

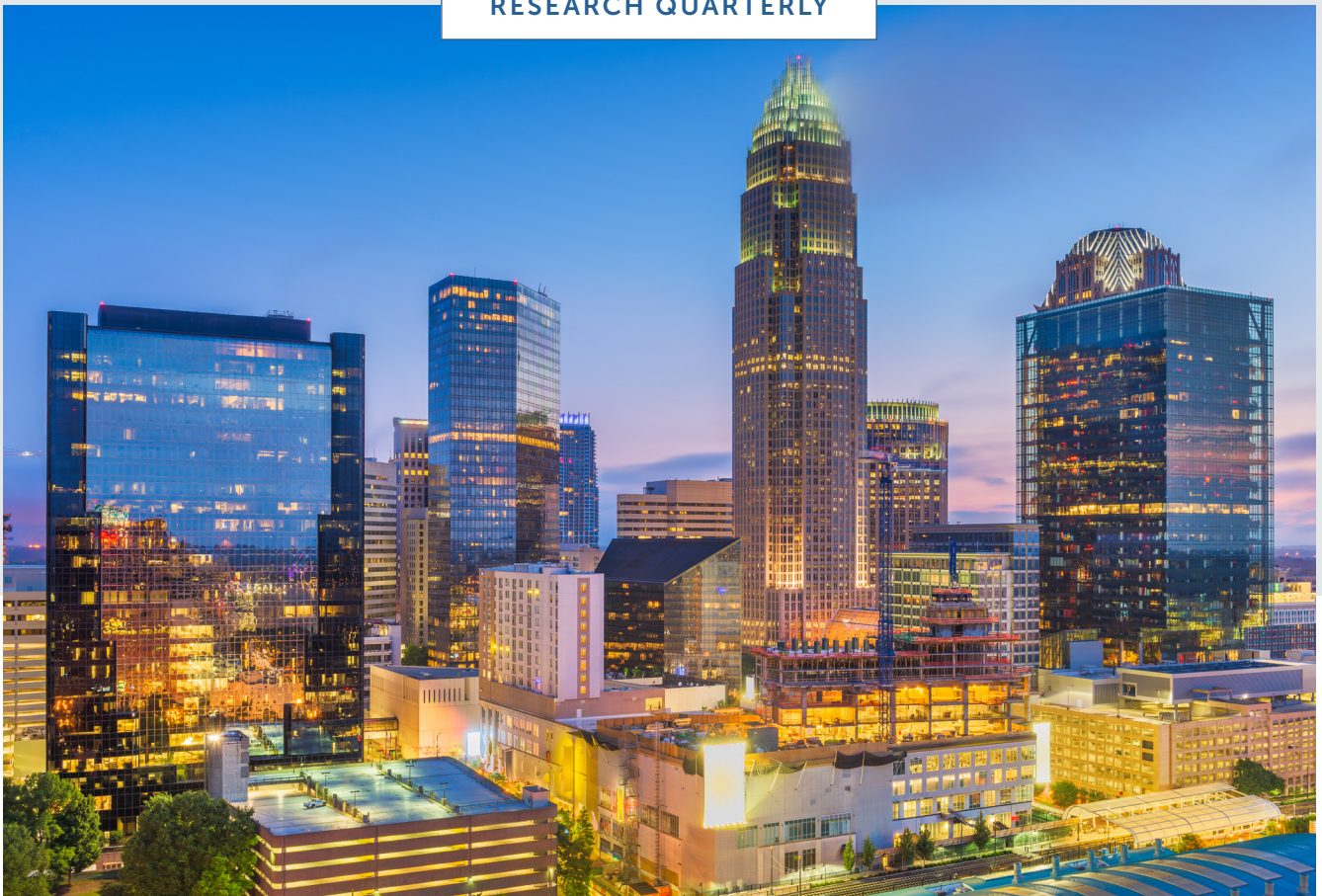
BARINGS

REAL ESTATE

U.S. Real Estate: Dispersion Shaped by Shocks

Macro shocks reinforce the importance of asset-level and micro-location relevance in a market defined by dispersion.

RESEARCH QUARTERLY



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Executive Summary

ECONOMY

- The U.S. real estate market faces another macro shock. While economists continue to forecast economic resilience, it is not without cost: GDP estimates have been lowered and inflation projections have increased following the Iran conflict.
- Economic growth is driven by a relatively narrow set of underlying fundamentals—such as higher income households, AI and infrastructure investment and government deficits—while the business earnings outlook is stronger than the labor market.
- The Federal Reserve (Fed) is set for new leadership under Kevin Warsh, and markets have repriced the interest rate outlook given energy supply and inflation concerns.

PROPERTY MARKETS

- Real estate fundamentals improved in the first quarter, with positive absorption across core property sectors, while senior housing occupancy reached its highest level since 2017. The overall market has also benefited from lower new supply.
- Debt markets remained active in the first quarter despite the macro environment, with increased competition across most lender types. Property sales increased year-over-year, while the debt maturity wall provided significant refinancing volumes.
- Dispersion remains a key market feature, with property performance widening across property types and markets.

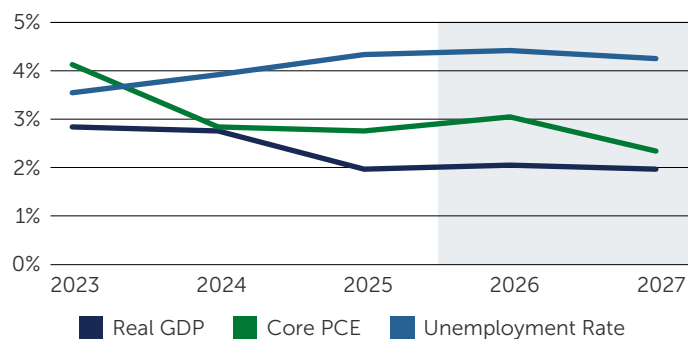
Economy

The U.S. real estate market faces another shock in a global economy that has been increasingly prone to macro disruptions and higher uncertainty since the pandemic. This environment carries costs: analysts have lowered full-year 2026 GDP estimates by 30 bps to 2.2% following the Middle East conflict. At the same time, forecasts continue to lean toward economic resilience (Figure 1).¹

However, the strength of the economy rests on a narrow set of underlying fundamentals—such as higher income household spending, AI and infrastructure investment, and government deficits—while the business earnings outlook is stronger than the employment forecast. Although the unemployment rate remains low from a historical perspective, hiring has been concentrated in healthcare and industries related to aging demographics which represented about 80% of net jobs created in the first quarter.²

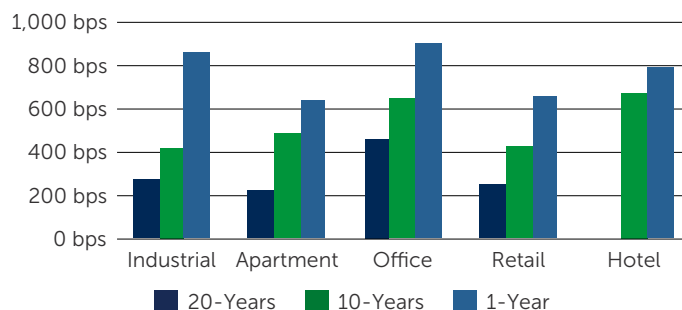
This dynamic creates both opportunities and risks for markets and properties based on their exposure to these structural demand drivers and has contributed to increased dispersion in real estate performance. For example, the difference in NCREIF NPI total property returns between the 25th and 75th percentile properties—blended across sectors—has increased from roughly 530 bps over the past 10 years to 770 bps over the past year (Figure 2). While the office sector exhibits the widest range of returns, dispersion has increased across all core property sectors in a **new** real estate cycle led by fundamentals and income returns rather than interest rates and valuations.

Figure 1: U.S. Economic Forecasts (YOY)



Sources: Bloomberg. As of April 22, 2026.

Figure 2: Return Dispersion (25th and 75th Pct, bps)



Source: NCREIF. As of December 31, 2025. Dispersion measured by difference in 25th and 75th percentile returns, right.

Still, the Middle East conflict weighs on the interest rate outlook as the Fed balances inflation risks stemming from oil and other supply shocks against concerns about a “low hire, low fire” labor market. For example, the futures market priced two to three 25 bps Fed rate cuts by year-end 2026 in February, compared to just half a rate cut as of late April. Meanwhile, economists have recently revised their inflation expectations higher, to 3.1% in 2026 (Figure 1).³ This comes as Kevin Warsh has been nominated as the next Fed Chair, with plans to reshape the central bank, including changes to the size of its balance sheet, a reassessment of its inflation framework and other significant changes.

1. Sources: Federal Reserve “Costs of Rising Uncertainty” (FEDS Notes); Bloomberg. As of April 24, 2025.

2. Sources: FactSet; Bloomberg. As of April 24, 2026.

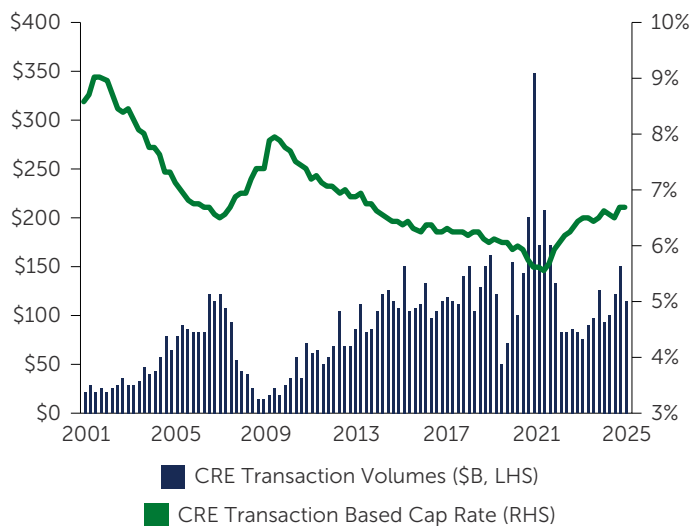
3. Source: Bloomberg. As of April 24, 2026.

Valuations & Capital Markets

Commercial real estate (CRE) transaction volumes increased 23% year-over-year to \$114 billion in the first quarter (Figure 3). Property sales rose across sectors, led by multifamily (\$32 billion) and industrial (\$31 billion), followed by office (\$21 billion) and retail (\$17 billion). Senior housing transaction volumes reached a record high of \$13 billion, signaling investor interest in alternative property types. In addition, four public REITs were acquired in take-private transactions totaling \$7 billion year-to-date through April, marking the highest half year total since 2022. From a valuation perspective, cap rates were relatively unchanged in the first quarter—up 2 bps to 6.69%—while property values blended across sectors increased 3% year-over-year.⁴

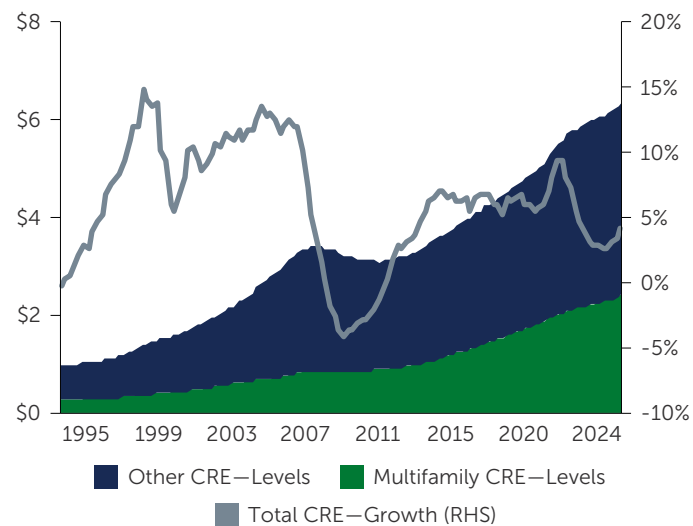
Debt markets remained active in the first quarter despite the macro environment, with competition across lender types (Figure 4). Credit spreads narrowed across most financing channels, particularly in the CMBS market. For example, CMBS pricing tightened by approximately 10 bps during the quarter, while issuance volumes reached nearly \$33 billion—just \$3 billion below last year’s post-financial crisis high for the first three months of a calendar year.⁵ Bank lending increased with more flexible structures, particularly by regional banks, which placed competitive pressures on debt funds and other credit providers. Insurance companies were also active to begin the year, supported by new annual allocations. Looking ahead, the debt maturity wall is expected to drive origination activity, with \$874 billion in loans scheduled to mature in 2026, while select credit indicators—such as CMBS delinquency rates—have softened.⁶

Figure 3: CRE Cap Rates and Transaction Volumes



Source: MSCI RCA. As of March 31, 2026.

Figure 4: Core CRE Debt Outstanding (\$T, YOY)



Source: Federal Reserve. As of December 31, 2025.

4. Source: MSCI RCA. As of March 31, 2026. Cap rates data is a simple average across core property types.

5. Sources: Wells Fargo; Chatham Financial. As of March 31, 2026. Non-agency CMBS.

6. Sources: MBA; Trepp. As of February 28, 2026. As of March 31, 2026. Non-Agency CMBS 30+ DPD delinquency rates are up 90 bps year-over-year.

Occupier Markets

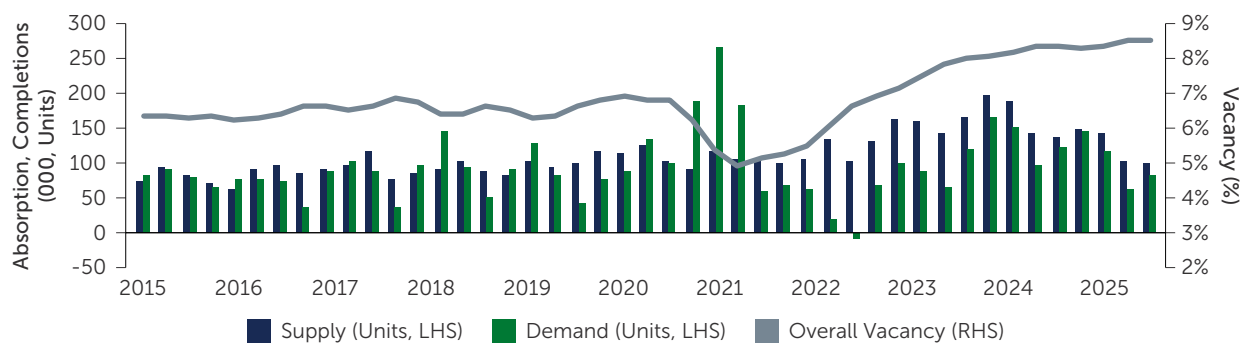
APARTMENT SECTOR

The apartment sector vacancy rate was unchanged at 8.5% in the first quarter.⁷ Demand improved quarter-over-quarter, but economic uncertainty and a slow labor market continued to weigh on leasing activity. For example, apartment absorption declined by roughly 20% over the past four quarters, while labor growth averaged just 64,000 new jobs per quarter over that period, with relatively limited gains outside of healthcare employment.⁸ Despite cautious demand, sector fundamentals have been balanced by slower rates of new supply, with apartment deliveries and construction starts down 50% and 75%, respectively, from their recent peaks (Figure 5).

In higher growth, higher supply Southern and Mountain West markets, apartment fundamentals showed signs of stabilization in the first quarter, as vacancy held steady at 11.8%, supported by continued absorption.⁹ However, owners in these markets are competing for tenants on price, with asking rents down 1.8% year-over-year. In slower growth, lower supply markets—such as the Northeast, Midwest and West regions—apartment vacancy was unchanged at 6.5%, while fewer new deliveries supported 1.2% rent growth.

The sector’s long-term fundamentals remain strong, supported by homeownership affordability issues. Although the average national mortgage payment modestly declined, the discount-to-rent remains significant, as mortgage rates averaged 6.2% in the first quarter.¹⁰ For example, the median national rent payment was \$1,780 per month in the first quarter, compared to a median mortgage payment of \$2,060, which excludes additional costs such as taxes and insurance.¹¹ However, broader cost-of-living challenges have led federal, state, and local officials to propose housing policies—such as the 21st Century ROAD to Housing Act and Massachusetts H.5008—that are more restrictive toward the rental housing market and may impact certain markets and property types more than others.

Figure 5: Apartment Vacancy Steady with Solid Renter Demand and Lower Rates of New Supply



Source: CoStar. As of March 31, 2026.

7. Includes stabilized and unstabilized apartment properties. Source: CoStar. As of December 31, 2025.
8. Avg. absorption for Q2 2025, Q3 2025, Q4 2025 and Q1 2026. Includes healthcare and social assistance. Source: BLS, CoStar. As of March 31, 2026.
9. The regional analysis is based on the 60 largest apartment markets in the US. Source: CoStar. As of March 31, 2026.
10. Source: Freddie Mac, Federal Reserve. As of March 31, 2026.
11. Based on the median monthly payment for new mortgage applications. Sources: MBA; CoStar; Zillow; RedFin. As of February 28, and March 31, 2026.

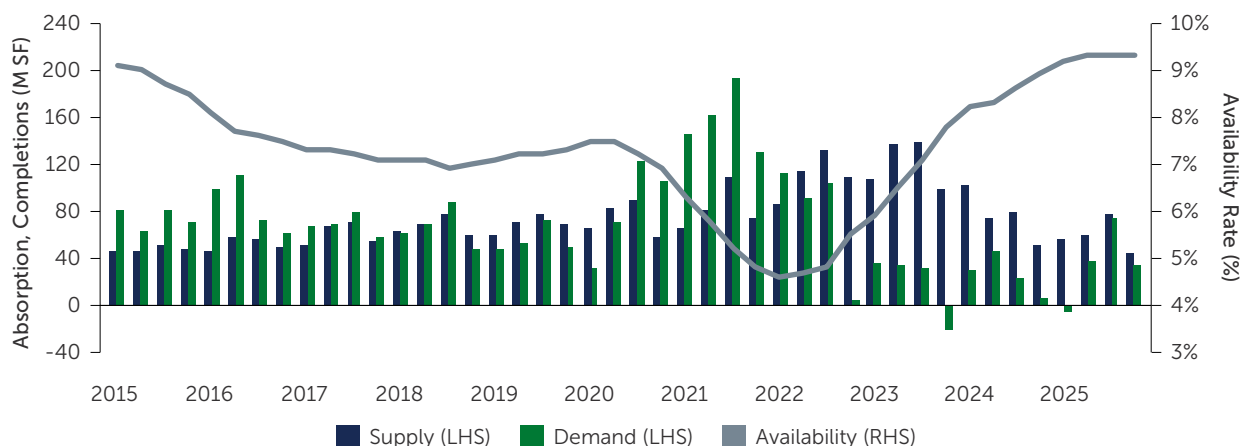
Occupier Markets

INDUSTRIAL SECTOR

Industrial availability was unchanged at 9.3% in the first quarter, as market fundamentals were balanced by resilient leasing activity and a slower pace of new warehouse completions.¹² This resulted in a third consecutive quarter of positive absorption, while deliveries fell by nearly 70% from their peak in 2023. Market conditions varied across regions: high supply East Coast ports with high vacancy rates, such as Charleston and Savannah, reported stronger absorption rates, whereas West Coast ports, primarily in Southern California, experienced weaker changes in occupancy. By comparison, inland markets generally had stronger absorption with improved availability rates. Industrial demand was primarily driven by third-party logistics, e-commerce and manufacturing-related users, leading to rent growth of 0.6% year-over-year.

Industrial absorption was supported by solid household consumption, as companies set their warehouse footprints to meet resilient customer sales. For example, real consumer spending increased 2.6% in full-year 2025, and economists forecast 1.9% growth in full-year 2026, based on Bloomberg consensus estimates.¹³ Tariff policy, the Iran conflict and other sources of uncertainty weigh on the outlook, with outcomes that could be highly disruptive. This reinforces the need for supply chain resiliency in a post-pandemic period that is more prone to supply shocks. As a result, port markets face opportunities and headwinds based on geopolitical, economic and demographic factors, while regional distribution and manufacturing hubs may benefit as companies prioritize domestic operations. Inland markets serving local populations may be more insulated from macro volatility, though performance will depend on areas' end-consumer durability and growth.

Figure 6: Industrial Availability was Unchanged on Resilient Demand and Slower New Supply



Source: CBRE EA. As of March 31, 2026.

12. Source: CBRE EA. As of March 31, 2026.

13. Sources: BEA; Bloomberg. As of December 31, 2025. As of April 24, 2026.

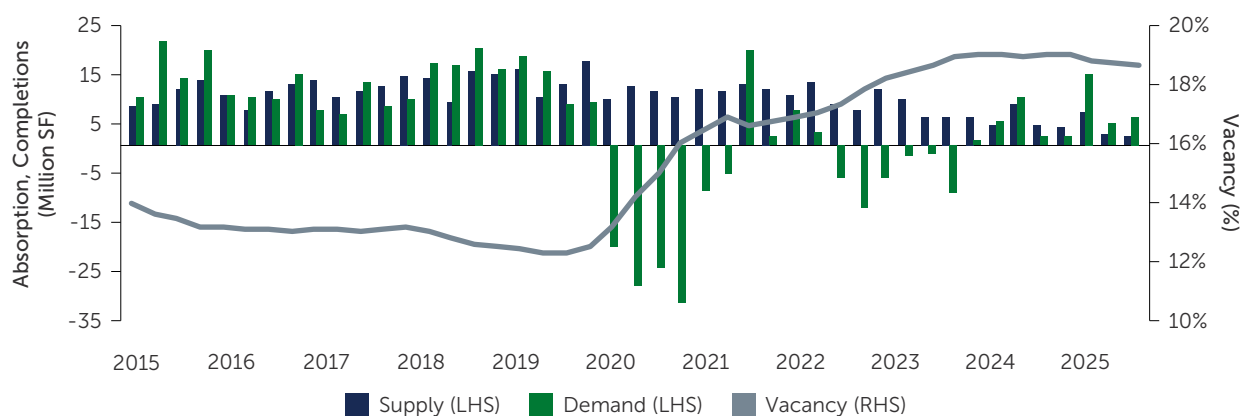
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OFFICE SECTOR

Office vacancy declined 10 bps to 18.6% during the first quarter, 40 bps below its post-pandemic peak, marking the eighth consecutive quarter of positive net absorption.¹⁴ Tenant demand was supported by improved leasing activity for the technology sector, which increased 35% year-over-year to 84% of pre-pandemic levels, while leasing in finance and professional services exceeded pre-2020 levels. Although the labor market remains in a “low-hire, low-fire” pattern—due to factors such as workforce right-sizing, economic uncertainty and potential AI impacts—employment in office using industries remained approximately 1.1 million jobs above pre-pandemic levels in total as of March. In addition, return-to-office trends have continued to improve, supporting occupier demand.¹⁵ For example, the share of employees with full-time on-site work arrangements increased from 37.5% to 42.2% year-over-year, led by the financial and professional services industries, while hybrid workers are spending more days in the office per week.¹⁶

The sector’s recovery was also supported by lower rates of new supply, with just 1.9 million square feet delivered in the quarter, representing just 5 bps of inventory and the lowest quarterly delivery volume since 2011 following the GFC. The current development pipeline is at its lowest level since at least 1995, based on JLL data, while nearly 9 million square feet of inventory was removed during the quarter.¹⁷ The low supply backdrop has improved pricing power for office owners of well-located, high-quality assets in a market defined by dispersion. For example, Dallas, San Francisco, San Jose and Charlotte each contain some of the strongest and weakest performing office submarkets despite being within the same metro area, based on Barings’ analysis of about 300 submarkets across more than 20 major office markets. This environment presents an opportunity to benefit from the basis reset in recent years—office property values are down about 38% since 2022—while office debt availability has improved.

Figure 7: The Gradual Office Recovery Continued with Vacancy Down 10 Bps in the First Quarter



Source: CBRE EA. As of March 31, 2026.

14. Source: CBRE EA. As of March 31, 2026.

15. Source: BLS. As of March 31, 2026.

16. Based on financial, information, business services, and real estate industries. Source: WFH Research, Census Bureau. As of March 31, 2026.

17. Source: JLL. As of March 31, 2026.

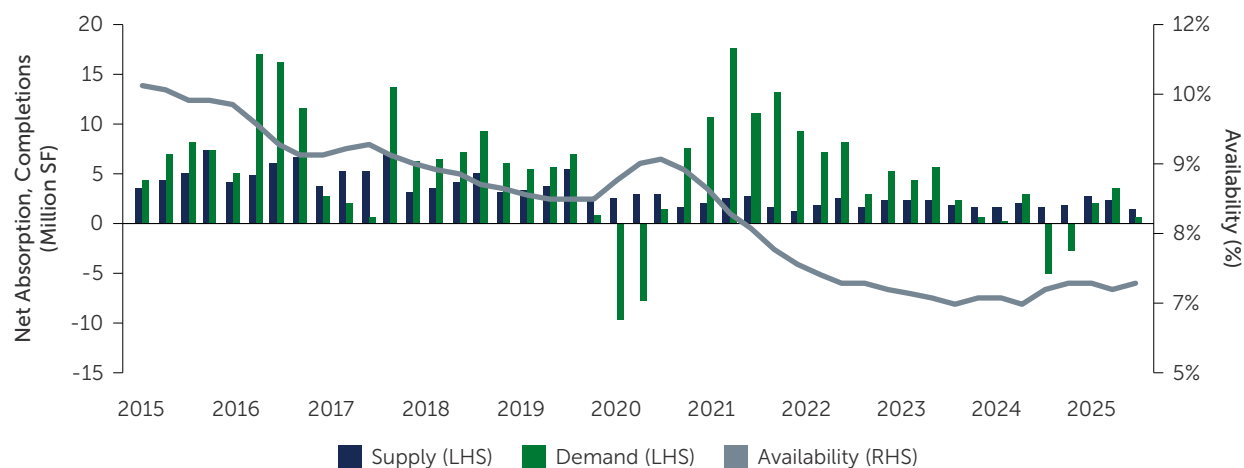
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RETAIL SECTOR

Retail availability for neighborhood, community and strip (NC&S) shopping centers edged up 10 bps to 6.8% in the first quarter and remained near all-time lows.¹⁸ The sector’s strong fundamentals provided owners with pricing power, as rents increased 2.4% year-over-year. In addition, retail tenant credit conditions remain relatively healthy outside of certain challenged concepts—such as Saks, Eddie Bauer and Fatburger—and the market is absorbing well-located space vacated by Joann and other bankruptcies in 2025.¹⁹ From a supply perspective, NC&S continue to benefit from sparse development activity, with only 1.4 million square feet delivered in the first quarter, compared to a 10-year quarterly average of 3.1 million square feet.

The retail sector has also benefited from resilient household spending, though household consumption remains concentrated in higher wealth and older age demographics. For example, the top 20% of earners represented nearly 60% of total consumer spending in 2025, compared to about 55% 10 years ago.²⁰ In addition, the unemployment rate for young workers—ages 22 to 27—increased 100 bps year-over-year, well above the 30 bps increase for the overall workforce.²¹ Economists forecast real consumer spending to rise 1.9% year-over-year in 2026, although consensus expectations have declined by about 30 bps since February due to higher gas prices and other factors.²² While the outcome of the conflict in Iran is unknown, the NC&S market is well positioned given its focus on non-discretionary offerings and limited new supply.

Figure 8: Retail Availability Relatively Unchanged and Near All-Time Lows with Limited New Supply



Source: CBRE EA. As of March 31, 2026.

18. Source: CBRE EA. As of March 31, 2026.

19. Source: Bloomberg. As of April 15, 2026.

20. Source: Moody’s, Federal Reserve, BEA, Census Bureau. As of September 30, 2025.

21. Source: Federal Reserve Bank of New York, BLS. As of February 28, 2026.

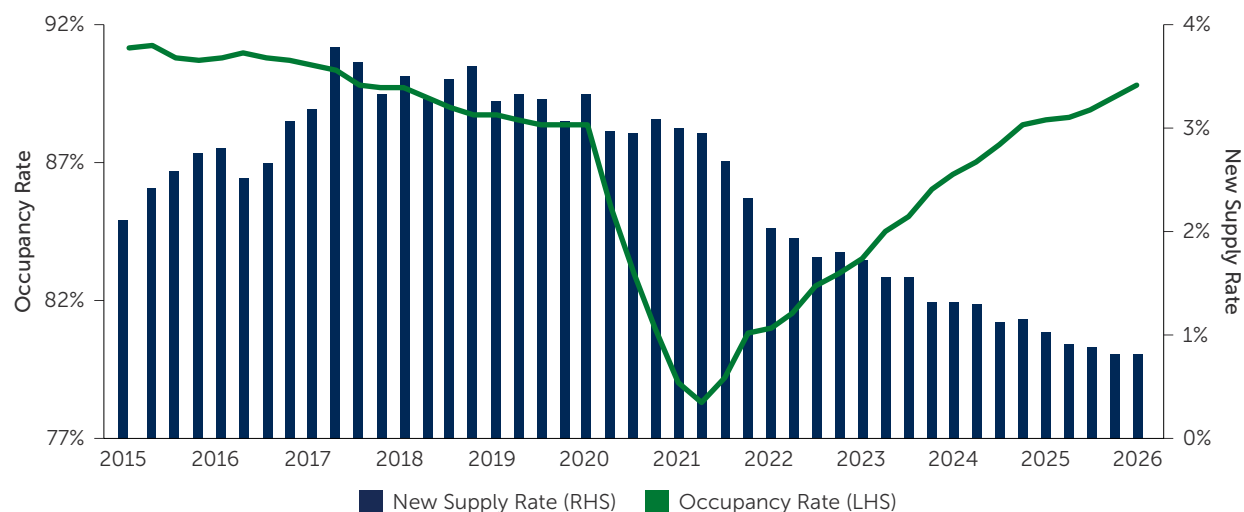
22. Source: Bloomberg. As of April 15, 2026.

Occupier Markets

HEALTHCARE SENIOR HOUSING

Senior housing occupancy increased 40 bps to 89.5% in the first quarter, with strong rent growth of 4.6% year-over-year (Figure 9).²³ The sector’s demand has been underpinned by record high wealth for older households. For example, individuals aged 70 and older have increased their aggregate asset base—including homes, stocks and other investments—from just under \$29 trillion in 2019 to nearly \$57 trillion in 2026.²⁴ Senior housing fundamentals have also benefited from muted new deliveries in recent years, with new supply growth of under 1% in recent quarters, compared with supply growth of over 3% in the years leading up to the pandemic.

Figure 9: Senior Housing Occupancy Continued to Increase, Supported by Aging Demographics



Source: NIC MAP. As of March 31, 2026.

23. Source: NIC MAP, Green Street. As of March 31, 2026.

24. Source: Federal Reserve. As of March 31, 2026.

Occupier Markets

SELF STORAGE SECTOR

Self-storage occupancy declined 25 bps to about 91.1% in the first quarter, as new customer demand was constrained by softer home sales activity. For example, existing home sales were down 32% in the first quarter compared to 2022 levels, as mortgage rates averaged 6.2%.²⁵ In addition, cost of living challenges are a headwind for demand, as elevated inflation has impacted household discretionary income.

New supply weighed on self-storage fundamentals, with the market’s inventory increasing by 3.2% per year on average since 2018.²⁶ However, performance varies regionally. Move-in rents in higher supply Sunbelt markets declined 5% year-over-year in the first quarter, while more supply constrained regions—such as select Coastal and Midwest markets—posted solid rent growth.²⁷

Figure 10: Self Storage Fundamentals Remained Pressured by Low Home Sales and New Supply



Sources: Green Street; Yardi Matrix. As of March 31, 2026.

25. Sources: Freddie Mac; NAR; Federal Reserve; Bloomberg. As of March 31, 2026.

26. Source: Green Street. March 10, 2026.

27. Source: Green Street. March 10, 2026.

About the Team

BRE's research team efforts are led by Paul Stewart, based in Europe and Lincoln Janes in the U.S. The research team is structured by sector and geographic expertise. The team's diverse backgrounds include appraisal, legal, technological and academic applications across multiple asset-classes, across buy and sell-side shops in markets around the globe. The real estate research team is complemented by an analytics function enhancing the team's ability to collect, augment and analyze data to inform better decision making.



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