Global Real Estate Outlook 2025 – Global Confidence Returning but Unlikely to Match the UAE Market's Growth Trajectory

Neal Lindsay – Managing Director, Head of Real Estate Finance

Global Lens

Global real estate markets have undergone fundamental changes in recent years – a sentiment we also echoed at the outset of last year's submission. However, as we look ahead to 2025, the horizon appears brighter. The challenges of the pandemic, though responsible for significant structural shifts in certain markets, are easing – aided by a softening global interest rate outlook that is rekindling investor appetite.

The reduction in rates from the Fed principally, as well as other Central Banks, was readily awaited by the real estate community. After almost two years of muted transactional and debt market activity, conditions appeared to stabilise throughout the second half of 2024, with liquidity and appetite at least partially restored.

Rate cuts were not a silver bullet, however the industry has taken these first downward movements in rates as a signal that financial conditions can only improve from hereon in.

With interest rates set to gradually reduce, it is likely that we are at the beginning of the next expansionary phase of the real estate cycle, according to leading voices in the industry.

Improving Investment Appetite in Commercial Real Estate?

Was 2024 the bottom of the current commercial real estate market cycle?

According to Deloitte's 2025 Global Real Estate Outlook, the answer may well be yes.

Global real estate investors seemingly hit a pause last year. Dollar volumes fell by 36% year-on-year to USD 1.2 trillion, making it the weakest year for global investment since 2012. Retrenchment was most prevalent in the Americas (–52%) and Europe (–45%), demonstrated by a clear slowdown in deal volumes.

Global property valuation declines continued through the second quarter of 2024, down 6.3% year-on-year, though the pace of decline slowed from 7.7% two quarters prior. Whilst transaction activity is still muted, there is evidence that buyers and sellers are becoming more aligned on pricing estimates after two years of discontinuity.

Continuing with the pre-eminent PwC Emerging Trends survey, the share of respondents who expected an uptick in profits, categorised as "good" or "excellent" was almost two-thirds of the audience compared with just over one-third this time last year.

However, this revived positivity must be contextualized. Investors and financiers alike remain cautious, acknowledging that the halcyon pre-pandemic level of returns is not on the horizon just yet. Financing costs, whilst tapering from their recent high, are unlikely to return to 'lower for longer' levels.

In the previously referenced Deloitte Report, the 2025 survey reflected similar sentiments. Over 68% of respondents expect conditions for Commercial Real Estate (CRE) fundamentals to improve in 2025 across areas such as cost of capital, capital availability, property prices, transaction activity, leasing activity, rental growth and vacancies. Up from only 27% the previous year, this is a major boost in

optimistic sentiment. Conversely, only 13% expect fundamental conditions to worsen, down significantly from 44% year-on-year.

The largest reversals came from expectations for cost of capital and capital availability. 68% of respondents expect financing to be less expensive and 69% said financing will be easier to obtain. Although these fundamental expectations vary widely by property type and regional focus, there appears to be some consensus on how the broader CRE sector might recover.

Global Investors have been more focused on domestic assets rather than international opportunities since the pandemic. Global investment made outside of company home countries reached an all-time high of 32% in 2019, according to Deloitte. That share has progressively dipped post-pandemic, and whilst survey respondents still overwhelmingly choose home jurisdictions as their primary focus, there are indications that cross-border investments will return.

Given the significantly positive performance of the UAE real estate market, particularly in the last 24 months, domestic investors investing overseas have done more so for geographical diversification reasons, rather than in expectation of superior returns.

Overall, various market commentators appear to be optimistic about 2025, however the real flourish may occur in the years to follow.

Interest Rates Impacts

There is a caveat that the sector must recognise - interest rates were low, to the point of sub-zero in certain markets – which has helped to generate enhanced returns in what may be argued an artificial fashion compared with true cyclical norms. For now at least, this era of cheap debt is over, and it is incumbent on the industry to know that rate movements are not isolated, but rather reflective of market expectations around economic and financial conditions.

The current rate cycle has resulted in an economic imbalance between major economies, as many economies are performing very well despite the higher rates. According to PwC, the credit goes to consumer spending, which continues to defy expectations for a slowdown by growing faster than all other components of GDP over the past year. Accordingly, bringing down inflation, whilst maintaining stable economic conditions is the order of the day for monetary policy makers – however, this is no easy task. Major publications including the Wall Street Journal, continue to forecast muted growth, avoiding recessionary pressures, as well as financial market pessimism.

These factors point towards a slower trajectory in CRE recovery.

However, what is more certain is that the variables are hardening. A prominent UK pension fund manager recently commented that people now know where markets are transacting and where financings can be done. There has aways been significant 'dry powder', so increased certainty on trading levels and financing conditions has helped to lubricate the market.

It is the price discovery that many commentators believe signals the beginning of a new cycle.

Debt Markets

Investment capacity is one area, but without leverage, CRE markets can't fully function. Lender appetite appears to now be returning to balance across major markets.

It seems that the era of 'negative leverage' (when cost of debt is in excess of the yield on a property) is now behind us, leading to more transaction volume activity.

The US, which is considered the most transparent of all markets, saw the Mortgage Bankers Association ("MBA") forecast of over 25% increase in originations to USD 550 billion, close to 2018 and 2019 pre-pandemic levels. Forecasts indicate a return to normalised conditions within the next 12 to 24 months, which is a useful proxy for other mature markets.

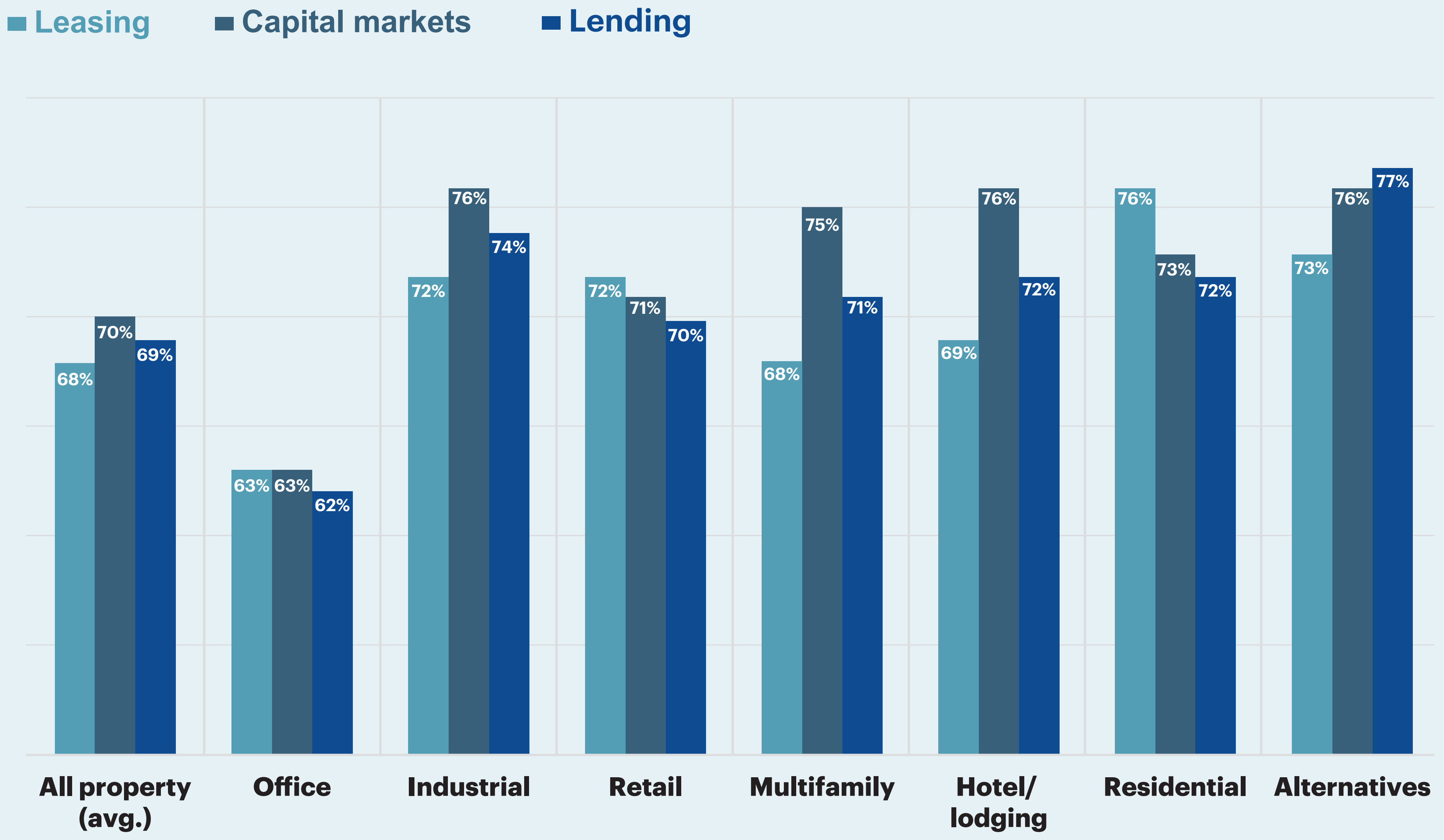
However, during the next 24 months, the impact of pre-pandemic originations and their maturities will have an important to role to play. This so-called 'maturity wall' was estimated to top USD 1.2 trillion in the US alone, and over USD 2 billion across all western markets. Undoubtedly, this includes a significant number of exposures where debt is greater than property values, most notably in the office sector.

Traditional bank lending will likely be more subdued compared to prior levels, as banks manage exposure to the sector amid regulatory scrutiny. However, for owners and investors, alternative capital sources like private credit are available to fill the financing void left by traditional lenders.

Respondents expect improvements in real estate fundamentals across property sectors

How do you expect each of the following aspects of real estate fundamentals to change for the property type you specialize in over the next 12 to 18 months?

Source: Deloitte 2025 commercial real estate outlook survey.



Note: Leasing includes expectations for growth in rental rates, leasing activity, and vacancies; capital markets include expectations for growth in property prices and transaction activity; lending includes expectations for cost of capital and capital availability; alternatives include digital economy, life sciences, and self-storage properties; residential includes single family rentals, senior housing, and student housing properties.

Deloitte. deloitte.com/us/en/insights/research-centers/center-for-financial-services.html

Sector Commentary

Global respondents across various market outlook reports appear most optimistic about leasing conditions for beds (including build-to-rent single-family, student housing, and senior housing); alongside industrial, hotel/lodging and alternative sectors, as well as capital markets activity (including digital economy, life sciences and self-storage) and lending for alternative property types. It appears investors are the least optimistic about prospects for the office sector, tied to lower-than-average expectations for improving transaction activity, elevated vacancies and more expensive borrowing costs.

As we highlighted above, there are profound shifts across pockets of the industry arising from post-pandemic ways of operating. The difference now is that we're approaching the point where these shifts have played out, or are at least on an identifiable, rather than uncertain, trajectory.

Without extoling the specific circumstances in tenant requirements and behaviours, vacancy rates are rising across many property types as supply from 2021 to 2023 outpaces absorption. Currently, the power lies with occupational markets as tenants look to lower rents or simply improve the quality of their premises, at times ahead of schedule. This creates significant bifurcation between the new(er) and older buildings. This is most prevalent in the office sector where the demand for new Grade A premises has seen rents outperform previous historical highs across most global gateway markets.

And it's not just offices. Retail, particularly in terms of shopping centers, is following this trend with older located premises struggling to keep up with newer space, despite extensive refurbishments in many cases. The most notable and perhaps unexpected chasms exist in the much heralded 'industrial' and 'multifamily' sectors. Whilst net absorption has been positive, aided by the long-term fundamentals underpinning "beds and sheds", the volume of new supply has outstripped demand. However, in both instances, this is likely to be short-lived against a slowing construction pipeline.

Alternatives, if they can still be termed as such, are playing out differently, with data centers players unable to build quickly enough to keep up with pent-up demand, largely driven by the boom of artificial intelligence (AI). These conditions are likely to continue as few sites exist that can support the significant power requirements, creating a non real estate constraint on supply that will continue to restrict development.

Sustainability and Green still in flavor?

The dichotomy between long-terms benefits and short-term returns remains the challenge of sustainability-led investments. According to the Deloitte Outlook, only 22% of global respondents believe that sustainability is "embedded in their organisational DNA and core business strategies" and "will provide long-term benefits".

The success of 'greening' initiatives centres on how capital investments are prioritised for maximum impact and how quickly firms can transition from 'brown to green'. Investors may be wary of aged, carbon-intensive assets that are reliant on fossil fuels. However, retro-fitting assets could hold immense potential to meet both investment returns and climate objectives.

If property managers can mitigate asset obsolescence risk through strategic sustainability-led strategies that deliver incremental cost benefits, then a positive environmental impact, without compromising long-term financial returns, may be achievable.

Domestic Lens – Momentum to be maintained

Trends and discussions in mature Western markets, especially in the US, UK, and Europe, reflect a common global story. However, the UAE's domestic market tells a very different post-pandemic tale.

The UAE has been a key beneficiary amid regional challenges with capital flows arising from affected countries, particularly into the Emirate's real estate market. And while the residential market is the most public high performer, the office, hospitality and retail sectors have also evidenced solid growth.

In the nine months to September 2024, the total number of residential transactions in Dubai topped 125,000, up more than 36% from 93,000 the previous year. The bulk of this growth was driven by rising off-plan sales, which were up by over 50% on the same period according to data from CBRE. It is likely, given the lack of available supply, that the performance of this sector in Dubai will continue to remain positive, but a normalisation in growth is likely to emerge (though we said the same thing this time last year!)

While the performance of the residential market in Abu Dhabi has also been strong, the drivers are somewhat inverse in nature, with growth coming from a 45% rise in ready sales rather than off-plan, which typically have a lagged delivery in data. Regardless of the nature of sales, it is clear that the rental market has been very strong, with growth across both locations and in both villa and apartment communities.

With an increased supply of hotel keys, the UAE hospitality market has maintained a positive year-on-year performance, with the country delivering the highest average occupancy within the GCC region. Records are on target to be broken for visitor numbers overall, with Dubai airports likely to set new highs in terms of passenger traffic. There is no immediate evidence to suggest this trend will be reversed in 2025, given the growing popularity and increasing awareness of the UAE's hospitality industry (including some effective celebrity endorsement in Abu Dhabi).

Unlike other countries, where the office market remains highly fragmented, the UAE has seen strong rental growth, regardless of whether its Grade A, B or indeed Grade C property. A lack of supply, particularly in Grade A stock, is expected to push the market to even higher levels in 2025, with occupancy already at 93%.

The rising tide has indeed lifted all boats with the retail, industrial and logistics sectors enjoying continued expansion, thanks to the strength of the non-oil economy. At the same time, a highly competitive and borrower friendly lending market is expected to drive increased capital market activity across all sectors in 2025.

In summary, the outlook for CRE remains largely positive. However, the pace of growth in more mature markets is unlikely to match that of the UAE, where a highly proactive and dynamic federal government can make decisions to support the market more expeditiously.

We expect to see opportunities for increased investment in many forms of the housing sector, and with emerging ones such as cold storage and data centres (despite their lack of purported ESG credentials). The only notable risk to the continued expansion of the market, in our view, is a reversal in the direction of interest rates or geopolitical issues escalating to the point of wider disruption.