Park Madison Perspectives

Midyear Outlook 2026

PARKMADISONPARTNERS

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About Park Madison Partners

Park Madison Partners is a leading private placement and capital solutions firm focused on building strategic partnerships within the institutional real estate community. Since its formation in 2006, Park Madison has advised on over $30 billion in private capital placements for a wide range of real estate vehicles including closed-end funds, open-end funds, separate accounts, programmatic joint ventures, and recapitalizations.

Park Madison Partners provides capital raising and strategic consulting services to real estate sponsors with a high degree of customization, integrity, and accountability. Our team comprises top talent from both the buy-side and the sell-side of the commercial real estate industry. We leverage this diverse experience to advise our clients on institutional best practices, helping them maximize their capital formation potential in a competitive marketplace.

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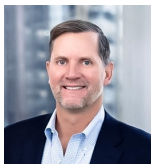

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> **"War is the realm of uncertainty; three quarters of the factors on which action is based are wrapped in a fog of greater or lesser uncertainty."**
>
> **– Carl von Clausewitz**

In investing as in war, uncertainty is not a temporary inconvenience, but a feature of the terrain. The first half of 2026 gave investors no shortage of "fog" to navigate: geopolitical turmoil, an energy crisis, interest rate volatility, cracks emerging in corporate private credit, and an AI narrative lurching between fear and euphoria. As investors in private real estate, our job is to look past the daily headlines and keep our focus on the longer-term trends shaping the built environment. We entered 2026 with cautious optimism amid a constructive set-up. Six months in, we may have experienced spikes in our cortisol levels, but the longer-term secular forces driving real estate performance remain firmly intact – as does our conviction in the asset class.

We begin every year with 10 predictions on major themes affecting the commercial real estate industry, attempting to identify the trends and data points that we believe are most relevant to real estate investors today. Our Midyear Outlook is meant to provide a shorter-form update, examining how events from H1 have impacted Park Madison's house view, along with our expectations for H2. With that, here are our top 10 predictions for H2 2026:

1.	The Fed will hike interest rates amid accelerating inflation and a strengthening labor market	**4**
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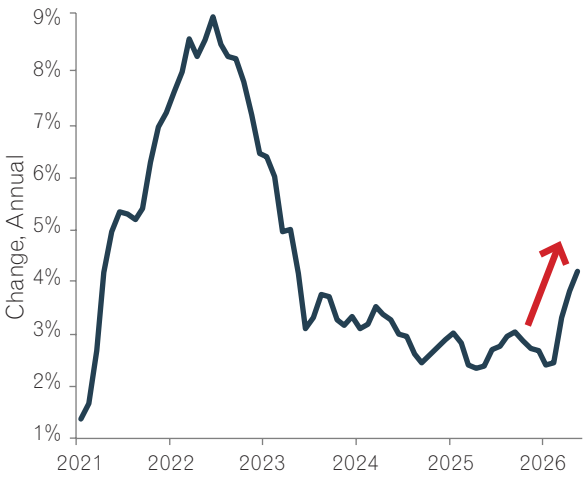
1 The Fed will hike interest rates amid accelerating inflation and a strengthening labor market

Elevated inflation and an improving labor market have tempered expectations for additional interest rate cuts in 2026. Inflation has been accelerating since March, with U.S. CPI recently hitting its highest levels since early 2023. While the energy and materials shocks from the Iran War have certainly contributed, the pressures appear to be broad-based. Shelter inflation has risen, and tariff-sensitive categories such as apparel and furniture are also experiencing sharp price increases. Meanwhile, the labor market could be turning a corner after an extended "low fire, low hire" period, with high-frequency data from ADP suggesting a notable acceleration in job growth since April. Taking these data points together, we see little justification for the Fed to cut rates in the near term, and markets are now expecting 25-50 bps of rate *hikes* by year end.

Market interest rates have responded in kind, with the 30-year Treasury breaching 5.0 percent for the first time since 2007. Despite perceived political pressure from the Trump Administration to slash rates, we believe the new Fed Chairman Kevin Warsh is unlikely to acquiesce given his history as an inflation hawk. Indeed, Warsh's signature policy priority is shrinking the Fed's $6.7 trillion balance sheet, which would drain liquidity from the U.S. financial system and could add further upward pressure on market interest rates. Real estate investors should not bank on borrowing costs coming down any time soon.

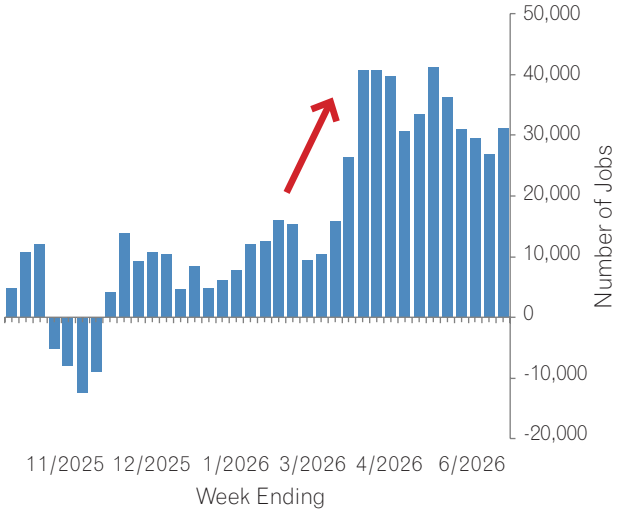
President says "Go," but the Fed's Dual Mandate says "No"

U.S. Consumer Price Index, 2021-Present



Source: Federal Reserve Economic Data, June 2026.

Weekly Employment Change, Four-Week Moving Average, 10/2025 – 6/2026



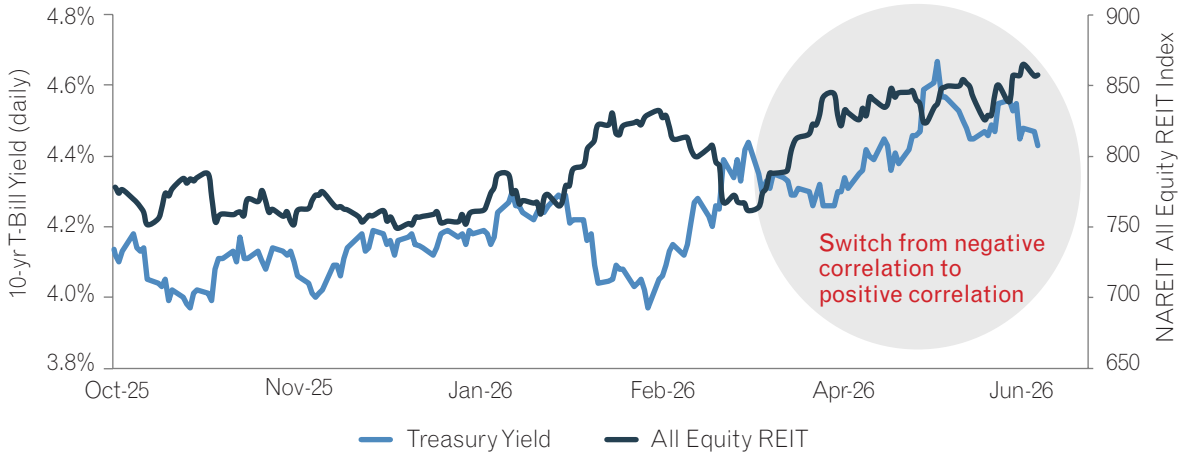
Source: ADP National Employment Report, June 2026.

2 Transaction volumes will rebound following the Iran War as commercial real estate valuations continue trending upward

After a strong Q1, the Iran War had an immediate negative effect on commercial real estate transaction volumes, with April transactions down 33 percent year-over-year according to MSCI. The slowdown corresponded with a 40 basis point rise in the 10-year Treasury yield since the start of the war – the sharpest increase since the "Liberation Day" episode in April 2025. Encouragingly, the slowdown in transaction activity has so far not translated to lower valuations. Cap rates are stable, and CRE values continued to trend higher through May according to Green Street. Notably, the public REIT market has also performed well since February despite rising interest rates, and such positive correlation historically presages periods of strong economic growth and real estate performance.

Show of Strength

NAREIT All Equity REIT Index vs. 10-Year Treasury Yield



Source: NAREIT, Federal Reserve Economic Data, June 2026.

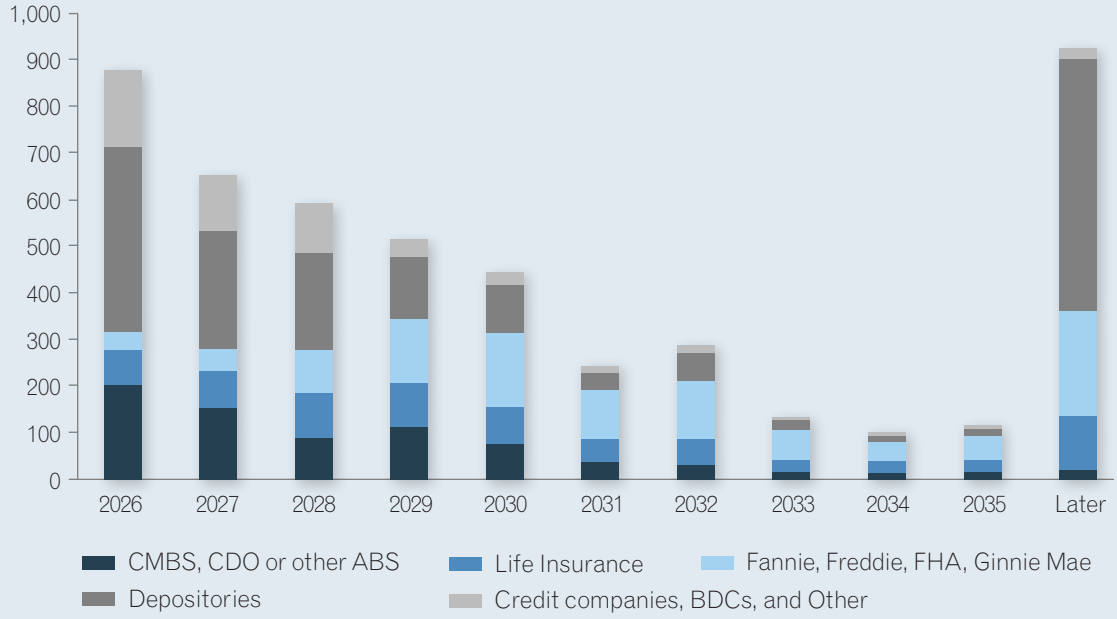
Given real estate's resilient performance in the face of geopolitical shock and capital market disruption, we believe the recent slowdown in transaction volumes will prove temporary. Development remains unattractive due to elevated borrowing and construction costs, keeping a lid on new supply. An expanding U.S. economy should support tenant demand across most property types. Investors also continue to recognize the diversification benefits of real estate, including as a potential hedge to inflation and currency debasement. Interestingly, more investors are starting to view real estate in the context of the so-called "AI immunity trade," wagering that humans will always need physical spaces to live, work, and play regardless of how technology evolves. As market conditions normalize following the Iran War, we expect real estate investment activity will resume its strong upward momentum.

Private Credit: Contagion Risk?

The $2.5 trillion private credit universe has had a rocky 2026 amid AI-driven business disruptions, increased borrower defaults, and elevated redemption queues from private funds. With more than $875B in CRE debt maturing in 2026 and lenders less willing to "extend and pretend," the risks of contagion are worth considering. According to CBRE, private lending sources accounted for 40 percent of non-agency debt originations in Q4 2025, with most of their activity focused on parts of the capital stack that traditional lenders typically avoid. If private credit's woes spill over into real estate, borrowers with maturing loans or transitional assets could face a liquidity squeeze. For now, banks have modestly tightened underwriting standards but otherwise have continued actively lending. Similarly, real estate private credit has not been negatively affected, and could even benefit from a "flight to quality" as capital rotates away from corporate private credit strategies. Private credit contagion in CRE remains a tail risk worth monitoring, but we do not believe it represents the base case.

More Bricks in the Wall

Commercial Real Estate Debt Maturities by Lender Type



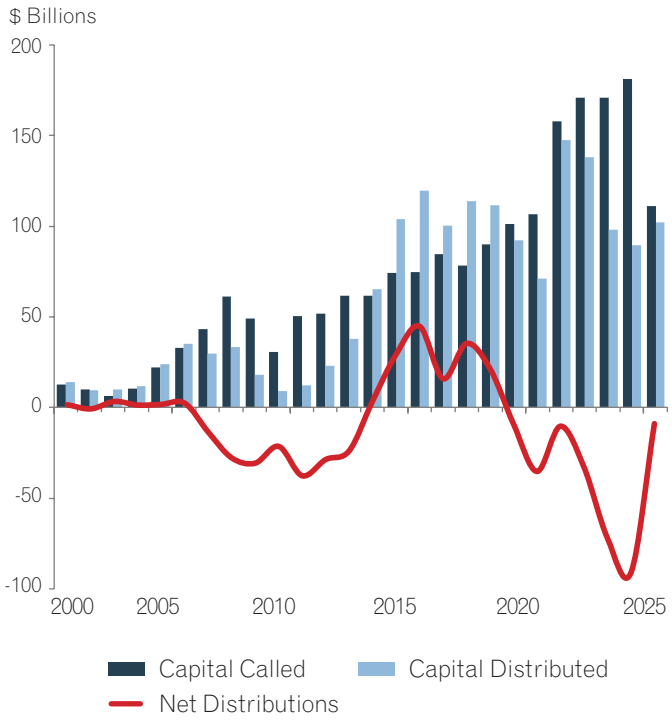
Source: Mortgage Bankers Association, CBRE Econometric Advisors, Q1 2026. Reprinted with permission.

3 Capital flows to real estate will remain healthy amid improving investor liquidity

Real estate closed-end fundraising was picking up momentum going into 2026. Within North America-focused strategies, 2025 was the best fundraising year since 2022 and the third best on record according to Preqin, with $128 billion raised. As transaction volumes accelerated into early 2026, investor liquidity improved as distributions increased. Preqin data shows that the difference between capital called and capital distributed finally broke even in 2025 following a record $92 billion imbalance at the 2024 nadir. Buoyant equity markets have also reversed the denominator effect, providing yet another steady tailwind for private capital allocations. The Iran War has caused several investors to go on pause, but if market conditions normalize as expected, 2026 should be another healthy fundraising year for private real estate vehicles.

Through the Valley

Annual Capital Called & Distributed, North American Closed-End Funds, Q1 2000 – Q3 2025



Source: Preqin, December 2025.

Even as more capital flows into real estate, breaking into the closed-end fund universe as an emerging manager remains challenging. According to Preqin, the average time to achieve a final close has reached an all-time high of 29 months – and that's only counting the success stories. As a result, we see more managers pursuing alternative avenues to institutional capital. For instance, real estate secondaries transaction volume hit a record $20 billion in 2025. GP-led recapitalizations account for 72 percent of that total according to Ares Management, and overall GP-led transaction volumes have grown 25 percent annually since 2019. Real estate sponsors increasingly use these vehicles to secure new institutional partners, obtain fresh capital commitments for new acquisitions, and provide meaningful distributions to exiting investors. As the real estate secondaries space goes mainstream and procedural best practices become more established, we expect GP-led recapitalizations and continuation vehicles to become more widely accepted avenues for raising and returning institutional capital.

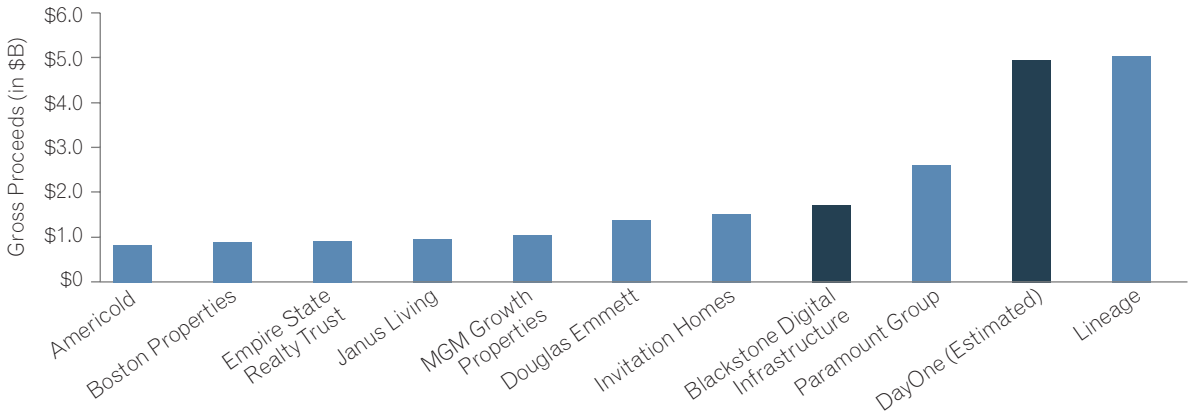
4 Public listings will provide additional clarity on data center exit liquidity

Data center demand continues to run ahead of supply, with U.S. vacancy less than 1 percent according to JLL. Additionally, while data center capacity is expected to grow by approximately 90 percent through 2030, rising barriers to new supply will likely keep the market tight for many years. Power availability remains a serious gating factor, and the U.S. grid has so far been unable to keep pace with demand. For developers, a "quick path to power" now means 36 months, versus 12 to 18 months just two years ago. Growing public opposition could also complicate future data center developments (more on that in Section 10). For owners of existing data center assets, this all bodes well for rent growth in the years ahead.

As investors continue to pour record amounts of capital into the sector, more data points surrounding exit liquidity are beginning to emerge. Blackstone Digital Infrastructure Trust (BXDC) raised $1.75 billion through an IPO in May 2026 – the largest blind pool REIT IPO on record and the third largest REIT IPO of all time. Other data center platforms planning IPOs in next year include Singapore-based DayOne and Dallas-based CSquare, with several more potentially in the pipeline. Private investor appetite also appears robust, with data center funds accounting for 37 percent of sector-specific fundraising in 2025 according to PERE, up from just 2 percent in 2024 and eclipsing all other property types for the first time. Infrastructure and core real estate investors are increasingly willing to assume development risk to gain exposure, rather than waiting for stabilized assets. Despite talk of stretched valuations and a potential "AI bubble" in public equity markets, data center investments still appear to have a long runway.

Data Points

Top 10 REIT IPOs by Gross Proceeds, All Time



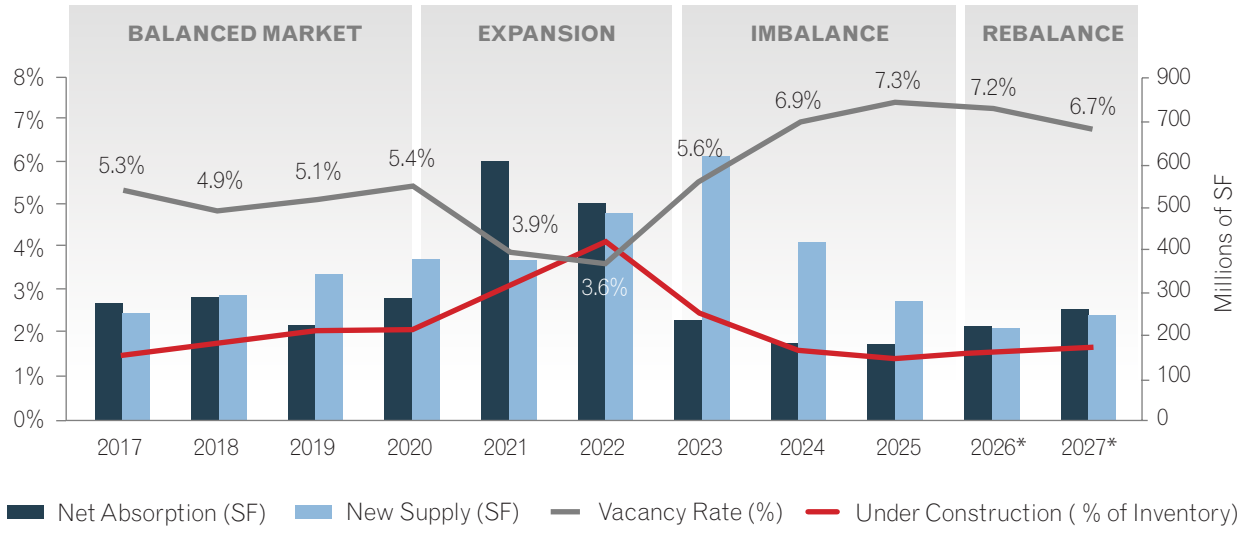
Source: SEC EDGAR Company Filings, Bloomberg, Mingitiandi, Park Madison Partners, June 2026.

5 Industrial fundamentals will continue to strengthen, but market bifurcation will deepen between automation-ready and older vintage stock

Industrial fundamentals show clear signs of improving as the market digests the wave of new supply. Net absorption is up 36 percent year-over-year as of Q1 according to Colliers, and national vacancies appear to have peaked just above 7 percent. Space under construction has ticked higher but remains approximately 60 percent below 2022 levels according to Cushman & Wakefield, and 40 percent of the current pipeline represents build-to-suit projects. As the market rebalances, tenant-landlord dynamics are beginning to shift in favor of landlords.

Rebalancing Act

U.S. Industrial Real Estate Cycle, 2017-2027E



Source: Colliers, Q1 2026. Reprinted with permission.

**forecast*

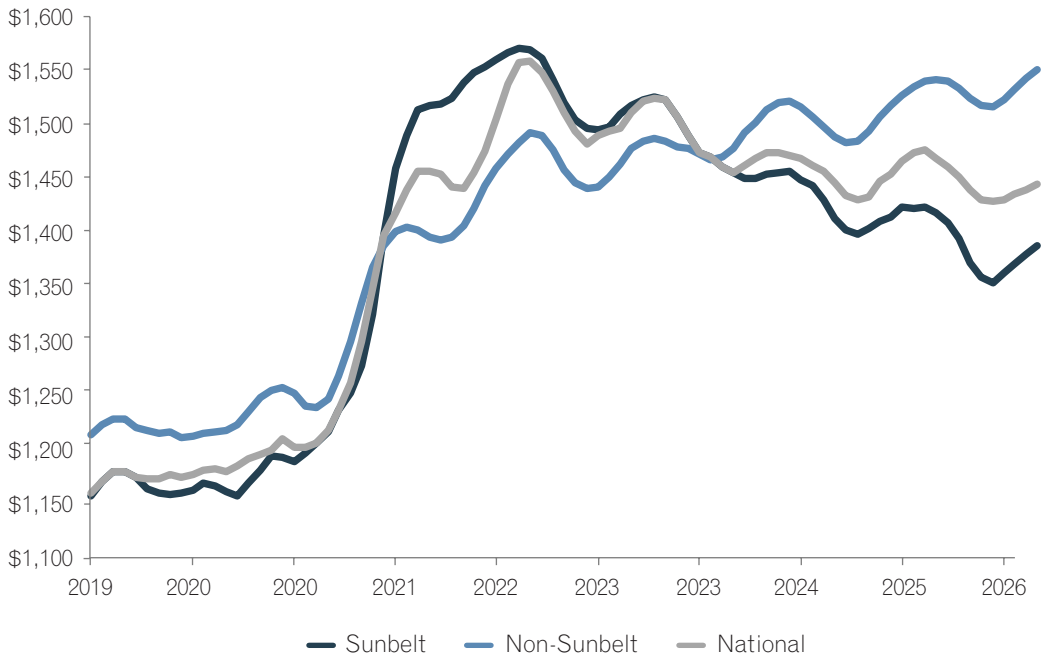
Automation continues to emerge as a key theme in industrial real estate, with tenant demand increasingly focused on modern facilities that can support robotics and AI systems. Advanced manufacturing, labor shortages, and supply chain pressures are also contributing to rising automation needs. Access to power is therefore increasingly vital, as power consumption at automated warehouses is nearly ten times higher than traditional facilities. Competition from data center developers will increase the scarcity value of powered industrial sites, with such buyers accounting for a steadily increasing share of industrial-zoned site acquisitions. As the industrial market bifurcates between modern, automation-ready product and older vintage stock, we expect access to power to be a key driver of investment performance.

6 Rental housing will remain a favored property type, but changing demographics will lead to additional performance dispersion

Rental housing fundamentals continue to show signs of stabilizing, though regional dispersions remain wide and certain oversupplied Sunbelt markets continue to be challenged. Within the top 50 U.S. metro areas tracked by CoStar, vacancy rates as of May 2026 range from 2.8 percent in New York City to 15.9 percent in San Antonio. This dispersion is also apparent in rent growth, with the national average trending down on a seasonally-adjusted basis, largely due to the drag from oversupplied Sunbelt markets. However, rental housing remains a favored asset class, with competitive bidding and record levels of dry powder. Investors actively deploying capital expect rent growth to pick back up as new deliveries decline and the market absorbs the current wave of supply.

Shine Off the Sunbelt

Multifamily Median Rents, National vs. Sunbelt vs. Non-Sunbelt, 2019-2026



Source: Federal Reserve Economic Data, October 2025.

Going forward, changes to U.S. immigration patterns have emerged as a potential risk factor for investors to keep an eye on. According to the Census Bureau, the U.S. population grew by only 0.5 percent in the 12 months ending July 2025 – roughly half the pace versus the year prior and corresponding with a 50 percent drop in net international migration. John Burns Research estimates the full year 2025 decline in immigration was an even steeper 82 percent. Several large U.S. cities rely heavily on immigration for population growth, and some are already experiencing population declines as new arrivals fail to keep pace with existing levels of domestic out-migration. We will be watching net absorption data closely in the months ahead for any meaningful impacts to performance across markets, property vintages, and asset quality.

Green Light for BTR

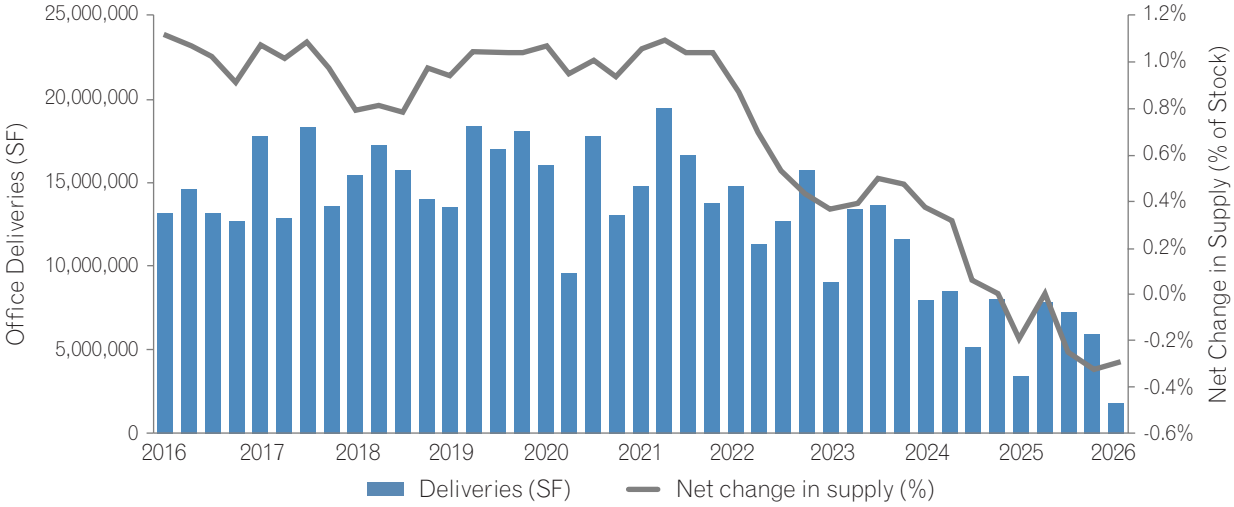
The 21st Century ROAD to Housing Act includes several policy surprises for the real estate industry, particularly as it relates to single-family rentals. The final version prohibits institutional investors with 350+ homes from acquiring any additional single-family homes, with a few exceptions. The most controversial element of the original Senate version of the bill would have also required future investors in build-to-rent ("BTR") properties to sell the homes to individual homebuyers within 7 years of purchase. Fortunately, this "forced divestment" provision was ultimately stripped out of the final bill after a fierce lobbying effort by the real estate industry. BTR is still a relatively nascent asset class, and the specter of future legislative action may continue to keep some investors on the sidelines. However, early indications suggest that institutional investor interest remains healthy, with buyers re-engaging shortly after the forced divestment provision was scrapped. Indeed, the recent legislative action on single-family rentals could divert *more* capital towards purpose-built BTR communities, as BTR becomes the favored avenue for single-family home investments. After a bumpy start to the year, we expect smoother roads ahead for BTR developers and investors.

7 Office fundamentals will continue to improve despite fears surrounding AI's impact on white-collar employment

The office market's post-pandemic recovery is still nascent but appears to have legs. According to Cushman & Wakefield, net absorption has reached its highest levels since the pandemic, and vacancies are no longer rising. Flight to quality remains a dominant theme, with rents in newly constructed buildings growing 25 percent in the last five years according to JLL. Deliveries and space under construction are at record lows, and combined with inventory removals, total U.S. office supply has shrunk by approximately 25 million sf since 2023. Anecdotally, we are even beginning to see examples of office-to-residential projects getting cancelled as leaving a property as office becomes more financially attractive.

CRE's Incredible Shrinking Man

Historical Office Deliveries and Supply, Q1 2016 – Q1 2026



Source: JLL Research, Q1 2026. Reprinted with permission.

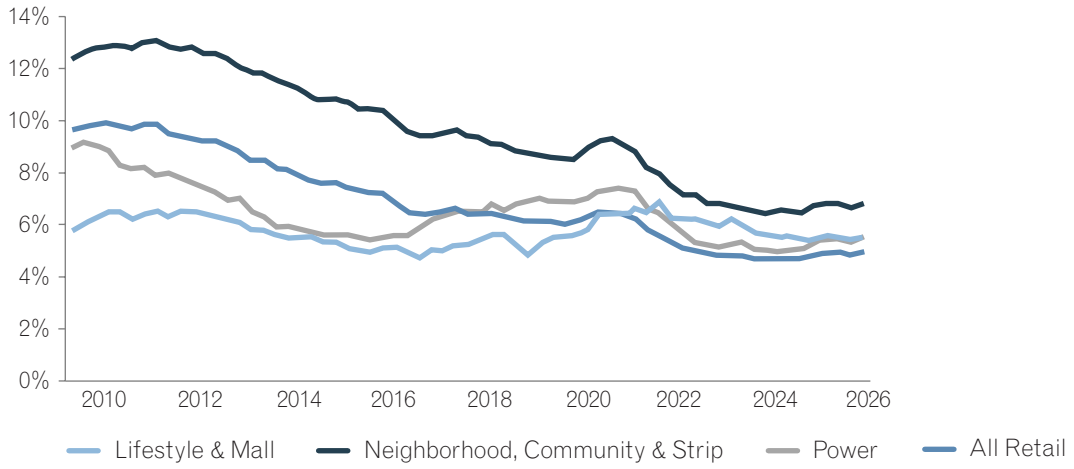
Amid the improving fundamental picture, fears over AI's impact on white-collar work have emerged as a new potential risk for the office sector. In February, AI entrepreneur Matt Shumer's viral internet essay, "Something Big is Happening," argued that current AI models were on track to perform better than humans on almost all tasks by 2027. Public office REITs sold off sharply as such speculations reached a fever pitch, but have since mostly recovered amid encouraging employment data. The April JOLTS report from the Bureau of Labor Statistics showed the highest level of job openings in two years, almost entirely driven by professional and business services. AI will certainly reshape the labor market in unpredictable ways, but a fundamental collapse in white-collar employment – and subsequent impairment to office demand – remains a tail risk rather than a base case.

8 Retail will continue to attract new capital flows, but value-add investors will remain highly selective amid a limited opportunity set

The U.S. consumer remains gloomy, but retail property fundamentals continue to fire on all cylinders. The market is exceptionally tight, with national availability at 4.9 percent and construction completions at record lows according to CBRE. Store closures have been manageable, with the bulk attributable to a small number of overleveraged or structurally challenged retailers. Meanwhile, 71 percent of retailers plan to grow their physical footprints in 2026 according to Colliers. As a result, owners of well-located retail centers have been able to backfill vacated space quickly, often at higher rents.

Few Empty Boxes

Retail Availability by Format, Q3 2009 – Q1 2026



Source: CBRE Econometric Advisors, Q1 2026. Reprinted with permission.

Against this strong fundamental backdrop, more institutional capital is beginning to tip-toe back into retail after many years of being underweight. According to MSCI, retail transaction volumes rose 26 percent in 2025, with investors primarily focused on grocery-anchored, power, strip, and lifestyle formats. Notably, three retail-focused public REITs have been taken private within the past 18 months, with Ares' $1.7B acquisition of Whitestone REIT being the most recent announcement. Most of the institutional capital moving into retail appears to be core or core-plus in nature, drawn by the sector's stable, necessity-based income. For value-add investors, the opportunity set is thinner due to subdued rent growth, currently averaging 2.4 percent annually per Colliers. Given retail's strong fundamentals, we expect to see increased investor competition for access to specialized operators that can deliver value-add returns.

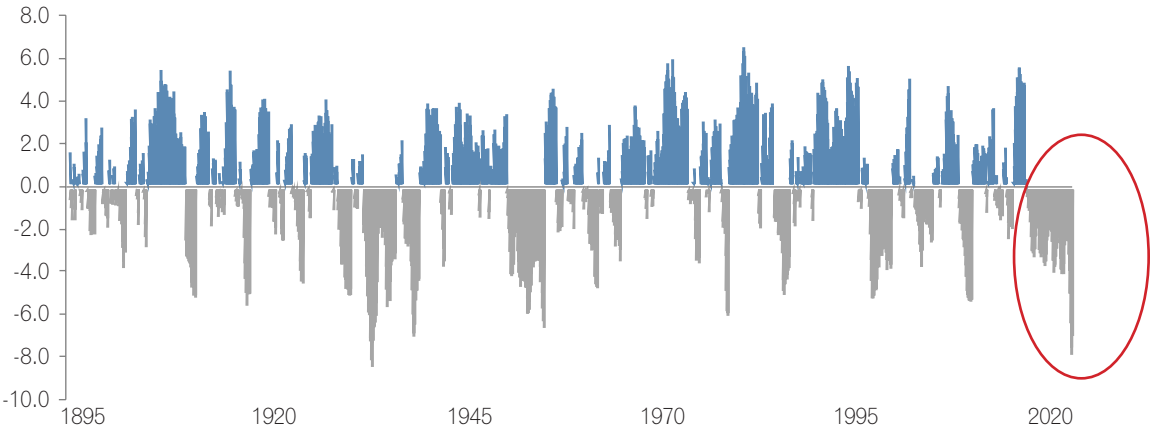
9 Property insurance costs will fall in 2026, but the relief will prove temporary as wildfire risks spread

While 2026 has been eventful, U.S. property insurance markets have been tranquil by comparison. After several years of relentless increases, commercial property premiums fell 5.5 percent in Q1 according to The Council of Insurance Agents & Brokers. For the past several years, insurers have been raising premiums, reducing coverage, and prioritizing more accurate property valuations as losses from extreme weather intensified. In 2025, however, insurers experienced improved loss ratios on commercial property policies, suggesting that insurance pricing and risk are better aligned after this multi-year adjustment. As a result, carriers are responding with additional capacity and more competitive pricing.

Softer insurance prices are likely to persist through year end, but increasing wildfire risks suggest the relief will be temporary. Through June, more than 2.5 million acres had burned across the U.S. according to the National Interagency Fire Center, nearly double the 10-year average with peak fire season still months away. Meanwhile, approximately 44 percent of the U.S. remains in drought conditions according to the National Oceanic and Atmospheric Administration. The Palmer Drought Severity Index has registered negative readings since mid-2020, illustrating a long-term moisture deficit that appears to be worsening. Wildfire risk is clearly accounted for in insurance models across America's West, with specific underwriting criteria, deductibles, and exclusions. But elsewhere, wildfire risk appears to be underappreciated and underpriced, often lumped into standard policies. Parts of the Southeast appear especially vulnerable going into peak fire season, with record dry conditions expected to worsen as El Niño suppresses the 2026 Atlantic hurricane season. Once regional actuarial models catch up to evolving burn patterns, we expect insurance premiums to quickly follow.

Parched States

Palmer Drought Severity Index, 1895-2026



Source: National Centers for Environmental Information, National Oceanic and Atmospheric Administration, June 2026.

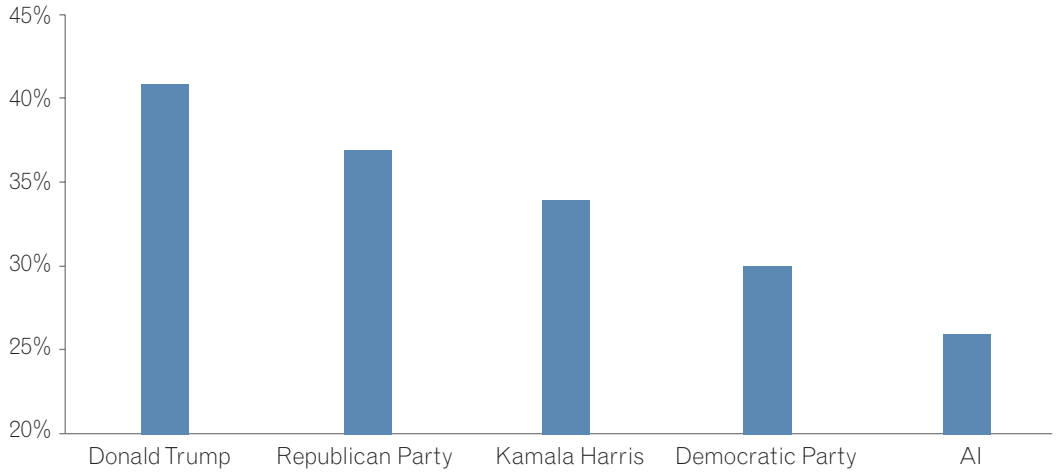
10 Data center projects will increasingly enter the political crosshairs as economic populists gain seats in the U.S. midterms

Five months is an eternity in politics and anything can happen, but early indicators suggest Democrats will make significant gains in the November midterm elections. President Trump's approval rating is down to 40 percent, and Democrats have outperformed their 2024 margins by an average of 11 points in 2026 special elections. In Gallup polls released in May, just 16 percent of Americans rated economic conditions as "excellent" or "good," while 49 percent described conditions as "poor." Conditions are therefore ripe for economic populists to make inroads with voters, and several such candidates have already scored primary wins. As the populist tide rises, investors will likely have to navigate more public policy volatility.

Most notably for the real estate industry, opposition to data center development has emerged as an economically populist issue with wide bipartisan appeal. Local opposition resulted in the cancellation of a record 20 planned data center developments in Q1 according to Heatmap, and at least 11 state-level moratoriums have been introduced so far in 2026. A June survey from Embold Research found that 71 percent of Americans would oppose a new data center project in their area. This marks a stunning 49-point shift from September, when Americans were roughly split on the issue. Rising utility costs, noise and light pollution, and generally negative sentiment towards AI are largely to blame. With AI now polling worse than most politicians, new data center projects could face an increasingly uphill climb.

Punching Down is Easier

Favorability Ratings of Politicians vs. Artificial Intelligence, March 2026



Source: NBC News poll, March 2026. The poll was conducted Feb. 27-March 3 and surveyed 1,000 registered voters nationally. The margin of error is plus or minus 3.1 percentage points.

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