TRANSWESTERN

JUNE 2025

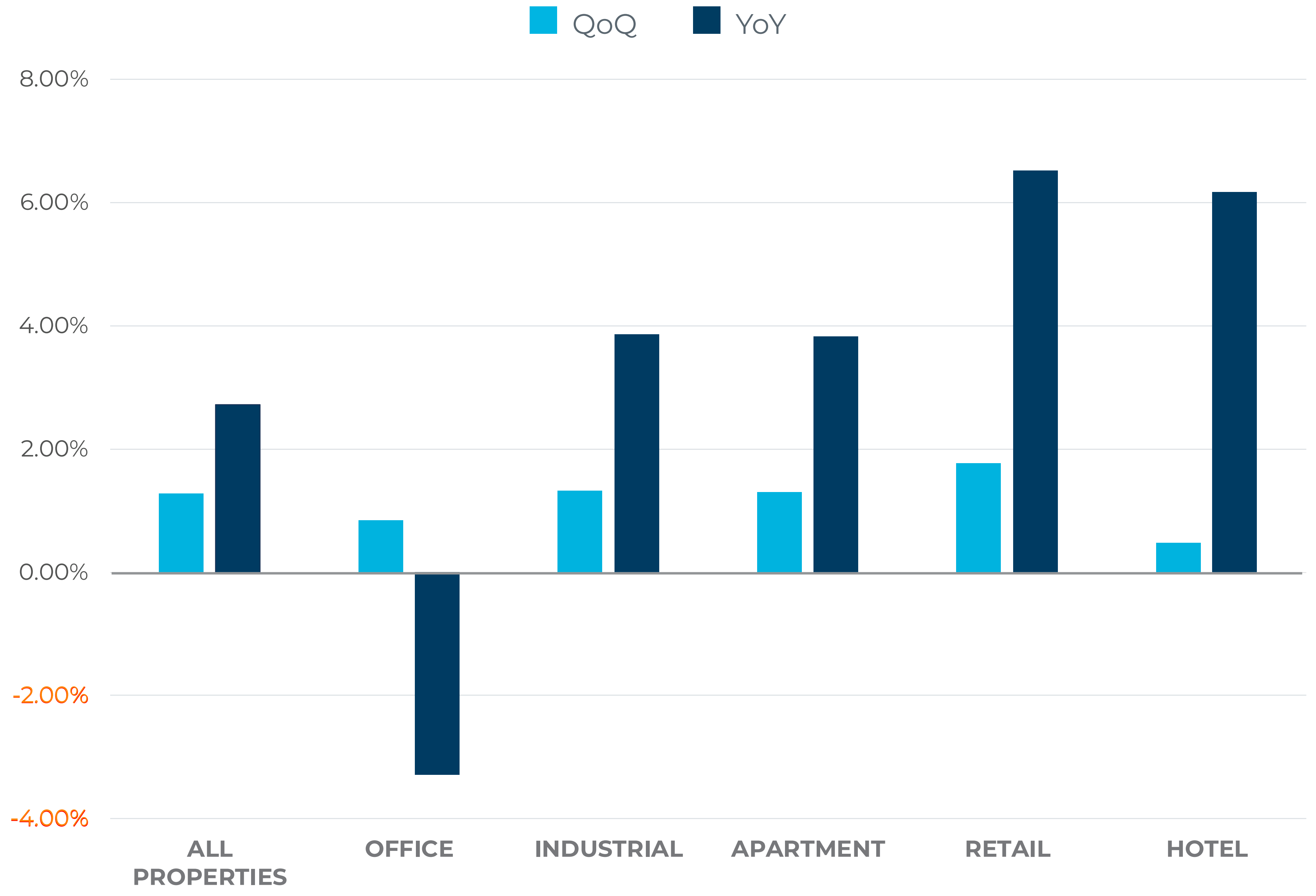
Recovery Rally on the Horizon

In Q1 2025, real estate values as measured by NCREIF rose across all major property types for the first time in years.

This may be the ringing of the bell investors have been waiting to hear.

NCREIF PROPERTY INDICES

AS OF Q1 2025



The **NCREIF Property Index (NPI)** is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only.

NCREIF Property Index Data Products

WAS THAT THE BOTTOM OF THE REAL ESTATE CYCLE?

When accounting for all property types, the NPI increased 1.28% during Q1 2025, up for the third consecutive quarter following a decline for 7 straight quarters. All property types posted a gain for the first time since Q2 2022, led by retail which was higher by 1.77%. When compared year-over-year, an increase of 2.72% was recorded, with both retail and hotel posting gains greater than 6.0%.

All Property Types
Q1 2025

1.28%

HISTORICAL PERFORMANCE

Q1 2025 marked 5 years since the beginning of the pandemic.

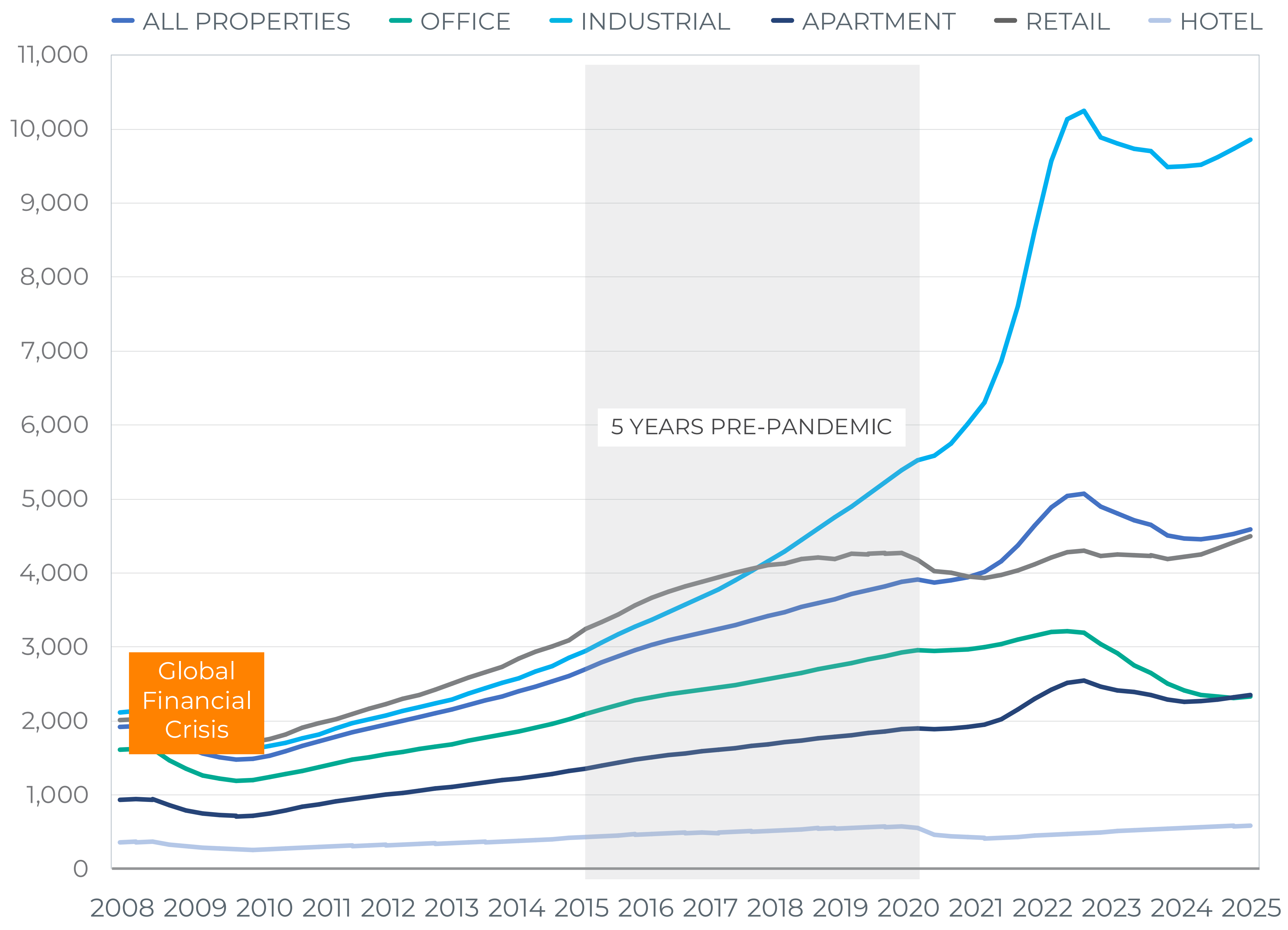
Heading into that period, property returns were higher every quarter since the Global Financial Crisis (GFC), with a couple of exceptions for retail and hotel. More specifically, during the 5-year stretch pre-pandemic, the total return for all properties was 44.5%, ranging from 29.1% for retail to 87.4% for industrial.

As expected, property indices were negatively impacted as a result of the pandemic, compounded by rising interest rates, with all sectors generally posting quarterly decreases from late 2022 through early 2024.

This is similar to what happened during the GFC between the second half of 2008 through 2009, the only other period in the past 20 years where the NPI recorded a consecutive quarterly loss. However, the average quarterly loss this time around was 1.8%, compared to 4.4% during the GFC.

NCREIF PROPERTY INDEX

Q1 2008 - Q1 2025



Despite the recent recovery, 5-year growth since Q1 2020 was well below the pre-pandemic 5-year level, with a 17.3% total value increase.

Industrial properties were the distant standout, with an increase of 78.5% over the past 5 years – the only sector which came close to matching its 5-year growth leading up to the pandemic. Office was the only sector which posted a loss, though it recorded a gain during the most recent quarter.

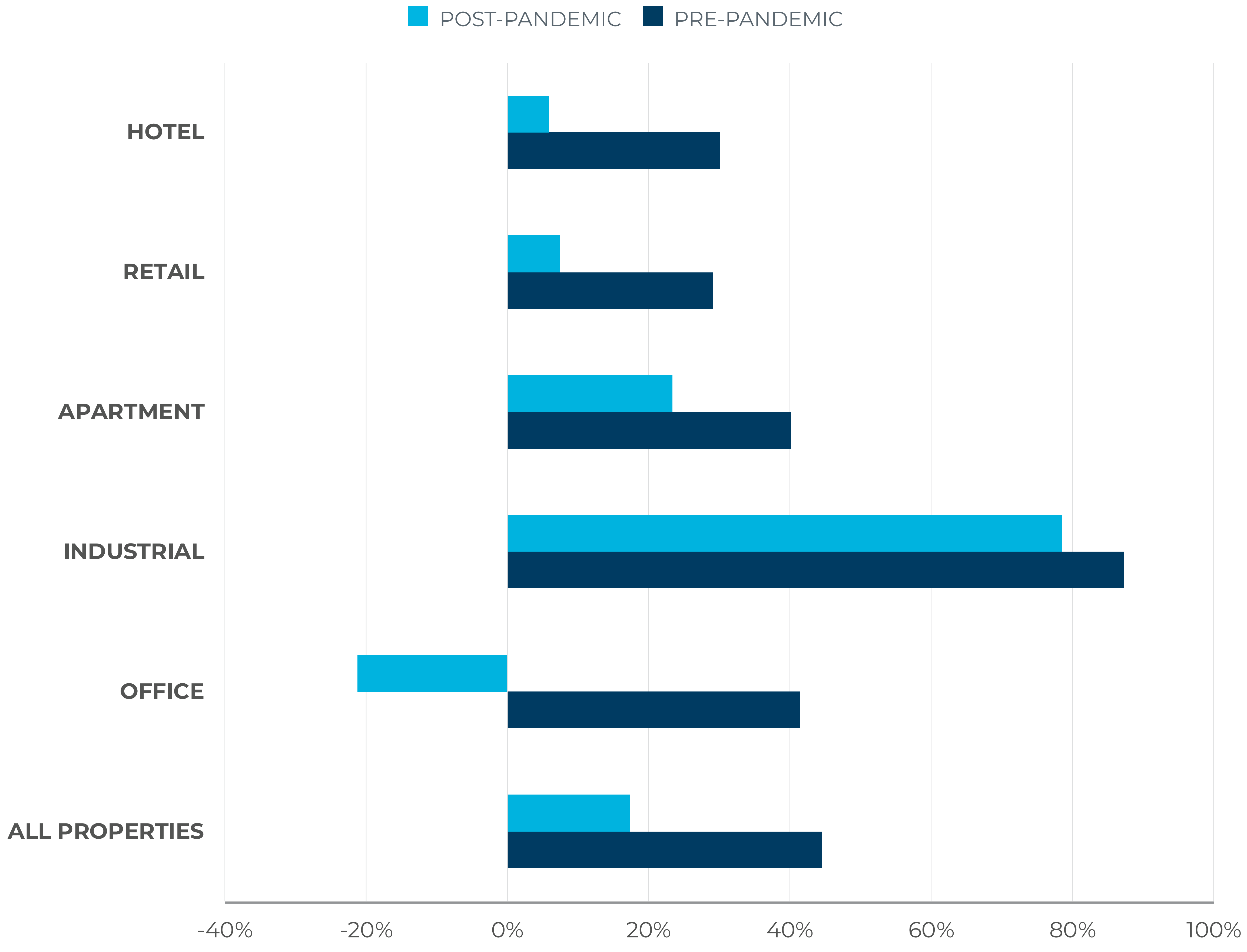
In the 5 years following the GFC, the NPI was 77.3% higher.

Except for hotels, all property types experienced increases above 70%, led by apartments at 84.9%. However, it should be noted that interest rates were virtually nonexistent during that period.

Barring a major disruption, it would seem that with three quarters of growth thus far since the pandemic loss period, commercial real estate investment has a bright runway ahead.

NPI 5-YEAR CHANGE

PRE VS. POST-PANDEMIC



S E C T O R   H I G H L I G H T S

INDUSTRIAL

Property returns surged during the 2010s due to the growth of e-commerce, then mushroomed during the pandemic. Following the GFC, the index logged 48 consecutive quarters of double-digit annual growth before slowing. This sector is anticipated to outperform as e-commerce share of U.S. retail sales continues to increase and current oversupply subsides by 2026.

OFFICE

This sector has felt the impact of remote work, which accelerated during the pandemic. Properties have not experienced a quarterly increase greater than 1.0% in nearly 3 years, nor double digit annual growth since Q1 2016. Return-to-office mandates should provide a moderate boost going forward.

MULTIFAMILY

Apartment building values ballooned coming out the pandemic, peaking above 24% year-over-year during 2022. Returns have subsided but the sector should maintain stable growth as housing has become increasingly unaffordable for some, especially while mortgage rates remain elevated.

RETAIL

As a whole, retail properties have not suffered the loss of value that was expected due to the growth of e-commerce. That said; the sector has not recorded an annual double-digit increase since Q3 2016. Returns have improved during the past 4 quarters; however, for investment purposes, differences among property subtypes should be evaluated carefully (e.g., grocery-anchored retail performing better than regional malls).

HOTEL

Value gains have been the most stable for this sector, with slow but steady growth during periods of economic expansion. Though suffering the largest immediate negative impacts at the start of the pandemic, revenge travel when restrictions were lifted boosted hotel returns, which have experienced 16 straight quarters of increases–the longest active positive streak. Values may cool as consumers have shifted back to essential purchases.

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ABOUT TRANSWESTERN

Four dynamic, integrated companies make up the Transwestern enterprise, giving us the perspective to think broadly, deeply and creatively about commercial real estate. Through offices nationwide, and via global alliances with BNP Paribas Real Estate and ENCOR Advisors, we positively impact the built environment and our communities while fostering a work climate that champions career vitality for all.