
Boosting asset performance in a changing landscape



Office: The paradigm shift

The U.S. office market continues to see a significant recovery from the early 2020s slump. Tenants with sufficient financial resources are on the hunt for premium-quality space. While high vacancy rates persist in older, lower-quality buildings, overall supply is shrinking for the first time in decades.

Recent trends point to improved stability, though leasing and occupancy remain notably less robust than before the pandemic. As of November 2025, the national office vacancy rate stood at 18.5 percent, representing a modest decrease of 90 basis points year-over-year, according to Yardi Matrix. The development pipeline remained modest, with 32 million square feet under construction, little of it spec space. At \$32.77 per square foot, average rental rates were nearly the same as 12 months prior.

The state of the office market reflects a permanent change in workplace habits shaped by the pandemic. Though the number of Americans working at home has been declining since peaking in 2021, office visits have yet to reach 2019 levels, according to the Census Bureau's American Community Survey.

There appears to be no going back to pre-COVID conditions, despite some tenants preferring otherwise or mandating more employee time in the office. It seems increasingly clear that the hybrid work schedule is the new standard. Smaller footprints and shorter lease commitments are part of the new landscape.

“ “ Even though we have tenancy and signed leases, we still haven't seen a significant return of occupants to the office. Office tenants just aren't as comfortable making long-term decisions as they once were, because of what we went through with COVID and where we are in terms of return to office.

Tony Townsley, CFO, Hokanson Companies

Higher vacancies and shorter lease terms have impaired asset performance, and many investors continue to be circumspect about the office sector. As the asset class stabilizes—a trend which lower interest rates would advance—investors might return in larger numbers. But for now, Townsley said, “we're in a holding pattern.”

Office performance drivers

A legacy of the pandemic is the bifurcation of the office market, in the view of Ryan Severino, chief economist & head of research at BGO. Class is critical to asset performance as tenants seek high-quality space, primarily to attract and retain tenants in a market adjusting to a new paradigm. Owners of trophy and Class A assets are the beneficiaries of bifurcation and have largely been able to maintain rental rates and asset performance.

Trophy and Class A spaces have an advantage in counteracting the sector's headwinds, but providing an attractive, well-located building is not enough. Winning the favor of workers will boost occupancy and long-term asset performance. Some effective strategies include amenities such as gyms, cafés and outdoor spaces, as well as concierge services.

The focus now is on tenant well-being and connectivity, with the goal of making office buildings into destinations.

The traditional office now competes with the home office and a third space, such as a café. Cutting-edge amenities now include tech-enabled smart spaces, digitally connected environments that integrate Internet of Things devices, artificial intelligence and other automation.

Smart office operations also call for shorter, more flexible lease terms. Tenant demand for flexibility has accelerated the expansion of coworking space, whether it's provided by third-party operators or by building owners.

For under-occupied, functionally obsolete Class B and Class C buildings, however, amenities alone won't attract tenants. In many cases, the better way to increase asset performance is to pursue the principle of best and highest use. That could require repurposing the property or redeveloping the site. Multifamily is often a viable alternative in either case, considering the nationwide demand and the general availability of financing.



Industrial



Cooling demand

The U.S. industrial market still has solid fundamentals, but demand has cooled notably since early 2025. “Increasing vacancy over the past year has been the story,” said Peter Kolaczynski, Yardi senior manager for commercial data. “We’re attributing that more to the development pipeline having to be absorbed.”

Vacancy reached 9.5 percent nationwide, a level last seen before the pandemic, according to Yardi Matrix data. The increase reflects both a normalizing pace of demand and the more than 2.7 billion square feet delivered since 2020. Build-to-suit projects are generally favored over spec development, and demand has shifted from e-commerce needs to manufacturing and logistics. Rents are still rising at a healthy pace, around 5.7 percent annually.

Although development has slowed considerably since the pandemic-era boom, late 2025 hinted at a change in direction. For the first time in two years, the construction pipeline grew in the third quarter, Avison Young reported. Markets with manufacturing growth, such as Houston or Kansas City, are performing well. Logistics corridors and secondary markets in need of modern space continue to offer attractive opportunities for investors and developers. New product is also in demand for space that supports nearby manufacturing facilities, such as battery plants and semiconductor factories, Kolaczynski noted.

Industrial performance drivers

While amenities for industrial properties are much different from the office sector, they shouldn't be overlooked for their potential to add performance value. Even in a market with steady and varied demand, updating industrial properties can go a long way toward bringing in new tenants and retaining existing customers.

"We're always looking at our asset management to see what is the right cost for an asset vs. the return," noted Pamela Larin, chief financial officer at Arden Logistics Management. "Our goal is for these buildings to be as efficient as possible, to last as long as possible, with better paint, better lighting—all those things to help it not only be a better experience for the tenant but also a better experience for the community."

A diverse tenant roster is also important for healthy returns. If any one client has to reduce its footprint, overall portfolio performance won't be greatly affected.

"We have everything—HVAC contractors, plumbers, marble and granite stores," Larin said. "If one industry goes down, if a JCPenney or Sears goes under, that's not impacting us." As a result, losing a tenant will affect less than one percent of the company's rent roll, she estimated.



Retail: A positive edge

Retail fundamentals continue to be mixed but with a favorable edge that will continue to drive performance. The sector has been enjoying positive net absorption as retailers gravitate toward newer, high-quality space that is in relatively short supply because of the development slowdown that predates the pandemic.

Construction is forecast to remain low, while a steady volume of obsolete space is being retired or repurposed, a dynamic that benefits landlords, according to JLL. Thousands of retail locations closed during 2025, partly due to the bankruptcies of such retailers as Jo-Ann Stores, Party City and Rite Aid, but also because of changing consumer habits.

While mainstream media is quick to jump on stories about store closings, the other side of the story is less widely discussed. Retailers in expansion mode are often lining up to backfill space. Quick-service restaurants, dollar stores and retailers that offer essential services are especially keen on high-quality, smaller spaces, driving tight availability and rising rents.

Amid marked economic uncertainty, higher-than-expected consumer spending is doing much to sustain retail real estate. The latest U.S. retail sales report registered a 3.5 percent year-over-year uptick. Sales per square foot, even on an inflation-adjusted basis, are higher than they have ever been in retail, BGO's Severino pointed out.

Retail space demand rises and falls with the wider economy, but cyclical downturns in retail do not amount to a structural impairment for the sector. While e-commerce sales continue to grow as a percentage of total retail sales, that would only be a problem for brick-and-mortar if both channels weren't growing. Retail clients are "investing in new properties and new technologies and just moving ahead like Amazon isn't real, or COVID didn't happen," observed Regan Heydari, a director at Yardi.



Retail performance strategies



You have to give them—shoppers—a reason to go. Now it's not just retail itself, but what else can you offer ... like grocery or health and wellness, or medical services or a fitness center.

Patty Downs, Vice President, DP Management

Keeping legacy retail space up-to-date to meet today's needs poses a major challenge for the sector. Some properties that languished after a tenant vacancy have been backfilled after being reconfigured to meet new needs—the reinvention of a big box as a specialty grocery store is one approach. Yet adaptation may also mean larger-scale redevelopment, such as replacing underperforming legacy malls with open-air lifestyle centers or mixed-use properties.

Even for retail properties leased to strong tenants, there are challenges. Post-COVID, the retail real estate environment is different. For DP Management, the primary focus has been on the middle market, especially enclosed malls, and on reinventing the mix of offerings.

“You have to give them—shoppers—a reason to go,” noted Patty Downs, the firm's vice president of executive operations. “Now it's not just retail itself, but what else can you offer ... like grocery or health and wellness, or medical services or a fitness center.”

At one open big box, DP Management added a dance academy to boost asset performance by increasing sales at neighboring stores. After bringing their kids to dance class, parents have an hour or so of waiting time, and that adds potential foot traffic.



How AI adds CRE performance power

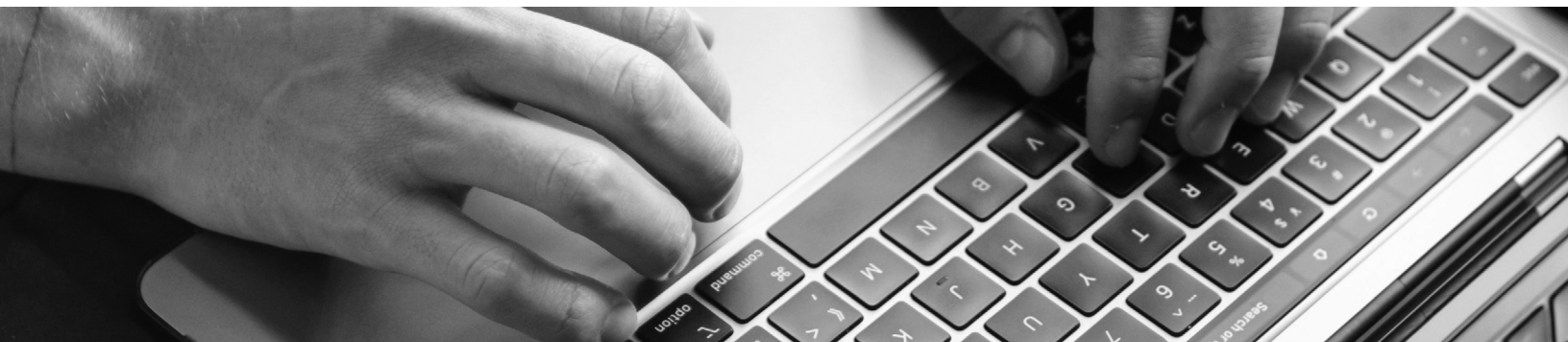
Although the long-term impact of artificial intelligence on asset performance is difficult to predict, the sense that AI is in the process of remaking the industry is already pervasive.

“A lot of initiatives are starting to come to fruition now,” pointed out Brian Sutherland, vice president of sales at Yardi. Industry CEOs are asking their IT departments to create an AI roadmap and detail the technology’s benefits for the company. A key challenge: “Technology outside of large language models hasn’t been built into various real estate technologies yet, and so I think everyone's playing a little bit of catch-up,” Sutherland noted.

AI tools are forecast to increase efficiency, boost performance and lower costs. One example is lease abstraction that improves the process of extracting key information and generates actionable recommendations at the portfolio level.

Other uses rapidly gaining ground

- Automating repetitive tasks and analyzing large volumes of data
- Training internal teams
- Handling client inquiries
- Processing large volumes of invoices, extracting data and reducing manual data entry at higher speed and with improved accuracy
- Identifying risks for tenants and strategies for optimizing property operations
- Powering tools ranging from IoT sensors and cameras for remote monitoring to predictive maintenance





As these uses indicate, AI is rapidly becoming essential to the industry's day-to-day operations and will likely replace some jobs, notably entry-level analyst positions. "We do a lot of offshoring, and maybe we'll need less offshore resources to do some of that work," Larin said. For processing invoices, AI is an efficient alternative to optical character reading, "so that's an easy win that we're going to focus on."

Opinions on AI tend to fall into two distinct categories, according to Yardi's Heydari: "They're really either all in or they're very skeptical," she said. "I don't think I've seen much in between." She is hopeful that AI will help the industry make better decisions, increase efficiency and provide other potential benefits. But she advises caution. Otherwise, "AI is not going to be a good thing. It's the technology company's responsibility to introduce AI smartly and correctly."

She further speculates that the industry is already on the way to being all in. "I think technology companies are going to embed it into their products," she said. "AI will be under the hood, and therefore clients will adopt AI whether they realize it or not."

DID YOU KNOW?

Virtuoso assistant resolves 78% of queries without escalation, reduces onboarding time for new staff and helps teams quickly find answers in the flow of their work.

Source: Yardi Blog

The takeaway

Yardi's approach to artificial intelligence centers on Virtuoso, a purpose-built, real estate-specific platform that embeds AI directly into its product ecosystem. Virtuoso streamlines workflows, automates routine tasks and delivers real-time insights based on trusted Yardi data. The strategy emphasizes workflow automation and productivity by enabling configurable AI agents, native AI features and connectors that draw on live operational data—all supported with in-product guidance and enterprise-grade security. Virtuoso is a set of tools designed to augment human teams and improve outcomes, rather than replace people. That ensures AI enhances decision-making across roles from on-site staff to asset managers.

If you're ready to see Yardi Voyager in action, reach out to request a personalized demo.

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