Commercial Real Estate Market Insights Report

July 2025

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Commercial Real Estate

An Overview

In the second quarter of the year, the economy showed signs of renewed momentum, even as monetary policy remained the same. This resilience was driven mostly by solid consumer spending and a decline in imports. Inflation edged higher to 2.7%, while the labor market continued to add jobs. In this economic environment, commercial real estate trends saw little major change. The office sector continued to weaken, and retail and industrial activity cooled further. Multifamily remained the bright spot, though signs indicate the sector may have peaked as net absorption has begun to slow. Looking ahead, while the Federal Reserve is expected to lower rates, any reduction in borrowing costs could provide a lift to commercial real estate activity.

Below is a summary of the performance of each major commercial real estate sector in June of 2025:

After nearly turning positive in Q1 2025, **office** absorption declined again in the second quarter as tenants remained hesitant to commit to leases amid broader economic uncertainty, lifting the vacancy rate to 14.1%. Landlords grew more competitive on pricing, slowing annual rent growth to 0.6%. Class A offices posted positive 12-month absorption for the second straight quarter but saw vacancy climb to 20.5%. Class B space continued to shed tenants, though at half last year's pace, with vacancy at 12.0% and stronger rent growth of 1.2%. Class C properties faced further losses, pushing vacancy to 5.4%.

As of June 2025, the **multifamily** market shows early signs of stabilization, with net absorption up 20% year-over-year to 531,000 units and new completions down 9%. Vacancy held at 8.1% as the supply-demand gap narrowed, and rent growth stayed modest at 0.9%. Class B properties led demand with stronger rent gains, while Class A maintained the highest vacancies. Oversupply continued to pressure rents in parts of the Sun Belt, while markets like South Bend and San Francisco outperformed with above-average growth.

Retail demand has weakened over the past year, with 12-month net absorption falling from 37.4 million to –3.9 million square feet and annual rent growth slowing to 2.0% in June 2025. Nonetheless, retail currently holds the fastest rent growth and the lowest vacancy rate among all CRE sectors. General retail was the only segment with positive absorption in Q2 2025, while neighborhood centers and malls posted the biggest losses, the latter offsetting most of its vacancy impact through inventory cuts. General retail also maintained the lowest vacancy at 2.6%, while neighborhood centers and power centers led rent growth at 2.7% and 2.6%, respectively.

The **industrial** sector's post-pandemic surge has cooled, with oversupply and softer demand driving a 39% year-over-year drop in net absorption to a decade-low 79.7M SF. New completions outpaced demand by 4 to 1, pushing vacancy up to 7.4%. Rent growth slowed to 1.7%, falling behind retail as the fastest-growing CRE sector. Logistics remained the primary demand driver, followed by a sharp rise in specialized facility absorption, while Flex space saw net losses.

As 2025 moves forward, the **hospitality** sector remains stable, though occupancy at 63.0% is still 2.9% below pre-pandemic norms, weighed down by remote work and reduced corporate travel in urban markets. Nonetheless, ADR and RevPAR have surpassed 2019 levels, up 22% and 17%, respectively, driving a rebound in profitability. Hotel transaction activity has eased as investors await clearer signs of sustained demand. Performance remains uneven, with leisure-focused markets like Hawaii leading the way, while some urban destinations continue to lag.

NATIONAL ASSOCIATION OF REALTORS®

Economy

Job growth (June 2025 compared to March 2020): 5.8%
Inflation (June 2025): 2.7%
Gross Domestic Product (GDP) Q2 2025: 3.0%

In June 2025, the Federal Reserve held interest rates steady at 4.5% as inflation ticked up by 0.3 percentage points to 2.7%. The labor market grew at a moderate pace, adding 147,000 jobs, while the unemployment rate declined slightly to 4.1%. These trends suggest the Fed remains focused on balancing inflation control with sustaining economic growth.

Job Growth Holds Steady in June

U.S. nonfarm payrolls increased by 147,000 in June, closely matching the 12-month average of 148,000. Health care, construction, and professional and business services posted the largest job gains. The unemployment rate fell to 4.1%, continuing to hover within its narrow range over the past year.

Specifically, the total number of jobs increased to 159.7 million in June. Within the past year, the economy has created about 1.9 million new jobs. Since the onset of the pandemic in March 2020, the U.S. has successfully generated over 8.8 million jobs.

Number of Jobs

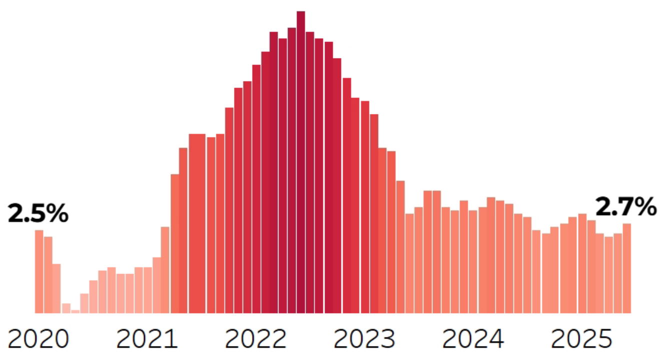
March 2020	**150.9 million**
June 2024	**157.9 million**
June 2025	**159.7 million**

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

Inflation edged up to 2.7% in June

Headline inflation increased by 0.3%, reaching 2.7%. However, private-sector data suggests rent growth, which makes up about 40% of the CPI, could slow further in the coming months, potentially easing inflation pressures.

Inflation



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

Interest rates are held steady for the fifth time

With the inflation rate rising for a second straight month and remaining above the Fed's 2% target, the central bank held its policy rate at 4.5% in June 2025 for the fourth consecutive meeting, following three cuts in late 2024. Some Fed officials are now wavering on earlier projections for two rate cuts this year, and markets are pricing in closer to one or one-and-a-half reductions. Still, the Fed's median forecast calls for rates to end 2025 near 4%, suggesting some easing from current levels. Because borrowing costs underpin financing, even modest cuts could help stimulate investment activity in the commercial real estate sector.

Economy Expands in 2nd Quarter

The advance estimate shows U.S. real GDP rising 3.0% in Q2 2025, reversing a 0.5% decline in the first quarter. The improvement was largely fueled by a slowdown in imports and an acceleration in consumer spending, while a pullback in investment tempered overall gains. Softer price growth during the quarter also provided some support to real economic activity.

NATIONAL ASSOCIATION OF REALTORS®

Commercial Real Estate Lending

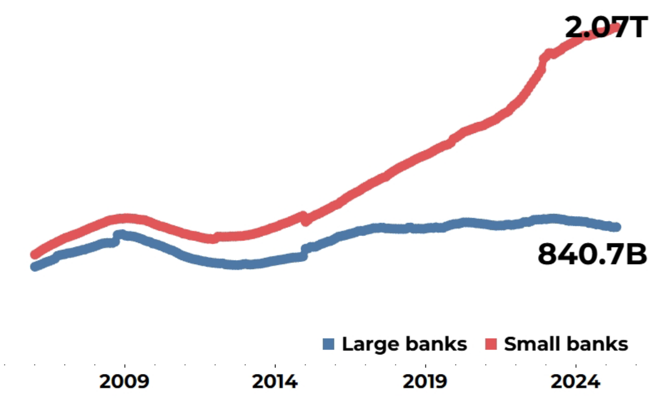
CRE loans (June 2025): $3.02 trillion
Delinquency rate of CRE loans (Q1 2025): 1.59%

CRE debt remained at $3 trillion in June

In June, total commercial real estate debt held steady at $3 trillion, as the Fed's decision to keep rates unchanged left financing conditions largely stable. Anticipated rate cuts later this year could provide a boost to CRE investment.

By bank size, large U.S. banks continued to pare back their CRE loan holdings, falling to $840.7 billion from $872.6 billion a year earlier. Meanwhile, smaller domestic banks grew their CRE portfolios, with balances up 2.6% year-over-year.

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

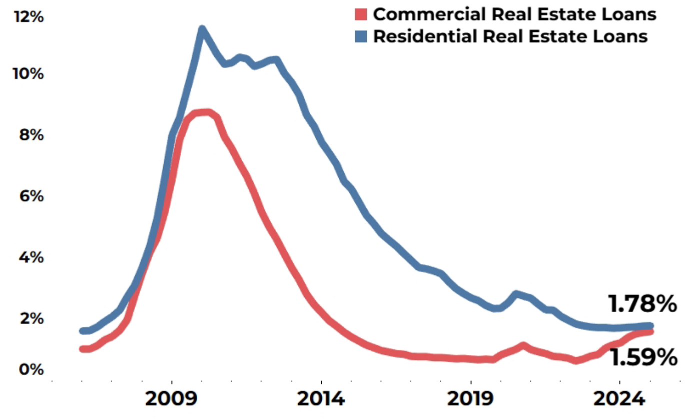


Source Federal Reserve

CRE delinquency rates increased in Q1 2025

Federal Reserve data shows that commercial real estate loan delinquencies edged up to 1.59% in Q1 2025, a slight increase that still keeps them about 0.2 percentage points below residential loan delinquency rates. Although historically commercial delinquencies have hovered near 1% over the past decade, while residential rates averaged closer to 3%, leaving a much wider gap. This recent narrowing suggests that commercial real estate loans are now experiencing more stress than in previous years, reflecting broader market headwinds and tighter credit conditions.

Delinquency rates Commercial vs Residential loans (Q1 2025)



Source Federal Reserve

NATIONAL ASSOCIATION OF REALTORS®

Office

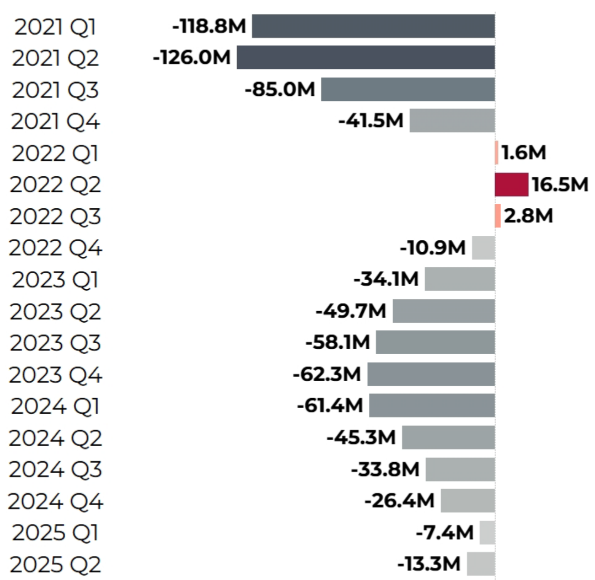
Net absorption in the last 12 months: -13.3 million sq. ft.
Rent growth in the last 12 months: 0.6%
Cap rate: 9.0%

After nearly turning positive in Q1 2025, office absorption dropped again in the second quarter as tenants remain cautious about leasing commitments amid macroeconomic uncertainty, pushing the vacancy rate up to 14.1%. As a result, landlords grew more competitive on pricing, slowing rent growth by 0.2% to just 0.6% year-over-year.

In June 2025, the Class A office sector saw its vacancy rate climb to 20.5%, although it achieved positive 12-month absorption for the second straight quarter. In contrast, Class B offices continued to see vacancies, but at half last year's pace, with a national vacancy rate of 12.0% and rent growth of 1.2%.Meanwhile, Class C offices faced further negative absorption, pushing their vacancy rate up to 5.4%.

Washington, DC, and Chicago, IL experienced the most significant reductions in office space. Los Angeles' office space outflows decreased significantly, dropping from 6M SF a year ago to 2.8M SF in Q2 2025. Following this trend, New York, NY, saw a turnaround, improving from -4.7M SF a year ago to nearly 5M SF in 12-month absorption as of June 2025.

Net Absorption 12 Mo in sq. ft



Top 10 areas with the largest 12 Mo Absorption

	2025 Q2	2024 Q2
New York, NY	4.96M	-4.73M
Northwest Arkansas, AR	2.23M	0.50M
Charlotte, NC	1.80M	-1.34M
Kansas City, MO	1.63M	-0.91M
Dallas-Fort Worth, TX	1.46M	0.72M
Miami, FL	1.14M	-0.01M
Houston, TX	1.06M	0.14M
Saint Louis, MO	0.96M	0.90M
Jacksonville, FL	0.79M	-1.65M
Charleston, SC	0.77M	0.02M

Top 10 areas with the lowest 12 Mo Absorption

	2025 Q2	2024 Q2
Washington, DC	-3.52M	-5.06M
Chicago, IL	-3.47M	-4.67M
Los Angeles, CA	-2.86M	-5.99M
Boston, MA	-2.80M	-5.64M
Denver, CO	-2.16M	-1.74M
Seattle, WA	-1.83M	-3.55M
Detroit, MI	-1.80M	-0.13M
Portland, OR	-1.32M	-1.97M
Atlanta, GA	-1.14M	-2.37M
San Jose, CA	-1.11M	-0.14M

Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

Multifamily

Absorption of units in the last 12 months: 530,726 units
Rent growth in the last 12 months: 0.9%
Cap rate: 6.1%

As of June 2025, the multifamily housing market is showing initial signs of stabilization. Net absorption increased by 20% year-over-year, reaching nearly 531,000 units, while the completion of new units decreased by 9%. Units under construction have decreased for two years, now 35% below last year's levels. Although new supply still exceeds demand by 13%, this gap is gradually closing. Vacancy rates have risen to 8.1%, and annual rent growth remains at 0.9%, suggesting that the market is finding its balance.

Despite a 0.8% decrease over the past year, Class A multifamily vacancies remain the highest among all categories, standing at 10.5% as of June 2025, with rent growth remaining minimal at just 0.6%. Conversely, Class B vacancies edged up by 0.3% to reach 9.3%, but exhibited slightly stronger rent growth at 0.7%. Class B also led in demand, with absorption increasing by 22% year-over-year, compared to a 17% rise for Class A. Meanwhile, Class C continues to experience unit vacancies for the 3rd consecutive year.

While national rent growth stays limited at 0.9%, some Sun Belt markets face declines due to oversupply, with rents dropping over 4% in Naples, Fort Myers, Sarasota, FL, and Austin, TX. Conversely, South Bend, IN leads the country with 6.0% rent growth, followed by San Francisco, CA at 5.1%, both significantly above the national average.

Large metros like New York City, Dallas–Fort Worth, Austin, and Atlanta each added more than 20,000 multifamily units in the year through June, demonstrating steady demand and the resilience of the rental market in high-cost urban areas. In contrast, markets such as New Orleans and Youngstown experienced net move-outs, with each vacating over 100 units.

Top 10 areas with the strongest 12-month absorption

	2025 Q2	2024 Q2
New York, NY	29,448	21,129
Dallas-Fort Worth, TX	26,224	19,897
Austin, TX	21,352	12,780
Atlanta, GA	20,684	14,355
Phoenix, AZ	17,784	14,861
Houston, TX	16,579	15,017
Charlotte, NC	14,173	9,058
Seattle, WA	12,722	8,916
Washington, DC	11,672	12,030
Orlando, FL	11,304	10,488

Top 10 areas with steepest 12 Mo rent rises

	2025 Q2	2024 Q2
South Bend, IN	6.04%	2.83%
San Francisco, CA	5.05%	0.79%
Rockford, IL	5.02%	5.62%
Springfield, MO	4.39%	2.62%
Evansville, IN	4.26%	5.88%
Flint, MI	4.20%	2.50%
Rochester, NY	4.18%	4.18%
Lansing, MI	4.16%	2.61%
Shreveport, LA	4.13%	2.82%
Beaumont, TX	4.12%	2.82%

Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

Retail

Net absorption in the last 12 months: -3.9 million sq. ft.
Rent growth in the last 12 months: 2.0%
Cap rate: 7.1%

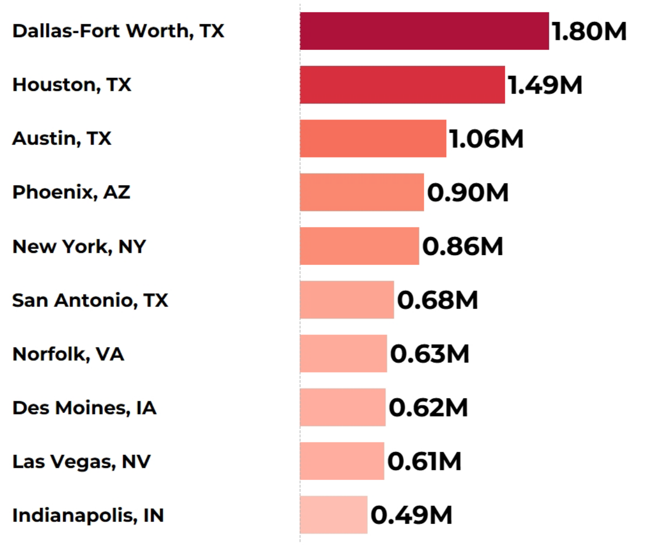
Between 2014 and 2017, retail real estate saw strong absorption before the rise of e-commerce began to reduce demand, a trend accelerated by the pandemic. Over the year ending in June, 12-month net absorption fell from 37.4 million to –3.9 million square feet, and rent growth slowed from 3.3% to 2.0%. Nonetheless, this rent growth is still the fastest among commercial real estate sectors.

In Q2 2025, general retail was the only segment with positive net absorption, while all others saw negative results. Neighborhood centers had a 12-month absorption of -11.5M SF, down from 6.0M SF last year. Malls vacated 4.2M SF but offset this by removing 4.0M SF from inventory, keeping their vacancy rate steady at 8.6%.

The retail vacancy rate rose for the second time in 2025, now at 4.3%, following over two years of stability, as 24 million square feet of new space entered the market and negative absorption affected demand.

General Retail maintains the lowest vacancy rate at 2.6%. Meanwhile, Neighborhood Centers and Power Centers recorded the highest rent growth, at 2.7% and 2.6%, respectively.

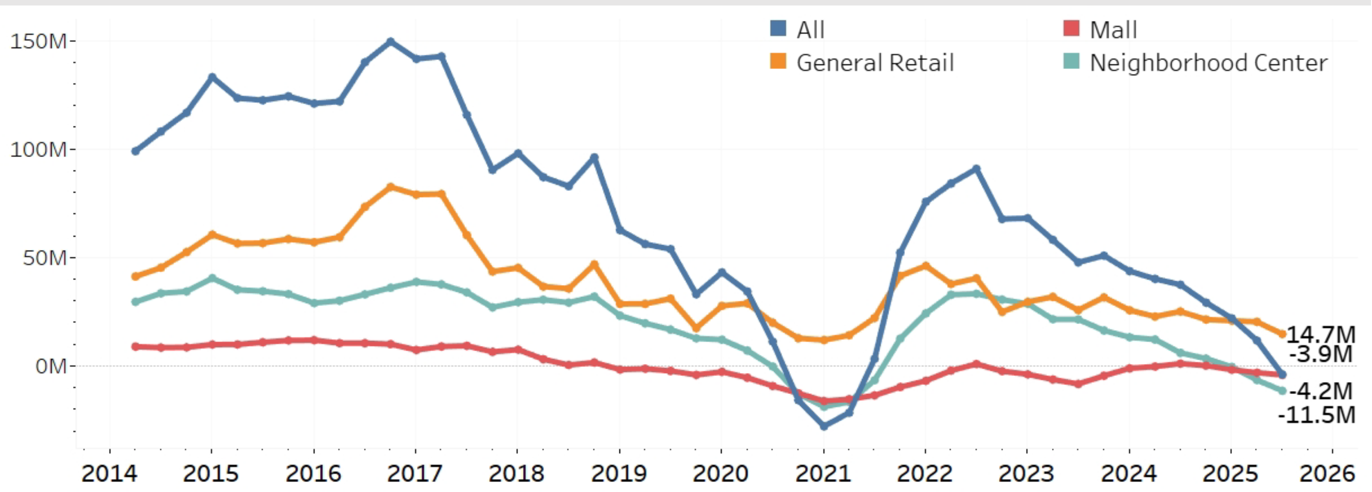
Top 10 areas with the strongest net absorption in the last 12 months



In Q2 2025, Raleigh, TN saw the highest rent increase at 6.5%, followed by Orlando, FL at 5.9% year-over-year, while Los Angeles, CA and Inland Empire, CA experienced rent drops of over 4.0%.

Dallas–Fort Worth, Houston, and Austin, TX led retail absorption, each exceeding 1 million square feet. Conversely, Detroit, MI, and Los Angeles, CA vacated 2.3 and 2.2 million square feet, respectively, due to socio-economic decline and urban exodus.

Net Absorption 12 Mo by type (Q1 2014 – Q2 2025)



Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

Industrial

Net absorption in the last 12 months: 79.7 million sq. ft.
Rent growth in the last 12 months: 1.7%
Cap rate: 7.3%

After a strong 2022, the industrial sector is now slowing due to oversupply. From Q2 2024 to Q2 2025, net absorption fell 39% to a decade-low of 79.7M SF. New completions exceeded demand by a ratio of 4 to 1, raising the vacancy rate by 0.9 percentage points to 7.4%. Rent growth has slowed to 1.7%, with retail overtaking the industrial sector for the highest rent growth among the CRE sectors.

Logistics properties continued to drive industrial demand, adding 71.4M SF over the year ending in June. Specialized facilities followed, increasing by 13.9M SF, a 210% year-over-year rise. In contrast, Flex space experienced a net loss, with 5.3M SF vacated. Rent growth decelerated across all industrial categories, with Logistics and Specialized seeing the largest drops, down 4.1% and 3.2% year-over-year to 1.7% and 1.8%, respectively. Flex rents decreased by 2.3%, settling at 1.4%.

In June, Dallas-Fort Worth, TX, and Savannah, GA topped absorption charts, each taking in over 20M SF over 12 months. Savannah's recent surge, usually driven by logistics, was notably due to specialized spaces this time, soaring from merely 80,000 SF last year to 13.9M SF year-over-year by Q2 2025. Conversely, Los Angeles vacated 6.2M SF of industrial space over the past year, an improvement from the 11.5M SF vacated the previous year.

June saw significant rent movements across different metros. Dayton, OH, led with a 7.8% increase, trailed by Nashville, TN, at 6.5%. On the downside, Los Angeles, CA recorded the largest drop at 5.3%, while rents in the Inland Empire, CA fell 4.2%. Charleston, SC, reported the highest vacancy rate at 15.7%. Meanwhile, Anchorage, AK, had the lowest vacancy rate at just 0.5%, highlighting persistent regional imbalances in the rental market.

Top 10 areas with the strongest 12 Mo absorption

	2025 Q2	2024 Q2
Dallas-Fort Worth, TX	24.53M	26.51M
Savannah, GA	21.62M	8.25M
Houston, TX	14.34M	21.53M
Phoenix, AZ	12.31M	15.20M
Kansas City, MO	9.47M	3.04M
Washington, DC	5.59M	4.98M
Austin, TX	4.21M	7.74M
Chicago, IL	4.20M	9.24M
Saint Louis, MO	4.07M	0.45M
Providence, RI	4.04M	0.94M

Top 10 areas with the weakest 12 Mo absorption

	2025 Q2	2024 Q2
Los Angeles, CA	-6.16M	-11.52M
Memphis, TN	-5.75M	-2.05M
Milwaukee, WI	-4.49M	1.00M
Baltimore, MD	-3.77M	-0.93M
Detroit, MI	-3.65M	2.75M
Boston, MA	-3.26M	0.54M
Miami, FL	-2.33M	1.98M
San Diego, CA	-2.24M	-2.38M
Montgomery, AL	-2.16M	-0.52M
Fort Lauderdale, FL	-1.81M	-0.44M

Source: NAR analysis of CoStar data

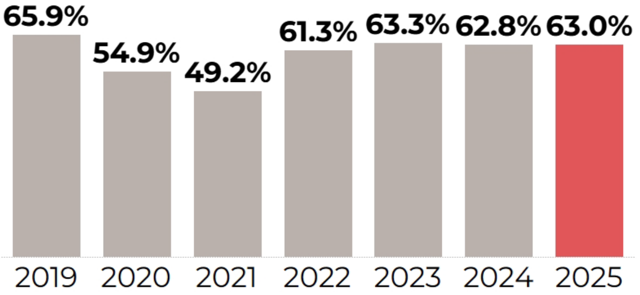
NATIONAL ASSOCIATION OF REALTORS®

Hotel

Occupancy rate in the last 12 months: 63.0%
Average daily rate in the last 12 months: $160/room
Revenue per available room in the last 12 months: $101/room

The hospitality industry remains stable in Q2 2025. Hotel occupancy stands at 63.0%, still 2.9% below pre-pandemic figures, primarily due to ongoing remote work patterns and reduced corporate travel affecting urban markets. Even so, both average daily rates and revenue per available room have exceeded pre-pandemic levels, indicating a strong recovery in profitability.

12-month Occupancy Rate in June



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

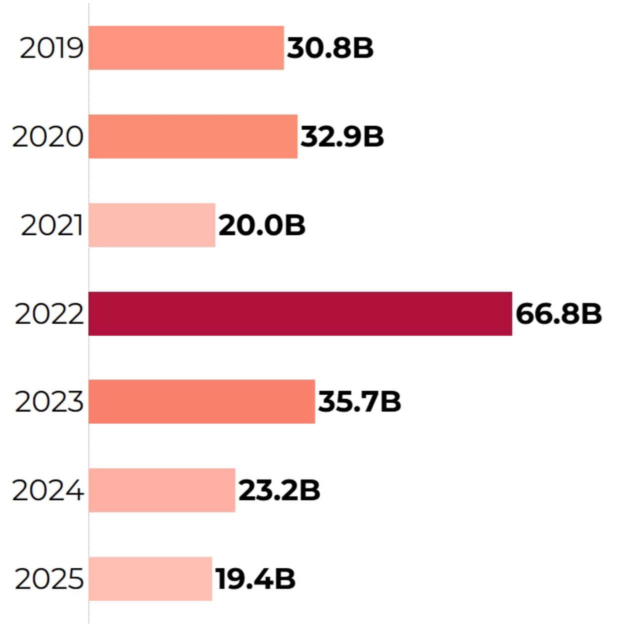
12-month ADR and RevPAR in June

	Average daily rate	Revenue per available room
2019	$131	$86
2020	$123	$68
2021	$105	$52
2022	$141	$86
2023	$154	$97
2024	$158	$99
2025	$160	$101

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

Hotel transaction activity eased over the past year, with 12-month sales volume falling to $19.4 billion in June 2025 from $23.2 billion a year earlier, reflecting caution among investors as higher financing costs and economic uncertainty curb buying activity, despite solid operating fundamentals.

12-month Sales Volume as of June



Source: NAR analysis of CoStar data

At the metro level, Kauai Island, Hawaii, continues to post robust hospitality metrics, with ADR and RevPAR up 56% and 58%, respectively, from pre-pandemic benchmarks. Occupancy holds steady at 70%, underscoring strong visitor demand. Maui Island leads the nation with the highest ADR at $551 and top RevPAR at $387, while New York City claims the highest occupancy at 85%, supported by resilient business and leisure travel.

In contrast, markets such as Texas West and San Francisco/San Mateo, CA, remain well below pre-pandemic performance, with RevPAR down 30% and 28%, respectively, pointing to a slower recovery trajectory.

COMMERCIAL REAL ESTATE REPORT
July 2025

LAWRENCE YUN, PhD
Chief Economist & Senior Vice President for Research

MEREDITH DUNN
Research Manager

NADIA EVANGELOU
Senior Economist, Director of Real Estate Research

OLEH SOROKIN
Data Analyst, Commercial Real Estate

Download report at https://www.nar.realtor/commercial-market-insights

Download other NAR Commercial reports at Commercial Research

For question about this report or reprint information, contact data@nar.realtor.

NATIONAL ASSOCIATION OF REALTORS®

NATIONAL ASSOCIATION OF REALTORS®

About the National Association of Realtors®

As America's largest trade association, the National Association of Realtors® is involved in all aspects of residential and commercial real estate. The term Realtor® is a registered collective membership mark that identifies a real estate professional who is a member of the National Association of Realtors® and subscribes to its strict Code of Ethics. For free consumer guides about navigating the homebuying and selling transaction processes – from written buyer agreements to negotiating compensation – visit facts.realtor.

NATIONAL ASSOCIATION OF REALTORS®
RESEARCH GROUP

The mission of the NATIONAL ASSOCIATION OF REALTORS® Research Group is to produce timely, data-driven market analysis and authoritative business intelligence to serve members, and inform consumers, policymakers and the media in a professional and accessible manner.

To find out about other products from NAR's Research Group, visit
www.nar.realtor/research-and-statistics

500 New Jersey Avenue, NW
Washington, DC 20001
202.383.1000

For questions about this report or reprint information, contact data@realtors.org.

NATIONAL ASSOCIATION OF REALTORS®