Invesco

Real estate amid higher interest rates

Trending Conversations

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The current backdrop

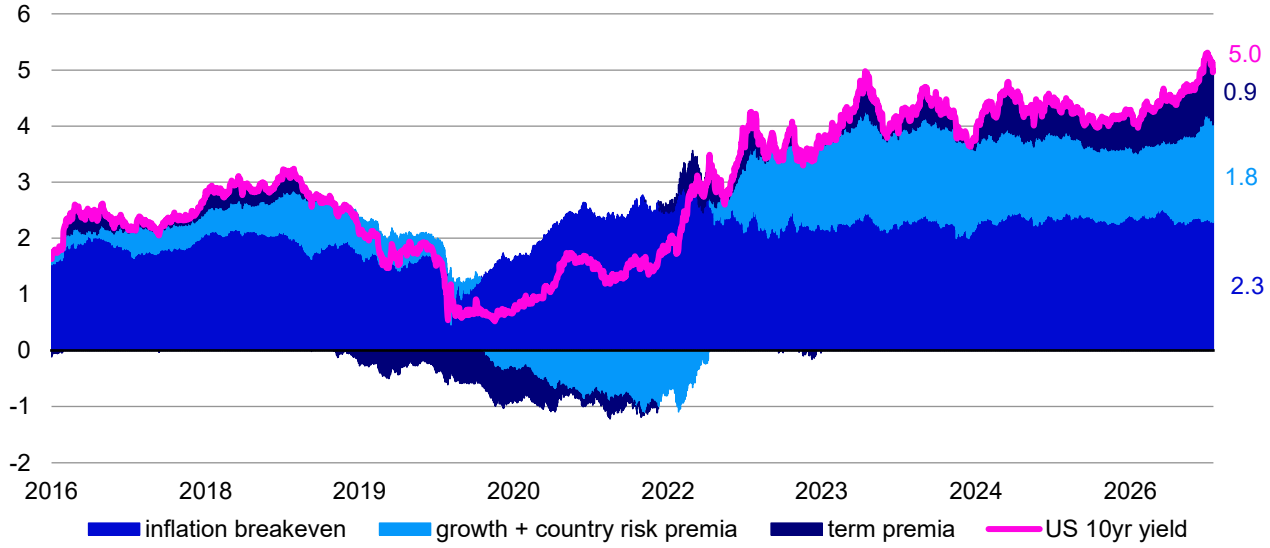
1	**Where are we today?**	• **Interest rates have repriced higher**, driven by higher real yields. • **The economy remains resilient**, with relatively healthy corporate and household balance sheets. • **Real estate values are recovering**, but capital returns remain about 24% below the 2022 peak.
2	**How is private real estate positioned?**	• **Fundamentals are improving** as supply and demand rebalance and capital markets recover. • **New supply is constrained**, while aging and affordability provide secular demand support. • **Capitalization rates (cap rates) may face modest upward pressure** as markets adjust to higher rates.
3	**What do we expect next for real estate?**	• **Real estate equity enters from a stronger position than in 2022**, supported by higher entry yields and improving fundamentals. • **Private real estate has little to no artificial intelligence (AI) exposure**, considerably less than US equities or real estate investment trusts (REITs). • **Real estate equity is positively correlated to inflation** when inflation is high. • **Real estate credit may be well positioned** to capture refinancing needs at higher yields.

Source: Bloomberg, NCREIF, Invesco Real Estate, as of Oct. 31, 2026. Capital return reflects the change in property values only and excludes income; total return includes both. Pricing and capital returns derived from the NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE). AI exposure for private real estate reflects the 2% data center weight of the NCREIF Property Index (NPI). **Past performance does not guarantee future results. An investment cannot be made into an index.**

How significant are the recent moves in bond yields?

Yields are near their highest levels in the period shown, which we believe reflect real yields more than fiscal risk

US 10-year yield decomposition (%)



Key takeaways

SINCE 2021
10Y yield rising since 2021, led initially by post-pandemic recovery and inflation.

YIELDS BACK ON THE RISE
Strong growth, sticky inflation and policy uncertainty kept yields elevated, and now at multidecade highs.

BREAKEVENS STEADY
Inflation breakevens held near 2.3% since February as the 10-year rose to over 5%.

REAL YIELDS ARE THE DRIVER
In our view, nearly all the rise reflects real yields; low US credit default swap (CDS) spreads may point to positive growth driving yields over country risk.

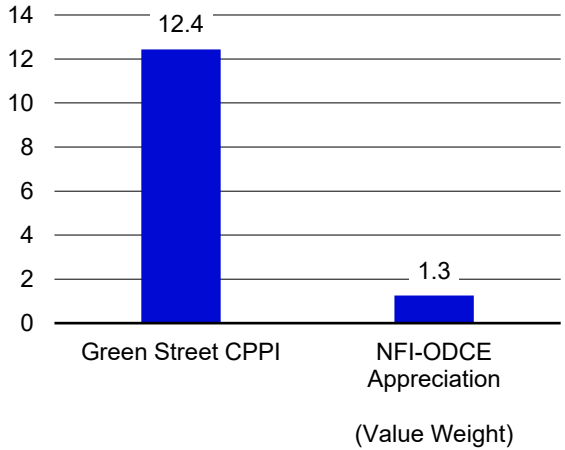
Source: Invesco Strategy & Insights, Macrobond, as of Oct. 31, 2026. *Latest IMF world economic outlook (October 2026) projects US real GDP growth of 2% from 2027-2031. The NY Fed estimates the long run average of the term premia, which is compensation for duration risk, from 1962-2026 to have been 1.3%, with the decomposition methodology sourced from the Fed. 5Y CDS = Credit Default Swap placing a 0.58% probability of the US defaulting on its debt multiplied by the loss given default (one minus a 40% recovery rate).

What does real estate pricing look like heading into higher rates?

In our view, market pricing momentum was favorable with appraisals still catching up

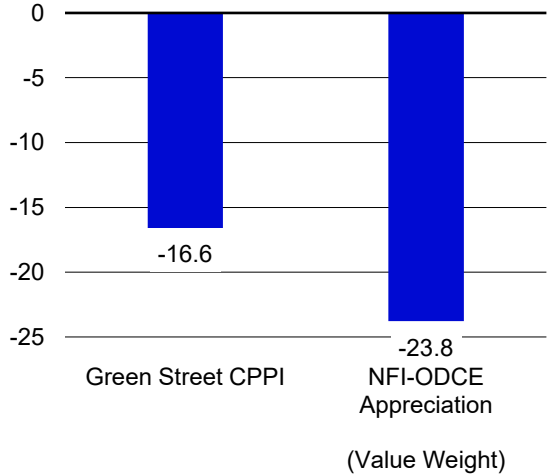
Momentum: Current vs. trough improvement (%)

Current: 3Q-2026 | CPPI trough: 4Q-2023 | NFI-ODCE trough: 3Q-2024



Recovery: Current vs. peak gap (%)

Current: 3Q-2026 | CPPI peak: 1Q-2022 | NFI-ODCE peak: 2Q-2022



Key takeaways

THE RECOVERY

Market pricing troughed first (Green CPPI in 4Q23), with transaction-based pricing recovery starting in 3Q25. Real estate core fund appraisals have started the recovery too but have lagged, with capital returns first turning positive in 1Q26.

MOMENTUM

Real estate core funds have posted positive capital returns since 1Q26, per NCREIF. The market pricing recovery is well ahead, already up ~12% from its trough, while appraisals still sit further below peak, leaving more room to catch up.

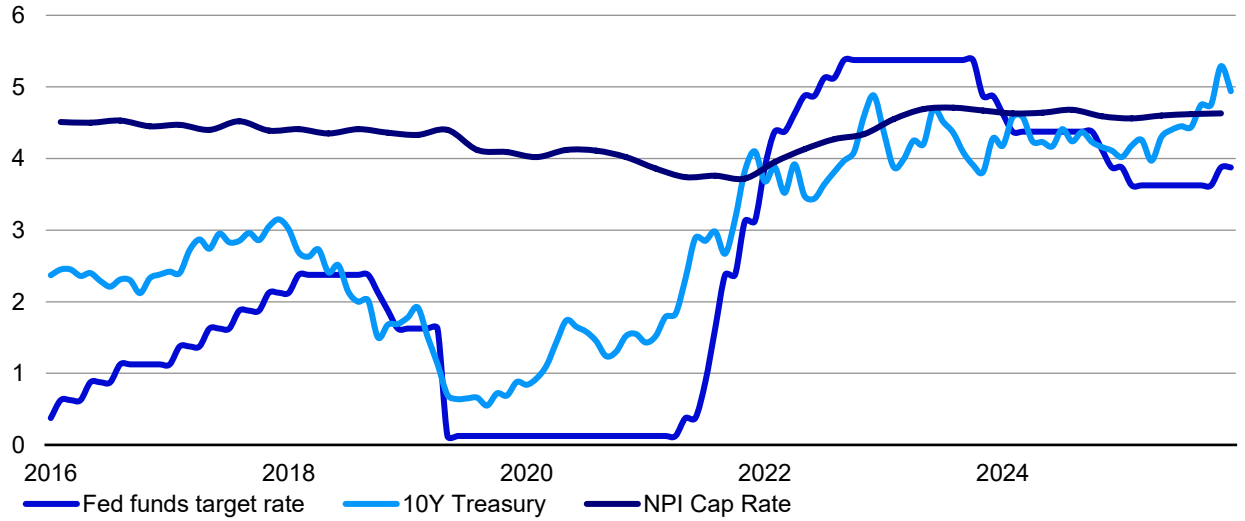
NFI-ODCE value-weighted capital appreciation return, which reflects changes in underlying property values, weighted by market value, and excludes property income; Green Street Commercial Property Price Index (CPPI) – core sectors (equal-weight apartment, industrial, office and retail).
Sources: Invesco Real Estate using data from NCREIF and Green Street as of Sept. 30, 2026. Real estate funds represented NFI-ODCE quarterly total and capital returns: NCREIF, 3Q-2024 through 3Q-2026. For illustrative purposes only. **Past performance does not guarantee future results.** An investment cannot be made into an index.

Will higher yields lift cap rates?

Tight spreads are long-standing; REIT and Baa signals may imply modest pressure

NCREIF Property Index (NPI) cap rates vs. interest rates (%), past 10 years

Fed funds target rate and 10Y Treasury average monthly yields vs. NPI quarterly cap rates



Key takeaways

YIELDS UP, SPREADS TIGHT

Both have held for years; in our view, today is largely a continuation, not a new regime.

RATE MOVES TELL LITTLE

In our analysis, changes in the Fed funds rate and 10Y yield have shown little correlation with next-year cap-rate moves.

REIT, CREDIT SIGNALS STRONGER

Spreads to REIT implied cap rates and Baa yields have been stronger predictors in our analysis (correlations of -0.74 and -0.73, respectively[1]).

MODEST HEADWIND, NOT ’22–’24

Thin cap rate spreads over REIT and Baa yields point to cap rates edging higher, but, in our view, likely short of ’22–’24 changes as improving fundamentals may be an offset.

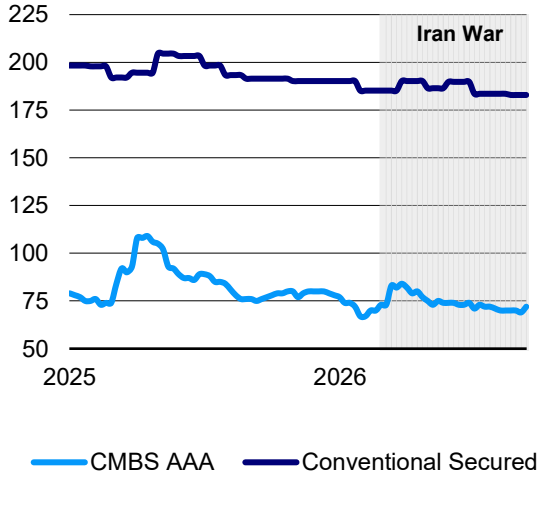
Source: Invesco Real Estate using data from Moody’s Analytics, Macrobond, Green Street and NCREIF through September 2026. NPI quarterly cap rates represented by NCREIF NPI value-weighted appraisal cap rates. [1]Correlation with REIT implied cap rates measured by the correlation of quarterly averages of Green Street market-cap weighted cap rates with one-year forward NPI cap rate changes using data from 3Q 2009 through 2Q 2026. Correlation with Baa yields measured by the correlation of quarterly average Baa data with one-year forward NPI cap rate changes using data from 2003 through 2Q 2026. US 10Y Treasury correlation analysis uses data from 1Q 1995 through 2Q 2026. Fed funds rate correlation analysis based on data from 2Q 1991 through 2Q 2026. [2]NPI cap rate spreads to implied REIT cap rates and Baa yields as of Sept. 30, 2026. **Past performance does not guarantee future results.** An investment cannot be made into an index.

Will higher rates derail the recovery?

Tight spreads and rising deal flow may indicate a defensive starting point

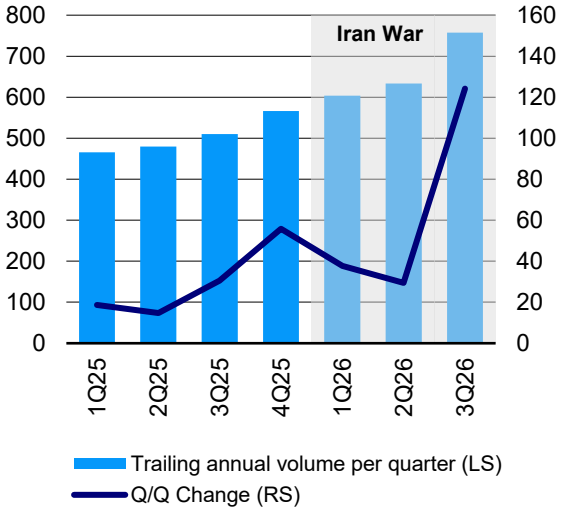
Commercial mortgage-backed securities (CMBS) spreads

AAA spreads over 10-year Treasuries (basis points)



Transaction activity

US commercial real estate (CRE) annual transaction volume (US$ billions)



Key takeaways

FAVORABLE RISK APPETITE

Credit spreads on real estate debt held tight after the early-war spike, which we view as a signal of positive sentiment and healthy lending and risk appetite for the sector.

HEALTHY TRANSACTION VOLUME

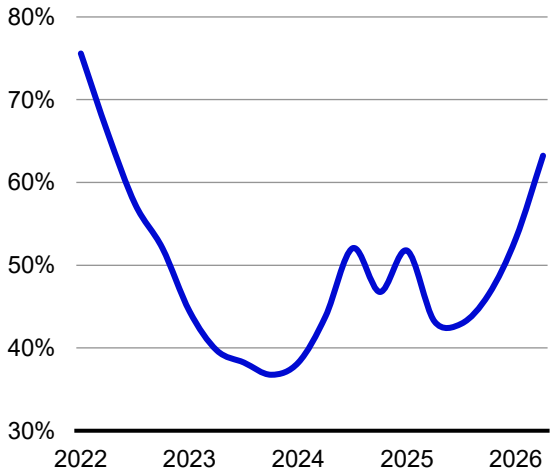
Positive risk appetite for the sector is reflected in improving transaction volumes, though higher base rates will likely delay transaction decisions in the near term.

Source: Invesco Real Estate estimates as of Sept. 23, 2026, using data from Moody's Analytics, Green Street, Trepp and MSCI Real Capital Analytics. Spreads are shown over comparable-term Treasuries. Conventional Secured: Average rate for 10-year, 60% loan-to-value (LTV), fixed-rate debt secured by multifamily, retail, office. **Past performance does not guarantee future results.** An investment cannot be made into an index.

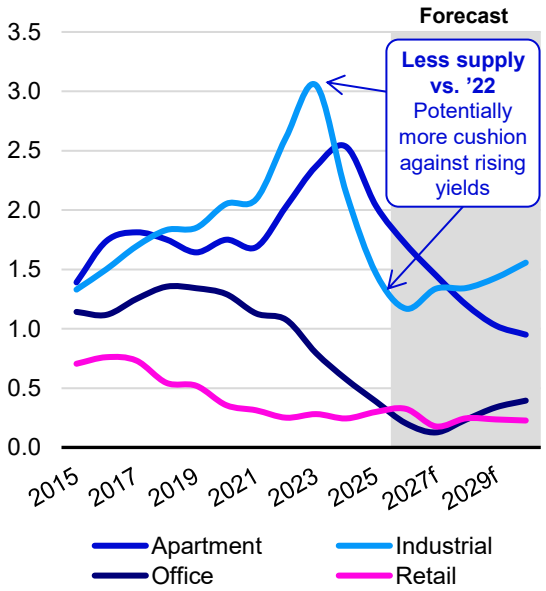
What about fundamentals?

Demand is starting to exceed new supply, and we believe supply may taper further

% of markets where demand growth exceeds supply growth



Completions as a share of stock (%)



Key takeaways

DELIVERIES NORMALIZING

In our view, supply deliveries are normalizing, well past their peaks, and approaching pre-pandemic levels (lower in office).

DEMAND OUTPACING SUPPLY

In our view, the recovery is broadening. Falling supply is helping demand outpace deliveries across more sectors and markets.

RESTRAINT AHEAD

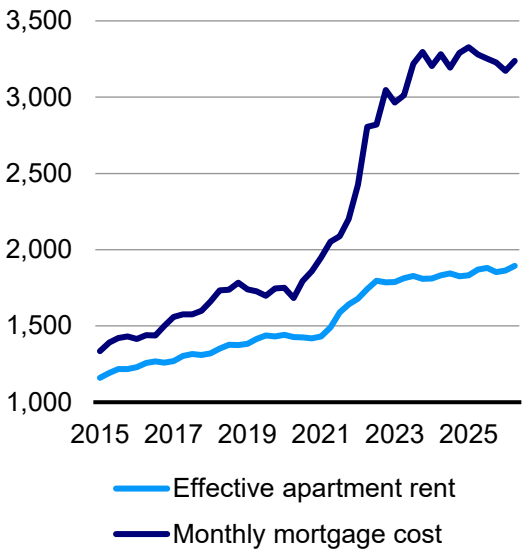
Further supply restraint ahead. Higher rates may keep pressure on construction financing and development economics.

Source: Invesco Real Estate using demand and supply growth data from Green Street as of June 30, 2026 (latest available), and completions data and forecasts from CBRE-Econometric Advisors. Completions forecast is as of Q2 2026. Left chart y-axis begins at 30%. SFR = single family rentals. *Net deliveries represents gross completions less demolitions.
There is no guarantee the forecasts provided will come to pass.

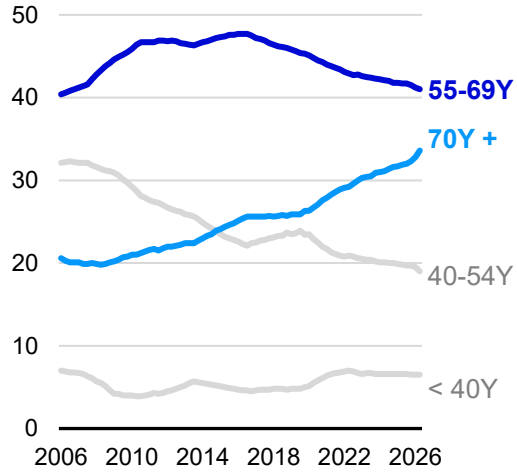
What about secular trends?

We believe affordability and aging will shape the next real estate cycle

Monthly apartment rent vs. mortgage cost (US$)



Share of US net worth (%) by age



Key takeaways

OWNERSHIP COSTS FAVOR RENTING

The rate-driven leap in mortgage costs has far outpaced rents. Higher rates may also constrain new supply, which may support the backdrop for multifamily apartment fundamentals.

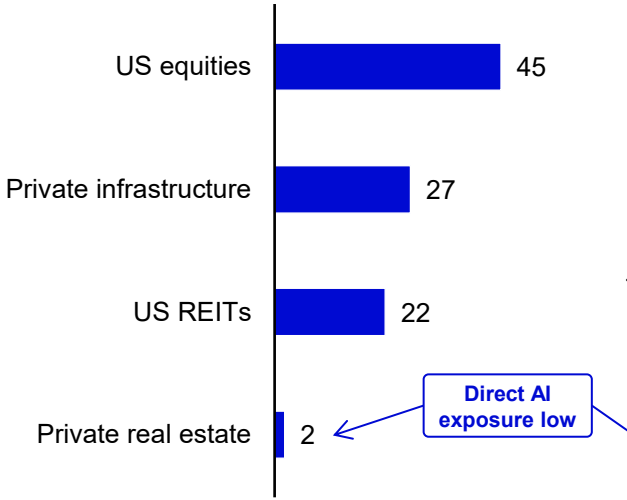
AGING DEMOGRAPHICS

In our view, an older, wealthier population may favor senior housing and medical office sectors. The 70+ cohort is growing fastest and holds a rising share of wealth.

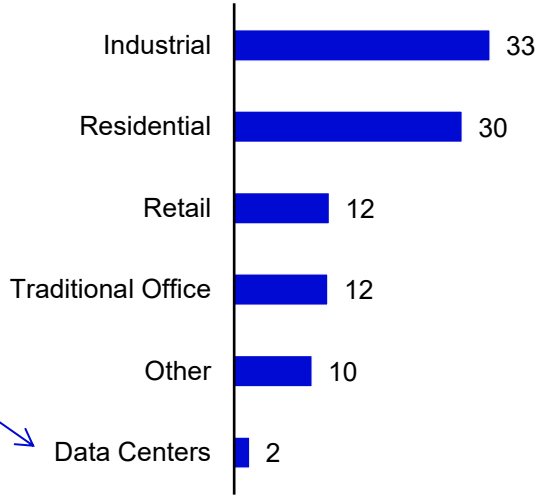
Sources: Left chart: RealPage as of July 2026; Invesco Real Estate, utilizing data from Moody's Analytics as of July 2026. Monthly mortgage cost based on median-priced home, 90% loan-to-value, 30-year fixed rate, plus insurance and tax (estimated at 2.5% of home price on an annual basis). Left chart y-axis begins at US$1,000. Right chart: Moody's Analytics and the Federal Reserve Board from 1Q-2006 through 2Q-2026.

What about artificial intelligence (AI)?
Private real estate has limited direct AI exposure today

AI-related share of market capitalization (%)



NCREIF NPI sector composition (% of market value)



Key takeaways

NOT AN AI PROXY
Data centers may benefit from AI investment and growth, but real estate has limited first-order AI exposure, aside from incremental AI-related tenant demand in select sectors and markets.

DIFFERENT RETURN DRIVERS
With about 2% of the NPI in data centers, private real estate returns have been driven mainly by housing, labor, logistics and consumers rather than AI-related sectors.

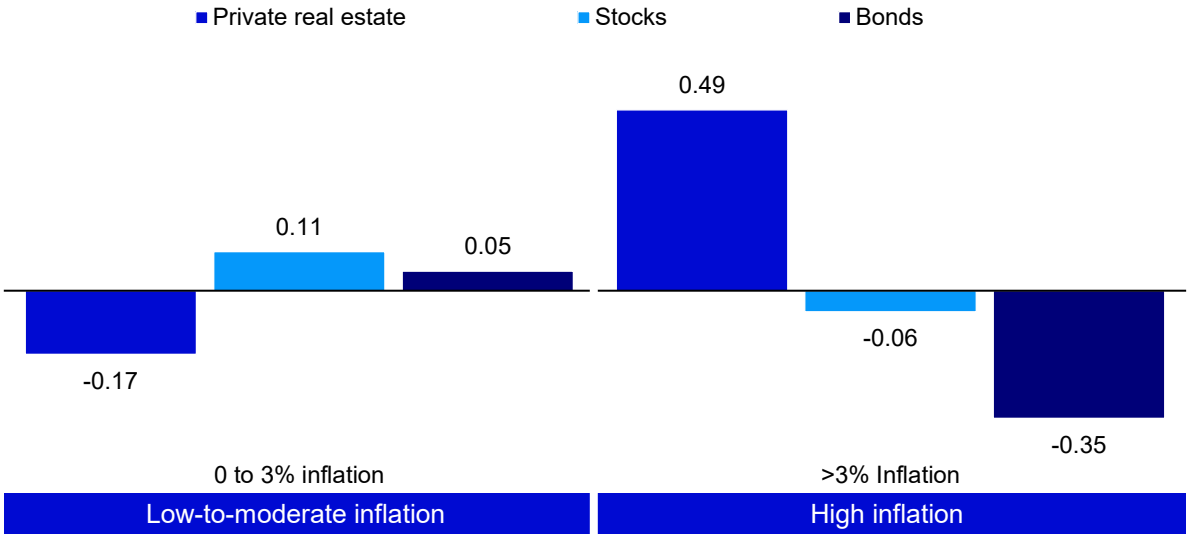
REITS AND INFRA EXPOSED
While the AI exposure of public REITs and private infrastructure is much lower than US equities, 20% or more of their exposure is to AI-related sectors (data centers, telecom).

Sources: Invesco Real Estate, McKinsey, S&P, as of Oct. 30, 2026. Left chart: AI-related share of market capitalization by asset class. US equities represented by the S&P 500, AI exposure estimates from Goldman Sachs. US REITs represented by the FTSE NAREIT All Equity REITs index, with sector exposures to data centers at 12% and telecom at 8%. Private infrastructure estimates from McKinsey's 2026 global infrastructure report, with the 27% shown reflecting McKinsey's estimated 2026 share of transaction volume in telecommunications, used as a proxy and not a measure of market capitalization. Right chart: NCREIF Property Index (NPI) sector composition. Private real estate AI-related share in left chart proxied by the NPI data center weight.
Diversification does not guarantee a profit or eliminate the risk of loss.

How does real estate perform in a higher inflationary economy?

Private real estate returns have been positively correlated with inflation above 3%

Correlation of annual returns and inflation (CPI)
1Q 1978 to 3Q 2026



Key takeaways

BASE CASE
In our base case, we believe inflation may remain modestly elevated in the short term.

RENT GROWTH
Rents can rise with inflation as economic growth reinforces rent growth.

VALUES VS. COSTS
Higher assumed rents can lift values, though higher operating costs and cap-rate pressure may offset gains.

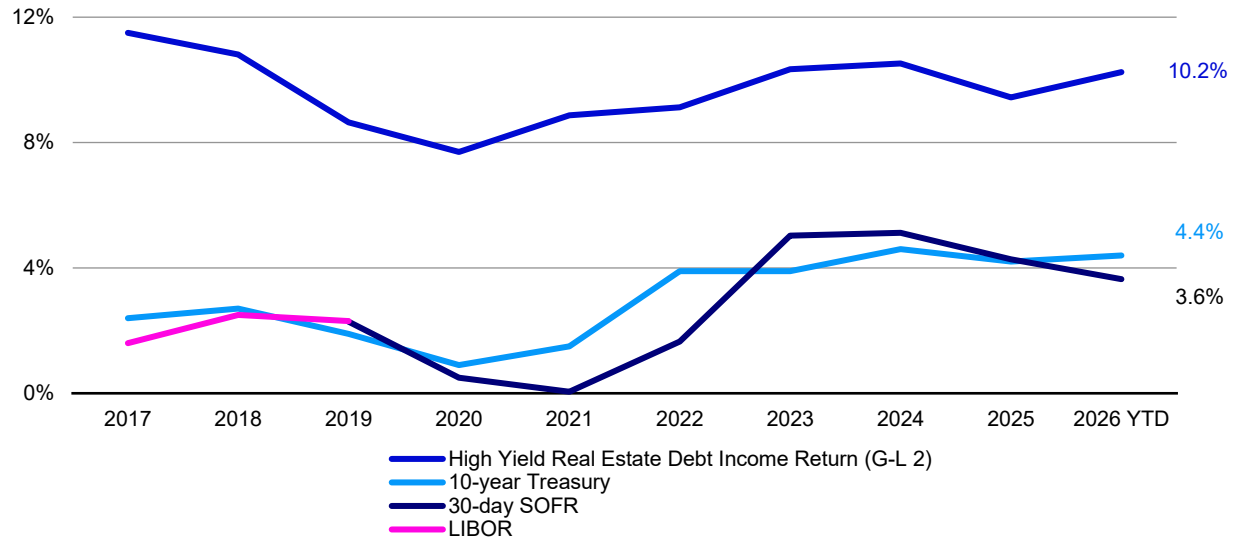
HIGH-INFLATION TRACKING
When inflation was above 3%, private real estate returns were more positively correlated with inflation than stocks or bonds.

Private real estate = NCREIF Property Index (NPI); Stocks = S&P 500 Index; Bonds = Bloomberg US Aggregate Bond Index. Inflation = Consumer Price Index (CPI); low-to-moderate inflation = 0 to 3%; high inflation = above 3%. An investment cannot be made into an index. Source: Invesco Real Estate using data from NCREIF, Bloomberg, Macrobond and Moody's Analytics as of Sept. 30, 2026. **Past performance does not guarantee future results.**

What about the credit side?

Private real estate credit income returns have historically held up across rate cycles and exceeded Treasury yields

Income returns and benchmark yields across rate cycles (%)



Key takeaways

HISTORICAL INCOME

Real estate credit income returns of approximately 8% to 12% per year from 2017 through 2025.

INCOME PREMIUM

These income returns exceeded the 10Y Treasury yield by 5% or more in each year shown since 2017.

FLOATING-RATE INCOME

Floating rate coupons may rise with the Secured Overnight Financing Rate (SOFR).

Source: Giliberto-Levy, Moody's Analytics and FRED, as of June 30, 2026. Private real estate credit income return reflects interest income earned on the underlying real estate debt investments from the Giliberto-Levy High-Yield Real Estate Debt Index (G-L 2), excluding changes in market value. Data labels show 2026 YTD values. **Past performance does not guarantee future results. An investment cannot be made into an index. Index returns do not reflect the deduction of fees and expenses.**

Definitions

10-year Treasury yield (10Y) - The yield on US government debt maturing in 10 years; a benchmark for long-term interest rates.

AAA - The highest credit rating assigned by rating agencies, indicating the lowest expected credit risk.

Basis point (bps) - One one-hundredth of one percentage point.

Baa yield - Yield on bonds rated Baa by Moody's, the lowest tier of investment-grade credit.

Bloomberg US Aggregate Bond Index - A broad, market-value-weighted index of US dollar-denominated, investment-grade, taxable, fixed-rate bonds.

Cap rate (capitalization rate) - A property's net operating income divided by its value or purchase price.

Capital return - The portion of total return from changes in property values, excluding income.

CDS (credit default swap) - A contract that pays out if a borrower defaults; CDS spreads are used as a market gauge of credit risk.

Commercial mortgage-backed securities (CMBS): bonds backed by pools of commercial real estate loans.

Correlation - A statistical measure, from -1 to +1, of how closely two variables move together.

CPI - Consumer Price Index: a measure of the average change in prices paid by consumers for a basket of goods and services.

Fed funds target rate - The target range for the overnight lending rate between banks, set by the Federal Reserve's Federal Open Market Committee.

FTSE NAREIT All Equity REITs Index - A market-capitalization-weighted index of US equity real estate investment trusts.

Giliberto-Levy High-Yield Real Estate Debt Index (G-L 2) - A benchmark for high-yield commercial real estate debt such as mezzanine loans, preferred equity and A/B note structures.

Green Street Commercial Property Price Index (CPPI) - An index of US commercial property values across core sectors (equal-weight apartment, industrial, office and retail).

Income return - The portion of total return from income (net operating income or interest), excluding changes in value. Total return = income return + capital return.

Inflation breakeven - The difference between nominal Treasury yields and inflation-protected Treasury yields of the same maturity; a market-implied inflation expectation.

London Interbank Offered Rate (LIBOR): a former benchmark short-term interest rate, since replaced by SOFR.

LS/RS - Left scale / right scale: shows which vertical axis a chart series is plotted against.

LTV (loan-to-value) - A loan amount as a percentage of the value of the property securing it.

NCREIF Property Index (NPI) - An index of returns on institutional-quality commercial properties owned by tax-exempt institutional investors.

NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE): an index of open-end, diversified private core real estate funds.

REIT - Real estate investment trust: a company that owns, and typically operates, income-producing real estate.

REIT implied cap rate - The cap rate implied by the public market pricing of REITs' property portfolios, as estimated by Green Street.

S&P 500 Index - A market-capitalization-weighted index of 500 large US companies.

Secured Overnight Financing Rate (SOFR): a benchmark interest rate based on overnight Treasury repurchase transactions.

Spread - The difference in yield between two securities or rates, such as a bond's yield over a comparable-term Treasury.

Term premia - Extra yield investors require to hold longer-term bonds rather than roll shorter-term ones; compensation for duration risk.

Disclosures

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Risks:

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer's opinion and may not be realized. Although certain kinds of investments are expected to generate current income, the return of capital and the realization of gains, if any, from an investment will often occur upon the partial or complete disposition of such investment.

Investing in commercial real estate assets involves certain risks, including but not limited to: tenants' inability to pay rent; increases in interest rates and lack of availability of financing; tenant turnover and vacancies; and changes in supply of or demand for similar property types in a given market.

Infrastructure investments are long-dated, illiquid investments that are subject to operational and regulatory risks. Infrastructure companies are subject to risk factors including high interest costs, regulation costs, economic slowdown, and energy conservation policies.

Broadly syndicated loans involve significant risks. These loans are typically made to highly leveraged corporate borrowers, increasing the likelihood of financial distress or default, which may result in loss of principal and interest. The secondary market for these loans can be illiquid, particularly during periods of volatility, limiting the ability to sell positions at favorable prices. Although most loans bear floating interest rates, changes in benchmark rates can affect returns. Additionally, covenant-lite structures or reduced lender protections may further increase risk if borrower credit quality deteriorates.

Disclosures (continued)

Real estate credit portfolios are exposed to credit risk which is the risk of inability of the borrower to repay the interest and capital on the scheduled dates and at maturity. Loans or loan tranches with lower seniority (mezzanine, junior) bear a higher credit risk as these loans sit behind more senior ones in the repayment queue; the risk may be exacerbated in times of stress and for underperforming loans. Loans with high loan to value ratios (LTVs) or those secured on development assets are generally viewed as more risky than those with low LTVs or those secured on income-generating assets. Commercial mortgage lending is generally viewed as higher risk than residential mortgage lending since the repayment typically depends upon the successful operation of the underlying properties.

Real Estate Investment Trusts (REITs) are pooled investment vehicles that trade like stocks and invest substantially all of their assets in real estate and may qualify for special tax considerations. REITs are subject to risks inherent in the direct ownership of real e state. A company's failure to qualify as a REIT under federal tax law may have adverse consequences to the REIT's shareholders. REITs may have expenses, including advisory and administration, and REIT shareholders will incur a proportionate share of the underlying expenses.

The value of assets or income from investment will be worth less in the future as inflation decreases the value of money.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Treasury securities are backed by the full faith and credit of the US government as to the timely payment of principal and interest.

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