



Sagard Real Estate U.S. Real Estate Market Outlook

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With the current cycle falling outside the 'norm' in many ways, U.S. real estate is likely to continue stabilizing through 2026 ahead of more meaningful recovery.

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U.S. Real Estate Market Outlook

As we enter 2026, the U.S. real estate market is emerging from one of the more prolonged asset re-pricing events in recent history.

Triggered by inflation and climbing interest rates in early 2022, many believed the resulting downward pricing pressure would be short-lived. Historically, no major or prolonged real estate correction had occurred while space-market fundamentals were intact (i.e., mid- to high-90% occupancy levels and no widespread new supply). Higher inflation remained persistent at levels not experienced since the 1970's, however, and many underestimated the sector's timeline for recovery.

The current repricing cycle has lasted decently longer than other more recent real estate cycles – approximately 42 months from peak vs 30 months on average (over the last three prior cycles) – with prices falling 15-20%. While this decline is less severe than the GFC, it is equal to or more significant than other recent real estate downturns.

In a more typical real estate downcycle, after reaching a trough, real estate markets often move “sideways” for approximately two years, delivering low- to mid- single-digit returns before picking up more meaningfully. The U.S. real estate market has been in this stabilization phase since the end of 2024, and despite interest rates retreating in 2025, may plausibly continue sideways into 2026 given current U.S. economic and space market conditions.



U.S. Economic Backdrop

Outside distortions created by unprecedented AI-driven capital expenditures, the main street U.S. economy is going through a continued unwind. Sectors and shifts that experienced meaningful exuberance during and immediately after COVID (pharma, bio-med, home deliveries, immigration, US deficit spending, inflation, etc.) are normalizing after effectively “borrowing” from their own future growth. This deceleration is amplified by the early-stage unwinding of the housing market, the country’s largest economic sector. Any near-term home-price growth will hinge upon additional interest rate movements. If housing continues to remain weak or weakens further, it is likely to mute overall economic growth in 2026.

Real Estate Market Dynamics

With the exception of the office sector, the U.S. commercial real estate industry enters 2026 with relatively healthy occupancy levels (93% across all property sectors). And new supply has generally moderated over the last few years, sufficient to hold effective rent growth near flat in 2026, with slight variations depending on the asset type.

The main overhang for 2026 is continued disparities in real estate valuations. With the U.S. 10-year Treasury lingering near 4%, historical pricing spreads imply real estate cap rates around 6%. Yet major U.S. real estate indices reflect cap rates closer to 4.5%, with recent property transactions (taking properties out of the index) occurring near 5.5%. This points to valuation gaps of roughly 8-15% heading into 2026 (with the office sector at the forefront of the mismatch), reasonably leading to future valuation write-downs (in certain property sectors) and/or the suppression of future nominal returns.

These discrepancies will likely resolve over the next year via one or more mechanisms – changes in interest rates, higher rent growth driven by rising replacement costs, or capitulation between buyers and sellers – especially given the significant amount of dry powder currently in the market awaiting clarity.



Investment Outlook:

2026 Remains Attractive

Despite this cycle's nuances, we believe that 2026 is an attractive time to invest. Our conviction rests on market timing, cycle momentum, and valuation pragmatics.

- **Market timing:** From a historical perspective, acquiring real estate (or increasing exposure) within 24 months of a real estate cycle bottom has historically led to strong outperformance – “a good vintage year.”
- **Cycle momentum:** Positive price cycles following a downturn of roughly 30 months have averaged 10+ years over the last three cycles. Once the market bottoms, nominal returns tend to accelerate in years 3-9, offering a compelling runway for performance.
- **Valuation pragmatics:** Acquiring assets in 2026 at higher spot-market cap rates than those implied by index valuations can generate alpha through a lower cost basis, and realized value as appraisals for indexed properties converge toward prevailing market pricing.

We expect 2026 to be a year defined more by stabilization than acceleration. But stabilization is often the point at which long-term investors can position themselves most effectively. While patience remains prudent, history favors those who allocate deliberately as the cycle transitions — not after the recovery is already apparent.

Disclosures



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