

5 Commercial Real Estate Sectors Ranked by Investors

1Q 2025

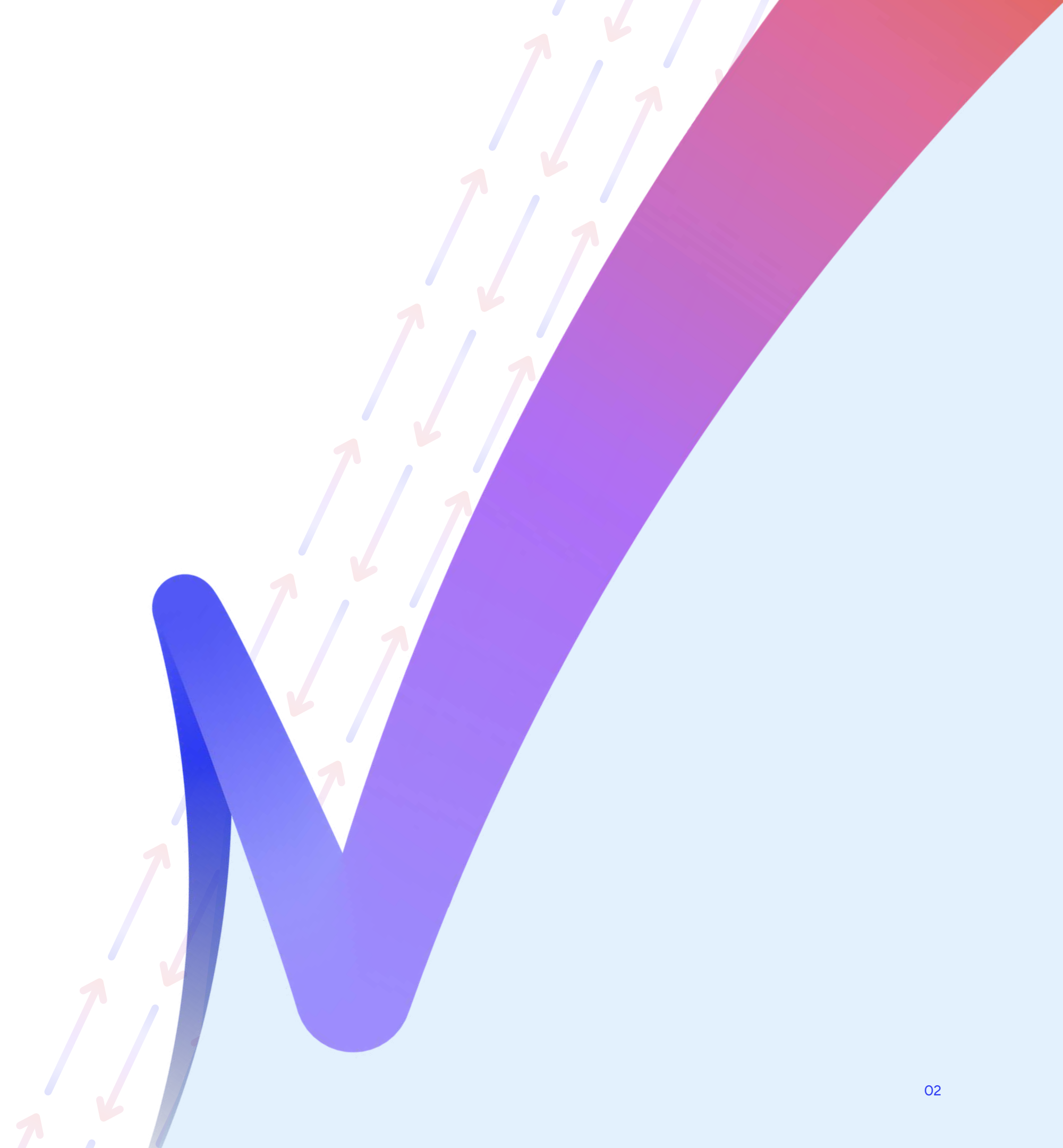
SLIDESHOW



INTRODUCTION

Optimism about apartments surged as investors sought safe haven amid U.S. policy turmoil, while preference for industrial waned as rent growth remained subdued. That's according to SitusAMC's latest quarterly survey, which asks institutional and regional investors what they believe will be the best-performing property sectors over the next year, and which should be avoided.

Click through to see the latest expectations for office, apartment, industrial, retail and hotel properties in the year ahead, and trends driving investor interest. All figures refer to first quarter 2025 activity, and comparisons are quarter over quarter (QoQ) unless otherwise noted. To learn more about SitusAMC research and data offerings, [CLICK HERE](#).



1 A P A R T M E N T

Investor preference for apartments soared 38 percentage points to 71%, the highest since at least 2011, when SitusAMC began collecting these data. The boost propelled the property type to a first-place ranking from second place.

Apartment has seen four consecutive quarters of positive returns and, at 1.3%, they were the highest in almost three years, according to NCREIF's NPI Classic. Capital returns continued to gain momentum, resulting in the strongest appreciation since the third quarter of 2022. Income returns grew slightly. The one-year trailing return was 3.8%, the highest since the end of 2022.



#1 APARTMENT

FUNDAMENTALS

- The apartment occupancy rate was unchanged, remaining at the lowest level since 2010, according to Reis. Apartments rents grew by just 0.1%. Net absorption, while positive, came in at the lowest level in more than a year. Completions continued to taper off, standing at the lowest level since 2015 and well below their long-term average -- a hopeful sign for future rent growth.
- Gen Z now makes up 47% of recent renters, who are looking for apartments that offer high-end amenities and well-designed living spaces that can meet their mental, emotional and physical needs, according to The Wall Street Journal. Gen Z is seeking places that foster a sense of community through meetups, classes and social gatherings. They want rentals that provide amenities such as pools, coworking spaces, gyms and pet salons -- anything to make their lives streamlined and efficient. Gen Z also has an eye for aesthetics, preferring Instagram-worthy interior design and natural light. However, 52% of Gen Z households are rent burdened, according to Zillow, spending 30% or more of their income on rent.



1Q 2025 APARTMENT STATISTICS

NPI Total Return

+1.3%
(up 10 bps QoQ)

Occupancy Change

0 bps

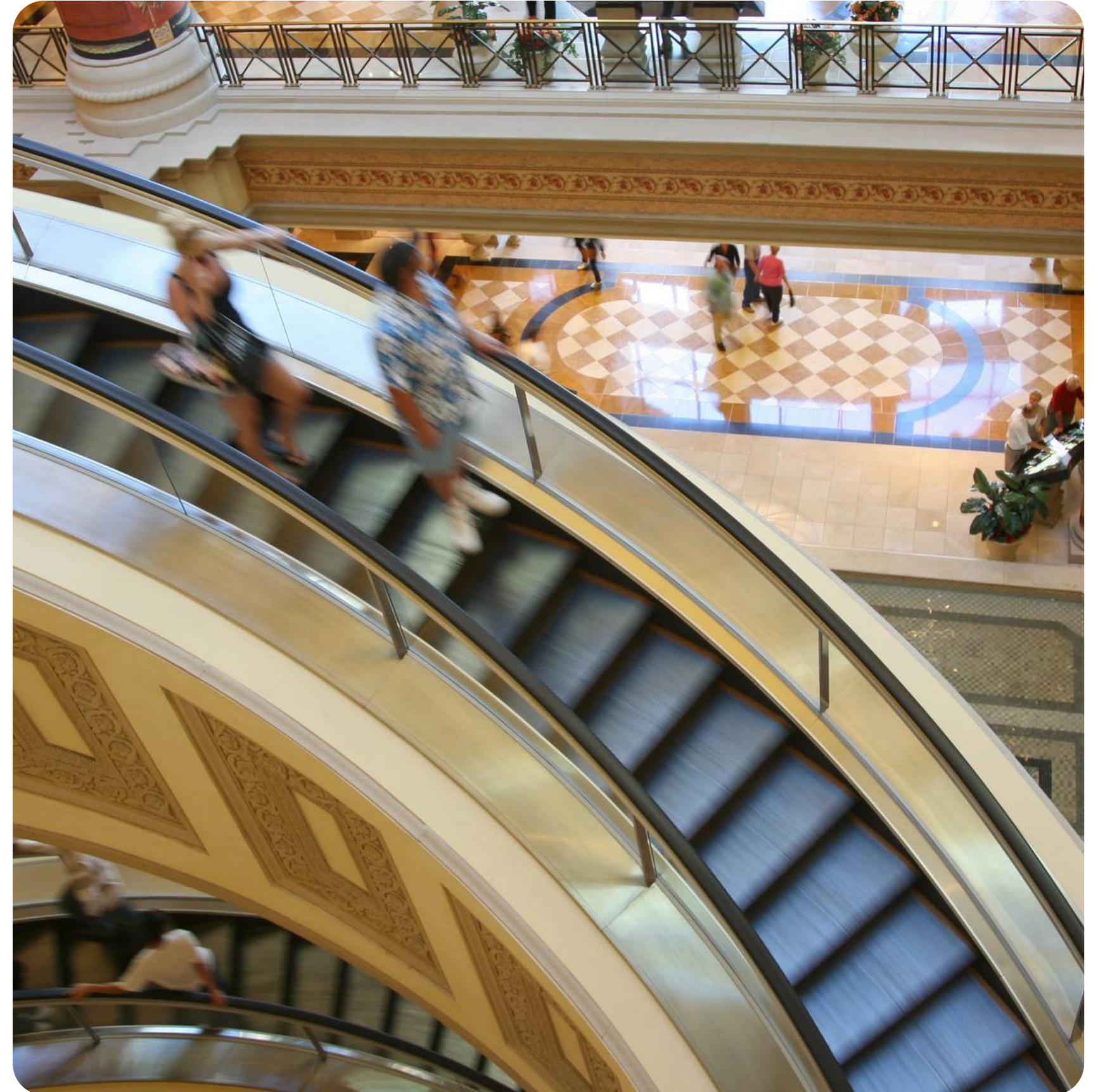
Effective Rent Growth

+0.1%

Sources: NCREIF, Reis, SitusAMC Insights, 1Q 2025

2 R E T A I L

Investor preference for retail was unchanged at 11%, but the segment moved up a spot in our ranking to number two from third place last quarter. Stable fundamentals are attracting investors to the segment. Though retail returns dipped 10 bps, according to NCREIF, they have been in the black for five consecutive quarters and remain among the highest since 2022. Retail bested all property types for the highest quarterly return at 1.8%, about 80 bps above the 10-year long-term average (LTA). Income returns were the highest since 2013; appreciation declined 10 bps, but remained above its LTA. One-year trailing returns increased 120 bps to 6.5%, the strongest since the third quarter of 2022, and the highest among the property types.



2 R E T A I L

FUNDAMENTALS

- The retail occupancy rate was unchanged amid negative absorption but record-low completions, per Reis. The occupancy rate has been remarkably steady, remaining within a 10 bps range for more than three years. Effective rent growth was also unchanged at 0.3%. That was close to the highest appreciation since the pandemic and near its historical average.
- Despite economic uncertainty, consumers remain willing to spend. Total retail sales (excluding gas and automobiles) increased 0.9% over the month in April and were up 7.1% over the year, according to the CNBC/National Retail Federation Retail Monitor. Seasonally adjusted monthly sales rose in eight of the 10 categories tracked, with electronics & appliances and building & garden supplies leading the pack. However, the increase may be attributable to consumers rushing to make purchases ahead of expected tariff implementations.



1Q 2025 RETAIL STATISTICS

NPI Total Return	Occupancy Change	Effective Rent Growth
+1.8%	0 bps	+0.3%
(down 10 bps QoQ)		

Sources: NCREIF, Reis, SitusAMC Insights, 1Q 2025

3 INDUSTRIAL (TIED WITH HOTEL)

Investor preference for industrial plummeted 38 percentage points to 7%, as economic and political uncertainty drove investors toward the relative safety of apartments. Industrial fell to a third-place ranking among the property types from first place last quarter.

Industrial returns rose slightly to 1.3%, the highest in almost three years. Still, returns were 180 bps below their LTA. Capital returns appreciated 10 bps to the highest since third quarter 2022 and income returns were among the highest since mid-2021. One-year trailing returns increased 120 bps to 3.9%, the largest return since the record high rates seen in 2022.



3 INDUSTRIAL (TIED WITH HOTEL)

FUNDAMENTALS

- Industrial occupancies increased 10 bps to the highest level over the past year, according to Reis, with absorption outpacing completions. Completions have steadily declined for almost two years, reaching the lowest level in over a decade. However, rent growth was essentially unchanged at 0.3%, the slowest pace since third quarter 2020.
- Prologis expects that global trade tensions will result in increased demand for warehouse space as companies stockpile inventory closer to U.S. consumers, according to The Wall Street Journal. Prologis tenants, including Amazon, Home Depot and FedEx, have been rerouting shipments and taking on overflow storage amid shifting trade policies, the company reported. The most recent Logistics Managers Index (LMI) from February showed the highest rate of inventory expansion since June 2022.



1Q 2025 INDUSTRIAL STATISTICS

NPI Total Return

+1.3%

(up 15 bps QoQ)

Occupancy Change

+10bps

Effective Rent Growth

+0.3%

Sources: NCREIF, Reis, SitusAMC Insights, 1Q 2025

3 HOTEL (TIED WITH INDUSTRIAL)

Investor preference for hotel improved 7 percentage points from zero last quarter, when no investors favored the property type in our quarterly survey. The slight increase in preference for the segment increased its ranking from last place to fourth place.

NPI Classic total returns for the segment fell 40 bps to 0.5%, the lowest in almost four years and at the bottom of the five property types. Income returns dropped substantially (90 bps) to the lowest in two years. Appreciation improved by 60 bps, but remained negative. Despite a 40-bps decline, one-year trailing returns were the second strongest among the property types at 6.2%.



3 HOTEL (TIED WITH INDUSTRIAL)

FUNDAMENTALS

- Following exceptionally high demand at the end of 2024, hotel occupancy fell about 110 bps to the lowest in almost two years, per Reis. While room rates remained steady, the reduction in occupancy led to a decline in RevPAR growth, which reached the slowest pace since the second quarter of 2023.
- While the number of international visitors declined by about 10% in March, travel to the U.S. was down only about 1.5% year-over-year in April, according to The New York Times. Easter is a common time for Europeans to travel and the holiday occurred later than usual this year, delaying international visitors and likely causing the slowdown in March. Summer bookings for U.S. travel are down just 2% YoY. The exception is Canadians, whose summer bookings are down 21% compared to last year, amid heightened political tensions. With Canada representing about 25% of all foreign travel, hospitality demand could be hurt, especially for tourism-related destinations such as Florida and New York.



1Q 2025 HOTEL STATISTICS

NPI Total Return	Occupancy Change	Effective Rent Growth
+0.5%	-110 bps	-1.7%
(down 40 bps QoQ)		

Sources: NCREIF, Reis, SitusAMC Insights, 1Q 2025

5 OFFICE

Just 4% of investors selected office as the best property type, a seven percentage-point decline, according to our quarterly survey. The souring sentiment caused office to fall to last place from third in the previous quarter, when it tied with retail.

Office returns jumped 150 bps, turning positive for the first time in almost three years. Income returns were unchanged; appreciation was negative for the twelfth consecutive quarter despite the 160-bps increase. Though improving by about 450 bps, one-year trailing returns were still at a negative 3.3%.



5 OFFICE

FUNDAMENTALS

- Office demand remains weak with negative absorption and declining occupancy, according to Reis. The occupancy rate fell 10 bps to a new record low. It was the fourth consecutive quarter of sub-80% occupancy. Still, effective rents eked out an increase of 0.3%. There is some positive news for the sector; completions decreased by more than half to the lowest on record.
- In early May, New York University signed a lease with Vornado at 770 Broadway in Manhattan. At over one million square feet, it is the [largest Manhattan office lease since the pandemic](#), as reported by GlobeSt. NYU plans to take over the leases of the building’s current tenants to be redeveloped into classrooms and laboratories for a science and technology hub. The lease has a 70-year term at \$9.3 million annually, with an option to buy at the end of the deal.



1Q 2025 HOTEL STATISTICS

NPI Total Return	Occupancy Change	Effective Rent Growth
+0.8%	-10 bps	+1.6%
(up 150 bps QoQ)		

Sources: NCREIF, Reis, SitusAMC Insights, 1Q 2025

RANKING RECAP

Sector



#1 APARTMENT



#2 RETAIL



#3 INDUSTRIAL

Industrial & Hotel tie for #3



#3 HOTEL



#5 OFFICE

1Q 2025 STATISTICS

NPI Total Return

+1.3%

Occupancy
Change

0 bps

Rent Growth /
RevPAR Change

+0.1%

+1.8%

0 bps

+0.3%

+1.3%

+10 bps

+0.3%

+0.5%

-110 bps

-1.7%

+0.8%

-10 bps

+0.3%

Sources: NCREIF, Reis, SitusAMC Insights, 4Q 2024.



To learn more about
SituationAMC's research, data,
and analytic tools, email:



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