

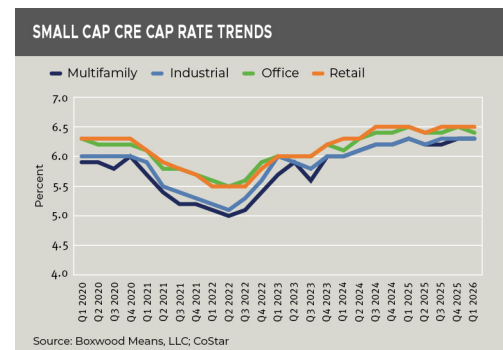
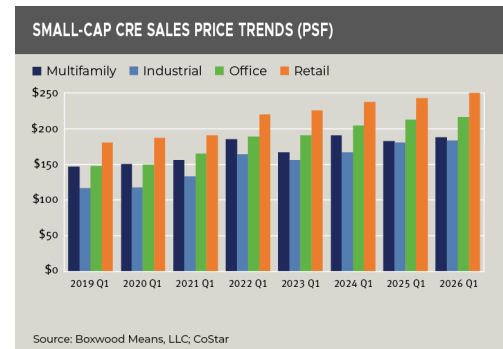
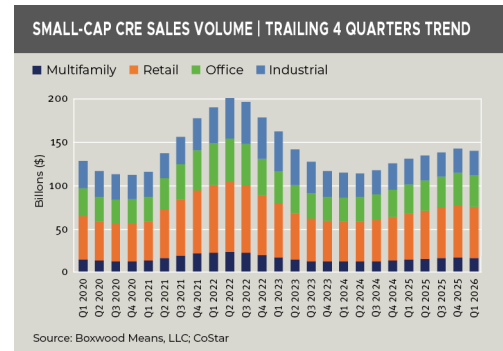
Overview

The small-cap CRE market improved again in Q1 2026, but not all sectors are recovering on the same terms. **Aggregate transaction volume rose to \$140.0 billion**, up **6.9% YOY** from \$131.0 billion in Q1 2025, confirming that liquidity is returning. Even so, activity remains about **30% below the Q2 2022 peak**, which means the market is functioning again but has not yet fully normalized.

The key feature of the latest quarter is that cap rates have largely stabilized, prices remain firm, and volume is improving as shown in the charts to the right.

However, as described in the narrative analysis further below the alignment among those three variables differs sharply by property type.

Multifamily and retail continue to show the clearest signs of functional market clearing. Office and industrial remain less synchronized, making recent price signals harder to interpret with a whole lot of confidence.



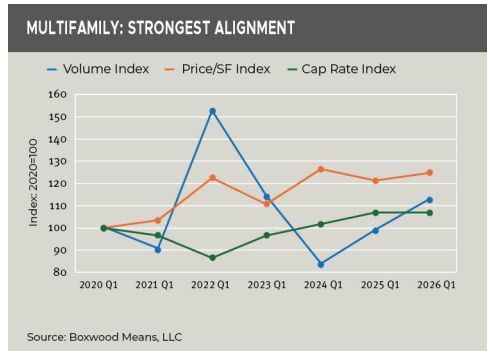
Introduction

This Q1 update follows the same framework as the [January 2026](#) report by evaluating transaction volume, price per square foot, and cap rates together. That remains the most useful lens because no single metric fully explains current small-cap CRE market conditions.

The latest quarter suggests that the market has moved beyond the frozen phase and into a more selective recovery. **The question is no longer whether the market has bottomed, but where improving transaction activity is being validated by price and yield.** In Q1 2026, that validation is strongest in multifamily and retail, and materially weaker in office and industrial.

An analysis of the four property types that integrates the three key metrics follows.

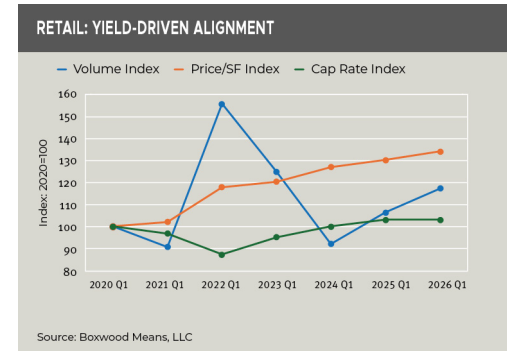
Market Narrative Analysis



■ MULTIFAMILY: THE clearest evidence of renewed market function

Multifamily posted the strongest volume gain in the latest quarter. **Q1 2026 sales reached \$16.9 billion, up 14.2% YOY**, while pricing rose to **\$188.15 PSF** and cap rates held at **6.3%**. That combination suggests that the sector has already repriced and is now operating from a more stable base.

This remains the cleanest example of synchronization among the three variables. Cap rates reset first, prices corrected and recovered, and volume followed with a clear rebound. As the chart above shows, the lines are not identical, but they are moving coherently enough to support real price discovery and improving liquidity.

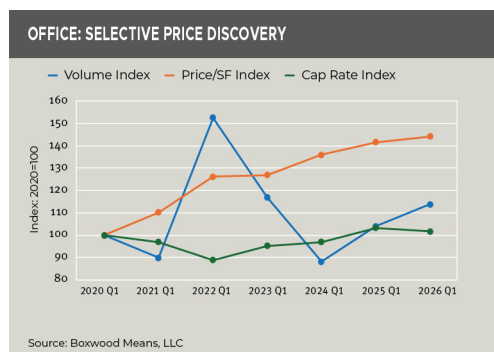


■ RETAIL: Durable pricing, steady liquidity recovery

Retail remained one of the most stable sectors in Q1 2026. **Volume rose to \$58.6 billion, up 10.4% YOY**, while pricing increased to **\$250.00 PSF** and cap rates held at **6.5%**. This is not a distressed recovery. It is a yield-driven one supported by durable income expectations.

Retail's synchronization is subtler than multifamily's, but still constructive. As the chart shows, alignment came less through price correction and more through cap rate expansion being absorbed while volume gradually recovered. The result is a steadier equilibrium: yields normalized, prices held, and liquidity improved without meaningful disruption.

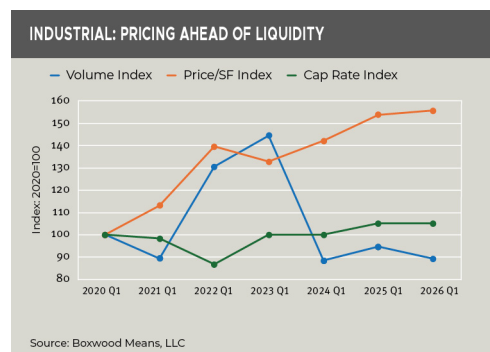
Market Narrative Analysis *(continued)*



■ OFFICE: IMPROVING ACTIVITY, BUT PRICE DISCOVERY IS STILL FRAGILE

Office improved in Q1 2026, but the latest quarter still does not show the same clarity as multifamily or retail. **Volume rose to \$36.4 billion, up 9.3% YOY**, while pricing reached **\$216.17 PSF** and cap rates edged to **6.4%**. On the surface, that looks positive. In practice, it remains difficult to separate clearcut repricing from selective trading.

The problem is that the three variables still do not move together in an economically convincing manner. As the chart shows, prices remain firm, cap rates have moved only modestly, and the volume recovery is still too uneven to confirm broad market-clearing values. The office chart should therefore be read as misaligned: i.e., activity has improved, but recent pricing still appears stronger than underlying capital flows would fully justify.



■ INDUSTRIAL: THE SHARPEST DIVERGENCE IN THE MARKET

Industrial was the weakest sector in the latest quarter. **Q1 2026 volume fell to \$28.1 billion, down 5.7% YOY**, making it the only major property type with a negative year-over-year comparison. At the same time, pricing remained strong at **\$183.15 PSF**, while cap rates held at **6.3%**.

That leaves industrial as the most visibly out of sync of the four sectors. Cap rates have reset and prices remain elevated, but transaction activity has not followed. The industrial chart thus suggests a disconnect: valuation appears firm, yield looks stable, yet there's a missing confirmation from transaction volume which remains low — caused perhaps by scant for-sale inventory. This dissociation implies the market has not fully cleared.

Conclusion

Taken together, the latest quarter reinforces a simple conclusion: the yield reset is complete, pricing has recovered, but liquidity is still catching up.

That is why the small-cap CRE market feels better than it did a year ago without yet feeling fully normalized. The market is functioning, but it remains under-traded relative to prior peaks.

The sector split remains the central story.

Multifamily shows the strongest synchronization of volume, price, and cap rates. Retail follows with a steadier, yield-driven form of alignment. Office remains selectively distorted, while industrial shows the clearest mismatch between strong valuations and weaker transaction momentum. **That is exactly why the indexed charts matter: they show not just direction, but whether the three variables are confirming one another.**

Implications Going Forward

The opportunity for small-cap CRE in 2026 is no longer centered on a broad repricing event. Cap rates have already reset, and **the bigger question now is where liquidity continues to improve enough to validate today's pricing**. That favors multifamily first and retail second, where the relationship among price, volume, and yield is more credible, and exit visibility is stronger.

- **For small-time investors, this is now a selection market**, not a dislocation market. In other words, the market is no longer 'broken' and off balance, and today's opportunities arise by choosing the right assets, submarkets, and tenants — and generally buying where price, liquidity, and yield actually line up.
- **For small-balance lenders, it remains a favorable environment** where stabilized cap rates and the existence of fewer capital sources allow lenders room to hold the line on spread, leverage, and structure among other considerations — but with extra caution in sectors where transactions remain thin. Office and industrial may still offer opportunity, but only where underwriting recognizes that current prices are not yet confirmed by equally strong transaction flow.