YEAR AVERAGE	RANGE	Q3 2025	SIGN
<b>Economy (Demand)</b>	Yield Curve: 10-Year less 2-Year yield	99 bps	96 bps	54 bps	↔
	Credit Spread (BBB OAS)	199 bps	108 bps	99 bps	↔
<b>Supply</b>	Commercial Construction (% of GDP)	2.2%	0.3%	2.4%	↔
<b>REITs</b>	REIT NAV Premium+/Discount- (Mkt Cap)	+5.6%	+11.4%	+10.0%	↔
<b>Valuations</b>	Cap Rate	5.3%	0.8%	4.6%	↔
	Cap Rate Spread to Treasuries	2.4%	1.3%	0.4%	↓
	Cap Rate Spread to BBB	0.6%	1.5%	-0.5%	↔
<b>Mortgage Debt</b>	Commercial Mortgage Debt (% of GDP)	14.4%	1.4%	12.8%	↑
	Real Estate Loan Growth (4Q MA)	3.9%	4.7%	1.2%	↑
	CMBS Option-Adjusted Spread (OAS)	185 bps	204 bps	81 bps	↔

First, short-term interest rates have fallen faster than longer-term interest rates, the yield curve steepened to 54 bps, and the probability of a recession over the next year has fallen to 25%.<sup>33</sup> Similarly, BBB credit spreads have

<sup>28</sup> MSCI Real Capital Analytics Debt Metrics, as of Sept. 30, 2025

<sup>29</sup> Bloomberg, as of Nov. 28, 2025. Conversely, the P/E ratio was 25.5x earnings compared to the 10-year average of 20.7x earnings.

<sup>30</sup> Bloomberg, as of Nov. 28, 2025. Bloomberg U.S. Aggregate Corporate Bond Index.

<sup>31</sup> Greenstreet, September 2025.

<sup>32</sup> MSCI US REIT Index as of Dec. 7, 2025. Conversely, the P/E ratio was 16.9x earnings versus the 10-year average of 17.5x earnings.

<sup>33</sup> New York Federal Reserve, "The Yield Curve as a Leading Indicator", Dec. 4, 2025.

narrowed from 120 bps last year to 99 bps. Narrower credit spreads in the bond market reflect lower risk of credit defaults amongst borrowers. Both indicators provide support for business and consumer spending, which underpins real estate tenant demand.

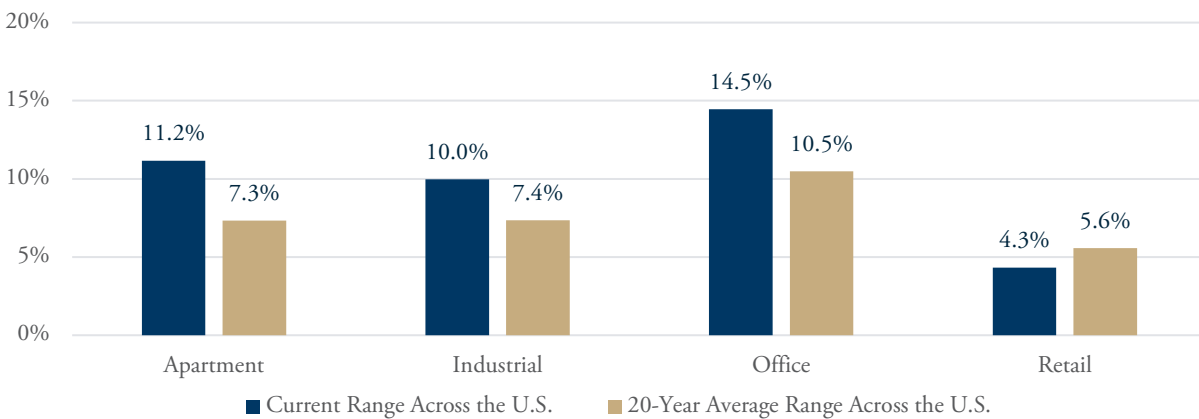
Second, with less new construction starts for a range of property sectors, commercial construction as a share of GDP has narrowed slightly over the last year to 2.4%. Less new supply and stable tenant demand is a positive signal for occupancy and rents.

Third, NCREIF valuation cap rates remain within a range of their 20-year average at 4.6% and equal to their 10-year average. As mentioned earlier, though, the income yield risk premium, or spread-to-Treasury yields, remains below average for held assets, but that premium looks more attractive in the transaction market.

Fourth, while lending activity has increased, the amount of mortgage debt outstanding as a share of GDP (12.8%) and real estate loan growth by banks (1.2%) are both below their 20-year averages. This is a sign that the asset class does not appear overleveraged. When these conditions existed in the past, private real estate returns over the ensuing five years were typically above average.

Given the dispersion in real estate fundamentals across the U.S. there may be a greater opportunity to generate outperformance by focusing on the relative conditions across markets and sectors. Exhibit 7 compares the current range of occupancy rates across markets compared to the average range between 2004 and 2025. The 20-year range of occupancy rates across cities averaged 7.3% for multifamily and industrial, 10.5% for office and 5.6% for retail.

**Exhibit 7: Wider Range of Occupancy Across Cities Reflect a Bifurcated Market<sup>34</sup>**



Today, those ranges have widened except for retail. In the case of multifamily, the range is 11%, while the range of occupancy rates for industrial is 10%. The dispersion for the office market is much greater at 14.5%. The retail market stands out today as the range of occupancy rates is narrower and above 93% for all the markets we cover. When we factor in cap rates, new supply, and rent growth alongside occupancy, we can more easily distinguish markets to favor as described in the sections below.

<sup>34</sup> CoStar September 2025. The range reflects the difference in occupancy rates in across the markets we cover (as described in the conclusion tables) and averaged over the last 20-years, 2004-2025.

## Real Estate Investment Strategy 2026

Our proposed strategy is driven by a couple of key themes. First, with fewer interest rate cuts in 2026, we expect limited cap rate compression to lift total returns. Instead, better relative performance can typically be achieved by investing in cities that have relatively higher income yields, above-average occupancy, below-average new construction, and better job growth. Maintaining controls on expenses can enhance net operating income. This may be achieved in sectors and assets that have lower tenant acquisition costs and lower capital expenses such as multifamily, industrial, manufactured housing and retail.

For each of the major property sectors, we show the cities we expect to outperform over the next 2-3 years in the appendix. For non-core strategies focused on renovation and development, better results can be achieved when new buildings are delivered into a rising market as evidenced by rising and equilibrium occupancy rates.

## Industrial – Normalizing

Industrial market conditions are stabilizing following two years of rapid supply expansion and shifting occupier behavior. While demand has moderated since its peak, the sector is positioned for durable performance due to less new supply, growth in e-commerce, near-shoring, and greater domestic manufacturing.

High GDP growth and rising business inventories underscore a resilient economic backdrop.<sup>35</sup> E-commerce captured 16.3% of total retail sales.<sup>36</sup> This matches its pandemic-era high and reflects the emergence of omni-channel distribution as local retail stores also serve as fulfillment centers. These macro drivers continue to support a steady baseline of industrial tenant demand.

Industrial supply growth has reverted to its long-term average. After peaking in 2023 at 2.9% of inventory, representing 526 million square feet (“MSF”), new deliveries declined 51% to 255 MSF, representing 1.3% of total inventory, equal to its 20-year average.<sup>37</sup> Also, with new starts declining 59% from their peak in 2022 to 253 MSF, deliveries are expected to fall sharply to 147 MSF, representing 0.8% of inventory through 2026.<sup>38</sup>

Given uncertainty over tariffs and trade policy, tenant demand (net absorption) softened to 112 MSF and was well below its peak of 534 MSF in 2022.<sup>39</sup> In turn, national vacancy rose modestly to 7.4% in Q3 2025, while asking rent growth decelerated to 1.7%.<sup>40</sup> As the volatility in tariff policy subsides in 2026, we expect higher net absorption.

Despite lower net absorption in 2025, it appears tenants are consolidating into modern, highly efficient facilities. For example, buildings built since 2020 captured 794 MSF of net absorption over the last three years, compared to older buildings, which saw negative net absorption of -234 MSF.<sup>41</sup>

<sup>35</sup> Manufacturers and trade inventories were up 1.1% year-over-year to \$2.6 trillion in August 2025, according to the U.S. Census Bureau as of Nov. 25, 2025.

<sup>36</sup> Bureau of Economic Analysis, as of Sept. 26, 2025

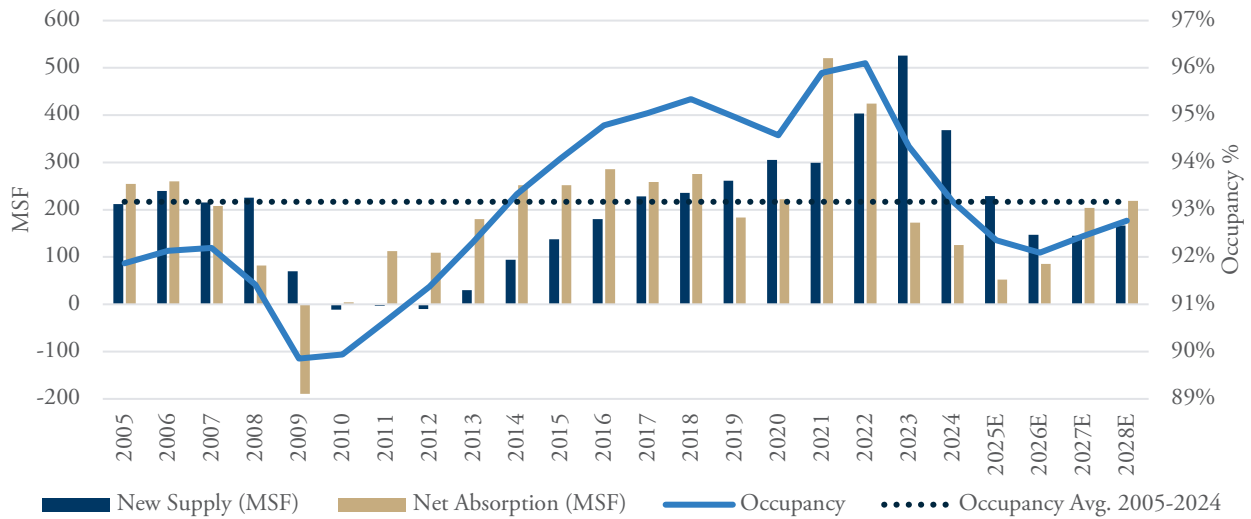
<sup>37</sup> CoStar, Q3 2025

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> Cushman & Wakefield Q3 2025 U.S. Industrial Report reflecting trends from 2023 – Q3 2025.

Exhibit 8: Industrial Fundamentals Stabilizing<sup>42</sup>

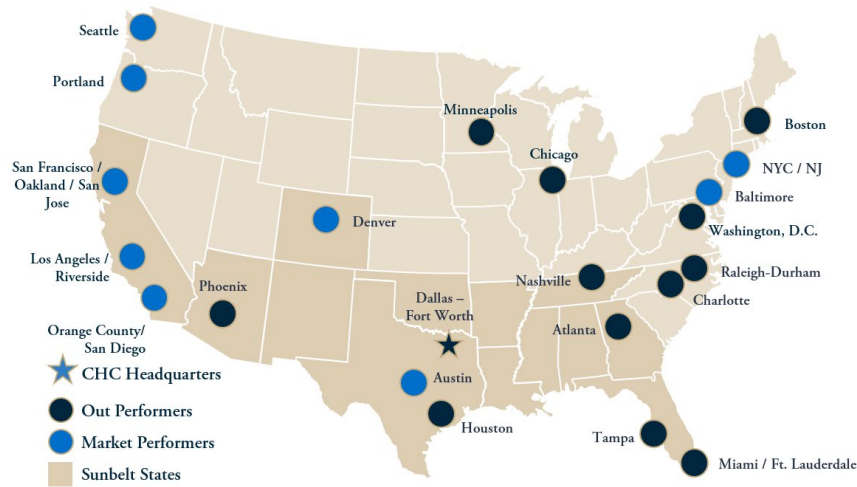
Capital markets remain active but highly selective. Modern, well-located assets with strong credit and functional layouts continue to trade competitively at cap rates of 4.5%-5.0%. Assets lacking functional features or longer-term leases to creditworthy tenants are clearing at wider yields as investors discount obsolescence and lease-up risk.

Performance varies substantially across the U.S. Supply-heavy markets such as Austin face a slower path to equilibrium.<sup>43</sup> By contrast, Charlotte, Nashville, Raleigh, Tampa, Dallas, and Houston exhibit stronger occupancy, balanced supply pipelines, and favorable demographic and employment trends.

For non-core strategies, development opportunities are most attractive in markets expected to regain occupancy equilibrium within the next two to three years. These include markets such as Chicago, Houston, Dallas, and Nashville. Markets with higher excess inventory, such as Los Angeles, the Bay Area, Austin, Miami, Denver, San Diego, and Raleigh, warrant caution. Also, with fewer construction starts, construction costs have declined slightly. When combined with a higher yield-on-cost, we believe there are attractive risk-adjusted return opportunities.

<sup>42</sup> Source: Crow Holdings Research & Strategy using data from CoStar as of September 2025. 2025-2028 reflects Co-Star's estimates. Construction starts in 2025 reflects year-to-date through Sept. 30, 2025, not full year.

<sup>43</sup> Occupancy equilibrium: The analysis compares a market's current occupancy to its 10-year average occupancy. If current occupancy is above average, there is a supply deficit. If occupancy is below average, there is a surplus of supply. The amount of space currently under construction is added to the deficit/surplus to arrive at total stock available for lease. This total availability is divided 10-year average net absorption which indicates the number of years of demand required to lease up space to allow occupancy to rise to its 10-year or "equilibrium" occupancy rate.

Exhibit 9: Industrial Markets' Relative Value<sup>44</sup>

## Residential – Diminishing Supply

**Multifamily:** After two years of elevated deliveries, multifamily fundamentals are beginning to stabilize. While 505,000 new units were delivered in 2025, 481,000 units were absorbed. As a result, occupancy averaged 91.8% through 2025 and slightly below its 20-year average of 93.2%, allowing rents to increase only 0.6%.<sup>45</sup>

Despite below-average occupancy and rent growth, net operating growth (“NOI”) has been resilient due to a decline in some expense categories such as property taxes and insurance. In addition, with tenant retention rates increasing, make-ready expenses have also declined. As reported by NCREIF, NOI grew 3.3% for the year ending 3Q 2025.<sup>46</sup>

Meanwhile, construction starts have fallen sharply, down 56% from their peak in 2022.<sup>47</sup> Looking forward, we expect deliveries of new units are likely to decline to 225,000 units in 2026 and 200,000 units in 2027. As a result, we expect occupancy rates and rents are likely to recover over the next year.<sup>48</sup>

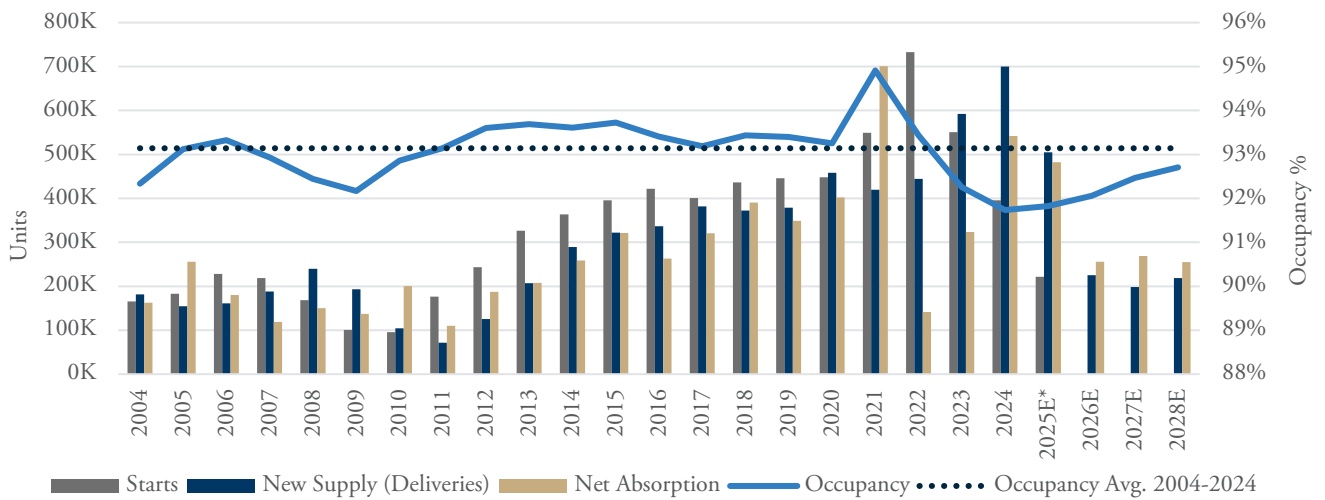
<sup>44</sup> Source: Crow Holdings Capital Research & Strategy, December 2025. These categorizations reflect our views and are subject to change.

<sup>45</sup> CoStar, as of 3Q 2025

<sup>46</sup> NCREIF Trends Report, 3Q 2025

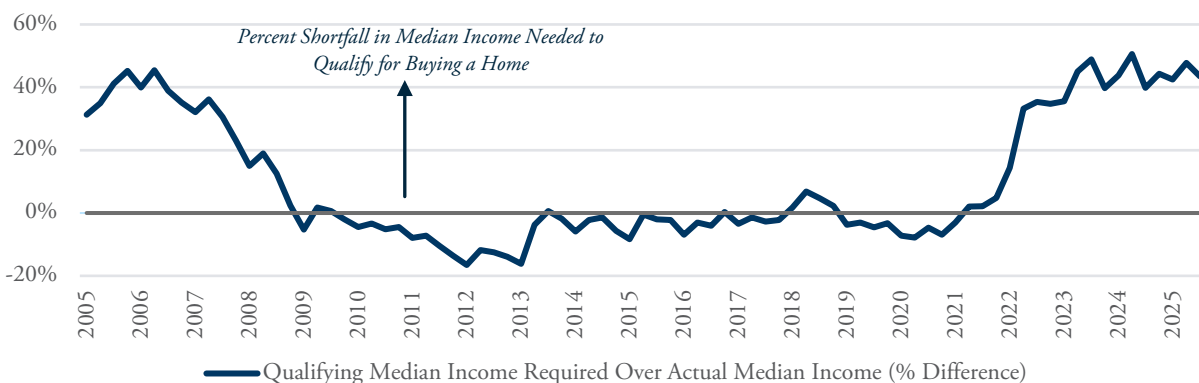
<sup>47</sup> CoStar, as of 3Q 2025. Construction starts have fallen by 56% from a high of 733K units in 2022 to 323K units for the year-ending 3Q 2025.

<sup>48</sup> CoStar forecasts, as of 3Q 2025

**Exhibit 10: Multifamily Supply is Diminishing<sup>49</sup>**

Despite strong tenant demand, several markets in the South are grappling with excess supply and lower occupancy rates leading to elevated concessions in markets such as Raleigh, Charlotte, Nashville, and Phoenix. Conversely, certain coastal markets such as New York and the Bay Area are showing rising occupancy and better rent growth due to less new construction and stable tenant demand.

Affordability remains a key driver of rental demand. Despite mortgage rates easing to 6.4% from 6.7% a year ago,<sup>50</sup> homeownership costs remain prohibitive as median home prices remain high relative to median income. Single-family housing is considered affordable if a homeowner spends less than 30% of their income on housing. Today, with median home prices of \$405,000, the median income required to purchase such a home is \$122,363.<sup>51</sup> Yet, this amount is 43% greater than actual median household income of \$85,000 as of October 2025 (see exhibit 11). Thus, single-family housing remains out-of-reach for many households.

**Exhibit 11: Low Housing Affordability Supports Renter Demand<sup>52</sup>**

<sup>49</sup> Crow Holdings Research & Strategy using data from CoStar as of November 25, 2025. 2025 - 2028 reflects Co-Star's estimate.

<sup>50</sup> Bankrate.com, Sept. 30, 2025.

<sup>51</sup> Federal Reserve bank of Atlanta, Home Ownership Affordability Monitor, October 2025.

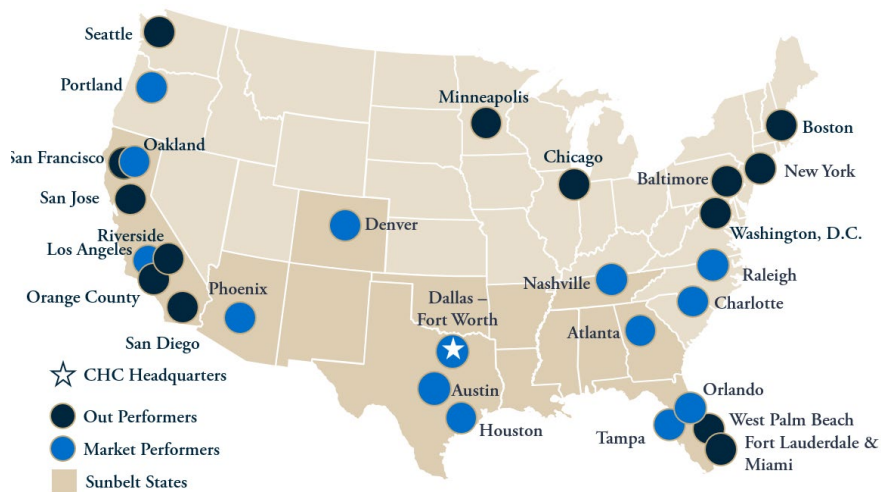
<sup>52</sup> Federal Reserve bank of Atlanta, Home Ownership Affordability Monitor, October 2025. U.S. Census Bureau American Community Survey for median household income.

Given these trends, the homeownership rate declined from 65.7% at the beginning of the year to 65.3% at the end of 3Q 2025.<sup>53</sup> Many may decide to keep renting due to this affordability gap, particularly in higher-quality assets where tenants are trading up to a higher class of property. According to CoStar, Class A occupancy rates increased 1.2% in 2025 compared to Class B and C properties where occupancy rates declined -0.3% and -0.5%, respectively.<sup>54</sup>

We expect performance to vary widely across the U.S. Cities with limited new supply, such as San Francisco, Chicago, West Palm Beach, New York, Orange County, and Boston, are positioned for faster recovery. Elsewhere, despite strong job growth, high-vacancy markets such as Austin, Denver, Nashville, Phoenix, Charlotte, and Raleigh may take longer to absorb excess inventory.

In many cases, assets are trading at a discount to replacement cost. For example, assets in infill locations where there is stable population and employment growth may provide attractive investment opportunities. For non-core strategies, development opportunities appear favorable in markets that are expected to post equilibrium occupancy rates by 2027, including Chicago, the Bay Area, Houston, Seattle, Orange County, Raleigh, and West Palm Beach. In the short run, we are more selective developing in those markets that currently have an excess inventory such as Austin, Denver, Fort Lauderdale, Los Angeles, Miami, and Tampa. Assuming tenant demand remains favorable in these markets, we expect a more favorable climate to deliver new units starting in 2027 and 2028.

Exhibit 12: Multifamily Market Relative Value<sup>55</sup>



**Manufactured Housing:** The sector continues to deliver solid performance, supported by persistent supply shortages and housing affordability issues. With high zoning restrictions, supply growth is less than 0.1% of inventory annually over the last decade. At the same time, demand remains robust as households seek lower-cost alternatives to single-family homes and apartments. Occupancy reached 94.8% in 2024, and pad rents grew 7.1%,<sup>56</sup> reflecting strong fundamentals. Investors can also create value by addressing deferred maintenance, improving amenities such as playgrounds and community centers, and upgrading infrastructure. When executed in cooperation with the tenants, such improvements can add value for both the tenant homeowner and the investor.

<sup>53</sup> U.S. Census Bureau for 3Q 2025, released Dec. 12, 2025.

<sup>54</sup> CoStar as of December 2025.

<sup>55</sup> Source: Crow Holdings Capital Research & Strategy, November 2025 using data from CoStar and NCREIF as of 3Q 2025.

<sup>56</sup> Datacomp, as of Dec. 31, 2024

With constrained supply, stable demand, and the need for affordable housing, we expect favorable investment performance.

**Student Housing:** Performance in student housing varies widely. Tier 1 universities<sup>57</sup> remain resilient, posting 3.8% enrollment growth for the 2025/26 leasing cycle, with occupancy at 92.3% and rents up 2.9%.<sup>58</sup> In contrast, Tier 3 schools (<10,000 students) saw enrollment decline 3.3% and occupancy fall to 84.9%, yet rents rose 7.5% due to limited new development.<sup>59</sup>

Supply growth has slowed sharply, averaging 33,000 beds annually since 2021 versus 50,000 per year during the prior 2010s cycle.<sup>60</sup> Deliveries in Fall 2025 totaled 26,000 beds across the top 175 universities, down 25.7% year-over-year.<sup>61</sup> We favor student housing properties serving Tier 1 universities in high population growth states such as Florida, South Carolina, Texas and Tennessee, where enrollment trends remain strong.

## Retail – Strengthening

Retail fundamentals are improving, supported by limited new supply and resilient consumer spending. After years of e-commerce disruption, brick-and-mortar retail is regaining momentum. Entry cap rates remain attractive relative to other property types, and low construction activity sets the stage for higher income.

Consumers are in a strong financial position. Wage growth reached 3.8% in September 2025,<sup>62</sup> household net worth rose 6.3% year-over-year to \$167.3 trillion,<sup>63</sup> and retail sales advanced 4.3%.<sup>64</sup> These trends underpin healthy retail tenant demand.

Occupancy stands at 95.7% as of 3Q 2025, near its 10-year average, while rents grew 2.3% year-over-year.<sup>65</sup> Supply remains constrained, with starts at 0.4% of inventory and deliveries at 0.2%, both below historical norms.<sup>66</sup> Leasing activity accelerated in 3Q 2025, led by smaller-format and freestanding spaces.<sup>67</sup>

<sup>57</sup> Tier 1 universities are large, high-demand institutions with 25,000+ enrolled students, typically flagship or major public universities with growing enrollment, strong housing demand, and stable or rising pre-leasing velocity. Some examples are University of Florida, Texas A&M, Ohio State, Arizona State, and University of Washington. Tier 2 universities are mid-sized institutions with 10,000-24,999 students, such as University of Nevada – Reno, Boise State, University of North Texas and UNC-Charlotte. Tier 3 universities are small institutions with fewer than 10,000 students, such as Rensselaer Polytechnic Institute (RPI), Texas A&M – Corpus Christi, College of Charleston, and Georgia State University.

<sup>58</sup> College House National Student Housing Report, 2025-26 Leasing Cycle.

<sup>59</sup> Ibid.

<sup>60</sup> RealPage. (n.d.). *2025 supply leaders — Student housing*. RealPage. <https://www.realpage.com/analytics/2025-supply-leaders-student-housing>

<sup>61</sup> Ibid.

<sup>62</sup> Bureau of Labor Statistics, average hourly earnings

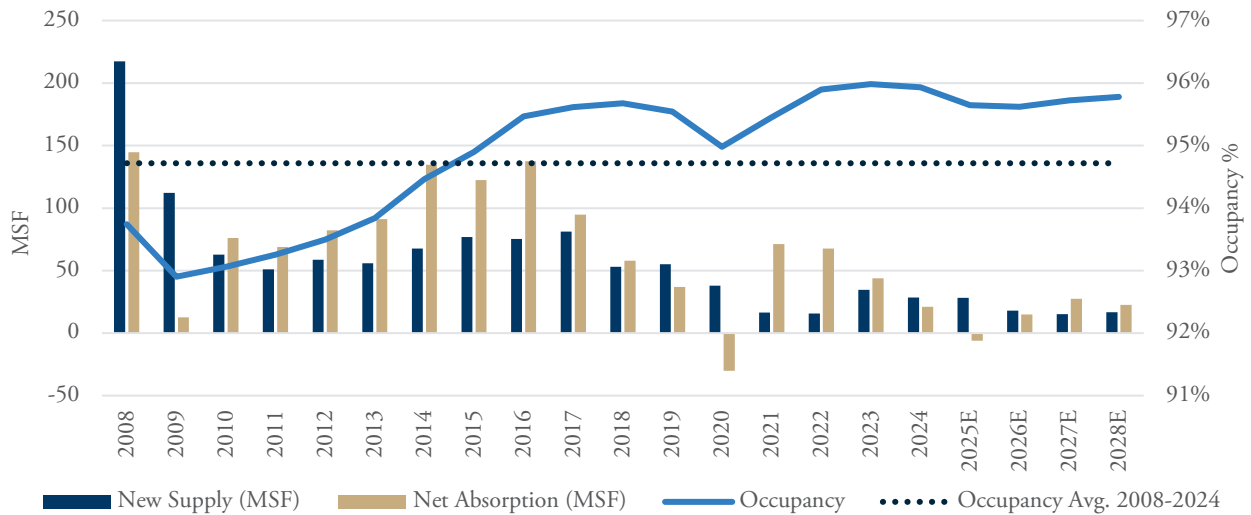
<sup>63</sup> Federal Reserve, Flow of Funds, as of June 30, 2025

<sup>64</sup> U.S. Census Bureau

<sup>65</sup> CoStar

<sup>66</sup> Ibid.

<sup>67</sup> Ibid.

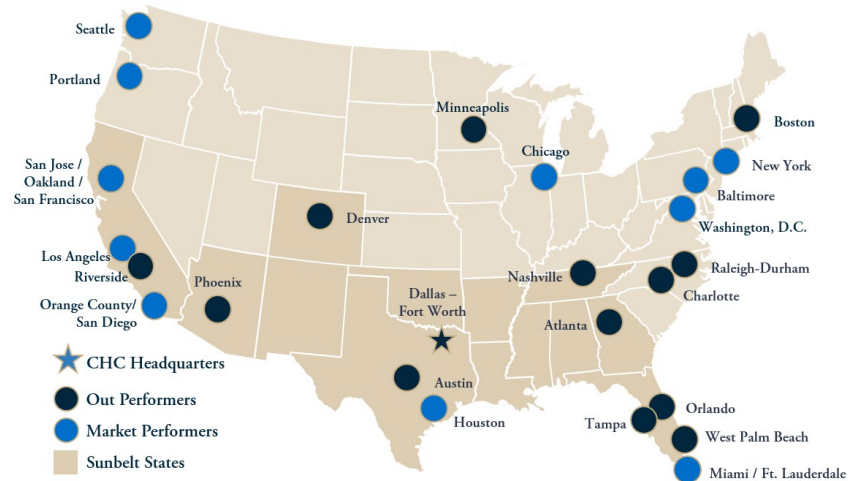
Exhibit 13: Retail – High Occupancy & Limited New Construction Supports Rent Growth<sup>68</sup>

Several cities may provide positive investment opportunities because they have high occupancy rates, low new construction, positive in-migration, and stable employment growth, namely, Charlotte, Phoenix, Atlanta, Raleigh, Nashville, Tampa, and Dallas. Conversely, caution is warranted in Portland, Baltimore, Seattle, Los Angeles, and the Bay Area due to weaker relative real estate fundamentals.

For non-core investors, development opportunities exist in several undersupplied markets, including Atlanta, Phoenix, Tampa, Charlotte, and Raleigh. Active management remains critical, with opportunities to recapture space to capitalize on wide re-leasing spreads. We estimate re-leasing spreads can be 9-10% for neighborhood centers<sup>69</sup> and higher for spaces less than 5,000 SF which comprise more than 75% of all leases.

<sup>68</sup> Source: Crow Holdings Research & Strategy using data from CoStar as of September 2025. 2025-2028 reflects Co-Star's estimates.

<sup>69</sup> CoStar, neighborhood centers market asking rent data, as of 3Q2025. Potential re-leasing spreads are calculated by averaging the market asking rents over the past five years and comparing against current market rents.

Exhibit 14: Retail Market Relative Value<sup>70</sup>

## Office – Building Specific Focus

Office fundamentals continue to lag, with occupancy near historic lows and rent growth muted. Net absorption is expected to turn slightly positive in 2025 after five years of declines, but recovery remains slow. Occupancy stands at 86%, well below its 20-year average, and rents grew just 0.7% year-over-year, compared to a long-term average of 2.1%.<sup>71</sup>

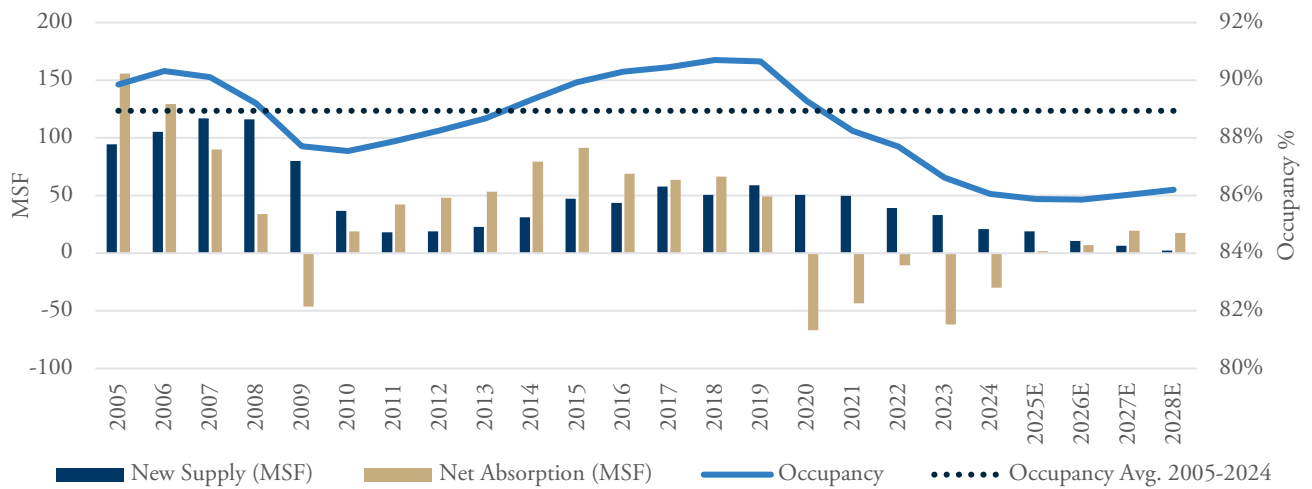
Remote work persists, limiting demand for traditional office space. Kastle's Back-to-Work Barometer improved during 2025 but remains at only half of pre-pandemic norms, underscoring structural shifts in workplace behavior.<sup>72</sup>

<sup>70</sup> Source: Crow Holdings Capital Research & Strategy, November 2025. These categorizations reflect the views and opinions of Crow Holdings Capital Research & Strategy and should not be viewed as investment advice and are subject to change.

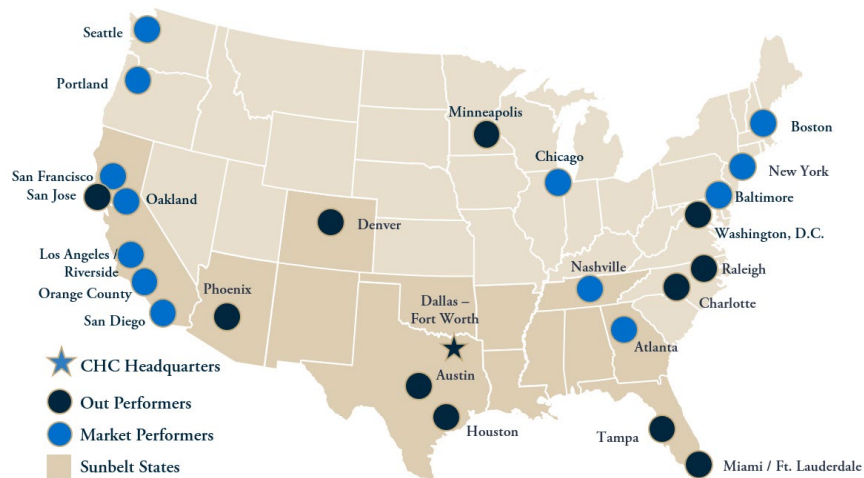
<sup>71</sup> CoStar, as of 3Q 2025.

<sup>72</sup> Source: Kastle through Bloomberg, as of Dec. 1, 2025

Exhibit 15: Office Occupancy Remains Near Historic Lows



The office market is sharply bifurcated. Prime assets continue to attract tenants, recording 68.5 MSF of positive absorption since 2020, while non-prime space faces prolonged weakness with 158.5 MSF of negative absorption.<sup>73</sup> Thus, investing in office properties carries high idiosyncratic risk. Outcomes are building-specific, and capital expenditure requirements can be substantial, often representing a significant share of acquisition costs. Thus, it is essential for investors to require significant discounts to replacement costs.

Exhibit 16: Office Market Relative Value<sup>74</sup>

<sup>73</sup> CBRE 3Q 2025 Office Report

<sup>74</sup> Source: Crow Holdings Capital Research & Strategy, December 2025. These categorizations reflect the views and opinions of Crow Holdings Capital Research & Strategy and should not be viewed as investment advice and are subject to change. The above information has been obtained from sources considered to be reliable; the information is believed to be accurate but is not guaranteed and is for informational purposes only and should not be viewed as investment advice.

## Conclusion

The outlook for private real estate investment in 2026 appears more favorable, absent unforeseen economic shocks. The risk of a recession is low, interest rates have reset, and assets can be acquired at a favorable spread compared to the 10-year U.S. Treasury yield. New construction has slowed considerably, and landlords have an opportunity to recapture space at lower in-place rates and lease space at higher market rents, particularly in industrial and retail space. Single-family housing affordability also remains out-of-reach for many households, which supports sustained demand for multifamily investments.

Still, the real estate market fundamentals vary significantly across the U.S. However, a bifurcated market can provide investors with clear signals on relative value. As provided in the exhibits below, cities and sectors that have higher occupancy, less new construction and more resilient tenant demand provide a foundation for better relative results.

## RANGE KEY

Above Average / Strong

Below Average / Weak

Exhibit 17: Apartment Market Relative Ranking

Apartment Market							
City	NPI Index Weight	NPI Income Yield 3Q25	Job Growth 3Q25	Household Growth 3Q25	Occupancy 3Q25 Less 20-Year Average	Inventory Growth 3Q25 Less 20-Year Average	Rent Growth 3Q25
Chicago	4.5%	5.1%	0.2%	0.3%	2.2%	-0.3%	3.9%
San Francisco	2.6%	4.0%	-0.3%	1.4%	1.1%	-0.3%	6.3%
San Jose	1.7%	4.6%	0.3%	1.1%	0.2%	1.1%	3.9%
West Palm Beach	1.8%	4.8%	1.1%	1.5%	0.5%	-1.4%	1.2%
New York	7.4%	4.6%	1.2%	1.3%	0.0%	1.2%	2.4%
Orange County	2.4%	4.6%	0.2%	0.4%	0.7%	-0.6%	1.5%
Minneapolis	0.6%	4.6%	0.8%	0.9%	-0.4%	0.0%	2.6%
Riverside	1.3%	4.8%	0.7%	0.9%	-0.7%	1.0%	0.4%
Seattle	4.9%	4.5%	0.6%	1.4%	-1.0%	0.6%	1.5%
Ft Lauderdale	2.0%	4.9%	0.8%	0.9%	-1.1%	1.0%	0.2%
Baltimore	0.4%	5.1%	0.6%	0.5%	-1.2%	-0.8%	1.3%
San Diego	2.8%	4.5%	1.0%	0.7%	-0.9%	1.1%	0.4%
Boston	3.0%	4.3%	0.4%	1.0%	-1.1%	0.6%	0.8%
Washington DC	6.9%	4.6%	0.1%	1.0%	-1.3%	0.5%	-0.2%
Miami	2.4%	4.9%	1.3%	0.8%	-2.1%	2.4%	0.2%
NPI Apartments	85.8%	4.5%	0.9%	0.7%	-1.5%	1.0%	0.6%
Los Angeles	5.1%	4.2%	0.2%	0.3%	-0.7%	0.3%	0.5%
Oakland	1.4%	3.9%	-0.3%	1.0%	-1.1%	-0.2%	1.5%
Houston	2.7%	4.8%	1.4%	1.6%	-2.2%	0.3%	-0.7%
Tampa	1.6%	4.8%	1.0%	1.3%	-2.7%	1.4%	0.1%
Portland	1.3%	4.5%	-0.6%	0.7%	-1.6%	0.1%	-0.3%
Orlando	1.9%	4.5%	1.4%	1.8%	-2.9%	1.2%	-1.3%
Atlanta	5.4%	4.2%	0.4%	0.9%	-2.5%	1.6%	-0.1%
Raleigh	1.3%	4.1%	1.5%	1.9%	-3.0%	2.0%	-1.5%
Dallas	6.0%	4.3%	1.1%	1.4%	-3.2%	1.5%	-1.7%
Charlotte	2.1%	4.2%	2.4%	1.9%	-4.0%	3.5%	-1.5%
Phoenix	2.6%	4.4%	1.4%	1.5%	-3.7%	3.5%	-3.2%
Nashville	1.1%	4.3%	0.9%	1.4%	-3.8%	1.2%	-1.3%
Denver	5.0%	4.1%	0.2%	0.9%	-4.3%	1.3%	-4.1%
Austin	3.5%	3.9%	1.1%	2.0%	-6.0%	2.2%	-3.9%

Exhibit 18: Industrial Market Relative Ranking

Industrial Market							
City	NPI Index Weight	NPI Income Yield 3Q25	Job Growth 3Q25	Household Growth 3Q25	Occupancy 3Q25 Less 20-Year Average	Inventory Growth 3Q25 Less 20-Year Average	Rent Growth 3Q25
Charlotte	1.4%	3.4%	2.4%	1.9%	-1.5%	1.6%	6.3%
Washington DC	1.2%	3.9%	0.1%	1.0%	2.2%	1.0%	5.8%
Nashville	1.3%	4.5%	0.9%	1.4%	0.3%	-0.6%	3.7%
Raleigh	0.2%	4.2%	1.5%	1.9%	-1.2%	1.5%	3.7%
Minneapolis	0.2%	5.0%	0.8%	0.9%	0.9%	0.0%	4.4%
Tampa	0.6%	4.3%	1.0%	1.3%	-0.9%	1.0%	5.0%
Houston	2.0%	5.1%	1.4%	1.6%	-1.3%	-0.3%	4.0%
Chicago	5.1%	4.6%	0.2%	0.3%	1.8%	-0.2%	3.5%
Dallas	4.5%	4.6%	1.1%	1.4%	-1.3%	-0.8%	4.5%
Ft Lauderdale	1.2%	4.2%	0.8%	0.9%	-0.2%	-0.6%	2.6%
Phoenix	2.1%	4.5%	1.4%	1.5%	-2.9%	1.7%	4.8%
Boston	1.0%	4.1%	0.4%	1.0%	-0.4%	0.5%	2.9%
Atlanta	3.7%	4.3%	0.4%	0.9%	0.0%	0.0%	1.7%
Miami	3.5%	3.8%	1.3%	0.8%	-1.3%	0.1%	2.6%
NPI Industrial	73.2%	4.1%	0.9%	0.7%	-0.6%	0.1%	1.7%
Baltimore	1.8%	3.9%	0.6%	0.5%	0.3%	-0.4%	0.0%
New York	8.0%	3.7%	1.2%	1.3%	-1.9%	0.8%	0.2%
San Jose	0.6%	4.6%	0.3%	1.1%	0.1%	1.2%	-1.4%
Portland	1.4%	4.7%	-0.6%	0.7%	-1.1%	0.1%	1.3%
Oakland	3.0%	4.2%	-0.3%	1.0%	-1.8%	0.0%	0.3%
Seattle	2.6%	4.1%	0.6%	1.4%	-3.2%	0.2%	0.1%
Denver	1.4%	4.4%	0.2%	0.9%	-2.2%	-0.3%	-0.8%
San Diego	1.4%	4.2%	1.0%	0.7%	-2.6%	1.0%	-1.2%
Austin	0.8%	4.7%	1.1%	2.0%	-5.3%	3.5%	-1.3%
Orange County	2.9%	3.8%	0.2%	0.4%	-2.2%	0.5%	-1.2%
Riverside	12.4%	3.6%	0.7%	0.9%	-2.5%	-1.7%	-4.9%
Los Angeles	8.2%	3.5%	0.2%	0.3%	-2.7%	0.4%	-4.3%
San Francisco	0.6%	4.8%	-0.3%	1.4%	-6.7%	1.9%	0.4%

Exhibit 19: Retail Market Relative Ranking

Retail Market							
City	NPI Index Weight	NPI Income Yield 3Q25	Job Growth 3Q25	Household Growth 3Q25	Occupancy 3Q25 Less 20-Year Average	Inventory Growth 3Q25 Less 20-Year Average	Rent Growth 3Q25
Charlotte	0.8%	6.8%	2.4%	1.9%	1.9%	-0.8%	6.2%
Phoenix	3.5%	5.4%	1.4%	1.5%	3.2%	-1.0%	4.3%
Atlanta	2.5%	5.7%	0.4%	0.9%	2.4%	-0.7%	4.3%
Raleigh	1.3%	5.6%	1.5%	1.9%	2.1%	-0.9%	8.2%
Nashville	0.2%	6.5%	0.9%	1.4%	1.1%	-0.6%	4.6%
Minneapolis	1.1%	6.3%	0.8%	0.9%	1.2%	-0.6%	3.8%
Tampa	1.3%	5.8%	1.0%	1.3%	1.5%	-0.5%	5.0%
Dallas	2.2%	6.0%	1.1%	1.4%	1.3%	-0.6%	3.9%
Riverside	2.1%	6.6%	0.7%	0.9%	0.6%	-0.5%	-0.4%
Austin	1.9%	5.8%	1.1%	2.0%	1.6%	-0.6%	1.1%
Denver	1.1%	5.8%	0.2%	0.9%	1.2%	-1.1%	3.7%
Boston	0.7%	5.8%	0.4%	1.0%	0.8%	-0.5%	2.8%
NPI Retail	65.8%	5.6%	0.9%	0.7%	1.0%	-0.3%	1.9%
Chicago	4.8%	5.1%	0.2%	0.3%	1.6%	-0.8%	1.5%
Seattle	2.3%	5.8%	0.6%	1.4%	0.3%	-0.5%	4.4%
Fort Lauderdale	0.6%	5.7%	0.8%	0.9%	1.0%	-0.8%	1.1%
Orange County	2.5%	5.1%	0.2%	0.4%	0.7%	-0.3%	1.9%
Miami	2.0%	5.7%	1.3%	0.8%	0.5%	-0.6%	1.8%
Portland	1.2%	5.9%	-0.6%	0.7%	0.1%	-0.2%	-1.0%
New York	3.1%	5.3%	1.2%	1.3%	0.5%	-0.3%	1.9%
Houston	6.0%	5.5%	1.4%	1.6%	0.6%	-1.0%	1.6%
Washington DC	5.5%	5.3%	0.1%	1.0%	0.4%	-1.0%	2.4%
San Diego	5.4%	5.5%	1.0%	0.7%	0.0%	-0.4%	0.7%
Baltimore	1.7%	5.8%	0.6%	0.5%	-0.2%	-0.5%	-1.1%
San Jose	2.9%	4.8%	0.3%	1.1%	0.0%	-0.3%	2.9%
Oakland	2.9%	5.4%	-0.3%	1.0%	-1.0%	-0.2%	-1.2%
Los Angeles	5.3%	5.5%	0.2%	0.3%	-1.3%	-0.3%	-1.1%
San Francisco	1.0%	3.1%	-0.3%	1.4%	-2.4%	0.1%	-0.7%

Exhibit 20: Office Market Relative Ranking

Office Market						
	NPI Index Weight	NPI Income Yield 3Q25	Job Growth 3Q25	Occupancy 3Q25 Less 20-Year Average	Inventory Growth 3Q25 Less 20-Year Average	Rent Growth 3Q25
Phoenix	0.6%	6.1%	1.4%	-1.1%	-1.5%	2.7%
Miami	1.1%	5.4%	1.3%	1.1%	-1.0%	3.2%
Tampa	0.9%	6.6%	1.0%	0.2%	-0.6%	3.3%
Raleigh	0.7%	6.4%	1.5%	-2.7%	-1.1%	1.4%
Fort Lauderdale	0.3%	7.2%	0.8%	-0.8%	-0.6%	1.7%
Charlotte	0.8%	6.5%	2.4%	-4.0%	-0.6%	0.9%
San Jose	3.4%	7.3%	0.3%	-4.7%	-1.1%	2.4%
Minneapolis	0.6%	7.3%	0.8%	-3.1%	-0.5%	1.6%
Dallas	2.3%	5.6%	1.1%	-2.2%	-0.5%	2.0%
Houston	3.2%	5.6%	1.4%	-5.3%	-1.0%	1.3%
Austin	2.3%	7.2%	1.1%	-5.8%	-0.9%	0.6%
Washington DC	8.3%	6.4%	0.1%	-4.5%	-1.3%	1.3%
Denver	2.2%	6.8%	0.2%	-5.4%	-1.2%	1.1%
NPI Office	84.3%	5.9%	0.9%	-2.9%	-0.5%	0.7%
Orange County	1.5%	6.6%	0.2%	-1.2%	-0.7%	-0.8%
Portland	0.6%	8.9%	-0.6%	-5.6%	-0.3%	1.6%
Nashville	0.7%	6.3%	0.9%	-3.4%	0.0%	1.0%
Atlanta	1.8%	5.7%	0.4%	-3.2%	-0.5%	1.2%
Baltimore	0.2%	6.2%	0.6%	-1.3%	-0.2%	-0.2%
Los Angeles	7.7%	6.6%	0.2%	-5.0%	-0.6%	-0.4%
San Diego	2.7%	5.6%	1.0%	-2.1%	0.3%	0.1%
Seattle	4.8%	5.9%	0.6%	-7.7%	-1.0%	-0.6%
Oakland	1.9%	5.5%	-0.3%	-5.0%	-0.4%	1.0%
New York	12.6%	4.9%	1.2%	-4.0%	0.2%	0.1%
Chicago	4.7%	4.2%	0.2%	-3.4%	-0.6%	-0.6%
Boston	8.3%	5.5%	0.4%	-5.5%	1.0%	0.7%
San Francisco	10.0%	5.9%	-0.3%	-11.8%	-0.4%	0.0%