Gruen Gruen + Associates 55th Annual Holiday Greeting and Forecast

2026

Economic Forecast

U.S. companies (especially those with fewer than 500 workers which account for 46 percent of total workers) and the federal government will continue to eliminate jobs and reduce the rate of hiring. Unless the U.S. Supreme Court sustains the challenges to President Trump's unprecedented use of the International Emergency Economic Powers Act to impose wide ranging tariffs, the pernicious effects of the President's tariff policy will increase in 2026. A decision upholding the imposition of tariffs could be followed by a recession that will particularly hurt our lower-income citizens. Even if a recession is avoided, a potential reduction in employment growth, coupled with the costs of tariffs and continued higher than two percent inflation targeted by the Federal Reserve, will result in lower consumer spending.

A unique factor affecting the current economy is that a relatively small number of large companies continue to make substantial investments in artificial intelligence (AI) related infrastructure, which will generate jobs and incomes for other businesses and their workers. If, in 2026, this investment is not thwarted by factors such as the lack of sufficient available energy needed to power data centers or a turbulent decline in the stock market, AI-related investments may mask weakness in other economic sectors.

If, however, the job adjustments that the evolution of AI may induce occur at the same time the tariff weapon wielded by the Administration significantly curtails intentional trade, the economy could be put into at least a temporary nose-dive.

Nonresidential Real Estate Forecast

Data Centers: Cloud computing, AI, and enterprise data management continue to stimulate exceptional demand for data centers. NIMBY sentiment and other regulatory constraints suggest opportunities in developing data centers in locations of formerly heavy manufacturing locations where ample power is still available and greater community receptivity to data centers exists as a source of redevelopment and new investment. Secondary markets in energy laden locations with existing heavy industry and high amounts of available land represent other locations where data center development will be welcomed.

Industrial: Continued growth in online shopping will support demand for e-commerce logistics facilities. Given increased trucking capacity constraints and rising transportation costs, logistics users and manufacturers will substitute toward modern space near customers in coastal markets and other locations such as Dallas-Fort Worth and Phoenix, with access to deep customer bases, and available power for increasing automation and HVAC requirements, and other high technology features.

Retail: Tariff costs and inflation, reduced labor force growth, budget constrained consumers (other than the affluent), "right-sizing" retailers, and high financing costs will constrain new retail development and pressure existing centers with mid-tier tenancies serving middle-and lower-income consumers. Closed department store sites or under-utilized properties in desirable urban and higher-income suburban locations will provide redevelopment opportunities with the commercial components of residential and civic-oriented mixed-use projects including QSR and experiential dining and essential goods retailers and services.

Hotel: An existing large pipeline of hotel rooms will open while operating margins are pressured by rising labor and other operating costs. Corporate travelers and particularly leisure travelers will become more price sensitive as economic headwinds and uncertainty constrain demand growth. Softer demand will particularly affect mid- to lower-tier hotel brands.

Office: Traditional office space development and ownership in most markets remain challenging given economic uncertainty, weak job hiring, and increasing costs such as insurance and utilities. San Francisco joins New York City as two markets experiencing significantly improving conditions. Favorable deals can be made by well capitalized investors with long-time horizons.

Residential Real Estate Forecast

"Senior" Housing: Baby boomers have seen their parents age and would have preferred to have avoided aging themselves. Boomers begin turning 80 in 2026. Supply growth serving older adults has been muted. The aging of the population supports senior housing development and investment. Boomers do not want to be reminded of the housing in which their parents lived. Developments will need to be keenly responsive to the preferences and needs of these older adults. ("Senior" housing is a poor word choice to describe or relate to older adults.)

Multi-Family: Multi-family development and occupancy and rental growth in existing properties will be supported by continuing affordability constraints for single family housing and growth in the numbers of one-person households and aging households who transition from single-family ownership housing.

Single-Family Housing: Many existing homeowners will be loath to give up their low interest mortgages, which will continue to keep the resale inventory lower than normal. Demand still exceeds supply. Well capitalized builders who can design, finance, and build new housing responsive to budget constraints of first-time buyer Millennials and can be nimble with targeted buydowns and assistance with closing costs will succeed in 2026. Builders extraordinarily well attuned to the preferences and attitudes of affluent buyers will also succeed despite the economic headwinds and uncertainty that could characterize 2026, provided the stock market does not materially decline.

Gruen Gruen + Associates wish you and yours a healthy, happy, peaceful, and prosperous New Year!

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