Commercial Real Estate Market Insights Report
January 2025

National Association of REALTORS®
Research Group

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Commercial Real Estate

An Overview

After several years of tightening monetary policy, over the last four months of 2024, the Federal Reserve implemented three rate cuts lowering its rates to 4.5% by the end of the year. Despite these reductions, the market had already priced in these anticipated rate cuts, and loan rates remained higher than they were a year ago. Looking ahead, while the Federal Reserve is expected to continue reducing its rates, uncertainty remains regarding how the new administration's policies will impact the market in 2025. The specifics of these changes are still unclear, but commercial real estate is positioned for improvements in 2025.

At year-end, demand for office space has improved but remained insufficient to turn net absorption positive, keeping vacancy rates at record highs. The retail sector remained tight due to limited new supply, whereas industrial vacancy rates have been steadily rising, leading to a slowdown in rent growth for industrial properties. Meanwhile, the multifamily sector continued to experience strong growth, with demand approaching the record-high levels seen in 2021.

Below is a summary of the performance of each major commercial real estate sector at the end of 2024:

Although net absorption for the **office** sector remained in negative territory, demand for office space has improved. The surplus of unoccupied office space has dropped significantly since the beginning of the year. In the first quarter, net absorption was -63 million sq. ft. compared to -18 million sq. ft. in the last quarter of 2024. Most of metro areas now report higher net absorption compared to a year ago. While many companies are shifting back to in-person work, demand for office space is expected to improve even further in 2025. In markets like New York, Philadelphia, Dallas, Austin, Sacramento, and Houston, net absorption has turned positive, with more square feet of office space leased than vacated. However, the office space sector still faces a long way to go for a full recovery. The national office vacancy rate remains at record highs.

The **multifamily** sector continued its strong performance, with mortgage rates nearing 7% at the end of the year. Net absorption doubled compared to the previous year, exceeding 550,000 units. However, despite this robust demand for rental units, elevated completions and units under construction have increased the multifamily vacancy rate to 8%, with rent growth holding steady at around 1% over the past year. Looking ahead, rent growth could increase next year, as the pace of new deliveries is expected to slow.

Retail space remains exceptionally tight, with available space for lease consistently below 5% over the past couple of years. Demand continues to grow, adding pressure to the market. Particularly as new supply remains limited. In the past 12 months, net deliveries totaled just over 30 million square feet – about 40% below the 10-year average. With fewer retail spaces under construction and strong consumer spending, the sector's fundamentals are expected to remain tight.

The **industrial** sector continued to lose momentum at the end of the year. Net absorption was nearly 35 percentage points lower than a year ago, while rent growth decelerated significantly, dropping to 2.2% from 7.2%. With additional new supply, the vacancy rate also rose to 6.8% from 5.7%. However, further declines in inflation and interest rates later in 2025 may boost demand for goods and the volume of projects that were previously shelved or halted during construction. This usually creates a ripple effect, increasing the need for industrial spaces to manage production, storage, and distribution.

Economy

Job growth (December 2024 compared to March 2020): 5.7%
Inflation (December 2024): 2.9%
Gross Domestic Product (GDP) Q4 2024: 2.3%

By the end of 2024, the Federal Reserve had reduced interest rates by one percentage point. Meanwhile, the primary factor influencing the Fed's policy decisions has increased but it remains lower than a year ago and below 3%. With inflation easing – partly due to a further slowdown in rent inflation – the Federal Reserve will likely implement additional rate cuts in 2025.

The job market grew faster in December

In December, the market added 256,000 new jobs, which is above the average monthly gain of 251,000 over the past 12 months. As a result, the unemployment rate changed little at 4.1%, remaining higher than a year ago.

Specifically, the total number of job positions increased to 159.5 million in December. In 2024, the economy had created about 2.2 million new jobs. Since the onset of the pandemic in March 2020, the U.S. has successfully generated over 8.6 million jobs.

Number of Jobs

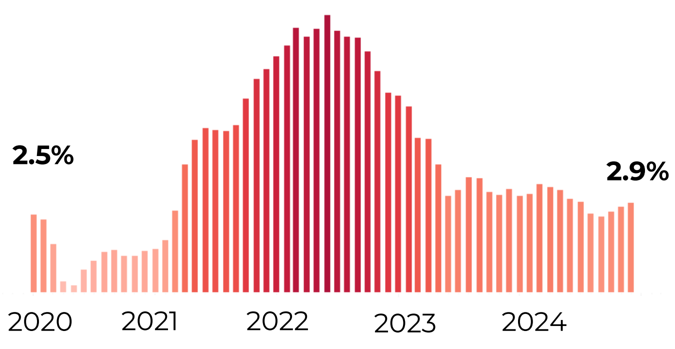
March 2020	**150.9 million**
December 2023	**157.3 million**
December 2024	**159.5 million**

Source: NAR analysis of U.S Bureau of Labor Statistics data

Inflation rose to 2.9% in December

Inflation rose further in December, nearing the 3% threshold. But, even with this increase, the Federal Reserve implemented an additional cut on its rates in December. Meanwhile, data from the private sector suggests that rent growth, which usually represents 40% of the CPI basket, will decelerate further in the coming months. This will help to bring down the inflation rate further.

Inflation



Source: NAR analysis of U.S Bureau of Labor Statistics data

Interest rates are one percentage point lower

The Federal Reserve reduced further interest rates by 25 basis points in December, bringing the Federal Reserve Funds rate to 4.5% - one percentage point lower than a year ago. Despite concerns about the potential impact of the new administration's policies on the economy, the Federal Reserve is expected to implement at least two additional rate cuts in 2025. Since interest rates serve as the foundation for borrowing costs, this decrease is likely to stimulate investment activity in the commercial real estate sector.

The economy grew slower in Q4 2024

In the last quarter of the year, the economy grew at a 2.3% pace in Q4 2024, significantly slower than a 3.1% increase in the third quarter. Although consumer spending remained strong, the jump in imports has contributed to the slowdown from the previous quarter. However, compared to other countries, the U.S. economy continues to outperform.

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Commercial Real Estate Lending

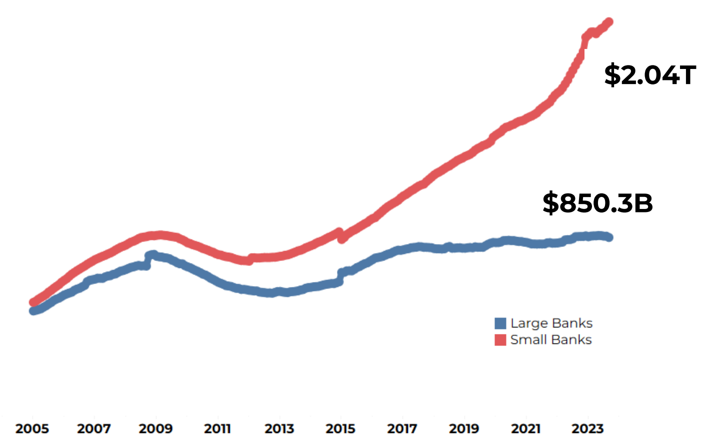
CRE loans (December 2024): $3.0 trillion
Delinquency rate of CRE loans (Q3 2024): 1.52%
Office delinquency rate (Q3 2024): 7.8%

CRE debt remained near $3 trillion in December

In December, commercial real estate debt remained near $3 trillion, even with the Federal Reserve's 50 basis points rate cut. However, additional rate reductions are expected to stimulate CRE investment activity in the months ahead.

By bank size, within large domestically chartered banks, the volume of CRE loans fell further to $850.3 billion from $876.9 billion a year earlier. Nevertheless, the CRE loans of small domestically chartered banks continued to grow in December, rising 3% compared to a year ago.

Commercial Real Estate Debt for Small and Large Banks (December 2024)

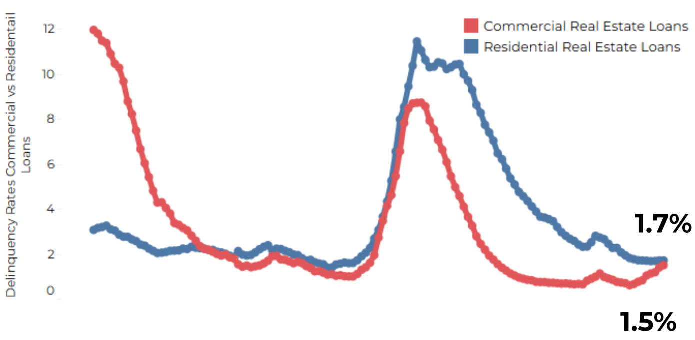


Source Federal Reserve

CRE delinquency rates significantly increased in Q3 2024

The Federal Reserve also provides data on delinquency rates for both commercial real estate (CRE) and residential loans. According to the latest data, delinquency rates for commercial loans significantly rose in Q3 2024. However, these loans maintained lower delinquency rates compared to residential loans. Specifically, the CRE delinquency rate was 1.06% in Q3 2023, and currently, it stands at 1.52%. Nonetheless, when delving into historical records, the delinquency rate for CRE loans consistently stays historically low, below 3.5%.

Delinquency rates Commercial vs Residential loans (Q3 2024)

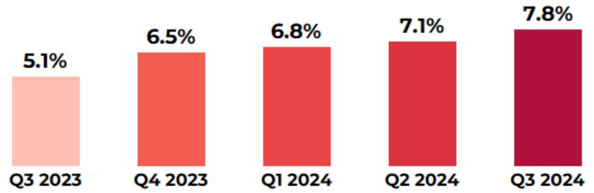


Source Federal Reserve

Office delinquency rates rose again in Q3 2024

According to the Mortgage Bankers Association, 7.8% of the balance of office property loan balances were 30 days or more days delinquent during the third quarter of the year, surpassing those of loans backed by retail and hotel properties. This is an increase from the 7.1% recorded at the end of the second quarter, and a substantial jump from the 5.1% reported a year ago (Q3 2023). Although demand for office space is improving, concerns continue to grow regarding the health of these commercial loans. Given that delinquent loans backed by office properties represent nearly 30% of the Commercial Mortgage-Backed Securities (CMBS) outstanding, the condition of these office loans has a large impact on the outlook of this sector.

Delinquency rates for loans backed by office properties (Q3 2024)



Source Mortgage Bankers Association (MBA)

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Office

Net absorption in the last 12 months: -17.9 million sq.ft.
Rent growth in the last 12 months: 1.0%
Cap rate: 8.9%

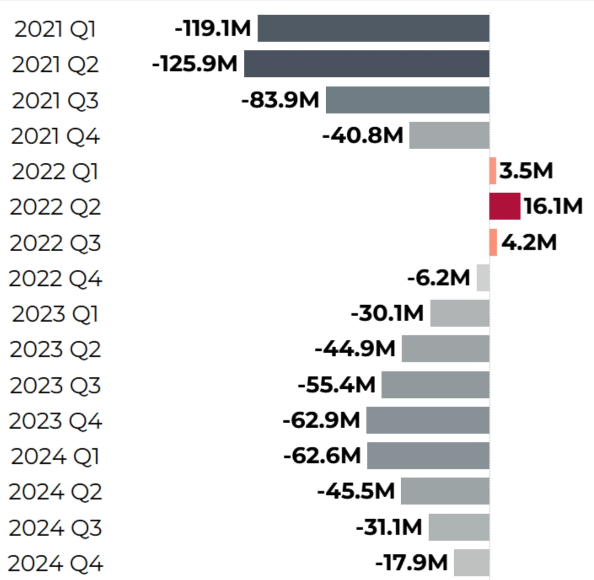
With many companies demanding in-person work, office move-outs declined 3.5 times in 2024 compared to 2023 and are now at -17.9M SF as employers encourage a return to offices. Despite negative absorption and 25.3M SF of new deliveries entering the market, both vacancy rates and rent growth remained steady at 13.8% and 0.9%, respectively.

Negative absorption decreases occurred across all office classes in 2024, with Class A seeing the largest reduction, down by 89% from the previous year. However, Class A still recorded the highest vacancy rate in December 2024 at 20.1%. Class B spaces saw a 59% absorption recovery, with a steady 11.7% vacancy rate, below the national average of 13.8%. Class C spaces improved absorption by 52%, maintaining the lowest vacancy rate at 5.1%.

The largest outflow of office space occurred in Boston, MA, and Washington, DC. While San Francisco still faces challenges, the pace of office exits has slowed significantly, from -9.1M SF in 2023 to -1.6M SF in 2024.

Top markets like Dallas-Fort Worth and New York absorbed over 1.5M SF of office space in 2024. New York notably reversed from -9.9M SF a year ago to 1.7M SF absorbed in 2024.

Net Absorption 12 Mo in sq. ft



Top 10 areas with the largest Vacancy Rates

	2024 Q4	2023 Q4
San Francisco, CA	22.77%	21.57%
Houston, TX	19.02%	18.61%
Dallas-Fort Worth, TX	17.98%	17.59%
Washington, DC	17.15%	16.29%
Denver, CO	17.11%	15.92%
Phoenix, AZ	16.74%	15.62%
Austin, TX	16.65%	15.73%
Chicago, IL	16.65%	16.19%
Atlanta, GA	16.55%	15.68%
Los Angeles, CA	16.07%	15.38%

Top 10 areas with the lowest Vacancy Rates

	2024 Q4	2023 Q4
Wilmington, NC	1.43%	1.87%
Myrtle Beach, SC	1.82%	2.41%
Savannah, GA	1.89%	1.76%
Hickory, NC	1.92%	1.99%
Salisbury, MD	2.02%	2.97%
Lafayette, LA	2.05%	4.26%
Huntington, WV	2.05%	2.03%
Davenport, IA	2.07%	2.39%
Asheville, NC	2.07%	2.44%
Gulfport-Biloxi-Pascagoula, MS	2.40%	1.72%

Source: NAR analysis of CoStar data

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Multifamily

Absorption of units in the last 12 months: 557,121 units
Rent growth in the last 12 months: 1.0%
Cap rate: 6.1%

By the end of 2024, the multifamily housing sector has shown signs of stabilization, driven by strong rental demand and high absorption rates. The 12-month net absorption has surged by 70%, reaching over 557,000 units. Over the last year, new deliveries have increased by 12%, while the volume of units under construction has steadily declined, now sitting 37% below last year's levels. As new supply continues to outpace absorption by 21%, vacancy rates have edged up slightly to 8.0%. Rent growth remains subdued at just 1.0%, highlighting a balanced dynamic between supply and demand.

Vacancy rates for Class A multifamily properties rose by 0.3% last year to 10.9%, the highest among multifamily categories, with rent growth at just 0.3%. In contrast, Class B properties, with a lower vacancy rate of 9.1%, saw demand growth for the 6th consecutive quarter and achieved a 0.9% annual rent increase. This reflects financial strain as more people seek affordable housing due to high interest rates and limited access to mortgages.

While rent growth remains sluggish nationwide, certain Sun Belt metros are seeing steeper declines due to an oversupply of properties, with rents dropping by more than 4% in Fort Myers, FL, Austin, TX, and Naples, FL. Conversely, cities such as South Bend, IN, and Rockford, IL, are defying the trend, recording rent increases exceeding 5%, significantly outpacing the national average of 1.0%.

In major metros like Dallas-Fort Worth and Austin, TX, as well as New York, NY, and Atlanta, GA, more than 20,000 multifamily units were absorbed over the 12 months ending in December. This surge in demand underscores the rental market's resilience in these high-cost regions.

Top 10 areas with the strongest 12-month absorption

	2024 Q4	2023 Q4
Dallas-Fort Worth, TX	30,068	12,325
New York, NY	27,396	20,210
Austin, TX	21,791	8,175
Atlanta, GA	20,687	5,917
Houston, TX	19,671	11,473
Phoenix, AZ	19,544	10,570
Charlotte, NC	12,809	6,499
Washington, DC	12,778	12,623
Orlando, FL	12,488	6,726
Seattle, WA	11,416	6,760

Top 10 areas with steepest 12 Mo rent rises

	2024 Q4	2023 Q4
South Bend, IN	6.97%	3.30%
Rockford, IL	6.17%	6.48%
Lexington, KY	4.88%	4.46%
Montgomery, AL	4.77%	2.75%
Evansville, IN	4.44%	3.95%
Green Bay, WI	4.36%	4.25%
Springfield, MO	4.31%	2.61%
Providence, RI	4.28%	4.85%
Youngstown, OH	4.23%	4.59%
Gulfport-Biloxi-Pascagoula, MS	4.10%	3.73%

Source: NAR analysis of CoStar data

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Retail

Net absorption in the last 12 months: 23.2 million sq. ft.
Rent growth in the last 12 months: 1.9%
Cap rate: 7.0%

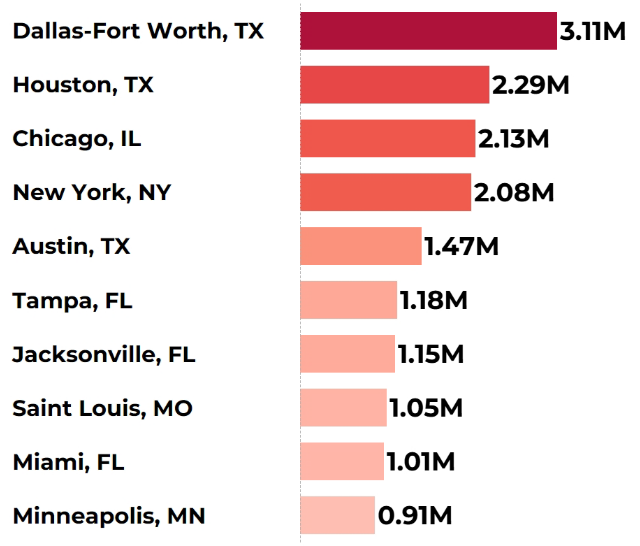
Between 2014 and 2017, retail real estate experienced strong net absorption, reaching its peak before e-commerce began to impact demand. The rise of online shopping gradually slowed retail absorption, a trend that was further accelerated by COVID-19. Over the past year, net absorption fell by 54%, while rent growth declined from 3.7% to 1.9%, highlighting the effects of the persistent tight supply conditions in this sector.

General retail and strip centers contributed roughly 93% of all positive net absorption for the year ending December 2024. Meanwhile, neighborhood centers' absorption fell sharply from 14.2M SF in 2023 to -0.5M SF in 2024. Malls saw 1.9M SF of space vacated, but with 2.4M SF more demolished than delivered in 2024, their vacancy rate eased by 0.1% year-over-year, now standing at 8.7%

The overall retail vacancy rate has remained at a record low of 4.1% for the 9th consecutive quarter, with deliveries surpassing absorption by 29%.

General Retail continues to have the lowest vacancy rate at 2.5%. Neighborhood Centers and Power Centers posted the highest rent growth, both rising by 2.8%.

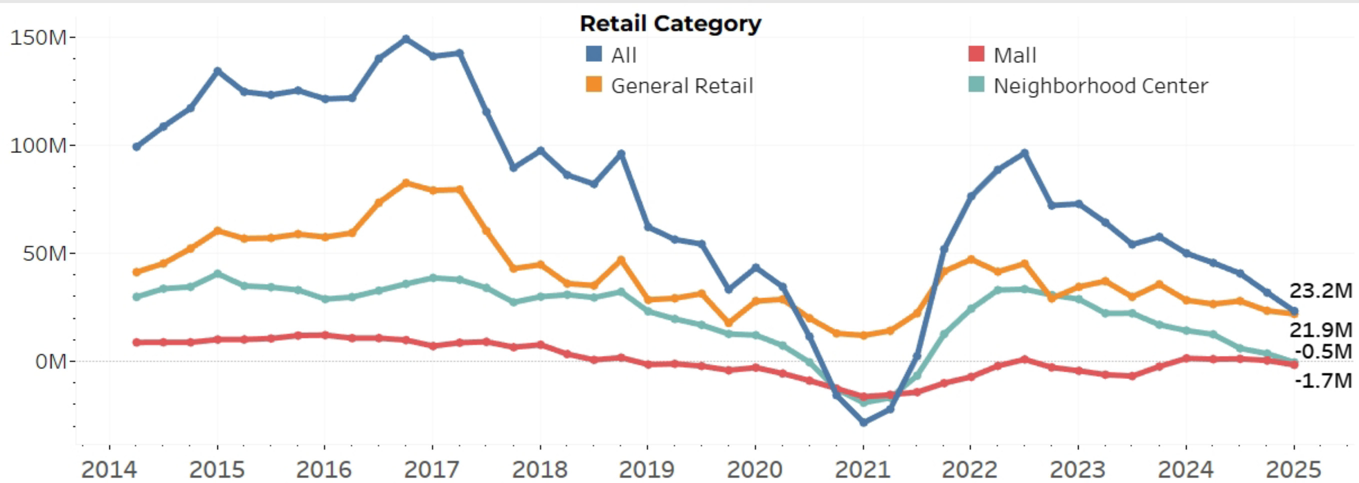
Top 10 areas with the strongest net absorption in the last 12 months



In December 2024, Salt Lake City, UT, and Phoenix, AZ, recorded rent increases of over 7% year-over-year, while San Francisco, CA, saw rents decline by 3.4%.

Moreover, Dallas-Fort Worth, Houston, TX, Chicago, IL, and New York, NY, led the nation in retail space absorption, each surpassing 2 million square feet. On the other hand, Los Angeles vacated around 2.2 million square feet in 2024, reflecting reduced demand for retail space amid shifts to online shopping.

Net Absorption 12 Mo by type (Q1 2014 – Q4 2024)



Source: NAR analysis of CoStar data

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Industrial

Net absorption in the last 12 months: 115.4 million sq. ft.
Rent growth in the last 12 months: 2.2%
Cap rate: 7.5%

The industrial real estate market, which thrived in 2022, now faces headwinds from an oversupply of properties and softened demand. From December 2023 to December 2024, net absorption fell by 35%, reaching 115.4 million square feet. Meanwhile, new deliveries outpace absorption by a 3:1 ratio, causing the vacancy rate to rise by 1.1% to 6.8%. Although rent growth has slowed to 2.2%, it continues to outperform other sectors.

Logistics spaces remain the primary driver of positive absorption, contributing 104.3 million square feet this year. Specialized spaces followed, absorbing 13.4 million square feet—160% more than in 2023. In contrast, Flex spaces experienced a decline, with 2.7 million square feet vacated this year. Across all the segments of Industrial real estate, rent growth subsided, with Logistics and Specialized rents taking the hardest hit and losing 6% and 4.1%, respectively, and now at 2.1% and 2.3%. Flex spaces lost 2.4% in rent growth and are now at 2.1%

Dallas-Fort Worth, TX, led industrial absorption in 2024, followed by Houston, TX, with both markets absorbing over 19 million square feet. In contrast, Los Angeles, CA, lost 12.8 million square feet in absorption but still holds a vacancy rate of 6%, below the national average of 6.8%.

In 2024, several metro areas experienced significant shifts in rent growth. Jacksonville, FL, led the nation with an impressive rent increase of 8.7%, followed by Cincinnati, OH, at 7.2%. Conversely, Los Angeles, CA, saw the largest rent decline, dropping 5.5%, with Austin, TX, and Inland Empire, CA, recording decreases of over 1%. Spartanburg and Charleston, SC, posted the highest vacancy rates, both exceeding 15%, highlighting regional disparities in the rental market.

Top 10 areas with the strongest 12 Mo absorption

	2024 Q4	2023 Q4
Dallas-Fort Worth, TX	20.70M	34.10M
Houston, TX	19.53M	20.92M
Phoenix, AZ	13.61M	13.16M
Inland Empire, CA	10.83M	2.91M
Savannah, GA	9.20M	11.13M
Atlanta, GA	7.88M	4.83M
Chicago, IL	6.45M	19.07M
Austin, TX	6.30M	5.15M
Nashville, TN	6.07M	3.81M
Philadelphia, PA	6.07M	4.80M

Top 10 areas with the weakest 12 Mo absorption

	2024 Q4	2023 Q4
Los Angeles, CA	-12.82M	-15.34M
Winston-Salem, NC	-3.57M	-0.88M
Reno, NV	-3.13M	3.30M
Charleston, SC	-2.70M	3.08M
Portland, OR	-2.65M	-0.79M
Harrisburg, PA	-2.30M	1.65M
Seattle, WA	-2.29M	-0.28M
Syracuse, NY	-2.16M	0.40M
San Diego, CA	-1.73M	-2.75M
Jackson, MS	-1.60M	-0.43M

Source: NAR analysis of CoStar data

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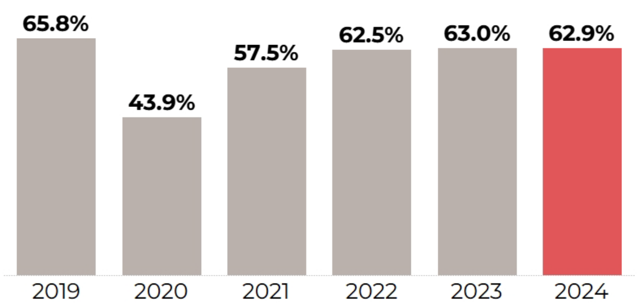
Hotel

Occupancy rate in the last 12 months: 62.9%
Average daily rate in the last 12 months: $158/room
Revenue per available room in the last 12 months: $100/room

By the end of 2024, the hospitality sector remains stable. Hotel occupancy rates stand at 62.9%, still 2.9% below pre-pandemic levels due to the impact of remote work. Meanwhile, average daily rates and revenue per available room have exceeded pre-pandemic figures, showing a recovery in profitability.

12-month Occupancy Rate in December



In December 2024, the average daily rate (ADR) for hotel rooms reached $158, reflecting a 20% increase compared to December 2019. At the same time, the revenue per available room (RevPAR) climbed to $100, marking a 15% rise over the same period.

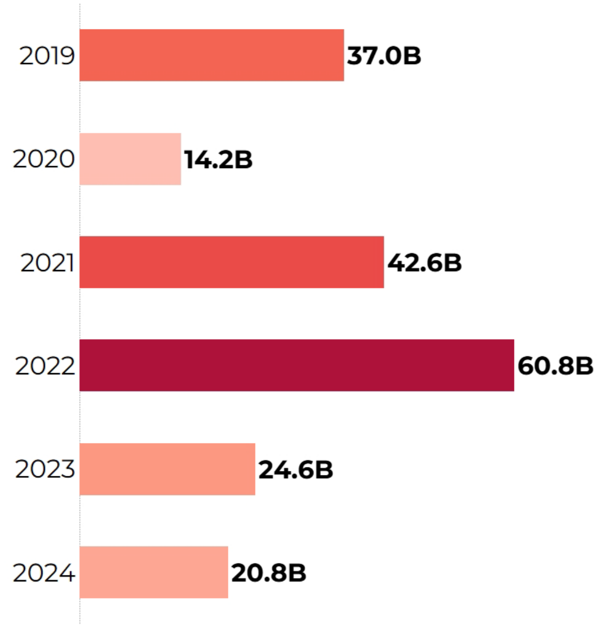
12-month ADR and RevPAR in December

	Average daily rate	Revenue per available room
2019	$132	$87
2020	$103	$45
2021	$125	$72
2022	$150	$94
2023	$156	$98
2024	$158	$100

ADR is the total revenue/number of rooms.
RevPAR is ADR x occupancy rate.

Sales acquisitions have seen a decline over the past year. By December 2024, the 12-month sales volume fell to $20.8 billion, down from $24.6 billion in the previous year.

12-month Sales Volume as of December



Source: NAR analysis of CoStar data

At the local level, Hawaii's Kauai Island is thriving, with the Average Daily Rate (ADR) increasing by 57%, Revenue per Available Room (RevPAR) rising by 50% above pre-pandemic levels, and a solid 70% occupancy rate. Maui Island showcases even stronger performance, leading the nation with an ADR of $542 and a RevPAR of $347. Meanwhile, New York City stands out with the highest hotel occupancy rate in the country at 84%.

Conversely, California's San Francisco/San Mateo and Oakland continue to face significant hurdles, as RevPAR remains 29% and 24% below pre-pandemic levels, highlighting the challenges in their recovery.

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