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CIO expects real estate to revive in 2025, with opportunities across commercial and residential sectors. (UBS)

Consider real estate investments in 2025

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US Treasury yields recently fell, with both 10-year and 30-year yields down, as investors regained some confidence that the Federal Reserve will continue to cut interest rates.

The latest data on the property market suggested that homebuyers are also expecting the same. Pending home sales in the US rose for the third consecutive month in October, according to the National Association of Realtors, with a gauge of contract signings increasing 2% to the highest level since March. On a year-over-year basis, the measure rose 6.6%, picking up strongly from the 2.2% growth in September.

The growing homebuying momentum in the US could be just a glimpse of a broader opportunity set in real estate, in our view. Driven by lower capital costs, increased debt availability, and ample dry powder in private capital, we believe the global real estate market is poised for greater activity in the year ahead.

Since COVID-19, construction activity in both commercial and residential sectors has been limited due to increased regulation and higher costs, resulting in a scarcity of new, quality space. But as interest rate cycles turn, we expect supply shortfalls and robust demand to lead to decreasing vacancy rates and rising rental growth, which we believe will drive capital appreciation over the next several years.

We see several considerations for investors looking at the real estate asset class.

Focus on sectors with strong fundamental dynamics. In the commercial segment, we believe logistics properties, data centers, and telecommunication towers are well-positioned, particularly in the US and Europe, as they benefit from trends like e-commerce and artificial intelligence (AI) and have high barriers to entry. In residential, we like broad exposure to multi-family, senior, and student housing sectors. We also like high-quality Australian REITs as well as Tokyo real estate developers. We see select opportunities in the retail space, but hold a cautious stance on the office market.

Consider both public and private market exposure. In listed markets, we anticipate double-digit performance overall. While US real estate companies have strong balance sheets, Singapore developers and REITs, along with Japanese developers, should benefit most from interest rate cuts and growing net asset values, as we believe these likely improvements are not yet fully priced in compared to their US and European counterparts. In private markets, we expect similar performance. We like core/core-plus real estate managers capable of generating income and capital growth, as well as those who can execute opportunistic acquisitions through take-privates or joint ventures with asset owners seeking liquidity. We also see opportunities in real estate debt.

Evaluate regional differences in direct real estate. Regionally, we believe direct real estate investments in Canada, the US, and continental Europe may yield the most attractive returns owing to strong rental growth and falling interest rates. Conversely, we are less optimistic about the UK residential market because of affordability issues. In mainland China, we remain cautious on overall residential investments, despite the past two to three years of downward adjustments and stimulus measures aimed at stabilizing the market.

We expect real estate to revive in 2025, with opportunities across commercial and residential sectors. Investors, however, need to be mindful of bottom-up fundamental drivers and consider their individual risk tolerance before investing.

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