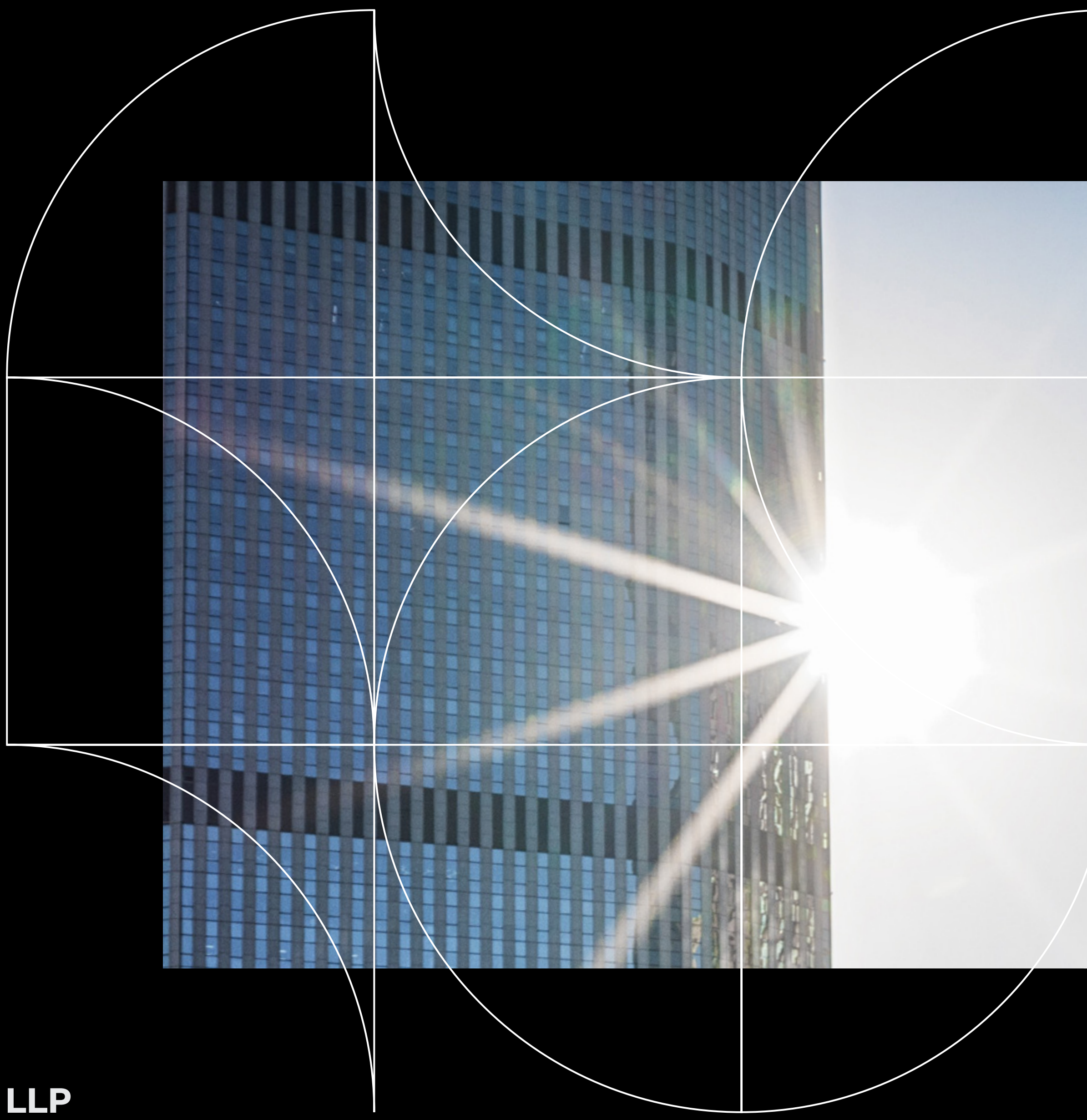
Seyfarth

2025 Real Estate Market Sentiment Survey



Seyfarth Shaw LLP

EXECUTIVE SUMMARY

With optimism reaching a five-year high, our commercial real estate (CRE) executive survey respondents view 2025 as a year of opportunity, particularly given expectations of declining interest rates, a reopening market for distressed assets, a steady return to in-office work, and an increase in foreign investment activity. Nevertheless, respondents remain mindful of persistent industry challenges, including concerns about inflation, the cost and availability of property insurance, and rising construction costs.

CRE executives weigh the impact on their investment strategies of interest rate risk and the evolving legislative policies of the new presidential administration. Although economic uncertainties remain, better market fundamentals—alongside expectations surrounding the use of AI—are emerging as potential catalysts for positive change in the CRE landscape. The year ahead offers plenty of opportunity, but with a focus on adaptability and resilience to external forces.

Against that backdrop, we highlight key takeaways from our 2025 Survey alongside a comprehensive analysis of the underlying factors shaping these results. By going beyond the numbers, we identify emerging opportunities and potential risks to help industry stakeholders make informed decisions in a dynamic market.

Seyfarth's 2025 Survey examines the industry's current market sentiment as it navigates a new presidential administration, technological advances, shifting market fundamentals, and "new but old" workplace norms:

UNWAVERING OPTIMISM

CRE executive optimism reached a five-year high, with 87 percent confident about the year ahead.

Seyfarth Says: 2025's high levels of optimism seem to be fueled by expectations of at least moderately declining interest rates building upon the reduction in rates in 2024, a stabilization of pricing of real estate, and a hope for industry-friendly policies from a new administration. Increased foreign investment, and a positive outlook for investment in multifamily, industrial, and data center projects, are also keeping a spring in CRE executives' step.

GROWTH GAMEPLAN

Multifamily, industrial, data center, and retail properties top the list for CRE executives' investment strategies for 2025.

Seyfarth Says: Multifamily investment is being spurred by a universal acknowledgement that the country is under-housed due to a shortage of available affordable and workforce housing. With high construction costs, housing starts were down in 2024 compared to 2023 and high residential mortgage rates are limiting sales of existing homes. E-commerce and the reshoring of manufacturing in the US continues to drive the need for industrial assets. The popularity of live/work/play neighborhoods is spurring demand for well-located brick and mortar retail, particularly grocery-anchored retail, which is establishing itself as a solid if not flashy investment. Data center investment is fueled in large part by booming investment in AI, but also driven by the growth of digital operations and remote work, not to mention a broader acceptance of this asset class by institutions and investors.

RATE REALISM

The significant rate cuts anticipated last year failed to materialize. In 2025, two-thirds of CRE executives believe that interest rates will decrease between 0-50 basis points. Only 10 percent of respondents believe that interest rates will decrease more than 50 basis points.

Seyfarth Says: The outlook for continued rate reductions in 2025 remains uncertain due to lingering inflation concerns and potential policy shifts under the new administration, including tariffs and tax cuts that could affect the national debt. Despite this, the vast majority of our respondents believe rate cuts are likely, offering some relief to the market.

AI ASPIRATIONS

In 2024, 34 percent of respondents planned to adopt AI capabilities, and by 2025, 33 percent had followed through—closely aligning with expectations. Looking ahead, the CRE market is accelerating its tech adoption, with 59 percent planning to integrate AI in the coming year.

Seyfarth Says: Despite the buzz surrounding AI, its adoption in the real estate industry has been slow to gain significant traction. However, as technology evolves, industry players continue to explore ways to integrate AI into property management and leasing activities. While AI adoption in 2024 met expectations, this year's responses indicate even greater expectation in leveraging AI to enhance business operations in 2025.

Potential uses include streamlining and accelerating lease preparation and negotiation, and identifying amenity offerings, by culling data to understand the needs of tenants and source relevant lease and contract provisions.

Additionally, the rise of AI has fueled interest in data centers, with CRE executives ranking them among the top three most attractive investment and growth areas (as noted in Growth Gameplan and Question 4). However, the expansion of data centers raises critical questions about whether the energy grid can sustainably meet rising demand, as well as the growing challenge of communities increasingly opposing the construction of data centers.

PRICE PRIORITIES

For yet another year, price is the most influential factor in acquisition decisions, along with a focus on interest rates and access to financing.

Seyfarth Says: Pricing remains the primary market driver for respondents, though there is a growing sense that prices are stabilizing and cap rates are compressing, albeit at a slower pace. Should transaction volume pick up in 2025, the increase in comparable sales will help buyers and sellers reach a clearer consensus on pricing.

Overall, CRE executives are anticipating a busier year ahead. While most expect interest rates to decrease in 2025, they appear prepared to operate in a "higher for longer" market environment. As with previous cycles, the CRE market can adapt to current interest rate levels, as long as pricing remains stable and debt financing is more abundant than in previous years. Financial institutions are forecasting an uptick in lending, which should enhance debt supply, even if interest rates persist at their current levels. Moreover, the new administration's focus on reducing regulatory barriers—particularly in banking and environmental sectors—should further facilitate capital flow, paving the way for more acquisition and refinance opportunities.

DISTRESSED DYNAMICS

Distressed asset investments in 2024 fell short of respondents expectations. While 74 percent of respondents anticipated investing in distressed assets in 2024, only 52 percent of this year's respondents reported actual investment last year. Looking ahead, the majority (69 percent) of our respondents still plan to invest at some level in distressed assets in 2025.

Seyfarth Says: Real estate markets were generally stagnant last year, stalling both distressed and regular asset transactions. Owners and lenders largely cooperated in 2024, keeping distressed asset volume low. Additionally, bank balance sheets allowed lenders to hold onto REO assets longer. If market fundamentals improve in 2025 and transaction volume picks up, our respondents will have a better chance of meeting their investment targets compared to 2024. With stabilized pricing, acceptance of current interest rates, and more available debt, both distressed and other assets may become more marketable in 2025.

RESILIENT REMOTE REALITIES

The normalization of remote and hybrid work continues to show little impact on employee loyalty or profitability—with 82 percent of respondents saying their profitability continues to hold strong, despite the persistence of remote work models, a jump from 74 percent last year. However, our respondents still see a downside to remote work with a majority reporting that remote work has had an adverse impact on their company culture. 64 percent of CRE executives expect employees back in the office 4-5 days a week in 2025.

Seyfarth Says: While remote and hybrid work is likely here to stay, the push for in-office attendance in both the private and public sectors is achieving its goal of bringing employees back to the office. CRE leaders favor frequent in-office attendance, with the majority expecting employees to be in the office 4-5 days a week. This increased in-office presence could help strengthen company culture. Given that more in-office work will drive demand for office space, it's not surprising that respondents see a steady, structured in-office presence as beneficial to the future workplace. Moreover, higher in-office attendance should boost street retail, public transportation, and contribute to a "normalization" of the workplace closer to pre-COVID conditions.

MOUNTING CONCERNS

Rising costs and market uncertainties dominate the minds of CRE executives heading into 2025. Interest rates remain the most pressing worry, with 83 percent identifying them as a key challenge, up from 70 percent last year. Concerns about construction costs have also climbed to 45 percent, and inflation continues to weigh heavily, with 43 percent of executives highlighting it as a major issue. The availability and affordability of property insurance is emerging as a significant concern.

Seyfarth Says: Notwithstanding general optimism in the market, the experience with interest rates in recent years has left CRE professionals with a sobering approach to 2025. Concerns over construction costs are likely driven by uncertainty around the new administration's tariff and immigration policies and their impact on the cost of building materials and labor. Concerns about the availability and cost of property insurance reflect the growing impact of natural disasters and extreme weather events on the insurance industry and its ability to cover claims. In short, the challenges posed to the CRE market are substantial; yet, relative to 2024 and the years impacted by COVID and post-COVID conditions, optimism prevails for 2025.

CONVERSION CONUNDRUM

Interest in office conversion projects appears to be waning, with only 31 percent of respondents indicating that they are likely to pursue conversion projects in 2025, down from 39 percent last year.

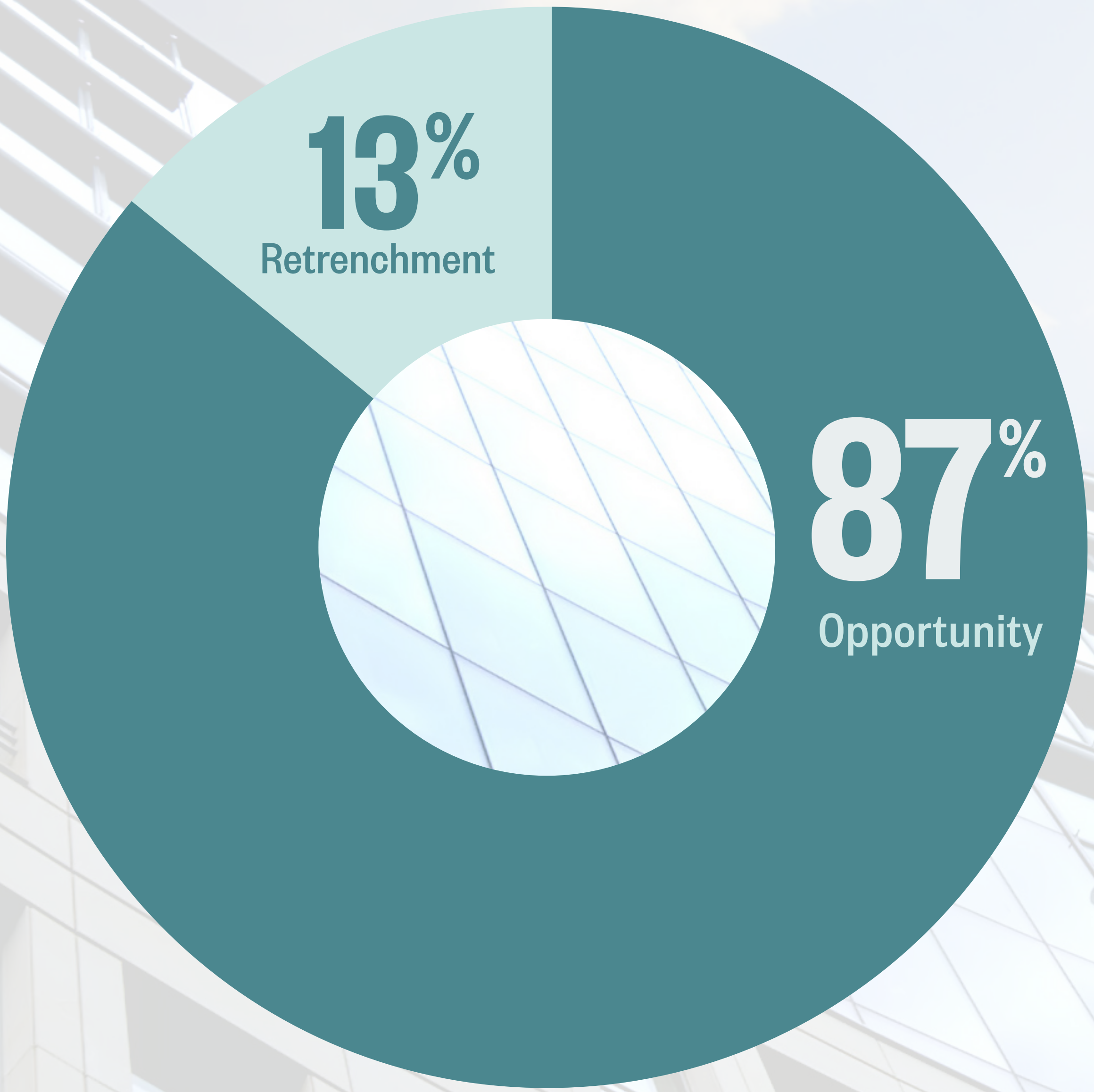
Seyfarth Says: Despite increased chatter about office conversions, CRE executives remain cautious—and unconvinced. While policymakers see conversions as a solution for struggling central business district office markets, investors remain concerned about conversion costs and zoning hurdles. This highlights the disconnect between policy-driven opportunities and the industry's willingness to engage. If anticipated legislation provides attractive incentives and eases zoning barriers, conversions could become a viable growth area and the best use for aging office stock. The key word is "anticipated," as conversions often rely on financial incentives like tax abatements, zoning relief, and low-cost debt to make them marketable.

CROSS-BORDER CAPITAL

Following a historic low for foreign investment in US markets last year, 70 percent of respondents anticipate an increase in 2025.

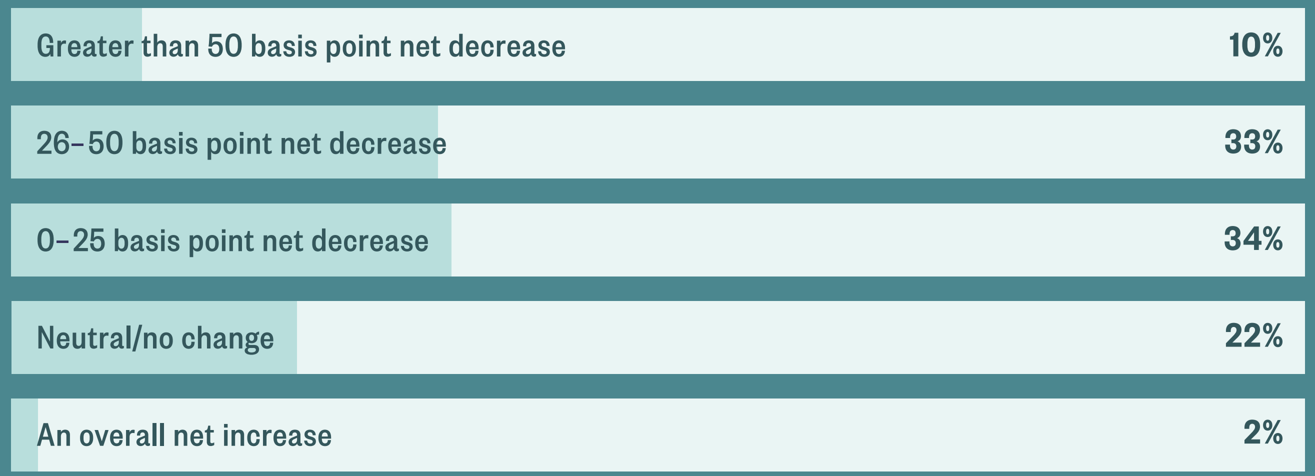
Seyfarth Says: While our respondents are generally optimistic about foreign investment for 2025, the survey results may reflect an acknowledgement of a "bottom." Uncertainty lingers and most only see foreign investment ticking up slightly. The strong US dollar, along with tariffs and other protectionist measures at the federal and state levels, may chill foreign investment. Several states have, for example, enacted legislation restricting foreign ownership of agricultural land, and there are concerns these restrictions may extend to other types of real estate assets. While expectations are trending upward, global dynamics influencing foreign investment warrant close observation in the year ahead.

Q1: Do you foresee 2025 as a year of opportunity or retrenchment for your company?



CRE executives tend to be a glass-half-full group, and this year is no different. 87 percent express confidence in the year ahead—the highest level recorded in the five years we have asked this question. With the exception of 2023, when optimism dipped to 69 percent, sentiment has consistently remained above 80 percent in recent years, reflecting a prevailing positive outlook on the market.

Q2: The case for continued interest rate reductions is less clear in 2025. Inflation concerns and President Trump's yet-to-be detailed policies may impact the Fed's forecasts. How much do you anticipate the Fed will adjust rates in 2025?



A third (33 percent) of CRE executives anticipate interest rate cuts of 26-50 basis points this year, a notable decline from 51 percent in last year's survey. Similarly, 34 percent expect a more modest cut of 0-25 basis points, up from 20 percent last year.

Only 10 percent of respondents anticipate interest rate cuts exceeding 50 basis points, compared to 23 percent in 2024. There is virtually no expectation for a rate increase.

Q3: Which of the following represent the greatest concerns for the CRE industry in 2025?

Top three greatest concerns

Interest rates/cost of capital	83%
Construction costs	45%
Inflation	43%
Cost/availability of property insurance	41%
Capital availability	33%

Concerns about interest rates, construction costs, and property insurance have been consistently keeping CRE executives up at night for years and are weighing even more heavily for 2025. Worries about interest rates surged to 83 percent this year, substantially higher than 70 percent in 2024. Similarly, there are heightened concerns about construction costs (45 percent this year compared to 37 percent last year) and cost/availability of property insurance (41 percent this year compared to 30 percent last year). For 2025, inflation (43 percent) and capital availability (33 percent) are also significant worries.

Q4: Which real estate sector presents the greatest opportunity for your investment strategy in 2025?

Top three sectors

Multifamily	64%
Industrial	45%
Data centers	41%

Multifamily properties are considered the best opportunity for investment by a significant margin. Industrial properties are the next most attractive investment. Data center properties, once considered a subset of industrial, closely rival general industrial investment as a hot investment category for 2025, with 41 percent of respondents identifying them as an area of opportunity. Retail investment is also gaining traction, with 37 percent of respondents seeing the asset class as a top opportunity in the year ahead.

Q5: Which of the following factors are most important as your company considers whether to acquire real estate assets in 2025?

Top three factors

Pricing of assets	79%
Interest rates	62%
Availability of debt financing	53%

By far, the most crucial factor influencing acquisition decisions is the pricing of assets (79 percent). Interest rates (62 percent) and availability of debt financing (53 percent) round out the top three. This follows last year's trend almost exactly, with asset pricing being the most important factor (76 percent), and availability of debt financing (58 percent) and interest rates (55 percent) swapping spots.

Q6: How likely is your company to invest in office to residential/mixed-use conversion projects in 2025?

Not likely	69%
Somewhat likely	22%
Likely	2%
Very likely	7%

Appetite for office conversion projects is slightly down this year with only 31 percent of respondents likely to invest, compared to the 39 percent in 2024.

Q7: Looking back, did your organization leverage AI to enhance your investment activity or operations in 2024?

Yes	33%
No	67%

Last year, 34 percent of respondents planned to adopt AI capabilities, and by 2025, 33 percent had followed through.

Q8: Looking ahead, will your organization implement AI or increase use of AI to enhance your investment activity or operations in 2025?

Yes	59%
No	41%

AI hope springs eternal, with 59 percent planning on using it in 2025.

Q9: Foreign investment in US commercial real estate hit a record low in 2024. Looking ahead, do you believe foreign investment will increase in 2025?

Foreign investment will not increase in 2025	30%
Foreign investment will increase slightly in 2025	55%
Foreign investment will increase significantly in 2025	15%

Last year was a historic low for foreign investment. Our respondents think that things can only go up from here, with 70 percent agreeing that foreign investment will increase in 2025.

Q10: Looking back, what percentage of your investment portfolio did you allocate to distressed assets in 2024?

0%	48%
1–10%	33%
11–25%	13%
26–50%	4%
More than 50%	2%

Q11: Looking ahead, what percentage of your investment portfolio do you anticipate allocating to distressed assets in 2025?

0%	31%
1–10%	40%
11–25%	16%
26–50%	10%
More than 50%	3%

The reality of 2024 did not align with the predictions made for the previous year. In actuality, only 52 percent of respondents invested in distressed assets in 2024, compared to 74 percent who had that in their plans based on 2024 survey results.

The majority (69 percent) of our respondents still plan to invest at some level in distressed assets in 2025.

Q12: Has the migration to work-from-home/hybrid models adversely impacted the following areas of your company?

Profitability

Yes	18%
No	82%

Employee loyalty

Yes	36%
No	64%

Company culture

Yes	52%
No	48%

These results trend along the same lines as the last four years that we have asked this question, with this year showing the highest percentage of respondents yet (82 percent) reporting strong profitability despite the normalization of remote and hybrid work, a jump from 74 percent last year. Even in previous years, profitability remained strong despite remote work for more than two-thirds of respondents.

Employee loyalty remains roughly steady, at around two-thirds unaffected, over these last four years.

Meanwhile, remote work's adverse effect on company culture appears to be gradually diminishing, showing steady improvement each year. This year, only 52 percent of respondents reported a negative impact on company culture, compared to 62 percent in 2023 and 68 percent in 2022, when the effects of remote work were felt most acutely.

Q13: In 2025, how often do you expect the majority of your team/employees to be in the office on a weekly basis?

None	3%
1 day per week	1%
2-3 days per week	31%
4-5 days per week	64%
Flexible	2%

Almost two-thirds of CRE executives (64 percent) expect employees back in the office 4-5 days a week.

Our respondents seem to agree that a consistent, steady schedule of in-office days will be the result for 2025. Very few respondents (4 percent) expect a return to anything less than 2 days a week. When asked about their own intentions in previous years, CRE executives anticipated being in the office with increasing frequency, following the trend of return-to-office policies in general.

METHODOLOGY

In January 2025, Seyfarth surveyed real estate executives—which included owners, developers, investors, asset managers, brokers, lenders, and consultants—via email to gauge their top concerns for the coming year. 128 respondents took the survey.

Due to rounding, percentages used may not equal 100.

ABOUT SEYFARTH

With more than 900 lawyers across 18 offices, Seyfarth Shaw LLP provides advisory, litigation, and transactional legal services to clients worldwide.

ABOUT SEYFARTH'S REAL ESTATE DEPARTMENT

Seyfarth is home to a world-class real estate team that serves sophisticated clients across a number of industries. Recognized as one of the largest real estate practices in the US, we have built an integrated team that serves local, regional, and national clients on the acquisition, financing, development, leasing, restructuring, servicing, and disposition of noteworthy real estate assets and portfolios. This experience extends across comprehensive array of asset classes, including office, industrial, multifamily, retail, health care, and data center projects. We leverage our size and depth to partner with clients and to invest in material enhancements in how commercial real estate law is practiced.

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