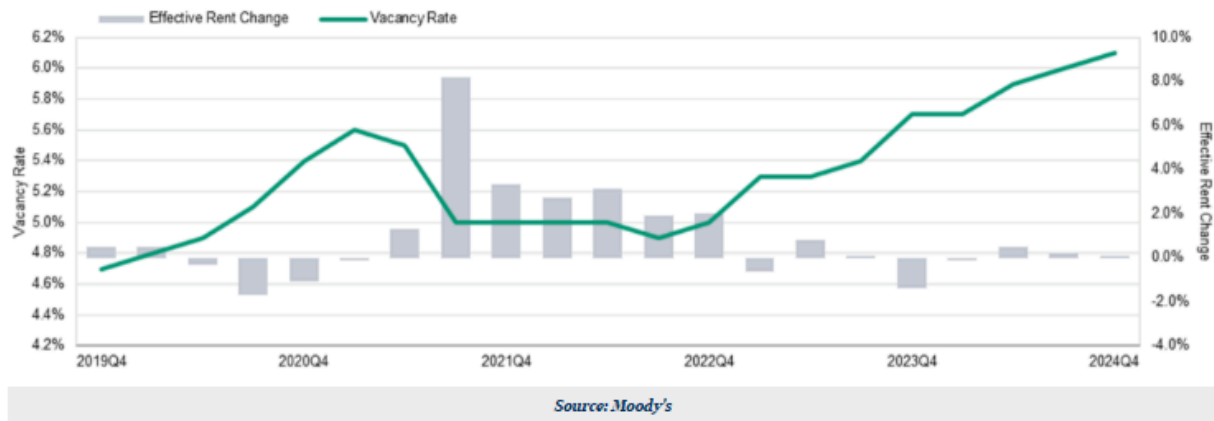




Q4 2024 Commercial Real Estate Market Trends: Resilience Amid Market Shifts

Figure 1. Multifamily Rent and Vacancy Trend: Defying the Supply Shock



Key Takeaways:

The U.S. commercial real estate (CRE) market continued to show resilience in Q4 2024 despite ongoing macroeconomic headwinds. Three Federal Reserve rate cuts throughout 2024 provided some relief, but inflation accelerated to 2.7% in November, prompting expectations of a slower pace for future cuts. Preliminary Q4 data highlights a continuation of prior trends across CRE sectors:

- **Multifamily:** The sector remained strong despite record-high completions. Effective rent grew 0.2%, while vacancy edged up 10 basis points (bps) to 6.1%, the highest since 2011.
- **Office:** The national vacancy rate hit a record 20.4%, driven by persistent hybrid work trends and pre-pandemic lease rollovers. Effective rent growth was minimal at 0.1%.
- **Retail:** The sector stabilized, with vacancy holding at 10.3%, supported by strong consumer spending. Effective rents rose 0.3% in Q4.
- **Industrial:** The sector remained steady, with vacancy declining 10 bps to 6.9%. New supply slowed, and rents continued to grow, albeit at a slower pace.



Evergreen Capital Insight:

- **Multifamily Stability:** With new construction slowing in 2025, vacancy rates are expected to decline, leading to stronger rent growth. Investors should position for long-term appreciation.
- **Office Market Selectivity:** While the office sector remains challenging, flight-to-quality trends suggest newer, high-amenity properties will outperform. Consider well-located assets with strong tenant demand.
- **Retail Resilience:** Strong consumer spending and limited new supply provide a stable outlook for neighborhood shopping centers and mixed-use retail in high-growth markets.
- **Industrial Demand:** While the sector is normalizing after pandemic-era surges, well-located logistics and distribution hubs continue to see solid investor interest.

Conclusion:

Despite structural shifts, commercial real estate remains an attractive asset class. Multifamily continues to absorb supply shocks, office space is evolving towards new workplace models, and retail and industrial markets are adjusting to long-term demand trends. Looking ahead to 2025, strategic investments in resilient asset classes and high-growth markets will be key to capitalizing on emerging opportunities.



Robust Apartment Absorption Forecasted for 2025



Key Takeaways:

The U.S. multifamily sector is expected to experience strong demand in 2025, with apartment absorption remaining high despite a slight slowdown in new deliveries. RealPage projects continued unit absorption momentum after 667,000 units were absorbed in 2024. The slowdown in new supply should help stabilize vacancies and support rent growth.

Additionally, job growth remains a key driver, with an estimated 1 million new jobs expected in 2025, reinforcing rental demand. December job figures surpassed expectations at 256,000 new jobs, signaling a positive outlook for economic conditions that influence the housing market.

Evergreen Capital Insight:

- **Strong Apartment Demand:** Investors should capitalize on continued high absorption rates, especially in markets with solid employment growth and migration trends.
- **Watch for Supply Constraints:** With slower new deliveries, rental markets may tighten, creating opportunities for rent growth and reduced concessions.
- **Leverage Employment Gains:** Focus investments in metros where job creation supports rental demand, ensuring sustained occupancy levels.

**Conclusion:**

Multifamily demand remains robust as strong job growth, reduced supply pipelines, and economic stability contribute to a favorable investment outlook. Investors should strategically target markets with high absorption rates and limited new inventory to maximize opportunities in 2025's evolving rental landscape.



Major Job Growth Projected for Southern Cities in 2025



Key Takeaways:

The Southern U.S. is set to experience strong job growth in 2025, with Marcus & Millichap identifying key metros that will lead employment gains. While the Federal Reserve's cautious stance on interest rate cuts may slow overall business expansion, southern metros remain attractive due to economic resilience, population growth, and business-friendly policies.

Despite a slight cooling in job creation compared to previous years, labor markets in major Texas, Florida, and Southeast metros are expected to drive robust employment expansion. The continued migration of businesses and workers to low-tax, high-growth states further supports this trend.

Evergreen Capital Insight:

- **Target Southern Metros:** High employment growth correlates with strong rental demand, making multifamily investments in these cities attractive.
- **Monitor Business Relocations:** Markets with corporate relocations and expanding industries will offer the best opportunities for investment.
- **Capitalize on Workforce Housing:** As job growth fuels migration, demand for affordable and workforce housing will continue rising.



Conclusion:

The Southern U.S. remains a key region for commercial real estate investment, particularly in multifamily and workforce housing. With business expansion, population growth, and favorable economic conditions, investors should focus on strategic acquisitions in high-growth metros to maximize returns in 2025.



70% of CRE Investors Plan to Increase Acquisitions in 2025



Key Takeaways:

According to CBRE's 2025 U.S. Investor Intentions Survey, 70% of commercial real estate (CRE) investors plan to expand their acquisitions this year, signaling optimism in market recovery. Additionally, 54% expect overall investment activity to rebound in the first half of 2025, while 75% anticipate their own acquisitions to pick up in H1.

However, two key challenges persist:

1. The 10-year Treasury yield is expected to remain above 4%, keeping borrowing costs elevated.
2. Interest rate volatility is likely to continue, impacting financing conditions and investment strategies.

Despite these factors, multifamily and industrial properties remain investor favorites, while retail is seeing renewed interest amid improving consumer spending trends.



Evergreen Capital Insight:

- **Prioritize Strong-Performing Sectors:** Multifamily and industrial remain attractive, but emerging retail opportunities may offer value in select markets.
- **Monitor Rate Movements:** While interest rate volatility poses a risk, strategic acquisitions can mitigate impact through favorable debt structuring.
- **Capitalize on Market Recovery:** With more investors increasing acquisitions, early positioning in high-growth metros will be key to securing competitive deals.

Conclusion:

CRE investment sentiment is shifting toward growth and expansion, with a majority of investors planning to increase acquisitions in 2025. While interest rate volatility remains a hurdle, strategic investors are focusing on high-demand asset classes and long-term growth markets to capitalize on the anticipated market rebound.



Class B Apartments Lead Occupancy Recovery, Surpassing Class C for First Time



Key Takeaways:

The U.S. apartment market saw a strong occupancy rebound in 2024, returning to historically normal levels as demand caught up with record new supply. According to RealPage, overall apartment occupancy reached 94.8% by year-end, aligning with pre-pandemic norms.

For the first time, Class B apartments surpassed Class C in occupancy rates, marking a shift in renter preferences. Class B properties ended the year at 95% occupancy, ahead of Class C (94.8%) and Class A (94.5%). Historically, Class C units have been the most occupied, but renters are increasingly opting for higher-quality housing options.

Evergreen Capital Insight:

- **Capitalize on Class B Demand:** With Class B properties now the tightest apartment segment, investors should focus on acquiring and optimizing mid-tier assets to meet renter demand.
- **Monitor Shifting Renter Preferences:** As affordability improves and renters upgrade from Class C properties, Class B units in strong locations offer a compelling investment opportunity.



Evergreen Capital Insight:

- Focus on Stabilized Assets: Given that Class B units outperform both Class A and Class C in occupancy, targeting well-located, stabilized properties may yield stronger long-term returns.

Conclusion:

The apartment market is stabilizing, with Class B properties emerging as the most resilient asset class. As renters shift toward higher-quality housing, investors should prioritize Class B acquisitions and value-add opportunities to align with evolving demand trends in 2025.