Proceedings of ICFTBA 2025 Symposium: Data-Driven Decision Making in Business and Economics
DOI: 10.54254/2754-1169/2025.BL29253

Challenges in the US Commercial Real Estate Market (2020-2025)

Zifei Liu

Issaquah High School, Issaquah, USA
liuzif26@issaquah.wednet.edu

Abstract. The COVID-19 pandemic has caused major disruptions in the commercial real estate market. This research paper investigates the US commercial real estate market challenges from 2020 through 2025 because of pandemic disruptions and lasting market transformations. The office sector has faced a crisis due to hybrid work adoption, which drives high vacancy rates and declining valuations. Retail and hospitality properties faced significant transformations, as e-commerce expansion and shifting travel behaviors affected their conventional customer base. While industrial real estate initially thrived during the pandemic due to logistics and e-commerce expansion, oversupply and rising costs from tariffs introduced new market threats. Cross-sector challenges including rising interest rates, reduced investor appetite, and heightened sustainability requirements have further affected the commercial real estate market. This paper argues that the difficulties of this period reflect permanent structural changes rather than temporary fluctuations, with implications for property owners, investors, and policymakers as they adapt to a redefined commercial real estate market.

Keywords: Commercial real estate, e-commerce, industrial overbuild, interest rates, sustainability.

1. Introduction

Commercial Real Estate plays a crucial role in the US economy, creating jobs and driving growth across different industries. As of the end of 2023, the total value of the market in the US has reached $22.5 trillion, which makes it the fourth-largest asset market in the US [1]. Moreover, the market is not only interconnected with both the public and private financial markets but also tied to the macroeconomy [2]. However, the COVID-19 pandemic has caused major disruptions in the commercial real estate market by remote work adoptions, travel restrictions, and changing consumer behaviors and investor preferences, significantly affecting the market both in the short term and long term. Retail and hospitality properties faced their most severe challenges because of lockdowns and social distancing measures starting in 2020.

Moreover, the rising number of vacant office buildings creates major difficulties for building owners and real estate investors. The present office surplus drives down property values which reduces rental income and makes it challenging for landlords to secure new loans to refinance their current debts. The office sector has experienced previous cyclical downturns in the past but the

DOI: 10.54254/2754-1169/2025.BL29253

current prolonged rise in office vacancies since 2020 suggests a lasting change in office market demand instead of a temporary market correction.

In contrast to how other sectors struggled, the industrial real estate sector achieved success during the pandemic period. The e-commerce boom generated an extraordinary need for logistics and warehouse properties because businesses needed to build their supply chain networks and shorten delivery periods. This research paper will explore some major challenges and their impacts in the US commercial real estate market, including office sector decline, retail and hospitality sector restructuring, cooling in the industrial sector, and cross-sector challenges such as interest rates and capital market uncertainties.

2. Office sector crisis

The office sector became the most affected segment in U.S. commercial real estate properties during the period from 2020 through 2024. Remote work became the new standard after the pandemic forced businesses to adopt it as a temporary solution, which then transformed into a permanent change in work model. From July 2023 to July 2024, the number of hybrid and remote workers has steadily increased from 30 million to 35 million, which indicates a continued trend of hybrid working after the pandemic [3]. The persistent adoption of the hybrid work model has led to continued increase in office vacancy rate. From 2019 to 2020 alone, vacancy rates rose by 0.9% due to remote working policies of companies in response to COVID-19; In 2024, the total office vacancy rate in the US reached 20.1%, the highest level since 2000 [4].

The pandemic has created the most significant effects on older buildings and properties that are not as appealing to many tenants. Class A offices, which typically have prime locations with modern amenities, have remained more resilient amid the crisis, while Class B and C offices face severe challenges with higher vacancies and declining rents. The current market shows a flight-to-quality pattern because tenants choose modern buildings in desirable locations which support their company culture and employee retention needs.

The office sector crisis has also produced different impacts on different cities together and their individual submarkets. The highest office vacancy rates exist in coastal cities New York, and San Francisco, and Chicago because these areas contain numerous large office buildings and depend heavily on traditional workplace attendance. For instance, office vacancy in San Francisco was at 29% as of April 2025, which is 8.9% higher than the national average [5]. Sun Belt regions and suburban areas have demonstrated better resistance to the crisis because they offer more affordable prices and expanding resident numbers, thus attracting businesses that need flexible or remote work locations.

3. Retail and hospitality sector transformation

The pandemic triggered e-commerce to grow rapidly, and many malls and department stores permanently shut down during the lockdowns, thus creating vacant spaces for landlords. The retail industry continued to face ongoing difficulties even after the lockdowns because customers started to prefer online shopping, which has disrupted the traditional business models of retail. The U.S. Census Bureau reports that e-commerce sales reached $144.4 billion in the first quarter of 2020, which made up 11.7% of the total $1.24 trillion retail sales; The fourth quarter of 2024 showed e-commerce sales at $345.9 billion out of $1.94 trillion total retail sales, which represented 17.8% of the market [6]. Many customers were forced to shop online at the beginning of the pandemic, but the convenient online shopping channels gradually became a habit. The rising e-commerce numbers

DOI: 10.54254/2754-1169/2025.BL29253

demonstrate that consumers now prefer online shopping, creating a major challenge for traditional retail properties following the pandemic.

At the same time, physical retail stores continue to play an essential role in consumer behavior patterns because the younger generation continues to show strong preference for them. The research conducted by L.E.K. Consulting shows that 64% of Gen Z consumers and 59% of Millennials choose to shop in physical stores because they want to experience the social environment and interactive aspects of brick-and-mortar stores [7]. The permanent integration of online shopping into retail operations has not diminished the value of physical stores because they provide distinct benefits to customers who want to experience things in person. The younger population's developing shopping habits in physical stores create a stable foundation for retail properties because they will continue to shop in stores as they grow older.

Beyond the retail sector, the hospitality sector also encountered a shock in 2020. The massive lockdowns and travel restrictions caused a full shutdown of business chains, leading to profound impacts on hospitality properties. In April 2020, the US hotel occupancy rate suddenly dropped to 24.5%, compared to over 65% in April 2019 [8]. This shock to the hospitality industry marked a sudden and severe decline in revenues, which caused many hotel owners to struggle to cover operating expenses and debt obligations. Revenue per available room, which is a key metric in hospitality performance, also decreased by over 80% in many urban areas that rely heavily on travel-related business. This also led to a significant decrease in property valuation, making it difficult to attract new investments and refinance existing loans. The uncertainty in 2020 had also pressured developers, as the shutdown continued and was expected to last for an extended period.

Although the hospitality sector started to recover after 2021, it continued to face challenges due to changing consumer behaviors. For example, virtual meeting tools like Zoom and Microsoft Teams started to replace business travels, which lowered the demand of hotel bookings for businesses. As a comparison, leisure travel gradually became a dominant part of the hotel revenue channel. In addition, the rise of many short-term rental platforms like Airbnb has also lowered the demand for hotel bookings because they offer more unique experiences at lower prices. This increased competition has also changed the dynamics of the hospitality real estate market because consumers have many alternatives to traditional hotels. Therefore, the real estate market for the hospitality sector has also experienced fundamental changes instead of regular market fluctuations.

4. Industrial overbuild after pandemic boom

Industrial real estate construction reached its highest point between 2020 and 2022, with developers delivering more than 600 million square feet of new supply in 2022 [8]. The market also reached its lowest vacancy point at less than 4%, which caused rental prices to rise and attracted institutional investors to the sector [9]. The market experienced a very positive outlook because of e-commerce expansion and supply chain growth, which led developers and institutional investors to invest in industrial real estate development for its increasing rental income.

However, this rapid expansion has resulted in concerns of overbuilding as demand begins to normalize. The e-commerce market experienced reduced growth after the pandemic peak, while limited consumer purchasing power decreased warehouse absorption rates. As of Q2 2024, the industrial vacancy rate reached its highest point of the past decade at 6.1% [10]. Landlords and developers now face challenges in maintaining occupancy rates for these properties due to the imbalance between normalized e-commerce demand and the growing warehouse supply. This oversupply pressure has also begun to weigh on rental rates, prompting some landlords to offer incentives or renegotiate leases to attract tenants.

DOI: 10.54254/2754-1169/2025.BL29253

The industrial real estate market of 2025 also experiences complex patterns due to tariff policies. Rents have maintained their upward trend, reaching $10.12 per square foot in Q2 2025, showing a 3% annual increase. However, this rent growth is not only driven by warehouse demands, but also by broader economic forces such as tariffs [11]. The 25% import tariffs on Canadian and Mexican goods and 10% tariffs on Chinese imports have increased construction expenses, which landlords then transfer to tenants through higher rents. The changing tariff policies also disrupted global supply chains and shifted trade flows. In particular, trade with East and Southeast Asia has grown by more than 70% since 2017, partly offsetting declines in trade with China [12]. However, the long-term nature of industrial leases extending from 5 to 10 years or more makes them vulnerable to these market changes. Although the long-term rental agreements produce steady cash flows, they restrict landlords from making quick price adjustments when construction expenses or trade conditions shift rapidly. This creates potential discrepancies between rents and market rates.

5. Cross-sector challenges

The US commercial real estate market between 2020 and 2025 experienced multiple common challenges that affected all sectors. These include rising interest rates, shifts in investor sentiment, and sustainability regulatory requirements.

The Federal Reserve initiated its aggressive monetary tightening policy in 2022, which created a new financial environment for commercial real estate properties. The federal funds rate increased from zero in 2021 until it reached more than 5% during the middle of 2023, which made borrowing more expensive for developers and property owners [13]. The rising interest rates have caused property value decreases, primarily in office buildings and other income-generating properties, because capitalization rates have grown substantially. The need to refinance properties has become more challenging for landlords because their debt service coverage ratios have deteriorated, which resulted in distressed property sales and loan defaults. Although in September 2024, the Fed started its first of few rate cuts, the interest rates remain high compared to the historical target.

In addition to rising interest rates, investor appetite for commercial real estate has changed considerably since 2022. Transaction volumes in the US fell by over 50% year-over-year in 2023, which reflects the impacts of both valuation uncertainty and limited debt availability due to the changing economic environment [14]. Investors now choose stable investments instead of commercial real estate properties that include offices. The economic shift has led institutional investors including pension funds and sovereign wealth funds to adopt a risk-averse approach by focusing on multifamily housing and industrial logistics while decreasing their office property investments. Private equity firms maintained their large cash reserves and liquid assets during this period, but chose to delay major capital investments until distressed market conditions and price adjustments became apparent.

The US commercial real estate market now includes sustainability as a major cross-industry factor which brings both market possibilities and obstacles for property owners and investors. Many regulatory policies now require energy-efficient buildings and green certifications, and tenants also seek environmentally friendly real estate to increase their market competitiveness. Properties with LEED certification and Energy Star ratings now benefit from increased rental rates and increased investor interest, but older inefficient buildings face declining occupancy rates and decreasing property value [15]. The process of implementing sustainable upgrades proves difficult for buildings with outdated systems and long-term occupants because it requires significant financial investment and very complicated implementation. Property owners need to weigh the initial costs of building improvements against unpredictable revenue streams while handling changing sustainability

DOI: 10.54254/2754-1169/2025.BL29253

standards and government obligations. The commercial real estate market now faces a permanent change towards sustainability because buildings that do not adopt sustainable practices will lose their value, while owners who choose sustainability need to handle expenses and tenant needs and regulatory needs to stay profitable.

6. Conclusion

In conclusion, the US commercial real estate market experienced one of its most challenging periods from 2020 to 2025. The pandemic acted as both a catalyst and a disruptor, accelerating existing market transformations while simultaneously creating new challenges. These shifts fundamentally altered the landscape across key sectors, including office buildings, retail spaces, hotels, and industrial warehouses.

The office sector remains in a long-term crisis because of hybrid work adoption, which continues to create lasting vacancies and decreasing values. The increasing numbers of vacant office buildings generated significant difficulties for building owners and real estate investors. The retail and hospitality industries experienced a shock because of the pandemic, and it is still an ongoing transformation because of e-commerce growth. The industrial sector, which prospered during the pandemic, now faces challenges from excessive supply and changing market requirements. All property types face significant valuation and growth challenges because of rising interest rates and unstable capital markets.

Although the commercial real estate market faced significant challenges during the period, there are still many opportunities for growth and innovation. The commercial real estate market has shown remarkable resilience and adaptability. The market has historically demonstrated a remarkable ability to adjust to new trends, shifting demand patterns, and economic disruptions, often finding its own balance over time. From the rise of remote working and the shift to hybrid models to the growing demand for logistics and industrial spaces, commercial real estate has continuously adapted to meet changing needs. As businesses evolve and new technologies emerge, the market's flexibility remains a critical asset.

References

[1] Tobias Adrian, Daniel Covitz, and Nellie Liang (2015), "Financial Stability Monitoring, " Annual Review of Financial Economics, vol. 7 (December), pp. 357–95.

[2] Balemi, N., Füss, R. & Weigand, A. COVID-19's impact on real estate markets: review and outlook. Financial Marketd and Portfolio Management 35, 495–513 (2021). https: //doi.org/10.1007/s11408-021-00384-6.

[3] PwC and the Urban Land Institute, “PwC and the Urban Land Institute: Emerging Trends in Real Estate 2025.” October 2024, accessed on September 28, 2025, from: https: //www.pwc.com/gx/en/industries/financial-services/real-estate/emerging-trends-real-estate/europe.html.

[4] IBISWorld. “Office Rental Vacancy - Business Environment Profile Report: IBIS World.” IBIS World Industry Reports, 26 August 2025.

[5] Pop-Badiu, Laura. “U.S. Office Rents Report January 2025.” Commercial Edge, 20 May 2025, www.commercialedge.com/blog/national-office-report-may-2025/.

[6] Bureau, US Census. “Monthly Retail Trade - Quarterly Retail E-Commerce Sales Report.” United States Census Bureau, 19 August 2025.

[7] Danziger, Pamela N. “Store Closures Give New Life to Tired Shopping Centers and Malls.” Forbes, Forbes Magazine, 15 May 2025.

[8] STR, “U.S. Hotel Performance for April 2020.” 20 May 2025, str.com/press-release/str-us-hotel-performance-april-2020.

[9] Schoenmaker, Dennis. Older Industrial Assets Will Be Challenged as Occupier, CBRE, 22 Dec. 2022.

[10] Jason Price, Marketbeat - US National Industrial Q2 2024, Cushman & Wakefield, 2024.

DOI: 10.54254/2754-1169/2025.BL29253

[11] Young, Liz. "Warehouse Vacancies Climb to Highest Level in More Than a Decade." The Wall Street Journal, 9 July 2025.
[12] Karlekar, Indraneel, and Niño, Pedro. "The Tariff Dilemma: Long-Term Opportunity in the Industrial Sector amidst Uncertainty." Clarion Partners, 28 April 2025.
[13] Board of Governors of the Federal Reserve System, "Federal Funds Effective Rate." FRED, 2 September 2025.
[14] Mellott, Darin, and Kim, Jaeyoung. "Global Investment Activity Stays Subdued in Q4; Recovery Expected in H2 2024." CBRE, 13 Feb. 2024.
[15] Dallas, TX, "LEED-Certified Office Buildings Command Higher Rents, Even amid Challenging Conditions." CBRE, 26 October 2022.