

U.S. QUARTERLY MARKET UPDATE: 4Q25

MACROECONOMIC OUTLOOK

- **U.S. GDP** increased by 2.2% in 2025, following a 2.8% rise in 2024, buoyed by continued growth in consumer spending and investment. Quarterly GDP growth remained positive but notably decelerated in the fourth quarter, falling below consensus forecasts as the prolonged federal government shutdown resulted in a sharp pullback in government spending.
- **Employment growth** remained positive through 2025 but decelerated through the year. Monthly net job creation averaged 15,000 jobs in 2025, a notable pullback from monthly averages of 121,000 in 2024 and 209,000 in 2023.
- Overall **inflation** is proving less persistent than initially feared and weakness in shelter and labor is expected to gradually push it to the Fed's 2% target.
- The **Fed cut interest rates** three times in 2025, as it pivoted towards supporting growth. Slowing inflation readings and a softening labor market increase the likelihood of continued policy rate cuts, with two to three 25 bp cuts anticipated for 2026.
- **The 10-Yr Treasury** has held in the low 4% range, with recent policy rate cuts, waning inflation, and persistent economic uncertainty contributing to downward pressure on longer-term yields. Counterbalancing these downward forces are an increasing term premium and higher global borrowing costs, prompted by rising Japanese bond yields.
- **Consumer/Business Sentiment** has been buffeted by a weakening labor market, rising tariff-related costs, and geopolitical tensions. However, consumer momentum persists, led largely by spending among affluent households, while business investment remains heavily focused on A.I.-related infrastructure.

As 2026 unfolds, near-term economic growth should be supported by monetary and fiscal stimulus, as well as corporate spending. Generally, positive economic growth is expected to filter through improving commercial real estate demand, keeping market conditions tight as construction pipelines remain muted (Figure 1). Lower interest rates should continue to support a strong and deep debt market while providing investors with a sense of stability.

FIGURE 1. REAL GDP AND EMPLOYMENT GROWTH FORECAST (BASELINE)

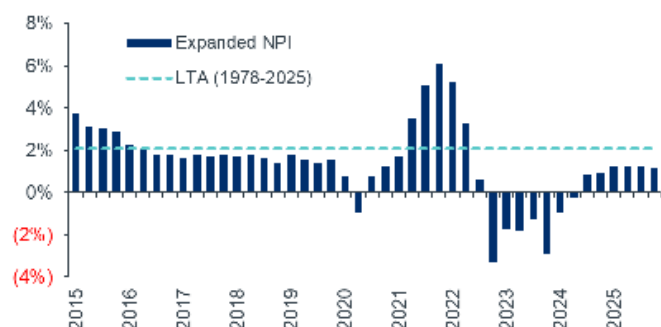


Sources: Moody's Analytics, Clarion Partners Global Research, January 2026. Note: LTA = 1990-2024. Forecasts were provided by Moody's Analytics as of 2/2026. Forecasts have certain inherent limitations and are based on complex calculations and formulas that contain substantial subjectivity and should not be relied upon as being indicative of future performance. Past performance is not indicative of future results. Please see the important disclosures at the end of this presentation.

COMMERCIAL REAL ESTATE OUTLOOK

Investment performance: In the fourth quarter, the Expanded NCREIF Property Index (NPI) generated positive quarterly returns for the sixth consecutive time, delivering a QoQ total return of +1.14%. Income returns were the primary driver behind performance, whereas appreciation was slightly negative at -0.01%.¹ Quarterly returns for all major property types were positive, led by senior housing (3.34%), self-storage (1.76%), and retail (1.60%) sectors.

QUARTERLY TOTAL RETURN, PRIVATE REAL ESTATE



Source: NCREIF Property Index, Clarion Partners Global Research, 4Q25. Note: Expanded NPI includes all NPI properties and all qualified alternative assets. Alternative assets include storage, senior housing, data centers parking and others).

Debt capital markets: Debt availability has improved on the heels of policy rate cuts, greater transparency and pricing clarity. Increased lending among banks, private debt funds and securitization vehicles has bolstered liquidity, resulting in a more competitive lending environment and tighter debt spreads. Although the availability of debt capital has improved, lenders remain disciplined and selective, maintaining stringent risk-management standards.

Equity capital markets: Transaction volume hit \$185 billion in 4Q 2025, the most activity since 3Q 2022, according to MSCI/Real Capital Analytics.² For the year, CRE transactions totaled just over \$545 billion – a 23% increase from 2024. The rise in sales can be attributed to above-average increases in office and retail sales, as well as notable spikes in deal activity within senior housing and data centers.

Real estate occupier demand: Trends in occupier demand remain uneven, with significant differences across sectors, building quality and markets. Variation is largely due to the disproportionate effects of policy changes on different sectors, as well as the disjointed economic recovery. Despite this trend, occupancy rates for most property sectors were above their respective long-term averages through the tail end of 2025.

Real estate supply: The continued pullback in construction activity remains a tailwind for near-term performance, with elevated development costs, higher return requirements and macroeconomic uncertainty putting pressure on

development. However, the availability of construction financing has increased in line with the broader rise in debt liquidity.

PROPERTY TYPE OUTLOOK

INDUSTRIAL / INDUSTRIAL ADJACENT

Industrial: Net absorption improved with +44 MSF in 4Q25, resulting in improved net absorption of +90 MSF in 2H25 compared to a sluggish +23 MSF in 1H25. Class A warehouse net absorption remained positive and gained pace (+48 MSF in 4Q and +136 MSF for the year). Class B/C continued losing occupancy; however, this quarter represented the strongest Class B/C result since 2022 (-800,000 SF in 4Q and -49 MSF in 2025). Construction deliveries exceeded overall net absorption in 4Q25 (68 MSF) and in 2025 (225 MSF) but have sharply declined from the quarterly delivery pace of 100 MSF during 2022 to 2024.³ The U.S. industrial vacancy rate increased 10 bps quarter-over-quarter (QoQ) to 6.7%, matching its long-term average (LTA). Upward pressure on vacancy rates has eased, with construction decreasing meaningfully, and larger boxes (500,000 SF+) are seeing vacancies decline. New construction starts of 45 MSF in 4Q were 60% below peak levels in 2022.⁴ Active supply underway, totaling 144 MSF (just 0.9% of stock), are down 109 MSF year-over-year (YoY) and have settled below LTA annual deliveries, with a healthy preleased rate of 38%. Average asking rents were generally flat with 0.4% and 0.6% QoQ and YoY gains, respectively.

Industrial Outdoor Storage: Institutional appetite for this property type is strong, driven by the potential for higher yields and strategic value additions, such as enhanced security, vehicle charging infrastructure, and larger sites to accommodate storage and maintenance. Less than 1% of stock has been added to the market over the last two years and the average asking rent is 43% above 2020, as availability remains historically tight, sitting 410 bps below industrial overall.⁵ Supply is especially tight in urban port locations, providing landlords with strong rental pricing power. While the outlook for the sector is positive, investors need to remain focused on end-user retention.

OUTLOOK	INDUSTRIAL	IOS	COLD STORAGE
Drivers	- Demographics - Innovation - Shifting Globalization	- Demographics - Innovation - Shifting Globalization	- Demographics - Innovation
Demand	Medium	Medium	Soft
Supply	Low	Low	Low
Cap-Ex	Low	Low	High
NOI Growth	Strong	Strong	Soft
Total Return	Positive	Positive	Soft

HOUSING

Multifamily: The sector is facing some crosswinds as longer-term trends turn positive amid lingering near-term weakness. About 8,300 net move-outs were recorded in 4Q25, making it the first time the U.S. apartment market recorded negative quarterly net absorption in three years.⁶ This decline reflects more typical seasonal trends and signals ongoing normalization in the sector. On an annual basis, demand was robust, totaling nearly 370,000 units, about 40% above the 2015-2019 average. Completions remained steady at roughly 95,000 units in 4Q25 but fell to about 370,000 units on an annual basis, down 22.5% from the recent peak in 3Q24. The combination increased the QoQ national vacancy rate by 50 bps to 4.9%. However, the current vacancy rate for stabilized assets is 30 bps below its historical norm, underscoring the sector's overall resilience.⁷ Institutional-quality starts have settled more than 50% below the post-pandemic peak.⁸ This dynamic is expected to support future rent growth, which remains sluggish – average rent is up just 0.2% YoY, as aggressive concessions remain prevalent in high supply markets.⁹ Tenant retention remains strong, with a renewal rate of 55% and average renewal rent growth of 3.5%.¹⁰

Single Family Rentals: Despite the White House's statement regarding a desire for less institutional ownership, scattered-site single-family rentals (SFRs) continue to demonstrate relative resilience; however, rent growth has been temperate compared to the historical average. As of November 2025, annual rent growth was 2.1%, 1.4 ppts lower than a year ago as well as the sector's long-term average.¹¹ This slowdown is likely influenced by a growing availability of both for-sale and for-rent homes, with an average of 1.4 million homes listed for sale in 4Q – an 8% increase over a year ago.¹² The SFR vacancy rate reached 6.0% in 4Q, a 10-bp improvement from the prior quarter.¹³ In contrast, the Build-to-Rent (BTR) segment continues to face headwinds in the form of new deliveries. BTR vacancy increased 20 bps QoQ to 5.0% (+10 bps YoY), and rent growth remains subdued at -0.4% YoY.¹⁴

Manufactured Housing: Affordability, demographics and limited supply pressure are key tailwinds in favor of the manufactured housing (MFH) sector. Total shipments of MFH units declined significantly between the late 1990s and early 2010s and have remained very low since that time. In November 2025, the annualized rate of MFH shipments totaled 96,000 units – consistent with the five-year trend but roughly half the long-term average dating back to 1959.¹⁵ The lack of significant supply has propelled rents to grow in the range of 5-6% over the past year.¹⁶

Student Housing: The Fall 2026 leasing season commenced in 4Q, and data from Yardi Matrix suggests pre-leasing is off to a healthy start. The pre-leasing rate averaged 30.4% in 4Q, 4.6 ppts above the average 4Q rate for the trailing three years. Average effective rents increased 0.6% in the first three months of the leasing season, but the YoY growth rate is just 0.3%, reflecting a

slight retreat in rent during the spring and summer months.¹⁷ Campus disparity is likely to continue, as disparate enrollment trends, supply pipelines, and demographics play a role in campus-level performance.

OUTLOOK	MULTIFAMILY	MANUFACTURED HOUSING	SFR/BTR
Drivers	Demographics and Housing		
Demand	Strong	Strong	Strong
Supply	Elevated	Low	Low
Cap-Ex	Low	Low	Medium
NOI Growth	Strong	Strong	Strong
Total Return	Positive	Positive	Positive

Note: Multifamily supply is elevated but declining sharply.

OFFICE

Office sector fundamentals generally remain soft, due in large part to hybrid work and slowing job growth. However, there are signs that fundamentals are gradually beginning to improve. Nationally, net absorption in 2025 totaled 0.5% of existing stock (its highest level since 2019), although it was still well below the long-term average of 1.2% of stock.¹⁸ Meanwhile, supply-side pressure continues to abate, with completions in 2025 totaling 15.3 MSF, the lowest level in more than a decade. As a result, the office vacancy rate fell 10 bps YoY to 18.8%. Additionally, national asking rent growth picked up, reaching 1.9% YoY, the fastest growth since before the pandemic, though leasing concessions remain elevated.¹⁹ The office market has a relatively long road to recovery, with the current vacancy rate sitting 390 bps above its long-term average. The office market remains heavily bifurcated between “trophy-quality” assets and struggling commodity-office products.

OUTLOOK	COMMODITY OFFICE
Demand	Soft
Supply	Low
Cap-Ex	High
NOI Growth	Soft
Total Return	Challenged

RETAIL

Neighborhood and community centers reported just under 1.4 MSF of completions in 4Q, the second-lowest (after 2Q 2022) since 1990, although this followed 2.8 MSF in 3Q.²⁰ The total square footage of shopping centers under construction in 3Q amounted to just 0.3% of existing stock, suggesting little indication of a sharp near-term uptick in supply.²¹ Quarterly absorption came in at 3.0 MSF, driving the availability rate slightly lower to 6.7%. Availability has hovered within a tight range (6.4% to 6.8%) since 4Q 2022. In the context of minimal construction, muted net absorption and flat availability (which is rising in some cases) suggests many landlords may be prioritizing rental growth over sheer occupancy. This dynamic occurred earlier in markets such

as Raleigh (3.9% availability rate in 4Q25, vs. post-COVID low of 3.2% in 4Q23).²² U.S. annual asking rent growth came in at 2.4%, accelerating from a 1.6% annual growth rate in 3Q.²³

OUTLOOK	STRIP CENTER	MALL
Drivers	Demographics, Innovation, and Shifting Globalization	
Demand	Strong	Soft
Supply	Low	Low
Cap-Ex	Medium	High
NOI Growth	Strong	Soft
Total Return	Positive	Challenged

HEALTHCARE

Life Sciences: Fundamentals for commodity life sciences softened further in 2025, due in large part to heavy supply growth and lackluster leasing. Both start-ups and established firms continue to cut costs, reducing headcount and footprint in response to the challenging funding environment and in preparation for leaner times ahead. As a result, the vacancy rate rose by 290 bps during the year across the three largest U.S. life sciences markets (Boston, San Francisco, and San Diego), while non-same-store average asking rent growth decreased by 8.5% YoY.²⁴ High quality sponsors and locations continue to fare much better, with a substantial amount of new supply that is not competitive with Class A product (our estimate is only 15% of recently delivered stock is competitive). Construction activity has declined substantially over the last two years but remains relatively robust (4.2% of stock is underway), which will contribute to further downward pressure on occupancy rates and rent growth through the near term.²⁵

Medical Offices: Demand remained strong while deliveries continued to slow, resulting in the trailing twelve-month U.S. occupancy rate increasing by roughly 20 bps from one year ago to 92.5% in 4Q25 (60 bps above the sector's average since 2018).²⁶ Same-store asking rents grew by 1.8% YoY, a solid, but slowing pace from the 2023 high of 2.9%.²⁷ Going forward, supply-side dynamics continue to look favorable with the sector's under-construction pipeline receding to just under 20 MSF (2.2% of stock), while construction starts have fallen sharply (42% decline in trailing twelve month starts since 3Q22 peak).²⁸

Senior Housing: Through 4Q25, U.S. senior housing market conditions continued to tighten, with net absorption outpacing completions for the 19th consecutive quarter.²⁹ As a result, occupancy rates have improved from sub-80% levels in 2021 to 89.4% in 4Q, while average rent growth was 4.5% YoY.³⁰ The sector's construction pipeline remains in check, with units under construction equating to just 2.2% of existing stock, which is well below the 7% construction rate observed at the height of the previous supply wave from

2016 to 2020.³¹ Looking ahead, the sector appears poised for strong rent growth. This will likely be a result of the demographic tailwind, specifically the growth of the 80+ year-old population, which is projected to expand by 4.8% per year through 2030.³²

OUTLOOK	LIFE SCIENCES	MEDICAL OFFICE	SENIOR HOUSING
Drivers	• Demographics • Innovation • Shifting Globalization	• Demographics • Innovation • Housing	• Demographics • Innovation • Housing
Demand	Soft	Strong	Strong
Supply	Elevated	Low	Low
Cap-Ex	Medium	High	High
NOI Growth	Soft	Moderate	Strong
Total Return	Challenged	Positive	Positive

SELF-STORAGE

Fundamentals remain relatively soft, due in large part to subdued home sales activity and household movement. Conditions appear to be improving with annual same-store "move-in" rent growth moving back into positive territory at 0.3% in 4Q25.³³ However, national move-in rents remain down by more than 10% since the 2022 peak. Existing customer rate increases (ECRIs) remain healthy and have largely offset the decline in move-in rates over the last few years. This has resulted in flat-to-slightly-down revenue growth YoY. Self-storage demand should improve over the next couple of years with the anticipated recovery in home sales activity. The national construction pipeline also continues to decrease (2.6% of existing space is underway),³⁴ another tailwind for the sector's near-term performance.

OUTLOOK	SELF-STORAGE
Drivers	Demographics and Housing
Demand	Soft
Supply	Moderate
Cap-Ex	Low
NOI Growth	Moderate
Total Return	Moderate

DATA CENTERS

Data centers continue to experience strong demand, supported by rapid AI adoption and cloud computing investments. Power availability remains at the center of site selection strategies. Recent public market commentary from large tenants has been positive, suggesting that current and planned (2025 and 2026) capital expenditures into space and infrastructure are accelerating despite economic uncertainties. As of 3Q25, the vacancy rate for the sector was 1.6%, with vacancies in most primary data center markets at record lows, below 1%. This is despite the significant YoY inventory increase, as much of this newly delivered space is pre-leased.³⁵ Primary markets

continue expanding meaningfully, led by Dallas, which added 850 MW of inventory YTD. The overall under-construction pipeline remains active with more than 1.3 GW currently underway.³⁶ While rent growth has somewhat moderated relative to recent years given the persistently active supply, average asking rent continued to rise in 1H 2025, with an average gain of 2.5% for 250-to-500-kW.³⁷ Several markets saw average pricing for large 10MW+ leases jump double digits, ranging from 13% to 19%.

OUTLOOK	DATA CENTERS
Drivers	Demographics and Innovation
Demand	Strong
Supply	Elevated
Cap-Ex	High
NOI Growth	Strong
Total Return	Positive

HOTEL

In December 2025, U.S. hotel occupancy was at 59%, down 0.9% from the same month in 2024.³⁸ Revenue per available room (RevPAR) came in at \$83.93, holding steady from December 2024 levels, while the average daily rate (ADR) was \$158.37, up 0.8% from December 2024.³⁹ New York City had the highest occupancy of any Top 25 market in December, with occupancy hitting 88% in December.⁴⁰ In November, U.S. occupancy was 57.9% (down 2.8% from November 2024) and RevPAR was \$88.97 (down 2.3%).⁴¹ In October, occupancy was 65.8% (down 2.4% from October 2024) and RevPAR was \$110.35 (down 0.9%).⁴²

OUTLOOK	HOTELS
Demand	Moderate
Cap-Ex	Moderate
Supply	High
NOI Growth	Soft
Total Return	Challenged

METRIC	UNITS	CURRENT QUARTER (25Q4)	PRIOR QUARTER (25Q3)	PRIOR YEAR (24Q4)	20-Yr LTA
Real Gross Domestic Product (GDP)	% Annualized Rate	1.4%	4.4%	1.9%	2.2%
Total Employment Growth	y/y%	0.2%	0.5%	0.9%	0.9%
Office-Using Employment Growth	y/y%	-0.5%	-0.5%	-0.7%	1.0%
Unemployment Rate	%	4.5%	4.3%	4.1%	5.8%
Consumer Price Index (CPI)	y/y%	2.8%	2.9%	2.7%	2.6%
Annual Wage Growth (Avg. Hourly Earnings)	y/y%	3.9%	3.9%	4.1%	3.1%
Retail Sales	y/y%	3.0%	4.4%	3.9%	4.1%
Total Residential Starts	000s, SAAR	1,333	1,346	1,387	1,162
Multifamily	000s, SAAR	394	461	374	341
Single Family	000s, SAAR	939	885	1,013	821
Existing Single-Family Median Home Price	y/y%	1.2%	1.5%	4.7%	3.6%
Existing Single-Family Home Sales	000s, SAAR	3,810	3,650	3,767	4,407
Fed Funds Rate (Effective)	%	3.9%	4.3%	4.7%	1.7%
3-mo. Treasury Yield	%	3.9%	4.3%	4.6%	1.7%
10-yr Treasury Yield	%	4.1%	4.3%	4.3%	2.9%
BBB Corporate Bond Yield	%	5.1%	5.3%	5.4%	5.1%
High-Yield Corporate Bond Yield	%	6.6%	6.7%	7.0%	7.6%

Sources: Moody's Analytics, BEA, BLS, U.S. Census Bureau, NAR, FRB, FRED, Clarion Partners Global Research, 4Q25.

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1 NCREIF, 4Q25.

2 MSCI/Real Capital Analytics, 4Q25.

3 CBRE-EA, 4Q25. Note: Figures are preliminary and total market net absorption is calculated by Clarion Partners based on quarterly change in occupied stock using vacancy rate.

4 CBRE Research, 4Q25.

5 Clarion Partners Global Research, CBRE-EA, 4Q25.

6 CBRE EA, 4Q25.

7 CBRE EA, 4Q25.

8 RealPage, 4Q25.

9 CBRE EA, 4Q25.

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11 John Burns Real Estate Consulting, November 2025.

12 Moody's, National Association of Realtors (NAR), 4Q25.

13 Moody's, U.S. Census Bureau, 4Q25.

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18 CBRE-EA, 4Q25.
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21 Cushman & Wakefield, 4Q25.
22 CBRE-EA, 4Q25; Cushman & Wakefield, 4Q25.
23 CBRE-EA, 4Q25
24 JLL Research. 4Q25.
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29 NIC MAP Vision. 4Q25.
30 NIC MAP Vision. 4Q25.
31 NIC MAP Vision. 4Q25.
32 Moody's Analytics. 4Q25.
33 Yardi Matrix. 4Q25.
34 Yardi Matrix. 4Q25.
35 Avison Young with data from DatacenterHawk Q3 2025.
36 Avison Young with data from DatacenterHawk Q3 2025.
37 CBRE, 1H 2025.
38 STR. December 2025.
39 STR. December 2025.
40 STR. October and November 2025.
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42 STR. October 2025.