Leading the return to growth

Commercial real estate finance leaders navigate uncertainty with careful confidence.

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Executive summary

Over the past two years, challenges have buffeted the commercial real estate (CRE) industry on multiple fronts. Chief among these are sustained high interest rates; low occupancy rates driven by the popularity of remote working; and rising labor, insurance and energy costs.

In this context, we surveyed 200 CRE finance executives to understand how their finance teams are navigating these choppy waters. How have their plans, perceptions of risk, and approaches to topics such as digital and payments transformations changed? And how do they differ from those of other industries and sectors?

What we learned from our survey of 200 CRE finance leaders:

1

A renewed focus on growth.
A more positive business environment is encouraging CRE finance leaders to pursue growth initiatives, albeit cautiously. For example, the percentage of finance leaders who say they are evaluating M&A, divestiture and partnership opportunities has surged from 12% in 2023 to 21% in 2024.

2

The pace of change concerns many leaders.
The pace of technology change is a top concern for CRE finance leaders. Over one-third (36%) say this and digital disruption constitute a top three risk for their business.

3

Data analytics has come to the fore.
Cautious CRE finance leaders are more likely to lay the foundations for digital transformation by investing in data capabilities, rather than by experimenting with new technology such as AI. For example, over half (55%) plan to invest in data analytics, compared with 52% of finance leaders in other sectors.

4

High aspirations for but slow progress on payments transformation.
CRE finance leaders are taking a measured approach to payments transformation. But the aspiration is there: 78% expect to implement instant payments (the RTP® network or FedNow® Service) by 2026, which is a notable increase on the 41% using them today. And while just 34% currently use fintech platforms to move money, 78% expect to use them by 2026.

1

CRE finance leaders focus on growth.

In recent years, higher interest rates have driven up borrowing costs, discouraging investors. Hybrid working and online shopping have brought down occupancy rates and led to decreased footfall. And overall rising labor, energy and insurance costs have further impacted the CRE industry.

Despite this less-than-hospitable environment, there are some positive signs. In July 2024, the Financial Times reported that even the CRE sub-sectors that have been most negatively impacted by trends, such as remote working and online shopping, rose in value by 9%.[1] This suggests that investor sentiment is warming – which, in the context of the latest annual CPI figures (U.S. core inflation fell to 2.5% in August), paves the way for the Fed to decrease interest rates.[2]

“Not all real estate is created equal, but for our largely grocery-anchored/neighborhood centers, I would suggest that we’re operating with significantly more tailwinds than headwinds,” says Mike Mas, executive vice president and chief financial officer at Regency Centers, a leading U.S.-based real estate investment trust.

Amid these rising tailwinds, a majority of CRE finance leaders are feeling positive. That said, feelings of positivity are more prevalent in finance leaders from other sectors:

53% say they feel positive about their businesses’ financial prospects in the next three years, compared with 61% in other sectors.

Although keen to improve their business prospects, CRE finance leaders are proceeding cautiously. As in last year’s survey, 46% say that cutting costs and driving efficiencies within the finance function is a top priority.

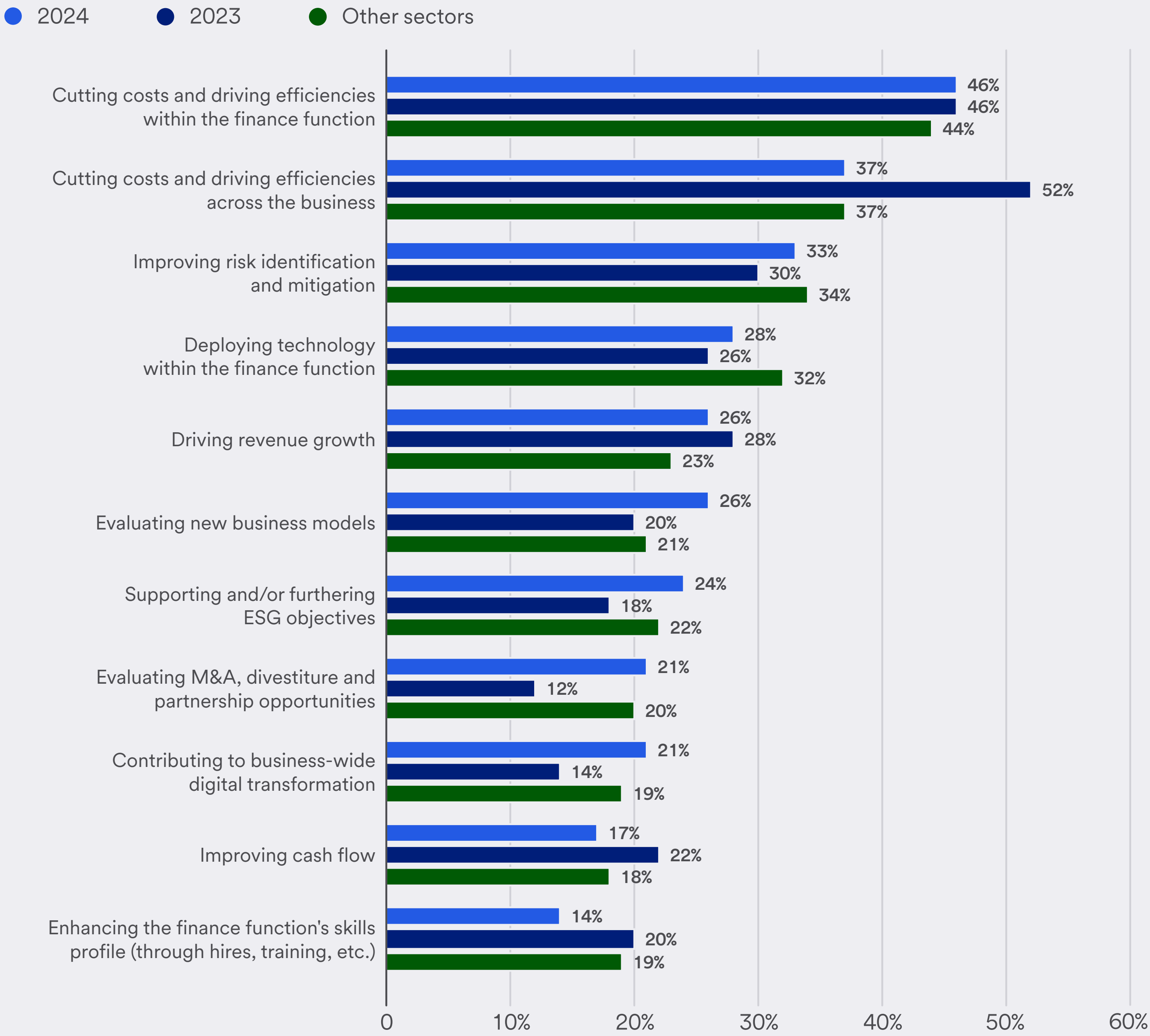
CRE finance leaders are faced with the challenging task of balancing cost cutting and building resiliency with the need to invest in future growth. However, our research shows that they're getting better at this: 49% say they found doing so a struggle, compared with 62% last year. And only 38% struggle to balance the need to mitigate risk and drive growth, compared with 68% last year.

[1] https://www.ft.com/content/9d19b4c6-105c-4324-a188-59df963393a1
[2] https://www.ft.com/content/66a18979-cd6b-4872-abe7-f4487ea64b15

Over one-quarter (26%) of CRE finance leaders say they are evaluating new business models, a six-percentage-point increase from last year. And there's been a resurgence in the number who say they are evaluating M&A, divestiture and partnership opportunities, from 12% in 2023 to 21% in 2024.

Cost cutting is the top priority, but growth initiatives are rising on the agenda.

% who say that the following are their finance function's greatest priorities for the next 12 months



1. CRE finance leaders focus on growth.

Regency Centers' Mas emphasizes that, despite rising optimism, CRE finance leaders must maintain the balance. "Given the tailwinds we've experienced, we've been hyper-focused on raising and deploying capital. But, over the past 12 months, high interest rates have made the windows of opportunity for raising debt capital or equity in public markets fewer and farther between. So, we need to execute these activities wisely, opportunistically and accretively."

1. CRE finance leaders focus on growth.

2

CRE finance leaders are navigating a sea of risks.

As in many business areas, in the short term, talent shortages have replaced high inflation as the number one risk, followed closely by the pace of technology change.

The more reliant businesses become on technologies such as smart building systems, cloud computing and the internet of things, the more vulnerable they become to ransomware attacks.[3] A recent study by IBM found that the global average cost of a data breach in 2024 is a record-high $4.88 million. This is a 10% increase on the 2023 figure.[4]

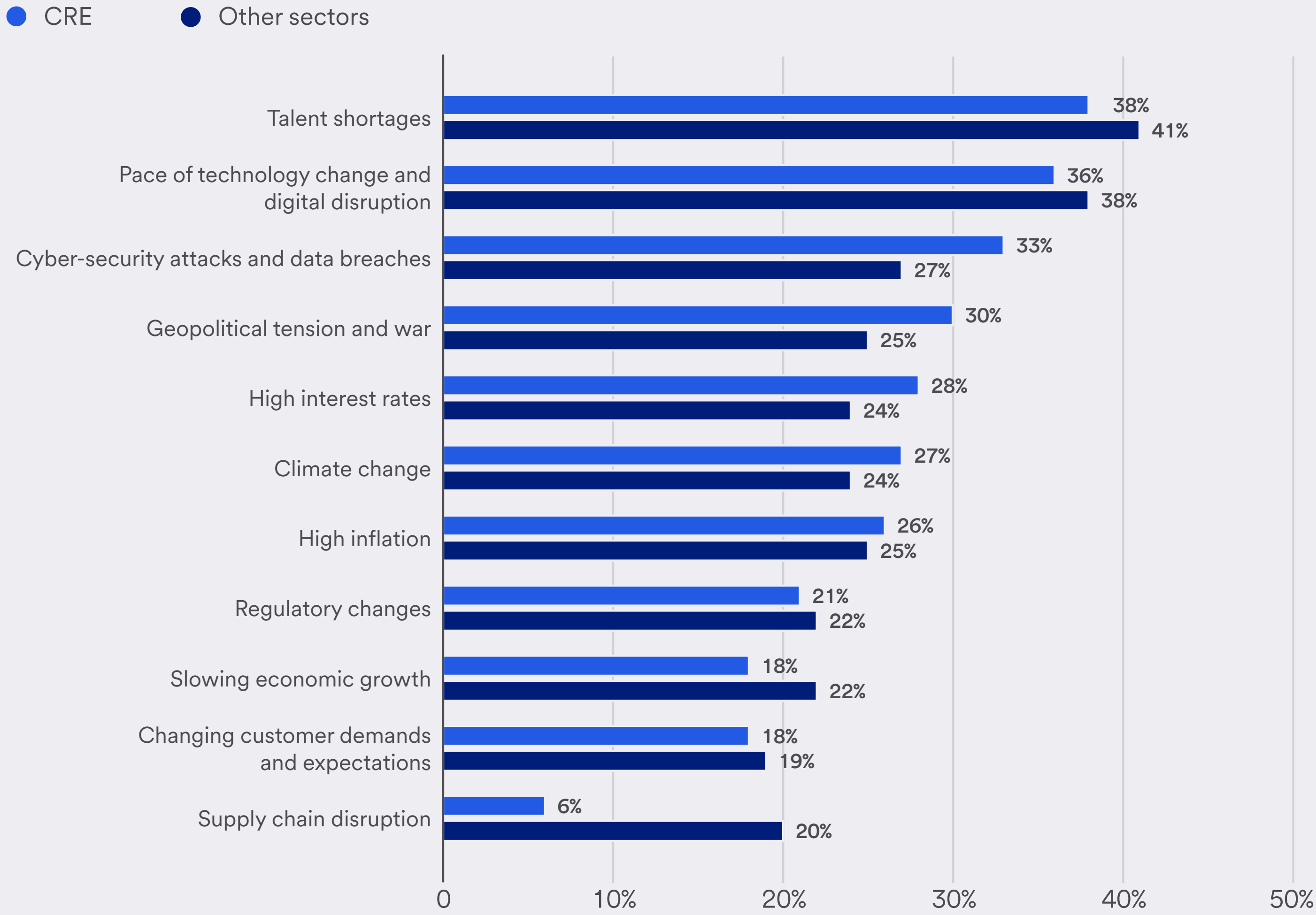
Consequently, according to our research, the number of CRE finance leaders who flag cyber-security attacks and data breaches as a top-three risk has risen seven percentage points from last year, from 26% to 33%.

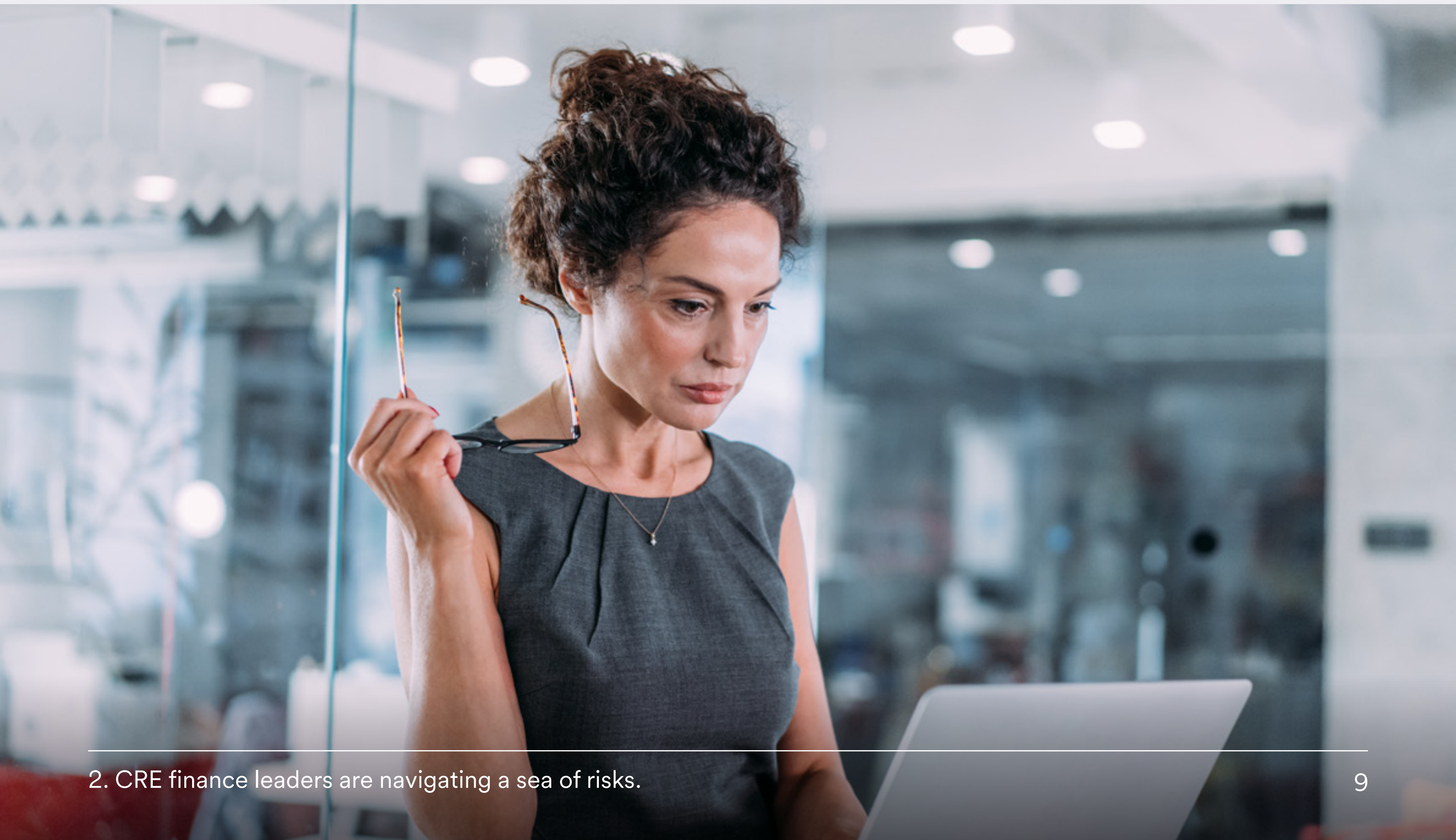
Risk of geopolitical tension and conflict has also increased since last year – from 10% to 30%. Geopolitical conflict often disrupts financial markets, driving inflation and high interest rates and influencing investor sentiment. In recent years, we've also seen how conflict in energy-producing regions can lead to higher energy costs.

As Mas explains, even a slight shift in the market could put a business at risk. "If access to jobs continues to decline, if wage growth continues to lag inflation, then our tenants will feel a change in their business – and we will feel it too."

[3] https://www.reit.com/news/articles/reits-address-cyber-risk-as-innovation-continues-to-accelerate-
[4] https://www.ibm.com/reports/data-breach

Risks around cyber-security and geopolitical tensions come into focus.
% who say that the following risks are currently top of the agenda for their business





3

Digital transformation: preparation before innovation.

CRE still lags behind other industries in terms of its digital transformation. Over half (53%) of CRE finance leaders say that they are still at the early stages of digital transformation in their finance functions. This is a striking increase from last year's 28%. Our research found that the top barriers to progress are a lack of skills to implement new technologies, lack of an enterprise-wide digital transformation strategy, and reluctance and resistance to change.

That said, there is clearly appetite for digital transformation:

- **39%** say they are exploring emerging technologies, up from 28% last year. In other sectors, 34% say the same.

- **21%** say they are contributing to business-wide digital transformation, up from 14% in 2023. In other sectors, 19% say the same.

53%

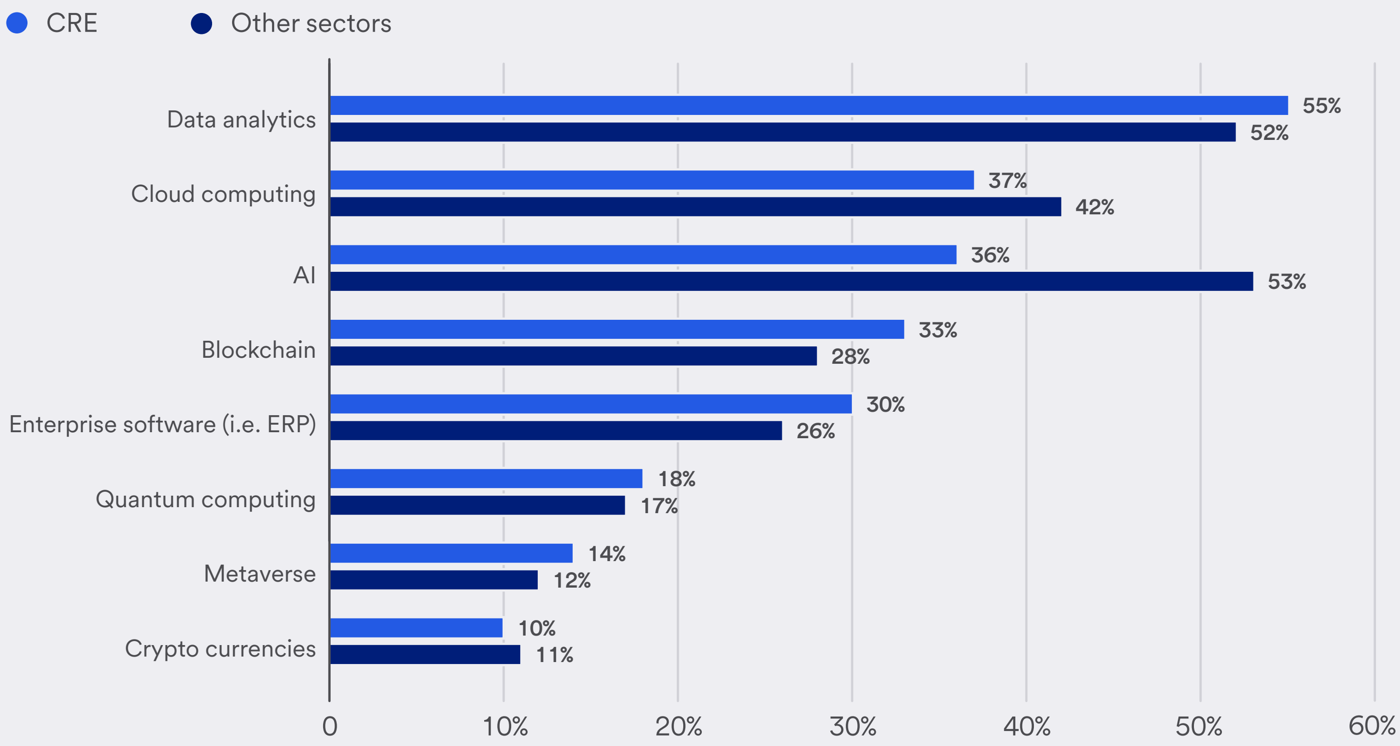
Over half of CRE finance leaders say that they are still at the early stages of digital transformation in their finance functions.

For example, many CRE finance leaders say that their businesses use AI to identify fraud. Almost half (48%) say that fraud identification is priority for the finance function, compared with 40% in other sectors. According to IBM, businesses that use security AI and automation save an average of $2.2 million (compared with businesses that don't use them).[5]

Although they are exploring certain new application for AI, CRE finance leaders mainly prioritize preparation over innovation. Data is one such focus, including technologies such as data analytics, cloud computing and enterprise software (e.g., enterprise resource planning or ERP). In 2023, only 4% said they were investing in ERP software, compared with 30% today.

Regency Centers has made data analytics its top priority. “As we’re making day-to-day leasing and capital allocation development decisions, how do we better use and make accessible the vast amount of data to our decision makers? That’s a new frontier for us,” Mas explains.

Data analytics takes precedence over AI.
% who say they are investing in the following technologies



[5] https://www.ibm.com/reports/data-breach

4

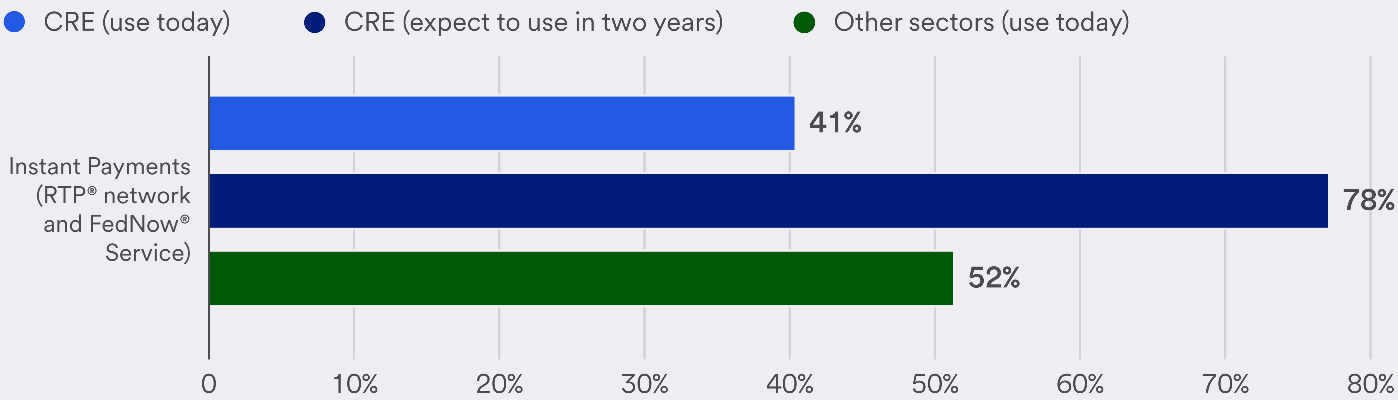
CRE is steadily pursuing payments transformation.

CRE finance leaders' more conservative approach to digital transformation is also influencing their progress on payments transformation. For example, only 41% currently use instant payments (e.g., the RTP® network or FedNow® Service), compared with 52% in other sectors.

But the aspiration is there. Nearly eight in 10 (78%) expect to use instant payments by 2026. This is largely driven by CRE finance leaders' quest for efficiency, cost cutting, risk mitigation and automation. For example, 80% say increasing the efficiency of front-office payment transactions, such as vendor payments, is important, compared with 68% in 2023. And 78% say increasing the efficiency of back-office payment transactions is important, compared with 66% last year.

CRE finance leaders lag on digital payments.

% who say that they currently use or are planning to use the following payment types in their organization

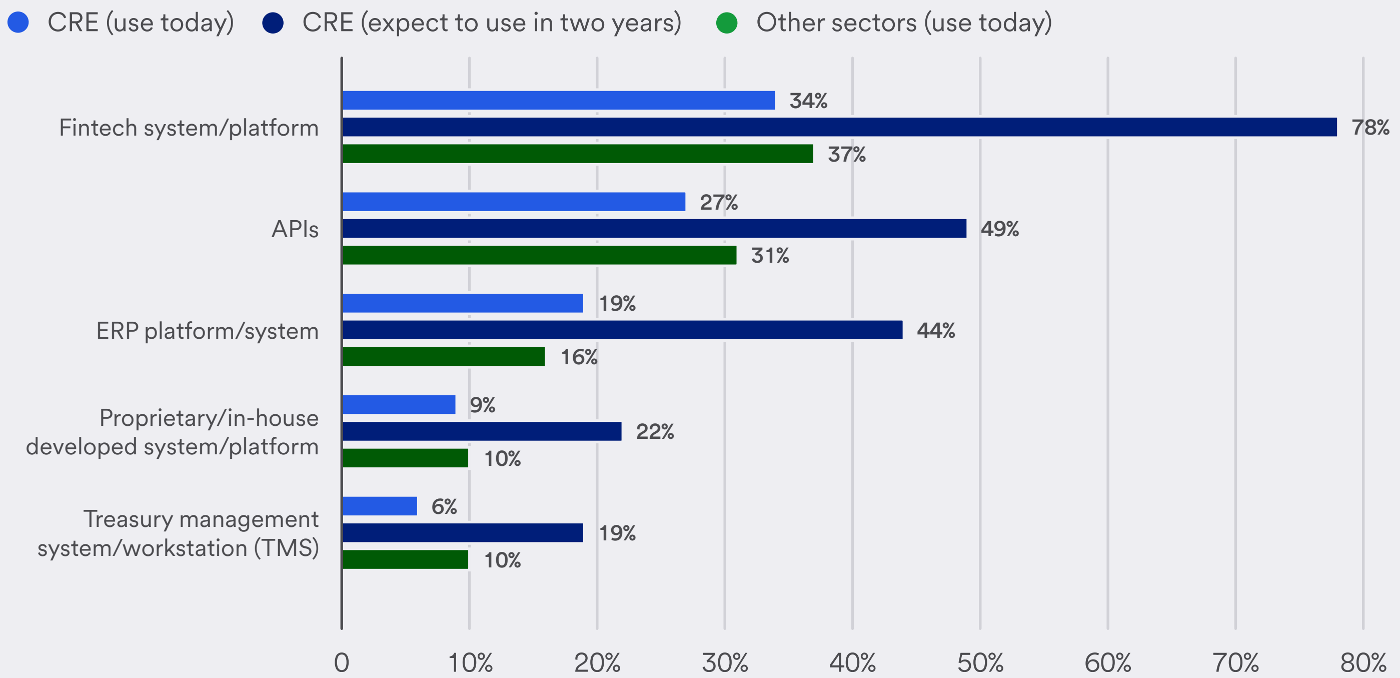


This ambition is prompting CRE businesses to consider embedding payments into business platforms. For example, 77% plan to integrate their finance systems with those of their banking partners for payment initiation and reporting. And 68% say they plan to send and receive payments within a vendor technology/fintech platform, up from 40% last year.

This trend is set to continue. Our research shows that adoption of these practices is set to double within two years:

- **78%** expect to use fintech platforms or systems for payments in the next two years – just 34% use them today.
- **44%** expect to use ERP platforms for payments in two years – just 19% use them today.

CRE finance leaders aspire to embed payments, but progress is slow.
% who say that their organization currently uses or is planning to use the following to move money, initiate/send payments, or receive payments



Conclusion

By maintaining a sharp focus on cost and efficiency, the U.S. CRE industry has adapted to the difficult environment of recent years. As inflation stabilizes and the potential for interest rate reduction emerges, CRE finance leaders are cautiously optimistic about their businesses' future growth.

The more favorable economic landscape promises to give them room to balance cost-cutting measures with strategic investments. In addition, CRE finance leaders should take a bolder approach to digital and payments transformation, as this will help them strengthen their market position and navigate any future uncertainty with confidence.

5

About the research

This data comes from a survey of 200 senior CRE finance leaders.

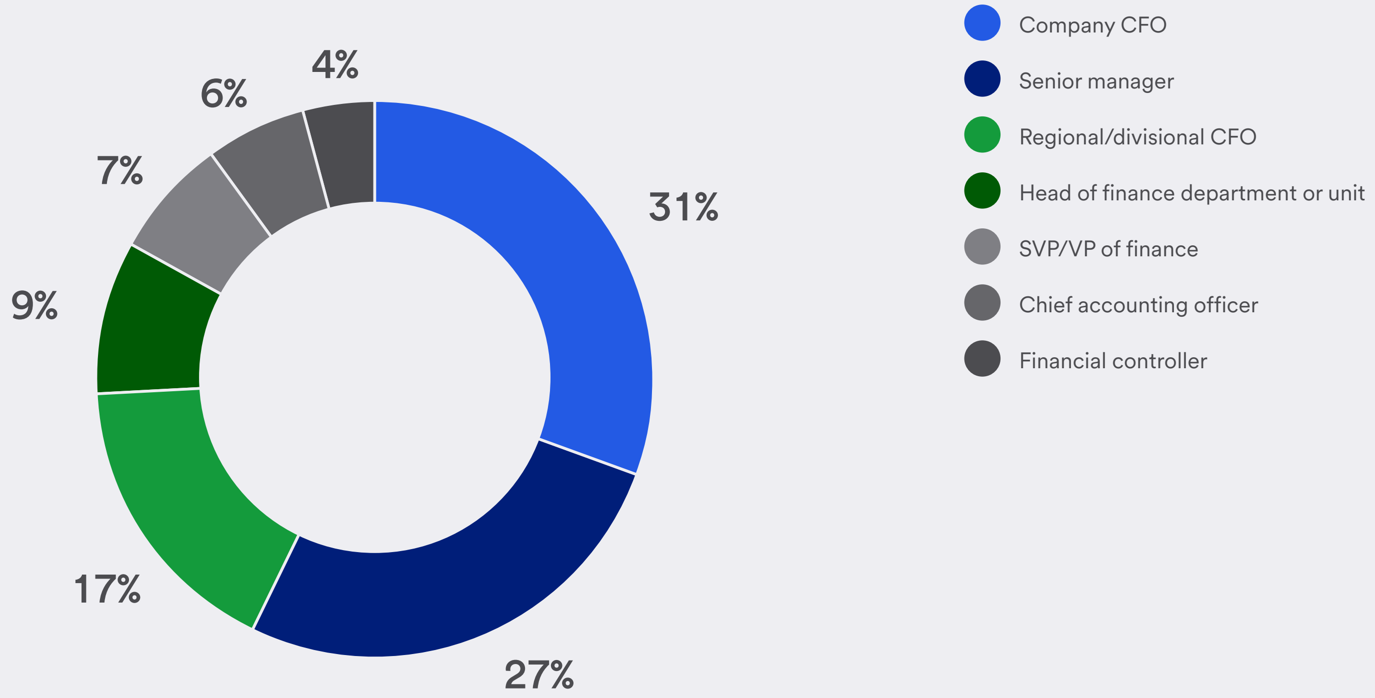
- **48%** of the survey participants are group, regional or divisional CFOs.

- **100%** work for a business that generates at least $100 million in annual revenue.

- **33%** work for a business that generates morethan $2 billion in annual revenue.

The research is part of a larger study of 2,030 senior finance leaders who work in U.S. businesses. **Learn more** about the larger study. That report is the fourth in a series and follows **Leading the return to growth**, a U.S. Bank survey of 1,420 finance leaders released in 2023. The previous edition of our research, **Leading through uncertainty** was released in 2022, and we launched the series with **Leading the recovery** in 2021.

Participants by job title



Participants by company size