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Which Is the "Best" Property Sector?: Returns Analysis

Which of the core commercial property sectors (office, industrial, retail, multifamily) provide the best balance between risk and return? How does this differ across public versus private investments or with varying investment horizons? And how have returns changed since the pandemic? Linneman Associates examined the outcomes and determinants of 10, 7, and 3-year returns for commercial and multifamily real estate based on total return data from the National Association of Real Estate Investment Trusts (NAREIT) and the National Council of Real Estate Investment Fiduciaries (NCREIF). The NAREIT index proxies moderately leveraged investments, while the NCREIF returns evaluate an unleveraged portfolio.

Key results include:

- Longer investment horizons dramatically reduced risk relative to return among the core sectors.
- Multifamily consistently registered the most attractive balance between risk and return in both public (NAREIT) and private markets (NCREIF).
- The industrial sector registered the highest average absolute private investment returns (primarily due to post-COVID gains) across all examined investment periods.
- Multifamily REIT performance edged out industrial REITs over 10 and 7-year hold periods.
- Public REITs (NAREIT) offered higher returns but greater volatility than private real estate (NCREIF).

NCREIF. We found that if you "bought" the total NCREIF unlevered property portfolio in any quarter since the fourth quarter of 1977 and held for 10 years (153 10-year investment periods) or 7 years (165 7-year investment periods), you would never have lost money on an unleveraged basis over the last 48 years (through 4Q 2025). By sector, this remarkable performance holds for office, industrial, retail, and multifamily over 10-year investment periods and for all of those but the office sector over 7-year horizons.

The multifamily sector experienced negative returns in just 14 out of 181 3-year hold periods (7.7%), significantly better than 24 negative return periods (13.3%) overall, 36 (19.9%) for office, 20 (11%) for industrial, and 16 (8.8%) for retail. For all three investment horizons, NCREIF data indicate that the multifamily sector generated the second highest average returns (after industrial), the lowest standard deviation, and the fewest incidences of negative returns. Additionally, multifamily registered the highest Sharpe ratios (average annual return divided by standard deviation), indicating the most attractive risk-return tradeoff, despite higher absolute industrial returns. Also, multifamily returns delivered the highest

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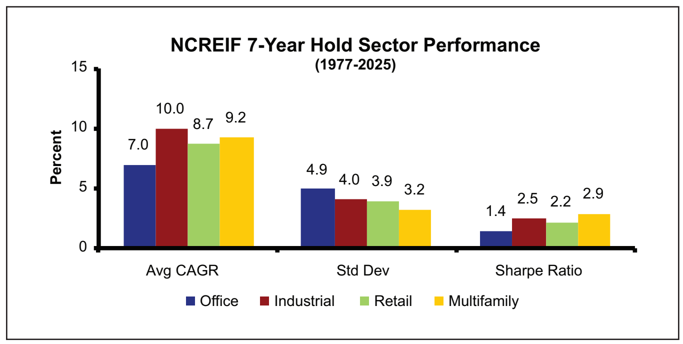
Table of Contents

lows for 7- and 10-year investment periods (topped by retail in the 3-year analysis) and near-highest highs for all periods.

On a nominal basis, $100 invested in the total unlevered NCREIF property at the end of 1977 would have grown to $4,796 (8.4% CAGR) by the end of 4Q 2025, while the same investment in NCREIF's office, industrial, retail, and multifamily indices would have increased to $2,428 (6.9%), $10,270 (10.1%), $4,747 (8.4%), and $7,707 (9.5%), respectively. It should also be noted that industrial valuations spiked sharply during the pandemic (2020-2021), enabling the sector to surpass multifamily cumulative returns, but the two sectors have performed similarly post-pandemic. Until the pandemic, the multifamily sector had outpaced industrial on a cumulative basis during the previous 42 years.

NAREIT. We similarly examined 532 10-year investment periods, 568 7-year periods, and 616 3-year periods using the monthly (moderately leveraged) "All REIT" and "All Equity" NAREIT indexes from December 1971 through March 2026. Amazingly, a 10-year hold investment in either index experienced no negative returns and only two instances each (0.4%) of 7-year negative return periods. Thus, as with the NCREIF index analysis, longer investment periods minimize capital losses.

By sector, we examined 268 10-year investment periods, 304 7-year periods, and 352 3-year periods using monthly (moderately leveraged) NAREIT data from December 1993 through March 2026. Of the traditional sectors (office, industrial, retail, multifamily, lodging), the multifamily sector generated the highest 10-year and 7-year annual average returns, while



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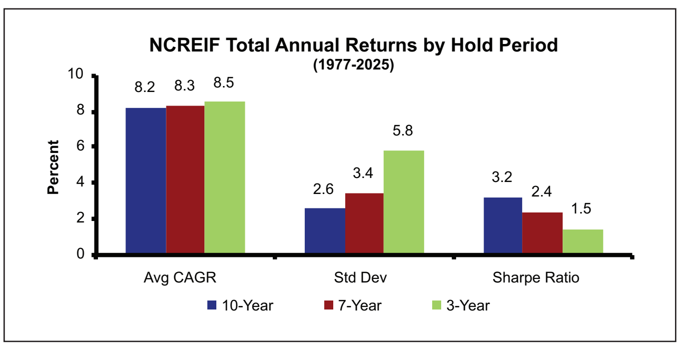
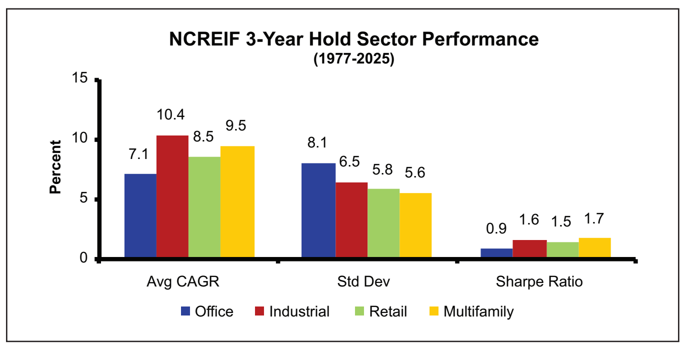


figure 1



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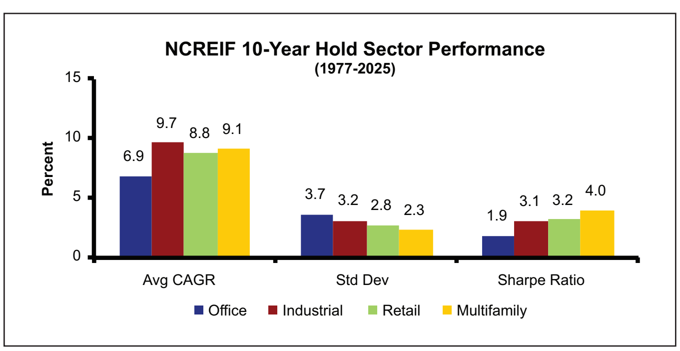

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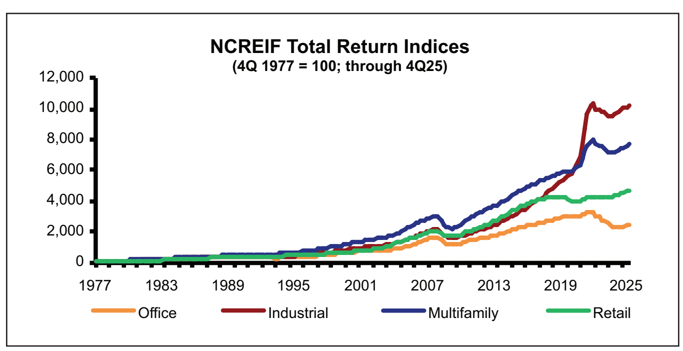

figure 5

industrial REITs performed best with 3-year hold periods. Over all three investment periods, multifamily REIT total returns had the lowest standard deviations and by far the lowest incidence of negative outcomes among the core sectors. Notably, both multifamily and retail REITs saw no periods of negative returns over the 10-year hold periods. In contrast, office and industrial REITs experienced negative returns in 9.7% and 7.8% of the 10-year investment periods, respectively. Similarly, multifamily REITs saw negative outcomes just 0.7% of the time for 7-year investment periods, while office (16.1%), industrial (26.6%), and retail (7.6%) saw significantly more 7-year negative return periods. Over the 3-year investment horizon, negative return incidences ranged from 11.9% for multifamily to 23.3% for office REITs. As with the NCREIF returns, the multifamily sector exhibited the highest Sharpe ratios among the core sectors across all three investment horizons, indicating the most attractive risk-adjusted returns. Also the highest low and generally the highest high returns were registered by the multifamily sector.

The bottom line is that both NCREIF (unlevered) and NAREIT (modestly levered) data indicate solid multifamily returns over a 10-year hold. Not only are typical annual 10-year returns 9-12%, but periods of negative returns are non-existent. This is true even if you invested at a cyclical peak or exited at a cyclical low. The upshot of this research is that unless excessive leverage causes you to lose your property, long-term investors can expect solid returns that can be enhanced with modest leverage. It also makes clear that debt coverage (the ability to service your debt) rather than loan-to-value (the amount of debt) is the relevant leverage metric.

In the modern era of commercial real estate (CRE) investing, the multifamily sector has outperformed the other major CRE sectors on a risk-adjusted basis. At the foundation of the multifamily sector is that it delivers relatively stable returns driven by both younger generations renting longer and increasing

NCREIF Total Returns (Quarterly data, 4Q 1977 to 4Q 2025)

10-Year Horizon Performance

	Total	Office	Industrial	Retail	Multifamily
# of Inv Pds	153	153	153	153	153
Avg CAGR	8.2	6.9	9.7	8.8	9.1
Std Dev	2.6	3.7	3.2	2.8	2.3
Sharpe Ratio	3.2	1.9	3.1	3.2	4.0
Min CAGR	4.0	0.4	4.8	2.8	5.2
Max CAGR	13.4	13.9	16.9	13.8	15.2
% of Qtrs w/ Neg Ret	0.0	0.0	0.0	0.0	0.0
Neg Inv Pds	0	0	0	0	0

NCREIF Total Returns (Quarterly data, 4Q 1977 to 4Q 2025)

7-Year Horizon Performance

	Total	Office	Industrial	Retail	Multifamily
# of Inv Pds	165	165	165	165	165
Avg CAGR	8.3	7.0	10.0	8.7	9.2
Std Dev	3.4	4.9	4.0	3.9	3.2
Sharpe Ratio	2.4	1.4	2.5	2.2	2.9
Min CAGR	2.1	-1.9	2.6	0.8	4.6
Max CAGR	15.3	17.3	18.7	15.4	18.2
% of Qtrs w/ Neg Ret	0.0	15.8	0.0	0.0	0.0
Neg Inv Pds	0	26	0	0	0

NCREIF Total Returns (Quarterly data, 4Q 1977 to 4Q 2025)

3-Year Horizon Performance

	Total	Office	Industrial	Retail	Multifamily
# of Inv Pds	181	181	181	181	181
Avg CAGR	8.5	7.1	10.4	8.5	9.5
Std Dev	5.8	8.1	6.5	5.8	5.6
Sharpe Ratio	1.5	0.9	1.6	1.5	1.7
Min CAGR	-4.7	-10.0	-5.7	-1.9	-6.0
Max CAGR	18.7	23.7	26.0	20.5	22.3
% of Qtrs w/ Neg Ret	13.3	19.9	11.0	8.8	7.7
Neg Inv Pds	24	36	20	16	14

Source: Linneman Associates, NCREIF

figure 6

NAREIT Total Returns (Monthly data from Dec 1971 to Oct 2025)

	10-Year Performance		7-Year Performance		3-Year Performance	
	All REITs	All Equity REITs	All REITs	All Equity REITs	All REITs	All Equity REITs
# of Inv Pds	532	532	568	568	616	616
Avg CAGR	10.5	12.0	10.5	12.1	10.1	11.9
Std Dev	3.8	4.3	5.5	5.5	10.8	10.3
Sharpe Ratio	2.7	2.8	1.9	2.2	0.9	1.2
Min CAGR	3.2	3.4	-1.1	-0.9	-24.7	-25.0
Max CAGR	23.4	23.6	23.3	23.8	40.0	42.2
% of Mos w/ Neg Ret	0.0	0.0	0.4	0.4	16.1	10.4
Neg Inv Pds	0	0	2	2	99	64

figure 7

numbers of single-member households. With short-term leases (which help to hedge inflation), diversified tenancy (versus a handful of large anchor tenants), low tenant improvement and capex requirements, high NOI-to-cash flow margins relative to other CRE sectors, and a deep capital pool due to Freddie and Fannie, multifamily continues to be the most attractive asset class.

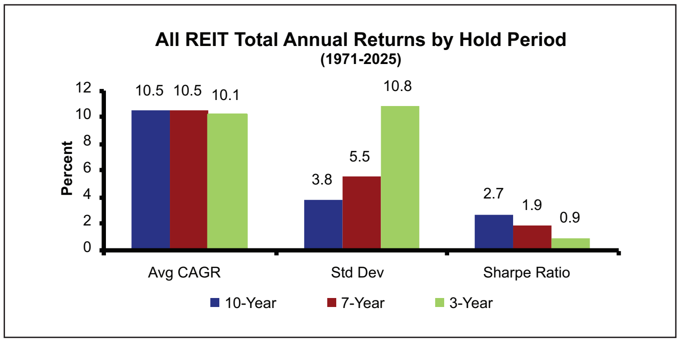

figure 8

Pre-COVID versus post-COVID performance. We compared both NCREIF and NAREIT returns prior to COVID and post-COVID, with results in Figures 250 and 251. Aside from private market industrial returns, the core sectors performed significantly worse after the pandemic. In both private and public investment markets, the office sector saw the greatest performance deterioration after the pandemic. Private sector volatility also increased the most for the office sector. Interestingly, industrial risk-adjusted returns edged out multifamily over both periods based on NCREIF data, whereas REIT data indicated mixed results. Multifamily registered higher risk-adjusted returns, relative to industrial, prior to the pandemic but lower after the pandemic. The industrial sector benefitted from the pandemic e-commerce boom.

About Dr. Peter Linneman

Dr. Linneman, who holds both Masters and Doctorate degrees in economics from the University of Chicago, is the Principal of Linneman Associates. For nearly four decades, he has provided strategic and financial advice to leading corporations. Through Linneman Associates, he provides strategic and M&A analysis, market studies, and feasibility analysis to a number of leading U.S. and international companies. In addition, he serves as an advisor to and a board member of several public and private firms.

Dr. Linneman is the author of the leading real estate finance textbook, *Real Estate Finance and Investments: Risks and Opportunities*, edition 5.3. His teaching and research focuses on real estate and investment strategies, mergers and acquisitions, and international markets. He has published over 100 articles during his career. He is widely recognized as one of the leading strategic thinkers in the real estate industry. Most recently, Dr. Linneman co-authored (with Dr. Michael Roizen and Albert Ratner) the best-selling book *The Great Age Reboot: Cracking The Longevity Code For A Younger Tomorrow*.

He also served as the Albert Sussman Professor of Real Estate, Finance, and Business and Public Policy at the Wharton School of Business at the University of Pennsylvania until his retirement in 2011. A member of Wharton's faculty since 1979, he served as the founding chairman of Wharton's Real Estate Department and the Director of Wharton's Zell-Lurie Real Estate Center for 13 years. He is the founding co-editor of *The Wharton Real Estate Review*.

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