2025 Q2 MARKET COMMENTARY

The first half of 2025 was characterized by mixed economic indicators following President Trump's announced changes to U.S. trade policy that began in early April, yet real estate market dynamics point to the same themes evident at the start of the year. The nascent recovery in the U.S. real estate market that began in 2024 continued throughout the second quarter supported by tailwinds from a healthy economy. Borrowing costs and real estate values in most markets have stabilized and transaction activity improved. While near-term unpredictability surrounding tariff policy may prolong the recovery, the U.S. real estate market continued to see pockets of outperformance as both tenants and investors moved forward with leasing and sales transactions. While evolving trade policy is expected to continue to be a source of uncertainty, 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 remained resilient through the second quarter, but trade policy uncertainty began to weigh on leading indicators and several point to slower growth ahead. U.S. gross domestic product ("GDP") grew at an annual rate of 3.0% in the second quarter, rebounding from a 0.5% decline in the first quarter, with the boost largely attributed to a sharp drop in imports following front-loading ahead of tariffs at the beginning of the year. Taken together, the first two quarters of 2025 show an economy that is growing, but more slowly. GDP grew at an average annual rate of 1.2% in the first six months this year, a step down from the 2.5% average pace in 2024.

U.S. households remain financially healthy and have continued to support solid underlying demand. Consumer spending, the economy's main engine, rose at a steady 1.4% pace in the second quarter, an uptick from the first quarter despite cooling in the labor market. The pace of hiring slowed considerably through the first half of 2025. Payrolls rose by a monthly average of just 87,000 jobs through June, well below the 2024 monthly average of 168,000 workers. Amid tepid demand for workers, slower growth in the labor supply helped to keep the labor market in balance and the unemployment rate held near 4.2% at the end of the quarter — near generational lows. The relatively tight labor supply continued to support solid wage growth. Average hourly earnings rose 3.9% year-over-year, steadily outpacing inflation. With the labor market slowing amid hesitancy by businesses to increase headcount, consumer spending could be sluggish for the remainder of the year.

The Federal Reserve ("Fed") continued its measured approach to interest rate policy this year. In late 2024, the Fed took significant steps to ease monetary policy, cutting the federal funds rate by 100 basis points. Since its last move in December, however, the Fed has held the target rate range steady at 4.25%-4.50%, citing rising inflation expectations linked to proposed tariff policies from the Trump Administration and growing economic uncertainty. The Fed's preferred inflation measure — the core personal consumption expenditures ("PCE") price index — rose at an annualized rate of 2.7% in the second quarter, lower than year-end 2024 but still above the 2% long-term target. Signs of weakening in the labor market suggest that the Fed will resume rate cuts in September and the market expectations are that the Fed will reach a terminal rate of 3.50%-3.75% by early 2026. Meanwhile, the 10-year U.S. Treasury yield ranged from a peak of 4.8% in mid-January to 4.3% at the end of Q2, with forecasts projecting it will stay above 4.0% through 2025.

Looking forward, recent trade agreements announced by the Trump administration suggest that peak tariff uncertainty may be in the past. While the remapping of global trade is still in motion, signs of easing trade tensions should benefit businesses and consumers alike. In addition, the tech-related capex boom associated with artificial intelligence is showing no signs of letting up. Business investments in digital technologies, which includes data centers among others, should ease the downward pressure that tech jobs faced since the Fed began its aggressive rate-hiking cycle in early 2022.

The macroeconomic impacts of changes in global trade policy are evolving but consensus forecasts suggest that the U.S. economy will continue to expand in 2025, albeit at a potentially slower pace than in recent years. Although downside risks from higher tariffs remain, the U.S. economy is well-equipped to weather these headwinds. The recently enacted One Big Beautiful Bill Act introduces permanent tax incentives that are poised to benefit the commercial real estate sector. Key provisions — such as the renewal of Qualified Opportunity Zones and the reinstatement of 100% bonus depreciation — will support value-add and longer-term real estate strategies. Furthermore, President Trump's focus on less restrictive monetary policy and a more favorable regulatory environment may give the economy a boost in the years ahead. Strong household balance sheets and solid wage growth will likely serve as a foundation for healthy property fundamentals performance, increased investment activity and property values throughout the second half of 2025.

REAL ESTATE FUNDAMENTALS [2,3]

After a challenging few years, the second quarter showcased the stability of the U.S. real estate market amid uncertainty with steady fundamentals across most property sectors. 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 amid an evolving economic outlook.

Industrial

The U.S. industrial market saw a pause in momentum in the second quarter of 2025, with tenants giving back just over 12 million square feet ("msf") of occupied space. With heightened trade uncertainty in the second quarter, many occupiers delayed real estate decisions, contributing to negative net absorption. Despite the quarterly contraction in net absorption, leasing activity remained steady, totaling nearly 200 msf. New leasing activity was driven by a flight to quality trend among large corporate users. Several markets, including Dallas, continued to see healthy deal flow, suggesting steady occupier interest in key locations. Vacancy rose to 7.4%, the highest in over a decade. This increase was driven by weaker demand and 61 msf of new deliveries — the lowest quarterly total since 2019. Vacancy trends continued to diverge by product type. Smaller industrial spaces (under 100,000 sf) held near pre-pandemic levels of 4% due to tight supply and steady local demand, especially in markets such as Nashville, Miami, and Charlotte. Large-format product (250,000+ square feet) saw vacancy climb to 8%, reflecting the higher rates of speculative construction compared to smaller product.

New construction starts have fallen to decade lows following the rapid increases in construction and financing costs in recent years. The amount of space under construction as of the second quarter was about half the average seen from 2021 to 2023, which should help ease the upward pressure on vacancy. Rent growth continued to decelerate, ending the quarter just above 2% year-over-year — its slowest pace in over ten years. However, renewals are still showing rate increases in many cases due to previously strong rent gains, particularly in the undersupplied small-bay segment.

Near-term trade policy uncertainty may continue to affect occupier strategies, with some firms pausing expansion while others reevaluate distribution footprints. Markets with strong logistics infrastructure and access to population centers remain better positioned to capture future demand. Looking ahead, the combination of slowing speculative development and shifting supply chain strategies should support a gradual improvement in fundamentals. Trends such as nearshoring and more resilient inventory strategies could benefit inland and border markets, while overall demand is expected to normalize toward long-term averages.

Multifamily

The U.S. multifamily market extended its recovery in the second quarter of 2025 as strong demand continued to close the gap with supply, pushing the vacancy rate slightly lower for a second consecutive quarter to 8.1%. Net absorption surpassed 143,000 units, 30% above pre-pandemic second quarter averages, signaling durable demand. Deliveries in the second quarter matched absorption at just over 143,000 units - elevated relative to pre-pandemic norms but nearly 30% below the same period last year. Construction starts have fallen 45% below pre-pandemic averages, reinforcing expectations for continued supply-demand rebalancing in the quarters ahead.

Despite improving occupancy, rent growth in the second quarter held steady near 1% for the eighth consecutive quarter. In markets with the largest supply overhangs, many owners appeared to have prioritized occupancy gains over rent increases. Notably, vacancy rates in supply-heavy Sun Belt markets such as Austin, Charlotte, and Atlanta appear to have peaked between late 2024 and early 2025, an encouraging sign that fundamentals in these markets are stabilizing.

Looking ahead, the multifamily sector remains on solid footing. Elevated single-family home prices and demographic tailwinds, particularly the continued formation of Millennial and Gen Z households, support long-term demand. With construction activity down sharply and absorption showing durable strength, the market is poised for further tightening and a broader return of rent growth in 2026. A healthier balance between supply and demand also better positions the sector to navigate ongoing economic uncertainty.

Office

The U.S. office market continued its lumpy recovery in the second quarter of 2025. Nationwide, occupiers returned 7.6 msf, marking the 14th consecutive quarter of negative absorption. Even as deliveries fell to a 15-year low, just 1.4 msf were added during the quarter, the vacancy rate rose to 14%, 490 basis points higher than in 2019. Rent growth also decelerated, inching down to less than 1% year-over-year. Construction starts fell further, with only 3.9 msf breaking ground, representing less than 20% of the pre-pandemic quarterly average.

However, several markets have shown signs of recovery. New York City led all metros with a fifth consecutive quarter of positive absorption as daily office attendance has returned to near pre-pandemic levels. Other growth markets include Charlotte, Dallas, and Miami, all of which have logged multiple quarters of positive demand. In contrast, Chicago and Washington DC saw some of the steepest occupancy losses this quarter. Meanwhile, markets like San Jose outperformed on rent growth, illustrating the divergence in local performance.

This uneven recovery is playing out not only across markets but also within them, as performance continues to diverge sharply between building types and locations. High-quality, amenity-rich assets in top-tier locations continue to attract tenants, while many other segments remain pressured by limited demand and consolidations. With office-related job growth limited and attendance improving only gradually, national occupancy is unlikely to stabilize before late 2026. The office recovery is expected to be geographically narrow and structurally uneven.

Retail

The U.S. retail market remained stable in the second quarter of 2025, even as net absorption was negative for a second consecutive quarter. Retailers gave back over 14 msf of space in the first half of the year, largely due to store closures and bankruptcies from chains including Joann Fabric and Party City. Despite this, the vacancy rate rose only slightly to 4.3% in the second quarter, still well below historical averages, reflecting the sector’s resilience and tight conditions.

Limited new supply continues to underpin market fundamentals. Just 4 msf were delivered in the second quarter, well below the pre-pandemic average of 18 msf, and construction starts fell to less than 6 msf, a decades-low figure. Speculative development remains limited due to elevated costs, with most projects under construction pre-leased. Additionally, developers have removed over 150 msf of obsolete space since 2020, reinforcing the market’s long-term supply constraints. Rent growth held steady at 2.2% year-over-year, with neighborhood centers outperforming at 2.8%, especially in high-growth markets across the Sun Belt.

Looking ahead, uncertainty surrounding trade policy presents some downside risks for retail real estate. Leasing activity may slow near-term as retailers reassess expansion plans and focus on operational efficiency. With limited new supply, fundamentals should stay balanced, though consumers are likely to remain discerning in their shopping habits in the face of continued uncertainty. This bifurcated market will likely see well-positioned, necessity-based retail assets continue to outperform, while weaker concepts face ongoing headwinds.

Data Center

The U.S. data center market remained exceptionally tight in the second quarter of 2025, particularly across primary markets where vacancy hovered near 1%; a level unlikely to change in the near or midterm. Despite ongoing supply constraints, these traditional hubs captured a combined 450 megawatts (“MW”) of absorption during the quarter: Chicago led the way with a record-breaking ~260 MW, followed by Atlanta with ~120 MW and Dallas with ~50 MW. Hyperscale tenants remain heavily focused on expanding in these key markets, continuing to pursue aggressive land-banking strategies that represent a 6% increase in planned power capacity. Nearly all projects currently under construction remain pre-leased, highlighting the persistent imbalance between demand and available supply.

The ongoing capacity crunch in traditional primary markets has led to steady absorption in secondary and tertiary markets in recent quarters. These emerging hubs are increasingly viable for AI model training where proximity to population centers and ultra-low latency is less critical. As major tenants scale their AI capabilities, these locations are helping alleviate pressure on core markets while supporting the growth of next-generation infrastructure. Looking ahead, a wave of large-scale lease transactions nearing completion coupled with hyperscale budget renewals is expected to accelerate absorption activity in the second half of 2025, particularly in some of the most competitive and supply-constrained markets.

CAPITAL MARKETS [4,5]

The U.S. real estate transaction activity was mixed in the second quarter of 2025, reflecting uneven momentum across property sectors and geographies. U.S real estate sales volume totaled $110 billion for the quarter, a 5% increase from the first quarter of 2025 and 7% growth year-over-year. While some asset types that previously led growth began to slow, others that had lagged showed signs of renewed investor interest. Despite heightened macroeconomic and political uncertainty, pricing improved across most sectors. The RCA CPPI US National All-Property Index ("CPPI") was down just 0.7%, a marked improvement from a 1.5% decline a year ago.

After leading the market in annual growth for the prior two quarters, industrial sales volume was nearly flat year-over-year in the second quarter. With transactions totaling $23B, volume was down slightly from the first quarter of the year. Portfolio sales led the decline in volume, down 9% year-over-year. Additionally, pricing growth slowed in the industrial sector with CPPI expanding just 1.6% year-over-year, a deceleration from the growth seen at the beginning of the year. Cap rates expanded 30 basis points ("bps") during the quarter reflecting growing vacancy concerns amid elevated new supply. The sector's stable income generation and the appeal of assets offering near-term lease rollovers, allowing for mark-to-market adjustments, should continue to attract deep investor interest across markets.

While headline transaction volume for multifamily assets appeared to decline sharply from a year ago, this was largely due to the absence of large entity-level deals, as a year prior included the Blackstone AIR properties transaction. Second quarter 2025 transaction volume totaled $35B, just 8% less than the pre-pandemic second quarter average. Importantly, single asset sales volume was up 15% year-over-year, reflecting the underlying health and investor interest in the sector. Additionally, multifamily pricing appears to have reached a point of stability with CPPI increasing 0.1% year-over-year and average cap rates contracting 20 bps in the quarter. As more markets, particularly in the Sun Belt, work through their supply overhangs, the sector should be strong in the quarters to come. Structural demand drivers — including high single-family housing costs, a persistent housing shortage and strong demographic trends — underpin long-term investment.

Investor sentiment towards the office sector shifted in the second quarter as continued repricing closed the gap between buyer and seller expectations. Office sales volume totaled $18B in the second quarter driven by a 52% year-over-year increase in individual asset sales volume. However, volume was still down nearly 50% when compared to pre-pandemic second quarter averages. Additionally, distressed sales were up in the second quarter, accounting for 8% of total transactions. Pricing fell 1.9% year-over-year with more modest declines in suburban office pricing when compared to CBD office. Overall, the increase in transaction activity may signal that pricing will soon reach its floor creating strategic opportunities for select acquisitions.

The retail sector remained the leader in pricing growth for a third straight quarter. CPPI for retail was up 3.5% year-over-year, supported by healthier occupancy and investor appetite for grocery-anchored centers and open-air shopping centers. Total retail transaction volume was $14.7B, 21% below the pre-pandemic second quarter average, but individual asset sales were just 5% below historical norms. Cap rates held steady at 7.1%, with shopping centers seeing a slight contraction in cap rates buoyed by more favorable lease terms and improving income growth. Cap rate trends reflected improved fundamentals and selective investor optimism. The retail sector's supply and demand dynamics and evolving rental profile position it well for long-term growth. Although retailers may consolidate further, demand will likely grow in suburban locations and Sun Belt cities. High-quality, well-located retail, especially grocery-anchored shopping centers, are expected to outperform.

The NCREIF Property Index ("NPI") continued its positive momentum in the second quarter of 2025 posting a positive total return for the fourth 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%, a slight decline from the first quarter 1.3%. The quarterly income return remained flat at 1.2% while the appreciation return came in at just above 0%, positive for the second quarter in a row. The rolling twelve-month total return reflected four quarters of positive returns at 4.2%.

For a second consecutive quarter, all property types posted positive quarterly returns. The retail sector's total return improved quarter over quarter, remaining the highest of all sectors at 1.9%, reflecting a flat income return at 1.4% and a slight expansion in appreciation return to 0.6%. The apartment sector's total return also posted solid improvement quarter over quarter at 1.4% driven by a flat income return of 1.1% and an expanding appreciation return to 0.3%. Industrial returns saw the largest contraction of the sectors with a 30 bps decline to 1.0% total return driven by a slight contraction in the appreciation return to 0.0% and a flat income return of 1.0%. Office continued its positive performance for a second quarter with a 0.8% total return, 1.5% income return and still slightly negative appreciation return of (0.7)%. As a note, NCREIF released their expanded NPI for the fifth quarter which includes senior housing and self-storage assets in addition to the classic NPI property types. The return for expanded NPI in the second quarter of 2025 was 1.2%.

Outlook

Despite heightened uncertainty, the U.S. real estate markets continue to show relative strength. Supply and demand are coming back into balance particularly in the U.S. industrial and multifamily markets. Demographics remain favorable and the U.S. economy's solid underlying fundamentals set the stage for healthy leasing markets. At the same time, expectations for lower interest rates could create an attractive investment vintage over the next several years.

While an unpredictable global trade policy environment is likely to persist, the uncertainty is expected to extend rather than interrupt the recovery that the real estate sector had been experiencing since mid-2024. 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 structural tailwinds, such as multifamily or data centers, are expected to benefit from higher income growth.

While the real estate recovery may progress more quickly in some markets than in others, less variation is expected as the market gains clarity on the impacts of the Trump administration's policy changes. The steady income streams from real estate are likely to lead to long-term value creation, and the outlook for U.S. real estate is positive.

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SOURCES

[1]Source: U.S. Bureau of Economic Analysis, Gross Domestic Product, Consumer Spending, Second Quarter 2025, Advance Estimate; U.S. Department of Commerce, Congressional Budget Office, June 2025; U.S. Bureau of Economic Analysis, U.S. Personal Income and Outlays, Personal Consumption Expenditures, June 2025; U.S. Bureau of Labor Statistics, Employment Situation, June 2025; U.S. Bureau of Economic Analysis, June 2025; Board of Governors of the Federal Reserve System, June 2025
[2]Source: CoStar, Second Quarter 2025, Property Market Fundamentals Statistics
[3]Source: Green Street, Data Center Hawk, July 2025
[4]Source: MSCI Real Capital Analytics, Second Quarter 2025, Capital Markets Statistics
[5]Source: National Association of Commercial Real Estate Investment Fiduciaries, NCREIF NPI, Second Quarter 2025