

ACEC Market Intelligence Brief

Commercial & Residential Real Estate

Winter 2025

Market Scope

The commercial and residential real estate market is ‘vertical’ in nature and includes a variety of property types, including office, industrial, retail, multifamily residential (including student and senior housing), hospitality, and health care. Clients are typically developers and owner-users, such as large retailers. Within the dynamic retail market sector, there are several different property types: urban/high street retail; neighborhood/community shopping centers; lifestyle/entertainment centers; outlet centers; power centers; and regional malls. This brief includes a client list, top 5 trends impacting the market, government affairs action and business development insights.

Top 10 Largest Developers

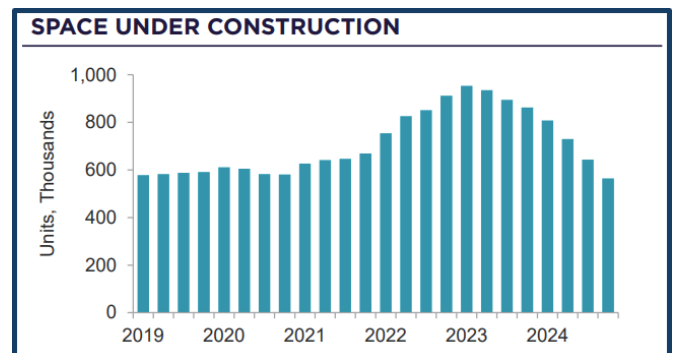
Developers are responsible for the financing, development and team selection of new multifamily rental communities, defined by 5 units or more. Here are the top ten largest developers by units started in 2023, according to the National Multifamily Housing Council for 2024.

| | Largest Developers | Units | Headquarters |
|----|---------------------------|-------|-----------------|
| 1 | Greystar | 9,151 | Charleston, SC |
| 2 | Mill Creek Residential | 8,022 | Boca Raton, FL |
| 3 | Trammell Crow Residential | 5,823 | Dallas, TX |
| 4 | Wood Partners | 5,137 | Atlanta, GA |
| 5 | Hillpointe, LLC | 4,861 | Winter Park, FL |
| 6 | Alliance Residential | 4,628 | Scottsdale, AZ |
| 7 | The Michaels Organization | 4,292 | Camden, NJ |
| 8 | Core Spaces | 4,030 | Chicago, IL |
| 9 | Hines | 3,760 | Houston, TX |
| 10 | D.R. Horton, Inc. | 3,433 | Arlington, TX |

(Source: NMHC 2024 Rankings)

5 Current Market Trends

- 1. Overcoming Oversupply in the Multifamily Market:** Home ownership rates dropped 30 basis points in 2023 (U.S. Census Bureau) led by the unaffordability of single family housing for first time home buyers. Therefore, demand for multifamily property types soared in 2024. One million units were under construction at their peak in July 2023 (see chart below) and in 2024 more than 426,00 units were absorbed. That represents 72% more than 2023 which led to vacancy rates climbing to 8.9%, the highest since the 2000s. Post-pandemic, renters were finally able to negotiate prices down due to oversupply in the market. Construction activity fell 40% in some markets as a result, with starts at their lowest since 2012 (Cushman & Wakefield). These U.S. cities benefitted the most from the wave of apartment demand in 2024: Dallas-Fort Worth, New York, Austin and Atlanta. Developers have pulled back some construction activity. For the top ten states to watch for 2025 multifamily prospects, see page 4.

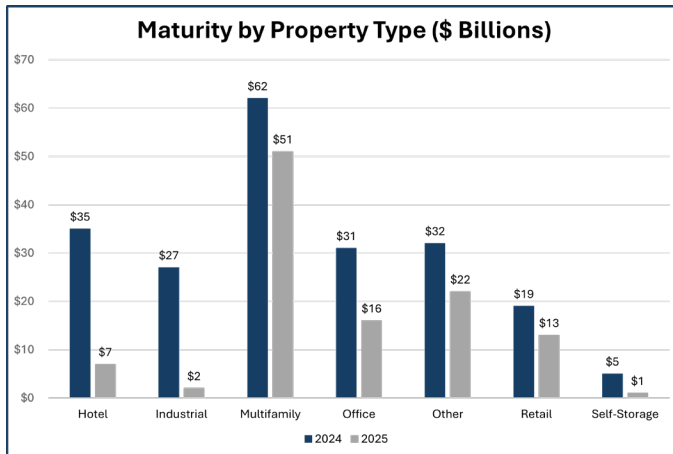


(Source: Cushman & Wakefield Multifamily Q4 2024)

- 2. The Maturity Wall - Cost of Debt Increases:** Thirty percent or \$1.7 trillion of outstanding debt is set to mature between 2024 and 2026 (Houlihan Lokey). This is known as the “maturity wall,” which we haven’t seen since 2008.

Current Market Trends, *continued*

A maturity wall is the amount of corporate debt due to be paid back over a short period of time. Commercial real estate (CRE) mortgages saw a 28% increase or \$929 billion in mortgages maturing, raising concern over potential default risk and an increased number in distressed assets (*Mortgage Bankers Association*). Of all the asset classes, multifamily has the largest number of maturing loans worth \$113 billion, 35% of all CRE loans. (See chart below for maturity by property type.) This could lead to instability in the market and a hesitance by developers to finance riskier projects.

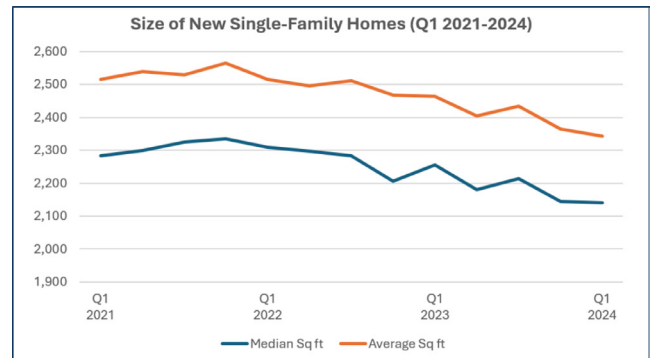


(Source: Houlihan Lokey Commercial Real Estate 2024)

▶ **3. Climate Risk Shifts Migration Trends:** This past year ranked the second highest calendar year for number of billion-dollar disasters. Among these 28 disasters were: 17 severe storms, five tropical cyclones, two winter storms, one flooding event, one drought/heatwave and one wildfire event (*NCEI*). The migration trend to the sunbelt states, where most extreme weather events take place is beginning to taper, according to 2024 U-Haul Growth Index data. For the first time, South Carolina comes in first place for the states net gain of one-way U-Haul equipment coming into the state (see page 4). Conversely, Texas and Florida began to slip. Builders may be deterred from building in these regions due to increased insurance costs and may seek properties that can withstand climate risk. That said, this could be an opportunity for first-time home buyers, who may have more risk tolerance to buy their first home. Zillow and Redfin provide climate risk data on their listings; both platforms confirm that 80% of potential buyers factor this data into real estate purchases.

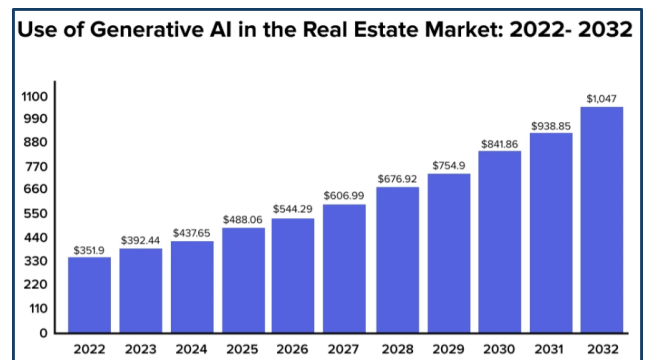
▶ **4. Shrinking Home Sizes, an Answer to the Housing Crisis:** The cost of housing remains elevated as supply remains low, and demand remains high. Mortgage rates also are not coming down, leading some home builders to

build smaller. According to the U.S. Census Bureau, the median size of single family homes has been on the decline since 2015. In 2023, the median size of a home was 2,286 square feet (SF), while in 2024 it was 2,164 SF. (See chart below for declines.) National Association of Home Builders (NAHB) confirms this trend, finding that 38% of homes constructed in 2023 and 26% of homes constructed in 2024 had smaller floor plans. Single family zoning changes could foster this trend by allowing denser neighborhoods to be developed.



(Source: U.S. Census Bureau)

▶ **5. AI Driving Real Estate Decisions:** According to the latest JLL Research, AI is used to track trends and opportunities in CRE by geolocation, demand, asset type, and new product types. With AI, investors could analyze buyer preferences to determine what locations are best suited for a specific property type. AI can provide statistics on neighborhoods, school districts, and proximity to other amenities, e.g. grocery stores, libraries, community centers, etc. The technology also can be used to perform industry research and market analysis to guide where developers might seek new opportunities. The industry wants to track demographic and economic trends to pin-point potential emerging markets that could maximize their returns. See chart below for the anticipated value of generative AI in the real estate market from 2022 to 2032.



(Source: appinventiv & JLL)

Government Affairs Action

▶ **The Tax Cuts and Jobs Act (TCJA) of 2017:** The TCJA is set to expire at the end of 2025 unless Congress acts to extend the tax relief. Expiring provisions include lower individual tax rates, and the Section 199A 20% deduction for passthrough businesses, including S corporations, partnerships, and LLC's. Congress is expected to consider legislation to extend the TCJA but implications for the federal debt and interest in revising or adding provisions to the law will complicate the debate.

✓ **Tax Deductions for Commercial Buildings:** The Section 179D energy-efficient commercial buildings tax deduction, which applies to energy-efficiency improvements to lighting, HVAC, and building envelopes, was expanded under the Inflation Reduction Act of 2022 to provide a larger tax benefit to projects that meet prevailing wage and apprenticeship requirements. This applies to both new construction and building upgrade projects. While some executive orders have been focused on ending funding for solar and wind projects, we expect Congress to reevaluate the IRA during the 2025 tax debate.

✓ **Brownfield Redevelopment:** ACEC supports stable brownfield redevelopment funding so properties can be restored for productive commercial development. The Senate Environment & Public Works Committee recently advanced bipartisan legislation to reauthorize the EPA's Brownfields program through FY2030 and double the maximum size of site cleanup grants from \$500,000 to \$1 million to reflect current construction costs. If President Trump's first term is any indication, expect to see the federal government prioritize opportunity zones to spur private sector investment in redevelopment projects.

▶ **Permitting Reform:** The Trump Administration's initial executive orders instruct federal agencies to expedite NEPA permitting for oil, gas, and other non-renewable energy projects using emergency authorities. The orders also direct the Council on Environmental Quality to propose rescinding current NEPA regulations and replacing them with guidance for federal agencies. Additionally, we expect Congress to advance legislation to further streamline the NEPA environmental review process.

▶ **Fannie Mae & Freddie Mac Conservatorship Set to Expire:** Both entities are responsible for 70% of U.S. mortgages and have been under conservatorship by the Federal Housing Finance Agency (FHFA) since 2008. If confirmed, Bill Pulte will serve as the new Director of the FHFA, the body that oversees these Government Sponsored Entities. Pulte's priorities could include homeownership affordability and exiting Freddie Mac and Fannie Mae from conservatorship. Doing so could be a path toward boosting housing supply and creating affordable opportunities.

Business Development Insight

Data Centers: Powering AI's \$4.4 T Boom

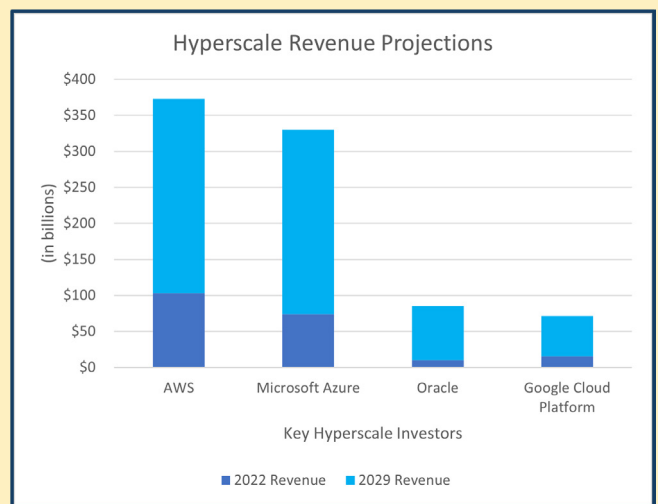
Data centers are the physical infrastructure needed to power generative AI, which The World Economic Forum refers to as a "\$4.4 trillion global opportunity." The ACEC Research Institute Engineering Business Sentiment Q4 2024 survey also reported "data centers" as one of the top five markets with a positive future industry sentiment, scoring +37, up +12 points from the prior year.

In 2023, Cushman & Wakefield and CBRE reported that H1 2023 saw the highest construction of data centers in history in primary markets. Statista reports that primary markets in H1 2024 by total inventory by megawatts (MW) include:

| Rank | Primary Market | Inventory in MW |
|------|-------------------|-----------------|
| 1 | Northern Virginia | 2,600 MW |
| 2 | Dallas/Ft. Worth | 591 MW |
| 3 | Chicago | 589 MW |
| 4 | Phoenix | 511 MW |
| 5 | Silicon Valley | 459 MW |

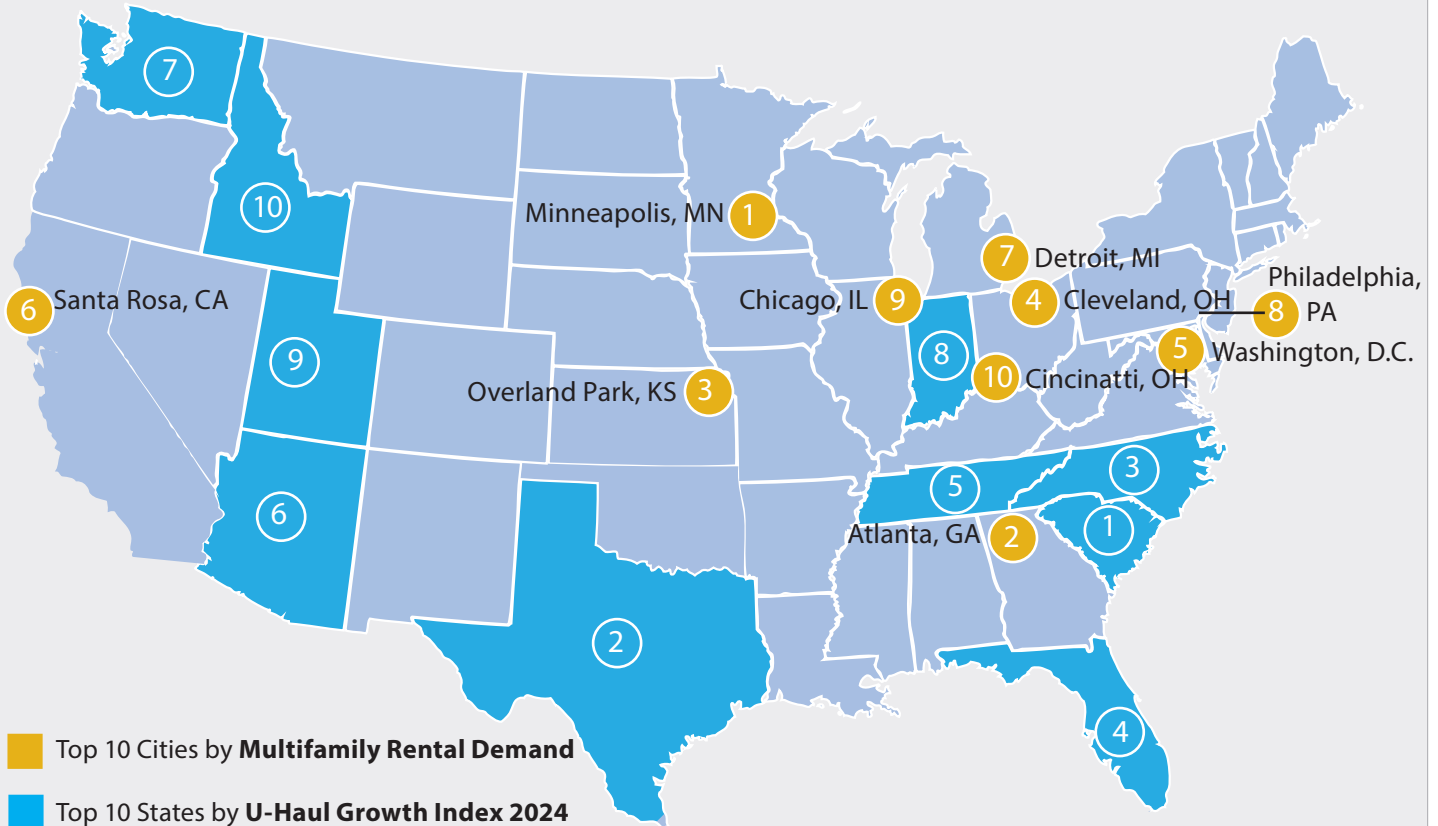
Secondary cities such as Columbus, Austin, and Reno are beginning to grow as well. Investment in Reno has already surpassed data center investment in Silicon Valley due to land availability and tax incentives. Chicago is also picking up momentum due to its centralized location, existing access to power supply, and political support.

There are roughly 11,000 data centers in the world, with demand projected to grow 10-20 percent annually until 2030 (Colliers). Eighty percent of current demand is driven by hyperscale data centers. Here are the largest industry players in the hyperscale market by revenue projections from 2022 to 2029.



(Source: EdgeConnex)

Migration Trends & Multifamily Markets to Watch



(Sources: U-Haul 2024 Index & RentCafe 2025)

Market Intelligence Committee

ACEC's new Market Intelligence Committee (MIC) identifies and analyzes key market developments and trends that impact the engineering industry. MIC is an open committee and will focus on recommending resources and guiding educational programming that delivers market intelligence and essential insights for businesses operating in both public and private markets.

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- ✓ Electrifying the Future
- ✓ Networking Reception

