CLARION PARTNERS
A Franklin Templeton Company

U.S. QUARTERLY MARKET UPDATE: 2Q26

MACROECONOMIC OUTLOOK

- **U.S. GDP** growth moderated into 2Q26, increasing at an annualized rate of 1.5% versus a revised 2.1% annualized rate in the previous quarter. Increased business spending, led by AI-related investment, and consumption offset the rise in imports and declines in inventories and government spending.

- **Total employment** cooled into mid-year 2026, with June non-farm payrolls falling below expectations as 57,000 jobs were added, alongside downward revisions to May and April. Despite the slowdown, the U.S. economy generated more than 550,000 jobs through the first half of 2026 versus 162,000 net jobs over the same period in 2025.

- Following a sharp run-up in May, annual **inflation** decelerated to 3.5% in June, as easing tensions in the Iran war led to a fall in energy prices. However, energy prices have rebounded since – a reflection of the on-again-off-again nature of negotiations with Iran.

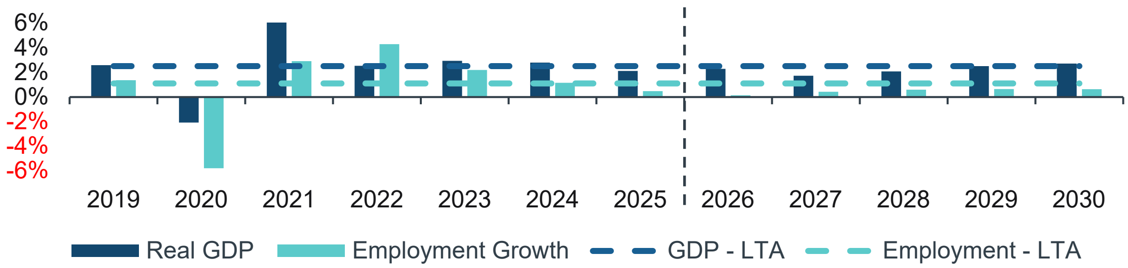
- The **Federal Reserve** held its benchmark interest rate unchanged despite a re-acceleration in prices through the first half of the year. Hawkish comments from the new Fed chair and continued hostilities with Iran have increased the likelihood of a rate hike before the end of the year, reversing the consensus outlook from just a few months ago.

- The **10-Yr Treasury** yield rose past 4.5% in July, as the rising probability of a Fed rate hike and re-escalation of Middle East tensions, along with signs of more persistent above-target inflation, have reignited upward pressure on the long-end of the curve.

- Despite **consumer sentiment** reaching a historic low in May, consumers remain resilient, as sustained job growth and rising household wealth buoy retail spending, while AI investment remains the primary driver of the continued growth in business spending.

With job creation and broader economic growth intact, price pressures have taken center stage. With persistently above-target inflation and further volatility on the horizon, given the renewed hostilities over the Strait of Hormuz and the announcement of new tariffs, the Fed faces rising pressure to raise rates. Hawkish sentiment from the new Fed leadership reinforces a higher-for-longer interest rate outlook, while market interest-rate expectations have shifted over recent months, reflecting the higher likelihood for a rate hike. Although the higher-interest-rate backdrop is likely to prolong the sector's full recovery, the current recovery trajectory is unchanged. Given the still-healthy economic backdrop, improving liquidity, and resilient property fundamentals, the recovery in commercial real estate should continue, particularly for sectors benefiting from structural tailwinds.

FIGURE 1. REAL GDP AND EMPLOYMENT GROWTH FORECAST (BASELINE)

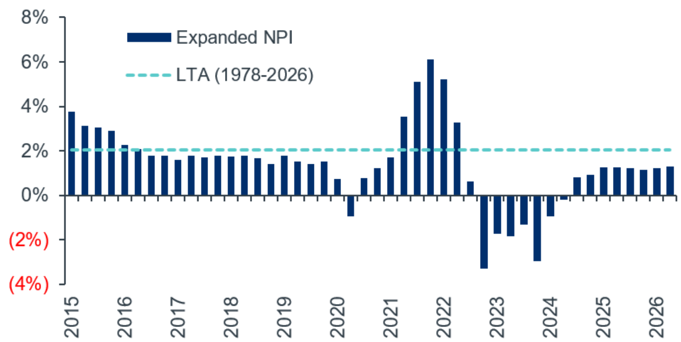


Sources: Moody's Analytics, Clarion Partners Global Research, July 2026. Note: LTA = 1990-2025. Forecasts were provided by Moody's Analytics as of 7/30/26. Forecasts have certain inherent limitations and are based on complex calculations and formulas that contain substantial subjectivity and should not be relied upon as being indicative of future performance. Past performance is not indicative of future results. Please see the important disclosures at the end of this presentation.

COMMERCIAL REAL ESTATE OUTLOOK

Investment Performance: Supported by a modest improvement in QoQ appreciation returns (0.12%), the Expanded NCREIF Property Index (NPI) generated a positive QoQ total return of +1.29% in the second quarter.[1] Performance was led by the senior housing (3.91%), retail (1.80%), and self-storage (1.67%) sectors.

QUARTERLY TOTAL RETURN, PRIVATE REAL ESTATE



Source: NCREIF Property Index, Clarion Partners Global Research, 2Q26. Note: Expanded NPI includes all NPI properties and all qualified alternative assets. Alternative assets include storage, senior housing, data centers parking and others).

Debt Capital Markets: Debt markets remain borrower-friendly, with abundant liquidity and renewed bank activity intensifying competition across lender types. Spreads and fees have compressed and structures have become more flexible for high-quality assets and sponsors, although higher Treasury yields have increased fixed-rate borrowing costs.

Equity Capital Markets: All-property sales volume through the first half of 2026 totaled $279B – a 23% increase from the same period in 2025, according to MSCI/Real Capital Analytics,[2] led by rising deal activity in office, industrial, and senior housing sales and supported by notable increases in portfolio and entity sales.

Real Estate Occupier Demand: Buoyed by sustained job creation and consumer spending, commercial real estate demand remains healthy, as stabilizing vacancy rates reach an inflection point for many sectors. With economic growth and secular tailwinds intact, net absorption in most sectors continues to improve from cyclical lows.

Real Estate Supply: Elevated construction costs, financing rates, and return hurdles continue to constrain development across most property sectors, creating a favorable medium-term supply backdrop. Multifamily starts are at their lowest level since 2012, while office and retail pipelines remain near historic lows; industrial construction has begun to recover from its recent trough but remains well below the prior-cycle surge. Data centers remain the clear outlier, despite power and equipment constraints. While improving loan availability and tighter pricing should support a selective pickup in starts, elevated all-in costs should temper any broader pickup in construction.

PROPERTY TYPE OUTLOOK

INDUSTRIAL / INDUSTRIAL ADJACENT

Industrial: Net absorption accelerated with +70 MSF in 2Q26, exceeding the historical quarterly average. Trailing four-quarter (T4Q) net absorption improved to +211 MSF after the sluggish +23 MSF in 1H 2025. Class A warehouse net absorption continued anchoring activity (+51 MSF in 2Q and +200 MSF in T4Q), while Class B/C warehouses continued losing occupancy (-7 MSF in 2Q and -35 MSF in T4Q). Construction deliveries fell below overall net absorption in 2Q26 (38 MSF), the first quarter in which demand exceeded supply since early 2022. Deliveries have sharply declined from the quarterly delivery pace of 100 MSF during 2022 to 2024.[3] The U.S. industrial vacancy rate recorded its first quarterly decline in four years. Currently at 6.5%, the U.S. industrial vacancy rate is 20 bps below the long-term average (LTA). Upward pressure on vacancy rates has eased, with construction decreasing meaningfully and larger spaces (1.0 MSF+) seeing a sharp decline in vacancy, now at 3.8%. New construction starts of 58 MSF in 2Q were higher QoQ but well below peak levels in 2022.[4] Active supply underway, totaling 194 MSF and equating to just 1.2% of existing stock, is down 6 MSF YoY and has settled below LTA annual deliveries, with a healthy preleased rate of 38%. Average asking rents were up slightly, with 0.5% and 1.2% QoQ and YoY gains, respectively.

Industrial Outdoor Storage: Institutional appetite for this property type is strong, driven by the potential for higher yields and strategic value additions, such as enhanced security, vehicle charging infrastructure, and larger sites to accommodate storage and maintenance. Less than 1% of stock has been added to the market over the last two years and the average asking rent is 44% above 2020 levels, as availability remains historically tight, sitting more than 300 bps below industrial overall.[5] Supply is especially tight in urban port locations, providing landlords with strong rental pricing power. While the outlook for the sector is positive, investors should remain focused on end-user retention.

OUTLOOK	INDUSTRIAL	IOS	COLD STORAGE
Drivers	• Demographics • Innovation • Shifting Globalization	• Demographics • Innovation • Shifting Globalization	• Demographics • Innovation
Demand	Medium	Medium	Soft
Supply	Low	Low	Low
Cap-Ex	Low	Low	High
NOI Growth	Strong	Strong	Soft
Total Return	Positive	Positive	Soft

HOUSING

Multifamily: The gradual improvement in apartment market conditions was driven by a combination of strengthening demand and moderating supply. Nearly 170,000 units were absorbed during 2Q26 as leasing activity accelerated through the prime spring leasing season. On a trailing four-quarter basis, net absorption totaled nearly 300,000 units, more than 10% above the 2015-2019 average. At the same time, completions continued to decelerate from their 2024 peak, totaling nearly 80,000 units in 2Q and just under 340,000 units over the trailing four quarters. The national vacancy rate for stabilized assets declined 50 bps QoQ to 4.3%, leaving vacancy just 10 bps above the level recorded a year ago and 90 bps below its long-term average.[6] The low stabilized vacancy rate underscores the sector's solid underlying fundamentals, although concessions remain a headwind across many markets, particularly in the Sun Belt. National rent growth remained sluggish at 0.5% YoY, but rents increased 1.5% in 2Q – the strongest second-quarter gain since 2022.[7] Renewal rent growth remained healthy at 3.5%, supported by stable tenant retention of 56.1%.[8] Institutional-quality starts remained subdued, with annual starts more than 50% below their recent peak and approximately 20% below the 2015-2019 average.[9] The resulting decline in future completions should support improving market fundamentals over the coming quarters.

Single-Family Rentals: Scattered-site single-family rentals (SFRs) continued to modestly outperform conventional apartments in 2Q26. As of May, annual rent growth slowed to 1.3%, down 1.8 ppts from a year earlier,[10] reflecting the continued normalization in the supply of both for-sale and for-rent housing. Approximately 1.5 million existing homes were listed for sale in 2Q26 – about 80% above the 2021 trough but still nearly 20% below the 2015-2019 average.[11] The SFR vacancy rate declined 40 bps QoQ to 5.7%, though it remained 20 basis points above its year-ago level.[12] Build-to-rent (BTR) performance remains sluggish due to its concentration in suburban and exurban Sun Belt submarkets with elevated conventional apartment supply. BTR vacancy increased to 5.8% in 2Q while annual rent growth averaged -0.4%.[13] Political uncertainty surrounding institutional ownership of SFRs remains a key risk to the property sector, but the enactment of the 21st Century ROAD to Housing Act has provided greater near-term regulatory clarity, particularly for BTR.

Manufactured Housing: Affordability constraints, demographic tailwinds, and limited new supply continue to underpin the manufactured housing (MFH) sector through mid-2026. Shipment levels remain subdued, following the sharp decline observed from the late 1990s through the early 2010s. For the trailing three-month period ending in May 2026, the annualized shipment pace was approximately 100,000 units – in line with recent trends but still roughly half the long-term average dating back to 1959.[14] This persistent supply-demand imbalance continues to support rent growth, which has held in the ~5% to 6% range over the past year.[15]

Student Housing: With the Fall 2026 academic year only a few months away, 2Q leasing results indicate student housing performance remains resilient. According to College House, the national pre-lease rate reached 81.0% in June, 250 bps below the same point last year. Asking rent growth decelerated to 0.9% YoY in June but averaged 2.3% over the leasing season to date.[16] Market conditions vary widely across campuses, reflecting differences in enrollment trends, supply pipelines, and local demographic conditions.

OUTLOOK	MULTIFAMILY	MANUFACTURED HOUSING	SFR/BTR
Drivers	Demographics and Housing		
Demand	Strong	Strong	Strong
Supply	Elevated	Low	Low
Cap-Ex	Low	Low	Medium
NOI Growth	Moderate	Strong	Moderate
Total Return	Positive	Positive	Positive

Note: Multifamily supply is elevated but declining sharply.

OFFICE

Office sector fundamentals continued to improve into mid-year, although the recovery remains gradual and highly differentiated by asset quality. National trailing four-quarter net absorption rose to approximately 0.9% of existing inventory, marking the strongest pace since before the pandemic, while the office vacancy rate declined to 18.4% as tenant demand continued to absorb excess space.[17] Supply-side conditions have become increasingly supportive, with trailing four-quarter completions falling to just 12.0 MSF, the lowest level in more than a decade, while conversions and demolitions steadily remove obsolete office inventory from the market. National asking rents increased 2.6% YoY, although elevated leasing concessions continue to weigh on effective rent growth. Looking ahead, historically limited new construction should help support a continued recovery in fundamentals; however, performance is expected to remain highly bifurcated, with well-located, amenity-rich Class A assets continuing to outperform older commodity office product.[18]

OUTLOOK	COMMODITY OFFICE
Demand	Soft
Supply	Low
Cap-Ex	High
NOI Growth	Soft
Total Return	Challenged

RETAIL

Neighborhood and community centers reported just above 1.1 MSF of completions in 2Q, the lowest since 1990, although this followed 2.0 MSF, 2.6 MSF, and 2.8 MSF of deliveries in 1Q, 4Q, and 3Q, respectively.[19] The total square footage of shopping centers under construction in 2Q amounted to about 0.3% of existing stock, suggesting little indication of a sharp near-term uptick in supply.[20] Quarterly absorption came in at -0.3 MSF, helping keep the availability rate flat at 6.8%. Availability has hovered within a tight range (6.4% to 6.8%) since 4Q22 and an even tighter one (6.7% to 6.8%) since 1Q25. In the context of minimal construction, muted net absorption, and flat availability (which is rising in some cases), this suggests landlords, in the aggregate, may increasingly be prioritizing rental growth over sheer occupancy. This dynamic occurred earlier in markets such as Raleigh (3.8% availability rate in 2Q26, vs. a post-COVID low of 3.2% in 4Q23).[21] U.S. annual asking rent growth came in at 2.4%, accelerating from a 2.3% annual growth rate in 1Q and 2.1% in 4Q.[22]

OUTLOOK	STRIP CENTER	MALL
Drivers	Demographics, Innovation, and Shifting Globalization	
Demand	Strong	Medium
Supply	Low	Low
Cap-Ex	Medium	High
NOI Growth	Strong	Moderate
Total Return	Positive	Moderate

HEALTHCARE

Life Sciences: Life sciences fundamentals remained challenged during 2Q26, as leasing activity continued to lag despite improving capital market conditions. Biotechnology firms remain focused on capital efficiency, right-sizing footprints, and prioritizing high-quality, move-in-ready space. As a result, the vacancy rate rose by 20 bps YoY to 32.3% across the three largest U.S. life sciences markets (Boston, San Francisco, and San Diego), while non-same-store average asking rent growth decreased by 7.2% YoY.[23] That said, performance remains highly bifurcated, with well-located, institutional-quality assets continuing to outperform commodity lab space. Meanwhile, the development pipeline has contracted substantially over the past two years, and much of the remaining construction is either preleased or build-to-suit, limiting additional speculative supply. Although elevated vacancy will likely keep near-term fundamentals under pressure, improving biotech funding conditions and a significantly reduced construction pipeline should provide a more supportive backdrop for the sector over the medium term.[24]

Medical Office: Demand remained strong while deliveries continued to slow, resulting in the trailing twelve-month U.S. occupancy rate increasing by roughly 10 bps from one year ago to 92.1% in 2Q26 (30 bps above the sector's average since 2018).[25] Same-store asking rents grew by 2.0% YoY, a solid, but slowing pace from the 2023 high of 2.9%.[26] Going forward, supply-side dynamics continue to look favorable, with the sector's under-construction pipeline receding to just under 19 MSF (2.1% of stock), while construction starts have fallen sharply (45% decline in trailing twelve-month starts since the 3Q22 peak).[27]

Senior Housing: Through 2Q26, U.S. senior housing market conditions continued to tighten, with net absorption outpacing completions for the 21st consecutive quarter.[28] As a result, occupancy rates have improved from sub-80% levels in 2021 to 90.1% in 2Q, while average rent growth was 4.7% YoY.[29] The sector's construction pipeline remains historically constrained, with units under construction equating to just 2.2% of existing stock, which is well below the 7% construction rate observed at the height of the previous supply wave from 2016 to 2020.[30] Looking ahead, accelerating growth in the 80+ population and limited new supply should continue to support occupancy gains and above-average rent growth. Meanwhile, labor cost pressures have moderated from their post-pandemic peaks, supporting operator margins in the near term, although tightening labor availability is expected to place renewed upward pressure on wages as demographic demand accelerates.[31]

OUTLOOK	LIFE SCIENCES	MEDICAL OFFICE	SENIOR HOUSING
Drivers	• Demographics • Innovation • Shifting Globalization	• Demographics • Innovation • Housing	• Demographics • Innovation • Housing
Demand	Soft	Strong	Strong
Supply	Elevated	Low	Low
Cap-Ex	Medium	High	High
NOI Growth	Soft	Moderate	Strong
Total Return	Challenged	Positive	Positive

SELF-STORAGE

Fundamentals remain relatively soft, due in large part to subdued home sales activity and household mobility. Conditions appeared to improve in the second half of last year, with annual same-store "move-in" rent growth returning to positive territory.[32] However, conditions appear to have softened again, with move-in rents declining by 2.6% YoY in 2Q26. National average move-in rent is now a little more than 10% lower than its 2022 peak. Existing customer rate increases (ECRIs) have continued to offset much of the weakness in move-in pricing, resulting in relatively flat same-store revenue growth for the major REITs. While home sales remain the key constraint on new customer demand, improving occupancy trends and stronger operating guidance from the major public storage REITs suggest that market conditions are stabilizing.

Looking ahead, a recovery in home sales activity, combined with a declining construction pipeline (2.2% of existing inventory underway), should provide a more supportive backdrop for the sector,[33] although a sustained recovery in demand has yet to fully materialize.

OUTLOOK	SELF-STORAGE
Drivers	Demographics and Housing
Demand	Soft
Supply	Low
Cap-Ex	Low
NOI Growth	Moderate
Total Return	Moderate

DATA CENTERS

Data centers continue to experience strong demand, supported by rapid AI adoption and cloud computing investments. Recent public market commentary from large tenants has been positive, suggesting that current and planned (2026+) capital expenditures on space and infrastructure are accelerating, despite economic uncertainties. In most cases, power availability remains at the center of site selection strategies. As of 1Q26, the vacancy rate for many primary data center markets was at a record low, with some markets falling below 1%. This is despite the significant YoY inventory increase, as much of this newly delivered space is pre-leased.[34] Primary markets continue to expand meaningfully, collectively adding 36% to existing stock in 2025. The overall under-construction pipeline remains active, with just under 6,000 MW under construction at the end of 2025, most of which is pre-leased. Many planned projects, however, face delays due to ongoing permitting, zoning, and power challenges.[35] While rent growth has moderated relative to recent years given the persistent active supply, average asking rents continued to rise in 2025, with an average gain of 6.5% for 250-to-500-kW facilities.[36] Average pricing for the high-demand large segment (3-10 MW) jumped 12.5% in 2025.

OUTLOOK	DATA CENTERS
Drivers	Demographics and Innovation
Demand	Strong
Supply	Elevated
Cap-Ex	High
NOI Growth	Strong
Total Return	Positive

HOTEL

In June 2026, U.S. hotel occupancy was at 69.6%, up 1.6% from the same month in 2025.[37] Revenue per available room (RevPAR) came in at $120.97, 8.4% above June 2025 levels, while the average daily rate (ADR) was $173.76, up 6.7% from June 2025.[38] San Francisco/San Mateo reported the highest increase among the top 25 markets in occupancy and RevPAR from June 2025 to June 2026, while Miami registered the greatest jump in ADR; both markets hosted World Cup games.[39] In May, U.S. occupancy was 65.7% (up 0.6% from May 2025) and RevPAR was $110.76 (up 4.0%).[40] In April, occupancy was 64.9% (up 1.6% from April 2025), and RevPAR was $107.73 (up 4.4%).[41]

OUTLOOK	HOTELS
Demand	Medium
Cap-Ex	Medium
Supply	High
NOI Growth	Soft
Total Return	Challenged

METRIC	UNITS	CURRENT QUARTER (2Q26)	PRIOR QUARTER (1Q26)	PRIOR YEAR (2Q25)	20-Yr LTA
Real Gross Domestic Product (GDP)	% Annualized Rate	1.5%	2.1%	3.8%	2.1%
Total Employment Growth	y/y%	0.3%	0.2%	0.6%	0.8%
Office-Using Employment Growth	y/y%	-0.4%	-0.5%	-0.5%	0.9%
Unemployment Rate	%	4.3%	4.3%	4.2%	5.8%
Consumer Price Index (CPI)	y/y%	3.8%	2.7%	2.5%	2.5%
Annual Wage Growth (Avg. Hourly Earnings)	y/y%	3.5%	3.6%	3.9%	3.2%
Retail Sales	y/y%	6.4%	3.9%	4.1%	4.1%
Total Residential Starts	000s, SAAR	1,347	1,418	1,356	1,147
Multifamily	000s, SAAR	445	473	415	343
Single Family	000s, SAAR	902	945	941	803
Existing Single-Family Median Home Price	y/y%	1.5%	0.6%	1.5%	3.5%
Existing Single-Family Home Sales	000s, SAAR	3,740	3,680	3,647	4,352
Fed Funds Rate (Effective)	%	3.6%	3.6%	4.3%	1.7%
3-mo. Treasury Yield	%	3.7%	3.7%	4.4%	1.7%
10-yr Treasury Yield	%	4.4%	4.2%	4.4%	2.9%
BBB Corporate Bond Yield	%	8.2%	7.5%	5.7%	5.1%
High-Yield Corporate Bond Yield	%	6.9%	6.7%	7.5%	7.5%

Sources: Moody's Analytics, BEA, BLS, U.S. Census Bureau, NAR, FRB, FRED, Clarion Partners Global Research, 2Q26.

Disclaimer

1 NCREIF, 2Q26.

2 MSCI/Real Capital Analytics. 2Q26.

3 CBRE-EA, 2Q26. Note: Figures are preliminary and total market net absorption is calculated by Clarion Partners based on quarterly change in occupied stock using vacancy rate.

4 CBRE Research, 2Q26.

5 Clarion Partners Global Research, CBRE-EA, 2Q26.

6 CBRE-EA, 2Q26.

7 CBRE-EA, 2Q26.

8 RealPage, 2Q26.

9 RealPage, 2Q26.

10 Cotality, July 2026.

11 National Association of Realtors, Moody's, 2Q26.

12 U.S. Census Bureau, 2Q26.

13 John Burns Real Estate Consulting, 2Q26

14 U.S. Census Bureau, 2Q26
15 Public Filings on Behalf of Equity LifeStyle Properties and Sun Communities, 2Q26
16 College House, 2Q26.
17 CBRE-EA, 2Q26.
18 CBRE-EA, 2Q26.
19 CBRE-EA, 2Q26.
20 Cushman & Wakefield, 2Q26.
21 CBRE-EA, 1Q26; Cushman & Wakefield, 2Q26.
22 CBRE-EA, 2Q26
23 JLL Research. 2Q26.
24 JLL Research. 2Q26.
25 RevistaMed, 2Q26.
26 RevistaMed, 2Q26.
27 RevistaMed, 2Q26.
28 NIC MAP. 2Q26.
29 NIC MAP. 2Q26.
30 NIC MAP. 2Q26.
31 Moody's Analytics. 2Q26.
32 Yardi Matrix. 2Q26.
33 Yardi Matrix. 2Q26.
34 CBRE Q1 2026.
35 CBRE Q4 2025.
36 CBRE, 2H 2025.
37 STR. June 2026.
38 STR. June 2026.
39 STR. June 2026.
40 STR. May 2026.
41 STR. April 2026.