WHITE PAPER

OPPORTUNITY IN U.S. COMMERCIAL REAL ESTATE

MARCH 2025

The U.S. is the largest global commercial real estate market and remains an attractive target for investors. Past return performance, favorable growth and demographics, a strong legal infrastructure, and a diverse asset base have historically attracted foreign investors, and we expect this trend to continue. This article examines recent investment activity and explores why now, more than ever, may represent a good opportunity for foreign investors to invest in U.S. real estate.

SHIFTING FOREIGN INVESTMENT

Cross-border acquisitions of U.S. commercial properties declined significantly in 2024, accounting for just 6% of total sales. This represents a sharp drop compared to the pre-pandemic five-year average of 14%.[1] The impact on property sectors has varied, reflecting shifts in investor preferences over time.

CBD office and industrial properties have undergone the most dramatic changes. Prior to the pandemic, CBD office assets comprised 24% of cross-border acquisitions, but this share dropped to just 14% in 2024. In contrast, industrial assets nearly doubled, reaching 35% of the total acquisition volume.[2]

Although cross-border investment remains constrained, the U.S. CRE investment market is showing tentative signs of recovery. The Federal Reserve has recently cut rates, ODCE/NPI returns moved further into positive territory in Q4 2024, and valuations (outside of office) appear to have bottomed. Total returns for the NFI-ODCE Index were positive in the last two quarters, potentially signaling the bottoming of the liquidity cycle. This is notable because historically there have never been fewer than nine consecutive positive quarters following such a bottoming out.

U.S. FACES BETTER ECONOMIC PROSPECTS

Since 2009, U.S. GDP growth has largely outperformed other advanced economies. The outperformance over the past two years has been especially stark—a trend that is expected to continue into 2025.[3]

While most economic indicators continue to signal strength, there are worries that widespread tariffs on U.S. trading partners could lead to increased costs for U.S. domestic manufacturers and consumers. Additionally, if immigration policies are substantially altered, it could result in reduced labor supply. This has reignited recession concerns in the U.S., echoing similar apprehensions during the first Trump administration. However, those fears were often tempered as actual policy implementation fell short of initial signals. More broadly, indicators of economic risk, such as the Economic Policy Uncertainty Index, remain elevated. In a higher-risk investment environment, investors are more likely to seek dollar-denominated real assets, particularly given the U.S. dollar's status as the global reserve currency. Furthermore, tariff policies could disproportionately impact other major developed economies that depend heavily on exports to the U.S.

[1] MSCI Real Assets, January 2025
[2] MSCI Real Assets, January 2025
[3] Oxford Economics, Moody's

ATTRACTIVE OPPORTUNITIES FOR INVESTMENT

The long-term demand drivers for U.S. CRE remain attractive on a broad basis, and the outlook for fundamentals remains healthy. Substantial opportunities are evident within the industrial, data centers, and housing sectors.

LOGISTICS The U.S. logistics sector was the top performing sector in the NCREIF Property Index every calendar year from 2016 to 2022, an unprecedented run. While the performance of fundamentals slowed beginning in mid-2022, recent activity is increasing, and the combination of strong demand from e-commerce and the reconfiguration of North American supply chains and on/ nearshoring, combined with reduced construction deliveries the next few years, should serve as a tailwind to performance.

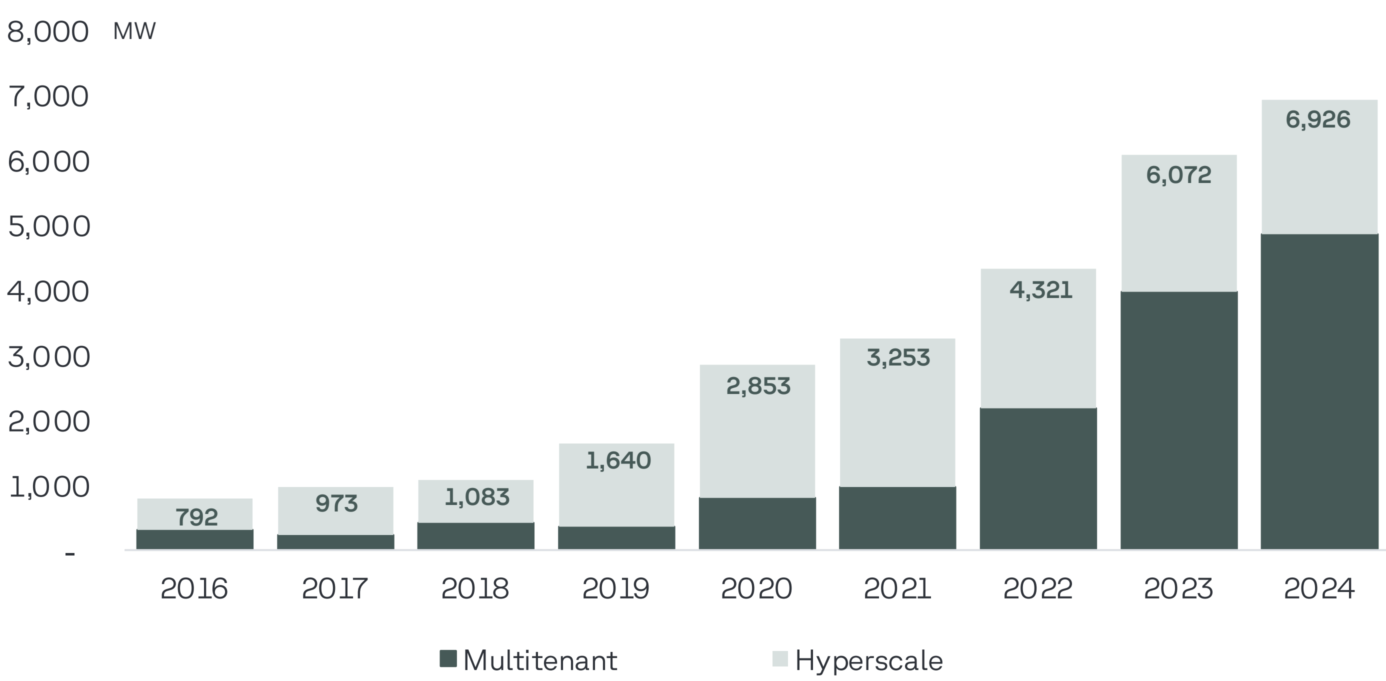
HOUSING In addition, evolving rental housing needs among a broad demographic coalition, combined with inadequate housing supply, has given rise to enduring investment opportunities across the rental housing spectrum. A combination of demographic trends, lifestyle choices, and the challenges of home ownership will continue to fuel strong demand for rental properties.

Despite some excess supply over the last two years, the long-term fundamentals in housing remain compelling.

DATA CENTERS The rapidly increasing demand for digital storage is expected to change the data center landscape for many years to come. Some of the largest companies for cloud computing, including AWS, Microsoft, Meta, and Google are U.S.-based, and are expected to be significant drivers of data center demand. In 2024, absorption neared 7,000 MW (Exhibit 1). This is a substantial increase compared to just over 1,000 MW of leasing as recently as 2018[4]. The demand for data is expected to be substantial, presenting a strategic advantage for vertically integrated investment platform.

LENDING Private real estate debt also presents an attractive proposition, at a time when traditional lenders have withdrawn from more complex situations due to regulatory and financial pressures. There continues to be an opportunity for alternative lenders to fill this void, create velocity, and capitalize on the robust demand in the commercial lending sector.

EXHIBIT 1: U.S. DATA CENTER ABSORBTION



Source: datacenterhawk, Affinius Capital Research

[4]datacenterHawk

RELATIVE PERFORMANCE

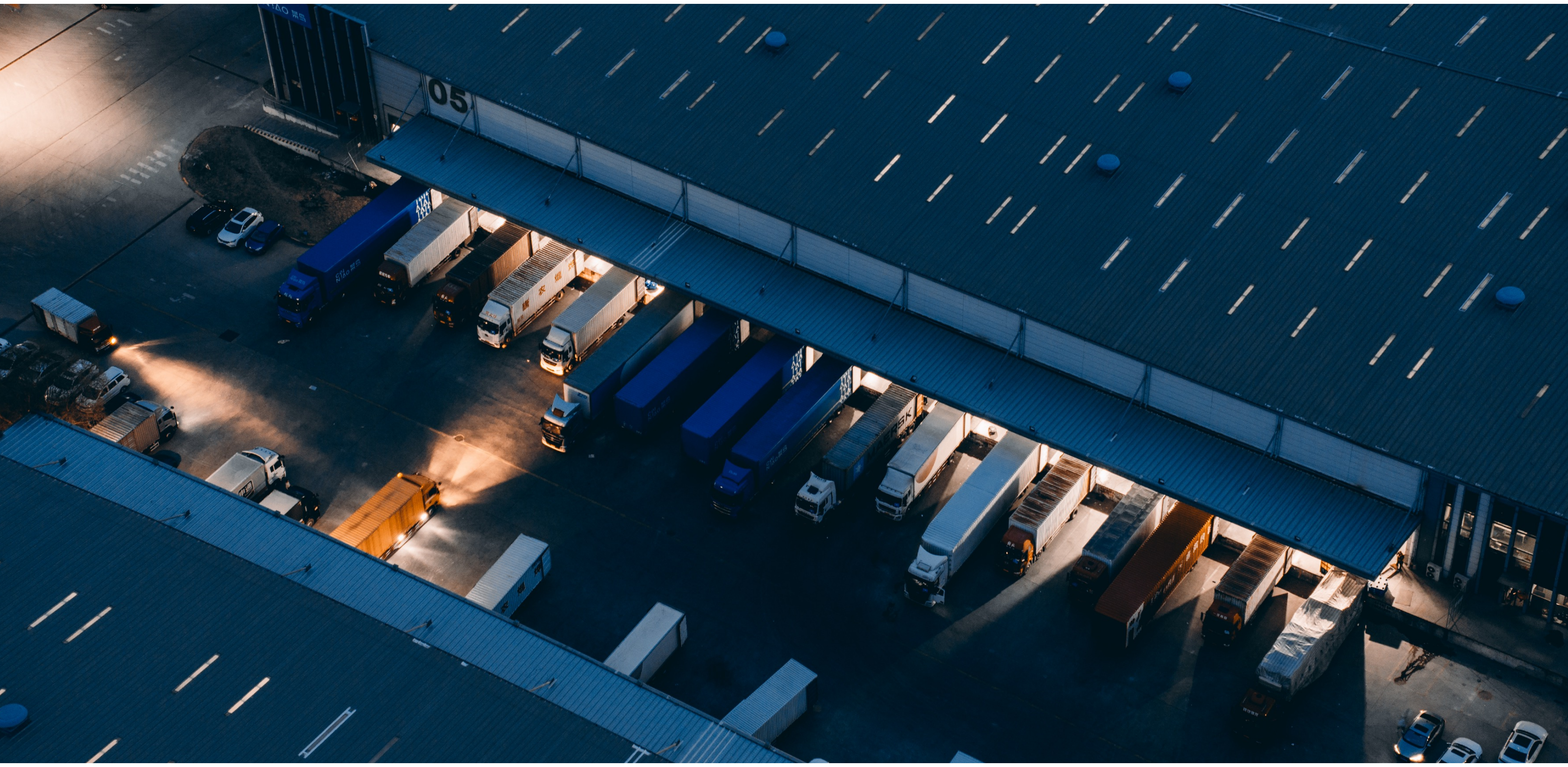
The long-term demand drivers for U.S. CRE remain attractive on a broad basis. Over the last 30 years, private core real estate, as measured by the NCREIF ODCE Fund Index, has generated compelling absolute returns; but more importantly, the strongest risk-adjusted returns for investors based on a Sharpe ratio of 0.75 (Exhibit 2). With greater clarity on future asset values anticipated, foreign buyers should become much more active as buying opportunities emerge.

EXHIBIT 2: TOTAL RETURNS BY ASSET CLASS AS OF 12/31/2024

ANNUALIZED TOTAL RETURNS	U.S. CORPORATE BONDS	U.S. EQUITIES	U.S. REITS	NFI-ODCE INDEX
5-Year	-0.30%	14.50%	3.30%	2.00%
10-Year	1.30%	13.10%	5.80%	4.90%
30-Year	4.60%	10.90%	9.60%	7.00%
Volatility	4.40%	16.50%	19.70%	6.20%
Sharpe Ratio*	0.5	0.52	0.37	0.75

Source: Bloomberg LP, NCREIF, Affinius Capital Research
*Based on 30-year time period

The U.S. is not immune from potential headwinds, but post-election there is a renewed confidence from businesses about the lower-tax, deregulatory, pro-growth mantra of the new administration that could help stimulate economic growth over the next several years. Given these factors, and amidst the uncertainty in global markets, one would do well not to ignore the positives for the U.S. as a compelling investment opportunity at this moment in time.



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Important Disclosures

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