

Commercial Real Estate Market Forecast *What's Next in 2025?*

THE CCIM INSTITUTE

Advancing the Commercial Real Estate Profession

GOMAN+YORK



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Principal, Advisory Services

- 40+ years in commercial real estate
- All sectors, all aspects
 - Public & private CRE companies – 25+ years
 - G+Y – 15+ years





My CRE Experience:

- +50 million s.f. of projects
- +\$4 billion value
- +150 retail projects: malls, strip centers
- +5,000 apartment units
- +20 hotels
- +1 million s.f. of industrial
- +2 million s.f. of office
- +25 States, 4 Canadian Provinces, Middle East



Industry Involvement & Recognition

- Licensed Broker: NY, CT, MA, VA, NC, FL
- Commercial Council, Chair
- Past Counselor of Real Estate (CRE)
- Executive Board, CT Retail Network
- ICSC:
 - Master Developer designation
 - Faculty Member ICSC Univ. of Shopping Centers
 - Distinguished Service designation
 - Gov't Relations Chair: US Northeast Region
- Past President, local Main Street program
- Frequent Speaker on Industry Issues
- Local Board of Education:
 - 17 yrs, Vice Chair
 - Committee Chair: Finance, Personnel & Negotiations



Commercial Real Estate Advisory

Clients

- Municipalities
- Government & Quasi-Government Agencies
- Institutions
- Lenders & Equity Investors
- Developers

Services

- Feasibility Studies: Market, Financial
- Fiscal & Economic Impact Studies
- Town Planning & Economic Development Support:
 - Redevelopments: Strategic Plans, Development Agreements
 - Town Center Master Plans
 - Regulatory Updates



Representative Assignments

- Large, complex CRE projects:
 - RFP's, RFQ's
 - Development Agreements
 - Public participation, e.g.: TIF, CEA's
- Stalled or failed projects:
 - Market or functional obsolescence
 - Financially troubled
- Eminent Domain:
 - Blight - obsolescence
 - Economic Development
 - Public Purpose
- Contentious land-use issues – community education/engagement
- +250 - municipalities, universities, NFP's, state/quasi-state
- +300 - banks & credit unions



CRE Industry Overview

Last 5 years – Many Headwinds

- Covid-19 – January 2020
 - Remote working
- Interest rates doubled
- Office space utilization declined
- Mall traffic continued to decline
- Inflation
- Lending/investing criteria & activity tightened
- Availability of building materials
- Construction costs increased
- Economy slowed – recessionary trough
- Uncertainty in an election year

Overview by Industry Sector

Office

- Central Business Districts (CBD) currently +/- 72% occupied
- National Vacancy: +21%
 - Avg. since 90's: +/-12%
 - Hartford Region: 30 - +50%
- Defaults – FRB
 - November '24 - 10.4%
 - Typical - +/- 1%
- NBER: *At Risk* – +/-44%
- GSA – 180mm s.f., identified addt'l 30% reduction
- Aging buildings: functional & market obsolescence

Overview by Industry Sector

Retail

- 2/3 of economic activity
- '24 vs '23 retail sales: +2.78%, 2023 – 2030 CAGR: 3.19%
- Holiday Season '22: +5.3%, '23: 5.2%, '24: 3.8%
- E-commerce +/-16% of total retail sales, growing to +18% 2026
- “A” malls saw significant increase in YOY traffic
- Historically low vacancy rates in non-mall retail
- Recent bifurcation on Value: income levels
- Inflation took a toll - US consumer traded down
 - never underestimate the US consumer
 - Retail store closures up 70%

Food & Beverage

- +/-90,000 closed permanently – still going on
- Local/casual dining hit the hardest
 - Casual: older concepts
 - Independents: low liquidity
- Downward pressure on pricing – “value meals”
- Staffing shortages, increased costs
- Reduced operating hours

Single Family Residential

- Increasing demand, tight supply
- Higher prices, reduced transactions
- Interest rates: dampening demand
- Past 40 years: average mortgage rate: +/- 7%
 - 1970's – 7.2% to 13%
 - 1980's – average 12.8%, peak 18.6%
 - 1990's – average 7.9%, peak 10.7%
 - 2000's – average 6.2%, peak 8.6%
 - 2010's – average 4%, peak 5.2%
 - 2020's (so far) – low 2.65%, high 7.8%
 - **2024Q4 – high 6's%**

Single Family Build For Rent

- Dramatic increase in specific markets
- BFR volume expected to increase
- Southern markets: PHX, DFW, ATL, HOU, CLT
- Projections are for 150,000 to 200,000 by 2028

Multi-Family

- Apartments:
 - Record supply matched by record demand
 - Record # in 2024 - 500k new units
 - NY Metro, Dallas, Austin
- Drivers:
 - Urbanization: job growth
 - Population growth
 - Affordability: cheaper to rent than own
 - Preferences: mobility, maintenance, “city life”
 - Public Policy – focus on density, generate CBD activity

Multi-Family

- Apartments:
 - Tenants: DINKS, SINKS, Empty Nesters
 - Market-specific:
 - New development cooling: no/slow population & job growth
 - Rents & rent growth moderating
 - Interest rates: increased renter demand, increased costs
 - OpEx increases outpacing revenue growth
 - Impact of local property taxes

Housing

- **National focus on housing affordability**
- **83 million Millennials outgrowing apartment living**

Self Storage

- '24 slower than '23, further decline expected in '25
- Rental rates -4% YOY
- High-quality, climate-controlled
- Attractive designs

Warehouse/Logistics

- Surge is tapering off
- Expect significant deceleration in new building starts
- May be short-lived – growth of e-commerce
 - \$1B sales = 1 mm sq.ft.
- Vacancy: +/-6.4%
- Market-specific
- Cost increases, interest rates



Predictions

Predictions – U.S. Economy

- End of a short & shallow slowdown, the “soft landing”
- Interest rates may decrease in '25: 0.25% - .50%?
- Economic uncertainty: political, international issues
- Inflation:
 - Labor Department: CPI up 2.9%
 - Strategas' *Common Man CPI* up 3.3% YOY – December
 - Last 4 years:
 - Prices up 20.8%
 - Wages up 16.1%
 - All-time high
 - Deflation in discretionary items...
 - But...continued inflation in essential items

Predictions – U.S. CRE

- Growth in sunbelt markets will continue – risk premium
- Headwinds:
 - Remote Working will continue – forget “return to normal”
 - RW technology will continue to improve
 - Employees like it
 - CRE values: price discovery, bid/ask gap
 - Cost volatility – e.g. tariffs?
 - Cost of debt/equity, **but improved availability**
 - Focus on growth markets: jobs, population
 - Focus on redevelopments & conversions
 - Office/Mall to residential, self-storage, data centers, logistics

Predictions – U.S. CRE *(continued)*

- Moderating financing environment:
 - Interest rate stability - more reduction(s)?
 - Net rental income flat/declining: increased expenses
 - Appraised values:
 - market uncertainty
 - ongoing appraisal discrepancies
 - flat/declining, depending upon asset quality
 - Lenders/investors/buyers: “A” markets & properties
- Increased interest in suburban, low interest in urban

Predictions – U.S. CRE *(continued)*

- CRE defaults/foreclosures ↑ ↑ but “pretend & extend” ending
- Sales activity will increase:
 - Willingness to recognize losses
 - More replacement alternatives available
- Older assets:
 - Cap rates will continue to rise

Predictions *(continued)*

- Retail :
 - Free-standing retail across more categories
 - Stores as billboards, fulfillment centers, showrooms
 - Clicks to Bricks: website, social media driving traffic to stores
 - Frictionless: BOPIS, Curbside, Delivery
 - Specialty retail will continue to see anemic growth
 - **Greater focus on experiential & value retail**

Predictions *(continued)*

- Food & Beverage:
 - Changing QSR prototypes: CosMc's, Chick-Fil-A
 - QSR's: delivery-only: 4-lane drive-thru's, no dining room
 - Strengthened casual dining:
 - “Bespoke” F&B concepts by regional operators
 - E.g.: 29 restaurants, 5 brands, 3 states
 - Blended food & entertainment concepts
 - E.g.: Dave & Busters
 - CEC Entertainment
 - CEO was president of 6 Flags
 - 560 locations, 18 countries
 - \$350 mm in renovations

Our Watch List

- Older projects:
 - Office
 - Enclosed malls
 - Hotels
 - Apartments

Our Watch List

Multi-Family

- Watch for increased regulatory attention:
 - “Junk fees”
 - collaboration on setting rents
- Tax assessments

Our Watch List

Advice to municipalities:

- watch values of CRE
- pay particular attention to older assets: +40, 50, 60 years
- be proactive – don't wait for the owner to call

Our Watch List

Project Feasibility

- Solid market research
 - Project/market alignment
- Detailed, supportable, comprehensive financial projections
 - Hard costs, soft costs, timelines, cap rate assumptions
- Projects that make financial sense are the only ones that get built

- Inexperienced sponsors or development teams
 - Poorly thought-out projects
 - Lack of transparency
 - Over-optimism
 - Over-design



Opportunities In Connecticut

Opportunities in CT

Apartments

- Data shows considerable capacity
 - Demand for upscale, amenity-rich projects
 - High need for market-rate affordable
 - State programs: financing & incentives
- Community support for the right location, including local incentives

Opportunities in CT

Apartments

- Markets with job growth: New London, Fairfield & New Haven
- Replacement potential: Hartford, Tolland, Middlesex
- Good locations available:
 - highway/transit corridors
 - town centers
 - F&B and shopping nearby
 - close to recreation

Opportunities in CT

Office, Retail

- Projects suffering from market or functional obsolescence
- Focus on:
 - Arts & Entertainment
 - Food & Beverage
- Value Proposition:
 - Good markets
 - Great locations available at historically low prices
 - Upgrade to a better location
 - Opportunities for startups, entrepreneurs
- Work hard to tell CT's story & attract concepts new to CT

Opportunities in CT

Retail

- E-commerce part of omnichannel retail
 - Compliments brick & mortar
- Shoppers still prefer physical stores
- Digital natives shopping for themselves
 - new generation of shoppers
 - they like stores
- Keys: Convenience, In-store experience, Value
- Work hard to attract new concepts

Opportunities in CT

Food & Beverage

- Great locations available at historically low prices
- Upgrade to a better location
- Opportunities for startups, entrepreneurs
- Bring concepts new to CT
 - Good AHI
 - Good Disposable Income:
 - CT - \$76,114
 - US - \$61,291

Opportunities in CT

Industrial

- “Small bay” industrial: 3,000-5,000 sf
- Last Mile: Amazon – +1,000 facilities
- Data centers
- Battery storage
- Warehouse/logistics
- Near:
 - Highway & transportation nodes (ports, airports, rail)
 - Available labor
 - Similar uses

Opportunities in CT

Conversions

- Redevelopment of malls: great locations, fundamentals
- State & local support
- Regional malls to mixed-use “villages”
 - hotels
 - apartments
 - F&B
 - A&E
 - Open-air activity spaces
- Historic opportunities

Opportunities in CT

Conversions

- Office/office campuses to:
 - Mixed-use “villages”
 - hotels
 - apartments
 - medical
 - F&B
 - A&E
 - Open-air activity spaces
- State & local support
- Historic opportunities

Opportunities in CT

Hotels

- Old: Convert to residential?
- New: supply vs demand gap
- Tourism – shoreline markets

Opportunities in CT

Conversions

Retail, office, office campuses to:

- warehouse/industrial
- self-storage
- data centers
- There may be no solution
- Market & functionally obsolete buildings
 - purpose-built
 - have an economic life – and it's not forever
 - demolish it & make the site available

It's not that we're over-built, it's that we're under-demolished



What Do We Do With All These Old Buildings?

What Do We Do With All These Old Buildings?

- Aging CRE:
 - Majority of CRE is 40+ years old
 - Substantial & increasing vacancy
 - Older office, regional malls, industrial, apartments
 - Needs much greater focus:
 - State
 - Municipalities

What Do We Do With All These Old Buildings?

- Search for solutions:
 - Learn from other markets
 - Most common barriers to successful conversions:
 - Lack of market demand
 - Regulatory barriers
 - Financial feasibility
 - Ideas:
 - Regulatory easing: specific to repurposing/rehabilitating old buildings
 - Incentives: property taxes, income/capital gains, permitting costs

What Do We Do With All These Old Buildings?

- Upside of Foreclosures:
 - Investors can buy CRE at substantial discounts
 - Lower basis = lower rents
 - existing mall, apartment & offices
 - Better locations available at lower rents
 - May provide increased affordable housing
 - Increased opportunity for small businesses, startups, entrepreneurs

What Do We Do With All These Old Buildings?

- Downside of Foreclosures:
 - Loss of property tax revenue
 - Diminution of indirect economic activity
 - Better locations available at lower rents:
 - Will lower demand for existing older, less well-located product
 - Lower demand drives down rents in older product
 - Lower rents mean lower CRE values, lower taxes



Expectations For 2025 & 2026

Expectations for 2025 & 2026

- Record activity expected
 - +/-2 million rental housing units by 2028
- Capital looking for opportunities & ideas
 - Uncertainty replaced by FOMO
 - Dry powder - Pension fund allocations
- Redevelopment opportunities available
- Emerging demand for new products & services
- There is great opportunity in the new environment

Expectations for 2025 & 2026

- Inflation still a factor – above Fed's target
- Likely lowering of interest rates – late in '25 (?)
- Stabilization of construction costs
- Material/equipment availability
- Increased availability of capital looking for deals

Expectations for 2025 & 2026

- Still a CT housing shortage – 15 years
 - Home prices: remain high, supply low, driving rental demand
 - Rent payments cheaper vs home mortgage
- Construction starts are down from '22, deliveries in '26 will be lower
- Interest in value-add opportunities
- Cap rates will come down as interest rates come down
- Consumer sentiment improving
- Greater optimism about the economy



Summary

Investor's View of Connecticut

- Ongoing investor interest in Connecticut projects:
 - Low population growth:

Population	1980	2024	% Change
Connecticut	3,113,174	3,675,069	18%
United States	226,500,000	341,800,000	51%

- Median Age: 1960's – 28, 2020's – 41
- Stable markets w/good AHI – 2023: \$92,240
- High Disposable Income

Investor's View of Connecticut

- High barriers to entry but strong rents
- Redevelopment/repurposing of obsolete properties:
 - Average age of CRE - +/-40 years
 - Offices, malls, apartments, hotels
 - Functional obsolescence
 - Market obsolescence
- Less competition than high-growth markets
- Good locations in good markets
- Need market research, liquidity and a detailed financial plan
- CT will get its' share of the increased CRE activity

We may not be one of the southern high-growth markets, but CT offers tremendous opportunities for CRE investment.

Questions & Answers

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