2025 Commercial Real Estate Outlook

Capitalizing on a Generational Opportunity

– Phil McAlister, Head of Research

2025 is poised to reshape the commercial real estate (CRE) market, presenting both significant challenges and compelling opportunities. A favorable interest rate environment and depressed values will provide a significant opportunity for well-capitalized buyers with a long-term investment horizon. Meanwhile, many properties purchased and financed at 2021 to 2023 valuations are now grappling with loan maturities at a time where higher interest rates and higher cap rates are restraining loan proceeds. Should these debt maturities combine with weaker than expected net operating income (NOI), we may see great core assets come to market at attractive prices, driven by problems in the capital structure despite the presence of strong long-term fundamentals. For investors with capital and a long-term vision, 2025 may mark the beginning of strong CRE investment returns over time.

The current economic growth environment is tepid but stable. The results of the 2024 election have the potential to lead to lower taxes and a more favorable regulatory environment over the next four years. This may be offset, however, by the fundamental constraints to growth facing the economy: demographics, debt, and policy. Recession risk still exists and should be monitored closely, but no imminent warnings are present. The labor market in particular is showing some cracks that should be watched closely as the year unfolds, but income growth remains strong and jobless claims are low and stable.[1]

Key Takeaways

- With the second largest drawdown of CRE valuations on record, a compelling entry point is on full display.
- Looming debt maturities and stressed capital structures will support significant opportunity for well-capitalized buyers.
- Slower economic growth will drive more focus on the intersection between real estate and demographic trends.
- Housing affordability, migration patterns, and immigration policy will be critical trends to consider when making investment decisions.
- Construction starts are down significantly across commercial real estate, setting up for strong fundamentals.

[1]FRED Economic Data. St. Louis Fed. Unemployment Rate. November 2024. https://fred.stlouisfed.org/series/UNRATE; FRED Economic Data. St. Louis Fed. Disposable Personal Income. November 2024. https://fred.stlouisfed.org/series/DSPI; FRED Economic Data. St. Louis Fed. Initial Claims. November 2024. https://fred.stlouisfed.org/series/ICSA

Macroeconomic Conditions

GDP Growth

Real gross domestic product (GDP) growth can be approximated by adding the growth in employment to the growth in productivity. Simply put, in order to increase the production of goods or services, an increase in either employment or an increase in productivity is necessary. By making some reasonable assumptions about the likely pace of growth in these two categories, a reasonable long-term average real GDP growth rate can be estimated.

The Bureau of Labor Statistics forecasts the total labor force to hit approximately 173.3 million people in 2033.[2] In a bullish scenario, if unemployment falls to 3.00 percent from the current 4.2 percent, annual employment growth will hover around 0.45 percent, on average through 2033. In a bearish scenario where unemployment rises to 7.00 percent by 2033, employment growth will be essentially zero percent and any GDP growth will have had to come via productivity. This gives us an approximate range of zero percent to 0.50 percent real GDP growth from employment which is far slower than the 1.3 percent growth seen from 2013 to 2023. This provides a demographic headwind toward overall GDP growth.

Projected Labor Force 2033	173,300	2033 Unemployment Rate	2033 Employment Level	Employment Contribution to Real GDP (CAGR)
Current Employment Level[3]	161,500	3.00%	168,101	0.45%
		5.00%	164,635	0.21%
		7.00%	161,169	-0.02%

Productivity could be constrained over the coming years due to higher government debt loads, which tend to be associated with lower GDP growth due to the crowding out of private investment and directing more resources to the less productive government sector. This is particularly noticeable when debt-to-GDP rises above 90 percent.[4] With U.S. debt-to-GDP currently sitting at 120 percent,[5] the economy is firmly in the range that tends to impact growth. Having crossed the 90 percent threshold in 2010, the data depicts a significant decline in productivity relative to the post-war period prior to 2010.

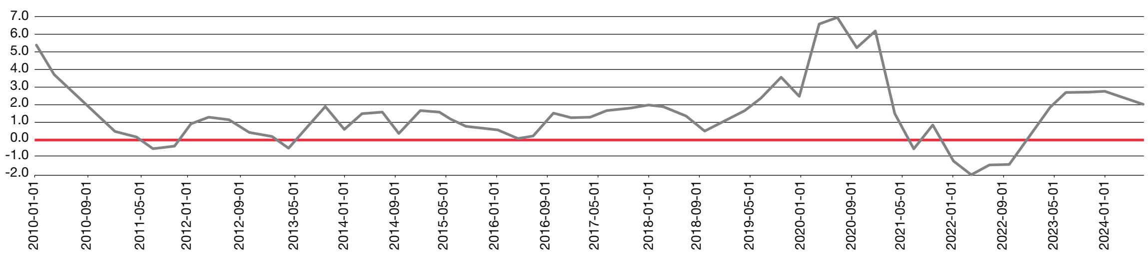
Average Productivity Growth[6]

[2]Bureau of Labor Statistics. Employment Projections - 2023-2033. Press Release. August 2024.
[3]U.S. Bureau of Labor Statistics, Employment Level [CE16OV], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CE16OV
[4]Cato Journal. The Impact of Public Debt on Economic Growth. Accessed December 2024.
[5]U.S. Office of Management and Budget and Federal Reserve Bank of St. Louis, Federal Debt: Total Public Debt as Percent of Gross Domestic Product [GFDEGDQ188S], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GFDEGDQ188S
[6]U.S. Bureau of Labor Statistics, Nonfarm Business Sector: Labor Productivity (Output per Hour) for All Workers [PRS85006091], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PRS85006091

Assuming a general range for productivity growth of 0.50 percent to 1.50 percent and employment growth of zero percent to 0.50 percent, we can predict long-term real GDP growth over the next decade will fall within the 0.50 percent to 2.00 percent range, on average, with stronger and weaker quarters interspersed throughout.

With the current unemployment rate at 4.2 percent,[7] there is little idle labor available, meaning any growth in employment must come from new entrants into the labor force. Likewise, productivity, which tends to be cyclical, has exceeded post-Great Financial Crisis highs (excluding pandemic era) and is now trending lower. This would suggest that 2025 GDP growth will likely end up in the 1.50 percent to 2.00 percent range, barring a recession.

Productivity: 2010 to Present[6]

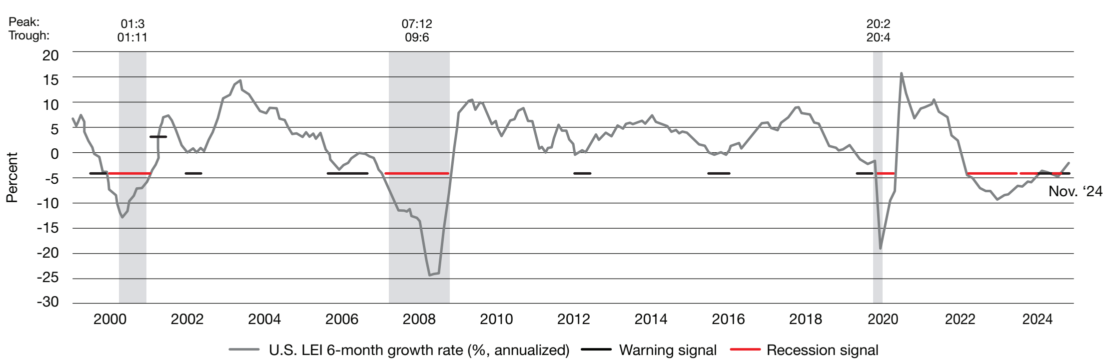


The change in administration starting in 2025 gives cause for expanding the range of potential outcomes. Significant tariffs, if imposed, however, would be a net negative to the U.S. consumer as there would be less disposable income available. This could be offset with large tax cuts and deregulation. Higher interest rates may also start to bite harder in 2025 as debts incurred at the 2020 lows will start to mature. Ultimately, there are multiple counterbalancing forces at play in 2025, but the general trend is toward modest growth and disinflation.

Leading Indicators

The Conference Board publishes an index consisting of a basket of leading indicators, including financial metrics and data on the consumer, housing, and manufacturing sectors. When this index declines by below 4.40 percent or more, the outcome has been a recession, as seen in three of the last four instances. The most recent instance was a false signal due to the whipsaw effect from the strong growth in pandemic recovery settling back to normal. However, the index is again hovering right around the critical level, with improvements in November 2024 numbers pushing the index out of recession territory. Financial components of credit strength and stock market gains are the strongest positive contributors, while consumer expectations and new manufacturing orders are the areas of greatest weakness.

Given these factors, the potential for a recession in 2025 remains present, although not a high probability event as real income growth remains solid and should see a boost in 2025 with potential tax cuts.



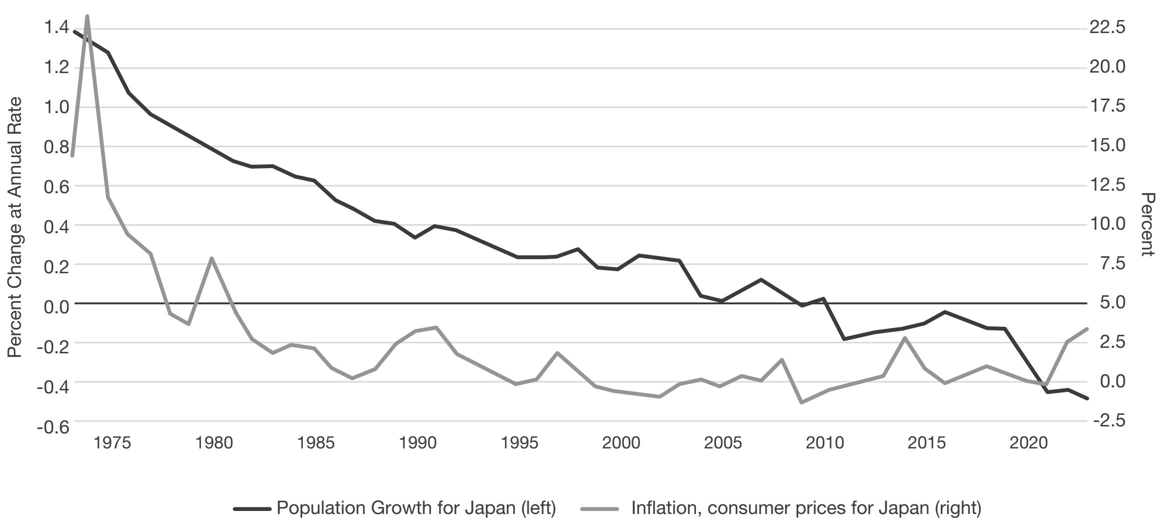
Source: The Conference Board. US Leading Indicators. Press Release. December 2024. Note: Shaded areas represent recessions as determined by the NBER Business Cycle Dating Committee

[7]U.S. Bureau of Labor Statistics, Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE

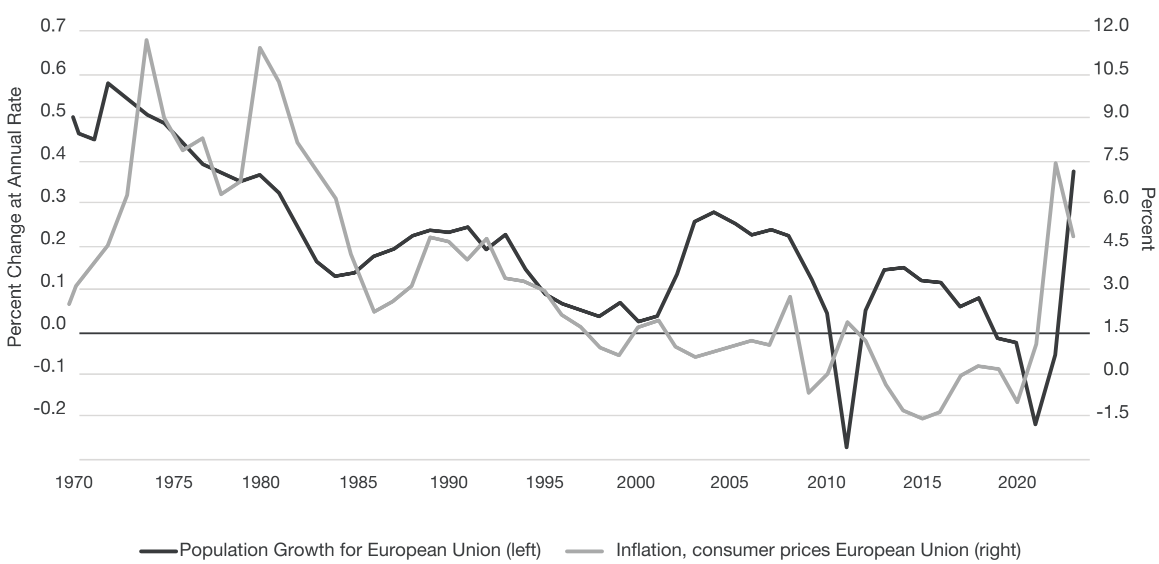
Inflation and Interest Rates

We expect inflation to continue to moderate throughout 2025. There are limited examples of developed economies with over-indebted, aging, and slow-growing populations, but our research shows a tendency toward disinflation and low interest rates in this type of demographic environment. We expect the U.S. to follow a path similar to Japan and Europe, albeit less extreme, as the U.S. has a more robust millennial generation which will offset some of the aging population. Any spikes in inflation would likely require another round of massive fiscal stimulus direct to consumers.

Japan's Population Growth & Inflation[8]



European Union's Population Growth & Inflation[9]

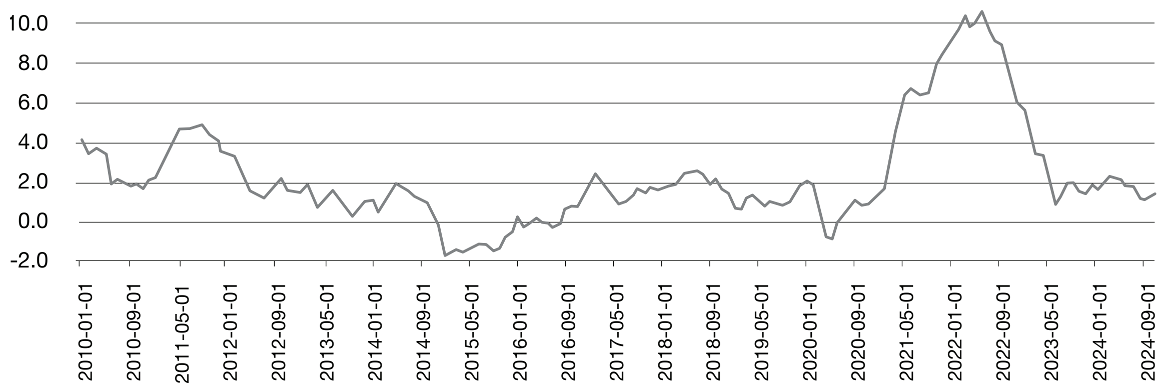


[8]World Bank, Population Growth for Japan [SPPOPGROWJPN], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SPPOPGROWJPN, July 11, 2024. World Bank, Inflation, consumer prices for Japan [FPCPITOTLZGJPN], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/FPCPITOTLZGJPN, July 11, 2024.

[9]World Bank, Population Growth for the European Union [SPPOPGROWEUU], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SPPOPGROWEUU, July 11, 2024.; World Bank, Inflation, consumer prices for the European Union [FPCPITOTLZGEUU], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/FPCPITOTLZGEUU, July 11, 2024.

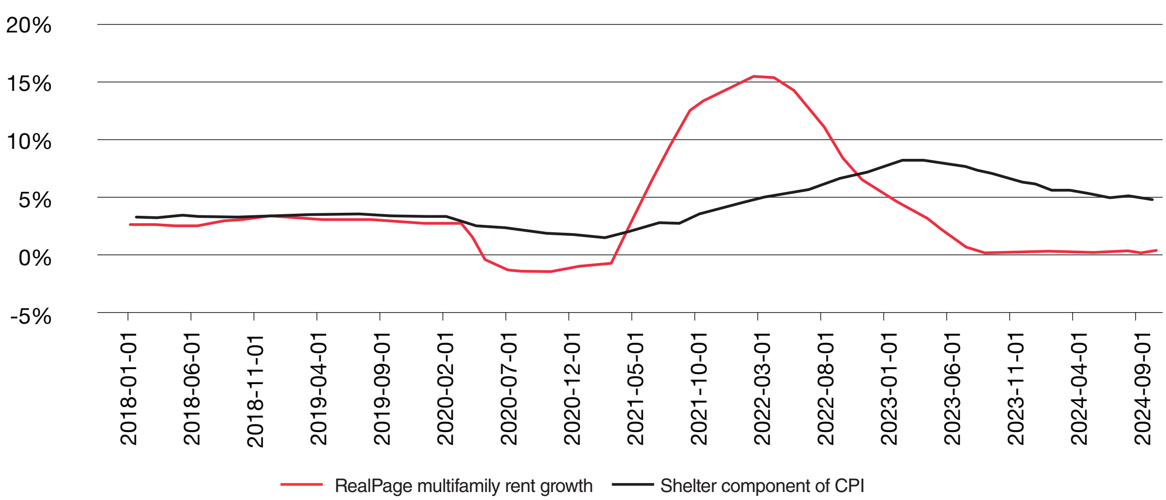
There is continued confirmation that the inflationary impulse driven by massive government deficits and stimulus spending was truly transitory. In fact, CPI excluding the shelter component has been well within the pre-pandemic range for 19 months and has remained below 2.00 percent since June 2024.[10]

CPI Less Shelter[10]



Removing shelter gives a clear picture of inflation, as the methodology for calculating the shelter component causes a lag of approximately 12 months relative to actual changes in rents. Comparing RealPage data to CPI shelter, fall 2024 multifamily rent growth was essentially flat while CPI shelter grew nearly 8.00 percent. This lag effect caused inflation to be dramatically understated in 2021 and 2022 and is now causing the headline CPI index to be overstated.[11]

CPI Shelter vs. RealPage Effective Rents[11]



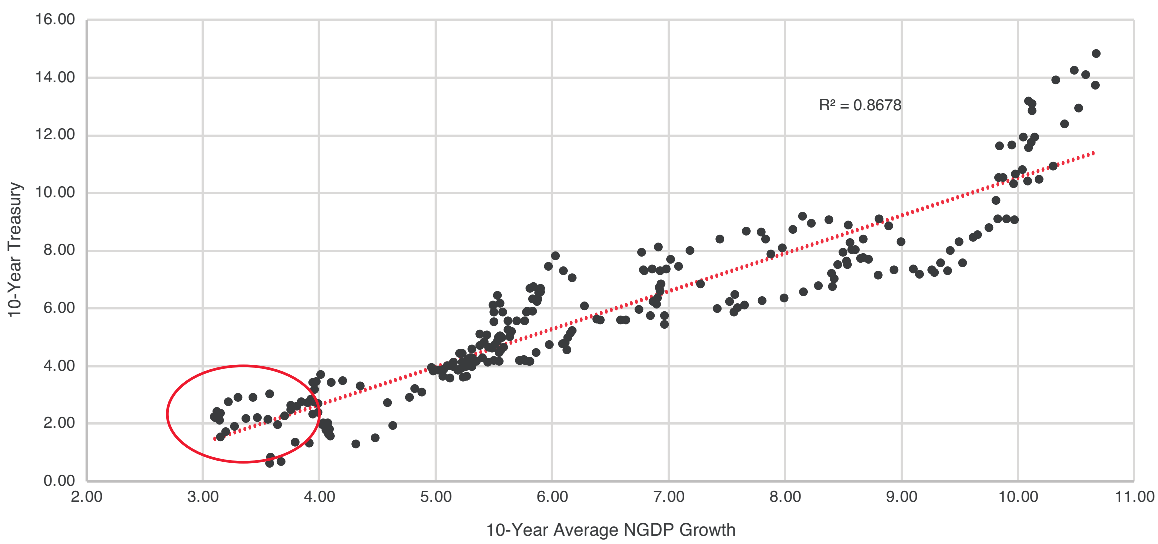
[10]U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items Less Shelter in U.S. City Average [CUSR0000SA0L2], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CUSR0000SA0L2
[11]U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Shelter in U.S. City Average [CUSR0000SAH1], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CUSR0000SAH1, RealPage Subscription Data

Interest Rates and Nominal GDP

With this moderating inflation forecast, we may see a stronger probability for downward pressure on interest rates. The Federal Reserve continues to signal that rates at the short end of the yield curve will ease, likely due to the slow growth and moderate inflation dynamics. However, this may be offset somewhat if there continues to be large deficit spending and tax cuts, but the likelihood of a return to high single digit inflation is low.

The 10-year Treasury has had a strong relationship with nominal GDP (NGDP) growth for the last decade (R-squared value of 86 percent). The inflation-induced spike seen in NGDP is now reversing.[12] Given this, and assuming real GDP in the 0.50 percent to 2.00 percent range, with inflation in the 1.50 percent to 2.50 percent range, it is reasonable to expect NGDP growth around 2.00 percent to 4.50 percent going forward. For reference, the average 10-year GDP growth rate from 2010 to 2019 was 3.7 percent.[11] This range on NGDP growth has historically been associated with 10-year Treasury rates below 4.00 percent as denoted in the red circle below. Therefore, the current 10-year Treasury rate sitting near 4.70 percent is relatively close to the top of the expected range, leaving more room on the downside verses upside.

10-Year Average NGDP Growth and 10-Year Treasury[12]



In other words, we expect the economy in 2025 and beyond to look a lot like it did in the decade after the Great Financial Crisis, low growth, low inflation, and low interest rates. This, combined with some short-term pressure on NOI and the recent decline in commercial real estate prices comes together to provide an interesting opportunity for commercial real estate over the next 12 to 24 months.

[12]U.S. Bureau of Economic Analysis, Gross Domestic Product [GDP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDP, Board of Governors of the Federal Reserve System (US), Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DGS10

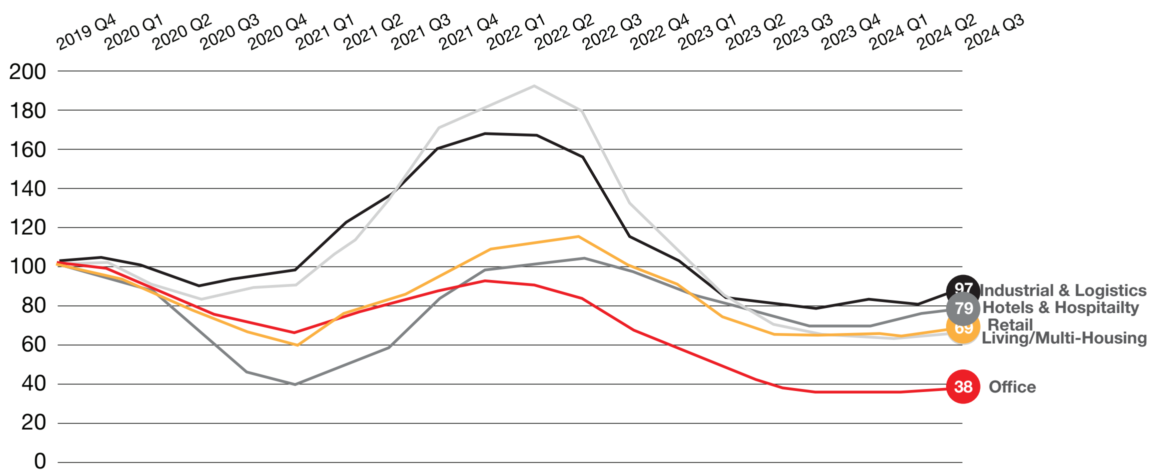
Commercial Real Estate Trends to Watch
Wall of Debt Maturities

The massive transaction volume from 2021 to 2023 created a great deal of debt to go with it. Much of the debt originated between 2019 and 2022 will be coming due in the next 12 to 24 months.

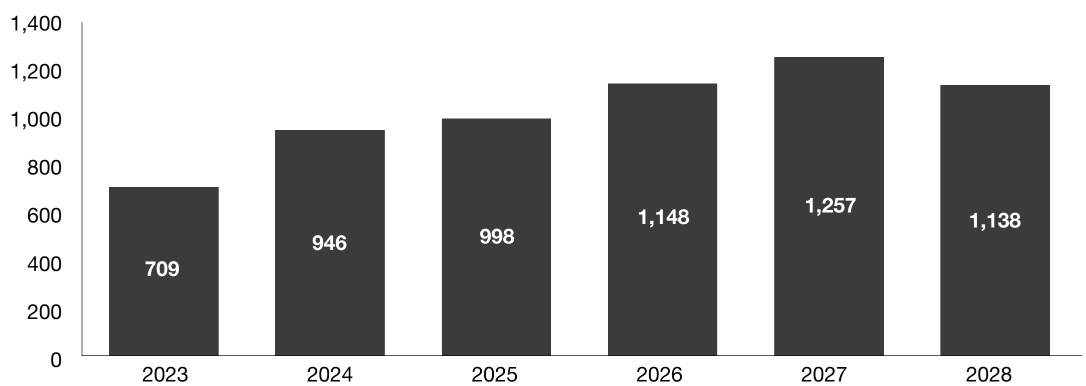
While we expect lenders to continue to have a preference to extend and work out situations with borrowers, this dynamic could put pressure on less-capitalized owners, creating an opportunity for stronger buyers to acquire these assets. Those assets with strong fundamentals but inefficiently structured capital stacks should come to market at attractive valuations as a result.

2024 ended with many borrowers receiving short terms extensions, increasing the nearly $1 trillion in maturities expected in 2025.[14]

Annualized Investment Volumes by Sector, Indexed to 2019[13]



Nearly $1 Trillion of U.S. Commercial Real Estate Mortgages Estimated to Mature in 2025[14]



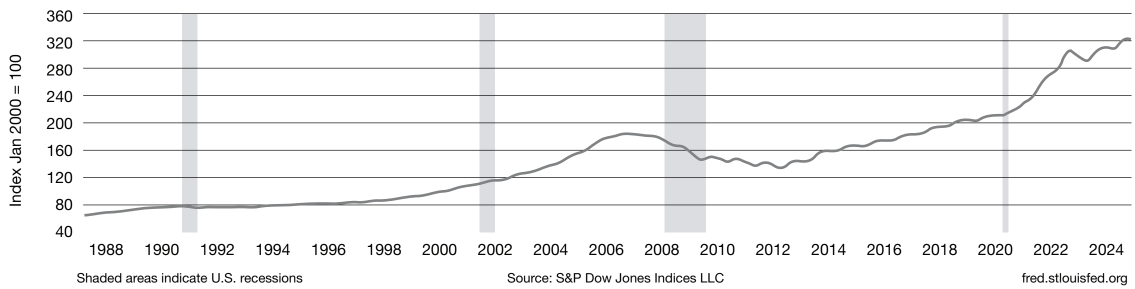
Data compiled Aug. 19, 2024.
Data represents the aggregation of 3.6 million commercial real estate property mortgages, sourced from various tax filings from approxiamtely 75% of US counties. While roughly 60% of the loans were originally missing a maturity date, analysis used a random forest model to impute the missing values. Since the random forest model varies each time it is run, the values shown represent averages across five runs.

[13] JLL. Growth in transactional activity more evident in Q3. Global Real Estate Perspective. November 2024.
[14] S&P Global. Commercial real estate maturity wall $950B in 2024, peaks in 2027. September 2024.

Affordability

Housing affordability will drive residential rental demand. Despite an increase in mortgage rates, the Case-Shiller Home Price Index is at an all-time high. This is driven by the continued demographic demand for housing, coupled with an extremely low supply of existing homes for sale. With many homeowners locked into mortgage rates in the 3.00 percent to 4.00 percent range, selling is not an attractive option.

S&P CoreLogic Case - Shiller U.S. National Home Price Index[15]

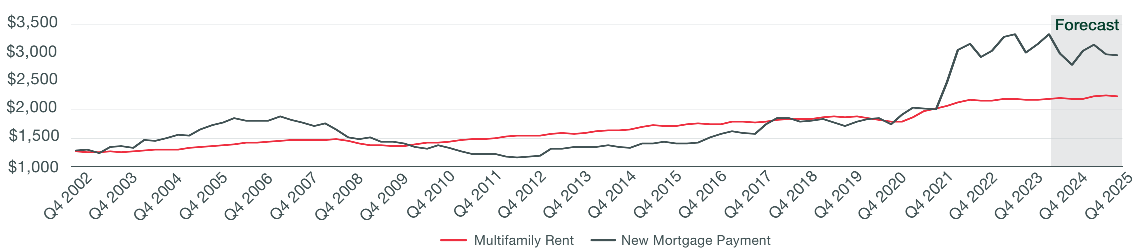


In fact, renting is more affordable than owning in all 50 major metro markets, with the typical mortgage payment exceeding rents by 37 percent.[16] This is before factoring in taxes, insurance, and maintenance, making homeownership out of reach for many.

A renter receives a new or like-new product with no additional cash flow needed for taxes, insurance, or maintenance, and receiving amenities like a pool and fitness center. Importantly, renters do not need to come up with a down payment required for traditional homeownership.

Given this backdrop, strong demand will remain for multifamily/rental housing in 2025 with certain subsectors of particular interest. While our outlook for declining interest rates may bring some relief to potential homebuyers, much of the potential benefit will be offset by increasing home prices as a lower interest rate will bring yet more buyers into the market, driving up prices given the supply constraints in the housing market.

Average Monthly Multifamily Rent vs. New Home Mortgage Payment Forecast[17]



Note: Does not include estimates for homeowner's or renter's insurance. Assumed down payment of 10% with prevailing and forecast interest rates.

The build-to-rent subsector will serve both major demographic cohorts - millennials and baby boomers. Millennials who are priced out of traditional homeownership will need to rent, but preferences are shifting from urban locations near nightlife and offices to suburban areas with more space for a family, dog, and cars. Meanwhile, baby-boomers looking to downsize and shed maintenance responsibilities while maintaining flexibility to move or travel will find build-to-rent options appealing.

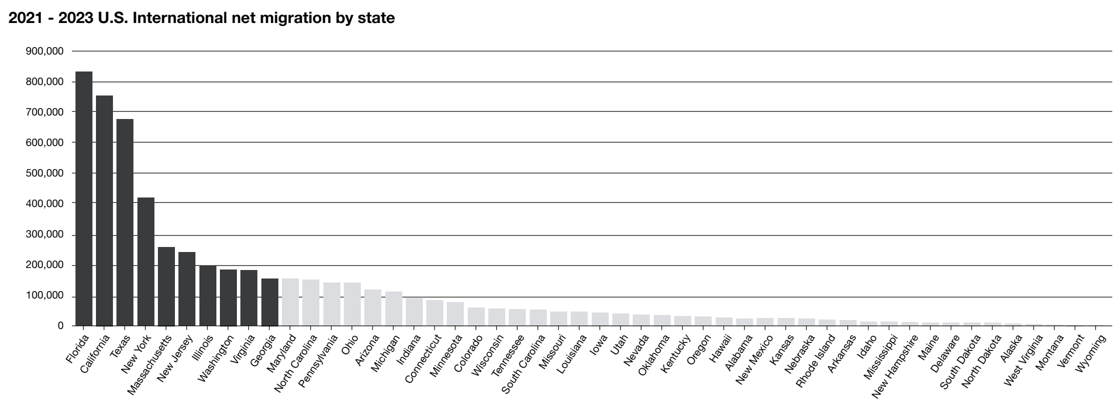
Manufactured housing communities also look to benefit given their status as the most affordable housing option available. These types of communities are in short supply and fill a very important need in the affordable housing space.

[15] https://www.spglobal.com/spdji/en/indices/indicators/sp-corelogic-case-shiller-us-national-home-price-nsa-index/#overview
[16] Bankrate. Buy or rent? Study shows renting is more affordable in the 50 largest metros. April 2024.
[17] CBRE Research, CBRE Econometric Advisors. Q3 2024.

Migration Patterns

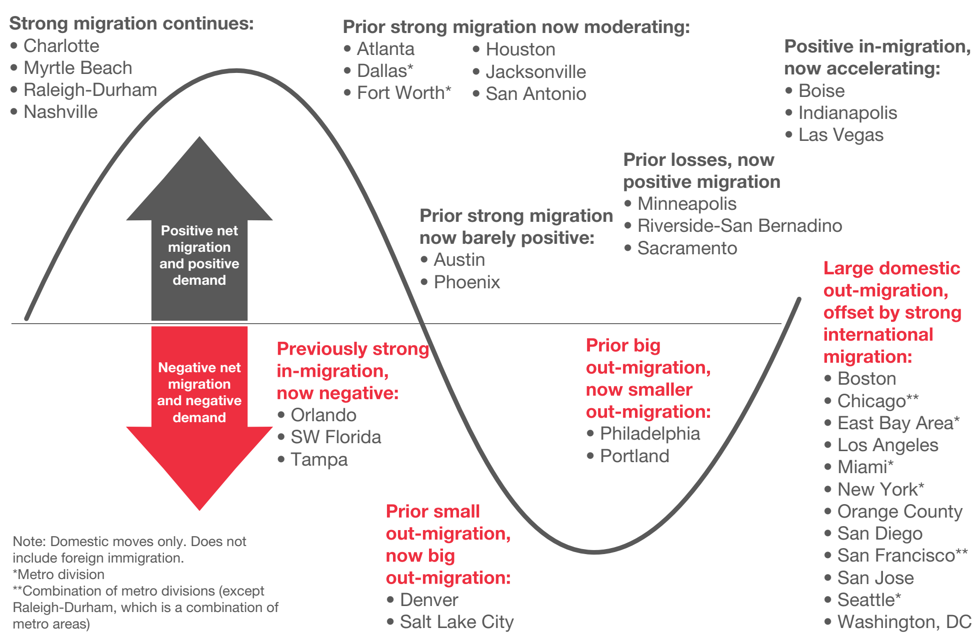
Both domestic population migration between states and immigration from abroad will have an outsized impact on commercial real estate demand going forward, especially as organic growth from births continues to wane. It is estimated that 75 percent of population growth in the next decade will come from immigration.[18] The profile of potential renters will also vary significantly depending on the migration timing a market experiences. International migration is concentrated on a few key states, with Florida, California, and Texas receiving the largest share.

10 States Account for 2/3 of International Migration Over the Past 3 Years[19]



Demand driven by net migration between states will also play an important role in coming years. Markets like Chicago, New York, and San Francisco will continue to see domestic migration out, which is offset by international immigration. Charlotte, Nashville, and Phoenix will be attractive markets for those leaving the east and west coasts, and Chicago.

Migration Market Trends[20]

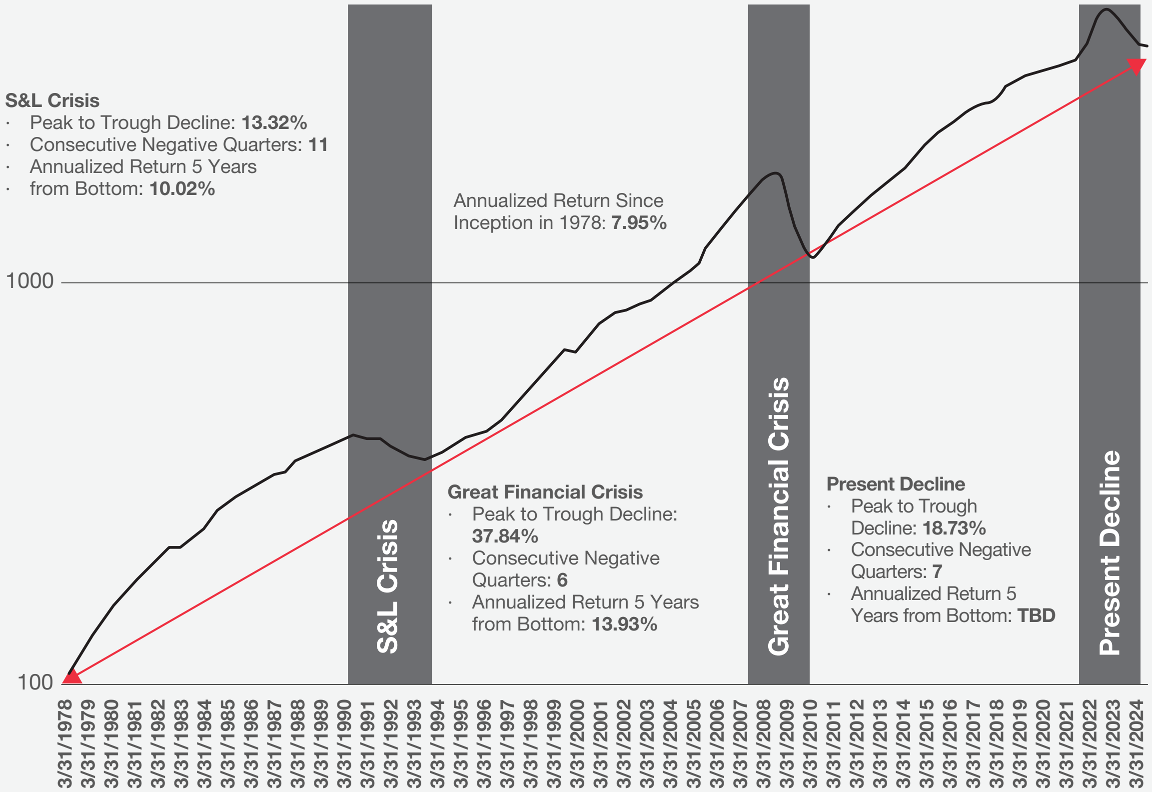


[18]PWC & Urban Land Institute. Demographics Steering Real Estate Markets in 2025 and Beyond. Accessed December 2024.
[19]Bureau of Labor Statistics, John Burns Research and Consulting LLC (Data: Jul-24; Pub: Sept 24). As seen in the Burns U.S. Demographics Insights and Strategies. PWC & Urban Land Institute. Demographics Steering Real Estate Markets in 2025 and Beyond. .
[20]John Burns Research and Consulting LLC, tabulations of Melissa Data Corporation data (Data: May-24; Pub: Sept 24). As seen in the Burns U.S. Demographics Insights and Strategies. PWC & Urban Land Institute. Demographics Steering Real Estate Markets in 2025 and Beyond.

Compelling Entry Point

After a peak to trough decline of 18.70 percent and seven straight negative quarters, the NCREIF NFI-ODCE index notched a 0.25 percent gain in the third quarter of 2024.[21] The present decline was the second largest drawdown in the history of the index, behind only the Great Financial Crisis (GFC), and one of only three sustained declines in the index's history. In the five-year period after both the S&L crisis and GFC, commercial real estate strongly outperformed its long-term average returns, posting double-digit annual gains verses the 7.95 percent gain since inception.[21] This provides an opportunity to achieve value-add-like returns while investing in core real estate assets.

NFI-OCDE Index (Log Scale)[21]



	S&L Crisis	Great Financial Crisis	Present Decline
Peak to Trough Decline	-13.32%	-37.84%	-18.73%
Duration (Quarters)	11	6	7
Annual Return 5 Years from Bottom	10.02%	13.93%	TBD
Outperformance (Over 7.99% Return Since Inception)	2.03%	5.94%	TBD

While there will undoubtedly be some short-term challenges to rent growth in 2025, as much of the new supply created during the 2021 to 2023 period is hitting the market, well-capitalized buyers with a long-term investment horizon have a compelling buying opportunity to acquire core assets during a rare pullback in valuations. Combining the pullback in values with a low interest rate outlook and strong demographic demand for real estate, 2025 will be an exciting time to enter the real estate market.

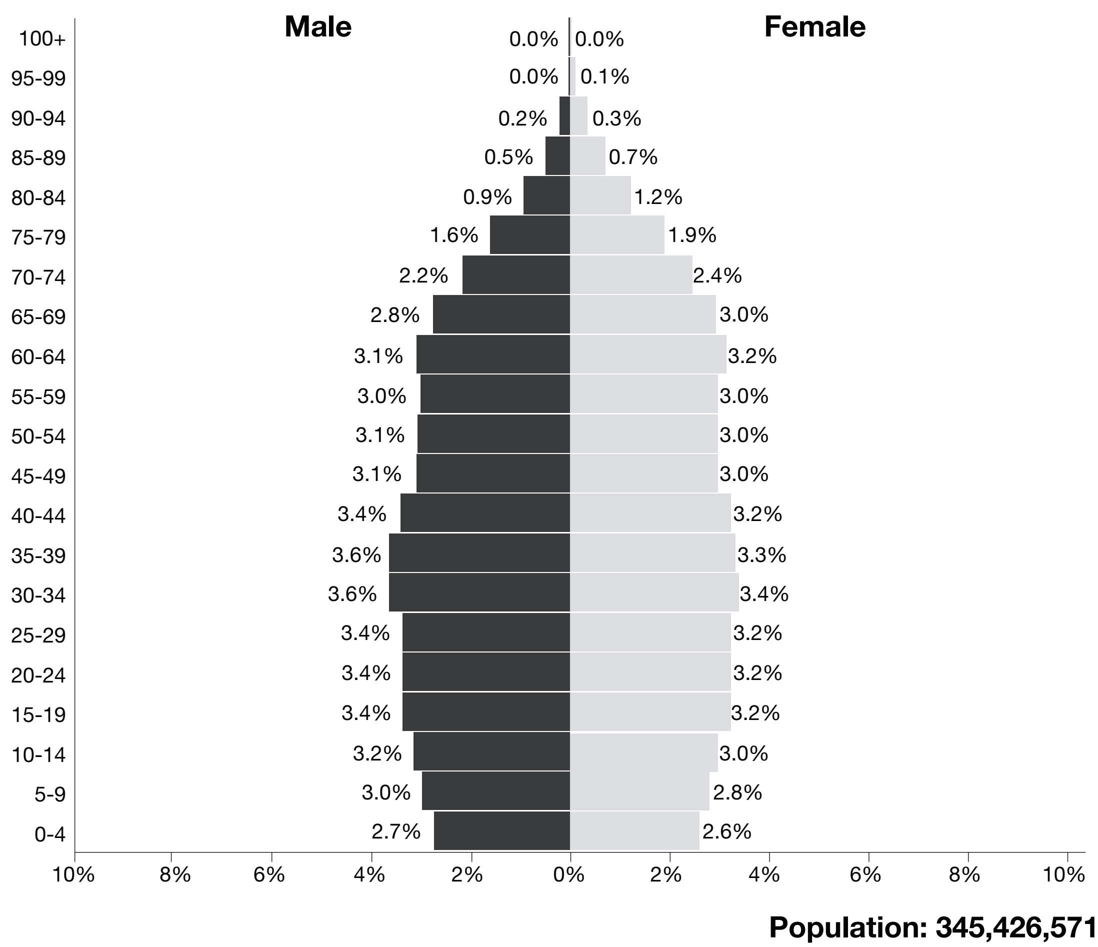
[21]NCREIF NFI-ODCE Index

Supply/Demand Dynamics Across High-Conviction Sectors

The demographic backdrop will drive supply/demand dynamics for commercial real estate throughout the next decade. Given the slow-growth macroeconomic environment, the strongest real estate sectors will be those whose demand is tethered to life events rather than economic growth. Those same real estate sectors also benefited from the low interest rates of 2020 to 2022, seeing a boom in construction starts during that time period.

Tracking the two bubbles in the population pyramid and the respective demand patterns can lead us to the source of where this demand will materialize, allowing investors to build a position in property types most closely tied to demographic trends.

Population of United States of America - 2024[22]



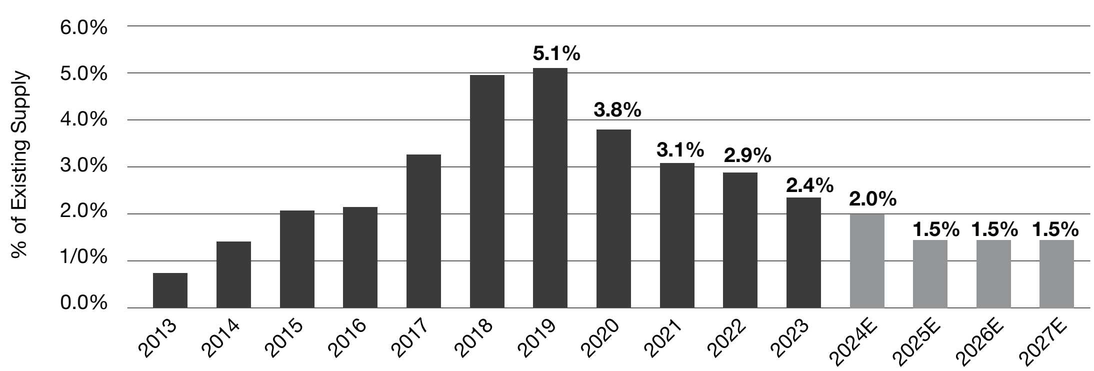
[22]https://www.populationpyramid.net/united-states-of-america/2024/

Self-Storage

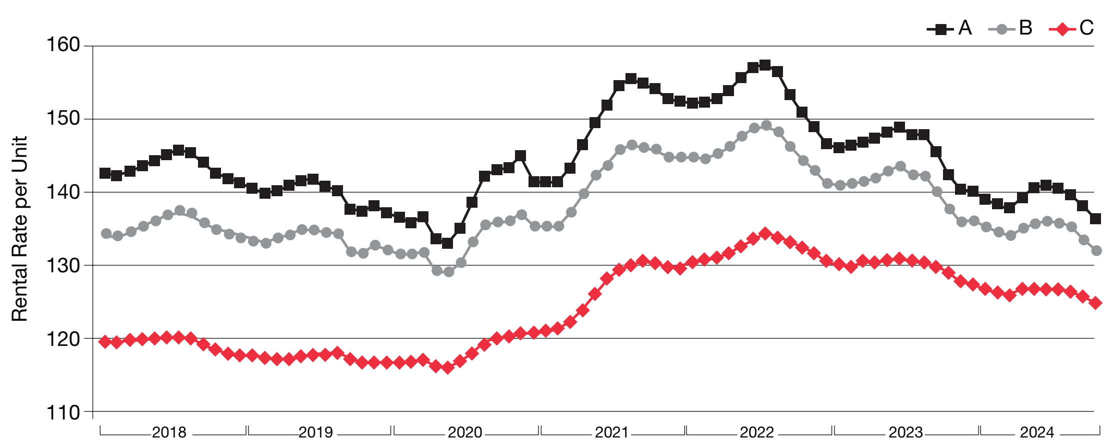
Storage rents boomed from 2020 to 2022 as pandemic related dynamics caused massive shifts in where people wanted to live and work. This housing churn brought significant storage demand with it. As that phenomenon reversed and interest rates spiked, storage rents declined significantly, resulting in under performance in the sector. As rents have now given back nearly all of the pandemic-era gains, the sector is poised to form a base and benefit from the stable demographic demand going forward.[23]

- Demand driven by life events such as a death, divorce, job change, relocation, or downsizing.
- Baby boomers entering retirement, while millennials are reaching peak homeownership era.
- Experienced largest supply increases from 2018 to 2020, with new supply growth steadily declining, projected to level-out around 1.50 percent to 2.00 percent as percentage of existing inventory.[24]
- Given the strong millennial demand for housing, we see a robust case for increased household formation driving additional demand to the sector as inflation and interest rates come down and housing transactions pick up.
- Self-storage has the potential for significant momentum due to a demographic shift in housing needs and a stabilization of supply, leading to the potential for rent growth in 2025.

Self-Storage Annual Supply Growth[24]



Self-Storage Rents by Improvement Rating[23]



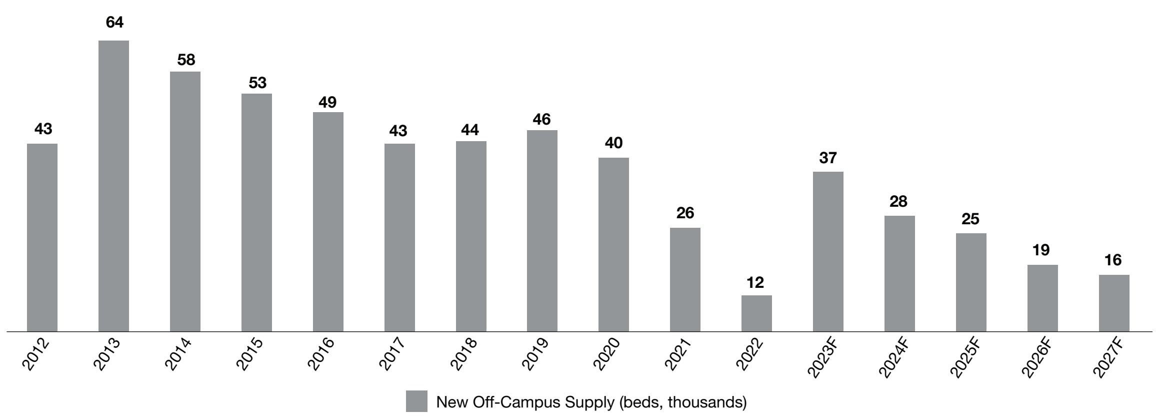
[23]Green Street Advisors. Self-Storage Sector Update. November 2024
[24]Yardi Matrix

Student Housing

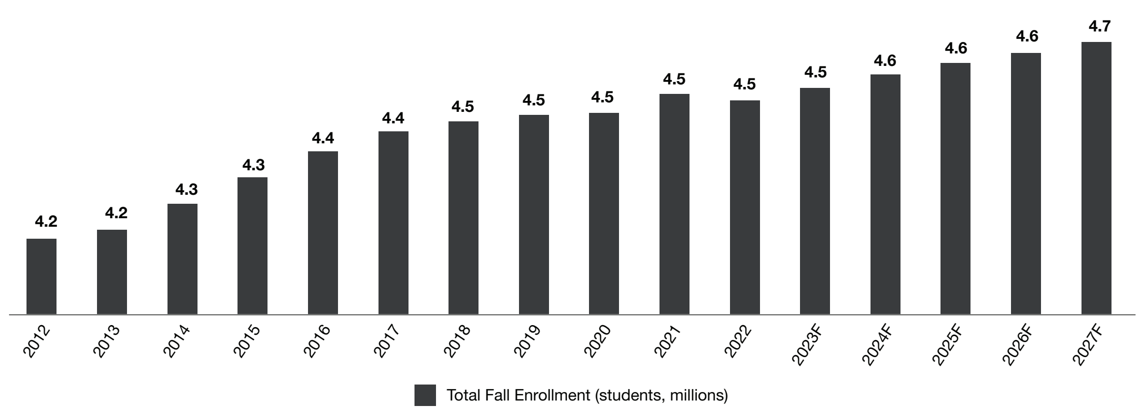
While student housing appears to have demographic challenges due to the millennial generation aging out, interesting dynamics are driving demand at top tier universities. Fall-off in demand due to demographic shifts has been felt by lower-tier schools. Schools in Power 5 conferences and others with robust athletic programs, facilities, and educational reputations have continued to see stable growth.

- Consistent application growth at top-tier schools amid overall enrollment trends shrinking.[25]
- Approximately 31,000 students per year through 2027 expected to enroll at top-tier universities according to Axiometrics.[26]
- New bed supply growth continues to fall, with average beds delivered expected to decline to less than 16,000 beds in 2027.[26]
- U.S. schools remain the number one destination for international students.
- 726 degree granting post-secondary institutions have shuttered over the past 10 years, which is 15 percent of the total. In 2024 alone, schools closed at a pace of one per week.[27]

Dwindling Supply[26]



Steady & Growing Enrollment[26]



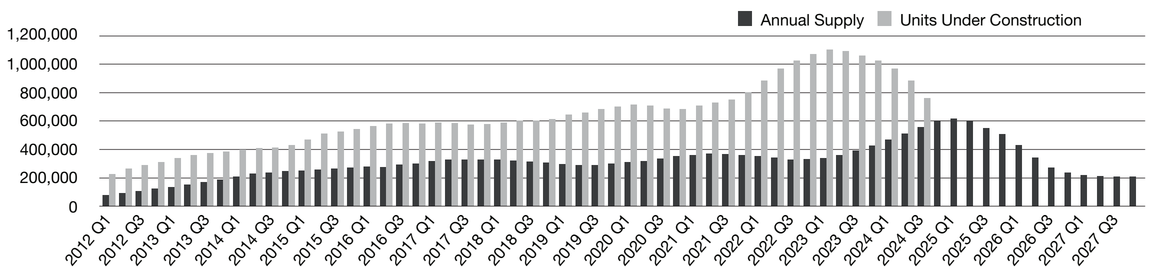
[25]Education Data Initiative. College Enrollment & Student Demographic Statistics. December 2024.
[26]RealPage/Axiometrica subscription data.
[27]USA Today. A college closes every week. How to know if yours is in danger of shutting down. August 2024.

Multifamily

Both traditional multifamily and subsectors such as build-to-rent and manufactured housing will continue to benefit from demographic trends and the lack of new construction starts.

- With current housing prices and interest rates at historic highs, traditional homeownership is not an option for many.[28]
- Rental demand from the millennial generation is shifting to areas conducive to working from home, starting a family, and away from downtown markets.
- Construction pipeline peaked during the first half of 2023 and annual supply growth is expected to start trending lower in 2025. New supply lags units under construction by about six quarters. The sharp decline in units under construction signals a coming decline in new supply hitting the market which we should begin to see toward the end of 2025.[29]
- Stagnant rent growth may persist until recently delivered supply is absorbed, but strong demand and falling construction starts bodes well for long-term rent growth.
- Build-to-rent properties are poised to benefit as the subsector that is especially attractive across multiple generational cohorts.

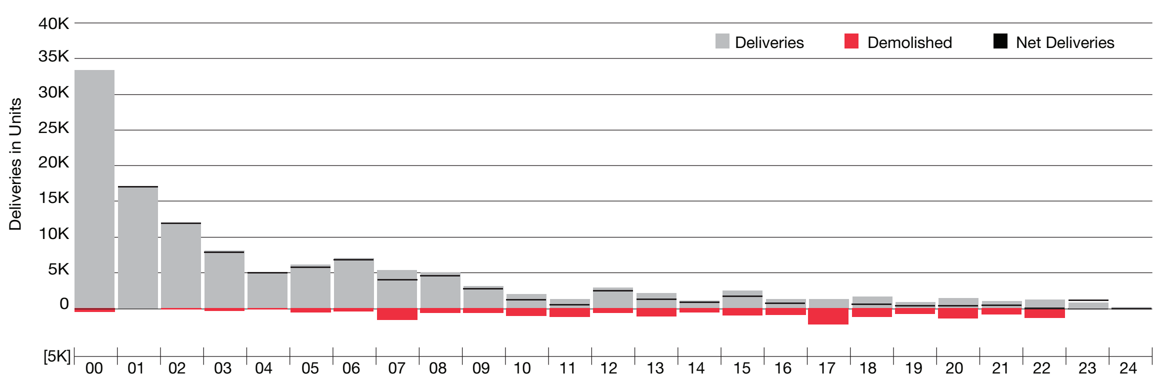
Multifamily Construction[29]



Manufactured Housing

- Manufactured housing communities have seen strong demand and rental growth given supply growth is extremely limited, with very few sites constructed in recent years.[30]
- Manufactured housing communities serve a critical function in the goal of providing affordable housing as they are the lowest cost option for many.[31] We expect increased demand across the board demographically due to this dynamic, with certain 55+ communities benefiting greatly from baby boomer retirement and downsizing.

Manufactured Housing Completions & Demolitions (2000 to Q2 2024)[30]



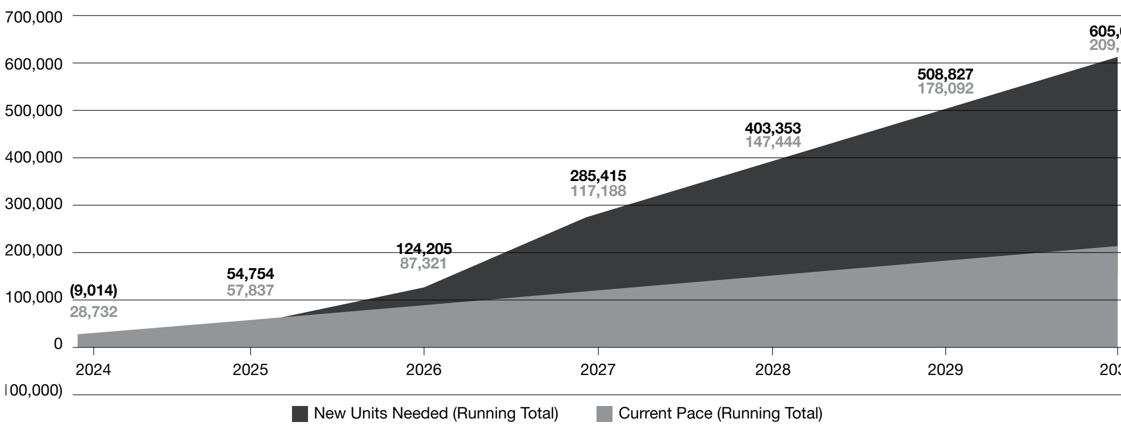
[28] https://www.spglobal.com/spdji/en/indices/indicators/sp-corelogic-case-shiller-us-national-home-price-nsa-index/#overview
[29] RealPage subscription data.
[30] Fannie Mae. Multifamily Affordable Housing Market Commentary. September 2024.
[31] Manufactured Housing Institute. About Manufactured Homes. Accessed December 2024.

Senior Housing

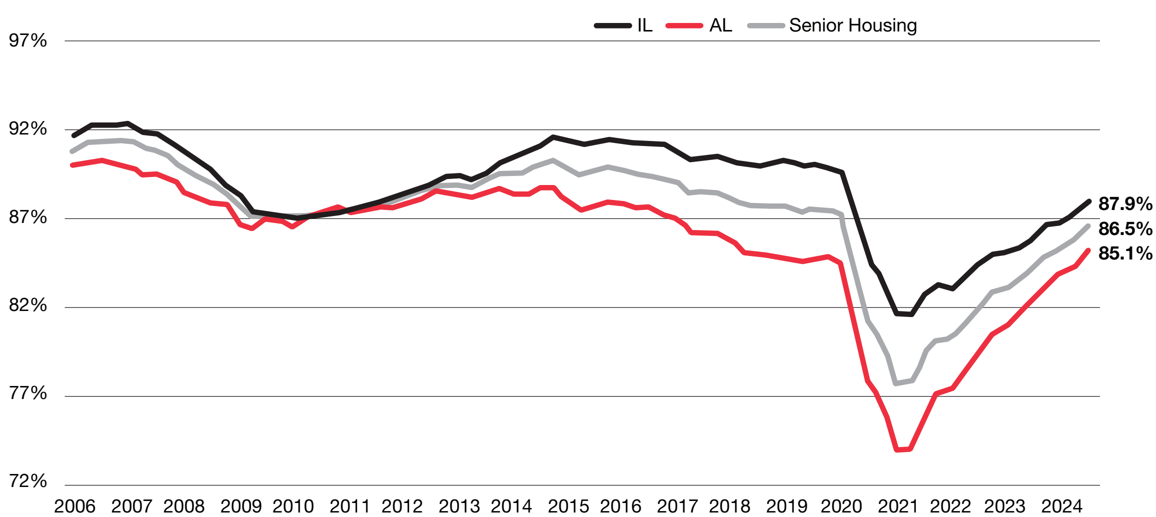
Senior housing demand is strengthened by the aging U.S. population and a considerable shortage in senior housing communities. With elevated construction costs and building code requirements, it will be challenging to create enough supply in the coming years, boding well for rent growth and post-pandemic margin recovery across the sector.

- As baby boomers reach their mid-70s, an increasing need for housing options that better suit them will emerge.
- More than 50 percent of the nation's wealth is held by the baby boomer generation.[32] We anticipate these cohorts will look to deploy a significant portion of this wealth toward high-quality senior housing options that provide them with high-end amenities and a sense of community as they age.
- By 2030, NIC estimates more than 600,000 units will need to be delivered to meet demand.[33]
- Construction starts are at levels last seen in the aftermath of the Great Financial Crisis with only 7,100 units breaking ground as of 3Q 2024.[34] At the current pace of construction, a severe shortage of units will emerge, creating conditions for very strong fundamentals going forward.

Aggregate New Units Needed to Maintain 90% Occupancy Based on Current Penetration w/80+ Growth[33]



Senior Housing & Majority Property Type Occupancy - Q1 2006 - Q3 2024[32]



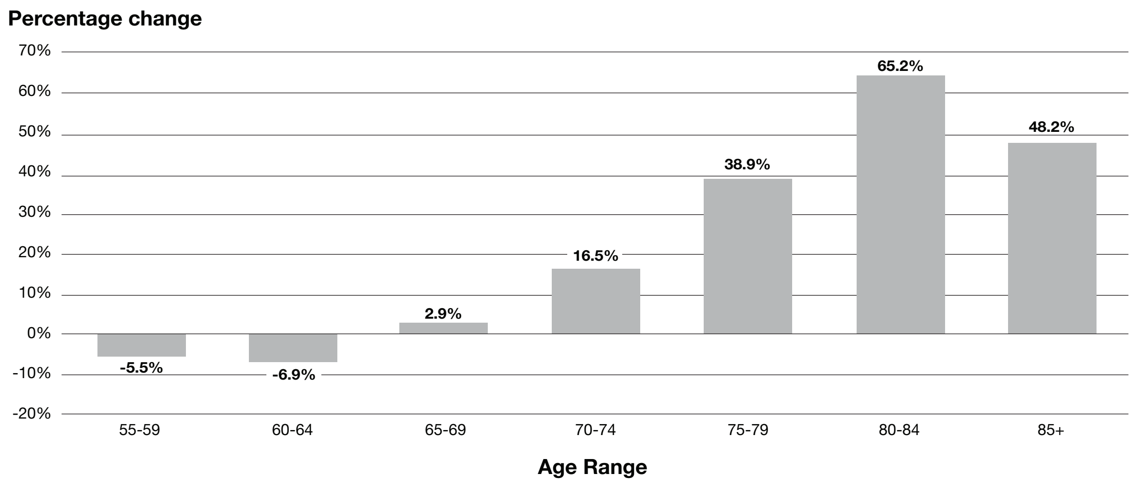
[32]Statista. Wealth distribution in the United States from the first quarter of 1990 to the first quarter of 2024, by generation. Accessed December 2024.
[33]NIC MAP Data(R), powered by NIC MAP Vision.
[34]NIC. Senior Housing Demand Outpaces New Supply in 3Q24. October 2024.

Medical Outpatient Buildings

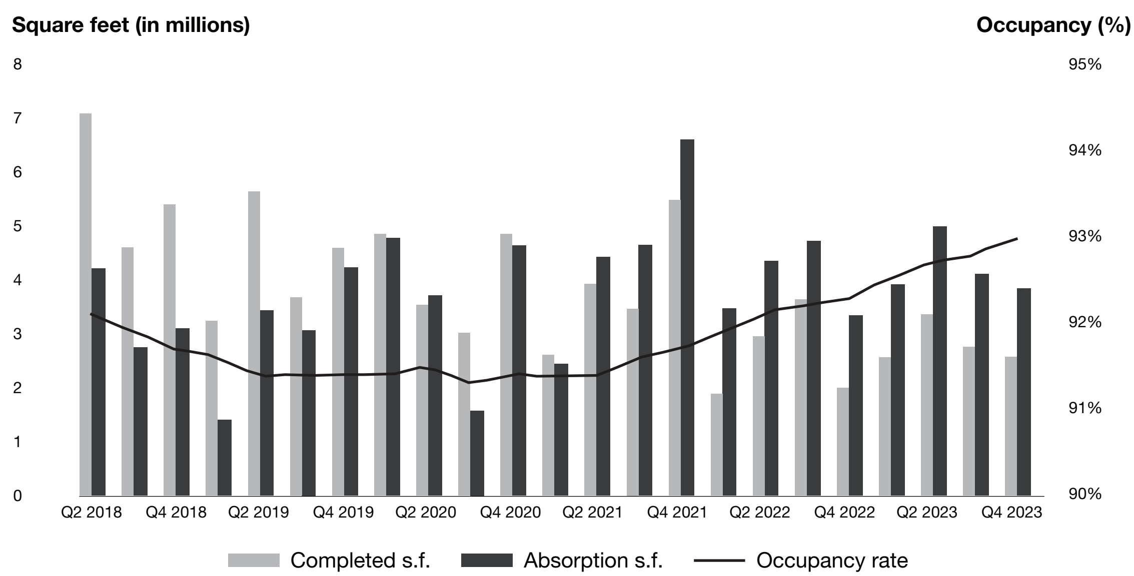
Medical outpatient demand will remain quite strong in 2025, benefitting from the most impactful demographic trend underway in the growth of the 65 and over population.

- The number of doctor visits rises significantly as a person ages.[35] Baby boomers will continue to drive demand for medical services.
- We have seen a sustained shift away from care delivered in hospitals and to outpatient buildings.[36]
- Increased demand continues to exceed supply, resulting in higher rents as occupancies reach a five year high across the sector.[37]
- The 85+ population is expected to grow by more than 50 percent over the next decade. This group spends more than $35,000 per capita on healthcare, which is vastly higher than any other age group.[38]

Outpatient Volume Growth 2021 to 2031[37]



Demand has Outpaced Supply Since Q2 2021, Causing Occupancy to Rise[37]



[35]Healthcare Realty, Investor Presentation, August 2023. https://s23.q4cdn.com/171268564/files/doc_presentations/2023/InvestorPresentation-August-2023.pdf
[36]Revista, 1Q23 Subscriber Webcast.
[37]CBRE. 2025 U.S. Healthcare Real Estate Outlook. November 2024.
[38]JLL Research. Medical Outpatient Building Perspective. April 2024.

Capitalizing on a Generational Opportunity

We believe 2025 will be remembered as a great vintage year for acquiring core assets that have the potential to generate value-add-like returns for investors with a long-term perspective. The macroeconomic landscape points to steady, albeit modest, growth and disinflation. While the possibility of a recession remains on the horizon, the immediate risk appears limited. As a result, a heavier emphasis on the intersection between real estate and demographic trends will serve as a compass to determine how to allocate across commercial real estate sectors. Moreover, the recent correction in valuations, the anticipated decline in interest rates, and the favorable supply-and-demand dynamics in select real estate sectors all contribute to a promising outlook for 2025.

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