Principal Asset Management℠

Principal Real Estate

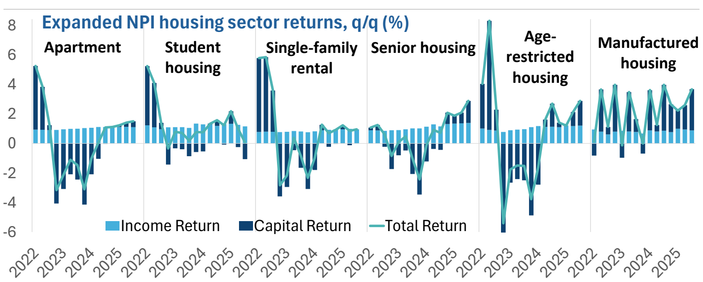
Relative value in a dispersed housing market

Chase McWhorter, Institutional Real Estate, Inc.'s managing director, Americas, spoke in February with Kevin Yam, managing director, portfolio management, and Jim Halliwell, managing director, head of housing and alternatives, about today's complex and dynamic housing market, and how Principal uses a sophisticated perspective and precise analytical methods to identify opportunities quickly and move decisively as the market shifts. Following is an excerpt of that conversation.

How would you characterise the US housing investment landscape today?

Kevin Yam: We think about housing as a spectrum of places people live that changes over time, and we think there's a constructive buying opportunity across many housing sectors today. Values have stabilised, but the repricing has been uneven and there's a widening disparity in returns between top- and bottom-quartile performers within each sector. That divergence in performance is one of the defining characteristics of this cycle. The ability to select assets that will benefit from resilient and growing demand will ultimately drive outperformance.

Figure 1. Values have stabilised across housing sectors



Source: NCREIF NPI, Principal Real Estate, Q3 2025

What has changed most meaningfully in the housing transaction market over the past 24 months?

Jim Halliwell: Three interesting trends have emerged in the transaction market over the past two years. First, investment volumes have shifted meaningfully by housing type. For all property types, overall transaction volume is up roughly 23 percent year over year, but there is a significant spread between sectors[1]. For instance, senior housing is up 47 percent, while conventional multifamily is only up 9 percent. This suggests a wider bid-ask spread in the conventional market, whereas senior housing pricing is clearing above broker guidance. Second, the composition of transactions has evolved. There's been an increase in recapitalisations, where operators prefer to remain in the investment while existing capital partners seek an exit. Third, debt market conditions have transitioned in a positive manner, creating tailwinds for the investment sales market. Credit spreads have compressed in the range of 15 to 40 basis points, and many transactions today are capitalised with neutral or positive leverage at acquisition.

Principal is active across a wide range of housing types. Why does breadth matter right now?

Kevin Yam: Put simply, relative value. Principal has been investing in housing for a quarter of a century. In that time, we have undertaken $18 billion worth of housing investments. We see the market as a demographic continuum, not siloed sectors. That perspective, combined with our ability to underwrite across sectors at scale, enables us to spot pricing inefficiencies and move decisively as conditions evolve.

How has underwriting discipline evolved in this environment?

Jim Halliwell: Most investment managers now assume the era of cap rate compression has ended. This places far greater emphasis on achieving and sustaining net-income-growth projections. The result is that underwriting has become more surgical regarding the uses of cash in a housing investment. Those key uses are capital expenditures and operating expenses. Expense categories such as marketing, security, payroll and insurance have all risen in recent years, prompting deeper scrutiny from both operators and capital providers. On the revenue side, rent growth expectations have become more dispersed across markets, submarkets and housing types. This elevates the importance of robust research and analytical sophistication within underwriting teams.

What would you say differentiates strong housing operators today from the rest of the field?

Jim Halliwell: There are quantitative and qualitative components to operator differentiation. On the quantitative side, overall investment track record matters, but the true differentiator lies in return attribution. Outsized performance driven by market timing, such as buying a garden-style asset in Raleigh in 2017 and exiting into 2021 is nice to have, but it is less compelling than an operator delivering steady net earnings growth across the portfolio in all cycles. On the qualitative side, desired characteristics may vary among capital participants, but strong organisational culture, transparent communication, cross-functional collaboration and effective listening are hallmark traits of top operators. Additionally, well-evolved operational and accounting functions, appropriate risk-management architecture, and proficiency with digital customer procurement and AI platforms are all critical components to evaluate regarding housing operators today.

How has your investment process in housing evolved over the years?

Jim Halliwell: Investing in private real estate has always been an interesting blend of art and science. For the past decade, we have refined and enhanced the "science" part of that equation with deeper integration of data analytics. That rigour has led to the development of several proprietary investment models. Among other features, these tools seek to capture asset-level outliers or operational idiosyncrasies, detecting nuances that may highlight greater risks or opportunities in a particular investment. Furthermore, the models help integrate multiple investment metrics and the correlation (or lack thereof) of different variables that can potentially impact investment performance.

Kevin Yam: Jim and his team have effectively translated the buy box from an intuition into a quantified framework for each sector. This disciplined underwriting framework allows us to systematically identify the asset-level characteristics most correlated with resilient demand and ultimately NOI growth. In a K-shaped recovery, the ability to consistently distinguish winners from losers is essential to driving outperformance.

Where do you see the most compelling opportunities emerging over the next few years?

Jim Halliwell: We see opportunity across housing sectors, but driven by different catalysts. From an opportunistic or dislocation-driven perspective, some stress has been building in the student housing sector where cap rates are widening and operational headwinds are emerging at select universities. This environment may create attractive entry points as the sector is exhibiting signs of being oversold. On the conventional side, projects initiated during peak cycles – particularly developments struggling to meet pro forma expectations or facing upcoming debt maturities – present opportunities to purchase quality real estate at a significant discount to replacement cost, especially in Sun Belt markets. Meanwhile, senior, manufactured and age-restricted housing continue to demonstrate durable demand drivers and above-average earnings growth, making them compelling strategic allocations.

Kevin Yam: It comes back to relative value. Pricing across private markets is dynamic, and our job is to identify when valuations are attractive relative to each sector's macro backdrop. Take student housing as an example. We were net sellers when cap rates compressed to parity with conventional multifamily. With spreads now widening again, nearing 100 basis points in certain markets, the repricing may present an opportunity to acquire assets at more attractive yields amid the negative sentiment. This dynamic plays out across all housing sectors, each influenced by distinct tailwinds and headwinds. Our scale allows us to evaluate these pricing shifts in real time and allocate capital towards the most compelling opportunities.

What should institutional investors take away about housing from your perspective?

Kevin Yam: This is a constructive moment for housing, but it is not a rising-tide environment. In this cycle, sector selection will not drive outperformance. Precision will. The ability to identify the right assets, at the right basis, in the right moment is crucial. Executing with that level of precision requires scale, data, experience, and the ability to see the housing market as a connected continuum – not siloed segments. Very few platforms can operate that way. Principal is one of them.

Notes

1. Source: MSCI. Based on independent reports of properties and portfolio of $2.5M and greater.

CONTRIBUTORS

Jim Halliwell
Managing Director
Head of Housing and Alternatives

Jim Halliwell has more than 38 years of experience in the real estate industry. He leads the Principal housing and alternative investment strategies and is the architect of its proprietary residential investment model. Jim has been involved in over $25 billion of transactions while at Principal and serves on the Investment Committee.

Kevin Yam
Managing Director
Portfolio Management

Kevin Yam is a 20-year real estate private equity veteran with deep expertise in housing and value creation across market cycles. He brings a full-cycle investment background and his experience extends across the US housing ecosystem.

COMPANY OVERVIEW

Principal Real Estate is the dedicated real estate investment team of Principal Asset Management℠. Our knowledge and expertise span the spectrum of public and private equity and debt. Our specialised market knowledge, dedicated and experienced teams, and extensive connections across all four real estate quadrants allow us to maximise opportunities and find the best relative value on behalf of our clients.

Visit our website at **www.PrincipalAM.com/realestate**

CORPORATE CONTACT

Erin Kerr, Senior Managing Director, Real Estate
+1 917-714-8349 | erin.kerr@principal.com