2025 Q3 MARKET COMMENTARY

In the third quarter, the U.S. real estate market moved past the early stages of recovery supported by tailwinds from a healthy economy, the restart of the Federal Reserve ("Fed")'s easing cycle and increased predictability surrounding tariff policy. Borrowing costs and real estate values in most markets stabilized and transaction activity improved. The U.S. real estate market continued to see pockets of outperformance as both tenants and investors moved forward with leasing and sales transactions. Even as the broader economy navigates uncertainty and new challenges, the rebalancing of supply and demand combined with high occupancy rates in most U.S. real estate markets are positive indicators for future growth.

ECONOMIC OVERVIEW [1]

The U.S. economy continued a positive trajectory in the third quarter amid an uncertain landscape shaped by evolving global trade policies and questions about tariff-driven inflation risks. The federal government shutdown that began on October 1st disrupted access to many third quarter economic reports, but alternative sources have provided timely insights that help maintain visibility and confidence in market fundamentals.

Consensus estimates of U.S. gross domestic product ("GDP") suggest that the economy expanded at a robust 3.2% in the third quarter. Much of the growth has been attributed to business investment in equipment and software to support artificial intelligence, including data center construction, rather than broad-based consumer or business expansion. Economic growth is expected to slow in the fourth quarter, largely due to the federal government shutdown; the extent of the impact will depend on how long the shutdown lasts. Regional disparities persist, but the overall trajectory remains positive, and forecasts expect GDP to settle near 2.3% in 2026.

Job growth moderated in the third quarter, with just 101,000 jobs added in July and August — roughly half the pace seen earlier in 2024. Despite this slowdown key metrics remain solid: labor force participation held at 62%, total employment reached a record 170.7 million and unemployment stayed near generational lows at 4.3%. A tight labor supply continues to support wage growth, with average hourly earnings rising 3.6% year-over-year, outpacing inflation. While businesses remain cautious about expanding headcount, the overall balance in the labor market suggests resilience. However, slower hiring may weigh on consumer spending heading into year-end.

U.S. household balance sheets remain financially sound supported by gains in the U.S. stock market. The Dow Jones Industrial Average, the S&P 500 and the Nasdaq Composite each hit all-time highs in the third quarter, rising 5.2%, 8.1% and 11.2%, respectively. The robust performance of these indexes underscores the resilience and strength of the broader market in 2025, powered by strong corporate earnings.

Concerns about tariffs have translated into only a modest impact on inflation. The core Consumer Price Index (CPI) held steady on a year-over-year basis at 3.1% in September. Higher prices on many tariff-related items suggest that the price pressures from this year's new import duties are still making their way into the economy but the impact is expected to stabilize toward year end. Inflation is expected to hold below 3% through mid-2026, supporting steady economic gains through the coming year.

While inflation remained above the Fed's 2% target, the Fed cut its target rate by 25 basis points ("bps") in September and October to a range of 3.75% to 4%. Signs of softening in the labor market suggest that the Fed will continue to cut rates. Market expectations point to the Fed reaching a terminal rate of 3.50%-3.75% by early 2026 — a range considered to be neutral or not restrictive to economic growth. Meanwhile, the 10-year U.S. Treasury yield ranged from a peak of 4.50% in mid-July to 4.16% at the end of the third quarter, with forecasts projecting it will stay above 4.0% through 2026.

Looking forward, an accommodative Fed policy environment combined with a more predictable trade climate reinforces a positive economic outlook. While the remapping of global trade is still in motion, signs of easing tensions should benefit businesses and consumers alike. Downside risks remain, but the U.S. economy is well-equipped to weather these headwinds. The recently enacted One Big Beautiful Bill Act introduced permanent tax incentives and President Trump's focus on a more favorable regulatory environment may give the economy a boost in the years ahead. Strong corporate balance sheets, a steady job market and solid wage growth will likely serve as a foundation for healthy property fundamentals performance, increased investment activity and property values as we move toward 2026.

REAL ESTATE FUNDAMENTALS [2,3]

The third quarter of 2025 saw the continued stabilization of U.S. real estate fundamentals, with property sectors exhibiting steady demand amid balancing supply dynamics. Leasing activity and vacancy rates broadly remained sound, reflecting a gradual but sustained recovery as occupiers adapted to evolving trade policy changes. There were pockets of weakness in some multifamily and industrial submarkets experiencing elevated levels of new supply, but a significant drop in new construction starts should pave the way for a reacceleration in fundamentals. The U.S. real estate market is poised for steady growth supported by a steady economic backdrop.

Industrial

The U.S. industrial market regained modest momentum in the third quarter of 2025, with tenants absorbing 21 million square feet ("msf") of space. While this marks a return to positive demand, absorption remained 67% below the pre-pandemic average, signaling continued normalization after pandemic-related spikes. Despite improved leasing, vacancy inched higher to 7.5%, the eleventh consecutive quarterly increase and nearly 400 bps above the 2022 peak. Quarterly leasing volume held steady at more than 200 msf, roughly in line with pre-pandemic levels, indicating that core markets continue to attract active occupiers even as expansion plans remain measured.

Construction activity slowed, with just 60 msf breaking ground, nearly 20% below the pre-pandemic average. Limited new supply should help temper future vacancy expansion, though sublease availability continued to rise. The sublet share of available space appears to have peaked but is nearly 700 bps up from 2022. Rent growth slowed further, rising 1.6% year-over-year but flat quarter-over-quarter, the weakest quarterly performance in over a decade. Still, many long-term leases have renewed at above-market rates, supported by the elevated rent levels established during the 2021-2023 expansion cycle.

Performance continued to diverge by product type. Small-bay industrial space remains undersupplied, with vacancy near pre-pandemic lows of about 5%, supported by steady local demand in markets such as Tampa, Charlotte and Nashville. Meanwhile, vacancy among logistics facilities between 100,000 and 500,000 square feet has climbed to roughly 9%, following a 12% increase in stock over the past four years. Elevated vacancy will likely limit rent gains for larger buildings. Looking ahead, lower construction volumes and a continued flight to quality should gradually support fundamentals as occupiers refine distribution strategies and supply pipelines reset to more sustainable levels.

Multifamily

The U.S. multifamily market maintained its steady recovery in the third quarter of 2025 as strong demand continued to absorb elevated levels of new supply. Net absorption totaled 119,000 units, marking the seventh consecutive quarter above 100,000 units absorbed — well above the pre-pandemic quarterly average of 82,000. While quarterly deliveries outpaced absorption at 142,000 units, the U.S. vacancy rate held firm at 8.2%, signaling a tentative equilibrium between supply and demand. The construction pipeline continued to shrink, with 557,000 units under construction, the lowest total since 2016 and more than 50% below peak levels, and new starts fell to a 13-year low. Together, these trends point to a gradually tightening supply picture in the quarters ahead.

Performance continued to diverge sharply across markets. Demand in high-supply Sun Belt metros continued to be robust. Markets such as Austin, Atlanta and Dallas recorded occupancy growth of more than 20,000 units over the past 12 months. Charlotte and Phoenix followed closely with at least 15,000 units absorbed each. However, as elevated deliveries persisted, national rent growth remained subdued, contracting for the second consecutive quarter and holding below 1% year-over-year. Some supply-constrained gateway and Midwest markets, including San Francisco, New York and Chicago, led the nation in rent growth, reflecting their comparatively limited supply additions and steady demand.

Looking ahead, the multifamily sector appears well-positioned as supply pipelines empty and demand remains durable. With construction activity at multi-year lows, vacancy rates are expected to gradually tighten, setting the stage for a renewed acceleration in rent growth once the wave of deliveries subsides. While the timing and pace of improvement will vary by market, resilient absorption and demographic tailwinds continue to support a solid foundation for the sector as the year ends.

Office

The U.S. office market showed signs of a long-awaited inflection point in the third quarter of 2025. Nationwide absorption turned positive for the first time since 2021, with 12 msf of space absorbed — roughly 30% below the pre-pandemic average but a sharp turnaround from recent quarters. Deliveries totaled just 6 msf, marking a 55% decline from pre-2020 levels. As a result, the national vacancy rate appeared to have peaked at 14%, more than 400 bps above the pre-pandemic average. Construction activity ticked up with 7 msf breaking ground — the strongest quarter since 2023, but roughly a third of pre-2020 average levels.

The bifurcation of performance across markets and asset types deepened this quarter. Miami, Orlando and Tampa reported the tightest conditions with vacancy rates below 10% and New York City and Dallas continued to record robust demand. Conversely, Boston, Seattle and Washington, DC saw further occupancy losses. The polarization within the sector remains pronounced: a decade ago, one in seven office buildings was at least 25% vacant; today, nearly one in four falls into that category, accounting for roughly 80% of all empty space. Rent growth remains limited to high-quality, amenity-rich buildings in prime markets, while most other properties face ongoing rent stagnation.

Looking ahead, the office recovery is likely to remain structurally uneven. Although limited new supply and a shrinking pool of competitive buildings should support rent stability for top-tier assets, elevated vacancy will persist across much of the market. With just 56 msf under construction, the lowest since 2011, and delivery timelines lengthening by nearly 50%, new supply will remain muted. This slowdown may create the opportunity for struggling office properties to reposition and adapt as the market recalibrates.

Retail

The U.S. retail market in the third quarter saw a return to positive absorption after a mixed picture in the first half of the year. High-growth markets such as Charlotte, Miami and Raleigh continued to outperform with some of the lowest vacancy rates in the country and well-located centers continued to see solid leasing activity and rent stability. But the surge in store closures from the first half of the year continued to place upward pressure on vacancies across lower-tier assets.

Amid shifting trade dynamics, the balance of limited new supply and resilient demand highlights the sector's ability to absorb shocks. With a modest 8 msf of new deliveries, less than half of pre-pandemic norms, the national vacancy rate held steady at 4.3%, well below historical averages. New retail construction activity remained muted with only 8 msf breaking ground and 51 msf under construction, both far below pre-pandemic averages. Rent growth eased slightly to 2.1% year-over-year, though grocery-anchored neighborhood centers once again led the sector with tightening availabilities and solid demand. These centers remain a pillar of retail stability, supported by resilient grocers expanding cautiously but consistently despite inflationary headwinds.

Looking ahead, ongoing uncertainty surrounding trade policy presents some downside risks for the retail sector. Leasing activity may moderate near-term as retailers take a more measured approach to expansion and focus on operational efficiency. With new supply remaining limited, overall market fundamentals should stay balanced, though lower-income consumers are expected to remain cautious in their spending amid an uneven economy. This 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 remained exceptionally tight in the third quarter of 2025, with vacancy across primary markets still hovering in the low 1% range and no meaningful relief expected in the near term. Leasing activity accelerated dramatically, surpassing 1,000 megawatts ("MW") of absorption across primary markets, more than double the second quarter's total. Dallas led all markets with an unprecedented ~450 MW of new leasing, followed by Northern Virginia at ~335 MW and Atlanta at ~175 MW. Robust hyperscale demand in these hubs continues to drive record-setting activity levels, underscoring the persistent imbalance between available capacity and rapidly expanding requirements. Nearly all ongoing construction remains fully pre-leased, reinforcing both the strength and durability of demand fundamentals in these core markets.

The third quarter marked a period of extraordinary activity across smaller markets as well, where accelerating AI-related workloads and limited power availability in traditional hubs spurred several gigawatts of leasing in tertiary markets. These emerging hubs are increasingly viable for AI model training where proximity to population centers and ultra-low latency is less critical. While power constraints remain the defining challenge across the U.S., hyperscale operators' flexibility in pursuing smaller, faster-to-market opportunities supports continued momentum in the primary markets positioning them to capture sustained growth as new capacity and long-term power solutions come online.

CAPITAL MARKETS [4,5]

The U.S. real estate transaction market experienced its strongest quarter of the year in the third quarter and one of the largest since 2023, reflecting a continued recovery in investor sentiment and deal activity. While performance remained varied across property sectors and geographies, all four major property types posted quarterly improvements in volume. U.S. real estate sales volume totaled $125 billion for the quarter, representing a 17% increase year-over-year. Pricing continued to firm across most sectors, supported by improved liquidity and greater alignment between buyer and seller expectations. The RCA CPPI US National All-Property Index ("CPPI") rose 2.2% quarter-over-quarter and 2.6% year-over-year, marking four consecutive months of positive growth through September. Recent improvements in the interest rate environment suggest momentum could carry into year-end.

After flat transaction volume in the first half of the year, the industrial sector saw a boost in the third quarter. Industrial sales volume totaled $27 billion, a 7% increase from the prior quarter and approximately 30% above the pre-pandemic average. The sector benefited from ongoing investor demand for stable cash flows and a mark-to-market opportunity for many logistics assets. Pricing improved, with CPPI up 4% year-over-year, while cap rates contracted by 50 bps.

Multifamily transaction activity also accelerated during the third quarter, reflecting both strong underlying demand and improved pricing visibility. Total volume reached $43 billion, a 13% increase year-over-year and roughly in line with pre-pandemic averages. Outside of the year-end 2024 surge, this marks the sector's strongest quarterly showing since 2022. As several Sun Belt markets work through supply overhangs, pricing edged down slightly and multifamily CPPI declined just under 1% year-over-year. Single-asset sales remained robust, underscoring the market's depth. Dallas led all markets with $6.7 billion in year-to-date sales. Investment in multifamily should continue to benefit from structural demand drivers, including high single-family housing costs, persistent housing shortages and strong demographic trends.

The office sector led all property types in year-over-year volume gains, reflecting increased activity as investors sought to capitalize on repricing opportunities. Total office transaction volume reached $19.4 billion, a 38% increase from the same quarter last year. CBD office sales climbed 62%, signaling renewed movement in larger transactions. CPPI rose 7.1% year-over-year, the strongest increase among property types this quarter. Manhattan remained the standout market, with $7.1 billion in sales volume, up 84% year-over-year, followed by Dallas, San Jose, Los Angeles and Houston. Notably, distressed transactions continued to influence market dynamics, with the number of office assets sold out of distress rising 80% year-over-year, accounting for roughly one-third of distressed sales across all sectors. While challenges remain, recent momentum suggests that repricing may be nearing completion, paving the way for selective acquisition opportunities.

The retail sector extended its recovery in the third quarter, posting its strongest performance of the year. Retail transaction volume totaled $16 billion, a 24% increase year-over-year, though still below pre-pandemic averages. Investment activity was bolstered by strong demand for grocery-anchored shopping centers. Shopping center sales surged 40% year-over-year to $11.1 billion, underscoring confidence in income stability and tenant quality. The retail sector's evolving rental profile, stable occupancy trends and favorable supply-demand balance continue to position it well for long-term growth. Although retailer consolidation may persist, demand should remain resilient in suburban corridors and Sun Belt metros. High-quality, well-located retail, particularly grocery-anchored centers, are expected to outperform.

The NCREIF Property Index ("NPI") continued its positive momentum in the third quarter of 2025 posting a positive total return for the fifth consecutive quarter, 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 second quarter. The quarterly income return remained flat at 1.2% while the appreciation return came in at just above zero, positive for the third quarter in a row. The rolling twelve-month total return at 4.6% reflected four quarters of positive returns.

For a third consecutive quarter, all property types posted positive quarterly returns. The multifamily sector's total return was the highest of all sectors, improving 6 bps from the second quarter to 1.5% comprised of a 1.1% income return and a 0.4% appreciation return. The retail sector had the second highest return at 1.3%, though this was a significant decrease of 60 bps from the second quarter. The decline was led by a negative appreciation return of just less than zero while the income return remained flat at 1.4%. After contracting in the second quarter, the industrial return remained flat in the third quarter at 1.0%, driven by a 1.0% income return and 0.0% appreciation. Office continued to inch higher with a total return of 0.9% comprised of a 1.4% income return while appreciation remained negative at (0.5)%. As a note, NCREIF released an expanded NPI for the sixth quarter 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 1.2%.

Outlook

As we near the end of 2025, the outlook for the U.S. real estate market is positive. 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 solid underlying fundamentals set the stage for healthy leasing activity. At the same time, valuations appear to have bottomed as most property types have begun to see appreciation. A lower rate environment has improved liquidity conditions and supported renewed activity and price discovery. These trends, coupled with expectations for further rate reductions, 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 June 30, 2025, TA Realty has acquired, invested and/or managed approximately $44 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

[1]Source: Oxford Economics, U.S. Economic Forecast, November 2025; Atlanta Federal Reserve, GDPNow, estimate for Real GDP growth, Third Quarter; U.S. Bureau of Labor Statistics, Employment Situation, August 2025, Consumer Price Index, October 2025; Board of Governors of the Federal Reserve System, October 2025; LPL Financial, Q3 2025 Market Recap
[2]Source: CoStar, Third Quarter 2025, Property Market Fundamentals Statistics
[3]Source: Green Street, Data Center Hawk, October 2025
[4]Source: MSCI Real Capital Analytics, Third Quarter 2025, Capital Markets Statistics
[5]Source: National Association of Commercial Real Estate Investment Fiduciaries, NCREIF NPI, Third Quarter 2025