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18th Annual Outlook on the Commercial Real Estate Market

By Mary Katherine Reed

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Overview

The 18th Annual Outlook on the Commercial Real Estate Market, which took place on January 23 in Uptown Charlotte, brought together industry leaders to discuss the current state and projected outlook for commercial real estate in 2025. Hosted by Katten and Cushman & Wakefield, the event featured keynote speaker James Bohnaker, a senior economist at Cushman & Wakefield, alongside a distinguished panel of experts from major financial and real estate institutions.

The key takeaway from Bohnaker's keynote is that, at the time, he expected 2025 to be a strong year for the US economy with positive economic growth and increased commercial real estate transactions. In terms of numbers, the US GDP showed growth between 2.5 percent and 3 percent in the fourth quarter of 2024, which predicts a "really strong economy," and is expected to grow over 2 percent in 2025. The United States is predicted to add approximately a million jobs, while businesses are investing and consumer spending is up. Hiring strengthened from the third to fourth quarter of 2024, reflecting companies' confidence about the outlook of the economy and the direction that their business was headed. Additionally, wage growth is outpacing inflation, which has resulted in more consumer spending. As a result, retail sales growth over the holidays increased nearly 4 percent over the prior year, and spending on traveling, services, entertainment and restaurants has increased.

Bonhaker shared concerns related to the uncertainty of geopolitical tensions, the change in administration, high interest rates and, of course, inflation. Last year saw layoffs in the tech, finance and some manufacturing sectors, but the numbers were not indicative of a recession. Profits are still growing and high-income individuals (which make up almost 80 percent of consumer spending) are experiencing growth in the stock market, leading to increased consumer spending that will contribute to the overall economy. This is expected to continue throughout 2025. With respect to inflation, Bonhaker shared that consumer confidence in certain sections of the income distribution is still shaky, which is something to keep an eye on.

New Presidential Administration

Continued uncertainty related to the new presidential administration, White House statements and executive orders leaves consumers wary of the market. President Trump's campaign involved the promise of a strong economy, and his administration is beginning 2025 with a Republican majority in the US House of Representatives and Senate. This creates a pathway to more policy changes and mitigates the risk of a potential breach of the debt ceiling, government shutdowns and other events that create additional layers of uncertainty for investors. Bonhaker advised to take a "wait and see" approach with respect to some of the potential economic consequences of the White House's statements related to proposed policies. So far, the Trump administration's actions related to tariffs and other policy matters have realized some investor's fears.

The limited legislative barrier afforded by the Republican majority will be a positive factor in the Trump administration's efforts to realize its tax and economic policy agenda. Based on Trump's past statements, the administration may seek to decrease corporate taxes from 21 to 15 percent. This decrease could potentially benefit the workforce positively and create more after-tax profits for companies to invest in sectors that can spur economic growth, including hiring more employees and investing in artificial intelligence (AI) and office space.

Some of the administration's hot topic items, in particular, are causing shifts in expectations for the 2025 economy. For example, trade, government downsizing and immigration policies are causing concern, with Trump advancing initiatives related to tariffs, DOGE initiatives and the Southern border/illegal immigration. With respect to immigration, the foreign-born workforce in the United States has been the predominant driver of labor force growth over the past three years, which is why the current unemployment rate is where it is. The hospitality sector, making up approximately 15 percent of the non-US citizen workforce, would be heavily impacted by mass deportations, which will in turn drive up labor costs.

In addition, tariffs have been a popular topic at the White House and in the media. The impact of tariff policy could result in a myriad of complications, not just politically, but also for manufacturers, wholesalers and consumers. The Federal Reserve has been assessing the policy proposals related to tariffs and immigration with the viewpoint that they are going to be inflationary. Discussions last summer led economists to predict three to five rate cuts in 2025. Now, the expectation is that there will be at most two rate cuts for the year and that inflation will be half a point higher than predicted, as a result of the Federal Reserve's outlook on the new administration's policy proposals. Tariffs could also lead to an uptick in onshoring.

Commercial Real Estate Prospects

At the time, Bohnaker and the panelists projected a sense of optimism for the 2025 economy and commercial real estate industry – this positivity has likely waned given recent actions taken by the Trump administration and various international and domestic government and business responses to the same. The last Trump presidency showed real estate values up 18 percent along with general occupancy increases. Outside of recent economic factors engendered by the administration's actions, the panelists suggested a trend of downtown cities reinventing themselves, with developers desiring to focus on delivering an environment through placemaking and unique niches to satisfy the need for community. Facing inflation, tariffs and onshoring, we can now expect a higher cost of capital as well as higher interest rates than previously expected, which could slow development projects and result in more acquisitions for the year.

The debt capital markets are seeing positive sentiment too, with an increase in allocation targets for 2025 up to 50 percent over last year. Capital has piled up, but the lending that was predicted for last year ultimately did not occur, so the industry is heading toward a landscape with increased opportunities and a surplus of capital. At the time, one of the panelists speculated that we can expect this to drive pricing discovery, which will inform the equity market and boost confidence around the assets they are investing in — the overall viewpoint is that there will be increased transactions that will "lead to better discovery" and "better underwriting," which will ultimately result in "a more functioning capital market environment." The question now confronting the commercial real estate industry is whether recent changes resulting from the Trump administration's actions will undermine such a "functioning capital market environment" and lead to a reconsideration of both debt and capital allocations for 2025 by lenders and investors, respectively.

Bottom Line

While the sentiment at the January 23 event recognized potential challenges, there was an expectation of a rebound in commercial real estate in 2025 since, at the time, there was a cautious but optimistic approach. However, this expectation has been undermined given the dramatic changes occurring on the macroeconomic level brought on by many of the Trump administration's initiatives, leaving the industry with a renewed sense of uncertainty for the upcoming year.

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