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# Commercial Real Estate Economics

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Thomas P. LaSalvia, PhD, Head of CRE Economics

January 2026

# Broad Themes

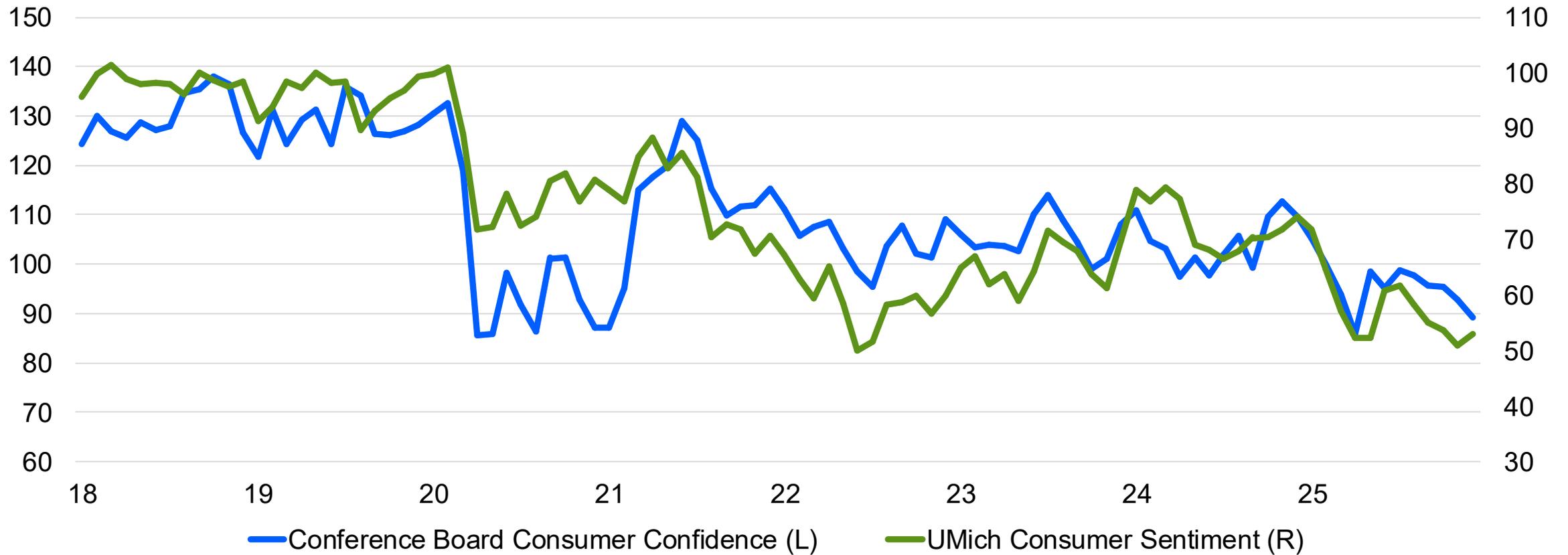
- Economy: Labor Stagnation vs. Wealth Appreciation
  - Wisconsin Economy is Growing and Diversifying
- CRE: Decelerating supply growth aids performance
- Mixed-urban is a trend, not trendy
- Industrial Evolves with Policy, Migration, & Cost

The background is a solid dark blue color. It features several abstract, wavy patterns of thin, light blue lines. These lines are arranged in a way that creates a sense of depth and movement, resembling a stylized, layered landscape or a complex, flowing structure. The lines are most prominent in the upper left and lower right corners, with some overlapping to create a grid-like effect in certain areas.

# The Economy

# Households are Unhappy, but have they Lost Faith?

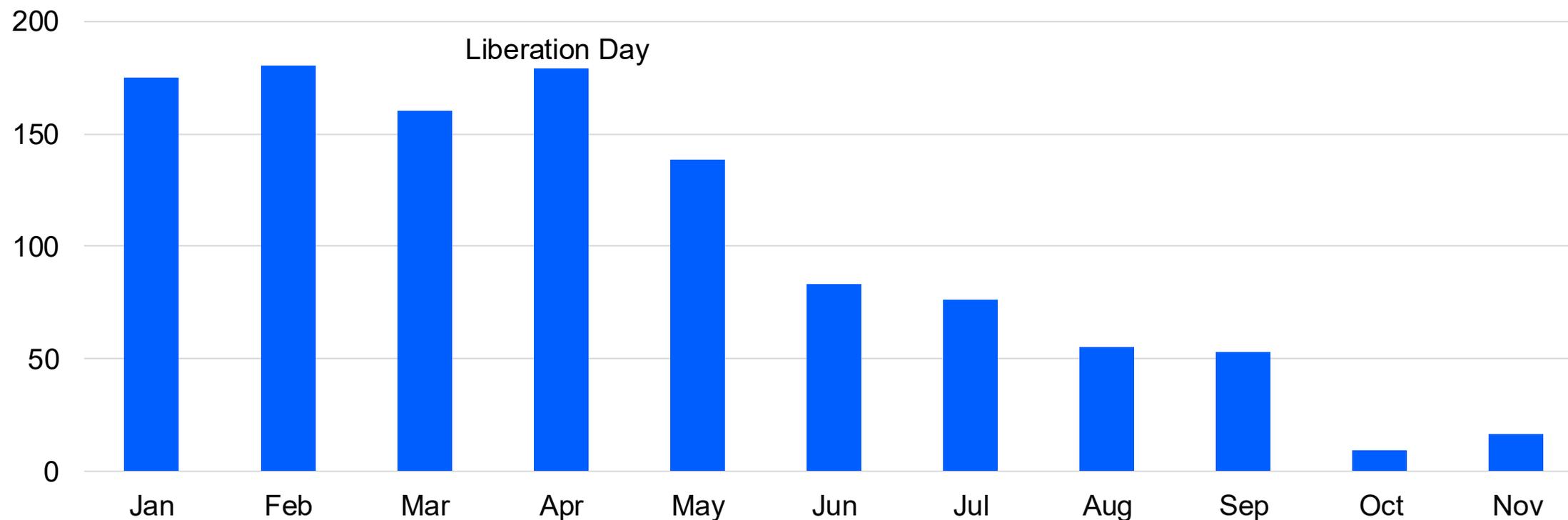
Confidence Index 1985 = 100, Sentiment Index 1966 Q1 = 100



Sources: The Conference Board, University of Michigan, Moody's Analytics

# Weak Job Growth is a Reason for Household/Economic Concern

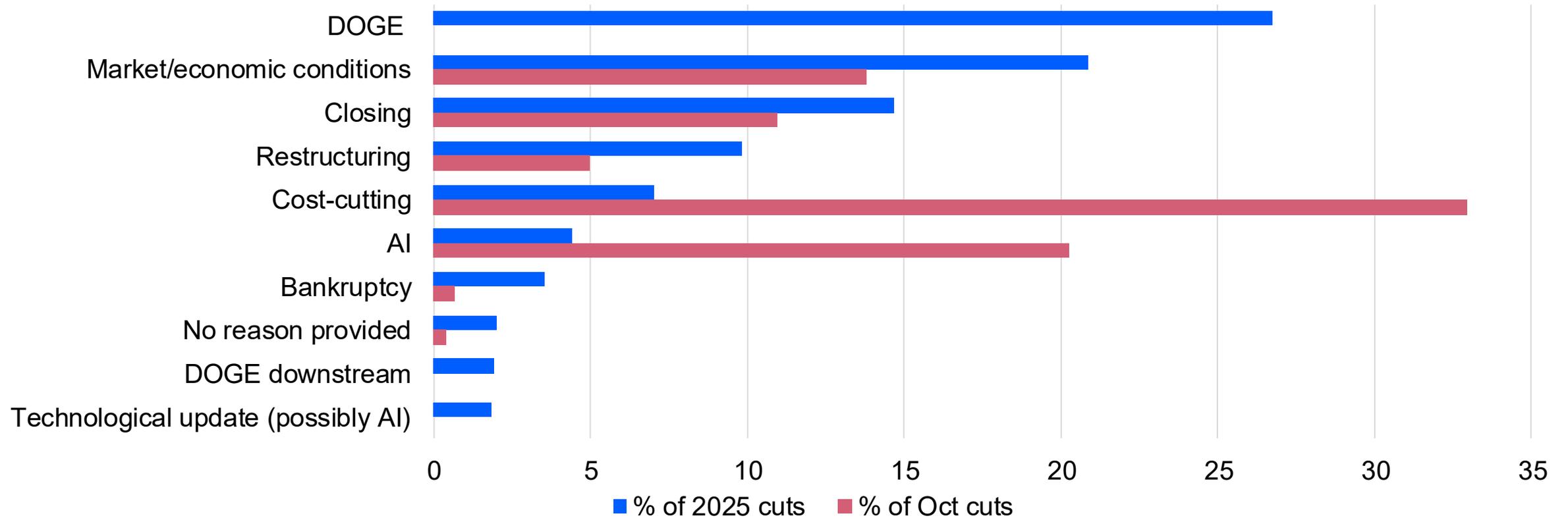
Average monthly payroll job change, 6-mo MA, ths, 2025



Sources: BLS, Moody's Analytics

# Job Cut Rationale is Shifting toward Cost-Cutting and AI Related

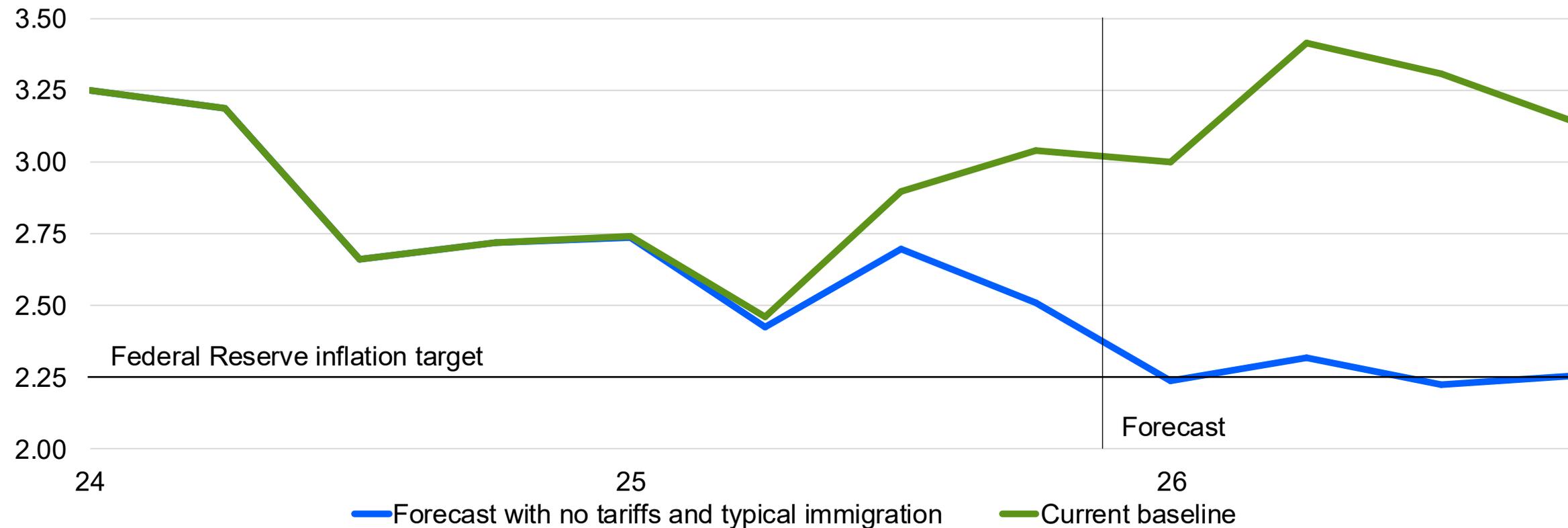
Announced job cuts in 2025 by reason cited



Sources: Challenger, Gray & Christmas; Moody's Analytics

# Cost Cutting to Remain a Theme in 2026 as Inflation Remains Elevated

Consumer price inflation, % change yr ago

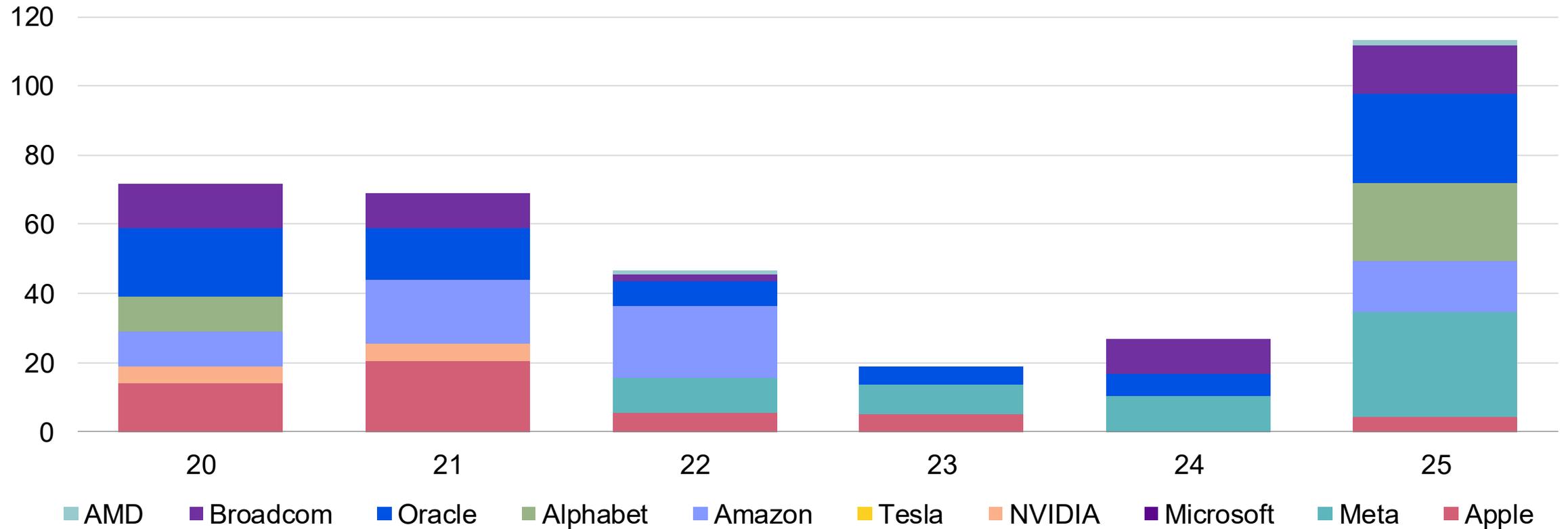


Note: These scenarios are based on simulations of the Moody's Analytics Global Macroeconomic Model.

Sources: BLS, Moody's Analytics

# Capital Flowing into AI with a Bet on Continued Need for Efficiency

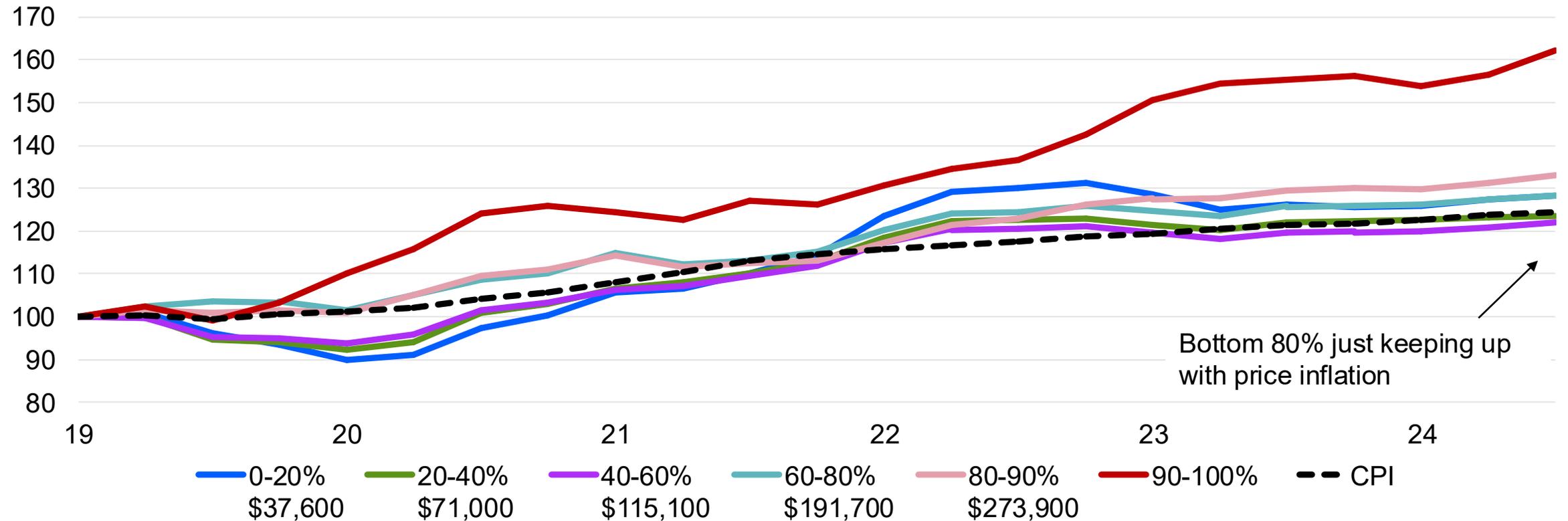
Bond issuance of top 10 technology companies, \$ bil



Source: Moody's

# AI Stock Price Appreciation Leads to Wealth and Spending Gains at the Top

Personal outlays by income group, 2019Q4=100

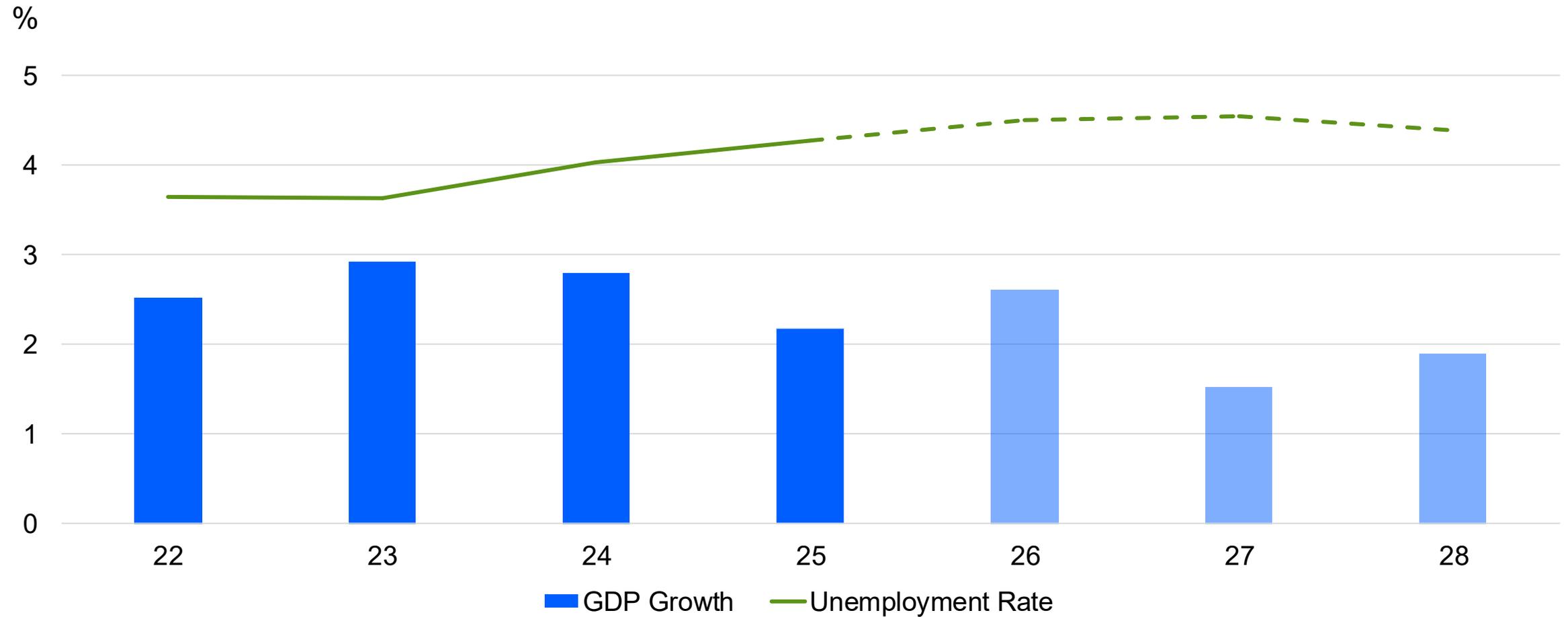


Sources: Federal Reserve, Moody's Analytics

# The Economy

- Deglobalization
  - Supply-side/Cost Pressures & Uncertainty
  - Weakened Labor Market
- AI Boom
  - Efficiency Gains (alternative to labor)
  - Stock Price Appreciation (K-Shaped Economy)

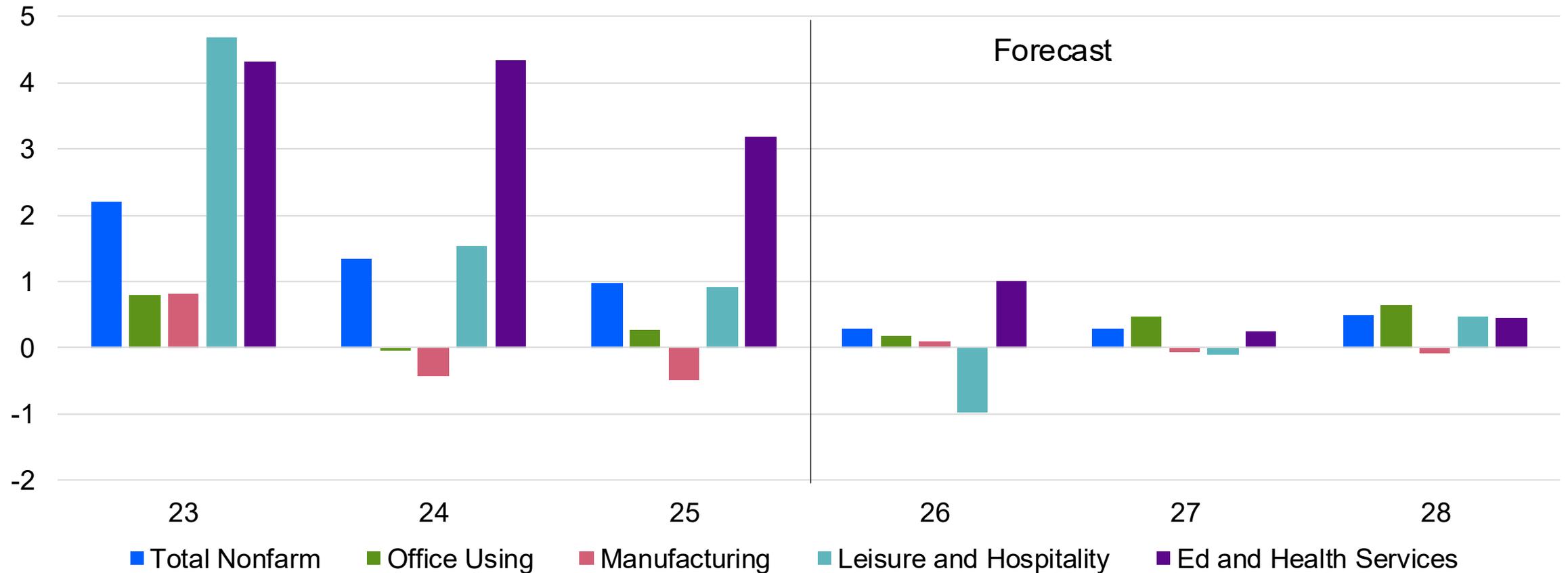
# AI Boom + Deglobalization = Moderate Headline Economic Performance



Source: Moody's Analytics

# AI Boom + Deglobalization = Labor Market Stagnation

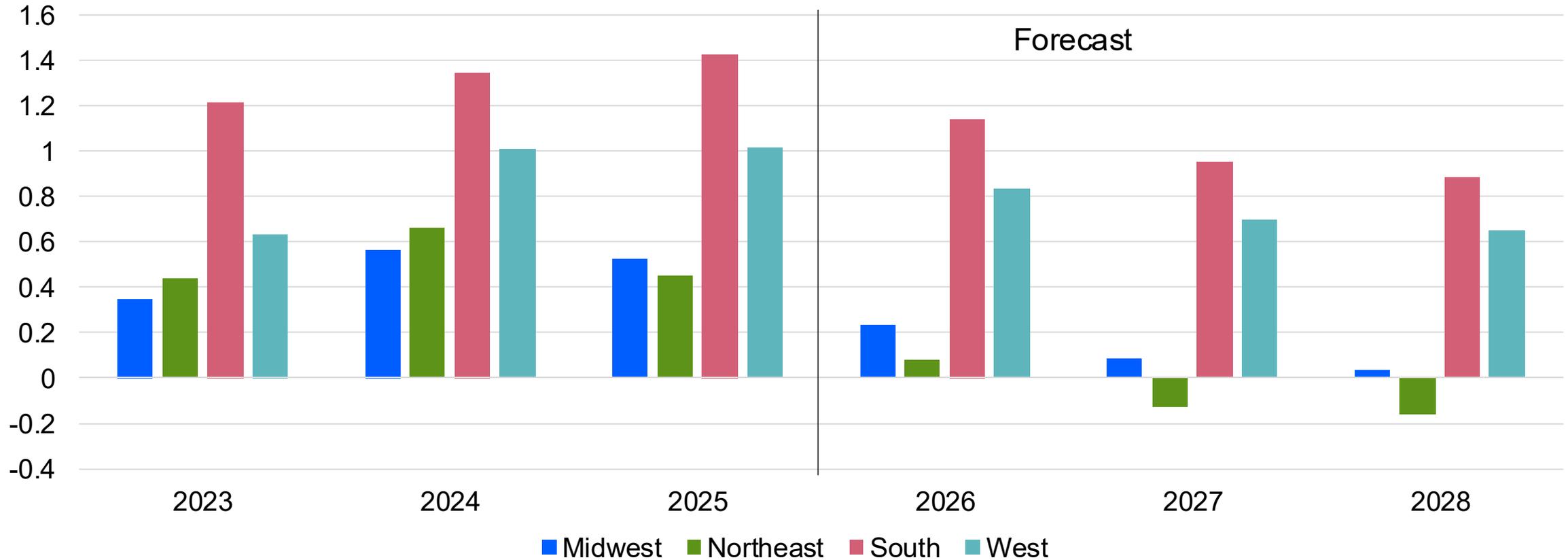
% Employment Growth



Source: Moody's Analytics, BLS

# Labor Market Stagnation + Immigration Reform = Weak Household Form.

% Growth, Census Regions



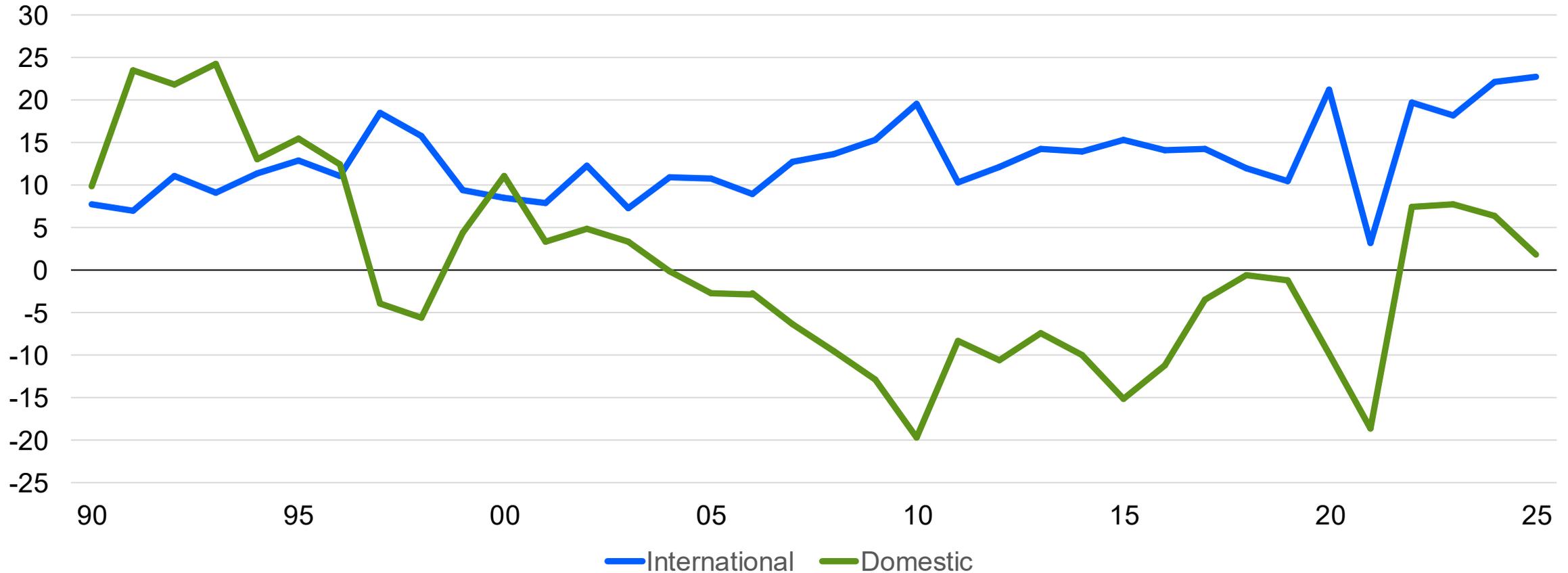
Source: US Census, Moody's Analytics

The background is a solid dark blue color. It features two large, abstract, wavy patterns made of thin, light blue lines. One pattern is on the left side, and another is on the right side. The lines in these patterns are arranged in a way that creates a sense of depth and movement, resembling a grid or a series of overlapping waves. The text 'The Wisconsin Economy' is centered in the lower half of the image.

# The Wisconsin Economy

# Wisconsin Population Grows with Both Domestic and International Migrants

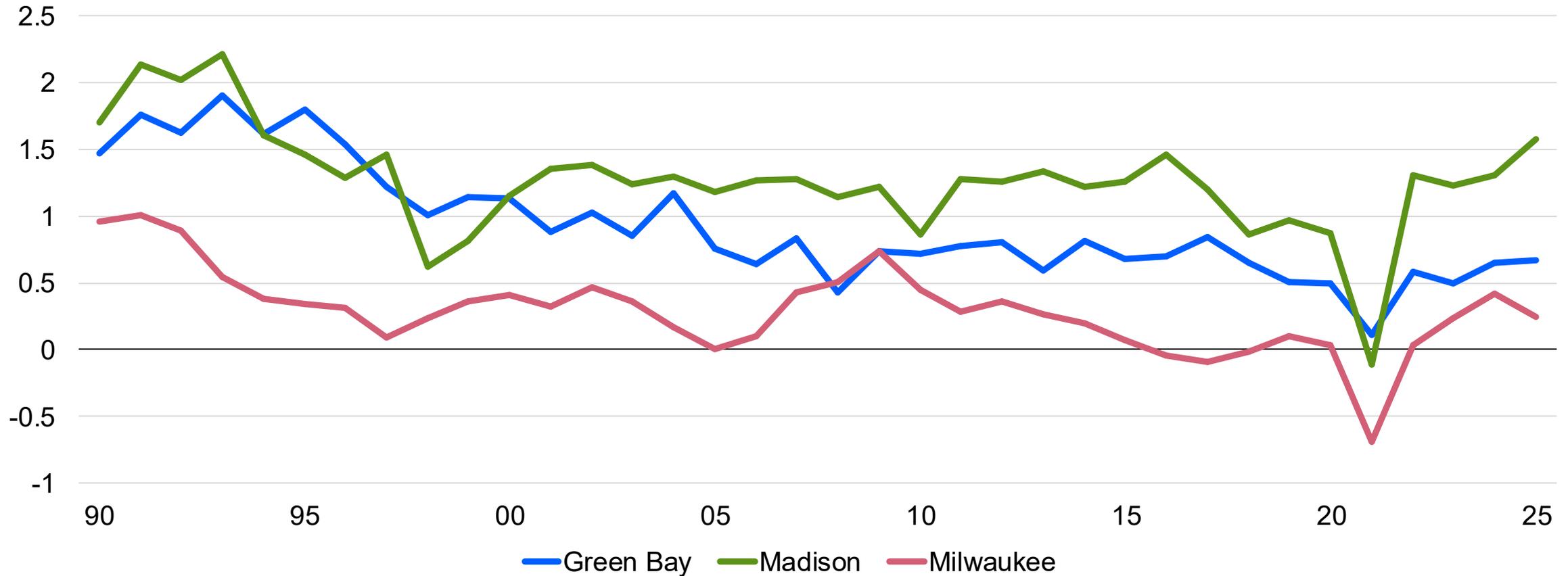
Net migration, thousands of people



Source: US Census, Moody's Analytics

# Madison Leads the Way, but Rising Tide Lifts all Boats

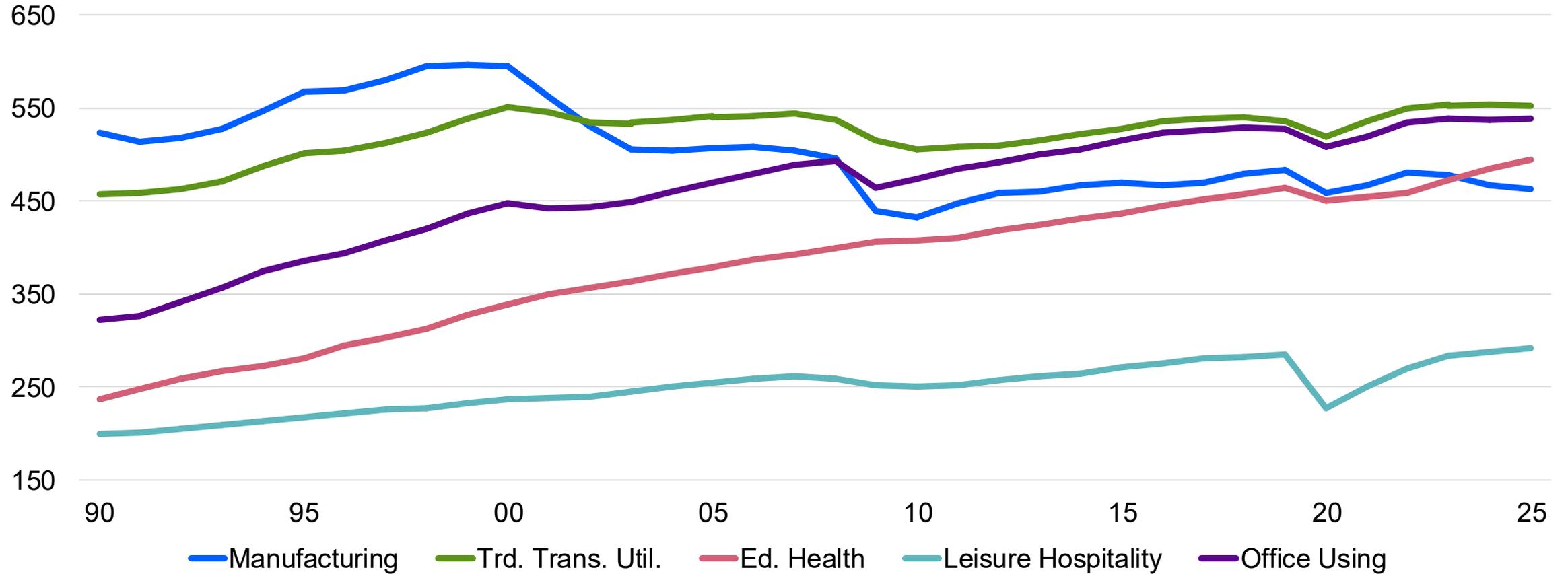
Population Growth, %



Source: US Census, Moody's Analytics

# Employment Data Shows a Diversifying Wisconsin Economy

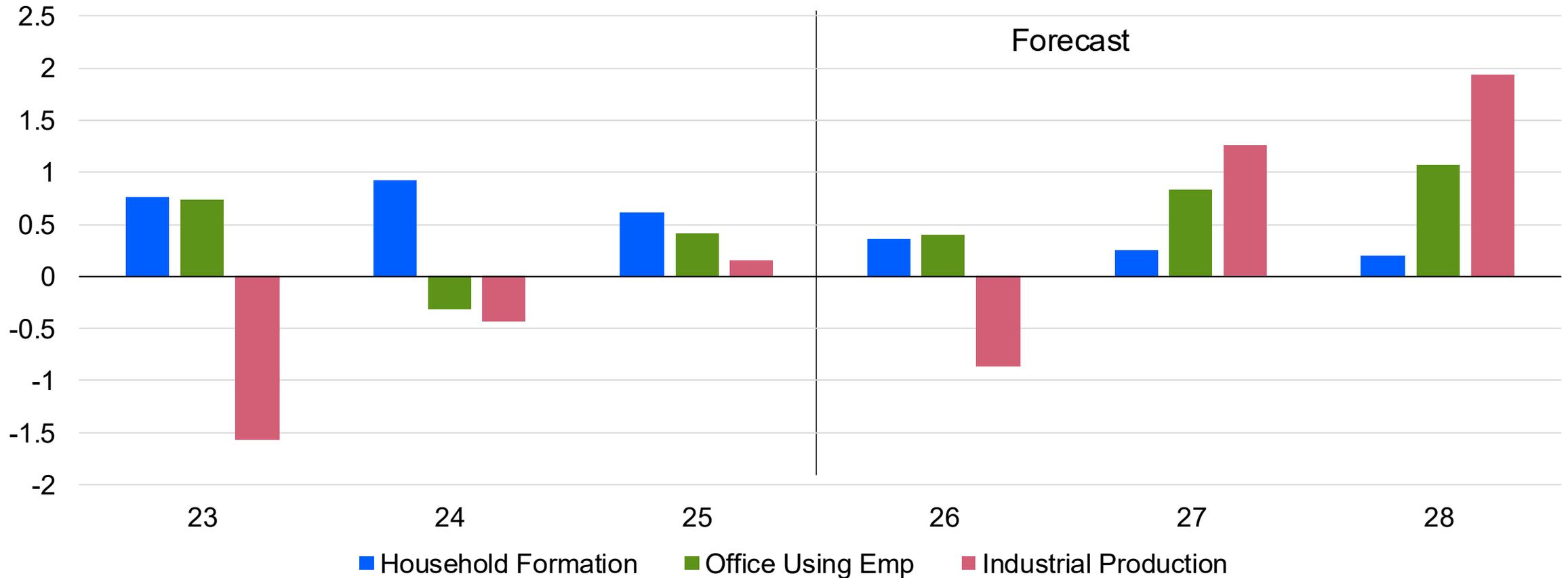
Employment, Thousands of employees



Source: Bureau of Labor Statistics, Moody's Analytics

# Wisconsin CRE Demand Drivers Will Prove Resilient in Mid-Run Forecast

% Growth, Employment



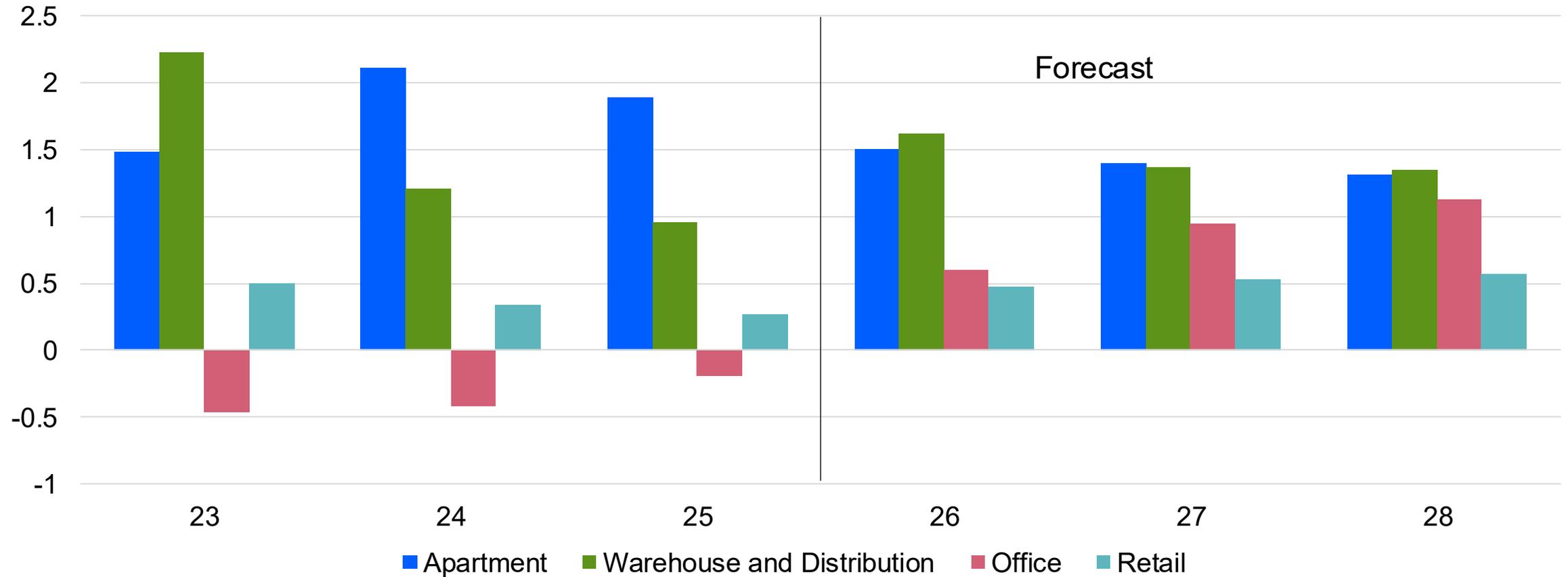
Source: US Census, Bureau of Labor Statistics, Federal Reserve, Moody's Analytics

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# The Market for CRE Space

# CRE Demand to be Resilient (Office Rebound has Begun)

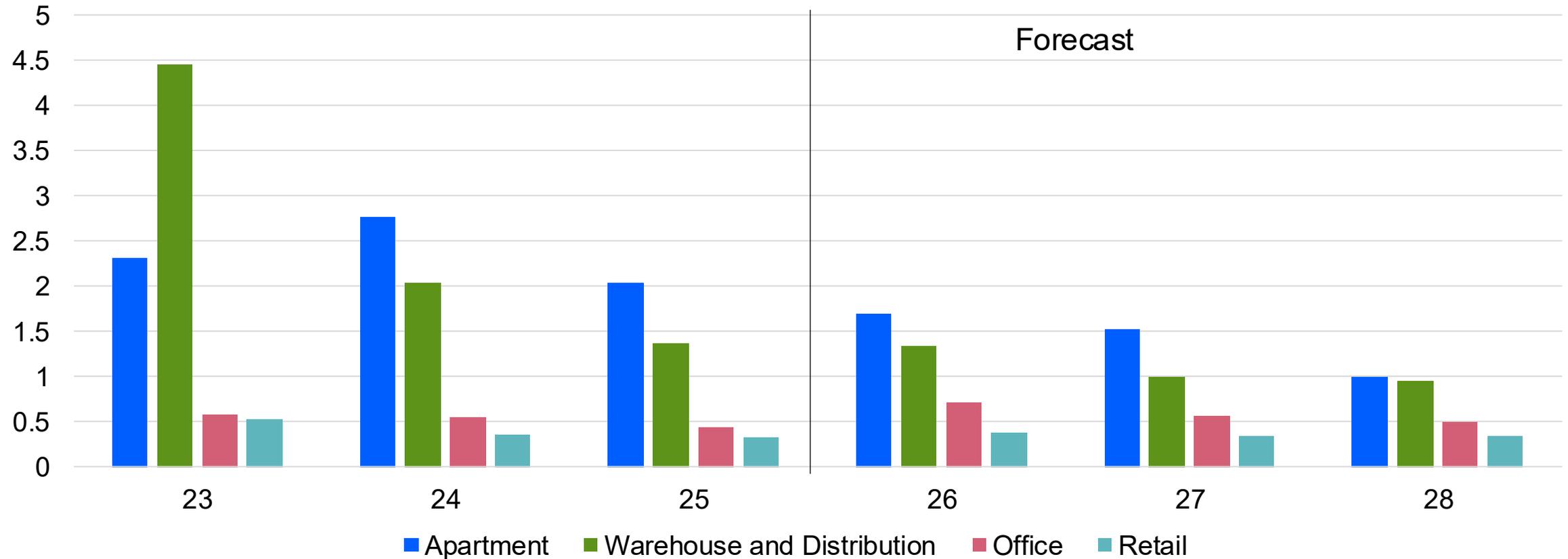
% Growth, Occupied Square Feet (units for apartment)



Source: Moody's Analytics

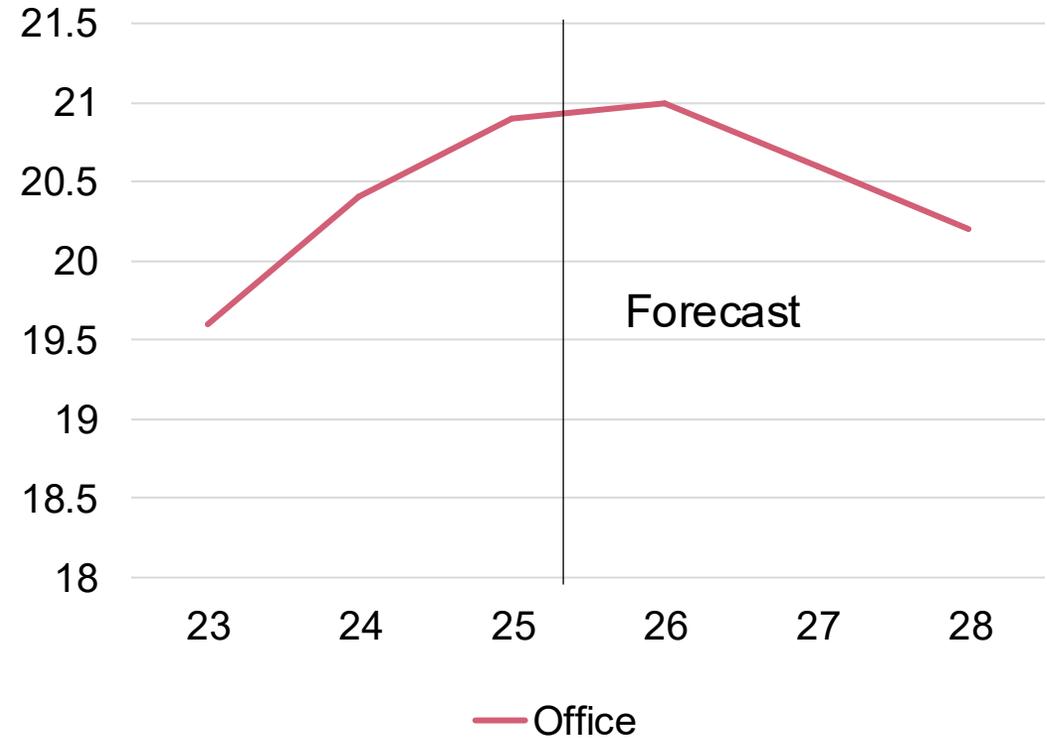
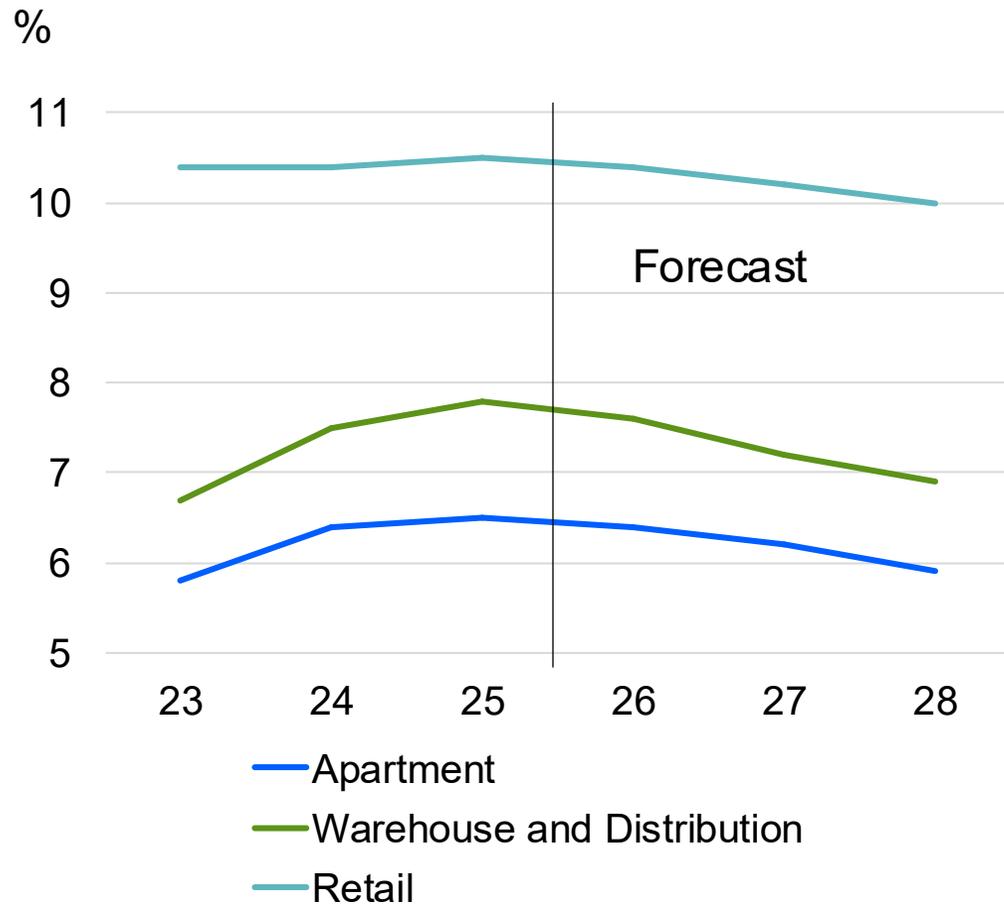
# Supply Growth Retreats from Record Highs

% Growth, Square Feet (units for apartment)



Source: US Census, Moody's Analytics

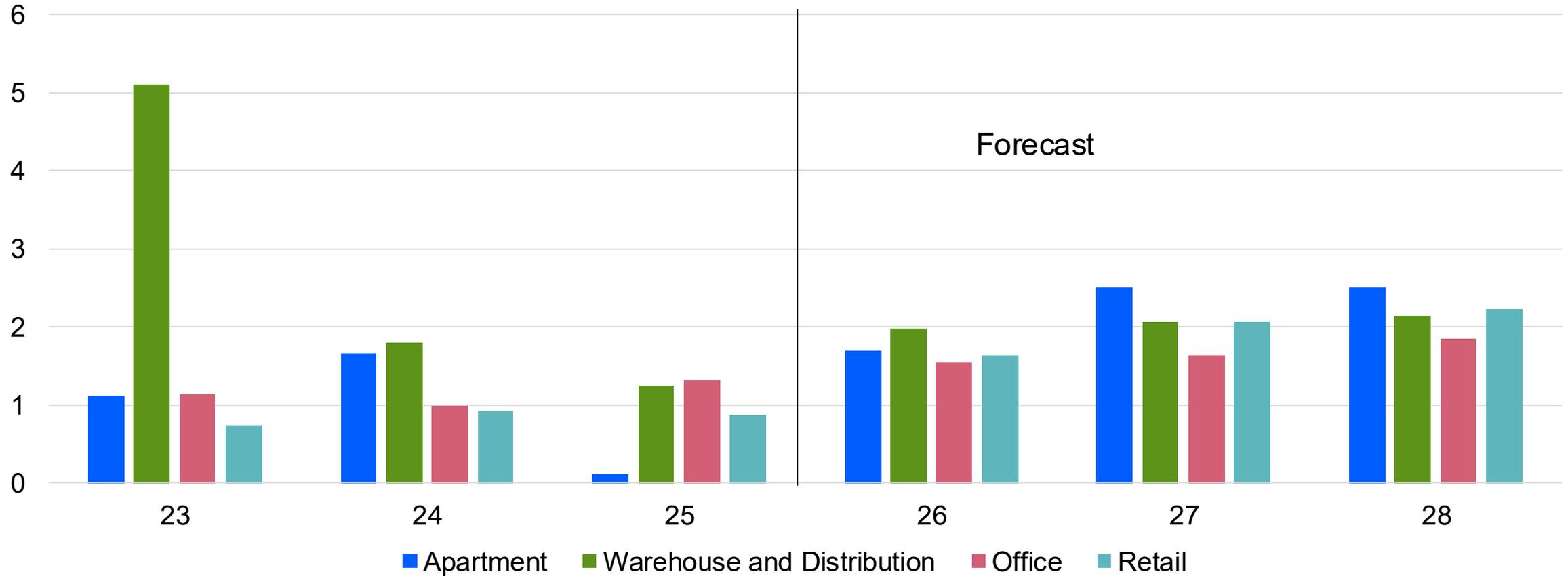
# Vacancy Rates will Decline, but Slowly



Source: US Census, Moody's Analytics

# Rent Growth will Increase, but Slowly

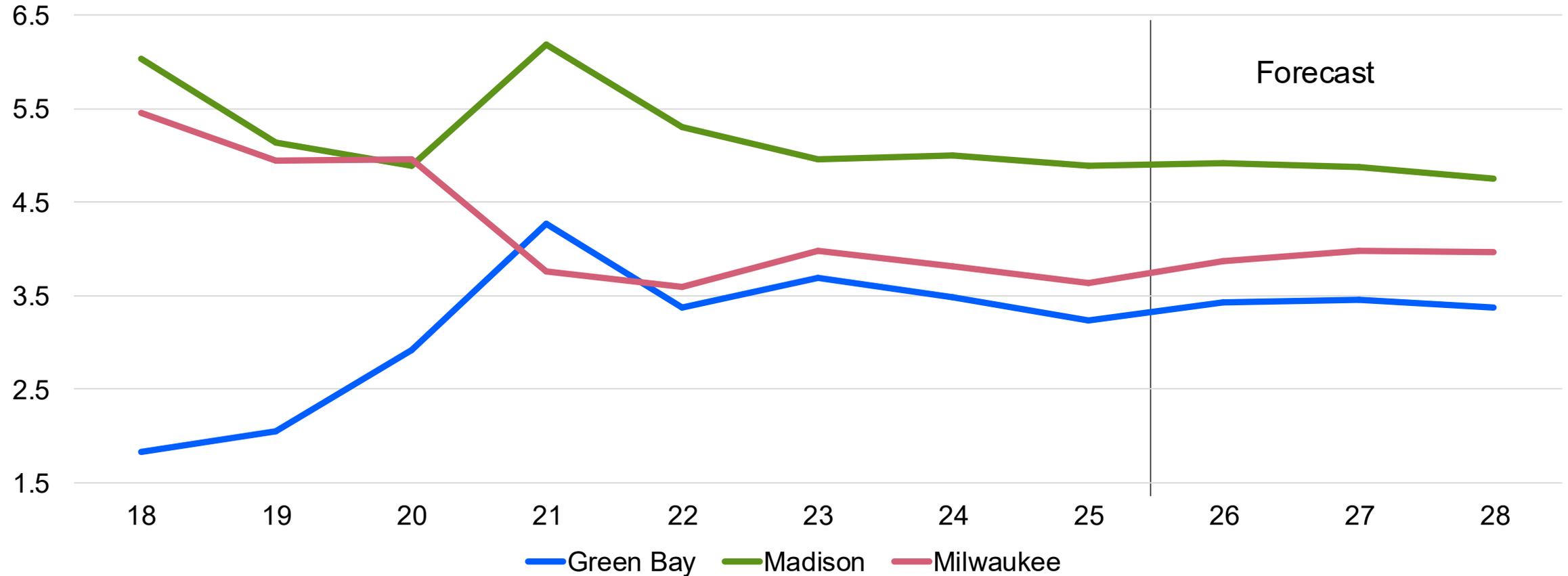
% Growth



Source: US Census, Moody's Analytics

# Wisconsin Metro Forecast – Apartment Vacancy Remains Tight

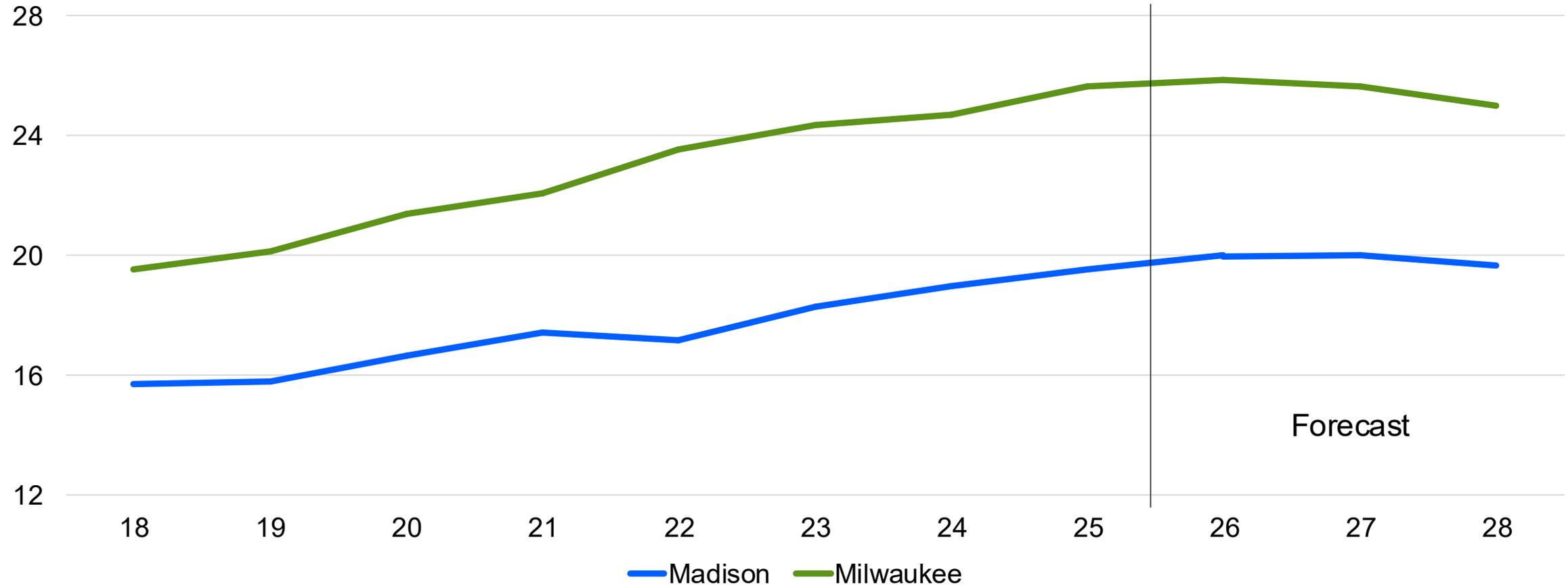
% Vacant



Source: Moody's Analytics

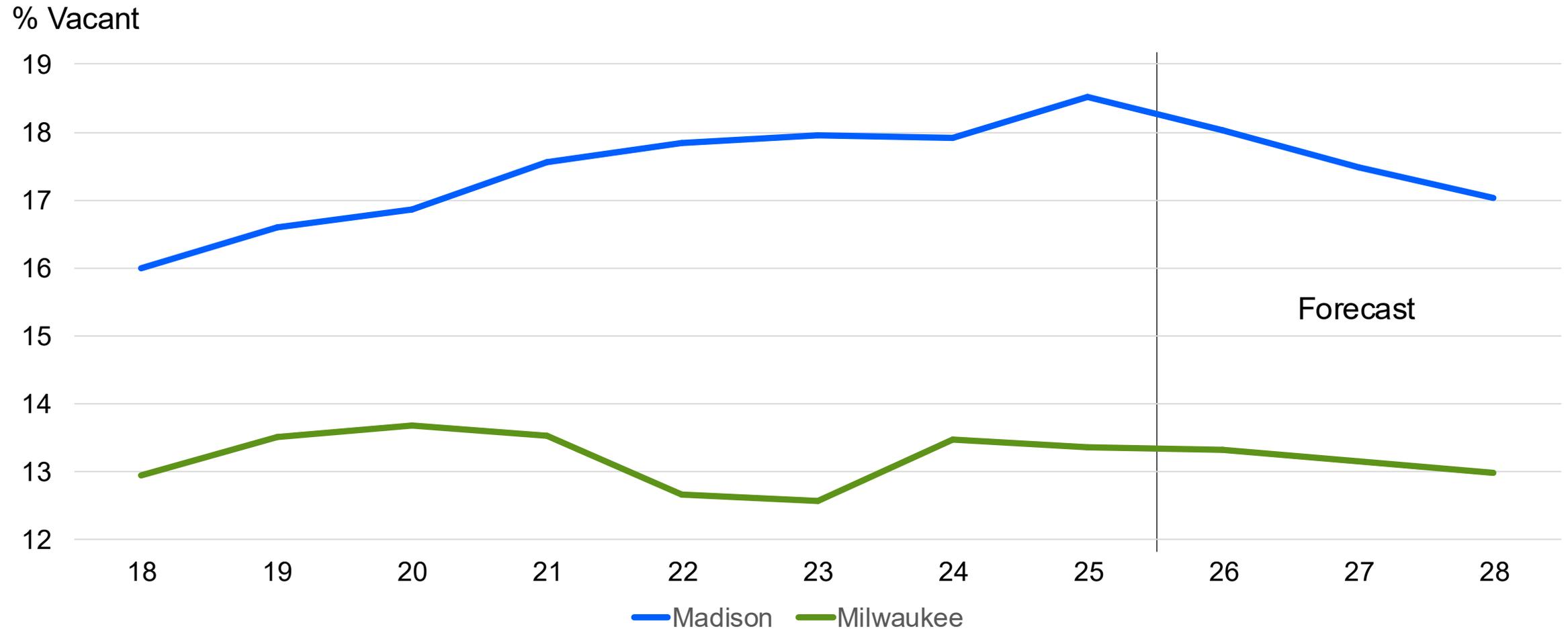
# Wisconsin Metro Forecast – Office Inflection Point in Sight

% Vacant



Source: Moody's Analytics

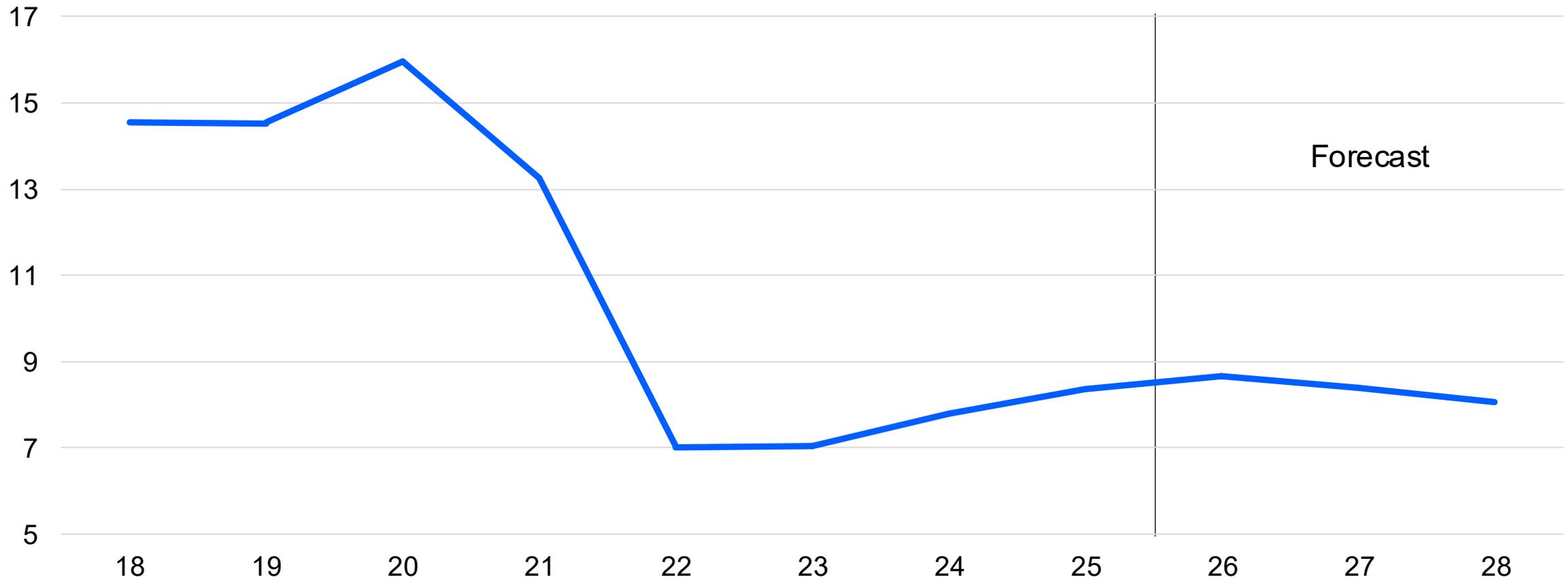
# Wisconsin Metro Forecast – Retail Steady, but Right-sizing Needed



Source: Moody's Analytics

# Wisconsin Metro Forecast – Industrial Strength Continues For Milwaukee

% Vacant



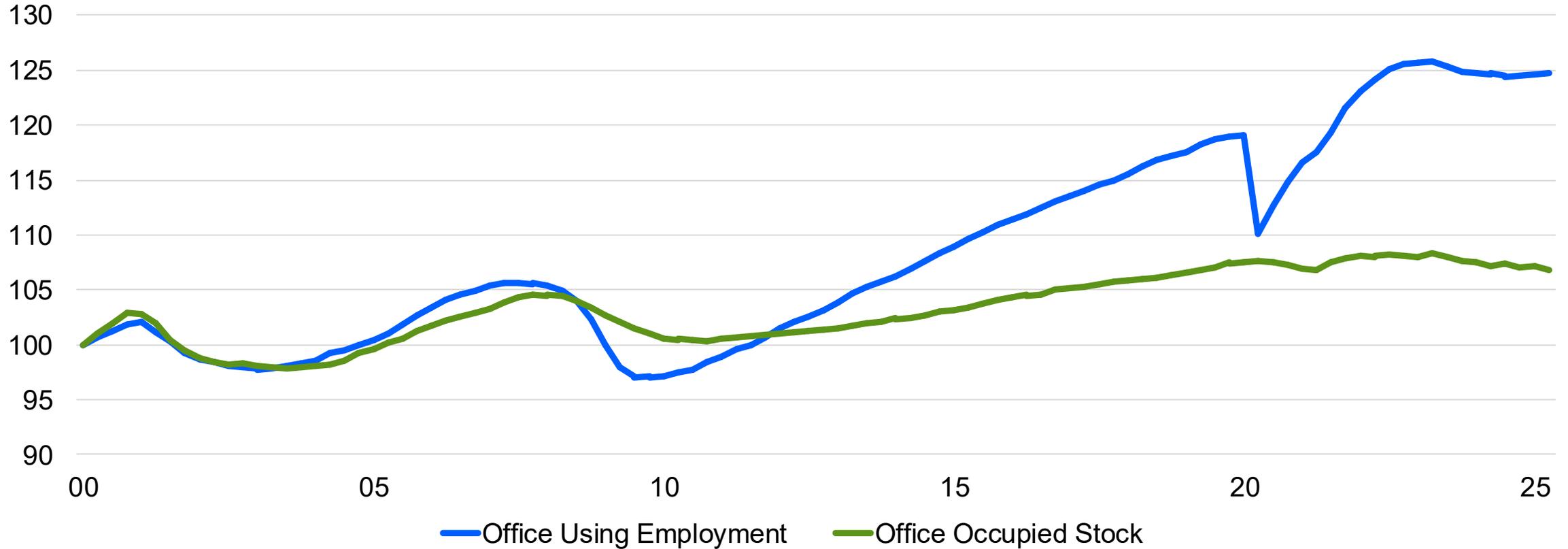
Source: Moody's Analytics

The background features a dark blue gradient with intricate, glowing blue wavy lines that create a sense of depth and movement. These lines are composed of many thin, overlapping curves that flow across the frame, primarily concentrated in the upper and right portions, leaving the lower-left area relatively clear for the text.

# CRE Themes: Mixed-Urban

# Office Struggles are Nothing New: The Great Decoupling

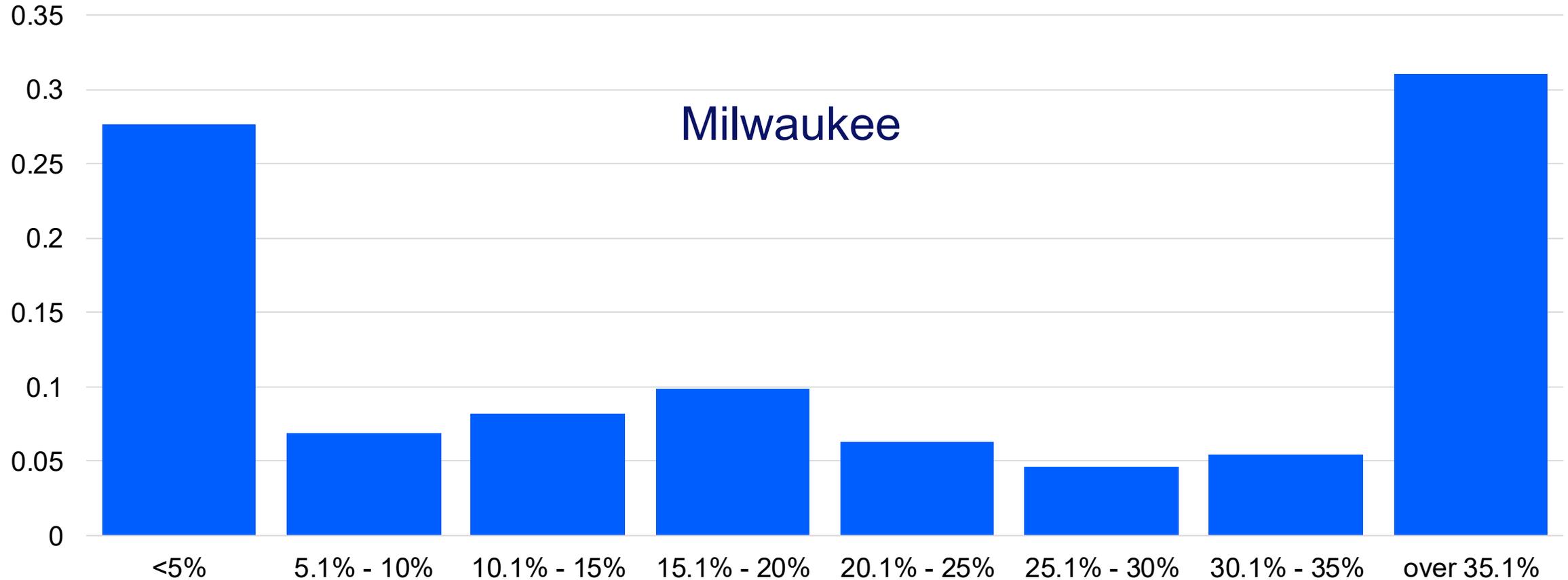
Index 2000 = 100



Sources: Moody's Analytics

# Decoupling Creates Office Haves and the Have-Nots

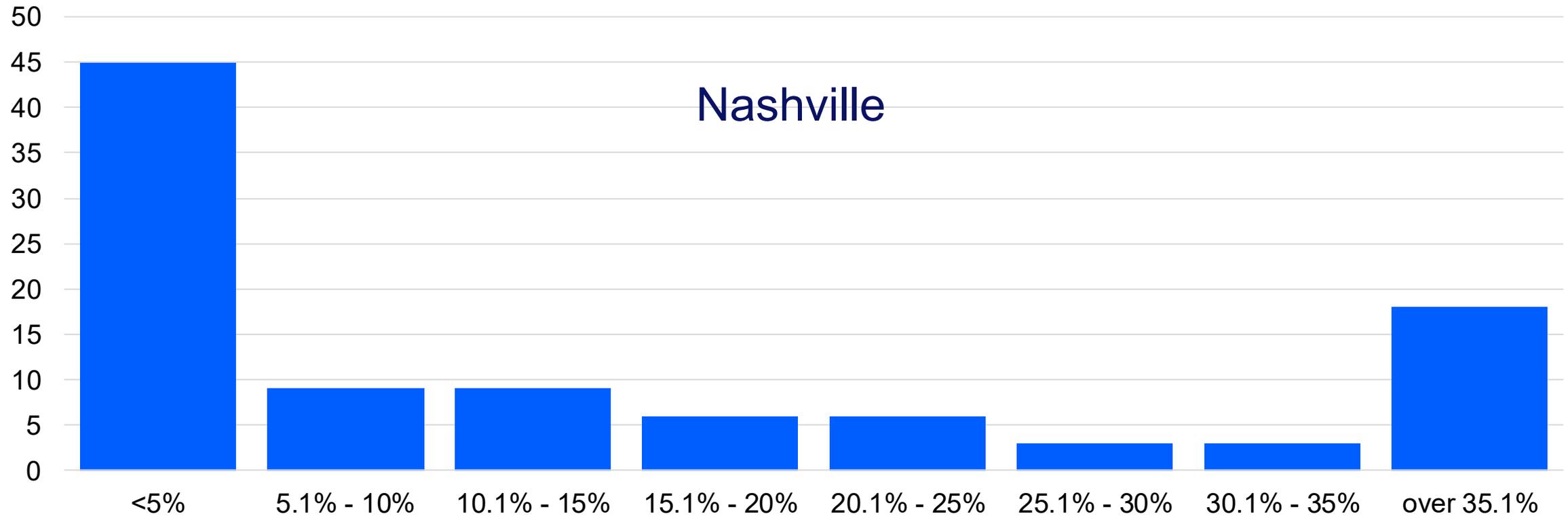
Vacancy rate histogram, % of properties in each vacancy rate bin



Sources: Moody's Analytics

# Decoupling Creates Office Haves and the Have-Nots

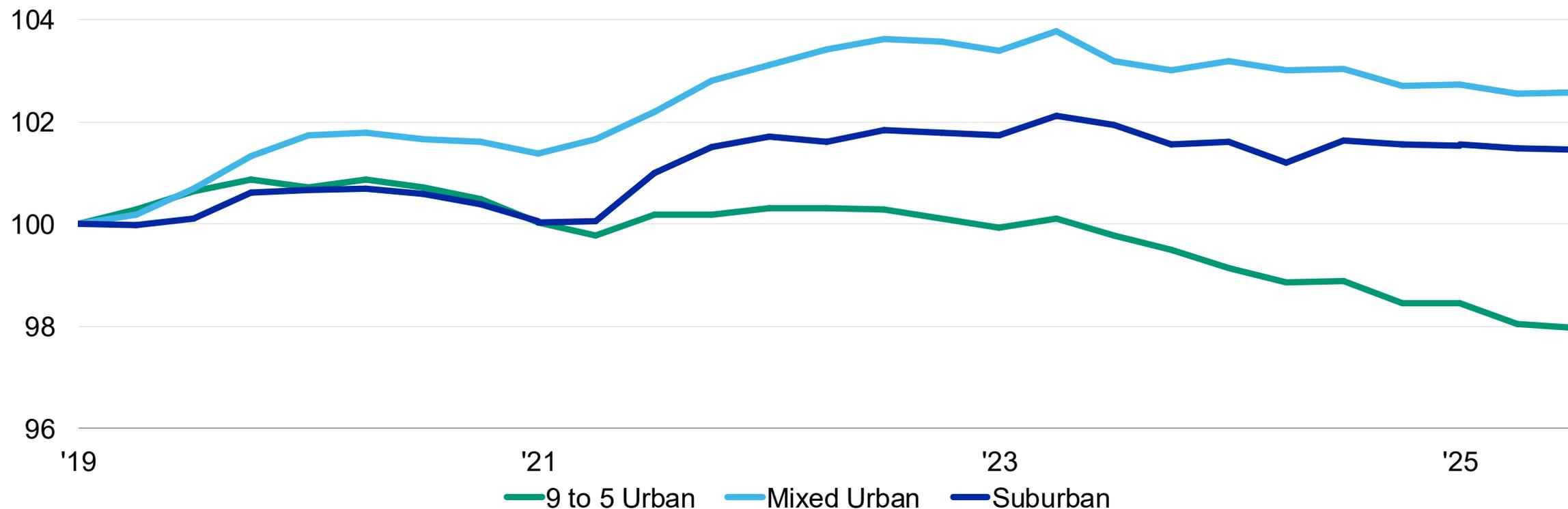
Vacancy rate histogram, % of properties in each vacancy rate bin



Sources: Moody's Analytics

# Mixed Urban Submarkets Proving Most Resilient

Office Occupied Stock Index, 2019Q1 = 100



Source: Moody's Analytics

# Case Study (Downtown Manhattan): Office Rent Revival

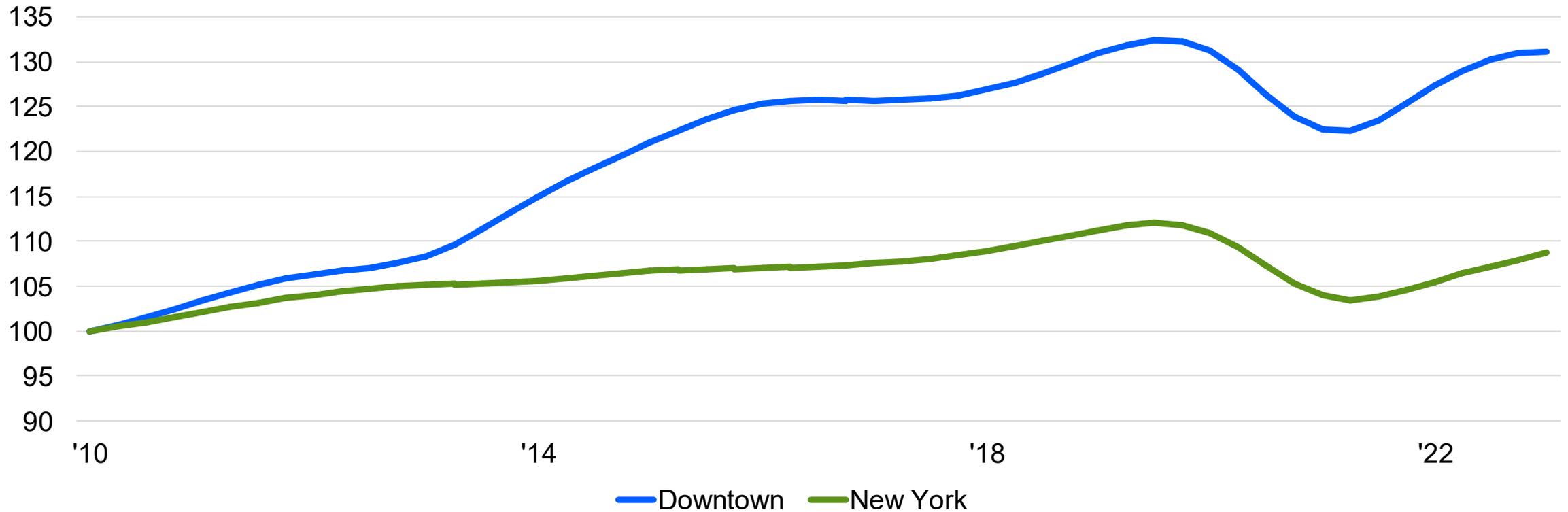
% difference in Downtown Submarket Rent vs. Manhattan Market Rent, New York Office Market Boundaries



Sources: Moody's Analytics

# Case Study (Downtown Manhattan): Revival Preceded by Population Increase

Population Index, 2010Q2 = 100, New York Office Market Boundaries



Sources: Moody's Analytics

# Mixed Urban Success is also found in the Suburbs

Legacy West (Plano, TX): Sold in 2025 for \$785M, Retail and Office Space 95% Leased, >600 Apartments



# Suburban Retail Repurposing

North Hills – Early model of retail to mixed-urban – Outperforming greater Raleigh

North Hills – Midtown Raleigh



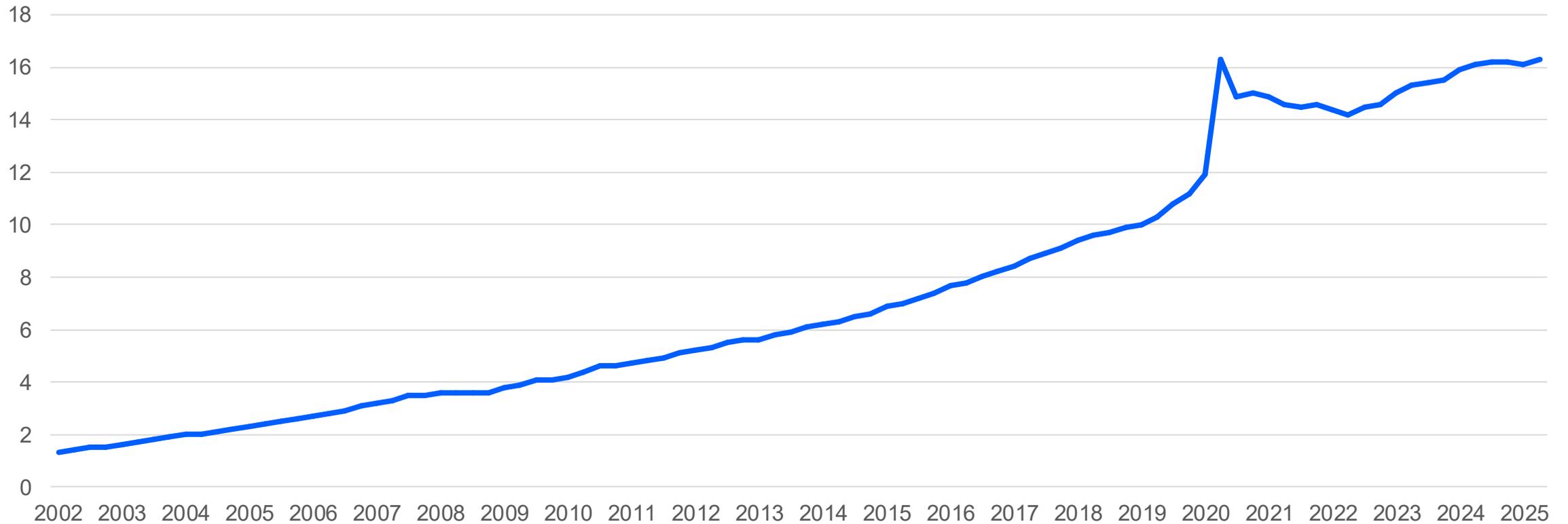
Figure 6

The background features a dark blue field with intricate, light blue wavy lines that create a sense of depth and movement, resembling a stylized topographical map or a complex data visualization. The lines are most prominent in the upper left and right corners, framing the central text.

# CRE Themes: Industrial's Evolution

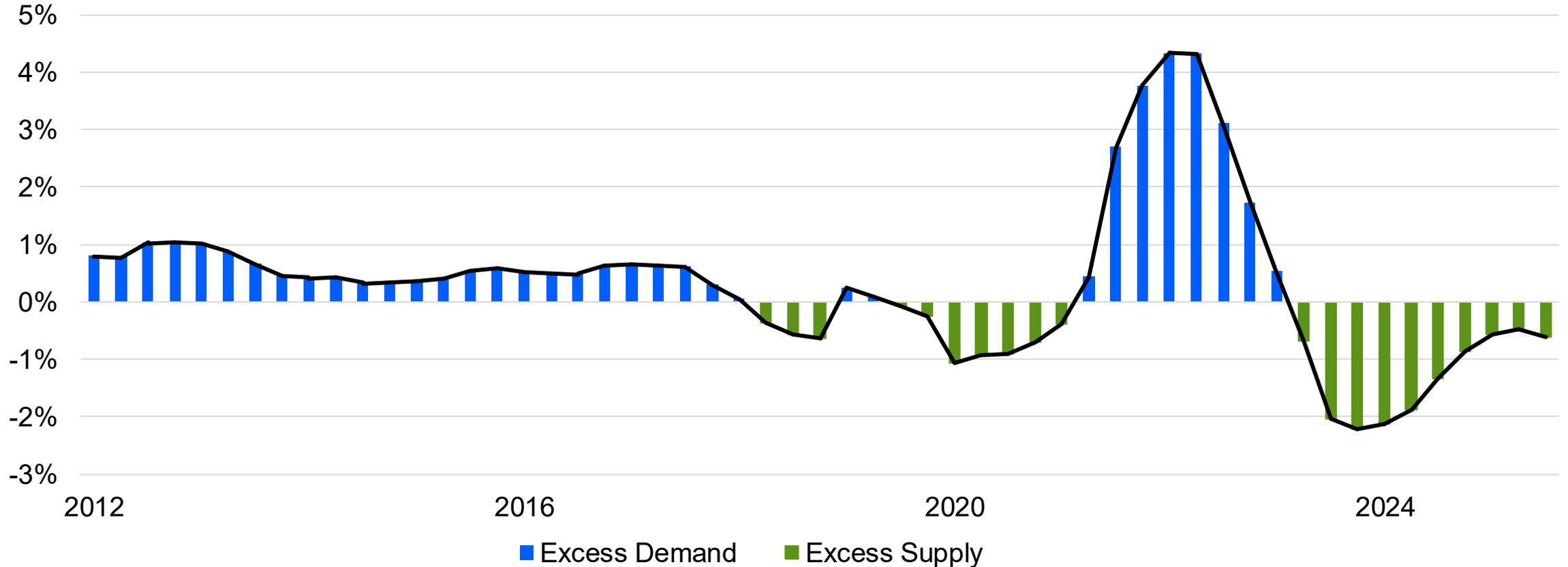
# E-Commerce Blurs the Retail/Industrial Distinction

%, E-commerce percent of total retail sales



# Industrial Oversupply Headwinds Moderating, but Still Exist

Excess demand (supply) to inventory

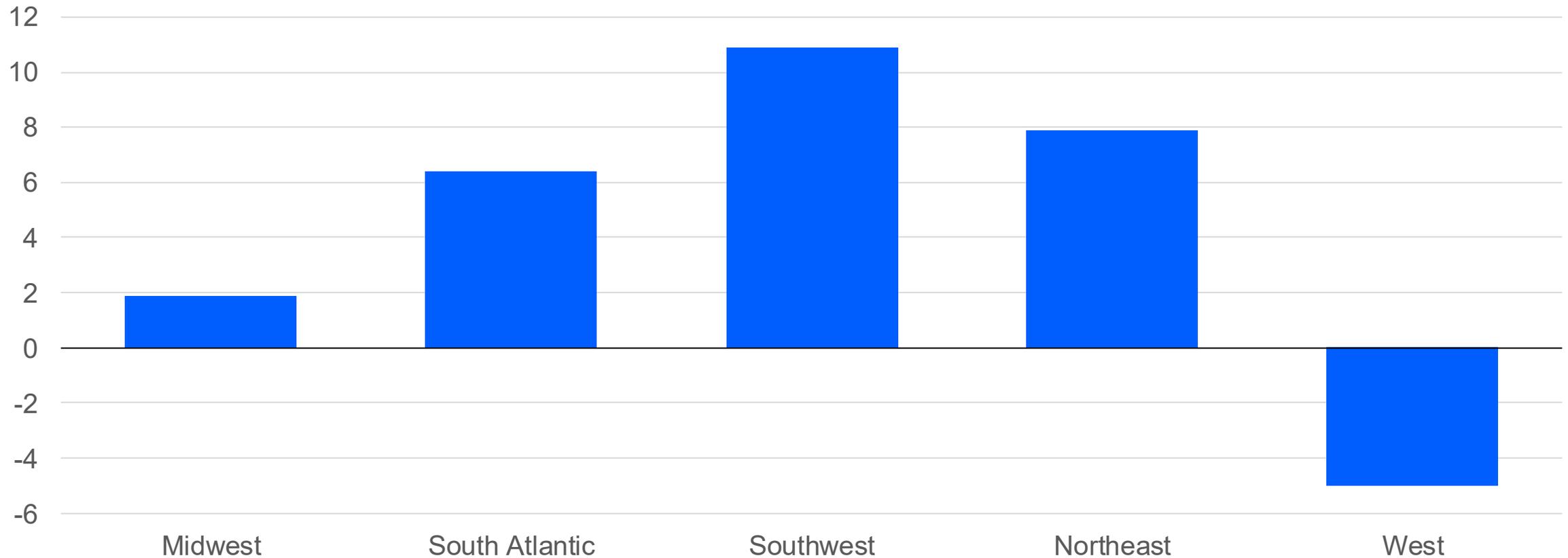


Excess demand is defined as net absorption less total completions on a rolling 12-month basis divided by inventory.

Source: Moody's Analytics

# Midwest and West Warehouse Struggles with Trade Uncertainty

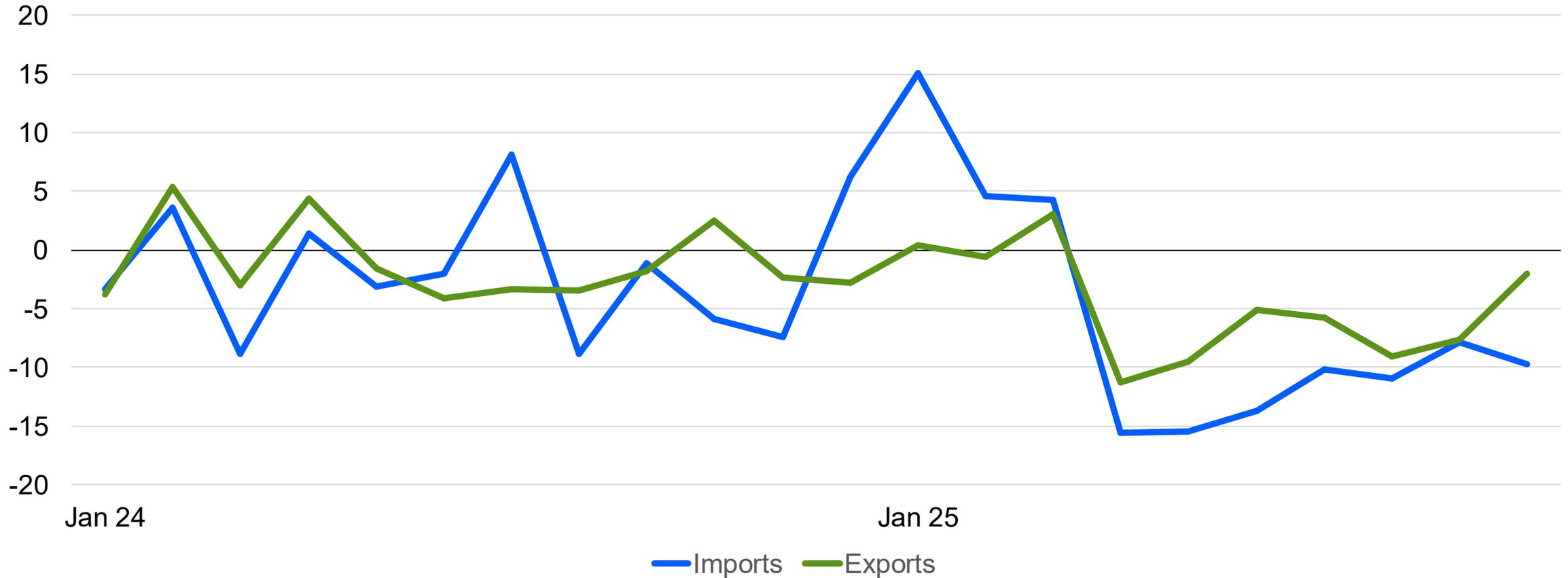
Net absorption, millions of square feet, year-to-date



Source: Moody's Analytics

# Reduced Canadian Trade is a Headwind, but Rebound in Sight

Annualized % Change



Source: US Census, Moody's Analytics

# In Search of Low Cost and Population Growth (Coastal to Inland)

Top and Bottom 3, Absorption, 2025

Market	Absorption
San Bernardino/Riverside	-4.5
Los Angeles	-3.8
Orange County	-1.9

Market	Absorption
Phoenix	4.3
Salt Lake City	2.5
Las Vegas	2.5

Source: Moody's Analytics

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