

Year in Review: How Last Year's Top CRE Trends Could Shape 2023



The start of a new year is always an interesting time for commercial real estate (CRE) professionals. While some deals may have slowed down over December, there's now plenty of work to be done and many of us can find ourselves already "in the thick of things" as the new year kicks off.

There's a natural tendency to focus on the deals at hand and to direct our attention forward to answer the question: What can we expect in 2023?

Equally important, however, is taking the time to review the learnings from the year that's just passed. Paying attention to the details of how a particular trend developed, for example, is often the key to understanding whether it's likely to continue and what the CRE landscape will look like as a result.

With that in mind, we looked back through some of the top trends and sectors in the CRE space in 2022 and considered how they're likely to fare in the year ahead.

Hybridity and the Return-to-Work

Perhaps one of the biggest questions in the CRE industry, and especially for those working in the office sector, has been around the return-to-work. Our questions have ranged from: "What do hybrid offices want?" to "How likely is a large-scale return to office?"

Of particular interest in this regard is the fact that workers still seemed to be holding all the cards towards the end of 2022, even with dire economic predictions (and layoffs) on the wind. As of November last year, the number of employees working from home was also still growing in many industries.

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What's worth noting, however, is that while the culture of office has seemingly irrevocably shifted, many companies are also looking at opening offices away from urban centers to try to encourage more regular attendance, and the "flight to quality" in office space is still ongoing.

For savvy CRE professionals, that means there's still plenty of opportunity in this sector—it's just a question of keeping close tabs on the trend in the year to come.

The ESG Imperative

An ongoing focus of the past few years, which gained even more traction in 2022, is the need to meet Environmental, Social, and Governance (ESG) imperatives.

We've already previously covered the importance of both gender equity and diversity in real estate, along with the rise of technologies like climate tech. These are themes that should remain top of mind for CRE professionals, not only in the year to come, but much further into the future as well.

Equally as important is the relevance of these topics to our clients. As more companies aim to improve their performance in these areas in line with global initiatives, market opportunities linked to ESG initiatives are set to increase through 2023 and far beyond.

A Leap Forward for Life Sciences

Among the many niche subsectors that can be found in various CRE markets, few have seen more success recently than the burgeoning life sciences sector. Laboratories and pharmaceutical startups have had a particularly strong run, though the generally cautious investment environment saw some slowdown of this trend in 2022.

Nevertheless, as PwC point out in their "Emerging Trends in Real Estate 2023" report, interest in this sector has far from dried up. Rather, investors are taking a more cautious approach, focusing in on companies and markets that have achieved some maturity in the space.

Our diagnosis? The life sciences market is still "lively" as we head into 2023.

Red-Hot Industrial

Another trend that seems to have gone from strength to strength through 2022 is the uptick in industrial and logistics real estate. At the midway point of 2022, these sectors were still performing strongly, despite economic "headwinds."

Since then, many industrial markets have continued to perform at an exceedingly high level, with low vacancy rates and sky-high rents in many areas. Ongoing supply chain constraints throughout the year have also had a dampening effect on new development, ensuring that supply is still lagging demand in many areas.

Though industrial and logistics assets have seen global success through 2022, the US market in particular may also gain a strong boost in 2023 as manufacturers start "reshoring" their operations to escape the rising costs of doing business in Europe.

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Sunny Down South

Many metros in the US “Sun Belt” states had an outstanding performance last year. As we noted then, this is a trend that predates 2020, but there were some particularly interesting developments last year.

Metros like Phoenix rose to prominence, along with Raleigh/Durham, Austin and others, and investment was on the uptick by mid-year 2022, particularly as foreign investors turned their eye to these up-and-coming markets.

Since then, the latest PwC “Emerging Trends” report has shown that these markets are still strong contenders in 2023. A combination of “business-friendly” conditions and better work-life balance means that the Sun Belt is still a big draw for workers and businesses alike.

It's worth noting, however, that certain segments, such as the multifamily market in some Sun Belt cities, are seeing a sharp decline in rent in the face of prevailing economic conditions.

The Forecast for 2023

As we head into a choppy 2023, keeping a finger on the pulse of new trends and developments will be crucial for CRE professionals wherever, and whatever, your market may be.

Our top advice, as always, is to perform due diligence on new opportunities and to pay attention to the minutiae of deals and developments in your area.

