# State of the U.S. Economy and Real Estate Market
## Q4 2025

February 20, 2026

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# Contents



## About RCLCO Fund Advisors

RCLCO Institutional Advisory Services, the predecessor to RCLCO Fund Advisors, LLC (RFA), was formed in 2011. RFA was incorporated in 2013 and registered with the SEC as a registered investment advisor (RIA) in 2014. RFA specifically addresses the complex global investment environment facing pension funds and similar institutional investors. Our broad background across a wide variety of disciplines—including portfolio analysis, development feasibility, and urban planning—makes us uniquely adept at navigating property markets from both a "bottom-up" and "top-down" approach. The team is comprised of more than 30 members with diverse and relevant experience in research, consulting, investment management, property operations, and lending.

RFA is improving the traditional institutional real estate investment model by: providing customized and aligned advisory and investment management solutions to LPs; facilitating partnerships that generate greater LP control and transparency; and driving and achieving long-term objectives in allocation, access, diversification, and performance with greater fee effectiveness.

# Summary Point of View

# U.S. Economic Summary: 2025 and 2026

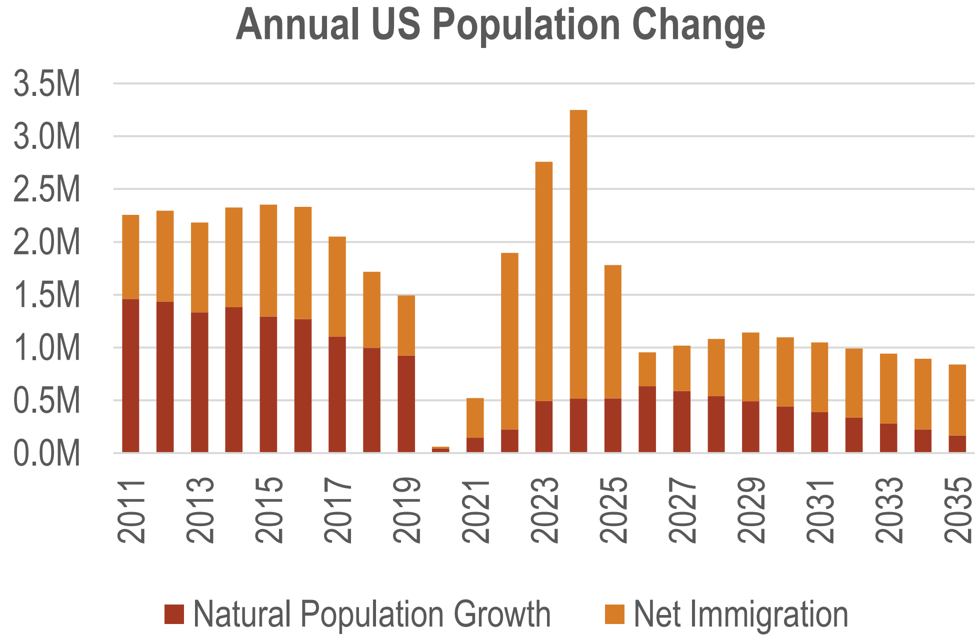
As of Q4 2025

## 2025 Review

- **GDP growth** slowed to 1.4% (annualized) in Q4 and was 2.2% for 2025.
- **Business investment, led by AI firms**, was an out-sized component of GDP growth.
- **Employment growth was only 180K** in 2025, with job losses of 50K in Q4. 1.5M were added in 2024.
- **Unemployment ticked up** to 4.4% at the end of the year.
- Annual headline **CPI inflation decelerated** to 2.7% and core inflation moderated to 2.6%.
- The **Federal Reserve cut rates twice** in Q4 to 3.5-3.75% but held them steady in January.
- The **10-Year UST yield fell** 16 bps QoQ to 4.1% in Q4.

## 2026 Expectations

- **Moderate GDP growth** (2-2.5%) is forecast through 2028 and a **recession is unlikely**.
- **Inflation will continue decelerating** and stabilize near 2-2.5%. Goods prices remain vulnerable to tariffs.
- Slow job growth to persist as **population growth slows and immigration remains low**.
- **Short-term interest rates may fall further** with Fed Chair nominee, Kevin Warsh, signaling a more dovish stance. Long-term rates are likely range-bound (4-4.5%).
- **Downside risks** include geopolitical concerns, volatile governance (e.g., Federal Reserve interference, immigration enforcement), and an AI-led stock market correction.
- **Upside scenarios** include consumer spending boosts from tax refunds, stronger capital investments, and regulatory pullback.



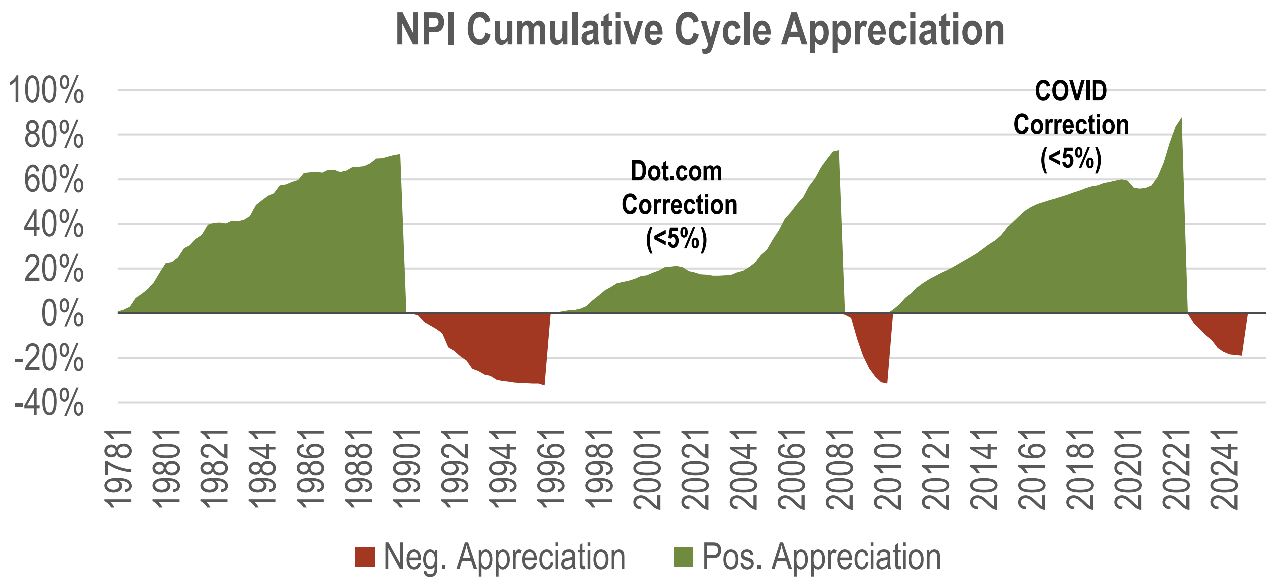

*Note: Inflation figures are seasonally adjusted.*

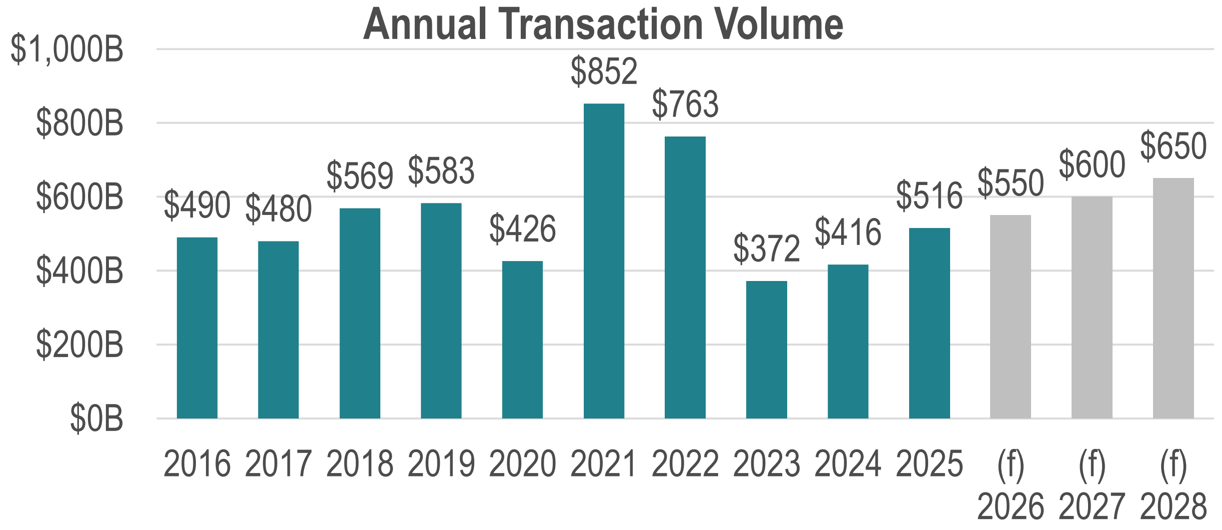
# U.S. Real Estate Summary

## As of Q4 2025

### Performance & Capital Markets

- **Private real estate returns improved** in 2025 with ODCE and NPI returns registering 3.8% and 4.9%, respectively.
  - Trailing-year **appreciation was slightly positive** for the NPI (0.2%) while ODCE appreciation remained negative (-0.3%).
  - NPI returns are expected to average ~6% through 2029.
- NPI and ODCE **annual income yields were 4.8% and 4.1%,** respectively. The NPI yield spread to the 10-Year UST yield expanded.
- **NPI (and ODCE) appreciation has been close** to zero for five quarters. Prior up-cycles have lasted an average of approximately nine years. (see chart to right)
- **Annual transaction volumes totaled $520B**, up 24% from 2024. Transaction volumes were up for all four major property types.
- **Real estate capital markets broadened in 2025** as lending standards normalized. Annual CMBS issuance totaled $130B, its highest level since 2007.



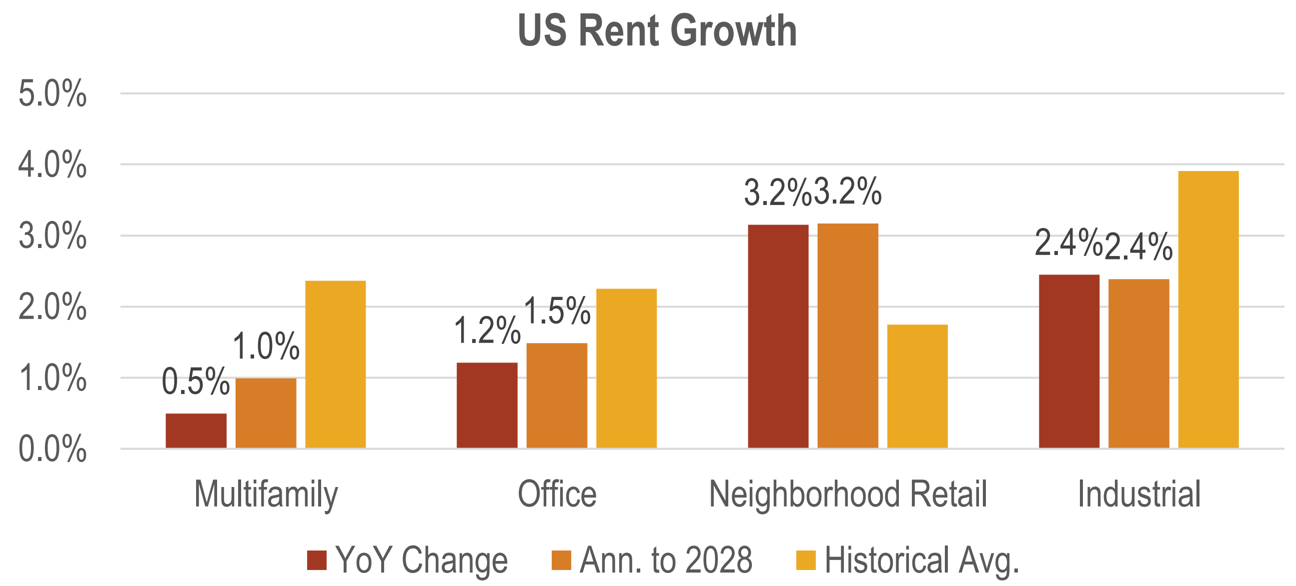

*Note: NPI returns are unlevered, gross of fees.*
*Source: MSCI; NCREIF*

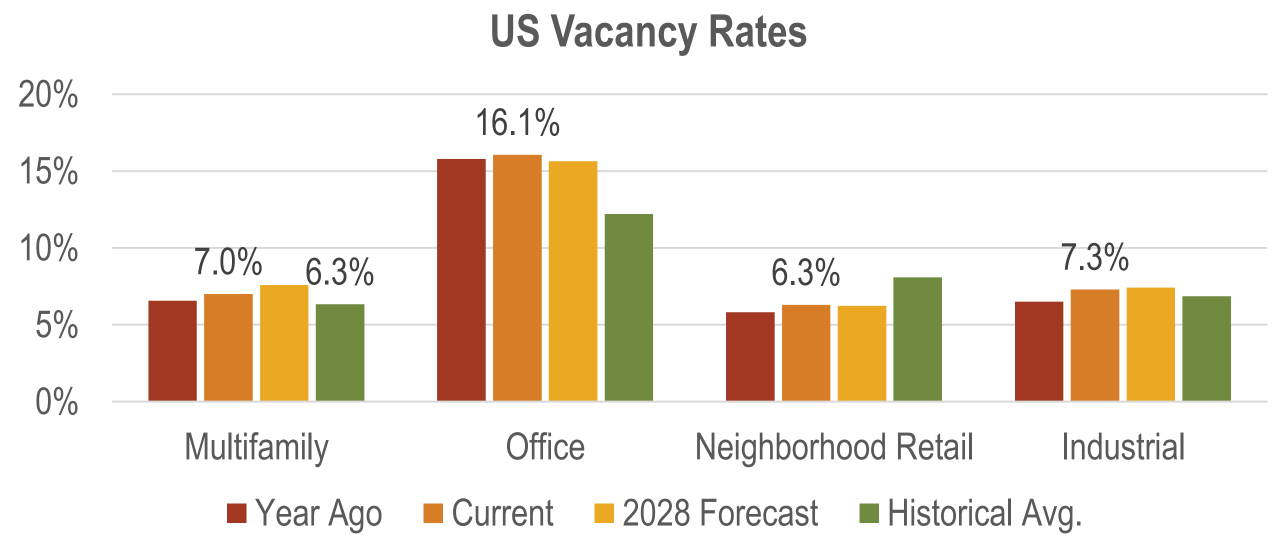
# U.S. Property Markets Summary

## As of Q4 2025

### Operating Fundamentals

- ***Multifamily*** – Strong annual absorption (480K units) was eclipsed by higher completions (520K units), pushing stabilized vacancy to 7% and slowing rent growth. Fundamentals will remain challenged in 2026 but should improve as new supply ebbs.
- ***Office*** – Minimal net absorption pushed vacancies up and annual asking rent growth was low at 1.2%. Despite overall weak fundamentals, premium offices in top submarkets should outperform.
- ***Neighborhood Retail*** – Vacancy rose slightly but remained below its long-term average and rent growth remained healthy. Limited new supply should support fundamentals in the coming years.
- ***Industrial*** – Annual completions (280M SF) exceeded net absorption (120M SF) in 2025, lifting vacancies and slowing rent growth. Fundamentals are projected to soften further through 2026 before improving longer term.




*Data are as of 2025 Q4.*
*Note: Vacancy and rent growth rates are rolling four-quarter averages; office and multifamily data are filtered for Class A&B; apartment vacancy reflect stabilized vacancy.*
*Source: CoStar*

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# Economic and Real Estate Summary, 2024-2028

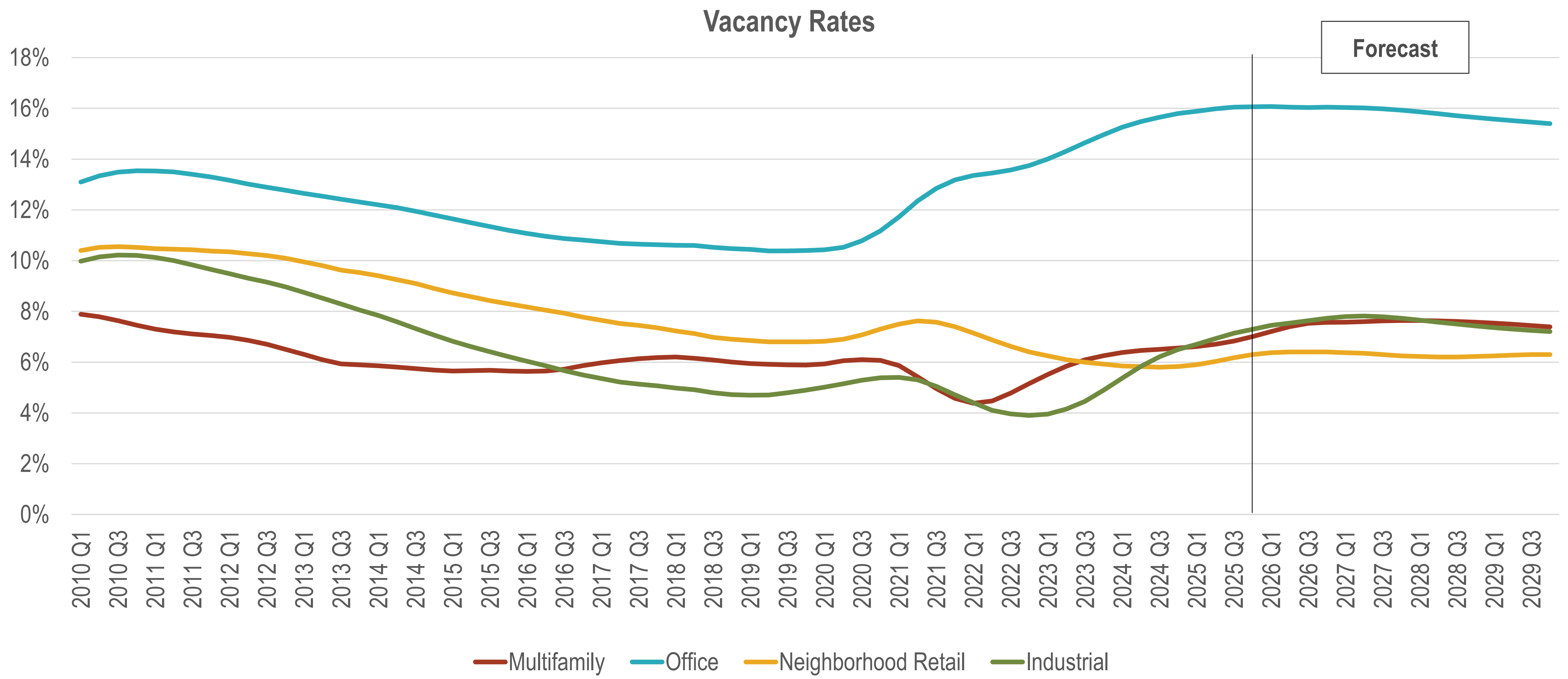
## As of Q4 2025

| | 2024 | 2025 | Change | Forecast 2026-28 (avg.) |
|---|---|---|---|---|
| **Economy** | | | | |
| GDP | 2.8% | 2.2% | -0.6% | 2.2% |
| Job Change (M) | 2.0 | 0.2 | -1.8 | 0.7 |
| Unemploy. Rate (ann. avg.) | 4.0% | 4.3% | 0.3% | 4.3% |
| Inflation | 3.0% | 2.6% | -0.4% | 2.4% |
| 10-Year Treasury (YE) | 4.6% | 4.2% | -0.4% | 4.3% |
| **Real Estate** | | | | |
| Avg. Commercial Mortgage Rate | 6.6% | 6.5% | -0.2% | 6.5% |
| Transaction Vol. ($B) | $417 | $517 | $100 | $650 |
| NPI Returns | 0.6% | 4.9% | 4.3% | 6.5% |
| Apartment Rent Growth | 0.8% | 0.5% | -0.3% | 1.0% |
| Industrial Rent Growth | 4.8% | 2.4% | -2.3% | 2.5% |
| Office Rent Growth | 1.6% | 1.2% | -0.3% | 1.5% |
| Neighborhood Retail Rent Growth | 3.9% | 3.2% | -0.7% | 3.1% |

*Source: Bureau of Economic Analysis; Bureau of Labor Statistics; CoStar; Federal Reserve Bank of St. Louis; MSCI; Oxford Economics; RFA*

# Retail Vacancy to Remain Near Current Levels

## Industrial and Multifamily Vacancy to Continue Increasing; Office Vacancy Rate to Remain Elevated

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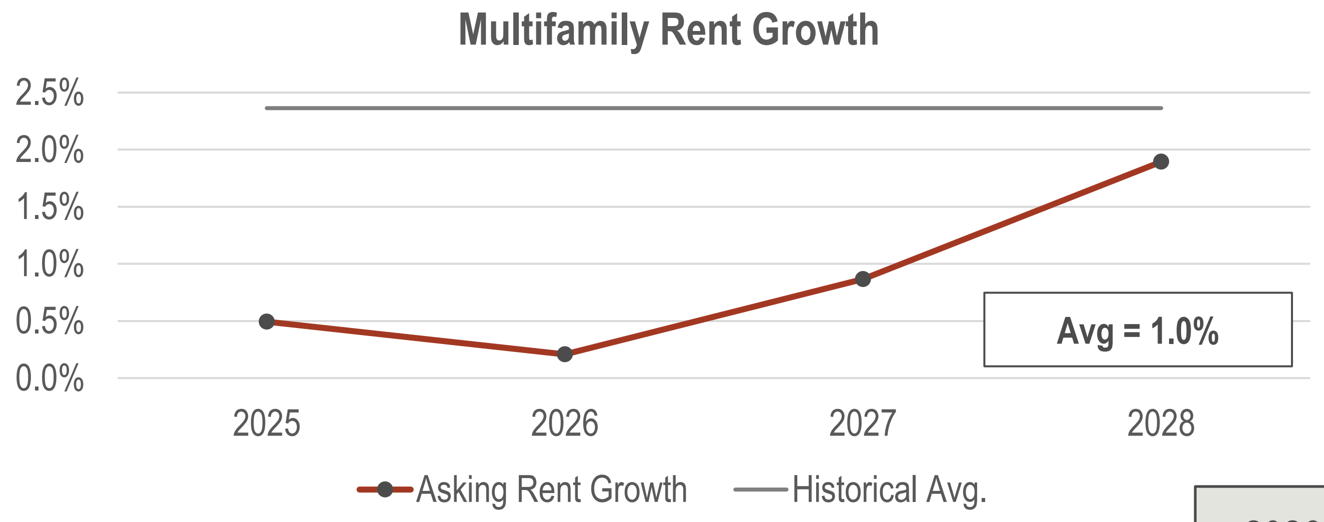
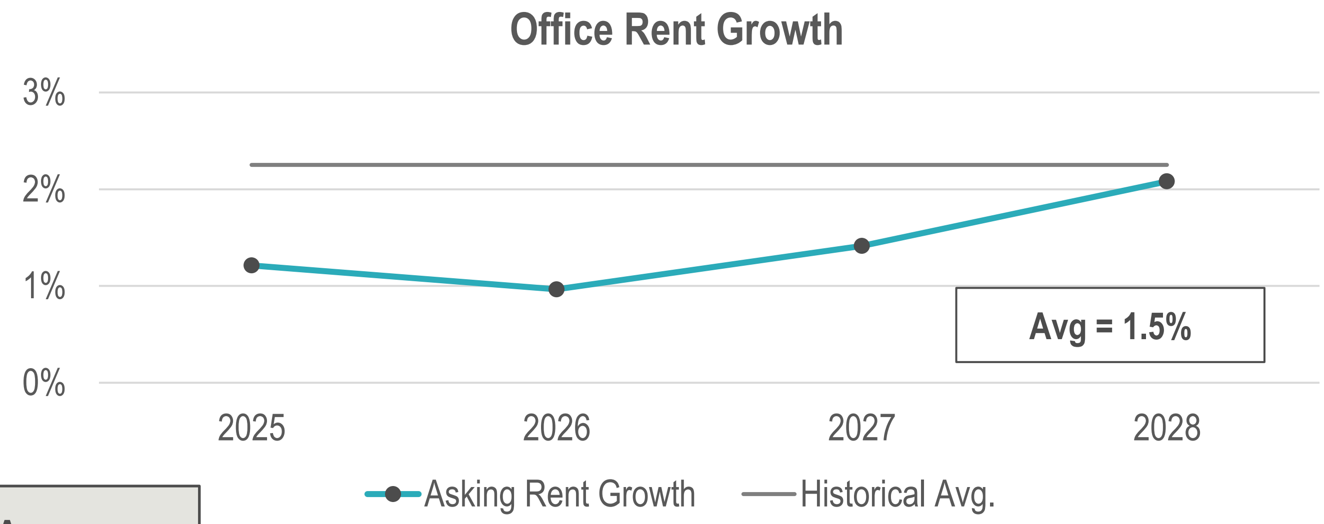
*Data are as of 2025 Q4.*
*Notes: Vacancy rates are rolling four-quarter averages; office and multifamily data are filtered for class A&B. Apartment vacancy is stabilized.*
*Source: CoStar*

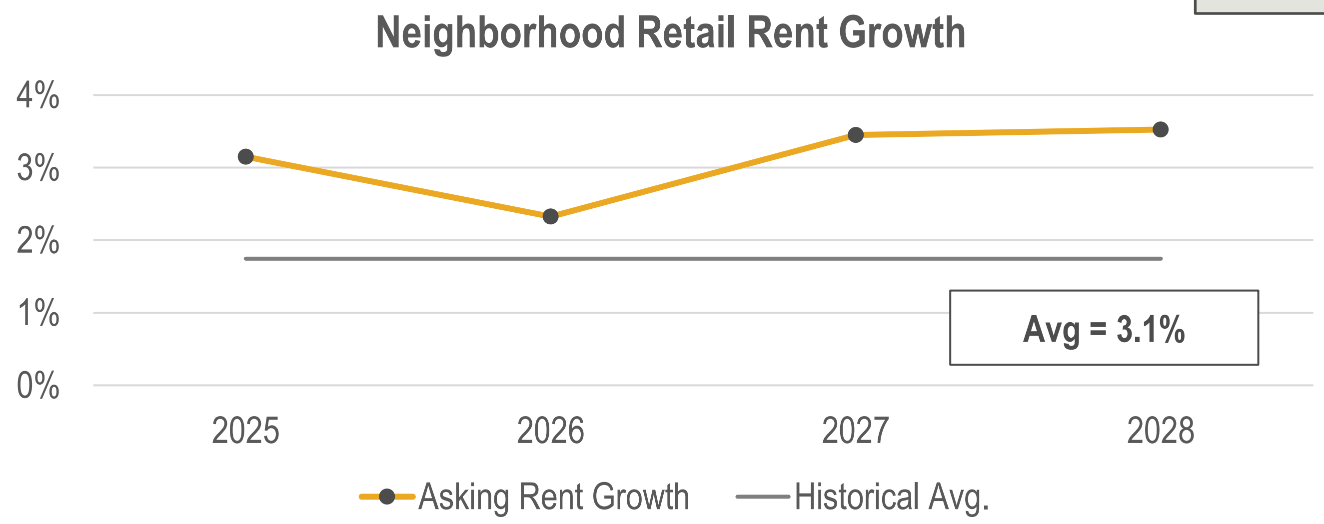
# Slow Rent Growth Forecast Across Property Types, Except Retail

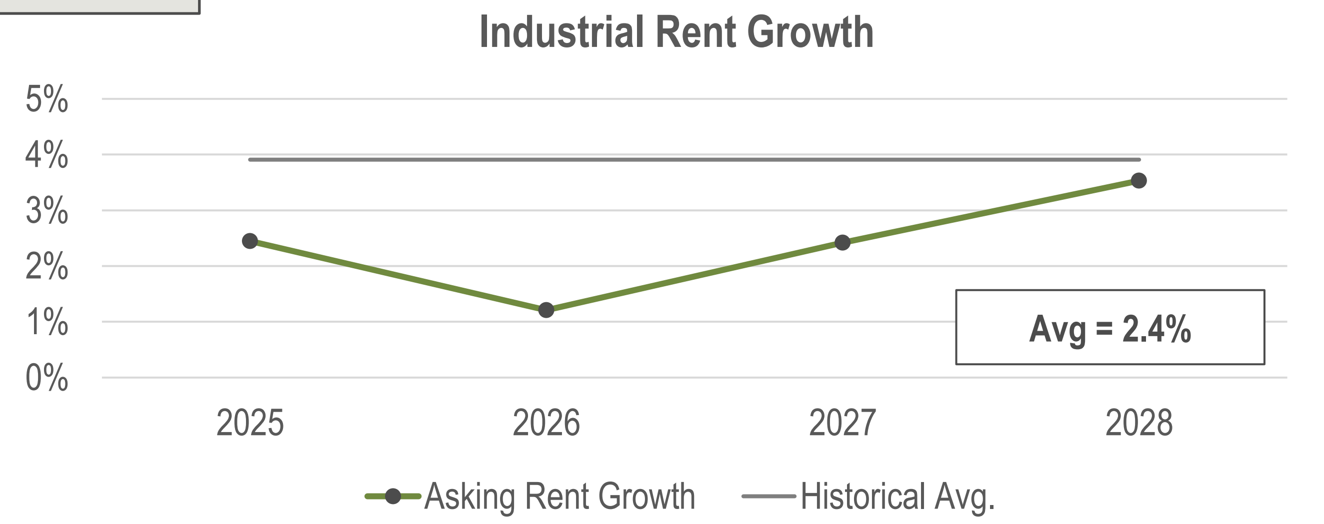
## Rent Growth Is Forecast to Improve for All Property Types in 2027 and 2028 Despite Remaining Below Average




2026-28 Averages

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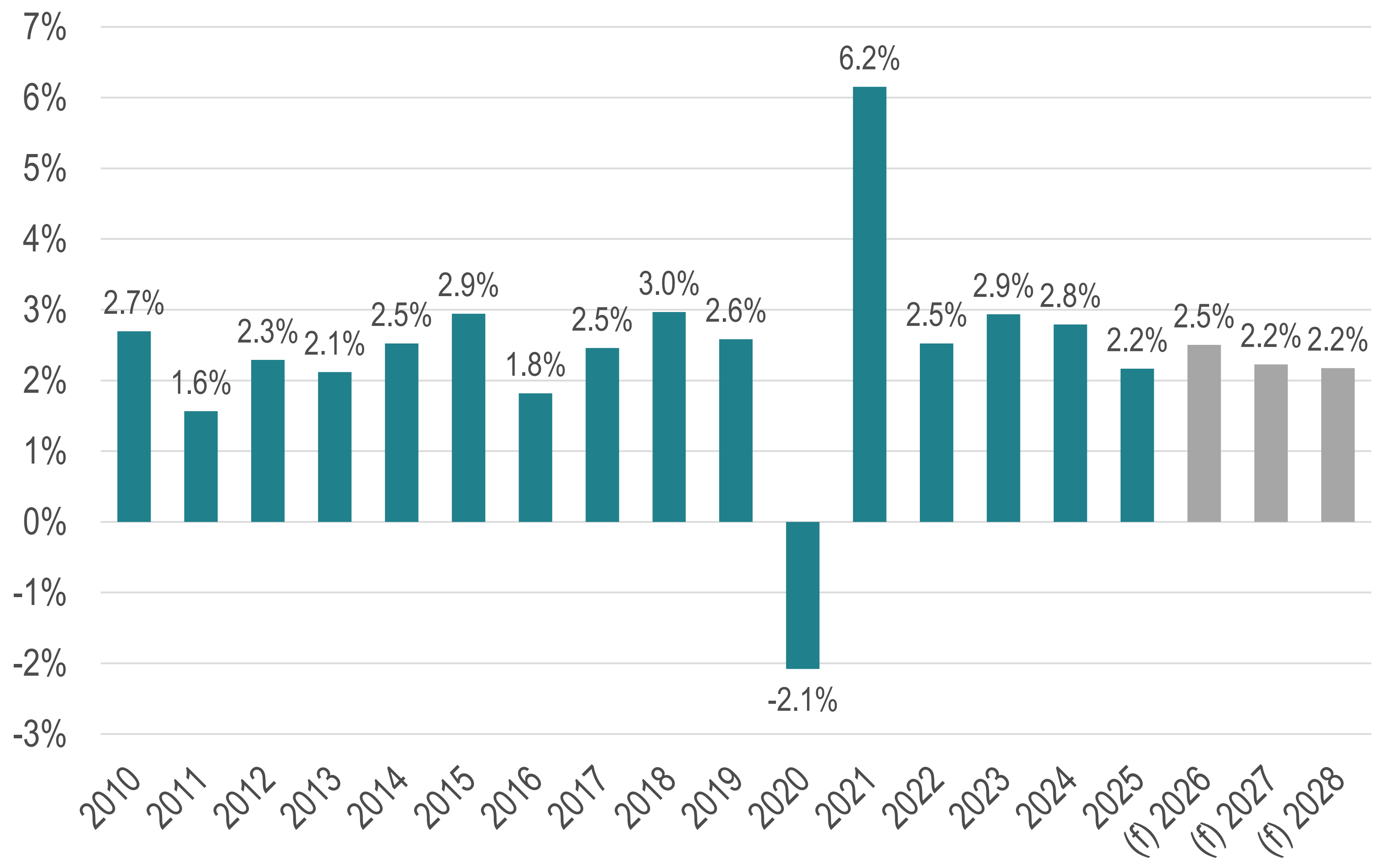
*Data are as of 2025 Q4.*
*Notes: Rent growth rates are rolling four-quarter averages; office and multifamily data are filtered for class A&B. Rent data reflect asking rent growth.*
*Source: CoStar*

# Economy

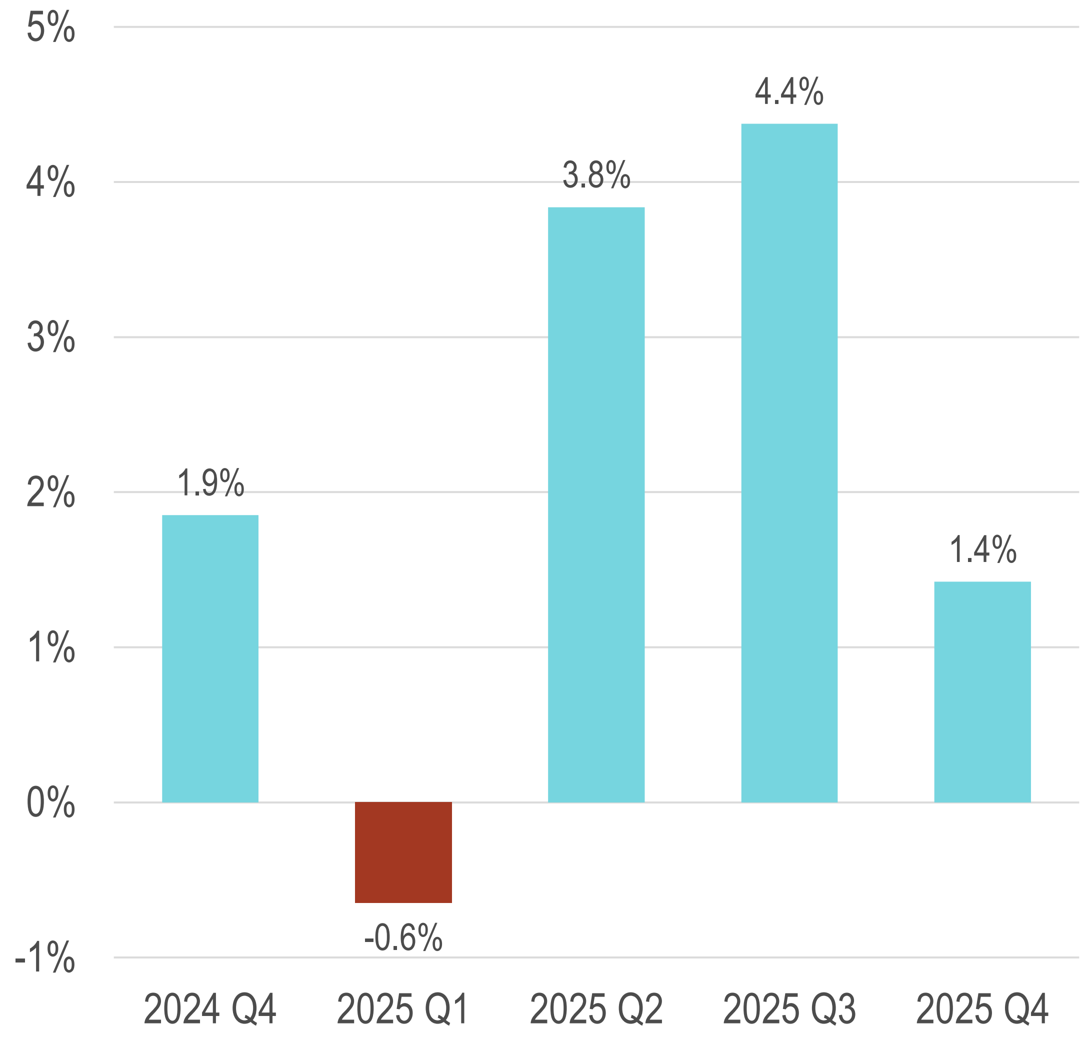
# GDP Growth Slowed to 1.4% (Annualized) in Q4 and Was 2.2% in 2025

## Annual GDP Growth Was Solid Despite Increased Tariffs and Slowing Job Market

### U.S. Real GDP Annual Change




### Annualized Quarterly Change in Real GDP






*Note: Data are seasonally adjusted.*
*Source: Bureau of Economic Analysis; Oxford Economics; Wall Street Journal Consensus Forecasts*

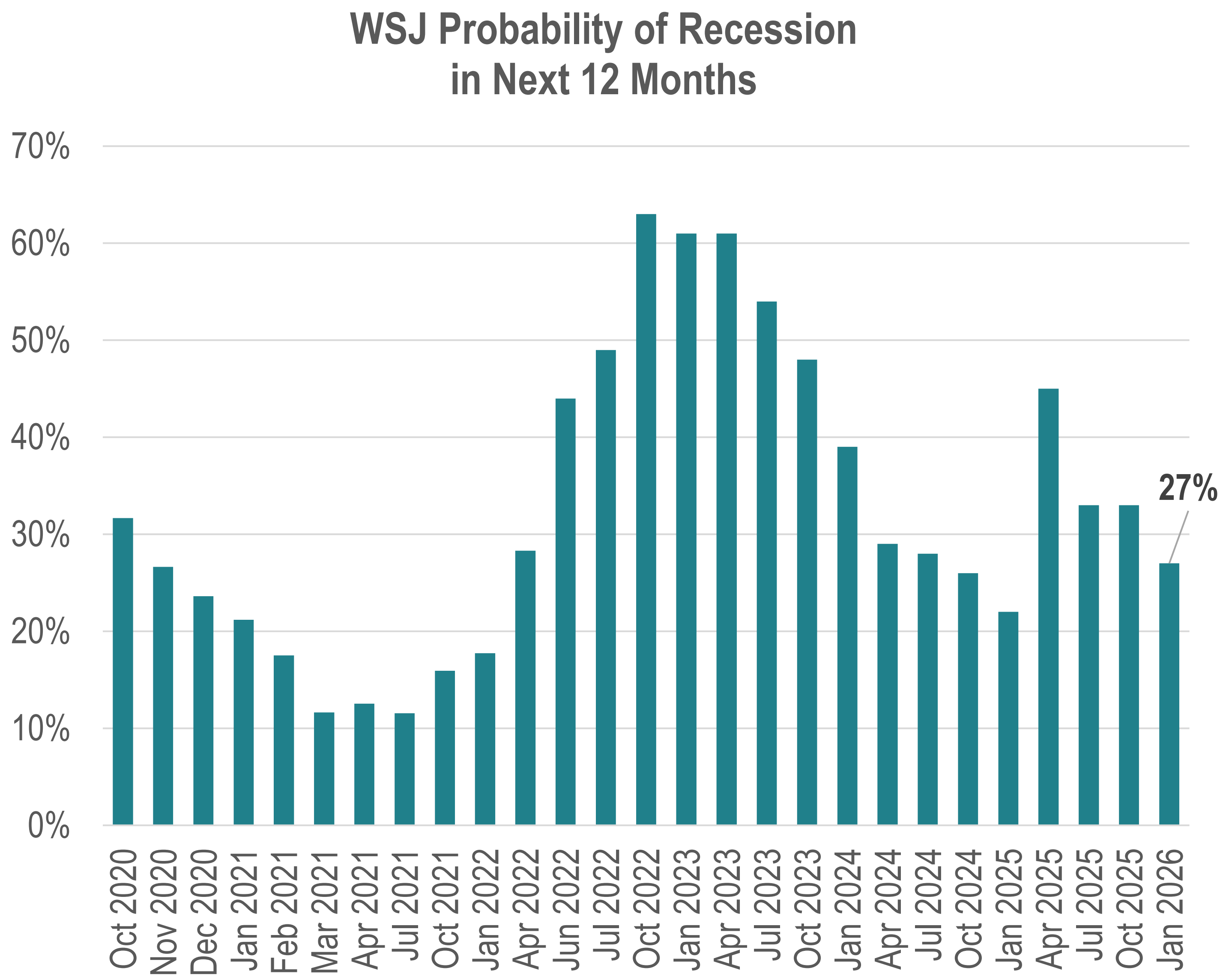
# Probability of Recession Moderated Across Major Surveys

## The US Economy Has Remained Resilient Despite Inflation and Tariffs

### Probability of Recession

| | As Of | Time-frame (mos.) | Probability |
|---|---|---|---|
| NY Fed's Treasury Spread Model | Jan-26 | 12 | 19% |
| WSJ Survey | Jan-26 | 12 | 27% |
| Bankrate Survey | Jan-26 | 12 | 28% |
| Bloomberg | Dec-25 | 12 | 30% |
| JP Morgan | Dec-25 | 12 | 35% |
| Moody's | Dec-25 | 12 | 42% |

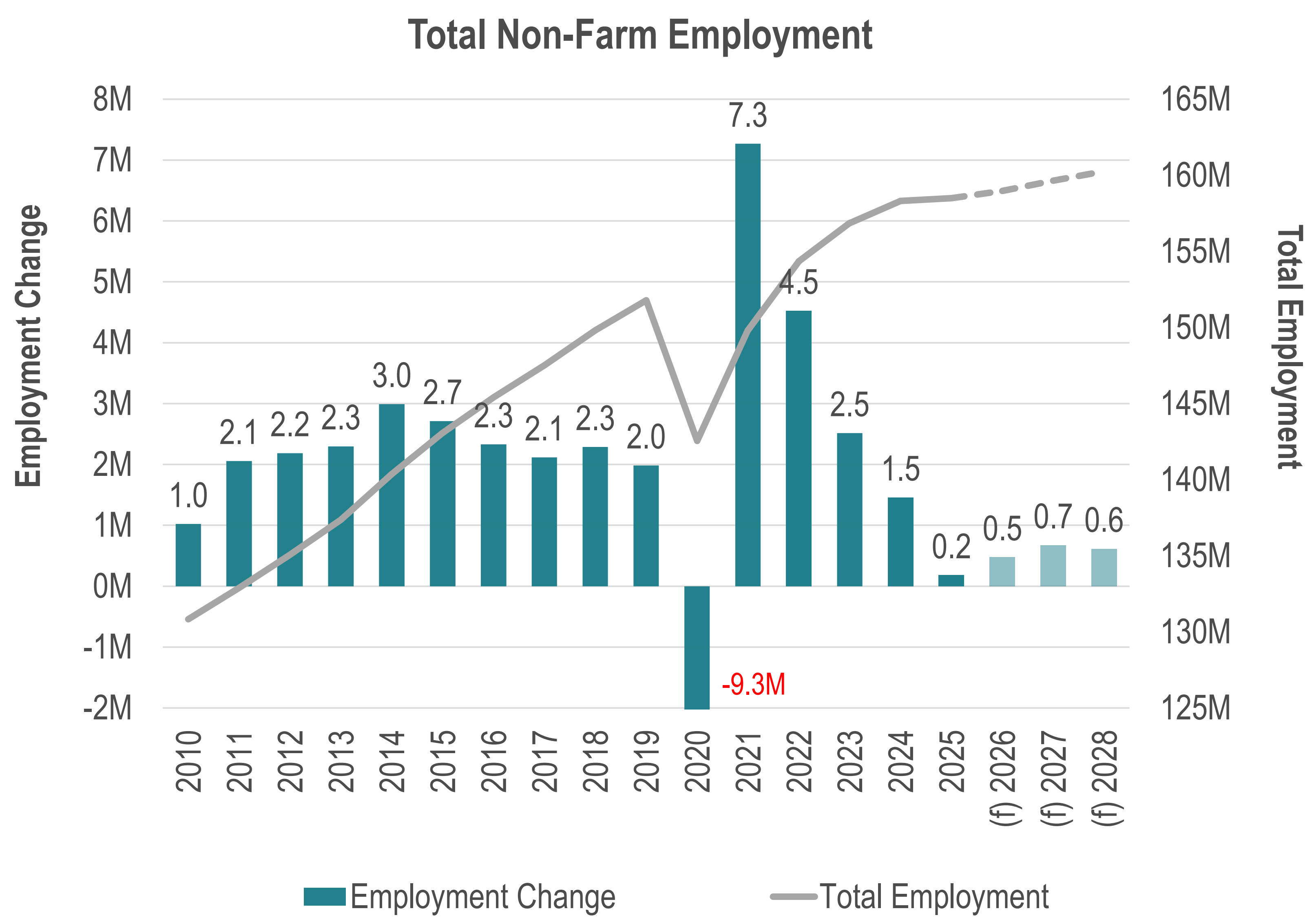
Decrease from prior forecast
Increase from prior forecast

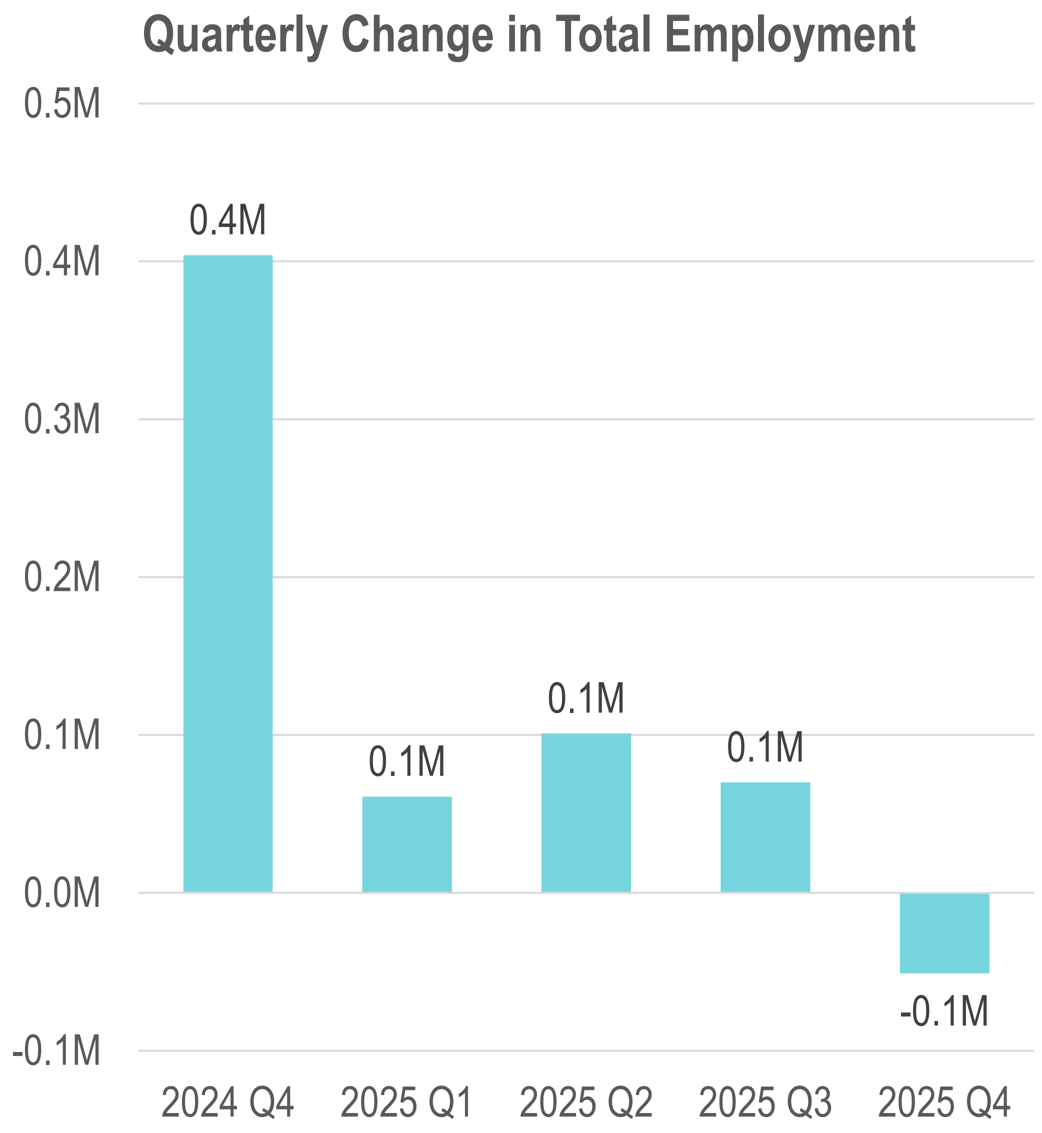



*Source: Wall Street Journal Economic Survey*

# US Labor Market Slowed Materially in 2025, Adding Only 180K Jobs

## Employment Growth Is Forecast to Remain Slow Through 2030 Amid Declining Population Growth and Immigration



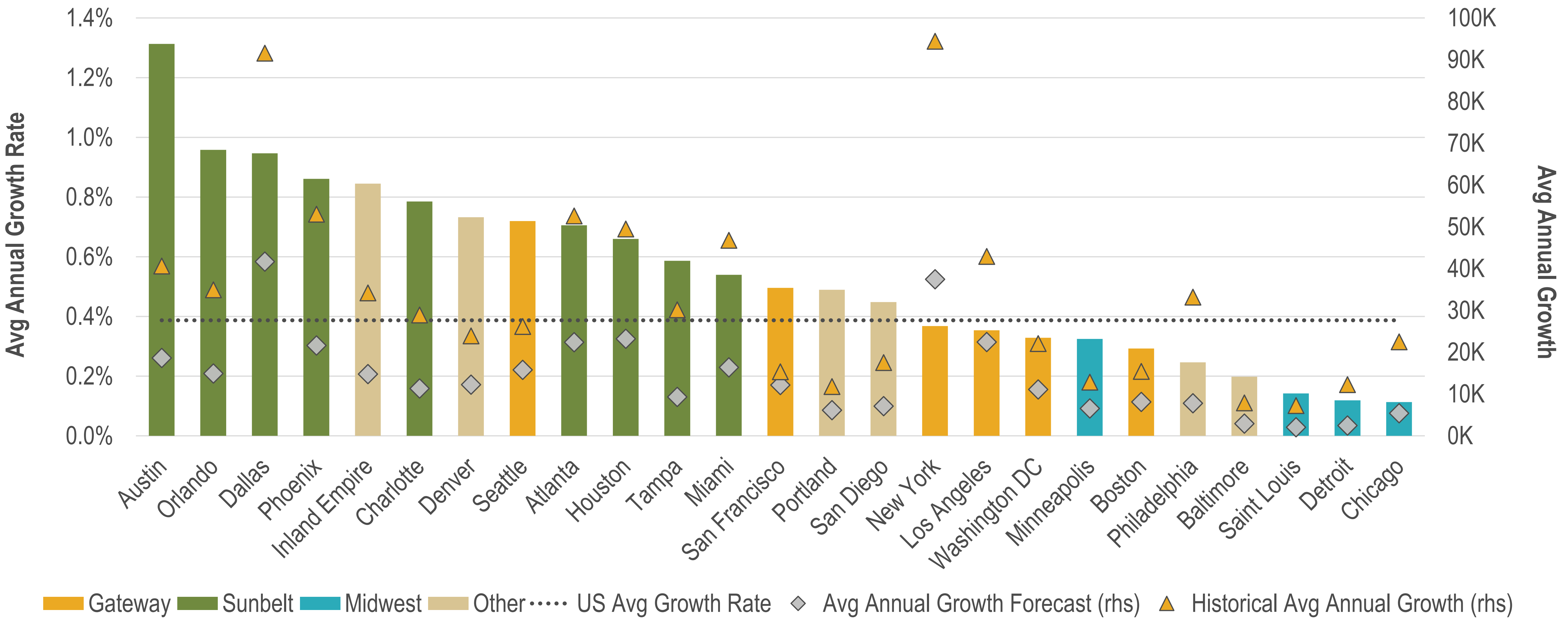



*Data are as of 2025 Q4.*
*Source: Bureau of Labor Statistics; Oxford Economics*

# Sunbelt Job Growth Forecast to Outpace Other Markets and US Average

## Gateway Markets Are Also Forecast to Experience Moderate Job Growth Through 2030

### Average Annual Non-Farm Employment Growth, 2024-2029

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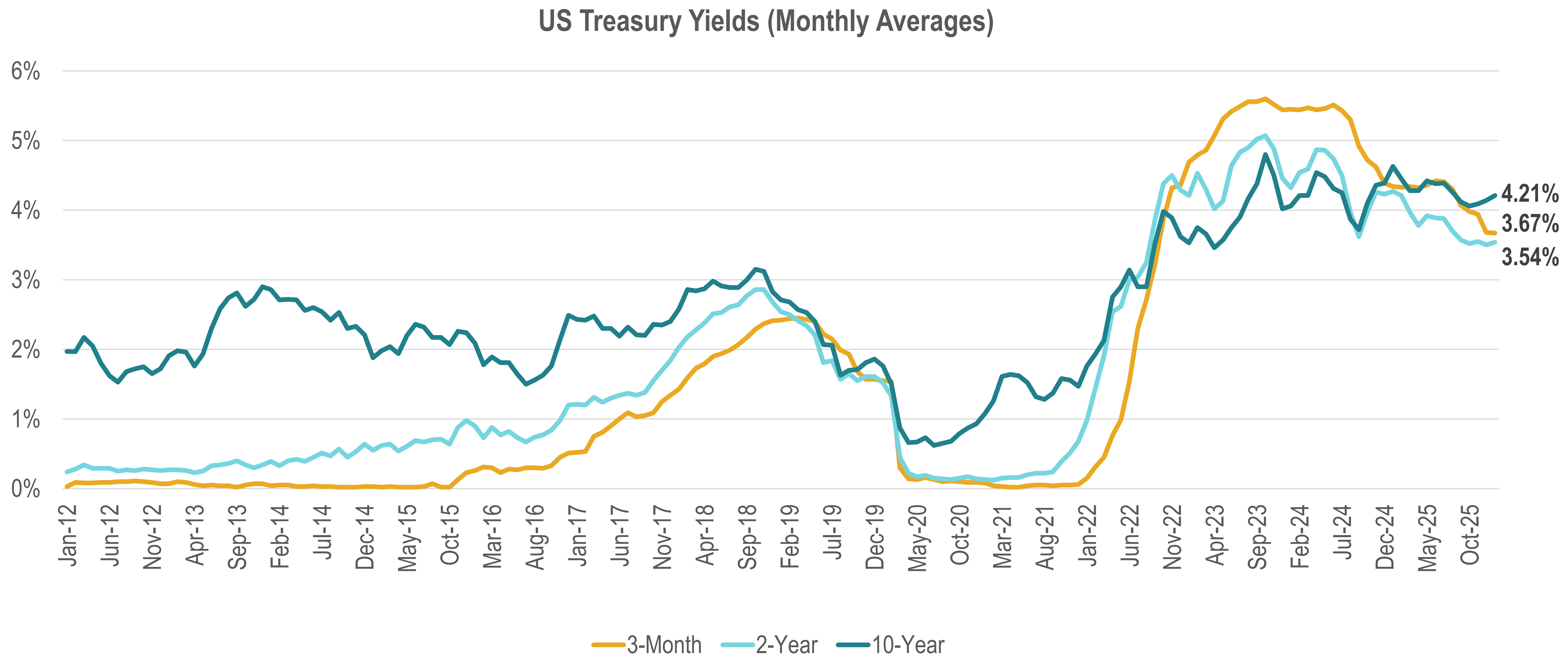
*Note: The chart above includes the 25 largest markets by total non-agricultural employment as of 2025 Q4.*
*Source: Oxford Economics*

# Capital Markets

# 3-Month US Treasury Rates Falling as Fed Eases

## 10-Year UST Yields Have Remained Mostly Flat Over the Past Two Years

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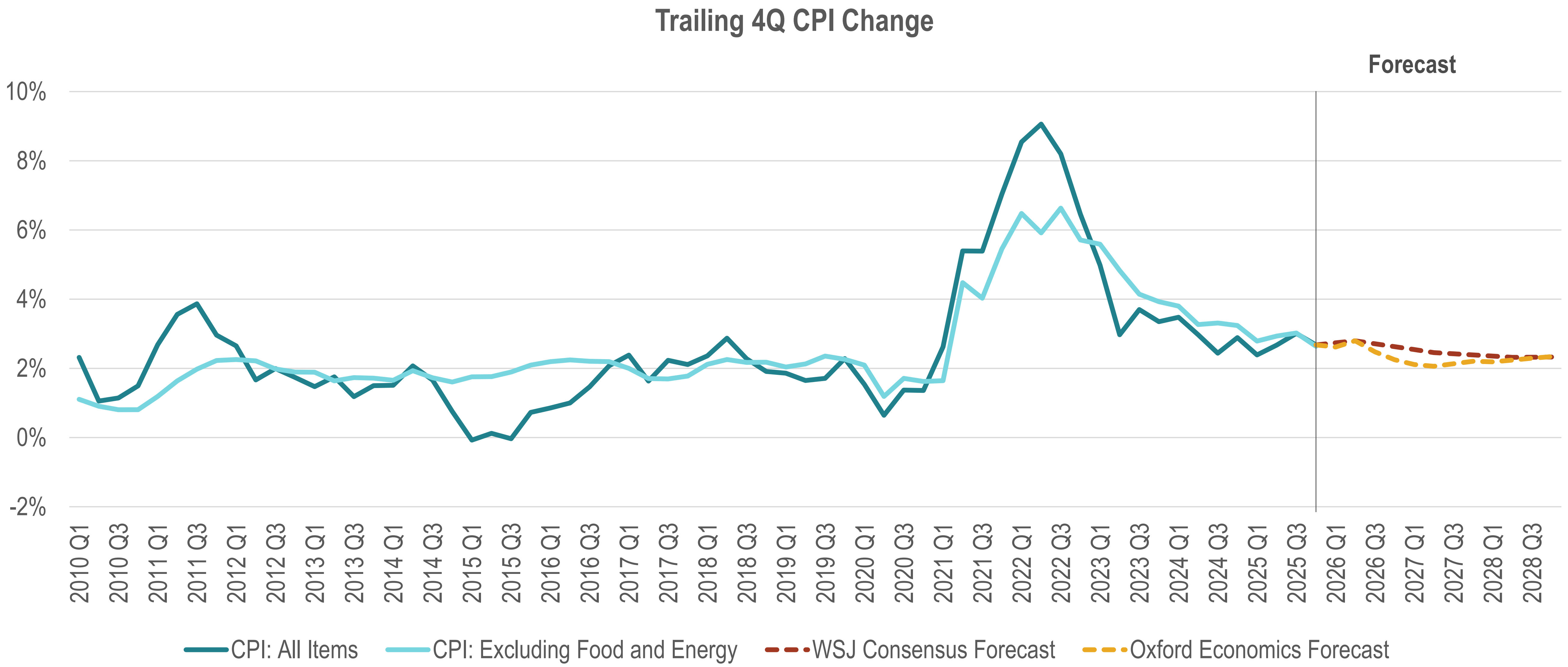
*Data are as of January 30, 2026.*
*Source: Federal Reserve*

# All Items and Core CPI Inflation Fell to 2.7% and 2.6%, Respectively

## CPI Inflation Is Projected to Remain Slightly Elevated in the Near Term

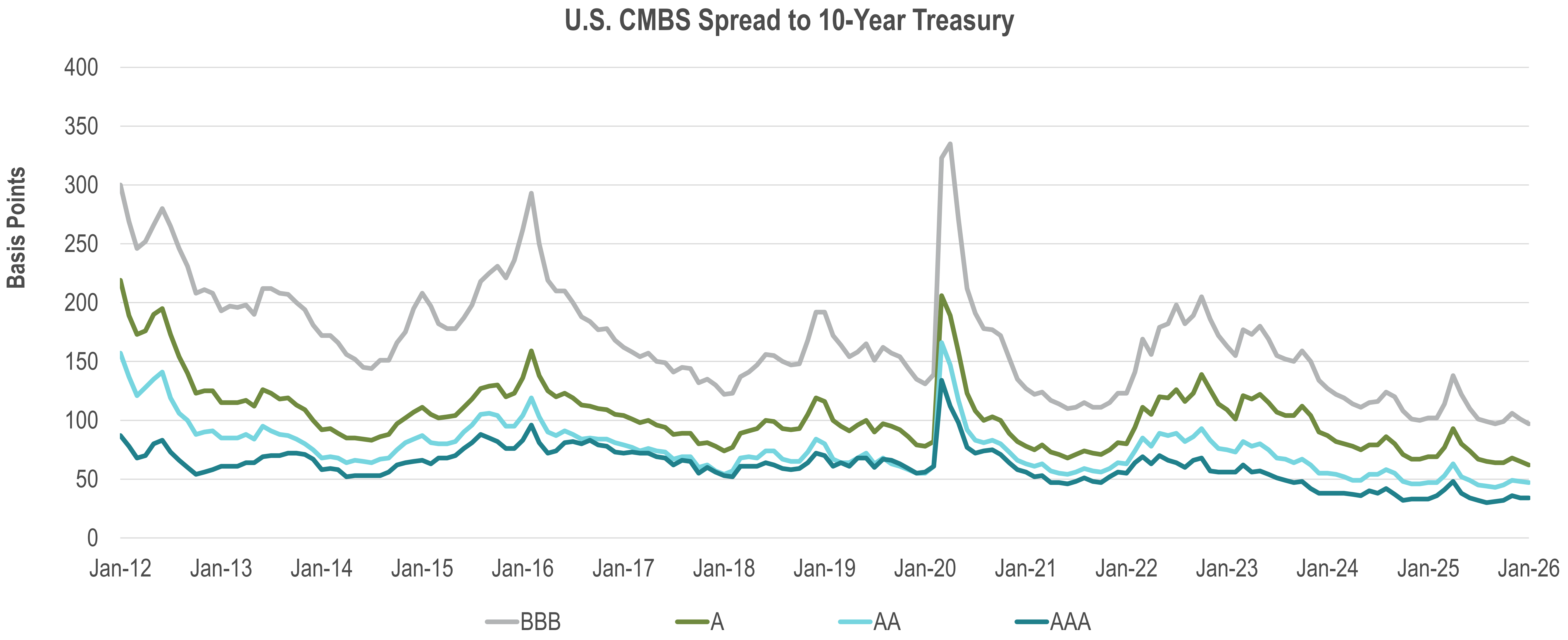





*Data are as of December 2025.*
*Note: Figures represent not seasonally adjusted CPI.*
*Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of St. Louis; Oxford Economics; WSJ Consensus Forecasts*

# CMBS Spreads to the 10-Year UST Yield Were Mostly Unchanged YoY

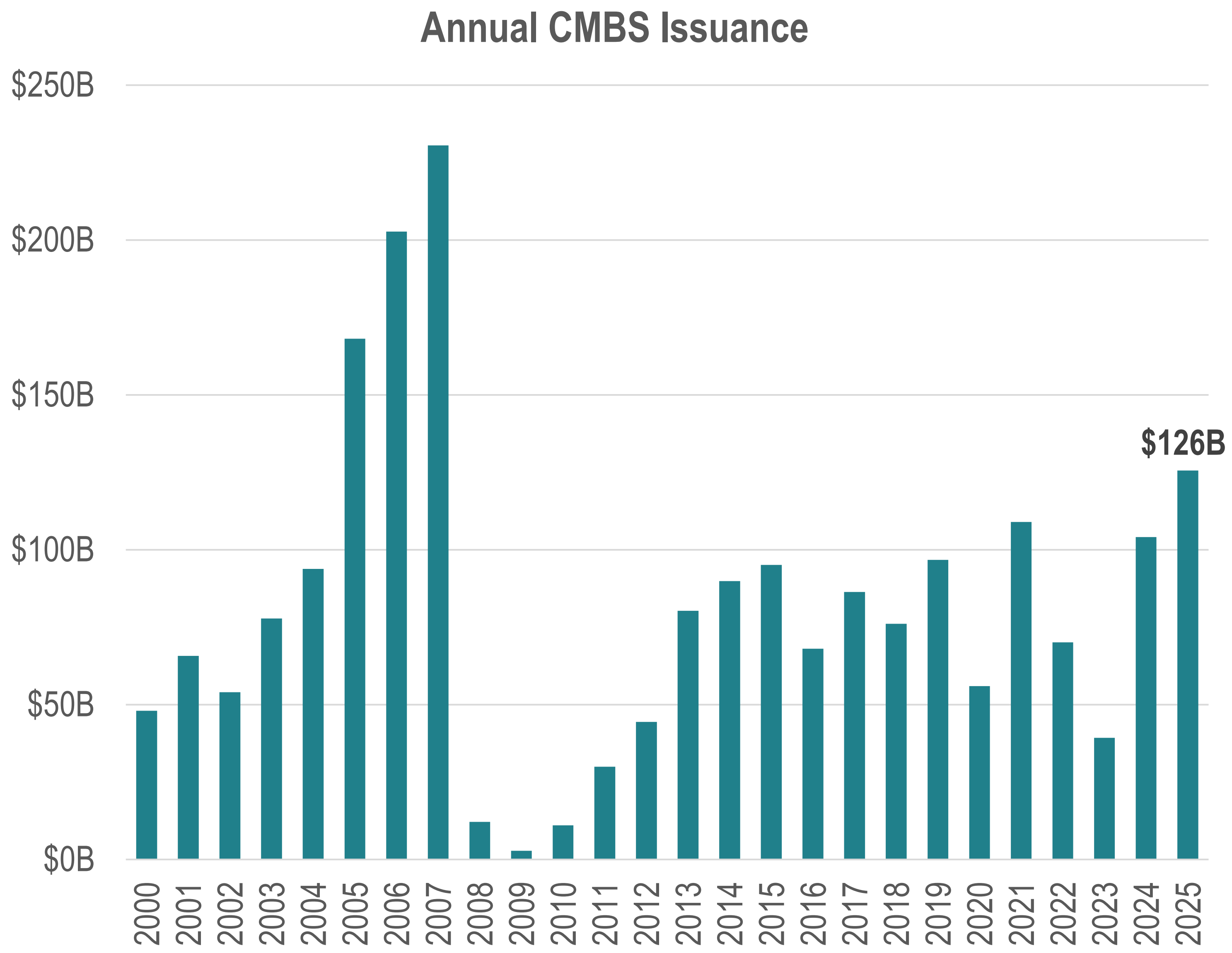
## Spreads Remain Well Below Long-term Averages Across Bond Ratings

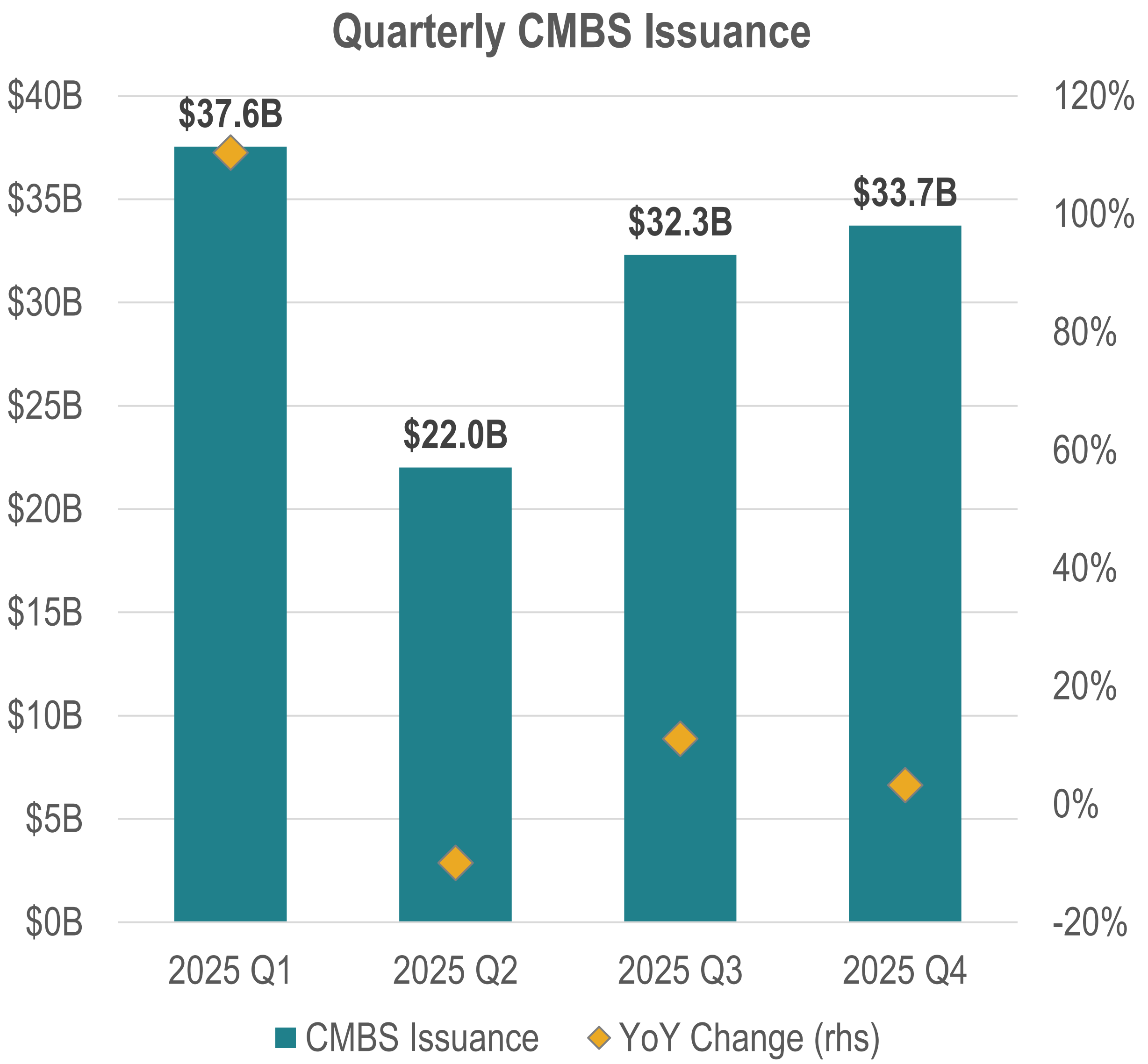



*Data are as of December 2025.*
*Source: Federal Reserve Bank of St. Louis*

# 2025 CMBS Issuance Was the Highest Annual Total Since 2007

## CMBS Issuance Rose Slightly QoQ to $34B in Q4

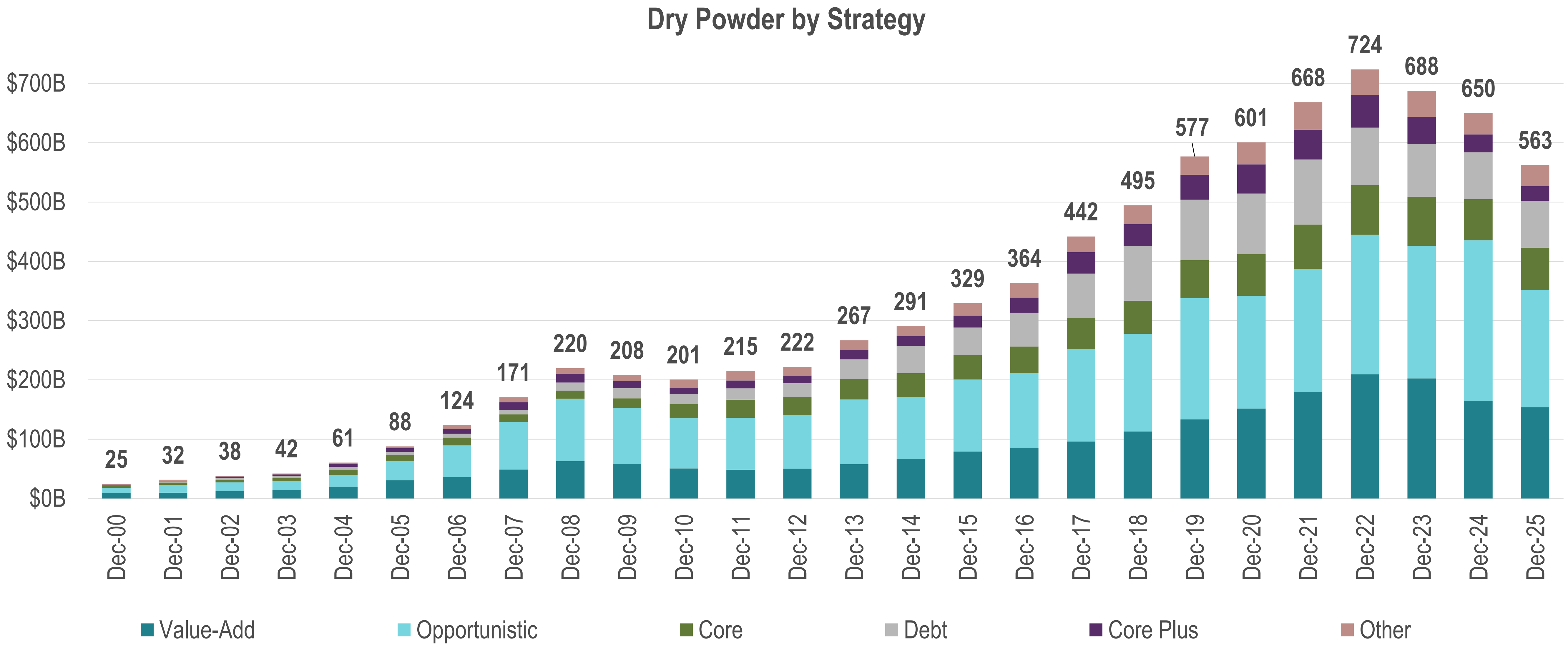



*Data are as of Q4 2025.*
*Source: Trepp*

# Institutional Dry Powder Continued to Fall in 2025

## 62% of Real Estate Dry Powder Is Earmarked for Value-Add and Opportunistic Investments



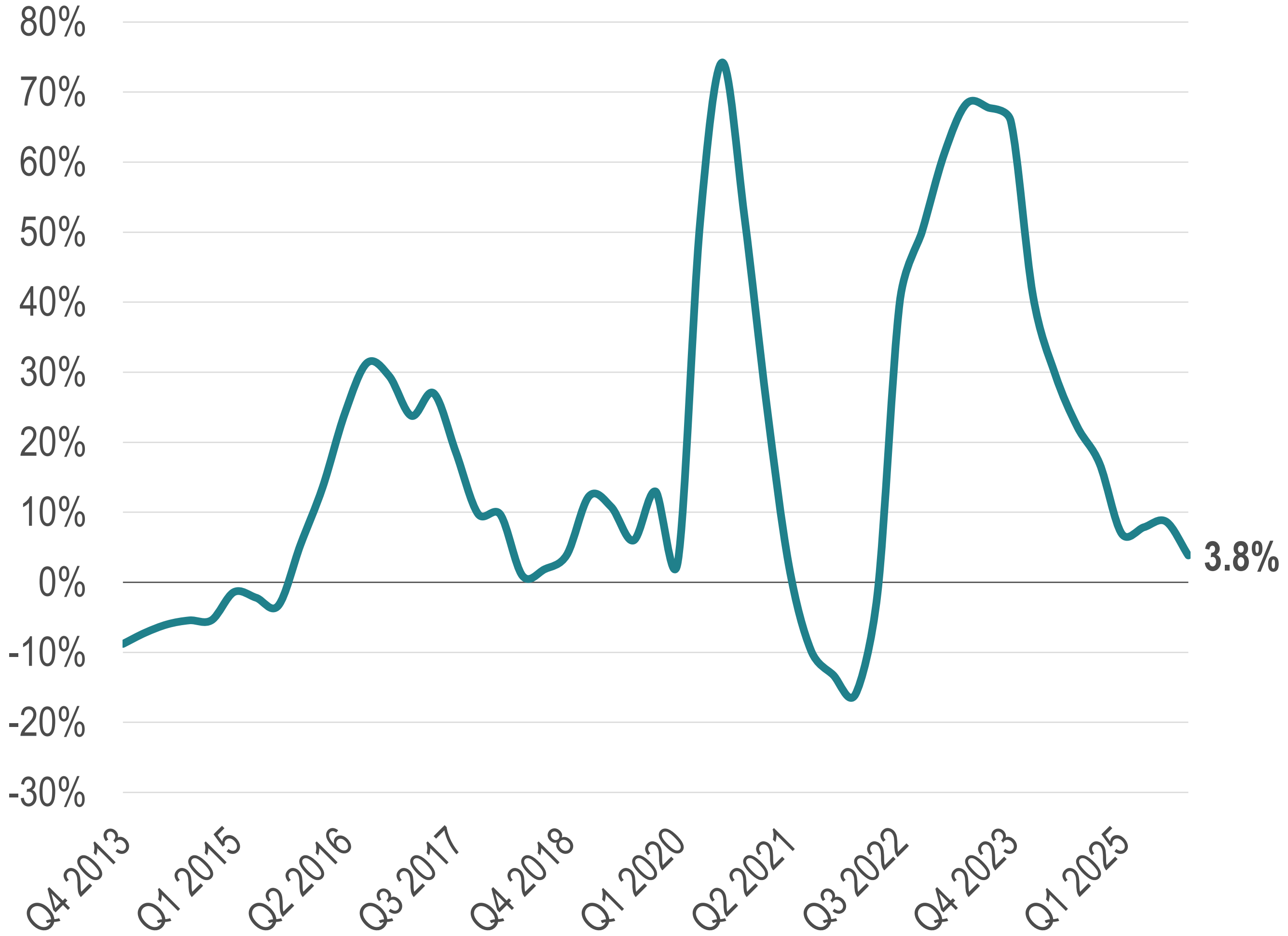



*Note: Data are as of December 2025.*
*Source: Preqin*

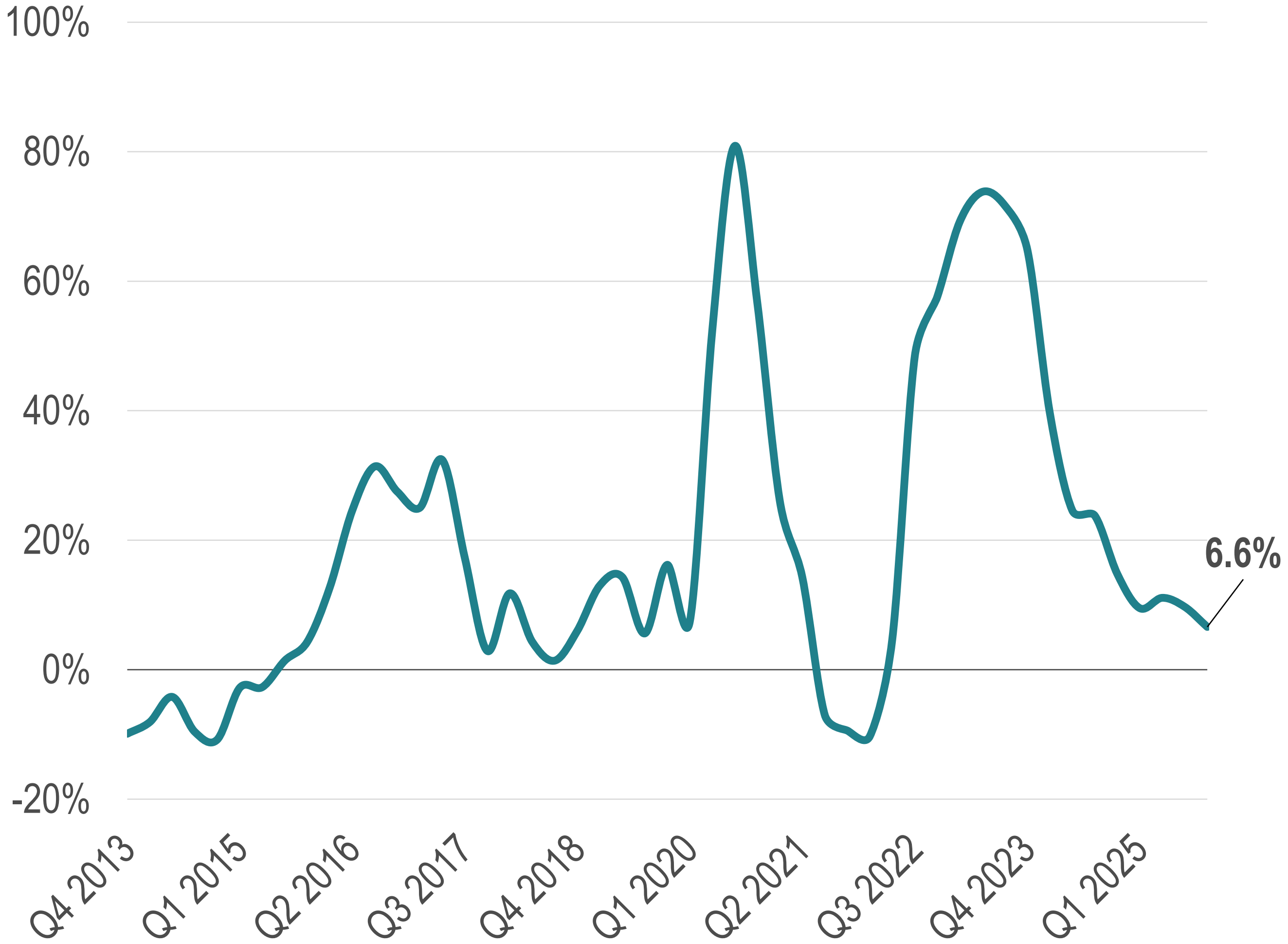
# Share of Banks Tightening RE Lending Standards Fell in Q4

## Bank Lending Standards Normalized throughout 2025

### Net % of Banks Tightening Lending Standards for Commercial Real Estate Loans




### Net % of Banks Tightening Lending Standards for Construction/Development Purposes

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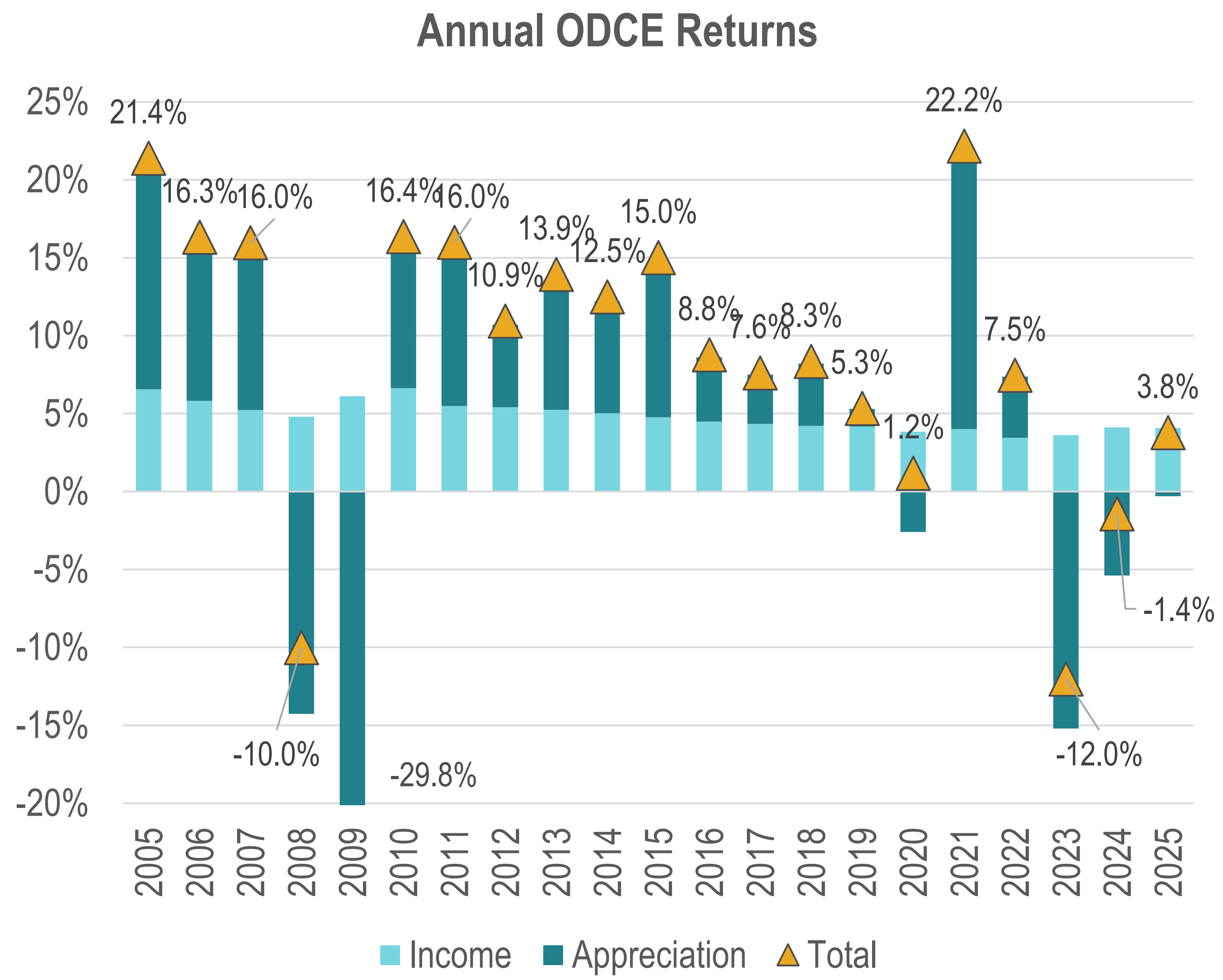
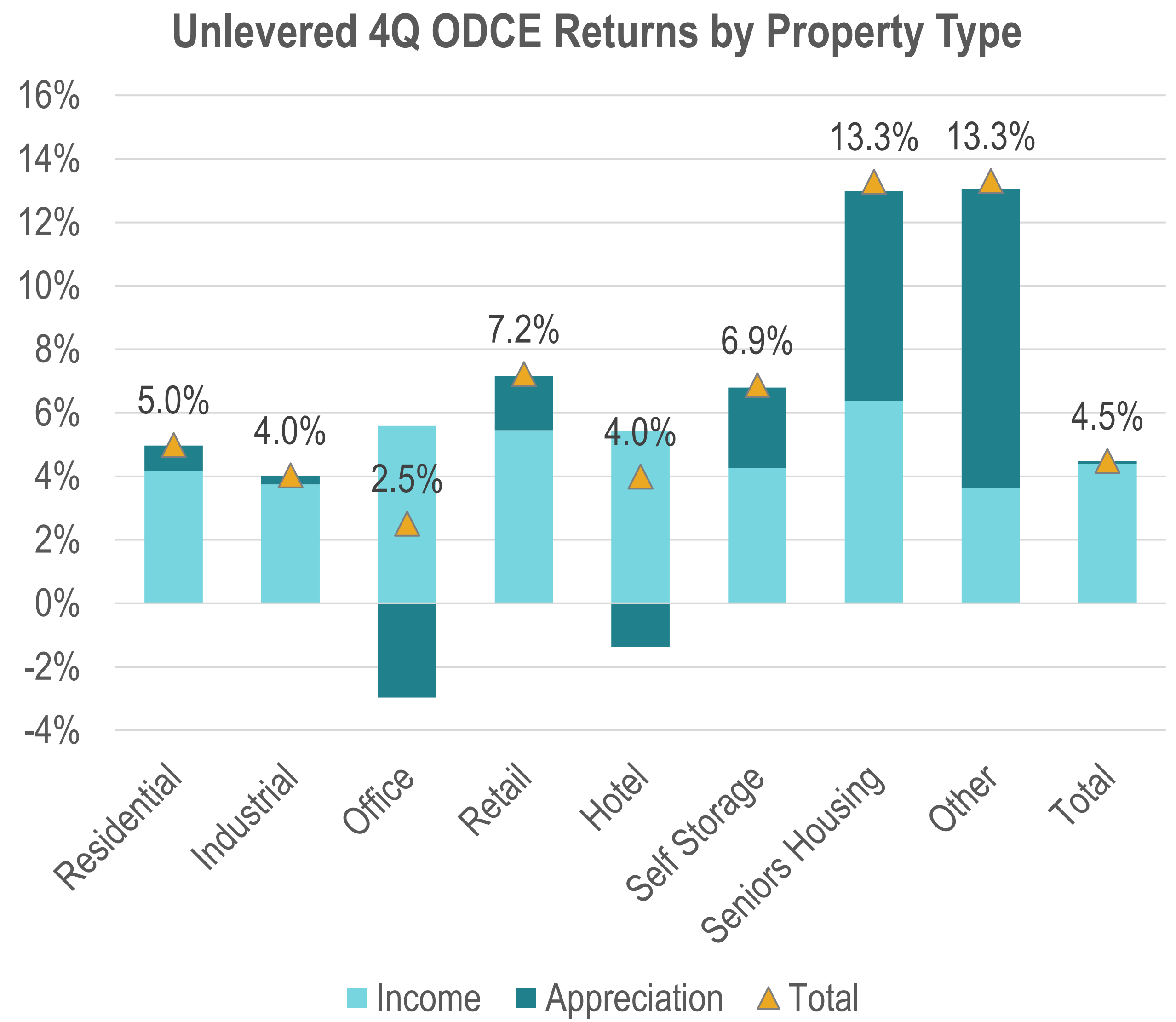
*Data are as of 2025 Q4.*
*Source: Federal Reserve*

# Real Estate Returns

# Annual ODCE Returns Were 3.8% in 2025, Despite Negative Appreciation

## Retail and Self Storage Led ODCE Returns for the Year

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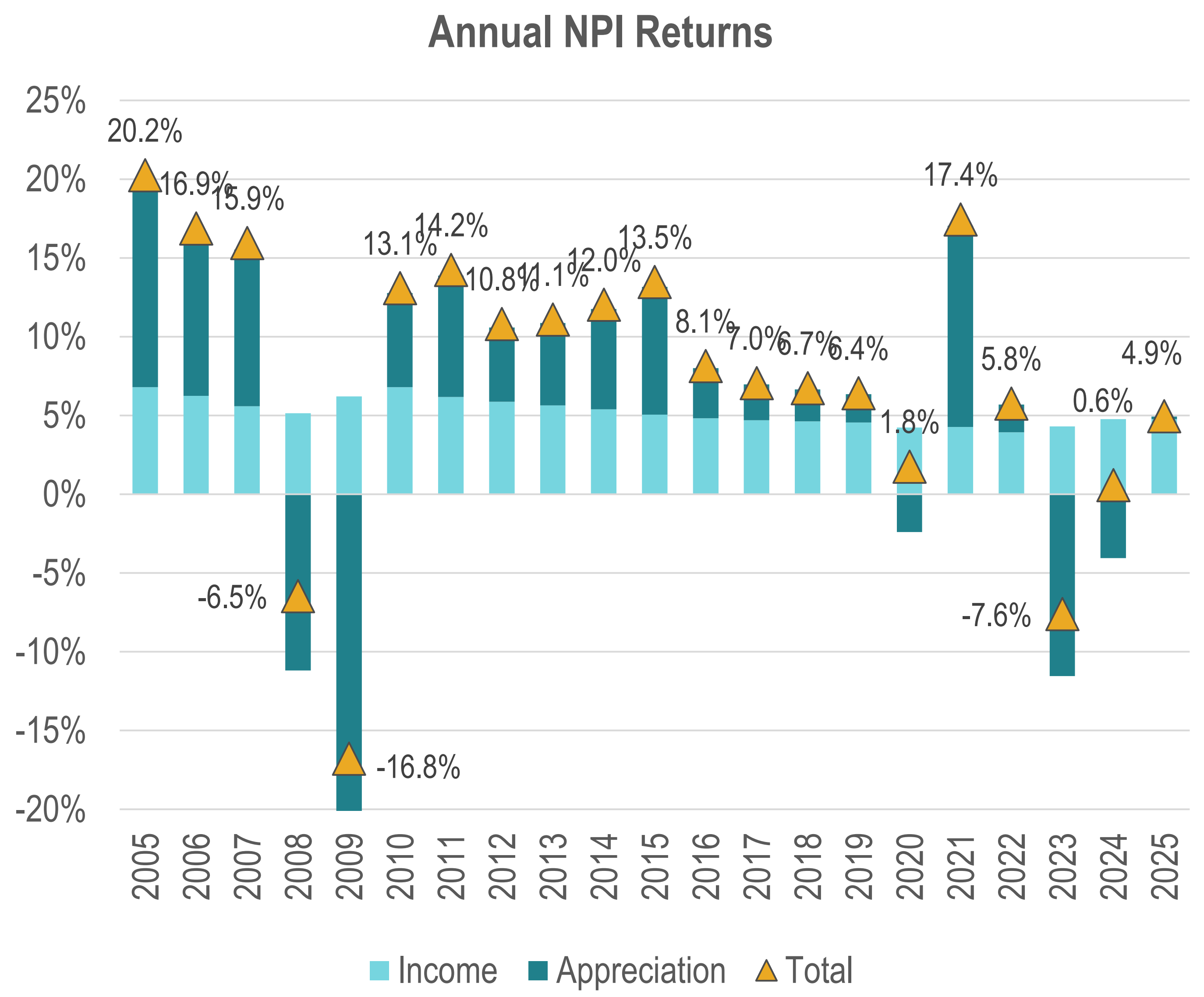
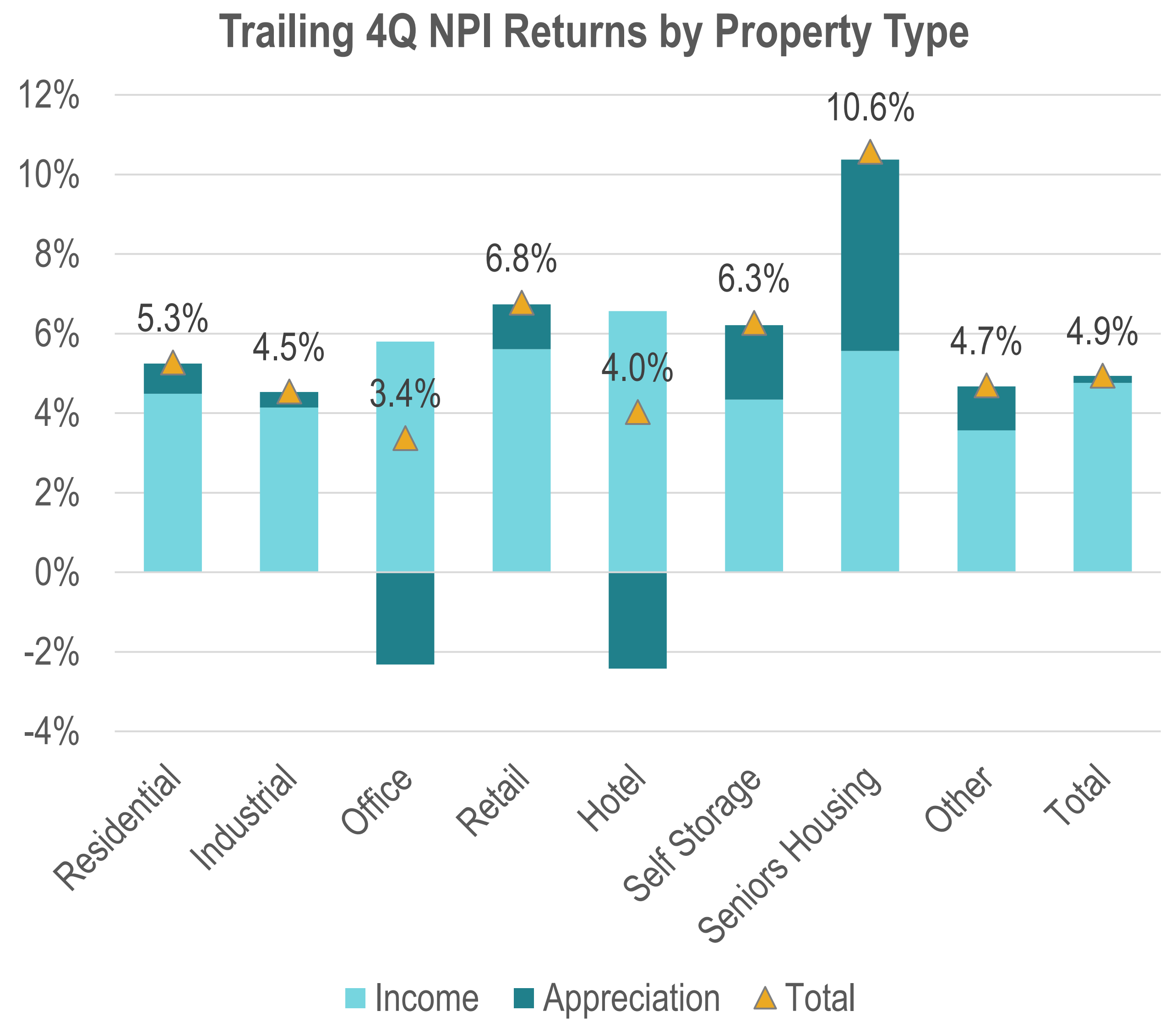
*Data are as of 2025 Q4.*
*Note: Total returns are levered, gross of fees at ownership share; property type returns are unlevered, gross of fees, at ownership share.*
*Source: NCREIF*

# NPI Returns Were 4.9% in 2025 with Slightly Positive Appreciation

## Seniors Housing and Retail Led Annual NPI Returns; Office and Hotel Lagged

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*Data are as of 2025 Q4.*
*Note: All returns are unlevered, gross of fees.*
*Source: NCREIF*

# Overall NPI Vacancy Rose YoY but Remained Below the Long-Term Avg.

## Hotel, Seniors Housing, and MOB Vacancy Fell the Most YoY while Life Science Vacancy Rose Considerably

**NCREIF Property Index (NPI) Vacancy Rates**

As of: 2025 Q4

| Property Type | Latest Quarter | Change Past Qtr. | Change Past Year | 20-Year Avg. | Current vs. 20-Year Avg. |
|---|---|---|---|---|---|
| Industrial | 4.3% | 0.0% | 0.9% | 5.8% | **-1.5%** |
| Residential | 7.1% | 0.8% | 0.5% | 6.4% | **0.6%** |
| *Manufactured Housing* | 9.5% | 4.2% | 4.3% | N/A | N/A |
| *SFR* | 8.8% | 2.0% | 1.5% | N/A | N/A |
| *Student Housing* | 8.3% | 0.8% | 1.6% | N/A | **-0.2%**** |
| Office | 13.7% | -0.1% | 0.0% | 12.4% | **1.3%** |
| *Life Science* | 13.7% | 0.8% | 4.0% | 7.1% | **6.6%** |
| *MOB* | 4.2% | -0.8% | -1.1% | N/A | **-1.1%**** |
| Retail | 7.2% | -0.2% | -0.2% | 7.9% | **-0.7%** |
| Self Storage | 12.9% | 0.9% | -0.1% | 12.8% | **0.1%** |
| Other | 5.8% | 1.0% | -0.5% | 8.4% | **-2.6%** |
| *Data Centers* | 8.8% | 0.3% | 0.6% | N/A | N/A |
| Seniors Housing | 9.1% | -0.7% | -2.2% | 11.9% | **-2.8%** |
| Hotel | 26.7% | -2.5% | -4.2% | 32.7% | **-6.0%** |
| **Total NPI*** | **7.4%** | **0.1%** | **0.2%** | **8.1%** | **-0.7%** |

*Data are as of 2025 Q4.*
** Average across properties.*
*** Shows current vacancy versus 10-year average*
*Source: NCREIF*

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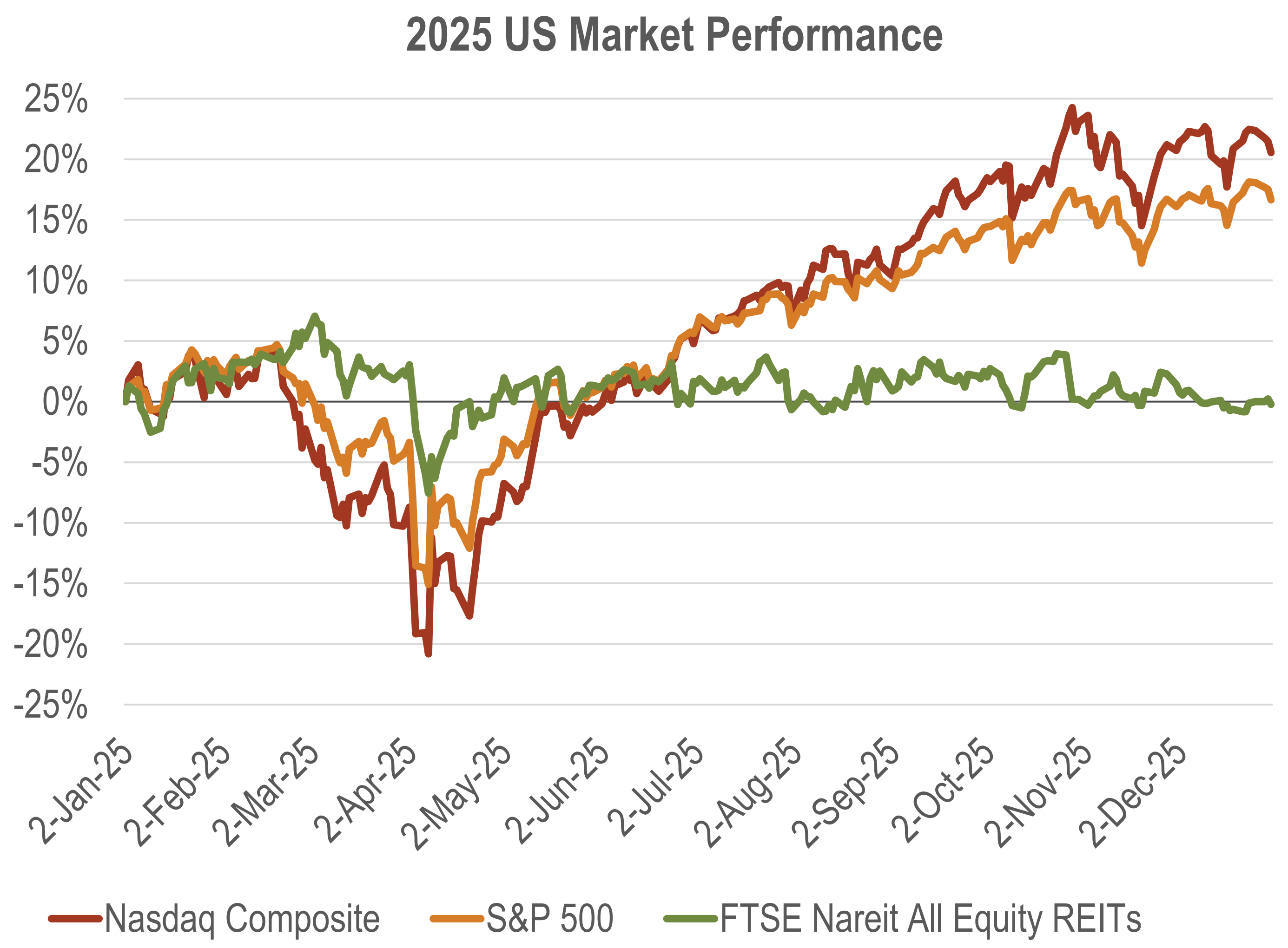
# Public Equities Far Outperformed REITs Over the Past Two Years

## Health Care and Industrial REITs Saw Greater Total Returns Than the Broader REIT Sector



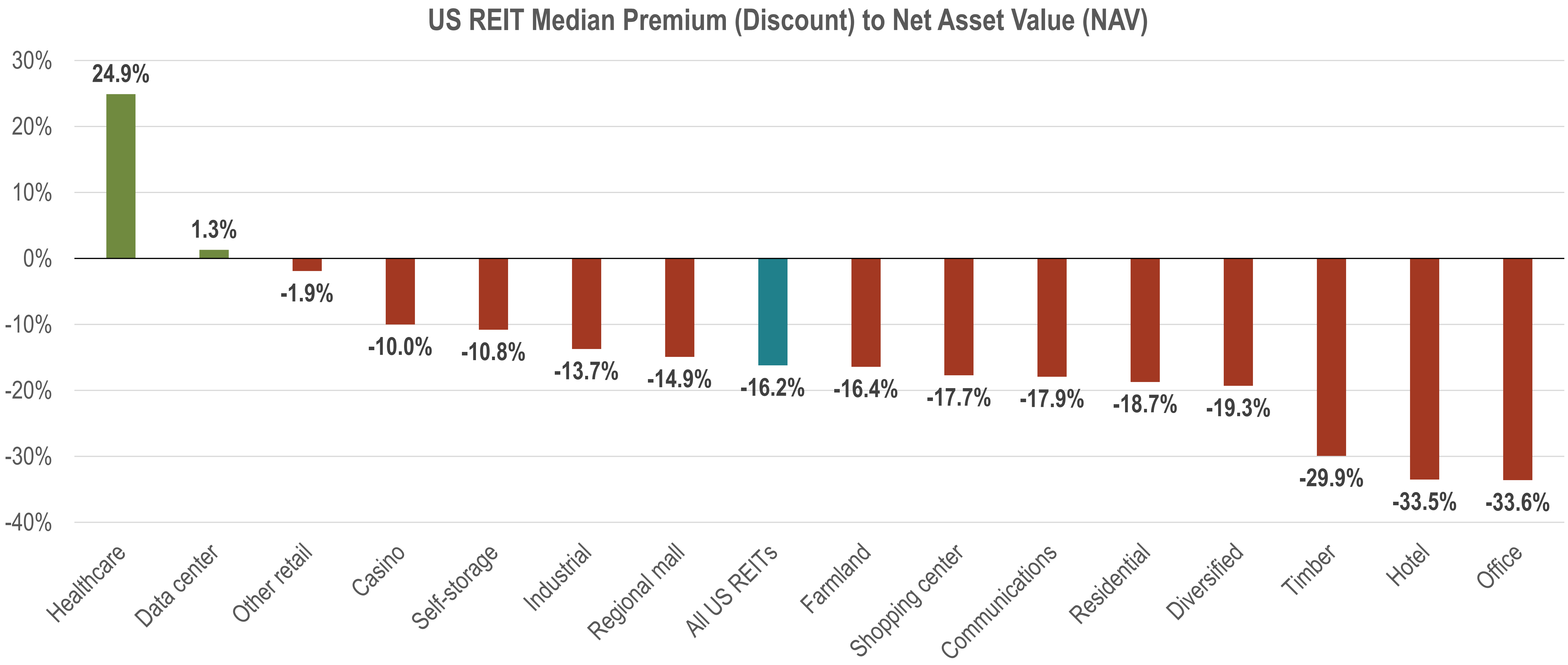

**US Equity REIT Total Returns, 2023 – 2025**

| Sector | 2023 | 2024 | 2025 |
|---|---|---|---|
| **FTSE Nareit All Equity REITs** | 11.4% | 4.9% | 2.3% |
| Industrial | 19.2% | -17.8% | 17.0% |
| Office | 2.0% | 21.5% | -14.0% |
| Retail | 10.6% | 14.0% | 5.1% |
| Apartments | 5.9% | 20.5% | -8.6% |
| Single Family Homes | 20.6% | 0.6% | -10.2% |
| Lodging/Resorts | 23.9% | -2.0% | -5.1% |
| Health Care | 13.9% | 24.2% | 28.5% |
| Self Storage | 18.5% | -0.5% | -10.0% |
| Data Centers | 30.1% | 25.2% | -14.2% |
| **S&P 500** | 4.5% | 26.7% | 16.4% |
| **NASDAQ Composite Index** | 6.0% | 33.0% | 20.4% |

*Data are as of December 31, 2025.*
*Note: Dividends are included in the Nareit total return indices based on their ex-dividend dates.*
*Source: Nareit; Federal Reserve Bank of St. Louis*

# US REITs Traded at a 16% Discount to Net Asset Value in January

## Office, Hotel, and Timber REITs Traded at the Greatest Discount; Healthcare Traded at a Significant Premium



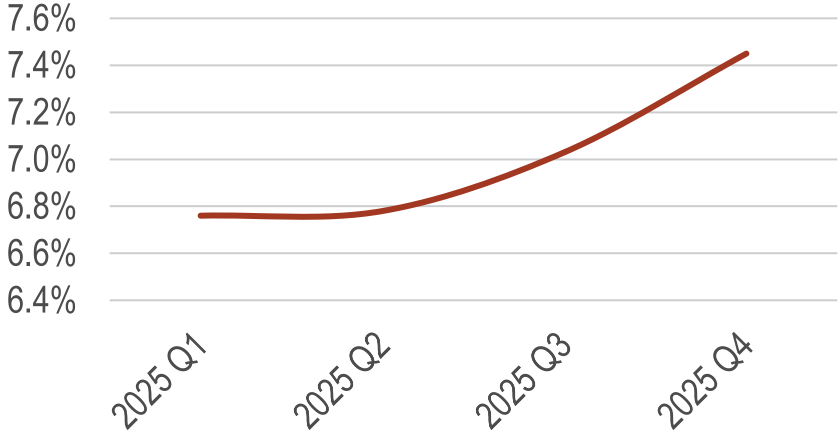

*Data are as of January 30, 2026.*
*Source: S&P Global*

# Multifamily

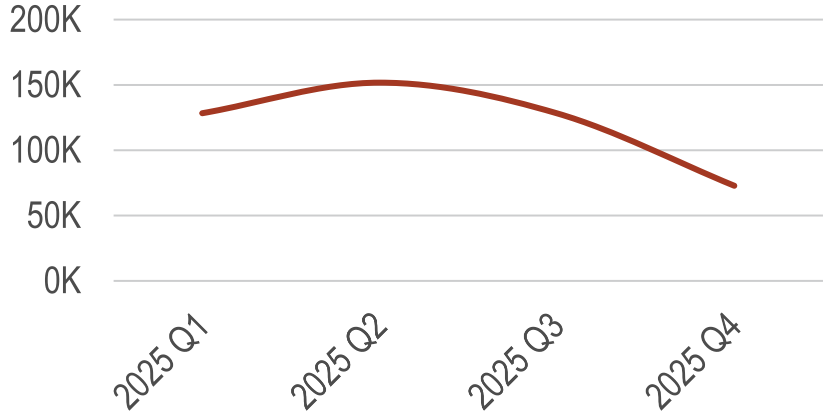
# Multifamily Property Market Overview

## Falling Absorption Resulted in Rising Vacancy and Moderating Rent Growth in Q4

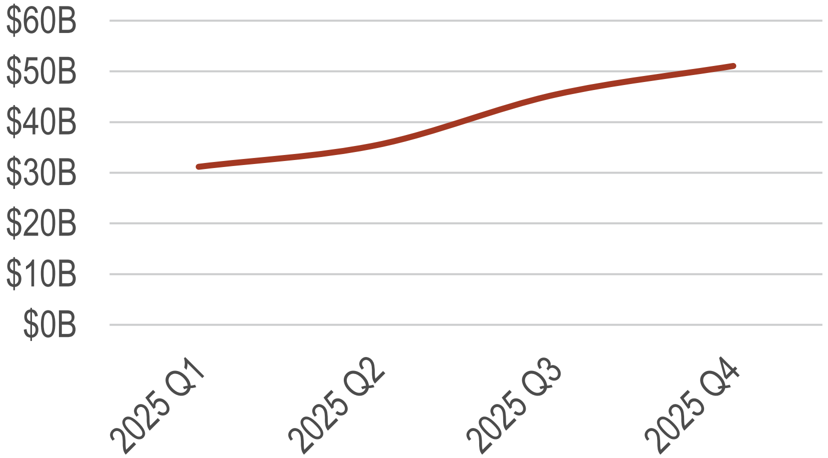
**Stabilized Vacancy: 7.5%**



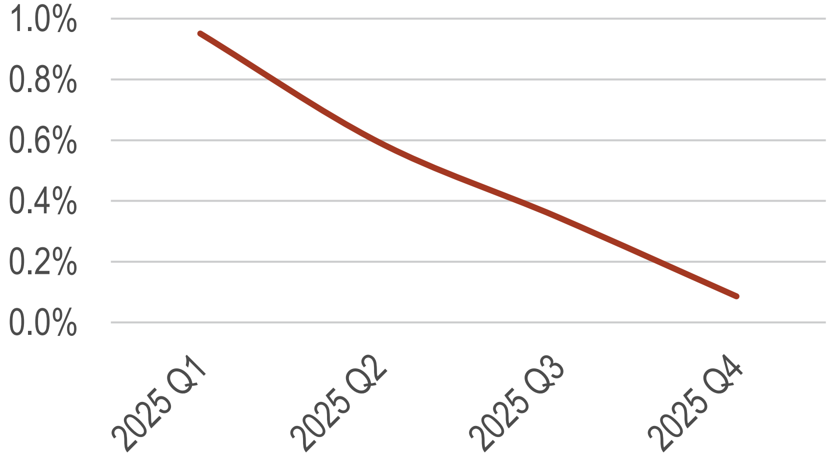

**Absorption: 4.0% of Inv. (Trailing 4Q)**



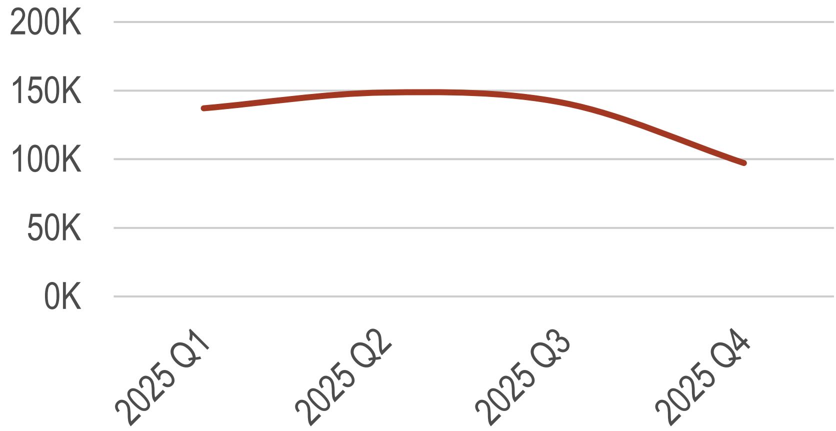

**Transaction Volume: $51B**



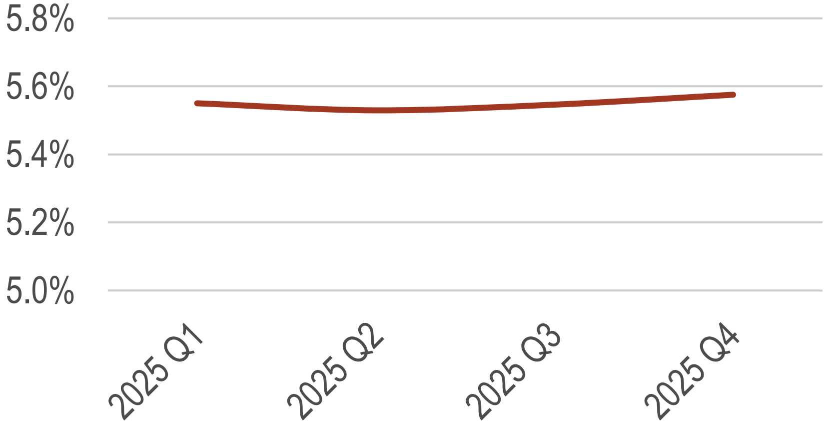

**Rent Growth: 0.1%**




**New Supply: 4.3% of Inv. (Trailing 4Q)**




**Cap Rate: 5.6%**




*Note: Data are filtered for class A&B; rent growth is based on asking market rent and vacancy reflects stabilized vacancy; cap rates are trailing 4Q averages.*

*Source: CoStar; MSCI*



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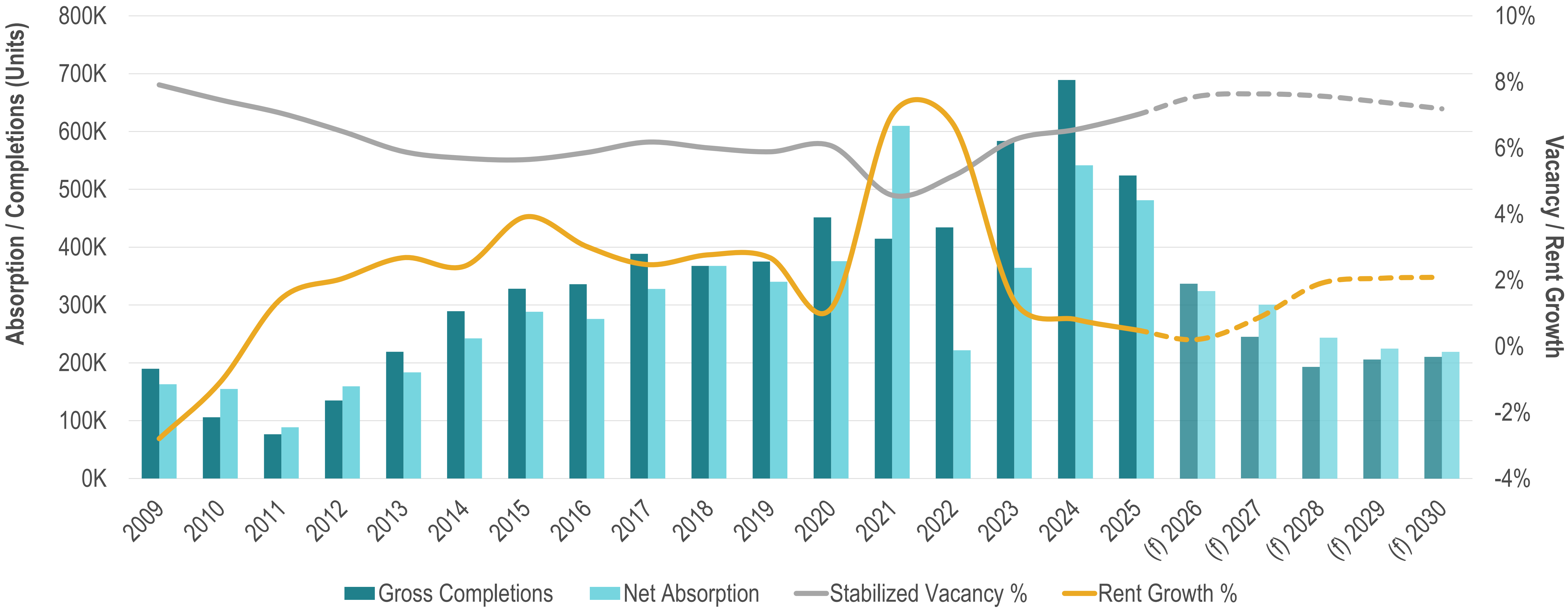
# Fundamentals Remained Challenged in 2025

## Rent Growth Is Forecast to Improve Beginning in 2027 as Absorption Outpaces Completions



### U.S. Apartment Completions, Absorption, Vacancy, Rent Growth




*As of 2025 Q4.*

*Note: Data are filtered for class A&B; rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent growth is based on market asking rent; vacancy reflects stabilized vacancy.*

*Source: CoStar*

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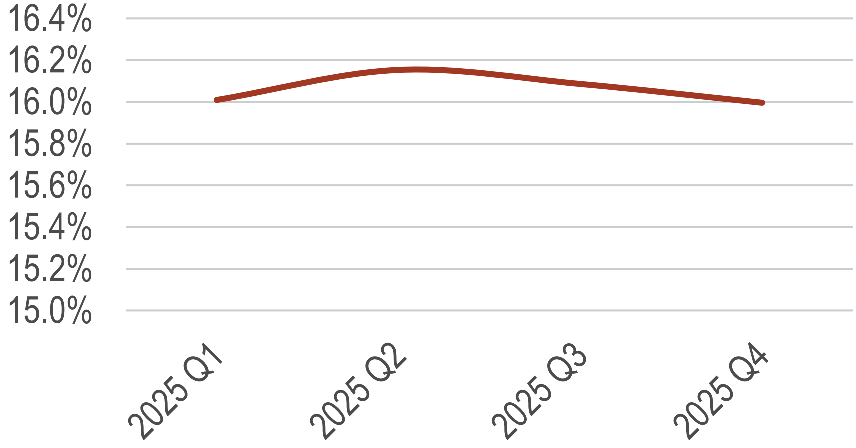
# Office

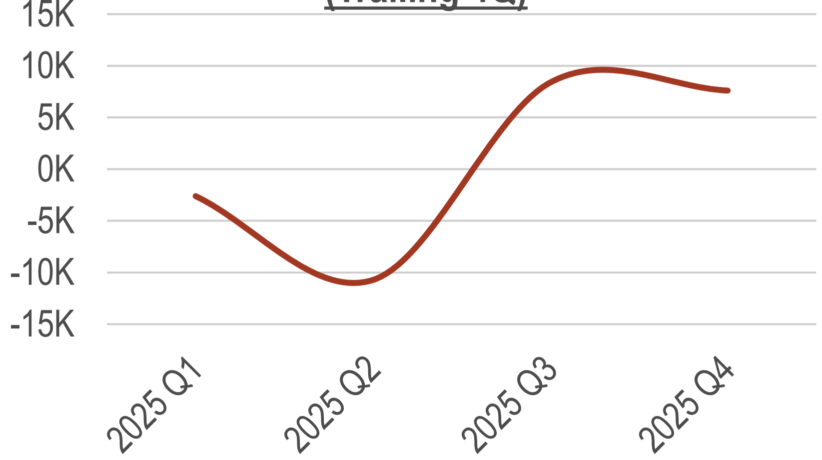
# Office Property Market Overview

## Weak Fundamentals Persist Amid Flat Absorption; Transaction Volume Increased as Investor Interest Grew

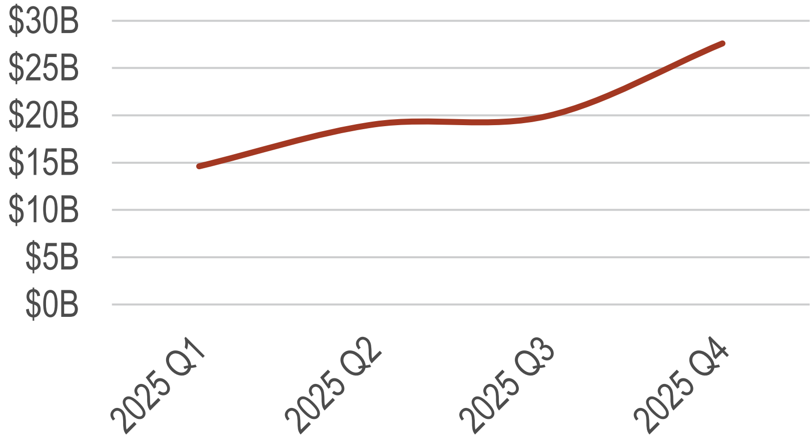
**Vacancy: 16.1%**



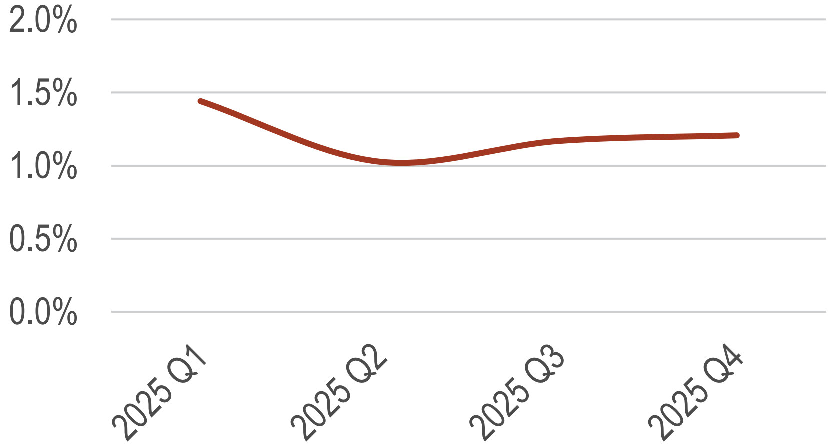

**Absorption: 0.0% of Inv. (Trailing 4Q)**



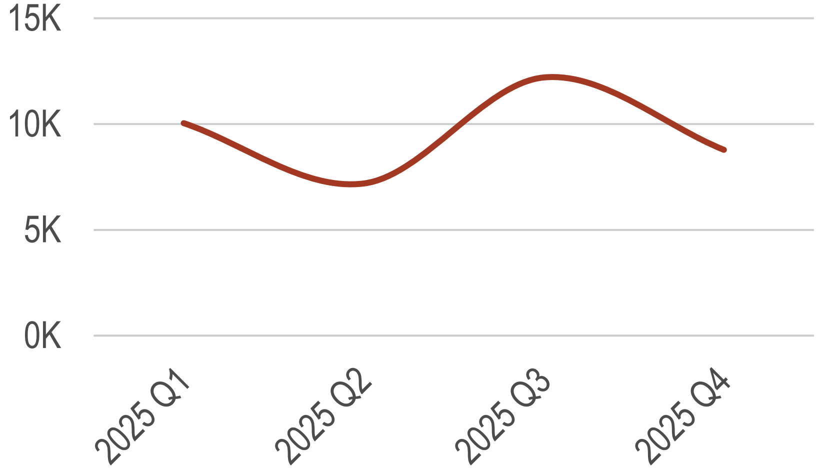

**Transaction Volume: $28B**



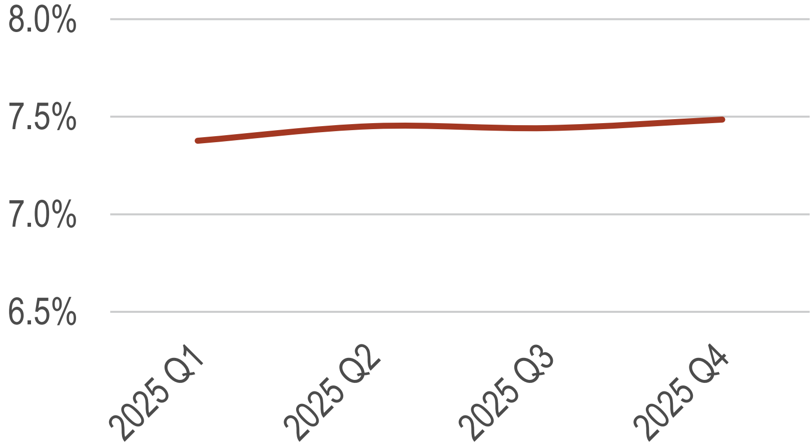

**Rent Growth: 1.2%**




**New Supply: 0.6% of Inv. (Trailing 4Q)**




**Cap Rate: 7.5%**

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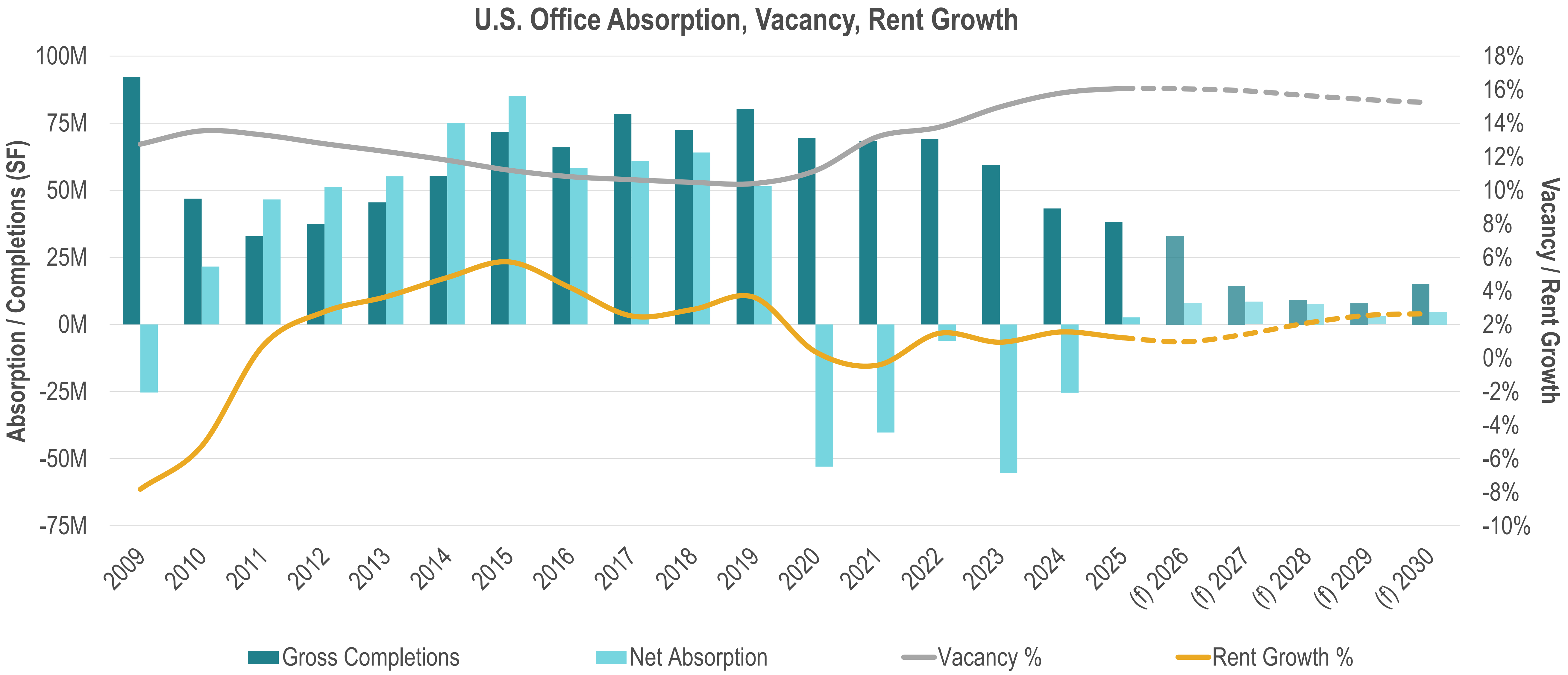
*Note: Data are filtered for class A&B; rent growth is based on asking market rent; cap rates are trailing 4Q averages.*
*Source: CoStar; MSCI*

# Office Absorption, Vacancy Rate Forecast to Stay Weak In Mid-Term

## Asking Rent Growth to Rebound as Some Buildings Are Effectively Non-Competitive




*As of 2025 Q4.*
*Note: Data are filtered for class A&B; rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent growth is based on asking market rent.*
*Source: CoStar*

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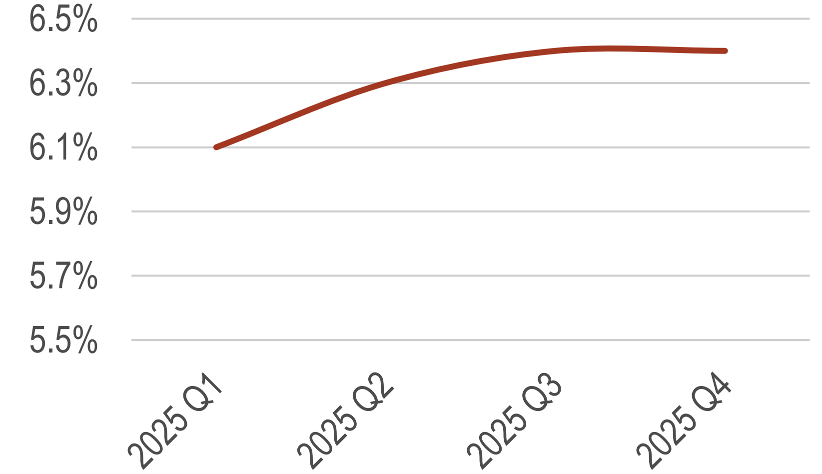
# Retail

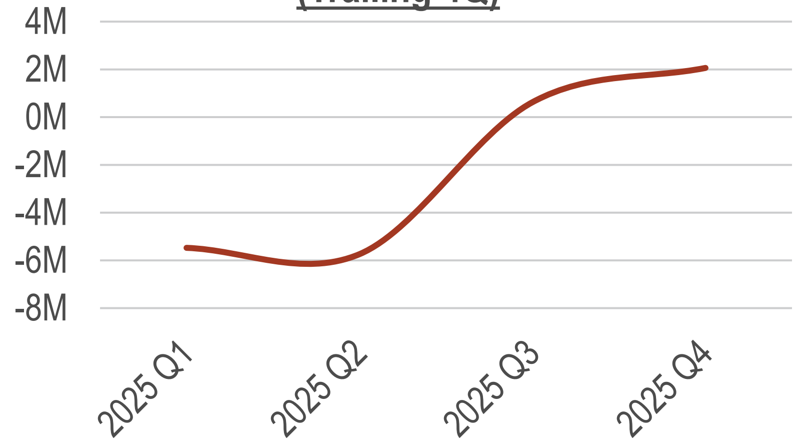
# Retail (Neighborhood Center) Property Market Overview

## Rent Growth Moderated while Vacancy Held Steady; Trailing-Year Net Absorption Was Slightly Negative

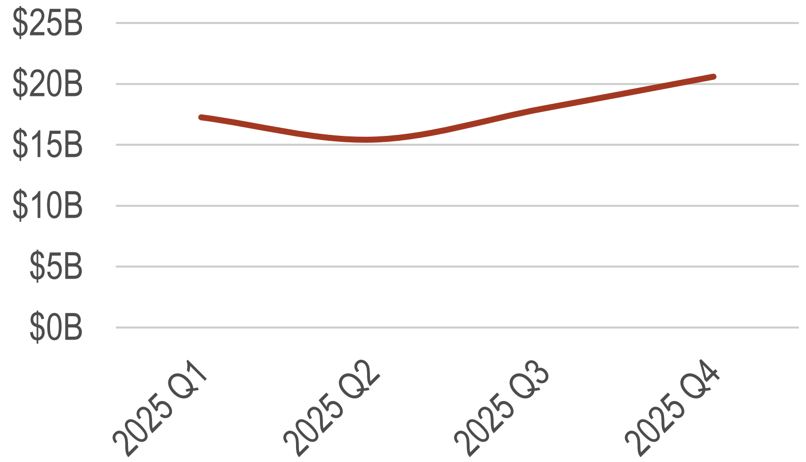
### Vacancy: 6.3%



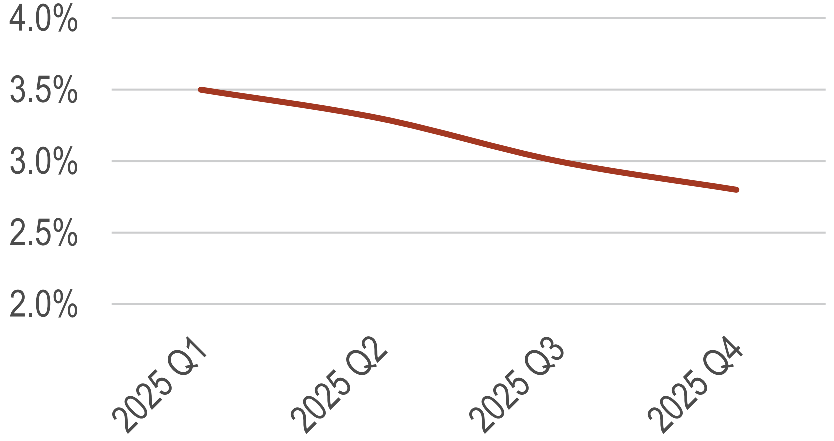

### Absorption: -0.3% of Inv. (Trailing 4Q)



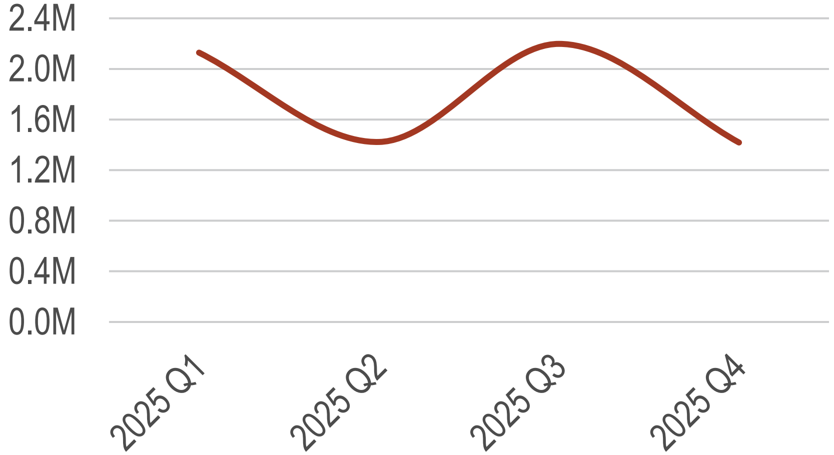

### Transaction Volume: $21B



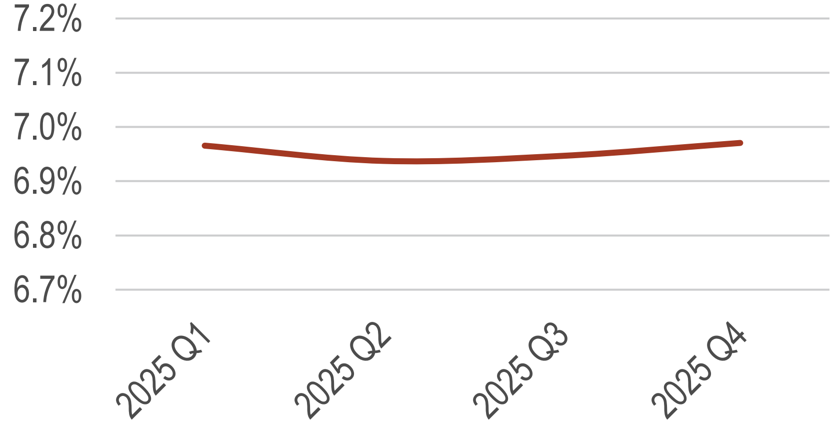

### Rent Growth: 2.8%




### New Supply: 0.2% of Inv. (Trailing 4Q)



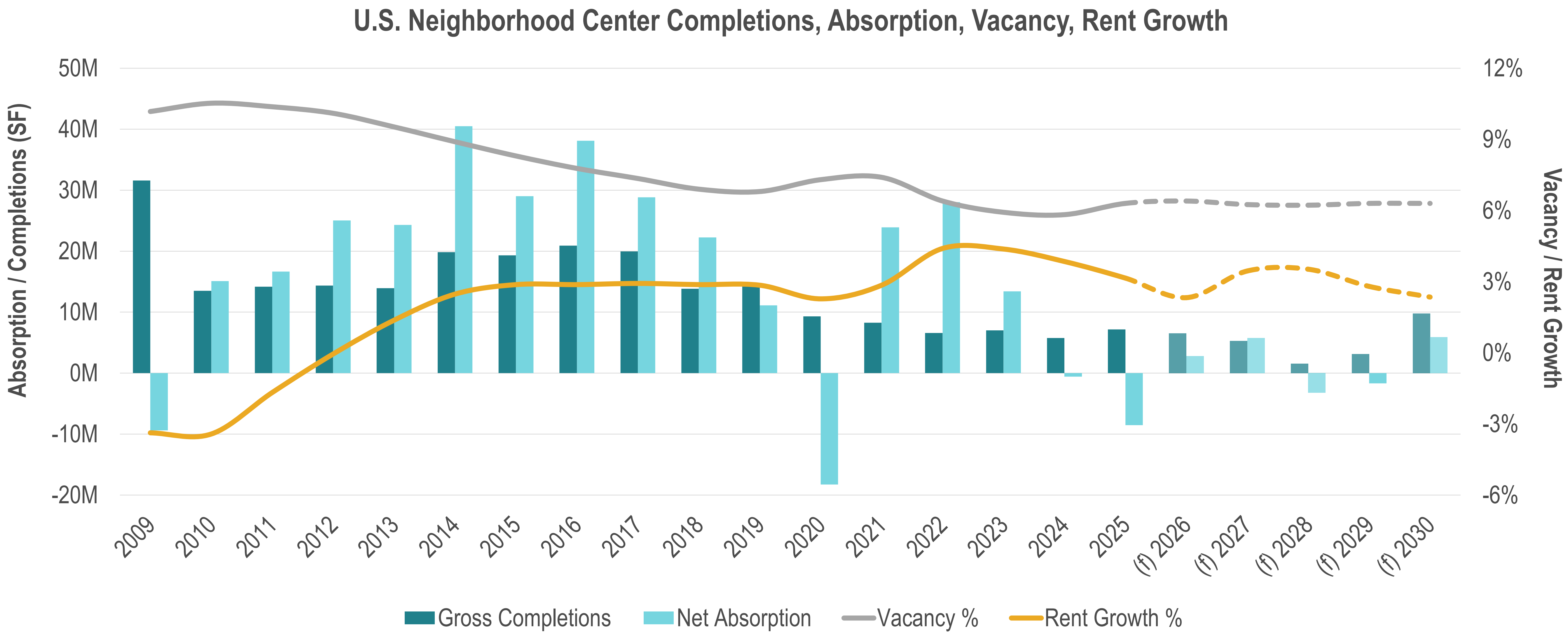

### Cap Rate: 7.0%




*Note: Data are filtered for neighborhood centers; rent growth is based on asking market rent; cap rates are trailing 4Q averages.*
*Source: CoStar; MSCI*

# Fundamentals Weakened Due to Negative Absorption in 2025

## Rent Growth Is Forecast to Slow in 2026 Before Recovering; Vacancy to Remain Steady at Current Low



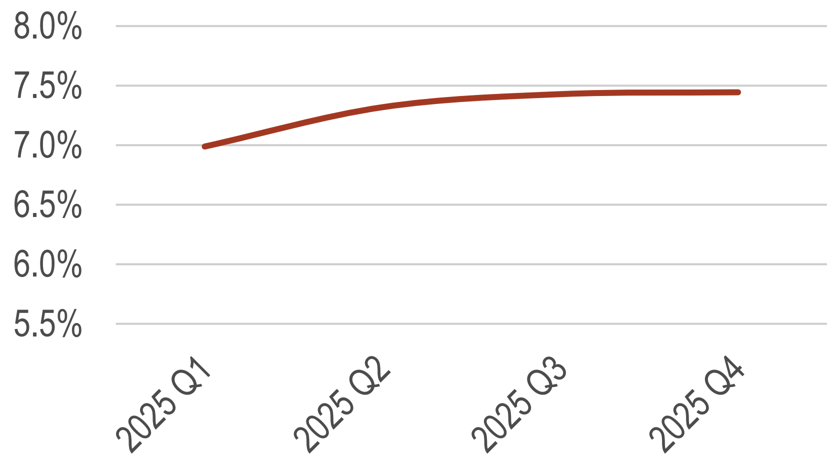

*As of 2025 Q4.*
*Note: Data are filtered for neighborhood centers; rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent growth is based on asking market rent.*
*Source: CoStar*

# Industrial

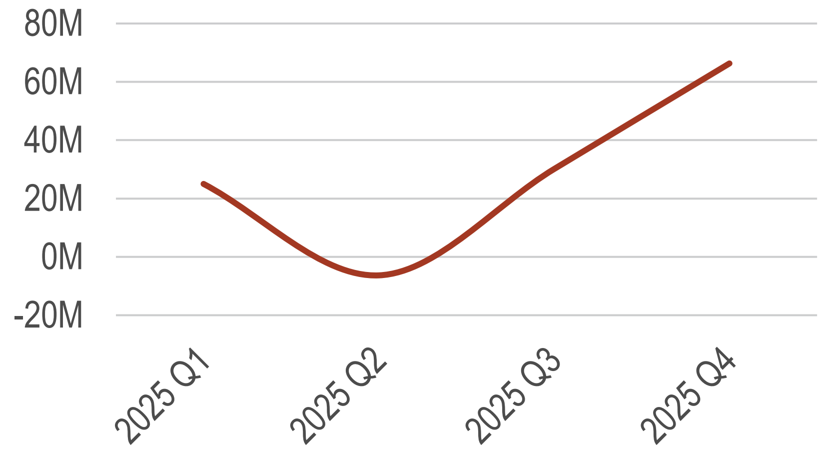
# Industrial Property Market Overview

## Fundamentals Softened in 2025 Due to Low Absorption; Transaction Volume Increased

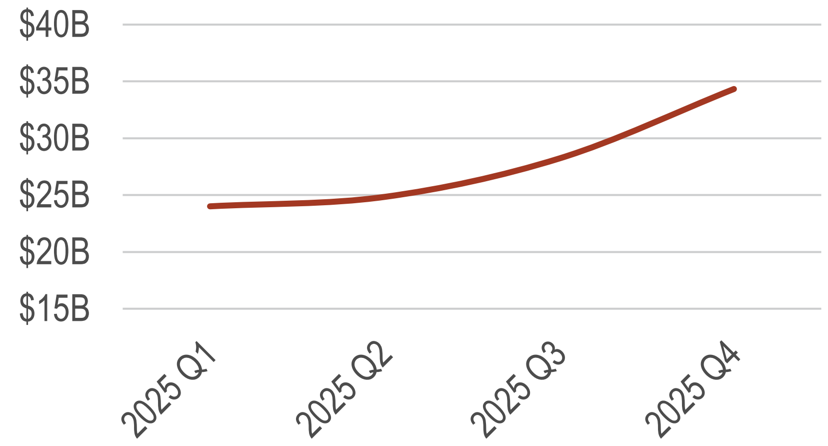
**Vacancy: 7.4%**



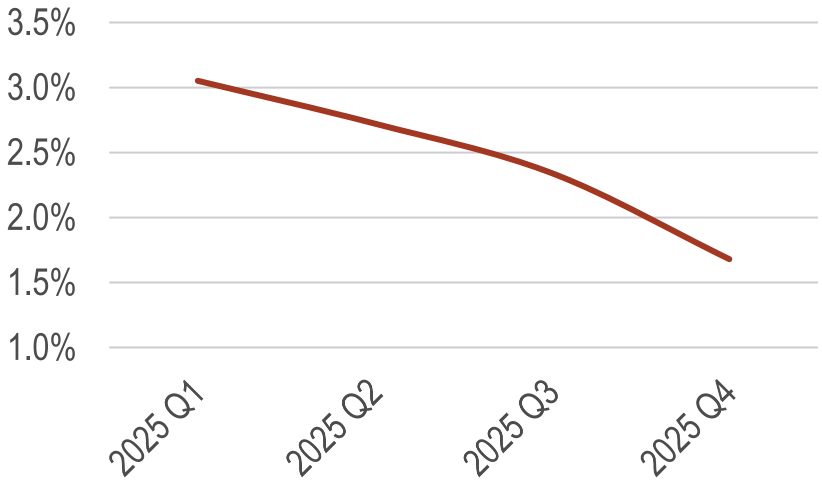

**Absorption: 0.6% of Inv. (Trailing 4Q)**



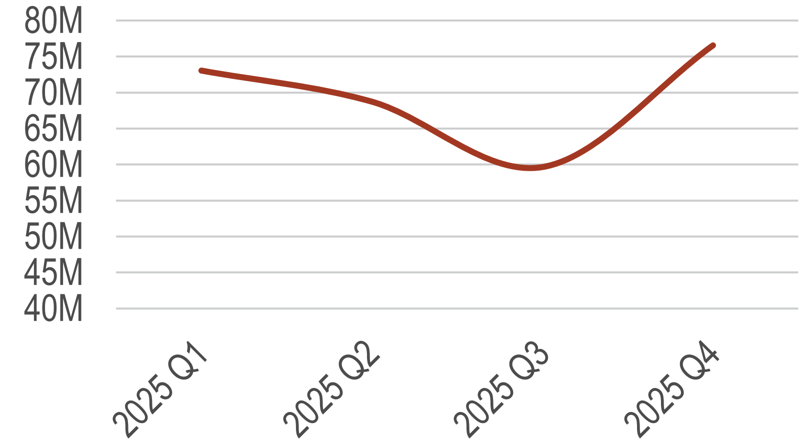

**Transaction Volume: $34B**



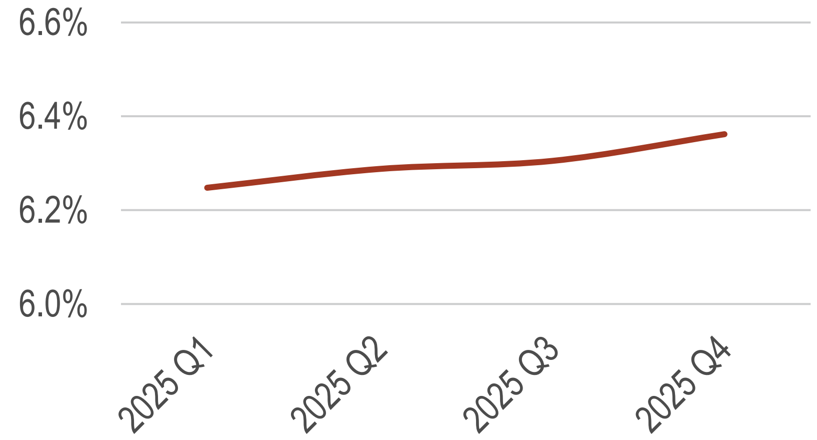

**Rent Growth: 1.7%**




**New Supply: 1.4% of Inv. (Trailing 4Q)**




**Cap Rate: 6.4%**

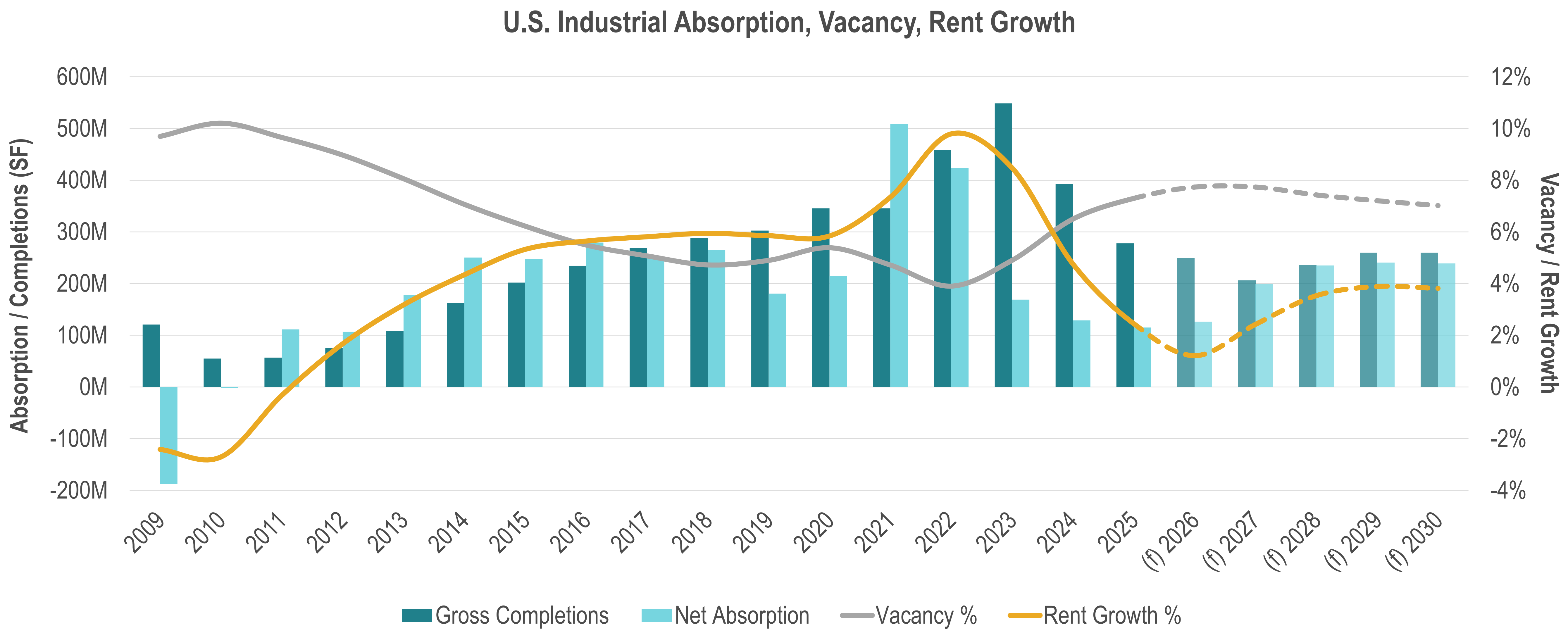





*Note: Rent growth is based on asking market rent; cap rates are trailing 4Q averages.*
*Source: CoStar; MSCI*

# Fundamentals Weakened Due to Supply Spike, Lower Demand

## Vacancy Is Forecast to Reach Cyclical High in 2026; Rent Growth to Rebound in 2027






*As of 2025 Q4.*
*Note: Rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent growth is based on asking market rent.*
*Source: CoStar*

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# Authors

**Bill Maher**
Director, Strategy & Research
**P:** (301) 455-5295
**E:** WMAHER@RCLCO.COM

**Scot Bommarito**
Vice President, Research
**P:** (323) 489-3264
**E:** SBOMMARITO@RCLCO.COM

**Nolan Eyre**
Research Associate
**P:** (618) 944-1163
**E:** NEYRE@RCLCO.COM

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