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REAL ESTATE

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Why the case for debt and equity is strengthening

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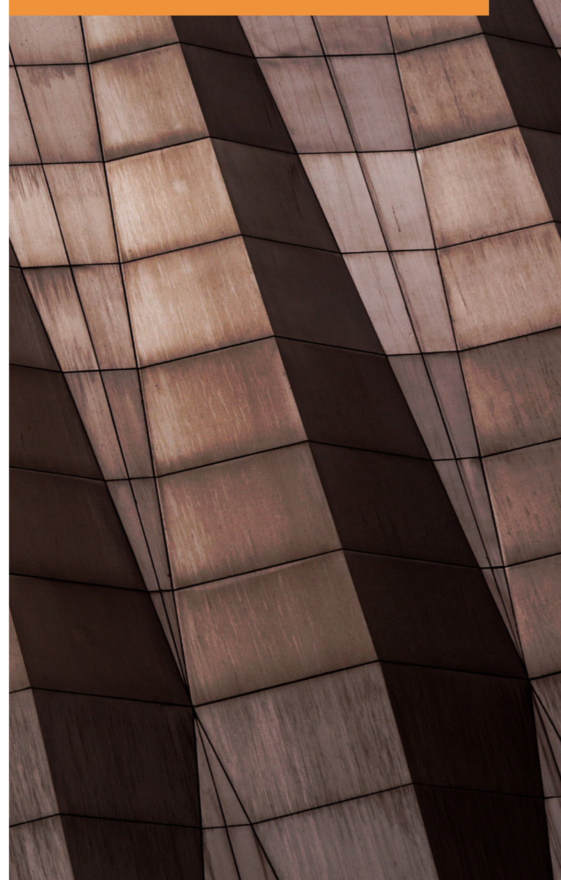
Introduction

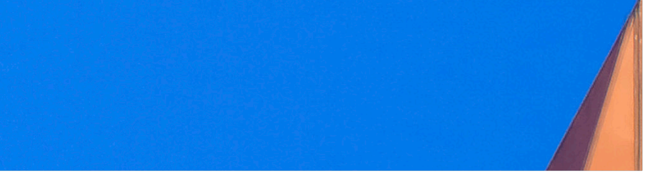
Every real estate cycle eventually reaches a moment when the pain of repricing gives way to the promise of recovery. We believe 2026 marks that moment.

Since mid-2022, real estate markets have absorbed a sharp and painful adjustment: rapid interest rate increases, geopolitical disruption, and constrained liquidity drove capital values down 20–25% from their pre-2022 peaks. For owners caught in that repricing, the experience was uncomfortable. But for capital being deployed today, the same reset has created something far more attractive—a rebased starting point from which both real estate debt and equity investors can pursue compelling risk-adjusted returns.

Transaction activity is picking up. Operating fundamentals are stabilizing and, in several sectors, beginning to improve. Lower valuations combined with tighter underwriting standards mean that new lending looks to be better cushioned than at almost any point in recent history, while new equity commitments are being made at prices that no longer depend on aggressive rent growth assumptions to work. This is not a coincidence—it is the result of a market moving from repricing toward recovery.

This paper makes the case for equity and debt at this point in the cycle. We examine why real estate debt may offer resilient, low-volatility returns; why real estate equity is positioned to capture the upside of a recovering market; and why, taken together, current conditions make this a compelling moment to deploy capital into real estate.





The case for real estate debt

Global economies have experienced significant uncertainty since mid-2022, including rising interest rates, multiple conflicts, trade wars and subdued business confidence. All of this has had a dramatic impact on real estate assets, with capital values correcting by approximately 20–25%.[1]

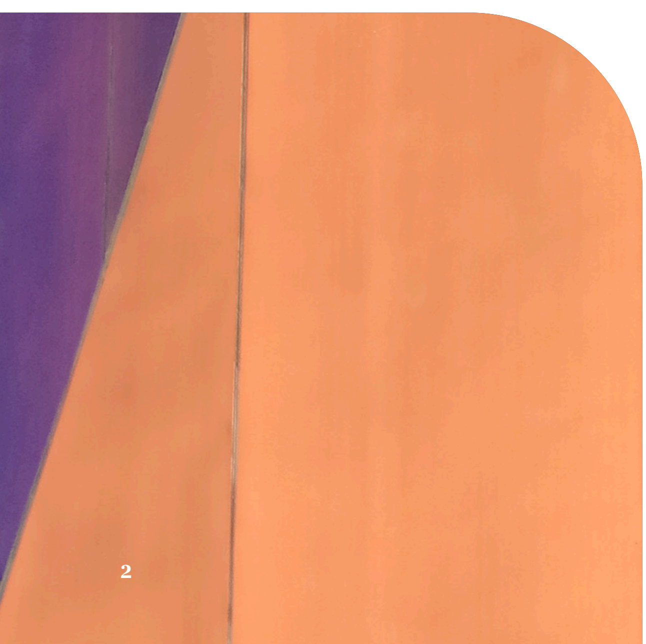
While challenging for existing owners, this rebasing has created an attractive entry point for new lending. New loans are now structured against current, lower valuations, providing a substantial equity cushion for lenders. New senior secured loans written today could withstand market-wide capital value declines more than 50% before eroding their equity buffer—a greater cushion than seen in any downturn since 1989.[2]

Regulatory reforms following the Global Financial Crisis (GFC) have reinforced this protection at a structural level, resulting in tightening of average senior loan LTVs from close to 80% pre-GFC to around 55% at the end of 2024, while margins have increased relative to the pre-GFC period. The combination of a lower starting LTV and a rebased valuation base means new loans carry a strong buffer against further market weakness.

Quantifying default risk and recovery post default

Concerns around defaults in commercial real estate does not appear to reflect reality. Using the MSCI All Property Index,[3] which has data going back to 1987, the probability that a three-year loan with an initial LTV of 65% will default is approximately 4% (Figure 1). This figure likely understates true default risk, since loans can also default for reasons unrelated to a complete erosion of the equity cushion, for example, when the interest coverage ratio falls below a covenant threshold. Fortunately, many lenders build in early indicators of potential distress, giving borrowers the opportunity to rectify a situation before it escalates into default.

In the event of a default, the asset-backed nature of real estate debt translates into stronger recovery outcomes than are typically available elsewhere in credit markets. Global recovery rates for private real estate debt have averaged 82% between 2000 and 2023, compared with 66% for private small enterprise debt over the same period—and this resilience held up even during periods of acute stress such as the GFC.[4]



Attractive volatility profile

These characteristics produce an asset class with a notably stable return-volatility profile. Nuveen Real Estate research shows that real estate debt may offer lower volatility than most other real estate segments and broader public and private markets, while still potentially delivering returns comparable to higher-risk asset classes.[5] This is driven by debt's protected position in the capital stack, the steady income generated through structured loan obligations, and the shorter duration of loans relative to other fixed income instruments (which helps mitigate the impact of inflation and interest rate changes). This lower volatility also supports reduced correlation with public fixed income, enhancing portfolio diversification: allocating just 10% of a diversified portfolio to real estate debt can potentially reduce the portfolio's overall risk profile.[6]

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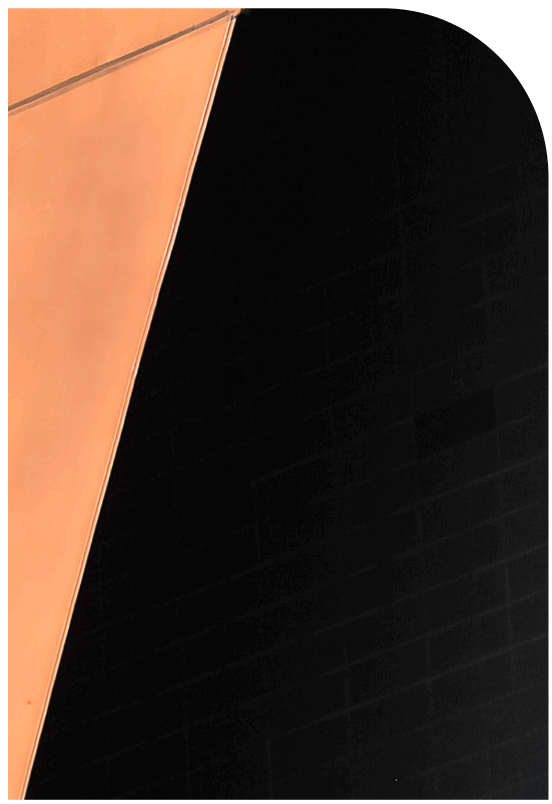
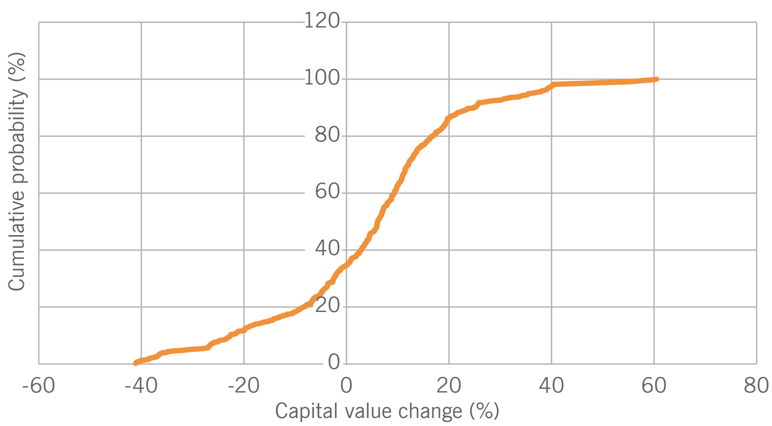


Figure 1: Cumulative probability of capital value change over three years

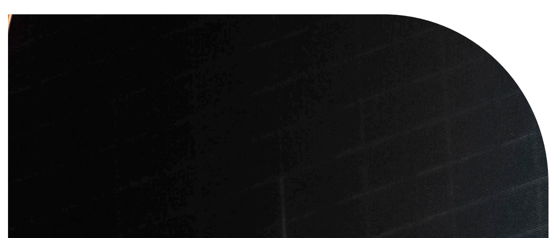


Source:MSCI Monthly UK All Property Index, as of July 2026.
The MSCI UK Monthly Property Index measures the performance of directly held property investments in the UK across various sectors.

A structural tailwind for levered strategies

A further advantage is that as capital values recover from their rebased lows, LTV ratios reduce over the course of a loan without any additional cost to the lender. Nuveen Real Estate analysis shows that three-year loans originated at the bottom of the cycle during the GFC at 70% LTV matured at around 55–60% LTV.[7]

This deleveraging effect is amplified by a further structural feature available to levered debt strategies: interest rate floor mismatches between the whole loan and back-leverage components create an asymmetric payoff. This means that as base rates fall toward the whole loan floor, returns for levered strategies can actually increase, unlike unlevered strategy returns which typically plateau.



The case for real estate equity

At the midpoint of 2026, commercial real estate sits at a notable inflection point. Following a surge in interest rates, waves of construction activity in key sectors, constrained liquidity and uneven price discovery, transaction activity is reaccelerating and operating fundamentals are beginning to improve. While debt offers contractual income and reduced risk as underlying property values improve, equity investment provides direct participation in the recovery of property-level cash flow and value.

Four conditions strengthen the case for equity.

1. **Values have reset.** According to Green Street Advisors' Commercial Property Price Index (CPPI),[8] U.S. commercial real estate property values fell 21% from early 2022 through the trough in late 2024, a consequence of the interest rate surge that began in 2022. Capitalization rates were pushed higher across sectors, providing solid income-based returns for equity investors, and it opened the door for buyers to acquire quality assets at reasonable pricing without needing to underwrite aggressive rent growth or a rapid decline in rates to generate returns.

Values have since stabilized and begun to grow, with the CPPI posting annual gains in each of the last seven quarters. While the interest rate environment remains uncertain and some risk of a further decline in values exists, the reset should offer comfort to buyers who can purchase below replacement cost, underwrite conservatively, and hold through the early phase of a new cycle.

2. **Limited supply growth.** Commercial real estate fundamentals are poised to improve across most property types because of a broad slowdown in supply growth. New construction has slowed because financing is expensive, construction costs remain elevated, and lenders require more equity from developers.

In industrial real estate, U.S. construction activity has slowed sharply, with supply growth hitting an eight-year low in Q2 2026, according to CoStar, after an unprecedented wave of supply growth that saw over 2 billion square feet of new space delivered between 2022 and 2024. While there are some exceptions in multifamily, notably in select Sun Belt markets, broader pipelines are dwindling and supply growth is set to slow below historic averages in the coming years. Office pipelines, meanwhile, are exceptionally thin given lingering concerns about future demand, and retail supply growth remains minimal because current rents do not justify the cost of new development.

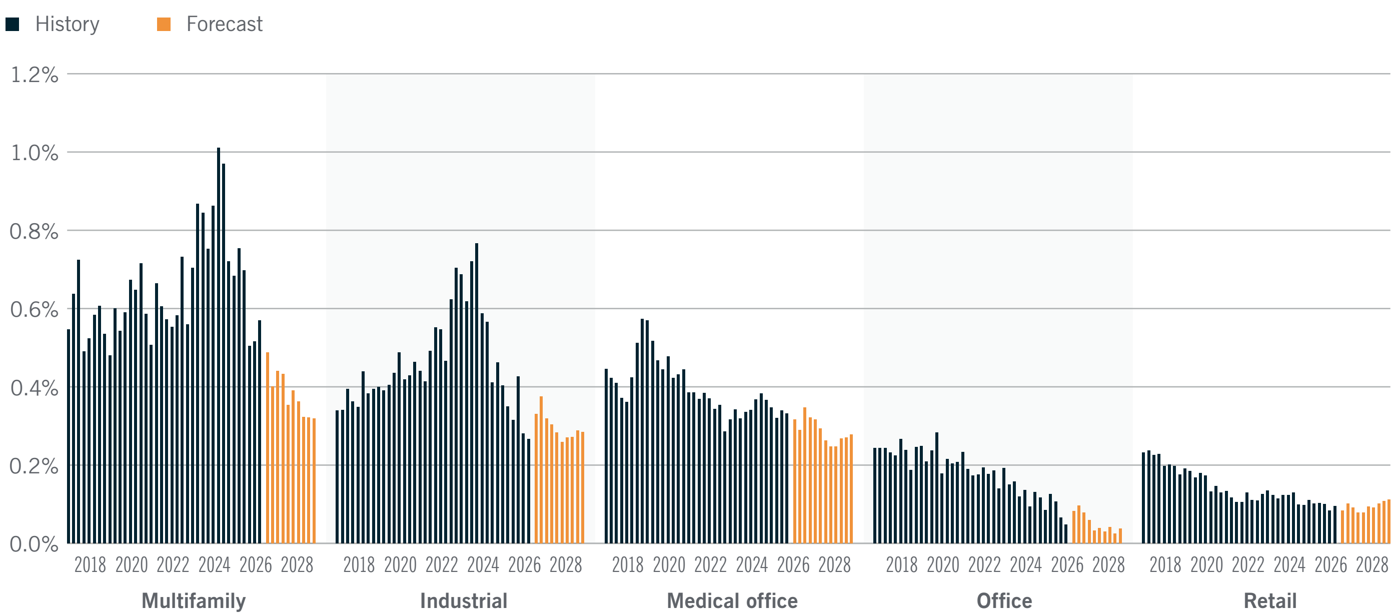
Such limited supply raises the strategic value of existing, well-located assets, especially those with features that are difficult or expensive to replicate. For equity owners, this scarcity can translate into stronger tenant retention, improved pricing power and a longer runway for net operating income growth. The benefit will not be uniform as obsolete offices and overbuilt submarkets still warrant caution, but experienced asset managers with local knowledge of market and submarket dynamics will take advantage of the sluggish pace of supply growth to drive outperformance.

3. **Equity captures the upside.** While equity stands behind debt in the capital stack and bears greater downside risk, it captures the upside as conditions improve. If income exceeds the business plan, a redevelopment succeeds, a lease is renewed on favorable terms or the exit valuation improves, that incremental value belongs to equity.

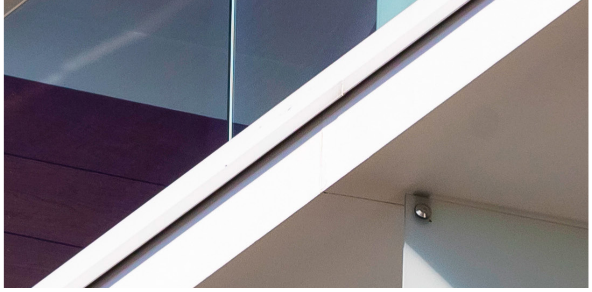
This upside participation is particularly relevant in the early stages of recovery. According to NCREIF's core real estate fund index (NFI-ODCE),[9] there were three major commercial real estate expansionary periods from 1978 through 2022, each lasting at least 12 years and producing double digit average annual returns. While each expansion is different and performance in past cycles does not guarantee future results, we believe the fourth upcycle for commercial real estate returns is now underway, and equity investors may stand to benefit by entering in the beginning phase.

4. **Asset control will help drive performance.** From this point in the cycle, performance is likely to diverge sharply by market, vintage, quality and submarket. Active owners can tailor leasing and capital plans rather than rely on a broad market rebound—protecting cash flow through early renewals, repositioning assets toward resilient demand and preserving flexibility ahead of upcoming debt maturities. There is, however, a trade-off. Equity investors need experienced operators, adequate reserves, and disciplined oversight. Where those capabilities are present, equity ownership can convert asset-level complexity into a competitive advantage.

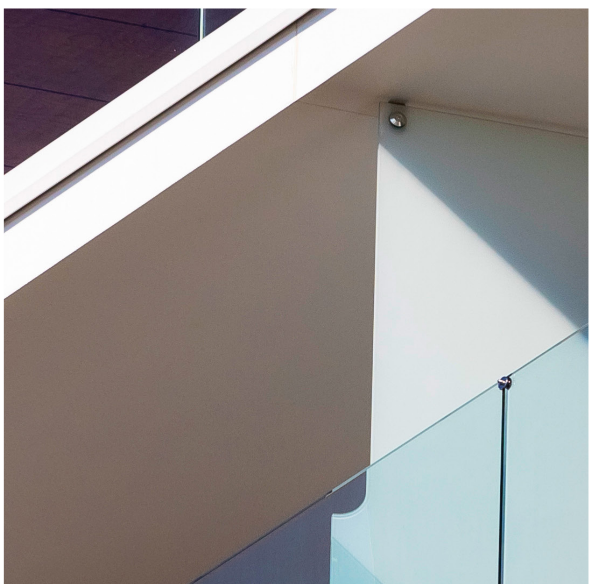
Figure 2: Quarterly deliveries as a percent of existing stock (Q1 2017–Q4 2028)



Source: CoStar (26Q2); Revista (26Q2); Nuveen Real Estate Research.



Why now for real estate

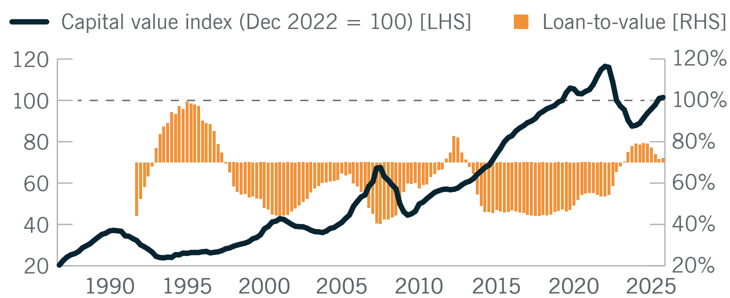


The bottom of the cycle is typically the most attractive point of entry for real estate investors, whether through direct ownership or lending. Rebased capital values mean direct investors can acquire assets at discounts to intrinsic value, and as the cycle recovers, capital appreciation combined with attractive rental income can produce some of the strongest investment vintages of a generation. The five-year look-ahead IRR analysis in Figure 3, based on historical capital value changes and rental income, illustrates the outperformance available to those who invest at the bottom of the cycle.

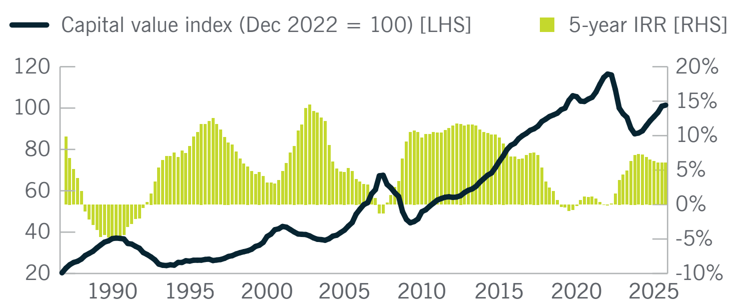
Debt investors benefit indirectly through the same dynamic: as asset values rise, LTVs decline over the course of a loan. For example, five-year loans originated at the bottom of the cycle during the GFC at 70% LTV would have matured with LTVs closer to 40%, as asset values increased over that period. Debt investors can capture this deleveraging effect, and the improving return-versus-risk profile that comes with it, without paying anything extra for it.

Figure 3: Great vintage for debt or equity

Trailing 5-year change in LTV assuming 70% at origination



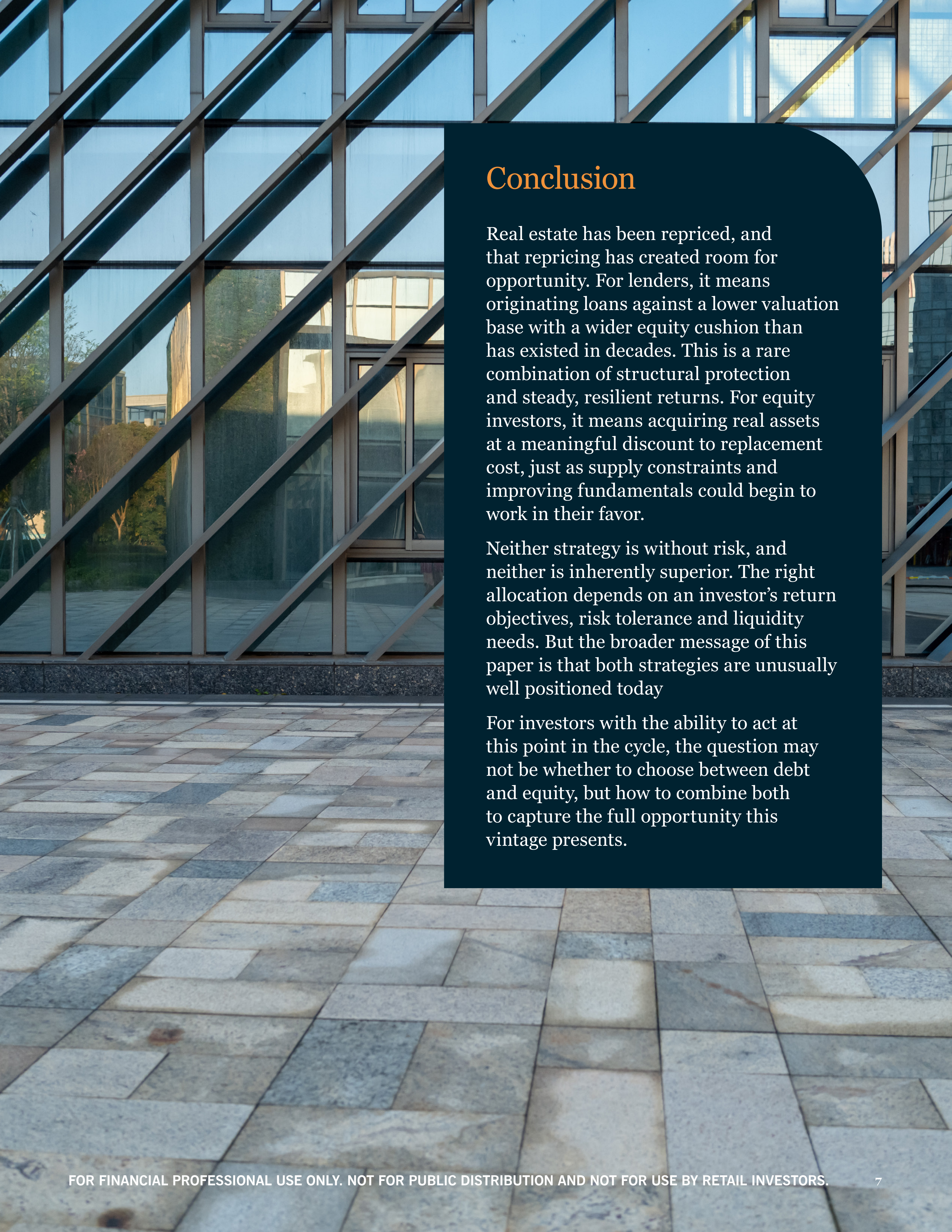
5-year change in IRR assuming index income and capital value change



Source: CBRE UK Monthly Property Index (March 2026); Nuveen Real Estate Research (May 2026).

CBRE UK Monthly Property Index: A benchmark tracker used to measure the composite investment performance—including total returns, capital value growth, and rental value growth—across all major commercial and institutional real estate sectors.

The Capital Value Index (CVI): A rebased index derived from the capital value growth component of the CBRE UK Monthly Property Index. It isolates and tracks the change in capital values specifically, over time, across major UK commercial and institutional real estate sectors



Conclusion

Real estate has been repriced, and that repricing has created room for opportunity. For lenders, it means originating loans against a lower valuation base with a wider equity cushion than has existed in decades. This is a rare combination of structural protection and steady, resilient returns. For equity investors, it means acquiring real assets at a meaningful discount to replacement cost, just as supply constraints and improving fundamentals could begin to work in their favor.

Neither strategy is without risk, and neither is inherently superior. The right allocation depends on an investor's return objectives, risk tolerance and liquidity needs. But the broader message of this paper is that both strategies are unusually well positioned today

For investors with the ability to act at this point in the cycle, the question may not be whether to choose between debt and equity, but how to combine both to capture the full opportunity this vintage presents.

About Nuveen Real Estate

Nuveen Real Estate is one of the largest investment managers in the world with $135 billion of assets under management.

Managing a suite of funds and mandates, across both public and private investments, and spanning both debt and equity across diverse geographies and investment styles, we provide access to a broad range of real estate investing opportunities.

With over 90 years of real estate investing experience and more than 600 dedicated employees* located across 30+ cities throughout the United States, Europe and Asia Pacific, the platform offers global reach with deep sector expertise, providing investors access to high quality investments across the private real estate investment landscape.

For further information, please visit us at nuveen.com/realestate.

* Includes 360 investment team members, supported by over 1,000 shared services employees across the broader Nuveen organization.
Source: Nuveen, 30 June 2026.

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Sources

1 CBRE Prime Capital Value Index, July 2026.
2 Nuveen Real Estate Research, Bayes CRE Lending Report, July 2026.
3 The MSCI All Property Index measures the unlevered total returns of directly held property investments, capturing both income and capital growth across all property types, including offices, retail, industrial, and residential assets.
4 GCD Bank data, July 2026.
5 Nuveen Real Estate Research. Bloomberg Euro Treasury index represents Bonds, MSCI Europe Index represents Equities, Bloomberg Euro-Aggregate: Corporates Index, Bloomberg Euro high yield index, Iboxx euro non-financials. RE Debt is represented by MSCI Europe Private Real Estate Debt Fund Index. Private Real Estate Equity is represented by the MSCI Europe All Property Index. Diversification does not assure a profit or protect against loss. August 2026.
6 Nuveen Real Estate Research using data from Bloomberg Treasury index to represent Bonds, MSCI Indices to represent Equities and MSCI Private Real Estate Debt Fund Index to represent Real Estate Debt.
7 CBRE Prime Capital Value Index, Nuveen Real Estate Research, July 2026.
8 The GreenStreet CPPI measures the unleveraged values of commercial real estate in the United States, capturing the prices at which transactions are currently being negotiated and contracted across all major sectors.
9 The NCREIF Index is a real estate performance benchmark that tracks unleveraged income and appreciation returns on institutional-grade commercial properties in the U.S.

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