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Commercial Real Estate Reset Creates Strategic Openings for U.S. Investors

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U.S. commercial property values have declined significantly, setting the stage for what experts describe as a “generational reset.” But a recent report by real estate firm Cushman & Wakefield projects that 2025 could bring “rare windows of opportunity” for investors with the discipline to act selectively and the vision to adapt to a reshaped market.

The commercial real estate (CRE) sector has undergone a dramatic transformation since the COVID-19 pandemic began. Massive liquidity injections and prolonged near-zero interest rate policies in 2020 and 2021 drove many institutional and retail investors toward alternative investments. Commercial real estate, in particular, experienced a surge in capital inflows as traditional fixed-income assets offered diminished returns. As a result, property values rose sharply during this period, driven by strong demand.

However, that momentum began to reverse as interest rates climbed and the era of cheap financing ended. Since mid-2022, commercial property values have declined between 13% and 21%, depending on asset class, marking one of the steepest downturns in the sector's history. Only the early 1990s and the 2008 global financial crisis saw sharper drops. Historically, such corrections have preceded periods of strong returns, with seven- to ten-year recoveries that outperformed the five years prior.

Not all areas of the sector have been equally affected. Industrial properties have already shown signs of recovery, while apartment, retail, and especially office buildings remain well below their pre-rate hike valuations. Nevertheless, a sharp increase in construction costs, up 43% from June 2019 to June 2025, according to the U.S. Bureau of Labor Statistics (BLS), has curbed speculative development, creating a more favorable environment for existing assets priced below replacement cost.

These elevated construction expenses are shifting investor interest toward established properties, which now offer a financial advantage over new builds. In some cases, conversions or repurposing of underused assets may present the most viable investment strategies. This backdrop is prompting a more strategic and long-term investment approach.

Cushman & Wakefield emphasizes the need for patience and a medium- to long-term horizon, as the industry undergoes a "gradual, insulated CRE recovery." Investors are also being urged to adjust expectations in light of tighter yield spreads relative to benchmarks such as U.S. Treasury bonds and investment-grade corporate debt. This compression of return margins highlights the importance of focusing on properties with sustainable income potential.

The firm recommends prioritizing core and core-plus assets properties with dependable cash flows and strong fundamentals, in both the office and multifamily segments. These types of investments are expected to attract growing interest from multi-asset class allocators, as they look to rebalance portfolios in a changing interest rate environment. Institutional-grade buildings, particularly those with stable tenants and longer lease terms, are well-positioned to benefit.

Finally, asset managers are expected to adopt more hands-on strategies, seeking greater control over their holdings to navigate the current cycle and capitalize on evolving market dynamics.