Commercial Real Estate Market Insights Report

August 2025

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Commercial Real Estate

An Overview

In July 2025, the Federal Reserve held its benchmark rate at 4.5% for the fifth consecutive meeting, holding steady after last year's cuts. Inflation was virtually unchanged at 2.7%, remaining above the Fed's 2% goal. Job growth weakened, with payrolls up just 73,000 after sharp downward revisions in May and June, while unemployment edged up to 4.2%. The economy, however, showed some resilience, with GDP rebounding 3% in Q2, driven by stronger consumer spending and lower imports. With the labor market cooling, the Federal Reserve is anticipated to cut the rates as soon as September, eventually easing borrowing costs in the commercial real estate market.

Under this economic environment, **office** absorption declined again in July. Losses, however, were far milder than last year, with vacancies stuck at record highs and rent growth remaining subdued. The **multifamily** market continued to stabilize, with absorption holding steady while new deliveries outpacing demand, but with the gap slowly narrowing. Even so, vacancies continued to increase in this sector as supply pressures persisted. **Retail** demand weakened further, with absorption turning sharply negative and vacancy rising to 4.3%, even as it retained the fastest rent growth among major sectors. **Industrial** momentum also cooled further, with absorption falling to a decade low, vacancy climbing to 7.5%, and rent gains slowing in line with oversupply.

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

After nearly turning positive in early 2025, **office** absorption slipped back into negative territory in the second quarter and has remained there through July – this time at a much milder pace than last year's steep losses. Vacancy held steady at 14.1%, while landlord concessions continued to keep rent growth subdued at 0.7%. Class A properties managed another quarter of positive absorption, but conditions in Class B offices weakened further, even as rents held up better than average. Class C space remained under pressure, facing continued tenant losses and rising vacancy.

As of July 2025, the **multifamily** market shows continued signs of stabilization, with net absorption steady at 512,000 units and new completions down 16%. Vacancy edged up to 8.1% as supply still outpaces demand, though the gap is narrowing. Rent growth held at 1.0%, with Class B properties capturing stronger demand, while Class A maintained the highest vacancies and Class C continued to vacate units despite firmer rent gains. Oversupply weighed on several Sun Belt metros, while San Francisco, CA, and South Bend, IN, posted the strongest rent growth in the nation.

Retail demand has softened over the past year, with 12-month net absorption dropping from 29.4 million to –10.9 million square feet, while rent growth slowed to 1.8% yet remained the strongest among major CRE sectors. Vacancy edged up to 4.3% in July but remained the lowest of all major sectors. General retail remained the sector's bright spot with positive absorption and the lowest vacancy, while neighborhood centers and malls were the weakest performers. Power centers and neighborhood centers continued to show relative strength on the rent side, underscoring the resilience of well-located and necessity-driven retail formats.

The **industrial** sector's momentum has cooled, with oversupply and weaker demand driving a 54% year-over-year drop in net absorption to a decade-low 60.5M SF. New completions outpaced demand by 4 to 1, pushing vacancy up to 7.5%. Rent growth slowed to 1.7%, underscoring the sector's loss of momentum. Logistics properties remained the main source of demand, supported by a surge in specialized facilities, while flex space continued to shed tenants.

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An Overview

As of July 2025, the hospitality sector remains stable, with occupancy at 62.9%, still 3.1% below pre-pandemic levels due to persistent remote work and weaker corporate travel in urban markets. Even so, ADR and RevPAR have surpassed 2019 benchmarks, up 22% and 17%, respectively, supporting profitability. Transaction activity has slowed as higher financing costs and economic uncertainty temper investor appetite despite solid fundamentals. Performance is uneven across markets: leisure-driven destinations such as Hawaii continue to post record highs, while urban areas like San Francisco and parts of Texas remain well below pre-pandemic norms.

Economy

Job growth (July 2025 compared to March 2020): 5.7%
Inflation (July 2025): 2.7%
Gross Domestic Product (GDP) Q2 2025(Advanced estimate): 3.0%

In July 2025, the Federal Reserve kept interest rates steady at 4.5% for the fifth consecutive meeting, with inflation holding at 2.7%. Employment gains weakened, with payrolls rising by just 73,000 following downward revisions to prior months, while the unemployment rate edged up to 4.2%. These developments highlight the Fed's challenge of containing inflation while the labor market shows clearer signs of cooling.

Job Growth Slows Down After Major Revisions

Job growth in prior months was weaker than first reported, with May payrolls revised down to 19,000 and June to 14,000. In July, nonfarm payrolls increased by 73,000, continuing the pattern of little change since April. The unemployment rate held at 4.2%, staying within its narrow range of the past year.

Total job positions rose to 159.5 million in July. Over the past year, the economy added about 1.5 million jobs, and since March 2020, more than 8.6 million have been created.

Number of Jobs

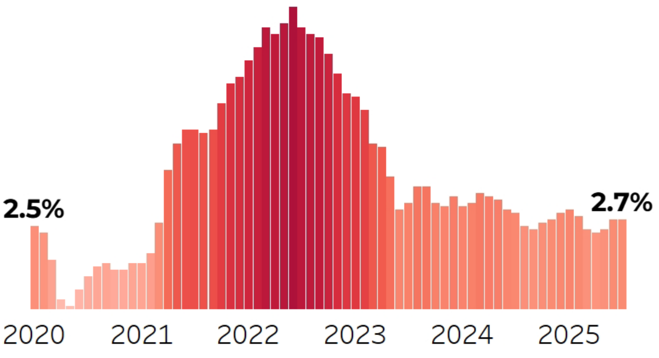
March 2020	**150.9 million**
July 2024	**158.0 million**
July 2025	**159.5 million**

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

Inflation Holds at 2.7% in July

Headline inflation was unchanged in July, remaining at 2.7%. While price growth has stabilized, private-sector data suggests rent increases, accounting for 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 inflation steady at 2.7% and still above the Fed's 2% goal, the central bank kept its policy rate unchanged at 4.5% in July 2025, extending its streak to five consecutive holds after three cuts in late 2024. Markets anticipate at least two cuts by year-end, beginning as early as September, which would bring rates below 4%. Even modest easing could provide relief to borrowing costs, offering some support to 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.

Commercial Real Estate Lending

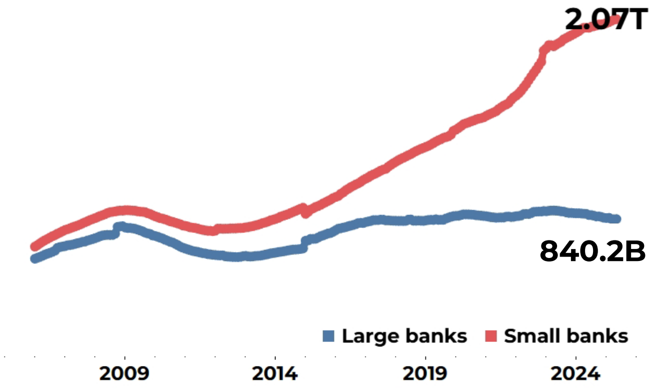
CRE loans (July 2025): $3.03 trillion
Delinquency rate of CRE loans (Q2 2025): 1.57%

CRE debt remained at $3 trillion in July

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

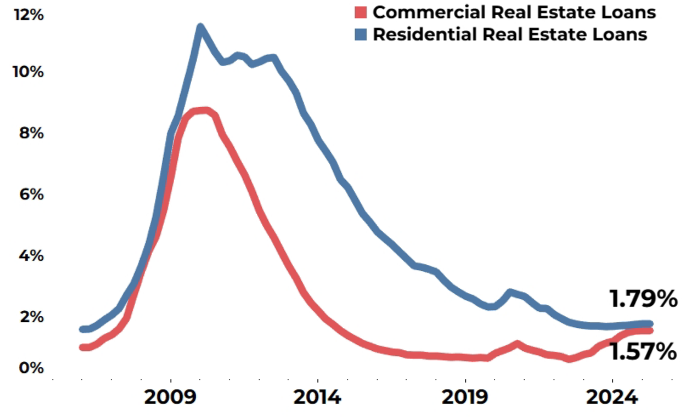
By bank size, large U.S. banks continued to scale back their CRE loan holdings, falling to $840.2 billion from $865.0 billion a year earlier. Meanwhile, smaller domestic banks grew their CRE portfolios, with balances up 2.6% year-over-year.

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



Source Federal Reserve

Delinquency rates Commercial vs Residential loans (Q2 2025)



Source Federal Reserve

CRE delinquency held steady in Q2 2025

Federal Reserve data shows that commercial real estate loan delinquencies held at 1.57% in Q2 2025, still about 0.2 percentage points below residential loan delinquency rates. But this marked the first time in two years that commercial real estate delinquency rates stopped rising. This suggests that pressure on CRE loans may be starting to ease. Still, the gap between commercial and residential delinquencies remains wider than in the past decade. Commercial delinquencies have typically hovered around 1%, compared with residential rates averaging closer to 3%.

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Office

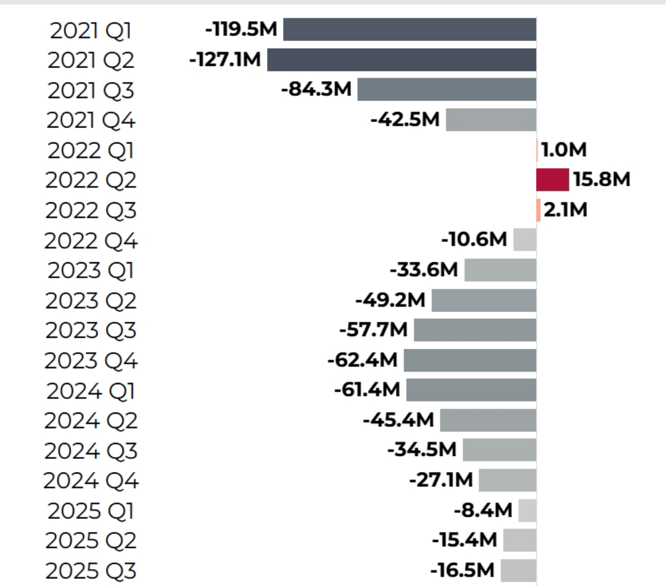
Net absorption in the last 12 months: -16.5 million sq. ft.
Rent growth in the last 12 months: 0.7%
Cap rate: 9.0%

After a string of negative absorption leading into 2025, the office market nearly crossed into positive territory in Q1, but momentum quickly faded as 12-month absorption declined again in Q2 and Q3, ending July 2025 at -16.5 million square feet, though at a much milder pace than last year's declines. Vacancy is holding at 14.1%, while landlords continue to offer competitive terms that are keeping rent growth subdued at 0.7% year-over-year.

The Class A office sector saw its vacancy rate decline to 20.0% and achieved positive 12-month absorption for the third straight quarter in July 2025. By contrast, Class B vacancy edged up to 12.3% as the sector lost 13.9 million square feet over the year in absorption, though rents still advanced 1.2%, outpacing the national average. Meanwhile, Class C offices continued to post negative absorption, lifting vacancy to 5.4%.

Washington, DC, Chicago, IL, and Boston, MA recorded the steepest reductions in office occupancy, each vacating more than 3 million square feet. In Los Angeles, outflows eased sharply, falling from 5.5 million square feet a year ago to 2.4 million in Q3 2025.

Net Absorption 12 Mo in sq. ft



Top 10 areas with the largest 12 Mo Absorption

	2025 Q3	2024 Q3
New York, NY	1.98M	-1.95M
Northwest Arkansas, AR	1.97M	0.79M
Kansas City, MO	1.63M	-0.40M
Dallas-Fort Worth, TX	1.19M	0.59M
Charlotte, NC	0.99M	-1.13M
San Francisco, CA	0.91M	-4.15M
Austin, TX	0.91M	1.23M
Phoenix, AZ	0.81M	-2.31M
Greensboro, NC	0.76M	0.03M
Saint Louis, MO	0.70M	0.47M

Top 10 areas with the lowest 12 Mo Absorption

	2025 Q3	2024 Q3
Washington, DC	-3.62M	-5.57M
Chicago, IL	-3.30M	-2.86M
Boston, MA	-3.10M	-5.79M
Denver, CO	-2.49M	-0.80M
Los Angeles, CA	-2.41M	-5.51M
Detroit, MI	-2.03M	0.25M
Seattle, WA	-1.72M	-2.92M
Portland, OR	-1.39M	-1.52M
Fort Lauderdale, FL	-1.00M	0.63M
Philadelphia, PA	-0.95M	0.30M

Source: NAR analysis of CoStar data

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Multifamily

Absorption of units in the last 12 months: 511,590 units
Rent growth in the last 12 months: 1.0%
Cap rate: 6.1%

As of July 2025, the multifamily housing market is showing initial signs of stabilization. Net absorption remained steady at 511,590 units, while the completion of new units decreased by 16%. Units under construction have decreased for two years, now 31% below last year's levels. Although new supply still exceeds demand by 14%, this gap is gradually closing. Vacancy rose to 8.1%, but with rent growth still positive at 1.0% and demand gradually catching up to supply, this pressure is likely to be temporary.

Class A multifamily vacancies remain the highest across all categories at 10.2% as of July 2025, even after a 1.1% decline over the past year. On the other hand, Class B vacancies inched up 0.2% to 9.4%, with both A and B registering rent growth of 0.8%. Year-over-year absorption was stable in both segments, though Class B leased 34% more units, underscoring stronger demand in the mid-tier market. Class C, meanwhile, has seen vacancies persist for the fourth straight year but continues to post higher 12-month rent growth of 1.6%.

National rent growth remains subdued at 1.0%, but oversupply is driving sharper declines in several Sun Belt markets, where rents have fallen more than 4% in Naples, Fort Myers, Sarasota, FL, and Austin, TX. In contrast, San Francisco leads the nation with 6.1% growth, followed by South Bend, IN, at 5.5%, both well above the national average.

Major metros, including New York City, Dallas–Fort Worth, Austin, and Atlanta, delivered more than 20,000 new multifamily units in the year through July, reflecting steady demand and the durability of rental housing in high-cost urban markets. By contrast, smaller markets such as New Orleans, LA, and Clarksville, TN, posted net move-outs, each shedding more than 100 units.

Top 10 areas with the strongest 12-month absorption

	2025 Q3	2024 Q3
New York, NY	27,992	23,986
Dallas-Fort Worth, TX	26,797	23,851
Austin, TX	22,267	17,074
Atlanta, GA	21,498	17,326
Phoenix, AZ	16,953	17,534
Houston, TX	16,744	16,708
Charlotte, NC	14,810	11,105
Seattle, WA	13,195	10,631
Washington, DC	10,977	13,015
Orlando, FL	10,537	12,705

Top 10 areas with steepest 12 Mo rent rises

	2025 Q3	2024 Q3
San Francisco, CA	6.09%	1.69%
South Bend, IN	5.46%	5.77%
Rockford, IL	4.98%	5.34%
Rochester, NY	4.19%	4.32%
Beaumont, TX	4.19%	3.16%
Youngstown, OH	4.12%	5.39%
Lansing, MI	4.03%	3.61%
Chicago, IL	4.01%	2.47%
Augusta, GA	3.98%	0.97%
Harrisburg, PA	3.96%	3.36%

Source: NAR analysis of CoStar data

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Retail

Net absorption in the last 12 months: -10.9 million sq. ft.
Rent growth in the last 12 months: 1.8%
Cap rate: 7.2%

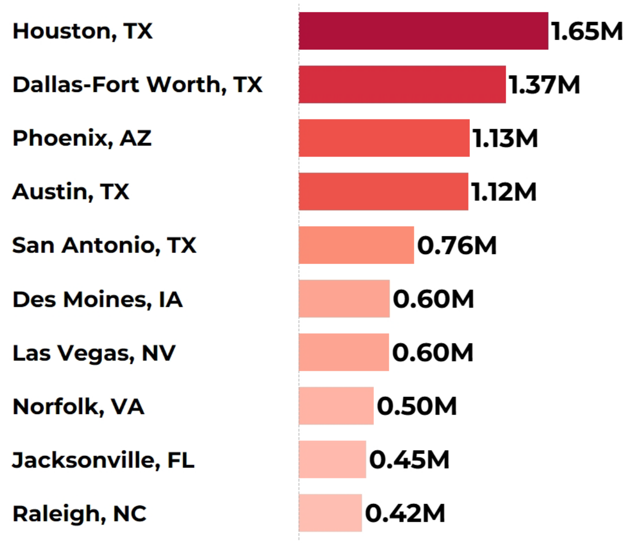
Between 2014 and 2017, retail real estate posted strong absorption before the rise of e-commerce began to curb demand, a shift later accelerated by the pandemic. Over the year ending in July, 12-month net absorption fell from 29.4M to -10.9M SF, while rent growth slowed from 3.1% to 1.8%. Still, retail maintains the fastest rent gains among all commercial property sectors.

General retail was the only category to post positive net absorption, as all other segments recorded losses. Neighborhood centers posted 12-month absorption of –13.3M SF, compared with 3.0M a year earlier. Malls gave back 5.1M SF but offset part of that by removing 3.8M from inventory, pushing their vacancy rate up to 8.9%.

After more than two years of stability, the retail vacancy rate increased for the second time in 2025, reaching 4.3%, as 24.3 million square feet of new supply entered the market and negative absorption weighed on demand.

General retail continues to hold the lowest vacancy rate at 2.7%, reflecting its strength in the market. Meanwhile, neighborhood centers and power centers recorded the strongest rent growth, at 2.4% and 2.2%.

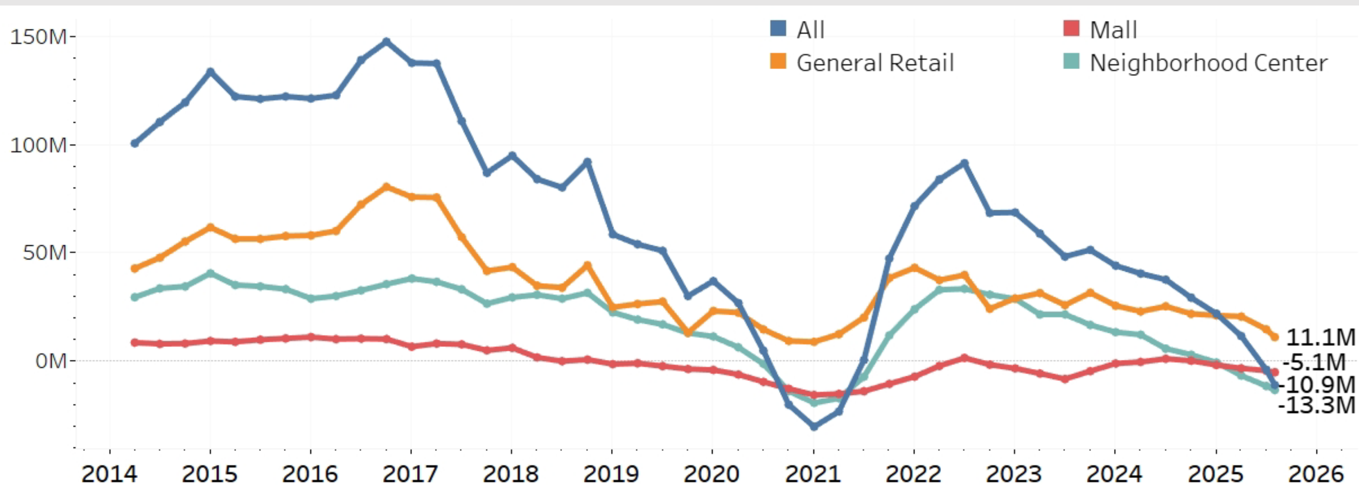
Top 10 areas with the strongest net absorption in the last 12 months



In July, Raleigh, TN, posted the strongest 12-month rent growth at 7.1%, followed by Omaha, NE, at 5.5%, while Pittsburgh, PA, saw rents decline by more than 4.5%.

Houston, Dallas–Fort Worth, Austin, TX, and Phoenix, AZ led the nation in retail absorption, with each market adding over 1 million square feet. In contrast, Los Angeles, CA, lost 2.1 million square feet of retail space amid ongoing socio-economic challenges and population outflow.

Net Absorption 12 Mo by type (Q1 2014 – Q3 2025)



Source: NAR analysis of CoStar data

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Industrial

Net absorption in the last 12 months: 60.5 million sq. ft.
Rent growth in the last 12 months: 1.7%
Cap rate: 7.2%

Following a robust 2022, the industrial sector has slowed under the weight of oversupply and softer demand. Between July 2024 and July 2025, net absorption dropped 54% to a decade low of 60.5 million square feet. New deliveries outpaced demand by a ratio of 4 to 1, pushing vacancy up 0.9 percentage points to 7.5%. Rent growth eased to 1.7%, underscoring the sector's cooling momentum.

Logistics properties remained the main source of industrial demand, contributing 60.9 million square feet in the year through July. Specialized facilities added another 6.6 million square feet, while flex space moved in the opposite direction, with 6.4 million square feet vacated. Rent growth slowed across all industrial types, with logistics and specialized facilities posting the sharpest declines, down 3.1% and 2.9% year-over-year to 1.7% and 1.6%. Flex rents also fell 1.9% to 1.5%.

In July, Dallas–Fort Worth, TX, and Savannah, GA, led the nation in absorption, adding 20.4 million and 19.5 million square feet over the past 12 months. Savannah's surge, typically fueled by logistics, was driven this time by specialized facilities, which jumped from just 1.9 million square feet a year ago to 12.7 million square feet absorbed over a year ending in July 2025, nearly doubling the city's specialized inventory. In contrast, Memphis, TN, and Baltimore, MD each vacated more than 5 million square feet of industrial space.

Rent trends diverged sharply across U.S. metros in July. Dayton, OH, posted the strongest growth at 9.1%, followed by Charlotte, NC, at 6.1%. In contrast, Los Angeles, CA saw the steepest decline at 5.0%, with the Inland Empire, CA down 3.3%. Charleston, SC, registered the highest vacancy rate at 16.4%, while Anchorage, AK, held the lowest at just 0.7%, underscoring the wide regional disparities in the rental market.

Top 10 areas with the strongest 12 Mo absorption

	2025 Q3	2024 Q3
Dallas-Fort Worth, TX	20.35M	24.27M
Savannah, GA	19.47M	10.93M
Phoenix, AZ	13.40M	13.95M
Houston, TX	12.67M	21.33M
Kansas City, MO	7.44M	3.22M
Columbus, OH	6.51M	0.54M
Washington, DC	5.65M	4.99M
Austin, TX	4.23M	7.70M
Spartanburg, SC	4.15M	1.87M
Charlotte, NC	4.01M	-0.38M

Top 10 areas with the weakest 12 Mo absorption

	2025 Q3	2024 Q3
Memphis, TN	-5.18M	-0.80M
Baltimore, MD	-5.02M	-0.25M
Los Angeles, CA	-4.91M	-12.43M
Milwaukee, WI	-4.51M	-0.20M
Detroit, MI	-3.56M	-0.23M
Atlanta, GA	-3.48M	8.60M
Stockton, CA	-2.96M	2.23M
Boston, MA	-2.92M	-1.26M
Lehigh Valley, PA	-2.75M	-0.52M
San Diego, CA	-2.36M	-1.77M

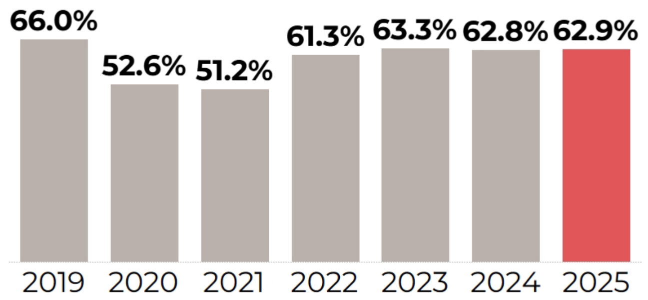
Source: NAR analysis of CoStar data

Hotel

Occupancy rate in the last 12 months: 63.0%
Average daily rate in the last 12 months: $161/room
Revenue per available room in the last 12 months: $101/room

The hospitality industry remains stable in July 2025. Hotel occupancy stands at 62.9%, still 3.1% 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 July



The average daily rate (ADR) for hotel rooms hit $161, up 22% from July 2019. Meanwhile, revenue per available room (RevPAR) rose to $101, representing a 17% increase over the same period.

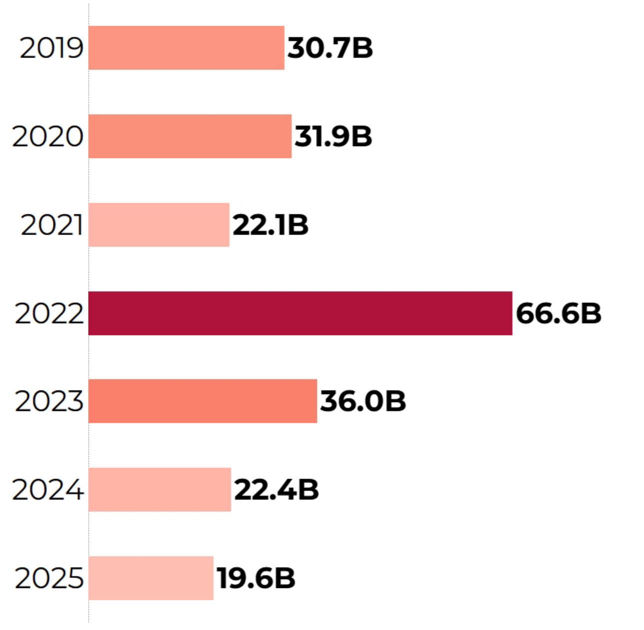
12-month ADR and RevPAR in July

	Average daily rate	Revenue per available room
2019	$132	$87
2020	$121	$64
2021	$110	$57
2022	$143	$88
2023	$155	$98
2024	$159	$100
2025	$161	$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 $19.6 billion in July 2025 from $22.4 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 July



Source: NAR analysis of CoStar data

At the metro level, Kauai Island, Hawaii, continues to post robust hospitality metrics, with ADR and RevPAR up 57% and 59%, respectively, from pre-pandemic benchmarks. Occupancy holds steady at 72%, underscoring strong visitor demand. Maui Island leads the nation with the highest ADR at $550 and top RevPAR at $292, while New York City claims the highest occupancy at 86%, 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 29% and 27%, respectively, pointing to a slower recovery trajectory.

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