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by Franklin Templeton

U.S. QUARTERLY MARKET UPDATE: 3Q26

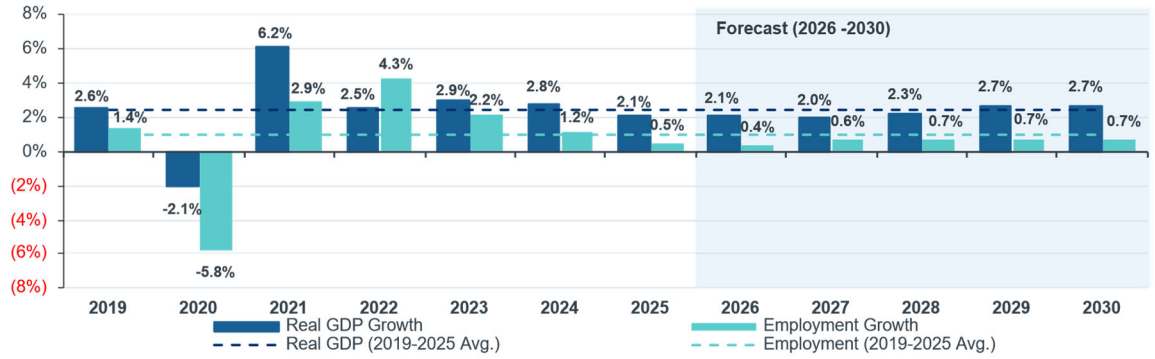
Macroeconomic Outlook

- Buoyed by consumer activity, the continued AI build-out, and government spending, **U.S. GDP** accelerated through the third quarter, improving to an annualized rate of 3.4% from an upward-revised 2Q reading of 2.2%. The reading underscores the economy's resilience in the face of mounting price pressures and geopolitical uncertainty.
- **Total employment** growth decelerated through September, with payrolls growing by just 29,000 jobs during the month. Year-to-date, the U.S. added over 610,000 jobs, and the unemployment rate remained at relatively low levels, increasing modestly to 4.2%.
- Led by spiking energy prices, **inflation** accelerated to 3.7% YoY in September, with indications of broadening price pressures. Gasoline prices rose 9.1% month over month, accounting for more than half of the increase in headline CPI.
- The **Federal Reserve** left the federal funds rate unchanged following its October meeting after raising its benchmark interest rate for the first time in three years in September. With inflation still well above target and the Fed signaling a rate increase before year-end, a hike in December is widely anticipated.
- The **10-Yr Treasury yield** rose to a 20-year high, reaching 5.23% in early October before retreating to 5% as markets priced in persistent above-target inflation amid ongoing tensions in the Middle East.
- Resilient **consumer spending** underscores the health of the broader economy, but recent retail sales readings indicate slower growth, as the sharp rise in gas prices and broader inflation have contributed to the nominal sales gain. Business spending remains driven by heavy infrastructure and software investment tied to AI adoption.

The U.S. commercial real estate market faces an environment of many crosscurrents, defined by a resilient but increasingly inflationary economy. The labor market remains broadly balanced but has shown signs of cooling. More pressing, however, is the elevated interest rate and inflation environment, which has further raised borrowing costs while complicating refinancing for owners with maturing debt. Data so far suggest limited valuation impact. With persistent above-target inflation and further monetary tightening anticipated, some downward pressure on transaction activity and valuations could occur in the coming months. Higher rates may deliver some capital market headwinds but also add a bulwark to new supply and benefit investors in sectors with resilient fundamentals.

U.S. Real GDP and Employment Growth Forecast

Annual Growth (%, Real GDP and Total Employment)

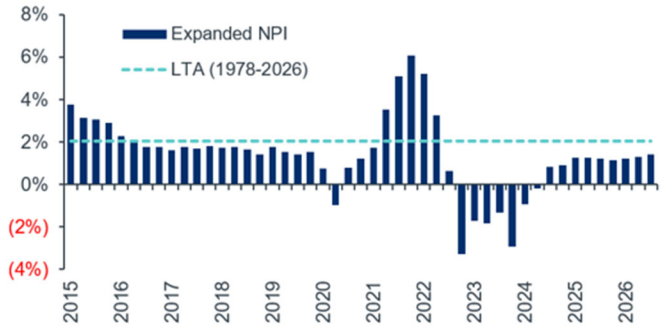


Sources: Moody's Analytics, Clarion Partners Global Research, October 2026. Note: LTA = 2019-2025. Forecasts have certain inherent limitations and are based on complex calculations and formulas that contain substantial subjectivity and should not be relied upon as being indicative of future performance. 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: The Expanded NCREIF Property Index (NPI) generated a positive QoQ total return of 1.41% in the third quarter, supported by positive capital appreciation (0.22%), marking a ninth consecutive quarter of positive return.[1] Performance was led by senior housing (5.98%), retail (2.04%), and self-storage (1.83%).

Quarterly Total Return, Private Real Estate



Source: NCREIF Property Index, Clarion Partners Global Research, 3Q26. 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: Lenders are navigating recent interest rate volatility alongside a wave of maturing loans. With the 10-year Treasury yield holding at 5%, higher rates have begun to weigh on deal activity, increasing uncertainty and pressuring valuations. While lenders of all types have capital to deploy, they are increasingly selective.

Equity Capital Markets: All-property sales activity year-to-date through 3Q26 totaled $557B, representing a 52% increase from the same period in 2025, according to MSCI/Real Capital Analytics.[2] A notable increase in entity sales contributed to this trend, led by the $70B AvalonBay/Equity Residential merger in August.

Real Estate Occupier Demand: Tenant demand remained healthy through the quarter, as positive net absorption across most property sectors contributed to improving occupancies, a reflection of the generally healthy economic backdrop.

Real Estate Supply: Construction activity across most property sectors remains at cyclical lows, as elevated construction costs, financing rates, and higher return hurdles limit new development. Across office, industrial, retail, and multifamily, completions as a percentage of existing stock are expected to fall to levels not seen since the immediate post-GFC period.

Property Type Outlook

INDUSTRIAL / INDUSTRIAL ADJACENT

Industrial: Net absorption surged to +84 MSF in 3Q26, its highest quarterly level in nearly four years. Trailing four-quarter (T4Q) net absorption of 244 MSF was up 123% YoY. Class A warehouse net absorption continued to anchor activity (+69 MSF in 3Q and 230 MSF over the T4Q). Class B/C warehouses recorded 15 MSF of positive net absorption in 3Q, their strongest quarter and only the second positive reading since 2022 (-12 MSF over the T4Q). Net absorption exceeded construction deliveries for a second consecutive quarter, again pushing vacancy lower.[3] Currently at 6.4%, the U.S. industrial vacancy rate is 30 bps below the long-term average (LTA). Upward pressure on vacancy rates has eased, with construction declining meaningfully and larger spaces (1.0 MSF+) seeing a sharp decline in vacancy, now at 3.4%. New construction starts of 62 MSF in 3Q were higher QoQ but well below peak levels in 2022.[4] Active construction, totaling 252 MSF and equating to just 1.5% of existing stock, had a healthy preleasing rate of 36%. Average asking rents were up 1.1% YoY; Class A warehouse net asking rents increased 2.7%.

Industrial Outdoor Storage: Institutional appetite for this property type remains 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. This supported strong rent growth, with average asking rents now 45% above 2020 levels and availability remaining historically tight at 350 bps below the industrial market overall.[5] Supply is especially tight in urban port locations, providing landlords with strong 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	Strong	Medium	Soft
Supply	Low	Low	Medium
Cap-Ex	Low	Low	High
NOI Growth	Strong	Strong	Soft
Total Return	Positive	Positive	Soft

HOUSING

Multifamily: The gradual recovery in apartment fundamentals continued in 3Q26, with accelerating annual rent growth and lower vacancy compared to a year ago, supported by resilient renter demand and moderating supply. Nearly 64,000 units were absorbed during the quarter and more than 350,000 units over the trailing four quarters. Meanwhile, quarterly completions totaled nearly 90,000 units, bringing trailing four-quarter deliveries to approximately 335,000 units, down 14% YoY as the recent supply wave continues to recede.[6] This has helped narrow the supply-demand imbalance, although the recovery remains uneven, particularly across Sun Belt markets where lease-up competition and concessions continue to weigh on rent growth. National effective rent growth improved to 1.5% YoY in 3Q,[7] while renewal rent growth remained healthy at 3.6%,[8] supported by above-average tenant retention. The national vacancy rate edged higher to 4.7% during the quarter but remained 10 bps lower than a year ago. [9] Looking ahead, the supply outlook is increasingly favorable. Institutional-quality starts have fallen approximately 55% from their 2022 peak and are now 23% below the 2015-2019 average.[10] With early signs of a rent growth recovery already emerging, declining deliveries and a more favorable supply-demand balance should support further acceleration in rent growth over the coming years.

Single-Family Rentals: Scattered-site single-family rentals (SFRs) continued to modestly outperform conventional apartments in 3Q26, supported by elevated homeownership costs and sustained rental demand. Annual SFR rent growth improved to 2.0% in August, marking the sixth consecutive month of acceleration, although growth remains subdued relative to pre-pandemic norms amid elevated vacancy.[11] The SFR vacancy rate increased to 6.5% in 3Q, up 80 bps QoQ and 40 bps YoY, approximately 20 bps above its 2015-2019 average. [12] Build-to-rent (BTR) rent growth returned to positive territory in 3Q, averaging 0.3% YoY following a 0.4% YoY decline in 2Q, while occupancy remained stable at 94.7% despite elevated supply competition across Sun Belt markets.[13] Recent federal legislation has reduced regulatory uncertainty for institutional SFR ownership, particularly for BTR, although some risks remain.

Manufactured Housing: Manufactured housing fundamentals remained stable in 3Q26, supported by affordability pressures, favorable demographics, and limited new supply. Manufactured home shipments continued to run far below historical norms, with the trailing three-month annualized pace reaching approximately 104,000 units in August 2026, roughly half the long-term average dating back to 1959.[14] Operating performance remained strong, with REIT occupancy ranging from 94% to 98%, despite modest declines of 30 to 50 bps from a year ago. Annual rent growth also held steady in the 5% to 6% range, reinforcing the sector's favorable supply-demand fundamentals.[15]

Student Housing: The 2026-2027 leasing season concluded in 3Q with moderating rent growth and lower occupancy following several years of strong performance. According to College House, national occupancy reached 89.6% in September, down 190 bps YoY. Annual asking rent growth slowed to 0.6%, as competition from new supply weighed on performance in certain markets. Performance remains uneven across campuses, reflecting differences in enrollment trends, local supply pipelines, and affordability pressures.

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 through 3Q26, although the recovery remains gradual and highly differentiated by asset quality. National vacancy declined to 18.2%, down 60 bps from a year earlier, as tenant demand continued to absorb excess space. [16] Leasing activity continued to strengthen, with tenants increasingly expanding their footprints following several years of downsizing. Supply-side conditions have become increasingly supportive, with trailing four-quarter completions falling to just 7.5 million SF, the lowest level in decades. Limited new construction, alongside conversions and demolitions, should help facilitate further vacancy compression. National asking rents increased 3.1% YoY, although elevated leasing concessions continue to weigh on effective rent growth. Looking ahead, performance is expected to remain highly bifurcated, with well-located, amenity-rich Class A assets continuing to outperform older, commodity office properties.[17]

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

RETAIL

Neighborhood and community centers reported just under 1.3 MSF of completions in 3Q.[18] The total square footage of shopping centers under construction in 3Q amounted to less than 0.4% of existing stock, suggesting little indication of a sharp near-term uptick in supply.[19] Quarterly absorption came in at 2.4 MSF, driving the availability rate down slightly to 6.7%. Availability has hovered within a tight range (6.4% to 6.8%) since 4Q22 and an even tighter one (6.6% to 6.8%) since 1Q25. Against a backdrop of minimal construction, muted net absorption, and largely stable availability (which is rising in some cases), this suggests landlords may increasingly be prioritizing rental growth over occupancy. This dynamic emerged earlier in markets such as Raleigh (3.7% availability in 3Q26, down from 4.3% in 1Q26 but above the post-COVID low of 3.2% in 4Q23).[20] U.S. annual asking rent growth reached 2.5%, accelerating from 2.4% in 2Q and 2.3% in 1Q.[21]

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 in 3Q26, as leasing activity continued to lag despite improving capital markets conditions. Biotechnology firms remained focused on capital efficiency, right-sizing footprints, and prioritizing high-quality, move-in-ready space. The vacancy rate fell by 30 bps YoY to 32.1% across the three largest U.S. life sciences markets (Boston, San Francisco, and San Diego), while non-same-store average asking rents decreased by 6.3% YoY.[22] However, 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.[23]

Medical Office: Demand remained strong while deliveries continued to slow, resulting in the trailing 12-month U.S. occupancy rate increasing by roughly 7 bps from one year ago to 92.0% in 2Q26 (30 bps above the sector's average since 2018).[24] Same-store asking rents grew by 2.2% YoY, a modest acceleration from the 2.0% pace observed in 3Q25.[25] Going forward, supply-side dynamics continue to look favorable, with the sector's under-construction pipeline receding to just over 19 MSF (2.1% of stock), while construction starts have fallen sharply (46% decline in trailing twelve-month starts since the 3Q22 peak).[26]

Senior Housing: Through 3Q26, U.S. senior housing market conditions continued to tighten, with net absorption outpacing completions for the 22nd consecutive quarter.[27] As a result, occupancy rates have improved from sub-80% levels in 2021 to 90.6% in 3Q26, up 160 bps YoY, while average rent growth remained strong at 4.7% YoY.[28] The sector's construction pipeline remains historically constrained, with units under construction equating to just 2.3% of existing stock, well below the 7% construction rate observed at the height of the previous supply wave from 2016 to 2020.[29] 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.[30]

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, largely reflecting 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.[31] However, momentum has since weakened, as move-in rents declined by 2.7% YoY in 3Q26. National average move-in rent is now 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 and a declining construction pipeline (2.0% of existing inventory underway) should support

improving fundamentals,[32] although a sustained demand recovery has yet to materialize.

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

DATA CENTERS

Data center demand remains robust, driven by accelerating AI adoption and sustained investment in cloud infrastructure. Recent earnings commentary from major hyperscalers continues to reinforce a strong outlook, with significant capital expenditures planned through 2026 and beyond to expand computing capacity and supporting infrastructure despite broader economic uncertainty. Power availability and speed to energization remain critical factors in site selection, increasingly influencing where and how quickly new capacity can be delivered. As of 1H26, the vacancy rate across primary data center markets was at a record low of 1.4%, with some markets as low as 0.2%. This is despite significant YoY inventory growth, as much of the newly delivered space was preleased.[33] The overall under-construction pipeline across primary markets remains active, with just under 7,500 MW under construction, a record, although approximately 80% is preleased. Many planned projects, however, face delays due to ongoing permitting, zoning, and power challenges.[34] Average asking rents continued to rise in 1H26, with an average gain of 4.3% for 250-500 kW facilities, 7.9% for 500 kW-3MW, and 8.3% for 3-10 MW requirements.[35] Average pricing for the high-demand large-capacity segment (10 MW+) increased 6.7% during the same period.

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

HOTEL

In August 2026, U.S. hotel occupancy reached 66.4%, up 0.5% from the same month in 2025.[36] Revenue per available room (RevPAR) came in at $107.43, 2.0% above August 2025 levels, while the average daily rate (ADR) was $161.78, up 1.5% from August 2025.[37] Among the top 25 markets, San Francisco/San Mateo reported the highest increase across each of the three primary performance metrics: occupancies rose 6.6% to 79.3%, ADR growth was 8.7%, and RevPAR increased by 15.8% as a result. On the other end of the spectrum, New Orleans showed the largest declines in occupancy (7.7%) and RevPAR (-9.0%), while New York registered the largest ADR decline (3.3%).

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

METRIC	UNITS	CURRENT QUARTER (3Q26)	PRIOR QUARTER (2Q26)	PRIOR YEAR (3Q25)	20-Yr LTA
Real Gross Domestic Product (GDP)	% Annualized Rate	3.4%	2.2%	3.9%	2.2%
Total Employment Growth	y/y%	0.3%	0.2%	0.5%	0.8%
Office-Using Employment Growth	y/y%	-0.3%	-0.4%	-0.5%	0.9%
Unemployment Rate	%	4.1%	4.3%	4.3%	5.8%
Consumer Price Index (CPI)	y/y%	3.5%	3.8%	2.9%	2.5%
Annual Wage Growth (Avg. Hourly Earnings)	y/y%	3.1%	3.4%	3.9%	3.2%
Retail Sales	y/y%	5.5%	5.6%	3.9%	3.8%
Total Residential Starts	000s, SAAR	1,293	1,345	1,347	1,142
Multifamily	000s, SAAR	415	443	458	345
Single Family	000s, SAAR	878	902	890	797
Existing Single-Family Median Home Price	y/y%	1.7%	1.7%	1.5%	3.5%
Existing Single-Family Home Sales	000s, SAAR	3,633	3,750	3,677	4,330
Fed Funds Rate (Effective)	%	3.7%	3.6%	4.3%	1.7%
3-mo. Treasury Yield	%	3.9%	3.7%	4.3%	1.7%
10-yr Treasury Yield	%	4.8%	4.4%	4.3%	2.9%
BBB Corporate Bond Yield	%	8.1%	8.2%	5.3%	5.0%
High-Yield Corporate Bond Yield	%	7.2%	6.9%	6.7%	7.5%

Sources: Moody's Analytics, BEA, BLS, U.S. Census Bureau, NAR, FRB, FRED, Clarion Partners Global Research, 3Q26.

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1 NCREIF, 3Q26.

2 MSCI/Real Capital Analytics. 3Q26.

3 CBRE-EA, 3Q26. 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, 3Q26.

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

6 CBRE-EA, 3Q26.

7 CBRE-EA, 3Q26.

8 RealPage, 3Q26.

9 CBRE-EA, 3Q26.

10 RealPage, 3Q26.

11 Cotality, August 2026.

12 U.S. Census Bureau, 3Q26.

13 John Burns Real Estate Consulting, 3Q26

14 U.S. Census Bureau, 3Q26

15 Public Filings on Behalf of Equity LifeStyle Properties and Sun Communities, 3Q26

16 CBRE-EA, 3Q26.

17 CBRE-EA, 3Q26.

18 CBRE-EA, 3Q26.

19 Cushman & Wakefield, 3Q26.

20 CBRE-EA, 3Q26; Cushman & Wakefield, 3Q26.

21 CBRE-EA, 3Q26

22 JLL Research. 3Q26.

23 JLL Research. 3Q26.

24 RevistaMed, 3Q26.

25 RevistaMed, 3Q26.

26 RevistaMed, 3Q26.

27 NIC MAP. 3Q26.

28 NIC MAP. 3Q26.

29 NIC MAP. 3Q26.

30 Moody's Analytics. 3Q26.

31 Yardi Matrix. 3Q26.

32 Yardi Matrix. 3Q26.

33 CBRE Q3 2026.

34 CBRE Q4 2025.

35 CBRE, 1H 2026.

36 STR. August 2026.

37 STR. August 2026.