Park Madison Perspectives

Outlook 2025

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(212) 448-7340
parkmadisonpartners.com

About Park Madison Partners

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Park Madison Partners provides capital raising and strategic consulting services to real estate sponsors with a high degree of customization, integrity, and accountability. Our team comprises top talent from both the buy-side and the sell-side of the commercial real estate industry. We leverage this diverse experience to advise our clients on institutional best practices, helping them maximize their capital formation potential in a competitive marketplace.

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> **"History is just one damned thing after another."**
>
> **– Arnold Toynbee**

We did it, folks. We stayed alive till '25, though '24 was not without its twists and turns. From presidential campaigns, to collapsing governments, to waiting patiently for the Fed to finally cut rates, there was no shortage of events to keep us glued to the news wondering what could be next. In uncertain times, taking a "wait and see" approach might be tempting, but investors in private markets have no such luxury. Our job is to look past the daily headlines and take a longer-term view of the world. Of course, sometimes events will intervene and fundamentally shift the direction of history, and other times our views are just plain wrong. But diversifying across asset classes and vintage years can cover a multitude of sins.

Each year we make predictions on 10 major themes affecting the commercial real estate industry, attempting to identify the trends and data points that we believe are most relevant to real estate investors today. Last year we did pretty well, and you can see a full analysis of how we fared in our "2024 Scorecard" at the end of this piece. But first, here are our top 10 predictions for 2025:

1.	The Fed will pause rate cuts as U.S. economic growth gains steam	**4**
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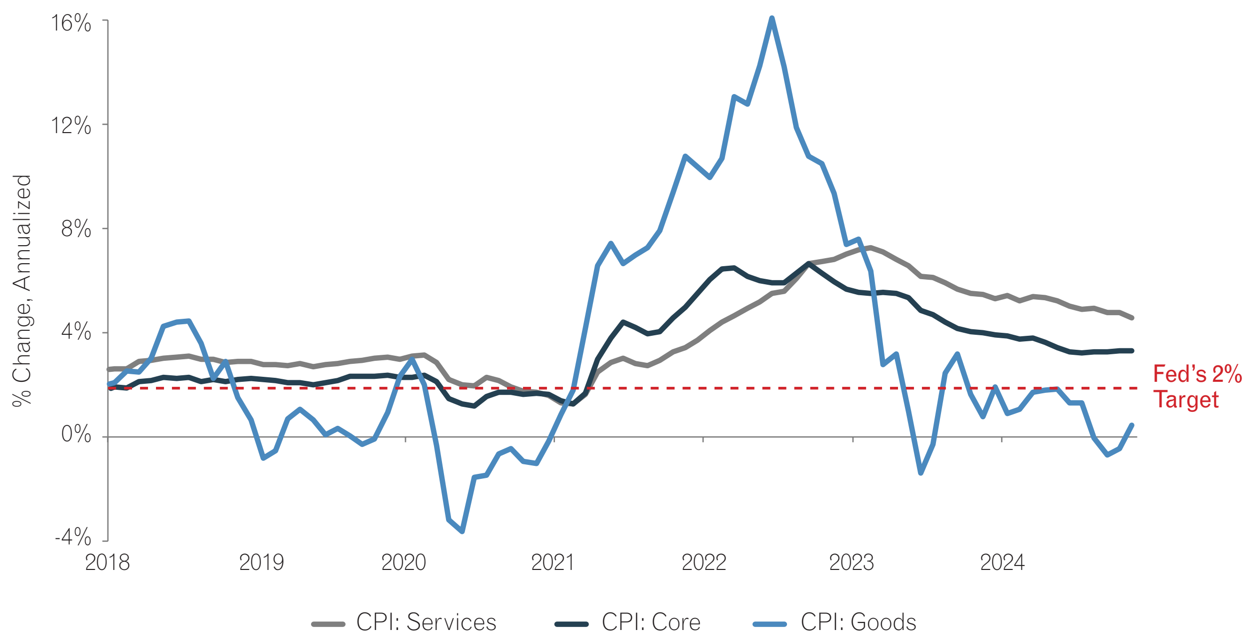
1 The Fed will pause rate cuts as U.S. economic growth gains steam

The U.S. economy continued to defy gravity in 2024, with real GDP growth expected to clock in at 2.7 percent. The Federal Reserve appears to have pulled off the mythical "soft landing," with cooling inflation clearing the way for rate cuts. Economists now see only a 27 percent chance of recession in 2025, and the perceived pro-growth policies of a second Trump Administration are fueling optimism among business leaders. After several rate cuts in 2024, we believe inflation risks have tilted to the upside which should make the Fed more hawkish going forward. While we can envision scenarios that would allow the Fed to cut rates another 25 to 50 basis points in 2025, we believe the Fed is more likely to keep policy rates unchanged until 2026.

Despite the Fed's progress to date, underlying inflationary pressures suggest the Fed must proceed cautiously from here. Core inflation has stopped falling and remains well above pre-pandemic levels, and services inflation remains stubbornly high. Much of the recent fall in inflation is due to moderating goods inflation, but economists believe Trump's planned tariffs could reverse this progress. The job market has cooled significantly but remains historically tight, and wage growth has been accelerating since July. Tougher immigration restrictions or mass deportations would add further pressure.

Stalled Progress

Consumer Price Indices, Core vs Goods vs Services, 2018 -Present

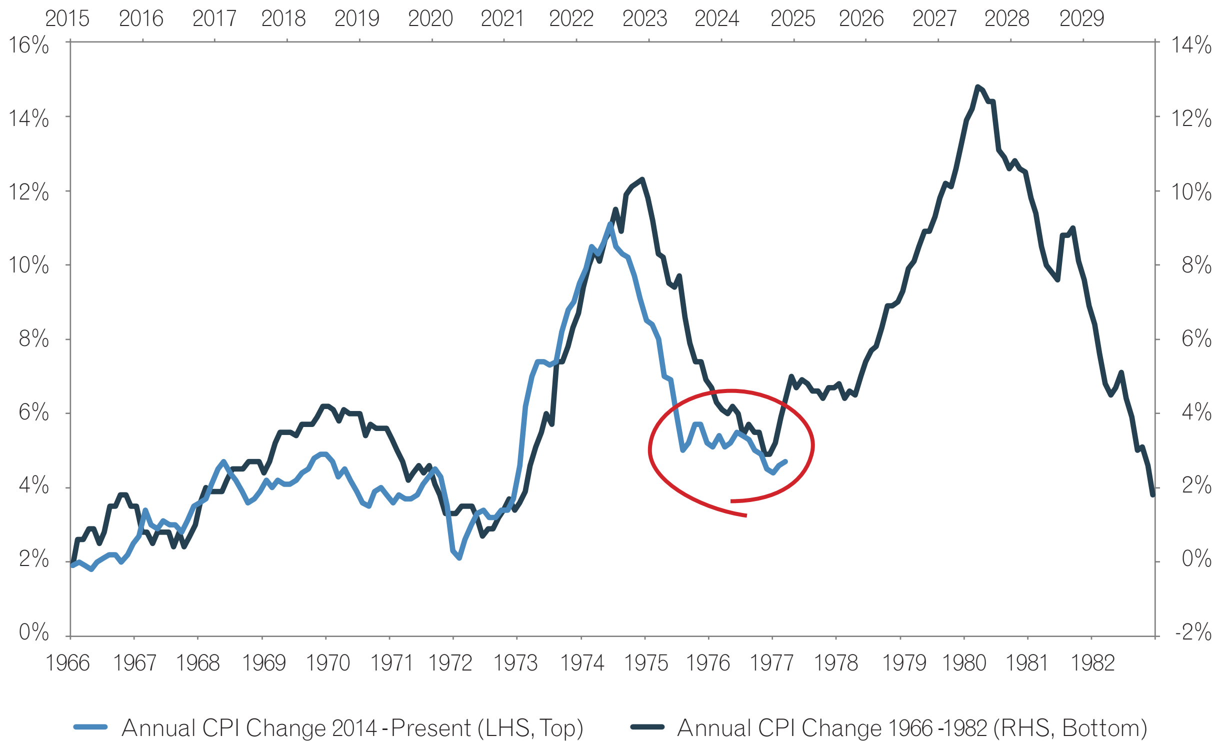


Source: Federal Reserve Economic Data, November 2024.

Given the U.S. economy has continued to perform well despite higher interest rates, we believe the Fed will err towards keeping monetary policy mildly restrictive. The upward pressures on wages – whether caused by labor shortages, second-order effects from inflation, or something else – are likely to be in focus as the Fed considers its next moves. A wage-price inflationary spiral like the 1970s experience is difficult to contain, and we believe Jerome Powell will be wary of repeating the painful mistakes of that period.

Lessons from History

U.S. Inflation, 1966-1983 vs 2014-2024

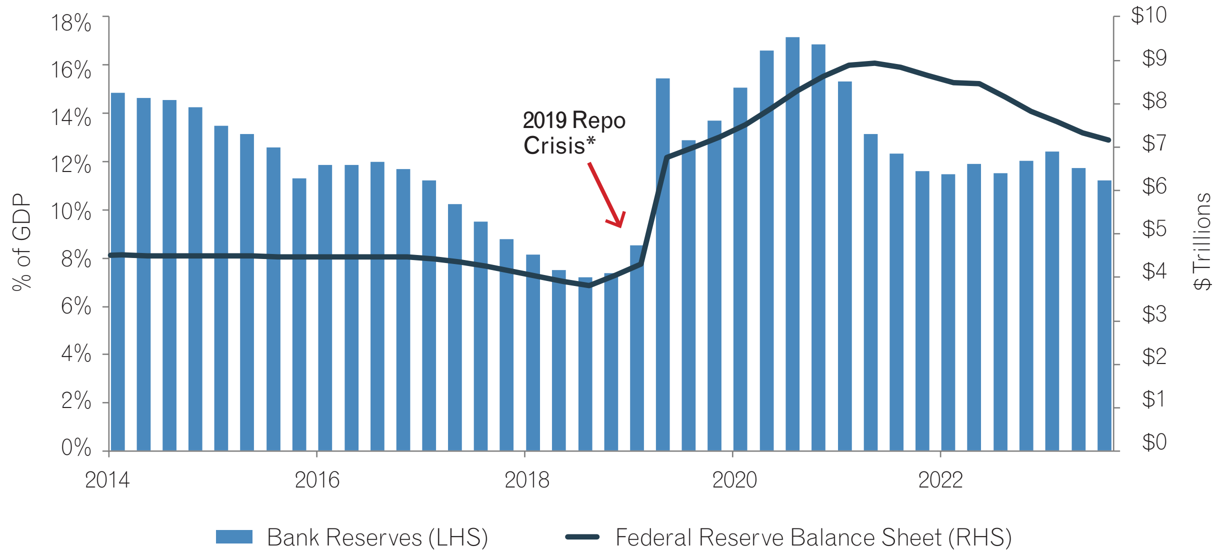


Source: Federal Reserve Economic Data, November 2024.

Holding interest rates higher for longer may be the Fed's only viable policy lever to keep inflationary pressures at bay. To date, the Fed has delivered restrictive policy through both rate hikes and quantitative tightening ("QT"), shrinking its balance sheet by over $2 trillion since April 2022. But we believe the Fed will be forced to end QT in 2025, as the resulting cuts to bank reserves will negatively impact money market liquidity. The Fed has previously signaled that bank reserves of 10 to 11 percent of GDP are sufficient, and QT has already reduced bank reserves to these levels. As QT winds down, we believe the Fed will feel compelled to pause rate cuts as it assesses the economic impact.

Draining the Punchbowl

Federal Reserve Balance Sheet ($T) vs Bank Reserves (% of GDP), 2014 - Present



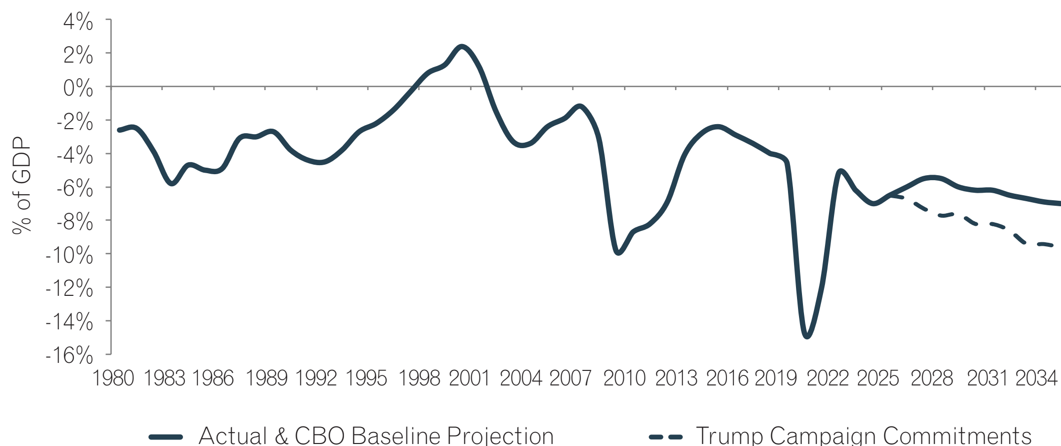
Source: Federal Reserve Economic Data, Q3 2024.

*In early 2018 the Fed initiated a round of QT by allowing bonds to mature and run off its balance sheet. By September 2019, the Fed's balance sheet had shrunk by about $700 billion. Over the same period, bank reserves shrank from about $2.3 trillion to $1.5 trillion. On September 17, 2019 interest rates on overnight repurchase agreements (or "repos"), which are short-term loans between financial institutions, experienced a sudden and unexpected spike. The Secured Overnight Financing Rate ("SOFR"), increased from 2.43 percent on September 16 to as high as 10 percent on September 17. The Fed quickly injected $75 billion into the repo markets and continued emergency injections in the weeks following, effectively reversing the previous round of QT.

Regardless of the Fed's next moves, U.S. interest rates are likely to remain structurally higher than they were for the 13-year period from 2008-2022. Long-dated Treasury bond rates started rising shortly after the Fed's first rate cut, suggesting an increase in long-term inflation expectations. These expectations are further compounded by the fiscal excesses of the U.S. federal government, which continues to run wartime-like deficits of 6 to 7 percent of GDP. Trump's economic agenda will likely lead to wider deficits. Weighing these factors along with a strong U.S. economy, we believe investors should expect higher market interest rates for the foreseeable future.

Like There's No Tomorrow

U.S. Federal Budget Deficit, 1980 - 2034F



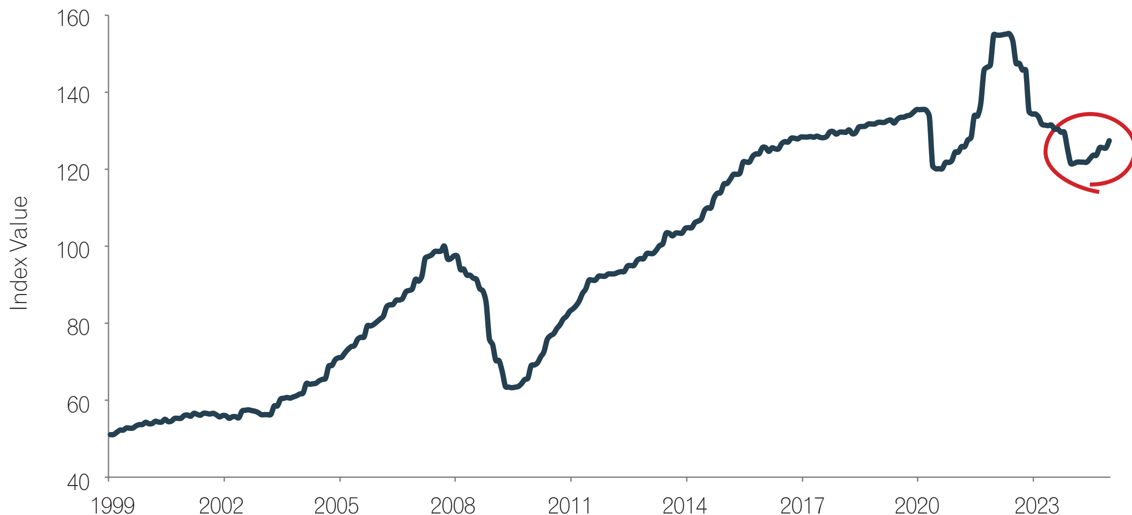
Source: Congressional Budget Office, November 2024.

2 Commercial real estate transaction volumes will pick up as valuations consolidate

U.S. commercial real estate values bottomed in 2024, and we believe valuations will continue to consolidate around current levels in 2025. According to the Green Street Commercial Property Price Index ("CPPI®"), values have started rising modestly after falling 22 percent from the March 2022 peak. Debt markets have loosened, and lower interest rates have arrested the sharp rise in cap rates. Transaction volumes have stopped falling and bid-ask spreads have narrowed. Property fundamentals look poised to improve as barriers to new supply remain elevated. With real estate markets showing clear signs of stabilizing, we believe 2025 will prove an attractive entry point for new investment in anticipation of larger price gains in 2026.

The Bottom is In

Green Street Commercial Property Price Index®, 1999 - Present



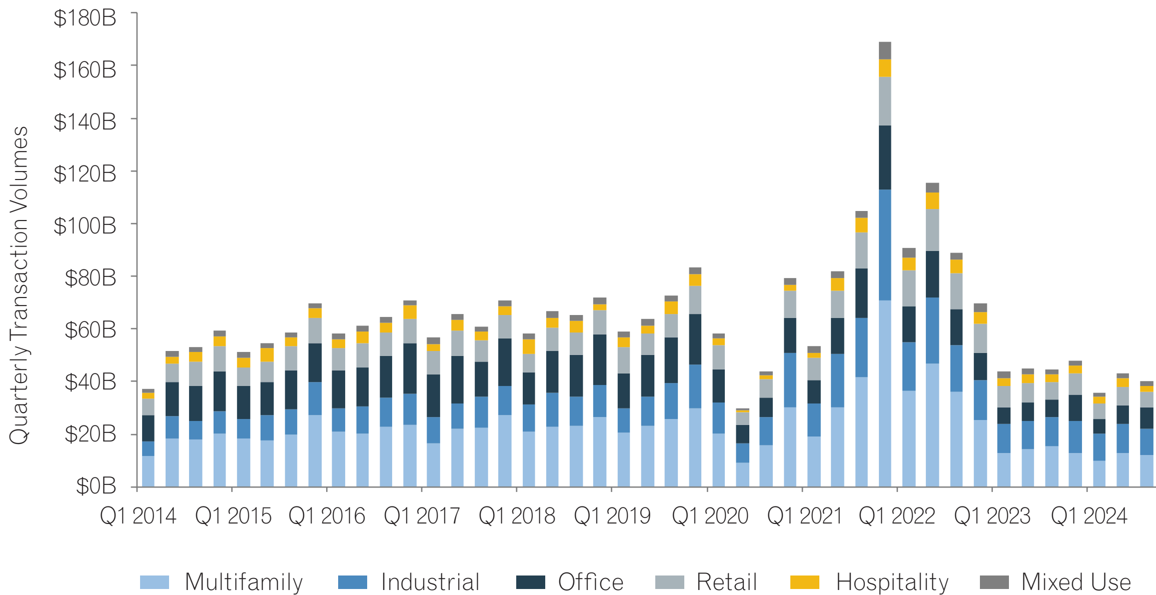
Source: Green Street, December 2024.

The Fed's rate cuts have breathed new life into debt markets and improved borrowing conditions for most property types. According to Avison Young, commercial real estate debt originations increased over 80 percent in Q3 2024 alone compared to all H1. Debt capital markets have also proven to be much more dynamic than past cycles. As banks reduce their real estate exposure, private lenders such as life insurance companies and debt funds have stepped into the breach. Loan originations from debt funds increased 70 percent year-over-year as of Q3 2024 according to CBRE. CMBS volumes have also risen sharply.

With more debt capital available, transaction volumes have stopped falling and appear to have stabilized, albeit at a low base. Bid-ask spreads have narrowed, and price discovery is returning. Barring a further sharp rise in interest rates and cap rates, we expect transaction volumes will start rebounding in 2025. Much of this increase will be due to forced sales: Newmark estimates that $529 billion of debt maturing between 2024 and 2026 is potentially troubled due to higher borrowing costs and impaired valuations. With over $300 billion of North American real estate dry powder eagerly trying to call the bottom, investors will have to carefully balance "FOMO" (fear of missing out) and "FOMAM" (fear of making a mistake).

From Boil to Simmer

Commercial Real Estate Transaction Volumes, Q1 2014 - Q3 2024

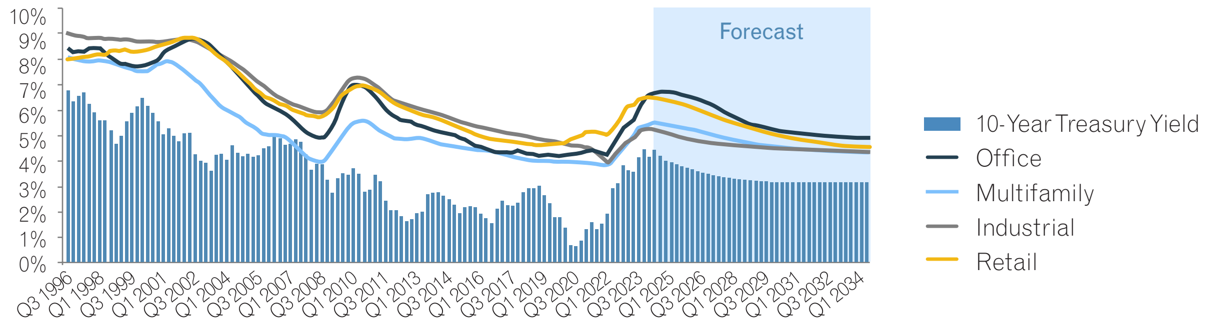


Source: Altus Group, Q3 2024.

While the painful rise in cap rates from mid-2022 lows has abated, history suggests some degree of FOMAM is prudent at current valuations. Cap rates across most property types peaked in early 2024, and even registered modest declines as the U.S. 10-year Treasury yield ("10Y") dipped below 3.7 percent. By December 2024, however, the 10Y was back above 4.5 percent. Commercial real estate cap rates have historically priced at spreads of 200 to 400 basis points above the 10Y depending on property type, and most properties are trading well inside of that range. Some transactions today are being consummated with negative leverage and underwriting that assumes positive leverage through NOI growth a few years out. These assumptions likely work if interest rates and cap rates do not rise meaningfully from here and rent growth remains healthy.

All Eyes on Treasuries

Commercial Real Estate Cap Rates vs 10 Year Treasury Yields, Q3 1996 - Q3 2024

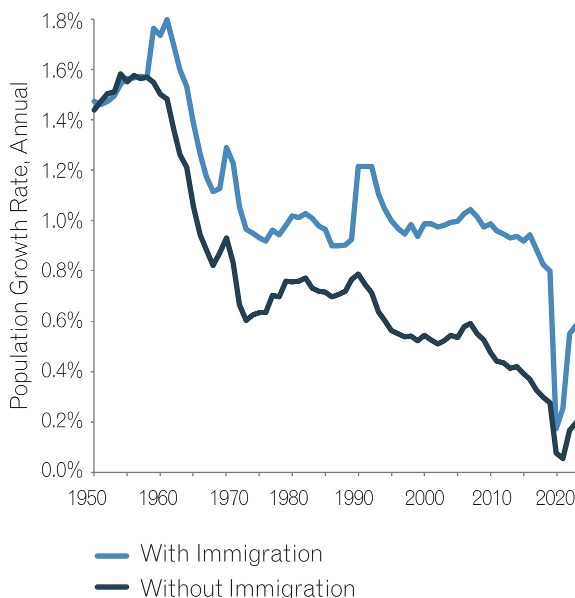


Source: CBRE Econometric Advisors, Q3 2024. Reprinted with permission.

Federal policy under a second Trump Administration also adds an element of uncertainty for commercial real estate markets, particularly as it relates to construction. Proposed tariffs on Mexican and Canadian imports could raise prices for basic construction materials like lumber, steel, and drywall. Mass deportations of undocumented workers – which make up 10 to 15 percent of the construction workforce – could worsen the chronic labor shortages already plaguing the construction industry. Immigration has also been a major driver of U.S. population growth, with a recent U.S. Census study projecting that without sufficient immigration levels, the U.S. population would likely stall and begin declining. Deportations and less population growth would directly impact demand for residential and commercial space.

Help Wanted

Population Growth Rate,
With vs Without Immigration, 1950 - 2024



Source: United Nations, World Population Prospects (2024).

Despite these uncertainties – or perhaps because of them – we expect to see increased investor demand for real estate in 2025. We believe real estate's role as an inflation hedge will become more attractive in an inflationary environment, particularly sectors with shorter-term leases like rental housing, hotels, and self-storage. Expansive fiscal policy and deregulation under a Trump Administration should also benefit sectors more correlated to economic growth, such as industrial, retail, office, and data centers. Higher borrowing costs and a tighter labor market should keep supply growth subdued, enabling landlords to push rents. Bigger picture, the real estate industry is entering a new chapter where the alchemy of steadily falling cap rates and ultra-cheap debt is a thing of the past. This means creating real value at the property level will be more important to generating alpha going forward, and we believe investment managers with strong operating capabilities and ability to grow NOI will continue to thrive and profit.

3 Elements of the 2017 Tax Cuts and Jobs Act ("TCJA") will be extended, benefiting the commercial real estate industry

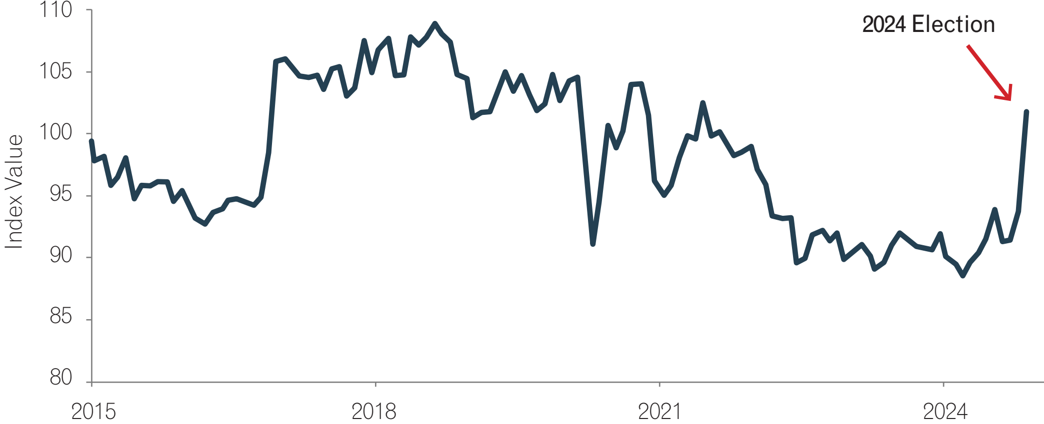
Extending the TCJA, which expires at the end of 2025, will likely top the legislative agenda for the new Republican Congress. The real estate industry will be seeking to preserve several key TCJA provisions, including the 199A deduction and opportunity zones ("OZs"). The TCJA also changed depreciation schedules, allowing upfront expensing of certain capital improvements to real estate assets. Each of these provisions should encourage additional capital flows into real estate if extended, but Republicans' thin House majority makes the final legislative outcome somewhat unpredictable.

President-Elect Trump has touted OZs as a key legislative achievement of his first term, and we expect him to strongly advocate for their renewal. OZs, initially championed by Senator Tim Scott (R-SC), were established to encourage long-term investment and development in low-income communities by allowing investors with realized capital gains to reinvest those gains in a Qualified Opportunity Fund ("QOF"). If the QOF investment is held for at least ten years, any additional capital gains are waived. Not surprisingly, over $100 billion of capital is believed to have flooded into OZ projects since the program's inception, with multifamily developments in urban areas capturing the lion's share. Several Republican members of Congress have called for extending the investment window for OZs, while also instituting more reporting requirements and creating specific incentives for rural projects. We expect that with these modifications, a second round of the OZ program is all but certain to pass Congress in 2025.

Extending the 199A deduction, or the "qualified business income deduction," should also benefit the real estate industry. Commercial real estate is typically owned via "pass-through" entities such as LLCs, S-corps, REITs, and partnerships. Because the TCJA lowered the income tax rate for large C corporations to 21 percent, 199A attempts to place pass-throughs on a more equal tax footing by allowing their owners to deduct up to 20 percent of their business income from taxable income. If 199A were to expire at the end of 2025, the effective marginal rate on pass-through business income would rise from 29.6 percent to 39.6 percent. We expect the Republican Congress will ensure 199A gets extended. No wonder then that small businesses, which are mostly structured as pass-throughs, saw a surge in optimism following the 2024 election.

Great Expectations

NFIB Small Business Optimism Index, 2011-2024

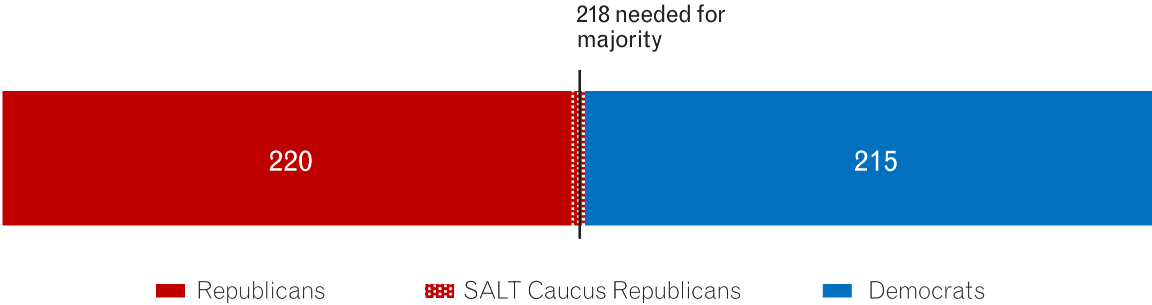


Source: NFIB, November 2024.

Of course, individual tax rates will be a major focus of any legislation extending the TCJA, but also a potential flashpoint with the Republican conference. Individual income tax brackets and capital gains tax rates will likely be left at current levels. Corporate tax rates, which the original TCJA lowered from 35 percent to 21 percent, will also be on the agenda. However, the state and local income tax ("SALT") deduction could complicate matters given Republican's razor-thin majority in the House. The TCJA's $10,000 cap on SALT deductions was an essential revenue raiser to offset the cost of cutting taxes elsewhere. Republican House members from high-tax states such as New York, New Jersey, and California – whose support will likely be needed to pass any new legislation – are insisting that this SALT cap be removed. Six Republicans are even members of a bipartisan SALT Caucus, which espouses an unofficial rallying cry of "No SALT, no deal!" To pass legislation, Republican leadership can lose no more than two votes from their own party, which gives the SALT Caucus immense negotiating leverage.

No Margin for Error

2024 Election Results, House of Representatives



Source: Associated Press, December 2024.

SALT is therefore poised to play a central role in any negotiation to extend or amend the TCJA. President-Elect Trump vowed to "get SALT back" during his 2024 campaign. However, removing SALT caps would cost an estimated $1.2 trillion over 10 years, potentially ballooning the total price tag of a renewed TCJA to $5.1 trillion over 10 years. We anticipate some palpable ideological friction within the House Republican conference over this issue. Deficit hawks from lower tax "red states" will be loathe to subsidize residents of higher tax "blue states," while SALT Caucus Republicans may calculate that their constituents are better off letting the entire TCJA lapse.

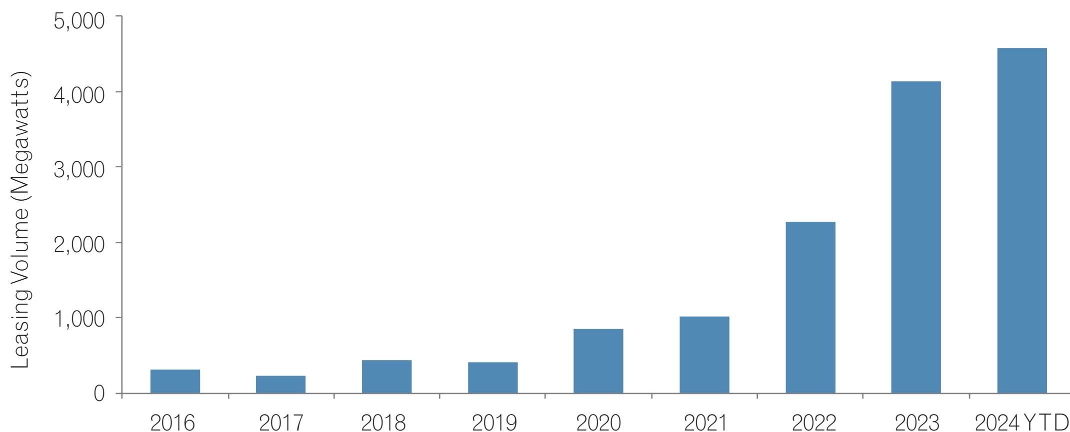
We expect that Republicans' desire for a signature legislative win will ultimately rule the day, but this Republican Congress is very different than the one in 2017. Of the 24 Republicans on the House Ways and Means Committee that authored the original TCJA, 18 have left Congress. Former Speaker Paul Ryan, who played a key role in the TCJA's passage, has since been vilified by Republican voters. We expect the real estate lobby will be working overtime to ensure the final legislative package protects industry interests.

4 Data centers will command unprecedented pricing power amid surging demand and rising barriers to new supply

Data centers continue to be the most favored property type from both an investment and development perspective. Considered just another niche property type as recently as 2020, data centers have emerged as an indispensable property type within diversified real estate portfolios. Data centers form the critical backbone of today's digital economy, enabling technological applications such as artificial intelligence ("AI"), cloud computing, telemedicine, video/live streaming, 5G, and Internet of Things ("IoT"). As demand for these applications explodes, data center vacancy is exceptionally tight despite record new supply. Developers will increasingly struggle to meet demand amidst limited land availability and power capacity. Rents are rising rapidly, and we expect landlords will continue to have immense pricing power in the years to come.

Power Surge

Data Center Megawatt Leasing Volume, 2016 - Present

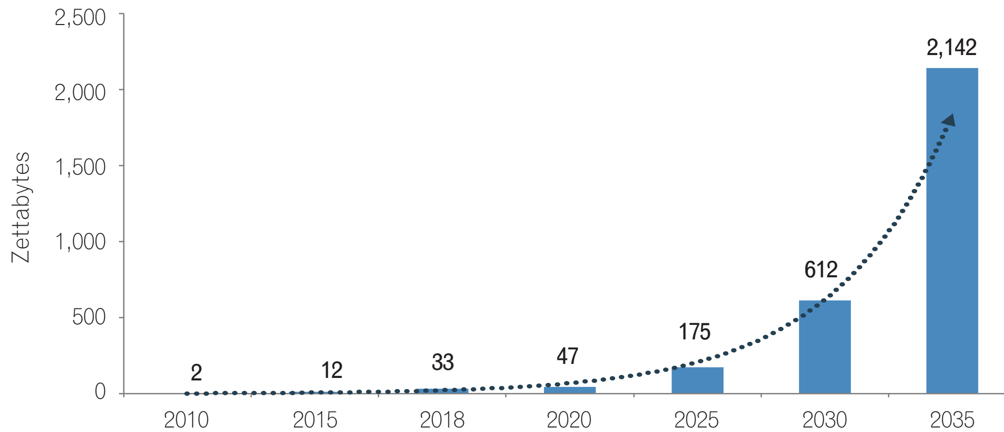


Source: Green Street, Q3 2024.

Data center demand is far outrunning supply as data creation rises at an exponential rate, with AI having the biggest immediate impact. AI has become something of an arms race between the tech giants, with just three companies – Amazon, Microsoft, and Google – accounting for 60 percent of all data center demand according to Colliers. In the words of Google's CEO Sundar Pichai, "The risk of under-investing is dramatically greater than the risk of over-investing." Michael Dell has suggested that society could need 100 times more data center capacity in 10 years than exists currently. Demand is projected to grow 10 to 20 percent annually through 2030, and rent growth expected to stay in the 8 to 12 percent range for at least the next 5 years, likely outpacing all other commercial property types.

Must Build Faster

Worldwide Data Creation, 2010 - 2035F



Source: CBRE Investment Management, July 2024. Actual data from Statista Digital Economy Compass through 2019, CBRE estimates starting 2020. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change.

An estimated $500 billion of equity and debt is flooding into the data center sector to meet this tsunami of demand. Large hyperscale facilities can cost over $1 billion to build – typically $600 to $1,000 per square foot – and Blackstone estimates that the U.S. will spend $1 trillion on new data center construction over the next 5 years. Development is also lucrative: data center projects typically command profit margins of over 50 percent. These projects are also relatively low risk, as 80 to 90 percent of new data center capacity is pre-leased, making the risk of speculative development virtually non-existent.

With so much capital available, data center construction activity is expanding rapidly and expected to reach a record high in 2025. GreenStreet expects 19 gigawatts of new supply will be delivered through 2028, which would represent a roughly doubling of 2023 inventory. Real estate sponsors across property types are getting in on the action, scouring the market for potential sites that benefit from fiber connectivity, power availability, proximity to population, and low risk of natural disasters. Many current owners of large sites – especially low density uses such as industrial, storage, and parking – are discovering that they may be sitting on a high value site for a future data center.

As potential data center sites get scooped up, power constraints have emerged as a natural barrier to new supply. Data centers require huge amounts of power, and some markets are beginning to approach peak capacity. The Washington D.C. Metro – the largest data center market in the world – is already near peak power capacity. More data center projects are starting to experience delays while power shortfalls are addressed through infrastructure upgrades. Some data center operators are turning to on-site energy generation, or "microgrids," as an innovative way to solve around the limits of local utilities. Power limitations could also push data center development to secondary and tertiary markets, and even rural sites can be perfectly viable. For instance, low latency is not necessary for AI applications, making access to power more important than access to fiber networks or population centers.

While hyperscale facilities have attracted the bulk of investor attention and capital, we believe colocation facilities could provide an attractive complement to existing portfolios. Colocation facilities play a critical role in the processing, storage, and analysis of data in real-time, particularly for latency-sensitive applications and services where proximity to the end user is essential. According to JLL, the supply of colocation data centers in the U.S. reached 12 GW in 2024, double 2020 levels. Vacancy is at a record low of 3 percent, and over 80 percent of space under construction is pre-leased. Given this level of demand, we expect colocation investors will benefit from strong occupancy and healthy rent growth.

Perhaps the biggest unanswered question regarding data centers concerns the exit. Transaction volumes have been limited, especially for the larger hyperscale facilities. Given the price tags on these assets, there is even some concern that data centers could raise the cost of capital for the rest of the commercial real estate industry. Public markets could be a natural exit, and a rumored Switch IPO in 2025 could test this theory. Other portfolio exits, including in the colocation space, could also provide meaningful price discovery. Ultimately, we believe in the ingenuity of real estate capital markets to find the right solution, and expect to see helpful data points emerge in 2025.

High Season

Often overlooked by institutional real estate investors due to their operational intensity, hotels are garnering fresh interest amid surging demand, muted supply growth, and capital markets dislocation. Travel demand has fully recovered since the pandemic, with airline passenger volumes and hotel RevPAR comfortably surpassing 2019 levels. RevPAR growth is outpacing the national average in the areas hardest hit by the pandemic, including major coastal markets and business-oriented hotels. Cautious lenders are also keeping supply growth muted, with most estimates showing U.S. room counts expanding by 0.5 to 1.5 percent per year through 2028. These dynamics should lead to steady RevPAR growth through at least 2026.

Hotel valuations also appear attractive, particularly in the value-add segment. Higher interest rates, inflated operating costs, and looming debt maturities are increasing the volume of distressed hotel sales, with many properties trading at prices below replacement costs. With cap rates typically in the 9 to 11 percent range, more investors are recognizing an opportunity to acquire strong cash-flowing assets at a distressed basis. For seasoned hotel operators buying in the right markets, we believe today represents the most attractive investment environment since the GFC.

5 Office valuations will bottom as the risk-reward becomes more balanced

Office continues to be the most challenged property type from both a financial and fundamentals perspective. Since the beginning of the pandemic, the U.S. office sector has registered approximately 300 million square feet of cumulative negative absorption according to Cushman & Wakefield, leaving a glut of empty space. Vacancy now exceeds 20 percent nationally. Loan delinquencies and defaults are already elevated and expected to keep rising through at least 2026. But beneath the negative headlines, we see the foundations for a cyclical bottom forming and expect to see more investor interest in the office sector in 2025.

Stabilizing values are arguably the clearest sign that the bottom may have arrived. Office valuations have fallen 37 percent from the peak according to Green Street but have remained largely flat since early 2024. Public markets may also serve as a leading indicator that office values have finished correcting. According to Green Street, publicly traded office REITs traded at up to 30 percent discounts to gross asset value throughout the pandemic, which turned out to be a prescient harbinger for private market valuations. Today, however, office REITs trade in line with private valuations, suggesting that office is now fairly priced relative to fundamentals.

Value Alignment

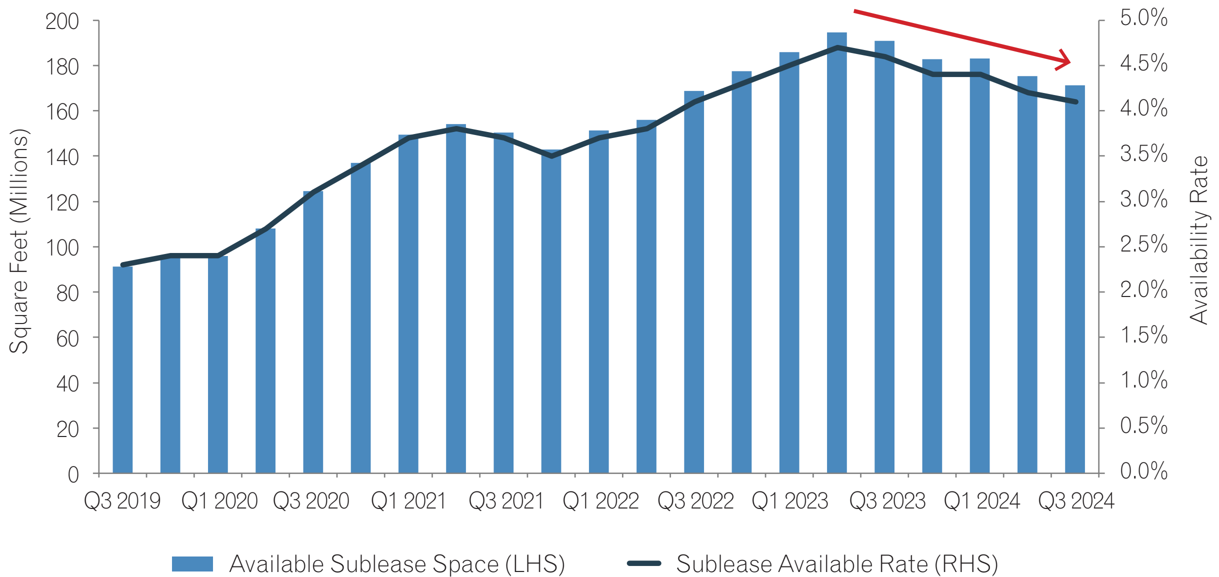
Office Public REIT Sector Premium (Discount) to GAV, 2014 - Present

Source: Green Street, December 13, 2024.

Office fundamentals, while still weak, also have some green shoots emerging. Leasing volumes continue to recover and are now just 20 percent below pre-pandemic levels. Net absorption levels are only slightly negative on a national basis, and 27 major U.S. markets tracked by Cushman & Wakefield recorded positive net absorption in Q3 2024. In Manhattan, which many investors left for dead after the pandemic, the market for prime office space is suddenly so tight that corporate tenants are struggling to find space. CBRE estimates sublet inventory has declined to 171 million square feet – still 86 percent above pre-pandemic levels, but 12 percent below the Q2 2023 peak. Given that sublet activity tends to be a leading indicator for the broader office market, we expect vacancies to decline in the coming quarters. Indeed, in Q3 2024 the national vacancy rate declined for the first time in 5 years according to JLL.

Over the Hump

Office Sublet Inventory and Availability Rate, Q3 2019 - Q3 2024



Source: CBRE, Q3 2024.

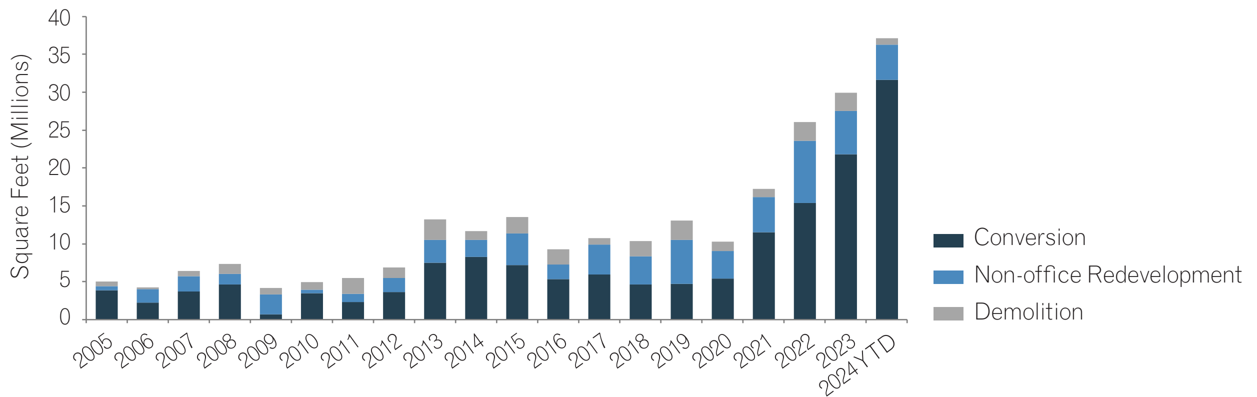
The improving outlook for office corresponds with waning appeal for work-from-home ("WFH"). At the average Fortune 100 company, over 90 percent of employees are either back to office full-time or on hybrid schedules of 3 to 4 days in the office per week. Office attendance levels rose throughout 2024 and have now surpassed 70 percent of 2019 levels according to the Placer. AI National Office index. Fully remote work is increasingly rare, and many companies have determined that lost productivity makes remote work more expensive in the long run due to higher payroll costs.[1] Even as businesses trim their office footprints to account for hybrid work schedules, we believe the impact of this adjustment is largely baked into current fundamentals and pricing.

1 Office space represents a significant cost per employee, generally around 5-10 percent of payroll costs depending on a company's cost structure. However, several studies have shown productivity declines of 10-40 percent for remote workers. If companies are forced to hire more people to compensate for this lost productivity, the additional payroll costs likely more than offset the savings from a reduced office footprint.

As office workers return, the market remains heavily bifurcated based on property quality and location. Newer and higher quality buildings continue to experience positive absorption, as well as meaningfully higher occupancy rates than the market average. Meanwhile, more than half of the over 1 billion square feet of vacant U.S. office space sits within less than 7 percent of buildings according to JLL. The bottom 20 percent is likely functionally obsolete and will never recover. More than 30 million square feet of office is currently planned for removal, predominantly for office-to-residential conversions. Paradoxically, this bifurcation dynamic provides developers with an incentive to keep delivering Class A office space. Groundbreaking volumes are at lows not seen since 2009, but new supply is still estimated to be 0.8 percent to inventory per year for the foreseeable future. This will continue to pressure lower quality office space in the years ahead.

Creative Destruction

Office Inventory Removals, 2005 -2024



Source: JLL, Q3 2024.

Given the continued competition from new supply, we expect a recovery in office fundamentals will take several years, and distressed sales will mount in the meantime. Capital availability remains low as many lenders and equity investors continue to have moratoriums on additional office exposure. Office properties with debt maturities in the next 12 to 24 months will have a tough time refinancing. Trepp estimates that 17 percent of office loans maturing through 2026 could fail to meet refinancing requirements due to depressed rents, high vacancy, and lower operating margins. As defaults mount, foreclosure sales will inevitably have knock-on effects on fundamentals, as properties acquired at a lower cost basis can undercut competitors on rents.

But this wave of distress will present opportunities as well, and we believe the risk-reward profile for office is becoming more balanced. According to Green Street, office has historically traded at cap rates 50 basis points lower than the broader commercial real estate average, but today it trades 150 basis points wider. This increased relative yield spread more accurately reflects current office fundamentals, while going-in cap rates of 8 to 10 percent provide attractive unlevered yields. Valuations in many instances are well below replacement cost, which makes conversions and other heavy capex projects more viable. As low availability in newer buildings causes demand to start spilling out, recently renovated older buildings should become more competitive. Most investors would rather be late than early, but we believe 2025 will be a year when more investors begin to take calculated bets on the office sector.

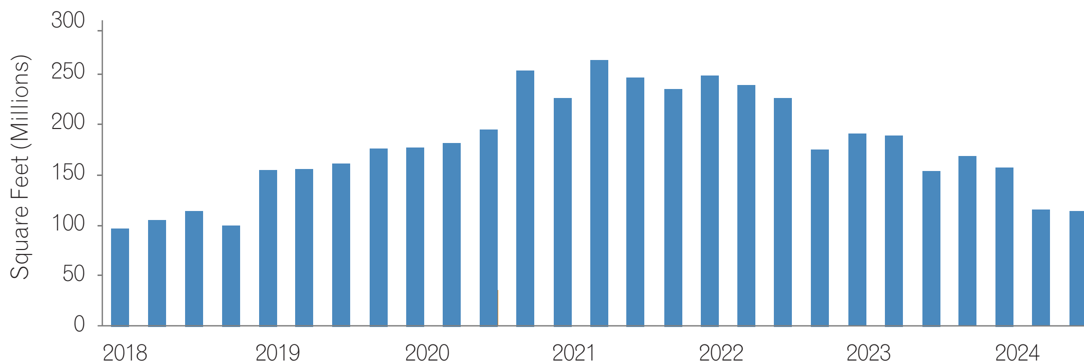
Industrial's bull run will resume as fundamentals normalize

6

Industrial property fundamentals continue to normalize following their post-pandemic sugar high. New supply has exceeded net absorptions every quarter since mid-2022 as tenants become more discerning on their future space needs. Leasing volumes have reverted to 2018 levels. Vacancies have more than doubled from approximately 3 percent at the 2022 lows to over 6 percent currently, consistent with the long-term average. Rent growth has declined to the single digits across most U.S. regions amidst reduced landlord pricing power. While fundamentals are likely to remain challenged in the near term, we believe industrial's current weakness is transitory as long-term secular growth drivers remain intact. With industrial values still down 16 percent from the peak according to Green Street, we believe the next 12 to 24 months will provide an attractive long-term entry point for investors.

Soft Landing

Industrial Leasing Volumes, Q1 2018 - Q3 2024

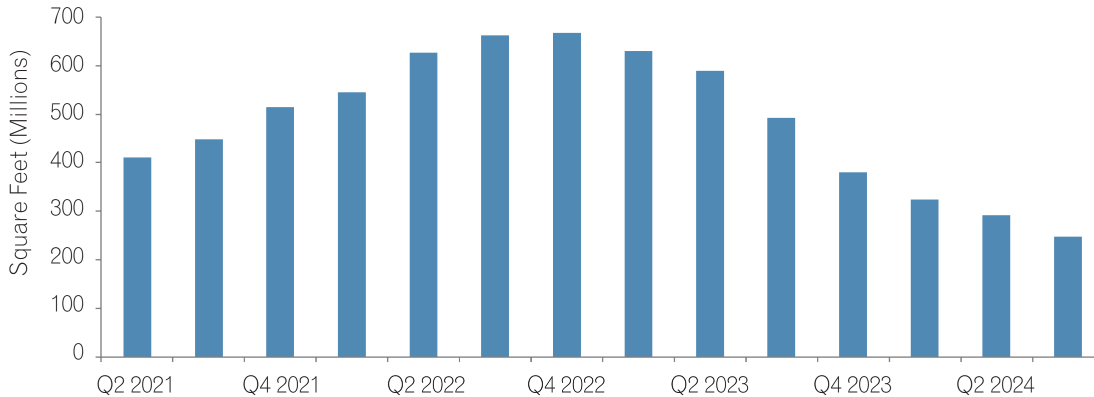


Source: JLL, Q3 2024.

Industrial fundamentals should benefit from a more favorable supply story in the years ahead. The amount of space under construction has declined approximately 63 percent since the 2022 peak and is now at the lowest levels since Q3 2019. Construction starts have also fallen to a post-pandemic low. New construction completions peaked around 150 million square feet per quarter in 2023 and are expected to average around 60 million square feet per quarter throughout 2025 – nearly 25 percent lower than the 2015-2019 average. Higher interest rates and elevated construction costs should continue to serve as a brake on new supply. As the current development pipeline clears, we believe 2025 to 2026 will see a more favorable supply-demand dynamic and a resumption of healthy rent growth.

Smoother Seas Ahead

Industrial Space Under Construction, Q2 2021- Q3 2024



Source: CBRE, Q3 2024.

Industrial's long-term secular demand catalysts also remain intact. Steady e-commerce growth continues to fuel demand from logistics and parcel delivery tenants, with Asian 3PLs particularly active in the U.S. recently. Retailers with omnichannel business models require extensive logistics networks, increasing demand for last-mile delivery and regional hubs. Public investment to modernize aging infrastructure, particularly as it relates to power production and distribution, is fueling sustained demand from the construction and materials sectors. Private construction spending on new manufacturing facilities has nearly quadrupled since 2018 and looks poised to expand further as nearshoring and onshoring remain en vogue. Risks to trade relationships – from tariffs, geopolitical events, or otherwise – should lead to continued efforts to invest in supply chain resiliency by moving production and inventory closer to the consumer.

While industrial investors will benefit from the lack of supply on the other side of the current wave, we should remain mindful that industrial real estate is a cyclical business and prone to overbuilding. Industrial development is characterized by relatively uncomplicated construction processes and short delivery times. Industrial is also one of the most popular and crowded trades in commercial real estate: despite only representing approximately 12 percent of the investable commercial real estate universe, industrial now accounts for nearly 34 percent of the NCREIF Fund Index - Open End Diversified Core Equity ("NFI-ODCE"). With so much capital chasing industrial opportunities, a resurgence of new supply remains a persistent threat.

Made in the USA

Monthly Private Construction Spending on Manufacturing Facilities, 1994-Present

Source: Federal Reserve Economic Data, October 2024.

The recent supply wave has also reminded investors that the industrial market is not monolithic, with performance becoming increasingly bifurcated based on property quality, age, and location. As tenants become more cautious and discerning about their space needs, the conversion rate between leasing inquiries and signed leases has fallen considerably. Older buildings in particular are seeing negative impacts from new supply as tenants have more options to relocate. Integration of robotics and automation, access to power, energy efficiency, and higher ceiling clearances are increasingly important to industrial tenants, creating more of a disparity between modern and vintage product. According to CBRE, pre-2000 vintage buildings recorded more than 100 million square feet of negative absorption in 2024. We expect this bifurcation and flight to quality to persist as the pace of technological change accelerates.

As the industrial sector enters a period of more measured growth, we believe certain themes will continue to offer investors outsized return potential. Urban logistics are becoming more complex, and strategically located infill properties are in high demand as businesses seek closer proximity to the end customer. Onshoring, nearshoring, and investments in supply chain resiliency are likely in their early innings as U.S. policy circles become increasingly protectionist. Cold storage should benefit from rising demand for fresh and frozen foods. Less institutional segments such as last-mile, small bay, and industrial outdoor storage should also provide portfolio aggregation opportunities as more investors seek exposure to these property types. The "Gold Rush" period for industrial real estate may be over, but we believe the sector will continue to provide attractive investment opportunities in the years ahead.

Drone Hysteria

We have no clue what is happening in the skies over New Jersey, but in the retail and logistics sectors drone deliveries are finally taking off. A handful of drone delivery startups have already been cleared by the Federal Aviation Administration to deliver all manner of parcels, from prescription drugs to fast food orders. Automated systems make loading and takeoff as labor efficient as handing a purchase directly to a customer. Airborne drones that weigh 8 to 15 pounds are more fuel efficient than a 6,000-pound delivery van. Delivery times are also relatively fast, often arriving at the customer's door in less than an hour.

Advancements in robotics and self-driving vehicles should build on this progress, with drones able to deliver goods by air, land, or water. Self-driving vans could carry packages in bulk, with smaller detachable drones helping to unload and deliver individual parcels. One could easily imagine scenarios where parcels travel from logistics facilities all the way to a customer's doorstep without ever being handled by a human, all triggered by the click of a mouse. We expect drone sightings to increase in 2025 and beyond.

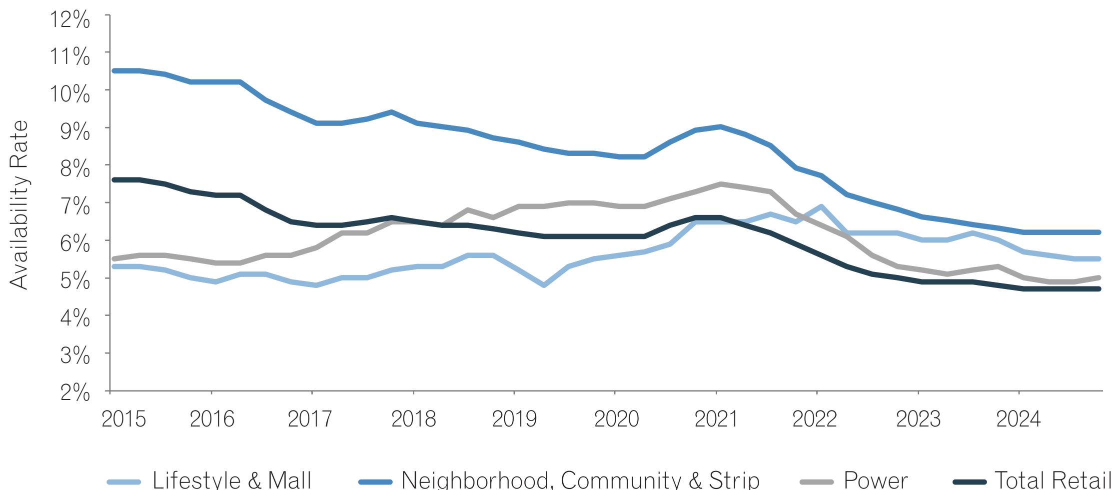
Source: JLL, November 2024. Created using generative AI with Adobe Stock licensed images and Adobe Firefly's generative fill integration with Photoshop. Reprinted with permission.

7 Retail's solid fundamentals will attract more institutional capital flows

The retail sector has proven remarkably stable throughout commercial real estate's latest cyclical downturn. Tenant demand is strong and new supply is low. Vacancy levels are near historic lows at 4.7 percent nationally – the lowest of any major property type other than data centers. With the exception of malls, retail real estate valuations are virtually flat relative to pre-pandemic levels according to Green Street data, exhibiting much less volatility than other property types. After being shunned by institutional investors for over a decade, we believe 2025 will mark a turning point as more capital is drawn to the retail sector's high cash flows, strong fundamentals, and opportunities for positive leverage.

Hurry in While Supplies Last!

Retail Vacancy Rates by Segment, 2015 - Present

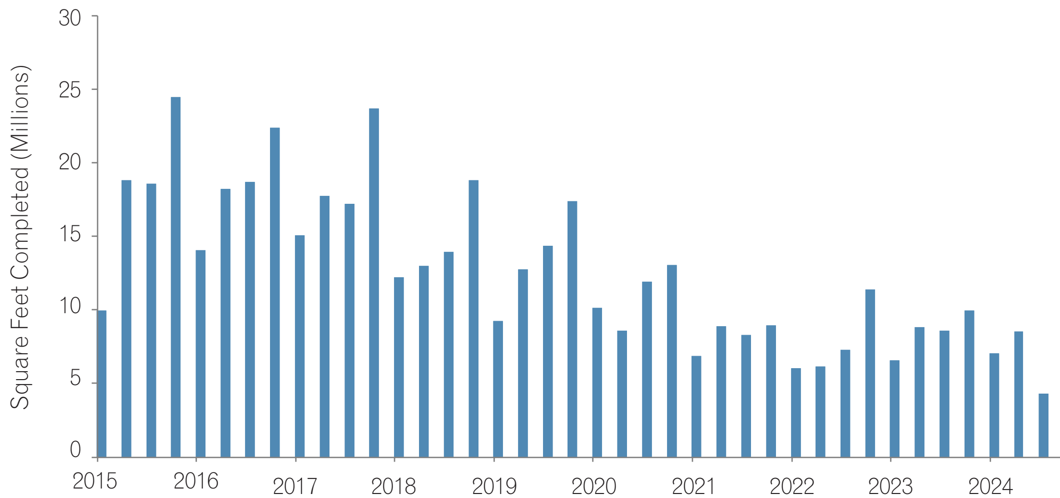


Source: CBRE Econometric Advisors, Q3 2024.

Lack of new supply has been central to retail's stabilization after decades of overbuilding. Construction completions hit the lowest levels on record in 2024, and elevated construction costs are likely to keep it that way for the foreseeable future. In a market of approximately 4.3 billion square feet, only 11 million square feet is currently under construction according to Cushman & Wakefield, versus an annual average of over 150 million square feet in the early 2000s. Antiquated supply also continues to be removed as underperforming malls are demolished or repurposed. As the overall availability rate remains near record lows, retail landlords are discovering newfound pricing power amidst stiff competition for high quality space in desirable locations. Many retailers are also showing a willingness to sign longer-term leases as they aggressively compete for well-located stores.

Record Lows

Retail Quarterly Construction Completions, 2015-Present



Source: CBRE Econometric Advisors, Q3 2024.

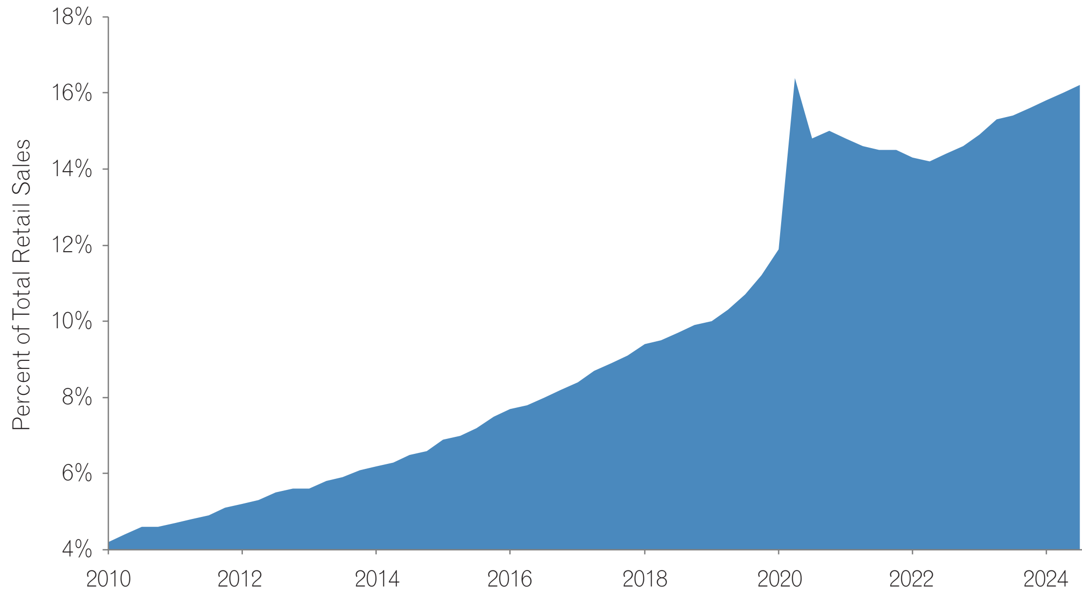
Tight availability also means store closures are no longer the existential risk they once were as the e-commerce boom was first igniting. CoreSight Research estimates that 7,100 U.S. stores closed in 2024 through November, a 69 percent increase from 2023. These closures are typically tied to struggling retail formats, with discount chains and drug stores especially challenged. However, most landlords can backfill space quickly among eager retail tenants seeking opportunities to expand, particularly in prime locations such as open-air strip and power centers. Rather than a harbinger of urban blight, store closures are increasingly viewed as opportunities for redevelopment and urban renewal.

After spending many years getting pummeled by e-commerce, today technology is powering retail's renaissance by making the in-person shopping experience more interactive and personalized. Big data and artificial intelligence allow retailers to be more precise in giving customers exactly what they want. Retailers can leverage past purchases and internet browsing data to create highly personalized shopping experiences. In apparel stores, virtual fitting rooms could become a common feature, allowing customers to see different wardrobe options on a digital version of themselves before trying them on for real. Cashier-less checkout is also starting to be introduced in select locations. The net effect of all these innovations is a brick-and-mortar shopping experience that is more efficient and enjoyable.

E-commerce remains a dominant theme in retail's future. E-commerce sales as a percent of retail sales continue to expand at a pace consistent with the pre-pandemic trendline, suggesting retailers must continue leaning into omnichannel business models. This bodes well for open-air neighborhood, community, and strip centers, which are increasingly important to online order fulfillment, lowering costs for retailers while also improving delivery times. Several traditionally mall-based tenants are choosing to move or expand into these locations as malls struggle. Even digitally native brands are choosing to open physical locations once they become more established, recognizing the benefits of physical stores to both new customer acquisition and retention.

Back on Trend

E-Commerce Share of Total US Retail Sales, 2010 - Present



Source: Federal Reserve Economic Data, Q3 2024.

Retail will continue to evolve and adapt given today's rapid pace of technological change, which poses challenges and uncertainty for investors. However, the pandemic, inflation, and years of bloodletting at the hands of e-commerce have provided the ultimate Darwinian survival test. Today's retail sector fundamentals are undeniably strong, offering investors a compelling risk-reward profile characterized by low volatility and elevated cash yields. As institutional investors seek to build more diversified portfolios, we expect 2025 will see a renewed push into the retail sector.

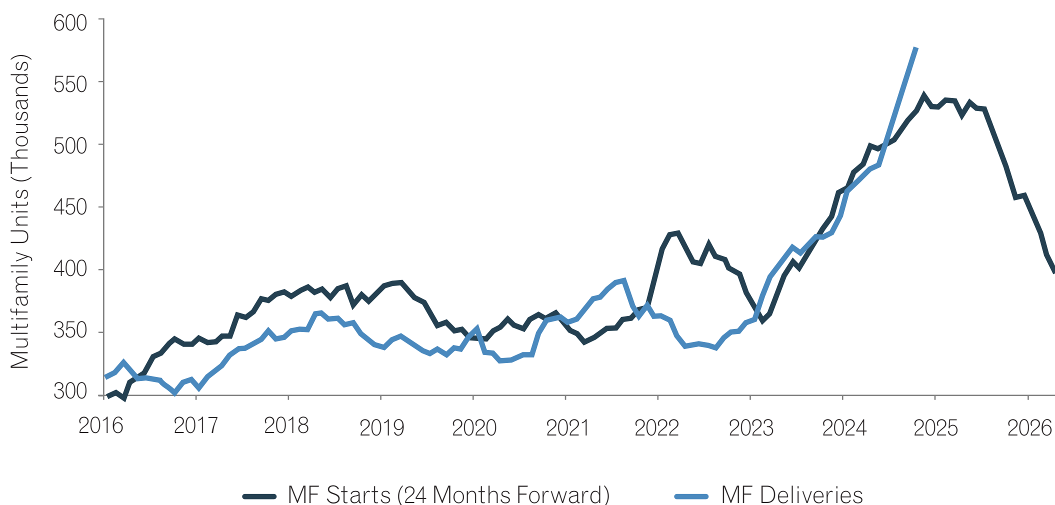
8 Rental housing valuations will recover amid strong unit absorption and fading supply risks

After a painful correction, rental housing segments found their footing in 2024 and appear to be in the early phases of a new bull market cycle. The largest wave of new supply since the 1970s has significantly reduced landlord purchasing power, but rents have held flat to slightly positive as units are absorbed at a healthy clip. According to Green Street, multifamily valuations bottomed in December 2023 and have since risen 14 percent. Cap rates appear to have topped out around 5.0 to 5.5 percent. Property expense growth is finally starting to moderate, which should ease pressure on NOI margins. Given the improving outlook, we believe current valuations represent an attractive long-term entry point and expect investment activity to pick up meaningfully in 2025.

While fundamentals are likely to remain soft through 2025 as more new supply comes online, the other side of the supply wave looks more promising. Approximately 600,000 multifamily units are currently under construction according to Cushman & Wakefield, down 36 percent from peak levels reached in Q1 2023. Deliveries were peaking in late 2024 and are expected to decline meaningfully by late 2025, particularly in markets experiencing the sharpest rise in new inventory. New construction starts have also declined meaningfully and are expected to be 74 percent below their 2021 peak by mid-2025 according to CBRE. Such levels would represent a 30 percent drop from pre-pandemic averages. If the Trump Administration follows through on its promises of tariffs and mass deportations, multifamily construction activity could remain suppressed for several years hence.

Crest of the Wave

Multifamily Starts and Deliveries, 2016 - 2026F



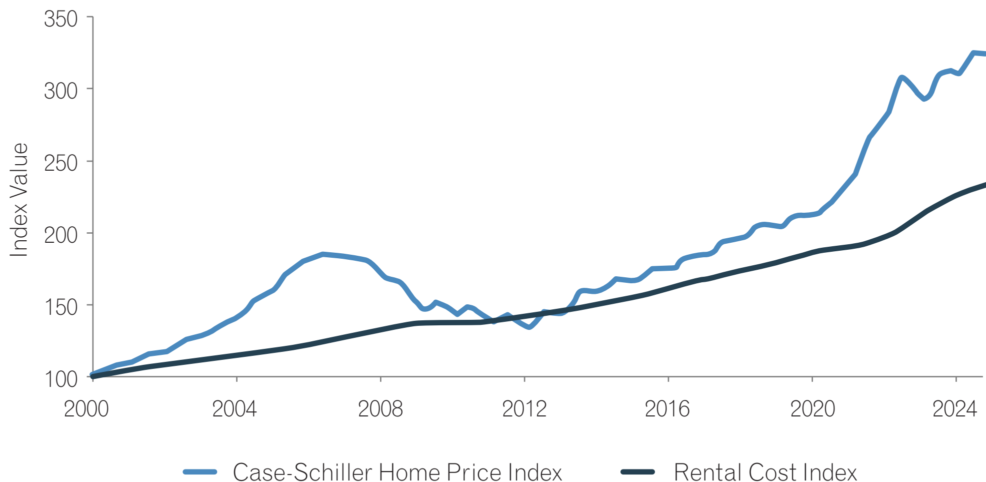
Source: Federal Reserve Economic Data, October 2024.

With new supply growth poised to fall, rent growth is showing signs of stabilizing and should accelerate higher amid robust renter demand. Absorption has recently begun outpacing deliveries. According to Cushman & Wakefield, 138,000 units were absorbed in Q3 2024 and 133,000 units in Q2 2024, the fourth- and fifth-highest quarterly totals on record. As a result, vacancies have likely peaked for this cycle. National apartment occupancy is holding steady at 94.8 percent according to RealPage, near the long-term average.

We expect high barriers to homeownership will continue to fuel demand for rental housing – either by choice or necessity. U.S. median home prices have risen 51 percent since the pandemic, more than double the growth in median wages over the same period. Meanwhile, rents have largely risen in line with wages, which makes renting a better value proposition. According to CBRE, average monthly payments for a new mortgage are 35 percent higher than the average apartment rent as of Q3 2024. Additionally, approximately 80 percent of current homeowners have mortgage rates below 5 percent, making them reluctant to sell and keeping for-sale inventory suppressed. According to Fannie Mae, 35 percent of U.S. households now prefer to rent, a record high.

Relative Value

Home Prices vs Median Rents, 2000 -Present



Source: Federal Reserve Economic Data, Q3 2024.

As rental housing's long-term secular catalysts remain strong, we expect a robust investment opportunity set in the years ahead. Distressed sales are likely to increase as loans mature on value-add and development projects initiated in 2020-2022 with high leverage, short-term debt, and non-institutional owners. As more Millennials start families, single family build-to-rent provides a natural alternative solution to homebuying, and these projects now comprise 10 percent of all U.S. housing starts according to the National Association of Realtors. Manufactured housing offers one of the most affordable workforce housing options – typically 40 percent less than multifamily and 75 percent less than single-family homes – and the sector remains highly fragmented with relatively few experienced institutional operators. Value-add apartment strategies should also continue to offer reliably healthy unlevered returns. In a U.S. housing market that remains chronically undersupplied, we expect rental housing to remain a lucrative business across market cycles.

9 Challenges to real estate capital formation will lead to further industry consolidation

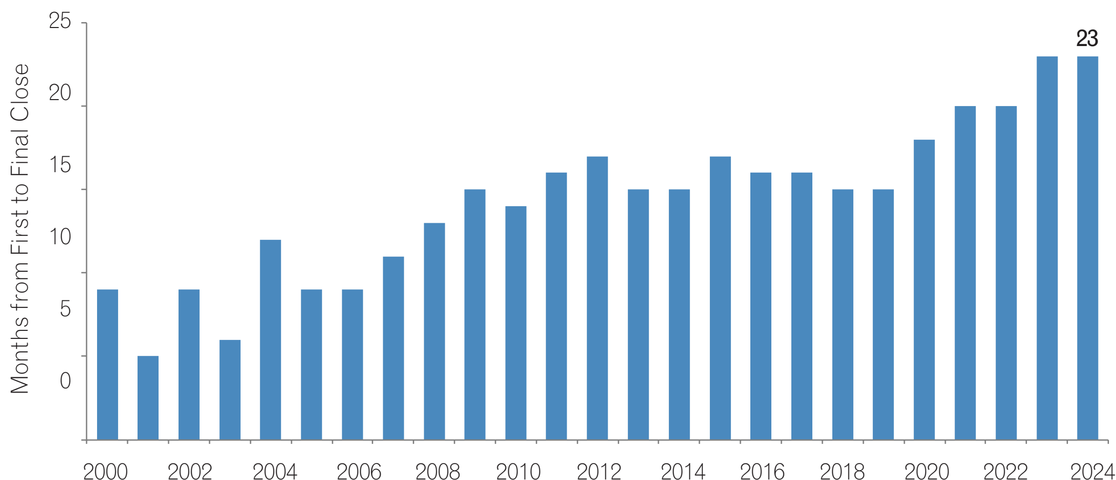
2024 was another difficult year for real estate capital formation. As transaction volumes remain subdued, institutional real estate investors are liquidity constrained due to a lack of distributions from existing private investments. Redemption queues from open-end funds remain elevated. While a strong rally in public equities eased pressure from the denominator effect, high levels of uncalled capital mean investors are in no rush to make fresh commitments. Closed-end fundraising volumes in 2024 are expected to be essentially flat compared to 2023. As these barriers persist, we expect more managers to consider alternatives to traditional closed-end funds, as well as consolidation through M&A.

Fortunately, the challenging capital markets environment is not a reflection of investor attitudes towards real estate as an asset class. Average target allocations to real estate among institutional investors have held steady in the 10 to 11 percent range. Actual allocations historically lag targets by 50 to 100 basis points due to the lead times between making commitments and capital getting called. This dynamic was upended briefly in 2023, as falling public markets (denominator effect) conspired with lagging private real estate write-downs (numerator effect) to place many investors at or above their target allocations. However, by the end of 2024 this logjam had reversed, and institutions were once again under-allocated to real estate versus target. We believe this should lead to a more favorable fundraising environment in 2025.

Still, fundraising for traditional closed-end funds is likely to remain challenging. As alternative investment portfolios become more mature, institutional investors are increasingly focused on re-upping with existing managers, and the bar for adding a new manager is high. Even for incumbent managers, gathering re-ups has become more difficult. The average time from first to final close on a closed-end fund remains elevated at 23 months according to Preqin, the longest timespan on record going back to 2000. Anecdotally, we have noticed something of a "barbell effect," with investor allocations being directed towards either 1) large mega-funds that provide diversified private real estate exposure, including through multiple product lines, and 2) smaller "sharpshooter" managers specializing in a single geography, property sector, or some other niche. This is putting the squeeze on diversified mid-size managers, many of which are being forced to extend their fundraising periods or close below target.

A Longer, Windier Road

Closed-End Fund Average Fundraising Period (First to Final Close), 2000-Present



Source: Preqin, December 2024.

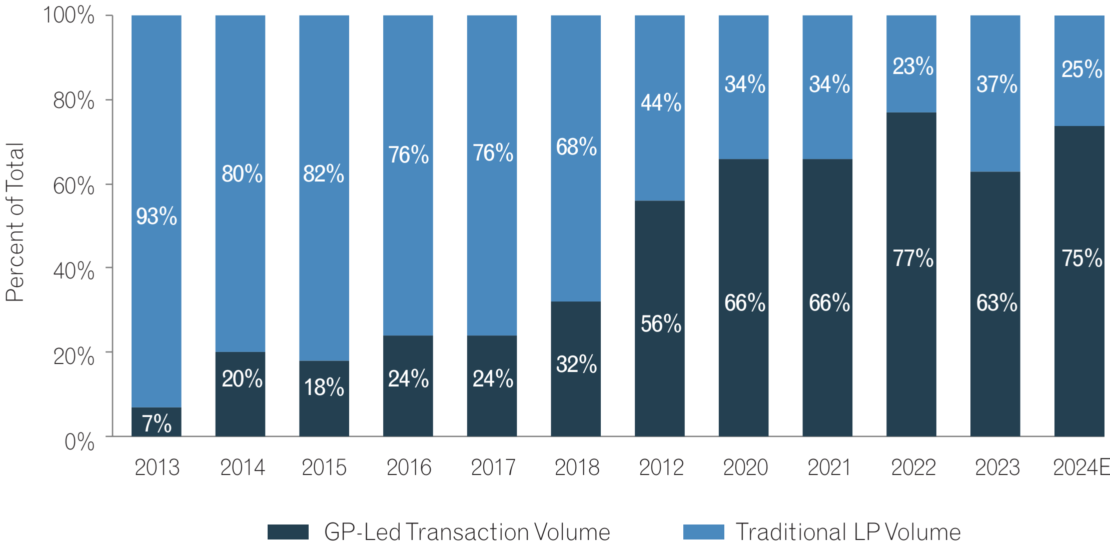
As the real estate investment business becomes more competitive, we expect a wave of consolidation in the coming years. For the largest managers, technology, data, and platform scale are often key differentiators on the fundraising trail. They also tend to have in-house data scientists, as well as chief technology officers to manage the plethora of proptech applications that have emerged in recent years. Because of the expense and investment associated with these capabilities, small and mid-size managers are understandably outgunned and placed at an inherent disadvantage. Combining with another platform through M&A could mitigate some of these weaknesses, and we believe more small and mid-size managers will go that route in the years ahead.

Industry consolidation and M&A are not confined to large real estate managers buying smaller ones. Mergers of equals could help managers increase AUM and platform scale while also gaining operating efficiencies. Retiring founders and principals should facilitate this; many of the most established real estate investment managers are still in their first generation of ownership. Other potential tie-ups include established managers in other asset classes seeking to add a real estate vertical, or a non-U.S. real estate manager seeking to expand into the U.S. One new trend we are seeing is larger managers purchase significant or controlling interests in real estate operators in specific property types to capture deal flow. This so-called "co-GP" model provides an alternative to the traditional allocator fund model, with captive verticals providing more long-term collaboration and cohesion than a third-party joint venture arrangement.

We also expect to see more real estate managers pursue alternative private capital solutions as the closed-end fundraising route becomes more difficult. In particular, portfolio secondaries and continuation vehicles have become more effective avenues for managers to secure new institutional capital partners, refresh business plans, restructure ownership, and reset GP economics. These types of GP-led recapitalizations can be particularly effective as fund lives and disposition timelines get extended, providing liquidity to existing LPs and potentially facilitating the re-up conversation for future fund launches. GP-led

recapitalizations now account for the vast majority of real estate secondaries trades, and dedicated capital pools for such transactions are growing rapidly. We expect to see more managers exploring these types of transactions in 2025.

Share of Real Estate Secondaries Volume, 2013-2024E



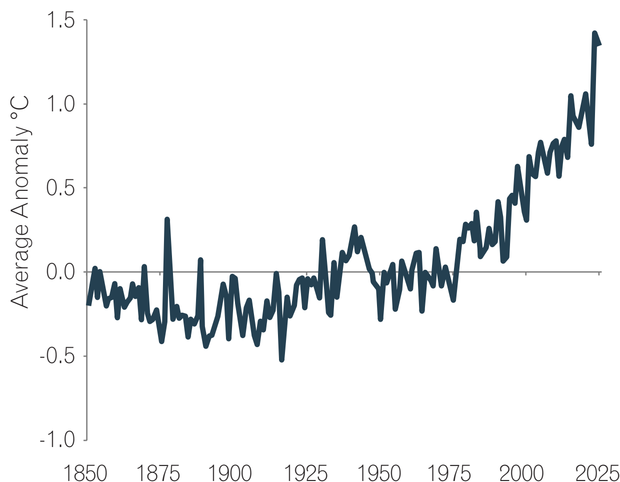
Source: Park Madison Partners

10 Insurance markets will highlight the properties and locations most at risk from climate change

As climate change worsens, real estate investors and homeowners are feeling the financial impacts. The World Meteorological Organization recently announced that 2024 was likely the hottest year on record, with global average temperatures pushing closer to 1.5°C above pre-industrial levels. Large regions of the U.S. are experiencing more volatile weather patterns as a direct result of this warming, causing insurance companies to raise premiums, cancel policies, or pull out of regions altogether. As insurers react to the financial realities of more extreme weather, we believe additional knock-on effects to real lending, valuations, and investments will emerge.

Something Wicked

Global Temperature Anomaly vs Pre-Industrial Levels, 1850 - 2024



Source: NOAA, November 2024. Global Land and Ocean November Average Temperature Anomalies. Base Period: 1901-2000.

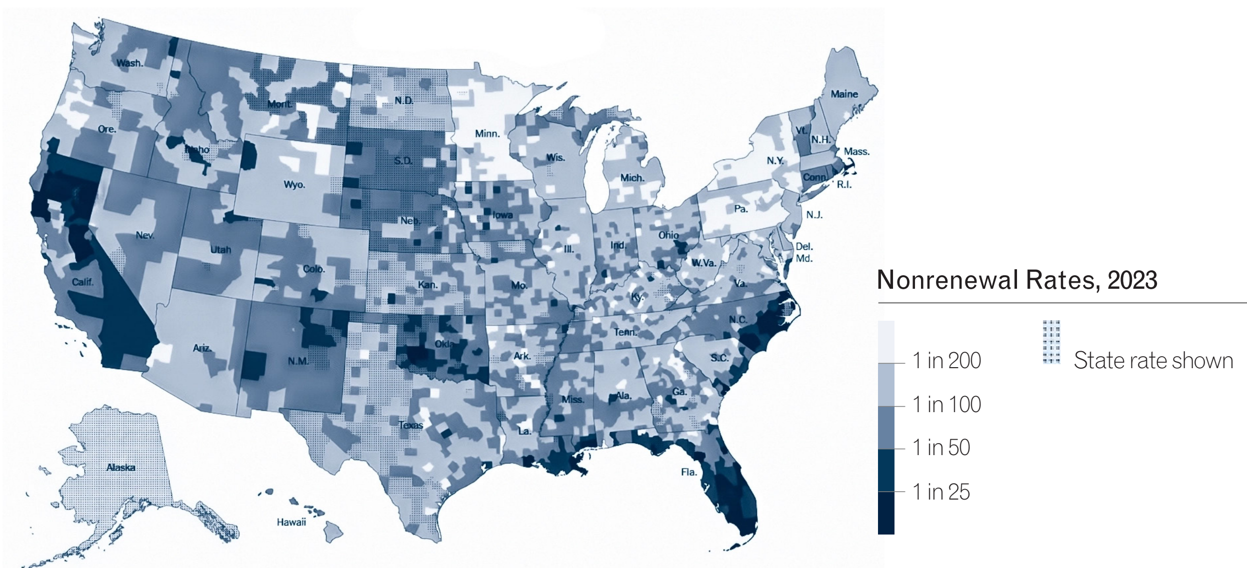
The rising prevalence of extreme weather events is straining the economics of traditional U.S. insurance models. The problems extend far beyond coastal flooding or rising sea levels. Hurricane Helene showed that elevation does not protect against flood, inflicting an estimated $60 billion worth of flood damage to a mostly mountainous area in western North Carolina. Wildfire risk is increasing across the entire U.S., with burned acreage increasing 48 percent over the last decade according to First Street Foundation, and number of buildings burned increasing 215 percent. More frequent damage from tornadoes, high winds, and extreme temperatures are also raising insurance costs. Some estimates suggest that insured losses now routinely approach $100 billion annually in the U.S., compared to around $5 billion in 2000.

As insurance companies increase payouts, they are – quite rationally – passing the extra costs on to their customers. According to Moody's, multifamily insurance rates increased by an average of 12.5 percent annually from 2020 to 2023. Over the same period in Manhattan, where flood damage costs have risen considerably, home insurance premiums rose 87 percent, far outpacing the national average. In higher-risk areas of Florida, insurance costs on some homes have risen more than 400 percent since 2020. Recent anecdotal evidence suggests this sharp rise in insurance costs could affect resale values and deter prospective buyers.

In the worst cases, insurance companies are pulling out of markets altogether. A December 2024 study from the Senate Budget Committee showed that insurance non-renewals have spiked in recent years, with more than 200 U.S. counties seeing non-renewals more than triple since 2018. The study also confirmed that counties most exposed to climate-related risks are seeing the highest non-renewal rates, particularly the Gulf Coast, California, New England, the Carolinas, Oklahoma, Hawaii, New Mexico, and the Northern Rockies. The geographic diversity of these areas reflects the full spectrum of climate-related natural disasters including floods, wind, and wildfires.

Hot Spots

Private Insurance Non-Renewal Rates By County, 2023



Source: New York Times, December 18, 2024. U.S. Senate Budget Committee Staff Report, December 2024.
Note: The state average is shown in counties with insufficient policies reported. Reprinted with permission.

As private insurance companies pull out, many property owners are left with state-backed "insurers of last resort" as the only option. Florida's Citizens Property Insurance Corporation ("CPIC"), which is the insurer of last resort for windstorm insurance, is now the largest home insurance agency in the entire state. CPIC currently holds 1.3 million homeowner policies, a 168 percent increase since 2020. State-backed insurers are often more expensive and provide less coverage, and their increasing prevalence does not augur well for property values in affected areas.

We believe insurance company behavior provides an important market signal for real estate investors seeking to quantify climate risk. Insurance is essential to obtaining a mortgage and most homebuyers need one. If lenders exit, most prospective buyers would also exit, raising the specter of falling property values, failing communities, and trapped capital. Migration patterns would also certainly be affected. In addition to affordability, increased climate stress also affects quality of life in the form of less hospitable weather and more disruptions from natural disasters. While there are no signs of rampant out-migration yet, several previously favored markets in less resilient geographies are seeing their migration inflows stall or reverse. In 2025 and beyond, we believe more investors will notice the increasing risks and adjust their investment postures accordingly, with long-term implications for capital flows and investment performance.

2024 Scorecard

In the spirit of staying honest with our readers, we continue our tradition of providing a short "scorecard" on the previous year's Outlook. Each of our market calls is scored on a scale of 1 to 10, with 10 meaning "nailed it" and 1 meaning "not even close." We also include some brief (and highly subjective) commentary to explain why we scored ourselves the way we did.

1 The Fed will cut interest rates as inflation cools, but U.S. fiscal policy will become a focus

SCORE: 8/10

We agreed with the general market consensus that the Fed would cut interest rates, but cautioned that the pace of rate cuts might be slower than anticipated. We also predicted that inflation would keep cooling and that the U.S. would avoid a recession. Those calls played out in our favor. We also sounded the alarm on the federal government's deteriorating fiscal situation and what it might mean for interest rates longer-term. Trump's re-election sent interest rates sharply higher, which could have been interpreted as market caution about his administration's spending plans. But the US Dollar also rose in value, which suggests the full faith and credit of the U.S. government is still intact, and the rise in interest rates was more due to rising growth expectations. We still think fiscal largesse presents a risk for interest rates and doubled down on that view in our 2025 outlook, so we may yet be proven correct. But for now, we will have to settle for an 8/10.

2 Real estate transaction volumes will bounce back as interest rates and cap rates stabilize

SCORE: 9/10

We predicted that 2024 would mark the bottom for commercial real estate this cycle as interest rates stabilize and capital markets thaw. We made the case that cap rates were close to peaking. We claimed that debt markets would start to reopen and transaction volumes would bounce back. While transaction volumes overall remain flat, the rest of these predictions came to fruition.

2024 Scorecard

3 Industrial's price correction will prove short-lived as the development pipeline clears

SCORE: 10/10

We acknowledged that industrial had a tough year ahead as vacancies rose amid record new supply. However, we believed that the supply pressures on industrial would prove transitory as the sector's long-term secular catalysts remained intact. We predicted that values would bounce back in 12 to 24 months and that 2024 would prove to be a bumper vintage. At the risk of possibly jinxing ourselves, we're going to go ahead and declare victory on this one.

4 Rental housing valuations will bottom, and NOI margins will face pressure as expenses increase and rents remain flat

SCORE: 10/10

We acknowledged the challenges affecting rental housing and predicted that fundamentals would continue to soften in 2024. But we also called the bottom on valuations and suggested that rent growth would stay mildly positive before picking up in 2025. According to Green Street, December 2023 marked the bottom for most rental housing segments. Additionally, on a nationwide basis rent growth has stayed slightly positive and looks poised to move higher in 2025. We'll take our 10/10 on this one.

5 Office valuations will fall further as financial distress spreads

SCORE: 10/10

We said office fundamentals would remain weak and that valuations would have to fall further before finding a cyclical bottom. But we also said that investors should watch out for signs of a new supply-demand equilibrium. There's a price for everything, after all. Additionally, we declared work-from-home ("WFH") a tired fad that was on its way out. These predictions all aged surprisingly well, with signs building that WFH is fading and fundamentals are beginning to turn the corner. We also predicted that there would be few actionable investment opportunities amid the continued uncertainty, other than perhaps conversions, demolitions, and redevelopments, and the volume of those types of projects hit an all-time high in 2024. Maybe not our boldest call, but worthy of a 10/10 nonetheless.

2024 Scorecard

6 Retail's steady consolidation will continue, but investor sentiment will remain cautious

SCORE: 9/10

We noted retail's promising signs after a decades-long readjustment, and predicted that institutional investor interest would increase modestly but remain tepid overall. Throughout 2024 we saw a notable uptick in investors asking questions about retail, with Blackstone firing the shot heard round the world with its $4 billion acquisition of Retail Opportunity Investments Corp. (Nasdaq: ROIC). We also correctly stated that malls would continue to struggle, and that other segments such as grocery-anchored, neighborhood, community, open-air, and strip centers would continue to see healthy demand. We were too conservative in assuming that high street and "amenity retail" would continue to be negatively impacted by WFH, as both are seeing a resurgence as WFH fades (admittedly faster than we expected it would). We'll settle for 9/10 on this one.

7 Data centers will attract more institutional investment as tenant demand surges

SCORE: 10/10

No need to belabor the point here. Maybe someday we'll take a bravely contrarian view on data centers, but for now this was an easy 10/10.

8 Real estate capital formation will remain challenging, with more managers exploring alternatives to traditional fund structures

SCORE: 10/10

We predicted that fresh investor commitments would remain subdued in the near term due to high levels of uncalled capital, which unfortunately for us proved correct. 2024 was a terrible fundraising year for real estate private equity. Investors received few distributions from existing investments, valuation markdowns in existing portfolios hurt performance and fueled investor uncertainty, and the denominator effect continued to affect allocations for most of the first half. We also expected more managers to consider alternative private capital solutions to traditional closed-end funds, such as portfolio secondaries and continuation vehicles. Indeed, we saw a notable uptick in managers exploring innovative ways to secure new capital partners while providing liquidity to existing investors. We'll keep our day jobs for now.

2024 Scorecard

9 Rising insurance costs will focus investor attention on climate risks

SCORE: **TBD**

We made similar arguments last year as Section 10 of this year's outlook. In 2024 more data became available, further quantifying the magnitude and scope of climate change's impact on insurance markets. We also saw more evidence of people having trouble selling homes in less resilient locations. Whether investor attention has been truly "focused" on climate risks is still difficult to determine as transaction activity remains at cyclical lows. Perhaps more evidence will emerge in 2025, but for now we'll mark this one as TBD.

10 The 2024 election will test the strength of America's democratic institutions

SCORE: **3/10**

We earn points for noting President Biden's vulnerability and the very real possibility that President-Elect Trump would defeat him. But we were perhaps too pessimistic on how the Election would unfold and be litigated. Based on polling heading into 2024, we worried that a plethora of third-party candidates would splinter the vote and result in a presidential victor that had earned only 40 percent of the popular vote, creating questions of legitimacy. In the end, RFK Jr. dropped out and the election became more or less a binary choice. We also expected that the election would be very close, with recounts and court challenges delaying the final results for several weeks, possibly straining public confidence in the election's fairness. For better or worse, the election was not that close. We knew the victor on Election Night, and no one challenged the results or sought to overturn them. While the next four years could yet test the America's institutional guardrails, we also expressed confidence that today's polarized political fever will eventually break, and American democracy will emerge all the stronger. We still believe that.

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Park Madison Partners provides capital raising and strategic consulting services to real estate sponsors with a high degree of customization, integrity, and accountability. Our team comprises top talent from both the buy-side and the sell-side of the commercial real estate industry. We leverage this diverse experience to advise our clients on institutional best practices, helping them maximize their capital formation potential in a competitive marketplace.

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(212) 448-7340
parkmadisonpartners.com