

The Property Line - Balancing Opportunity and Headwinds in 2026 (Market Survey Takeaways)

(This transcript was generated through AI technology.)

Welcome to The Property Line, a commercial real estate podcast brought to you by Seyfarth Shaw's Real Estate department. The Property Line is a brief discussion of current market trends, bringing you insights from our acclaimed national team of real estate attorneys. Each episode focuses on a key takeaway for the busy real estate professional. Now, on to this week's discussion.

Eric Greenberg

Hello, and welcome back to *The Property Line*. My name is Eric Greenberg, and I'm a Real Estate partner in Seyfarth's Boston office. I'm joined today by my colleagues, James O'Brien and Christine Kim, who are both partners in our Real Estate practice. We'll be discussing Seyfarth Shaw's 11th Annual Real Estate Market Sentiment Survey. James and Christine, thanks for joining us today.

Christine Kim

Thanks for having us.

James O'Brien

Yeah, you're quite welcome. For any keen observer, I am often the host of this podcast, so the table has been turned.

Eric Greenberg

Well, I always look forward to taking the first chair, especially for this declarative type of episode. So just to give the audience a little bit of background, for the past 11 years, Seyfarth has conducted an annual survey of our real estate clients to ascertain their view on the commercial real estate market for the coming year. Each year, we learn something new, perhaps even surprising, and the 2026 survey was no different. James, can you further explain what exactly the survey is, who takes it, and what kind of information do we collect?

James O'Brien

Sure, we'd be happy to do that. We've conducted this survey since 2016, so this marks our 11th survey. We send the survey out to all of our real estate clients, which is approximately 2,500 clients. We send it out in early January with the idea of gauging their perspective on the state of the real estate market for the coming year. It includes anywhere between 10 to 15 questions about areas that they think are going to be potential positive areas for development, concerns they might have, trends they're seeing, that sort of thing. And the respondents range the gamut of all of our clients. They could be lenders, asset managers, they could be involved in institutional investing, they could be at a brokerage. Some of them might be facilities managers at large corporations. So it's a diverse group, and we're just looking to gauge their sentiment.

And notably, since we sent it out in early January, current events have overtaken perhaps some of the things that they've talked about. The international conflicts that are going on were not present at that time, for example.

Eric Greenberg

I feel like that happens every year, where there's something that happens just after the survey goes out, which could have changed the responses we received. So that being said, what stood out for you in this year's results? What stood out in the responses that we received?

James O'Brien

To me, the biggest surprise were the somewhat contradictory signals on data centers. I was expecting data centers to be identified as a top trend, and it was. On the one hand, an overwhelming majority of our respondents identified data center development as the trend most likely to have the greatest impact on commercial real estate for this year. 85% of our respondents picked data centers as one of their top three trends for 2026, which that I was sort of expecting because you read about data centers everywhere. There's, you know, high demand for them. There's a lot of investment money out there chasing these opportunities. But the number of our respondents who actually plan to invest their own money in data centers is down about 10 percentage points compared to 2024, with only 30% identifying data centers as a top three investment opportunity for them, which is down from 41% in 2024. In addition, almost half of the respondents said they were only expecting moderate expansion for data center development in 2026.

Eric Greenberg

Well, that's very interesting just because, as you mentioned, we always hear about data centers and especially in commercial real estate. It just seems to be everywhere, every geographical region, everyone's talking about it. How do you reconcile this slight contradiction in responses regarding data centers?

James O'Brien

I thought about it, and I think there's a couple of different factors in play, not least of which is perhaps the difference between identifying a trend and deciding where to put your own funds. And it could be that some of our respondents are just not in the business of investing in data centers. But while they all see this as a trend that's going to have a great impact, some seem to be cautious about whether they're going to be investing. And that could be driven by some oversaturation in the market after a couple of hot years. It could be driven by real world constraints and barriers to entry, like, you know, electrical grid capacity, difficulty in obtaining water. You've also seen localities, local governments and localities where data center development has been intense over the last couple of years, sort of pushing back. Northern Virginia and Maryland have proposed moratoria on data center investment until, you know, energy constraints can be satisfied. So there may be a few headwinds out there that make investors think that their appetite for this investment this year might be a little bit down or that expansion will only be moderate, even as they're saying this is kind of the dominant trend right now. There's a lot of money being allocated for investing in data centers and the demand for them seems to go unabated with AI and other digital technologies needing that capacity.

Eric Greenberg

Well, I'm sure we'll see what the acceleration of AI and the investment into it. This is certainly going to be an area to continue to watch. And I'd be curious for next year's survey what the results are. Christine, what else was surprising about this year's results? What did you see?

Christine Kim

I think something that's different to me was office to residential conversion. Our respondents thought that office to residential conversion projects would be the second most impactful trend in commercial real estate with 57% of respondents putting in their top three trends for this year. This is somewhat surprising, considering that in surveys for past years, our respondents have shown limited interest in office conversion projects. You know, it was a really hot topic, it was frequently discussed in media, encouraged by local governments. And I think the reality of it was that there was a lot of barriers, specifically with respect to zoning issues and construction costs and converting it over two very different assets. So it's interesting to see that back at the top. And perhaps that skepticism is abating as more of these projects are actually getting done. I've seen them actually getting done and progressing along. And I think local governments incentivize them with favorable tax treatments and streamline permitting. Obviously, there's a political will to address housing and affordability shortages. But still, given all of that, 71% of our respondents identified physical constraints as a factor limiting conversion projects. Just over a third of them identified, again, zoning issues and construction costs as barriers to office conversions. So it seems like less of a concern, but the property configurations and the construction costs, that's still a hurdle that is, you know, at the forefront of problem solving for these kinds of projects. But I think there's a lot of more focused interest in this again, which is, I thought was interesting.

Eric Greenberg

So, you mentioned concerns about these office conversions. What are our respondents' other top concerns for 2026 overall?

Christine Kim

The other thing we saw through the survey, you know, obviously our respondents are still concerned about interest rates and the cost of capital, which makes sense in a business driven by leverage. And they were even more concerned about rising construction costs than they were last year. I think 67% cited interest rates as the top concern, and 58% cited construction costs. So these are, you know, at the forefront of our clients' minds, and I think we're seeing that in our practice as well. Unfortunately, those things are at somewhat at odds with each other, given that the Fed will likely keep the rates higher for longer if the high inflation persists. So I think that's consistent with last year, but still a big concern. And I think, again, the other thing is that 33% of our respondents were concerned about geopolitical instability from 11% last year. But as James had noted at the top of this, this was sent out before the current geopolitical instability. So that number might actually be a little skewed, the date that we're recording this. So those are, I think, the things that stood out to me in terms of top concerns for this year.

Eric Greenberg

The 33 that responded about geopolitical instability certainly had good foresight, so it'll be interesting to see how that carries over for next year's survey. James, Christine, what are some other key takeaways that our listeners should take from this year's results?

James O'Brien

One thing that stood out to me, Eric, was the steadfast optimism of our clients. 86% of the respondents see 2026 as a year of opportunity, which is essentially identical to last year. And notwithstanding that there were some macroeconomic headwinds, things like inflation rising instruction costs that we discussed. 2025 was a strong year for commercial real estate, maybe the strongest in the last, say, three or four. So the optimism was justified. And if they're optimistic for this year, I think that's a positive. And I'm hoping it will be borne out in 2026 as well.

Eric Greenberg

Christine?

Christine Kim

Continuing on that theme of optimism, I think our respondents also had a strong consensus on rate cuts for this year, 2026. Most respondents expecting one or two cuts of 25 to 50 basis points. which is in line with the Fed's forecast as of January. And again, we talked about instability that might impact this prediction, but it shows that market participants have similar expectations and are showing a little bit of optimism. In past years, I think there was a wider spread of what the Fed would do. So this year, I think most are expecting the one or two. One other thing, I think there also seems to be a more balanced approach to asset allocation. In 2025, multifamily was by far the most favored asset class. For 2026, multifamily, of course, is still attractive, but it's more or less tied with industrial for asset class with the most interest, and data centers and retail are really not far behind. Office remains the laggard with only 23% of our respondents planning to invest in office, which I think we all see reflected in our practice, but multifamily seems to be the most favored.

Eric Greenberg

Those are interesting takeaways. Now, I think I fit one more question in, and this is certainly a hot topic that we've already touched upon a little bit in AI. What did our respondents have to say about its actual use? in commercial real estate, how they use it in their day-to-day.

James O'Brien

Well, we asked the respondents to rank two areas out of a list that we gave them of where they saw AI having the greatest impact in their own business, not as a general trend. And most chose due diligence and closing efficiency as where they thought they would be using AI tools themselves and the operating of their business. And that was followed fairly closely by asset management. So less popular choices were things like deal sourcing and strategic planning. So what it seems like they're saying is they expect to use AI to assist them with more routinized tasks like, you know, due diligence, making closing sufficient, things that have basically lower stakes as opposed to relying on AI for

strategic planning, driving their business decisions. And, you know, I think that makes sense. I think that's consistent with what we're seeing say in the legal industry as well. But yeah, that's what our respondents feed feedback was. They're definitely implementing AI and they're using it for sort of lower stakes, more routine projects that they can do more efficiently with the AI assistance.

Eric Greenberg

Of course, it's going to be an interesting space to watch as the technology evolves and just accelerates and very well could be driving business decisions in the future. But thank you both. So we're at the end of our time, so we'll wrap it up here. James and Christine, thank you so much for joining us today and sharing your insights.

Christine Kim

Thanks for having me.

James O'Brien

Yep, it was good to have that conversation. The survey's out there and on our website if people want to look at it, and we'll be doing it again next year.

Eric Greenberg

Thank you again. And a special thanks to our listeners for tuning in. Please keep an eye out for future episodes. Thank you.

You have been listening to The Property Line, a production of Seyfarth Shaw's Real Estate department. To be sure that you don't miss future episodes, visit our web page at Seyfarth.com, where you can subscribe to The Property Line on iTunes, Spotify, Google Podcast, or SoundCloud. If you enjoyed this episode, please give us a five-star rating and share the podcast with your friends and colleagues. We look forward to having you with us again soon.