

MLG Capital

2026 Market View: Navigating dislocation, unlocking opportunity

Market cycles are not linear. Periods of uncertainty, shifting capital flows and evolving fundamentals often reshape the real estate investment landscape.

As the commercial real estate environment takes shape in 2026, three forces are influencing market conditions: elevated supply in select sectors, steady long-term demand dynamics and reduced equity participation in private markets. While weighing these forces, MLG Capital's 2026 *Market View* presents a cautiously optimistic view of the U.S. commercial real estate landscape. The report's conclusion: The market is emerging from a multiyear supply glut and entering a window of opportunity for disciplined buyers, though that window can shift as market dynamics change.

Capital markets: Reduced equity activity and shifting dynamics¹

Several dynamics are shaping market activity in this environment:

- Equity fundraising has declined, contributing to lower transaction volume.
- Redemption activity has further reduced available equity capital.
- Debt remains accessible across agencies, banks and private credit providers.
- Transaction activity is increasingly driven by timing and capital structure needs.

Together, these factors are creating a more complex capital environment, one where outcomes vary more by deal structure and timing than by broad market trends.

The dominant capital markets theme is supply, specifically, a bifurcation between high-supply and low-supply markets. Sunbelt and Mountain West markets, which have absorbed roughly three-quarters of new multifamily supply, are experiencing weak revenue growth, while Midwest and coastal markets remain comparatively steady, benefiting from a healthier supply/demand balance. The numbers illustrate the gap: MLG's Midwest portfolio was 96 percent occupied as of May 6, 2026, with new-lease rent increases of 6.3 percent, renewal increases of 3.5 percent and a 64 percent renewal rate. Its Sunbelt portfolio was 92 percent occupied, with new-lease rents decreasing 6.4 percent, renewal increases of 2.2 percent and a 59 percent renewal rate. Despite this near-term softness in oversupplied markets, MLG sees an encouraging trend in permitting and future supply, driven by the higher cost

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of debt, equity and construction that is discouraging new development.

Equity fundraising remains more than 80 percent off its peak. Private REIT fundraising also has slowed dramatically, with net outflows since 2023 and inflows down 83 percent from the 2022 peak.

However, MLG sees signs that fundraising is beginning to trend toward recovery. Transaction activity is picking up: Multifamily sales are up 1 percent year-over-year, industrial sales are up 27 percent, and total investment sales across all asset types are up 18 percent year-over-year.

On the debt side, capital is abundant, with debt issuance projected to grow 15 percent in 2026. Government-sponsored agencies are positioning for higher volume, with Freddie Mac and Fannie Mae both raising their multifamily purchase caps 20 percent year-over-year to \$88 billion each. Banks are also re-entering the market, joining life insurance companies and other lenders in driving financing for non-multifamily assets. Despite the higher agency purchase caps, underwriting discipline remains elevated, with agencies applying heightened scrutiny to borrowers given distress in existing loan portfolios, even as they pursue creative structures, such as competitive pre-stabilization lending programs. CMBS and debt funds also appear less active than other forms of financing.



Multifamily: Supply pressures and long-term demand²

The multifamily sector is currently working through a period of elevated supply, with more than 600,000 units delivered in 2024, one of the highest levels in decades. The impact of oversupply, however, is not uniform. Market performance has become increasingly bifurcated:

- Higher-supply regions, particularly in parts of the Sunbelt, are experiencing softer fundamentals.
- More supply-constrained markets, including portions of the Midwest and coastal regions, have shown greater stability.

Forward-looking indicators suggest a shift is already underway:

- New deliveries have begun to decline.
- Construction activity has slowed materially, with starts trending below long-term averages.

At the same time, demand fundamentals remain intact:

- Household formation continues to be supported by demographic trends.
- Delayed homeownership and housing affordability challenges persist.
- The cost gap between owning and renting continues to influence renter behavior.

These trends point toward a potential transition over time, as near-term supply pressures move toward a more balanced environment.

Nationally, rents declined in 2025 as the market absorbed a wave of deliveries from the 2022-2023 construction boom. Household formation has averaged 1.26 percent growth since 2015, though MLG expects that to slow to sub-1 percent growth going forward, given declining immigration. Demand drivers for multifamily remain structurally intact, including an aging population, people marrying later, student-loan burdens and, perhaps most significantly, unaffordable home prices driven by high down payments and stringent loan requirements.

The affordability gap is a recurring data point: Home prices are up 144 percent since 2012, compared with an 83 percent increase in rents over the same period. The cost of homeownership is currently 55 percent higher than the cost to rent, leaving the spread near record highs.

On the supply side, the correction is well underway. Multifamily deliveries in second quarter 2026 were approximately 60 percent of their 2024 peak, and multifamily starts have fallen steeply from 2022-2023 highs to levels now below the 25-year average. Units under construction are settling back toward long-term norms, and permitting has similarly declined from its recent peak, though not all permits convert into starts. The South has seen a disproportionate share of new deliveries relative to existing stock,

which explains much of the softness concentrated in Sunbelt markets. Since 2000, average construction-cost growth of 3.72 percent has outpaced average rent growth of 3.06 percent, and wage growth has outpaced rent growth over the past three years, both dynamics that constrain future supply and could support rent recovery.

MLG believes multifamily property performance may be approaching a bottom, with a healthier long-term supply-and-demand balance potentially emerging as supply growth slows. MLG believes the current environment may present a window of opportunity before competition increases as institutional capital becomes more active in 2026 and 2027, particularly for class A/B assets in submarkets priced attractively relative to new construction costs, value-add opportunities in class A/B properties (though increasingly competitive) and equity recapitalizations.

Despite these shifts, underlying demand drivers remain intact. Housing continues to serve a fundamental need, supported by long-term demographic trends and evolving economic conditions. These dynamics underscore the importance of balancing near-term developments with long-term structural considerations.



Industrial: Diverging supply dynamics³

Industrial demand drivers include ecommerce growth, reshoring of jobs due to supply-chain concerns and tariff dynamics, and productivity gains. But while the drivers are the same across the sector, performance varies significantly by product type, location and local supply conditions rather than by broad asset-class trends. For example, large warehouse space is relatively inexpensive and fast to build, while flex/shallow-bay products are much harder to replicate, preserving a replacement-cost advantage in that niche even as it erodes in bulk distribution. As a result:

- Bulk-distribution facilities have seen increased supply in recent years.
- Shallow-bay and flex properties remain more constrained due to higher development costs.

Industrial has remained a relatively healthy asset class, with average rent growth of 5.82 percent since 2014 and a vacancy of 7.45 percent, which has returned to historical norms. Since 2011, 165.8 million more square feet has been absorbed than built nationally, although overbuilt submarkets and sectors warrant continued attention. Construction activity in logistics has slowed considerably, while flex/shallow-bay supply creation remains modest.

MLG's focus is on acquiring existing multitenant industrial properties with rents materially below new-construction levels, capitalizing on limited flex/shallow-bay supply growth during the past two decades and targeting buildings with vacancy in healthy or temporarily disrupted submarkets.



Retail: Transitioning into a new era⁴

As in the industrial sector, retail dynamics are showing greater differentiation, with performance increasingly driven by specific asset types, locations and supply conditions rather than broad asset-class trends. Two trends stand out, however:

- New construction has remained limited over an extended period.
- Physical locations continue to account for the majority of retail activity.

Retail is not dying; it is simply in transition, with elevated turnover as tenant mixes shift toward new uses. Supply and demand are roughly in balance, with occupancy near 96 percent, supported by sharply reduced new construction and material demolition of retail space for repurposing into office, education or fitness uses. Population growth continues to support modest demand, at roughly 0.14 percent annually. Sustained limited construction has kept vacancies low and rent growth positive, while brick-and-mortar retail sales, excluding autos and gas, have shown significant growth, aided by absorption outpacing supply.

A possible bump in the road is the recent drop in consumer sentiment, a major indicator for retail fundamentals worth monitoring in 2026, even as personal savings levels have normalized back to long-term averages following the COVID-19-era spike. MLG's retail strategy favors nonstabilized assets, since stabilized retail is priced too high relative to capital-expenditure risk and vacancy-driven acquisitions in strong locations with high lease-up probability. MLG generally approaches retail as a merchant asset class, often targeting nonstabilized properties or vacancy-driven opportunities in strong locations. Limited new development, however, may also support longer-term ownership in proven, demand-driven retail locations.



Immigration, AI and long-term demand drivers⁵

Beyond property-level fundamentals, broader macroeconomic and structural trends continue to influence real estate demand. Several factors are shaping the outlook:

- Changes in immigration patterns are moderating population growth and household formation.

- Labor availability constraints may extend construction timelines and increase development costs.
- AI adoption is introducing efficiencies across leasing, property management and operations.

U.S. population growth was 0.50 percent in 2025, while household formation grew at 0.79 percent, continuing a pattern of household formation outpacing population growth. International migration was down 48 percent from its 2024 peak, however, a meaningful shift given that immigration has historically been a major driver of U.S. population growth.

MLG sees this as a mixed signal. On the demand side, even reduced migration remains a net-positive tailwind for housing and multifamily demand. On the supply side, however, reduced immigration is beginning to constrain the labor force available for construction: One-third of construction firms have been affected, with workforce shortages cited as the leading cause of project delays. This could also raise operating costs across portfolios through higher payroll and other labor-related expenses, even as it constrains new supply.

The potential impact of artificial intelligence is causing uncertainty, but the U.S. economy has historically proven resilient to technological disruption. AI cannot replace a roof, a bedroom or a bathroom, and it cannot construct an apartment complex or an industrial building. If AI-driven labor-market disruption strains household budgets and worsens home affordability, demand could shift further toward multifamily rental housing as an alternative to homeownership. On the operations side, MLG sees AI as a potential efficiency driver. As a hypothetical illustration, MLG estimates that \$500 in annual operating-cost savings per unit, applied at a 6 percent capitalization rate, could increase property value by approximately 5 percent and investor equity value by more than 10 percent. Actual results would depend on property- and investor-specific circumstances.

Market timing and the case for continuous buying

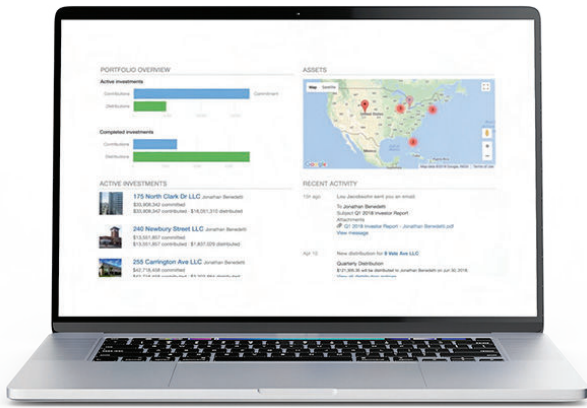
Because market timing is inherently difficult, investors are better served by buying through all cycles and maintaining portfolio diversification. Opportunity arises largely from human error and market inefficiency: poor property management, missed opportunities by other owners, off-market sales, including equity recapitalizations where existing investors are bought out, and situations where sellers lack the capital to hold or improve assets. Supply/demand dislocations, particularly where replacement cost – the cost to build new versus the price of acquiring existing assets – creates a favorable entry point, are also central to this opportunistic framing.

What this environment signals for investors

The current market environment is increasingly shaped by a convergence of elevated supply in select sectors, steady long-term demand and reduced participation from institutional capital.

Several forward-looking indicators suggest a gradual shift is underway:

- New supply is already declining across multiple sectors.
- Construction activity has slowed in response to higher costs.
- Long-term demand drivers remain largely intact.



At the same time, performance is becoming more dispersed, varying by asset class, submarket and execution. For investors, this reinforces the importance of:

- Maintaining a long-term perspective.
- Focusing on market selection and asset fundamentals.
- Diversifying across geographies and property types.

While market timing is inherently difficult, environments characterized by capital dislocation and operational variability

have historically created opportunities for disciplined investors. MLG believes the current dislocation may create opportunities for disciplined, selective buyers, although results will vary by market, asset type and execution. Supply is at historic highs but trending lower and is expected to fall below the long-term average. Demand remains supported by continued positive household formation, even as international immigration slows. And on the equity side, MLG expects capital flows to reprioritize private real estate, which could drive asset appreciation as investors return to the sector.

Conclusion

MLG's 2026 outlook describes a market working through the tail end of an oversupply cycle, with multifamily bearing the brunt of near-term softness concentrated in Sunbelt and Mountain West markets, while industrial and retail remain comparatively healthy. The firm's overarching thesis is that slowing construction, persistent demand drivers and reduced buy-side competition are converging to create a window of opportunity for patient, selective capital, one MLG believes could narrow as competition increases and institutional capital becomes more active in 2026 and 2027.

COMPANY OVERVIEW

MLG Capital is a private real estate investment firm founded in 1987 and headquartered in Brookfield, Wis. The firm invests in multifamily, industrial and other commercial real estate nationwide and manages approximately \$6.8 billion in real estate market value. Through its investment platforms, MLG Capital provides accredited investors and other qualified investors access to diversified private real estate investments.

For more information, visit www.mlgcapital.com/RAA



To download a copy of MLG Capital's 2026 Market View, go to www.mlgcapital.com/RAA

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Sources

1. **Capital Markets** – Capital markets data, including private REIT fundraising activity, transaction volume trends, debt-issuance projections, agency lending activity and multifamily purchase caps, sourced from Stanger Investment Banking, the Federal Housing Finance Agency (FHFA), Freddie Mac, Fannie Mae and the Mortgage Bankers Association.
2. **Multifamily Fundamentals & Housing Affordability** – Multifamily supply, deliveries, starts, units under construction, permitting activity, rent growth, household formation, demographic trends, home price appreciation and housing affordability data sourced from CoStar, RealPage, the U.S. Census Bureau, the Federal Reserve Economic Data (FRED) database and the Federal Reserve Bank of Atlanta.
3. **Industrial Market Data** – Industrial rent growth, vacancy, absorption, construction activity, supply trends and related market statistics sourced from CoStar and the U.S. Census Bureau.
4. **Retail Market Data** – Retail occupancy, rent growth, absorption, supply trends and retail sales statistics sourced from CoStar and the U.S. Census Bureau. Consumer sentiment data sourced from the University of Michigan Consumer Sentiment Survey and Federal Reserve Economic Data (FRED).
5. **Immigration, Labor and Artificial Intelligence** – Population growth, immigration and workforce availability data sourced from the U.S. Census Bureau, Brookings Institution and the Associated General Contractors of America (AGC). Commentary regarding artificial intelligence and potential operational efficiencies reflects MLG Capital analysis and hypothetical assumptions provided for informational purposes only and should not be interpreted as projections of future investment performance or results.

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