

The Weekly Take

The Commercial Real Estate Outlook for the rest of 2025 (BONUS EPISODE)

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Spencer Levy

Welcome to The Weekly Take and our second quarter economic and real estate update with my old friend Henry Chin, our global head of research, and we're delighted to have him back on the show. Henry, welcome back.

Henry Chin

Thank you, Spencer, for having me here.

Spencer Levy

Great to have you, Henry. So Henry, we've just gotten our second quarter numbers, but how would you classify the news from a real estate perspective in the second quarter?

Henry Chin

I have to say the U.S. commercial real estate market continues its recovery journey. And I was very surprised. We do see the strongest sign of resilience from both leasing and the capital market activities. Despite all the noises we are facing, office leasing is recovering. It is recovering very strong, industrial leasing. So I was surprised at the capital market. Investors continue to put more money into commercial real estate market spaces. So overall, I feel very comfortable to say the market has passed its trough. We are on the way for the recovery.

Spencer Levy

Well, let's go into the one area within the market that I think people are perhaps most skeptical about, or certainly faced the greatest decline, which is office. We all know the tale of two worlds: Class A doing great, everything else being softer. But interestingly, in addition to Class A leasing actually doing quite well, we've seen more capital markets activity. We've seen actually institutions come back into the market. Tell us about that.

Henry Chin

Yeah, that is quite fascinating, Spencer. I have to say, all investors should pay attention to what occupiers are looking for. As you highlighted, occupiers are looking for the great quality of buildings and the great connection for the metro and the great connectivity and vibrant centers. If you tick all the boxes for what occupier wants, investors should actually focus on that type office asset, and given that fundamentals are probably already, not definitely, past the trough. And I do believe that investors should really pay attention to the office market. In Q2 figures I think the office investment volume has increased by 20 percent.

Spencer Levy

And I'm aware about in the investor market. San Francisco's seeing a lot of vibrancy. I heard over 15 deals were done and these are tends to be smaller – a hundred billion dollars and below. But nevertheless, we are seeing an increased volume. Not just volume, but what I think is most important is there has been a material shift of the type of investor. It's now not just the high net worth group. It's the institutions saying, you know what? Maybe the pendulum swung too far against office. You agree with that?

Henry Chin

I 100% agree with that. Number one, pricing is so attractive, number one. Number two, we look at the market fundamentals, the tech sectors are coming back to spaces to take on more spaces when the fundamental space market recovers. You know, investors should follow them. So therefore, I think San Francisco, for our forecast for the next five years, this market is leading indicators.

Spencer Levy

And I don't want to paint too rosy a picture. There's still an enormous amount of office that is not class A, that needs to be converted, needs to be demolished, needs a lot of capex. That story will be written for a long period of time, but the overall office market for velocity, for new money is good.

Henry Chin

Yes, that's why I was always talking to the investors. It's something to look out for. From a cyclical point of view, we need to buy. You know, when a market reaching the bottom is about to recover, it's a time to entering. But also from a structural point of you, we need understand what occupiers are looking for. Occupiers are are looking for the good quality buildings in vibrant centers where they can get staff to come back to the offices. So if we overlay it, play the cycle and the structural opportunities, I do think our office, we do have a clear witness for the office sector.

Spencer Levy

When we're talking about fundamentals, industrial, notwithstanding the fact that we had negative absorption in the second quarter, we had a lot of positive new deals being done, maybe people shifting out of old into new. And so our optimism on industrial has gotten better. What do you think, Henry?

Henry Chin

Yeah to our surprise i have to say the leasing activities has been growing quite substantially in the second quarter of this year and then similar to what we are seeing in the office sector occupier are also doing flight to quality. And especially because i was coming from Asia-Pacific, the flight to quantity has happened two years ago in Asia-Pacific. Because what occupiers are looking they want to close it to the market – closer to the consumer, they want the modern facilities – that has happened in APAC. Now we see that similar trends are happening here in the US. So for those facilities, which potentially build before 2020, we all face the challenges. The second quarter, to our surprise, the leasing demand is largely coming from 3PLs, right? 3PL was a third, now increased to 40%. The second point I want to highlight here is e-commerce. You and I love to shop online, right? And eCommerce, the share of e-Commerce, has grown quite substantially. As a result, retailers are also demanding the landlord to upgrade the facilities. So they're taking on so many new facilities as well. So as a result the gross leasing figures has been pretty solid in the second quarter of this year.

Spencer Levy

I think there's a bigger point here, and this is a point for some of our rising professionals here. Did you hear what Henry just said? Henry saw a trend in Asia, which then moved here and he saw it two years ago. It's really important when you're trying to understand where the trends are going to understand not just your market, but other markets, including foreign markets. It's also important to understand other asset types because that's where you're going to see, Aha, there's a trend here that's going to apply. To this different market, different asset type. Agree with that, Henry?

Henry Chin

100% agree. And then surprisingly when I was in Asia-Pacific, Spence, we always looked at the trends coming from the US, but the transformation for the logistic spaces in APAC is leading the trend globally So therefore I think the modern facilities closer to the market close to the consumers. Funny enough, occupiers are telling us the modern facility doesn't mean the multi-storey facilities. They want them, you know, one level, one floor layout, the massive land supply, and also good power. That's what they want to occupy. So those facilities will up from going forward.

Spencer Levy

Years ago, I said open air retail is the best opportunity in real estate. And the reason was the institutions hated it, uh, because everything looked like a class-B mall to them. Well, not to me and not to the people who really dug in. And I just saw our most recent forecast and that retail is actually expected to be the number one performing asset class in terms of total returns over the next five years. Tell us about that, Henry.

Henry Chin

It's very funny, retail sectors should have been hit the hardest given the current uncertainties. But investors, sometimes they are a little bit lagging because they fail to understand what occupiers want and by overlooking the demand supply dynamics. If you understand the retail sector, if you're talking to the retailers, what they want to do is they really want are the open air facilities. In the highly populated areas. That's number one, their preferences. Number two, the power center will continue to outperform if there aren't any open air facilities for them to occupy. But if you're thinking about the retail fundamentals, Spence, I think that, yes, the demand is kind of recovering, but because of uncertainties, the demand it's kind of slowing to return to normal, but the supply picture was very solid for retail sectors, because over the past decades, we don't have enough retail supply into the market—right supply. As a result, availability is limited, particularly for those prime location, Spence. And as a result, the retailers are telling us they want to have those facilities in the prime locations open air. If their own space is available, they will wait. If the space are available, fit their criteria, they're just going to go ahead with the expansionary plan. So I have to say retail is not a surprise. We are going to see a stronger recovery over the next few years from a total return point of view.

Spencer Levy

And notwithstanding the fact we have seen seriously strong fundamentals in office, industrial, retail, I think there's much more of a mixed story in multifamily. How would you classify the multifamily market overall, Henry?

Henry Chin

If you look at the US market multifamily as a whole, I have to say last year was a peak of supply, so rental growth was struggling. But now I am very happy to say the rental growth in multifamily also has already bottoming out, but the recovery is not an even story. For the Sunbelt markets, and there's a huge amount of supply, I think the recovery timeline will be

expanded. However, Chicago, New York, even San Francisco markets, we are all expecting to see a stronger bounce back in terms of the rental growth. And based on what we are seeing, if you want to categorize the civil markets, I think the Midwest market and the Pacific Northwest market are leading the growth. So therefore, I think multi-family, yes, the recovery is happening, but the story is pretty much uneven.

Spencer Levy

And then lastly: alternatives. And it's a big category because it includes data centers, SFR, BTR, self-storage, student houses. So it's hard to make a blanket statement because some of them are soft. They're each very niche-y. Is there enough money coming to them? Maybe too much in some of these small sectors. If you could classify the alternative sectors, Henry, how would you look at it?

Henry Chin

It's very interesting because, again, if I'm a real estate capital allocator, I will start to look at the market size and also look at the cycle, look at pricing, look at structural changes. You know, we've been talking about a traditional asset classes. The size is a big liquidity is a bit repricing has happened. So if it got a hundred dollars, I probably going to study with traditional asset class. The remaining capital I will look for alternatives and alternative because they are emerging as asset class expense so therefore I will looking what are the demands are coming from the structural change the demand is pretty much all about AI and data centers I think you can see that's why the pie of capital are coming to these spaces as well. And the sale storage is kind of interesting things. I think it's a pocket of the market. We are going to see some stronger opportunities but widespread. If you look at the U.S as a country, the trend for alternatives, probably I will looking into data center more closely because the vacancy rate has been very, very low and the power supply remain a major challenges. But again, I want to talk about the credit market Is the credit market alternative or not alternative? Some people think about it as the credit is alternative. Some people say don't. In my mind, it's become mainstream. And I think among those capital allocations, I think it's a good time to look at the credit market going forward as well.

Spencer Levy

Well, Henry, you're not the only guy to think it's a good time to look at the credit markets. You know who likes that idea? The credit markets, and I can be very specific about that. I recently met with some of the largest private equity funds that have both equity and debt side. And this is the quote I've gotten in almost every meeting: that they are getting equity type returns in debt type vehicles. And because of that, why wouldn't you be further up in the capital stack? So, Henry the market is with you and in fact, there are some tax advantages for foreign investors being a debt investor versus an equity investor. So a lot of things are looking good if you're prepared to do higher yield debt instruments.

Henry Chin

It's very interesting. When I was talking to international investors, I sometimes told them, it's a no-brainer, I want to put my money into the US capital market because the repricing has already happened, but I worry about the tax, worry about incentive, so therefore I said to them, come to look at the credit market, he said, oh, we never thought about credit, but by default, yes, we should look at that credit market. I think there's plenty of capital to look into the spaces and I agree with you 100%.

Spencer Levy

Well, this is the crystal ball portion of the show. And in the next six months, I know what our house view has been on capital markets activity, which is better than 24, but not

gangbusters. But things have gotten better from a fundamental standpoint. And there certainly has been some talk about maybe two, maybe three rate cuts, which could help us even further. And maybe if the 10-year stays stable, when I say stable between four and four and a quarter, four-four and half, we're in a better place. What's your crystal ball for the rest of the year?

Henry Chin

I think that trade loss, noises, uncertainties, the tariff things will be eased off. And so therefore people are focusing on what we need to get it down to move forward. For the CEOs, the CFOs or COOs, the worst scenarios for them is they don't know the future, right? But if the trade tension has been eased of, you know, whether it's upside, down side, it doesn't really matter. Because I can make a decision going forward so to my surprise don't be surprised I think the second half of the year would be a lot better than our current house view

Spencer Levy

Alright, well that's a good way to end it, but we're going to end in a different way because you've been in the United States, living in Dallas now, not quite a year. What's the best thing about living in Dallas that surprised you the most,? And do you have your cowboy boots and hat yet?

Henry Chin

I haven't bought my cowboy hat and boots just yet because the inflation is quite expensive to buy a boot, right? It's a \$300 a pair of boots, which is crazy. But I have to say, I was blown away by being in Dallas. And because everyone knows I am Taiwanese, our Taiwanese airline is going to operate a direct flight from Dallas to Taipei. Clearly Dallas is growing as a hub and so therefore I am very happy to see that happening. But nevertheless I have to say I declare Dallas is home for me in the US.

Spencer Levy

Fantastic. Well, on behalf of The Weekly Take, our old friend, Henry Chin, Global Head of Research for CBRE, third appearance on the show. What a great job. Thank you, Henry, and I'm so glad you've made Dallas your new home.

Henry Chin

Thank you for having me here, Spencer.

Spencer Levy

For more insights on the global economy and real estate sectors at mid-year, check out [CBRE.com slash US Outlook](https://www.cbre.com/US/Outlook). And of course, join us again here 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.