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AFIRE is the association for international real estate investors focused on commercial property in the United States.

ABOUT

Summit Journal is the official publication of AFIRE, the association for international real estate investors focused on commercial property in the United States.

Established in 1988 as an essential forum for real estate investment thought leadership, AFIRE provides a forum for its senior executive, institutional investor, investment manager, and service provider members to help each other become Better Investors, Better Leaders, and Better Global Citizens through conversations, research, and analysis of real estate capital markets, cross-border issues, policy, economics, technology, and management. AFIRE has nearly 180 member organizations from 25 countries representing approximately US$3 trillion in assets under management.

Learn more at afire.org/summit

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BEND, NOT BREAK

In an increasingly uncertain environment, investors should be more selective, prioritizing investments that can offer durable income and seek to perform even in flat or faltering markets.

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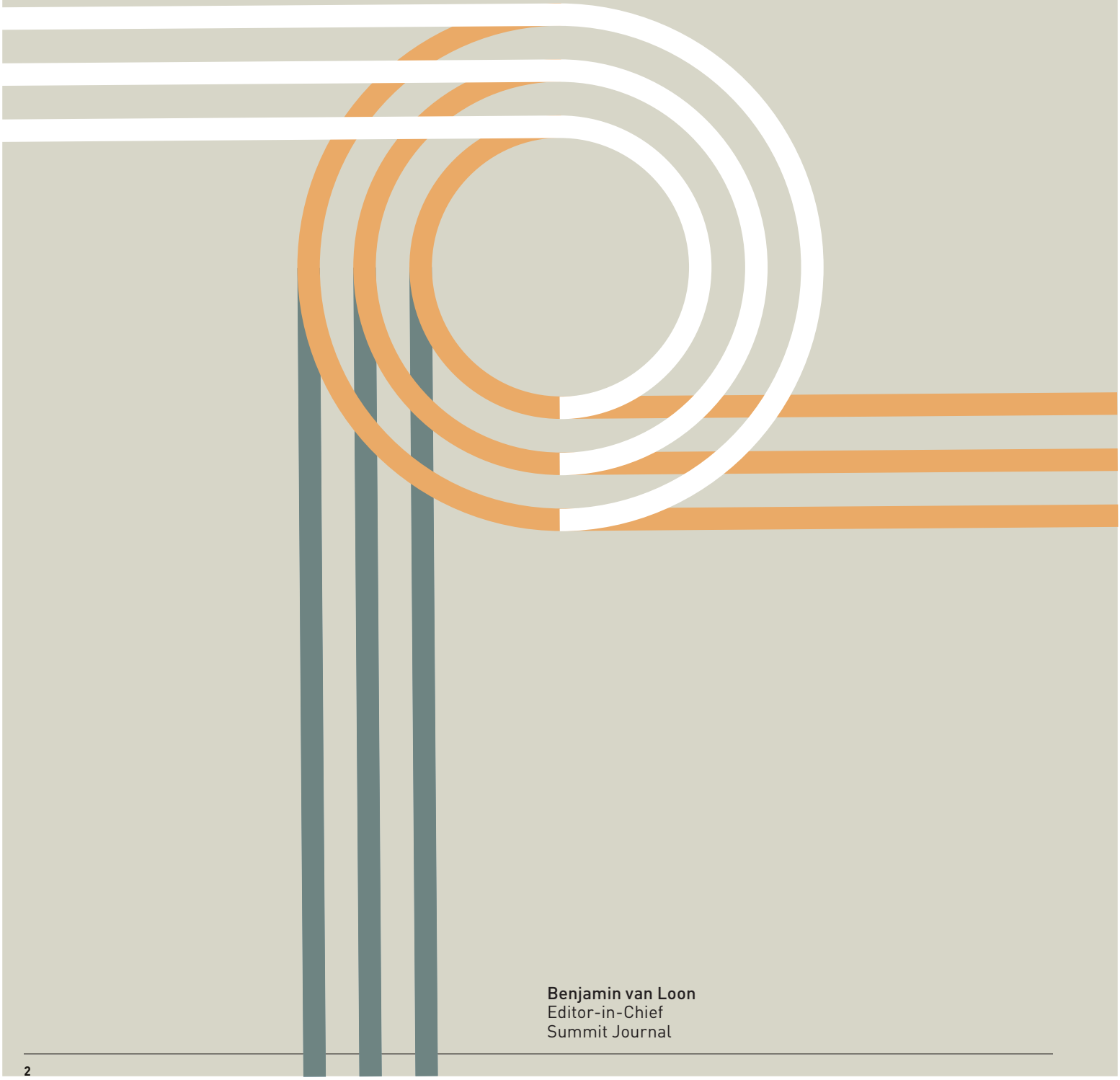

Benjamin van Loon
Editor-in-Chief
Summit Journal

Amidst rising geopolitical tensions, economic uncertainty, and adjacent pressures, one question stands out for investors: is the US still the right place for commercial real estate investment?

When it comes to real estate, institutional investors have something many individual investors can struggle to afford: patience.

And with their extensive systems of governance, compliance, ethics, and fiduciary responsibility, their view of the horizon is often leagues above what ordinary investors find at ground level.

As such, institutional investors are well positioned to follow the cycles set by real estate itself, which can often be influenced by current trends in the near term, but are otherwise subject to trends that extend far beyond the workaday economy.

In this context, data are referents, merely; consumer reports, migratory movements, technological advancements, and economic trends provide critical data, but so too does conviction, which is not easily quantified and thus not easily swayed by politicking or emotion. (Or as Benjamin Franklin once quipped: an investment in knowledge pays the best interest.")

And in today's global climate of weakening democracies; expanding combat zones in Europe, the Middle East, and parts of southeast Asia; a retreat from global neoliberal economics; and historical technological disruption (vis a vis the "AI revolution" and its marked impact on both broader labor trends and individual intellectual capacities), the role of America—and its longstanding position as a safe, stable destination for foreign direct investment in the commercial real estate space—is increasingly fractious, such that many investors are now questioning the continued prospect of America as a place to prove their real estate convictions.

The latest AFIRE survey report, which opens this issue, underscores this question, as respondents provide somewhat contradictory views on the future economic prospects for the US.

This contradiction is ultimately what inspired to frame the rest of the issue in kind: is the US still the right place for commercial real estate investment?

Likely yes, but the years ahead will require greater conviction than before. And so our contributors in this issue come armed with much needed context for refining investor knowledge, from effective AI governance to domestic migration to a closer look at non-US markets—including Canada and Mexico—which will likewise become an increasingly critical markets of question and interest for our association as we continue or ongoing evolution, within and beyond our membership, which now represents more than $4 trillion AUM around the world.

Capital is global, so where is the world going next?

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MID-YEAR PULSE

Benjamin van Loon
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The latest survey of AFIRE members covers contradicting economic outlooks for the US, but a more unified view of the view investors will play in the energy transition and solving America's ongoing housing availability and affordability challenge.

For more than thirty years, AFIRE has conducted a semi-annual survey of its members to gauge their sentiment around economic, demographic, and other commercial real estate trends in the US.

With AFIRE members now representing more than $4 trillion in global real estate assets, managed and owned across 180 organizations from more than two dozen countries, this survey has likewise served as a useful barometer of institutional investor sentiment over time. Especially because the real estate "point of view" is not immediately tied to contemporaneity but instead poised to balance the realities of current events and trends alongside longer-term theses for suitable returns.

And since the founding of AFIRE in the late 1980s, the world has operated a seemingly predictable and mostly stable global economic order, such that sentiments expressed over any multi-year period over the past three decades were originating from a consistent economic and political context.

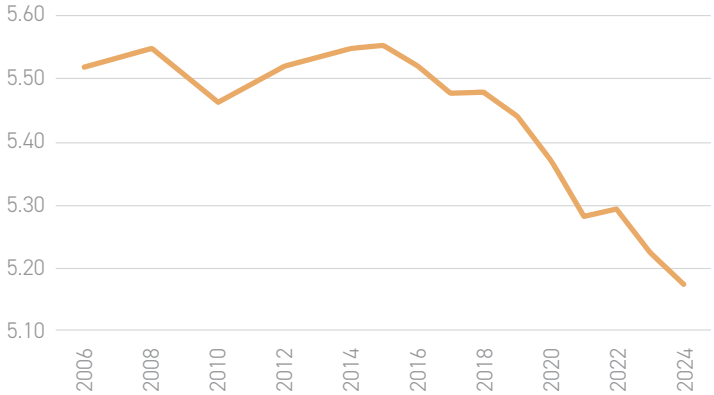
But now, this global order is facing a reformation—or what historians William Strauss and Neil Howe have dubbed "the fourth turning," in alignment with their "generational theory" of history which posits that social change follows a cyclical historical dynamic. In his latest book, The Fourth Turning is Here, published in 2023, Howe writes: "Every Fourth Turning unleashes social forces that push the nation, before the era is over, into a great national challenge: a single urgent test or threat that will draw all other problems into it and require the extraordinary mobilization."[1] And as anyone paying attention to geopolitics and foreign policy will note: it's clear that nations around the world are facing their own great national challenges—including America.

CHALLENGED DEMOCRACIES

As Howe and other historians and analysts have noted: America has largely retracted the strands of soft power it has used to maintain its place of global prominence (especially in the West) in the post-Cold War order. And meanwhile, active war fronts in Israel and Ukraine are simultaneously hot points of old conflagrations, and proxy arenas for the state, corporate, and ideological entities currently positioned behind the defenders or aggressors in these keystone regions—which ultimately represent the foundational tension between democracy and authoritarianism.

Although fragile and imperfect, representative democracy both empowers and is powered by regulated systems of free trade, allowing for lower barriers to foreign investment and subsequent opportunity for investment, partnership, and development—especially in real estate. But as global representative democracies falter, free trade and foreign investment are impacted in kind. And as stated plainly in the latest "Democracy Index," produced by the Economist Intelligence Unit (EIU) and released at the beginning of 2025: democracy isn't working.[2]

EXHIBIT 1: ECONOMIST INTELLIGENCE UNIT GLOBAL AVERAGE DEMOCRACY INDEX SCORE, 2006–24



Source: Economist Intelligence Unit

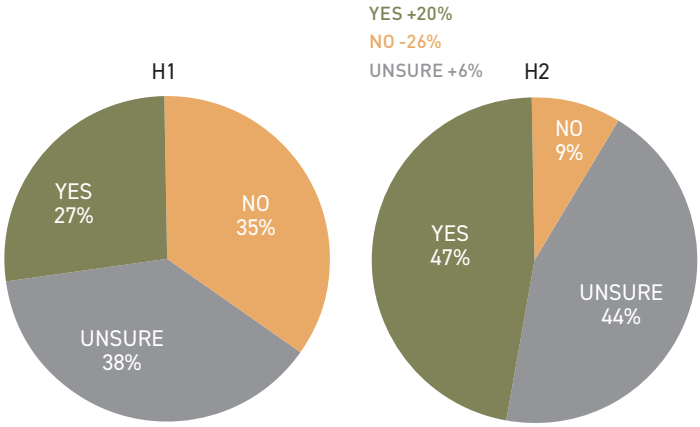
The EIU's Democracy Index assigns democratic scores to countries based on five inputs: electoral process and pluralism, functioning of government, political participation, political culture, and civil liberties. According to the latest report *(as detailed in Exhibit 1)*, only 15% of the world's countries (covering only 6.6% of the global population) are now categorized as "full democracies." Hybrid regimes (21.6%) and flawed democracies (27.5%), including the US, represent the majority of countries (49.1%), but authoritarian regimes—which result from hybrid regimes—account for nearly 36% of all governments tracked in the index, and almost 40% of the global population.[3] And as global disaffection with full democracy is expected to continue its decline, it's likely that the number of flawed, hybrid, and authoritarian regimes will grow in kind.

Conducting a survey on global investor sentiment in this context therefore presents a unique challenge, because the very paradigm of foreign investment is evolving in kind. The contradictions AFIRE has captured in economic outlooks from our survey respondents underscores the complexities of this evolution.

ECONOMIC CONTRADICTIONS

In the survey AFIRE conducted at the beginning of 2025, less than a third of respondents (27%) forecasted that the US economy was on track to a recovery within the next 12–18 months. Yet, when asking to opine on this same question in the most recent survey, concluded in August 2025, that optimistic view grew to 47%—but so did the number of "unsure," which grew to 44% *(Exhibit 2)*.

EXHIBIT 2: IS THE ECONOMY ON TRACK FOR A RECOVERY?



This contradiction is underscored in a series of agree/disagree statements listed in the survey *(Exhibit 3)*. There was a precise 50/50 split for those who agreed or disagreed with the statement that there will be a **decrease in foreign investment** into US real estate in the next year. So perhaps it is more telling that nearly 80% of respondents disagree (or are unsure about) a resultant **increase in foreign investment** on this same timeline.

Meanwhile, a majority (56%) disagrees with the notion that the US will see increased real estate **divestment** and largely agrees (84%) that foreign investors will be more likely to **remain in a hold pattern** on their US real estate investments until conditions stabilize.

For those who indicated a positive or negative response to their overall US economic outlook, the survey also asked them to assess their view of the US economy relative to all other global regions *(Exhibit 4)*. Encouragingly, the US still has a relatively positive view (62.5%), though a third of respondents have either a neutral (25%) or negative view (12.5%) of the same.

Those who hold a positive view of the US economy are citing GDP, interest rates, and labor and employment trends as that basis for their economic outlook, whereas those with a negative view are citing inflation metrics and the general political environment as cause for concern. (It should be noted that this survey was concluded around the same time Donald Trump fired Erika McEntarfer, head of the Bureau of Labor Statistics, which has otherwise been an apolitical source of US employment data, thus calling into question the future reliability of US employment data as a meaningful basis for economic opinion.)

EXHIBIT 3: DO YOU AGREE WITH THE FOLLOWING STATEMENTS ON US REAL ESTATE OVER THE NEXT 12–18 MONTHS?

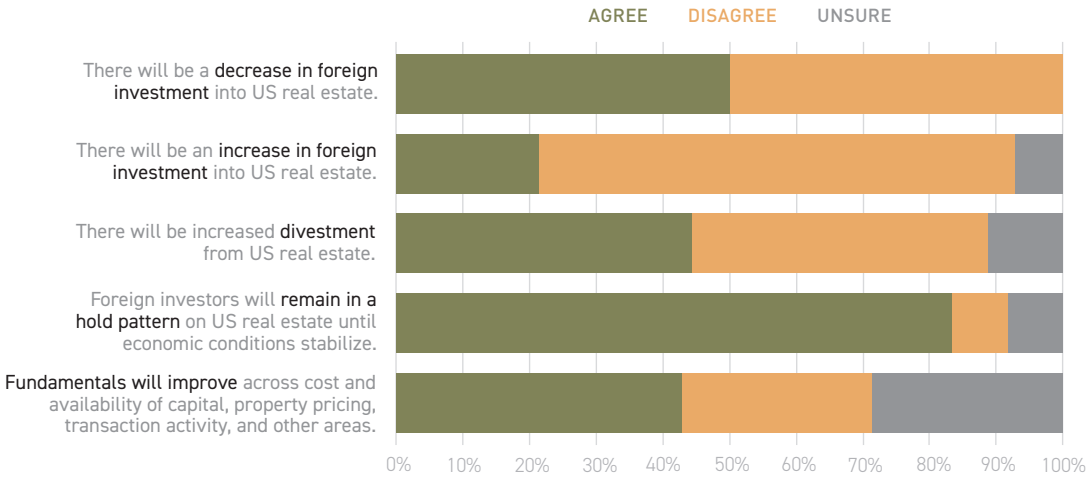
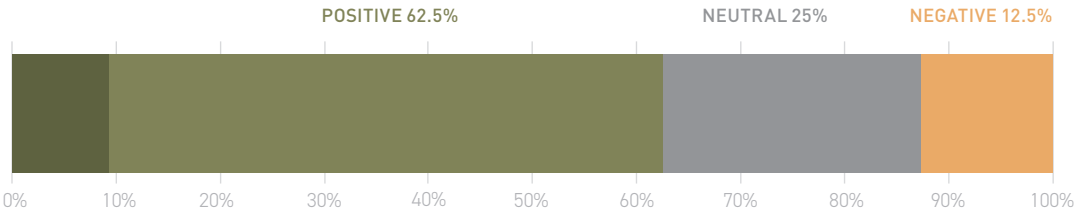


EXHIBIT 4: RELATIVE TO OTHER GLOBAL REGIONS, WHAT IS YOUR VIEW OF THE CURRENT US ECONOMY?



WHICH ECONOMIC DATA ARE INFORMING YOUR ECONOMIC OUTLOOK?

- ▶ GDP
- ▶ INFLATION METRICS
- CONSUMER CONFIDENCE
- DEMOGRAPHIC TRENDS
- ▶ LABOR AND EMPLOYMENT
- HOME SALES
- ▶ INTEREST RATES
- US DOLLAR PERFORMANCE
- ▶ POLITICAL ENVIRONMENT
- CONSTRUCTION STARTS

In general, whether their views are positive or negative, respondents indicate that interest rates, tariffs, and general geopolitical dynamics will continue to color investor opinions of US real estate over the next year *(Exhibit 5)*.

In this context of concern across these three key areas (interest rates, tariffs, and geopolitics), respondents are expecting some meaningful changes in how global investors will be approaching US real estate investment over the next 12–18 months *(Exhibit 6)*. Some percentage of respondents are expecting modest increases in US investment—especially in the Middle East (52%) and the APAC region (47%), with more modest increases expected from Europe and Central and South America. But decreases are forecasted across the board, with 60% of respondents looking at Canada for the largest decrease, followed by 50% of respondents forecasting the same for Europe.

Broadly, the economic outlook from the survey respondents belies a larger global narrative of contradiction that goes beyond real estate. Depending on your point of view as an investor, a "fourth turning" could be a benefit, could be a detriment, or could be fuel to focus on more practical solutions to real estate investment health.

EXHIBIT 5: WHAT ARE THE TOP FACTORS AFFECTING INVESTORS' OUTLOOKS FOR US REAL ESTATE OVER THE NEXT 12–18 MONTHS?

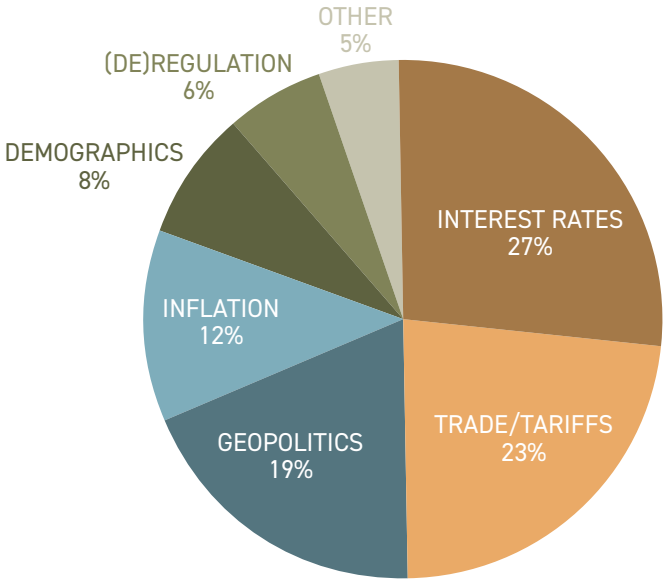
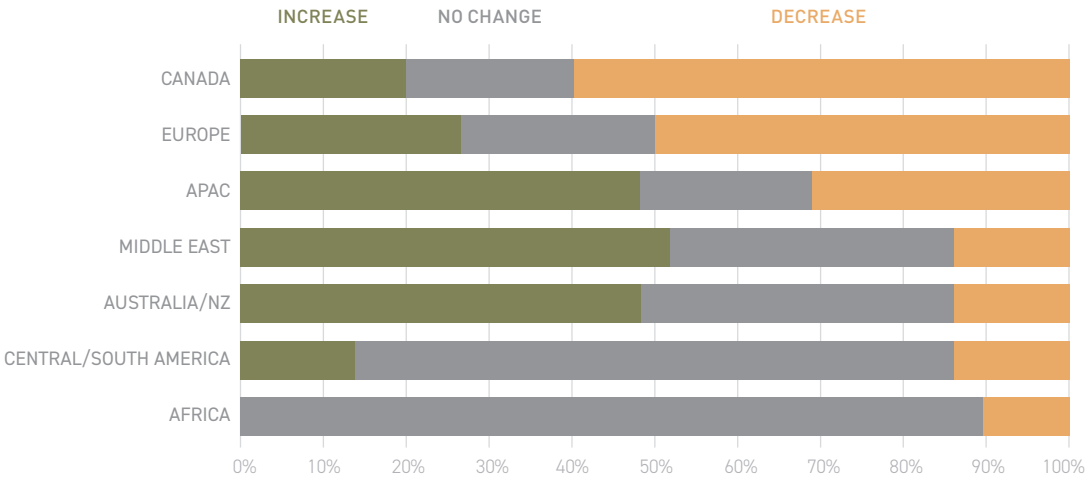


EXHIBIT 6: DO YOU PREDICT INCREASED, DECREASED, OR UNCHANGED INVESTMENT INTO US REAL ESTATE OVER THE NEXT 12–18 MONTHS?

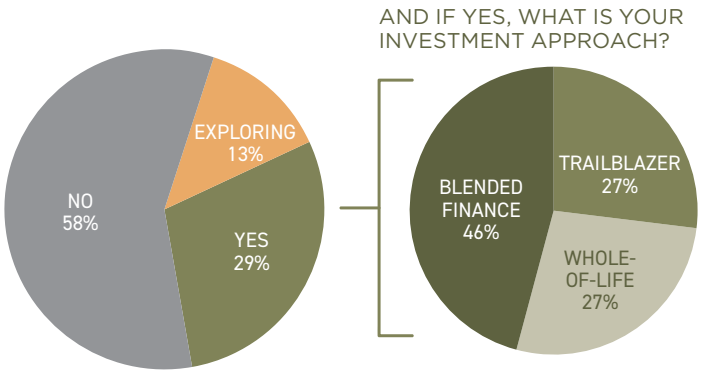


CONTINUING THE ENERGY CONVERSATION

Chief among pressing practical issues in commercial real estate is the ongoing renewable energy transition, which is continuing apace despite the otherwise disingenuous influence of a diminishing pro-carbon sect. Which is to say, even though fossil fuels still account for nearly 60% of global electricity generation, the annual electricity capacity of renewables increased by around 2,600 gigawatts between 2015 and 2024—a 140% increase against the 640 gigawatt (16%) increase in fossil fuel capacity creation during this same period.[4]

While 58% of respondents are not currently invested in assets or projects focused on the energy transition, the other 42% are either exploring or actively invested in the space *(Exhibit 7)*.

EXHIBIT 7: IS YOUR ORGANIZATION INVESTED IN THE GLOBAL RENEWABLE ENERGY TRANSITION?



According to a recent report from PwC, there are three primary ways long-term investors are involved in such projects.[5] **Trailblazers** use their resources to rethink energy projects, develop innovative solutions, and execute those solutions. **Whole-of-life investors** hold energy assets and projects for their entire life cycles, planning for changes in risk-adjusted returns over time. And the **blended-finance** approach allows long-term investors to enter into public-private and other partnerships to distribute risk.

Nearly half of the respondents (46%) are involved in blended approaches to the energy transition, in accordance with the more conservative approach to risk taken by institutions. But the trailblazing and whole-of-life approach are both particularly suited to institutional investors (especially sovereign wealth funds and public pension funds), because assets can often be difficult to move from fund to fund for asset managers, whereas the investors themselves can own energy-transition assets for their entire lifecycle.

But despite the fact that 58% of respondents are not involved in renewable energy projects or assets, more than 85% of all respondents recognize the importance of energy availability in their general due diligence and valuation processes *(Exhibit 8)*. And such energy considerations are only expected to increase over the next few years *(Exhibit 9)*.

EXHIBIT 8: HOW IMPORTANT IS ENERGY AVAILABILITY IN YOUR CURRENT DILIGENCE AND VALUATION PROCESS?

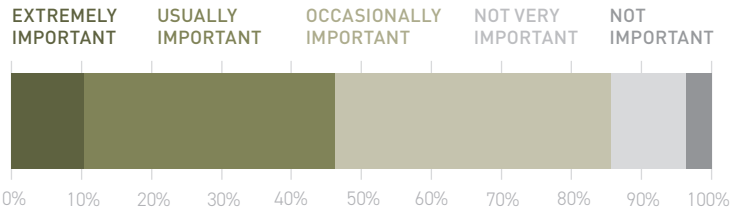
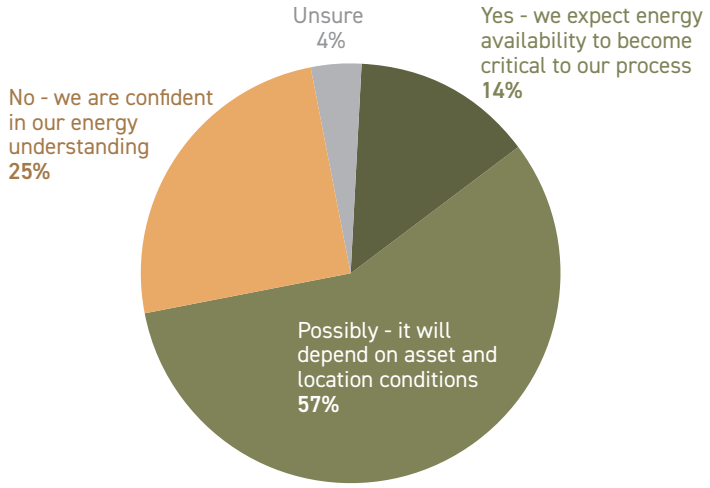


EXHIBIT 9: DO YOU EXPECT YOUR CONSIDERATION OF ENERGY AVAILABILITY TO CHANGE OVER THE NEXT FIVE YEARS?



Similarly, 22% of respondents are working with local municipalities and utilities to ensure that their assets have access to reliable energy sources, with 48% engaging with these groups depending on the sort of assets being invested in or developed *(Exhibit 10)*.

It's likely that the investors who are already engaged with their energy authorities will be able to have some autonomy in the continued evolution of the energy markets. Various state and federal solutions to the energy transition have been well documented (even if the current US federal administration is critical of such solutions), but investors have indicated what they can do themselves to advance this transition, with or without public support or subsidy.

For example, as shown in *Exhibit 11*, nearly a third (30%) of investors cite their own rationale for product choice or design to be integral in the transition effort, similarly looking to the private market to reflect their influence or preference (22%). These same organizations may also have their own internal energy or decarbonization targets (20%) and are designing their portfolios accordingly (16%). Perhaps surprisingly, lobbying only accounts for 5% of more effective investor-guided solutions.

EXHIBIT 10: DO YOU WORK WITH LOCAL MUNICIPALITIES OR UTILITIES TO ENSURE THAT YOUR ASSETS HAVE RELIABLE ENERGY SOURCES?

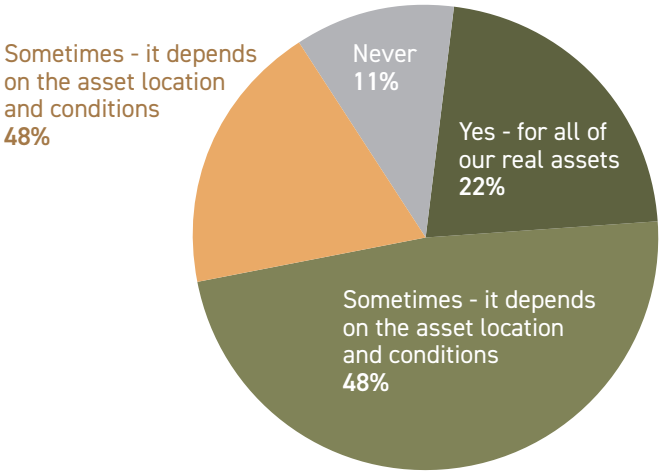
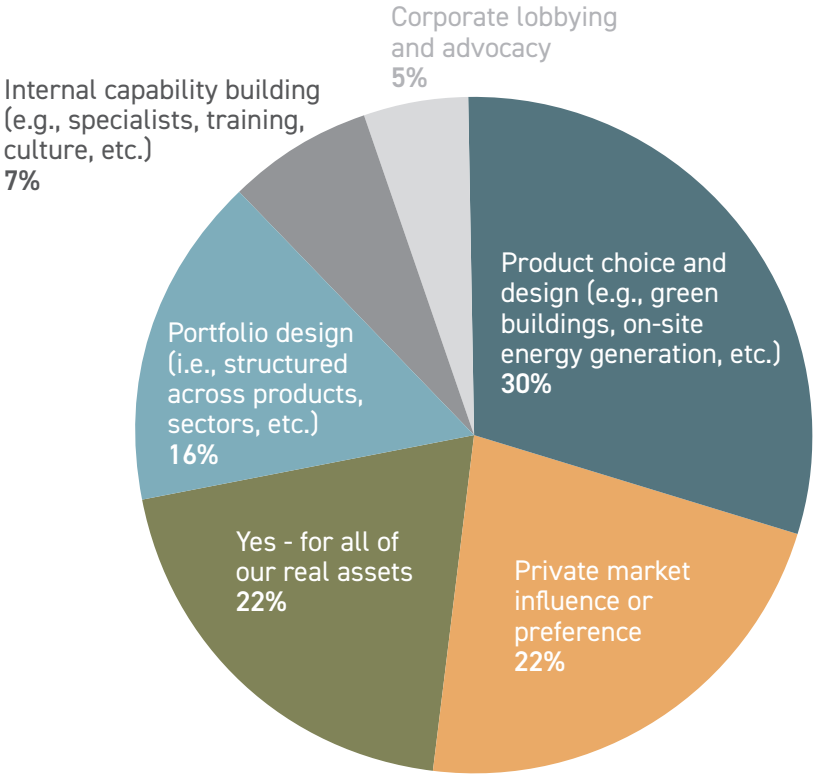


EXHIBIT 11: WHICH INVESTOR-CONTROLLED LEVERS WILL BE THE MOST EFFECTIVE FOR GUIDING THE ENERGY TRANSITION?



HOUSING AVAILABILITY AND AFFORDABILITY

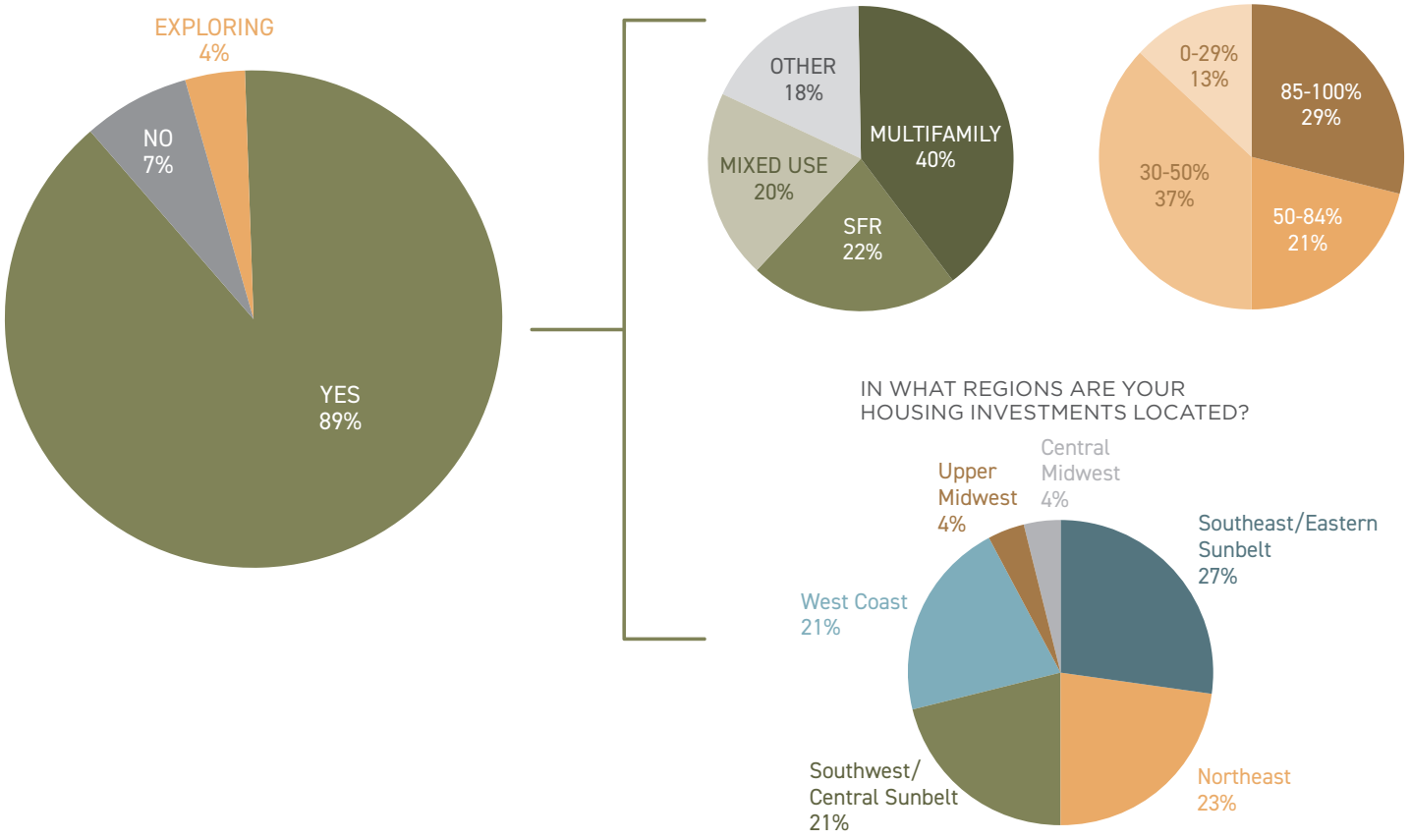
Similar to the challenges of the energy transition, the housing availability and affordability crisis in the US is well-understood by investors. Nonetheless, it remains a persistent and critical issue for ongoing investment opportunity in the US.

As detailed in *Exhibit 12*, nearly 90% of the AFIRE survey respondents are invested in housing assets, with 60% of those invested in some form of multifamily or mixed-use projects. Single-family rentals comprise around 22% of respondents' housing assets, and the other 18% generally include student housing, senior housing, and others.

Nearly 30% of housing investors in the survey are majority focused on housing (accounting for between 85% and 100% of their portfolios), but most respondents include housing in their broader mix.

And not surprisingly, most institutional portfolios that include housing are focused on Sunbelt and coastal regions, with only 8% holding housing investments in the American Midwest. But depending on the other trends at play—including migration, demographic shifts, affordability issues, and climate challenges—these weights are likely to shift in the coming years.

EXHIBIT 12: IS YOUR ORGANIZATION INVESTED IN HOUSING ASSETS OR PROJECTS?

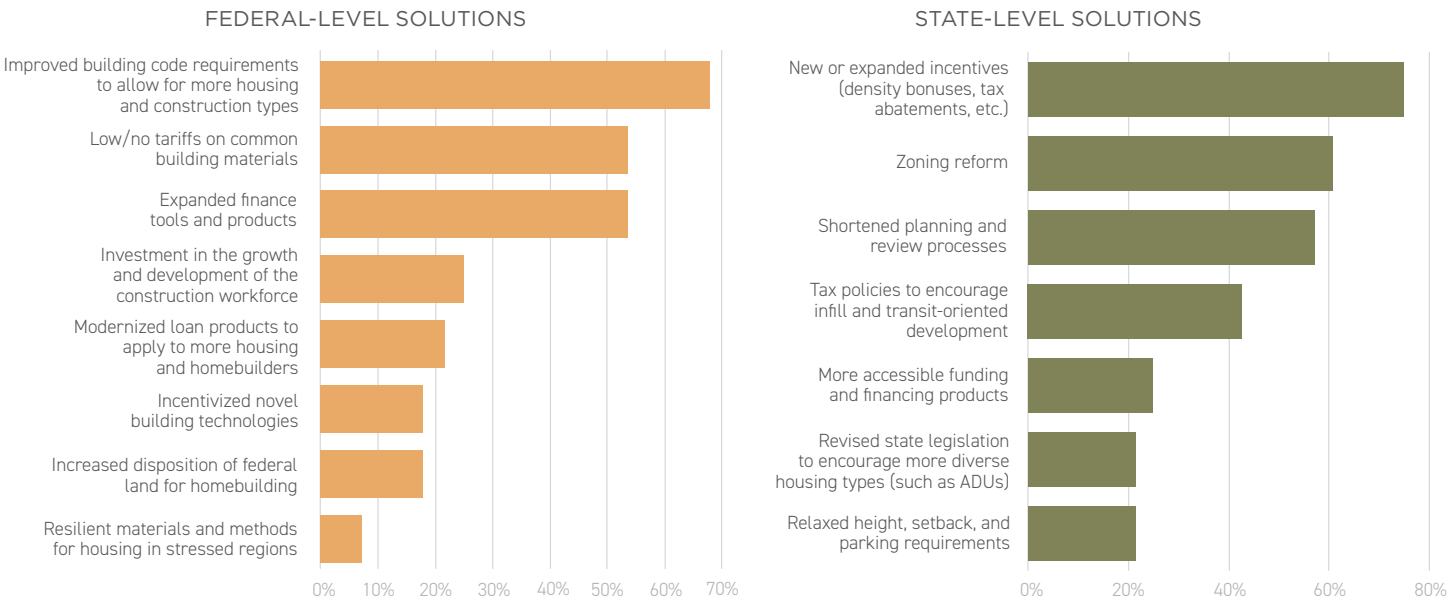


Meanwhile, a confluence of practical, political, and economic factors continues to inhibit a much-needed US housing boom. Putting aside the obvious inflationary levers being aggravated by Trump administration policies—including high tariff rates, restrictive immigration and travel policies, and a rapidly cooling job market—investors are pointing to various federal- and state-level solutions that could help accelerate new housing creation in the US *(Exhibit 13)*.

At the federal level, nearly 70% of investors would like to see improved building code requirements to allow for the creation of more housing (such as micro-apartments) and construction types (such as tall-building timber construction). Additionally, low to no tariffs on common building materials and expanded finance tools and products could alleviate heightened costs for occupants and developers alike.

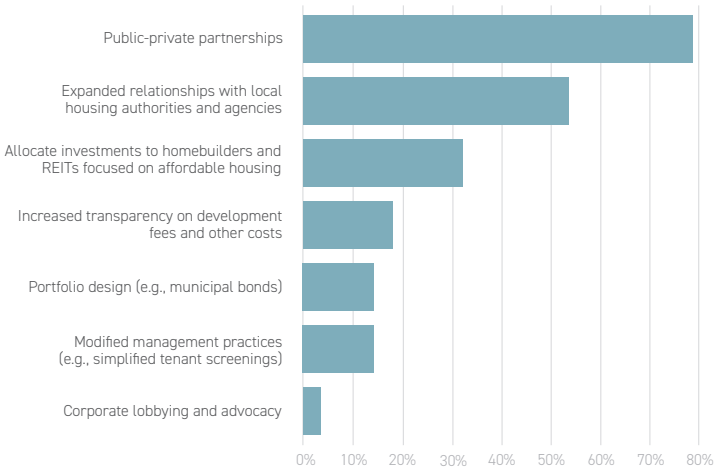
And at the state level, nearly 80% of investors believe increased incentives (e.g., density bonuses, tax abatements, etc.) and reformed laws around zoning (62%) and planning and review processes (57%) could have a significant impact on housing creation in key regions. These findings are consistent with other recent in-depth research on the housing topic advanced by Up For Growth, a US-based member network committed to solving the housing shortage and affordability crisis, which posits that "without sustained and proactive efforts, the 3.85 million-unit housing deficit will continue to exacerbate economic inequality and limit opportunities for millions of people."[6]

EXHIBIT 13: WHICH OF THESE GOVERNMENT-LEVEL ACTIONS WOULD BE MOST EFFECTIVE IN ALLEVIATING THE HOUSING CHALLENGE?



But investors are not without influence in housing, and are likewise citing public-private partnerships (78%), expanded relationships with local housing authorities and agencies (54%), and targeted investment allocations specifically for homebuilders and REITs focused on housing (33%) as important investor-controlled levers to alleviate the housing challenge (Exhibit 14).

EXHIBIT 14: WHICH OF THESE GOVERNMENT-LEVEL ACTIONS WOULD BE MOST EFFECTIVE IN ALLEVIATING THE HOUSING CHALLENGE?



While some of these proposed solutions may seem obvious, when weighed against some of the other challenges and contradictions mapped in the AFIRE survey, it's likely that few constructive actions will be taken—if any—amidst the ongoing economic uncertainty in the US (and accordingly, most of the world).

AN ALTERED FUTURE

At the time of this writing, the majority of economists have raised flags about the state of the US economy. Mark Zandi, chief economist for Moody's (and one of the speakers at the AFIRE Annual Member Meeting in September 2025) recently stated, "based on my assessment of various data, states making up nearly a third of US GDP are either in or at high risk of recession, another third are just holding steady, and the remaining third are growing."[7]

He goes on to say that Southern states are currently faring the best (consistent with how AFIRE investors have focused their housing investments), but their growth is slowing. "California and New York, which together account for over a fifth of US GDP, are holding their own, and their stability is crucial for the national economy to avoid a downturn."

Reneging the tariffs would do a lot to alleviate these negative trends, but must ultimately be weighed against the broader global shift currently underway. In this context, investors are doing their best to mitigate contradictions—even if that means simply finding calm in rough waters. But if, as Neil Howe argues, the end of one historical cycle is already here, the only way out may be through.

ABOUT THE AUTHOR

Benjamin van Loon is the Editor-in-Chief of Summit Journal and Managing Director of AFIRE.

NOTES

[1] Neil Howe. *The Fourth Turning Is Here: What the Seasons of History Tell Us about How and When This Crisis Will End*. New York: Atria Books, 2023.

[2] The Economist Intelligence Unit's Democracy Index provides a snapshot of the state of democracy in 165 independent states and two territories. This covers almost the entire population of the world and the vast majority of the world's states (microstates are excluded). Scored on a 0-10 scale, the Democracy Index is based on five categories: electoral process and pluralism, functioning of government, political participation, political culture, and civil liberties. Based on its scores on a range of indicators within these categories, each country is classified as one of four types of regime: "full democracy," "flawed democracy," "hybrid," or "authoritarian."

[3] *Democracy Index 2024: What's Wrong with Representative Democracy?* Economist Intelligence Unit, 2025

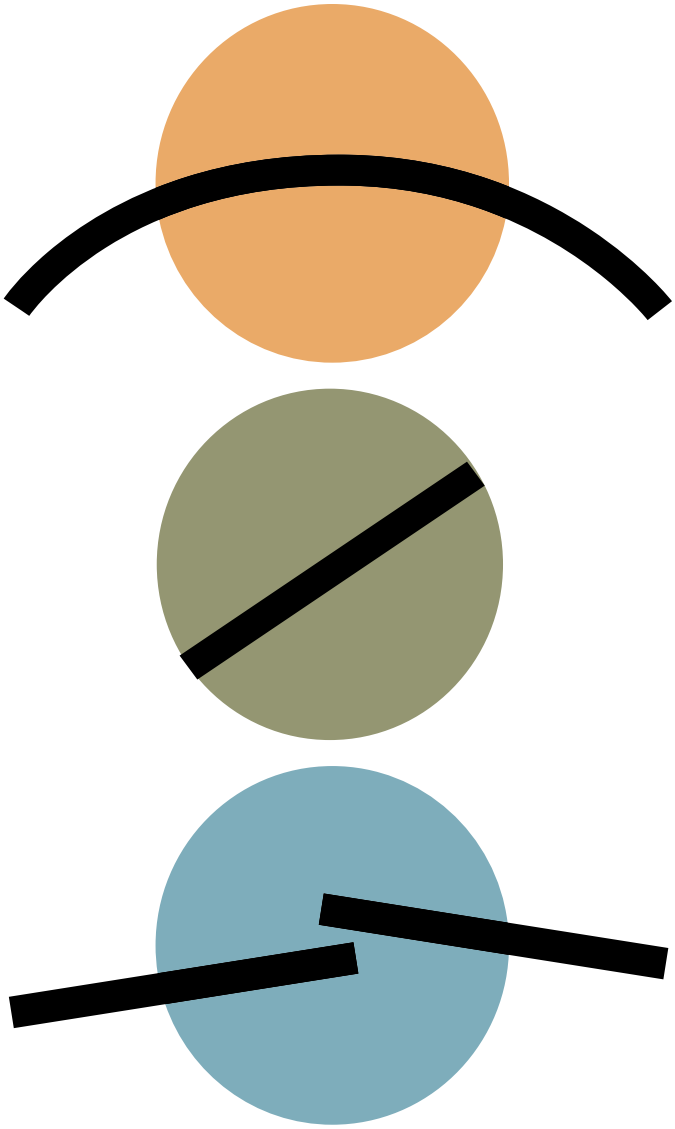
[4] United Nations. *Raising Ambition: Renewable Energy*. United Nations. Accessed August 26, 2025. https://www.un.org/en/climatechange/raising-ambition/renewable-energy

[5] PwC. *Rethinking the Role of Long-Term Investors in the Energy Transition*. PwC Global website. December 10, 2024. Accessed August 26, 2025. https://www.pwc.com/gx/en/issues/business-model-reinvention/how-we-fuel-and-power/sovereign-wealth-pension-fund-investors.html

[6] Up for Growth, "2024 Housing-Underproduction in the US: Housing Underproduction in the US, Up for Growth (PDF)," 2024, accessed August 26, 2025, https://upforgrowth.org/wp-content/uploads/2024/10/2024_Housing-Underproduction-in-the.U.S.-Report_Final-c-1.pdf

[7] Hannah Parker, "Moody's Economist Says US Is Edging Near Recession — With Some States Already in One," *Quartz*, published August 2025, accessed August 26, 2025, https://qz.com/moodys-chief-economist-us-economy-recession.

BEND, NOT BREAK



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In an increasingly uncertain environment, investors should be more selective, prioritizing investments that can offer durable income and seek to perform even in flat or faltering markets.

Until recently, commercial real estate appeared poised for a long-awaited rebound. However, 2025 has revealed a new reality: Uncertainty has become structural. Trade tensions, inflation, recession risks, and interest rate volatility have unsettled markets and slowed decision-making. Traditional strategies—broad, momentum-driven approaches, cap rate compression, rent growth—no longer provide a reliable foundation. A disciplined investment process, grounded in local insight and operational excellence, matters more than ever.

PIMCO's recent *Secular Outlook,* "The Fragmentation Era," depicts a world in flux, where shifting trade and security alliances create uneven regional risks.[1] Geopolitical tensions and tariffs dominate in Asia, especially China, which is shifting to a lower growth path amid rising debt and worsening demographics. In the US, key headwinds include stubborn inflation, policy uncertainty, and political volatility. Europe contends with high energy costs and regulatory shifts, but rising defense and infrastructure spending may provide a tailwind.

Given diverse risks across sectors and regions, traditional return drivers have become less reliable, particularly in an environment of negative leverage. In our view, resilient income and robust cash yields increasingly require local insight and active management with expertise in equity, development, debt structuring, and complex restructurings. Investments should aim to perform even in flat or faltering markets.

Debt, a long-standing cornerstone of PIMCO's real estate platform, remains highly attractive thanks to its relative value. As outlined in last year's Real Estate Outlook, "Facing the Music: Challenges and Opportunities in Today's Commercial Real Estate Market," approximately $1.9 trillion in US loans and €315 billion in European loans are expected to mature by the end of 2026.[2]

We believe this wave of maturities creates a number of debt investment opportunities. These range from senior loans providing downside mitigation to hybrid capital solutions such as junior debt, rescue financing, and bridge loans. These are designed for sponsors requiring additional time, as well as for owners and lenders addressing financing gaps.

We also see opportunity in credit-like investments, including land finance, triple net leases, and select core-plus assets with steady cash flow and resilience. Equity is reserved for exceptional opportunities where effective asset management, attractive stabilized income yields, and secular trends provide clear competitive advantages.

Student housing, affordable housing, and data centers are increasingly viewed by investors as safe havens, offering infrastructure-like qualities such as stable cash flows and the potential to withstand macroeconomic volatility.[3]

In this cycle, we believe success will depend on disciplined execution, strategic agility, and deep expertise—not market momentum.[4]

(Note: This article was originally published by PIMCO in June 2025 and can be accessed at pimco.com/us/en/insights/bend-not-break-investing-in-real-estate-amid-economic-uncertainty)

MACRO VIEW: REGIONAL DIVERGENCE DEEPENS, NICHES EMERGE

Diverging macroeconomic conditions are remapping the terrain of global commercial real estate. The key drivers—monetary policy, geopolitical risk, and demographic shifts—are no longer moving in sync. Strategy must be more regional, more selective, and more attuned to local nuance.

In the US, an uncertain path for interest rates casts a long shadow. Refinancing activity has slowed sharply, especially in the office and retail sectors. Transaction volumes remain subdued, and valuations have softened. With economic growth expected to stay sluggish, few expect a quick rebound. The $1.9 trillion in debt set to mature by the end of next year is a source of risk, but also a potential opening for well-capitalized buyers.

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Europe faces a different set of challenges. Growth was already sluggish before the pandemic. Now, it's slowing further, held back by aging populations and weak productivity. Inflation remains sticky, credit is tight, and the war in Ukraine continues to weigh on sentiment. Still, there are pockets of resilience; increased spending on defense and infrastructure could provide a boost in some countries.

In the Asia-Pacific region, capital is flowing toward more stable markets—including Japan, Singapore, and Australia—that are known for their legal clarity and macro predictability. China, however, remains under pressure. Its property sector is still fragile, debt levels are high, and consumer confidence is shaky. Across the region, investors are sharpening their focus on transparency, liquidity, and demographic tailwinds.

We are also seeing early signs of a reallocation of investment intentions that could benefit Europe at the expense of the US and the Asia-Pacific region. This shift reflects a broader retrenchment from cross-continental strategies toward more regionally focused capital deployment.

While the global picture is fragmented, this complexity presents potential opportunities for discerning investors.

SECTORAL OUTLOOK: ANALYSIS OVER ASSUMPTIONS

What are the implications for commercial real estate? In a fragmented and uncertain environment, sweeping sector generalizations have lost their utility. Real estate cycles are no longer synchronized; they vary by asset class, geography, and even submarket. The implication is clear: Investors should adopt a granular approach.

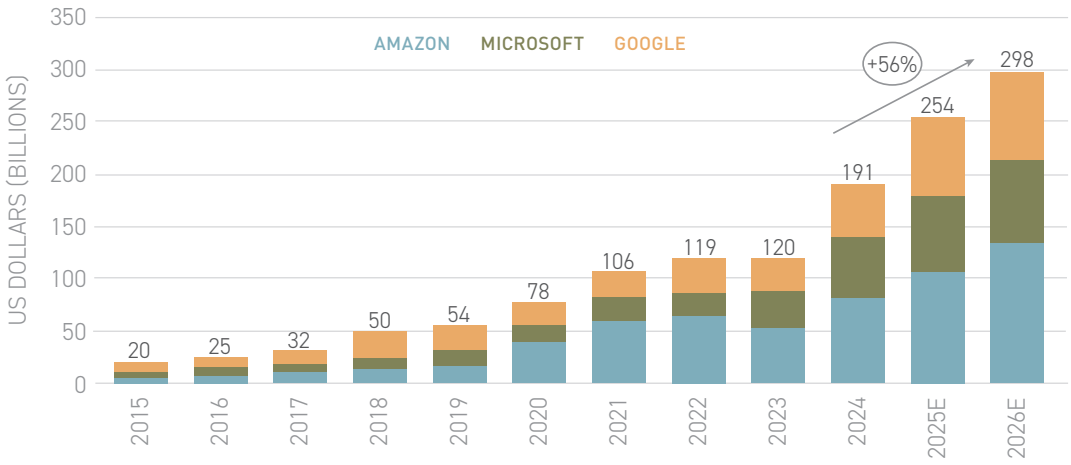
Success depends on detailed asset-level analysis, hands-on management, and deep understanding of local market dynamics. It also means recognizing where macro shifts intersect with real estate fundamentals. Europe's defense buildup, for instance, is likely to spur demand for logistics, R&D space, manufacturing facilities, and housing, especially in Germany and Eastern Europe.

For investors, the key is an approach focused on specific assets, submarkets, and strategies that can deliver durable income and withstand volatility. In this cycle, alpha opportunities will matter more than beta bets. Below, we explore sectors where that precision may pay off.

DIGITAL INFRASTRUCTURE: RELIABLE DEMAND, RISING DISCIPLINE

Digital infrastructure has become the backbone of the modern economy—and a focal point for institutional capital. The surge in artificial intelligence (AI), cloud computing, and data-intensive applications has transformed data centers from a niche asset class into strategic infrastructure. But this raises new issues: power constraints, regulatory hurdles, and rising capital intensity *(see Exhibit 1)*.

EXHIBIT 1: SPENDING ON DATA CENTERS IS SURGING



Sources: Bloomberg, Goldman Sachs, Amazon, Microsoft, Alphabet, and PIMCO as of 2 May 2025

Note: Amazon's reported revenues reflect the impact of foreign exchange (FX) movements; however, the company does not disclose the specific FX impact on revenues from Amazon Web Services, Inc. Google's reported revenues also reflect FX movements, but the company does not separately disclose the FX impact on Google Cloud revenues.

Across global markets, the issue isn't demand—it's where and how to meet it. In mature hubs, such as Northern Virginia and Frankfurt, hyperscalers like Amazon and Microsoft are locking in capacity years in advance, particularly for facilities tailored to AI inference and cloud workloads. These assets may offer resilience and pricing power. But facilities focused on more computationally intensive AI training—often in lower-cost, power-rich regions—have risks related to grid reliability, scalability, and long-term cost efficiency.

As core markets strain under the weight of demand, capital is pushing outward. In Europe, power shortages and permitting delays, alongside low latency and digital sovereignty requirements, are forcing a pivot from traditional hubs to emerging Tier 2 and 3 cities such as Madrid, Milan, and Berlin. These centers offer growth potential, but infrastructure gaps, differing regulatory frameworks, and execution risk demand a more hands-on, locally attuned approach.

In the Asia-Pacific region, the emphasis is on stability and scalability. Markets like Japan, Singapore, and Malaysia continue to attract capital, underpinned by their strong legal frameworks and institutional depth. Here, investors are prioritizing assets that can support hybrid workloads and meet evolving environmental, social, and governance (ESG) practices, even as costs rise and policy oversight tightens.

As digital infrastructure becomes central to economic performance, success will hinge not just on capacity but on navigating regulatory and operational complexity, managing land and power constraints, and building systems that are resilient, scalable, and optimized for a distributed, data-driven, energy-efficient future.

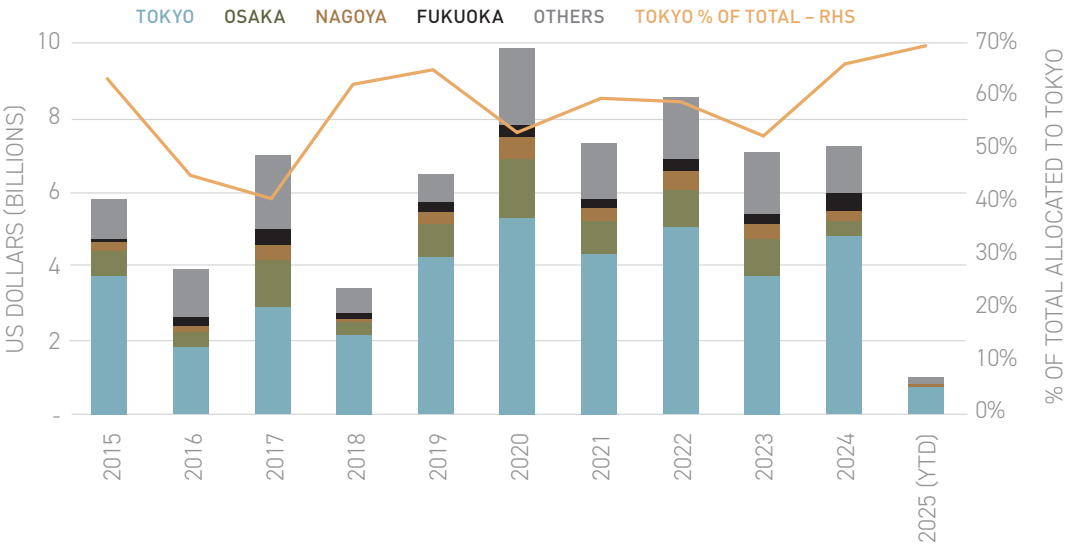
LIVING: DURABLE DEMAND, DIVERGING RISKS

The living sector continues to offer income potential and structural demand. Demographic tailwinds—such as urbanization, aging populations, and evolving household structures—continue to support long-term demand. But the investment landscape is fragmented. Regulatory frameworks, affordability pressures, and policy interventions vary widely, requiring investors to proceed with caution.

Rental housing demand remains strong across global markets, sustained by high home prices, elevated mortgage rates, and evolving renter preferences. These dynamics are extending renter life cycles and fueling interest in multifamily, build-to-rent (BTR), and workforce housing.

Japan stands out for its blend of urban migration, affordable rental housing, and institutional depth—offering a stable, liquid market for long-term residential investment *(see Exhibit 2)*.

EXHIBIT 2: CAPITAL FOLLOWS JAPAN'S POPULATION SHIFT INTO URBAN CORES



Sources: Urban Land Institute, MSCI Inc., RCA, and Savills as of May 2025. This information is provided for illustrative purposes only. There is no guarantee that the trends discussed will persist.

Yet markets are not monolithic. In some countries, institutional platforms are scaling rapidly. In others, affordability concerns have triggered regulatory issues. These include tighter rent regulations, zoning restrictions, and growing political scrutiny of institutional landlords, particularly where housing access has become a flash point in public discourse.

Student housing has emerged as an attractive niche, supported by enrollment growth and limited supply. Purpose-built student accommodation can benefit from predictable demand and a growing base of internationally mobile students. Structural undersupply, favorable demographics, and the enduring appeal of higher education, especially in English-speaking countries, continue to support the asset class.

Still, regional dynamics matter. In the US, demand remains strong near top-tier universities, though concerns are rising that tighter visa policies and a less welcoming political climate could curb future international student inflows. In contrast, countries like the U.K., Spain, Australia, and Japan are seeing rising demand, supported by more favorable visa regimes and expanding university networks.

Across the living sector, investors must pair global conviction with local fluency. Operational scalability, regulatory navigation, and demographic insight are increasingly important, as they are central to unlocking sustainable value in a sector that is essential, evolving, and complex.

LOGISTICS: STILL IN MOTION

Industrial real estate, comprising warehouses, distribution centers, and logistics hubs, has emerged as a linchpin of the modern economy. Once a utilitarian backwater, the sector now sits at the nexus of global trade, digital consumption, and supply chain strategy. Its appeal reflects the rise of e-commerce, the reconfiguration of supply chains through nearshoring, and the relentless demand for faster delivery. Although the fast rent growth of recent years is slowing, landlords with leases rolling over remain in a strong position. Institutional capital continues to flow, particularly into such niche segments as urban logistics and cold storage.

Yet the sector's outlook is increasingly shaped by geography and tenant profile. Across regions, a few themes recur. First, trade routes continue to evolve. In the US, for instance, East Coast ports and inland hubs are reaping the benefits of reshoring and shifting maritime routes. This reflects a broader global pattern: Assets near key logistics corridors—whether ports, railheads, or urban centers—command a premium. Even in these favored locations, however, leasing momentum has moderated, with tenants growing more cautious, decisions delayed, and new supply threatening to outpace demand in some corridors.

Second, urban demand is reshaping logistics. In Europe and Asia, tenants are prioritizing proximity to consumers and sustainability, fueling interest in infill and green-certified facilities. Yet regulatory hurdles, uneven demand, and rising construction costs are testing investor patience. While Japan and Australia continue to see healthy absorption, oversupply in cities like Tokyo and Seoul has tempered rent growth—even as long-term fundamentals remain intact.

Finally, capital is becoming more discerning. Core assets in prime locations continue to attract strong interest, while secondary assets face growing scrutiny. Trade policy uncertainty, inflation, and tenant credit risk are sharpening the focus on quality—of both location and lease. Industrial fundamentals remain solid, but as the sector matures, so does the investment calculus, becoming more nuanced and regionally specific.

Assets near key logistics corridors—whether ports, railheads, or urban centers—command a premium.

Grocery-anchored centers, retail parks, and high street sites in gateway cities now anchor the sector, offering potential income durability and inflation mitigation.

RETAIL: SELECTIVE STRENGTH IN A RESHAPED LANDSCAPE

Retail real estate has entered a phase of selective resilience, defined by necessity, location, and adaptability. Once the weak link in commercial property, the sector has found firmer footing, buoyed by the enduring appeal of formats anchored by essential services. Grocery-anchored centers, retail parks, and high street sites in gateway cities now anchor the sector, offering potential income durability and inflation mitigation. Amid high interest rates and cautious capital, these assets are prized for reliability, not glamour.

The landscape is clearly bifurcated. On one side are prime assets with stable foot traffic, long leases, and limited new supply—qualities that continue to attract capital and offer scope for value creation through tenant repositioning or mixed-use redevelopment. On the other side are secondary assets weighed down by structural obsolescence, tenant churn, and dwindling relevance.

This divergence plays out across regions. In the US, grocery-anchored centers and retail parks remain resilient, supported by consistent consumer demand and defensive lease structures. Department-store-reliant malls and weaker suburban formats, by contrast, continue to face secular decline. Yet signs of reinvention are emerging as luxury brands reclaim flagship high street locations in select urban markets.

Europe, too, is seeing a flight to quality. Retail centers anchored by grocery stores and other essential businesses are outperforming, while discretionary formats remain under pressure. The region has embraced omni-channel retail more fully, with some landlords converting underused space into last-mile logistics hubs.

In Asia, tourism has revived high street retail in Japan and South Korea, but suburban malls have seen more muted performance amid inflation and fragile discretionary spending. Trade tensions add complexity.

OFFICE: A SECTOR STILL SEARCHING FOR A FLOOR

The office sector continues to undergo a slow and uneven recalibration. Elevated interest rates and tighter credit have compounded the challenges of underutilized space and evolving workplace norms. While leasing and utilization show early signs of stabilization, the recovery remains fragmented. The divide between prime and secondary assets has hardened into a structural fault line.

Class A buildings in central business districts continue to attract tenants, supported by back-to-office mandates, talent competition, and ESG priorities. These assets offer flexibility, efficiency, and prestige. Older, less adaptable buildings risk obsolescence unless they are repositioned with significant capital investment.

This bifurcation is global. In the US, leasing has picked up in coastal cities like New York and Boston, while oversupply weighs on the Sun Belt. The looming wall of maturing debt threatens weaker assets, and refinancing capital remains cautious. The outlook: slow absorption, selective repricing, and continued distress in noncore holdings.

In Europe, shortages of class A space are emerging in cities such as London, Paris, and Amsterdam. But new development is constrained by regulation, construction costs, and rising ESG standards. Investors have shifted from broad-brush strategies to asset-specific underwriting.

The Asia-Pacific region shows relative resilience. Capital continues to flow into Japan, Singapore, and Australia—jurisdictions prized for transparency and stability. Office reentry is improving, supported by cultural norms and competition for talent. Demand remains concentrated in high quality assets.

Still, the sector faces a structural overhang. Institutional portfolios remain heavily allocated to office, an inheritance from earlier cycles. This legacy exposure may constrain price recovery, even for top-tier assets. As the very idea of "the office" is being redefined, success depends less on macro trends and more on execution.

NAVIGATING REAL ESTATE'S NEXT PHASE

As commercial real estate enters a more complex and selective cycle, the focus is shifting from broad market exposure to targeted execution across both equity and debt. Macroeconomic divergence, sectoral realignment, and capital discipline are reshaping how investors assess opportunity and manage risk.

In this environment, we believe success hinges on integrating local insight with global perspective, distinguishing structural trends from cyclical noise, and executing with consistency. The challenge is not simply to participate in the market but to navigate it with clarity and purpose.

While the path forward may be narrower, it remains accessible to those who adapt with agility. Investors who align strategy with enduring demand and navigate complexity with discipline may still find opportunities for long-term, thoughtful performance.

ABOUT THE AUTHORS

John Murray is a Portfolio Manager, Global Private Real Estate; and Russell Gannaway and Kirill Zavodov are Portfolio Managers for PIMCO. François Trausch is CEO and CIO for PIMCO Prime Real Estate.

NOTES

[1] https://www.pimco.com/us/en/insights/the-fragmentation-era

[2] Mortgage Bankers Association as of March 2025

[3] A "safe haven" is an investment that is perceived to be able to retain or increase in value during times of market volatility. Investors seek safe havens to limit their exposure to losses in the event of market turbulence. All investments contain risk and may lose value.

[4] These takeaways reflect insights from PIMCO's third annual Global Real Estate Investment Forum, held in May in Newport Beach, California. Similar to PIMCO's Cyclical and Secular Forums, the event convened global investment professionals to assess the near- and long-term outlook for commercial real estate (CRE). As of 31 March 2025, PIMCO managed one of the world's largest CRE platforms, with over 300 investment professionals overseeing approximately $173 billion in assets across a broad spectrum of public and private real estate debt and equity strategies.

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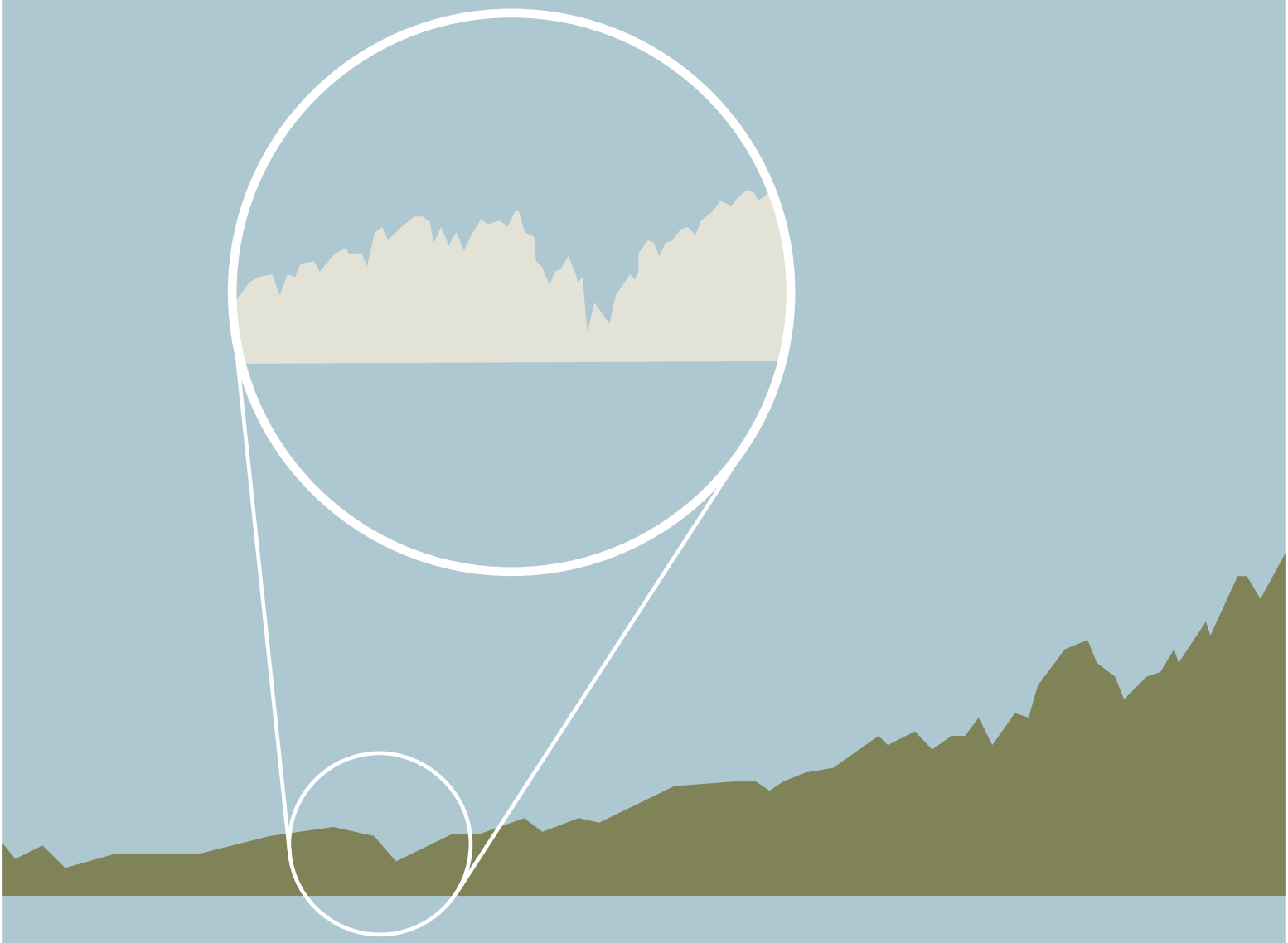
While the path forward may be narrower, it remains accessible to those who adapt with agility.

TEST OF TIME



Riaz Cassum
Executive Managing Director
Head of International Capital, Americas
JLL

Rather than reacting impulsively to short-term market fluctuations, institutional investors have the resources (and patience) to recognize the US market as a continued cornerstone of global diversification strategies focused on attractive long-term returns.

Across every real estate cycle, we answer questions about the drivers of capital flows, the drivers of occupier demand, or broader questions about the future of allocations to real estate within a broader investment portfolio.

In addition, the rapidly increasing news cycle has given provenance to headlines that have boldly declared the end of one trend or the beginning of another. Suburban areas have been in favor and out, retail has been declared dead and re-born, and five years ago many believed no one would ever work in an office building again. Beneath the headlines, there are always layers to a narrative and nuances to the particular trend in question.

Since the start of 2025, trade policy and geopolitical relations have opened new conversations about the relationship between the US and rest of the world. While these conversations are often tied to policy or politics, they often do so at the exclusion of more nuanced perspectives on the trends that truly drive capital flows and investment strategies. Ultimately, real estate investment is always driven by supply/demand dynamics, cost of capital, relative value, and the underlying macroeconomic fundamentals that will support NOI, rental growth, and exit liquidity over an investment horizon.

In answering the question of how institutional investors are rebalancing toward or away from the US, this article will attempt to articulate this nuance and provide an analysis of what drives capital flows, what current and historic capital flows tell us about real estate trends around the world, and the types of investors that are driving deals.

As with all real estate trends, it's never a question of what's definitively in or out. It's always a question of where you can achieve the greatest risk-adjusted return.

WHAT DRIVES CAPITAL FLOWS?

Capital flows, both current and historic, are driven by select factors which stand the test of time: geography, market size, and barriers to entry. Geographic proximity plays a crucial role for investors who prioritize physical access to their assets. Cities such as London, Paris, and New York are the top destinations for international capital due to their exceptional accessibility, with short flight durations and connections to global locations.

Beyond this, these markets attract investment by housing headquarters for numerous institutional investors, positioning assets in these locations with advantageous geographic accessibility. This concentration is particularly evident in the US, where approximately 26% of institutional investors maintain their headquarters, creating natural investment corridors based on geographic convenience and established business networks.

Market size stands as a critical factor in real estate investment decisions, with the US commanding approximately 51% of the entire direct transactions market globally since 2020. This dominance extends to individual markets, with New York, Los Angeles, Dallas, Atlanta, and Chicago which rank among the top ten largest investable cities worldwide, often substantially dwarfing other major global markets. Market scale provides diverse asset selection capabilities and options across property types and risk profiles. Additionally, these established markets offer historical data sets with long-term performance trends which enable better analysis towards informed investment decisions. From the perspective of business growth and resilience large markets are home to investors, but also some of the world's largest metro populations, top performing companies, and biggest occupiers, therefore, making these geographies home to some of the world's most valuable real estate.

Moreover, the US stands as an attractive destination for real estate due to its comparatively low regulatory burden and favourable tax structures. Despite recent apprehensions surrounding potential trade conflicts and proposed regulations like Section 899—which would have imposed additional tax obligations on foreign investors—the nation has largely maintained its historically welcoming investment climate, and the recent passing of the US's One Big Beautiful Bill Act is viewed as generally positive for real estate amongst the investor community, including foreign investors.

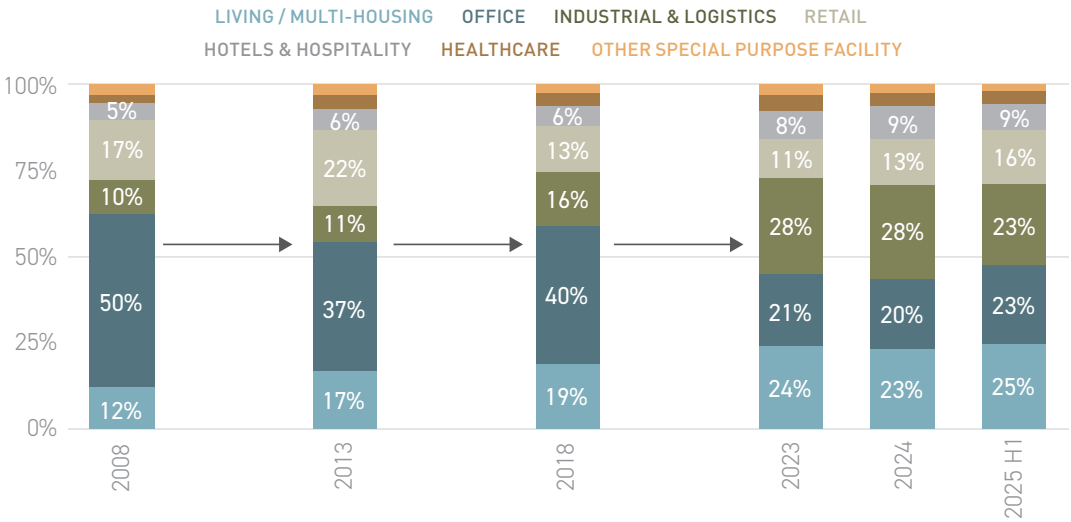
WHAT DO CURRENT AND HISTORICAL CAPITAL FLOWS TELL US?

Although each investment cycle presents its own nuances, historic capital flows provide a valuable roadmap for understanding how institutional investors evolve and stress an important trend. Institutional investment allocations have maintained remarkable stability across regions for nearly twenty years, with the notable exception of the Global Financial Crisis (GFC) in 2008–2009.

During the GFC, investors temporarily shifted away from US markets and redirected capital to countries like the UK, Germany, France, and Japan. Institutions prioritized domestic assets and overall transaction volumes declined substantially. However, the geographic reallocation in the GFC proved transitory, with regional investment distributions largely pivoting to the US in subsequent years. Since 2010, nearly 40% of direct real estate transactions purchased by institutional investors are assets located in the US.

Digging deeper, the institutional investment landscape has evolved from its once office-dominated allocation strategy to a more diversified strategy across living, industrial, office, retail, hotels, and alternative sectors. Prior to 2009, office investments were 50% of direct real estate transactions by institutional investors globally, a figure that remained above 40% as recently as 2018.

EXHIBIT 1: GLOBAL DISTRIBUTION OF INSTITUTIONAL INVESTMENT BY SECTOR



Source: JLL Research; direct transactions US$5m and above excluding entity, land and development

The US is as a critical entry point for institutional investors seeking diversification, particularly in growth and emerging sectors. The US market increased investment in living sectors post-2017 and industrial sectors in 2019—notably before the pandemic-driven industrial boom and move toward living investments was recognized. Major institutional markets such as the UK, Germany, and Japan lagged these investment trends, in some cases by several years, while the US offered scalable opportunities. More recently the US remains one of the only markets where there is scalable institutional investment into alternatives, like data centers.

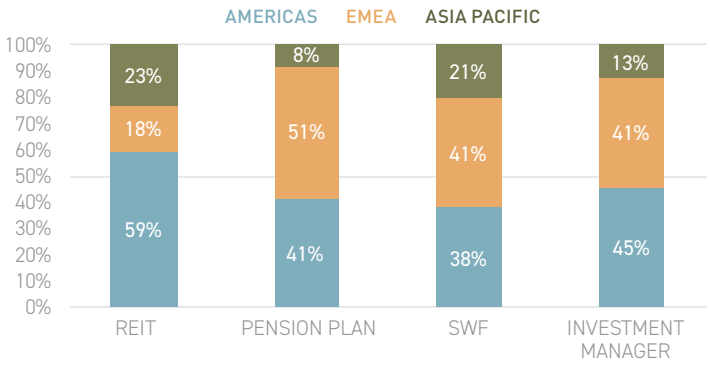
Though other markets eventually develop supply and demand to accommodate emerging investment strategies, the US has consistently shown to be a first destination for institutional capital targeting growth sectors.

WHAT IS THE LANDSCAPE FOR INSTITUTIONAL CAPITAL?

The global investor landscape from 2020 through the first half of 2025 shows that when examining country-specific allocations, all institutional investor categories—sovereign wealth funds (SWFs), pension funds, REITs, and investment managers—prioritize the US market above other single country markets.

However, regional preferences demonstrate distinct patterns wherein pension funds and sovereign wealth funds maintain heavier allocations in EMEA and REITs and investment managers show stronger preferences for opportunities in the Americas. Within the US specifically, living and industrial sectors have attracted predominant focus from institutional investor types during this five-year period, barring sovereign wealth funds which continue to remain underweighted to living.

EXHIBIT 2: INSTITUTIONAL INVESTMENT SHARE BY ASSET REGION, 2020 – H1 2025



Source: JLL Research; direct transactions US$5m and above excluding entity, land and development

The significance of institutional capital in US real estate markets cannot be overstated, as these investors have accounted for approximately 36% of total transaction volume over the past 5 years, securing them substantial influence in driving investment trends and dynamics across the market.

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Despite the cyclical nature of real estate and headlines often suggesting radical market shifts, the fundamentals driving institutional investment to the US remain remarkably consistent, even as investment strategies have evolved and diversified across property types. This consistency reflects the sophisticated approach of institutional investors who draw on their expertise and experience to maintain disciplined investment perspectives amid uncertainty.

Rather than reacting impulsively to short-term market fluctuations, institutional investors continue to recognize the US market as a cornerstone of global diversification strategies focused on attractive long-term returns.

ABOUT THE AUTHOR

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WHY INTERNATIONAL INVESTORS MIGHT WANT A SECOND LOOK AT CANADIAN REAL ESTATE MARKETS

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Amidst increasing geopolitical and trade upheavals, many institutional investors are looking to reduce risks.

Whether staying close to home, delaying decisions, or actively investigating alternatives to their standard non-domestic investment geographies and sector strategies, they are also selectively divesting of risky or underperforming assets.

In the US, for example, after growing in international investment interest for many decades, the foreign investment share of new buying transactions has dropped from above 20% of value to barely above 5% of nationwide sales and divestments are increasing.[1]

Real assets, while a substantial piece of the investable universe, require a medium- to long-range view (due to high transaction costs, tax effects, occasional illiquidity, and counter-cyclical portfolio benefits, among other reasons). As levels of uncertainty continue to increase in the US, investors are beginning to ask, is Canada a suitable replacement or augmentation for a North American investment allocation, and in what ways might the Canadian market be different?

MARKET FUNDAMENTALS

At first glance, Canadian and US economies and real estate markets offer remarkably similar characteristics. As evidenced by the currently elevated availability levels, Canadian markets are generally more disciplined, with less overbuilding and fewer exotic financing vehicles resulting in periodic market liquidity issues.

Key reasons for this greater Canadian market discipline include generally more strict planning regulations, absence of non-recourse financing and high levels of institutional ownership, particularly by Canadian Institutions in their home markets. Another key difference is the enormous variation in affluence and growth in specific US markets with 60% of US cities being primarily suburban in character, while all Canadian cities have urbanized and thriving downtowns, with rigorous urban growth boundaries.

Both Countries have a high level of REIT ownership in the Retail sector, with far fewer and more productive malls found in Canada. High street retail is uncommon in but a handful of US cities, while also investable in Canada. Retail per capital space in the US has been gradually declining for several decades as malls, which fell out of favor in the US, are being converted to other uses, including industrial and data centers.

More recently, weak suburban office markets in both countries have seen use conversions, primarily to logistics, which fared well through the pandemic. Select weak downtown markets, such as Calgary, Chicago and Washington DC have seen extensive use conversions, predominately to residential, facilitated by favorable permitting and even government subsidies. This is a trend which is likely to spread to more markets, especially once new construction returns, and functionally obsolete product becomes effectively stranded.

EXHIBIT 1: GLOBAL DISTRIBUTION OF INSTITUTIONAL INVESTMENT BY SECTOR

COUNTRY	POPULATION (2025 EST.)	ECONOMIC SECTORS (SERVICES, MANUFACT, MATERIALS)	OFFICE SF/ CAPITA	RETAIL SF/ CAPITA	INDUSTRIAL SF/CAPITA	OFFICE AVAILABILITY %	RETAIL AVAILABILITY %	INDUSTRIAL VACANCY %	HOME OWNERSHIP % (2021)
USA	~347.0 million	**Services (~71%):** Finance, healthcare, education, tech, retail, real estate, government. **Manufacturing (~10%):** Automotive, aerospace, electronics, machinery. **Other Industry & Materials (~19%):** Construction, energy, mining, utilities, agriculture.	20.4 SF	21.3 SF	56.7 SF	23.20%	6.30%	9.30%	65.5%
Canada	~41.5 million	**Services (~70%):** Finance, healthcare, education, tech, retail, real estate, public services. **Manufacturing (~10%):** Automotive, aerospace, food processing, machinery. **Other Industry & Materials (~20%):** Natural resources (oil, gas, forestry, mining), construction, utilities, agriculture.	15.8 SF	9.0 SF	58.0 SF	16.60%	2.10%	4.20%	66.5%

Source: Stats Canada, Beuro of Economic CoStar, Avison Young

Historically, the US market has been seen as deep, broad, and heterogeneous with favorable and well understood tax and structural features. International investors have invested predominately in the handful of "gateway" highly urbanized cities such as San Francisco, New York, Washington, DC, and Boston. Post-pandemic, a few suburbanized locations have been added to the list, such as major cities in Texas. Canada, by contrast, has fewer large cities and more closely resembles the German market with strong and thriving regional economic diversity. The historic critique of Canada's investability has been how closely held the markets are, a factor that has improved in the last two decades as Canadian institutions have become among the world's most active international investors that are increasingly bringing high quality assets in Canada to the market.

The last noteworthy difference between the two markets is climate and attitudes concerning decarbonization and climate resilience. Assets in Canada on average are newer or more recently upgraded, and it is rare that institutional-quality assets would lack an environmental certification and higher performance characteristics.

The Canadian market offers superior transparency, strong income characteristics and relatively low volatility.

CANADIAN INVESTMENT PERFORMANCE

Leading global investors have long admired Canada for it's strong banking system, sophisticated investment community, diversified economy, and positive trade and immigration policies; but it is doubtful most investors realize the extent to which this cadre of competitive advantages translates into persistent investment outperformance of the Canadian economy and specifically, its property markets. With one of the longest consistent time series of private data and amongst the highest institutional participation rates (over 65%), the Canadian market offers superior transparency, strong income characteristics and relatively low volatility.

The US market offers similar total returns with significantly higher volatility and longer periods of illiquidity resulting in longer and deeper downturn cycles.

EXHIBIT 2: SOLID LONG-TERM RETURNS WITH ONLY 4 NEGATIVE YEARS IN 40-YEAR INDEX

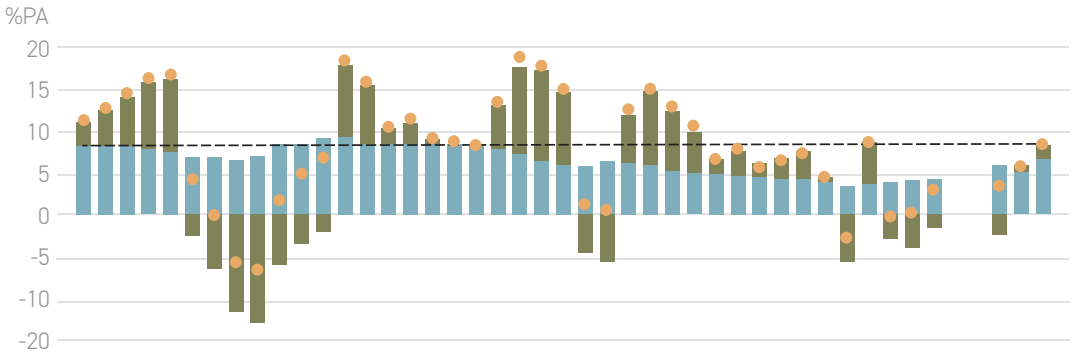
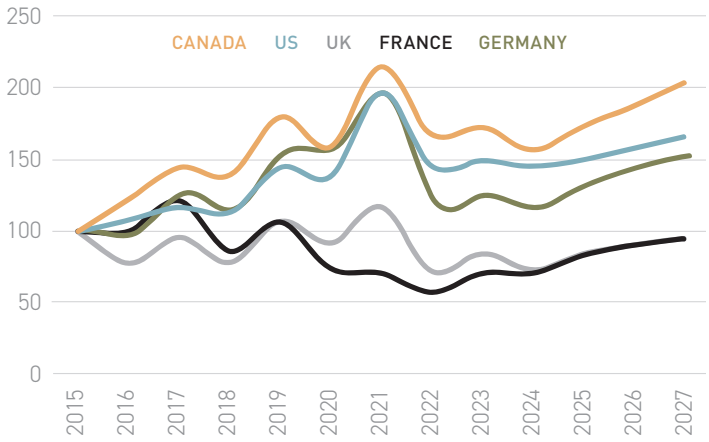


EXHIBIT 3: S&P ALL COMMERCIAL PROPERTY, REIT TOTAL RETURN (USD$), 2015=100



Source: Oxford Economics, July 2025

The robust REIT markets in Canada and the US have also outperformed within the G-7.

Normalizing all indices to be measured in US dollars, the chart to the left measures the value of $100 USD invested over time in the broad REIT index, by Country.

Canadian REITs outperformed their global counterparts, with much of the outperformance related to higher and more consistent income returns, with shorter and shallower downturns.

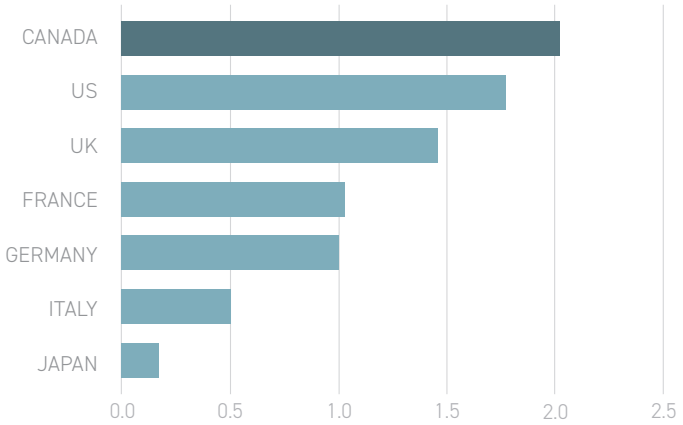
CANADIAN ECONOMIC PERFORMANCE

Underpinning this excellent performance has been strong economic fundamentals. Between 2008 and 2024, Canada not only enjoyed the G7's fastest growing population (24.2% growth) and highest rate of employment growth (19.2%), but also the fastest pace of GDP growth, in part due to escaping the worst effects of the GFC, combined with tailwinds from surging levels of highly skilled immigrants.

Although immigration has been scaled back for 2025 and 2026, and despite the US threatened tariffs, these outperformance attributes are projected to continue for a further decade, producing the top projected population and real GDP growth for the G7 (annual compounded growth of nearly 2%) in the decade ahead.[2] Initially thought to adversely impact Canadian GDP by as much as -125 bps, the actual effect of US tariffs to date has been far more muted. and latest Bank of Canada forecasts expect no more than 50 bps impact under worst-case scenarios involving renegotiation of the USMCA. Policy responses by the Canadian government have been swift, and—so far—effective in blunting the worst impacts.

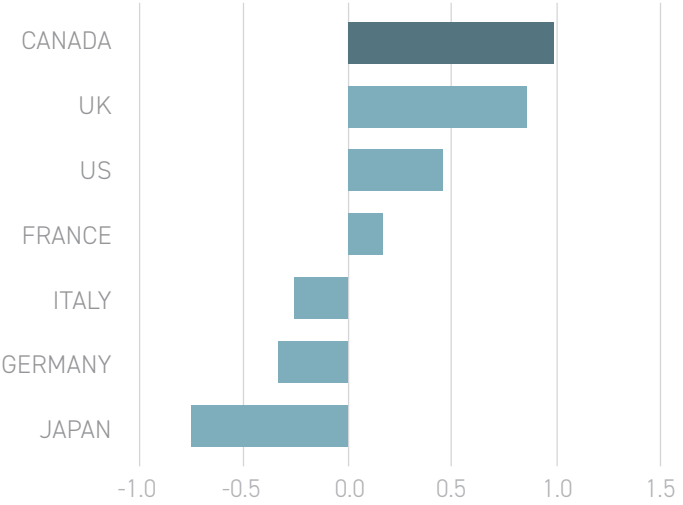
Canadian REITs outperformed their global counterparts, with much of the outperformance related to higher and more consistent income returns, with shorter and shallower downturns.

EXHIBIT 4: REAL GDP GROWTH FROM 2025-2035 (% P.A)



Source: IMF, Oxford Economics forecasts, Jun 2025

EXHIBIT 5: POPULATION GROWTH 2025-2035 (% P.A.)



Source: IMF, Oxford Economics forecasts, Jun 2025

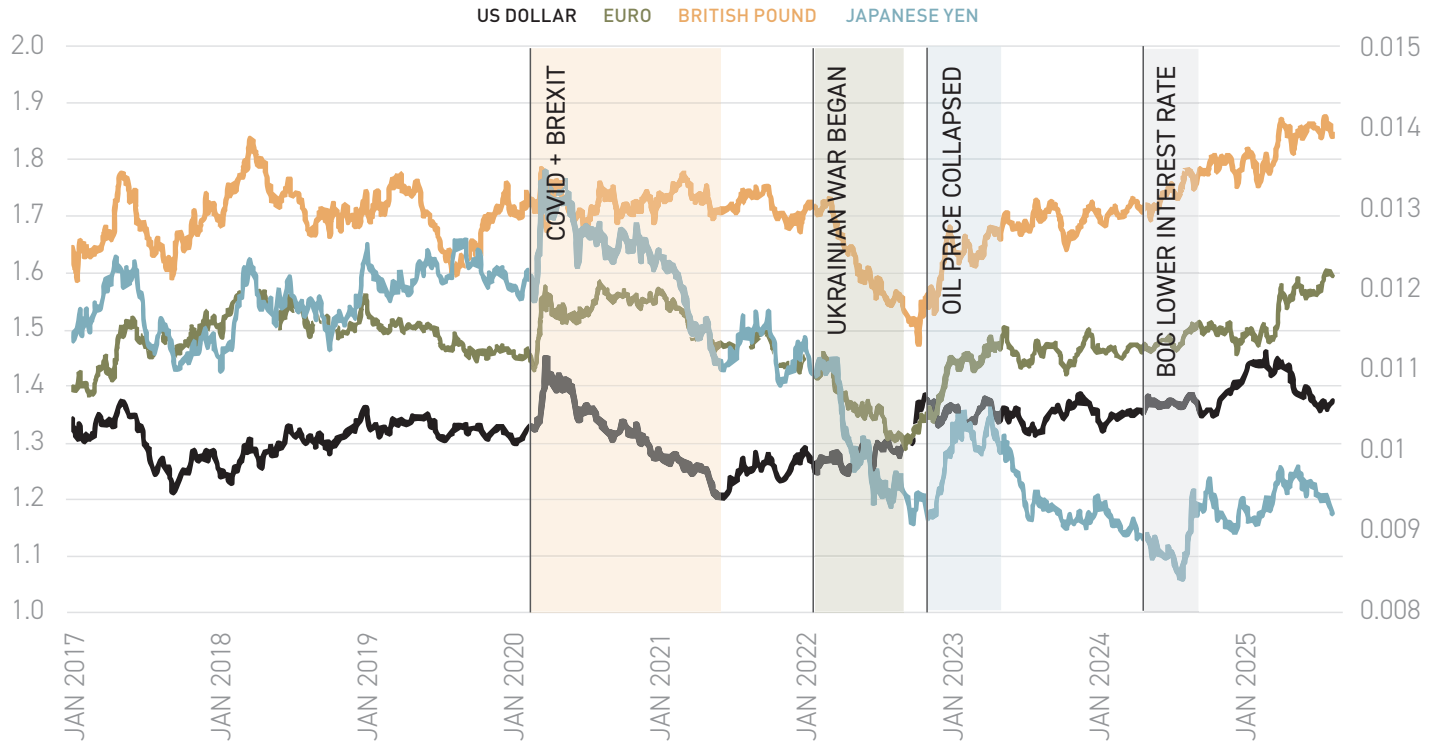
Although roughly two-thirds of Canadian goods are exposed to foreign trade, (especially vis-à-vis the US), the Canadian economy is highly diversified. Perceived to be a raw materials-heavy economy (i.e., mining, oil and gas, agricultural products, and timber); these industries are overrepresented in the Canadian stock market, but in aggregate contribute a small portion of overall GDP (6-8%) and employment (5-7%), while manufacturing is slightly higher (8-9%). Traditional service sectors comprise by far the largest components of employment and GDP (75%, up from 70% a decade earlier) according to 2025 data from Stats Canada. Importantly, technology employment has been the fastest growing sector as Canada has benefited greatly from regressive education and immigration policies in the US.

Canada boasts the best educated workforce the G-7, with 57.5% of adults of working age in Canada possessing a bachelor's degree or higher. Half of all the very most highly educated Canadians (Master's degree or higher) are immigrants, many are just hitting stride in terms of their economic contributions.

The government employs roughly 25% of Canadians between various layers of Government, public education (including higher ed) and health care sectors. The largest non-governmental components of Canadian GDP are finance, insurance, and real Estate (14%); tech (14%); and construction (13%). And like most modern economies, the trend in Canada is toward services (especially digital services, gaming and artificial intelligence) and away from goods producing, mining, and extraction.

The Canadian dollar fluctuates with oil prices, as oil is a large component of exports. Known colloquially as the "Loony," it straightforward to hedge, and it is generally range bound with the USD. Beginning in 2023, as the US and OPEC began increasing oil output in efforts to put pressure on Russia, the Canadian dollar began a steady devaluation, accelerated by early movement by the Bank of Canada to lower interest rates. The result is one of the most attractive currency environments for foreign investors in over a decade.

EXHIBIT 6: GLOBAL INVESTMENT TRENDS, ATTRACTIVE CURRENCY ENVIRONMENT



Source: Bank of Canada

IN CONCLUSION

With continuing disruption in long-standing US economic policy, now seems an opportune time to consider looking North for opportunities. With strong fundamentals and tailwinds, good quality and high volume of deal flow with ample debt availability, there are many reasons to consider looking at Canada.

About the Author: Amy Erixon is the Global President of Avison Young Investment Management. With a rich investment and development career spanning four decades monitoring international markets, she often writes about investment topics, especially the ongoing impacts and mitigation for climate change and decarbonization, and downstream impacts of technology advances.

With strong fundamentals and tailwinds, good quality and high volume of deal flow with ample debt availability, there are many reasons to consider looking at Canada.

ABOUT THE AUTHORS

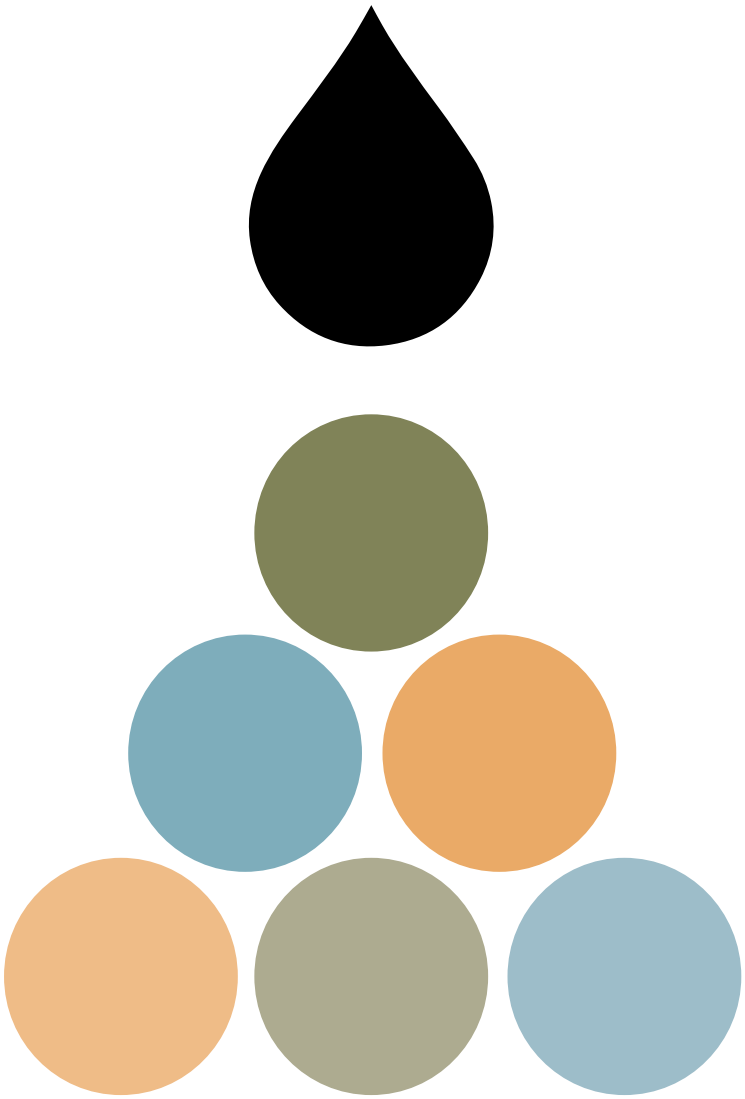
Amy Erixon is Principal, President, Global Investment Management; Long Tang is a Senior Analyst; Daniel Goldberg is an Associate; and Marie-France Benoit, is Principal, Director Market Intelligence, Canada, for Avison Young.

NOTES

[1] RCAnalytics

[2] Oxford Economics

BEYOND OIL



Abbas Hashmi
Principal
Saudi Family Holdings

Middle East family offices are expanding beyond legacy real estate and directing capital into next generation US sectors including data centers, logistics, and student and workforce housing, driven by energy transition strategies, demographic resilience, and long-term value creation.

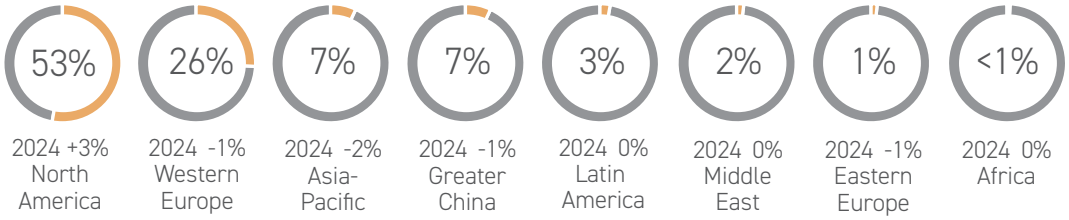
A NEW PLAYBOOK FOR GULF CAPITAL

For decades, real estate has been a familiar asset class for Middle East investors. But today, family offices across the Gulf are rewriting that playbook. They are moving beyond trophy assets and reallocating capital into the structural themes shaping global real estate, including decarbonization, digitization, and demographic demand. This is not simply diversification; it is a strategic pivot informed by post-oil national visions, ESG alignment, and a focus on long term resilience.

Consistent with these themes, and according to the 2025 UBS Global Family Office Report, Middle Eastern family offices continue to maintain their allocation concentration in North America, rising from 49% in 2024 to 55% in 2025 *(Exhibit 1)*.

As part of this slight but notable rise in allocations, Gulf family offices—especially those from Saudi Arabia, the UAE, and Qatar—are now concentrating their US allocations into sectors like data centers, logistics infrastructure, and student and workforce housing. Additionally, this same UBS report indicates that electrification and generative AI are their top two emerging technologies of familiarity, with 78% and 77%, respectively *(Exhibit 2)*. These sectors align with energy transition trends and long run population shifts. Investors see them as resilient to volatility and better suited to an economy increasingly shaped by technology, climate pressure, and urban demand.

EXHIBIT 1: MIDDLE EASTERN FAMILY OFFICES INCREASING CONCENTRATION IN NORTH AMERICA



REGION INVESTED IN	US	LATIN AMERICA	CH	EUROPE	MIDDLE EAST	ASIA-PACIFIC	NORTH ASIA	SEA
NORTH AMERICA	**86%**	64%	39%	43%	55%	47%	43%	56%
WESTERN EUROPE	7%	11%	**53%**	**44%**	21%	9%	7%	12%
ASIA-PACIFIC (EXCL. GREATER CHINA)	3%	5%	4%	5%	2%	**20%**	**19%**	**21%**
GREATER CHINA	2%	2%	1%	3%	4%	**23%**	**31%**	**10%**
LATIN AMERICA	1%	**15%**	1%	1%	1%	0%	0%	0%
EASTERN EUROPE	1%	2%	1%	**3%**	2%	0%	0%	1%
MIDDLE EAST	1%	0%	0%	1%	**14%**	1%	0%	1%
AFRICA	1%	0%	1%	0%	1%	0%	0%	0%

Source: https://www.ubs.com/global/en/wealthmanagement/family-office-uhnw/reports/global-family-office-client-report.html

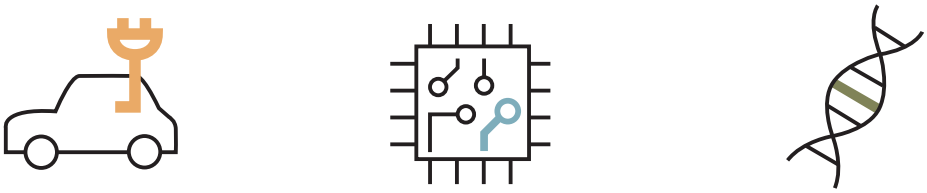
ESG AND POLITICAL RISK

In the US, ESG has entered a more politically charged phase. The Trump administration and allied policymakers have signaled plans to roll back ESG-related regulations, framing them as governmental overreach. And as shown in *Exhibit 3*, sustainable fund flows softened in Europe in early 2025, and US markets show similar pressure, which suggests that ESG-informed capital is becoming more selective, not absent.

For Middle Eastern investors, these developments are not prohibitive barriers. On one hand, an ESG-focused US investment could be viewed as misaligned with a Trump administration agenda, exposing it to delays, regulatory changes, or reputational risk. This makes deal structuring and sector selection critical. Given their long-term horizons, Middle Eastern family offices are finding opportunities that shorter-term investors have passed over, allowing some selected family businesses to leverage their existing US partnerships to make such investments.

Analyses by Tax Foundation and by Arnold and Porter explain that the One Big Beautiful Bill Act scales back or accelerates the phaseout of several IRA clean energy credits and tightens domestic content and foreign entity rules, which removes a prior tailwind for developers and investors. Select opportunities remain in sub-sectors such as green metals, advanced recycling, and renewable-linked infrastructure, where Middle Eastern investors can align their own ESG targets with commercially attractive outcomes.

EXHIBIT 2: ELECTRIFICATION AND GENERATIVE AI ARE MIDDLE EASTERN FAMILY OFFICES' HIGHEST TWO EMERGING TECHNOLOGIES OF FAMILIARITY AND INTEREST



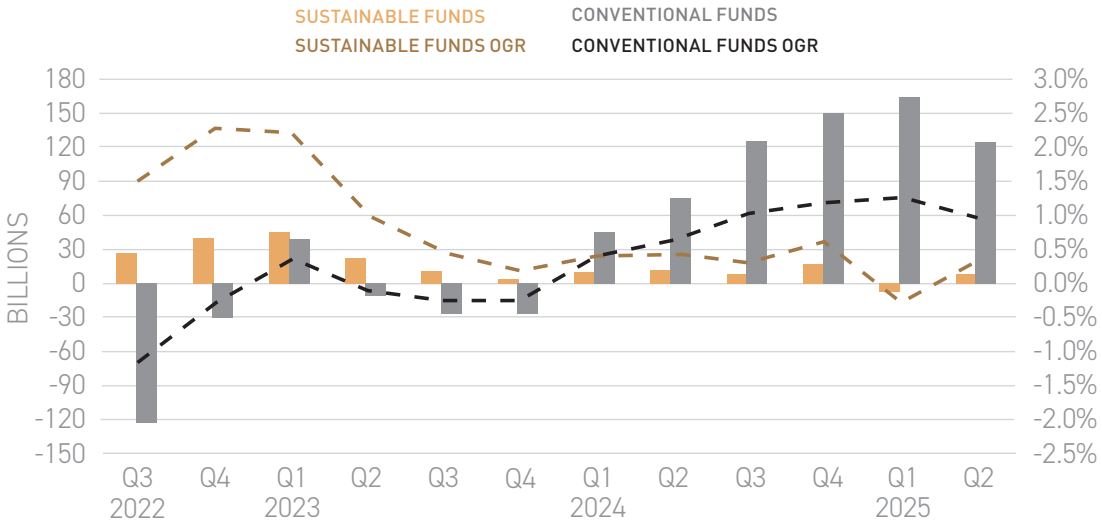
78%
ELECTRIFICATION

77%
GENERATIVE AI

67%
HEALTHCARE AND/OR MEDICINE

Source: UBS Global Family Office Report 2025

EXHIBIT 3: GLOBAL SUSTAINABLE FUND FLOWS, Q4 2024 VS Q1 2025



Source: Morningstar Direct. Data as of June 2025.

Sustainable fund flows softened in Europe in early 2025, and US markets show similar pressure, so ESG capital is becoming more selective, not absent.

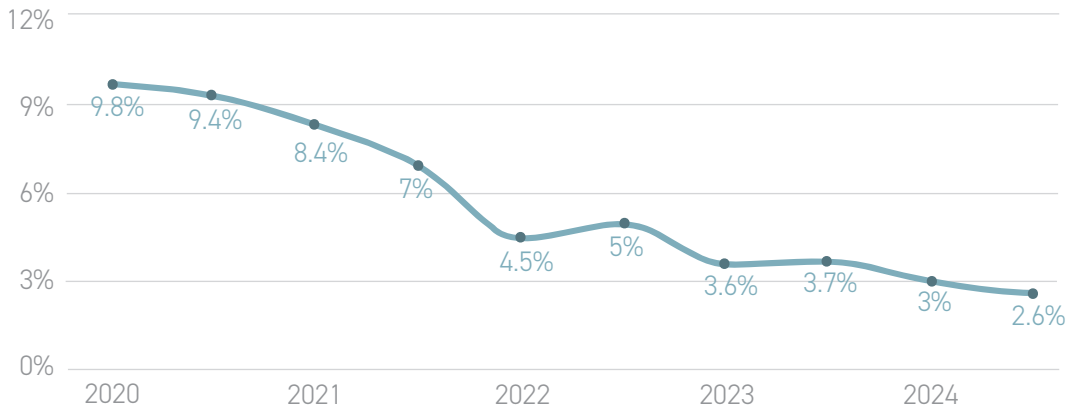
DATA CENTERS

Few assets have the growth profile of data centers. But their energy use is a challenge. For Gulf investors, this is not a deterrent. It is a reason to lead. While there are no explicit restrictions uniquely targeting Gulf investment into US data centers, such transactions can trigger review under the Committee on Foreign Investment in the United States (CFIUS) when they involve critical infrastructure or sensitive technology. Leading Saudi and UAE investors address this by partnering with established US operators, structuring deals through US-registered entities, and adhering to rigorous AML/KYC protocols. These measures ensure compliance with US law and position them as credible partners in advancing America's digital infrastructure. *(See Exhibit 4.)*

Saudi Arabia's DataVolt has announced a $20 billion investment into US data centers powered by renewable energy and green hydrogen. These assets will serve hyperscale cloud and AI operators with high capacity and low emissions. The UAE's DAMAC Group has launched a parallel initiative, also committing $20 billion to sustainable data infrastructure in America.

These moves show how Gulf investors are connecting their legacy in energy with their vision for the digital economy. By developing data centers that are both tech forward and climate aligned, they are redefining what long-term digital infrastructure looks like.

EXHIBIT 4: US DATA CENTER VACANCY RATES REMAIN BELOW 3%, UNDERSCORING SECTOR RESILIENCE AND LONG-TERM APPEAL FOR MIDDLE EASTERN CAPITAL



Source: JLL Research

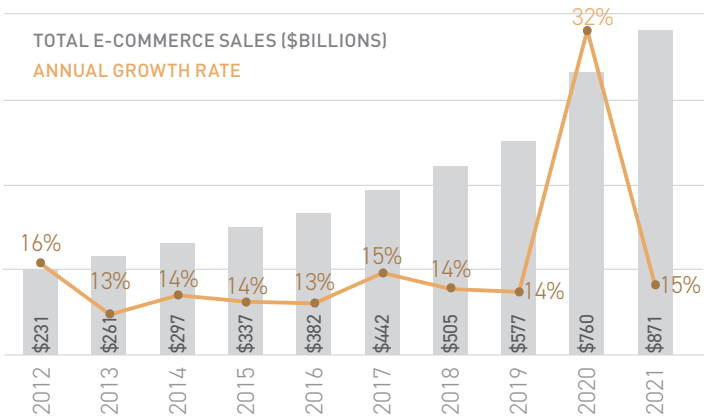
LOGISTICS

Modern logistics properties are no longer just warehouses. They are energy systems, which is reflected in the investment decision-making of Gulf-based investors. Tracking e-commerce behavior is one useful way to strengthen this thesis, as shown in *Exhibit 5,* which demonstrates how upticks in online sales translate into more inventory moves, more warehouse demand, more last-mile deliveries, and ultimately, more energy consumption.

Flat roof distribution centers are ideal for solar arrays. New builds can integrate battery storage, backup power, and high efficiency systems. These assets are not only cash flowing, but also adaptable to climate risks and regulatory shifts.

Qatar's sovereign fund has prioritized US logistics and trade infrastructure. Family offices are now co investing alongside operators with experience in sustainable supply chain assets. Properties with microgrid potential or solar readiness are especially attractive. They offer operational resilience and tenant appeal, especially as Amazon and others push for greener logistics.

EXHIBIT 5: E COMMERCE GROWTH IS A PRIMARY DRIVER OF LOGISTICS DEMAND



Source: US Census Bureau, Quarterly E-Commerce Report, CBRE Research Q1 2022.

Middle East family offices are adjusting to a global economy shaped by energy transition, infrastructure renewal, and demographic change.

HOUSING

Residential sectors such as student housing and workforce housing are also receiving renewed attention from Gulf capital. These sectors offer defensive cash flow, consistent demand, and the ability to deliver social outcomes.

ADIA has partnered with Landmark Properties to launch a one billion dollar student housing platform in the US. Their focus is on tier one university markets, energy upgrades, and long term operational alignment. Similar strategies are being explored for mid market rentals across growing Sunbelt cities.

For Gulf family offices, this is about more than income. It is about relevance. Housing touches real people. Investing in efficient, accessible homes positions investors as contributors to community outcomes, not just beneficiaries of market cycles.

THE ONGOING SHIFT

The shift underway is not tactical. It is thematic. Middle East family offices are adjusting to a global economy shaped by energy transition, infrastructure renewal, and demographic change. Their capital is moving into real estate sectors that are resilient, scalable, and built for tomorrow.

From renewable powered data centers to solar smart warehouses and socially attuned housing, Gulf investors are no longer just participating in US real estate. They are shaping its future. This is what post oil allocation looks like.

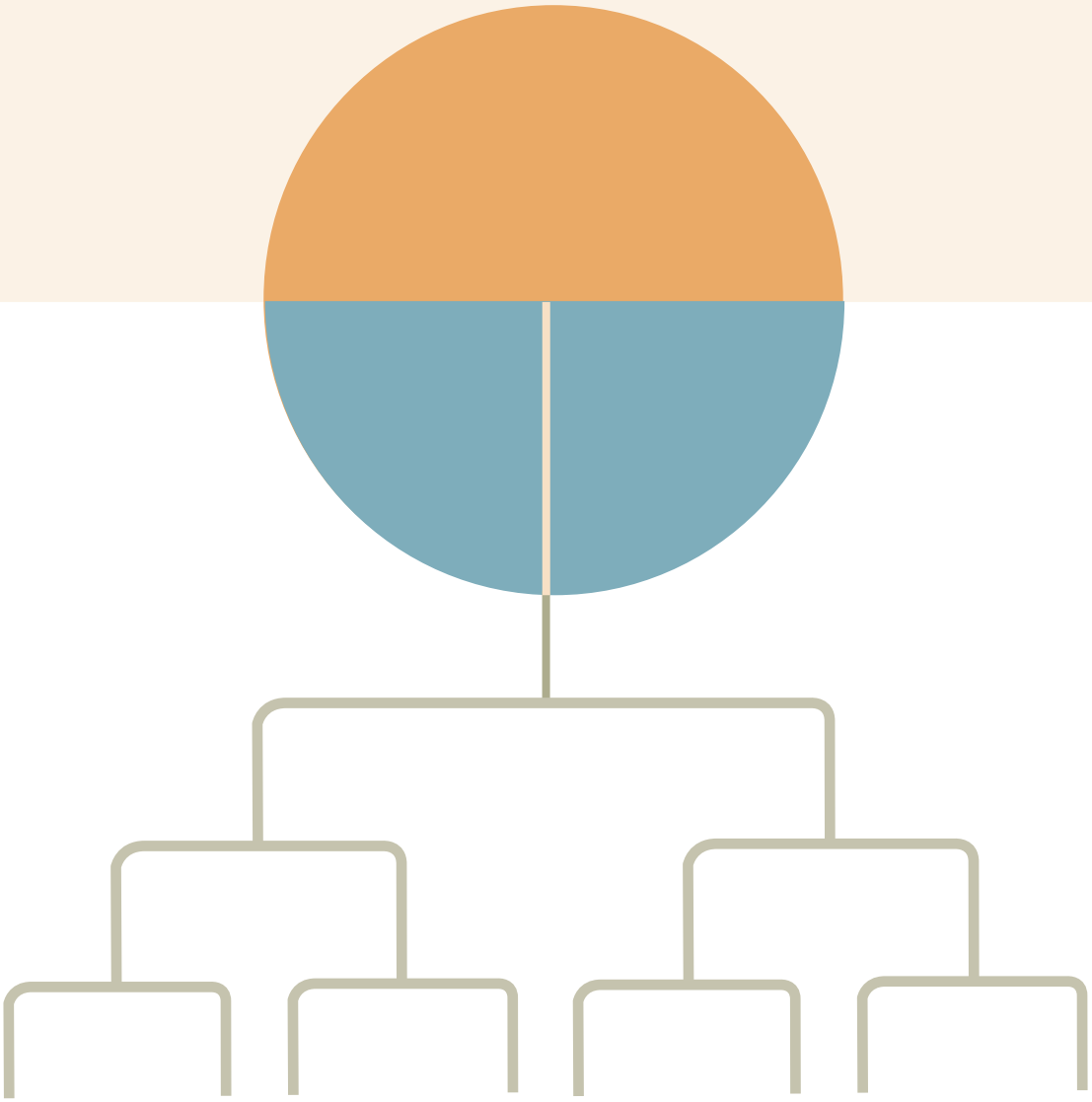
ABOUT THE AUTHOR

Abbas Hashmi is a Columbia Business School program leader, former Goldman Sachs executive, Co-Chair of US trade missions to the GCC, and board advisor to Silverstein Properties.

NOTES

Data sources used for this article include: JLL. “Global Capital Outlook.” Insights – Market Outlook, JLL, 2025. Accessed August 21, 2025. https://www.jll.com/en-us/insights/market-outlook/global-capital; Urban Land Institute and PwC. Emerging Trends in Real Estate®: United States and Canada 2025. 46th ed. (Washington, DC: Urban Land Institute), 2025. Accessed August 21, 2025. https://knowledge.uli.org/en/reports/emerging-trends/2025/emerging-trends-in-real-estate-united-states-and-canada-2025; CBRE. U.S. Real Estate Market Outlook 2025. 2025. Accessed August 21, 2025. https://www.cbre.com/insights/books/us-real-estate-market-outlook-2025; Morningstar. “Global Sustainable Fund Flows: Q1 2025 in Review.” Insights – Global ESG Flows, Morningstar, 2025. Accessed August 21, 2025. https://www.morningstar.com/business/insights/research/global-esg-flows; UBS. Global Family Office Report 2025. Zurich: UBS, 2025. Accessed August 21, 2025. https://www.ubs.com/us/en/wealth-management/campaign/global-family-office-report-2025-form.html

SOUTH OF THE BORDER



Shaun Libou
Director
Raymond James

In today's shifting landscape of global partnerships, global investors have awoken to the idea that there are other investable markets beyond those in the United States. In the public markets, the irony of investing outside the US is that around 60% of revenues of the global stock markets originate from the US in USD anyway (as compared with approximately the same proportion for companies in the S&P 500), yet the S&P 500's price-to-earnings (PE) multiple is 9x turns higher than non-US stock indices.[1]

In other words, for a similar amount of US revenue exposure, an investor could buy those cash flows for 9x, and 39% cheaper, simply by buying into a non-US domiciled index.

While there are incremental investment risks in Mexico, Mexican and US industrial share more characteristics than might be expected and the risk premium could justifiably be narrower than called for by sovereign bond spreads.

MEXICAN INDUSTRIAL IS BECOMING THE NEW US PORT INDUSTRIAL

Similar constructs and biases exist within real estate markets, particularly with respect to industrial properties in Mexico (as compared with those in the US), which often benefit from US dollar denominated leases and tenancy (the product on which this article focuses).

This analysis begins with a simple, yet bold premise: USD-denominated industrial real estate located in Mexico that houses goods produced in Mexico for US consumption is not all that different from industrial real estate in US port cities housing goods made overseas for US consumption. (Cue the gasps and "clutched pearls" from the institutional investor world.)

There is no doubt that Mexican industrial real estate has unique risk factors and fundamentals that differentiate it from industrial real estate in US port cities (e.g., spotty utilities, less robust infrastructure, and industry concentration in B2B vs. consumer facing products). However, the similarity and risk profile are closer than one would think at first glance, particularly as Mexico (1) continues to invest in infrastructure and education and (2) absorbs incremental import market share from overseas (China, in particular) in key goods categories. For example, from 2019 to 2024, "Goods" imports from Mexico increased by 42% as compared with China's -2.25%, elevating Mexico's market share of "Goods" imports from 14.5% to 15. 6%.[2]

Exhibit 1 further delineates the stunning rise of Mexico's (and decline of China's) market share of US imports from 2003 to 2024. As of 2024 data, Mexico's US imports exceed China's across six of seven "Goods" categories, which, on an aggregate basis, account for around 76% of US imports.

Despite growing 22% cumulatively from 2019 to 2024 and maintaining steady market share since 2019, the only import category in which Mexico market share falls short against China is, unsurprisingly, consumer goods (excluding food and automotive), an area which the Mexican government has expressed a clear interest in scaling and where China's market share has dropped from 34.2% to 26.6% over the same period.

Note from the Author: Between the writing, publishing and reading of this article over the course of the second half of 2025, US-Mexico trade policy will have changed and evolved. The article takes a long-run view and assumes a steady state relationship between US and Mexico under the United States-Mexico-Canada Agreement (the "USMCA") under which trade of qualifying goods is largely tariff free.

EXHIBIT 1: MARKET SHARE OF GOODS IMPORTS TO THE US: MEXICO VS. CHINA

	2003 (1ST YEAR OF DATA AVAILABILITY)			2019 (PRE-COVID)			2024 (LATEST AVAILABLE DATA)		
	MEXICO	CHINA	DELTA	MEXICO	CHINA	DELTA	MEXICO	CHINA	DELTA
IMPORT CATEGORY:									
GOODS	11.0%	12.0%	-1.0%	14.5%	17.9%	-3.4%	15.6%	13.3%	2.3%
GENERAL MERCHANDISE	11.0%	12.1%	-1.0%	14.4%	18.0%	-3.6%	15.7%	13.5%	2.2%
FOODS, FEEDS, AND BEVERAGES	13.0%	3.8%	9.2%	20.6%	3.0%	17.6%	22.7%	2.4%	20.3%
INDUSTRIAL SUPPLIES AND MATERIALS	7.9%	3.5%	4.4%	7.2%	8.0%	-0.8%	7.9%	6.5%	1.5%
CAPITAL GOODS EXCEPT AUTOMOTIVE	11.2%	14.2%	-2.9%	15.8%	22.7%	-7.0%	17.5%	14.9%	2.6%
AUTOMOTIVE VEHICLES, PARTS, AND ENGINES	19.8%	1.3%	18.4%	36.3%	4.5%	31.8%	38.3%	4.7%	33.7%
CONSUMER GOODS EXCEPT FOOD AND AUTOMOTIVE	8.1%	27.5%	-19.5%	6.0%	34.2%	-28.2%	5.9%	26.6%	-20.6%
OTHER GENERAL MERCHANDISE	11.4%	3.6%	7.9%	7.6%	6.6%	1.0%	8.8%	8.2%	0.6%
NONMONETARY GOLD	3.9%	0.1%	3.8%	25.1%	0.1%	25.0%	7.5%	0.0%	7.5%

Source: Authors

At a high level, *Exhibit 2* illustrates the proposition more clearly. The critical differences are that (1) Mexican industrial real estate is not in the US, (2) the types of goods imported from Mexico for the time being (i.e., fewer consumer-facing products), and (3) Mexican industrial real estate benefits from nearshoring tailwinds, likely at the expense of US port cities.

EXHIBIT 2: MEXICO VS. US PORT CITY MARKETS

ATTRIBUTE	MEXICO	US PORT CITY
Currency of rents, purchase price and debt in USD	✓	✓
US cities are the primary destination of goods stored or manufactured in warehouse	✓	✓
Property built to modern specifications, with modern ceiling heights, loading capacity and other critical logistical attributes	✓	✓
Demand expected to benefit from domestic consumption growth in US	✓	✓
Higher Barriers to Development	✓	✓
Demand benefits from nearshoring tailwinds	✓	✗
Reliable Infrastructure	(See "Themes & Structural Support" later in this article for a discussion of Mexico's focus on improving infrastructure)	✓
Large exposure to consumer focused goods	(Mexico's imports and manufacturing base is working to diversify away from a primarily B2B industrial center; see "Themes & Structural Support" for a discussion of Mexico's expansion goals.)	✓
Located in the US	✗	✓

Source: Authors

THE EXPENSIVE WAY AND THE CHEAP WAY TO INVEST IN INDUSTRIAL REAL ESTATE SERVICING THE US

With three-year Mexican sovereign bonds trading at 8.37%[3] YTM and three-year US treasuries at around 3.87%, on its face the sovereign-debt markets effectively believe Mexican country risk is more than twice as high as the US. However, after adjusting for Bloomberg's projected cumulative 2.6% MXN/USD depreciation over the next three years, the USD-adjusted 3-year Mexican bond yield is closer to ~7.37%, suggesting incremental sovereign risk premium of ~350 bps for Mexico.[4]

As outlined in *Exhibit 3*, transaction data supports the notion that a meaningful risk premium exists between Mexican and US industrial real estate, but the existing spread is empirically too large *(see Exhibit 2)* and at least partially unjustified. Thus, we believe the appropriate risk premium for Mexican industrial over that of the US lies somewhere between zero and 350 bps.

By comparison, the spread between private Mexican and US industrial cap rates is around 250 bps, or around 100 bps below the sovereign risk premium cited above.[5] However, cap rates do not take into account projected growth, and Green Street last projected Mexican industrial three-year forward annual NOI growth to be 9.0%, 2.2x that of its US counterpart. Exemplary 1Q 2025 market rent growth of 9%+ and public FIBRA consensus estimates further validate this projection, with a comparable 9% same-store NOI annual growth rate projection for FIBRA Prologis.[6] However, due to political and macro uncertainty, as well as FIBRA Prologis' 2025 same-store NOI growth guidance of ~5.5%, we adopt an NOI CAGR range of 5.5-9% in the analysis.

To incorporate growth, we employed a five-year unlevered IRR methodology based on spot cap rates, a CapEx reserve, and projected NOI growth. The resulting unlevered returns are 12.4% for Mexico (at the midpoint) and 7.4% for the US, implying an approximately 500 bps spread, or 150bps/43% higher than the imputed country risk premium of Mexico. As a result, at prevailing cap rates, investors who believe Mexico warrants a full country risk premium could achieve around 150 bps of incremental return as compared with US industrial real estate on a like-for-like basis, with additional outperformance if the country risk premium is not fully warranted.

Whether or not an investor believes Mexican industrial servicing the US is inherently riskier than its US counterparts, the value proposition at spot valuations is compelling. Over time, the country-adjusted spreads should tighten as Mexican industrial continues to outperform the US, investors recognize the attractive risk-adjusted returns of the sector and additional international investors enter the market.

EXHIBIT 3: MEXICO VS. US INDUSTRIAL RISK

SECTOR	NOMINAL CAP RATE	CAPEX % OF NOI	ECONOMIC CAP RATE	'25–'28 NOI CAGR	LONG TERM NOI CAGR	EXPECTED UNLEVERED RETURN
MEXICO INDUSTRIAL	7.4%[4]	15.0%	6.5%	5.5-9.0%	4.9%	11.6-13.1% (12.4% at midpoint)
US INDUSTRIAL	5.1%	14.0%	4.4%	4.0%	2.3%	7.4%

Source: Authors

LIMITED OPPORTUNITY IS THE OPPORTUNITY

There are only twenty-two investors with more than one million square feet of owned industrial product in Mexico,[7] the top five of which control around 55% of the country's industrial stock.[8] In contrast, there are around seven hundred investors of similar size in the US (>1 million square feet), and the top five owners are far less concentrated with 22% market share.[9] The dichotomy of ownership concentration of industrial product between the two countries highlights both (1) the limited institutional interest historically in Mexican industrial and (2) the opportunity for additional competition; after all, how much longer can the global investment community ignore Mexican industrial's higher cap rates and outperformance versus the US (historically and projected for 2025+)?

With relatively few institutions investing in Mexican industrial, it's not a surprise that fund flows to the sector are historically slim compared to the US. Interestingly, US industrial-dedicated public and private capital raised in 2024 was ~18x that raised for Mexican industrial, which, coincidentally, aligns with the ~18x ratio of US industrial stock to Mexico's by square footage. Given the attractive fundamentals and investment profile of Mexican industrial, this is a surprising finding as we would expect to see investors begin to overweight the sector relative to its US counterpart. However, upon further dissection of the data, private markets in isolation exhibit "green shoots" of recognition, as 2024 private capital fundraising dedicated to Mexican industrial increased 114% from $377 million to $810 million, signifying the largest annual fundraise proceeds since 2018 and one-sixth of the private capital raised for dedicated US industrial funds in the same period.[10]

Despite the prevailing notion of the investment community that US industrial is more desirable to comparable product in Mexico, the data suggests otherwise.[11]

EXHIBIT 4: MEXICO VS. US INDUSTRIAL PERFORMANCE

	MEXICO	UNITED STATES	DELTA (BPS)
CAP RATE	7.6%	5.1%	260 bps
3Y TRAILING RENT CAGR	13.9%	6.1%	780 bps
3Y TRAILING AVERAGE VACANCY	3.1%	4.4%	(130) bps
VACANCY AS OF 1Q 2025	4.4%	6.3%	(190) bps
1Q 2025 YOY RENT GROWTH	9.2%	3.0%	620 bps
NOI CAGR PROJECTION '25–'28	5.5–9.0%	4.0%	150–500 bps
SQUARE FEET UNDER DEVELOPMENT (% OF STOCK)	15.6%	1.6%	1400 bps
SQUARE FEET UNDER DEVELOPMENT NOT PRE-LEASED (% OF STOCK)	8.5%	1.1%	740 bps
YEARS OF SUPPLY (SPECULATIVE STOCK / LTM ABSORPTION)	1.3 years	1.6 years	-0.3 years

Source: Authors

As demonstrated in *Exhibit 4,* while Q1 2025 vacancy in both the US and Mexico increased from their respective three-year trailing averages, Mexican industrial vacancy of 4.4% remains 190 bps tighter than in the US, with 600+ bps higher year-over-year market rent growth. With respect to each country's industrial development pipelines, Mexico's under construction pipeline as a percentage of supply is nominally high as compared with the US (15.6% vs. 1.6%), but after adjusting for pre-leased space and the last twelve months of absorption in each geography, the Mexican supply pipeline represents only 1.3 years of supply as compared with 1.6 years for the US. Assuming Mexican industrial demand holds, it should have a more balanced supply-demand setup going forward.

Due to nearshoring tailwinds driven by a litany of trends reshaping global logistics, we believe Mexican industrial will continue to outperform, primarily as industrial supply chains serving the US prolong their shift from overseas to North America. In concurrence with this conclusion, market participants similarly anticipate accelerated demand for Mexican industrial, with Ares, for example, projecting that Mexico could absorb 5-10% of trade market share from China over the next five years, which, in tandem with healthy US consumption growth, could result in 50–65 million square feet of incremental industrial demand over the next five years. This quantum of demand would account for approximately 8% of existing stock in addition to already strong absorption levels.[12]

THEMES & STRUCTURAL SUPPORT FOR BROADER MEXICAN INDUSTRIAL DEMAND

Introduced in January 2025 in collaboration between Mexican government and the private sector, "Plan Mexico" is a six-year strategy intended to promote economic & industrial growth in Mexico. One of the express goals of the plan is to compete against China.

Select goals of Plan Mexico relevant for industrial real estate include:

Electrical Infrastructure: Increase electricity generation capacity by 22k megawatts via the construction of 86 new substations and 63 substation expansions

Foreign Direct Investment: Attract US$100 billion annually of foreign direct investment

Value Chain Growth: Expand national contributions to global value chains by 15% in industries such as automotive, aerospace, electronics, pharmaceuticals, among others

Expansion in Consumer Goods: Drive 25% expansion in consumer goods production, with a focus on areas of historical China market share hegemony, such as toys, textiles, footwear, etc.

Accelerated Depreciation: Allow for immediate depreciation for new investments on incremental fixed assets

Education Incentives: Introduce incremental 25% deduction on additional spending for worker training programs and double the number of dual education programs

The Plan Mexico agenda is a significant boon to Mexican industrial real estate investments, specifically as it addresses many of the key concerns and risk factors of investing in the country.

In addition to Plan Mexico, other themes also have and should continue to play a significant role in fostering additional industrial growth in Mexico, as follows:

Affordable Labor and Logistics: Mexican wages are 16% cheaper than China's, and Mexico–California shipping is around 8x cheaper than China–California, and takes eleven fewer days.[13] In addition, Bloomberg expects the Mexican peso to depreciate against the dollar by 3.0% over the next two years, as opposed to 2.6% appreciation in the Chinese yuan, enhancing the Mexico value proposition.

Free Trade Under the USMCA: While goods from Mexico qualifying under the USMCA remain largely tariff-free, both the first Trump Administration and Biden Administration maintained tariffs of 19% against Chinese imports, which have since increased to 30% under an agreed détente in May 2025. Given bipartisan support for both the USMCA and Chinese tariffs, Chinese goods may have an added surcharge over Mexican goods for the foreseeable future, supporting Mexican manufacturing.[14]

Growing Foreign Direct Investment: FDI into Mexico surged since the COVID era, as stymied supply chains highlighted the need for nearshoring logistical infrastructure and manufacturing. From 2019 to 2024, FDI into Mexico increased by 51% and an 8.6% CAGR.[15] Included in this data are significant investments by flagship US industrial tenants, such as Amazon and Walmart, who have made additional announcements of further FDI into Mexico going forward.

Young and Growing Population: The median Mexican age is not only lower than China (31 in Mexico compared to 40 in China), but also has a more constructive growth trajectory capable of supporting a younger and growing workforce.[16] According to Oxford Economics, Mexico's population has a long-run growth rate of 0.6%/year as compared to China's negative 0.4%/year.

THE MATH CHECKS OUT

From an analytical perspective, Mexican industrial real estate is a compelling alternative to US industrial, as prevailing valuations and growth trajectories support returns that are not only in excess of what is achievable in the US but also the perceived country risk premium for Mexico. Despite Mexican industrial's outperformance and accommodative secular tailwinds, there are relatively limited investors in the space, which is likely to change as outsized economics entice new entrants into the market.

These returns, however, are predicated on capturing meaningful rent and NOI growth. Aside from blockbuster growth achieved in recent years which support the feasibility of such assumptions, several prevailing trends should continue driving the market forward, chiefly (1) decoupling from China/Asia and deglobalization in general; (2) catalyzed by the COVID era, a general desire to nearshore manufacturing for defense, logistical control, cost savings and, now, tariff savings purposes; (3) the durability of the USMCA, through which most goods that qualify remain tariff-free; (4) Mexico's domestic focus and investment in replacing overseas nations that presently import cheap goods to the US; and (5) US aversion to additional inflation, which requires goods to be manufactured in geographies with inexpensive cost inputs.

Of course, if Mexican industrial turns out to serve the same function as industrial real estate adjacent to US ports, the outsized growth and country risk premium should become less relevant.

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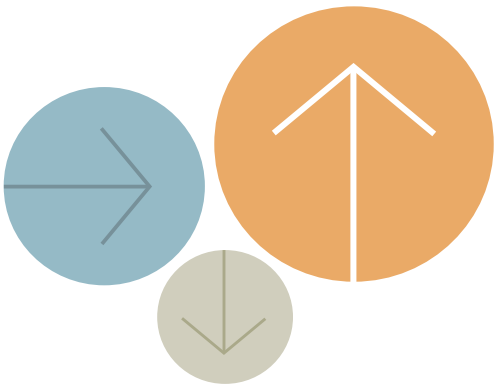

The median Mexican age is not only lower than China (29 in Mexico vs. 40 in China), but also has a more constructive growth trajectory capable of supporting a younger and growing workforce.

MIGRATION MYTH

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NIMBYism and Why Coastal Movers Aren't Affecting Sunbelt Housing Supply.

An emerging story blames migrants from high-cost, regulation-heavy coastal states for "importing" anti-development politics into the Sunbelt and reducing new housing. A county-level test of that claim does not hold up. Using a 59-county Sunbelt sample, the analysis compares in-migration from historically restrictive markets (NIMBY) with the shift in housing permit momentum across two cycles: the 2012–19 expansion and the 2020–24 pandemic era. The result is a near-zero correlation between the share of newcomers from restrictive states and the change in construction permitting trend ($r \approx 0.08$). This relationship is visually demonstrated in the scatter plot and county-level data below.

Our results tackle the narrative in both directions. Some high-exposure counties accelerated their permitting. Others with average exposure slowed sharply. The limits to supply look local, administrative, and policy-specific, not imported by voters. For investors, the correct response is to downgrade broad demographic explanations and upgrade local institutional diligence. The markets that continue to translate demand into supply are doing so because they have the political will, codes, staffing, and infrastructure to permit and deliver. The markets that are slowing are likely doing so for homegrown reasons.

INTRODUCTION: THE CLOSING OF THE SUNBELT FRONTIER?

Academic work has documented a structural decline in America's housing supply responsiveness over decades. The most recent installment argues that the suburbs that used to add most of the nation's new housing are no longer doing so at the same pace, including in once-elastic Sunbelt metros such as Atlanta, Dallas, Miami, and Phoenix. Prices are higher, output is lower, and the empirical supply curve looks flatter. The authors point to stricter land use and rising frictions as the natural explanation.[1]

In the market conversation, a different explanation has taken hold. The claim is straightforward and intuitive. People have been moving from supply-constrained coastal states to the Sunbelt. Those newcomers bring anti-growth preferences and, over time, vote for slower growth rules. If that is right, the share of migrants from restrictive places should be associated with a deceleration in local permitting.

This article tests that hypothesis with county-level data. The goal is not to debate in the abstract, but to match exposure to outcome: who moved in, from where, and what happened to the local permitting trend when the macro regime changed. If the "exported NIMBY" story is a primary driver, it should show up in a simple cycle-to-cycle comparison. If it does not, investors should treat the story as background noise and focus on the actual constraints that govern entitlements and administrative throughput.

METHODOLOGY: A TALE OF TWO CYCLES

The framework isolates exposure and outcome across two distinct macro environments.

Exposure. The in-migration rate from historically restrictive, high-barrier states into each Sunbelt county, measured as 2020–24 gross inflow divided by that county's 2020 housing unit stock. The restrictive-origin list is fifteen states used consistently in the workbook: CA, CT, DE, HI, IL, MA, MD, ME, NH, NJ, NY, OH, PA, RI, and VT. This definition avoids cherry-picking and aligns with widely recognized high-regulation *(approximately NIMBY)* markets.

Outcome. The change in average annual residential permits between the 2012–19 expansion and the 2020–24 period. Using cycle averages reduces year-to-year noise and captures a shift in trend rather than a change in level.

Universe and sources. The county set includes 59 high-growth Sunbelt counties. Migration flows are drawn from county-to-county data provided by Constellation Data Labs and normalized by Census housing units. Permits come from the Census Building Permits Survey. The analysis reflects a pure cross-section: one exposure metric per county, one outcome metric per county, and a Pearson correlation across the sample. The choice of cycles matters. The comparison is intentionally between a long post-GFC expansion and the pandemic era that followed, when costs, rates, and procurement conditions changed materially. If migrant political preferences were a meaningful new brake on permitting, the second cycle should show it.

To the extent supply elasticity has declined in parts of the Sunbelt, the decline looks endogenous to local rules and capacity

THE CORE FINDING: A SURPRISING DISCONNECT

Exhibit 1 plots the change in restrictive-origin in-migration rate against the change in permitting rate. The regression line is essentially flat ($r \approx +0.08$). Using 2020–24 exposure levels instead of changes also yields no relationship ($r \approx -0.11$).

Some outliers are noteworthy:

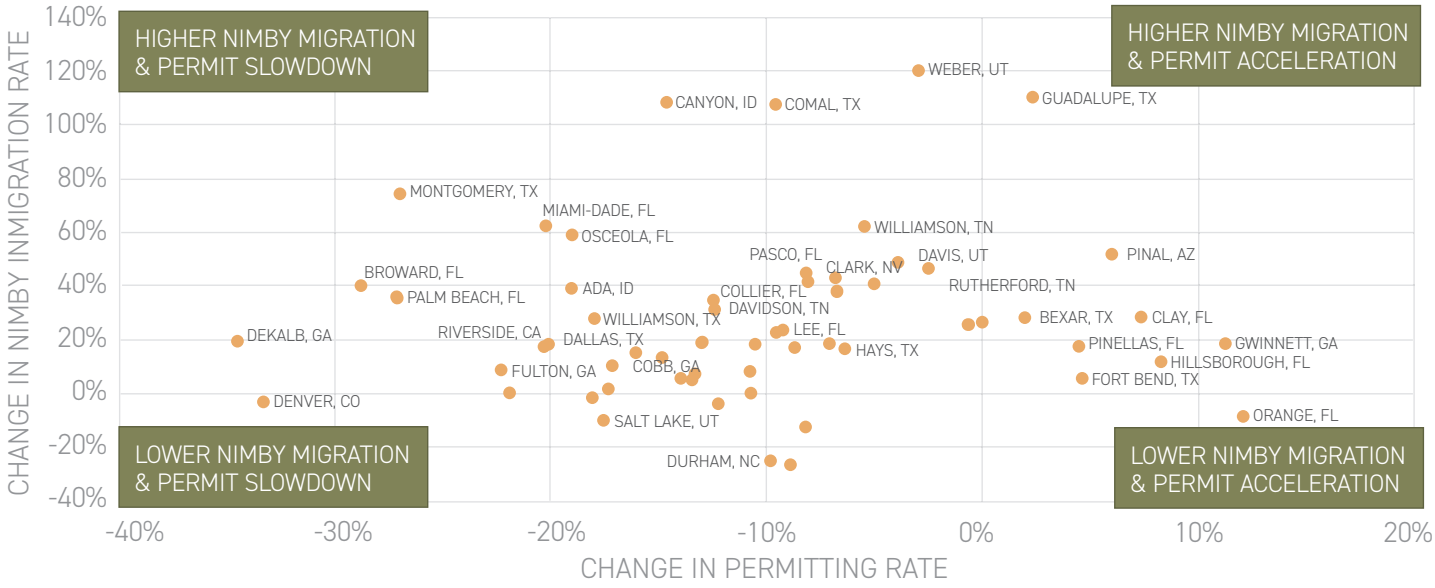
- Acceleration with meaningful exposure:
  - Pinal County, AZ sits in the top quartile for NIMBY exposure yet accelerated permitting by approximately 6 percentage points (pp).
  - Orange County, FL accelerated by approximately 12 pp despite slightly lower NIMBY inflow than last cycle.
- Standout slowdowns (not explained by migration composition):
  - Broward County, FL slowed approximately 29 pp.
  - DeKalb County, GA and Denver County, CO registered the steepest declines (approximately 35 pp and approximately 33 pp, respectively).

The slowdown from 2012–19 to 2020–24 is broad: 49 of 59 counties (83%) show a negative delta (mean –10.5 pp). Grouping counties into quartiles by 2020–24 NIMBY exposure shows no meaningful gradient: Q1 –12.4 pp, Q2 –7.7 pp, Q3 –9.3 pp, Q4 –12.5 pp. Exposure does not explain who slowed.

Heterogeneity within the exposure groups is large. Among higher-exposure counties, some slowed, some held steady, and some accelerated. Among lower-exposure counties, the same. In Texas, both Dallas County (–20.1 pp) and Harris County (–10.5 pp) slowed despite low exposure. The driver is apparently not the origin share.

There is no evidence in this cross-section that the share of newcomers from restrictive states explains which Sunbelt counties slowed and by how much. To the extent supply elasticity has declined in parts of the Sunbelt, the decline looks endogenous to local rules and capacity. It is not obvious that it is being "voted in" by coastal movers.

EXHIBIT 1: CHANGE IN NIMBY IN-MIGRATION RATE VS. CHANGE IN PERMITTING RATE



Source: US Census Bureau, Constellation Data Labs

Note: Migration counts are from a Constellation sample (not full universe) with small counts suppressed; used here as a relative exposure index, not an absolute rate.

WHY THE MIGRATION STORY PERSISTS

The migration story feels right because it links visible facts to a familiar political frame. People did move from high-cost, high-regulation states to the Sunbelt. Many Sunbelt counties did slow their permitting. It is an easy step to connect those dots. But there are at least three reasons to be cautious of extrapolating too much from these trends.

First, entitlement is administrative as much as it is political. County commissions, planning boards, plan reviewers, and building departments set timelines and throughput. Staffing ratios and process design matter. Agenda management matters. The effect size from adding reviewers or streamlining checklists can be large relative to any marginal change in voter composition.

Second, fiscal and infrastructure constraints can act as brakes irrespective of politics. Impact fee schedules, concurrency triggers, utility capacity, evacuation standards, and bond cycles all feed into latent speed. These are technical, not ideological.

Third, the pandemic-to-rates regime change altered the economics of construction everywhere. Labor, materials, financing, and duration risk all moved against faster delivery. In many counties, those macro headwinds were powerful enough to dominate marginal shifts in voter sentiment.

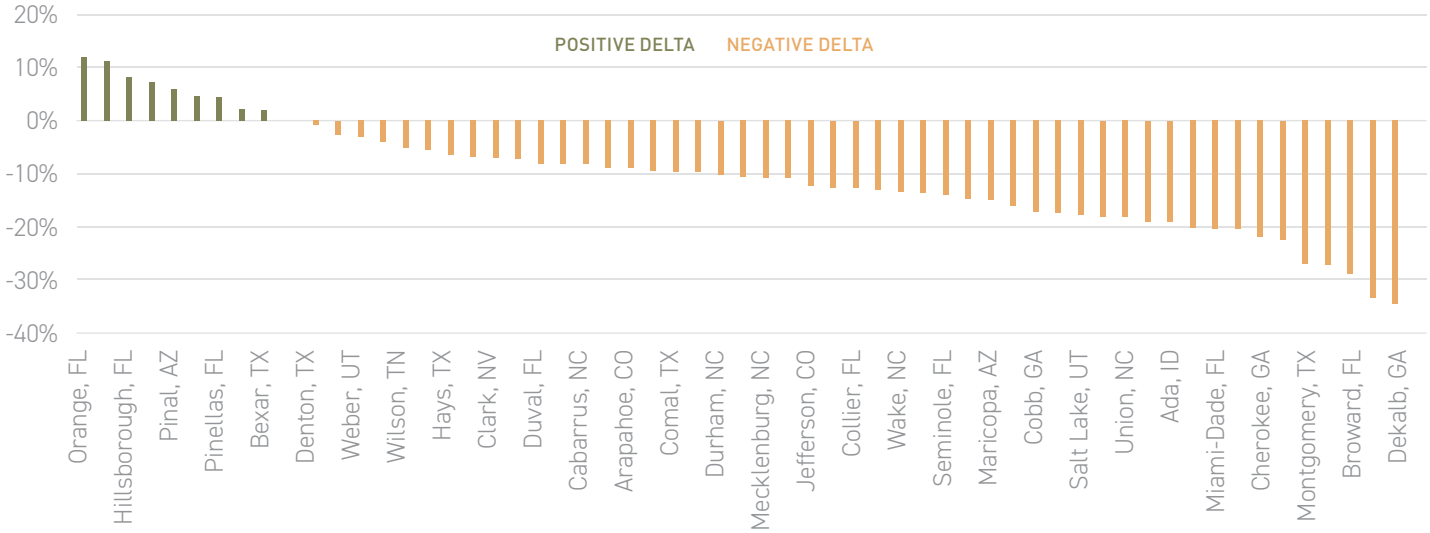
WHAT THE PATTERN DOES SUGGEST

Two trends are useful for underwriting.

Institutional capacity converts demand into supply. Counties that can permit at pace tend to share features investors can verify: clear by-right approvals for core products, code updates that allow more units per acre in select locations, predictable calendars for reviews and hearings, and state-level laws that pre-empt the most exclusionary local tactics. Pinal, AZ shows that even high-exposure destinations can keep permitting if throughput is there.

Homegrown policy headwinds dominate slowdowns. Where permit momentum collapsed, review the process, not the demographics. Concurrency, coastal or environmental overlays, rising fees, added discretionary review, and more litigation or appeals will all show up as longer timelines, wider variance, and higher soft costs. Broward's pattern is consistent with that playbook.

EXHIBIT 2: CHANGE IN PERMITTING RATE BY CYCLE (POST-GFC VS. POST-COVID)



Source: US Census Bureau.

FINDING SIGNAL IN THE NOISE

Our primary takeaway is that the narrative that links supply outcomes to the origin of in-migrants doesn't hold up to the data upon inspection. The slowdown between cycles is broad, but its distribution is best explained by local policy and capacity, not by voter importation.

Where the opportunity sits depends on strategy.

For development capital, favor counties that match growth with approvals. The ability to obtain approvals consistently is a real spread in this cost and rate environment. Jurisdictions with stable by-right paths and faster plan checks reduce duration risk and support higher hit rates on starts.

For acquisition strategies, lower near-term supply can benefit incumbents via tighter occupancies and firmer rent growth. That benefit is real, but may not be without cost. Supply scarcity that comes from unpredictable review or rising fees tends to add volatility and headline risk, and can attract state-level intervention if it goes too far (in the Sunbelt). If the business plan requires consistent expansions or heavy CapEx that triggers new approvals, a low-throughput county can potentially be a liability for an owner.

For both developers and acquisition strategies, mispriced perceptions exist. Some counties that are caricatured as "overheated" in-migration destinations remain surprisingly permissive on the entitlement side. A clear-eyed read of comprehensive plans, recent text amendments, and actual commission calendars often surfaces shovel-ready pockets that the consensus overlooks. Conversely, some counties with modest exposure can be quietly hostile in practice. A desk review will miss this. Calls with planning directors, line reviewers, and municipal attorneys will not.

HOW TO OPERATIONALIZE THE DILIGENCE

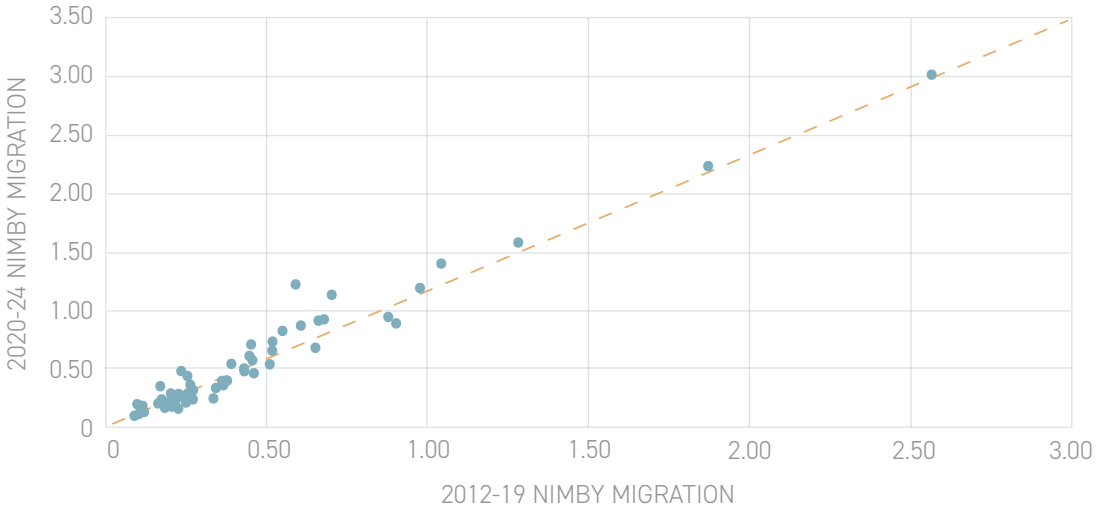
Investment firms could do well to build a throughput scorecard. For example, rating counties on five verifiable factors: share of by-right approvals, average days in site-plan review based on recent dockets, stability of impact and utility fee schedules, observed variance between posted timelines and actual issuance dates, and degree of state pre-emption of local exclusionary tools. Investors could back test the scorecard against the permit trend delta across cycles to validate the assumptions and model used and use it to screen where sponsors deserve a higher risk premium.

Additionally, firms could track sub-county deltas. County averages hide city-level variation. Cities with form-based codes or mixed-use overlays can keep producing even when county totals fall. Shift site selection accordingly.

Forward-thinking developers could engage early where veto points concentrate. If design review or planning commission discretion is the binding constraint, invest upfront in higher-credibility design teams and deeper neighborhood engagement to de-risk hearings.

And finally, all investors can price the carry costs based on more granular understandings of the likely permitting paths. Required returns should reflect realistic cycle times. Use historical issuance age and observed variance, not posted targets. Model more attrition in the entitlement funnel when the docket shows more continuances per case.

EXHIBIT 3: NIMBY INMIGRATION RATES - POST-GFC VS. POST-COVID



Source: Constellation Data Labs.

WHAT NOT TO OVER-INFER FROM MIGRATION DATA

Two potential messages are worth considering.

Population growth still drives demand. Net in-migration is a fundamental driver of household formation and property occupancy levels. The point here is narrower. The composition of that migration by origin is not a primary determinant of supply momentum at the county level across these two cycles. Demand analysis and supply analysis should be kept distinct.

Politics evolve under institutional constraints. Newcomers do not vote monolithically. State pre-emption can neutralize local anti-growth coalitions. Decentralized veto points can stall even pro-growth majorities. The practical lesson is the same: underwrite the rules and the staff that apply them.

ALL REAL ESTATE IS LOCAL

The idea that coastal movers are exporting anti-growth preferences to the Sunbelt is not supported by the data: across 59 counties, whether you look at changes or levels of NIMBY exposure, the correlation with permitting momentum is near zero. However, it is also not supported by a simple match of exposure to outcome. Across 59 Sunbelt counties, the correlation between the share of newcomers from restrictive states and the change in permitting momentum from the expansion to the pandemic-and-rates period is near zero. Some high-exposure counties accelerated. Some low-exposure counties slowed. The determinant is local: codes, fees, overlays, staffing, calendars, and the state framework around them.

Investors cannot rely on a national narrative and instead must focus on a repeatable, local edge and market knowledge. The path to that edge could be a throughput scorecard, sub-county targeting, early engagement where veto points concentrate, and carry pricing that reflects observed practice rather than posted timelines. Capital that does this will find markets where demand still becomes supply, where execution is possible, and where risk is paid to wait. Capital that bets on demographic origin stories will miss both the pitfalls and the opportunities that only show up in the docket.

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MACHINE CENTER

Sam Chandan
Founding Director
Chen Institute for Global Real Estate
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The AI-Driven Transformation of Data Center Investment.

Data centers have evolved from niche infrastructure into one of the most sought-after institutional investment classes. The sector recorded more than $70 billion in M&A transactions in 2024 alone, including Blackstone's record-breaking $16 billion acquisition of AirTrunk, signaling unprecedented institutional appetite for digital infrastructure.[1] McKinsey projects companies will need to invest $5.2 trillion globally in data center infrastructure by 2030 to meet AI demand, with the US requiring $1 trillion in capital expenditures over the next five years.[2]

These estimates raise a central question for institutions: do data centers warrant strategic allocation, and do investors have the scale, expertise, and capital to execute in what now functions more like large-scale infrastructure than traditional real estate?

Rapid growth is undeniable, but it also brings material constraints and unknowns—particularly around power availability, technology pathways, and regulatory responses—that call for a candid, risk-aware approach from the outset.

The transformation reflects a fundamental shift in how society creates, processes, and stores information. US data center power consumption is projected to rise from roughly 4% of national electricity use today to 9–12% by 2030, driven by AI workloads that are far more power-intensive than traditional cloud applications.[3]

This surging electricity demand is colliding with grid bottlenecks and long interconnection queues, reshaping siting, valuation, and feasibility. In Northern Virginia—the world's largest data center market with 3,000+ MW of capacity—developers face multi-year waits for power connections as utilities race to expand transmission and generation to match demand.[4] Power has become a binding constraint that increasingly defines which projects can proceed and which sponsors can reliably deliver capacity to tenants.

AI REVOLUTION DRIVES UNPRECEDENTED DEMAND ACCELERATION

The AI boom has altered data center economics, density, and design in ways that distinguish today's cycle from prior cloud expansions. McKinsey estimates that AI will represent ~70% of total data center capacity demand by 2030, with global capacity potentially tripling from current levels.[5] Goldman Sachs forecasts data center power demand increasing 165% by 2030 versus 2023, with AI representing about 19% of data center power demand by 2028.[6] The core driver is computational intensity: training and serving modern AI models require large GPU clusters and high-density racks, pushing power per rack from ~10–20 kW in traditional designs to ~100–500 kW in specialized AI facilities.[7]

As density rises, purpose-built AI sites increasingly deploy liquid cooling, advanced power distribution, and new thermal management schemes that change both capital budgeting and operating practices.

Capital commitments reflect the scale of this shift. Hyperscale cloud providers—principally AWS, Microsoft Azure, and Google Cloud—collectively plan $300+ billion of data-center-related investment in 2025 alone, and industry analyses point to $1 trillion spanning data centers, chips, and utility upgrades.[8] Pricing has responded accordingly: according to JLL, rental rates increased 13–37% year-over-year depending on market and lease size, with the largest increases associated with high-density, power-secure deployments.[9]

Workloads also matter for footprints and contracts, because AI training facilities are few, extremely dense, and power-hungry, while inference and general cloud workloads are more distributed and latency-sensitive. As a result, hyperscalers are bifurcating their footprints into centralized campuses for training and regional capacity for inference and storage, and this architectural separation has implications for lease tenor, expansion options, and build sequencing for landlords and joint-venture partners.

The same momentum that accelerates demand also intensifies pressure on electricity infrastructure. In practical terms, power availability is the gating factor in development, and the reliability, timing, and cost of energization increasingly determine which sites move first and which proposals remain on paper. The net effect is that data center investing is converging with energy infrastructure investing, and power strategy is becoming as central to underwriting as tenant credit.

POWER SCARCITY RESHAPES LOCATION STRATEGIES

Power availability is now the top site-selection criterion, often superseding proximity to end users or fiber hubs.[10] Constraints vary sharply by region: some mature hubs face years-long interconnection timelines and expensive network upgrades, while select emerging markets offer faster access to capacity and land.

Northern Virginia illustrates both poles of the issue, with vacancy below 1% and peerless ecosystem advantages on the one hand, and severe power limitations on the other.[11] Dominion Energy projects demand that would require the equivalent of several large nuclear plants, underscoring structural scarcity and the need for long-cycle grid investments.[12] Where utility access is attainable, land values have appreciated materially, and adjacency to substations and transmission corridors has become a prized attribute that can materially compress time-to-revenue.

Development timelines are increasingly governed by the utility interconnection process rather than by shell construction. Queue position, required network upgrades, and study cycles often set the critical path, which means sponsors must underwrite multiple delivery scenarios, including phased energization and partial curtailment, and must build contingency for upgrade cost sharing.

Substation proximity, transmission headroom, and the ability to stage capacity in blocks can materially affect delivery risk and schedule reliability, and they therefore influence financing terms, tenant negotiations, and valuation. These grid mechanics have elevated power engineers and interconnection specialists to core members of underwriting teams, and they have also pushed many sponsors to treat power as a front-end asset rather than a downstream enabling input.

Energy sourcing is evolving in tandem with siting. Developers and operators are experimenting with on-site generation, dedicated substations, and long-dated contracts for nuclear and renewable resources, including examples such as Amazon's acquisition of a nuclear-powered campus and Microsoft's 20-year agreement related to the Three Mile Island site.[13]

Government analyses suggest that roughly 27% of facilities could incorporate on-site generation by 2030, signaling a partial shift from sole reliance on grid power to hybrid models that pair utility supply with behind-the-meter resources.[14] As primary markets approach grid limits, secondary markets with existing capacity, competitive wholesale power, and cooperative permitting regimes are attracting capital. Fiber diversity, water availability and discharge permitting, air-quality constraints on backup generation, and local land-use politics can still determine financeability once power is secured, which is why viability increasingly rests on an integrated plan for electricity, connectivity, and community impacts.

Investor appetite remains strong, but barriers to entry continue to rise. CBRE's survey indicates that 97% of investors plan to increase data center allocations in 2025, with 44% committing $500 million or more.

CONCENTRATED OWNERSHIP CREATES HIGH BARRIERS

Ownership and development capabilities have consolidated among large private equity and infrastructure sponsors, public REITs, and select strategics. Blackstone reports a $55+ billion portfolio and a $70+ billion prospective pipeline in data centers, positioning itself as a leading investor in AI infrastructure.[15]

Public REITs, notably Equinix and Digital Realty, continue to expand at scale, often via joint ventures and platform acquisitions that combine balance sheet capacity with operating expertise. Since 2015, the industry has recorded multiple $10B+ transactions and a steady cadence of platform acquisitions by infrastructure funds, including the $7 billion Digital Realty–Blackstone joint venture aimed at hyperscale development.[16] Sponsors in this cohort bring more than capital: they offer technical expertise, hyperscale relationships, and execution capabilities across design, procurement, and commissioning, which together constitute rising barriers to entry.

Operating models span retail colocation, wholesale or turnkey suites, and hyperscale build-to-suit shells with bespoke mechanical, electrical, and plumbing systems. Revenue stacks typically combine space and power rent with interconnection and managed services, and value creation tends to hinge on mechanical and electrical efficiency, change management during tenant fit-outs, and the ability to sustain strict uptime service-level agreements.

While hyperscalers drive the majority of leasing and development today, enterprise users, content platforms, and AI-native firms also contribute to demand, albeit at a smaller scale relative to the cloud majors. This concentration elevates credit exposure and re-tenanting risk, but it also affords longer lease tenors and clearer capacity roadmaps, which can strengthen the durability of cash flows.

Investor appetite remains strong, but barriers to entry continue to rise. CBRE's survey indicates that 97% of investors plan to increase data center allocations in 2025, with 44% committing $500 million or more.[17] At the same time, development costs of roughly $10–14 million per megawatt, the need to secure power, and the scarcity of specialized operating talent constrain new entrants and tilt outcomes toward scaled platforms with repeatable delivery models.[18]

SOPHISTICATED FINANCING STRUCTURES EMERGE

The scale, technical complexity, and long lead times of data centers have catalyzed financing structures that prioritize capital efficiency and risk alignment. Sale-leasebacks, in which an operator sells an asset and leases it back on a triple-net basis that shifts taxes, insurance, and maintenance to the tenant, remain popular with hyperscalers and have often traded at 5–7% capitalization rates, a premium to many investment-grade corporate bonds of the same tenants.[19]

Joint ventures between developers and institutional capital, including the Digital Realty–Blackstone partnership, share development risk while leveraging specialist operating capabilities, and promote structures that align incentives when return hurdles are met.[20] Debt markets have adapted as well, with lenders such as commercial banks and insurance companies typically underwriting 60–75% loan-to-cost for pre-leased, credit-tenant construction, and with structured facilities that bridge construction and permanent phases to optimize all-in cost of capital.[21]

Underwriting mechanics reflect construction realities and tenant expectations. Milestone-based draws, completion guarantees or EPC backstops, and step-in rights for lenders or joint-venture partners address delivery risk, while owner-furnished equipment schedules and working-capital lines mitigate the impact of long equipment lead times on commissioning. Hedging strategies—ranging from forward rate locks to collars—must be sized to lease timing and commercial operation dates to avoid basis risk between funding and rent commencement.

Tax and incentive layering is equally consequential, since many jurisdictions offer sales and use tax exemptions on equipment, property-tax abatements or payment-in-lieu-of-tax agreements, and infrastructure credits for substations or road improvements that can move projects from marginal to financeable. Long-dated power purchase agreements and virtual PPAs can de-risk power costs and support customer sustainability requirements, which increasingly factor into procurement decisions and revenue visibility. As a result, the financing toolkit now resembles infrastructure finance, with long-dated cash flows and credit-anchored underwriting central to execution.

NEAR-TERM RISKS DEMAND CAREFUL NAVIGATION

Supply risk is the most visible near-term concern. Primary markets have 6,000+ MW under construction—more than double the pipeline at year-end 2023—and while vacancy remains below 2% in key hubs, the sheer volume under way raises the possibility of localized oversupply or absorption timing mismatches if AI adoption slows or efficiency gains reduce required capacity.[22] Investors should therefore examine not only headline megawatts but also the phasing of delivery, the degree of pre-leasing, and the mix of training versus inference workloads that will ultimately drive power draw and revenue ramp.

Power and delivery timelines remain stubborn bottlenecks. Even with accelerated investment, major transmission upgrades often require multi-year timelines, and CBRE and JLL indicate that 4–7 years is typical for power delivery to new sites, which creates a persistent gap between demand and available capacity.[23]

Some jurisdictions have imposed development restrictions or shifted infrastructure costs to developers, adding complexity and risk that must be explicitly modeled in budgets and schedules. In this environment, contractual mechanisms that protect against energization delays and curtailment events can be as important as economics on base rent.

Rates and valuations also warrant caution. Goldman Sachs notes that while demand remains strong, valuation multiples for data center assets embed optimistic growth assumptions, and public comparables trade at elevated multiples relative to broader infrastructure.[24] That premium could compress if financing costs remain high, if growth expectations moderate, or if supply catches up faster than anticipated.

At the project level, equipment lead times for transformers and switchgear and construction inflation continue to pressure budgets and schedules, which places a premium on capital structure discipline, contingency planning, and covenant flexibility to manage execution risk.

Regulatory and social-license considerations are growing more salient. Local moratoria, heightened scrutiny of water use and discharge, diesel-generator permitting constraints, and concerns about noise, traffic, and visual impact have delayed or resized projects in several jurisdictions. Disclosure requirements around carbon intensity and renewable sourcing are also tightening, and these policies influence siting, power procurement, and ultimately the depth of the tenant pool. Sponsors should assume that community engagement and environmental disclosures will remain core to feasibility rather than peripheral compliance items.

Tenant and contract structure risks must be underwritten explicitly. Heavy reliance on a small number of hyperscale tenants concentrates credit and renewal risk, and contract structures vary widely, with take-or-pay commitments differing materially from usage-based billing and variable power pass-throughs.

Investors should diligence termination rights, expansion options, and performance credits under service-level breaches, since these clauses determine revenue resilience when operating or grid conditions deviate from plan. Concentration can be an advantage when it yields long tenors and predictable expansions, but it can also magnify downside if a single counterparty reprioritizes a region or a technology stack.

CLIMATE AND TECHNOLOGY DISRUPTIONS LOOM LARGER

Physical climate risk is no longer a theoretical concern for the sector. Many top markets exhibit rising exposure to extreme weather, heat, and water stress, each with direct implications for cooling resiliency, backup power operations, and operating costs. Industry surveys indicate that nearly half of facilities report weather-related disruptions, and water scarcity constrains evaporative cooling in several regions where that method has historically been favored.

Site selection and design now routinely incorporate elevation and floodplain analysis, heat-tolerant cooling solutions, and water-light designs, and operators are deploying on-site energy storage and re-dispatchable resources to navigate grid events and curtailments. These adaptations improve resilience, but they also raise capital and operating costs that must be captured in underwriting.

Technology pathways introduce a different set of uncertainties. Edge computing is distributing processing closer to users, complementing hyperscale cores but changing latency, network, and capital-spending considerations for certain workloads. Quantum computing, photonic processors, and neuromorphic architectures could materially alter power density, cooling requirements, and facility layouts, even if their commercial timelines are uncertain. The immediate shift to liquid cooling for AI workloads is already creating functional obsolescence risk for facilities designed solely for air cooling, which means investors should favor shells and central plants designed with modularity and multiple cooling configurations in mind. Emissions and reporting add another dimension, as tenants and regulators place greater emphasis on Scope 2 emissions, hourly matching, and grid carbon intensity; long-term competitiveness may hinge on access to low-carbon megawatt-hours and credible disclosure practices that withstand increasing scrutiny.

Even experienced real-assets investors may lack the technical depth to underwrite these transitions confidently. In practice, this argues for in-house technical expertise, specialist partners, and design optionality in electrical and mechanical systems, all aimed at reducing the risk that equipment choices or footprints are stranded by changes in computing and cooling. These capabilities are not optional add-ons but part of the central skill set for investing in an asset class whose performance is tied to technology and power rather than to building envelopes alone.

The sector sits at an inflection point where explosive demand meets binding power constraints, and McKinsey's $5.2 trillion global investment need underscores the magnitude of capital formation required to support the AI economy.

Investors can apply a simple but effective set of underwriting checkpoints—deliverability, durability, and adaptability—to triage opportunities and to ensure that power certainty, tenant credit and contract mechanics, interconnection ecosystems, and resiliency design are evaluated with equal rigor.

STRATEGIC POSITIONING FOR A TRANSFORMING SECTOR

The investment thesis is compelling but must be framed with guardrails. The sector sits at an inflection point where explosive demand meets binding power constraints, and McKinsey's $5.2 trillion global investment need underscores the magnitude of capital formation required to support the AI economy. Contractual cash flows, inflation pass-through characteristics, and mission-critical use cases can generate attractive risk-adjusted returns, yet execution risk remains significant because deliverability, schedule reliability, and technology choices are inseparable from value realization. In this context, strategy should be built around a small set of durable advantages: power access, design adaptability, operating depth, disciplined capital, and institutionalized risk governance.

Power strategy must become a core competence rather than a procurement exercise. Sponsors who secure capacity early through utility agreements and substation adjacency, who pursue on-site generation where feasible, and who participate in nuclear or long-dated renewable partnerships are more likely to deliver on time and on budget. Design should assume high density and liquid cooling from the outset, with modular electrical and mechanical systems that can scale and retrofit as computing paradigms evolve, and with floor loading, white-space modularity, and thermal pathways engineered to accommodate multiple configurations without structural rework. Partnerships with operators who bring hyperscaler relationships, delivery track records, and resiliency engineering can balance risk and control through well-structured joint ventures, while capital stacks that match tenor to lease profiles and preserve flexibility for refinancing and market shifts can absorb shocks in equipment delivery and pricing.

Risk governance should be explicit and continuous. Investors can apply a simple but effective set of underwriting checkpoints—deliverability, durability, and adaptability—to triage opportunities and to ensure that power certainty, tenant credit and contract mechanics, interconnection ecosystems, and resiliency design are evaluated with equal rigor. The sector has shifted from commodity storage to critical AI infrastructure, and while power constraints are challenging, they also create moats for platforms that solve them consistently.

If current trends sustain, data centers may become a defining infrastructure asset of the digital economy; equally, the sector's evolution from energy sourcing to compute architectures means that the only constant is change.

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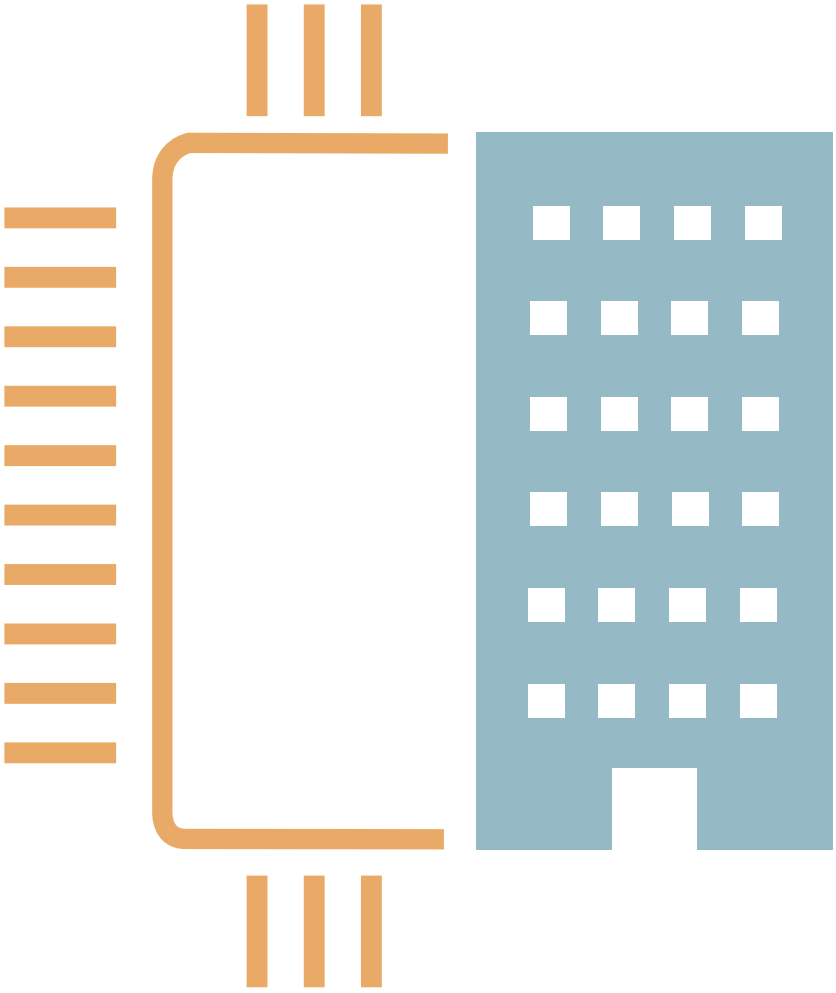
PRACTICAL AI



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Investment managers in the Commercial Real Estate (CRE) industry have an excellent opportunity to leverage new and transformative methodologies for clients' success by re-designing their investment management practices using AI to achieve investment outcomes that are often influenced by factors such as market uncertainty, data proliferation, and rapid advances in finance and technology.

This article will provide a practical guide to developing and deploying machine learning capabilities, highlighting the feature engineering process, model selection trade-offs, and Machine Learning Operations (MLOps) best practices necessary to operationalize AI at scale.

Investment managers have an excellent opportunity to re-design their investment management practices using AI to achieve investment outcomes that are often influenced by market uncertainty, data proliferation, and rapid advances in finance and technology.

AI AND WORKFLOWS

The traditional process for modeling investment decisions among most real estate professionals relies on linear relationships, such as those between rent growth and vacancy, often overlooking the complexity caused by the heterogeneity of real estate markets and other key factors. However, using AI to identify and leverage pattern recognition from complex, non-linear relationships offer deeper insights into markets.

It is important to note that while more advanced algorithms enhance accuracy, they often reduce interpretability, whereas simpler algorithms improve interpretability at the expense of accuracy. The tradeoff between accuracy and interpretability can be mitigated using (real estate) domain knowledge, feature engineering, and Explainable AI (XAI) techniques.

AI technologies—Machine Learning (ML), Natural Language Processing (NLP), and Generative AI (GenAI)—are transforming commercial real estate by enabling more accurate market predictions, risk assessments, and opportunity identification. ML models, such as classifiers and regressions, enhance credit risk evaluation and scenario analysis by quantifying the impact of economic factors on rent growth and cap rates. With sufficient data and computing power, Deep Learning uncovers patterns in complex datasets like financial news, market data, and social media. NLP extracts sentiment and insights from unstructured text, while GenAI not only interprets data but also generates reports, market updates, and multimedia content, improving communication and decision-making across the investment lifecycle.

In modernizing our CRE life cycle management process, our firm experimented with transitioning a couple of risk-related processes from traditional rule-based approaches for estimating loan default probabilities to an AI-driven risk assessment system. The following section offers a broad overview of our AI-driven framework, which utilizes sophisticated classifier models that combine domain expertise with advanced statistical methods. This approach generates risk signals that reflect broader economic and capital market conditions, thereby closing the gap between our economic forecasts and risk-management investment decisions, enhancing scenario analysis grounded in our outlook, and enabling our teams to respond more quickly to macro events.

MODEL DEVELOPMENT WORKFLOW OVERVIEW

The process of deriving an investment strategy from data follows a well-established pattern *(as shown in Exhibit 1),* it involves the collection, ingestion, and organization of data from capital market indicators, offering memorandums, financial statements, and images into a processed stage that could be turned into signals. A signal refers to meaningful information or patterns extracted from data that could help build Machine Learning models and generate predictions. The generated predictions can be used for decision-making and creating strategies to forecast space fundamentals and returns, identify economic states and cycles, or predict probabilities of default. The entire process could be challenging however, given the fragmented nature of the data in our industry.

The process of deriving an investment strategy from data involves the collection, ingestion, and organization of data from capital market indicators, offering memorandums, financial statements, and images into a processed stage that could be turned into signals.

The feature engineering process for generating signals utilizes real estate domain knowledge and statistics, often involving advanced mathematical techniques, to transform the processed data. This makes it easier for machine learning algorithms to learn patterns that are useful in modeling the desired outcome. The source data could include loan details, economic factors, and key performance indicators (KPIs) specific to real estate markets.

These are transformed to create new features or to adjust the scale of existing ones, preventing the model from being biased toward features with larger values. It's crucial to handle data types properly, examine bias in the data, and apply suitable sampling strategies to improve signal quality and model performance. Relying on solid real estate domain knowledge is essential to maintain the right balance between model interpretability and accuracy.

EXHIBIT 1: DATA TRANSFORMATION: FROM RAW DATA TO STRATEGY

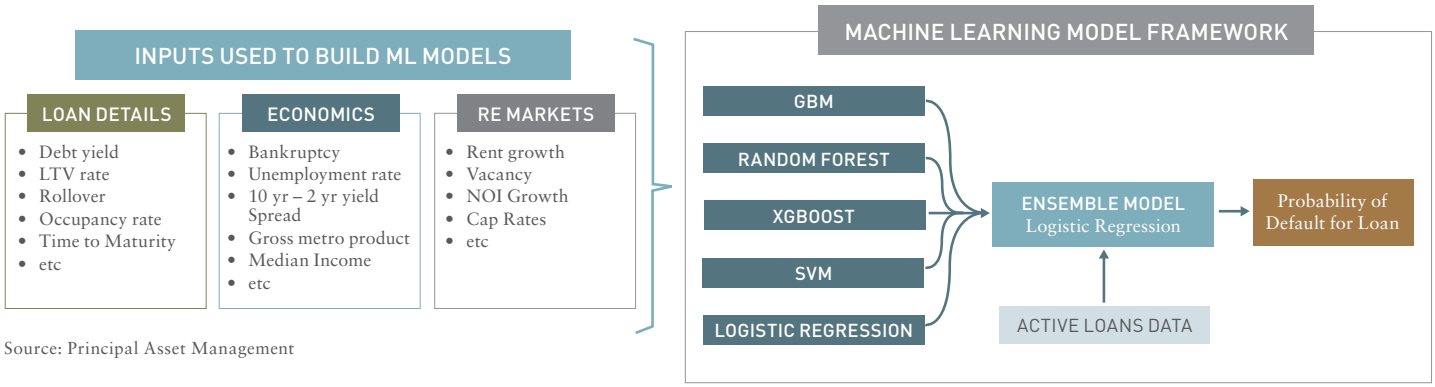
Source: Adapted from Denev and Amen (2020), p. 9. © 2020 Wiley.

ESTIMATING PROBABILITY OF DEFAULT IN COMMERCIAL REAL ESTATE WITH MACHINE LEARNING

As an example of the modeling framework *(Exhibit 2),* we utilized a diverse set of signals from inputs, such as debt yield, loan-to-value, unemployment rate, and occupancy, to estimate the probability of default of loans in our commercial mortgage portfolio. To enhance accuracy and mitigate blind spots inherent in any single model, we employed an ensembling technique.

With this approach, our quantitative researchers combined multiple models, each with unique strengths and weaknesses, to contribute distinct insights and integrate their outputs using a meta-learner, providing a more robust and comprehensive estimate for decision-making.

EXHIBIT 2: A MODELING FRAMEWORK TO ESTIMATE THE PROBABILITY OF DEFAULT IN CRE



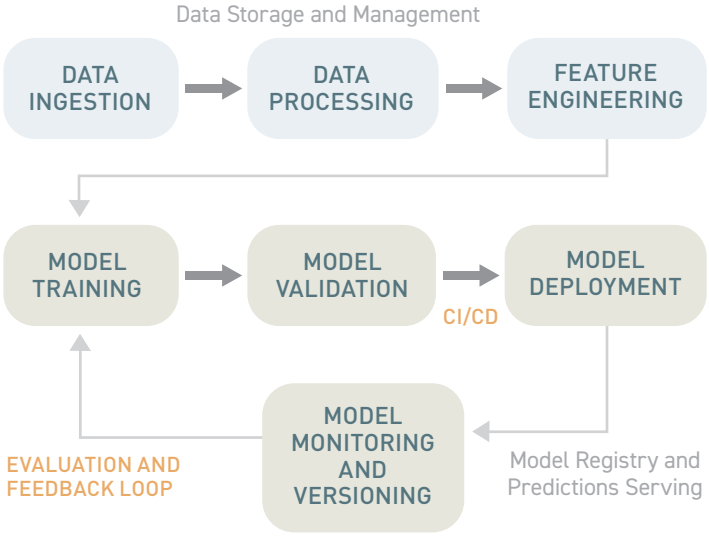
Source: Principal Asset Management

MACHINE LEARNING OPERATIONS

To ensure that our machine learning framework was reliable, scalable, and maintainable in a production environment, our team relied on a concept called MLOps. It consists of a set of practices that automate and streamline ML workflows from start to finish, often utilizing cloud infrastructure.

Exhibit 3 illustrates the MLOps workflow, starting with data storage and management as the foundational layer. Then, the modeling process involves model training, validation, and deployment, supported by continuous integration and continuous development (CI/CD) practices. This ensures updates are smoothly integrated and deployed. The workflow also includes an evaluation and feedback loop to keep improving model performance, along with a model registry and prediction serving layer to manage model versions and deliver predictions reliably. MLOps is essential for generating results that are reproducible and auditable, which is vital for maintaining regulatory compliance and building trust.

EXHIBIT 3: MLOPS WORKFLOW



Source: Principal Asset Management

KEY LESSONS

The use of AI on a scale in developing investment strategies, improving decision-making, and evaluating and managing risks does not come without its challenges. Successfully scaling AI within CRE hinges on careful consideration of several key factors. Our experience indicates key factors include the importance of selecting the right capabilities through systems engineering and strategic alignment, having the proper support for change management, and finding the right partners for technology implementation.

SYSTEMS ENGINEERING AND STRATEGIC ALIGNMENT

The first step in scaling AI in CRE firms is to select the appropriate capabilities aligned with strategic business objectives. Systems engineering plays a critical role in this process, as it involves a structured approach to integrating complex systems and ensuring that all components work well together. Early on, crowdsourcing can be valuable in generating innovative ideas or talking about specific challenges, but systems engineering provides a more structured, comprehensive, and reliable approach to deploying AI solutions. The latter's focus on integration, quality control, risk management, and compliance make it a superior method for ensuring AI systems are effective, scalable, and aligned with the organization's strategic objectives.

Strategic alignment ensures that AI initiatives are technologically feasible and relevant to the firm's long-term objectives. This aligns closely with the Cross Industry Standard for Data Mining (CRISP-DM), which is widely recognized for guiding data-related projects and emphasizes the importance of understanding the business context as the first step.

CHANGE MANAGEMENT

With the 2025 Artificial Intelligence Index report from Stanford University showing that public unease around AI remains widespread, with only 55% of people globally seeing "AI products and services as more beneficial than harmful," it is essential to recognize that resistance from staff is natural and can hinder AI adoption. Effective change management strategies, including transparent communication about the benefits of AI, employee engagement in the implementation process, and ongoing support from top management, are a must to increase buy-in. Our experience demonstrates that developing AI systems requires a highly collaborative and iterative approach. This approach fundamentally reshapes organizational workflows and operating models. As such, having the right capacity, skills, and alignment is vital to ensure success.

STRATEGIC PARTNERSHIPS

Better collaboration and partnership will be required to increase the ability of technology firms and startups to meet the needs of CRE firms and to close the gap in understanding between the two. This will continue adding to innovation and will foster sharing of research across businesses. The shared learnings will lead to reduced costs and will accelerate development. Partnerships will also enhance communication, giving access to a pool of talent specialized in navigating complex AI projects.

AI systems requires a highly collaborative and iterative approach. This approach fundamentally reshapes organizational workflows and operating models.

A MAJOR SHIFT

The adoption of AI in Commercial Real Estate marks a major shift from traditional, rule-based investment methods to advanced AI-driven frameworks. By using machine learning, investment managers can understand complex, non-linear market relationships and gain deeper insights from large and scattered datasets. Using advanced techniques, like ensembling and feature engineering guided by strong domain knowledge, enables firms to produce more accurate, reliable, and interpretable predictions of key investment indicators, including loan default risks and rent growth forecasts. Additionally, applying best practices in MLOps ensures that AI solutions are scalable, easy to maintain, and meet regulatory standards, thereby boosting trust and transparency.

However, successfully scaling AI in CRE requires careful systems engineering aligned strategically with business goals, effective change management to overcome internal resistance, and strategic partnerships to fill knowledge gaps and foster innovation. By addressing these factors thoroughly, investment management firms can maximize AI's benefits, leading to better decision-making, increased operational efficiency, and a competitive edge in an evolving CRE landscape.

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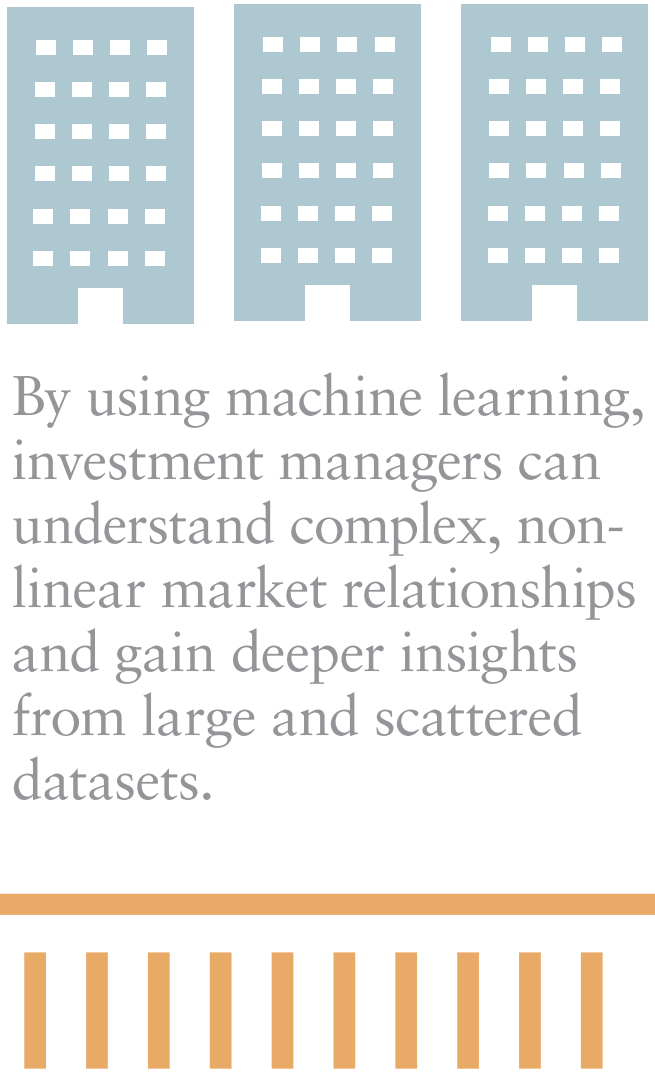
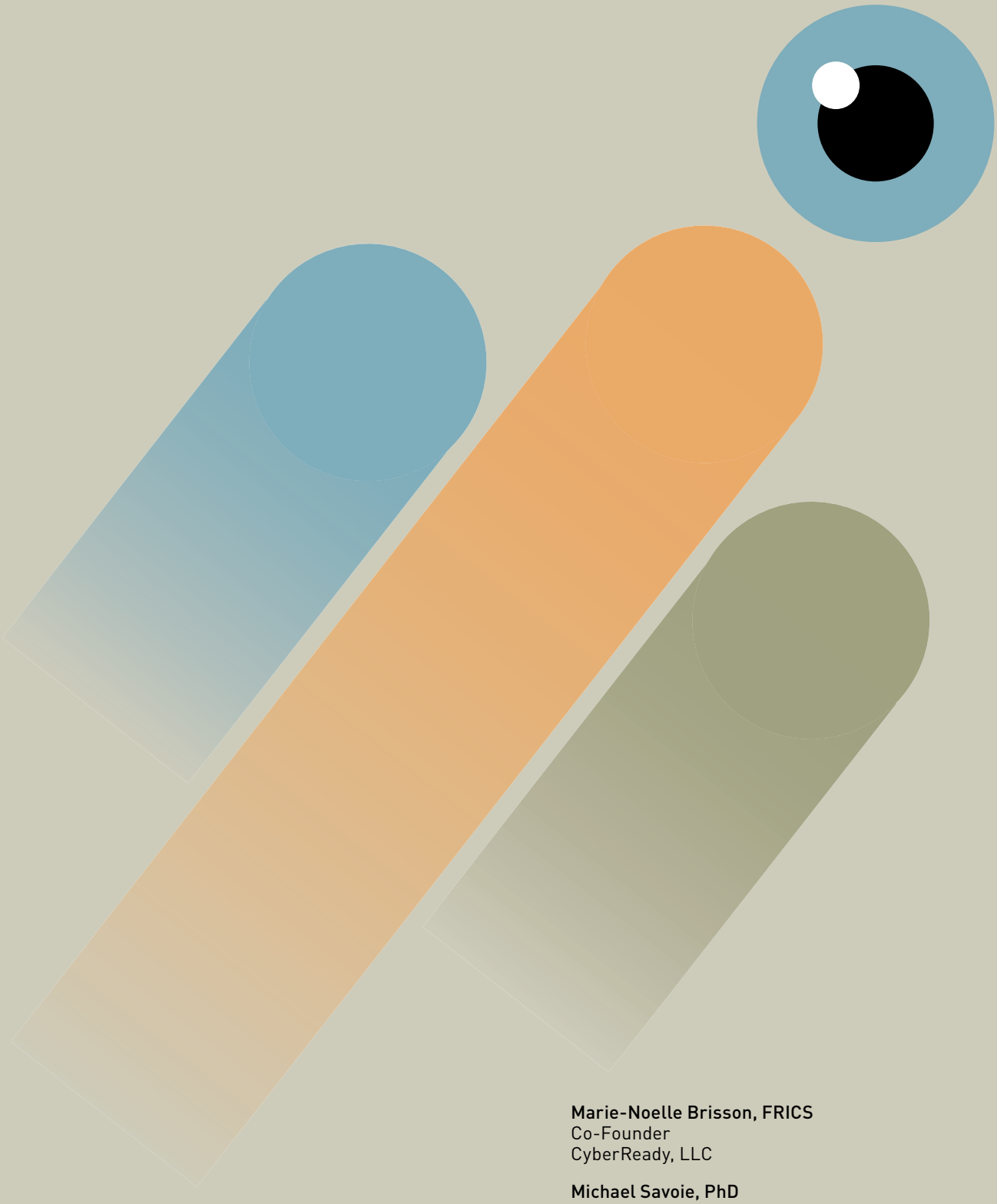


By using machine learning, investment managers can understand complex, non-linear market relationships and gain deeper insights from large and scattered datasets.

ARTIFICIAL CONTROL



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For CRE professionals, AI might seem like another tool in the smart building arsenal. But the possibilities of AI go far beyond utility and will require smart management and oversight to maximize its potential (and avoid its pitfalls).

These days, artificial intelligence (AI) as a term represents the emergent age of intelligent machinery—far beyond robotics and science fiction. However, the concern for use, management, and oversight of this new technology remains the same as it always has for revolutionary technologies: how do we harness the positive capabilities of the technology without incurring a loss of control?

For CRE professionals, AI might seem like another tool in the smart building arsenal. But the possibilities of AI go far beyond utility and will require smart human management and oversight to maximize its potential (and avoid its pitfalls).

DEFINING AI

AI broadly refers to computer systems that can perform complex tasks normally done by human-reasoning, decision making, creating, and so forth. Because AI is still being realized and developed, it does not yet have a single, simple definition, especially because its tools are capable of a wide range of tasks and outputs.[1]

For the purposes of this paper, we are focusing on AI that excels at specialized tasks, such as:

- Image recognition: Identifying objects or features within images.
- Speech recognition: Converting spoken language into text.
- Natural language processing: Understanding and responding to human language.
- Recommendation systems: Suggesting content based on user preferences.
- Virtual assistants: Providing information and performing tasks based on user commands (e.g., Siri, Alexa, etc.).

Key Characteristics of this type of AI include specialized design – usually for a single purpose, reactive response to specific inputs, and lack of self-awareness. The two most common AI applications today are Generative AI (GenAI) and Agentic AI.[2]

GenAI is a type of artificial intelligence that focuses on creating new and original content, such as text, images, music, videos, and code. GenAI models learn from vast amounts of data (i.e., large language models [LLMs]) and then use that knowledge to generate novel outputs that resemble the characteristics of the training data.

Agentic AI, or AI agents, refers to AI systems capable of independent decision-making and autonomous behavior. These systems can reason, plan, and perform actions, adapting in real time to achieve specific goals. Examples include AI-powered robots, autonomous vehicles, and sophisticated customer service agents.

Limitations of these types of AI include lack of general intelligence; they cannot transfer knowledge or skills from one task to another; limited adaptability, and potential for bias. This last limitation is, and should be, of key concern to organizations intending to utilize AI tools.

AI tools "learn" from the large language models (LLMs) provided to them. If the LLM is created from a specific perspective, then the AI tool will have that perspective. Think about CRE. If the LLM is built around the premise that single family home sales are proportional to interest rates, then the AI tool will base it decision on rising interest rates result in greater sales. The AI tool only knows what's in the LLM. The data must be objective and as unbiased as possible if the AI is to provide accurate analysis. A great example of this was the flawed initial roll out of Google Gemini.[3]

EXAMPLES AND OPPORTUNITIES FOR REAL ESTATE PROFESSIONALS

As is well-established, AI is already helping CRE professionals process large volumes of market research data, automate repetitive tasks, and generate insights that inform strategic decisions in many trades.

AI systems can continuously monitor data handling practices to ensure personal information is processed according to privacy law requirements. This includes automated data classification, consent management, and breach detection - critical capabilities given that real estate transactions involve extensive personal and financial data over rather long holding periods compared to consumer dealings.

Beyond those common uses, AI can produce unintentional benefits such as enhancing customer or tenant experience, better understand climate risks or breaking silos within an organization to name a few.

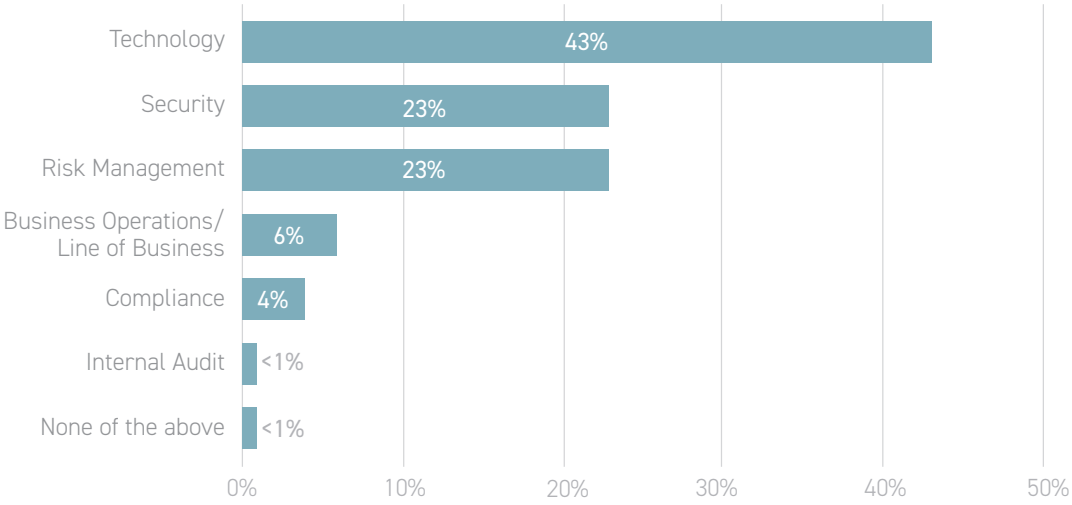
AI capabilities can be integrated into existing BIMs: for instance, by combining BIM floor plans with occupancy sensors and access card data, AI can provide detailed insights into how tenants actually use space and make facility managers more responsive. Beyond this obvious operational benefit, upstream, AI also eases the relationship to asset managers: it can track tenant satisfaction metrics, predict renewal likelihood, and identify opportunities to improve tenant retention. Today, there are many machine-learning software programs offering plug-and-play solutions (i.e., Elise[AI], Proda[AI], Prophia, LeaseLens, Pipe.CRE, etc.).

Machine learning algorithms automate many underwriting tasks help detect fraud and facilitate compliance reviews; but can also enhance the understanding of climate risks at the property level and across portfolios, thus helping with site selection, building design or rehabilitation, insurance pricing, and capital expenditures to name a few.

Another positive collateral of AI is that its pervasive use encourages data and information collection and conversations across business units. As illustrated in *Exhibit 1,* digital risks are often handled in a fragmented way, where each department only focuses on its specific threats without understanding the broader risk landscape.[4]

Aligning teams and removing silos is essential in establishing and maintaining strong communication and collaboration to increase digital risk management effectiveness. It is a necessary first step in designing a holistic risk-handling culture, but requires commitment to change management. AI could be an agent of change, for example encouraging conversations between the CISO, IT manager, facility manager and compliance officer in designing use cases for predictive maintenance.

EXHIBIT 1: SILOED RISK: WHO IS RESPONSIBLE FOR MANAGING DIGITAL RISK IN YOUR ORGANIZATION?



Source: AuditBoard

MOVING TO THE NEXT LEVEL WITH AGENTIC AI

Agentic AI is the next evolution of AI. Think of Gen AI as the musical instruments in an orchestra; each instrument—strings, woodwinds, and so forth—plays a specified part of the whole. Agentic AI, on the other hand, is like the conductor of an orchestra. It receives its instructions (the musical score) and then directs the various components (instruments) to create the result. Some current examples of Agentic AI include:

MULTIMEDIA CREATION

Although Gen AI can produce text, images, and video, agentic AI can aggregate and delegate subtasks like research, text generation, image selection and design to other AI systems. Agentic AI can process immense datasets—including transactional records, demographic shifts, economic indicators, and even social media sentiment—to identify hidden patterns and forecast market trends. Incorporating these dynamic data streams allows the creation of interactive marketing materials, such as video walkthroughs of properties and comparisons with other available properties of interest for both the CRE firm and client.

KNOWLEDGE RETRIEVAL

Agentic AI improves knowledge retrieval by accessing information and taking action based on insights. To illustrate, consider IT helpdesk operations. Whereas earlier generation helpdesk chatbots could answer specific, well-defined user questions, agentic AI goes deeper: analyzing issues, offering options, or asking clarifying questions to narrow down information. Agentic AI tools can extract key terms, clauses, and dates from unstructured lease agreements and legal documents, replacing weeks of manual effort with minutes of automated analysis.

RISK REDUCTION AND SECURITY

Agentic AI can aid in enterprise security operations and risk reduction efforts by orchestrating the components of those activities. For example, AI agents in a security operations center can proactively scan for new and emerging threats, investigate anomalies, and automatically take corrective action without human intervention. Similarly, in risk management, AI agents can search for unusual activity, investigate those patterns to determine if they're truly fraudulent, and automatically respond as needed.

UTILITIES

Agentic AI is already being used in the utilities industry. For instance, utilities are testing AI agents' ability to assess, triage and organize responses to disasters, such as hurricanes and wildfires. The agent can analyze data to rate infrastructure damage and its effect on individuals and communities; plan and schedule rescue and repair work; and route the workers and materials needed to complete repairs on time. This can dramatically accelerate recovery times, potentially saving lives in the process.[5] From predictive maintenance systems that anticipate equipment failures before they occur, to intelligent energy management systems optimizing consumption based on real-time occupancy and weather, Agentic AI is making buildings smarter, more efficient, and more sustainable.

Agentic AI is the next evolution of AI. Think of Gen AI as the musical instruments in an orchestra; each instrument—strings, woodwinds, and so forth—plays a specified part of the whole. Agentic AI, on the other hand, is like the conductor of an orchestra.

REASONS FOR CAUTION

Agentic AI systems pose regulatory, security, data, and workforce challenges—not unlike GenAI systems. These problems are arguably even more important and challenging due to the increased complexity of agentic AI systems.

ERRORS/HALLUCINATIONS

Hallucinations refer to instances where LLMs generate outputs that are factually incorrect, nonsensical, or otherwise not grounded in reality. Essentially, a hallucination occurs when the AI "makes things up" or produces information that is not supported by its training data or real-world evidence. This can manifest as inaccurate information, nonsensical text, false citations and/or references, or even impossible visual content.

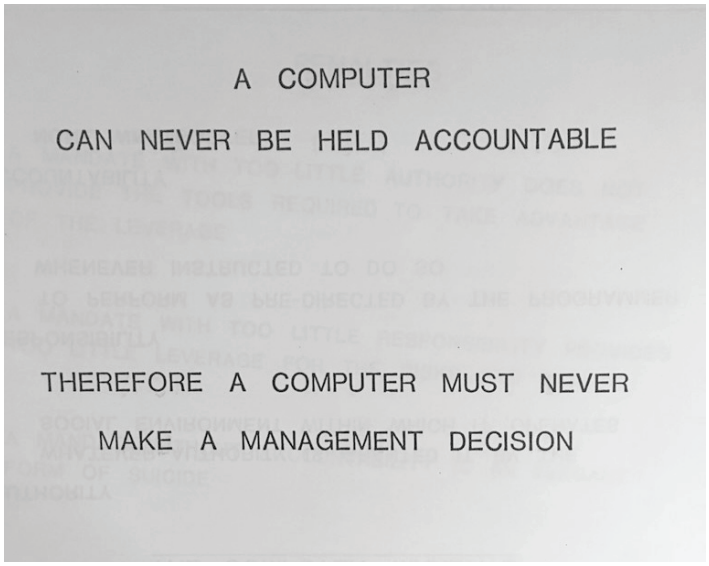
ETHICAL DILEMMAS

Ethical dilemmas may include bias and discrimination, privacy violations, and accountability. As discussed earlier, AI systems learn from data, so if the data is biased, the AI decision making will be biased as well. Because Agentic AI uses multiple systems, each drawing from their own specific data pools, there is the potential for data collection that may violate privacy laws. Traditional privacy laws require collecting only necessary data, but AI often performs better with larger datasets. This creates tension between data minimization principles and AI effectiveness.

Finally, when an AI system makes an unethical or harmful decision, who is accountable? If, say, the AI system used Personally Identifiable Information (PII) as part of marketing outreach to potential buyers, would the management team of the CRE firm be held responsible for the data breach? As shown in *Exhibit 2*, this has been an ongoing issue for a long time.

Problems are arguably even more important and challenging due to the increased complexity of agentic AI systems.

EXHIBIT 2: IBM PRESENTATION, 1979



Source: Simon Willison

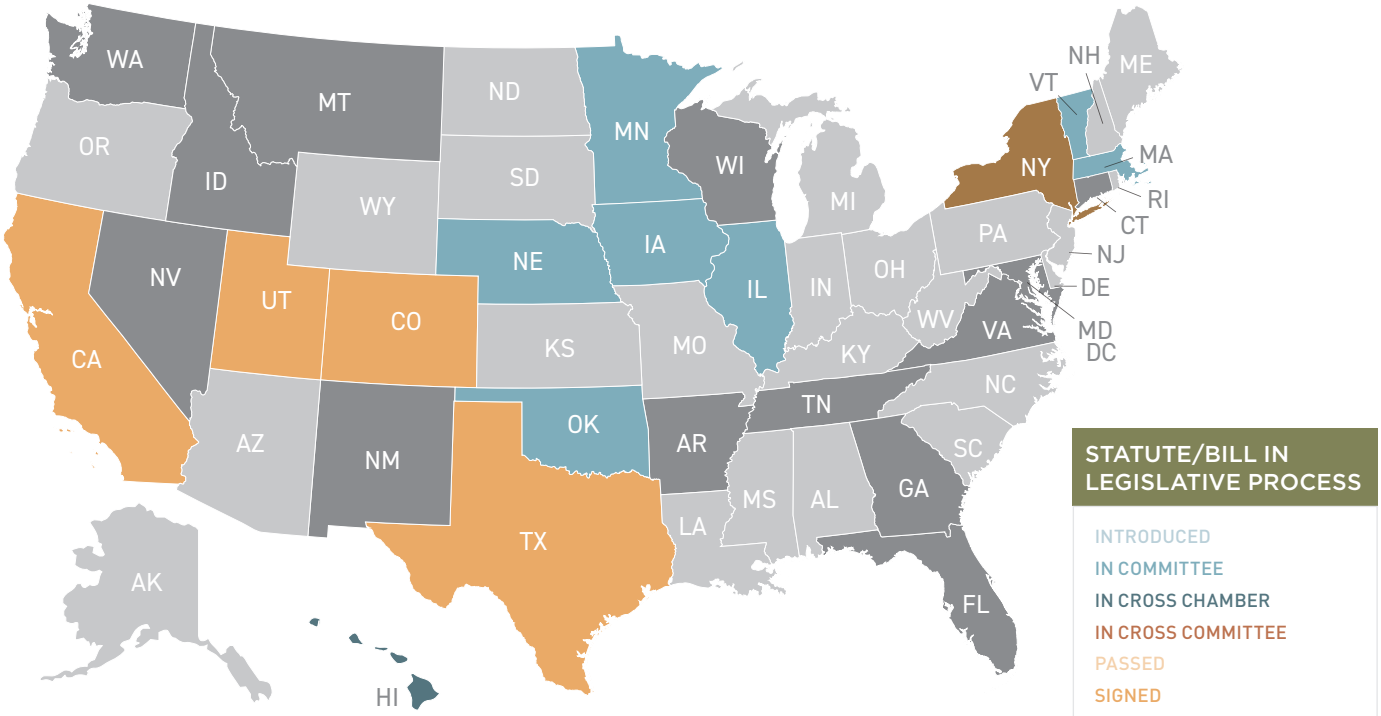
PRESSURE OF A VOLATILE LANDSCAPE[6]

REGULATIONS ARE MOVING FAST

The landscape of privacy and AI law continues to evolve at a breakneck speed. Regulations are evolving faster than ever, but are still running behind AI development and usage.[7] Even so, organizations such as The Center for AI Safety are still advocating for more regulation in the AI space.[8] For instance, there is no US equivalent to the European Union Artificial Intelligence Act. Instead, in the US, the federal government has stepped back from AI governance and ethics and states have started taking a more active role in defining the regulatory framework and enacting their own laws, as the following map illustrates. The result so far has been a piecemeal approach to AI regulation which can complicate compliance across multi-state portfolios.

Regulations are evolving faster than ever, but are still running behind AI development and usage.

EXHIBIT 3: CURRENT STATE OF AI LEGISLATION IN THE US



Source: IAPP

Last updated 1 July, 2025

NEW REGULATIONS ARE COVERING MULTIPLE DOMAINS

Between the marketing appeal of various building labels (e.g., LEED, BOMA, WELL, WiredScore, BREEAM, etc.) and investor demands for more ESG disclosures, landlords and managers collect a lot of data at the building level without full control of the data lifecycle. AI makes ESG reporting economically viable even when not legally required, allowing companies to build capabilities gradually and position themselves advantageously as requirements inevitably expand. At this point, these demands are more market than regulation driven but represent an altogether new pressure point where AI can help and where rail guards need to be established.

The intersection between data privacy and AI creates complex compliance challenges as AI systems fundamentally change how personal data is processed, analyzed, and used for decision-making, thus amplifying the need for transparency and disclosure from market players.

The intersection between data privacy and AI creates complex compliance challenges as AI systems fundamentally change how personal data is processed, analyzed, and used for decision-making, thus amplifying the need for transparency and disclosure from market players.

For instance, if asked by customers, tenants, investors or regulators, CRE professionals need to disclose what AI models are used, and what data sources are fed into AI systems. AI can derive unexpected insights from data that was originally collected by organizations for other, non-AI purposes. For example, if a real estate organization collected property data for valuation purposes, and shared that data with an AI that subsequently discovered potential patterns for predicting tenant creditworthiness, this unintended use and application of the data may constitute a new purpose requiring the organization to request additional consent from its stakeholders and customers, or related disclosures.

AI CAN BE CONTROLLED

AI risks span across an entire organization. Thus, like with other enterprise-wide risks, real estate companies need to establish a company-wide accountability system. This system should have tiered roles, and a clear governance hierarchy from operational implementation at the bottom to board oversight at the top. Broadly, this implementation would involve:

1. Assigning clear roles for AI model development, validation, monitoring, and approval; develop data processing agreements with AI vendors and ensure they meet the corporate privacy procedures.

2. Developing policies for AI model risk management including acceptable use cases, performance thresholds, escalation procedures and implement regular bias testing

3. Creating an AI steering committee including risk management, compliance, IT, and legal representatives. The main difference here is that ethics of the AI agent needs to be monitored

EXHIBIT 4: AI GOVERNANCE STRUCTURE

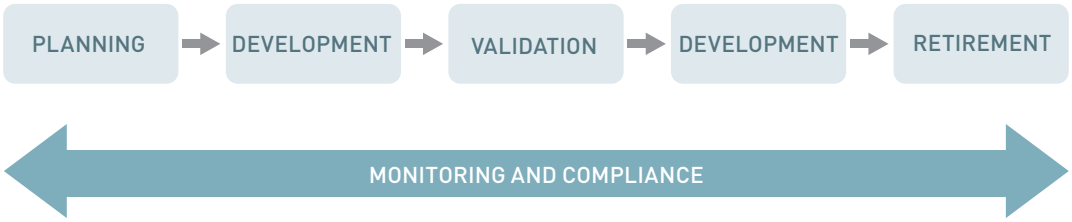
Source: Authors

UNDERSTAND THE AI LIFECYCLE

Just like there is a data lifecycle, there is an AI lifecycle. It refers to the complete journey of an AI model from initial conception to final retirement. The lifecycle approach ensures a maintained control and compliance throughout the AI model's operational life, rather than just at the initial deployment. This is especially important in real estate which involves complex, long-term property asset management cycles and holding periods. It can be broken down in several phases, each one with its specific governance requirements:

- **Planning:** Defining the core business challenge to be solved by AI, including data "preparation," collection, checking/cleaning, and labeling. This phase resembles the "old-fashioned- market research and feasibility studies." For instance, if the goal is to optimize rent levels, managers would start by collecting and verifying data such as historical rent rolls, market comparables, tenant move-out reasons, local employment rates, competitor pricing, property amenities, maintenance costs, and so forth.
- **Development:** In this phase, managers would evaluate platforms and decide to either select one or build a proprietary system. If building a custom solution, the model would be fed and trained using the data prepared in the planning phase.
- **Validation:** Testing the model's accuracy, fairness, and reliability. At this point, are the results acceptable and do they make sense? For instance, does the algorithm show a bias toward Class A properties while the portfolio is mostly Class B? If a submarket is particularly volatile or some properties have unique elements, human judgement is preferable, and flags or escalation procedures should be put in place.
- **Deployment:** Rolling the model into production where it will make actual business decisions. This includes integrating with existing systems, training staff on how to use AI outputs, including awareness of the tool's capabilities and limitations, establishing override procedures, and setting up monitoring systems. In this phase, it is critical to continue training staff and maintain expertise to use the tools effectively and know how to step in should they become unavailable.
- **Retirement:** All AI models at some point become outdated and need replacement. This phase involves safely decommissioning the old model, migrating to new systems, preserving documentation for regulatory records, and conducting post-implementation reviews to learn lessons for future projects and knowledge transfer. Attention should be given to data lifecycle: AI systems can be processing client data and storing them longer than necessary, increasing breach risks. The market has not reached this point yet. In the above example, even without retiring the AI model altogether or switching to a newer software, data related to tenants who have not renewed or buildings which have been sold should be deleted. Use cases and query criteria would need to be updated if market conditions changed (i.e. new zoning changes, a major relocation in the submarket…).

EXHIBIT 5: LIFECYCLE OF AI



Source: Authors

ADAPTING THE CULTURE

Using AI tools requires a new corporate culture and a commitment to change. AI is not an "install and forget it" software. It requires significant planning and understanding of the processes and people that will be affected by its use.

Throughout the AI lifecycle, it is important to keep monitoring and compliance oversight. If using third-party AI tools, one should ensure vendors meet the corporate risk management standards and should require transparency into model methodology and regular performance reporting. Contingency plans for vendor service disruptions also need to be established, maintained, and included in the company's business continuity plan.

Finally, with all the capabilities these new AI tools can provide, it is critical that human involvement is included in any use. An AI tool should never be left to operate on its own. Ethical use of AI starts and ends with human oversight.

ABOUT THE AUTHORS

Marie-Noëlle Brisson, FRICS, and Michael Savoie, PhD, are Co-Founders of CyberReady, LLC, which provides cyber risk management, and state-of-the-art online and in-person training and assessments of the cyber risk profile of an organization's physical, behavioral, technical, and data privacy assets.

NOTES

[1] Now decides next: Generating a New Future. Deloitte's State of Generative AI in the Enterprise Quarter four report. January 2025; What is Artificial Intelligence? Accessed July 13, 2025. https://www.nasa.gov/what-is-artificial-intelligence/

[2] Finn, Teaganne and Amanda Downie. Agentic AI vs. Generative AI. Accessed July 13, 2025. https://www.ibm.com/think/topics/agentic-ai-vs-generative-ai

[3] https://www.britannica.com/technology/Google-Gemini

[4] https://go.auditboard.com/rs/961-ZQV-184/images/AB-EB-Conquering-Compliance-Navigating-the-Triple-Threat-of-a-Volatile-Regulatory-Landscape.pdf

[5] Pratt, Mary K. 10 real-world agentic AI examples and use cases. AI that doesn't just follow instructions but figures out how to get things done -- that's the promise of agentic AI, an emerging approach that's already changing some sectors. Published 07 March 2025. https://www.techtarget.com/searchenterpriseai/feature/Real-world-agentic-AI-examples-and-use-cases

[6] Conquering Compliance: Navigating the Triple Threat of a Volatile Regulatory Landscape. https://go.auditboard.com/rs/961-ZQV-184/images/AB-EB-Conquering-Compliance-Navigating-the-Triple-Threat-of-a-Volatile-Regulatory-Landscape.pdf. Accessed July 31, 2025.

[7] Brisson, Marie-Noelle, and Michael Savoie. Cyber Risk Vigilance. Summit Journal, Issue 17. 2025. AFIRE publishing. https://www.flipsnack.com/afire/summit17.html

[8] https://safe.ai/

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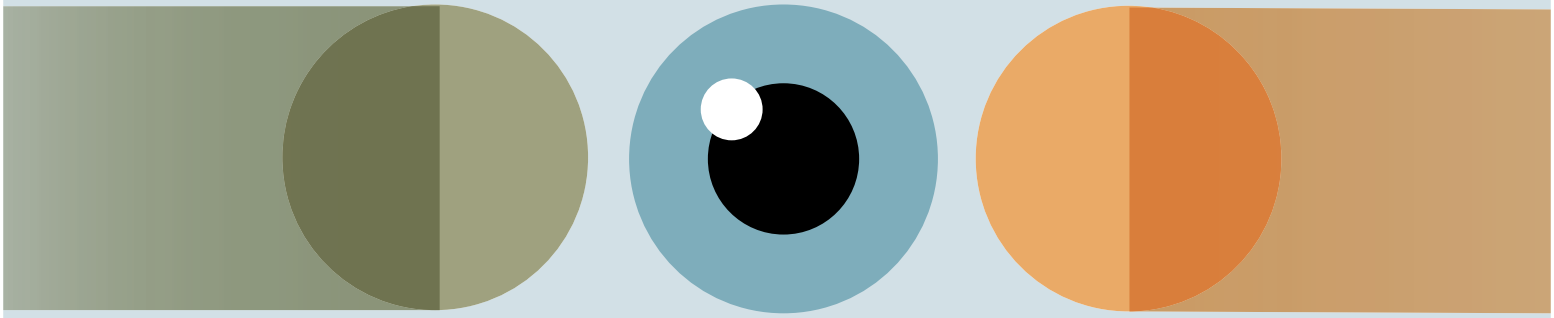
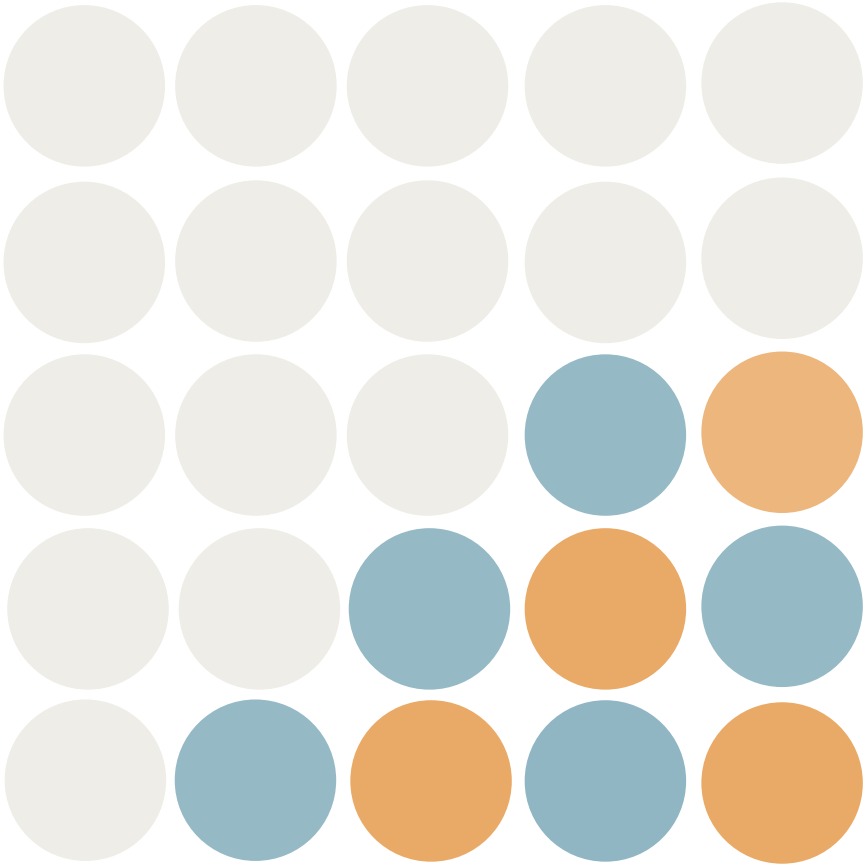


Ethical use of AI starts and ends with human oversight.

CAPITALIZING ON DYNAMICS



Stewart Rubin
Head of Strategy and Research, Senior Director
New York Life Real Estate Investors

Population size, migration patterns, aging, household composition, and the rise of remote work are reshaping demand structures, presenting both challenges and investment opportunities across the commercial real estate landscape.

The first use of the rhetorical flourish "demography is destiny" is commonly attributed to the French philosopher and father of sociology, Auguste Comte.[1] He argued that the size and composition of a country's population will determine its future.

This is certainly true in 2025, as there are major demographic trends impacting the economy and, as a corollary, commercial real estate (CRE). These "megatrends" include a stagnant-to-declining working age population, recent unprecedented immigration (and the curtailment or even the reversal of the same), domestic migration to the Sunbelt and the Intermountain West, and inter-metro migration from the urban core to the suburbs and exurbs.

Additionally, the astounding number of remote workers are influencing geographic demand drivers, while the great number of people living alone and/or without children has implications for apartment demand.

Finally, the aging population is creating an amplified demand in several sectors including medical office buildings (MOBs), age-restricted 55+ communities, independent living facilities (ILFs), and assisted living facilities (ALFs).

CRE investors and developers who understand the nuance and the metros that will disproportionately benefit, while avoiding the pitfalls, can capitalize on these megatrends.

The US is younger demographically than other advanced economies, despite the anemic growth of its working age population. Accordingly, it is important to highlight where growth is taking place within the US. We expect migration from Coastal and Midwestern metros to Sunbelt states such as Arizona, Texas, Georgia, North Carolina, South Carolina, Florida, and Tennessee to continue, albeit at a slower pace compared to previous years.

The migration of people of various ages and education levels both precipitates, and is in response to, the relocation of businesses. For example, the shift in finance jobs has become evident as more corporate headquarters move to Florida, Texas, Tennessee, and Arizona. With migration of jobs and people comes a shift of income and tax revenue.

The above notwithstanding, although suffering losses, coastal markets including the San Francisco Bay Area continue to be very important and relevant.

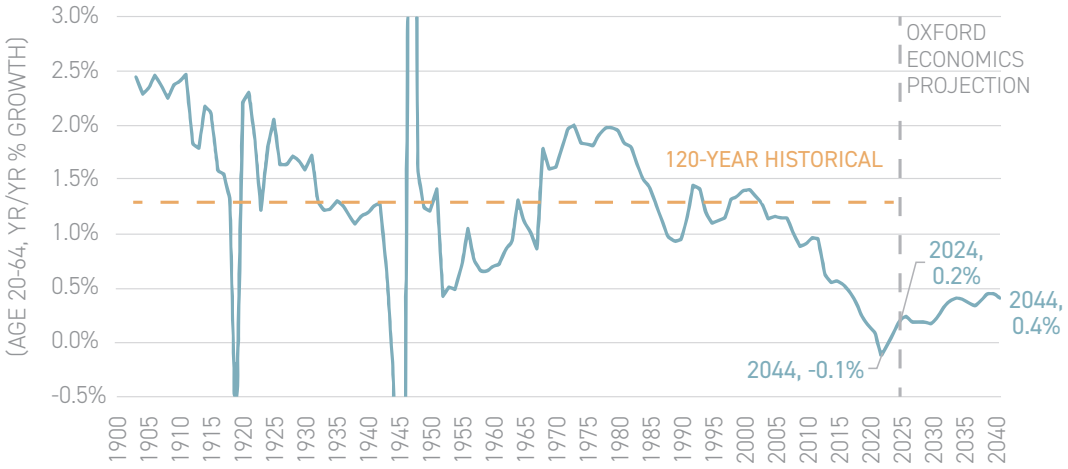
WORKING AGE POPULATION DECLINES

Not only has the working age population declined for the first time during a non-war time period, but its projected growth is expected to be substantially lower over the next twenty years than it was during the previous two decades. The working-age population in the US peaked in 2020 at 194.2 million before starting to decline. Working-age population declined in 2021 and 2022, to 193.9 million, before resuming its ascent, and returning to its 2020 high in 2024, according to data from Oxford Economics. Working age population growth has historically averaged 1.3% per year over the past 120 years. This rate also averaged 1.3% in the seven years before the Global Financial Crisis of 2008 (GFC), then declined precipitously until turning negative in 2021 at -0.1%—but has begun to recover in years thereafter. However, even the twenty-year average growth rate of 0.7% is not expected to be regained over the next twenty years.

Despite projections of a declining-to-stagnant working-age population, the US is still faring better compared to other major economies in Europe and Asia.

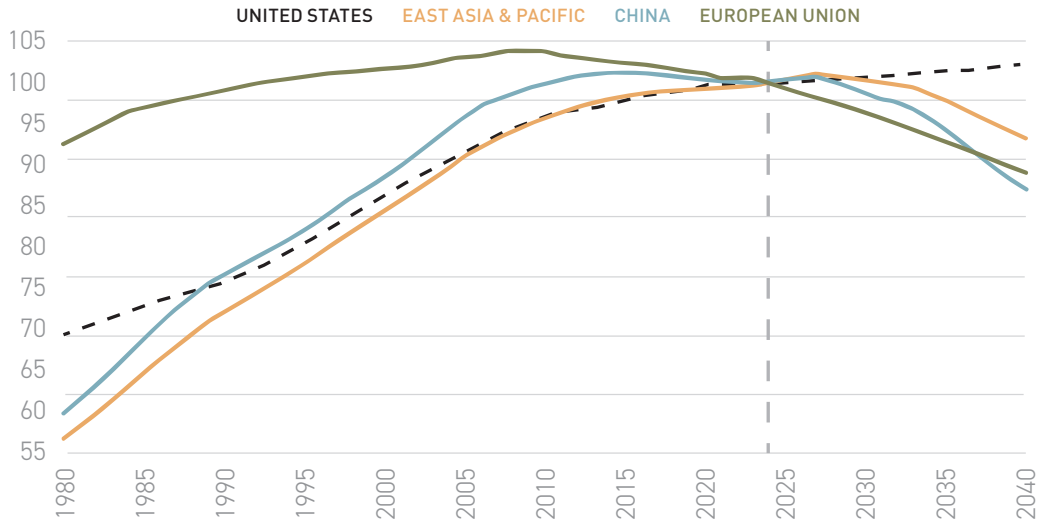
Considering recent stagnant population growth, it is important to focus on markets in which the working age population is growing at a relatively robust pace which includes many in the Southeast, Southwest and Intermountain West.

EXHIBIT 1: HISTORICAL AND PROJECTED GROWTH IN WORKING-AGE POPULATION



Source: US Census Bureau; Oxford Economics

EXHIBIT 2: WORKING AGE (15–64) POPULATION; HISTORICAL AND WORLD BANK PROJECTIONS



Source: The World Bank

EXHIBIT 3: PROJECTED WORKING AGE (25–64) POPULATION GROWTH; 2024–2029 (5-YEAR CUMULATIVE GROWTH)

RANK	METRO AREA	% CHANGE
1	AUSTIN	9.2%
2	BOISE	7.7%
3	SALT LAKE CITY	6.9%
4	RALEIGH	6.5%
5	CHARLOTTE	6.4%
6	DALLAS/FT. WORTH	6.2%
7	HOUSTON	5.7%
8	PHOENIX	5.6%
9	SAN ANTONIO	5.3%
10	LAKELAND/WINTER HAVEN, FL	5.3%
11	ORLANDO	5.3%
12	SEATTLE	4.9%
13	NASHVILLE	4.9%
14	DENVER	4.7%
15	PORTLAND, OR	4.7%
16	COLORADO SPRINGS	4.6%
17	COLUMBUS	4.6%
18	CHARLESTON	4.6%
19	ATLANTA	4.4%
20	LAS VEGAS	4.0%
21	MCALLEN	3.8%
22	RIVERSIDE/SAN BERNARDINO	3.7%
23	GRAND RAPIDS	3.5%
24	JACKSONVILLE	3.3%
25	OMAHA	3.2%
26	OKLAHOMA CITY	2.8%
27	INDIANAPOLIS	2.7%
28	STOCKTON	2.5%
29	GREENVILLE	2.1%
30	TAMPA	1.8%
31	WASHINGTON, DC	1.8%
32	BAKERSFIELD	1.8%
33	FRESNO	1.8%
34	RICHMOND	1.6%
35	COLUMBIA, SC	1.5%
36	SAN DIEGO	1.2%
37	MINNEAPOLIS	1.2%
38	EL PASO	1.2%
39	TULSA	1.0%
40	CINCINNATI	0.9%
41	KANSAS CITY	0.9%
42	BIRMINGHAM	0.9%
43	LITTLE ROCK	0.8%
44	BOSTON	0.8%
	UNITED STATES	0.7%
45	FORT MYERS, FL	0.7%
46	LOUISVILLE	0.6%
47	SAN FRANCISCO	0.6%
48	MIAMI/FT. LAUDERDALE/WPB	0.5%
49	WORCESTER	0.3%
50	KNOXVILLE	0.2%
51	MEMPHIS	0.2%
52	NEW YORK	0.1%
53	SAN JOSE	0.1%
54	SACRAMENTO	0.1%
55	GREENSBORO	0.0%
56	BATON ROUGE	0.0%
57	PHILADELPHIA	-0.2%
58	PROVIDENCE	-0.3%
59	VIRGINIA BEACH/NORFOLK	-0.5%
60	NEW ORLEANS	-0.5%
61	TUCSON	-0.7%
62	DETROIT	-0.9%
63	BALTIMORE	-0.9%
64	LOS ANGELES	-1.2%
65	ALLENTOWN	-1.3%
66	ALBUQUERQUE	-1.4%
67	OXNARD/VENTURA	-1.7%
68	HONOLULU	-1.7%
69	BRIDGEPORT/STAMFORD	-2.0%
70	ALBANY	-2.2%
71	SARASOTA	-2.2%
72	MILWAUKEE	-2.4%
73	ST. LOUIS	-2.4%
74	DAYTON	-2.5%
75	CHICAGO	-2.5%
76	NEW HAVEN	-2.6%
77	HARTFORD	-2.8%
78	PITTSBURGH	-2.9%
79	ROCHESTER, NY	-3.1%
80	CLEVELAND	-3.1%
81	BUFFALO	-3.2%

Source: Oxford Economics, as of 2024

It is particularly key to focus on the future and highlight metros in which young people between the ages of 25-34 are growing in number, as that is an indicator of future population growth. This table generally displays a similar trend on the direction of the Southeast, Southwest, and Intermountain West.

EXHIBIT 4: PROJECTED WORKING AGE (25–34) POPULATION GROWTH; 2024–2029 (5-YEAR CUMULATIVE GROWTH)

RANK	METRO AREA	% CHANGE
1	AUSTIN	11.5%
2	SALT LAKE CITY	10.4%
3	COLORADO SPRINGS	9.3%
4	SAN ANTONIO	8.8%
5	DENVER	8.6%
6	CHARLOTTE	8.5%
7	RALEIGH	8.3%
8	DALLAS/FT. WORTH	8.1%
9	BOISE	7.8%
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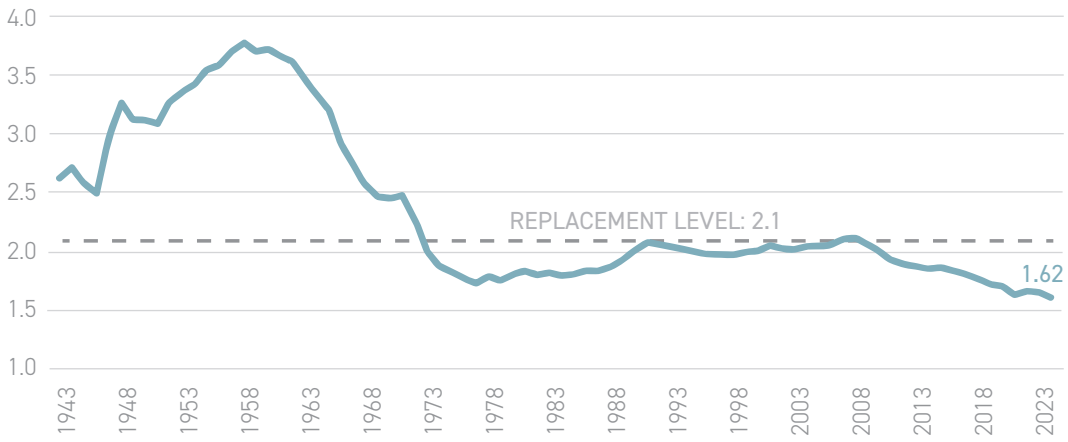
48	HONOLULU	-0.4%
49	WASHINGTON, DC	-0.8%
50	SARASOTA	-1.5%
51	RIVERSIDE/SAN BERNARDINO	-1.6%
52	BAKERSFIELD	-2.0%
53	BOSTON	-2.1%
54	FRESNO	-2.2%
55	NEW YORK	-2.2%
56	STOCKTON	-2.2%
57	ST. LOUIS	-2.4%
58	MILWAUKEE	-2.6%
59	CHICAGO	-2.7%
60	WORCESTER	-3.2%
61	DAYTON	-3.4%
62	PHILADELPHIA	-3.5%
63	DETROIT	-3.8%
64	SAN DIEGO	-3.8%
65	PROVIDENCE	-3.8%
66	CLEVELAND	-3.9%
67	SAN FRANCISCO	-4.1%
68	BALTIMORE	-4.5%
69	SAN JOSE	-5.0%
70	ALBUQUERQUE	-5.0%
71	SACRAMENTO	-5.1%
72	NEW HAVEN	-5.6%
73	ALLENTOWN	-5.7%
74	LOS ANGELES	-5.7%
75	BRIDGEPORT/STAMFORD	-5.7%
76	BUFFALO	-6.0%
77	PITTSBURGH	-6.6%
78	HARTFORD	-7.0%
79	ALBANY	-7.0%
80	ROCHESTER, NY	-7.7%
81	OXNARD/VENTURA	-7.9%

Source: Oxford Economics, as of 2024

A contributing factor to the forecasted stagnation in working-age population growth includes a decline in fertility rate in the US, which is not dissimilar from that seen in other advanced economies. After reaching a peak of 3.77 births per woman in 1957, birth rates in the US began to decline through the mid-1970s, before slowly rising again and reaching a recent high of 2.1 in 2007, then declining substantially over the sixteen years since to the level of 1.62. Generally, the level of 2.1 births per woman is considered replacement level to maintain a flat population due to natural change.

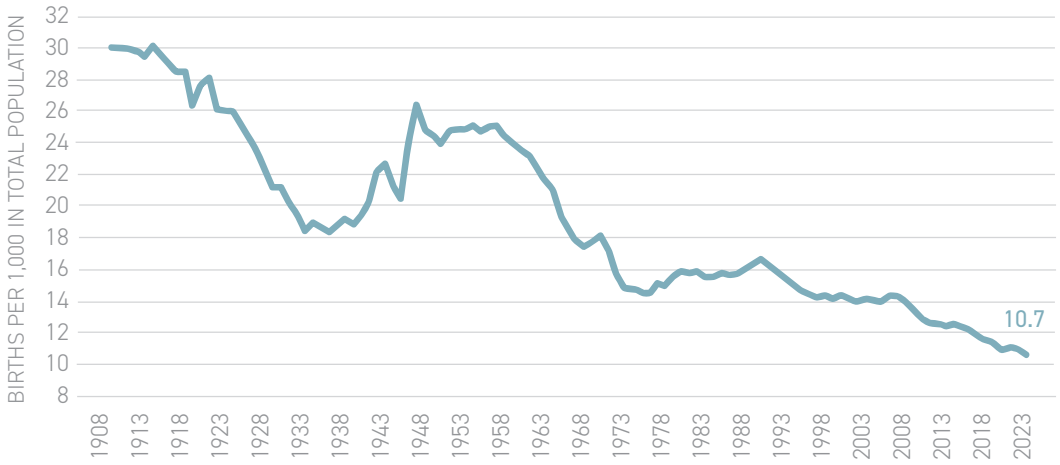
EXHIBIT 5: FERTILITY RATE IN THE US (BIRTHS PER WOMAN, NOT SEASONALLY ADJUSTED)



Source: US Centers for Disease Control; the World Bank: World Development Indicators: Population and Vital Statistics Report; as of 2023.

Another way of looking at this metric is births per thousand in total population. In 1908, the US experienced thirty births for every thousand people (based on total population). The post-WWII high was 26.5 births per thousand people in 1947, before beginning to decline through the mid-1970s, after which slowly rising again and reaching a recent high of 16.6 in 1990. Over the thirty-three years since, the rate has declined substantially to the level of 10.7 births per thousand people as of 2023.

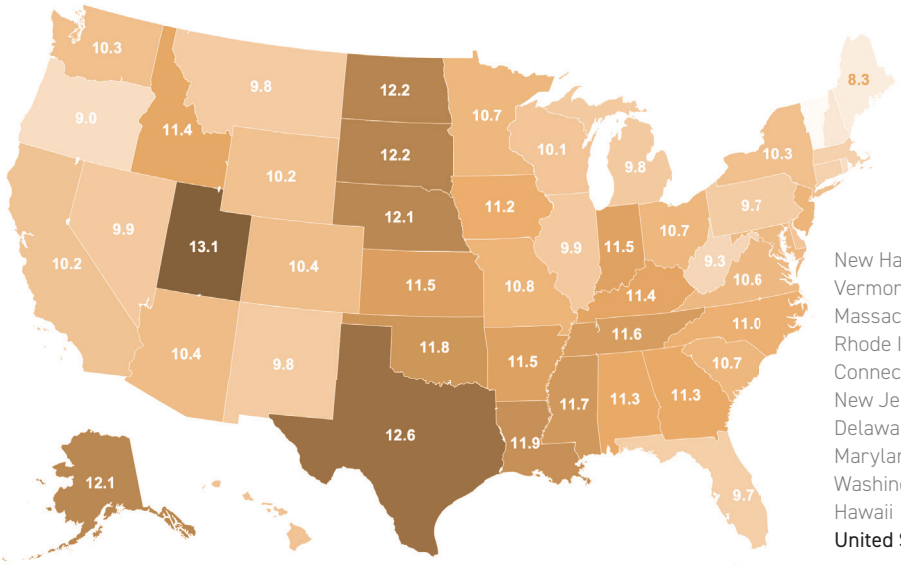
EXHIBIT 6: ANNUAL BIRTHS PER CAPITA IN THE US



Sources: US Centers for Disease Control and Prevention; US Census Bureau

States that exceed the national average of 10.7 include Texas, Tennessee, Utah, Idaho, and several states in the Southeast. These states benefit from domestic migration and natural growth.

EXHIBIT 7: BIRTHS PER CAPITA IN 2023



New Hampshire	8.5
Vermont	7.8
Massachusetts	9.5
Rhode Island	8.9
Connecticut	9.5
New Jersey	10.8
Delaware	10.0
Maryland	10.5
Washington, D.C.	11.5
Hawaii	10.2
United States	**10.7**

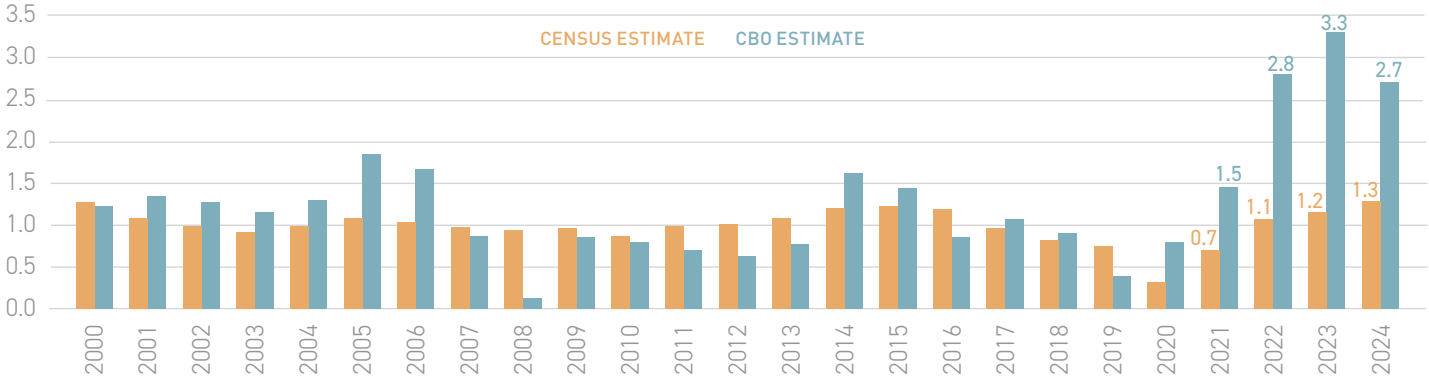
Sources: US Centers for Disease Control and Prevention; US Census Bureau

INTERNATIONAL IMMIGRATION

Over the past three years, the US has experienced an unprecedented level of immigration, significantly contributing to population growth. This influx has bolstered job growth and spurred economic activity. It helped curb inflation and bolstered the apartment market. It has also kept the unemployment higher than it would have been and became a headwind for wage growth.

While some states have experienced more notable inflows than others, the population of every US state have benefited from this trend. In some states, the arrival of immigrants has helped offset the natural population decline and mitigated the impact of domestic migratory shifts. The extent of international immigration differs based on the data source, with the US Census estimates initially drastically undercounting the level accounted for by the Congressional Budget Office (CBO). According to CBO estimates, US immigration totaled more than ten million people over the past four years.

EXHIBIT 8: ANNUAL ESTIMATES OF TOTAL IMMIGRATION INTO THE US

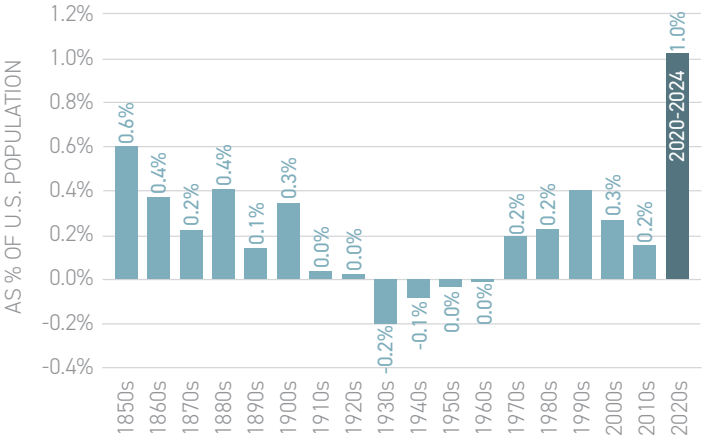


Source: Oxford Economics; Congressional Budget Office

Long regarded as the "Land of Opportunity," or the "Golden Country," the US has experienced periods of significant immigration in the past. In the 1850s and 1880s, waves of immigrants arrived from Europe seeking a better life or fleeing national, ethnic and/or religious persecution. Subsequent waves of immigration in the early twentieth century further contributed to this expansion.

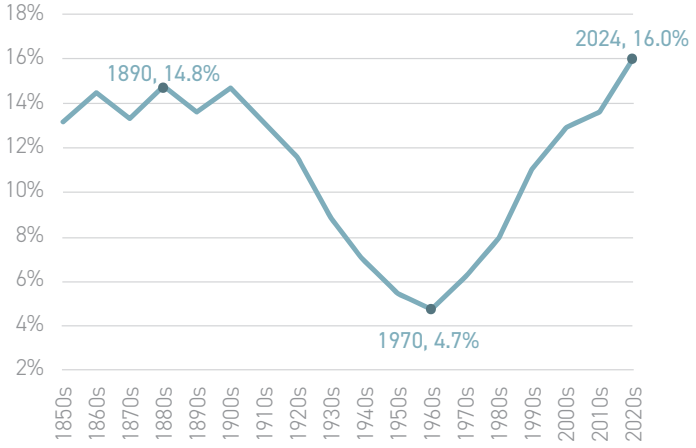
These new arrivals contributed to the rapid industrialization and urbanization of American cities, laying the foundation for the country's economic growth. The share of foreign-born population in the US was at its previous high of 14.8% in 1890, before declining in the first half of the twentieth century as immigration was curtailed. In the latter half of the last century, immigration began to rise once again, and based on recent CBO estimates, the foreign-born population is now 16% of the total population—a new record high.

EXHIBIT 9: AVERAGE ANNUAL CHANGE IN FOREIGN-BORN POPULATION



Source: Congressional Budget Office; as of December 2024

EXHIBIT 10: FOREIGN-BORN POPULATION IN THE US



Source: Congressional Budget Office; US Census Bureau; as of 2024

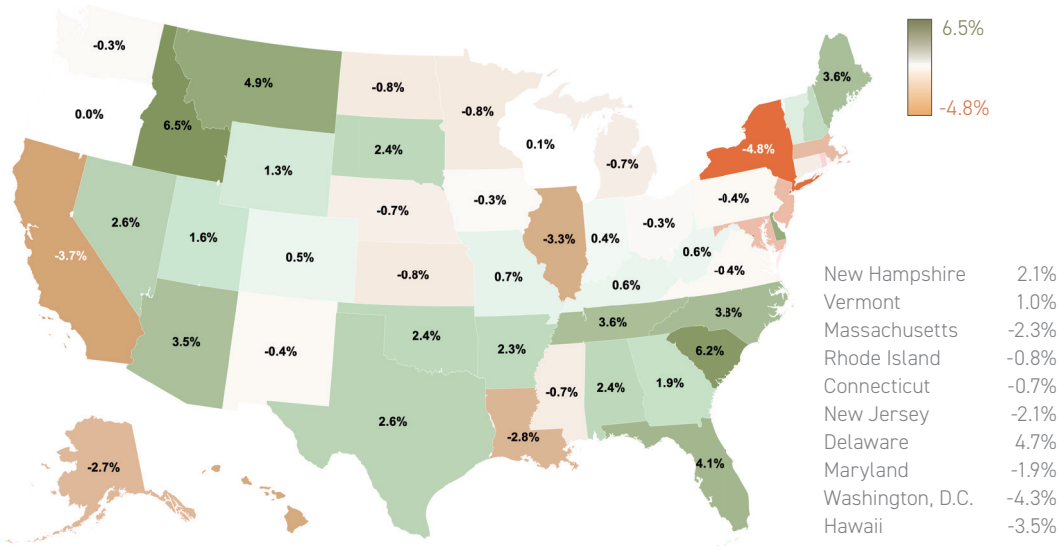
DOMESTIC MIGRATION

Net domestic migration is an important indicator for growth as it reflects a more intimate knowledge of economic opportunities. Migratory trends that were occurring prior to the pandemic were accelerated in the wake of COVID-19, as individuals and businesses re-evaluated their geographic preferences. The rise of remote work further amplified these migratory patterns, enabling a substantial number of professionals to work from anywhere. The necessity and ability to work remotely, gave them the opportunity to actualize their preferences that were heretofore held back by the need to be proximate to an office. This migration was driven largely by a desire for more space, lower cost of living and taxes, business friendliness, and milder weather.

Coastal and Midwestern metros witnessed an exodus of residents moving towards the Sunbelt states. In the roughly four-year period from April 2020 to July 2024, states experienced population growth due to domestic migration alone, such as Idaho (+6.5%), South Carolina (+6.2%), Montana (+4.9%), Delaware (+4.7%), and Florida (+4.1%).

Conversely, domestic migration contributed to population loss in New York (-4.8%), California (-3.7%), Hawaii (-3.5%), Illinois (-3.3%), and Louisiana (-2.8%). Washington, DC saw outmigration of -4.3% over this period.

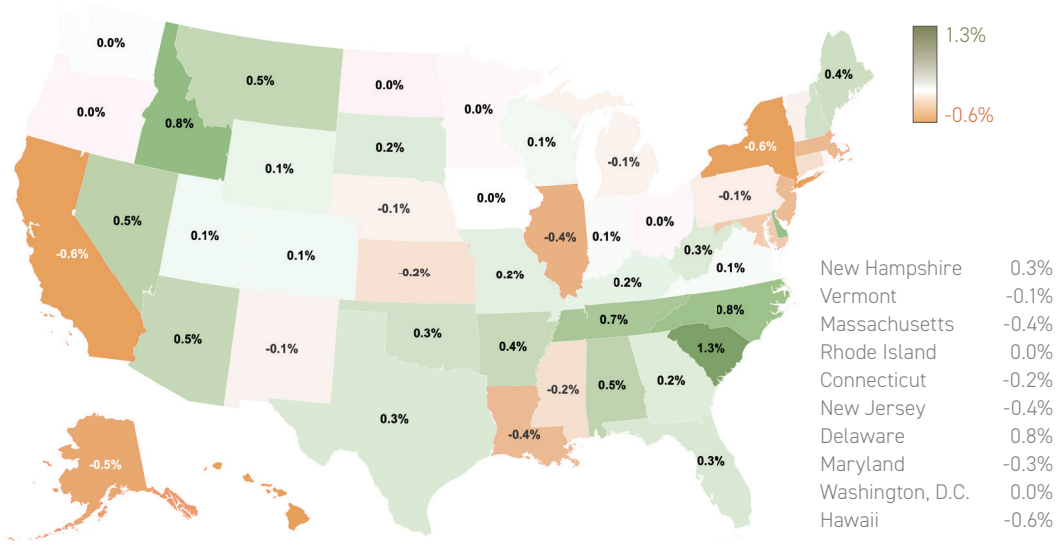
EXHIBIT 11: DOMESTIC MIGRATION, APRIL 2020–JULY 2024



Source: US Census Bureau

Although this migration has begun to slow compared to the initial post-pandemic surge, the key migratory trends continue to favor the Sunbelt. Between July 2023 and July 2024, population growth due to domestic migration buoyed South Carolina (+1.3%), North Carolina (+0.8%), Idaho (+0.8%), Tennessee (+0.7%), while contributing to population loss in California (-0.6%), New York (-0.6%), Hawaii (-0.6%), Alaska (-0.5%), and Illinois (-0.4%).

EXHIBIT 12: DOMESTIC MIGRATION, JULY 2023–JULY 2024

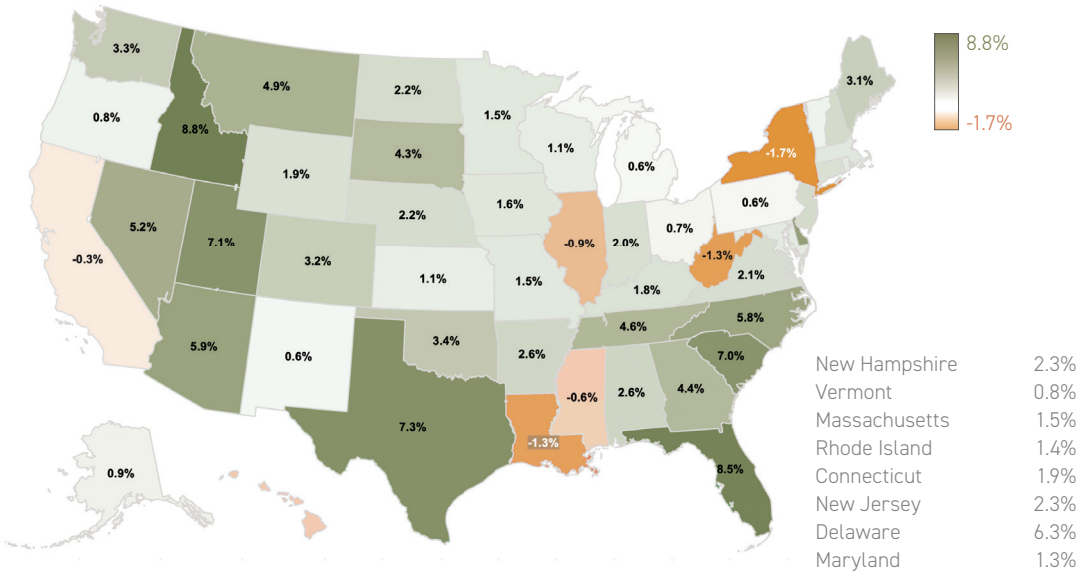


Source: US Census Bureau

OVERALL STATE-LEVEL POPULATION GROWTH SINCE PRE-COVID

This map highlights state-level growth since prior to the Covid pandemic, which has particularly favored the Southeast, Southwest and Intermountain West.

EXHIBIT 13: STATE-LEVEL POPULATION GROWTH, APRIL 2020–JULY 2024

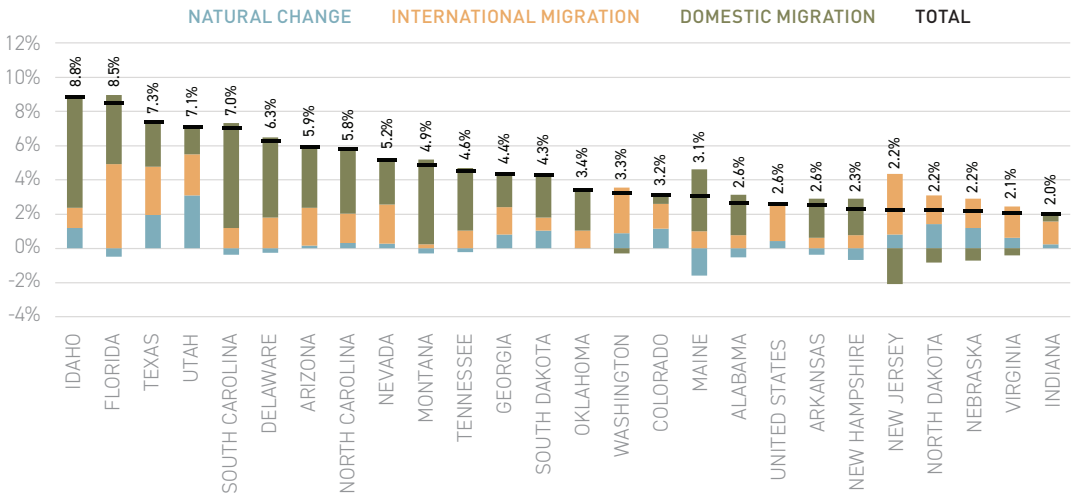


New Hampshire	2.3%
Vermont	0.8%
Massachusetts	1.5%
Rhode Island	1.4%
Connecticut	1.9%
New Jersey	2.3%
Delaware	6.3%
Maryland	1.3%
District of Columbia	1.8%
Hawaii	-0.6%
United States	2.6%

Source: US Census Bureau

Over any observation period, population change consists of three components: natural change (births minus deaths), domestic migration, and international migration. States with the greatest population growth are those driven by domestic migration (green). These include Idaho, Florida, Texas, Utah, South Carolina, Delaware, Arizona, and North Carolina. States such as Florida and New Jersey see benefit from strong international migration. Texas and Utah also have higher rates of natural growth.

EXHIBIT 14: COMPONENTS OF STATE POPULATION CHANGE, APRIL 2020–JULY 2024: TOP STATES

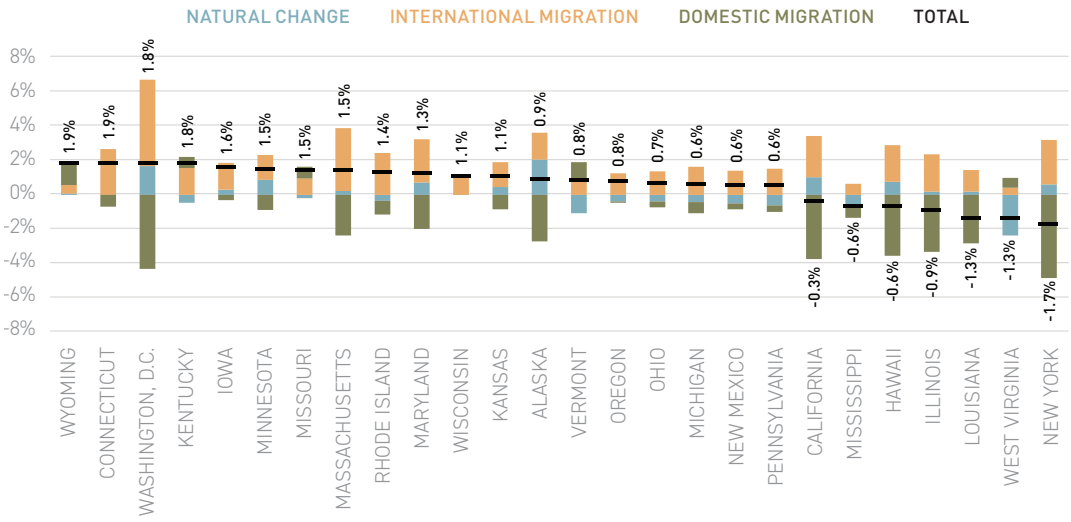


Source: US Census Bureau

Population change consists of three components: natural change (births minus deaths), domestic migration, and international migration.

Similarly, states with declining overall population are driven by domestic out-migration, including in New York, Louisiana, Illinois, Hawaii, and California. Washington, DC and Massachusetts owe their respective overall population growth to strong international migration, offsetting domestic outmigration.

EXHIBIT 15: COMPONENTS OF STATE POPULATION CHANGE, APRIL 2020–JULY 2024: BOTTOM STATES

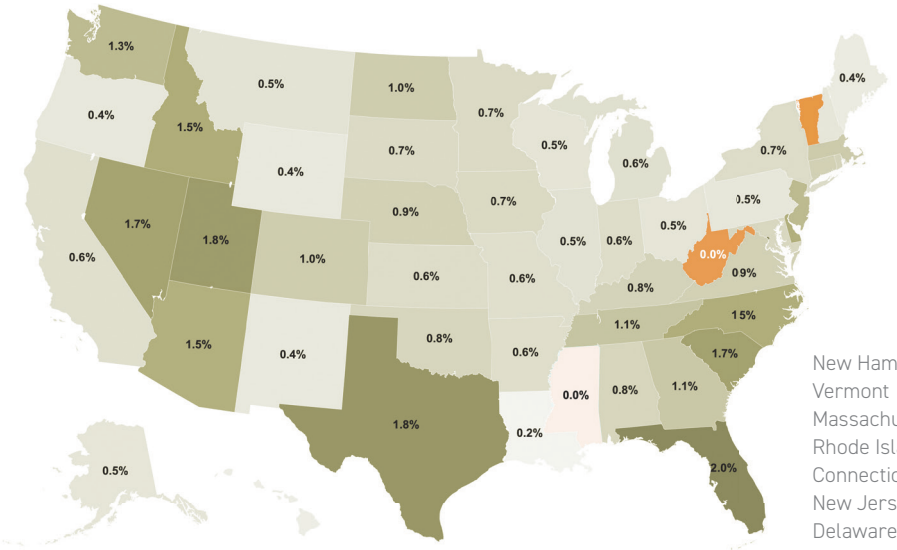


Source: US Census Bureau

OVERALL STATE-LEVEL POPULATION GROWTH OVER PAST YEAR

Over the past year, all states have benefitted from the robust international migration across the board. Domestic migration continues to benefit Sunbelt states.

EXHIBIT 16: STATE-LEVEL POPULATION GROWTH, JULY 2023–JULY 2024

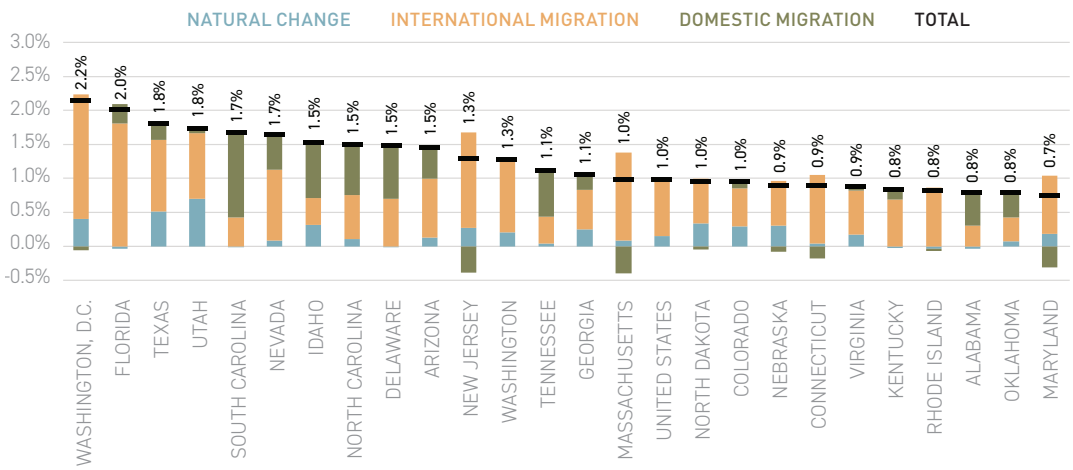


New Hampshire	0.5%
Vermont	0.0%
Massachusetts	1.0%
Rhode Island	0.8%
Connecticut	0.9%
New Jersey	1.3%
Delaware	1.5%
Maryland	0.7%
District of Columbia	2.2%
Hawaii	0.3%
United States	**1.0%**

Source: US Census Bureau

Washington, DC; Florida, Texas, and Utah experienced the greatest growth over the past year, driven largely by growth from international immigration.

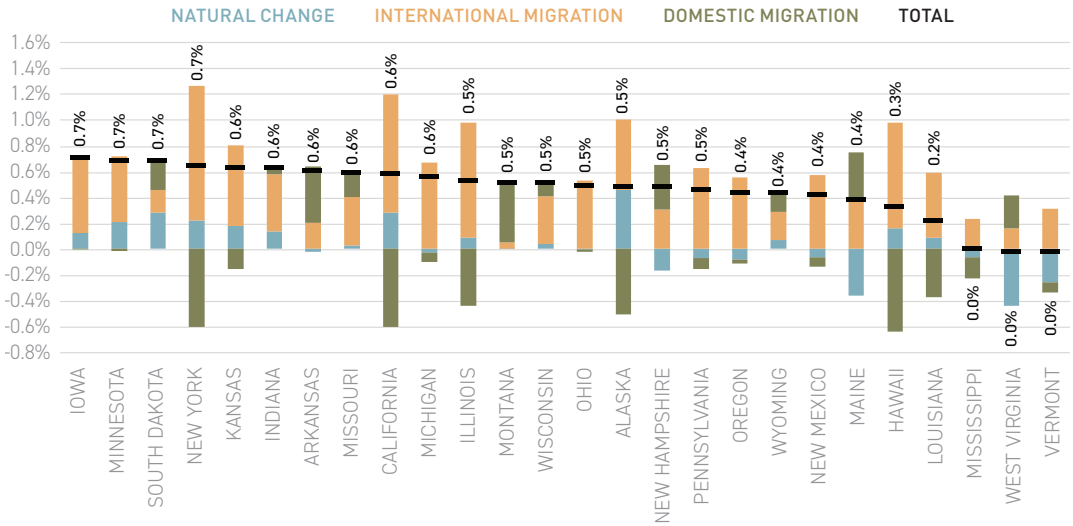
EXHIBIT 17: COMPONENTS OF STATE POPULATION CHANGE, JULY 2023–JULY 2024: TOP STATES



Source: US Census Bureau

Over the past year, only five states experienced negative domestic migration greater than -0.5%, New York, California, Illinois, Alaska, and Hawaii. However, each state exhibited overall population growth due to strong international immigration. Only three states saw negative overall population growth, Mississippi, West Virginia, and Vermont (although the growth rates of all three rounds to 0.0%). Maine, Vermont, West Virginia had negative natural growth – that is to say - more people die than are born.

EXHIBIT 18: COMPONENTS OF STATE POPULATION CHANGE, JULY 2023–JULY 2024: BOTTOM STATES

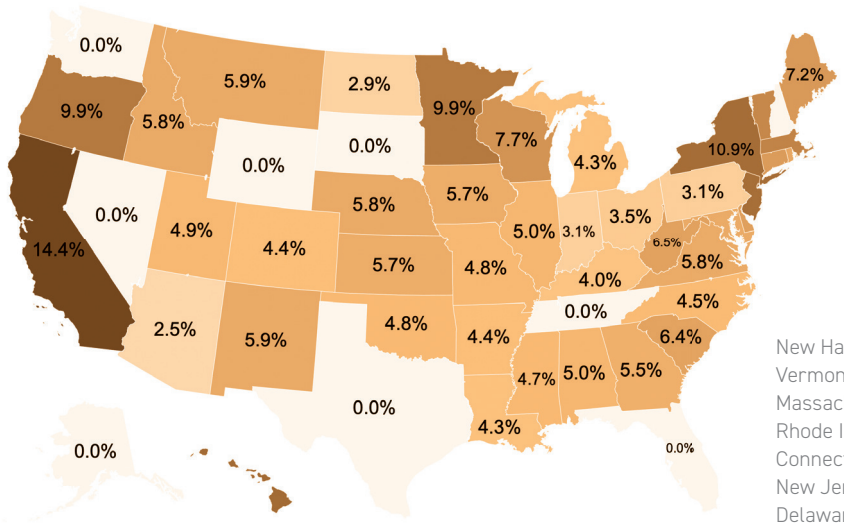


Source: US Census Bureau

A key stimulant of migration is the income tax disparity between states. In general, states with zero or low-income taxes are attracting migrants from states with high income taxes. This has accelerated in the wake of the tax reform of 2017 which limited the tax deduction for state and local taxes (SALT) to $10,000.

Exhibit 20 highlights the amplification of benefits accruing to low tax and low cost of living metros. When adjusted for Regional Pricing Parities (RPP) cost of living, the chart reveals some interesting juxtapositions. For example, Omaha, Reno, and Nashville have higher adjusted income than Chicago, San Diego, or Los Angeles.

EXHIBIT 19: TOP MARGINAL INCOME TAX BY STATE



New Hampshire	0.5%
Vermont	0.0%
Massachusetts	1.0%
Rhode Island	0.8%
Connecticut	0.9%
New Jersey	1.3%
Delaware	1.5%
Maryland	0.7%
District of Columbia	2.2%
Hawaii	0.3%
United States	1.0%

Source: Tax Foundation; as of January 2025

EXHIBIT 20: REAL (AVERAGE) PERSONAL INCOME ADJUSTED BY REGIONAL PRICE PARITIES

RANK	METRO AREA	$
1	SAN JOSE	$109,075
2	BRIDGEPORT	$108,560
3	SAN FRANCISCO	$91,959
4	BOSTON	$75,192
5	SEATTLE	$73,114
6	DENVER	$70,397
7	RENO NV	$69,431
8	AUSTIN	$68,553
9	WASHINGTON DC	$68,431
10	NASHVILLE	$67,818
11	NEW YORK	$67,617
12	OMAHA	$67,445
13	ST. LOUIS	$65,259
14	TULSA	$64,152
15	RALEIGH	$63,761
16	INDIANAPOLIS	$63,743
17	MINNEAPOLIS	$63,384
18	PHILADELPHIA	$63,256
19	MILWAUKEE	$62,950
20	CHICAGO	$62,786
21	MIAMI	$62,695
22	BALTIMORE	$62,306
23	KANSAS CITY	$62,296
24	PITTSBURGH	$62,132
25	ALBANY	$61,336
26	HARTFORD	$61,005
27	RICHMOND	$60,931
28	NEW ORLEANS	$60,756
29	SALT LAKE CITY	$60,726
30	CINCINNATI	$60,589
31	CLEVELAND	$60,287
32	SARASOTA	$60,143
33	HOUSTON	$60,122
34	BIRMINGHAM	$59,744
35	DALLAS/FORT WORTH	$59,711
36	CHARLOTTE	$59,673
37	SAN DIEGO	$59,017
38	OKLAHOMA CITY	$58,930
39	PORTLAND	$58,496
40	LOS ANGELES	$58,271
	UNITED STATES (AVG)	$57,937
41	LOUISVILLE	$57,676
42	COLUMBUS	$57,435
43	OXNARD	$57,233
44	GRAND RAPIDS	$56,997
45	BATON ROUGE	$56,758
46	BOISE	$56,692
47	CHARLESTON	$56,593
48	ALLENTOWN	$56,177
49	COLORADO SPRINGS	$56,154
50	DETROIT	$56,087
51	ATLANTA	$56,050
52	KNOXVILLE	$55,727
53	PROVIDENCE	$55,577
54	LITTLE ROCK	$55,505
55	WORCESTER	$55,278
56	HARRISBURG PA	$55,197
57	NEW HAVEN	$54,948
58	JACKSONVILLE	$54,755
59	LAS VEGAS	$54,445
60	MEMPHIS	$54,061
61	DAYTON	$53,990
62	BUFFALO	$53,836
63	SACRAMENTO	$53,782
64	VIRGINIA BEACH/NORFOLK	$53,450
65	FORT MYERS FL	$53,416
66	SAN ANTONIO	$52,773
67	HONOLULU	$52,723
68	ROCHESTER	$52,590
69	PHOENIX	$52,302
70	COLUMBIA SC	$51,886
71	TUCSON	$51,329
72	TAMPA	$51,288
73	ALBUQUERQUE	$51,242
74	SAVANNAH	$50,511
75	GREENSBORO	$50,276
76	GREENVILLE	$49,969
77	SPARTANBURG SC	$49,266
78	ORLANDO	$47,519
79	STOCKTON CA	$45,956
80	EL PASO	$43,066
81	FRESNO	$42,168
82	LAREDO TX	$40,505
83	RIVERSIDE	$40,494
84	BAKERSFIELD	$38,512
85	LAKELAND/WINTER HAVEN	$37,945
86	MCALLEN	$33,412

Source: US Bureau of Labor Statistics

Projections for employment growth reflect a continuation of such trends, with growth projected in the Intermountain West, Texas and Florida and other parts of the Sunbelt.

EXHIBIT 21: TOTAL EMPLOYMENT PROJECTED GROWTH, 2024–2029 (5-YEAR CUMULATIVE GROWTH)

RANK	METRO AREA	% CHANGE
1	AUSTIN	7.9%
2	BOISE	6.9%
3	ORLANDO	6.2%
4	RALEIGH	6.2%
5	FORT MYERS	6.1%
6	DALLAS	6.1%
7	LAS VEGAS	5.9%
8	RIVERSIDE	5.9%
9	PHOENIX	5.8%
10	SALT LAKE CITY	5.8%
11	COLORADO SPRINGS	5.7%
12	SAN ANTONIO	5.4%
13	CHARLOTTE	5.3%
14	SARASOTA	5.3%
15	MCALLEN	5.2%
16	STOCKTON	5.1%
17	DENVER	5.1%
18	LAKELAND, FL	5.1%
19	SEATTLE	4.9%
20	JACKSONVILLE	4.9%
21	CHARLESTON	4.8%
22	FRESNO	4.8%
23	NASHVILLE	4.7%
24	ATLANTA	4.6%
25	SAN JOSE	4.4%
26	TAMPA	4.3%
27	HOUSTON	4.3%
28	EL PASO	4.3%
29	SACRAMENTO	4.2%
30	INDIANAPOLIS	4.1%
31	GREENVILLE, SC	4.1%
32	PORTLAND	4.0%
33	MIAMI/FT. LAUDERDALE/WPB	3.9%
34	SAN FRANCISCO	3.8%
35	KNOXVILLE	3.7%
36	BAKERSFIELD	3.5%
37	SAN DIEGO	3.5%
38	ALLENTOWN	3.5%
39	RICHMOND	3.4%
40	COLUMBIA, SC	3.3%
41	GRAND RAPIDS	3.3%
42	COLUMBUS	3.3%
43	OKLAHOMA CITY	3.3%
	UNITED STATES (AVG)	3.2%
44	OMAHA	3.1%
45	LOS ANGELES	3.1%
46	BOSTON	3.1%
47	TUCSON	3.0%
48	ALBUQUERQUE	3.0%
49	WORCESTER	2.9%
50	WASHINGTON, DC	2.9%
51	KANSAS CITY	2.9%
52	NEW YORK	2.9%
53	LOUISVILLE	2.8%
54	OXNARD	2.8%
55	LITTLE ROCK	2.7%
56	PHILADELPHIA	2.7%
57	TULSA	2.7%
58	HONOLULU	2.6%
59	BATON ROUGE	2.5%
60	MINNEAPOLIS	2.5%
61	CINCINNATI	2.5%
62	BALTIMORE	2.5%
63	BIRMINGHAM	2.3%
64	ST. LOUIS	2.2%
65	ALBANY	2.1%
66	MEMPHIS	2.1%
67	VIRGINIA BEACH/NORFOLK	1.9%
68	DETROIT	1.8%
69	PROVIDENCE	1.8%
70	BUFFALO	1.8%
71	NEW ORLEANS	1.7%
72	CHICAGO	1.6%
73	GREENSBORO, NC	1.6%
74	PITTSBURGH	1.5%
75	ROCHESTER	1.4%
76	NEW HAVEN	1.4%
77	DAYTON	1.3%
78	MILWAUKEE	1.3%
79	HARTFORD	1.3%
80	CLEVELAND	0.9%
81	BRIDGEPORT	0.7%

Source: Oxford Economics; as of 2024

INTER-METRO MIGRATION TO SUBURBS/EXURBS

Another byproduct of remote work and the increased deterioration of certain urban areas because of increased crime and homelessness is the population shift from core counties or urban sections of metros to the suburban and exurban sections of the metro. In almost all metros, the non-core component outperformed the core urban section between 2019 and 2024.

EXHIBIT 22: POPULATION GROWTH BY METRO AREA: 2019–2024; CORE VS. SUBURBAN/EXURBAN COUNTIES

RANK	METRO AREA	CORE COUNTY	METRO AREA EX. CORE COUNTY
1	AUSTIN	6.8%	21.3%
2	PHOENIX	6.3%	19.3%
3	JACKSONVILLE	5.4%	17.1%
4	SALT LAKE CITY	1.7%	16.8%
5	SAN ANTONIO	6.1%	16.2%
6	SAVANNAH	3.7%	16.0%
7	BOISE	10.9%	15.5%
8	RALEIGH	8.9%	15.2%
9	HOUSTON	4.0%	15.2%
10	DALLAS/FORT WORTH	0.1%	13.4%
11	SARASOTA	9.9%	13.0%
12	CHARLESTON	5.4%	12.9%
13	ORLANDO	5.5%	11.6%
14	NASHVILLE	0.8%	10.4%
15	CHARLOTTE	7.5%	9.2%
16	OKLAHOMA CITY	2.6%	8.9%
17	INDIANAPOLIS	-0.2%	7.8%
18	SAN JOSE	-2.8%	7.4%
19	TAMPA	7.9%	6.9%
20	COLUMBUS	1.7%	6.8%
21	ATLANTA	2.9%	6.0%
22	LITTLE ROCK	0.4%	6.0%
23	ALBUQUERQUE	-0.4%	5.8%
24	COLUMBIA, SC	3.1%	5.7%
25	KNOXVILLE	5.8%	5.5%
26	BIRMINGHAM	-1.7%	5.1%
27	TULSA	3.5%	5.1%
28	GREENVILLE, SC	8.6%	4.9%
29	HARRISBURG-CARLISLE, PA	2.0%	4.8%
30	OMAHA	2.7%	4.7%
31	BATON ROUGE	-1.8%	4.4%
32	GRAND RAPIDS	1.5%	4.0%
33	SACRAMENTO	0.9%	3.9%
34	MEMPHIS	-2.4%	3.9%
	UNITED STATES	0.7%	3.8%
35	LOUISVILLE	-0.7%	3.8%
36	SEATTLE	2.4%	3.6%
37	KANSAS CITY	0.5%	3.5%
38	RENO, NV	4.8%	3.4%
39	DENVER	2.0%	3.4%
40	MINNEAPOLIS	-0.9%	3.3%
41	CINCINNATI	-0.7%	3.3%
42	MIAMI/FT. LAUDERDALE/ WPB	0.1%	3.2%
43	RICHMOND	7.8%	3.2%
44	PORTLAND	-1.9%	3.0%
45	WASHINGTON, DC	-0.2%	2.6%
46	DAYTON	-0.9%	2.4%
47	MILWAUKEE	-2.8%	2.2%
48	GREENSBORO	1.3%	2.0%
49	ALLENTOWN	1.7%	1.7%
50	PHILADELPHIA	-2.6%	1.7%
51	VIRGINIA BEACH/ NORFOLK	-0.7%	1.6%
52	HARTFORD	-0.7%	1.5%
53	CLEVELAND	-3.0%	1.3%
54	RIVERSIDE	4.5%	1.3%
55	BOSTON	0.9%	1.0%
56	PROVIDENCE	0.7%	0.8%
57	ALBANY	0.3%	0.5%
58	NEW YORK*	-4.2%	0.5%
59	COLORADO SPRINGS	3.7%	0.4%
	BIG 7 MARKETS	-3.1%	0.4%
60	DETROIT	-2.9%	0.3%
61	EL PASO	1.7%	0.3%
62	BALTIMORE	-0.7%	0.2%
63	CHICAGO	-4.2%	0.2%
64	ST. LOUIS	-2.1%	0.2%
65	WORCESTER	1.5%	-0.2%
66	PITTSBURGH	-1.9%	-0.9%
67	NEW ORLEANS	-3.4%	-1.1%
68	ROCHESTER	-1.5%	-1.2%
69	LOS ANGELES	-3.9%	-1.5%
70	BUFFALO	-0.8%	-2.2%
71	SPARTANBURG, SC	11.5%	-2.9%
72	SAN FRANCISCO	-3.0%	-3.5%

Source: Oxford Economics; as of 2024

Exhibit 23 shows several select metro area county-by-county changes recorded during that time period. New York and Chicago exhibited major shifts during this time period. Although the San Franciso metro area had across the board declines, the decreases were most extreme in the core city of San Francisco.

This points to increased investment opportunities in suburban and exurban locations and the possibility of investing in urban markets at a low-cost basis.

In addition, lower cost metro areas within a two to three-hour drive of major markets have benefitted. Markets that have experienced population growth above the national average since the first quarter of 2020 include Richmond, VA (108 miles from Washington, DC), Colorado Springs, CO, (70 miles from Denver) and Portland, ME (107 miles from Boston).

EXHIBIT 23: POPULATION GROWTH BY CORE VS. NON-CORE COUNTIES, 2019–2024

CORE COUNTY (IES) METRO AREA EX. CORE COUNTY

Charlotte

CHARLOTTE MSA	% CHANGE
Lancaster County, SC	15.3%
Union County, NC	12.0%
Lincoln County, NC	11.3%
Cabarrus County, NC	10.8%
York County, SC	10.1%
Iredell County, NC	10.0%
Metro Area ex. Core County	9.2%
Mecklenburg County, NC	7.5%
Gaston County, NC	4.5%
Rowan County, NC	3.5%
Chester County, SC	-0.3%

Seattle

SEATTLE MSA	% CHANGE
Snohomish County, Wa	4.3%
Metro Area ex. Core County	3.6%
Pierce County, Wa	2.9%
King County, Wa	2.4%

Chicago

CHICAGO MSA	% CHANGE
Kendall County, IL	8.4%
Grundy County, IL	3.1%
Porter County, IN	2.2%
Will County, IL	1.8%
Jasper County, IN	1.5%
McHenry County, IL	0.8%
Lake County, IN	0.5%
Metro Area ex. Core County	0.2%
Kane County, IL	0.0%
Newton County, IN	-0.2%
Kenosha County, WI	-0.7%
Lake County, IL	-0.7%
DeKalb County, IL	-1.1%
DuPage County, IL	-2.0%
Cook County, IL	-4.2%

San Francisco

San Francisco MSA	% CHANGE
Contra Costa County, CA	-0.2%
Marin County, CA	-2.8%
Alameda County, CA	-3.0%
Metro Area ex. Core County	-3.5%
San Mateo County, CA	-4.9%
San Francisco County, CA	-7.0%

D.C.

D.C. MSA	% CHANGE
Frederick County, MD	8.9%
Spotsylvania County, VA	8.1%
Loudoun County, VA	8.1%
Stafford County, VA	8.0%
Culpeper County, VA	5.6%
Prince William County, VA	4.5%
Fredericksburg city, VA	4.4%
Charles County, MD	4.2%
Jefferson County, WV	3.8%
Fauquier County, VA	3.7%
Clarke County, VA	3.3%
Warren County, VA	2.8%
Metro Area ex. Core County	2.6%
Fairfax city, VA	2.5%
Falls Church city, VA	2.3%
Calvert County, MD	1.7%
District of Columbia, DC	1.4%
Manassas city, VA	0.9%
Montgomery County, MD	0.8%
Arlington County, VA	-0.2%
Fairfax County, VA	-0.2%
Prince George's County, MD	-0.6%
Alexandria city, VA	-0.7%
Rappahannock County, VA	-0.8%
Manassas Park city, VA	-1.4%

New York

NEW YORK MSA	% CHANGE
Pike County, PA	5.4%
Ocean County, NJ	4.5%
Orange County, NY	2.4%
Somerset County, NJ	2.3%
Rockland County, NY	1.8%
Morris County, NJ	1.5%
Hunterdon County, NJ	1.4%
Middlesex County, NJ	1.0%
Sussex County, NJ	0.7%
Union County, NJ	0.7%
Bergen County, NJ	0.6%
Metro Area ex. Core County	0.5%
Dutchess County, NY	0.3%
Putnam County, NY	0.3%
Suffolk County, NY	0.1%
Essex County, NJ	0.1%
Hudson County, NJ	-0.1%
Richmond County, NY	-0.2%
Monmouth County, NJ	-0.2%
Westchester County, NY	-0.5%
Nassau County, NY	-0.6%
Passaic County, NJ	-1.4%
New York County, NY	-3.7%
New York City (5 County Total)	-4.2%
Kings County, NY	-4.3%
Queens County, NY	-4.4%
Bronx County, NY	-5.7%

Source: Oxford Economics

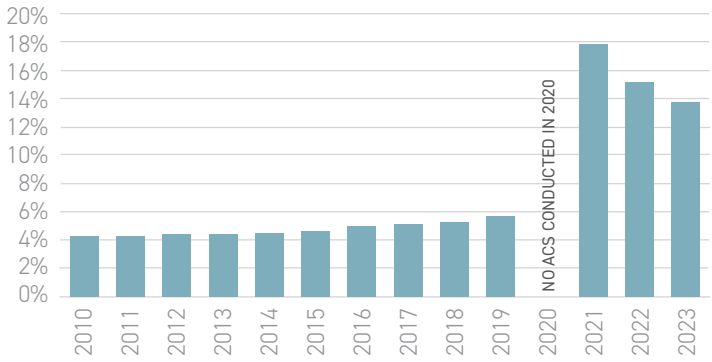
THE ASTOUNDING NUMBER OF REMOTE WORKERS

The astounding surge in remote workers has fundamentally altered the demographic landscape of the American labor force. As of 2023, 13.8% of the work-force work primarily from home, up from 5.7%. However, it's important to remember this includes all workers, not just those in traditionally office-using roles. If only office workers were included in the denominator, it would reflect a much higher percentage of remote workers.

For context, consider that approximately 22.5 million individuals now work remotely, and if this group were considered as a single entity, it would be the third largest US state in population following only California and Texas. The increase in remote workers of 13.5 million since COVID would rank as the fourth largest state. Although remote work was growing slowly as a share prior to the pandemic, this accelerated shift signifies a profound demographic trend. The rise in remote work has not only reshaped employment patterns but also influenced residential choices, leading to increased migration to suburbs and exurbs.

For context, consider that approx. 22.5 million individuals now work remotely, and if this group were considered as a single entity, it would be the third largest US state in population following only California and Texas.

EXHIBIT 24: SHARE OF POPULATION THAT PRIMARILY WORKS FROM HOME



	ALL WORKERS	WORKERS WHO PRIMARILY WFH	% WFH
2019	156.9M	8.9M	5.7%
2023	162.4M	22.5M	13.8%
% Change	+3.5%	+151.4%	
# Change	+5.5M	+13.5M	

Source: US Census Bureau

States with the greatest share of remote workers include Colorado, Oregon, Arizona, Washington, Maryland, and Virginia. Washington, DC, although not a state, ranks first on this list since within each of the states, urban centers tend to have higher share of remote workers, and DC essentially exhibits as a city-state in this example.

Although local job growth is a prime indicator of apartment demand, remote work has loosened the correlation as more employees may not be situated in the same area as their employer.

EXHIBIT 25: WORKERS WHO PRIMARILY WORK FROM HOME BY STATE

RANK	METRO AREA	% OF WORKERS ('23)	% CHANGE IN REMOTE WORKERS ('19-23)
1	WASHINGTON, D.C.	27.3%	268%
2	COLORADO	19.9%	128%
3	OREGON	17.7%	148%
4	ARIZONA	17.5%	150%
5	WASHINGTON	17.3%	175%
6	MARYLAND	16.9%	216%
7	VIRGINIA	16.7%	196%
8	UTAH	16.4%	149%
9	VERMONT	16.2%	141%
10	NEW HAMPSHIRE	16.1%	130%
11	NORTH CAROLINA	16.1%	155%
12	MINNESOTA	16.1%	154%
13	FLORIDA	15.8%	143%
14	MASSACHUSETTS	15.6%	190%
15	GEORGIA	15.2%	134%
16	CALIFORNIA	14.6%	130%
17	MAINE	14.3%	137%
18	CONNECTICUT	14.3%	165%
19	PENNSYLVANIA	14.1%	160%
20	ILLINOIS	14.0%	160%
21	NEW JERSEY	14.0%	202%
	UNITED STATES	13.8%	151%
22	TEXAS	13.7%	158%
23	DELAWARE	13.6%	185%
24	IDAHO	13.5%	102%
25	TENNESSEE	12.8%	143%
26	MISSOURI	12.5%	158%
27	NEW YORK	12.4%	158%
28	WISCONSIN	12.2%	144%
29	MICHIGAN	12.2%	175%
30	OHIO	11.9%	164%
31	RHODE ISLAND	11.8%	168%
32	SOUTH CAROLINA	11.8%	145%
33	NEVADA	11.6%	150%
34	MONTANA	11.3%	88%
35	NEW MEXICO	10.7%	120%
36	IOWA	10.5%	87%
37	KANSAS	10.4%	107%
38	INDIANA	10.4%	148%
39	WYOMING	10.2%	81%
40	NEBRASKA	10.1%	125%
41	SOUTH DAKOTA	9.8%	67%
42	KENTUCKY	9.5%	130%
43	OKLAHOMA	9.1%	112%
44	ALASKA	9.0%	144%
45	ALABAMA	8.8%	175%
46	ARKANSAS	8.7%	156%
47	HAWAII	8.7%	81%
48	WEST VIRGINIA	8.3%	116%
49	NORTH DAKOTA	8.3%	134%
50	LOUISIANA	8.1%	104%
51	MISSISSIPPI	6.4%	110%

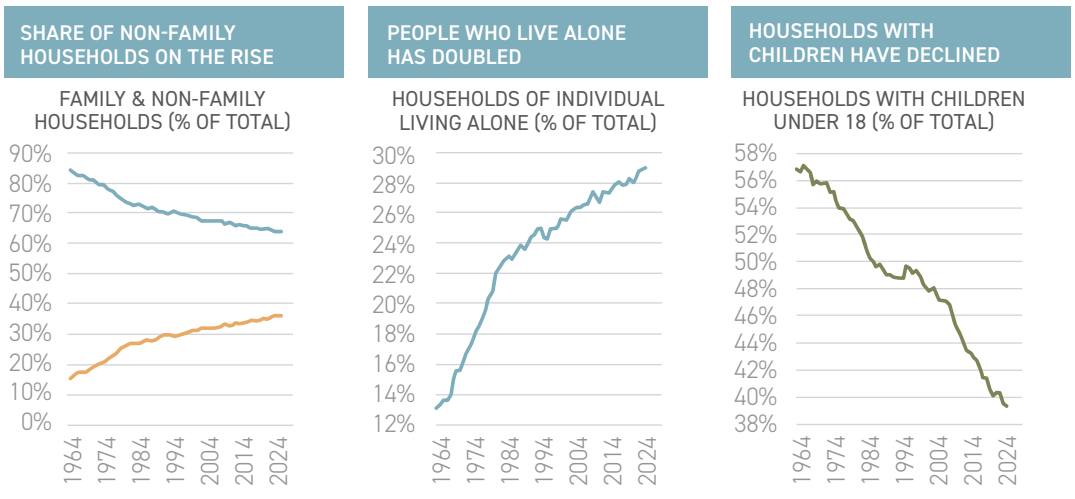
Source: US Census Bureau

THE UNEQUALED NUMBER OF AMERICANS LIVING ALONE

Over the past sixty years, the share of households categorized as family households[2] has declined from 84% in 1964 to 64% in 2023. Likewise, the number of households with children under 18 has also declined over this period, from over 57% to 39%. At the same time, the number of individuals living alone has more than doubled during this period, up from 13% in 1964 to over 29% in 2023.

These trends effectively create more households and have been a broad tailwind to apartment demand.

EXHIBIT 26: LIVING STYLES, 1964–2024

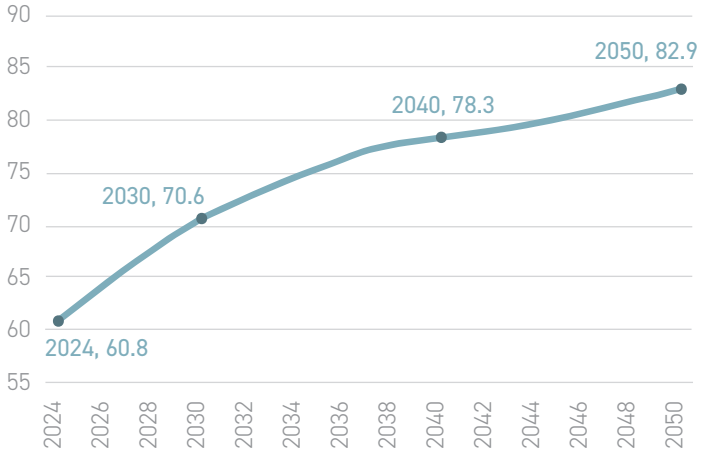


Source: US Census Bureau

THE AGING POPULATION: THE UNPRECEDENTEDLY LARGE SIZE OF THE 65+ AND 80+ AGE COHORTS

The 65+ age cohort is set to soar, as the youngest of the "baby boom generation" (the very large age cohort born between 1946 and 1964) turn 65 over the next four years. The cohort is expected to grow from 60.8 million in 2024 to 70.6 million by 2030 and 78.3 million by 2040.

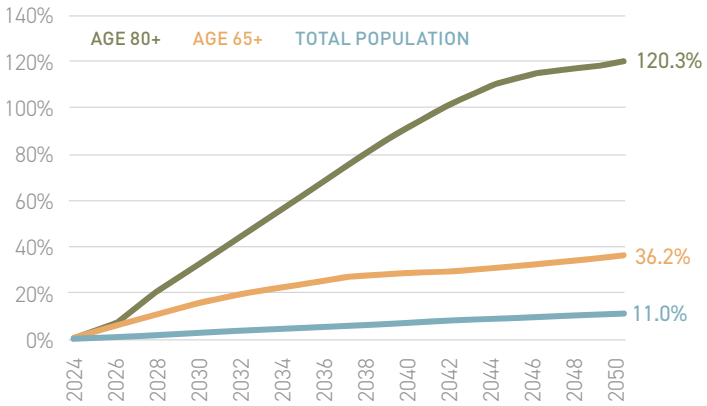
EXHIBIT 27: PROJECTED POPULATION OF AGE 65+ (MILLIONS)



Source: Oxford Economics

Although the 65+ population is growing and is expected to be 32% larger by 2050, the 80+ population is expected to increase 120% during the same time period compared to 11% for the general population.

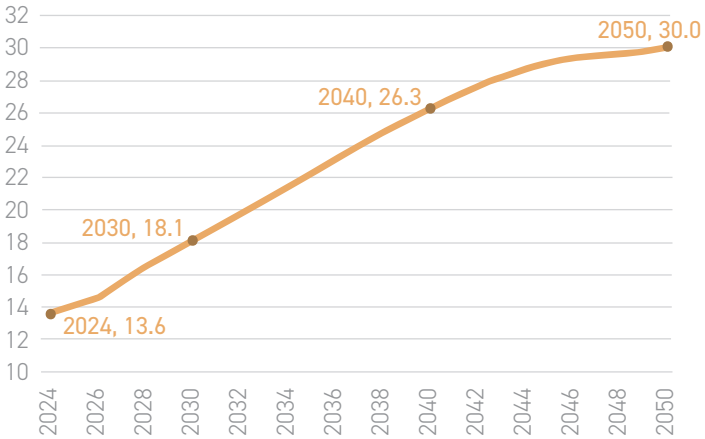
EXHIBIT 28: PROJECTED CUMULATIVE POPULATION GROWTH, 2024–2050



Source: Oxford Economics

The oldest of the "baby boom generation" begin turning 80 in 2026. The 80+ cohort was 13.6 million in 2024 and is projected to grow to 18.1 million by 2030 and 26.3 million by 2040, and 30 million by 2050. This could increase demand for MOBs, age-restricted 55+ communities, ILFs, and ALFs. On average, people move into ALFs at age 85 and into ILFs at age 83,[3] which implies at the very least, some residents begin entering around age 80.

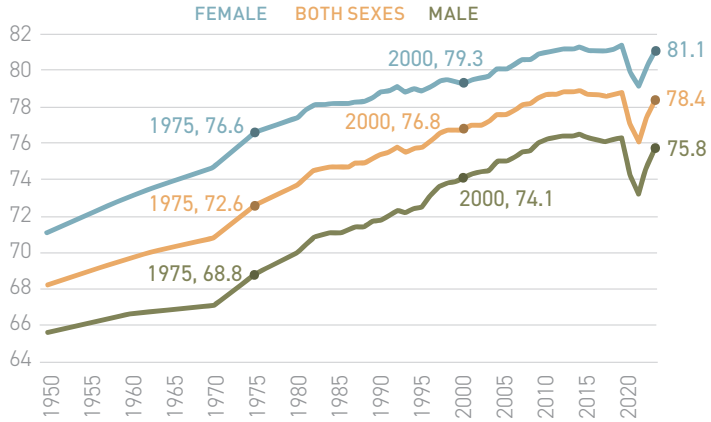
EXHIBIT 29: PROJECTED POPULATION OF AGE 80+ (MILLIONS)



Source: Oxford Economics

The increase in the 65+ and 80+ population is not only due to the large "Boomer" generation aging, but also because of increased longevity. Despite a decline during the COVID-19 epidemic, overall, life expectancy has increased over the past half century. Life expectancy at birth in 1975 was 72.6, increasing to 76.8 at the turn of the millennium, and reaching 78.4 in 2023.

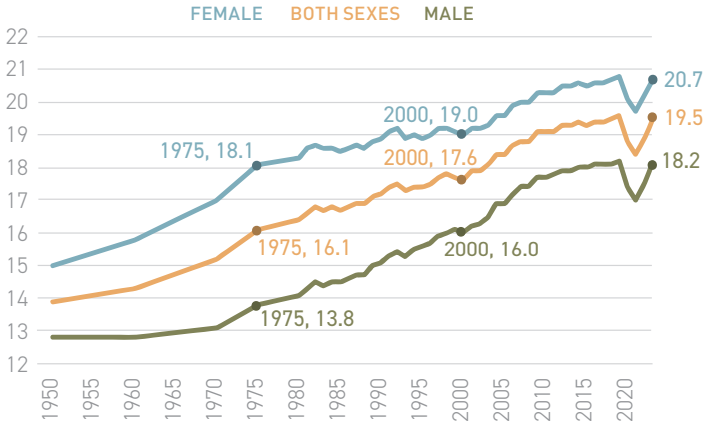
EXHIBIT 30: LIFE EXPECTANCY AT BIRTH, 1950–2023



Source: NCHS

Life expectancy from age 65 in 1975 was 16.1 (81.1 total years), increasing to 17.6 (82.6) at the turn of the millennium, and reaching 19.5 (84.5) in 2023.

EXHIBIT 31: LIFE EXPECTANCY FROM AGE 65, 1950–2023



Source: NCHS

DISCERNING INVESTMENT

Evolving demographic trends, including a stagnant-to-declining working age population, recent unprecedented international immigration, migration within the US and within metropolitan areas, the unprecedented number of remote workers, the changing size of American households, and the aging population create significant challenges and opportunities for commercial real estate.

As these shifts continue, or in some cases moderate, it is important for investors to develop strategies that address these trends to capitalize on the dynamic demographic and economic environment. Therefore, it is vital that investors are discerning and rely on the keen investment expertise of advisors who can differentiate true opportunities from potential minefields.

ABOUT THE AUTHOR

Stewart Rubin is Senior Director and Head of Strategy and Research for New York Life Real Estate Investors, a division of NYL Investors LLC, a wholly-owned subsidiary of New York Life Insurance Company.

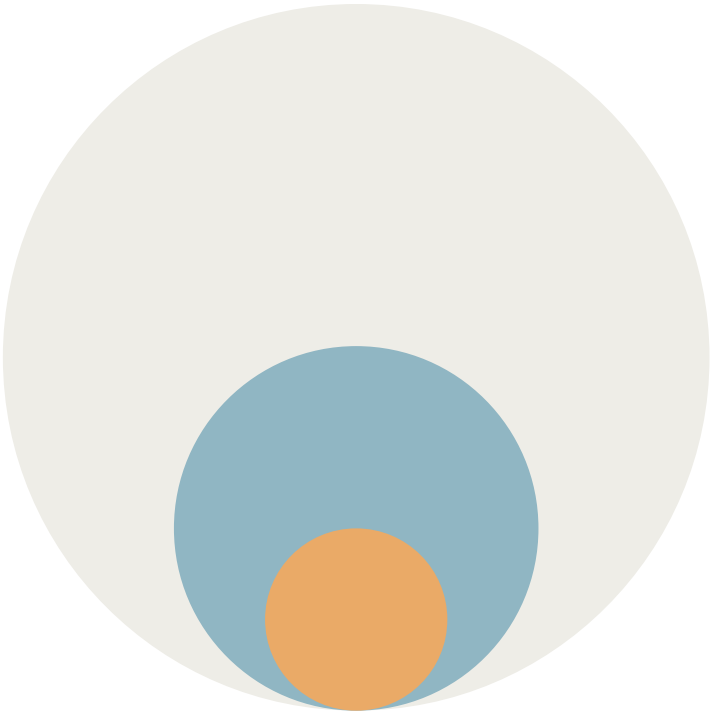
NOTES

[1] Auguste Comte (1798–1857) French philosopher, mathematician, and writer. His ideas laid the foundations for the field of sociology, and he coined the term.

[2] Source: US Census Bureau. According to the Census definition, a Family Household is two or more people living in the same household who are related to the householder by birth, marriage, or adoption. Non-family households may comprise a group of unrelated people or one person living alone.

[3] Source: Green Street, US Senior Housing Outlook, January 30, 2025, page 17

Evolving demographic trends are creating significant challenges and opportunities for commercial real estate.



Stagnant-to-declining working age population, recent unprecedented international immigration, migration within the US and within metropolitan areas, the unprecedented number of remote workers, the changing size of American households, and the aging population.

MID-CAP ASSETS

Asaf Rosenheim
Director
Profimex

Mid-Cap Assets: An under-examined segment in commercial real estate

Mid-cap commercial real estate, generally defined as assets in the $20–$100 million range, represents a segment of the US market that remains relatively underexplored compared to both large-cap institutional transactions and smaller private investments.[1] While institutional investors often prioritize large-scale acquisitions, and high-net-worth individuals tend to focus on smaller assets, mid-cap properties occupy a space that is frequently overlooked by both types of investors.

Drawing on market data and transaction analysis, this article will detail some of the structural factors that limit competition in this segment, as well as the characteristics, opportunities, risks, and potential benefits it may offer in terms of diversification, yield, and operational improvement.[2] The findings suggest that mid-cap assets may provide a distinct balance of opportunity and risk within a diversified investment strategy.

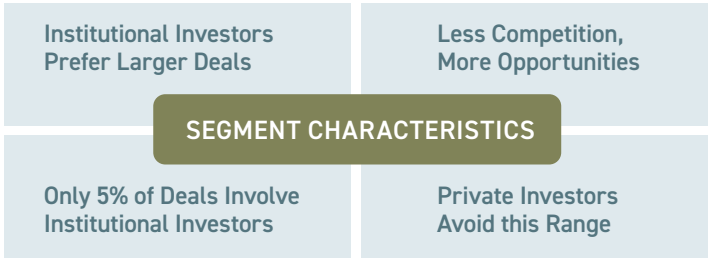
STRUCTURAL FACTORS ENABLING OUTPERFORMANCE IN THE MID-CAP MARKET

Why do institutional and private investors often overlook the mid-cap market?

The answer lies in the market structure: fragmented ownership, inefficient deal sourcing, and high friction during the closing stages make this segment less accessible. However, these very challenges create unique opportunities. Agile, mid-cap-focused funds that can navigate complex environments and perform detailed, deal-specific analysis are well-positioned to unlock value and, in turn, deliver strong returns for their investors.

Investors and funds specializing in the mid-cap market also hold a significant competitive advantage in deal sourcing, supported by their in-depth knowledge of local market dynamics. Strong relationships with brokers, sellers—including distressed sellers—operational partners, and industry experts are invaluable. Successful management of mid-cap investment strategies depends heavily on these relationships and a thorough understanding of market conditions.

EXHIBIT 1: MID-CAP MARKET CHARACTERISTICS



Source: Author

Another advantage of this market segment is the limited presence of institutional investors. Only 5% of commercial real estate transactions in the mid-cap range involve large institutional players. This absence prevents the market from being flooded with institutional capital that may, in some cases, distort the relationship between required return and risk due to excess capital. Without competition from large-scale institutional entities, mid-cap investors can operate more flexibly, move quickly, identify the most attractive assets, and close transactions under preferential terms.

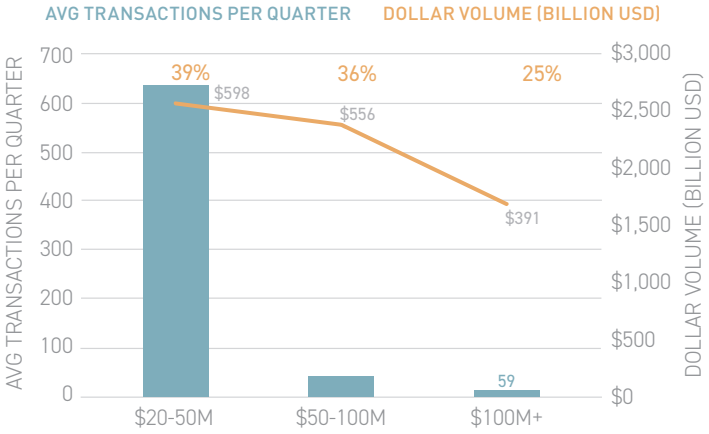
DIVERSIFICATION AND LIQUIDITY AS INVESTMENT OPPORTUNITIES

Extensive experience in the mid-cap commercial real estate market, combined with the findings of the present study, provides insight into the advantages these assets can offer within an investment portfolio.

- This segment is characterized by market inefficiency and high return potential. Its market structure, marked by transactions that are more dispersed and less dominated by institutional players, creates efficiency gaps that can be used to identify value-added opportunities.
- The mid-cap market also exhibits relatively high liquidity and a substantial number of transactions. According to an analysis by Linneman Associates, properties valued between $20–$50 million accounted for 39% of total transaction volume, while those in the $50–$100 million range accounted for 36%. This level of market activity supports sufficient liquidity when assets are sold.
- Sales cycles for mid-cap assets tend to be slightly longer compared to those held by institutional owners. This longer time frame can allow for greater flexibility in transaction structuring, more room for negotiation on final pricing, and a reduced risk of incomplete or overly aggressive underwriting during acquisition.
- Mid-cap properties also facilitate portfolio diversification by enabling investment in multiple, varied assets rather than concentrating capital in a single large property. This diversification helps mitigate risks associated with specific locations and with broader market volatility or downturns.
- These assets balance operational complexity with a level of flexibility that allows experienced managers to optimize performance.
- The study conducted by Linneman & Co. found that mid-cap assets frequently generate higher rates of return than those achieved in large-scale transactions.

According to an analysis by Linneman Associates, properties valued between $20 million and $50 million accounted for 39% of total transaction volume, while those in the $50 million to $100 million range accounted for 36%.

EXHIBIT 2: MID-CAP MULTIFAMILY INVESTMENTS PRESENT HIGH LIQUIDITY AND A SUBSTANTIAL NUMBER OF TRANSACTIONS

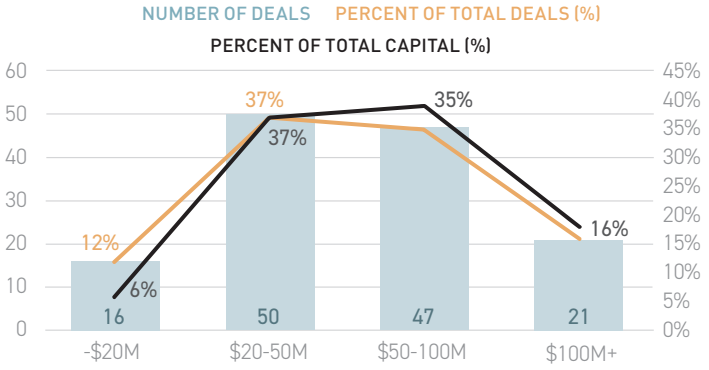


Source: CoStar, US Multifamily sale transactions that closed in 2002-2023

THE BENEFITS OF A STRATEGIC FOCUS ON COMMERCIAL MID-CAP REAL ESTATE

To illustrate the dynamics of mid-cap real estate, Profimex's investment activity demonstrates a concentration in commercial properties within the mid-cap value range. An allocation review of completed transactions shows a significant share of investments in the $20–$100 million segment *(Exhibit 3)*:[3]

EXHIBIT 3: SAMPLE DEAL SIZE ALLOCATION BY NUMBER AND PERCENT OF TOTAL DEALS AND TOTAL EQUITY



PORTFOLIO	NUMBER OF TRANSACTIONS	% OF TOTAL	% OF TOTAL CAPITAL
$0–20 million	16	12%	6%
$20–50 million	50	37%	37%
$50–100 million	47	35%	39%
>$100 million	21	16%	18%
Total	134	100%	100%

Source: CoStar, US Multifamily sale transactions that closed in 2002-2023

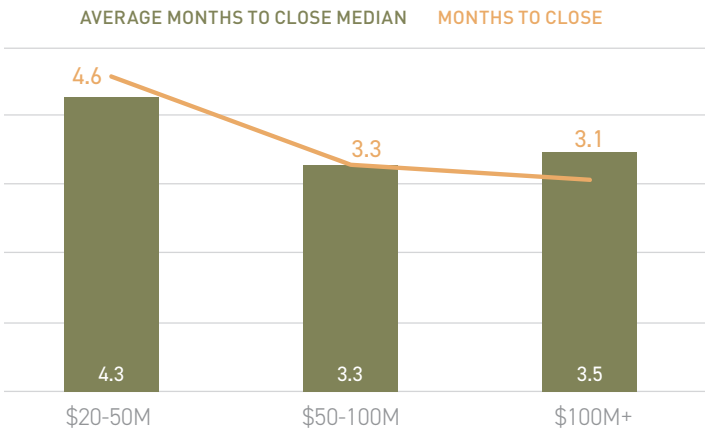
The focus on mid-cap assets aligns with four primary strategic considerations:

1. **Market segment characteristics:** The mid-cap segment is less concentrated among institutional investors, creating conditions that may allow for broader access to assets and more flexible transaction structuring.
2. **Potential for value enhancement:** Assets in this range can present opportunities for operational or strategic improvements that may contribute to increased value over time.
3. **Role of partnerships:** Relationships with local market participants and investment professionals are an important component in identifying, evaluating, and managing assets in this segment.
4. **Market familiarity:** Ongoing engagement in the mid-cap market supports the ability to monitor trends, identify potential opportunities, and assess a range of transactions across geographies.

THE RESULT: 20%-30% HIGHER OPERATING PROFIT ESTIMATES

Multifamily properties valued at $20–50 million required an average of 4.3 months to close. Properties in the $50–100 million range and those valued above $100 million had shorter average closing times of 3.3 months and 3.5 months, respectively. The longer transaction periods in the mid-cap range allow for additional time to negotiate pricing, conduct due diligence, and reduce the risk of errors when assessing acquisition feasibility, including ensuring full utilization of the property inspection process prior to purchase.

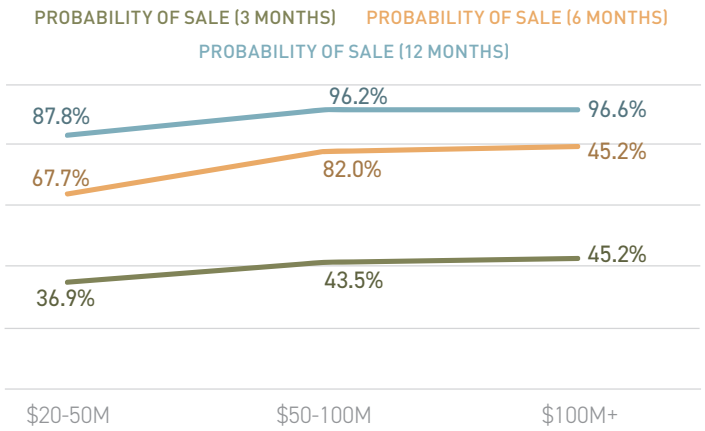
EXHIBIT 4: THE LONGER TRANSACTION PERIODS IN THE MID-CAP RANGE ALLOW FOR ADDITIONAL TIME TO NEGOTIATE PRICING



Source: CoStar, US Multifamily sale transactions that closed in 2002-2023

The study also reported that the probability of sale for properties valued at $20–50 million was 36.9%. For those valued at $50–100 million, the probability was 43.5%, and for those above $100 million, it was 45.2%.

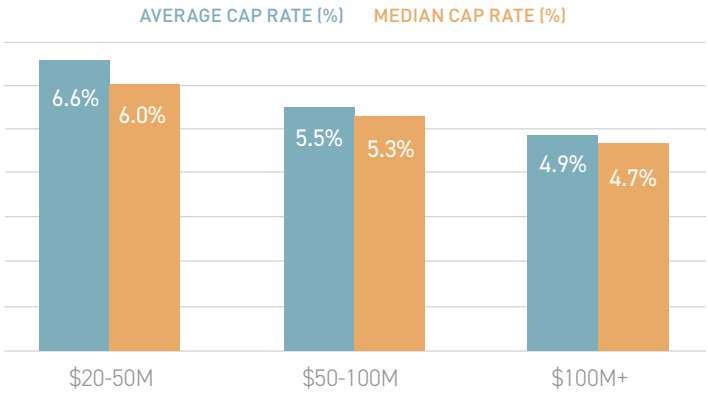
EXHIBIT 5: PROBABILITY OF SALE OF MID-CAP ASSETS



Source: CoStar, US Multifamily sale transactions that closed in 2002-2023

In terms of yields, sales of properties in the $20–50 million range produced average and median cap rates of 6.6% and 6%, respectively. Properties in the $50–100 million range recorded average and median cap rates of 5.5% and 5.3%, while the highest price category (above $100 million) showed average and median cap rates of 4.9% and 4.7%. These return differentials, equating to an estimated 20%–30% higher operating profit, suggest that mid-cap transactions may offer both higher yields and a greater margin of safety against potential valuation errors or market volatility.

EXHIBIT 6: PURCHASE PRICE RELATIVE TO MID-CAP PROPERTY REVENUES IS LOWER THAN FOR LARGER ASSETS



Source: CoStar, US Multifamily sale transactions that closed in 2002-2023

FROM THEORY TO PRACTICE: IMPLEMENTATION IN MID-CAP TRANSACTIONS

The following examples show how mid-cap commercial real estate strategies have been implemented through transactions completed with local strategic operating partners.

SAPPHIRE CLASS A OFFICE BUILDING – LONDON

Located in a central area of London, the property holds an A energy rating and an excellent BREEAM sustainability score, following a comprehensive redevelopment completed in 2022 at a cost of tens of millions of pounds. In early 2025, Profimex, together with local strategic partner, Capreon, acquired the property from a private entity in England.[4] The acquisition was supported by prior familiarity with the property's owners and an understanding of the challenges they faced during the COVID-19 period. At the time of purchase, occupancy was 40%, and the property had a loan due for repayment. The purchase price reflected these conditions and was structured with payments to be made in installments over three years.

During the acquisition process, Capreon successfully secured a fifteen-year lease agreement with a flexible office provider that caters to technology companies through a short-term rental model (co-working space). This lease brought the property to full occupancy from day one, significantly reducing income risk and adding value immediately. The seller's motivation stemmed from the property's low occupancy rate and liquidity needs, as the loan period was nearing its end. The transaction, facilitated by Capreon's long-standing relationship with the seller, was conducted off-market, giving Profimex a first-mover advantage.

The improvement in occupancy created favorable conditions for a potential sale to an institutional investor once the property had stabilized, realizing a significant increase in value that is ongoing.

STUDENT AND MULTIFAMILY HOUSING – WILMINGTON, NORTH CAROLINA

This property, built in 1991, consists of 415 housing units across two separate buildings, located within walking distance of Wilmington University. In 2021, during the COVID-19 pandemic, Profimex, in collaboration with local partner, Pearlmark, specializing in the management of student housing and multifamily complexes, acquired the property.[5]

The uncertainty surrounding the student housing sector, due to the pandemic, contributed to the acquisition of the property at an attractive price of approximately $36 million. The business plan involved converting one of the buildings from student housing to multifamily housing while upgrading the other to continue serving as student housing. This strategy was supported by the high demand for one-bedroom multifamily units in the area. After implementing the business plan, the property reached full occupancy, with rent increases of several tens of percent.

In 2024, despite broader financial market challenges, the property was successfully sold, yielding investors a return significantly higher than initially projected in the original business plan.

CLASS B MULTIFAMILY – WALDWICK STATION, NEW JERSEY

This 110-unit multifamily property, built in 2017, is situated near Waldwick Station, offering residents convenient access to the train line that connects to Penn Station in Manhattan, with a commute time of approximately one hour. The seller, who had also developed the property, focused on achieving high occupancy at the expense of rent pricing, with rents approximately 12% below the market average for similar properties.

At the end of 2024, the seller offered the property for sale after an unsuccessful attempt to sell in 2023 due to market conditions. Profimex and local investor Pearlmark acquired the property at a price significantly below the cost of building a comparable new asset, reflecting a cap rate of approximately 5.7%. The business plan includes investing in improvements to the property's appearance, enhancing management practices, introducing charges for parking and storage (which were previously not in place), raising rents to market levels, and selling the property in 4–5 years under more favorable market conditions.

The total investment of approximately $42 million places this asset in a price range that is typically outside the focus of institutional investors but within the reach of private investors, highlighting the scale characteristics of the mid-cap segment. Profimex and Pearlmark identified the potential to enhance the property's value through performance improvements, with the expectation that, once stabilized, it could be sold to buyers seeking higher-value assets.

CLASS A INDUSTRIAL DISTRIBUTION CENTER – LONG ROAD 134, SOUTH CAROLINA

This industrial project is located in Greenville, South Carolina, an area experiencing high demand for logistics centers relative to the available supply in the southeastern United States. The site is strategically located less than five minutes from I-85, a primary logistics route between Atlanta and Charlotte, connecting to two of the largest distribution markets in the country.

The planned facility spans approximately 13 acres and will offer nearly 600,000 square feet of built-up area, including buildings with 40-foot ceilings, an advanced ESFR fire suppression system, and large truck yards.

Profimex and Pearlmark purchased the land in March 2023 for $3 million, significantly below the prevailing prices of nearby parcels, providing a competitive advantage. The total project budget is approximately $48 million, with 60% financed through debt and the remaining 40% through equity. The project was completed on schedule and under budget, and the business plan involves leasing space in 2025 and targeting a sale to an institutional investor in 2026.

TRANSLATING INSIGHTS ON MID-CAP ASSETS INTO INFORMED AND SUPPORTED INVESTMENT DECISIONS

Continued focus on mid-cap opportunities provides access to transactions that may benefit from market inefficiencies, while applying rigorous and prudent risk management practices. This approach seeks to capture the potential for above-average returns, broaden portfolio diversification, and implement operational improvements, with the aim of maintaining a balanced relationship between risk and return.

Firms interested in a mid-cap approach are best supported by a diversified investment portfolio and an approach shaped by sector experience, market specialization, and structured processes. Investments are carried out in collaboration with local partners who have extensive experience in enhancing the performance of assets in this category.

In practice, this means identifying assets where local knowledge and operational expertise can be applied to demonstrate value, improve performance, and create conditions for stable, long-term investment outcomes.

ABOUT THE AUTHOR

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NOTES

[1] While some definitions of mid-cap assets refers to those assets valued at up to $100 million, this article defines mid-cap assets as those valued at approximately $20-50 million.

[2] The report evaluates the case for investment in mid-cap commercial real estate assets. It was commissioned by Profimex LTD, but the content (including analyses and opinions) presented in the report, reflects the independent opinions of Linneman Associates. The parameters in the report were set forth in the engagement proposal executed on March 6, 2024, between LA and PROFIMEX, LTD.

[3] The transaction analysis covers Profimex acquisitions in the United States between 2014 and 2025, focusing on capital transactions.

[4] Capreon is a private investment and asset management firm specializing in real estate. Capreon invests in all real estate asset classes and across the full capital structure, focusing on the UK and leading European cities. Capreon's investment approach is based on insight-driven asset selection, backed by highly experienced multi-sector asset management.

[5] Pearlmark targets value-add real estate investment strategies across the US, providing access to institutional-quality real estate through both equity and debt structures. Since 1996, Pearlmark has sponsored more than 15 real estate equity and debt investment programs and completed over 600 real estate equity and debt transactions on behalf of investors, representing $5.9 billion in equity capital commitments and approximately $14.7 billion in gross investment value.

Agile, mid-cap-focused funds that can navigate complex environments and perform detailed, deal-specific analysis are well-positioned to unlock value and, in turn, deliver strong returns for their investors.

THE LIFESTYLE RENTER

Hannah Waldman
Vice President, Investments
The Dermot Company

Financial headwinds and generational shifts are driving a growing cohort of "Lifestyle Renters" willing to pay premium rents for the neighborhoods and amenities they desire—here is how to identify where they live and what they look for.

The United States multifamily market presents compelling investment opportunities with stability and proven resiliency. While rent growth has moderated within some markets and subsectors, a long-term, generational shift is underway, driving demand for high-quality rental housing and revealing an opportunity for outsized growth in this segment.

Financial headwinds for individual home buyers have sharply worsened in recent years, and younger generations have adapted their spending and saving habits to cope with these challenges. These shifts have bolstered an increase in a specific renter cohort we identify as "Lifestyle Renters."

While these residents can afford premium rents, the cost of homeownership in their desired neighborhoods remains either out of reach or misaligned with their priorities. With soaring housing prices and prolonged, elevated mortgage rates, well-amenitized apartment communities present an attractive alternative for these renters, who seek a comfortable and convenient lifestyle. Investing in apartment communities that cater to this strengthening and expanding demographic presents an opportunity for stable, outsized growth.

DEFINING THE LIFESTYLE RENTER

The tailwind to high-quality, well-located multifamily housing is strong, driven forward by Lifestyle Renters. While factors impacting the younger generations are driving demand, this cohort is diverse and not tied to a single market segment. There are several defining characteristics of Lifestyle Renters that are key to understanding the demographic:

- **Rent/Income Ratios are Low:** These renters have strong incomes and can afford to pay above market rents in their preferred markets.
- **Ownership is Financially Out of Reach:** Although these renters have the income to support premium rents, the cost of owning a property in their preferred markets remains beyond reach or fails to align with their lifestyle priorities.
- **Desirable Neighborhoods:** Lifestyle Renters seek out specific neighborhood amenities, including good schools, access to high end retail, and an enriched cultural and community life.

These factors produce a renter base that is less price-sensitive, upwardly mobile, and resilient in downturns—a highly attractive demographic for owners.

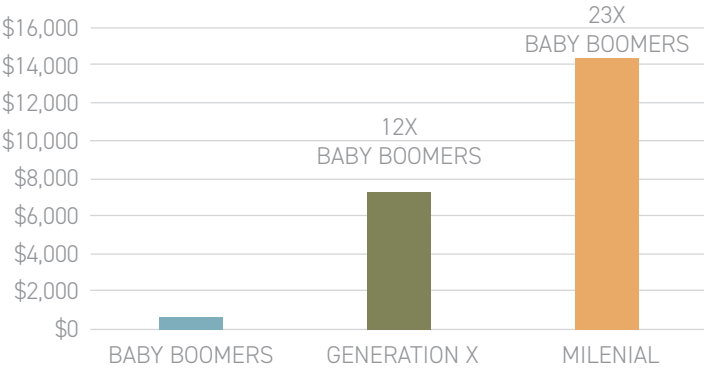
MOUNTING FINANCIAL HEADWINDS

A key contributor to the growth of Lifestyle Renters is the financial challenge of buying a home. Headwinds to homeownership have become more challenging for new market entrants in recent years, and younger generations have made behavioral changes to adapt to these challenges.

For example, Millennials were forecasted to be prepared for ownership as they've moved into the 29–44 age range, but many members of this generation still face significant financial challenges in their pursuit of homeownership. These challenges are largely driven by overwhelming debt (especially student debt), which continues to hinder their ability to save for a down payment. As recently as 2021, 36% of Millennials reported that student debt was a significant obstacle to saving for a down payment,[1] with most having entered their 30s with more than twenty times of the student debt held by Baby Boomers at that same age.[2]

As recently as 2021, 36% of Millennials reported that student debt was a significant obstacle to saving for a down payment, with most having entered their 30s with more than twenty times of the student debt held by Baby Boomers at that same age.

EXHIBIT 1: EDUCATIONAL DEBT HELD AT AGE 30



Source: Federal Reserve Bank of St. Louis

EXHIBIT 2: 30-YEAR FIXED RATE MORTGAGE: 2009–2024

Source: Freddie Mac

At the same time, higher interest rates have created "stickier" owners, leading to a lack of available home inventory available to the group that would otherwise be able to afford a down payment. For every percentage point that market mortgage rates exceed the origination interest rate, the probability of sale is decreased by 18.1%. This mortgage rate lock-in led to a 45% reduction in home sales with fixed-rate mortgages in Q2 2024 and prevented 1.72 million sales between Q2 2022 and Q2 2024. A study by the FHFA found that this lock-in related supply reduction resulted in a 7% increase in home prices, which was only partially offset by the decrease caused by higher mortgage rates.[3]

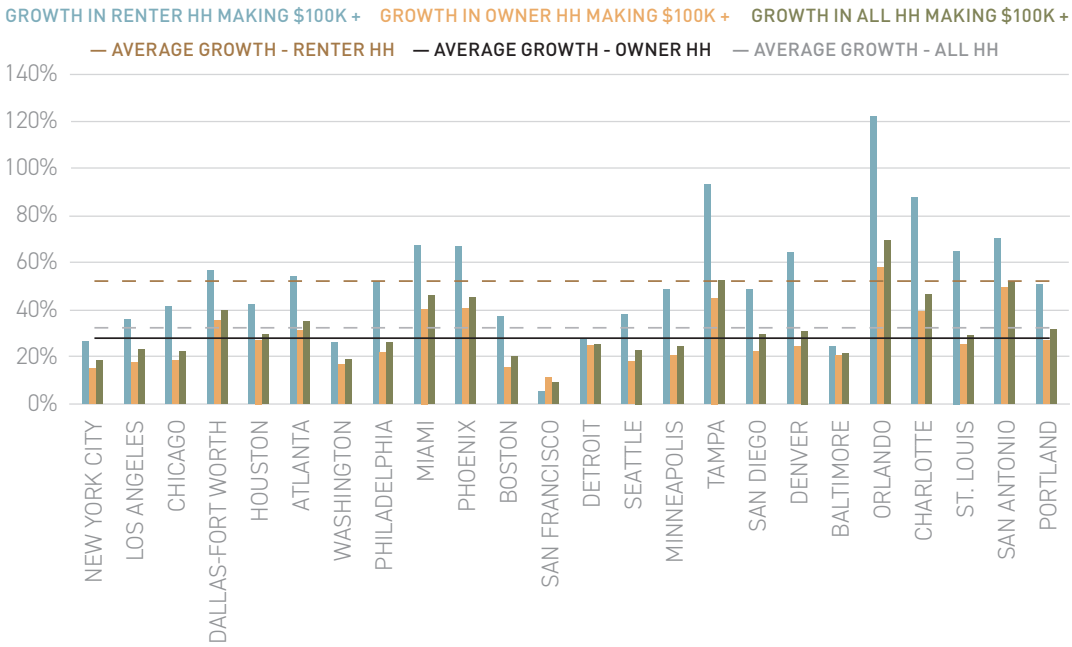
In tandem with for-sale inventory drying up and rising in price, the overall cost of homeownership has also risen sharply. Thirty-year mortgage rates jumped from an all-time low of 2.66% in early 2021 to 6.74% in July 2025, significantly increasing monthly payments on homes that are already far pricier than they were in 2020.[4] Average annual maintenance costs on single-family homes also rose 8% from 2022 to 2023, while insurance premiums and property taxes also climbed on the back of natural disaster losses and higher home valuations.[5]

This confluence of factors has made saving for a home, buying a home, and related maintenance costs increasingly difficult for a large group of Americans. As home ownership has moved further out of reach, many Americans are adjusting their priorities. First-time buyers were a median age of 38 in 2024—up significantly from 31 in 2013 and 29 in 1981.[6] In the meantime, younger cohorts are channeling savings into the markets early and spending on travel, everyday luxuries such as streaming subscriptions, boutique fitness, and frequent dining out, and finally, upscale apartments that offer convenience and community.

A GROWING & IMPROVING MARKET SEGMENT

As financial headwinds have delayed major milestones and pushed homeownership further out of reach, forcing a redefinition of the "American Dream" that doesn't include homeownership, the population of Lifestyle Renters has grown in kind. The demographics of the US renter pool have improved at a faster pace than the general population. From 2019 to 2023, renter households making more than $100K grew by an average of 52% across the largest US markets, compared to 32% growth for the overall population. This pattern exists across smaller MSAs as well. Renter households making $100K+ now make up an average of 27% of the renter population, compared to 19% in 2019.[7]

EXHIBIT 3: GROWTH IN HOUSEHOLDS MAKING $100K+, 2019–2023



Source: US Census Bureau, ACS 1 Year S2503 Data

From 2019 to 2023, renter households making more than $100K grew by an average of 52% across the largest US markets, compared to 32% growth for the overall population.

INVESTING IN LIFESTYLE RENTER COMMUNITIES

The momentum behind Lifestyle Renters creates a compelling thesis to invest in markets and assets catering to them specifically.

Identifying where Lifestyle Renters live and what they value requires more than broad market data and requires insight into submarket and neighborhood-level information. For example, to track Lifestyle Renter markets, The Dermot Company has developed a proprietary platform—Dermot Acquisition Intelligence—that integrates demographic, economic, and housing data to identify locations where Lifestyle Renters are both concentrated and underserved. This is achieved through generating a custom set of metrics, including several unavailable in other databases, and using various levels of analysis, to generate a physical and financial snapshot of potential Lifestyle Renter-suited properties—ultimately informing investors on where and how to deploy their multifamily capital.

Key investment criteria include a set of guiding questions used to evaluate markets, submarkets, and neighborhoods where Lifestyle Renters are most likely to live, such as:

1. Where is the renter base sizable, and what income bands dominate?
2. How much rent do high-income households pay—and what headroom remains?
3. Do local amenities align with lifestyle renter preferences?
4. Does renting still make economic sense versus ownership?
5. Are upcoming deliveries a potential headwind to rent growth?

By layering these questions with location-specific data, investors can isolate highly specific locations where demand from Lifestyle Renters is expected to be both strong and sustainable.

This framework has shaped Dermot's investment strategy across a range of markets. At Quaye at Wellington in South Florida, the Acquisition Intelligence tool helped identify a high-income, highly desirable submarket well-suited to family-oriented Lifestyle Renters. In dense urban settings like Manhattan's Financial District, it supported acquisitions like 20 Exchange, where affordability gaps to ownership remain wide and access to relevant lifestyle amenities continues to attract high-income renters.

The same methodology is now being used to take a closer look at Lifestyle Renters across Dermot's markets up and down the East Coast, including New York City, where high-earning households consistently choose high-quality rental housing. The following case study explores a selection of these tailored metrics, and what it reveals about the demand from this cohort across the city.

LIFESTYLE RENTERS BY THE NUMBERS: A MARKET CASE STUDY

The cost of living in New York City is famously high, but, in certain pockets of Manhattan and Brooklyn, the cost of higher-end rents in Lifestyle Renter-approved neighborhoods is very much within reach for the demographic. Investors can focus in on these pockets through higher-income-renter-specific income data and choice desirability data.

As shown in *Exhibit 4*, as opposed to looking at population level data, looking at median renter household income data provides a more targeted snapshot of where wealthier renters are located.[8]

Still, household incomes alone don't tell the full story. Examining rent-to-income ratios specific to Lifestyle Renters reveals where high earners live at relatively low cost. This highlights micro markets with strong potential for outsized rent growth. *Exhibit 5* shows ten neighborhoods with the lowest rent/income ratios, with rent being defined as class A/B average rents, and income as third-quartile renter household incomes, creating a proxy for the target renter demographic.

EXHIBIT 4: EIGHT CENSUS TRACTS WITH HH RENTER INCOMES AT $250K+

CENSUS TRACT	CENSUS TRACTS WITH HH RENTERINCOMES AT $250K+:
1400000US36047002100	Dumbo, Brooklyn
1400000US36061002100	Tribeca, Manhattan
1400000US36061003300	Tribeca, Manhattan
1400000US36061009901	West Chelsea, Manhattan
1400000US36061011401	Upper East Side (59th-63rd St, 5th Ave-Park Ave), Manhattan
1400000US36061013601	Upper East Side (79th-84th St, East End Ave), Manhattan
1400000US36061031703	Battery Park City, Manhattan
1400000US36061012602	Upper East Side (69th-74th St, 2nd - 3rd Ave), Manhattan

Source: US Census Bureau, ACS 5-Year Data for 2023

EXHIBIT 5: 10 NEW YORK CITY NEIGHBORHOODS WITH THE LOWEST RENT/INCOME RATIOS

PUMA	THIRD QUARTILE RENTER HOUSEHOLD INCOME	AVG. CLASS A/B RENT	RENT/ INCOME RATIO
Brooklyn Community District 6—Park Slope & Carroll Gardens	$220,738	$2,813	15%
Manhattan Community District 8—Upper East Side & Roosevelt Island	$220,000	$3,200	17%
Brooklyn Community District 2—Downtown Brooklyn & Fort Greene	$221,818	$3,100	17%
Queens Community District 6—Forest Hills & Rego Park	$140,371	$1,978	17%
Brooklyn Community District 10—Bay Ridge & Dyker Heights	$118,241	$1,800	18%
Manhattan Community Districts 1 & 2—Financial District & Greenwich Village	$300,000	$4,119	16%
Manhattan Community Districts 5 & 6—Midtown, East Midtown, & Flatiron	$230,362	$3,635	19%
Queens Community District 1—Astoria & Queensbridge	$143,053	$2,242	19%
Queens Community District 5—Ridgewood, Maspeth, & Middle Village	$125,000	$1,913	18%
Queens Community District 8—Fresh Meadows, Hillcrest, & Briarwood	$121,009	$1,770	18%

Source: IPUMS 5 Year ACS data; CoStar

Lifestyle Renters don't live in a location for the rent alone, they also look for conveniences, neighborhood amenities, and cultural draws. Properties zoned for highly ranked elementary schools, within a ten-minute walk to a Whole Foods, and with farmers markets and craft coffee shops around the corner are the most ideal. Areas that lack walkability, greenspace, and a robust restaurant scene are more likely to fall short for the demographic. Property-specific metrics to quantify the presence of these amenities are available through third-party providers such as Walkscore, Greatschools, and Google Maps. The neighborhoods shown in *Exhibits 4* and *5* align well with these desired factors.

These results might state the obvious to anyone who lives in New York City, but to investors less familiar with the market it allows for an objective, data-driven thesis around a location.

SHIFTING PRIORITIES

Economic trends and shifting generational priorities are creating a strong window of opportunity to serve Lifestyle Renters through investments in high-quality rental housing. Rising housing prices and prolonged high mortgage rates have pushed homeownership out of reach for many high-income individuals, even those who could traditionally afford to buy. At the same time, younger generations are redefining the American Dream, prioritizing experiences and flexibility over homeownership and choosing rental communities that offer upscale amenities and vibrant, desirable neighborhoods.

Taking a data-driven approach through custom-built metrics helps locate target renters quickly and with accuracy, allowing investors to move with conviction to capture long-term housing trends.

ABOUT THE AUTHOR

Hannah Waldman is Vice President of Investments for the Dermot Company.

NOTES

[1] Legal & General US Housing Study, "US Millennials and Home Ownership - A Distant Dream for Most: Part 5" (2021)

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[3] Batzer, Ross M.; Coste, Jonah R.; Doerner, William M.; Seiler, Michael J., "The Lock-In Effect of Rising Mortgage Rates," Federal Housing Finance Agency (August 2024)

[4] Freddie Mac, "Current Mortgage Rates Data Since 1971," (July 24, 2025)

[5] Erb, Jack, "Annual Home Maintenance Costs Continue to Rise, Reaching New High of $6,663 Amidst Tight Housing Market," Thumbtack (January 29, 2024)

[6] National Association of REALTORS®, "Profile of Home Buyers and Sellers," (November 4, 2024)

[7] US Census Bureau

[8] US Census Bureau, American Community Survey 5-Year Data 2023, "B25119 - Median Household Income in the Past 12 Months (in 2023 Inflation-Adjusted Dollars) by Tenure," (December 12, 2024); US Census Bureau, American Community Survey 5-Year Data 2023, IPUMS, (December 12, 2024);

THE CLIMATE IS SPEAKING

Ines Diez
Head of Sustainability
Stoneweg

Thomas Stanchak
Managing Director of Sustainability
Stoneweg US

Climate change has arrived. It's influencing how real estate investment assets perform on the market today. It's now being priced into insurance premiums, loan terms, and investment models, forcing a redefinition of how we evaluate risk and opportunity across the real estate lifecycle.[1]

In this new environment, being a steward of real estate capital means embedding climate change into every investment decision by becoming climate fluent, from underwriting and acquisition to operations and exit strategy.

Climate fluency is mindset grounded in resilience and adaptability, not only to mitigate risk, but to unlock new forms of value that turns our climate reality into an asset strategy. For asset managers, that means incorporating resilience and adaption strategies into how we underwrite, choose, operate, and plan for the future. Put simply, becoming fluent in climate means reading, understanding and acting on well-known emerging risks and opportunities, building resilience with confidence, and allocating capital for performance.

Climate change is reshaping real estate, making climate fluency essential for investors. Resilience and adaptability are now core competencies, guiding decisions from underwriting to operations and positioning assets for long-term value in a changing world.

OPERATIONALIZING RESILIENCE AND ADAPTABILITY

Resilience and adaptability are central concepts for real estate asset managers when addressing climate change. They form the foundation for both investment decisions and strategic planning.

Resilience is about readiness. This means being prepared today and requires acknowledging what we can already see around us and ensuring assets are prepared to withstand what has and will continue to change. It must be defined, measured, and translated into building-level decisions.

Take extreme heat as one practical example. It's a clear and measurable signal. If a geography is experiencing more frequent and intense heat, and is projected to continue doing so, we need to incorporate that trend into asset-level underwriting and capital plans.

Choosing reflective roof coatings during a routine roof replacement, for instance, reduces a building's internal heat gain, lowers HVAC loads, and extends the roof system's lifespan. Improvements like this are operationally beneficial and bankable. At refinancing or sale, a documented upgrade like a cool roof differentiates a property in a market where heat resilience is increasingly scrutinized.

Incorporating such measures into standard scopes reduces the risk of these items becoming negotiation points or deal-breakers at disposition.

Adaptability is about evolution. It means moving beyond acknowledging climate risks to actively implementing strategies that both mitigate those risks and capitalize on opportunities presented by climate change.

In regions facing increasing water stress and rising utility costs, for example, adaptability might mean planning to invest in water conservation, leak mitigation technology and drought-tolerant landscaping ahead of price volatility and regulatory mandates.

This approach positions a property to stay ahead of compliance and manage costs more effectively through active engagement in building efficiency. This allows managers to shift from reactive to proactive. It begins by simply measuring to understand building environmental performance. With that data in hand, projected climate change impacts can be translated into operational cost controls and value growth. It's planning to adapt to what is known today, to meet the need in the future.

Resilience anchors performance in the present, while adaptability sustains momentum into the future. Together, they translate climate awareness into practical, investable action.

THE US ASSET MANAGER'S APPROACH TO CLIMATE FLUENCY

For US real estate investors, developing climate fluency is essential. It underpins performance evaluation, guides expectations, and reveals which managers are prepared to steward capital in an era of change.

Engaging meaningfully on climate with US asset managers involves examining how they monitor and adapt to local regulatory shifts. Given the highly fragmented US landscape, climate-fluent managers should maintain systems for tracking evolving local, state, and federal energy and emissions policies and for integrating these changes into capital planning and risk assessments.

Forward-looking financial modeling is another marker of climate fluency. This includes incorporating projected weather extremes, rising insurance costs, and decarbonization targets into asset-level modeling. Static proformas should be replaced by climate-adjusted scenarios that reflect assumptions about building performance over time.

Measurable environmental performance data forms the foundation of climate-informed decision-making. Benchmarking results, utility trends, and emissions inventories serve as evidence of operational performance improvements and effective risk management.

Integration of climate risk into underwriting and disposition strategy is equally critical. Asset managers should embed sustainability considerations into investment decisions, including capital expenditures, renovation scopes, and positioning for future buyers whose priorities are likely to be increasingly climate-focused.

Acquisition, refinance, and sale are equally critical moments for climate risk assessment, as each represents a capital market exposure event—what differs is who leads the process and the nature of the decision outcome.

Climate fluency is about investing in assets and teams that are ready to adapt, evolve, and lead. It requires data integration, forward-looking scenario planning, and intentional alignment between capital planning and projected climate realities.

A climate-fluent investor doesn't stop at emissions disclosures or certification labels. They ask for:

- Scenario modeling under different climate futures, to see how asset performance and valuation may shift in best-case or worst-case projections.
- Integration of transition risks, such as carbon pricing, grid decarbonization, or code changes that impact retrofit costs.
- Evidence of long-term decarbonization strategies, not just one-time upgrades, but portfolio-wide plans to align with net-zero pathways.

With the arrival of climate change, climate fluency has become a core investment competency. The responses provided by asset managers when climate topics are raised reveal whether they meet the new definition of stewardship shaped by a changing climate.

THE EUROPEAN ASSET MANAGER'S PERSPECTIVE: FROM REGULATION TO RESILIENCE

When it comes to our diverse portfolio across Europe, we have witnessed firsthand how the convergence of climate volatility, inflationary pressures, and regulatory requirements are reshaping the real estate investment landscape. What was once considered "non-financial" risk is now central to underwriting, asset performance, and the long-term value creation.

Today, climate fluency is no longer a niche skill, it is a strategic need. The ability to interpret climate signals, anticipate regulatory shifts, and translate environmental data into actionable investment decisions (such as, for example, correctly evaluating the obsolescence risk, performing an informed valuation of portfolios etc.) is becoming a defining edge in a market that rewards foresight and resilience.

The real estate sector is particularly exposed to climate change globally, and Europe is no exception. Weather extremes (such as floods, heatwaves, wildfires) which are no longer rare events in Europe, but recurring stress tests on asset durability, tenant well-being, and operational continuity.

Just storms and floods alone, are estimated to have caused at least €18 billion in damages across Europe in 2024.[2] When looking at the wider picture, estimates show that, between 1980 and 2023, weather- and climate-related events have caused over €790 billion in economic losses across the EEA-38 region, underscoring the profound and escalating financial toll of climate change on Europe's economy.[3]

When looking at the wider picture, estimates show that, between 1980 and 2023, weather- and climate-related events have caused over €790 billion in economic losses across the EEA-38 region, underscoring the profound and escalating financial toll of climate change on Europe's economy.

European authorities have acknowledged the growing impact of climate change, prompting a continuous evolution of regulatory frameworks aimed at enhancing resilience, transparency, and sustainability.

In the European Union, new climate-related disclosure requirements such as the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD), or the EU Taxonomy are reshaping reporting and sustainability obligations. These are complemented by updated real estate regulations, such as the energy performance standards linked to the revised Energy Performance of Buildings Directive (EPBD), as well as emerging frameworks addressing transition risk. For cross-border investors, this growing complexity demands both agility and a deep and market-specific insight.

In this context, our approach is evolving. We are embedding climate-adjusted performance metrics into our investment models, not as a compliance exercise, but as a core input to value and risk.

Technology is a key enabler. We leverage data platforms and benchmarking tools to identify value-at-risk across our portfolio, flagging assets with high exposure to physical or transition risks. This data-driven approach helps us target high-ROI interventions, whether it is retrofitting for energy efficiency, enhancing flood defenses, water use, and/or improving climate resilience.

For example, in a residential and flexible living development in Southern Europe, we prioritized an environmental strategy that addressed both rising cooling demand and stakeholder expectations for low-carbon living assets. The decision was guided by regional climate forecasts, anticipated regulatory tightening, and the need to mitigate obsolescence risks. As a result, the development plan prioritized achieving EPC ratings of A or B and securing green building certifications for all assets, while preserving affordability and tenant appeal.

In another case, a logistics and light industrial portfolio in Central Europe underwent a strategic capital reallocation. By integrating on-site solar energy systems, we improved energy resilience and enhanced the portfolio's green premium potential.

But perhaps most importantly, we are shifting the mindset around underwriting.

Sustainability is no longer a post-acquisition consideration or a line item in reports. It is embedded in our process from the pre-investment perspective too. What we ask is how this asset will perform not just in today's market, but in a future shaped by strengthening sustainability-related regulatory requirements, unexpected climate events, and evolving tenant expectations.

REDEFINING STEWARDSHIP IN A CLIMATE-CONSTRAINED WORLD

As we look to the future, the decisions we make today, how we underwrite, prioritize, and plan, will shape tomorrow's returns and reputation. As stewards of long-term capital, we have a responsibility to ensure that our portfolios are not only compliant, but competitive in a climate-constrained world.

In a future that is always listening, the ability to "speak climate" fluently (through data, strategy, and execution), will define the next generation of real estate investment excellence. Climate fluency is not only about risk mitigation, it's about unlocking new value, building resilience, and positioning portfolios for long-term success in a rapidly changing world.

Adaptability and resilience are emerging as critical differentiators across markets, from the regulatory-driven landscape of Europe to the increasingly climate-aware investment environment in the United States. Embedding these principles into portfolio strategy ensures that assets remain future-proof, responsive to evolving stakeholder expectations, and capable of thriving amid uncertainty.

Adaptability and resilience are emerging as critical differentiators across markets.

TERMINOLOGY BOX: KEY EU SUSTAINABILITY REGULATIONS

SFDR: Sustainable Finance Disclosure Regulation: Aims to enhance transparency in the sustainable investment market. It requires financial market participants and advisers to disclose how they integrate sustainability risks into their investment decisions, assess the potential adverse impacts of their investments on environmental and social factors, and communicate the sustainability characteristics or objectives of their financial products.
(Regulation (EU) 2019/2088)

CSRD: Corporate Sustainability Reporting Directive: Strengthens and expands sustainability reporting requirements for companies, requiring them to disclose how sustainability issues affect their business and how their operations impact people and the environment.
(Directive (EU) 2022/2464)

EPBD: Energy Performance of Buildings Directive: Aims to improve energy efficiency in buildings and support the EU's goal of achieving a zero-emission building stock by 2050. It sets requirements for new and existing buildings, renovation strategies, and national building plans.
(Directive (EU) 2024/1275)

EU Taxonomy Regulation: Establishes a classification system for environmentally sustainable economic activities, helping investors identify which activities contribute substantially to environmental objectives.
(Regulation (EU) 2020/852)

ABOUT THE AUTHORS

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NOTES

[1] Moody's CRE, "CRE Insurance Gobbles Revenue," *Moody's Commercial Real Estate,* July 17, 2024, https://www.moodyscre.com/insights/market-insights/cre-insurance-gobbles-revenue/#:~:text=Since%20around%202018%2C%20property%20insurance,waive%20requirements%20for%20minimum%20coverage; Bryan Reid and Jascha Lehmann, "Five Misconceptions About Climate Change Risk in Real Estate," *MSCI Research & Insights* (blog), February 25, 2022, https://www.msci.com/research-and-insights/blog-post/five misconceptions about climate change risk in real estate

[2] Copernicus Climate Change Service (C3S) and World Meteorological Organization (WMO), *European State of the Climate 2024* (Geneva: WMO, 2025), https://climate.copernicus.eu/esotc/2024, doi:10.24381/14j9 s541.

[3] European Environment Agency, *Economic Losses from Climate Related Extremes in Europe* (indicator report; updated April 24, 2025), accessed via the EEA "Economic losses from climate related extremes in Europe" data series, https://www.eea.europa.eu/en/analysis/publications/economic losses from climate extremes.

Climate fluency is not only about risk mitigation, it's about unlocking new value, building resilience, and positioning portfolios for long-term success in a rapidly changing world.

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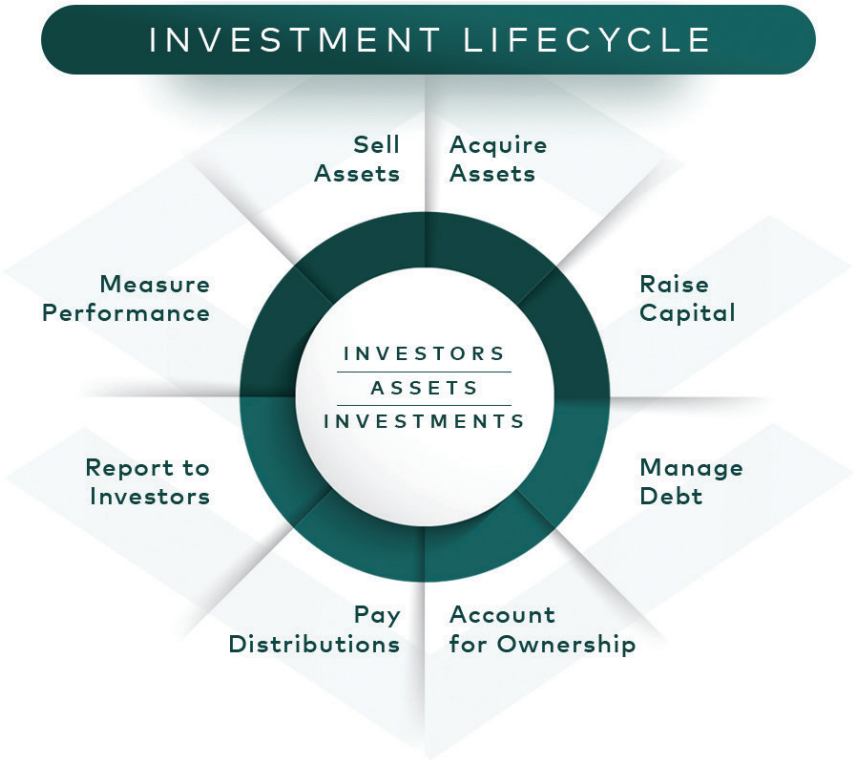

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