



*FROM CHALLENGES  
TO OPPORTUNITIES:*

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# THE STATE OF THE COMMERCIAL REAL ESTATE INDUSTRY

Noles to Real Estate Private Equity at FSU  
December 2024

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About Us

# Economy Health Check

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To set the stage for our report on the evolving commercial real estate landscape, we begin with an analysis of broader U.S. economic conditions. This context is essential for understanding the key drivers of commercial real estate trends.

## Interest Rate and Inflation

Starting in 2021, the U.S. economy entered an inflationary period, fueled by major demand-supply imbalances and increased fiscal and monetary stimulus following the COVID-19 pandemic. In response, the Federal Reserve took aggressive steps to manage inflation.

Between March 16, 2022, and July 26, 2023, the Federal Reserve raised the federal funds rate from near-zero levels to 5.50%, which was held until September 2024. This aggressive rate hike cycle was aimed at controlling inflation to the Fed's target of 2%, which had peaked at 7% in 2021. Signs of easing inflation led the Fed to reverse some of its aggressive tightening. As of December 2024, the Fed has lowered the federal funds rate for three consecutive meetings, with the current rate set at 4.25% - 4.50%.

The FOMC projects just two rate cuts for 2025, which contrasts the earlier forecasts of four rate cuts, sending a shock into the market. This reflects a more cautious stance as the Fed balances ongoing economic growth with inflation control. While GDP grew at a solid 2.8% in Q3 2024 and the labor market remains strong with November unemployment at 4.2%, inflation still remains elevated (annual inflation rate for the 12 months ending November was 2.7%).

The Fed's shift from aggressive rate hikes to a more cautious approach in late 2024 reflects a nuanced outlook for the economy where strong growth continues but inflationary pressures persist.



# Economy Health Check

## Consumer Trends

Despite the restrictive monetary policy of recent years, consumer activity has demonstrated remarkable resilience. Personal spending in Q3 2024 rose 3.5%, supported by a 5.6% surge in the consumption of goods. This growth indicates that household spending, a major driver of economic activity, continues to thrive even in a high-interest-rate environment.

Shifts in spending patterns also highlight the changing preferences of consumers:

- **E-commerce Growth:** Online retail continues to capture a growing share of overall consumption, driven by convenience and competitive pricing.
- **Discretionary Spending Changes:** Consumers are allocating more toward experiences, such as travel and dining, while moderating spending on durable goods.

## Labor Market and GDP Growth

Continued consumer spending amidst high interest rates is supported by stable employment conditions and sustained consumer confidence.

As of Q3 2024:

- Unemployment has remained at a favorable 4.2%, a gradual increase from 3.6% two years prior but still low by historical standards.
- The labor force participation rate has held steady at 62.5%, reflecting consistent workforce engagement despite economic uncertainties.
- Consumer confidence, as measured by the Conference Board's Index (CCI), has improved from 96.63 in Q3 2022 to 99.15 in Q3 2024.

These labor market trends align with healthy GDP growth, recorded at 2.8% in Q3 2024.

Variable	2024	2025
Change in real GDP	2.5%	2.1%
Unemployment rate	4.2%	4.3%

# Economy Health Check

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## Financial Market Confidence

Positive economic conditions are also mirrored in the financial markets. November marked the S&P 500's best month of the year, with gains just under 6%. This rally reflects optimism from investors, driven by:

- Downward trends in interest rates, which reduce borrowing costs and improve corporate outlooks.
- Strong performance in financials, communication services, and information technology sectors.

Stability in unemployment, GDP, and financial markets have largely diminished concerns of the economy's "hard landing". Instead, the focus has shifted toward the implementation and effects of new policies, including tax cuts and tariffs on foreign producers.

# Interest Rate Activity

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## Overview of Recent Treasury Yield Activity

In September and November, the Federal Reserve reduced the federal funds target rate, signaling a dovish monetary stance. Counterintuitively, the 10-year Treasury yield increased by as much as 0.80% during the same period. This proves the complex dynamics in the bond market and offers perspective into investor sentiment and economic predictions.

## The Relationship Between Fed Action and Treasury Yields

The Federal Reserve sets the federal funds rate which is the short-term rate which banks lend to each other overnight and influences borrowing costs across the economy including real estate loans. The 10-year Treasury yield serves a significant role in commercial real estate influencing borrowing costs, property valuations, and lending standards. Analyzing the 10-year Treasury is crucial because it's a reflection of today's investor sentiment, economic conditions, and inflation expectations.

Between September and December 2024, the Federal Reserve implemented interest rates cuts totaling 1% after maintaining them at elevated levels for over a year. This led to lower short-term Treasury yields, while long-term rates, including the 10-year Treasury yield, climbed from 3.63% in mid-September to over 4.40% within two months. The increase in the 10-year Treasury yield can be attributed to the following several factors.

### 1. Strong Economic Outlook:

Improving economic data, including declining unemployment and robust consumer spending, suggests a bullish economic outlook, leading investors to expect a higher for longer interest rate environment. The 10-year yield increased significantly as the election results came in, indicating sentiment that the election outcome will result in strong economic growth accompanied with higher inflation.

### 2. Risk Premium and Growth Expectations:

Despite the Fed's rate cuts, markets may expect higher inflation due to stimulus measures and data supporting a healthy and growing economy. Inflation remains well over the Fed's target of 2%, raising concern among investors who are demanding higher yields as compensation.



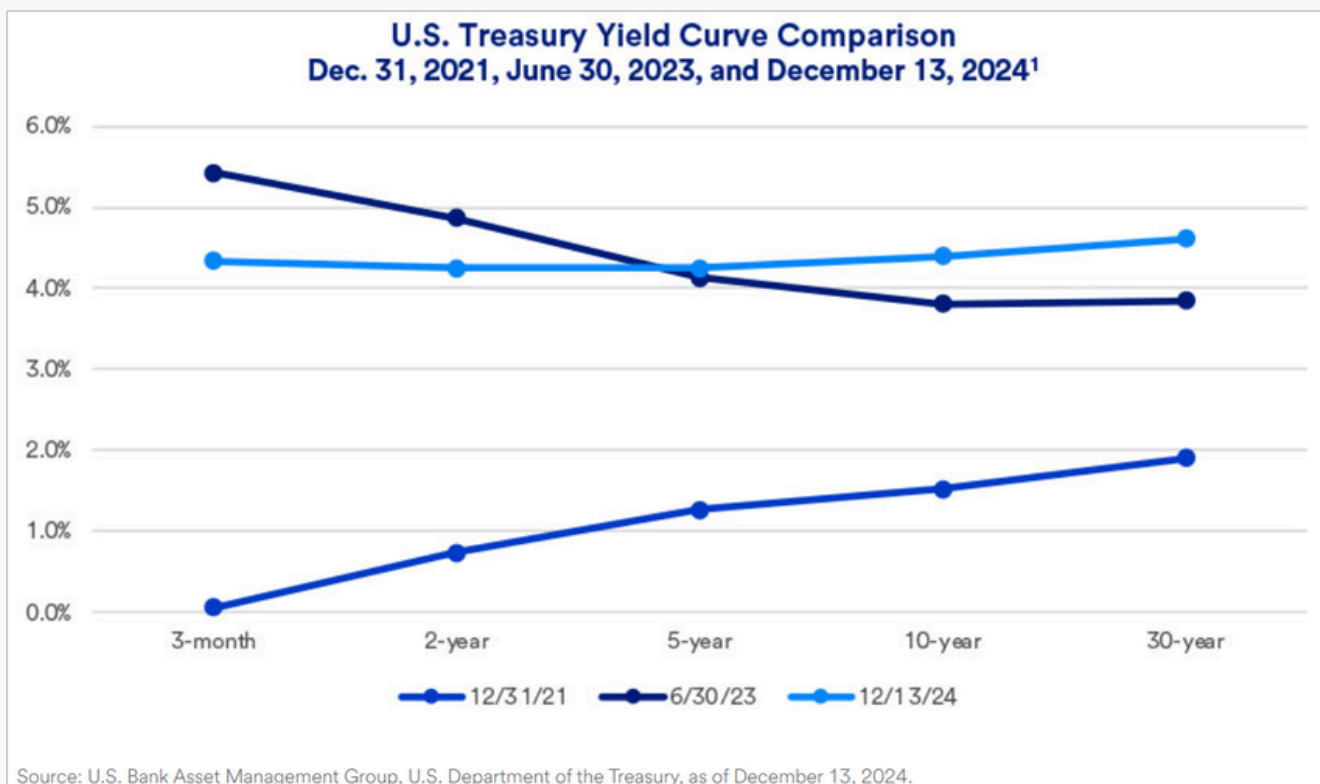
# Interest Rate Activity

## 3. Rising National Debt Concerns:

Expectations of significant debt growth, raised yields as investors priced in greater risks. National debt has grown to nearly \$36 trillion and continues to rise. This concern is exacerbated by the high interest rate environment which makes the cost of servicing debt more expensive.

## Inverted Yield Curve Dynamics:

As a result of the Fed's rapid rate hikes, the U.S. Treasury yield curve experienced unusual behavior, diverging from its typical upward slope where long-term yields exceed short-term ones. In 2022, the curve inverted downwards as short-term rates surged past long-term yields. Although an inverted yield curve could be interpreted as a sign of an impending recession, the economy remained resilient. By December 2024, the yield curve began to shift back to normal, with the 3-month Treasury bill yield dipping below the 10-year Treasury note for the first time since 2022.



# Interest Rate Activity

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## SOFR vs. Treasury-Linked Loans

The commercial real estate sector predominantly references Secured Overnight Financing Rate (SOFR) or spreads over SOFR for floating-rate loans. However, the 10-year Treasury yield also plays a crucial role, especially for fixed-rate long term financing.

- **SOFR Loans**

Widely used in shorter-term, floating rate loans for development and bridge financing. These loans track short-term interest rate movements. (CME Group)

- **10-Year Treasury-Linked Loans:**

Often foundation long-term, fixed-rate debt, such as those secured by stabilized, income-producing properties. Rising 10-year yields increase borrowing costs for such loans, impacting deal feasibility. (CBRE Research)

## Current Trends in Interest Rates and Real Estate Loans

- Approximately 70% of commercial real estate loans in 2023 used SOFR benchmarks, highlighting its prevalence in the sector. (NAIOP)
- Fixed-rate financing tied to the 10-year Treasury has become more expensive. For instance, as of December, spreads for such loans widened by 50 basis points compared to six months prior reflecting higher yields and investor caution. (Moody's Analytics)
- In the multifamily sector, agencies like Fannie Mae and Freddie Mac often tie loan rates to Treasury yields, meaning that higher yields translate into increased financing costs. (Federal Reserve Board of Governors)



# Interest Rate Activity

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## Broader Implications for Real Estate:

- **Cap Rates:**

Historically, cap rates tend to follow the direction of the Treasury yields. A sustained rise in the 10-year yield may pressure cap rates upward, reducing asset valuations in the near term. As the spike in the 10-year Treasury yield increases financing costs, investors demand higher cap rates to balance their risk. This higher cap rate environment places downwards pressure on property values.

- **Investment Strategy Adjustments:**

Investors may pivot toward sectors or markets with resilient fundamentals (e.g., industrial and multifamily) to mitigate the impact of higher borrowing costs.

## Conclusion

The intersection between the Federal Reserve's rate cuts and the rising 10 year Treasury yield reveals nuanced market dynamics. For real estate investors, understanding that as yields rise, the focus should shift toward adaptable financing structures, rigorous risk assessment, and identifying opportunities in resilient asset classes.

# Election Impact on CRE

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Trumps 2024 Presidential Election win overall signals a positive outlook for real estate markets and investors. The anticipated tax cuts, a pro-business regulatory environment, and looser fiscal policy prove to be favorable climates. However, at the same time skepticism remains regarding immigration and trade policy effects on commercial real estate markets.

1

## Expansionary Fiscal Policy

Extension of the 2017 Tax Cuts and Jobs Act, coupled with high government spending, particularly on defense, is expected to boost GDP over the next term. Tax cuts are expected to boost occupier performance in sectors like industrial and residential, increasing demand and rental growth.

2

## Tariff Implications

Targeted tariffs on China, Mexico, Canada, and EU point towards a likely inflationary impact, but first impacts are expected to be felt in 2027. Increases in construction costs and cost of goods sold may drive up inflation, and higher prices on imported materials pose direct threat to returns affecting developers.

3

## Federal Reserve Outlook

The Fed looks to still cut rates into 2026 as implications from expansionary fiscal policy and tariffs are delayed. Inflationary pressures from tariffs could prompt the federal reserve to slow down rate cuts or even increase them again.

4

## Immigration Policy

Trump will likely reinstate Migrant Protection Protocols policy, commonly referred to as “remain in Mexico.” Lower net migration will reduce the labor pool and increase competition for workers with rising wage costs for businesses. This is especially true for hospitality, manufacturing, and construction

# Supply Chain

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## Overview

The U.S. supply chain in late 2024 faces challenges from global economic recovery, geopolitical tensions, and shifting markets. Labor shortages in trucking and warehousing, inflation, and disruptions to shipping routes like the Red Sea strain logistics and trade. Reshoring and nearshoring, driven by tariffs and geopolitics, boost demand for domestic manufacturing. Businesses prioritize sustainability and resilience while balancing these goals with cost management and operational adjustments.

## Challenges

### 1. Labor Challenges

- **Strikes and Negotiations:** Labor disputes in sectors such as shipping and trucking have disrupted operations. Ongoing contract negotiations for port workers and warehouse employees remain a risk
- **Driver Shortages:** The trucking industry continues to struggle with a shortage of drivers, putting pressure on ground transportation and delivery networks

### 2. Infrastructure Strains

- **Port Congestion:** While port operations have stabilized since the height of the pandemic, disruptions in key trade routes like the Suez and Panama Canals, as well as infrastructure repairs, still cause delays
- **Aging Infrastructure:** Bridges, highways, and railways require modernization to handle increasing freight demands, but upgrades are slow and costly

### 3. Global Trade Dynamics

- **Geopolitical Tensions:** Trade disputes and sanctions, particularly involving China and Russia, create uncertainty in sourcing materials and goods
- **Shipping Lane Disruptions:** Attacks or risks in critical areas like the Red Sea and Houthi-controlled regions have forced rerouting, increasing costs and delays

# Supply Chain

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## 4. Economic Pressures

- Inflation: Rising costs of raw materials, fuel, and labor are challenging supply chain budgets, leading to increased consumer prices
- Inventory Management: Some industries reduced inventory excessively post-pandemic, leaving them vulnerable to demand spikes or supply disruptions

## 5. Technological and Sustainability Issues

- Slow Adoption of Technology: While digitization and automation are advancing, many small and medium-sized businesses struggle to adopt these technologies due to costs
- Sustainability Demands: Companies face pressure to implement greener practices, such as reducing emissions and enhancing circular supply chains. This requires significant investment and restructuring

## Tariffs

The imposition of tariffs on Mexico, Canada, and China could significantly impact the U.S. industrial real estate market by reshaping supply chain dynamics and accelerating trends like reshoring and nearshoring. Higher tariffs on imported goods may drive manufacturers to relocate operations to the U.S. or other countries to avoid increased costs, resulting in heightened demand for domestic industrial facilities, such as manufacturing plants, distribution centers, and warehouses. This trend could particularly benefit markets in proximity to major consumer bases and inland transportation hubs. Border states, including Texas and Michigan, may experience fluctuations in demand depending on shifts in cross-border trade volumes.

As companies adjust their logistics strategies to navigate new trade policies, there could be an increased need for modern, automated industrial spaces to improve efficiency and mitigate higher operational costs. However, the rising costs of materials and labor, compounded by inflationary pressures, may challenge developers and tenants, potentially slowing speculative development. These changes underscore the critical role of industrial real estate in adapting to evolving trade and supply chain strategies.

# Construction Costs

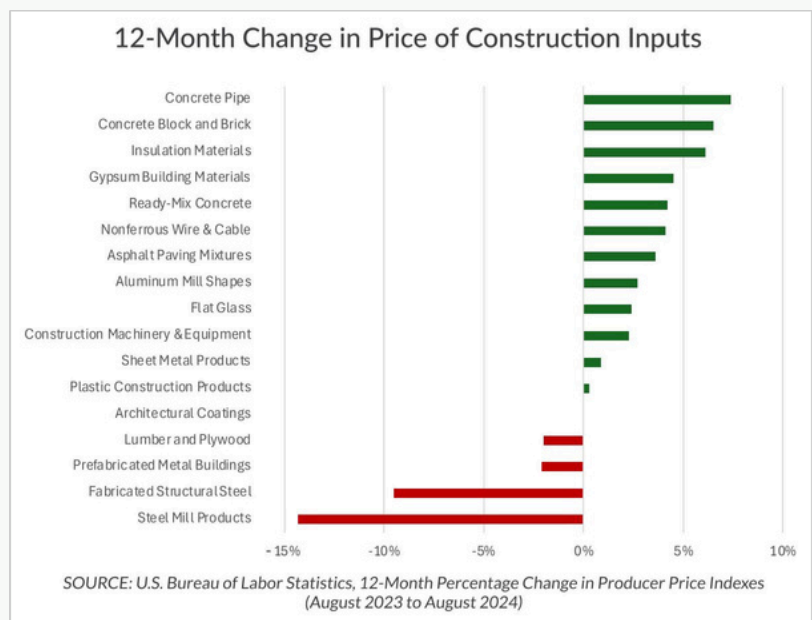
## Current Trends in U.S. Construction Costs

In 2024, construction costs remain elevated, with annual escalation rates ranging from 3.5% to 6%, depending on geographic regions and sectors. States with robust housing and industrial growth, such as Georgia, face higher-than-average inflation, while regions like Idaho with slower growth have seen some declines. This disparity is driven by persistent supply chain disruptions, labor shortages, and elevated material costs, which remain well above pre-pandemic levels.

Labor costs, in particular, are rising due to a shortage of skilled workers, an aging workforce, and inadequate training pipelines. Additionally, increasing interest rates and tighter financing conditions are squeezing project budgets, creating further challenges for developers and contractors.

## Material Costs and Sectoral Pressures

Material costs show mixed trends, with some moderation for commodities like steel and lumber, but overall volatility persists. High demand from industrial sectors, including data centers, electric vehicle production facilities, and semiconductor plants, has intensified resource pressures, especially in mechanical, electrical, and plumbing trades. This has led to delays and cost escalations for new projects. Furthermore, the growing demand for energy-efficient and

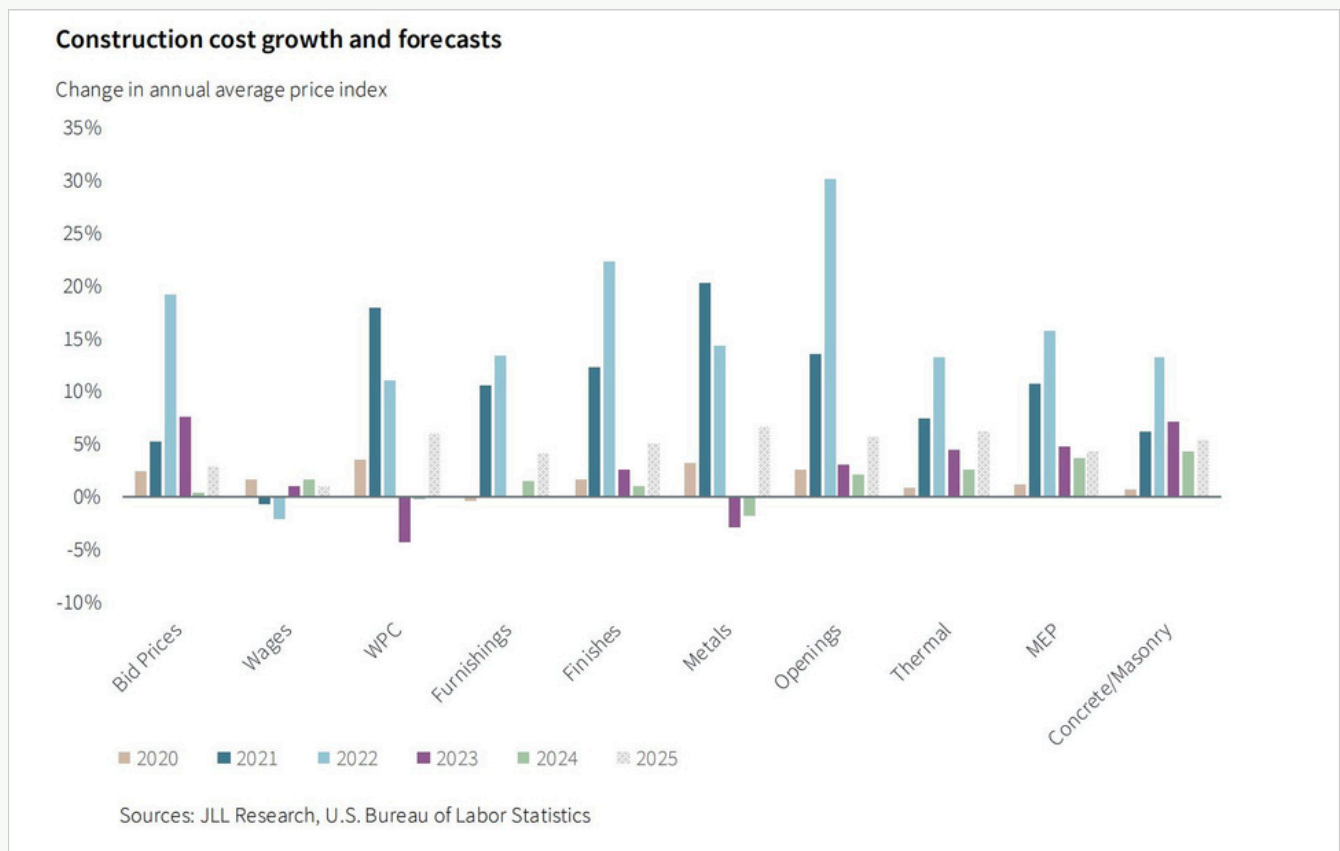


sustainable building practices has added significant expenses. For example, insulation costs have surged by nearly 90% since 2021, reflecting the broader trend of rising costs for specialized materials.

# Construction Costs

## Outlook for 2025 and Beyond

Construction costs are expected to remain high through 2025 but may grow at a slower pace compared to recent years. Infrastructure spending from the Inflation Reduction Act and government investments in clean energy projects will sustain demand in select markets. Developers are increasingly focusing on cost-efficiency measures, such as modernized building methods and automation, to counteract escalating expenses. Key factors influencing future trends include the balance of supply and demand in the labor market and broader inflationary pressures, which will ultimately determine whether construction costs stabilize in the medium term.





# Real Estate Insurance

## Overview of RE Insurance Costs and Drivers

- **Trend Overview:** Insurance premiums have increased by approximately 15% in 2024, significantly impacting operating costs in commercial real estate
- **Key Drivers:** Highlight major factors such as climatic changes, regulatory adjustments, and increased frequency of high-impact natural events

## Financial Implications and Investor Responses

- **Impact on NOI:** Discussion on how rising premiums reduce Net Operating Income (NOI) and potentially depress property values
- **Investor Mitigation Strategies:** Overview of strategies like increased deductibles, use of captive insurance, and adoption of advanced risk management technologies

## Future Trends and Strategic Adaptations in RE Insurance

- **Supply-Demand Rebalance:** With declining construction starts and steady demand, the market is moving towards equilibrium
- **E-Commerce Expansion:** The share of e-commerce within non-auto retail sales, representing a growing segment of consumer purchases, is expected to sustain high demand for industrial spaces

## Rate Forecast

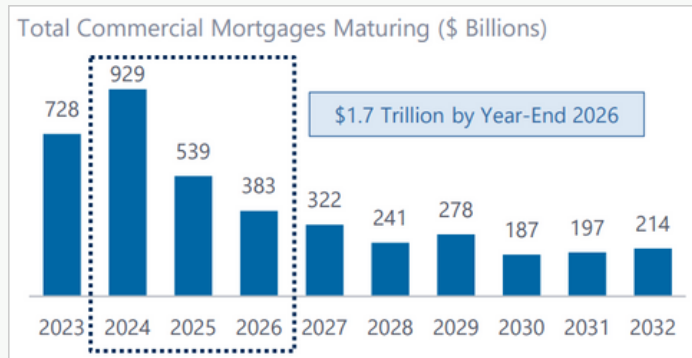
Real Estate: Property		
Soft Occupancies <small>(office, retail, &amp; other well protected risk)</small>	-	-15% to +5%
Tough Occupancies/Non-CAT	-	Flat to +10%
Tough Occupancies/ CAT-Exposed	↑	+5% or greater
Real Estate: Liability		
General Liability	-	Flat to +10%
Auto	↑	+5% to +10%
Umbrella	↑	+5% to +15%
Excess Liability	↑	+5% to +15%
Workers' Compensation	-	Stable

- **Property Rate Variability:** Soft Occupancies face fluctuating rates, while CAT-Exposed properties see increases due to higher catastrophic risks
- **Liability Rate Increases:** General, Auto, Umbrella, and Excess Liability insurance rates are trending upward due to rising claim costs
- **Workers' Compensation Stability:** Rates remain stable, ensuring predictable costs for workforce-related expenses

# Real Estate Capital Markets

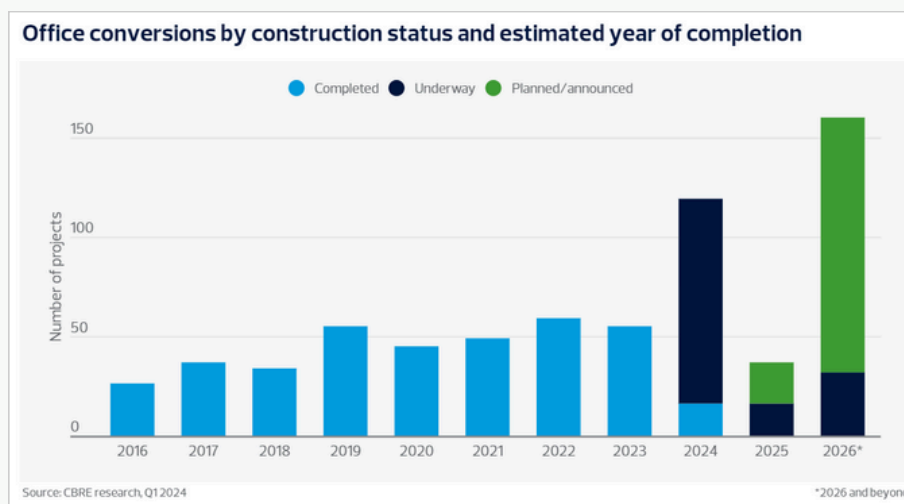
## Debt Markets

- **Debt Volume:** Total mortgage debt has risen to \$4.70 trillion, backed by income-producing properties, representing a 4.1% increase year-over-year from Q1 2023.
- **Maturity Challenges:** A substantial “maturity wall” looms, with \$1.7 trillion (30% of outstanding debt) set to mature between 2024 and 2026.
- **Lending Constraints:** Refinancing challenges persist due to tightening lending policies, lower loan-to-value ratios, and stricter debt service requirements. As traditional lenders pull back, private lending is increasing to fill the gap in the market.



## Equity Markets

- **Transaction Slowdown:** Transaction volume still remains low from last year’s 51% drop in sales volume to \$347.1 billion.
- **Market Standoff:** A buyer-seller standoff remains, with sellers holding out for better prices while buyers remain cautious.
- **Sector Shift:** Equity investors are shifting capital toward more resilient sectors such as industrial/logistics, multifamily, and select urban retail.
- **Private Equity Activity:** Private equity investors are entering the market to fill liquidity gaps, focusing on repositioning, distressed assets, and adaptive reuse projects.



# U.S. Office Market

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## Overview of Market Dynamics

The U.S. office market has had a tumultuous past few years, but there are several key trends that will aid in its recovery as we head into 2025. The most important milestone has been a 41 basis point decrease in total availability, mainly due to office-to-residential conversions.

## Key Metrics

- **Net Absorption:** 4.3 million SF, marking a second consecutive quarter of positive demand but still reporting negative YTD statistics
- **Leasing Activity:** Totaled 50.4 million SF, and reaching 86% of pre-pandemic activity levels
- **Vacancy Rate:** Remained at 19% in Q3 following nine quarters of increases
- **Asking Rents:** Averaged \$36.23/SF, increasing 0.7% year-over-year
- **Taking Rents:** Remained unchanged as the discount between asking and taking rents held steady around 11.5%

## Supply Trends

- **Completions:** 3.5 million SF delivered which was the smallest quarterly total in a decade
- **Construction Starts:** Fell to a post-pandemic low of 36.4 million SF in Q3, with under-construction inventory at 247.9 million SF, 30% of which is pre-leased.
- **Removals:** More than 30 million SF has been planned for removal this year, predominantly for office-to-residential conversions.

## Market Trends

- **Prime versus Non-Prime:** Since Q1 2020, prime buildings have significantly overperformed non-prime, posting positive absorption of 51 million SF, while non-prime has struggled with negative 168 million SF. QoQ the prime vacancy rate fell 20 basis points to 15.5%
- **Sublease Activity:** For the fifth consecutive quarter sublease availability fell which has limited oversupply of available space. The subleasing market has also been more active as of late as many tenants are finding desirable options at a discount in comparison to direct space.

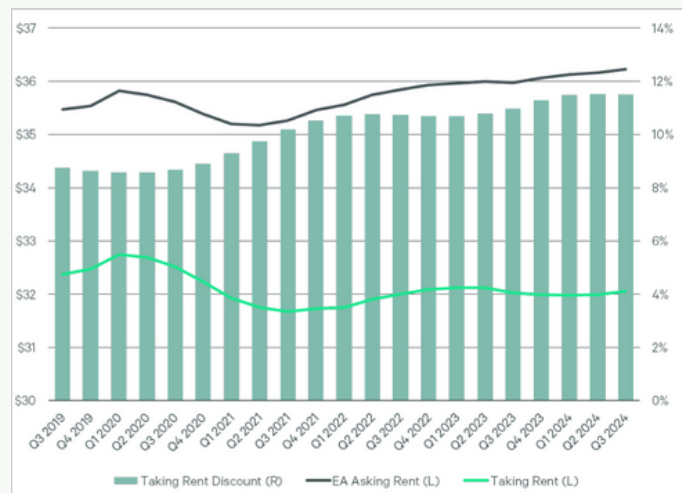
# U.S. Office Market

## Regional Insights

- Numerous major markets have shown significant improvements in leasing activity and net absorption metrics this quarter, highlighted by 3.4 million SF in positive net absorption in Manhattan
- Other gateway markets that have been most affected by the negative effects of the pandemic such as San Francisco and Boston, showed over 1.5 million SF improvements from Q3 2023 to now
- San Francisco has shown sharp increases in leasing activity due to an increase in AI startups entering the market, and existing firms such as Open AI expanding their footprint in the city

## Rent Trends

- While average asking rents increased, average taking rents remained constant.
- The discount between asking and taking rent remained at 11.5%, still much higher than pre-pandemic levels.
- Tenant improvement allowances and free-rent periods, especially in Class B/C assets, have been major drivers of taking rent discounts but have likely reached their peak in most markets.



## Sector Outlook

- The CBRE leasing activity index remained the same this quarter, but showed significant increases from Q1. Four of the top 11 MSA's showed quarter-over-quarter growth in leasing activity.
- Sublease availability dropped 8 points quarter-over-quarter and over 27 points year-over-year, providing a positive update for asset owners in the direct market
- Total space under construction fell to 32 million SF, a total which is down 74% in comparison to Q1 of 2020
- Markets with low construction pipelines will likely see their oversupply ease soon with reductions in vacancy rates

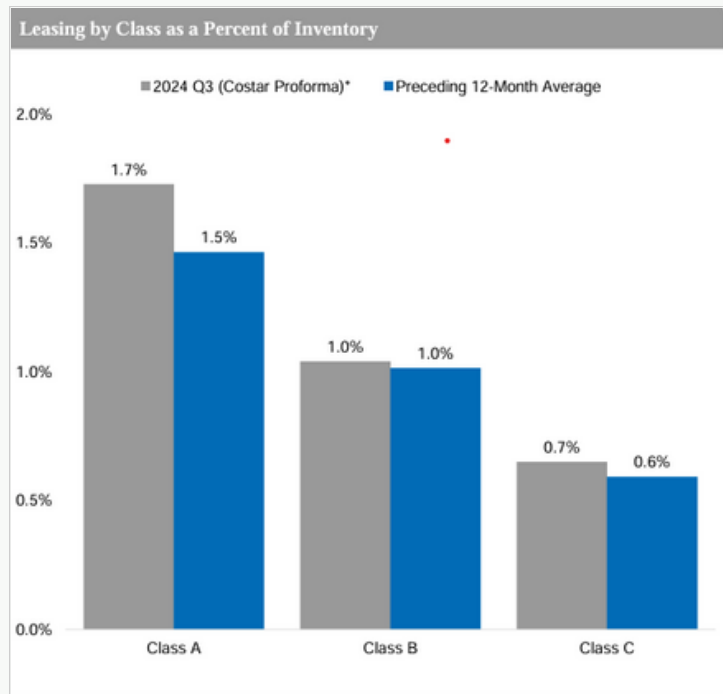
# U.S. Office Market

## Return to Work Trends

- Many companies have made an effort to upgrade their office space as a way to entice their employees to return to the office, creating excess demand over supply of 5.1 million SF heading into 2025
- Amazon is one of the latest to mandate a five-day in-office policy, which is a positive development as other companies will likely follow suit and help drive demand for office space
- Some employers have prioritized highly amenitized buildings to help attract talent back to the office
- Hybrid work models are likely coming to an end as 83% of CEOs anticipate a return to office full-time by 2026

## Property Comparison

- Availability rates for Class A office are almost 5% higher than Class B, however post-2019 Class A developments have significantly outperformed Class B developments.
- Central Business District properties have suffered with a 130 basis point rise in vacancies from 3Q23, and suburban properties up 70 basis points.
- Class A office has shown the greatest improvements in terms of leasing, as Class B and C remain around their preceding 12-month average.



# U.S. Multifamily Market

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## Overview of Market Dynamics

Multifamily availability in the U.S. is tightening as demand outpaces new supply. New supply has seen strong growth, however this has not slowed down demand, as net absorption has seen tremendous growth, and is now outperforming the pre-pandemic average by 72%.

## Key Metrics

- **Vacancy Rate:** 5.3% in Q3, as demand continued to outpace new deliveries, signaling that vacancy should soon return to its long-run average of 5.0%.
- **Rent Growth:** 0.3% YoY in Q3, and rent growth is expected to begin accelerating alongside higher occupancy
- **Net Absorption:** 153,300 units in Q3, a 84% increase YoY and 72% above the pre-pandemic Q3 average.

## Supply Trends

- **Completions:** 124,300 units in Q3, boosting the rolling-four-quarter total by 24% YoY to a record 473,000 units.
- **Under Construction:** Approximately 661,300 units in Q3, representing 3.6% of total existing inventory.
- **Investment Volume:** -16% QoQ to 34.2 billion, this is in large part due to Blackstone's \$10 billion entity-level acquisition of AIR Communities in Q2.

## Market Trends

- **Absorption Continues to Climb:** 67 of the 69 markets tracked by CBRE recorded positive net absorption in Q3, displaying resilience with the high levels of construction completions in Q3, consequently further shrinking the completions-over-demand gap on an annual basis.
- **Vacancy decreases among all classes:** The average vacancy rate for all three classes fell by 20 basis points, Class A fell to 5.6%, Class B to 5.2% and Class C to 5.3%. As Class C has had rent growth that has outpaced both that of Class A and Class B, renters are upgrading to better-quality units, resulting in one of the narrowest vacancy spreads seen since 2015.



# U.S. Multifamily Market

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## Regional Insights

- Top markets for Q3 Net absorption: New York, Austin, Dallas, Houston, Atlanta, Denver, Washington D.C., Phoenix, Seattle, Orlando, Tampa & Miami
- A large part of large increase in net absorption can be attributed to the overbuilding and oversupply in areas like the Sunbelt which is finally absorbing the new supply in the market.
- The Midwest and Northeast lead in stability, with rent growth projected at 4.5% and 4.2%. The Sun Belt is seeing slower rent growth of 2-3%, reflecting the high vacancy rates due to overbuilding.
- Investment volume in New York & Dallas saw huge year over year decreases of ~30% each. Investment volume also decreased in almost all of the Sunbelt markets, reflecting the over supply that has been created in these markets.

## Sector Outlook

- Multifamily has continued to dominate Commercial Real Estate, totaling 35% of total CRE sales volume in 2024.
- With declining interest rates expected in 2025, activity is expected to pick up.
- Home prices have reached new highs, and when you combine that with the current 7.5% mortgage rates rentals are becoming increasingly more viable.
- New multifamily permits dropped 20% in 2024, with completions to fall another 15% in 2025. This is expected to push rents higher, most notably in the high demand areas such as the Sunbelt region.
- Insurance costs have seen dramatic increases, labor and material costs have risen ~5% and 3%, and these rising costs are compressing NOI in multifamily.
- Due to the current condition of the multifamily market, investors have a rare chance to acquire assets below replacement costs in high-growth areas.

# U.S. Industrial Market

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## Overview of Market Dynamics

The U.S. industrial market in 2024 reflects a transitional phase marked by steady demand, moderate supply, and evolving leasing trends. Strong contributions from third-party logistics (3PL) providers and e-commerce companies highlight the resilience of the sector.

## Key Metrics

- **Net Absorption:** 122 million SF year-to-date, down 38% from 2023, with Q3 contributing 53.9 million SF.
- **Leasing Activity:** Totaled 621.4 million SF year-to-date, a 5.2% increase over 2023 levels.
- **Vacancy Rate:** Stabilized at 6.6% in Q3, with minimal quarterly increases due to robust leasing and fewer new completions.
- **Asking Rents:** Averaged \$11.12/SF, making a 2.4% year-over-year decline - the first consecutive decline since 2011.

## Supply Trends

- **Completions:** 323 million SF delivered year-to-date, with Q3 seeing 86.9 million SF - a quarterly low since early 2022.
- **Construction Starts:** Fell to a post-pandemic low of 36.4 million SF in Q3, with under-construction inventory at 247.9 million SF, 30% of which is pre-leased.

## Market Trends

- **Leasing Resurgence:** Bulk leasing increased by 4.9% year-over-year, driven by e-commerce and 3PL. Despite a slowdown in Q1, leasing is on track to rank among the top three years on record.
- **Rental Pressures:** While rents declined on average, select markets continued to see growth, indicating localized strength.
- **Dallas-Fort Worth:** Asking rents increased by 19% year-over-year, high occupancy rates that continue to apply upward pressure on rents, even with ongoing construction.
- **Chicago:** Asking rents rose by 18% year-over-year, supported by steady leasing activity and strong absorption of new industrial space.

# U.S. Industrial Market

## Regional Insights

- **Top Absorption Markets:** Houston (16.9M SF), Dallas-Fort Worth (16.2M SF), and Chicago (10.7M SF). (2)
- **Construction Leaders:** Phoenix led with 18.6 million SF under construction, followed by Philadelphia and Atlanta. (1)
- **Texas Highlights:** Houston, Dallas-Fort Worth, and Austin ranked in the top 10 for absorption, showcasing the state's strong industrial growth. (1)

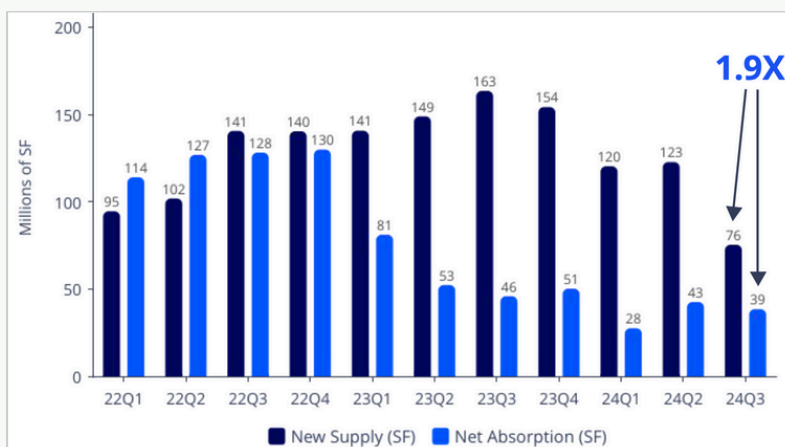
## Sector Drivers

- **E-Commerce:** Reached 23.2% of non-auto retail sales, a record high and a key driver of warehouse demand. (1)
- **3PL Dominance:** Accounted for 34.1% of bulk leasing year-to-date, reflecting heightened activity in logistics. (1)

## Outlook

- **Supply-Demand Rebalance :** With declining construction starts and steady demand, the market is moving towards equilibrium. (1)
- **E-Commerce Expansion:** The share of e-commerce within non-auto retail sales, representing a growing segment of consumer purchases, is expected to sustain high demand for industrial spaces. (1)

## Net Absorption Trends (2024 YTD)



A detailed visualization of the year-to-date decline in net absorption, showcasing regional differences and overall market trends.

# U.S. Retail Market

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## Overview of Market Dynamics

The U.S. retail market has demonstrated resilience, with several key trends expected to carry over into 2025. Largely due to low levels of construction starts, the overall retail availability rate has held steady at 4.7%, which has mitigated the impact of store closures and softening demand.

## Key Metrics

- **Net Absorption:** 3.9M SF YTD, down 52% quarter-over-quarter
- **Leasing Activity:** 29.3M SF in Q3 2024; a 33% decline compared to the ten-year average.
- **Vacancy Rate:** 5.4% in Q3, remaining near a historic low and holding stable at the same rate since Q3 2023.
- **Asking Rents:** Averaged \$24.36/SF, increasing 0.6% quarter-over-quarter and 2.5% year-over-year.

## Supply Trends

- **Completions:** 4.3 million SF delivered in Q3; lowest quarterly amount in more than 10 years, down 49% from Q2.
- **Construction Costs:** High construction costs driven by rising material prices, labor shortages and increased borrowing rates are making it difficult for developers to justify new projects, limiting the amount of new development
- **Removals:** The national retail market is witnessing a rise in retail space removals as aging or underperforming properties are being repurposed or demolished.

## Market Trends

- **Strong Demand for High-Quality Retail Space:** Despite store closures and bankruptcies, demand for well-located, high-quality retail spaces remains robust. National retail vacancy rates remain low, driven by strong leasing activity in thriving retail sectors like grocery-anchored centers and experiential retail.
- **Shift Toward Experiential Retail:** Retailers are increasingly focusing on creating immersive, experience-driven shopping environments to attract foot traffic. This trend is evident in the growth of mixed-use developments, where retail is integrated with dining, entertainment, and residential components, catering to consumers' demand for multi-functional spaces.

# U.S. Alternatives Market

## Introduction to Alternatives

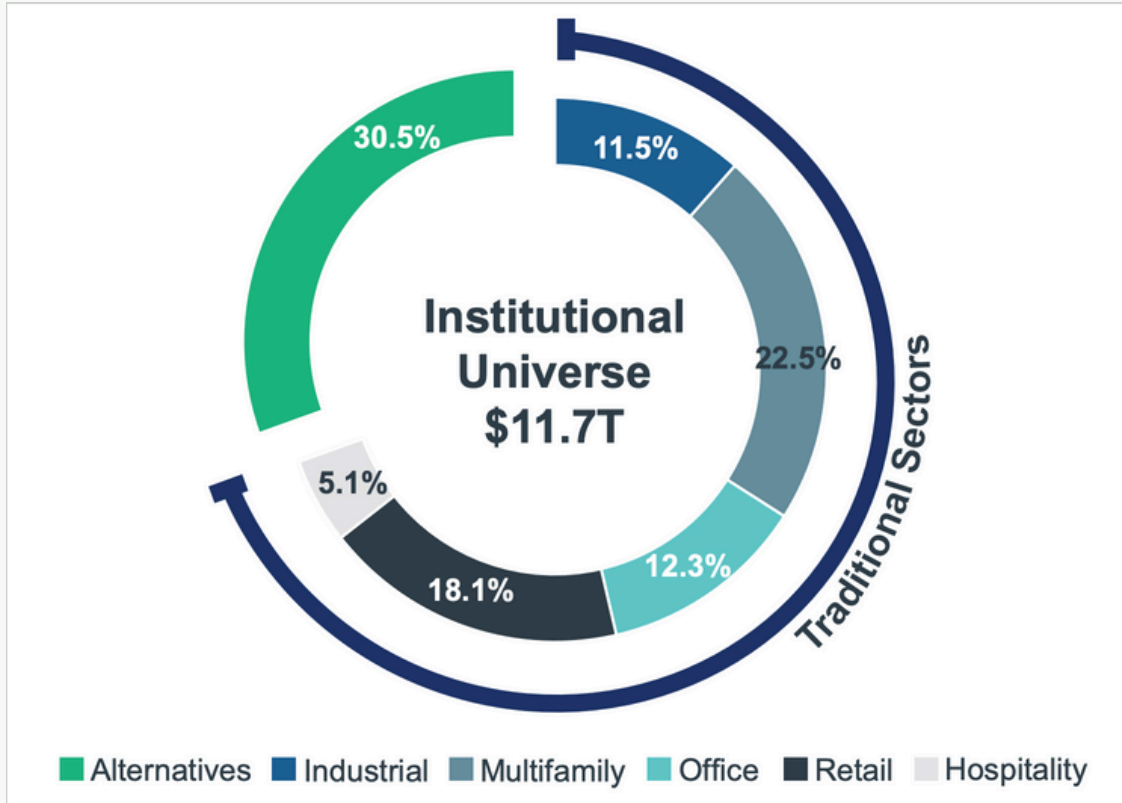
Investing in alternative asset classes have become increasingly popular among institutional CRE investors as they bring unique qualities of demographic-driven demand, recession-proof returns, and portfolio diversification. According to the Urban Land Institute, in the first three quarters of 2023, alternatives accounted for about 17% of all CRE transaction volume in the U.S.

### Market Overview:

- The U.S. CRE market is valued at \$26.8 trillion.
  - \$11.7 trillion (44%) is considered institutional quality

### Significance of Alternatives:

- Alternative property types represent \$3.6 trillion (31%) of the quality segment.
- Alternatives have seen a significant increase in institutional investment in recent years.



# U.S. Alternatives Market

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## Alternative Asset Classes

### Residential Sector

- Valued at \$2 trillion, or 17% of the institutional universe
- Property types include: single family rentals, student and age-restricted housing , and manufactured housing
- The single-family rental sector, containing 3.9 million houses and valued at \$1.3 trillion, holds 11.5% of the entire institutional universe, underlining its significant role within the residential market. The student housing sector, includes 2.4 million beds and is valued at \$277B

### Industrial and Adjacent Sector

- Valued at \$187B, or 1.6% of the institutional universe
- Property types include: industrial outdoor storage and cold storage
- Industrial Outdoor Storage (IOS) is rapidly expanding due to e-commerce growth and the push for faster last-mile deliveries, necessitating more outdoor storage spaces for trucks, fleets, and equipment. This sector, combined with cold storage is valued at \$187 billion, or 1.6% of the institutional universe.

### Healthcare Sector

- Valued at \$839B, or 7.2% of the institutional universe
- Property types include: life sciences, medical offices and senior housing
- Medical offices hold a significant portion of the healthcare sector, with a valuation of around \$413 billion, representing nearly 49% of the sector's total value. Following this, senior housing is valued at \$302 billion, contributing about 36% to the sector, and life sciences valued at \$125 billion or 15% of the sector's total value.

## Summary

Historically, REITs have predominantly invested in alternative sectors, drawn by their potential for higher yields. However, with increasing challenges in traditional assets like the office and retail market, more institutional investors are now broadening their portfolios to embrace these alternatives. According to Harrison Street's analysis of NCREIF data from Q4 2011 through Q1 2023, alternative sectors have provided an average annualized total return of 14.4%, outperforming traditional sectors, which averaged returns of just 8.3%.



# U.S. Alternatives Market

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## Popular Alternative Asset Classes

### Data Centers

- Rising Demand
  - Explosive demand for data centers driven by AI, cloud computing, and digital transformation.
  - Blackstone expects \$1 trillion to be spent on building new data centers in the U.S. over the next five years
- Challenges with New Supply
  - Data centers use a lot of power, such as coal and carbon intense power plants
  - Limits on power transmission and environmental concerns, like water use for cooling, are major challenges to expansion.
    - Some operators are attempting to reopen old nuclear power plants for cleaner energy for data centers

### BTR

- Housing Shortage and Vacancies
  - CBRE estimates a shortage of 3.1 million housing units in the U.S. “Multifamily vacancy is nearly at its long-run average, suggesting the shortage is almost all single-family properties” (CBRE).
- Mortgage vs. Rent Costs
  - As millennials begin to start families, many are encountering the high costs of homeownership. The difference between monthly mortgage payments and rent payments peaked at 47% in Q3 of 2022, and while it has slightly decreased, it still remains substantial at 37%.
  - In addition to mortgage payments, homeowners also need to cover insurance, landscaping, and maintenance costs, further increasing the affordability gap compared to renting. This makes BTR communities, with their more affordable rates and attractive amenities a practical alternative during the ongoing housing shortage.

# About Us

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## Noles to Real Estate Private Equity

We are an undergraduate real estate private equity program at Florida State University dedicated towards preparing the next generation of industry leaders. Our selected members gain over 100 hours of training in fundamentals such as deal financing, financial modeling, and market research. Through hands-on activities such as weekly market updates, research reports, corporate tours and case competitions, our students gain real-world experience before entering the field.

## Executive Board



**Head of Real Estate Partners:**

Brianna Munoz

**Director of Noles to PERE:**

Lucas Bouqurot

**Director of External Affairs:**

Kaitlyn Zylka

**Director of Marketing:**

Katherine Marino

**Executive Advisor:**

Chris Marino

**Student Mentors:**

Aidan MacFarquhar, Davis Abrams

## Cohort Members



Dylan Bosworth

Daniel Nissim

Jordan Herold

Tareq Tausif

Lauren Nevaril

Paul Salvaggio

Gabe Garcia

Michael Caty Andriola

Ari Rolnick

Bradford Kuta

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