



Investment Insights

2026 Brings Renewed Potential for Real Estate Investors



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- Constructive Macro Backdrop:** Economic resilience and easing financial conditions are creating a supportive environment for REITs in 2026.
- Attractive Valuations:** REITs trade at a discount to equities presenting potential buying opportunities as valuation gaps historically narrow during recovery cycles.
- Sector Opportunities:** Data Centers, Residential and Self Storage offer strong structural tailwinds, in our view, and trade at discounts, while Health Care shows a premium due to demographic demand; Office remains challenged.
- Growth Outlook:** Forecasts point to above-average Funds From Operations (FFO) growth of ~6.5% in 2026.

Resilient economic activity and easing financial conditions are setting a constructive stage for commercial real estate and real estate investment trusts (REITs) as the sector moves further away from pandemic disruptions and into normalization. With new supply muted across many property types and valuation gaps still evident, listed real estate enters 2026 with improving fundamentals and a more supportive backdrop for cash flow growth.

Economic Resilience Sets the Stage for REIT Recovery

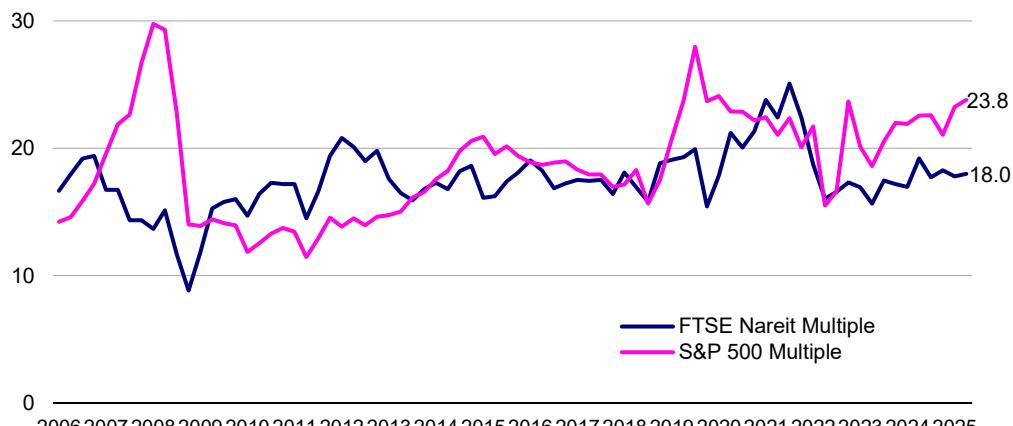
Economic resilience and a measured path toward lower policy rates are helping to stabilize financing conditions and improve visibility for property cash flows. Independent sector outlooks point to balanced supply and demand and highlight areas of structural strength such as data infrastructure as well as steady trends in housing and logistics. This environment reduces oversupply risk and supports rent growth across many segments as development pipelines remain restrained.

Valuation Dislocations Present Opportunity

As seen in Exhibit 1, listed real estate continues to screen attractively relative to broad equities as represented by the S&P 500 Index. Earnings multiple comparisons show equity REITs trading several turns below the S&P 500. The recent strong performance of the US equity market relative to REITs, driven in large part by the outperformance of AI-linked tech stocks,² has resulted in equity valuation multiples soaring above similar REIT metrics. As of November 30, 2025, REITs are trading roughly five turns below their general equity counterparts. Since 2006, the average multiple premium has been less than one turn of the S&P 500 Index's price-to-earnings (P/E) to equity REIT price-to-funds from operations (P/FFO). This ratio was significantly elevated during three periods, the global financial crisis, the COVID-19 pandemic, and most recently AI-driven tech rally. These dislocations have traditionally presented buying opportunities for REIT investors. As cycles progress, these gaps tend to narrow, favoring listed real estate during periods of convergence.

Exhibit 1

Earnings multiples for US REITs* and S&P 500 Index



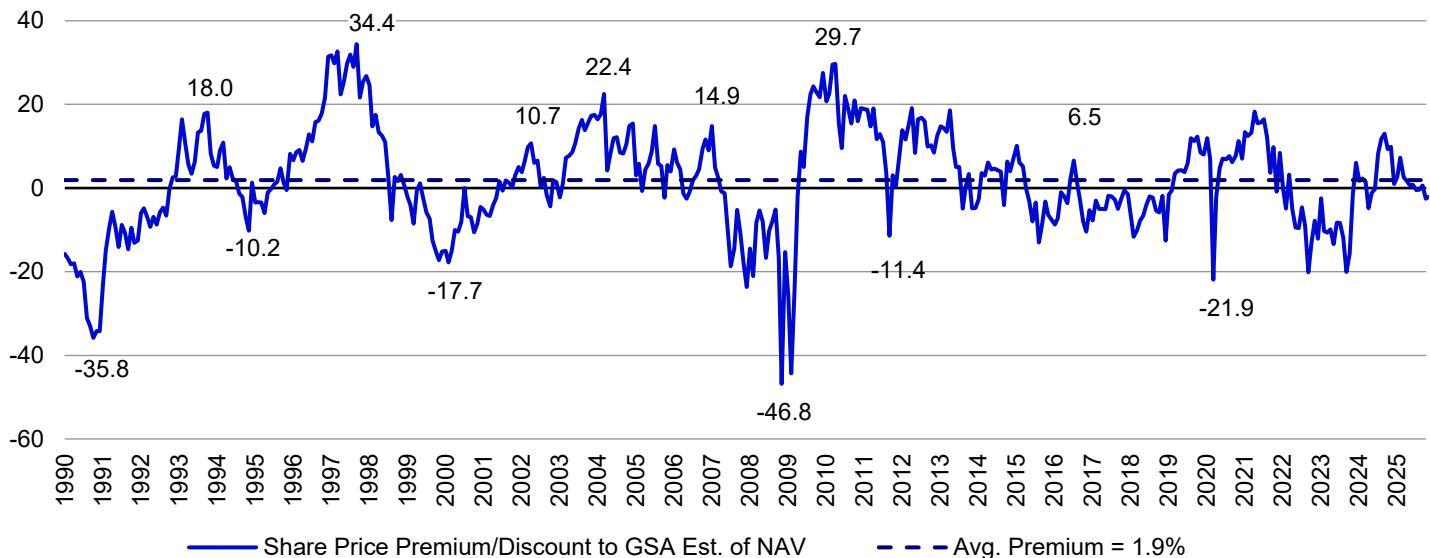
*FFO (Funds From Operations) – Proxy for cash flow per share

Sources: Invesco Real Estate, SNL Datasource, Consensus Estimates, Bloomberg L.P. and Standard & Poor's. Data represents earliest data available. Past performance is not indicative of future results.

On an asset value basis, REITs also look compelling, in our view. As of December 2, 2025 they are trading at a -2% discount to Net Asset Value (NAV), compared with a historical tendency to trade at a slight premium of about +2%. These discounts have historically reverted toward long-term averages as private market valuations adjust and transaction activity resumes. See Exhibit 2 for the share price premium and discount series.

Exhibit 2

Share price premium/discount to GSA estimate of NAV



*Note: GSA estimate of NAV of December 2, 2025 assumes a cap rate of 6.0%

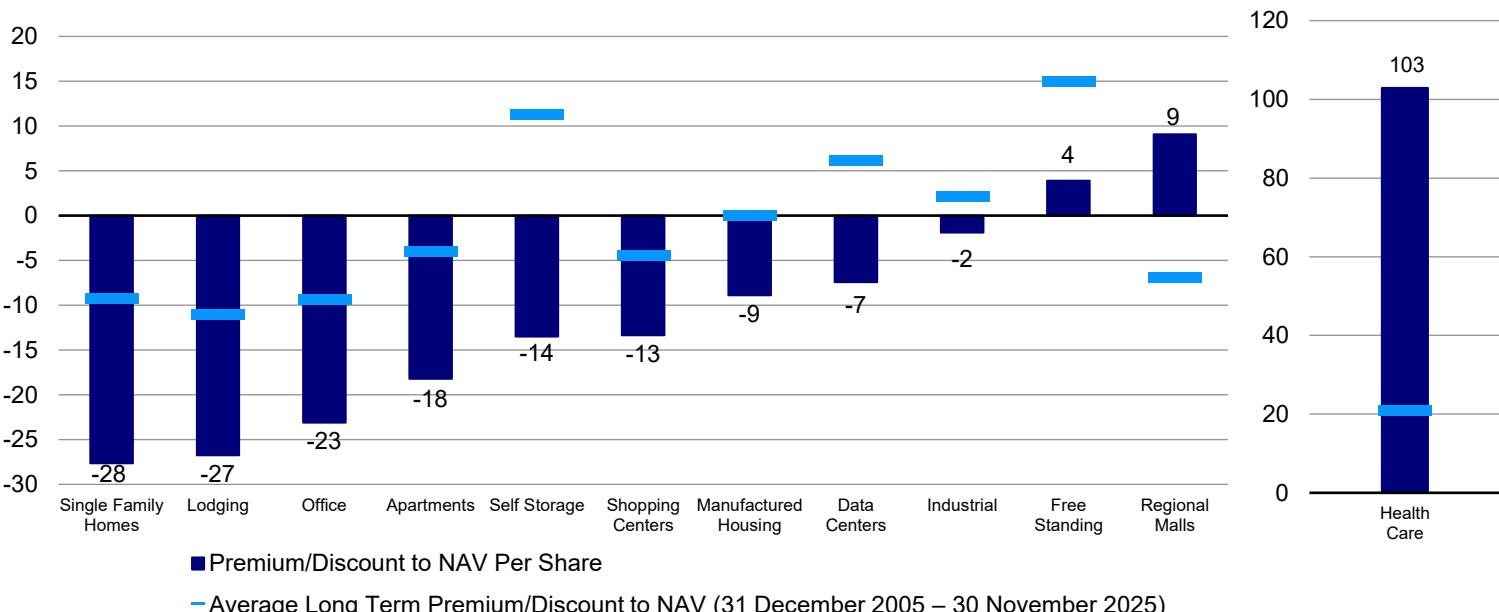
Source: Used by permission of Green Street Advisors (GSA) Real Estate Securities Monthly. Weighted average (weighted by NAV shares outstanding) of all US-listed companies in Green Street's coverage universe, excluding Hotels and those without a published opinion. Equally-weighted average prior to Jan '93. Past performance is not indicative of future results.

Unearthing REIT Sector Opportunities

Valuation dispersion across property types remains elevated. Several segments with durable structural tailwinds trade at discounts to estimated NAV, including Data Centers and Residential sub-sectors such as Apartments and Single Family Rentals. These areas benefit from cloud adoption, digital connectivity, demographic trends and housing undersupply. Self Storage REITs also trade at a discount, supported by steady demand and limited new supply. See Exhibit 3 for REIT sector premiums and discounts together with long-term averages.

Exhibit 3

US Real estate securities valuations metrics by sector (%)



Source: Invesco estimates based on consensus data and FTSE Nareit Index. *Averages are from 31 December 2019 – 30 November 2025.

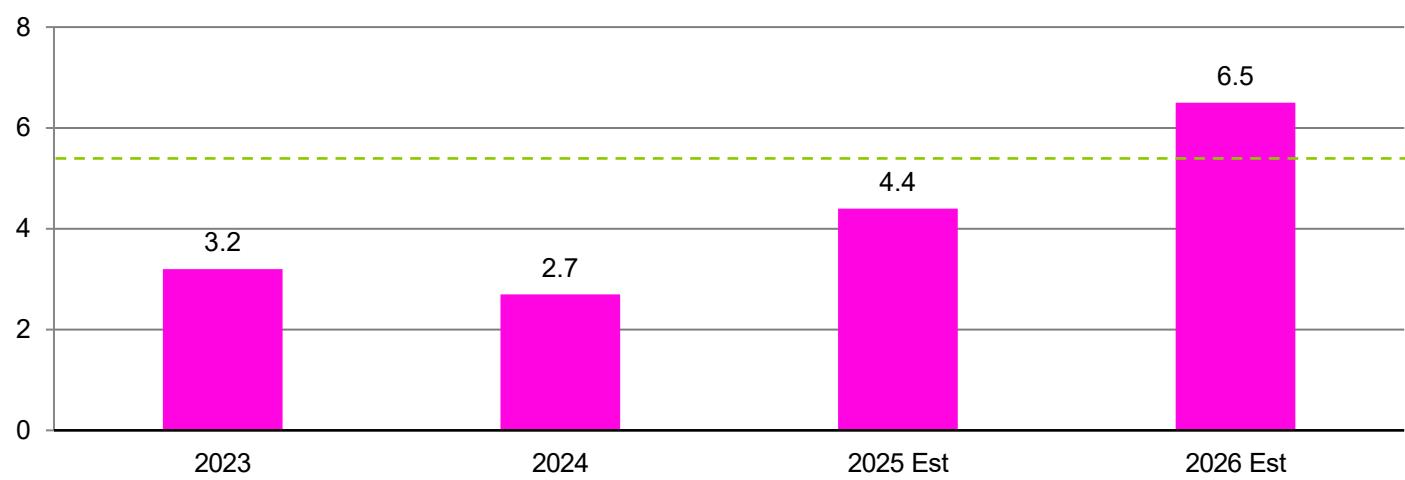
Health care stands as an outlier with a sizable premium to estimated NAV, reflecting strong investor demand and the influence of senior living valuations. While this premium suggests less near-term valuation upside, it underscores confidence in the sector's fundamentals, which are supported by demographic tailwinds and low new supply. Office continues to register more pronounced discounts given lingering demand sensitivities.

A Positive Turn for Real Estate

After a period of softer growth from 2023 through 2025, expectations point to an acceleration in 2026, in our view. Consensus views anticipate FFO growth that is above the long-term average, supported by more constructive supply demand dynamics and improving transaction activity. Exhibit 4 shows a progression toward 6.5% FFO growth for 2026 relative to a long-term average near 5.4%. This suggests growth trends above historical norms, which would be consistent with a broader normalization in valuations.

Exhibit 4

US REIT FFO growth (%)

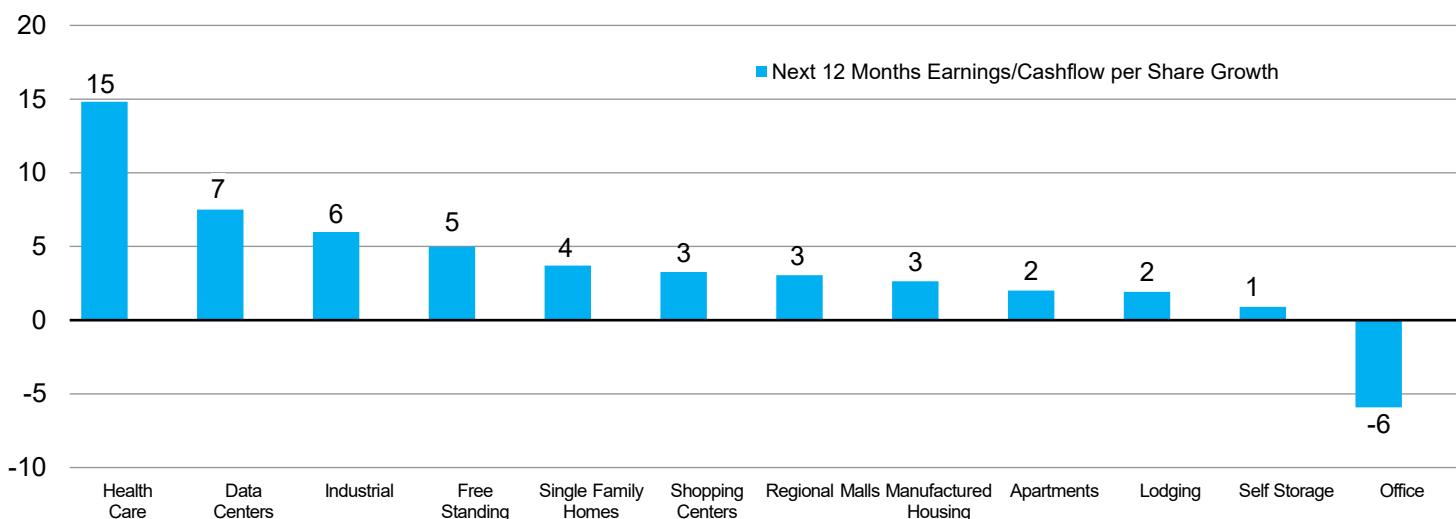


Source: Invesco estimates based on Bloomberg and Factset consensus data and FTSE Nareit All Equity REITs Index. Data as of October 2025. Long Term Average based on 2000-2024 data.

At the sector level, cash flow growth expectations are positive across most sectors except Office. Health Care leads, supported by demographic tailwinds and limited new supply. Data Centers benefit from persistent demand for cloud computing and interconnection, while Industrial remains well positioned given tight vacancy and resilient tenant demand. See Exhibit 5 for cash flow growth across sectors.

Exhibit 5

US real estate securities valuation metrics by sector (%)



Source: Invesco estimates based on consensus data and FTSE Nareit Index as of November 30, 2025.

The combination of dividend income and moderate cash flow growth underpins a potential improvement in total return profiles as valuation spreads compress.

A Positive Outlook for Listed Real Estate in 2026

As 2026 begins, we believe listed real estate offers a compelling combination of improving fundamentals, attractive valuations, and sector-specific opportunities. A supportive macro backdrop, restrained development pipelines, and accelerating growth expectations provide a favorable setting for active managers seeking to capitalize on valuation gaps and structural themes. While dispersion across property types remains, the overall outlook for REITs is constructive, with potential for both income and capital appreciation as markets normalize.

Important information

Source: All data sourced from Invesco Real Estate as of 12/15/2025 unless otherwise stated.

1. Source: Invesco estimates based on Bloomberg and Factset consensus data and FTSE Nareit All Equity REITs Index. Data as of October 2025.
2. AI linked tech stocks and their performance 1/1/2025 through 11/30/2025 include : Amazon (Ticker AMZN) 6.30%, Nivida (Ticker NVDA): 31.83%, Broadcom (Ticker AVGO): 74.57%, Microsoft (Ticker MSFT): 17.53%, Alphabet (Ticker GOOG): 68.42% and Meta Platforms (Ticker META): 10.93%.

FFO, or Funds From Operations, is a key financial metric for Real Estate Investment Trusts (REITs) that measures operating performance by adjusting net income to better reflect cash flow, primarily by adding back real estate depreciation and amortization and removing gains/losses from property sales.

The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. An investment cannot be made into an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

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REITs are subject to additional risks than general real estate investments. The value of a REIT can depend on the structure and cash flow generated by the REIT.

REITs concentrated in a limited number or type of properties, investments or narrow geographic areas are subject to the risks affecting those properties or areas to a greater extent than less concentrated investments. REITs are subject to certain requirements under federal tax law and may have expenses, including advisory and administration expenses.