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PREA

RERI recap

What the research is telling us

While sources of commercial real estate risk are shifting, and so are the sources of value, research presented at RERI's 2026 annual conference on topics ranging from AI to municipal financial health is beginning to quantify how large they are and where they are most likely to matter.

At the Real Estate Research Institute 2026 Annual Conference held on May 19 to 20 at Roosevelt University in Chicago, AI kept surfacing, not just as subject matter but as a tool reshaping how research gets done. Data access and legal questions around AI use came up in opening remarks, with the observation that investment managers stand to benefit significantly from academic partnerships at a moment when cost pressures are rising and the quality of information flowing through the industry is under strain.

As one speaker put it, the folks who survived the internet boom were the ones who stayed focused on fundamentals. That framing set the tone for what followed.

Eight papers were featured across two days, bringing together academics and practitioners to present and debate new findings across a range of commercial real estate (CRE) topics.

AI

The conference opened with a paper by a team at Florida State University examining how AI exposure affects corporate real estate demand.[1] The 3-30-300 rule — roughly what firms spend per square foot per year on utilities, rent, and payroll — provided useful context: over

KEY TAKEAWAYS

- AI is compressing corporate space demand while simultaneously creating a new and capital-intensive infrastructure asset class.
- Bank lending stress has moved away from early delinquency and toward maturity extension and modification.
- CMBS credit risk has migrated from cash flow problems to refinancing constraints.
- Private debt has grown large enough to evaluate on its own terms, and it is drawing institutional capital that used to flow through public channels.
- Remote work is not killing cities, but it is rewiring which parts of them capture foot traffic and spending.
- Municipal fiscal health — long a residential real estate concern — turns out to matter in institutional commercial real estate markets too.

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the past two decades, corporate real estate density has dropped about 29% even as firm-level exposure to AI and automation has climbed 26%.

The research found that higher AI exposure leads firms to hold less real estate, with a cumulative five-year decline of roughly 0.7% in real estate as a share of total assets. For a $10 billion firm, that accumulates to around $68 million. The effect is strongest among firms with replaceable occupational tasks, low R&D intensity, and tighter financial constraints.

The practical takeaway for landlords and lenders is that AI should be treated as a structural demand driver, not a one-time adjustment. Historical occupancy levels may no longer be a reliable baseline.

A paper turned the lens on the supply side of the AI economy — data centers. A team of researchers at Oklahoma State University and MIT trained a convolutional neural network on 15 years of building-level data to predict where data centers locate at 500 meter resolution.[2]

One of the more striking findings is that hyperscale cloud providers and third-party colocation facilities behave very differently. Hyperscalers prioritize power capacity and fiber connectivity above nearly everything else; colocation operators weigh land costs and proximity to end users more heavily. Counterfactual simulations through 2030 suggest that on-site power generation could be as transformative for the geographic distribution of data centers as a 50% surge in urban grid capacity — in other words, the single biggest constraint on where this infrastructure gets built is access to the grid.

A panelist noted the somewhat recursive quality of the research: AI tools were

used extensively in a paper about the physical infrastructure that runs AI.

CMBS

The CMBS paper by Trepp, University of Texas-San Antonio, and Clemson University researchers traced loan performance across three issuance cohorts — pre-crisis (1.0), post-crisis pre-risk-retention (2.0), and modern (3.0).[3] They found that stress has migrated across the loan lifecycle rather than disappeared. Investment-grade bonds are not seeing the losses they did in the crisis era, but late-stage maturity defaults have risen sharply, with 18.9% of loans maturing between 2021 and early 2025 going past their scheduled maturity date.

The discussion touched on a point that came up again later in the day: in CMBS 1.0, LTV was not a reliable predictor of risk because lenders knew they were making bad loans and had to put money out anyway. By 3.0, underwriting works as theory predicts, but DSCR, which was central to predicting early delinquency, loses predictive power in the late-stage maturity analysis, where debt yield becomes a better signal of the ability to refinance. The structural shift toward interest-only loans — now more than one in three conduit loans — concentrates balloon risk in ways that deserve attention in loss modeling.

Bank lending

Two sessions addressed extend-and-pretend dynamics in bank lending.

An academic presentation by University of Memphis and Florida Atlantic University researchers found that after the Federal Reserve began hiking rates in March 2022, regional and national banks leaned much more heavily on commercial mortgage modifications than community banks did, and used those modifications to avoid classifying loans as nonperforming.[4] CRE loan modifications tripled to over $30 billion by mid-2025.

In a focused discussion, panelists pushed on whether modifications represent sound risk management or loss deferral, and flagged that large banks have more visibility into their books which could mean they are managing proactively or that problems are larger and being obscured. The concern about regional banks was direct: CRE lending is growing faster than other loan types at those institutions, and the composition effect — lending to less vulnerable property types — may be masking underlying stress.

Debt and securitization

Two other papers rounded out the first day's academic presentations.

A paper by University of Denver, University of Florida, and University of Alabama researchers offered the first formal performance evaluation of private debt real estate (PDRE) funds as an asset class.[5] The headline finding is that PDRE funds have delivered strong raw returns and generated positive alpha against public debt benchmarks; once broad equity market risk is added to the comparison portfolio, returns are roughly commensurate with the risks taken. Mezzanine strategies are the outlier — alphas at or near zero — while senior and generalist funds drive positive results.

The portfolio construction paper by University of Geneva and Conservatoire National des Arts et Métiers researchers examined how securitized real estate (SRE) sectors behave under different market regimes.[6] They found that sector-level SRE diversification improves risk-adjusted performance and that dynamic GDP-based rebalancing strategies tend to outperform static approaches. Self-storage, apartments, and healthcare proved most resilient in downturns; office, retail, and lodging suffered the sharpest drawdowns.

Institutional capital flows

Day two opened with a practitioner panel on trends in institutional capital flows, drawing on data from MSCI and JLL.

The macro picture was cautiously optimistic. Commercial mortgage rates, which peaked near 7.5% in 2023, have come back below 6.5% through the first months of 2026, with apartment lending approaching 5.5% again. Net new additions to distress fell for the first time since the second quarter of 2022 — newly distressed assets have dropped from nearly $20 billion per quarter to just above $10 billion, while workout activity has kept pace, allowing the total stock of distressed assets to decline.

JLL's data also highlighted a structural shift in borrower behavior: loans of five years or less now account for 82% of settled debt originations by volume, up from 55% before the rate cycle began, with 54% of year-to-date 2026 volume carrying terms of three years or less. The panel framed the current moment as the early stages of a multi-year recovery cycle, noting that the two previous positive cycles in the NCREIF ODCE index each lasted more than a decade and delivered cumulative returns exceeding 125%. Liquidity was identified as a distinct pricing factor: markets like Manhattan and San Francisco, with high long-term liquidity scores, carry structurally lower cap rates than less liquid markets, all else equal.

Suburbanization

The second session of the day featured an academic paper challenging the 'urban doom' narrative head-on.

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Researchers at UNC Kenan-Flagler Business School and Southern Methodist University examined what remote work has done to urban real estate demand by separating two distinct types of location use: the demand to live in urban areas and the demand to visit them.[7]

The residential picture confirms suburbanization is ongoing — residents have continued moving farther from downtown, and suburban rent growth has outpaced urban centers since 2021. But the visit picture tells a different story. Amenity foot traffic in urban centers is back near pre-pandemic levels nationally and has recovered more fully in places with the highest amenity density. Visitors to urban amenities are now traveling farther from home than in 2019, consistent with cities functioning as regional consumption destinations rather than just neighborhood hubs. The economic activity that has slipped is concentrated in the downtown core — within roughly two miles of city center — while the urban-adjacent ring from three to ten miles out has seen visit and spending shares surge post-pandemic. Individual-level data confirmed causality: on days a worker works remotely, time spent at top amenity locations increases, while time in office-heavy CBDs falls.

The practical implication varies sharply by property type. Experiential non-retail amenities — restaurants, entertainment, services — show a strong positive post-pandemic gradient. Retail goods stores show a persistent negative one. The paper's bottom line: cities are not dying but they are transforming, and investors who distinguish between 'CBD office-adjacent' and 'high amenity destination' will read the data differently than those who treat urban as a single category.

Municipal fiscal health

The conference closed with research from Florida State University and the University of Nevada on municipal fiscal health as a driver of CRE returns.[8]

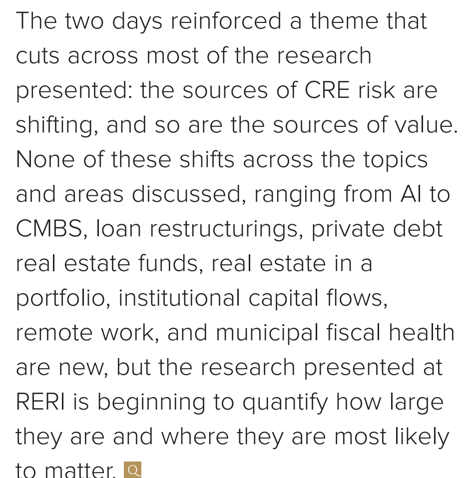
The core finding is that a city's fiscal condition is a priced local risk factor: a one-standard-deviation improvement in the Stanford Municipal Finance Dashboard composite score is associated with roughly 0.28% of additional quarterly return, or approximately 1.1% annually. The effect runs through appreciation, not income — roughly fourteen times larger in the appreciation component than in income returns — consistent with the mechanism being investors' required returns and valuation expectations rather than contemporaneous cash flows. The predictive content persists out to five quarters ahead. Among the specific fiscal dimensions that investors appear to price, balance sheet strength matters most: reserve levels, liquidity, debt burden, pension funding ratios, and pension cost as a share of revenues all carry statistically significant coefficients.

The effect is amplified in gateway markets and in the post-COVID period, when uncertainty was higher and fiscal divergence across cities became more visible. Causal identification came from the staggered adoption of state-level fiscal monitoring policies between 2001 and 2017: metros subject to enhanced oversight saw quarterly CRE returns rise by 0.41% to 0.53% following adoption, with pre-trends flat and the effect persistent for at least four years afterward.

The authors' message to practitioners was direct: municipal balance sheets belong alongside traditional property and location fundamentals in underwriting, and fiscal metrics offer incremental information that standard market and property data do not capture.

Conclusion

The two days reinforced a theme that cuts across most of the research presented: the sources of CRE risk are shifting, and so are the sources of value. None of these shifts across the topics and areas discussed, ranging from AI to CMBS, loan restructurings, private debt real estate funds, real estate in a portfolio, institutional capital flows, remote work, and municipal fiscal health are new, but the research presented at RERI is beginning to quantify how large they are and where they are most likely to matter.



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[2] Du, R., X. Sun, and S. Zheng. 2026. "Bits and Mortar: The Microspatial Economics of Data Centers." Real Estate Research Institute. May.

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[7] Qian, F. and Y. Su. 2026. "Remote Work and Consumer Cities." Real Estate Research Institute. March.

[8] Letdin, M., C. Wang, and S. Wilkoff. 2026. "Financially Constrained Cities and Commercial Real Estate Returns." Real Estate Research Institute. April.

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