

STOCKBRIDGE

Key Insights from Stockbridge's

2026 REAL ESTATE STRATEGIC OUTLOOK



EXECUTIVE SUMMARY

The U.S. real estate market is in the early innings of a new cycle following a multi-year valuation reset driven by higher interest rates, inflation volatility, and capital markets dislocation. Asset valuations bottomed in late 2023 to early 2024, transaction activity began to recover in late 2024, and 2025 served as a transitional year marked by recalibration rather than broad-based recovery. As of early 2026, improving macro clarity, easing short-term rates, and reduced supply across most property types are creating an environment for disciplined capital deployment.

We believe this cycle will differ materially from prior recoveries. Cap rate compression is expected to be limited due to structurally higher inflation and elevated long-term interest rates. As a result, income growth and operational execution (not asset appreciation) should be the primary drivers of returns. We believe strategies emphasizing durable cash flow, thematic demand, and bottom-up asset management approach are best positioned to outperform.

Stockbridge's investment thesis for 2026 centers on four core convictions:

- 1 Housing **affordability** constraints will structurally expand the renter population
- 2 Logistics assets remain mission-critical amid **digitalization and supply-chain reconfiguration**
- 3 Retail fundamentals benefit from **prolonged supply suppression**
- 4 Office investment should remain highly selective, focused on **well-located modern, amenitized assets** where pricing dislocation creates relative value opportunities

For the **full version of our 2026 Strategic Outlook**, please reach out to Paul Kolevsohn.



PAUL KOLEVSOHN
MANAGING DIRECTOR,
INVESTMENT STRATEGY & RESEARCH
kolevsohn@stockbridge.com





MACROECONOMIC AND CAPITAL MARKETS BACKDROP

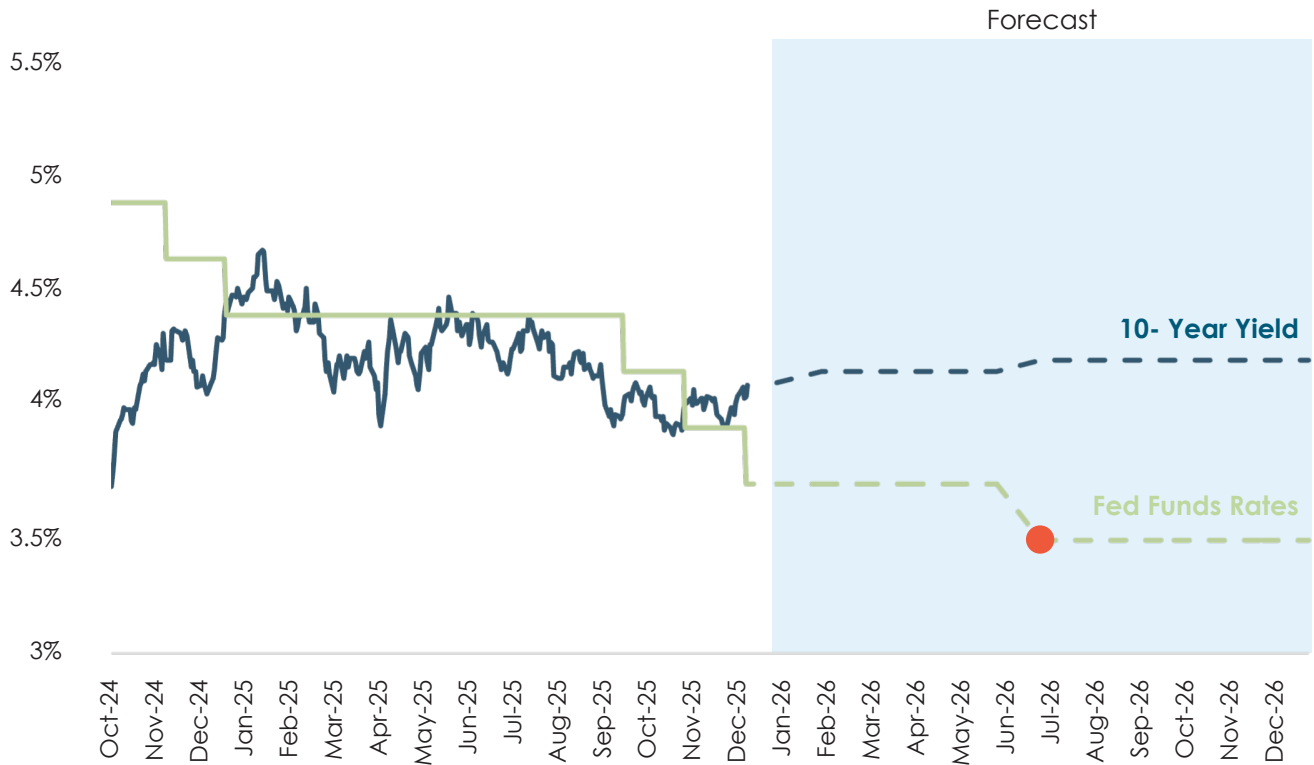
INFLATION AND INTEREST RATES

Inflation is expected to persist at levels which are moderate relative to prior peaks, but should remain structurally above the Federal Reserve's long-term 2% target through 2026. Accordingly, elevated inflation and declining demand for U.S. Treasuries is likely to keep the 10-year treasury rate around the 4% range through 2026, limiting the potential for meaningful cap rate compression. The market expects the Fed Funds Rate to decline modestly due to softer employment data and moderating, but still above target inflation. This should translate into lower borrowing costs, improving transaction liquidity and capital flows into real estate without materially lowering long-term yields.

This environment reinforces real estate's role as an inflation-resilient asset class, particularly in sectors where both market rent growth and contractual rent escalations may outpace CPI over the next couple of years.

CHART 1

10 YEAR TREASURY VS. FED FUNDS RATE



Source: Oxford Economics, Federal Reserve



EMPLOYMENT

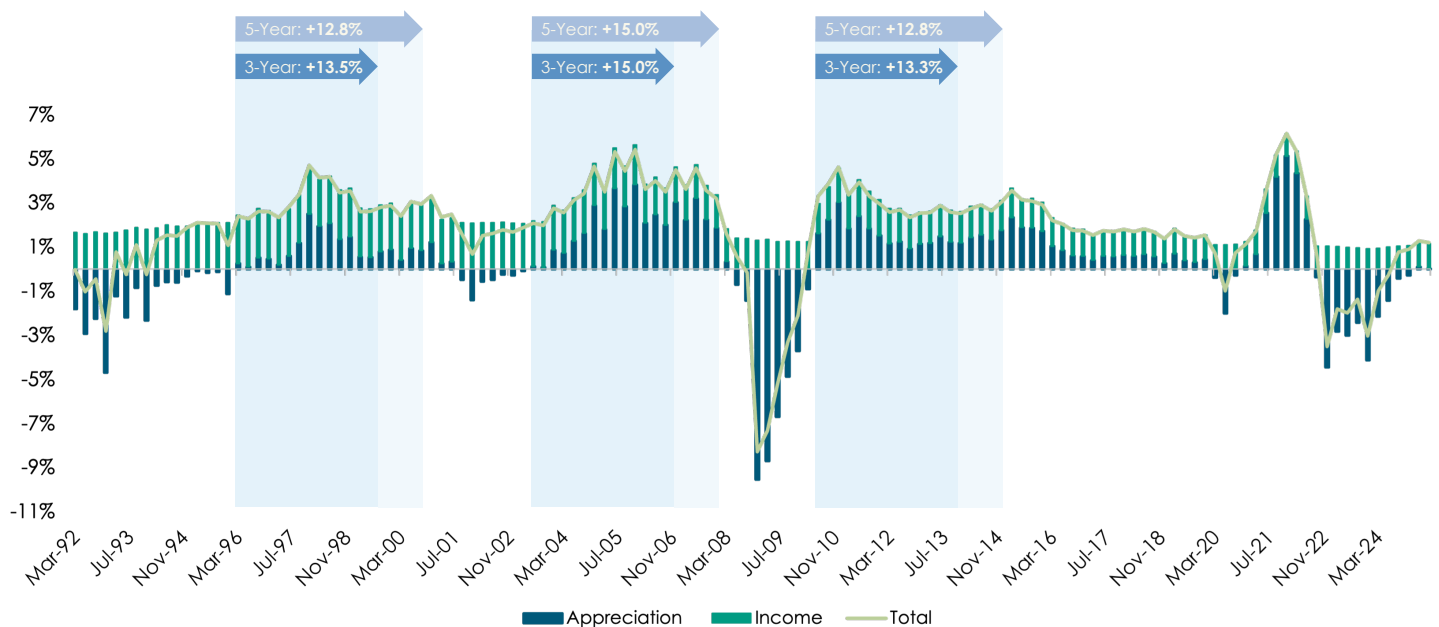
The U.S. job market has demonstrated resiliency over the past several quarters. While employment growth has been slower, a widespread disruption in the job market is not anticipated in the near-term. This dynamic supports continued household formation and consumption while reinforcing demand for most forms of rental housing, especially subtypes which cater to households with moderate incomes. It remains too early to predict the long-term employment impacts of transformative technologies such as artificial intelligence on the U.S. workforce and global labor demand.

CAPITAL MARKETS AND VALUATIONS

Real estate valuations reached cyclical lows in late 2023 and early 2024. Early signs of appreciation emerged in 2025, marking the transition into a recovery phase. Historical precedent suggests that periods following valuation troughs have consistently delivered strong three- and five-year total returns (Chart 2). With capital still cautious and many owners constrained by legacy basis or debt maturities, we believe 20216 presents a compelling deployment window for well-capitalized and disciplined investors.

CHART 2

NCREIF QUARTERLY RETURNS



Source: Chart reflects NCREIF NPI quarterly appreciation, income, and total returns through Q3 2025. Shaded periods indicate quarters when appreciation turned from negative to positive, with 3-year and 5-year total returns measured over the following 12 and 20 quarters. The first shaded period (starting 1Q 1996) corresponds to 3-year and 5-year returns of 13.50% (as of 4Q 1998) and 12.80% (as of 4Q 2000). The second shaded period (starting 2Q 2003) corresponds to 15.07% for both the 3-year (as of 1Q 2006) and 5-year (as of 1Q 2008) horizons. The third shaded period (starting 2Q 2010) corresponds to 3-year and 5-year returns of 13.29% (as of 1Q 2013) and 12.75% (as of 1Q 2015). Stockbridge.



INVESTMENT STRATEGY BY SECTOR

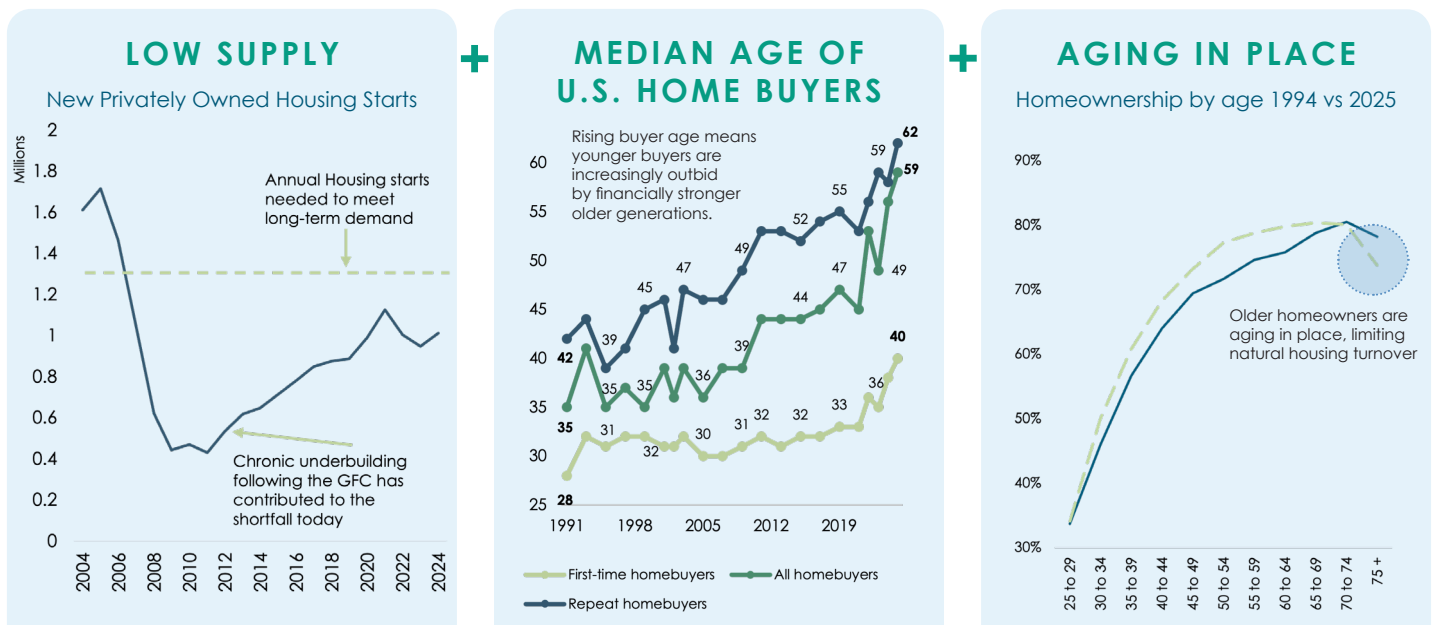
RESIDENTIAL: AFFORDABILITY-DRIVEN DEMAND EXPANSION

Housing affordability has become the defining structural theme of this cycle. While persistently high mortgage rates do affect affordability, we believe the primary constraint is the lack of housing inventory suitable for moderate to lower income households. As illustrated below (Chart 3), post-GFC underbuilding combined with demographic pressures such as the largest age cohort (Millennials) entering prime renting years, growth in the renter population, and aging in place reducing the turnover of existing home inventory has tightened supply and further limited access to homeownership. These dynamics along with record levels of non-household debt, such as student loans and auto loans, as well as decreased savings, will continue to push households to the rental market.

KEY TAKEAWAYS:

- Observations point to growing activity across several housing subtypes aimed at expanding attainable housing options.
- Apartments, manufactured housing, and build-to-rent communities appear to be benefiting from the ongoing shortage of affordable single-family homes.
- Student housing continues to show notable momentum, particularly at universities experiencing sustained enrollment growth.
- New supply has moderated significantly from 2023–2024 levels, which has contributed to a generally more supportive environment for fundamentals and rent trends.
- Market performance remains highly uneven, highlighting the importance of understanding local dynamics when evaluating Residential.

CHART 3



Source: Federal Reserve Economic Database, U.S. Census Bureau



LOGISTICS: MISSION-CRITICAL INFRASTRUCTURE FOR A DIGITAL ECONOMY

Logistics real estate remains essential infrastructure supporting e-commerce, supply-chain resiliency, and manufacturing reshoring. After a period of elevated speculative construction, industrial supply growth is declining sharply, with construction projected to reach an 11-year low in 2026, per CBRE Econometrics Advisors. Vacancy is expected to peak in 2026 and begin declining as demand normalizes.

Structural shifts toward near-shoring, faster delivery expectations, and supply-chain optimization favor modern bulk, last-mile, and industrial outdoor storage (IOS) assets located near major population centers. Aging industrial stock further supports demand for modern facilities, creating opportunities for repositioning and selective redevelopment.

KEY TAKEAWAYS:

- Logistics properties in high growth population markets continue to play an important role in modern supply chains and appear positioned to capture ongoing structural drivers.
- Activity spans a wide range of industrial subtypes, with bulk distribution, last mile facilities, and industrial outdoor storage (IOS) drawing increased attention.
- IOS remains a particularly distinct segment, marked by very limited inventory and steady operational characteristics.

RETAIL: NECESSITY AND ESSENTIAL SERVICES

Retail fundamentals have quietly strengthened following more than a decade of minimal new supply. Development economics remain largely unfeasible across most markets, suggesting continued supply constraints. Occupancy has steadily improved, and rent growth is supported by tight availability - particularly when accounting for functional obsolescence in older retail stock (Chart 4).

Performance divergence across formats is pronounced. Grocery-anchored and essential strip centers continue to outperform, benefiting from convenience-oriented consumer behavior and resilient foot traffic, while most traditional mall formats continue to gain traction in the transaction markets.

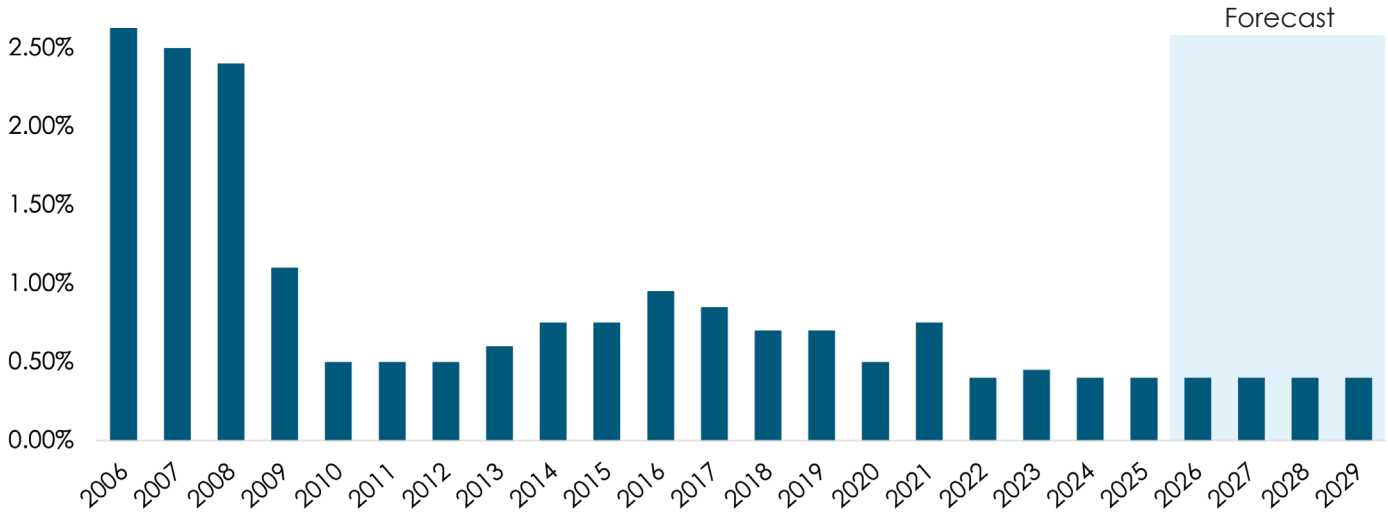
KEY TAKEAWAYS:

- Well located retail centers with established tenant bases continue to show stable operating patterns and opportunities for incremental operational improvement.
- Properties anchored by grocery or discount retailers or with strong unanchored tenant mixes are demonstrating resilience due to their focus on essential goods and services that are needs based and less vulnerable to ecommerce substitution.



CHART 4

STRIP CENTER SUPPLY GROWTH



Source: Green Street

OFFICE: SELECTIVE RELATIVE VALUE OPPORTUNITIES

Office remains the most challenged major property type. However, utilization has recovered to approximately 75% of pre-pandemic levels¹, with a slow but steady upward trajectory. Demand has bifurcated sharply, favoring newer, amenitized, well-located buildings, while less modern assets experience persistent vacancy and value declines.

KEY TAKEAWAYS:

- Office conditions remain challenging, and activity across the sector has become increasingly selective.
- Higher quality assets with modern amenities, such as fitness offerings, food and beverage options, and collaborative spaces, appear to be attracting comparatively stronger tenant interest.
- Buildings situated in transit accessible locations or leading submarkets are showing relatively better performance.

¹Placer.ai

CONCLUSION

The 2026 investment environment is defined by early-cycle recovery conditions, structural supply constraints, and a return to fundamentals-driven investing. Income growth, thematic demand alignment, and operational execution will be the primary drivers of performance.

Stockbridge's strategy emphasizes sectors where necessity-based demand, affordability pressures, and digitalization create durable tailwinds. By remaining disciplined, selective, and operationally-focused, these strategies are well-positioned to capitalize on the opportunities which will emerge in the next phase of the real estate cycle.



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