



SAMPLE REPORT

U.S. Commercial Property Outlook

U.S. Commercial Property Outlook

Macro trends, operating fundamentals and valuation

May 26, 2025



- Tariffs are expected to cause economic growth to slow down
- Real estate fundamentals will be impacted, but not severely
- NOI growth estimates reduced in mid-April; some increases since
- Property prices are virtually unchanged this year
- Real estate is fairly priced vs. corporate bonds
- Skilled nursing and senior housing are cheapest sectors in the private market
- Listed REITs fairly valued vs. corporate bonds; cheap vs. S&P 500





Table of Contents

Sections

Changes & Conclusions	3
Executive Summary	4
U.S. Economy	5-7
Fundamentals	8-12
Private Market	13-19
Public Market	20-22
Appendix	23-25

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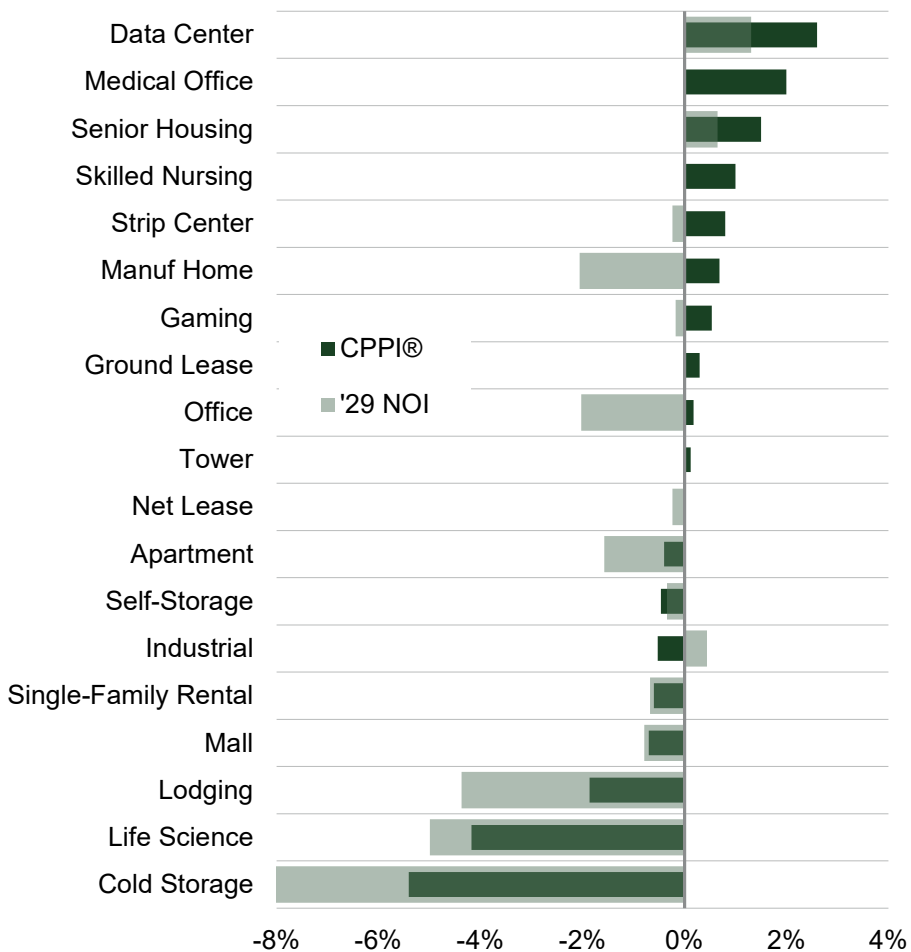
Peter Rothemund, CFA, *Co-Head of Strategic Research*

Report uses May 23 prices. SPX 5802; RMZ 1258; 10YR 4.51; Baa Corp 6.39

Changes & Conclusions

- Cap rates are mostly unchanged over the past couple of months; life science cap rates have increased
- NOI growth estimates lowered when GDP forecast was cut in mid-April; a few adjustments since then
- Private-market real estate is fairly valued; listed REITs are cheap vs. the S&P 500

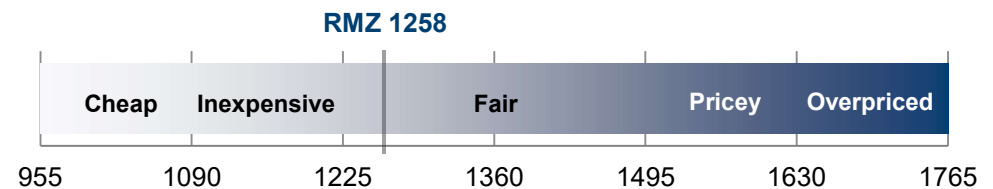
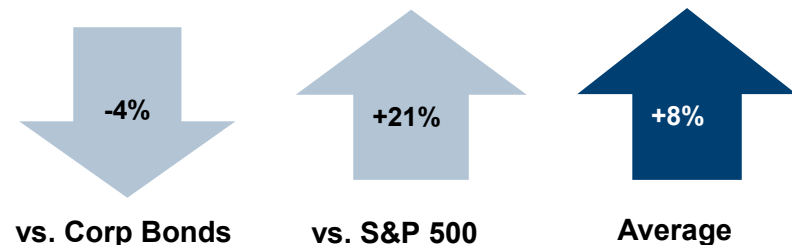
Changes to Property Prices & NOI (vs. Mar 21 report)



Commercial Real Estate Fair Value



REIT Market Fair Value (Levered)



Executive Summary



- U.S. Economy**
 - Ever-changing tariffs have sapped confidence, but their full impact will take time to be felt
 - Anemic GDP growth is expected this year (+0.3% 4Q/4Q); employment growth is forecast to decelerate
 - Consumer sentiment has plunged, spending has not; retail sales boosted by buying ahead of price increases
 - Stock-market investors are relatively sanguine; yields on Treasuries have increased

- Fundamentals**
 - Elevated new supply has been hindering rent growth in some sectors, but completions should ease this year
 - A weak economy will weigh on fundamentals, though M-RevPAF growth should generally remain decent
 - Senior housing and data center fundamentals are best; life science and office have weakest M-RevPAF outlooks
 - NOI growth estimates cut in mid-April; industrial, data center and lodging increased since then, cold storage down

- Private Market**
 - Property prices have plateaued; Green Street CPPI® essentially unchanged this year
 - Capital markets have improved; S&P 500 is up 16% from April low and yields on junk bonds are down 100 bp
 - Commercial real estate is 5% expensive vs. a mix of investment-grade and high-yield bonds
 - In aggregate, REITs trade 2% below private values; real estate pricing is unlikely to change over the near term
 - Skilled nursing, senior housing and ground lease are the cheapest sectors in the private market

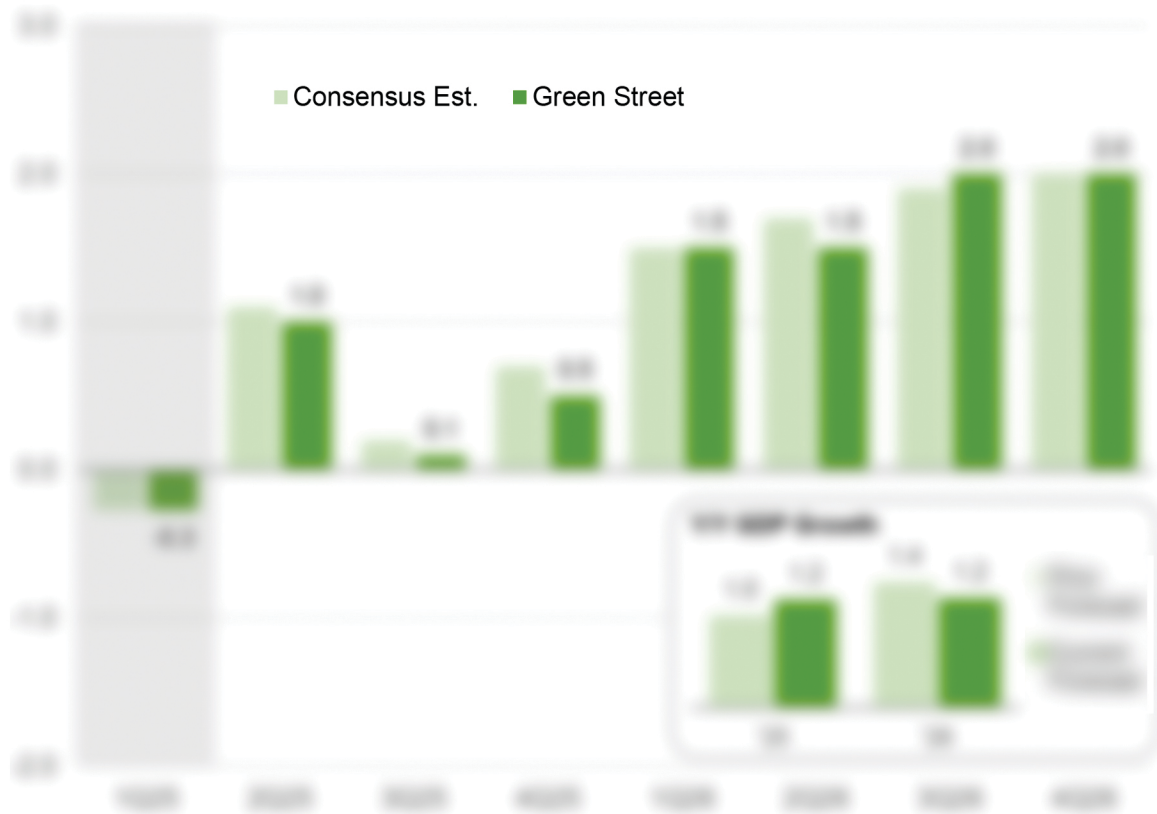
- Public Market**
 - REITs are fairly priced compared to corporate bonds, attractively priced vs. the S&P 500
 - Cold storage, mall and gaming REITs are cheapest; self-storage, health care and office are most expensive

I. U.S. Economy: GDP & Employment



The hard data suggest the U.S. economy is holding up. Consumer spending and job growth were healthy in 1Q; GDP contracted due to a surge in imports. Nonetheless, tariffs—lower than they were a few weeks ago, but high by historical standards—and battered confidence are likely to lead to weak economic growth. Employment growth is expected to decelerate; an average pace of 75k/month is forecast through '26.

U.S. Real GDP Growth (Q/Q, Annualized Rate)



% Employment Growth (4Q/4Q)



Source for consensus estimates is Blue Chip Economic Indicators (survey taken May 5 & 6); prior GDP forecast published on April 11

I. U.S. Economy: The Consumer



Consumer sentiment has fallen sharply, and survey respondents are worried that tariffs will cause inflation. Thus far, consumers have largely been shielded from price increases and have continued to spend. With prices of many goods expected to rise and the budgets of many households stretched, the outlook for consumer spending is not encouraging. High-income households are in better shape.

Index of Consumer Sentiment



YoY Nominal Change in Retail Sales (ex Motor Vhl & Gas)



Sources: University of Michigan, U.S. Commerce Department Retail Trade Report

I. U.S. Economy: Financial Markets



Treasury yields have risen since April 2nd, particularly at the long end of the curve. The S&P 500 has regained its early-April losses, and is now circa 5% below its February high. REIT prices have rebounded from their lows as well. Market participants do not appear to be concerned that tariffs could damage the U.S. economy and corporate profits.

Treasury Yield Curve



Change in Price vs. Year End 2024



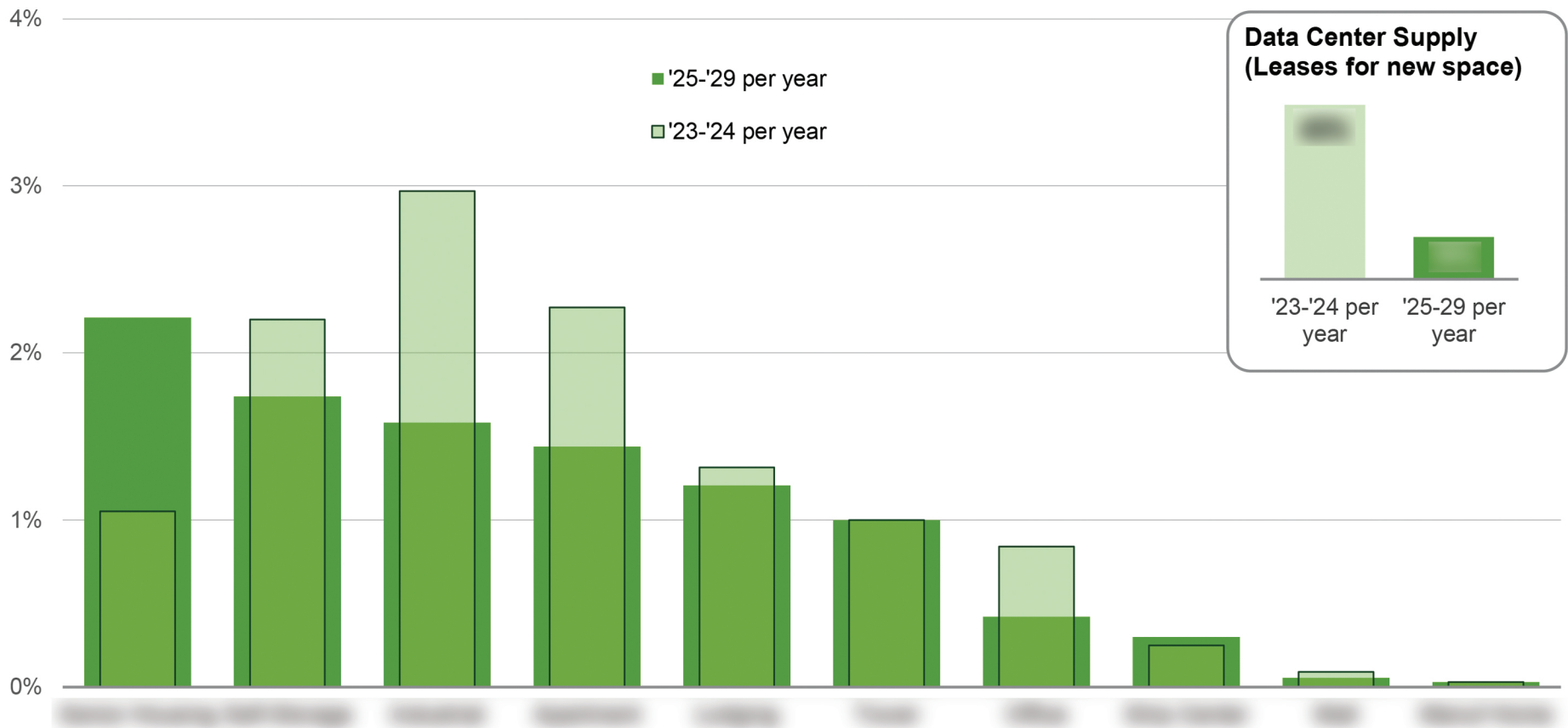
Source: Bloomberg. REITs is MSCI US REIT Index (RMZ).

II. Fundamentals: Supply Growth

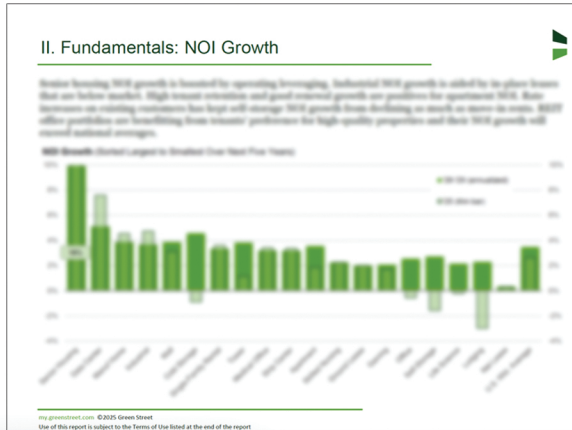
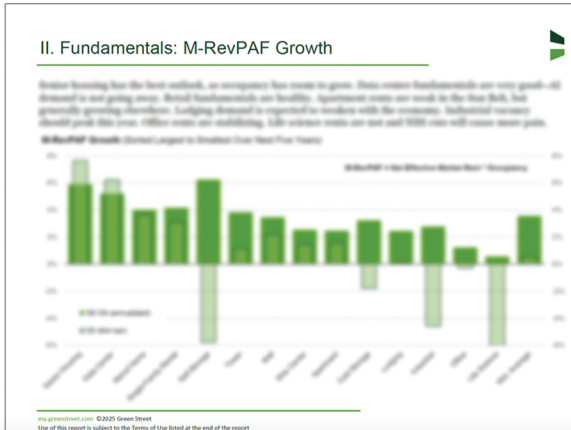
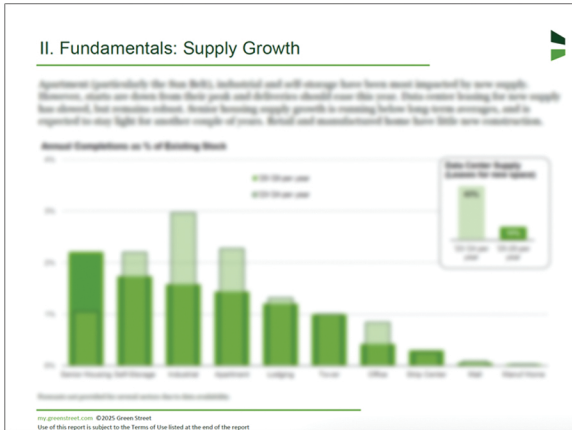


Apartment (particularly the Sun Belt), industrial and self-storage have been most impacted by new supply. However, starts are down from their peak and deliveries should ease this year. Data center leasing for new supply has slowed, but remains robust. Senior housing supply growth is running below long-term averages, and is expected to stay light for another couple of years. Retail and manufactured home have little new construction.

Annual Completions as % of Existing Stock



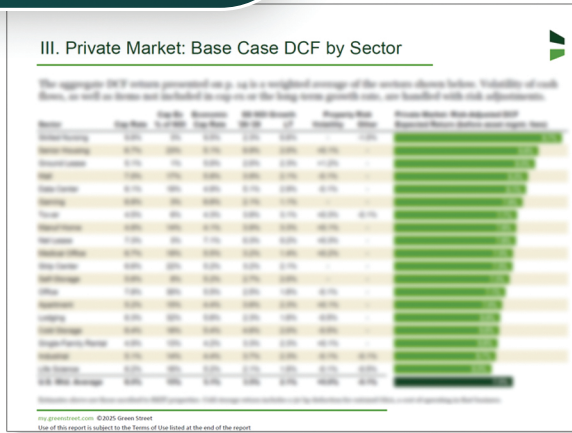
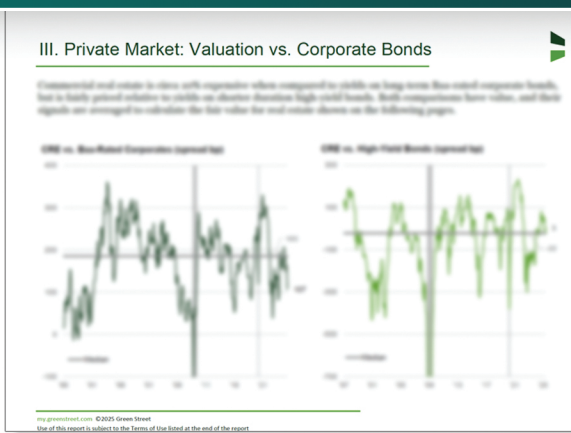
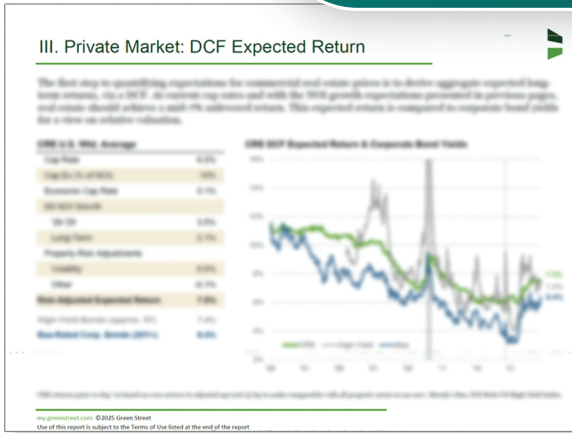
Forecasts not provided for several sectors due to data availability.

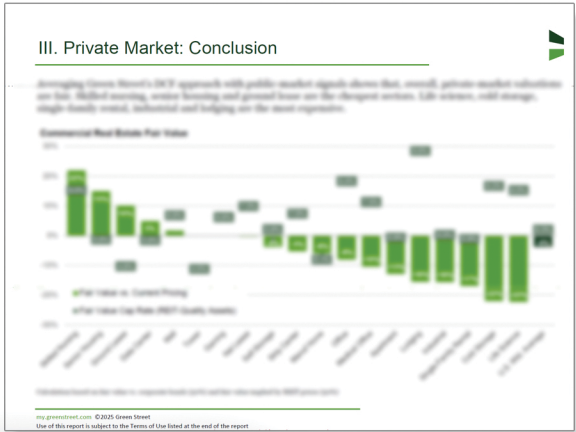
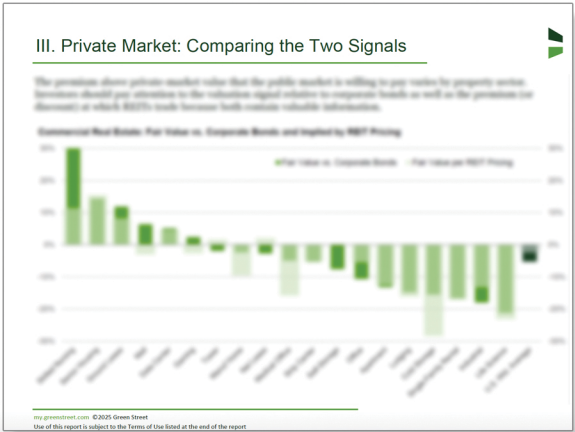
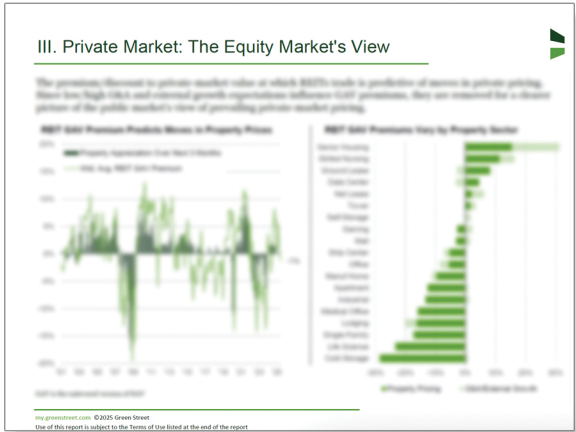


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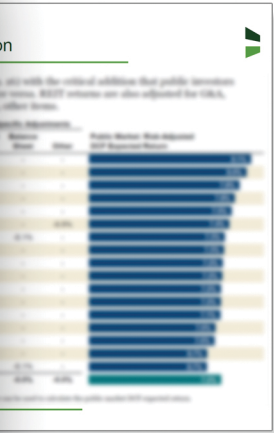




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Appendix: M-RevPAF Growth

100% RevPAF growth in 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040

Market	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Commercial	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Industrial	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Multi-Family	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Office	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Single-Family Rental	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Specialty	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Student Housing	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Warehouse	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Other	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

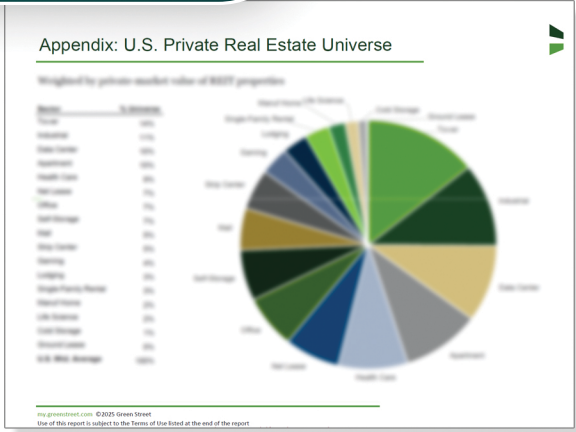
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Appendix: NOI Growth

100% NOI growth in 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040

Market	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Commercial	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Industrial	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Multi-Family	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Office	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Single-Family Rental	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Specialty	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Student Housing	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Warehouse	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Other	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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