Northmarq

SPECIAL REPORT

Mysteries of the Universe

Determining the Size and Composition of the U.S. Commercial Real Estate Market

April 2025

4949 Meadows Road, Suite 490 | Lake Oswego, OR 97035 | 503-952-0700 | **northmarq.com**

ABOUT US:

Northmarq Fund Management is a division of Northmarq, one of the largest privately held commercial real estate firms in the nation. Northmarq provides debt origination, loan servicing, investment sales and investment management services nationwide and spanning all product categories.

Overview

What exactly is the size of the investable universe of U.S. commercial real estate? Does anyone truly know? How much value is allocated to each of its component segments in terms of product type, property quality, or geography? Shockingly, the answer varies wildly by source, based on differing methodologies and the geographic markets, product types and size and quality of properties being included. There is a very wide gap when measuring only the largest institutional markets and properties compared to an analysis that also includes markets outside the top 50 metro areas and includes smaller (less than $30 million) properties and alternative product types. We have studied results from over 40 reputable industry, academic and governmental sources who have conducted analyses of the size and scope of commercial real estate. We've found amazing variability in total value estimates, generally ranging from $11 trillion to $21 trillion, with outliers as far apart as $5.9 trillion and $26.8 trillion. What we've learned in the process is that the data necessary to answer these questions is complex, disaggregated, incomplete or overlapping, resulting in some prior studies that are noticeably flawed. Given these factors, our review may have some holes in it as well. Nevertheless, this paper constitutes something akin to a meta-study of the available research, summarizing and comparing the data for the benefit of commercial real estate property owners, lenders, intermediaries and industry researchers.

This meta-study helps us develop Northmarq and Northmarq Fund Management's proprietary estimates of the investable universe of commercial real estate, along with market capitalization available at each access point. We applied both primary industry approaches, using a top-down, four-quadrant formulation that tends to highlight institutional assets in the main property types and in major markets, as well as a broader bottom-up valuation designed to identify all properties and markets, to arrive at a comprehensive measurement of the commercial real estate asset class. *We find that the more limited four-quadrant approach should total approximately $11.42 trillion of CRE value, and is heavily biased toward larger assets, investors and markets.* **More broadly, we define the entire U.S. commercial real estate asset class as $21.46 trillion.** In other words, the most common measurements of U.S. commercial real estate tend to cover only 53.2% of the total addressable market. To measure the ***institutional*** portion of the market, we focus on five key features: 1) market size; 2) product type; 3) property quality; 4) property size/ value, and; 5) characteristics of ownership. As shown later in the analysis, using these filters we conclude the existing market of ***institutional*** commercial real estate represents $8.82 trillion or 77.3% of the condensed four-quadrant valuation, and $13.47 trillion or 62.7% of the expansive $21.46 trillion total universe of U.S. commercial real estate. Of course, not all institutional quality real estate is institutionally owned. We estimate that a minimum of ***$7.99 trillion of the CRE sector is not currently owned by institutional investors, and the uncovered total could be as much as $10 trillion.***

Northmarq Method

BOTTOM-UP APPROACH

Measuring the Entire U.S. Commercial Real Estate Market

The first half of this paper, constituting our assessment of the entire CRE market, works from the total number of properties, units and square feet in each market tracked by industry sources, and multiplies by an average per square foot or per unit metric to arrive at property value and total market cap. Relatively expansive datasets such as CoStar attempt to track as many specific properties as possible and use actual valuations and sales comps in order to roll up to such an aggregate value. However, a researcher referencing similar databases and approaches can only derive approximately $16 trillion of the total addressable market, still excluding many smaller markets and property types. When including all markets, properties, and owners, we estimate the total CRE market value to be approximately $21.46 trillion.

Northmarq Estimates - Total Commercial Real Estate Market

$21.46 Trillion

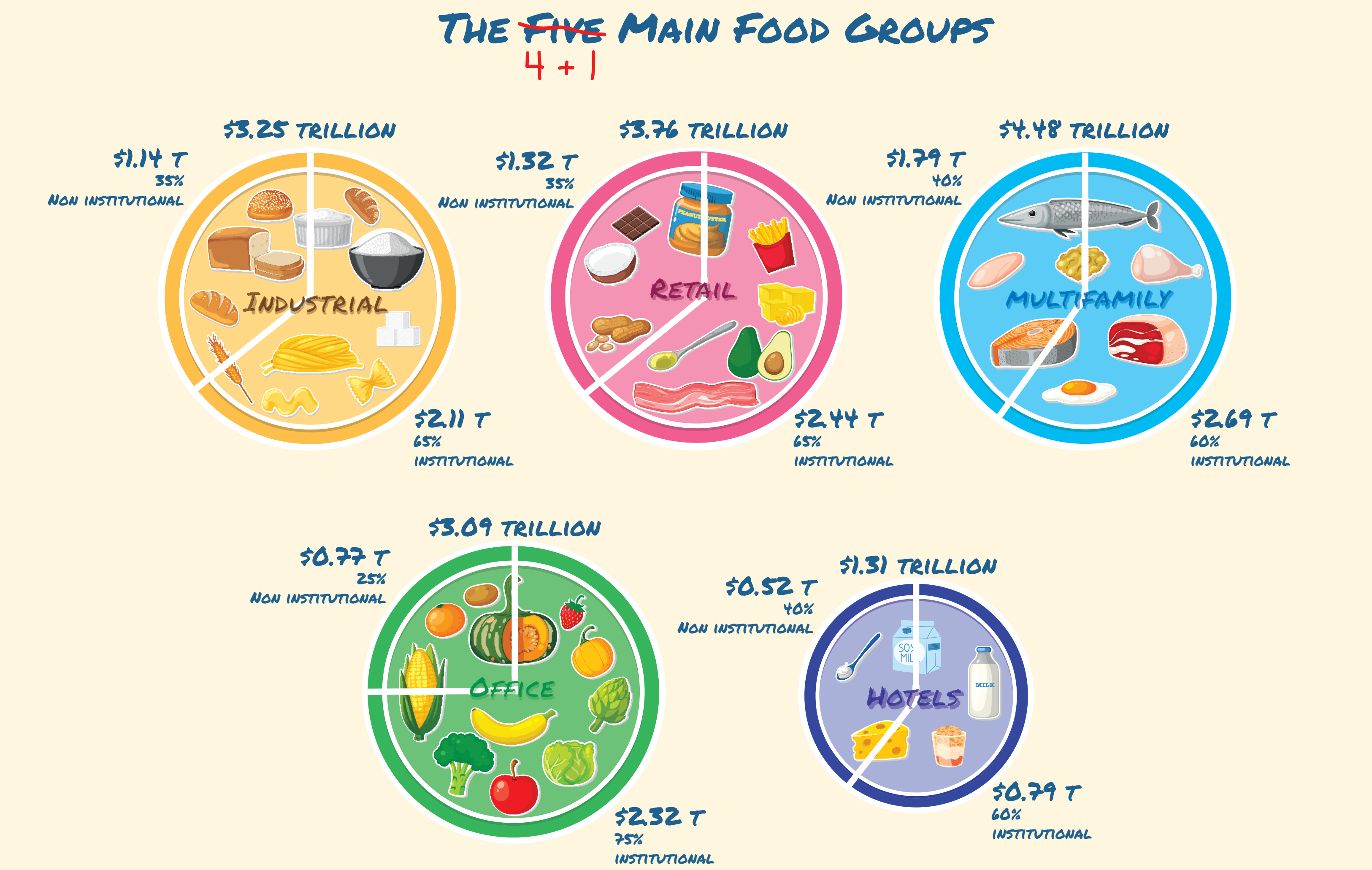
Institutional vs. Non-institutional (in trillions of dollars)

Product Type	% of Total	$ Value
Multifamily	20.9%	4.48
Retail	17.5%	3.76
Industrial	15.1%	3.25
Office	14.4%	3.09
Hotels	6.1%	1.31
MOB/Healthcare	5.5%	1.17
Manufactured Homes	2.3%	0.49
Senior Housing	2.1%	0.45
Towers	1.8%	0.39
Student Housing	1.8%	0.38
Self Storage	1.7%	0.37
Data Centers	1.1%	0.25
IOS	0.9%	0.20
Life Science	0.5%	0.11
Cold Storage	0.4%	0.08
SUBTOTAL	**92.0%**	**19.75**
Single-Family Rental*	8.0%	1.71
TOTAL	**100.0%**	**21.46**
Institutional Portion	62.7%	13.47

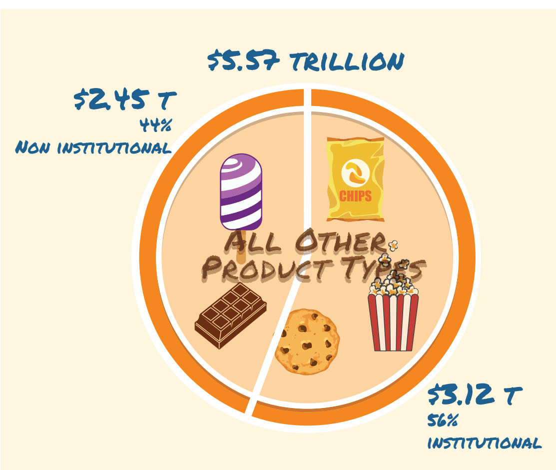
*Note: Includes only the portion of the SFR market in portfolio form currently accessible by institutions. Excludes single for-rent units. See Appendix for more information.

Value Estimates by Product Type

The 4 main product types contain a total of $14.58 trillion of value. When including hotels, this amount expands to $15.89 trillion. These core food groups exclude $6.88 trillion outside the 4 main totals and $5.57 trillion outside the 5 main categories.



Treats



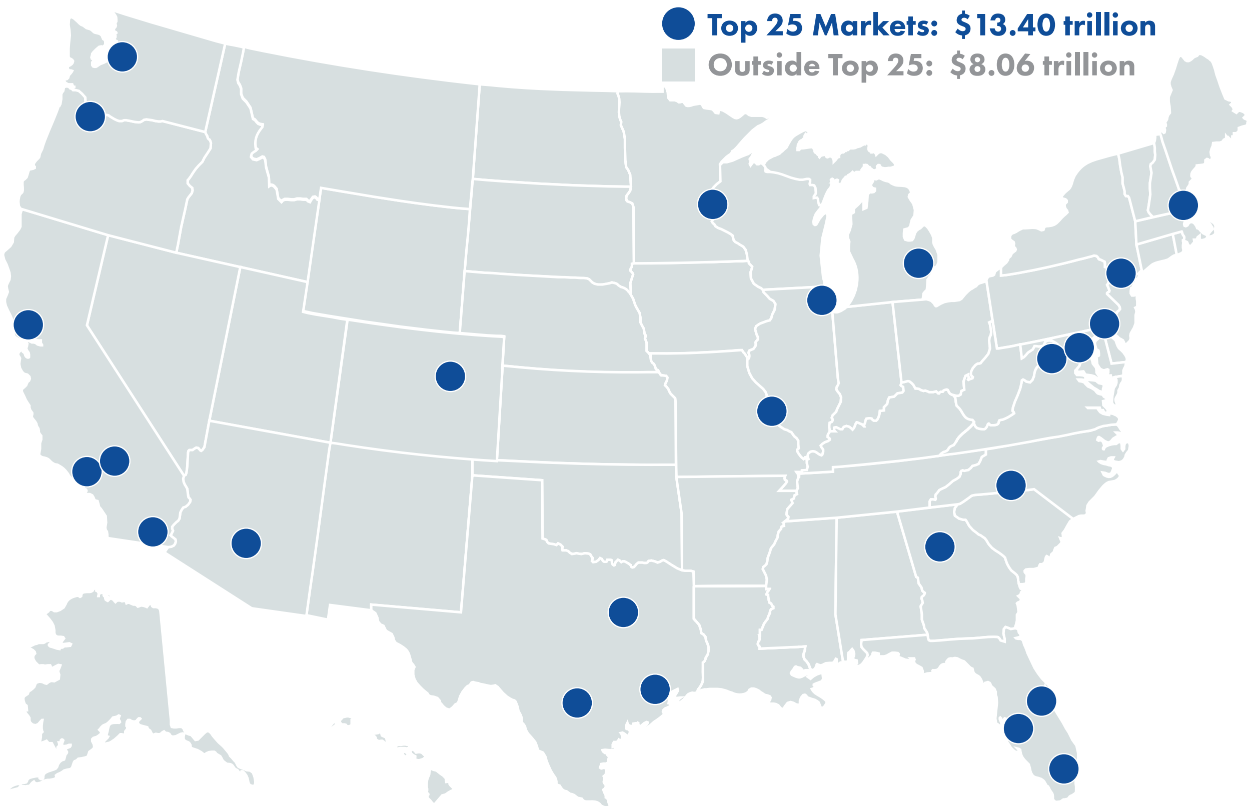
Value by Geography

As shown below, looking only at the 5 primary product types, U.S. commercial real estate contains $5.71 trillion of value outside the top 25 markets. When considering the 4 main product types alone (excludes hotels), the U.S. commercial real estate market contains $5.24 trillion of value outside the top 25 metro areas.

Taking that analysis a step further, if we account for all commercial real estate product types, ***we estimate that $8.06 trillion of properties are found beyond the narrow scope of the top 25 MSAs.***

Top 25 Market Concentration Analysis

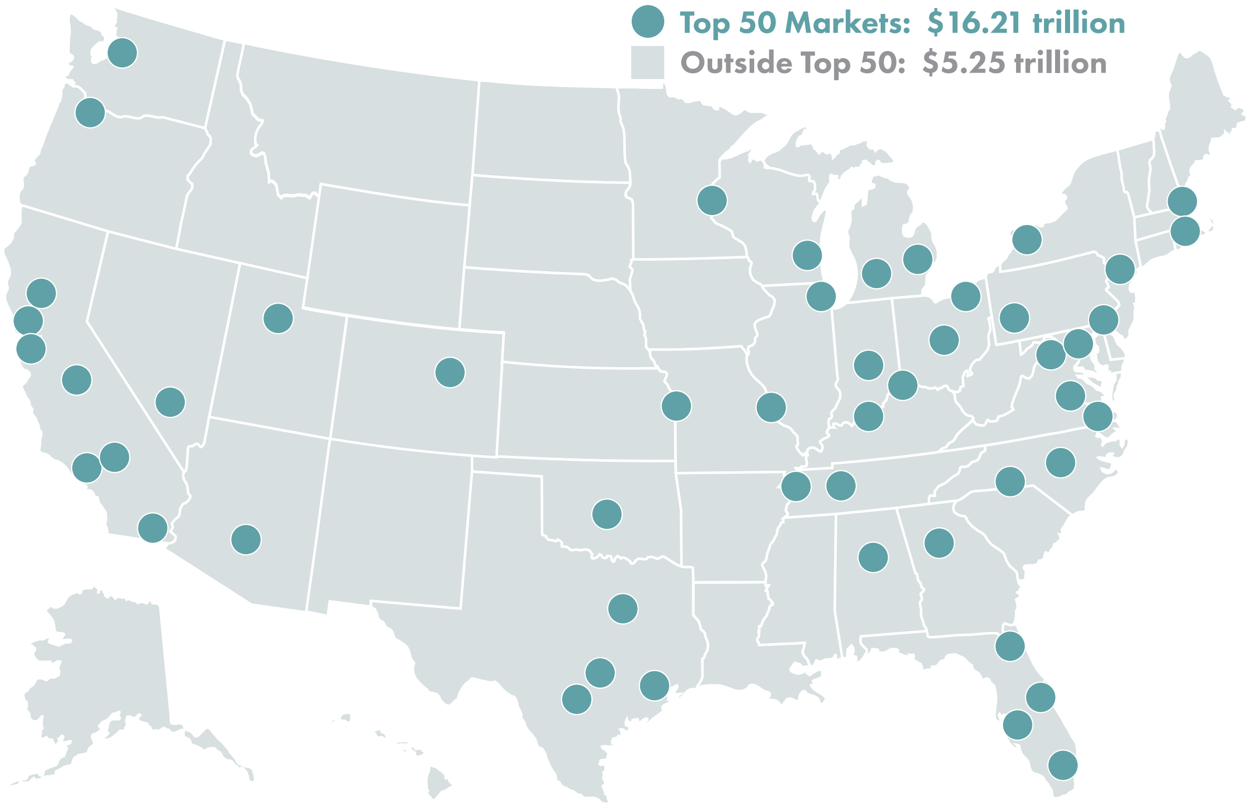
	Inside Top 25 Markets	Outside Top 25 Markets	Total
Multifamily	$2.87 trillion	$1.61 trillion	$4.48 trillion
Retail	$2.41 trillion	$1.35 trillion	$3.76 trillion
Office	$1.98 trillion	$1.11 trillion	$3.09 trillion
Industrial	$2.08 trillion	$1.17 trillion	$3.25 trillion
4 Main Subtotal	$9.34 trillion	$5.24 trillion	$14.58 trillion
Hotels	$0.84 trillion	$0.47 trillion	$1.31 trillion
5 Main Subtotal	$10.18 trillion	$5.71 trillion	$15.89 trillion
Other than 5 Main Food Groups	$3.22 trillion	$2.35 trillion	$5.57 trillion
Total	$13.40 trillion	$8.06 trillion	$21.46 trillion



The 5 main product types exclude $3.58 trillion of value outside the top 50 metro areas, and the 4 main product types exclude $3.29 trillion outside these same metro areas. Including all property types, ***a total of $5.25 trillion of property value is located outside the 50 largest markets.***

Top 50 Market Concentration Analysis

	Inside Top 50 Markets	Outside Top 50 Markets	Total
Multifamily	$3.47 trillion	$1.01 trillion	$4.48 trillion
Retail	$2.91 trillion	$0.85 trillion	$3.76 trillion
Office	$2.39 trillion	$0.70 trillion	$3.09 trillion
Industrial	$2.52 trillion	$0.73 trillion	$3.25 trillion
4 Main Subtotal	$11.29 trillion	$3.29 trillion	$14.58 trillion
Hotels	$1.02 trillion	$0.29 trillion	$1.31 trillion
5 Main Subtotal	$12.31 trillion	$3.58 trillion	$15.89 trillion
Other than 5 Main Food Groups	$3.90 trillion	$1.67 trillion	$5.57 trillion
Total	$16.21 trillion	$5.25 trillion	$21.46 trillion



Conclusions

As markets evolve and the pendulum swings back and forth between urban and suburban growth cycles, it's worth periodically challenging the deeply held institutional belief that the largest assets and the largest markets have greater access to liquidity than smaller assets and smaller markets. **Many consultants, advisors and investors broadly over-allocate on a relative basis to certain product types and metro areas, failing to adequately cover an appropriate range of the investable universe outside of those traditional allocations. The institutional market routinely overestimates liquidity in large assets in gateway cities and underestimates available liquidity of smaller assets in smaller markets. We believe this blind spot in decision-making is due in large part to a lack of reliable market data.** Smaller assets are capable of being purchased by a deeper and more diverse buyer pool than large core assets requiring capital from the largest institutional investors. Certainly, it's true that the most expensive asset in a secondary or tertiary market should be more liquidity-challenged in a downturn than a similar priced asset in a gateway market. Yet our experience indicates that liquidity remains available for smaller assets in most markets throughout commercial real estate and economic cycles. Prices may vary, but liquidity is usually available. At the moment, some of the most illiquid assets in the U.S. are the largest office buildings in gateway markets—the air is thin up there. Meanwhile, liquidity is currently abundant in smaller suburban locations demonstrating more affordable costs, public safety, short commutes, and rapid population and job growth. ***Our study finds $7.99 trillion in non-institutionally owned commercial real estate. Alternatively, of the total $21.46 trillion in CRE value, $8.06 trillion among all types is found outside the top 25 markets and $5.25 trillion outside the top 50 markets.*** Given all these factors, investors should strongly consider working with managers who can access reliable information and execute on property business plans in smaller markets, less common product types, and smaller transaction sizes.

Traditional Institutional Method

TOP-DOWN APPROACH

Four Quadrants of Commercial Real Estate

In terms of access points, investments can be made through the four quadrants, as follows:

	Public	Private
Debt		
Equity		

The top-down method relies on the reported balance sheet numbers of financial institutions, public markets and government agencies. Therefore, the four-quadrant analysis that follows is the most limited method of establishing CRE value because it heavily biased toward institutional markets, properties, and owners. The bottom-up method previously shown in this paper encompasses a much broader range of markets, properties and owners.

The Debt Quadrants

Public debt includes commercial mortgage-backed securities (CMBS), Agency CMBS, REIT liabilities (corporate bonds), mortgage REITs, along with limited debt investments made by equity REITs. ***These forms of public debt total roughly $2.58 trillion.***

	Public	Private
Debt	**$2.58 trillion**	
Equity		

Private debt consists of mortgage debt made available by private lenders to borrowers owning commercial real estate. Most often (though not always), this includes mortgage debt made to publicly traded borrowers. After reviewing data from other industry sources that ranged from total private debt of $3.0 trillion to $3.95 trillion, ***NFM Research has selected approximately $3.76 trillion as a reasonable assumption for total private CRE quadrant debt outstanding.***

	Public	Private
Debt		$3.76 trillion
Equity		

Adding public and private subtotals results in overall U.S. commercial real estate debt of $6.34 trillion. Cross-checking this conclusion, it does reasonably tie to the Federal Reserve's measures of multifamily mortgage debt of approximately $2.28 trillion and $3.81 trillion of commercial mortgage debt, for a total of $6.09 trillion.

	Public	Private	Total
Debt	$2.58 trillion	$3.76 trillion	$6.34 trillion
Equity			

The Equity Quadrants

Public equity consists primarily of the value of properties owned by the REITs (gross assets), or their net equity value (net of mortgage debt and corporate bonds). Many investors or their advisors invest in REITs to gain access to the most liquid form of the U.S. real estate market. ***Public REITs totaled $1.40 trillion of market cap as of December 2024, implying total property values owned by these REITs of $2.375 trillion (assuming 40% average leverage).*** Public REIT holdings are more diverse than institutional NCREIF holdings. In fact, REIT portfolios include more non-traditional assets by value than they do of the 4 main food groups. To jump ahead for a moment, we note that the total $2.375 trillion of public REIT-owned CRE is only 17.8% of the institutional market segment and just 11.1% of the total value of U.S. commercial properties using the expanded, bottom-up CRE market valuation of $21.46 trillion.

	Public	Private
Debt		
Equity	$1.40 trillion	

Private equity gross assets consist of all properties held by private owners. Net private equity includes the equity value of those assets, which can be in conjunction with either public (CMBS, Agency CMBS, or other securitized debt) or traditional private mortgage debt from banks, credit funds, finance companies, insurance companies, pension funds, or other private lenders (among others).

Private Institutional Equity - Institutional investment in core property types makes the point even more striking that institutions tend to cover a surprisingly modest portion of the investable asset class. The NCREIF Property Index (NPI), a widely used index aggregating institutionally owned core properties, includes a combined portfolio of approximately $890 billion or 4.1% of the total expansive value of commercial real estate. The NFI-ODCE index of institutional real estate funds (as opposed to properties) includes $281 billion of assets or 1.3% of our estimate of the total market cap of public and private CRE.

Other Private CRE Equity - Private debt, public equity and public debt were the easy three parts of the four-quadrant method. This category is the broadest in terms of market participants. Measuring private equity requires reviewing the holdings of all manner of funds, private REITs, companies, individuals/families, syndicates, and institutions. Using this top-down approach, we measure approximately $3.68 trillion of CRE private equity, which excludes large portions of the non-institutional market. In fact, the total of these four quadrants leaves us $10 trillion shy of the total bottom-up valuation of CRE.

Overall, the top-down, four-quadrant approach works well enough for public debt and equity, is reasonably accurate for private debt, but struggles to account for the entirety of the CRE private equity market, particularly those properties owned without mortgage debt. Another challenge in calculating the relative size of each of the four market segments is teasing apart areas where the quadrants overlap. See Appendices for additional detail on these valuation methodologies.

	Public	Private
Debt		
Equity		$3.68 trillion

Top-Down Conclusions - Putting it all together, taking care to avoid double-counting any overlapping sectors and using the top-down approach focused on larger markets, common product types, and larger properties, ***we arrive at a total four-quadrant equity valuation of $5.08 trillion and total valuation of $11.42 trillion.***

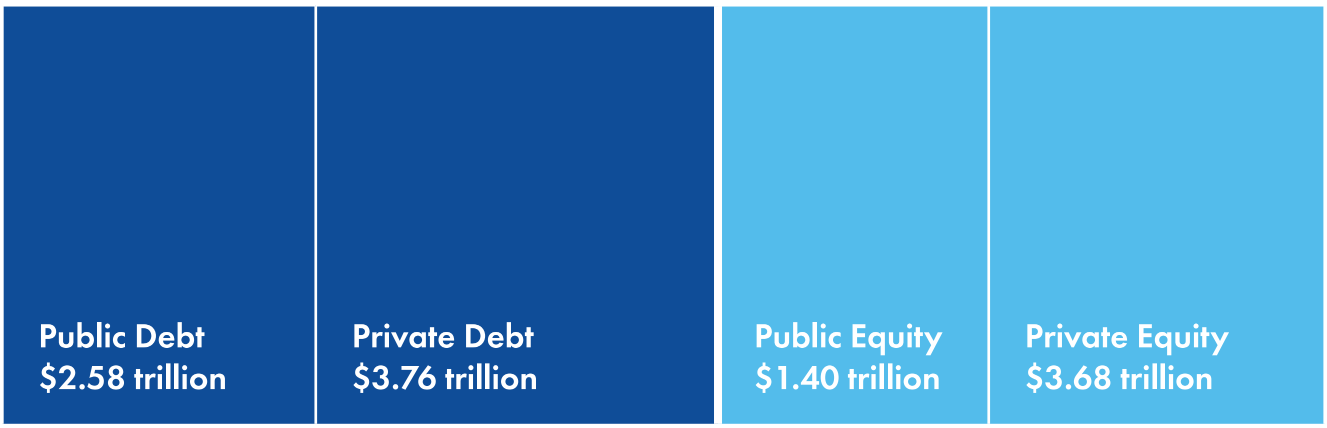
	Public	Private	Total
Debt			
Equity	$1.40 trillion	$3.68 trillion	$5.08 trillion

Top-Down Summary

The preceding Northmarq method covered a much broader universe by measuring from the bottom-up by property type, allowing us to account for unlevered property ownership, smaller properties, and smaller metro areas. We find that the more traditional four-quadrant method, by leaning on the reporting of large institutions and building around the core of reportable mortgage debt, vastly understates the full scope of the U.S. commercial real estate market. As a result, the top-down/four-quadrant method arrives at a total valuation of just $11.42 trillion. While we show that 77.3% of the four-quadrant valuation is institutionally owned, that percentage is skewed upward by the fact that much of the four-quadrant valuation is based on the reporting of institutionally owned properties/portfolios. By focusing on primary product types in the largest markets and properties, the institutional reporting top-down method generally represents only 53% of the total $21.46 trillion investable universe.

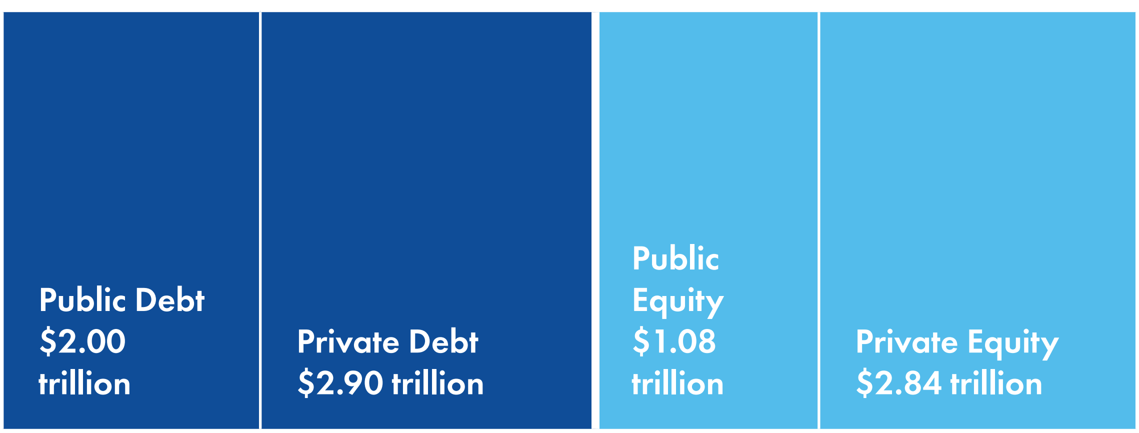
NFM Top-Down Estimate of Property Value

$11.42 Trillion



NFM Top-Down Estimate of Institutional Segment

$8.82 Trillion



Why It Matters

Commercial real estate (CRE) has a notable dual weakness/strength that clearly differentiates it from traditional liquid asset classes; namely, the CRE sector's relative information inefficiencies that create challenges and opportunities for investors. Investors and their advisors must anchor investment allocations to various asset classes in notions of risk and return, liquidity, and expected performance. In establishing these allocations, it's common to see references to the total value or market cap of the stock and bond markets. For the past several decades, investors have added allocations to alternative investments, seeking reduced correlation and/or added yield. In comparing alternative investments and their risk/return potential to more common asset classes, how can anyone accurately do so without knowing the size of the investable market? By way of example, the value of U.S. equities totals nearly $64.4 trillion. The total fixed-income market, including Treasuries, municipal and corporate bonds, totals around $46.3 trillion, excluding CMBS and ABS securities which push the total over $60 trillion. In stark contrast, detailed and reliable measurements of the market cap and composition of many alternative asset classes are rare. This research report is our contribution to estimating the total value of the CRE asset class.

Methodology

The differences among all the prior sources and reports included in this study can be found in the product types, geographies, building classes and values of included assets. For this project, we measured as many markets and product types as we could include, down to small properties ($2.5 million and up) and all markets and asset classes. The exceptions are that we attempted to exclude owner-user properties and campuses owned by government or institutions (universities, prisons, agency headquarters, hospitals, etc). We have made our assessments of market cap based on a with-and-without accounting for the institutionally owned single-family rental (SFR) market. Alternative reports reporting the value of some or all product type or quadrant segments (debt/equity, public/private) of the commercial real estate asset class include (among many others): The Fed Reserve Financial Accounts of the United States, Federal Reserve's Financial Stability Reports, Clarion Partners, Preqin, Savills, Principal, MBA, GAO, U.S. Treasury, Callan, SIFMA, Trepp, CoStar, NAREIT, PREA, JP Morgan, MetLife, NCREIF, Cohen & Steers, Multi-Housing News, National Multi-Housing Council, NIC, Yardi Matrix, Morningstar, US EIA, Morgan Stanley, and most of the national real estate brokerage platforms.

Challenges to the Four-Quadrant Approach

The quadrant method often relies on measurement of the mortgage market as the core building block for arriving at total property value. It also quickly identifies the market cap and leverage of REITs to arrive at the public market value. The method's primary weakness is that it fails to identify many privately-owned properties without leverage. An additional challenge is that industry measurements often unintentionally alternate between measurements of gross and net assets for public and private equity. There are also differences caused when many private owners report assets at cost compared to those reporting under regularly updated fair value accounting. Next, if viewed in Venn diagram form, there are instances of public debt placed on properties where the ownership is in the form of private equity. And what to make of private lenders providing mortgage debt to REITs? Is that public debt or private debt? Another complication involves REIT corporate debt that should be viewed within total CRE debt but doesn't show up in the form of traditional mortgage financing. Do you include or exclude owner-occupied properties? What about large campuses and other facilities owned by entities such as hospitals, universities, and state, local or Federal governments?

Single-Family Rental / Build-to-Rent

A supplemental component is the emerging product class of investor-owned single-family rental (SFR) homes. The SFR sector has a very large market cap ($6.8 trillion) that in the past was accounted for exclusively within the residential (not commercial) real estate asset class. Some researchers now add the entire SFR sector to commercial real estate. Since the large majority of SFRs consist of individuals renting individual homes, we exclude the broad category from the primary commercial real estate market and then add a $1.7 trillion subtotal of the investable portion of the SFR market. The institutionally owned segment, despite growing rapidly since 2020, is still a modest 3.4% or $232 billion of the total size of the SFR market. Adding in non-individual (but not institutional) investor-owners of SFRs who hold 21.6% of the SFR market, we conclude that a combined 25% of the SFR market ($1.71 trillion) is owned by non-individual investors and therefore has the scale and access to be considered investable.

Northmarq

4949 Meadows Road, Suite 490 | Lake Oswego, OR 97035 | 503-952-0700 | **northmarq.com**