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Park Madison Perspectives

# Outlook 2026

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## About Park Madison Partners

Park Madison Partners is a leading private placement and capital solutions firm focused on building strategic partnerships within the institutional real estate community. Since its formation in 2006, Park Madison has advised on over \$30 billion in private capital placements for a wide range of real estate vehicles including closed-end funds, open-end funds, separate accounts, programmatic joint ventures, and recapitalizations.

Park Madison Partners provides capital raising and strategic consulting services to real estate sponsors with a high degree of customization, integrity, and accountability. Our team comprises top talent from both the buy-side and the sell-side of the commercial real estate industry. We leverage this diverse experience to advise our clients on institutional best practices, helping them maximize their capital formation potential in a competitive marketplace.



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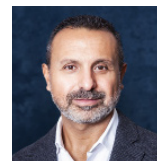
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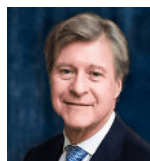
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**“ The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn. ”**  
**– Alvin Toffler**

History will remember 2025 as the year an old order ended and a new one began. Many of the foundational principles of economics, politics, and commerce that have shaped modern investing have been ripped up or rewritten. The post-war liberal world order – characterized by multilateral trade, international rule of law, and global stability – has officially given way to a more unpredictable, multi-polar reality. Within the U.S., long-standing structural mainstays like central bank independence and an expanding labor force are no longer a given. Even the value of a college degree is being questioned as artificial intelligence upends entire industries and occupations. If today’s rapid pace of change seems dizzying, grab a seat and hold on: it only accelerates from here.

Predicting the future in this environment is difficult, but we still believe it is our task to try. Each year we make predictions on 10 major themes affecting the commercial real estate industry, attempting to identify the trends and data points that we believe are most relevant to real estate investors today. Last year we did pretty well, and you can see a full analysis of how we fared in our “2025 Scorecard” at the end of this piece. But first, here are our top 10 predictions for 2026:

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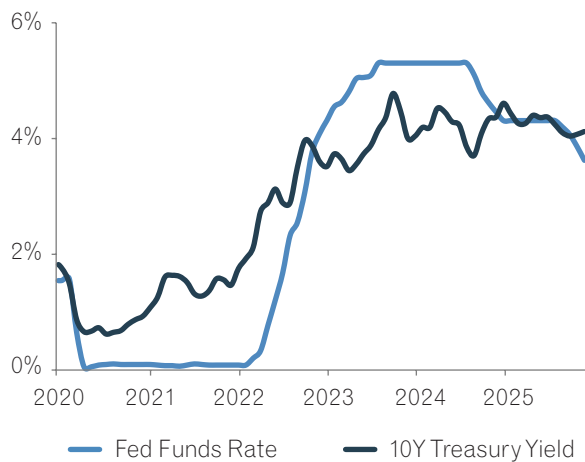
## 1

## The Fed will tilt dovish amid a soft labor market and “K-shaped” economy

The interest rate outlook for 2026 is full of contradictions and opposing macro forces. In response to softer inflation and labor market weakness, in 2025 the Federal Reserve cut rates by 75 basis points to a policy range of 3.5-3.75 percent and resumed balance sheet expansion. All signs point to continued accommodative policy in 2026, with markets expecting 25-75 basis points of additional cuts. However, we believe longer-term market rates have found a floor and are unlikely to decline meaningfully from here. Tariffs, immigration restrictions, and elevated fiscal deficits create a volatile policy mix that should keep longer-term rates elevated even as the Fed relaxes monetary policy. Investors should therefore prepare for an environment where longer market rates are less tethered to Fed policy.

### Fork in the Road

Effective Federal Funds Rate vs 10-Year Treasury Yield, 2020-Present



Source: Federal Reserve Economic Data, December 2025.

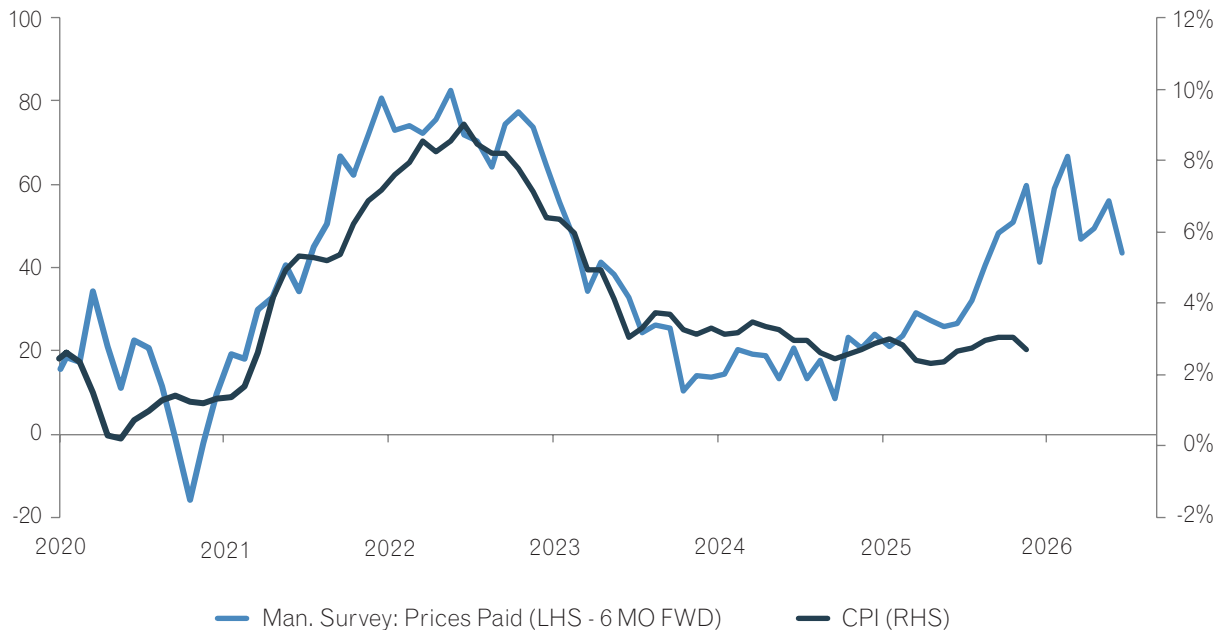
The U.S. economy is currently adjusting to sweeping policy and structural changes, which create uncertainty about future GDP growth. The average tariff rate has increased from 1.5 percent to an estimated 15.8 percent, which amounts to an average 2026 tax increase of \$1,400 per U.S. household. This regressive burden falls disproportionately on lower and middle-class families already facing affordability challenges. Meanwhile, the top 10 percent of earners now account for roughly half of all consumer spending, a historic high. This divergence has led to what policy wonks have dubbed a “K-shaped” economy and creates pressure on the Federal Reserve to ease policy.

Sweeping changes to immigration policy are also expected to reverberate in the years ahead. Immigration has been a key driver of U.S. population and economic growth for most of the nation’s history. Net migration to the U.S. averaged 880,000 people per year from 2010-2019 according to the Census Bureau. Based on estimates of current Trump Administration policies, net migration could drop to zero or even turn negative in the years ahead. This reduction in population growth will constrain both labor supply and household formation, with conflicting implications for both inflation and GDP growth.

Against this uncertain backdrop, the Federal Reserve faces a delicate balancing act as it faces political pressure to cut rates. Inflation risks remain as post-pandemic effects linger and tariffs work their way through the economy. The broad Consumer Price Index (CPI) and other inflation measures are stable, but remain above pre-pandemic averages. The impact of tariffs has yet to show up meaningfully in inflation data, but the Philadelphia Fed Manufacturing Survey of Prices Paid – which is often a leading indicator of inflation – experienced a significant jump beginning in mid-2025. Many businesses stocked up on inventory ahead of the tariffs, and others have delayed raising prices in hopes of a reversal in policy. As these delay tactics burn off, inflation could accelerate, perhaps peaking between 3-4 percent in mid-2026 before cooling again. Dare we say it, most economists believe the initial inflation impact from tariffs will be transitory.

### Delayed Tariff Impact?

U.S. Consumer Price Index vs. Philadelphia Fed Manufacturing Survey of Prices Paid

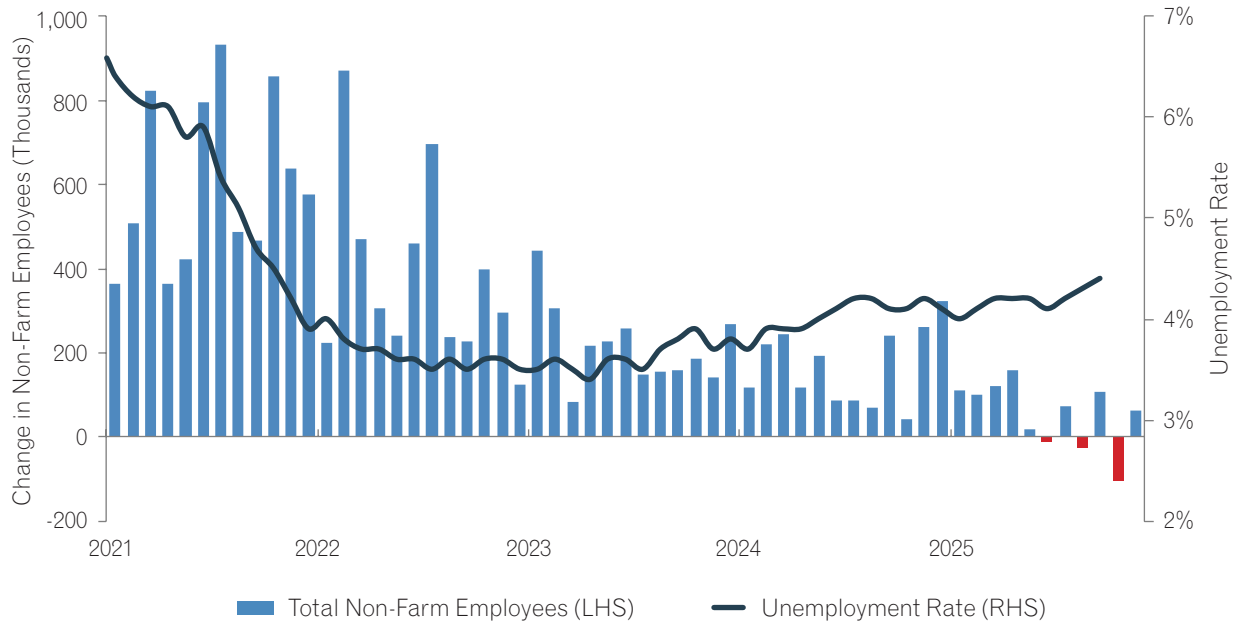


Source: Federal Reserve Economic Data, November 2025.

The Fed's mandate to maximize employment provides the clearest rationale for rate cuts in 2026. Job growth numbers have been trending downward as businesses slow hiring, while the unemployment rate is trending higher. Artificial intelligence may be driving some of the weakness, particularly for recent college graduates pursuing entry-level white-collar positions. A 2025 Stanford study showed that AI had reduced entry-level employment by 13 percent in occupations such as computer programming, accounting, sales, and financial planning. Graduates with computer science and computer engineering degrees have been especially hard hit, with unemployment rates at 6.1 percent and 7.5 percent, respectively. If these trends continue, AI could prove to have long-term deflationary impacts through a combination of higher worker productivity and reduced wage growth.

### Sputtering

Unemployment Rate vs. Monthly Change in Total Non-Farm Employees, 2021-Present



Source: U.S. Bureau of Labor Statistics

While near-term labor market dynamics may pull the Fed toward easing, we believe fiscal imbalances will prevent a meaningful decline in long-term rates. The federal budget deficit is expected to run between 6 percent and 6.5 percent of GDP through 2035—magnitudes historically associated with recessions or wartime. U.S. Treasury markets became notably “yippy” in the wake of Liberation Day tariff announcements and Congressional negotiations around the One Big Beautiful Bill Act (OBBBA), though nerves have since calmed with the 10-year Treasury trading in a tight range of 4.0-4.25 percent since September 2025. Ironically, Trump’s tariffs may be helping to stabilize Treasury markets, with the OBBBA’s \$3.4 trillion of additional deficit spending over 10 years partially offset by \$2.3 trillion of new revenue from import duties. Barring the Supreme Court striking down Trump’s tariffs, we expect the 10-year Treasury to remain range-bound between 4.0-5.0 percent, as fiscal concerns and inflation uncertainty prevent a meaningful decline in longer rates. Commercial real estate investors holding out for materially better debt terms could be in for a long wait.

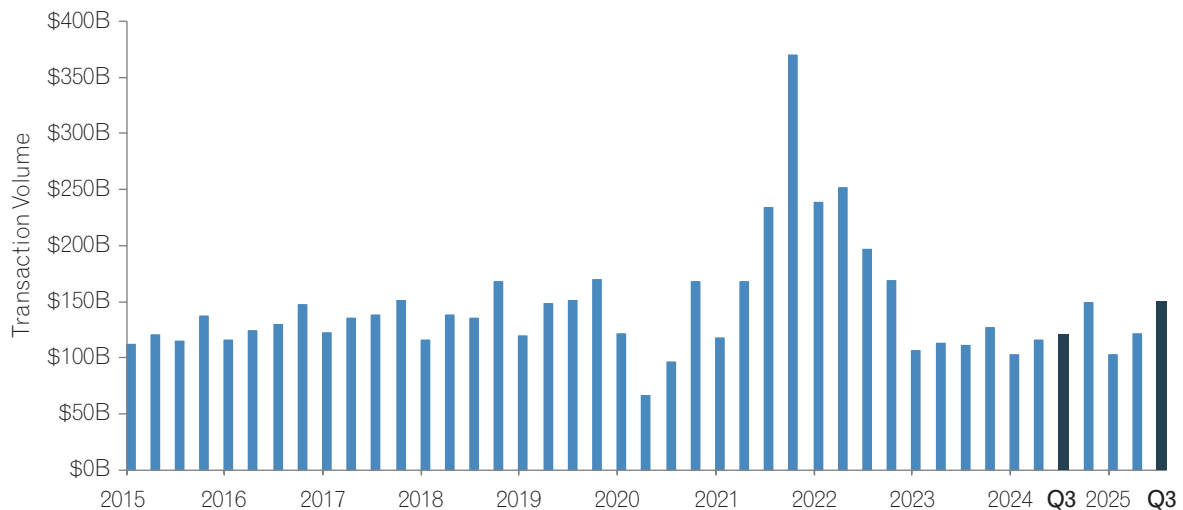
## 2

## Commercial real estate transaction volumes will increase as the portfolio benefits of hard assets gain wider appeal

The U.S. commercial real estate market continues to stabilize following its worst downturn since the GFC. After bottoming 22 percent below its March 2022 peak, the Green Street Commercial Property Price Index (“CPPI”) has steadily recovered and has now risen 7 percent off the December 2023 lows. Cap rates for most sectors have remained stable for the last year. Increasing lending activity has improved market liquidity, and equity investors are becoming more active as interest rates and cap rates stabilize. Transaction volumes have remained stable since 2023 and showed signs of accelerating in late 2025. By all appearances, real estate markets hit bottom in 2023 and are now in the early stages of the next bull cycle.

### More Buyers and Sellers

Commercial Real Estate Transaction Volumes, Q1 2015 – Q3 2025



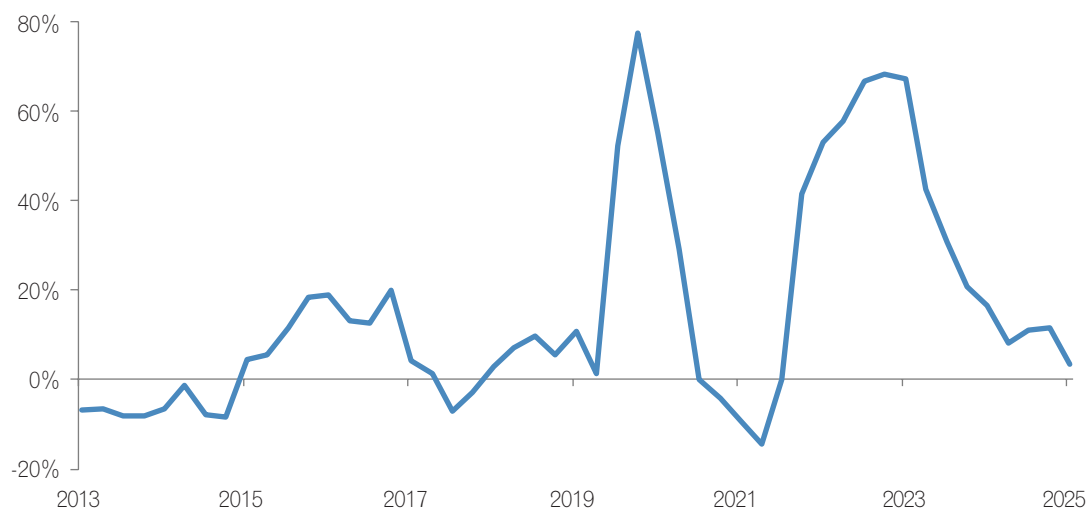
Source: Altus Group, Q3 2025.

Supply and demand dynamics have improved across many sectors. After several years of overbuilding during the pandemic, supply growth appears likely to remain subdued due to higher construction costs, elevated interest rates, and labor shortages. Tariffs are expected to raise the prices of essential construction materials like steel, aluminum, and lumber. Capital availability for new construction remains scarce as both lenders and equity investors remain highly selective and risk averse. Even if construction costs and capital availability become less prohibitive, the labor problem is likely to persist. Immigrants comprise an estimated 30 percent of U.S. construction workers, and their absence will be felt more acutely once construction activity picks up again. This suggests future pricing power for owners of existing assets.

Real estate market liquidity has also improved within the last year. Core and core-plus capital is starting to tiptoe back in, providing exit liquidity for stabilized assets. CMBS markets have come roaring back. Banks have stepped up their lending, with only 3 percent of banks reporting tighter underwriting standards today, versus 68 percent in April 2023. Private credit funds have also proliferated since 2022. According to Real Capital Analytics, private credit funds comprised approximately 24 percent of U.S. commercial real estate loans in 2024, versus a 10-year average of 14 percent. As a result of this increased competition, private credit spreads have compressed significantly, improving lending conditions for real estate borrowers.

### Relaxing the Purse Strings

Net Percentage of Domestic Banks Tightening CRE Lending Standards, 2014-Present



Source: Federal Reserve Economic Data

Cap rates appear to have stabilized after a painful upward adjustment, and few investors expect meaningful cap rate compression in the near term. As a result, most sectors appear fairly priced, and absent an unforeseen external catalyst, real estate valuations seem unlikely to break sharply higher. Beta strategies involving broad sector bets are out of favor, and strategic capital improvements, micro-market dynamics, and NOI growth are expected to drive the bulk of real estate returns going forward. Current income, which made up less than half of ODCE returns from 2010-2019, is also expected to become more of a focus for real estate investors as price appreciation moderates.

While investor sentiment towards real estate remains subdued, we expect an improvement in 2026 as investors seek the portfolio diversification benefits of hard assets. Concerns over mounting government debt, persistent fiscal deficits, and erosion of fiat currency purchasing power have driven other hard asset prices sharply higher throughout 2025, particularly precious metals. We expect this “debasement trade” to spill over into other hard assets such as infrastructure and real estate as well. Real estate has long been viewed as an effective inflation hedge, and is also less correlated to other asset classes due to its combination of current income and capital appreciation potential. Amid frothy valuations in other asset classes, we expect institutional investors will gain newfound appreciation for commercial real estate’s diversification benefits.

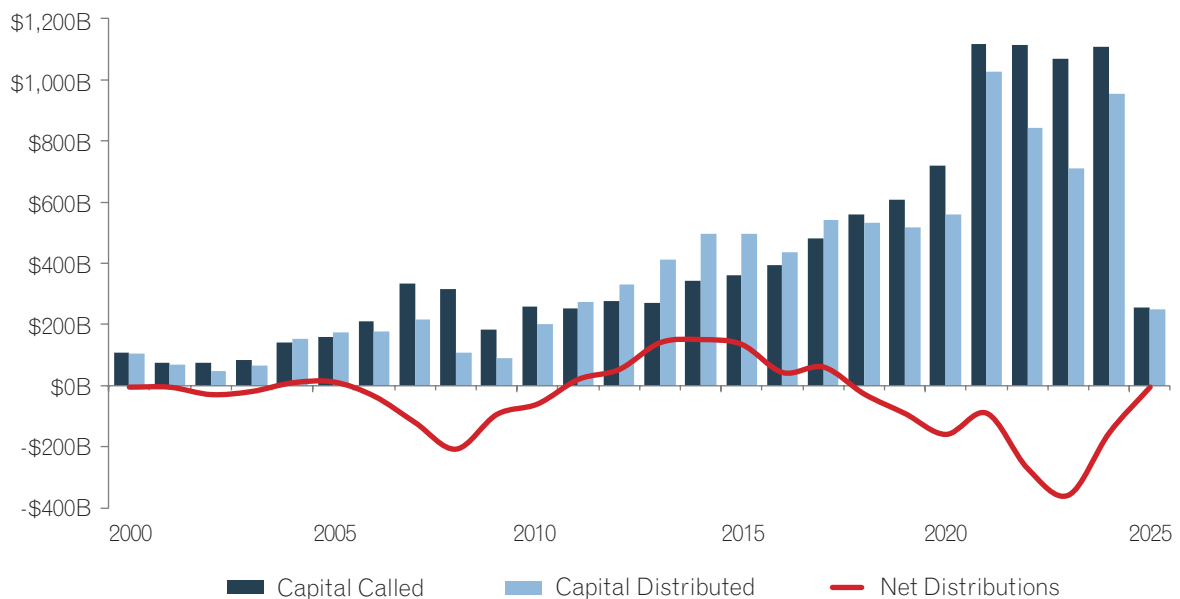
## 3

## Real estate fundraising volumes will increase, while the “barbell effect” will lead to further industry consolidation

The gears of real estate capital markets are finally starting to turn again. As transaction volumes pick back up, investors are receiving more distributions which they can then recycle as new commitments. Prequin data shows that the difference between capital called and capital distributed reached its widest dispersion ever in 2023, with investors contributing – on net – approximately \$357 billion more than they received in distributions. This lack of distributions, combined with a negative denominator effect as equity and fixed income markets sold off, led to a capital markets winter across U.S. commercial real estate sectors.

### Improving Liquidity

Annual Capital Called & Distributed, North American Closed-End Funds, Q1 2000 – Q1 2025



Source: Prequin, December 2025.

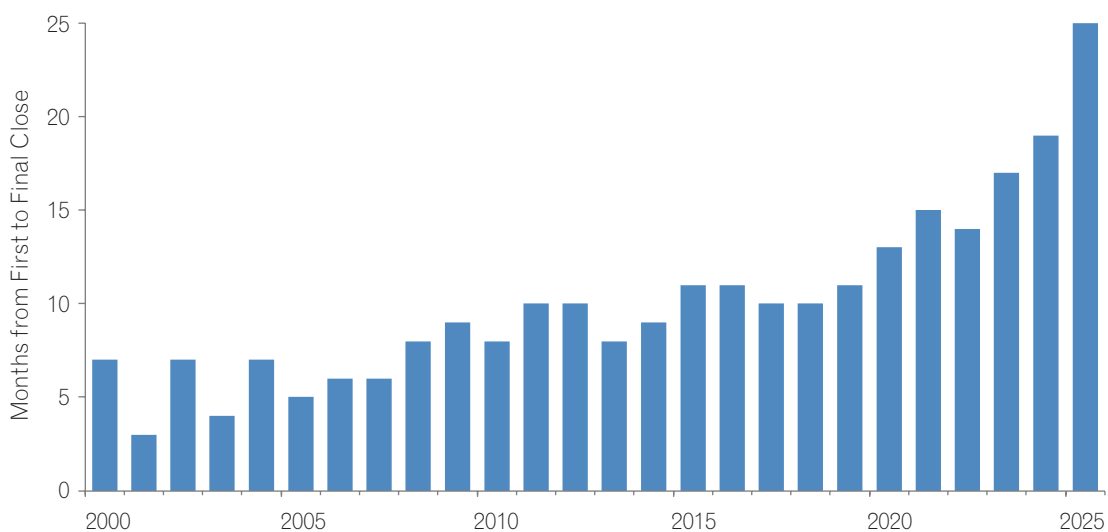
Despite the occasional negative headline, there are no signs of institutional investors souring on real estate as an asset class. Target allocations to real estate remain stable between 10 to 11 percent, and the gap between target and actual allocations has widened thanks to buoyant equity markets. As distribution volumes improve, primary capital commitments have started to pick back up. Preliminary Prequin data as of December shows North American closed-end real estate funds raising nearly \$130 billion in 2025, and that number will likely climb as more year-end closings are reported. But already, this represents the best fundraising total since 2022 and easily eclipses the fundraising totals for every year prior to 2021. We expect the pace of capital deployment to continue accelerating into 2026.

Real estate may also soon be the recipient of a fresh source of capital in the form of greater participation by Defined Contribution (DC) plans. As of mid-2025, DC plans comprised approximately \$13 trillion, including \$9.3 trillion in 401(k)s. The Trump Administration is set to revise guidance to encourage inclusion of more private assets in defined contribution plans. Today, the Defined Contribution Real Estate Council estimates that approximately \$8 billion of DC capital is invested in core, diversified open-end funds, representing only 0.06 percent of total DC assets. This signifies both an established precedent for DC plan participation as well as a long runway for future growth. Even if only 1 percent of DC plan assets invest in private real estate, it would represent approximately \$130 billion of additional capital flowing into the asset class. By comparison, North American closed-end real estate fundraising volumes averaged \$113 billion annually from 2015-2024.

Even as more capital flows into real estate, breaking into the closed-end fund universe as an emerging manager will likely remain challenging. As alternative investment portfolios become more mature, institutional investors are increasingly focused on re-upping with existing managers, and the bar for adding a new manager is high. Fundraising itself has become a full-time job, with the average time from first to final close reaching 25 months in 2025 according to Preqin. Increasingly, funds are substantially deployed shortly after the fundraise ends, leaving little time for managers to catch a breath before hitting the fundraising trail for the next one. The “barbell effect” is also becoming more entrenched, with investors allocating capital to both 1) large mega-funds that provide diversified private real estate exposure, including through multiple product lines, and 2) smaller “sharpshooter” managers specializing in a single geography, property sector, or some other niche. We expect an influx of DC plan capital will further exacerbate this issue, as those assets are overwhelmingly managed by large institutions that will favor investments in established managers.

### Against the Wind

Average Time from First to Final Close, North American Closed-End Funds, 2000 - 2025

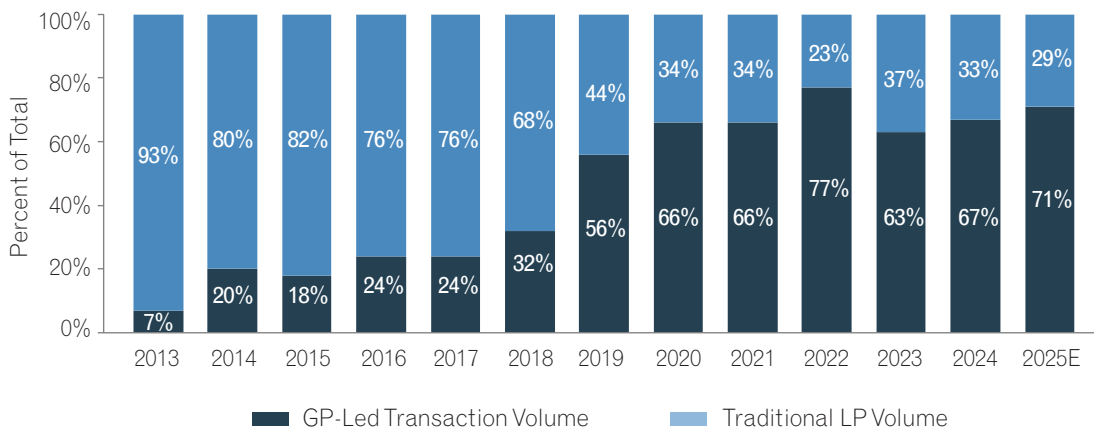


Source: Preqin, December 2025.

As the real estate investment business becomes more competitive, we expect the current wave of consolidation to continue. For the largest managers, technology, data, and platform scale are often key differentiators on the fundraising trail. They also tend to have in-house tech expertise to capitalize on efficiencies of scale, which is challenging for small and mid-size managers to replicate. Combining with another platform through M&A could mitigate some of these weaknesses, and we believe more small and mid-size managers will go that route, as we have witnessed in recent years.

We also expect to see more real estate managers pursue alternative private capital solutions as the closed-end fundraising route becomes more difficult. In particular, portfolio secondaries and continuation vehicles have become more effective avenues for managers to secure new institutional capital partners, refresh business plans, restructure ownership, and reset GP economics. These types of GP-led recapitalizations can be particularly effective as fund lives and disposition timelines get extended, providing liquidity to existing LPs and potentially facilitating the re-up conversation for future fund launches. GP-led recapitalizations now account for the vast majority of real estate secondaries trades, and dedicated capital pools for such transactions are growing rapidly. We expect to see more managers exploring these types of transactions in 2026.

**Share of Real Estate Secondaries Volume, 2013-2025E**



Source: Park Madison Partners

Based on Preqin data, Asia-Pacific fundraising rebounded in 2025, with aggregate capital raised as of Q3 2025 already surpassing 2024's annual total. Some of this could be due to base effects: APAC fundraising volumes hit a 10-year low in 2024. But the growth opportunity in APAC is also perhaps too attractive to ignore. Despite accounting for more than 50 percent of global GDP, many APAC markets remain significantly underserved by the existing stock of industrial, logistics, cold storage, data centers, life sciences, and other "new economy" sectors. Investor interest in developed markets such as Japan, Singapore and Australia has been rising, and emerging markets such as India and Southeast Asia are attracting more investor attention as well. Barring any major geopolitical shocks, we expect to see more capital bound for the APAC region in 2026.

## 4

## Data center fundamentals will remain strong despite noise of an AI bubble

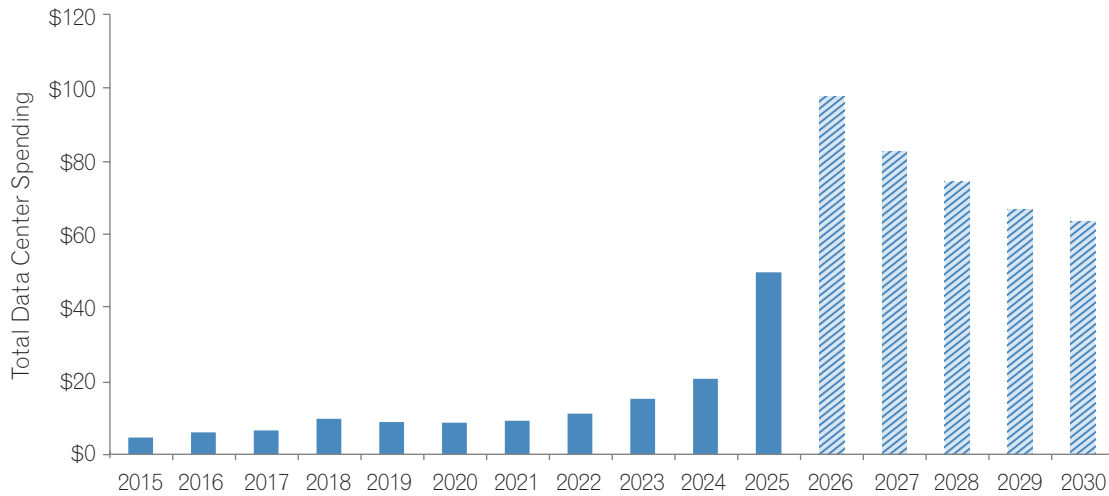
Data centers continue to attract record amounts of capital as investors seek exposure to the mission-critical infrastructure of today's digital economy. According to PERE data, data centers accounted for over 30 percent of capital raised in the first three quarters of 2025, eclipsing all other sectors besides multifamily. Despite talk of stretched valuations and a potential "AI bubble" in public equity markets, data center investments still appear to have a long runway. Demand for technological applications such as artificial intelligence, cloud computing, and enterprise data management is almost certain to grow in the years ahead.

Current market fundamentals certainly appear to support the case for more development. According to CBRE, even with data center supply increasing by 43 percent in primary markets in 2025, the vacancy rate fell to a record-low 1.6 percent. Hyperscalers such as Amazon, Microsoft, Oracle, Meta, and Google still do not have the data center capacity to meet today's demand. Development is also relatively low risk compared to other property types: nearly all data center projects are pre-leased to long-term, high-credit tenants prior to construction commencing, making supply risk from speculative development virtually non-existent. Asking rents have been growing at rates exceeding 15 percent annually since 2021 according to Green Street, with mid-to-high single-digit growth projected through 2029.

Even in the face of such strong fundamentals, data center supply growth appears set to moderate in the coming years. Access to power has already emerged as a significant natural constraint to new supply. The Trump Administration's opposition to clean energy has exacerbated the issue, with developers cancelling nearly 1,900 power projects in 2025 worth a combined 266 GW of capacity – equivalent to roughly one quarter of the entire U.S. electricity generation capacity. Primary data center markets simply cannot meet the massive power requirements necessary for modern facilities, forcing development activity into select secondary and tertiary markets that still have excess power capacity. Research from the construction services firm Moca Systems suggests that U.S. spending on data center construction will peak in 2026 and decline thereafter. Public comments from several hyperscaler executives support this conclusion: Meta CEO Mark Zuckerberg has described his firm's AI infrastructure strategy as "front-loading," and Microsoft CFO Amy Hood has similarly hinted at an impending pivot away from new data center construction in favor of densifying computing power within existing facilities through GPU/CPU upgrades, rather than building new shells.

## Peak Construction?

Data Center Spending and Forecast, 2015-2030E



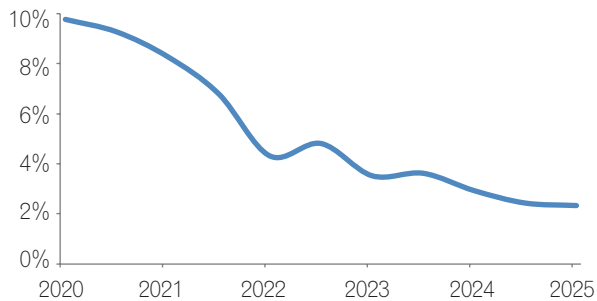
Source: MSI Economics, September 2025.

A brake on new supply could come sooner than expected simply due to labor shortages. Data center construction requires specialized, skilled labor such as electricians who understand high-voltage power distribution, HVAC technicians experienced with precision cooling systems, and construction managers familiar with mission-critical infrastructure. This same talent pool is simultaneously needed by utilities upgrading grid infrastructure to handle data center loads, and by hyperscalers for their internal construction and operations teams. The U.S. construction industry has struggled with labor shortages even before the data center boom intensified, and the Bureau of Labor Statistics projects continued shortages in skilled trades. With less immigration to supplement domestic training pipelines, the specialized labor shortage could become a genuine bottleneck for data center construction timelines and costs. Assuming continued demand growth as the digital economy expands, we expect any slowdown in development activity will result in increased pricing power for owners of existing data center assets.

While hyperscale facilities have attracted the bulk of investor attention and capital, colocation facilities provide differentiated data center exposure that should not be overlooked. Colocation facilities play a critical role in the processing, storage, and analysis of data in real-time, particularly for latency-sensitive applications and services where proximity to the end user is essential. According to JLL, the supply of colocation data centers in North America reached 15.5 GW in mid-2025, more than 2.5 times the 6 GW of capacity that existed in 2020. Despite this increase in supply, vacancy has dropped to a record low of 2.3 percent as of Q2 2025, and 73 percent of the 8 GW of capacity under construction is pre-leased. Given latency considerations, secondary and tertiary markets are less conducive alternatives for new colocation development as core markets become more saturated, which reinforces barriers to new supply.

## Pricing Power

Vacancy Rates for Colocation Data Centers, 2020-2025



Source: JLL Research, Q2 2025.

Carrier hotels, a type of colocation facility serving as key data transmission hubs, offer a particularly compelling opportunity. Carrier hotels derive their value from being the physical location where multiple networks interconnect; however, building that “network gravity” from scratch can take 20+ years, creating significant barriers to new supply. Given the mission-critical nature of this digital infrastructure – and its inherent scarcity value – we expect to see rising investor interest in this data center subsector going forward.

Perhaps the biggest unanswered question regarding data centers concerns liquidity and exit opportunities, although additional data points emerged in 2025. The \$40 billion buyout of Aligned Data Centers in October 2025 marked the largest data center transaction in history, with a diverse investor consortium that provides a potential blueprint for other large exits. Additionally, asset-level investment sales totaled \$754 million across 23 transactions through H1 2025 according to JLL. The September 2025 IPO of Fermi, a data center REIT, augurs well for future public market exits: Fermi raised \$682 million at a \$12.5 billion valuation, despite being a development-stage company with no revenue. Ultimately, while exit liquidity remains uneven, we believe the combination of strong fundamentals, supply constraints, and capital markets innovation will continue to support data center investments – and exits – in 2026.

From an investor allocations perspective, 2025 witnessed a growing convergence between real estate and infrastructure. Both LPs and GPs are increasingly categorizing real estate and infrastructure under a unified “real assets” allocation. Many of today’s most prominent macro trends – urbanization, aging populations, decarbonization, and rising energy demand – have implications for both real estate and infrastructure. Access to power in particular seems to be driving the trend, as coordination between real estate and infrastructure teams provides synergies on asset and site selection. Additionally, several property types that have historically been viewed as real estate are increasingly considered infrastructure as well given their importance to society. These include logistics facilities, data centers, cell towers, healthcare facilities, and educational facilities.

This convergence is already manifesting in capital markets, with meaningful implications for real estate valuations in affected sectors. As institutional investors consolidate their real estate and infrastructure allocations under unified “real assets” mandates, property types at the intersection of these categories are poised to benefit from expanded capital pools. Historically, these assets competed primarily for capital within traditional real estate allocations; now they can also access the substantial dry powder earmarked for infrastructure investment. According to Infrastructure Investor, closed-end infrastructure funds raised approximately \$200 billion through Q3 2025 – already surpassing the last annual record of \$162 billion set in 2022. For investors and managers positioned in these sectors, the convergence represents a structural tailwind as infrastructure-adjacent real estate assets become eligible for a broader universe of institutional capital.

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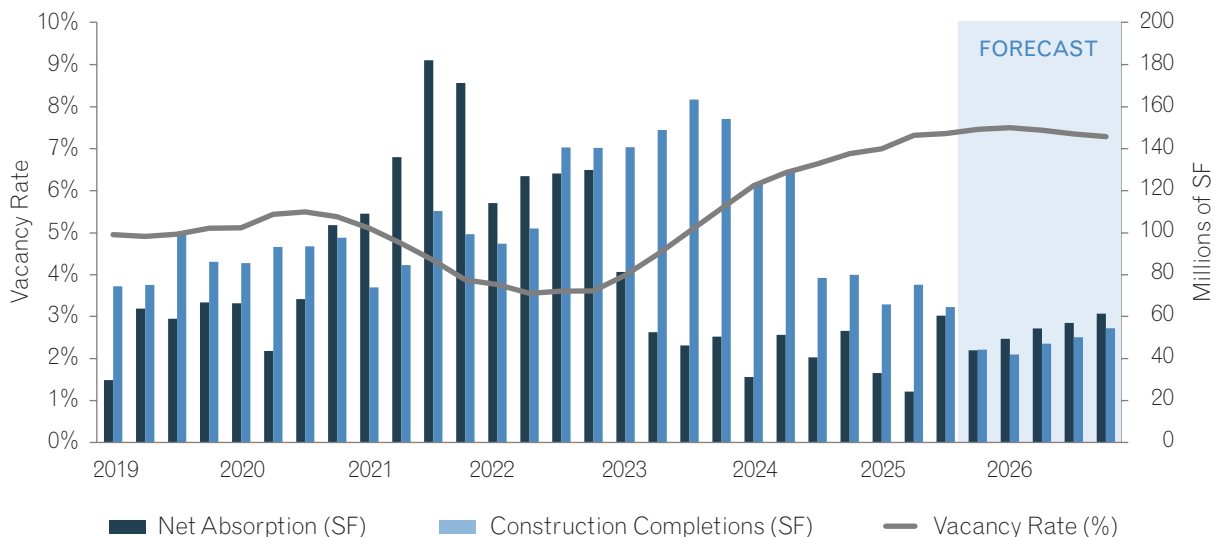
## Industrial values will recover further as vacancies reach a cyclical peak

Industrial property fundamentals remained soft throughout 2025, but we believe a recovery is in the offing as supply and demand become more balanced. New development starts have fallen to post-pandemic lows, with construction completions expected to stay muted through 2027. Vacancies are expected to plateau around 7.5 percent in mid-2026. The secular tailwinds provided by changing consumer habits, shifting supply chains, and nearshoring remain intact and should fuel incremental demand growth in the years ahead. With industrial values still down 13 percent from their 2022 peak according to Green Street, we believe the next 12 to 24 months will provide an attractive long-term entry point for investors.

Industrial fundamentals should benefit from more favorable supply-demand dynamics in the years ahead. According to Colliers, the amount of space under construction has declined approximately 62 percent since the 2022 peak, totaling approximately 270 million square feet today. Supply completions in 2026 are expected to stay muted at 180 million square feet, or roughly 1 percent of total stock, versus a 10-year average of 2.2 percent. Higher interest rates and elevated construction costs should continue to serve as a brake on new supply. Meanwhile, demand has remained resilient, with net absorption rates as of Q3 2025 holding steady with 2024's pace and healthy leasing activity across all size segments. As supply-demand dynamics become more favorable, we believe a resumption of healthy rent growth will follow.

### As the Dust Settles

Industrial Demand, New Supply, and Vacancy, Q1 2019 – Q4 2026F

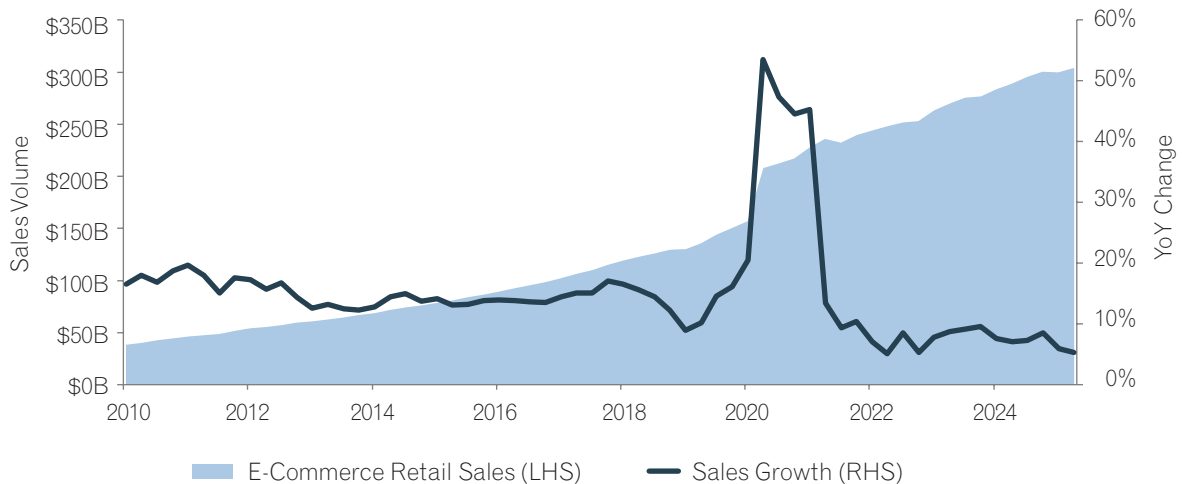


Source: Colliers, Q3 2025. Reprinted with permission.

The secular demand drivers that have propelled industrial real estate for over a decade remain firmly intact. Steady e-commerce growth should continue to fuel warehouse and logistics demand, including last-mile delivery and regional hubs. Risks to trade relationships – from tariffs, geopolitical events, or otherwise – should lead to continued efforts to invest in supply chain resiliency by moving production and inventory closer to the consumer. U.S. manufacturing is getting a boost from the reshoring of strategically high-value technology sectors such as defense, aerospace, and semiconductors. Tenants' focus on robotics and automation, access to power, energy efficiency, and higher ceiling clearances will support new investment into modern industrial facilities.

### High Bandwidth

E-Commerce Retail Sales Volume vs. YoY Growth, 2010-Present



Source: Federal Reserve Economic Data, November 2025.

Coastal industrial markets may experience volatility in the near term as tariffs and the resulting shifts in trade flows create winners and losers. Supply chains have proven remarkably adaptable at finding ways to avoid or minimize tariff impacts, which often leads to big swings in seaport volumes at different ports. For example, several Gulf and East Coast markets appear poised to benefit from acceleration of nearshoring, whereas ports that depend on agricultural exports are more exposed to retaliatory tariffs. However, only 15 percent of U.S. logistics demand is linked to global trade, with the vast majority of demand – approximately 75 percent – tied to access and distribution to local population centers. As a result, we expect tariffs' impact on the industrial sector to be localized around certain port-driven submarkets.

As the industrial sector navigates a rapidly changing economic and geopolitical landscape, we believe certain themes will continue to offer investors outsized return potential. Urban logistics are becoming more complex, and strategically located infill properties are in high demand as businesses seek closer proximity to the end customer. Onshoring, nearshoring, and investments in supply chain resiliency continue to expand amid protectionist trade policies. Less institutional segments such as last-mile, small bay, and industrial outdoor storage should also provide portfolio aggregation opportunities for specialized operators. The industrial sector's outperformance over the past decade was remarkably broad-based, but we expect this next cycle to reward investors who can identify specific markets, property types, and operational niches where supply-demand fundamentals remain most favorable.

## 6

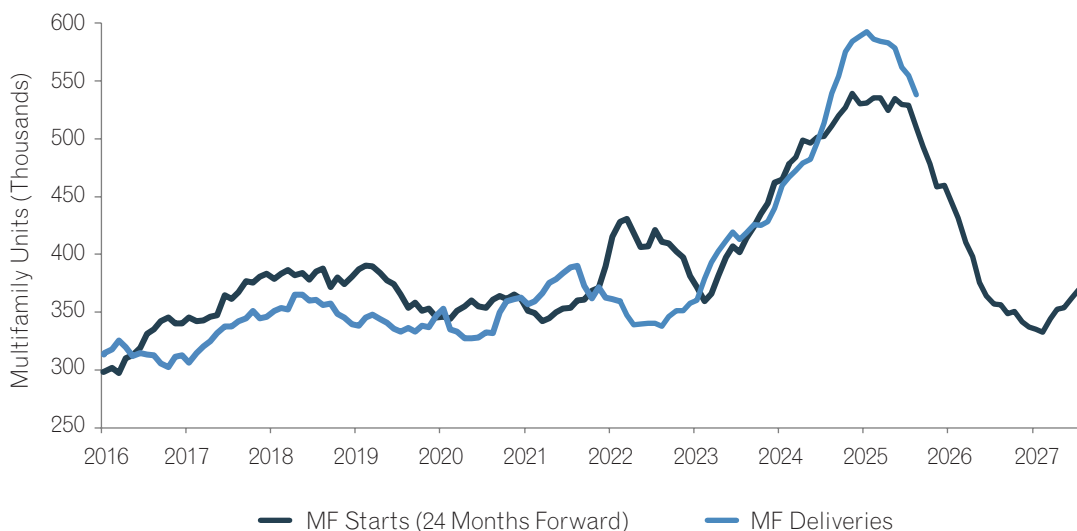
## Rental housing fundamentals will find a bottom as the market absorbs new supply

After a painful correction, rental housing segments continue to recover amid stable fundamentals and investor demand. Multifamily valuations bottomed in December 2023 and have since risen 14.5 percent according to Green Street. Cap rates appear to have stabilized around 5.25 to 5.75 percent. The largest wave of new supply since the 1970s has significantly reduced landlord pricing power, but occupancy rates have held up as units are absorbed at a healthy clip. Multifamily remains one of the most favored asset classes among investors, accounting for 35 to 40 percent of transactions according to Colliers data. While the outlook for rental housing remains clouded by uncertainty around future supply, population growth, and affordability, we believe the sector's long-term structural tailwinds and relative stability will continue to attract healthy capital flows.

Rental housing fundamentals are likely to remain soft through 2026 as the market absorbs additional supply, but the future supply picture looks more promising. The construction pipeline is down more than 50 percent from the peak and sits 17 percent below the 2017-2019 average according to Cushman & Wakefield. Construction permits have stabilized at pre-pandemic levels. Deliveries are expected to continue falling through mid-2026 before stabilizing. With investors still able to acquire existing assets below replacement cost, we expect equity capital for new development to remain scarce, keeping a lid on construction starts for the foreseeable future.

### Wave Break

Multifamily Starts vs. Deliveries, 2016-2027F



Source: Federal Reserve Economic Data, October 2025.

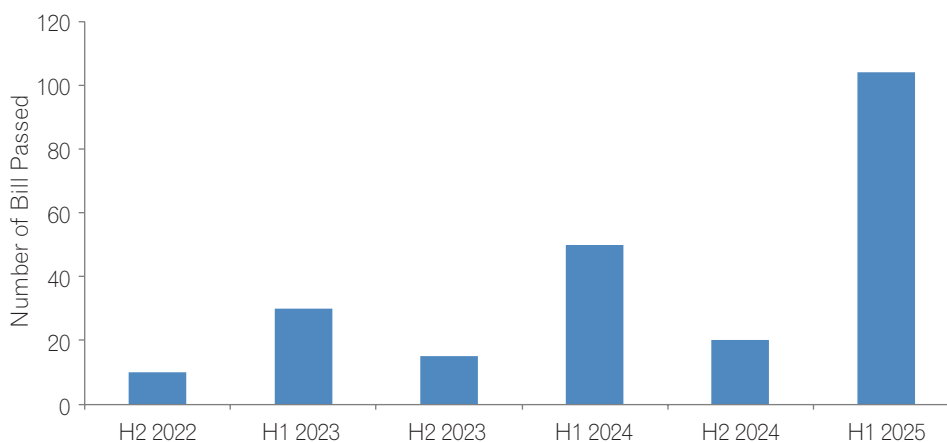
Residential tenant demand has also remained resilient throughout the latest supply wave. According to Cushman & Wakefield, 2025 is expected to be the third strongest year for net absorption since 2000. Renter household formation rose steadily in 2025, with young adults living with their parents or grandparents providing a deep well of pent-up demand. Approximately 17 to 19 percent of the 25- to 34-year-old demographic still lives at home versus a pre-GFC baseline of 10 to 12 percent. Barriers to homeownership also remain high due to elevated home prices, and U.S. household mobility is at a 50-year low.

Rent growth has been flat to slightly down and is likely to remain subdued due to ongoing supply overhangs, lower population growth, and a weak labor market. A K-shaped economy that leaves lower- and middle-class incomes feeling pinched will disproportionately impact renter demographics, limiting landlord pricing power. Tighter immigration policy will curtail population growth, which has historically been a steady tailwind for housing demand. In particular, the 25-34-year-old cohort – a key renter demographic – is expected to grow at half the pace of the prior decade according to Green Street. The public REIT market appears to be reflecting many of these risk factors, with the NAREIT Equity Apartment Index underperforming the broader All Equity Index by over 10 percent in 2025.

A more pro-development shift among public policymakers could also lead to subdued rent growth in the long term. The “YIMBY” movement is ascendant as both Democrats and Republicans seek to address voters’ concerns over housing affordability. According to the Mercatus Center, 412 pro-housing bills were introduced in state legislatures from July 2024 through June 2025, with 124 bills passed into law. Many of these proposals include tax abatements, zoning reform, easier permitting, and incentives to encourage office-to-residential conversions. This could lead to a more robust supply response in future periods of strong rent growth.

### YIMBYs Ascendant

Housing Supply Bills Passed, July 2022-June 2025



Source: Mercatus Center. “Framing Futures: Pro-Housing Legislation Goes Vertical in 2025.” July 2025.

Given the balance of risks, we believe rental housing sectors overall appear fairly priced with room for upside. Multifamily cap rates have settled into a range of 5.25 to 5.75 percent depending on the market and asset quality, resulting in slightly positive leverage for most transactions. According to CBRE, the yield spread above borrowing rates has historically been 200 to 300 basis points. This is well above the spreads investors are willing to accept today, and could be misinterpreted as a sign of stretched valuations. However, according to First American's Potential Cap Rate (PCR) model, which analyzes historical relationships between cap rates and sector fundamentals, cap rates today should be closer to 5.1 percent, signaling room for compression.

Given the relative stability of rental housing segments across market cycles, we expect investors will enjoy a wide-ranging opportunity set in the years ahead. CMBS delinquencies are rising, and distressed sales are likely to increase as assets acquired from 2021-2022 face loan maturities. Manufactured housing offers one of the most affordable workforce housing options – typically 40 percent less expensive than multifamily and 75 percent less than single-family homes – and the sector remains highly fragmented with relatively few experienced institutional operators. As younger households remain locked out of the homebuying market, single-family build-to-rent provides a natural alternative; these projects now comprise approximately 10 to 12 percent of single-family housing starts according to the National Association of Home Builders. Value-add apartment strategies should also continue to offer reliably healthy unlevered returns. Given rental housing's stable cash flows, secular growth story, and historical low volatility, we expect it to remain a focus for real estate investors in 2026.

## 7

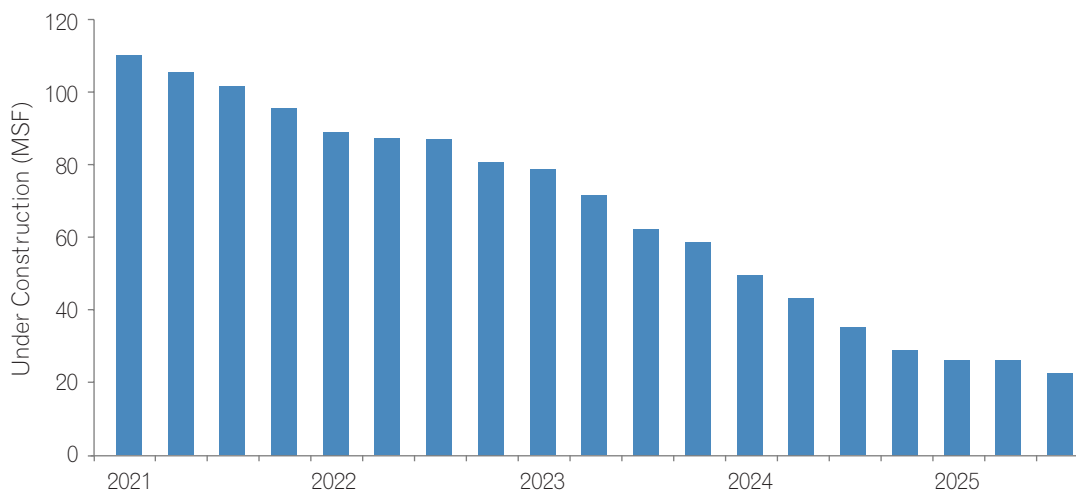
## Office valuations will rise as investors seek to capitalize on financial distress and recovering fundamentals

Office remains by far the most challenged of all major property types, but signs are growing that the bottom is in. Nationwide vacancy rates – while still exceeding 20 percent – declined in 2025 for the first time since the pandemic. Several gateway markets are experiencing notable upticks in leasing activity, with cities like Manhattan and San Francisco returning to pre-pandemic leasing volumes. Net absorption turned positive in Q3 and appears poised to finish 2025 essentially flat. Office valuations remain 35 percent below peak levels according to Green Street but have been trending slightly higher since early 2025, suggesting that pricing may have found a floor. As more investors conclude that the worst of the cycle has passed, we expect office valuations to rise modestly in 2026 as transaction volumes increase.

Record-low construction activity combined with record-high inventory removals is laying the foundation for office's long-term recovery. According to Cushman & Wakefield, only 22.5 million square feet of office is under construction – the lowest total of the 21st century – representing just 0.4 percent of total office inventory versus a long-term average of 1.4 percent. Conversions and demolitions are also picking up steam as local governments seek alternative uses of antiquated office buildings: more than 25 million square feet had been removed from inventory year-to-date through Q3 2025 according to JLL. This dramatic reduction in supply is creating scarcity in certain submarkets, particularly for high-quality Class A space. Tenants seeking modern office space with large floor plates have few options and are paying higher rents.

### Down to a Trickle

Office Space Under Construction, Q1 2021 – Q3 2025



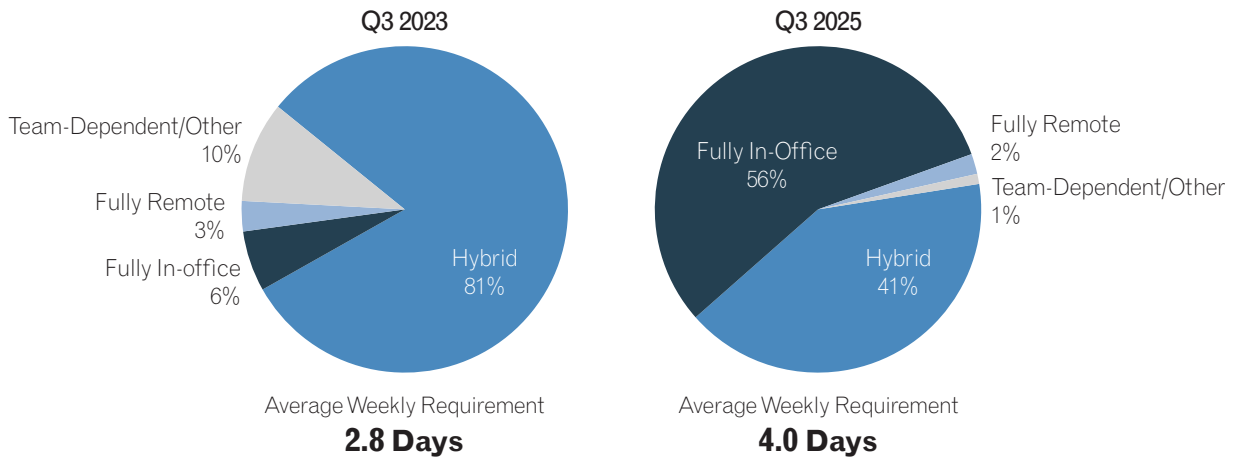
Source: Cushman & Wakefield Research, Q3 2025.

Leasing activity has also rebounded meaningfully. JLL reports that national leasing activity has reached 82 percent of pre-pandemic levels, and in 18 of 53 markets tracked now exceeds pre-pandemic levels. Year-to-date net absorption remains slightly negative, but most of the occupancy losses are being driven by either inventory removal or federal lease terminations. Class A properties in transit-oriented locations have led the recovery amid an ongoing tenant flight to quality, as employers seek to lure employees back to the office. But as top-tier space fills and new deliveries remain scarce, this recovery is broadening out to encompass commodity Class A and well-located Class B buildings with the right amenities. Perhaps most encouraging is evidence that the pandemic-driven downsizing cycle has played itself out. According to JLL, tenants over 25,000 square feet facing lease expirations have cut just 2.2 percent of their footprint when signing new leases over the past year, suggesting that businesses have finished right-sizing their space requirements.

The improving outlook for office corresponds with the steady demise of work-from-home (“WFH”). Office attendance is trending towards 80+ percent of pre-pandemic levels according to Placer.ai’s Office Index. Large corporations continue to chip away at WFH privileges, with the majority of office-based employees at Fortune 100 companies now back to the office five days per week, and less than 3 percent operating fully remotely. This represents a dramatic reversal from the peak WFH period, when many predicted a permanent shift to remote work would devastate the office sector. As it turns out, a physical presence is still essential for collaboration, culture, and productivity, even in the digital age.

**More Chance Encounters**

Fortune 100 Office Employee Attendance Policies, Q3 2023 vs. Q3 2025

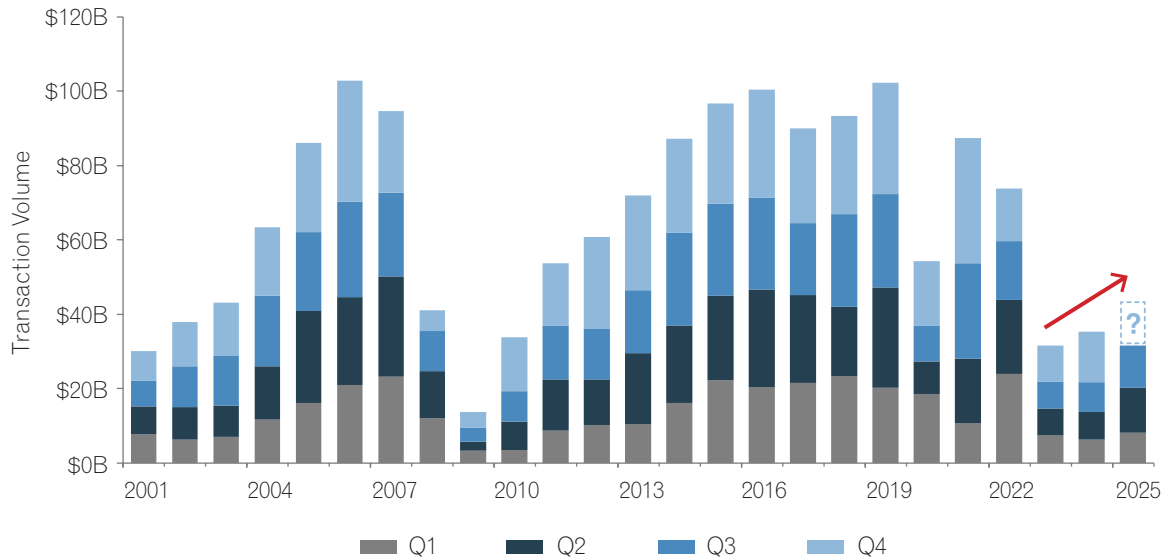


Source: JLL Research, Q3 2025. Reprinted with permission.

As office fundamentals improve, more investors appear to be betting on a recovery. As of Q3 2025, office transaction volumes were on pace to rise by 45 percent versus 2024’s total according to JLL. Similarly, Colliers reports that CBD office transaction volumes have risen 62 percent year-over-year as larger deals begin to move again. Cap rates have started to decline slightly. To investors who have studied past cycles, the value proposition of urban office priced 30 to 50 percent below peak values is clear. Looking at the post-Global Financial Crisis market bottom from 2009 to 2011, investors who simply purchased high-quality assets at large discounts in the best locations were handsomely rewarded. As Mark Twain observed, history doesn’t repeat itself, but it often rhymes.

## Waking Up

Historical Office Transaction Volumes, Q1 2001 – Q3 2025



Source: JLL Research, Q3, 2025. Reprinted with permission.

Of course, office is priced at a discount for good reason. Financial distress remains widespread, with office CMBS delinquencies exceeding 11 percent in 2025. Capital availability remains low as many lenders and equity investors continue to have moratoriums on additional office exposure. Office properties with near-term debt maturities could face difficulties refinancing. As foreclosures mount, fundamentals will face continued pressure as properties acquired at a lower cost basis can undercut competitors on rents. Leasing costs have also increased significantly since 2020, rising from 20 to 25 percent of first-year rent to approximately 35 percent according to Green Street, which pressures landlord economics even as leasing activity improves. AI's long-term impact on office-based employment also remains largely unknown.

These headwinds will likely ensure that the office recovery remains gradual and uneven, with continued bifurcation between high-quality assets in prime locations and the rest of the market. While office may never return to its pre-pandemic form, remote work is no longer the existential threat many predicted. The combination of stabilizing fundamentals, severely constrained supply, and distressed pricing offers an attractive risk-reward profile for select office properties. We expect 2026 to be the year when “FOMO” starts to take hold, and more investors begin to make opportunistic bets on an office recovery.

## 8

## Retail fundamentals will remain solid despite downstream impacts from tariffs

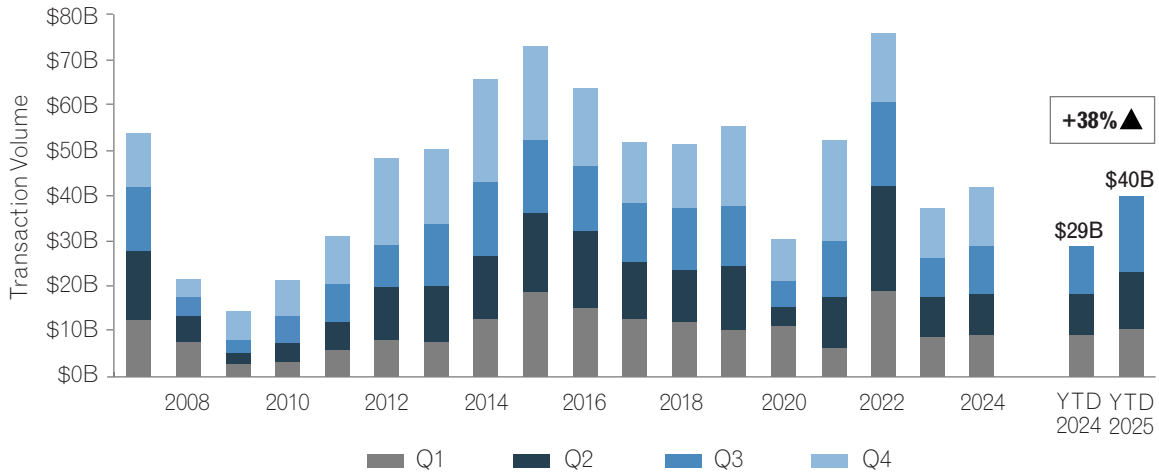
Retail real estate fundamentals continued to show strength throughout 2025. National vacancy stands at just 4.3 percent according to Colliers. New supply is virtually non-existent. Landlord negotiating power has reached its strongest level in decades, with many retailers signing longer-term leases as they compete aggressively for the best locations. Even malls are performing well, with Class A mall traffic finally matching pre-pandemic levels. Retail real estate valuations stand only 7 percent below peak levels according to Green Street data, and institutional investment activity has accelerated as more investors are attracted by retail's stable fundamentals, relative value versus other sectors, and healthy cash yields. While consumer behavior is shifting due to affordability issues, we remain confident in retail's ability to evolve and recalibrate, as it has historically.

Limited availability and new supply have helped to support rents and occupancy amid robust tenant demand. Antiquated malls have largely been demolished or converted to other uses, with the number of U.S. malls declining from 11,000 in 2010 to around 1,200 today. According to Colliers, more than 75 percent of vacant space currently on the market was built prior to 2000, suggesting a tight market for newer, Class A space. High-quality retail centers with proper space configurations maintain waiting lists to backfill vacancies, and tenants seeking to expand often capitalize on competitor bankruptcies to secure coveted locations. Several large store closures (e.g. Joann Fabrics, Party City, Forever 21) and consolidations (e.g. Walgreens, CVS, Macy's, Family Dollar, Kohl's) in early 2025 added some space back to the market, but most of these vacated storefronts have been backfilled quickly, often at higher rents.

Retail real estate's strong fundamentals have fueled an uptick in institutional investor interest. Transaction volumes through Q3 2025 were up 38 percent year-over-year according to JLL, putting investment activity on track to return to pre-pandemic baselines. High street retail has driven much of this increase, with transaction volumes rising 82 percent to match levels last seen in 2015. Institutional interest in strip centers and grocery-anchored neighborhood centers also remains healthy, with fresh capital allocations and improving investor sentiment driving competitive bidding for acquisitions. In December 2025, one of the largest owners of grocery-anchored shopping centers in Hawaii, Alexander & Baldwin, agreed to \$2.3 billion take-private deal led by Blackstone and DivcoWest.

### Back in Fashion

Historical U.S. Retail Transaction Volume, Q1 2007 – Q3 2025



Source: JLL Research, Q3 2025. Data includes all transactions \$5m+, excluding entity-level deals. Reprinted with permission.

While operating metrics appear solid, deteriorating consumer health provides near-term risks to the outlook. The barrage of new tariffs imposed throughout 2025 has begun passing through to consumer prices, at a time when low- and middle-income consumers are already feeling stretched. The University of Michigan Consumer Sentiment Index is hovering near record lows, driven by a steep drop in assessments of current personal finances. According to McKinsey, 75 percent of consumers reported trading down in at least one category in 2025. Many retailers delayed tariff impacts by stocking up on inventory in Q1 2025, but these effects are now fading as pre-tariff inventories are depleted. Retail categories that rely heavily on imports are more exposed, with Yale Budget Lab models projecting apparel and shoe prices will rise nearly 40 percent as a direct result of tariffs. Due to the nature and timeline of retail leasing, any impact from tariffs on tenant decision-making or real estate fundamentals would likely not show up until 2026.

### Not Feeling It

University of Michigan Index of Consumer Sentiment, 2015-Present



Source: The University of Michigan

Regardless of how tariffs ultimately course their way through the economy, the retail landscape is always evolving. Performance is widely dispersed based on property format and location, and adapting to shifts in consumer behavior is central to generating strong investment returns. The sector has endured several years of disruption from e-commerce, and today's rapid pace of technological change will inevitably present new challenges in the years ahead. But today's retail sector fundamentals are undeniably strong, offering investors a compelling risk-reward profile characterized by low volatility and elevated cash yields. For investors willing to navigate the near-term uncertainty around tariffs, retail's combination of low vacancy, limited new supply, and 200-300 basis point yield premiums over multifamily and industrial should provide attractive risk-adjusted returns in the years ahead.

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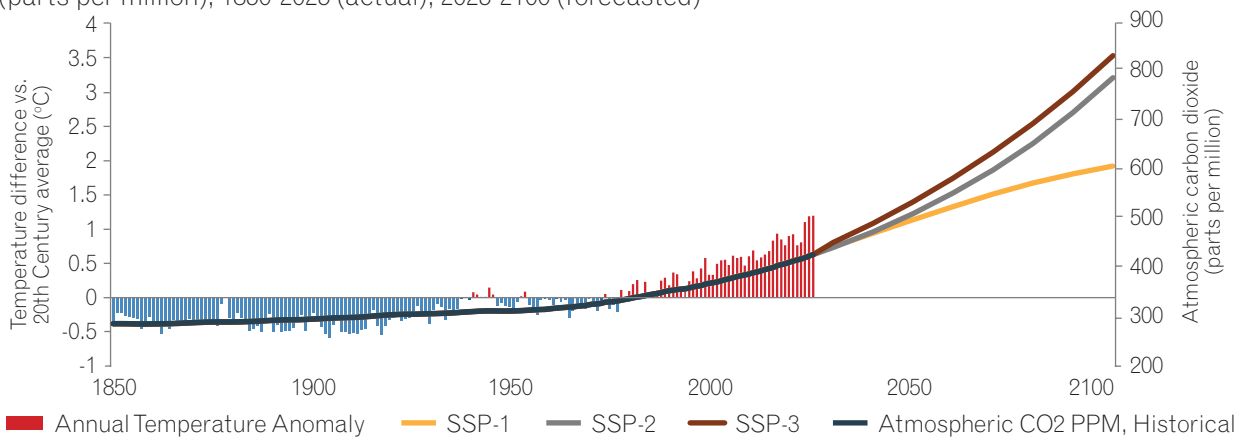
# Property insurance costs will resume their rise as extreme weather intensifies

2025 is projected to be the second or third warmest year on record, which fueled a continued scourge of extreme weather events. The U.S. saw a record number of flash floods, including the deadly July floods in Texas Hill Country that claimed at least 135 lives. The Los Angeles wildfires destroyed over 16,000 homes and businesses and cost an estimated \$60 billion of damage – the costliest wildfire event in U.S. history and approximately double the prior record. According to Climate Central, the aggregate costs of extreme weather in H1 2025 totaled \$101.4 billion, making it the most expensive first half on record. As extreme weather events increase in frequency due to global warming, real estate owners are likely to experience continued steep increases to property insurance costs.

While climate models are complex and the extent of future warming is difficult to pinpoint, predicting the overall trend is unfortunately quite simple. Global carbon emissions have continued to rise steadily, and maintaining the 1.5°C warming target set by the Paris Agreement looks increasingly unfeasible. The latest Emissions Gap Report of the UN Environment Program (UNEP) suggests the world is on track to warm by 1.5°C to 2.0°C by 2050 based on current policies. Such levels of warming would significantly increase both the frequency and intensity of extreme weather events, leading to more expensive disasters. A combination of coastal flooding, heat, and drought would also displace many existing population centers, likely reordering much of the global economy.

### It's Gonna Get Hot

Global Temperature Anomaly vs Pre-Industrial Levels, 1850-2025 vs. Atmospheric Carbon Dioxide (parts per million), 1850-2025 (actual), 2025-2100 (forecasted)



Source: Met Office Hadley Centre (United Kingdom), Commonwealth Scientific and Industrial Research Organisation (Australia), NOAA Global Monitoring Laboratory (United States), United Nations Environment Programme.

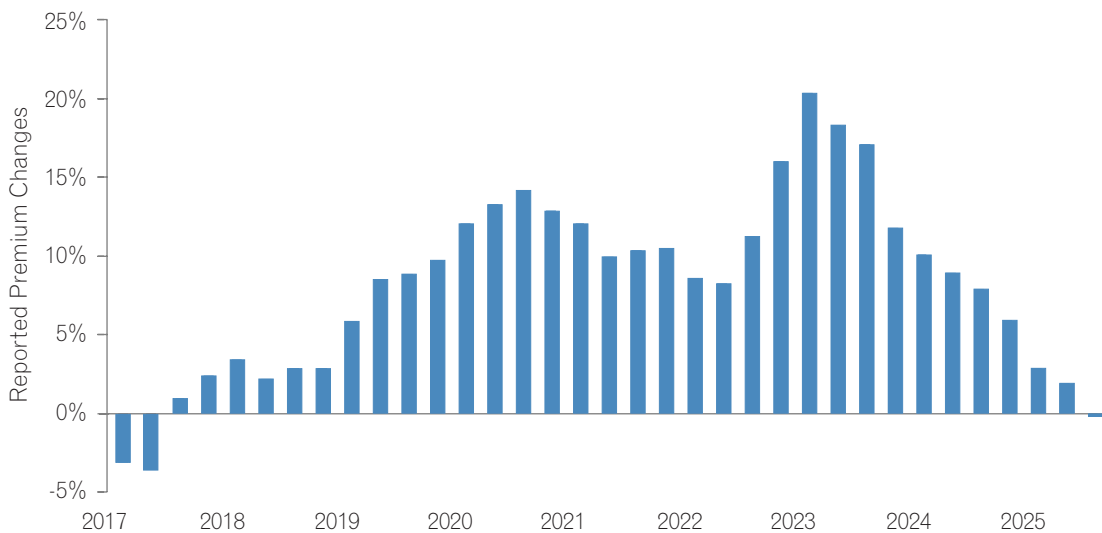
"SSP" stands for Shared Socioeconomic Pathways which are storylines for future societal development (population, economy, tech) combined with emissions pathways used in climate models to project impacts. There are five SSPs, with possible futures ranging from "high focus on sustainability" (SSP-1) to "rapid economic growth through intense fossil fuel use" (SSP-5). Our plot only includes SSP-1, SSP-2, and SSP-3 for simplicity, and because we believe these scenarios are all achievable. SSP-1 assumes a rapid green transition, with temperature rise limited to 1.0-1.8°C by 2100. SSP-2 assumes emissions trends follow historical patterns, with emissions in line with current national pledges, resulting in a temperature rise of 2.1-3.5°C by 2100. SSP-3 assumes less global cooperation due to rising nationalism and regional conflict, creating challenges for mitigation and adaptation efforts, resulting in a temperature rise of 2.8-4.6°C by 2100. SSP-4 and SSP-5 make for gloomy writing – another reason to just set SSP-3 as the downside.

As extreme weather events become more prevalent, reduced disaster recovery support from the U.S. federal government will shift more of the associated cost burdens to local governments and the private sector. The Trump Administration has routinely delayed or denied disaster relief requests throughout 2025 in an effort to shift responsibility onto the states. The Administration also quadrupled the amount of damage an area must suffer in order to qualify for federal assistance. An analysis by the Urban Institute found that if this higher threshold had been in place from 2008 to 2024, 71 percent of major disaster declarations would not have qualified for federal aid. President Trump continues to publicly discuss restructuring FEMA or dismantling it altogether. As the federal government pulls back its support, areas that lack the financial ability to fund their own disaster relief are more vulnerable to catastrophic loss.

Unless or until this fact pattern changes, property owners are almost certain to see continued sharp rises in property insurance costs. The global reinsurance market has been largely driving this trend in recent years, doubling the rates they charge to home insurance providers following a “climate epiphany.” Commercial property insurance rates have also risen sharply over the last 5 years, though the impact varies widely by region and property type. For instance, the impact on multifamily properties has been especially pronounced, with many seeing insurance cost increases of 100 percent or more. Fortunately, the market stabilized over the last year, with aggregate U.S. commercial property insurance costs projected to be flat to slightly down versus 2024. However, this temporary respite is driven primarily by market dynamics—an influx of new carriers flooding the market with capacity—rather than a fundamental improvement in underlying weather risks. We expect this reprieve to prove short-lived as climate impacts intensify.

**The Calm Before**

Premium Change for Commercial Property, Q1 2017 – Q3 2025



Source: The Council of Insurance Agents & Brokers, Q3 2025.

As insurers react to the financial realities of more extreme weather, we believe knock-on effects to real estate lending, valuations, and investments will emerge. The mere possibility of losing insurance or federal emergency assistance could cause lenders and equity investors to pull back, threatening long-term property values. First Street Foundation projects that the combination of extreme weather, rising insurance rates, and falling property values will cause 55 million Americans to migrate by 2055. As individuals and businesses relocate to more resilient geographies, falling property tax revenues could cause government services to shrink, potentially pushing exposed communities into a climate-induced “doom loop.” While investing requires a certain level of optimism, in 2026 and beyond we expect more investors to adopt a posture of climate realism in their capital deployment decisions.

## 10

## Economic populism will begin to reshape U.S. politics, creating policy uncertainty for real estate

Park Madison Partners has a lot of friends and we like to keep it that way, which means we tend to avoid political predictions that favor one side over the other. But politics defines policy and policy affects markets, so we see value in keeping an eye on political currents. As we enter the 2026 midterm election cycle, economic populism is clearly ascendant. Having first overtaken the Republican Party via President Trump's MAGA movement, we believe the stage is set for a rival brand of economic populism to permeate the Democratic Party. This emerging populist majority represents a sea-change in U.S. politics, with wide-ranging implications for commerce and capital markets.

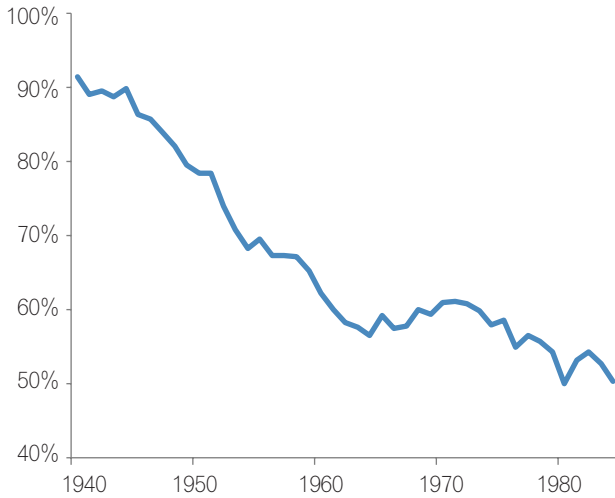
The 2026 midterm elections have all the makings of a Democratic landslide. President Trump's approval ratings have declined steadily since his inauguration. Across seven special elections for Congress in 2025, Democrats outperformed their 2024 margins by an average 14 percent. They hold a steady and widening lead in 2026 generic congressional polls, as well as a highly motivated voter base. Even still, the Democratic Party itself has struggled with messaging in recent elections, with only one third of voters viewing the party favorably. The Center for Working-Class Politics recently conducted a survey of Rust Belt voters, finding an average 8-point "Democratic penalty" due to voter perceptions of the party as out of touch, captured by elites, and failing to deliver tangible economic gains for working people.

Both progressive and moderate Democrats seem to be converging on a message of economic populism to improve this perception. As President Trump's approval rating on the economy sinks to new lows, Democrats recognize that America's affordability crisis is a major electoral liability for Republicans. Recent Democratic victories in Virginia, New Jersey, and Miami – as well as Zohran Mamdani's meteoric rise in New York City – show that economically populist messages focused on healthcare, housing, food, and energy costs have wide bipartisan working-class appeal. These messages share some common themes, such as being anti-elite and anti-corporation, as well as a focus on "pre-distribution," or fixing the rules of the economy upfront rather than redistributing the wealth it generates.

Recent polls showing declining faith in capitalism and the "American Dream" show why this message resonates. A recent Center for Working-Class Politics poll showed that 70 percent of all voters – including 67 percent of independents and 58 percent of Republicans – believe America's economic system is "rigged in favor of corporations and the wealthy." A September 2025 Gallup poll showed that only 42 percent of Democrats and 51 percent of independents view capitalism positively, with notable declines since 2020. Numerous polls find declining faith in the American Dream, as nationwide declines in upward mobility now result in only half of U.S. children growing up to earn more money than their parents.

### Broken Ladder

Percent of Children Earning More than Their Parents, by Year of Birth (1940-1984)



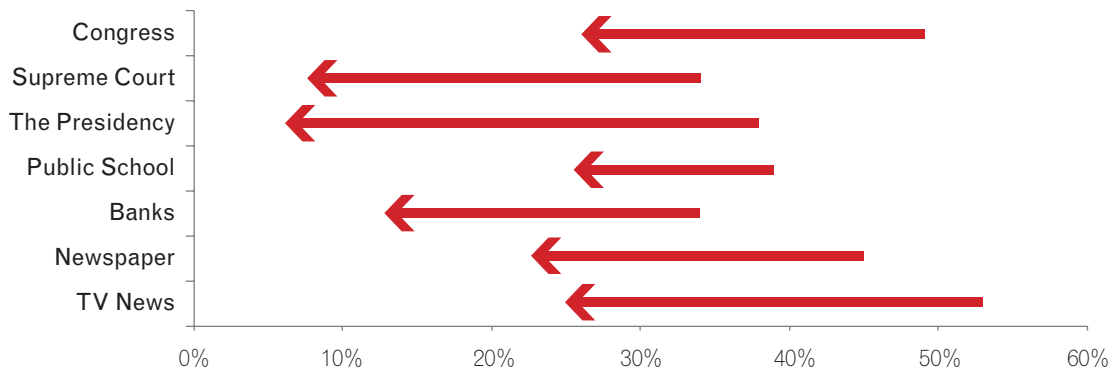
Source: Opportunity Insights. Measures absolute mobility by comparing children’s household incomes at age 30 (adjusted for inflation using the Consumer Price Index) with their parents’ household incomes at age 30.

As more populists win elections, investors will likely have to navigate more public policy volatility. According to Gallup polling data, voters have been steadily losing faith in many of America’s economic and political institutions, including banks, public schools, and all three branches of government. When voters lose faith in established institutions, they tend to become more willing to embrace unproven, experimental measures, even if it means taking a wrecking ball to the status quo. Republican voters’ embrace of President Trump’s trade protectionism is a real-time example. More policy uncertainty – particularly centered around economic issues – could lead to a more challenging investment environment in the years ahead.

Within the real estate industry, economic populism could manifest in a number of ways. Rental housing sectors could be impacted by new rent controls or increased regulation of institutional single-family rental operators. Rising electricity prices could fuel local opposition to data center developments, imposing further bottlenecks on new supply. Local governments seeking new revenue sources could experiment with novel property tax ideas, such as vacancy taxes for empty commercial properties, “mansion taxes” on larger transactions, and foreign ownership taxes. Expansionary fiscal policy at the federal level could lead to higher market interest rates for all real estate borrowers. The intersection of real estate and politics is nothing new, but investors who understand where the political winds are blowing will be better positioned to navigate the challenges and opportunities that lie ahead.

### Red Flags

Americans’ Faith in Institutions, Percent Responding “Great Deal / Quite a Lot,” 2002 vs. 2025



Source: Gallup, 2025

2025

## Scorecard

In the spirit of staying honest with our readers, we continue our tradition of providing a short “scorecard” on the previous year’s Outlook. Each of our market calls is scored on a scale of 1 to 10, with 10 meaning “nailed it” and 1 meaning “not even close.” We also include some brief (and highly subjective) commentary to explain why we scored ourselves the way we did.

## 1 The Fed will pause rate cuts as U.S. economic growth gains steam

SCORE: 8/10

We predicted no rate cuts in 2025, and that was clearly a miss. Markets were expecting 25 to 50 bps of cuts, and the Fed delivered 75 bps. Underpinning our call was the assumption that inflation would continue to track above pre-pandemic levels, which we got right. We predicted that tariffs would create new inflationary pressures, which seems to be playing out as we enter 2026. We also said that the Fed would end its quantitative tightening (“QT”) program due to falling bank reserves, and not only did the Fed end QT, but also announced a resumption of balance sheet expansion to keep bank reserves at healthy levels. We figured ending QT was the most dovish development we could hope for, but economic conditions softened a bit, with the labor market weakening in H2 2025 despite healthy GDP growth. This, along with immense political pressure from the Trump Administration, provided enough justification for the Fed to cut rates. However, we did well on our call that long-term interest rates would remain structurally higher due to lingering inflation concerns and the U.S. fiscal outlook – a call we repeated this year. Not bad for the casual economic observer, and good enough for an 8/10.

## 2 Commercial real estate transaction volumes will pick up as valuations consolidate

SCORE: 8/10

We posited that commercial real estate values had bottomed in 2024 and would continue to consolidate in 2025. We predicted that improving market liquidity, particularly in the debt markets, would lead transaction volumes to rebound. We further predicted that new tariffs and immigration restrictions by the Trump Administration would reduce construction activity, thereby curtailing future supply risks. All of these predictions have played out more or less exactly as we predicted, though we did not anticipate the market disruption caused by the “Liberation Day” tariff rollout. Real estate values continue to consolidate at current levels, and transaction volumes have begun accelerating. After enduring such a long capital markets winter in real estate, we all needed this prediction to land. Fortunately, after some unexpected delays, it did.

2025

Scorecard

### 3 Elements of the 2017 Tax Cuts and Jobs Act (“TCJA”) will be extended, benefiting the commercial real estate industry

SCORE: 10/10

We predicted that extending the TCJA would dominate the Republican legislative agenda in 2025, and that major real estate provisions would be preserved, including Opportunity Zones, the 199A deduction, and accelerated depreciation. On July 4, 2025, President Trump signed the One Big Beautiful Bill Act into law, permanently cementing the 199A deduction for pass-through entities, 100% bonus depreciation, and Opportunity Zones into U.S. tax code. We also correctly anticipated that the SALT Caucus would wield outsized influence in the final negotiations. Indeed, a handful of Republicans from high-tax states managed to hold up passage until they secured a 4x increase in the SALT cap for taxpayers earning less than \$500,000, to \$40,000 versus the original \$10,000 cap. If only everything in Washington was so predictable.

### 4 Data centers will command unprecedented pricing power amid surging demand and rising barriers to new supply

SCORE: 10/10

Unsurprisingly, our prediction that data center landlords would continue to enjoy healthy rent growth was spot on. We also correctly predicted that data center developments would run into more power constraints, pushing construction to secondary and tertiary markets. We noted that hyperscale facilities were drawing the most capital and attention, but that we expected additional investor interest in colocation facilities as vacancy reached new lows. Finally, we predicted additional data points on data center exits in 2025, and several emerged. In a sector moving as fast as data centers, even obvious predictions are worth stating – and worth getting right.

### 5 Office valuations will bottom as the risk-reward becomes more balanced

SCORE: 10/10

We called for a cyclical bottom in office based on already low valuations, increasing leasing volumes, plateauing vacancy, and continued supply destruction of obsolete properties. We predicted that most investors would remain on the sidelines – preferring to be late than early – but that some investors would begin taking calculated bets on an office recovery. Indeed, office transaction volumes are picking up as investors try to time the bottom. Years from now, we predict many of those acquisitions will end up being home runs – and seem glaringly obvious in hindsight.

2025

Scorecard

## 6 Industrial's bull run will resume as fundamentals normalize

SCORE: 9/10

We acknowledged that industrial fundamentals would remain challenged in the near-term due to higher vacancy and continued supply pressures. However, we believed that this weakness would prove transitory as the sector's long-term secular catalysts remained intact. We noted the bifurcation in performance based on property quality, age, and location, and suggested that this would become more pronounced in the year ahead. Finally, we predicted more measured upside for industrial in the years ahead as the "Gold Rush" period for the sector ended, but with certain investment themes continuing to offer attractive opportunities. We deduct a point on our choice of headline, as the last year felt more like consolidation at current levels than the resumption of a "bull run."

## 7 Retail's solid fundamentals will attract more institutional capital flows

SCORE: 10/10

We noted retail's promising signs after a decades-long readjustment, and predicted that 2025 would mark a turning point as more capital is drawn to the sector's high cash flows, strong fundamentals, and opportunities for positive leverage. We emphasized the lack of available space for retailers looking to expand footprints, suggesting that any vacancies due to retailer bankruptcies would be quickly absorbed. We got an early test to that claim in Q1, with several high-profile bankruptcies flooding the market with space. But as we predicted, it was absorbed quickly, and landlord pricing power remained strong. Transaction volumes are picking up as institutional investor interest is growing. For what many considered a contrarian view, we're happy to take our 10/10 on this one.

## 8 Rental housing valuations will recover amid strong unit absorption and fading supply risks

SCORE: 6/10

We acknowledged the challenges affecting rental housing and predicted that fundamentals would continue to soften in 2025. But we also believed that investors would look through the new supply wave and anticipate stronger rent growth on the other side of it. We correctly predicted that absorption would outpace new supply, keeping occupancy levels flat as deliveries crested. Occupancy actually increased modestly in 2025, from 94.8% in Q3 2024 to 95.2% in Q3 2025 according to RealPage. However, we incorrectly anticipated that healthy absorption would lead to rent growth, as landlords seem to have prioritized maximizing occupancy over pushing rents. We also expected continued modest price appreciation in 2025, but values were largely flat in aggregate. We'll take a 6/10 on this one – our lowest score for 2025.

2025

Scorecard

9

Challenges to real estate capital formation will lead to further industry consolidation

SCORE: 9/10

We predicted that fresh investor commitments would remain subdued in the near term due to a lack of distributions, and that fundraising competition would lead to a wave of M&A. Fortunately, we were slightly off the mark on fundraising expectations, as increasing distributions led to a healthy fundraising year overall in 2025. However, much of that capital flowed to incumbents, and even established managers found themselves fighting for re-ups from existing investors. As a result, our prediction on further industry consolidation came to fruition, with more managers merging or being acquired. We also expected more managers to consider alternative private capital solutions to traditional closed-end funds, such as portfolio secondaries and continuation vehicles. Indeed, we saw a notable uptick in managers exploring innovative ways to secure new capital partners while providing liquidity to existing investors. Not a perfect score, but good enough for us to keep our day jobs.

10

Insurance markets will highlight the properties and locations most at risk from climate change

SCORE: TBD

We made similar arguments last year as Section 9 of this year's outlook, but our prediction was less on the direction of insurance premiums versus the message they were sending. We posited that insurance markets were serving as an initial "canary in the coal mine" regarding future climate risks, with potential future knock-on effects for real estate lending, valuations, and investment. We drew attention to the prospect of more investors taking notice of the increasing risks and adjusting their investment postures accordingly, making certain regions less investable going forward. We believe these are longer-term considerations with potentially shorter-term catalysts, all of which remain very much in play as we enter 2026. As such, we'll mark this one as TBD.

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