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2025 Real Estate Outlook

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Summary

In September of last year, the Federal Reserve started to reduce interest rates, and we expect additional interest rate cuts in the year ahead as inflation fades. We also expect lower economic growth due to slower growth in government spending. In turn, we expect liquidity will increase in the real estate market in 2025. While real estate fundamentals are mixed across the U.S., there are clear areas of strength and weakness. As such, we believe 2025 provides investors an outsized opportunity to achieve excess performance driven by prudent asset and market selection and property sector allocation. Other observations and expectations:

- Consumer balance sheets remain in great shape and business investment growth should follow, leading to stable real estate tenant demand.
- Inflation is likely to decelerate, allowing the Federal Reserve to reduce rates further and leading to lower real estate mortgage lending rates.
- Retail property sector conditions are the best they've been in a decade, and we believe in overweighting the sector.
- Conversely, we believe it's appropriate to underweight the office sector. While expectations are high for return-to-work, office employment growth is below average and the surplus of space available to lease is at record levels.
- We favor a modest overweight to industrial, as conditions remain stable and support additional rent growth.
- Multifamily tenant demand surpassed expectations in 2024, and we expect the homeownership rate to dip further. New starts have declined nearly 60% since their peak and the pace of deliveries declines in 2025, with occupancy rates reaching a trough.
- For new development, the retail market has a supply deficit and should provide great investment opportunities. Office development and renovation are more asset-specific and rely on acquiring assets at a significant discount to replacement cost.
- New development opportunities for industrial and multifamily are market specific. Some cities have a supply deficit; others have a notable surplus. We believe it's important to time construction deliveries to deliver new space into a rising market.

Taken together, we believe private real estate can provide competitive risk-adjusted performance compared to the stock and bond market in 2025.

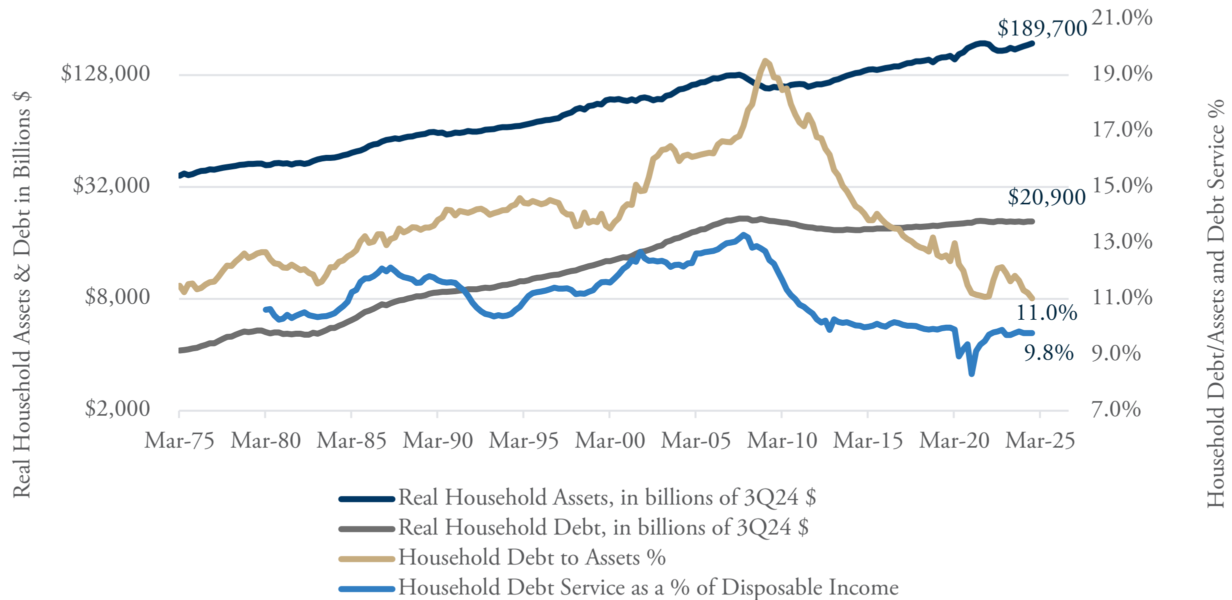
2025 Economic Outlook

The U.S. economy remains resilient and grew 2.7% year-over-year in 3Q2024. Each major component of gross domestic product grew on pace or ahead of average. Government spending has been growing well-above average over the last two years (4.1% vs 1.1%[1]). Business investment is still growing at a healthy pace of 3.6%, albeit slightly below its average of 3.8%. And consumer spending, which comprises the bulk of the economy, grew 3.0% compared to its average pace of 2.8%[2].

Households remain a solid source of growth for several key reasons. First, while unemployment increased from 3.7% to 4.1% over the last year, employment grew 1.4%, adding 2.2 million jobs in the last 12 months[3]. Second, with inflation decelerating, real wage growth is growing 1.3%[4], and real disposable income is growing on pace with its long-term average at 2.7%[5]. Third and more striking, household balance sheets are still in the best shape they've been in nearly 40 years. Total household debt-to-assets is only 11% and household debt-service as a share of disposable income is only 9.8%.[6]

Exhibit 1: Household Balance Sheets in Great Shape

Total Debt-to-Assets Ratio (11.0%) and Debt-Service as a Share of Disposable Income (9.8%) Remain Near 40-Year Lows



[1] Bureau of Economic Analysis ("BEA"). 4.1% equals the average of annual government spending over the last eight quarters 4Q2022 – 3Q2024. 1.1% equals the quarterly annual average over the last 20 years.

[2] Ibid., for each statistic, they reference the average of the last two years compared to the 20-year average.

[3] Bureau of Labor Statistics ("BLS"), December 2024.

[4] BLS, November 2024.

[5] Bureau of Economic Analysis ("BEA"), 3Q2024.

[6] Federal Reserve Flow of Funds data reflecting total assets and liabilities of households and non-profit corporations from March 1975-September 2024.

Higher real wages might normally cause corporate profits to decline. However, in 2024, corporate profits grew 5.9%, nearly equal to their 10-year average[7]. Both wages and corporate profits are benefitting from higher productivity, which grew 2% over the year, ahead of its average of 1.6%.[8]

Given the strength of the economy and resilient consumer spending, higher levels of inflation still linger. At the end of November, the consumer price index ("CPI") increased 2.7% while the personal consumption expenditures price index ("PCE") increased 2.4%[9]. Both measures remain higher than the Federal Reserve target of 2%.

Shelter rents remain stubbornly high, causing both indices to remain above 2%. In the last year shelter rent inflation was 4.8%[10]. If we extract shelter costs from the CPI and PCE, inflation increased 1.9% and 2.0% respectively. Because of elevated shelter rents, combined with the threat of additional tariffs, future inflation expectations remain slightly elevated. Currently, the market's estimate of inflation over the next five years equals 2.3%[11].

Had government spending not grown at nearly four times its normal pace over the last two years, we estimate GDP growth would have been at least 0.5% lower. This spending had an obvious impact on inflation, causing the Federal Reserve to increase interest rates. In turn, mortgage rates rose, which worsened housing affordability, leading to high shelter rent inflation.

Looking ahead, we expect to see lower government spending with stable growth in personal consumption. Private investment has a high correlation to consumer spending (84% over last 10 years), which should lead to positive business investment growth. Taken together, we expect GDP to grow at a more normal pace of c. 2.2% with inflation decelerating to 2.1%.

Capital Market Trends & Interest Rates

Over Q4 2024, there was greater volatility in the bond market. After reaching a low of 3.6% in September 2024 the 10-year Treasury bond sold off with the yield rising to 4.7%[12]. We believe this is overdone and expect this yield will likely decline by year-end 2025.

Our 10-year Treasury yield forecast is comprised of three components, namely, inflation plus a spread for the real interest rate in addition to a term premium.[13] We expect inflation is likely to decelerate to 2.1% with the Federal Reserve maintaining a real interest level of c. 1.4%.[14] Taken together, this results in a Fed Fund's rate of 3.5-4.0%,

[7] BEA, U.S. Corporate Profits with Inventory Valuation and Capital Consumption adjustments, 3Q2024. The 10-year average was 6.3%.
[8] BLS, U.S. Labor Productivity, 3Q2024.
[9] BLS, U.S. Consumer Price Index ("CPI-U") year-over-year not seasonally adjusted and BEA for Personal Consumption Expenditure ("PCE"). Both are as of November 2024.
[10] Ibid., BLS
[11] U.S. Federal Reserve Five-year Forward Five-Year Inflation expectation, January 3, 2025. This is the Federal Reserve's preferred measure of inflation expectations.
[12] Bloomberg for the generic 10-Year Treasury yield as of Jan. 10, 2025.
[13] The "term premium" is the difference between the 10-year Treasury yield and the Federal Reserve's Fed Funds rate.
[14] Federal Reserve Summary of Economic Projections ("SEP") released Dec. 18, 2024. The real interest rate can be implied as the difference between their 2025 inflation forecast and their expectations for the Fed Funds rate at year end 2025.

which, at this level, would suggest a term premium spread of 0.50-0.75%.[15] Combining these components, we anticipate the 10-year Treasury yield declines to between 4.0% and 4.25%. Consensus forecasts currently call for a 10-year Treasury yield of 4.16%, near the mid-point of our forecast.[16]

Given this outlook, we believe the private unleveraged real estate market is poised to produce competitive total returns versus the equity and bond markets. Last year the equity market produced a total return of 25%, outperforming the bond market's total return of 1.2%.[17] The listed REIT market produced a total return of 4.9%, while the private real estate market as reflected in the NCREIF ODCE index produced a year-to-date total return of -0.2%.[18]

Assuming bond yields decline, the Treasury and investment grade bond markets could deliver total returns in the range of 4-8% in 2025. As for the equity markets, we expect corporate profit growth follows GDP lower and grows 5.5-6%. Currently, the S&P 500 dividend yield is 1.27%.[19] Combining dividends with profit growth implies a total return in the range of 6.75-7.25%. However, valuations in the equity market are stretched and total returns could be lower than expected because prices are trading at 24.3 times earnings compared to their trailing five-year average of 21.4 times earnings[20].

Turning to the public REIT market, values are heavily influenced by shifts in the 10-year Treasury yield. For example, in the first three quarters of 2024, the 10-year Treasury yield declined from 4.1% to 3.7% and REITs rallied 14.2%. When 10-Year Treasury yields rose to 4.5% by the end of the fourth quarter, REIT returns fell 8.2%.

Currently, REIT dividend yields are 4%. Unlike the broader equity market, public REIT price levels are below their historical average. At the end of 2024, REITs were trading at 17.5 times earnings compared to their average of 18.4 times earnings.[21] Further still, REITs are trading at a modest discount of -3.4% to their net asset value.[22] As the 10-year Treasury declines, we expect modest multiple expansion in 2025, allowing REITs to generate a total return in the range of 7-9%.

Turning to the private real estate market, there is still a valuation lag between assets held in the NCREIF Property Index versus transaction cap rates. At the end of 3Q2024, current valuation cap rates were 4.8% for the index[23]. In comparison, Greenstreet's nominal cap rates are higher and ranged from 5% to 7.6% across property sectors[24]. Furthermore, NCREIF tracks sold assets in the index. In 2024, those sold at an average cap rate of 5.9%, or more than 1% higher than valuation cap rates, providing further evidence of the valuation lag.

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[15] From 2005-2024, the correlation between the level of the Fed Funds rate and the term premium spread (or difference between the 10-year Treasury yield less the Fed Funds rate), was -0.83.

[16] Sourced from the Bloomberg contributor composite economic forecasts ("ECFC") as of Jan. 10, 2025.

[17] Bloomberg using the S&P 500 and the Barclays Aggregate Government/Credit Bond Index for calendar year 2024.

[18] The FTSE EPRA NAREIT Equity total returns was sourced from Bloomberg while the NCREIF ODCE returns reflect the first three quarters of 2024 as the 4Q2024 returns are not released until the end of January 2025.

[19] S&P 500 accessed through Bloomberg, December 27, 2024.

[20] Bloomberg S&P 500 valuation levels as of December 27, 2024, and for the 10-year average from December 2014-December 2024.

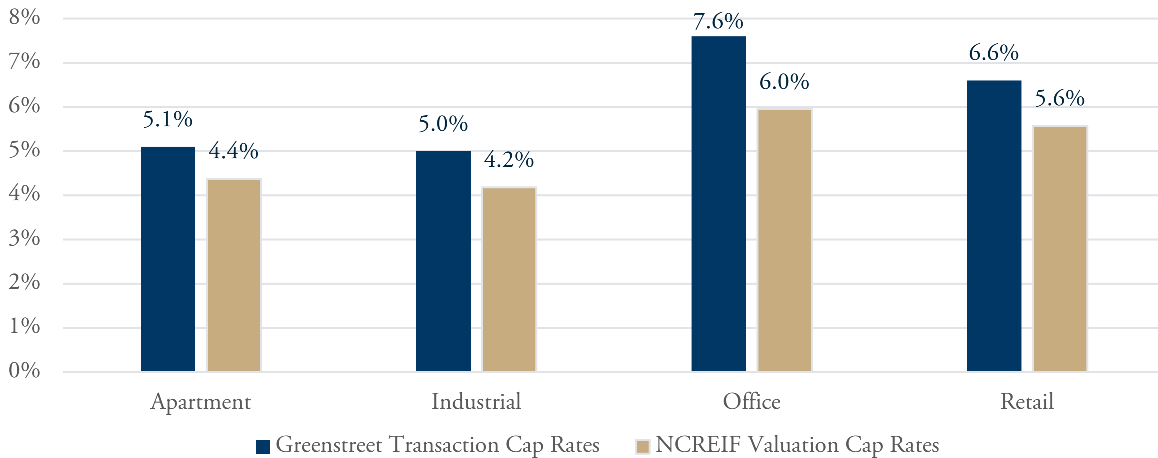
[21] Bloomberg FTSE EPRA NAREIT Total Return index as of Dec. 27, 2024. The historical 10-year averages referenced reflect the period from Dec. 2014-Dec. 2024.

[22] As reported by Greenstreet for the equal weighted average as of December 27, 2024.

[23] NCREIF Property Index "current value cap rates" for the index as of 3Q2024.

[24] Greenstreet as of December 2024.

Exhibit 2: Cap Rates Comparison: New Transactions vs. Benchmark
Higher Cap Rates for New Transactions May Provide Opportunity for Outperformance vs Benchmark



Considering the potential for valuation adjustments for assets currently held in the index, the index may only generate a 4-6% return in 2025 for unleveraged core assets. Conversely, as transaction cap rates are at least 1% higher and not subject to similar valuation adjustments as those assets within the index, we believe new investments could produce unleveraged total returns in the range of 6-8%. However, there is a wide range of potential returns depending on property sector and market.

Finally, we expect lending rates will decline slightly, leading to higher transaction activity in 2025. At the end of October 2024, lending rates on commercial property averaged 6.3% and 5.4% for residential property.[25] These rates represented a spread of 1.75% and 0.90% compared to the 30-day Secured Overnight Financing Rate ("SOFR").

SOFR has closely tracked the Fed Funds rate. With the Fed Funds rate expected to decline to between 3.5% and 4%, commercial mortgage rates could fall to between 5.25% and 5.75% from their current level of 6.25%, while residential lending rates could decline to 4.4-4.9% from 5.4%. In 2024, cap rates were only 0.60% higher than lending rates, resulting in roughly $330 billion in transaction activity. Absent adverse shocks to the economy, we expect cap rate spreads relative to lending spreads could widen from 0.60% to 1.25% or more as interest rates decline. If this occurs as expected, transaction volume could increase to nearly $400 billion in 2025.

Is It a Good Time to Allocate Capital to Real Estate?

With the valuation adjustments that have occurred, we believe it is a good time to allocate capital to real estate. As seen in the adjoining table, we map the state of our leading indicators prior to and including the Global Financial Crisis. Back then, the signals were negative and provided an early warning indicator for real estate investors. More recently though, most of the indicators are positive to neutral and provide a favorable backdrop for investing in real estate today.

[25] MSCI/RCA Debt Metrics, Oct. 31, 2024, the latest data available at the time of this report.

Exhibit 3: Real Estate Cycle Leading Indicators Are Positive

Favorable Valuation, Credit Spreads & Lending Trends

	LEADING INDICATOR	20-YEAR AVERAGE	RANGE	GFC PERIOD '07-'08	SIGN	Q3 2024	SIGN
Economy (Demand)	Yield Curve: 10-Year less 2-Year yield	101 bps	96 bps	-11 bps	⇩	38 bps	⇧
	Credit Spread (BBB OAS)	200 bps	108 bps	702 bps	⇩	120 bps	⇔
Supply	Commercial Construction (% of GDP)	2.2%	0.3%	2.8%	⇩	2.5%	⇔
REITs	REIT NAV Premium/Discount (Mkt Cap)	+5.5%	11.4%	-18.9%	⇩	15.0%	⇧
Valuations	Cap Rate	5.4%	0.8%	5.5%	⇔	4.7%	⇔
	Cap Rate Spread to Treasuries	2.5%	1.2%	0.8%	⇩	0.7%-1.7%	⇔
	Cap Rate Spread to BBB	0.8%	1.5%	-1.2%	⇩	-.6% -.6%	⇔
Mortgage Debt	Mortgage Debt (% of GDP)	14.2%	1.4%	17.5%	⇩	12.5%	⇧
	Real estate loan growth	4.6%	5.5%	15.1%	⇩	1.4%	⇧
	CMBS Option-Adjusted Spread (OAS)	183 bps	201 bps	c.900+ bps	⇩	90 bps	⇔

Highlighting a few attributes of current conditions, the slope of the yield curve has turned positive, which reflects a positive expectation for economic growth and a low probability of a recession. Also, credit spreads are narrow, which reflects limited risk of defaults in the economy. Taken together, both provide support for additional business investment and sustained real estate tenant demand.

Second, overall construction in the economy remains balanced at 2.5% of GDP. However, as seen in the adjoining chart, overall construction costs remain elevated compared to property level rent indices. As a result, we expected to see lower levels of new construction in the main property sectors, which should help occupancy rates recover.

Third, cap rates are within range of their 20-year average. However, as mentioned earlier, transaction cap rates are higher than valuation cap rates and provide good relative value compared to the bond market. Finally, lending is subdued in the real estate market. In the past, low lending activity typically led to higher total returns, as fewer leveraged buyers were bidding up values. Outstanding mortgage debt as a share of GDP is also below average at 12.5%. Likewise, real estate loan growth is well-below average at 1.4% and pricing in the CMBS market is in line with historical averages.

While conditions for the asset class are favorable, conditions are mixed across property sectors and markets as described in the sections below. Careful property sector, market, and asset selection, though, could lead to outsized results in today's market.

Real Estate Investment Strategy 2025

Below we consider investment strategies for core and non-core investors. For core investors whose objective is to "beat the benchmark,"[26] there are three major considerations: property sector allocation, geographic market, and asset selection. A key driver of excess performance for a diversified portfolio is deciding which cities to underweight and overweight relative to the index. We have developed a proprietary ranking model that does not rely upon forecasts and uses intuitive leading indicators one can observe today to rank markets.

For example, better relative excess performance from market selection can typically be achieved by investing in cities that have relatively higher income yields, above-average occupancy, below-average new construction, and better job growth. For each property sector, we show the cities we expect to outperform over the next 2-3 years. The ranking statistics are provided in the appendix.

For non-core investors who are focused on renovation and development, a key consideration is determining when to deliver property to the market and whether there is sufficient investment demand from core investors. In our opinion, better results can be achieved when new buildings are delivered into a rising market as evidenced by rising occupancy rates. (We provide a description of our methodology in the endnote.)[i]

Industrial Market – Rebalancing

We favor an overweight to industrial investments. Economic growth is positive, and inventories are growing at a balanced pace of 2.5%[27]. Inventory levels relative to sales are also balanced, which is a positive sign for tenant demand. Manufacturing inventory-to-sales ratios are roughly equal to their 10-year average of 1.47, while retail inventories-to-sales are slightly below average (1.33 vs 1.37)[28].

In 2022 and 2023, occupancy rates were well-above average (c.95% vs 93%), which led to a healthy level of new construction in 2023 and 2024. Since then, the pace of starts and deliveries has slowed substantially. Over the last year, 429 million square feet was delivered compared to net tenant demand of 112 million square feet[29]. New construction is expected to slide further in 2025, with occupancy rates reaching a trough of 92.8%, slightly lower than the historical average of 93.2%. For the last several years, rents grew 6% or more and we expect those will revert to their 20-year average of 3.5%. With transaction cap rates in the range of 5%, we expect substantially leased industrial investments could deliver an unleveraged total return of 7.5%.

For seasoned assets, there may be upside risks as current market rents are higher than in-place rents, representing a large loss-to-lease. We estimate market rents could be at least 25% higher than in-place leases, depending upon building sub-type. Thus, if rents only grew 2% per year over the next three to five years, we estimate the loss-to-lease could still lead to net operating income growth of 5% or more.

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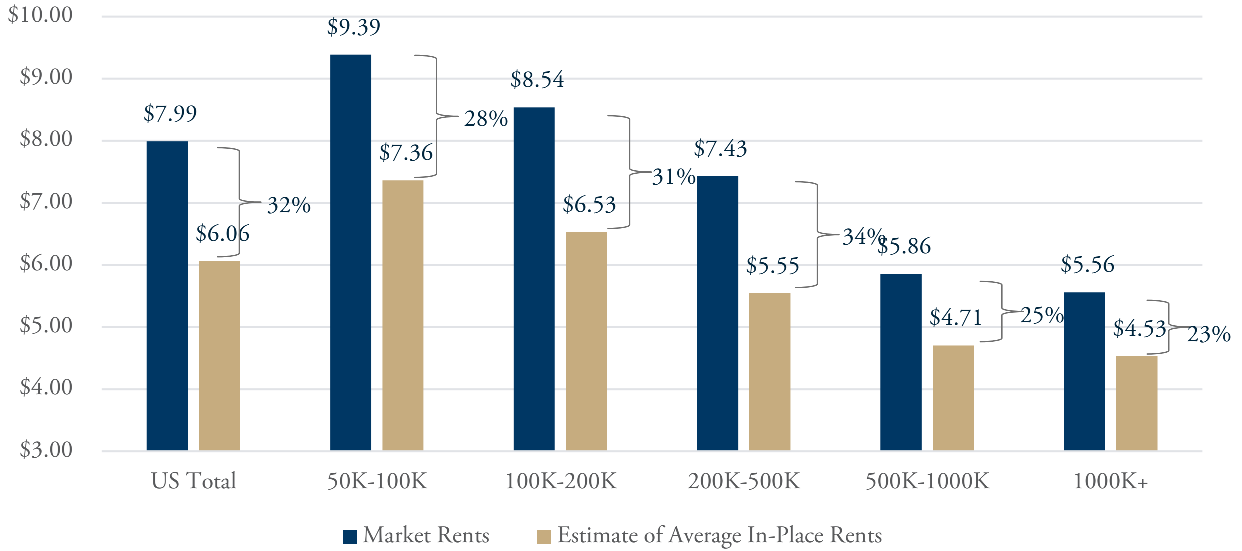
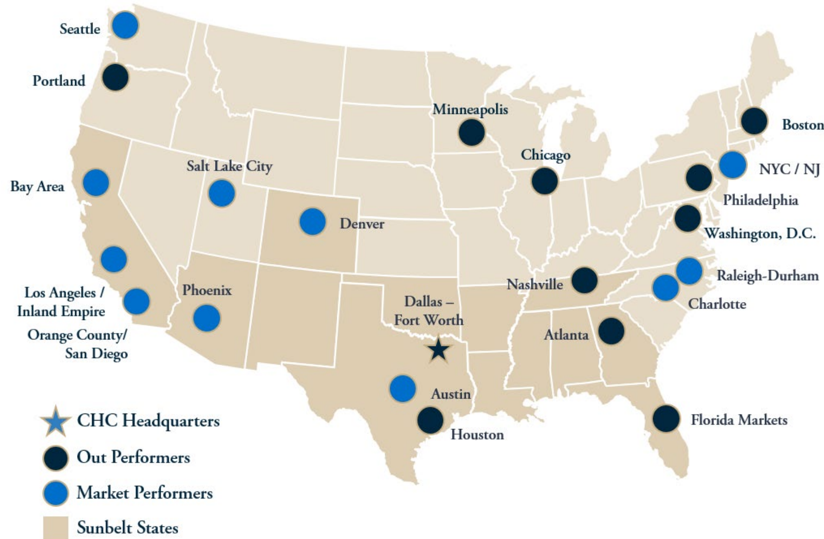
[26] In this instance, we are referring to the NCREIF Property Index as the benchmark.
[27] Source: U.S. Census Bureau, October 2024 and accessed through Bloomberg.
[28] U.S. Census Bureau October 2015-October 2024,
[29] CoStar as of 3Q2024

Exhibit 4: Market Rents by Building Size
In-Place Rents are Significantly Below Market Rents & Support NOI Growth as Leases Turn Over



Because conditions vary considerably across the U.S., there are greater opportunities today to outperform the index. For example, inventory growth is well-above average in certain markets such as Austin and Phoenix. In these cities, tenant demand has not kept pace with supply, and occupancy rates are at least 3% below average causing a deceleration and even a decline in rents. Conversely, in cities such as Chicago, Nashville, Atlanta, Houston, and a few Florida markets, occupancy rates are above average, new supply is balanced, and income yields are higher. As a result, we expect these markets to perform better.

Exhibit 5: Industrial Markets' Relative Value Across the U.S.
Diverse Trends Across the U.S.



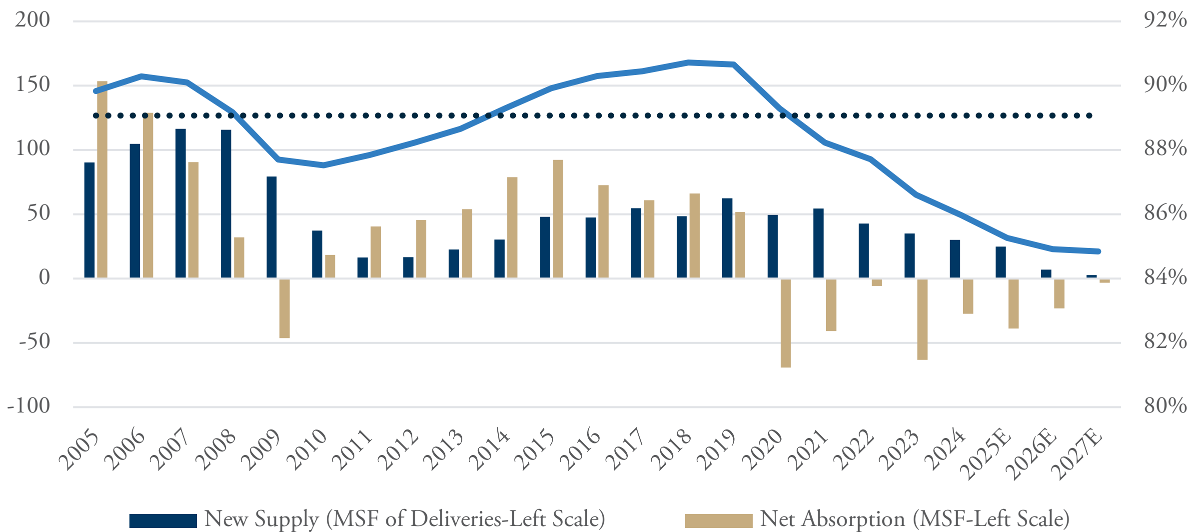
From a non-core development perspective, certain markets stand out as ones to underweight given the amount of time that may be required for those markets to reach equilibrium occupancy. Orange County, New York, San Diego, San Francisco, and Seattle may not reach equilibrium for 3-4 years. Assuming tenant demand remains on pace with its normal levels, other cities poised for new development opportunities in 2025 and 2026 may be Atlanta, Chicago, Ft. Lauderdale, Houston, Minneapolis, Nashville, and Tampa.

Office – Continues to Struggle

We continue to support an underweight to the office sector. Today, the office sector comprises 20% of the NCREIF Index, down from 35% prior at year-end 2019. While there has been some excitement about a return to the office and the prospects for Class A office space, we still expect to see better relative performance from other property sectors. In addition, both the economic and real estate fundamentals remain weak for the office sector.

At the end of 2024, the market had experienced its fifth year of declining office tenant demand. In the last five years, the occupancy rate has fallen from 91% to 86%, well below its 20-year average of 89%. Furthermore, there is an additional 3% of sublease space available. Across the nation, we expect to see declining tenant demand over the next two years. While many are hopeful that return-to-office policies can spur additional tenant demand, we need to emphasize the weakness in overall office employment growth.

Exhibit 6: U.S. Office Supply, Demand, and Occupancy (2005-2027)
Expect More Rent Declines over the Forecast Period



The main office-using employment sectors comprise information services, finance, and professional services. In the five years prior to COVID-19, job growth in these prime office-using employment sectors was 1.9%, exceeding total employment growth of 1.5%. However, over the last year, employment growth in these office-using sectors was only 0.4% compared to 1.4% for total job growth.

While transaction cap rates are highest in the office sector, they may not be high enough when accounting for rent growth. Nationally, we expect office rents could decline an average of 3-4% per year of the next three years. While transaction cap rates per Greenstreet are seemingly high at 7.6%, declining rents imply total returns of 4% or less. As a result, we expect the office sector will continue to underperform the index over the next two to three years.

Despite the relatively weak outlook, there are still opportunities to outperform the index. Notably, 58% of the NCREIF office subindex is concentrated in six cities: New York, San Francisco, Washington, D.C., Los Angeles, Boston, and Seattle. Based on our proprietary ranking, we expect each of these cities is likely to underperform the index except for Washington, D.C. Simply reducing exposure to these markets could increase relative outperformance. In most of these cities, occupancy rates are significantly below average, and income yields do not reflect the decline in rents expected.

One method to reduce exposure to these cities is by investing elsewhere. There are a few limited opportunities where the office markets are more stable, namely Phoenix, several Florida cities, Orange County, and possibly Washington, D.C. In the case of Washington, D.C., if all Federal employees to return to the office, it could boost tenant demand in the district. At the same time, if government budget cuts are enacted, then it could negatively impact the office market there.

For non-core investments, it's reasonable to expect many opportunities could emerge to reposition individual assets. These types of strategies are contingent upon acquiring assets at a significant discount to replacement cost to pay the capital improvement costs required to provide the amenities needed to attract tenants. These types of strategies are agnostic as it relates to market selection and are inherently asset specific. From a development perspective, there are but a few cities that seem positioned to absorb new construction, namely, Phoenix and a few Florida cities.

Retail – Poised for Outperformance

The past performance of the retail sector has been dismal, but the sector is on the precipice of an inflection point. Over the last 10 years, each segment of the retail sector has produced poor relative performance as reflected in the NCREIF index. Malls, Street, and Strip retail produced total returns of 3.0%, 0.5%, and 5.1% respectively compared to the overall NFI-ODCE index, which produced a total return of 6.1%[30]. In turn, investors turned away from the retail sector. Today it comprises only 13% of the index compared to 10 years ago when it comprised 23% of the index[31].

A few principal factors created headwinds for the retail sector. First, coming out of the Global Financial Crisis, households were overleveraged and needed to pay down debt. Second, with the advent of COVID-19, these cost-conscious consumers turned to e-commerce to service their consumption needs. During this time, retail development was limited.

Today, those headwinds have turned into tailwinds. First, consumers have sound financial footing. Second, both NCREIF valuation cap rates as well as transaction cap rates are equal to or higher than those rates for the other property sectors. Due to limited amounts of new development and stable tenant demand, occupancy rates are the highest they've been in over a decade at 96% nationally[32]. The retail sector seems to be a landlord's market, and we

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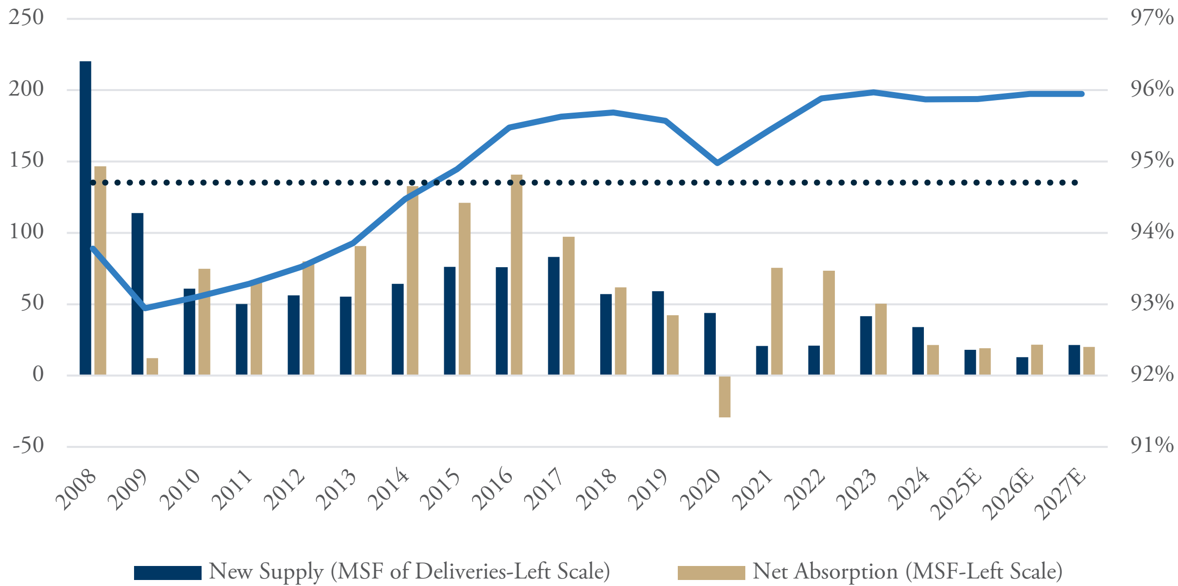
[30] NCREIF Property Index, 4Q2014-3Q2024.
[31] Ibid.
[32] CoStar as of 3Q2024

expect rents could grow at least 3.5% over the next few years. Landlords also can recapture space and increase net operating income by marking rents to market.

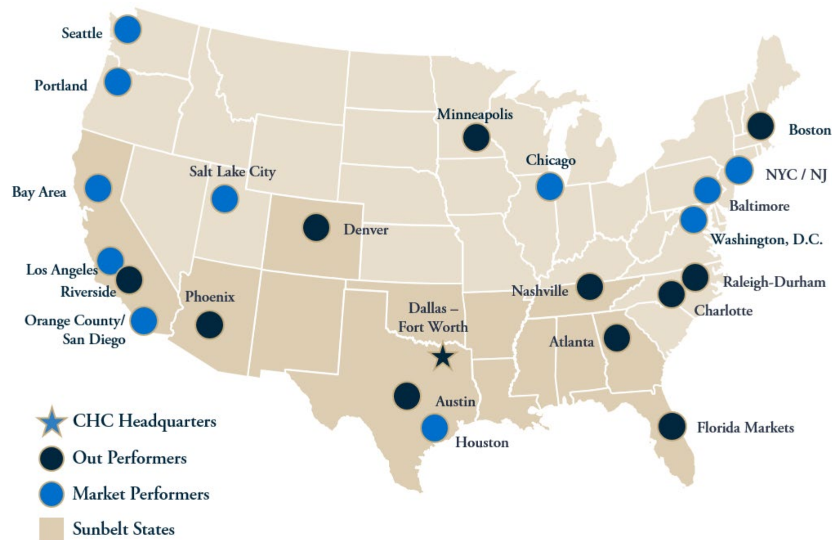
Exhibit 7: U.S. Retail Supply, Demand, and Occupancy (2005-2027)
Retail Poised for Additional Rent Growth 2025-2027



With cap rates in the range of 5.5% - 6.6% and income growth of at least 3.5%, we believe substantially leased core retail investments are poised to deliver unleveraged total returns in the range of 8% - 9% over the next two to three years.

From a portfolio and market selection perspective, because income yields and occupancy rates are higher across retail markets compared to other property sectors, most retail markets stand a reasonable chance of outperforming the overall index. Geographically, the NCREIF retail sub-index is less concentrated, with only 33% of the index reflected in a few markets such as Chicago, Dallas, Houston, Los Angeles, San Diego, and Washington, D.C. Of these, Dallas is ranked higher. Notably, several Sunbelt cities that faced a wave of migration during COVID-19 are now undersupplied and offer the potential for outperformance. Of note, Charlotte, Nashville, Phoenix, Raleigh, Atlanta, Tampa, Denver, and Miami all have occupancy rates that are above the 10-year average and have income yields that surpass the national average.

Exhibit 8: Retail Market Relative Value Across the U.S.
Many Sunbelt Markets Expected to Outperform



From a non-core strategy perspective, most markets are undersupplied and should provide ample opportunities to deliver new stock into a rising market over the next few years. Only a few markets – such as San Francisco, Oakland, and Los Angeles – appear oversupplied given the out-migration that has occurred.

Multifamily Market

The multifamily market has endured elevated levels of new construction, causing occupancy rates to decline to 92.1% compared to their 10-year average of 93.6%.[33] With below-average occupancy rates, rents grew 1.1% versus their 10-year average of 3.5%[34]. Fortunately, there was a significant amount of tenant demand in 2024 to offset the elevated amount of new construction. For the year ending in the 3Q 2024, 528,400 units were absorbed, well ahead of the average of 358,000 units[35]. Notably, the number of households in the U.S. only increased by 782,000, or 0.6%[36]. Thus, a staggering 68% of new households were renters, which caused the homeownership rate to decline from 65.7% to 65.6% by the end of 3Q 2024.[37] While a 0.10% decline in homeownership seems insignificant, with 132 million U.S. households, that shift produced rental demand of 132,000 units.

Looking ahead, 30-year mortgage rates are still high at 7.2%[38], as are existing median home prices at $406,100[39]. Thus, the average monthly payment for a recently acquired home is nearly $2,900 per month[40] and 66% higher than

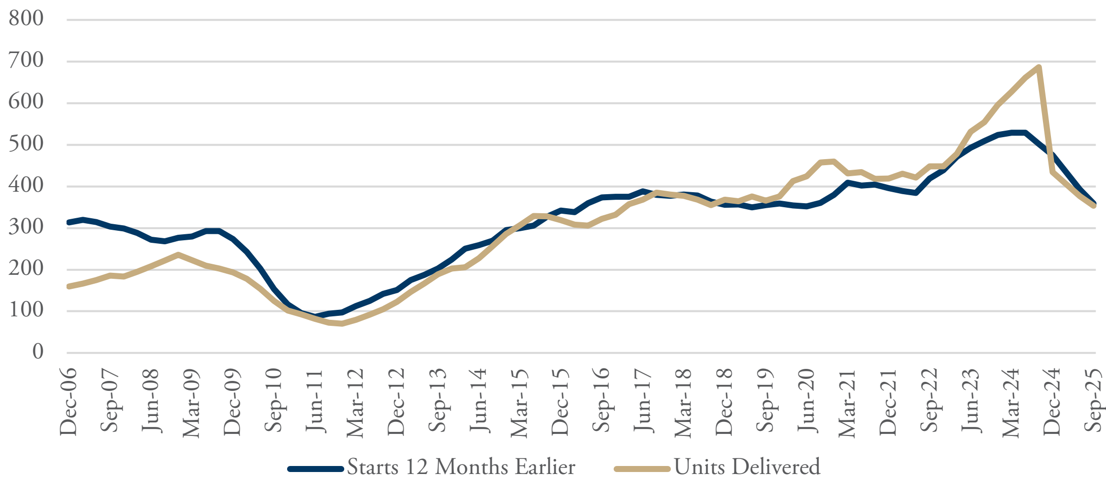
[33] CoStar as of 3Q2024 and reflecting the period from 3Q2014 – 3Q2024, the latest data available.
[34] Ibid.
[35] Ibid.
[36] U.S. Census Bureau Table HH-1 Households by type as of November 2024.
[37] Census Bureau U.S. Homeownership Rate, September 30, 2024.
[38] Mortgage Bankers Association accessed through Bloomberg, December 27, 2024.
[39] National Association of Realtors as of November 30, 2024.
[40] Assumes a 20% downpayment, a 30-year mortgage at 7.2% and 2% of median home price for taxes and insurance.

average monthly apartment rent of $1,737.[41] Given the high cost of new homeownership, we expect the homeownership rate could decline further in 2025 and lead to apartment tenant demand of at least 325,000 units.

At the same time, construction starts have fallen precipitously. After reaching a peak of 612,000 units in April of 2022, new starts fell to 264,000 units by the end of November 2024.[42] Starts typically lead deliveries by 12-18 months.[43] Based on the number of starts that occurred a year ago, we expect delivery of new units to decline to 300,000 or 350,000 units by year-end 2025. With supply and demand in balance this year, we expect the occupancy rate stabilizes at 92% before rising again in 2026. As this occurs, we expect effective rents could increase 1%-2%.

Exhibit 9: Multifamily Starts Down from 612,000 Peak to 264,000

Starts Lead Deliveries by 12-18 Months; Deliveries Fall Rapidly in 2025



With high construction costs and borrowing costs remaining elevated, the market could find itself in a supply deficit beyond 2026, allowing rents to grow closer to its average of 3.5%. Thus, over the next one to two years, we expect unleveraged total returns of 5% - 6% before rising to 7.5% - 8.5%. However, conditions vary considerably across the U.S.

In the meantime, we expect strong performance in the manufactured home sector. Low vacancy rates and stable job growth has led to another strong year for manufactured housing. Occupancy rates increased from 96% to 97% and pad rents increased 6.6% from $726 to $774.[44] Also, Greenstreet reported net operating income has grown an average of 5.9% over the last five years[45]. We believe these trends could continue as manufactured housing provides the benefit of lower cost shelter compared to either single-family or multi-family housing while also providing the opportunity for home price appreciation.

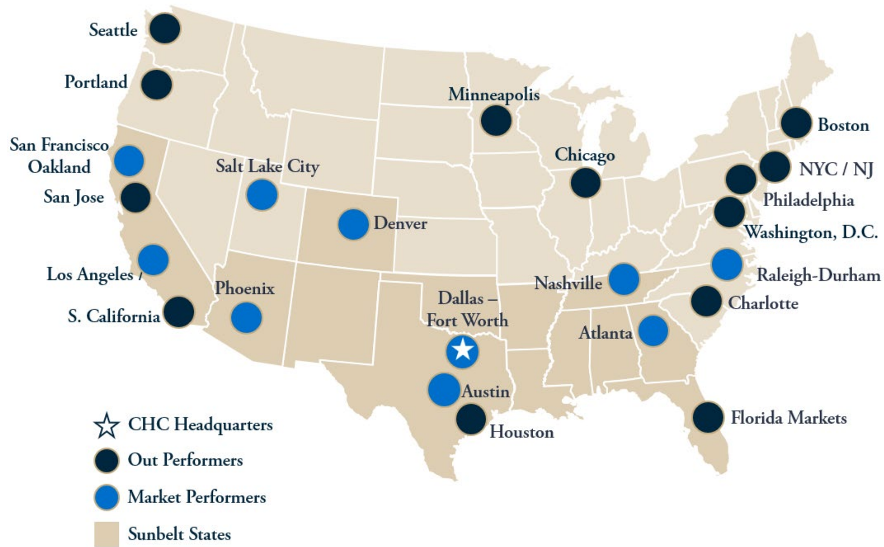
[41] As reported by CoStar for national market asking rent as of 3Q2024.
[42] U.S. Census Bureau, November 2024.
[43] Crow Holdings Research and Strategy using data from CoStar and the U.S. Census Bureau from 2005-2024. New starts explain 87% the variation in new units delivered 12 months later.
[44] Source: Datacomp/JLT as of July 2024, the most recent data available.
[45] Source: Greenstreet manufactured housing net operating income growth as of December 2024.

The all-in tenancy cost of manufactured is significantly lower than single family housing and is competitive to multifamily renting. The current cost for a new manufactured home is $127,000 versus $406,100 for single-family housing.[46] Assuming current mortgage rates, the monthly cost of homeownership was $848[47] at the end of 2024. When including pad rent, the monthly cost is $1,622. This amount is approximately 44% lower than single family housing and nearly 7% lower than average monthly rent costs. Unlike an apartment rent though, manufactured homeowners may benefit from home price appreciation. Over the last 10 years, the average price of a manufactured home has increased more than 6% per year.[48]

For core investors looking to outperform the benchmark in the broader multifamily market, or for landlords wanting to sell assets, it's reasonable to expect less liquidity in those cities where occupancy rates remain below average and new construction is well-above average. For example, cities such as Raleigh, Atlanta, Denver, and Austin are likely to see occupancy rates decline further as new supply is delivered this year. At the same time, assets within these cities are valued at low income yields.[49] Combined, these cities comprise 15% of the NCREIF Apartment subindex. By underweighting these cities, investors improve the chance of outperforming the apartment market.

Exhibit 10: Apartment Market Relative Value Across the U.S.

Markets With Higher Income Yield and Occupancy with Lower New Construction Could Outperform



Conversely, there are many other cities that have not commanded as much attention from investors and developers over the last several years. In these cities, occupancy rates are closer to or above their long-term average, which should support better rent growth. Furthermore, new construction is not excessive and trailing one-year income yields are higher compared to the national average. A few markets worth considering are Washington, D.C., Houston, San

[46] Source: Census Bureau via the FRED database reflecting the average sales price of new manufactured homes in the U.S. and National Association of Realtors as of November 30, 2024, for median home price.

[47] Assumes a purchase price of $127,000, a 20% down payment and 1.5% of the purchase price for taxes and insurance paid monthly.

[48] Using data from the Census Bureau and comparing manufactured home price growth from 2014-2024.

[49] NCREIF Property Index as of 3Q2024 reflecting the one-year trailing income yield for the apartment sub-index.

Diego, Miami, Minneapolis, Ft. Lauderdale, and Boston, to name a few. These cities account of 18% of the NCREIF Index and seem positioned to provide outperformance over the next 2-3 years.

There is a note of caution to consider for both Los Angeles and Washington, D.C. While Los Angeles is noted as an underperform market, the displacement of many households due to the tragic fires is likely to lift occupancy in the market, though rents may be capped. Because a state of emergency was announced, state law prohibits price gouging, which will limit rent growth[50]. Conversely, while Washington D.C. is noted as an outperform market, cuts in government spending could result in layoffs and impact the apartment market.

From a development perspective, there are several markets that currently seem undersupplied and have not seen elevated levels of construction: Chicago, Minneapolis, the Bay Area, Washington, D.C., and Palm Beach. In cities such as Boston, Houston, Denver and Seattle, we expect occupancy rates return to equilibrium later this year or early next year. Thus, there may be the potential to deliver units into a rising market in 2026. Further out, markets such as Ft. Lauderdale, Miami, Atlanta, Austin, Tampa, and Charlotte seem to have sufficient levels of new construction already underway. We currently anticipate occupancy rates reach equilibrium in 2026 and 2027.

Conclusion

Broadly, conditions in the real estate market appear promising in 2025. Household balance sheets are strong, unemployment rates are low, inflation is decelerating, and many leading indicators suggest the Federal Reserve will reduce interest rates further this year. Clearly, real estate supply and demand conditions are mixed across property types and geographic markets. While the variables in play may be a cause of concern for some, we view the current moment in the cycle as a time when disciplined and rigorous analysis of relative value across the U.S. can lead to outsized, excess performance.

That said, the White House has issued well over 100 executive orders, like stones and pebbles that have been tossed into a serene pond. The ripple effects have only started. However, our initial analysis leads us to believe that the disinflationary effects (deregulation and energy proposals) could outweigh the inflationary effects (tariffs). Likewise, the potential for lower growth in government spending has seemingly caused the 10-year Treasury yield to decline. Taken together, we believe these effects could positively impact liquidity in the real estate market, and we will soon be able to provide a detailed assessment of these executive orders and the potential implications to real estate investing.

In the meantime, real estate investors can take comfort in the undeniable strength of household balance sheets, the deceleration in new construction, the revaluation of real estate, and the potential return it offers compared the stock and bond markets.

[50] National Law Review, "Protecting Against Residential Price Gouging During the Los Angeles Wildfires", January 13, 2025.

Appendix

Market Rankings

Expected Outperformers vs. Market Performers

RANGE KEY

Above Average / Strong — **Below Average / Weak**

Apartment Market						
City	NPI Index Weight	NPI Income Yield 3Q2024	Job Growth vs U.S.	Occupancy Less 20-Year Average	2024 Inv. Growth less 20-Year Average	2024 Rent Growth
Baltimore	0.6%	4.8%	-0.3%	-0.4%	0.9%	2.6%
Chicago	4.6%	4.9%	-0.6%	1.6%	0.5%	2.3%
Washington DC	7.0%	4.7%	0.1%	-0.1%	0.3%	2.3%
Houston	3.0%	4.7%	0.3%	-1.3%	0.7%	0.2%
San Diego	2.6%	4.7%	-0.4%	-0.5%	0.3%	0.7%
Miami	2.6%	4.7%	0.5%	-0.5%	1.9%	1.1%
Minneapolis	0.7%	4.7%	-1.0%	-1.2%	1.6%	0.9%
Ft. Lauderdale	2.1%	4.7%	0.8%	-1.4%	1.8%	-0.6%
San Jose	1.9%	4.2%	-0.1%	0.1%	0.2%	2.8%
Charlotte	1.9%	4.6%	0.5%	-3.8%	3.1%	-1.4%
Riverside	1.2%	4.4%	0.2%	-0.9%	1.1%	1.0%
Boston	2.8%	4.3%	-0.1%	0.4%	-0.1%	1.8%
Seattle	4.7%	4.4%	0.3%	-0.8%	1.3%	0.9%
Orange County	2.3%	4.5%	-0.2%	0.5%	0.2%	0.0%
Portland	1.4%	4.3%	-0.1%	-1.6%	1.2%	0.8%
Tampa	1.7%	4.4%	0.0%	-2.7%	3.5%	0.6%
NPI U.S.	88.3%	4.4%	0.1%	-1.5%	1.8%	-0.1%
West Palm Beach	1.7%	4.6%	0.3%	-1.0%	3.3%	-0.8%
New York	7.5%	4.2%	0.2%	0.3%	0.9%	1.6%
San Francisco	2.5%	3.9%	-1.0%	-0.6%	0.1%	2.1%
Dallas	6.3%	4.3%	0.1%	-2.6%	2.0%	-1.9%
Nashville	1.1%	4.3%	0.0%	-3.9%	4.2%	-0.9%
Oakland	1.6%	3.9%	-0.4%	-1.3%	0.2%	0.4%
Orlando	1.8%	4.4%	0.5%	-2.1%	3.4%	-1.8%
Los Angeles	6.0%	3.9%	-0.1%	-0.3%	0.1%	0.7%
Phoenix	2.7%	4.4%	0.7%	-2.4%	3.5%	-2.7%
Raleigh	1.4%	4.1%	1.5%	-3.5%	3.1%	-2.8%
Atlanta	5.4%	4.1%	0.1%	-3.4%	2.8%	-2.9%
Denver	5.1%	4.3%	-0.5%	-3.3%	3.5%	-3.8%
Austin	4.1%	4.1%	0.3%	-7.2%	7.3%	-6.1%

Industrial Market						
City	NPI Index Weight	NPI Income Yield 3Q2024	Job Growth vs U.S.	Occupancy Less 20-Year Average	2024 Inv. Growth less 20-Year Average	2024 Rent Growth
Minneapolis	0.3%	5.5%	-1.0%	0.6%	0.6%	5.1%
Chicago	5.1%	5.0%	-0.6%	2.2%	-0.1%	2.5%
Nashville	1.1%	4.8%	0.0%	1.0%	1.4%	4.8%
Houston	1.9%	4.9%	0.3%	-1.0%	0.1%	1.6%
Atlanta	3.7%	4.3%	0.1%	0.8%	0.8%	6.3%
Tampa	0.4%	4.5%	0.0%	0.5%	0.8%	3.3%
Ft. Lauderdale	1.1%	4.1%	0.8%	0.9%	-0.4%	2.5%
Portland	1.3%	4.6%	-0.1%	-0.3%	-0.3%	2.2%
Washington DC	1.2%	4.1%	0.1%	2.0%	1.0%	3.4%
Dallas	4.8%	4.5%	0.1%	-2.1%	1.3%	4.9%
Boston	1.0%	4.0%	-0.1%	0.3%	2.1%	5.8%
Baltimore	1.8%	3.8%	-0.3%	1.8%	0.3%	4.1%
NPI U.S.	76%	4.2%	0.0%	-0.7%	1.1%	2.0%
San Jose	0.7%	4.1%	-0.1%	0.6%	1.9%	-0.9%
Oakland	3.1%	4.1%	-0.4%	-0.6%	0.6%	1.6%
Denver	1.4%	4.3%	-0.5%	-1.5%	0.2%	1.3%
Miami	3.4%	3.8%	0.5%	-0.5%	1.1%	1.3%
Austin	0.9%	4.7%	0.3%	-3.3%	4.1%	-0.7%
Phoenix	2.0%	4.3%	0.7%	-3.0%	4.7%	3.6%
San Diego	1.5%	4.1%	-0.4%	-1.0%	0.5%	1.9%
Seattle	2.8%	4.1%	0.3%	-2.6%	0.7%	0.4%
New York	7.7%	3.6%	0.2%	-1.1%	1.2%	2.2%
Orange County	3.3%	3.6%	-0.2%	-1.4%	0.3%	0.5%
Charlotte	1.4%	3.0%	0.5%	-0.2%	2.1%	2.5%
San Francisco	0.7%	4.6%	-1.0%	-6.7%	2.3%	-0.4%
Riverside	14.0%	3.0%	0.2%	-2.1%	0.1%	-1.3%
Los Angeles	9.6%	3.3%	-0.1%	-2.4%	0.3%	-5.8%

Office Market						
City	NPI Index Weight	NPI Income Yield 3Q2024	Job Growth vs U.S.	Occupancy Less 20-Year Average	2024 Inv. Growth less 20-Year Average	2024 Rent Growth
Ft. Lauderdale	0.6%	7.1%	0.8%	-0.1%	-0.2%	2.3%
Tampa	0.5%	6.8%	0.0%	0.4%	-0.4%	2.0%
Phoenix	0.5%	6.6%	0.7%	-2.0%	-1.4%	1.5%
Orange County	1.6%	6.5%	-0.2%	-1.7%	-0.8%	0.7%
Washington DC	10.5%	6.4%	0.1%	-4.8%	-0.7%	-0.1%
Charlotte	1.0%	5.7%	0.5%	-4.1%	-1.1%	1.4%
Atlanta	2.0%	5.8%	0.1%	-2.9%	-0.3%	1.3%
NPI U.S.	90%	6.0%	0.0%	-3.7%	-0.4%	1.1%
Austin	2.4%	6.7%	0.3%	-6.2%	0.0%	1.4%
Oakland	2.0%	6.1%	-0.4%	-4.4%	-0.1%	-0.5%
Houston	2.9%	6.1%	0.3%	-5.0%	-1.0%	1.6%
Portland	0.8%	6.3%	-0.1%	-4.6%	-0.8%	1.7%
Miami	1.4%	4.7%	0.5%	0.4%	0.2%	4.4%
San Jose	3.4%	6.2%	-0.1%	-4.8%	-0.5%	1.5%
Dallas	2.6%	5.1%	0.1%	-2.7%	-0.4%	1.5%
Seattle	5.5%	5.9%	0.3%	-6.8%	0.0%	0.0%
Minneapolis	0.3%	6.5%	-1.0%	-3.2%	-0.1%	1.7%
Los Angeles	8.0%	6.0%	-0.1%	-5.6%	-0.2%	0.5%
Boston	8.0%	5.2%	-0.1%	-4.1%	0.1%	-0.4%
San Diego	2.9%	4.7%	-0.4%	-1.6%	0.6%	0.3%
New York	15.6%	5.4%	0.2%	-4.9%	-0.1%	0.9%
Denver	2.3%	6.3%	-0.5%	-5.1%	0.2%	1.1%
Chicago	4.5%	5.1%	-0.6%	-3.4%	-0.7%	1.3%
San Francisco	10.5%	5.9%	-1.0%	-12.0%	-0.1%	-1.6%

Retail Market						
City	NPI Index Weight	NPI Income Yield 3Q2024	Job Growth vs U.S.	Occupancy Less 20-Year Average	2024 Inv. Growth less 20-Year Average	2024 Rent Growth
Charlotte	0.9%	6.8%	0.5%	2.3%	-1.1%	3.4%
Nashville	0.5%	6.9%	0.0%	1.6%	-0.5%	3.0%
Phoenix	3.5%	5.4%	0.7%	2.9%	-0.8%	6.4%
Raleigh	1.4%	5.8%	1.5%	2.1%	-0.8%	5.0%
Atlanta	2.2%	5.9%	0.1%	2.7%	-0.7%	3.3%
Riverside	2.1%	6.6%	0.2%	1.3%	-0.7%	2.2%
Dallas	4.3%	5.6%	0.1%	1.6%	-0.6%	4.8%
Tampa	1.3%	5.3%	0.0%	1.9%	-0.4%	3.6%
Minneapolis	1.2%	6.2%	-1.0%	1.3%	-0.6%	1.7%
Austin	2.0%	5.3%	0.3%	1.3%	-0.8%	4.5%
Denver	1.2%	5.7%	-0.5%	2.0%	-1.2%	1.2%
Ft. Lauderdale	0.9%	5.8%	0.8%	1.0%	-0.9%	1.2%
Miami	2.3%	5.6%	0.5%	1.0%	-0.5%	1.7%
Boston	2.1%	5.7%	-0.1%	1.3%	-0.5%	0.4%
NPI U.S.	74%	5.5%	0.0%	0.9%	-0.6%	1.9%
Portland	1.4%	6.1%	-0.1%	0.3%	-0.4%	0.1%
Chicago	5.2%	5.3%	-0.6%	1.8%	-0.7%	0.7%
Seattle	2.6%	5.5%	0.3%	0.9%	-0.7%	0.9%
Houston	6.5%	5.5%	0.3%	0.6%	-0.7%	0.9%
Baltimore	2.0%	5.7%	-0.3%	0.0%	-0.3%	1.1%
San Diego	5.1%	5.1%	-0.4%	0.3%	-0.3%	2.6%
Washington DC	5.9%	5.0%	0.1%	0.1%	-0.7%	3.4%
Orange County	2.8%	4.8%	-0.2%	0.3%	-0.3%	3.5%
New York	3.4%	5.2%	0.2%	0.5%	-0.2%	-1.8%
San Jose	3.0%	4.6%	-0.1%	0.1%	-0.4%	1.1%
Oakland	3.1%	5.2%	-0.4%	-0.8%	-0.2%	0.3%
Los Angeles	5.7%	5.5%	-0.1%	-1.1%	-0.4%	-1.5%
San Francisco	1.3%	2.6%	-1.0%	-3.0%	0.1%	-3.0%

[i] To determine when to deliver new space, we compare the current occupancy rate relative to a market's 10-year equilibrium average to determine if there is a surplus or deficit of inventory. If occupancy rates are below average, there is a surplus space. If occupancy rates are above average, then there is a deficit of space. Next, we add the amount of space under construction to arrive at total near term surplus or deficit of space. We then divide this amount by annual average tenant demand. This analysis can determine how long it could take for the market to achieve a balance between supply and demand.

We also estimate how long it will take to build new buildings by comparing the amount of space under construction over the last 20 years divided by the amount of space which was delivered in each of those years. Once construction is underway, construction times for industrial and strip retail space can require an average of 16-18 months to complete. Multifamily apartments required an average 22-24 months to complete while office space has typically been longer, averaging nearly three years. By city though, there is a wide variation.