Emerging Trends in Real Estate®

pwc

Urban Land Institute

2025 United States | Canada

Emerging Trends in Real Estate®

Contents

01 Introduction
Notice to Readers

03 Chapter 1: The Time Has Come
06 Trend 1: Be Careful What You WIsh For
09 Trend 2: A New Cycle Begins
13 Trend 3: Building Boom, Tenant Boon
16 Sidebar: Demographics
22 Trend 4: Now Where?
25 Sidebar: Extreme Cold
27 Trend 5: Many Solutions, No Answers
31 Sidebar: PropTech's Impact
33 Issues to Watch

35 Chapter 2: Property Type Outlook
37 Trend 1: Industrial Smart Growth
41 Trend 2: Data Centers
44 Trend 3: Senior Housing
46 Trend 4: Retail Resilence
50 Trend 5: Life Science: Is Growth Sustainable
53 Single-Family Housing
56 Multifamily Housing
60 Hospitality
64 Office
68 Student Housing
70 Self-Storage
72 Medical Office
75 CRE Automation

77 Chapter 3: Markets to Watch
86 Dallas/Ft. Worth
87 Miami
88 Houston
89 Tampa-St. Petersburg
90 Nashville
91 Manhattan
92 Detroit
93 Columbus
94 Charleston
95 New Orleans
96 Market Descriptions

103 Chapter 4: Canada
104 Deals
109 Housing Affordability
114 Climate Resilience
117 Markets to Watch
123 Property Type Outlook
127 Best Bets for 2025

129 Interviewees

133 Sponsoring Organizations

Editorial Leadership Team

Emerging Trends Chairs
Andrew Alperstein, PwC
Angela Cain, Urban Land Institute

Editors-in-Chief
Chuck DiRocco, PwC
Anita Kramer, Urban Land Institute

Author, Chapter 1
Andrew J. Nelson

Authors, Chapter 2
Garrick Brown, Retail
Lesley Deutch, Single-Family Housing
Paul Fiorilla, Office and Multifamily Housing
Dean Ramsthaler and Justin Starr, Hotels
Ahalya Srikant and Timothy Lim, Industrial/Distribution

Authors, Chapter 3
Andrew J. Nelson

Market Profiles:
Mary Ludgin
Emi Adachi
Jeff Bingham
Jake Anderson
Jim Breen
Sam Carlson
Mike Carney
Erik Hansen
Shauncarlos Miller
Dan Sindelar
Annie Trucco
Dan Vickerman
Leslie Williams-Small

Authors, Chapter 4
Laura Hildenbrand
Glenn Kauth
Peter Kovessy
Mario Toneguzzi
Doug Warren

Contributors
John Chang
Eric Finnegan
Mike Hargrave
Greg Lindsay
William Maher
Hilda Martin
Lisa McCracken
Carl Whitaker
Augie Williams-Eynon
Cody Young

Senior Advisers
Fred Cassano, PwC, Canada
Braiden Goodchild, PwC, Canada
Miriam Gurza, PwC, Canada
Frank Magliocco, PwC, Canada
Meghan Bossy, PwC US
Steven Weisenburger, PwC US

Strategic Project Managers
Alyssa Gilland, PwC US
Anna Richards-Velinou, PwC, Canada

PwC US Creative
Kristen Wilson, Art Director
Chris Tepler, Art Director
Sarah Brett, Designer
Katy Van Est, Designer
Shannon Andriese, Designer
Dan von Lossnitzer, Designer
Kennedy Bryne, PR & Comms

ULI Editorial and Production Staff
Libby Riker, Senior Editor
Lauren Callaghan, Project Manager

Emerging Trends in Real Estate® is a trademark of PwC and is registered in the United States and other countries. All rights reserved.

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 152 countries with over 328,000 people who are committed to delivering quality in assurance, advisory, and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

© 2024 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

© October 2024 by PwC and the Urban Land Institute. All rights reserved. No part of this publication may be reproduced in any form or by any means, electronic or mechanical, including photocopying and recording, or by any information storage and retrieval system, without written permission of the publisher.

Recommended bibliographic listing: PwC and the Urban Land Institute: *Emerging Trends in Real Estate® 2025*. Washington, D.C.: PwC and the Urban Land Institute, 2024.

PwC Advisers and Contributing Researchers

Abhi Jain
Adam Khdach *
Adam Rubenstein
Alex Bollier
Alex Howieson *
Alexis Auletta
Ali Abbas *
Alina Minkova
Alyssa Gilland
Anastasia Ivanova*
Andrew Alperstein
Andrew Nickel *
Andrew Parrilli
Andrew Popert *
Anna Lee
Anna Richards-Velinou*
Anthony Di Nuzzo*
Arman Belorian
Ashlynn Hengel
Ava Schwienteck
Avery Parti
Bill Staffieri
Blake Byl
Braiden C. Goodchild *
Brett Matzek
Brian Caceda
Brian Keida
Brian Ness
Bryan Allsopp *
Calen Byers
Carly Stallwood *
Charles Campany
Chris Bailey
Chris Dietrick
Chris Mill
Christine Augusta
Christopher Carlson
Christopher Emslie
Cody Farr
Colby Ehrhart
Connor Deeks
Courtney Supp
Dan Genter
Dan Picone
Dan Ryan
Dana McAleese *
Dana Van Wie
Daniel D"Archivio*
Darren Speake *
Dave Baldwin
Dave Swerling
David Neale *
David Voss
David Yee *
Dean Ramsthaler
Derek Hatoum *
Dillon White
Douglas Struckman
Duncan Barnard
Dylan Anderson
Dylan Shuff
Ed Heitin
Edouard Godin *
Ed Heitin
Emily Pillars
Erica Pereira *
Erin MacDonald
Ernie Hudson *
Erin MacDonald
Evan Cohen
Fei Zhan
Francois Berthiaume *
Frederic Lepage *
Fei Zhan
Gloria Park
Graham McGowan*
Haley Anderson
Harry Adams
Hisham Barakat
Ian Nelson
Isha Grewal *
Jack Brown
Jackson Petitt
Jacqueline Kelly
Jake Wiley
Janelle Tam *
Jasen F. Kwong *
Jason Kaplin
Jeff Grad *
Jeff Taveras
Jennifer Kai *
Jeremy Lewis
Jeremy Pister *
Joe Serventi
Johanne Mullen *
John Crossman
John McKenna *
John Mormile *
John Rosano
John Sheppard *
Jonathan Osten *
Jordan Adelson
Jordan Samberg *
Joseph M. Moyer *
Josh Cox
Josh Parks
Julie Schlosky
Justin Starr
Kevin Fossee
Kimberly Burton
Kristen Conner
Laura Lynch
Lauren Garrett
Leah Waldrum
Lee Overstreet
Lee-Anne M. Kovacs*
Lily Turnbull
Lou Defalco
Luisa Breidt
Manisha Chen *
Marc Sena*
Mark Rathbone *
Martin Schreiber
Matt McCullers
Matt Seelye
Matthew Rosenberg
Maxime Lessard *
Maxime Lessard*
Megan Andrews
Meredith DeLuca
Michael Shea *
Mihai Homescu *
Nadja Ibrahim *
Natalie Cheng *
Nicholas Mobilio *
Nick Ethier *
Nick Worrall
Nicole Stroud
Oliver Reichel
Paul Hendrikse *
Peter Harris *
Philip Bethea
Philippe Desrochers*
Rachel Kelly
Rachel Klein
Rahim Lallani *
Rebecca Wirth
Reem Hamzeh *
Renee Sarria
Ricardo Ruiz
Richard Martin *
Richard Probert *
Rick Munn
Rob Sciaudone
Robert Coard *
Sabrina Fitzgerald*
Sam Melehani
Samay Luthra *
Santino Gurreri *
Sarah Donland
Sarah Logan
Scott McDonald *
Scott Morrison *
Scott Tornberg
Serena Love
Simran Khattra *
Spyros Stathonikos *
Stephan Gianoplus
Stephen Cairns
Steven Weisenburger
Tim Bodner
Timothy Apostolou
Tom Wilkin
Trevor D. Toombs*
Veronic Doucet *

*Based in Canada

Notice to Readers

Emerging Trends in Real Estate® is a trends and forecast publication now in its 46th edition, and is one of the most highly regarded and widely read forecast reports in the real estate industry. *Emerging Trends in Real Estate® 2025,* undertaken jointly by PwC and the Urban Land Institute, provides an outlook on real estate investment and development trends, real estate finance and capital markets, property sectors, metropolitan areas, and other real estate issues throughout the United States and Canada.

Emerging Trends in Real Estate® 2025 reflects the views of individuals who completed surveys or were interviewed as a part of the research process for this report. The views expressed herein, including all comments appearing in quotation marks, are obtained exclusively from these surveys and interviews and do not express the opinions of either PwC or ULI. Interviewees and survey participants represent a wide range of industry experts, including investors, fund managers, developers, property companies, lenders, brokers, advisers, and consultants. ULI and PwC researchers personally interviewed over 450 individuals, and survey responses were received from almost 1,600 individuals, whose company affiliations are broken down as follows:

Interviewees and survey participants

Private property owner or commercial/multifamily developer:	35.2%
Real estate advisory, service firm, or asset manager:	20.1%
Construction, construction services, architecture firm:	7.7%
Homebuilder or residential land developer:	6.7%
Private-equity real estate investor:	6.5%
Bank or other lender:	6.3%
Investment manager or adviser:	2.6%
Publicly listed real estate property company or REIT:	2.6%
Private REIT or non-traded real estate property company:	1.8%
Other:	10.7%

Throughout this publication, the views of interviewees and/or survey respondents have been presented as direct quotations from the participant without name-specific attribution to any particular participant. A list of the interview participants in this year's study who chose to be identified appears at the end of this report, but it should be noted that all interviewees are given the option to remain anonymous regarding their participation. In several cases, quotes contained herein were obtained from interviewees who are not listed in the back of this report. Readers are cautioned not to attempt to attribute any quote to a specific individual or company.

To all who helped, the Institute and PwC extend sincere thanks for sharing valuable time and expertise. Without the involvement of these many individuals, this report would not have been possible.

The Time Has Come

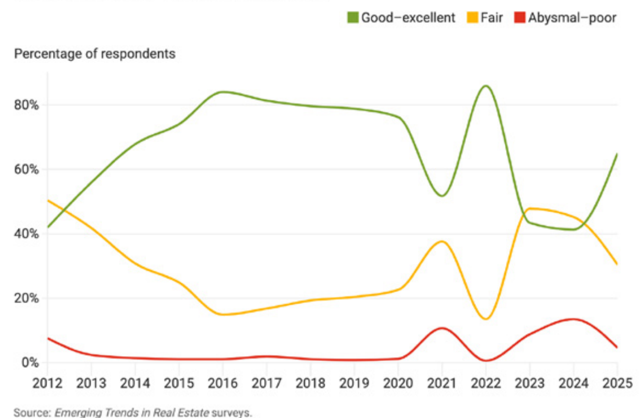
"We are on the cusp of the next upturn in the real estate cycle, and now is the time to be thinking about planning, laying the groundwork for the next two to three years of growth."

The skies are finally clearing over commercial real estate markets, even if some dark clouds still linger. Industry people are more sanguine than a year ago, though also realistic. Better times are ahead, but the healing will take time.

These are some of the conflicting yet generally hopeful messages revealed in our survey of industry experts and our interviews with industry leaders conducted for the 2025 edition of *Emerging Trends in Real Estate*®. Anticipation of an inflection had been building over the past year as inflation started to ease, though the wait took longer than most real estate people had expressed hope for in our prior report. The pivot arrived in summer 2024 with eight magic words from Federal Reserve Bank Chair Jay Powell: "The time has come for policy to adjust." With that pronouncement at the Fed's annual Jackson Hole Economic Symposium in late August, Powell clearly communicated to markets that inflation had been tamed and the COVID era of tightening was ending.

The Fed followed through with an aggressive 50-basis-point (bp) cut in the federal funds rate (FFR) in mid-September. The Summary of Economic Projections that accompanied the rate announcement revealed that the Fed expects to cut the FFR by a further 50 bps by year-end 2024 and by another 100 bps in 2025 for a total of 200 bps.

Firm Profitability Prospects for 2025



Source: *Emerging Trends in Real Estate* surveys.

Reawaking Commercial Real Estate Capital Markets

The cuts were eagerly awaited by the commercial real estate (CRE) community and much appreciated when they were finally announced. After two years of falling property values and anemic transaction and lending activity, conditions seemed to stabilize this past summer. Though the Fed does not directly control market interest rates, financing costs tend to parallel moves in the FFR, particularly the short-term debt that funds most real estate deals and development projects.

A consultant to the CRE sector explained, "With interest rates coming down, it is likely that we are at the beginning of the next expansionary phase of the real estate cycle."

The Fed's initial cut by itself will do little to bring down short-term CRE financing costs. However, the Fed policy change sends a powerful signal to investors and borrowers that financial conditions will only improve from here. The Fed move also helps reactivate CRE markets by bringing the price clarity

needed to reduce bid-ask spreads and clear markets, as we discuss later in this chapter in the section on capital markets: A New Cycle Begins.

Already, the industry mood is brightening. The share of respondents to the *Emerging Trends* survey who expect their firm's profit to be "good" or "excellent" rose more than 20 percentage points, from just 41 percent last year to 65 percent this year. And those responses were the most common by a 2:1 margin. Last year, a plurality (45 percent) expected profits to be just "fair," and a substantial number (13 percent) feared they would be "abysmal" or "poor," similar to the results in the year before that. Those middling to low responses fell sharply this year.

Still, while expectations are optimistic, they are not wildly so. Even with responses representing improvement from the past two years, overall expectations were almost exactly equal to their long-term averages. Investors and borrowers are not counting on a return to the halcyon prepandemic days of double-digit returns and abnormally low interest rates. As the head of CRE for a data analytics firm said, "We are in a new interest rate regime. The neutral rate of interest is higher now than it's been in the last couple of decades because of the demographic shifts, because we've exhausted cheap labor."

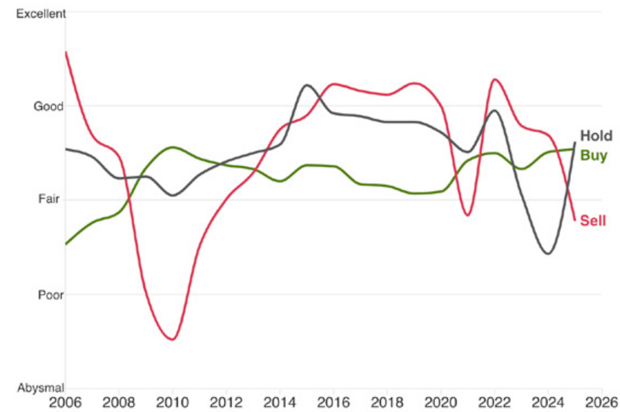
Cyclical Change Replaces Pandemic Shifts

Last year, our central theme was "A New Era Comes into Focus." We described the growing consensus in the CRE community that market conditions and dynamics would not revert to the way they were before the pandemic. Rather, a new post-COVID world was emerging. Remote working and online shopping would endure.

Those expectations have largely come to pass. U.S. property markets are no longer undergoing the radical shifts in how tenants use space that we experienced in the immediate aftermath of the pandemic. We are where we are. One exception is the meteoric rise of data center demand, which has little connection to the pandemic and everything to do with the massive expansion of artificial intelligence applications throughout our economy.

That's not to say property markets are static. Change is the one constant in the CRE sector. But the jarring pandemic shifts seem to be behind us, and investors' focus is swinging to the more normal cyclical changes that occur over the course of business cycles.

Tenant demand has recovered or surpassed prepandemic levels in most property sectors, yet vacancies are rising in several key sectors. In many markets, record levels of



Source: *Emerging Trends in Real Estate* surveys.
Note: Based on U.S. respondents only.

construction are to blame. New supply is coming on line faster than tenants can absorb it, as we explain in the section on supply: Building Boom, Tenant Boon.

However, concern is growing that tenant demand may not hold up much longer. The lower interest rates and associated benefits come at a cost, as we consider in our economic outlook section: Be Careful What You Wish For. Interest rates tend to fall when the economy is slowing, portending weaker operating fundamentals for CRE owners. Slower income growth also makes refinancing more challenging, even if interest rates are coming down.

Thus, conditions for transactions seem to be improving just as property operations may be set to weaken. Many investors are ready to pounce, especially with prices near cyclical lows. One senior investment banker said, "I think the environment right now looks a little softer from a fundamental perspective, but I'd say it's a favorable transaction market. If you're looking for an entry point to buy assets over a three- to five-year period, we think it's an attractive entry point."

Other industry leaders we interviewed are not so ready to jump into the deep end of the transaction pool; they want to see more transactions to prove out pricing levels. The chief investment officer of a prominent investment management firm noted, "I would argue that the sentiment is probably improving, but we're not totally there yet. Until we get to a wider consensus of where it's going to be, and this is how to price real estate, I don't think you're going to see the floodgates open on transactions."

Overall, the consensus is that the market recovery will be slow and gradual. The regional leader of another investment manager firm concluded, "My sense is that 2025 will start slow. It'll pick up as the year goes along, and it'll be a decent year when everybody looks back at it. But I think 2026, 2027, out there, it looks kind of exciting."

Trend #1:

Be Careful What You Wish For

Interest rates are coming down—finally! That's what we all desperately wanted, right? But at what cost?

Interest rates were ultra-low for ultra-long, and the real estate industry came to depend on them. "We've gotten spoiled by cheap credit for a long time," admitted the former head of one leading investment management firm. "People have used leverage, not because they've needed to, but because it's been a tactical tool to enhance returns."

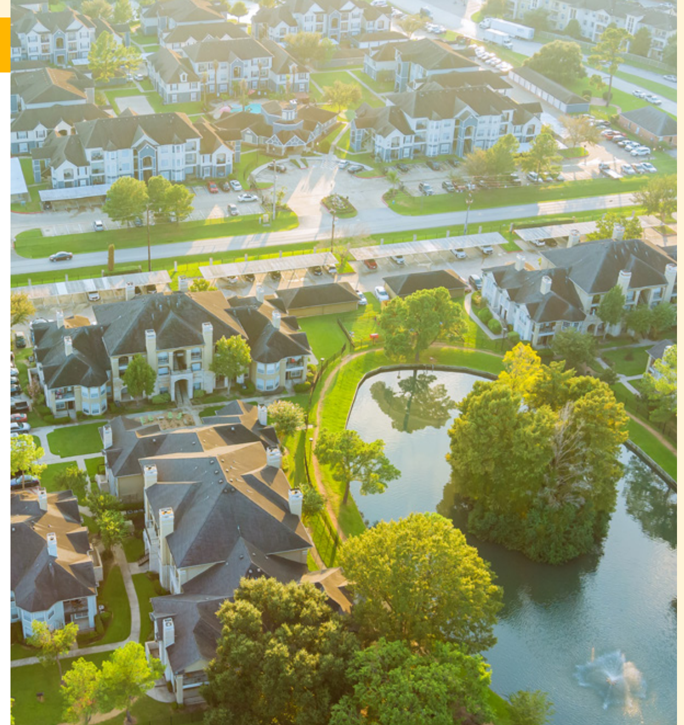
The Cheap Debt Diet

The era of nearly free money began in the aftermath of the global financial crisis (GFC) of 2007–2008, when the Fed first lowered the federal funds rate to near zero in a frantic attempt to revive the economy. Interest rates had barely started to rise when the Fed repeated its strategy a decade later to counter the downturn stemming from the COVID-19 pandemic. Cheap debt had become the new normal.

Then it ended. Anxiety quickly took hold throughout the CRE community when the Fed took away the proverbial punch bowl and started to hike interest rates in March 2022 in the face of surging inflation. Investors feared that even limited expected interest rate rises could undermine acquisition and development feasibility.

In the end, the increases proved to be anything but modest. The Fed ultimately hiked the FFR 11 times, pushing up the rate by more than 500 bps from near zero to over 5 percent—and then kept them elevated longer than most anyone expected. The increase in the benchmark 10-year Treasury rate was less extreme, rising just over 300 bps. Still, the damage was done: Investor nervousness quickly progressed into alarm and then outright panic, and sales transactions dried up while lending volumes plunged.

In the *Emerging Trends* survey conducted before the Fed's initial rate hike, "interest rates and cost of capital" was the third greatest economic/financial concern. In last year's survey, it jumped to the leading concern, far outdistancing any other issue. In fact, its 4.70 score on a 1-to-5 scale was the greatest concern registered in any category going back over a decade of *Emerging Trends* surveys.

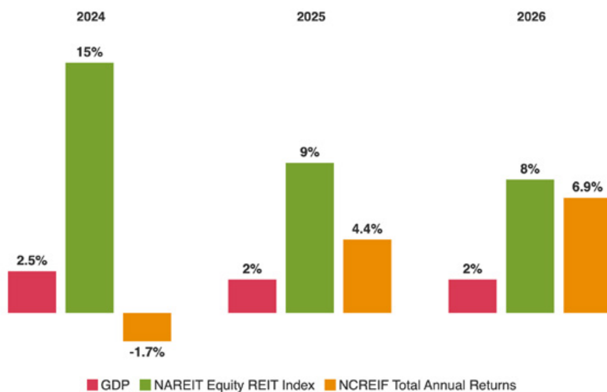


Cheaper but Not Cheap Debt

That concern has eased but not disappeared. "Interest rates and cost of capital" is still the leading concern raised by respondents in the latest *Emerging Trends* survey, but its importance has dropped 40 bps to 4.30. This lower but still elevated level of concern partly reflects the timing of the survey, which was conducted during the summer of 2024. At that time, the cut was widely expected, but the Fed's decision wasn't announced until mid-September.

The sense of relief was palpable in the interviews with industry leaders conducted once the cut was all but certain, even if the 50-bp cut was not enough to alter deal economics fundamentally. "It's the signal more than the level. It's a psychological boost that the Fed's effectively saying, 'We're pivoting. We think that we've done what we need to do. It doesn't change the math much, but it does change the behavior potentially," said the head of product management for a leading CRE analytics firm.

Additional help is on the way. More than 80 percent of respondents to this year's *Emerging Trends* survey believe that commercial mortgage rates will decrease in 2025, and 75 percent expect rates to decline further in the next five years.



Source: ULI Real Estate Economic Forecast, October 2024.

As an industry that relies heavily on leverage to get deals done (or simply boost returns), commercial real estate reflexively appreciates low-cost debt—and the lower, the better. However, astute investors know that interest rates do not move in isolation but reflect market expectations of future economic and financial conditions. In short, interest rates tend to fall when the economic outlook darkens, portending deteriorating operating conditions for CRE properties. Indeed, the Fed lowers interest rates expressly to stimulate a faltering economy.

Landing the Plane

The economy stubbornly refuses to oblige. As of the early fall of 2024, the economy is still performing remarkably well. Real gross domestic product (GDP) in the first half of 2024 grew at a healthy annualized rate of 2.4 percent, close to what many economists believe to be its long-run potential. Much of the credit goes to consumer spending, which defied expectations of a slowdown and grew the fastest of all GDP components over the past year.

The job market continues to roll as employers keep adding workers and more people enter the labor force. Unemployment remains historically low. And employment growth is still averaging a relatively robust 200,000 new jobs per month in 2024, though generally cooling over the past year. Wall Street approves, too: The major stock market indices frequently hit new all-time highs, suggesting growing confidence in the economic outlook.

Most notably, the Fed believes it has finally tamed inflation, setting the foundation for the recent and anticipated future rate cuts. Bringing down inflation while keeping the economy aloft—the proverbial "soft landing"—is no easy feat. As the head of one development firm explained, "The Fed has been trying to land a 747 on an aircraft carrier with this soft landing . . . and it's never been done before."

Can the Fed land the plane? The latest ***Wall Street Journal*** survey of economists, conducted in July 2024, before the Fed's September rate cut, forecasts real GDP growth of around 2 percent in 2025 and 2026. That growth is slower than the current rate but avoids a recession. Similarly, consumer confidence in various indices remains above recessionary levels though it's hardly optimistic.

However, financial markets seem to be a bit more pessimistic. Unlike the growth seen in the stock market indices, the yield on 10-year Treasury bonds has been falling steadily since the spring of 2024. This decline began well before the Fed started easing monetary policy, perhaps signaling expectations of decelerating economic growth. As the head of a real estate investment bank said, "The fixed-income markets are definitely pricing a little bit faster slowdown of economic activity than the equity markets."

All these points together present a decidedly mixed outlook for commercial real estate markets. In isolation, the lower interest rates will be welcomed. More transactions will be able to move forward, and more loans will be refinanced. That means more deal activity for brokers, investors, and lenders. That's all good. However, slower economic and job growth reduces growth in net operating income. Tenant demand may fall as job growth moderates, affecting space absorption, occupancy, and rent growth. And weakening fundamentals also constrain demand for CRE assets and limit price appreciation. This is the yin and the yang of falling interest rates.

A (Somewhat) More Certain Outlook

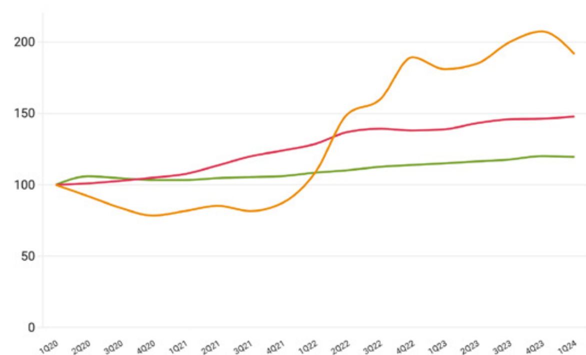
The Fed's pivot on monetary policy, beyond the almost purely psychological bump of the first cut, brings one other key benefit: greater certainty on the future direction of financial conditions. Many market participants have been biding their time on the sidelines, waiting for greater clarity and more affordable debt. Numerous industry leaders interviewed this summer are starting to see the signs they were looking for. According to the head of investment

banking at a major financial institution, "People now know where markets are clearing, they know where financings can get done. So, you're going to see a lot more people taking assets to market, people going out for refinancing, and the markets starting to lubricate again."

Even development activity is starting to percolate. The head of management consulting for one CRE advisory firm observed, "I'm very excited to see the number of people starting to investigate new opportunities. In just the last 30 days, people have been coming out of the woodwork. Everyone has been working hard and banging their heads against the proverbial rocks, trying to get deals to pencil and turning over and kicking pieces of dirt."

To be sure, the industry still feels a heightened level of uncertainty, which is typical at inflection points in the business cycle. "The future trajectory of the economy looks as tenuous and uncertain as ever," says one leading industry consultant. Much of the uncertainty is rooted in political issues, particularly the November election and global geopolitical risks. (See the sidebar, Issues to Watch.)

Nonetheless, the responses to this year's survey overall reveal much more consensus on key financial metrics—and more positive outlooks—than at any point since the onset of the pandemic. Said the head of CRE economics at a data analytics firm, "The consensus allows the real estate industry to move forward. That doesn't mean we have strong performance, but it allows markets to clear and transaction activities to pick up enough to find a new equilibrium without there being an apocalypse. Now we can clear the markets. Now we can get price discovery."



Source: Federal Reserve Economic Data.

Trend #2:

A New Cycle Begins

Real estate capital markets are recovering. "We're on the early end of the healing process, but we're excited about the opportunities we're seeing," said one investment banker. "Liquidity is steadily improving every day. [Capitalization] rates aren't necessarily going back to those historic lows because growth rates aren't there. But every few weeks, you're seeing more bids in the market, you're seeing pricing get a little bit tighter, you're seeing debt spreads get tighter."

That sentiment summarizes the views of many investors and analysts interviewed for this edition of *Emerging Trends*. The Fed's new direction and clear guidance on future moves are aiding in the price discovery needed to reduce bid-ask spreads between buyers and sellers. Plus, the lower debt costs are improving deal economics for more projects. Together, these factors will encourage more investors and developers to move off the sidelines and transact, whether to buy, sell, lend, borrow, or refinance. However, in many markets, development still seems further off.

More Lending, More Deals

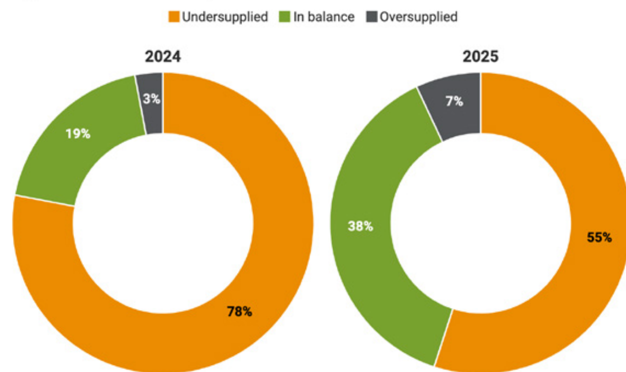
Conditions are still challenging, if improving a bit. The regional head of a global real estate investment management firm noted, "It's still quite difficult to access capital markets, but there is lending that's going on now that hasn't been there in the past, and even in the office sector."

Most respondents to the *Emerging Trends* industry survey believe that CRE debt markets are still undersupplied for all types of activity, including acquisitions (55 percent), refinancing (58 percent), and especially development (75 percent). However, the trends are moving in the right direction, with more people than last year, albeit still a minority, finding that markets are in balance and fewer feeling that markets are undersupplied. And industry participants expect better conditions ahead, with debt availability increasing broadly among most lender sources.

Those survey results track with industry statistics. The Mortgage Bankers Association (MBA) calculated that in the first half of 2024, CRE lending increased by 2 percent over the same period last year. That level of growth is not a banner achievement, but it's a huge improvement over the 54 percent decline registered in 2023.

Debt Capital for Real Estate Acquisitions

Capital Market Balance Forecast, 2024 versus 2025

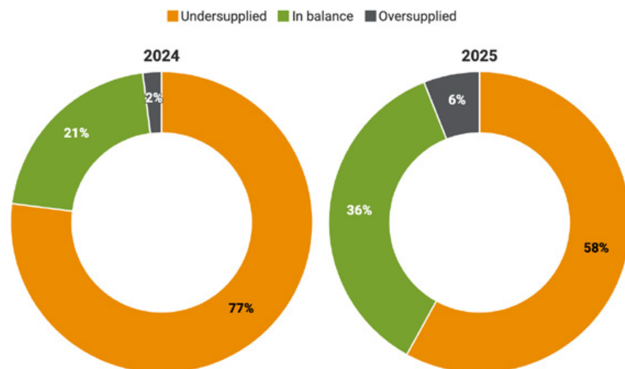


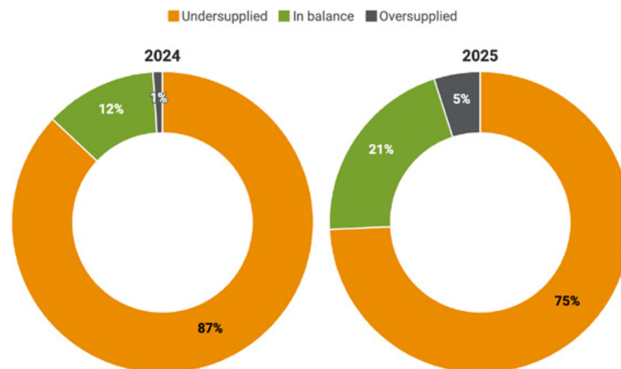
Source: *Emerging Trends in Real Estate* surveys.
Note: Based on U.S. respondents only.

The MBA expects further improvement as interest rates decline, more properties transact, and more loans mature. They forecast originations will rise 26 percent for all of 2024 to $539 billion. That would be well shy of the record-shattering volumes of 2021 and 2022, when all types of property transactions soared briefly as the economy reopened following the pandemic lockdown, but close to the more normal levels achieved in 2018 and 2019 before COVID transformed property market dynamics. The MBA expects lending to grow an additional 24 percent in 2025, which would mark a full recovery back to prepandemic conditions.

The head of CRE investment banking at a major financial institution said this: "I think you're going to see more and more normalization in debt markets. As you start to see repayments and people's real estate exposure goes down, they're going to want to create new real estate exposure to replace it at new levels. So I think that velocity will start to normalize."

The equity side has a similar story, though the recovery is less complete. Sales transactions were still falling slightly at the start of 2024, though less than in prior quarters, and volumes seemed to stabilize midyear. Nevertheless,





sales were a third lower in the first half of 2024 relative to the same period average from 2015 to 2019, according to transaction data compiled by MSCI. Adjusting for price appreciation in the intervening years would show an even greater disparity. Though the situation varies dramatically by sector, sales are down for every major property type. Even in the beloved industrial sector, the dollar value of sales in the first half of 2024 was about 4 percent below its prepandemic average. At the other extreme, office sales are more than 60 percent below their prepandemic average.

Still, industry participants are optimistic that the economy is turning a corner. The head of a CRE investment bank said, "Now that people have clarity around the direction of rates, availability of financing, cost of financing, and economic clarity, we are definitely seeing a pipeline that is growing each month and each quarter of transaction activity. And I think in 2025 and 2026, we get back to the 2018, 2019 level of transaction activity, which would become a normalized market."

The Long Road to Price Recovery

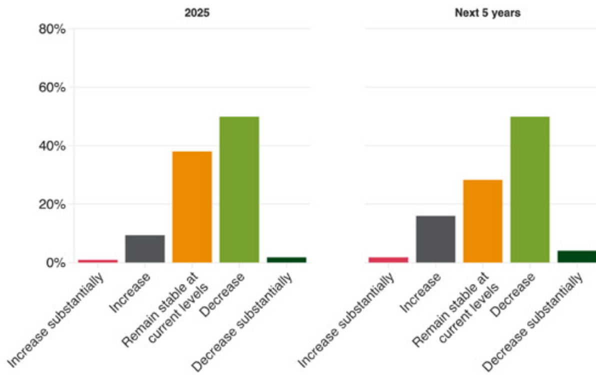
Another key to ramping up transaction activity will be reversing, or at least stabilizing of recent price declines. Capitalization (cap) rates began rising when prices last peaked in mid-2022 and continued increasing until evidently plateauing in early 2024. The most recent figures (as of mid-2024) suggest prices might be turning positive again, though the gains may simply reflect that higher-quality product is accounting for a larger share of transactions.

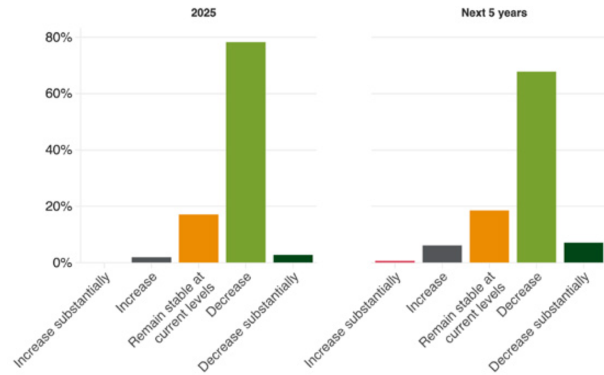
As one leading industry analyst put it, "When you look at the value per square foot on transactions, they tend to be quite a bit above historical averages. And obviously, it's not because prices are higher, which tells me not that values are up, but rather that better quality assets are what's trading today."

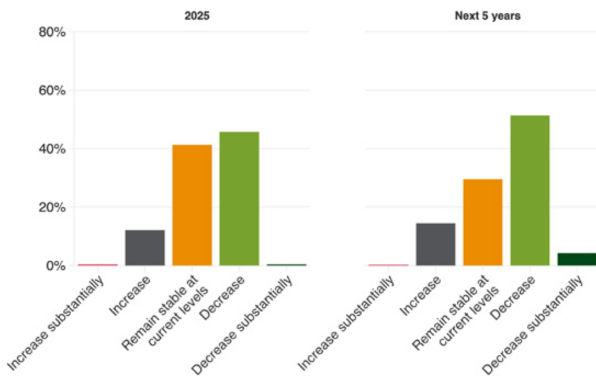
Regardless of whether recent price gains are real or even sustainable, the consensus seems to be that—leaving aside downtown office buildings—at least prices are no longer falling, which is an important milestone. No investor wants to buy today what may be less expensive tomorrow, so evidence of price stability would motivate more investors to reenter the market. A prominent CRE investment banker said, "Our view has been that pricing troughed in the first half of this year for many in-favor assets, and we wanted to be a buyer of that fact pattern."

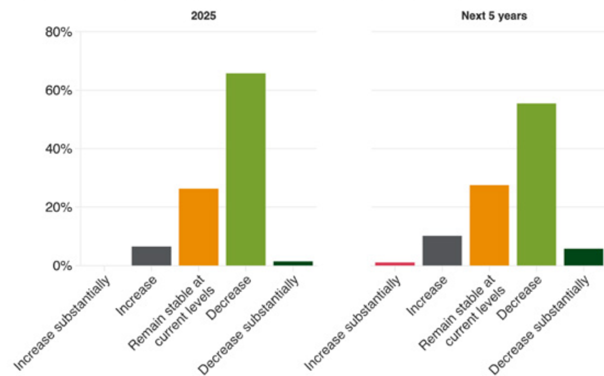
The *Emerging Trends* survey revealed other positive signs as well. Slightly more respondents believe cap rates will decrease in 2025 than think cap rates will stay the same; barely 10 percent expect cap rates to rise. Moreover, the buy-sell-hold barometer scored its highest "time to buy" and the lowest "sell" rating since the GFC. These ratings reflect strong expectations of price increases and widespread belief that now is a propitious entry point for new acquisitions—a frequent comment in our interviews.

But if cap rates have indeed peaked for this cycle, prices still have a long way to go before recovering their peak







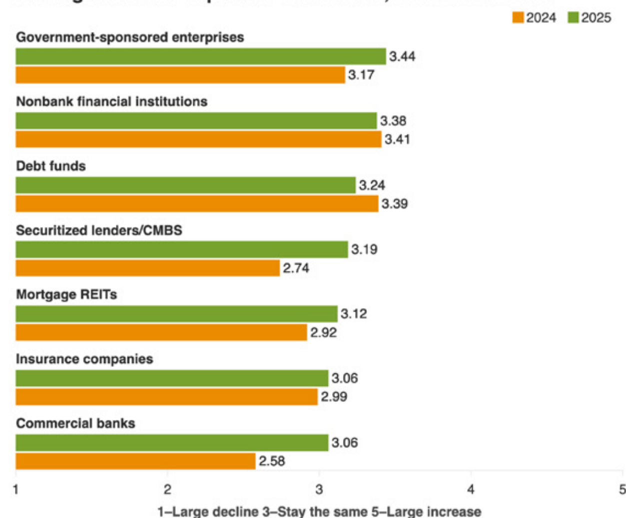


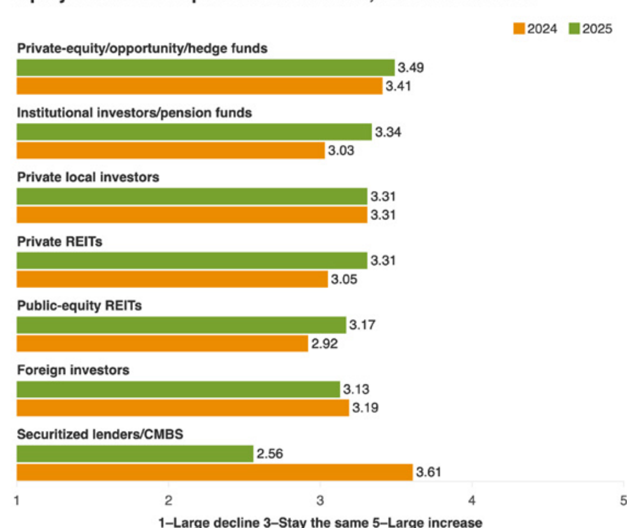
prices. According to Green Street's price index, CRE prices fell more than 20 percent since their last peak, and the core sectors—office, retail, multifamily, and industrial—collectively fell even further. (Alternative sectors such as self-storage and student housing modestly outperformed the four core sectors). As of mid-2024, assets have regained less than a fifth of their lost value.

As with transaction volumes, the pain is shared widely but not equally across the various property sectors. Office values, for example, are down by more than a third from their peak on average, while apartments are down a fifth and hotels only a tenth. And some asset types might not yet have reached bottom. With regard to office assets, one investment manager said, "There's still lots of people out there afraid of catching a falling knife. We need more transactions in office for me to say, 'Okay, now we can go up from here.' I just don't know where we are in office exactly." Interviewees also expressed similar views about multifamily properties in some oversupplied markets.

But overall, market participants feel prices are heading back in the right direction, even if the adjustment will take time. One investment banking leader said, "Cap rates have come down, so the market is definitely pricing in this softer landing and lower rate outlook. In the favorite asset classes, some of this is already priced in. Hopefully, it continues, and we continue to see a gradual move back upward in value."

Yet owners should not expect prices to hit prepandemic levels for some time. As another investment banker said, "Cap rates aren't necessarily going back to those historic lows because growth rates aren't there."





Distress Still Not So Distressing

One topic that is not top of mind for industry participants is the "wall of maturities" of CRE properties with maturing debt, estimated by Trepp to top $1.2 trillion in 2024 and 2025. This includes a large pool of assets worth less than their debt, particularly in the beleaguered office sector. Much of that debt was rolled over from prior years in the timeless dance of "extend and pretend." And once again, the practice seems to be working for many lenders and owners. As prices start to recover and interest rates decline, the parties will have more opportunity to reach agreement.

For now, delinquencies on structured debt, such as commercial mortgage-backed securities, remain well below levels seen after the GFC, although these are still early days. One debt analyst said, "We're maybe two years into value downturn, so we won't hit the peak delinquency, if history is an indicator, until maybe four years, five years past. We will inevitably have distress within commercial real estate as we move from an interest rate period that was artificially low to an interest rate period that is much more in line with the reality of the economy."

However, there seems to be confidence that many of these deals will get worked out as liquidity returns to CRE capital markets. A senior adviser to a leading investment management firm said, "There's so much capital that needs to move around in real estate. . . . There's a lot of queued-up selling. And then on the buy side, there's a lot of money that needs to get into real estate because the stock market has been so buoyant."

These factors and attitudes could justify the belief that the industry is, indeed, "on the cusp of the next upturn in the real estate cycle," as expressed in the lead industry quote for this chapter.

Trend #3:

Building Boom, Tenant Boon

The pandemic triggered profound shifts in how tenants use different types of space: how much, where, and what kind. The changes began with the lockdown as many sectors of the economy were forced to adapt to new ways of operating, and many of those adaptations have endured in some form. By now, these shifts have either largely played out, or their direction is reasonably foreseeable.

Office workers commute to the workplace less frequently; consumers shop more online; and more goods than ever are stored in warehouses. All these effects have altered space usage patterns. The pandemic also forced significant changes in the types and locations of homes that households want to buy and rent. People want more space at home to work and prefer less dense suburban neighborhoods, which they perceive as safer and healthier.

Less heralded but perhaps even more remarkable is that overall space demand has more than recovered in most sectors. Indeed, occupied space now exceeds prepandemic levels as demand remains robust across most property types. Not every sector, of course. A painful reckoning is taking place in the office sector, and few experts expect office space demand to return to anything approaching prepandemic levels (see the discussion in the chapter 2 office outlook).

Despite the broad demand recovery, vacancy rates are rising across many property types as surging supply outpaces absorption in many markets. All this new construction is swinging the power pendulum to the tenants. Tenants are exploiting softer market conditions in different ways in different property sectors. In some sectors, tenants are simply leveraging rising vacancies to negotiate lower rents. However, in other sectors, occupiers are taking advantage of the availability of a new class of higher-quality construction to upgrade their workplaces and leave behind their older, less functional space. These moves are creating a performance chasm between newer and older buildings.

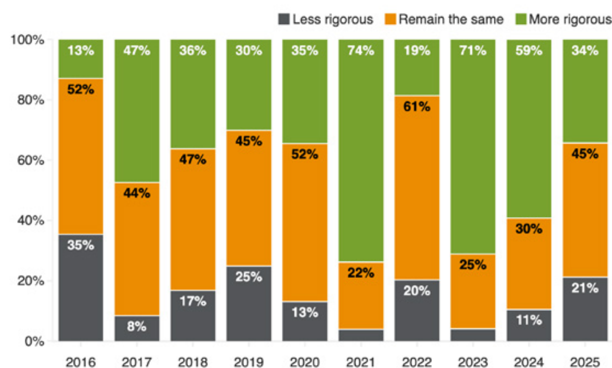
Haves and Have-Nots in Retail Continues

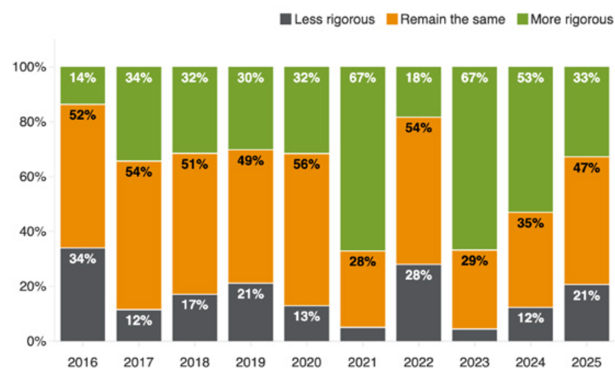
This supply-facilitated bifurcation differs from the demand-driven bifurcation trend that preceded it. The bifurcation trend began in the retail sector over a decade ago when shoppers and retailers started to abandon redundant shopping centers in favor of the best-located and best-tenanted centers. The winners were not necessarily the newest: Frequently, older centers commanded the best locations, preventing newer entrants from gaining a foothold. But the divide between the haves and have-nots grew as e-commerce devastated outdated department stores and superfluous retail space.

That divide between the haves and have-nots continues to this day, as different retail types are performing differently. The number of successful malls keeps falling, for example, while occupied space in necessity retailing, like grocery-anchored centers, is rising. Importantly, this bifurcation manifested despite the almost complete absence of new construction.

The Flight to Quality Office

A different story is playing out in the office sector, which was the next property type to see a split in its fortunes. Vacancies surged during the pandemic, and the amount of occupied space continues to fall four years later despite increased employment in office-type occupations. Construction has sunk to historic lows, but much of the new supply has been superior to what was available previously. Leasing in these newer buildings has far outperformed as tenants seek out premium space that is





viewed as healthier and more productive. Firms see top-quality space as an essential differentiator in attracting new workers to their firm and current workers back to the office. Meanwhile, older buildings are increasingly regarded as obsolete, as even extensive (and expensive) renovations often are not enough to compete with newer product and attract new tenants or retain existing ones.

The Spread to Industrial

Now the bifurcation trend is spreading. "It started very much in office, but we're seeing it in other sectors as well, notably industrial," said the head of a prominent investment management firm.

When the pandemic prompted a dramatic surge in online shopping, the industrial sector found itself with a significant shortage of warehouse and third-party logistics facilities. Developers responded with record construction. Leading commercial real estate (CRE) brokerages report that more than 1 billion square feet of new product was added in the last two years alone, far exceeding prior records.

Net absorption has been positive, meaning more space is occupied than ever before. Yet demand has not kept pace with new supply, so the amount of vacant space keeps climbing. Vacancy rates are now higher than they have been in a decade. As outlined in the industrial sector discussion in chapter 2, this new vacant supply is providing tenants with the opportunity for "smart growth" and increasing the divide between newer class A and more commodity class B and C warehouses.

Real estate services firm CBRE tallied almost 400 million square feet of positive net absorption in the 18 months from 2023 through mid-2024 among buildings delivered during the same period. At the same time, net absorption was negative for warehouses constructed between 2000 and 2022, with buildings over 25 years old suffering the worst outflows.

What do tenants want? They want more modern features such as access to power, high energy efficiency, and higher clear ceilings that make the facilities more productive. In addition, warehouse occupiers are increasingly motivated by the "war for talent" and thus prioritize the kinds of wellness amenities that office tenants demand, like superior ventilation and more direct natural light. And for many tenants, the right location is the most critical feature of all. The leader of a logistics company explained that "with next-day delivery still growing, proximity to major metro areas is becoming ever more important."

This "flight to quality" trend is expected to last a while longer as vacancy rates keep climbing, but the favorable conditions for tenants will soon abate as the delivery pipeline slows.

A Dramatic, Likely Short-Lived, Reversal for Multifamily

A different supply dynamic entirely is playing out in the multifamily sector. Like industrial, this sector has experienced a construction explosion in the past couple years, particularly in fast-growing Sunbelt markets. The result has been rising vacancies and falling rents in the most oversupplied markets. Rents declined nationally in

each of the first two quarters of 2024 by the most since before the pandemic.

That scenario represents a sea change in this historically undersupplied sector and a rare triumph for tenants. But it is not likely to last for long. For one thing, construction is slowing, and the number of projects in the pipeline is falling. Explains one investment banker, "Replacement costs are generally above asset costs, so you get a discount by buying assets." Developers will need to wait until rents again justify new construction.

Despite all the new supply, there is still not nearly enough construction to keep pace with population growth, since many households cannot afford to purchase homes. The shortage is particularly severe at more affordable price points, as explained in the housing affordability theme later in this chapter, Many Solutions, No Answers. Thus, the oversupply seen in some markets is not viewed as severe. The head of real-assets research team for a data analytics firm said, "The apartment market has some softness, but I characterize it as 'a little bit' of softness. We're still undersupplied on housing nationally. And it's not like right before the financial crisis, when we needed a million units per year, and we're delivering 2 million units per year. It's not that kind of excess."

Data Centers and Life Science

Supply issues are playing out very differently in two tech-focused niche sectors: data centers and life science facilities. Data centers have been the top choice of *Emerging Trends* survey respondents for two years running for both investment and development prospects, far outpacing all other subsectors (see chapter 2). The reason is clear: Enormous and spiraling demand significantly exceeds the market's ability to deliver new space.

The reason for the shortfall is equally apparent: Data centers have massive power requirements, and few sites are available that can deliver that amount of power in a setting that can accommodate the large physical footprint of these facilities. This power requirement thus acts as a "non–real estate–driven constraint on supply," according to one investment banker. "So that means there'll be good fundamentals for a really, really long time, because we can't build enough of it."

Advantage: landlords. As the global head of research and strategy for a leading investment management firm said, "Data centers are the superheroes now."

The dynamics are the opposite for the formerly high-flying life science subsector. This was a case of too much supply, too soon. When the office market collapsed during the pandemic, office owners rushed to convert their excess space into life science facilities on the theory that at least scientists must go into the office—to create all the vaccines needed to combat the COVID-19 virus. As often happens in the CRE sector, though, too many people had this same idea. Demand is still there, but the market supplied much more space to this small niche product type than could be absorbed.

The chief investment officer of an investment management firm said, "Life science got way overbuilt, especially in secondary locations, [which] has totally changed the fundamentals on the ground. . . . But having said that, we do think the long-term fundamental drivers of the life science space, from [the perspective of both] demographics and technological advancement, do set it up to be a long-term winner. It's just got to go through a lousy patch."

Demographics Steering Real Estate Markets in 2025 and Beyond

The New Domestic Migration Landscape

The United States is experiencing shifts in migration patterns. Cities like Orlando, Tampa, Austin, and Phoenix, which previously saw strong inflows, are now experiencing only moderate in-migration. Conversely, some unexpected areas are seeing more in-migration than expected, including Minneapolis, Riverside-San Bernardino, Sacramento, Boise, Indianapolis, and Las Vegas. These shifts have the potential to reshape real estate markets across the country, creating new opportunities and challenges for developers and investors.

With U.S. migration patterns shifting, it's more important than ever to build and invest in strong migration markets

Strong migration continues:
- Charlotte
- Myrtle Beach
- Raleigh-Durham
- Nashville

Prior strong migration, now moderating:
- Atlanta
- Dallas*
- Fort Worth*
- Houston
- Jacksonville
- San Antonio

Previously strong in-migration, now negative
- Orlando
- SW Florida
- Tampa

Prior strong migration, now barely positive:
- Austin
- Phoenix

Prior small out-migration, now big out-migration
- Denver
- Salt Lake City

Prior losses, now positive migration:
- Minneapolis
- Riverside-San Bernardino
- Sacramento

Prior big out-migration, now smaller out-migration
- Philadelphia
- Portland

Positive in-migration, now accelerating:
- Boise
- Indianapolis
- Las Vegas

Large domestic out-migration, offset by strong international migration:
- Boston
- Chicago**
- East Bay Area*
- Los Angeles*
- Miami*
- New York*
- Orange County
- San Diego
- San Francisco**
- San Jose
- Seattle*
- Washington, DC

Sources: John Burns Research and Consulting LLC, tabulations of Melissa Data Corporation data (Data: May-24; Pub: Sep-24). As seen in *Burns U.S. Demographics Insights and Strategies*.
Note: Domestic moves only. Does not include foreign immigration.
*Metro division **Combination of metro divisions (except Raleigh-Durham, which is a combination of metro areas).

Growth in "Suburban" Living, Accelerated by Work-from-Home Trend

The rise of remote work has enabled millions to move away from traditional office hubs. With 35 million Americans now working from home at least part time, suburban and exurban areas are seeing accelerated growth. The impact is substantial: 30 percent of households that moved due to remote work policies relocated to a different city, and 13 percent moved to a new state.

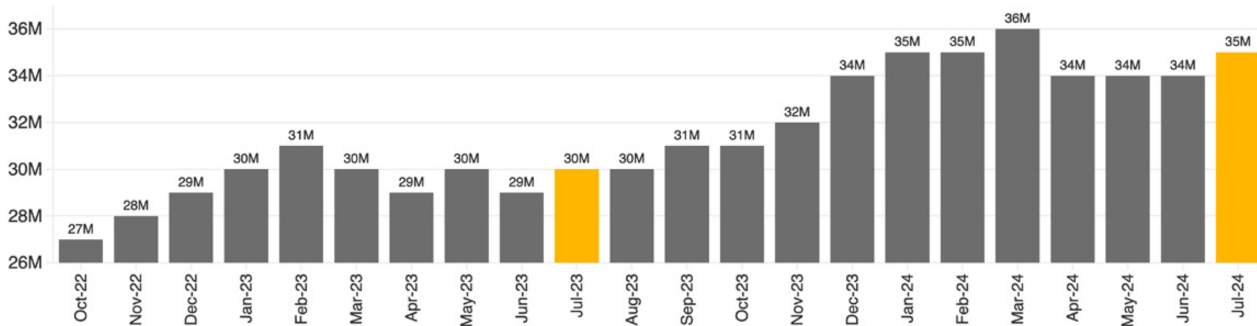
This shift is fueling the development of mixed-use "surban" communities—a term coined by John Burns Research and Consulting in 2016. The term describes areas that blend suburban space with urban amenities. Now these areas are catering to remote workers seeking a balance between professional flexibility and quality of life.

Despite more return-to-office mandates, hybrid and remote work continues to grow

5 million more U.S. employees are working from home part of the week than one year ago

U.S. Hybrid and Remote Workers

Number working from home at least 1 day per week



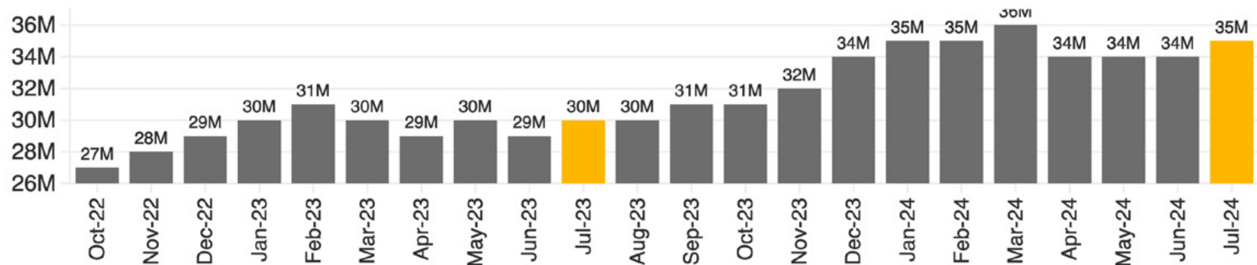
Sources: Bureau of Labor Statistics, John Burns Research and Consulting LLC (Data: Jul-24; Pub: Sep-24). As seen in *Burns U.S. Demographics Insights and Strategies.*

Despite more return-to-office mandates, hybrid and remote work continues to grow

5 million more U.S. employees are working from home part of the week than one year ago

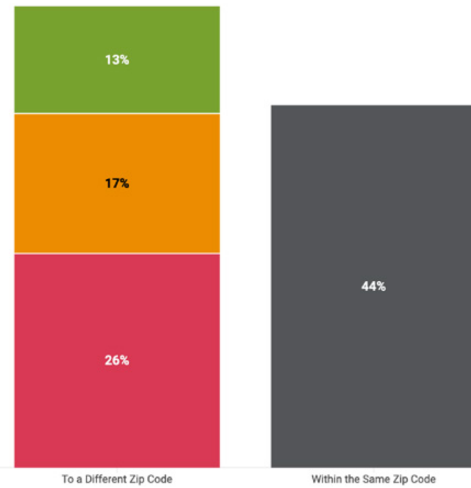
U.S. Hybrid and Remote Workers

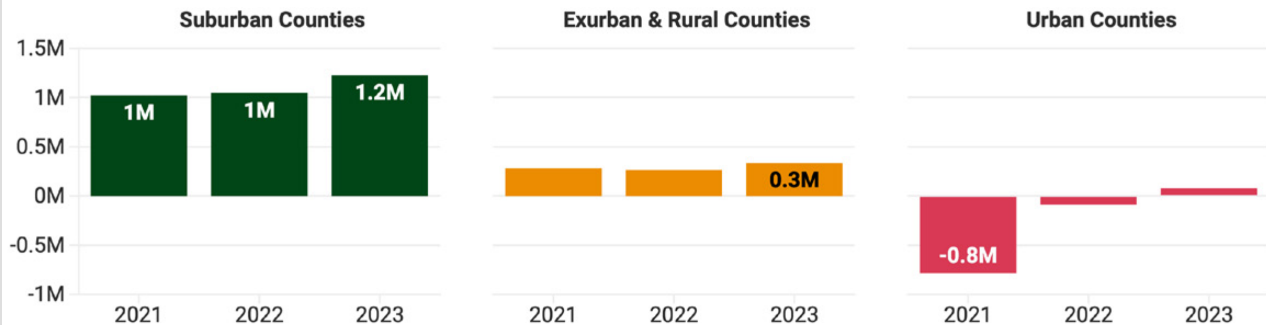
Number working from home at least 1 day per week



Sources: Bureau of Labor Statistics, John Burns Research and Consulting LLC (Data: Jul-24; Pub: Sep-24). As seen in *Burns U.S. Demographics Insights and Strategies.*

Remote work enables employees with household income of $50,000+ to move farther from offices: 42% of these employees work hybrid or fully remote in 2024
Share of homeowners and renters with household income of $50,000+
Full-time remote 22%
Hybrid 20%
Work remote-capable 62%
Work not remote-capable 38%
Full-time in office/on-site 38%
Full-time in office/on-site 19%
Source: New Home Trends Institute by John Burns Research & Consulting, LLC March 2024 survey of 1,265 homeowners and renters with household income of $50,000+ (approximate income prior to retirement for retirees).
As seen in Burns US Demographics Insights and Strategies


How far did high-income households move to take advantage of a remote-work policy?
Within the same zip code
To a different zip code within the same city
To a different city within the same state
To a different state
13%
17%
26%
44%
To a Different Zip Code
Within the Same Zip Code
Source: New Home Trends Institute by John Burns Research and Consulting LLC March 2024 survey of 1,265 homeowners and renters with household income of $50,000+ (approximate income prior to retirement for retirees). As seen in Burns U.S. Demographics Insights and Strategies.


Suburban and exurban migration continues at a strong pace; urban out-migration moderated in 2023
2021–2023 U.S. population growth by county type
Suburban Counties
Exurban & Rural Counties
Urban Counties
1.5M
1M
0.5M
0M
-0.5M
-1M
1M
1M
1.2M
0.3M
-0.8M
2021
2022
2023
Sources: John Burns Research and Consulting LLC, tabulations of U.S. Census Bureau Population Estimates (Data: 2023, Pub: Sep-24). As seen in Burns U.S. Demographics Insights and Strategies.

Immigration Fueling Population Growth and Labor Supply

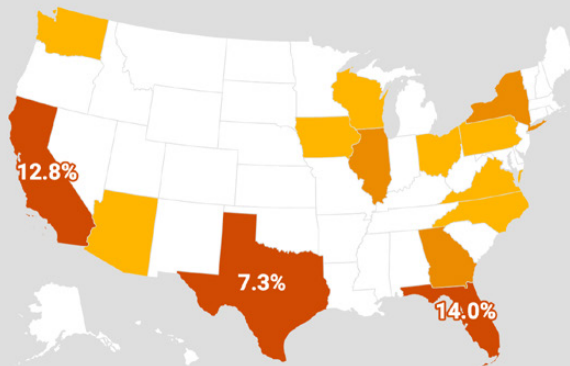
International immigration has become the primary driver of U.S. population growth, accounting for 75 percent of the increase in the 2020s, up from 45 percent in the 2010s.

Given the lower birth rate in the United States, immigration is now the main growth engine of the U.S. population and its labor supply. Without immigration, the United States faces potential labor shortages that could stifle growth, reduce demand for homes and commercial spaces, and raise construction labor costs. However, with continued immigration, the U.S. working-age population is projected to expand by more than 10 million in the next decade, fueling demand for all types of real estate and helping relieve costs.

One-third of new international immigrants settle in either Florida, California, or Texas

2021–2023 International net immigration by state (% share of U.S. total)

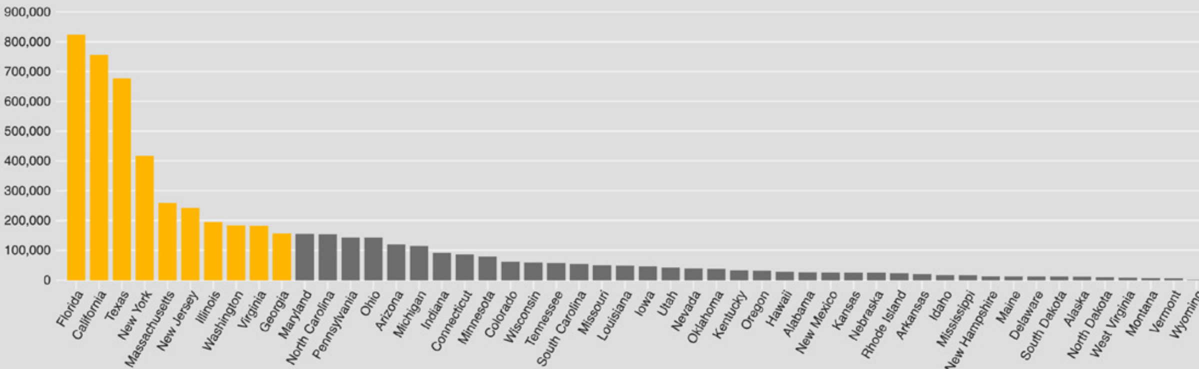
<1.0% 1.0%–2.0% >2.0%–4.9% >5.0%



Sources: John Burns Research and Consulting LLC, tabulations of U.S. Census Bureau Population Estimates (Data: 2023, Pub: Sep-24). As seen in *Burns U.S. Demographics Insights and Strategies.*

10 states account for two-thirds of international migration over the past 3 years

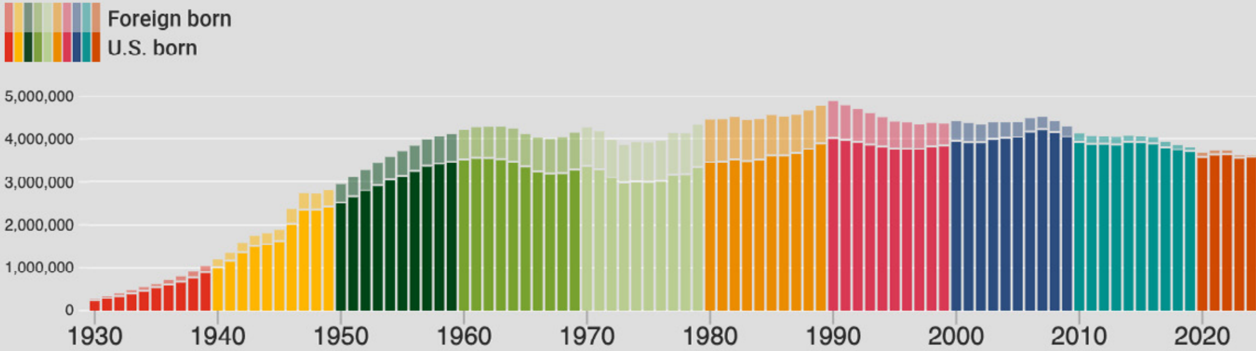
2021–2023 U.S. International net migration by state



Sources: Bureau of Labor Statistics, John Burns Research and Consulting LLC (Data: Jul-24; Pub: Sep-24). As seen in *Burns U.S. Demographics Insights and Strategies.*

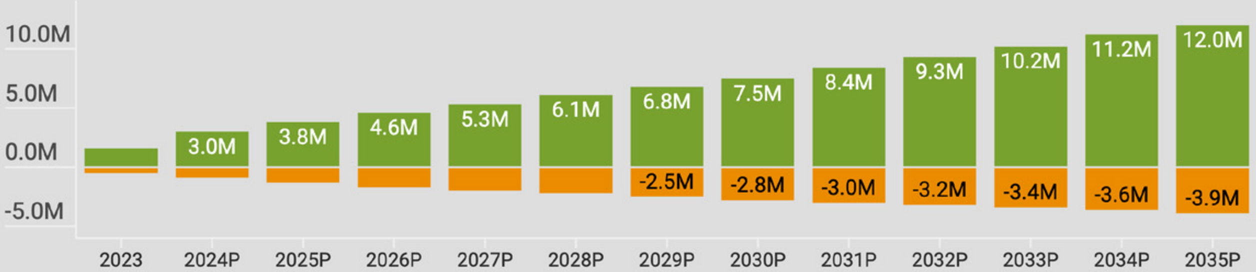
Each decade-born generation between the 1960s and 2010s has 40M–46M people; the 1990s-born and later generations will grow through immigration

2024P U.S. Population by year born

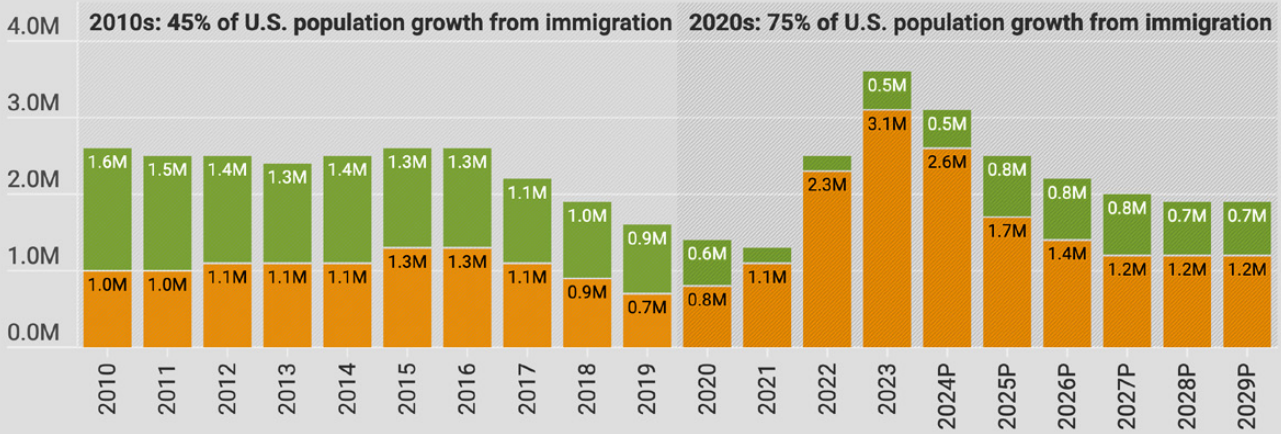


Sources: Bureau of Labor Statistics, John Burns Research and Consulting LLC (Data: Jul-24; Pub: Sep-24). As seen in *Burns U.S. Demographics Insights and Strategies.*

Projected Annual U.S. Working-Age Population Growth (Age 20–64)



Sources: U.S. Census Bureau, John Burns Research and Consulting LLC (Data: May-24, Pub: Jun-24). As seen in *Burns U.S. Demographics Insights and Strategies.*



Sources: U.S. Census Bureau, John Burns Research and Consulting LLC (Data: May-24, Pub: Jun-24). As seen in *Burns U.S. Demographics Insights and Strategies.*

—John Burns Research and Consulting LLC

Trend #4:

Now Where?

The pandemic rattled property markets in some fundamental ways. In the preceding trend, we highlighted some of the ways in which tenants have shifted the kinds and amount of space they demand. They have also shifted where they want to work and live, both within and among regions. The pandemic prompted households and businesses to move from central cities to more outlying suburban and exurban areas. It also strengthened preexisting migration patterns from colder Northeast and Midwest metropolitan areas to warmer Sunbelt climates in the south and west.

Those patterns are continuing, but the surge in Sunbelt and suburban migration appears to be moderating and transforming. Climate change may already be playing a role and seems poised to trigger more shifts in the years ahead. But other factors, such as housing affordability and perceived quality of life, are also playing roles.

Moving Less Overall

Interstate migration in the United States has been rising for many years, even as local moves are declining. Official migration data sets only become available after a significant (two-year) lag, so the most current reliable data dates to mid-2022. However, anecdotal evidence and related data suggest that interstate moves are now falling as well.

Apartment renewal rates increased sharply in 2023 and 2024 relative to historical averages, according to figures compiled by RealPage. Soaring home prices are one obvious reason: Fewer renters can afford to make the move from renting to homeownership, which is a key cause of resident turnover. Another important reason is that fewer households are relocating to take new jobs.

The high cost of relocation—including the cost of a home purchase—is a factor here, too. However, also important is the increase in remote work options. While the share of job listings that allow for remote or hybrid work has fallen from its peak, according to the job search firm Indeed, the share is still three times greater than before the pandemic—and more for higher-compensated jobs like those in tech and professional services. When firms can recruit from a wider geographic area, workers need not relocate to take a job in a different region. Of course, the opposite is also true: Workers can stay with their current job while relocating to another metro area. That trend seems to be less common, but definitive data is lacking.

Moderating Patterns

Demographic analysis by John Burns Research and Consulting reveals changing migration patterns (see the sidebar, Demographics Steering Real Estate Markets in 2025 and Beyond). While broad postpandemic migration patterns continue from the Frost Belt to the Sunbelt, many metro areas that had attracted strong in-migration earlier in the decade are now seeing only moderate gains. These include Atlanta, Dallas/Fort Worth, and Houston, among others. Austin and Phoenix both had strong in-migration following the pandemic, but now their net migration is barely positive. Meanwhile, some key Florida markets, including Orlando, Tampa, and Southwest Florida, are seeing outright population losses.

The rankings of some of these markets slipped this year in the *Emerging Trends* market ratings (chapter 3). However, most of these markets still scored very high, with all but Southwest Florida in the 15 top-rated markets—suggesting survey respondents might be out of step with emerging migration trends. Similarly, industry participants also may be missing the positive impacts of international in-migration, which counters the large domestic out-migration in many large metro areas in California, including Los Angeles, Oakland, and San Francisco. These markets have fallen out of favor in the *Emerging Trends* ratings.

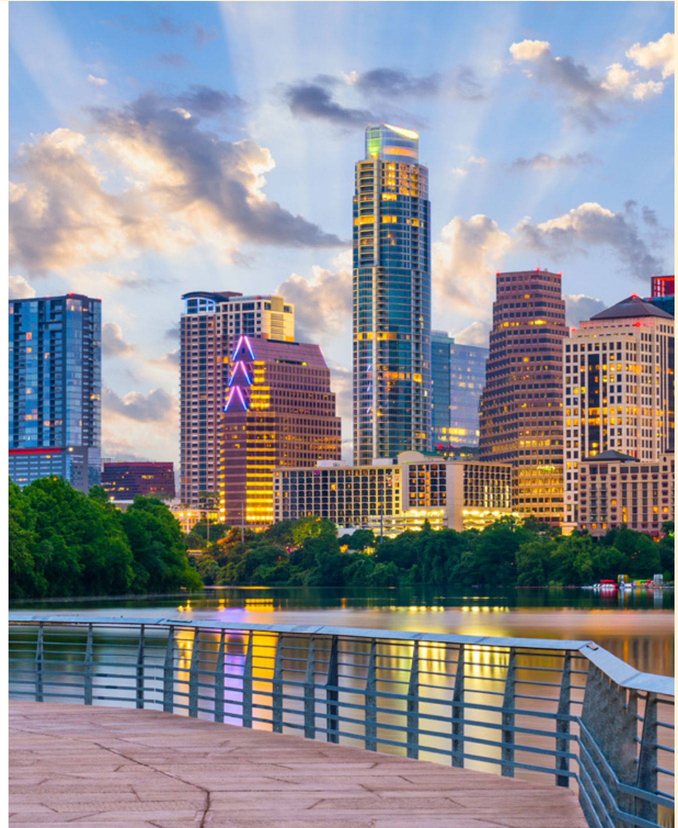
What accounts for these moderating migration patterns? The declining cost-of-living advantage—especially in housing affordability—formerly enjoyed by many fast-growing Sunbelt metro areas. According to the research director of a real estate analytics firm, "Whether it's insurance or just cost of living, that gap has closed somewhat between the Sunbelt and some coastal markets. You're not going to see massive migrations in the next few years." Another prominent CRE adviser noted, "More than anything, much of that housing affordability advantage is drying up already. I think that the migration to the Sunbelt has already moderated. But that was expected because you couldn't keep up the path of the shock of the pandemic and all the people moving."

Other interviewees also mentioned "growing pains" in fast-growing markets that did not invest sufficiently in critical infrastructure such as roads and transit. The head of CRE at another data analytics firm concluded, "Some of it is just you're going to run out of people that are willing to move to an area like that for a variety of lifestyle reasons."

The Impact of Climate Change

Beyond these growing pains, many experts believe climate change is now starting to affect location decisions. Though limited now, the trend is likely to accelerate as climate impacts—and their costs to property owners—rise over time.

The Migration Policy Institute points out, "Human mobility linked to environmental drivers is not new, but global climate change is triggering more internal and international migration and displacement." The concept of climate migration has been generally applied to impoverished regions like Somalia and Honduras, where millions of people have been displaced by drought or rising temperatures. Now it may be occurring in more developed nations.



Evidence is growing that climate change—and the risk of further change—is affecting domestic migration patterns in the United States, discouraging households from moving to the hitherto fast-growing markets. A recent study by the San Francisco Federal Reserve Bank found migration from colder Snowbelt places to hotter Sunbelt metro areas has slowed over the past five decades, notwithstanding the surge after the pandemic. The study found that migration is slowing the most among age groups 20–29 and 60–69, the cohorts most likely to be making long-term location choices.

Again, some of the decline in interregional migration to the Sunbelt might be explained by the waning relative affordability that had been a powerful attraction to these markets. But there seems little doubt that climate is playing a role. A Freddie Mac analysis of data from the latest Survey of Household Economics and Decision Making found that in 2023, natural disaster concerns prompted one in seven households to investigate other places to live, including 16 percent of respondents under age 45. Clearly, climate issues are a growing consideration in location decisions.

Insurance and Risks

Climate migration is unlikely to reverse longstanding patterns rapidly, but change is coming, particularly as climate impacts and costs accelerate. The average number of billion-dollar climate events, as tracked by the National Oceanic and Atmospheric Administration, keeps rising, with events again projected to near record levels this year. Compounding the human and financial tolls is that so much recent migration has concentrated in relatively high-risk areas.

And as Hurricane Helene painfully demonstrated in September 2024, almost nowhere is totally safe. The storm devastated communities like Asheville, North Carolina, commonly viewed as "climate havens" relatively immune from climate risks. But if no place is truly climate-proof, some places are—without doubt—more vulnerable than others. The 2024 Realtor.com Housing and Climate Risk Report found that about 45 percent of homes nationwide are at risk from at least one type of severe or extreme climate risk, primarily heat but also including wind, wildfire, and flood, with many homes at risk for multiple threats.

Insurance costs are soaring in many markets, while millions of properties are so vulnerable that they cannot secure private insurance at all and must rely on state-run insurance. Building in these high-risk areas also costs more to make them more resilient. Homebuyers are taking notice. Major online listing services like Zillow and Redfin now provide climate risk data on their listings. According to Zillow, 80 percent of homebuyers now consider climate risk when purchasing a home.

It's not just homes, of course. Many commercial properties are also vulnerable, and insurance premiums are soaring, particularly on apartments in Florida and California, but increasingly in other states and for other property types. While less direct, these risks could also help slow future migration to the Sunbelt and other places more vulnerable to climate risks.

The economist Milton Friedman famously claimed, "Only a crisis—actual or perceived—produces real change." Recent devastating hurricanes and wildfires are demonstrating that regardless of one's politics or beliefs about the causes of climate change, the costs and risks are too significant to ignore.

Surprising Risk of a Warming Climate: Extreme Cold

Headlines filled with record-breaking heat figure large in coverage of climate change. The opposite side of the coin—extreme cold—is a lesser-known hazard that is also on the rise, and it is affecting markets not previously challenged by cold snaps.

Winter storm Uri, which brought devastation to Texas in 2021, is one of the best-known examples of a cold snap hitting a warm region. Thus far the world's costliest winter storm on record, Uri brought over $30 billion in damage, knocked out the power grid for millions of people for days, led to 246 deaths—more than Hurricane Sandy in 2012—and caused water pipes to freeze and burst in many buildings. Over 500,000 insurance claims were filed.

However, Uri was far from an isolated incident. As of early 2024, "Of the nine most recent catastrophic freeze events, eight of them occurred in California, Florida, or other southern climates, mostly in areas south of the 32-degree frost line in the International Building Code," according to Chuck Miccolis, a building resilience expert. Far from being a quiet season between hurricanes and wildfires, winter and its associated hazards "can be one of the highest-risk seasons for businesses." Losses from these events are not cheap, either. "Over the last decade, commercial losses from winter weather in the U.S. have averaged about $4 billion dollars per year," says Miccolis.

Why is this happening? Anne Waple, a former director at the U.S. National Climate Assessment at the National Oceanic and Atmospheric Administration, notes that "warming in the Arctic is potentially destabilizing the jet stream to the extent that we could see more incursions of extreme cold and polar vortexes. [Temperatures] are warmer than they used to be, and winter will be warmer overall, but we could still have more of those extreme cold events."

This trend has significant implications for buildings in regions not historically accustomed to extreme cold. Rose Grant has expertise in both architecture and insurance and puts it this way: "Building codes use historical models. They say, 'this is the kind of snow and these are the weights

we've had for the last 100 years.' What we're seeing with climate change is that those backward-looking models are not necessarily telling us everything we need to know moving forward as the climate is changing."

As a result, buildings designed only to code (and their occupants) in southern locales are at much higher risk of experiencing major damage, for example from collapsed roofs or burst water pipes. Energy grids in these regions are also typically not weatherized for colder temperatures and can experience major outages during cold snaps and snowstorms, putting occupants in danger.

How has the industry responded? As firms begin to integrate climate risk into decision-making, extreme cold is starting to appear in risk assessments. Some developers have already implemented a robust physical risk assessment and management strategy, including financial modeling. One firm, when looking at markets around the country for expansion of its workforce housing investment management platform, was surprised to find red flag risks from extreme cold in traditionally warm markets. "One of the things that jumped out to us in the analysis was that some warmer markets where we didn't expect it had significant climate risk—both from heat and from cold," according to AJ Jackson, a leader at the firm.

What stood out most of all, Jackson notes, was the "vulnerability of infrastructure. Coupled with the increasing frequency of extreme cold events and flash freezes, it created a situation where there was much more climate risk in some warm markets than we had anticipated." After reviewing the analysis, "the upshot was that it informed how we think about whether or not we're going to enter a market and if so, the types of assets that we want to acquire, and what the resilience is at the asset level to extreme cold."

At the property level, real estate developers, owners, and investors have begun to act to reduce their risks from extreme cold. For example, a large investment manager with a property in Texas saw a million dollars in damage from a cold snap in 2022. Pipes burst and caused "massive disruption to property operations and overall business continuity," with tenant amenities closed for nearly nine months. As a result, this manager chose to upgrade insulation in every building.

The company mapped out and focused on the locations of exposed pipes that are vulnerable (usually in attics or facing exterior walls). These mitigation measures were relatively low-cost for a property of its size—an easy choice given the huge impact of possible recurring freeze damage. While there are no guarantees the insulation will completely prevent all future issues, it is expected to minimize potential damage and operational impact.

Other steps can include providing backup power, installing freeze protection for plumbing, and developing a business continuity plan for the property.

—Adapted from ULI Greenprint, ***Cold Snap: Extreme Cold and Real Estate***

Trend #5:

Many Solutions, No Answers

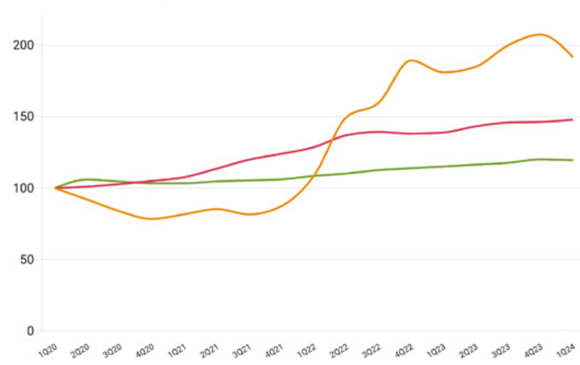
When evil spirits returned to invade her family's home again, the little girl in the Poltergeist sequel famously warned, "They're baaaaack!" In a similarly horrifying way, "housing costs and availability" returned as the top social/political issue in this year's *Emerging Trends* survey, topping "political extremism" and "immigration policy" by wide margins. Housing affordability was also very much on the minds of many of the industry leaders interviewed for this report. Thus, it returns as a top trend for the 2025 edition of *Emerging Trends*, as it has for eight years running.

Yet the national housing affordability crisis—er, condition—continues to deepen and intensify. Here is how bad housing affordability has become: it has emerged as a prominent issue in the U.S. presidential election for the first time in memory, maybe since the end of World War II. Both major-party candidates are highlighting the issue in their speeches and platforms and proposing measures to improve the situation (albeit using diametrically opposed approaches). Given what was said in our industry interviews, American society does not seem willing to accept the issue to persist as just an ongoing condition.

While the growing attention is welcome, prospects for improvements still seem bleak, particularly in the near term. As the chief investment officer of a major CRE investment management firm said, "We have a pronounced housing shortage in the United States, which is hard to imagine how it's going to go away. There's only really one way to solve that problem, which is to build. But it's hard to see how that's going to happen. That doesn't bode well for affordability, but it does bode well for rental housing versus ownership housing, absent all-of-a-sudden loosening of credit standards."

Worrying Trends for Homebuying

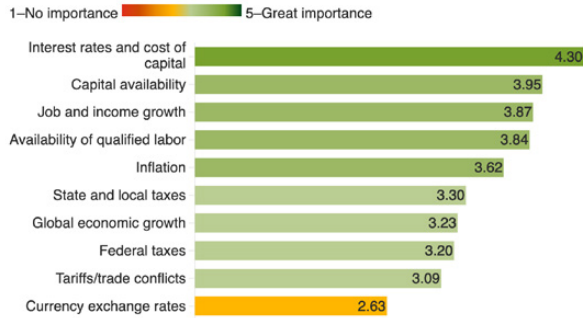
Housing affordability remains near all-time lows as home prices continue to set record highs. The average home price nationally is about 50 percent higher than at the onset of the pandemic, more than twice the increase in median worker earnings. ***The Wall Street Journal*** estimates that nearly 10 percent of homes have an estimated value of $1 million or more, more than double the 4 percent share recorded



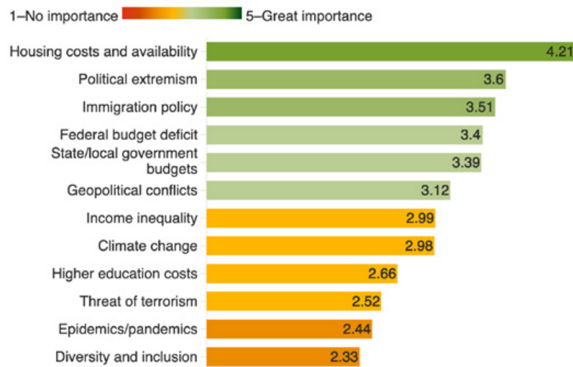
Source: Federal Reserve Economic Data.

before the pandemic. Not long ago, a million dollars was a shorthand benchmark for luxury housing, but that figure now represents merely an entry point in many markets.

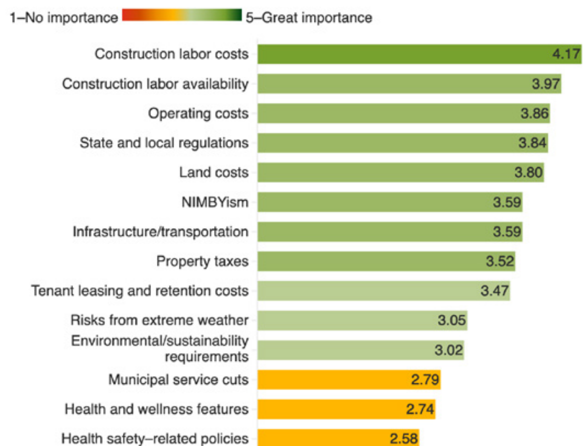
Mortgage rates are even more problematic for homebuyers. Mortgage rates remain stubbornly high, even though they are beginning to edge down. Although well off their peaks registered in the fall of 2023, when 30-year fixed-rate mortgages were nearly 8 percent, rates are still some two-thirds higher than in early 2020 before the pandemic.



Source: *Emerging Trends in Real Estate 2025* survey.



Source: *Emerging Trends in Real Estate 2025* survey.



Source: *Emerging Trends in Real Estate 2025* survey.

In an ironic and unfortunate twist, the Fed's effort to bring down inflation arguably compounded the problem. First, the high interest rates brought the home resale market to a virtual standstill. Homeowners stopped putting their homes up for sale because they would lose their low-interest mortgages. Housing turnover and the available inventory both plunged, driving up prices still further for the few available homes.

High interest rates also helped drive up construction costs on new units, discouraging new home production. Deliveries of single-family homes remain well below their long-term average and well below the level needed to keep pace with household growth. The anemic pace of units started means the pipeline of new deliveries will not be increasing anytime soon.

Finally, the Fed gauges inflation with a metric that includes an imputed homeowners' cost, called owners' equivalent rent (OER). For technical reasons, OER is a lagging indicator, so the Fed relied on outdated data for an expense that homeowners do not even actually pay—it's imputed! Thus, many economists argue that the Fed not only exacerbated affordability but also prolonged the misery since the inflation gauge that excludes OER had come down to the Fed's target long ago. With the expenses associated with operating a home—including insurance, heat, and maintenance—also rising faster than earnings, it's no wonder that affordability has fallen to historic lows.

Better Trends for Renters

Though the U.S. homeownership rate now surpasses the levell immediately preceding the pandemic, it is still well below the rates recorded in the years before the global financial crisis (GFC) and has been falling since late 2022. The steep rise in the cost of purchasing a home has kept many households renting, by either choice or necessity. Rents jumped sharply in the years following the pandemic as the number of renter-occupied units in the country rose far faster than population growth. Rent growth averaged almost 5 percent annually nationwide from 2019 to 2023—not nearly as much as the spike in home prices, but substantially more than income growth.

As noted in the supply trend (Building Boom, Tenant Boon) and the chapter 2 multifamily overview, the apartment market dynamics are changing thanks to an unprecedented

burst of new supply coming to market. Excluding the unusual circumstances of the lockdown, rents are falling for the first time since the housing market collapsed in the GFC. With record completions this year, rents should continue to trend down, but the gains for renters have been modest.

Even with these slight declines, the U.S. Census Bureau calculates that almost half of renter households are considered "cost-burdened," spending more than 30 percent of their income to keep a roof over their heads. Worse, an unconscionable quarter of renters pay at least half of their income on rent. Not only does this high rent burden leave little for groceries and other necessities; it effectively locks households into renting permanently because they cannot save for a downpayment.

Getting to Yes

As the chief investment officer quoted above put it, the simple solution to address affordability is to build more housing. A consultant to housing developers adds, "Supply and demand does work. The ability for us to add supply to housing is the single most important thing that we can do to control escalating unaffordability—wherever that housing is added on the spectrum. It's not just adding more affordable housing, although that's important, but adding housing period creates a filtering." (Filtering is the process through which older housing stock becomes more affordable as it is sold by owners who move into newer, more modern housing stock introduced into the market.)

This critical insight is not new. However, years of declining affordability demonstrate that this solution is much easier said than done. Local regulations and delays remain the biggest impediments to supplying developed land to homebuilders. In response, governments, builders, and housing advocates are advancing a variety of approaches.

- **Tweaking zoning and environmental regulations:** More states and local governments are experimenting with eliminating single-family zoning, raising the potential for denser neighborhoods and more affordable units.

  The Twin Cities of St. Paul and Minneapolis, Minnesota, provide an outstanding example of contrasting approaches to making housing more affordable. In recent years, Minneapolis adopted various measures to increase the production of higher-density housing, while St. Paul opted to rely on rent control. One interviewee, a CRE economist, said, "It's a great natural experiment where you get these two cities right next to each other. Minneapolis got rid of single-family zoning and allowed the market to deliver what the market wanted, at least to some degree. And rent growth was more muted during that period than in St. Paul." Indeed, Minneapolis is enjoying a significant expansion in multifamily projects that are adding hundreds of new units, while housing production has slowed markedly in St. Paul.

  In California, where more than 95 percent of residential land is zoned exclusively for single-family homes, the state legislature enacted a bill in 2021 allowing for lot splitting. The law's future is uncertain as a judge ruled it unconstitutional early in 2024. However, California's Assembly Bill 2011, which took effect in 2023, provides for easier and expedited approval for affordable and mixed-use housing on commercially zoned land.

  Many states have relaxed restrictions against Accessory Dwelling Units (ADUs) including California, Montana, Washington, and New York, among others. Sometimes called ***granny flats***, ADUs are small residences situated on the same lot as the primary dwelling. These units offer distinct living spaces

separate from the main house, enabling homeowners to offer housing to family members or tenants. ADUs help expand housing options, thereby enhancing the availability of affordable living arrangements.

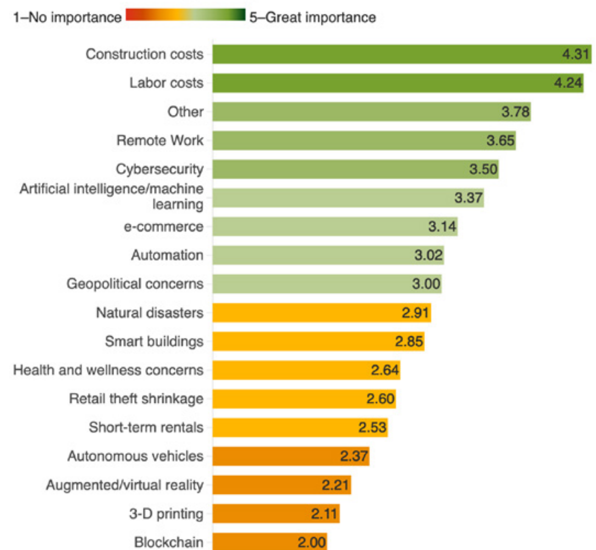
- **Smaller homes:** Another approach to bring down costs is to make houses smaller, and that is also happening. The Census Bureau reports that the median size of single-family homes has been trending down since 2015 and now is at its lowest average since 2010, dropping 355 square feet to 2,164 square feet. The National Association of Home Builders expects the trend to continue. The association reports that over one-third of U.S. homebuilders decreased the size of the homes they built in 2023, and a quarter anticipate constructing even smaller homes this year.

  Still, the counter "McMansionization" trend also continues and plays a role in reducing the availability of smaller affordable homes. A study by the Metropolitan Abundance Project, for example, found that over one-third (37 percent) of new single-family homes built in Los Angeles County in 2020 were more than 3,400 square feet, and the proportion reaches two-thirds in more affluent cities, with both figures up significantly in recent decades.

  The reality is that the high cost of permitting and the extended time required to secure approvals incentivize developers to build at higher price points to recover their investments. Said one developer, "Either you're building larger housing for fewer and fewer people that can afford housing, or you're shrinking the size—because when you're building housing, it's chunk price, not price per foot. And [that's] why townhomes are so popular."

- **OK, boomers:** Another huge opportunity is providing options for the enormous number of baby boomers who will soon need housing to age into (see the discussion in chapter 2). In many markets, seniors have few options beyond aging in place. That works for some healthy seniors, but many need housing that comes with graduated care. "The housing stock should be turning over more than it does here," said one developer. "We don't produce enough of it. We don't have places for people to age down into."

Real Estate Industry Disruptors in 2025



Source: *Emerging Trends in Real Estate 2025* surveys.

A National Problem

Housing affordability is no longer confined to large coastal cities. Virtually every metro area in the country is suffering from a shortage of affordable for-sale and rental housing. With the problem so widespread, the issue can no longer be tackled locally but requires a national approach.

As already noted, politicians are finally taking notice, and both major-party presidential candidates are proposing policies to expand the supply and bring down costs. One wants to build 3 million new housing units by providing subsidies for homebuilders and buyers. The other wants to expand production through deregulation and by making federal land available for housing construction. Both parties also want to reduce some types of housing demand to free up homes for others. The Democrats want to limit investor purchases of single-family homes. The Republicans want to restrict the ability of undocumented immigrants to buy or rent homes.

There is no shortage of solutions, as we have outlined here and in prior editions of *Emerging Trends*. The answer seems to depend more on summoning the collective will to get things done.

PropTech's Impact on Real Estate Innovation and Transformation

The Year-End 2023 Global PropTech Confidence Index revealed a measured resurgence in industry sentiment, departing from 2022's record lows. Throughout 2024, both property technology (PropTech) entrepreneurs and investors have continued to signal stabilization, in line with the cautiously active sentiment of the global macroeconomic environment.

Investment activity in the early-and-late-stage venture capital markets has begun to pick up significantly in response to a recalibration of pricing expectations and improvements in deal quality. According to the Global PropTech Confidence Index, 77 percent of surveyed investors plan to maintain or increase their investments in PropTech over the next 12 months. And although the window for initial public offerings remains tepid for now, PropTech mergers and acquisition activity continues to be strong for both strategic and financial buyers. A substantial 87 percent of investors surveyed expect the volume of PropTech mergers and acquisitions to either remain steady or increase over the next year.

Beyond macroeconomic tailwinds, a combination of technology breakthroughs, evolving regulatory frameworks, and ongoing litigation will continue to reshape the PropTech landscape. This section explores three key trends driving growth and innovation in the industry heading into 2025:

1. **Refinement, Targeted Application, and Bottom-line Impact of Generative Artificial Intelligence in Commercial Real Estate**

Over the past year, the excitement surrounding the potential of generative artificial intelligence (AI) has resulted in an over-rotation of capital and founders into the category, both chasing the trend of the moment. Following an initial rush to stake a claim in this new frontier, the landscape is now maturing, and the frenzy is beginning to temper. Even AI-focused investors are becoming more discerning. Coinciding with this temperature shift has been the initial emergence of select generative AI applications, which are driving the return on investment.

The following five areas (in no particular order) are receiving the most focus:

- The structuring and use of data stored in documents through document abstraction
- Property marketing tools for generating listings, personalized walkthroughs, staged images, space plans, and written campaigns
- AI chatbots that drive improved communication, tour scheduling, lead processing, and continued tenant engagement for property sales and leasing
- The transformation of the request-for-proposal process through analysis and use of historical bid data to generate new documentation
- Improved market analysis and feasibility through site intelligence and automatically generated massing models and high-level design schemes

Many of real estate's inherent characteristics—data-rich environment, process-intensive operations, regulatory complexity, and need for personalization—make the industry particularly ripe for advanced AI integration. As the industry continues to evaluate and implement these applications, awareness of the tangible, bottom-line impacts is expected to grow.

2. **Industry Alignment of Environmental, Social, and Governance Initiatives with Regulatory Requirements**

Many corporate budgets have tightened significantly since 2021, leading to decreased emphasis on environmental, social, and governance (ESG) or climate-related initiatives. However, even in the context of constrained corporate budgets, ESG initiatives can drive focused investments in carbon emissions quantification, disclosure compliance, and building retrofits. Sectors and regions that are facing regulatory pressure have displayed continued diligence. For example, companies affected by California's and the Security and Exchange Commission's climate disclosure

rules are actively collecting and reporting the required data. In these relevant markets, the desire to adopt existing technology solutions appears mixed. While some companies are using technology to streamline their data collection, quality assurance, and reporting, others are still choosing to process their workflows, piecemeal, in-house. The solution space will likely continue to mature in line with the regulatory landscape.

3. **Heightened Focus around Residential Real Estate's Commission Structures**

In the midst of a challenging residential real estate market and a temporary oversupply in the multifamily market, the priority has been to serve and protect buyers and tenants. At the same time, consumers are demanding greater transparency and efficiency in commission structures. The result could be a paradigm shift.

In August, the U.S. Department of Justice announced a lawsuit against a PropTech giant, alleging that the company's revenue management algorithm enables collusion among residential landlords and property managers, driving up rents unnecessarily for millions of Americans. While this case is expected to drag on for years in the legal system, its implications for the broader PropTech ecosystem are expected to be substantial.

Additionally, in August, new regulations concerning real estate agent behavior went into effect, following a settlement between a leading real estate industry group and various class-action lawsuits related to commission structure collusion. Under the new regulations, buyers must negotiate payment with their agents before engaging in the home-showing process. Moreover, buyer's agents are no longer allowed to receive compensation from the seller's agent without prior negotiation. This mandate may lead some potential buyers to forego working with an agent altogether.

In the first situation, firms involved in third-party data sharing are likely to tighten their belts. In the second, a slew of promising new startups can be expected to develop technology to streamline various aspects of the homebuying process, potentially mitigating reliance on real estate agents. Both developments are worth watching.

—MetaProp

Issues to Watch: Heightened Uncertainty

The CRE industry is more optimistic now than a year ago, but it is not without worry. While risk is ever-present in investment markets, a heightened level of uncertainty now pervades industry outlooks. Yet, if there is broad agreement on the key risks, there is a wider variety of perspectives on how concerned we should be.

Two sources of uncertainty dominated our discussions with industry leaders: the upcoming U.S. election and geopolitical risk. With wars raging in Ukraine and the Middle East, people fear that the conflicts could spread to involve more countries, potentially even drawing the United States into the clashes directly—with unknown but alarming consequences. People also worry about the impact on global trade and petroleum prices, which could reignite inflation or tip the economy into a recession.

Then there's the federal elections that will be held in early November, a few days after this report is published. As the newly elected President Barack Obama famously told the other party's leadership, "Elections have consequences."

But not always. The ability of the incoming administration to implement policy depends partly on having a governing coalition. While the election outcome is still very much uncertain as of this writing, the consensus among most people we interviewed is that neither party is likely to sweep all three branches of the federal government. Thus, people expect a split government in which neither party gets all it wants.

And real estate is ultimately a local business, so "politically, people are more focused on specific policies in their cities and counties and even states, and less worried about what the outcome is at the federal level," said the head of an investment bank serving the CRE sector.

Still, there is much at stake at the federal level for the CRE industry. The two competing parties have very different approaches to issues such as immigration, regulation, the environment and climate change, and monetary policy, to name just a few. A split government also raises the risk of a government after shutdown or even credit default if the parties cannot agree on measures to finance the government when the continuing resolution extending the budget debt ceiling expires on January 1, 2025. Then the

Treasury Department would need to adopt extraordinary financing measures once again to temporarily keep the federal government open until the money finally runs out sometime in mid-2025.

The industry is also thinking about the Tax Cuts and Jobs Act of 2017 (TCJA), which is due to expire in 2025—with potential tax consequences for real estate owners and investors depending on what provisions, if any, are extended. Not everyone is worried, though. One prominent developer said, "I don't think it'll matter that much. A lot of the assets in place right now have a relatively high basis, so if you sell something, you don't have a real profit in it. It sort of doesn't matter what the tax benefits are." Of course, the impacts would be much greater for the many investors who bought years ago at a lower basis and have unrealized considerable profits.

Regardless of the election outcome, the industry will just be relieved to move beyond the campaign season. An investment manager leader said, "I think the election is probably putting an extra pall of uncertainty on things and getting that in the rearview mirror will probably help a little bit."

By the time you read this, the election outcome may well have already been decided—or not, if history repeats and the election is contested. There is even a non-zero risk that the nation will not agree on the election outcome before the next president is scheduled to be inaugurated on January 20, 2025.

Property Type Outlook

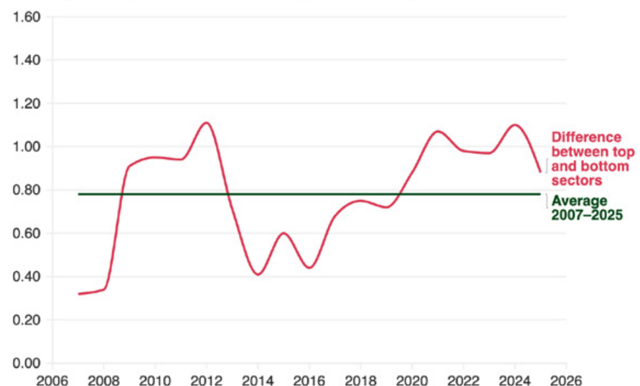
“Our firm is more optimistic but cautious, focusing on stability postpandemic. Still, the rise in niche property type demand and growth highlights the market’s dynamic nature.”

Industry leaders are more confident than a year ago, though they remain watchful for the right time for the right asset. Key to laying the groundwork for the next few years is the clarity that property markets are no longer undergoing the sudden shifts in how tenants use space as we saw during and immediately after the pandemic. Investors are now shifting their attention to cyclical issues, such as the recent excess in supply, and adapting to the developing tastes, needs, and strategies of consumers and tenants.

One exception to cyclical changes is the rise of data center demand, due to the massive expansion of artificial intelligence throughout almost every facet of our economy. Other niche and alternative property types are experiencing strong growth, as well, although not in the same explosive manner.

The property type ratings reported in this year’s *Emerging Trends* survey illustrate how cyclical issues, the robustness of long-term demand, and the growing importance of data centers, along with other specialized or alternative property sectors, are influencing the market. On one hand, the average rating of core property types—industrial, single-family, multifamily, hotels, retail, and office—in *Emerging Trends* 2025 is up just 1.5 percent over last year’s average although it exceeds the average rating in the *Emerging Trends* survey completed in 2019, just before the pandemic, by almost 4 percent, while the gap between the highest- and lowest-rated core sectors is narrowing very slightly, back on par with the gap in that prepandemic survey.

Rating Spread between the Top and Bottom Property Sectors



Source: *Emerging Trends in Real Estate* surveys; compiled by Nelson Economics and ULI.
Note: Based on "Investment Prospects." Includes industrial/distribution, multifamily housing, hotels, office, and retail for all years, plus single-family housing from 2016 onward.

What has changed in the individual core sectors? The industrial sector is the highest-rated core property type in this year’s survey, with a slightly stronger rating than last year’s; still, this year’s score is slightly lower than its pandemic peak. Both single-family and multifamily housing sectors remain strong, but ratings are slightly below last year’s, and they now come in at second and third place, respectively. Collectively, these slight movements reflect the interplay of the industry’s focus on the longer-term strength of demand, nearer-term anticipated movement in interest rates, current oversupply in some sectors, and the understanding of tenants’ and consumers’ needs and interests.

Investment Prospects for Major Commercial Property Types, 2020–2025

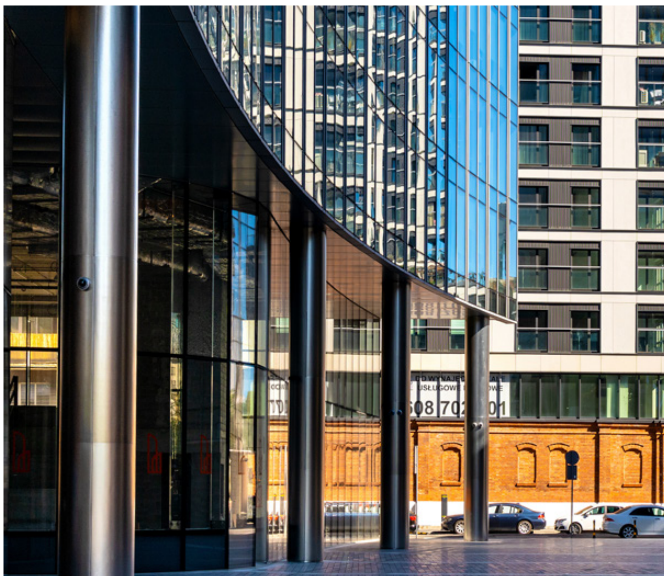
Source: *Emerging Trends in Real Estate.*
Note: Based on U.S. respondents only.

Development Prospects for Major Commercial Property Types, 2020–2025

Source: *Emerging Trends in Real Estate* surveys.
Note: Based on U.S. respondents only.

Development Prospects for Major Commercial Property Types, 2020–2025

Source: *Emerging Trends in Real Estate* surveys.
Note: Based on U.S. respondents only.



Hotels and retail, on the other hand, although rated fourth and fifth of the core property types, respectively, showed stronger movement upward, with ratings this year at their highest since *Emerging Trends*' prepandemic year. Retail, unlike other core property types, has benefited from the lack of construction. And office, although the lowest-rated core property type, still provided a surprise as the most improved in scores of all core types this year, after declines in the last few years.

Still, it is among the noncore subsectors that we see even stronger movement in ratings. While the highest-rated core sector is industrial investment prospects, data centers are rated the highest among the alternative, niche, and other subsectors, with a score 13 percent above that of industrial. Additionally, this year's data center rating shows a 5 percent improvement over its top rating in last year's survey.

Further, three other noncore subsectors are rated slightly higher than the industrial core sector—senior housing, neighborhood and community shopping centers, and manufacturing—and ratings of warehouse, flex, and fulfillment subsectors are about the same as the overall core industrial sector, suggesting the broad strength of that sector.

Interestingly, the life sciences subsector, included in the *Emerging Trends* survey starting only three years ago, was initially rated higher than this year's industrial core rating. Sentiment results for life sciences have since declined by 11 percent, although a further look ahead at the dynamics in this sector suggest growth is on the horizon.

With these observations, we spotlight five significant property trends in this chapter, in addition to discussing the broader landscape of core proper ty types and alternatives.

Trend 1
Industrial Smart Growth: The Next Stage of Tactical Network Optimization

Trend 2
Data Centers: Navigating Power Constraints and Skyrocketing Demand

Trend 3
Senior Housing: Building New Muscles

Trend 4
Retail Resilience: Weathering Every Storm

Trend 5
Innovating the Suburbs: Is Life Sciences' Growth Sustainable?

Property Trend #1

Industrial Smart Growth: The Next Stage of Tactical Network Optimization

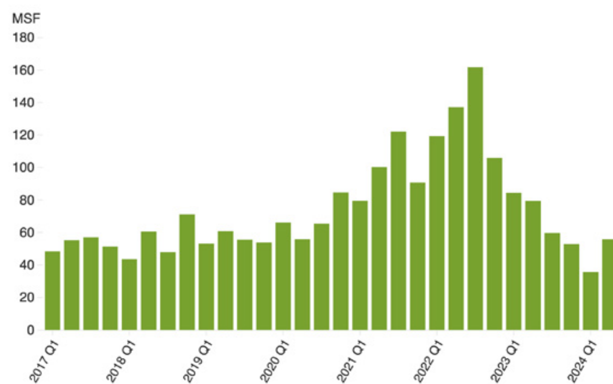
- Industrial real estate tenants are employing a new smart-growth strategy for the next phase of leasing, placing greater emphasis on asset selection for warehouse space when considering future expansions.
- Infrastructure requirements for logistics real estate have expanded to include high power availability, automation capabilities, and sustainable building features.
- Supply network diversification, including through nearshoring and onshoring of operations, has become a key driver of location selection for industrial users.

Logistics real estate is entering a new phase of growth after years of volatility, one focused on smart-growth decision-making to optimize supply chains, circumvent disruption, and stand the test of time. During the pandemic, companies aggressively expanded their footprints to meet soaring consumer demand. The past two years have seen a reversal, with leasing activity slowing as the market saw an influx of high-quality supply. In 2025, the new phase will merge elements of both periods: more high-quality options for customers pursuing a strategic, deliberate approach to growth that will shape the future of the supply chain.

In 2023 and 2024, companies delayed decision-making on expansion plans amid high economic uncertainty and cost challenges. As a result, new demand is expected to return in 2025 with the added layer of supply chain optimization guiding growth strategies.

Companies are increasingly involving more stakeholders in their decision-making and reevaluating business models with a closer eye. C-suite executives and supply chain consultants have become more involved with day-to-day leasing, leading to extended deal-making timelines. According to an industrial real estate leasing expert, activity will be picking up into 2025 but not as sharply as originally expected. Instead, industrial market users will continue to adopt tactical approaches to their supply network reorganization and work toward optimizing costs

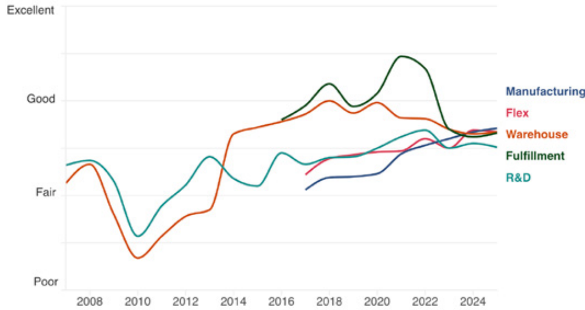
U.S. Industrial Development Starts

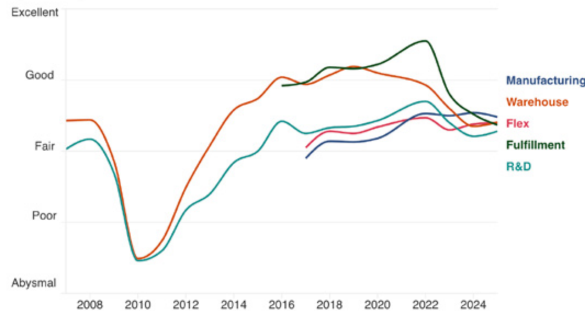


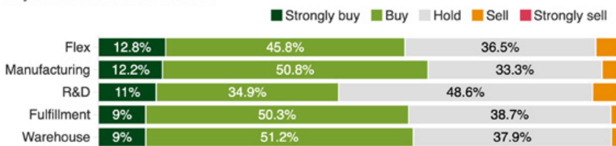
Source: Prologis Research.

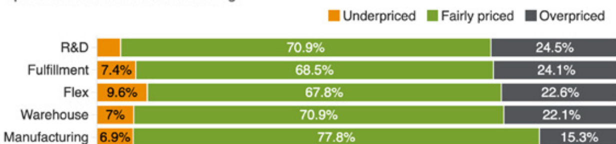
through the uncertain economic landscape. The result is a deliberate and tactical approach to leasing to best increase revenues, optimize expenditures, and maximize the company's resources.

In the first half of 2024, the United States recorded around 80 million square feet of net absorption, a 37 percent decline from the same period in 2023. Meanwhile, according to CBRE, leasing activity nationwide—a leading indicator of net absorption—grew 5 percent during the same period. This pickup of deal making is partially a response to rental rate declines in most markets that optimize opportunities for industrial tenants.









The industrial development cycle tells another story, one of a rebalancing to match this new demand trajectory. New construction starts continued to fall in 2024, with speculative development starts decreasing by 43 percent in the first half of the year compared to the same period in 2023. Additionally, a further decline of 20 percent for the entirety of 2025 is projected when compared to the peak ground-breaking volume of 2023. New supply availability is expected to rebalance in 2025 as developers adopt a more disciplined approach to development. When the expected increase in leasing activity comes into play next year, industrial users will have a broad range of high-quality, modern facilities to choose from—mainly in the expanding Sunbelt region—as smart-growth strategies continue to expand.

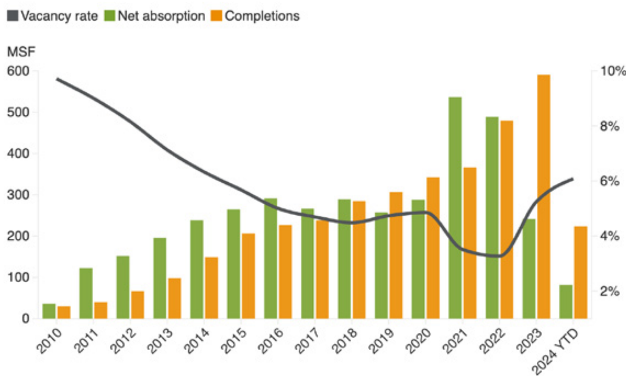
Supply Chain Diversification to Drive Decision-making in 2025

As trade relationships continue to evolve globally, expansions of real estate footprints, to mitigate risks and move goods closer to the end consumer, will continue. This trend is apparent in developments of manufacturing facilities in markets like Mexico and India to reduce reliance on a single point of origin for inventory. In 2023, Mexico saw a 27 percent increase in foreign direct investment, and demand in Mexican border markets remains approximately double prepandemic levels. This rapid acceleration is driven by continued nearshoring and onshoring manufacturing growth. In 2025, efforts to optimize supply chains will emphasize increased diversification. Chinese manufacturers continue to move operations into Mexico as border markets in both the United States and Mexico have seen a surge in demand. However, the pace of onshoring back to the United States has been slower than anticipated, as challenges related to land availability and operational cost challenges have risen in the United States.

Access to Quality Long-term Infrastructure to Drive Leasing Behavior in Next Phase

Industrial tenants are not only looking for high-quality modern assets to meet their supply chain needs. As they grapple with heightened capital constraints, they are also focusing on optimizing operating margins, capital outlay, and resource needs. Access to power and water has emerged as a key consideration in leasing needs as occupiers employ more energy-intensive features, including automation, electric vehicle capabilities, and industry-based needs for advanced

U.S. Industrial Market Fundamentals



Source: CBRE, Cushman & Wakefield, JLL, Colliers, Prologis
Note: YTD 2024 figure is through June 2024.

manufacturing facilities and data centers. An expert in industrial customer preferences noted that power availability is the second-most crucial element in leasing decisions, right after location. In some places, such as California, Phoenix, and Nevada, power is already a barrier to move-ins as users grapple with long wait times with utilities and a lack of adequate power to conduct operations. As temperatures rise in high-demand markets in the southern United States, high power temperature control and technologically advanced facilities continue to increase the power needed to fuel modern logistics facilities. Battery and solar capabilities have continued to gain traction in key logistics markets that experience brownouts on a more frequent basis.

Luckily for most tenants, the massive influx of supply over the past year means that those looking for modern building features have more high-quality options. The demand has largely moved from built-to-suit properties to existing inventories due to the ready availability of speculative products, though certain tenants with distinct power requirements and specific supply chain needs continue to prioritize custom buildouts. Built-to-suit absorption is forecast to fall 50 percent in the first half of 2025 as existing high-quality inventory will satisfy current demand.

A Major Differentiator for Industrial Users: Technology

Industrial owners, investors, and operators investing in technology and automation are at the forefront of using modern technology to improve the efficiency and performance of supply chain operations. Conventional AI is extensively employed across different sectors, especially for customer support automation. For internal warehouse operations, adopters focus on optimizing pick stations and throughput rates, capitalizing on existing labor, and helping increase efficient operations. An industrial real estate specialist indicated that the staffing needs for warehouses have surged significantly in the past decade, especially within e-commerce operations. Companies are now adopting quick-fix solutions—such as automated warehouse robots to transport goods throughout the facility—which have proven highly beneficial for both e-commerce activities and extensive warehouse spaces.

Supply chain visualization technology has also continued to gain traction, with companies turning predictive models into practical solutions for inventory management and accuracy. This strategy has helped companies better understand where inventory is headed, where it comes from, and how best to utilize their network. Supply chain analysts are constantly monitoring these predictive models relying on this high-quality data. As companies make greater use of these technologies, data integrity is the most crucial factor in accurate modeling and the decision-making associated with those predictions. Optimized warehouse and network design have become crucial, especially for larger, well-funded companies. These businesses now need advanced solutions to manage extensive inventories and complex supply chains and to optimize their financial overheads.

Importance of Sustainability to Future Supply Chain and Long-term Strategy

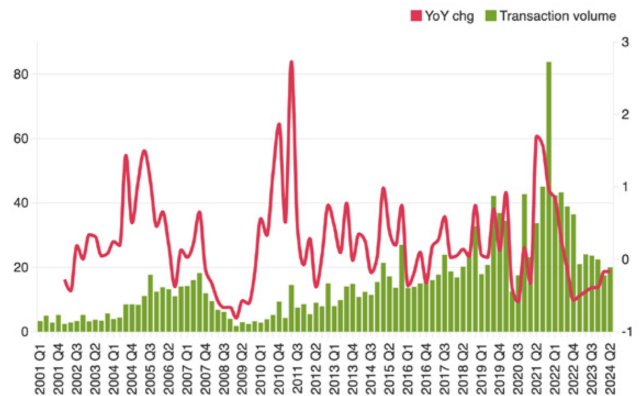
Industrial users are currently developing sustainability measures with a long-term perspective, assessing strategies that will unfold over several decades. Environmental initiatives, including net zero goals and regulatory measures from local and state governments have continued to drive the timeline on adoption of sustainability goals. An estimated 40 percent of industrial users have adopted net zero goals as of 2024, compared to less than 10 percent in 2019. Companies are recognizing that with a 10-to-15-year industrial lease, environmental policies need to be implemented soon to meet these sustainability goals. Not all industrial users are able to adopt these measures in the current market environment; but the value of long-term investments—for example, in environmental, social, and governance (ESG) initiatives—is quickly outweighing the short-term cash-flow challenges.

Industrial Investment Improving alongside Pricing Clarity

Deal volumes have stabilized in the industrial sector, albeit with fluctuations, as investors come to terms with the new cost of capital. According to a capital market expert, the number of industrial deals has remained relatively stable, showing improvement when compared to the decline observed in the previous year. In second quarter 2024, high-value areas with recently sluggish demand (such as Los Angeles) experienced the greatest percentage declines in transaction volumes. In contrast, areas with strong market dynamics (like Dallas) witnessed the strongest increases in transaction volumes.

Transaction volumes have remained consistent with prepandemic levels, indicating that a new normal has been established within the sector. Cross-border investors remain active, favoring portfolio and entity deals. Investors continue to view industrial real estate as a stable long-term asset class due to stronger prospects of income growth compared with other real estate asset types, higher operating margins, and low capital expenditure requirements.

Industrial Deal Volume



Source: Real Capital Analytics.

Conclusion

As logistics real estate operators grapple with economic uncertainty, rising interest rates, and shifting global trade dynamics, smart-growth strategies are the story of the next phase of the industrial real estate cycle. This next stage will be shaped by the future of supply chains, with a focus on strategic growth, technological advancements, and sustainability initiatives.

Property Trend #2

Data Centers: Navigating Power Constraints and Skyrocketing Demand

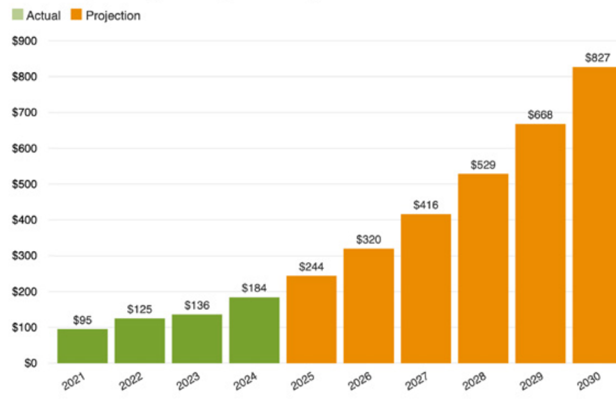
Data centers are a relatively new major property type with ties to both infrastructure and net-lease, and they are on a path to be one of the largest property types in the country over the next 10 years. Demand is being fueled by numerous drivers, including cloud storage, mobile data traffic, overall internet traffic, and artificial intelligence (AI), among other new and growing uses (e.g., autonomous vehicles). The surge in AI is notably driving a significant increase in the need for data centers and computing capacity.

While demand for data centers is skyrocketing, new supply is facing severe constraints mainly due to limits on electric power transmission capabilities. The mismatch between constrained supply and strong demand, which is likely to persist for the next five years or more, has resulted in virtually no vacant space in the major data center markets, rapidly rising rents, and super-charged profits for developers that can secure access to guaranteed power sources.

There are certainly downsides to the rapid expansion of data centers. The pressing need for electricity is causing utilities to prolong the use of coal and other carbon-intense power plants. New transmission lines are needed in many cases, with public opposition a risk. Data center equipment needs to be constantly cooled, often with water that is increasingly scarce in many parts of the country. They tend to be noisy and visually unappealing, making them unsuitable as neighbors. Data center operators hope to re-open decommissioned nuclear power plants to secure long-term power, raising concerns about safety and spent fuel disposal. Further, certain counties with high concentrations of data centers (e.g., Loudoun County, Virginia) have begun to discuss legislation that would make new development more difficult, potentially even doing away with any by-right development of land into data centers and requiring discretionary approval.

All in all, the strong business case for data usage (AI is forecast to annually generate hundreds of billions in revenue) and the potential societal gains (e.g., greater productivity, lower fatalities due to autonomous vehicles) mean that

Global Spending on AI ($ billions)



Source: Statista 2024

data centers will likely continue to expand as fast as power sources can be procured for the next five to 10 years.

Data Center Typology

There are three primary types of data centers:

- **Enterprise** facilities are wholly built, maintained, operated, and managed by companies for the optimal operation of their own information technology equipment.

- **Cloud or hyper-scale** facilities are built to accommodate the scalable applications revolving around the cloud, big data, or distributed storage. They are typically single-tenant facilities and/or campuses. Increasingly large, hyper-scale tenants are using these facilities for AI purposes (e.g., large language model training, inferencing).

- **Multitenant/colocation/network-dense** facilities are built to accommodate multiple companies that lease space within the data center. Network-dense facilities allow users to interconnect to many different network service providers, enhancing the interconnectivity of the user to other facilities within a market and outside that market.

A very limited well-known group of hyper-scale tenants make up the bulk of current demand and are projecting continued and expanded capital spending. Unlike other real estate sectors, data center revenue is usually linked to power capacity (kilowatts per month) rather than the size of the building.

Top Markets

Data centers have historically clustered in areas with good connectivity to fiber and near major population centers. Northern Virginia is the leading global data center market mainly because it was one of the earliest locations of the internet ecosystem, having proximity to government and military-focused users, deep fiber optic connectivity, a relative availability of land, and a low risk of natural disasters. Today, approximately 70 percent of world internet traffic passes through data centers in the Northern Virginia region. The figure outlines the primary reasons for the extremely low vacancy rates and very limited supply pipeline, particularly in the largest markets. The primary markets vary in terms of their relative attractiveness. The key qualities of an attractive data center market include the following:

- Fiber connectivity
- Proximity to a major population base
- Government support, such as tax incentives
- Power availability and cost
- Low risk of disaster or disruption
- Low land costs

Largest U.S. Data Center Markets

Primary Market	Inventory (megawatts)	Vacancy Rate (%)	Change in Year-over-Year Vacancy Rate (basis points)	Under Construction (megawatts)	Under Construction (% of stock)	Favorable Attributes*
Northern Virginia	4,607.3	0.6	-28	90.0	2.0	F,D,G
Atlanta	1,913.9	0.7	-332	9.5	0.5	F,D,L,G
Phoenix	1,679.0	1.5	-119	10.0	0.6	F,D,L,G
Dallas/Ft. Worth	1,358.9	1.4	-202	24.1	1.8	F,D,L,G
Chicago	1,081.2	2.1	-295	52.0	4.8	F,D,G
Silicon Valley	781.5	4.7	25	38.2	4.9	F
Portland	555.7	0.5	-179	24.0	4.3	F,D,L,G
Other**	1,256.0	2.7	-151	121.1	9.6	
Total	13,233.5	1.4	-138	368.9	2.8	

***F = Fiber, D = Low Disaster, L = Land Costs, G = Government**
** New York, Salt Lake, Quincy, Washington, San Antonio, and Columbus

Source: datacenterhawk.com (as of second quarter 2024).

Risks

In addition to the specialized skills needed to develop and operate data centers, additional risks include the following:

- **Obsolescence** due to advancements in technology is always a possibility. For example, one interviewee suggested that "there is a 25 percent chance of commercially viable and disruptive quantum computing breakthroughs in the next decade."

- **Economies of scale** could reach a level such that hyper-scalers find it more cost effective to own their own facilities. The current risk is tenant concentration.

- **Capital expenditures** can be quite high depending on the level of services provided, although most such expenses are the responsibility of the tenant. Overall the burden of capital expenditures for this property type is generally less than that of other types.

- **Electric Power** for new developments will be constrained for the foreseeable future. Northern Virginia and Silicon Valley are two of the most constrained, but many other top tier markets are experiencing power constraints that are leading to wait times of five or more years.

- **Environmental impacts** such as greenhouse gas emissions and water usage will grow rapidly as the sector expands. The industry is exploring clean energy (including nuclear), fuel cell storage, and recycling

data center equipment, but greater local restrictions are possible.

- **Small markets** will come into play as data centers increasingly locate near large power sources- some of which are outside of major population centers. For example, a large software firm has signed an agreement to purchase 835 megawatts (MW) of power for 20 years at the to-be-reopened Three Mile Island nuclear power plant, to meet its carbon-free energy goals at its nearby data centers. The power plant is in Harrisburg, Pennsylvania, a metro area with 570,000 people. Other small markets are similarly being explored due to the availability of power.

Capital Markets

The capital requirements for future data centers are likely to be immense. Moody's estimates that global data center capacity will double over the next five years. Considering the addition of 15 MW of new capacity at a rate of $12.5 million per MW, the cost of this growth will amount to $188 billion, while their market value is estimated at approximately $281 billion, both in present-day dollars. By comparison, the two publicly traded data center REITs have a total estimated value of $190 billion, as of early October 2024.

Fortunately, institutional investors have expressed great interest in data centers. CBRE reports that 97 percent of investors plan to allocate more funding to data centers in 2024. REITs will continue to be a major source of capital, particularly with institutional investors as capital partners. Data centers also work well for private investors: Development is highly profitable compared to other forms of real estate and long leases with credit tenants support high loan to value ratios.

In summary, data centers are currently highly profitable for both tenants and developers/owners. Power procurement difficulties will keep supply below demand for the near- to mid-term, ensuring that sites with power access will lease up quickly at high rates. Of course, if supply constraints were to materially ease, new construction would spike and rental rates and returns would likely decline. The outcome is not likely anytime soon.

—RCLCO

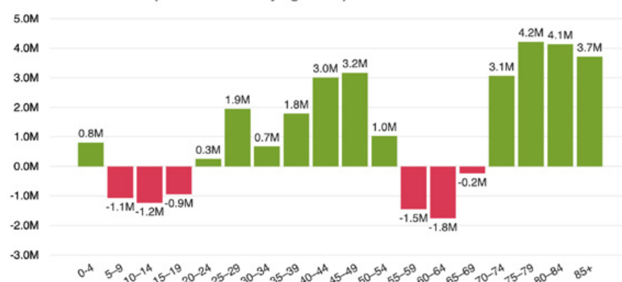
Senior Housing: Building New Muscles

The historical playbook for senior housing has achieved a great deal for the sector and should not be tossed aside. However, much can be gained from a fresh lens on the future. As developers wait for the capital environment to free up greater access to affordable capital, planning in this space should be bold and innovative. Here is an opportunity to truly understand the customer needs and preferences and position the industry for success in the decades to come.

Beginning in 2023, the population growth of those age 80 and older has outpaced the level of inventory growth in the sector. This supply-demand tension sets up an environment ripe for innovation and strategic positioning for the next chapter of senior housing development. As developers, capital partners, and operators plan for the growing wave of baby boomers, the tailwinds are strong and their near-term impact on demand fundamentals in the senior housing and health care sectors is significant. The U.S. baby boom population makes up roughly 20 percent of the country's population and is projected to grow by another 4.5 million individuals between 2024 and 2030. And baby boomers hold an estimated 52 percent of the country's net wealth, amounting to about $75 trillion. Despite these demographic and demand-related trends, the sector is experiencing significantly reduced development activity, largely driven by the constrained debt capital environment.

Over the next decade, the US population aged 25–54 will grow by 12 million, while age 70+ population will increase 15 million. A growing and aging population expands and shifts migration patterns, consumer spending, and healthcare needs.

2023–2033P US Net Population Growth by Age Group



Sources: US Census Bureau, John Burns Research and Consulting, LLC (Data: May-24, Pub: Jun-24). As seen in *Burns US Demographics Insights and Strategies.*

This period of subdued development activity is the ideal time to think about what successful senior housing projects can look like in the years ahead. The future cannot be a carbon copy of the past. Although scaling up successful existing models remains a viable option, the current environment presents opportunities to develop senior housing that better aligns with consumer preferences and capitalizes on real estate market trends. Investors are focusing on areas that are ripe for innovation and have potential to bring forth meaningful offerings for the sizeable baby boom cohort that is on the doorstep.

Positioning for the Middle-Market Older Adult

While the baby boom population as a whole controls significant wealth, a pronounced middle-income group has fewer senior housing and health care options available to them. By 2033, these middle-income seniors will make up a projected 44 percent of all older adult U.S. households.

Compared with private-pay senior housing overall, middle-market senior housing communities generally require a different mindset for all stakeholders involved. To successfully execute these projects, architects, developers, capital partners, and operators need to collaborate creatively to ensure the model is financially viable and aligns with a price point of the middle-income cohort. Some older properties—perhaps even distressed properties—acquired at a lower cost basis can be repositioned as a middle-market asset. With nearly half of senior housing properties now 25 years old or older, the current inventory presents an opportunity to revamp.

Meanwhile, new ground-up development projects need to demonstrate a high degree of discipline in managing construction costs and executing operating models that align with middle-market price points. These projects require creative capital structures and capital partners who are committed to this segment of senior housing. Additionally, middle-market senior housing may attract newer capital partners to the sector.

Considering Additional Emerging Models

The diversity within the aging population requires the industry to deliver on a range of housing options for older adults, building on its successes and pivoting as needed to support emerging models. The active adult rental market is growing and garnering interest from developers, investors, and operators. An additional 2.2 million adults age 65 and older are expected to enter the rental market over the next decade. Developers in the active adult segment are seizing on this demographic and offering a lifestyle-focused option at a price point roughly 40 percent lower than an average independent living rental rate, bridging the gap between conventional multifamily apartments and traditional senior living. Some active adult developers target middle-market older adults, while others offer higher-apportioned amenities and finishes at higher price points.

Niche-communities are increasing their offerings as well. These include Storyliving by Disney, Margaritaville, housing for LGBTQ older adults, communities with an ethnic or cultural focus or inspiration, and university-based communities. While fewer in number, other models—such as intergenerational senior housing communities, innovative memory care housing, and condo-like senior housing ownership models—exist as additional options for today's and tomorrow's seniors. Given the demographic demand, all of the above will be needed to match the diverse needs of the seniors of tomorrow.

Repurposing Existing Retail Real Estate

Some projects already underway, or in concept development, have real traction within the senior housing sector. While office-to-senior-housing conversions have not gained significant traction, meaningful movement has begun in repurposing underutilized or vacant retail space. These projects highlight a growing trend of redeveloping retail spaces into mixed-used developments that include age-restricted housing, addressing both the demand for senior living options and the need to revitalize vacant mall properties. These projects also have the potential to align well with the expectations of baby boomers and provide integrated access to amenities and services as part of an overall redevelopment plan. Each redevelopment has a unique history and future potential, allowing for creative and innovative uses moving forward. The following projects are either in development or currently open:

- **Sophia at Fox Valley and Sophia at Hawthorn Mall (IL)**. These two mall redevelopment projects will have 166 and 216 units, respectively, of independent living, assisted living, and memory care.
- **Skyview Park (NY)**. Redevelopment of the Irondequoit Mall property provides affordable housing for seniors.
- **Aljoya Thornton Place (WA)**. This project, with 143 independent living and assisted living residences, is located on the site of a former mall's satellite parking lot.
- **Folkestone at the Promenade (MN)**. This conversion of aging retail mall into a mixed-use development integrates senior housing. It offers independent living, assisted living, memory care, and long-term care apartments.

These projects provide alternatives for seniors while making smart use of available land and areas ripe for redevelopment.

—National Investment Center for Seniors Housing & Care

Property Trend #4

Retail Remains Strong Despite Challenges Retail Resilience: Weathering Every Storm

- Despite an uptick in bankruptcies, retail leasing remains strong buoyed by non-merchant categories.
- Vacancy levels are at, or near, 20-year lows across most U.S. markets after three consecutive years of resurgent demand and little new development. While rents are climbing, the post-pandemic spike in construction costs has meant that few new developments have moved forward.
- Though contraction in the drug store industry will close thousands of stores over the next couple of years, many expect this to become a major redevelopment opportunity.

Few in the market foresaw the rebound in demand for physical retail space that has occurred in the few years following the shock of the 2020 pandemic year. Virtually none anticipated the strength of that rebound, which has driven retail vacancy rates below levels not seen in more than a decade.

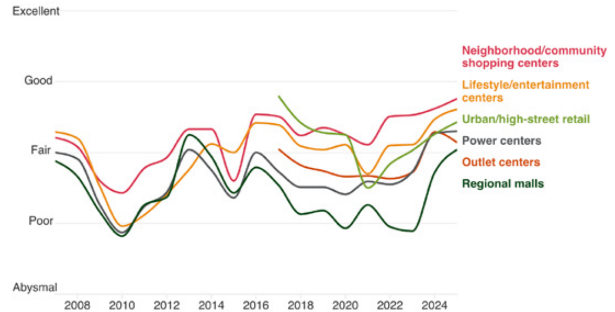
Retail leasing remained robust in 2024. While the higher cost of capital has chilled investment activity across all commercial real estate property types, open-air shopping centers (specifically grocery-anchored community/neighborhood and power centers) have been the most active sector. This level of activity can be partially attributed to strong underlying fundamentals. In addition, retail investments didn't experience the same run-up in pricing and cap rate compression as other property types. Thus, for the last couple of years, retail real estate offered investors less volatility in potential returns than other core sectors.

Inflection Point or Return of the Retail Apocalypse?

Despite that rosy scenario, in 2023, following two years with almost no major retailer bankruptcies, the market experienced two of the largest chain store collapses in decades. As a result, nearly 40 million square feet of space returned to the market.

Retail

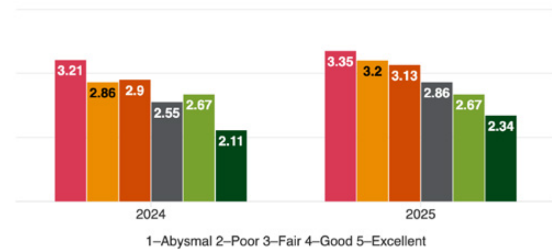
Investment Prospect Trends



Source: *Emerging Trends in Real Estate* surveys.

Retail

Development Prospect Trends



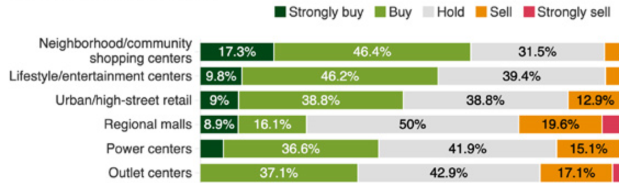
Source: *Emerging Trends in Real Estate* surveys.

This trend intensified heading into 2024. The number of distressed chains either liquidating or seeking debtor protection increased more than 50 percent in the past year. Coresight Research, a firm that tracks chain stores, reports that for the first time since 2020, traditional retailers are closing more stores than they are planning to open, though this difference is minimal.

Thus, while retail sales have remained in positive territory since 2020, the impacts of the recent inflationary wave and resultant money tightening policies have taken a toll. August retail sales were up 2.1 percent year-over-year, but monthly gains increased only 0.1 percent and were in negative territory in four of the previous 12 months.

Retail

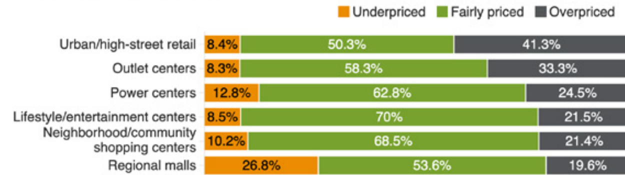
Buy/Hold/Sell Recommendations



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on U.S. respondents only.

Retail

Opinion of Current Retail Pricing



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on U.S. respondents only.

Meanwhile, American consumers now owe a record $1.1 trillion on their credit cards, 45 percent more than they did in early 2021. Additionally, the average interest rate on that debt now stands at 24.5 percent, compared to 16.7 percent in 2021.

All these data points would seem to suggest that retail is at an inflection point heading into 2025. Or is it?

Too Little Space, Not Enough Quality

Although retail merchants may be closing more units than they are opening in 2024, overall occupancy growth trends remain in strongly positive territory. According to data from the CoStar Group, as of second quarter 2024, retail vacancy levels in 57 of the top 65 U.S. retail markets were at 15-year lows. As the head of one major U.S. retail brokerage said, "Most of the retail bankruptcies we have seen in 2024 have such active interest from expanding concepts that it has not been a major concern. For the most part, landlords are backfilling space quickly at today's higher lease rates. If we are talking about spaces of less than 10,000 square feet or in the 20,000- to 35,000-square-foot range, there is a deep pool of active growth tenants."

The lead analyst for a major REIT explained, "For the most part, the recent wave of closures has been a return to more normalized patterns of winners and losers in the retail space and [is] not indicative of either cyclical or structural challenges. The only exception to this would be in the drug store category."

In interviews with market participants, the greatest concerns they expressed were the lack of available quality space in the market and the cost challenges that limit new development. Bankruptcies, consolidations, and the impact of eCommerce on demand—topics that had previously dominated the concerns of past *Emerging Trends* interviewees were noticeably absent in this round.

Their views may seem to contradict the headlines, but they point to some of the major trends we expect to dominate the landscape in 2024 and beyond.

New Growth Stories

Off-price apparel, grocery stores, fitness clubs, and discount store concepts all continue to actively lease second generation junior box space. Small shop leasing is now dominated by restaurant, service, and nontraditional players:

The restaurant sector remains in aggressive expansion mode, with fast food and new fast casual concepts leading the way. While coffee, chicken, and dessert drink (boba) concepts are still putting up the strongest growth numbers in the quick service restaurant (QSR) category, evolving consumer tastes are driving an explosion of new culinary concepts inspired by cuisines from across the globe. According to the Brown Book Guide to Retail and Restaurant Tenants, more than 2,000 QSR concepts are in active growth mode in the United States, with plans to open nearly 11,000 units in 2024.

This growth trend includes casual dining concepts—a category of restaurants that has largely struggled in recent years. Despite recent bankruptcies from legacy chains, a new wave of casual dining concepts is largely backfilling vacancies left by decades-old concepts that have struggled to stay relevant among shifting millennial and gen-Z consumer tastes. As one hospitality expert said, "From Korean BBQs to chef-inspired or craft-brew focused concepts, we are seeing a changing of the guard in the casual dining space with many legacy brands struggling to remain relevant." Restaurant openings among casual dining concepts are now outpacing closures by a rate of two to one.

Experiential concepts and medical spas (often called "medispas"), categories that largely didn't exist a decade ago (at least not in their current form), are also seeing

some of the most aggressive expansion. Entertainment concepts, ranging from arcades to miniature golf, have been around for decades. Now the market is benefiting from an unprecedented burst of new experience-focused concepts in growth mode. As one broker put it, "There are more than 50 pickleball concepts alone actively expanding in the U.S. Most of these chains are taking large blocks of space with some backfilling vacant mall anchor spots."

Planned growth from experiential concepts (which include everything from competitive socializing to "eater-tainment," amusement chains, and interactive art installations) could drive as much as 15 million square feet of occupancy growth through the end of 2025. While this story has been positive in terms of occupancy growth so far, it is not without some concern. As one institutional landlord shared, "These concepts open to a lot of fanfare and consumer interest, but the jury is out as to how long some can maintain momentum and relevancy, especially if their locations don't benefit from strong tourism trade."

Meanwhile, the market is seeing a surge in quasi-medical users. Since 2018, aesthetics-focused medispas (where treatments can range from traditional spa beauty care to Botox, cryotherapy, and other cutting-edge procedures) have doubled in the United States. Nearly 10,000 are now in operation, and this emerging sector added an average of 1,500 new locations each of the past two years. As the chief executive of a major REIT active with open-air shopping centers said, "We always had dental and optical users at our centers, but high-end medispas are among the new emerging categories of retail we think most exciting."

Medispas are hardly alone in driving quasi-medical demand for retail space. As the research director of one major investment firm noted, "We have seen both urgent care and veterinary care concepts triple in demand in recent years as both industries have increasingly seen private equity investment for expansion."

Headwinds to Development

One of the reasons the demand pendulum has swung so wildly back in favor of landlords in recent years has been that retail development still simply does not pencil in most parts of the country. By the close of 2024, roughly 50 million square feet of new shopping center product

will have been added in the United States, up slightly from the 35 million square feet of space delivered in 2023. But keep in mind that between 2008 and 2020, the market averaged 61 million square feet of new product annually and more than double that from 1998 through 2007. As the owner of a boutique brokerage and development firm said, "Construction costs are still 30 percent to 40 percent above prepandemic levels. Even in the strongest population growth markets, it is still incredibly difficult to get projects to pencil."

When market participants were asked about the greatest challenges ahead, they ranked the risk of political instability highest this year (not surprising, given the contentiousness of the U.S. political landscape). Continued challenges in new development were the second greatest concern cited. "With the Federal Reserve beginning a cycle of cutting interest rates, we think an improved lending environment will be helpful both to investment activity and in improving access to construction loans," one developer said. "But we also think the improvement in 2025 is likely to be modest."

Drugstores: The Challenge and the Opportunity

One concern that was raised multiple times in our interviews was the challenges faced by the drug store sector. These challenges include bankruptcies, store closures, and the large opioid lawsuit settlements, but the greatest challenge is a structural one. "The movement of more health care companies and insurers to directly market prescriptions to their patients is a major challenge to the traditional model," one analyst told us. "Drug stores had been spared most e-commerce disruption, but this trend is not going away."

Yet, the challenges of the drug store sector may become an emerging opportunity in 2025. One broker noted, "These are not going to be easy buildings to backfill. The modern drug store model is between 15,000 square feet and 18,000 square feet with drive-thru windows. There is strong demand for space below and just above those sizes and these buildings won't be easily demised for smaller tenants." But a developer interpreted the situation differently: "Redeveloping drug store pads will be one of the biggest opportunities of the next few years and what will likely be the biggest emerging trend in retail development of 2025."

Property Trend #5

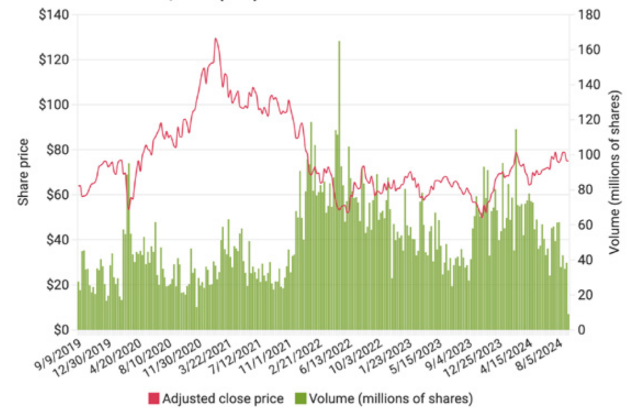
Innovating the Suburbs: Is Life Science Growth Sustainable

The bio medical industry, the source of demand for life science real estate, is a multifaceted growth story across the United States, experiencing tremendous growth as new scientific discoveries lead to new medicines and therapeutics. While off all-time highs set during the COVID-19 pandemic and with lackluster performance during 2022 and 2023, publicly traded biotechnology companies are once again on a growth trajectory. Growth on the real estate side has occurred in the core life science markets of Boston, San Diego, and San Francisco, as well as within new emerging markets and the suburban areas of the core markets. This growth has negatively affected occupancy rates in many markets due to elevated levels of supply growth. But despite a continuing supply/demand imbalance in several markets, there are pockets within core markets and many expansion markets with strong supply/demand fundamentals.

Tenant Demand Is Strong

Investors in life science real estate pay close attention to overall life science and biotech industry trends. Metrics—such as venture capital invested into biotech companies, National Institutes of Health funding statistics, and employment indicators—are closely watched as they are all proxies for growth in tenant demand. One such indicator is the exchange-traded fund (ETF) SPDR S&P Biotech ETF (XBI), which focuses on biotech firms and a few pharmaceutical firms. XBI is one of the largest biotech-focused ETFs, with more than 130 companies in its portfolio. It established a high in February 2021 at $165 per share during the pandemic response period. It has since declined, trending between $65 and $90 per share during 2022 and 2023. In 2024, the fund has shown signs of growth and was over $100 per share in August.

SPDR S&P Biotech, ETF (XBI)

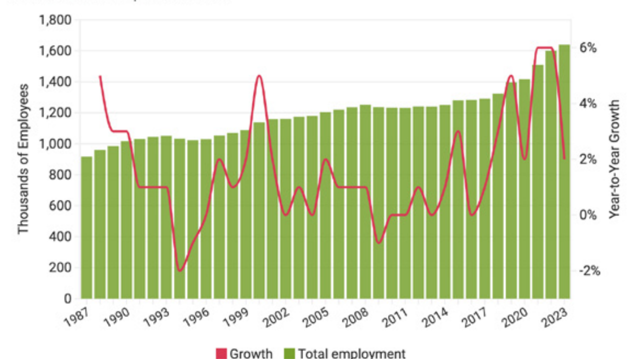


Sources: S&P, NASDAQ.

Another indicator of tenant demand is employment within the life sciences sector. The Bureau of Labor Statistics (BLS) publishes industry employment trends including three that represent employment within life science buildings. BLS tracks the number of employees employed within medical equipment and supplies manufacturing,

U.S. Employment, Life Sciences Sector

Medical Equipment and Supplies Manufacturing, Pharmaceutical and Medicine Manufacturing, Scientific and Development Services



Source: BLS.gov.

U.S. Life Sciences Real Estate Trends, by Quarter, in Millions of Sq. Ft.

	Open (million sq. ft.)	Occupancy rate (%)	Absorption (million sq. ft.)	Completed (million sq. ft.)	In progress (million sq. ft.)
2Q22	346	95.2	1.8	3.7	51.7
3Q22	349	94.4	0.1	3	60.1
4Q22	354	94	3.2	5.1	65.5
1Q23	359	93.7	3.7	4.7	68.7
2Q23	365	93	2.8	5.7	70.2
3Q23	368	92.3	0.9	3.7	71.4
4Q23	374	91.5	2.3	5.9	69.3
1Q24	380	90.6	2	5.6	65.9
2Q24	387	89.9	3.4	6.8	61.2

Source: Revistalab.
Note: Includes investor-owned and owner-occupied buildings that are purpose built for research, development, and manufacturing of biotech and pharmaceutical medicines and therapeutics.

U.S. Life Sciences Real Estate Trends, Top Three Markets, by Quarter, in Millions of Sq. Ft.

	Open (million sq. ft.)	Occupancy rate (%)	Absorption (million sq. ft.)	Completed (million sq. ft.)	In progress (million sq. ft.)
2Q22	122	93.5	1.9	2.2	28.7
3Q22	123	92.7	0.3	1.4	33.3
4Q22	125	92.3	1.6	2.4	36.8
1Q23	128	92.1	2.3	2.4	37.7
2Q23	131	91	0.9	2.6	37.4
3Q23	133	90.1	0.8	2.1	36.7
4Q23	135	88.7	-0.4	1.9	36.8
1Q24	138	86.8	0.4	3	35
2Q24	141	85.8	1.1	2.9	32.4

Source: Revistalab.
Note: Includes investor-owned and owner-occupied buildings that are purpose built for research, development, and manufacturing of biotech and pharmaceutical medicines and therapeutics.

U.S. Life Sciences Real Estate Occupancy, Percent, by Age of Property

	2022 Q2	2024 Q2
>10 yrs	95.5%	90.3%
3–10 yrs	93.0%	90.9%
0–2 yrs	88.9%	80.5%

Source: Revistalab.
Note: Includes investor-owned and owner-occupied buildings that are purpose built for research, development, and manufacturing of biotech and pharmaceutical medicines and therapeutics.

pharmaceutical and medicine manufacturing, and scientific research and development services on an annual basis. The total number of employees within these industries grew 2 percent from 2022 to 2023. According to BLS, the number of employees in these categories has grown at a fast clip over the past five years despite the recent slowdown, averaging 4 percent per year.

U.S. Life Science Real Estate Growth and Pains

As a result of the growth in life sciences research, real estate investors and developers have targeted the sector over the past several years. This interest has spurred higher construction levels and and inventory growth, affecting industry fundamentals. As of the second quarter of 2024, the U.S. life science real estate sector comprises 387 million square feet of existing space, up 19 percent since the middle of 2020. The pipeline, as measured by construction square feet in progress, reached a high point of 71.4 million square feet in the third quarter of 2023. It has since fallen to 61.2 million square feet in the second quarter of 2024 but is still elevated compared to previous years.

This overall accelerated construction period has had an impact on industry fundamentals. As construction completions picked up, occupancy rates decreased across the United States. During the past two years, the industry resource, RevistaLab, has tracked over 44 million square feet of life science completions across the country. During this period, absorption (the change in occupied space) has been strong, at 20 million square feet, but below the level of completions. The occupancy rate has fallen from 95.2 percent in second quarter 2022 to 89.9 percent as of second quarter 2024.

Much of the industry has experienced these growing pains. Subleasing has risen over the past two years. which has affected new and existing properties. The real pains, however, have been concentrated in speculative newly built or under-construction properties. To illustrate, RevistaLab breaks down occupancy trends by the age of the properties. Properties that are 10+ and 3–10 years old have generally held up better than properties that are 0–2 years old. In second quarter 2022, properties 0–2 years old were 88.9 percent occcupied, on average across the United States. Two years later in second quarter 2024, properties 0–2 years old were 80.5 percent occupied, on average.

Core Market Performance

Within the core markets of Boston, San Diego, and San Francisco, these supply/demand trends have been more pronounced. These markets in aggregate have seen their occupancy rate fall from 93.5 percent in second quarter 2022 to 85.8 percent as of second quarter 2024. Completions are outpacing absorption in these markets. In second quarter 2024, absorption was 1.9 million square feet, compared to completions of 10 million square feet (trailing 12-month basis). There is still 32.4 million square feet of construction in progress in these markets, so occupancy pressures will continue as the pipeline works its way down. While much of the construction pipeline will open as life science and do quite well, some speculative construction properties are converting to general office

U.S. Life Sciences Real Estate Trends, Markets with 2+ Million Sq. Ft., Second Quarter 2024

	Open (million sq. ft.)	In progress (million sq. ft.)	Completed TTM sum (million sq. ft.)	Absorption YOY (million sq. ft.)	Occupancy rate, currently open (%)
Boston	63M	14.5M	5.8M	3.1M	88.7%
San Francisco-San Jose	49M	12.2M	2.9M	-1.1M	82.8%
New York	33M	2.7M	0.4M	0.3M	87.5%
San Diego	28M	5.6M	1.3M	0.0M	84.4%
Raleigh-Durham	21M	4.1M	1.5M	0.7M	89.7%
Philadelphia	19M	5.3M	0.7M	-0.1M	90.8%
D.C.-Baltimore	13M	1.8M	1.3M	0.7M	85.6%
Chicago	11M	1.0M	0.1M	0.4M	94.8%
Los Angeles	9M	0.2M	0.2M	0.0M	95.1%
Seattle	8M	0.8M	0.6M	0.3M	87.3%
Denver-Boulder	7M	0.3M	0.4M	0.2M	88.4%
Houston	5M	1.4M	0.7M	0.5M	85%
Minneapolis	4M	0.4M	0.1M	0.1M	98.4%
Worcester	4M	0.2M	0.4M	0.2M	95.6%
Charlotte	3M	0.3M	0.8M	0.8M	100%
New Haven	3M	0.0M	0.5M	0.5M	96.9%
Columbus	3M	0.2M	0.6M	0.6M	98.5%
St. Louis	3M	0.3M	0.7M	0.7M	96.1%
Salt Lake City	3M	0.0M	0.1M	0.1M	98.9%
Austin	2M	0.0M	0.0M	-0.1M	90.7%
Atlanta	2M	0.2M	0.4M	0.0M	82.2%
Providence	2M	0.2M	0.0M	-0.2M	84.5%
Phoenix	2M	0.0M	0.0M	0.3M	94.6%
Dallas	2M	0.5M	0.2M	0.1M	97.5%
Winston-Salem	2M	1.0M	0.0M	0.0M	99.3%
Memphis	2M	0.1M	0.0M	0.0M	100%

Source: Revistalab.
Note: Includes investor-owned and owner-occupied buildings that are purpose built for research, development, and manufacturing of biotech and pharmaceutical medicines and therapeutics.

U.S. Life Sciences Real Estate Trends, Interior Markets in Top Three Markets, Second Quarter 2024, in Millions of Sq. Ft.

		Open (million sq. ft.)	In progress (million sq. ft.)	Completed TTM sum	Absorption YOY (million sq. ft.)	Occupancy rate, currently open (%)
Boston	Boston	10M	4.8M	1.4M	0.8M	91.1
	Cambridge	21M	2.8M	2.1M	1.3M	91.6
	New Hampshire	1M	0.1M	0.0M	0.0M	95.6
	Route 128	20M	3.0M	2.2M	1.1M	85.2
	Route 495	8M	0.2M	0.2M	-0.1M	86.8
	Urban Edge	4M	3.6M	0.0M	0.0M	86.9
	Total	**63M**	**14.5M**	**5.8M**	**3.1M**	**88.7**
San Diego	Central	23M	4.2M	0.6M	-0.6M	84.7
	North	4M	0.3M	0.0M	0.0M	82.4
	South	1M	1.2M	0.7M	0.6M	85.2
	Total	**28M**	**5.6M**	**1.3M**	**0.0M**	**84.4**
San Francisco-San Jose		4M	1.4M	0.1M	-0.3M	82.8
	East Bay Mid	2M	0.0M	0.0M	-0.1M	89.8
	East Bay North	7M	0.3M	0.9M	0.1M	79.8
	East Bay South	5M	0.0M	0.1M	-0.2M	81.2
	Marin County	0M	0.0M	0.0M	0.0M	100
	Northern Peninsula	18M	6.7M	1.1M	-0.1M	85.5
	Northwest San Jose	3M	0.2M	0.0M	0.1M	85.7
	San Francisco	3M	0.9M	0.2M	-0.3M	68.5
	Southern Peninsula	8M	2.7M	0.5M	-0.4M	83.4
	Total	**49M**	**12.2M**	**2.9M**	**-1.1M**	**82.8**

Source: Revistalab.
Note: Includes investor-owned and owner-occupied buildings that are purpose built for research, development, and manufacturing of biotech and pharmaceutical medicines and therapeutics.

or other uses. And some developers are evaluating their options as current supply exceeds demand in these core markets.

However, pockets of strength can be found, even within the core markets. In Boston, the interior markets of Seaport, downtown, and Cambridge have maintained occupancy above 90 percent as of second quarter 2024. The Route 128 and urban edge markets have seen their inventories grow, leading to lower overall occupancy rates of 85.2 percent and 86.9 percent, respectively. San Diego, which has its largest concentration of life science real estate in the central submarkets, including Sorrento and Torrey Pines, has seen completions over the past year of 1.3 million square feet and near zero absorption. Its occupancy rate sits at 84.4 percent as of second quarter 2024. And San Francisco has the lowest overall second quarter 2024 occupancy rate of the three core markets: 82.8 percent, down 750 basis points from 90.3 percent one year ago.

Growth in Secondary and Emerging Markets

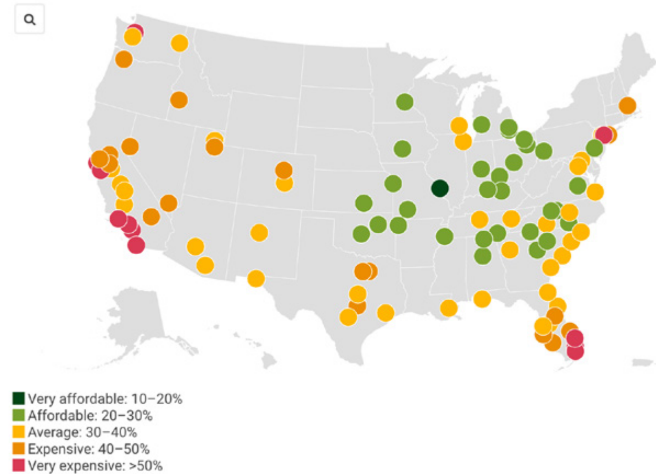
Beyond the three core markets, other markets have also seen inventory growth during the past few years. The Raleigh-Durham market currently has 4.1 million square feet of construction in progress; the DC-Baltimore market has 1.8 million square feet in progress; Philadelphia has 5.3 million square feet in progress; and Houston has 1.4 million square feet in progress. Many smaller markets also boast higher occupancy rates compared to the top three core markets. Memphis and Charlotte are 100 percent occupied as of second quarter 2024. In addition, 11 of the top 26 markets have an occupancy rate above 95 percent as of second quarter 2024.

Overall, the life science real estate sector is a story of growth. It is a growth story in the three core markets of Boston, San Diego, and San Francisco; and other markets also exhibit opportunities moving forward. A better supply/demand balance should emerge as the construction pipeline works through. And signs indicate that life science companies are in the preliminary stages of their next growth phase.

—Revista

Single-Family Housing

- To increase the supply of, and access to, attainable single-family housing, experts across the industry now point to a range of solutions:
- Promote renting over owning in markets where the housing costs are high.
- Consider alternative uses to existing real estate buildings and developments.
- Use technologies, such as manufactured housing, to provide more homes, quicker.
- Provide housing vouchers as needed.
- Use value engineering to make homes more affordable.

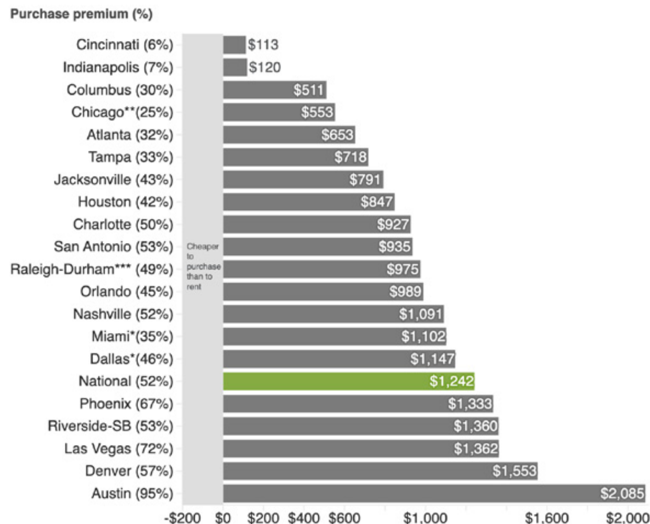


Source: John Burns Research and Consulting LLC (Data: Aug-24).
*Metropolitan division **Combination of multiple divisions.

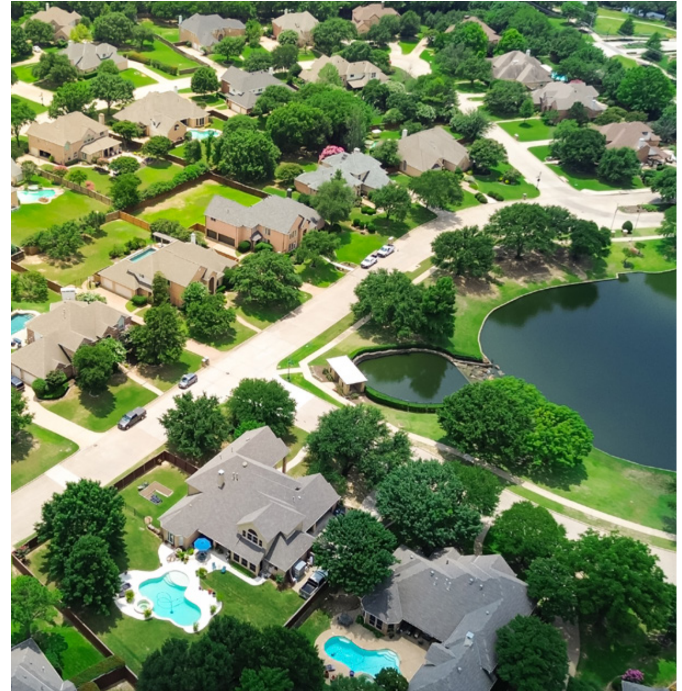
Nearly all housing market experts agree the U.S. housing market is undersupplied. John Burns Research and Consulting estimates the United States has undersupplied total housing demand—including single-family, multifamily, and manufactured housing—by 1.8 million units. Combining this undersupply with other housing needs (due to demographic demand, second-home demand, and replacement housing) means the United States will have to construct 18 million housing units over the 10-year period from 2024 to 2033 to bring demand and supply back into balance. The chronic undersupply of homes has resulted in rising prices and massive pressure on affordability across the country.

While the Federal Reserve's recent easing of interest rates should allow mortgage rates to fall, access to housing that prospective buyers can afford will remain a major hurdle for many people. The industry continues to discuss and create solutions to provide more access to market rate homes—with those solutions ranging from increased density to new laws and regulations. This section is based on interviews with a wide range of industry experts and highlights their ideas for solving the issue of attainable housing in the United States.

1. **Single-family rentals:** The institutional single-family rental industry began primarily as a solution to fill the gap in demand between homeowners and apartment renters. Many tenants lack the down payment or FICO score



Source: John Burns Research and Consulting LLC (Data: Apr-24, Pub: Jun-24).
Note: A negative number means that it costs less to purchase and maintain a home than to rent an equivalently valued home.†We base the national rollup on a weighted average of 99 markets. *Metropolitan division **Combination of metropolitan divisions, except Raleigh-Durham, which is a combination of metro areas.



necessary to qualify under today's underwriting standards, or they prefer to rent. Demand for single-family rentals exploded with the erosion of affordability in the United States; the monthly cost of purchasing a typical single-family starter home exceeds rent in 20 of the largest markets nationwide. The gap is most pronounced in Austin, Texas, where the cost to purchase a single-family starter home is 95 percent more than the rent for a single-family starter home (the total dollar difference is $2,085 per month).

2. **Adaptive reuse**: Some industry experts identify specific real estate sectors (senior living, office, hotels) as prime opportunities to purchase distressed properties and transform into affordable housing. In the senior living industry, many of the large continuing care retirement communities did not recover from the COVID-19 pandemic and are facing debt, with outsized bond facilities compared with cash flow generated. In addition, labor costs are higher (often more than 30 percent higher) than projected.

3. **Manufactured housing:** Manufactured housing is a primary topic in conversations about affordable housing, as a new manufactured home offers the benefit of lower labor costs and shortened cycle times. While the technology for manufactured housing continues to evolve, some companies are using proprietary methods to construct homes off site—faster, more safely, and more efficiently than those who build on site. However, one of the most significant obstacles to this type of industry expansion is the lack of acceptance by local municipalities, where zoning regulations either prohibit manufactured homes outright or encumber the process of permitting manufactured homes (as they are constructed off site). If municipalities widely accepted manufactured housing, the industry could deliver more homes faster, positively affecting affordability.

4. **Housing vouchers**: For low-income households that cannot afford to rent or own, housing vouchers are a pathway to housing. The Florida Policy Project, for example, espouses the use of housing vouchers to allow low-income households to decide where they want to live (i.e., close to work or family). The voucher is an income substitute and gives households a greater opportunity to choose among rental options in their market.

5. **Density constraints:** A common theme among developer interviewees was restrictive density and zoning laws across municipalities. Markets like Boise, Idaho, and Northwest Arkansas have experienced massive domestic migration from more expensive regions of the country. The influx of new residents resulted in strong demand

and rapid price appreciation, which pushed many locals farther away from their jobs and daily conveniences. The need for attainably priced housing is particularly acute in these high in-migration markets, and many builders we interviewed want to build smaller homes to achieve lower overall price points. However, municipalities often restrict these types of homes, because of either old zoning guidelines that require large lots and low density or the influence of residents who fight for lower density, similar to what already exists.

6. **Value engineering:** Builders cite value engineering as a method to lower home prices. Value engineering can range from stripping the architectural details from the facade of a home to offering luxury vinyl plank flooring instead of tile or wood (depending on costs at the time of the build). Some builders use "package" upgrades instead of allowing a customer to choose options in a home. The predetermined packages help streamline costs for the builder and bring down the price of the home for the buyer. Value engineering can encounter pushback when the exterior of the home or community does not meet the "standards" of a municipality. For example, one builder constructed townhouses on a highly visible thoroughfare. The product was one color and simply constructed, and enough local residents complained that the municipality put a moratorium on townhouse development. Careful consideration and open communication between builders and municipalities could mitigate this type of situation and allow more affordable products to be constructed.

Case Study: Success Story, Myrtle Beach

Myrtle Beach is a great success story, showcasing the results of a municipality that is "open for business" and working with developers and builders to grow. Myrtle Beach has long been a growth market, attracting buyers and renters from across the country to its affordable homes, good beaches, golf course access, and general quality of life. During the pandemic, the area was one of the top in-migration destinations, as many residents of Charlotte, Raleigh, and other Southeast markets moved to Myrtle Beach. Some wanted to work from home, while others were retired and simply wanted to live in the area. The local government was open to development—and all product types—and the area experienced a housing market boom. Total building permits in Myrtle Beach increased nearly 34 percent in 2021 to over 12,200, and permitting has remained elevated since then. The diversity of product types built over the past four years—from large estate homes to cottage-style build-to-rent communities—translates to a wide range of prices, making room for all income levels to live.

Apartment

- The conversation about the apartment market will be dominated in 2025 by the topic of supply. A wave of apartment deliveries that began several years ago—concentrated in the Sunbelt—is winding down with a supply glut on the other side.
- Industry experts remain bullish on demand remaining strong for the next few years due to strong job growth, favorable demographics, immigration, the high cost of homeownership, and the lack of single-family inventory.
- A growing number of renters are cost burdened, which has put a spotlight on the need for more market-rate and affordable supply. Affordable housing concepts will increasingly be fused into market-rate developments.

"It's the Supply, Stupid"

Bill Clinton famously invoked the phrase—"It's the economy, stupid"—to win the presidency in 1992. The story of the multifamily industry in 2025 could well be summed up similarly: "It's the supply, stupid."

Supply growth informs every element of the multifamily outlook. It is the biggest element of near-term performance, with rent growth negative in high-growth markets and growing in low-supply areas. In the medium term, the projected slowdown in deliveries in current high-supply markets points to a rebound in rent growth, which is boosting investor confidence and helping revive the moribund transactions market.

Looking long term, the sharp increase in housing prices as post pandemic demand soared has continued to spotlight affordability. This concern has increasingly permeated the public consciousness, to the point of being an issue in the 2024 elections. "Supply will drive the discussion about housing for the foreseeable future," said the head of an industry trade group. Housing policy experts know that the United States needs more supply at price points affordable to low- and moderate-income households. The question is whether that can be achieved given the cost and political dynamics on the local, state, and federal levels.

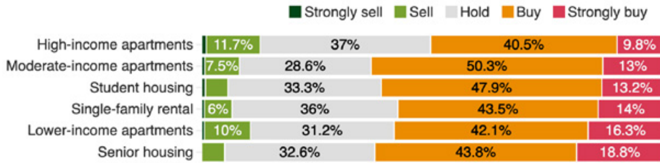
Ongoing Strong Demand

Multifamily property performance has been driven by robust demand, and that is likely to continue. The market set absorption records in 2021 as the job market rebounded and people wanted more space to work from home in the suburbs and Sunbelt markets. While demand is no longer as hot, it is still healthy. Analysts expect performance to remain strong for many reasons:

- **Demographics:** The population of individuals age 20 to 34, the prime renter age, will rise through 2030, then level off. The population in the 65-and-older cohort also is rising rapidly, and this group is increasingly choosing to rent multifamily and single-family units.

Apartment

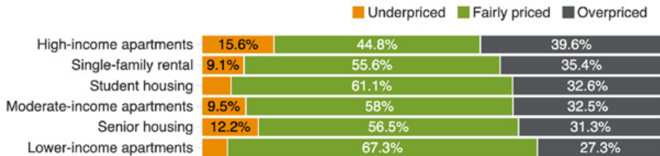
Buy/Hold/Sell Recommendations



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on U.S. respondents only.

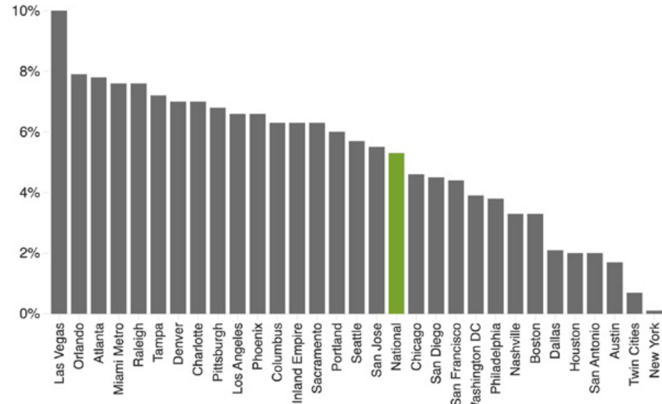
Apartment

Opinion of Current Apartment Pricing



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on U.S. respondents only.

Expense Growth per Apartment Unit by Metro T12% Change



Source: Yardi Matrix Expert, as of August 2024.

- **Weak single-family market sales:** The large gap between the cost of owning and renting and the lack of for-sale inventory is keeping would-be homeowners in apartments. The cost of owning was 40 percent higher than renting in early 2024, and while that number will moderate as mortgage rates drop, the affordability gap is likely to remain significant. High-income millennials and gen Xers increasingly choose to rent rather than buy homes.

- **Work from home:** The need for more space for home offices leads some renters to move from shared households or away from their parents' homes.

- **Immigration:** The Congressional Budget Office estimated that 6 million immigrants moved to America in 2022 and 2023, a mix of legal and undocumented immigrants and asylum seekers. The immigration boom is expected to slow down in coming years as policies are implemented to discourage such large inflows, but immigration will likely continue to produce significant demand.

- **Slowing supply growth:** Multifamily deliveries have been strong in recent years due to strong performance and developers trying to catch the demand wave in the Sunbelt. Deliveries are on track to peak at more than 500,000 in 2024. However, starts are plunging due to cost of construction financing, the increasing cost of land and materials, the shortage of labor, the slowing entitlement process in many jurisdictions, and worries about supply glut. These issues may lead to another bout of above-trend rent growth in 2026 and beyond.

Regional Rent Story

The record-high rent growth in 2021 and 2022 has flattened out but not evenly across the country. Rent growth in late 2024 was negative year-over-year in rapid-supply-growth metro areas such as Atlanta, Austin, Charlotte, Nashville, Orlando, Phoenix, Raleigh, Salt Lake City, and Tampa, and growth is likely to remain weak while the wave of deliveries is digested. Meanwhile, rent growth remains moderately positive in markets in the Northeast (Boston, New Jersey, New York) and Midwest (Chicago, Columbus, Indianapolis, Kansas City, Milwaukee) where demand has remained consistent but the rate of deliveries has not been as great.

While rent performance varies, apartment demand remains positive in every region. "Barring a massive Black Swan event, we should see a soft landing and normalizing growth that will produce good demand for rental housing," said one senior multifamily strategist. In fact, absorption remains strongest in the areas of the Sunbelt where rent growth is weak, a sign to market players that growth will resume after the current supply wave is digested. "My biggest concern is that we are not starting enough construction and will pay the price in two to three years," said a senior industry researcher.

Rising Costs, Especially Insurance

Not everything in the outlook is rosy. Property owners face rising expenses that hit hard at a time when income growth is tepid. Driven by jumps in the cost of labor, materials, maintenance, and insurance, the average expense per unit rose 27.4 percent in the four years ending August 2024, according to Yardi Matrix.

Insurance has been the biggest driver, rising 106 percent over that period, per Matrix. Such increases make it critical for owners to improve operating efficiency, using technology and data to analyze staffing, controllable expenses, safety, and utility costs. Technology also can be used to improve tenant experience by integrating systems and improving communication, which will help attract and retain residents.

Eyeing the Impact of Lower Rates

The flow of multifamily deals has been stuck in neutral since interest rates shot up in mid-2022. Activity will very likely pick up in 2025 as interest rates come down (barring unexpected economic events). The question is, how much? In general, industry experts expect multifamily sales activity to increase modestly in 2025, not getting back to anywhere near the peak year of 2021, when $358 billion changed hands, according to MSCI.

Although the risk-free rate is dropping, it is not enough to eliminate the persistent bid-ask gap. Acquisition yields for stable properties remain in the 5 percent range, still below mortgage rates, which are in the 5.5 percent range. Investors are willing to accept returns that amount to negative leverage because they believe rent growth will boost returns starting in 2025 or 2026. The multifamily segment does have an advantage over some other property segments: a large amount of dry powder and optimistic investors.

Lower mortgage rates will also spur refinancing of underwater loans, but whether and how long the market can hold off distress remains another question. Some $470 million of multifamily loans are set to mature in late 2024 and 2025, about 20 percent of the market's balance, according to the CRE Finance Council and Trepp. Many of those loans were originally scheduled to mature in 2023 and 2024 but were extended because of debt-service constraints in a higher-rate environment. Industry analysts expect an increase in delinquencies in 2025, but few expect a 2008-level crash. "There absolutely will be some distressed sales. But overall, because of factors including demographics, job growth, and the lack of single-family housing, the multifamily sector is in decent shape," said a senior researcher.

Most experts expect distress to occur in pockets, such as value-add properties bought in 2020–2021 with high leverage and short-term debt, particularly collateralized loan obligations. Another area of potential trouble is new construction projects in the Sunbelt that are slow to lease up because of competition

with other new projects. According to a senior strategist, "There's a lot of distress in busted value-add class C stuff, [with] much more stability in class A and B+ assets." The strategist noted that institutions don't want that type of product, and syndicators might not have capital to buy. "The big question for [2025] is who buys the class C syndicators out?"

A senior mortgage executive noted that major real estate downturns involve periods when a lack of liquidity exacerbates problematic fundamentals—something that does not describe multifamily today. "When there's a bloodbath, it's because of limited liquidity. [That's] not the case in multifamily."

Growing Attention on Affordability

Rising housing costs have propelled the need for affordable housing into the public consciousness, creating a consensus that the housing shortage and lack of affordability requires an all-hands-on-deck approach. Industry experts are calling for a range of solutions, such as building new units, rehabilitating older stock, incentivizing and subsidizing units, removing zoning barriers, streamlining the entitlement process, and more.

"We will not be able to solve the housing shortage unless we build more, and builders are not willing to build in some areas because it is too difficult," said the head of research at a large multifamily brokerage firm. "It shouldn't take a bureaucratic ordeal to get projects approved," noted a multifamily developer.

Jurisdiction over housing rests mainly on the local level, but efforts to resolve the affordability problem need to be coordinated among a mix of federal, state, and local jurisdictions. Proposed policy solutions include expanding tax credit programs such as the Low-Income Housing Tax Credit program, directly subsidizing affordable development, creating incentives to preserve existing housing, expanding direct subsidies to renters in Section 8 and housing choice vouchers, providing federal funding for municipalities that increase density, relaxing zoning codes, and streamlining the entitlement process that discourages developers.

Building more market-rate product is essential to create more lower-cost units through filtering i.e., the process through which older housing stock becomes more affordable without subsidies as newer, more modern housing stock is introduced into the market. At the same time, more movement from market-rate into the affordable segment would be helpful. "We need to find experienced [market-rate] developers that have never done a tax credit deal but recognize the need for it," said a senior lending executive who does tax credit deals. "When development becomes more in tune with housing needs, more developers will want to use the tax credit program."

While this outlook was written before the November 2024 election, the results will have a major impact on the housing picture. Vice President Kamala Harris has proposed plans that would stimulate up to 3 million housing units but has also proposed a form of rent control that has always proven to suppress supply. Former President Donald Trump's plans are less concrete, but he has promised to reduce regulatory barriers to development.

Policymakers in markets with difficult regulatory environments are increasingly recognizing the role housing plays in economic development. For example, a study by the Regional Plan Association, a New York–based think tank that focuses on the area's economic development, found that the New York City tri-state area could miss out on $1 trillion of economic activity over the next decade because it lacks sufficient housing. Clearly, cities have to not just react to current needs but also recognize that future growth depends on the quality and affordability of housing stock. As an apartment strategist noted, "2025 is a unique moment. Cities that are willing to take a step now and work with developers on affordable housing will be successful."

Hospitality: The Rise of Alternative Concepts, AI, and Sustainability

The hotel sector continues to exhibit steady growth, marked by year-over-year gains in average daily room rates and revenue per available room (RevPAR). Despite this growth, hotel supply has remained stagnant—a trend that is expected to potentially reverse as the expanding hotel construction pipeline comes to fruition.

Amid the uncertain economic environment and decelerating consumer spending, the hotel sector is experiencing a notable bifurcation, with higher-priced hotels significantly outperforming lower-priced hotels. The slowdown in consumer spending may prove beneficial to the U.S. hotel sector, as Americans are likely to favor domestic travel over international travel in 2025. This reversion to domestic travel, combined with an expected increase in inbound international travel, which is forecast to finally surpass 2019 levels in the upcoming year, positions the United States for a strong year of lodging demand growth in 2025.

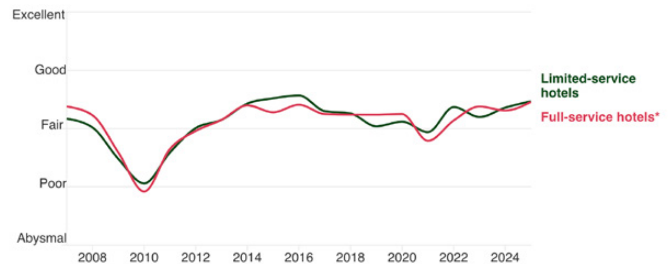
Mirroring trends in other real estate asset classes, the hotel sector has seen a steady emergence of alternative and niche concepts, such as camping-style accommodations and wellness-focused offerings. These niche sectors are expected to continue to garner investor interest. However, their expansion as an asset class is likely to be constrained by the lack of liquidity and noninstitutional nature (so far), even though lodging brands are strongly exploring adopting the concepts into their brand ecosystems.

Bifurcation in Hotel Performance

The bifurcation in hotel performance, driven by the overall economic environment, has led luxury hotels to significantly outperform economy hotels over the past year. Consumers with higher incomes have benefited from substantial wealth creation, giving them more discretionary spending power and greater willingness to travel. Conversely, lower income demographic groups feel more strongly the inflationary pressures that have led to higher costs for essential items such as housing and food. A July 2024 survey of Americans, conducted by Redfield & Wilton Strategies on behalf of Newsweek, found that 44 percent of respondents will not be traveling in the next three months, with about half of them saying they would have gone on a vacation if the cost of living was cheaper. This increased economic pressure has made travelers more price-conscious, leading them to explore more cost-effective accommodation options such as short-term rentals or camping, which often present a more affordable alternative to traditional hotels.

Hotel

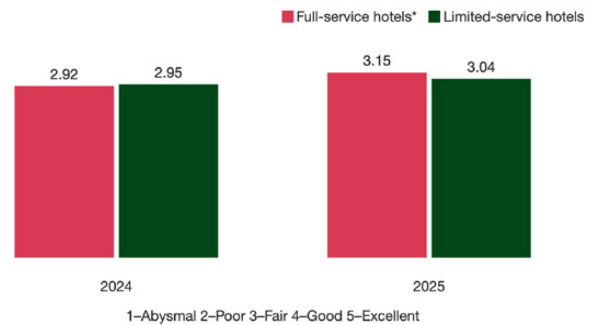
Investment Prospect Trends



Source: *Emerging Trends in Real Estate* surveys.
*Starting in 2017, results are the average of investment prospects for three categories—luxury, upscale, and midscale hotels. Previous years' results are based on investment prospects for a single category—full-service hotels.

Hotel

Investment Prospect Trends



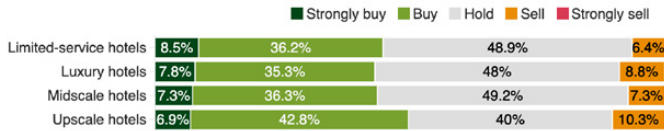
Source: *Emerging Trends in Real Estate* surveys.
*Starting in 2017, results are the average of investment prospects for three categories—luxury, upscale, and midscale hotels. Previous years' results are based on investment prospects for a single category—full-service hotels.

The operating performance of hotels makes the bifurcation clear. According to STR, as of August 2024, the luxury hotel segment experienced 12-month RevPAR growth of 1.8 percent, while the economy hotel segment experienced a 12-month RevPAR decline of 3.6 percent. For the trailing 12 months ending August 2024, the average daily room rate for luxury hotels in 2024 was up 30.3 percent compared to 2019, while the average daily room rate for economy hotels was up 14.3 percent.

Given the deceleration in consumer spending and ongoing economic uncertainty, the current bifurcation in hotel performance is expected to persist in the near term. According to PwC Hospitality Directions, as of May 2024, luxury segment RevPAR is expected to increase by 1.1 percent in 2025 while the economy segment RevPAR is expected to remain largely unchanged in 2025. However, the worst of this bifurcation in hotel performance may be behind us with the performance gap expected to tighten in 2025.

Hotel

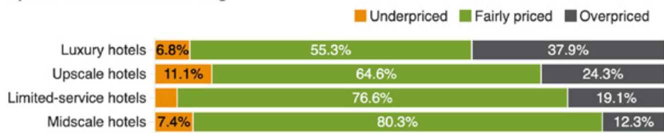
Buy/Hold/Sell Recommendations



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on U.S. respondents only.

Hotel

Opinion of Current Hotel Pricing



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on U.S. respondents only.

Evolving Travel Patterns

Lodging sector demand in the United States in the next 12 months is expected to be driven by the return of inbound international travelers (particularly Chinese) and increased domestic travel by Americans. International travel to the United States is expected to be close to prepandemic levels by the end of 2024, with the National Travel and Tourism Office forecasting that total international arrivals to the United States will reach 77.7 million in 2024, compared with 79.4 million in 2019. This growth trend is expected to continue, as international arrivals in 2025 are forecast to surge to 85.2 million, finally surpassing 2019 levels. The increase is largely a result of continuing efforts to boost international visitation to the United States by lowering visitor visa wait times.

Despite the growth in overall international tourism, Chinese tourism to the United States remains significantly below prepandemic levels. But some positive signs indicate the return to these levels will be quicker than initially expected. According to the National Travel and Tourism Office, 1.1 million Chinese tourists visited the United States in 2023. This number represents a substantial 192 percent increase compared with 2022 but is only 38 percent of 2019 levels. Growth is expected to continue, with Chinese tourism to the United States now forecast to fully recover by 2026—one year sooner than the projection in *Emerging Trends* 2024.

While international inbound travel to the United States is still lagging prepandemic levels, international outbound demand has already surpassed those levels. COVID-19 and the ensuing travel restrictions created a bottleneck of international trips among Americans. The consensus is that the majority of these outbound trips were completed in 2023 and 2024, as global travel restrictions eased.

The shift toward international travel led to a deceleration in domestic travel, which is projected to decline by 5.1 percent in 2024, marking the first annual decrease since 2020. Despite this recent slowdown, travelers are expected to pivot back to domestic travel in 2025. Having completed their backlogged international trips over the past two years, many Americans are less inclined to travel abroad again in 2025. Coupled with a potential deceleration in consumer spending amid economic uncertainty, that sentiment is fostering a conducive environment for domestic travel in the United States. The combination of a resurgence in inbound international tourism and the anticipated return to domestic travel among Americans positions the U.S. lodging sector for a strong resurgence in 2025.

Alternative Hospitality Concepts

Driven by secular demographic and consumer trends, the emergence of niche and alternative subsectors within traditional real estate asset classes has become a prevailing trend, and the hotel asset class is no exception. Investors continue to explore the expansion of the investable asset base and corners of asset classes that have the potential for institutionalization. Camping-style accommodations and wellness-focused offerings have emerged as prominent trends within the hospitality sector.

Recognizing the evolving consumer preference for unique travel experiences, some hotel companies are strategically aligning with niche hospitality concepts. In early 2024, a leading hotel company announced a strategic partnership with a company specializing in upscale "glamping" accommodations such as Airstreams, cabins, and luxury tents. Separately, in July 2024, another major hospitality company entered into a strategic partnership with another company that offers upscale glamping near U.S. national parks. In the postpandemic environment, a growing preference for outdoor vacations has emerged, and camping-style accommodations appear to be an enduring trend. According to the 2024 ***KOA Camping & Outdoor Hospitality Report***, approximately 54 million U.S. households engaged in camping activities in 2023, an 11 percent increase compared with 2019. This trend is likely to continue given the anticipated increase in domestic travel in 2025.

Another alternative is wellness-related travel, especially at higher-end hotels. One example is a rise in luxury wellness retreats. These retreats often provide personalized experiences designed to help guests connect with nature and undergo a

transformative stay. For instance, one wellness resort owned by a major hotel company allows guests to fill their daily schedules with a variety of activities that cater to physical, mental, and spiritual well-being. Additionally, guests have access to an extensive spa for relaxation during their free time, and all meals are provided on site, ensuring guests never need to leave the premises.

The growing popularity of wellness retreats coincides with modern lifestyles that leave many individuals feeling disconnected from nature and spending too much time in front of screens. Wellness retreats offer one way to counteract these trends. Although retreats typically come at a much higher price point than traditional hotel stays, they have been able to sustain growth due to their comprehensive offerings, above and beyond the typical leisure vacation. Travelers are now opting to stay at hotels for the distinctive wellness experiences and amenities offered by the hotels themselves, rather than primarily for the attractions of the surrounding area. Whether in traditional hotels or wellness-specific retreats, the emerging trend of wellness is poised to continue.

Expanding Regulatory Oversight

The trend that has the most potential to affect the hospitality industry in the next 12 months may be the expanding state and local regulatory environment across various issues, including short-term rentals, labor unions, and other state and local government interventions. New York City Local Law 18, which went into effect in September 2023, requires short-term rentals to be registered through the Office of Special Enforcement and significantly decreased the supply of short-term rentals in the city. Major markets across the country have taken notice and attempted to enact similar laws to quell the rise of short-term rentals. For example, in April 2024, the Los Angeles board of supervisors unanimously approved an ordinance that will restrict the short-term rental market in unincorporated Los Angeles County. The ordinance requires hosts to pay an annual fee, limits the length of guest stays, and restricts hosts from listing second homes and guest homes as short-term rentals.

Elsewhere across the country, many efforts to restrict short-term rentals have had difficulty getting through the state legislative system. For instance, Florida's Senate Bill 280, which aimed to grant the state greater regulatory control over short-term rentals, was passed in early 2024 but subsequently vetoed by the governor. Despite such ongoing challenges, the momentum toward increased regulation in the short-term rental market is expected to persist. The strongest demand for these restrictions is coming from suburban residents who cite disturbances associated with short-term rentals in their area.

It is important to recognize that the tightening state and local regulatory environment appears to be bipartisan, with neither major political party adopting a definitive stance. While the feasibility of the regulations being enacted remains uncertain and their implementation may be protracted, this regulatory trend warrants close attention in the short to medium term due to its potentially significant effect on hotels across markets.

Increasing Hotel Pipeline to Reverse Stagnant Supply Growth

Hotel supply has remained largely stagnant in recent years, primarily due to challenges arising from the COVID-19 pandemic, such as elevated construction costs, uncertainty surrounding travel demand, and higher interest rates. According to STR, the U.S. hotel industry experienced supply growth below the long-term average of ~2 percent for two years in a row: 1.7 percent in 2022 and 0.3 percent in 2023. Supply growth is expected to remain muted, with projections of 0.4 percent and 0.7 percent for 2024 and 2025, respectively, according to PwC Hospitality Directions as of May 2024.

The restrictive construction environment in recent years has led to a backlog of stalled hotel construction projects. However, the pipeline has exhibited significant momentum recently as developers seek to restart hotel construction in the near term as the economic environment becomes more favorable for construction. According to STR, as of July 2024, the number of hotel rooms in final planning increased by 9.1 percent year-over-year to 271,000 rooms; the number of hotel rooms in the planning stage surged by a staggering 39.3 percent year-over-year to 333,000 rooms. This trend is expected to substantially boost U.S. hotel supply beginning in 2026, following four years of limited supply growth (2022–2025).

According to Lodging Econometrics, the leading markets in the hotel construction pipeline are Dallas and Atlanta, with 189 and 159 projects in the pipeline, respectively, as of second quarter 2024. It’s important to note that the speed at which these projects transition from planning to construction is heavily affected by the broader U.S. lending environment. Anticipated rate cuts by the Federal Reserve in the short term are likely to ease the lending environment in 2025 and beyond, potentially accelerating the progression of these projects. While the exact timing will depend on macroeconomic factors, hotel supply will inevitably experience a significant boost in the next three to four years as the bottleneck of delayed construction projects comes to fruition.

Artificial Intelligence and Sustainability

While integration of artificial intelligence (AI) within the hospitality industry is only beginning to solidify, an element of AI can be found in virtually every major hotel across the country. Examples include mobile check-in systems and chatbots designed to assist guests with various needs. Nevertheless, hospitality companies are consistently aiming to expand the use of AI to boost operational efficiency, optimize revenue management, and offer more tailored experiences for guests. Looking to 2025 and beyond, AI is poised to become the new norm in the industry. Companies that remain skeptical risk falling behind, while those that effectively leverage AI will position themselves for success.

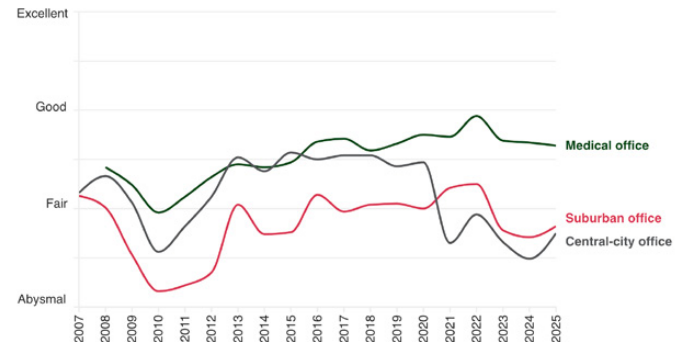
Sustainability is also a growing trend in the U.S. hospitality industry, driven mainly by younger travelers. According to a study conducted by Washington State University’s Carson College of Business, 54 percent of millennial travelers and 57 percent of gen-Z travelers consider sustainability a top priority when traveling. However, only 13 percent of gen-Zers and millennials reported staying at green-certified lodgings. This discrepancy is indicative of a broader trend: While many travelers are supportive of sustainable practices, price remains the predominant factor in their lodging choices. Given the high initial costs often associated with implementing sustainable practices, hotels have not widely adopted them.

Office: Searching for the Bottom

- Five years into the hybrid work era, the office market remains highly fragile. Occupier and investor sentiment are expected to remain weak in 2025, but the market is getting close to a bottom that could spur the next cycle.
- While companies continue to cut back on office space, many also are rethinking the best use of space and developing strategies for the amenities and technologies that will create a more efficient user experience.
- Urban downtowns are in the early stages of revitalization that will involve less focus on office space and a greater emphasis on residential, retail, and entertainment.

Office

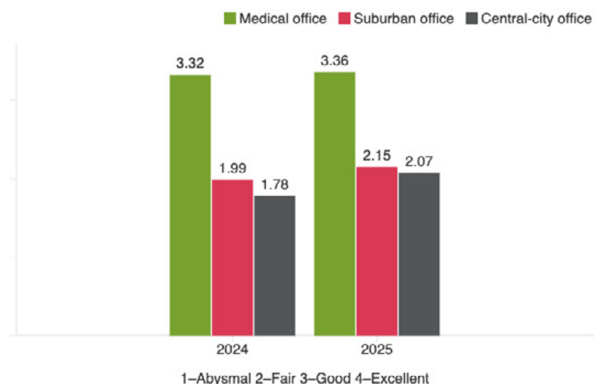
Investment Prospect Trends



Source: *Emerging Trends in Real Estate* surveys.

Office

Development Prospect Trends



Source: *Emerging Trends in Real Estate* surveys.

The pandemic sent the office sector into the penalty box, where it remains. Demand is weak, the vacancy rate has not stopped rising, expenses are high, and the return to office has plateaued. There are signs, though, that the time in the penalty box is winding down. Amid weak fundamental metrics, companies are developing strategies for office use that could help stop the bleeding.

The same dynamic exists on the capital side. Property values continue to sink, sales activity remains tepid due to uncertain pricing and weak demand, and loan defaults are rising. But the people we interviewed say the bottoming out, which is necessary to start the next rebound cycle, is getting close and could come as early as 2025.

The results of the *Emerging Trends* survey exemplify investors' dim view. Respondents ranked the office sector as the property segment with the worst prospects for 2025, with center city and suburban offices at the bottom of both investment and development prospects for property subcategories. At the same time, sentiment actually improved from 2024 levels.

Investors face a fine line between prudent caution and waiting too long and missing the opportunity. "We are coming off a period of years in which no one wants to bring an office building to investment committee," noted an executive at a company with trophy properties in core markets. "That's just beginning to change. People may look back in five years and say, 'I wish I bought at the bottom,' but that takes a lot of fortitude."

Occupiers Evolving Office Use

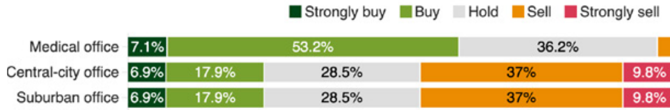
The fundamental problem remains: the pandemic changed the way offices are used and companies continue to downsize despite growth in office-using jobs. Several surveys have found that roughly two-thirds of office workers follow either a hybrid or fully remote schedule. That figure has remained consistent for about two years, and few expect it to change. An executive from a West Coast firm that consults for office users said most of his clients plan to cut 20–25 percent of their space over the next three to five years, describing the problem as a "slow-motion train wreck" for office real estate.

Most industry data providers show the national office vacancy rate topping 20 percent, with even more space available for sublease. A study by McKinsey & Company projected that it would take anywhere between 10 and 40 years to get back to prepandemic vacancy rates, depending on the pace of new construction and how much vacant space is converted to alternate uses.

More than 80 percent of markets saw vacancy rates rise in the 12 months through August 2024, according to

Office

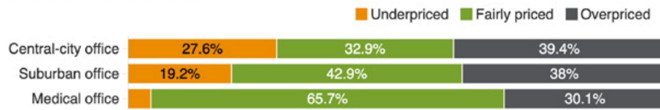
Buy/Hold/Sell Recommendations



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on U.S. respondents only.

Office

Opinion of Current Office Pricing



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on U.S. respondents only.

Conversion Feasibility Index (CFI)

Market	Tier I (top conversion candidates)	Tier II (quality conversion candidates)	Tier III (more difficult conversion candidates)
	% of Total Sq. Ft.	% of Total Sq. Ft.	% of Total Sq. Ft.
Manhattan	16.8%	36.3%	46.8%
San Francisco	6.2%	19.6%	74.2%
Los Angeles	4.4%	20.3%	75.3%
Chicago	4.1%	14.5%	81.5%
Portland	4.0%	14.8%	81.2%
Miami	3.7%	12.4%	83.9%
Philadelphia	2.8%	12.5%	84.7%
National	**2.7%**	**12.1%**	**85.2%**
Detroit	2.4%	13.4%	84.1%
Seattle	2.4%	12.7%	84.8%
Boston	1.9%	9.9%	88.1%
Twin Cities	1.5%	9.4%	89.0%
Washington, D.C.	1.5%	12.8%	85.7%
Nashville	1.1%	6.1%	92.7%
Atlanta	1.1%	5.1%	93.8%
San Diego	1.0%	6.4%	92.6%
New Jersey	0.9%	7.1%	92.0%
Bay Area	0.8%	4.8%	94.4%
Denver	0.7%	11.4%	87.9%
Houston	0.7%	8.0%	91.3%
Charlotte	0.7%	4.4%	94.9%
Dallas-Fort Worth	0.5%	5.9%	93.6%
Austin	0.4%	4.2%	95.4%
Phoenix	0.2%	3.3%	96.5%
Orlando	0.2%	3.3%	96.5%
Tampa	0.1%	5.2%	94.7%

Source: Yardi Matrix; CommercialEdge, as of July 2024
Note: The Conversion Feasibilitya Index (CFI) is based on ratings of walkability, year built, building dimensions, square footage, floor shape, primary use sub-type, accessibility, ceiling height, green building, number of stories.

CommercialEdge. Metro areas with the highest vacancies include tech-heavy markets such as San Francisco, San Jose, and Seattle, as technology companies pare headcounts and allow more remote work. But vacancies are also high in rapidly growing markets such as Austin, Houston, and Denver, where supply overshot demand.

Whatever the location, quality is a big differentiator of demand. Class A and newer offices attract firms looking for high-quality space with modern amenities and sustainability such as energy efficiency, security, and access to technology. “The flight to quality is real,” said one office executive, noting that 6 percent of Class-A buildings account for 25 percent of leasing. Another executive said, “There is a disparity between premium and everything else. Companies want people back to the office. One of the ways to do that is to occupy a better building.”

At the same time, companies planning space needs are increasingly rethinking how they use space, which involves considerations of efficiency and design. “The biggest focus for companies is what do they do in the office and how the design achieves that objective,” said one academic researcher. Among other things, that means designing space for collaboration and mentoring and incorporating services such as wellness, health care, and financial counseling.

The goal is to appeal to hybrid workers, so they want to come back to the office. “We want to have [amenities] that will make my [one] or two days in that office . . . a peak experience—or at least an enjoyable experience that will be beneficial to my performance,” noted a senior brokerage executive who focuses on consulting with tenants. Part of the solution is increasing the use of technology. Applications can enable workers to plan their workday in advance through features such as reserving a desk or conference rooms, planning meetings, contacting colleagues, arranging meals, and more.

One area of consensus is that the most important demand factor is location. For example, an executive at a firm with more than 20 million square feet of space in Manhattan said there is a marked difference in demand for buildings near commuter hubs, such as Grand Central and Penn Station, compared to commodity buildings with limited access to trains. That sentiment was widely shared in other markets. “The most important thing (for demand) is access to transit,” noted a senior REIT executive. “Tenants like food and nice space, but they want it to be easy to get to.”

Consequently, poorly located, and older commodity space continues to struggle. Between 10 and 20 percent of office properties are functionally obsolete and need to be demolished or converted. Unfortunately, the cost and complexity of converting to residential stymies most conversions. CommercialEdge created an index which found that only 15 percent of office buildings nationally have any potential to be converted to residential, and only 2.7 percent are prime candidates. Nonetheless, some cities are proactively trying to encourage conversions. Boston, for example, is offering as much as a 75 percent tax break to property owners that convert office to residential.

Although offices built in the last 10–20 years have the most demand, office starts have largely dried up. This reality is a source of hope for some analysts who believe there will soon be a mismatch between what occupiers want and what space is available. “By 2025, the story will be a 20 percent vacancy rate, but we won’t have enough office space either,” noted a senior brokerage economist. “We won’t have enough of the kind of space that businesses want to lease.”

Some occupiers are realizing belatedly that they cut too much space. “We are seeing companies that let space expire and kept only a small amount of executive space realize the corporate culture is drifting and want more space,” said an executive at a large office firm.

Investors, Banks Remain Leery

Capital markets remain the sector’s Achilles heel. Office loan defaults are growing daily as property values keep sinking, borrowers are stretched, and banks become less willing to extend. As of August 2024, some 8 percent of commercial mortgage-backed security (CMBS) office loans were delinquent, while 12 percent were in special servicing, according to Trepp market analysts. And those numbers are almost certain to keep rising in 2025. Lower interest rates in 2025 will help somewhat, but only at the margins. The bigger problems are falling net operating income and weak liquidity for most segments of office. High-quality assets have no trouble getting loans, but “nobody has a stomach for bad properties in the private debt market. They’ll get foreclosed if the lender chooses that option,” said one senior office executive.

Some interviewees say more foreclosures would speed up the recovery. "If a mortgage goes through the foreclosure process, it gets written down, renegotiated, and we enter a new price point that a new owner can figure out," said the academic researcher. "An owner at a lower basis can cut the rent and bring in new tenants, because there are a lot of firms that would like more space at a lower price point."

Investor sentiment remains heavily weighted against buying offices. In the *Emerging Trends* survey for 2025, "buy" recommendations outnumbered "sell" in only two of the top 20 office markets (Miami and Ft. Lauderdale), and most of the markets were heavily weighted toward "sell." Weak investor sentiment was the reason that property sales amounted to only $27.8 billion in the first half of 2024, well off the pace of $148.8 billion in 2021 and even further from the all-time high of $211.2 billion in 2007, according to an MSCI analysis. One impediment to sales volume is the lack of deals to create a market-setting price. "It's hard to get a beat on values when so few quality buildings are traded," said one office executive. Said another, "There are distressed investors looking for deals, but transactions are slow because sellers are still not interested in the low offers. I'm not sure when the logjam will break, but lower rates will help."

Generating returns at a time when rent growth is weak and tenants expect landlords to pay for expensive improvements is increasing the importance of operating expertise. "When I think about the winners coming out of this cycle, the folks that are actually going to generate outsized returns are those savvy players that know how to generate value at the individual asset and platform level, and not the folks that are just buying and turning over in five to seven years," noted a senior consultant.

More "Live and Play," Less "Work"

The discussion about demand, amenities, and pricing takes place against the larger backdrop of the evolution of urban centers. The urban mantra of "live, work, play" focused for decades on the "work" part of the equation in central business districts. But the demands of modern living and technological advances that enable people to work from home is putting greater focus on "live" and "play."

A study published in September 2024 by a team led by Cushman & Wakefield confirms this thesis. The study found that offices comprise roughly 70 percent of space in urban downtowns, with the rest split between residential, retail, entertainment ("live" and "play"). The study said that the optimal split for a walkable downtown would be 42 percent office, 32 percent residential, and 26 percent entertainment. The onus is on cities to find ways to turn offices into other uses that bring energy and attract businesses and households to urban cores.

"We need to think broadly about revitalizing urban cores through a strategy that takes us from thinking about downtown office districts as the home of the office worker to much more the resident, the shopper, and the theater attendee," said a planner at a large consulting firm. "To drive that kind of reinvention and create dynamic urban spaces, our playbook must be considerably more creative than simply office-to-residential conversion. We are still in the early days of experimenting on this."

Student Housing Graduates to Sector Maturity

Long touted for its ability to remain resilient amid periods of economic softness, the student housing sector has largely proven its core thesis of resiliency in the post-pandemic era.

Unlike the conventional market-rate multifamily market, student housing has seen a three-year period of record rent growth paired with exceptionally fast leasing velocity. Together, those two influences have helped drive more institutional investors to the sector.

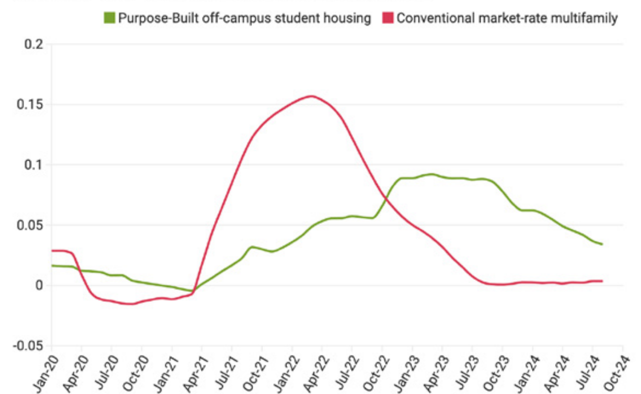
The data supporting student housing's resilience is easy to highlight. Between February 2020 and August 2024, the student housing sector saw annual effective rent growth outpace the conventional market-rate sector in 34 of the total 56 months. This deviation from historic trends is noteworthy considering that student housing rent growth never eclipsed its conventional market-rate counterpart during the 2010s cycle. But the reason student housing rent growth has recently outperformed that of conventional market-rate is simple: it all comes down to supply and demand.

From a demand perspective, student housing has benefited from a steady flow of students entering its demand pool. Though demographic trends have put downward pressure on broader enrollment growth, the post-2020 period saw a short-term spike in enrollment. And a dearth of alternative living arrangements (i.e., the shadow market of "student-competitive housing," typically conventional apartments near a campus) post-2020 channeled even more demand into the purpose-built student sector.

Supply, however, is the key force behind the sector's recent renaissance. The 2020s cycle has seen a 35 percent reduction in annual deliveries relative to the 2010s cycle. This reduction is most evident when comparing new deliveries as a share of existing stock. For the United States overall, just 3 percent of all existing student housing supply was delivered in fall 2024, down from roughly 8 percent per year in the 2010s cycle. At a local level, this decrease has allowed demand to catch up to supply at several oversaturated campuses.

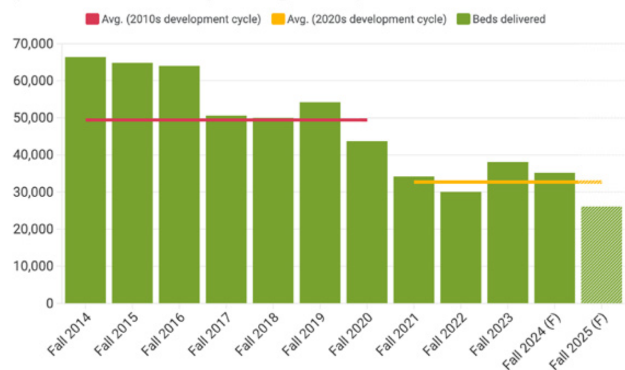
In turn, the equilibrium between supply and demand for student housing properties has led to the strongest years of revenue growth on record in the industry. And investors have taken notice.

Year over Year Change in Effective Asking Rents



Source: RealPage Market Analytics.

Purpose-Built Off-Campus Student Housing Supply (New Beds Delivered by Leasing Season)



Source: RealPage Market Analytics.

Though the past few years may not qualify as a recession by typical economic measures, one can argue that the conventional market-rate housing sector is—at minimum—mired in a period of softness not seen since the Great Recession. (The turmoil of the Great Recession was notably more ubiquitous; today's period of softness is generally more localized.) But student housing's relative outperformance, contrasted with a soft multifamily market, has helped provide a baseline of comparison that is attracting more institutional investment interest.

Considered a largely nascent sector throughout the 2010s cycle, student housing in the 2020s cycle provides a comparison point that effectively proves its "recession resistant" moniker. And therein lies the key driver behind

the newfound interest in student housing: the sector appears to have graduated to a new stage of its life cycle—sector maturity.

Yet, sector maturity brings with it a new set of considerations. A near-universal truth in economics is that lower risk investments are accompanied with lower reward. The student housing sector fits that profile.

While student housing revenue growth has exceeded that of the conventional sector spanning from late 2022 through 2024's 3rd quarter, the industry's peak years (roughly 8 percent revenue growth) saw just half as pronounced of a peak than the conventional market-rate sector (16 percent). Still, annualized rent change in student housing has never fallen into a prolonged period of revenue loss—a trend that largely counters other real estate sectors.

Another defining characteristic of sector maturity is exiting the so-called shakeout phase. The impact of a post-shakeout period can be summarized as the period in which consolidation begins to accelerate. Student housing fits this profile, with most off-campus beds belonging to the industry's top 25 ownership groups.

Yet another signal of sector maturity is the bifurcation of campus-level demand trends. Overall U.S. enrollment is contracting. This has been true since 2015, but enrollment contraction has accelerated more recently. Further analysis, however, yields a more nuanced story. That is, there is a growing disparity between campuses that are experiencing enrollment decline versus those that have managed to stave off enrollment loss. Select campuses have even been able to secure strong enrollment growth.

The bifurcation of campus-level enrollment growth largely distills down to stronger growth among state flagship institutions with brand name recognition. Student housing professionals tend to refer to these campuses as "Tier 1" institutions. This group of schools furthers the consolidation of investment that typically marks a maturing sector.

Conversely, smaller, less recognizable schools—especially those in states with overall declining populations—are struggling to maintain a solid enrollment base. While opportunity may exist on a site-and-strategy-specific basis at these campuses, they are generally not the campuses where investment dollars are flowing.

A final consideration for the maturation of the student housing sector is the broader contraction of the U.S. college age population. At its core, student housing is an age-restricted housing sector, and a contraction of overall headcount in the 18-to-24-year-old population base will remain a headwind for the foreseeable future.

Ultimately then, the student housing sector should be viewed as reaching its maturity cycle. With that maturation come some benefits, such as stability and lower risk, as the lessons of a less-mature industry have played out. This appears to coincide with the growing interest among institutional investors. But counterbalancing factors such as declining enrollment and campus-level housing saturation (which diminish the upside of development prospects) should be taken into consideration as well.

—RealPage Inc.

Expansion, Bifurcation, and Shifting Migration Open New Opportunities for Self-Storage

Self-storage properties gaining prominence

Over the past decade, the self-storage sector has grown not only in size but also in investment appeal and operational complexity. Since 2014, the amount of physical self-storage space in the country has expanded by 40 percent, while the number of yearly investment transactions has jumped 200 percent. In both cases, the added activity has been most apparent in the nation's larger markets; these markets have generally been the focus of institutional investors and major developers.

The sector's still-large share of private investors, meanwhile, continues to be substantial in smaller metro markets and rural areas. Evolving demographic trends in these settings may begin to bring more attention to local self-storage properties in the future.

Population growth picking up in small cities and towns

Across the country, most markets observed slower population growth from 2019 to 2024 than from 2014 to 2019. Of the metro areas where population growth did accelerate, most were tertiary cities in the Sun Belt or Rocky Mountain regions. These zones have long been popular migration destinations, but given rising living costs, relocating households are shifting their focus toward smaller settings in these areas. This dynamic is favorable both for retired households on fixed incomes and for professionals who can leverage remote work. If this trend continues, it has implications for self-storage space needs.

Investment activity reflecting shift in demographics

While self-storage construction activity has been above average for much of the past decade, more than half of the new space has been concentrated in just 25 of the nation's markets. The combination of less development and stronger demographics in smaller cities and towns bodes well for existing local self-storage properties, commonly held by private investors. Amid this favorable outlook, long-time holders may seek to capitalize on appreciation in the sector, thus opening up avenues for other private buyers or organizations who want to widen their acquisition criteria. Sales trends over the past five years reflect the shifts in population growth. Since 2019, the share of transaction activity by region has picked up in the Rocky Mountain area and the Southeast—at the expense of the West Coast, Northeast, and Midwest.

Midscale properties seeing the most pickup in trading

Among the wide array of self-storage properties that trade, those with sale prices between $10 million and $20 million have seen the largest increase in activity in recent years. More assets in this price tranche changed hands over the four-quarter period ending in June 2024 than in all of 2021, a feat not shared at other entry-cost levels. While primary metro areas such as Los Angeles and New York recorded some of these transactions, most were found in secondary or tertiary markets, including Sacramento, Phoenix, Colorado Springs, and Oklahoma City. More than a third of these assets were built since 2018, indicating buyers are finding opportunities among recent builds at various stages of the stabilization process.

Amid shifting landscape, self-storage demand improving

Regardless of the size of the self-storage property, the sector overall is benefiting from favorable short- and long-run demand drivers. Near-term prospects are rising as easing inflation pressures have allowed household formation to accelerate. After the consumer price index increased 9 percent year-over-year in June of 2022, the pace of household formation slowed by half, and apartment absorption turned negative. Both trends had an impact on property performance, increasing vacancy and weighing down rents. As of mid-2024, however, inflation has notably tempered while demand for housing has improved. Nearly as many households formed in the first half of 2024 as in all of 2023, while the net absorption of apartments surged to a 10-quarter high between April and June. Although the average asking rent in June of $1.21 per square foot was still down 5.5 percent year-over-year, with the national vacancy rate up 50 basis points to 8.9 percent, the creation of a household, particularly in a new city, is a prominent driver of self-storage use. As this promising momentum builds, property fundamentals should stabilize.

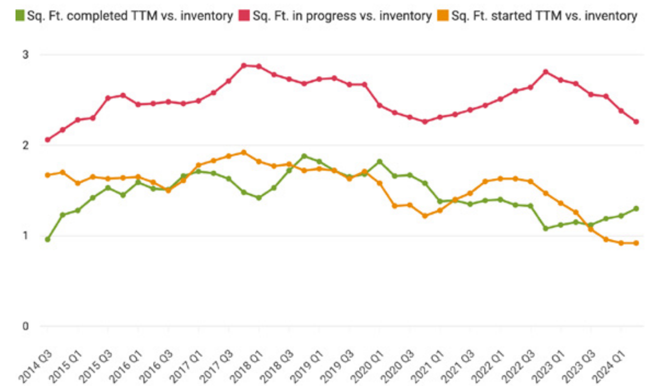
Current momentum to benefit from long-term structural drivers

Looking further into the horizon, other beneficial factors for self-storage demand come into play. Peak income earning years are between ages 45 and 54. Thus, with the leading age of the millennial generation at 43, this large cohort is poised to expand its discretionary spending, including on storage units. At the same time, baby boomers will continue to downsize, and many will choose to store important family heirlooms and other belongings. These twin demographic pillars are likely to support the ongoing adoption of self-storage use across the country, which has been trending upward since 2013.

—Marcus & Millichap

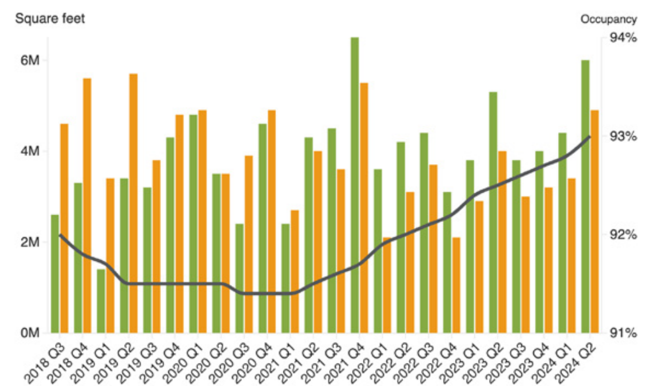
Health Care: The Real Estate Rx

MOB Construction Volumes Compared to Inventory



Source: Revista. Data believed to be accurate but not guaranteed and is subject to future revision.

Top 100 Metro Areas Supply and Demand



Source: Revista. Data believed to be accurate but not guaranteed and is subject to future revision.

Health Care Real Estate Stability in Times of Uncertainty

In times of market uncertainty, the inelastic demand for health care services and the real estate that supports them becomes even more attractive. Despite an overall softening of the labor market, health care continues to be one of the strongest sectors tracked by the Bureau of Labor Statistics. Health care employment growth annually has remained above 4 percent throughout 2024, while total nonfarm employment slowed to 1.6 percent as of July 2024.

Demand for health care services continues to grow as the population ages, new discoveries and medical advances increase the number of medical issues that can be addressed, and the focal shift from reactive medical care to preventative care and wellness continues. The real estate that supports the health care system is largely made up of hospitals for inpatient care and medical office buildings for outpatient care. The United States has roughly 7,250 hospitals, making up 1.8 billion square feet, and 41,355 medical office buildings (MOBs), representing 1.6 billion square feet. MOBs can include any number of tenant types and services, including urgent care and emergency services, dialysis, ambulatory surgery, and imaging as well as standard physician offices.

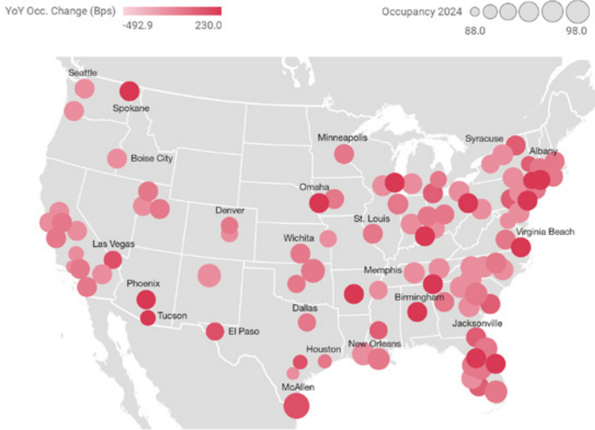
MOB space has continued to see an increase in demand. With advancements in health care technology, many services can now be performed in an outpatient rather than inpatient setting, freeing up space in the hospital for more advanced and complicated cases. In recent years, many of these MOB locations have moved off hospital campuses and out in the community to make them accessible to patients. This shift has helped providers and hospital systems build market share and more effectively serve a wide range of patients and cases.

Supply Pressure from Low Construction Levels

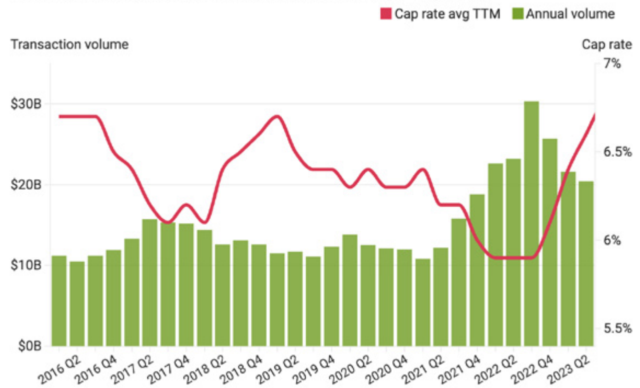
Historically, medical office construction levels have remained modest as projects are typically driven by the health care systems or provider. Although many projects are developed by third parties—either fee-for-service or owned—speculative development is minimal. Most projects don't break ground until they are largely pre-leased. This system has prevented supply runups during expansion cycles and kept the pipeline moving at slower times. In the current environment, however, MOB construction volumes have slowed considerably. In the last 12 months, less than 1 percent of inventory has broken ground, which has created a supply–demand imbalance and significant challenges. Rising construction costs, high interest rates, and limited availability of debt have caused many project plans to stall or not move forward.

The Difference from "Office" Buildings

Until recent years, much of the investment community considered MOBs a subsector within the office sector. Many investors now recognize the contrasting demand drivers for medical versus general office tenants. The current cycle highlights the dissimilarity between the two property types. While the office sector has seen a paradigm shift with the emergence of remote work and hybrid work schedules, health care has largely been unaffected. At the end of the day, most patients need to see their doctor for most services. Where general office is approaching a cyclical low occupancy, medical office is reaching a cyclical high.



Source: Revista. Data believed to be accurate but not guaranteed and is subject to future revision.



Source: Revista. Data believed to be accurate but not guaranteed and is subject to future revision.
Note: TTM = trailing 12 months.

The significant amount of office inventory sitting empty from reduced space needs and the significant demand for medical offices would seemingly make conversions to medical more prevalent. However, while there are certainly some projects in which an office building or retail building is converted to medical, such conversions are not common. These types of projects represent less than 1 million square feet of the 34 million square feet currently in the construction pipeline. Depending on the type of medical tenant and what level of care they provide, the changes can be too extensive to make conversion worthwhile. Parking, ceiling heights, HVAC requirements, elevator size, and many other mechanical details can increase the cost or make a project unworkable. These dynamics further solidify the incongruity of medical office being associated with general office.

Effects of Constrained Supply and High Demand on MOB Occupancy and Rent Growth

Low levels of construction combined with increasing demand for space have translated into increasing occupancy. In the largest 100 metro areas, absorption of MOB space has outpaced deliveries every quarter of the past three years. During that period, 33 million square feet were completed, and 45 million square feet were absorbed. This demand pushed average occupancy up 160 basis points from 91.4 percent to 93 percent. Many metro areas are now at or below 5 percent vacancy, which creates significant supply pressure. Health care tenants typically have longer lease terms of 10 years,15 years, or more and are reticent to move too often and leave their patient base. As of late, providers have had to become even more efficient with their space since they have so few opportunities to take on more square footage.

Unlike more cyclical asset classes, which are prone to a recession phase with lower occupancy and stagnant rent growth, MOBs tend to stay steady. Rent growth has typically remained around 2 percent annually until recently. This dynamic has begun to shift with the congruence of inflation, high demand, and supply pressure dynamics. Prepandemic, the average triple net lease (NNN) rent for MOBs in the top 100 metropolitan areas stood at $21.86 per square foot. As of the second quarter of 2024, average NNN rent had climbed to $24.57 per square foot, a cumulative increase of more than 12 percent. Overall rent growth has begun to slow in the most recent quarter, but top-tier rents continue to climb. The 90th percentile rent, which generally represents top tier and new construction properties, has reached $38.83 per square foot, up 3.4 percent from a year ago.

Metro Level Opportunities and Risk

Demand dynamics can be vastly different market to market depending on the hospital systems and provider groups in the area, supply fundamentals and population shifts. Not every market saw occupancy gains over the past year: in some areas occupancy declined. Some markets like Austin, Las Vegas and Denver had previously seen high growth in demand that has leveled off in the past few quarters. Stronger growth markets over the last year have tended to be east of the Mississippi and centrally located like Little Rock, Chattanooga, and Birmingham.

MOB Sales Activity Still Slow, but Pricing Begins to Stabilize

MOB sales volume peaked in the third quarter of 2022 when the annual run rate was over $30 billion. Like other commercial real estate sectors, the interest rate hikes that began during that time slowed investment volume substantially and that trend has continued into the second quarter of 2024. When rate cuts begin and buyers and sellers can glean more clarity on pricing moving forward, activity is likely to pick up.

After a consistent rise in cap rates throughout late 2022 and 2023 to approximately 7.5% in the first quarter of 2024, some compression may be beginning to occur. In the most recent quarter, cap rates have finally ticked down, with many deals transacting again in the 6's.

MOB Sector Outlook

The outlook for health care services demand remains strong due to an aging population, advancements in health care technology and care delivery, and a growing culture of wellness and preventative medicine. The Bureau of Labor Statistics projects health care to be the most rapidly growing sector for the next 10 years, creating about 45 percent of all job gains during that period. With the availability of industry specific data, limited new supply, and increasing need for space—regardless of market cycles—investors will look to expand their investment allocations in medical office and health care real estate going forward.

—Revista

Drones, Meals, and Automobiles: Automation at the Intersection of Retail and Industrial

Supply chains may have finally stabilized, and inflation at last appears transitory. But Americans' insatiable hunger for greater convenience and lower costs continues to drive a convergence of retail and industrial real estate. The trend is fueled by meal and grocery delivery and powered by robots that can pack, drive, and fly.

Underlying this shift is Americans' pronounced postpandemic drift toward sprawling Sun Belt exurbs, changes in daily commuting driven by hybrid and remote work, and an ever-burgeoning desire for e-commerce to help offset time stuck in traffic. As a result, restaurants and retailers are under mounting pressure to offer hybrid options, while e-tailers struggle to get still closer to customers to reduce shipment times.

Coupled with higher interest rates, rising wages, and inflation, these lifestyle changes have forced brands to tighten the efficiency and profitability of their operations, which in turn is steering them to embrace automation. Fast casual chains, for example, have installed robotic makelines in the hope of boosting sales and turned to automated picking systems, autonomous vehicles, and aerial drones to transform delivery to keep pace with increasingly impatient Americans.

The rewards are potentially vast. Retail has fully rebounded from its pandemic nadir, restaurants are having their best year ever with a projected $1.1 trillion in 2024 sales, and industrial is continuing to surge. Upstarts and incumbents alike are betting that putting the three (retail, restaurants, and industrial) together will yield a revolution in commercial real estate.

From Omnichannel to "Metachannel"

The evolution of pandemic-era delivery apps exemplifies this trend. These apps started as platforms for dispatching meals or groceries from mom-and-pop stores. Now they have expanded into wholly owned-and-operated "dark stores" and "ghost kitchens"—retail and restaurant operations retasked expressly for delivery—for direct fulfillment on behalf of brands that supply consumer packaged goods. Not content to remain just apps, they've also branched into both hardware and software, including smart shopping carts, point-of-sale advertising, and dark store management—all on behalf of retail partners. They now comprise a delivery ecosystem with asset-light platforms at one end and retail giants at the other.

Together, they are fusing traditional retail and industrial into what might be called a "metachannel" model, combining storefronts and warehouses (sometimes under one roof). Meal and grocery delivery was the first to start. In practice, this means micro-fulfillment centers (MFCs), which typically range in size from 10,000–50,000 square feet, increasingly use automation to accelerate orders and reduce labor costs. One company synonymous with e-commerce is opening fully automated MFCs in conjunction with its retail arm, which has resumed expansion into suburban areas.

Until recently, the upfront expense of building automated MFCs has been prohibitive for all but the busiest operators with the deepest pockets. But a new wave of startups aims to reduce the size and cost of MFCs by as much as 80 percent. Reductions on that scale would not only bring them within reach of the long tail of retailers but potentially transform any given storage room into a hub for local deliveries, further blurring the line between retail and industrial.

Where the Robot Meets the Road

But why stop there? Given that the costs of delivery—due to wages and regulations—can rapidly erode profit margins, robots are increasingly being dispatched to cover the last mile. Just as with autonomous vehicles, years of testing and piloting is finally yielding results at scale. For example, one of the leading urban robotics startups has completed more than 7 million fully autonomous trips on university campuses with its mini-fridge-size delivery bots. Its competitors include ride-hailing platforms that deploy both robots and delivery-dedicated vehicles capable of operating in mixed traffic on suburban streets.

These companies have reason to embrace autonomy. Recent research by the University of Michigan indicates human drivers prefer delivering food rather than people, placing pressure on ride-hailing businesses. This would explain why ride-hailing businesses and robotaxi operators are forging alliances to bring the latter onto the former's platform. After more than a decade of hype and disappointment, automated vehicles may at last be on the cusp of achieving critical mass in both transportation and delivery.

The Final Frontier

As America's exurbs race toward the horizon, not even automated vehicles may be enough to deliver the convenience residents crave at a cost they are willing to pay. As one solution to that sprawl, a number of last-mile delivery startups are taking to the air with drones. Potentially, 82 million suburban backyards can double as landing pads. Seeing the potential, retailers are running pilots from some of their stores. For now, the economics are daunting, with deliveries costing operators as much as $30 per trip. But new models with bigger payloads, longer ranges, and faster speeds may bring the cost down to only $7, competitive with same-day delivery, and with a vastly longer reach.

Conclusion

Although nascent, this still-evolving convergence of retail and industrial is reshaping the commercial real estate landscape—driven by changing preferences and enabled by technologies ranging from apps and artificial intelligence to drones and robotics. As new entrants jostle with giants to capture the attention and wallet of time- and cost-strapped Americans, real estate will become just one of many links in an increasingly longer value chain, with prices fluctuating in response to technology's ability to bend time and space. This transformation presents both challenges and opportunities in an increasingly exurban landscape. Developers, retailers, and technology providers will need to work together to create spaces and services that meet the changing needs of consumers.

—Greg Lindsay

Markets to Watch

“We’re trying to focus geographically in cities that are showing strong population growth, strong job growth, and business formation, and so that is going to lead us to innovation hubs, and it’s going to lead us to the major Sun Belt cities as well.”

“We’re going to start seeing investors take a harder look at some of these markets with higher barriers to entry and start maybe focusing less on some of the momentum-driven markets in the Sun Belt.”

We lead this chapter with two quotations this year instead of the usual single viewpoint to reflect some of the competing and evolving industry perspectives on market selection. Geographic preferences are changing even if many of the broad trends have continued from recent years. Sun Belt markets still rule the rankings, particularly the largest Super Sun Belt metro areas, but some formerly high-flying smaller Magnet markets are losing altitude. Meanwhile, many Snow Belt markets are getting another look from investors and are climbing the rankings. Still, the overall market outlook remains tepid.

We ask industry participants to rate the markets they know best in several categories—such as investment potential and development opportunities—and we then calculate an overall “real estate prospects” score based on these components. This year’s average score across all markets is a middling 2.75 on a five-point scale. This score is essentially identical to the 2.74 average in the 2024 survey and down from 2.87 in 2023 and 3.19 in 2022.

Dynamic Assessments

Much has changed behind those averages, however, and the ratings are much more dynamic than they have been in the years since the pandemic began. In the 2024 report, we noted that survey respondents were downbeat across the board, giving lower scores to 74 metro areas of the 80 metro areas in our coverage universe while upgrading only five. This year, the ratings improved on fully half of the markets while falling on an equal number.

The *rating* changes translate into a lot of movement in the market rankings. The average market moved up or down 12 positions from last year to this, and a fifth of markets moved by more than 20 positions. That’s a lot of change. By sharp contrast, the rankings were relatively static from 2023 to 2024. Markets moved by an average of only three positions up or down, and no market changed more than 20 places.

Overall Real Estate Prospects

- More than 1 standard deviation above mean
- +/– 1 standard deviation of mean
- More than 1 standard deviation below mean

Rank	
1	Dallas/Ft. Worth
2	Miami
3	Houston
4	Tampa/St. Petersburg
5	Nashville
6	Orlando
7	Atlanta
8	Boston
9	Salt Lake City
10	Phoenix
11	Manhattan
12	Raleigh/Durham
13	San Antonio
14	Brooklyn
15	Austin
16	Fort Lauderdale
17	Detroit
18	Charlotte
19	Jersey City
20	Long Island
21	San Diego
22	Northern New Jersey
23	Palm Beach
24	Seattle
25	Jacksonville
26	NYC Other
27	Washington D.C. - Northern VA
28	Las Vegas
29	Orange County
30	Richmond
31	Columbus
32	Indianapolis
33	Kansas City
34	Los Angeles
35	Charleston
36	Denver
37	Minneapolis/St. Paul
38	Chicago
39	Memphis
40	Cincinnati
41	Oklahoma City
42	New Orleans
43	Sacramento
44	Philadelphia
45	Pittsburgh
46	NW Arkansas
47	Omaha
48	Knoxville
49	Washington D.C. - District
50	Westchester/Fairfield
51	Honolulu
52	Cleveland
53	St. Louis
54	SW Florida
55	Greenville
56	Baltimore
57	Des Moines
58	Deltona/Daytona Beach
59	Albuquerque
60	San Jose
61	Boise
62	Inland Empire
63	Louisville
64	Gainesville
65	Birmingham
66	Tucson
67	Washington D.C. - MD Suburbs
68	San Francisco
69	Tallahassee
70	Milwaukee
71	Chattanooga
72	Tacoma
73	Norfolk
74	Providence, RI
75	Portland, ME
76	Spokane-Coeur d'Alene
77	Madison
78	Buffalo
79	Oakland-East Bay
80	Portland, OR
81	Hartford

Source: *Emerging Trends in Real Estate 2025* survey.

Homebuilding Prospects

- More than 1 standard deviation above mean
- +/− 1 standard deviation of mean
- More than 1 standard deviation below mean

Rank	
1	Tampa/St. Petersburg
2	Fort Lauderdale
3	Inland Empire
4	Dallas/Ft. Worth
5	Atlanta
6	Phoenix
7	Houston
8	Boston
9	Minneapolis/St. Paul
10	Seattle
11	Washington D.C. - Northern VA
12	Detroit
13	Philadelphia
14	Chicago
15	St. Louis
16	Orlando
17	Charlotte
18	Los Angeles
19	San Francisco
20	San Antonio
21	San Diego
22	Orange County
23	Sacramento
24	Denver
25	Miami
26	Las Vegas
27	Austin
28	Manhattan
29	Baltimore
30	Portland, OR
31	Long Island
32	Oakland-East Bay
33	Raleigh/Durham
34	Jacksonville
35	Nashville
36	San Jose
37	Cincinnati
38	Palm Beach
39	Oklahoma City
40	Westchester/Fairfield
41	Columbus
42	Indianapolis
43	Kansas City
44	Northern New Jersey
45	Providence, RI
46	Milwaukee
47	Norfolk
48	Washington D.C. - MD Suburbs
49	Pittsburgh
50	Cleveland
51	Washington D.C. - District
52	Brooklyn
53	NYC Other
54	Charleston
55	Salt Lake City
56	SW Florida
57	Albuquerque
58	Omaha
59	Greenville
60	Knoxville
61	Richmond
62	Birmingham
63	Tucson
64	Buffalo
65	Louisville
66	Honolulu
67	Memphis
68	New Orleans
69	Hartford
70	Tacoma
71	NW Arkansas
72	Portland, ME
73	Deltona/Daytona Beach
74	Boise
75	Gainesville
76	Spokane-Coeur d'Alene
77	Des Moines
78	Chattanooga
79	Madison
80	Tallahassee
81	Jersey City

Source: *Emerging Trends in Real Estate 2025* survey.

Local Market Perspective

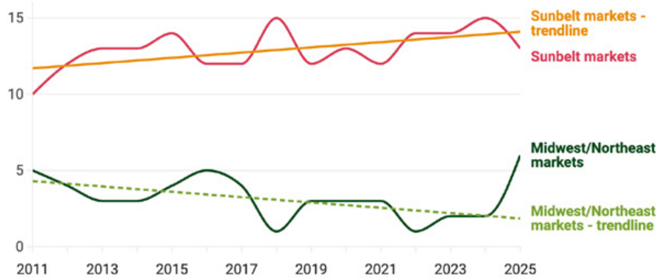
- More than 1 standard deviation above mean
- +/– 1 standard deviation of mean
- More than 1 standard deviation below mean

Rank	
1	Charleston
2	Palm Beach
3	Greenville
4	Dallas/Ft. Worth
5	Nashville
6	Phoenix
7	Albuquerque
8	Las Vegas
9	New Orleans
10	Omaha
11	San Antonio
12	Tampa/St. Petersburg
13	Fort Lauderdale
14	Oklahoma City
15	Minneapolis/St. Paul
16	Baltimore
17	Kansas City
18	Jacksonville
19	Indianapolis
20	Brooklyn
21	Boston
22	Atlanta
23	Cincinnati
24	Orlando
25	Salt Lake City
26	Austin
27	San Diego
28	Washington D.C. - Northern VA
29	Boise
30	Houston
31	SW Florida
32	Raleigh/Durham
33	Seattle
34	Birmingham
35	Deltona/Daytona Beach
36	Detroit
37	Philadelphia
38	Denver
39	Portland, ME
40	Des Moines
41	Louisville
42	Memphis
43	NYC Other
44	Columbus
45	Richmond
46	Manhattan
47	Charlotte
48	Buffalo
49	Long Island
50	Tallahassee
51	Hartford
52	Orange County
53	Spokane-Coeur d'Alene
54	Tucson
55	Chicago
56	NW Arkansas
57	Chattanooga
58	Knoxville
59	Washington D.C. - MD Suburbs
60	Washington D.C. - District
61	San Jose
62	Cleveland
63	Honolulu
64	Jersey City
65	Miami
66	Norfolk
67	Pittsburgh
68	Sacramento
69	St. Louis
70	Tacoma
71	Madison
72	Gainesville
73	Portland, OR
74	San Francisco
75	Providence, RI
76	Los Angeles
77	Inland Empire
78	Oakland-East Bay
79	Milwaukee
80	Northern New Jersey
81	Westchester/Fairfield

Source: *Emerging Trends in Real Estate 2025* survey.
Note: Ratings reflect perspective of local market participants on topics such as local economy, investor demand, capital availability, development and redevelopment opportunities, and partnerships.

Warm vs. Cold Climate Markets in "Emerging Trends"

Top 20 Sunbelt vs. Northeast and Midwest Markets



Source: *Emerging Trends in Real Estate* surveys; compiled by Nelson Economics.

Movement is even evident among the favorites at the very top of the rankings. Seven of the top 20 markets in 2024 did not repeat this year. On the other hand, only one leading market in 2023 fell from the top 20 in 2024.

This volatility shows that industry participants are discerning in their assessments and are taking fresh perspectives as they perceive that market conditions or outlooks change. In the words of a leading industry academic and advisor, "Geography matters more than ever."

Bigger Is (Mostly) Better, Especially in the Sun Belt

The top-rated category in our survey this year remains the Super Sun Belt markets. (See the Grouping the Markets section below for a definition of our market categories.) Though the average score dropped marginally, every market ranks in the top 20, and all but one rank in the top 10 (San Antonio at number 13). Perhaps more revealing is that this category includes all four top-ranked markets, starting with Dallas/Fort Worth, which returns to the top spot it last occupied in 2019 after hovering in the top three the last two years.

It's not only large Sun Belt markets that are feeling the love. The mean population size of the 10 highest-rated markets is 10 percent greater this year than last, reflecting that more of the nation's largest metro areas are now rated as among the most preferred markets. This go-big trend likely helps explain the jump in Snow Belt markets among the highest-rated markets in the country: the net number of Midwest and Northeast markets in the top 20 increased from just two in the past two years to six this year—the highest in over a decade—with all six being part of metropolitan areas having at least 4 million people. Several of these markets recorded some of the largest score gains this year, including four in the New York metro area led by Manhattan and Brooklyn in New York City proper and the nearby Long Island and Jersey City markets.

Overall, this marks a remarkable turnout for New York. As recently as the *Emerging Trends* 2022 report—released in October 2021 with the nation still in the throes of the pandemic—Manhattan had fallen to 42nd place and even last year ranked only 31st. This year, the economic powerhouse moved up to be one of the top markets at number 11. Other New York metro markets have shown similar advances.

At the same time, a net of two Sun Belt markets fell from the leaderboard, the first decline since the pandemic. Sun Belt markets are hardly out of favor and still account for 13 of the top 20-rated markets. However, it should be noted that just two states—Texas and Florida—are home to eight of those 13, including all of the top four. Rounding out the other markets in the top four aside from Dallas/Fort Worth are Miami, Houston, and Tampa/St. Petersburg.

Florida, in particular, is on a roll. The state has 10 markets in our coverage universe, and seven registered double-digit gains in the rankings this year. These include Miami, which soared 12 places to number 2, Tampa/St. Petersburg, which moved up 14 places to number 4, and Orlando, jumping 13 spots to number 6 overall. In addition, Fort Lauderdale re-entered the top 20, moving up five places to number 16. Only Tallahassee and Southwest Florida bucked the trend. Still, as we noted in our migration trend (Now Where?), in-migration has either moderated or reversed in several of these key Florida markets, suggesting the outlook could soon weaken, particularly if climate costs continue to rise.

More Support for the Niche and Backbone Markets

In this section, we review how the various *Emerging Trends* categories and subgroups performed. Every subgrouping in the Magnets and Establishment categories scored lower this year than last, continuing their slide from the 2023 survey. At the same time, every subgrouping in the Niche and Backbone categories scored higher this year, reversing their declines in the prior year. Though the changes did not shift their relative positions, the spreads are narrowing.

When digging into the categories, what becomes clear is that there is significant variance in how individual markets are being scored—even among markets with seemingly similar characteristics. As the CEO of a REIT we interviewed said, "I wish the world would operate with less of a broad brush."

Average Market Score by Category: Overall Real Estate Prospects

Emerging Trends "Markets to Watch" - 2024–2025

(Higher Scores are Better, Scale of 1 to 5)

		Average Market Score			Change 2024–2025			
Group	Subgroup	2025	2024	2023	Score	% Up	% Even	% Down
Magnets	Super Sunbelt	3.31	3.35	3.56	-0.04	43%	0%	57%
	18-Hour Cities	2.84	3.09	3.19	-0.25	14%	0%	86%
	Supernova Markets	3.00	3.18	3.40	-0.18	20%	0%	80%
	All Magnets	**3.06**	**3.21**	**3.38**	**-0.15**	**26%**	**0%**	**74%**
The Establishment	Multitalented Producers	2.75	3.11	3.16	-0.36	20%	0%	80%
	Knowledge and Innovation Centers	2.87	2.99	3.12	-0.11	25%	0%	75%
	Major Market Adjacent	2.78	2.90	3.04	-0.12	50%	0%	50%
	All Establishment	**2.79**	**2.96**	**3.08**	**-0.17**	**44%**	**0%**	**56%**
Niche	Boutique Markets	2.58	2.37	2.53	0.21	71%	0%	29%
	Eds and Meds	2.60	2.46	2.63	0.14	63%	0%	38%
	Visitor and Convention Centers	2.73	2.57	2.74	0.16	63%	0%	38%
	All Niche	**2.66**	**2.51**	**2.68**	**0.15**	**63%**	**0%**	**38%**
Backbone	The Affordable West	2.47	2.22	2.33	0.25	80%	0%	20%
	Determined Competitors	2.66	2.60	2.68	0.05	40%	0%	60%
	Reinventing	2.49	2.30	2.42	0.19	88%	0%	13%
	All Backbone	**2.53**	**2.36**	**2.46**	**0.17**	**69%**	**0%**	**31%**
All Markets		**2.75**	**2.74**	**2.89**	**0.01**	**50%**	**0%**	**50%**

Sources: *Emerging Trends in Real Estate* surveys; compiled by Nelson Economics.

A prime example: it's not only the large Sun Belt markets that were highly rated this year. The generally smaller markets of the Affordable West registered the biggest gains in the 2025 survey, along with the Boutique Markets situated mainly in the Midwest and South. Albuquerque, Des Moines, Knoxville, and Omaha were some of the biggest gainers.

On the other hand, the Multitalented Producers recorded the greatest declines—despite the "bigger is better" trend. All four of these very populous markets fell by double-digits in the rankings. No one factor explains all of them, but three of the markets are on the West Coast, which almost uniformly lost appeal in the survey this year, especially for larger metro areas.

The 18-Hour Cities group also lost a lot of ground this year. Five of the seven markets saw their ranking slide, with Denver, San Diego, and Portland, Oregon, falling the most. Yet Salt Lake City went in the other direction and jumped into the top 10.

One common theme among markets receiving lower scores this year is poor and worsening housing affordability. This is particularly true of some West Coast tech markets including San Jose; San Diego; Portland, Oregon; San Francisco; and Seattle. Several of these markets were in the top 20 markets in the 2024 survey, and all are now suffering from significant domestic out-migration.

Housing affordability also may be weighing down the Supernova markets. These markets have recorded some of the nation's largest rent gains and home appreciation in recent years. Though Nashville still ranks in the top five and Raleigh/Durham and Austin remain in the top 20, four of the five markets declined this year.

Average Rank by Category: Overall Real Estate Prospects

Emerging Trends "Markets to Watch" - 2024–2025

(Lower scores are better)

		Average Rank		Change 2024–2025			
Group	**Subgroup**	**2024**	**2025**	**Rank**	**% Up**	**% Even**	**% Down**
Magnets	Super Sunbelt	5.7	8.6	-2.9	57%	0%	43%
	18-Hour Cities	31.0	22.7	+8.3	29%	0%	71%
	Supernova Markets	23.6	18.4	+5.2	20%	0%	80%
	All Magnets	**19.7**	**16.4**	**+3.4**	**37%**	**0%**	**63%**
The Establishment	Multitalented Producers	39.0	22.3	+16.8	20%	0%	80%
	Knowledge and Innovation Centers	34.0	28.8	+5.3	25%	0%	75%
	Major Market Adjacent	36.5	33.4	+3.1	50%	0%	50%
	All Establishment	**36.5**	**30.3**	**+6.3**	**44%**	**0%**	**56%**
Niche	Boutique Markets	54.7	59.6	-4.9	57%	0%	43%
	Eds and Meds	52.3	55.5	-3.2	50%	0%	50%
	Visitor and Convention Centers	43.4	49.1	-5.8	63%	0%	38%
	All Niche	**48.1**	**52.3**	**-4.2**	**56%**	**0%**	**44%**
Backbone	The Affordable West	63.2	66.6	-3.4	80%	0%	20%
	Determined Competitors	46.8	47.8	-1.0	40%	20%	40%
	Reinventing	58.1	62.3	-4.1	38%	0%	63%
	All Backbone	**56.4**	**59.4**	**-3.1**	**38%**	**8%**	**54%**

Sources: *Emerging Trends in Real Estate* surveys; compiled by Nelson Economics

Population Size and Economic Output

	Magnets	Establishment	Niche	Backbone
Population (000s)				
Total	63,749	66,160	34,915	31,477
Average	3,355	3,308	1,455	1,749
Share of all ULI markets	32.5%	33.7%	17.8%	16.0%
GMP ($ billions)				
Total	$4,596	$6,363	$2,311	$2,021
Average	$241.9	$318.1	$96.3	$112.3
Share of all ULI markets	30.1%	41.6%	15.1%	13.2%

Sources: Bureau of Economic Analysis, Moody's Economics, and U.S. Census Bureau; compiled by Nelson Economics.

Emerging Trends in Real Estate 2025 Market Categories

Magnets	Super Sunbelt	**Atlanta**	**Phoenix**
		Dallas/Fort Worth	**San Antonio**
		Houston	**Tampa/St. Petersburg**
		Miami	
	18-Hour Cities	**Charlotte**	Portland, OR
		Denver	**Salt Lake City**
		Fort Lauderdale	San Diego
		Minneapolis	
	Supernova Markets	**Austin**	**Nashville**
		Boise	Raleigh/Durham
		Jacksonville	
The Establishment	Multitalented Producers	Chicago	San Jose
		Los Angeles	Seattle
	Knowledge and Innovation Centers	**Boston**	San Francisco
		New York–Manhattan	Washington, DC–District
	Major Market Adjacent	Inland Empire	Oakland/East Bay
		Jersey City	Orange County
		Long Island	Washington, DC–MD suburbs
		New York–Brooklyn	Washington, DC–Northern VA
		New York–other boroughs	West Palm Beach
		Northern New Jersey	Westchester, NY/Fairfield, CT
Niche	Boutique Markets	Chattanooga	Omaha
		Des Moines	Portland, ME
		Greenville, SC	Richmond
		Knoxville	
	Eds and Meds	Baltimore	Memphis
		Columbus	Philadelphia
		NW Arkansas	Pittsburgh
		Gainesville	Tallahassee
		Madison	
	Visitor and Convention Centers	Cape Coral/Fort Myers/Naples	Las Vegas
		Charleston	New Orleans
		Deltona/Daytona	**Orlando**
		Honolulu	Virginia Beach/Norfolk
Backbone	The Affordable West	Albuquerque	Tacoma
		Sacramento	Tucson
		Spokane, WA/Coeur d'Alene, ID	
	Determined Competitors	Birmingham	Louisville
		Indianapolis	Oklahoma City
		Kansas City, MO	
	Reinventing	Buffalo	Hartford
		Cincinnati	Milwaukee
		Cleveland	Providence
		Detroit	St. Louis

Code: **Bold** type indicates the 20 highest-rated markets in *Emerging Trends in Real Estate 2025* survey for overall real estate prospects.

Markets to Watch

Dallas/Fort Worth

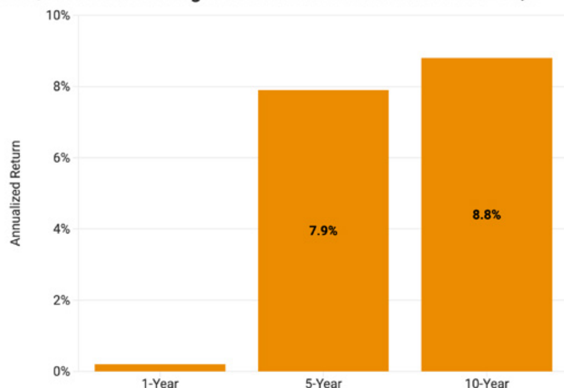
Often referred to as DFW by locals, the Dallas/Fort Worth metroplex is the most populous MSA in the state of Texas and the fourth largest in the nation. DFW is the fourth-fastest growing city, with a population increase of 6.1 percent between 2020 and July 2023, trailing only Jacksonville, Raleigh, and Austin.

Given its size and continued demographic growth, it is not surprising that real estate investors have targeted DFW.

The city secured the top spot in *Emerging Trends for 2025* and has consistently ranked in the top 10 for the last six years. The metro area has seen solid annualized five- and 10-year returns of 7.9 percent and 8.8 percent respectively, landing it in the top quartile of performance in the NCREIF Property Index (NPI) for both of these periods. It is the only Texas MSA with this distinction.

DFW has enjoyed an enviable postpandemic recovery. Total employment has grown 11.2 percent since February 2020, once again the fourth-fastest among major metro areas across the nation and only behind other Sun Belt peers Raleigh (13.0 percent), Charleston (13.3 percent), and Austin (17.3 percent). DFW enjoys a diverse economic base of banking, commerce, insurance, telecommunications, technology, energy, health care, and logistics. The city is home to 23 Fortune 500 companies, the fourth largest concentration in the nation. The MSA has clearly benefited from its own size and diversity of economic activity.

Dallas/Fort Worth Trailing Total Returns Annualized as of 2024 Q2



Source: NCREIF NPI Database, accessed 2024 Q3.

DFW has nevertheless remained relatively affordable. Moody's Analytics rates Dallas's relative cost of doing business at 102 percent and cost of living at 113 percent of their national averages (Fort Worth's are slightly lower, at 97 and 105 percent, respectively). Texas is one of seven states with no state income tax. And though median home prices in Dallas have increased almost 38 percent since Q1 2020 to $382,000, they are still roughly in line with Redfin's national median sale price of just under $400,000. This is about four to five times the median household income in the metroplex—not quite affordable in absolute terms, but less unaffordable than most other major housing markets. The national price-to-income ratio is now above 5.0 times, according to housing data provider John Burns Research and Consulting (JBREC).

This combination of affordability, growth, and economic diversity should continue to attract new residents and businesses to DFW. Though climate risk in the form of heat stress and fire may challenge the MSA in the coming years, DFW's demographics offer it a strong engine of growth that may yet underpin a robust recovery and favorable returns for many more years.

Markets to Watch

Miami

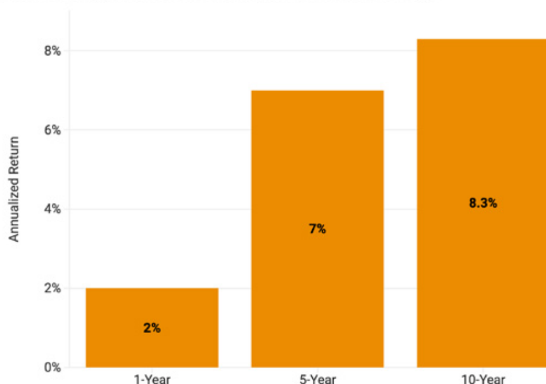
Miami is a major tourist destination, both domestically and internationally. The city welcomed over 27 million visitors in 2023. Known for its nightlife, beaches, and diverse culture, tourism is a major economic driver for the metro area. PortMiami is the world's second busiest cruise port by passenger count—edged out only by Orlando to the north—and home to major cruise lines.

Less well-known is the city's status as a major cargo port. Many goods pass through Miami warehouses on the way to and from the Caribbean and Latin America.

Miami's pivotal role in shipping routes bolsters its industrial sector. Green Street expects logistics same store rent growth in Miami to reach over 3.5 percent per year through 2028, the highest among the nation's top 50 markets.

Ongoing demand from international arrivals and wealthy buyers alike has driven explosive growth in Miami's housing market. Home prices have risen 80 percent since the onset of the pandemic. This, combined with a subsequent 400-basis-point rise in mortgage rates, has sunk housing affordability to a four-decade low. Moody's Analytics rates Miami's relative cost of living at 122 percent of the national average, higher even than New York City's 119 percent. As a result of this high cost of living, Miami has become one of the few Florida markets experiencing domestic net outmigration, primarily to more affordable communities in the state. Continued high international arrivals are more than compensating, however. Moody's expects population growth in the metro area to amount to between 0.5 percent and 1.0 percent per year for at least the next five years, despite cost-driven net domestic outmigration.

Miami Trailing Total Returns Annualized as of 2024 Q2



Source: NCREIF NPI Database, accessed 2024 Q3.

Miami's strengths have granted its institutional real estate market resilience in the face of a challenging interest rate environment. The MSA posted positive one-year total returns of 2.0 percent in the NCREIF Property Index (NPI), largely due to strong industrial performance, even as the national index returned −5.3 percent over the same period. Miami's offices are still relatively well utilized, and apartments relatively well occupied.

It remains to be seen whether Miami's performance will be sustained. The city's coastal geography and subtropical location render it especially vulnerable to climate risk. High home prices may drive even more international migration to inland locations. Even so, it is undeniable that Miami remains a desirable place to live and work, and the city will likely remain an important destination for new businesses, tourists, and residents for years to come.

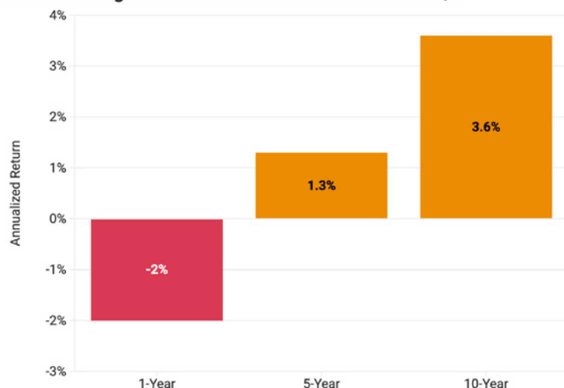
Markets to Watch

Houston

Designated as "The Energy Capital of the World," Houston has long been the center of America's oil and gas industry. Today Houston is recognized for its rapid expansion—both of population and of new economic forces including green energy, health care, technology, and aerospace. The metro economy's transformation to an international hub has attracted corporations and investors alike. Houston is home to 26 Fortune 500 companies, the third highest of all metro areas in the country. This is Houston's first year in the ranks of the *Emerging Trends* top 10 markets in 10 years, although it had moved up to the top 15 markets in the last two years.

Over the last several decades, Houston's economy has grown more diverse and less dependent on energy. Employment has expanded at a slightly faster pace than the nation over the past 10 years, thanks to outsized growth in several of the market's private-sector industries. Health care has been a major contributor to the metro area's diversity as the sector has expanded to meet demand from a growing population base. The city is home to the Texas Medical Center (TMC), one of the world's largest medical complexes, spanning 50 million square feet and home to more than 120,000 employees. TMC is also a hot bed for research and health care innovation. Another dominant economic driver in the metro area is the Port of Houston. Situated along the Gulf Coast, the Port of Houston is the largest port in the country in terms of tonnage and the 16th largest in the world. The Houston Ship Channel is estimated to generate more than $439 billion in statewide economic value, representing nearly 20 percent of Texas's gross domestic product.

Houston Trailing Total Returns Annualized as of 2024 Q2



Source: NCREIF NPI Database, accessed 2024 Q3.

Houston's transformation is well supported by demographic trends. With a current population of more than 7 million, the Houston MSA is the fifth largest in the nation and the second largest in Texas, behind the Dallas/Fort Worth metroplex. As of July 2023, the Houston MSA saw the second largest year-over-year population gains in the country, surpassing other fast-growing metro areas such as Atlanta, Orlando, Charlotte, and Phoenix. This growth is expected to continue as Moody's forecasts the metro area's population will grow by 1.4 percent annually over the next 10 years, 100 basis points faster than the nation's expected pace over the same period. While this growth is likely the product of an expanding economy, residents are also attracted to the metro area's relative affordability. Houston's cost of living index is 28 percent below the average of the most populous MSAs. The metro area also boasts above-average diversity with more than 90 nations represented in its population. This diverse community is one of the factors that drove Houston to overtake Miami in FT-Nikkei's annual ranking of best U.S. cities for foreign multinationals to do business. The number 1 ranking was also supported by the metro area's business-friendly policies, strength in logistics, and relative affordability.

Looking ahead, the metro area's existing energy infrastructure and dominant port system position it to be a leader in the nation's transition to green energy. Additionally, its unique lack of formal zoning laws makes for a particularly development-friendly environment. These key benefits, along with the area's strong trends should continue to attract investment.

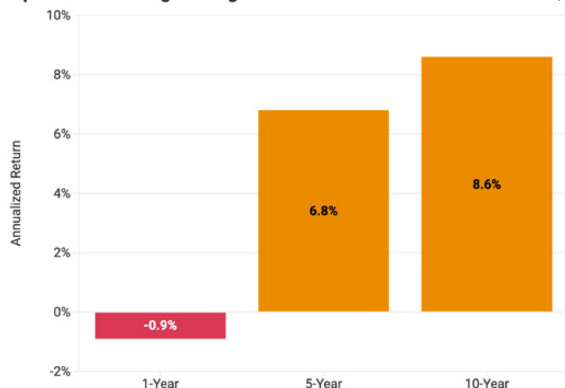
Markets to Watch

Tampa-St. Petersburg

Though Tampa-St. Petersburg might fly under the radar compared to its neighbors—the colorful Miami and heavily touristed Orlando—the metro area is no slouch amid Florida's formidable peers. Tampa's sunny climate, year-round sports, no state income tax, and booming economy have created a longtime draw for workers and retirees alike, leading Money magazine to name Tampa the ninth best place to live in the United States in 2022. The metro area has proven a good place for real estate investment capital to live as well, with 10-year annualized total returns of 8.6 percent in NCREIF's NPI. Tampa moved up 14 spots in *Emerging Trends'* U.S. Markets to Watch over the past year, the most improved ranking among Florida's major metro areas (and tied for highest upward movement in the state with Deltona/Daytona Beach and Gainesville); Tampa is also the first U.S. Market to Watch for homebuilding prospects.

Tampa models an enviable economy with strong growth, high-paying job drivers, and economic diversity. The MSA's population grew 1.5 percent per year from 2013 to 2023, approximately 2.5 times the national pace. Similarly, Tampa's job growth has nearly doubled the national pace over the 10 years ending August 2024. The metro area is driven by white-collar jobs, particularly in the financial services sector. The share of private office–using jobs is 39 percent higher in Tampa than in the United States overall, while financial services jobs' share is 59 percent higher here. There are four noteworthy finance and insurance companies with over 5,000 jobs in the metro area. But despite this notably outsized industry cluster, Moody's Analytics gives the area an industrial diversity score of 0.83 (U.S. = 1.0), which ranks fourth most diverse among the 390 ranked MSAs.

Tampa-St. Petersburg Trailing Total Returns Annualized as of 2024 Q2



Source: NCREIF NPI Database, accessed 2024 Q3.

Housing affordability is perhaps Tampa's greatest headwind, as Moody's data on the cost of living puts Tampa's relative costs at 111 percent of the national average. Homeowner's insurance expense now ranks among the 10 highest nationally. Rising costs might slow in-migration from the 50,000 to 70,000 the metro area saw each year from 2021 to 2023, which calculated to a top 10 rate per capita for metro areas with more than 1 million residents. Some relief will come from lower interest rates, while Tampa home prices have moderated a bit since their January 2024 peak. But with house prices up 66 percent in the four years ending July 2024, much of Tampa's previous housing affordability has eroded, with little hope of returning in the near term. On the bright side, costs of doing business remain below national averages (95 percent of the national rate, per Moody's), with costs considerably lower than U.S. averages for energy, state, and local taxes, and office rent.

Despite these outlined risks, local economic growth is expected to be conducive to outsized real estate returns. Continued in-migration, an attractive business climate, and job growth forecast at 2.3 times the nation's five-year forecast set the stage for continued demand for Tampa real estate.

Markets to Watch

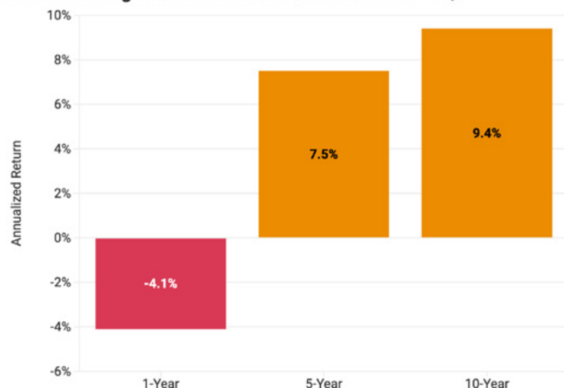
Nashville

Often called "Music City" of the United States, Nashville is perhaps more broadly known as a culture and entertainment destination than it is for its status as the Tennessee state capital, or for its rapidly growing economy. About 15 million tourists flock to the city annually. Real estate investors, however, have also heard the tune—over the past 10 years, Nashville has grown from the 44th largest market in NCREIF's NPI to the 29th largest by market value, and posted annualized total returns of 9.4 percent over the same period. Nashville has consistently ranked among the *Emerging Trends* top 10 markets over the past decade, although it has shifted to fifth place in this year's survey after three straight years in the top overall spot.

The city's growth in stature appears well supported by fundamentals. Employment has expanded at a compound rate of 2.9 percent since 2014, almost three times the national average over the same period. This is despite COVID's severely detrimental impact on tourism in 2020 and 2021. The city's real gross metropolitan output has similarly expanded by a robust compound annual growth rate (CAGR) of 4.5 percent since 2014, making it the 14th fastest growing MSA in the nation by that measure.

Nashville is still an affordable place to do business. Moody's Analytics rates its relative cost of doing business at 99 percent of the national average. By contrast, business costs in expensive coastal gateways such as New York, San Francisco, and Miami rate 153 percent, 200 percent, and 114 percent. In particular, Nashville rates well on taxes—Tennessee is one of the seven U.S. states that levies no state income tax on individuals. It furthermore has only a modest top statutory corporate tax rate of 6.5 percent, which is higher than Florida and Texas but lower than California, New York, and Washington, D.C. Though the city is known as an entertainment destination, it also possesses an outsized share of manufacturing jobs. The automobile industry, in particular, has a significant presence in Nashville with multiple U.S. corporate headquarters located in the city. As affordability remains a national issue, Nashville's positioning could help the city maintain better-than-average economic growth over the coming years.

Nashville Trailing Total Returns Annualized as of 2024 Q2



Source: NCREIF NPI Database, accessed 2024 Q3.

Even so, the city's meteoric rise is likely to slow relative to recent performance. Moody's Analytics forecasts that net migration into Nashville will moderate to about 15,000 people per year over the next decade, down from a peak of 39,000 in 2022. The median home price has risen to almost $500,000, or close to six times the MSA's median income. Despite the still-favorable cost of doing business, Nashville's cost of living is now relatively high at 110 percent of the national average. Though the city remains affordable relative to coastal gateways, it has grown more expensive in absolute terms, along with the nation. Nashville's fortunes furthermore remain linked to tourism, which can fluctuate with the economic cycle. The MSA's boom-and-bust apartment performance over the past five years illustrates this volatility.

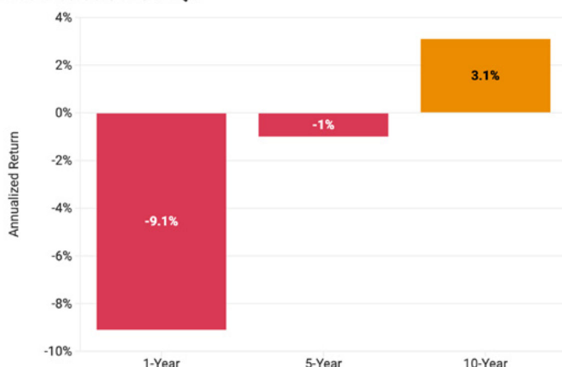
Still, investors appear confident that the MSA will post relatively strong performance for the foreseeable future, as favorable demographics and business climate attract an outsized share of investment.

Market Movers

Manhattan

Reports of New York City's death proved to be greatly exaggerated once again. Manhattan rocketed up the *Emerging Trends* rankings 20 places to land at number 11 overall in 2025. Other New York area submarkets also saw a tremendous rise—Jersey City (+27 to 19th), Brooklyn (+14 to 14th), and Long Island (+18 to 20th). Manhattan itself is once again the big apple of investors' eyes following a rebound in economic activity from the COVID-induced doldrums.

The nation's largest city has long been a preeminent global financial center; the financial services sector remains a stalwart of the local economy. But the city also serves as a major tourist destination, health care hub, and bastion of higher education. It also harbors a growing technology sector. After a prolonged recovery from the COVID pandemic and ensuing brief recession, New York is getting back on track. Metro job growth continues at a steady clip, besting the nation in all but one quarter over the past three years. Employment gains remain concentrated in lower wage education, health services, and leisure and hospitality sectors. Office-using sectors continue to post declines. But other indicators point to renewed vibrancy in Manhattan's once beleaguered business districts. Security badge swipe data indicates higher office use than the major city average. Renewed leasing activity driven by financial sector tenants—and construction slowing to a post-global financial crisis (GFC) low—is stabilizing Manhattan's office availability rate.



High housing costs are a weakness for New York's economy. Moody's Analytics rates its relative cost of living at 120 percent of the national average. But higher return-to-office rates and more favorable demographic trends have caused a snapback in Manhattan apartment demand, catching the eye of investors. A jump in international immigration and slowdown in pronounced out-migration observed during the pandemic should provide a boost to the local labor force and demand for various services. According to Moody's, net out-migration from New York is back to resembling prepandemic trends. A rebound in tourist activity is also boosting city and state coffers and driving business for local hoteliers and retailers. As of 2023, international business travel still lags prepandemic trends by 14 percent, but domestic leisure travel has nearly recovered. And estimated visitor spending of $48 billion in 2023 eclipsed the 2019 level.

Looking ahead, New York is on the right track for the near term, but growth is expected to moderate. Tourism and immigration are driving current population and employment gains, but weakness in higher wage office-using sectors should keep a lid on income growth. Over the longer term, subpar demographic trends are expected to drive underperformance relative to the nation. High costs of living and doing business (153 percent of the U.S. average) remain headwinds to growing payrolls. Both population and job growth are projected by Moody's to remain essentially flat over the next five years.

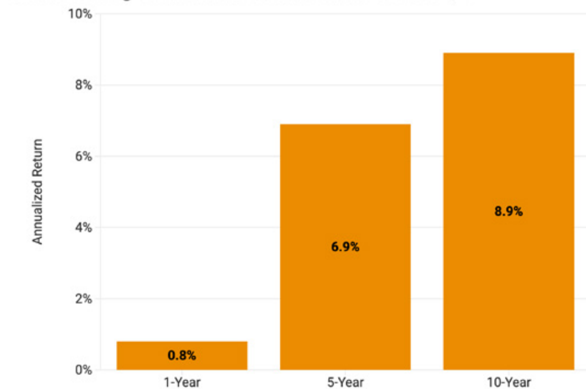
Still, investors appear confident that the MSA will post relatively strong performance over the near-term horizon, as delayed momentum coming out of the COVID pandemic drives rebounding fundamentals and renewed interest from capital.

Market Movers

Detroit

Detroit, long seen as the poster child for shrinking cities and urban decay, has climbed 22 spots to become the highest-ranked market in the Midwest. Ten years after emerging from the largest municipal bankruptcy in U.S. history, is the Motor City firing on all cylinders again? There are many positive signs: Detroit posted its first population increase in 66 years in 2023, the revitalization of the long-abandoned Michigan Central Station was completed in 2024, and a global high-end fashion retailer opened a store downtown in 2022. At the same time, compounded annual employment growth has trailed the national rate by nearly 60 basis points (bps) since 2014. Population growth across the greater metropolitan area has stagnated since 1970, declining 0.3 percent annually since 2020. With the city's population declining nearly 65 percent over the past 60 years, more than 17 percent of the city's total land area is vacant, over 20,000 homes have been demolished since 2014, and 78,000 structures remain empty.

Detroit is known as the hub of the U.S. automotive industry and the "Big Three" are the region's largest employers. The city's concentration of automotive research and development has earned it the 14th spot in the United States for high-tech employment. Government, education, and health services sectors have driven recent employment gains, while the professional and business services, manufacturing, finance, and information sectors have shed jobs. Detroit has struggled to attract and retain such jobs during the transition to electric vehicles as the region missed out on many of the megadevelopments incentivized by the CHIPS Act.



While Detroit is the 14th largest metropolitan statistical area by population, it has long been off the radar for institutional real estate investors. It represented just under 0.2 percent of the expanded NPI market value as of 2024 Q2. Detroit's total returns averaged 8.9 percent annually over the past 10 years, exceeding the expanded NPI by nearly 280 bps. Outperformance can be attributed to sector composition and high-income returns. Self-storage, industrial, and medical office assets comprise over 70 percent of Detroit's market value. Ten-year income returns averaged 6.7 percent annually, 210 bps above the index.

Investors might have difficulty finding opportunities to participate in the downtown renaissance. Dan Gilbert, the founder of Rocket Mortgage, has invested billions over the past decade to revitalize downtown Detroit. Gilbert has acquired more than 130 buildings, relocated the Rocket headquarters downtown in 2010, assisted with the construction of a light rail on Woodward Avenue, and spearheaded a program to incentivize employees to live downtown.

Despite its recent momentum, Moody's projects that Detroit's growth and employment will underperform over the long term. However, the region's advantage might be its affordability compared to the nation, as relative living and business costs now register 91 percent and 96 percent of the national average according to Moody's Analytics. The median single-family home price of $280,700 was 33 percent below the national average in 2024 Q2. Investors looking to place bets can benefit from higher income yields with the hope for continued momentum from private investment in downtown.

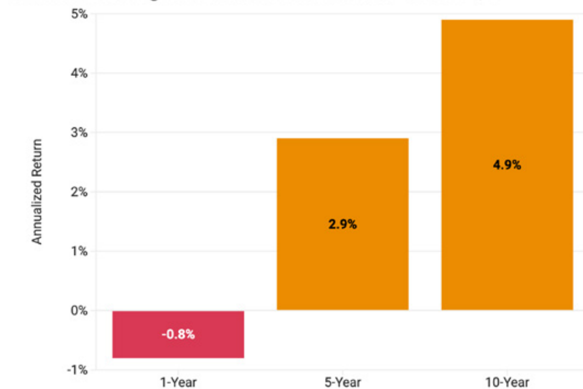
Market Movers

Columbus

Known for being the home of The Ohio State University and the renowned COSI museum, Columbus serves as the "Buckeye" state capital and its cosmopolitan center. The city benefits from a robust, diversified economy with bustling neighborhoods, ranging from the Short North Arts District to the German Village. A combination of business, tourism, and higher education attracted over 51 million visitors during 2023, setting a record for the city.

The MSA has grown to be the 38th largest by market value in NCREIF's NPI—up three spots from 41st in 2019. The market has experienced annualized five- and 10-year total returns of 2.9 and 4.9 percent, respectively. Though these long-term returns are more muted than other *Emerging Trends* top markets, more recent optimism has earned Columbus a position in the *Emerging Trends* movers and shakers listing for this year.

The city's resurgence appears backed by fundamentals. According to Bank of America Research, Columbus was the fastest growing city in terms of population in 2023, increasing 1.1 percent year-over-year. Since 2014, the city's population grew at a 0.9 percent compound annual growth rate (CAGR) and is now estimated to be the 15th largest city in the country. The metro area's employment has expanded at a compound annual rate of 1.5 percent since 2014. The city's real GDP has increased by an annualized growth rate of 2.7 percent over this period. By all of these measures, Columbus is performing close to or better than the national average.



The city is business friendly. Its cost of doing business is 98 percent of the national average, according to Moody's Analytics. This is very affordable for a major market. Business costs in coastal gateway cities such as Miami can reach 200 percent, while costs in major Midwest cities like Chicago measure at 105 percent. Several Fortune 500 companies maintain a prominent presence in the region—of which three are headquartered in the area. After the CHIPS Act passed, several leading technology firms located to this region, earning it a new nickname, "Silicon Heartland." Columbus's concerted effort to attract business investment and retain local graduates should help the city maintain healthy economic growth.

Columbus's expansion is poised to continue. Moody's Analytics predicts that Columbus will be a beneficiary of migration patterns, due in part to its relative affordability. The research firm forecasts net migration into Columbus will be 13,000 people per year over the next decade, down from a peak of 19,000 in 2023 but higher than pre-2020 averages. While inflation has affected the entire nation, Columbus's cost of living remains relatively low at 95 percent of the national average.

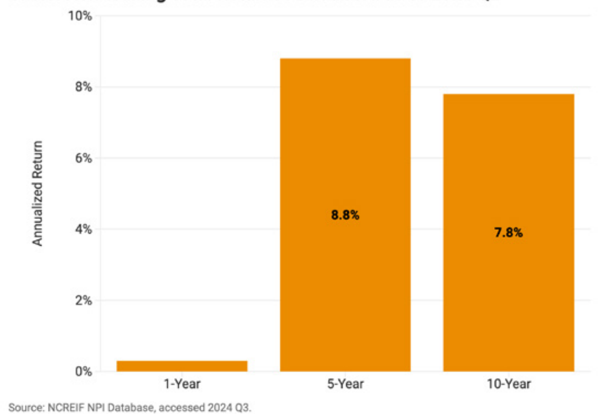
If the city's presence on this list is any indication, Columbus's returns may improve going forward as these favorable demographics and business trends incentivize continued investment.

Market Movers

Charleston

Charleston, South Carolina, renowned for its historic charm and cultural vibrancy, is experiencing a dynamic economic transformation. As the largest city in the state, Charleston serves as a critical hub for business, tourism, and manufacturing. The metropolitan area has seen robust population growth over the past decade, gaining nearly 200,000 residents, and rising from the 83rd largest MSA in 2010 to the 71st largest in 2023. In addition, the city attracts approximately 15 million visitors annually, accounting for a $12.8 billion economic impact in 2022 and nearly a quarter of the region's overall economy.

Charleston's growth is underpinned by robust economic fundamentals. Since 2014, employment has increased at a compound annual growth rate of 2.9 percent, more than double the national average. Tourism is a critical part of Charleston's economy, with leisure and hospitality payrolls accounting for an above-average share of both employment and output. The easing of inflation pressures along with the rapid influx of new—and wealthier—residents into South Carolina and the Southeast will boost the tourism base and spending over the coming years. Charleston's postpandemic recovery has been strong. Between August 2023 and July 2024, Charleston's employment surged by 5.0 percent, securing its position as the second-fastest growing job market in the nation over the period, surpassed only by Merced, California.



Charleston has also become a regional hub for manufacturing and logistics, particularly in the aerospace and automotive industries. Since 2021, manufacturing jobs have increased by 21 percent, driven by major employers and investments in electric vehicle production, helping to diversify the city's economic base. The local economy also benefits from the Port of Charleston, the sixth largest port in the United States by container volume as of 2023 and growing. SC Ports has invested over $2 billion to improve infrastructure at the Port of Charleston, including the opening of the Hugh Leatherman Terminal in March 2021 and the completion of the Charleston Harbor Deepening Project, which achieved a 52-foot depth in 2022, making it the deepest harbor on the East Coast.

However, Charleston faces challenges typical of a rapidly growing Sunbelt metropolis. The city's median home price has surged to over $520,000 as of December 2023, over seven times its median income. Despite a favorable cost of doing business, the city's cost of living has risen to 107 percent of the national average. Charleston's economy, while increasingly diversified, is still somewhat tied to tourism, which can be sensitive to economic downturns. The city's multifamily market has seen rents flatten in recent years due to a record wave of construction. Despite the challenges, investors remain confident in Charleston's future. The metropolitan area is poised to attract substantial investment, driven by its favorable demographics, supportive business environment, and its emerging status as a cultural and economic hub on the national stage.

Market Movers

New Orleans

Renowned for its distinctive cuisine and culture, New Orleans (aka NOLA, or the Big Easy) attracts millions of tourists annually to the Deep South. Revered as the birthplace of jazz, New Orleans is known primarily as an entertainment and culture destination but is also a major hub for the oil and gas industry. New Orleans's ranking in the *Emerging Trends* report has historically been below average but has recently taken strides toward the middle of the pack, reaching 42nd among all 81 markets for 2025. This is up an impressive 25 spots from its previous ranking.

Despite its momentum, the city faces challenges. Employment in New Orleans has yet to recover to prepandemic levels. Total employment was around 565,000 as of Q2 2024, still 3.4 percent below Q4 2019 levels. This still-recovering trend illustrates the local economy's susceptibility to boom/bust cycles in major industries such as energy and tourism. Net migration to the city has also been subdued since the pandemic, and above-average employment volatility relative to the United States has contributed to wage growth that is both slowing and below the regional average. The city's real gross metropolitan output has also declined by a compound annual growth rate (CAGR) of –1.6 percent since 2014. About 17.5 million travelers visited the city and spent just over $9 billion in 2022, which is still modestly below the 19.8 million visitors and $10 billion of spending recorded in 2019. This has weighed on New Orleans's recovery, as the tourism industry is estimated to generate nearly 40 percent of the city's operating budget.

More positively, New Orleans remains an affordable place to do business. Moody's Analytics rates its relative cost of doing business at 90 percent of the national average. Business costs in other Southeast Gulf Coast metro areas including Houston, Tampa, and even Atlanta are higher, rating 97, 95, and 93 percent, respectively. With an above-average share of baby boomers comprising its local population, the city of New Orleans has an outsized share of health care industry jobs relative to the state and nation. Also contributing to the local economy is the city's well-developed port, pipeline, and rail infrastructure, being the only U.S. city with a rail gateway that serves six major Class 1 railroads. Port NOLA saw a record 19 percent year-over-year increase in container shipping volumes for Q3 of FY24, citing continued investment in port infrastructure and improved throughput efficiency. Both state and federal government infrastructure investments totaling more than $500 million are being directed toward projects improving port capacity, such as a new downriver container terminal and the Louisiana International Terminal (LIT).

Challenged economic growth is likely to continue over the near term. Moody's Analytics forecasts net migration into New Orleans to turn negative following 2024, losing approximately 34,000 residents in total through 2029, and at an accelerating pace. The city remains a more affordable place to live compared to other Gulf Coast metro areas, but rising home insurance costs across the state because of climate-related risks, such as flooding and heavy storm damage, are impacting homeowners. Average home insurance costs in Louisiana are 42 percent higher than the national average of about $2,478 annually, ranking the state as the eighth highest by that measure.

New Orleans will likely remain dependent on boom-and-bust industries such as tourism, energy, and shipping for the foreseeable future, and as a result it may continue to see fluctuations in performance. Demographic challenges and exposure to natural disasters underpin investors' hesitancy to bet on NOLA. However, the city's recent momentum in the *Emerging Trends* rankings could indicate that more market players are seeing opportunities in its more long-term growth sectors, such as health care.

Note: New Orleans is not included in NPI reporting, and return figures are unavailable.

Market Descriptions – Appendix

Grouping the Markets

The *Emerging Trends* survey covers 81 geographic markets, which are sorted into major categories and subgroups to facilitate the analysis of these markets.

Population Size and Economic Output

Emerging Trends Markets to Watch - 2025

Category	Subgroup	Population (000s) Total	Average	Per Capita Income	GMP ($ Billions) Total	Average	Per Capita GMP Average
Magnets	Super Sunbelt	36,286	5,184	$57,590	$2,552	$365	$70,317
	18-Hour Cities	18,666	2,667	$64,082	$1,430	$204	$76,635
	Supernova Markets	8,796	1,759	$61,260	$614	$123	$69,837
	All Magnets	63,749	3,355	$59,997	$4,596	$242	$72,101
	Share of All ULI Markets	32.5%			30.1%		
The Establishment	Multitalented Producers	24,153	6,038	$73,447	$2,312	$578	$95,723
	Knowledge and Innovation Centers	8,764	2,191	$107,553	$1,772	$443	$202,148
	Major Market Adjacent	33,243	2,770	$69,108	$2,279	$190	$68,555
	All Establishment	66,160	3,308	$75,785	$6,363	$318	$96,170
	Share of All ULI Markets	33.7%			41.6%		
Niche	Boutique Markets	6,186	884	$55,314	$407	$58	$65,866
	Eds and Meds	17,014	1,890	$60,258	$1,186	$132	$69,704
	Visitor and Convention Centers	11,715	1,464	$52,572	$718	$90	$61,271
	All Niche	34,915	1,455	$56,803	$2,311	$96	$66,194
	Share of All ULI Markets	17.8%			15.1%		
Backbone	The Affordable West	5,972	1,194	$53,618	$359	$72	$60,097
	Determined Competitors	8,440	1,688	$55,595	$525	$105	$62,151
	Reinventing	17,066	2,133	$57,271	$1,137	$142	$66,644
	All Backbone	31,477	1,749	$56,128	$2,021	$112	$64,197
	Share of All ULI Markets	16.0%			13.2%		
Total, All Markets		196,300	$2,423	$64,130	$15,291	$189	$77,895
U.S. Total		336,604		$57,828	$22,951		$68,184

Sources: Bureau of Economic Analysis, Moody's Economics, and U.S. Census Bureau; compiled by Nelson Economics.

Magnets

Magnet markets are migration destinations for both people and companies, and most are growing more quickly than the U.S. average in terms of both population and jobs. These metro areas are also the preferred markets for investors and builders, with the highest average "Overall Real Estate Prospects" ratings of any group in the *Emerging Trends* survey, as well as a disproportionate share of the leading markets. Collectively, these markets account for almost one-third of the population and economic output in the *Emerging Trends* coverage universe, the second largest group in "Markets to Watch." However, they account for almost two-thirds (65 percent) of the 20 highest-rated markets.

Super Sunbelt. These markets are large and diverse but still relatively affordable for big metro areas, forming powerhouse economies that attract a wide range of businesses. Despite their large population bases, most are among the fastest-growing markets in the country. Moreover, their economic performance has been solid through thick and thin.

This dynamic helps explain the popularity of these markets in the *Emerging Trends* survey. These metro areas collectively have maintained the highest average rating of any subgroup in terms of overall prospects for the last four years. After dipping in 2024, the average ranking rose again and captured the top four places, led by longtime survey favorite Dallas/Fort Worth, which ranked first this year. This category also includes Miami, which jumped to number 2 this year, as well as Houston at 3, and Tampa/St. Petersburg at 4, plus Atlanta and Phoenix at 7 and 10, respectively.

Population growth in these markets is fueling considerable development and employment growth—and vice versa. Every market is growing faster than the national average, adding over a million new residents since 2019—all requiring new housing, services, and workplaces. Interviewees most commonly cite the solid growth prospects, business-friendly environment, affordable housing, and good quality of life as reasons for the popularity of these metro areas.

18-Hour Cities. Metro areas in this now-classic *Emerging Trends* category faired relatively well during the pandemic recession, a testament to their enduring appeal. Though growing less affordable over time—partly due to price pressures from transplants from more expensive Establishment markets—these medium-sized cities nonetheless continue to attract in-migration due to lifestyle, workforce quality, and development opportunities, according to ULI interviews. Measured by per capita Gross Metropolitan Product (GMP), workers here are the most productive of any subgroup in the fast-growing Magnets category.

The 18-Hour Cities are scattered throughout the country, comprising a more geographically diverse set of markets than the other subgroups. The 18-Hour City markets include Charlotte, Denver, Minneapolis/St. Paul, Portland (Oregon), Salt Lake City, San Diego, and Fort Lauderdale. Features common to all are active downtowns and urban-like suburban nodes.

The dynamic economies of these markets continue to make them popular with developers and investors alike. Three of the seven markets in this grouping rate among the top 20 markets nationally for overall prospects, led by Salt Lake City (which jumped from number 30 last year to 9), followed by Fort Lauderdale and Charlotte. However, three of the markets in this group fell sharply in the ratings this year: Denver, San Diego, and especially Portland, Oregon, which fell 29 places to number 80—the second lowest of all markets. However, as a group, the 18-Hour Cities still rate third-highest among the 12 subgroups, moving ahead of the Multitalented Producers of the Establishment markets category this year despite suffering the second-greatest decline in average rating.

Supernovas. The Supernovas are still the fastest-growing markets in our coverage universe. Like the astronomic source for its name, the five metro areas in the Supernova category markets have exploded into prominence over the past decade or so. All are smaller markets with between 1 million and 2 million residents. But their defining attribute is their tremendous and sustained population and job growth, which are well above national averages. These are true magnet markets, particularly for educated millennials. Over the next five years, the number of residents in these metro areas is projected to grow by 8.0 percent, four times the forecasted U.S. population growth of 1.9 percent over the same period.

Despite their relatively modest sizes, all the Supernovas have above-average levels of economic diversity and white-collar employment, which explain their strong investor appeal and should help them sustain high growth in the years ahead. Nonetheless, the glow for this category faded a bit more again this year as their unfettered growth has invited some big city problems such as congestion and rising cost of living.

Nashville had been the top market in the nation for an unprecedented three years running through 2024 but declined to a still-strong fifth place this year. Meanwhile, Austin fell 10 spots to number 15, and Raleigh/Durham dropped to 12. These three markets took three of the four top-rated spots in our 2022 survey after sweeping the top three places in 2021. While still solid favorites among *Emerging Trends* survey respondents, they no longer dominate the very top of the ranks as they once did. However, Boise has lost the most support, falling further to number 61 after two years in the top 20. But the Supernovas appear to be suffering some growing pains more broadly.

Still, these markets remain some of the fastest growing and strongest economies in the nation, and little on the horizon seems likely to change that.

Population and Economic Five-Year Growth 2023–2028

Emerging Trends Markets to Watch - 2025

Category	Subgroup	Population Growth	Economic Growth Total GMP	Economic Growth per Capita GMP
Magnets	Super Sunbelt	6.2%	17.1%	10.3%
	18-Hour Cities	3.6%	13.0%	9.2%
	Supernova Markets	8.0%	17.9%	9.1%
	All Magnets	5.7%	15.9%	9.8%
The Establishment	Multitalented Producers	0.1%	10.2%	9.5%
	Knowledge and Innovation Centers	1.1%	9.9%	8.9%
	Major Market Adjacent	1.1%	9.8%	8.8%
	All Establishment	0.7%	10.0%	9.1%
Niche	Boutique Markets	3.2%	11.8%	8.4%
	Eds and Meds	1.2%	9.9%	8.3%
	Visitor and Convention Centers	5.6%	16.2%	10.0%
	All Niche	3.0%	12.2%	8.9%
Backbone	The Affordable West	2.1%	13.6%	11.5%
	Determined Competitors	3.0%	11.4%	8.2%
	Reinventing	-0.5%	7.8%	8.3%
	All Backbone	0.9%	9.8%	8.9%
Total, All Markets		2.8%	12.1%	9.2%
U.S. Total		1.9%	11.1%	9.0%

Sources: Bureau of Economic Analysis, Moody's Economics, and U.S. Census Bureau; compiled by Nelson Economics.

The Establishment

The Establishment markets have long been the nation's economic engines. The 20 markets in this category produce 42 percent of the GMP in the 81 *Emerging Trends* markets while accounting for only 35 percent of its population base, reflecting the outsized contributions of the nation's gateway markets, which we refer to as the Knowledge and Innovation Centers. These markets include the central cities and nearby markets for Boston, Chicago, Los Angeles, New York City, Silicon Valley, and the San Francisco Bay Area.

Though growing more slowly than the Magnet markets, the Establishment markets still offer tremendous opportunities. This group's average rating is second among our four major groupings. However, the appeal of these markets to investors and developers has waned in recent years as growth has slowed across many of these markets while challenges have increased. Their ratings and rankings both fell this year.

Multitalented Producers. Though all the Establishment markets are large and economically varied, some are more diverse than others, specifically the multitalented metro areas of Chicago, Los Angeles, San Jose, and Seattle. These markets distinctively produce a wide range of goods and services, ranging from airplanes and software in Seattle to films and apparel in Los Angeles.

Though these metro areas all have a significant tech presence and a substantial science, technology, engineering, and mathematics (STEM) employment base, office-based jobs generally make up a smaller share of employment than in the Magnets or other Establishment markets. But make no mistake: workers here tend to be productive, with per capita GMP ranking the second highest of any subgroups. Though their elevated cost of doing business and getting deals done limits their appeal for some real estate professionals, the Multitalented Producers nonetheless attract a disproportionate share of investment dollars.

Ratings for these markets have been volatile in recent years, primarily due to the changing fortunes of the tech sector, which figures heavily in these economies. This was an especially bad year for these markets. The rankings of all four markets dropped by about 10 or more places. Los Angeles and Seattle both tumbled out of the top 20, while San Jose dropped 27 places to number 60. Together, the ratings of these markets fell the least of any subgroup for the third year in a row. This subgroup now rates just the sixth highest of the 12 groups, down from third last year.

Knowledge and Innovation Centers. This grouping serves as the focus of intellectual capital in the economy, whether in social media (San Francisco), finance (Manhattan), biosciences (Boston), or think tanks (Washington, D.C.). With the most educated workforces in the county, these innovation centers are by far the most productive, with per capita GMP more than twice that of any other subgroup and three times the national average.

This group also has some of the country's most expensive housing and the highest costs of doing business. Lofty asset prices have cut investor appeal for most of these markets, especially as growth has slowed in recent years. These markets also bore the brunt of out-migration from dense, expensive central business districts (CBDs) during the pandemic, though most are recovering to various degrees. The overall rating for this group declined moderately this year, but this average masks the divergent fortunes of the individual markets. As noted in the chapter overview, Manhattan soared back into investor favor this year, jumping 20 places to number 11. Boston was stable and remained in the top 10. On the other hand, San Francisco and Washington, D.C., fell sharply. Both markets have high concentrations of vacant office space downtown. However, recent employer mandates to return to the office in both cities could help reverse their declines.

Major Market–Adjacent. This group includes the markets surrounding high-cost CBDs in Los Angeles, Miami, New York City, San Francisco, and Washington, D.C. Though most are suburban in character, some are more urban. Moreover, several are or contain metropolitan statistical areas (MSAs) or divisions in their own right: Northern New Jersey (Newark, NJ/PA metropolitan division), Inland Empire (Riverside/San Bernardino/Ontario, California, MSA); the Maryland suburbs outside Washington, D.C., (Frederick/Gaithersburg/Rockville metropolitan division), and Northern Virginia, outside Washington, D.C. (Arlington–Alexandria–Reston, VA–WV Metropolitan Division), among others.

Many of these markets benefited from the out-migration from their neighboring CBDs during the pandemic, and their prospects have improved somewhat in the eyes of survey respondents. But here, too, there is a diversity in trends as half of the 12 markets improved this year and half declined. The New York City metro area is now garnering more support, with

Brooklyn, Jersey City, and Long Island all registering big gains and moving into the top 20. By contrast, California's Inland Empire and Oakland/East Bay markets dropped significantly, though Orange County fell only slightly. The two Washington, D.C., markets declined (along with the District itself in the prior category).

Niche Markets

As befitting their moniker, Niche markets are generally smaller or less economically diverse than the Magnets and Establishment markets but typically have a dominant economic driver that supports stable economic growth. This group ranks third among the four major market groups in terms of investor outlooks but far behind the Magnet and Establishment groups.

Boutique markets are smaller cities with innovative or unique developments that coordinate well with their economic and demographic profiles. However, the demographics in these markets—with fewer millennials and more seniors—tend to be less favorable for economic growth. Eds and Meds is an oft-used term to describe areas with sizable education and/or health care facilities. Finally, Convention and Visitor Centers markets focus on tourism, conventions, and, in some cases, the retirement and second-home market.

Boutique Markets. These are smaller markets with lively downtowns; diversity in leisure, cultural, and natural/outdoor amenities; and stable economic bases that withstood the COVID-19 downturn better than many markets. These markets offer a lower cost of living and cost of doing business in a diverse range of settings, primarily noncoastal. Chattanooga, Des Moines, Greenville, Knoxville, Omaha, and Portland (Maine) all have populations of less than 1 million, and all maintained their previous positive in-migration during the pandemic, indicating the appeal of these towns.

Richmond remains the top-rated market in this subgroup and continues to attract substantial residential and commercial development. Five of the seven markets in this grouping earned higher overall scores this year. For the group as a whole, the average score improved the second most of any group.

Eds and Meds. Before the pandemic, Eds and Meds markets were envied for their desirable combination of stability (large universities) and growth (health care). COVID-19 initially dented their reputations as both education and medicine suffered disproportionately during the pandemic. However, demand for education and health care—and the facilities that house them—have resumed their growth. Ratings and rankings for these markets improved in concert with the other Niche subgroups this year. Columbus is a standout here, jumping 22 places to number 31. Other Ohio markets in other groups also rose.

This category includes markets with a strong base of major universities, highly ranked health care systems, or both—Baltimore, Columbus, Gainesville, Madison, Memphis, Pittsburgh, and Tallahassee. Northwest Arkansas is a new addition to this grouping. Each metro area has one or more major universities, while Memphis has St. Jude Children's Research Hospital, the top-ranked children's specialty hospital in the United States. Cities in the Eds and Meds category typically are more affordable markets. Philadelphia—the largest market in this category—also has significant employment in telecommunications and financial services, among other sectors. And both Philadelphia and Pittsburgh, at the other end of Pennsylvania, have numerous corporate headquarters in various sectors.

Convention and Visitor Centers. These Sunbelt (or just sunny, in the case of Honolulu and Las Vegas) markets draw substantial numbers of visitors, whether for conventions or leisure. At the same time, several markets in this category also have substantial bases of retirement/second-home markets. Markets in this category include Cape Coral/Fort Myers/Naples, Charleston, Daytona Beach, Honolulu, Las Vegas, New Orleans, Orlando, and Virginia Beach/Norfolk. All have significantly more tourism employment (relative to market size) than the U.S. average, with Las Vegas the most travel-dependent market in the country.

These markets all endured significant challenges resulting from COVID-related restrictions, particularly those that rely on air travel, business demand, or both. This grouping generally fared well this year, with scores improving in most markets, led by Orlando, which jumped from number 19 to 6.

Backbone Markets

The final group comprises a wide variety of interesting and enjoyable places to live and work. Though generally rated relatively lower in our surveys, many of these metro areas offer select investment development/redevelopment opportunities. These 18 Backbone markets have more than 30 million residents among them. Although markets in the Affordable West subgroup are growing sharply, most of the Backbone

markets are slower growing but benefit from moderate housing and business costs. Their average score rose by more than any category this year.

The Affordable West. Beyond the pricey coastal markets in Seattle, Los Angeles, the San Francisco Bay Area, and San Diego, several small- to medium-sized cities offer attractive places to live at a more affordable price. Notably, they are among the fastest-growing metro areas outside the Magnets and some Niche markets. These include Spokane, Washington/Coeur d'Alene, Idaho; Tacoma; and Tucson, each of which is forecasted to experience faster population growth than the nation over the next five years. Nonetheless, affordability here is fading as this rapid population growth has pushed home prices relative to income higher than the national average. The ratings of these markets rose by more than any subgroup this year, so their rankings rose slightly.

Determined Competitors. These diverse markets tend to be strong ancillary locations in their regions, with several successfully revitalizing their downtowns and neighborhoods. This group includes Indianapolis, Kansas City, Louisville, and Oklahoma City—all very affordable with a favorable quality of life. Significantly, all maintained positive population growth through the pandemic, and all saw faster job recovery than the national average—a positive sign for future economic growth. The ratings for this group rose slightly in this year's survey, with Oklahoma City rising 24 places to number 41.

Reinventing. Reinventing markets are eastern and midwestern cities seeking to modernize their economic base. Many were manufacturing centers and are now moving to a more sustainable mix of education, health care, and technology. However, anemic population growth remains a problem, as several of these markets experience negative net out-migration as residents search for opportunities elsewhere. These markets include Buffalo, Cincinnati, Cleveland, Detroit, Hartford, Milwaukee, Providence, and St. Louis. Seven of the eight markets recorded higher scores this year, but the standout is Detroit, jumping more than 20 spots to land at number 17 in the top 20.

Emerging Trends in Canadian Real Estate

"We are at the end of a declining cycle. If we see interest rates drop further, we will see slow growth improvement and, two years out, tremendous growth."

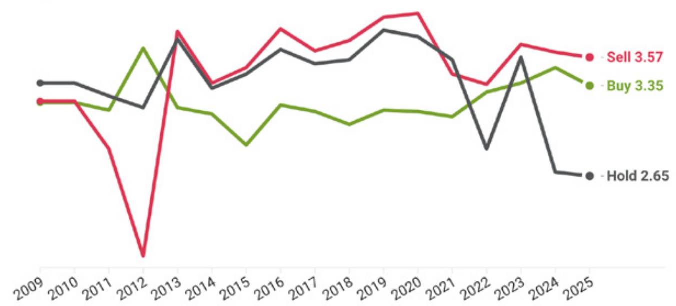
After more than two years of an industry slowdown, Canadian real estate companies have been paying close attention to whether declining interest rates will reinvigorate the market for investment and development. But as with much of the sentiment expressed in recent *Emerging Trends* reports, the industry outlook for the year ahead remains mixed, as is evident in the following quotations:

"Things can't get that much worse," said one interviewee, who nevertheless expects business conditions to start to improve after hitting bottom.

"I cannot think of another business that I'd like to be in right now," said a Calgary interviewee.

Emerging Trends Barometer 2025

1-Abysmal 2-Poor 3-Fair 4-Good 5-Excellent



Source: *Emerging Trends in Real Estate* surveys.
Note: Based on Canadian investors only.

The second quote reflects the increasingly warm sentiment toward Calgary, where a strong economy and rapid population growth have helped make this the top market to watch in this year's survey of Canadian real estate companies. It also hints at the increasing differentiation in the Canadian market as the outlook varies even more widely by factors such as region, asset class, the specific characteristics of the investment or development opportunity in question and the strength of a real estate company's balance sheet and management team.

There are signs of this playing out in the condominium market, where developments underway in Toronto are coming under significant pressure. Some projects—particularly those led by smaller companies with fewer financial resources—are in varying degrees of distress. While developers and lenders have in many cases found ways to stave off more drastic actions like receiverships, uncertainty remains about how long they'll be able to do so—even with interest rates coming down. Many companies have already accounted for interest rate cuts in their investment underwriting and development plans, while other pressures (such as building costs, reduced investor demand, regulatory challenges, and labour shortages) continue to affect project viability.

These trends are emblematic of the broader shift in Canada's real estate market since interest rates have remained higher for longer than the industry hoped or believed would be the case. Simply put, as higher financing costs compound other industry pressures and investors weigh real estate investment against other opportunities offering attractive returns with less risk, the sector is less compelling than it was during the previous period of strong returns and cheap and plentiful capital.

A range of other factors is also influencing real estate businesses and prospects. Interviewees cited other broad business trends—such as demographics, supply and demand dynamics, technology shifts like the emergence of generative artificial intelligence (AI), housing affordability, government regulations, and sustainability and climate change—as key factors shaping how companies approach investment and development in 2025. While real estate companies have been dealing with the implications of these trends for some time, strong signals indicate they'll only grow in importance in the coming years.

As challenging as the current environment may be, real estate companies with a strong conviction about where the market is going, based on a deep understanding of these fundamental trends, will be in the best position to seize opportunities, strengthen their operations and management teams, build resilience, and create value. For some, this will involve changes to improve their existing businesses as they assess how the market evolves in 2025. Others will take their cue from the fundamental trends at play and pursue a bigger reinvention of how their companies create value. Either way, companies will need to adapt to an environment that has changed in significant ways and will continue to do so in the years ahead.

1. Harnessing Creativity and Conviction to Unlock Value amid Deal and Capital Constraints

"People are reeling are reeling. Those that are not reeling are rethinking, repositioning and seizing opportunities."

To some, 2024 felt like the real estate industry's most challenging year in recent memory. Reduced credit availability—especially for new entrants—as well as heightened geopolitical risks, uncertain property valuations, and interest rates that remained higher for longer than many expected left the sector with "a crippling sense of uncertainty" heading into 2025, as one interviewee put it.

Several interviewees observed a decrease in domestic capital available for real estate investments. Many pension funds, insurers, and other institutions reached or exceeded their real estate allocation limits and moved capital into other sectors and markets. Some also restructured their management platforms and are working more with private fund managers. Meanwhile, many real estate investment trusts (REITs) traded at a significant discount to their net asset values, hindering their ability to raise capital or pursue accretive acquisitions.

These trends contributed to a broader perception that many investors are less willing to take risks in real estate. With growth opportunities from real estate harder to find, the returns from lower-risk investments can appear more attractive.

Yet several interviewees noted some investors see opportunities to put capital to work when public markets are seized up and competition from Canadian pension fund investors is lower than in previous years. Leading industry players are balancing smart deliberation with strategic decisiveness to create value by focusing on creative financing, new partnerships, and investments in alternative real estate assets.

A Growing Divide in Capital Availability

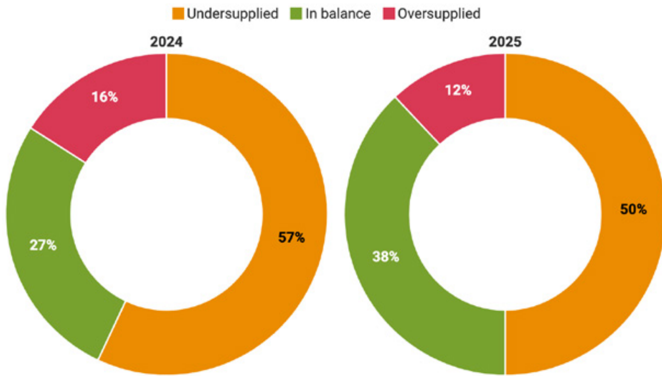
"Debt capital is available. But there are lots of buts and caveats, depending on who you are."

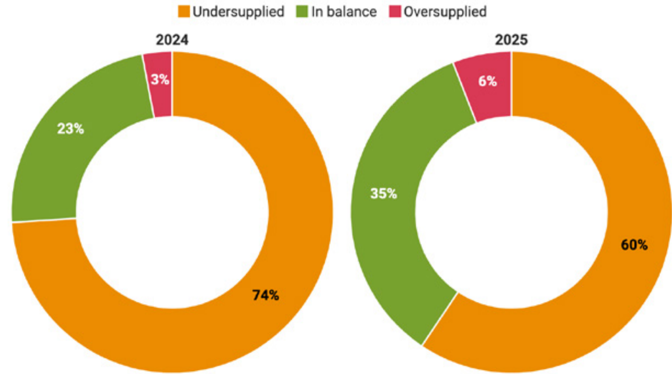
So far, interest rates haven't come down as quickly as some had predicted a year ago. And several interviewees said banks are adopting more conservative lending standards due to economic and regulatory pressures, such as the higher capital reserve requirements mandated under the Basel III Accord.

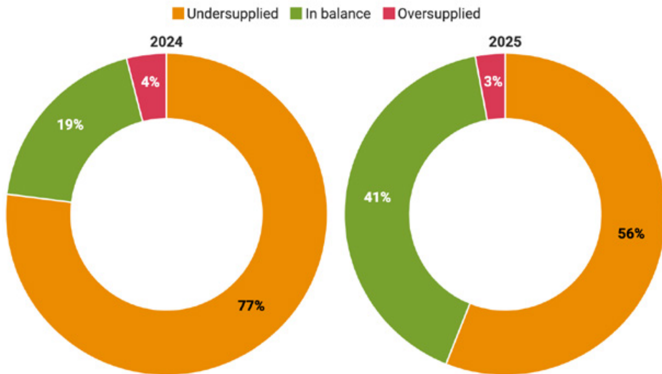
Still, our survey shows a somewhat more balanced outlook for capital availability in 2025, especially when looking at debt versus equity. And while our 2024 *Emerging Trends in Real Estate* report found debt funds were a growing opportunity for investors amid constrained capital markets, there was less discussion about them this year.

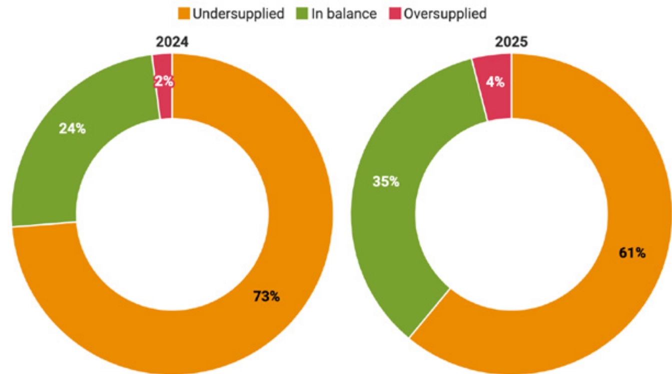
Overall, interviewees painted a nuanced picture of the outlook for 2025, with many noting an emerging bifurcation in capital availability based on a borrower's credit quality and banking relationships. Many large real estate investors say they can still access loans but see banks applying greater scrutiny. "Loans that used to take 30 to 60 days to be underwritten now take four months. There are more boxes to check and questions to answer," said one residential developer. Conversely, smaller and less established real estate companies face higher capital constraints.

Even so, the current environment creates new opportunities for private investors—including family offices and high-net-worth individuals—to provide capital to projects that face financing gaps or challenges. In addition to filling refinancing gaps, some are moving up the capital stack and providing mezzanine finance, tranche credit, and subordinate debt—frequently in









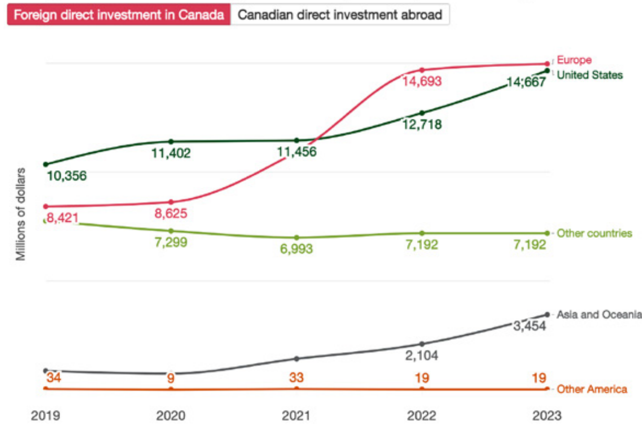
syndication with other family offices and outside real estate organizations. This approach mitigates financial risk by pooling capital. Strategic partnerships can also help family offices develop internal skills and experience in evaluating opportunities, executing deals, and managing risks.

A looming question in 2025 is how lenders will manage maturing loans at a time when many borrowers are struggling. "Extend and pretend" has been a commonly cited real estate financing adage over the past year as lenders rework loan terms, hoping borrowers will be able to pay them back when market conditions improve. This approach prevented immediate losses on lenders' balance sheets and limited the number of distressed sales on the market. Some argue that an increase in foreclosures could add pressure to appraised property values, further tightening lending conditions.

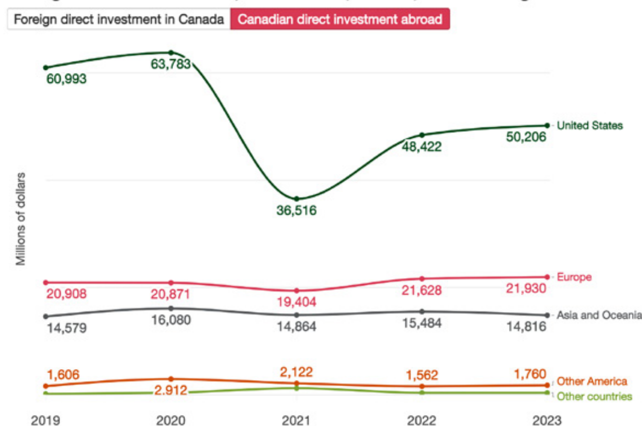
Dealmaking in a Period of Adjustment: How Investors Are Bridging the Gap

"There has to be a reset on valuation expectations before we can start trading again."

Many commercial real estate investors found themselves on the sidelines in 2024 as the environment of price discovery continued. Sizeable bid-ask price spreads, exacerbated by distressed sales that further clouded property valuations, acted as a drag on transaction volumes. Property owners—particularly those with well performing leases in place—remained reluctant to sell at a discount and crystallize valuation losses. At the same time, the persistently narrow spread between capitalization rates and bond yields reduced the attractiveness of potential purchases for investors. The overall value of transactions was



Source: Statistics Canada, international investment position, Canadian direct investment abroad and foreign direct investment in Canada, by North American Industry Classification System (NAICS) and region.



Source: Statistics Canada, international investment position, Canadian direct investment abroad and foreign direct investment in Canada, by North American Industry Classification System (NAICS) and region.

down 50 percent over the first two quarters of 2024 when compared with the same period in 2023, according to Colliers. (The real estate services firm noted that figure drops to 25 percent when a single megadeal from 2023 is excluded.)

Several interviewees said the gap between buyers and sellers is narrowing. Some signs indicate that land values are decreasing, which could spur additional deals activity. Yet overall, interviewees had mixed predictions for 2025. Some said they expect transaction activity to increase as interest rates decline. Several also anticipate more property owners will bring properties to market, choosing to sell assets to pay down debt, avoid costly refinancings at market rates, or simply raise capital to maintain other investments. Another factor in market activity in the year ahead is the ongoing transfer of family-owned real estate businesses and assets to the next generation of owners and leaders. As many founders of privately owned Canadian companies retire, the wealth transfer—which is already underway—is expected to spark dealmaking activity, including consolidation of real estate businesses in some cases.

Other interviewees pointed to demand-side factors that could increase transaction activity, such as opportunities to purchase existing buildings at prices below their replacement cost that, on a risk-adjusted basis, are more attractive than new developments.

This outlook wasn't universal. Some interviewees predicted deal activity would remain flat in 2025. Yet a representative of one private equity firm summed up the feelings of many interviewees with the observation that 2024 "was a quiet year; 2025 can't be quieter."

While the outlook for deal activity remains an open question, several emerging trends are likely to shape the deals market in 2025. They include the following:

Private equity from family offices and similar organizations will be highly visible: Many interviewees said private investors, particularly family offices and private equity funds, will be among the more active buyers in 2025 amid the pullback by pension funds, insurers, and REITs. "Domestic institutional investors will not be the cause of transactions," one interviewee said. "It will be private equity. REITS are out of the game, and institutional owners are overweight." Another interviewee suggested this dynamic would push property prices down as private buyers face limited competition for assets.

Buying opportunities for foreign investors: A smaller pool of potential domestic buyers is also creating opportunities for foreign investors. Canada's population growth is catching the attention of many investors, particularly those in the United States and Western Europe. This trend is already gathering momentum: overall foreign direct investment in Canadian real estate, rentals, and leasing from U.S. investors climbed 15.3 percent in 2022–2023, according to Statistics Canada. In the first half of 2024, some U.S. investors announced big bets on Canada's multifamily residential market. On the flip side, some Canadian interviewees are looking abroad for opportunities, with several focusing on the United States due to what they described as a more favorable regulatory environment and faster development timelines. Similarly, Canadian tax changes and reporting requirements could temper the enthusiasm of foreign investors assessing emerging opportunities in Canada.

Preparing to take advantage of emerging distress: Several interviewees said they plan to focus on strengthening

their balance sheets in 2025, holding cash, and looking for opportunities to purchase properties from highly leveraged developers. "We haven't seen the end of property receiverships," said one developer. "We are holding onto our liquidity to capitalize on some potential land purchase opportunities." The number of real estate, rental, and leasing insolvencies jumped 51 percent in the 12-month period ending June 30, 2024, compared with the same time frame a year earlier, according to the Office of the Superintendent of Bankruptcy. But not everyone sees compelling opportunities in the rising number of distressed sales. "The debt on distressed properties doesn't make sense relative to the value of the asset," said one developer, adding, "They're not good properties."

Conviction-led buyers and thematic investments: Several of the largest transactions in the first half of 2024 involved industrial and multifamily properties—two of the asset classes pinpointed as best bets by interviewees in recent years and into 2025. Investors pursuing outsized returns will continue to focus on high-quality assets with solid fundamentals, including in the multifamily and industrial segments as well as alternative asset classes.

In Focus: The Stress—and Distress—in Canada's Major Condo Markets

The condominium markets in two major cities—most notably in Toronto and to a lesser degree in Vancouver—have largely frozen.

Over the past decade, many investors who bought presale units saw the value of their investment significantly appreciate during construction. Now, in a time of stagnant and even declining prices, alternative assets often offer more compelling returns. This is especially true when condo rental rates in markets like Toronto have softened, at least in the short term, and in some cases have declined. Meanwhile, high interest rates are suppressing demand from end users. Many potential buyers are adopting a wait-and-see approach, hoping for further price corrections and lower interest rates. The price gap between existing condos and preconstruction units has also widened, further weakening presale activity.

On the supply side, developers are grappling with elevated construction and borrowing costs. Capital availability has also tightened as lenders become increasingly cautious toward condo projects. Additionally, reports of increasing numbers of preconstruction buyers pursuing assignment sales suggest condo builders are struggling to close sales on newly completed projects. The market downturn is contributing to developers holding a significant inventory of unsold units and incurring carrying costs and debt financing expenses, making it unfeasible to launch new projects. According to market research firm Urbanation, unsold condo inventory in the Greater Toronto and Hamilton Area reached a record high of 25,893 units in mid-2024. It also reported that the number of condos under construction fell to a three-year low of 87,508—a year-over-year decline of almost 19,000 units.

These forces are exposing a widening market bifurcation. On one side are larger, well-capitalized developers with strong balance sheets and sizeable land banks. They continue to have access to credit and the flexibility to pause projects until market conditions improve. Indeed, developers postponed 76 projects—representing 24,335 units—between 2022 and mid-2024 in the Greater Toronto and Hamilton Area alone, according to Urbanation. On the other side are small- and mid-sized developers that may not have the reserves needed to navigate growing financial pressures.

With land trading at relatively lower prices, developers under financial pressure are looking to sell properties only as a last resort. Some companies may be able to pivot toward purpose-built rental units in select cases, such as when their financial partners have longer payback horizons. But companies pursuing rental projects face the same elevated borrowing and construction costs that are challenging condo developments. A more common scenario for developers—particularly those that have built trust with their lenders—is to find mutually beneficial financial arrangements that let them retain their land holdings.

Some industry watchers said they saw fewer receiverships and distressed sales in early 2024 than expected. One possible reason is that many lenders are trying to avoid realizing substantial losses on their loans and aren't rushing to force indebted condo developers to liquidate assets in a

depressed market. Instead, they're entering into forbearance agreements and exercising their right to place credit bids, giving developers opportunities to negotiate new terms.

Several interviewees said they expect the number of condo developers entering into receiverships or forced into distressed sales will increase in 2025. But even if more opportunities arise, several interviewees said land prices still haven't come down enough to create a clear path to development since interest rates and construction costs remain high. "We looked at over 50 land purchase deals over the last 12 months, and none made financial sense," said one Vancouver interviewee, adding that more receiverships will likely emerge in 2025.

Despite the challenging conditions, some interviewees noted that strong population growth means the condo market will likely come back, creating opportunities for those with sufficient patience and capital to wait out the downturn. Some predicted that developers that focus on end users, rather than leveraged investors, will be best positioned to benefit from an eventual market recovery.

Strategic Partnerships and Niche Assets: Reimagining How Real Estate Companies Create, Deliver, and Capture Value

Despite current difficulties and uncertainties, Canada's real estate market offers potential opportunities for companies willing to act with conviction, creativity, and patience. Some will adapt and thrive in the changing environment by reimagining how they create, deliver, and capture value, which could involve developing new capabilities, partnering with other organizations, and entering new markets.

A key emerging trend shaping the strategies of some real estate players is the rise of niche property types, which emerged as one of the best bets in 2024, and real assets. With relatively few core office, industrial, and retail properties on the market—and limited opportunities for a significant uptick in yields—some real estate investors are taking a closer look at real assets, which blur the lines between real estate and infrastructure. These opportunities appeal to investors with a firm belief that changing consumer, technological, and business trends will create new real estate requirements.

Several interviewees highlighted the growing need for data centres to support the adoption of emerging technologies, such as generative AI, cloud computing, and the internet of things—all of which require significant computing power. Real estate investors and operators can create value in multiple ways that go beyond new site development. They also have opportunities to add value to existing data centres by enhancing lease and operational performance, strengthening sustainability attributes, and reinforcing security measures.

Another example is cold-storage facilities, which combine traditional industrial real estate with increasingly technology-enabled logistics and distribution systems. Some real estate observers believe more cold-storage facilities are needed to feed a growing population that PwC's recent Voice of the Consumer Survey showed is looking to boost its intake of fresh fruits and vegetables. Cold-storage facilities are also needed to support online grocery shopping and meal kit delivery services, not to mention storing exports of fresh and frozen food.

These opportunities won't appeal to every investor. Data centres—which combine elements of infrastructure, real estate, and technology—have unique tenancy risks and high build-out costs. They also require large amounts of energy, pointing to the need for sustainable solutions that draw on new and existing sources of clean electricity. In the case of cold storage, considerations include specialized requirements to meet specific user needs and higher costs compared with facilities that store other types of goods.

Successfully entering new markets in areas like real assets and niche properties often requires capabilities that may be available by partnering with organizations with operational expertise. One example is student housing, which several interviewees cited as offering attractive opportunities. Some argue that investors haven't yet scaled Canada's student housing sector to the same degree as in other countries, where large institutional operators have created nationally branded providers. But this subsector comes with unique operational requirements. Working in partnership with post-secondary institutions is one way to overcome this challenge, one interviewee said. "Student housing is like a hotel business," the developer said. "It needs to be operated well."

2. Further Change Needed to Tackle the Complex Affordability Crisis

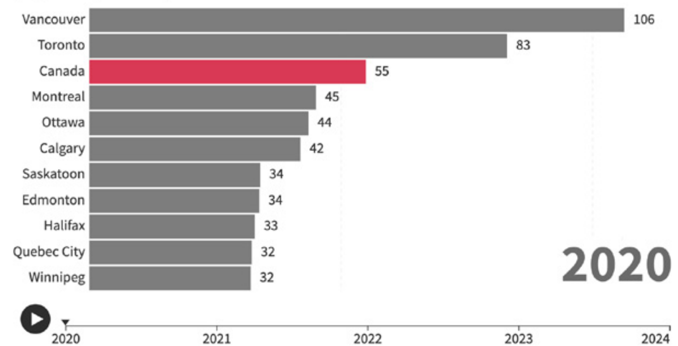
"We need a new deal for housing in Canada."

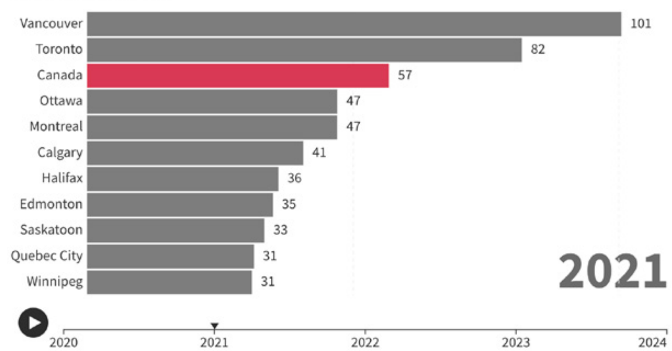
Another key trend reshaping Canadian real estate is housing affordability, an issue that's increasingly affecting industry players as the cost of buying and renting reaches the limits of what many Canadians can pay. The issue has taken centre stage on the policy front as governments at all levels across Canada announced a series of measures aimed at increasing supply and addressing some of the concerns the industry has been raising for years.

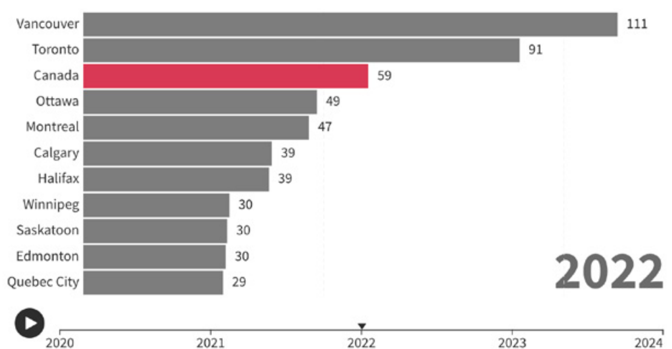
While some interviewees welcomed those moves, the overall sense from the industry is there's more work to do to address a complex problem that has been building for some time. "Government plans around affordability will have zero impact as they haven't solved the fundamental issue of cycle time and governmental approvals and taxes," said one interviewee.

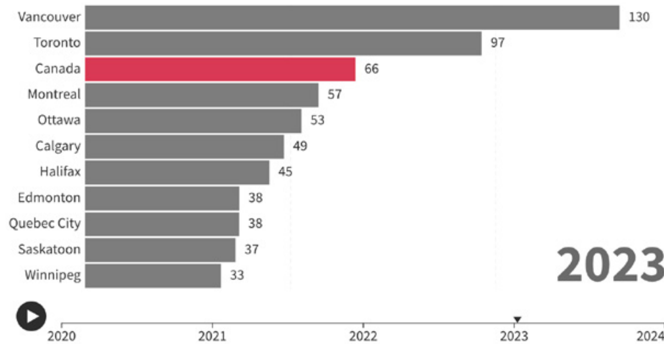
Recent statistics reflect the challenges at hand even with the policy changes and the broader push to address the housing crisis. Trends around housing supply have been going in the wrong direction, with housing starts expected to total about 232,000 units in 2025. That's up slightly from about 224,000 starts expected in 2024 but still down significantly from the recent high of 271,000 in 2021. It's also far short of the pace of construction required to build the 3.5 million additional new homes, beyond current trends, that the Canada Mortgage and Housing Corp. (CMHC) has estimated will be needed by 2030 to restore housing affordability in Canada.

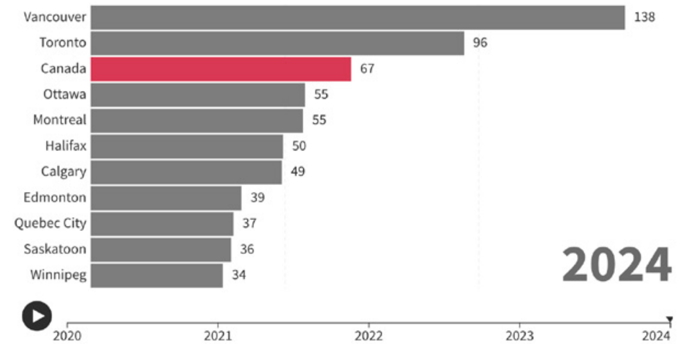
Trends in the condo market suggest further challenges ahead for housing affordability as the downturn in that segment has led developers to pause plans to build new units. While new inventory has been coming to market due to previous condo starts, the current slowdown could lead to a shortage of units in the coming years as demand recovers amid declining interest rates. All of this comes at a time when strong levels of population growth and household formation fuel further demand, although the outlook continues to evolve in light of federal government changes to both permanent and temporary resident arrivals to Canada.









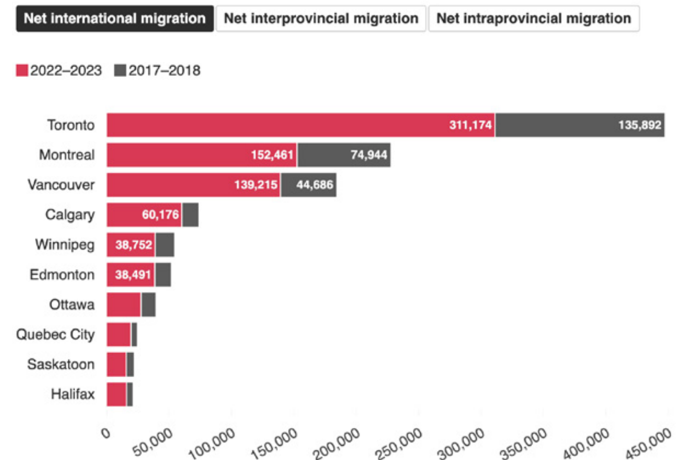


Supply Barriers Persist

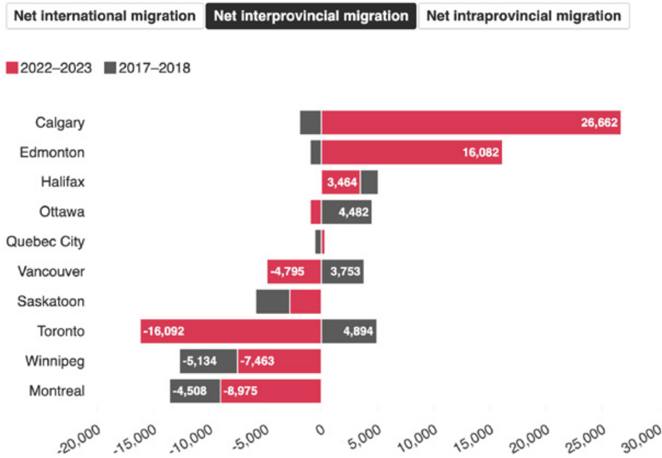
These are just some of the fundamental trends that will challenge Canada's ability to make significant headway on housing affordability, even with new supply-oriented policies. While some interviewees felt recent measures to encourage new building are helpful, the overall sense was that the actions to date won't make a meaningful difference—especially in the near term—because they haven't been big enough, are taking too long to implement, and fail to address key challenges.

On the federal side, interviewees are generally positive about the government's move in 2023 to waive the goods and services tax (GST) on new purpose-built rental housing. They also say low-cost loans provided by CMHC in exchange for affordability components in new rental housing projects are helping close some of the gaps in being able to build new supply. Those two actions are among a long list of federal changes introduced recently to address Canada's housing crisis. Other measures include plans to make federal government lands available for housing development in exchange for affordability commitments. The federal government is also allocating money to support new cooperative housing development and continues to roll out its Housing Accelerator Fund, which provides funding to municipalities that make changes aimed at facilitating new supply.

Some provinces and municipalities are following suit with their own supply-side measures, such as allowing multiple units on land previously restricted to single-family housing and other policy changes to facilitate densification and reduce barriers to development. But while many of these measures could make a difference and, in some cases, create opportunities for real estate companies to play a role, interviewees are seeing limited impacts so far. In some cases, governments announce policy changes and funding support but take a long time to implement them. Some federal initiatives, for example, have been slow to roll out funding due to questions about the methodology for counting new supply. And while zoning changes and broader legislative efforts to support new development are welcome, the reality on the ground is that processes in some cities for reviewing and approving new

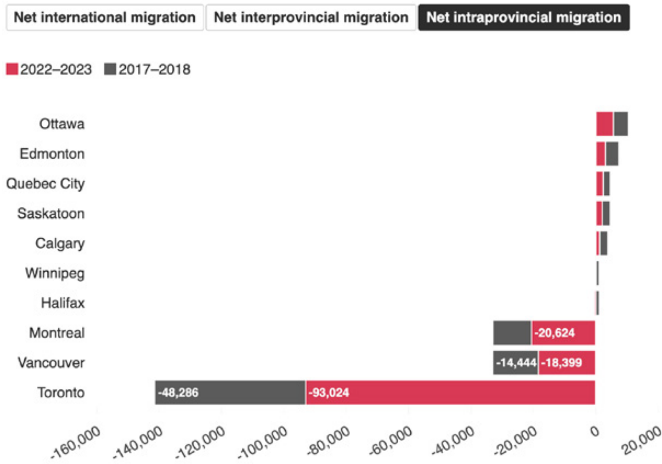


Net International, Interprovincial, and Intraprovincial Migration by City, 2022–2023 vs. 2017–2018



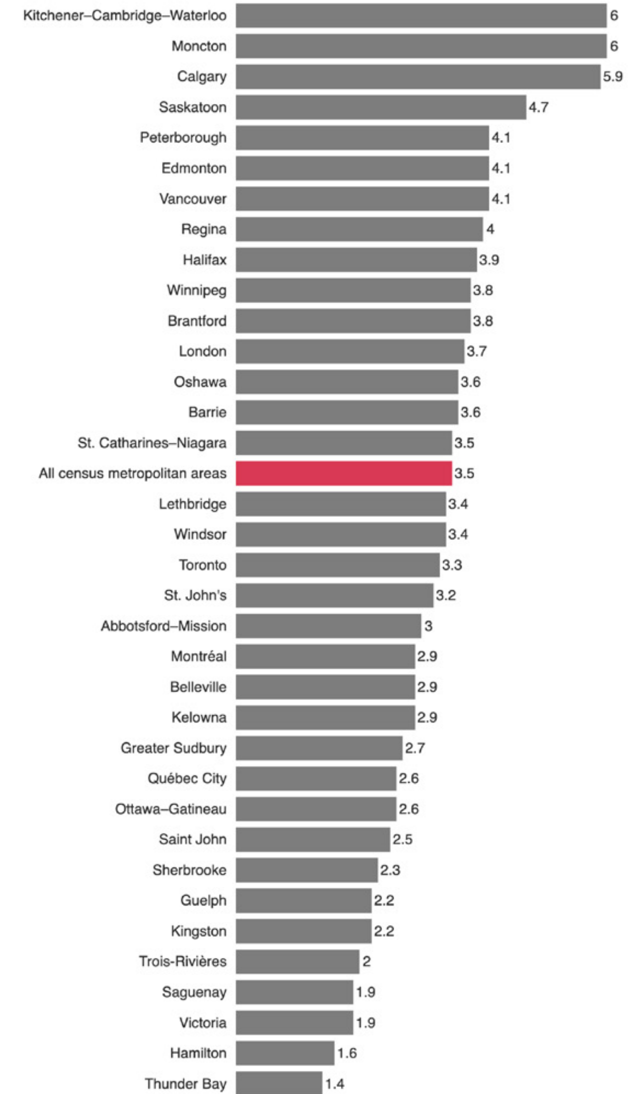
Source: Statistics Canada, annual demographic estimates.
Note: Figures as of July 1 of each respective year.

Net International, Interprovincial, and Intraprovincial Migration by City, 2022–2023 vs. 2017–2018



Source: Statistics Canada, annual demographic estimates.
Note: Figures as of July 1 of each respective year.

Population Growth Rate by Census Metropolitan Area, 2022–2023 (percent)



Source: Statistics Canada, annual demographic estimates, census metropolitan areas and census agglomerations
Note: Population estimates as of July 1, 2023

construction—even the types of densification and infill projects governments say they encourage—remain long and complex as planning departments continue to ask developers for large volumes of information, plans, and studies.

Those approval processes add to the expense of building housing, as do key challenges like shortages of qualified labour, a factor recently cited by Statistics Canada as helping push up residential construction costs. While some interviewees suggested the very tight labour market conditions of previous years have been easing amid the slowdown in housing starts, others had a different view. Among the lingering challenges are the quality of the work performed by available labour, the lack of trades workers for the later stages of homebuilding, and competition for people from the large number of public infrastructure projects underway in Canada. The expected wave of trades worker retirements in the coming years will likely add more pressure on labour supply, so the industry will face continuing challenges, especially when building activity ramps back up.

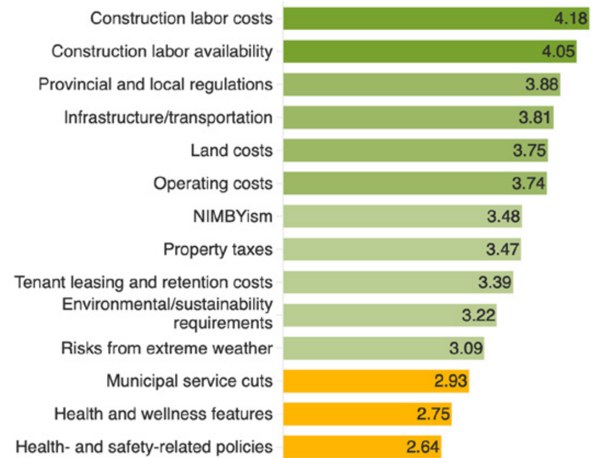
Enabling Innovation and Productivity in Canadian Homebuilding

While labour availability is a factor in pushing up costs, it's also true that Canada's building industry has a productivity challenge. As CMHC reported recently, the number of workers per housing unit has increased over the past 25 years, suggesting declining productivity in the sector. In fact, the federal agency noted that building activity has lagged even as the number of workers building homes in Canada was the highest ever in 2023.

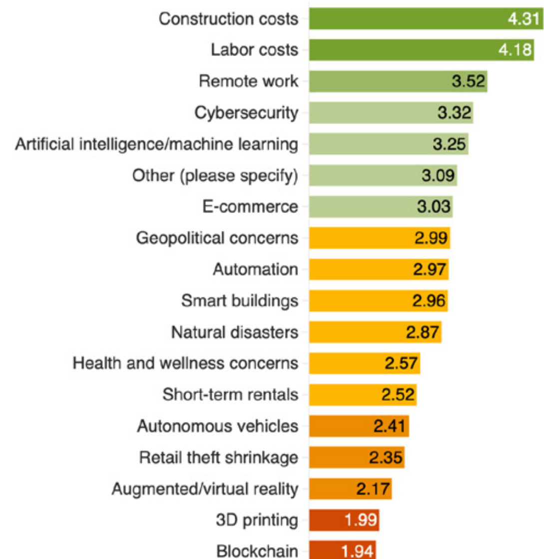
Findings like these further highlight the imperative to accelerate innovation in Canada's real estate industry. The subject has been explored in past *Emerging Trends in Real Estate* reports, and some interviewees acknowledged its importance given the scale of the affordability crisis and its growing role in shaping the needs and expectations of Canadian renters and homebuyers. "The role of technology is very important when it comes to . . . building a house faster and finding new ways to build," said one interviewee.

One solution mentioned by some interviewees is manufactured and modular housing. Modular housing has held only a small share of Canada's market, even though off-site manufacturing represents a significant opportunity to reduce labour requirements, standardize building activities, and introduce automations and other technological solutions that ultimately lead to faster construction and lower costs. Manufactured housing has been slow to gain ground in Canada for many reasons. High start-up and transportation costs, lack of standardization of building codes, consumer preferences that limit demand, regulatory barriers, and financing challenges all create barriers.

Public policy can help. Among other measures, governments can streamline approvals for standardized designs and provide financing to help scale innovative solutions. But for alternatives like manufactured housing to truly gain ground, the real estate industry itself needs to be more open to change as these types of innovations involve building homes in very different ways that may disrupt some of the existing players. The need to embrace new approaches has been a long-standing issue in Canadian real estate, but the conditions for change may be more favourable given the growing acknowledgement of the urgency to address affordability, increased recognition by governments of the need for more supportive policies, and greater awareness of examples of innovations that are boosting efficiency and productivity.



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on Canadian respondents only.



Source: *Emerging Trends in Real Estate 2025* survey.
Based on Canadian respondents only.

That said, even though solutions to ease affordability challenges are already available, successful adoption requires another critical ingredient: skills. Real estate companies need a workforce capable of identifying and executing new solutions,

which many currently lack. In fact, 43 percent of real estate executives who participated in PwC's latest Global CEO Survey identified a lack of skills as a barrier to making significant changes to how they do business. Correcting this problem will require the industry to rethink workforce strategies and pursue collaboration with external partners, such as educational providers, to increase the availability of critical skills.

Further Changes Required

While the need to accelerate innovation in homebuilding is critical, it's also true that the industry has been acting to mitigate affordability pressures. One interviewee discussed how multigenerational homes are a solution, with families able to pool resources and share costs. This could mean building secondary suites to provide housing for family members or to serve as an extra unit that homebuyers could rent out to help cover housing costs.

These efforts and innovations (construction technologies and building methods such as modular housing) can help mitigate the affordability problem. However, interviewees emphasized that the costs of many homebuilding inputs won't go down to the point of truly restoring affordability in Canada. Some pointed to the need for further innovation on the financing side by, for example, making co-ownership options more available to Canadians. One interviewee, noting that the key consideration for many Canadians is whether they can afford monthly mortgage costs, suggested it's time to look at longer amortization periods. While this would be a significant change for Canadian homebuyers, the interviewee pointed out that countries elsewhere in the world allow for significantly longer mortgages than is typical in Canada.

Many of these financing changes would require regulatory action, so here again governments play a key role. The need for more concerted government action was a common theme among interviewees. Many emphasized the importance of reducing a key and growing cost in building housing over which governments have direct control: taxes, fees, and development charges. The various levies involved make up a significant portion of the cost of a new home in many regions. In Ontario, for example, a 2023 report from the Canadian Centre for Economic Analysis found that taxation accounts for 31 percent of the price of a new home. Growing concern about this issue recently led a group of Ontario developers to pledge to pass on savings to consumers in exchange for reductions of taxes and charges at the federal, provincial, and municipallevels.

In Focus: Accelerating Innovation through Generative AI

As housing affordability pressures reinforce the innovation agenda in Canada's real estate market, the industry is also eyeing another key driver of disruption that has renewed the focus on business transformation and reinvention: generative AI. Generative AI is a branch of artificial intelligence that can generate, transform, and summarize content as well as automate many tasks currently done manually. Many interviewees see it as a way to increase efficiencies at a time of significant business pressures. But while the industry is exploring the possibilities, interviewees said that, on the whole, they're at the early stages of establishing governance, preparing their data, and testing out use cases.

"We all tinker with it," said one interviewee, echoing the broader sentiment that Canada's real estate industry has so far made only tentative steps toward adoption. Evidence of this wait-and-see approach can be found in PwC's Global CEO Survey, in which just 22 percent of real estate executives said their company had adopted generative AI.

Among those interviewees who are adopting the technology, many are finding concrete applications for it. One interviewee is using it to create architectural renderings much faster than in the past; another said the technology is helping developers with land due diligence. Some are looking to use generative AI to boost revenues: one interviewee is developing an application that can monitor rental supply and demand trends to help adjust rents based on geographic location.

Retrieving information to identify insights within documents is a key use case of generative AI that offers promising applications. Companies are using it for lease abstraction, for example, to more efficiently and accurately retrieve the data they need. These tools use custom annotation models to scan and extract both structured and unstructured data from any type of lease, freeing employees from having to comb through long documents to find critical terms and conditions.

With many Canadian real estate players at the earlier stages of adopting generative AI, they feel a growing sense of urgency to move faster to harness opportunities for competitive advantage. While finding new efficiencies

is important, the bigger opportunity is to use the technology to make more impactful changes to how they do business. Interviewees mentioned their interest in creating more personalized and engaging customer experiences, generating fresh ideas and solutions, and expanding into new markets and segments. For those looking for ways to create the most value from generative AI, key steps include the following:

- **Identifying patterns in the most promising use cases:** Identifying the use cases that can generate the most value—whether by increasing revenues, changing the business model, or reducing costs—is important. Pinpointing patterns in use cases is particularly helpful because it allows companies to adapt their AI model to a range of tasks.

- **Ensuring the quality and availability of key data:** Data are the fuel for generative AI. The data need to be accurate, relevant, and available for use.

- **Implementing responsible AI practices and controls:** Generative AI requires a high level of trust and accountability, both internally and externally. Real estate companies need to establish the right governance, security, controls, and ethical policies to ensure responsible adoption of generative AI.

- **Developing a generative AI upskilling program:** As skill requirements change and new workflows, tasks, and even jobs emerge, upskilling will be critical to engaging people in the AI journey. Part of the challenge is in helping workers see the upside to adopting generative AI in the first place. According to PwC's 2024 Hopes and Fears Survey, 45 percent of Canadian real estate employee respondents said they weren't using generative AI because they didn't think it would benefit their careers. Shifting those perceptions will be key.

The scope of the considerations involved is leading some real estate companies to look at third-party vendors offering AI solutions that may be easier to adopt. With an increasingly wide range of players and solutions available in the AI ecosystem, companies may see significant value in considering when they might want to buy versus build a new tool and how partnerships can help them unlock bigger benefits faster.

3. Building a Sustainability and Climate Resilience Strategy for the Future

"While we are 100 percent moving forward with ESG, we're a bit paused at the moment. . . . It's difficult to incorporate additional costs with limits on market pricing, and margins are already slim with high interest rates and cost escalation."

As the industry downturn deepens, Canadian real estate companies are facing difficult decisions about how to respond to the challenges associated with climate change. Even though successive extreme weather events in Canada and around the world have demonstrated the impacts of climate change, real estate players are divided on the path forward: in PwC's Global CEO Survey, 51 percent of real estate respondents said lower returns are an inhibitor to decarbonizing their business model.

On one side are real estate companies, faced with high costs and interest rates, deciding to treat environmental, social, and governance (ESG) matters such as climate change as more of a compliance issue than a strategic one. This approach was evident in the comments of several interviewees, including one who said, "The degree to which you are distracted to keep up with ESG disclosure will be negative for productivity and growth."

On the other side, some interviewees view decarbonization as an important lever to reduce risk and maintain value in their real estate assets. Among them are companies with higher levels of exposure to large institutional tenants, investors, and public stakeholders—many of whom are exerting significant pressure to take actions like quantifying portfolio emissions and setting out detailed plans for how to reduce them.

Demographic forces are also at play. As many family-owned real estate companies transition to the next generation or actively prepare to do so, there's growing interest among new owners and leaders in ESG matters like climate change and an acknowledgement of how important those issues will be to long-term competitive advantage. As the physical effects of climate change mount, the imperative to act is becoming even more urgent.

Climate Resilience Comes into Focus

Amid the growing frequency and severity of disasters (wildfires, flooding, hurricanes), the long-term resilience of real estate holdings is increasingly top of mind among stakeholders such as investors, regulators, and insurers.

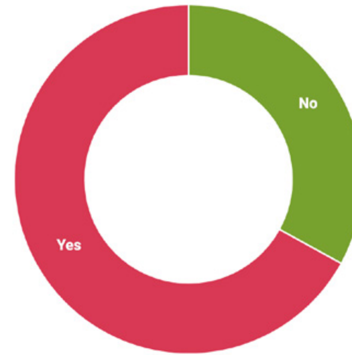
Competitive advantage could go quickly (if not immediately) to real estate players that are able to assess and prepare for the direct and indirect impacts of climate change. In this regard, the field is relatively open: PwC's 2024 Canadian ESG Reporting Insights found that 81 percent of Canadian companies don't yet financially quantify climate-related risks in their reporting. In a similar vein, PwC's latest Global CEO Survey found that only 5 percent of real estate executives said they had completed efforts to protect their assets and workforce from the physical impacts of climate change.

But changes are coming to the way the real estate sector values assets relative to risk. Many investors are considering how climate resilience will affect the exit price of their assets, from both a decarbonization and an adaptation perspective. As a result, some are integrating climate risk and resilience assessments into their due diligence processes at the pre-acquisition stage and throughout the asset management life cycle.

At the same time, the industry is starting to see more localized efforts to retrofit assets and ensure the resilience of new buildings. Examples include the City of Toronto's Net Zero Existing Buildings Strategy, which requires building owners in Toronto to decarbonize existing buildings by 2040, and its Green Standard, a set of sustainable design requirements that applies to all new private and city-owned developments. While Toronto's Green Standard includes both requirements and voluntary measures, those who achieve higher standards are eligible for financial incentives.

Perhaps the greatest uncertainty surrounds pricing of and access to insurance. With insurers subject to additional regulation under the Office of the Superintendent of Financial Institutions' B-15 guideline on climate risk management, questions abound about how its effects might trickle down into insurance policies and pricing. In some cases, property owners may face difficult decisions between (1) paying for what insurance carriers believe their physical and transition risks to be; and (2) dealing with value erosion, if they decide to exit, because of changes in capitalization rates due to exposure to climate-related events.

Are you currently incorporating ESG (environmental, social, governance) elements as you make operational and/or investment decisions?



Source: *Emerging Trends in Real Estate* 2025 survey.
Note: Based on Canadian respondents only.

The Path Forward to Climate Resilience

Real estate companies ready to take the lead on climate resilience can start with a portfolio-level analysis to understand their priority risks and opportunities, from both a transition and a physical risk perspective. The goal is to understand which properties are most likely to be exposed to risk and then focus mitigation and adaptation efforts there.

Because climate hazards can affect property structure, occupants, and the surrounding area, the opportunity to consider community and asset resilience together is significant and, in many cases, untapped. Asset owners can look beyond their own properties to engage with local governments and other organizations and stakeholders to ensure the resilience of both real estate holdings and the surrounding community. Real estate owners can't work in isolation in this area: engagement—not just with local organizations but also with insurers that have more experience analyzing climate risks—is critical.

Harnessing New Opportunities for Canadian Real Estate Companies

Addressing climate change involves more than resilience and adaptation. Companies can consider a broad range of actions—from introducing new climate-friendly products and services (such as solar panels and geothermal heating) to adopting nature-based solutions. These actions may involve costs, and many interviewees expressed concern about their effect on financial returns. But increasing evidence shows there doesn't necessarily have to be a negative tradeoff. In fact, advanced analysis of responses to PwC's latest CEO

Survey showed a positive link between actions related to climate change and superior financial performance reported by business executives.

As real estate companies come under increasing pressure to change how they do business in response to climate change, harnessing emerging opportunities will be key, as some interviewees acknowledged in discussions this year.

"Reinvention in the real estate sector will be driven by a shift toward environmental sustainability," one interviewee said.

Others put it differently but nevertheless hinted at the urgency to continue the ESG and climate change journey. "ESG . . . is a body of water," said one interviewee. "Everybody needs to get on a boat and cross the body of water. It doesn't matter who crosses it first, but you can't be left behind."

In Focus: The Evolving ESG Landscape and the Implications for Canadian Real Estate

Another important item on the sustainability agenda for Canadian real estate companies is the evolving landscape around ESG reporting requirements and regulations. After years of uncertainty, there's now increasing alignment in Canada around the sustainability-related financial information and climate-related disclosures outlined by the International Sustainability Standards Board. While these disclosures will apply most directly to public real estate companies once the Canadian Securities Administrators adopts them, other industry players can expect them to affect their own stakeholders' expectations for the type of ESG reporting they provide.

For now, pressure around environmental performance and disclosure is most immediate for those looking to access institutional capital. Banks and large institutional investors, including pension funds, need to be able to quantify the greenhouse gas emissions related to the capital they're deploying. Many of these organizations have set ambitious net-zero targets and are eager to fund companies—often on preferential terms as part of sustainable finance activities—that will help them achieve these goals.

The ongoing evolution of ESG-related laws and regulations also puts a bigger focus on the quality of companies' disclosures and the controls in place to ensure trusted reporting. The passing into law of Bill C-59, which introduced changes to the Competition Act, in June 2024 underscores the growing imperative around quality reporting and disclosures. Under the new law, any Canadian organization found to be misrepresenting environmental claims to the public will be susceptible to fines of up to 3 percent of global revenues.

ESG performance a growing differentiator for offices

While ESG issues are a growing focus across the real estate industry, they can be even more relevant for offices. Office tenants are increasingly asking difficult questions about the extent to which prospective lessors can help them with their own transitions and meet greenhouse gas emission disclosure requirements and reduction targets.

The overall sense in the industry is that being able to provide this information won't yet be enough to land an occupier, but it's becoming a prerequisite to be considered by marquis tenants. And as corporate commitments to decarbonize rise, the demand for sustainable buildings is expected to do the same, affecting leasing activities, rent growth, and vacancy rates. As one interviewee aptly put it, ESG is becoming "more and more top of mind, almost to the point where there's a minimum ESG standpoint."

Markets to Watch

Calgary

"Canada has discovered Western Canada, and international markets have discovered Western Canada," said one interviewee. In addition to a diversifying economy supported by a growing technology sector, the city is seeing strong population growth as large numbers of people move to Calgary from across the country and around the world. In the year ending July 1, 2023, almost 27,000 arrived from other provinces and more than 60,000 people came to the city from abroad, according to Statistics Canada. On the economic front, the Conference Board of Canada (CBoC) expects real gross domestic product (GDP) growth to rise to 2.5 percent in 2025 from 1.1 percent in 2024. The city's strength is evident in this year's survey, in which Calgary ranked No. 1 for overall real estate prospects in 2025.

With the influx of people to Calgary, interviewees broadly agreed that the single-family and multifamily residential segments present the most opportunity. Housing starts are expected to reach a new high in 2024 and maintain this level in 2025, according to CMHC. Calgary had the fastest-growing residential construction costs of major Canadian cities in the second quarter of 2024, according to Statistics Canada, but rising rents and sales prices have helped interviewees maintain their margins.

Housing affordability has been a big draw for people from other parts of Canada; but as demand increases, some worry this may change. Alberta doesn't have rent control, and rental vacancies are low. As a result, average rents are projected to rise by 9.7 percent in 2024 and by 3.4 percent in 2025, according to CMHC. Still, the forecasted average rent of $1,859 in 2024 for a two-bedroom apartment remains below cities like Vancouver ($2,380) and Toronto ($2,120).

A large portion of workers in Calgary have returned to the office because many employers mandated that they do so, and commute times are less onerous than in other cities. Still, the vacancy rate for downtown office space was 30.3 percent in the second quarter of 2024, which mostly reflects an ongoing oversupply in the Calgary market that predates the work-from-home trend that took hold in 2020. Amid elevated vacancy, the municipal government has a program to support projects to convert office space into residences, hotels, and academic spaces. In a news release in September 2024, the City of Calgary announced $52.5 million in additional funding for the program, through which developers can receive up to $75 per square foot for office-to-residential conversion projects. The city noted it had approved 11 conversions under the program, with the first completed project opening in April 2024 with 112 rental units.

Canada Markets to Watch:
Overall Prospects

Legend: More than 1 standard deviation from the mean (ranks 1–2); +/− 1 standard deviation of mean (ranks 3–9); Less than 1 standard deviation from the mean (rank 10)

Rank	
1	Calgary
2	Vancouver
3	Toronto
4	Edmonton
5	Montreal
6	Winnipeg
7	Saskatoon
8	Ottawa
9	Halifax
10	Quebec City

Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on Canadian respondents only.

Canada Markets to Watch:
Homebuilding Prospects

Legend: More than 1 standard deviation from the mean (ranks 1–2); +/− 1 standard deviation of mean (ranks 3–8); Less than 1 standard deviation from the mean (ranks 9–10)

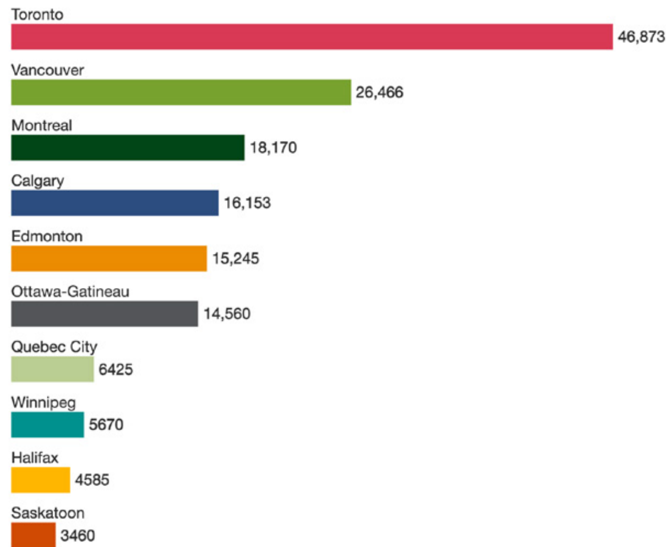
Rank	
1	Toronto
2	Montreal
3	Calgary
4	Edmonton
5	Halifax
6	Ottawa
7	Vancouver
8	Quebec City
9	Winnipeg
10	Saskatoon

Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on Canadian respondents only.

The industrial market is healthy but not as strong as last year. The city had an industrial vacancy rate of 3.3 percent in the second quarter of 2024. At least one interviewee expects to see healthy demand as Calgary "will continue to be the distribution hub for western Canada."

Vancouver

Vancouver's real GDP is expected to grow by 1.0 percent in 2024 and 2.6 percent in 2025, according to CBoC forecasts. The city's population is growing due to international migration even as it



sees net interprovincial and intraprovincial losses out of the city.

Condo development in Vancouver is subdued due to financing challenges and high construction costs. While there have been some examples of distressed condo projects, many local developers with a long history in the city are well-capitalized and can manage through the development slowdown.

Vancouver is expected to have an apartment vacancy rate of 0.8 percent in 2024 and 0.9 percent in 2025, according to CMHC, and the availability of affordable housing is a pressing issue. The average rent for a two-bedroom apartment is forecast to be $2,580 per month in 2025, the highest in Canada. CMHC expects housing starts to decline slightly in 2024 and then resume growth in 2025. British Columbia also stands out for a number of policy changes aimed at addressing affordability, including setting minimum density requirements near transit stations. While some interviewees questioned the impact of many policy changes due to slow implementation, they expressed warmer sentiment toward the minimum density requirements, which are helping bolster development projects near transit.

Vancouver has many apartments built in the 1960s and 1970s, and developers are exploring options to replace them with higher-density buildings. The Broadway plan, which came into effect in 2022, is a 30-year initiative approved by the City of Vancouver to transform the neighbourhood along a key city thoroughfare. It allows for replacement of these older, often smaller multifamily buildings with towers up to 40 storeys in some locations.

As of the second quarter of 2024, Vancouver had the lowest downtown office vacancy rate among major Canadian cities at 10.8 percent, according to CBRE. While interviewees said they were happy with the performance of their office portfolios, they expressed little interest in adding exposure or developing new product. As with other markets, prospective tenants are seeking newer, higher-quality properties.

The Vancouver area industrial market is healthy, but growth is tapering off. Vacancy rates increased in the second quarter, and net rents were 5.2 percent lower on a year-over-year basis, according to Colliers. Speculative building has slowed, but strong interest in build-to-suit developments remains.

The retail segment is evolving toward smaller-footprint, experience-centered stores with less inventory space. This type of space is particularly popular with pure online retailers looking to establish a physical presence. The city is also seeing a trend of developers looking to partner with retail chains to occupy space in multiple properties. Others are exploring joint ventures with long-term landowners to facilitate easier land acquisition and development.

Also noteworthy is the trend of Indigenous communities engaging with developers to help develop their land in the Vancouver area. Several of these projects are progressing through the planning and approvals process.

Toronto

Toronto's economy is forecast to grow by 2.7 percent in 2025 after expected GDP growth of only 0.5 percent in 2024, according to the CBoC.

Despite this more positive economic outlook, Toronto's residential real estate sector will likely remain under pressure because of weakness in the condo market. Demand for new condos is low as high interest rates dissuade investors and end-use buyers from the market. Prices for new condos are much higher than for resale units, drawing purchasers away from the presale market. And at the same time, residential developers face high borrowing and construction costs. Residential construction cost increases in Toronto over the past five years have outpaced other major Canadian cities tracked by Statistics Canada.

“Supply and demand will balance out in the condo space, but it’s not known when at this point,” said one interviewee. In the meantime, developers aren’t launching new projects, and many developments that have been approved are on hold. Some developers have explored pivoting to rental units, but most haven’t been able to make this move financially viable. Developers diversified by geography and income source are faring the best, with larger players in a better position to pause projects. Many smaller developers are trying to work with lenders, which helps limit the number of receiverships.

CMHC expects ground-oriented housing starts to increase modestly in 2024 and 2025 due to declining mortgage rates and limited existing supply. But with the multiunit residential segment accounting for the majority of new housing in Toronto, CMHC expects the sharp decline in this sector will cause overall starts to fall in 2024 and 2025.

In the office market, downtown vacancies remain high but may be stabilizing. As of the second quarter of 2024, the vacancy rate of 17.6 percent was up only 10 basis points from the start of the year, although the market is highly bifurcated amid an ongoing flight toward newer, top-tier offices and away from older stock. According to CBRE, vacancy for downtown class AAA offices fell to as low as 5.9 percent in late June 2024. Net absorption in the Toronto office market turned positive after two negative quarters, according to CBRE, mainly due to the delivery of a 47-storey tower that was almost fully pre-leased.

With a vacancy rate of 2.1 percent in the second quarter of 2024, according to Colliers, the Greater Toronto Area industrial market remains healthy but may have plateaued. Rental rates have softened, and net absorption was negative for the first time in eight years. Investors believe the Toronto area industrial market is still a good investment, but they aren’t as enthusiastic as they were in recent years. The shifting market is also leading some developers to focus on lower-risk, multi-tenanted facilities rather than massive single-occupancy buildings.

Edmonton

People are flocking to Edmonton, helping the city move up in our survey rankings to No. 4 for overall real estate prospects in 2025. In the year ended July 1, 2023, more than 38,000 people moved to the city from abroad, and about 16,000 came from other provinces, according to Statistics Canada. This trend is expected to continue, with the population forecast to grow 4.3 percent in 2024 and 3.4 percent in 2025, according to the CBoC. Edmonton’s real GDP growth is expected to slow to 1.2 percent in 2024 and then rebound to 2.7 percent in 2025, according to the CBoC.

Housing affordability is a strong draw for Edmonton. Average house prices in the city are about a third of those in Vancouver and Toronto, while the forecasted average rent of $1,481 in 2024 for a two-bedroom apartment is well below many other large Canadian cities, according to CMHC. Housing starts

are expected to be strong in 2024 and trend upward in 2025. Apartment vacancy rates are expected to remain low, driving rents up in 2024 and 2025.

The office vacancy rate in Edmonton was 20.6 percent at the end of the second quarter of 2024, according to CBRE. Interest in space below class A is limited, putting pressure on owners to upgrade their buildings. The move back to the office has progressed slowly due in part to a strong work-from-home culture within the relatively large public-sector workforce in Edmonton compared with Calgary. Edmonton lacks Calgary's municipal incentives for office conversions, so there's little of this type of activity.

The industrial market is healthy and stable. Demand remains strong because, as one interviewee explained, "Edmonton will continue to be a repair and maintenance hub and support for the energy sector."

The retail sector is strong, especially for necessity-based retailers. Interviewees believe suburban and nearby communities offer the best opportunity because lower housing costs leave people with more disposable income.

Montreal

After several years of strong growth, the Montreal economy slowed considerably in 2023. The CBoC expects real GDP to grow only 0.7 percent in 2024 before recovering to 2.4 percent in 2025.

Despite a growing population, housing starts in 2023 fell to their lowest level since 2001, according to CMHC. They're expected to stabilize in 2024 and show meaningful growth in 2025. As in other markets, few condos are under construction in Montreal as developers face high interest rates and construction costs and foreign investors retreat from the market.

The office market in Montreal remains weak. The vacancy rate in the Montreal area was 18.8 percent at the end of the second quarter of 2024, according to CBRE. Even so, some Montreal interviewees said they're investing in office properties because they believe they represent value at current prices.

The Montreal industrial market had become overheated, although demand remains and projects are being built. But the market is stabilizing, and valuations are coming down. In the second quarter of 2024, the industrial vacancy rate rose above 3.0 percent for the first time in more than six years, according to Colliers. Net rents fell below $16 per square foot for the first time since the third quarter of 2022.

Developers are taking advantage of the land associated with retail assets to create mixed-use developments by incorporating residential units. In some cases, the retail

component focuses on wellness and entertainment. In the latter half of 2024, the first phase of a large private development will open. The initial phase will include luxury retail and food offerings, with office and residential uses planned in the future as part of a neighbourhood concept focused on sustainability and social connectivity.

Winnipeg

Fueled by international immigration, Winnipeg's population rose 4.1 percent in 2023 and is forecast to grow by 2.7 percent in 2024 and 2.1 percent in 2025, according to the CBoC. At the same time, CMHC reports that high financing costs have led to an increase in unsold new home inventories, which they expect will cause housing starts to decline moderately in 2024.

Given the strong population growth and the expectation that mortgage rates will fall further, CMHC believes starts will rise again in 2025. The Royal Bank of Canada (RBC) aggregate housing affordability measure (homeownership costs as a percentage of median household income) for Winnipeg was near its highest level in nearly 30 years in the first quarter of 2024. Even so, at 32.3 percent, it's still only about half the national average.

Activity was subdued in Winnipeg's downtown and suburban office markets in the second quarter of 2024. The vacancy rate was 18.6 percent downtown and 10.3 percent in the suburbs, reflecting higher interest in suburban locations as employers focus on shorter commute times to entice workers back to the office, according to CBRE.

Real GDP growth, which has been healthy in recent years, is expected to fall to 1.1 percent in 2024 before rebounding to 2.6 percent in 2025, according to the CBoC. The forecasted improvement in the economy into 2025 is expected to drive the construction of additional industrial property, according to Colliers.

Winnipeg's downtown is set to be transformed in the next few years, with plans to convert two of the largest retail properties into mixed-use developments. Other developments include plans to build a multiunit residential tower near the art gallery, and construction has begun on a combined multiunit residential and creative hub in the city's Exchange District.

Saskatoon

In the first quarter of 2024, RBC's aggregate affordability measure for Saskatoon was 33.4 percent, close to a 15-year high. Even so, the city still has one of the most affordable housing markets in the country. Rental vacancies are expected to be 1.7 percent in 2024 and 1.8 percent in 2025, according to CMHC.

CMHC expects housing starts to grow moderately. The growth will come from the multiunit residential segment. Single-family starts aren't likely to increase due to existing unsold inventory and rising costs.

The industrial market remains strong and may continue to perform well as the city's economy is expected to see rising growth in the next few years. Saskatoon's real GDP is expected to grow by 2.2 percent in 2025, according to the CBoC. According to Colliers, the industrial vacancy rate was just 1.5 percent in the second quarter of 2024. About 300,000 square feet of speculative inventory is scheduled to come on the market in 2024.

Ottawa

Ottawa's population is growing as a result of both international and intraprovincial migration. After weak real GDP growth in 2024, the CBoC expects it to be steady at about 2.3 percent for the next several years.

The growing population and healthy economy are pushing vacancy rates down and rents higher. Vacancies are expected to be 2.5 percent in 2025, with rents predicted to rise 4.5 percent, according to CMHC. On the ownership side, homebuyers are being forced to seek affordability at the city's outer edges and in neighbouring communities.

Mainly west of downtown, many multiunit residential developments are underway, but interest rates will need to decline further for new projects to be launched. Similarly, well-located, conservatively leveraged condo developments already under construction are proceeding, but interest in launching new projects is limited.

Ottawa is facing a growing need to reimagine its downtown. The government of Canada, which is a major tenant and driver of traffic in the core, has a lot of vacant and underused office space amid the relatively slow return of federal workers to the physical workplace. With a vacancy rate of 12.1 percent in the central business district as of the second quarter of 2024, a key issue is the government's 2024 budget announcement that it wants to cut its office portfolio in half over the next 10 years. Little information about specific plans for federal offices in downtown Ottawa has been forthcoming, which makes it hard for developers to plan. However, the government did recently identify

a number of publicly owned buildings in the city that could be candidates for conversion to housing. A developer has bought at least one former government building and intends to tear it down and build multiunit residential housing on the land.

In the industrial segment, the city had a vacancy rate of 1.8 percent in the second quarter of 2024, according to Colliers. A couple of large-scale distribution centres were recently completed to take advantage of the location between major markets in Toronto and Montreal, but small-bay facilities are now a key driver of industrial activity.

Halifax

Halifax has boomed over the past couple of years. While economic conditions have moderated—the CBoC expects real GDP growth to reach 1.4 percent in 2024 and 2.0 percent in 2025—pressure on housing from population growth has left vacancy rates low and rents rising. Despite a temporary 5.0 percent provincial cap on existing leases, average rents for a two-bedroom apartment are expected to increase by 9.0 percent in 2024 and 5.6 percent in 2025, driven by a vacancy rate forecast to remain close to 1.0 percent next year, according to CMHC. As a result of this tight market, a record number of rental units are under construction, and housing starts are expected to increase through 2026.

Affordability is a key issue as rental growth is forecast to outpace household incomes, according to the CBoC. As affordability challenges rise, land scarcity and prices are pushing single-family development farther outside the city, particularly along the Halifax–Truro corridor. At the same time, the push to increase density is gathering steam. The city has adopted a number of zoning changes, including allowing multiple units on a lot and taller buildings along transit routes. The effort to increase density comes as the city looks to mitigate affordability pressures and accelerate housing development. RBC's aggregate affordability measure for Halifax reached 46.9 percent in the first quarter of 2024, up from 42.1 percent during the same period last year.

The vacancy rate in the Halifax office market was 13.6 percent in the second quarter of 2024, which is the lowest since the same period in 2015, according to CBRE. As in other markets, tenants are looking for higher-end space, and while some investors say they wouldn't add office assets to their portfolios, others see value.

After years of growth, the industrial market is levelling off. The vacancy rate rose 500 basis points on a year-over-year basis, to 7.8 percent in the second quarter of 2024, but rents also increased 15.6 percent over the same period, according to Colliers. Recent industrial development has led to a land shortage in the most desirable locations, and while existing buildings are performing well, few deals are in the pipeline for those looking to enter this asset class.

Interviewees are generally bullish on their retail investments. They mentioned pursuing strategies to create further value and optimize their portfolios through, for example, the addition of grocery stores to non-anchored properties or by incorporating residential uses into assets with existing necessity-based retail offerings.

Quebec City

After negative real GDP growth in 2023, Quebec City's economy is expected to recover slightly in 2024 and grow 1.9 percent in 2025. Despite soft economic growth, the CBoC forecasts that the unemployment rate will remain low at 3.2 percent in 2024 and 3.1 percent in 2025.

Housing starts are expected to decline in 2024 and then recover slightly in 2025, according to CMHC. Multifamily housing is one of the strongest asset classes in Quebec City, and it's expected to remain so as the ongoing shortage of rental units fuels construction. The vacancy rate for two-bedroom apartments is expected to be 0.7 percent in 2024 and 0.6 percent in 2025, according to CMHC.

Demand for condos is low, as is interest in developing them. Developers are focusing on rental units, with some shaping their projects to be eligible for CMHC programs. On the commercial side, office vacancies are high, and demand for industrial space remains healthy. Data centres offer a key opportunity given the province's power resources, although a tightening electricity supply is delaying approvals of energy-intensive facilities.

Other trends helping shape real estate in the Quebec City area include major infrastructure developments, such as the proposed third link connecting the city to Lévis and ongoing efforts to build a tramway. Both projects have faced uncertainty, and while they appear to be going ahead, real estate players are waiting to see what happens before moving forward with their own developments.

Property Type Outlook

Industrial Property

For the past few years, the industrial market in Canada has been the jewel of the various real estate classes. Demand has been particularly strong for warehouse space and distribution centres, which has led to very positive absorption levels, low vacancy rates, and bullish construction activity.

At present, the market isn't as strong as it has been in the past few years. But it remains quite healthy as it continues to stabilize following a very hot period of activity. According to a report by Colliers, the national availability rate in the industrial market rose to 4.4 percent in the second quarter of 2024. As the vacancy rate in many large cities rises and rents soften or in some cases decline, construction activity in the industrial market has slowed.

But while the froth is off from what some would describe as an overheated market in recent years and the appetite for big space has fallen, some interviewees see opportunities for growth. The areas of interest include the strong prospects for data centres, the continued appeal of self-storage units for people living in smaller homes, and the rising demand for cold-storage food spaces to serve online grocery businesses. Demand for small-bay industrial space is also significant.

Even with the slowdown, the industrial segment remains attractive to some real estate players—particularly those already present in this asset class—as Canada's growing population fuels demand. Interviewees said they're adapting to softening conditions by focusing more on build-to-suit developments than speculative building. They're also building smaller developments with multiple tenants to reduce the risk of relying on one large company that could leave and be hard to replace.

Retail Property

For those wary of the ongoing challenges in the office market or who may be more pessimistic about the future of a softening industrial segment, the retail turnaround that continues to take shape points to the benefits of keeping an eye on the long term. "Retail has not succumbed to the Armageddon prognosis of the last several years," said one interviewee. As another interviewee explained, the lack of new retail development has led to an undersupply in this asset class.

At the same time, foot traffic has recovered in many areas of the retail market. Predictions that consumers would continue to move away from shopping in physical environments have turned out to be exaggerated: Online retail activity has stabilized, and more and more people are returning to physical stores. According to PwC's 2024 Voice of the Consumer

Industrial Space: Q2 2024

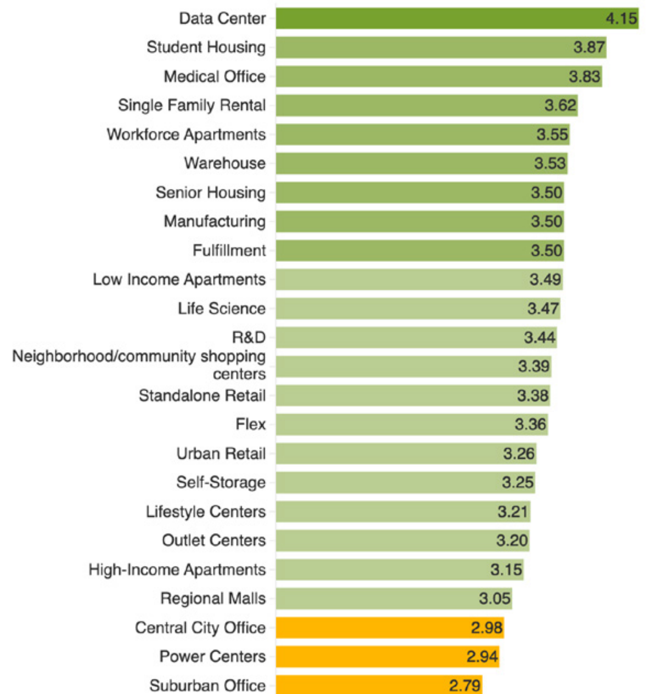
City	Availability Rate	Under Construction (Sq. Ft.)
Vancouver	3.8%	7,602,898
Toronto	3.7%	15,682,010
Montreal	4.6%	1,334,924
Ottawa	2.3%	528,745
Halifax	–	515,315
Winnipeg	–	320,500
Edmonton	8.8%	2,067,400
Calgary	5.7%	2,449,041

Source: Colliers industrial market reports, Q2 2024.
Note: – Symbol represents data not available.

Investment Subsector Prospects

Commercial/Multifamily in 2025

1–Abysmal 5–Excellent

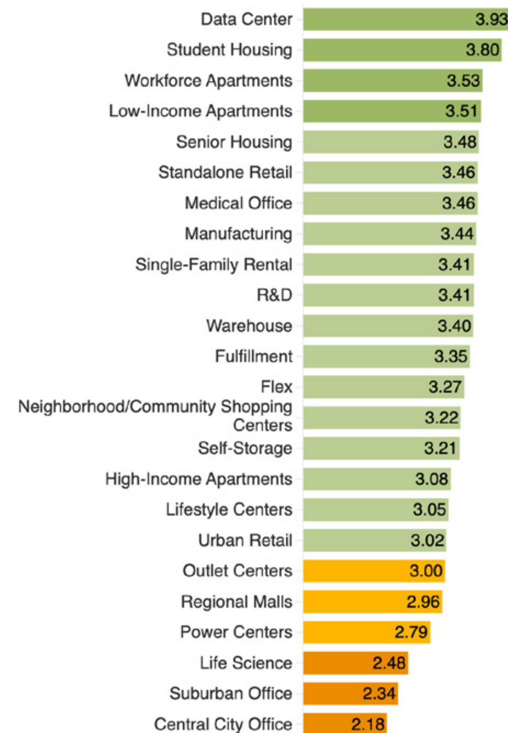


Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on Canadian respondents only.

Survey, 48 percent of Canadian respondents said they had shopped in physical stores on at least a weekly basis in the previous 12 months, up from 43 percent in 2023.

As Canadians grapple with inflationary pressures, interviewees noted that consumer spending is tilting toward non-discretionary categories. For real estate players, the biggest appetite these days is for grocery-anchored neighbourhood shopping centres as well as properties incorporating tenants such as pharmacies, discount retailers, banks, and personal services. Neighbourhood retail is one area of the market where interviewees said the shortage of available space is particularly acute. One interviewee said that with little new supply available, landlords will be able to ask key tenants like grocery stores to pay higher rents to have locations built.

Other areas of the retail real estate landscape, such as enclosed malls, continue to transform. Property owners are adapting to a changing business landscape in which traditional anchor retailers downsize or, in some cases, close down. Some have been able to divide those big spaces to accommodate more than one tenant. And as one interviewee said, "The definition of an anchor tenant in retail has changed," as landlords incorporate different types of retailers, such as specialty food stores, into spaces previously occupied by traditional anchor tenants. Overall, some interviewees said the retail segment is evolving toward smaller formats, in part due to the challenges landlords face when dealing with turnover by larger tenants.



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on Canadian respondents only.

Office

The hybrid working model has taken hold in Canada, with the consequent impacts on office properties. According to PwC's 2024 Hopes and Fears Survey, 53 percent of Canadian employees said they were in hybrid working arrangements this year. Another 30 percent said they were working remotely on a full-time basis. Only 18 percent reported having a fully in-person work arrangement. This shift has contributed to an elevated but largely stabilizing office vacancy rate across Canada in both downtown and suburban markets. As the market continues to evolve, interviewees said lenders are generally hesitant about financing offices.

The bifurcation trend is clearly deepening, with one interviewee saying it's more pronounced than ever as newer class A space is in demand while many older buildings struggle. According to CBRE, the class A vacancy rate was 17.1 percent in the second quarter of 2024, which was down slightly from 17.3 percent during the same period last year. CBRE noted the vacancy rate was lower for trophy assets in the top tier of class A offices. In the meantime, the vacancy rate for class B and class C offices continued to rise to 24.9 percent in the second quarter of 2024.

As demand shifts toward the newest, highest-quality space, some signs indicate that prospects could brighten for the most

Downtown Office Markets Statistics, Q2 2024

Market	Under Construction (sq. ft.)	Class A Vacancy Rates (%)	Overall Vacancy Rates (%)
Vancouver	29,386	9.7	10.8
Toronto	3,234,963	15.3	18.1
Montreal	135,907	14	17.4
Ottawa	0	11.1	14
Edmonton	0	21.2	22.3
Calgary	0	24.5	30.3

Source: CBRE, Canada office figures, Q2 2024.

attractive segment of the office market in the future. According to CBRE, the construction pipeline was at its lowest level since 2005 in the second quarter of 2024. If tenant absorption picks up in the coming years, a shortage of the modernized, top-tier space that the market has been moving toward could result.

While many challenges persist, some investors interviewed this year showed signs of interest in offices. One interviewee, for example, used the term “office curious,” while others cited a range of factors as potentially shifting the outlook for this asset class: strong population growth, an improving economy helped by declining interest rates, the slow pace of new construction, and the supply impacts of ongoing conversion of some offices to other uses (such as housing, hotels, and educational spaces). With the price low enough and a view toward the long term, some said they were eyeing or had pursued specific buying opportunities with the right characteristics to create value. Strategies include holding onto assets bought at low prices with existing tenants or potentially knocking down or repurposing buildings in the future for redevelopment to residential uses.

Proximity to transit has also become a key differentiator for offices, particularly in Toronto where traffic congestion is a major source of friction for workers looking to avoid long driving commutes. Other differentiators include design features that support enhanced workplace collaboration, organizational performance, and productivity as well as spaces tailored to different employee needs and tasks.

While conversion of older buildings to housing is a topic of discussion, interviewees emphasized that project viability usually depends on government incentives, such as the one offered in Calgary. Interviewees suggested other cities looking to reduce office vacancy and revitalize their downtowns should consider incentives similar to Calgary’s.

Purpose-built Rental Housing

This property type ranks as a best bet for investment in 2025 as the country grapples with a housing supply shortage in practically every community, from smaller towns to major centres.

Over the years, a combination of factors has led Canada to this point in the housing cycle: Canada’s population growth has surged in recent years. Much of the rental housing stock in Canadian cities consists of older buildings. Housing affordability is driving more people to the rental market as homeownership becomes less attainable for a growing number of Canadians. Demand for student housing has increased. And a steadily growing elderly population is looking for rental homes catering to seniors.

Under Construction Inventory by Intended Market

Market	2019 Homeowner	2019 Rental	2019 Condo	2022 Homeowner	2022 Rental	2022 Condo	2023 Homeowner	2023 Rental	2023 Condo	2024 Q1 Homeowner	2024 Q1 Rental	2024 Q1 Condo	2024 Q2 Homeowner	2024 Q2 Rental	2024 Q2 Condo
Vancouver	3,842	10,182	32,016	4,389	14,083	30,749	4,131	19,806	37,500	3,843	20,809	39,017	3,807	21,367	39,643
Toronto	9,853	7,887	56,711	14,646	13,514	73,274	13,312	16,782	75,032	12,053	17,969	73,837	11,265	17,834	72,579
Montreal	2,312	15,114	11,077	1,815	23,245	13,362	1,282	19,038	12,092	1,182	18,384	10,745	1,350	19,836	10,610
Ottawa	4,288	2,972	2,591	5,642	4,017	6,639	3,707	6,782	6,422	3,278	7,165	6,114	3,161	6,248	5,824
Halifax	771	4,130	359	830	5,916	0	885	7,769	15	820	9,049	15	948	10,154	15
Winnipeg	1,233	2,988	1,532	2,205	5,015	908	1,463	5,547	937	1,367	5,033	1,168	1,215	4,408	1,124
Edmonton	4,040	1,735	4,485	5,944	6,755	1,488	4,872	7,288	1,036	4,821	7,369	880	5,396	7,411	984

Source: CMHC Starts and Completions Survey.
Note: Dwelling types include single, semi-detached, row, and apartment.

In this environment, rents have skyrocketed in many parts of the country. Recently, though, the market has softened in some cities. These trends, along with CMHC financing and the waiver of the federal GST and sales taxes in some provinces, have brightened the prospects for purpose-built rental housing in Canada.

However, challenges remain. CMHC noted in its spring 2024 housing market outlook report that higher interest rates have made it hard for builders and developers to get financing. Interviewees said that while policy changes like the GST and sales tax waivers have helped somewhat, they're not enough to make up for other challenges developers are facing in building new rental homes. Some suggested that the current environment—in which condo building activity is slowing markedly—offers a moment-in-time opportunity to build rental housing. But they emphasized this development will materialize only if governments offer further relief from rising costs through measures such as reducing development charges.

CMHC is anticipating an increase in purpose-built rental completions in the coming years due to the large number of starts in 2021–2023. But it expects rental markets will remain tight due to high demand. While this prediction bolsters the outlook for companies involved in rental housing, interviewees noted they're being selective in pursuing opportunities, with decisions based on factors such as location, the impacts of regulatory issues like rent control, and the degree of tenant turnover. In some cases, interviewees said they're looking to replace existing buildings with newer, denser developments featuring smaller units.

Some interviewees expect the biggest opportunities to come from existing rental product, either from buildings they already own or ones they buy to take advantage of rising rents. And while developing new product remains challenging, interviewees said decisions on whether to move ahead with development will depend on time horizons. Companies with a longer-term outlook will find rental housing more attractive than those looking for a quicker payback, interviewees noted.

Condominium

The new condo market in Canada is struggling. High interest rates and increasing costs to build a project are creating challenging conditions for developers across the country.

In markets like Toronto and Vancouver, a significant market slowdown is underway as it becomes too costly for many developers to proceed with condo developments. Developers are also facing challenges on the revenue side as investors, who make up a large portion of new condo buyers in many markets, pull back.

Not only do high interest rates and other factors mean investors are more likely to lose money on renting out new units; but the wide gap in key markets like Toronto between resale and new condo prices is helping depress the presales activity that developers depend on. As one interviewee described, whereas developers used to be able to sell out in eight months, they now need a presale period of up to two years. Besides the buildup of unsold inventory as developers deal with the large number of units already under development, they're also facing challenges from committed buyers who are having trouble closing on their purchases of new condos.

All these factors together have brought the condo market to a grinding halt compared to what it was a few years ago. While the issues are most acute in Toronto and Vancouver, interviewees expressed a broad sense that condo activity is seeing a significant slowdown across the country. Developers might proceed with projects that have already begun construction, with those in locations with good transit access more likely to continue. But many are holding back on launching new builds. One interviewee noted that even with the current slowdown, opportunities may still be available in specific situations, such as conversions of retail properties to condos.

For now, the market is on pause, a situation expected to continue into 2025 as developers have already accounted for expected interest rate reductions by the Bank of Canada. But the slowdown may create a shortage in subsequent years as developers face pent-up demand from buyers currently on the sidelines.

Single-family Housing

The biggest issue facing the single-family housing market in Canada today is affordability. RBC's recent housing affordability index report showed the depth of the challenge for single-family homebuyers. In the first quarter of 2024, the share of household income required to cover ownership costs in Canada was 67.2 percent for single-family homes. In the

Vancouver area, it was a whopping 137.8 percent, followed by Toronto at 96.3 percent.

Even so, CMHC reported 10,284 single-detached housing starts in the first half of 2024 in Canada's six largest metropolitan areas, an increase of 8.0 percent over the previous year.

In the meantime, the market is shifting in response to the affordability challenges. Some interviewees, for example, said they're seeing more interest in multigenerational homes. Others noted they're building single-family homes with rental options in mind. This concept can involve designing homes to accommodate rental suites, which makes them more appealing to investors or homeowners looking for extra income to help cover homeownership costs.

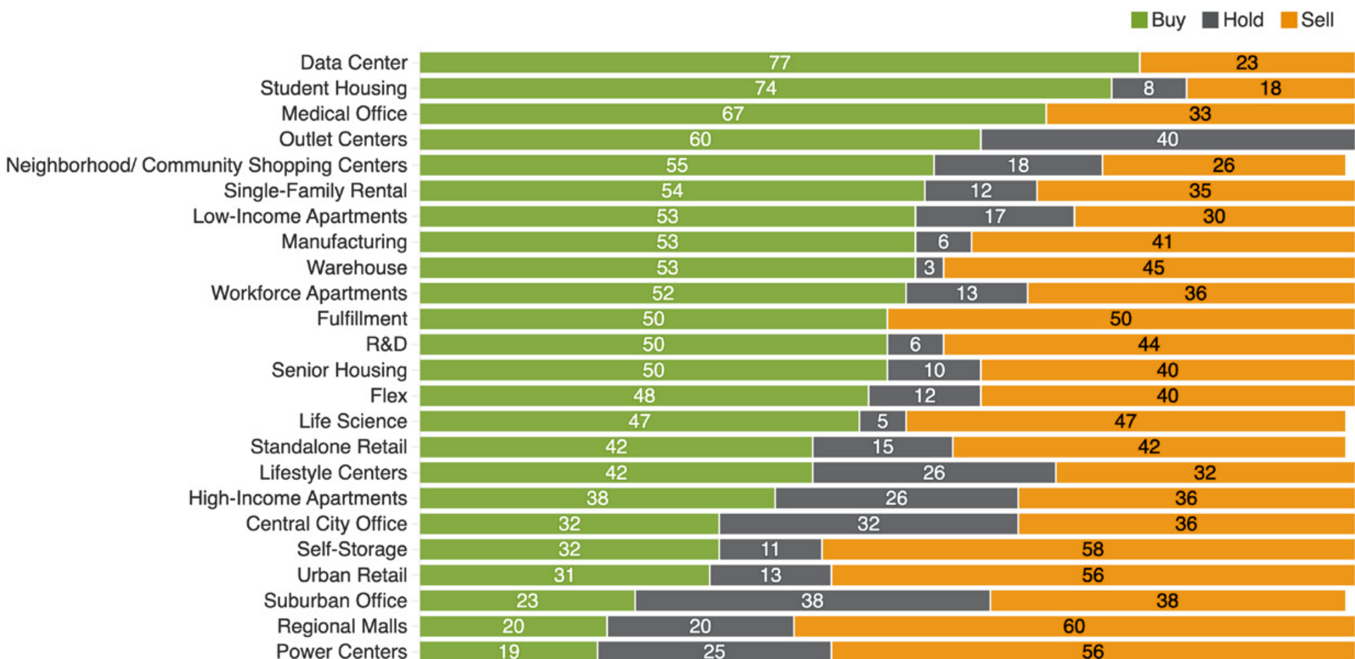
While the purpose-built rental segment is a key focus in the year ahead, low-rise homes may also play a greater role in the rental market. A report by Cushman & Wakefield earlier this year noted that the shortage of rental units, caused in part by long timelines to approve and bring new multifamily homes to market, is helping bolster the prospects for single-family alternatives in Ontario.

Other key factors supporting the business case for single-family rental housing are regulatory changes in Ontario aimed at increasing the province's housing supply. These include measures making it easier to increase density on single-family lots through laneway homes, garden suites, and basement apartments. The interest in the single-family rental segment also came through in our survey, in which respondents listed this area as having strong investment prospects among commercial and multifamily subsectors in 2025.

Best Bets

1. **Purpose-built rental housing:** This segment of multifamily housing has risen to the best bet for 2025, thanks to its solid fundamentals and long-term outlook. The sector benefits from strong population growth and the relative affordability of renting versus buying a home, two key demand drivers helping keep vacancy rates low in many cities. Interviewees see strong prospects in markets where rents have more room to grow.

Investment Recommendations for Commercial and Multifamily Subsectors in 2025 (percent)



Source: *Emerging Trends in Real Estate 2025* survey.
Note: Based on Canadian respondents only.

While the sector is experiencing many of the same cost pressures as other residential categories, it benefits from public policies (such as the GST and provincial sales tax waivers) as well as CMHC programs and other incentives aimed at stimulating supply and supporting developments with affordability components. Although some interviewees are focusing on investing in existing supply, others see opportunities to develop new units. The latter group includes developers with condo projects that are no longer viable but may be candidates for conversion to rental housing depending on whether construction has started and the time horizon of the companies involved.

2. **Industrial real estate:** Another best bet for 2025 is industrial real estate, which has seen strong growth in recent years due to the rise of e-commerce, logistics, and efforts to stimulate manufacturing activities in Canada. Even so, vacancy and rental rates have softened, signaling a mixed outlook for the year ahead: Some markets are expected to see more development and absorption, while others may experience a slowdown in tenant demand and rent growth.

Overall, some interviewees said industrial real estate still offers stability and the ability to earn good risk-adjusted returns; others noted companies will need to be even more discerning when looking for the right opportunities and locations for investment and development. Some also suggested that the slowdown in construction could lead to a shortage of industrial property in the coming years that will bolster the sector once again.

3. **Niche assets:** The third best bet for 2025 is niche assets. This category includes a variety of specialized property types that cater to specific market segments or needs and are less correlated to other real estate sectors. Some of the most notable niche assets that are seeing strong demand drivers and growth opportunities are data centres, student housing, cold storage, and select areas of senior housing. For example, data centres are expected to see significant growth due to the increasing reliance on digital technologies and cloud services and the rising adoption of generative AI, although they do face challenges such as power availability and cost. Student housing is a niche asset in a relatively fragmented market that offers good prospects for revenue growth amid strong demand, limited supply, and high tenant turnover; but it also requires operational expertise, which may turn off some real estate market participants.

Niche assets aren't for everyone as they often involve higher risks, regulatory requirements, and operational costs than conventional property types. These downsides are particularly true for assets like senior housing, which is leading some interviewees to focus more on narrower segments—like multigenerational housing and smaller units catering to those who are downsizing—rather than traditional health-care facilities. Despite the challenges, for those willing to explore these segments, niche assets can offer higher returns, diversification, and opportunities to create value.

Interviewees

Adi Development Group Inc.
Tariq Adi

AEW Capital Management
Mike Acton
Michael Byrne
Joshua Heller
Lauren O'Neil

Affinius Capital
Will McIntosh

AGF Investments Inc.
Ash Lawrence

Alate Partners Inc.
Courtney Cooper

Alignvest Management Corporation
Sanjil Shah

Allard Developments Inc.
Mike Martin

Alliance Prével Inc.
Laurence Vincent

Allied Properties Real Estate Investment Trust
Michael Emory
Cecilia Williams

American Realty Advisors
Stanley Iezman

Arlington Properties
William Morris Jr.

Arnon Development Corporation Limited
Gillie Vered

Asana Partners
Stefan Neudorff
Brian Purcell

Ascendant Capital Partners
Russell Gimmelstob

Aspen Properties Ltd.
Greg Guatto
Scott Hutcheson

Atlantic Pacific
Brett Duke

Avenue Living
Max Graham

Bain Capital Real Estate
Ryan Cotton
Joe Marconi
Ben Brady

Barclays Capital
P. Sheridan Schechner

Basis Investment Group LLC
Mark K. Bhasin

Benefit Street Partners
Jerry Baglien

Berkshire Residential Investments
Gleb Nechayev
Eric Schrumpf
Ravi Ragnauth

Bertone Development Corporation
Michael Bertone

BGO
Amy Price
Sonny Kalsi
Andrew Yoon
Jonathan Epstein

Black Swan Real Estate
Kent Swanson

Bosa Development Group Inc.
Clark Lee

Brickman Capital
David Brickman

BridgeInvest
Jon Gitman
Tyler Hinton

Brixmor
Steven Gallagher

Brivia Group
Vincent Kou

Brookfield Office Properties Inc.
Denise Wong
Damon Formos

BTB Real Estate Investment Trust
Michel Leonard

BXP
Owen Thomas
Michael E. LaBelle

Cabot Properties
Franz Colloredo-Mansfeld
Patrick Ryan

Cain International
Ada Chan

Caliber Projects Ltd.
Zack Staples

Calibrex Development
Steve Bruno

Canac Immobilier Inc
Gabriel Audet-Cloutier

Canada Lands Company Limited
Stéphan Déry

Canada Post Pension Plan
Marie-Josee Turmel

Canadian Apartment Properties Real Estate Investment Trust
Mark Kenney

Canderel Management Inc.
Brett Miller

Canyon Partners Real Estate LLC
Jacob Feingold

Cape Construction Ltd
Lan Zhang
Zack Ross

Capital One Bank
John Hope

Carbonleo Real Estate Inc.
Antoine Bernier

Carmel Partners
Phillip Owens
Bryan Crane

Carttera Private Equities Inc
T. James Tadeson

CBRE
David Young

CenterSquare Investment Management
Rob Holuba

Choice Properties Real Estate Investment Trust
Rael Diamond
Mario Barrafato

Cirkuit Inc.
Adam Ludgate

Clarion Partners
Hugh Macdonnell
Jeb Belford
Indraneel Karlekar

Clarke Inc.
Tom Casey

Colliers International Group Inc.
Jerome Lampron
Brian Rosen

Colonnade Bridgeport
Hugh Gorman

CommercialEdge
Peter Kolaczynski

Condor Properties Ltd.
Lindsay Brand
Sam Balsamo

ConnexFM
Bill Yanek

Construction Broccolini Inc
Michael Broccolini

Conundrum Capital Corporation
Daniel Argiros

COPT Defense Properties
Stephen Budorick
Anthony Mifsud
Britt Snider

Cord Meyer Development Company
Matt Whalen

Cortland
Jason Kern

CoStar Group
Jan D. Freitag

CreateTO
Vic Gupta

Crestpoint Real Estate Investments Ltd.
Kevin Leon

Crombie Real Estate Investment Trust
Mark Holly
Kara Cameron

Crossharbor Capital Partners
Tom Stevens
Patrick O'Sullivan

Crow Holdings Development
Ken Valach

CT Real Estate Investment Trust
Kevin Salsberg

Curavest Partners
Sam DeVore

Cushman & Wakefield
Barrie Scardina

Darwin Properties Ltd.
Alan Nijjar

DBRS Morningstar
John Amman

Deco Homes
Tanino Quaranta

Devon Properties Ltd.
Reed Kipp

Devron
Pouyan Safapour

DG Group Inc.
Marco Carfa

DLC Management Corporation
Adam Ifshin

Domain Capital Advisors
Dave Seaman

Dorsay Development Corporation
Geoffrey Grayhurst

Dream Unlimited Corp.
Jason Lester
Michael Cooper

Drewlo Holdings Inc.
Allan Drewlo

Eastdil Secured
D. Michael Van Konynenburg

Easterly Government Properties, Inc.
Darrell Crate

EastWest Bank
David Starr

Emergent Research
Steve King

Empire Communities Corp.
Rami El Jurdi
Andrew Guizzetti
Daniel Guizzetti

Enoch & Co.
Carol Enoch

EPIC Investment Services Limited Partnership
Craig Coleman

EQT Exeter
Alok Gaur
Pete Lloyd

Extended Stay America
Greg Juceam

Fairway Investments, LLC
Sims Garrison
Curt Stokes

Fannie Mae
Kim Betancourt

Fasken Martineau DuMoulin LLP
Chris Gray

Fengate Capital Management Ltd.
Jaime McKenna

Fernbrook Homes
Albert Chen

Fiera Properties Limited
Kathy Black

First Merchants Bank
Rick Baer

Fitzrovia Real Estate Inc.
Adrian Rocca

Florida Policy Project
Senator Jeff Brandes

Fonds de placement immobilier Cominar
Adam Medeiros

Frankforter Group Inc
Reuben Abitbol
Yaakov Frankforter

G2S2 Group of Companies
George Armoyan
George Jr. Armoyan

Gal Investments Inc.
Galia Feiler

Gallelli Real Estate
Gary Gallelli, Jr.

GBT Realty
Jeff Pape

GEM Health Care Group Limited
John Yuan
Syed Hussain

Gensler Architecture & Design Canada, Inc
Steven Paynter

GID (General Investment and Development)
Greg Bates
Suzanne Mulvee
Thad Palmer
Hisham Kader

Glenview Corporation, The
Jake Shabinsky

Global Listed Infrastructure Organization
Fraser Hughes

Global Net Lease
Michael Weil
Christopher Masterson

Goldman Sachs
Nora Creedon
Nick O'Neill

Graham & Co
Jack Brown
Matthew Graham

Granite Real Estate Investment Trust
Teresa Neto

Green Street Advisors
Cedrik LaChance

Greybrook Capital Inc
Peter Politis

Greystar
Michael Joyce
Daniel Radek

Griffin Partners
Edward Griffin

Grosvenor - Property Americas
Mark Purdy

Groupe immobilier Desjardins inc.
Tony Roy

Groupe Mach Inc.
Laurent Dionne-Legendre

Grubb Properties
Clay Grubb

H & R Developments
Evan Miller

Harbert Management Corporation
Chris Hartin
Todd Jordan
Wade Armstrong
Brandon Cohen
Michael Waldrum

Harrison Street
Tom Errath
Ben Mohns

Hazelview Investments Inc.
Michael Tsourounis

Heitman
Aki Dellaportas

Herity Limited
Hugh Heron
Brad Foster

High Street Properties
Andy Zgutowicz
Conor Feeney
John Hoadley

Hines
David Steinbach
Jason Alderman
Mark Cover

Hopewell Capital Corporation
Jason Kraatz

Hopewell Development Corporation
David Loo

Hopewell Residential Communities Inc.
Jill MacKenzie

HRP Group
Jason Gill

Hullmark Development Ltd
Jeff Hull

Hydro-Quebec Pension Fund
Catherine Bilodeau
Yann Zaccour

iA Financial Grp.
Claude Sirois

IDI Logistics
Shawn Warren

InnVest REIT
George Kosziwka

Intracorp Projects Ltd.
Jimmy Athwal

InvestPlus Real Estate Investment Trust
Domenic Mandato

Invesco Real Estate
Mike Sobolik
Nicholas Buss
Rivka Altman

IPQ Inc.
Michel Côté

Ivanhoe Cambridge Inc.
Michele Hubert

Jayman BUILT Ltd.
Aasit Amin

JBG SMITH
Moina Banerjee
George Xanders
Patrick Tyrrell

Jesta Group
Anthony O'Brien

JH Investments Inc.
Julian Carson

Jones Lang LaSalle
Peter Miscovich
Naveen Jaggi
Mehtab Randhawa
Vineet Sahgal

John Burns Research and Consulting
Chris Porter
Oliver Radvin

J.P. Morgan Asset Management

Kayne Anderson
John Wain

Kaneff Group of Companies
Anna-Maria Kaneff

Killam Apartment REIT
Dale Noseworthy
Philip Fraser
Robert Richardson

Kimco Realty Corporation
Conor C. Flynn
Glenn G. Cohen
Ross Cooper

KingSett Capital Inc.
Jon Love
Rob Kumer

KKR
Chris Lee

KV Capital Inc
Darin Rayburn

LaSalle Investment Management
Jacques Gordon

Le Groupe Maurice Inc.
Francis Gagnon

Les Immeubles Roussin Ltée
Nathalie Paquin
Nathalie Roussin

Liberty Development Corporation
Marco Filice

Lindsay Construction Limited
Cory Bell

Lionstone Investments
Andy Bruce
Paul Brundage
Richard Rowell

LIV Development
Jeff Hicks
Cole Carter

Lockehouse Retail Group
Steve Cutter

Longpoint
Nilesh Bubna

Mack Real Estate Group
Michael McGillis
Priyanka Garg
Daniel Rosenblum

Madera Residential
Jay Parsons

Madison Homes Limited
Miguel Singer

Madison Pacific Properties Inc.
John DeLucchi

Mainstreet Equity Corp.
Bob Dhillon

Manulife Investment Management
Maggie Coleman
Victor Calanog

Maplebrook Investments Limited
Andrew Wright

Marcus & Millichap
John Chang

Marcus Partners
Paul Marcus

Marlin Springs Developments
Pedro Lopes

Mattamy Homes Limited
Bill Tofflemire
Brad Carr

McKinsey
Ryan Luby

McWhinney
Omar Palacios
Will Little

Menkes Developments Ltd.
Jared Menkes
Sean Menkes

Mercer
Paul Kolevsohn

Metrolinx
Michael Norton

Metrontario Group
Aaron Silver
Lawrence Lubin

Metrovation Retail Services
Christine Firstenberg

Metrus Properties Inc.
Robert DeGasperis

Mill Creek
David Reynolds

Monday Properties
Adam Carr

Moody's
Thomas LaSalvia

Morguard Corporation
Paul Miatello

Mortgage Bankers Association
Jamie Woodwell

MSCI/Real Capital Analytics
Jim Costello

Multiplex Construction Canada Ltd
Terry Olynyk

National Apartment Association
Paula Munger
Bob Pinnegar

National Development
Brian Kavoogian

National Homes Management Inc.
Deena Pantalone

National Rental Home Council
David Howard

Newport Capital Partners
Derrick McGavic

Newmark
Brandon Isner

New York University
Amit Gupta

NexLiving Communities Inc.
Stavro Stathonikos

Northcrest Developments
Derek Goring

Northview Apartment Real Estate Investment Trust
Sarah Walker

Northwood Investors
Jacob Reingardt

Nuveen Real Estate
Jack Gay
Jason Hernandez

Nuveen Real Estate
Brian Eby

Oneka Land Company Ltd.
Lovett Lewis

Ontario Infrastructure and Lands Corporation
Heather Grey-Wolf
Toni Rossi

Ontario Real Estate Association
Tim Hudak

Ontario Teachers' Pension Plan Board
Pierre Cherki

ONX Homes
Logan Rogers

OpenForm Properties Ltd.
Drew deWynter

Osmington Inc.
Jason Levin

Ourboro Inc.
Eyal Rosenblum

Oxford Properties Group
Chad Remis

PBA Land Development Ltd.
Vince Kong

Petretta Construction Inc.
Davide Petretta

PGIM Real Estate
Alyce DeJong
Justin Gleason
Joanna Mulford
James Glen
Jaime Zadra

Plaza Retail REIT
Peter Mackenzie

Plymouth REIT
Jeff Witherell

Polygon Homes Ltd.
Robert Bruno

Porte Industries Ltd.
Robert Chalhoub
David Porte

Portman Holdings
Suraj Amarnani
Andy Kroll

Powell Contracting Ltd
Lisa Laronde

Pretium Partners
Nishu Sood

Prologis
Chris Caton
Dan Letter
Damon Austin
Liz Dunn
Hardy Misch

Prologis Ventures
Rajeev Oak
Lucy Sondland

Public Sector Pension Investment Board
Luc McSween

Pure Industrial Real Estate Trust
David Owen

Qatar Investment Authority
Saad Tariq Qureshi
Ghada Khalida Al-Thani

QuadReal Property Group Limited Partnership
Remco Daal

Rangewater Real Estate
Brian Oates

Ratio.City Inc.
Monika Jaroszonek

RCLCO
Charles A. Hewlett

RCLCO Fund Advisors
Taylor Mammen

Real Property Association of Canada
Michael Brooks

RealServus Holding Corp
John Lusink

Realstar Management Partnership
Colin Martin

Realty Income Corporation
Jonathan Pong

Redbourne Group
Benjamin Spencer

Relli
Mor Milo
Ross Iannarelli

Remington Group Inc, The
Randy Peddigrew

Republic Developments
Matt Young

Resman Holdings Ltd.
David Taylor

Revantage
Will Hux

Revera Inc.
Andrew Higgs

R-Labs Canada Inc.
George Carras

RLJ Lodging Trust
Leslie D. Hale

Rockpoint
Hank Midgley
Spencer Raymond

Rohit Group of Companies
Rohit Gupta

Rosen Consulting
Kenneth Rosen

RX Health & Science Trust
Jesse Ostrow

Schneider Electric
Stuart Whiting

Screp Co
Kevin Screpnechuk

Shelter Rock Capital Group
Walter Stackler

Shook Kelley
Kevin Ervin Kelley

Shorenstein Properties
Charles Malet
Tony Calabrese
Ashia Derksen

Sienna Senior Living Inc.
Nitin Jain

Site Centers
David Lukes

SLB Capital Advisors
Dave Rosenberg

SLOKKER Holding N.V.
Peter Paauw

SmartCentres Real Estate Investment Trust
Rudy Gobin
Mitchell Goldhar

Société de gestion COGIR S.E.N.C.
Mathieu Duguay

Sonesta International Hotels
John Murray

Sorbara Group of Companies
Edward Sorbara

Spanier Group
Rob Spanier

Stafford Homes Limited
Jonathan Goldman

Stainton Construction Limited
Matt Stainton

Starlight Capital
Dennis Mitchell

StepStone Group
Jeff Giller

Stockbridge
Seth Kemper
Stephen Pilch
Kristin Renaudin
Nicole Stagnaro

Stockdale Capital Partners
Dan Michaels

StoneRiver Company
Joseph Welden
Donald Gambril

Sumitomo Corporation of Americas
Go Matsuura

SVN Commericial
Ashley Bloom

TA Realty
Jim Raisides
Randy Harwood
Lisa Strope

Tanzola Corporation
Greg Tanzola

The Armour Group Limited
Scott McCrea

The Cadillac Fairview Corporation Limited
Sal Iacono

The Daniels Corporation
Mitchell Cohen

The Davis Companies
Josh Israel
Quentin Reynolds
Kate Crosby

The Green Cities Company
Molly Bordonaro

The Minto Group Inc.
Floriana Cipollone
Brent Strachan

The Regional Group of Companies Inc.
Kelly Rhodenizer
Sender Gordon

The Sud Group of Companies
Elliott Sud
Adrian Rasekh

Timbercreek Asset Management Inc.
Ugo Bizzarri

TMG Partners
Matt Field

Townsend Group
Adam Orlansky

TPG Angelo Gordon
Mark Maduras

TransLink
Scott Midgley
Sabrina Hamidullah

Trepp
Lonnie Hendry

Tricon Residential Canada ULC
Gary Berman

Tridel Corporation
Len Gigliotti
Bruno Giancola

Triovest Realty Advisors Inc.
Ted Willcocks

United Property Resource Corporation
Tim Blair

University of San Diego
Norm Miller

US Bank
Randall Borchardt

Vanprop Investments Ltd.
Kevin Hoffman

Vantage Data Centers
Sureel Choksi

Venturon
Joanna Creed

Walton Street Capital
Dave Splithoff

Watermark Capital Partners
Michael Medzigian

Waterstone Properties
Herb Evers

Waterton
Brett Gerig

Watson Land Company
Jeffrey Jennison

Westbank Projects Corp
Judy Leung

Western Securities Limited

Ryan O'Connor
Scott Baldwin

Windmill Development Group, Ltd.
Jonathan Westeinde

Wolfecorp
Matthew Wolfe
Jason Wolfe

Woodbourne Canada Partners
Ian Husted

Woodcliffe Landmark Properties
Leona Savoie

Yardi Matrix
Jeff Adler

York University Development Corporation
Salima Rawji

Sponsoring Organizations

PwC is a passionate community of solvers coming together in unexpected ways. Our purpose—to build trust in society and solve important problems—is at the core of everything we do. It guides how we serve our clients, our people, and the world. To help our clients build trust and deliver sustained outcomes, PwC provides professional services across Audit and Assurance, and Advisory and Tax. We bring a range of capabilities to help organizations solve faster, solve more, and realize more value. These capabilities include cloud and digital, deals, ESG, cybersecurity and privacy, governance/boards, risk, transformation, and much more. Across our global network of nearly 328,000 professionals in 152 countries, we are committed to advancing quality in everything we do.

Global Real Estate Leadership Team
Thomas Veith
Global Real Estate Leader
Germany

Daniel Sullivan
Principal and Financial Markets & Real Estate Leader
United States

Tim Bodner
Global Real Estate Deals Leader
United States

Christiane Conrads
Global Real Estate ESG Leader
Germany

Jeroen Elink Schuurman
Global Real Estate Tax Leader
Netherlands

Amaury Evrard
Global Real Estate Assurance Leader
Luxembourg

Kevin Fossee
Global Real Estate Digital Leader
United States

Ainsley Moore
Global Real Estate Occupier/Development Strategy Leader
United Kingdom

www.pwc.com

THE URBAN LAND INSTITUTE is a global, member-driven organization comprising more than 48,000 real estate and urban development professionals dedicated to advancing the Institute's mission of shaping the future of the built environment for transformative impact in communities worldwide.

ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 84 countries.

The extraordinary impact that ULI makes on land use decision-making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanization, demographic and population changes, new economic drivers, technology advancements, and environmental concerns.

Peer-to-peer learning is achieved through the knowledge shared by members at thousands of convenings each year that reinforce ULI's position as a global authority on land use and real estate. Each year, thousands of events, both virtual and in person, are held in cities around the world.

This year's *Emerging Trends in Real Estate*® report provides a roadmap for the industry's future, and local impact is key. Connect with your local ULI district council and discover programming tailored to your market. These events deliver expert analysis and networking to help you stay ahead.
americas.uli.org/ET25-Events

Drawing on the work of its members, the Institute recognizes and shares best practices in urban design and development for the benefit of communities around the globe.

More information is available at uli.org. Follow ULI on X (formerly known as Twitter), Facebook, LinkedIn, and Instagram.

Angela Cain
Global Chief Executive Officer, Urban Land Institute

Mary Beth Corrigan
Chief Executive Officer, ULI Americas, Urban Land Institute

ULI Center for Real Estate Economics and Capital Markets

Anita Kramer
Senior Vice President
www.uli.org/capitalmarketscenter

Urban Land Institute
2001 L Street, NW Suite 200
Washington, DC 20036-4948
202-624-7000
www.uli.org

Emerging Trends in Real Estate® 2025

What are the best bets for investment and development in 2025? Based on insights from a select group of the most influential and experienced ULI members, this forecast will give you a heads-up on overarching trends that will affect real estate, where to invest, and which sectors and markets offer the best prospects. A joint undertaking of PwC and ULI, this 46th edition of *Emerging Trends* is the forecast that you can count on for no-nonsense, expert insight.

ULI is the largest network of cross-disciplinary real estate and land use experts who lead the future of urban development and create thriving communities across the globe. As a ULI member, you can connect with members around the world in Member Directory (members.uli.org), find ULI opportunities to lead and volunteer on Navigator (navigator.uli.org), and explore ULI's latest research and best practices on Knowledge Finder (knowledge.uli.org), including all the *Emerging Trends in Real Estate®* reports published since 2003. Visit uli.org/join to learn more about ULI's exclusive member benefits.

Highlights

- Tells you what to expect and what the expected best opportunities are.
- Elaborates on trends in the capital markets, including sources and flows of equity and debt capital.
- Indicates which property sectors are most promising and what the risk factors are.
- Provides rankings and assessments of a variety of specialty property types.
- Describes the impact of social and geopolitical trends on real estate.
- Explains how locational preferences are changing.
- Elucidates the increasingly important intersection of real estate and technology.