

H2 2025

**CBRE** Investment  
Management

U.S.

# Real Estate House View



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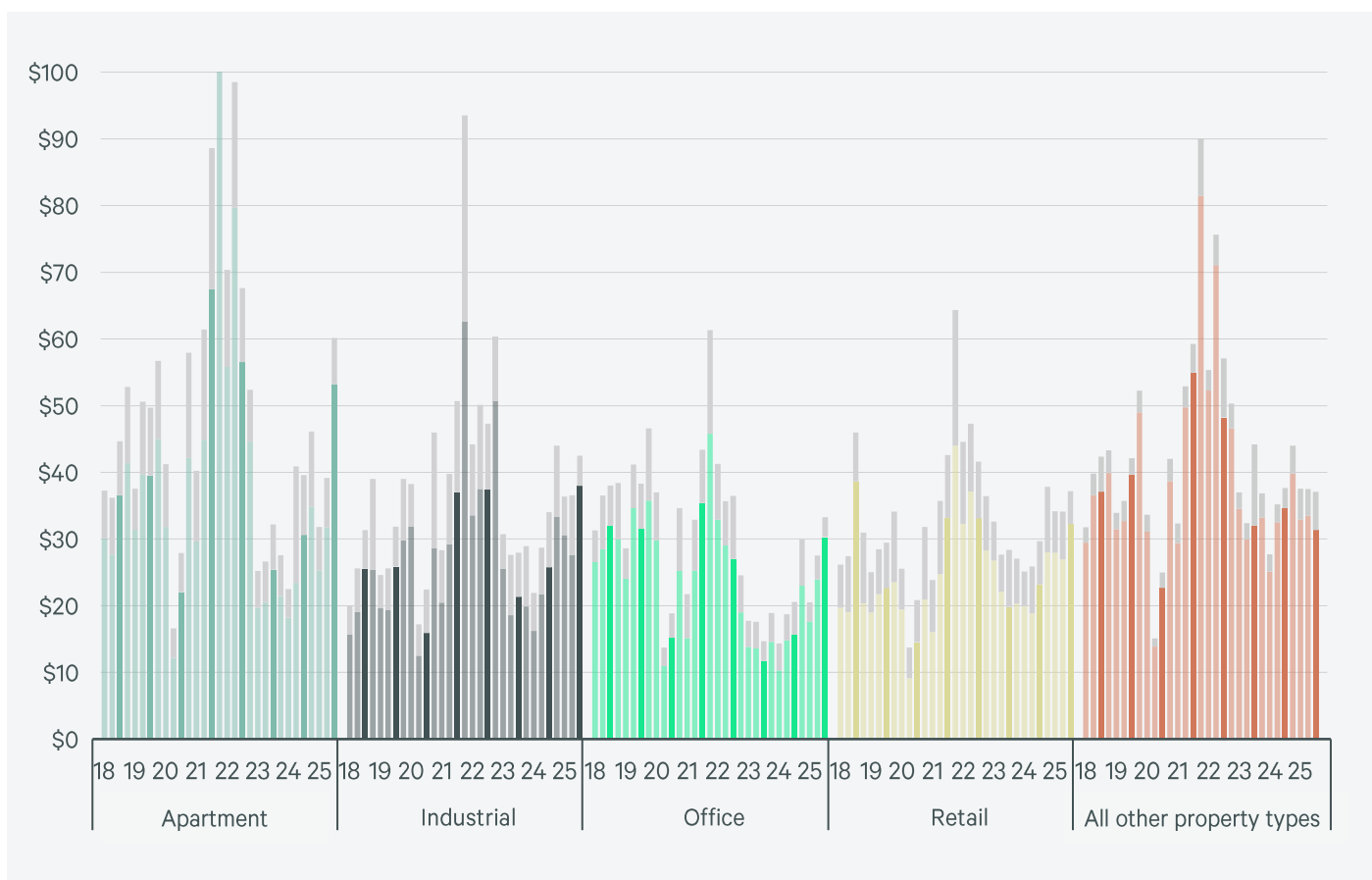
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## Introduction and key calls

U.S. real estate transaction volumes surged in Q3 2025 to over \$247 billion (**Figure 1**).<sup>1</sup> This volume was up over 29% year-over-year (Y-o-Y) and up over 18% quarter-over-quarter (Q-o-Q) with further upward revisions likely. This puts Q3 2025 in “top 10 territory” for all property and for both apartments and industrial sectors for all time. Volumes in Q3 2025 were so strong that they are on track to surpass all but several quarters back in 2021/2022 when interest rates and debt costs were far lower than today.

**Figure 1: Transaction volume by property type, through Q3 2025, \$ in billions**  
 Shaded bars indicate Q3 of each year; gray bar indicates transactions entered after quarter-end  
 Gray for all other property types indicates estimated transaction price



<sup>1</sup>All other property types includes: student housing, land, healthcare, hotels, specialty and sports and entertainment facilities. Note that transaction prices for multifamily, logistics, office and retail assets are estimated if unknown based on matching assets transacting with a known-price. For ‘All other property types,’ transaction volume is not estimated for transactions without a known transaction price. Source: CoStar Q3 data as of October 20, 2025. Colored columns indicate transaction volume entered by CoStar research by the end of each quarter (for like-for-like comparison to history). Gray bars indicate deals entered after the end of each quarter. Third quarter totals are shaded for year-over-year comparisons. Q4 2021 multifamily transaction volume topped \$140 billion; scale is shortened for clarity. For illustrative purposes only. Current market conditions differ from prior market conditions, including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

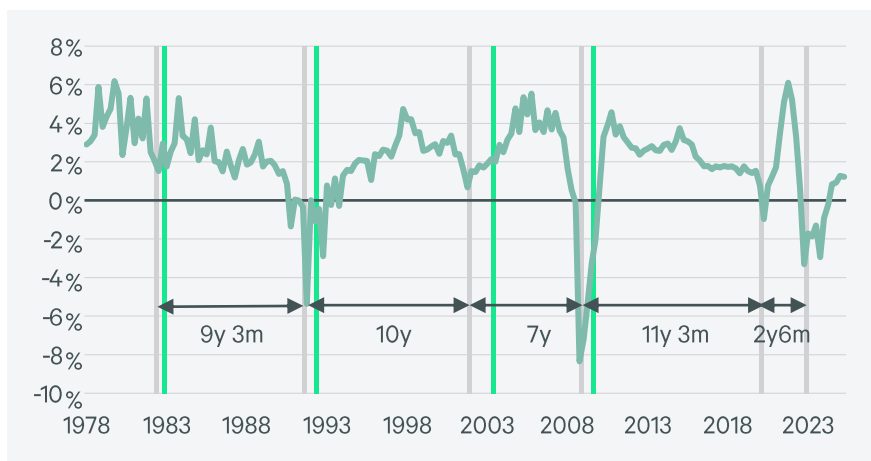
<sup>1</sup>Transaction volumes defined as sales, entity-level sales and mergers and acquisitions activity and recapitalizations.

What has caused this notable bridging of a multi-year bid-ask spread? Possible reasons could be:

- 01 Investor perception that bad news (on the labor markets) translated to good news (for Fed rate cuts), and indeed by the end of the quarter a 25 basis points (bps) rate cut was delivered with an increased likelihood of more to follow in coming months.
- 02 A belief that after a year of broadly stable/slightly improving values and total returns gaining positive traction, the NCREIF index had hit bottom in 2024 (Figure 2). With cumulative capital value losses over the previous few years of -24.5%, now was the time to get back in.
- 03 Allocators saw several all-time or near all-time highs reached in pricing for several other asset classes, (such as broad equities, tech stocks, corporate bonds, and gold among others) and realized they were underweight to real estate.
- 04 An increase in motivated and willing sellers at reset pricing and an abundance of new product on the market, much of it from merchant builders now looking for their exits.
- 05 All of the above.

We believe the answer is the last option—all of the above—and includes a confluence of other institutional/product-specific push and pull factors aimed at pruning losses and being poised for growth.

Figure 2: NCREIF Property Index total returns, all property types, %



The green lines depict peak levels of unemployment or beginning of a new cycle. The gray lines depict cyclical lows of real estate returns. Source: NCREIF Property Index, CBRE Investment Management, as of Q2 2025. For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.





### KEY CALL 1

#### Base case caution

While recent market activity, particularly the easing at the short end of the curve, has brought renewed momentum, the broader environment continues to warrant thoughtful planning. This is a valuable time to look ahead and consider a range of potential scenarios beyond our current ‘stagflation lite’ base case. Evaluating how different outcomes might influence performance—both across U.S. geographies and within the 15 property sectors and segments we forecast—will be a key part of building resilient portfolios.

### KEY CALL 2

#### Sector convergence is underway

Our average annual total return forecast for all property types on a core, unlevered basis, has been downgraded from 6.8% in our prior forecast to 6.2% in the current forecast. The downgrade is the result of some cap rate compression that is now behind us and reduced rent growth forecasts given weaker fundamentals and a lower growth outlook. Model portfolio returns are higher at 7.2% but this is much narrower than the near 200 bps spread that we have typically seen between the ODCE-weighted all property return and the return based on our model portfolio weights.



### KEY CALL 3

#### Grow NOI above all else

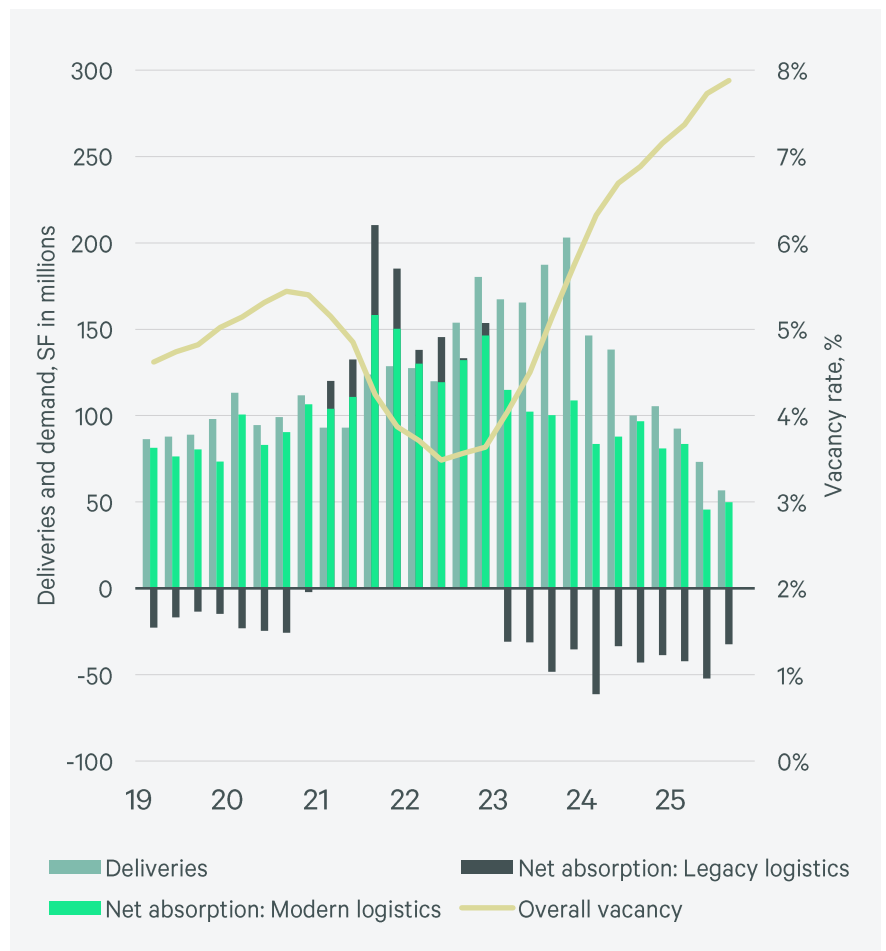
Whereas cap rate compression was a key element driving strong annual real estate returns in the post-GFC decade, going forward a return to fundamentals and a focus on defending and growing income will be critical. To achieve this, we will work with proven operators with a demonstrated NOI growth track record and target sectors with highly fragmented ownership, like NCC (neighborhood and community centers—including strip malls) and SFR (single-family rental), where institutionalization of operations holds promise. This is a time to get back to the basics of supply and demand, a time for redoubled focus on city and submarket selection, and a time for alpha generation through adding value via asset-level amenitization and modernization.



## Preferred investment themes

In an environment of highly uncertain tariff and trade policy, supply chain management and the role of logistics facilities in ensuring the supply of goods to the consumption-driven economy of the U.S. continues to be compelling. Supply chain resilience through modern logistics—and the last mile role that retail assets can play—is an enduring structural investment theme in our House View. We recommend a focus on acquiring newly-built, high-specification product in key submarkets at intermodal locations. Modern logistics space continues to be absorbed (and was up 9.5% in Q3 2025 over Q2, see **Figure 3**) even as the overall logistics vacancy rate nationally approaches 8% and as legacy logistics space suffers from its 11th consecutive quarter of negative net absorption.

**Figure 3:** U.S. Logistics quarterly vacancy, deliveries and demand by vintage

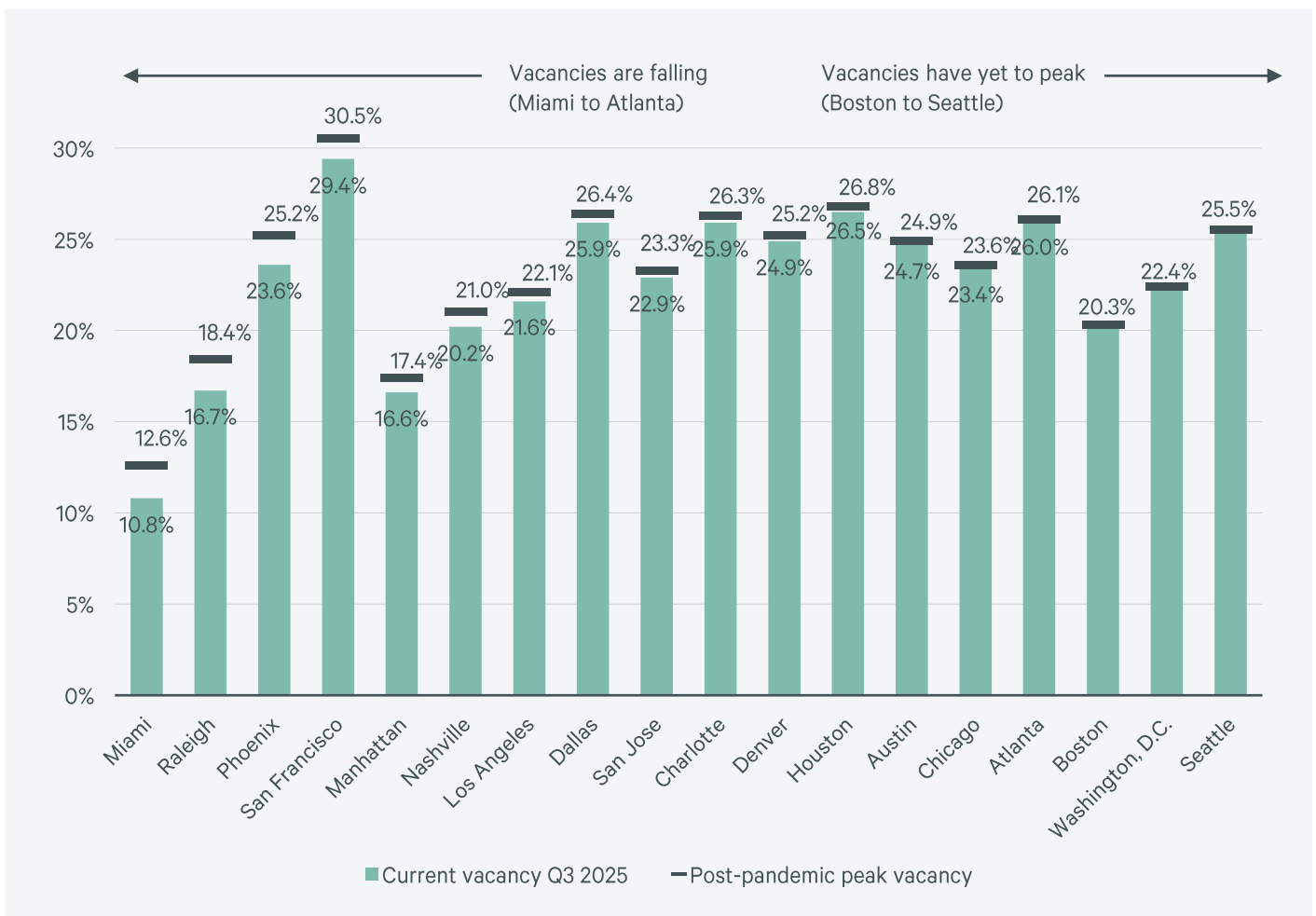


Source: CBRE Investment Management; CoStar, as of October 6, 2025. Modern logistics is built 2012 and after. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Retail sees a bifurcation of performance in the outlook between NCC on the one hand and the larger lot sized, enclosed malls, on the other. The former is enjoying a national vacancy rate of 5.5% which is only slightly higher than its lowest point this century and well below its average annual vacancy rate since 1996 of 7% (CoStar). We suggest avoiding malls, which have a higher current vacancy of 8.6% and much higher than its long-term average vacancy of 5.1%. We suggest targeting retail assets which have been occupied by pandemic-tested, credit tenants but which still have mark-to-market upside on leasing.

Office is starting to become more interesting, given index values have fallen 37% from peak and forced sales and distress are appearing here more than other sectors. Opportunities will continue to abound, but we urge discipline to focus on modern and high-performing assets in highly select markets where vacancy is now falling (the cities on the left in **Figure 4**). We recommend buying at a reset basis and holding tactically to sell once stabilized. We are focused on medical offices, both on or off campus, where sticky tenants are serving expanding demographics, and are targeting buildings that house specialist personnel with affiliations with strong hospitals and health systems.

**Figure 4: Q3 2025 overall office vacancy compared to post-pandemic peak, by CBRE IM market, %**  
 Markets are ordered by the magnitude of change in vacancy



Includes office properties of at least 20,000 sf which are not medical office and are not owner-occupied.

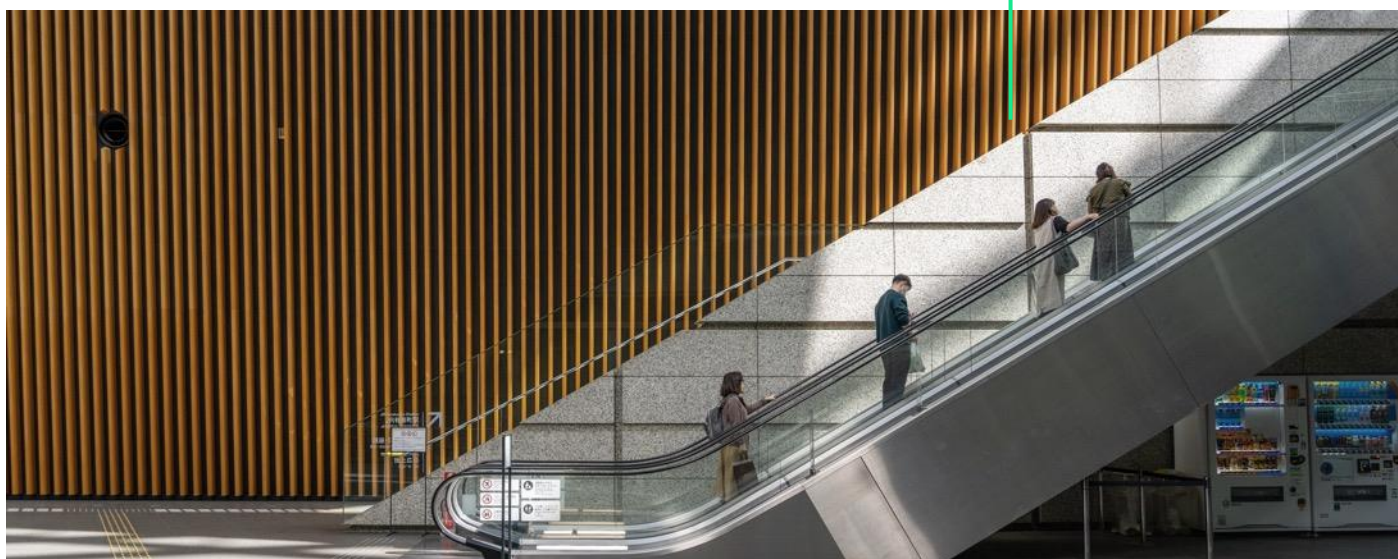
Source: CoStar, as October 7, 2025, and through Q3 2025. For illustrative purposes only. Current market conditions differ from prior market conditions, including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

We continue to maintain high investment conviction in the residential sector, particularly providing attainable/accessible<sup>2</sup> rental housing. For conventional multifamily, we prefer lower density product in well-amenitized infill and suburban nodes with higher barriers to entry in a select set of sunbelt and primary markets. Higher-rise investments in gateways cities which lack affordability along with newer vintage assets with no functional obsolescence and limited deferred maintenance should also be considered.

We prefer student accommodation assets near public or premier institutions with strong enrollment trends and schools with R1/R2 research designations and NCAA Division 1 athletics. Our framework for prioritizing investment in this sector also requires schools with limited or obsolete on-campus housing and with appealing capture ratios given controlled development pipelines. We recommend seeking assets with competitive amenities or where there are value-add opportunities. Policy noise around research funding cuts and foreign student visas should be tracked and while these may have some near-term localized impacts, they are not expected to pose significant headwinds to the sector overall.

No private sector solution is more attainable than manufactured housing communities and they provide critical shelter to an underserved portion of the renter pool. We suggest a focus on locations with higher barriers to entry and with a favorable regulatory environment. We target communities/portfolios with revenue upside through mark-to-market opportunities, community reinvestment, amenitization and densification opportunities. For SFR, we like suburbs proximate to mature metros lacking affordability and we prefer homes with two to four bedrooms built since 1990. Homes that offer compelling, attainable value relative to for-sale housing and multifamily options should also be targeted. We also recommend exploring development or acquisition of purpose-built SFR in contained communities (build-to-rent).

No private sector solution is more attainable than manufactured housing communities.



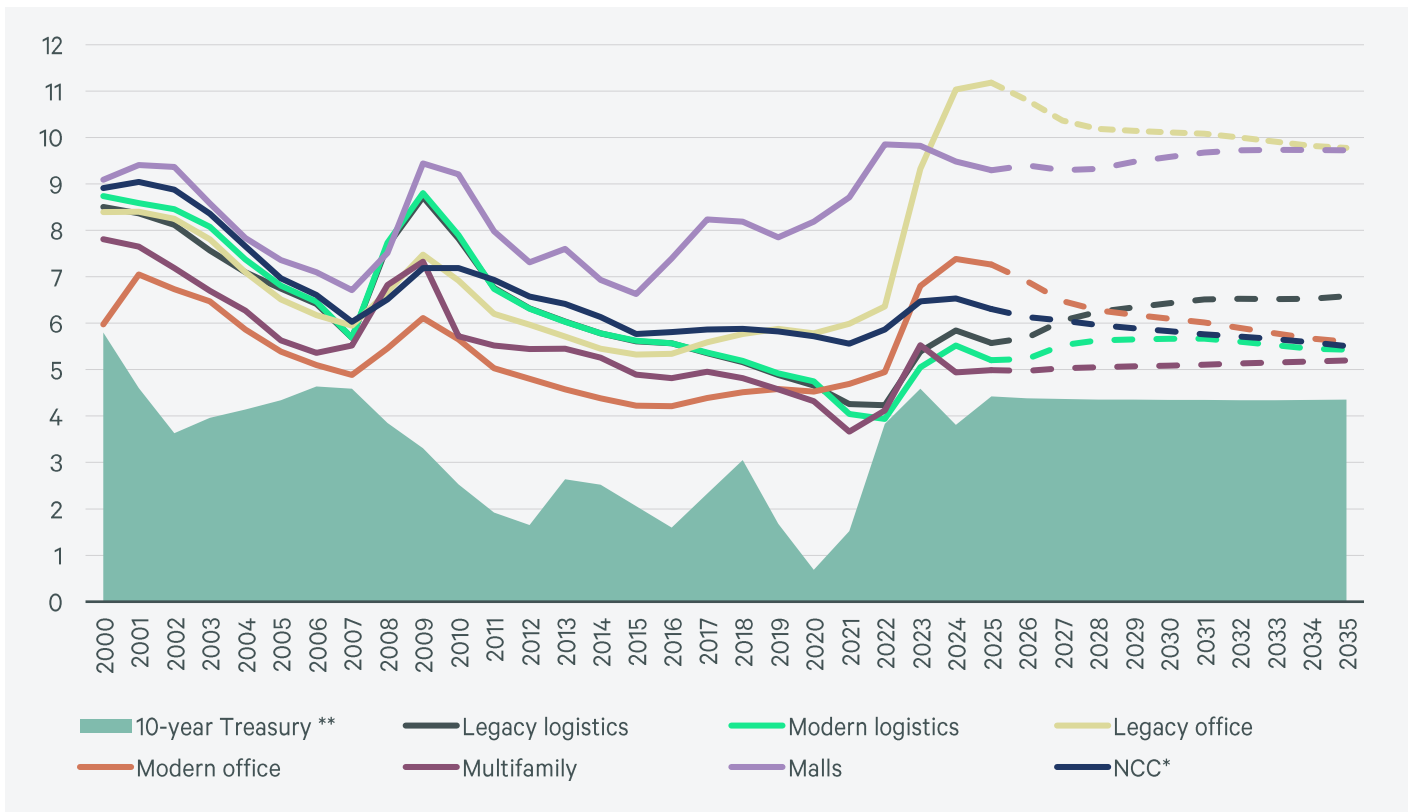
<sup>2</sup>We recently completed a piece of work which operationalizes exactly what attainability and accessibility mean at the local level. Please contact us if interested.

# Don't count on cap rate compression

## NOI growth to be the driver of value growth

We expect the all property cap rate for U.S. real estate to be broadly flat over the next five years. That broad national average, however, disguises a few divergent trends. For legacy logistics markets, much of which will face increasing functional obsolescence over the next five years, we believe cap rates will expand by more than 80 bps. For office, we believe that current cap rates (in the double digits for legacy stock and around 7.3% nationally for the modern segment) are very high in absolute terms and relatively high to historical norms and relative to other sectors. Although legacy office faces an occupancy crisis, we forecast occupancy to improve in modern stock in an increasing number of markets. We expect almost 120 bps of cap rate compression for the modern office segment in the five years ahead and even then the cap rate spread to the forecast 10-year government bond yield of 175 bps will be slightly wider than the average spread for the period Q2 1996-Q2 2025. We also see potential for nearly 50 bps of cap rate compression over the next five years for NCC retail. But those are the exceptions, as in other sectors, tight spreads—very tight by historical standards in some cases—will limit cap rate compression in the forecast period. As seen in **Figure 5**, the decade ahead for cap rates will be different than the post-GFC period for most property types.

**Figure 5: Sector cap rates and 10-year Treasury yield, main sectors, %**

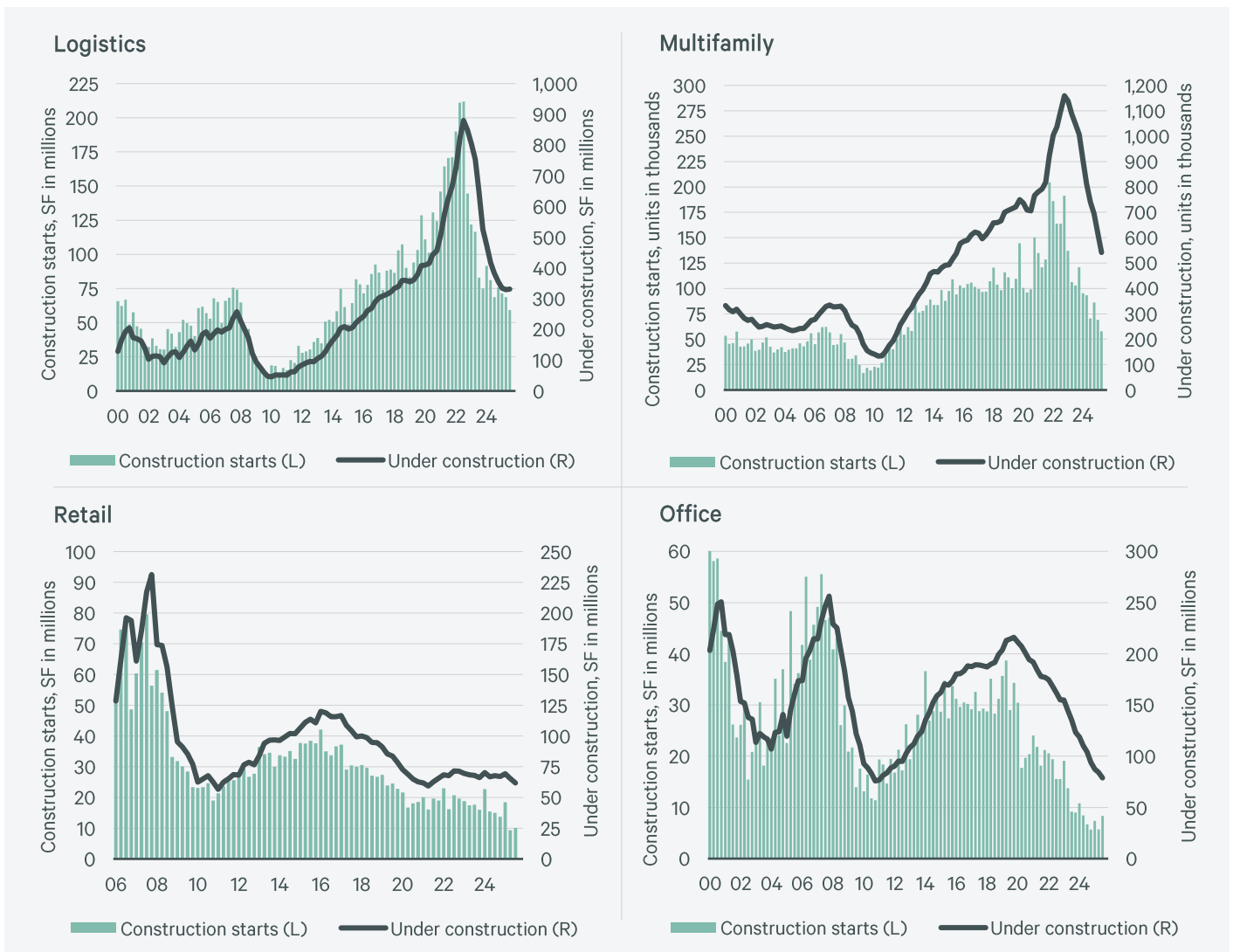


\*\*10-year government bond yield, end of period. History from Oxford Economics, forecast from CBRE Investment Management Macro House View as of October, Q4 2025.

Source: CBRE Investment Management, forecasts as of H2 2025. Cap rates plotted are for Q3 of each year. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Another reason for broad cap rate stabilization is that there is little scope for outsized rent growth ahead. We expect the all property average annual rent growth figure to be negative in real terms. We only anticipate real rent growth at the national level for a few sectors, including manufactured housing, data centers, SFR, multifamily and NCC retail. Investors looking for bright spots in the real estate outlook will find them in the construction data. Construction starts in some sectors have fallen to or near all-time lows (Figure 6), which will lead to an era of much-reduced deliveries in the years to come—a welcome respite from supply after the record construction of apartment and logistics space over the past four years. Our forecasts factor in the reduced supply outlook leading to broadly lower vacancy rates and project renewed rent growth momentum in the medium term. Until then, however, slow or even negative rent growth is likely to persist for the coming year or so as demand across the commercial and logistics sectors remains weak, while apartment rents are on track for a third year of flat growth. Rent growth needs to be generated at the asset level rather than depending more passively on market forces.

Figure 6: U.S. Real estate under construction and construction starts, through Q3 2025



Logistics includes logistics properties only, does not include flex or specialized industrial properties.  
 Source: CoStar data through Q3 2025, sourced October 6, 2025. For illustrative purposes only. Current market conditions differ from prior market conditions, including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

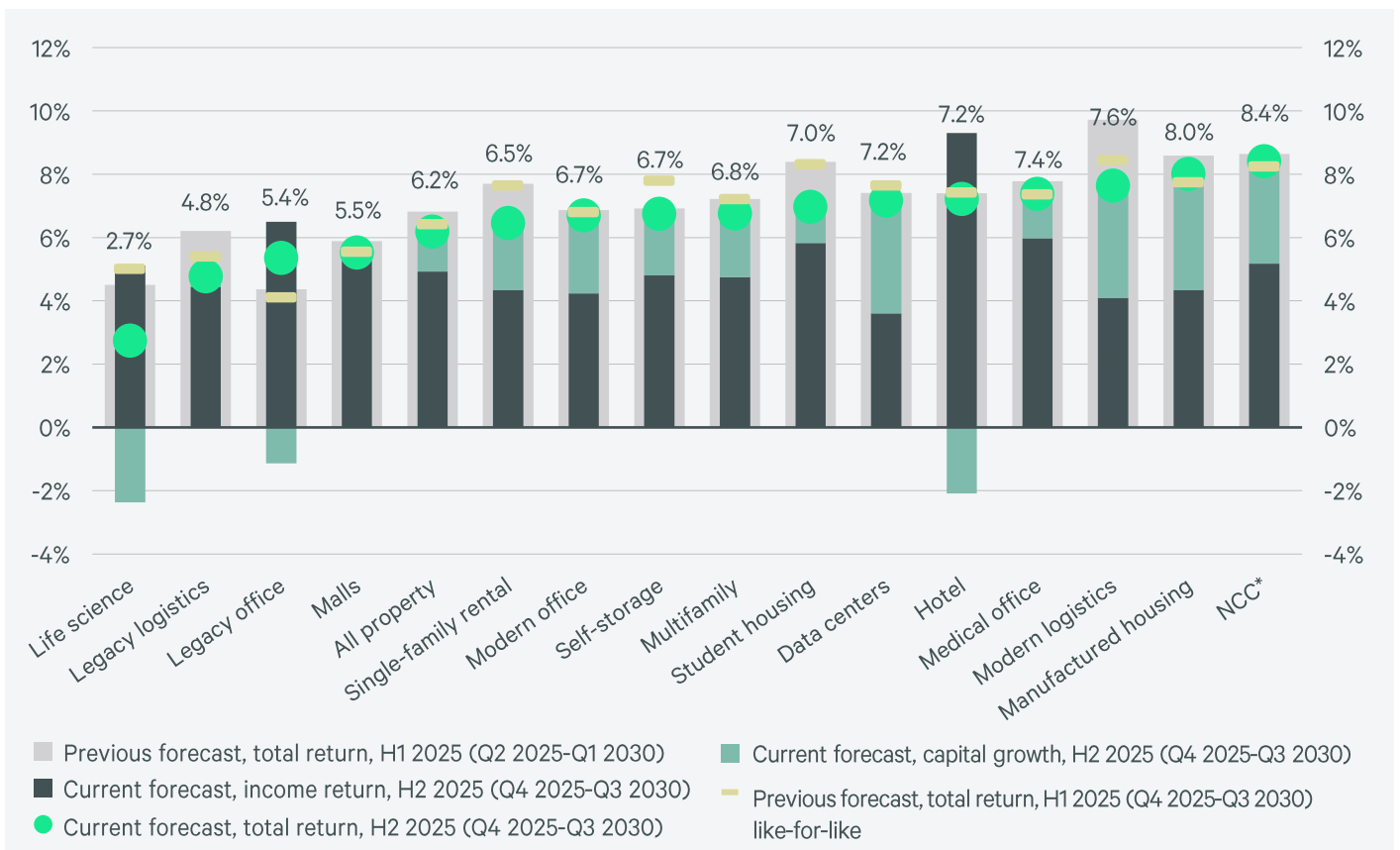
# Portfolio construction

The five-year forward-looking forecast of core total returns will be lower than the long-term average

**Figure 7** illustrates our forecast of a 6.2% total return for U.S. all property (core, unlevered) in the five-year period ahead. This is a downgrade from our prior forecast at 6.8%. The current five-year average return represents an improvement over returns for the past three years but will produce a more muted rebound than what we have seen historically. Our base case of more elevated ten-year government bond yields over the next five years will likely limit capital value appreciation and see gains related to income growth and fundamentals. Selection of sectors and subsectors, markets and submarkets, as well as asset selection, will be critical in such an environment.

The current five-year average return represents an improvement over returns for the past three years.

**Figure 7: Total return forecasts and composition of return, U.S. sectors, core, unlevered, %**



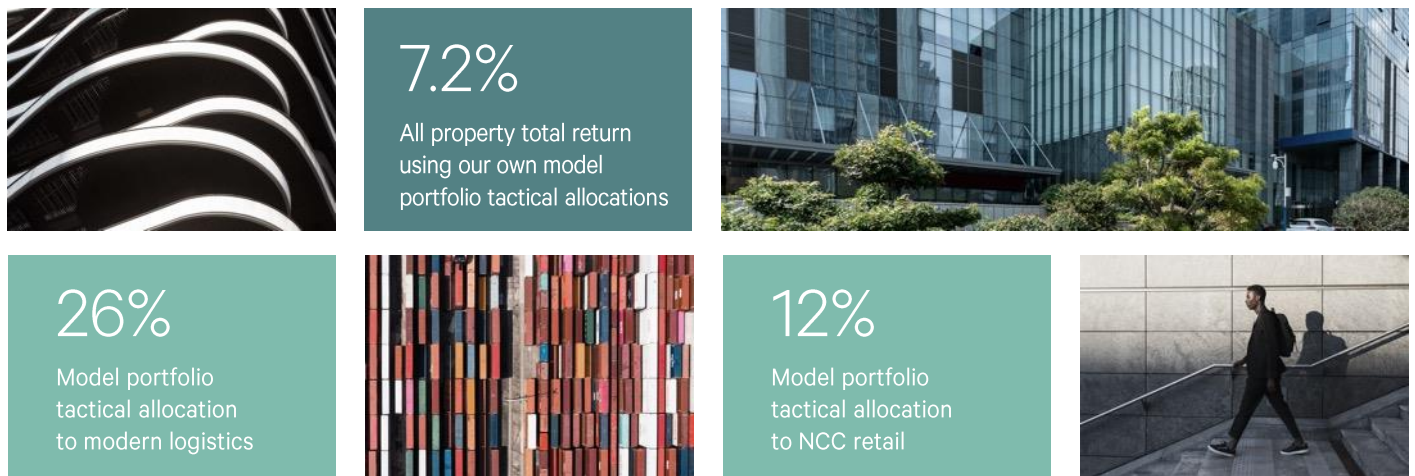
\*NCC signifies neighborhood and community centers (includes strip centers).

The sector aggregates in some cases represent a different set of markets than the previous vintage, as the market coverage has changed.

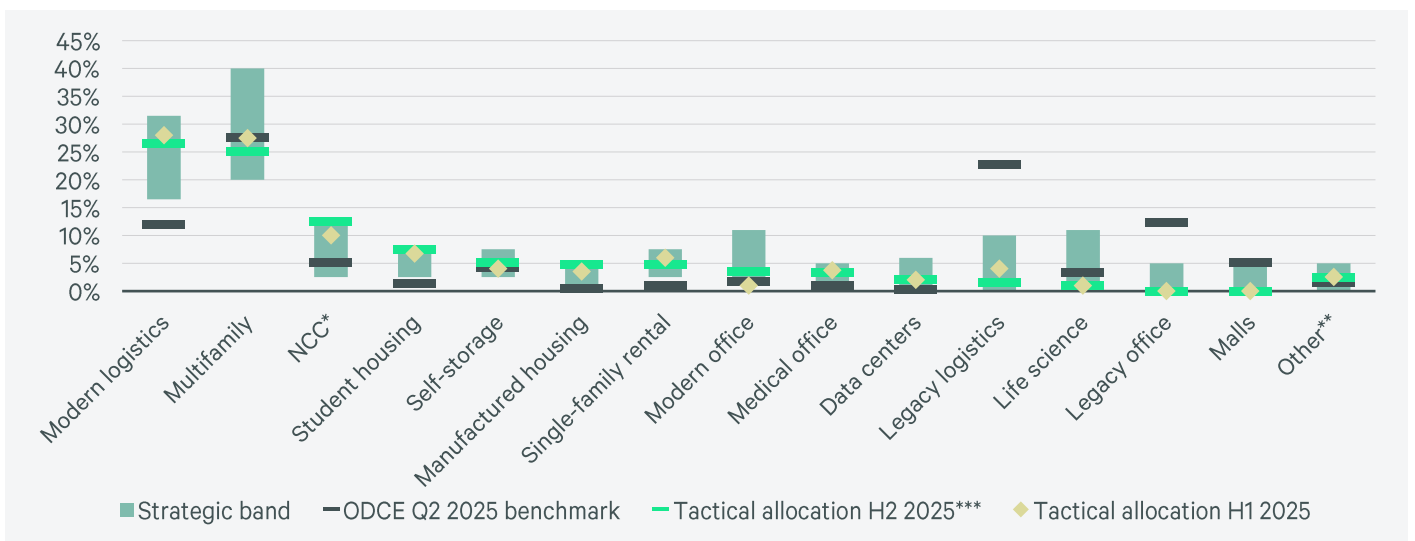
Total returns from latest forecast are labeled.

Source: CBRE Investment Management, forecasts as of H2 2025. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Investors may outperform the index by taking both short-term tactical and longer-term strategic positions across U.S. property sectors. Although the use of NCREIF ODCE weights for our market forecasts delivers the 6.2% annual average return, by using our own model portfolio tactical allocations (**Figure 8**), the all property total return increases to a more attractive 7.2%. But even this outperformance is much narrower than what we have seen in the past. The model portfolio return is the result of a more than double overweight to modern logistics and to NCC retail, now at 26% and 12% respectively, and to notable overweights to smaller residential subsections of student housing, SFR and manufactured housing. Multifamily apartments still has a substantial weighting although it has moved just below market weight. Both modern office and medical office are now overweighted.



**Figure 8: Strategic band, benchmark and tactical allocations, %**  
 Expected return for U.S. investment outlook allocations is 7.2%, while the expected return for U.S. all property is 6.2%



\*NCC is an abbreviation of neighborhood and community centers.  
 \*\* Other includes non-NPI land, entertainment, parking, senior living and healthcare outside of medical office and life science.  
 \*\*\* Allocations can deviate a maximum of 5% from previous time, depending on the size of the strategic band. Larger markets (which have a larger strategic band) are allowed to deviate more compared to smaller markets (markets which have a smaller strategic band).  
 Source: CBRE Investment Management forecasts as of H2 2025, ODCE as of Q2 2025. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

## Conclusion

The U.S. real estate market is the largest, most liquid and among the most transparent in the world. There are more investable cities in the U.S. than any other country and a wider choice of property types to be accessed at scale, both of which also allow the possibility of diversification within a purely U.S. real estate portfolio. Even with a (slight) underweight in our global model portfolio, we still suggest an almost 40% tactical allocation to the U.S., making it too big to ignore. U.S. economics and policy influence most markets and asset classes around the globe. U.S. real estate is poised to continue its rebound, even if that rebound is more muted than we have seen in the past.

The U.S. economy, and consumer spending in particular, have been performing better than expected the last few years. Although we see risks skewed to the downside, real estate still performs well among other asset classes in various scenarios. Sectors like self-storage, residential and logistics have rent growth profiles more highly correlated to inflation, while sectors like student accommodation can be countercyclical in times of recession as enrollment rates may rise even when the economy turns down. Structurally, we have seen the NCREIF index dramatically transform in sector composition over decades and we expect that transformation to continue. Self-storage was barely considered an institutional-quality property type a decade ago but now occupies nearly 5% of the benchmark. We believe that manufactured housing, SFR and others are still in their institutional nascency. Bright spots are clearly emerging in certain formats of retail and highly select office, despite facing current national office vacancy rates higher than the GFC, the tech-wreck of 2001 and the early 1990s.

Although our core market forecasts have been downgraded, the years ahead should present compelling conditions for value-add strategies to exploit more financially distressed and dislocated real estate in recovering submarkets and sectors and to improve asset quality and amenities. Attractive investment in selected REITs and in secondaries should also continue to emerge. The U.S. real estate markets should still afford a wide range of attractive investment opportunities to those investors who are not overly distracted by dramatic headlines, and who are seeking good risk-adjusted returns and diversification in these highly uncertain times.



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