

The Bell Can't Be Unrung

Opportunity Amid Uncertainty

Uncertainty aside, global opportunities are taking shape for those who know where to look.

At the start of 2025, optimism was quietly returning. The U.S. election outcome was clear, and it appeared that the U.S. Federal Reserve's historic tightening cycle was potentially nearing its end. Meanwhile, markets were stabilizing, central banks more broadly were pausing or easing interest rates, and the bid-ask gap was narrowing. But as the year progressed, U.S. tariff policy abruptly disrupted progress and shifted the conversation. In this environment, global investors were asked to hold two opposing truths, with growth moderating and inflation remaining sticky.

However, the underlying forces shaping this moment (including deglobalization, demographic pressure, energy insecurity, and political bifurcation) had been building over time, like massive tectonic shifts gradually making their way to the surface. As a result, the landscape built over the last four decades is transforming, becoming more fragmented and localized. In other words, *the bell had been ringing; it's only now that we can finally hear it.*

History's Echoes Highlight Potential Opportunities Today

Hines has long believed that this cycle would be different. That valuations would reset not with a bang, but with a steady recalibration. That fundamentals would reassert themselves. And that real estate (especially private real estate) would emerge as one of the few places where long-term capital could find income, resilience, and strong relative value. Historical perspective informs that view.

Hines Research has done some interesting work to analyze a period in U.S. history (specifically from 1966 to 1982) when cap rates rose sharply and inflation spiked. What was the outcome then? Real estate income growth not only kept up, **it accelerated**. Rent growth emerged, driven by scarcity, discipline, and rising replacement costs (see Exhibit 1). **We are beginning to see these echoes ring.**

Supply Gap Looms Large

Today, global construction has fallen off compared to historic averages. Yet demand has remained. We believe the reality is that we are not building enough to meet the next cycle's needs. That supply/demand mismatch is not hypothetical; it's currently being baked into the back half of this decade. In the immediate moment, these forces potentially represent an uncommon buying opportunity. However, as the cycle progresses, we believe we will begin to shift to a building moment—an inflection point that many could miss.

Key Themes to Watch in the Second Half of 2025 (and Beyond)

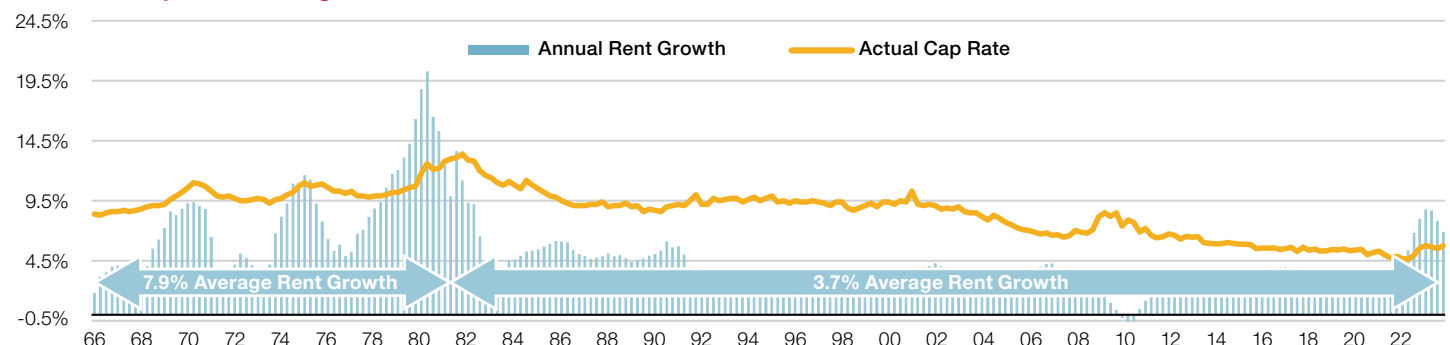
We have been closely tracking the key themes of deglobalization, deleveraging, demographics, dispersion, data, and decarbonization. These are structural forces that we believe will shape the investment landscape for years to come. Practically speaking, our near-term convictions include:

- Living remains our strong focus. How we tackle that space will vary by market.
- We continue to lean in on retail and U.S. office credit.
- Industrial remains interesting on a selective basis.
- We're closely monitoring office on the equity side.
- Data centers remain a priority, with an emphasis on powered land aggregation globally.
- While currently focused on acquisitions and credit, we continue to monitor for signals to build.

Conclusion

We remain in an evolving investment landscape that requires a patient, efficient, and methodical approach. In this environment, it's especially important to avoid recency bias and keep a broader perspective—because there are opportunities to be found in all markets for those who know where to look.

Exhibit 1: Cap Rate Changes and Rent Growth



Sources: ACLI, OECD, and Hines Research. Data as of Q4 2023 to analyze specific periods in U.S. history with elevated capitalization rates and inflation.

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