

RPM—55 | Fall 2025 Real Estate House Views with Jeff Giller and Margaret McKnight

Maribel Yoo: Welcome back to RPM, I'm your host Maribel Yoo. Today we're digging into our fall 2025 real estate house views. Some quick contexts before we jump in these house views blend top-down research from our market strategy team with bottom-up insights from our investment teams on the ground. That perspective is informed by real activity. We've allocated about 17 billion per year across real estate funds, secondaries, recaps and co-investments. And in 2025 alone, our team had nearly 1000 meetings with real estate GPS. So this isn't theory, it's what we're seeing play out in real time. I'm joined today by Jeff Giller, Partner and Head of StepStone Real Estate, and Margaret McKnight, Partner and Head of Portfolio Solutions for SRE Jeff Margaret. Great to have you both back. Now, Jeff, I'm going to start with you. As we head into 2026, what's the big picture backdrop for real estate, right now?

Jeff Giller: Hello everyone and Happy New Year! As we look ahead to 2026, there's a tremendous change in our world and in our economy. It seems there's so much happening from policy changes, maybe even global disorder at this point to AI. Yet, as always, real estate is marching to the beat of its drum. Slow and steady, which is normal for real estate.

Margaret McKnight: Yes, hello, thanks everyone for join in! That's exactly why it's so useful in the portfolio. It provides diversification. It acts differently from these other fast moving asset classes, plays an important role in portfolio construction, especially risk mitigation.

Maribel Yoo: Jeff, now what are you hearing as you talk to investors?

Jeff Giller: I can't help but notice a lot of investor frustration at a time when there should be excitement over the opportunity set. The frustration is really on two fronts.

First, swinging for the fences with high return strategies that layer on all kinds of risks have not delivered the results that investors wanted. So a surprising number are telling us they want to shift down the risk spectrum back to hitting consistent singles and doubles

by good, well leased buildings, and enjoy gradual income growth with modest leverage and more reliable returns in the core-core-plus space.

Margaret McKnight: Yeah, that makes sense. Now in this environment, it's not a moment to take up a lot of lease up risk or bet on big rental rate growth, especially combined with higher leverage given the economic weakness and the uncertainty of today's world. And yet there's a big capital markets led opportunity.

Maribel Yoo: Jeff, that brings us to our second frustration that you mentioned around distress. What are investors telling you?

Jeff Giller: Yes. A second, as we talked to investors about the rich opportunity set we see in the GP led secondaries and recap arena, because so many balance sheets are still not reconciled to the interest rate jumps of 2022 and valuations are still up. We're seeing distress fatigue. Investors are tired of hearing about distress but not seeing much happening, not really seeing the opportunity that they thought would emerge from this distressed environment.

Maribel Yoo: Margaret is distressed, really happening, just not in the way or at the pace people expected.

Margaret McKnight: Things are actually happening and they're happening at real estate's being not AI speed, so the good news, US transaction volume is back to long term normal levels as of the third quarter. Um, that was certainly boosted by a dip in interest rates. And volume will likely continue to fluctuate with interest rates, especially long rates. Um, but volume is fundamentally health healthy, with larger deals returning and debt readily available. Europe is not recovered on volume, but that's an aggregate. And this is a big theme across real estate right now is the averages are hiding interesting things underneath. So good news UK volume is generally running above trend. On the other hand, Germany still has depressed volume with an anemic core bid because the domestic funds that are the big core buyers are over marked. This is much the way the US core open ended funds are over marked and they're on hold.

And that issue is really frustrating us core fund investors. On the other hand, non-core funds are actively buying and they're buying has risen to the point where capital calls are

running more than 20% above the long-term norms. They have deployed nearly \$1 trillion since rates jumped in 22, and that includes a lot of distressed or motivated transactions. Now, we all know that fund raising has been lackluster. So the net effect of this is that the half a trillion of dry powder that we had in 22 has now dropped to 290 billion, and about half of that is at the end of its investment period. So right now there's a lot of pressure to deploy, which makes it harder to get stuff on the cheap. You really have to be good and well connected, not just lucky. Um, and then after that, there's way less dry powder in the pipeline.

Maribel Yoo: So less dry powder, more pressure to invest. But balance sheets still haven't fully adjusted. Right, Jeff?

Jeff Giller: Far from it, Maribel. And the rate jump in 22 was three years ago. We know there is still a mountain of balance sheet challenges related to the increase in interest rates. It's simple math we've talked about. Often higher rates mean refi proceeds are much lower than existing loans, especially for borrowers with more leverage, limited flexibility and or transitional assets. It's a real problem, and owners often don't have money to fill the gap, especially with today's complicated structures. And of course, this group includes those high yield funds that investors are not happy with.

Maribel Yoo: So speed is kind of a relative concept. I think most people compare today to the GFC, which is the last time we've had this level of turmoil and opportunity. So what's the difference now? Margaret.

Margaret McKnight: A few things. Um, first, there's the banks, which are generally healthy now, in large part due to the post-GFC reforms. And the regulatory environment is now going the other way. So there's no real pressure on them to resolve the loans that you would usually see at this point in the cycle. There have been so many loan extensions that 2025 loan maturities are not far from twice what the 25 maturities were back in 22, and many matured. Loans are just not resolved, not extended nothing. So the infamous maturity wall that should be kind of flat on top has a great big spike on it. This does affect banks flexibility to do the lending they want to do.

So we are starting to see signs that they're running out of patience after giving borrowers three whole years. Um, also less regulation means growing bank M&A, which does

facilitate loan resolution. Secondly, fundamentals are a lot better. We had a terrible recession post-GFC and now we just have slow growth. This means rents are still growing in many places, albeit at a much lower rate than they were a couple years ago, which doesn't feel good. But there is income which gives rise to flexibility. Also, this cycle, interest rates did not come to the rescue.

Post-GFC the fed funds rate basically went to zero for seven years. And more importantly, for real estate pricing, which is anchored on long rates. The ten year just kept moving down. This solved a lot of problems then, and it's kind of gumming up the works now until 22. The ten-year interest rate, which mainly prices real estate, have been declining for 15 years, 15 years. So declining rates feel normal. It's all you've experienced if you're in your 30s or younger. So the backup and training volume and Mark's caring values has a lot to do with the fact that market participants, consciously or subconsciously have expected rates to fall. But long-term rates are just now around their long-term norms, not only in the US, but in many places around the world. And when you look at the key drivers of interest rates, there is more upward than downward pressure. So it's not a great bet to assume long rates are coming down very much. And then finally, there's a lot of new money in debt funds and secondaries funds that's aimed at bridging the gap. So recapitalizing to avoid fire sales, which is a lot more appealing to owners even if it is very expensive capital.

Jeff Giller: Yes, the recap segment is really active. We've done significantly more recap volume than in any prior year by both the number of deals and deal sizes. But let's switch gears and talk about fundamentals. What is attractive? What should we avoid?
Margaret.

Margaret McKnight: Well, today's market is that cliché. The stock pickers market, which sounds like I'm dodging the question. Um, so that means, though, that the averages that are not as interesting are misleading and getting the right asset type, subtype, market, submarket asset. So you can really have income growth potential and you get it at the right price in the right structure. That matters now way more than just filling the buckets. So it's no longer just back up the truck to the hot property type and you'll be good. It's getting granular. Also big picture real estate houses the economy. And the economy is slowing globally.

It looks like the US is now still expected to have a slight growth advantage over Europe. But Europe has lower interest rates and better positive spread investing. So both are appealing. While the growth cities in both regions merit focus. You really have to pick your spots due to supply issues and the changing trade patterns. Many major metros end up leading the growth cities on investment appeal, in large part due to supply constraints. The tortoise is ahead of the hare in places like London and New York. But also there's things like AI driving recovery in San Francisco. So as we look across the stoplight page on our house views, which is the chart of property type by regions appeal, the slower economies do mean that there is more yellow than green, but it hasn't changed very much since the last edition because this is not a surprise. Um, in more detail, life science and office are the only red lights, except in Japan where office is healthier. We're now bifurcating the new version of trophy office from anything commodity like. And one reason is US has stalled at about 55% office utilization. Investor sentiment is shifting positive with signs of recovery and improved liquidity. And still, only the best of the best. Office is doing well, and there are real questions on how that expands out and whether you can make money given very onerous capital expenditures. Residential continues to have global appeal amid a widespread housing shortage, and higher rates also are curtailing home buying. Workforce housing is typically more stable and economically resilient. To my earlier point about picking your markets, oversupply is working its way through the system in some places, and it's dropping rents in places like Austin, Denver, Phoenix and parts of Florida. Um, albeit these are places where there really is more growth. So it takes careful underwriting. Industrial is normalizing from the onset of e-commerce, from Covid and now impacted by changing trade policy. It won't be the powerhouse it was as e-commerce came on the scene, but it still has appeal. Although many investors are overallocated, higher quality assets are likely to outperform and also smaller or mid bay that supports local populations and domestic local consumption. So in the US, onshoring should eventually benefit markets with high value advanced manufacturing sectors like pharmaceuticals, aerospace, high tech, um advanced research indicates economic research indicates that trade policy is generally going to benefit the sectors that are already winning, and vice versa. In the other category, senior housing is notable. We've been fans for some time in Europe, and now the US is interesting with a dearth of supply due to all the Covid issues and the leading edge of the baby boomers now turning 80.

Maribel Yoo: And there's a lot more detail behind those views in the House views fuse themselves. Now, before we wrap up, let's come back to the disappointment that Jeff noted around high return funds.

Margaret McKnight: Yeah, this is where it's important. This is where rear view mirror investing can get you in trouble. So the frustration is real and people feel stuck. Non-core fund distributions have been around 60% below normal for a couple of years. Also, the most challenged vintages, roughly 19 to 21, are likely to see returns declining, which would be likely to take your somewhat not exciting legacy core portfolios more in the wrong direction. However, that has nothing to do with today's buying opportunity in new funds. Real estate, especially non-core, is highly cyclic, and this is part of why the average long-term returns are not as exciting as people would hope. You have to lean in the good years. And this is hard to do. It's a little counterintuitive when you see a lot of problems in your rear-view mirror, especially balance sheet problems, plus lousy returns because prices fell. So hint now they're low. Um, you're more likely to be sitting in strong vintages like 2010 to 2012. We've hopefully, hopefully given you a lot more information to make that case in the House views and elsewhere, that we really see that we're in such a period now. Also, there's incredible performance dispersion across noncore funds, so fund selection is critical at any point in the cycle. So for Noncore, there's a lot you need to get right. And if you don't outperform the average, you don't get paid enough to take on the extra risk. So you'd be better off in core-core-plus. So further reinforcing that core-core-plus benefits from the stable in place income in a slowing and very uncertain economy. Then, too, if you're making new investments and not buying into expensive, existing open-ended funds. You can also capitalize on market dislocation and motivated sellers. Even in this arena when you buy assets. So you can kind of have your cake and eat it too.

Jeff Giller: Absolutely. We're seeing positive attributes in the core sector, which is also aligning with what our clients and investors want to do. So as such, we're expanding our coverage in the core core-plus sector. And of course, we'd be happy to speak further with any of the listeners about how we're attacking the core-core-plus market going forward.

Maribel Yoo: And that's the perfect place to leave it. Jeff. Margaret, thank you both for the conversation today, and thanks to everyone for listening. We'll see you next time on RPM.



Jeff Giller: Thanks, Maribel. Thanks, Margaret. Enjoyed the discussion as always.