

The Rumors of My Demise Have Been Greatly Exaggerated

– Paraphrasing Mark Twain

An Honest Look at the Current Difference Between Rhetoric and Reality of the U.S. Economy and Commercial Real Estate Market

February 26, 2026

Executive Summary

For the first time in many years, it appears U.S. commercial real estate (CRE) is finally poised for a broad-based recovery. This is contrary to what we've been espousing in our annual market outlooks since well before COVID, but the underlying fundamentals feel meaningfully different and support a constructive shift in our view.

Simultaneously, headlines around U.S. politics and geopolitics have been unusually negative, especially overseas, yet investment fundamentals are diverging from the rhetoric. Forecaster baselines still call for continued U.S. GDP growth with moderating inflation, while CRE liquidity has improved with investment volume rebounding and lending conditions improving. Cross-border capital has historically represented a meaningful share of U.S. CRE exposure, and global advisors expect cross-border CRE allocations to re-accelerate as institutions reposition. **In this environment, we see the current perception gap as a potential entry advantage for investors focused on durable income and attractive valuations.**

In this paper, we address those concerns directly, separating rhetoric from reality, examining areas of perceived weakness, and demonstrating that many of the so-called "cracks" are driven more by sentiment and headlines than by deterioration in hard economic data.

As 2026 begins, the U.S. economy is operating from a position of unusual strength. **Growth has stayed above trend, inflation is easing, the labor market remains durable, and financial conditions are gradually becoming more supportive.** According to [Bureau of Economic Analysis](#) data, real GDP expanded at a 3.8% annualized rate in Q2 2025, 4.4% in Q3 2025, and the initial estimate for Q4 2025 is 1.4% (artificially low due to the government shutdown), underscoring the momentum carried into year-end. Price pressures have also cooled, with CPI falling to 2.4% over the 12 months ending January 2026 ([BLS](#)). Labor market conditions remain solid by historical comparison, as unemployment stood at 4.3% in January 2026 ([BLS](#)). While interest rates are no longer at the exceptionally low levels of the previous

cycle, they are well below the peaks reached during the 2022–2023 tightening phase, with the Fed Funds rate down to 3.50-3.75% and falling, and the 10-year Treasury yield near 4.0% in mid-February 2026 ([FRED](#)). **Taken together, the data points to an economy that is not merely stable but positioned for continued expansion.**

At the same time, perception remains unusually pessimistic because many “soft” indicators (confidence and sentiment) are weak even as spending and employment hold up. The [University of Michigan’s consumer sentiment index](#), for instance, declined 11.4% year-over-year in February 2026, falling to historically low levels. Yet behavior tells a different story. Thanksgiving and holiday spending in 2025 rose 6.4% from the prior year ([PwC](#)), and total retail sales for 2025 increased 3.7% over 2024 ([U.S. Census Bureau](#)). **In short, households appear more cautious in how they feel than in how they spend.**

The widening gap between rhetoric and reality is particularly important for U.S. CRE. While headlines remain cautious, the underlying setup is steadily improving. [CBRE](#) projects U.S. CRE investment volume will rise another 16% in 2026. The recovery is already visible in the data: fourth-quarter 2025 investment volume increased 29% year-over-year to \$172 billion ([CBRE](#)), bringing full-year volume to \$499 billion, up 22% from 2024. Financing markets are also gaining traction, with [CBRE’s Lending Momentum Index](#) rising 0.48 points year-over-year to 1.2, consistent with a normalization in credit availability.

The case for re-engaging with U.S. CRE rests on three structural developments. First, the macroeconomic backdrop is firmer than prevailing sentiment implies. Second, liquidity has improved materially from the dislocation seen in 2023–2024: transaction activity is up, debt markets are functioning more efficiently, and lenders have returned with greater consistency. Third, this cycle is likely to reward operational discipline over reliance on leverage. With only modest cap rate compression anticipated, returns will depend more on income growth, leasing execution, capital allocation, and asset-level management than on leverage or broad market tailwinds.

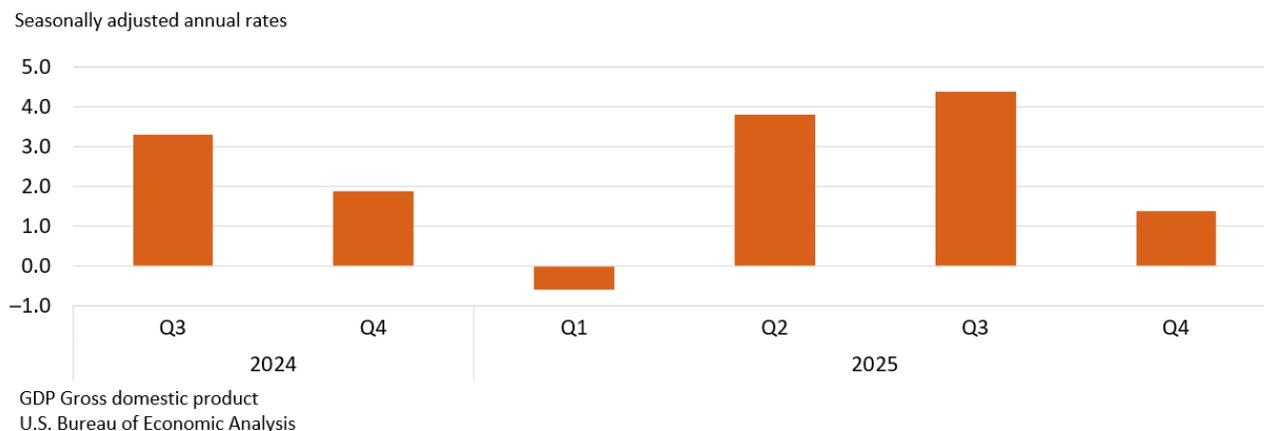
In short, structural tailwinds are emerging, but the opportunity is not about a rapid repricing of the entire asset class; it is about deploying capital into strengthening fundamentals alongside managers capable of driving asset-level performance.

The U.S. Economy: Hard Data Showing Resilience

Gross Domestic Product

Based on recent data, we believe the economy has demonstrated notable durability. Despite concerns surrounding trade tensions and tariff policy, activity has remained firm. In Q3, **consumer spending held up, exports strengthened relative to imports, and capital expenditures, particularly tied to AI infrastructure, accelerated** ([BEA Q3](#)). As a result, real GDP expanded at more than 4% in Q3 2025.

Real GDP, Percent Change From Preceding Quarter

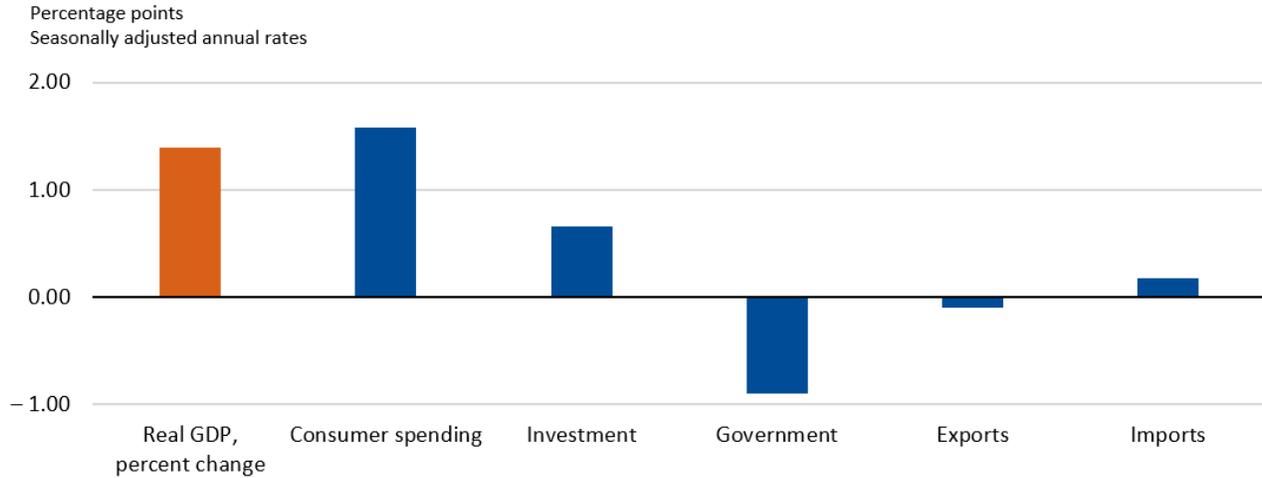


Source: [Bureau of Economic Analysis](#)

The advance estimate shows U.S. real GDP grew at an annualized rate of **1.4% in Q4 2025**. Much of this deceleration reflects the impact of the **43-day government shutdown (the longest in U.S. history ([NPR](#)))**, **which sharply reduced federal spending and, in our opinion, knocked at least a percentage point off headline growth**. Despite this temporary contraction in government outlays, the broader economy continued to expand. A moderation in government spending does not necessarily signal weakness; in many respects, an economy driven more by private demand than public outlays reflects underlying resilience. At the same time, exports declined amid ongoing tariff negotiations and trade uncertainty, creating an additional drag on overall output. On an annual basis, real GDP grew about **2.2% in 2025**, a solid result for a large, advanced economy navigating significant uncertainty.

Contributions to the Percent Change in Real GDP, 2025:Q4

Real GDP increased 1.4 percent



GDP Gross domestic product
Note. Imports are a subtraction in the calculation of GDP; thus, a decrease in imports results in a positive contribution to GDP.
U.S. Bureau of Economic Analysis

Source: [Bureau of Economic Analysis](#)

Beyond the near-term data, artificial intelligence (AI) represents a potentially significant structural driver. As AI deployment broadens and infrastructure investment continues, productivity gains could begin to materialize more visibly in aggregate output. Research from the [St. Louis Fed](#) suggests AI-related investment may contribute to growth in a manner comparable to the role information technology (IT) played during the late 1990s and early 2000s expansion. In our view, as firms further embed AI into operations, next-generation models are rolled out, and supporting infrastructure scales, related investment is likely to remain a meaningful driver of capital spending through 2026 and beyond.

Dot-com vs. AI: Contribution of IT- or AI-Related Investment Categories to Real GDP Growth in 2000 and 2025

	Real GDP Growth	Contribution (Percentage Points)			
		Information Processing Equipment	Software	R&D	Data Centers
2000	2.94%	0.58	0.11	0.12	—
First 9 Months of 2025	2.51%	0.42	0.35	0.13	0.07

SOURCES: Bureau of Economic Analysis, Census Bureau and authors' calculations.

Source: [St. Louis Fed](#)

Taken together, we believe existing momentum and emerging structural tailwinds position real GDP to continue expanding at solid, potentially above-trend rates in the near to medium term.

According to the [International Monetary Fund’s World Economic Outlook](#) (January 2026), the United States continues to outperform most other advanced economies. The IMF projects U.S. real GDP growth of 2.4% in 2026, compared with 1.8% for advanced economies overall, 1.3% for the Euro Area, 1.3% for the United Kingdom, and 1.6% for Canada. Even in 2025, U.S. growth (actual figure coming in at 2.2%) exceeded that of the broader advanced-economy cohort (1.7%). While emerging Asia is expected to grow faster, that comparison likely reflects structural catch-up dynamics rather than mature-market performance. Among large, developed economies, the U.S. remains the relative growth leader. Given the sheer scale, depth, and diversification of the U.S. economy, this outperformance is particularly notable. Taken together, the evidence suggests the U.S. is not only growing faster at the margin but doing so from a position of structural economic strength.

World Economic Outlook Growth Projections

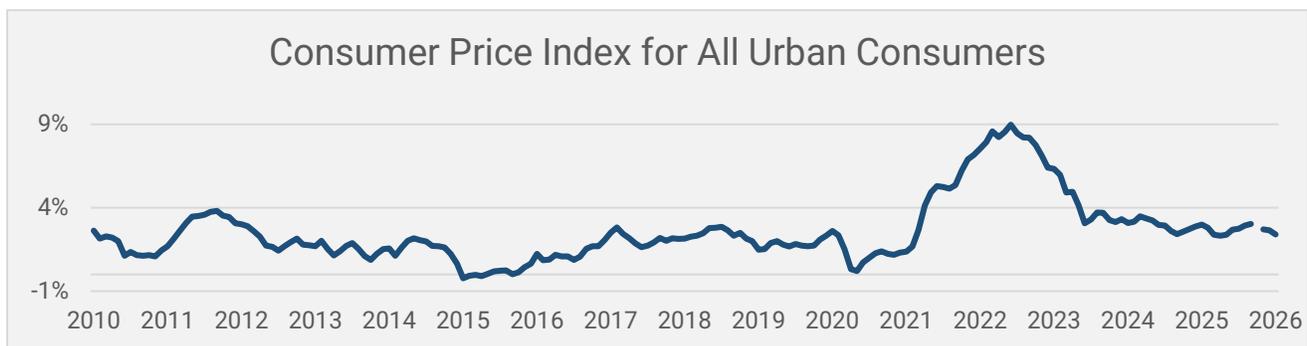
(Real GDP, annual percent change)	ESTIMATE	PROJECTIONS	
	2025	2026	2027
World Output	3.3	3.3	3.2
Advanced Economies	1.7	1.8	1.7
United States	2.1	2.4	2.0
Euro Area	1.4	1.3	1.4
Germany	0.2	1.1	1.5
France	0.8	1.0	1.2
Italy	0.5	0.7	0.7
Spain	2.9	2.3	1.9
Japan	1.1	0.7	0.6
United Kingdom	1.4	1.3	1.5
Canada	1.6	1.6	1.9
Other Advanced Economies	1.8	2.0	2.1

Source: [IMF’s World Economic Outlook](#)

Inflation

The primary risk associated with tariffs, trade tensions, and broader policy uncertainty is a renewed rise in inflation. However, after peaking in 2022, price pressures have eased meaningfully. **Year-over-year CPI is now running in the mid-2% range, as shown in the figure below, bringing inflation closer to long-term policy objectives.** This improvement can potentially alleviate pressure on monetary policy and help anchor long-term rate expectations, which is an important development for interest-rate-sensitive sectors such as real estate.

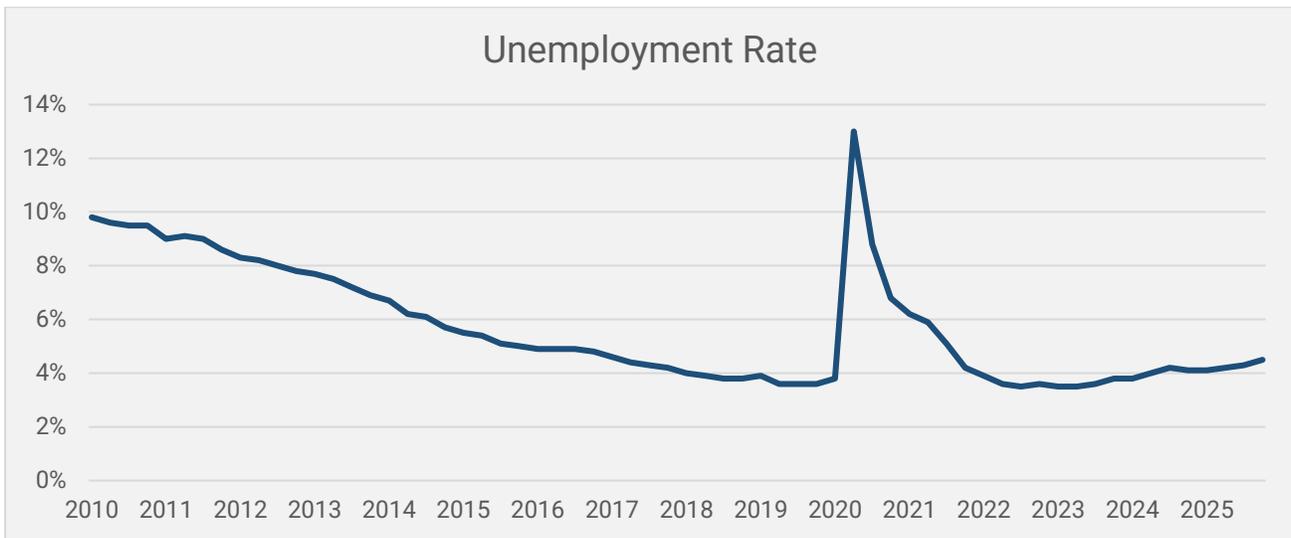
Research, including [Ball and Koh \(2025\)](#), shows that the shelter component of CPI embeds a significant lag in reported inflation. Shelter inflation is based largely on lease renewals and survey data rather than real-time market rents, and because most leases reset annually, the index adjusts slowly to changing conditions. **Additionally, this survey uses Owners' Equivalent Rent, which is based on homeowners' estimates rather than actual market transactions, making it imputed, lagging, and subjective.** As a result, headline inflation can remain elevated even after market rents have flattened or declined. Given shelter's heavy weight in CPI (35%, [BLS](#)), **this lag may meaningfully overstate current underlying price pressures.** Excluding shelter, recent inflation readings would appear considerably softer and much closer to price stability. **This dynamic is important:** despite widespread concerns around trade tensions and tariffs, realized price effects have been limited nearly a year later. While it's true that the conflict in the Middle East with Iran targeting energy infrastructure throughout the Gulf and driving Brent Crude above \$100 per barrel, which has implications far beyond just the gas pump, we view the conflict and repercussions to inflation as temporary, certainly in the U.S. where we are energy independent. **Taken together, the evidence suggests inflation is likely to remain contained and range-bound in the intermediate term.**



Source: [FRED](#)

Unemployment

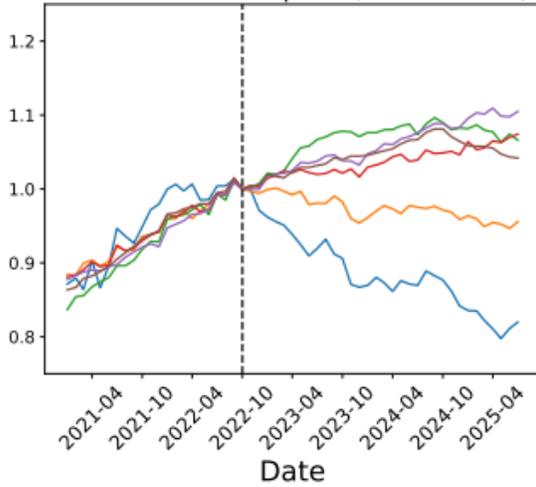
The unemployment rate remains in the low-4% range which is above the extraordinary lows reached during the post-pandemic surge, but still generally consistent with a very healthy labor market. **While headlines often emphasize signs of cooling, historical context is essential.** Today's **unemployment rate remains below much of the 2010–2020 period**, underscoring that labor conditions, while normalizing, appear far from weak.



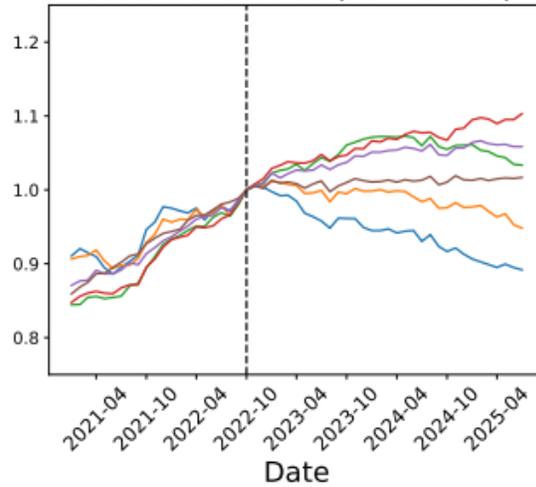
Source: [FRED](#)

Looking ahead, our view is that unemployment will likely escalate above consensus expectations due to AI and automation, which will be a drag on consumer spending and hence GDP in the intermediate term, yet likely to be a long-term boon for GDP due to enhanced productivity. A move toward roughly 5% by 2026 would still fall within historical norms and could reflect structural adjustment rather than cyclical deterioration. The growing adoption of AI and automation is likely to affect sectors unevenly, particularly occupations that are more routine or easily automated, as shown in the research by [Brynjolfsson, Chandar, and Chen \(2025\)](#). Younger or entry-level roles may also face pressure as firms experiment with AI-enabled productivity tools. At the same time, many roles—particularly essential, in-person, and skill-intensive occupations—remain far less susceptible to displacement. This suggests that AI exposure varies meaningfully across occupations rather than producing broad-based labor market disruption.

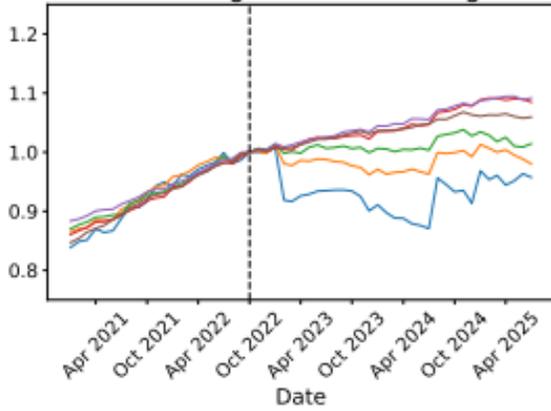
Headcount Over Time by Age Group
Software Developers (Normalized)



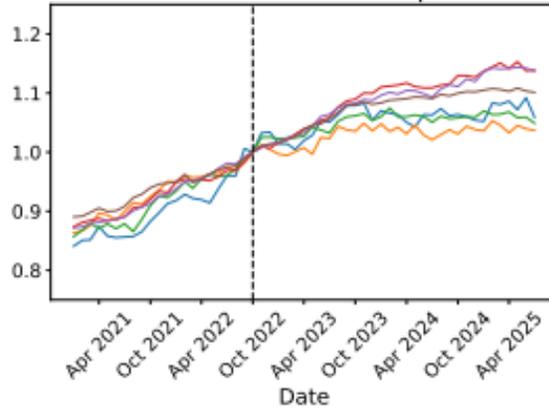
Headcount Over Time by Age Group
Customer Service (Normalized)



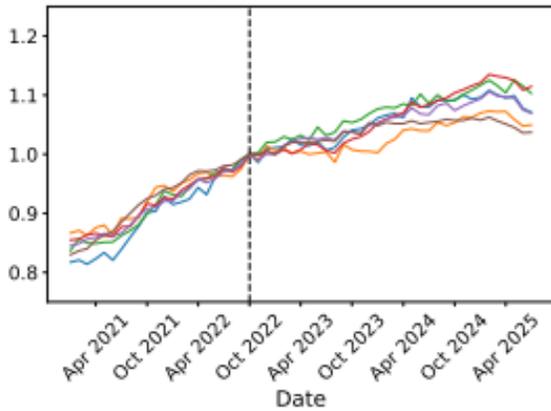
a. Marketing and Sales Managers



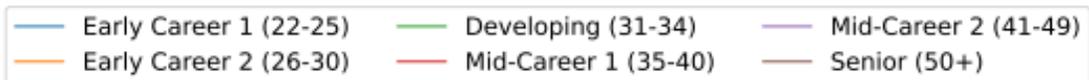
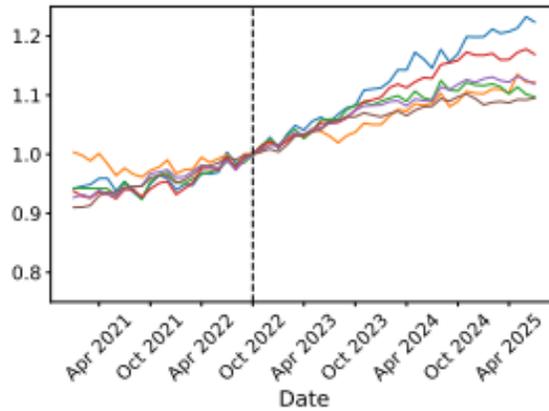
b. First-Line Production Supervisors



c. Stock Clerks



d. Health Aides



Source: [Brynjolfsson, Chandar, and Chen \(2025\)](#)

This “no-hire, no-fire” environment is more likely a period of strategic pause. Firms are assessing how emerging technologies and policy developments will reshape workforce needs. In our view, this reflects caution and transition, not structural cracks. While the nature of work is evolving, current labor market conditions remain fundamentally solid.

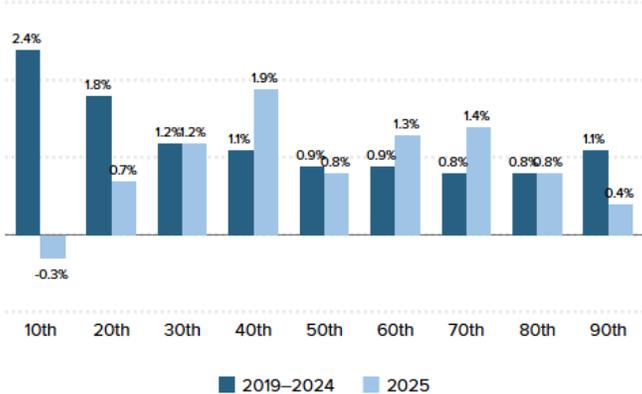
Real Wages

Inflation is most damaging when wages fail to keep pace. That does not seem to be the backdrop today. In 2025, **real wages rose modestly compared to 2024, with the strongest gains concentrated among middle-income households** ([Economic Policy Institute](#)). For many workers, purchasing power appears to have improved rather than deteriorated, helping offset price pressures and supporting overall economic resilience.

That said, the picture is not uniform. The figure below shows that there is a clear K-shaped element within the labor market. Lower-income and lower-skill workers seem to have felt the effects of a cooling labor market more acutely, with weaker wage dynamics and job displacement in certain segments. While this divergence deserves attention, it does not characterize the broader workforce.

We will show in the next section that **consumer spending remains firm, reinforcing this point**. Households, in aggregate, still have income growth and balance sheet support, and continued strength in equity markets has further bolstered wealth. **Taken together, we believe rising real wages across much of the income distribution and strong asset performance point to a fundamentally healthy macroeconomic backdrop.**

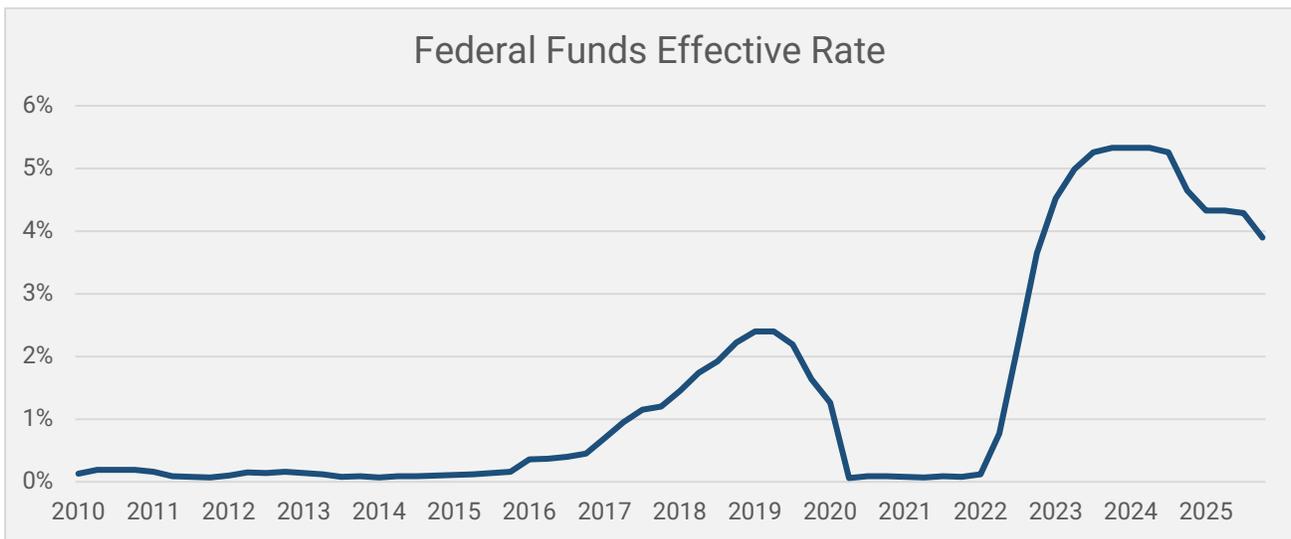
Annualized real wage growth by decile and time period



Source: [Economic Policy Institute](#)

Interest Rates

Interest rates are no longer at the ultra-low levels of the prior cycle, but they have declined meaningfully from their peaks **for sound economic reasons (low inflation and relatively stable unemployment)**. Recent [Federal Reserve guidance](#) suggests 25 to 50 basis points of cuts in 2026. However, with continued softer inflation, steady labor markets, and leadership changes at the Fed, cuts could extend toward 100 basis points in 2026. Regardless of political dynamics, the macro fundamentals increasingly support a gradual reduction in rates.



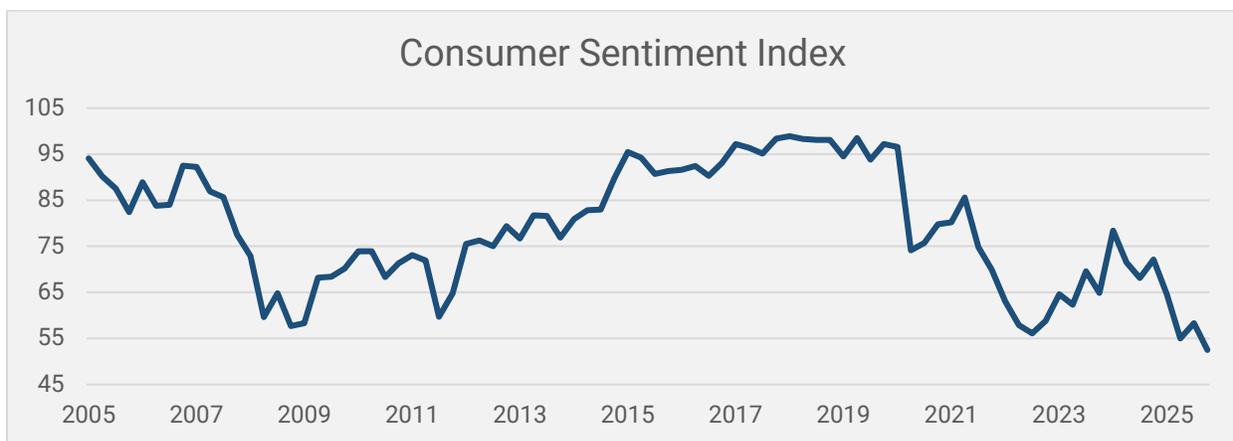
Source: [FRED](#)

Long-term rates face competing forces, including fiscal issuance and global demand for Treasuries, which could keep the 10-year yield range-bound near 4%. Even so, **the broader direction of policy points to improving financial conditions, which will most likely support investment activity and rate-sensitive sectors.**

Overall, the data points to an economy that is adjusting rather than deteriorating. Momentum appears to have broadened across sectors, and the feared negative feedback loops have yet to materialize. Policy uncertainty and headwinds have been absorbed without triggering systemic stress. **The expansion appears to be transitioning into its next phase, not nearing its end.**

Consumer Confidence vs. Consumer Spending

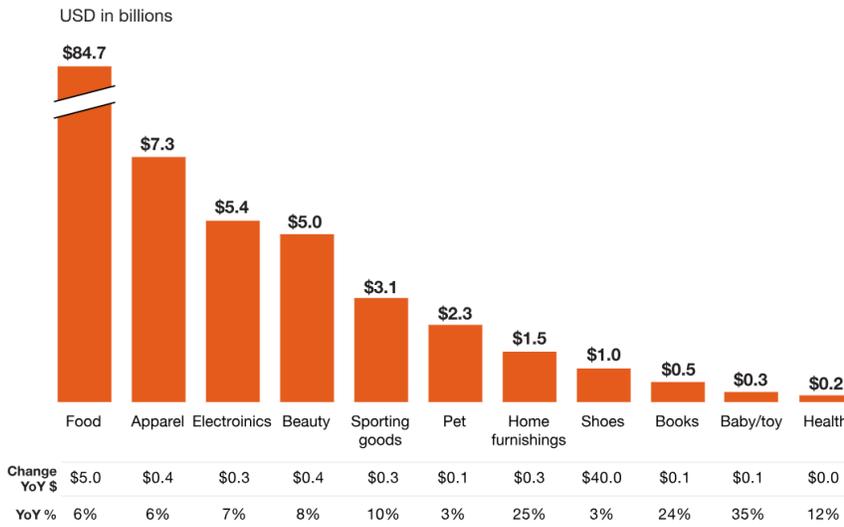
Consumer confidence measures remain deeply subdued, with the [University of Michigan's sentiment index](#) now **sitting below levels seen during both the Global Financial Crisis and the COVID shock**. By survey metrics alone, **conditions appear recessionary. Yet behavior suggests otherwise**. Thanksgiving and holiday spending rose 6.4% year over year ([PwC](#)), total 2025 retail sales increased 3.7% over 2024 ([U.S. Census Bureau](#)), and travel demand remains resilient, with a 1.1% growth estimate from the [U.S. Travel Association](#). Consumers may report anxiety, but their spending patterns continue to reflect engagement with the economy.



Source: [FRED](#)

The holiday spending data further reinforces this divergence. Gains were broad-based across food, apparel, and electronics, with particularly strong increases in home furnishings, books, and toys, which are **largely discretionary categories**. This does not seem like the profile of a consumer pulling back aggressively. As shown in the figures above, sentiment has weakened materially, yet actual purchasing behavior continues to expand across all categories.

Consumer spend across retail categories (Nov 1 - Dec 17, 2025)



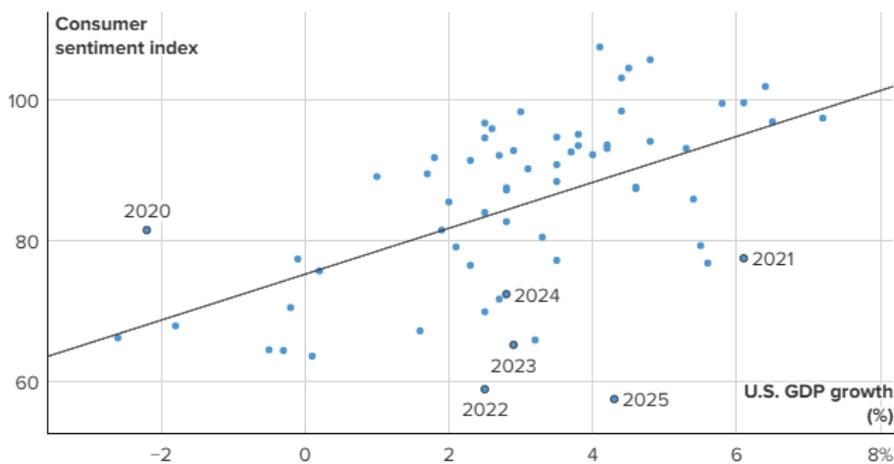
Source: PwC analysis of 300K households' receipt data from Numerator; Nov 1–Dec 17, 2025, compared with Nov 1–Dec 17, 2024

Source: [PwC](#)

While there are many reasons why sentiment does not always match reality, the scatterplot from [CNBC](#) below makes this exact point. **Historically, consumer confidence and GDP growth are positively correlated, but the relationship is far from tight.** Recent observations sit meaningfully below the long-run trendline, indicating unusually weak sentiment relative to still-positive growth. **In other words, survey pessimism can coexist with ongoing expansion.**

U.S. consumer sentiment and GDP growth over the years

Each dot represents a year between 1961 and 2025



Note: 2025 uses the third-quarter growth rate for GDP.

Source: University of Michigan Surveys of Consumers, World Bank

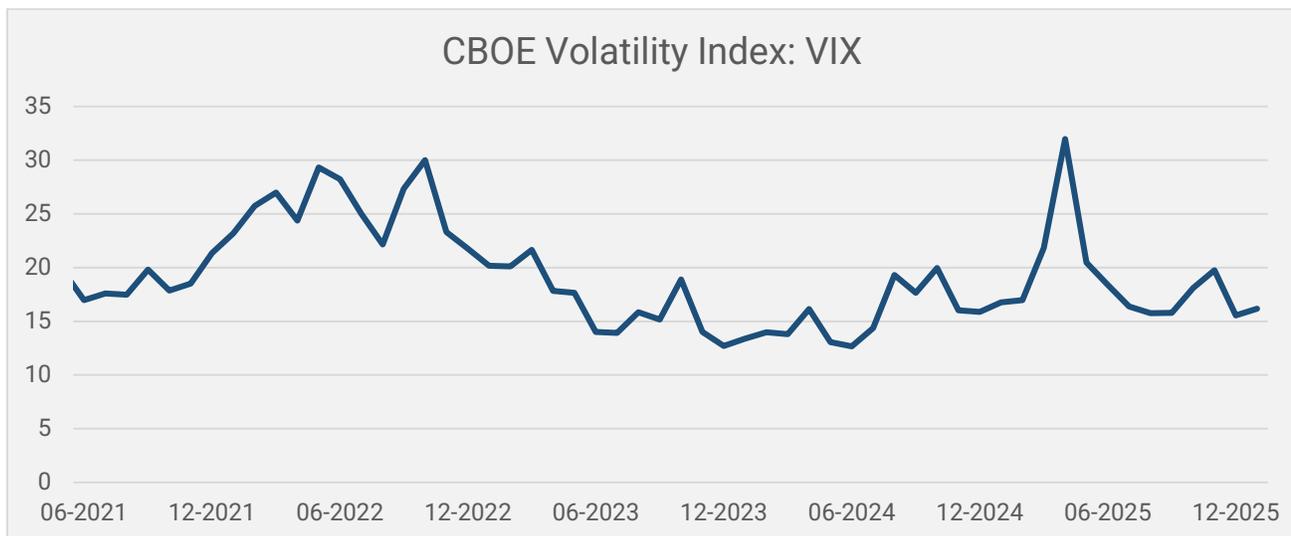


Source: [CNBC](#)

Academic research offers several explanations for this divergence:

- **Higher prices feel worse than income gains feel good.** After a sharp inflation episode, households anchor to prior price levels and experience the rise as a loss, even if wages and employment remain solid (reference dependence and loss aversion) ([Bolhuis, Cramer, Schulz, and Summers 2024](#)).
- **Recent inflation shapes expectations.** Households overweight their lived experience when forming views about the economy, which can keep sentiment subdued even as inflation moderates ([Malmendier and Nagel \(2015, QJE\)](#)).
- **Survey responses reflect politics and media tone.** Research shows economic sentiment in surveys can move with partisan views or news framing, **while actual spending behavior changes far less** ([Mian, Sufi, and Khoshkhoh 2018](#)).

Consumption decisions are generally driven primarily by income, jobs, balance sheets, and access to credit. If those fundamentals remain intact, spending can continue even when confidence readings are weak. The volatility index below shows no significant increase in 2025 apart from the first tariff announcement. **Put simply, both things can be true: consumers can feel uneasy about the economy and still participate in it.**

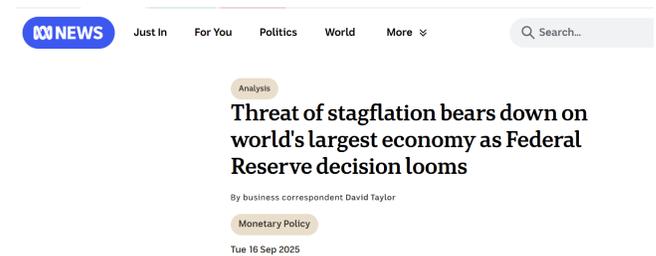


Source: [FRED](#)

Rhetoric vs. Reality: Why Sentiment Feels Worse Than Data

A defining feature of today's environment is the disconnect between perception and behavior. In the economics literature, **revealed preferences, meaning what households and firms actually do with their money, often provide a clearer signal than survey responses or media narratives.** We will provide evidence below that, based on observed spending, investment decisions, and economic fundamentals, underlying activity appears considerably more resilient than sentiment would imply.

A popular way commentators ([CNBC](#)) have tried to describe today's disconnect is with terms like **"vibecession"** or **"boomcession,"** where economic data look more like expansion than contraction, even as public sentiment feels recession-like. *Vibecession* captures the idea that people perceive a downturn despite solid growth and moderate inflation, driven by narratives and sentiment rather than underlying activity.



Across global media in 2025, coverage repeatedly highlighted concerns about a U.S. recession and possibility of stagflation

Headlines like these have become more common, particularly outside the U.S., and we believe this is an appropriate place in the paper to address them directly using the data presented in the previous section and the realities observed on the ground.

The reasons for this narrative are not entirely clear. Media coverage often emphasizes tail risks, which can widen perception gaps during periods of uncertainty. However, the underlying data tells a more measured and stable story.

The table below summarizes our views on several prevailing narratives.

Rhetoric	Reality												
<p>“The U.S. economy is in trouble”</p>	<p>The U.S. economy remains robust and continues to expand. Real GDP grew 2.2% in 2025 and is projected to outpace every other major developed economy in 2026 and 2027, even under the relatively subdued assumptions in the latest World Economic Outlook. We believe growth is likely to exceed those baseline projections.</p>												
<p>“Inflation is out of control and will only get worse with increased tariffs the conflict in the Gulf”</p>	<p>The 2025 PCE print was one of the lowest in the last 5 years (FRED), inflation has been falling and is nearing the Fed's 2.0% target, especially when correcting for delayed and likely erroneous data on shelter inflation. Impacts from escalating oil prices will likely be short-term and contained, especially in the U.S., which is energy independent.</p> <div data-bbox="824 1255 1414 1675" data-label="Figure"> <table border="1"> <caption>Annual PCE</caption> <thead> <tr> <th>Year</th> <th>Annual PCE (%)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>4.1</td> </tr> <tr> <td>2022</td> <td>6.5</td> </tr> <tr> <td>2023</td> <td>3.8</td> </tr> <tr> <td>2024</td> <td>2.6</td> </tr> <tr> <td>2025</td> <td>2.6</td> </tr> </tbody> </table> </div>	Year	Annual PCE (%)	2021	4.1	2022	6.5	2023	3.8	2024	2.6	2025	2.6
Year	Annual PCE (%)												
2021	4.1												
2022	6.5												
2023	3.8												
2024	2.6												
2025	2.6												
<p>“Unemployment is increasing”</p>	<p>This point is directionally true but requires context. The unemployment rate remains low by historical standards. However, we expect some upward pressure on unemployment as AI and automation are adopted more broadly.</p>												

	<p>We view this as a transitional adjustment rather than structural deterioration, potentially creating short-term displacement as firms integrate new technologies, but generating long-term benefits through productivity gains, cost efficiencies, and the emergence of new categories of employment.</p>
<p>“The Federal Reserve has lost its independence “</p>	<p>The administration has increased public pressure on the Federal Reserve to lower rates, but the Fed remains an independent institution with established legal protections and a defined governance structure. Monetary policy decisions are made collectively by the FOMC and not by the Chair alone, meaning no single individual can unilaterally shift policy. Notably, when legal pressure was brought against current Chair Jerome Powell, it drew bipartisan criticism (Fortune Article) and was ultimately walked back, reinforcing the institutional guardrails surrounding Fed independence.</p>
<p>“U.S. Showing Signs of ‘Rapid Authoritarian Shift” (Time)</p>	<p>Claims that the U.S. president operates as a unilateral authority overlook the structure of the American system. Power is deliberately divided across three branches (executive, legislative, and judicial), each with the ability to check and constrain the others. This tripartite framework makes sustained, unchecked executive control structurally difficult, if not impossible, regardless of political rhetoric. For example, the Supreme Court’s recent ruling striking down many of the Trump tariffs illustrates the system of checks and balances functioning as intended.</p>
<p>“Trump is an egomaniacal bully”</p>	<p>This is probably true, but he’s also a shrewd negotiator who “asks for the stars to settle for the moon.” He has surrounded himself with some of the top minds in the country who</p>

	have come from industry and have records as thoughtful change agents. Despite his volatile and abrasive rhetoric, his tactics, combined with empowering the high-capacity individuals around him, have arguably led to one of the most productive first years of a presidential term in the modern era.
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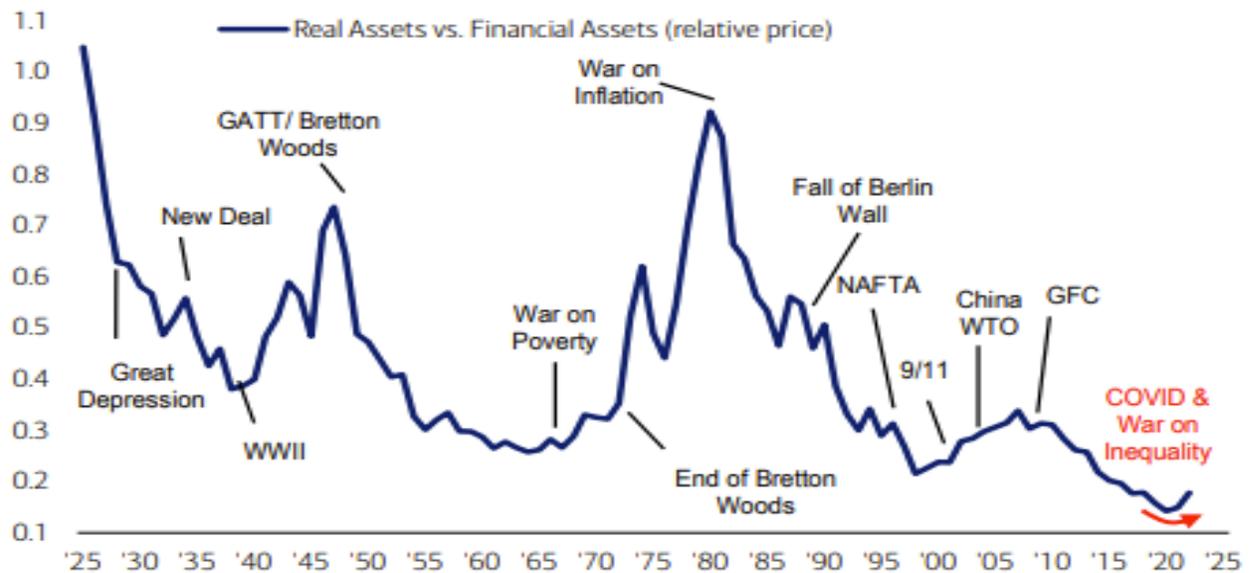
U.S. CRE: Road to Recovery

In our view, U.S. CRE is increasingly positioned for a broader and more durable recovery. This section below highlights that **valuations have reset to historically attractive levels**, while underlying **fundamentals are stabilizing** and, in many sectors, improving. As noted above, the **macro backdrop is constructive**: inflation risks have moderated, **interest rates have declined** from their 2022–2023 peaks, and the potential for continued economic growth supports tenant demand. Data shows that **capital markets are functioning more normally, with lenders re-entering the market and transaction activity accelerating**. At the same time, **new supply remains below long-term averages in several property types, demographic and structural tailwinds have persisted**, and post-COVID tenant behavior is now better understood. **Together, this combination of pricing discipline, improving liquidity, and strengthening fundamentals has often preceded multi-year investment upcycles in U.S. CRE.**

The chart below from [Bank of America Global Research](#) shows the relative price of real assets (commodities, real estate, collectibles) versus financial assets (large-cap stocks and long-term bonds) going back to 1925. **Today, real assets sit near the lowest relative valuation levels in almost a century.** History shows that moments like this have often marked important transitions, including the Great Depression, the end of Bretton Woods, and the inflationary reset of the 1970s. While these signals do not necessarily time markets, they tend to highlight periods when long-term risk-reward begins to shift. What makes the current setup especially compelling is that these depressed valuations are **coinciding with improving real estate fundamentals**: lower interest rates than the 2022–23 peak, renewed lender activity, clearer post-COVID tenant behavior, and limited new supply across most sectors. **Taken together, this environment strengthens the case that U.S. CRE is not only historically inexpensive but also positioned to benefit as capital rotates back toward tangible, income-producing assets.**

Chart 5: The Case for Real Assets

Real Assets vs Financial Assets (relative price)



Source: BofA Global Investment Strategy, Global Financial Data, Bloomberg, USDA, Savills, Shiller, ONS, Spaenjers, Historic Auto Group. Note: Real Assets (Commodities, Real Estate, Collectibles) vs. Financial Assets (Large Cap Stocks, Long-term Govt. Bonds)

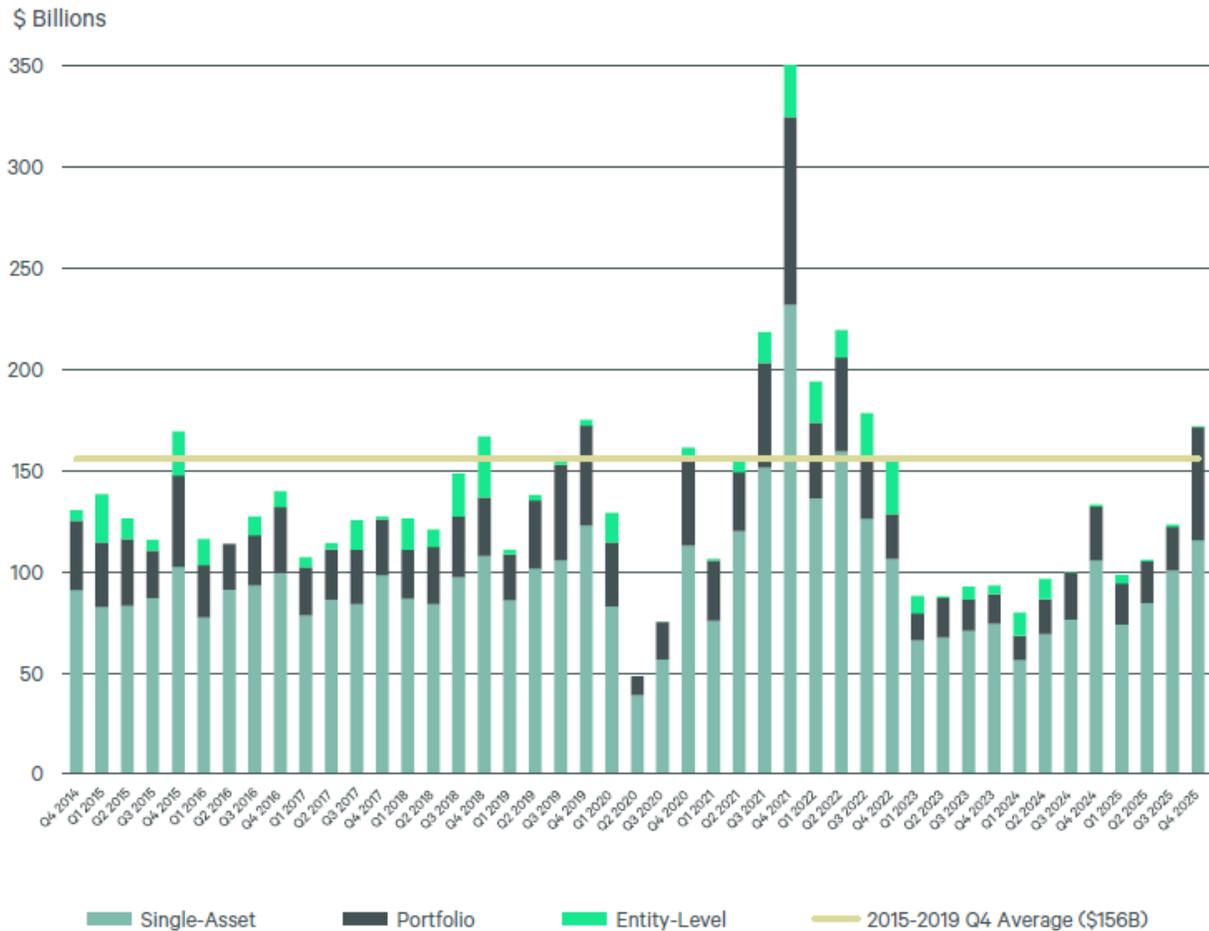
BofA GLOBAL RESEARCH

Source: [Bank of America Global Research](#)

Transaction Volume Is Rising

Investment activity increased meaningfully in 2025, with **total U.S. CRE volume up more than 29% year-over-year in Q4 2025. Annual volume increased by 22% in 2025 (CBRE)**. The fourth quarter showed particularly strong acceleration. Improving deal flow usually indicates that bid-ask spreads are narrowing and price discovery has resumed.

U.S. Investment Volume



Note: Volume excludes development site transactions.
Source: CBRE Research, MSCI Real Assets, Q4 2025.

Source: [CBRE](#)

Investment activity in multifamily has reaccelerated meaningfully, reinforcing its position as the leading property type in the current recovery. According to [CBRE](#), in Q4 2025, multifamily investment volume reached approximately \$50 billion, **up 4% year-over-year**, making it the largest sector by total deal activity. On a trailing four-quarter basis, **volume rose to over \$160 billion, reflecting a roughly 9% increase from the prior year** and accounting for nearly one-third of total CRE investment. Even within single-asset transactions, which are often viewed as a clearer signal of core market liquidity, **multifamily volumes increased year-over-year, underscoring renewed investor conviction**. In our opinion, this pickup suggests that capital is returning to the sector as supply pressures begin to moderate,

fundamentals stabilize, and financing markets improve, positioning multifamily as a primary beneficiary of the broader CRE recovery.

U.S. Investment Volume By Sector

	Total (\$ Billions)				Total (\$ Billions)			
	Q4 2025	Q4 2024	Change (%)	Market Share (%)	Trailing 4 Quarters Ending Q4 '25	Trailing 4 Quarters Ending Q4 '24	Change (%)	Market Share (%)
All Types of Investment								
Multifamily	49.5	47.5	4.4	28.9	161.6	148.1	9.1	32.4
Industrial	33.7	33.1	1.9	19.6	110.8	97.2	14.0	22.2
Data Center	27.2	4.2	541.7	15.9	29.9	8.0	274.2	6.0
Office	26.0	21.4	21.4	15.2	79.4	63.3	25.3	15.9
Retail	19.7	15.4	27.9	11.5	70.2	55.4	26.8	14.1
Hotel	8.6	6.0	43.1	5.0	26.6	23.7	12.0	5.3
Other	6.8	5.5	22.7	4.0	20.4	13.5	50.9	4.1
Total	171.6	133.2	28.9	100.0	499.1	409.4	21.9	100.0
Single-Asset Investments Only								
Multifamily	40.9	39.9	2.5	35.3	133.4	112.1	19.0	35.6
Industrial	24.3	24.0	1.1	21.0	81.2	69.2	17.4	21.7
Data Center	1.7	1.5	12.2	1.4	2.5	4.8	-47.0	0.7
Office	19.8	17.7	11.6	17.1	64.7	48.7	32.9	17.3
Retail	17.1	14.6	17.2	14.8	56.4	45.3	24.6	15.1
Hotel	7.2	5.3	36.4	6.2	23.1	20.0	15.4	6.2
Other	4.7	2.5	89.0	4.1	13.2	7.5	75.9	3.5
Total	115.6	105.5	9.6	100.0	374.5	307.5	21.8	100.0
Portfolio Asset Investments Only								
Total	55.7	26.6	109.4		118.2	79.0	49.6	
Entity-Level Asset Investments Only								
Total	0.4	1.1	-68.8		6.4	22.9	-72.1	

Note: Totals include single-asset, portfolio and entity-level transactions. "Other" includes senior housing and excludes development sites. Some numbers may not total due to rounding.
Source: CBRE Research, MSCI Real Assets, Q4 2025.

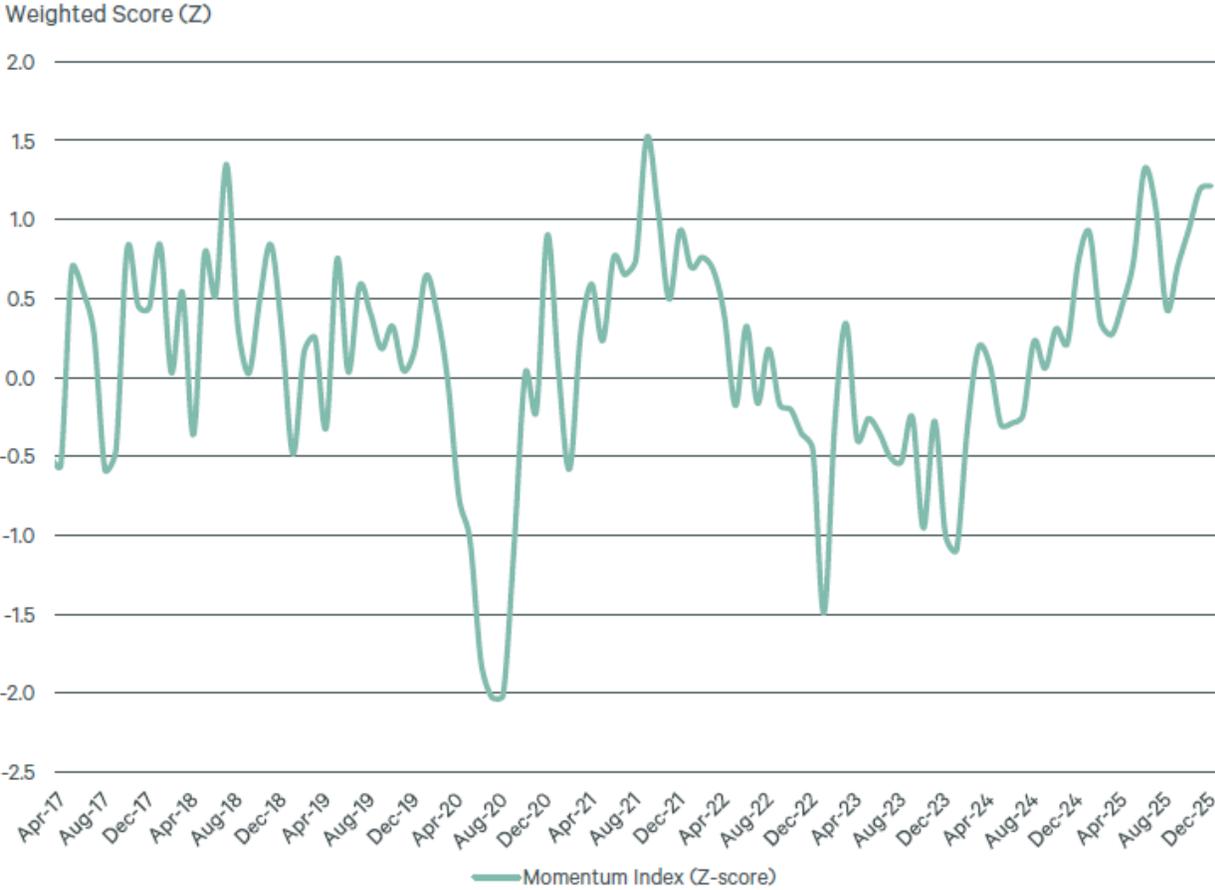
Source: [CBRE](#)

Debt Markets Are Functioning Again

Credit availability for U.S. CRE improved meaningfully in 2025 but remains below historical norms, with lenders maintaining a cautious stance. The [CBRE Lending Momentum Index](#), which tracks the pace of CBRE-originated commercial loan closings in the U.S., **surged to 1.2, a level last seen in 2018**. Higher readings signal stronger lending momentum and risk-on sentiment. Higher origination activity, larger average loan sizes, relatively stable spreads, and improved LTVs appear to have supported more constructive lending conditions. In [CBRE's](#) tracking, total loan financing volumes rose about **26% year-**

over-year in Q4, and December marked the highest monthly financing level since 2021. Despite this progress, we believe lenders are likely to continue underwriting conservatively, favoring high-quality sponsors and assets.

CBRE Lending Momentum Index

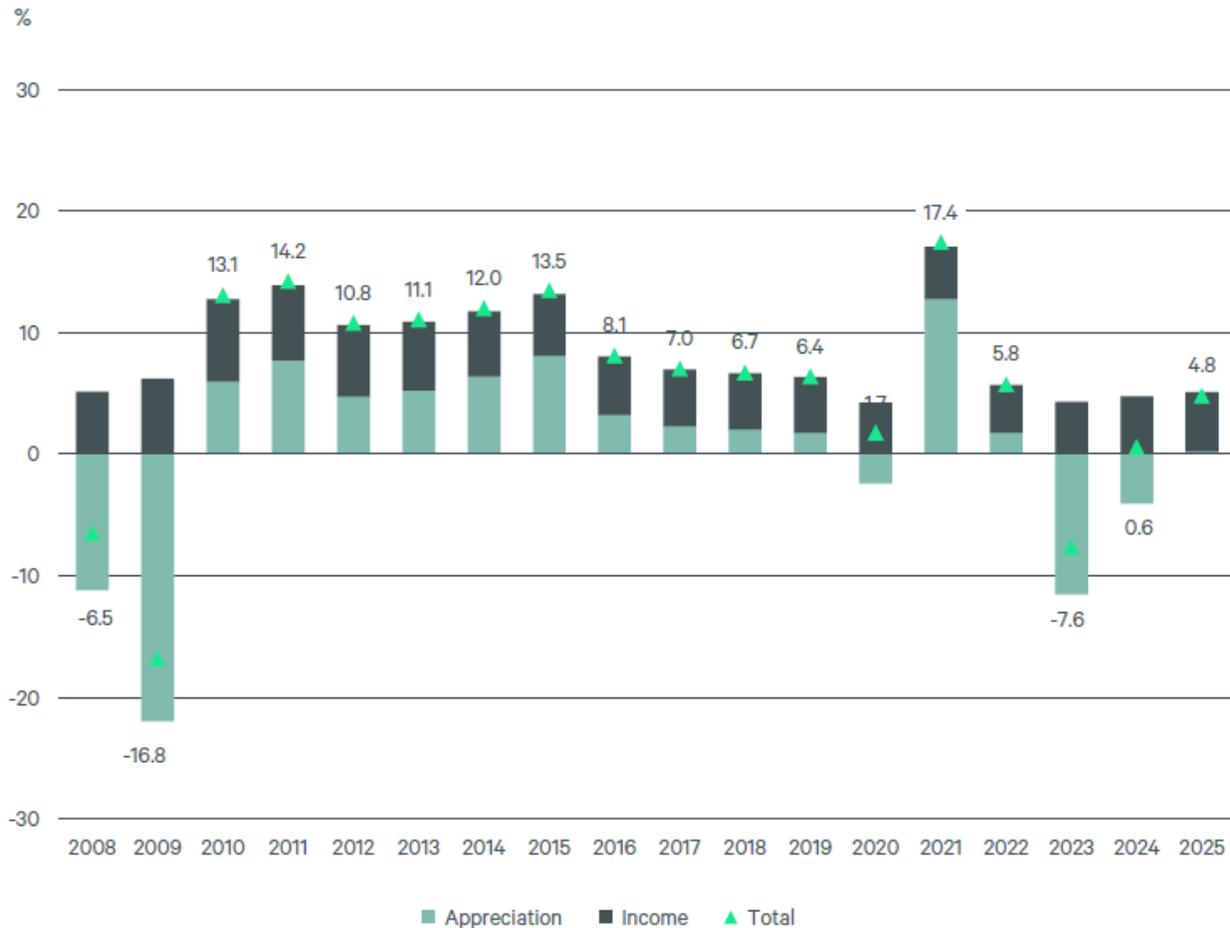


Source: [CBRE](#)

Performance Has Stabilized

After two years of repricing and negative appreciation, CRE performance has stabilized and is now improving. The [NCREIF Property Index](#) shows that **total annual returns rebounded to 4.8% in 2025**, a meaningful improvement from just 0.6% in 2024. Importantly, this recovery has been **driven primarily by income rather than appreciation, signaling a healthier and more durable return profile**. Retail led all major sectors with a 6.8% annual return, followed by **multifamily at 5.3%**, while even office (long the laggard) returned to positive territory with a 3.4% total return after a sharply negative 2024.

NCREIF Property Index Returns



Note: All returns are reported on an unlevered basis.
Source: CBRE Research, NCREIF, Q4 2025.

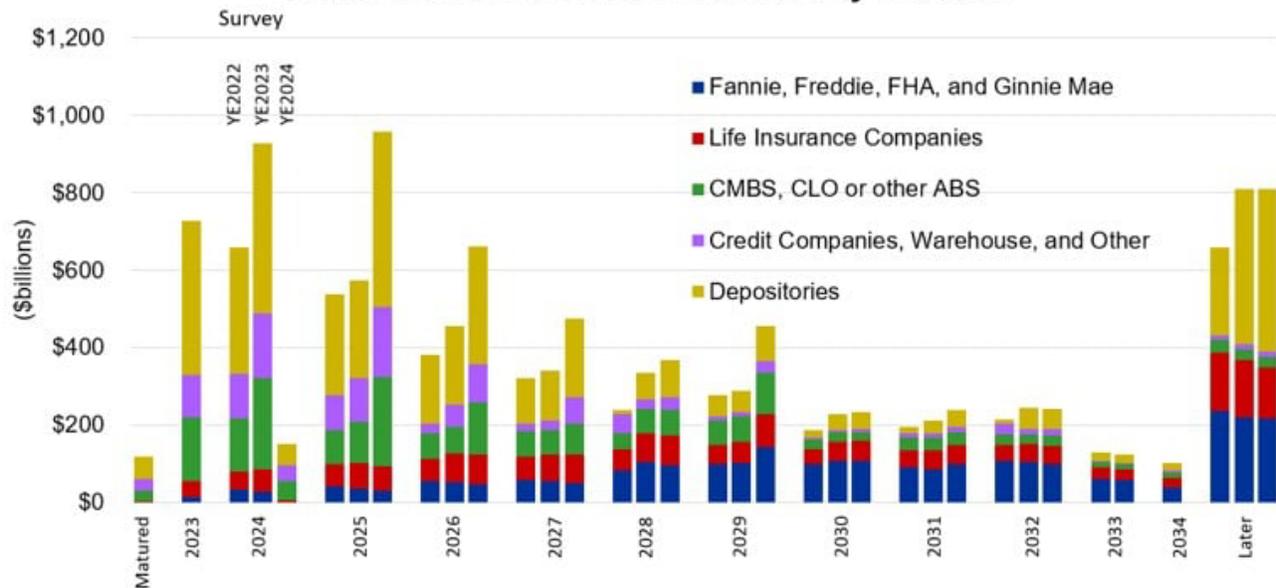
Source: [CBRE](#)

While much of the recent focus has been on prior valuation declines, we believe forward-looking return expectations **are becoming increasingly constructive**.

The CRE Maturity Wall Has Shifted—Creating Both Risk And Opportunity

Much of the concern surrounding CRE over the past two years has centered on the so-called “maturity wall.” **Pre-2022 forecasts anticipated roughly \$500–700 billion of annual maturities, but higher interest rates led to widespread loan extensions, pushing a significant portion of debt into the mid-to-late 2020s.** As a result, projected maturities are now close to \$1 trillion in certain upcoming years ([Mortgage Bankers Association](#)).

Commercial Real Estate Loan Maturity Volumes

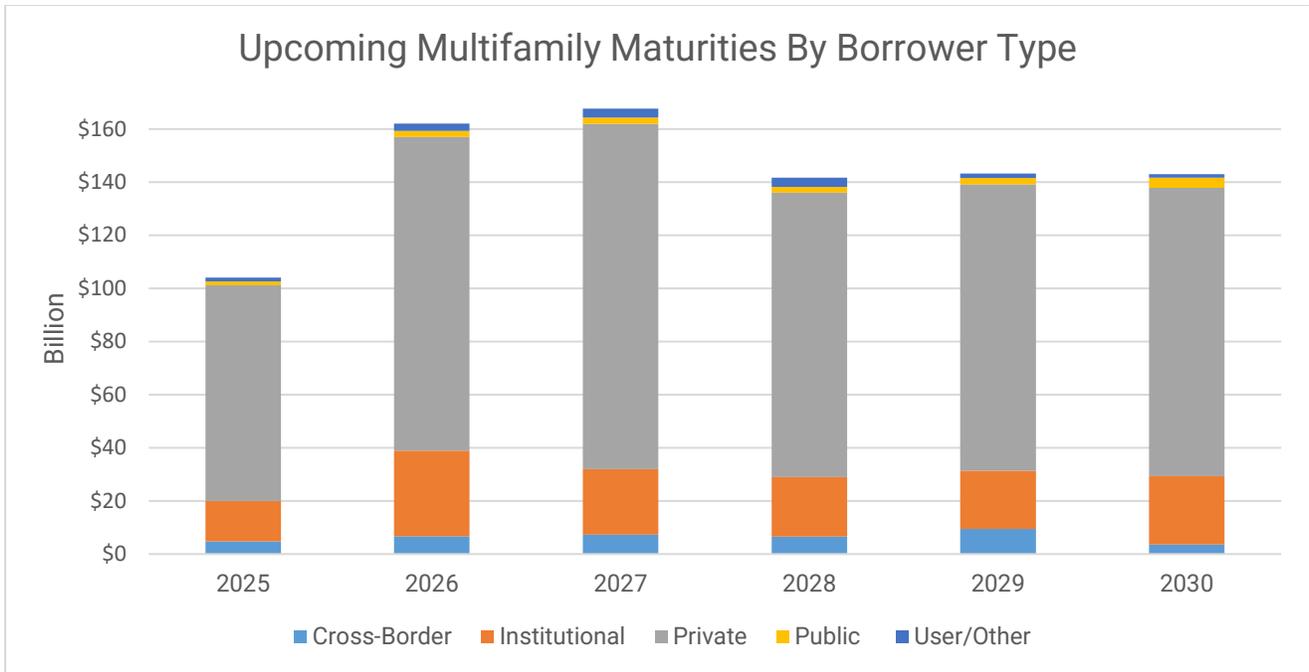


Source: Mortgage Bankers Association Commercial Real Estate Survey of Loan Maturity Volumes

Source: [Mortgage Bankers Association](#)

While this appears alarming at first glance, the reality is more nuanced. The market has likely **bifurcated**. Financeable, well-performing assets are increasingly able to refinance as credit markets stabilize and lending spreads normalize. In contrast, capital-impaired assets, particularly those with weak NOI, over-levered capital stacks, or sector-specific headwinds, usually face recapitalizations, restructurings, or forced asset sales.

This divergence is precisely where opportunity emerges. The maturity wall is not simply a refinancing challenge; it is a mechanism driving price discovery and basis reset. Owners unable or unwilling to inject fresh equity may transact at discounts, creating opportunities for well-capitalized investors to acquire assets at re-underwritten values. **Distress is unlikely to be systemic across the asset class, but it is increasingly visible in pockets,** especially where leverage was aggressive at the peak of the cycle.

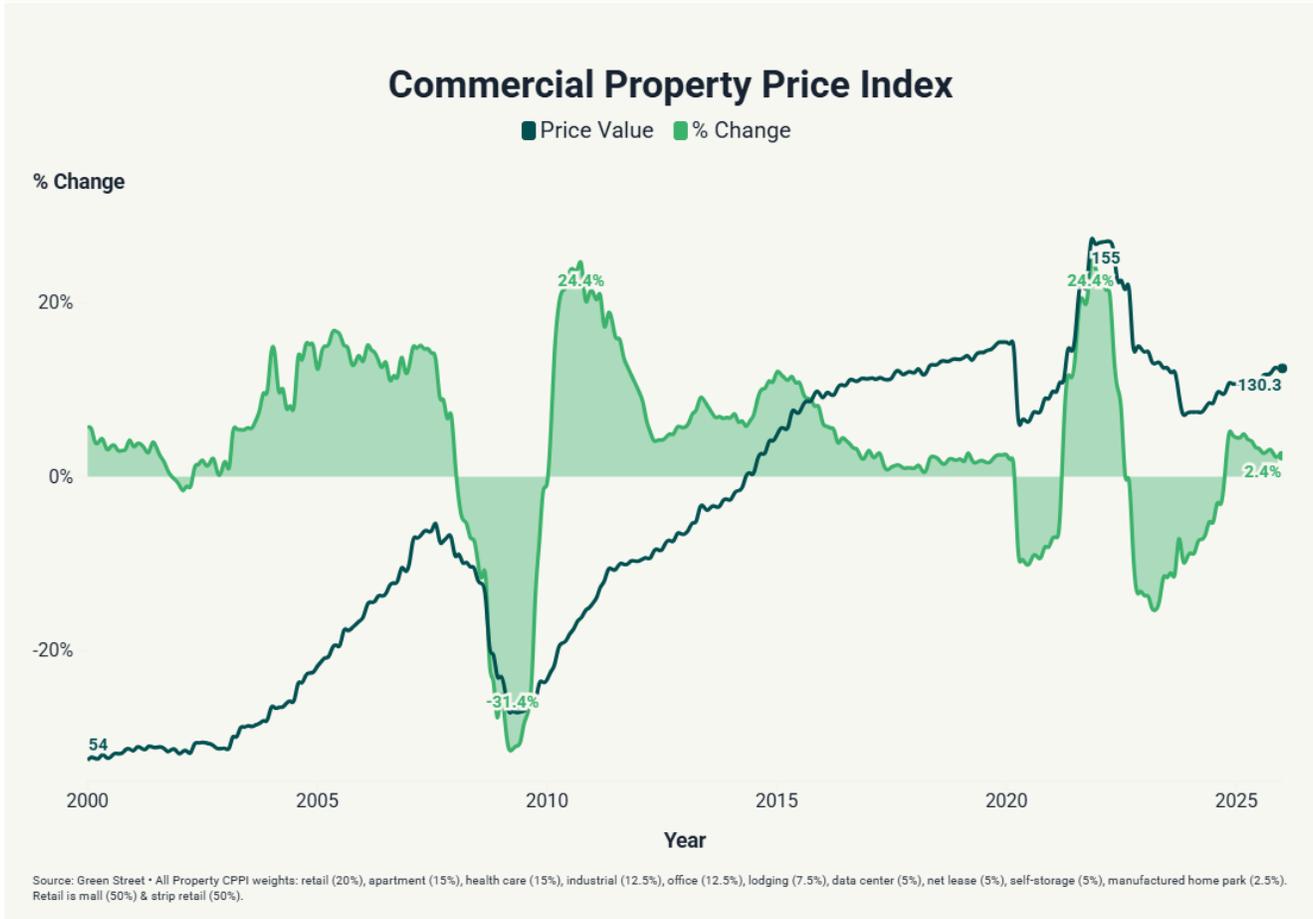


Source: [MMG Research](#)

In that context, **the maturity wall looks less like an existential threat and more like a catalyst.** It accelerates the transition from peak-cycle leverage to more sustainable capital structures, and in doing so, likely creates targeted distress and recapitalization opportunities for disciplined, well-capitalized investors.

Pricing Reflects A Reset, Creating More Attractive Entry Points

CRE today screens as meaningfully cheaper than in prior cycle peaks. **On a “price per pound” basis, assets are trading at discounts to replacement cost following the valuation reset of 2022–2023, even the newer high-quality assets.** The [Commercial Property Price Index](#) illustrates that prices have retraced from peak levels and are only modestly rebounding from their trough.



Source: [Green Street](#)

That said, headline cap rates can often be misleading. In some impaired sectors, higher cap rates can reflect NOI erosion and elevated capital expenditure requirements rather than pure value. At the same time, leveraged yields remain challenged in certain segments because borrowing costs still compress spreads relative to the 10-year Treasury.

On the “hard” pricing side, the [Real Capital Analytics \(RCA\) Commercial Property Price Index](#) was roughly flat (+0.2% YoY in Q4 2025). By sector, office (+2.8% YoY) and industrial (+2.0% YoY) posted gains, while multifamily and hotel (-1.3% YoY each) declined. Versus the 2022 peak, pricing is still ~11% lower overall, led by office (-22%) and multifamily (-19%), while industrial remains above its prior peak (+10%), highlighting that recovery is uneven and most challenged where obsolescence risk is highest.

RCA Commercial Property Price Index

Sector	December 2025	December 2024	Change Y-o-Y (%)	2022 Peak	Dec 25 vs. 22 Peak (%)	2007 Peak	Dec 25 vs. 07 Peak (%)
All	141.0	140.6	0.2%	158.6	-11%	105.7	33%
Office	94.2	91.7	2.8%	120.9	-22%	107.9	-13%
Industrial	191.5	187.6	2.0%	173.9	10%	105.2	82%
Retail	103.5	103.3	0.2%	110.8	-7%	104.2	-1%
Multifamily	196.0	198.7	-1.3%	242.9	-19%	102.5	91%
Hotel	104.6	106.0	-1.3%	118.8	-12%	112.9	-7%

Note: based on repeat property sales; sales are indexed from December 2006.
Source: CBRE Research, MSCI Real Assets, Q4 2025.

Source: [CBRE](#)

U.S. CRE Finally Poised For Broader Base Recovery

Based on the cumulative evidence and themes discussed throughout this paper, we remain bullish on U.S. CRE at this juncture. The primary drivers of this perspective are:

- **Historically cheap valuations, in addition to improving fundamentals**
- **Constructive economic backdrop with low inflation risk and potential for outsized GDP growth**
- **Interest rates have declined from the 2022-2023 peaks**
- **Lenders have re-entered the market en masse**
- **New supply remains well below historical averages**
- **Demographic and economic tailwinds persist for some sectors more than others**
- **Policy environment is broadly pro-business and pro-real estate**
- **Post-COVID tenant behavior is now better understood**

Conclusion

As 2026 begins, the **U.S. economy continues to demonstrate resilience that is difficult to reconcile with the prevailing narrative.** Growth has remained positive and comparatively strong versus peer developed economies, inflation has fallen meaningfully from its 2022 peak, and the labor market remains historically healthy. Financial conditions are no longer ultra-easy, but interest rates and long-term yields have eased from the most restrictive point of the tightening cycle, improving visibility for rate-sensitive sectors and capital formation.

At the same time, the gap between perception and observed behavior remains unusually wide. **Consumer sentiment surveys signal caution, yet real-world actions—spending, travel activity, and ongoing investment in key areas such as AI infrastructure—remain more consistent with an economy adjusting than deteriorating.** Many of the “crosscurrents” that appear contradictory at first glance (strong equities alongside elevated hedging demand, tariff headlines alongside moderating inflation) are better explained by uncertainty and positioning than by fundamental weakness. For investors, that disconnect matters because it can delay capital deployment and create valuation opportunities.

In U.S. CRE, **the conditions that historically define attractive vintages are increasingly falling into place:** pricing has reset, liquidity is improving, transaction volume is recovering, and return expectations are shifting back toward income and fundamentals rather than multiple expansion. The maturity wall is real, but it is also a mechanism for price discovery, concentrating stress in specific assets and capital structures rather than across the entire market. **In this environment, the case to re-engage is less about betting on broad cap-rate compression and more about selecting the right sectors and partnering with hands-on managers who can drive leasing, execution, and asset-level outcomes as the recovery broadens.**

U.S. and Israel Strike Iran: Assessing the Potential Economic Fallout

The primary channel through which this conflict affects the U.S. economy is energy. While Iran accounts for a modest share of global oil output (5%), its real leverage lies over the Strait of Hormuz, which is the chokepoint through which roughly 20% of the world's daily oil demand passes ([NBC News](#)). The duration of the conflict will determine how much of the current market disruption translates into lasting economic damage.

Scenario 1: Short Conflict (1–2 Weeks)

A swift resolution would produce a transitory inflation bump and near-term market volatility, but no structural economic damage. Energy analysts forecast an initial 5–15% rise in crude prices, but at current levels, this would not materially affect growth. J.P. Morgan's Jamie Dimon stated plainly that as long as the conflict is not prolonged, it is unlikely to trigger a major inflationary hit. Historical precedent supports this. During the 12-day Israel-Iran war in June 2025, oil prices spiked and quickly retraced once it was clear there was no physical supply disruption ([J.P. Morgan](#)). The U.S. is also meaningfully insulated: domestic shale output and the Strategic Petroleum Reserve provide buffers, and the fundamental drivers of growth, consumer spending, business investment, and the labor market, would remain intact.

Scenario 2: Prolonged Conflict (One Month or More)

A conflict extending beyond a month raises the stakes considerably. A broader Strait disruption, which is already partially underway as shippers divert and insurers withdraw coverage, pushing oil above \$100, delivering a 1.0–1.5% shock to both U.S. inflation and GDP growth, per J.P. Morgan. The Federal Reserve would almost certainly delay rate cuts, adding tightening pressure on top of the energy shock. On the consumer side, sustained higher gasoline prices would compound existing affordability pressures and weigh on spending, the largest driver of U.S. GDP.

There are meaningful offsets, however. Elevated defense spending would add fiscal stimulus, OPEC+ has already moved to raise production quotas, and the Strategic Petroleum Reserve can be deployed to moderate domestic price pressure. These factors would not eliminate the impact, but would limit its severity.

Neither scenario appears likely to fundamentally alter the structural trajectory of the U.S. economy. **The key variable, as J.P. Morgan, Citi, Goldman Sachs, and most major institutions agree, is time.** A quick resolution leaves the economy largely unscathed. A prolonged conflict introduces headwinds that would complicate the Fed's path and dampen confidence, but the base case remains a contained and transitory impact. The fundamentals have not changed; the tail risk has simply grown larger.

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