

Macro Outlook for Commercial Real Estate

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The views herein are those of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System

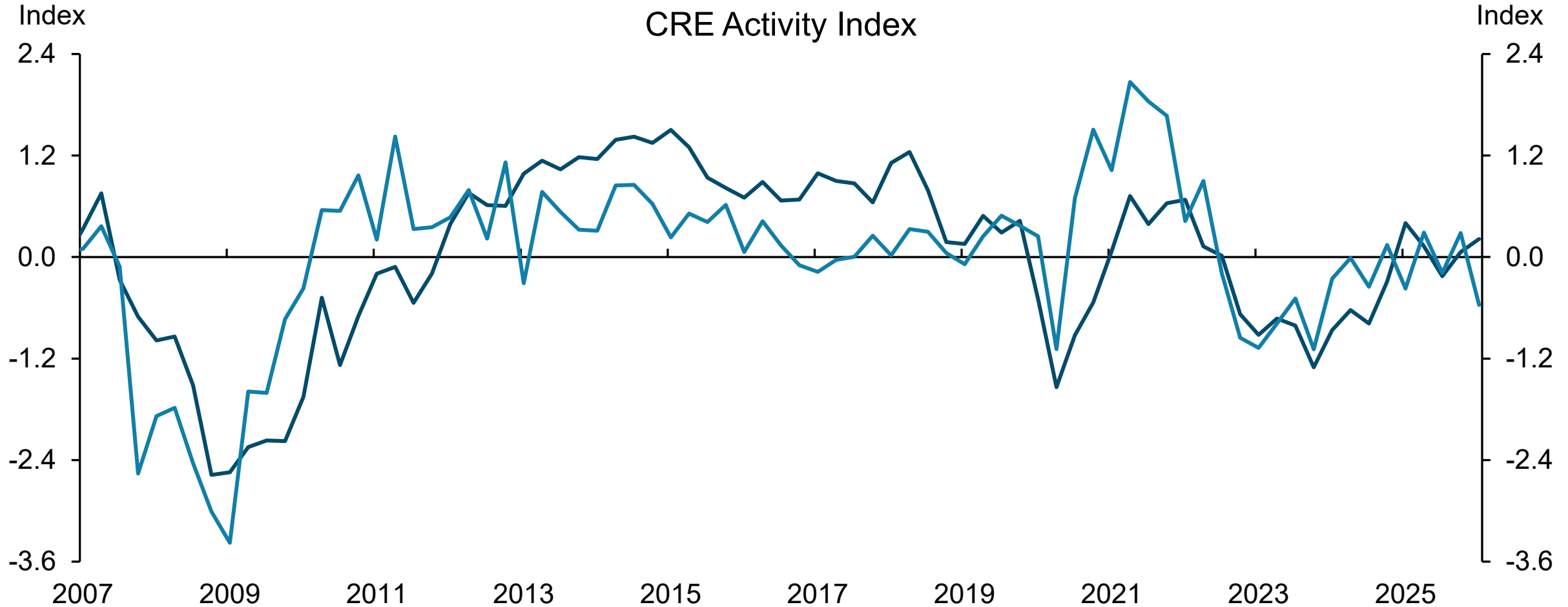


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Outlook Themes

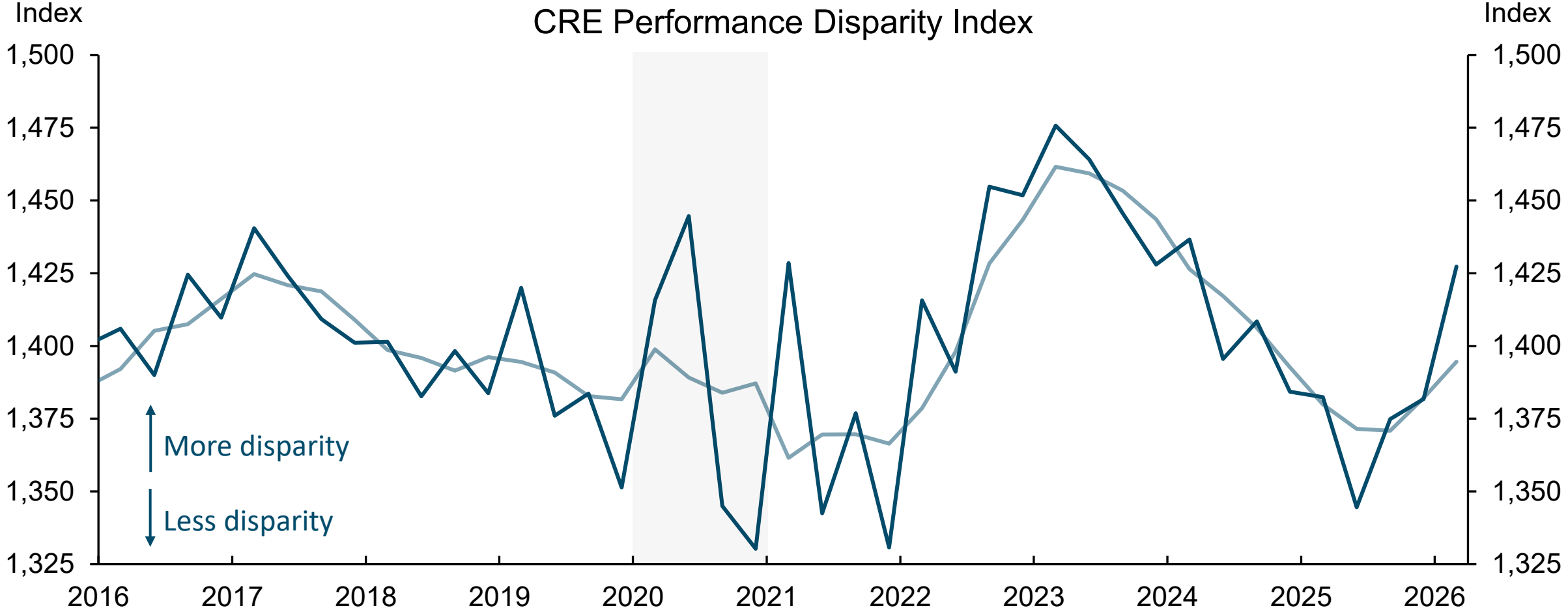
- Overall CRE activity stabilized in 2025, with asset pricing and performance becoming more granular and localized.
- Demographic trends and technology transitions are generating steady tailwinds and firm gusts behind certain healthcare and industrial segments.
- Despite greater uncertainty about the path of rates, CRE market participants generally report that the current stance of monetary policy is not significantly hindering activity.
- The bulk of maturing loans and refinancing needs are poised to rotate over the next five years, from office and industrial toward multifamily.

After six consecutive years of volatility in CRE activity, conditions were generally stable throughout 2025



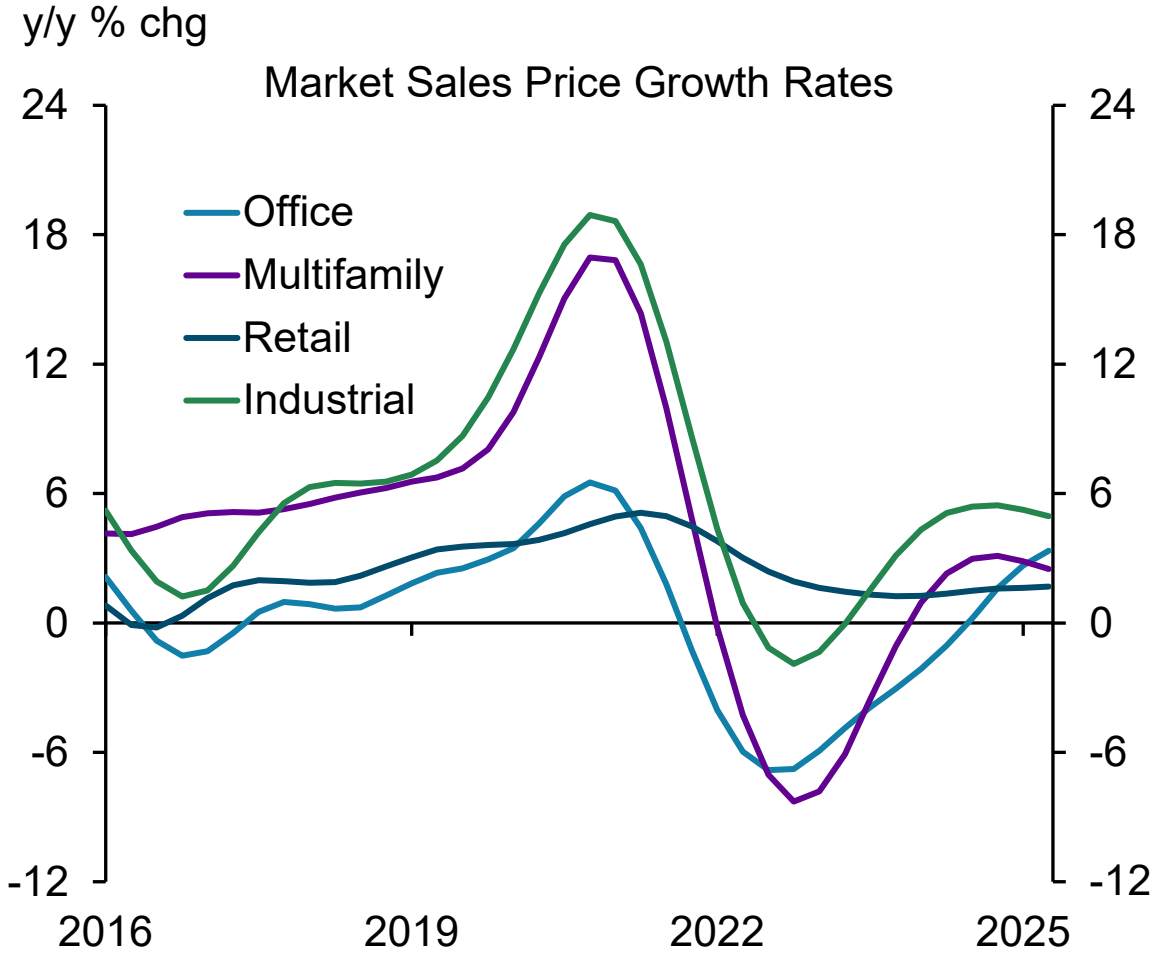
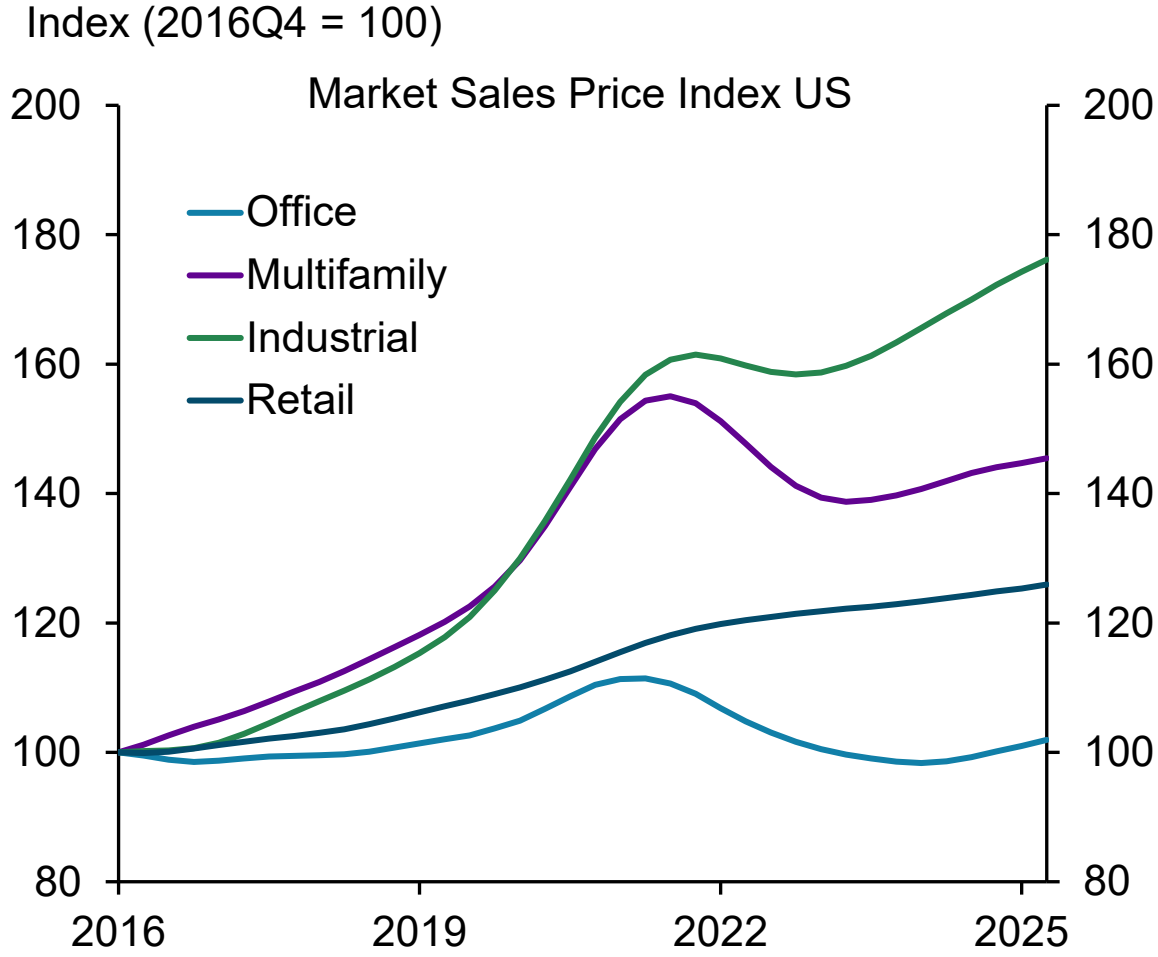
Source: KC Fed, Federal Reserve Board, FRED, CoStar Realty Information, Inc., staff calculations.

As aggregate conditions stabilized, asset performance showed increasing granularity with higher dispersion in yields across locations and segments



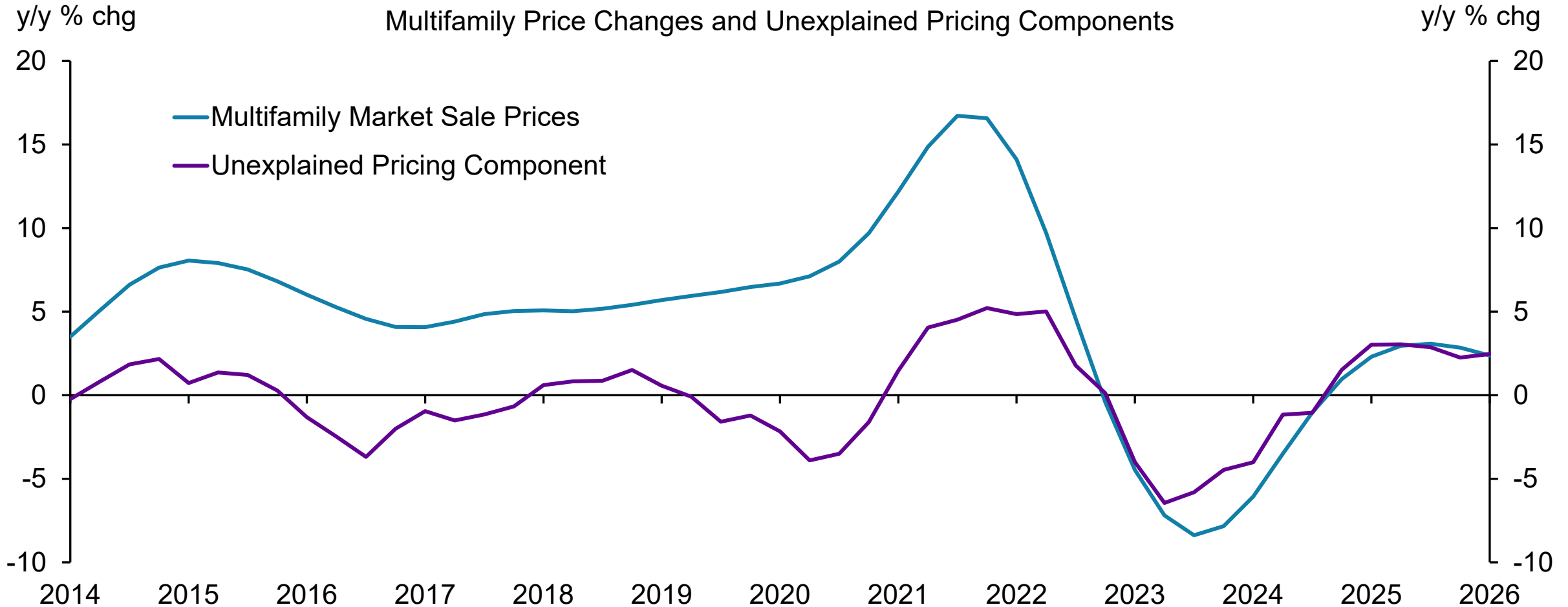
Source: KC Fed, Federal Reserve Board, FRED, CoStar Realty Information, Inc., staff calculations.
Note: Disparity is measured as the Shannon entropy across several market metrics using the methodology in Sly and Greene (2024).

Aggregate price trends across market segments converged somewhat over the past year, suggesting pricing is increasingly driven by localized factors

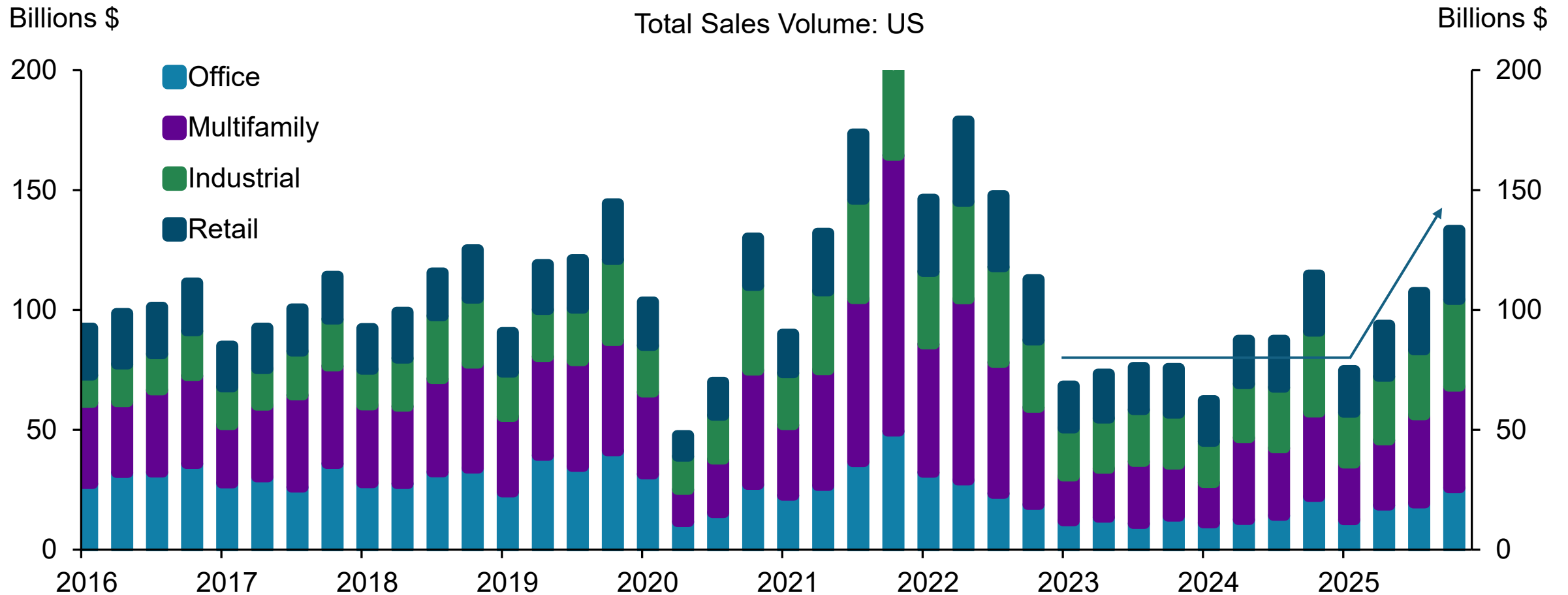


Source: CoStar Realty Information, Inc., staff calculations.

For example, multifamily housing property pricing mostly realigned with localized fundamentals over the past year



Transaction volumes rose in 2025 amid relatively flat market rates



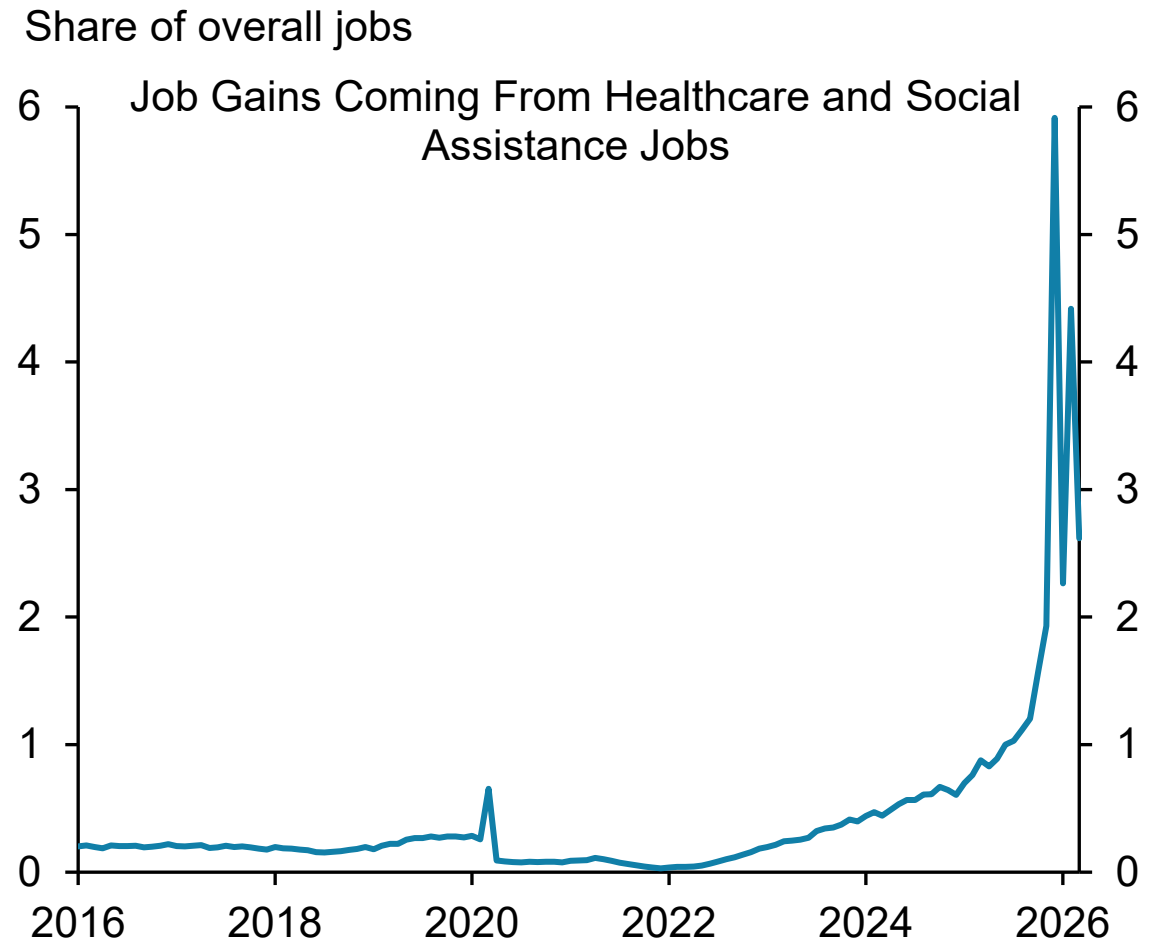
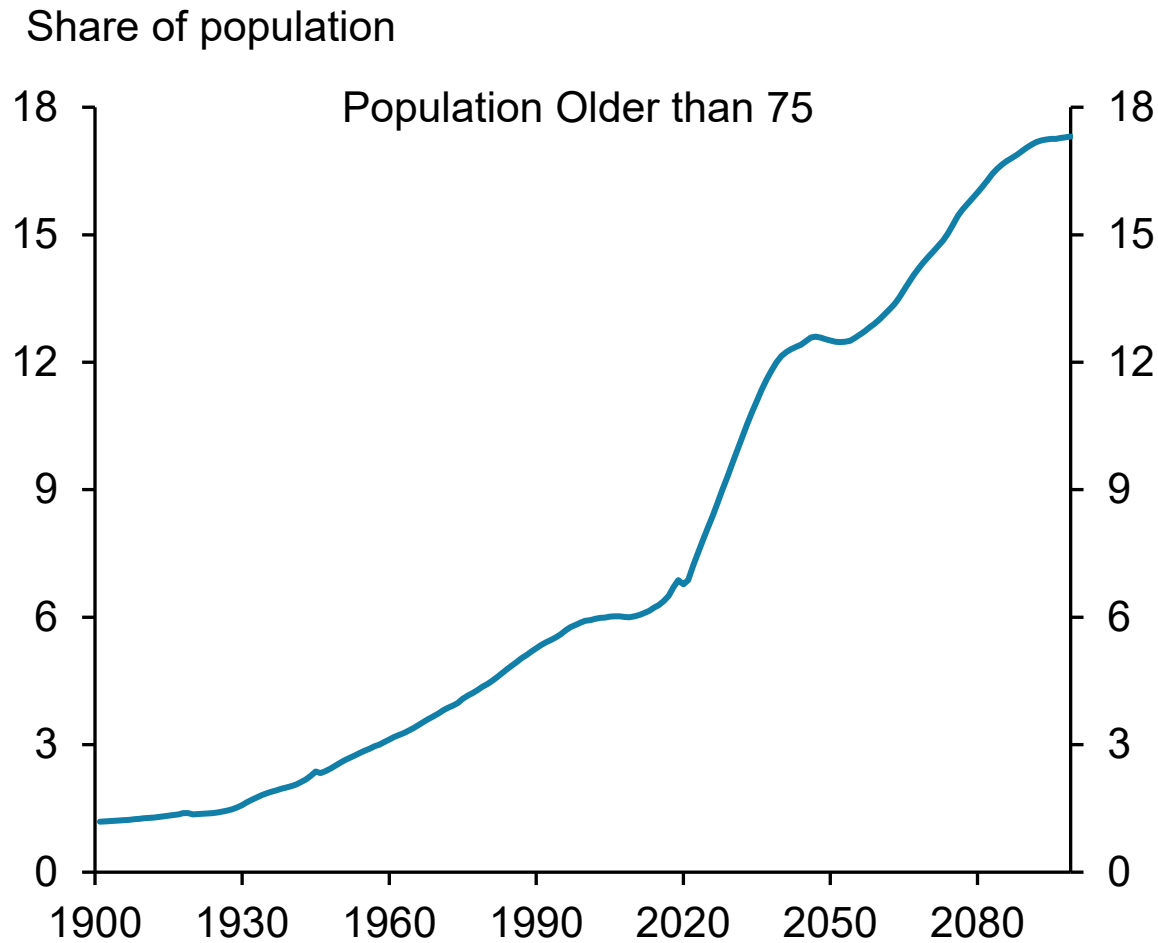
Source: CoStar Realty Information, Inc., staff calculations.

Structural Shifts Evident in CRE Activity

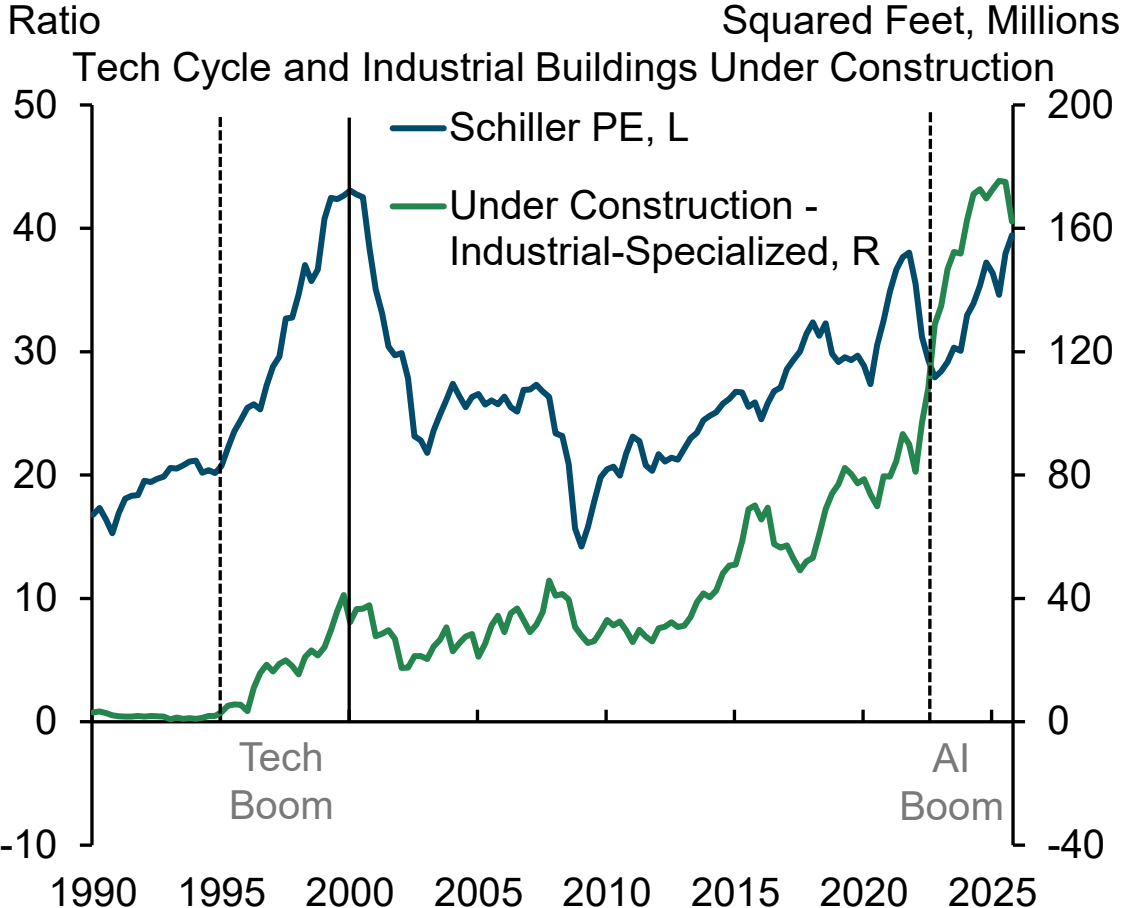
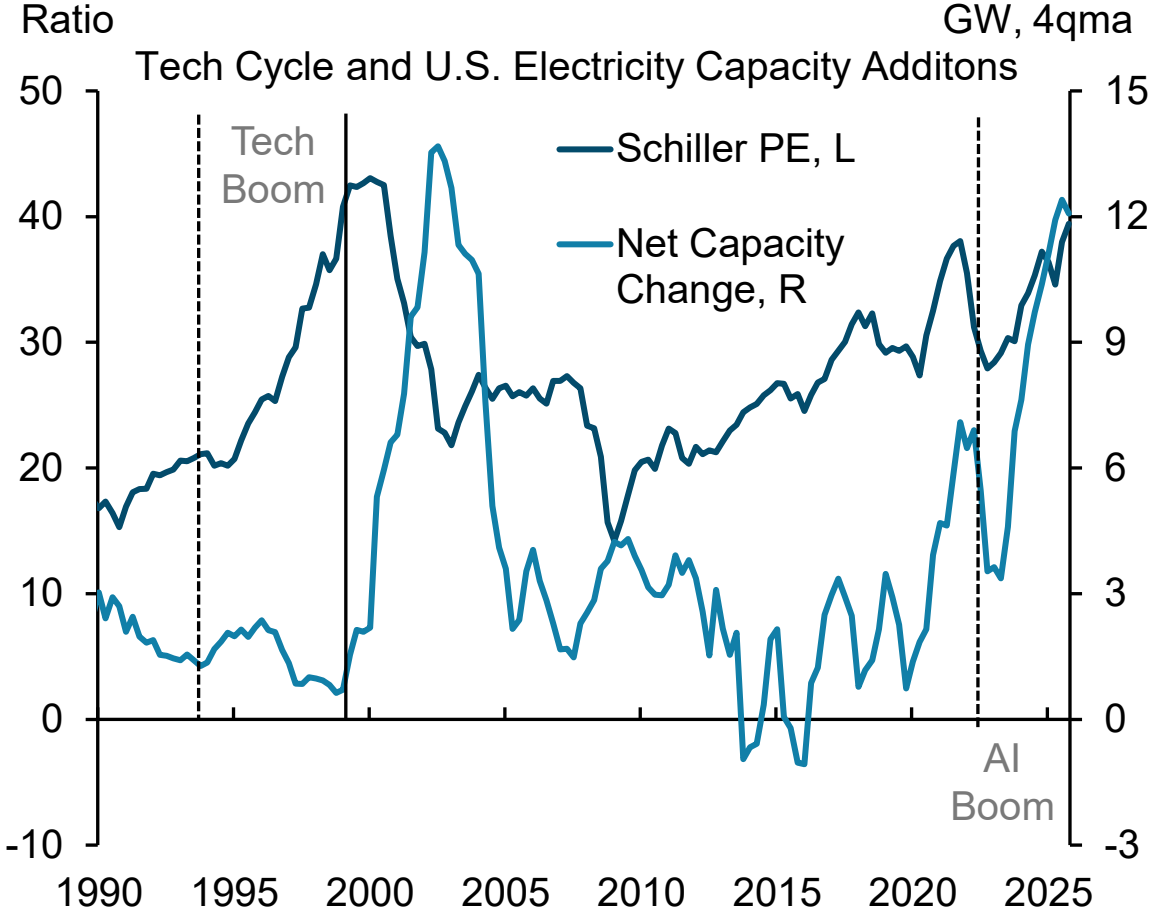


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Demographic trends driving relatively more economic activity toward healthcare



Data center construction has significant tailwinds and is likely to exhibit hysteresis even if those winds fade



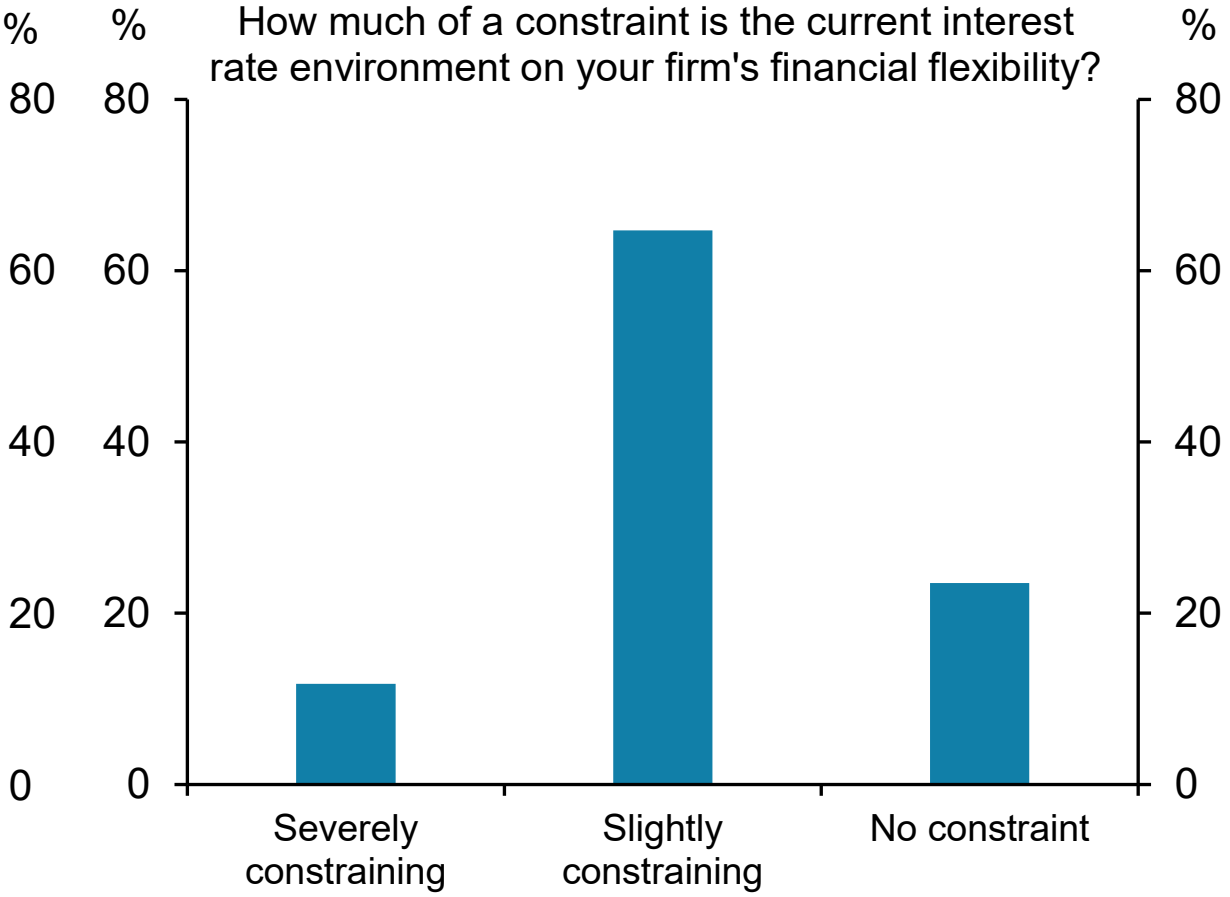
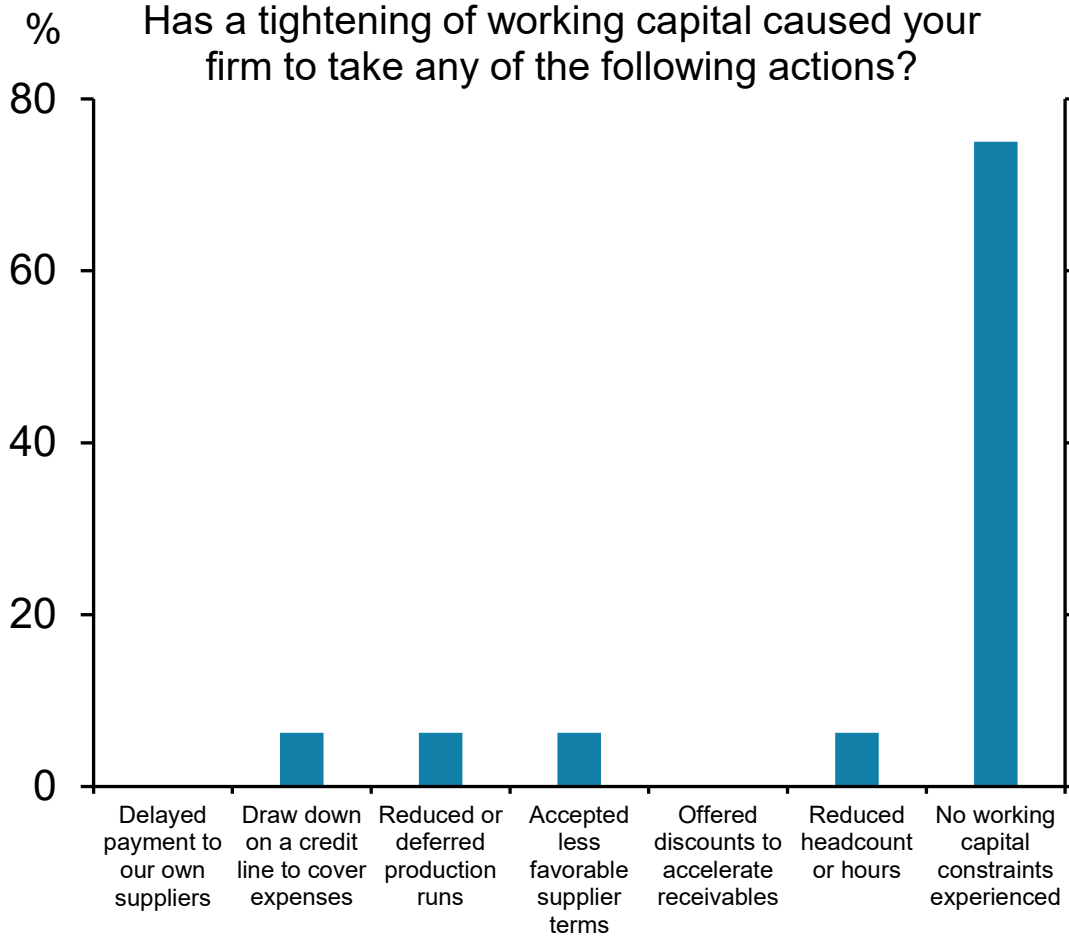
Source: Robert Shiller, EIA, NBER, CoStar Realty Information, Inc., Haver, staff calculations
 Notes: GW stands for gigawatts (1 billion watts). PE stands for price-to-earnings ratio.

Financial Conditions and Risks to Monitor in CRE



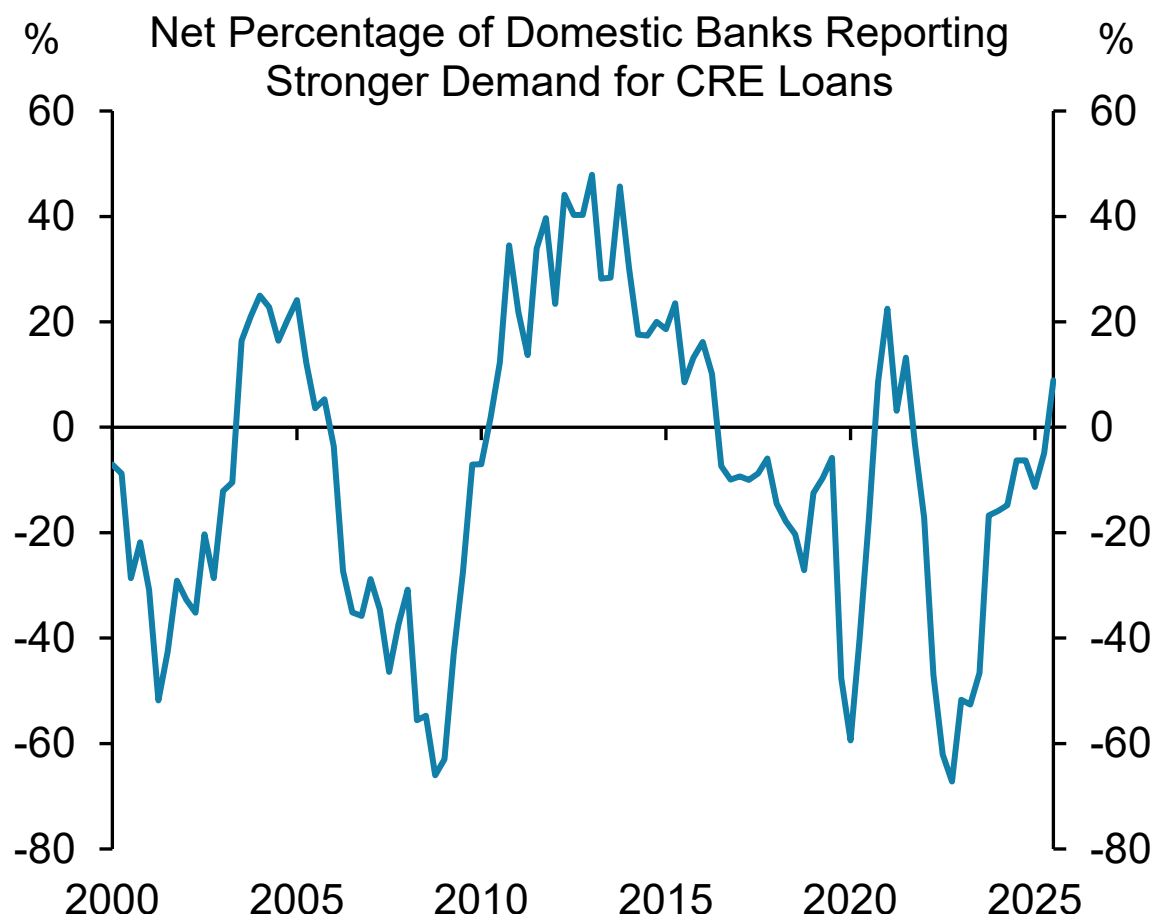
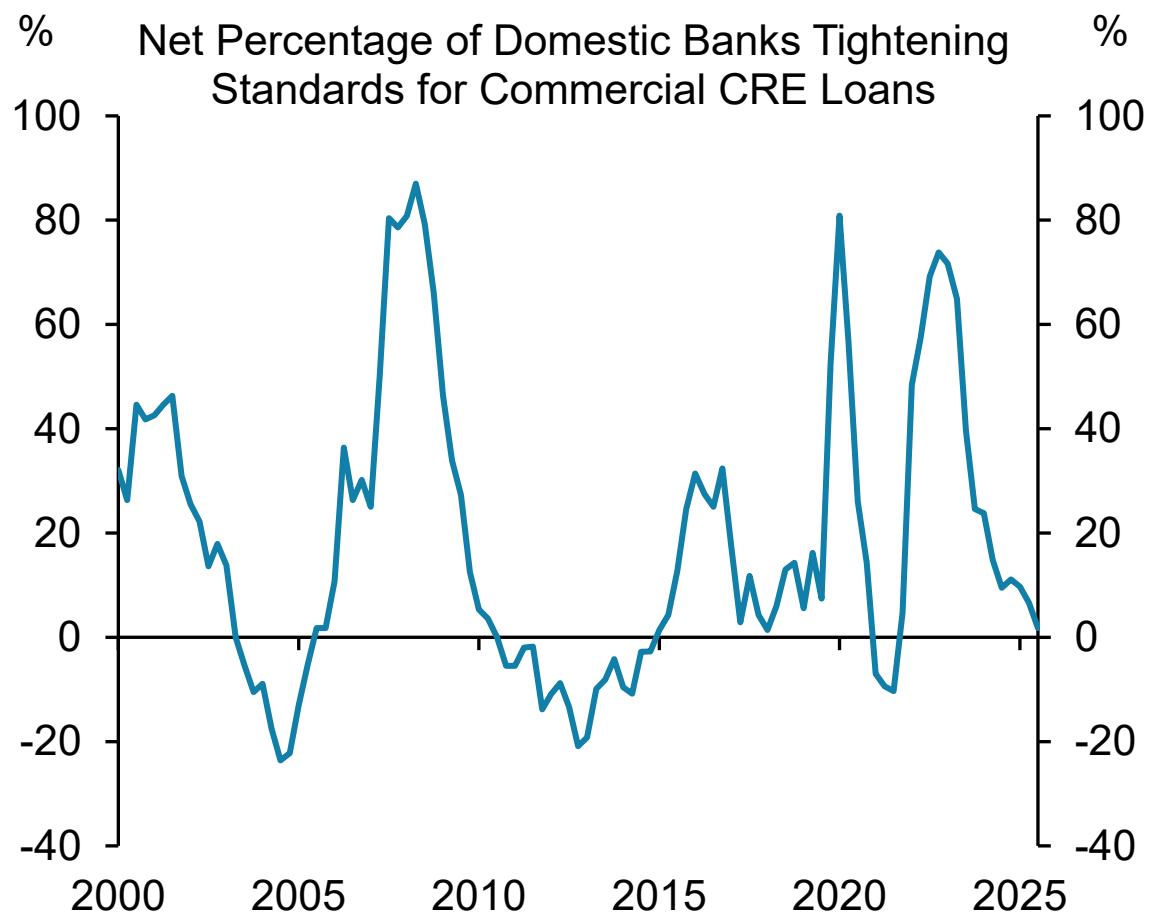
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KC Fed regional contacts point to minimal financial constraints currently



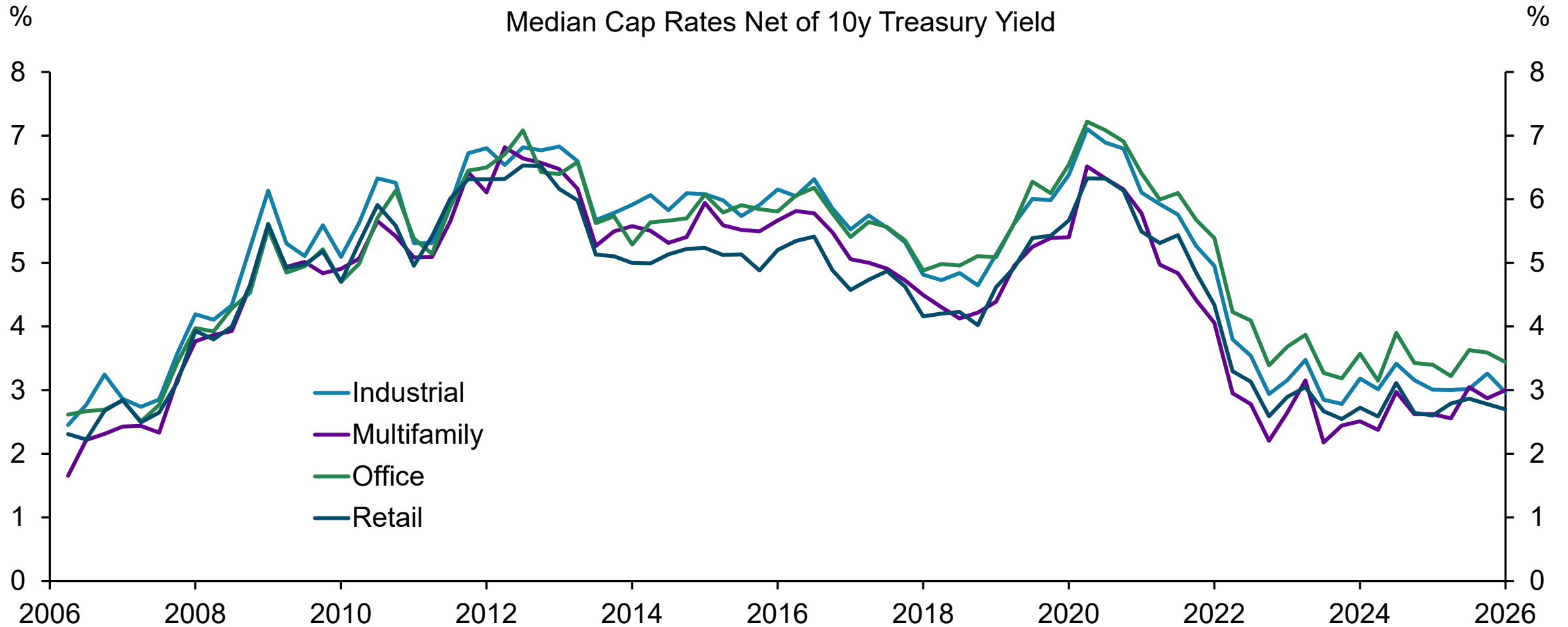
Source: KC Fed Surveys

Bank lending into CRE only recently stabilized from a period of declining demand and tightening standards



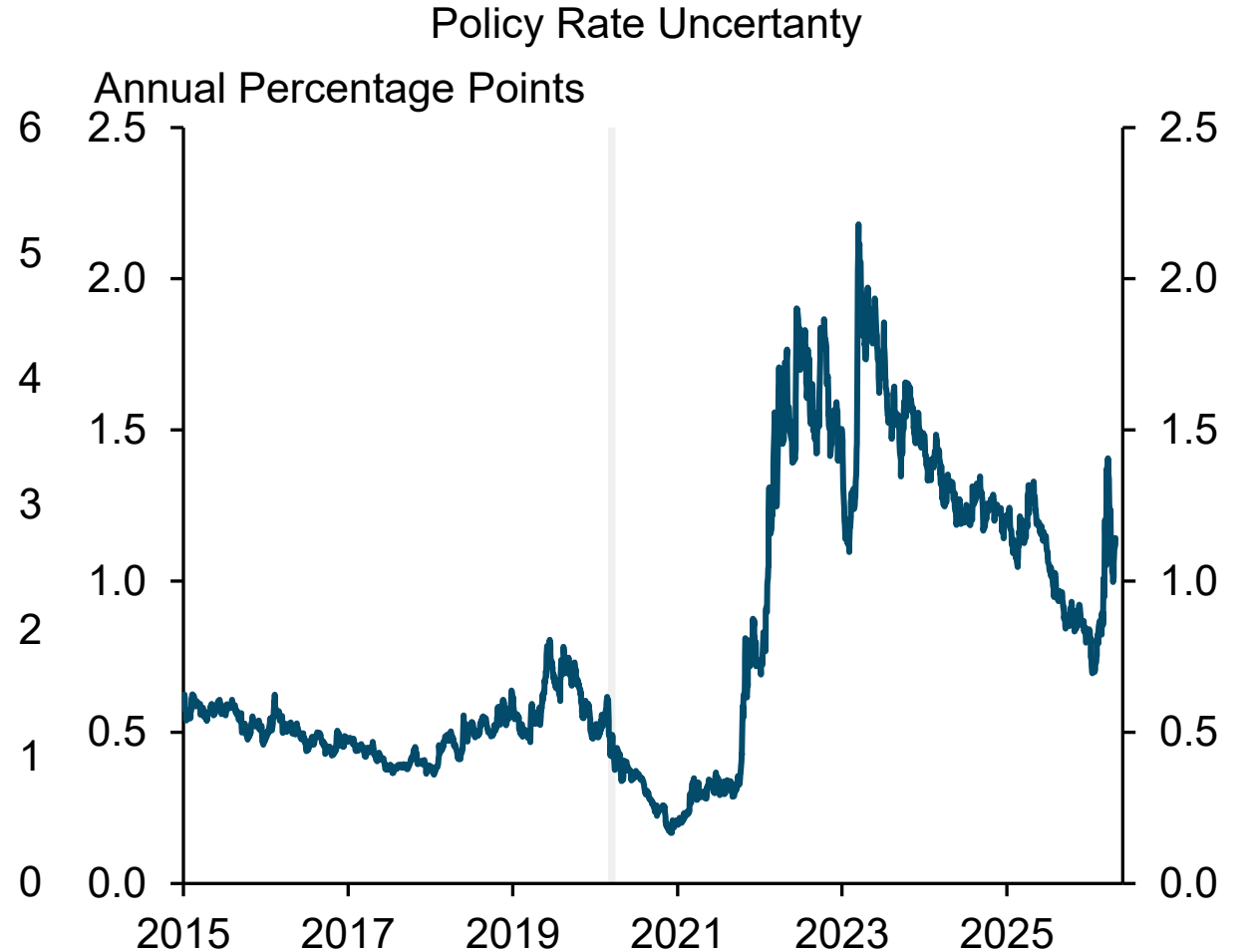
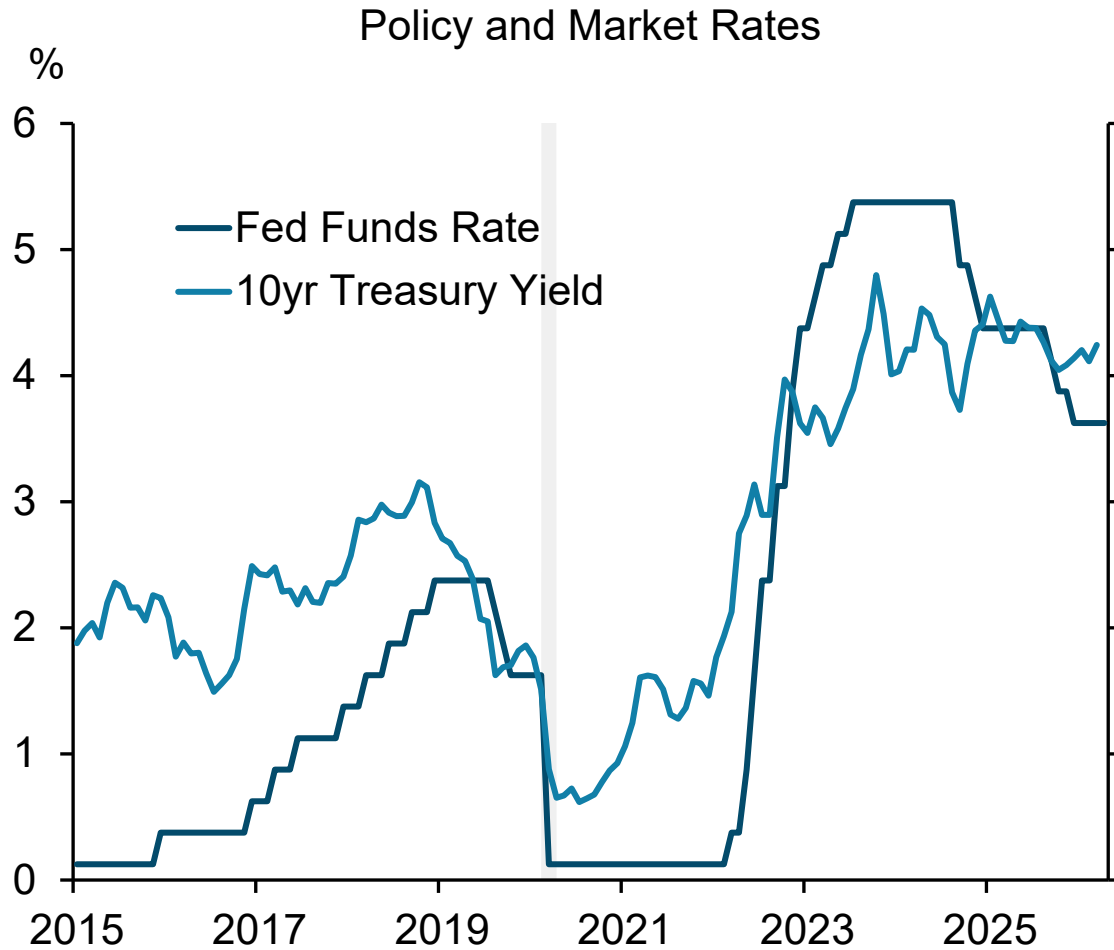
Source: FRED.

Cap rate spreads remain steady albeit with some anecdotal indicators that spreads are beginning to widen



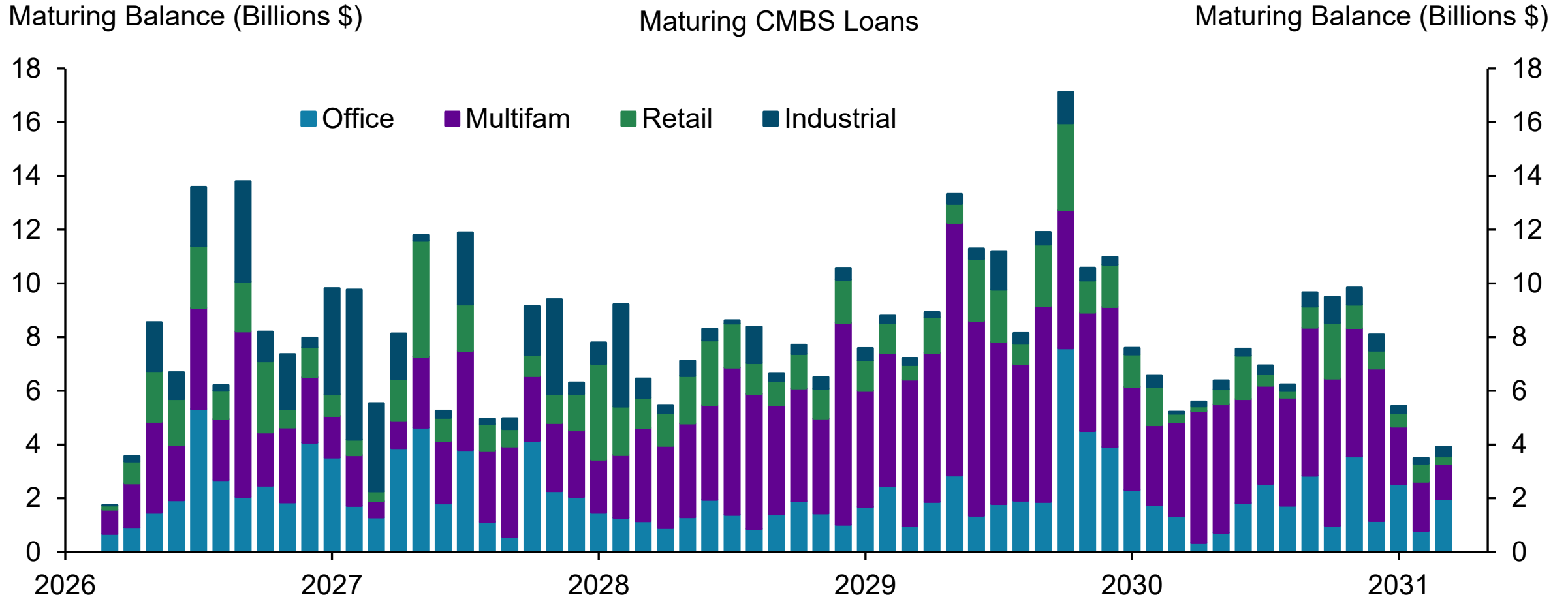
Source: CoStar Realty Information, Inc., Tullett Prebon Information, Haver, staff calculations.

Market rates were relatively stable throughout 2025, but both volatility and uncertainty have risen in recent months



Sources: KC Fed, Federal Reserve Board, Tullett Prebon Information, Haver.

The preponderance of maturing loans will rotate from office and industrial toward multifamily over the next five years.



Source: CoStar Realty Information, Inc., staff calculations.



Resources from the Kansas City Fed's Economic Research Department

- [Beige Book](#)
Anecdotal information on current economic conditions in the District.
- [Labor Market Conditions Indicators](#)
Two monthly measures of labor market conditions based on 24 labor market variables.
- [Community Connections](#)
Get information on community and economic development trends across the Tenth Federal Reserve District.
- [Kansas City Financial Stress Index](#)
A monthly measure of stress in the U.S. financial system based on 11 financial market variables.

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