MARKET FORECAST

Soft landings & hard truths: A forecast for 2025

Economists are weighing the outlook for 2025 amid shifting interest rates, evolving inflation targets, and changing labor market conditions. From the probability of a soft landing to concerns over potential black swan events, there's a range of feasible scenarios for the coming year, and only time will tell. In a recent episode of the Brinkman Report, I welcomed Denver-based attorney Russell Hedman and entrepreneur Sasha Stern, and we discussed how these evolving economic conditions could impact the real estate sector. Drawing on our unique perspectives, we identified the many factors at play and explored different ways of interpreting them as we forecast the coming year.

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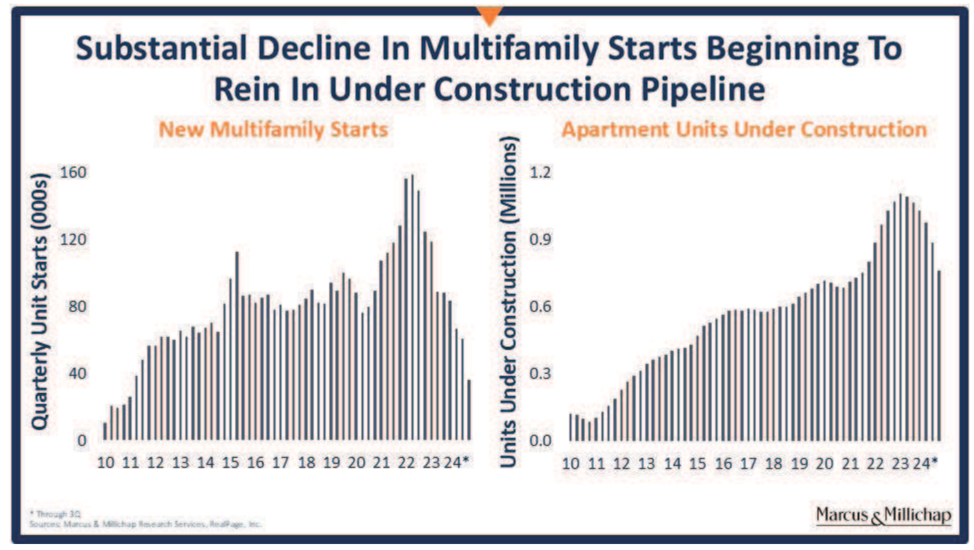
■ **Interest rate and GDP outlook.** My guests had differing perspectives on the direction of the 10-year Treasury yield by late 2025, and that seems in line with general market sentiment. One side argued that the 10-year Treasury yield could fall below 4% by 2025, mainly because staying above that level would put too much pressure on the economy (especially real estate markets) and force policymakers to step in with relief measures. This softer labor market could encourage multiple Federal Reserve rate cuts, or even quantitative easing, if gross domestic product growth remained strong but employment growth weakened, ultimately keeping inflation near current levels. On the other side, there's caution that persistent inflation could compel the central bank to hold the overnight rate steady, resulting in no cuts this year. Sustained inflation pressures and potential labor market constraints – especially in areas impacted by immigration policies and tariffs – might keep rate reductions off the table.

■ **Real estate implications.** A host of macroeconomic variables could ripple through the real estate market this year. Higher interest rates have already sidelined a lot of commercial deals, while ongoing uncertainty about future interest rates has deterred aggressive acquisitions. If the Federal Reserve initiates even modest rate cuts this year, we may see an increase in new development, but overall cost issues could offset these benefits. High tariffs on imported materials, alongside tighter immigration policies, could inflate construction labor costs and limit new construction starts even further.

Secondary and tertiary markets, which benefited from strong in-migration trends during and after the pandemic, have managed to absorb much of the new supply more readily. These regions continue to see healthy demand for multifamily properties, partly mitigating any negative impact from the historical highs of new product deliveries. In contrast, high-density urban areas are still completing projects approved several years ago and taking longer to deliver because of the size and scope of the projects. These areas expect a sharp drop in starts for at least the next two years as financing challenges and cost pressures persist.



Sources: Marcus & Millichap Research Services, RealPage Inc.

This tapering of new supply, coupled with robust demand, will start to drive rents higher once again, which in turn is reigniting investor interest. With transactional activity slower in recent years, a significant amount of capital sits on the sidelines, poised to return to the market as soon as conditions stabilize. Despite the near-term hurdles of elevated rates and building costs, core fundamentals – such as solid population growth and pent-up capital – provide a supportive backdrop. As liquidity conditions and capital flows become more predictable, the constrained pipeline will likely keep rental rates and property valuations on an upward trajectory, suggesting a recalibration that could offer more stability than the market has seen in several years.

■ **Potential black swan.** While most projections revolve around moderate growth scenarios, we've seen in the last few years that we're not immune from unpredictable factors that could disrupt the economy. A "black swan" event, by definition, refers to an extremely rare and unpredictable occurrence that carries a severe impact. Moving into 2025, one such event could unfold in the insurance sector. Significant insurance market failures triggered by catastrophic events – such as wildfires or hurricanes – could prompt large carriers to exit

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those markets. This could increase property ownership costs and shrink mortgage availability, thereby having a significant impact on the real estate market.

■ **Geopolitical environment.** Ongoing conflicts abroad and the possibility of new unrest in other regions could have significant economic impacts. We may have seen temporary gains from supply disruptions in foreign markets in recent years, but a major escalation could reshape global investment flows and encourage a shift toward safer assets, dampening capital available for real estate.

■ **Shifting labor dynamics and AI.** Opinions vary widely in the market on the potential for artificial intelligence to rapidly transform employment, specifically white-collar jobs. Some experts predict AI-driven efficiencies could soon displace many corporate roles, keeping inflation in check by slowing wage growth. Others, however, argue that AI might serve more as a tool than a total replacement, especially in fields requiring negotiation and oversight.

Regarding real estate, greater AI adoption could streamline development and property management, though a shrinkage in office-based employment may eventually reduce demand for commercial space. A downturn in office occupancy could lower downtown property values, while fueling growth in suburban or home-based alternatives.

■ **Looking ahead.** Although it might be anybody's guess at this early point in the year, my predictions for 2025 include GDP growth above 3%, inflation closing in on the Fed's target of 2% and the 10-year Treasury in the 4% to 4.5% range. For real estate stakeholders, the key takeaway is to stay vigilant about changing construction costs, labor availability, and the interplay between monetary policy and market confidence. With interest rates, global tensions and potential black swans all in the mix, I'm still cautiously optimistic for the real estate industry in 2025 and beyond. ▲

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stay on track. In property management, accountability can come from mentors, team collaboration or performance metrics.

Action tip: Develop a strong support system and hold yourself accountable to your goals. Seek mentorship and feedback along the way.

■ **Striving for greatness in every area of life.** Whether I'm pursuing a pro card in bodybuilding or working to create thriving multifamily communities, the principles remain the same: Set ambitious goals, develop a structured plan, stay consistent and compete only against yourself. Excellence in one area of life often fuels greatness in another.

My dual journey has taught me that personal and professional success are deeply intertwined. The discipline I cultivate in the gym strengthens my work ethic as a property manager. The leadership skills I develop at work empower me to be a better competitor on stage.

As I enter my third prep, I'm reminded that greatness is not a destination – it's a daily commitment. Whether you're leading a team or pushing through that final set in the gym, the goal is the same: Become the best version of yourself.

Final thought: What greatness are you striving for? Set bold goals, stay consistent and remember: It's you against you. ▲

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be nuanced. If funding for affordable housing is in the mix, it can easily become a fog of rules and regulations that might appear to provide conflicting requirements. A robust internal quality assurance/quality control program is an excellent method for ensuring accessibility requirements are captured as the design progresses.

Knowing the code is a good first steps, but providing a little wiggle room for the construction process can go a long way toward setting the construction phase up for success. A field dimension falling even a quarter inch short may be an issue with a jurisdiction or third-party inspector. Building in a little extra space under cabinets where knee and toe clearances are required or knowing that refrigerators might need a little extra breathing room to allow for utility connections, when placed at an entry, can seem like trivial details, but can prove crucial during construction.

Even with generous and conscientious planning, occasionally projects experience construction headaches. Having a design partner on hand that can make modifications work with what is installed can be the difference between major rework and minor modifications. A firm knowledge of the local, state and federal requirements is important, but willingness to collaborate with the owners and contractors is critical to coping with construction phase snags. Building a design partnership that generates practical solutions to minimize rework and fosters collaboration with the construction team is key. Realizing the vision of a space that is accessible to a wide audience of people makes the technicalities worth it. ▲

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vidualized spaces, such as meeting pods, prioritizing resident comfort through soundproofing.

- *Innovative designs:* Incorporate touchless technologies for hygiene.

■ **Personalization in interior design.** Personalization is crucial for creating meaningful living environments that empower residents to reflect their individuality.

- *Customizable finishes and layouts:* Offer a diverse array of finishes and layouts for personalization.
- *Modular furniture solutions:* Provide modular furniture options that adapt to changing needs.

■ **Affordable housing and design solutions.** Innovative design is essential for addressing affordable housing challenges.

- *Space optimization:* Use smart design principles to maximize functional living areas.
- *Innovative financing models:* Collaborate with local governments to subsidize costs without sacrificing design quality.

■ **Adaptive reuse of existing structures.** Adaptive reuse focuses on preserving history while transforming older buildings into modern living spaces.

- *Historical assessments:* Conduct evaluations of historical structures to identify opportunities for adaptive reuse.
- *Harmonious design integration:* Ensure new constructions complement existing structures.

■ **The role of technology in design processes.** Technological advancements, especially in virtual and augmented reality, are transforming design.

- *Enhanced visualization tools:* Use VR and AR for stakeholders to explore design options before construction.
- *Data-driven design:* Employ data analytics to inform design decisions based on resident behaviors.

■ **Conclusion.** Embracing these trends places multifamily design at the forefront of functionality, aesthetics and community values. By prioritizing innovation, sustainability and inclusivity, we aim to create environments that support resident growth and strengthen community spirit, contributing to vibrant neighborhoods that feel like home. ▲

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officials may offer insights or suggestions that can enhance the project's feasibility and compliance. This cooperation can also facilitate a smoother and quicker approval process, significantly reducing the time and resources spent on navigating complex bureaucratic requirements.

■ **Is it worth it?** On the plus side, converting offices into residential spaces can lower construction costs by using the existing infrastructure and could take advantage of tax breaks and faster approval processes. This requires the right building and an experienced team that can work together to tackle the many challenges presented. Not every building is a good candidate, and many will cost more to convert than building new. The few that do work for conversion can achieve successful value added and speed to market unmatched by new construction.▲

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for property managers and owners to be aware of the types of programs available to ease the renovation process, and which contractors and vendors utilize these technologies. By partnering with service providers who prioritize the use of digital solutions, they can foster better communication between property managers, stakeholders and service providers, ensuring that everyone is on the same page. These systems provide the insight needed to adjust schedules, budgets or resources to avoid costly downtime. Ultimately, digital solutions can deliver an unprecedented level of control, visibility and efficiency, enabling a smoother renovation process for everyone involved. ▲

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that there are few capital energy improvements that offer such a holistic range of benefits.

■ **Increased property value.** In addition to utility savings from solar, some utilities will purchase the renewable energy credits generated by your system. For example, a 200-kW system on a 30,000-square-foot flat roof in Xcel Energy territory will generate approximately $11,000 in annual income for 20 years. This income directly increases your property's net operating income.

■ **To sum it up.** On-site commercial solar electricity is cheaper than traditional, utility-based electricity over time. As utility rates continue to rise, so does the value of your solar system's energy, and these savings free up capital to fund core business initiatives or investments. For those seeking to achieve environmental, social and governance goals or mandates, solar brings impressive and quantifiable environmental benefits to the table. It also increases the marketability of your property, giving you an edge in today's hyper-competitive market, all while generating an attractive return on investment. ▲

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