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Commentary

2026 Predictions: The Year CRE Roars Back to Life

By Joseph J. Ori Commentary  December 12, 2025 at 03:46 AM

After several years of turbulence driven by rising interest rates and economic uncertainty, the stage is finally set for a historic resurgence. Lower borrowing costs, renewed investor confidence, and pent-up transaction demand will ignite what should be the industry's most significant boom since the recovery that followed the Great Recession. From Class A office towers in fast-growing Sunbelt cities reclaiming their status as prized assets to a wave of consolidation in the PropTech space, the coming year will mark a decisive turning point — one where opportunity returns to nearly every corner of the market. With that in mind, the following are my top predictions for the year.

1. One of the biggest booms in the CRE industry will begin in 2026.

The CRE industry will see its biggest boom since the end of the Great Recession in 2012. The industry has been in a “bear market” since March of 2022, when the Federal Reserve began raising interest rates. With lower rates, a strong economy, a new Chairman of the Fed, and a huge pent-up demand to do deals, a deal frenzy will be unleashed, with record

transaction volume over \$1 trillion and loan volume over \$900 billion. It will be an exciting time to be a CRE broker.

2. The best performing CRE sector will be Class A office in the Sunbelt Markets.

After almost six years of distress and value destruction, office buildings will be in demand. Class A office buildings will be the best-performing real estate sector in 2026. This will be especially true in the high-growth Sunbelt markets of Miami, Tampa, and Palm Beach in Florida, Charlotte in North Carolina, Dallas and Houston in Texas, Nashville in Tennessee, and Phoenix in Arizona. Cap rates on many of these buildings will fall to the 5.0%-6.0% range.

3. The worst-performing CRE sector will be data centers.

The historical construction and expansion boom in data centers will lead to higher vacancies and lower rents in the next year, albeit from a record-setting pace. In the last year, hyperscalers and AI-centric firms have spent an unprecedented \$300+ billion on new and larger data centers throughout the U.S. This will lead to an oversupply of space and locations in 2026; however, the sector will remain one of the best-performing over the next five to ten years.

4. The Federal Reserve will finally reduce the federal funds rate to at least 2.00% in 2026.

The combination of low inflation, the exit of Jerome Powell, the head of the Fed, and a new Fed chairman in May 2026, will lead to a significant drop in interest rates, with the federal funds rate expected to be as low as 2.0%. As treasury rates fall, cap rates will follow, as the cap rate formula is the

risk-free rate (10-Year Treasuries) plus a risk premium (typically 3.0%-10.0%), less the growth rate in rents (typically 2.0%-4.0%).

5. CRE cap rates will decline to an average of 4.0%-6.0% for Class A properties.

As interest rates decline, cap rates will fall to the 4.0% to 6.0% range for Class A properties in Sunbelt markets. This will be welcome news for those investors who overpaid for their properties prior to March 2022, when the Fed began raising interest rates.

6. Acquisitions and consolidations will increase in the PropTech sector.

The PropTech sector was on fire until the Fed began raising interest rates and venture capital funding became scarce. Once rates decline and the venture capital industry allocates new capital, the PropTech sector will again see new growth, especially with AI-based software and data analytics. The large and established CRE software and data analytics firms will invest billions in acquisitions and new AI-centered products to improve efficiency and performance, reduce costs, and improve decision-making.

7. REIT stocks will outperform in 2026.

The FTSE-NAREIT All Equity Index will return 18.0%-20.0%+ in 2026, up from annual returns of less than 5.0% in the last two years. The projected returns will consist of a 3.50% dividend and at least 14.50% in capital appreciation.

8. The shadow lending sector will continue to grow its loan volume in 2026.

The shadow or unregulated lending sector has become a more vital and critical component of debt and equity financing to the CRE industry. The shadow lending sector includes REIT mortgage funds, private equity debt

funds, CMBS conduits and hard-money funds. These lenders currently fund about 20% of all CRE loans, which is up from about 5% ten years ago. These lenders have been critical during this tight credit market that began in March 2022, when the Fed began raising interest rates and will continue to see market share and deal gains even with a lower interest rate regime.

9. Rent control for apartments will spread to more states and cities in the U.S.

Currently, California, Oregon, and Washington, the city of New York, cities within New Jersey, Maryland, Maine, Minnesota, and the District of Columbia have some form of rent control. Rent control typically limits annual rent increases to the CPI plus 5.0%-7.0%, along with other rent restrictions. As rent costs continue to rise, expect more blue states and cities to enact rent control policies.

10. Distressed office assets in the blue gateway cities will be in demand.

It is finally time to acquire distressed office assets in blue gateway cities aggressively. The urban cores of these cities have been decimated by high crime, rampant homelessness, and an outmigration of residents and companies; however, they may be ripe for turnaround. Many of these office properties are still trading at deep 50%-70% discounts from their 2019 highs, and with lower rates and a booming economy, the fundamentals should improve dramatically. Targeted markets such as Washington, D.C., San Francisco, Chicago, Philadelphia, Atlanta, and Seattle should be favored.

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