What will commercial real estate look like in 2030?

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All signs in the sky say that the CRE market of 2030 is in for a journey, and will be much more different than what it is today.

The COVID-19 pandemic has put the global economy, including the commercial real estate market, to the test. Many companies have now permanently switched to a hybrid model, decreasing their need for office space. According to Statista, the commercial real estate market will likely grow at a CAGR rate of 2.96% between 2024-2028, reaching $133.5 trillion by 2028.
Upon first sight, this might seem like a positive prediction, but other numbers are much more 'sobering'. Fortune magazine foresees that there will be $800 billion worth of empty office space, just in nine large cities worldwide.

When looking into the future, CRE companies worry about growing interest rates, inflation, and a possible recession if things do not improve. The silver lining though is that there are a few trends and new technologies, including proptech, which can help the industry land on its feet.

What will commercial real estate look like in 2030? That's what I am going to cover in this article.

Rising interest rates have impacted CRE, painting a future of economic uncertainty

In 2023, the commercial real estate market witnessed a $590 billion loss in property values. The outlook for 2024 is hardly optimistic, with Capital Economics estimating it at another $480 billion.

As I read through reports from the likes of EY and CBRE, there is a common agreement that it's caused primarily by higher interest rates. These result not only from tighter regulations but also stricter credit standards.

While the market isn't likely heading in a similar direction to the real estate market crash of 2008, the industry is looking at a challenging decade or so.

This economic uncertainty will impact decision-making in the CRE market in the years to come, and the focus on optimized productivity and minimizing costs will be a top priority. This leads me to the next prediction.

Proptech will play a vital role in streamlining operations

Proptech will proliferate in the commercial real estate industry, as companies search for ways to optimize their time and spending. As it's an umbrella term for all sorts of tech innovations, from on-site IoT devices to AI-powered real estate management platforms, I believe it will impact all departments and areas of CRE.

Some of the most popular GenAI use cases in real estate today include property description generators and chatbots. Most real estate companies will also rely on AI property management and credit score software to automate a lot of mundane, repetitive tasks and redirect employees' work to areas that genuinely require human engagement.

In my opinion, some of the areas that we'll see proptech dominate in by 2030 will include:

- Generating property simulations for tours and staging
- Automating maintenance ticket creation to third-party providers
- Analyzing property and tenant data to run revenue and tenancy rate predictions.

Increased office vacancy caused by hybrid work will remain

The COVID-19 pandemic has significantly impacted our lives and changed our behaviors. People traded office spaces for home office or remote work, lockdowns pushed them towards online shopping, and skipping work commutes motivated them to move out of the cities.

Even though the world is now back to normal, the habits that we developed during the outbreak, i.e., remote work and online shopping have stayed with us. This has significantly impacted the commercial real estate industry leading to lower office occupancy.

What will it be like in 2030?

First of all, hybrid work is not going anywhere. Currently, office attendance is at around 30% under pre-pandemic norms. Demand for office space in big cities like New York, San Francisco, etc. will remain a lot lower than before COVID. According to a simulation done by McKinsey, the demand for commercial real estate in 2030 will be 13% lower than in 2019 – and that's a moderate scenario. In the pessimistic one, this number goes down to 38% in the most affected cities.

I think it's key to consider the locality of the commercial real estate market – the demand for office spaces will differ strongly based on cities and neighborhoods. I agree with McKinsey that says that in cities with high office availability, expensive housing, and large numbers of corporations that employ knowledge workers, the demand might be lower.

Luckily, it's not all as pessimistic as it might initially seem. While the need for office space plummeted and will stay lower, the demand that remains is – as said by Tony Scacco, Chief Operating Officer at Riverside Investment & Development – "particularly interested in higher quality space to entice workers back".

Businesses seek offices, which are located in newer buildings, and offer better facilities – so the demand for more high-end buildings is still there.

As for Class B and Class C real estate properties, Scacco paints a rather bright future. He says that they could be potentially converted into residential or mixed-use buildings. While the costs of transforming office buildings could be quite expensive, proptech could help CRE businesses decide which properties would be worth the investment.

If such an approach were adopted on a wide scale, it could change the dynamics of entire cities. Central districts would no longer be dominated by commercial spaces, which 'live' only within standard office hours.

And let's not forget about coworking/coliving spaces that have become a true phenomenon post-pandemic. The global coworking market is expected to grow from $9.2 billion, as seen in 2022 to $34.5 billion by 2032, which gives it a CAGR of 14.6%.

These predictions and trends show that CRE organizations will have a few alternatives to consider, if and when they face low office vacancy rates.

AI will boost the demand for data centers

The good news is that not all of my predictions for commercial real estate in 2030 are grim. Artificial intelligence is positively transforming the real estate landscape. Since AI has taken virtually all industries by storm, businesses will require more computing power to continue using it in their operations. And this means one thing – they'll need to lease space for their data centers and accompanying power infrastructure.

To realize just how promising this subset of the commercial real estate market is, let me refer to a report JLL released in 2023. In Q1 2023 alone, venture capital, M&A, and private equity investments in AI and machine learning developments have reached a whopping "$32 billion".

Here's where the CRE industry might be able to restore part of its revenue loss resulting from lower demand for office space and high-interest rates.

That said, the presence of data centers will contribute to a higher carbon footprint of the commercial real estate market. Since sustainability is becoming a huge priority for the international community, CRE companies will need to find ways to reduce emissions, which leads me to our next topic.

Higher demand to meet ESG and sustainability initiatives

Energy prices are going up, and I think this market trend will definitely have an impact on commercial real estate in 2030. Property owners and investors must prioritize sustainability in order to reduce costs. What can they do to save a bit of cash? They can, for example, switch to solar power and recycle gray water to cut the cost of utilities and appeal to more eco-friendly tenants.

Following sustainability initiatives goes beyond cost reduction – it also involves compliance.

Before granting a building permit, the city council checks how much energy a building is going to consume – taking energy-saving measures boosts the chances of getting a green light to start construction.

Even though ESG and sustainability initiatives will play a major role in the commercial real estate industry, many realtor companies aren't ready to meet these regulations. In a study run by Deloitte, 60% of surveyed businesses said they didn't have the data, internal controls, or processes that would allow them to meet the compliance standards.

I think it's rather worrying, especially considering that the real estate sector is experiencing increased divergence. For example, in the United States, offices that are environmentally friendly are perceived as premium Grade A spaces, which can charge annual rents higher by 31%.

This is something that investors take into account before deciding whether to invest in a property or not. Building owners whose properties are equipped with outdated building systems will not only experience higher costs but will also face operational difficulties as the regulatory environment is getting more stringent. Those who fail to comply might face penalties.

Deloitte estimates that nearly 76% of offices in Europe can become obsolete by the end of 2030 if they aren't upgraded to become more environmentally friendly – sounds pretty terrifying, doesn't it?

CRE market trends that will dictate the industry's future

I know that it looks like there are more challenges than opportunities ahead of the real estate industry. Yet, pretending that they don't exist won't make them magically disappear. You need to face them and begin reimagining your business.

One of the main goals for CRE companies is to consider how they can repurpose empty spaces. Given hybrid work and the need for data facility space, what can you do to start bringing in revenue from unused properties?

Also, can you offer a deal that will be attractive enough for companies to retain their offices instead of moving elsewhere – or fully into 'remote' mode?

I know that these questions can't be answered from the top of your head. But the answers are there, and addressing them now will secure your business in the years to come.

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