

Reshuffling of CRE Value Creation Intensifies

Small-cap commercial and multifamily assets in smaller, more dynamic metros are setting the pace in price growth



RANDY FUCHS



JUNE 11, 2025

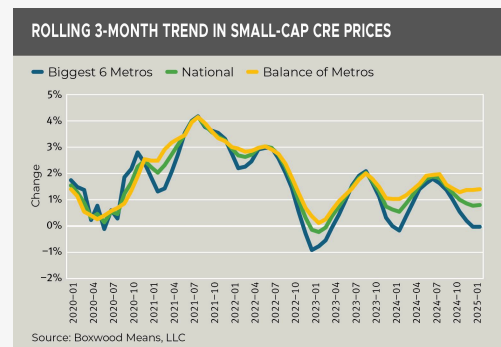
The geographic focus of commercial real estate value creation is shifting. While investors have traditionally favored large commercial and multifamily assets in major metro areas, smaller CRE properties in secondary and tertiary markets have increasingly outperformed, delivering stronger market returns and higher price premiums—especially since the pandemic.

Boxwood's **Small Commercial Price Index (SCPI)** and **Small Multifamily Price Index (SMPI)** have closely tracked this notable change in price momentum, focusing on U.S. CRE property sales under \$5 million. Below, we highlight key short- and longer-term trends and insights from Q1 data.

Sluggish Growth in the Largest Metros

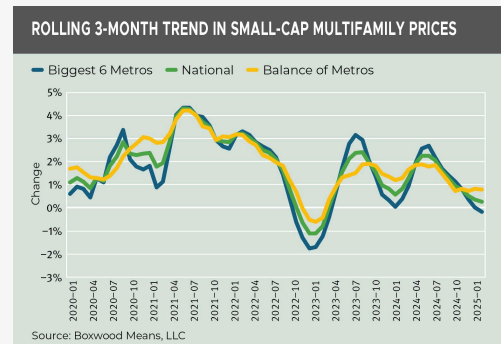
- **The top six population centers have lost their shine.**

CRE prices in the largest six metros were flat in Q1, with 0.0% growth—marking the third consecutive rolling three-month period of stagnation. The multifamily sector followed a similar pattern, turning slightly negative in Q1 with a -0.2% dip after weak growth in the previous two periods.



- **Smaller markets continue to outperform.** In contrast, secondary and tertiary CRE markets posted a **1.5% gain in Q1**, continuing a streak of solid growth across recent rolling three-month periods. See the first graph showing the sharp divergence in price trends between the **balance of metros**—gold line representing 160 metros—and the **Top 6 metros**—blue line.

Multifamily price trends mirrored this variance: prices in the smaller metros rose 0.8% in Q1, reinforcing the growing performance gap between market tiers. See the second graph illustrating the reversal in multifamily price direction.



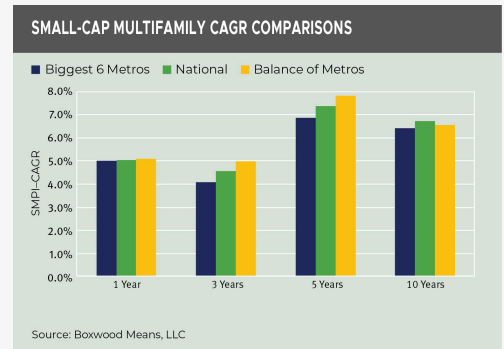
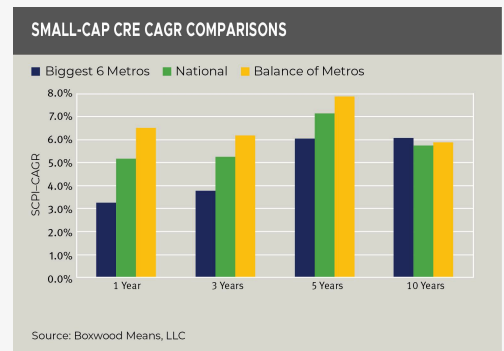
Sustained Outperformance by Non-Major Markets

- **Smaller metros dominate across multiple time horizons.** For small CRE assets, secondary and tertiary markets consistently posted higher **Compound Annual Growth Rates (CAGR)** than major metros:
 - **1-year spread:** +320 basis points (bps)
 - **3-year spread:** +240 bps
 - **5-year spread:** +190 bps
 - **10-year spread:** the Top 6 metros led slightly, by 30 bps

See the third graph for this long-run performance comparison.

- **Multifamily gains are more modest but persistent.** For small multifamily properties, the balance of metros outpaced the top six cities by a narrower margin:
 - **1-year spread:** +10 bps
 - **3- and 5-year spreads:** +90 bps
 - **10-year spread:** +20 bps

See the final graph for the smoother but consistent upward trend in non-major multifamily markets.



Key Takeaways and Talking Points

- **Major metros no longer command a performance premium,** due to pandemic-driven, population out-migration and remote work, higher costs of doing business, tighter regulations, and new building supply constraints among other factors.
- **Smaller markets are more affordable,** given higher concentrations of small apartment and commercial buildings with stronger occupier fundamentals—such as lower vacancies and more stable demand—resulting in faster NOI and price growth compared to overbuilt, big urban cores.
- **Private investors and owner-occupants dominate in smaller metros.** These local buyers are typically long-term holders, contributing to tighter inventory and sustained pricing support.
- **The balance of metros has materially outperformed** the Top 6 across multiple recent timeframes. While annual differences in CAGR may appear modest, compounding creates a significant cumulative impact—often amounting to substantial added dollar value over time.
- **If this trend holds,** it could signal a longer-term strategic reallocation of capital toward, and investor focus on smaller assets in secondary and tertiary markets.