SitusAMC Insights

5 Commercial Real Estate Sectors Ranked by Investors

2Q 2025

SLIDESHOW

INTRODUCTION

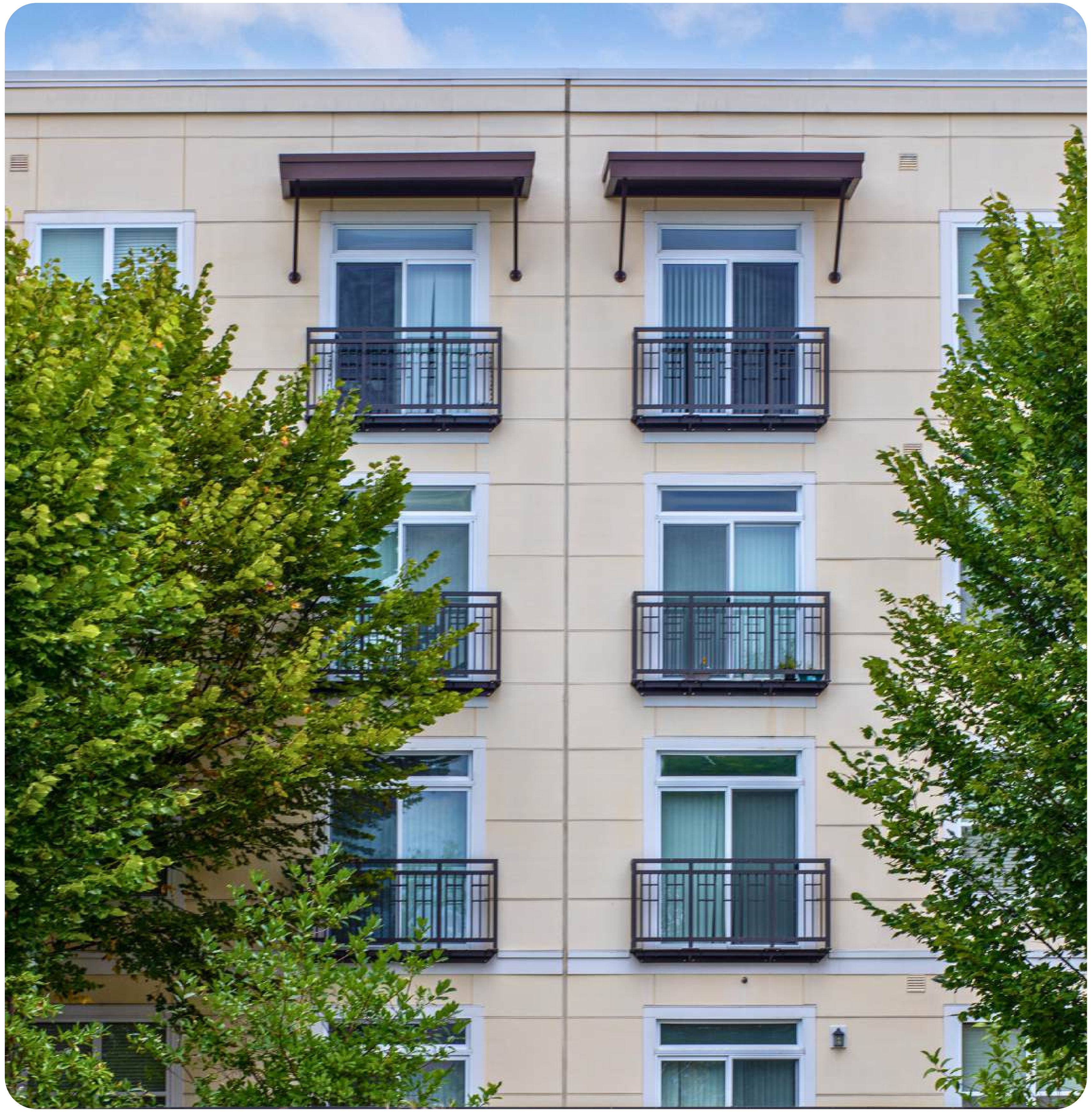
Rising investor concerns over operating expenses led to a pullback in favorability ratings for apartment in the second quarter, though the safe-haven segment took the first place spot in our property type rankings. That's according to SitusAMC's quarterly survey, which asks institutional and regional 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 second 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 APARTMENT

Investor preference for the apartment sector tumbled from a record 71% in the first quarter to 47% in the second, SitusAMC Insights' quarterly survey found. Still, apartment remained the top-rated among the main property types.

Apartment has seen five consecutive quarters of positive returns and, at 1.4%, they were the highest in three years, according to NCREIF's NPI Classic. Capital returns continued to gain momentum, resulting in the strongest appreciation since the 3Q 2022. Income returns grew slightly. The one-year trailing return was 5.1%, the highest since the end of 2022.



#1 APARTMENT

FUNDAMENTALS

- The major theme in space market fundamentals continues to be waning completions, which were the lowest in more than two years, according to Reis. Apartment was the only property type with positive absorption, though the occupancy rate was unchanged. Apartment occupancy remains muted, however, at the lowest level since 2010. The sector topped rent growth in the second quarter, but at 0.7%, remains anemic.

- The Midtown South Mixed-Use Plan, recently approved by New York City Council, represents the city's largest residential rezoning in 20 years and will add approximately 9,700 housing units to Manhattan, including over 2,800 permanently affordable units, according to GlobeSt.com. This effort signals a major shift in land-use policy, introducing Mandatory Inclusionary Housing to Midtown South and unlocking new development opportunities. The plan also includes a $488 million investment in infrastructure upgrades—such as transit, lighting, and public amenities—which could enhance property values and attract mixed-use tenants. This initiative aligns with broader city goals to create 100,000 new homes across Manhattan, potentially reshaping demand dynamics and investment strategies in the area.

2Q 2025 APARTMENT STATISTICS

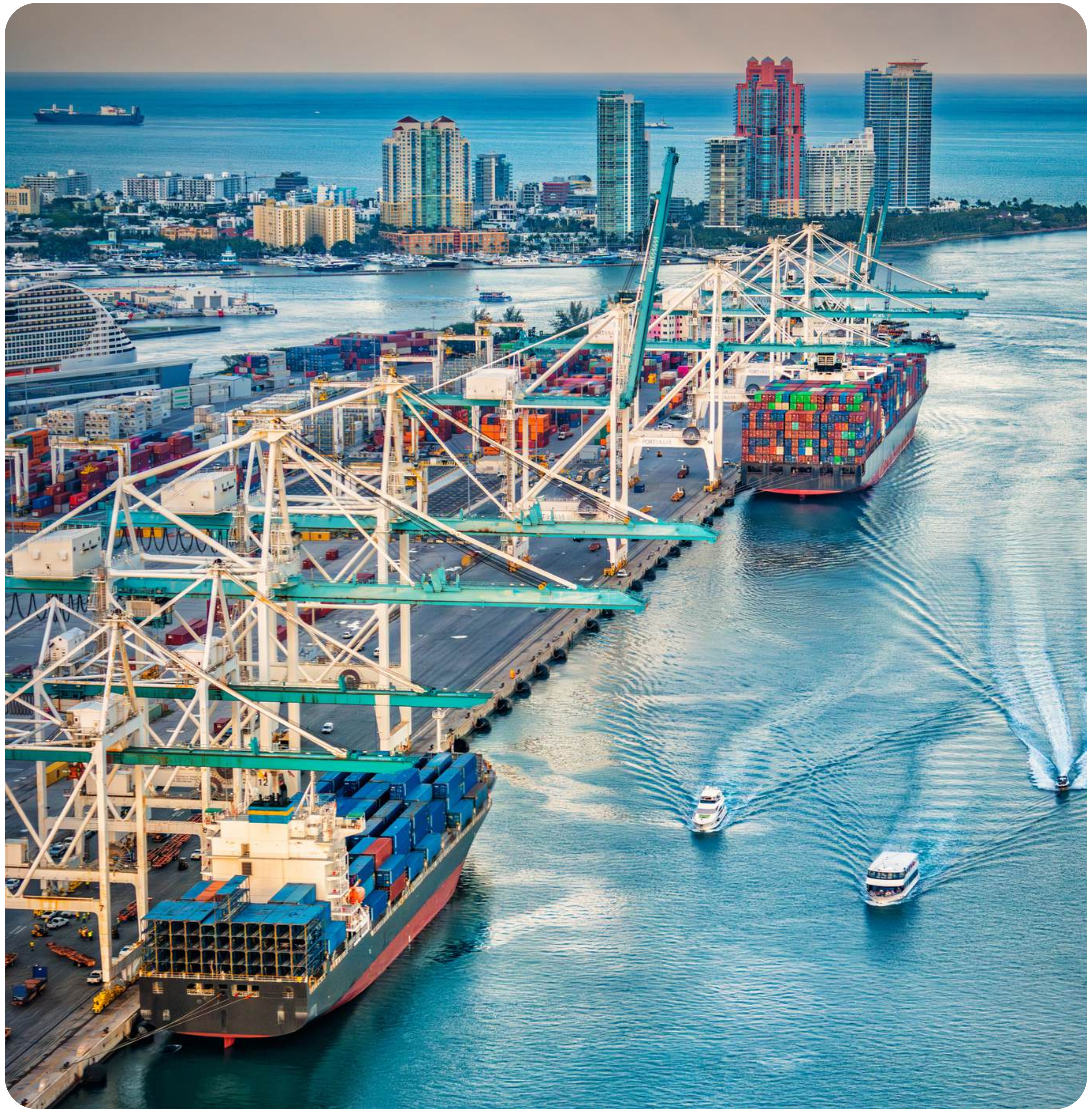
NPI Total Return	Occupancy Change	Effective Rent Growth
+1.4% (up 10 bps QoQ)	0 bps	+0.7%

Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2025

#2 INDUSTRIAL

Investor preference for industrial jumped 28 percentage points to 35%, more in line with historical levels, according to SitusAMC Insights' survey. This increase in preference boosted the segment to second place from third place in the previous quarter.

Despite investor optimism, industrial performance and fundamentals were weak. Industrial returns declined 30 bps to about 1%, the lowest over the past year, per NCREIF. Still, returns were more than 200 bps above the long-term average (LTA). Income returns were relatively stable in the second quarter, among the highest in the last four years. One-year trailing returns increased 120 bps to 4.7%, the largest return since the record rates in 2022.



#2 INDUSTRIAL

FUNDAMENTALS

- Industrial completions have steadily declined for two years, reaching the lowest level in over a decade, according to Reis. However, occupancies fell to the lowest rate in almost four years amid negative absorption. Industrial posted the slowest quarter for rent growth in four years at 0.1%.

- Industrial investors are shifting focus toward strategies that offer flexibility and value creation amid uncertainty, according to GlobeSt.com and Matthews Real Estate Investment Services. Shallow-bay industrial strategy targets multi-tenant properties with below-market, short-term leases, allowing owners to gradually raise rents and improve yield without major tenant disruption. Short-term leases (12 to 36 months) offer tenants flexibility in an unpredictable economic climate, while allowing owners to maintain strong rents and fill vacancies quickly.

2Q 2025 INDUSTRIAL STATISTICS

NPI Total Return	Occupancy Change	Effective Rent Growth
+1.0% (down 30 bps QoQ)	-20 bps	+0.1%

Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2025

#3 RETAIL (TIED WITH OFFICE)

Investor preference for retail dipped slightly from 11% to 9%, tying with the office sector's favorability rating, according to SitusAMC Insights' survey. Investors note strong bifurcation in the segment, with malls and power centers falling out of favor.

Retail had the strongest returns among the property types at 1.9%, per NCREIF. That was the highest return in more than three years and about 100 bps above its LTA. Income returns have remained relatively steady over the past year, among the highest since 2013; appreciation grew 20 bps. One-year trailing returns increased 110 bps to 7.6%, the strongest since the second quarter of 2022 and the highest among the property types.

#3 RETAIL (TIED WITH OFFICE)

FUNDAMENTALS

- The retail occupancy rate remained unchanged amid negative absorption but record low completions, per Reis. The occupancy rate has been remarkably steady, remaining within a 10-bps range for four years. However, rent growth was the weakest in three years, at 0.1%.

- CBL Properties' $178.9 million acquisition of four mid-tier malls from Washington Prime Group signals renewed investor confidence in the viability of non-luxury enclosed shopping centers, The Wall Street Journal reports. This rare portfolio transaction highlights growing demand for dominant regional retail assets amid limited new construction and historically low open-air vacancy rates. CBL's strategy of revitalizing mid-market malls through localized tenant curation and adaptive reuse of anchor spaces has led to rising NOI, suggesting potential upside for similarly positioned assets. The deal also reflects a broader industry shift, as even premier owners such as Simon Property Group begin reinvesting in second-tier properties.

2Q 2025 RETAIL STATISTICS

NPI Total Return	Occupancy Change	Effective Rent Growth
+1.9% (up 10 bps QoQ)	0 bps	+0.1%

Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2025

#3 OFFICE (TIED WITH RETAIL)

Preference for office ticked up 5 percentage points to 9%, according to SitusAMC Insights' quarterly survey. The more positive outlook was attributed to the potential to scoop up mispriced assets at a discount. This bumped the segment up in rankings from last place in the first quarter.

Office returns nudged down slightly, though they remained positive, per NCREIF. Though income returns ticked up to the highest level since 2011, the segment has seen depreciation for more than three years. One-year trailing returns improved by more than 300 bps QoQ to the highest level in almost three years, but were in the red at -0.2%. Office was the only property type with negative returns in the second quarter.

#3 OFFICE (TIED WITH RETAIL)

FUNDAMENTALS

- Office demand remains weak with negative absorption and declining occupancy, according to Reis. The occupancy rate fell 20 bps to another record low. It was the fifth consecutive quarter of sub-80% occupancy. Still, effective rents eked out an increase of 0.2%. There is some positive news for the sector: Completions decreased by 27%, to the lowest level on record.

- The office market is seeing a surge in conversions and demolitions, which are outpacing new office deliveries by nearly two to one, per CBRE. This trend is helping reduce record-high office vacancies and could support market stabilization. Most conversions are shifting toward multifamily use, driven by stronger fundamentals and municipal incentives, though not all buildings are viable candidates due to structural limitations. While this trend presents opportunities for repositioning assets, high construction costs and regulatory hurdles may delay some projects until economic conditions improve.

2Q 2025 OFFICE STATISTICS

NPI Total Return	Occupancy Change	Effective Rent Growth
+0.8% (down 5 bps QoQ)	-20bps	+0.2%

Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2025

#5 HOTEL

Preference for hotels waned, with no investors selecting hotel as the best property type (down from 7% last quarter), in SitusAMC Insights' quarterly survey. The bearishness resulted in the segment ranking last among the property types.

NPI Classic total returns for the segment fell 40 bps to near 0%, the lowest in more than four years. Hotel was the worst-performing segment in the second quarter. While income returns grew 100 bps, appreciation fell 140 bps to the lowest level since the end of 2020. One-year trailing returns dropped 210 bps to 4.1%, the lowest in almost four years.

#5 OFFICE

FUNDAMENTALS

- It was another difficult quarter for hotel fundamentals with occupancy down 110 bps to the lowest level in two years, per Reis. While room rates remained relatively steady, the reduction in occupancy led to a decline in RevPAR growth. Second-quarter RevPAR was the lowest in more than a year.

- Developers in New York City are converting shuttered migrant hotels into residential units, creating over 1,100 apartments, with more projects in the pipeline, according to The Wall Street Journal. These conversions offer a faster, cost-effective alternative to ground-up construction, especially appealing amid the city's severe housing shortage and record-low vacancy rates. This trend signals a shift in asset utilization, with underperforming hotel properties being repositioned to meet residential demand—particularly affordable housing. However, zoning and building code complexities remain key hurdles, and not all former shelters are viable for conversion.

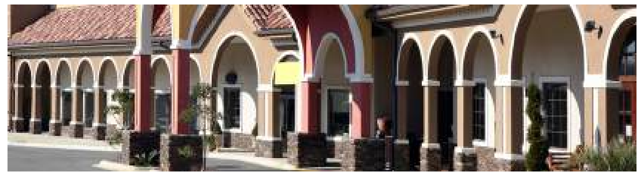
2Q 2025 HOTEL STATISTICS

NPI Total Return	Occupancy Change	Effective Rent Growth
0.0% (down 50 bps QoQ)	-120 bps	-1.1%

Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2025

RANKING RECAP

1Q 2025 STATISTICS

	Sector	NPI Total Return	Occupancy Change	Rent Growth / RevPAR Change
	#1 APARTMENT	+1.4%	0 bps	+0.7%
	#2 INDUSTRIAL	+1.0%	-20 bps	+0.1%
	#3 RETAIL	+1.9%	0 bps	+0.1%
	#3 OFFICE	+0.8%	-20 bps	+0.2%
	#5 HOTEL	0.0%	-120 bps	-1.1%

Retail and Office tie for #3

Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2025

SitusAMC Insights

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

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