**BlackRock Private Markets**

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# US Real Estate Outlook

## Dynamic change and cautious optimism

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## Dynamic change and cautious optimism

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### Key Takeaways

- **Stabilizing macroeconomic conditions:** Technology investment is lifting U.S. growth despite elevated inflation, as slower labor market conditions allow for a more accommodative interest rate policy. Together, these factors support near-term growth.
- **Cautious optimism:** Repricing, improved liquidity, and healthy fundamentals are bringing investors back to U.S. real estate for selective opportunities.
- **New dynamics:** Quality assets and active asset management expertise are expected to define the winners across sectors and markets in the new real estate cycle. Portfolio positioning in line with structural changes, such as digitalization and demographics, remains key to long-term outperformance.

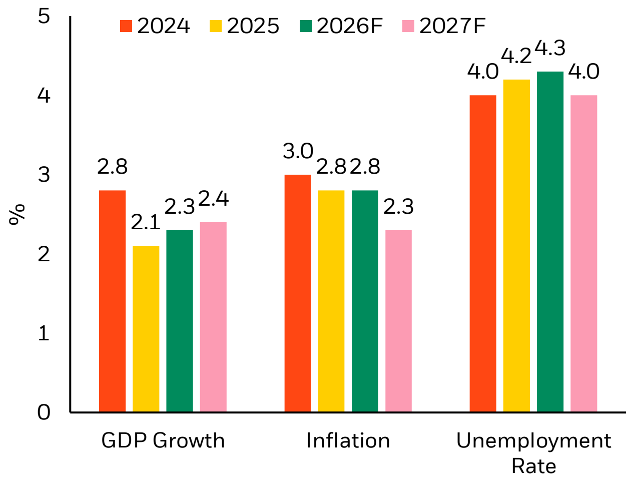
**As we move into the new year, the U.S. real estate market is showing renewed strength.** After a period of repricing, the asset class is once again attracting capital as investors take advantage of the cyclical opportunity. The macroeconomic backdrop, and specifically the capital market, has turned constructive. While growth has moderated, inflationary pressures are normalizing and short-term interest rates are trending toward neutral levels. This is creating a more attractive investment backdrop. Real estate fundamentals remain solid, with quality assets and strong operational execution increasingly defining performance across sectors.

**Economic growth is expected remain steady.** Policy volatility has been a drag on growth, but technology-driven investment is offering a lift. Business investment in artificial intelligence applications and the related expansion in data center construction are driving growth. Demand for new technology has supported expansion despite contractions in the federal government, residential investment, and policy-sensitive sectors, namely retail and agriculture. The first half of 2025 saw real GDP expand by 2.1%[1].

**Inflation is above target, but has stabilized.** As of Q3 2025, U.S. inflation is trending at roughly a 3% p.a. pace. At the same time, due to concerns that the federal funds rate had become too restrictive amid signs of a softening labor market, the Federal Reserve resumed cuts in the third quarter. Two modest “risk management” cuts, as described by Chair Powell, are intended to bring interest rate policy toward neutral[2]. However, tariff-related pressures are anticipated to keep inflation elevated above the Federal Reserve’s 2% target in the near term.

**Supply and demand for labor have softened.** Hiring has slowed, although the reduction in labor supply has kept unemployment low. The U.S. unemployment rate has been below 4.5%[3] since October 2021, the longest period of low joblessness in over 50 years. The longevity of this balanced labor market could place upward pressure on wages and, by extension, inflation.

**Figure 1: U.S. Macroeconomic Outlook**




Source: Oxford Economics; 10 November 2025. Forecasts may not come to pass.

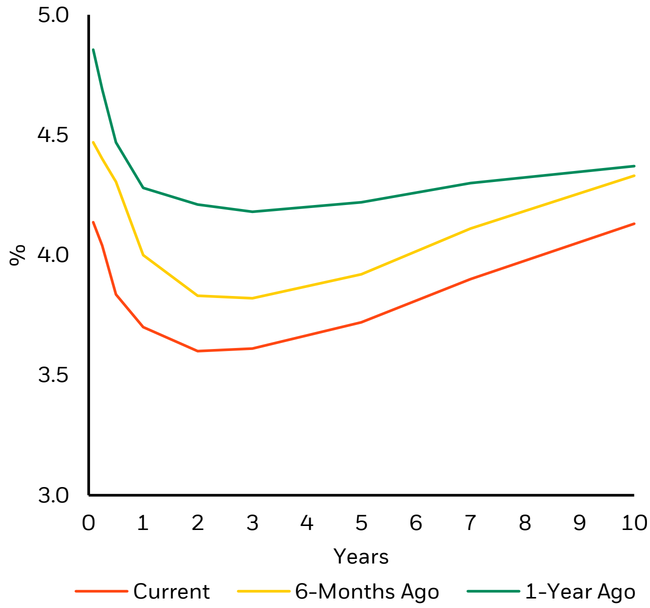
As of November 2025, the federal funds rate sits at 3.75%-4.0%[4], down 50 basis points from last year and 150 basis points from the peak of the tightening cycle. Lower rates have improved conditions for debt-financed real estate buyers and helped mitigate the impact of refinancing debt secured during the low-rate environment between 2020 and early 2022. Meanwhile, the long end of the yield curve faces upward pressure from U.S. government debt, volatile international relations, and an aging domestic population.



Note: 1. U.S. Bureau of Economic Analysis, as at 25 September 2025. 2. U.S. Federal Reserve Bank Press Conference, as at 29 October 2025. 3. U.S. Bureau of Labor Statistics, as at 5 September 2025.

**This divergence between short- and long-term rates underscores real estate's appeal as a portfolio diversifier.** The asset class offers a distinctive blend of bond-like characteristics, through inflation resilience, with equity-like potential for capital appreciation. In an environment of shifting monetary policy and structural inflation risk, real estate should stand out as a balanced, resilient source of total return.

**Figure 2: U.S. Treasury Yield Curve**



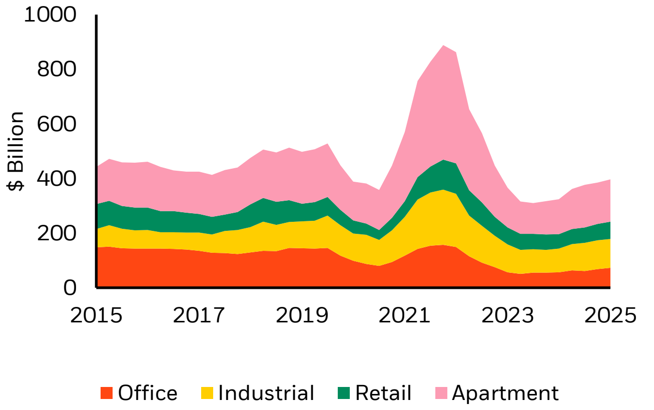

Source: U.S. Treasury, as of 3 November 2025.

## Capital Markets and Property Sector Outlook

Real estate as an asset class is entering a new phase of the cycle. Easing financial conditions and stabilizing fundamentals are drawing investors back but they are significantly more selective than they were prior to interest rate increases in 2022. Caution is warranted: the trajectory of income growth now varies more widely across property types, and even among individual assets, reflecting a market increasingly driven by fundamentals and execution. As a result, performance going forward will hinge less on broad market recovery and more on identifying the sectors and assets that are best positioned to capture growth.

**Reinvigorated capital market.** Investors are back in the market for real estate assets, as total transaction volume grew by double-digits over the past 5 years. Apartment and industrial assets in the U.S. continued to draw the most interest from investors, with these two sectors accounting for two-thirds of major property type volume over year ending in 3Q 2025. Aggregate yields have largely stabilized, with modest compression in the apartment sector and continued expansion in office cap rates.

**Figure 3: Rolling Annual Volume by Property Type**

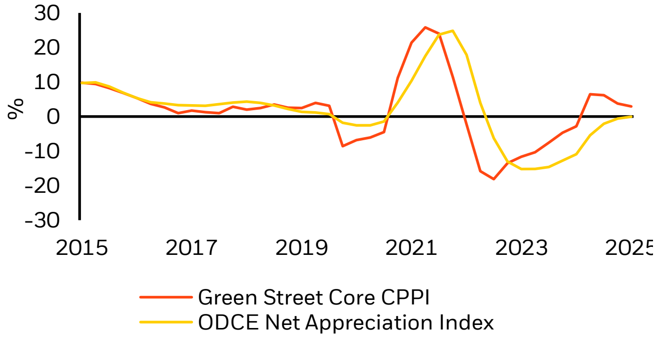



Source: MSCI Real Assets, as of 23 October 2025. 2025 data consists of the first three quarters.

Major property type transaction volume, at $400 billion for the year ending in 3Q 2025, is up 23% over the prior year and at its highest level since 2023. Each major sector experienced volume growth of at least 20% year-over-year, led by the deeply repriced office sector. Although still out of favor, pricing for most offices is competitive relative to replacement costs, and this fueled renewed investor interest in the sector. The retail sector capital market has also recovered with trailing year volume back in-line with historical trends and steady yields.

**Core values poised to realign with market pricing growth.** Market prices reached their trough in Q3 2024, just as transaction activity began to recover which set the stage for renewed momentum in core capital values. We believe the recent lag in U.S. core fund performance reflects temporary imbalances across sectors rather than structural weakness. Industrial values, after exceptional gains during the pandemic, have normalized at elevated levels. Apartments and alternative sectors remain resilient near pre-pandemic levels, while retail has stabilized and office is beginning to show early signs of adjustment. As market conditions improve, core funds are well positioned to benefit from broader price recovery and renewed investor demand.

**Figure 4: Core Capital Value and Market Pricing Growth**




Source: NCREIF, Green Street; as of 30 October 2025. 2025 data consists of the first three quarters.



Note:4. U.S. Federal Reserve Bank, as of 29 October 2025. 5. MSCI Real Assets, Transaction Volumes as of 23 October 2025.

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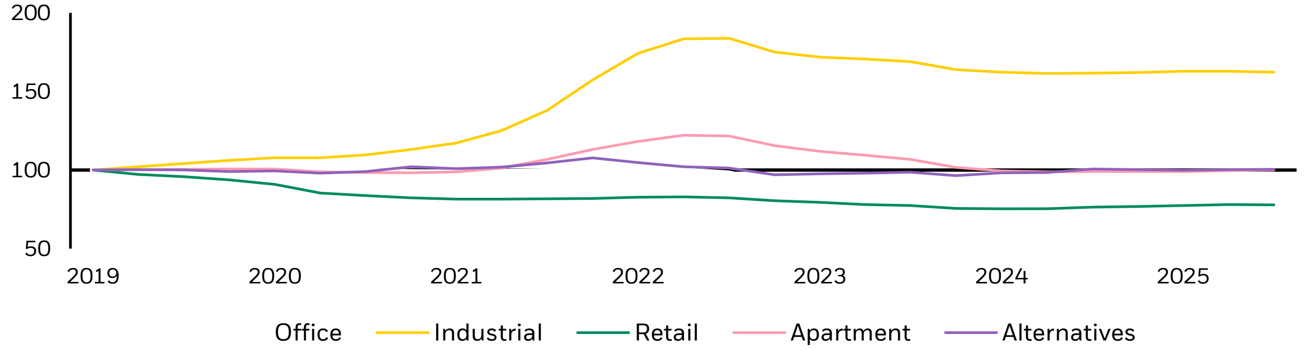
**Figure 5: Core Capital Value Index by Property Type** (Q1 2019 = 100)




Source: NCREIF, NFI-ODCE properties only, as 30 October 2025.

**The apartment sector remains resilient.** The U.S. housing market remains structurally undersupplied across both rental and ownership markets, supporting residential demand. Apartment construction has created some softness in the market, but the vacancy rate nationally remains stable as new deliveries lease up quickly. With home prices and mortgage rates keeping would-be buyers in rental housing longer, and more renters choosing to stay by preference, rental demand remains strong. These dynamics, combined with the sector's resilience through economic cycles, are expected to sustain apartment performance in the near term, although we expect regional variation to persist.

**Policy uncertainty contributes to volatility in industrial fundamentals.** Warehouse and logistics leasing slowed midyear as operators paused decisions amid tariff uncertainty, but the sector's underlying strength remains intact. Once trade policy clarity returns, pent-up demand is expected to drive a renewed wave of leasing activity. While the temporary pause and ongoing new supply have nudged vacancies higher and moderated rent growth, the sector continues to benefit from significant mark-to-market income gains. We believe Sunbelt markets, particularly in Florida, Texas, and the Carolinas, are positioned to outperform, supported by strong population growth, expanding trade flows, and resilient consumer demand.

**Solid retail fundamentals exist despite diverging consumer trends, meaning selectivity is key.** Retail performance remains robust overall, with shopping centers leading, malls mixed, and select high-street corridors still recovering. Expanding retailers are competing for prime space, and after a decade of limited development, vacancy in top locations is scarce. Consumer spending is diverging. High-income households, especially those benefiting from the stock market increases over the past few years, continue to spend, while lower-income consumers pull back amid higher costs. This split supports luxury retail and grocery-anchored assets.

**The office market remains polarized.** The office market faces positive and negative impacts of digitization. Fundamentals are weak as the office sector moves through its technology-driven rightsizing. However, the recovery in leasing activity reflects new demand from larger companies bringing workers back to the office. AI and finance clusters appear to be benefitting the most. The best offices in each market are attracting and retaining tenants, while other offices struggle with excess vacancy. Low-quality offices are targets for adaptive reuse, especially after repricing.

**The alternative real estate segment is attracting growing investor interest**, supported by strong structural demand drivers. Senior housing led alternative transaction volumes over the past year, followed by student housing, medical office, and self-storage. Data center activity remains limited, as investors typically access the sector through build-to-suit projects or powered land sales. While the relative immaturity of these sectors calls for selectivity, their distinct demand fundamentals and long-term growth potential make alternatives increasingly compelling.

## Conclusion

U.S. real estate investors with capital to deploy are well-positioned to take advantage of cyclical opportunities. However, navigating the market will require finesse. Selectivity and alignment with structural and technological change will be essential to sustaining long-term performance. Equally important is identifying sectors and markets with durable demand over the business cycle with an emphasis on quality assets and operators.



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