Piermont

Global Real Estate Outlook

2025

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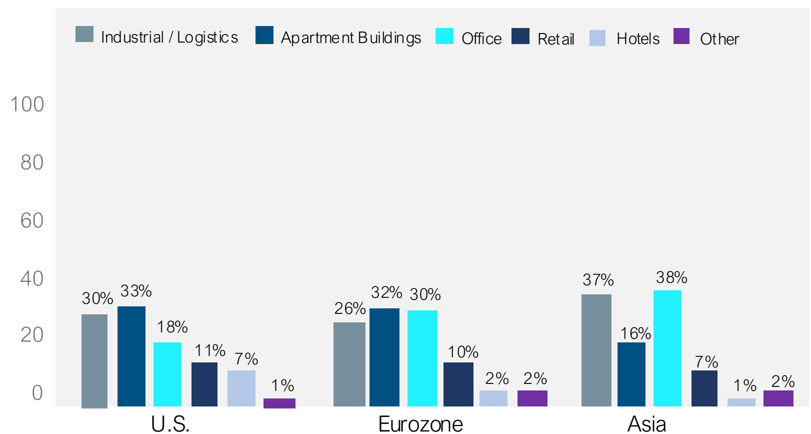
Global Real Estate Market Economics

We expect that economic growth throughout 2025 will ignite a new real estate cycle, yet we remain cautiously optimistic. Economic policies are changing globally under a new political administrations, ways of working remain in flux and diversified across different continents, population migration is changing globally, and the digital economy is booming. Interest rates in most global markets will likely proceed on their downward trajectory, but expectations for the speed and magnitude of change have proven highly dynamic and we expect to see signals of continued volatility. Last year proved telling signals that a new cycle is underway and certain sector resilience.

Global real estate transactions increased throughout 2024 in the purchase of sector income-producing real estate, up both quarter-by-quarter and year-over year comparative to 2023, indicating the global real estate market has recovered from the worst of the dealmaking slump. Leading growth on a global scale, the demand drivers for both industrial properties and data centers are supported by longer-term trends, while all other real estate sectors will see the start of a new cycle. The housing market throughout Asia continues to face a crises, specifically in China where the housing market has been on year-over-year decline since 2021 where sales have dropped by more than half, and real estate development has declined by about a third. There is a critical mass of data that supports the trend towards more positive attitude for real estate, even though a 4% rise in deal volume is not necessarily reason for joy. At the beginning of the fourth quarter, the pipeline of pending transactions in Asia had significantly expanded.

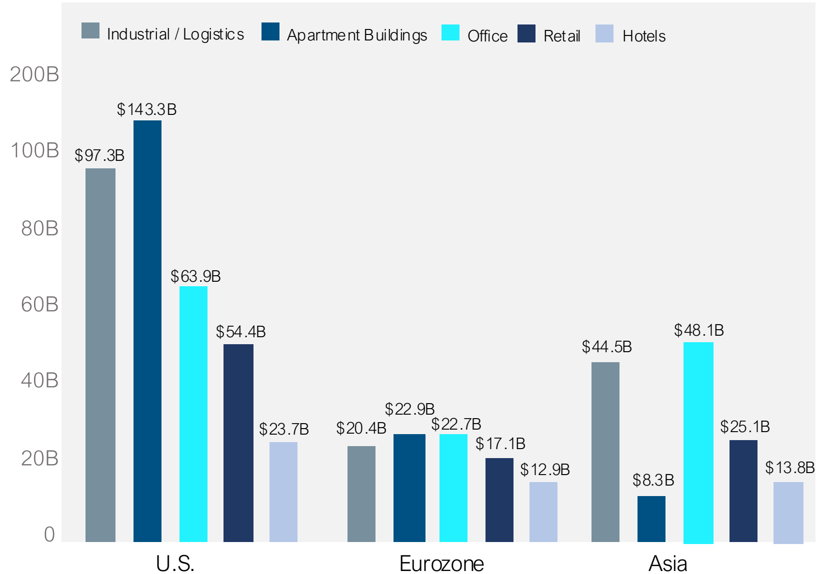
Within the second and third quarters of 2024, more significant agreements were struck in Europe than at any other time since the beginning of 2022. In contrast, the U.S. market's strongest regions have seen the emergence of increasing pricing pressure. Moves by central bankers to bring interest rates down from the recent peak are clearly helpful for the property market. An easing of the monetary environment should lower financing and refinancing rates, lessen pressure on property prices, and close the price gap between buyer and seller expectations. The sharp increase in rates was the primary cause of the significant correction in property values. It is also evident that the real estate investment market is fragmenting, with varying results in various industries and regions. The UK's performance serves as a good illustration: investment volumes are obviously increasing, but the recovery is mostly concentrated in the industrial and living sectors (i.e., hotels and apartments). On the other hand, during the first nine months of the year, office investment in the United Kingdom reached a record low. Even though the outlook for property has improved with the sense that the worst of the correction is behind us, there remain risks. Rising geopolitical and tariff tensions may mean a rebound in inflationary pressures, which would further challenge the investment case for real estate.

Figure 1: Real Estate Capital Allocation by Sector and Global Region 2024 (%)



Source: MSCI, Piermont.

Figure 2: Global Sales by Global Region, Total for 2024 (Volume in USD $)



Source: MSCI, Piermont.

Real Estate Market Economics – Fund Investment Strategies

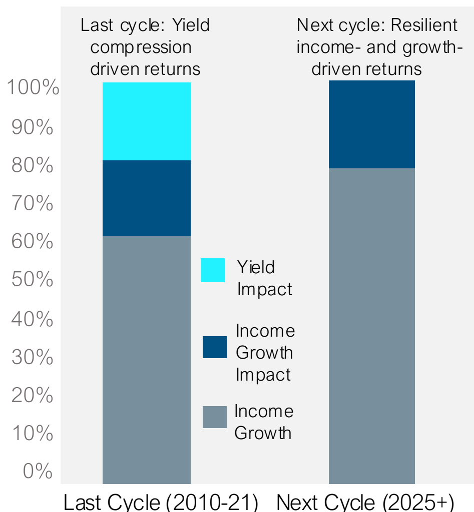
The fundraising environment is difficult even though data indicates there is a lot of dry powder targeting real estate. According to MSCI, fundraising for closed-end real estate funds reached its lowest level since 2010 in the second quarter of 2024. Higher interest rates have caused areas of distress in investor portfolios and delayed investment activity, which has resulted in a considerable repricing of both Core and Core-Plus real estate since mid-2022. The faltering office sector has led a 24% reduction in property values across all sectors, according to the NFI-ODCE index. However, declines have hurt all sectors, including flat and industrial, which have continued to be preferred by the majority of institutional investors.

Thus, the issue remains: where will the next capital inflow originate in this setting of structurally rising rates? Current market fundamentals calls for lower rates enabling buyers and sellers to align on pricing throughout this year, which will specifically boost Core and Core-Plus funds. This time around, there isn't much, if any, underlying economic stress. Only the capital market stress brought on by increased interest rates—which coincided with a period of robust economic performance—was responsible for the real estate value adjustment. The negative effect of rising interest rates on new development has already started to improve overdeveloped sectors like flat and industrial, and we think this trend will continue to favor investors far into the year. This means liquidity will keep improving from its current low levels. But since the recovery is still young, investors are becoming more selective about where and how they want to be exposed to real estate. While initial yields remain slightly above debt costs now, leverage is already accretive to total returns. Declines in debt costs over the next two years will further increase the positive effect of leverage. Amongst various buckets of capital, the most difficult funds to deploy into assets the past couple years have been Core/Core-Plus investment strategies in which market selection will significantly matter in the next cycle. where investors remain optimistic, yet are growing impatient. Value-Add strategies will be positioned for a lot of opportunity, after a cycle characterized by low investment into the built environment, many buildings will need fresh capital injections. Credit strategies are positioned to offer attractive relative value as the spread premium over comparable corporate bonds is significantly higher than historical averages. Opportunistic fund strategies have, for the most part, revised hold periods slightly to increase returns and minimizing exposure.

> Core/Core-Plus fund returns will be driven by income and income growth, in contrast to the previous cycle when yield compression and major sector plays drove returns.

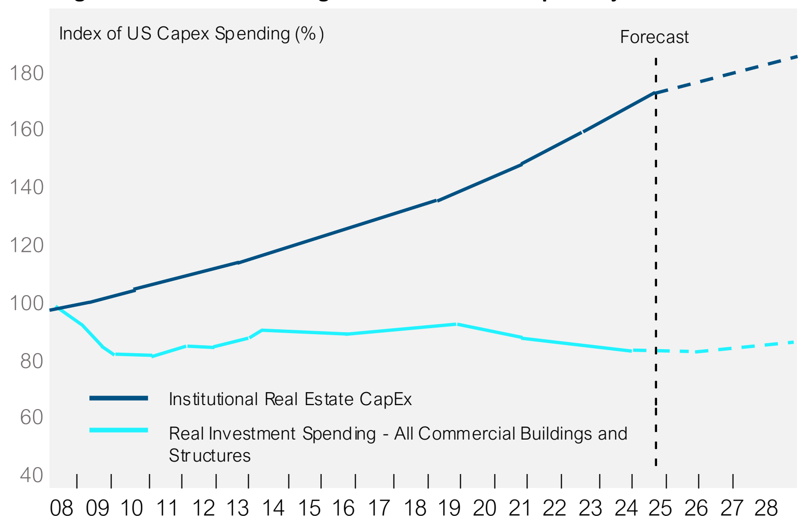
> Value-Add fund strategies will prosper from the pullback in the built environment, which will require new capital infusions for many buildings following a period of low investment.

Figure 3: Core/Core-Plus Strategies - Focus on Income Growth



Source: PREA, PGIM Real Estate, Piermont.

Figure 4: Value-Add Strategies – The Need for Capital Injections

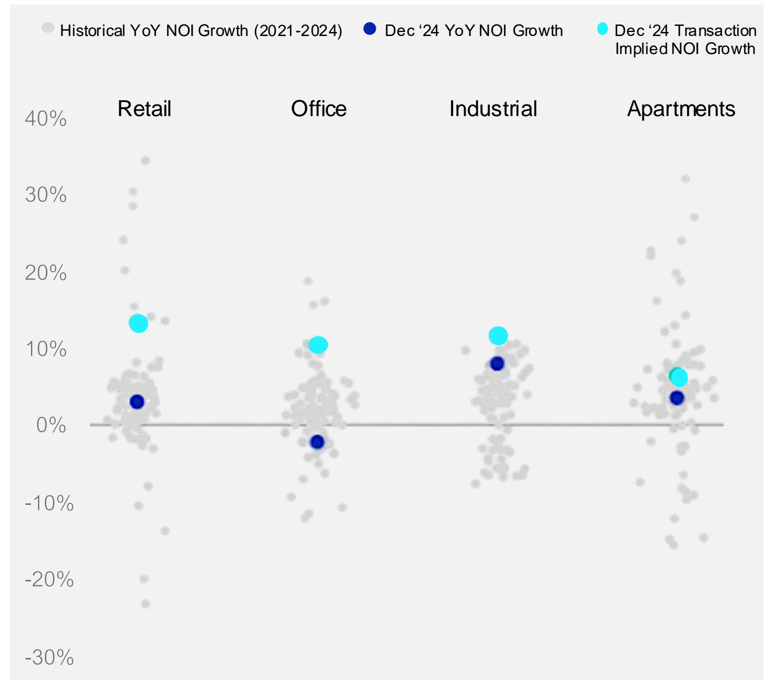


Source: MSCI, PREA, PGIM Real Estate, Piermont.

Real Estate Market Economics – The Next Cycle: Yield Compression vs. Income Growth

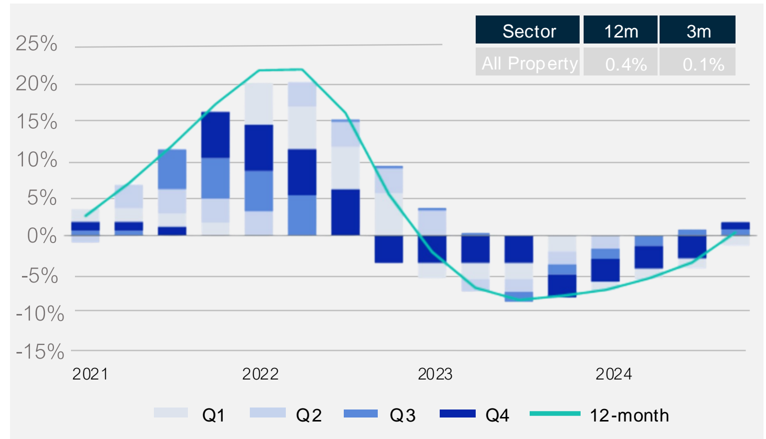
The hangover effect of the glory years (2019-2022) is in the rearview mirror. Some $3.2 trillion in assets were sold over the 11 quarters when the 10-year Treasury bond was lower than 2%. In Q4 2021, more transactions traded that quarter then in most years, as As we enter the next cycle, in the absence of yield compression, income growth will drive performance. Tracking market asset performance and demand drivers have created increasing desire for assets that are value positioned for mark-to-market in rent growth. In 2024 the market turned a corner into growth, deal volume was up, however, far from the previous levels of the pre-pandemic world. Steady growth last year was a reflection in some element to liquidity. According to the most recent analytics, US deal activity increased in 2024, ending a two-year downward trend, while prices levelled out and the rate of further crisis declined. Deal volume climbed 32% year over year in the fourth quarter and reached $420.4 billion for the year, a 9% improvement over 2023. Although single asset sales improved in comparison to 2023, portfolio and M&A-type transactions, such as the multibillion-dollar acquisition of AIR Communities, provided a boost. According to the most recent RCA CPPI findings, prices fell 0.7% in 2024, with a mixed picture across all property kinds. At year's conclusion, the retail price index grew the fastest at 3.2%, outpacing the industrial sector, where yearly price rises have slowed. Although at slower rates than in 2024 and 2023, prices for commercial and residential buildings continued to fall. During the quarter, all property types saw year-over-year growth, with the exception of hotels. Sales of apartments and businesses increased by 64% and 33%, respectively. While shopping center sales increased by 8%, office sales increased by an astonishing 36%. Transactions of hotels decreased by 28%, with larger premier resort assets driving volume. Despite the fact that the cap rate risk premium is compressed in comparison to historical averages, cap rates have increased significantly across all major property types since the Fed started hiking interest rates, signaling predictions of a secular shift in base rates (higher-for-longer). The bid-ask difference between arms-length buyers and sellers has shrunk due to improved visibility into valuation trends, marginally better lending conditions, and higher levels of dry powder. According to the US Distress Tracker, distress in the US market grew by $20.8 billion over 2024 to reach $107.0 billion by the end of the year. In the fourth quarter, fresh inflows to distress exceeded workouts by $2.2 billion, the smallest change in the net balance of distress since Q4 2022. Distress has been expanding more slowly in recent quarters.

Figure 5: Asset Yield Compression vs. Income Growth



Source: MSCI, PREA, Piermont.

Figure 6: Positive Momentum from Last Two Quarters Pushes 12-Month Return to 0.4%



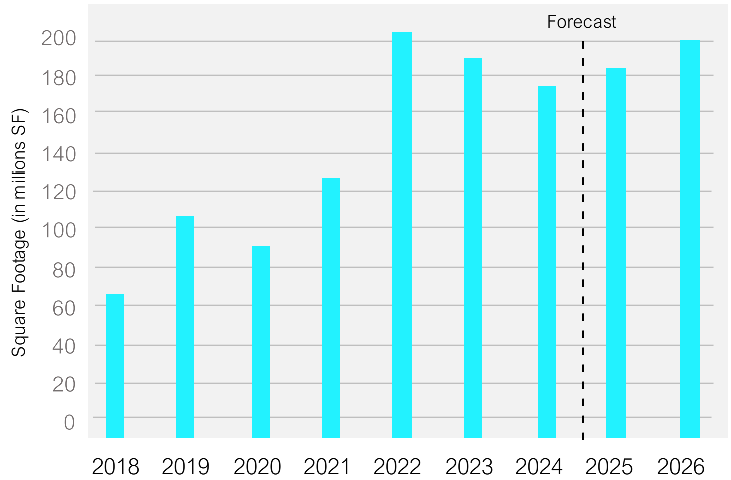
Source: MSCI, PREA, Piermont.

Industrial Logistics

Industrial, manufacturing, and distribution growth has accelerated globally from the lows of 2022 and 2023 and is on track to reconverge with GDP growth. The transition has however, proven more incomplete in 2024 than forecast, and 2025 is shaping up to be a year that could broaden the liftoff or derail it entirely. From our analytics on both the U.S. and global markets, our forecast for Industrial logistics property value, transactions, and global cross border transactions is highly optimistic. Challenges from rent acceleration to rent decelerations within certain markets, changes in population growth meeting e-commerce demand, potential new and strengthening tariffs on China and Mexico, inputs and outputs form U.S. Ports, and inflation on global shipping costs, are a few key themes we will be tracking throughout the year.

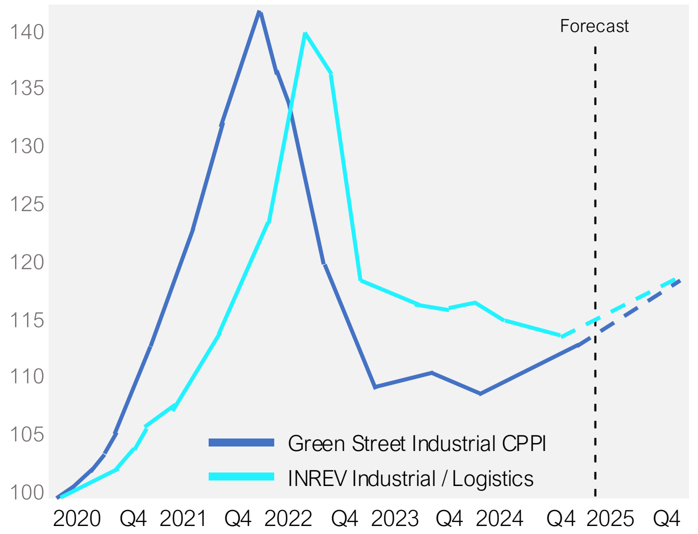
The U.S. industrial market will resume its pre-pandemic demand drivers, marking the start of a new cycle. With demand surpassing 164.4 million square feet, the 3PL, logistics, and distribution sector continues to be a major demand generator. Asian 3PLs accounted for more than 43% of new Class A agreements in the New Jersey market last year, and their space has more than tripled since 2023. Roughly 40% of leases negotiated last year in the Inland Empire market were with Asian 3PLs, with analytics projecting robust 3PL demand to continue throughout the first half of this year. Savanah has not only experienced significant increased demand drivers for new warehouse distribution supply, as the market leased roughly 66% to Asian 3PLs last year. In order to meet the demands of a changing customer base, increase warehouse efficiency, and guarantee supply chain resilience, industrial occupiers will concentrate on longer-term initiatives. Older buildings' vacancy rate will increase due to demand for freshly built space in 2025, businesses will continue to migrate to more recently built, contemporary spaces in order to support their usage of automation and artificial intelligence and to offer additional facilities to their employees. Such is the case for the Mid-Atlantic region, where the New York-New Jersey port complex is crucial to the worldwide supply chain serving over 50 million people within a 250-miles of NYC. Market net absorption in Philadelphia, New Jersey, and New York was prosperous last year for boxes between 200k sf – 375K sf, while large distribution center boxes of 450K sf+ experienced market stagnation and higher vacancy. Throughout the U.S., development in major distribution hubs resumed its pre-pandemic levels in 2024. Over the previous year, the U.S. has seen an average of 26 million square feet every quarter, which is 77% more than the historical norm, indicating a strong demand for large products. Net absorption was 83% below the historical average in other size categories, with an average of 4 million square feet.

Figure 7: U.S. Logistics & Distribution Demand



Source: MSCI, Oxford Economics, Piermont.

Figure 8: U.S. Logistics Capital Values – YoY (from start to Q4)



Source: MSCI, Green Street, INREV, Piermont.

We believe that rising interest rates have basically finished the asset value correction, and investors should anticipate what would be a good entry moment. Although the Fed predicts a 2.1% GDP growth in 2025, the macroeconomic environment is favorable for industrial demand. However, in the second half of 2024, some businesses put off leasing decisions due to trade policy uncertainty.

With a recovery in values under way, the gap between current prices and valuations has significantly closed, and the Industrial CPPI grew by 2.8% from Q2 through Q4 2024 (see Figure 8 on previous page).
With a national average of a 5.85% cap rate for new core warehouse assets, and containing stronger prospects for net operating income growth, and significantly higher than the 4.5% cap rate for residential properties, logistics assets continue to be competitive when compared to other sectors in terms of income. In our opinion, reversion potential and future income growth distinguish logistics and enable tighter spreads with the cost of debt. Cap rates on Core/Core-Plus industrial assets went through complex transactional market dislocation for sellers and buyers to meet on an average 25% spread pricing difference for positive leverage, yet this spread started to decrease in the last two quarters of 2024.

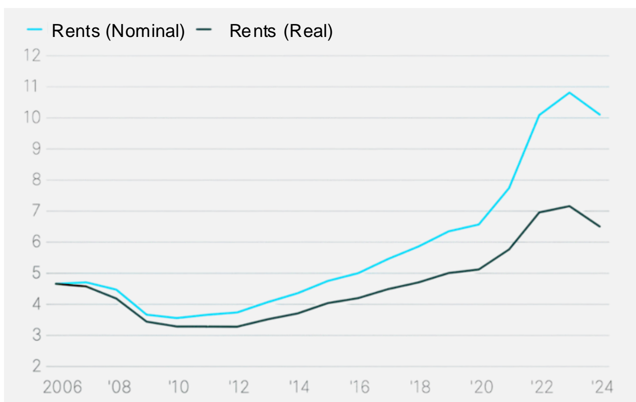
Eurozone Logistics

Over the past few years, the logistics industry in Europe has had to shift significantly. In terms of economic development, stabilizing occupiers, and the need for contemporary stock, we see indications that the industry is at a turning point. Although timing market cycles is difficult and complex, we think there is strong evidence that significant opportunities are starting to emerge for investors wishing to increase or expand their logistics exposure in Europe. For the first time since the global financial crisis, annual rent growth for European industrial buildings was negative, partially offsetting the outperformance caused by the epidemic. Leases that roll out in 2025 still face a considerable increase in most locations, since year-end 2024 market rents were 33% higher in Europe and 59% than year-end 2019. Net absorption also declined throughout 2024 by 20%, as rent increase was moderated by users using existing capacity, which restricted absorption rates due to delayed choices, consolidation initiatives, limited capital access, and persistent supply chain uncertainty. Distribution tactics also became more sophisticated throughout Europe as a result of changing trade regulations and changing consumer preferences.

Asia Logistics

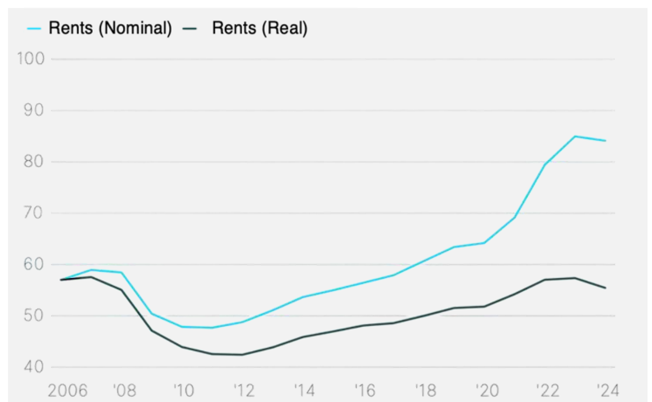
Slower growth throughout Asia in 2024 was in large part due to occupiers protecting operations against high accumulative rental growth. This was most evident throughout greater China, as market absorption slightly declined quarter-over-quarter due to low occupier sentiment coupled with ongoing macroeconomic challenges (such as increased shipping costs from Shanghai to Los Angeles), decelerating rent growth. Additionally, evolving customer tastes and trade rules led to increasingly complex distribution strategies. In Japan, rents rose by a steady 2%. Performance differences between regions were apparent, with core submarkets experiencing robust growth while submarkets like Tokyo's Ken-O saw downward pressure due to high vacancy.

Figure 9: Net Effective Market Rate, U.S. ($/PSF/YR)



Source: NAIOP, Prologis, Piermont.

Figure 10: Net Effective Market Rate, Europe ($/PSF/YR)

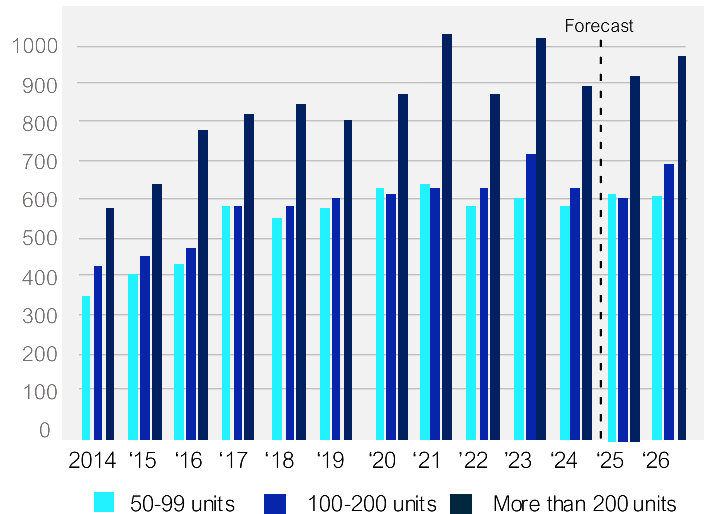


Source: NAIOP, Prologis, Piermont.

Multifamily

Positioned as one of the two most resilient asset classes, the U.S. multifamily market has been under significant analysis, examining continuous chances for growth and reasons for near term investor concern. U.S. cities added more than 2,900 buildings with more than 200 apartment units between 2021 - 2024. That is 17% more than were built from 2018 to 2020. It also outpaced the increase in the number of smaller properties of at least 50 units. In all major U.S. cities, developers are also focused on pushing apartment buildings to higher builds, increasing floor plates and building rise by another 15% more on average than the past decade, making apartment buildings the primary attraction to city skylines versus office buildings. To make larger-scale construction more viable, some communities are modifying their building standards and zoning laws. Austin, Texas, became the nation's largest city to remove parking requirements for new development projects last year, saving many builders a significant amount of money. Similar modifications have been made to the minimum parking requirements in Portland, Oregon; Minneapolis; and San Jose, California. Other initiatives are being out into action as cities make apartment building development a less painful process for developers ranging from zoning to permitting. This is in part due to the economic headwinds of the past few years which are not showing indications of improving the first two quarters of the year. As we entered 2025, persistently higher interest rates raise concerns because higher rates make it difficult to complete transactions when rates are higher than 4.5%, and demand within the multifamily sector continues to compress cap rates, creating a gap in asset values. The potential new tariffs can include rising building material costs, inflation causing slower job growth, and higher general costs of living creating a decline in the demand for apartments in higher-rent markets. With projects already under way, development in certain regions such as the massive delivery of new housing throughout the Sun Belt is creating an increase of nearly 20% over the next two years. Tenant demand in 2024 was high enough to balance out the increased volume of new building. 528,400 units were absorbed for the year that ended in the third quarter of 2024, which is much more than the average of 358,000 units. Interestingly, the U.S. household count only rose by 782,000, or 0.6%. By the conclusion of the third quarter of 2024, the homeownership rate had dropped from 65.7% to 65.6% due to the startling fact that 68% of new households were renters. With 132 million families in the US, a 0.10% drop in homeownership may not seem like much, but it resulted in a 132,000-unit demand for rentals. High mortgage rates and a shortage of for-sale properties maintain low homeownership move-out rates and high retention rates. At the beginning of 2025, the average advertised asking rent in the U.S. multifamily market began to rise again after six months of declines. In January, the U.S. figure increased by $3 to $1,746, a 0.8% year-over-year increase. Metro areas such as New York City (5.4%), New Jersey (4.2%), Detroit (4.1%), Kansas City (3.9%), and Philadelphia (3.1%), continued to see the fastest rates of rent growth. Austin (-5.4%), Raleigh (-3.5%), Phoenix (-2.4%), Atlanta (-2.2%), and Orlando (-2.0%) were in last place.

Figure 11: U.S. Apartment Building Development (# of Units)



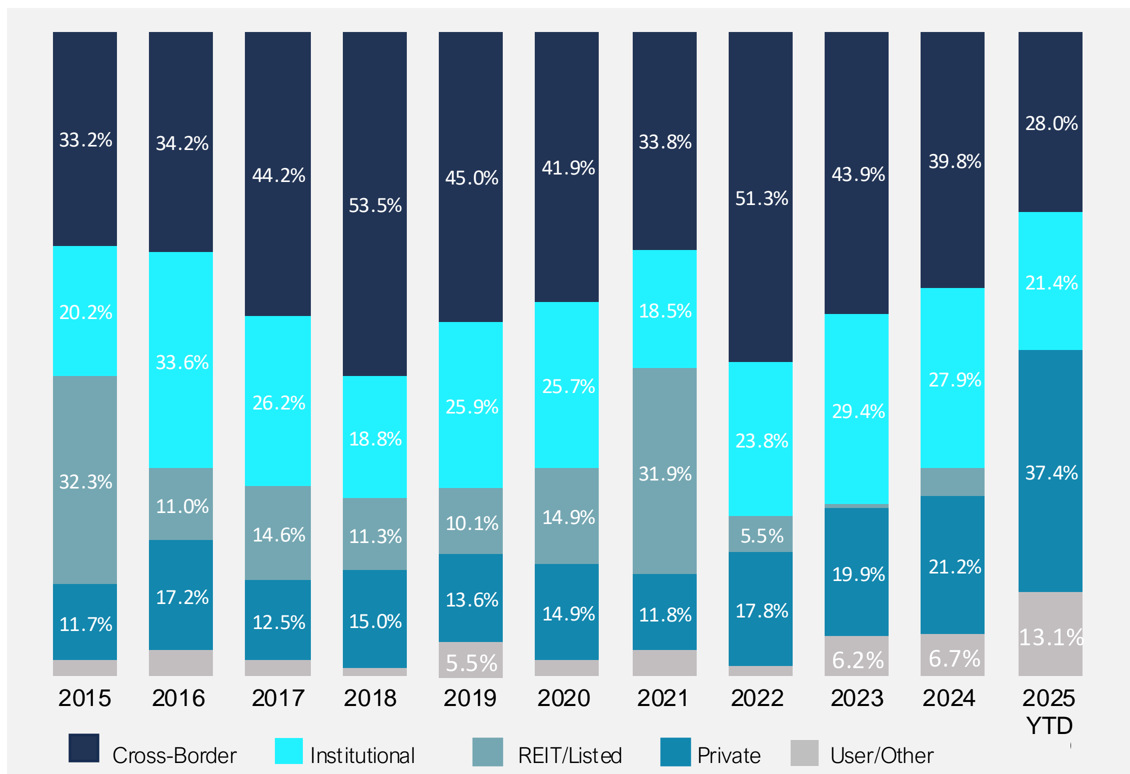
Source: MSCI, CoStar, Piermont.

On a global comparison, despite geopolitical unrest and a slower central bank interest rate-cutting cycle, multifamily investment is predicted to rise throughout 2025 after a strong upsurge in activity in the last quarter of 2024. In Europe, fundamentals are still solid, and as new supply continues to decline, they should get better in the U.S. As the year progresses, larger platform agreements are probably going to become more prevalent in the market due to a slowdown in new building and strong investor optimism. The market may see a shortage of supply after 2026 if high borrowing and building costs continue to rise, which would allow rents to approach their average of 3.5%. We therefore anticipate 5% to 6% unleveraged total returns over the next one to two years, which will thereafter increase to 7.5% to 8.5%.

Eurozone Multifamily

Even though interest rates have significantly decreased in Europe since the end of 2023, the impact of higher rates is still felt in the European property market. European multifamily investment saw some significant improvements throughout last year. After hitting its lowest level since 2015 in Q1, investment in European multifamily real estate jumped sharply to €13.9 billion in Q2 2024. The sum showed a 59% increase from the previous quarter and a 17% rise from Q2 of the previous year. In terms of investment volumes, multifamily accounted for 26.6% of direct investment in Q2. In contrast, the office sector accounts for 24.4% of the total, while logistics and industrials make up 17.5%, of €12.7 billion in Q4 indicated a 55% jump on the same period in 2023. Multifamily volumes for the entire year increased 35% year over year to €38.8 billion, the biggest Q4 since 2021. Sweden saw the biggest increase, with 2024 investment more than doubling from the previous year. Germany accounted for 26% of multifamily investment in 2024, making it the largest market. For the past five quarters, the average European prime multifamily yield has not changed. Sellers now feel more comfortable bringing bigger portfolios to the market as a result. 56% of multifamily investment in Q4 came from deals worth more than €100 million, the highest percentage since Q1 2022. As investors sought a variety of purpose-built rental stock, forward investment increased in 2024 (+52% YoY), and building cost growth slowed. While demand continues to rise, the number of new housing permits is declining. The scarcity of housing in Europe grew to 3.5% of the existing stock in 2024, or roughly 9.6 million dwellings. Since the difference between building costs (including land prices) and exit values is closing due to rising housing and capital values, we think there may be a chance for a rebound in 2025. Permit levels will rise until 2025 as a result of this trend. The data unequivocally demonstrates that Europe is at a turning point following a difficult two years for all real estate sectors. With capital values rising again throughout 2024 for the first time in nearly two years, we believe the residential sector should spearhead the recovery going into the next cycle. Investors currently have a compelling window of opportunity to deploy capital in this industry because to attractive occupational fundamentals, strong income growth prospects, and growing indications that capital values have bottomed out. Throughout this year, we anticipate global investment firms to focus transactions on Germany, Spain, Portugal, and Poland. Last year ended with investors, both Europe-based, as well as foreign investors seeking multifamily opportunities within these markets.

Figure 12: European Multifamily Investment Market, Capital Composition by Buyer Classification (%)



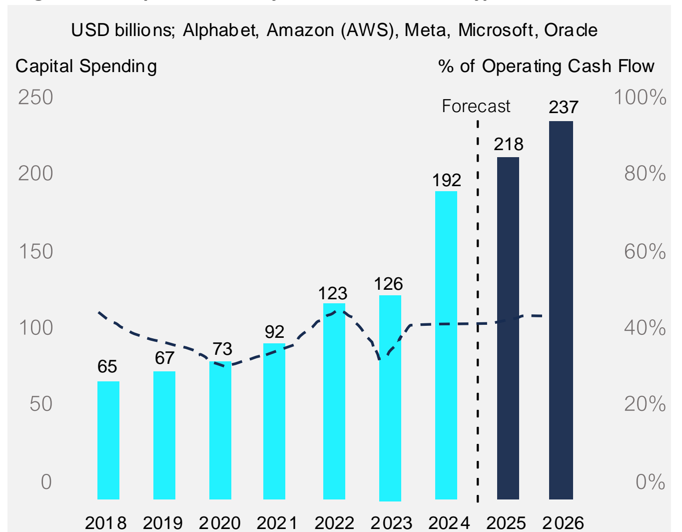
Source: MSCI, Piermont.

Data Centers

Digital infrastructure has been in the spotlight over the last few years. With the ever-expanding AI and cloud platforms, the need for more servers is eminent. The US data centers' power needs are expected to grow from between 3 and 4 percent of the country's power demand today to between 11 and 12 percent in 2030. In order to support the infrastructure that will drive the digital revolution and continue to drive the cloud revolution, we predict that the sector will experience an S-curve of demand growth over the next ten years. It can also facilitate the anticipated quick scale-up of AI. Currently, there is a $5 trillion worldwide opportunity for AI and generative AI. The physical infrastructure required to accomplish that is represented by the value of the data center. Investors have shown interest in data centers, frequently due to the risk-adjusted yields and consistent, utility-like income flows. Power availability is the primary driver of hyperscale development in the Americas, followed by land availability and values, which in turn stimulate activity in peripheral markets. In contrast to hyperscale users, occupiers prioritize availability and are frequently restricted to particular markets. With 1.5GW added in H2 2024, North America's high-growth trajectory continued, exceeding 20GW of operational capacity, bringing the year's total capacity addition to 3.2GW.

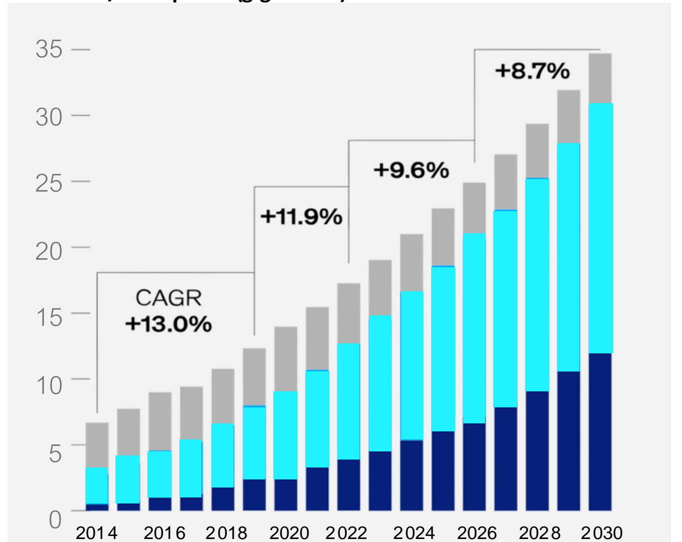
With 15.4 GW planned, 1.8 GW under construction, and 5.9 GW in operation, Virginia continues to be the largest data center market in the world. Other sizable markets that trail Virginia in operating capacity are Portland and Eastern Oregon (2GW), Columbus (1.8GW), Phoenix (1.5GW), Dallas (1.4GW), and Chicago (1.2GW). All of these markets have maintained activity in spite of various restrictions on power availability. These markets are also in need of data center expansion, as both government and businesses alike are quickly moving a large portion of their workload to public cloud storage, but they are also becoming more aware of what should not be stored there. It might be more effective to conduct research near the data source for applications (like autonomous driving) that need real-time insights at very low latencies. Edge computing may also be advantageous due to the expense of moving massive amounts of data to and from the public cloud. Regulations pertaining to residency and data protection that mandate that specific kinds of data be kept close to their place of origin also apply. All of this helps to explain why the addressable market for edge computing is expanding. Enterprises and service providers are expected to spend $176 billion in 2022 (up 14.8% from 2021) and $274 billion in 2025 on hardware, software, and services for edge solutions, according to IDC. The vacancy rate (as of January 2025) throughout the U.S. is currently 5.0%, due to power and component lead times that limit the delivery of new supply, which forces 84% of deliveries to be preleased and pushes leasing rates higher. Since the risk/return profiles differ from those for the acquisition of a data center, these areas will probably appeal to different profiles of investors, depending on their investment objectives.

Figure 13: CapEx from Major AI Data Center Hyperscalers



Source: MSCI, JP Morgan, Bloomberg, Piermont.

Figure 14: Data Center Power Consumption, by Providers/Enterprises (gigawatts)

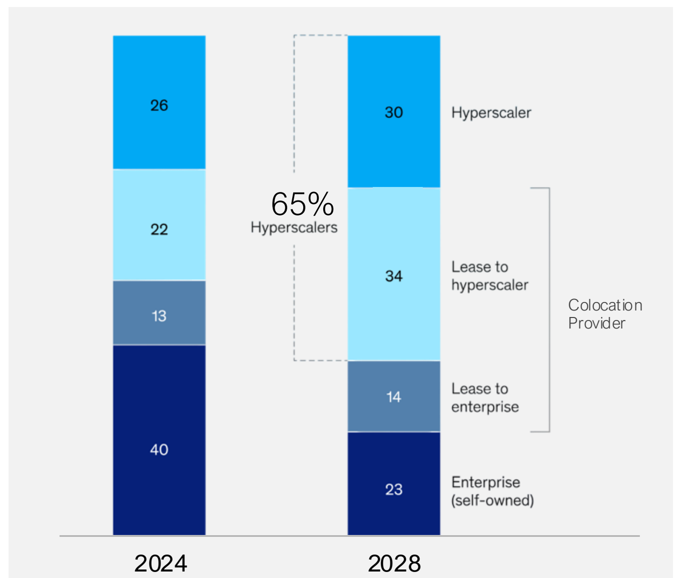


Source: MSCI, JP Morgan, Bloomberg, Piermont.

Eurozone Data Center Market

By the conclusion of Q4 2024, the Europe data center market had grown by almost 30% year over year. Europe has plenty of opportunity to expand its market and further stimulate its technology ecosystem, even if the United States will see the biggest growth in data centre build-out. It is anticipated that the region's data centres' overall IT load demand will increase from 10 GW in 2023 to over 35 GW in 2030. We anticipate the demand for data centers in Europe to increase from the current level of 10 GW to around 35 GW by 2030. With power generation capacity excluded, data center infrastructure will require investments of between $250 and $300 billion to accommodate this increasing IT load demand. Frankfurt, London, Amsterdam, Paris, and Dublin (the FLAPD markets) all saw substantial increase, with Paris leading the way with an annual growth rate of more than 40%. Nonetheless, there are still supply shortages around the continent, particularly in major markets like Frankfurt. It is currently typical to release new facilities, which suggests that continuous investment in data center growth is required. Power sourcing is still a major obstacle. We anticipate about 1GW of new data center supply (937MW) to be delivered in 2025 as providers try to meet the high demand. Meeting this demand will require an extensive increase in electricity supply, this is a significant change for Europe, whose total power consumption has stayed largely unchanged since 2007. Through 2030, data center load may make up 15–25% of all newly additional net demand in Europe. With a compound annual growth rate (CAGR) of almost 13 percent, the electricity demand for data centers in Europe is expected to rise by over 85 TWh between 2023 and 2030. Currently, data centergrowth in Europe is fueled by hyperscale centers and colocation leases (Equinix, Digital Realty, CoreSite, CyrusOne, and NTT Global Data Centers), with hyperscalers alone driving up to 70 percent of the anticipated demand over the next few years by 2028. JVs between investment management firms and operators have been leading this focus. Due to the build-to-suit supply meeting demand throughout last year in Europe, the overall vacancy rate in 2024 for the FLAP markets decreased by 2 percentage points year over year to 10.6%. The biggest drop, of over 8 percentage points to 11.5%, was seen in Amsterdam. Strong demand should keep the vacancy rate low even with anticipated new supply. Consequently, it is anticipated that in 2025, the European vacancy rate would fall below 10% for the first time. Some businesses are using data centers in smaller, secondary markets to suit their needs because key markets aren't having enough of them. Data center operators will need to be creative as electricity grids approach their capacity limits and lead times for new grid connections lengthen. Data centers' varying load profiles and increasing demands must be met by the energy used to power them. In addition to renewables and the bulk grid supply, other sources might be required to guarantee power around-the-clock. Alternative on-site generation methods such natural gas, hydrogen fuel cells, and small modular reactors are already being investigated by numerous operators. No technology has more fueled the need for Europe's power infrastructure to evolve more quickly in the past 20 years than artificial intelligence (AI), and generative AI in particular (gen AI). Furthermore, the majority of this demand is for clean energy. Although the industry's investment in green energy solutions is picking up steam, there is still a lot of unrealized potential because data centers are growing at an exponential rate. Green energy investments offer distinct risk/return profiles compared to conventional data center acquisitions like real estate or technology, which is likely to draw investors with particular goals. Examining the whole energy value chain is necessary to spot and seize these new opportunities as data centers become more and more important to the European economy.

Figure 15: Europe Data Center Demand by Ownership (%)

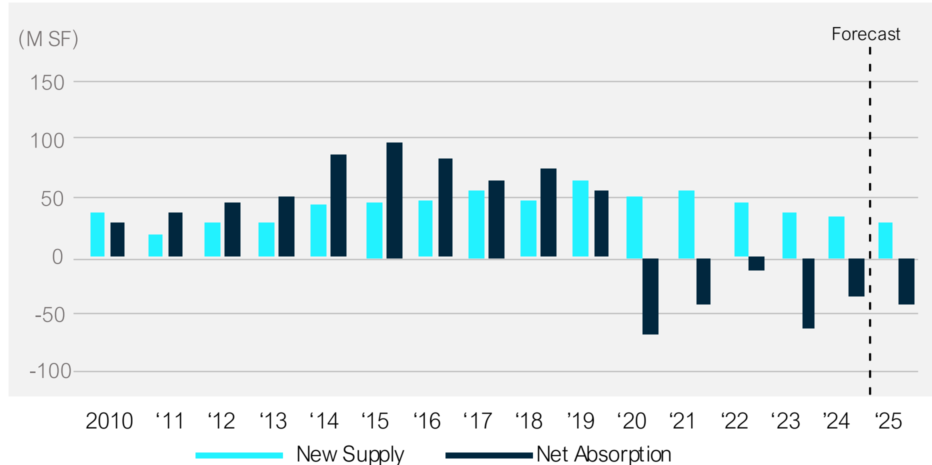


Source: MSCI, JP Morgan, Bloomberg, Piermont.

Office

The U.S. office market has now seen a five-year decline in tenant demand, ending of 2024 with more uncertainty on what the next twenty-four months look like for the sector. The occupancy rate has dropped from 91% to 86% over the past five years, far below its 20-year average of 89%. Additionally, an extra 3% of sublease space is available. With prices down 9.3% year over year in December 2024, office properties continued to show the highest yearly pricing reductions of any sector. Relatively speaking, suburban office buildings fared better, declining 2.2% annually. Nevertheless, compared to December 2023, when prices were declining by over 30% and 10%, respectively, both the central business district and the suburban marketplaces demonstrated improvement. Over the next two years, we anticipate a decline in tenant demand nationwide. We must highlight the weakness in total office employment growth, even though many people are optimistic that return-to-office regulations can increase tenant demand. The primary industries that use offices are professional services, finance, and information services. These key office-using employment sectors experienced 1.9% job growth in the five years before COVID-19, which was more than the 1.5% growth in overall employment. However, employment growth in these office-using sectors was only 0.4% over the past year, while overall job growth was 1.4%. In order to promote the absorption of office space, occupier mentality will change from one that is focused on contraction to one that is focused on stabilization and even expansion. Together with a notable reduction in new supply and falling borrowing rates, this encouraging change creates the conditions for the most upbeat outlook in years. There will still be some difficulties, though, such as poor office-using job growth, a large amount of sublease space, and a high number of vacancies in less desirable office buildings. Even though the office sector has the highest transaction cap rates, they might not be sufficient to account for rising rent. Over the next three years, we anticipate a 3-4% annual reduction in office rentals nationwide. Declining rents suggest total returns of 4% or less, despite the transaction cap rates of 7.6% appearing high, and U.S. dela volume closing the year out at $63.6B. Six of the top 25 markets that Green Street and MSCI tracked saw increases in vacancy rates of more than 500 basis points in 2024. The biggest spike was in Austin, where the vacancy rate increased by 690 basis points since December 2023 to 27.9%. San Francisco and Philadelphia both increased by 520 basis points, while the Bay Area and Portland followed with 620 basis points apiece. Boston saw a significant 510 basis point hike as well. New York, San Francisco, Washington, D.C., Los Angeles, Boston, and Seattle are the six cities that account for a noteworthy 58% of the NCREIF office subindex. We anticipate that, with the exception of Washington, D.C., each of these cities will likely underperform the index based on our unique ranking. Just cutting back on exposure to certain markets might improve relative outperformance. Occupancy rates in the majority of these cities are far lower than average, and income yields do not account for the anticipated drop in rentals. We anticipate that over the next two to three years, the office sector within the U.S. will continue to underperform the index. The downcycle of the past three years has also contained a global market phenomenon, as the U.S. office market underwent bifurcation, compared to a relatively healthy and growing demand throughout the rest of the global markets. A 5% increase in lease volume in 2025 is predicated on a robust pipeline of tenants actively looking for office space. Over half of the overall lease volume will be made up of smaller tenants seeking spaces between 10,000 and 20,000 square feet. From a development standpoint, Phoenix and a few communities in Florida are the only ones that appear to be in a position to take in new construction this year, as most other markets will focus on net absorption and continuous problem solving of existing office buildings.

Figure 16: U.S. Office Supply, Demand & Occupancy (2010 – 2025)

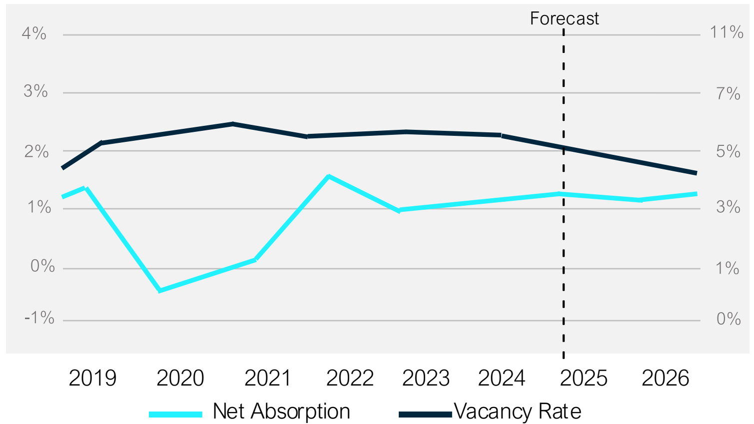


Source: CoStar, MSCI, Piermont.

Eurozone Office

We anticipate a further year of modest leasing level recovery throughout Europe, bolstered by stronger and more consistent office attendance rates and an increase in employment that uses offices. Through 2025, we predict that leasing levels will increase by 5–10%, moving closer to historical averages. The last quarter of 2024 proved investor sentiment towards the office sector is improving. The fourth quarter of 2024 saw two investment transactions exceeding €100 million each: the sale of the Warsaw Unit office tower to Eastnine for €280 million and P180 to Investika/Bud Holdings for approximately €100 million. Office transactions, however, made up only 22% of all European transaction volumes in Q1 - Q3, down from 37% five years prior, making them less desirable for investment in 2024. Nonetheless, we are observing a rise in underbidders for premium office assets in CBD Paris and Central London, which indicates a larger buyer pool. The overall European vacancy rate increased by just 0.5 percentage points in the year to Q3, indicating a significant slowdown in vacancy increases in 2024. Madrid, Amsterdam, and Warsaw are just a few of the big cities where the vacancy rates appear to have peaked or started to decline. In 2025, it will be crucial to examine local leasing trends by sector and size. There haven't been many large transactions lately, and downscaling is still the predominant trend in the portfolio. However, the rate of economic recovery could not be quick enough to boost the number of new businesses. A more balanced sector leasing pattern is produced by the growing demand from industries like manufacturing and public services, while mid-size European office agreements appear to be poised to dominate.

Figure 17: Europe Office Market Net Absorption & Vacancy Rate

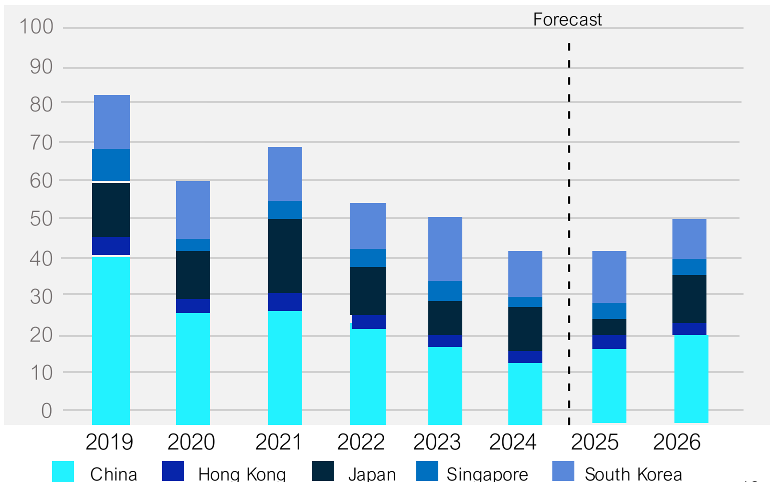


Source: CoStar, MSCI, Piermont.

Asia Office

While older office buildings account for the majority of negative net absorption throughout Asia, occupancy gains in younger stock are nevertheless driven by a persistent flight to quality. Upgrades by occupiers to better premises may be made easier by a strong supply pipeline of high-end buildings across markets. Strong lease demand and a quarterly decline in region-wide vacancy rates that is approaching 15% are driving a slight increase in regional rent growth. Due to stronger take-up in new completions, quarterly net absorption levels also increased year over year. As regional monetary policies shift, investment volumes for Asia Pacific hit USD 12 billion, representing a 66% YoY increase. The investment scene is dominated by opportunistic investors and domestic owner occupiers as transaction activity picks back up. The market for leasing was still mostly driven by small and medium-sized occupiers, and the majority of available space was found in older, less-efficient buildings without sustainability certificates. The regional vacancy differential between segments widened as premium office rentals did better than the Grade A market because of higher occupancy. However, expansionary demand was still constrained by capital expenditure budgetary limits, and lease renewals remained a desirable alternative when their terms expired. Demand for leasing increased significantly in India due to the country's manufacturing, technology, flexible space, and financial services sectors. In Greater China, on the other hand, landlords continued to provide reduced rents to encourage occupancy levels, which made relocations more affordable.

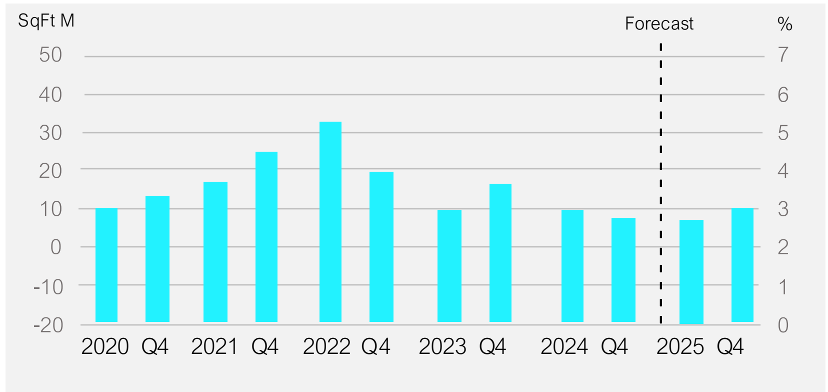
Figure 18: Asia – Direct Office Real Estate Investment, 2019-24 (US $ Mil)



Retail

Retail real estate sales in January decreased 59% from the same month last year, although market investment trends are more robust than the headline numbers indicate. There are encouraging indicators regarding price and pockets of positive news regarding acquisition activity, but entity-level deals from a year ago made some noise. Fed rate reduction and solid industry fundamentals propelled U.S. retail investment activity to $21.2 billion in the second half of 2024, a 36% rise from H1. This led to a 6% year-over-year increase in total investment volume to $36.8 billion. In January 2024, two entity-level transactions with a combined value of $4.9 billion concluded. In 2025, this speed proved to be too much to overcome. To overcome these one-time occurrences, individual asset transactions were examined instead; volume decreased by just 18% from the previous year. Individual retail center sales decreased 38% year over year, but shop space sales increased by 20%. Therefore, it is not as though the drops into January are a consistent indication of issues. Growth in retail investment is expected to continue in 2025 as debt markets become more transparent. Mostly as a result of greater space being taken up in neighborhood and strip centers as well as freestanding retail, retail net absorption increased 69.3% from quarter to quarter to 6.8 million square feet. The market still faces a significant shortage of new supply additions. The lack of good space has disappointed expansion-minded renters that want to grow, while supply is still at historic lows. The high cost of capital will make it difficult to finance expansions and new projects even with reduced interest rates, particularly in locations where rental rates would not be high enough to cover the cost. Additionally, different retail subcategories have different pricing criteria. During the 12 months leading up to January, shopping center cap rates averaged 7.4%. Since January of last year, cap rates have been stagnant at that level. Investors may be closing agreements by guaranteeing stronger income growth in the future as the 10-year UST rises in the interim. In contrast, retail space cap rates increased 60 basis points from the previous year to an average of 6.7% for the 12 months ending in January. It's possible that rising cap rates influenced buyers' decisions to make investments here. Consumer spending remained strong despite inflationary pressures and economic uncertainties, as evidenced by record-breaking holiday sales and a 3.4% year-over-year increase in retail sales in November. A strong labor market, with a 4.1% unemployment rate and 256,000 new jobs created in December, as well as rising asset prices like stocks and real estate, have contributed to household purchasing power. However, consumer credit has deteriorated in several areas, especially for younger and lower-income groups. Delinquency rates for credit cards, auto loans, and other non-mortgage loans are at their highest level since 2012, excluding the pandemic.

Figure 19: Retail Vacancy & Net Absorption, 2020-2024



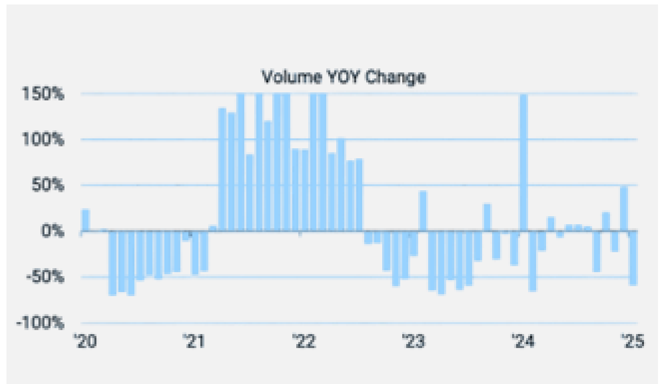
Source: CoStar, MSCI, Piermont.

Figure 20: Retail Capital Trends

	January 2025		Past 12 Months	
	Vol ($b)	YOY	Vol ($b)	YOY
Retail Total	3.7	-59%	50.3	-21%
Centers	1.9	-61%	31.5	-6%
Shops	1.8	-57%	18.8	-38%
Single Tenant	3.4	-18%	45.0	-5%
Portfolio & Entity	0.3	-94%	5.3	-75%

Source: MSCI, Piermont.

Figure 21: Retail YoY Volume Change, 2020-2024



Source: MSCI, Piermont.

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