



PIMCO

Real Estate Views of 2026: Navigating Structural Uncertainty with Discipline

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After a turbulent period, real estate markets have absorbed a significant amount of pain. We believe 2026 will be defined by structural uncertainty and a return to fundamentals. Predicting interest rates remains complex, so underwriting will need to prioritize income quality over speculative cap rate compression.

While we expect transaction activity to increase — which will likely create more price discovery in equity markets and drive financing in a still-underserved debt market — we stand by our view that uncertainty is now structural and that the recovery will be uneven.

In this market context, we believe success will come to investors who prioritize assets and strategies that can offer durable income and can perform well even in flat or faltering markets. The role, for instance, which social and digital infrastructure-like assets can play in portfolios will likely continue to accelerate.

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I think the 2022 to 2024 adage in real estate of stay alive till '25 fundamentally presumed that we'd have a much tighter interest rate regime today. We believe real estate platforms should not try to be armchair economists and instead focus on investments that have relatively greater certainty around rental levels and in place income.

— John Murray

REGIONAL TRENDS - HIGHLIGHTS

Across regions, we believe the recovery will be selective and concentrated in sectors aligned with long-term structural demand.

- In the U.S., prices have stabilized more as a result of less supply versus strong demand, and capital flows continue to favor debt over equity. While lower rates would generally be welcome by sponsors, the benefit could be offset due to slower growth. In particular, middle-income consumer stress could negatively influence retail and housing demand and indirectly impact other sectors like industrial.

- Europe shows modest improvement in transaction volumes as well, though geopolitical uncertainty weighs on momentum. Digital sovereignty and defense-related real estate needs are becoming more prominent as governments seek private-sector solutions, adding complexity and potential opportunity to the European landscape.
- Asia-Pacific provides opportunity with investment volumes up 25%¹ supported by urbanization and a growing middle class. Living sectors and select logistics assets remain attractive, particularly in Japan's 'Big 4' cities and in Australia, where demographic and economic trends underpin demand for these sectors.

We discuss in greater detail below the main influences we expect to drive commercial real estate in 2026. Highlights of our high-conviction views include:

- The market reset could provide a low-risk, high-return entry point for debt originations. This potential opportunity is multi-faceted, with acquisition financing gaining renewed momentum. At the same time, there is still important work to do to address legacy loans. Credit solutions can still offer equity-like return potential. In our view, real estate debt today still offers some of the most attractive relative returns versus equity since the Global Financial Crisis.

- For equity investors, it is going back to basics with a focus on disciplined underwriting with returns driven by asset fundamentals and active management to seek to generate and uplift income, rather than speculative views on capital market movements.
- In a world in which Artificial Intelligence is driving asset development and innovation – most notably in the high demand for data centers as well as operational efficiencies – successful investing requires a blend of skillsets. For data centers that involves expertise in real estate, in infrastructure, in energy, in corporate credit and in understanding local legislation.

These takeaways represent the views of PIMCO and PIMCO Prime Real Estate as a combined real estate platform. As of 30 September 2025, PIMCO managed one of the world's largest CRE platforms, with over 455 investment professionals overseeing approximately \$174 billion in assets across a broad spectrum of public and private real estate debt and equity strategies. 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.

Our Five Key Themes for 2026

1. Income Resilience Over Market Beta

In a world of uncertainty, the focus must be on income and, more importantly, the quality of that income. When we look at business plans today, the majority of returns need to come from the asset itself rather than external market forces such as assuming cap rate compression.

If you're investing in equity, we believe that means prioritizing stable income; if you're investing in debt, it means positioning yourself as more senior in the capital structure. If underwriting relies on cap rate compression, our view is one should either avoid the deal or move to a more secure position.

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Real estate remains an inflation-linked asset class, and inflation hasn't disappeared. Rates have come down enough to ease some pressure but not enough to eliminate concerns. In today's market managers need to focus on the quality of the underlying income: to understand the impact of secular trends and to be disciplined in asset selection and management.

— Francois Trausch

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2. Real Estate Debt Remains Compelling

Liquidity is returning to debt, with spreads tightening by 30–50 basis points,² though still above pre-tightening conditions.

Transaction activity is expected to rise in 2026, and with it, acquisition financing is gaining momentum – a notable shift from years dominated by refinancings and, to a lesser extent, construction loans. While the wall of maturities we have spoken of before will continue to dominate, this trend reflects a narrowing bid-ask spread, unlocking potential deal flow across major asset classes. Multifamily, industrial, and hospitality will likely lead the way, while retail and office are re-emerging as selective plays.

Banks are cautiously re-entering, focusing on stabilized assets or providing back leverage, leaving ample room for alternative lenders in the construction financing space. Larger banks appear more willing to force sales and resolutions of underperforming exposures, while regional banks still hold significant distressed positions – to the extent these regional banks are forced to sell loans, buyers will most certainly need strong execution capabilities given the nature of the underlying collateral.

This combination will provide ongoing opportunities for private credit and opportunistic strategies to both fill the gap and originate senior loans on transitional assets.

2 Source: PIMCO (US and Europe)

3. The Blurring Lines Between Infrastructure and Real Estate

There is an ongoing institutionalization of alternative real estate sectors and a growing convergence between infrastructure and real estate. As infrastructure-like assets become mainstream (particularly in social and digital infrastructure areas), governments are increasingly turning to private-sector solutions for infrastructure needs, creating new avenues for real estate capital deployment.

Assets such as hospitals, supermarkets, and defense-related facilities now exhibit infrastructure-like characteristics – long leases, and stable income streams – making them highly attractive to institutional investors seeking resilience and

predictable cash flows. In today's environment, we believe this type of quality income matters more than ever.

In Europe, the pressure of deglobalization means defense is emerging as a significant theme. This is presenting opportunities: the additional pressure on public finances is reinforcing the role of private players in bridging gaps for both capital, expertise and speed of execution. For the years ahead, the real opportunity lies in helping governments resolve aspects of defense needs through innovative private-sector solutions, while structuring deals that balance operational complexity with long-term stability.

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It's about the quality of income. Social infrastructure, net leases with investment-grade issuers and hyperscale-oriented digital infrastructure are likely to perform better because investors prioritize stability and predictable cash flows. The real opportunity lies in helping governments resolve infrastructure and real estate needs through private sector solutions.

– Kirill Zavodov

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4. Data Centers as a Growth Engine

Infrastructure has been a strong and stable investment sector for many years – pursuing long-term, resilient and often inflation-linked returns.

In a similar vein, digital infrastructure assets such as data centers can, today, offer institutional allocators a comparable potential income profile as well as portfolio diversification benefits.

Demand for data centers remains nearly insatiable. While the sector offers compelling potential opportunities, factors

such as location, path-to-power availability, intended use, and tenant profile are critical to evaluate and underwrite when investing in debt or equity. The technical complexities of this space should not be underestimated. Lenders, in particular, must structure covenants carefully as slippage accrues to the benefit of hyperscalers.

In a world in which Artificial Intelligence remains dominant, genuine market intelligence in real estate will be key.

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Data centers are a prime example of where caution is needed. While demand fundamentals are strong, these are highly complex investments with risks like speculative projects, covenant slippage in favor of hyperscalers, and power constraints. Not every deal is created equal; lending to a hyperscale tenant with strong covenants is very different from backing a speculative operator. The message is clear: be selective and understand the underlying fundamentals before committing capital.

– John Murray

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5. The Rise of Social Infrastructure and Living Sectors

For PIMCO, social infrastructure-like assets are central to how we aim to deliver resilient, inflation-linked income.

Affordable housing, senior living, education, healthcare and necessity driven retail are once again gaining institutional interest. In today's world these sectors seek to offer stable income flow, offering potential resilience and aligning with long-term structural demand.

Their ascendency should be viewed in the context of a changing world. Globally relevant themes driving income opportunities have come to the fore, including what we refer to as the five Ds: demographics, digitalization, decarbonization, deglobalization, and defense.

No matter the theme or sector, landlords now need to work harder to sustain tenancy and income. But managed correctly, these sectors are attracting not only traditional real estate investors but also broader institutional capital.

The Bottom Line

In today's structurally uncertain market, real estate investors are returning to fundamentals. Predicting long-term cap rates is fraught with complexity, making it critical to avoid speculative bets and instead focus on rigorous due diligence, quality of income and active asset management. Success will depend not only on identifying the right opportunities, but also on approaching each asset from the correct angle – whether through public or private markets, equity or debt. Because misalignment in execution can turn promise into risk. At PIMCO, our focus will be on investments with strong downside mitigation given structural uncertainty. We believe Investors who stay disciplined, focus on secular trends, and manage risk effectively will be best positioned to capture upside potential, whether they tap into the asset through lending or owning.

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While real estate has absorbed much of the pain already, no one can afford complacency. Some deals look attractive because they follow big names, but copycat transactions often lack the fundamentals. The ability to differentiate between strong and weak opportunities is essential, today. In this environment, selectivity and expertise matter more than ever – knowing what you're saying 'yes' to and why is what can help protect you from downside risk.

– Russell Gannaway

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