2025 commercial real estate M&A outlook

Are you ready?

Contents

Introduction

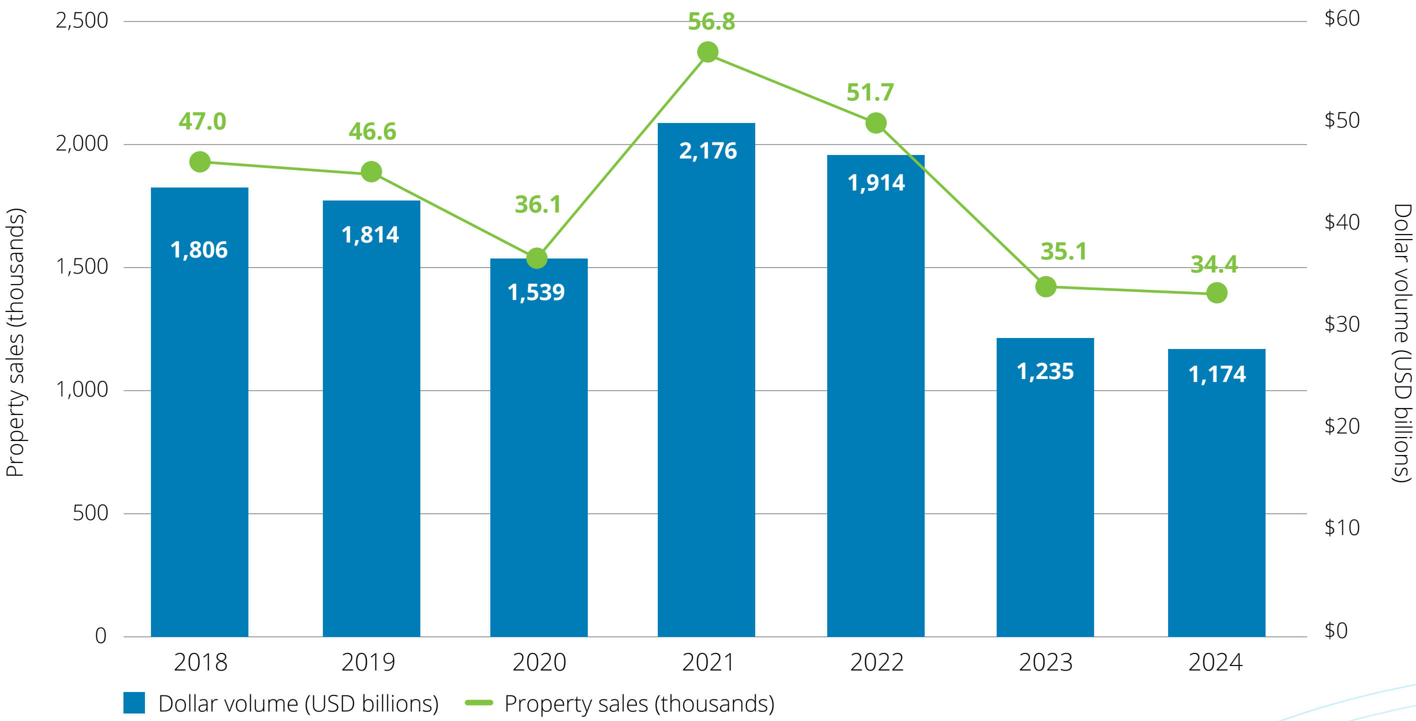
Meet the new year. Same as the old year—but this time, with some twists. A new administration has taken office in Washington, and their policies will have implications for corporate real estate and dealmakers' strategic decision-making. Consumer spending is strong.[1] Unemployment has dipped to 4%.[2] Annual inflation, while still well above the Federal Reserve's target, has fallen significantly from post-pandemic highs without a recession.[3]

To quote Walt Whitman, "The future is no more uncertain than the present." In this outlook, we discuss four key expectations for mergers and acquisitions in commercial real estate this year. Let's set the stage with a look back at M&A in 2024.

2024 in review

Global commercial property sales dipped in 2024 to become the lowest in the seven years we have tracked. Sales transactions fell 2% from the year before while the dollar volume fell 5%. These declines may at least partially reflect the uncertainties of an election year (figure 1).

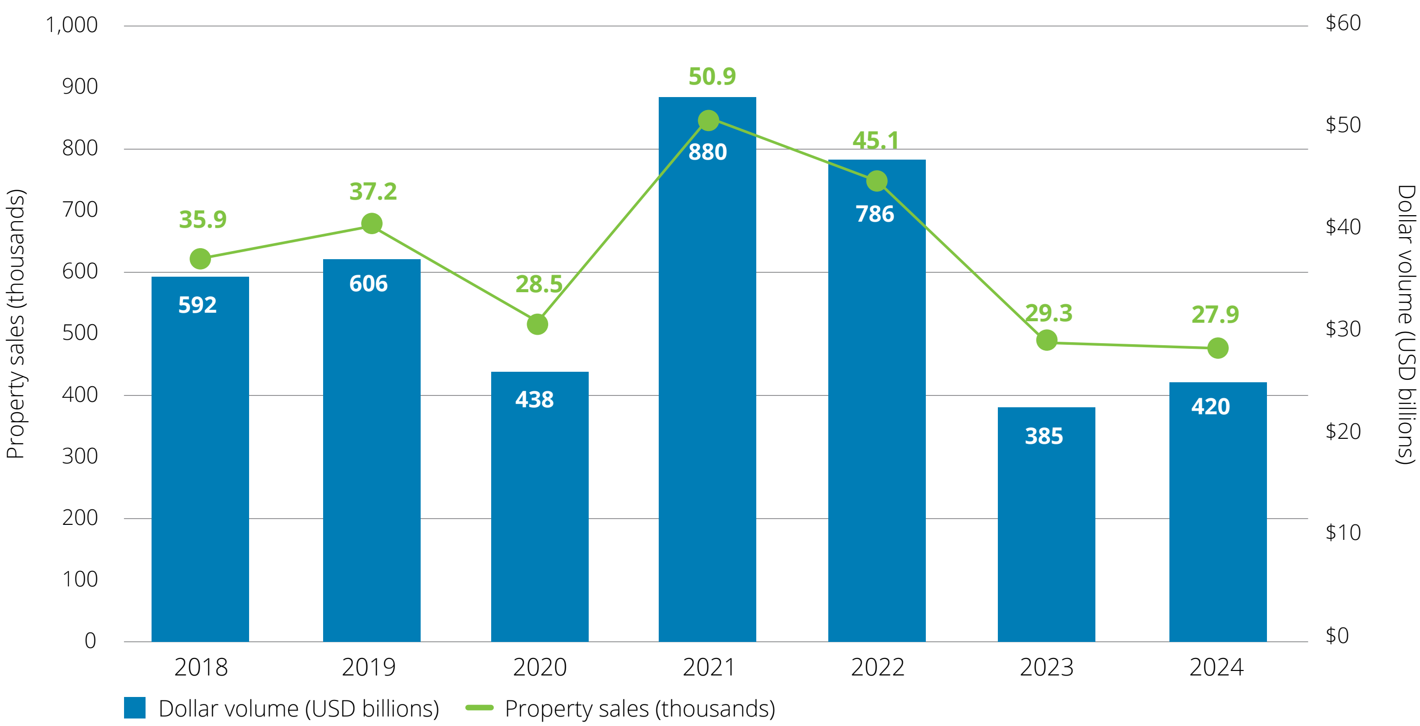
Figure 1. Global (including US) property sales, 2018–2024



Note: Includes closed deals only.
Sources: S&P Capital IQ, accessed February 12, 2025; MSCI Real Capital Analytics, accessed February 6, 2025.

In the United States, the dollar volume of property sales went up 9% over 2023, but the number of sales fell nearly 5%. Both results are still lower than in 2020 when the pandemic hit (figure 2).

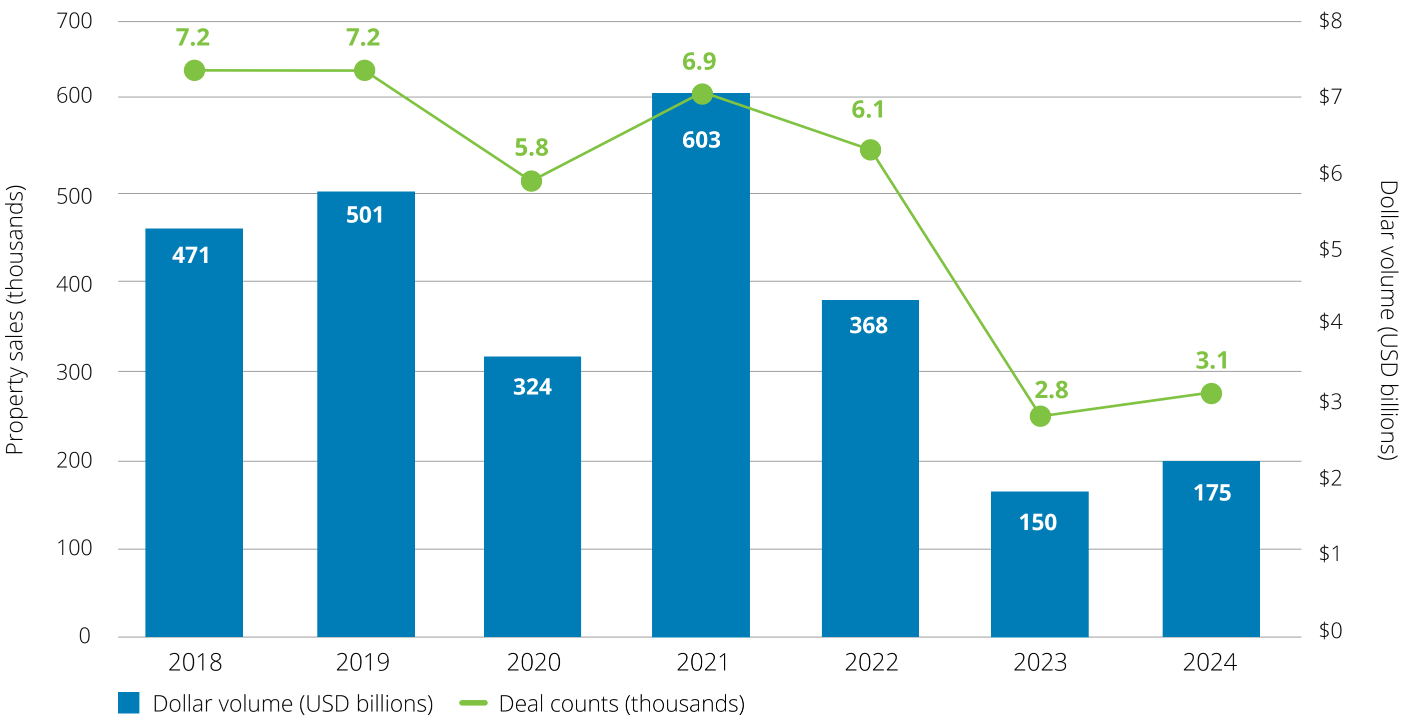
Figure 2. US property sales, 2018–2024



Note: Includes closed deals only.
Sources: S&P Capital IQ, accessed February 12, 2025; MSCI Real Capital Analytics, accessed January 23, 2024.

By contrast, M&A transaction activity increased. Worldwide dollar volume and deal count for 2024 saw a year-over-year increase of roughly 17% and 11%, respectively. But these results still hover near a seven-year low (figure 3).

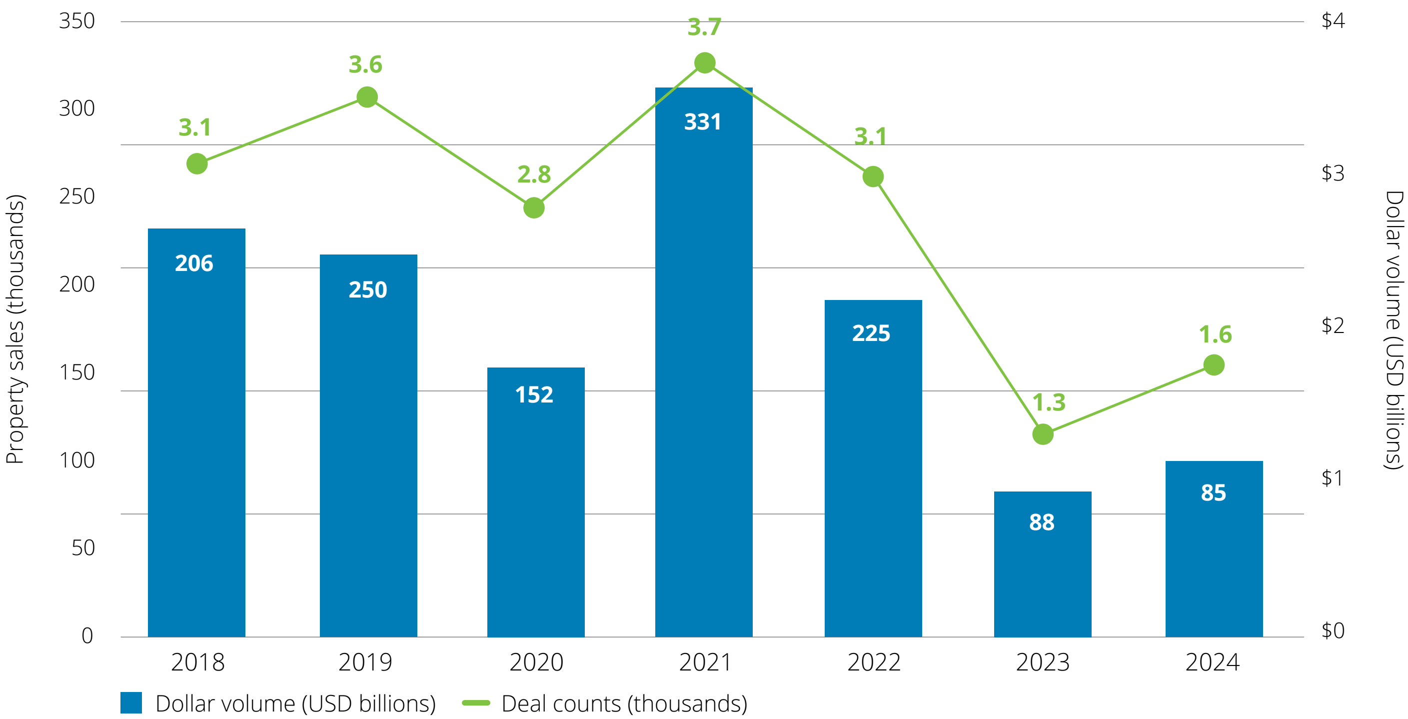
Figure 3. Global (including US) M&A transaction activity, 2018–2024



Note: Includes closed deals only.
Sources: S&P Capital IQ, accessed February 12, 2025; MSCI Real Capital Analytics, accessed February 6, 2025.

In the United States, although deal count went up 23%, the dollar volume of deals was off more than 3% from 2023 (figure 4). Note that these results may be skewed because there were only three real estate investment trust (REIT) deals during 2024 and the dollar amount of one of them is undisclosed.[4]

Figure 4. US M&A transaction activity, 2018–2024



Note: Includes closed deals only.
Sources: S&P Capital IQ, accessed February 12, 2025; MSCI Real Capital Analytics, accessed January 23, 2024.

Expectations for 2025

1. A power surge in data center deals

2. A bright spot for office M&A

3. Digital transformation as a deal accelerator

4. REITS at a crossroads

5. Other trends to watch

1. A power surge in data center deals

At the end of 2024, Blackstone completed its $16 billion acquisition of AirTrunk.[5] The transaction wrapped up a year of record-breaking dealmaking within the data center sector.[6] Between the boom in artificial intelligence (AI) and an ongoing shift to cloud computing, demand for data center capacity does not appear to be slowing down. That's made data centers an attractive investment destination, especially for private equity firms, which have fueled at least 80% of closed data center deals in the past few years.[7]

For their part, data center operators have been eyeing acquisitions in the energy utilities sector.[8] Prologis, for one, has been evaluating the development of onsite energy production and storage to support its expanding portfolio of data center operations.[9] Amazon has invested $334 million in a project to build small modular reactors to help power its data centers.[10] And Equinix has signed power purchase agreements in the United States and abroad with an eye to running its entire data center network on clean and renewable energy.[11]

The introduction of China's lower-power AI model, DeepSeek, in early 2025 initially sparked a selloff in companies with data center exposure.[12] But analysts soon concluded that cheaper, lower-power AI models like DeepSeek could ultimately boost data center demand by accelerating AI adoption.[13] As data centers scale to accommodate AI workloads, more data center investors may get creative about power sourcing to get deals done and preserve the value of their assets over the longer term.

2. A bright spot for office M&A

Investors in office space have endured a steady drumbeat of disappointing news post-pandemic. Elevated vacancies and more expensive borrowing costs weighed on fundamentals in a market already weakened by oversupply.[14] Under the circumstances, it was hardly surprising that industry insiders were less optimistic about offices than any other property sector in Deloitte's 2025 global real estate outlook survey.[15]

But one sub-segment is bucking the trend. As more employees return to in-person work, US companies are scrambling to find modern, energy-efficient, and amenity-rich office spaces.[16] Such properties are becoming scarce in Los Angeles, Miami, and Washington, DC, as well as other cities with high-demand neighborhoods.[17] The result is an uptick in prices and lease transactions in premium markets.[18]

If forecasts point to sustained or increasing tenant demand, more real estate companies may be persuaded to enhance their portfolios with office properties in 2025. This shift could be a positive development for the nation's beleaguered urban centers, where mayors are often eager to demonstrate post-pandemic resiliency. An early step in that direction appeared in January with reports of Blackstone's potential purchase of a midtown Manhattan office tower.[19] That same month, CBRE reached an agreement to acquire Industrious, a provider of flexible workplace solutions.[20]

However, acquisitions of top-tier assets will likely remain more attractive than renovating B and C class properties, at least until values and the cost of capital—particularly debt—drop enough to make the operating economics worthwhile for investors more broadly.

3. Digital transformation as a deal accelerator

Among the executives participating in Deloitte's real estate outlook survey, 81% said data and technology was the area where they were most likely to focus spending in the year ahead.[21] That may be a sign that the industry recognizes the need to increase technology capabilities and, perhaps encouraged by the emergence of Generative AI (GenAI), intends to do something about it.

Deal sourcing, vetting, and valuation tend to be labor-intensive endeavors in commercial real estate. Decision-makers often rely on their knowledge and experience to gauge a target's potential. With advancements in digital technology, real estate owners and investors have an opportunity to change the way this work gets done and achieve margin-positive growth in revenue or portfolio size.

On the individual-home buying side, Rocket Companies plans to acquire Redfin, a digital real estate brokerage, to provide broader digital solutions to their customers, which underscores the digital transformation trend.[22] Some investors have already started using AI. At JLL, a large language model trained on data specific to real estate has the potential to provide predictive modeling for property investors.[23] Meanwhile, Alpaca's real estate investment arm uses AI to gather and organize deal information so its investment managers can identify opportunities in the market more efficiently.[24]

Still, it's early days. AI-generated content, and the business decisions that are based on it, relies on the accuracy and completeness of the underlying data. But real estate data has historically not been standardized, and data fragmentation is a common issue.[25] We expect there to be significant progress in ironing out these technological issues as real estate companies compete with one another to close better, faster deals.

4. REITs at a crossroads

REITs have seen their share of ups and downs lately. Investor withdrawals from nontraded REITs have significantly exceeded fundraising in 2024, a reflection of elevated interest rates and demand woes in the office asset class.[26] On the other hand, publicly traded REITs took in nearly $85 billion in 2024, more than they did in each of the previous two calendar years.[27] Meanwhile, Blackstone took two REITs, strip mall owner Retail Opportunity Investments and multifamily property landlord Apartment Income REIT, private in deals totaling $14 billion.[28]

Then there were the initial public offerings (IPOs). First, cold-storage warehouse operator Lineage raised $4.4 billion in a blockbuster public debut.[29] After that, FrontView, which specializes in outparcel properties, raised $251 million.[30] They were the first REIT IPOs in two-plus years.[31]

But M&A in the REIT sector has been muted, a result of higher borrowing costs as well as depressed valuations creating a gap between buyer and seller expectations. Balance sheets for most REITs remain sturdy, with growing net operating income.[32] That could give REITs the appetite and ability to leverage the capital markets or engage in alternative structures to expand their portfolios if the conditions align in 2025.

One potential consideration is President Trump's proposal to lower the corporate tax rate to 15% for domestic manufacturers. If Congress enacts this proposal and extends it to real estate companies or all corporations, real estate companies and investors may favor corporate acquisitions over REIT conversions or even merge existing REITs into C corporations. Investors will likely be very focused on changes in tax legislation in 2025.

5. Other trends to watch

Hotels. Amid a rebound in industry conferences and other group travel, US hotel construction reached record highs in 2024.[33] By the end of the year, nearly 6,400 projects were in the US hotel construction pipeline, with 730 new properties projected to open in 2025.[34] And in early 2025, Hyatt announced its acquisition of Playa Hotels & Resorts for $2.6 billion.[35]

Warehouses. Rents in the US warehousing sector grew 4.5% in 2024, a resilient showing despite rising vacancy rates. In February 2025, Apollo announced the acquisition of Bridge Investment Group Holdings for $1.5 billion, adding warehouse assets to its portfolio. A significant pullback in construction makes it unlikely that companies looking for storage facilities will find many bargains anytime soon. Protectionist policies, if they take hold in the United States, could tighten availability further as logistics demand shifts from ports to locations that are closer to production. Investors may view these conditions as an opportunity to stock up on warehouse assets.

Mapping out the year ahead

Although real estate M&A didn't see the volumes in 2024 that stakeholders may have hoped for, the year did close out with a number of notable transactions, and the elections are now behind us. That said, the market still faces headwinds from interest rates and policy uncertainty. If transaction activity picks up, it may happen slowly at first, and then all at once.

Ultimately, the dealmakers who embrace uncertainty in their M&A planning, strategy, and execution are likely putting themselves in a stronger position to be ready for what may come.

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