

# The Weekly Take

## New Day: What's in store for the U.S. economy and real estate this year

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### **Spencer Levy**

The glass clinking celebrations for the arrival of 2026 may be behind us, but the possibilities and promise for a new year in real estate are still just getting started. To set the stage, on this episode, we put the interesting past year in context and look at the state of play right now in our annual market outlook for the year ahead.

### **Karl Russo**

One of the amazing features of the U.S. economy that's been borne out in recent history is how resilient it is to very large shocks.

### **Spencer Levy**

That's Karl Russo of PwC where he leads the National Economics and Statistics practice of the firm's Washington National Tax Services Group. With a career pedigree as an economist on Capitol Hill and in the U.S. Treasury, Karl specializes in analyzing the economic impacts of legislation and regulatory policies.

### **Henry Chin**

It's going to change the way we work, we live. That's the given. And I deeply believe AI is going to enhance our productivity for the economy as well.

### **Spencer Levy**

And that's the familiar voice of Henry Chin, CBRE's Global Head of Research and one of the company's top economic experts. Henry joins us to share his perspective along with the latest insights from the 600-person team that he leads. Coming up, our outlook for 2026, the big picture for commercial real estate and the global economy, with tactical snapshots of key themes, developing trends, and even potential pitfalls to watch out for. I'm Spencer Levy, and that's right now on The Weekly Take.

### **Spencer Levy**

Welcome to The Weekly Take and we have our annual outlook episode looking at 2026 with Karl Russo, principal and national economics and statistics leader for our friends at PwC. Karl, thank you for coming out.

### **Karl Russo**

Thanks for having me, Spencer.

### **Spencer Levy**

Well, it's convenient that you're in D.C. because I think our listeners should know you have some experience on Capitol Hill, some experience at the Treasury. It all comes together today for your analysis for the private markets, correct?

### **Karl Russo**

That's right. It's nice to have the perspective from both ends of Pennsylvania Avenue.

**Spencer Levy**

And then our old friend, Henry Chin, Global Head of Research for CBRE. Thank you for coming out.

**Henry Chin**

Thank you for having me here, Spencer.

**Spencer Levy**

Well, Karl, we're here for the 2026 outlook. What do you think is the big picture for 2026 in the economy?

**Karl Russo**

I think there's a lot of uncertainty out there how things are going to play out next year. Some of that's related to the trade space. But I think the big question in all of that is, how long can the consumer keep going? We've had a consumer-led strength in the economy for a long time now, and it looks like that consumption has been outpacing income growth and I think the question is how long can that trend continue? I think if you look at some of the consensus forecasts out there we're gonna struggle to maybe get to 2% growth over the next year or two but I think we might have a bit of a surge in the first quarter due to a number of factors. So there's gonna be some of the delayed spending from the longest government shutdown in history that's gonna hit the economy. The Congressional Budget Office thinks that could boost GDP by as much as 2.2 percentage points. In the first quarter before those effects fade. I think you also are gonna have some of the effects of the tax bill that was enacted back in July, which should boost refunds for individuals that could provide some support for consumption, as well as some of the business provisions coming online to help spur investment.

**Spencer Levy**

And so Henry, same question. Very, very big picture. How do you see it?

**Henry Chin**

Yeah, pretty much aligned with Karl's vision. And we're thinking about the U.S. economy is going to grow below the historical trend. In my mind, it's how resilient it is for the U S economy. And the way it translates into the commercial real estate market, Spencer, I can tell you, our commercial real estates market will continue to recover into 2026. So therefore the macro might have a weaker than historical average growth. However, for commercial real estate markets, we expect to see the growth to continue.

**Spencer Levy**

And I think part of the reason why there might be a—I think disconnect's too strong of a word, but not exactly the same path for the economy and real estate is because some of the things that are negative in the economy can be positive for real estate. I'll just give one example. One example is, look, the cost of labor is still high. Interest rates while they're coming down, they're still high, we're not seeing a lot of new construction relative to where we were a few years ago. So the existing stock in many asset classes should benefit from that, even if the consumer demand softens. Is that a fair way to put it, Henry?

**Henry Chin**

That's so fair because we do see some imbalance of demand and supply. We don't have any supply, suitable supply, in the commercial real estate spaces so all the occupiers are

looking for the space to expand to occupy it's driving the growth driving the recovery momentum in our space

### **Spencer Levy**

So Karl, let's assume we're all in the about 2% camp here. What could drive it higher? And I'll give you a few possibilities: More manufacturing coming back. Inflation coming in cooler than we thought, maybe interest rates dropping, boosting the economy. Give me the positive side before we get to the—I can give you all the negatives as well. So Karl, what could change your forecast to the upside?

### **Karl Russo**

Yeah, so I think if you look at something like financial market conditions, they're going to be modestly positive towards GDP growth next year. Look at the recent estimates from the Fed. They think it could add as much as one percentage point to GDP growth in 2026, slightly favorable. But at the same time, short term interest rates are still modestly restrictive. And so if we do get to an environment where we could see the Fed more comfortable with lowering interest rates as we see more progress on the inflation front, I think that moves us from maybe a restrictive to at least a neutral and potentially a positive area for a short-term interest rate environment. I think that would be something to the upside. The other thing is we could see some surprises on productivity. There's been a lot of investment in AI and other technology. If we start to be able to capture some of those benefits in the private sector, that could boost economic growth even as we struggle with some of the labor supply issues. We could see a bump to labor productivity and that would, I think, allow us to see above that two percent target growth rate.

### **Henry Chin**

Yeah, now Spencer I have to tell you that thinking about AI it's the extension of our human labor resources. AI is going to change the way we work, we live, and that's the given. And I deeply believe AI is gonna enhance our productivity for the economy as well. So therefore people tend to be overly worried about impact on the labor participation rates, on employment rates. I am a believer it's going to help us to become more efficient, to add more productivity on that front. So therefore I am more bullish on that part. And also think about the upside. I think we look at so many different surveys. I think the CEO's confidence surveys, and then we look at the hard data, we do see the companies are going to hire the right people. So therefore, I am on the optimistic side when it comes to the economy.

### **Spencer Levy**

Karl, one of the things you referenced earlier in your comments was that first quarter GDP might be boosted by an aftershock of the federal shutdown, the aftershocks meaning that unmet demand. And another aftershock of the federal shutdown was we didn't get data for a few months and it made it uncertain how to forecast the future. So let me just ask you, what if any impact did the lack of current data from the government have on your forecasting? And what did you do instead?

### **Karl Russo**

Yeah, so it has definitely been an issue with being able to have to wait to get some of the information that we'd normally like to have and we also have a break in a couple of the time series and that's disruptive. I think it really just shows how reliant in maybe ways that we don't normally think about we are on some of the government services. But there are other places to get data. Even other parts of the government were unaffected. So the Federal Reserve Board was continuing to be able to release some information that they

had, which is very helpful in providing a picture of where the economy was going. But even the governors themselves were wishing that they had some access to some of the inflation data that was delayed. I think going forward, I don't have a lot of concern about the quality of the integrity of data. There were some issues with the most recent inflation report being somewhat disrupted because they had to make some adjustments. I do lack of some survey information, but I think once we get beyond that, we'll be in a good place. I think the main effect is going to be this delay in demand and payments from the federal government that are going to provide a temporary boost and just to remind people when you see that don't think that that's a new normal that we've achieved that there's some transitory nature to that and to take that into account as we look to getting back to sort of the new normal on the other side of that.

### **Spencer Levy**

So Henry, we've talked about the disruption of the federal data, but one of our areas that we really stress of our decision-making is our use of proprietary data. Tell us a little bit more about that. What do we got and how do we use it?

### **Henry Chin**

Yeah, since I got into the job, Spencer, we are trying to use our proprietary data to drive unique insights. So proprietary data for the capital market spaces, we're looking at the NDAs signed, we look at the confidential agreements signed, and we look at bid spread and also loan originations. So that is a leading indicator for us. We're using the data to form our forecast views. On the leasing side it's quite interesting because we do talk to our leasing leaders to talk about the site visit, inquiries and the site visits because any inquiries are coming into our system, any site visit for the broker to take a client to look at the properties we're leading for the transactions. I think those are the soft indicators to navigate through the demand and supply of the real estate space. So those are the data which you can't get in public spaces. You can only come to CBRE what can help you to make a wise decision.

### **Spencer Levy**

Let me give you a couple more leavers here, Karl. One lever being reshoring of manufacturing. Another lever being trade itself. So just those two factors, reshoring of manufacturing, trade, how much do they sway your opinion for '26?

### **Karl Russo**

We have seen some activity move back to the United States over, actually, the last several years due to changes in tax policy and other regimes that have made it more attractive to locate some of that economic activity in the United States. I think one of the things where we might see more of that is if based on some of the incentives that are in the most recent bill for expensing of structures of buildings, which is an idea at least on a temporary basis, to make it more attractive to undertake some of that investment in the very long-lived property here in the U.S. In some of the recent data, we've seen the share of domestic employment of multinational companies increase, as well as some of their investment in research and development activities and the like. If that trend continues or is even stronger, we could see a bump to some of the economic activity in the U.S. Some of that is incentivized by some of the trade structures, but it remains to be seen whether the U.S. is the place where some of that lands, or whether you see some friend-shoring or nearshoring to other countries that might have lower tariff rates, but not maybe bring it all the way back home. And so I think there's just some uncertainty about how that all shakes out. Some of it's related to how companies view the durability of those tariffs and trade

measures. And once that's resolved, I think we'll see more, likely to see bigger steps in action to relocate some of that activity.

### **Henry Chin**

It's quite fascinating. First of all I want to talk about anecdotal stories because I am based in Dallas, Texas and then, you know, everyone talks about TSMC, the Taiwanese people love to talk about TSMC. People are talking about the supply chain move from the Asia Pacific into the U.S. I can quite honestly tell you I am participating in some trade talk in Dallas organized by Taiwanese tech supply chain companies. So all the supply chain companies, they are coming here to Texas, to provide support for TSMC, the ecosystem. So that is something reassuring about the reshoring activities actually coming back into the U.S. The second component is manufacturing from a real estate perspective, leasing perspective. It was around 15% of leasing activities for the past 24 months. But we are seeing the increasing share of the manufacturing leasing activities going forward. And particularly, it's going to be concentrated on Louisville, Nashville, Chicago, Detroit, Kansas City. And Spencer, you know that some of the cities have never been a bright spot for the leasing activity for industrial, but giving on this re-showing activities of manufacturing coming back. Those cities are getting more and more traction. We are seeing the recovery in the leasing and the rental growth.

### **Spencer Levy**

Well, interestingly, I've been in all those cities recently, but one of them is Columbus. And when I was there, you know what they talked about? They talked about the railroad from Mexico to Canada, which goes right through the middle of America. And because of the improvements of infrastructure, including but not limited to rail and dare I say it, airports, I think people need to follow infrastructure when they find opportunities. So Karl, when you're looking at opportunities in the U.S. and elsewhere, how much does infrastructure, whether it be rail, road, air, play into some of your some of your thinking?

### **Karl Russo**

If you're thinking about regional differences and where economic development happens in the United States, it's really availability of labor or availability of capital. Those are the two main things that spur economic growth, and capital is definitely the infrastructure piece of it that you're talking about. We don't mean dollars in that sense. We mean do you have roads that can get goods to people where they need to be? Do you have the basic airport structure, shipping lanes? Some of that is domestic waterways as well. Those hubs where you can do that cheaply and access to population centers is where it makes those things most efficient and so I think some of what you're seeing here is these areas maybe where they have not had historically other kinds of things to make them attractive can improve their desirability as locations for investment to the extent that they improve the infrastructure and capital that they have in order to make that labor that's there productive and then can grow.

### **Spencer Levy**

One of the things you mentioned there was water. Water is, last time I checked– the Midwest, they have these things called the Great Lakes, and I don't call them the Great lakes because they're small. They are bigger than you could possibly imagine. But they're also a resource now for one of the hottest areas in real estate, which is data centers. Data centers use a lot of power, they use a lot of water. How much is the proximity to water gonna change the way we look at real estate, Henry?

### **Henry Chin**

When you talk about water, I want to talk about more of the power supply, Spencer, you've been highlighting for the data centers. We all know that data centers have been a darling for investors and occupiers. Structurally, we are just undersupplied in this space. But now, it was rushing into data center development. And the biggest hurdle for us is all about how do we access the data? How do we access the power? So when we are looking at the U.S. as a nation, it's quite interesting. We see that most of the supply is concentrating on those with abundant power such as Alabama, Mississippi, Louisiana, Georgia, Florida, and Carolina regions. For those states, what we are seeing is they have less restricted power and they have the abundance of power supply. And then we are going to see more and more activities is going to happen in most states.

### **Spencer Levy**

So, Karl, let's talk about labor for just a moment, and the demographic changes in America. We have an aging population. I think it's something like 11,000 Americans turn 65 a year. Our birth rate's below replacement rate. Immigration's gotten more restrictive. At the same time, Canada has somewhat more open rules on these things. At the time, Mexico has much cheaper labor. How do all these things play together in terms of the growth that you see in the U.S. versus the North America region as a regional economic bloc?

### **Karl Russo**

As you think about it, the medium-run and long-run ability for an economy to grow, there's only two ways to have more economic output, and that is one, to have more labor, or two, to make it more productive. And we do have very significant challenges in the U.S., but also around the world in terms of that growth in the labor supply. You know, it's a little bit like the best time to plant a tree, you know? The best time to plant a tree is 20 years ago. The second, best time is today. You know, when is the best time to have another kid in order to have a future worker? It's 20 years ago. When's the second best time? And that's today. And until we see some improvements on those dimensions, the long-run growth prospects for the U.S. and Canada and Mexico are going to be severely limited, or you're going to have to have very large increases in labor productivity to make up for it, the likes of which we have not seen in recent history. And so I think if you look at that basic fertility question, I think many of the places in Mexico and South America have higher fertility rates than we have in the U.S. and in Canada. That I think could support those economies in the long run. Though they've also seen large declines and maybe even larger declines in their fertility compared to the U.S. You know, we went from like 2.1 kids to 1.6. In some places around the world they've gone from five to three. In terms of the number of children and that in the long run is going to provide some significant challenges to long-run economic growth.

### **Spencer Levy**

Well, I'll give the yin and the yang of this thing. So the yin of this is that a lot of people say, well, that's a problem. Population may have gotten to peak population today in the U.S. and elsewhere, but AI is going to pick up some of the slack. It's going to get us more productive. That's what some people might say. Are we overselling AI and its productivity gains? Henry, what do you think?

### **Henry Chin**

I think we are just on the early stage of AI. Of course, when we fully adopt AI, we are going to have some up and downs, but I think the journey has started. I think, yeah, people get overly excited about AI, but I do think in the long run, it's going to help us on the productivity side. Spencer, number two, I think when we talk about the participation rates,

the low birth rates in the U.S., and I want—if we're looking at Japan for example, and Japan's demographic has declined for such a long time. We don't have any immigrants into Japan. But the economy continued to grow. I tell you what the government was trying to do in Japan is because culturally, when they get married, when they have kids, and the female tend to be withdrawn from the labor forces, they try to be a full-time housewife. That's the culture in Japan. So therefore, ever since Abe is the prime minister, he's encouraging people—the female workers are coming back in the workforce. I think this is something that is helping Japan continue to grow over the past few years. I think the female worker's participation ratio in the U.S. — I don't know the number — it might be the way to solve the short-term struggle we are facing. But again, the longer term is the bigger issue here.

### **Spencer Levy**

I always learn something new on this show and what you just described there about women in the workforce or not in the workforce, we can talk about certain periods of time. I think the biggest bump in U.S. history was during World War II. But also what you're also putting your finger on is very often Japan gets knocked for not having great GDP growth. Maybe it's because they're not measuring the participation in GDP of labor in the household. That's an area that has been undercounted for a very long time. So Karl, staying on the demographic point, what's your point of view?

### **Karl Russo**

You do see some of these challenges and there are other ways to sort of look for drawing people into the labor force. I do think if you think about the world, the U.S. is in somewhat better position than many of the other developed countries out there because our fertility rate is a little bit higher and historically we've had more open to immigration. I think even with the recent changes in immigration policy, some of which began in the Biden administration continue now into the Trump administration, and more people are still interested and willing to come to the United States to work in ways that is not true for many other countries. Japan is a historically famous example of being relatively closed, but even Europe has less open immigration policies than the US has historically had. I did want to add one thing on AI as well. I think one reason why some people may overstate the ability of AI to improve productivity in the labor force is that AI also improves the returns to leisure. A lot of people will use AI to create cat videos or other things, you know, that are more fun. And so on the margin, if you think all of the benefits of AI accrue to labor productivity, you're going to overstate the impact that AI investments are going to have on the ability of the economy to grow because some of those benefits are going to accrue, to improve returns to leisure.

### **Spencer Levy**

So, Henry, let's go from the macro economy to the weeds here. This is primarily a real estate audience. We heard all the macro trends. We're all in general agreement that it's gonna be a slow growing, slightly declining interest rate environment. Give me your top three or four thoughts in real estate.

### **Henry Chin**

Number one, I think capital markets in the U.S., the transaction volume will lead the growth. I think our current forecast volume is going to increase. Number two, flight to quality will continue. Occupiers will continue to expand into the right locations and the right product. Number three, I think people were so negative of offices, were so negative on retail. I think we are going to see some outperform in those outside classes. I think now people are talking about life sciences in a more negative way. Trust me, real estate, every

asset class is very, very cyclical. I do see some bright spot coming from the life sciences. So stay tuned, I do think about 2026, we might see some early green shoots in the life sciences space as well, Spencer.

### **Spencer Levy**

I'm totally with you on life sciences. Life sciences is a great space if you segregate that segment of life sciences that's venture capital-backed, where a lot of money headed for the hills of AI versus the people that are making pills for the biggest pharmaceutical companies in the world. The people that're making pills with the biggest pharmaceutical company in the world is some of the best real estate there is, but it's still called life sciences, so part of it's branding, part of it is segregation into what is the good and the bad. And it reminds me a lot of the overall office space, where people are putting in the baby with the bathwater, kind of like they did with the mall space years ago. Is that a fair way to put it, Henry?

### **Henry Chin**

Yeah, that's very fair. And I was also looking at the slides and doing some analysis and looking at the equity price. Real estate, listed real estate price versus the overall stock market price. I have to say real estate hasn't been so cheap for the last 20 years. So therefore, I do think. Either real estate is overly cheap or the other asset class is overvalued, and I do think about 2026 is a good time to look in the commercial real estate, particularly here in the US.

### **Spencer Levy**

Karl, I know you're not a real estate specialist. You're more of a macroeconomist. You've worked for the government. You work for one of the leading consulting firms on the planet, PwC, great friends of ours. But we've seen trends like we've seen in real estate in other sectors before. The rise and fall of malls, and malls came back stronger than ever right now. Office, still not back completely, but coming back. It seems to me that this is kind of a common trend you'll see historically in other sectors of the economy. So: sectors of the economy that you see optimism for in '26 and any parallels you might want to draw to real estate

### **Karl Russo**

For some of those kinds of things, you want to look at the long run underlying trends of supply and demand. Where are you going to see some of the hot spots related to that? And we build on some of that demographic discussion we've been having with the aging of the population and things like that. There's going to be greater ability for consumption by that group of individuals. There's also going to be starting to draw down some of their assets and that can cushion them from some of the ups and downs of some of the job market as well because they're immune from those changes if they're retired already. If you think about what a real estate connection for that might be, maybe you think about senior housing as being a place where there's going to be some additional growth just as we continue out those demographic trends. We talked about some of the technology pieces. I think those are still going to be out there. Strong demand for AI suggests that data centers are going to be a significant piece of growth as they have been in the more recent past. I think one recent quarter, they were responsible for basically all of the GDP growth that we experienced. And so I think you're gonna continue to see some of that going forward. So I do expect technology investment to be strong. The policy environment for that has also improved a little bit based on some of the tax changes that we see. So I would think that that would be an area where we might see some positive growth in 2026.

## **Spencer Levy**

I'd like both of you to put on your long-term hats for a moment. And I'll start with you, Henry, longer-term outlook for the U.S. And does that change any outlook towards any particular part of real estate?

## **Henry Chin**

It's very interesting. I say, Spencer, I think we should look at real estate investment in the capital four quadrants, the public, private, equity and debt spaces. If you look at the four quadrants, I have to say, real estate and public equity funds, REITs are so cheap. So therefore, I do think about smart investors should actually put more money into the REITs. REITS is a leading indicator, that's number one. If your a big capital allocators, I will start thinking about can that take some of the REITs private. So public to private is going to be so variable at this point of time. If you look at the public debt market, it's quite interesting we do see the recovery from the CMBS market coming through given the higher for longer interest rate. I do think that the a public-private debt spaces will give you the attractive return. And then when we are going to look at the private market to look at the sectors, I have to say, we talk about imbalance of demand and supply. We talk about, yes, economy is going to have a below trend growth, but we'll continue to see that the recovery is going to build into the demand for real estate, but we do not have a much of a supply. So the supply issue has got two components. Number one, you can do the completely green field development, particularly those cities we know that's not much supply. Second one, I deeply believe about value-add strategies. Some of the assets may be old, but in the prime locations come on, investors should look into that to renovate. And because spill over demand will come to the spaces, particularly for office and for retail. And the third component even for industrial there's huge supply. But thinking about industrial logistics in those prime locations some of the assets might be old investors going there to renovate to upgrade it is going to attract a lot of talent and trust me it happens in some market like a Tokyo and they sell there for even older stock in Tokyo Bay they outperform

## **Spencer Levy**

So, Karl, I know we're talking about 2026 outlook. Let's pull the lens back a little bit. Most of our businesses are longer term in nature. What do you see for the next five plus or minus years? How does that outlook be optimistic or what are some of the pessimistic elements?

## **Karl Russo**

I think one of the amazing features of the U.S. economy that's been born out in our recent history is just how resilient it is to very large shocks and I think that is something you've got to take into account whenever you're making these longer-run forecasts – is that we can either endure a lot of negative effects that happen or even some things that we inflict upon ourselves and the U.S. economy continues to grow and I that's more or less where I think about the medium-term horizon for the US economy is that we will continue to able to use those improvements in productivity and labor growth and the basic emissions to keep growing. I think we will be somewhat constrained by some of these larger demographic trends that will be offset, I think, in part or maybe even completely by changes in productivity, mainly due to the strength of the U.S. consumer, a generally favorable policy environment, as well as good fundamentals of our natural resources, labor supply, those are the kinds of things that drive long-term growth. And I think those are still positive for the U.S. If you ask me to take the really long-run bet, I'm going to bet the U.S. economy is going to be bigger 50 years from today than it is today. If you've got that really long run and, you know, real estate's a long run asset, you're going to want to be thinking about that kind of duration and not just this quarter, next quarter, those kinds of things, which matter

for other reasons. But in the long run, I think the U.S. is going to be a pretty healthy place to be.

**Spencer Levy**

I want to thank our two outstanding guests on the 2026 Outlook episode, starting with Karl Russo, Principal and National Economics and Statistics Leader for PwC. Terrific job, Karl. Thank you for coming out.

**Karl Russo**

Thanks for having me.

**Spencer Levy**

I then want to thank our old friend, Henry Chin, Global Head of Research, CBRE. Thank you.

**Henry Chin**

Thank you, Spencer.

**Spencer Levy**

You can find more information by visiting our website at [CBRE.com/TheWeeklyTake](https://www.cbre.com/TheWeeklyTake). You can stay on top of our programming and also catch up on our treasure trove of analysis, stories and conversations. We'll even post a link to CBRE's recently published market outlook from the CBRE research team. Or you could use the episode archive on your favorite podcast platform, too. We'll be back with more insights to inform your thinking about 2026, with an all-star cast from the CBRE Women's Network, who will help us look deeper at the real estate sector and at some of the most compelling markets around the U.S. We've got plenty more in the works as well, so make sure to subscribe, and we'll keep you posted on what else is coming up. Thanks for joining us. I'm Spencer Levy. Be smart, stay safe. Be well.