

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# Real estate: muted supply growth speaks volumes

## Bottom line up top

**A rolling recalibration.** While there's been no shortage of geopolitical tensions of late, the main market narrative remains focused less on macro shocks and more on micro shifts in expectations — including economic activity, jobs and whether a dynastic favorite (mega cap growth stocks) will retain or relinquish the equity market leadership crown to scrappy cyclical underdogs like value and small caps.

Last week's data releases reinforced a familiar but critical theme: The U.S. economy is cooling, not cratering. In fact, January's ISM manufacturing survey surprised to the upside, rising to 52.6, its highest level since 2022 (Figure 1). (Readings over 50 indicate expansion.) The upshot for investors: Manufacturing may no longer be a drag on corporate earnings or employment.

At the same time, some labor market indicators raised concerns. The ADP private employment report showed +22,000 jobs added in January — only about half of the +42,500 expected. Separately, layoff announcements for the month surged to 108,435, the worst January print since 2009, based on the Challenger, Gray & Christmas survey. Companies cited efficiency, cost reduction and technology restructuring initiatives as reasons for the job cuts. A silver lining for investors is that softer labor demand tempers wage inflation and keeps the Federal Reserve on track for policy easing later in 2026.

**Software's hard times.** Global software stocks tumbled last week on fears of disruption from artificial intelligence (AI), namely the introduction of new AI productivity tools seen as a threat to traditional software-as-a-service (SaaS) models. The software slump drove sizable



**Saira Malik, CFA**  
*Chief Investment Officer*

*On behalf of Nuveen's Global Investment Committee*

As Nuveen's Chief Investment Officer and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she is a portfolio manager for several key investment strategies.

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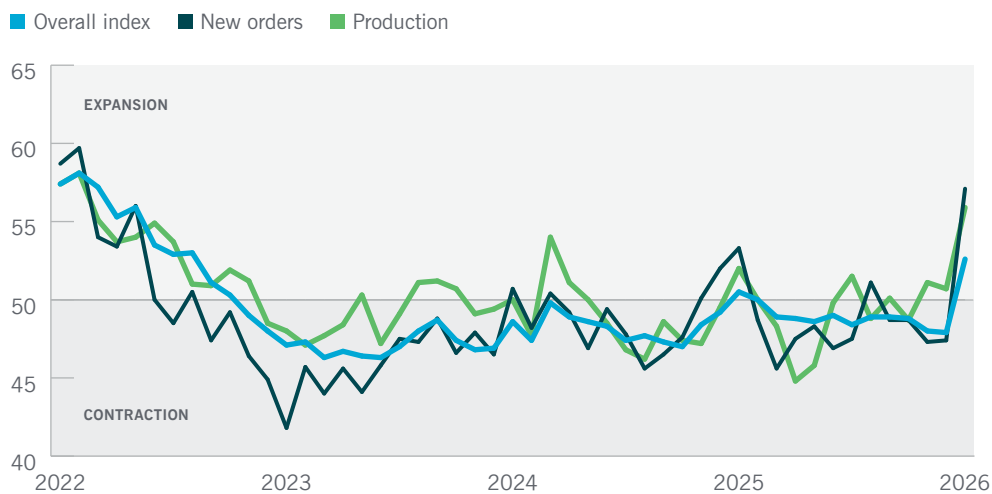
***Equity market leadership is broadening, making selectivity more critical.***

midweek losses for the information technology sector of the S&P 500 Index and the tech-heavy Nasdaq Composite before markets rebounded on Friday. In our view, this isn't a "sell all software" moment. Instead, we see a tremendous opportunity for active stock-pickers who can distinguish between (1) durable franchises with pricing power and protective "moats" against competitors and (2) those grappling with margin compression or obsolete revenue models.

On balance, economic and market signals appear to show equity investors transitioning away from a focus on price/earnings multiple expansion and thematic exuberance, and toward selectivity, income and potential downside resilience. In that context, it's not surprising that capital is gravitating toward private markets, especially private real estate — where steady lease income, lower mark-to-market volatility and improving supply/demand dynamics make the asset class a compelling complement to public market exposure.

## FIGURE 1: IS MANUFACTURING TURNING A CORNER?

*ISM Manufacturing index levels*



Data source: Bloomberg, L.P., 01 Jan 2022 – 31 Jan 2026. **Representative indexes: manufacturing:** ISM Manufacturing PMI SA Index; **new orders:** ISM Manufacturing Report on Business New Orders SA Index, **production:** ISM Manufacturing Report on Business Production SA Index. Index readings over 50 represent expansion.

## Portfolio considerations

Following two years of declines, **global private real estate** returns have been positive for the past six quarters (Figure 2) amid diminishing headwinds for the asset class. Rebounding real estate prices in most global markets, rising transaction volumes and a sharp drop in new-construction activity have all contributed. With real estate at a turning point, we continue to favor a global cities approach that emphasizes growing markets with educated and diverse populations. Two of the sectors that we currently favor are light industrials and residential apartments.

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***Real estate investments appear compelling, especially in the light industry and apartment sectors.***

**Heavier appetites for light industrials.** Demand for U.S. industrial space rebounded in the fourth quarter of 2025, bringing stability to a vacancy rate that had been climbing steadily since mid-2022 due to supply growth. Net absorption (an indicator of demand versus supply) in the industrials sector ended last year at its highest level in three years. Within the sector, we're especially constructive on light industrials, which, compared to heavy industries, generally produce smaller, less complex goods for consumer consumption. Vacancy rates have been consistently lower for light industrials, as the smaller spaces they occupy typically enjoy stronger leasing velocity and often "lease up" quickly when vacant. Our focus is on locations near population centers that serve local economies. These properties tend to be structurally insulated from new supply growth because it's difficult for developers to gain approval for industrial zoning in areas better-suited to smaller property footprints.

**Would-be homebuyers remain "apartmentalized."** Buying a home has become more expensive than renting across the globe, as reflected in elevated house price-to-rent ratios. Currently, owning a home is 95% more expensive than renting an apartment — and it's uncertain whether that premium will ever revert to pre-COVID levels. Ultimately, extended rentership makes a strong investment case for owning multifamily properties such as apartment buildings. Among global real estate markets, apartment construction has continued to drop in the Asia-Pacific region, Europe and the U.S. — a structural trend that bodes well for future fundamentals.

**FIGURE 2: GLOBAL QUARTERLY REAL ESTATE TOTAL RETURNS HAVE BEEN POSITIVE FOR SIX STRAIGHT QUARTERS**



Data source: MSCI Global Quarterly Property Index (Q3 2025 data as of 5 Dec 2025); Nuveen Real Estate Research. Performance data shown represents past performance and does not predict or guarantee future results.

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*Regular meetings of the GIC lead to published outlooks that offer:*

- macro and asset class views that gain consensus among our investors
- insights from thematic “deep dive” discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

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### Endnotes

#### Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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