



2026 Outlook

# A New Cycle for Commercial Real Estate



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## Executive Summary

Our outlook for 2026 reflects continued resiliency in the U.S. economy amid labor constraints and waning productivity – the two main components of gross domestic product (GDP). While employment growth is expected to contribute minimally to GDP, productivity gains, particularly from Artificial Intelligence (AI) adoption, are poised to play a critical role in sustaining economic expansion.

At the same time, we believe commercial real estate is entering a new cycle, characterized by improving transaction volumes, stabilizing cap rates, and renewed investor confidence as market conditions settle and capital flows return. This transition signals a shift from the recent period of uncertainty toward a phase of gradual recovery and opportunity for those with a long-term investment horizon.

### Macroeconomic Trends

- Real GDP growth grew at an annual rate of 4.3% in Q3 2025, with projections for the full year coming in around 2.0%.
- Inflationary pressures remain slightly elevated above the Fed's 2.0% target.
- Interest rates are expected to trend lower at the short end of the yield curve, as the Fed favors the labor market weakness over slight inflation pressure.
- We expect the long end of the yield curve to remain stable to slightly down, reflecting muted growth and long-term inflation expectations.
- Although real wages are moving upward and outpacing inflation, consumer confidence remains weak.

### Commercial Real Estate Highlights

- Rising values look to be signaling the start of a new positive cycle for commercial real estate.
- Gradual recovery of transaction volumes expected as interest rates decline and market stability improves.
- Lower rates and increased investor interest are expected to tighten cap rates.
- Strong fundamentals remain across several alternative real estate sectors, positioning them for a potential increase of capital in 2026.
- Demographic and macroeconomic tailwinds are expected to drive performance of various sectors including senior housing, medical outpatient buildings, self-storage, and residential (including multifamily and build-to-rent), among others.
- We believe valuations have bottomed out, creating a favorable entry point for those with a long-term investment horizon.

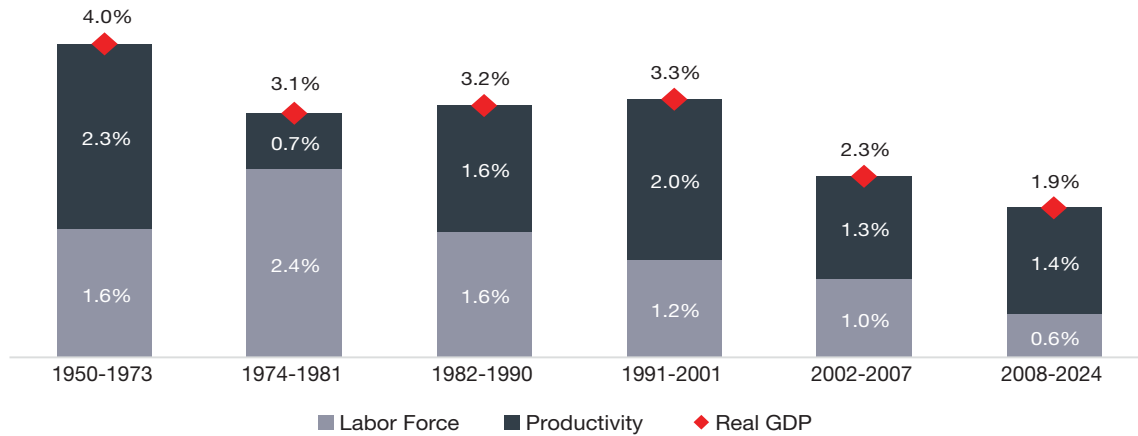
## Macroeconomic Conditions

### GDP Growth

Real GDP grew at an annual rate of 4.3 percent in Q3 2025,<sup>1</sup> displaying the continued resiliency of the U.S. economy. With earlier softness in GDP growth, 2025 is expected to come in around 2.0 percent. Our outlook for 2026 GDP will likely hinge on two factors: **(1)** the impact of lower taxes in 2026 and **(2)** the extent to which the AI boom creates outsized productivity gains. We expect weak employment growth, creating a heavy reliance on productivity growth in coming years.

Breaking down real GDP into its two components (employment growth and productivity growth) provides insight into performance attribution to better understand where growth is coming from.

**Average Annual Real GDP Growth by Expansion Cycle<sup>2</sup>**



### Employment Growth

Assuming a 5.0 percent unemployment rate, employment is projected to contribute an annual rate of just 0.2 percent through 2034 to real GDP growth compared to 1.7 percent since 1948.<sup>3</sup> Assuming Bureau of Labor Statistics labor force projections are directionally correct, employment will likely contribute just a small fraction toward GDP growth compared to historical norms. This puts the burden squarely on the shoulders of productivity gains to create economic growth. Even under very low unemployment scenarios, employment growth would only account for a quarter or less of its historical contribution to GDP growth.

**Employment Contribution to GDP Scenarios<sup>4</sup>**

	2034 Unemployment Rate	2034 Unemployment Level	Employment Contribution to Real GDP (CAGR)
Scenario 1	3.0%	169,944	0.4%
Scenario 2	5.0%	166,440	0.2%
Scenario 3	7.0%	162,936	-0.1%

## Productivity Growth

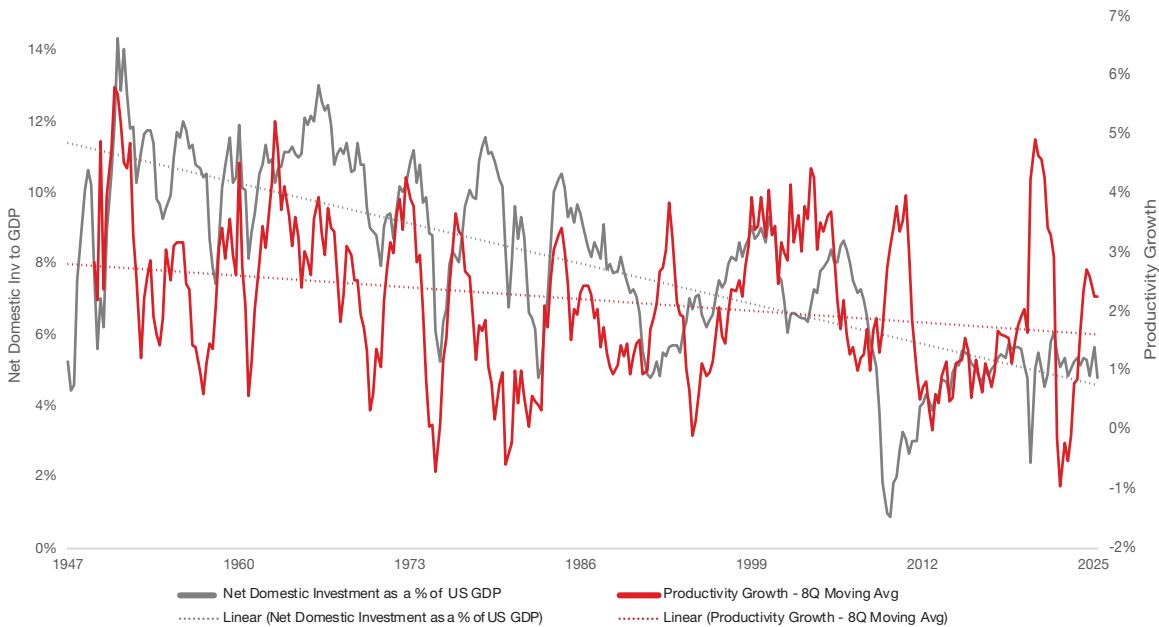
Productivity growth has fallen from 2.3 percent in the post-World War II era to 1.4 percent following the Great Financial Crisis (GFC). This dynamic is fueled by declining net domestic investment alongside the crowding-out pressures of expanding fiscal deficits and mounting debt.

Investment in machinery, equipment, and software, combined with continued education, and entrepreneurial and managerial talent, form the building blocks of productivity growth (a worker with access to and training for operating an excavator will be far more productive than one with a shovel).

The U.S. economy has experienced a prolonged decline in net investment, with productivity gains following suit. However, the boom in both AI spending and reshoring efforts could reverse this trend in a meaningful way.

We are seeing early signs of this productivity boom, with Q3 2025 productivity growing at a blistering annual pace of 4.9 percent,<sup>5</sup> thanks to AI implementation and a big boost in investment, attributable to reshoring/tariff avoidance efforts and the AI/data center buildout. Whether, this is a one-time shot in the arm or a sign of a prolonged trend of higher investment will be critical to watch, in determining if our slow-growth, low-interest rate outlook will hold or need to be rethought.

**Productivity and Net Domestic Investment as a % of GDP<sup>5</sup>**

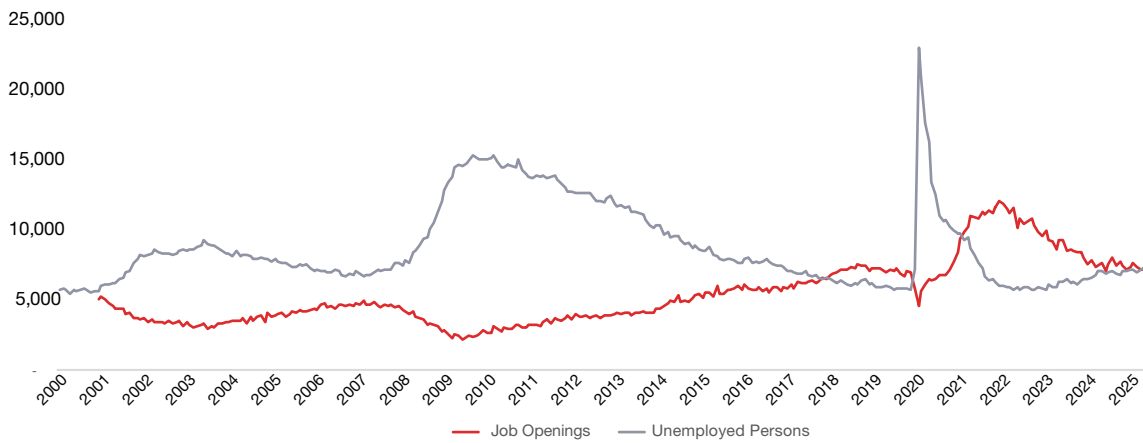


**Should AI deliver the large gains in productivity that many are projecting, we may find that this boost saves the economy from some of the more pessimistic potential outcomes of faltering employment and otherwise weak productivity growth.**

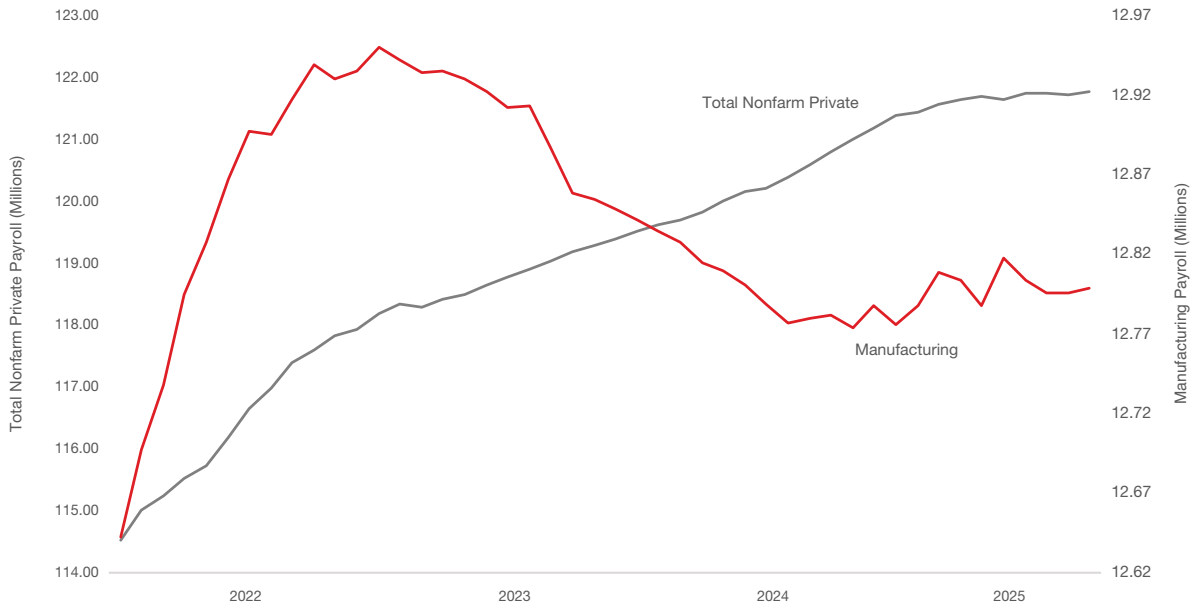
## Labor Market

Although the labor market continues to soften, signs of resiliency continue to peek through. The unemployment rate has risen to 4.4 percent,<sup>6</sup> up from a low of 3.4 percent in 2023. Currently, job openings nearly match the number of unemployed individuals, a sharp contrast from the post-2020 highs when openings were roughly double the number of unemployed workers. This decrease in job openings, combined with an increase in layoffs,<sup>7</sup> has resulted in a climbing unemployment rate displaying the worsened state of the labor market. This is most notable in the manufacturing sector as payrolls have dipped, an indicator that the non-cyclical side of the labor market is softening. Despite this, an unemployment rate of sub-5.0 percent that is gradually rising is still historically low and does not necessarily indicate major downstream issues for the economy.

### Job Openings and Unemployed Persons<sup>8</sup>



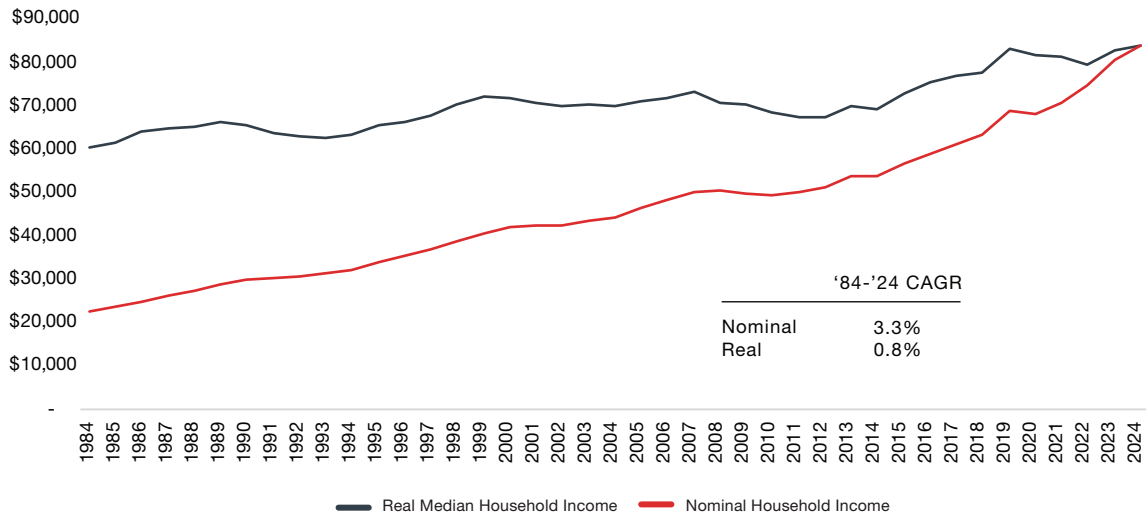
### Manufacturing vs Total Nonfarm Private Payroll<sup>11</sup>



## Wages & Consumer Spending

The strength of the economy is often reflected by the strength of the U.S. consumer. Wages in the U.S. have generally outpaced inflation over the past two decades, aside from the disruptions during the pandemic and the 2022/2023 inflation spike. As we near the end of 2025, the 12-month moving average for inflation is 2.7 percent,<sup>10</sup> whereas wage growth is 4.2 percent.<sup>11</sup> Real wages are moving back in the right direction.

**Real Median Household Income<sup>12</sup>**



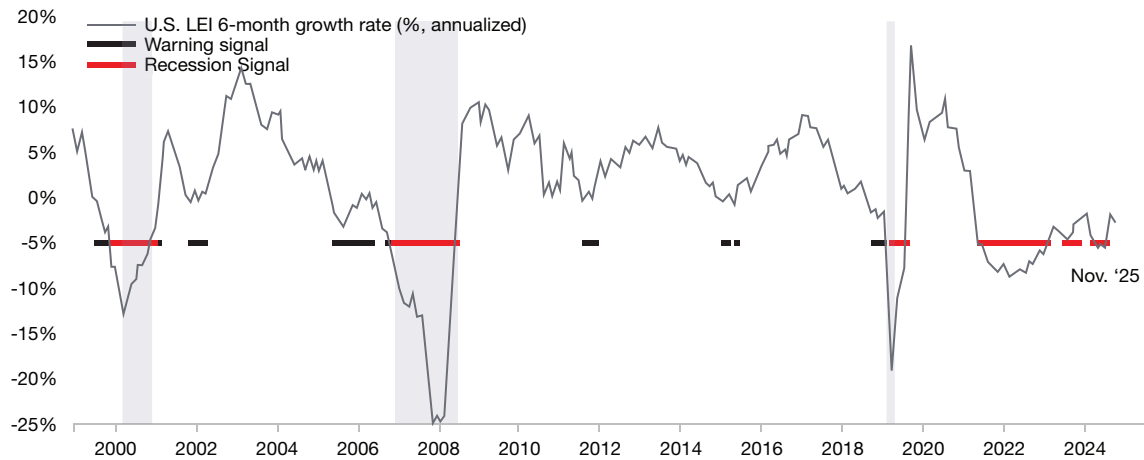
Although consumer confidence remains weak,<sup>13</sup> U.S. consumers continue to spend, with an increasing propensity to use credit. This was on full display during 2025's Cyber Week (Thanksgiving through Cyber Monday), which recorded a record \$44.2 billion in online spending, an increase of 7.7 percent over 2024.<sup>14</sup>

Additionally, this credit proclivity is seen in perpetually rising debt balances, up 2.6 percent from a year ago for non-housing debt.<sup>76</sup> To add to this delinquencies are on the rise, most notably for student loans (given the ending of the student loan moratorium), credit cards, and auto loans. This trend clearly demonstrates a consumer class that is ever-reliant on credit to fund their lives.<sup>15</sup>

## Leading Indicators

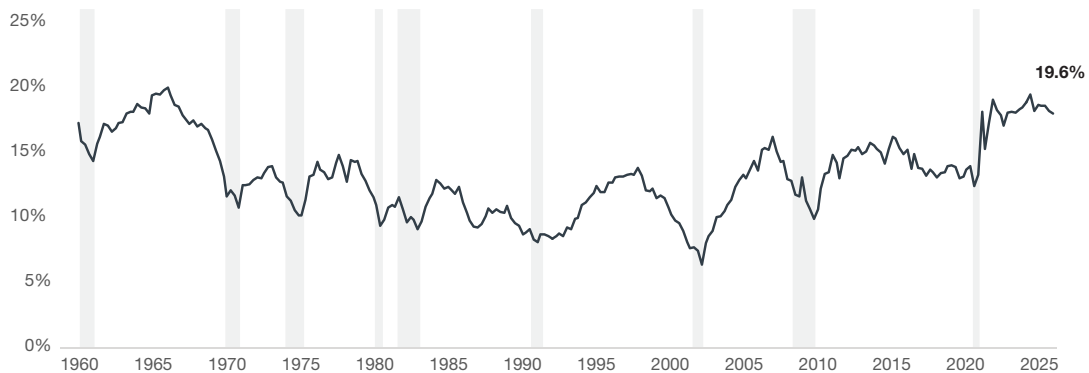
The Conference Board Leading Economic Index (LEI) is a basket of leading indicators spanning employment, housing, and financial markets, among other items. After falling to levels typically associated with recessions in 2022, the LEI has gradually recovered and has been trending upward since November 2025. Its six-month growth rate has also become steadily less negative, avoiding the recession signal in both October and November. Even with these improvements, the index remains below its historically important threshold, underscoring the conflicting signs of a stable but weakening economy.

Leading Economic Index<sup>16</sup>



**Corporations have benefited from unusually high profit margins throughout the post-pandemic recovery. Historically, margins tend to be cyclical and mean-reverting—a hallmark of capitalist economies, where elevated profits draw in new capital, expand supply, and ultimately put downward pressure on prices and margins. Because this dynamic has not yet fully played out, it's important to monitor whether we are entering a structural “new normal” or whether an eventual normalization in margins could trigger additional job cuts and softer consumer demand.**

Corporate Profit Margins<sup>17</sup>

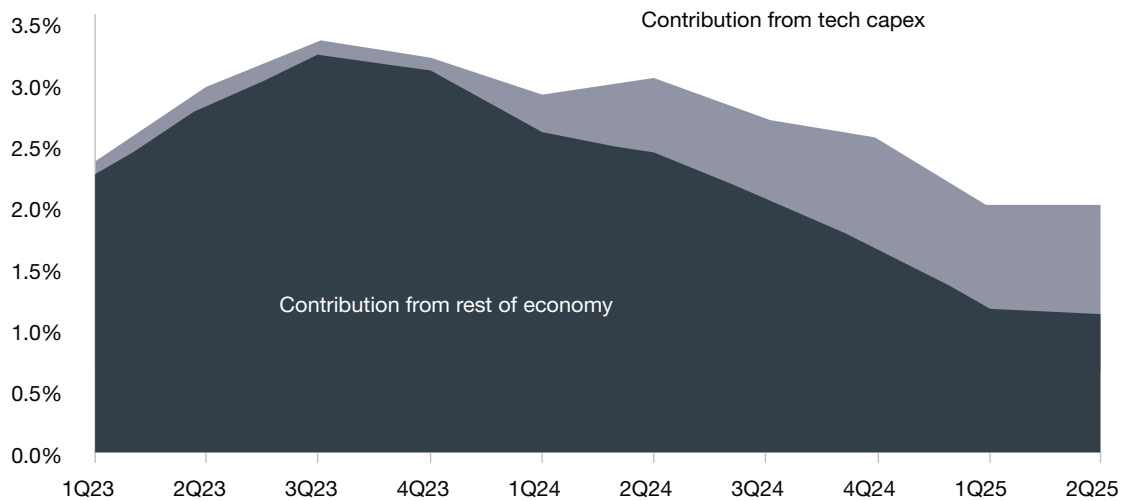


## Investment Trends – Sources of GDP

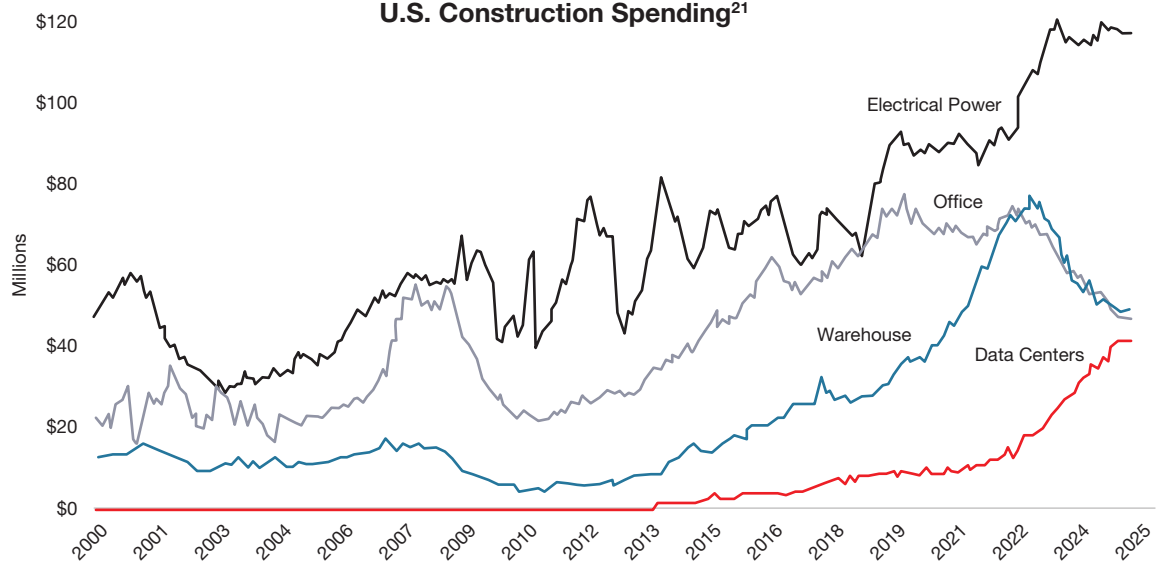
### Artificial Intelligence

Similar to railroads and broadband, AI will require a massive capital outlay to facilitate the infrastructure buildout. These expenditures are currently underway, driven by the largest tech companies in the world, with spending focused on three key pillars: physical infrastructure (data centers), compute hardware (chips), and energy systems (power and cooling). From Q4 2024 through Q2 2025, the tech sector's capital expenditure spending accounted for 35.0 to 45.0 percent of real U.S. GDP growth.<sup>20</sup> This is truly remarkable when considering that, without it, GDP would have only grown by about one percent.<sup>18</sup> Data center construction spending has been so strong that it is virtually equivalent to the amount currently being spent on office and warehouse buildings.<sup>19</sup>

### U.S. Real GDP Growth Contribution from Tech CAPEX<sup>20</sup>



### U.S. Construction Spending<sup>21</sup>



Usage rate estimates for AI technology range from approximately 10 percent<sup>22</sup> to nearly 50 percent,<sup>23</sup> with technology and finance roles leading the way. Regardless of exact figures, it is clear that AI implementation is burgeoning. Beyond Large Language Models (LLMs), such as ChatGPT, Gemini, Claude, and Grok, AI adoption is growing across applications and domains, such as AI-medical devices<sup>24</sup> and autonomous driving (Waymo).<sup>25</sup>

As technology develops, technical, routine jobs may face the risk of replacement over time. Jobs that require hands-on applications like trades, healthcare, etc., are likely to be insulated for the time being. Finance and real estate will likely shake out somewhere in the middle, whereas some entry-level jobs may be replaced but high-level human decision-making will remain paramount in the near term.

Regardless of debates over a potential AI bubble, adoption of these technologies will continue to increase, driving demand in chips, data centers, and power. This will likely be a continued driver of the economy going forward and will likely lead to increases in productivity.

### ***Reshoring, Nearshoring, Changing Trade Relations***

The balance of trade relationships continues to shift in 2025, underscored by the Trump Administration's announcement of sweeping tariffs. Originally announced at a rate of 10 percent in combination with reciprocal tariffs,<sup>26</sup> the actual rate has fluctuated given months of negotiations. The rate of tariffs will vary depending on how the various trade deals, as well as the various court cases, shake out.

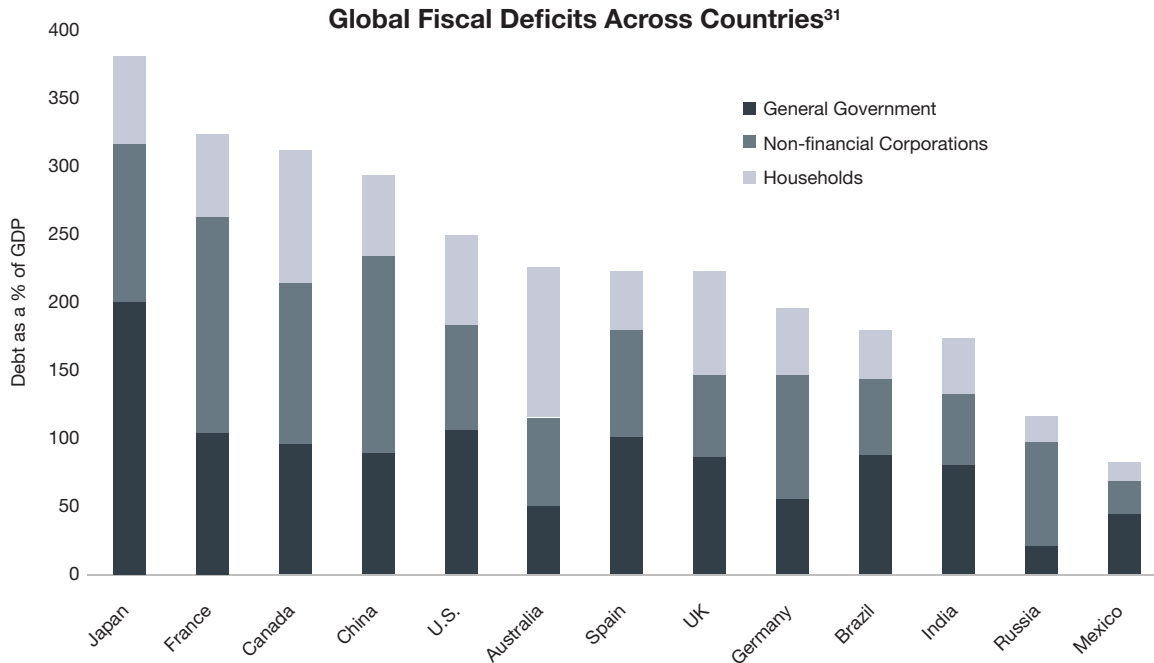
In tandem, the CHIPS Act<sup>27</sup> has brought renewed urgency for the U.S. manufacturing sector, with total construction spending on manufacturing rising nearly 190 percent since 2021.<sup>28</sup>

To further emphasize this point, reshoring plus foreign direct investment job announcements from 2021 through 2024 totaled over 1.1 million.<sup>29</sup>

A changing trade dynamic has been underway as the U.S. shifts imports away from China, focusing on other Asian countries, Mexico, and Canada, as well as production within its own borders.<sup>30</sup> This has decreased the U.S.'s reliance on Chinese goods and allowed Mexico to benefit meaningfully. These changes will continue to reroute supply lines around the world and reshape domestic supply chains.

### **Fiscal Deficits Require Savings**

The U.S. may be entering a period of capital scarcity. Government deficits require funding from private and foreign sectors, but many global players are also running deficits. As a result, the burden of financing could further shift toward the private sector even as it faces substantial funding needs of its own, demanded by AI investments, as well as reshoring and domestic manufacturing efforts. In turn, available capital may be scarce, pushing borrowing costs higher as a potential counterweight to the broader demographics and debt overhang that tend to drive rates lower.



### **Healthcare Spending**

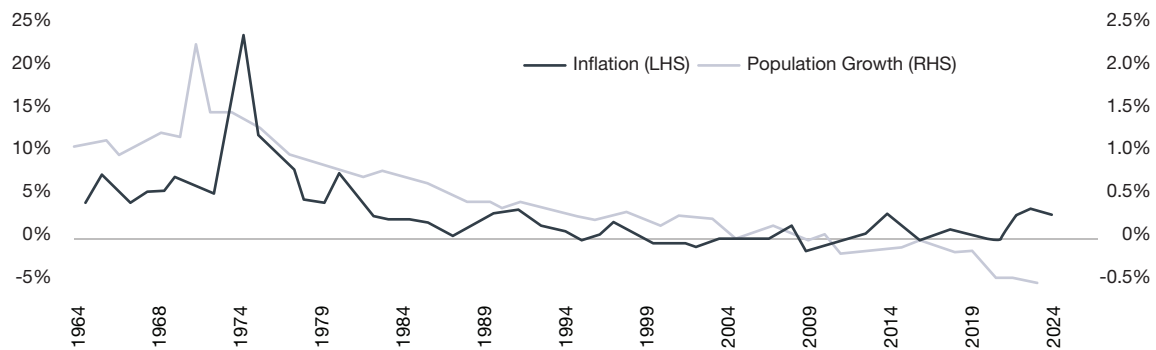
The U.S. population is rapidly aging, with one-in-five Americans expected to be over the age of 65 by 2030,<sup>32</sup> dramatically reshaping the demographics of the U.S. As Americans age, complex health needs and chronic conditions tend to increase, leading to more visits to specialists. Increased visits come with increased costs. It is estimated that the 65-plus age cohort spends four times the amount of the 45 and younger age group on healthcare costs.<sup>33</sup> Underscoring this trend is national healthcare expenditures as a percent of U.S. GDP which has grown from 5.0 percent in 1960 to 17.0 percent today and is expected to reach 20.0 percent by 2032.<sup>34</sup> As a result, healthcare is expected to remain an increasingly important contributor to the economy.

## Inflation

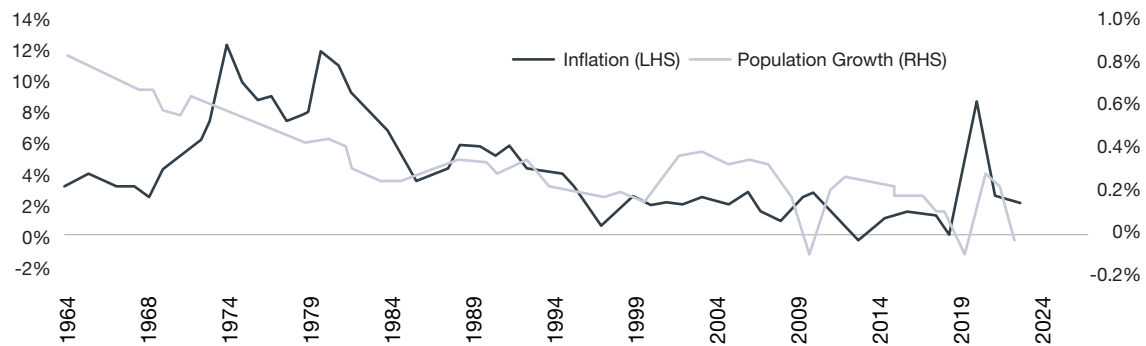
Inflation in the U.S. is currently experiencing some counterbalancing crosscurrents. While demographics and over-indebtedness fundamentally point to slow economic growth and weakness in consumer prices, we must also consider the impacts of reshoring, the AI investment boom, and tariffs. Should the Federal Reserve (the Fed) attempt to alleviate the possible capital crunch resulting from both public and private sectors' need for additional capital with expansive Quantitative Easing (QE) and fiscal deficits remain extreme, we may find inflation a continued challenge for the U.S. economy.

However, the limited sample we have of developed economies that are facing an aging population, high government deficits, and active central banks have thus far demonstrated softening inflation as the economy becomes less dynamic and focused on older population consumer patterns. This inherently deflationary effect takes place as productivity rises relative to population growth resulting in an abundance of goods and services being offered to a stagnant population that is not chasing consumer goods for large and young families.

### Japan's Population Growth & Inflation<sup>35</sup>

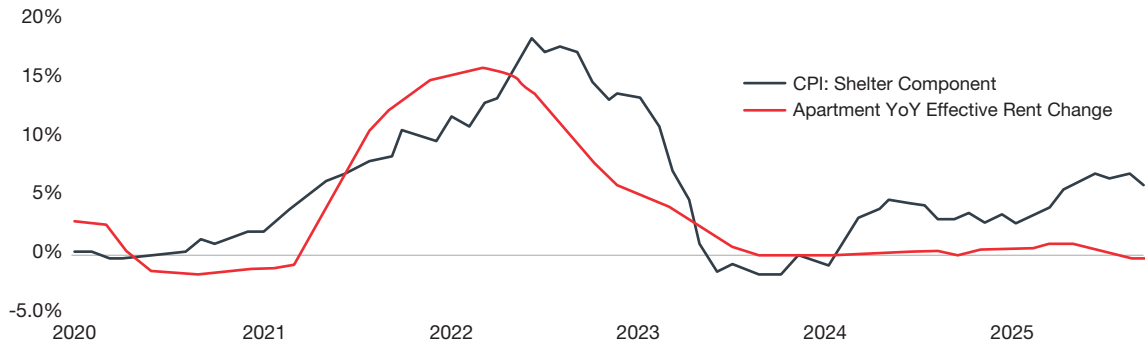


### European Union's Population Growth & Inflation<sup>36</sup>

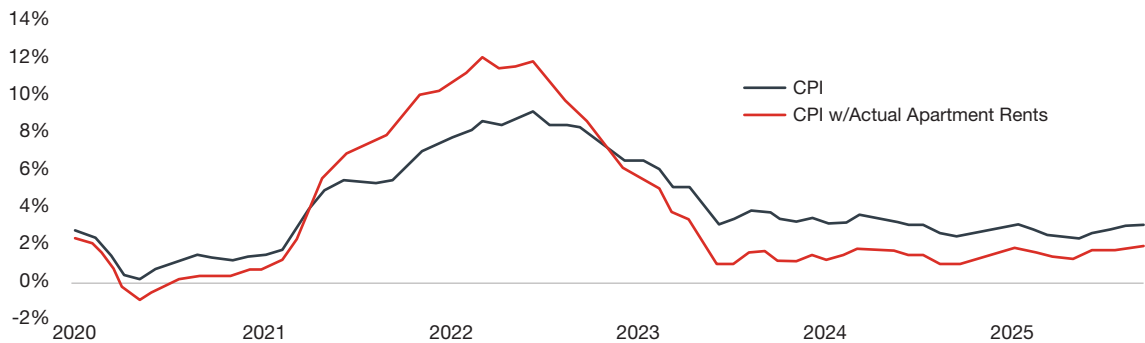


Currently, inflation remains above the Fed's 2.0 percent target. Despite this, we believe true inflation to be lower than reported due to an overstatement of the shelter component, which is primarily tracked as owners' equivalent rent. As of September 2025, the year-over-year shelter component came in at 3.0 percent. Compare this to actual apartment rents, which came in at 0.3 percent, and we can see that the data may not be representative of the real inflation picture when using the government survey for the shelter component.<sup>37</sup> If you were to substitute actual apartment data for the owners' equivalent rent component, CPI would be 1.9 percent, 1.1 percent lower than the current rate.

### Shelter Inflation Remains Elevated<sup>38</sup>



### CPI & CPI Using Actual Apartment Data for Shelter Component<sup>39</sup>



## GDP Outlook

With employment growth contributing approximately 0.2 percent on average, we expect annual real GDP growth over the next five-plus years to oscillate in a range of 0.75 to 2.5 percent, depending on the strength of productivity growth. 2026 growth is likely to be around 1.5 to 2.0 percent, with the primary factor to watch being AI-driven gains.

While some leading indicators are at levels that typically signal a recession, the investment boom coupled with an easing Fed and a resilient, though softening, labor market should keep the U.S. out of recession in 2026, barring an external shock.

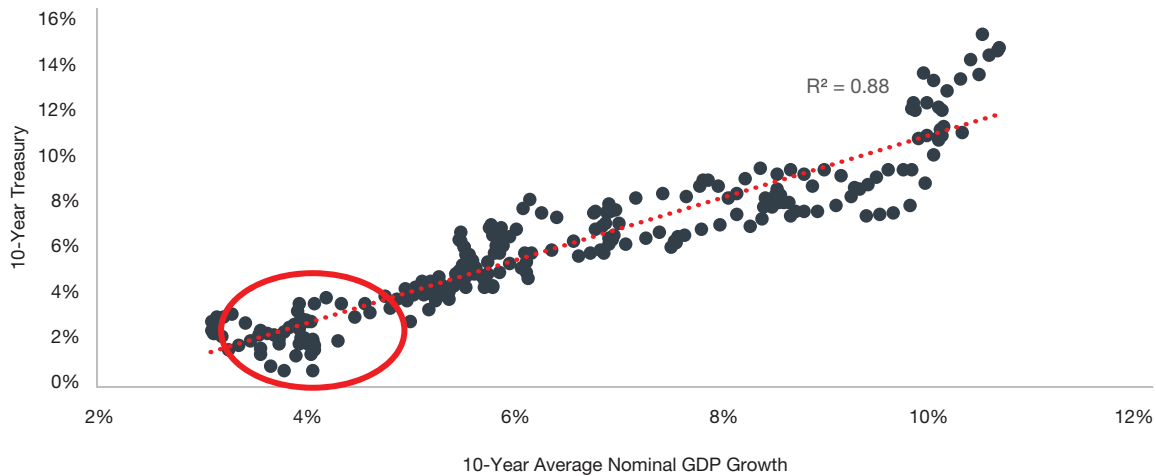
The aging U.S. population, combined with productivity-driven growth, is expected to keep inflation contained going forward, barring any unforeseen fiscal deficits. With this, nominal GDP growth in 2026 is likely to fall within the 3.5 to 5.0 percent range broadly consistent with the economy's longer-term potential but weighed down by demographic headwinds of a slow-growing labor force.

As noted above, the key factor to watch that may impact this outlook is the economy's ability to generate above trend productivity growth on a sustainable basis.

## Interest Rates

Long-term rates are driven by nominal GDP (NGDP) growth, as shown by the tight correlation between the average 10-Year NGDP growth and the corresponding quarterly 10-Year Treasury Rate. Given our outlook on NGDP growth, history points to a 10-Year Treasury Rate topping out near 4.0 to 4.5 percent, suggesting rates at the long end of the yield curve are unlikely to move much higher without a new wave of inflation. However, should further economic weakness emerge, there could be significant downside to the 10-Year Treasury yield.

**10-Year Nominal GDP Growth & 10-Year U.S. Treasury<sup>40</sup>**



**Our base-case scenario is that the 10-year yield drifts lower over 2026 in fits and starts but is unlikely to move drastically lower without significant deterioration in the labor market.**

## Federal Reserve Outlook

As the labor market begins to show signs of weakness and GDP growth moderates, the Fed will likely have the cover it needs to maintain its path of lowering the federal funds rate throughout 2026.

While much of the market views the Fed as having a large impact on the real economy, the data tends to show that the Fed is reacting to economic data, not driving it, so the key to forecasting the short end of the yield curve lies in the labor market.

Currently, unemployment is rising in cyclical sectors like manufacturing, as we are seeing an uptick in layoffs economy-wide. Overall, if unemployment does remain low, we believe our service-heavy economy will continue to provide a great deal of stabilization to the overall labor market.

**We believe the Fed is likely to continue gradual rate cuts in 2026, steepening the yield curve to bolster economic growth.**

## A New Cycle

Since 1978, commercial real estate (CRE) has experienced four major cycles.<sup>41</sup> We believe that today's rising values are signaling the start of a fifth major cycle, creating opportunities for those who recognize the shift.

### (1) 1978-1996:

- CRE recovery phase amid stagflation and interest rate volatility
- Tax incentives spurred development and oversupply (primarily office and retail)
- Oversupply plus Savings & Loan Crisis triggered a CRE collapse with a peak-to-trough value decline of -32.2%

### (2) 1996-2003:

- Recovery fueled by Resolution Trust Corporation<sup>42</sup> liquidations, Commercial Mortgage-Backed Securities issuance surge, and REIT expansion
- Tech drove market until dot-com crash and the 9/11 attacks, decreasing demand
- CRE bottomed out at -3.6%

### (3) 2003-2010:

- Declining rates, increasing liquidity, and cap rate compression resulted in surges in development, as the housing boom spilled into CRE
- CMBS issuances accelerated, and leverage increased
- GFC triggered a drop in values of -31.6%

### (4) 2010-2024:

- Long, stable post-GFC recovery brought low and declining rates with unprecedented stimulus
- COVID-19 pandemic market shock, capital markets received a further boost from stimulus and low rates
- Spurred development across industrial and multifamily sectors
- Inflation and interest rates rose, prices declined -19.0% from peak

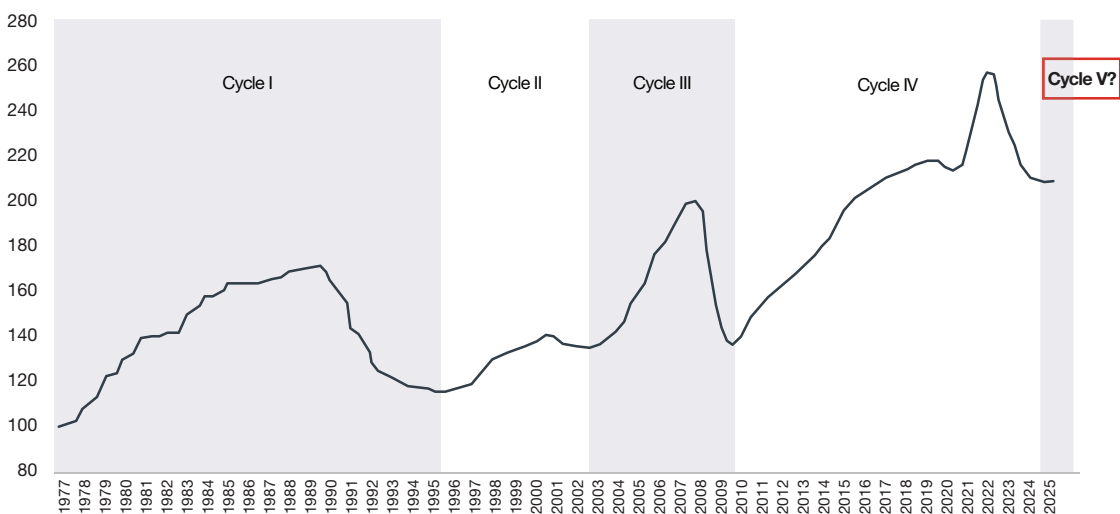
## The Birth of a New Cycle

Based on our belief that valuations found a bottom in 2025, commercial real estate appears to be experiencing the start of a new cycle as values begin to rise. Sector fundamentals remain strong, despite the recent supply wave for industrial and multifamily. Demand for these sectors, along with retail, has remained resilient amid waning new supply. The last cycle was defined by significant cap rate compression, which accounted for much of the returns seen during that period. To illustrate this point, if we took cap rates at their peak in 2009 (6.8 percent) and then held NOI stable (no income growth) to the low cap rates seen in 2022 (3.7 percent), that alone would have resulted in a rise in values of 82.2 percent, even without income growth, versus the actual rise of 74.3 percent. This elucidates the dependence the last cycle had on valuation changes rather than income growth. Cap rates are currently positioned near historic lows, which suggests that any additional compression associated with declining interest rates will likely be limited. As a result, cap rate movements are not expected to serve as a primary mechanism driving valuation changes. Instead, this next cycle will likely see larger returns from income due to the following functions:

- New construction across commercial real estate sectors has been very low for several quarters as a result of higher interest rates and weak rent growth. This may combine with solid demand, particularly in sectors that flourish without robust GDP growth, to drive above-average rent growth.
- Top-performing investment managers will be required to generate alpha from better operational efficiency, some of which could come from the productivity gains of AI.
- The denominator effect, as income return is calculated by dividing net operating income (NOI) by market value. With values having declined, income returns will likely be larger.

Additionally, we expect this new cycle to see increased levels of allocations to commercial real estate from retail investors as they diversify portfolios. We also anticipate a continued surge in institutional capital toward alternative real estate sectors that are benefiting from demographic and macro tailwinds such as affordability issues and an aging population.

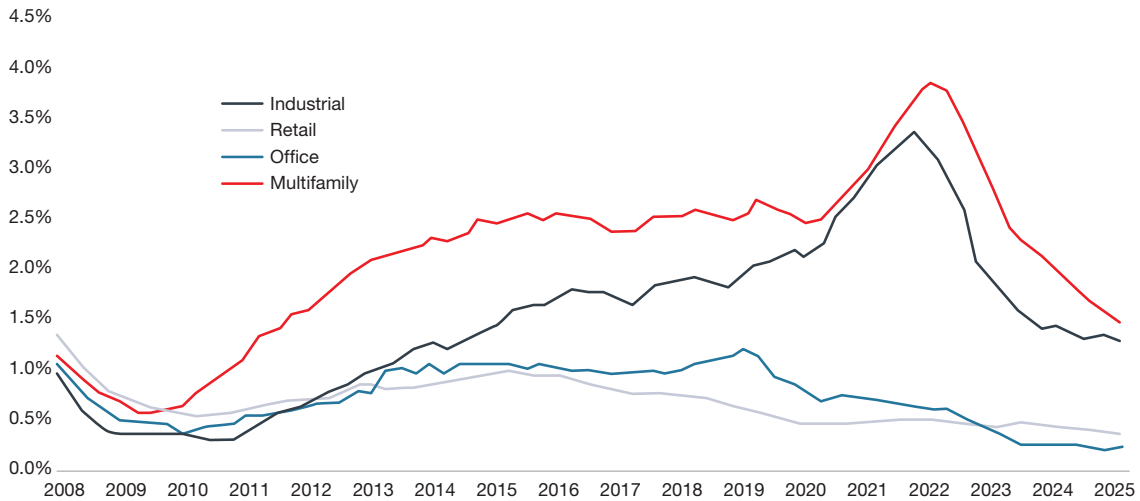
**Commercial Real Estate Cycles – Appreciation Return (Indexed at 100)<sup>43</sup>**



## Declining Starts. Costs Rising.

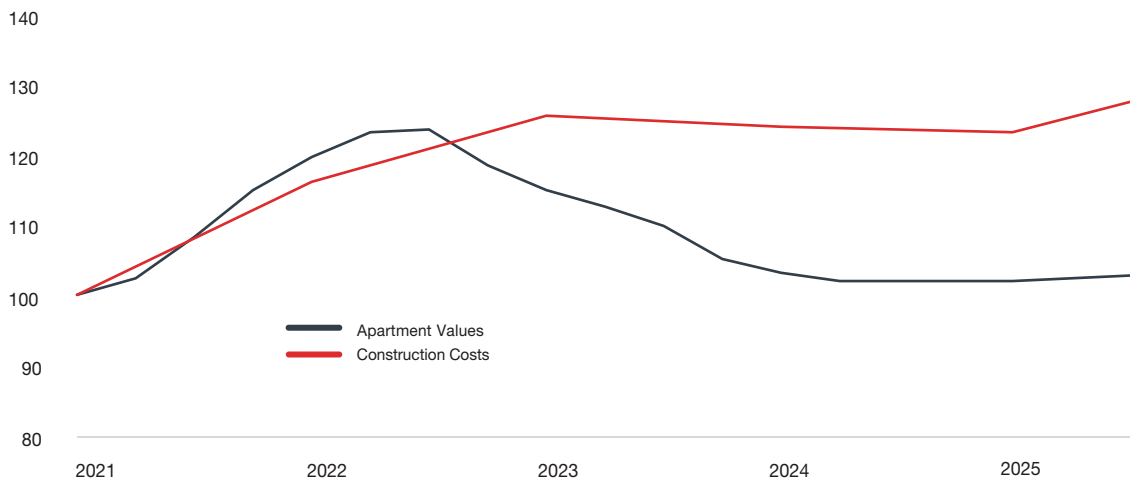
Since the beginning of 2021, construction costs are up 23 percent<sup>44</sup> and financing costs are up 98 percent.<sup>45</sup> The combination of the two has led to declining construction starts for most major sectors, thus creating a dearth of new supply across the commercial real estate industry. The largest outlier to the drop in starts is data centers. The AI buildout has led to a boom in construction as well as an insatiable demand for power, which may affect land values and construction costs as these projects bid up input costs.

Starts as a % of Stock<sup>46</sup>



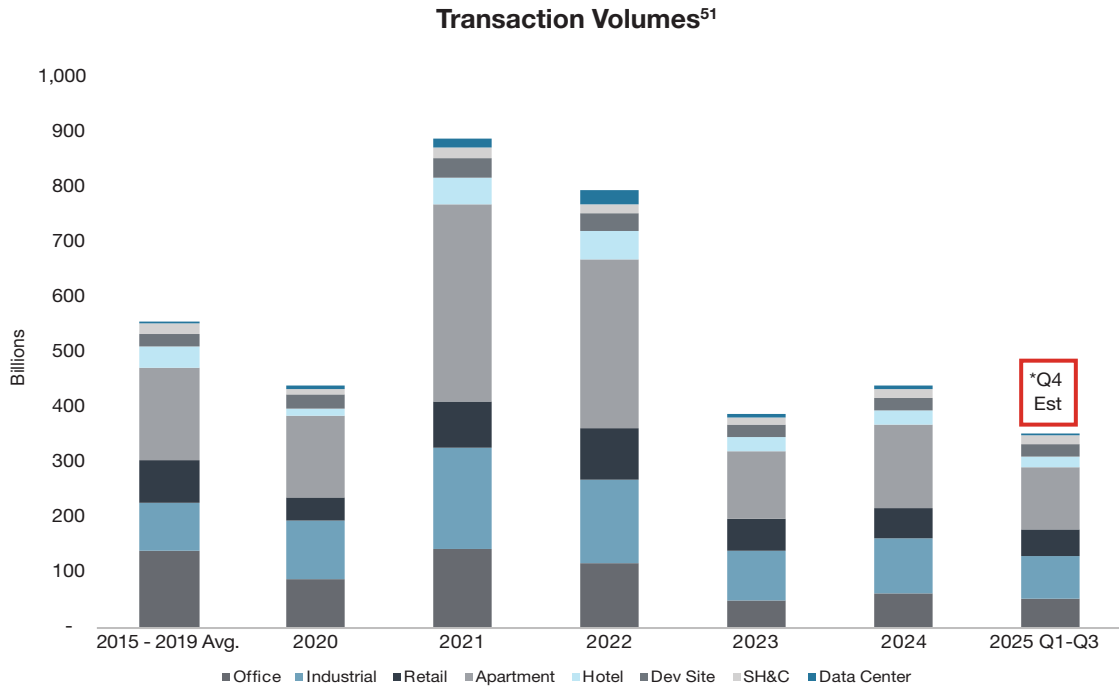
As property prices have declined (-17.6 percent in apartments alone<sup>47</sup>), discounts to replacement costs have widened, and with construction prices continuing to rise, the delta is larger. In our example below, with apartment values and construction costs indexed at 100 in early 2021, we can see that today's delta is 24 percent. Until this spread tightens, and until investors can build at prices closer to existing assets, a lack of supply is likely to permeate the market. This could be somewhat offset, however, by a cheapening cost of capital as rates decline.

Construction Costs vs Apartment Values Values (Indexed at 100)<sup>48</sup>



## Flow of Capital

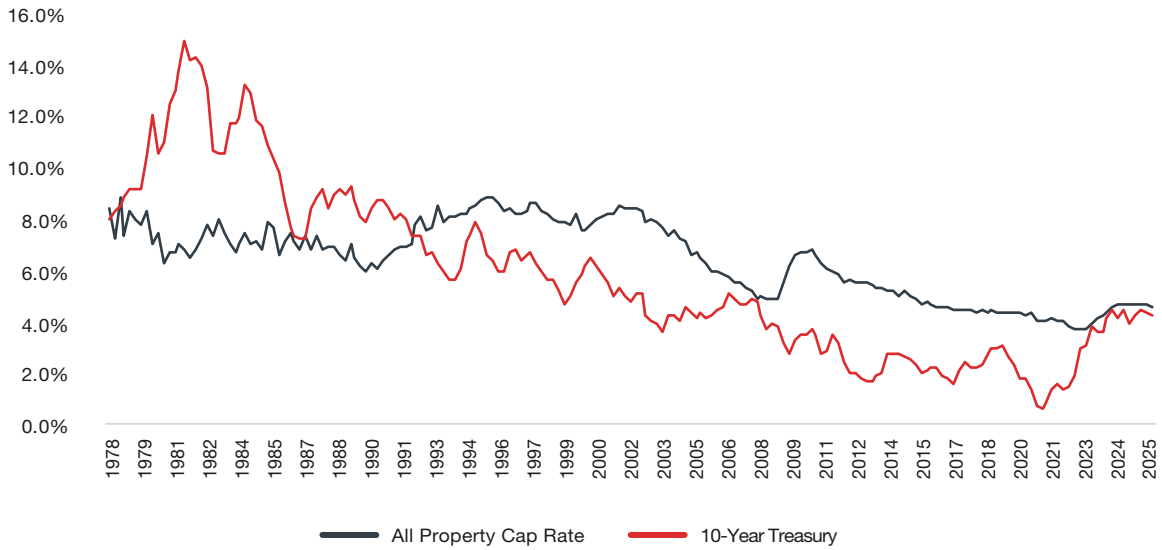
Demand for commercial real estate lending appeared to be nearing the recovery phase, evidenced by a willingness to borrow from commercial banks and private credit funds.<sup>49</sup> Additionally, transaction volumes reflect this trend as they continue to creep up. As interest rates fall and markets stabilize, transaction volumes are nearing the average seen during the period from 2015 through 2019. Given stabilization and improvement in real estate values as well as improving transaction volume, we expect 2026 to also bring stronger demand on the equity side, which still has a significant amount of dry powder, \$350 billion,<sup>50</sup> ready to deploy.



## Cap Rates

Increased interest in commercial real estate, along with improved interest rates, has led to flat if not tightening cap rates in recent quarters. The spread between cap rates and the 10-Year Treasury remains historically tight, as buyers continue their willingness to deploy capital into real estate despite higher financing costs. The spread as of Q3 2025 is approximately 30 basis points, far tighter than the 220 basis points spread we've observed since 2000. We expect cap rates to compress slightly throughout 2026, in line with our outlook for gradually lowering interest rates.

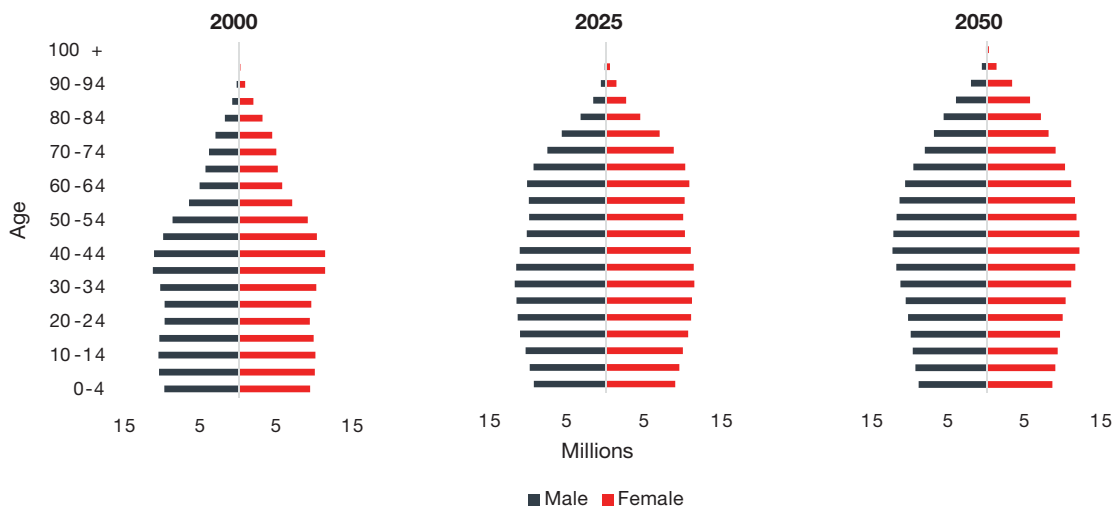
### 10-Year Treasury vs All Property Type Cap Rate<sup>52,53</sup>



### Demographics

Given the outlook for slow economic growth, demographics are expected to continue to play an outsized role in commercial real estate. Sectors that derive demand from these long-term trends are likely to outperform in the coming years. The dynamics associated with the millennial generation entering both prime earning and first-time homebuying age, while baby boomers continue to retire, relocate, and downsize, will be critical to watch.

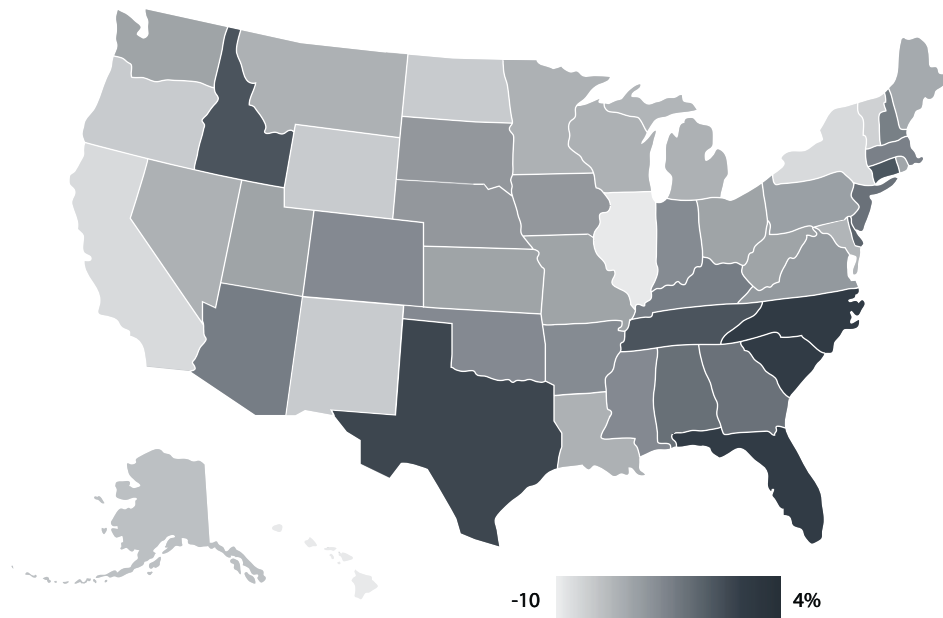
### United States Population Pyramid Comparison<sup>54</sup>



## Migration Trends

Domestic migration over the last five years has largely favored the southern states as families opt for lower cost of living and warmer weather. Families with young children reinforce this pattern, as their growing presence is expected to sustain demand across the South for both residential and self-storage properties. We expect similar trends to continue as affordability remains an issue.

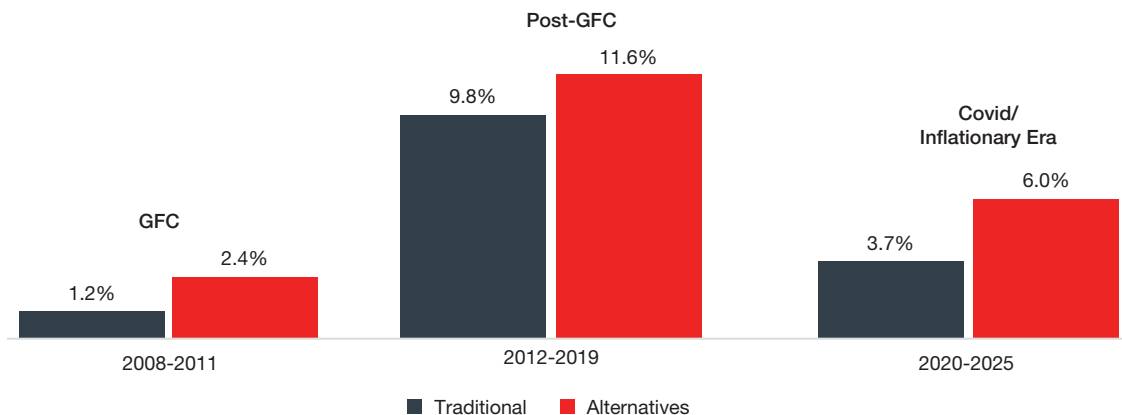
**Population Change by State (Percent Change 2021-2024)<sup>55</sup>**



## Continued Momentum of Alternative Real Estate

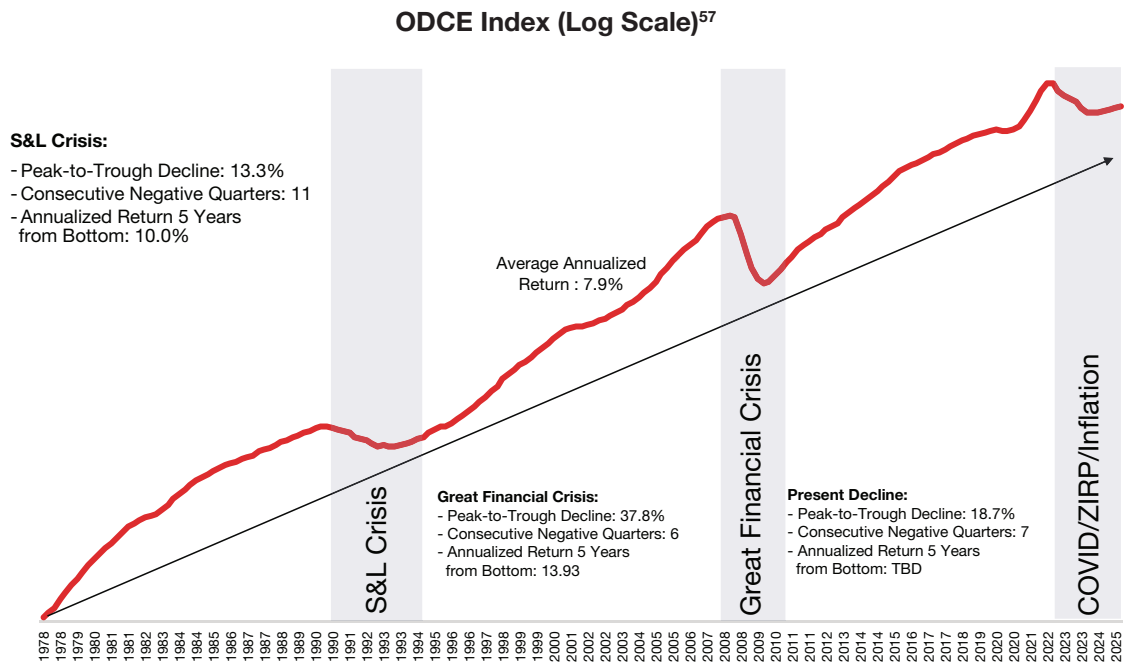
Alternative real estate sectors (self-storage, medical outpatient buildings, student housing, senior housing) have historically outperformed traditional sectors (industrial, retail, office, apartments). Their demand, driven by life events rather than economic cycles, can make them more resilient during downturns. Moreover, they strengthen portfolio construction by providing greater diversification, reduced drawdown risk, and improved returns.

**Traditional vs Alternative Average Annual Returns Since 2008<sup>56</sup>**



## Pricing Has Bottomed; Opportunities Emerging

Investment returns in the years following a period of declines typically outperform. This is demonstrated in five-year average annual returns for the ODCE Index (top 25 core real estate funds) following the S&L Crisis as well as the GFC, which once bottomed saw an average annual return of 10.0 percent and 14.0 percent, respectively.<sup>57</sup> 2026 may present a similar opportunity as this index recently declined 19.0 percent. With history as our guide, we would expect above-average returns for the next few years as markets recover and stabilize. The opportunity to purchase assets at steep discounts to their recent values is an extremely attractive option for those with a long-term mindset.

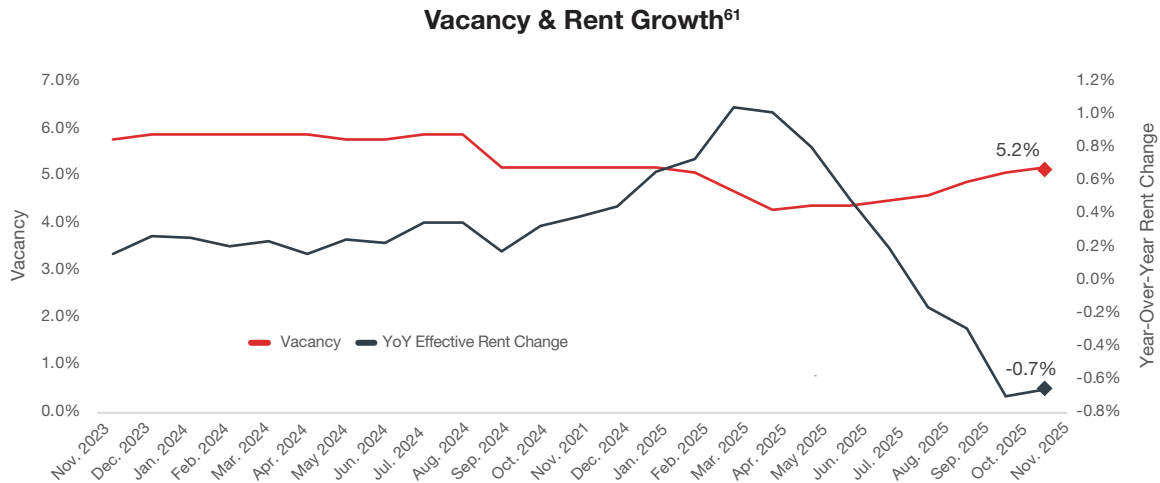


	S&L Crisis	GFC	Present Decline
Peak-to-Trough	-13.3%	-37.8%	-18.7%
Duration (Quarters)	11	6	7
Annual Return 5 Years from Bottom	10.0%	13.9%	TBD 5.3% through 6 Qs
Outperformance (Over Since Inception Return)	2.1%	5.9%	TBD

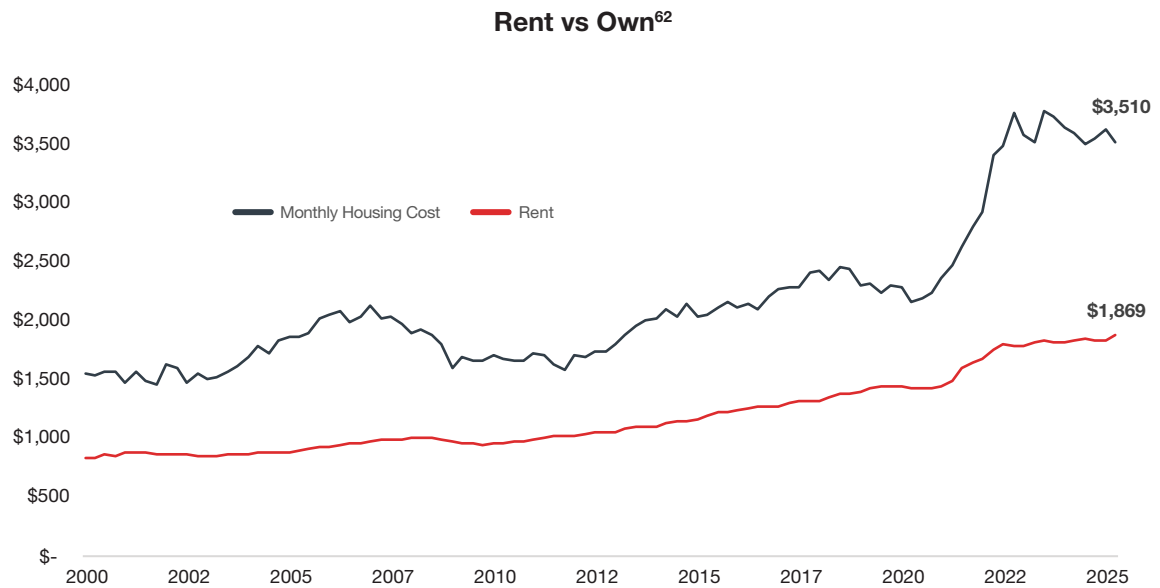
## Commercial Real Estate Sector Review

### Residential

A historic level of new supply hit the multifamily market in the last two years as 1.0 million units were delivered.<sup>58</sup> Despite unprecedented levels of new deliveries, demand has kept pace, absorbing 1.1 million units. Vacancy has been on the rise and now sits at 5.2 percent, well within the historical average range, while annual rent growth tipped negative at -0.7 percent.<sup>59</sup> Looking forward, as starts have slowed dramatically, new deliveries are expected to continue declining through 2027.<sup>60</sup> Given this, we expect 2026 to be a stabilization year that moves toward an upswing in the latter half of the year.

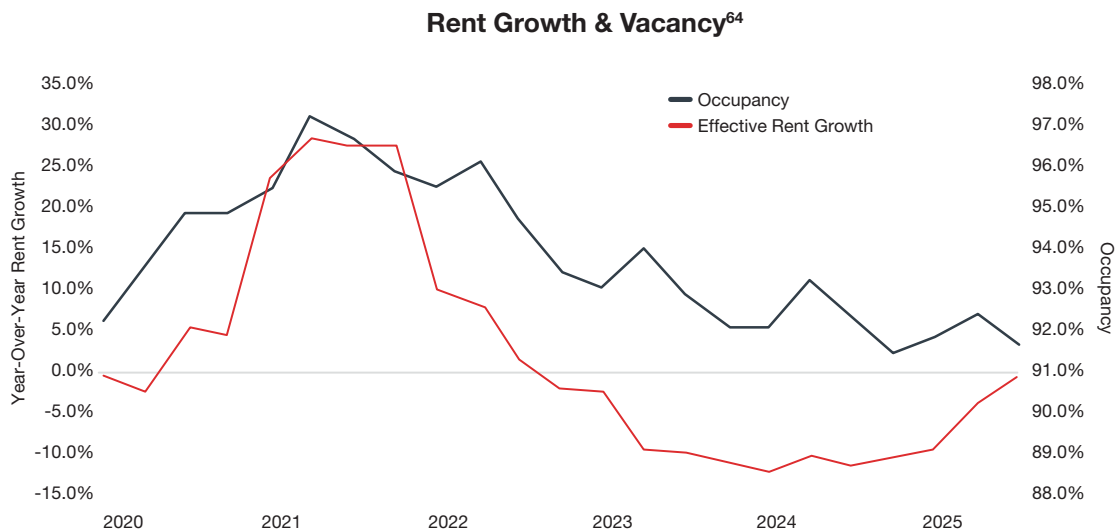


Affordability continues to be a major theme across the sector, as many renters opt for or are forced to delay home purchases and instead choose to rent, driving up rental demand. Build-to-rent is well-positioned to benefit from this trend and we believe it will remain a highly sought-after product type due to appeal from both millennials and boomers.



## Self-Storage

The sector appears to be stabilizing after a pronounced boom/bust cycle. Following several years of rent declines, rents are approaching flat year-over-year levels as occupancy steadies amid the absorption of new supply added in recent years. Despite the recent downturn, favorable long-term demographic demand is expected to drive the sector forward, as well as increased adoption seen by an increase in the utilization rates, which has room to expand beyond its current rate of 12.0 percent.<sup>63</sup> We expect 2026 to be the year of normalization and recovery as rent growth moves into the flat/positive realm and occupancies strengthen.



## Student Housing

The declining college-aged student population has led to much speculation on the demographic cliff that could plague the student housing sector. Yet demand at top universities remains resilient, as these institutions continue to attract leading students and maintain stable enrollment. In fact, these schools reject many applicants, highlighting acute shortages at the local level, even as the broader market shows signs of oversupply.

**Power 4 vs Non-Power 4 Comparison (2014-2024 Averages)<sup>65</sup>**

Metric	Power 4	Non-Power 4
Enrollment Growth	1.4%	0.5%
Acceptance Rate	60.5%	71.7%
Vacancy	6.9%	7.8%
Rent Growth	3.0%	2.5%

## Retail

Minimal new construction over the last decade has led to tight occupancy and rising rents in desirable areas, with absorption turning positive in Q3 2025 and starts near historical lows. Retail appears to be in a stabilizing phase and is much stronger following the fallout from the pandemic. This can be seen in the grocery space which has seen low vacancies, minimal new supply, persistent demand, and elevated rent growth.

Given this backdrop, we expect historically low starts to buoy the sector as demand for primary locations continues to grow. Moreover, we remain optimistic about the retail segments tied to the experience and necessity-based economy.

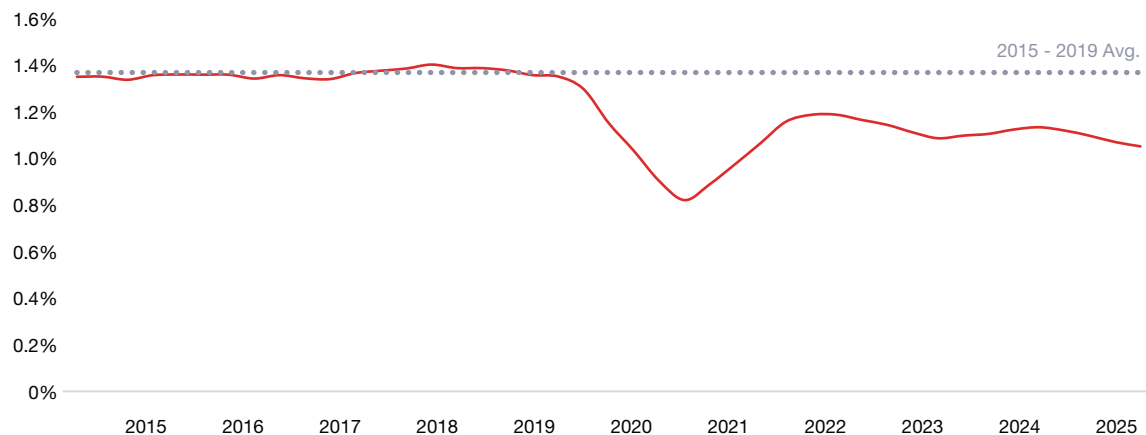
5-Year Average Rent Growth Across Subtypes<sup>67</sup>



## Office

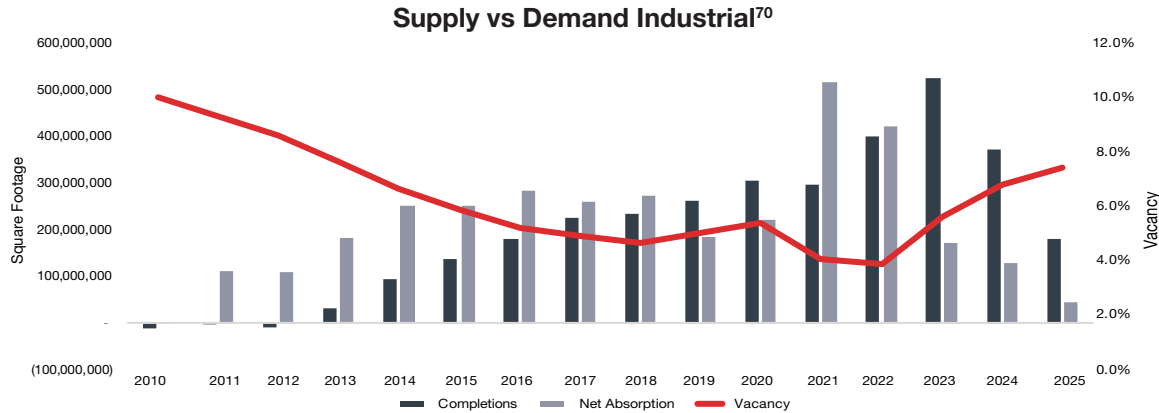
The office sector is starting to show pockets of stabilization, but considerable risk and weakness remain across the sector. New supply has collapsed as starts hover near record lows. Leasing momentum has picked up but is still below pre-COVID levels.<sup>68</sup> Looking forward, there is the potential for AI to drive the need for physical space lower. Slower economic growth could also be a headwind to demand with slower business expansion. An oversupplied market will take years to fully recover, but we see a select number of opportunities available to those who are willing to take on the additional risk.

Office Leasing as a % of Inventory<sup>69</sup>



## Industrial

Following the massive demand boom during the pandemic, the sector has pulled back as demand has slowed and new supply spiked. Despite this, current trends including e-commerce, supply chain changes, and the reshoring of American industry, provide a long-term tailwind that is expected to act as a counterbalance to the potential slower economic growth. Additionally, industrial buildings will likely receive significant investment dollars in upgrading to AI-driven automation where scale allows. Looking forward, we expect this sector to stabilize given low starts and stable demand.



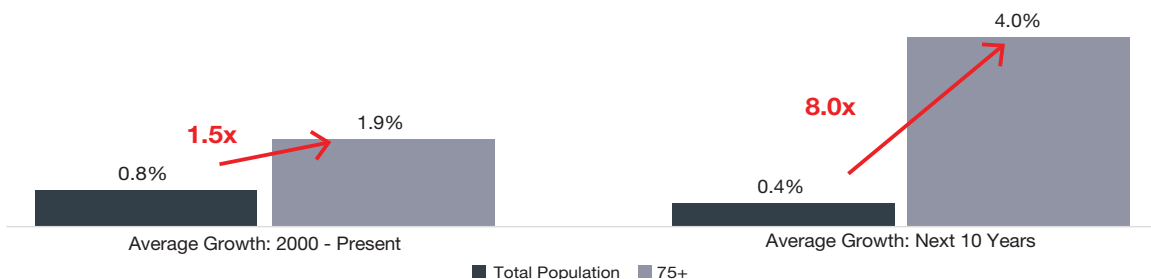
## Healthcare: Medical Outpatient Buildings & Senior Housing

Healthcare services are taking on an increasingly prominent role in the U.S. economy as the population ages, driving healthcare expenditures to represent a growing share of GDP. Coinciding with a rise in healthcare expenditures is a shift in care setting as outpatient centers become more utilized. Over the past decade, hospital admissions have declined by 15 percent, while outpatient visits have increased by ten percent.<sup>71</sup> These innovations have enabled many procedures to move from inpatient to outpatient settings, fueling demand for medical outpatient buildings (MOBs). In fact, between 2018 and 2023, 59 medical procedures were approved for outpatient migration, further underscoring the need for MOBs.<sup>72</sup> We expect this trend to continue, which may buoy MOBs going forward.

### Annual Physician Office Visits & Healthcare Costs<sup>73</sup>

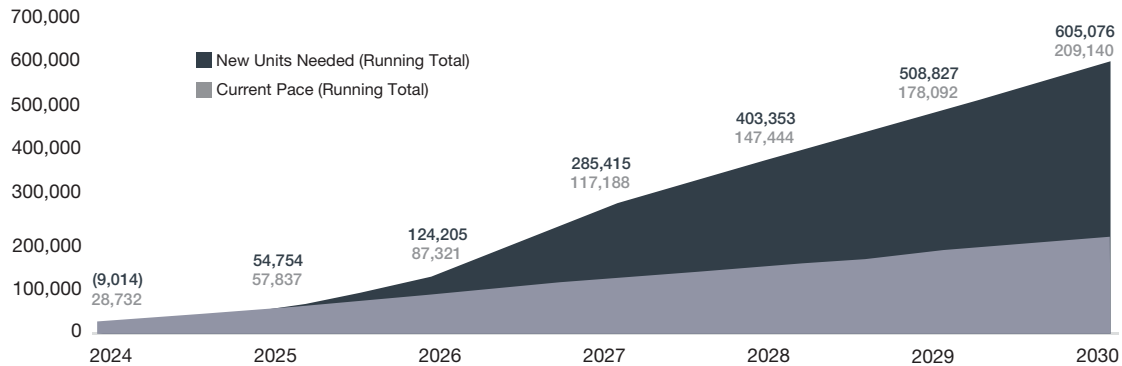
Age	# of Visits	Costs
<45	2	\$5,100
45-64	4	\$11,300
65+	7	\$20,500

### Average Growth of Population by Age Tranche<sup>74</sup>



Senior Housing is perhaps the sector best poised to benefit from the prevailing demographics in the U.S. As the country ages, we are going to need additional care units for the older population. This sector continues to see a lack of new supply (near record lows), strengthening demand, rising occupancies, with asking rents growing at over 4 percent annually.<sup>75</sup> Due to the rapidly aging population, an astounding number of new units must be built in order to keep up with that growth; to illustrate this point, using current penetration rates and an occupancy of 90 percent, an additional 600k units will be needed by 2030 to meet growing demand.<sup>75</sup> We expect this trend of under-supply and over-demand to continue in 2026, as the sector is expected to continue to see increasing rents and rising occupancies.

### Aggregate New Units Needed to Maintain 90% Occupancy<sup>75</sup>



### 2026 New Cycle – Now Is the Time

We see 2026 marking the beginning of a new cycle, one defined by the transformative impact of AI and the structural shifts in capital markets. We expect moderate GDP growth throughout 2026, with labor market weakness offset by productivity gains, AI investment, and reshoring. Interest rates should trend lower but are unlikely to collapse without significant economic deterioration. A potential “dark horse” risk to watch is rising competition for capital between the private and public sectors, which could drive up the cost of capital and trigger unexpected repricing across markets.

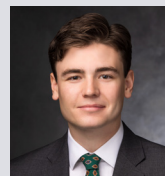
AI is moving rapidly from concept to implementation, reshaping workflows across the economy and driving efficiency in real estate through smarter rent optimization, improved design, and value engineering in construction. Against this backdrop, investors may face a rare window of opportunity: resilient fundamentals, income driven returns, and the ability to capitalize on structural changes defining the next era of commercial real estate.

We believe this new commercial real estate cycle will be driven by operational excellence, a sharper focus on location fundamentals, and expanding allocations to alternative real estate sectors. Our highest conviction opportunities remain in residential (multifamily and build-to-rent), student housing, senior housing, self-storage, and medical outpatient buildings, each supported by powerful demographic tailwinds.

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- <sup>10</sup>Fred CPIAUCSL. As of December 2025.
- <sup>11</sup>Atlanta Fed 12-month Moving Average Overall Wage Growth. As of September 2025.
- <sup>12</sup>Fred MEHOINUSA672N & MEHOINUSA646N
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- <sup>38</sup>FRED CPI: Shelter (CUSR000SAH1) & RealPage Effective Rent Growth YoY
- <sup>39</sup>Fred CUUR0000SA0L2, CPIAUCSL & RealPage YoY Effective Rent & Bls.gov CPI Cost Weights Homepage
- <sup>40</sup>FRED – Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis (GS10) & Gross Domestic Product (GDP)
- <sup>41</sup>Begin in 1978 as NCREIF (leading CRE data source) starts that year. We define each major cycle starting with positive appreciation and ending as appreciation bottoms out. NCREIF Expanded NPI Index.
- <sup>42</sup>Temporary U.S. Government agency established to clean up the failed Savings & Loan institutions
- <sup>43</sup>NCREIF Expanded NPI Appreciation Return, Data as of Q3 2025
- <sup>44</sup>RSMeans 30 National 30 City Average, 2025
- <sup>45</sup>Chatham Financial Q1 2021 Average Market Credit Spreads (1.5%), Q3 2025 Market Credit Spreads (1.5%), Fixed Rate Apartment Spreads used as proxy, Base Rate = 10 Year Treasury (1.34%, 4.11%)
- <sup>46</sup>CoStar
- <sup>47</sup>NCREIF Expanded NPI, Residential: Apartments, Data as of Q3 2025, Peak-to-trough
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- <sup>51</sup>MSCI Transaction Volume
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- <sup>57</sup>NCREIF ODCE Index
- <sup>58</sup>RealPage Annual Supply, 2024 and 2025 Forecast, Data as of Q3 2025
- <sup>59</sup>RealPage YoY Effective Rent Growth & Vacancy, Data as of November 2025
- <sup>60</sup>RealPage Annual Supply, Data as of Q3 2025
- <sup>61</sup>RealPage YoY Effective Rent Growth & Vacancy, Data as of November 2025
- <sup>62</sup>Monthly housing cost = monthly principal and interest based on 30-Year mortgage rate (FRED – MORTGAGE30US) and median sales price of homes sold U.S. (FRED – MSPUS) plus a 4% of total home value added as Operating costs of owning a home (Operating Costs of Owning a Home - National Association of Home Builders); Rent = RealPage Effective Rent; Data as of Q2 2025
- <sup>63</sup>Yardi Data Subscription; Fred TTLHH
- <sup>64</sup>Green Street, Data as of Q3 2025
- <sup>65</sup>Georgetown University Center on Education and the Workforce
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