



TA REALTY

2025 Q1 MARKET COMMENTARY

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The U.S. real estate market experienced unanticipated headwinds in the form of increased trade policy uncertainty and market volatility following the inauguration of President Trump in late January, yet 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 broadened throughout the first quarter supported by tailwinds from a healthy economy. Borrowing costs and real estate values in most markets stabilized and transaction activity improved. While near-term uncertainty surrounding tariff policy may prolong the real estate recovery, the U.S. real estate market entered this period of volatility from a position of strength. Healthy rent growth combined with high occupancy rates in most markets are positive indicators for the future.

ECONOMIC OVERVIEW ¹

The U.S. economy continued to show its strength in the first quarter even though U.S. gross domestic product (“GDP”) fell at a 0.3% annual rate — the first contraction since early 2022. The decline overstated weakness as it was due in large part to a pull-forward in imports as businesses stockpiled inventory ahead of anticipated changes to tariff policy. Imports rose by over 40%, the fastest pace outside of the COVID pandemic since 1974. U.S. net exports, the difference between what the U.S. imports and exports, reduced headline GDP by nearly 5%, the largest quarterly drag from net exports on records dating back to 1947.

U.S. households remain financially healthy and have continued to support solid underlying demand. Consumer spending, the economy’s main engine, rose at a healthy 1.8% pace in the first quarter, and helped to offset a decline in federal government spending as the Department of Government Efficiency (DOGE) reduced jobs and contracts. While some of this gain can be attributed to a pull-forward in demand ahead of anticipated tariffs, the underlying details suggest consumers continued to spend at a healthy rate. First quarter retail sales saw a strong rebound and jumped 4.6% year-over-year in March, the largest monthly increase since January 2023. However, there are signs of weakness as an uncertain economic policy environment weighed on consumer’s outlook and confidence surveys fell to the lowest level since 2020.

The labor market maintained its strength, although the pace of hiring moderated gradually. First quarter payrolls rose by a monthly average of 150,000 jobs, just slightly below the 2024 monthly average. The unemployment rate ticked up slightly to 4.2% at the end of the quarter but remained near generational lows. The relatively tight labor supply continued to support solid wage growth. Average hourly earnings rose 3.8%, year-over-year. Cuts to the federal workforce by the DOGE are expected to have limited near-term effects on a national level and the job market is expected to cool modestly in 2025.

The Federal Reserve (“Fed”) has taken significant steps to ease monetary conditions, cutting the federal funds rate by 100 basis points (“bps”) in late 2024 but keeping the U.S. interest rate unchanged at its January and March policy meetings, citing higher inflation expectations in response to the tariff policies proposed by the Trump Administration and increased uncertainty around the economic outlook. The Fed’s preferred inflation gauge — the core personal consumption expenditures price index — rose at a 2.6% annualized rate in the first quarter, up marginally from the end of 2024 and still above the long-run 2% target. The U.S. 10-year Treasury rate fluctuated from a 4.8% spike in mid-January to 4.2% at the end of the quarter. Consensus forecasts expect that the 10-year Treasury yield will remain well above 4.0% throughout 2025.

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. Furthermore, President Trump’s focus on less restrictive monetary policy, a more favorable regulatory environment and prospects for lower taxes may give the economy a boost in the years ahead. Strong household balance sheets and solid job growth will likely serve as a foundation for healthy property fundamentals performance, increased investment activity and property values in 2025.

REAL ESTATE FUNDAMENTALS ²

The first 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 in 2025 amid an evolving economic outlook.

Industrial

The U.S. industrial market saw an uptick in leasing activity in the first quarter of 2025 as occupiers moved ahead of tariff escalations. In the first quarter of 2025, net absorption registered a healthy 35 million square feet (“msf”), more than triple the weak results reported one year ago, but still 43% lower than pre-pandemic average quarterly absorption seen from 2015 to 2019. Vacancy rates trended upward but the rate of increase has slowed notably, rising by only 10 bps from the beginning of the year to 7%, suggesting the market may be approaching stabilization. Vacancy rates continued to be nuanced by size segment. Vacancy for smaller industrial spaces (under 100,000 sf) held near pre-pandemic levels of 4% due to strong demand and chronically low levels of small bay development. Some of the most acute shortages of small bay space are found in markets such as Nashville, Miami and Charlotte, where domestic migration has fueled demand from local populations. Meanwhile, big-box product (250,000+ sf) recorded an 8% vacancy rate, driven by speculative deliveries in this segment.

The new supply pipeline has slowed markedly in recent quarters as rapid increases in labor and construction costs weighed on new development. Construction starts have fallen to 10-year lows and 2026 deliveries are expected to fall 50% below long-term averages. Rent growth, which decelerated from historic highs in the past two years, finished the first quarter at the lowest rate in 10 years: nearly 2.5% year over year. As the improving supply-demand balance takes hold, rents could see renewed upward pressure, particularly in the smaller sized segment of the market, positioning the sector for an incremental recovery in late 2025.

The near-term impact of changes to trade policy are expected to be mixed; some tenants may delay decision making while others may add space to front-load inventory ahead of the changes. Immediate impacts will most likely be felt in major import markets and could be particularly detrimental to the nascent recovery in Southern California markets. While overall demand is expected to return to long-term averages, the sources and locations of that demand may differ from historical trends. These realignments, including the trend toward nearshoring and reshoring, may spur demand in inland hubs and border regions that cater to shifting logistics strategies.

Looking ahead, the decline in speculative development and healthy consumers are expected to continue to drive demand for warehouse space, particularly in markets with diversified industry exposure, robust multi-modal logistics infrastructure, and strong demographic and economic tailwinds as trade flows continue to recalibrate. Furthermore, tariff policy uncertainty has highlighted the fragility of global supply chains and the industrial market may benefit from higher inventory levels utilized to protect against uncertainty and a more resilient supply chain.

Multifamily

The U.S. multifamily market reached a turning point in the first quarter of 2025 as robust demand outpaced supply for the first time since 2021 and the vacancy rate tightened to 8%. Following a healthy 2024, first-quarter net absorption was the strongest on record outside of pandemic-driven gains in early 2021. At nearly 130,000 units, first quarter demand was 6% higher than the first quarter of 2024. Meanwhile, 125,000 units delivered in the first quarter — a 24% drop from last year. Deliveries have declined for three consecutive quarters as the market moved further past the cyclical peak in supply. The number of units under construction in the first quarter fell 45% below peak levels from 2023, suggesting that supply and demand will continue to re-balance.

After rapid increases in 2021 and 2022, multifamily rent growth has stabilized near 1% year-over-year since mid-2023, reflecting the market's transition to more sustainable conditions. Gateway markets and smaller Midwestern cities, which have seen limited new supply, have led rent growth. But the first quarter saw key Sun Belt markets like Charlotte, Dallas, and Atlanta post some of the strongest quarterly rent growth. These gains point to improving fundamentals in markets still digesting large volumes of new supply. While vacancy rates in several Sun Belt markets remain above the national average, their continued demand strength highlights the depth of renter interest and the resilience of long-term fundamentals.

Looking ahead, the multifamily sector is well-positioned. High single-family home prices, and demographic tailwinds, particularly household formation trends among Millennials and Gen Z, underpin long-term demand. With construction activity down sharply and demand proving durable, the stage is set for a further tightening of market conditions and renewed rent growth. A healthier supply-demand balance also positions the sector to weather broader economic uncertainty.

Office

The demand momentum that began in the latter part of 2024 for the U.S. office market continued into the first quarter of 2025. Net absorption turned meaningfully positive at nearly 8 msf with New York, where occupiers face a challenging market for space amid a nation-leading uptick in office attendance, leading the resurgence. Despite the demand-side improvement, supply additions have kept the vacancy rate near a record high. While only 5 msf delivered during the quarter, a significant supply overhang kept the vacancy rate steady at 14% and rent growth flat, increasing by just 1% year-over-year.

Despite the improvement in leasing activity, tenant demand stayed cautious and some gateway cities and many secondary markets with weaker job growth continued to shed occupancy. Consolidations continued, with lease sizes typically 15-20% smaller than pre-pandemic norms. Landlords, especially in non-prime locations, continued to rely on concessions like free rent and significant tenant improvement allowances to attract tenants. On the other hand, premium office buildings in amenity-laden locations remained the top performers and some high-growth markets, such as Miami or Las Vegas, have begun to see rent growth move closer to long-term norms.

Looking ahead, near-term vacancy pressures are expected to persist as new construction is delivered, but the sharply diminished supply pipeline, at its lowest since 2012, offers long-term stabilization potential. Rent growth is likely to remain muted, with sub-1% growth projected through 2026. However, improving attendance trends may set the stage for gradual recovery as tenant demand and available space begin to realign in specific markets.

Retail

The U.S. retail market's performance was mixed in the first quarter of 2025. Vacancy remained near historic lows at 4% and a shortage of available first-generation space drove the median time-to-lease to the lowest level in nearly 15 years. However, a sharp uptick in retailer bankruptcies and store closures, many of which occurred in the back half of 2024, led to the first quarter of negative absorption since 2020, and occupiers gave back 3 msf of space.

A primary driver of the retail market's historically tight conditions has been the limited amount of new supply in recent years and construction activity continued to fall in response to higher financing rates and construction costs. New deliveries of 8 msf in the first quarter fell well below the pre-pandemic quarterly average of 18 msf underscoring the constrained pipeline and fierce competition for supply-constrained grocery-anchored and neighborhood center sites. Additionally, just 9 msf broke ground in the quarter, 63% lower than pre-pandemic levels. While national rent growth slowed to 2% annually, several Sun Belt markets continued to outperform, supported by population growth and robust consumer spending.

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.

CAPITAL MARKETS^{3,4}

The U.S. real estate transaction market saw measured growth in the first quarter of 2025. U.S. real estate sales volume totaled \$97 billion for the quarter, reflecting a 15% year-over-year increase. This marks four quarters of transaction volume growth. However, transaction activity was still modest when compared to pre-pandemic averages. The average first quarter volume from 2015 to 2019 was \$124 billion, 21% higher than the first quarter of 2025.

After steep declines in pricing in 2023 and 2024, the MSCI Commercial Property Price Index ("CPPI") reported positive price growth in the first quarter of nearly 2% annualized rate. Capitalization rates ("cap rates") expanded only slightly across all sectors in the first quarter. The combination of stable pricing, steady cap rates, and consistent transaction growth indicates the market has progressed in its recovery, supported by improved price discovery and selective optimism.

The industrial sector saw the strongest growth among property sectors in both pricing and transaction volume in the first quarter. With \$22 billion in transaction volume, industrial activity grew 24% year-over-year — an improvement of 16% when compared to pre-pandemic first quarter volumes. Pricing grew by 2% while cap rates held relatively steady. 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.

Multifamily remained the most active sector by transaction volume, totaling \$30 billion in the first quarter; a 36% increase from the first quarter last year. Still, 16% below pre-pandemic first quarter average volumes. Multifamily pricing declines continued to slow, falling less than 1% year-over-year. The continued improvement from 2024 suggests that the sector is close to price stabilization. Structural demand drivers — including high single-family housing costs, a persistent housing shortage and strong demographic trends — underpin long-term investment.

The office sector's recovery continued to be bumpy. The first quarter of 2024 included a large medical office portfolio transaction, making volume for the first quarter of 2025 look more depressed than reality. While overall transaction volume was down 18% year-over-year, single asset transactions (responsible for more than 80% of total volume) were up 16% year-over-year. Office pricing decreased by 1% year-over-year and cap rates expanded over 40 basis points in same period but the increased transaction activity may signal that pricing will soon reach its floor creating strategic opportunities for select acquisitions.

Retail pricing grew stronger than any other asset class and moved up 4.6% year-over-year. Retail transaction volume totaled \$16 billion in the first quarter, just 2% more than was seen in the first quarter of 2024. Making up 32% of retail transaction volume for the quarter, grocery-anchored retail was the best performer within the sector with pricing increasing nearly 3% year-over-year and cap rates 30 bps below the sector average. 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") posted a third consecutive positive quarterly return in the first quarter of 2025, reflecting continued stability in operating fundamentals. In addition, for the first time since 2023, NPI returns showed an improvement in appreciation returns. U.S. real estate achieved a total quarterly return of 1.3%, up from 0.9% at the end of 2024 resulting from a stable income return of 1.2%. For the first time in five quarters, appreciation returns were not dilutive to overall returns at 0.1% in the first quarter. Rolling twelve-month returns reflected almost four quarters of positive returns at 2.7%.

For the first time since 2022, all property types, including office, posted a positive quarterly return. Retail returns remained the highest of the sectors but were down slightly quarter-over-quarter. Total retail returns were 1.8% made up of a 1.4% income return and a 0.4% appreciation return. Multifamily returns were 1.3% for the quarter with a 1.1% income return and a 0.2% appreciation return. Industrial returns were also 1.3% made up of a 1.0% income return and a 0.3% appreciation return. Finally, office returns remained the laggard but have improved for the last four quarters. Office returns began 2025 with a positive 0.8% total return supported by a stable 1.5% income return and (0.6)% appreciation return; a possible indication that office pricing has found its floor. As a note, NCREIF released an expanded NPI for the fourth quarter which includes senior housing and self-storage assets in addition to the classic NPI property types. The return for expanded NPI in the first quarter of 2025 was 1.3%.

Outlook

The U.S. real estate market's resilience and its benefits of diversification and stability were evident in the first quarter. 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. Cap rates have risen and property values have adjusted lower since the Fed began its aggressive monetary tightening in 2022. Overall, the cost of capital has decreased, with borrowing spreads narrowing and debt capital becoming more accessible. At the same time, 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 strong underlying fundamentals set the stage for healthy space market fundamentals.

Near-term, trade policy uncertainty may hinder some real estate activity but the magnitude of the impact will depend on how long tariffs are in place, retaliatory actions by other governments and the outcome of negotiations with key trading partners. Success in this environment will depend on the time-tested 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 or favorable leasing dynamics, 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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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, 2024, TA Realty has acquired, invested and/or managed approximately \$43 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: U.S. Bureau of Economic Analysis, Gross Domestic Product, Consumer Spending, First Quarter 2025, Advance Estimate; U.S. Department of Commerce, Congressional Budget Office, March 2025; U.S. Bureau of Economic Analysis, U.S. Personal Income and Outlays, Personal Consumption Expenditures, March 2025; U.S. Bureau of Labor Statistics, Employment Situation, March 2025; U.S. Bureau of Economic Analysis, March 2025; Board of Governors of the Federal Reserve System, March 2025

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

³Source: MSCI Real Capital Analytics, First Quarter 2025, Capital Markets Statistics

⁴Source: National Association of Commercial Real Estate Investment Fiduciaries, NCREIF NPI, First Quarter 2025