

Commercial Real Estate May Be Nearing a Trough

After two years of falling prices, values begin to stabilize.

Real estate markets have been volatile for the last 18 months. According to MSCI, the volume of transactions for all property types dropped materially, creating price instability. We believe prices for most properties are nearing a trough and that fundamentals for commercial real estate support income and price growth as we move into 2025. Office properties, however, continue to struggle with a pandemic hangover and can expect to see significant price pressure for years to come.

Sector Commentary

- Industrial property, having seen price appreciation following the pandemic, limited price declines over 2023, and a return of price growth in 2024, remains the bright spot for investors.
- Apartments saw greater price declines in the last two years, but values remain much higher than before the pandemic.
- Hotels continue to rebound from their pandemic stress and have seen positive momentum in 2024. Due to limited supply and high demand, neighborhood retail prices have seen limited volatility and have been trending up in 2024.
- Offices and malls continue to see sharp price declines. Investors are evaluating prospects to redevelop these properties for other uses, but conversion costs are high, and some properties may be functionally obsolete.

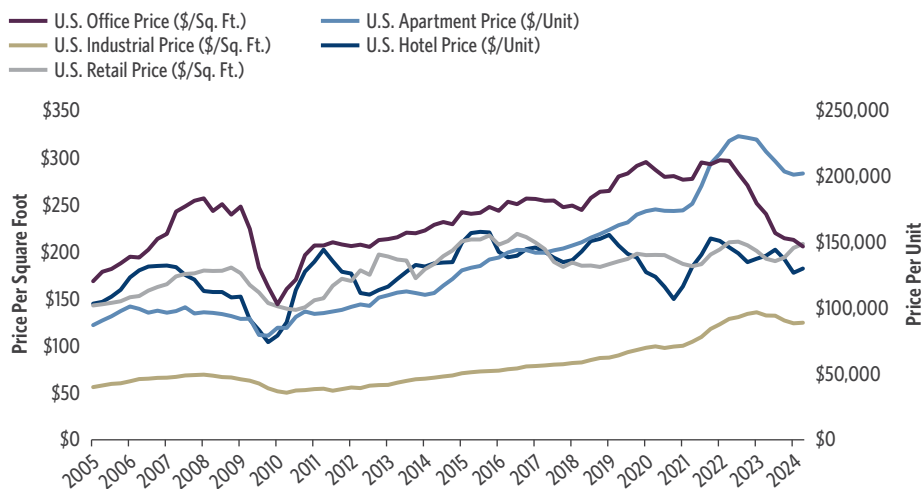
Investment Themes

- Putting offices and malls to the side, we do not believe real estate prices will fall as much as they did during the GFC.
- We see values stabilizing through 2024 and prices starting to rebound into 2025. Post-pandemic shifts toward re-shoring and near-shoring, the increasing demand for power and technology infrastructure, and the migration of people and business will create demand for real assets.
- Expectations of lower interest rates will alleviate the pressure on values, reduce carry costs, spur more transactions, and create a more stable market than we saw in 2023 and the first half of 2024.
- High construction, labor, insurance, and other operating costs are limiting new construction starts for all property types at a time when vacancies are low, and demand is increasing. This lack of new supply makes existing properties more attractive given the high costs of developing competing sites.

By Jennifer A. Marler and Karen Karwoski

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Commercial Real Estate Prices Steadily Declined Through the First Half of 2024



Source: Guggenheim Investments, Real Capital Analytics. Data as of 6.30.2024.

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