

# NDR Sector Views

OCTOBER 2, 2025

# Real Estate: Underweight effective 7/10/25

## **Key Takeaways**

- Real Estate slipped 0.1% in September and was the fourthworst performing sector.
- Given current correlations, higher long-term yields would likely lead to a sector selloff.
- The weight of the evidence continues to lean bearish.

Real Estate slipped 0.1% in September on widespread sector underperformance. Of the sector's 13 REITs sub-industries, only Health REITs and Office REITs outperformed the S&P 500. Single Family, Telecom Tower, and Timber REITs were the worst performers, falling roughly 4% each. While Real Estate is oversold and valuations look attractive compared to most other sectors, the weight of the evidence continues to lean bearish.

Key drivers: Real Estate is the lone bond proxy sector that has seen its relative strength correlation with bond yields move back to pre-COVID levels. Given the negative correlation, the sector can be expected to outperform if yields decline. However, our macro team has shown that yields typically price in lower yields before the resumption of Fed easing cycles following long pauses. Absent a recession or growth scare, it may be hard for long-term yields to move substantially lower from here.

Given current correlations, if yields move higher, Real Estate would be expected to underperform.

Indicator to watch: Real Estate saw sector model composite deterioration in September. While the bearish internal (price-based) composite is somewhat offset by a bullish leaning external (non-price-based) composite, the sector's overall composite score was third lowest at month end and the model downgraded the sector to underweight. Our REITs Scorecard confirms the bearish message, currently at its lowest reading since December 2023.

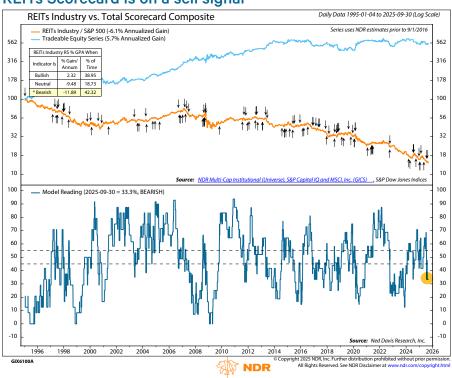
#### **Sector positives**

- Relative P/E remains attractive
- The sector's weight in the S&P 500 is low versus long-term average
- Tight credit spreads historically bullish

### Sector negatives

- Low growth environments have been difficult for the sector
- Net debt to cash flow ratio near record high
- Dividend yield looks less attractive versus bonds

### REITs Scorecard is on a sell signal



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Some sectors receive "over-," "market-," or "under-" weight recommendations, which means that the research firm recommends that more, the same, or less of the sector should be held in your portfolio than is held in the market.

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