LIGHTWELL ASSET MANAGEMENT, LLC

Earning the Return

Why Disciplined Management and Operations Have Replaced Cap Rate Compression as Real Estate's Engine of Value — in Equity and in Debt

A synthesis of the published research of the industry's leading equity and debt institutions

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This paper synthesizes publicly available research published by the institutions cited herein. It is provided for discussion purposes only and does not constitute investment advice or offer any security.

Executive Summary

For four decades, the most reliable contributor to real estate returns was a variable no owner controlled: the discount rate. From 1982 through 2021, secularly falling interest rates pulled cap rates down with them, and the resulting appreciation did work operations never had to do. That regime is over. The research assembled here — published by Blackstone, Brookfield, KKR, Apollo, PGIM, AEW, Hines, LaSalle, Morgan Stanley, UBS, J.P. Morgan, Goldman Sachs, CBRE, JLL, Green Street, MSCI, NCREIF, ULI/PwC, PIMCO, Oaktree, and others — converges on one conclusion: **the return an investor earns in this cycle will be approximately the return the asset's operations produce**. Cap rate compression is no longer an acceptable business plan.

Hines finds that over the falling-rate era of 1982–2024, cumulative value growth ran roughly four times cumulative income growth — the multiple, not the building, did the heavy lifting.[1] AEW calculates that in the 2010–2015 recovery alone, NOI grew roughly 20% while values rose roughly 40% on more than 200 basis points of cap rate compression.[2] Apollo attributes roughly two-thirds of 2010–2021 private equity value creation to leverage and multiple expansion — beta wearing alpha's clothes.[3] The pattern peaked in 2021, when the NCREIF Property Index returned 17.7%, of which 13.0 percentage points — nearly three-quarters — was appreciation.[4]

Today the same index tells the opposite story. In the third quarter of 2025 the NPI returned 1.22%, of which 1.16 points — roughly 95% — was income.[5] UBS Asset Management reports that of the ODCE's 4.9% unlevered return for the year ending Q1 2026, capital appreciation contributed just 0.3 points.[6] Green Street's live decomposition is just as blunt: prices up 5% over the past year, 2–3 points of it rental income growth, with cap rates "quite sticky."[7] CBRE's 2026 U.S. outlook states the thesis outright: "Total returns will be income driven. Asset selection and management will be key drivers for returns."[8]

This paper makes three arguments. **First**, the arithmetic of the last cycle cannot repeat with cap rate spreads to Treasuries at roughly half their 1991–2019 average and policy rates structurally higher, there is no 300-basis-point compression left to harvest. **Second**, in a return stack built from income, operational capability stops being a hygiene factor and becomes the alpha source itself — a proposition sharpened by an operating-expense shock in which multifamily insurance premiums (in mostly coastal markets) alone doubled between 2021 and 2024. **Third**, the same law now governs debt: pre-pandemic, rising collateral values quietly bailed out weak underwriting; today, with values reset 15–

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[1] Hines Proprietary Research, "2025 Mid-Year Global Investment Outlook," David Steinbach and Joshua Scoville, June 13, 2025. https://www.hines.com/2025-mid-year-global-investment-outlook/full-report

[2] AEW Research, "U.S. Research Perspective Q4 2024," Michael Acton, Adrienne Ortyl, Rick Brace, Q4 2024. https://www.aew.com/research/u-s-research-perspective-q4-2024

[3] Apollo Global Management, "Private Equity Returns to Its Roots," David Sambur, Matt Nord, Antoine Munfakh, January 29, 2026. https://www.apollo.com/wealth/insights-news/insights/2026/01/private-equity-returns-to-its-roots

[4] LaSalle Investment Management Research & Strategy, "NCREIF Review and Outlook, Q4 2021," April 15, 2022. https://www.lasalle.com/wp-content/uploads/2022/12/ncreif_report_4q2021.pdf

[5] NCREIF, "NCREIF Property Index Third Quarter 2025 Press Release," October 24, 2025. https://ncreif.org

[6] UBS Asset Management, "US real estate outlook – Edition June 2026," Norman Niemer, June 11, 2026. https://www.ubs.com/global/en/assetmanagement/insights/asset-class-perspectives/real-estate/the-red-thread-alternatives/may-edition-2026/articles/us-real-estate-outlook.html

[7] Green Street, Commercial Property Price Index commentary, Peter Rothemund, July–August 2026. https://www.greenstreet.com/insights/CPPI

[8] CBRE Research, "U.S. Real Estate Market Outlook 2026," January 14, 2026. https://www.cbre.com/insights/books/us-real-estate-market-outlook-2026

25% below peak and a multi-trillion-dollar maturity wall rolling forward, credit selection, structural discipline, and asset management of loans — not market beta — separate coupon-clipping from capital loss.

None of this is our claim alone. It is the industry's own published view. What follows is the evidence, organized into an argument — closed by a declared interest: the case that in the AI era, the economics of asset management have inverted in favor of the principal-led boutique, and that LightWell Asset Management is its proof of concept.

I. The Regime That Ended: Four Decades on the Moving Walkway

Howard Marks describes the period from roughly 1980 through 2021 as a market in which "investors were on a moving walkway, carried along by declining interest rates."[9] In real estate, the walkway's mechanism was the cap rate. As the 10-year Treasury fell from double digits to below 1.5%, cap rates followed, and every basis point of compression manufactured appreciation indistinguishable — in a track record — from skill. The walkway has now stopped, and the industry's own research quantifies how much of the last cycle's performance it carried.

What the decomposition shows

Hines' 2025 mid-year outlook offers the longest lens. Splitting the modern era into a rising-cap-rate regime (1966–1981) and a falling-cap-rate regime (1982–2024), Hines finds that in the first period — despite average rent growth of 7.9% per year — cumulative value growth reached only 62% of cumulative income growth, because rising discount rates confiscated more than a third of what operations produced. In the second period, rent growth averaged just 3.7% per year, yet cumulative value growth ran roughly four times cumulative income growth.[10] In other words, the multiple — not management — was the primary cause of appreciation.

AEW reaches the same conclusion for the post-GFC period, with unusual candor: in the 2010–2015 recovery, NOI grew approximately 20% while values rose approximately 40% on more than 200 basis points of cap rate compression — a pattern AEW notes was "nearly identical" to the recovery after the 2002–2007 cycle.[11]

> *"Over most of the post-Financial Crisis period, the returns from sound property stewardship were often overwhelmed by the appreciation driven by cap rate compression."*
> — AEW Research, U.S. Research Perspective, Q4 2024

Apollo's January 2026 white paper on private equity supplies the cross-asset analogy, and the most important number in this literature: from 2010 to 2021, approximately 66% of value creation came from leverage and multiple expansion rather than operational improvement. "In an easy-money environment," the authors write, "many managers effectively subsisted on a 'buy high, sell higher' strategy and generated less value from buying well and operational improvements."[12] Substitute "exit cap rate" for "multiple" and the sentence describes a decade of real estate underwriting without further edits.

The terminal year of the old regime was its purest expression. In 2021 the NCREIF Property Index returned 17.7% — 4.2 points of income and 13.0 points of appreciation, with Q4 2021 posting the highest single-quarter appreciation since the index's 1978 inception.[13] McKinsey's analysis of the same

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[9]Oaktree Capital Management, "Sea Change," Howard Marks, December 13, 2022. https://www.oaktreecapital.com/insights/memo/sea-change

[10]Hines Proprietary Research, "2025 Mid-Year Global Investment Outlook," June 13, 2025. The report notes: "the oldest asset class in the world has historically thrived in many differing rate environments." https://www.hines.com/2025-mid-year-global-investment-outlook/full-report

[11]AEW Research, "U.S. Research Perspective Q4 2024." https://www.aew.com/research/u-s-research-perspective-q4-2024

[12]Apollo Global Management, "Private Equity Returns to Its Roots," January 29, 2026. https://www.apollo.com/wealth/insights-news/insights/2026/01/private-equity-returns-to-its-roots

[13]LaSalle Investment Management, "NCREIF Review and Outlook, Q4 2021," April 15, 2022. https://www.lasalle.com/wp-content/uploads/2022/12/ncreif_report_4q2021.pdf

period found trailing-year apartment returns of 24.4%, of which appreciation was 82%, on cap rates that had compressed to a trough near 3.8% — the first time institutional cap rates had ever printed below 4%.[14]

The anomaly, not the norm

NAREIT's long-run decomposition of the NPI found that over 1992–2017, income contributed 68% of total return — 5.25% per year against 2.51% of appreciation.[15] Real estate's long-run economics are, and always were, income economics. The 2010s taught a generation of investors — and of underwriting models — to treat an anomalous appreciation regime as a baseline. ULI put the correction on record as early as October 2023, in its coverage of Emerging Trends 2024: owners must "get back to the basics of income and cash flow versus relying on cap rate compression for returns."[16]

Exhibit 1 — The old regime, quantified

Selected published decompositions of pre-2022 real estate and private markets returns

Finding	Figure	Source
Value growth vs. income growth, falling-rate era 1982–2024	**Value ≈ 4× income growth**	Hines, Mid-Year Outlook, Jun 2025
Value growth vs. income growth, rising-rate era 1966–1981	Value = 62% of income growth	Hines, Mid-Year Outlook, Jun 2025
2010–2015 recovery: NOI growth vs. value growth	NOI +≈20% vs. values +≈40% (>200 bps compression)	AEW, U.S. Research Perspective, Q4 2024
Share of PE value creation from leverage + multiple expansion, 2010–21	**≈66%**	Apollo, Jan 2026
2021 NPI total return: income vs. appreciation	17.7% = 4.2% income + 13.0% appreciation	NCREIF via LaSalle, Apr 2022
Trailing-yr apartment returns to Q2 2022; appreciation share	24.4%; appreciation = 82%	McKinsey, Nov 2022
Long-run NPI income share of total return, 1992–2017	68%	NAREIT (B. Case), Aug 2017

Figures published by each institution; periods and index definitions vary by source.

II. The Arithmetic That Won't Repeat

Whoever underwrites another decade of cap rate compression must answer a simple question: compress from where, into what spread? The last cycle began with institutional cap rates near 7–8% against a 10-year Treasury headed toward zero. This cycle begins with cap rates in the mid-5s to mid-

[14] McKinsey & Company, "A confluence of social and economic factors have driven outsized returns for multifamily investors," Luby, Torbey, Vickery, November 10, 2022. https://www.mckinsey.com/industries/real-estate/our-insights/a-confluence-of-social-and-economic-factors-have-driven-outsized-returns-for-multifamily-investors

[15] Nareit, "Income and Capital Appreciation from Real Estate Investing," Brad Case, August 28, 2017. https://www.reit.com/news/blog/market-commentary/income-and-capital-appreciation-from-real-estate-investing-the-participation-trophy-and-the-performance-record

[16] Urban Land (ULI), coverage of ULI and PwC, "Emerging Trends in Real Estate 2024" (45th edition), October 2023. https://urbanland.uli.org/economy-markets-trends/uli-pwc-report-outlines-the-great-reset-as-commercial-real-estate-enters-new-er

6s against a 10-year Treasury that has spent 2025–2026 oscillating around 4–4.7%.[17] CBRE Investment Management calculates the resulting spread at 172 basis points as of Q3 2025 — against a 1991–2019 average of 342 basis points, placing today's spread in the 24th percentile of observations since 1965.[18] There is no 300-basis-point reservoir to drain. If anything, the spread argues that cap rates are more likely to leak upward than to compress.

The behavior of measured cap rates confirms the ceiling. CBRE's semiannual Cap Rate Survey — roughly 3,600 estimates across more than 50 markets — has now recorded three consecutive readings of essentially flat yields: all-property cap rates fell just 9 basis points in H1 2025, "held steady" through H2 2025, and were "essentially flat" in H1 2026, with roughly 60% of respondents expecting no change over the following six months.[19] CBRE's own 2026 forecast contemplates compression of 5–15 basis points — roughly one-twentieth of what the 2010s delivered.[20] Green Street's Peter Rothemund, surveying mid-2026 pricing, is more laconic: "Price gains have been modest because cap rates continue to be quite sticky."[21]

Nor does the macro regime offer rescue. Oaktree's "Sea Change" framing — that the 2,000-basis-point rate decline that powered the 1980–2021 era is arithmetically unrepeatable — has been absorbed into the base case of nearly every major house.[22] KKR's macro research describes a "regime change" toward structurally higher rates and inflation, counseling investors across asset classes to "prioritize earnings-driven opportunities over multiple expansion."[23] Morgan Stanley's real estate platform tells investors to "prioritize cash flow growth rather than relying on cap rate compression."[24] PGIM Real Estate — whose 2026 Global Views contains perhaps the cleanest forward decomposition in the literature — expects next-cycle global property returns to be "more heavily driven by rental growth than yield compression, which dominated the last cycle."[25] And Hines closes the loop on its own forty-year decomposition: "The cap rate compression that propelled the market in the past may not come to fruition going forward."[26]

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[17]CBRE Research, "U.S. Cap Rate Survey H1 2026," August 12, 2026 (10-year Treasury peak of 4.67% in mid-May 2026). https://www.cbre.com/insights/reports/us-cap-rate-survey-h1-2026

[18]CBRE Investment Management, "The Case For and Against Narrow Cap Rate Spreads," Wei Luo, December 8, 2025. https://www.cbreim.com/insights/articles/the-case-for-and-against-narrow-cap-rate-spreads

[19]CBRE Research, "U.S. Cap Rate Survey," H1 2025 (August 20, 2025), H2 2025 (February 10, 2026), and H1 2026 (August 12, 2026) editions. https://www.cbre.com/insights/reports/us-cap-rate-survey-h1-2026

[20]CBRE Research, "U.S. Real Estate Market Outlook 2026," Capital Markets chapter, Kevin Aussef, Matt Mowell, Darin Mellott, January 2026. https://www.cbre.com/insights/books/us-real-estate-market-outlook-2026/capital-markets

[21]Green Street CPPI commentary via Connect CRE, July 2026; and Green Street CPPI press release, August 6, 2026. https://www.greenstreet.com/insights/CPPI

[22]Oaktree Capital Management, "Sea Change," Howard Marks, December 13, 2022: "Interest rates aren't about to decline by another 2,000 basis points from here." https://www.oaktreecapital.com/insights/memo/sea-change

[23]KKR Global Macro Trends, "Regime Change: The Changing Role of Private Real Assets in the 'Traditional' Portfolio," Henry McVey et al., September 2023; and KKR, "2025 Outlook: 5 Things to Know," January 2025. https://www.kkr.com/insights/2025-outlook-5-things-to-know

[24]Morgan Stanley Investment Management (MSREI), "Real Estate 2026 Outlook," December 18, 2025. https://www.morganstanley.com/im/en-us/individual-investor/insights/outlooks/real-estate-2026-outlook.html

[25]PGIM Real Estate, "2026 Global Real Estate Views: A Compelling Vintage — Finding Value Early in the Cycle," Greg Kane, Lee Menifee et al., April 2026. https://www.pgim.com/content/dam/pgim/us/en/pgim-real-estate/active/documents/outlooks/2026-global-real-estate-views.pdf

[26]Hines, "2026 Global Investment Outlook: Navigating Real Estate," early 2026. https://www.hines.com/2026-global-investment-outlook

Exhibit 2 — The publishers' own words

Statements on the source of go-forward returns, 2023–2026

Institution	Statement	Publication
CBRE	"Total returns will be income driven. Asset selection and management will be key drivers for returns."	U.S. Market Outlook 2026, Jan 2026
ULI	Owners must "get back to the basics of income and cash flow versus relying on cap rate compression for returns."	On Emerging Trends 2024, Oct 2023
ULI / PwC	"Operating performance is expected to drive total returns over the near term."	Emerging Trends 2026, Nov 2025
UBS AM	"Outperformance will rely less on market beta and more on execution – disciplined asset selection, active management and operational excellence to drive NOI growth."	US RE Outlook, Jun 2026
Morgan Stanley	"Prioritize cash flow growth rather than relying on cap rate compression."	Real Estate 2026 Outlook, Dec 2025
PGIM Real Estate	Next cycle returns "more heavily driven by rental growth than yield compression, which dominated the last cycle."	Global RE Views, Apr 2026
JLL	"A sharper focus on income growth as the key driver of asset performance."	Global Outlook Mid-Year, Aug 2026
Hines	"The cap rate compression that propelled the market in the past may not come to fruition going forward."	2026 Global Outlook
KKR	"Prioritize earnings-driven opportunities over multiple expansion."	2025 Outlook, Jan 2025
Brookfield	"Success in real estate investing will depend on selectivity and getting results from operational value creation."	RE Outlook, Dec 2025

Quotations as published; see footnotes and bibliography for full citations.

The consensus is notable for who is expressing it: the largest owners, lenders, brokers, and index providers in the asset class — institutions with every commercial incentive to promise the old return stack if they believed it available. That they are instead re-educating clients about income is, itself, evidence.

III. The New Return Stack: Income Does the Work

The replacement regime is not forecast. It is already visible in every major benchmark.

The NCREIF Property Index — 12,923 properties, roughly $900 billion of institutional real estate — returned 1.22% in Q3 2025: 1.16 points of income, 0.06 points of appreciation. Income was approximately 95% of the quarterly return.[27] Over the trailing year to Q2 2025, NPI appreciation was negative 0.5% — the entire return was income.[28] UBS Asset Management reports the same shape for open-end core funds: of the ODCE's 4.9% unlevered total return for the year ending Q1 2026, capital appreciation contributed 0.3 points — 94% of the return was income.[29] Clarion Partners, reviewing five consecutive positive quarters through Q3 2025 after an 18.7% cumulative value decline, describes

[27] NCREIF, NPI Q3 2025 press release, October 24, 2025. https://ncreif.org

[28] RCLCO Fund Advisors, "ODCE and NPI Results, Q2 2025," August 14, 2025. https://www.rclco.com/wp-content/uploads/2025/08/ODCE-and-NPI-Results-Q2-2025-Summary.pdf

[29] UBS Asset Management, "US real estate outlook – Edition June 2026," June 11, 2026. https://www.ubs.com/global/en/assetmanagement/insights/asset-class-perspectives/real-estate/the-red-thread-alternatives/may-edition-2026/articles/us-real-estate-outlook.html

returns "driven primarily by income returns, with capital appreciation turning in flat to slightly positive returns."[30]

Even when prices are rising again, the composition of the appreciation has changed. Green Street's August 2026 read: "Prices are up 5% over the past year. Rental income is 2–3% higher over that time, and the remainder of the appreciation is from lower cap rates for select property types."[31] In the old regime, that sentence ran in reverse. When appreciation itself is majority-sourced from rent, the operating statement has annexed the valuation line.

The forward stack, as underwritten by the institutions themselves

Forward-looking return builds now published by major houses share a common architecture: entry yield plus NOI growth, with the exit multiple held flat or nearly flat. J.P. Morgan Asset Management's 2026 Long-Term Capital Market Assumptions put U.S. core real estate at an expected 8.2% — explicitly "driven by attractive entry points and higher yields," not compression.[32] PGIM's European forecast builds 5.5% per year unlevered (8.7% at 60% LTV) from rental growth, with yield compression explicitly modest and secondary.[33] KKR's published multifamily example makes the logic concrete: a 5.5% entry cap rate, 50% leverage, 3% NOI growth, and a 5.0% exit produce roughly a 14.5% five-year IRR — basis and operations, not the assumed half-turn of compression, generate substantially all of it.[34]

What makes the income-led stack credible rather than merely necessary is the supply side. Blackstone reports construction starts down 62% in U.S. multifamily, 66% in logistics, and 87% in office from their recent peaks — a collapse in future competition that converts operating capability directly into pricing power for those who own existing assets.[35] Morgan Stanley adds that buyers today are acquiring at 20–25% below peak values, often below replacement cost — a margin of safety no exit-cap assumption can replicate.[36] But supply scarcity and cheap basis are permissions, not outcomes: they determine what disciplined operations can capture, and they punish undisciplined operations that cannot.

Exhibit 3 — The return stack, then and now

Published index decompositions of institutional real estate returns

Period / Measure	Total return	Income	Appreciation	Income share
NPI, calendar 2021 (peak of old regime)	17.7%	4.2%	13.0%	24%

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[30] Clarion Partners, "U.S. Core Real Estate: A New Cycle Is Emerging," Indraneel Karlekar, November 2025. https://www.clarionpartners.com/cpinsights/Documents/us-core-real-estate-a-new-cycle-is-emerging.pdf

[31] Green Street CPPI press commentary, Peter Rothemund, August 6, 2026. https://www.greenstreet.com/insights/CPPI

[32] J.P. Morgan Asset Management, "2026 Long-Term Capital Market Assumptions," October 20, 2025. https://am.jpmorgan.com/us/en/asset-management/institutional/about-us/media/press-releases/jp-morgan-releases-2026-long-term-capital-market-assumptions/

[33] PGIM Real Estate, "2026 Real Estate Outlook: Europe," November 2025. https://www.pgim.com/content/dam/pgim/us/en/pgim-real-estate/active/documents/outlooks/2026-Real-Estate-Outlook-Europe.pdf

[34] KKR Real Estate, "When Fear Is a Friend: US Multifamily in Focus," Ralph Rosenberg, April 2024. https://www.kkr.com/content/dam/kkr/insights/pdf/market-review-real-estate-april-2024.pdf

[35] Blackstone, "Real Estate Enters the Next Phase of the Cycle," Nadeem Meghji, January 2, 2026. https://www.blackstone.com/insights/article/real-estate-enters-the-next-phase-of-the-cycle/

[36] Morgan Stanley Investment Management, "A Turning Point for Real Estate: Recovery Takes Shape," Tony Charles, April 8, 2026. https://www.morganstanley.com/insights/articles/real-estate-market-outlook-2026-recovery

Period / Measure	Total return	Income	Appreciation	Income share
NPI, trailing year to Q2 2025	≈4.7%	≈5.2%	−0.5%	>100%
NPI, Q3 2025 (quarterly)	1.22%	1.16%	0.06%	**≈95%**
ODCE unlevered, year to Q1 2026	4.9%	4.6%	0.3%	**≈94%**
Green Street CPPI, year to Jul 2026 (price only)	+5.2% price	2–3 pts from rent growth	residual from yields	majority rent-driven

Sources: NCREIF (Oct 2025); RCLCO (Aug 2025); LaSalle (Apr 2022); UBS AM (Jun 2026); Green Street (Aug 2026). CPPI is a price index; rent-growth attribution per Green Street commentary.

IV. Why Operations Are Now the Alpha Source

Why should income-led returns privilege *disciplined* management in particular? Three reasons: the denominator has shrunk, the expense line has exploded, and the dispersion data show the market is already paying for execution.

The denominator argument

In a 17.7% year, the difference between a well-run and an adequately run building — call it 100–150 basis points of NOI-derived return — was noise; the walkway moved everyone. In a 5–8% world, that same edge is roughly an eighth to a third of the entire return, compounding annually. Leverage sharpens the point: UBS observes that with NOI yields near or below debt costs in the U.S., U.K., and Australia, "debt cannot be relied upon to drive returns" — positive leverage must be earned through income growth, not assumed at closing.[37] CBRE's 2026 Investor Intentions Survey shows investors internalizing this: 49% now say they will tolerate a year of negative leverage on the strength of "improving market fundamentals from strong rents at renewal" — that is, they are explicitly buying future operations, not current yield arbitrage.[38]

The expense shock: operations as defense

Revenue is only half of NOI, and the past four years have delivered the sharpest operating-expense shock in the institutional era. The Minneapolis Fed, surveying multifamily owners across 44,600 units, documents insurance premium increases of 14% in 2021–22, 22% in 2022–23, and 45% in 2023–24 — a doubling over three years, more than six times CPI — with one owner reporting that "over 50 percent of our overall operating expense inflation since 2020 can be explained by property insurance premium increases."[39] Yardi Matrix, across roughly 22,000 properties, recorded multifamily operating expenses up 9.3% in the year to mid-2023 and another 7.1% in the year through January 2024, with insurance up 27.7%.[40] Deloitte projects commercial property insurance in the ten highest-

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[37] UBS Asset Management, "Global real estate outlook – Edition 2025/26," Fergus Hicks and Jaipreet Bains, December 4, 2025. https://www.ubs.com/global/en/assetmanagement/insights/asset-class-perspectives/real-estate/the-red-thread-alternatives/december-edition-2025/articles/global-real-estate.html

[38] CBRE, "2026 North American Investor Intentions Survey," January 29, 2026. https://www.cbre.com/insights/reports/2026-north-american-investor-intentions-survey

[39] Federal Reserve Bank of Minneapolis, "Rising property insurance costs stress multifamily housing," Christina Spicher and Libby Starling, March 4, 2025. https://www.minneapolisfed.org/article/2025/rising-property-insurance-costs-stress-multifamily-housing

[40] Yardi Matrix, "Multifamily Expenses Increase Above Trend Levels," April 3, 2024; and "Led by Insurance, Multifamily Costs Jump Dramatically," September 15, 2023. https://www.yardi.com/news/press-releases/multifamily-expenses-increase-above-trend-levels-reports-yardi-matrix/

risk states — up 108% over five years already — to compound at 8.7% annually through 2030.[41] ULI/PwC's 2026 edition warns that elevated coastal premiums "are unlikely to reset to a lower share of property value,"[42] and JLL documents fit-out costs rising 8–10% in a single year across major gateway markets.[43]

In a compression regime, expense drift was forgiven at exit; a fatter multiple absorbed a thinner margin. In an income regime, every uncontested basis point of expense growth is a permanent loss — capitalized, at a 6% cap rate, at roughly seventeen times. An owner who holds insurance, payroll, taxes, and repairs 200 basis points below peers is not running a tidier back office; that owner is manufacturing value. Expense discipline has become a valuation event.

The dispersion evidence: the market is already paying for execution

If operations now drive returns, the gap between good and bad operators should be widening. It is. In UBS's sector table, senior housing — a sector where the operator is inseparable from the asset — returned 17.3% for the year to Q1 2026 against 4.7% for office, a 12.6-point spread.[44] NCREIF data show trailing-year retail at +7.6% against office at +0.1%.[45] Goldman Sachs Asset Management describes "a clear bifurcation between prime assets… and those assets lacking such features," with dispersion "observed across rent growth, occupancy, and liquidity."[46] Newmark sees 2026 "widening the divide between high-performing, modern assets and those facing functional or structural obsolescence."[47] ULI/PwC describe the strategic shift as moving "from macro-driven to micro-driven: specific asset, location, or street corner."[48] When one index contains a 12-point sector spread and material intra-sector bifurcation, "the market return" is no longer an investable concept; selection and execution are the return.

What disciplined operations look like in the published record

The manager literature now documents the mechanism at the asset level. Starwood's SREIT disclosures offer an unusually clean natural experiment: through three quarters of 2025 the vehicle's −1.7% total return decomposed into +1.5% from real estate and other components against −3.2% from interest-rate hedge and debt marks — property performance carrying the portfolio while macro marks fought it — on industrial re-leasing spreads of 51% in 2024 and 46% year-to-date, in-place leases roughly 20% below market, and 95% apartment occupancy.[49] Blackstone's QTS — scaled eight-fold

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[41]Deloitte Center for Financial Services, "Climate change impacts elevate US commercial real estate insurance costs," Renea Burns, Tim Coy, Niall Williams, May 29, 2024. https://www.deloitte.com/us/en/insights/industry/financial-services/impact-of-climate-change-on-commercial-real-estate-insurance-costs.html

[42]ULI and PwC, "Emerging Trends in Real Estate 2026," trend chapter "Back to Basics: Where Analytics Meet Operations," November 2025. https://www.pwc.com/us/en/industries/financial-services/asset-wealth-management/real-estate/emerging-trends-in-real-estate-pwc-uli/trends/back-to-basics.html

[43]JLL Research, "Global Real Estate Outlook: Mid-Year Update," Benjamin Breslau, David Rea, Julia Georgules, August 3, 2026. https://www.jll.com/en-hk/insights/market-outlook/global-real-estate

[44]UBS Asset Management, "US real estate outlook – Edition June 2026," June 11, 2026.

[45]RCLCO Fund Advisors, "ODCE and NPI Results, Q2 2025," August 14, 2025.

[46]Goldman Sachs Asset Management, "Exploring Alternative Dimensions Across Private Markets in 2026," November 18, 2025. https://am.gs.com/en-us/advisors/insights/article/investment-outlook/private-markets-alternatives-2026

[47]Newmark, "U.S. Commercial Real Estate in 2026: A Sector-by-Sector Outlook," January 8, 2026. https://www.nmrk.com/insights/thought-leadership/u-s-commercial-real-estate-in-2026-a-sector-by-sector-outlook

[48]ULI and PwC, "Emerging Trends in Real Estate 2026," November 2025.

[49]Starwood Real Estate Income Trust, Q3 2025 Stockholder Update, Nora Creedon. https://www.starwoodnav.reit/wp-content/uploads/SREIT-Q32025-Stockholder-Update.pdf

since its 2021 acquisition — is the canonical demonstration that platform operations, not entry multiple, create value.[50] Brookfield, projecting several years of double-digit NOI growth in senior housing, has organized its entire 2026 outlook around the proposition that follows.[51]

> *"Deals are made at entry and measured at exit, but much of the value of a successful investment is earned during the hold period."*
> — Lowell Baron, CEO of Real Estate, Brookfield, December 2025

The organizational implication follows. The capabilities that capture income-regime returns — releasing spreads, procurement at scale, revenue management, tenant experience, insurance and energy optimization — live inside vertically integrated operating platforms, not spreadsheets. ULI/PwC's 2026 trend chapter is titled, precisely, "Back to Basics: Where Analytics Meet Operations," and reports that "operating performance is expected to drive total returns over the near term."[52] The industry spent forty years capitalizing rate declines; it is now re-tooling to capitalize competence.

Exhibit 4 — The operating-expense shock
Published expense growth data, 2021–2026

Measure	Figure	Source
Multifamily insurance premium growth, 2023–24 (yr/yr)	**+45%**	Minneapolis Fed, Mar 2025
Multifamily insurance premiums, cumulative 2021–2024	Approximately doubled (>6× CPI)	Minneapolis Fed, Mar 2025
Share of one owner's opex. inflation since 2020 from insurance	>50%	Minneapolis Fed, Mar 2025
Multifamily opex. growth, year to mid-2023 / mid-2024	+9.3% / +7.1% (insurance +27.7%)	Yardi Matrix, 2023–24
CRE insurance growth, top 10 risk states, 5 years	+108%; projected 8.7% CAGR to 2030	Deloitte, May 2024
Office fit-out cost growth, year to Q1 2026	+8–10% (NY, London, Seoul)	JLL, Aug 2026

At a 6% capitalization rate, each $1 of permanent annual expense savings adds roughly $17 of asset value.

V. The Same Law Now Governs Debt

The compression regime had a credit-market twin: rising collateral values quietly repaired weak underwriting. A loan sized against an aggressive pro-forma in 2015 was, by 2019, over-collateralized through no act of the lender. The moving walkway carried creditors too — until it stopped.

Pre-pandemic lending: discipline was optional, and the data proves it

The academic record on pre-pandemic underwriting is damning in its specificity. Griffin and Priest, examining roughly 40,000 CMBS loans totaling $650 billion originated 2013–2019, found that 29%

[50] Commercial Observer, "2024 Was the Year to Play Offense in CRE Investing" (interview with Kathleen McCarthy, Blackstone), December 9, 2024. https://commercialobserver.com/2024/12/2024-year-to-play-offense-cre-investing-blackstone-kathleen-mccarthy/

[51] Brookfield, "Real estate outlook: Investing through the next cycle," Lowell Baron, December 2025. https://www.brookfield.com/views-news/insights/real-estate-outlook-investing-through-next-cycle

[52] ULI and PwC, "Emerging Trends in Real Estate 2026," November 2025; press release November 2025. https://www.pwc.com/us/en/about-us/newsroom/press-releases/emerging-trends-in-real-estate-2026.html

had underwritten income overstated by 5% or more relative to actual first-year performance — and that the degree of overstatement varied systematically by originator and predicted subsequent distress.[53] The Philadelphia Fed documents the structural decay alongside it: interest-only loans rose to 71% of CMBS 2.0 conduit balances, and undisclosed mezzanine debt in roughly a third of single-asset deals pushed true leverage to 71% LTV against a reported 58%. Its authors' summary is the pre-pandemic regime in one line: "historically low interest rates and rapidly rising CRE prices over most of the CMBS 2.0 era masked risks."[54] Moody's CMBS analysts were saying it in real time — "credit has definitely slipped… since around 2015… effectively death by a thousand cuts" — while spreads compressed anyway, because in a rising-value world the market did not price lender discipline.[55]

The reckoning: maturity wall, dispersion, and the end of the free extension

When rates reset in 2022, the subsidy ran in reverse. Oaktree's refinancing parable captures the arithmetic: the borrower who received "$800 million at 5%" returns to a lender now offering "$500 million at 8%."[56] The gap became the maturity wall: the Mortgage Bankers Association counts $875 billion of commercial and multifamily mortgages maturing in 2026 alone — 17% of the $5.0 trillion outstanding — after $957 billion scheduled in 2025, itself inflated by prior extensions.[57] Trepp sized the rolling wall at $2.2 trillion through 2027; Brookfield at over $3 trillion within three years, peaking in 2027.[58] The New York Fed, in a formal staff report, showed the wall was partly manufactured: weakly capitalized banks "provided maturity extensions and granted payment relief to distressed commercial real estate borrowers to preserve capital," producing "credit misallocation and a buildup of financial fragility."[59] MSCI's Jim Costello explains why the strategy no longer works: "[Extend and pretend] worked during the GFC because the Fed started lowering rates… It's not the same today."[60]

Beneath the aggregate, the credit data now show the same dispersion the equity data do — which is the point. As of July 2026, Trepp's CMBS delinquency rate stood at 7.86% overall, but 11.91% in office (after a record 12.34% in January) against 1.13% in industrial — a spread of nearly 1,100 basis points within one index.[61] Special servicing shows the same shape: 16.58% office, 1.34% industrial.[62] Fully 66% of newly delinquent balances in July 2026 were non-performing matured balloons — maturity

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[53]John M. Griffin and Alex Priest, "Is COVID Revealing a Virus in CMBS 2.0?," Journal of Finance (2023). https://onlinelibrary.wiley.com/doi/10.1111/jofi.13228. CREFC publicly disputed the study's conclusions.

[54]Xudong An, Larry Cordell, Nicholas Smith, "CMBS Market Evolution and Emerging Risks," Federal Reserve Bank of Philadelphia Working Paper 23-27, November 2023. https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2023/wp23-27.pdf

[55]Kevin Fagan, Moody's Investors Service, interview with National Real Estate Investor, c. 2018. https://www.nreionline.com/cmbs/moody-s-analyst-kevin-fagan-explains-current-state-cmbs-underwriting

[56]Oaktree Capital Management, "Further Thoughts on Sea Change," Howard Marks, October 11, 2023. https://www.oaktreecapital.com/insights/memo/further-thoughts-on-sea-change

[57]Mortgage Bankers Association, "17 Percent of Commercial and Multifamily Mortgage Balances to Mature in 2026," Loan Maturity Survey, February 9, 2026. https://www.mba.org/news-and-research/newsroom/news/2026/02/09/17-percent-of-commercial-and-multifamily-mortgage-balances-to-mature-in-2026

[58]Urban Land (ULI), "The Countdown to the End of Extend and Pretend," Hannah Miet, March 4, 2024 (citing Trepp); Brookfield, "Mapping the Market: Why Private Real Estate Lending Is Compelling Now," April 2025. https://www.brookfield.com/views-news/insights/mapping-market-why-private-real-estate-lending-compelling-now

[59]Matteo Crosignani and Saketh Prazad, "Extend-and-Pretend in the U.S. CRE Market," Federal Reserve Bank of New York Staff Report No. 1130, October 2024 (revised June 2026). https://www.newyorkfed.org/research/staff_reports/sr1130

[60]Jim Costello, MSCI, quoted in Urban Land, March 4, 2024. https://urbanland.uli.org/the-countdown-to-the-end-of-extend-and-pretend

[61]Trepp CMBS delinquency data, July 2026, via Connect CRE (August 6, 2026) and Multi-Housing News delinquency tracker. https://www.multihousingnews.com/cmbs-delinquency-rates/

[62]Trepp special servicing data, July 2026, via Commercial Property Executive. https://www.commercialsearch.com/news/special-servicing-rates-2/

defaults rather than cash-flow defaults — and \$2.6 billion of the \$6.0 billion of new delinquency came from just five loans.[63] Distress, in other words, is concentrated, idiosyncratic, and vintage-specific: CRED iQ identifies "overleveraged 2021–2022 vintage debt" as the highest-risk multifamily segment, with bank multifamily delinquency rising from 0.40% to 1.37% between Q3 2023 and Q3 2025.[64] In a market like this, the lender's return is determined loan by loan — by what was underwritten, how it was structured, and who is operating the collateral.

The new vintage: discipline as the product

The affirmative case is that disciplined credit is now being paid like equity used to be. Values reset 15–25% below the 2022 peak on Green Street's index (office −35%), roughly 20–30% by KKR's measure, with loan proceeds down about 30% from early 2022 — meaning new loans attach at a materially de-risked basis with wider spreads and stronger structure.[65] Blackstone Mortgage Trust's CEO Katie Keenan states the mechanism in a single sentence: "Reset values mean better credit, higher debt yields, and stronger cash flow coverage for our loans."[66] The realized numbers have followed: NCREIF/CREFC open-end debt funds returned 6.1% net for the trailing year against 2.9% for ODCE core equity, and Blackstone's real estate debt platform returned 17% in 2025 — described as one of the best performances in the firm's entire portfolio.[67]

> *"CRE debt has effectively become a '1.0 versus 2.0' market, with new vintages standing to benefit."*
> — Rich Hill, Global Head of Real Estate Research & Strategy, Principal Asset Management, February 2026

Crucially, the return is not available passively. The banks' retrenchment — debt funds and mortgage REITs took 40% of CBRE's non-agency originations in Q4 2025, up from 23% a year earlier, while banks fell from 43% to 35% —[68] has shifted origination toward lenders who must underwrite like owners. The published playbooks are explicit. PIMCO: returns will depend on "active management, flexible capital, and disciplined underwriting," and investors must "stress test each asset's demand drivers rather than assume that sector tailwinds will apply evenly."[69] Goldman Sachs Asset Management: private real estate credit requires "a disciplined, equity-minded investment approach," with direct origination allowing lenders to "set loan terms, engage directly with borrowers, and actively manage portfolios."[70] Ares: success demands "proactive asset management of legacy loans during a

[63] Connect CRE, "CMBS Delinquency Rate Adds 51 Basis Points in July 2026," August 6, 2026, citing Trepp. https://www.connectcre.com/stories/cmbs-delinquency-rate-adds-51-basis-points-in-july-2026/

[64] CRED iQ, "Multifamily Loan Delinquencies Are Rising — And Losses Are Following," February 20, 2026. https://cred-iq.com/blog/2026/02/20/multifamily-loan-delinquencies-are-rising-and-losses-are-following/

[65] Green Street CPPI, May 6, 2026 press release; KKR, "Valuation Resets, New Entry Points: The Case for CRE Debt," Matt Salem, July 2026, https://www.kkr.com/insights/case-for-cre-debt; KKR, "The Real Estate Credit Opportunity Is Here," Matt Salem, September 2024.

[66] Blackstone Mortgage Trust, Q2 2025 earnings prepared remarks, Katie Keenan, July 30, 2025. https://www.blackstonemortgagetrust.com/wp-content/uploads/sites/14/2025/07/BXMT-2Q-2025-Prepared-Remarks.pdf

[67] Principal Asset Management, "Private Real Estate Debt: A banner 2025, with more room to run," Rich Hill, February 13, 2026, https://www.principalam.com/us/insights/real-estate-private-markets/private-real-estate-debt-banner-2025-more-room-run; Bisnow, "17% Returns Are Keeping Blackstone Heavy On Real Estate Debt," March 2, 2026.

[68] CBRE Lending Momentum Index, Q4 2025, February 9, 2026. https://www.cbre.com/press-releases/commercial-real-estate-lending-momentum-continues-to-improve

[69] PIMCO, "Real Estate: From Repricing to Relevance," John Murray, François Trausch, Russell Gannaway, Kirill Zavodov, July 14, 2026. https://www.pimco.com/us/en/insights/real-estate-from-repricing-to-relevance

[70] Goldman Sachs Asset Management, "The Case for Private Real Estate Credit," Emily Reagan, September 24, 2025. https://am.gs.com/en-us/advisors/insights/article/2025/real-estate-credit

volatile market environment."[71] Brookfield: the opportunity belongs to "managers with comprehensive credit analysis capabilities and in-house operating platforms" who can underwrite through an equity lens.[72] Even loan modification — the paradigmatic passive behavior of the last cycle — has been re-priced as an operational discipline: modern extensions require borrower pay-downs and reserves, because, as Trepp's Lonnie Hendry notes, "this cash infusion increases the borrower's commitment to the property."[73]

And the discipline is, so far, holding — which is what distinguishes a durable regime from a cyclical bounce. Principal reports that lending standards "became less restrictive in 2025 (i.e., less tight), but they did not loosen," even as originations rose 47% year-to-date.[74] Green Street's Rothemund makes the same observation from the equity side: "Buyers have been disciplined. Rent growth in many sectors is uninspiring, and investors are facing a 10-year Treasury in the mid-4's. That's not much to get excited about."[75] The market has, for the moment, stopped paying for optimism and started paying for underwriting.

Exhibit 5 — Credit dispersion: selectivity is the return

Trepp CMBS data as of July 2026; KBRA distress as of October 2025

Measure	Office	Multifamily	Retail	Industrial
CMBS delinquency (Jul 2026)	**11.91%**	7.69%	—	**1.13%**
Special servicing (Jul 2026)	16.58%	8.39%	13.28%	1.34%
KBRA distress rate (Oct 2025; overall 10.9%)	17.4%	—	—	—

Office set a record delinquency of 12.34% in January 2026. Sixty-six percent of July 2026's newly delinquent balances were matured balloons — maturity defaults, not cash-flow defaults. Sources: Trepp via Connect CRE and Multi-Housing News; Commercial Property Executive; KBRA 2026 U.S. CMBS Outlook, Nov 2025.

VI. Counterarguments, Taken Seriously

An argument addressed to research desks should be candid about its weakest joints. Four deserve attention.

First: the 2021 blow-off was not purely a multiple story. LaSalle's analysis of the 2021 NPI, citing Altus data, found that roughly two-thirds of that year's appreciation came from cash-flow (NOI) mark-ups and only one-third from yield effects.[76] The honest claim is therefore cumulative, not year-by-year: over the 2010–2021 arc, cap rates fell from roughly 7–8% to below 4% at the institutional trough, and that descent — not operations — supplied most of the cycle's appreciation, even if late-cycle years mixed in genuine NOI momentum.

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[71] Ares Management, "The Strategic Shift: How Real Estate Debt Is Redefining Investment Strategy," Bryan Donohoe, July 17, 2025. https://www.ares.com/news-and-insights/perspectives/strategic-shift-how-real-estate-debt-redefining-investment

[72] Brookfield, "Mapping the Market: Why Private Real Estate Lending Is Compelling Now," April 2025. https://www.brookfield.com/views-news/insights/mapping-market-why-private-real-estate-lending-compelling-now

[73] Lonnie Hendry, Trepp, quoted in Urban Land, March 4, 2024; CRED iQ reported $20 billion of CMBS/CRE CLO modifications in 2023, up 150% year-over-year (via Bisnow, March 29, 2024).

[74] Principal Asset Management, "Private Real Estate Debt: A banner 2025, with more room to run," February 13, 2026.

[75] Green Street CPPI press release, Peter Rothemund, May 6, 2026. https://info.greenstreet.com/hubfs/GSCPPI-20260506press.pdf

[76] LaSalle Investment Management, "NCREIF Review and Outlook, Q4 2021," April 15, 2022. https://www.lasalle.com/wp-content/uploads/2022/12/ncreif_report_4q2021.pdf

Second: rate cuts could revive the beta trade. LaSalle's own REIT scenarios quantify the sensitivity — a base case of 9% annual returns rises to roughly 13% with 50 basis points of additional easing and 18% with 100 basis points.[77] We do not dispute the sensitivity; we dispute its investability. A strategy whose excess return requires a favorable path for the 10-year Treasury is a macro position wearing a real estate costume. And even the modest compression now appearing follows fundamentals rather than leading them: CoStar observes it concentrating in industrial and multifamily, in "high-quality assets where vacancies have peaked and rent growth is starting to accelerate."[78]

Third: "income-driven returns" could be mistaken for "low returns, passively earned." The opposite is true. J.P. Morgan's 8.2% core expectation, PGIM's "compelling vintage" framing, and Morgan Stanley's below-replacement-cost entry math all describe a period in which absolute returns can be strong — but the excess return accrues to whoever grows the numerator. What distinguishes this cycle from the last is not the size of the return; it is who has to earn it.[79]

Fourth: the dispersion evidence partly reflects sector composition, not pure management skill. Office's 12% delinquency is a demand shock as much as an operating failure, and senior housing's 17% return owes something to demographics no operator invented. Granted. But the objection concedes the larger point: when sector, submarket, vintage, and operator choices produce 1,100-basis-point spreads in credit outcomes and 12-point spreads in equity returns, the decisions once called "allocation details" are the whole game — and making them well, repeatedly, at the asset level is what disciplined management is.

VII. Implications

For allocators: underwrite the operator before the asset. In a compression regime, manager selection determined bragging rights; in an income regime, it determines the return. The published record supports treating vertical integration, in-house operations, procurement scale, and demonstrated releasing and expense performance as priced factors — and treating underwriting that requires exit-cap heroics as a red flag the industry has already disavowed in print.

For equity managers: operational capability is no longer a cost center supporting the investment thesis; it is the thesis. The firms whose research leads this literature — Blackstone, Brookfield, KKR, Hines, PGIM — have spent the past half-decade building or buying operating platforms in data centers, senior housing, logistics, and rental residential. The research and the org charts tell the same story.

For lenders and credit investors: sponsor operational quality has become a core underwriting variable, on par with basis and structure. KKR's credit team screens on "collateral quality, sponsor quality, leverage, duration, structure, and market exposure";[80] Cohen & Steers demonstrated that even

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[77] LaSalle, "ISA Briefing: A new 'golden era' for REITs and real estate?," Sgrizzi, Battista, Gorab, October 1, 2024. https://www.lasalle.com/research-and-insights/isa-briefing-a-new-golden-era-for-reits-and-real-estate/

[78] CoStar Group, "CoStar projects yields to ease across CRE property types in 2026," Chad Littell, November 20, 2025. https://www.businesswire.com/news/home/20251120971962/en/CoStar-projects-yields-to-ease-across-CRE-property-types-in-2026

[79] J.P. Morgan Asset Management, 2026 Long-Term Capital Market Assumptions, October 20, 2025; PGIM Real Estate, 2026 Global Real Estate Views, April 2026; Morgan Stanley IM, April 8, 2026.

[80] KKR, "Valuation Resets, New Entry Points: The Case for CRE Debt," Matt Salem, July 2026. https://www.kkr.com/insights/case-for-cre-debt

among banks, differential lender discipline was visible in reserve levels before it was visible in losses.[81] The pre-2022 vintage will be worked out loan by loan, and workout capability — the credit market's version of operations — will determine recoveries: CRED iQ argues that resolution strategies (workouts, modifications, note sales) will define credit outcomes over the next two years.[82]

For the research desks this paper addresses: the remaining frontier is attribution. The industry agrees, in print, that operations drive returns; it does not yet publish standardized decompositions separating operational alpha from sector beta at the manager level — the real estate equivalent of public-equity attribution. NCREIF's index machinery, MSCI's asset-level data, and managers' own disclosures (Starwood's hedge-versus-property split is a template) contain the raw material. The first institutions to publish credible operational alpha attribution will define how the next decade of capital is allocated.

VIII. The Boutique Advantage: LightWell as Proof of Concept

LightWell Asset Management is a principal-led, vertically integrated commercial and residential asset manager — $270 million under management across 51 buildings, with a partner group whose prior work spans more than 20 million square feet managed and 15 million leased at institutions including CIM Group, Cushman & Wakefield, JLL, CBRE, and WeWork.[83] Everything argued above is, unavoidably, an argument for firms shaped like ours. Having assembled the industry's evidence that operations now drive returns, we owe the reader our answer to the question that follows from it: what organizational form best delivers disciplined operations?

For forty years the default answer was scale. The global service platforms — CBRE, JLL, Cushman & Wakefield, Newmark, Lincoln Property Company — won mandates because scale funded what owners could not build themselves: reporting infrastructure, market data, research desks, procurement networks, back office. That advantage was real, and the majors' own research desks (cited throughout this paper) remain the industry's intellectual reference. But the AI revolution is repricing exactly the things scale used to buy. Lease abstraction, budget-versus-actual diagnostics, A/R monitoring, collections workflows, market comps, institutional-grade reporting — the infrastructure layer of asset management — now costs a fraction of what it did, available to any firm built natively on modern systems. What AI cannot supply is what never scaled in the first place: senior judgment, principal accountability, and undivided alignment with the owner. The economics of the service business have inverted — the automatable layer has collapsed in price while the human layer has become the scarce input — and that inversion favors the boutique.

The argument runs on three dimensions. **Better:** at a global platform, a $100 million portfolio is a mid-tier account, serviced through layers and rotations; at LightWell it commands partners with sixty-plus years of combined institutional experience — trained, as happens, inside the majors — on every asset, every month. Leasing, property and construction management, and capital markets sit under one roof and one P&L, eliminating the handoffs and cross-selling conflicts inherent to platforms that

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[81] Cohen & Steers, "Putting recent commercial real estate debt headlines into perspective," February 2024. https://www.cohenandsteers.com/insights/putting-recent-commercial-real-estate-debt-headlines-into-perspective/

[82] CRED iQ, February 20, 2026. https://cred-iq.com/blog/2026/02/20/multifamily-loan-delinquencies-are-rising-and-losses-are-following/

[83] LightWell Asset Management, "Corporate Overview & Case Studies," 2026. Firm metrics as of 2026: $270M AUM, 640,000 SF across 51 buildings, $45M active construction projects. Track-record figures include work executed by LightWell's principals at prior platforms, principally CIM Group, Ares Management, BAML, Citi, CBRE, WeWork.

broker, lend, appraise, and manage against the same asset. **Cheaper:** an AI-native boutique carries no global overhead allocation, no brand tax, and no legacy systems; workflows built on modern stacks let a lean senior team deliver institutional reporting at a cost structure the majors cannot match without cannibalizing their own margins. In an income regime where every basis point of expense is capitalized at roughly seventeen times, the management cost structure is itself an NOI line. **Proven:** the record below is the thesis of this paper executed at the asset level — value created during the hold, in challenged markets, without a basis point of cap rate compression to help.

Exhibit 6 — Operational value creation, executed

LightWell engagements and principals' prior-platform track record

Asset / Engagement	Condition at start	Operational result
Family office portfolio, LA & West Hollywood (92K SF; LightWell)	$500K+ aged A/R, malfeasance, cost overruns, stalled leasing	**$1.5M+ value realized in 4 months; +$8.5M (+20%) operational value plan**
±280-unit LA multifamily portfolio (LightWell)	Reactive operations, weak capital planning	**Rental income +36.6% ($3.83M→$5.23M); owner distributions +91.1%**
2Cal Plaza, Downtown LA (1.4M SF; principals at CIM)	~70% occupancy, post-COVID distress, foreclosure risk	~90% leased in 18 months; WALT extended past 10 years
Central Tower, San Francisco (165K SF; principals at CIM)	Full seismic retrofit requiring vacant possession	100% pre-leased 12 months ahead of pro forma; 26% IRR, 2.6x on exit
Lake Merritt portfolio, Oakland (1.7M SF; principals at CIM)	79% occupancy at the eve of the GFC	94% occupancy; ~16% IRR; 3 of 4 assets exited
WeWork West Coast portfolio (110 properties, 7M+ SF)	~$200M annual losses; $250M+ uncollected TI allowances	Breakeven achieved; $200M in annual losses recovered; 100% of TIs collected

Source: LightWell Asset Management, Corporate Overview & Case Studies, 2026. CIM-era and WeWork results reflect the principals' track record at those institutions.

On the dimensions this paper argues now determine returns — operating capability, expense discipline, alignment, and the speed at which AI is absorbed into daily asset management — we believe the boutique model is structurally advantaged over the global platforms, and that LightWell is the strongest expression of it in the markets we serve: better on attention and alignment, cheaper on fully loaded cost, and, on the evidence above, the best boutique commercial and residential asset manager an owner can hire. The majors built the intellectual case for the operator; the boutique operator is its purest implementation. We would rather be the firm the research describes than the firm that describes it.

Conclusion

The last cycle rewarded exposure; this one rewards execution. That would be a slogan if the industry's own research did not document it from every vantage point — index providers in their decompositions, brokerages in their outlooks, managers in their playbooks, lenders in their prepared remarks, academics in their post-mortems of pre-pandemic underwriting. Cap rate compression was a forty-year gift, and it has been given. What remains is the older, harder, more defensible source of return: buildings run better than the market expects, loans underwritten better than the market requires, and value earned, in Brookfield's phrase, during the hold.

The institutions cited here built the intellectual case. The outsized returns of the coming decade will go to those — large and small — who operate as if they believe it.

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