The Weekly Take

Stronger: Two leading economists on what’s ahead for commercial real estate in 2025

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Spencer Levy
Happy New Year, folks! We're excited to begin the new year and a new programming slate with our annual season opening forecast for the year ahead. On this episode, we welcome two economists with unique perspectives on real estate to help us take stock of the data and assess the buying and investing landscape across the industry. Spoiler alert: there may be some big opportunities.

Richard Barkham
I think the economy is sailing along very nicely at the moment, and if I was to explain that in one word, I'd say consumers.

Spencer Levy
That's Richard Barkham, Global Chief Economist and Head of Research for CBRE. Richard returns to our show as part of his mission to help us better understand the business, to help occupiers and investors navigate market conditions, and to support CBRE teams in advising clients.

Selma Hepp
We still have quite a bit of potential left that probably won't be tapped over the course of next year.

Spencer Levy
And that's Selma Hepp, Chief Economist at CoreLogic, the leading provider of residential property data solutions and analytics. Selma runs a team of economists focused on the residential housing market, which will help provide a 360 degree view that includes what her specialty can tell us about the commercial space. Coming up, the state of play in the real estate world and a forecast for the year ahead. And we will also address what's front of mind for you, with questions submitted by our listeners as you take on a new year. It's our 2025 outlook. I'm Spencer Levy, and that's right now on The Weekly Take.

Spencer Levy
Welcome to The Weekly Take, and I’m delighted this week to bring back Richard Barkham, our Global Chief Economist at CBRE. Richard, welcome back to the show.

Richard Barkham
Thank you, Spence. Pleasure to be here.

Spencer Levy

Great to have you. And our newest guest, Salma Hepp, Chief Economist at CoreLogic. Selma's joining us from Los Angeles. Selma, thanks so much for coming out.

Selma Hepp

Thanks so much for having me.

Spencer Levy

Well, it's great to have you, Selma. This is going to be a great conversation because so often on this show, since we're a commercial real estate firm, we focus almost exclusively on commercial. But today, we're going to expand that conversation to talk about single-family and how that may or may not apply to commercial. So Selma, why don't we start with you. What's your big picture take on where the economy is and going and what does it means for single-family?

Selma Hepp

As you can imagine, for the residential housing market, mortgage rates are the most important driver, and they've been sort of the governing force behind what's happened in the housing markets over the last couple of years. So we've had a very lackluster housing market activity over the last few years since mortgage rates went up in 2022. And basically, when you think about where home sales activity is, and especially when you adjust it for population, we are at some of the lowest levels of housing market sales activity that we've had in a really, really long time. So basically, the market has been in a standstill. The issue is affordability. That's the biggest issue in the housing market at the moment. As mortgage rates went up and as we had home price appreciation cumulatively exceeding over 40% since the onset of the pandemic, it's gotten really, really expensive to buy a home right now. So to give you an example, median principal and interest before the pandemic versus today: today is 80% lower, just principal in interest when adjusting for increase in mortgage rates and for increase in home prices on a same type of home. So homes have gone up quite a bit in home prices. And then in addition to that, the trends over the last couple of years that added to concerns in the housing market include the insurance cost. That's a big topic in the housing market at the moment, as well as increases in property taxes, as home prices in some markets…. Well, they went up in a lot of markets, but taxes went proportionally up in some markets and so it's gotten, as well, increasing the more expensive to pay for those non-fixed mortgage costs. And that's created some risks in the market. Thinking ahead, it's really going to be all about mortgage rates and with the expectation of mortgage rates remaining higher, interest rates in general remaining higher as the outcome of this recent election. We think that home sales activity is going to remain subdued. We'll see some increase in home sales activity, but we still have quite a bit of potential left that probably won't be tapped over the course of next year.

Spencer Levy

So Selma, one of the questions I ask in basically all of my presentations is, so who in this room owns a home and has a home mortgage under 3%? And then I say 2.9, and then I say 2.8, and then I say 2.7. I typically get down to about 2.4 before the last person drops their hands. But that to me would be the single biggest reason why people aren't selling their homes. What do you think, Selma?

Selma Hepp

That is a big reason. We call that a lock in effect. So a lock in effect has been a big reason for not having enough inventory out there, you know? On one hand, we have affordability challenges. On the other hand, we've had issues with lack of availability of homes for sale. That includes both existing and new homes. But because new home sales construction has been really, really slow over the last couple of decades. So let me untangle that a little bit more. In terms of home ownership, 40% of home owners actually own their homes free and clear. So those folks are not necessarily tied to a mortgage rate. So for them, the fact that mortgage rates are up and down, that may not necessarily influence their decision to sell their home. But this is where the importance of insurance and taxes, for example, come in. We've seen increases in availability of inventory in some markets over the course of last year, especially in those where these issues have been a concern. So the top markets with increases in inventory are Florida, Texas, and to some extent, Southwest: Phoenix and Las Vegas. That's where we've seen more new construction and more existing homes available for sale. So going back to your point on lock in inventory. Yes, that is a big concern in many markets, but we're seeing a thawing of some of that lock in effect happening at the moment, and we expect that to continue going forward.

Spencer Levy
So, Richard, what's your point of view?

Richard Barkham
So let's start first with the economy, if you don't mind, Spence. I think the economy is sailing along very nicely at the moment. And if I was to explain that in one word, I'd say consumers. Consumer balance sheets have improved, despite high interest rates. And one of the odd features is that partly, despite low levels of transactions in residential markets, prices have continued to go up. So consumer balance sheets are being strong. Consumer real income growth has been strong, and we're even seeing a decline in delinquency in the credit cards. So consumers don't look as stretched as they did. So the economy is sailing along, and I think it's likely to do well, at least for the first three quarters next year. Commercial real estate, though, as you say, it's not dissimilar to residential. I would say, you know, commercial real estate is actually going through an end of cycle event. We've had quite big drops in value. Actually, that's the big difference with the residential market. We've had 20 to 30% drop in value, as commercial real estate has responded to higher interest rates. But we've also had an increase in vacancy across most sectors, which again, you haven't had in single-family homes. And that's just as a result of the last cycle's new sub-market. But I think we're passing through the trough of the cycle and beginning to emerge with office leasing picking up, residential net absorption pretty strong, industrial gross absorption good, and retail actually held up by not enough space, curiously enough. So it's mid-cycle for the economy, I would say sailing along quite nicely, but end of cycle, start of new cycle in commercial real estate.

Spencer Levy
And I guess the biggest crossover between commercial and residential is that perhaps our second most popular sub-asset type after data centers is single-family rental. It is build-to-rent. Do you think we're going to see more of that Selma?

Selma Hepp
I think so. I was just at a conference recently on single-family rental market and everybody seemed to be really excited for what's ahead. And the issue really is, again, the fact that we have not enough supply for people to buy. It's very expensive to buy. And so as a result, they move into renting those types of homes that they would have otherwise wanted to buy. And the rental demand has shifted some. Again, it does depend where you are in a country. Multifamily construction has been stronger. So there's some difference there in what's happening with rents. But in terms of single-family rental rents, we have seen slowing of that rent growth in markets that have seen cumulatively a lot of appreciation over the last few years. I'm going to narrow in on Florida, for example, and markets in the south and southeast, where we've seen most of that increase in appreciation, rental

appreciation. That's where we are now seeing slowing of rents. The rental markets that have lagged during the pandemic, particularly in bigger cities, say Boston, Chicago, even parts of Midwest, New York, L.A. as well. We are now seeing continually strong increases in rents. So rent overall may be slowing, which has caused some concern. But I would say it depends where you are geographically in the U.S. Same for housing markets, probably. Same for commercial.

Spencer Levy
Richard, let's pull the lens out for just a moment and I'm going to follow up on a small comment Selma made earlier in her comments, talking about perhaps her change in outlook due to the new administration. Without getting into the politics of it all. I mean, there's certain significant policies: taxation, tariffs, immigration, that could impact our outlook. We sent out a new model last week that increased our interest rate outlook, make it higher, but you also increased our GDP outlook. So in summary, how do you see the new administration's policies potentially impacting the economy? And then we'll turn to real estate.

Richard Barkham
We need to wait and see precisely what the policy will be, but I think there are a number of growth enhancing strategies that the new administration will adopt. Maintaining the Tax and Jobs Act, tax rates will be stimulative, maybe including some tax cuts for corporations that will be stimulative. And general trend towards deregulation. That is growth enhancing. Then there are other issues that I think the economists community is a little bit more mixed on. Tariffs, for instance. Used selectively, they can be very effective. If they come in en masse, then I think maybe that's going to feed through into the price level and maybe force up the dollar. And with regard to immigration, any nation on earth wants to protect its borders and have control of borders. But I would just probably note that there are 8 million unfilled vacancies in the United States as of now or around that number. So if we start to reduce the labor supply, then I think that potentially feeds into the higher wages. The combination is for probably higher growth. But getting that core inflation down from 3% to 2% is going to be even more difficult. And I think that points to interest rates higher for longer. Which is not to say that the Fed won't cut in 2025, but, you know, only six months ago, the market expected the terminal Fed funds rate to be about 3%. I don't think anybody has that view now. I think it's more likely to be 3.75, 4%. That's the position that we present in our recently released Global Outlook.

Spencer Levy
Just a clarifying point here, Richard. You said the terminal rate at about 3.75. You're talking about the Fed funds rate, not the ten year Treasury, correct?

Richard Barkham
I'm talking about the Fed funds rate. Yes, that's right. Six months ago, most of us expected to see the Fed funds rate at 3.5% by the end of 2025. I don't think anybody much now thinks that the ten year treasury is going to drift down below 4%. There's been a sense that interest rate expectations have shifted upwards. That doesn't mean to say interest rates are higher forever. But I would say at least 18 months.

Selma Hepp
I agree with everything Richard said. I think it's going to take a little while for us to see what actually gets implemented, which will lead to more short-term volatility for rates. We already had a lot of volatility, so continued volatility. But I think that longer, higher for longer, I absolutely agree with, and also the levels of Fed funds rate and the ten year

Treasury, which leaves mortgage rates higher, as well. Six months ago, as Richard said, a 50 basis point lower forecast across the board is the same for mortgage rates, whereas now we are looking at 6 to 6.5, more like 6.3 by the end of 2025. While before we were expecting us to be already in high fives by spring homebuying season. So yeah, higher for longer, but then offset potentially by more spending power and hopefully higher wages, which do help long term in terms of affordability if we don't see a lot of home price appreciation.

Spencer Levy
So this question comes from our first question from our live studio audience, so thank you for that. And the question really relates to affordability, but not just generally, but specifically, are there specific demographics that we're looking at that are choosing single-family rental? We used to talk about a term called the silver tsunami, which was the older folks moving into rentals. I should note, for the record, I just sold my mother's single-family home a year ago, and she made a nice profit, we moved her into a rental. Why? It was a much better deal. And so, Selma, is there a specific demographic that we see disproportionately moving into SFR? Boomers, Gen Xers or otherwise?

Selma Hepp
Well, I think you see it actually across ages. Maybe not necessarily Gen Xers who have displayed similar tendencies as previous generations. They want to be social, they want to be close to other people and maybe in the busier urban areas. But anybody who is in Gen X plus or even older millennials that need more space, that want to work from home, potentially have children, good school districts are always popular areas for people with families. So, I mean, I would say it's across the board. I am seeing even in markets that are not typically thought of as single-family rental…. because we have communities, right? And then you have single-family rentals spread out as smaller investors buy single-family homes. And I think demand is across the board. It just depends on what market you are in. But in terms of areas that you have, communities that are built in single-family rental communities, you know, I think a lot of that tries to address the affordability issue. So you will have more younger families, say, in those types of communities.

Spencer Levy
Where we have a little bit of a conundrum. And the conundrum is we need more housing. Whether it's for sale or for rent, I think we can all agree we need more of it. But the challenge is A, people that have these low mortgages aren't selling. And B, and I say this as the chairman of the Real Estate Roundtable's Research Committee, there is few asset types that are least favored than single-family rental. And the reason for that is because the perception in Washington, and I might add in some states, is that single-family rental for institutional owners should be not just frowned upon but prevented. But nevertheless, Richard, we have this conundrum here. We need more of it and it being rental or for sale, but we have these headwinds. What do you see?

Richard Barkham
Well, funnily enough, I see it everywhere, Spencer, not just in the United States. It's in Europe, it's in Asia, it's in my own country, the United Kingdom. It's a gross failure of advanced societies to provide sufficient housing. And it's very difficult to explain. I think partly it's aging voter majority. Societies are getting older, and we've got this phenomenon of NIMBYism. People don't want change and they don't want development close to where they've got established communities and values and built environment. So, you know, we find it and it's more difficult to get land zoned, but that's exactly what needs to happen. The UK government, interestingly enough, is determined to reform the land use planning

system in the UK to increase the supply of new housing. But it'll be a long, hard battle. It's very difficult. I can't see any way around it. But we need to zone more land for housing, and not just a bit. And we need to do it in probably all of the states, particularly the coastal cities. There is a potential light at the end of the tunnel, but it is a very long tunnel, which is the increase in vacancy that we've seen in offices is going to result in conversion to residential use. But that is a very slow process. But this is probably a once in a generation opportunity to claim some more urban land for residential use away from commercial use. And I would love to see some policies that support that in terms of tax incentives and flexibility in regulation.

Spencer Levy
I want to challenge you on one point you made, Richard, and the point you made is the strength of the consumer. And I'm certainly agreeing with you that the consumer certainly looks a little bit better today than it did maybe a year ago when we did see record credit card receivables. When we did see record defaults on loans for cars. And the reason I'm going to challenge you is because I was looking just a moment ago at the federal deficit, and the federal deficit in 2024 is 7% of GDP. Next year is expected to be 6.5% of GDP. And our incoming, the likely secretary of the Treasury, who needs to be confirmed, is looking to get these numbers down to 3%. To me, those are inconsistent numbers. Well, if we have a ton of stimulus, which is 7% of GDP, of course the consumer is going to do well. We knock that down to 3%, I have cause for concern. What's your point of view, Richard?

Richard Barkham
Personally, I think we do need to trend down towards 3%, but I can't see anything in the policy package that's been announced. And as I've said, we need to be careful because it will evolve. That actually leads me to believe that that deficit will come down. I'm not sure I quite buy into the idea that the funding that comes through tariffs can pay down that debt. So I think it's a big problem. It's one of the factors, not perhaps the dominant factor, but one of the factors that will keep upward pressure on the ten year Treasury. Let's not overstress it, though. Remember that if the deficit is at 6% and the GDP goes up in nominal terms by 5%, 2.5% growth, 2.5% inflation, then the debt to GDP ratio is only going up by 1% per annum. So the debt to GDP ratio in the United States is, I think, probably sustainable. And it's not increasing that big. But at some point to Selma's earlier point, the deficit is like gearing in a business. It's a good idea while everybody believes in that business. The moment the market starts to think that it's not such a good idea, then you'll get bond market volatility. And that can happen at any time. And to a certain extent, we're already seeing it.

Spencer Levy
A little bit of inflation every now and then is a good thing because to Richard's point, GDP is measured in nominal terms. In real terms, it may be the numbers that we say: 2.3, 2.4. But in nominal terms, when you add inflation to it, actually a deficit of 6%-ish is kind of where we are today, given how high inflation is, given where growth is. I'm not rooting for inflation, but I am suggesting that perhaps the debt to GDP isn't quite as insurmountable as the headlines might suggest.

Richard Barkham
No, but if we drift into a world where governments figure this out, they, you know, a little inflation is a good thing. But then if people think, well, you know, we can run big deficits and inflate them away, then it's a slippery slope.

Spencer Levy

Well, I will tell you, these roundtable meetings are fascinating. And the question I asked to the head of the Financial Services Committee who was in the room, I said, why don't we just raise the inflation target from 2% to say, I don't know, 3%? Wow, was that a negative answer? It was something along the lines of over my dead body, because people have seen what's happened in countries that have increased their inflation target where inflation then gets out of control. So I think that….

Richard Barkham
The Fed was sort of moving to that back in 2018, 2019. They were thinking about targeting the price level, the average, you know. So balancing off a little bit of higher inflation if you had a period of lower inflation. I think that's gone out of the window now. But in that decade of 2009 to 2019, if that deflation had kept in, I think we might have had an increase in the inflation target. That's out of the window, now, I have to say.

Selma Hepp
I absolutely agree. I mean, I think even if they're thinking about it, even if they're thinking about the range, going back to the range, I think it's too dangerous at the moment because they've emphasized 2% for so long. Deviating from that would maybe send more confusion into the market. So even if they're thinking about it, they're not going to send that message out.

Spencer Levy
Selma, you mentioned a couple of things here about insurance costs. You mentioned about property taxes. I just got back from Florida and that very same poll I did about who's got the 3% mortgage and below, I asked people there well, who owns multifamily in Florida and how much of your insurance costs go up? I said 50%, 100%, 200%. The hands kept staying up there to 400%, and that was multifamily. What's going on in single-family and how does that impact the markets like Florida, like California, and even to some degree Texas, that are seeing the increase in insurance costs?

Selma Hepp
Yeah. So we've seen insurance costs go up by about, I don't know, there's different ranges and it really depends what you're with, what is covered in which areas. But let's average it to 50% since the onset of the pandemic. And as I said, in some markets, much more. So we have seen that in residential markets. What that meant is a lot of people, and especially when you think about Florida, where it's a lot of elderly and maybe fixed income folks that sort of relied on that fixed payment being consistent over the remainder of their time in Florida. And so now that that is going off and so some cannot afford, and we are seeing as a result of that increase in inventory. So more and more people are putting their homes on the market. And that's especially the case, actually, you've mentioned multifamily, but in the condominium, in we call it single-family attached properties, where there's been the new law that addresses the excess reserves or lack thereof, reserves. And because of those increase in reserves requirements, particularly for elderly, all elderly properties, you are now seeing more of those properties available for sale. And so that's been the first type of inventory segment that has gone up in Florida in particular. Now in other markets, we've seen similar increases. And in areas where there is a threat of not having insurance or households having to go to the affair State programs, the last resort insurance programs that tend to be more expensive, we're seeing less and less activity. So slower demand and more inventory. It's in areas where insurance has gone up a lot and where it's difficult to buy insurance in terms of the taxes. California, for example, has Prop 13, so it's a cap on tax or residential property taxes. So not as much of an issue in California necessarily, but in Texas, where taxes go up proportionally more to increase in

home prices, we've seen now–we've done analysis of escrow accounts for households in California, Florida, and Texas. And in Texas, they had the highest share of escrow accounts that were in shortage up to $2000 to $3000 because of the increases in the two. So now the question is, can these people make up for the increases or they just end up selling their home? The good thing is, as Richard was talking about the strength of the U.S. consumer, if you're a homeowner in the U.S., you have seen your homeowner equity go up quite a bit over the last few years, especially over the last few years. If you bought, say, at the bottom in 2012 until now, you have quite a bit of equity. So the average homeowner in the U.S. has over $300,000 in equity. So a lot of them have been able to tap into that equity to finance the new expenses. So the benefit of being in this position of having more equity is that we will see as a result of that much fewer delinquencies or people going delinquent on their mortgages or going into foreclosure because of these rising costs.

Spencer Levy
So, Richard, a question from our audience, and thank you for the question. From the beginning of my career and before them, we often saw commercial real estate as a hedge against inflation. That may be an old school way of looking at it, but that's how a lot of people have looked at it. Is that still the case Richard?

Richard Barkham
Well, I think the evidence is mixed, Spence. I think residential real estate is definitely a long term capital preserver. It may not hedge you against unexpected inflation, but residential real estate, single-family homes definitely keep pace with inflation. Commercial real estate, the evidence is a little bit mixed. On balance, I think in the longer term, commercial real estate keeps up with inflation. But I think there are certain sectors where the fundamentals are strong: Data centers, industrial, residential, and probably even retail, that are likely to keep pace with inflation. But areas where the fundamentals are weak, such as offices, are unlikely to keep up with inflation in the longer term. Strictly speaking, you know, hedge means to protect you against an unexpected event. We've had a lot of unexpected inflation. I don't think there's any much evidence that real estate protects you against that unexpected inflation. But on balance, 60 to 70% of the time, commercial real estate will keep pace with inflation in the long term. And I think as we trend maybe into higher inflationary times, then I think investors will start being interested in that motivation again. And might turn out to provoke a little more interest, not that real estate is lacking investor interest, but it's an inflation hedge in the longer term. And then I think it might come back into fashion, that argument.

Spencer Levy
Well, Selma, turning back to single-family for just a moment. Richard said, well, single-family is a pretty good hedge against inflation. First of all, do you agree? And then a side question, what does the data say about appreciation by market? How much of it is market-dependent and how much is it asset type dependent, single-family versus perhaps another form of real estate?

Selma Hepp
Well first, single-family residential has definitely appreciated more than what the CPI appreciation or inflation has been cumulatively since the onset. Let's talk about since the onset of the pandemic. CPI is up cumulatively some 20 plus percent. Home prices are up cumulatively 40 plus percent. So adjusting for inflation, home values are up quite a bit more than what the inflation has been. So in that sense, single-family residential has been a good hedge. There's been quite a bit of variation in terms of how much appreciation

we've had. One market that stands on top is Florida, and especially Miami. Miami has actually gone up almost 80% since the onset of the pandemic, which is quite astounding. As I mentioned nationally, that number is 40%. And then we have a whole lot of markets that are more like 20 to 30%. What's interesting, too, in markets that have seen more than, say, 50% or 60%. Those are the markets now where we're seeing quite a bit of cooling in terms of price gains. Nationally as home prices are going up, but there are markets where home prices are actually declining. You have markets in the Northeast, for example, too. There was a lot of appreciation, but it was interesting over the course of last year where everything seems to have been slowing down. Let me just mention where our forecast is. Overall appreciation is going to slow down and has already slowed down, but we are seeing home price growth for next year only at about 2%. So if you bring inflation out, and this is nominally, right? If you add inflation at over 2%, really real prices then in a sense will be declining this next year a little bit. So that's a new changing development in the housing market.

Spencer Levy
One of the big risks that I know that you've done some work on is the disaster of predictability and how that impacts single-family values. Now, I know that's somewhat related to insurance costs, but nevertheless, tell us about the data of the work you've done on that front and how that helps us understand the single-family market better.

Selma Hepp
Because of the wealth of data that we have and when you think about what's really important in terms of analyzing climate risk, it's not just external factors like environmental factors, but you have home construction information, you have the level of the first floor, you have the age of the roof, you have the age of the electrical and things like that. And so because we have all that information available at CoreLogic, we were able to develop our climate risk analytics program, which basically scores each individual property. And that's not just residential, that also actually includes commercial. But we are able to climate risk score each property in the U.S. So we've used that data to sort of think about what the future risks are going to look like depending on different climate scenarios. And in terms of residential risk property scoring, that definitely helps, or insurance companies have used for developing pricing for insurance, which could be good and bad in a sense, because depending on how old your property is… I have an old property and I just got a note from my insurance company that they wanted to drop me because my roof is old. Well, I actually replaced the roof last year, but that imaging that they had must have been outdated. And so I had to fight with them over that. But nevertheless, these are the types of things that you are able to do because of the data availability that we have for residential properties, and commercial.

Spencer Levy
Richard, what other asset classes are you looking for and what should you not just buy today, but what should you build today?

Richard Barkham
First and foremost, as I've said, real estate in America is coming to an end of a cycle, so rates of new completion are dropping pretty quickly and rates of new building starts are dropping pretty quickly, as well. It's a bit less so in the multifamily space. New starts getting underway. But let's go through the asset classes. Retail: the fundamentals of retail are probably as good as they've ever been because we haven't built any retail in a few years and there's definitely a need for more retail in the United States, particularly in the Sun Belt areas. I think multifamily and industrial have still got a little bit of a way to go to absorb the

wave of new completions that were pretty high. But offices as well. I think they are going to complete around 40 million square feet of office space in 2024, maybe 15 million square feet in 2025. I think it would be very brave to take on a new office right now, but that's exactly what's going to pay off, I think, over 3 to 4 years. Companies are making a beeline for grade-A space. The vacancy on grade-A space is much lower than the overall vacancy. We might end up at the end of 2025 with a very odd situation, with too much office space and not enough of the right office space. So I think selective office development, it's an opportunistic strategy and it's potentially a high risk strategy, but I think it's something that will pay off, particularly over a three year horizon.

Spencer Levy
What I'm seeing when I speak to investors, and I speak to institutions, I also speak to many high-net-worth individuals. There's a clear split here. I think that while their mindsets are similar from the standpoint, they see the same opportunities much as you just laid out, Richard, even in office development, the only ones that are pulling the trigger today are the high-net-worth individuals, and they're pulling the trigger because they have a lower cost of equity capital. They have a longer time horizon. And many, they may not have to go through investment committees, and investment committees, I'm not knocking them, but fortune doesn't just favor the brave. Fortune favors those that have a lower cost of equity capital.

Richard Barkham
Well, I would agree. And I think it's going to remain a little bit challenging to get construction loans, as well. So those people who don't need to rely so heavily on debt, as you say, have an overall… it's not just the cost of capital. I think it's the availability of capital, as well, in terms of getting construction funding. Of course, the downside to all of that is that if we're trending into a higher inflation world, then we might end up in 2026 with interest rates going back up again. So I think more cautious people will be looking at that side of the equation. But as you say, fortune favors the brave. And yeah, I think it's a good time to initiate new construction in certain areas. It's a good time to acquire assets, as well. This is a once in a decade opportunity to acquire assets, even though all of the I's are not dotted and the T's are not crossed in terms of what the policy environment looks like. it's a good time to acquire an asset which could perform well in times of persistent inflation.

Spencer Levy
I agree with you on that. Now is a very good time to buy if you have the courage and the low cost of capital to do so. And that's why we're seeing a lot of high-net-worth individuals disproportionately buying many deals today. Two more questions. One is about global capital. And the second is about labor. How big is foreign capital in the single-family market? How much does it influence it? And if we go into a de-globalization period, where we're seeing less of it, how might that impact the market in single-family? Then I'll ask you the same question, Richard, in commercial.

Selma Hepp
The data on foreign demand, unfortunately, that's not data that's readily available because it's hard to track. And so it's very opaque sometimes to tell who is really buying. But when you're looking at individual buyers of single-family residential properties, there are fewer and fewer foreign buyers. There's still markets that continue to be supported very strongly by international demand, and that's Miami. And one asks, you know, how is it still possible to see home prices go up in Miami after 70 plus percent increasing over the last few years? It's the foreign demand. But there are markets, for example, I'll give you one in California, in Los Angeles. There was a market that was very dominant, very much

dominated by Chinese buyers in the early 2010s. And that market has been weak ever since the even Chinese crackdown about a decade ago. So it depends, but I would say overall, much less individual foreign buyers.

Spencer Levy
Got it. And, Richard, foreign capital has typically been about 15%, 1-5%, of the U.S. market. This last year, if I looked at the numbers most recently, it was 3 or 4%. That may persist if we continue to have these de-globalization trends. How might that impact the market?

Richard Barkham
Well, I think it presents an opportunity for domestic capital. And I have to say it's one of the big learnings for me being in the United States these seven years, just how deep a pool of capital there is in the United States. So I don't have any worries about real estate having to reprice because global capital is not there. I would say that global capital is still highly interested in the United States, the growth dynamics, the success stories, particularly around residential and multifamily, but there are headwinds to foreign investment. You know, you say de-globalization. It's not only de-globalization, it's the strength of the dollar. And the dollar has appreciated considerably, particularly just in the last year. And I think if interest rates are higher for longer and growth is higher in the United States, that tends to push up the dollar. And I suspect also, I mean, it's a fairly well known thing that if you bring in tariffs, then that tends to boost the domestic currency. One of my fears, I think, in a de-globalizing world, a world of more tariffs, that we might begin to see capital controls coming back in. And I think those are already being discussed. I think it's unlikely, but it's possible. Overall, I think it's not a big threat to the U.S. commercial property market in terms of pricing because the domestic capital pool is so strong. And we might see more domestic capital diverted to real estate because of its long-term inflation protecting capabilities.

Spencer Levy
So last question: Labor. Obviously these stories have not been written yet, but a lot of what's been said in the incoming administration is that there are going to be limitations on new immigration. So Selma, if we do see reversal in immigration, how might that affect the housing market?

Selma Hepp
Well, there actually was a study published just recently within the last month that looked at the impact of deportations some years ago by one of the previous administrations, and showed that as a result, you saw less new construction and higher home price appreciation. Obviously, less supply drives home prices when the demand is consistent. So we do worry about what the lack of labor means for affordability going forward. 30% of construction labor is foreign born, so it contributes a lot to that labor pool. So, yeah, the expectations are for, not a significant increase, I want to say that new construction for single-family homes is pretty much flat or maybe up single digits for next year. And this was before the challenges of lack of labor and even tariffs on construction materials.

Richard Barkham
The first thing you see, you know, there are 8, roughly speaking, 8 million unfilled vacancies in the United States right now. So who's going to do those jobs if we trend down on immigration? That I think I've already said points to higher inflation. It also points to construction costs. We've just got through a period of very intense construction cost inflation. And I think if we start losing construction labor, those costs are going to start to

go up again. Oddly enough, I think it's beneficial for the real estate sector. You know, the more challenged construction becomes, it makes fewer construction projects pencil out, and kind of restricts the flow of new supply. I already said that real estate is quite simple, It spawns demand and supply. Less supply gets you higher rental growth and capital value growth. So I don't think that's a good thing, necessarily, for the economy as a whole. People forget the Bipartisan Infrastructure Act that preceded both of those pieces of legislation. It was a bipartisan attempt to upgrade the infrastructure in America. And we're looking at something like, I don't know, 30 major projects in the United States with construction costs of over $1 billion coming online over the next several years. So the pressure on the construction sector, I think both from falling labor availability and increasing demand, are going to be intense. So I think it's going to put upward pressure on cost.

Spencer Levy
I'm going to ask just a quick wrap-up question. Let me start with our guest. First time, hopefully not your last time on the show, Selma Hepp. Selma, wrap-up question. How do we see the economy and its impact on residential over the next couple of years?

Selma Hepp
I'm still very optimistic. You know, despite maybe there being some challenges presented by, say, elevated mortgage rates or more uncertainty or even more volatility going forward, I do feel optimistic in many ways because, well, for one, we all need shelter and shelter lacks in the U.S. So there's still that dynamic going on. So I think housing markets are going to continue to move to some level of normalization. You know, I don't like the word normal anymore because nothing is normal anymore, but some neutral balance. You know, whatever balance we find out there, there is going to be some new balance, and hopefully it favors more accessibility to housing. One thing that sort of conspired out of the pandemic is well-offs are even better-offs. Those that are not well-off are even worse-off. And I always try to put a word in for those that are not well-off and hope for better years ahead for them. So I do hope that we have better accessibility to housing, more housing, and that people stay employed. My economic outlooks are pretty positive, and I think we've sort of achieved the soft landing, unless there's something unexpected that happens. So economic activity is going to continue to grow. Wages are going to continue to grow. Maybe not at the pace that they were a couple of years ago, but still better than for many years. So I think overall, I'm pretty optimistic about things.

Spencer Levy
Richard, final thoughts? Where's the economy going? What does it mean for commercial real estate in the next couple of years?

Richard Barkham
I think the outlook for 2025 is pretty good, actually, Spence, both in terms of the economy and also real estate. I'm a bit worried, more worried about 2026. I have to say, when some of the policies might feed in and cause some sort of upsurge in inflation and interest rates. That remains to be seen. But I'm very encouraged, I think, in terms of volume, gross leasing of offices is back to pre-pandemic levels, and America's downtowns are coming back, I think, slowly but surely.

Spencer Levy

Very well done, Richard. Very well played. Thank you so much, first, to our first time guest, Selma Hepp, Chief Economist from CoreLogic. Selma, terrific job. Thank you for coming out. Hopefully it's not your last visit to the show.

Selma Hepp
Thank you so much for having me. It was such a pleasure to be here with you.

Spencer Levy
And our old friend and our most frequent contributor, Richard Barkham, Global Chief Economist, CBRE. Richard, thanks again for coming out.

Richard Barkham
Pleasure, as always, Spence.

Spencer Levy
The pleasure is ours to be back for season six of our show. You can find more information by visiting our website at CBRE.com/TheWeeklyTake. We'll even post a link to CBRE's recently published Market Outlook for 2025 from the CBRE research team. It's also available on the CBRE Insights page, and we'll look forward to bringing you more insights on the air in the weeks ahead. That will include a continuation of our series *Shaping Tomorrow's Cities*, starting with visits to Atlanta and San Francisco. Plus, we have episodes featuring a look at extended stay hotels, a look at the nuances of working with high-net-worth investors, and more. Don't forget to share, subscribe, and review this show wherever you listen. Keep the questions and comments coming, too. And of course, happy New Year, once again. It's good to have you back. I'm Spencer Levy. Be smart. Be safe. Be well.