



TA REALTY

2025 Q4 MARKET COMMENTARY

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The U.S. real estate market showed remarkable resilience through the fourth quarter of 2025, effectively navigating federal policy uncertainty and market-level headwinds. Borrowing costs and real estate values in most markets continued to stabilize and transaction activity improved. The market continued to see pockets of outperformance as both tenants and investors moved forward with leasing and sales transactions. The rebalancing of supply and demand combined with high occupancy rates in most markets are positive indicators for future growth. Even as the broader economy faces new risks and challenges, the U.S. real estate market is transitioning from the uncertainty that defined 2025 to a 2026 outlook characterized by strengthening fundamentals, easing financing conditions, improved price discovery, and measured optimism.

ECONOMIC OVERVIEW ¹

The U.S. economy accelerated through the fourth quarter, seeming to avoid the adverse outcomes associated with tariff shocks, a federal government shutdown, and other macro uncertainties throughout 2025. Estimates of U.S. gross domestic product (“GDP”) suggest that economic growth in the fourth quarter grew at a robust annualized rate of 2.2%. A notable driver of this performance has been business investment to support artificial intelligence, including data center construction. Consumer spending expanded with broad-based strength across both goods and services, signaling that consumption patterns are normalizing after a pull-forward in goods demand at the beginning of the year. An upswing in productivity, improving manufacturing activity, along with strong household spending point to faster growth in 2026 and forecasts expect GDP to settle near 2.8% at year end.

The labor market slowed over the course of the year even as economic output expanded. Fourth quarter job growth declined at a three-month average rate of -22,000. However, excluding the idiosyncratic decline in federal government jobs in October, the three-month pace of job growth was a steadier 29,000. For the year, job growth averaged 49,000 jobs per month, a slowdown from the 168,000-per-month pace seen in 2024. Despite this, the unemployment rate held near generational lows at 4.4%. A tight labor supply continues to support wage growth; average hourly earnings rose 3.8% year-over-year, outpacing inflation and slightly ahead of the 10-year average. While businesses remain cautious about expanding headcount, a modest improvement is expected in 2026.

Inflation cooled over the year despite concerns about tariff-related price increases. The core Consumer Price Index fell to 2.6% year-over-year in December, a slowdown from the 3.2% pace seen in December 2024. While price pressures from 2025’s new import duties may still make their way into the economy, inflation is expected to ease toward 2% in 2026. Notably, retail sales growth picked up in late 2025, topping 4% year-over-year, and inflation-adjusted retail spending remains well above pre-pandemic levels.

This gradual fall in inflation combined with softening in the labor market in late 2025 prompted the Federal Reserve (“Fed”) to cut rates 25 basis points (“bps”) at three consecutive meetings beginning in September to a rate of 3.50%-3.75% — a range considered to be neutral or not restrictive to economic growth. Market expectations suggest that the Fed will continue to cut rates and point to a terminal rate of 3.00%-3.25% by late 2026. Meanwhile, the 10-year U.S. Treasury yield ranged from a peak of 4.6% in mid-May to a low of 3.9% in July, ending the year near 4.2%, with forecasts projecting it will stay slightly above 4.0% through 2026.

Household balance sheets also remain resilient, buoyed by stock market gains. The Dow Jones Industrial Average, the S&P 500 and the Nasdaq Composite each hit all-time highs in the fourth quarter, rising 13%, 16% and 19% over the year, respectively. The robust performance of these indexes underscores the strength of the broader U.S. economy in 2025, supporting the U.S. consumer even as spending by low-income households has been weaker. U.S. consumer spending is expected to grow at a steady rate of 2% in 2026.

The U.S. economy is entering 2026 with renewed momentum. Downside risks remain, but the U.S. economy is well-equipped to weather these headwinds. Tax incentives from the One Big Beautiful Bill and President Trump’s focus on a more favorable regulatory environment should give the economy a boost in the years ahead. Strong corporate and household balance sheets, easing inflation and real wage growth will likely serve as a foundation for healthy property fundamentals performance, increased investment activity and property values in 2026.

REAL ESTATE FUNDAMENTALS ^{2,3}

Fourth quarter U.S. real estate fundamentals decelerated slightly. While most property sectors exhibited steady demand, occupiers reassessed space needs with greater focus on quality, flexibility and long-term efficiency — widening the divide between high-performing assets and those facing functional or structural obsolescence. Vacancy rates remained sound amid balancing supply dynamics but there were pockets of weakness in some multifamily and industrial submarkets experiencing elevated levels of new supply. A significant drop in new construction starts should pave the way for a reacceleration in fundamentals across property types.

Industrial

The U.S. industrial market closed 2025 with solid momentum, posting the strongest quarterly absorption since 2023 with 65 million square feet (“msf”). Despite the late-year improvement, 2025 performance was subdued. Just over 114 msf of space was absorbed in 2025 — a 12-year low and nearly a 50% decline compared to pre-pandemic annual averages. Deliveries moderated from their 2023 peak but remained high, with more than 252 msf completed in 2025, 24% above pre-pandemic annual averages. The supply overhang, paired with muted demand, pushed vacancy to 7.5% at year end, a 60-basis point increase from the end of 2024. However, vacancy expansion slowed in the back half of the year, suggesting the market may be stabilizing. Fundamentals remained bifurcated by size: vacancy in spaces smaller than 100,000 sf ended the year at a tight 4.4%, compared to 8.1% for spaces larger than 100,000 sf. Several major markets, such as Chicago, Houston and Miami, maintained vacancy rates well below the national average.

New construction activity slowed, with 265 msf breaking ground in 2025 — 54% below the 2022 peak and slightly under pre-pandemic norms. Rent growth decelerated, remaining flat over the final two quarters and bringing annual rent growth to 1.6% for 2025, the lowest since mid-2012 and roughly 400 bps below pre-pandemic averages. Still, many long-term leases renewed at above-market rates, supported by the elevated rent levels established during the 2021–2023 expansion cycle. This renewal-driven activity contributed to outsized leasing volumes during the year but translated into limited net absorption, reflecting a market focused more on tenant retention and portfolio optimization than expansion.

Looking ahead, the effects of the three-year supply and demand imbalance are expected to extend into 2026, but moderating construction volume should move the market toward recovery. Small-bay and infill product are positioned to outperform amid limited supply. While occupiers prioritize network optimization and cost efficiency, inland intermodal transportation hubs and major port markets are likely to capture more demand as fundamentals continue to normalize.

Multifamily

The U.S. multifamily market experienced measured growth in 2025 with solid demand that largely kept pace with an elevated supply environment. Total net absorption for the year reached 437,000 units, just 85,000 units shy of the 522,000 units delivered nationwide. The fourth quarter saw a slight deceleration in demand but, importantly, a steep drop in new supply. While absorption moderated from recent highs, full-year demand remained approximately 34% above the pre-pandemic annual average of 327,000 units. Vacancy edged higher over the course of the year, increasing just 20 bps from 2024 to 8.5%, reflecting a market that absorbed a historically large volume of new units with only modest pressure on occupancy.

Rent growth remained subdued amid lingering supply pressure, with year-over-year growth of 0.4% and rents declining 0.6% quarter-over-quarter in the fourth quarter as many operators continued to prioritize occupancy over pricing growth. Construction activity slowed dramatically throughout 2025, reinforcing expectations for a gradual rebalancing of fundamentals ahead. A total of 329,000 units broke ground during the year, representing a 20% decline from 2024 and a 55% reduction from the 2022 peak. Notably, nearly one-third of all 2025 starts occurred in the first quarter, with activity steadily falling thereafter. Only 64,000 units began construction in the fourth quarter, marking a thirteen-year low and signaling a sharp contraction in future deliveries.

Market performance remained uneven. New York, Orange County, and Chicago ended the year with the tightest occupancy conditions, while Austin, Charlotte, and Atlanta posted the highest vacancy rates. Importantly, vacancy in these high-supply Sun Belt markets contracted over the course of the year, pointing to improving fundamentals as new supply slows. Moving into 2026, the combination of resilient demand, moderating supply, and stabilizing occupancy suggests the multifamily sector is entering a more balanced and sustainable phase, with conditions supportive of gradual rent improvement in the years ahead.

Office

The U.S. office market entered a long-awaited recovery phase in the second half of 2025. While absorption for the year remained slightly negative, with tenants giving back 1.5 msf of space, demand strengthened as the year progressed. The final six months of 2025 recorded 17 msf of positive absorption including 9 msf absorbed in the fourth quarter alone. Deliveries fell to a record low of 2 msf for the year, marking an 85% decline from the record low set in 2024. Vacancy has hovered near 14% since the third quarter of 2024, signaling that the market may have reached a stabilization point after a prolonged period of deterioration. Sublease availability fell to 11% from a peak of 15% in 2023, further reinforcing the improvement in underlying fundamentals. Rent growth remained muted, with annual growth just over 1%, reflecting cautious tenant behavior and ongoing bifurcation across asset quality. Construction activity remained extremely limited, with construction starts at their lowest level on record, totaling 50 msf breaking ground in the fourth quarter.

Performance remained highly uneven across markets and asset types. Miami posted the tightest conditions nationally, with vacancy below 9%. Demand was most prolific in New York and Dallas. These gains contrasted with continued softness elsewhere, underscoring the increasingly selective nature of tenant demand and the premium placed on well-located, high-quality buildings.

Looking ahead, a record low level of new deliveries combined with a sustained rebound in demand during the second half of the year has kick-started the office sector's recovery. Even so, the uneven geographic distribution of demand and stagnant hiring trends suggest persistent headwinds for the sector. Vacancy appears to have plateaued, with conditions expected to remain broadly stable through 2026 before gradually tightening as absorption continues to outpace limited new supply. Rent growth is likely to strengthen as the recovery matures, led by top-tier Class A buildings and well-located assets that continue to capture a disproportionate share of tenant demand.

Retail

The U.S. retail market closed 2025 on firmer footing after an uneven first half of the year. Although tenants gave back a net 1.1 msf of space over the year, demand rebounded in the second half of the year. Tenants absorbed 15 msf in the last 6 months of 2025. Momentum peaked in the fourth quarter, with 11 msf absorbed, marking the strongest quarter for retail demand since 2023. This late-year acceleration underscores renewed leasing activity as retailer balance sheets improved and expansion decisions became more elective and targeted. Supply additions remained at historic lows, supporting market fundamentals. A total of 28 msf delivered in 2025, up modestly from 2024 but still 60% lower than pre-pandemic annual averages. Even with absorption negative for the year, the national vacancy rate increased by just three bps to 4.3%, reinforcing the impact of limited supply.

Rent growth was flat in the second half of the year, ending at 2.1%, slightly down from 3% in 2024. This deceleration reflects short-term hesitancy among tenants as they adjusted to changing tariff policy rather than weakening fundamentals, as limited availability and strong backfill interest continue to support pricing. Market participants report robust leasing activity when second-generation space becomes available, often accompanied by meaningful rent increases upon re-leasing, highlighting the scarcity of quality retail space.

Entering early 2026, the retail sector shows clear signs of stabilization following a choppy 2025. Store closures remain a modest drag on demand but continue to create valuable leasing opportunities, while new construction remains near cyclical lows. Despite a cautious consumer backdrop, the sector is positioned to maintain balanced and stable performance through 2026. A bifurcated market will likely persist, with well-positioned, necessity-based retail assets, particularly grocery-anchored centers, continuing to outperform while weaker concepts or locations face ongoing headwinds.

Data Center

The U.S. data center market delivered one of its strongest quarters on record in the fourth quarter of 2025, with new leasing activity across the eight primary markets surpassing 1,200 megawatts ("MW"). This marked the third-largest quarter ever for absorption, behind only the first quarter of 2024 and the fourth quarter of 2023. Vacancy remained exceptionally tight, holding below 1% across primary markets and reinforcing the persistent imbalance between available capacity and sustained hyperscale demand. Chicago led all markets with a record-high ~300 MW of leasing during the quarter, followed by Dallas at ~275 MW. Dallas capped an exceptional year in 2025, with the market absorbing just shy of 1 gigawatt ("GW") of space over the past 12 months, underscoring its continued prominence as a leading U.S. data center hub. Nearly all ongoing construction remains fully pre-leased, reinforcing both the strength and durability of demand fundamentals in these core markets.

Demand in primary markets continues to be driven primarily by hyperscale expansion of both traditional cloud and inference AI applications, with some contribution from large language model training clusters that are more often located in secondary and tertiary markets where proximity to population centers and ultra-low latency are less critical. In the fourth quarter, leasing in tertiary markets approached nearly 1.4 GW, supported in part by neocloud providers and Bitcoin mining operators. As hyperscalers seek to maintain growth in power-constrained primary markets, some are exploring natural gas adoptions to mitigate long lead times associated with utility-dependent grid power. While power availability remains the defining challenge nationwide, operators' flexibility in pursuing smaller, faster-to-market opportunities continues to support momentum and positions the primary markets for sustained growth as new capacity and long-term power solutions come online.

CAPITAL MARKETS 4,5

The U.S. real estate transaction market sustained its momentum into the fourth quarter, capping the year with its strongest quarterly performance since 2022. Fourth quarter transaction volume reached \$185 billion, bringing full-year 2025 volume to \$545 billion — just 2% below pre-pandemic annual averages and representing 23% growth compared to 2024. While performance remained varied across property sectors and geographies, all four major property types posted year-over-year gains in transaction volume. Pricing largely stabilized across sectors, supported by improved liquidity and closer alignment between buyer and seller expectations. The RCA CPPI US National All-Property Price Index (“CPPI”) edged down slightly quarter-over-quarter and was nearly flat year-over-year, suggesting pricing equilibrium may be taking hold as activity accelerates.

The industrial sector gained meaningful traction in the back half of 2025 after a slow start to the year. Fourth quarter industrial transaction volume totaled \$35 billion, the highest quarterly level since 2022, exceeding pre-pandemic fourth-quarter averages by 33%. The final two quarters lifted full-year industrial volume to \$114 billion, a 15% increase over 2024. Investor demand continued to be supported by durable fundamentals and stable cash flows and pricing rose 2% year-over-year. Cap rates compressed modestly, signaling a late-cycle environment characterized by stabilization rather than renewed acceleration.

Multifamily transaction activity strengthened further in the fourth quarter, marking the sector's strongest quarter since late 2022. Sales volume reached \$51 billion, boosting full-year 2025 activity to \$165 billion — up 9% year-over-year. Transaction volume increased across all multifamily subtypes except garden-style assets, which saw a modest decline. Dallas led all U.S. apartment markets, extending its long-standing position as the most active multifamily market nationally. Pricing remained under modest pressure, with multifamily pricing down 1.3% year-over-year, an improvement from the steeper declines recorded in 2024. While values edged lower, cap rates were largely unchanged, reflecting improving pricing visibility.

Office investment activity continued its gradual recovery in the fourth quarter, driven by repricing and selective investor interest. Total office sales volume reached \$27 billion, a 23% increase year-over-year. Slowing price declines in CBD markets, combined with positive pricing trends in suburban locations, helped draw additional buyers off the sidelines. Overall office pricing increased 2.7% year-over-year, though CBD pricing remained under pressure, declining 2.9%. Improving transaction flow suggests the sector entered 2026 on firmer footing.

The retail sector closed the year with a solid fourth quarter, generating \$21 billion in transaction volume and bringing full-year 2025 sales to \$72 billion. This represents a 26% increase over 2024 and places annual volume just 8% below pre-pandemic averages. Retail pricing edged higher, with pricing up 0.2% year-over-year. While overall price growth remained modest, cap rates were stable, reinforcing the sector's income-oriented appeal.

The NCREIF Property Index (“NPI”) continued its measured growth seen since mid-2024 when returns swung positive for the first time since 2022, reflecting stability in most sectors even in the face of broader economic uncertainty. U.S. real estate achieved a total quarterly return of 1.2%, just in line with the third quarter. The U.S. real estate appreciation return moved down slightly to (0.01%) and the income return remained flat at 1.2% for the quarter. The rolling 12-month return for 2025 moved up to 4.9% driven by a 4.8% income return. For the fourth consecutive quarter, all property types posted a positive quarterly return. The multifamily sector saw a total return of 1.1% driven by a 1.1% income return and flat appreciation. The industrial sector saw a slight increase in appreciation in the fourth quarter with an appreciation return of 0.2% and an income return of 1.0% for a total return of 1.2%. Retail also saw improvement in appreciation with an appreciation return of 0.2% and income return of 1.4% bringing its total return to the strongest among the four sectors to 1.6%. The office sector still experienced a negative appreciation return of (0.5%) but with an income return of 1.4%, the total return was positive at 0.9%. As a note, NCREIF continued to release an expanded NPI which includes senior housing

and self-storage assets in addition to the classic NPI property types. The return for expanded NPI in the third quarter was 1.1%.

Outlook

The U.S. real estate market enters 2026 poised for a measured recovery across most sectors. Supply and demand are coming back into balance particularly in the U.S. industrial and multifamily markets. Structural demand trends remain favorable and the U.S. economy's renewed momentum sets the stage for healthy leasing activity. At the same time, valuations appear to have reset as most property types have begun to see appreciation. A less volatile rate environment has improved liquidity conditions and supported renewed activity and price discovery. These trends, coupled with expectations for further rate reductions, should create an attractive investment vintage over the next several years.

While an unpredictable global economic environment is likely to persist, the headwinds of inflation and elevated interest rates have begun to ease. As the broader market gains clarity, the real estate sector is expected to benefit from increased conviction from investors in the coming year. Success in this environment will likely depend on the principles of strategic asset selection, active asset management and adaptability. Significant differences in outlooks across property types highlight the importance of disciplined market, submarket and asset selection for driving performance. Sectors with strong demand supported by long-term tailwinds, such as logistics, multifamily or data centers, are expected to benefit from higher growth. The steady income streams from real estate are likely to lead to long-term value creation.

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Founded in 1982, TA Realty is an experienced and established real estate investment management firm. The Firm is headquartered in Boston, Massachusetts, with additional offices in Newport Beach, California, Dallas, Texas, San Francisco, California and Ashburn, Virginia. Since its inception, through December 31, 2025, TA Realty has acquired, invested and/or managed approximately \$45 billion of real estate assets through core, core plus and value-add strategies and customized separate/advisory accounts. TA Realty's investment philosophy focuses on creating diversified real estate portfolios that aim to generate strong cash flow, receive intensive asset management, and seek to achieve long-term value creation. For over four decades, TA Realty has maintained this philosophy through multiple real estate and economic cycles, a strength recognized by pension funds, endowments, foundations, and high-net-worth individuals. For more information, please visit www.tarealty.com.

SOURCES

¹Source: Oxford Economics, U.S. Economic Forecast, January 2026; U.S. Bureau of Labor Statistics, Employment Situation, December 2025, Consumer Price Index, December 2025; Board of Governors of the Federal Reserve System, January 2026; LPL Financial, Q4 2025 Market Recap

²Source: CoStar, Fourth Quarter 2025, Property Market Fundamentals Statistics

³Source: Green Street, Data Center Hawk, December 2025

⁴Source: MSCI Real Capital Analytics, Fourth Quarter 2025, Capital Markets Statistics

⁵Source: National Association of Commercial Real Estate Investment Fiduciaries, NCREIF NPI, Fourth Quarter 2025