

Intelligent Investment

# 2025 U.S. Real Estate Market Outlook

REPORT

Increased Leasing &  
Investment Activity  
Expected

CBRE RESEARCH  
DECEMBER 2024



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# Executive Summary

- Despite many uncertainties, the **U.S. economy is poised for growth in 2025**, driven by consumer spending, easing financial conditions and productivity gains. While retail and data centers have been supported by longer-term trends, all other real estate sectors will see the start of a new cycle.
- Economic growth and firming real estate fundamentals will drive a **moderate recovery in real estate investment activity** in 2025, even though the 10-year Treasury yield will remain above 4%. Capitalization rates will compress slightly. Investors have the opportunity to secure long-term returns that have not been available for many years.
- 2025 will see the **office up-cycle that began in 2024 gain traction**, with shortages of prime space emerging toward year-end. Expect a steady office revival in America's downtowns.
- Retail enters 2025 with the lowest vacancy rate of any commercial real estate sector. Although retailers will further consolidate, we expect **growing demand in suburban locations and Sun Belt cities**. Institutional capital will return to this sector.
- Industrial real estate will continue to benefit from e-commerce growth in 2025 but **leasing activity will return to pre-pandemic levels**. Vacancy will remain elevated in older properties as occupiers continue a flight to quality. The market remains tenant favorable but will tighten toward year-end.
- After a strong and sustained surge in multifamily completions over the past two years, **vacancy will edge down** in 2025 due to robust tenant demand. Economic growth will support household formation but the still-high cost of home ownership will drive demand for apartments.
- **Artificial intelligence, cloud computing and the digital economy** will drive extraordinary growth in the data center market. Demand for power will further strain the U.S. grid but will not hold back development, with nuclear power starting to play a more central role.



Introductory Note by  
**Richard Barkham**  
Global Chief Economist &  
Global Head of Research

## State of the Real Estate Cycle

Commercial real estate fundamentals are in relatively good shape as we enter 2025, with even the distressed office sector benefiting from improved leasing activity. Our industry has suffered profound shocks over the past four years from the pandemic, high inflation, rising interest rates and a surge in construction completions. That real estate has weathered these formidable challenges is testimony to the asset class's resilience and its role as the bedrock of business operations.

It is tempting to say that we are in for a period of stability, but we know that will not be the case. Economic policies are changing under a new presidential administration, ways of working remain in flux, population migration is favoring the Sun Belt and the digital economy is booming.

While we expect that economic growth in 2025 will ignite a new real estate cycle, we know that potential risks loom. We look forward to helping our clients identify opportunities and navigate change to meet and exceed their goals in 2025.

01

# Economy



# A Soft Landing Amid a Changing World

The U.S. enters 2025 with positive momentum in terms of economic growth and easing inflation.

Consumers—the bedrock of the U.S. economy—remain in good shape with robust gains in wealth and income. The S&P 500 rose by 22.5% in 2024, house prices by 6.8%<sup>1</sup> and real disposable income by 3.1%.<sup>2</sup> This in turn should drive consumer spending growth of between 2% and 4% in 2025.

Despite the recent slowdown in job growth, strong corporate earnings and falling interest rates should rekindle hiring in 2025. Households and businesses both remain sheltered from the full effects of high interest rates by the low fixed-interest mortgage and corporate debt that was taken out in the pandemic era.

Although the outlook for government spending is uncertain at the time of this writing due to the re-election of Donald Trump as president, there still is a considerable level of support for the economy as we

start the year. The avoidance of tax increases next year is a positive for consumption and investment. The Infrastructure & Jobs Act of 2021 will boost construction activity in 2025 and increased defense spending will support U.S. manufacturing. The prospect of lighter government regulations in certain sectors is also a plus for the economy. Positive momentum will help the economy adjust to higher import prices from tariffs, but reduced labor supply could prompt the Fed to slow the pace of interest rate cuts to prevent a flare up of inflation.

Although the refinancing of commercial real estate remains a work in progress, the U.S. banking sector has made itself more resilient, greatly reducing the likelihood of a financially led recession from a major bank failure. The relatively low consumer loan delinquency rate and reductions in the federal funds rate should support economic growth in 2025.

Figure 1: CBRE Economic Forecast, End 2025

GDP Growth (Annual)	2.0-2.5%
Unemployment	4.0-4.5%
Inflation	2.0-2.4%
Fed Funds Rate	3.5-4.0%
10YT	4.0-4.2%

Although the refinancing of commercial real estate remains a work in progress, the U.S. banking sector has made itself more resilient, greatly reducing the likelihood of a financially led recession from a major bank failure.

<sup>1</sup> National Association of Realtors  
<sup>2</sup> U.S. Bureau of Economic Analysis

# Global Risks

The U.S. economy has avoided recession and pulled off a remarkable soft landing. Nevertheless, there are global risks to the outlook, the biggest of which is a recession in China. China accounts for 18% of world GDP—second only to the U.S. with 25%—and its demand for raw materials drives growth in many emerging markets. China's housing market has collapsed, mainly due to oversupply, and its consumer spending is very weak. Although the Chinese government has announced significant stimulus, it may not be enough.

A second global risk comes from Germany, which faces a big challenge from weak demand for manufactured exports. However, falling inflation and low unemployment will be enough to generate a consumer recovery in Germany next year.

A third risk is the continued appreciation of the U.S. dollar, which has risen by 12% since 2019. This puts pressure on U.S. companies by making their exports more expensive and on emerging markets by making their dollar-denominated loans harder to repay.

A longer-term risk to the U.S. economy is the federal budget deficit. This is not an immediate problem, since the overall debt-to-GDP ratio is rising slowly. President-elect Trump has proposed levying tariffs on foreign goods to reduce the deficit, offsetting some effects of the tax cut extension. However, the lack of a clear strategy to reduce the deficit likely means higher interest rates and mortgage rates for longer.

**Figure 2: Gap Between Government Spending & Revenue**



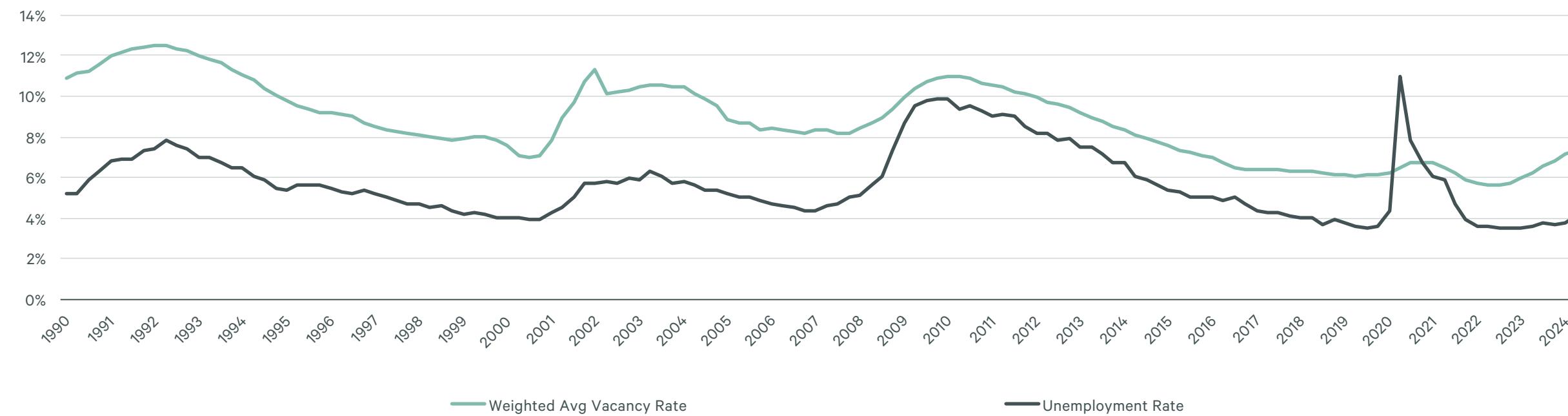
G7 Countries: Canada, France, Germany, Italy, Japan, U.K., U.S.  
Source: Oxford Economics, CBRE Research, Q3 2024.

# The Economy & Real Estate

For the past 40 years, the real estate and economic cycles have been highly correlated. In the past three years, the end of the real estate cycle has not been accompanied by an economic recession. Moreover, the U.S. economy appears resoundingly at mid-cycle, with low levels of corporate and consumer debt. With the economy in relatively good shape, we should soon see the start of a new real estate cycle driven by tenant demand and falling vacancy rates.

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**Figure 3:** U.S. Unemployment vs. Average Vacancy Rate



Sectors Included: Office, Industrial, Retail, and Multifamily  
Source: CBRE Econometric Advisors, CBRE Research, Q3 2024.

# Mega Trends to Watch in 2025

## Technology

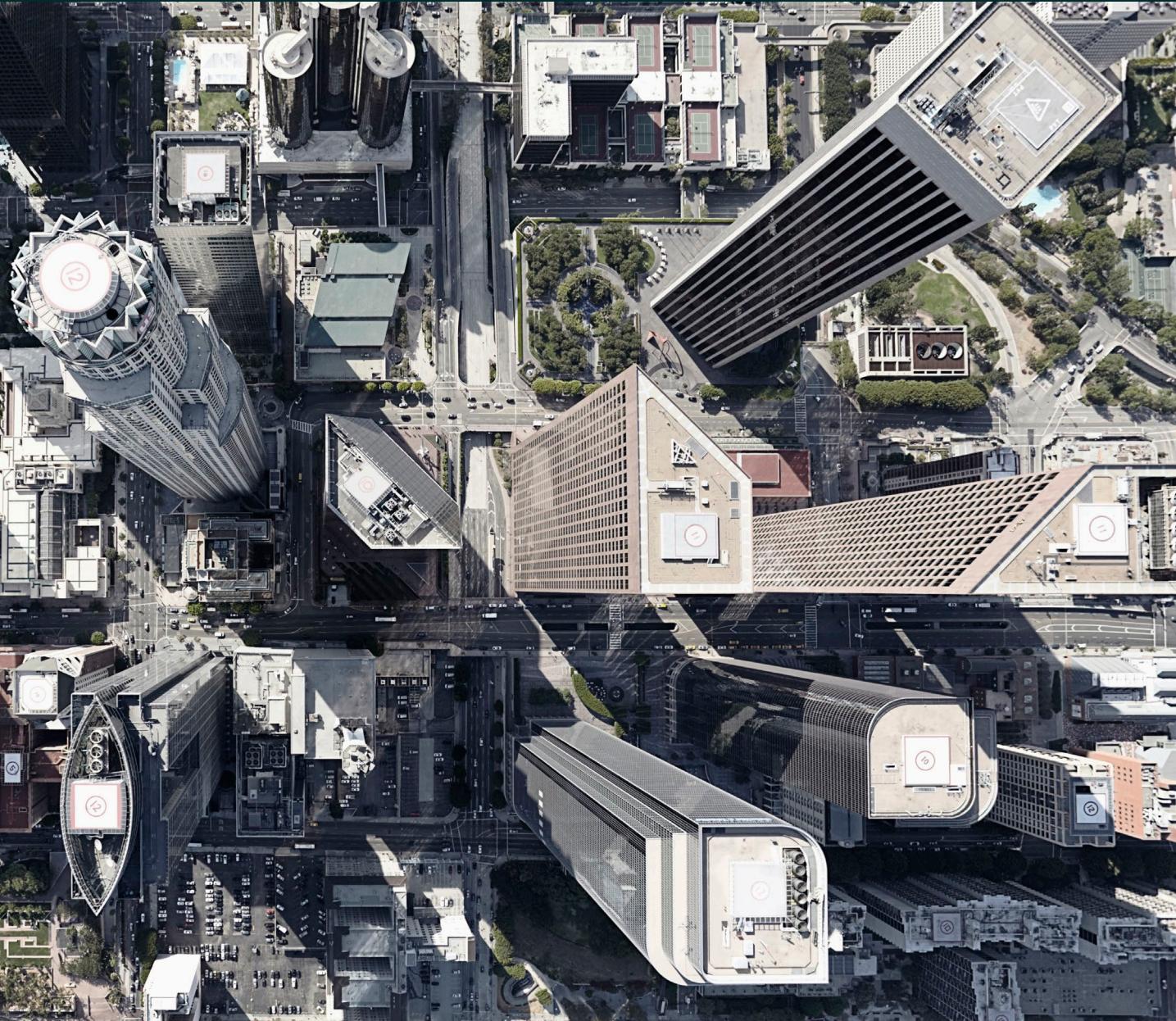
Artificial intelligence technology will be more widely deployed in 2025. Look for major advancements in medicine, a stronger revival of tech leasing as the nature of office work continues to evolve and a continued boom in data centers. Nuclear power will start to make a comeback.

## Migration

Migration is a divisive political issue in the U.S. and Europe, with governments increasingly attempting to reduce the number of inbound undocumented immigrants. In a period of unusually tight labor markets, reduced migration could cause problems for certain sectors, such as construction, agriculture, social services and hospitality.

## Globalization

Loss of manufacturing jobs and the fragility of supply chains during the pandemic has led to a reappraisal of the benefits of globalization. Governments worldwide are considering higher levels of tariffs. Expect the possibility of capital controls to prevent adverse currency appreciation.



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# Capital Markets

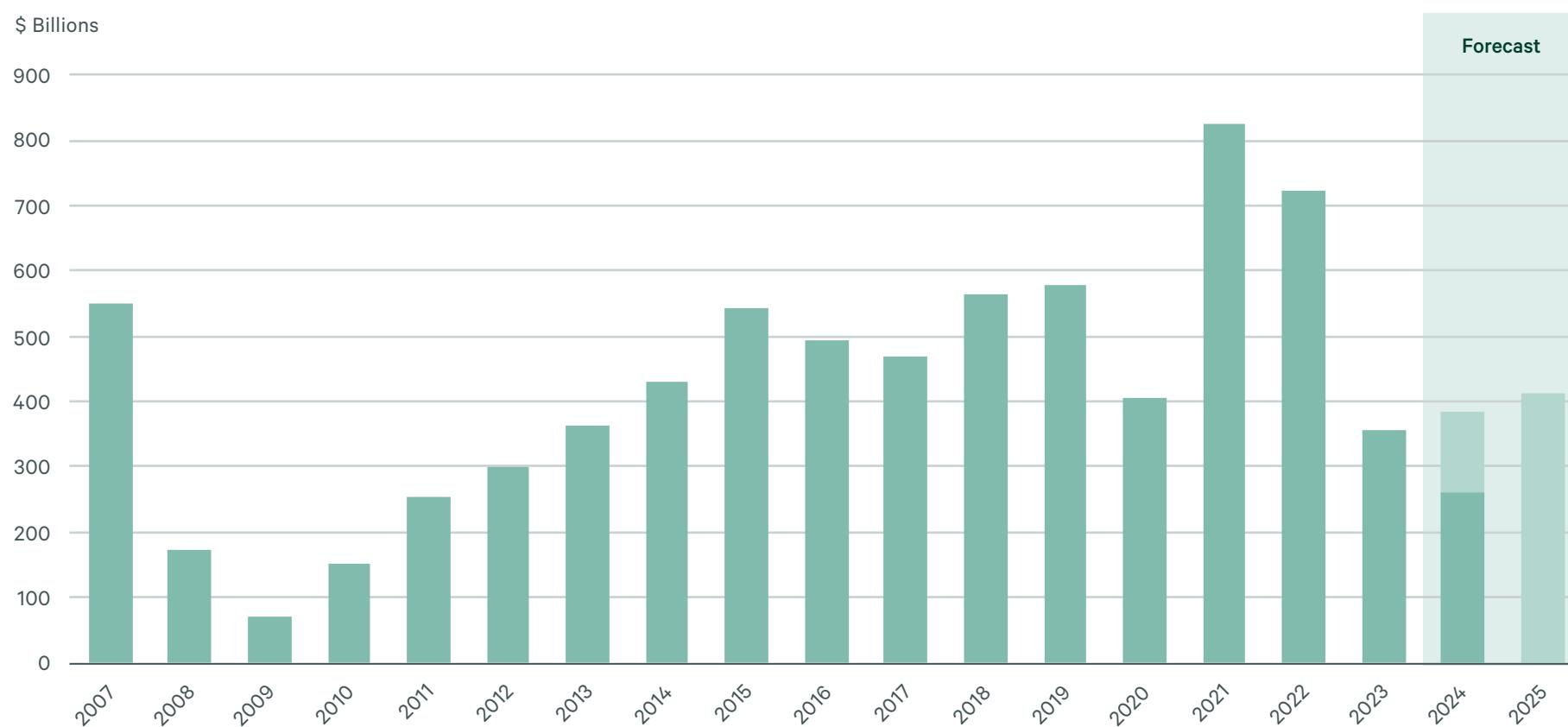


# Slow But Sure Investment Recovery

CBRE expects a continued recovery for investment sales in 2025; however, investors and lenders will face several headwinds. The 10-year Treasury yield will remain above 4% as markets react to a persistently large budget deficit, stimulative fiscal policy and the potential for higher inflation. Nevertheless, strong economic growth driving positive fundamentals will support the recovery in investment activity, with volume up by as much as 10% next year.

Investors will focus on industrial and multifamily assets. Office properties will remain challenged, with investors still very discerning. Assuming minimal disruptions from tariffs, retail will continue to attract investors with its strong fundamentals and we expect some portfolio sales will ensure a robust year for this property type.

**Figure 4:** Commercial Real Estate Investment Volume

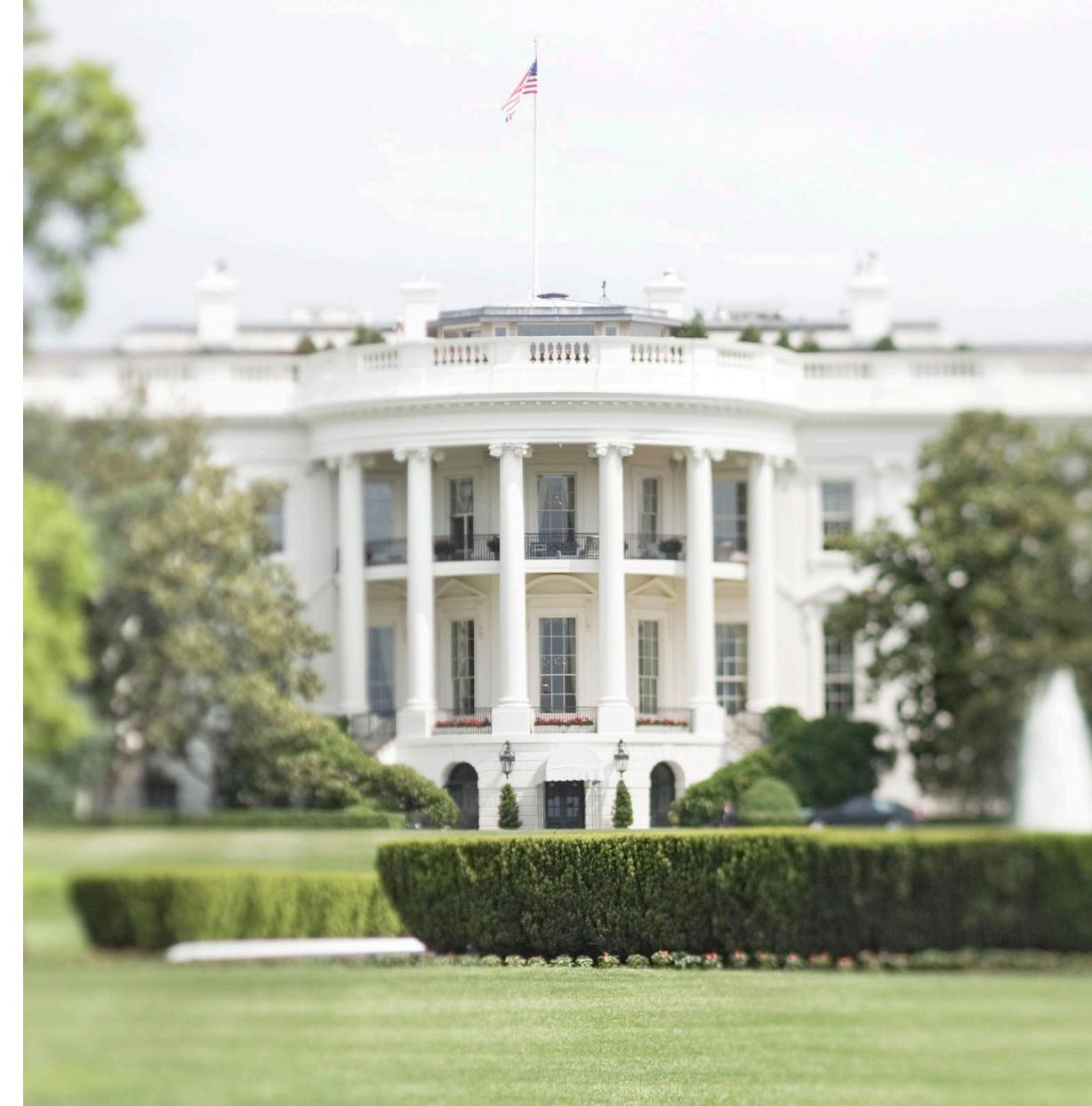


Source: MSCI Real Assets, CBRE Research, Q3 2024.

# Election Impact

The second Trump presidency presents both opportunities and risks for commercial real estate. The industrial and retail sectors will be particularly affected by trade policy and shifting consumer spending patterns. Fiscal policy will also have some bearing on the cost of capital.

Prospects for historically high budget deficits could keep long-term interest rates relatively high, weighing on the budding recovery in investment activity. On the other hand, higher interest rates will bolster multifamily fundamentals as homeownership affordability challenges support rental demand. Investors will also have greater certainty around capital gains and other tax policy, which we expect will remain favorable for the industry and investors.



The industrial and retail sectors will be particularly affected by trade policy and shifting consumer spending patterns. The fiscal policy mix will also have some bearing on the cost of capital.

# Cap Rates

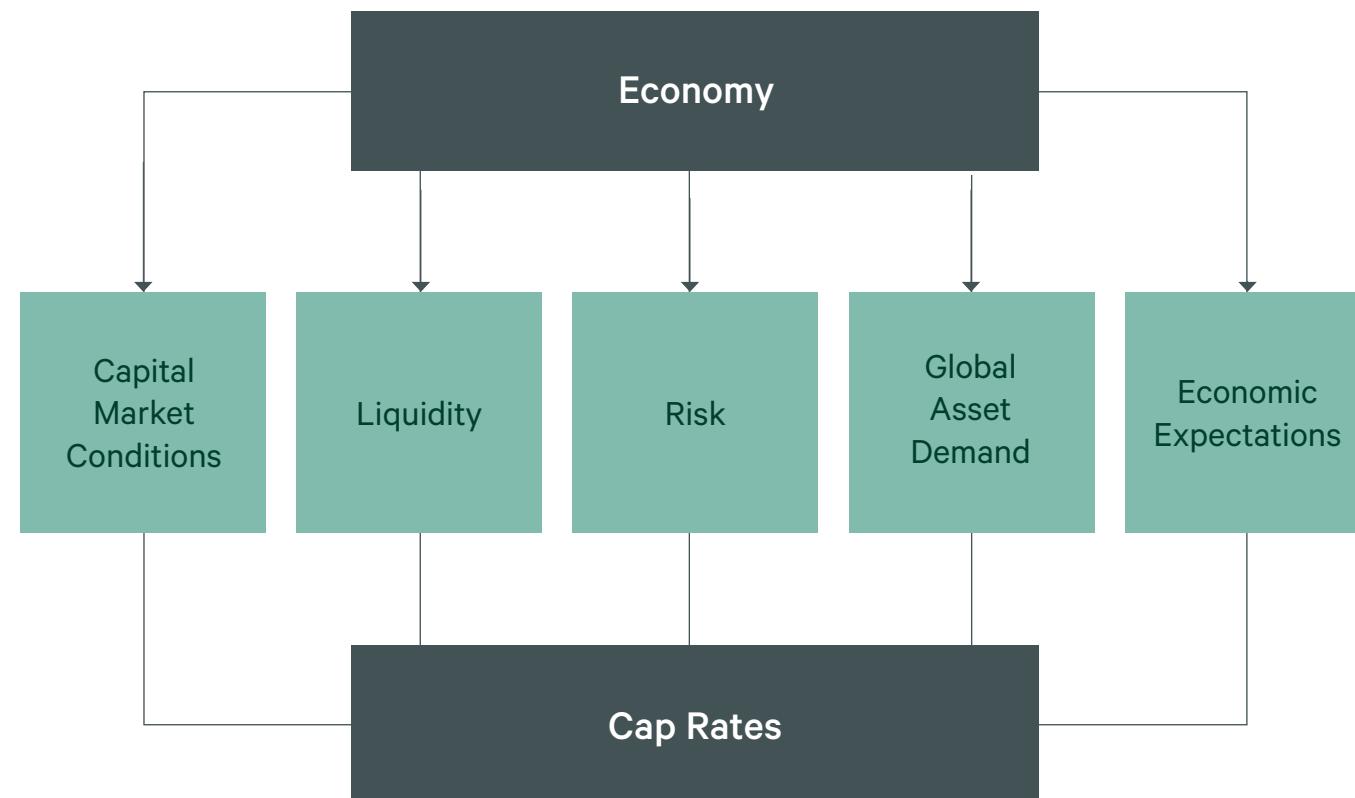
Cap rates will slightly compress in 2025. While Treasury yields and rents are the biggest drivers of cap rates, other significant factors include the risk premium and GDP growth. CBRE forecasts that cap rates will slowly fall and stabilize at higher levels than in the last cycle due to interest rates remaining higher than they were during the 2010s. This is driven by outsized budget deficits and continued economic growth, among other factors.

From their peak in 2024 to the end of 2025, industrial cap rates will fall by 30 basis points (bps), retail by 24 bps, multifamily by 17 bps and office by 7 bps. This forecast is subject to changes in borrowing rates, which will impact activity and pricing. Investors should consider broader macroeconomic drivers that influence Fed policy to understand cap rate movements.

Although macro factors determine the direction of cap rates, the extent of those changes can be influenced by the relative strength of each market and asset. As such, market and individual asset selection will be even more important considerations for investors during the current cycle's early phase.

Factor Group	Model Variable	Impact
Capital Market Conditions	Nominal Treasury Yield	+
	Inflation	-
Liquidity-Fed QE	QE	-
Risk	A-Bond Spread	+
Global Asset Demand	Dollar Value	+
National Economic Expectation	GDP Index	-
Local Economic Expectation	Local RE, Real Rent	-

**Figure 5: Factors That Influence Cap Rates**



Source: CBRE Econometric Advisors.

# Risks & Opportunities

## Risks

Geopolitical risks, potential fiscal or monetary policy errors and persistent inflation—potentially exacerbated by trade and immigration policy changes—could impact the nascent capital markets recovery.

Continued distress in the office sector and, to a lesser extent, the multifamily sector is likely. As a result, banks—particularly community and regional banks—will manage their exposure to commercial real estate amid continued regulatory scrutiny. Construction loans will remain relatively difficult to obtain from banks. There also is uncertainty around the repropose Basel III rules that could compound issues for banks that lend to commercial real estate, impacting liquidity in the sector. However, following the election, we anticipate any implementation to be less disruptive than previously feared.

## Opportunities

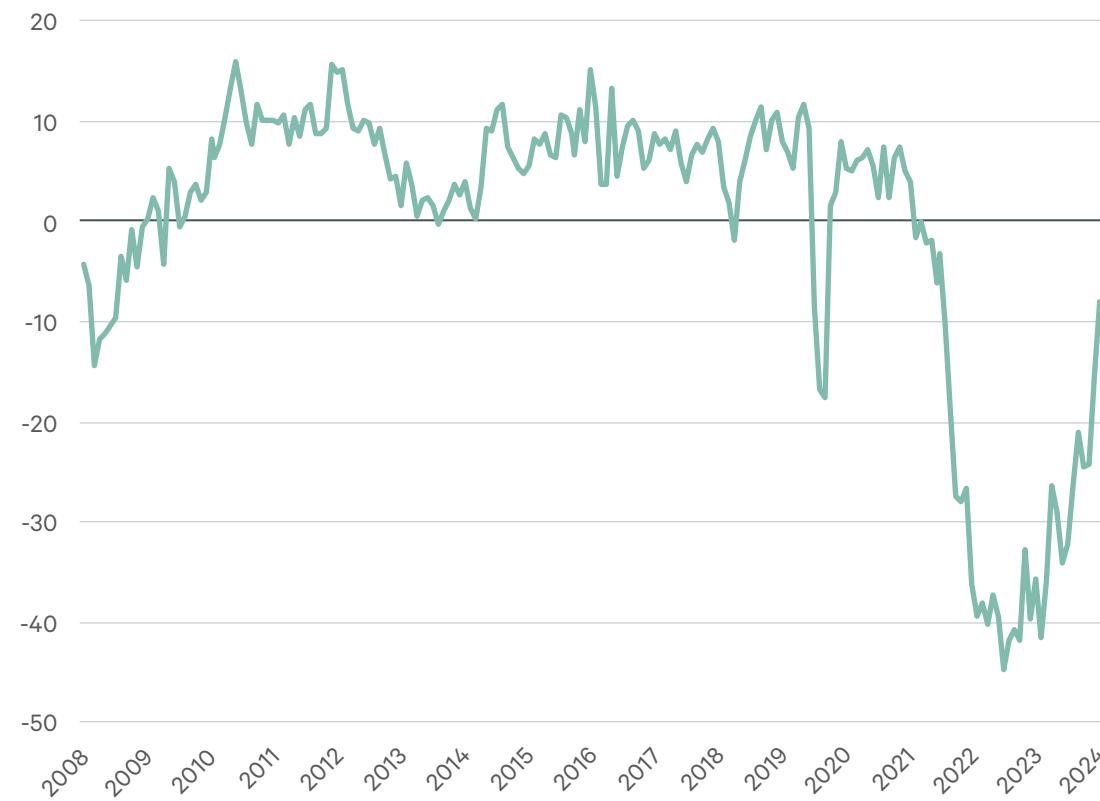
CBRE views the current investment environment differently from the one leading up to the pandemic. Structural changes impacting demand for various property types have rendered some assets less competitive in the marketplace (e.g., non-prime office and less-functional industrial properties).

Nevertheless, we continue to see a number of opportunities. The pricing reset across all sectors and continued distress in the office and multifamily sectors will present unique prospects for investors over the coming quarters. This will be particularly apparent for well-located Class A office assets that can expect demand spillover from prime properties.

Evolving supply chains and a relatively healthy consumer will continue to present opportunities in the industrial sector, particularly as trade policy impacts the flow of goods entering and leaving the country. For the multifamily sector, reduced levels of new supply and higher mortgage rates will result in healthy demand and better fundamentals. And investment opportunities will abound in the retail sector amid continued consumer strength and low levels of new supply, although the imposition of tariffs might weaken investor sentiment. We also expect more interest in alternatives, especially data centers.

Lower interest rates amid global economic growth, particularly that of the U.S., will stimulate foreign capital inflows. However, the strength of the U.S. dollar will be a headwind for foreign investors.

**Figure 6: Commercial Real Estate Investor Sentiment Index**



Source: Sentix, CBRE Research, October 2024.

# Trends to Watch

- Pricing will rise for all property types, even office.
- Investors will begin to cautiously move out on the risk spectrum amid strong competition for industrial and multifamily assets.
- Capital will be selective with regard to markets, property types and assets amid an evolving investment landscape.
- Debt capital will remain available but the composition of lenders will shift amid bank losses.
- Major policy changes, including tax, trade, immigration and federal spending, will have varying impacts on commercial real estate and the overall investment environment.
- Bond market volatility will continue into the medium term.



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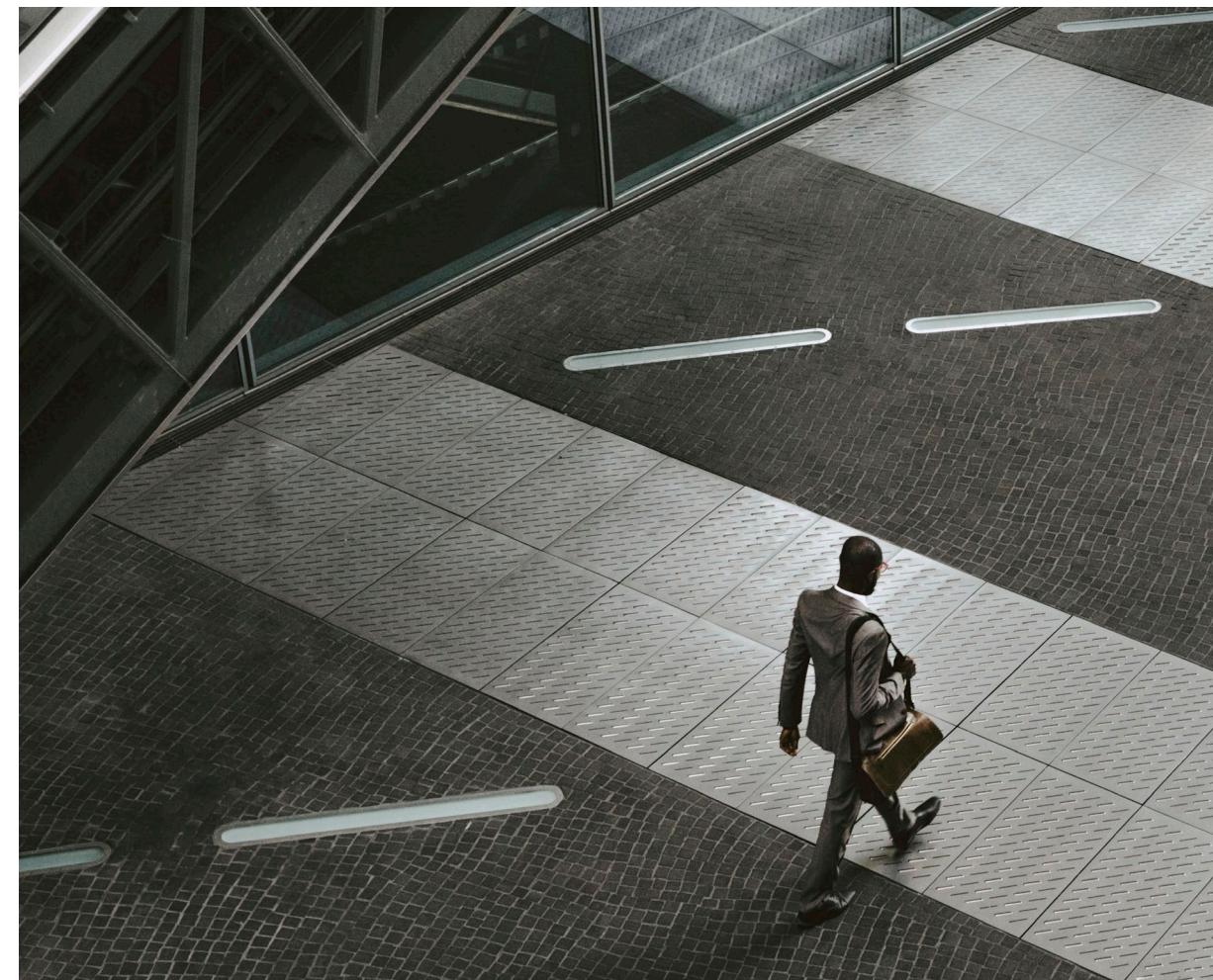
## Office/ Occupier



# Office Market Stabilization Expected

The U.S. office market is set for a pivotal shift in 2025, with stabilization paving the way for a new cycle. With office attendance reaching a steady state and a soft landing for the economy, occupiers can conduct portfolio planning with increased confidence.

Occupier sentiment will shift from a contraction-oriented approach to one of stabilization and even expansion, supporting office space absorption. This positive shift, along with a significant slowdown in new supply and declining interest rates, sets the stage for the most optimistic outlook in years. However, certain challenges will remain, including subpar office-using job growth, a substantial amount of sublease space and high vacancies in less desirable office properties.



With office attendance reaching a steady state and a soft landing for the economy, occupiers should conduct portfolio planning with increased confidence.

# Occupier Strategy

More than one-third of respondents to CBRE's [2024 Occupier Sentiment Survey](#) plan to increase their portfolio requirements over the next two years, while 25% expect no change. This will support positive office absorption in 2025. Large companies with more than 10,000 employees will drive most of the downsizing, while small companies with less than 1,000 employees will drive most of the expansion. Although rightsizing will continue in 2025 due to pre-pandemic inefficiencies and space reductions from hybrid working, much of this adjustment has already taken place over the past four years.

A healthy pipeline of tenants actively seeking office space is a precursor to a 5% rise in leasing volume in 2025. Smaller tenants looking for between 10,000 and 20,000 sq. ft. will account for more than half of total leasing volume.

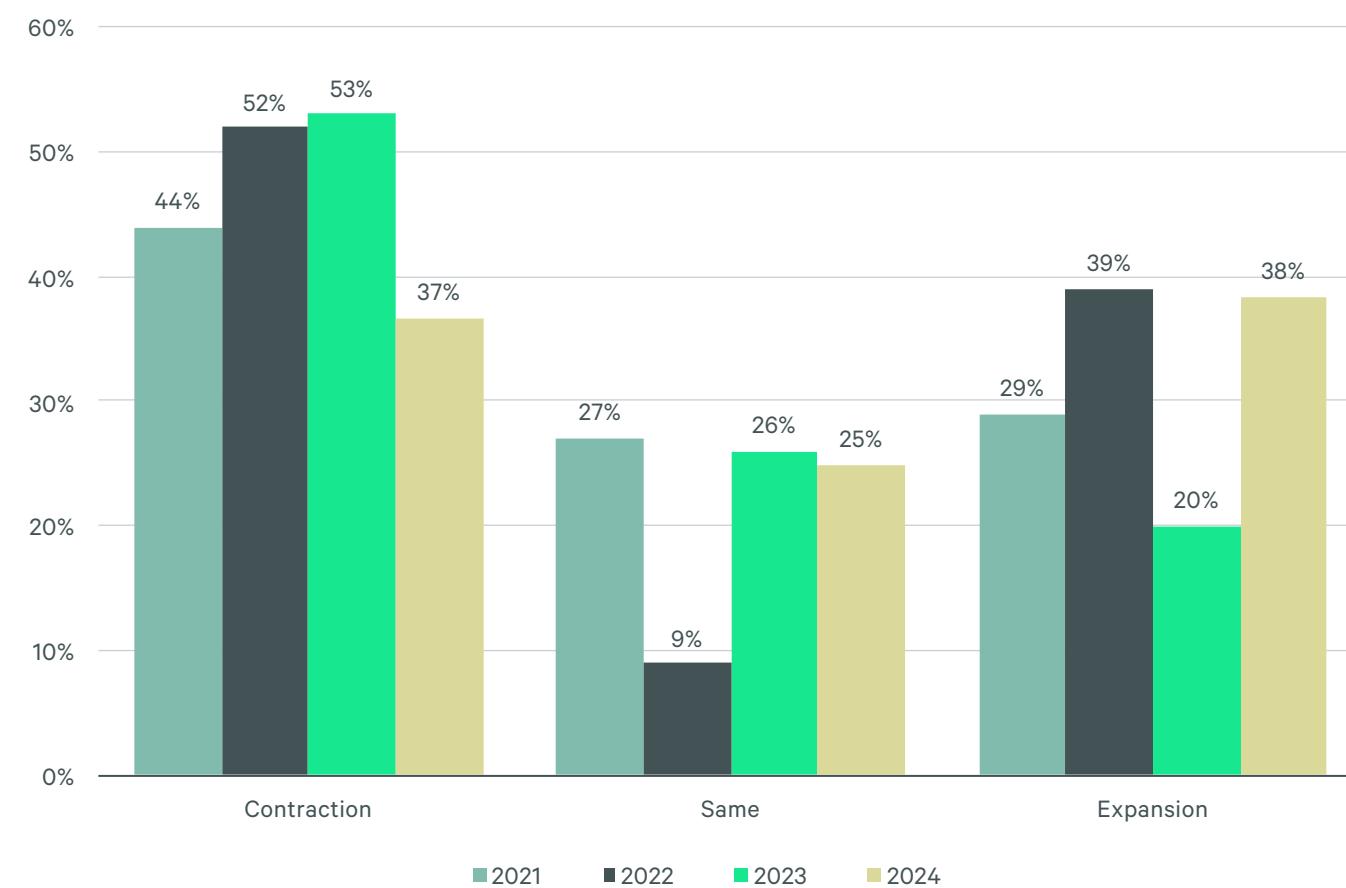
Manhattan, which was one of the worst-hit markets by the pandemic, will continue to rebound next year. The market's active tenant pipeline is above

its pre-pandemic average, indicating increased leasing volume ahead. Other markets with high demand that can be satisfied by new prime office deliveries include Austin, Nashville and Miami.

Many tenants will decide to renew their current leases due to high moving costs and difficulties in assessing landlords' financial health. Renewals will make up a large share of leasing volume compared with historical averages. Landlords will be more willing to negotiate favorable terms with large tenants rather than risk vacancy.

Tenants that relocate will prioritize buildings in prime locations with first-class amenities. As these spaces become more scarce, demand will spill over to the next tier of buildings.

**Figure 7: Expected Portfolio Size Change Over Next Three Years**



Source: CBRE Occupier Sentiment Survey, May 2024.

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Office/  
Occupier

## Market Divide

The divide between high-quality and lower-quality office assets will widen in 2025. High-quality assets in vibrant mixed-use districts will continue to attract tenants. Occupiers of Class A space are the most likely to upgrade to better locations. More cost-conscious tenants in sectors such as government, healthcare and education will continue to drive demand for a large pool of available Class B and C space. Commodity buildings in less desirable and office-centric districts are the most at risk of losing tenants. Landlords of commodity buildings, who are also competing with the 175 million sq. ft. of discounted sublease space on the market, will have to lower asking rents.

Office tenants will be increasingly diligent in ensuring that landlords are financially stable enough to service their debt and maintain their properties.

Prime spaces will become more scarce due to the slowdown in new construction. By conservative estimates, vacancy in prime buildings is expected to return to its pre-pandemic rate of 8.2% by 2027. However, prime space will be difficult to find in many districts next year, such as Midtown Manhattan and Downtown Miami. Tightening availability will give owners of prime buildings the upper hand in lease negotiations and rents will continue to rise.

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# New Office Starts Plummet

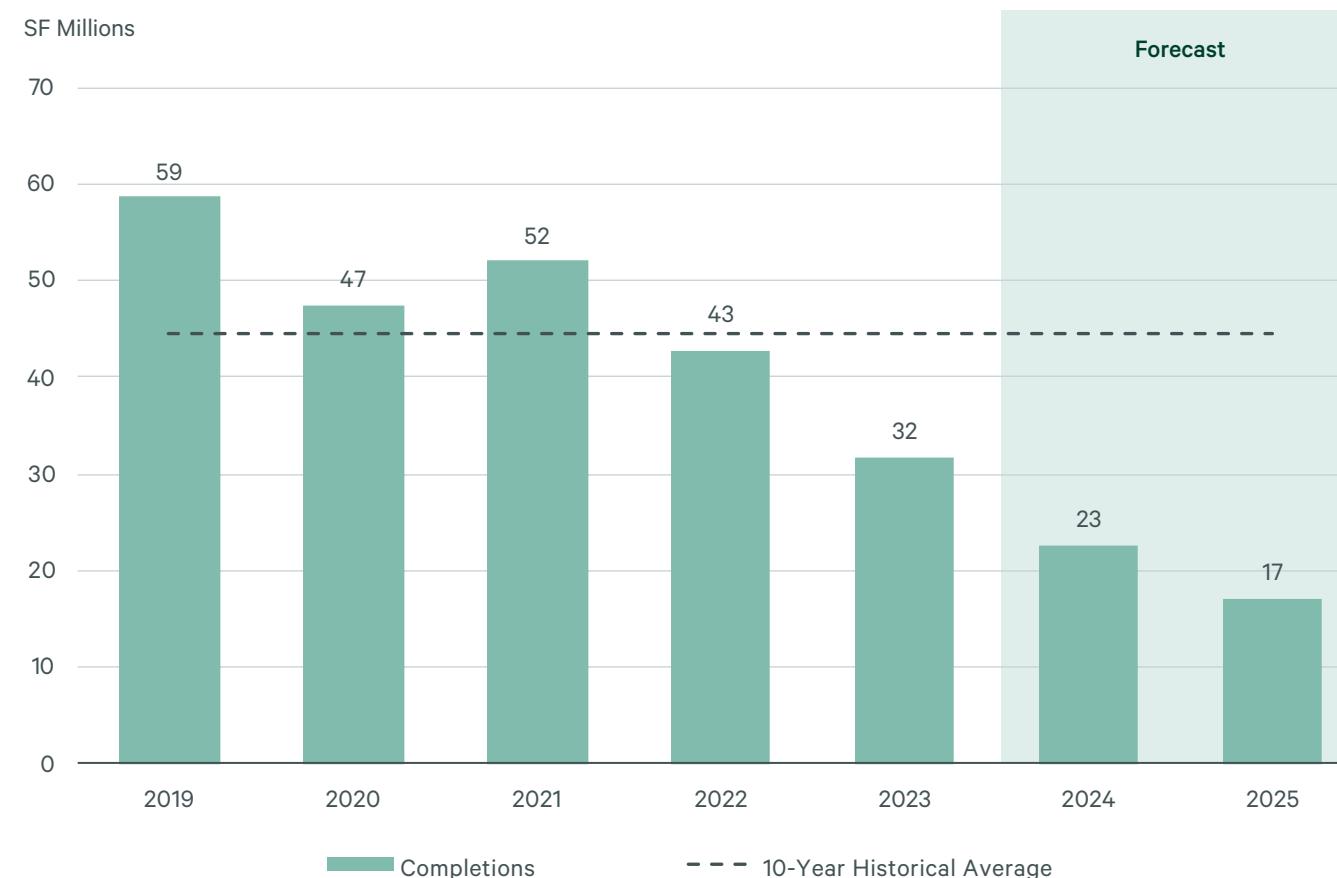
The office construction pipeline is notably thin, with new supply expected to fall to 17 million sq. ft. in 2025, well below the 10-year average of 44 million sq. ft. While a few markets, including Austin, Nashville and Dallas, will experience near-term oversupply, the construction slowdown will be a welcome reprieve in most markets. The overall office vacancy rate is expected to peak at 19% in 2025.

Increased conversion and demolition activity will remove largely vacant and outdated office space from the market. While conversion activity will remain well above historic norms, these projects still represent a small fraction of the overall office market. More financial incentives in addition to an anticipated reset of pricing will be needed to make these projects financially viable.

19%

Expected peak overall office vacancy rate in 2025

**Figure 8: Office Completions**

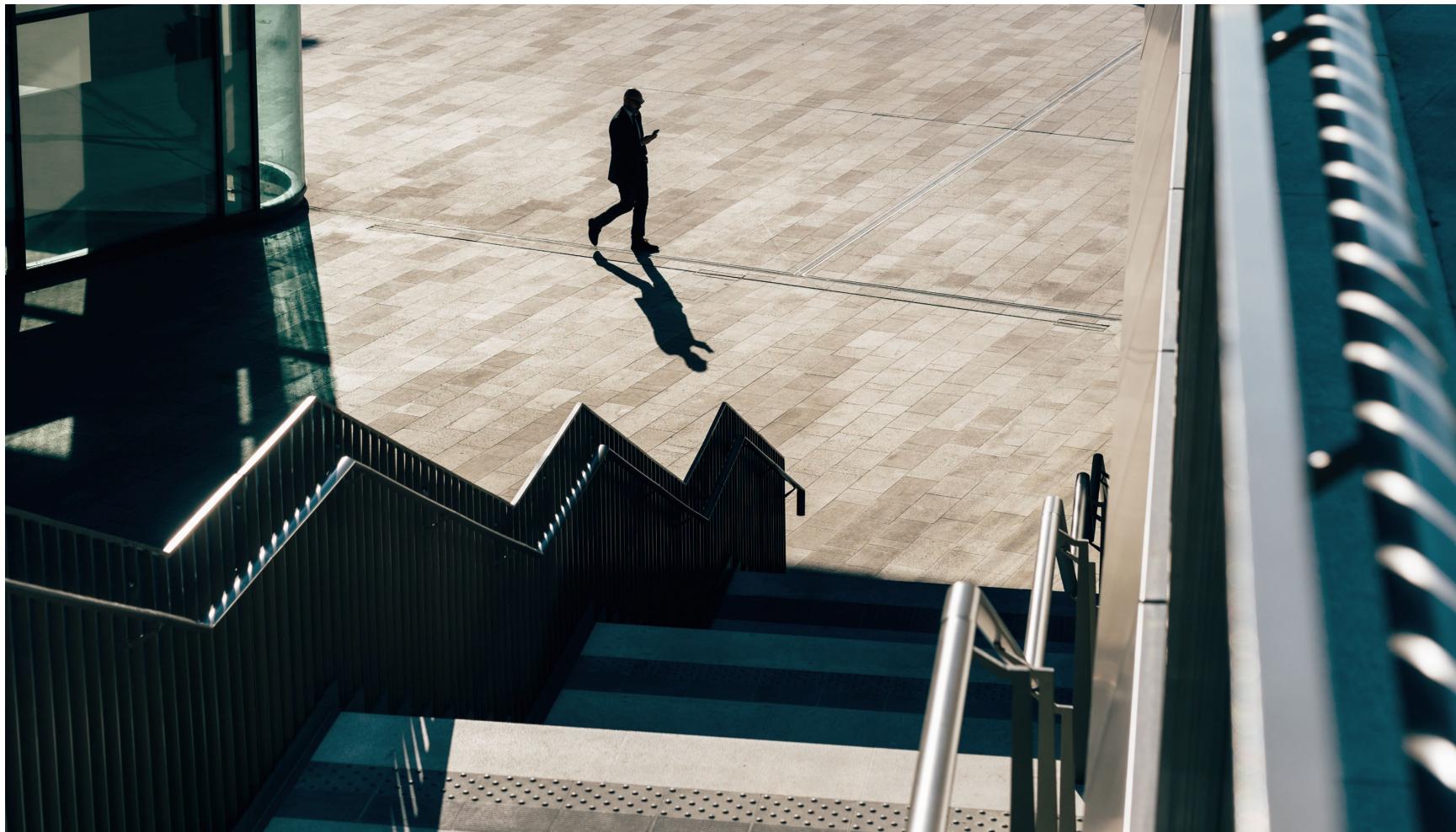


Source: CBRE Econometric Advisors, Q3 2024.

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Occupier

## Demand Tailwinds & Headwinds

Tailwinds for the office sector include falling interest rates, greater corporate confidence in a soft landing for the economy, deregulation and office-using employment at a record level. There also will be a mild increase in office attendance rates. Against these positives will be lower future growth of office jobs due to labor shortages and the use of artificial intelligence for certain jobs.



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# Transforming America's Cities

Cities will need to reinvent themselves in a post-pandemic world. Those with economic dynamism, demographic potential, lifestyle vibrancy, distinctive identity, responsive governance and resilient infrastructure will fare best.

Markets with vibrant mixed-use districts will continue to outperform. Expanding these districts and creating new ones will be essential for cities to succeed in the future as occupiers seek to locate in walkable environments with many amenities.

Location will be more important than ever for the leasing success of office buildings. Those in vibrant, walkable mixed-use districts that include both residential buildings and prime office space will achieve the highest occupancies and rents. Prime examples include Chicago's Fulton Market, Washington D.C.'s Wharf, Boston's Seaport, Atlanta's Midtown and Denver's Union Station.

Public and private stakeholders will increasingly play a role in transforming their struggling downtowns by using financial incentives linked to long-term place-making strategies. While these changes won't happen overnight, 2025 will be a pivotal year for progress. Savvy investors will get involved in regeneration initiatives at an early stage.



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# Retail



# Limited Supply Will Hamper Retail Leasing Growth in 2025

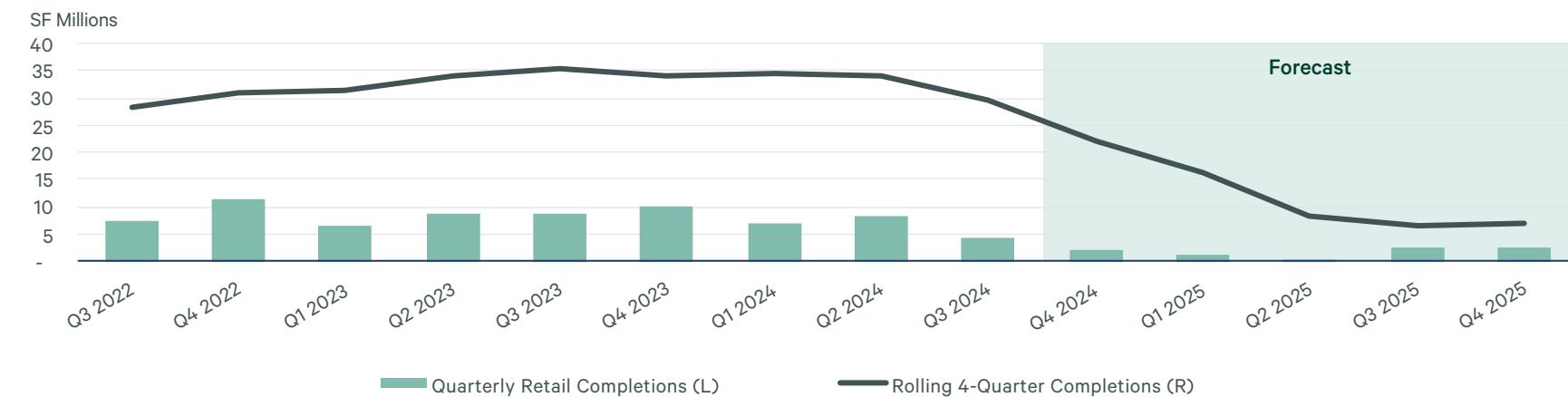
Retail space availability will remain limited in 2025. Despite lower interest rates, the high cost of capital will make it challenging to finance new projects and expansions, especially in markets where rental rates may not justify the expense.

With little new space scheduled for delivery in 2025, the overall retail availability rate will remain at a record low and lead to higher asking rents. However, potential store closures could provide the welcome availability of more space. Closures in prime locations and open-air strip and power centers will be highly sought-after by tenants to generate more foot traffic. Viable retailers will also aggressively compete for well-located space and sign longer lease terms to guard against any potential supply disruptions.

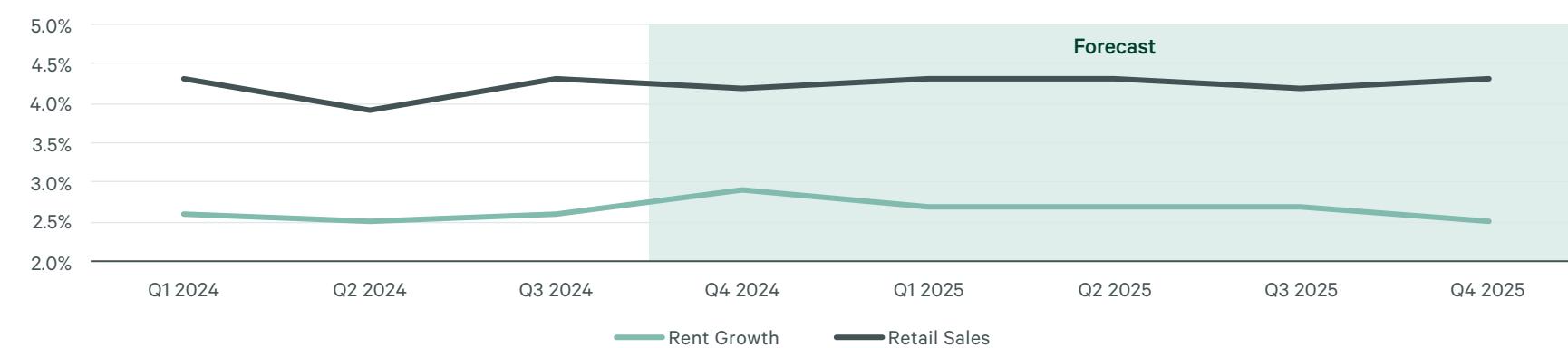
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Despite lower interest rates, the high cost of capital will make it challenging to finance new projects and expansions.

**Figure 9: Supply Pipeline to Remain Constrained**



**Figure 10: Retail Sales & Asking Rent Growth**



Source: CBRE Econometric Advisors, Q3 2024.

# Consumer Shifts Will Alter Site Selection Strategies

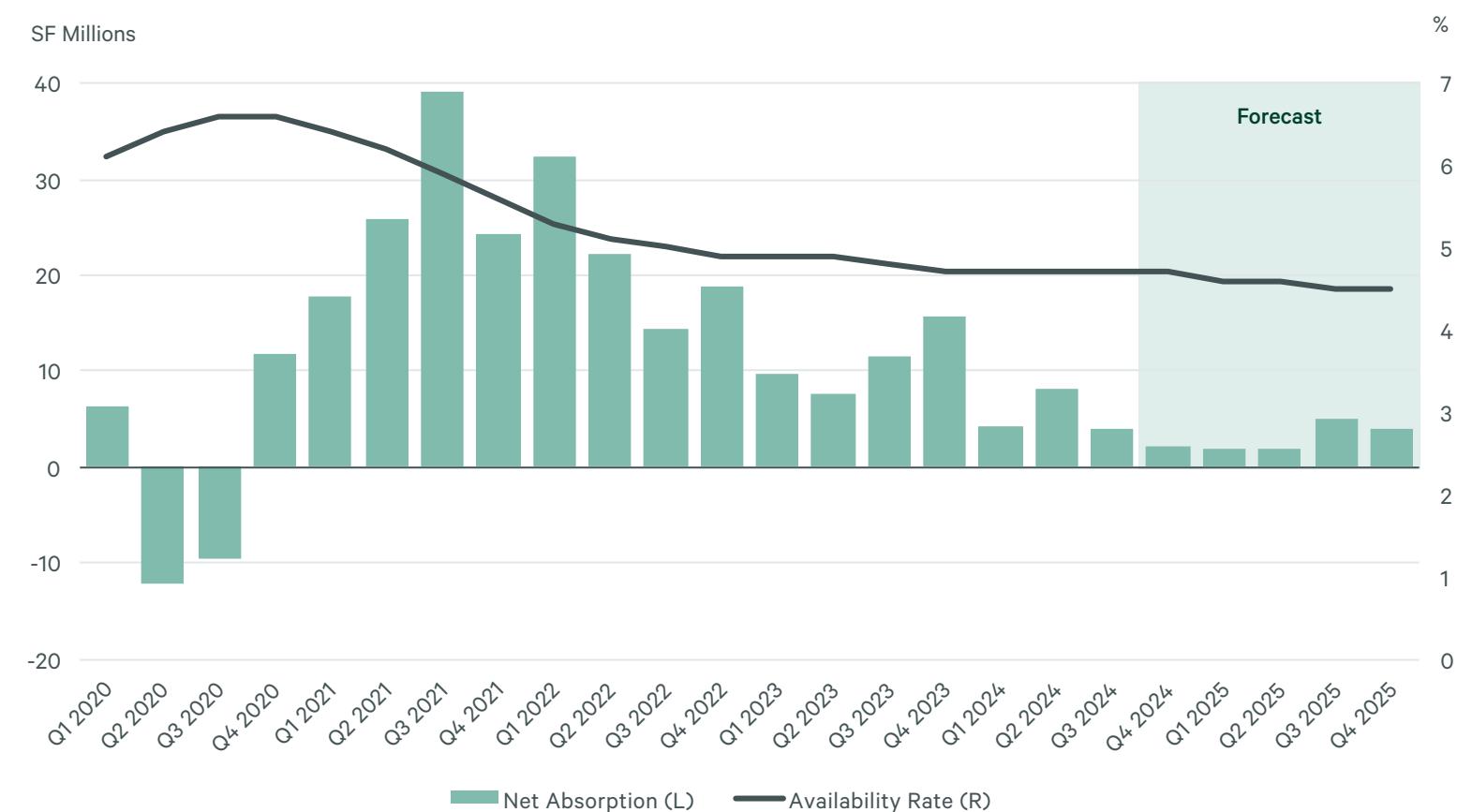
Changing consumer preferences pose certain opportunities and challenges for retailers. Economic uncertainty and high inflation have made consumers more budget-conscious, often prioritizing essential goods that account for approximately 65% of consumer spending, according to the U.S. Bureau of Economic Analysis. This will heighten retailers' interest in grocery-anchored centers, which are among the best-performing retail property types.

The ongoing rise of e-commerce also continues to reshape the retail landscape, particularly in sectors like apparel and electronics. The online share of total retail sales, excluding autos and gasoline, is expected to exceed 30% by 2030, up from 23% in 2024.

As consumers increasingly favor online options, some retailers are consolidating locations and shrinking their footprints by approximately 2% per year, according to the National Retail Federation. Open-air neighborhood, community & strip centers will see increased demand next year as retailers focus more on facilitating pickups and returns of online purchases. Many retailers who had located primarily in malls will focus expansion plans on these centers due to the continued growth of e-commerce.

As the retail industry continues to evolve, those markets that offer strong population and job growth, along with infrastructure improvements, will see significant retail demand in 2025. As mortgage rates ease and housing turnover accelerates, we can expect a further boost in demand for residential-related retail, including home goods, furniture and home improvement stores.

**Figure 11: Retail Availability & Absorption**



Source: CBRE Econometric Advisors, Q3 2024.

# Markets to Watch

## Phoenix

Population growth from a mix of young families and retirees has turned this city into a top-performing retail market. The steady influx of residents supports a significant pace of retail development, particularly in expanding suburban areas. Bolstered by infrastructure improvements and strategic investments, Phoenix is a hotspot for both national brands and local businesses. This wave of development reflects confidence in Phoenix's long-term growth potential, attracting retailers who want to tap into the city's dynamic consumer base.

## Austin

Rapid population growth and a thriving economy, primarily driven by the tech sector, are fueling this city's retail market. Austin's vibrant culture and reputation as a creative hub continue to attract young professionals, entrepreneurs and high-income residents, each fueling strong demand for diverse retail experiences. With increased development and an affluent population, Austin offers a prime opportunity for retailers.

## Dallas

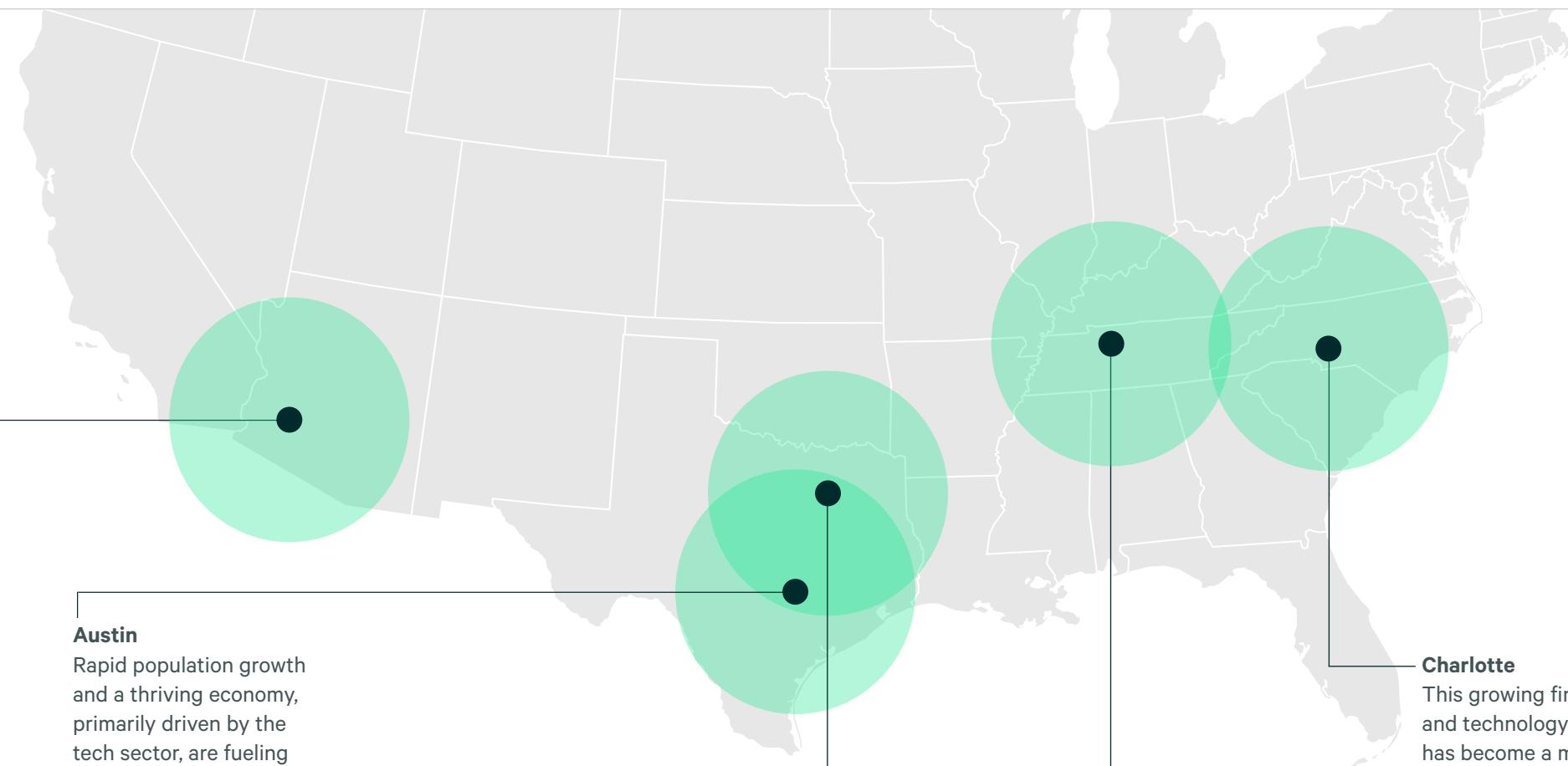
A robust economy, growing population and strong job market, particularly in tech and finance, make Dallas one of the country's top retail markets. High levels of absorption, combined with consistently low availability, have created a competitive environment among retailers eager to establish a presence in this thriving market. Strong demand from both national and boutique brands is fueling development activity.

## Nashville

This city's booming tourism and healthcare sectors contribute to sustained retail demand, particularly for experiential and high-end retail formats. Although the city's attraction of younger residents has fueled growth in mixed-use developments, it has one of the lowest retail availability rates in the country.

## Charlotte

This growing financial and technology center has become a magnet for young professionals. This demographic shift supports the demand for lifestyle centers and unique "retailainment" experiences. The city's affordable cost of living and warm climate have attracted new residents, leading major retailers and restaurants to seek new suburban and urban locations that can adequately serve this evolving consumer base.



# Experiential Retail's Rise

Retailers are focusing on experiential retail strategies to attract and retain customers. Rather than expanding into new locations, brands are focusing on optimizing their existing spaces to offer unique, immersive experiences that differentiate them from their competitors and appeal to a more experience-oriented consumer base. This “retailtainment” trend combines shopping with other elements like dining, entertainment and activities, creating spaces that provide more immersive brand engagement with customers.

This shift comes at a time of constrained supply of desirable, high-quality retail space. As a result, retailers are focused on maximizing the value of their current leases and spaces by adding experiential elements that drive interactive, destination-driven shopping.

By integrating technology such as augmented reality and interactive displays, as well as creating space for events, brands are increasing their appeal to consumers. These strategies enhance customer engagement, encourage longer store visits and result in more spending by shoppers, reinforcing the importance of physical stores within the modern retail ecosystem.



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# Industrial & Logistics



# 2025 Will See a Return of Pre-Pandemic Demand Drivers

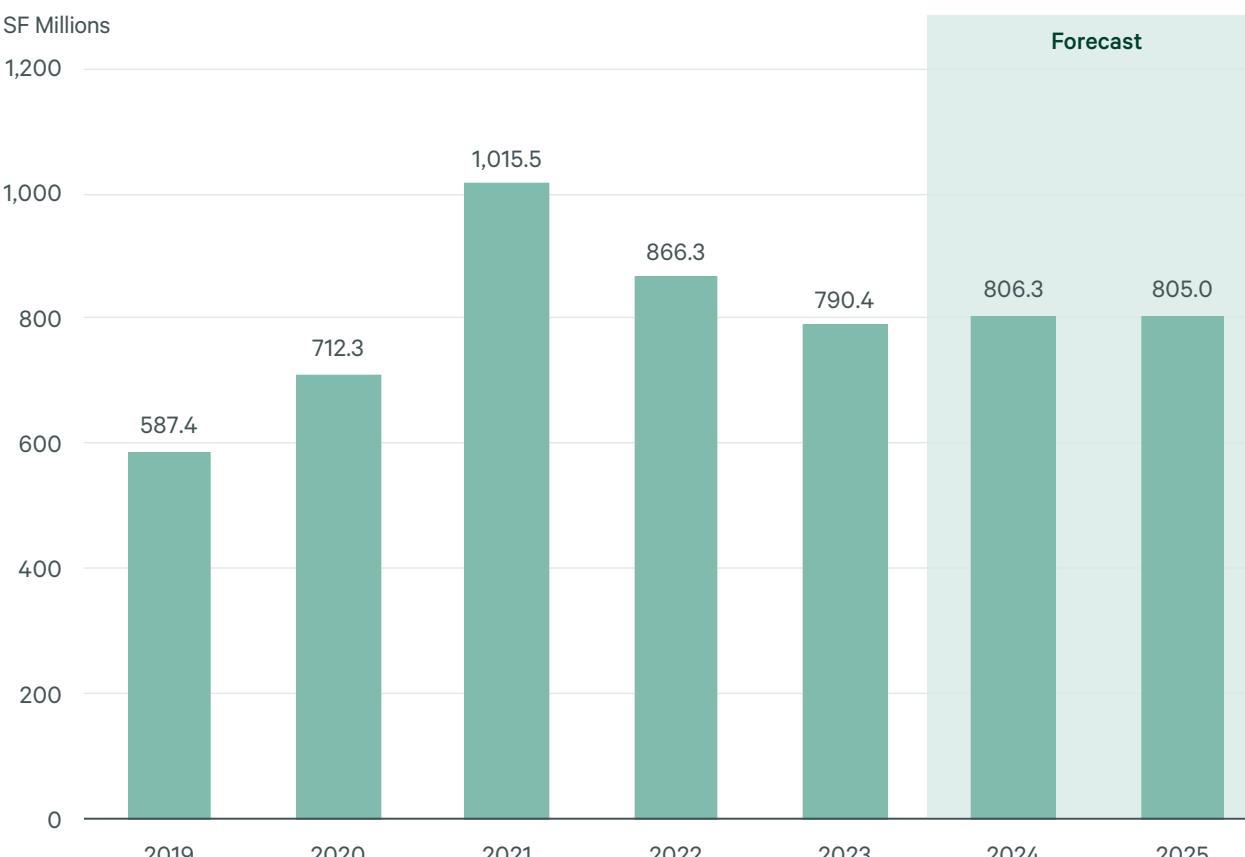
The U.S. industrial market will enter a new cycle in 2025 with a return to pre-pandemic demand drivers. Industrial occupiers will focus on longer-term strategies to improve warehouse efficiency, ensure supply chain resiliency and meet the needs of an evolving consumer base. Demand for newly constructed space will drive up the vacancy rate of older buildings.

Companies will continue a flight to newly constructed and more modern space in 2025 to facilitate their use of automation and artificial intelligence and provide more employee amenities. Power capacity will become a top priority for site selection. Markets with reliable power grids, including Chicago, Phoenix and Las Vegas, will benefit most.

Demand for new space will grow the most from third-party logistics (3PL) providers. Retailers and wholesalers outsource their distribution operations for three primary reasons: import flexibility, capital preservation and a focus on core competency. Labor disruptions, extreme weather events and geopolitical conflicts have led companies to diversify import locations. Utilizing 3PLs allows for more inventory flexibility, a key component to retailer success in times of uncertainty. It also allows companies to focus on core business competencies that drive revenue, such as product development, sales and customer service. The increase in outsourcing will keep 3PLs' share of overall industrial leasing activity at or near 35% in 2025.

Companies will continue a flight to quality in 2025 to facilitate their use of automation and artificial intelligence and provide more employee amenities.

**Figure 12: Industrial Leasing Activity**



Includes new leases and renewals of 10,000 sq. ft. or more.  
Source: CBRE Research, Q3 2024.

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Industrial &  
Logistics

While leasing activity over the past 24 months has not reached the record levels of 2021 and 2022, it remains well above pre-pandemic levels. Leasing activity should stabilize at just above 800 million sq. ft. in 2025.

Despite robust leasing, net absorption will remain low as much of the new leasing will come at the expense of older facilities. Buildings constructed before 2000 accounted for more than 100 million sq. ft. of negative absorption in 2024, while those completed after 2022 posted more than 200 million sq. ft. of positive absorption. This trend will continue in 2025 as long as there still is first-generation space to lease.

More than 400 million sq. ft. of the nearly 1 billion sq. ft. of new industrial supply added since Q1 2023 remained vacant in Q3 2024. While fewer construction starts will reduce construction completions by half in 2025, this relatively plentiful amount of available first-generation space will allow for further flight to quality.

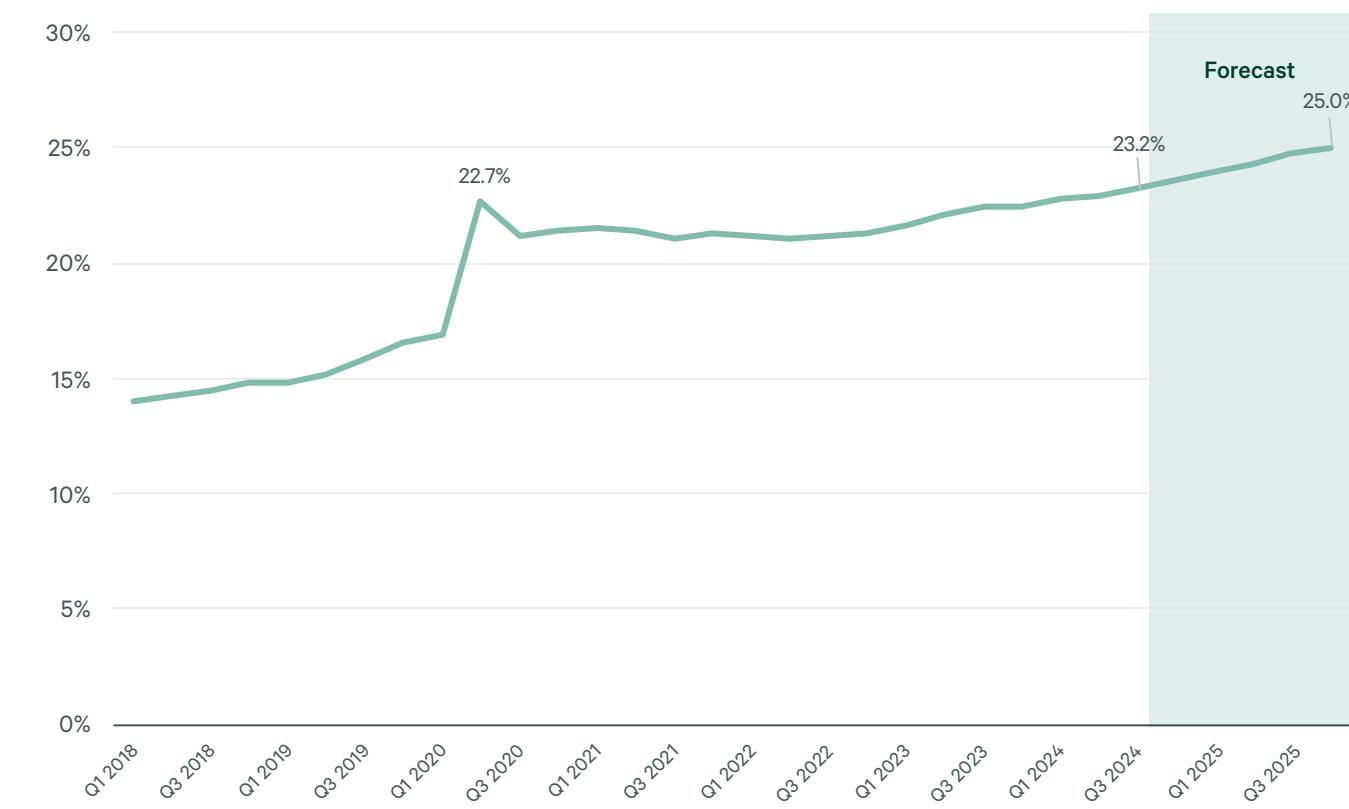
Owners of older buildings that are largely vacant likely will pursue one of three options: stay the course and wait for demand to rebound as new space dries up in 2026, make capital investments to add modern amenities or simply sell the building. Owners that put older buildings up for sale could attract certain own-and-occupy buyers who do not need modern amenities and want to avoid paying rent.

Occupiers will continue to favor primary markets that meet consumer expectations and ensure supply chain resiliency. The e-commerce share of total retail sales, excluding autos and gasoline, hit a record-high 23.2% in Q3 2024 and is expected to reach 25.0% by year-end 2025, creating more demand for warehouse & distribution space.

Perhaps the most important consideration in site selection is a market's ability to offer supply chain resiliency. Core industrial markets like the Inland Empire, Dallas-Ft. Worth, Atlanta, Chicago and the New Jersey/Pennsylvania region will remain leaders in leasing activity. However, there are emerging industrial markets that service manufacturing in both the U.S. and Mexico. These include Houston, Kansas City, Louisville, Nashville and Raleigh-Durham.

Occupiers will continue to favor primary markets that meet consumer expectations, act as a prime location and ensure supply chain resiliency.

**Figure 13: E-Commerce Share of Total Retail Sales\***



\*Excluding auto and gasoline sales.  
Source: CBRE Research, Q3 2024.

# Reshoring of Manufacturing

A primary component of supply chain resiliency is a diverse source of products that lead to onshoring of manufacturing to North America. While the U.S. has seen a slight increase in manufacturing, companies will continue to seek lower labor costs for products like automobiles and computers. Mexico, for example, has a highly skilled and lower-cost labor force to manufacture products that require large warehouse & distribution operations.

However, Mexico's record-low industrial vacancy rate will force companies to open more U.S. distribution centers, preferably either near the Mexico border or along the major north-south highways (Interstates 29 and 35) to store and distribute this product.

With the potential for increased tariffs on products from Asia and perhaps Europe, along with other supply chain constraints, having a warehouse either near the Mexico border or along these two main interstate highways will become nearly as important for some companies as having a seaport location. This should increase demand in markets like San Antonio, Austin, Dallas-Ft. Worth, Oklahoma City, Kansas City, Des Moines and Minneapolis.



06

# Multifamily



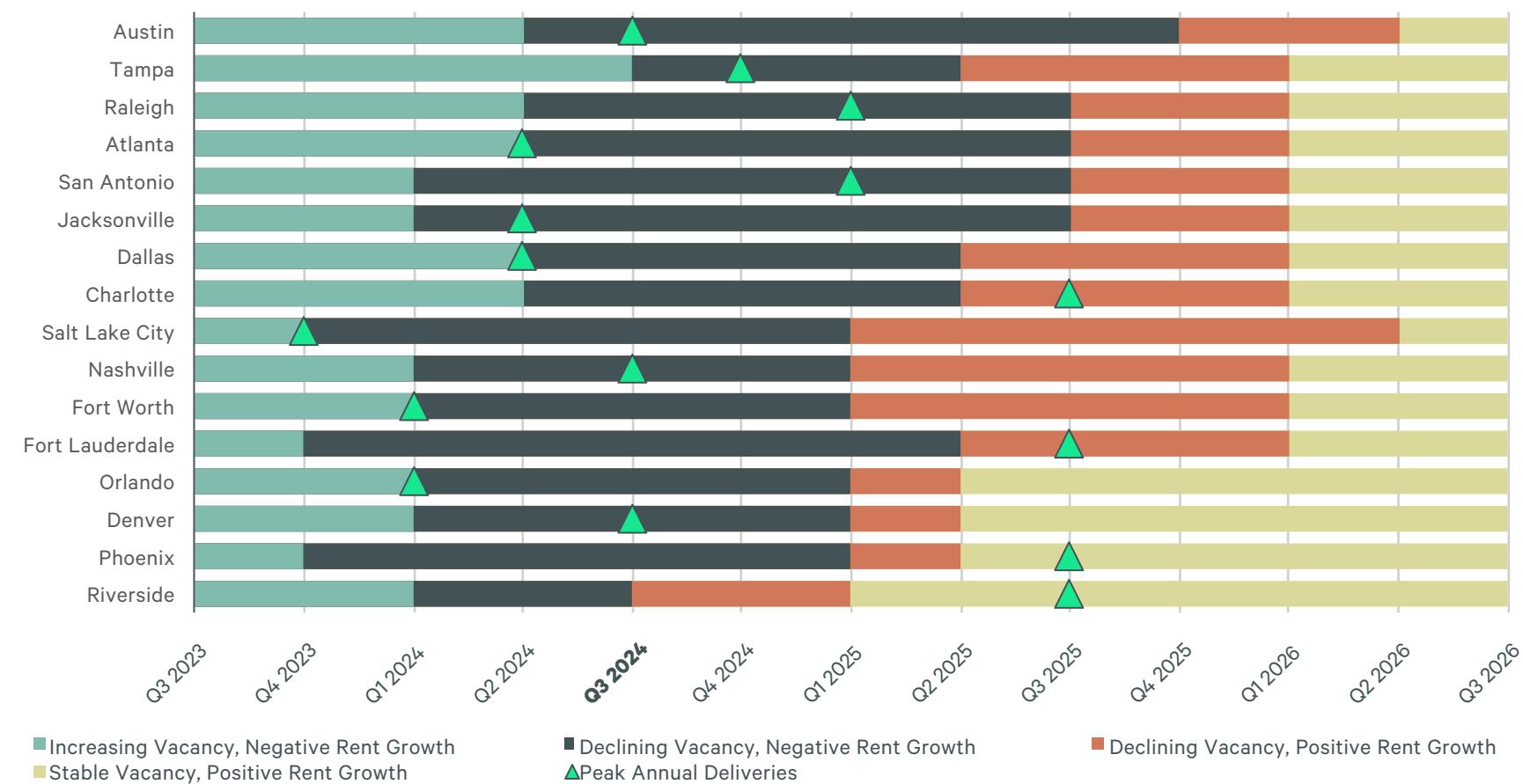
# Cyclical Recovery Just Ahead

With continued solid fundamentals, multifamily is the most preferred asset class for commercial real estate investors in 2025.

For all the short-term negative effects brought on by rising interest rates and record levels of new supply, strong renter demand will drive improving occupancy and accelerating rent growth. This in turn will lead to increased multifamily investment activity. The average multifamily vacancy rate is expected to end 2025 at 4.9% and average annual rent growth at 2.6%.

Developers will add more multifamily units to the U.S. housing market than in any period since the 1970s. Most of this new supply will be in the Sun Belt and Mountain regions, where some markets will grow their inventories by nearly 20% in just a three-year period. However, many of these high-supply markets are now past their peak for deliveries, and occupancy rates have already begun recovering. This recovery will accelerate next year and markets with negative rent growth in 2024 are expected to turn positive in 2025 as completions slow considerably following the marked slowdown in construction starts.

**Figure 14:** Recovery Timeline for High-Supply Markets with Negative Rent Growth



Source: CBRE Research, CBRE Econometric Advisors, Q3 2024.

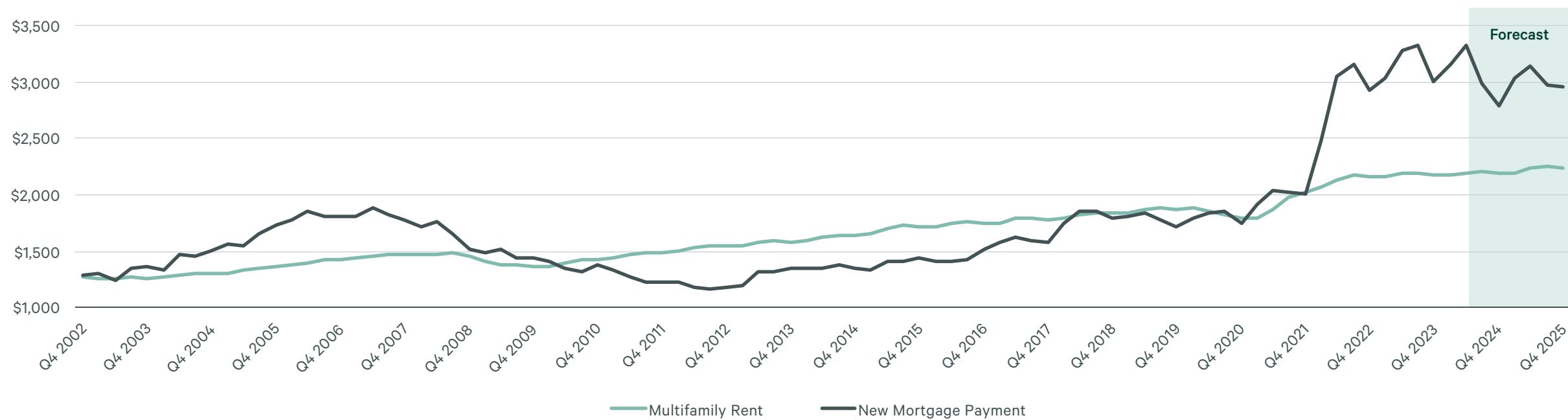
06  
Multifamily

Ten of the 16 markets with the largest supply pipelines (ranked by inventory growth) are expected to enter 2025 having already reached their peak in new deliveries. Supply in the remaining six (Charlotte, Fort Lauderdale, Phoenix, Raleigh, Riverside and San Antonio) will peak in 2025. Despite the negative supply-side pressures on market fundamentals, all of these markets are expected to benefit from improved average vacancy rates and rent growth for several years ahead.

By mid-2025, multifamily construction starts are expected to be 74% below their 2021 peak and 30% below their pre-pandemic average. As the construction pipeline shrinks, strong renter demand will lower the vacancy rate and precipitate above-average rent growth in 2026. This exceptional renter demand has come at a critical time and has already absorbed a large amount of this new supply wave. Job creation, population growth and the competitive discounts being offered by landlords to fill these new units is driving much of this demand, along with a relatively unaffordable single-family housing market.

As the construction pipeline shrinks, strong renter demand will lower the vacancy rate and precipitate above-average rent growth in 2026.

**Figure 15:** Average Monthly Multifamily Rent vs. New Home Mortgage Payment Forecast



Note: Does not include estimates for homeowner's or renter's insurance. Assumed down payment of 10% with prevailing and forecast interest rates.  
Source: CBRE Research, CBRE Econometric Advisors, Q3 2024.

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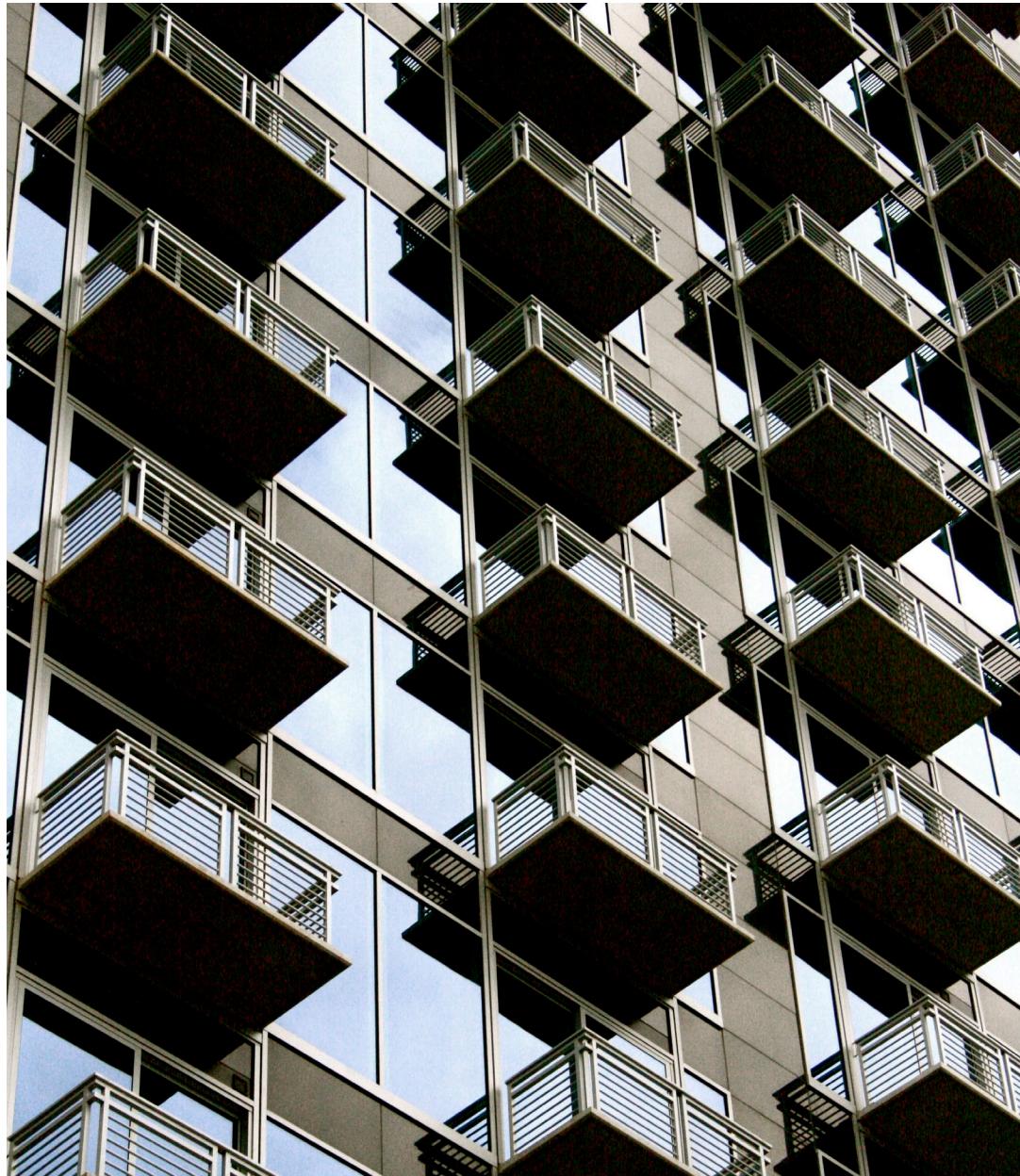
**06**  
**Multifamily**

The wide monthly premium between buying and renting a home will preserve existing renter demand in 2025. Many would-be homebuyers will remain dissuaded by high home prices and mortgage rates.

Making homeownership even more difficult for renters, nearly 80% of all current homeowners have mortgage rates below 5% and will remain reluctant to sell in an ongoing high-interest-rate environment. This challenge will remain even more pronounced in many of the largest markets, where the average monthly cost of buying a house is forecast to be two to three times more than the average rent in 2025.

Vacancy rates across the Midwest, Northeast and six gateway markets have not exceeded their historical averages to the same extent that higher-supply Sun Belt and Mountain regional markets have. As a result, many of these markets are expected to have average annual rent growth of more than 3% in 2025, well above the 2.6% projected national average.

Shrinking construction pipelines, strong renter demand, rising occupancies and accelerating rent growth are expected across all markets in 2025. Investors will have to wait until 2026 or later for market fundamentals in the Sun Belt and Mountain regions to be as strong as those of the Midwest, Northeast and coastal regions. Nevertheless, the long-term prospects for these more challenged regions will continue to attract a disproportionate amount of investment.



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Shrinking construction pipelines, strong renter demand, rising occupancies and accelerating rent growth are expected across all markets in 2025.

# Cost-to-Buy Premium Will Continue to Favor Rental Market

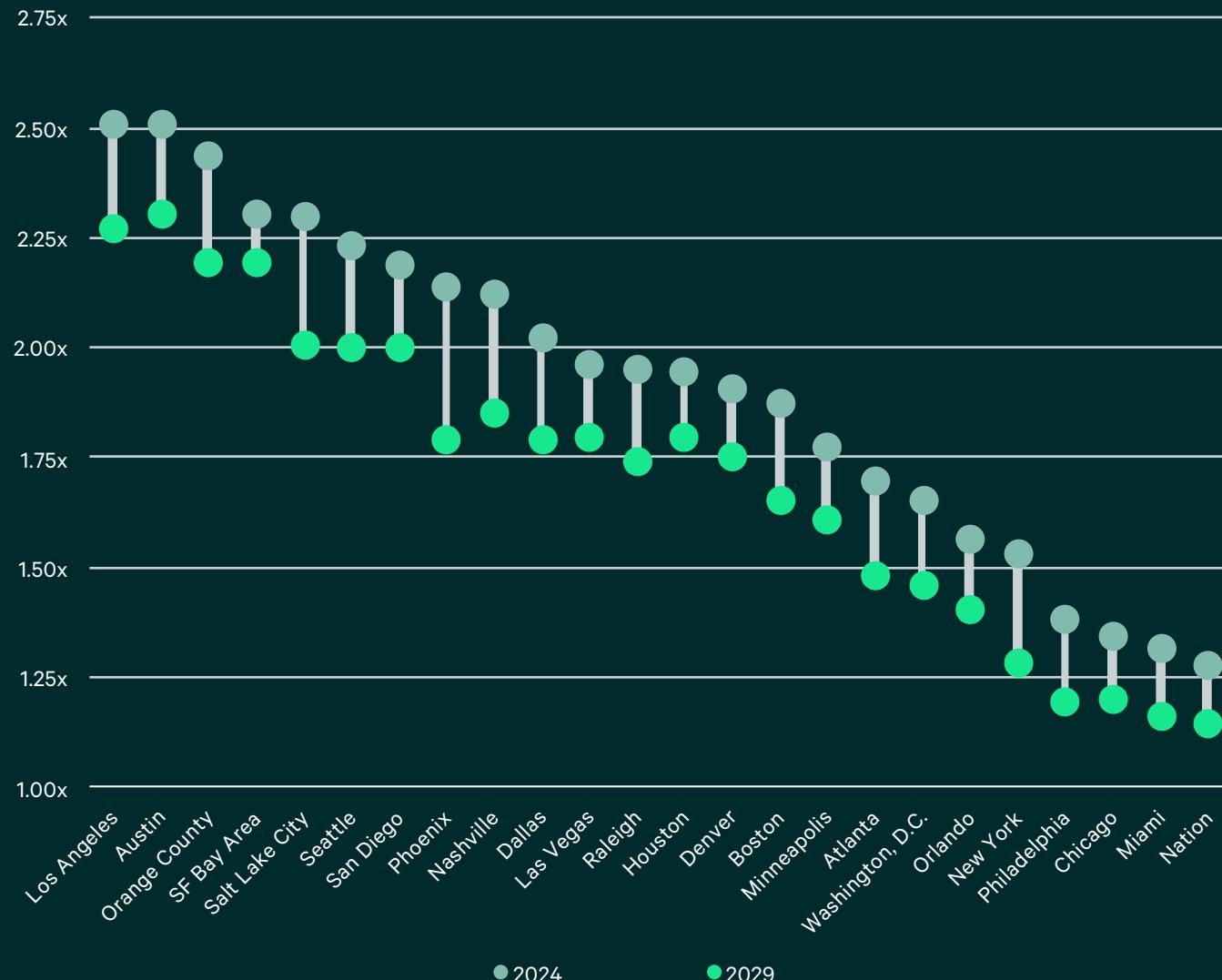
With average newly originated mortgage payments 35% higher than average apartment rents as of Q3 2024, many U.S. households continue to rent rather than buy a home. Even though the premium to buy a home is expected to come down over the next several years based on home-price, interest-rate and rent-growth forecasts, it will remain high enough to keep today's renters renting for longer.

We expect average multifamily rents to grow by 3.1% annually over the next five years, above the pre-pandemic average of 2.7%. This above-trend rent growth is expected to outpace home price appreciation and, along with lower mortgage rates, slightly narrow the cost gap between buying and renting. CBRE expects the premium to buy versus rent to ease to 32% from 35% by the end of 2025.

All markets will see their cost-to-buy premiums shrink over the next five years as interest rates fall, home price growth remains subdued and rent growth accelerates. Austin and Los Angeles have the highest cost-to-buy premiums in the country, both more than 2.5 times the average rent. Although that premium will come down over the next five years, it will remain more than twice as expensive to buy than to rent.

High-growth markets like Phoenix, Salt Lake City and Nashville will see the most premium compression over the next five years. This will be driven by above-average renter demand and reduced multifamily construction pipelines leading to accelerating rent growth.

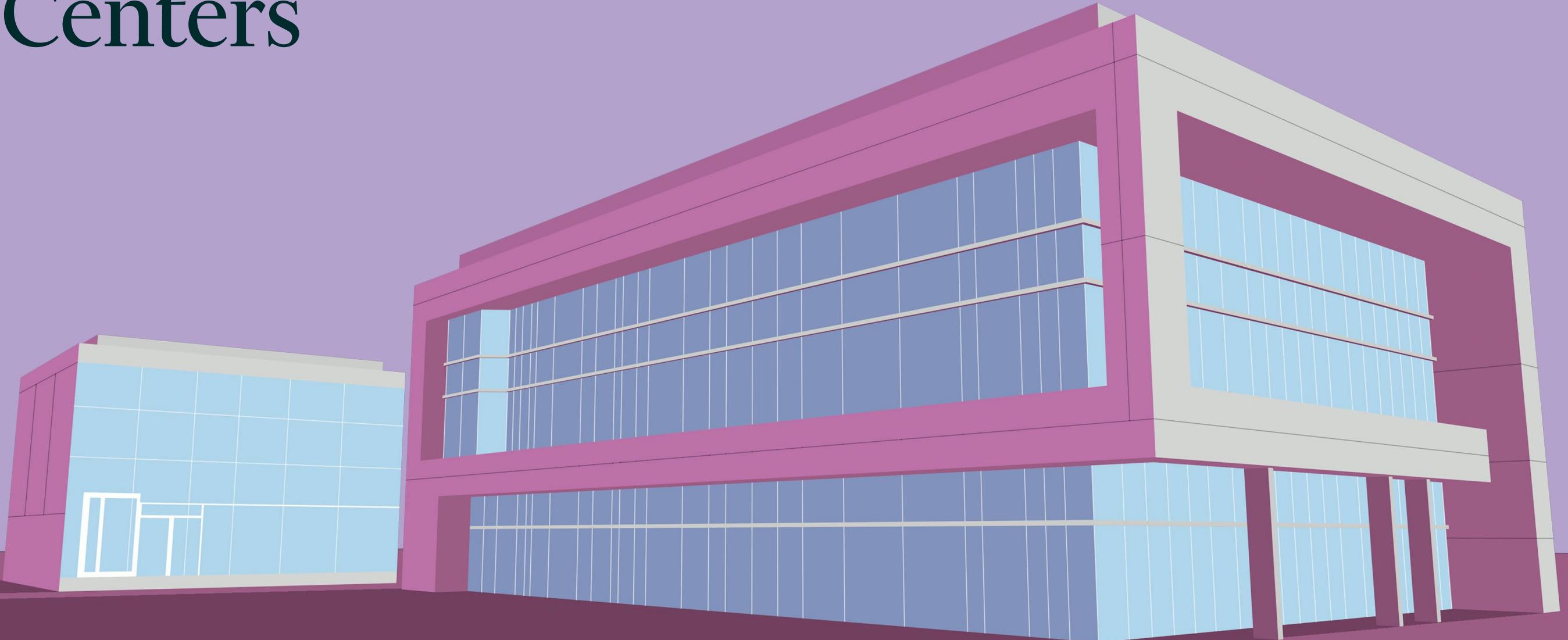
**Figure 16:** Cost Multiplier of New Home Mortgage Payment vs. Monthly Multifamily Rent



Note: Does not include estimates for homeowner's or renter's insurance. Assumed down payment of 10% with prevailing and forecast interest rates.  
Source: CBRE Research, CBRE Econometric Advisors, Freddie Mac, U.S. Census Bureau, Realtor.com®, FHFA, Oxford Economics, Q3 2024.

07

# Data Centers



# Strong Demand Continues; Supply Growth Limited by Power Availability

The rapid growth in digital services, cloud computing, artificial intelligence (AI) and 5G is driving a persistent surge in demand for data center capacity. Applications on cell phones, smart devices, laptops and desktops are constantly increasing the need for processing, storing and computing data.

Despite record construction activity, the data center market will struggle to keep pace with demand, leading to higher utilization rates in existing facilities and tighter vacancy rates. The average vacancy rate for primary markets fell to a record-low 2.8% and the average preleasing rate of new construction hit a record high in 2024. We expect these conditions will persist in 2025, with the average preleasing rate rising to 90% or more and rental rates rivaling the record highs of 2011-2012.

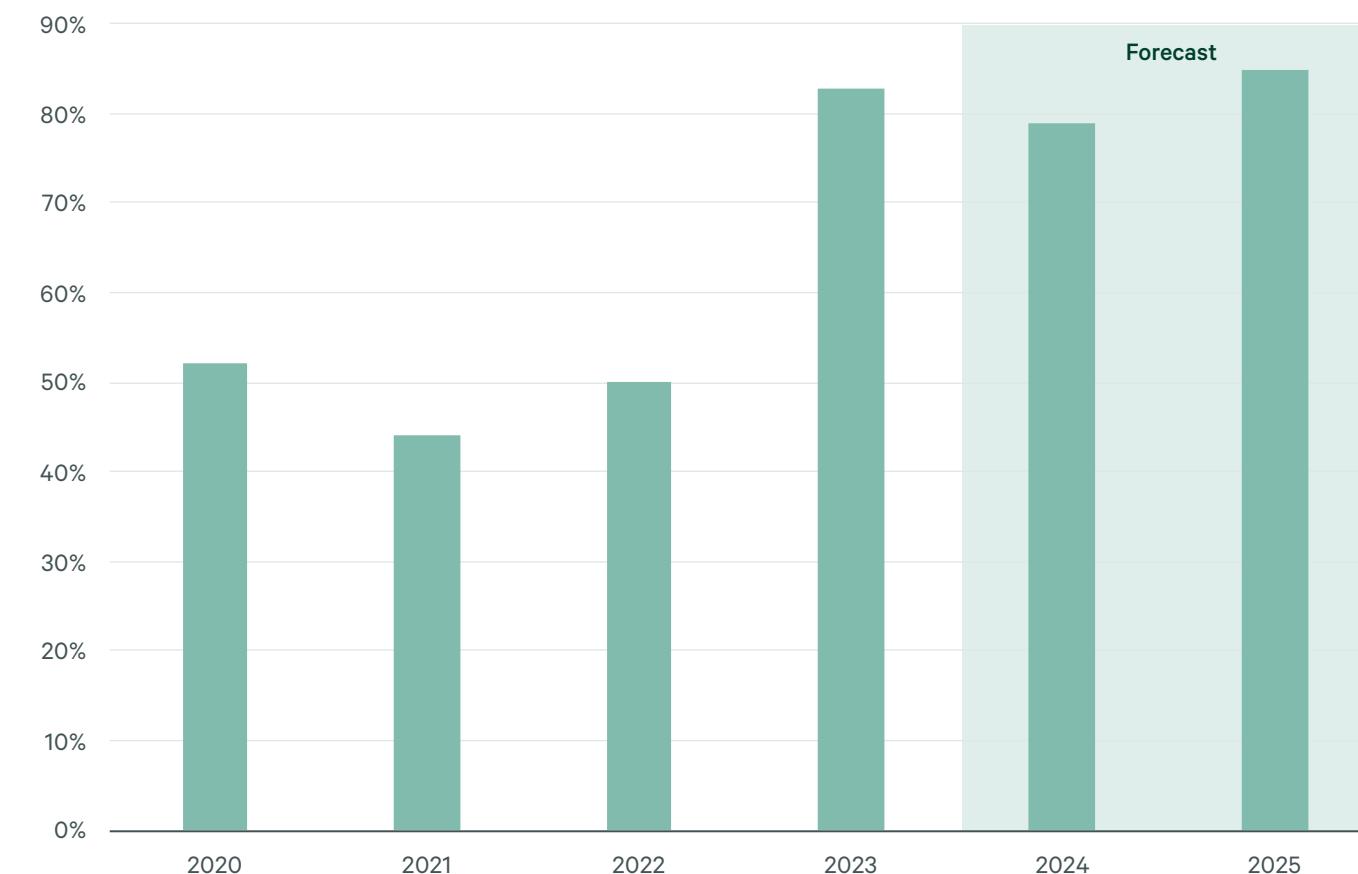
There will be increased competition for land and resources to build new data centers, particularly in primary markets. Northern Virginia, Silicon Valley, Dallas-

Ft. Worth, Atlanta and Chicago are all seeing more data center development outside of central business districts and urban core areas. As a result, rezoning and entitlements will be required in these areas.

More data center expansions in secondary and emerging markets are expected to alleviate reliance on major hubs. Tax incentives will be very important for new development in states that have not had notable supply growth.

Site selection remains focused on power availability and fuel mix. We expect legacy nuclear partnerships providing colocation opportunities for data centers to continue, as well as unique opportunities for retired coal plants to convert to renewable energy with interconnection already in place.

**Figure 17:** Preleasing Rate of Under-Construction Data Centers in Primary Markets



Source: CBRE Research, CBRE Data Center Solutions, Q3 2024.

# Under-Construction Boom

Under-construction data centers are expected to reach record highs in 2025. Demand for modern data center facilities continues to soar, as hyperscalers and enterprises plan to expand their digital infrastructure. The sheer scale of data center development in 2025 will result in a 100+ megawatt (MW) project being the new norm.

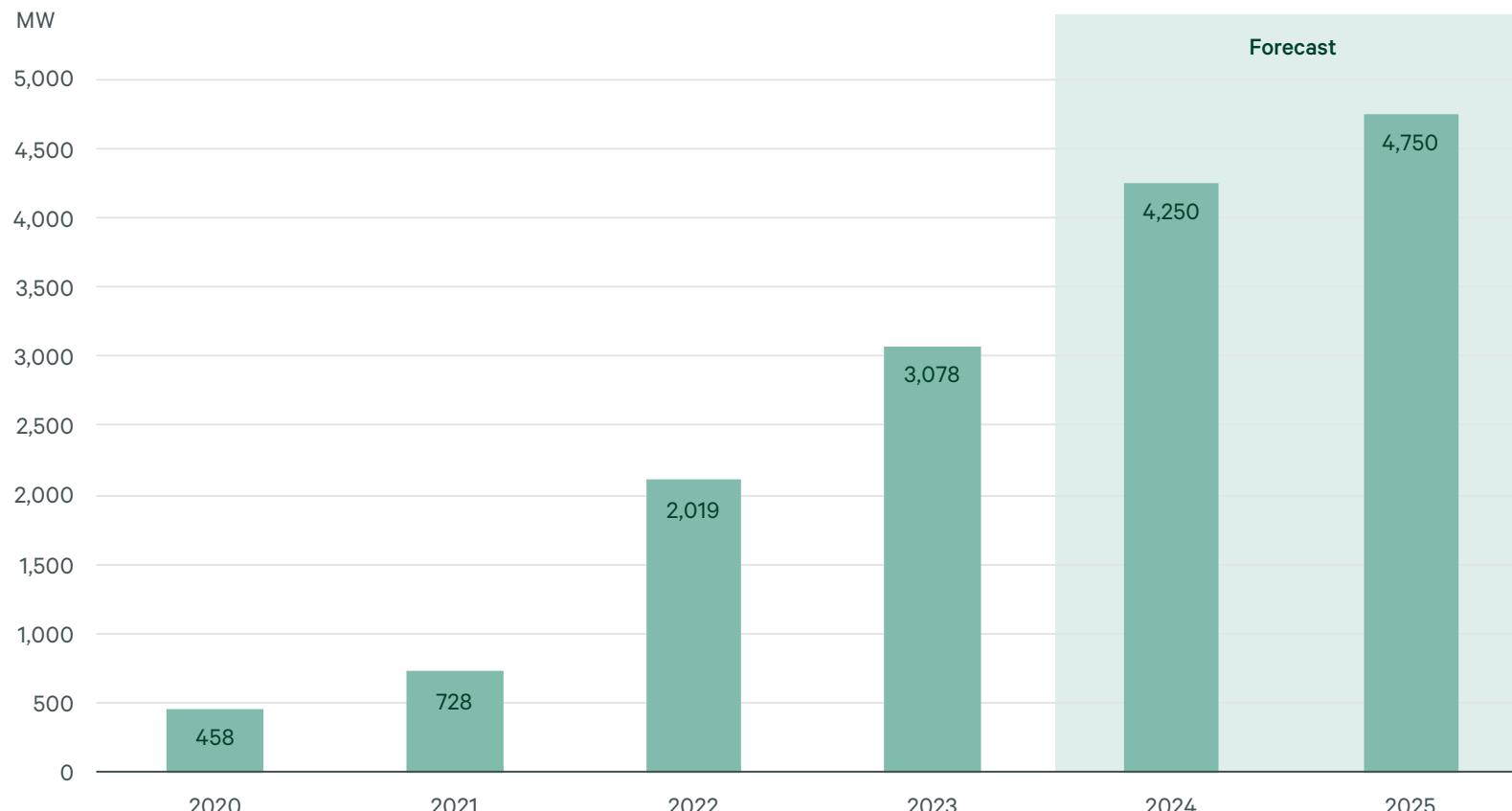
A growing number of projects remain in the under-construction phase for extended periods due to significant power shortages. As power supply struggles to keep up with the rapid pace of new development, many construction projects are being delayed until power infrastructure is either upgraded or increased. This backlog will create more competition for the limited power resources in high-demand areas.

Expect extended timelines for new data center builds, particularly in regions where power infrastructure is lagging behind the surge in construction. Silicon Valley and Hillsboro, OR are seeing longer timelines for power availability commitments.

Shortages of construction workers will drive local community colleges and technical schools to increase their number of mechanical, electrical and plumbing certifications and degrees. Without adequate skilled labor, data center construction timelines will not improve.

The pressure to secure power will lead to more innovative solutions, such as on-site power generation (e.g., microgrids or partnerships with energy companies) and power-sharing agreements with local utilities.

**Figure 18:** Under-Construction Totals in Primary Markets



Source: CBRE Research, CBRE Data Center Solutions, Q3 2024.

# Energy Transition: Shift to Nuclear Power

Data centers account for a significant share of energy consumption, creating a need for new energy solutions. The increasing demand for power provides both challenges and opportunities for renewable energy production. We expect that legacy coal plants with adequate topology, fiber and access will eventually transition to non-fossil-fuel power generation.

Two major data center operators recently announced plans to utilize power generated by the Susquehanna and Three Mile Island nuclear power plants in Pennsylvania, setting the stage for a large-scale revival of nuclear power generation in the U.S. Driven by low carbon emissions and baseload reliability, nuclear is front and center with major developers for a power supply solution. As a result, we expect to see more companies exploring nuclear energy development—both large-scale and small reactors—as a viable carbon-free alternative to traditional energy sources.

Energy costs for data centers could stabilize as nuclear power provides a more predictable and sustainable energy source than traditional fossil fuels. Environmental concerns and regulations may expedite the adoption of nuclear technologies, especially in markets looking to meet aggressive carbon reduction goals.

Partnerships between energy providers, nuclear technology companies and data center operators will become more common as the industry shifts toward reliable green power.



# Contacts

## Research Leadership

**Richard Barkham**

Global Chief Economist,  
Head of Global Research &  
Head of Americas Research  
[richard.barkham@cbre.com](mailto:richard.barkham@cbre.com)

**Henry Chin**

Global Research Chief Operating  
Officer & Global Head of Investor  
Thought Leadership  
[henry.chin@cbre.com](mailto:henry.chin@cbre.com)

**Julie Whelan**

Senior Vice President & Global  
Head of Occupier Thought  
Leadership  
[julie.whelan@cbre.com](mailto:julie.whelan@cbre.com)

## Capital Markets

**Darin Mellott**

Vice President, Head of U.S.  
Capital Markets Research  
[darin.mellott@cbre.com](mailto:darin.mellott@cbre.com)

**Jacob Cottrell**

Global Senior Research Analyst  
[jacob.cottrell@cbre.com](mailto:jacob.cottrell@cbre.com)

**Jaeyoung Kim**

Senior Research Analyst  
[jaeyoung.kim1@cbre.com](mailto:jaeyoung.kim1@cbre.com)

## Office/Occupier

**Jessica Morin**

Director, U.S. Office Research  
[jessica.morin@cbre.com](mailto:jessica.morin@cbre.com)

**Charlie Donley**

Senior Research Analyst,  
U.S. Office Research  
[charlie.donley@cbre.com](mailto:charlie.donley@cbre.com)

## Retail & Industrial

**James Breeze**

Vice President, Global Industrial  
& Retail Research  
[james.breeze@cbre.com](mailto:james.breeze@cbre.com)

**Amanda Ortiz**

Director, Americas Industrial &  
Retail Research  
[amanda.ortiz@cbre.com](mailto:amanda.ortiz@cbre.com)

## Multifamily

**Matt Vance**

Vice President & Americas  
Head of Multifamily Research  
[matthew.vance@cbre.com](mailto:matthew.vance@cbre.com)

**Travis Deese**

Associate Director,  
Multifamily Research  
[travis.deese@cbre.com](mailto:travis.deese@cbre.com)

## Data Centers

**Gordon Dolven**

Director of Americas  
Data Center Research  
[gordon.dolven@cbre.com](mailto:gordon.dolven@cbre.com)

**Josh Ruttner**

Associate Research Director  
[josh.ruttner@cbre.com](mailto:josh.ruttner@cbre.com)

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