PIMCO

REAL ESTATE OUTLOOK

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From Repricing to Relevance

Commercial real estate is entering a new phase. Artificial intelligence and geopolitical volatility are reshaping how physical space is used and valued.

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Introduction and key themes

The key question for real estate is no longer whether values have bottomed, but what will drive returns in a world where cap rates are likely to stay higher for longer.

Investors should consider where in the capital structure they are best compensated for risk. Equity may offer income with upside potential from active asset management, whereas debt may offer income with downside mitigation.

Key takeaways

01 **Flexibility is paramount.**

As the role of physical spaces evolves, flexibility across asset use, occupier mix, business plans, hold periods, capital structure, and geography is critical in this uncertain environment.

02 **Quality income is foundational to returns.**

With quality income as an anchor, active managers can leverage selectivity in irreplaceable locations and mission-critical assets to drive performance.

03 **Execution matters more in overlapping sectors.**

We see compelling opportunities where real estate execution edge – site selection, development, and asset management – can deliver alpha across digital, social, and defense-related infrastructure assets.

These takeaways represent the views of PIMCO and PIMCO Prime Real Estate as a combined real estate platform. As of 31 December 2025, PIMCO managed one of the world's largest CRE platforms, with over 280 investment professionals overseeing approximately $169 billion in assets across a broad spectrum of public and private real estate debt and equity strategies. Assets include $91.9 billion in assets managed by PIMCO Prime Real Estate. PIMCO Prime is a PIMCO company and includes PIMCO Prime Real Estate GmbH, PIMCO Prime Real Estate LLC, and their subsidiaries and affiliates. PIMCO Prime Real Estate GmbH operates separately from PIMCO. Mr. Trausch is chief executive officer and chief investment officer of PIMCO Prime Real Estate and a managing director at PIMCO.

The age of relevance

Commercial real estate is finding an equilibrium. Operating fundamentals have broadly stabilized, and capitalization rates have settled into a higher-for-longer range. New supply is constrained in most segments.

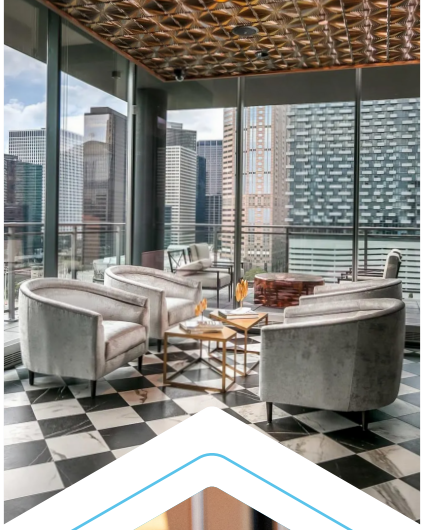
Yet, we see this equilibrium giving way to a new phase for real estate. Artificial intelligence (AI) and geopolitics could reshape how physical space is used and valued. AI is the most consequential. Its effects on productivity, tenant behavior, and space use may take years to crystallize. The geopolitical forces are less novel, but no less important. (PIMCO colleagues analyze how the capex boom, led by AI infrastructure spending, and geopolitical developments are likely to affect the global economy in the *Secular Outlook*, "Rupture and Resilience.")

The market has spent much of the past two years debating whether values have bottomed. We think that is the wrong question. Investors should instead ask what will drive returns when cap-rate compression no longer does most of the work. Managers will need to judge whether the assets they own, lend against or buy will remain relevant as occupiers, capital providers, and governments rethink the role of physical space.

Uncertainty is no longer a passing condition. It is becoming a structural feature of the market. We expect bifurcation to deepen within traditional sectors, especially as capital directed toward data centers and other AI-related assets is pulled away from traditional sectors.

But uncertainty need not mean inaction. We believe flexibility will be the defining advantage of this phase: flexibility in use, occupier mix, business plan, hold period, capital structure and geography. In many sectors, that flexibility is best anchored in irreplaceable locations or mission-critical use cases, although "mission critical" will mean different things in different markets.

The reset in values and slowdown in new development have also improved the entry point for investors seeking durable and resilient income, and asset-level alpha. This is not a call to buy the market. It is a call for active management, flexible capital, and disciplined underwriting.



AI's impact on real estate

Artificial intelligence is changing demand and adding uncertainty.

AI should widen dispersion within sectors if capital directed to AI infrastructure build-out (including data centers) is diverted from other assets. The buildout of AI-capable data centers alone is projected to require $5.2 trillion in capital expenditures by 2030.[1] That diversion of capital may put upward pressure on cap rates over time.

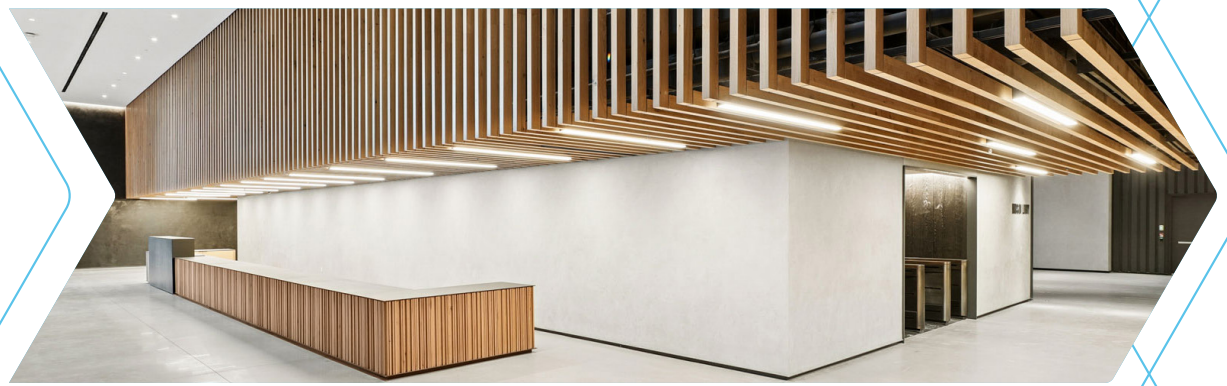
In addition, AI may increase operational bifurcation within traditional sectors, with well-managed assets in irreplaceable locations or with mission-critical use cases outperforming. That said, in our experience, when operating performance diverges within a sector, cap rates often widen across the sector before capital markets can fully distinguish the winners from the laggards. Outperformance takes time to prove.

AI could also lift productivity enough to change space needs across industries. That effect is hard to predict. AI could automate 25% of all current work tasks in the U.S., according to one study, which also states it could take a decade for AI to be widely adopted by firms in the U.S., and 6% to 7% of workers could be displaced over that period.[2]

These are educated estimates, not certainties. But the direction of travel is clear. AI is unlikely to remove the need for physical space; it is likely to change how space is used. For real estate investors, relevance – not mere occupancy – becomes the key test.

Asset managers should apply AI to improve their own processes, but the larger task is to keep assets relevant in an AI-shaped economy. They should also avoid treating every asset in a sector alike. Traditional real estate fundamentals, especially irreplaceable location, should matter more, not less.

In this phase, assets with alternative-use potential may prove more resilient than single-use properties tied to long and brittle business plans. Flexibility is becoming a key driver of value: in business plan, asset use, hold period, capital structure and geography.



Real estate and infrastructure convergence

The boundary between infrastructure and real estate is becoming especially porous. Infrastructure has long appealed to investors seeking long-term, resilient, and often inflation-linked returns. Certain real estate assets can offer similar income characteristics as well as diversification within investor portfolios.

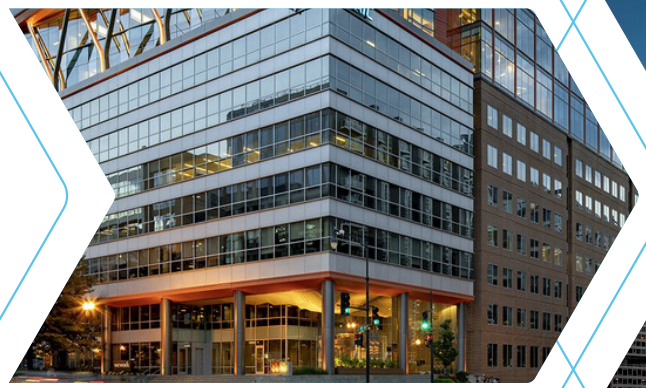
Data centers are the clearest example. They can be underwritten as real estate when value is created through land, entitlements, development and leasing. They behave more like infrastructure when value depends on power, cooling, uptime, grid access, and operating reliability.

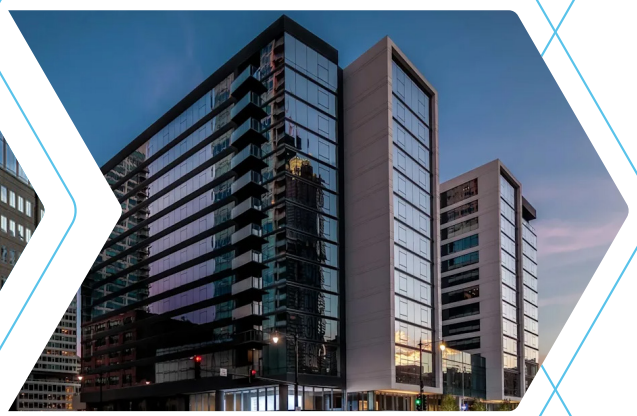
The same blurring is visible in social and public infrastructure. Healthcare facilities, student housing, affordable housing, senior living and necessity-based retail remain real estate: they depend on location and asset management. But their income profiles can resemble infrastructure because demand is tied to essential services, demographics, public-sector needs, and recurring consumption. The real estate skillset is ultimately what allows many infrastructure-adjacent assets to be delivered.

Civic assets such as police stations, courthouses, public-safety facilities, and government offices are real estate in form and infrastructure in function. They support essential public services, require long-term maintenance and modernization, and often rely on public-sector credit. Aging public facilities and deferred-maintenance backlogs could create openings for private capital through public-private partnerships, leasebacks, ground leases, and other long-term structures.

Defense adds a public-private dimension, especially in Europe. At the 2025 NATO Summit in The Hague, European member countries committed to invest 5% of GDP annually in core defense requirements and defense- and security-related spending by 2035. Approximately 1.5% of GDP is expected to be directed toward defense-related infrastructure, which would include areas of logistics, training and recruitment centers, military housing, data centers, manufacturing and production, research and development, and social infrastructure.

Investors should look for adjacent themes where real estate has an edge. Compared with core infrastructure, real estate can often offer faster deployment and lower execution complexity, particularly across digital, social and public infrastructure, and defense, but does require specialized expertise.





Investment implications: the real estate toolbox

Real estate is entering a phase in which operating fundamentals have broadly stabilized, but return drivers are evolving. We favor a toolbox built upon the following priorities.

Be selective and flexible.

With no clear single winner, investors should avoid broad sector calls and underwrite assets through multiple scenarios. Flexibility across use, occupier mix, business plan, hold period, geography, and capital structure may be essential to preserving value and capturing upside.

Prioritize durable income and downside resilience.

Income quality should matter more than headline yield. Investors should focus on tenant quality, lease structure, rent affordability, renewal probability, capital expenditure needs, and predictable demand/supply drivers. The goal is to distinguish durable cash flow from income that may be vulnerable to weaker demand, higher costs, or accelerated obsolescence.

Focus on irreplaceable locations and operational relevance.

Location quality remains central, but "mission-criticality" will vary by sector: power access, networking and latency for data centers, proximity and labor availability for logistics, affordability and demographics for residential, daily-needs traffic for retail, or location and functionality for office. Assets that cannot adapt to changing occupier needs may face greater illiquidity and faster obsolescence.

Underwrite demand risk explicitly.

AI and geopolitics are reshaping the use and value of physical space. They can create new demand, but they can also expose assets to tenant, cost, technology, regulatory, and liquidity risks. Investors should stress test each asset's demand drivers rather than assume that sector tailwinds will apply evenly.

Use the full capital structure.

Equity may offer steady income as well as upside potential where repricing, operational improvement, or redevelopment potential can drive value creation. Debt may offer durable income and collateral protection without taking the last-dollar risk. The key is to choose the part of the capital structure that offers the best compensation for the specific real estate risk.

Plan for liquidity and clear exits.

Bifurcation is likely to manifest not only in performance, but also in liquidity. Assets with weak demand, high capital needs, limited buyer depth, or unclear exit paths may become harder to finance or sell. However, when operating performance diverges within a sector, capital markets may not fully distinguish the winners from the laggards for extended periods of time. Underwriting should therefore include realistic assumptions around refinancing, buyer universe, timing, and downside exit scenarios.

Seek the intersection of resilient sectors and powerful themes.

Attractive opportunities may sit where resilient sectors – such as social infrastructure, logistics, and data centers – intersect with strong themes – such as geopolitics and sovereignty requirements. The most relevant question is not simply the sector label, but the role an asset plays in supporting essential services, productivity, security, connectivity, or reliability.

The bottom line: In this next phase, real estate investors should seek durable income, predictable demand/supply drivers, downside resilience, and execution-driven alpha. We believe the strongest opportunities will come from actively combining resilient sectors with structural themes, while using flexible capital and disciplined underwriting to keep assets relevant across a range of outcomes.

1 McKinsey as of April 2025

2 Goldman Sachs Research as of March 2026

Past performance is not a guarantee or a reliable indicator of future results.

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