Commercial Real Estate Market Insights Report

May 2025

National Association of REALTORS®
Research Group

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Commercial Real Estate

An Overview

While uncertainty persists regarding the impact of tariffs and global trade tensions, the Federal Reserve has chosen to keep interest rates steady. The U.S. economy hit a bit of a speed bump – GDP slipped slightly as businesses and consumers rushed to buy goods ahead of expected tariffs, widening the trade deficit and weighing on growth. Still, the job market remains solid, offering some reassurance amid the mixed economic landscape. The outlook remains uncertain, but signs indicate a gradual improvement in some commercial real estate sectors for the remainder of the year.

Office demand continued to lag in April, keeping vacancy rates at record highs, though some progress is emerging in select markets. The retail sector remained tight, with limited new supply. Industrial vacancies continued to climb, contributing to a deceleration in rent growth. Meanwhile, the multifamily sector remained robust, with demand near the peak levels last seen in 2021. Below is a summary of the performance of each major commercial real estate sector in April 2025:

Office demand weakened again in April after a brief improvement in March, with net absorption turning negative and the vacancy rate rising to 14%. Rent growth remained flat at around 1% amid tenant caution. Class A offices maintained positive annual absorption but saw vacancies rise to 20.3%. Class B performed relatively better, with slower vacancy growth and stronger rent gains at 1.3%. Class C continued to struggle. Regionally, Boston and Los Angeles posted the largest losses, while San Francisco's outflows slowed. New York rebounded sharply, swinging from -5 M SF to +6M SF over the past year.

The **multifamily** market is stabilizing, with annual net absorption up 22% to over 544,000 units. Although construction is down 30% from last year, new supply continues to outpace demand by 16%. Vacancy remains steady at 8.0%, while rent growth is modest at 1.1%. Class A properties still report the highest vacancy rates, though they improved by 0.7 percentage points; Class B units led the market in absorption. Rent trends vary widely across regions—rents fell by more than 4% in Austin, while markets like South Bend, IN, and Shreveport, LA, posted gains well above the national average. Major metros such as Dallas, New York, and Atlanta each absorbed over 20,000 units, signaling solid demand even in high-cost areas.

Retail is cooling as e-commerce and post-pandemic shifts weigh on demand. Rent growth decelerated to 1.8%, though tenants are still competing for prime space. General retail accounted for nearly all positive absorption, while neighborhood centers saw losses and malls posted net vacancies, offset by demolition. Vacancy inched up to 2.6% - the first increase in nine quarters. Power and neighborhood centers led rent gains, while Raleigh and Norfolk saw the strongest metro-level increases. Dallas and Houston led in absorption, while Los Angeles reported the largest net loss.

The **industrial** sector is recalibrating after experiencing strong growth in both demand and supply over the past few years. Demand is strong, but can't keep up with the new supply, which is pushing vacancy rates higher. Rent growth slowed to 2.1%, but remained above that of other sectors. Logistics remains strong, but flex space lags. Savannah, GA, topped all markets in absorption, while Los Angeles led in vacancies.

As of April 2025, the **hospitality** sector remains stable. Hotel occupancy stands at 63.1%, which is still 2.9% below pre-pandemic levels, largely due to the prevalence of remote work. However, profitability has rebounded, with average daily rates up 22% to $160 and RevPAR rising 17% to $101 compared to April 2019.

Economy

Job growth (April 2025 compared to March 2020): 5.7%
Inflation (April 2025): 2.3%
Gross Domestic Product (GDP) Q1 2025: -0.3%

In May 2025, the Fed kept interest rates unchanged at 4.5% for the third consecutive time, even as inflation eased to 2.3%. The job market expanded at a faster pace, adding 177,000 jobs and maintaining a steady unemployment rate of 4.2%. Despite ongoing economic shifts, steady job growth and easing inflation offer encouraging signs for those anticipating future rate cuts.

The job market grew faster in April

U.S. nonfarm payrolls rose by 177,000 in April—slightly above the 12-month average of 152,000—with job gains in health care, transportation, finance, and social assistance, while federal government employment declined. This moderate growth kept unemployment at 4.2%, within its narrow year-long range.

Specifically, the total number of job positions increased to 159.5 million in April. Within the past year, the economy had created about 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

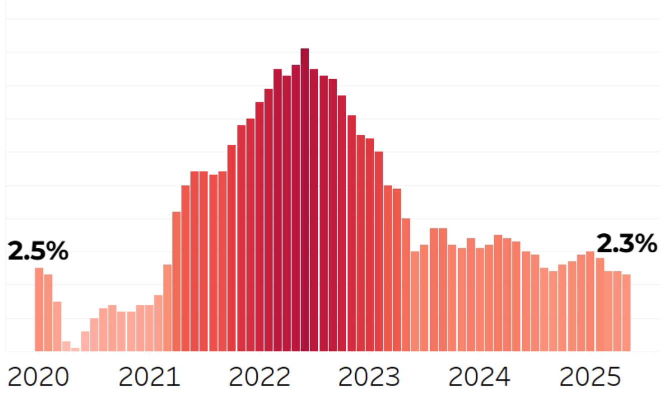
March 2020	**150.9 million**
April 2024	**157.6 million**
April 2025	**159.5 million**

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

Inflation declined to 2.3% in April

Overall inflation declined for the 3rd consecutive month, now at 2.3%. Meanwhile, private-sector data indicates that rent growth—accounting for roughly 40% of the CPI—may slow further in the months ahead, helping inflation moderate even more.

Inflation



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

Interest rates are held steady for the third time

While inflation is easing, the Federal Reserve kept interest rates steady in May 2025 for the 3rd time in a row at 4.5%, after three consecutive rate cuts in late 2024. Despite concerns about the potential impact of the new administration's policies on the economy, financial markets are still anticipating at least two more rate cuts by year-end. 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 declined in Q1 2025

According to the advance estimate, U.S. real GDP declined by 0.3% in Q1 2025, reversing from 2.4% growth in Q4 2024, primarily due to increased imports and reduced government spending. The downturn also reflected a deceleration in consumer spending, although investment and exports helped offset some of the losses. As this is a preliminary estimate, the figure is subject to revision.

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Commercial Real Estate Lending

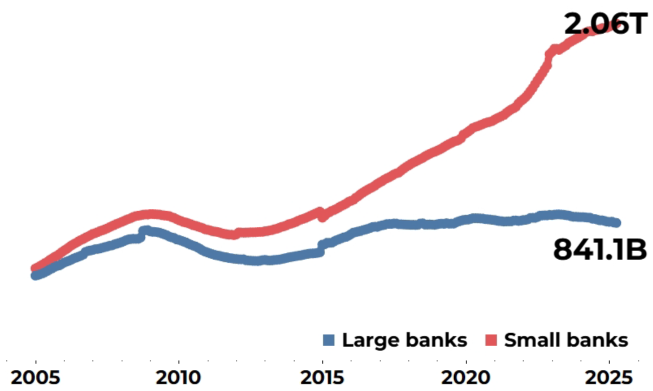
CRE loans (April 2025): $3.02 trillion
Delinquency rate of CRE loans (Q4 2024): 1.57%

CRE debt remained near $3 trillion in April

In April, commercial real estate debt held steady at $3 trillion, as the Fed's third consecutive decision to maintain interest rates kept borrowing conditions largely unchanged. Still, expectations of two rate cuts later this year may help revive commercial real estate (CRE) investment.

Among bank sizes, large U.S. institutions saw further declines in CRE loan balances, falling to $841.1 billion from $873.5 billion a year ago. Meanwhile, smaller domestic banks continued to expand their CRE lending, with balances increasing by 2.4% year-over-year.

Commercial Real Estate Debt for Small and Large Banks (April 2025)

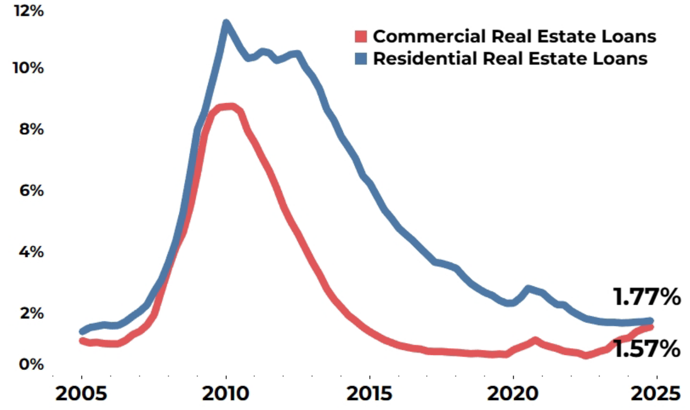


Source Federal Reserve

CRE delinquency rates increased in Q4 2024

According to Federal Reserve data, delinquency rates for commercial real estate loans increased to 1.57% in Q4 2024, rising slightly but remaining 0.2% below the delinquency rate for residential real estate loans. However, historically, commercial loan delinquencies have hovered near 1% over the past decade, while residential delinquencies averaged closer to 3%. The recent narrowing of this gap suggests that commercial real estate is now facing more pressure than it did in prior years.

Delinquency rates Commercial vs Residential loans (Q4 2024)



Source Federal Reserve

Source Mortgage Bankers Association (MBA)

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Office

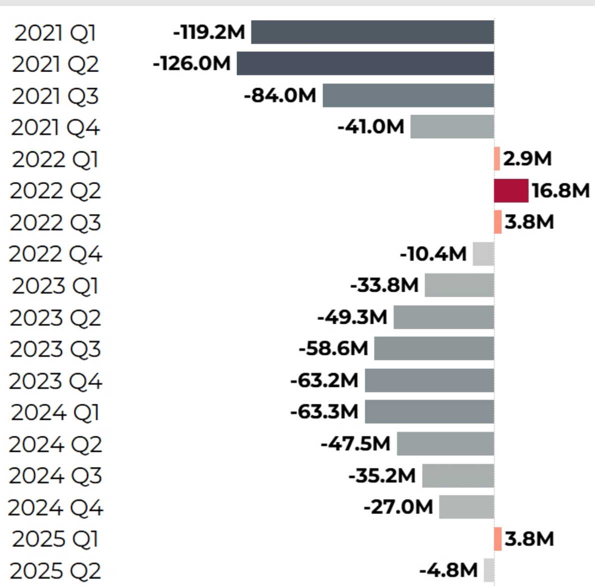
Net absorption in the last 12 months: -4.8 million sq. ft.
Rent growth in the last 12 months: 1.0%
Cap rate: 9.1%

Office absorption saw a brief positive moment in March before turning negative again in April, but the decline was milder than in previous periods. As a result, the vacancy rate increased to 14%. Meanwhile, rent growth remained stagnant at around 1%, as ongoing economic uncertainties continued to make tenants cautious about committing to higher rents.

In April 2025, the Class A office sector's vacancy rate rose to 20.3%, yet it maintained positive 12-month absorption for the second consecutive quarter. Unlike Class A, Class B continued to see vacancies, but at a four times slower rate than a year ago, with a lower-than-average vacancy rate of 12% and higher rent growth at 1.3%. Class C experienced further negative absorption, resulting in an increase in its vacancy rate to 5.3%.

Boston, MA, and Los Angeles, CA, experienced the most significant reductions in office space. San Francisco's office space outflows decreased significantly, dropping from 6.4 million square feet in Q2 2024 to 1.0 million square feet in April 2025. In contrast, New York, NY saw a turnaround, improving from a 5M SF decline a year ago to nearly 6M SF in 12-month absorption as of April 2025.

Net Absorption 12 Mo in sq. ft



Top 10 areas with the largest 12 Mo Absorption

	2025 Q2	2024 Q2
New York, NY	5.91M	-5.17M
Dallas-Fort Worth, TX	2.21M	0.13M
Kansas City, MO	1.80M	-1.00M
Northwest Arkansas, AR	1.45M	0.50M
Miami, FL	1.19M	-0.02M
Saint Louis, MO	1.16M	0.88M
Trenton, NJ	0.81M	-0.77M
Sacramento, CA	0.79M	1.02M
New Haven, CT	0.78M	0.06M
Houston, TX	0.77M	0.08M

Top 10 areas with the lowest 12 Mo Absorption

	2025 Q2	2024 Q2
Boston, MA	-4.61M	-5.59M
Los Angeles, CA	-2.86M	-5.91M
Chicago, IL	-2.61M	-4.67M
Washington, DC	-2.39M	-5.22M
Denver, CO	-2.10M	-1.74M
Atlanta, GA	-1.13M	-2.26M
Portland, OR	-1.08M	-1.97M
San Francisco, CA	-1.03M	-6.38M
Hartford, CT	-1.01M	-0.46M
Cleveland, OH	-0.87M	-0.47M

Source: NAR analysis of CoStar data

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Multifamily

Absorption of units in the last 12 months: 544,214 units
Rent growth in the last 12 months: 1.1%
Cap rate: 6.1%

As of April 2025, the multifamily sector is showing signs of stabilization, driven by strong rental demand and high absorption rates. Over the past year, net absorption increased by 22%, reaching over 544,000 units. In contrast, new deliveries decreased by 7%, and the number of units under construction has consistently declined over the past 2 years, now 30% below last year's levels. Despite this, new supply still surpasses absorption by 16%, though the gap is gradually closing. Vacancy rates have remained steady at 8.0%, and annual rent growth is modest at 1.1%, indicating a balanced market between demand and supply.

Despite a 0.7% drop in vacancy rates for Class A multifamily properties over the year ending in April 2025, bringing them to 10.5%, they still have the highest vacancy rates among all classes, with minimal rent growth of 0.7%. On the other hand, Class B properties saw a 0.3% increase in vacancy rates to 9.2% and slightly stronger rent growth at 0.9%. However, Class B outperformed in absorption, with a 22% annual rise compared to 17% for Class A

While national rent growth remains subdued, some Sun Belt markets are experiencing sharper declines due to oversupply, with rents falling by over 4% in Austin, TX. In contrast, South Bend, IN is bucking the trend, posting rent increases above 6.7%, followed by Shreveport, LA with 4.8% growth, both well above the national average at 1.1%

In major metropolitan areas such as Dallas-Fort Worth, Austin, TX, New York, NY, and Atlanta, GA, each city experienced an influx of over 20,000 multifamily units during the 12 months leading up to May. This significant demand underscores the resilience of the rental market in these more expensive urban regions.

Top 10 areas with the strongest 12-month absorption

	2025 Q2	2024 Q2
Dallas-Fort Worth, TX	27,970	19,722
New York, NY	26,891	22,565
Austin, TX	20,624	13,162
Atlanta, GA	20,042	14,311
Houston, TX	18,698	15,032
Phoenix, AZ	18,243	14,864
Charlotte, NC	14,025	8,725
Orlando, FL	13,045	10,720
Washington, DC	12,909	13,504
Seattle, WA	12,715	8,982

Top 10 areas with steepest 12 Mo rent rises

	2025 Q2	2024 Q2
South Bend, IN	6.66%	2.97%
Shreveport, LA	4.77%	2.80%
Springfield, MO	4.72%	2.70%
Rockford, IL	4.63%	5.86%
Harrisburg, PA	4.32%	2.65%
Rochester, NY	4.25%	4.06%
Augusta, GA	4.16%	0.40%
Gulfport-Biloxi-Pascagoula, MS	4.07%	3.84%
Montgomery, AL	3.91%	3.16%
Providence, RI	3.87%	4.17%

Source: NAR analysis of CoStar data

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Retail

Net absorption in the last 12 months: 9.5 million sq. ft.
Rent growth in the last 12 months: 1.8%
Cap rate: 7.1%

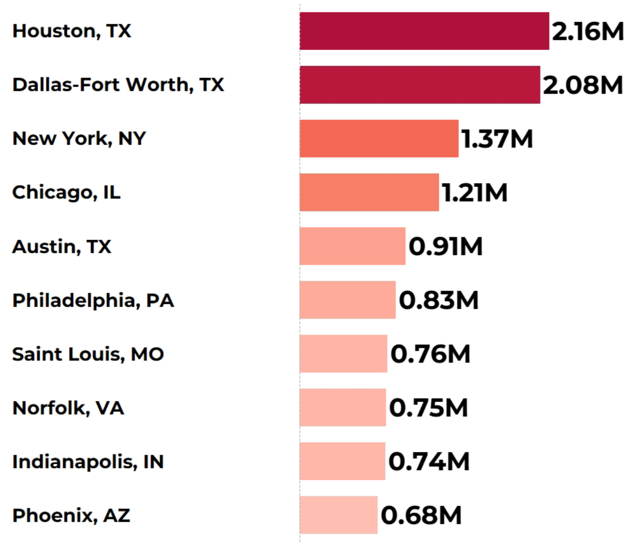
Between 2014 and 2017, retail real estate experienced strong absorption, but as e-commerce growth began to curb demand, the shift was further accelerated by the pandemic. Over the year ending in April, net absorption declined 76% over the 12 months, and rent growth slowed from 3.3% to 1.8%. Despite softer demand, rents continue to rise as tenants compete for space in prime locations.

General retail alone contributed roughly 98% of all positive net absorption for the year ending in April 2025. Meanwhile, the 12-month absorption rate of neighborhood centers dropped to -9.7M SF from 6.1M SF a year earlier. Malls saw 1.0 million square feet vacated; however, with 2.3 million square feet more space demolished than delivered over the same period, their vacancy rate eased slightly to 8.6%, compared to the previous year.

Retail vacancy rose 0.1% to 2.6%, marking the first noticeable increase in nine quarters, as new space delivered to the market now exceeds twice the absorption.

General Retail continues to have the lowest vacancy rate at 2.6%. Neighborhood Centers and Power Centers posted the highest rent growth, both at 2.6%

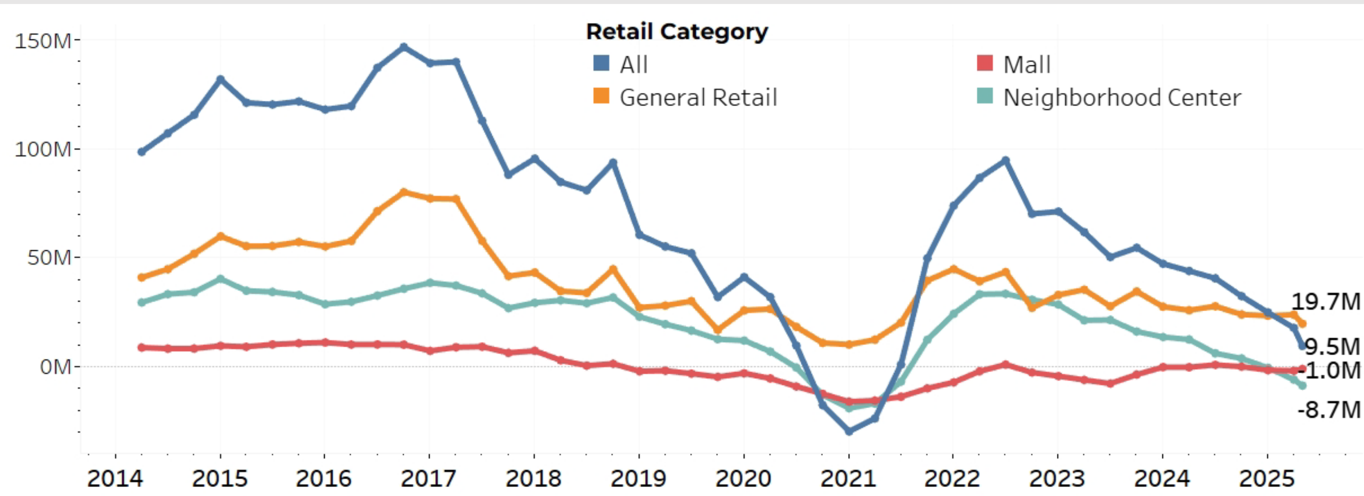
Top 10 areas with the strongest net absorption in the last 12 months



In April 2025, Raleigh, NC, recorded the highest rent increase of 6.0% followed by Norfolk, VA at 5.9% year-over-year, while Akron, OH and Pittsburgh, PA saw rent drop of over 3.0%.

Dallas–Fort Worth and Houston, TX led the nation in retail absorption, taking in over 2 million square feet each. Meanwhile, Los Angeles and vacated around 2.3 million square feet, reflecting a socio-economic decline fueled by urban exodus.

Net Absorption 12 Mo by type (Q1 2014 – April 2025)



Source: NAR analysis of CoStar data

Industrial

Net absorption in the last 12 months: 100.8 million sq. ft.
Rent growth in the last 12 months: 2.1%
Cap rate: 7.3%

After booming in 2022, the industrial real estate sector is now grappling with excess supply and a decline in demand. Between April 2024 and April 2025, net absorption declined by 22%, landing at 100.8 million square feet. At the same time, new deliveries outpaced absorption by a 3:1 margin, resulting in a 0.7 percentage point increase in the vacancy rate to 7.2%. While rent growth has cooled to 2.1%, it still outperforms sectors.

Logistics properties continued to lead industrial absorption, adding 92.9 million square feet over the year ending April. Specialized facilities followed with 12.6 million square feet—up 252% from last year. Meanwhile, Flex space recorded a net loss, with 4.5 million square feet vacated. Rent growth cooled across all industrial segments, with Logistics and Specialized seeing the sharpest drops, down 3.6% and 2.9% year-over-year, now at 2.2% and 2.1%, respectively. Flex rents also dipped 2.0%, settling at 1.8%.

This April, Savannah, GA, saw an all-time high in absorption, surpassing even Dallas-Fort Worth, TX, which absorbed over 24M SF in 12 months. Meanwhile, Los Angeles vacated 6.3 million square feet of industrial properties in the 12 months ending in April, but still maintains a vacancy rate of 6.0%, which is below the national level of 7.2%.

April saw notable rent shifts across major metropolitan areas. Dayton, OH, topped the list with a 7.1% increase, followed closely by Jacksonville, FL, at 6.9%. On the other end, Los Angeles, CA, posted the steepest drop at 5.1%, while Inland Empire, CA, also saw declines in rent of 2.8%. Charleston, SC, reported the highest vacancy rates of 16%, followed by San Francisco, CA, at 12.6%. At the same time, Anchorage, AK has the lowest Vacancy Rate of 0.6%, underscoring regional imbalances in the rental market.

Top 10 areas with the strongest 12 Mo absorption

	2025 Q2	2024 Q2
Savannah, GA	27.01M	8.25M
Dallas-Fort Worth, TX	24.27M	26.80M
Phoenix, AZ	14.41M	15.32M
Houston, TX	14.08M	21.54M
Kansas City, MO	8.26M	2.99M
Inland Empire, CA	6.39M	9.97M
Spartanburg, SC	5.81M	2.89M
Austin, TX	4.88M	7.78M
Washington, DC	4.65M	4.99M
Las Vegas, NV	4.52M	4.90M

Top 10 areas with the weakest 12 Mo absorption

	2025 Q2	2024 Q2
Los Angeles, CA	-6.28M	-11.09M
Memphis, TN	-4.85M	-1.89M
Milwaukee, WI	-3.43M	1.14M
Detroit, MI	-2.74M	2.70M
Baltimore, MD	-2.44M	-0.93M
Miami, FL	-2.14M	1.88M
San Diego, CA	-2.02M	-2.43M
Fort Lauderdale, FL	-2.00M	-0.46M
Montgomery, AL	-1.97M	-0.38M
Syracuse, NY	-1.93M	-0.80M

Source: NAR analysis of CoStar data

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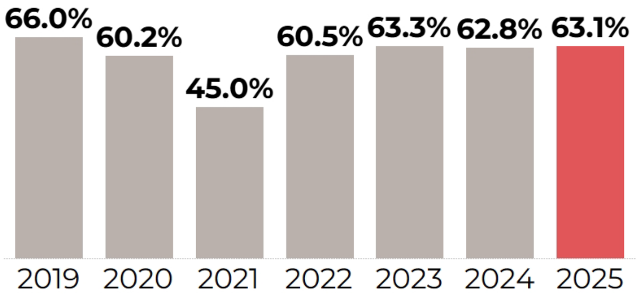
Hotel

Occupancy rate in the last 12 months: 63.2%
Average daily rate in the last 12 months: $160/room
Revenue per available room in the last 12 months: $101/room

As 2025 begins, the hospitality sector remains steady. Hotel occupancy stands at 63.1%, still 2.9% below pre-pandemic levels, primarily due to the ongoing impact of remote work. However, both average daily rates and revenue per available room have surpassed pre-pandemic benchmarks, signaling a rebound in profitability.

12-month Occupancy Rate in April



In April 2025, the average daily rate (ADR) for hotel rooms reached $160, a 22% increase from April 2019. Meanwhile, revenue per available room (RevPAR) rose to $101, representing a 17% increase over the same period.

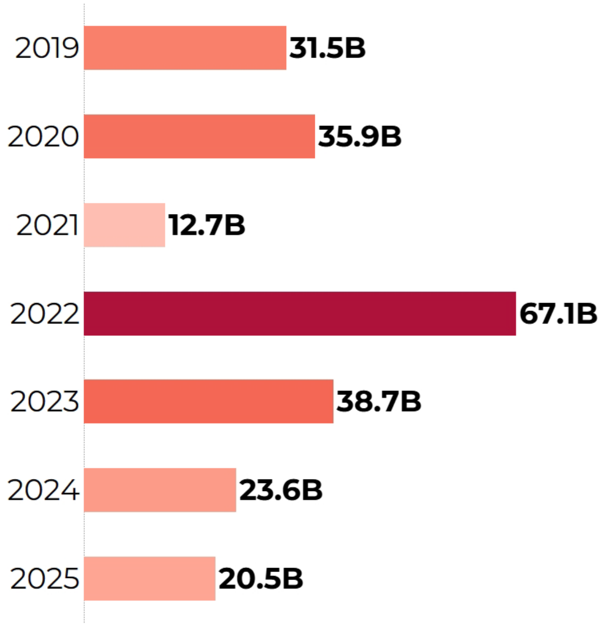
12-month ADR and RevPAR in April

	Average daily rate	Revenue per available room
2019	$131	$86
2020	$129	$78
2021	$98	$44
2022	$136	$82
2023	$153	$97
2024	$157	$99
2025	$160	$101

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

Hotel acquisitions have dipped slightly over the past year. As of April 2025, the 12-month sales volume had declined to $20.5 billion, down from $23.6 billion the previous year.

12-month Sales Volume as of April



Source: NAR analysis of CoStar data

At the metro level, Kauai Island in Hawaii continues to post strong hospitality gains, with ADR up 59% and RevPAR up 48% from pre-pandemic levels. Occupancy holds steady at 70%, underscoring robust visitor activity. Maui Island outperforms all U.S. markets, boasting the highest average daily rate (ADR) at $556 and the top revenue per available room (RevPAR) at $385. New York City also leads nationally in occupancy, reaching 85%, supported by steady business and tourism demand.

In contrast, Texas West and San Francisco/San Mateo, CA, remain challenged, with RevPAR still trailing pre-pandemic figures by 34% and 29%, respectively, pointing to a more prolonged recovery in those markets.

COMMERCIAL REAL ESTATE REPORT
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