

The Weekly Take

What's Ahead for Commercial Real Estate (BONUS EPISODE)

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Spencer Levy

Welcome to The Weekly Take and an extra special episode with our old friend Henry Chin doing a third quarter update. Henry's been on the road a lot lately, just got back from Asia. Henry, welcome back to the U.S. Welcome back to this show.

Henry Chin

Thank you, Spencer. It's great to be back at home.

Spencer Levy

Great to have you, Henry. And Henry, big picture, the third quarter is now behind us. And it was a very positive surprise, both from a capital markets and a fundamentals perspective. We saw a better volume in both than, I think, either one of us expected, certainly here in the United States. What's your point of view, Henry?

Henry Chin

The third quarter was – to our surprise – the global capital market is doing fantastic well and leading by the US market. And for real estate fundamentals, office leasing, industrial leasing, retail leasing everything is to the upside. So to us, third quarter has been fantastic and is beating our forecast.

Spencer Levy

Let's pull the lens out. Where is the best opportunity today? What do you think, Henry?

Henry Chin

Yeah, Spencer, it's a fascinating conversation I had in Asia. I was talking to so many different big investors and if I am a capital allocator for now, my personal preference is I am going to overweigh the U.S., remain relatively neutral in Europe and a little bit cautious for Asia-Pacific. The reason I'm doing so is all about the pricing. I think over the last two years, we've seen some substantial repricing across the global real estate markets. As of now, the U.S. looks extremely attractive from a pricing point of view.

Spencer Levy

Let's dig into that pricing. Really, it comes down to a couple of things: One is interest rates or the relative interest rates in one country versus another, but also I might add that the U.S. Dollar has devalued against a bucket of global currencies by 10%, maybe even more in the last six months. How much is that playing into the relative value story?

Henry Chin

I think number one, given the interest rate is trending down, although the US is still in a relatively higher level, 10-year Treasury is still lingering around 4%. So we are not expecting to see substantial cap rate compressions. So most of the total returns, the pricing for the U.S., is coming from the recovery in fundamentals. That's what we have seen. And when I was in Asia, just exactly what you were saying: The US dollar has depreciated quite substantially. For Asian investors, the hedging cost is so low. It's lower than before. As a result, it's a good time to come to the US. Highly liquid market, fundamentals recovery, hedging costs is lower, and we're expecting to see the interest rate to cut. So ticking all the boxes, I think the US looks very attractive.

Spencer Levy

And then some of our colleagues, some of our clients suggest Europe looks pretty good. And the reason why they think Europe looks pretty good is because Europe has a lower interest rate environment. They have a lower cost of labor. Frankly, if you're looking at Southern Europe, you're looking at places that really got hit hard in the GFC and are only now really recovering both from a banking and from a real estate standpoint. Would it be fair to say that – while I'm agreeing with you and maybe I'm a little biased towards the US, that the US is a wonderful opportunity – that still there are some great opportunities in Europe as well.

Henry Chin

Yeah, 100% agree. I think the Southern European market, Spain is doing great. And also if we look at liquidity, the depth of capital and the repricing, the UK looks very attractive as of now, as well.

Spencer Levy

But I think when we talk about these great opportunities, whether in Europe, the US, or in Asia, I think we're talking about not just general opportunities. We've got to go a little bit narrower now. Give me a little bit more, Henry, on which asset types you're finding most attractive today.

Henry Chin

It's a very interesting conversation. I think, Spencer, if I told you about the living sector, the logistics sector, you would say Henry, you're so boring because you just go with the consensus.

Spencer Levy

Henry, just for the record, you're never boring to me, no matter what you say.

Henry Chin

And if I go for logistics and living sectors, it becomes a consensus. I think the run of those two asset classes continues, but we need to be super selective on the stock and the market. On the overall trend, my personal preference is on two segments. Number one is offices. Number two is retail. If you look at the retail, for example, we all know that

globally there's not much of a supply coming to the retail segment. Retail was from zero now to hero and we see the rental growth pretty much across the three regions. So therefore, I will pick retail as my one of the major pick. The second one is offices. It's fascinating to see the return-to-work conversation has died down, even here in the U.S. So don't talk about return-to-work, don't talk about hybrid working. Office is going to be back to the major radar among investors. Not much of a supply, and the right stock is even less so compared to the previous cycle. So therefore, I have to say, office is my number one pick pretty much across the global major market.

Spencer Levy

Well, I'm going to go back to a quote you just said here. I'm stealing your phrase, zero to hero, which was what you used about retail. Is that what you're saying about office right now too?

Henry Chin

I think so, office was going zero to hero as well. I have to say, Spence, to my surprise, this quarter, we see stronger leasing recovery activities pretty much across the U.S. market. Now people talk about New York and San Francisco. In my mind, as a smart investor, they have already passed their turning point. So what is the next turning point for the market is so important. So this quarter we saw the recovery for LA, Chicago and Boston and so therefore we continue to monitor those few markets because once the market moves beyond the turning point it's probably still a good time for investors to look at those opportunities.

Spencer Levy

You know, listen, I'm a huge fan of all those markets you just mentioned, but I really like to dig into the submarkets. And in fact, I have a gig in Los Angeles, in Century City and Century City's where our West LA offices. And there are very few submarkets in the country that are better than that. I'd go one step further. San Francisco is also seeing tremendous recovery because of the AI boom, which is driving all of that demand. But there still are pockets that are going to take much longer to come back. And I think that's unfortunately in many of the financial districts in some of these cities. Is that a fair way to put it, Henry?

Henry Chin

That's a fair way to do so, but I was in DC a few weeks ago. I think the headline news for DC tends to be very negative, but we're not actually looking at the submarket in DC, like East End. The vacancy rate is so low and they still give us rental growth for some segments as well. So, Spencer, this cycle is not about the overall market. It's looking at the subdistrict and what are the major drivers for the office. As of now, the major drivers come in for three sectors. Number one is the tech sector you highlighted. Number two, financial sectors continue to drive the growth. The third one is insurance.

Spencer Levy

We all talk about the best of the best office. And then we say, oh, then there's the worst stuff. I'm like, well, no, there's a pretty big space in between the two. And you know what

the best use is for a minus office office and just using it better, more efficiently. And I think what you're going to see now is a revival of some of that space in part, because the best of the, best product has gotten so pricey.

Henry Chin

Yeah, that's why I think a smart investor should look at the value-add strategies for offices and for retails because we know that there's not much of a supply coming to the markets. A-minus and B-plus, in the right location, is a great time to enter because the cap rate is high and we know sooner or later we're going to see some spillover demand. Into those A-minus, B-plus grade spaces. As a result, it's a good time vintage to invest into those assets.

Spencer Levy

I think that's the key word there, vintage. But I think then another top story is alternatives. Things such as senior housing, student housing, self storage, data centers. What do you see about this shift into alternatives, Henry?

Henry Chin

This is a very interesting question I have there, Spence. In looking at investment strategies, I look at the two components. One component is talking about the play-the-cycle. So play-the-cycle is a classic office, retail, logistic, and multi-family. So that we can play the circle. And the alternative fits into the category of a structural demand, structural changes. So senior housing, data center, or in structural changes to underpin the demand. But one thing we really, really need to be mindful of is, number one is entry price. Pricing is so important. So if we got the traditional asset classes has repriced substantially, why I need to pay a lower cap rate for those alternative. That's number one. And number two, particularly for some asset classes, we need to create a stock. So why should you create a stock, are you sure we can meet the demand from the occupiers and also the exit cap rates? So when we are going to alternatives, we need to be super mindful of the liquidity, the entry price and the exit cap rates. But nevertheless, I think the alternative is important, should be part of our capital allocations strategy.

Spencer Levy

I think with the alternatives, one of the beauties of it – and I'll use self-storage as the example – 20 years ago, self-storage was a mom and pop industry, very, very poorly run from an operational standpoint, very inefficient. Then the institutions got involved and they made it more institutional grade, not just from a quality of real estate, but from a quality of operations standpoint. And I think that's really the story for many of these alternatives. I'll point to one other, kind of a niche-y asset class in industrial called industrial outdoor storage, which is very small. I mean, some people call them truck stops. They're not want to learn more. Listen to the weekly take. But nevertheless, people are trying to aggregate that strategy and get that same operating efficiency, much like they got in self storage, much like we saw in SFR, BTR – single-family rental, built-to-rent. It is that combination of, basically, fragmentation to aggregation to operating efficiency that makes some of these niche sectors a great story.

Henry Chin

Yes, and then they create a stock to be institutionalized. So that's more of a value-added play and through the ecosystem, once you turn into the core, you can exit to the core, for core manager to generate a stable income.

Spencer Levy

What do you see coming down the line here? We're entering the fourth quarter. We're seeing great fundamentals. Capital markets activity is improving. How do you see the year finishing up and how do you see us going forward beyond that?

Henry Chin

I think 2025, to our surprise – given that so many noises around the policies about the tariff a year today – the performance from the leasing point of view for the capital market point of views has a big our consensus to be honest with you, which was a huge, huge surprise. But the capital markets going forward for 2025, we are expecting to see a high double digit – around 16, 17 – transaction volume for 2025. But don't forget, it's coming from low base. And the momentum will continue moving into 2026. We continue to expect to see double digit transaction volume growth on that part. For moving into the 2026, I think the momentum will continue. And we are doing the 2026 Market Outlook. And as of now, I want you to know, this year is somehow different. I want people to enjoy their Christmas holiday and New Years break. When they come back to work in January, they are going to see our latest insights for 2026. What do you need to do? And overall, we do believe office, retail, multi-family, logistics, data centers, cap markets, we are in the recovery phase into '26

Spencer Levy

I bet that if we went back to our first quarter update and then compared that to this, there would be a noticeable tonal change because there was a real shift after the second quarter. I think the first quarter of this year, we were still sort of in the soup, in the soup of inflation. We were in the still soup of uncertainty as it relates to tariffs and other policies. But since we've gotten past that, the mood has now gotten back to where it was. Is that a fair way to put it Henry?

Henry Chin

Yeah, I think so. To our surprise, you know, researchers tend to be overly conservative. So every single quarter, we play catch up. And so the fundamentals surprised us. Capital markets surprised us. So that shows the real estate is so resilient. Something we need to highlight here is if I was doing some analysis to look at the overall stock market's P-E ratio versus the commercial real estate stock P-E ratio for the past 10, 15 years, I can tell you that the commercial real estate market looks so attractively priced. So therefore, I think it's perfect timing to look at the commercial real estate market. As of now it's vintage.

Spencer Levy

Well, I think that's a very insightful comment because when I speak to our rising professionals in the space, I'm like, look, there's a lot of proxies out there for value. But what you're suggesting, Henry, is that from a value standpoint, using the publicly traded REITs as a proxy, it gives you a real great insight that there is real value to be gained in private real estate.

Henry Chin

Yes, and Spencer. Also we are, CBRE's the biggest real estate companies globally. We get so much internal proprietary data. I was also looking at our internal data. It all points out, and its leading indicators, you know, I just give you an anecdote: We look at office trades. Funny enough, cap rates start to compress in the right product. So just to give you the idea of public data as a proxy, we also look at our internal intelligence to make a better forecast for next year.

Spencer Levy

And I agree, I use not just our data from deals done, I look at our capital markets data for deals that we have in market. I look the number of bidders, I look a the number of transactions that have closed. And some of those are leading indicators, the best leading indicator there is the number of BOVs we're writing. And so there's a lot of things we could see before they happen.

Henry Chin

100% agree. That's why we need to put all the the public available data together with our private insights. I think that we can make a better judgment call.

Spencer Levy

Once again, Henry, we really thank you for coming back to the show for your update for the third quarter. So thank you so much for coming out. Looking forward to seeing you next year for the 2026 Outlook.

Henry Chin

Thank you, Spencer, for having me here. I look forward to having a greater discussion with you before too long.

Spencer Levy

For more insights on the global economy and real estate sectors, check out our website [CBRE.com/TheWeeklyTake](https://www.cbre.com/TheWeeklyTake). Henry will be back again in January for a comprehensive look at the 2026 Market Outlook that he and his team are working hard on right now. And of course, we'll be on the podcast next week with a new regularly scheduled episode of The Weekly Take. Until then, thanks for tuning in. I'm Spencer Levy. Be smart. Be safe. Be well.