

Comparing Commercial Real Estate Sectors

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Who's the best NFL quarterback of all time? Brady, Manning, Montana? Ask a group of fans and you will get a wide range of opinions. Part of the reason for the contentious debate is that there are a number of great quarterbacks who played in the NFL. But another factor is that each fan probably has a slightly different criteria for deciding who is the greatest of all time. One fan might value super bowl wins, another might measure "greatest" by the number of touchdowns. Different criteria, different results. That's true in comparing the financial performance of different commercial real estate sectors. An investor must determine what criteria are the most important and which factors stand out as crucial to evaluating a commercial real estate investment.

Commercial real estate (CRE) is in itself a broad term that typically includes office buildings, industrial properties, retail centers and multi-family (apartment) properties. The four sectors within this booming industry area all influenced by a wide range of economic factors. As of September 2025, current commercial real estate accounts for between 11% and 14% of total GDP.

In this article, we will examine how CRE earnings, valuation influencers, the current economic forecast, and embracing real estate diversification have created the foundation needed for an acceptable return on investment (ROI) in commercial real estate investments across the four main sectors.

Understanding The Office Sector

There are three main classes within the office sector of commercial real estate. Understanding the intricacies of each class is paramount to analyzing the risks and potential investment returns from each investment class and choosing the right investment strategy.

- **Class A.** -- This is the highest quality office space. Class A office properties are most often newly constructed, completed with best-in-class features, and have a luxurious central lobby. Additionally, they feature an aesthetically pleasing design. High rise office buildings in prime locations are typically Class A office buildings and will typically drive rents within their market.
- **Class B.** -- Class B properties are the second-tier office building that are typically older buildings that don't have the same impressive architectural details. In addition, Class B properties generally have secondary locations.
- **Class C.** -- Class C office spaces fall on the lowest rung of the ladder. They are often located in the least desirable areas, need complete or at least major renovations, and are often more than 20 years old.

Valuations & Return on Investment (ROI) For Office Buildings

Due to their pristine appearance, high-quality features, and sought-after locations, Class A office buildings have the highest rental rates. They also have low vacancy ratings due to their high-profile status. Unlike Class A buildings, which often have the highest rents (especially for the top floors), Class B offices typically have "average market" rents. The latter buildings are usually four stories or shorter and can be found in desirable areas of the city, including near the local suburbs. Class B buildings are also 10 years old or older and most often show the beginning signs of wear-and-tear. Class C office buildings attract tenants who cannot afford the prime locations or amenity-rich Class A offices. In short, determining the pricing and valuations for each class of office space will depend on a multitude of factors, including the local market and the status of the building.

Understanding The Industrial Sector

The industrial sector of commercial real estate is an umbrella term that includes a wide range of building and property types. While the industrial sector is less flashy than its office and retail counterparts, it plays an essential role within global commerce and has proved a reliable investment over the years. The main types of industrial properties include heavy manufacturing, light assembly, flex warehouse, and bulk warehouse.

The industrial sector is uniquely poised to capitalize on two main location strategies. These strategies include being located adjacent to the area's key transportation hubs, or near large population centers, so that companies can capitalize on the growing trend for same-day deliveries.

Valuations & ROI For Industrial Locations

Consumption and trade are the two main valuation drivers for the industrial real estate sector. These two valuation drivers refer to the amount of products that need to be stored and/or made in industrial locations. The third main component that must be considered when establishing a value for an industrial property, as well as estimating its potential ROI, is the area's supply chain.

Understanding The Retail Sector

Commercial retail spaces can be defined by a few key types of properties, including: strip centers, community retail centers, power centers, regional malls, and out parcel plots.

- **Strip Center.** -- Strip centers typically have small properties with anchor tenants.
- **Community Retail Center.** -- Community retail centers range between 150,000 to 350,000 square feet with multiple anchor tenants, including at least one restaurant (or similar type commercial enterprise).
- **Power Center.** -- A power center features one main retailer with a location of 30,000 to 200,000 square feet and a few other adjacent smaller retail stores.
- **Regional Mall.** -- Regional malls can range in size from 400,000 to 2,000,000 square feet and feature anchor tenants, including brand name department stores.
- **Out parcel.** -- Many large retail centers also have out parcel land that is set aside for an individual tenant, typically a restaurant or bank branch.

Valuations & ROI For Retail Locations

Valuations for retail properties depend on local market conditions, including local job growth, population growth and growth in household income. The continued growth of the retail sector relies in part on unemployment rates remaining low, while incomes continue to increase. Since the pandemic in 2020 average rents for retail spaces has grown by more than 2% each year. CBRE projects rents will grow an average of 3% for the next five years.

In short, the sustainability of growth margins within the retail sector will rely on stable local economies coupled with low unemployment rates and the disposable income of local residents.

Understanding The Multifamily Sector

Multifamily real estate can be used to describe a wide range of buildings that hold multiple units. This classification can be assigned to duplexes, townhomes, apartments, triplexes, and other housing solutions that feature multiple family units. Historically, multifamily real estate has been a proven investment strategy for companies and individuals interested in minimizing vacancy risks, accessing attractive financing options, and enjoying positive ROIs in steady-growth economies. The demand for apartments comes from the increase in household formations which is the result of population and job growth. The more rapid the job and population growth, the more demand there is for housing. A large portion of that housing demand in any market gets met by apartment rentals.

Valuations & ROI In The Multifamily Sector

According to an American Community Surveys (ACS) report, an estimated 31.2 million households live in workforce housing, which has created the foundation for multifamily investment opportunities. Since 2020, more than \$375 billion has been invested in workforce housing which accounts for nearly half of all multifamily asset transactions.

Finally, it is important to remember that above all else, the local conditions have the greatest impact on deciding when to purchase, sell, or enhance a multifamily property.

Investment returns for multifamily are further enhanced by attractive debt options. Generally speaking, the variety of loan options available to a multifamily owner are much more attractive than someone looking to put a loan on office, industrial and retail properties. Typically, interest rates are lower, personal guarantees less common and higher loan to value ratios are available for multifamily borrowers as compared to borrowers of other real estate classes

Concluding Thoughts On Commercial Real Estate Trends Over The Past Two Decades

Over the past 30 years, the commercial real estate industry has seen highs, lows, and periods of steady growth. Since the 2020 pandemic, the private equity sector has seen an unprecedented \$3 trillion invested in commercial real estate opportunities. The commercial real estate (CRE) market is projected to grow at a rate of approximately 4.6% to 6.1% through 2031.

About the Author

Mark G. Tiefel has over 40 years of experience in the real estate investment industry. Mr. Tiefel is president of Capital Equity Group, Inc., a private real estate investment firm, headquartered in Cleveland, Ohio. Mr. Tiefel serves as a managing partner for apartment properties located throughout the United States having an aggregate real estate value of more than \$750,000,000. This includes properties located in Atlanta, Ft. Lauderdale, Phoenix, Charlotte and Charlottesville, VA. Over the last thirty years, he has served in similar capacities for companies that have purchased real properties valued in excess of \$1,500,000,000.