# DLA Piper Global Real Estate Annual State of the Market Survey

MAY 2024

# Executive Summary

## A reversion toward the mean: With record-breaking investment activity in 2022 followed by a dramatic drop in transaction volume in 2023, sentiment is swinging back toward measured optimism among commercial real estate leaders. Interest rates are driving both optimism and concern.

Hope for interest rate cuts and cautious optimism for the US economy have commercial real estate industry leaders feeling notably more optimistic than in 2023.

DLA Piper's 2024 Annual State of the Market Survey revealed a measured sense of optimism about the US commercial real estate market over the next 12 months, suggesting a potential turning point in industry outlook. Respondents are balancing concerns about the broader economy and other challenges throughout the sector, with hopes for interest rate cuts, moderating inflation, a softer than expected landing for the economy and higher transaction volumes over the course of the year.

In the 2023 edition of DLA Piper's survey[1], respondents were influenced by the Federal Reserve's continued interest rate increases, persistent inflation, recession fears, and concerns about the office sector. Although respondents to last year's survey expressed some optimism concerning investment opportunities in certain asset classes, 86 percent had a bearish outlook for 2023.

In that regard, the 2023 DLA Piper survey stood in stark contrast to its 2022 survey[2], in which 75 percent of respondents were bullish, driven largely by an abundance of available capital and an overall positive outlook on the US economy. The shift from the bullish sentiment in 2022 to the bearish outlook in 2023 was shaped, in large part, by the Federal Reserve's aggressive interest rate hike policy that led to 11 interest rate hikes from March 2022 to July 2023, with rates in July of last year hitting a 23-year high.

After the stark swings of the last two years, DLA Piper's 2024 survey provides evidence that more survey respondents believe the commercial real estate market may have bottomed out and be moving – or may be poised to move – in a positive direction. This year, 37 percent of respondents are bullish about the commercial real estate market and 63 percent are bearish. While bearishness is still the prevailing sentiment, that's a significant drop – 23 percentage points from last year, showing that a considerable number of respondents have grown more optimistic. This more upbeat outlook stems in large part from stabilized interest rates and expectations that the Federal Reserve will start to cut rates later this year[3].

Despite the increase in optimism from the prior DLA Piper survey, a number of challenges are driving bearish sentiment among the majority of respondents, and these should not be understated. Given that commercial real estate is a capital-intensive business in which many investors are reliant upon debt, it is not surprising that predictions about interest rates have significantly influenced how industry leaders view the upcoming 12 months and where they see challenges and opportunities, with declining rates providing a potential tailwind and increasing rates (or even steady rates) representing a potential headwind. In the DLA Piper survey, the stabilization of (28 percent) and lowering of (20 percent) interest rates were the top two reasons why respondents expressed optimism about the commercial real estate market over the next 12 months – and interest rates were also the most common reason (31 percent) for concern during this period.

Given the importance that survey respondents placed on interest rates, it should be noted that inflation and labor market reports issued after this latest DLA Piper survey was taken revealed stickier than anticipated inflation and solid job growth, and that on May 1,

the Federal Reserve elected to hold interest rates steady, citing a "lack of further progress" in reducing inflation in recent months.

Apart from interest rates, commercial real estate leaders expect that other external factors will impact the commercial real estate market in 2024, including inflation (74 percent), the 2024 US elections (73 percent), geopolitical conflicts (59 percent, up from 51 percent in 2023), and the availability of water and power (27 percent). These are in addition to other factors from within the commercial real estate market, including the redesign of office and other commercial spaces (which 64 percent expect to be impactful – 5 percentage points higher than in 2023), challenges in refinancing existing debt (96 percent), and labor constraints (44 percent, down from more than 87 percent two years ago). Survey respondents also identified other concerns, including capitalization rates and challenges in the office sector. Despite those concerns, there is more optimism than was shown in the prior DLA Piper survey, with fewer respondents – just 4 percent – believing that there is a risk of recession this year, down 11 percentage points from 2023.

The DLA Piper survey also asked respondents to identify the asset classes, investment types, and regions that they believe are attractive for new investments. The biggest change in the responses to this question between the prior DLA Piper survey and the 2024 DLA Piper survey was the emergence of data centers as the most attractive asset class, up more than 20 percentage points from the prior year. With respect to the relative attractiveness of markets, perceived opportunities shifted away from cities like Austin and Raleigh-Durham and toward gateway cities like New York and Chicago, marking a change from recent years when a number of factors, among them demographic shifts, resulted in an increased focus on certain non-gateway cities.

Overall, this pendulum swing toward cautious optimism indicates that, after the rapid recovery from the pandemic followed by a period of dramatic increases in interest rates and reduction in investment activity, commercial real estate may be at, or at least near, the bottom of a challenging cycle. Commercial real estate investors indicate that they see attractive investment opportunities in the current market, driven in part by solid fundamentals[4] in certain asset classes and opportunities to acquire assets (both equity and debt) at attractive prices.

## Interest rates dominate investor sentiment

During the early years of the pandemic, factors like supply chain disruptions[5] (and related inventory challenges), reduced foot traffic[6], and remote work[7] were commonly cited as significant challenges in the commercial real estate sector. Supply chain disruptions negatively impacted multiple aspects of the sector, including retailers that couldn't maintain appropriate inventory levels and builders/developers who faced delays and/or shortages of construction materials. Remote work – still a significant challenge for the office sector – created hurdles not only for office building owners but also for the surrounding ecosystem of retail, housing, and other activities and businesses that depend on foot traffic generated by occupied office buildings. This was further amplified by demographic shifts, as many people moved to "secondary cities"[8] or to suburbs near major cities.

Although some of those challenges remain, the new DLA Piper survey reveals a near-singular focus on interest rates. For example, when bullish respondents gave the primary reason for their confidence, 28 percent cited the stabilization of interest rates, while one-fifth cited the lowering of interest rates. Interest rates were also the primary cause for concern among those feeling bearish about 2024, with 31 percent citing high or increasing interest rates as the main reason for their lack of confidence. It is, however, interesting to note that the number of bearish survey respondents who attributed their pessimism to interest rates is down markedly from 2023, when nearly half (46 percent) of respondents attributed their concern to interest rates, and this year's figure is only marginally higher than it was in 2022 (26 percent), when interest rate hikes were just beginning. When asked which factors will have the greatest impact on the global commercial real estate market – not just the US market – 72 percent of respondents cited interest rates.

With respect to the short-term future of interest rates, 94 percent of respondents reported that they believe interest rates will hold steady or decline in the next 12 months. And, in line with the news from March's Federal Reserve meeting which occurred during the survey period, three-quarters of respondents (74 percent) believe that interest rates have already peaked, compared to just 2 percent who felt the same a year ago. A similar proportion of respondents (71 percent) anticipate anywhere from 2 to 4 separate interest rate cuts by year end, while the remaining 29 percent anticipate a single rate cut or no rate cuts. It should be noted, however, that the survey was conducted before the release by the Bureau of Labor Statistics (BLS) of its March Consumer Price Index (CPI) report[9] and its March jobs performance report. In its report[10] on March jobs performance, the BLS reported that the US economy added 303,000 jobs in March, an acceleration in the pace of hiring. Other important labor market indicators in the BLS report, including a 3.8 percent unemployment rate and a 0.3 percent month-over-month rise in average hourly earnings, were also strong. The March CPI Report showed an increase in inflation from March 2023 to March 2024 of 3.5 percent, 150 basis points above the Federal Reserve's 2 percent goal. Because the condition of the labor market and inflation are important drivers

of the Federal Reserve's decisions concerning interest rates, these reports have created increased uncertainty concerning the expected number and timing of rate cuts by the Federal Reserve.

Interest rates were also an important factor in responses to the question about the level of equity commitments. Eight in 10 respondents believe that real estate equity commitments will hold steady or increase this year. When asked for the basis for that belief, 33 percent of respondents cited an anticipated decrease in interest rates and 29 percent cited the anticipated stabilization of interest rates. Other top reasons why respondents expect equity commitments for real estate to hold steady or increase include the expectation that there will be large amounts of investment capital for multiple real estate investment strategies – a number that has increased significantly from 11 percent last year to 43 percent in 2024 – and an increase in attractive deal terms for equity investors, which was cited by 34 percent of respondents in this year's survey.

## Other factors – including a potential "soft landing" and attractive buying opportunities – are also contributing to a more positive outlook and expectations for higher transaction volume

Although interest rates are clearly top of mind among commercial real estate leaders, factors that were ranked as lesser concerns in comparison to interest rates – e.g., reduced debt and equity capital, the impact of remote working, the US elections, and labor constraints – were still deemed impactful by a significant percentage of respondents. For example, while just 4 percent of respondents said the 2024 US elections were their primary reason for lack of confidence, 73 percent believe they will be impactful on commercial real estate. Nine percent of respondents identified strong fundamentals in certain asset classes as a reason for their optimism. Other impactful considerations include impending loan maturities (according to 51 percent of respondents), global political instability and geopolitical conflicts (33 percent), and the US economic outlook (32 percent).

Consistent with increased optimism about the real estate market and the economy, respondents to this year's DLA Piper survey largely expect transaction volume to increase in 2024[11]. This is consistent with both a recent consensus forecast from the Pension Real Estate Association (PREA), in which investors predict a gradual improvement in 2024 and beyond, and a recent CBRE survey[12] that reveals higher purchasing and selling expectations for 2024 compared with 2023 amid growing optimism that the real estate investment market will return to normalized levels of activity in the short to medium term. Some of the largest commercial real estate investors have indicated by their actions that they believe that the market is close to, or at, the point where significant investment opportunities will arise. One example is Blackstone's recent announcement[13] of its approximately $10 billion acquisition of AIR Communities and its $3.5 billion agreement to take single-family landlord Tricon private.

Transaction volume is also driven by the amount of re-pricing that occurs and resulting investment opportunities. There is an estimated $1 trillion of commercial real estate debt coming due before the end of 2025, according to Trepp[14]. As noted above, the combination of declining values and higher interest rates will mean that many owners will not be able to – or will elect not to – refinance their existing debt. Many lenders prefer not to own these assets, and these dynamics should create buying opportunities. In the DLA Piper survey, opportunities surrounding distressed assets were among the top five reasons for optimism in the year ahead.

## Respondents see investment opportunities in certain asset classes

The DLA Piper survey indicates that commercial real estate leaders believe certain asset classes, investment types, and regions currently have solid fundamentals and other attributes that make them attractive for new investments.

When asked which assets they believe present the most attractive risk-adjusted real estate investment opportunities in the US for 2024, the most popular response was data centers. Fifty-three percent of respondents cited this asset class as attractive, compared to just 32 percent who said the same in 2023. This increase pushed data centers past multifamily (43 percent); logistics, warehousing, and cold storage (38 percent); and affordable/workforce housing (30 percent), all of which had outranked data centers in 2023. In the slow investment market of the past year, data centers emerged as the one asset class that saw significant new investment.[15]

In a recent report, Cushman and Wakefield forecasted[16] that total data center capacity in the Americas will increase to 2.5 times its current volume based on what's currently in the pipeline, with Virginia being the biggest data center market by a wide margin. Northern Virginia alone, according to JLL[17], leads globally with 3,640 megawatts of supply – far outpacing the second-largest global market, Singapore (1,000 megawatts), and the second-ranked domestic market, Phoenix (698 megawatts).

It's interesting to note that data center development has expanded beyond traditional markets like Northern Virginia and is now growing in numerous places across the country, including in rural areas and central cities.[18] Access to power is the single most important factor in data center location[19] and is likely a key factor

as to why more than a quarter (27 percent) of respondents to the DLA Piper survey cited access to water and power as an impactful consideration for real estate in the year ahead.

In the 2024 DLA Piper survey, the appeal of the logistics, warehousing, and cold storage asset class fell significantly, down 15 percentage points since 2023 – likely because, in some markets, significant development has caused an oversupply.

Respondents also see some "green shoots" in the much-maligned office sector. Some commentators and media outlets tend to conflate the office market with the broader commercial real estate market and to treat the office market as a monolith. Although there is no doubt that many parts of the office market face significant challenges, sweeping generalizations can sometimes paint a bleaker picture than is warranted. According to Green Street[20], office properties represent just 17.5 percent of the total $20 trillion US commercial real estate market[14] – making it important to take distress in the office market seriously but to avoid overestimating its impact.

Within the office sector, there's a notable dichotomy between the office buildings that are performing well[21] and those that are struggling. Class A/Trophy office buildings, especially those that are ESG friendly and offer a variety of tenant amenities, are doing relatively well. One recent study found that 90 percent of all US office vacancy is in 30 percent of the buildings[22], largely older stock with limited amenities and functionality.

Across the US, there are approximately 500 Trophy office buildings[23], representing just 9 percent of the market. A CBRE study[24] found that the growth in vacancy from Q1 of 2020 to Q2 of 2022 was entirely driven by the 10 percent of the hardest hit buildings and that, excluding that 10 percent cohort, net absorption has been positive since 2020. With new office construction having slowed dramatically, CoStar expects[25] that we may actually see a shortage of new high-end office product in the coming years. In line with these observations, 10 percent of respondents to the DLA Piper survey cited Class A/Trophy office buildings as an attractive asset class, while only 4 percent of respondents cited Non-Class A/Trophy office space as an attractive asset class.

This bifurcation of office buildings is leading to, and sometimes forcing, a repositioning of older office buildings for residential or other, non-office uses. A recent CBRE report[26] predicts that office conversions will more than double this year over last year. In line with this report, 64 percent of respondents to the DLA Piper survey believe that the redesign or reimagining of office and other commercial spaces will be impactful in 2024.

Yet challenges for the office sector remain, as more than $17 billion in office loans will come due in the year ahead, 75 percent of which are expected to be difficult to refinance, according to Moody's[27]. This problem is fourfold: first, many property values have declined[20], making it difficult to refinance without an injection of new equity; second, in many cases, existing owners do not foresee returns on this new equity that are sufficient to justify an infusion of new capital; third, some investors, concerned about the long-term impact of remote working, are looking to reduce their office exposure; and finally, lenders have been very selective about when and how much financing they will provide.[28] When asked about refinancing existing debt, an overwhelming 96 percent of respondents in the DLA Piper survey said that challenges with doing so will have an impact on the industry in the next 12 months. When asked about expectations for lender action with respect to the upcoming loan maturities, 71 percent of the survey respondents agree that lenders will avoid taking back those properties.

## A shift in the source of investment capital and favored locations

The 2024 DLA Piper survey also showed a notable shift in the types of real estate equity investors that respondents expect will be most active in the US this year. While private equity (47 percent) remained in the top spot, the number of respondents who ranked family office as their top response their top response increased 24 percentage points since 2022, reaching 31 percent in 2024. The portion of respondents who ranked family offices in their top two spots increased 42 percentage points over the same time period. These results may be an indication that family offices can sometimes be more nimble than institutional investors when it comes to investing in a market that is undergoing a correction.

There has also been a change in where leading commercial real estate investors see the most attractive investment opportunities. More respondents believe that there will be opportunities in gateway cities like New York (named by 17 percent of respondents, compared to 12 percent last year), Chicago (22 percent, compared to 10 percent in 2023), Los Angeles (up 9 points to 13 percent), and San Francisco cited by 10 percent of investors, an 8 point increase from last year. This contrasts with some recent DLA Piper surveys, in which cities like Austin and Raleigh-Durham were thought by many to present better investment opportunities than the traditional gateway cities. Some of these larger cities, many of which faced significant challenges caused by the pandemic and demographic shifts, are now seen by some investors as places where price corrections are reaching the level where there are attractive investment opportunities. At the same time, in looking at the opportunities regionally, Southern cities (a group that includes Miami and Raleigh-Durham) were cited as top investment locations by 92 percent of respondents.

With respect to non-US real estate investment capital, this year, more survey respondents predict that non-US investment in the US will be strong during the next 12 months when compared to last year's survey (44 percent vs. 37 percent). Japan (28 percent) and Canada (43 percent) both saw upticks in expected investment. In 2023, investment from Japan in US commercial real estate was at its largest volume[29] since 2016.

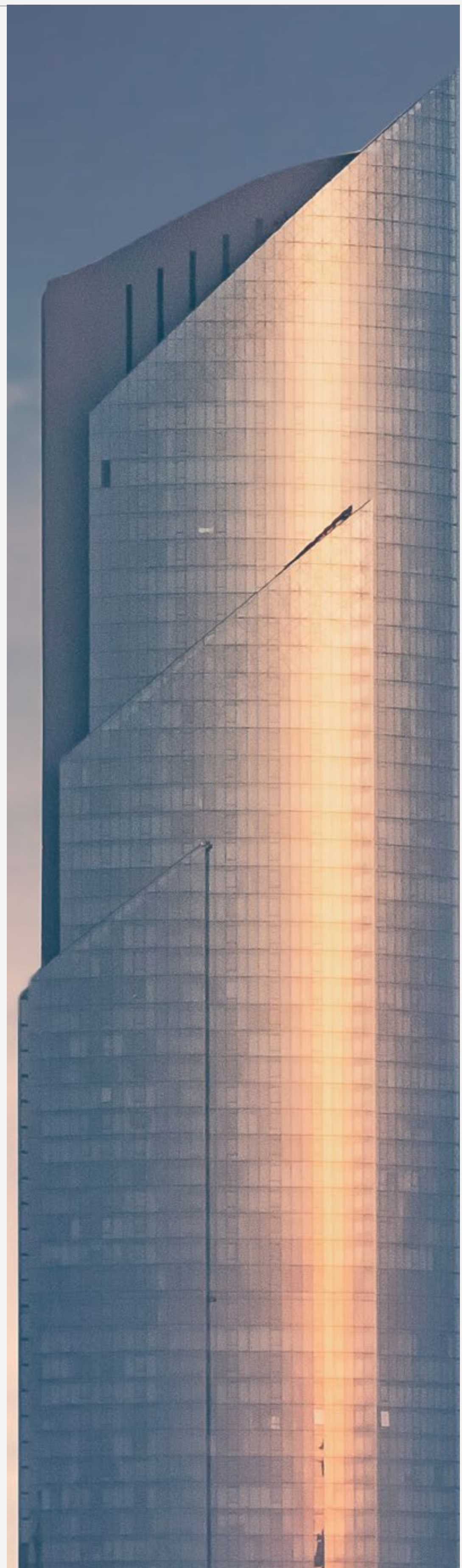
With regard to real estate investment opportunities outside of the US, there is an increased belief that Dubai and Sydney will be attractive for investment in the next 12 months, at 21 percent and 24 percent, respectively.

## Conclusion:
## This year's DLA Piper State of the Market Survey indicates that more commercial real estate leaders believe conditions are improving and investment opportunities are likely to increase

The commercial real estate market has been on a roller coaster in recent years, with 2021-2022 representing the climb to the top, and 2023 reflecting the swift (and sometimes scary) descent. The most recent DLA Piper survey revealed an increased sense of optimism among many industry leaders, along with a belief that investment activity will increase in the next 12 months. As note above, inflation and labor market reports issued after the survey was taken revealed stickier than anticipated inflation and solid job growth, and on May 1st, the Federal Reserve elected to hold interest rates steady, citing a key inflation gauge that showed a higher than expected increase. It is possible that, if this data had been available before the latest survey was taken, there would have been less optimism expressed, at least by those respondents who were placing significant importance on interest rate cuts this year. That said, long-term investors tend to be more focused on the general direction of interest rates, which most observers still believe is down, rather that the exact timing of those interest rate movements. To that end, the overall trend toward optimism, at least in the moderate to long term, may still be warranted.

The nearly $1 trillion[30] of commercial real estate loans estimated to come due before the end of 2025 – the so-called "wall of maturities" – presents a double-edged sword. For many owners and borrowers, it will be difficult to refinance their assets at a level sufficient to repay the current loan, but this should lead to asset repricing and investment opportunities. This repricing, along with the trend toward repositioning of certain asset classes, could provide the foundation for rebounding value in the moderate to long term.

On balance, the results of this year's DLA Piper State of the Market Survey indicate a growing sense of cautious optimism and measured opportunity in the commercial real estate market for the upcoming 12 months.



# Highlights of the State of the Market Survey

- In the 2024 report, 37 percent of respondents are bullish about the commercial real estate market, and 63 percent are bearish. Bearishness, while still accounting for the majority of respondents, is down 23 percentage points from 2023. Both years showed a pivot from 2022, when bullishness was the overwhelming sentiment at 75 percent. The majority of this year's respondents fell near the middle of the scale of bullishness versus bearishness, rather than leaning toward either extreme: 93 percent of respondents fell between the 3 and 7 range on a 10-point scale in which 1 is the most bearish and 10 is the most bullish.
- When asked about the primary reason for their confidence in the market, 48 percent of the bullish respondents cited interest rates, divided between those who pointed to stabilization of interest rates (28 percent) and those who cited the lowering of interest rates (20 percent). In 2023, the primary reasons for confidence included strong fundamentals in certain asset classes (37 percent), an abundance of equity capital (16 percent), and the US economic outlook (11 percent). Other reasons for a more optimistic outlook in 2024 include the US economic forecast (15 percent), strong fundamentals in certain asset classes (9 percent), distressed asset opportunities (9 percent), and the easing of inflation (9 percent).
- Simultaneously, interest rates were the primary reason for a lack of confidence in the year ahead, cited by 31 percent of the bearish respondents. Other reasons for a lack of confidence in 2024 include reduced debt capital (16 percent), reduced equity capital (11 percent), the impact of remote working (11 percent), inflation (4 percent), and recession risk (4 percent). Just 4 percent of respondents said the 2024 US elections were their primary reason for lack of confidence. Of the 8 percent of those who cited "other" as the reason for their bearishness, respondents noted vacancy rates, financing challenges, and construction costs as drivers of concern. The primary reasons for a lack of confidence in 2023 mirrored some of those cited in the 2024 report – interest rates, reduced debt capital, recession risk, and inflation concerns – though responses were more evenly distributed across all factors this year.
- Interest rates are also expected to be the most impactful factor on the CRE industry in the next 12 months: 97 percent agree they will influence the landscape in 2024. Challenges in refinancing existing debt are expected to be similarly impactful, according to 96 percent of respondents. CRE leaders are also mindful of other impactful considerations including inflation (74 percent); the 2024 US elections (73 percent); geopolitical conflicts (59 percent); and the availability of water and power (27 percent) as it relates to development. Respondents also expect to see influence from labor constraints (44 percent, down from 87 percent two years ago). Looking globally, impending loan maturities are expected to impact the global CRE market in the next 12 months, according to 51 percent of respondents, while one-third believe global political instability and geopolitical conflicts will impact the global industry.
- Office space, a major focus in last year's report, continues to drive conversations in 2024. One-fifth of respondents cited repurposing space, including office, as an attractive investment opportunity in 2024, and 64 percent of respondents believe that the redesign or reimagining of office and other commercial spaces will be impactful in 2024. One in 10 cited Class A/Trophy office specifically as an investment opportunity, while just 4 percent cited other office outside of Class A/Trophy – reflecting the dichotomy in vacancies and challenges across the sector. Seventy-one percent of respondents do not expect office occupancy to materially increase this year, while 8 in 10 agree that it is important to repurpose and add amenities to office space. Though more companies are pushing a return to office, two-thirds of industry leaders maintain that office workers spending less than 50 percent of their time working in-person will create structural changes across CRE, and 47 percent say office vacancies will never return to pre-pandemic levels.
- Outside of office, when asked which assets they believe present the most attractive risk-adjusted opportunities in the US for the coming 12 months, 53 percent of respondents cited data centers, making it the most attractive investment opportunity in this year's survey. In 2023, just 32 percent favored data centers as an asset class. Other asset classes identified as attractive investments include multifamily (43 percent); logistics, warehousing, and cold storage (38 percent, down 15 percentage points from 2023); and affordable/workforce housing (30 percent). On the opposite end of the spectrum, regional malls were attractive to just 2 percent of respondents, and student housing to 13 percent – down from 22 percent in 2023.

- When looking at the most attractive opportunities geographically, gateway cities like New York (named by 17 percent of respondents, compared to 12 percent last year); Chicago (22 percent, compared to 10 percent in 2023); Los Angeles (up 9 percentage points to 13 percent); and San Francisco (an 8-percentage point increase from 2023, cited by 10 percent of investors) have moved higher on the list, while cities that received considerable interest in the last few years – like Austin and Raleigh-Durham – saw a decline. Austin, cited by 39 percent of respondents in 2023 and an overwhelming 60 percent in 2022, is seen as an opportunity by just 29 percent of respondents this year. Raleigh-Durham fell 13 percentage points from 2023. Regionally, 92 percent of investors see an opportunity in the South; cities west of the Rockies, in comparison, came in at 58 percent, followed by the Northeast (41 percent) and the Midwest (25 percent).
- Internationally, London was cited as the most attractive international city for investors, selected by 43 percent of respondents (compared to 47 percent in 2023 and 58 percent in 2022), while cities like Berlin (15 percent) and Munich (12 percent) saw some increased interest compared to last year. Sydney and Dubai also jumped higher on the list; Sydney increased 10 percentage points, cited by 24 percent of respondents, while Dubai increased 8 percentage points.

# Verbatims

## What are you most excited about in the next 12 months when it comes to the commercial real estate market?

- Advancements in AI to save on costs in property management as well as improvement in building technologies to enhance residents' experiences. I also look forward to the potential for more adaptive re-use of obsolete commercial buildings and properties.

- Attractive entry points for multifamily asset purchases driven by variable rate debt coming due. On the existing asset side this likely means buying quality value-add or core plus type opportunities well below replacement cost with an improvement story. On the development side, it can mean broken development deals or great sites that need new capital or plan.

- Attractive pricing below replacement cost and potential historic lows, in all asset classes.

- Creative opportunities – when the market slows, investors are forced to find creative solutions to investing in CRE.

- Easing inflation leading to, at worst, stable interest rates and at best, declining interest rates should allow the bid/ask spread to close and facilitate more capital coming off the sidelines and being put to work.

- ESG impacts. Rebuilding of business travel impact on the hospitality sector.

- For it to be over – get past election and get to 2025.

- Interest rates are stabilizing and are expected to start easing, and inflation is slowing, both of which will build consumer and investor confidence. Job growth is steady, and combined with the interest rate and inflation picture this increases the likelihood of a "soft landing" and will also build confidence and start improving fundamentals.

- Logistics assets continue to have excellent rent growth, starts have declined significantly and vacancy will stabilize well below the long-term average, before declining again next year.

- Market participants now fully/completely recognize that obsolete assets are not "cheap" or "good value," they are obsolete! So, tenants and prospective takeout buyers will focus even more closely on the types of NOT obsolete assets that we acquire, renovate, and re-lease.

- More dynamic environment creates interesting opportunity to add value through specific skill sets and expertise.

- My next partnership cash call obligation. Pure joy.

- Opportunities to acquire or finance lower priced, high quality assets at a good basis.

- Outlook on retail real estate is again favorable.

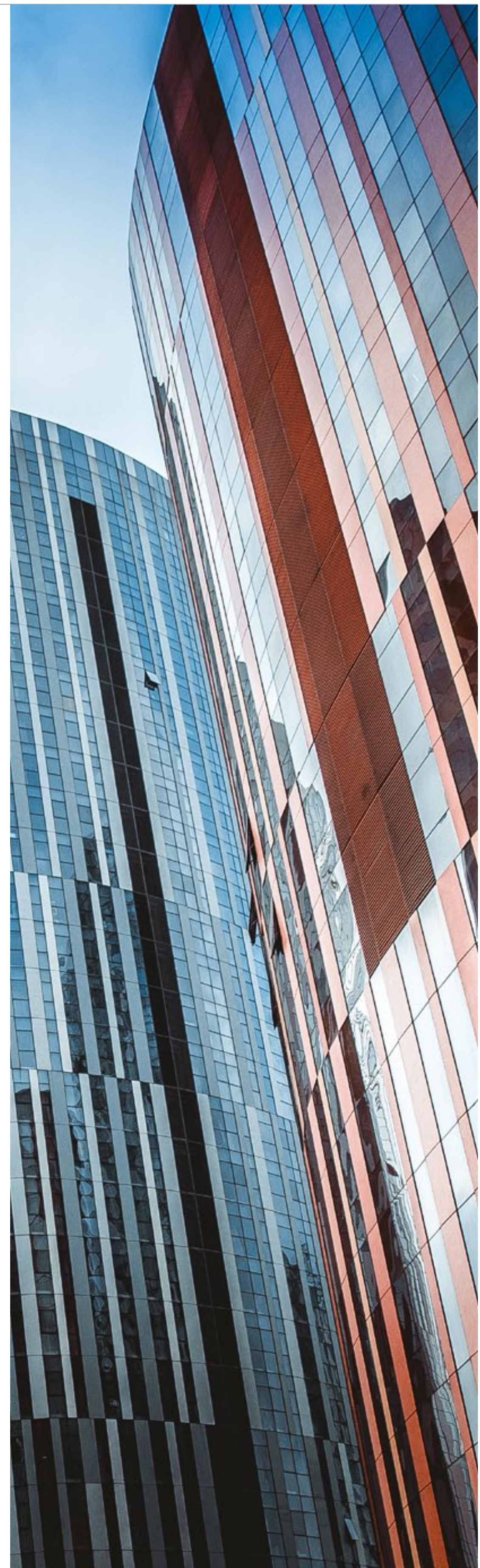
- The shake up in commercial markets owing to the lingering effects of "work at home" is settling into pattens that will underpin decisions and predictions in favor of what to do with assets going forward. Those that must take a loss are taking them, whether willingly or by force. And those that have financing opportunities are increasingly stepping into the void resulting in preplanning and budgeting activities being on the rise.

- The current administration appears to have pulled off a soft landing and there is a lot of capital ready to be deployed into real estate investment and development.

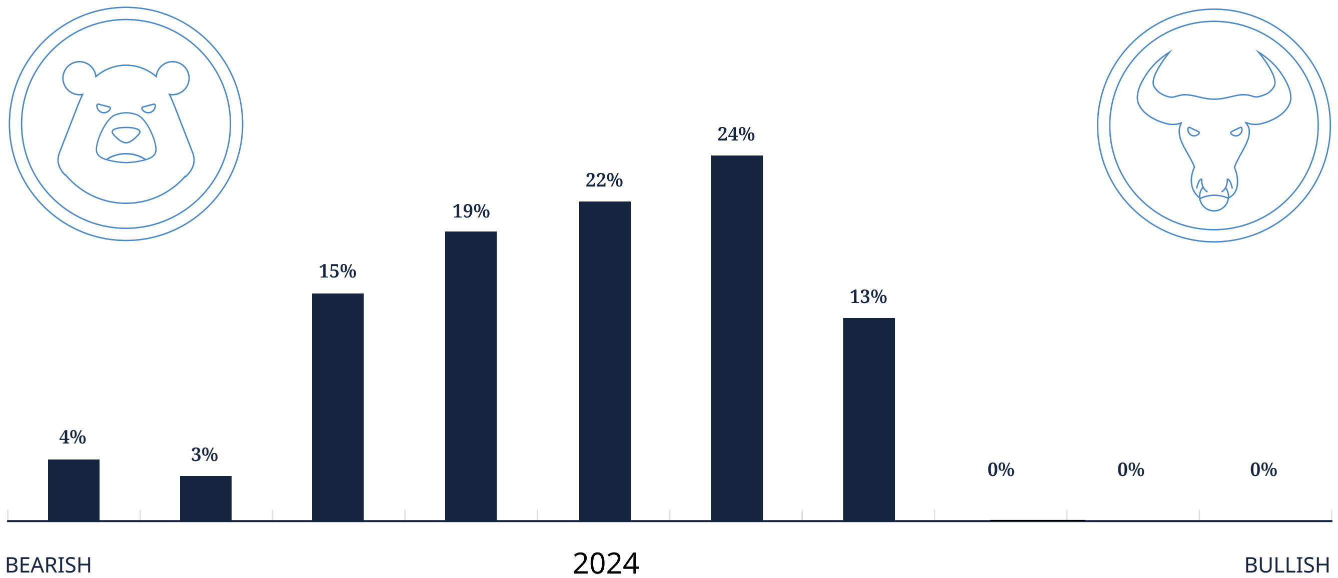
- Retail is doing very well from a demand and occupancy standpoint with industrial strong but cooling and office obviously being in a very bad place. As long as the economy continues to perform well, I believe most asset classes other than office will maintain solid fundamentals notwithstanding the fact that asset values may be impacted if we continue to have heightened interest rates thru the remainder of 2024.

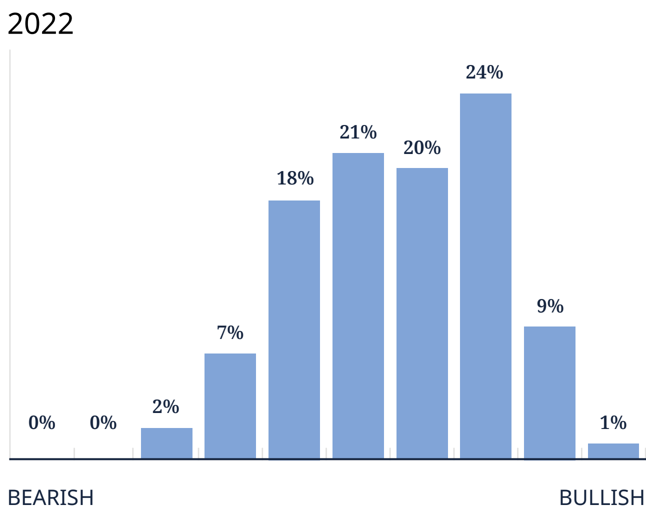
## What are you most apprehensive about in the next 12 months when it comes to the commercial real estate market?

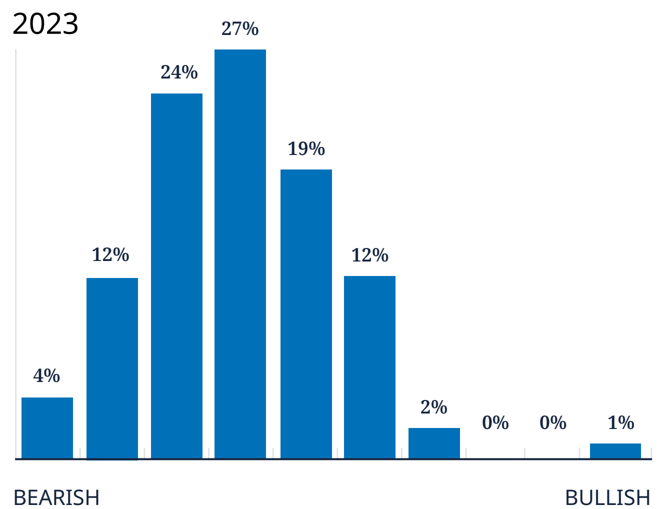
- Aggressive bank foreclosures that cascade out of control.
- Challenges in transacting. Even with distressed buy opportunities it is difficult to access where the bottom is.
- Concerns about bank failures causing further credit tightening, and external forces (stock market downtown, election, intl conflicts) throwing a black swan event into the ecosystem.
- Continued downward pressure on office valuations and the sector weighing down the overall market.
- Cost and time of approvals/construction for everything.
- How the global economy, interest rates and inflation, US presidential election and ongoing wars will affect transactions in commercial real estate.
- If the Fall federal elections undermine and destabilize basic democratic institutions, the real estate industry and broader economy likely will suffer.
- I'm apprehensive that a 50 bps decline in interest rates will re-open the market. There are still fundamental issues around oversupply in multifamily and office that need to be worked through the system. Big tech values are making everyone see the world in an overly optimistic lens.
- Interest rates not coming down, election results, cap rate compression not happening.
- Interest rates, port instability, rising costs of everything.
- Office assets will continue to struggle as capitalizations are stressed, lenders enter the market to compete as owners and demand continues to be anemic. There will be further disruption in office asset capital structures. It is hard to see how capital will form around an office investment thesis in 2024.
- Persistent inflation and higher interest rates continue to hurt the commercial real estate market. Refinancing and construction financing are very difficult to get done right now. A potential recession this year is also of concern, with mounting federal and consumer debt, there is a lot to be concerned about.
- That real estate tax rates may start to rise to offset city budget shortfalls.
- Working through office real estate whether you are an investor or lender is going to be painful in 2024. It feels impossible to value office real estate when there is so much distress and so few comparable sales.



## 1. How would you describe your outlook for the US commercial real estate market over the next 12 months, with 1-5 being bearish and 1 being the most bearish, and 6-10 being bullish and 10 being the most bullish?




- This year's survey found that 63 percent of respondents are bearish about the next 12 months.
- This is a more moderated outlook than the past two years; 2022's survey showed overwhelmingly bullish sentiment among 75 percent of respondents, while 2023 took a sharp turn as 86 percent of respondents were bearish.
- The majority of respondents fell near the middle, rather than on the extreme ends of either bullishness or bearishness; 93 percent of respondents fell between the 3 and 7 range on the 10-point scale.
- No respondents were extremely bullish (giving scores of 8 –10), while while 7 percent leaned more heavily toward bearish sentiment (giving scores of 1– 2).

## 2. What is the primary reason for your confidence?

| Reason | Percent |
|---|---|
| Stabilization of interest rates | 28% |
| Lowering of interest rates | 20% |
| US economic outlook | 15% |
| Strong fundamentals in certain asset classes | 9% |
| Distressed asset opportunities | 9% |
| Easing of inflation | 9% |
| Increase in attractive investment opportunities (other than distressed assets) | 4% |
| Abundance of equity capital | 2% |
| Non-US investments in US real estate | 0% |
| 2024 US elections | 0% |
| Other | 4% |

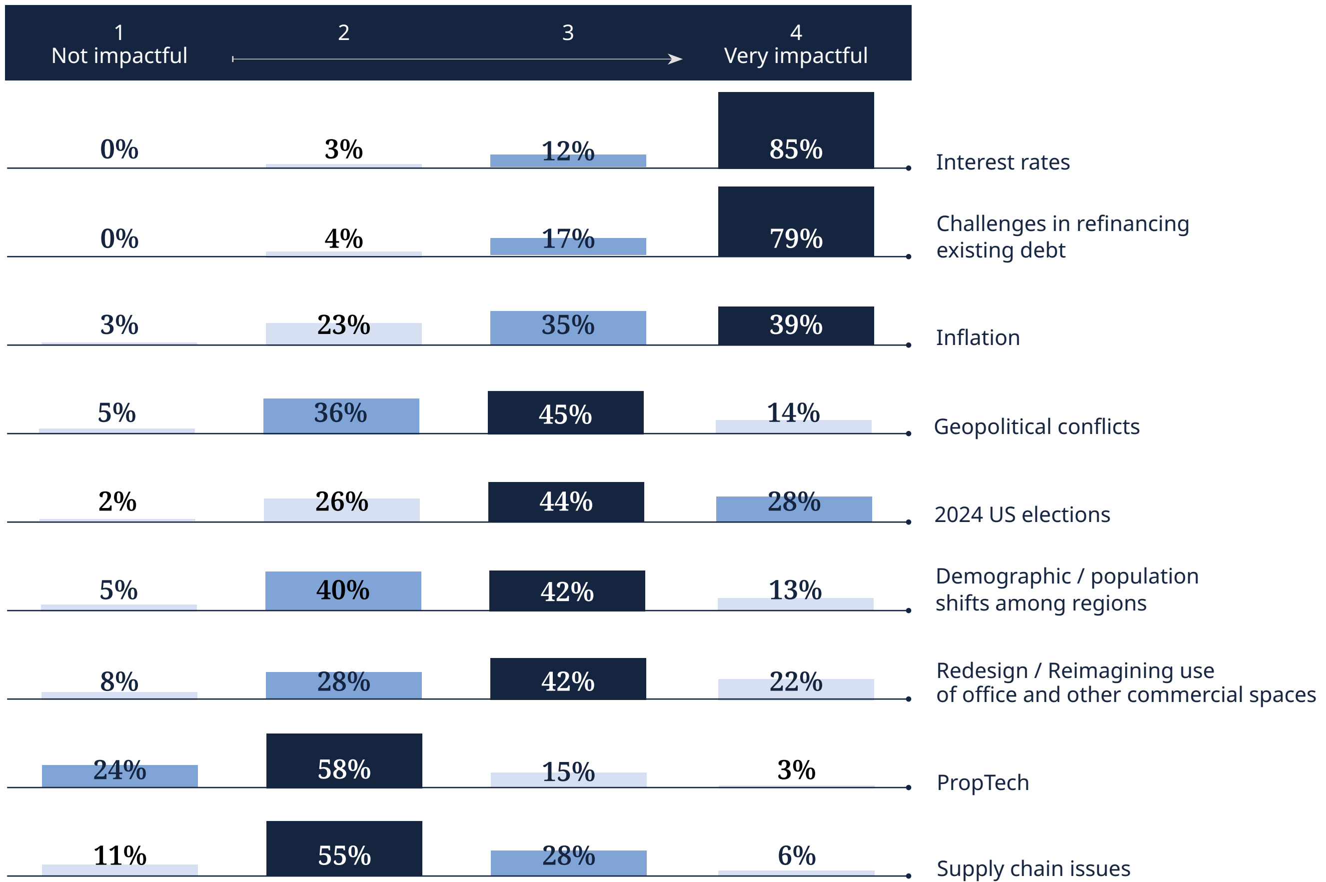
- Twenty-eight percent of respondents cited stabilization of interest rates as the primary reason for their confidence, followed by one-fifth who said the lowering of interest rates had them feeling more optimistic.
- Notably, the survey was fielded before the US Labor Department's March job growth report[31] and the March Consumer Price Index (CPI) were released, both of which have signaled that the Federal Reserve may change its plans[32] for the number – or timing – of rate cuts anticipated in 2024.
- Other notable reasons for confidence included the US economic outlook (15 percent), strong fundamentals in certain asset classes (9 percent), distressed asset opportunities (9 percent), and the easing of inflation (9 percent).
- In 2023, fundamentals were the primary reason for optimism (37 percent); this change doesn't mean that fundamentals have weakened, but rather that other factors, like interest rates, are having a greater impact on respondent sentiments.

## 3. What is the primary reason for your lack of confidence?

| Reason | Percent |
|---|---|
| High / increasing interest rates | 31% |
| Reduced debt capital | 16% |
| Reduced equity capital | 11% |
| Impact of remote working | 11% |
| Recession risk | 4% |
| Inflation concerns | 4% |
| Political division in US government | 4% |
| 2024 US elections | 4% |
| Lack of consumer confidence | 3% |
| Reduced non-US investment in US real estate | 3% |
| Impact of international conflicts | 1% |
| Supply chain issues | 0% |
| Labor constraints | 0% |
| Other | 8% |

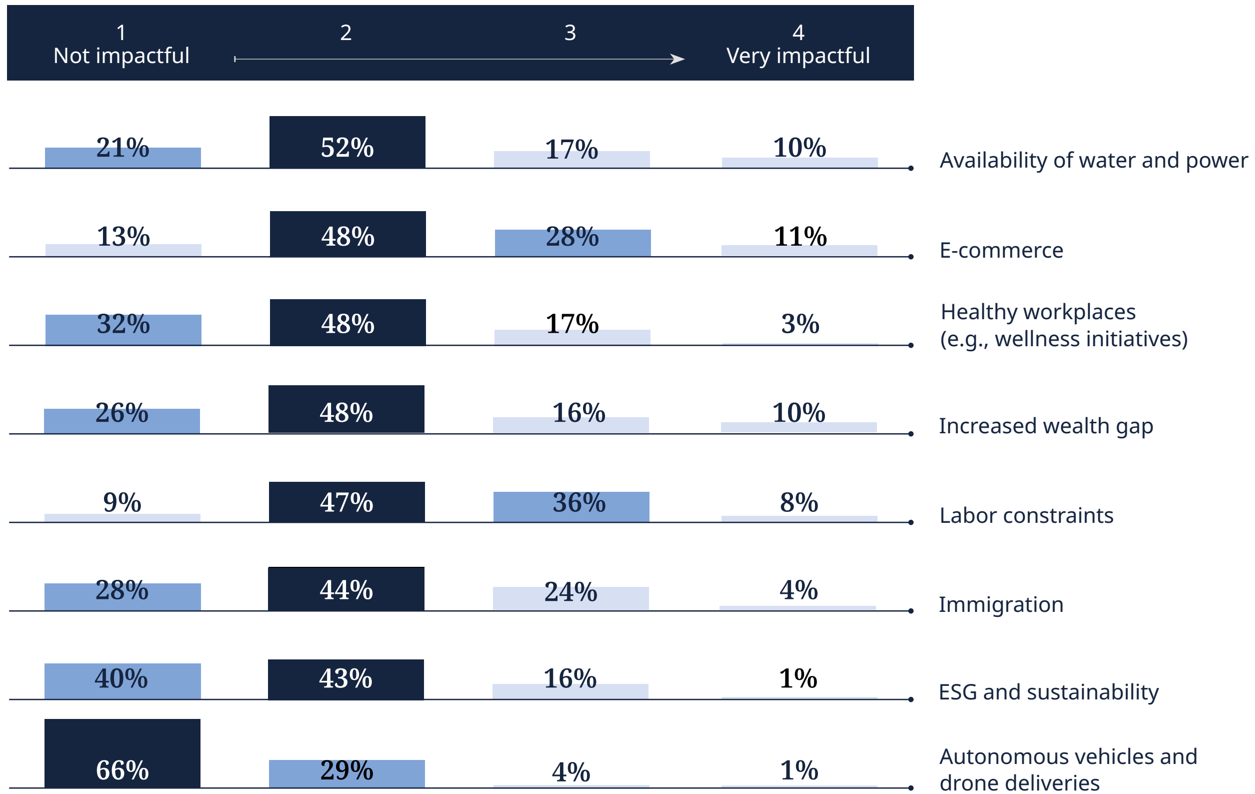
- Respondents said their primary reason for bearishness was the expectation for high/increasing interest rates, cited by nearly a third of respondents.
- Other reasons included reduced debt capital (16 percent), reduced equity capital (11 percent, and the impact of remote working (11 percent).
- Last year, the long-term effects of remote work were cited by 9 percent as a reason for bearishness. The slight uptick to 11 percent in 2024 shows that concern around the office sector lingers, despite notable rebounds[33] in cities like New York and Miami.
- In 2023, interest rates were a concern for a notably larger group of respondents (46 percent).
- Among the 8 percent of those who cited "other" as the reason for their bearishness, respondents noted vacancy rates, financing challenges, and construction costs as drivers of concern.
- The impact of the 2024 US elections pales in comparison to the other reasons for bearishness, with just 4 percent citing that as the cause of their lack of confidence. While respondents were not specifically polled on the US elections in the 2020 presidential cycle, 12 percent of respondents that year cited domestic political and/or international political uncertainty as a reason for their bearishness.

## 4. Please rank each of these topics on a scale of 1 to 4, where 1 means they will be “not impactful” and 4 means they will be “very impactful” on the commercial real estate market over the next 12 months.




- Unsurprisingly, as interest rates were the largest driver of both bearish and bullish sentiment, they were also the factor expected to be the most impactful in the coming months, whether positively or negatively. Ninety-seven percent of respondents said interest rates would have an impact on the market in the year ahead.
- The nearly $1 trillion of commercial real estate loans estimated to come due by the end of this year are top of mind for CRE leaders, as challenges in refinancing existing debt (96 percent) was cited to be the second most impactful factor over the next 12 months.
- Inflation (74 percent) was also expected to have a sizable impact. With the March CPI showing higher-than-expected inflation, the outlook for interest rate cuts in 2024 has now shifted from “when” to “if,” validating CRE leaders’ expectations on the impact of inflation.
- In 2023’s survey, 51 percent of respondents thought that geopolitical conflicts would be impactful on the CRE market. Following upheaval in the Middle East that began late last year and continuing war in Ukraine, 59 percent now see geopolitical conflict as an impactful factor.
- And, nearly two-thirds of respondents (64 percent) belief that the redesign or reimagination of how office space and other commercial properties are used will continue to be impactful. In Q1 2024, nearly 70 million square feet of office space[26] in the US was being converted for other uses, up from 60 million square feet in Q3 2023.
- Conversely, factors that were deemed unlikely to be impactful in 2024 include PropTech (just 18 percent expect it to be impactful) and supply chain issues (34 percent).

## 4. (continued) Please rank each of these topics on a scale of 1 to 4, where 1 means they will be "not impactful" and 4 means they will be "very impactful" on the commercial real estate market over the next 12 months.



| | 1 Not impactful | 2 | 3 | 4 Very impactful |
|---|---|---|---|---|
| Availability of water and power | 21% | 52% | 17% | 10% |
| E-commerce | 13% | 48% | 28% | 11% |
| Healthy workplaces (e.g., wellness initiatives) | 32% | 48% | 17% | 3% |
| Increased wealth gap | 26% | 48% | 16% | 10% |
| Labor constraints | 9% | 47% | 36% | 8% |
| Immigration | 28% | 44% | 24% | 4% |
| ESG and sustainability | 40% | 43% | 16% | 1% |
| Autonomous vehicles and drone deliveries | 66% | 29% | 4% | 1% |

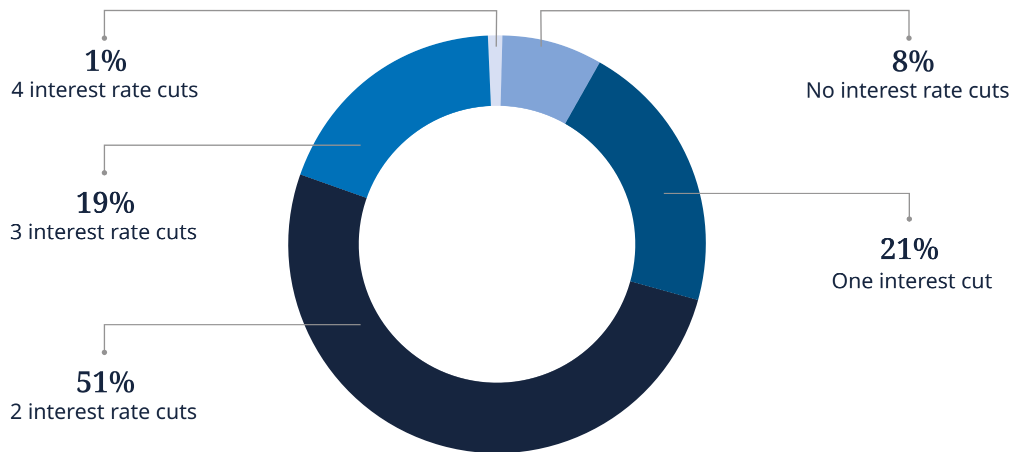
- In 2024, the availability of water and power was offered as a potential factor impacting the CRE market for the first time and was cited by 27 percent of respondents as impactful. This notable minority is likely responding to the huge increase in demand for data centers, which are dependent on access to power[34] and also water shortages[35] that have been prevailing in pockets of the country.
- Labor shortages, a notable topic of conversation in recent years, were designated by 56 percent of respondents as "not impactful," though the 44 percent who do foresee an impact to commercial real estate have reason. Labor shortages in construction in particular are continuing to cause issues across the CRE sector. As of early this year, Associated Builders and Contractors estimated that construction companies will need to hire more than half a million workers[36] – on top of the normal pace of hiring – in 2024 to match demand. This, on top of already high and rising construction costs[37], will shape development in 2024 and beyond.
- E-commerce has seen a notable decline with regard to its expected impact on the industry in recent years. This year's survey revealed that just 39 percent of respondents expect it will be impactful in the year ahead, down significantly from 2020 (83 percent) and 2021 (86 percent), when the lingering effects of the COVID pandemic were still taking shape, the vaccine was not yet widely available, and many social distancing measures were still in place – limiting the use of brick-and-mortar retail. Now, as annual store openings outpace closings[38] and retail real estate implements new ways to drive foot traffic, the anticipated impact of e-commerce has been curtailed.
- Other factors expected to have limited impact include autonomous vehicles and drone deliveries (5 percent), ESG and sustainability considerations (17 percent), and healthy workplaces or wellness initiatives (20 percent).

## 5. When do you think the recent increases in interest rates will peak?

| Response | Percent |
|---|---|
| They have already peaked | 74% |
| Under 6 months from now | 13% |
| 6 months to under 12 months from now | 10% |
| 12 months to under 18 months from now | 3% |
| 18 months to under 24 months from now | 0% |
| 24 months or more from now | 0% |

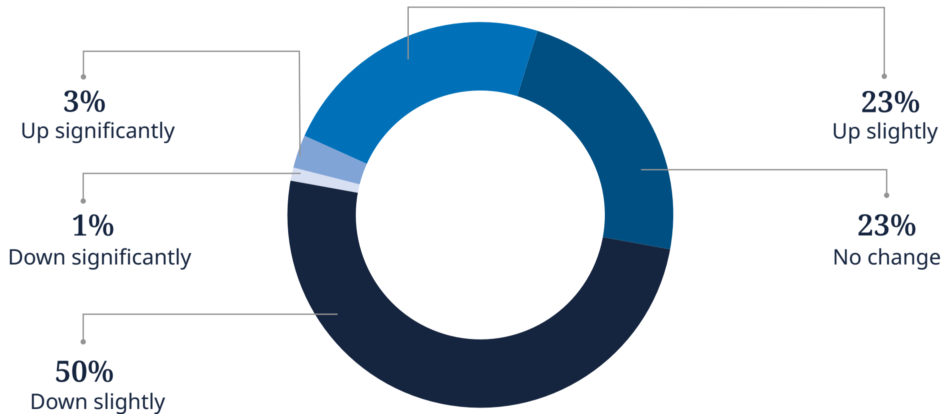
- Almost three-quarters (74 percent) of respondents said that interest rates had already peaked at the time the survey was conducted, aligned with what the Federal Reserve was saying at the time.
- A total of 87 percent of respondents think that interest rates have peaked or would peak within 6 months.
- Twenty-three percent said rates would peak within the next 12 months, while just 3 percent expected rates to continue to increase and peak in 12 – 18 months.

## 6. In December 2023, the Federal Reserve's Federal Open Market Committee indicated three expected interest rate cuts in 2024, assuming quarter percentage point increments. Given the economic forecast today, how many interest rate cuts do you expect the Fed to implement in 2024?



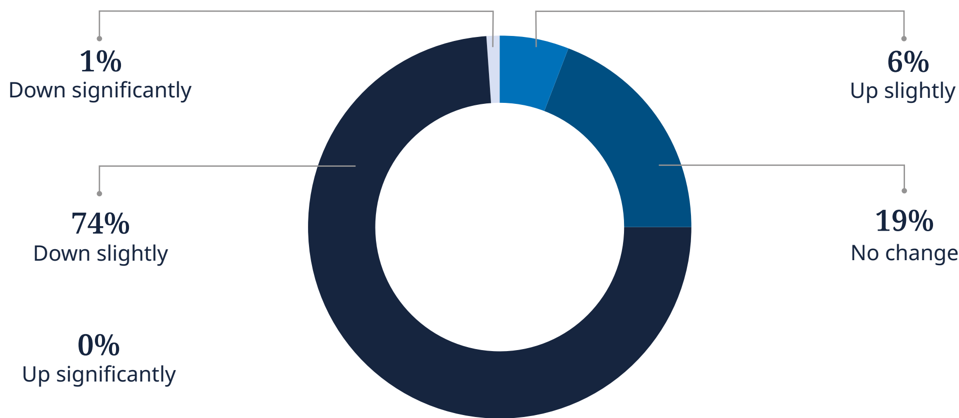

- Given the state of the economy and indications from the Federal Reserve in late 2023 and early 2024, 51 percent of respondents anticipated two rate cuts in 2024.
- Approximately one-fifth (19 percent) expected three rate cuts, while another fifth (21 percent) forecasted just one rate cut in 2024.
- Conversations have shifted in recent weeks, as recent reports indicated a slower than expected easing of inflation and people believed that the Federal Reserve may delay their cuts until later in the year, or even hold off entirely until 2025.
- In 2023, more than half (56 percent) of respondents felt that interest rate increases had already peaked – or would by the end of the year – while 4 in 10 said it would take another 1 – 2 years to peak.

## 7. Where are capitalization rates headed in the next 12 months?




- Respondents were largely split on expectations around capitalization rates, but very few expect a significant shift in cap rates in either direction and half expect that cap rates will decrease slightly.
- Twenty-three percent believe cap rates will increase slightly, while the same amount anticipate no change in 2024.
- In 2023, a large majority (82 percent) expected capitalization rates to increase; they did, and CBRE now expects that they're reaching a peak in early 2024[39] – a signal of stabilization in the market.

## 8. Where do you think interest rates are headed during the next 12 months?




- Prior to March's CPI report leading to more questions about when – and even if[40] – interest rate cuts will happen this year, most respondents (74 percent) expected interest rates to decrease slightly over the next 12 months.
- Nearly one-fifth (19 percent) anticipated no change in rates, while just 6 percent believed they would increase, in line with broader expectations before the CPI ticked back upward.

## Why respondents thought capitalization rates would increase this year:

- Current yield replaces residual value as the biggest component of ROE. Office residual values are so uncertain as to be viewed as worthless to new CRE equity investors.
- It's the only real way to close the bid-ask spread.
- They reflect cost of capital which will continue to increase.
- Financing costs up, financing availability down, forced sellers, plenty of dry powder.
- While there is a lot of equity ready on the sidelines, cap rates need to revert closer to traditional spreads to treasuries, which I see holding.
- They are already up - sellers just haven't realized it yet.
- The perceived risk in the market will continue as people look for the bottom, which we have not found.
- It will be asset-class specific - in retail, once the interest rates decline, there will be a high volume of transactions.
- Because interest rates are going to stay elevated longer than people were hoping or anticipating, which will cause a correction in buyers willing to accept negative leverage for a short period in hot asset classes like multifamily and industrial.

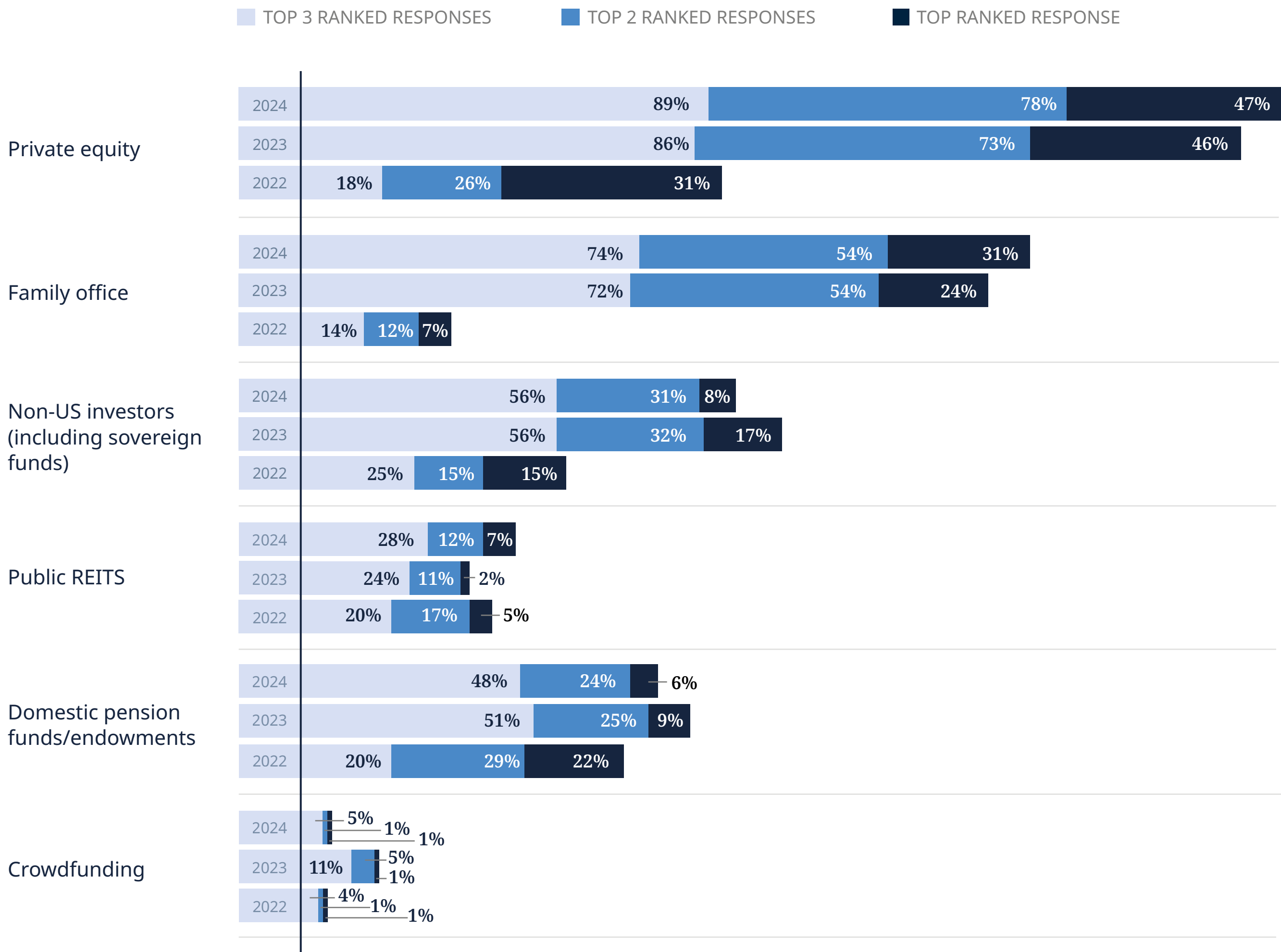
## Why respondents thought that there would be no change in capitalization rates this year:

- I think that stabilization of interest rates, ample capital for investors to deploy, and narrowing bid/ask spreads between buyers and sellers will have a positive impact on cap rates, however I think the uncertainty surrounding the election and related broader economic factors will be priced into investors activity, having a largely net-net impact, and believe that cap rates will largely remain the same.
- I think that they are still adjusting, and that the need for them to continue going up may be offset by potential rate cuts later in the year.
- I think interest rates and cap rates will be fairly flat in 2024. Office properties are the one wild card asset class because there is a void of "market" transactions to establish a base line to measure off of.
- People are already underwriting the curve which is going down (theoretically) over the next 12 months — and that is a risk if rates stay higher longer cap rates could actually go up.
- Improvement in rate environment and inflation likely to be hampered by uncertainty around the election, real improvements may be delayed until 2025.

## Why respondents thought capitalization rates would decrease this year:

- I believe they will fall as the Federal Reserve drops interest rates later in the year.
- [I] believe we've established the plateau of the return-to-work hybrid model which will establish a common understanding/ valuation of marketplace inventory.
- The Feds are likely done raising [rates] unless there is another black swan event. They'll ease their way back into a comfort zone this year and next.
- Because of surplus product, alternative project arrangements, easing of supply chain issues (hopefully).
- Fed rate reductions will increase transaction volume which will drive down cap rates; a 5.3 percent fed rate is too high to sustain, and, although the economy has not swung into recession yet (in part due to higher consumer debt and/or a continuing vibrant job market) rates will have to start ticking down in order to avoid a recession in 2025. Cap rates will follow suit, though perhaps not on a 1:1 basis. Additionally, institutional CRE equity mostly has been on the sidelines, and it will need to be deployed eventually.
- Interest rates likely come down modestly. Debt markets likely modestly loosen.
- Transaction volume has been down significantly over the past 15-18 months, as we look forward 6 months (and if interest rates/debt shifts even modestly) capital will need to be deployed.
- Market has [not] bottomed out entirely yet. It is close.

## 9. What types of equity investors do you expect will be most active in the US during the next 12 months?




- Private equity (47 percent) remains in the top spot, consistent with recent years, though down slightly from 2023.
- At the same time, family office continues to rise, likely due to perceived opportunities for investors who have longer hold periods and are willing to take more risk; 74 percent of respondents ranked it in their top three responses, compared to just 14 percent who did the same in 2022. This rise in expectations corresponds with a tripling in the number of family offices[41] since 2019.
- Expectations around non-US investors have also increased substantially from 2022 (up 31 percentage points), though are largely consistent with 2023.

## 10. What will happen to real estate equity commitments in the next 12 months?

| Response | Percent |
|---|---|
| Commitments will be up slightly | 54% |
| No change in commitments | 21% |
| Commitments will be down slightly | 13% |
| Commitments will be down significantly | 7% |
| Commitments will be up significantly | 5% |

- More than half (54 percent) of commercial real estate leaders believe real estate equity commitments will rise slightly in the year ahead.
- One in 5 (21 percent) expect no change in commitments, while 20 percent believe they will go down.
- In 2023, most respondents (71 percent) believed commitments would go down, consistent with a more bearish outlook. As industry sentiment has moderated, so too have expectations for equity commitments.

## 11a. Why do you think real estate equity commitments will be up? Multi-response.

| Response | Percent |
|---|---|
| Large amounts of available investment capital | 72% |
| Increased attractive deal terms for equity investors | 58% |
| Anticipated decrease in interest rates | 56% |
| Anticipated stabilization of interest rates | 49% |
| Increased availability of and quality of assets for investment | 37% |
| Positive US economic outlook | 37% |
| Flight to US as a safe haven | 27% |
| Increased investment in real estate as an inflation hedge | 17% |
| US political, tax and / or regulatory environment unfavorable to real estate | 4% |
| Other | 4% |

- When asked why they believe equity commitments will increase, "large amounts of available investment capital" led the way, cited by 72 percent of this subset of respondents.
- This was also the most common reason in 2023 – although just 16 percent of respondents believed commitments would increase in 2023 vs. 59 percent in 2024.
- Other reasons cited in the 2024 report include increased attractive deal terms (58 percent), decrease in interest rates (56 percent), and the anticipated stabilization of interest rates (49 percent).

**What will be the impact on deal terms and hold periods if commitments are up:**

- Sellers will either be asked [or] be pressured to provide extended or flexible hold terms as potential buyers navigate entitlement and development requirements.
- It really depends on the nature of the investors – some will chase IRRs, others will take advantage of uplift opportunities that may take longer to realize.
- Longer hold periods and better terms for equity investor.
- Unchanged to slightly worse for developer GPs.

- If commitments are up slightly looking out to later this year/early next year, deal terms will still be in favor of buyers but will begin to shift toward sellers.
- Hold periods will need to be at least 5 years and up to ten years
- Buyers will be able to negotiate better deal terms with sellers who need to sell. More people will be forced to sell for the near term.
- Investors may need to accept lower returns in the short term to deploy capital commitments.
- Pricing should start to firm in many sectors that aren't still having significant disruption of fundamentals due to factors beyond macro conditions. Hold periods may increase as investors seek to capture opportunity as fundamentals start to firm.
- After a brutal 18 months of fundraising, people will shoot money out of a tee-shirt cannon at distressed deals to try and lock in discounts before rates decline (except in office, where no one has any idea how much of it we will need 10 years from now).
- Lower debt yield requirement or LTV requirement.

## 11b. Why do you think real estate equity commitments will stay the same? Multi-response.

| Response | Percent |
|---|---|
| Decreases in commitments in some types of funds will be offset by increases in other types of funds | 64% |
| Extended hold periods | 44% |
| Decreased amounts of available investment capital | 16% |
| Other | 8% |

- Of the 21 percent who believe commitments will hold steady in 2023, nearly two-thirds (64 percent) feel this way due to decreases in commitments in some types of funds being offset by increases in other types of funds.
- Extended hold periods are also expected to play a role by nearly half of this group.

**What will be the impact on deal terms and hold periods if commitments stay the same:**

- No change to today. Lots of uncertainty.
- Investors will extend hold periods and deals will be done more out of necessity making them buyer friendly. Cost of capital remains high, deal volume remains low.
- Deal terms will become more balanced, less buyer centric.
- Given that there is still more capital than product available (along with lower interest rates), I believe deal terms will become more favorable to sellers with hold periods being extended as long as existing portfolio assets maintain reasonable cash flow.
- Hold periods are longer for all asset classes on deals inked [in] 2021 and especially 2022. Returns are below projections (some negative) and will have to wait out the market until rates come down. Operating expenses [are] way up from projections and those won't go down so need revenues to catch up.
- Shorter hold periods.
- We will see slow movement overall, with continued re-pricing.
- Hold periods will be a bit longer as buyers and sellers are still finding the right pricing on CRE. Deal terms will not be as free flowing as they were in the past because of the increased pressure to spend capital wisely.

## 11c. Why do you think real estate equity commitments will go down? Multi-response.

| Response | % |
|---|---|
| Decreased attractive deal terms for equity investors | 54% |
| Decreased availability of and quality of assets for investment | 46% |
| Uncertain / negative economic outlook | 46% |
| Decreased amounts of available investment capital | 42% |
| Extended hold periods | 29% |
| Anticipated results of the 2024 US elections | 21% |
| Increase / uncertainty of interest rates | 33% |
| Inflation concerns | 25% |
| US political, tax and / or regulatory environment unfavorable to real estate | 21% |
| Other | 8% |

- More than half (54 percent) of those who think equity commitments will go down cited increased attractive deal terms for equity investors [in other assets] as the reason why.
- Forty-six percent of that same group believe that a decrease would be the result of fewer available quality assets for investment, as well as the uncertain economic outlook.
- This is contrasted with last year's report when 67 percent of respondents attributed their outlook to uncertainty around interest rates and the economic outlook.

**What will be the impact on deal terms and hold periods if commitments are down:**

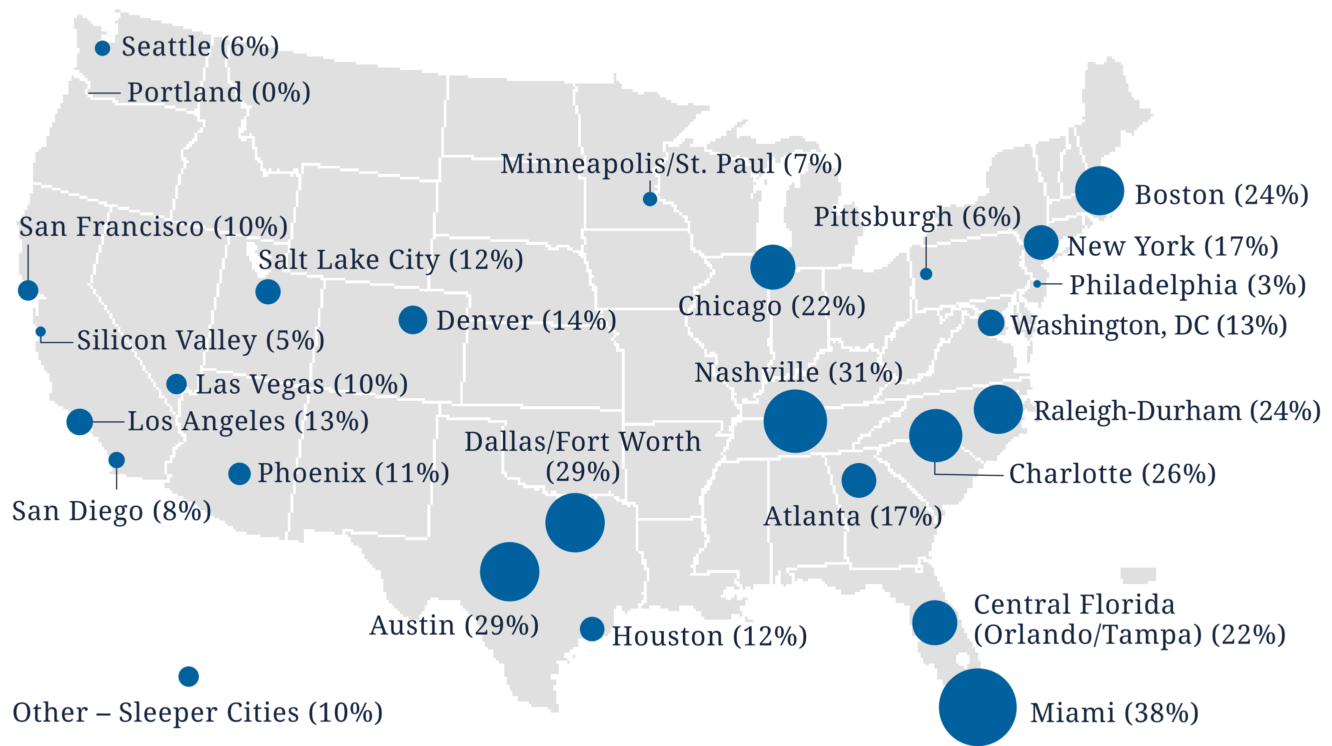
- Holding periods will increase, as returns will be 5-10 years out. This will depress pricing.
- No real jump in transactional volumes / increase in liquidity.
- Decrease in value of commercial real estate.
- Increased cap rates less debt coverage.
- Fee loads will have to change to attract investor interest.
- Lenders and investors are not seeing capital recycled on the schedule that they had assumed. As a result, lenders are making almost no new commitments, and LPs are in a similar position due to the paucity of sales activity / recycling of equity capital.
- Sellers will hopefully get more realistic about the value of their properties.
- A spiral downward.

## 12. Which asset classes present the most attractive, risk-adjusted opportunity in the US for real estate investors during the next 12 months?

| Asset class | Percent |
|---|---|
| Data centers | 53% |
| Multifamily | 43% |
| Logistics, warehousing and cold storage | 38% |
| Industrial / manufacturing (excluding logistics, warehousing and cold storage) | 37% |
| Senior housing | 30% |
| Affordable / workforce housing | 30% |
| Single-family rental housing | 30% |
| Medical offices | 25% |
| Grocery anchored shopping centers | 22% |
| Mixed-use development (commercial/residential/retail) | 21% |
| Neighborhood retail | 20% |
| Repurposing of spaces (e.g. office / hotel to residential, retail to medical office) | 20% |
| Life science / biotech | 17% |
| Manufactured housing / mobile homes | 17% |
| Self-storage | 15% |
| Student housing | 13% |
| Hotels / lodging | 13% |
| Class A / Trophy office | 10% |
| Luxury condominiums | 5% |
| Studio/sound stages | 5% |
| Other office (non-Class A/Trophy) | 4% |
| Regional malls | 2% |
| Other | 1% |

- For the first time in recent years, logistics, warehousing, and cold storage was not ranked as the most attractive asset class for investors, cited by only 38 percent of respondents (down from 53 percent in 2023).
- Instead, data centers moved into the top slot by a wide margin, cited by 53 percent of respondents, compared to just 32 percent in 2023. Cushman and Wakefield forecast[16] that total data center capacity in the Americas will increase to 2.5 times its current volume as demand for AI and related emerging technology services continues to spike.
- Multifamily remained in the second spot (43 percent), consistent with last year's report.
- Respondents see some "green shoots" in the much-maligned office sector. While only 10 percent of respondents saw Class A/ Trophy office space and just 4 percent of non-Class A space as attractive assets, this is a rebound from 2023, when suburban (4 percent) and urban (2 percent) office space were among the least desirable asset classes. The slight optimism around Class A/Trophy office is aligned with market conditions, as these spaces, especially those that are ESG-friendly and offer a variety of tenant amenities, are doing relatively well.[21]

## 13. Where are the top US cities for investment during the next 12 months?




- Miami (38 percent) was selected as the top US city for investment in 2024, consistent with the 92 percent of respondents who believe southern cities offer the strongest investment opportunities.
- In a shift from recent years, respondents see more opportunities in gateway cities like New York (named by 17 percent of respondents, compared to 12 percent last year), Chicago (22 percent, compared to 10 percent in 2023), and San Francisco (an 8-point increase from 2023, cited by 10 percent of investors).
- Some of these larger cities, many of which faced significant challenges caused by the pandemic and demographic shifts, are now seen by some investors as attractive investment opportunities, likely due in large part to price corrections.
- In the past, "tier 2" cities like Austin and Raleigh-Durham had been of the most interest. This year, Austin was cited by 29 percent of investors, down 10 percentage points from 2023, while the number of respondents who named Raleigh-Durham fell 13 percentage points year-over-year.
- The "sleeper cities," identified by the 10 percent of respondents who selected "other," include:
  - Columbus (x3)
  - Cincinnati (x2)
  - Kansas City (x2)
  - Detroit
  - Duluth
  - Omaha
  - Knoxville
  - Northern Virginia
  - Savannah
  - West Palm Beach

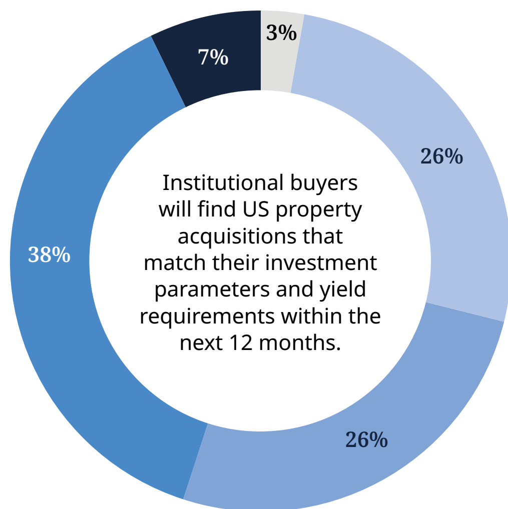
## 14. Which of the following factors will have the greatest impact on the global commercial real estate market?

| Factor | Percent |
|---|---|
| Interest rates | 72% |
| Impending loan maturities | 51% |
| Global political instability / conflicts | 33% |
| US economic outlook | 32% |
| Inflation | 28% |
| Global economic outlook | 26% |
| Ongoing post-pandemic changes in use of space | 14% |
| 2024 US elections | 13% |
| China | 9% |
| Russia | 5% |
| Climate change / climate risk | 5% |
| Sovereign investments | 3% |
| Continuing impact of pandemic generally | 1% |
| ESG initiatives | 1% |
| Other | 0% |

- Consistent with other survey data and questions about the US market, interest rates were cited by 72 percent of respondents as the factor they expect to have the greatest impact on the global CRE market as well. This is down 11 percentage points from 2023.
- Meanwhile, global political instability and conflicts ticked upwards (up 8 percentage points to 33 percent), though is markedly lower than in 2022, when the onset of the conflict in Ukraine made geopolitical concerns the top answer (64 percent).
- This year, other top considerations for the global market include impending loan maturities (51 percent), the US economic outlook (32 percent) and inflation (28 percent).

## 15. Listed below are statements that express a range of attitudes and opinions people may have about the commercial real estate market.

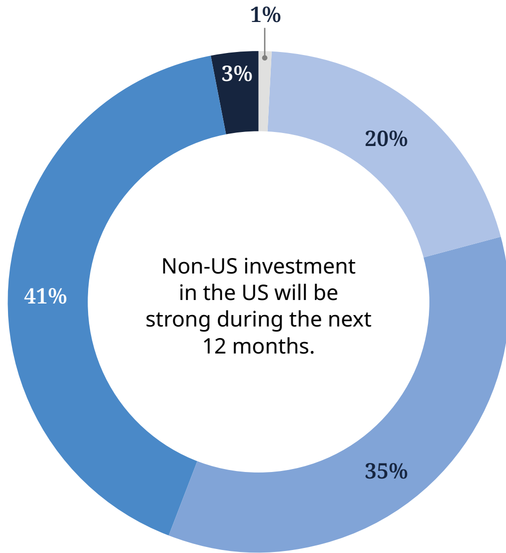
COMPLETELY DISAGREE | DISAGREE | NEUTRAL | AGREE | COMPLETELY AGREE

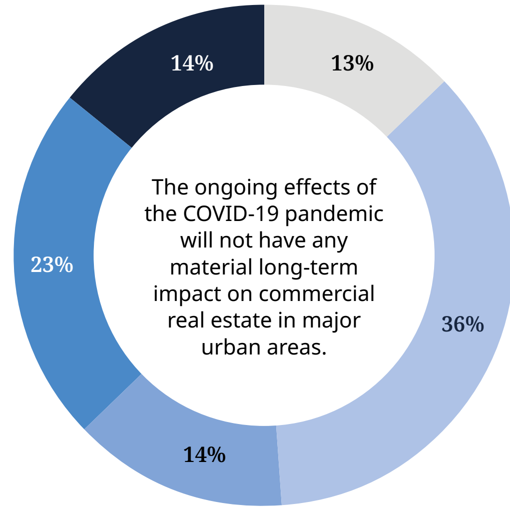



- Respondents were split on the topic, with 45 percent agreeing that institutional buyers will find suitable acquisitions in the US in the next 12 months, compared to 29 percent who disagree and 26 percent who remain neutral.
- Results were similarly mixed in 2023, when 39 percent agreed, though a larger portion of respondents (40 percent) disagreed.

## 15. (continued) Listed below are statements that express a range of attitudes and opinions people may have about the commercial real estate market.

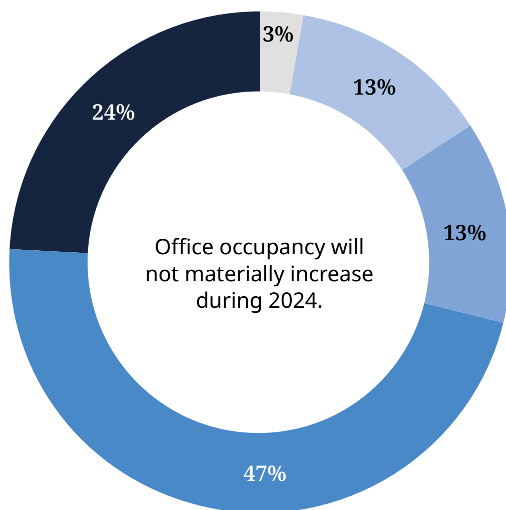
COMPLETELY DISAGREE | DISAGREE | NEUTRAL | AGREE | COMPLETELY AGREE




- While 44 percent of respondents agree that they expect strength in non-US investment in the US, a notable group (35 percent) remains neutral while 21 percent disagree.
- This number is up 7 percentage points from 2023, in line with The Association of Foreign Investors in Real Estate (AFIRE)'s report from Q1 2024[42], which stated that 84 percent of their respondents indicated growth potential in US real estate, outpacing all other regions by more than 30 percent.

- In line with expectations about office vacancy rates, 49 percent of respondents disagree, forecasting long-term impacts from the pandemic. Still, a sizeable portion of respondents (37 percent) agree with the idea that even lingering impacts will eventually return to the pre-pandemic status quo.
- This is slightly different from 2023, when 59 percent of respondents expected a long-term impact – and even further declined from the 62 percent who said the same in 2022. This shows a continued trendline toward a recovery for urban areas in a post-pandemic landscape.

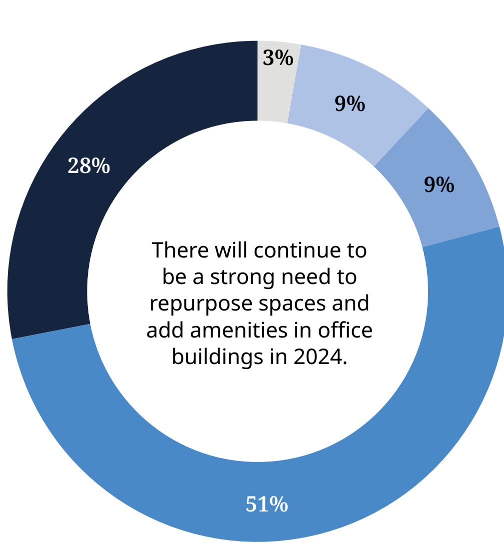



- Nearly three-quarters (71 percent) of respondents agree that office occupancy will not materially increase during 2024, as challenges across the sector continue. Still, 26 percent feel there will be a notable increase, as more companies mandate return-to-office policies and Trophy/Class A office buildings show signs of strength.
- This is nearly identical to the 2023 results (72 percent agreed), as the office sector continues to face challenges in Class B and C properties.

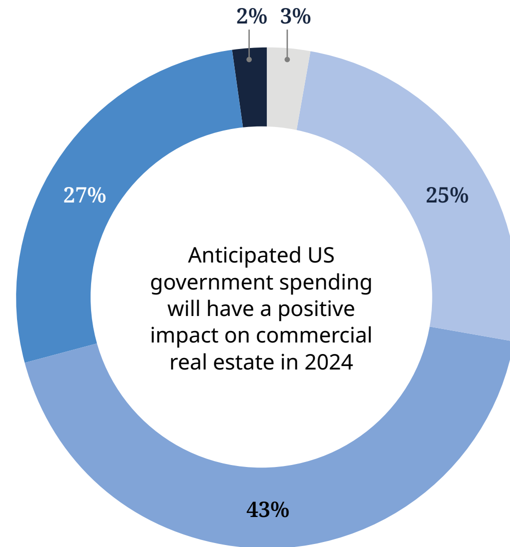
Content continues on next page

## 15. (continued) Listed below are statements that express a range of attitudes and opinions people may have about the commercial real estate market.

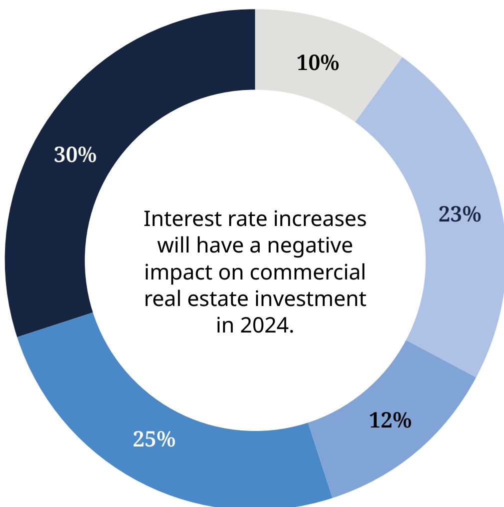
COMPLETELY DISAGREE | DISAGREE | NEUTRAL | AGREE | COMPLETELY AGREE




- Eight in 10 (79 percent) respondents agree that it will be important and even necessary to repurpose spaces and add amenities across the office sector in 2024 in order to attract new tenants.
- This is consistent with the 2023 survey results (82 percent felt similarly) and continues to demonstrate why Class A/Trophy buildings are separating themselves from the struggles of older and less amenity-laden properties.



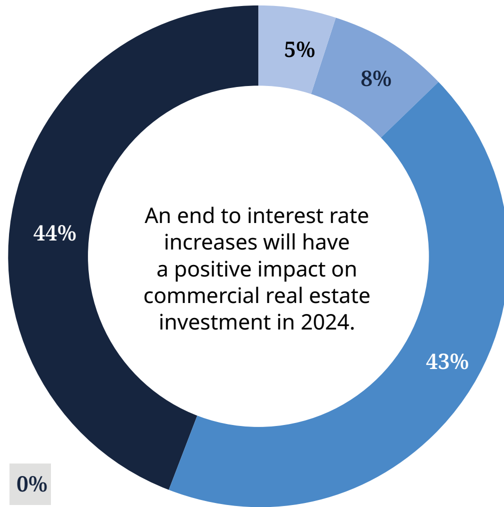

- The largest group of respondents (43 percent) remain neutral on the impact of US government spending, while nearly equal groups agree and disagree (29 and 28 percent, respectively).
- The largest portion of respondents (48 percent) were neutral in 2023 as well, though notably more (37 percent) disagree.



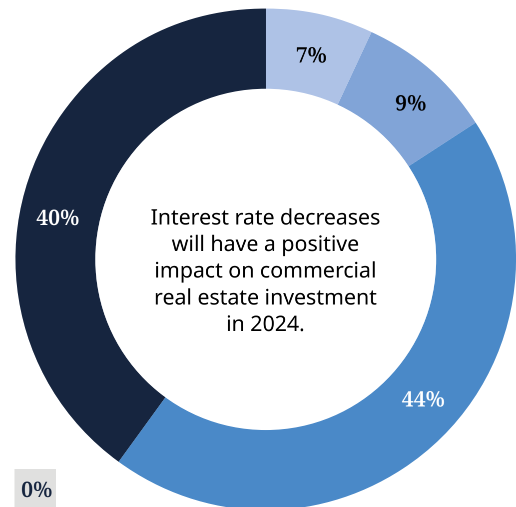

- One-third of respondents disagree, and more than half (55 percent) of respondents agree that interest rate increases would have a negative impact on commercial real estate.
- This is down from 2023, when 92 percent said the same – though this is likely not diminishing their potential impact, but rather indicating expectations that increases will not happen in 2024.

## 15. (continued) Listed below are statements that express a range of attitudes and opinions people may have about the commercial real estate market.

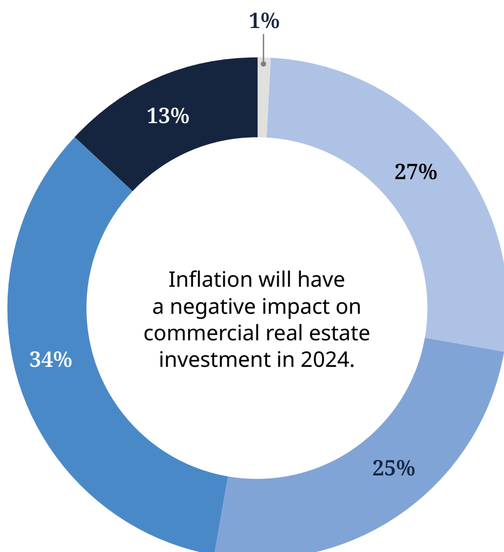
COMPLETELY DISAGREE  DISAGREE  NEUTRAL  AGREE  COMPLETELY AGREE




- Consistent with other data from the survey, an overwhelming majority – 87 percent – of respondents agree that an end to interest rate hikes would positively impact the industry, while just 5 percent disagreed, likely because they do not think that interest rates have peaked.
- Recent economic indicators, like the CPI and jobs numbers, may sway expectations for interest rate cuts – or even steady rates – in 2024.




- Similarly, 84 percent of respondents believe that rate cuts will occur and benefit the industry in the remainder of the year, with just 7 percent of respondents dissenting.
- Heading into the next Federal Reserve meeting, industry leaders may be more bearish on these expectations than when the survey was conducted.




- Inflation remains a concern, as 47 percent of respondents believe it will have a negative impact on the industry. About a quarter of respondents (26 percent) believe that it will not have a negative impact, while another quarter remains neutral on expectations for 2024.
- Given that this survey was conducted prior to CPI increasing in March and April, inflation may now be viewed as more impactful – particularly as it influences interest rates.

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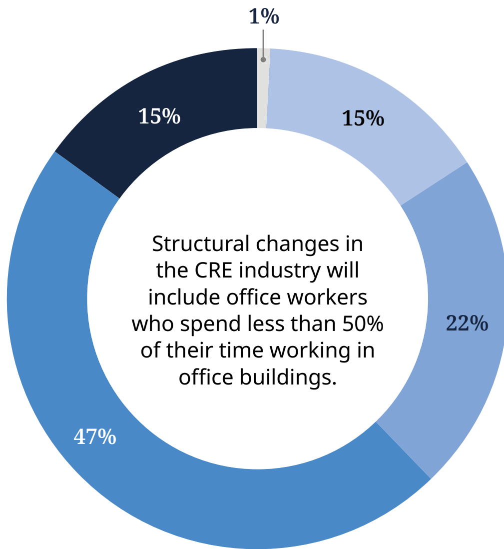
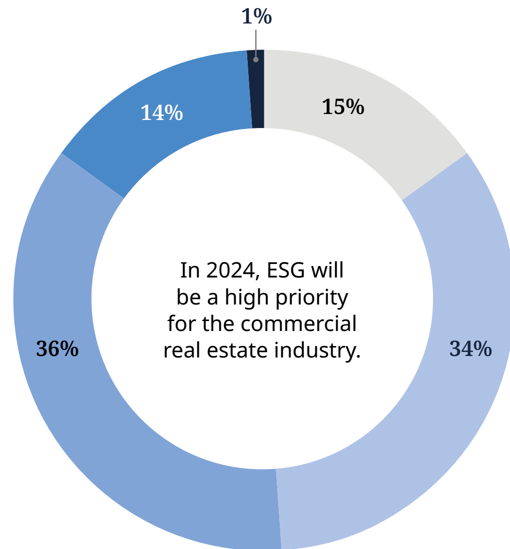
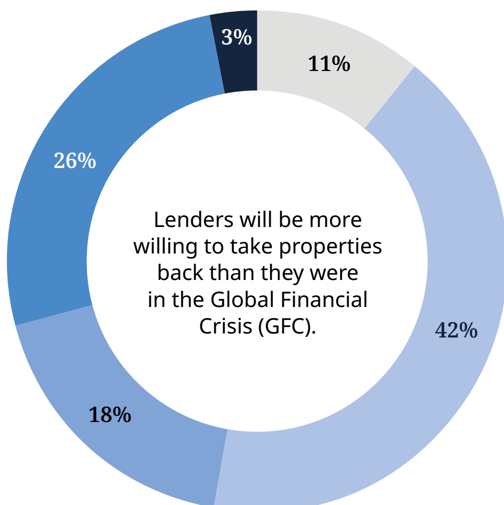
## 15. (continued) Listed below are statements that express a range of attitudes and opinions people may have about the commercial real estate market.




- Six in 10 (62 percent) of respondents agree that structural changes across the industry will continue to include office workers spending less than half their time in office buildings.
- Sixteen percent disagree, as remote work and the return-to-office continue to weigh on the minds of industry leaders.

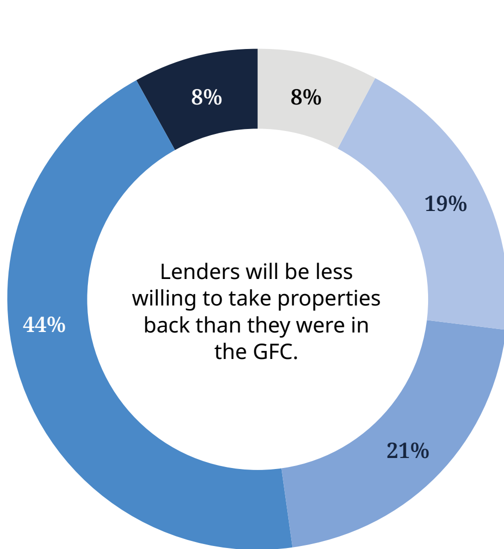
- Just 1 percent "completely agree" that ESG will be a priority, while 49 percent disagree.
- This is in-step with global headlines about a pullback on ESG efforts[43] from both investors and organizational commitments.

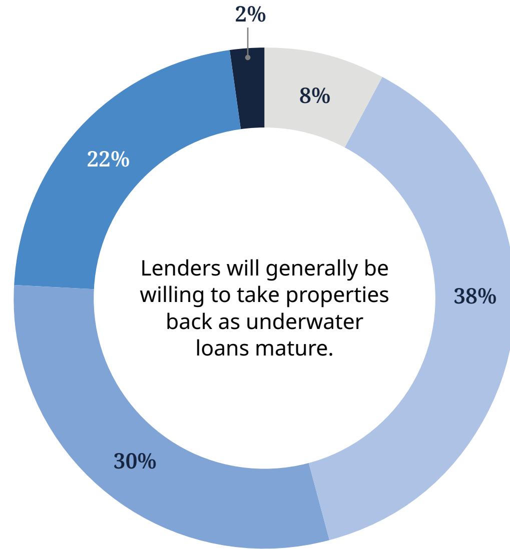



- The majority of respondents (53 percent) do not think lenders are more likely to take properties back than in the 2008 Great Financial Crisis, though a notable 29 percent believe that the inverse may be true.
- Given that lenders do not have the same flexibility today as they did during the GFC, we anticipated an expectation that lenders would be more proactive.

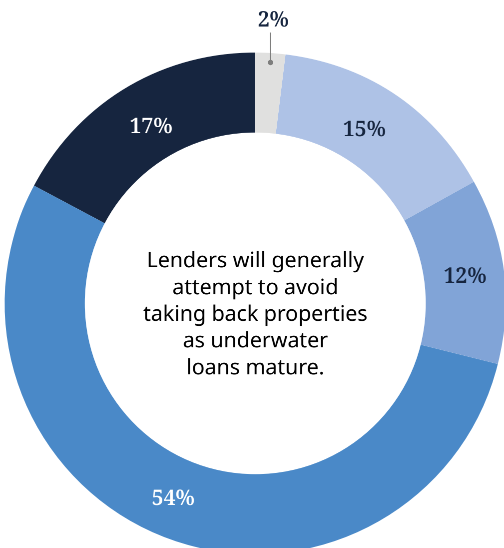
## 15. (continued) Listed below are statements that express a range of attitudes and opinions people may have about the commercial real estate market.

COMPLETELY DISAGREE | DISAGREE | NEUTRAL | AGREE | COMPLETELY AGREE




- Unexpectedly, most (52 percent) agree that lenders will be less willing to take back properties than in 2008, though 27 percent disagree, and another 21 percent remain neutral on expectations for 2024.
- In 2023, CBRE estimated[44] that the next few years could see as much as $125 billion in commercial real estate loan losses for all lenders. Still, distressed properties are expected to create unique opportunities, including for investors who couldn't successfully refinance maturing loans and those interested in mid-value properties.
- As concerns about maturing loans continue[45], only a quarter of respondents believe that lenders will be willing to take back properties as those underwater loans mature, while 46 percent believe the opposite.




- Conversely, 71 percent of respondents agree that lenders will avoid taking back properties as those underwater loans mature. Just 17 percent disagree.
- While this topic wasn't a part of past DLA Piper surveys, recent conversations around the office sector and the volume of loans maturing in 2024 and 2025 have escalated this topic in conversations about CRE.

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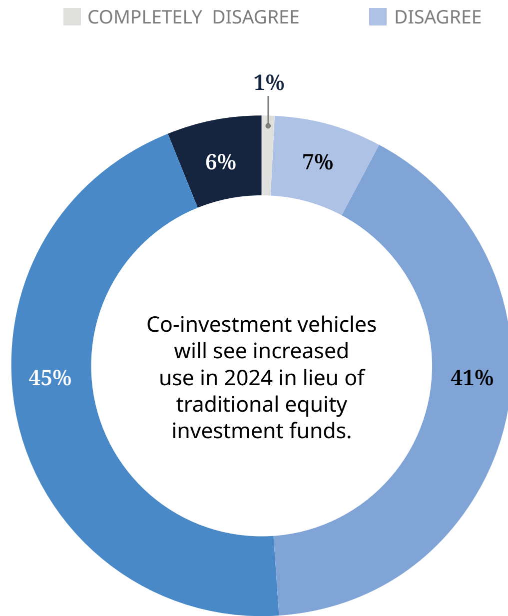
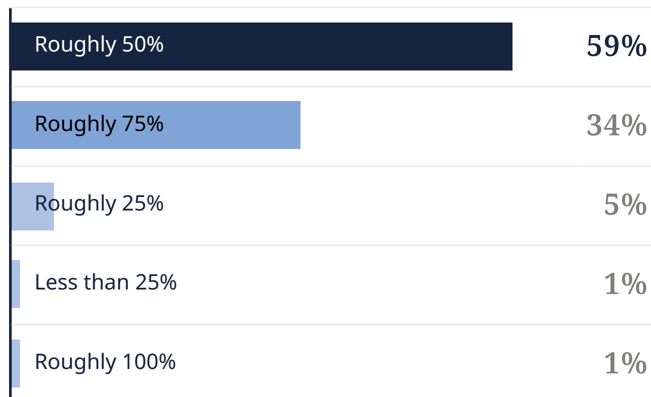
## 15. (continued) Listed below are statements that express a range of attitudes and opinions people may have about the commercial real estate market.




- Respondents remain divided on the use of co-investment vehicles in 2024; 51 percent believe they will see increased use, while 41 percent remain neutral on whether they'll be used in lieu of traditional investment funds.
- The case was the same in last year's report, when respondents were split with 51 percent in agreement and 48 percent neutral.
- This continues to remain an attractive option for some investors, including in sectors like family office.[46]

## 16. What percentage of workers in urban areas do you expect to be back in their offices consistently 12 months from now?



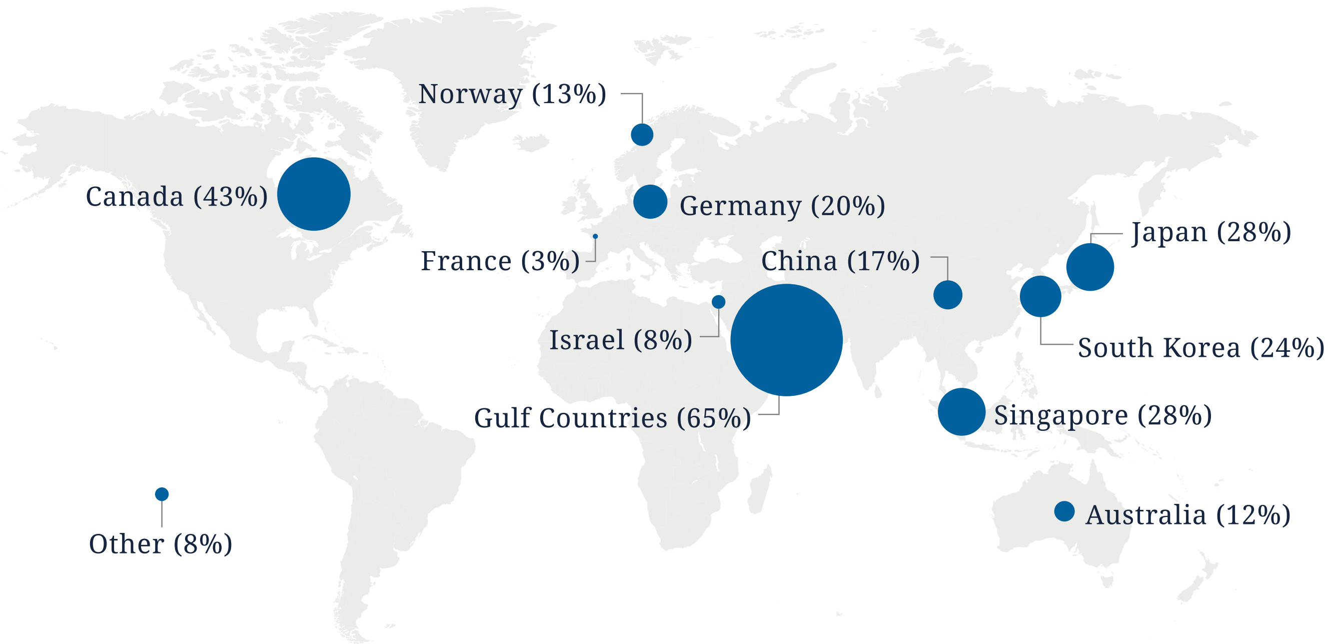

- As many companies continue to push a return-to-office, 59 percent of respondents expect that about half of workers in urban areas will return to their offices on a consistent basis within 12 months.
- One-third of respondents believe that the number will be closer to 75 percent of urban office workers.
- These expectations are on par with what was reported in the 2023 survey, though recent data from Placer.ai[47] shows that, as of year-end 2023, New York and Miami both saw their return-to-office rates near 80 percent – well above the national average of 63 percent.

## 17. When do you anticipate US office building vacancy returning to pre-pandemic levels?

| Response | % |
|---|---|
| Never | 47% |
| More than 3 years from now | 37% |
| 2 to 3 years from now | 16% |
| 1 to 2 years from now | 0% |
| Less than 1 year from now | 0% |

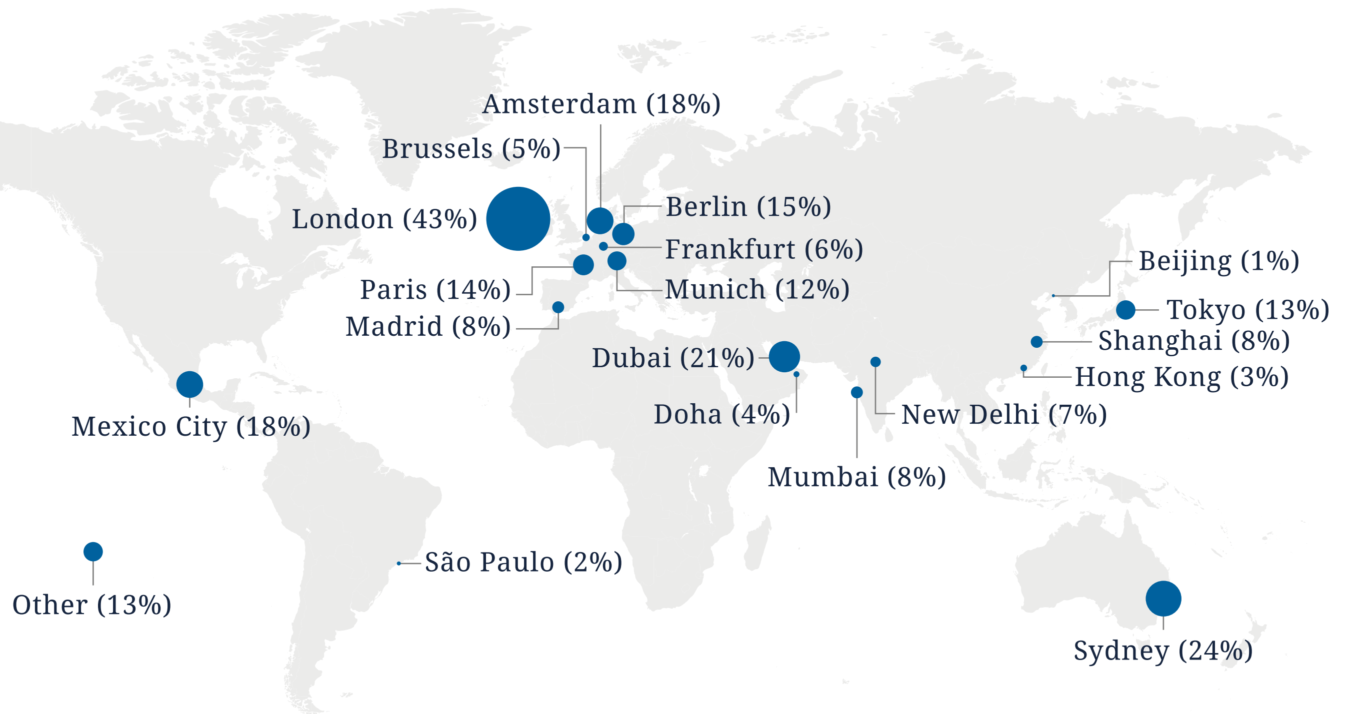
- Though more people are spending time in the office, there are still challenges across the sector as companies downsize[48] and office vacancy rates rise[49], disproportionately affecting Class B and C properties. Class A/Trophy properties are experiencing much more stabilized conditions.
- In DLA Piper's 2024 survey, 47 percent of respondents say US office building vacancy will never return to pre-pandemic levels, while another 37 percent expect it will take more than three years – but will eventually reach that point.
- Zero percent of respondents believe vacancy rates will rebound within the next two years.

## 18. Investors from which of the following countries will be most active in the US commercial real estate market during the next 12 months?



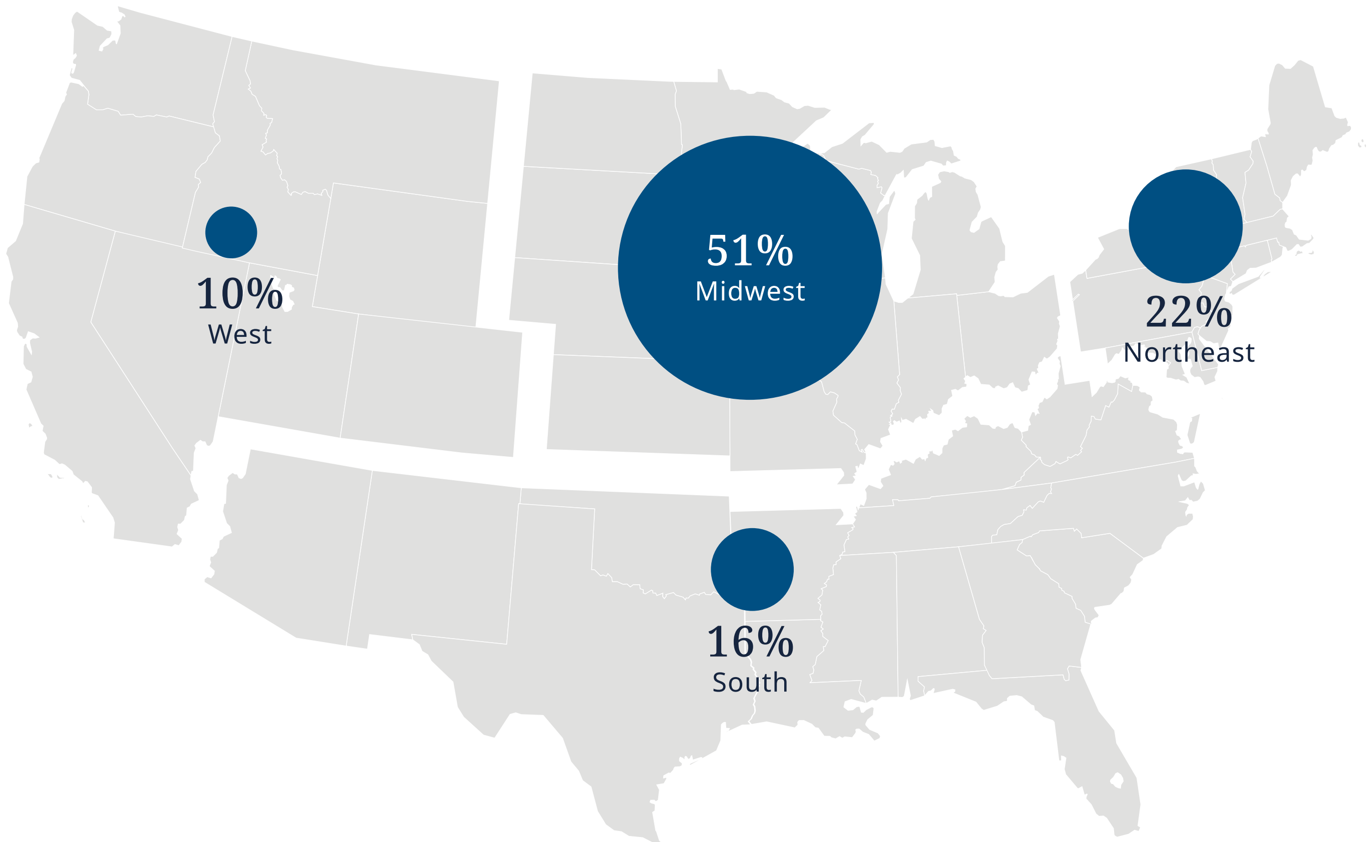

- Gulf countries – including the United Arab Emirates, Qatar, Kuwait – were the top response by far, cited by 65 percent of respondents as the countries expected to be most active in the US CRE market this year. This is consistent with 2023.
- Also on par with last year's report, Canada was the second-most cited country (43 percent), up 6 percentage points from 2023.
- Countries mentioned in the "other" category include Taormina and Kingdom of Saudi Arabia.

## 19. Which of the following international cities are most attractive for investment during the next 12 months?

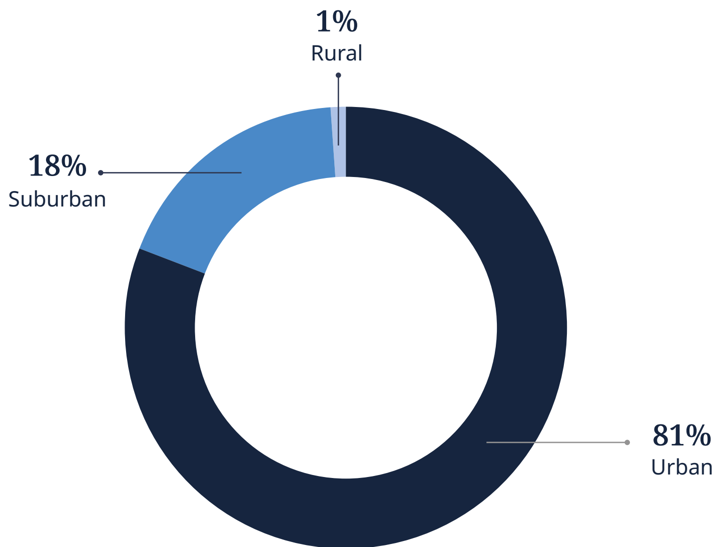



- London remained the most attractive international city for investors, selected by 43 percent of respondents – down slightly from 2023.
- Berlin (15 percent) and Munich (12 percent) both saw increases in investor interest in this year's report, up 5 and 6 percentage points, respectively.
- Sydney also saw a marked increase, cited by 24 percent of respondents as an attractive place to invest over the next 12 months – up from 14 percent in 2023.
- Those who selected "other" mentioned South America and Canada, while others referenced Europe more broadly.

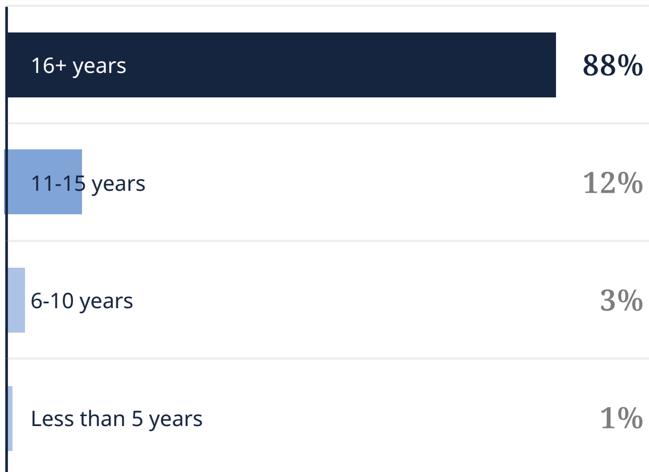
## 20. In which state is your primary residence?



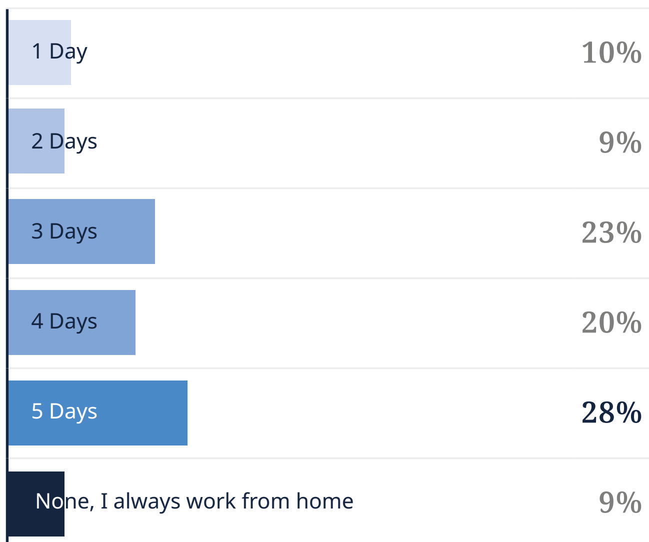

## 21. How would you describe the area where you work?

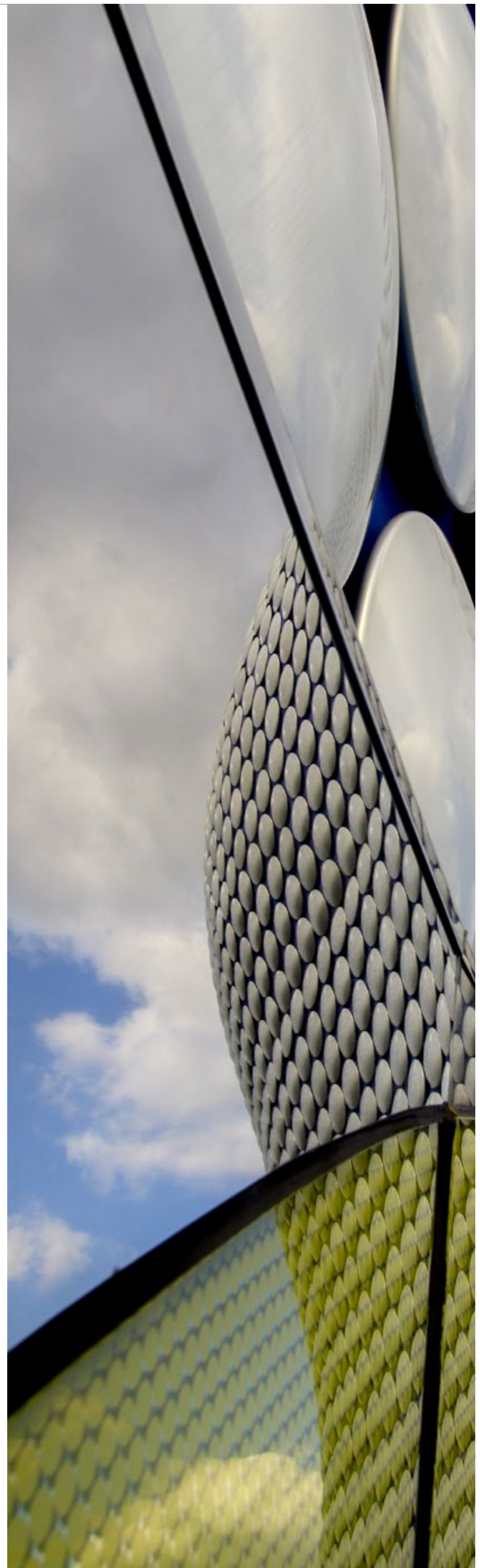


## 22. How long have you worked in commercial real estate?




## 23. In a typical week, how many days do you work from a physical office space outside of your home?



# Methodology

Between February 6 – March 6, 2024, DLA Piper distributed a survey to experts within the commercial real estate industry via email lists. These experts include CEOs, COOs, CFOs, real estate developers, real estate debt providers, real estate investors, third-party brokerage, property and asset managers, and other real estate professionals. The survey was completed by 128 respondents in total. Due to rounding and multi-select questions, percentages used in some of the questions may not equal 100 percent.

# Endnotes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# About DLA Piper

With a portfolio of services to match every stage of the business lifecycle, we combine practice area knowledge with modern industry insights and an expansive geographic footprint in a way that no other firm can. Our global solutions are tailored and seamless – and ready to meet your toughest challenges.

**Seamlessly executed global solutions**
Our deep capabilities and broad global platform and mindset produce exceptional results for our clients around the world. We make global easy.

**Trusted steward of growth and change**
We help our clients manage their growth and change. Our flexible and forward-looking approach guides clients through both opportunities and risks.

**Passionate community and social leader**
We lead on important social, environmental, and community issues. Our people serve and make a difference.

**Modern, dynamic innovator**
We foster collaboration and creativity and empower our people to act. Our constant pursuit of innovation has helped transform the delivery of legal services for our clients.

**Invested, collaborative partner**
We are deeply integrated with our clients and essential partners in their success. Our people and our clients become one high-performing team delivering value and results.

**Proven, consistent value**
We earn our stellar reputation by consistently delivering exceptional services and results at a fair price across markets.

Most Innovative Law Firms
North America
*Financial Times* 2023

Best of the Best
Leading Edge Law Firms
*BTI Consulting Group* 2024

## Stats

40+
Countries

90+
Global offices

807
Ranked practices
*Chambers Worldwide* 2023

117K
Pro bono and community engagement hours provided throughout the US, Mexico, and Canada in 2022

4,900+
Lawyers worldwide

## Awards

#3
AmLaw 100
*American Lawyer* 2024

#2
Client Service A-Team
*BTI Consulting* 2024

#2
Global Elite Law Firm
*Thomson Reuters* 2022

# DLA Piper Real Estate

## Real Estate Accolades

**Tier 1**
Real Estate
*Legal 500 USA* 2023

**Tier 1**
Land Use & Zoning
*Legal 500 USA* 2023

**Band 1**
Real Estate, Global: Multi-Jurisdictional
*Chambers Global* 2024

**Two-time Winner**
Real Estate Award for Excellence
*Chambers USA*

## 2024 Real Estate News

DLA Piper Real Estate group is pleased to welcome **Jason Vismantas** as a partner in our Chicago office. Jason is a full-service real estate attorney with extensive experience assisting a wide variety of clients with all aspects of real estate acquisitions and dispositions, joint ventures, preferred equity arrangements, construction, development, leasing, and financing. His work spans all asset classes, including retail, office, multifamily, senior living, student housing, industrial, and hospitality, and his clients includes institutional and non-institutional private equity groups, publicly traded and non-publicly traded REITs, financing companies, fund managers, sponsors, and developers across the country.

In 2024, we promoted **Andrew Brady** to Partner and **Kaila Sergent** to Partner, both in our Los Angeles office.

*"The team is exceptionally strong...Talented, creative, and extremely responsive."*
 Chambers USA

## Stats

**500+**
Real Estate Global Timekeepers

**160+**
US Real Estate Timekeepers

**38**
Ranked Attorneys
*Chambers USA* 2023

**14**
Group Rankings
*Chambers USA* 2023

**17**
Real Estate Office Locations in the US

# Notable Matters

- Represented **QTS Data Centers** (in collaboration with Compass Data Centers) in securing the challenging approvals of a 2,200-acre Comprehensive/Master Plan Amendment as well as contentious rezoning applications for the Prince William Digital Gateway. DLA led the team of engineers, master land planners, historians, architects, environmental, transportation, power/energy consultants and public relations experts in replanning and rezoning land for 20+ million square feet of data center development located near the historic Civil War Manassas National Battlefield Park in Prince William County, Virginia. This three-year effort (and US$40 billion investment) has been cited by many as the single largest master-planned data center campus in the world.
- Represented **an alternative investment management company** on a multibillion-dollar joint venture with a real estate investment trust company to develop several hyperscale data center campuses in Germany, France, and Northern Virginia. Our team led the real estate due diligence process, including title/survey, environmental review, customer contracts, zoning, development agreements, construction contracts, and condominium work, for a four-building data center development in Prince William County, Virginia and a 13-building data center campus in Loudoun County, Virginia. Our teams in London, Germany, and France handled the real estate due diligence and development related matters for the data center development at a five-building campus in Germany and a two-building site in France. We also provided Dutch and Luxembourg structuring advice.
- Represented **Soloviev Realty Group** in connection with the US$1.6 billion disposition of a five property NYC multi-family portfolio on the Upper East Side of Manhattan.
- Represented **Harrison Street Real Estate** in connection with an acquisition/ joint venture (US$1.2 billion enterprise valuation) with American Campus Communities of a portfolio of public-private partnership (P3) student housing facilities located on Arizona State University's campus.
- Representing **a joint venture** controlled by Related Midwest in connection with the development of "The 78" (named to connote the creation of Chicago's 78th neighborhood), a 15 million square foot, $7 billion mixed-use development project on 60 acres of prime real estate located in the South Loop area of Chicago. DLA Piper's Chicago Land Use Team obtained zoning and entitlements for the development and negotiated a financing structure with the City of Chicago to allocate up to $550 million of tax increment financing to fund infrastructure and site development work. In addition, DLA Piper recently completed additional work that facilitated closing on the conveyance of a development parcel to The University of Illinois. The parcel will be developed and become the home of the Discovery Partners Institute, which will be the University's tech campus featuring research and development facilities, classrooms, an executive conference center, office space for tech companies, and housing for researchers and students. In addition, Related Midwest is currently in discussions with the City of Chicago, the State of Illinois and other city and state agencies to entitle, finance and construct a new home for the Chicago White Sox on the northern portion of the site.
- Represented **a real estate investment firm** in closing two note purchase transactions totaling US$750 million with a lender group. The property owners granted mortgages on 28 off-airport parking facilities in 13 states.
- Represented **a real estate investment firm** in closing two note purchase transactions totaling US$750 million with a lender group. The property owners granted mortgages on 28 off-airport parking facilities in 13 states.
- Represented **one of the world's leading web services providers** in the US$650 million purchase of 1,000+ acres in Pennsylvania improved with substations and transmission infrastructure and an existing data center shell, and other power infrastructure.
- Represented **Bardas Investment Group** in obtaining unanimous approval by the City Planning Commission of the City of Los Angeles for an approximately 600,000-square-foot dynamic production studio creative office campus in Hollywood. Four soundstage production facilities and one flex stage are fused with creative office spaces to create a fully integrated studio lot.

- Represented **EDC Ventures** (a joint venture of Edged Energy and Koch Real Estate Investments) to represent them as borrower/developer in a bespoke programmatic hybrid project finance/real estate borrowing base construction loan for US$800 million covering initially 7 data center sites being developed in Atlanta, Dallas, Aurora, IL, Kansas City, MO, Salt Lake City, Phoenix and Columbus. The properties are being developed to be partially occupied by a hyperscale tenant with room for expansion by that tenant and extra space for other occupants.
- Represented **a life insurance company**, as lender, in connection with a US$398 million portfolio loan secured by 33 warehouse and outdoor storage industrial properties located in California, Florida, Georgia, Illinois, Indiana, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas and Virginia.
- Represented **Artemis Real Estate Partners** in the US$157 million acquisition and financing of a five-property industrial portfolio located in Fort Worth, Texas.

*“The DLA Piper real estate practice is top tier. It’s hard to find a firm that has the same combination of technical talent, commercial savvy, and efficiency, while at the same time being pleasant people and fun to work with.”*

— The Legal 500 USA

# Contacts

## Global Leadership

**John Sullivan**
**Co-Chair, Global Real Estate Sector**
**Chair, US Real Estate Sector**
Boston
T +1 617 406 6029
john.sullivan@us.dlapiper.com

**Stacie Trott**
**Co-Chair, Global Real Estate Practice**
**Co-Head, New York Real Estate Practice**
New York
T +1 212 335 4860
stacie.trott@us.dlapiper.com

**William Naunton**
**Co-Chair, Global Real Estate Practice**
London
T +44 207 153 7065
william.naunton@dlapiper.com

**Jo Owen**
**Co-Chair, Global Real Estate Sector**
**Global Co-Chair, Hospitality and Leisure**
London
T +44 (0)7968 559 031
jo.owen@dlapiper.com

## State of the Market Committee

**Barbara Trachtenberg**
**Partner**
Boston
T +1 617 406 6011
barbara.trachtenberg@us.dlapiper.com

**Paul Shadle**
**Partner**
Chicago
T +1 312 368 3493
paul.shadle@us.dlapiper.com

**Jerry Neuman**
**Head, California Real Estate Practice**
Los Angeles
T +1 213 694 3131
jerry.neuman@us.dlapiper.com

## US Leadership

**Bryan Connolly**
**Chair, US Real Estate Practice**
Boston
T +1 617 406 6041
bryan.connolly@us.dlapiper.com

## REALWORLD

**The Global Guide to Real Estate Law**

REALWORLD is an online guide to legal issues in real estate. The site is free to use and provides answers to legal questions that investors, developers and occupiers typically have when entering new real estate markets across the globe. Here you will find REALWORLD LAW, our guide to local knowledge about how the law works wherever you invest or operate. We also offer you REALWORLD NEWS, keeping you up-to-date with the real estate sector around the world.

www.dlapiperREALWORLD.com

We will release our Mid-Year Trends Report early in Q3!

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