STOCKBRIDGE

KEY INSIGHTS

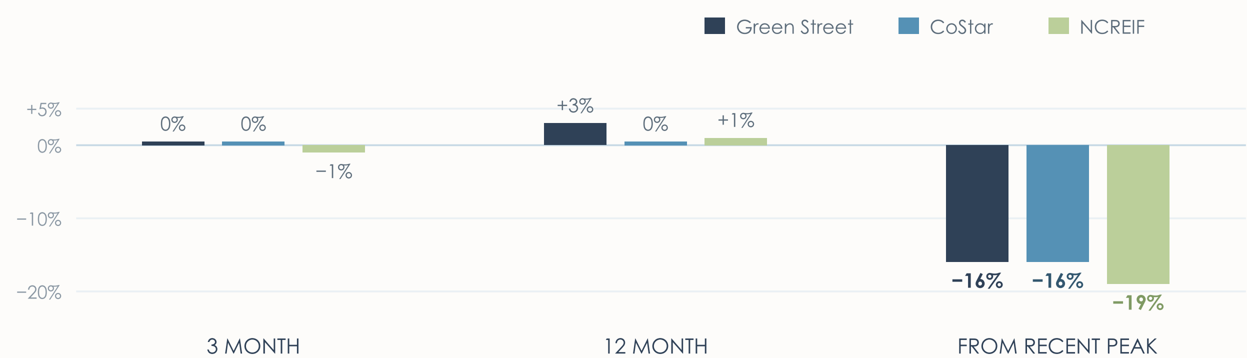
2H 2026 STRATEGIC OUTLOOK

U.S. Real Estate | August 2026

EXECUTIVE SUMMARY

The U.S. real estate market has moved past the valuation reset of the last three years and into the early stage of a new cycle. Values bottomed in late 2023, transaction activity recovered through 2025, and the first half of 2026 confirmed stabilization rather than acceleration: near-zero short-term movement across the major indices, with pricing still 16–19% below prior peaks. What has changed is the interest rate path - markets have repriced from expecting cuts to pricing higher-for-longer, and the spread between cap rates and Treasuries has compressed to roughly 0.2%. The implication is emphatic: we believe that capital markets tailwinds will not drive returns in this cycle, income growth, entry basis, and operational execution will.

PROPERTY VALUES HAVE STABILIZED BELOW PRIOR PEAKS



Source: Green Street CPPI, CoStar, NCREIF NPI

SIX THEMES FOR REAL ESTATE INVESTMENT

- **Rates stay higher for longer.** Durable cash flow and execution outweigh cap rate compression.
- **Inflation remains elevated.** Sixty-five months above target strengthens real estate's hedge role.
- **Construction slows.** Starts are down significantly versus five-year averages, constraining supply into 2028.
- **Consumer strength is uneven.** Rental housing and non-discretionary spending benefit.
- **Demand is more thematic.** AI, demographics, and essential product support outperformance.
- **Experience matters.** Alpha generation depends on asset and market selection, not market beta.

01 MACRO

RETURNS MUST COME FROM INCOME, NOT CAP RATE COMPRESSION

Inflation has run above the Federal Reserve's 2.0% target for 65 consecutive months, and futures markets have repriced from anticipating rate cuts in 2026 to pricing higher-for-longer. Treasury yields have normalized rather than spiked: in the mid-4% range, the 10-year sits close to its long-term mean since 1990 of 4.2%. The constraint on valuations is therefore not the risk-free rate but the spread between cap rates and the 10-year, which has compressed to about 0.2%, roughly 1.3 standard deviations below its long-run mean of 1.9%. That same cost of capital is reshaping the supply side, with new starts down approximately 40–60% versus five-year averages across all four major property types (per CoStar).

CAP RATE TO 10-YEAR TREASURY SPREAD

Percent spread, 1990–2Q26

Source: Stockbridge, NCREIF, FRED. Figures presented through 2Q26.

KEY TAKEAWAYS

- With spreads near historic lows, cap rate compression is not a reliable source of return — NOI growth must do the work.
- Persistent inflation raises operating and capital costs, favoring assets with inflation-protected rents and limited capex needs.
- The supply pipeline is heavily constrained through 2028, as new starts today are down substantially.
- Values remain 16–19% below prior peaks while debt availability improves, which we believe represents a favorable entry window for disciplined capital.

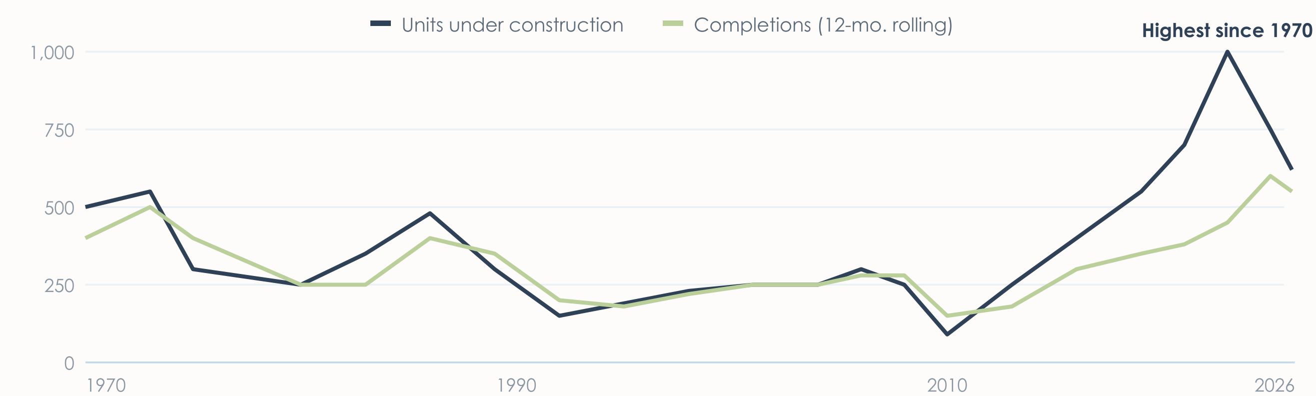
2a RESIDENTIAL

THE SUPPLY WAVE IS CRESTING

Housing affordability remains the defining structural theme of this cycle. At roughly 6.5%, 30-year fixed rate mortgages remain in line with historical norms and sit well below the 8.1% average of the 1990s. While a return to sub-4% financing appears unlikely, any meaningful rate decline could draw sidelined homeowners back into the market, possibly increasing demand and placing continued upward pressure on home prices. At the same time, deferred household formation continues to support rental demand as younger adults postpone marriage and homeownership. The principal near-term offset for sector fundamentals has been supply: multifamily construction reached a fifty-year high in 2023, weighing on rent growth through 2025. That wave is now cresting, however, with a materially smaller development pipeline poised to limit new supply in the years ahead.

U.S. MULTIFAMILY CONSTRUCTION

Thousands of units, 1970–2026



Source: Oxford Economics, U.S. Census Bureau.

KEY TAKEAWAYS

- Mid-6% mortgage rates and lock-in dynamics could lower housing inventory and keep would-be buyers renting for longer — a structural shift, not a cyclical one.
- Multifamily deliveries in some markets remain elevated near term, but a sharply contracted pipeline supports re-accelerating fundamentals beginning in 2027.
- Coastal and gateway markets lead the rent recovery; Sun Belt markets that absorbed recent development continue to see softer fundamentals.
- Supply dynamics, more than job growth, are influencing the rent growth outlook in this cycle.

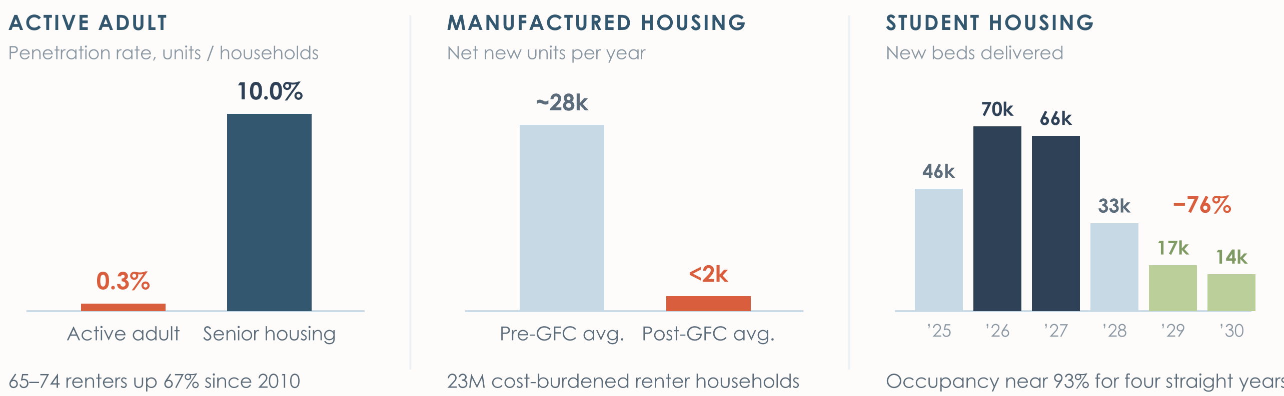
2b **RESIDENTIAL SUBSECTORS**

DEMAND WHERE SUPPLY CANNOT RESPOND

Active adult, manufactured housing, and student housing each pair demographically anchored demand with structural barriers to new supply. This combination is most durable in a cycle where cap rate compression is constrained. The age 65–79 population is projected to grow 24% between 2020 and 2030, compared to 5.5% for the overall U.S. population, while active adult penetration sits near-zero. Manufactured housing represents an attainable housing solution for the nearly 23 million cost-burdened U.S. renter households, yet has added fewer than 2,000 net new units annually since the financial crisis. Student housing occupancy has held near 93% for four years, with new deliveries set to fall sharply after 2027.

THREE SUPPLY-CONSTRAINED SUBSECTORS

Demand is anchored, supply is constrained



Source: U.S. Census Bureau, NIC, CoStar, Oxford Economics, NCREIF.

KEY TAKEAWAYS

- Active adult is among the largest unmet demand opportunities in residential: 0.3% penetration rates against a rapidly-growing 65–79 age cohort.
- Manufactured housing supply is structurally constrained by zoning and local resistance, not economics — with the top five owners controlling just ~8% of sites nationally (per MHI).
- Student housing demand is concentrating at large public flagships as deliveries are projected to fall by 76% through 2029.
- Each subsector offers affordability-driven demand that new construction may not readily meet.

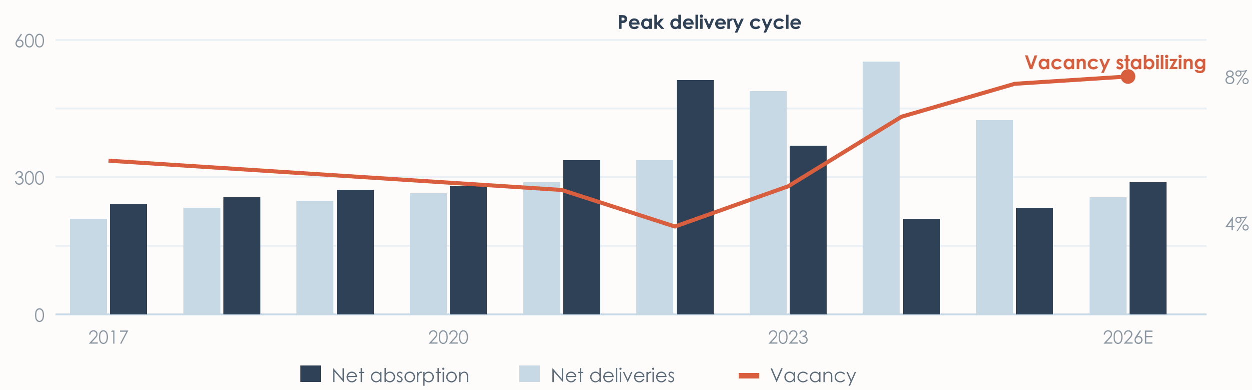
03 LOGISTICS

THE DELIVERY WAVE HAS PEAKED

The 2022–2024 delivery surge pushed industrial vacancy to a cyclical high, but new supply is now falling sharply while absorption recovers — setting the stage for vacancy stabilization and a potential return to rent growth through 2026 and beyond. E-commerce penetration has nearly doubled since 2017 and continues to climb, while manufacturing leasing has shifted decisively toward data center and related components, including energy, aerospace and defense-related demand. We expect the geographic sources of rent growth to change: only five of the top ten industrial rent growth markets of 2021–2023 are projected to outperform over 2026–2030. Concentration of demand is also bifurcating by vintage, with absorption strongly positive for inventory delivered since 2020 and negative in pre-2000 stock.

U.S. INDUSTRIAL ABSORPTION, DELIVERIES & VACANCY

SF millions (bars), vacancy % (line)



Source: CoStar. Annual figures, 2017–1Q26.

KEY TAKEAWAYS

- Vacancy is stabilizing as deliveries fall, supporting a projected return to rent growth through 2026 and beyond.
- Reshoring is redirecting leasing toward data center components, energy, and defense manufacturing.
- Modern, mission-critical facilities are outperforming functionally obsolete stock on power, cooling, and floor loading.
- Industrial outdoor storage remains distinct: new supply of just 0.1% of stock annually versus roughly 5% across broader real estate (per Green Street).

STOCKBRIDGE

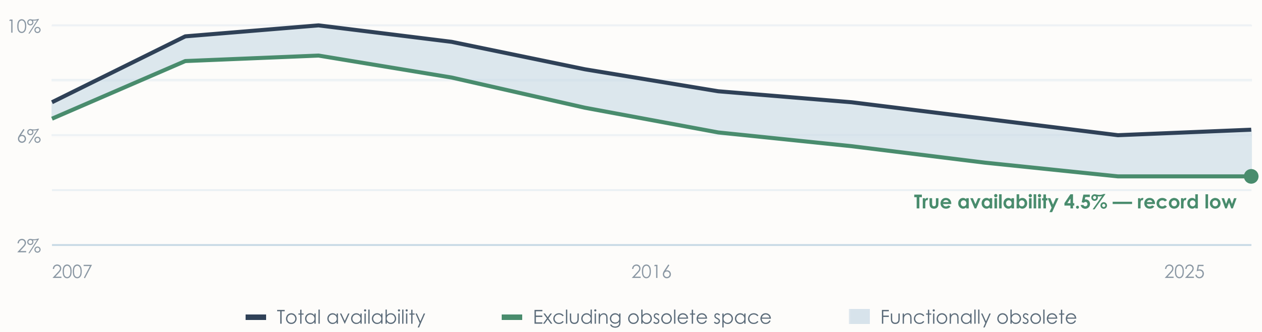
04 RETAIL

TRUE AVAILABILITY IS NEAR A RECORD LOW

Strip center retail fundamentals have quietly strengthened after more than a decade of minimal new supply. Development economics remain largely unfeasible, and the headline availability figure overstates true competitive space. Excluding functionally obsolete inventory, availability sits around an all time low of 4.5%. Necessity-oriented formats are driving the improvement, with strip center foot traffic up 5% versus 2019 levels, while malls across quality-levels remain well below. Everyday spending categories such as food service, health, and grocery continue to post positive sales growth even as discretionary and big-ticket spending remain softer. Recent retailer bankruptcies have also been smaller and less concentrated than in prior cycles.

STRIP RETAIL AVAILABILITY: PERCEPTION VS. REALITY

Percent of stock, 2007–2025



Source: CBRE. Shaded band represents functionally obsolete space within reported availability.

KEY TAKEAWAYS

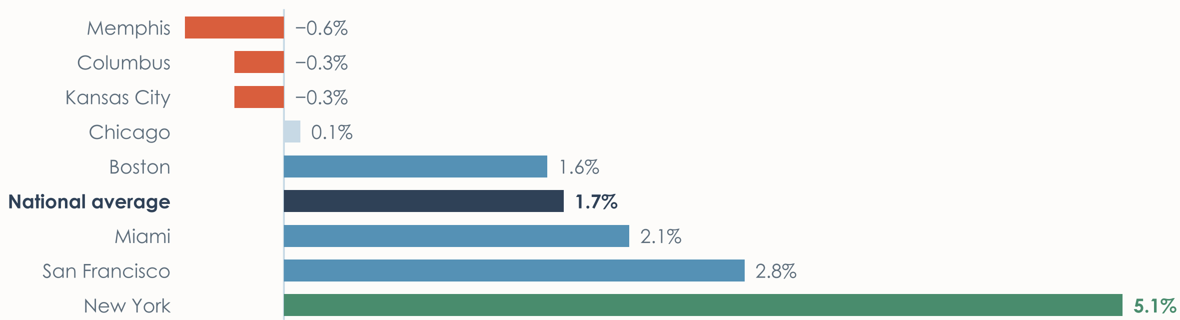
- Excluding obsolete space, competitive availability is around an all-time low 4.5% — tighter than headline figures suggest.
- Over a decade of muted supply growth underpins steady strip-center occupancy and pricing power for well-located assets.
- Necessity categories — food service, health, grocery — keep growing while discretionary formats soften.
- Recent bankruptcies are smaller and less concentrated than prior cycles, limiting near-term fundamentals risk.

05 OFFICE

BIFURCATION DRIVES THE STRATEGY

Office remains the most challenged major property type, but the market is self-correcting. Deliveries have slowed, demolitions are removing obsolete stock, and absorption turned positive in the second half of the year, partially driven by negative net deliveries as existing supply is taken offline. Taken together, these factors indicate that vacancy has likely peaked. Post-pandemic technology leasing has roughly doubled and now accounts for about a quarter of total leasing activity, coinciding with heavy venture funding into artificial intelligence. However, the recovery is highly uneven: projected rent growth over 2026–2030 ranges from modestly negative across several Midwest and secondary markets to more than 5% in New York. Office strategies should therefore be tactical rather than broad.

SELECT OFFICE MARKETS - PROJECTED RENT GROWTH, 2026–2030



Source: Green Street. Selected markets shown from the projected top-ten and bottom-ten cohorts.

KEY TAKEAWAYS

- Vacancy appears to have peaked as deliveries slow, demolitions remove stock, and absorption turns positive.
- Tech leasing has roughly doubled post-pandemic and now represents about a quarter of activity, led by AI-driven demand.
- The spread between the strongest and weakest markets exceeds five percentage points — national averages are difficult to pencil.
- Focus on modern, amenitized, transit-accessible assets in select markets where pricing dislocation creates relative value.

06 **CONCLUSION**

WHERE WE ARE LEANING IN

The second half of 2026 is defined by early-cycle conditions, structural supply constraints, and a return to fundamentals-driven investing. With cap rate compression largely unavailable, income growth, thematic demand alignment, and operational execution will drive performance. Our conviction centers on necessity-based and affordability-driven demand, exposure to secular drivers, and sectors where new supply cannot readily respond.

Residential

Coastal infill apartments ahead of the 2027 supply gap; active adult, manufactured housing, and student housing for affordability-driven demand.

Logistics

Modern, mission-critical facilities and industrial outdoor storage in markets positioned for the next cycle rather than the last.

Retail

Necessity-driven strip centers in supply-constrained trade areaswhere replacement cost economics remain prohibitive.

Office

Tactical and selective — modern, amenitized assets in the narrow set of markets where dislocation creates relative value.

FOR THE FULL 2H 2026 STRATEGIC OUTLOOK REACH OUT TO

Paul Kolevsohn
Managing Director, Investment Strategy & Research
kolevsohn@stockbridge.com

DISCLAIMER

The information and views contained herein are for educational and informational purposes only and do not constitute, and should not be construed as, an offer to sell, or a solicitation of an offer to buy, any securities or any investment strategy, product, or vehicle.

This presentation discusses general market, industry, or sector trends, and is based on the current research, expectations, opinions and/or beliefs of Stockbridge Capital Group LLC and its affiliates (together, "Stockbridge"). Such information and views should not be construed as research or investment advice, are as of the date indicated, and are subject to change. There is no assurance that any trends described herein will continue or not reverse.

Certain information is based on various assumptions made by Stockbridge, any of which may prove to be incorrect. Stockbridge has not verified (and disclaims any obligation to verify) the accuracy or completeness of any information that has been provided by third parties or the assumptions on which such information is based.

Certain information constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "will," "may," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained in this presentation may be relied upon as a guarantee, promise, assurance or a representation as to the future.