



# 2025 Commercial Real Estate & Economic Forecast

## FISERV Forum



**Bucks**  
Away, 26-18

1		Cavaliers	37-9	.804
2		Celtics	32-15	.681
3		Knicks	31-16	.660
4		Bucks	26-18	.591



# Year of the Snake

## Unraveling the Market Secrets



**K.C. Conway, MAI, CRE, CCIM**

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**1-part Beagle-nomics**



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**678-458-3477 (text is best)**



**K.C. Conway, MAI, CRE, CCIM**

### **The Year of the SNAKE.**

People born in year of the Snake are wise, charming, and mysterious. They have a keen intuition and a deep understanding of themselves and others. Snakes are also ambitious and determined, but they can be secretive

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# Disclaimer: Not in the fine print...

## CARW 2025 CRE Forecast

January 30, 2025

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Charlie Beagle  
Salutes our  
Veterans and  
First Responders

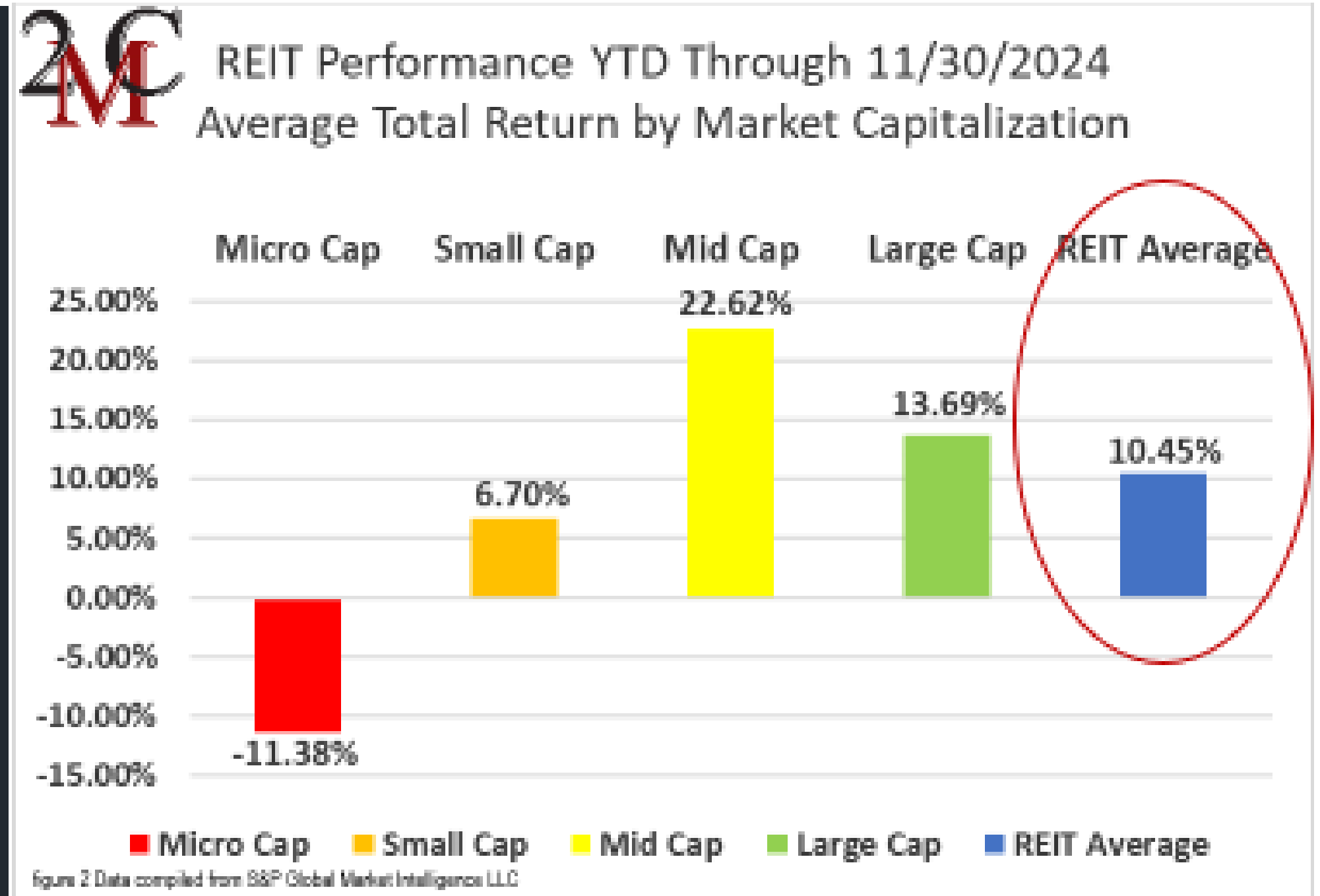
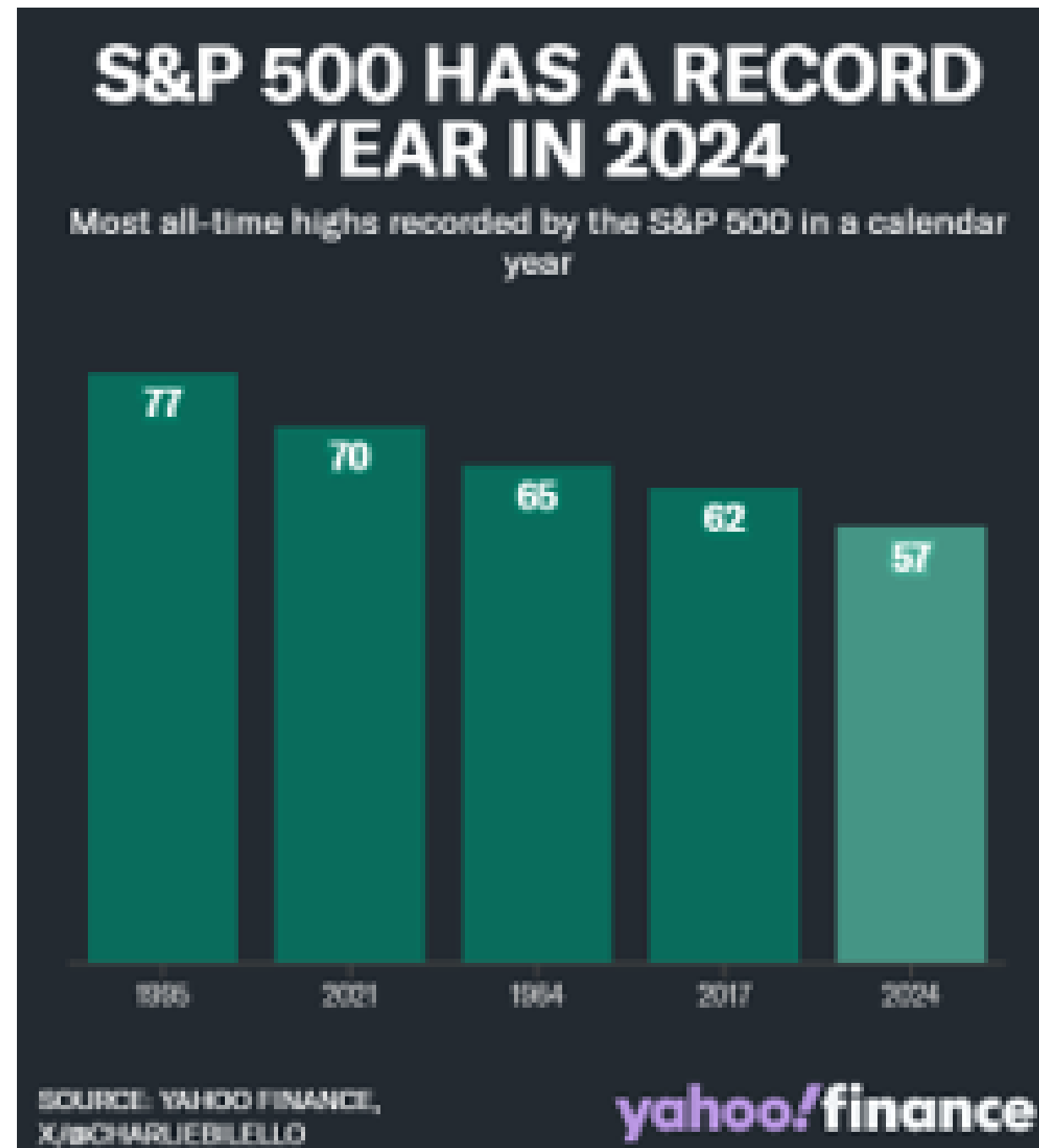
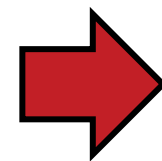
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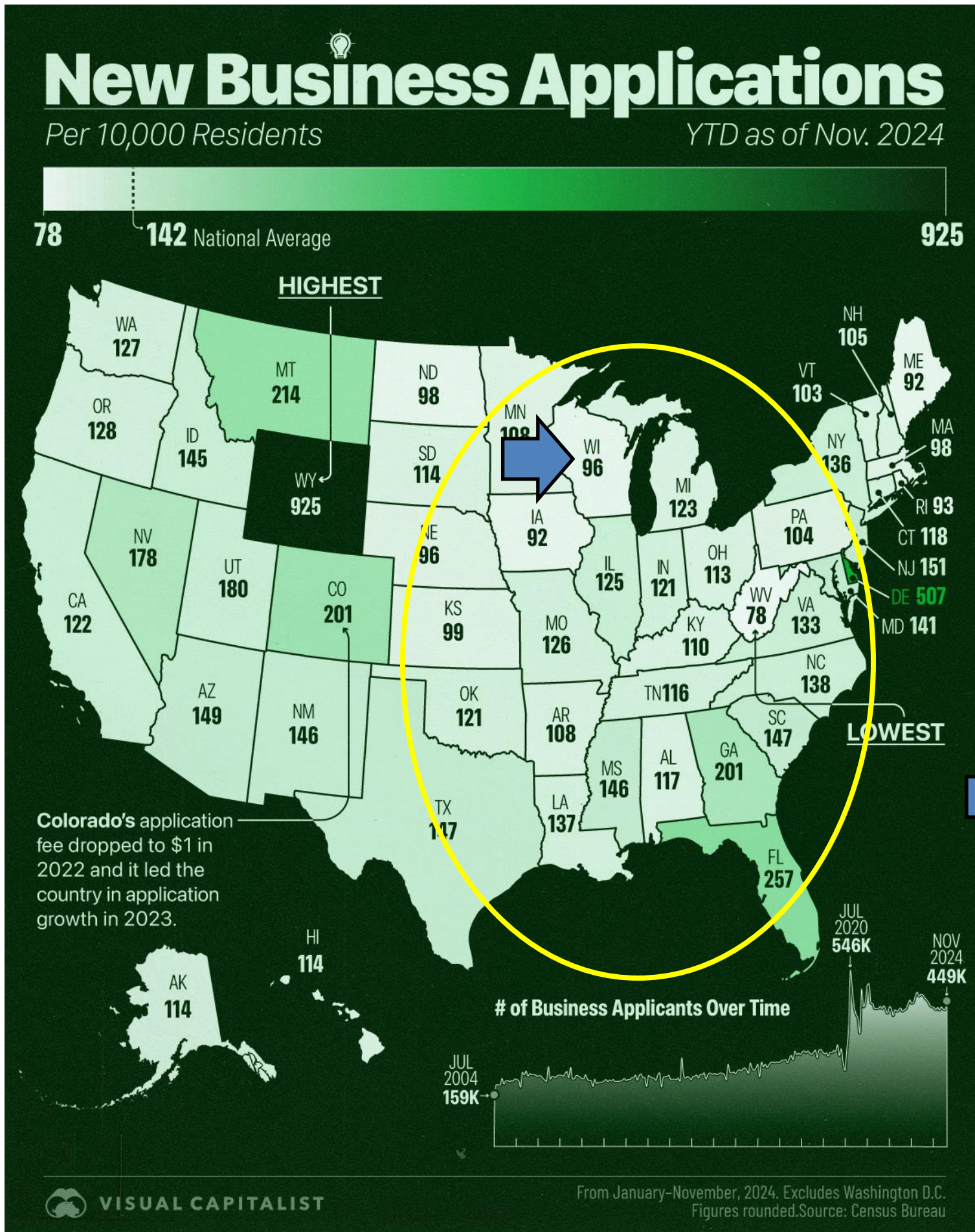
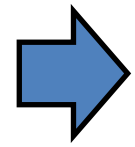
# 2024 saw the S&P 500 Set Records: 57 Record Highs (5<sup>th</sup> Most)



**Jan 27 WARNING:** US [stocks](#) dropped sharply Monday — and chipmaker Nvidia lost nearly \$600 billion in market value (**17% drop and MV equivalent to all but 13 NASDAQ companies**) — after a surprise advancement from a Chinese artificial intelligence company, [DeepSeek](#), threatened the aura of invincibility surrounding America's technology industry.

[DeepSeek](#), a one-year-old startup, revealed a stunning capability last week: It presented a ChatGPT-like AI model called R1, which has all the familiar abilities, operating at a fraction of the cost of OpenAI's, Google's or Meta's popular AI models.

# Just 1 Eco. Metric: Business Applications by State – GDP & Jobs follow



The most meaningful economic metric, though, for the measure of a state's economy is the Number of New Business Applications.

According to Visual Capitalist, the overall winner in 2024 was Florida. It is TOPS beating out even TX.

WI score was 96 new Business Applications per 1,000 population, compared to 125 in IL and 123 in MI.

Rank	State Name	State Code	Applications From Jan-Nov, 2024	Per 10K
3	Florida	FL	580,093	257
26	California	CA	473,584	122
11	Texas	TX	448,108	147
19	New York	NY	266,425	136
6	Georgia	GA	221,213	201

[Mapped: New Business Applications by U.S. State in 2024](#)

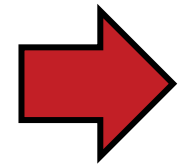
# What Lies Ahead? Migration & the 2024 U-Haul report (TX #1 & FL #4)

## U-Haul Growth States of 2024: South Carolina Tops List for First Time



*States are ranked by their net gain or loss of one-way movers last year*

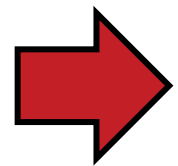
PHOENIX, Ariz. (Jan. 2, 2025) — The trend of southern states netting larger numbers of one-way U-Haul® customers continued during 2024, with South Carolina topping the U-Haul Growth Index for the first time.



Texas, North Carolina, Florida and Tennessee round out the five leading growth states.

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California experienced the greatest net loss of do-it-yourself movers in U-Haul equipment and ranks 50th for the fifth consecutive year.



<https://www.uhaul.com/Articles/About/U-Haul-Growth-States-Of-2024-South-Carolina-Tops-List-for-First-Time-33083/>

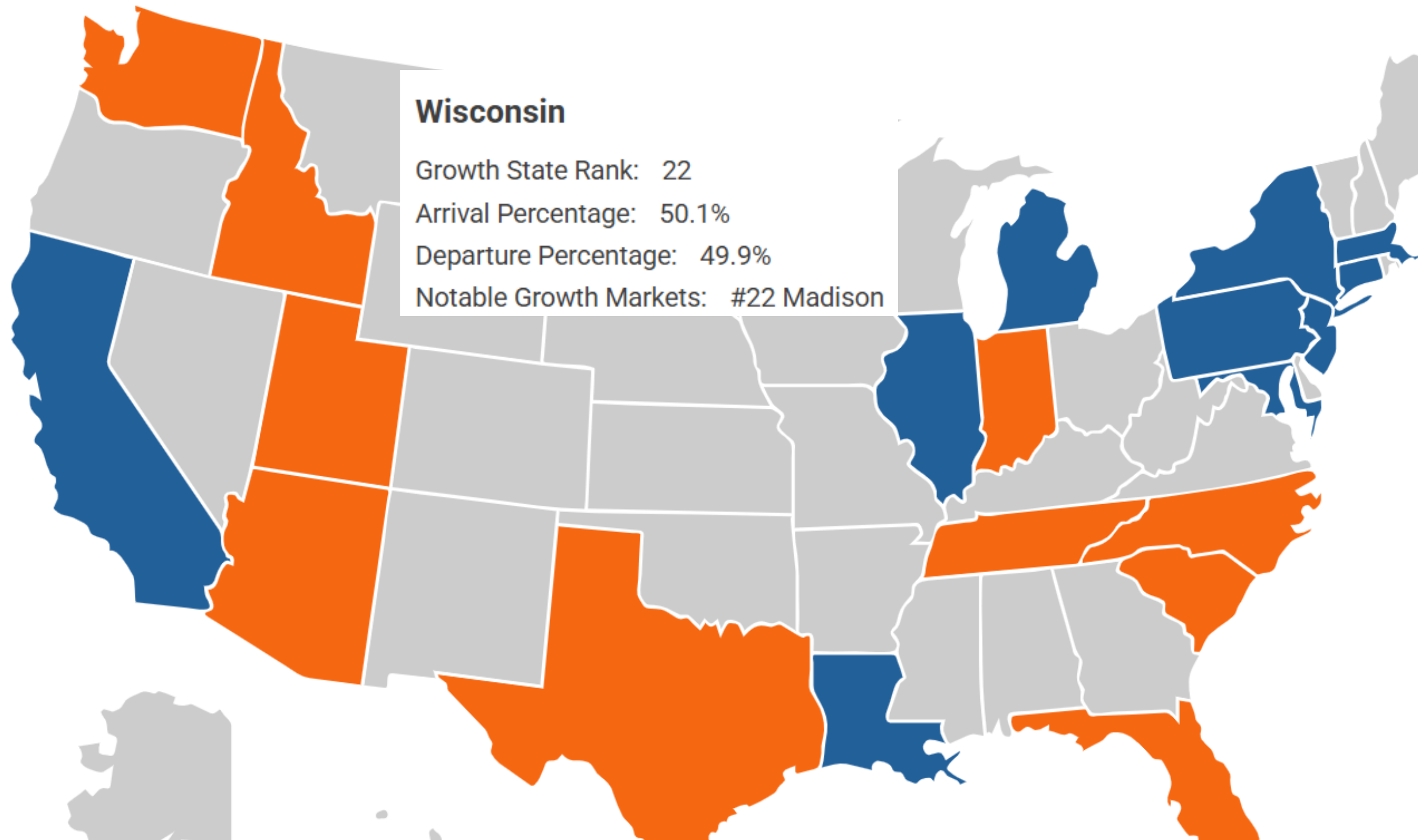
### **Colorado plummets in ranking of growing states**

For 2023, Colorado ranked in U-Haul's Growth Index as the 9th state with the most growth in the U.S., with more people moving into the state than leaving. Colorado has ranked in the top 10 and remained a net-gain state, meaning there were more U-Haul arrivals than departures, for all but one year from 2015-2023.

However, this year Colorado dropped 31 spots in the ranking, more than any

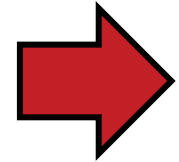
<https://kdvr.com/news/data/colorado-plummets-in-u-hauls-ranking-of-growing-states-in-2024/>

# What Lies Ahead? Migration & the 2024 U-Haul report (SC #1 WI #22)



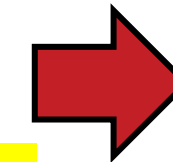
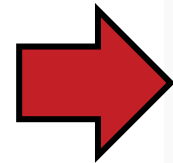
# FL & SE Migration Strong in 2024 - Latest UHaul Moving report

## 2024 U-Haul Growth States

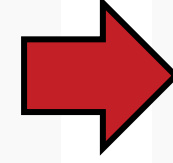


- 1. SOUTH CAROLINA (4)
- 2. TEXAS (1)
- 3. NORTH CAROLINA (3)
- 4. FLORIDA (2)
- 5. TENNESSEE (5)

Property Insurance is a key driver for GA & AL



- 10. IDAHO (6)
- 11. OKLAHOMA (41)
- 12. ARKANSAS (17)
- 13. MAINE (31)
- 14. OHIO (23)
- 15. GEORGIA (18)
- 16. ALABAMA (22)



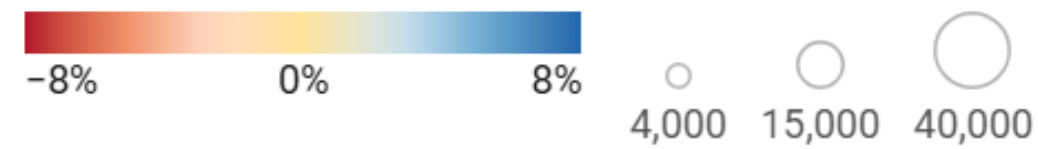
- 20. VERMONT (12)
- 21. DELAWARE (15)
- 22. WISCONSIN (26)
- 23. IOWA (24)



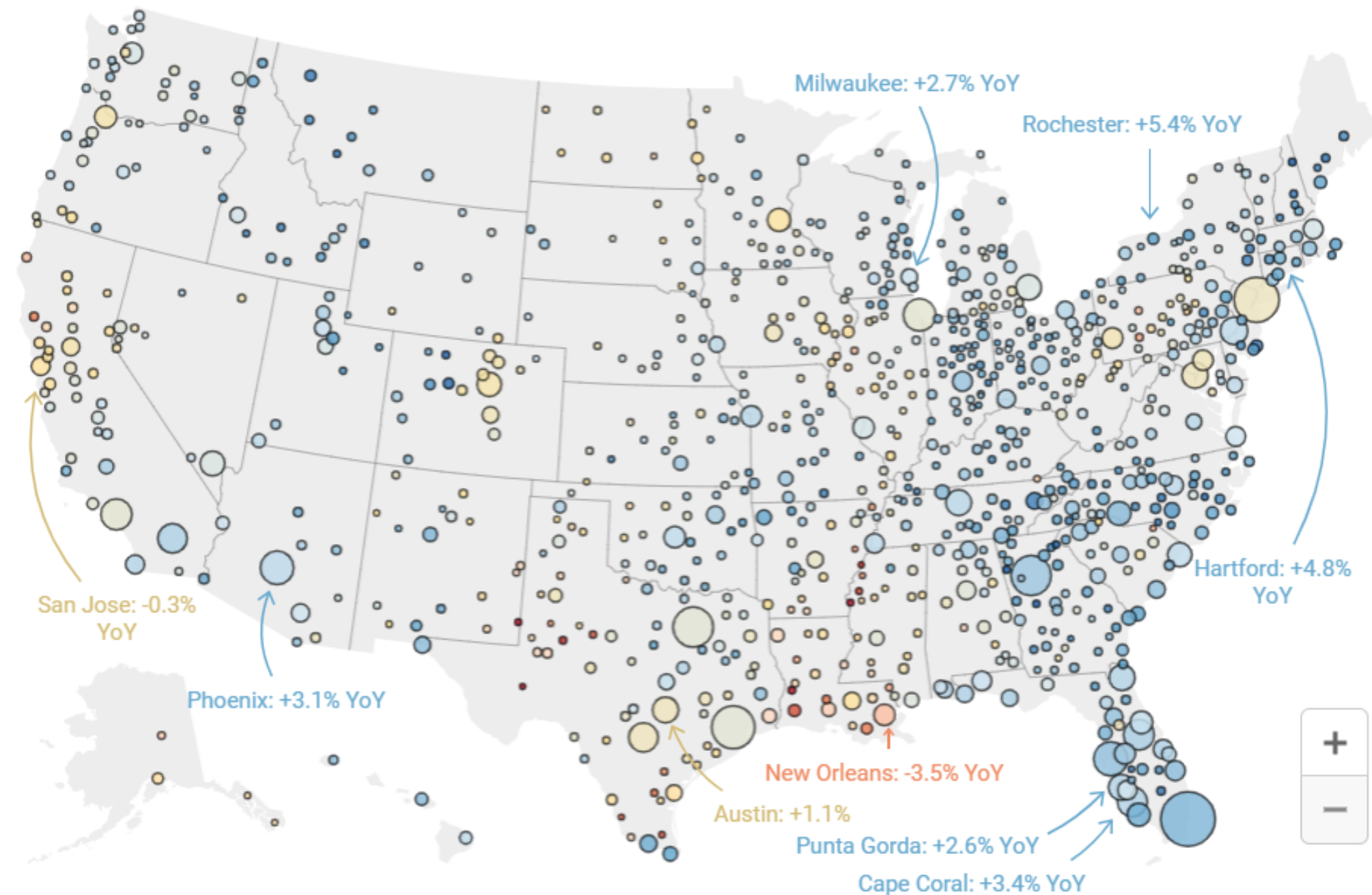
# Housing & Home Price Forecast – Strongest in SE and Midwest (Blue)

## Zillow's forecast for metro-level home prices between December 2024 and December 2025

Circle size by number of active homes for sale in December 2024

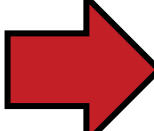
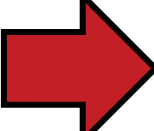
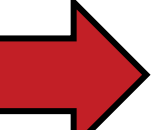


[Home price forecasts for 380 regional housing markets: Zillow Vs. Moody's - Fast Company](#)



# What Lies Ahead & to Watch in 2025: Three Metrics Rise in Importance

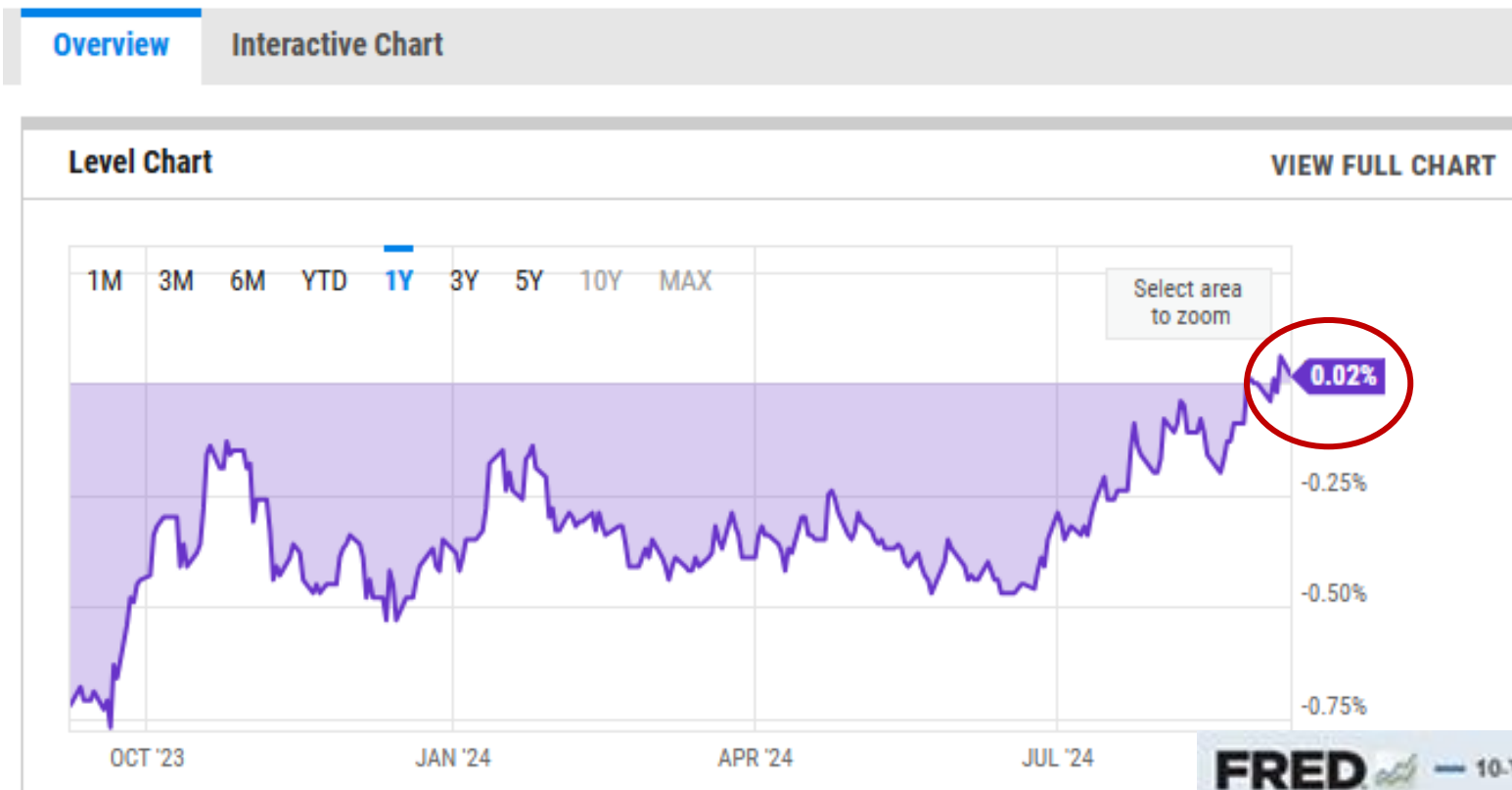
So now that 2025 is here and a new Government will be in place January 20<sup>th</sup>, **what are the metrics that will be most insightful for 2025?** While GDP, employment and inflation metrics (CPI and PPI) will remain top-of-the list economic measures to monitor, **three measures will rise in importance for 2025** – and the five to most monitor|include:

-  i) **Yield Curve** – will the spread between the 2-Yr Treasury bond and the 10-Year remain positive (30 bps), or does it revert? **A 10-Yr Treasury at or above 4.5% is problematic for real estate.**
-  ii) **Interest Rates** – Is the FOMC about to pause after four cuts, and why has the 10-Yr Tr and 30-year mortgage rates risen to 4.5% and 7% range, respectively and despite four FOMC rate cuts totaling 100 bps? **Why are key interest rates moving contrary to FOMC rate cuts?**
-  iii) **CRE delinquency rates by property type** and the impact on capital availability – more price discovery is ahead in 2025, and it isn't just in the office property sector;
- iv) **Inflation beyond housing and CPI** – **commodity inflation is back** and includes items like Cocoa, coffee, eggs, orange juice, aggregates and cement post hurricanes Helene & Milton; and
- v) **Construction activity from ABI and slowing in MF housing** – where will relief come from to ease the Nation's 5.0 million homes deficit growing by 1.3 to 1.4 million units per year with new permit and starts declining every year since 2022?<sup>3</sup>

# 2025 Top Eco Indicators: Inverted Yield Curve – 2/10 Yr Spread

## 10-2 Year Treasury Yield Spread (I:102YTYS)

0.02% for Sep 09 2024



The start of the yield curve inversion combined with rising inflation are some warning signs for the next recession.

There were **six recessions between 1980 and 2020**. The recession duration in months ranged from a high of 18 to a low of two, **averaging nearly 10 months**.

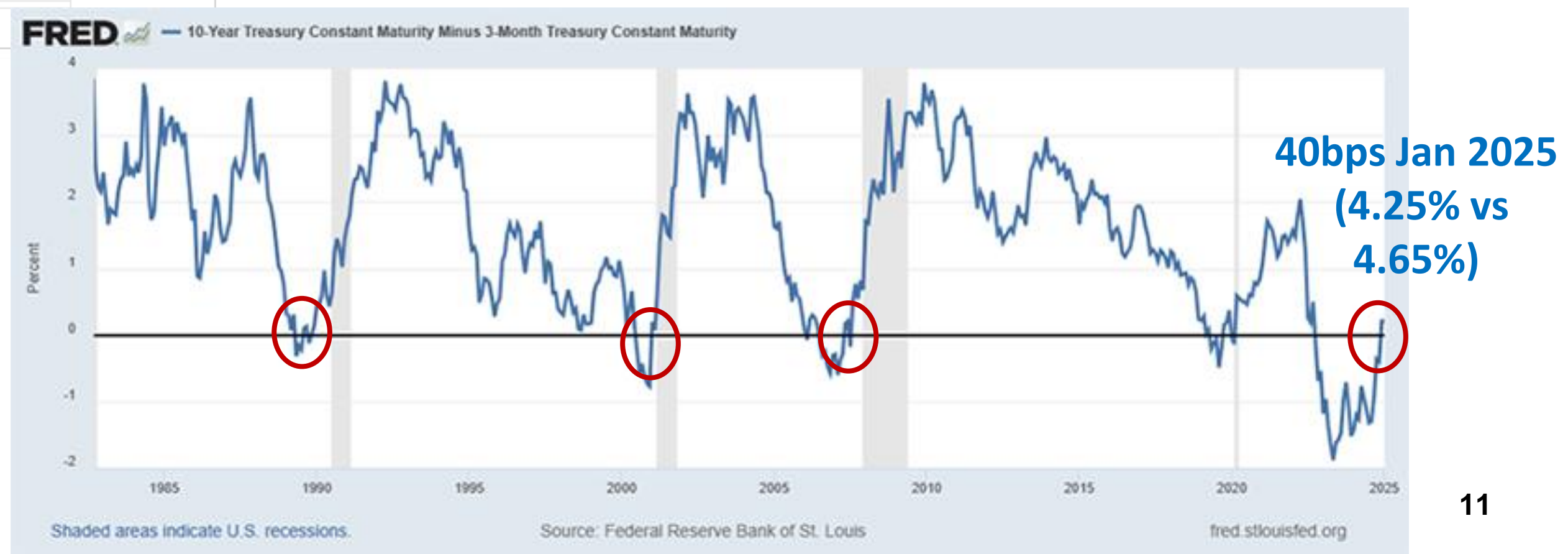
The longer the yield curve is inverted the more of a drag on the economy.

When the Inversion reverts back to a normal rising slope, that's when the recession follows. **Why hasn't the "R" started?**

Plan for a 5% 10-Yr Treasury.

**WHY?**

- Record Tr Issuance ahead to finance record US Debt
- Duration Risk is back.



# Top 2025 Eco Indicator after Yield Curve: CRE Loan Delinquency

## CRE Delinquency rates:

TREPP is the go-to primary resource regarding this metric and the overall health of commercial real estate (CRE). **The CMBS loan delinquency rate is a proxy for the health of CRE and a bellwether for bank lending into the CRE space.** As more loans become delinquent and suffer material losses, banks will have to retain more loan-loss reserves/capital (ALLL) and restrict lending activity to direct and indirect real estate. The year-end data by TREPP is concerning, and it's not just an office property story. The overall CMBS Dqt rate and MF rate rose 200 basis points in 2024. Only Industrial CRE saw no increase and has a rate below 1%.

**“The Trepp CMBS Delinquency Rate rose once more in December 2024, with the overall rate increasing 17 basis points to 6.57%.”**

**The office delinquency rate rose 63 basis points in December to 11.01%, surpassing the 11% mark for the first time since Trepp began tracking delinquency rates in 2000.**

Prior to this, the highest the office delinquency rate had climbed was to 10.70%, reached in December 2012. There was north of \$2 billion in office loans that became newly delinquent in December.

**The retail delinquency rate experienced the largest respective increase across property types, jumping 86 basis points to 7.43%.**

## Key Notes:

- 1) Office DQT has surpassed 11% and is highest since Trepp started tracking in 2000.**
- 2) Retail rise is the “Small-Box” and Drug Store closings. Until Dec, retail DQT had not risen in 2024.**
- 3) MF is rising as maturing construction loans face ReFi challenges (less NOI, higher Cap Rate, Property Insur.)**

CHART 2: DELINQUENCY RATE BY PROPERTY TYPE (% 30 DAYS +)

	DEC-24	NOV-24	OCT-24	3 MO	6 MO	12 MO
Overall	6.57	6.40	5.98	4.71	4.66	4.51
Industrial	0.29	0.32	0.32	0.32	0.62	0.57
Lodging	6.14	6.92	6.09	6.23	6.32	5.40
Multifamily	4.58	4.18	3.24	3.33	2.36	2.62
Office	11.01	10.38	9.37	8.36	7.55	5.82
Retail	7.43	6.57	6.82	7.07	6.42	6.47

Source: Trepp

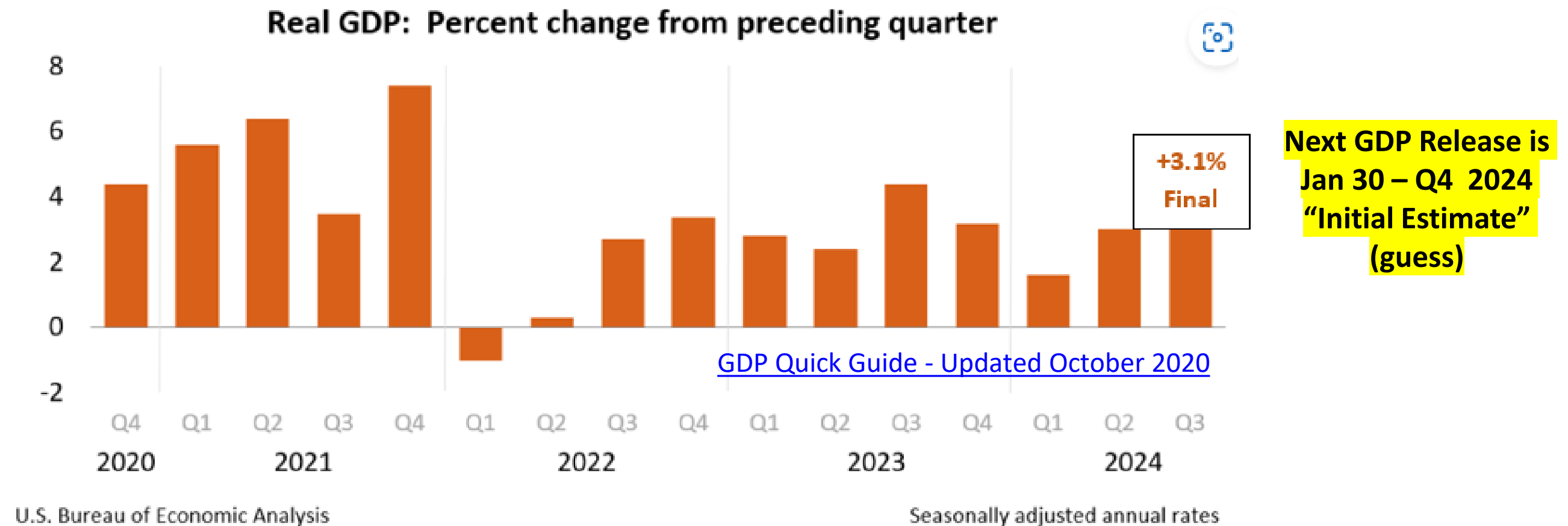
# GDP Outlook: Don't freak if it drops from +3.1% back to 2%-2.5%

**Final Q3 '24 GDP was +3.1%, but will likely contract in 2025 to low-mid 2% range.**

The 3<sup>rd</sup> and final revision to Q3 GDP released in December indicated GDP surged above 3% to 3.1% due to:

- i) **strong Consumer Spending;**
- ii) **increased defense spending for Ukraine and Israel; and**
- iii) **record Deficit Spending.**

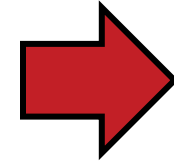
Expect Q4 2024 GDP (waiting on it) to stay elevated due to rebuilding from hurricanes Helene and Milton, but then **2025 GDP should decline back into the low to mid 2% range** as President Trump's DOGE (Dept. of Gov. Efficiency) kicks in and targets an estimated \$2 trillion in government spending cuts. This contraction in 2025 GDP due to reduced Deficit and Government spending could be healthy for the economy as unsustainable deficit spending gets reigned in. **In other words, a 50-100 basis point pull back in GDP in 2025 for the right reasons could be just the medicine the U.S. economy needs for sustainable interest rate cuts and/or lower 10-Yr Treasury and 30-Yr mortgage rates**



# Global GDP Outlook: US #1 \$27Tr; China #2 \$20Tr; **Tuvalu smallest**

## GDP Ranking by Country 2024<sup>1</sup>:

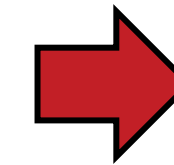
- United States: \$27.057 Trillion
- China: \$20.6 Trillion
- Japan: \$4.56 Trillion
- Germany: \$4.33 Trillion
- India: \$4.17 Trillion



Which country has the highest GDP decline in the world?

Japan has the highest decline of \$774.3 bn, followed by Germany (\$-195.7 bn), France (\$-178.3 bn), Korea (\$-144.5 bn) and Italy (\$-103.7 bn),...

WI GDP ranks 21<sup>st</sup> among US States at \$52 billion. It is part of the \$50-\$60 billion GDP Club along with IN, CO, MO and SC.

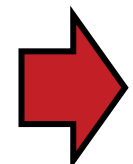


**WI GDP grew +6.9% in 2024**

**18 countries have an economy above \$1 trillion. Saudi Arabia is the latest entrant in trillion dollar economy.** Sixty-eight have above \$100 billion, and 150 have above \$10 billion.

The top five economies constitute about 55% of the [global gdp](#); the top ten make up 67%, top 20 economies add up to 80.5%.

**Ninety-two smallest economies only contribute 1 %**, and 157 lowest ranked constitute only 10 % of the total.



**Tuvalu has the world's smallest national economy** with a GDP (nominal) of approximately \$59 million. Tuvalu ([/tu:'vɑ:lʊ:/](#) ⓘ [too-VAH-loo](#))<sup>[7]</sup> is an [island country](#) in the [Polynesian](#) subregion of [Oceania](#) in the [Pacific Ocean](#), about midway between [Hawaii](#) and [Australia](#).

# Jobs: Skip the Bad Gov BLS data and go straight to ADP (? Dec +256k)

## Why was there such a big revision to non-farm payroll growth?

Aug. 22, 2024 6:50 AM ET | By: Yoel Minkoff, SA News Editor

[818,000 jobs were wiped out](#) in the 12 months through March 2024 (or 68,000 per month), resulting in the biggest downward adjustment since the global financial crisis.

**The Bureau of Labor Statistics usually surveys 100K-150K businesses each month**, but the department then extrapolates from those surveys to get an estimate of how many jobs were created in the entire economy. **Later on, the quarterly re-estimation process looks at 60M business records**, many of which were not available at the time of the initial monthly payroll releases.

**Here is an idea:** The BLS could publish the data **once it has all the reports to avoid revisions.**

OR

**Consult ADP – No SURVEY**, but an actual count of Private Payrolls.

[ADP® Employment Report \(adpemploymentreport.com\)](https://adpemploymentreport.com)

### ADP View on Job Creation:

The latest December ADP payrolls report for the November period revealed Private sector employment **increased by 146,000 jobs in November and annual pay was up 4.8 percent year-over-year**. The ADP National Employment Report differs from the BLS monthly jobs report in that it is an independent measure of the private-sector labor market based on actual (not survey) payroll data of more than 25 million U.S. employees. ADP has a less volatile history than the BLS jobs data series and has been indicating **2024 monthly job creation of approximately 155k per month, and wage inflation remaining elevated near 5%**.

Note the key data charts as follows as a substitute for BLS in 2025 and **weakness in job creation by Small Business Establishments (17,000 jobs) and ...**

**the strength in the South region (+61,000 or 2X the West or Midwest regions).**

# ADP Jobs: **Small Business losing the MOST; +146k in Nov**

## Change by U.S. Regions

• <b>Northeast:</b>	<b>38,000</b>
○ New England	-10,000
○ Middle Atlantic	48,000
• <b>Midwest:</b>	<b>31,000</b>
○ East North Central	26,000
○ West North Central	5,000
• <b>South:</b>	<b>61,000</b>
○ South Atlantic	42,000
○ East South Central	-11,000
○ West South Central	30,000
• <b>West:</b>	<b>29,000</b>
○ Mountain	18,000
○ Pacific	11,000

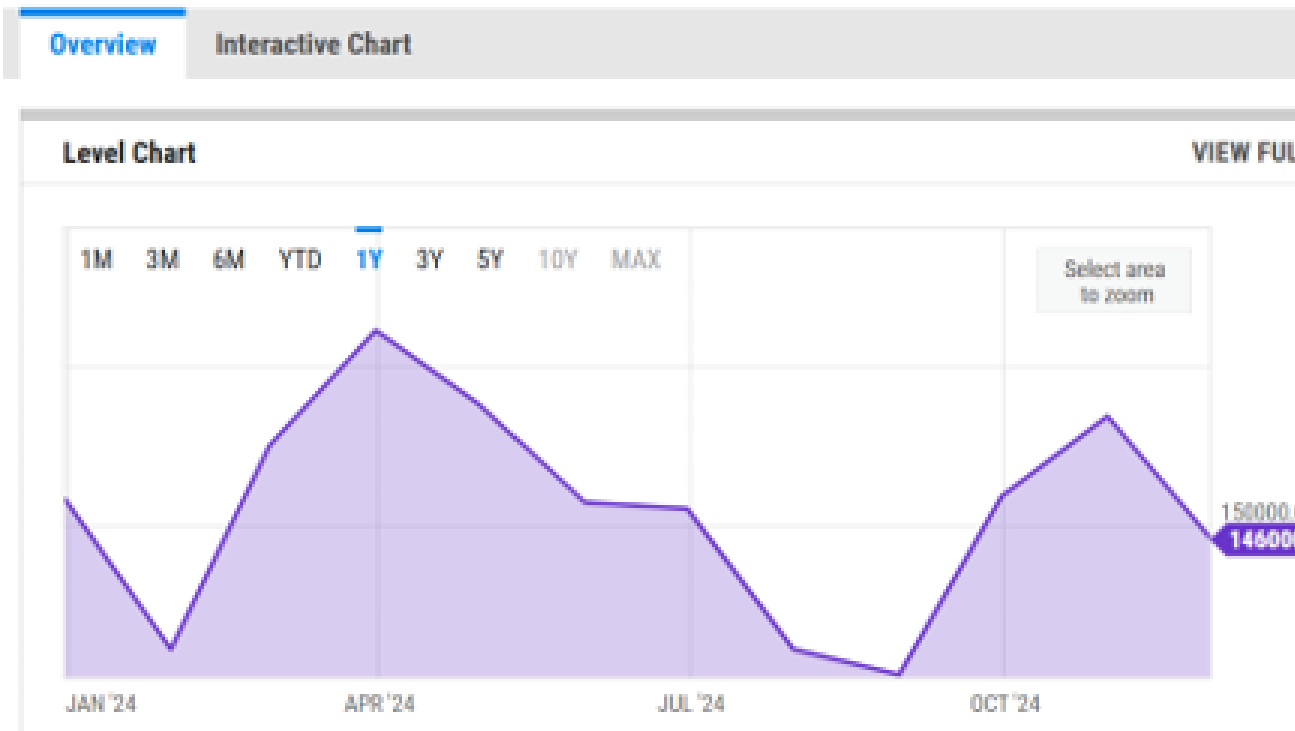
## Change by Establishment Size

• <b>Small establishments:</b>	<b>-17,000</b>
○ 1-19 employees	12,000
○ 20-49 employees	-29,000
• <b>Medium establishments:</b>	<b>42,000</b>
○ 50-249 employees	23,000
○ 250-499 employees	19,000
• <b>Large establishments:</b>	<b>120,000</b>
○ 500+ employees	120,000

[ADP NATIONAL EMPLOYMENT REPORT Press Release 2024\\_11 FINAL.pdf](#)

## ADP Employment Change (I:ADPEC)

146000.0 for Nov 2024

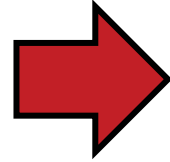


Date	Value
November 30, 2024	146000.0
October 31, 2024	184000.0
September 30, 2024	159000.0
August 31, 2024	103000.0
July 31, 2024	111000.0
June 30, 2024	155000.0
May 31, 2024	157000.0
April 30, 2024	188000.0
March 31, 2024	211000.0
February 29, 2024	175000.0
January 31, 2024	111000.0



# The Colorado BLS Debacle: **This story is unprecedented!**

"Colorado's employment outlook is about to go dark.



**Starting in March, the U.S. Bureau of Labor Statistics is suspending monthly employment reports for Colorado.**

The development is due to problems with data collection that have plagued Colorado's labor department since **a new unemployment insurance computer system was introduced more than a year ago**. The troubled rollout has led to incomplete information being collected on how many jobs are being created, making it **difficult to get a true picture of Colorado's job market**.

"Without accurate Colorado employment levels, BLS will be unable to complete the 2024 benchmark process or to produce accurate monthly estimates for Colorado," the BLS said in a [notice](#) on its website."

<https://www.cpr.org/2024/12/30/u-s-bureau-of-labor-statistics-job-reports-colorado-data-problems/>

**Beware of the Feb' 2025 BLS "Benchmark" Revisions to Jobs Report and March data when they exclude and entire state. Don't freak over a large downward revision.**

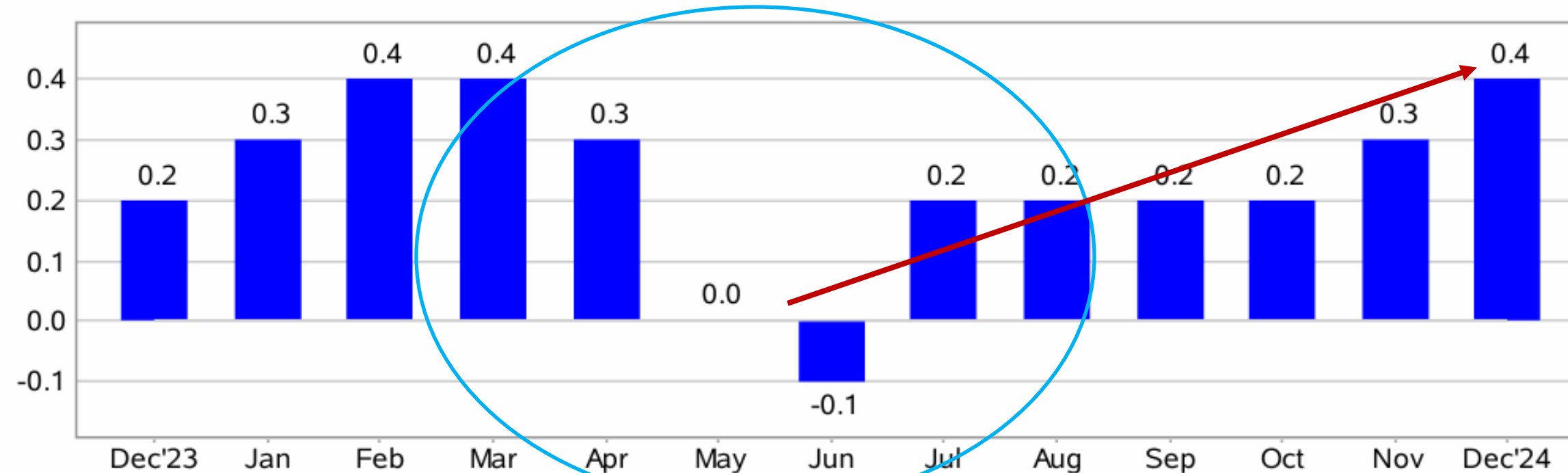
# Inflation: Are we there yet? **Déjà vu for Inflation (+0.4 to 0% back to +0.3%)**

## Inflation:

Inflation from both **CPI and PPI data fell from +0.4% per month in Feb and Mar 2024 to 0,0% and negative -0,1% in May and June 2024.** This decline led the FOMC to believe inflation had been tamed and gave it confidence to commence interest rate cuts in September after 3 subsequent months of just +0.2% per month inflation.

**Subsequently, inflation has remained stubborn and increased back to +0.3% in November & +0.4% in Dec 2024 putting the FOMC back on a rate pause mode for Q1 2025 from its latest “Dots-Plot” FOMC member indicator.** The following chart displays the YOY CPI change by month. But of more concern is the source of this new inflation surge. **It is Services**

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Dec. 2023 - Dec. 2024  
Percent change



<https://www.bls.gov/news.release/pdf/cpi.pdf>

# Inflation: Are we there yet?

**The key takeaways on inflation are three-fold:**

1. **CPI Inflation has increased above Summer 2024 levels and back to +0.3% per month level.**
2. **The source of this increased inflation is now Services – a more difficult type inflation to tame.**
3. **Commodity Inflation is now rearing its head and threatens to impact food, groceries and consumer items like coffee, cocoa/chocolate, eggs and orange juice (residual impact from hurricanes Helene and Milton).**

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Nov. 2024
	May 2024	Jun. 2024	Jul. 2024	Aug. 2024	Sep. 2024	Oct. 2024	Nov. 2024	
All items.....	0.0	-0.1	0.2	0.2	0.2	0.2	0.3	2.7
Food.....	0.1	0.2	0.2	0.1	0.4	0.2	0.4	2.4
Food at home.....	0.0	0.1	0.1	0.0	0.4	0.1	0.5	1.6
Food away from home <sup>1</sup> .....	0.4	0.4	0.2	0.3	0.3	0.2	0.3	3.6
Energy.....	-2.0	-2.0	0.0	-0.8	-1.9	0.0	0.2	-3.2
Energy commodities.....	-3.5	-3.7	0.1	-0.6	-4.0	-1.0	0.5	-8.5
Gasoline (all types).....	-3.6	-3.8	0.0	-0.6	-4.1	-0.9	0.6	-8.1
Fuel oil.....	-0.4	-2.4	0.9	-1.9	-6.0	-4.6	0.6	-19.5
Energy services.....	-0.2	-0.1	-0.1	-0.9	0.7	1.0	-0.1	2.8
Electricity.....	0.0	-0.7	0.1	-0.7	0.7	1.2	-0.4	3.1
Utility (piped) gas service.....	-0.8	2.4	-0.7	-1.9	0.7	0.3	1.0	1.8
All items less food and energy.....	0.2	0.1	0.2	0.3	0.3	0.3	0.3	3.3
Commodities less food and energy commodities.....	0.0	-0.1	-0.3	-0.2	0.2	0.0	0.3	-0.6
New vehicles.....	-0.5	-0.2	-0.2	0.0	0.2	0.0	0.6	-0.7
Used cars and trucks.....	0.6	-1.5	-2.3	-1.0	0.3	2.7	2.0	-3.4
Apparel.....	-0.3	0.1	-0.4	0.3	1.1	-1.5	0.2	1.1
Medical care commodities <sup>1</sup> .....	1.3	0.2	0.2	-0.2	-0.7	-0.2	-0.1	0.4
Services less energy services.....	0.2	0.1	0.3	0.4	0.4	0.3	0.3	4.6
Shelter.....	0.4	0.2	0.4	0.5	0.2	0.4	0.3	4.7
Transportation services.....	-0.5	-0.5	0.4	0.9	1.4	0.4	0.0	7.1
Medical care services.....	0.3	0.2	-0.3	-0.1	0.7	0.4	0.4	3.7

**Services Inflation  
UP  
+5% to 7%**

# The Best Inflation Indicator: EARNINGS reports by likes of Proctor & Gamble

## Procter & Gamble's Earnings Show Its Price Hikes Aren't Working Anymore



Procter & Gamble reported higher earnings than expected, **fell short on sales despite price increases**, and reiterated its financial guidance.

As a huge consumer-products company, with brands spanning from Tide laundry detergent to Bounty paper towels, **the company tends to serve as an indicator of what is going on with the spending habits of the average shopper.**

[Procter & Gamble's Earnings Show Its Price Hikes Aren't Working Anymore](#)

# The “Foul” Inflation: Egg and Poultry Prices **(Bird Flu from 2022 lives on)**



[Egg prices are soaring. Don't expect that to change anytime soon | AP News](#)

OMAHA, Neb. (AP) — [Bird flu](#) is forcing farmers to [slaughter](#) millions of chickens a month, pushing [U.S. egg prices](#) to more than double their cost in the summer of 2023. And it appears there may be no relief in sight, given the surge in demand as Easter approaches.

The average price per dozen nationwide hit \$4.15 in December. That's not quite as high as [the \\$4.82 record set two years ago](#), but the Agriculture Department predicts prices are going to soar another 20% this year.

Shoppers in some parts of the country are already paying more than double the average price, or worse, finding empty shelves in their local grocery stores. Organic and cage-free varieties are even more expensive.

**Some grocery stores have even limited how many eggs shoppers can buy.**

What is driving up prices?

**The bird flu outbreak that started in 2022** is the main reason egg prices are up so much. Anytime the virus is found on a poultry farm, the entire flock is slaughtered to help limit the virus' spread. And with massive egg farms routinely housing more than 1 million chickens, just a few infections can cause a supply crunch.

**The problem tends to linger because it takes months to dispose of all the carcasses, disinfect barns and bring in new birds.**

**Q: What is a hidden Inflation worse than Higher Rates?**

**BISNOW**


**A: Rising Property Insurance**

**‘It Shut Down The Deal’: High Multifamily Insurance Rates Threaten Transactions, Strain Budgets**

[‘It Shut Down The Deal’: High Multifamily Insurance Rates Threaten Transactions, Strain Budgets \(bisnow.com\)](https://www.bisnow.com)

**Insurance prices are growing faster for multifamily than any other commercial real estate asset class, with national operators reporting a 26% rise in insurance costs on average from 2022 to 2023 and some being hit with 300% and 400% increases.**

The rise is most acute in catastrophe-prone regions, **especially Texas, Florida and Louisiana**. But multifamily owners and operators everywhere are feeling the **pain of high rates, limitations in coverage, hikes on deductibles and a shrinking private insurance market.**



That rapid ascent is expected to continue into 2025, and operators told Bisnow that **spiraling costs could kill deals, reduce returns on investments, force foreclosures and discourage investors** from even entering the multifamily space.

# ULI 2025 Property Type Outlook: Only OFFICE gets a POOR rating?

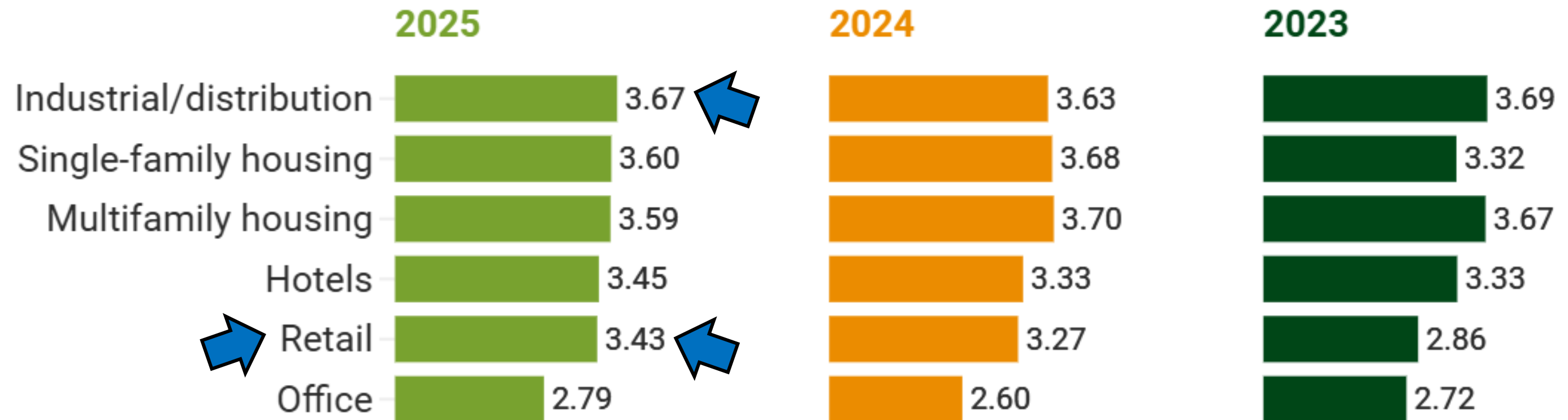


## Emerging Trends in Real Estate® United States and Canada 2025

### Investment Prospects for Major Commercial Property Types, 2020–2025

1–Abysmal 2–Poor 3–Fair 4–Good 5–Excellent

NO Property Type has had a “GOOD” rating in past 3 years – really?



# NAIOP Market Index: Ind'l, MF, and Data Centers = 2/3rds of Inv Interest

Expectations of declining interest rates are likely behind much of the improvement in the Index.

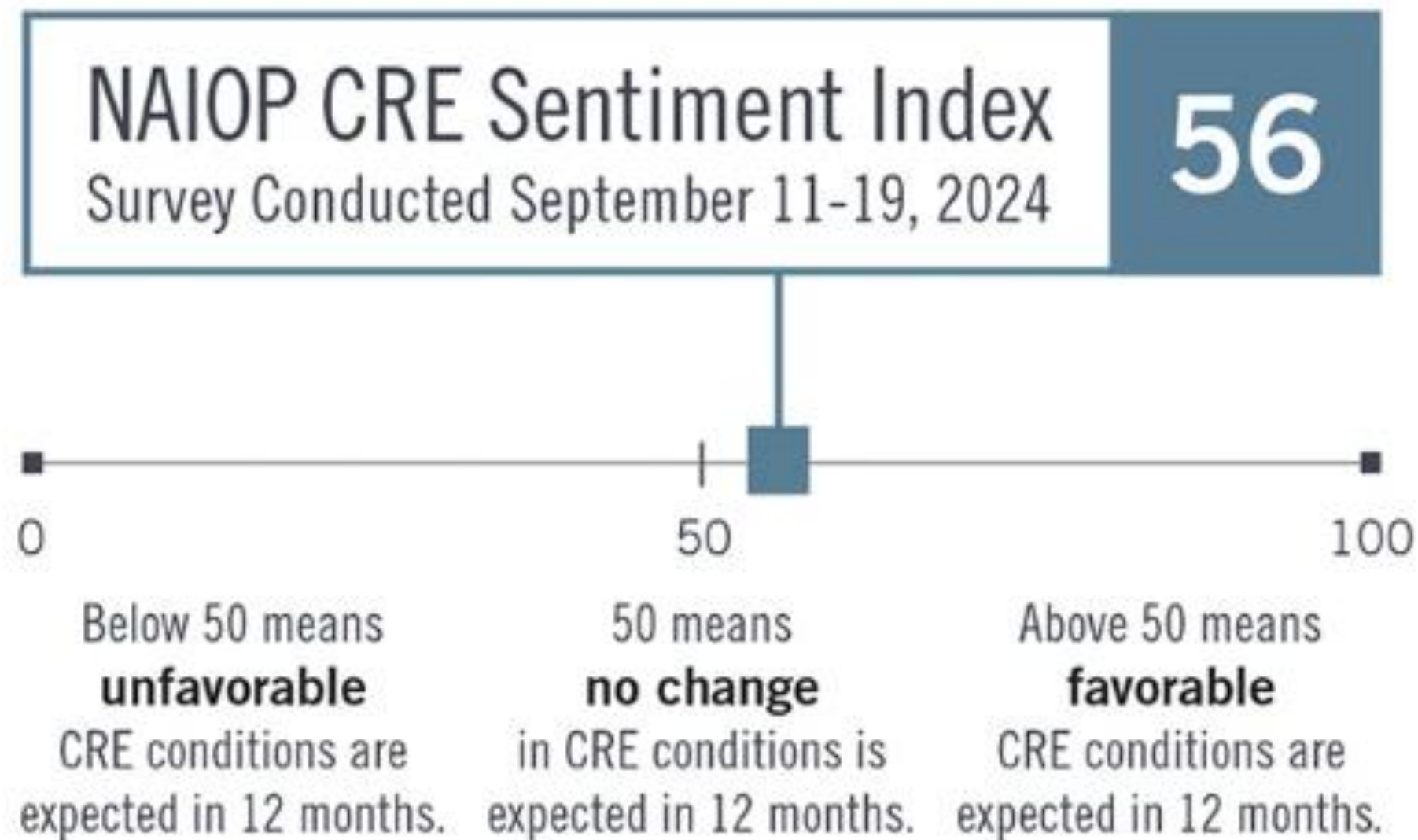


TABLE 1: PROPERTY TYPES WHERE RESPONDENTS EXPECT TO BE MOST ACTIVE OVER THE NEXT 12 MONTHS

Property Type	Percentage
Industrial	38.3%
Multifamily	19.0%
Data Center	10.5%
Retail	10.1%
Office	8.3%
Mixed-use	4.5%
Medical Office	4.0%
Other	2.8%
Life Science	1.2%
Self-storage	0.8%
Hospitality	0.4%

PA to displace VA



# CBRE 2025 Investors Intentions Survey: **Dallas Top MSA,**

Figure 2: Top 10 most attractive markets for investment



**Executive Summary:**

- Seventy percent of commercial real estate investors surveyed by CBRE plan to buy more assets in 2025 than they did last year.

- The biggest challenge for investors is elevated and volatile long-term interest rates.**

- Dallas and Miami/South Florida remained investor favorites and several other gateway markets once again ranked in the top 10 most preferred.

- Multifamily and industrial remained the most preferred sectors, with retail gaining favor.**



**The Bottom Line**  
Investors are ready to deploy more capital in 2025.

# Milwaukee Economy: Work to be Done

"The current trend in the local economy remains tepid."

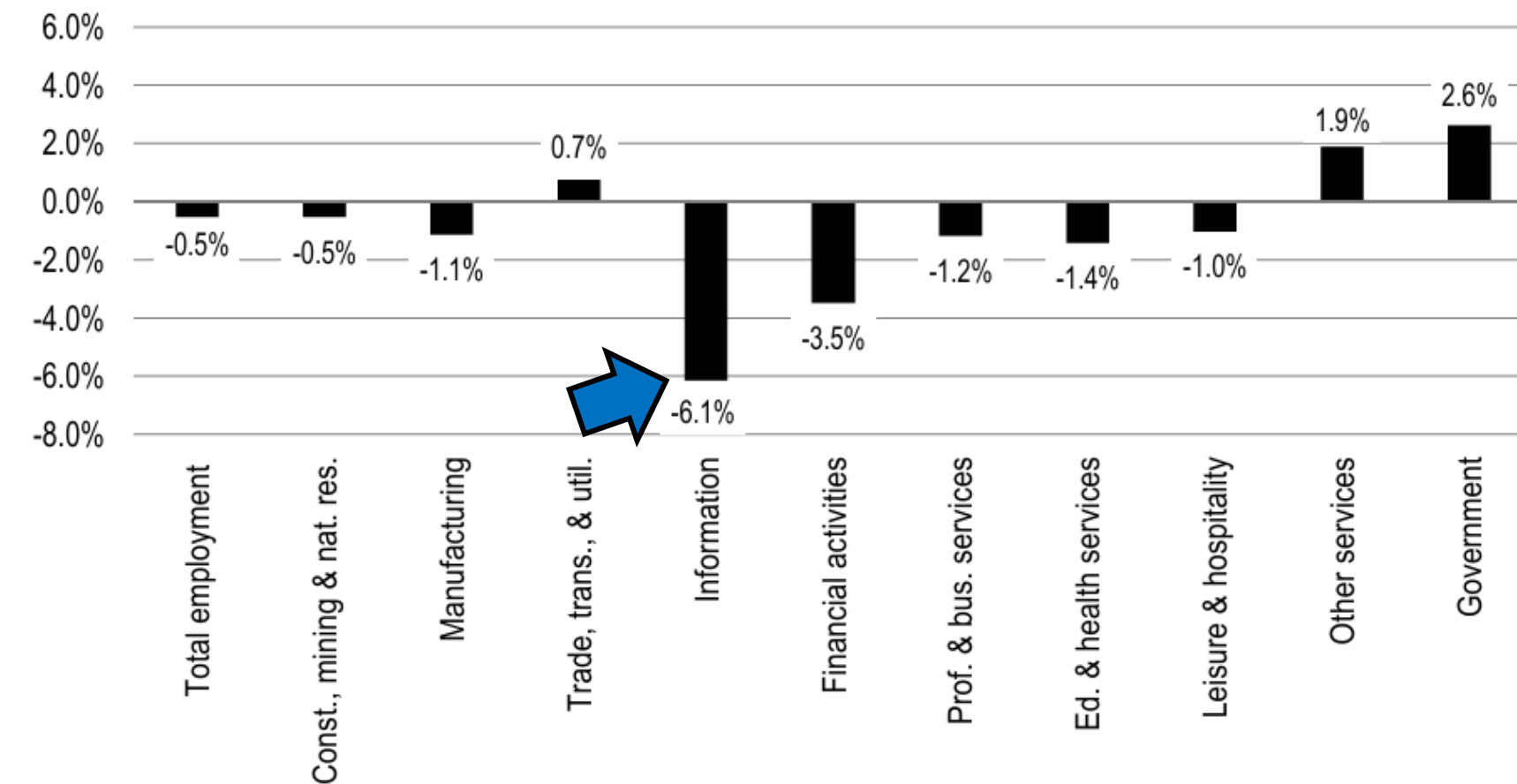
Highlights of the data include:

- **Job declines in the metro area continue with year-over-year decreases posted in each of 2024's first 11 months.** Nonfarm payroll employment fell 0.5% in November (to 859,200), a slight improvement from the 0.7% fall posted in October.
- **Among major industry sectors, seven of 10 posted year-over-year job declines. November's largest percentage decline was registered in the information sector, down 6.1% versus one year ago.** percentage gain, up 2.6%.
- **Unemployment indicators for the metro area were positive.** The number of unemployed fell 3.5% in November (vs. November 2023) to 24,500 while new unemployment compensation claims filed dropped 29.3% year-over-year. **Overall, the metro area's seasonally unadjusted unemployment rate of 3% fell marginally from the 3.1% rate recorded one year ago. November's rate is a full percentage point below the national figure (4%).**



Year-Over-Year Job Change by Industry - Metro Milwaukee

Percent change November 2023 to November 2024



[Microsoft Word - Trends report 11-24 ii](#)

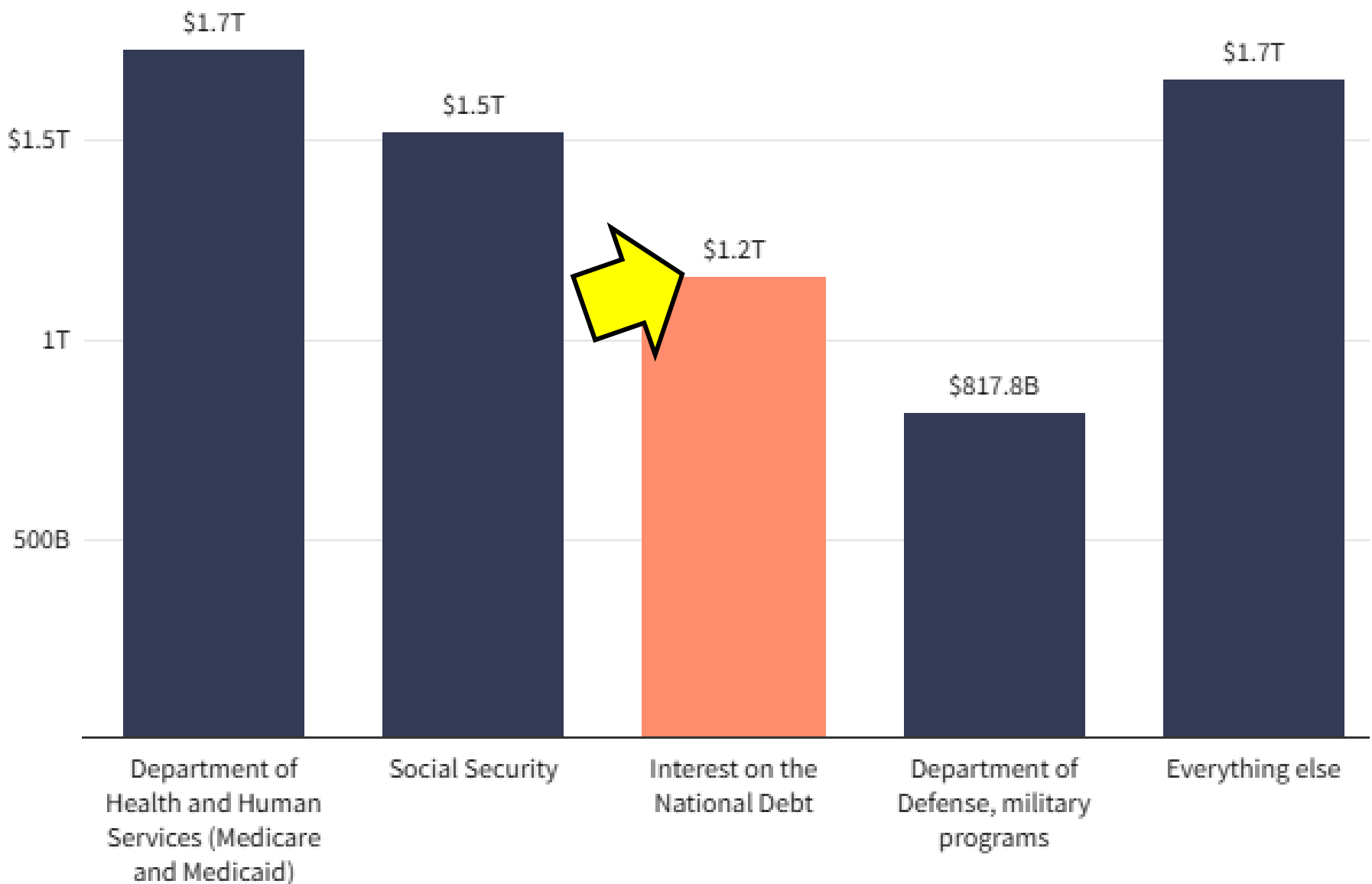
# What to Worry About? Interest on U.S. debt doubled in FY 2024

## A Record \$1.2 Trillion Interest Payments Are Blowing Up The Federal Budget




### Federal Budget: Where Does The Money Go?

In the government's fiscal 2024 ending in October, the U.S. will spend more than a trillion dollars on interest payments on the national debt, as larger budget deficits and rising interest rates make interest payments more burdensome. The majority of the government's expenditures are on healthcare, Social Security benefits, and the military in a distant fourth.



[A Record \\$1.2 Trillion Interest Payments Are Blowing Up The Federal Budget \(investopedia.com\)](https://www.investopedia.com)

# US Debt vs DOGE Clock: Follow this one, but **FACT-CHECK** the #s

 **#BREAKING:** A "DOGE CLOCK" has appeared on the U.S. Debt Clock website, and it is rapidly counting upwards.

According to the clock, DOGE has saved ~\$8B and counting.

According to the website, the DOGE clock *\*is\** accurate, and is based on "real-time savings objective from reducing government waste, fraud and abuse in federal government agencies."

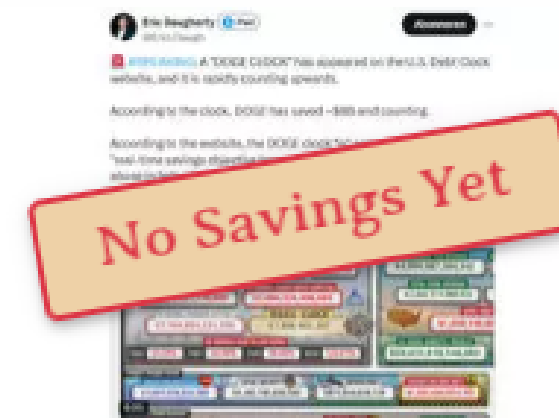


## Fact Check: 'DOGE Clock' Did NOT Say \$8 Billion-Plus Saved By January 22, 2025, By Cutting Government Spending

Jan 23, 2025 by: Randy Travis

Share

Tweet



Did a running "DOGE Clock" on a website that monitors the national debt say efforts to reduce government waste, fraud and abuse had already saved over \$8 billion by January 22, 2025? No, that's not true: The privately run website includes a disclaimer that the DOGE Clock shows the "Real-Time Savings Objective," not actual savings. Congress has yet to pass a new budget bill.

The claim appeared in a [post on X](#) (archived [here](#)) on January 22, 2025.

It said:

**#BREAKING:** A "DOGE CLOCK" has appeared on the U.S. Debt Clock website, and it is rapidly counting upwards. According to the clock, DOGE has saved ~\$8B and counting. According to the website, the DOGE clock *\*is\** accurate, and is based on "real-time savings objective from reducing government waste, fraud and abuse in federal government agencies."

[Eric Daugherty on X:](#) " **#BREAKING:** A "DOGE CLOCK" has appeared on the U.S. Debt Clock website, and it is rapidly counting upwards. According to the clock, DOGE has saved ~\$8B and counting. According to the website, the DOGE clock *\*is\** accurate, and is based on "real-time savings objective from <https://t.co/8WXVj6KtUa>" / X

# What to Worry About? Household Debt & Impact on Retail CRE

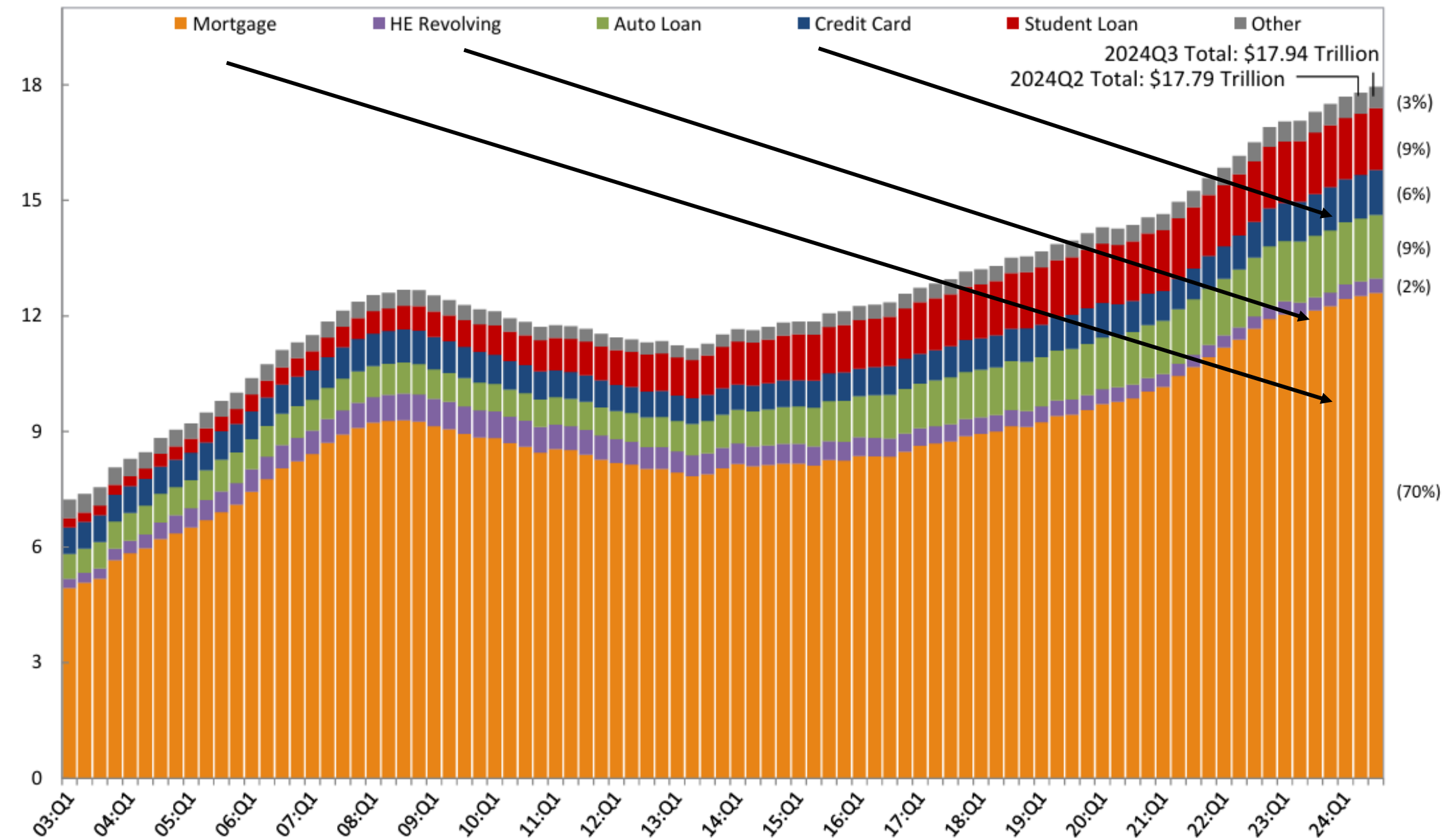


## Household Debt Ticks Up to \$17.94 Trillion; Delinquency Rates Remain Elevated

Total household debt increased by \$147 billion to reach \$17.94 trillion, and aggregate delinquency rates edged up from the previous quarter, with **3.5 percent of outstanding debt in some stage of delinquency**. Mortgage balances rose by \$75 billion from the previous quarter to reach \$12.59 trillion at the end of September. **While growth in income has outpaced debt, elevated balance levels continue to reveal stress for many households.** Credit card balances increased by \$24 billion to hit \$1.17 trillion, and auto loan balances saw an \$18 billion increase and stood at \$1.64 trillion. **HELOC balances increased by \$7 billion to reach \$387 billion, representing the tenth consecutive quarterly increase since Q1 2022.**

## Total Debt Balance and its Composition

Trillions of Dollars [Household Debt and Credit Report - FEDERAL RESERVE BANK of NEW YORK](#)



Source: New York Fed Consumer Credit Panel/Equifax

# What to Worry About? CRE Loan Delinquency (Retail is Rising)

## CRE Delinquency rates:

TREPP is the go-to primary resource regarding this metric and the overall health of commercial real estate (CRE). The CMBS loan delinquency rate is a proxy for the health of CRE and a bellwether for bank lending into the CRE space. As more loans become delinquent and suffer material losses, banks will have to retain more loan-loss reserves/capital (ALLL) and restrict lending activity to direct and indirect real estate. The year-end data by TREPP is concerning, and it's not just an office property story. The overall CMBS Dqt rate and MF rate rose 200 basis points in 2024. Only Industrial CRE saw no increase and has a rate below 1%.

**“The Trepp CMBS Delinquency Rate rose once more in December 2024, with the overall rate increasing 17 basis points to 6.57%.”**

**The office delinquency rate rose 63 basis points in December to 11.01%, surpassing the 11% mark for the first time since Trepp began tracking delinquency rates in 2000.**

Prior to this, the highest the office delinquency rate had climbed was to 10.70%, reached in December 2012. There was north of \$2 billion in office loans that became newly delinquent in December.

**The retail delinquency rate experienced the largest respective increase across property types, jumping 86 basis points to 7.43%.**

## Key Notes:

- 1) Office DQT has surpassed 11% and is highest since Trepp started tracking in 2000.
- 2) Retail rise is the “Small-Box” and Drug Store closings. Until Dec, retail DQT had not risen in 2024.
- 3) MF is rising as maturing construction loans face ReFi challenges (less NOI, higher Cap Rate, Property Insur.)

CHART 2: DELINQUENCY RATE BY PROPERTY TYPE (% 30 DAYS +)

	DEC-24	NOV-24	OCT-24	3 MO	6 MO	12 MO
Overall	6.57	6.40	5.98	4.71	4.66	4.51
Industrial	0.29	0.32	0.32	0.32	0.62	0.57
Lodging	6.14	6.92	6.09	6.23	6.32	5.40
Multifamily	4.58	4.18	3.24	3.33	2.36	2.62
Office	11.01	10.38	9.37	8.36	7.55	5.82
Retail	7.43	6.57	6.82	7.07	6.42	6.47

Source: Trepp

# Office CRE? Remote Work Overall here to stay, but Banks???



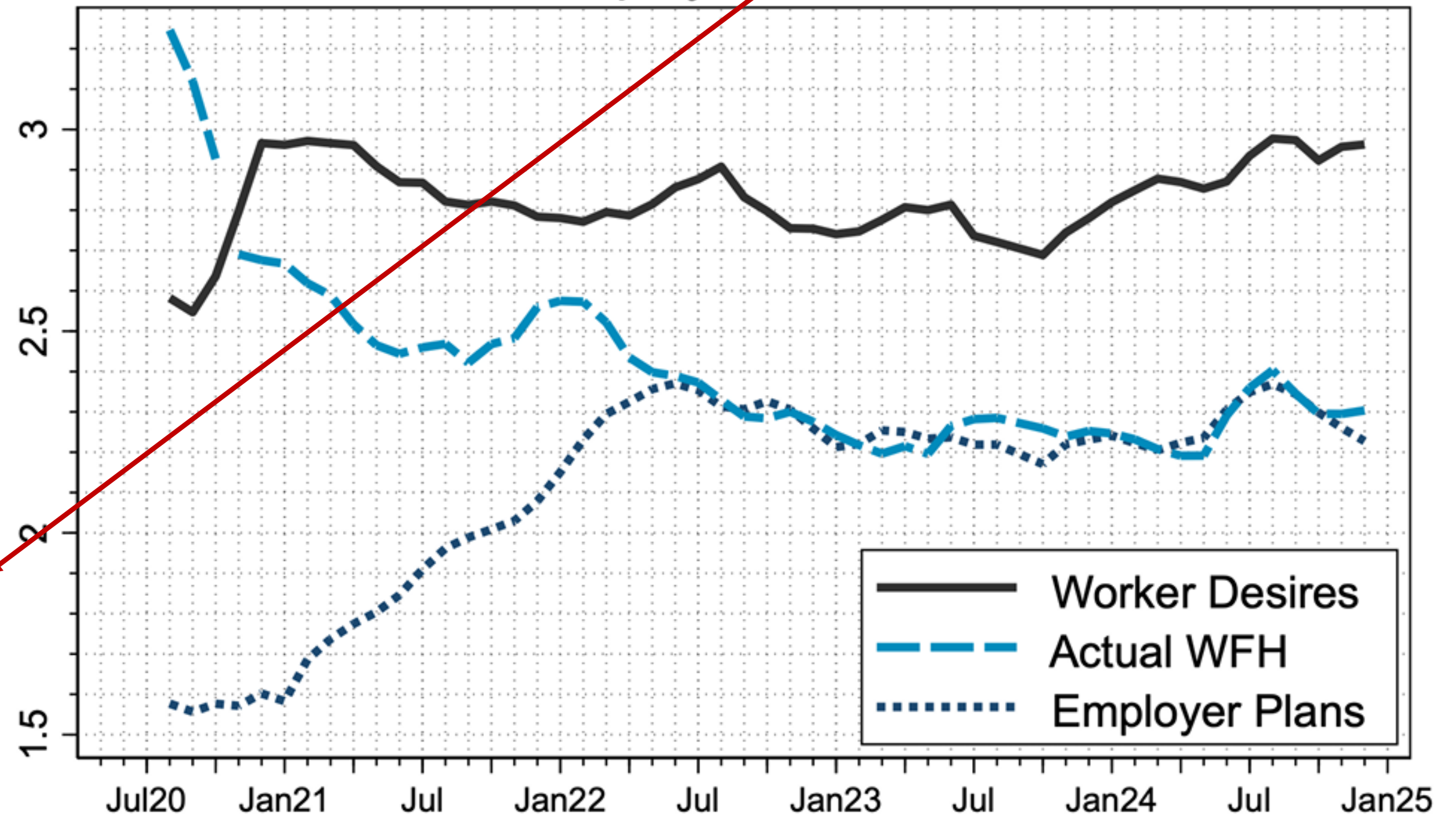
FINRA ending the pandemic exemption for home office inspections could be a real game changer for remote work in the banking and broader financial services industry.

"Work-from-home regulations for banks are changing, and some of the industry's biggest players would rather bring employees in five days a week than make the effort to comply—including making regular inspections of workers' homes.

During the pandemic, brokerage industry watchdog the Financial Industry Regulatory Authority (FINRA), suspended rules on workplace inspections to make it easier for banks to allow their employees to work from home. **The agency is now moving back to its pre-pandemic requirements for monitoring workplaces, meaning some home offices will have to be registered with regulators and remotely inspected at least every three years under a new pilot program.**

<https://finance.yahoo.com/news/banks-don-t-want-inspect-093400950.html>

### Average Days per Week Working From Home: Desired, Actual, and Employer Plans for 1+ Years Ahead

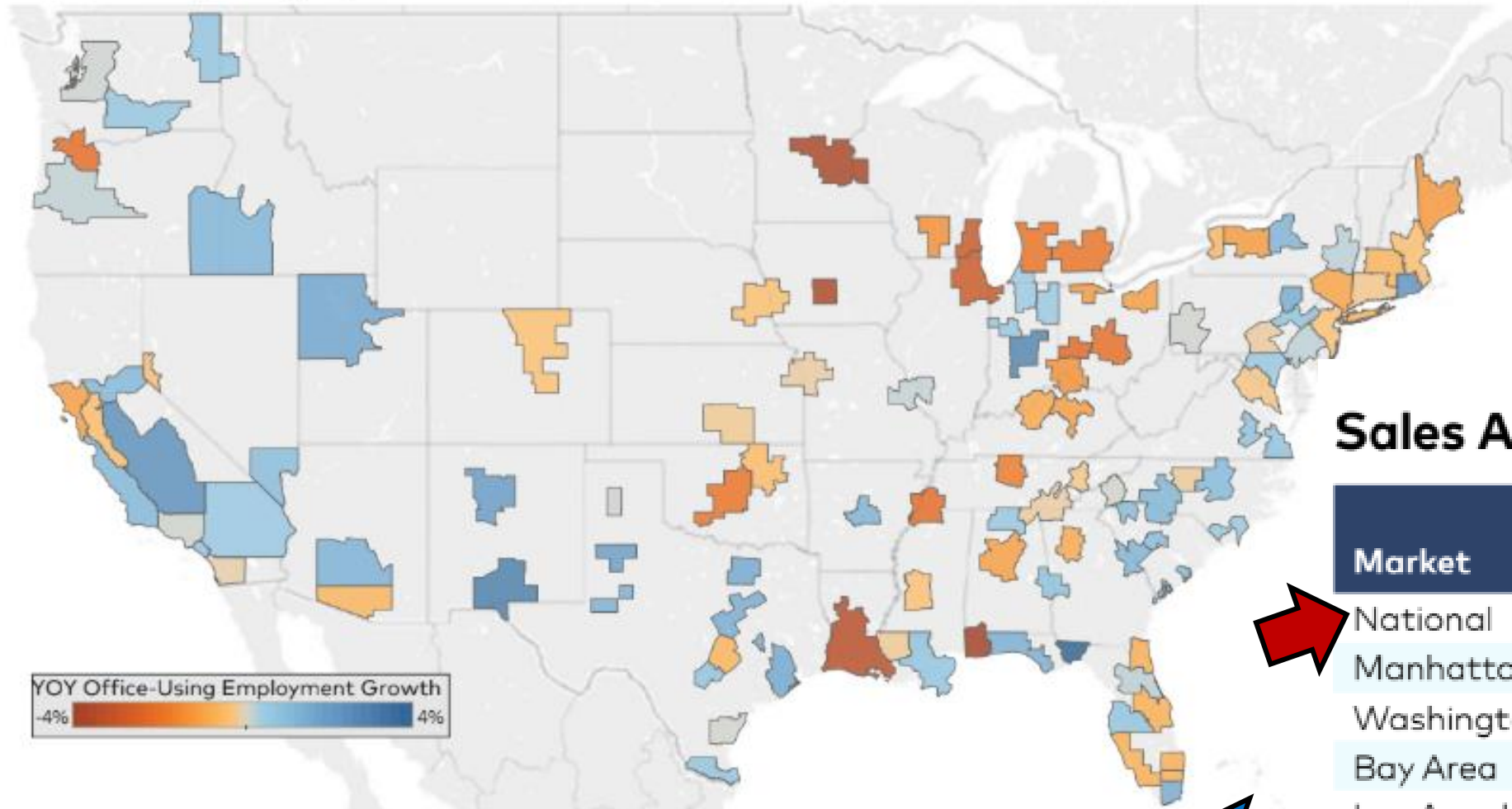


Sample: Workers able to work from home

[WFHResearch updates January2025.pdf](#)

# Office CRE? The bottom line from YARDI for 2025

## Office-Using Employment Growth



YOY Office-Using Employment Growth  
-4% 4%

Sources: Bureau of Labor Statistics and Moody's Analytics

## Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 10/31)
National	\$177	\$29,214
Manhattan	\$344	\$3,280
Washington DC	\$225	\$2,480
Bay Area	\$294	\$2,114
Los Angeles	\$354	\$1,755
Dallas	\$130	\$1,141
Boston	\$187	\$1,134
Atlanta	\$145	\$1,020
Phoenix	\$164	\$1,010
Chicago	\$100	\$987
Miami	\$369	\$983

- **Vacancy nationwide tops 19%**
- **Remote Work** still the main headwind.
- Conditions worst in Tech & Life Sciences MSAs like Boston.
- It's going to be a long recovery.
- **Average price per SF of 2024 office building sales was just \$179 per SF - half Replacement Cost.**



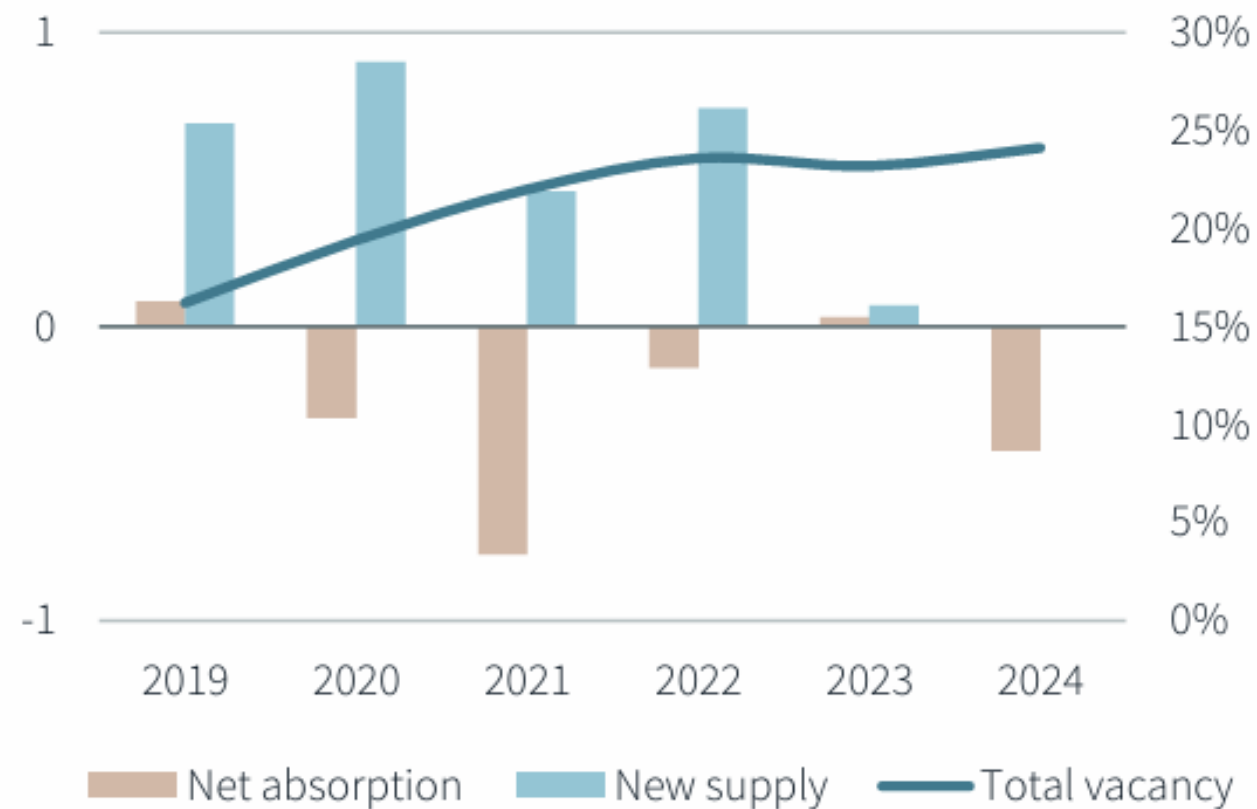
# Milwaukee 2024 Office CRE: The bottom line was “Mixed”



Fundamentals		Forecast
YTD net absorption	-423,999 s.f.	↓
Total vacancy	24.1%	↑
Class A direct asking rent	\$26.16 p.s.f.	↑
Overall direct asking rent	\$22.27 p.s.f.	→
Concessions	Rising	↑
Under construction	0 s.f.	↓
Preleased	0%	↑

## Historical supply and demand trends

s.f. (millions)



**Positive absorption in Class A was wholly offset by negative net absorption in Class B and C properties.**

CBD submarkets broke a five-quarter streak of positive absorption, with -44,113 s.f. of quarterly net absorption.

Total vacancy increased by 0.2% from Q3, driven by Class B and C office. **Class A total vacancy continues to fall, outperforming the rest of the market.**

## Outlook

Looking ahead into the new year, **premium office spaces are anticipated to remain in high demand, with tenants across all submarkets showing a preference for top-tier facilities.**

The shift towards high-quality spaces reflects tenants' preferences for thoughtfully designed environments that boost productivity and improve workplace experience through amenities

[jll-us-office-market-dynamics-q4-2024-milwaukee](https://www.jll.com/insights/office-market-dynamics-q4-2024-milwaukee)

## BISNOW

### Barnes & Noble CEO On The Race For Space As Store Demand Heats Up

December 6, 2024 [Mark Faithfull, Dublin/London](#)

**In a sign of just how much the retail world has changed**, one of the biggest challenges facing Barnes & Noble CEO [James Daunt](#) is **competing for store space** with other expansionist U.S. retailers.

**“Every time a store becomes available, there's intense competition,”** he said. “Burlington took lots of the Bed Bath & Beyond stores that we would have gladly taken, but they were quicker and smarter and richer, frankly. There are a lot of people out there expanding fast, and some very, very good retailers.”

# Small-Box Retail Apocalypse – Drug Stores, Branch Banks, Dollar Tree

## Walgreens Cut to Junk By Moody's

Walgreens downgraded two notches  
to second-highest junk rank

The Dow is weighted based on the share prices of its components, not on each company's overall market value.

Walgreens joined the Dow in 2018, replacing industrial conglomerate General Electric. Since then, **the stock has lost about 65% of its value.**

Walgreens has appointed new top executives, **shuttered unprofitable stores** and unveiled the dividend cut in January as it deals with low consumer spending, a drop in COVID-19 product sales.

**Shares of Walgreens trade at a forward price-to-earnings ratio of 6.54, compared with 9 for larger rival CVS Health (CVS.N),** [opens new tab.](#)

**A 6.54 PE translates to a 15% Cap Rate**

[Walgreens \(WBA\) Credit Rating Cut to Junk By Moody's on Healthcare Strategy Push - Bloomberg](#)

## “Small-Box” Apocalypse.

**Retail closures have picked up** this year because the sector's sugar high of 2021 and 2022 — when consumers were buying new furniture, televisions, and clothing — has ended. **There have been more than 7,100 store closures through the end of November, according to research firm CoreSight — a jump of 69 percent** compared to the same time a year ago.

## Dollar Tree to Close 1,000 Stores in Bid to Shore Up Profits



[Dollar Tree \(DLTR\) to Close 1,000 Stores in Bid to Shore Up Profits - Bloomberg](#)

(Reuters) -Dollar Tree swung to a quarterly loss on Wednesday after **the retailer took an over \$1 billion goodwill impairment charge, as it plans to shut nearly 1,000 stores.**

The impairment charge translates to **\$1,000,000 per store or \$125/sf for average store size.**

# Drug Store Cap Rates Rising: **Look at the <10 Yr Lease Cap % (8%+)**



## Net Lease Drug Store Sector

### NATIONAL ASKING CAP RATES

Tenant	Q3 2024 (Previous)	Q4 2024 (Current)	Basis Point Change
Walgreens	7.00%	7.25%	+25
CVS	6.30%	6.45%	+15
Rite Aid	9.00%	9.00%	0
Drug Store Sector	6.84%	7.07%	+23

### MEDIAN ASKING CAP RATE BY LEASE TERM REMAINING

Years Remaining	Walgreens	CVS	Rite Aid
20+ Years	N/A	5.50%	N/A
15-19 Years	6.50%	5.90%	N/A
10-14 Years	6.90%	6.60%	7.75%
6-9 Years	7.90%	7.17%	8.75%
Under 5 Years	8.25%	8.10%	9.25%



[2024-Q4-Net-Lease-Research-Report.pdf](#)

# What's Working in Retail? Adaptive Reuse of Drug Stores and Small-Box Retail

CVS Drugstore to BP Convenience Store and EV + Gasoline Islands (Vet Clinics, Medical Office, etc.)



# Another Buc-ee's travel center could be coming to Georgia. Here's what we know.

BY CHELSEA MADDEN

UPDATED OCTOBER 11, 2024 2:57 PM | 

### Attention Columbus:

if you like Beaver Nuggets and the “cleanest restrooms in America,” then you may have another Buc-ee's stop to make soon. A Buc-ee's location is in the works for **Middle Georgia in Monroe County, Georgia**, and here's what we know: “Buc-ee's is actively pursuing a location for our next Georgia store in Monroe County,” said Stan Beard, Jr., director of real estate for Buc-ee's. The proposed location is on Rumble Road in the Smarr/Forsyth area, off I-75 in Monroe County next to Meadows Gun Club. Read more at:

<https://www.ledger-enquirer.com/news/business/article293831589.html#storylink=cpy>



# No “Buc-eeing Way” Will Wisconsin welcome Buc-ee’s into the market?



## No Buc-eeing way, residents say — but Plan Commission differs

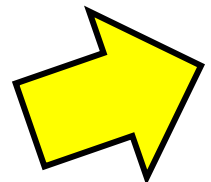
City officials disagreed. Oak Creek Mayor Daniel Bukiewicz and the city's Plan ...

Texas-based favorite [Buc-ee's has announced intentions](#) to open a massive convenience store and gas station in Oak Creek, bringing its potential future Wisconsin store count to two.

In 2023, Buc-ee's [said it planned to build](#) one of the world's largest gas stations in DeForest — a village of about 10,000 in Dane County, north of Madison.

[Buc-ee's Oak Creek plan advances despite resident opposition - Milwaukee Business Journal](#)

# Industrial – Smooth sailing ahead (Jan 15 Port Strike Averted)



## Second US port strike averted as union, employers reach deal

Jan 8 (Reuters):

The union representing 45,000 dock workers on the U.S. East and Gulf Coasts and their employers on Wednesday said they reached a tentative deal on a new six-year contract, averting further strikes that could have snarled supply chains and taken a toll on the U.S. economy.

The International Longshoremen's Association (ILA) and the United States Maritime Alliance (USMX) employer group, in a joint statement, called the agreement a "win-win." The deal includes a resolution in automation, which had been the thorniest issue of on the table.

## Port worker strike: Which ports are affected?

While any port can handle any type of goods, some ports specialize in handling goods for a particular industry.





# Industrial Vacancy Will Fall in 2025, Colliers Says

- ➔ **Balance could soon return to the industrial sector as vacancy rates peak, new supply and tenant demand reach equilibrium, and rent growth stabilizes, according to Colliers 2025** Commercial Real Estate Outlook.  
That will be a welcome relief after a surge in development drove up the national industrial vacancy rate by more than 250 basis points since 2023.

[Industrial Vacancy Will Fall in 2025, Colliers Says](#)

# Industrial – ProLogis Q4 2024 Earnings

We closed the year with wins in real estate, data centers, automation, energy and more, which were underscored by our team's flawless execution. Our Q4 2024 Earnings Results showcase strong leasing activity and impressive value creation; and our full-year results speak for themselves:

- ✓ We grew from 1.2B square feet to 1.3B square feet, thanks to our team's expert execution of landmark acquisitions.
- ✓ We invested \$1.339B in new developments, anticipating customer needs and staying ahead of market trends.
- ✓ **We accelerated our data center business by committing to invest \$7-8 billion by 2028.**
- ✓ **We contributed \$2.0 billion of assets to our strategic capital ventures in Q4**, bringing the full-year total to over \$3.3 billion. And we celebrated 20 years of our USLF fund and 10 years of Fibra Prologis and USLV!
- ✓ **We opened North America's largest heavy-duty truck charging hub powered by a self-sufficient microgrid, providing a prototype for hubs of the future.**



# Industrial – Smooth sailing ahead (Sub 5% Cap Rates in So. FL)

## Terreno Closes 2024 with Major Purchases in Florida and New York

It has invested \$195.6 million in Doral and \$156.3 million in Brooklyn.

On December 27, Terreno Realty sealed the deal on **Terreno Doral Air Logistics, a sprawling industrial complex in Doral, Fla., for a hefty \$195.6 million.** This acquisition marks something of a departure from the company's typical purchasing patterns, venturing into higher-value territory. The property, **spanning 23.4 acres, boasts three industrial distribution buildings with a combined space of approximately 495,000 square feet.** Its location at **7725-7785 NW 41st Street** places it in the heart of a bustling logistics corridor, with immediate access to the **Palmetto Expressway and close proximity to the MIA Cargo Viaduct, Dolphin Expressway, and Miami International Airport.**

The Doral property's features include 36-foot clear height ceilings, 110 dock-high loading positions, and six grade-level loading spots. It also caters to the growing demand for electric vehicles, offering 528 parking spaces, including 11 with EV charging capabilities. Currently at 76% occupancy with six tenants, the property presents an opportunity for growth, with **an estimated stabilized cap rate of 4.6%.**

ALM | GLOBEST.COM

For the right stuff, Cap Rates for industrial are getting aggressive heading into 2025.

**Get ready to see more 5%, and maybe lower than 5% Cap Rate transactions in 2025. Capital wants more of this hard to replicate industrial.**

Appraisers need to be paying attention to the Principle of Anticipation.

# CONCLUSION:

## Conclusion and Key Economic and CRE Takeaways:

- **First, there are some near-term/January 2025 risks that could be disruptive in Q1 2025. The two primary ones are: i) January 15<sup>th</sup> East and Gulf coast port strike** impacting all ports from NY to Houston; and **ii) transition of our Gov. and uncertainty over Trump tariffs.** The issue with regard to the ILWA port strike is not wages (the ILWA has already secured a 60% wage increase from the October deferral of the strike); **rather it is about port automation and loss of jobs.**
- **Second, interest rates and steepening of the Yield Curve are headwinds.** The market and homebuyers are trying to determine if the 10-Yr Treasury bond and 30-Yr mortgage rate see 5% and 7%+ next.
- **Inflation is NOT tamed and has ticked back up +0.3% per month from flat Summer 2024.** The primary contributors are 1-part Services (Housing and Healthcare) and 1-part soft commodities like coffee, cocoa, eggs, orange juice and aggregates.
- **Property Insurance is a carry-over risk from 2024.**
- **Commercial Real Estate conditions are deteriorating and still in “Price Discovery.”** While office is the most stressed property type, **other property types are seeing rising loan delinquency rates, especially retail and MF. CRE credit conditions are likely to tighten in 2025 as banks reserve capital for more CRE credit deterioration.**

# KC Conway, CCIM, CRE, MAI



- ❖ 35 years commercial real estate experience (30 private industry; 5 within Federal Reserve system 2005-2010). currently available for consulting, speaking & litigation support.
- ❖ MAI since 1989; Counselor of Real Estate (CRE designation) since 2009, and CCIM designee in 2020.
- ❖ Founder and Principal of KCNomics (October 2023 to present). KC@kcnomicsllc.com with company profile at [www.kcnomicsllc.com](http://www.kcnomicsllc.com)
- ❖ CCIM Institute Chief Economist (2017 to 2023).
- ❖ Independent Director, Monmouth MREIC (Sept 2018 to present). MREIC.com is a top performing industrial REIT specializing in Logistics HQ in Holmdel, NJ - check out Fall 2020 REIT magazine for Monmouth MREIC profile and history).
- ❖ Prior - Director of Research and Corporate Engagement at AL Center for Real Estate (ACRE) at Culverhouse College of Business, University of AL (Oct 2017 - Oct 2020).
- ❖ Chief Appraiser & Sr. Market Intelligence Officer SunTrust Bank 2014-2017.
- ❖ Chief Economist Colliers | United States 2010-2014 and author of North American Port, Industrial and Office Outlook reports 2012-2014.
- ❖ 2007 recipient of the Appraisal Institute's President's Award.

- ❖ 2009 recipient of "Key Player" Award from the Atlanta Federal Reserve.
- ❖ 2010 recipient of "Superior Contributions" Award by the FFIEC - Federal Financial Institutions Examination Council.
- ❖ CRE Risk Specialty Officer - NY FED during Financial Crisis 2009-2010.
- ❖ Briefed Federal Reserve's Board of Governors & Chairman Bernanke in June 2007 on the coming real estate crisis.
- ❖ Nationally recognized expert and speaker on a wide range of commercial real estate topics ranging from appraisal and bank regulation to ports and securitization.
- ❖ Expert witness in prominent cases.
- ❖ Instructor and frequently requested speaker to bank regulatory entities, academic, professional organizations and industry associations, such as the Appraisal Institute, Counselors of Real Estate, CCIM, APTC, ICSC, NAIOP, NAR, RLI, RMA, SIOR, ULI, as well as bank regulatory agencies.
- ❖ Specialties: Economic Forecasting, Real Estate Consulting and CRE Valuations, Market Studies and Research Analyses, Ports & Logistics expertise - available for speaking or presentations at industry conferences.
- ❖ Banking regulation re: Commercial Real Estate and Bank Stress Testing.
- ❖ Property Tax Appeal and Litigation Support (expert witness experience).



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