2026 Mid-Year Outlook: U.S. Commercial Real Estate

J.P.Morgan
ASSET MANAGEMENT

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FOREWORD

I'm pleased to share J.P. Morgan Asset Management's Mid-Year U.S. Commercial Real Estate Outlook. As one of the largest real estate managers with more than 65 years of experience and a $68bn U.S. portfolio, we are active across all major markets — seeing deal flow, financing and leasing assets and executing transactions every day. This report draws on that access and what we're seeing firsthand, translating market complexity into clear, investable themes.

Our access and perspective shape how we invest across markets. The U.S. economy entered the second half of 2026 on solid footing, with broad-based growth and resilient consumers keeping economic momentum solid. Risks remain — geopolitical tensions and their knock-on effects for energy and inflation chief among them — but fundamentals across commercial real estate are healthy, capital is flowing back into the sector and values still sit well below their prior peak. Notably, real estate today trades at a discount to other major asset classes like equities and fixed income. In our view, the current entry point is among the most compelling we have seen in years.

This report addresses the questions we are hearing most frequently from clients: Can real estate perform in a higher-for-longer interest rate world? Is a recovery in office finally coming into focus? And what does AI mean for real estate demand — including its potential as a hedge in portfolios with growing technology exposure? Threaded throughout the outlook is a single, consistent conviction: Fundamentals remain sound, and we believe this is a moment to lean in.

On behalf of the entire team, thank you for your continued trust and partnership. We look forward to discussing what this outlook could mean for your portfolio in the months ahead.

Chad Tredway
Global Head of Real Estate,
J.P. Morgan Asset Management

Setting the stage

The U.S. economy is on solid footing, commercial real estate (CRE) fundamentals are improving and values remain nearly 25% below their prior peak. With debt markets thawing, transaction volumes rising, and the ODCE (Open End Diversified Core Equity) index posting eight consecutive quarters of positive returns, momentum is building, and the current entry point looks as compelling as any in recent memory.

Themes

01 Real assets for a real-rate world

Rising rates may seem like a headwind for CRE, but history suggests the opposite is often true. Since 1965, CRE returns have been positive 85% of the time rates rose. The reason is that rate increases frequently coincide with a strengthening economy — one that supports higher occupancy and rents and, in turn, higher property cash flows. In most cases, that growth has more than offset the valuation pressure from modestly higher rates, supporting a constructive outlook for CRE going forward.

02 Office demand is returning — and quality is the differentiator

After years of headwinds, an office recovery is coming into focus — workers are returning, net absorption is positive, and vacancy has fallen for four consecutive quarters. Office total returns are climbing and are now roughly in line with or slightly ahead of the benchmark for three straight quarters. However, performance is strongest at the top end of the quality spectrum, where new and trophy office buildings continue to attract the most demand and enjoy the tightest conditions.

03 Capture AI growth — manage concentration risk

AI is proving to be a tailwind for real estate demand, powering employment growth across multiple industries, which is showing up in diverse leasing activity. However, in sectors outside of private CRE, AI concentration is growing and correlations rising. Investors need to consider these trends when building multi-asset portfolios as private CRE is one of the few asset classes that has minimal direct exposure to AI, negative correlations with stocks and bonds and still has the potential to provide outsized appreciation.

04 Made in America: The reshoring of industrial demand

Geopolitical tensions and national security priorities are pushing critical manufacturing back onshore, creating a new and durable source of industrial demand. The opportunity is primarily focused in high-power manufacturing assets, but is spreading to include other related subsectors.

05 Brick & mortar retail is built to last

Retail has been the best-performing major property sector for the last three years and the outlook remains bright. Years of limited construction have preserved landlord pricing power, and with physical stores increasingly used to service online orders, the case for well-located brick & mortar retail has never been stronger. A K-shaped economy continues to provide support for top-tier centers, while at the other end of the barbell necessity and service-based centers enjoy growing foot traffic by servicing the day-to-day needs of the average American, creating a broad set of investment opportunities.

06 Ownership may be the dream, but renting is the reality

Demand for rental housing has a strong tailwind with homeownership out of reach for a growing share of households. Tenant retention is near historic highs, the supply wave is ebbing and the setup into 2027–2028 is increasingly constructive. An aging population is creating additional opportunities in single-family rental (SFR) and age-restricted housing.

Setting the stage

The U.S. economy enters the second half of 2026 on solid footing. Growth has been broad-based, with technology and AI infrastructure investment leading the way and momentum extending across the wider economy. Fiscal support from the One Big Beautiful Bill Act (OBBBA) provides an additional tailwind, and JPMorgan Investment Bank forecasts call for GDP growth to remain near 2% through year-end.

The underlying data supports this constructive outlook. After facing headwinds in 2025, the labor market has stabilized, adding an average of 60,000 jobs in the first seven months of 2026.[1] Consumer spending is also holding up well — per our proprietary Chase card data, spending is growing approximately 5% year-over-year (**Exhibit 1**),[2] well above inflation, signaling that consumers remain healthy and willing to spend.

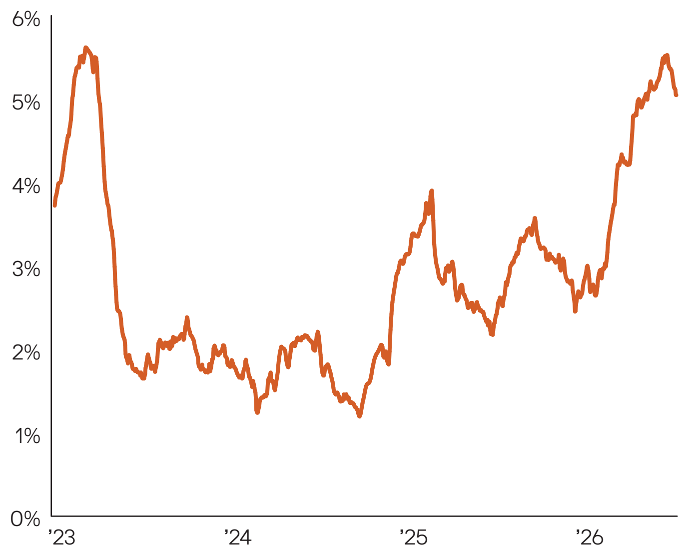
Continued geopolitical uncertainty remains a downside risk. Inflation is running above long-term targets, with energy markets providing upward pressure recently. If the conflict in the Middle East expands, levels could climb higher, creating additional headwinds. However, as of now, with economic prospects improving and inflation only moderately elevated, market expectations for rate cuts have given way to a modest increase.

CRE markets have taken this shift in stride. Demand remains sound and supply has fallen sharply across all major property sectors. Debt market liquidity is up 31% year-over-year,[3] transaction volume rose more than 25% in 2Q26,[4] and flows into core real estate have improved meaningfully, with contributions up 30% year-over-year.[5] The ODCE index has now posted eight consecutive quarters of positive returns, with second quarter performance the strongest since values peaked in 2022 (**Exhibit 2**).[6]

We believe the entry point remains as attractive as it has been in years. Fundamentals are healthy, the economic backdrop is improving and values remain 24.6%[7] below their prior peak. On a relative basis, private real estate looks attractively priced as well, with cap rates screening cheap versus equities, high yield credit and public REITs relative to the past decade. With the previous two expansions lasting 13 and 15 years respectively,[8] the current cycle appears to be in its early stages — and if history is any guide, the runway ahead could be a long one.

Exhibit 1: Consumer spending remains strong

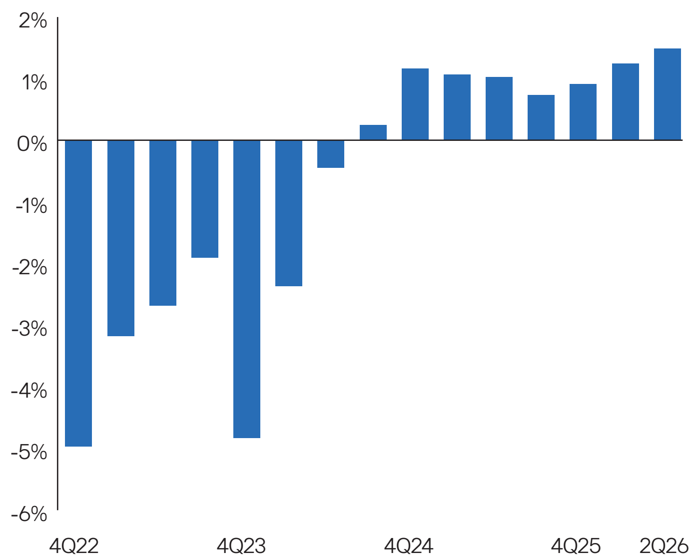
Chase card daily spending (90-day average, Y/Y)



Source: J.P. Morgan Chase. Data as of 7/31/26.

Exhibit 2: Private CRE sees best quarter since 2022

ODCE total returns since cycle peak (Q/Q)



Source: NCREIF ODCE, J.P. Morgan Asset Management. Data as of 6/30/26.
Note: 2Q26 data is preliminary.

[1] U.S. Bureau of Labor Statistics as of 7/31/26. [2] J.P. Morgan Chase CCB data as of 7/31/26. [3] Mortgage Bankers Association as of 6/30/26. [4] J.P. Morgan MSCI – Real Capital Analytics as of 6/30/2026. [5] NCREIF ODCE as of 6/30/26. [6] NCREIF ODCE Index as of 6/30/26. [7] NCREIF ODCE Index as of 6/30/26. [8] NCREIF ODCE Index as of 6/30/26.

Real assets for a real-rate world

With the prospect of additional rate hikes on the horizon, concerns about CRE's performance in a rising-rate environment have resurfaced. At first glance, those concerns seem reasonable. Starting in 2022, the Fed raised interest rates by 525 bps in 18 months,[9] the sharpest increase in more than 40 years, which contributed to a roughly 21% decline in unlevered CRE values.[10]

However, today's backdrop is meaningfully different. Both market consensus and FOMC expectations imply the fed funds rate will rise by less than 50 bps over the next year,[11] less than one-tenth of the increase seen three years ago. That points to a far more benign rate environment, a critical distinction when assessing CRE's return potential.

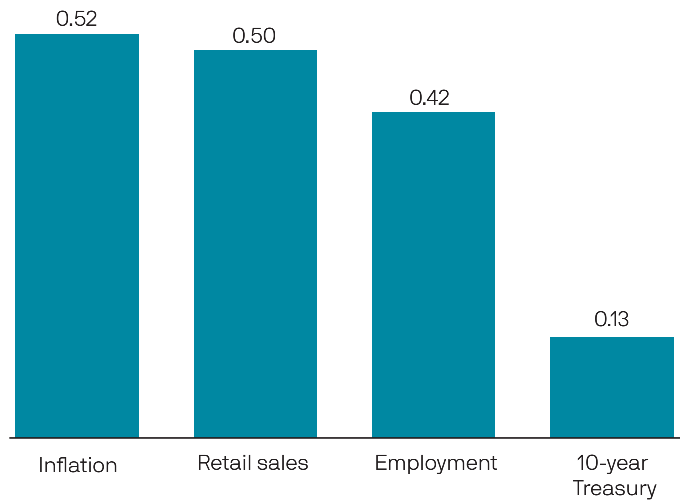
It is also a misconception that rising rates correspond with falling CRE values. Since 1965, 85% of the time the 10-year Treasury increased on a year-over-year basis, real estate values rose over the next year.[12] The reason being, in most instances, higher interest rates are a byproduct of a strengthening economy. In these cases, the positive effects of increasing employment and wage growth on CRE demand and rents outweigh the adverse impact of rate increases on valuations. This relationship can be seen in the long-term correlations, where retail sales and job growth have a stronger relationship with CRE performance than interest rates, which are also positive (**Exhibit 3**).[13] Based on historical trends, retail sales, employment growth and inflation contribute to two-thirds of CRE returns compared to just 8% for changes in interest rates, supporting a stronger outlook for the sector.

Along the same lines, CRE also serves as an effective inflation hedge with multiple built-in protections. Landlords can raise rents as leases roll and benefit from contractual escalations in existing leases. Additionally, owners capture positive mark-to-market rent adjustments in appraisals and typically see asset values rise along with construction costs. As a result, CRE returns have historically tended to increase alongside inflation. (**Exhibit 4**).[14]

These dynamics help explain recent performance. Despite higher-for-longer rate concerns and elevated inflation, fundamentals are improving, transaction volumes are increasing and more capital is flowing into the sector. As a result, CRE performance is accelerating, with ODCE posting its strongest quarterly return in four years[15] — reinforcing the underlying strength of the CRE market and our expectation of continued improvement.

Exhibit 3: The consumer & labor market are more important to CRE performance than rates

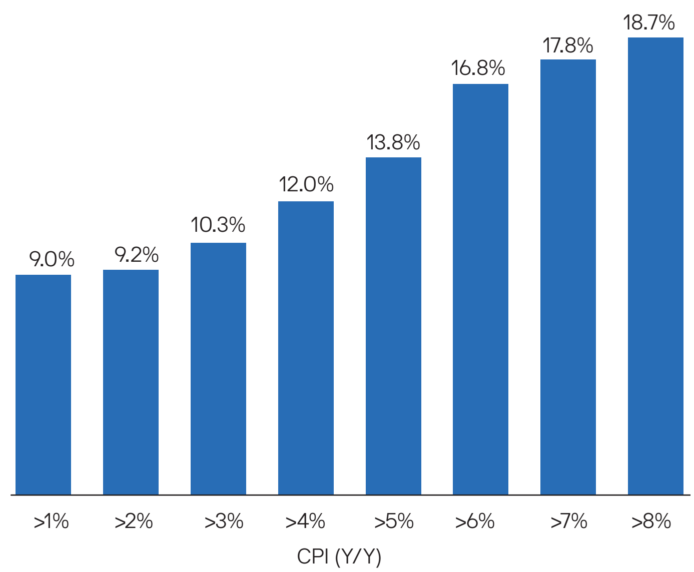
Correlation to ODCE total returns



Source: Moody's Analytics, U.S. Bureau of Labor Statistics, U.S. Census Bureau, US Bureau of Economic Analysis, NCREIF ODCE, J.P. Morgan Asset Management. Data as of 6/30/26.

Exhibit 4: CRE provides a strong hedge against inflation

ODCE total return across periods of CPI increases (Y/Y)



Source: U.S. Bureau of Labor Statistics, NCREIF ODCE, J.P. Morgan Asset Management. Data as of 6/30/26.

9 Board of Governors of the Federal Reserve System as of 7/31/26. 10 NCREIF ODCE properties as of 6/30/26. 11 Board of Governors of the Federal Reserve System, Bloomberg, as of 7/31/26. 12 Board of Governors of the Federal Reserve System, NCREIF ODCE as of 6/30/26. 13 Moody's Analytics, U.S. Bureau of Labor Statistics, U.S. Census Bureau, NCREIF ODCE as of 6/30/26. 14 U.S. Bureau of Labor Statistics, NCREIF ODCE as of 6/30/26. 15 NCREIF ODCE as of 6/30/26.

Office demand is returning — and quality is the differentiator

After years of headwinds, the office market has turned the corner. A large part of this improvement is the transition back to in-office work. Although average office utilization rates are at 77% of pre-pandemic levels, that rises to 99% on Wednesday, putting midweek usage essentially back to where the market was before COVID.[16] As a result, tenants need more space. Over the last year, absorption accelerated to roughly 18mm square feet, the highest level since 1Q20, and vacancy is down by 30 bps from its 2Q25 peak and still falling.[17] The Bay Area and Manhattan are getting the most attention, but the recovery is now broad-based, with all of the top 25 markets seeing availability down from peak.[18]

The rebound is most evident in high-quality assets. These buildings are experiencing the most demand and outperforming by a wide margin. In markets such as Manhattan, vacancy rates in trophy buildings are less than half that of the overall market (**Exhibit 5**).[19]

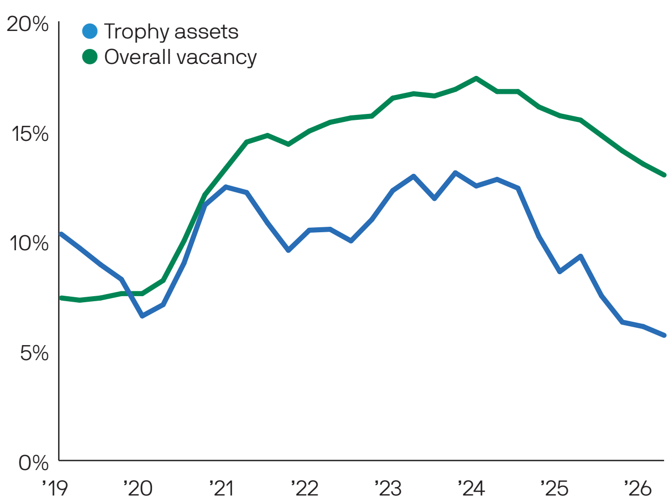
These better fundamentals are showing up in capital markets activity as well. Office transaction volume is up more than 80% from the 2023 trough,[20] and debt markets have thawed. In the first half of 2026, five trophy office buildings secured financing on increasingly favorable terms. This culminated with the refinancing of 10 Hudson Yards at a 1.02% spread on a 53% LTV, 5.3-year fixed-rate loan.[21] That spread is roughly half of what could have been achieved just a couple of years ago, rivals what is being secured for multifamily deals, and signals that lender confidence in best-in-class assets has returned.

These improvements are also reflected in pricing. After years of underperforming, office year-over-year total returns are climbing and are now in line with or slightly above the benchmark (**Exhibit 6**).[22] Additionally, office cap rates are the highest of the big four sectors and are beginning to compress. This creates an environment where not only do office assets deliver elevated yields, but also they can generate additional appreciation as cap rates normalize.

The go-forward story for the office sector has become decidedly more positive. Fundamentals are improving and with unlevered values still down by more than 40% from peak, compared to 20% for the overall index,[23] the sector has a strong mean reversion tailwind. Within the sector, new and trophy buildings should continue to see the strongest gains, making for one of the most compelling opportunities in CRE markets.

Exhibit 5: Trophy assets see elevated demand

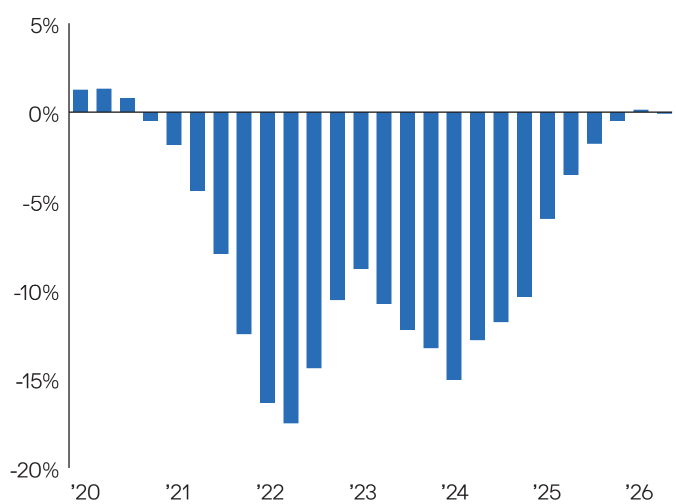
Manhattan office vacancy by building class



Source: JLL Research, J.P. Morgan Asset Management. Data as of 6/30/26.

Exhibit 6: Office performance is improving quickly

Office total return (ex: Lab & MOB) vs. benchmark (Y/Y)



Source: NCREIF ODCE, J.P. Morgan Asset Management. Data as of 6/30/26.
Note: 2Q26 data is preliminary. Office returns ex Life Science and Medical Office properties.

[16] Placer.AI as of 6/30/26. [17] CoStar as of 6/30/26. [18] CoStar, JPMAM as of 6/30/26. [19] JLL Research as of 6/30/26. [20] MSCI – Real Capital Analytics as of 6/30/2026.
[21] JPMAM, Bloomberg, Green Street Advisors as of 6/30/26. [22] NCREIF ODCE properties, office performance excludes lab space and medical office, as of 6/30/26.
[23] NCREIF ODCE properties as of 6/30/26.

Capture AI growth — manage concentration risk

The proliferation of AI has raised a critical question: Will this new technology complement or replace labor? Although it is still early, evidence points to the former. AI adoption is increasing, and, despite this, employment growth is improving in 2026. Even in the occupational categories expected to be most disrupted by AI, such as computer and mathematical roles, employment has increased by 9.4% in the last two years.[24]

These overall job gains are translating into increased office demand. Although AI leasing has been a tailwind in some locations, only two markets, the Bay Area and Seattle, have seen AI leasing that is more than 5% of total volume over the last three years.[25] In all other markets the overwhelming majority of demand continues to come from the traditional sectors. If these market and employment trends hold, the improvement in CRE fundamentals should continue to broaden, setting the stage for improving performance.

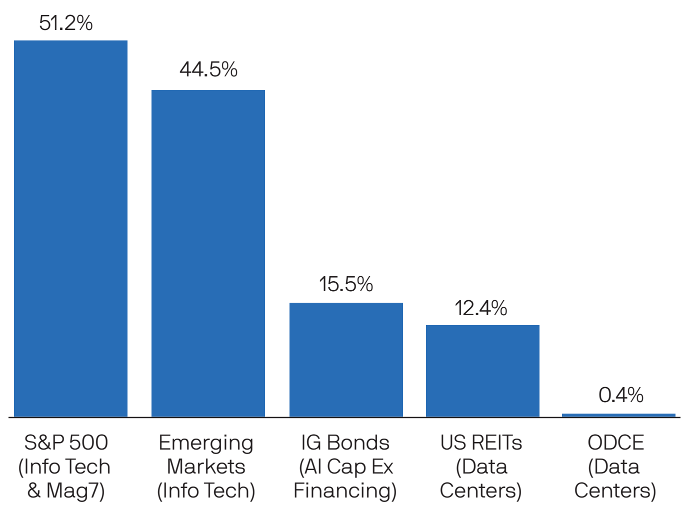
However, where real estate benefits from the broader job creation and increased productivity generated by AI, it is much less exposed to the fortunes of any individual company. As an example, Alphabet is approximately 6% of the S&P 500.[26] However, according to CoStar, it only occupies approximately 0.4% of national office stock,[27] significantly reducing CRE's reliance on the company. This is a vital difference, as it remains unclear which companies will emerge as the ultimate winners in the AI race — or how much of the recent value created across public equity, credit and venture markets will be retained.

This uncertainty strengthens the case for diversifying into asset classes that are less reliant on picking AI champions, but that diversification is becoming harder to find. Technology now represents over half of the S&P 500[28] and 45% of emerging market equities.[29] As AI-related issuance accelerates, a rising share of the bond market is tied to the AI buildout, as are private markets, where venture and growth capital flows are increasingly concentrated in AI-adjacent sectors. Even diversified REIT indices carry significant data center exposure (**Exhibit 7**).

With AI weights growing across most asset classes and the correlation between stocks and bonds rising, core real estate is becoming an increasingly important diversifier (**Exhibit 8**). CRE still has negative correlations with both equities and fixed income, and with a data center weight of just 38 bps,[30] ODCE funds have minimal direct AI exposure. These characteristics offer meaningful diversification while still preserving the potential for outsized appreciation from improving fundamentals and strengthening economy. For investors looking to reduce AI concentration risk without sacrificing return potential, that combination is increasingly difficult to replicate elsewhere.

Exhibit 7: CRE is less exposed to AI risk than other assets

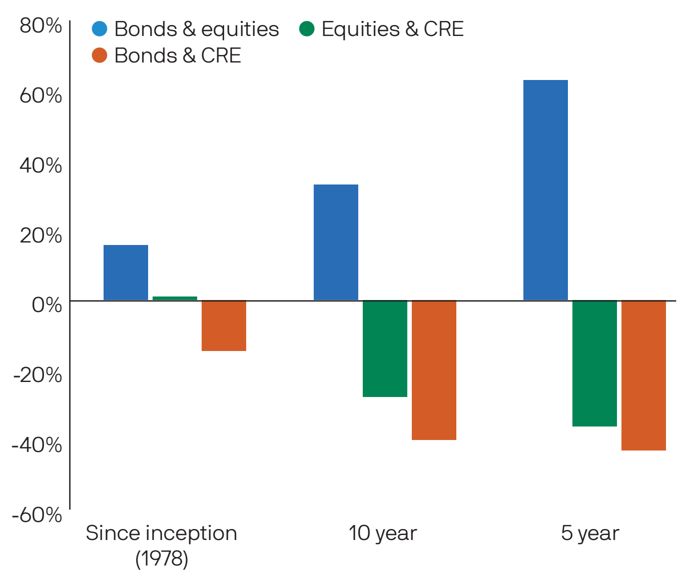
Index concentration



Source: Bloomberg, S&P Dow Jones Indices, MSCI Emerging Markets Index, MSCI US REITs Index, NCREIF ODCE, J.P. Morgan Asset Management. Data as of 6/30/26.

Exhibit 8: Core CRE diversifies portfolios

Correlation between asset classes



Source: S&P Dow Jones Indices, Bloomberg Bond Aggregate Index, NCREIF ODCE. Data as of 3/31/26.

[24] U.S. Bureau of Labor Statistics, JPMAM as of 7/31/26. [25] JLL as of 6/30/26. [26] Bloomberg, S&P Dow Jones Indices as of 6/30/26. [27] CoStar, JPMAM as of 6/30/26. [28] Bloomberg, S&P Dow Jones Indices as of 6/30/26. [29] MSCI Emerging Markets as of 6/30/26. [30] NCREIF ODCE, JPMAM as of 6/30/26.

Made in America: The reshoring of industrial demand

The reshoring of critical manufacturing is emerging as a major structural driver of industrial CRE demand. For the past two decades, U.S. industrial growth was built around moving goods through globalized supply chains rather than producing strategic products domestically. However, COVID disruptions, rising geopolitical tensions, foreign export controls and critical-mineral constraints have all exposed the shortfalls of that model. This is pushing companies to onshore production across key sectors including semiconductors, energy production & storage and aerospace & defense.

This shift is increasingly viewed as not just an economic opportunity, but rather a national security imperative, and as a result, a growing pool of public and private capital is being directed toward rebuilding domestic production capacity. Government stimulus programs such as the CHIPS & Science Act and manufacturing tax incentives under the OBBBA (**Exhibit 9**),[31] coupled with private financing initiatives such as JPMorgan Chase's $1.5tn Security and Resiliency Initiative, are all aimed at helping companies fund the facilities, equipment, power infrastructure and supplier networks needed to scale local production. As the domestic expansion accelerates, that capital should translate directly into CRE demand for advanced manufacturing facilities and other mission-critical industrial assets. This increase in demand is already evident in the data, where tenant requirements for manufacturing space are up 40% per year on average since 2019 (**Exhibit 10**).[32]

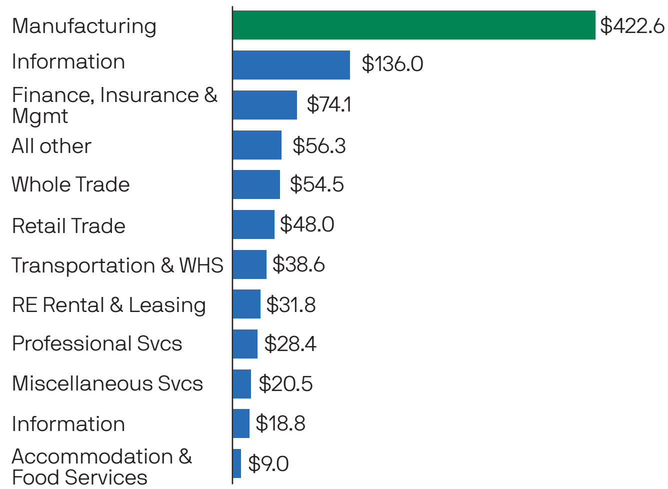
The growth in onshoring is also reshaping the types of assets attracting tenant demand. Advanced manufacturing tenants are operationally intensive, harder to relocate and more tied to long-term business continuity than traditional warehouse users. These characteristics should support stickier occupancy for buildings meeting the higher technical standards. These tenants also require significant power capacity, and access to it has become a clear differentiator for industrial assets. Insufficient capacity can delay or derail projects entirely, while power-ready sites with scalable infrastructure command meaningful rent premiums and outsized performance. The data bears this out: over the past three years, properties in our own portfolio with more than 4,000 amps generated average annual returns 530 bps above assets with less than 2,000 amps.[33]

The opportunity extends beyond large anchor tenants as well. Supplier networks will generate demand for smaller manufacturing, light industrial, shallow-bay, industrial outdoor storage and mission-critical net lease assets near production hubs.

Taken together, the most attractive industrial CRE opportunities are increasingly concentrated in more specialized, power-intensive assets that support the reshoring of critical production.

Exhibit 9: OBBBA tax changes benefit manufacturing

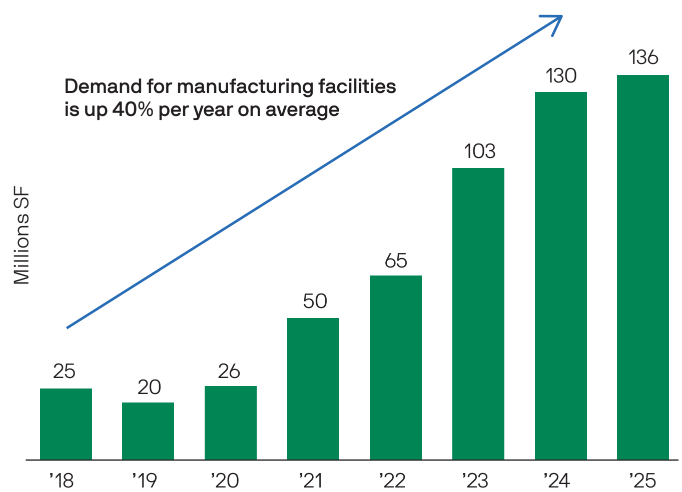
Projected impact from corporate tax provisions by industry ($ Billions)



Source: Tax Foundation General Equilibrium Model. Data as of 7/31/25.

Exhibit 10: Manufacturing tenant demand continues to rise

Manufacturing tenant requirements



Source: JLL Research, J.P. Morgan Asset Management. Data as of 12/31/25.

[31] Tax Foundation General Equilibrium Model. Data as of 7/31/25. [32] JLL Research as of 12/31/25. [33] J.P. Morgan Asset Management. Data as of 12/31/2025.

Brick & mortar retail is built to last

Retail has been the top-performing major property sector over the past three years. Can it continue? The fundamentals suggest yes — underpinned by a rare combination of constrained supply and increasingly diversified demand. The strongest pillar remains the dearth of new construction. Unlike other property sectors that saw periods of elevated supply, retail has operated for nearly two decades with limited additions to inventory (**Exhibit 11**).[34] With vacancy under 4.5% today,[35] landlords are facing minimal competition from new space, preserving their ability to push rents. This scarcity is most pronounced in infill and high-barrier markets, where land constraints, zoning restrictions, and elevated replacement costs make supply difficult to add.

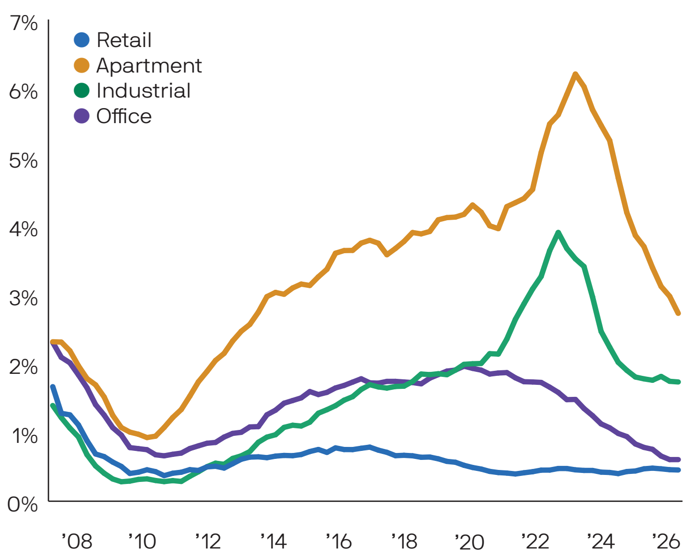
Demand for physical retail space is also becoming more durable as centers increasingly support both in-store and online sales. Omnichannel fulfillment is growing and roughly 25% of online orders are now fulfilled through physical stores, with that figure projected to increase to over one-third by 2030 (**Exhibit 12**).[36] Rather than displacing stores, online sales growth has made well-located retail more valuable as part of an omnichannel network. Stores increasingly serve as pickup points, return hubs, ship-from-store nodes and same-day delivery staging for online orders. This makes physical retail space in the best locations essential for all sales and distribution channels.

Importantly, retailers are expanding again — but more selectively than in prior cycles, predominantly targeting productive, high-performing locations. That discipline should translate into a stronger, more durable tenant profile going forward.

Finally, retail landlords have multiple paths to strong performance. At the higher end, experience-oriented luxury centers continue to benefit from the K-shaped economy and resilient upper-income spending. The top third of wage earners among Chase customers drove 61% of total spending as of Q2 2026.[37] At the other end, necessity-based formats, such as grocery-anchored and service-heavy centers, are supported by the day-to-day needs of ordinary Americans. Their service-based tenancy generates durable and recurring foot traffic that is difficult to replicate online. While lower-quality centers that fall between the ends of this barbell could face more challenging conditions, the broader retail outlook is positive. The sector's relative strength rests on a durable foundation: Limited supply, diversified use cases and consumer spending that has proven to be resilient.

Exhibit 11: Limited supply growth is likely to persist

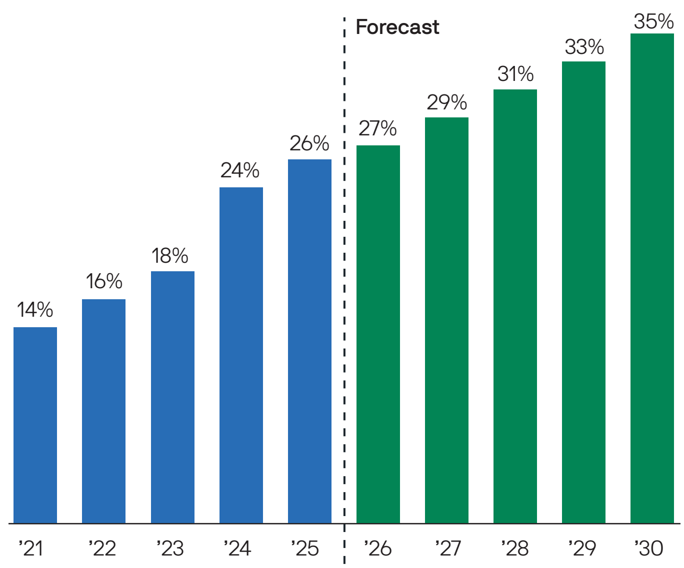
Square feet/units under construction as a % of inventory



Source: CoStar, J.P. Morgan Asset Management. Data as of 3/31/26.

Exhibit 12: Physical stores become a critical part of fulfillment strategy

Proportion of online orders fulfilled by omnichannel methods



Source: IHL Group, Colliers Research, J.P. Morgan Asset Management. Data as of 12/31/25.

[34] CoStar as of 6/30/2026. [35] CoStar, JPMAM as of 6/30/26. [36] Colliers Research, IHL Group as of 12/31/25. [37] J.P. Morgan Chase CCB data as of 7/31/26.

Ownership may be the dream, but renting is the reality

The multifamily sector has been navigating choppy waters of late. The largest wave of new supply since 1985[38] is still leasing up, and combined with a pullback in migration, rent growth softened through much of 2025. However, the sector has shown more resilience than the headlines suggest. Occupancy remains 90 bps above its long-term average,[39] and net absorption is outpacing new deliveries by the widest margin since 2012.[40] As a result, conditions are improving, and the structural demand case remains as strong as it has been in years.

The single-family market remains unaffordable for most, with homeownership a non-starter for a growing share of households (**Exhibit 13**).[41] Beyond the affordability challenges, there is a demographic dimension worth considering: The U.S. population is aging, and older generations statistically move less frequently,[42] putting a cap on how much existing housing stock turns over in any given period. Available inventory for sale, despite rising in recent years, remains below 2019 levels,[43] limiting options for would-be buyers and reinforcing the case for renting.

These dynamics show up clearly in our portfolio data across more than 50,000 units. With fewer renters able to transition to ownership, tenant retention is hovering near its highest level outside the post-COVID peak of 2022 (**Exhibit 14**).[44] That stickiness gives landlords meaningful pricing power on renewals, with renewal trade-outs running near all-time highs. This provides a durable base of income performance as new lease growth recovers.

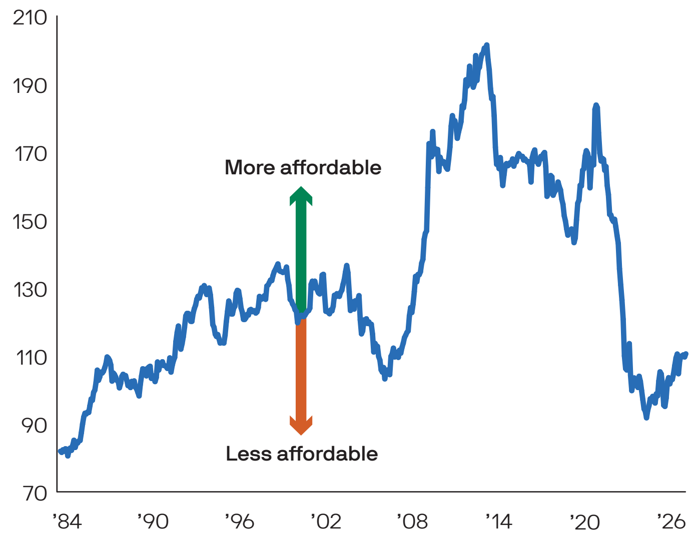
The supply picture reinforces the positive outlook. Construction starts are down more than 70% from their recent peak — the lowest since 2012 — and deliveries are following at 40% below peak.[45] With the pipeline thinning, new supply should remain relatively light into 2028, lifting the headwinds that have kept rent growth in check.

Beyond traditional multifamily, Millennials aging into peak family formation years face limited inventory and significant affordability barriers when searching for a home. This is directing many toward SFRs, a growing source of demand that should keep SFR rent growth at a premium to multifamily. At the other end of the age spectrum, the 65+ population is the fastest growing demographic in the country, supporting rising demand for active adult communities and higher-care senior housing.

With supply fading and structural demand firmly intact, traditional multifamily is well positioned heading into 2027–2028 — and SFR and age-related housing sit on the same foundation, with additional tailwinds of their own.

Exhibit 13: Home affordability at its lowest in decades

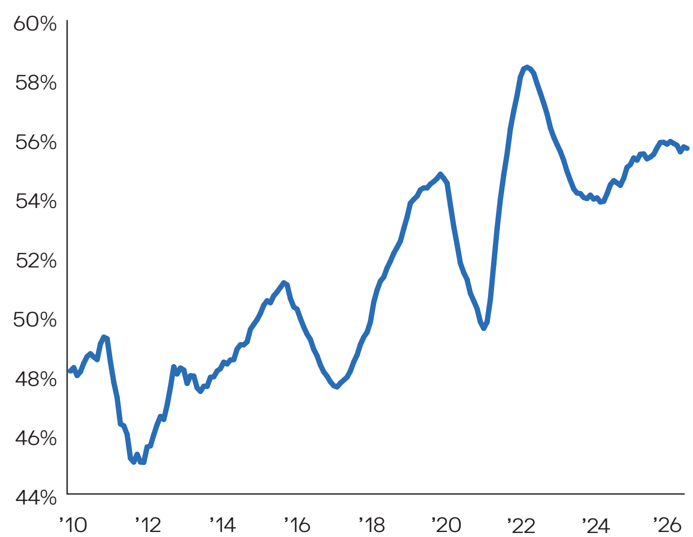
Existing home price affordability index



Source: National Association of Realtors (NAR), Moody's Economy.com, J.P. Morgan Asset Management. Data as of 6/30/26.

Exhibit 14: Tenants are sticking around at an elevated rate

Tenant retention rate — rolling 12-month average



Source: J.P. Morgan Asset Management. Data as of 6/30/26.

[38] U.S. Census Bureau as of 6/30/2026. [39] RealPage as of 6/30/26. [40] RealPage as of 6/30/26. [41] National Association of Realtors (NAR) as of 6/30/26. [42] U.S. Census Bureau's Domestic Migration of Older Americans: 2015–2019. [43] Zillow as of 6/30/26. [44] J.P. Morgan Asset Management as of 6/30/26. [45] CoStar as of 6/30/26.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