

Commercial Real Estate Market Insights Report **September 2025**

National Association of REALTORS®
Research Group



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Commercial Real Estate

An Overview

In August, the economy showed mixed signals as markets looked ahead to the Federal Reserve's widely expected rate cut in September. Job creation slowed, reinforcing the case for policy easing, while inflation ticked up to 2.9%, remaining above the Fed's target. At the same time, overall economic growth remained solid. Despite this resilience, rising concerns about labor market softness have given the Fed additional room to cut rates in September and potentially twice more before year-end.

Interest rates remained elevated, and the commercial real estate market remained soft in August, though conditions varied by sector. The office market continued to post negative demand, but losses have eased compared to past years, keeping vacancy rates steady. The multifamily sector showed steady absorption and gradual stabilization, though oversupply kept vacancy elevated and rent growth subdued. Retail softened as new supply added pressure, yet it still posted the fastest rent gains, driven by general retail. Industrial cooled further as completions far outpaced demand, pushing vacancy higher and slowing rents across property types.

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

The **office** market continues to record negative absorption, but recent losses are relatively modest compared to the steep declines of prior years. Vacancy is holding at 14.1%, and rent growth remains subdued at 0.9% year-over-year as landlords rely on concessions to secure tenants. Class A space remains the main source of demand, while Class B is under more pressure despite slightly stronger rent growth. Class C properties continue to struggle with tenant losses and rising vacancy.

As of August 2025, the **multifamily** market continues to stabilize, with absorption steady at about 506,000 units and new completions down 18%. The sector is still working through past oversupply, with new supply still outpacing demand. As a result, vacancy edged up to 8.2% and rent growth eased to 0.9% year-over-year. By class, Class A properties continue to carry the highest vacancies but have posted modest rent gains, while Class B properties have seen stronger leasing activity but weaker pricing power. Class C remains under strain with ongoing tenant losses, though it continues to deliver the strongest rent gains.

The **retail** sector remains under pressure as e-commerce and the pandemic's lasting effects continue to weigh on demand. Over the past year, absorption turned negative, and vacancy edged up to 4.3%. However, rent growth in retail spaces remains the highest among CRE sectors. General retail was the only category to post positive absorption and continues to hold the lowest vacancy, while neighborhood centers saw a sharp reversal, and malls recorded further losses despite trimming inventory.

The **industrial** sector has slowed significantly, with absorption dropping to a decade low as demand softened and new completions far outpaced leasing. Vacancy rose to 7.5%, while rent growth eased to 1.6%, extending the sector's cooling trend. Logistics remained the main driver of demand, supported by specialized facilities, while flex space continued to lose tenants. Rents declined across all property types, with logistics and specialized facilities seeing the steepest drops.

Hospitality performance held steady in August 2025, with occupancy at 62.8%, still 3.2% below pre-pandemic levels due to remote work and softer corporate travel in urban markets. ADR and RevPAR have both surpassed 2019 benchmarks, rising 22% and 16% and supporting profitability. Investment activity has slowed as higher financing costs and economic uncertainty weigh on transactions despite solid fundamentals. Leisure destinations such as Hawaii continue to post record highs, while urban areas, including San Francisco and parts of Texas, remain well below pre-pandemic norms.

Economy

Job growth (August 2025 compared to March 2020): 5.7%

Inflation (August 2025): 2.9%

Gross Domestic Product (GDP) Q2 2025(second estimate): 3.3%

U.S. job growth stayed weak in August, with payrolls up just 22,000 and unemployment edging to 4.3%, as health care gains were partially offset by losses in government and energy. Headline inflation rose to 2.9%, while QCEW revisions revealed fewer jobs than previously estimated in the year ending March 2025. With pressure mounting, the Fed is now widely expected to deliver a rate cut at its September meeting despite stubborn inflation.

Job Growth Slows Down After Major Revisions

Following the April–June downward revisions, in August, the economy added 22,000 jobs, and the unemployment rate inched up to 4.3%, but remained within its narrow range over the past year.

Total job positions held at 159.5 million in August. Over the past year, the economy added about 1.4 million jobs, and since March 2020, more than 8.6 million have been created.

However, QCEW annual revision estimates suggest that actual job levels are about 911,000 lower than previously reported.

Number of Jobs

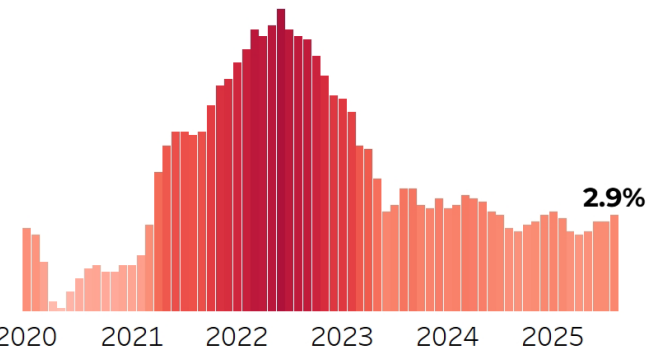
March 2020	150.9 million
August 2024	158.1 million
August 2025	159.5 million

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

Inflation Increased to 2.9% in August

Inflation rose to 2.9% in August. While price growth has steadied, private data suggests slowing rents, which make up about 40% of CPI, could ease inflation pressures in the months ahead.

Inflation



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

Markets Bet on Fed Easing

Despite inflation rising to 2.9% and remaining above the Fed's 2% goal, the Federal Reserve is widely expected to cut rates at its September meeting, ending a streak of five consecutive holds this year. Moreover, markets are now betting on a high chance of a third cut before year-end as weak jobs data underscores the strain on the economy. And while mortgage rates do not directly track Fed moves and may take time to ease, even a modest decline could lower borrowing costs and provide some support for investment activity in the commercial real estate sector.

Economy Expands in 2nd Quarter

The second estimate shows U.S. real GDP rising 3.3% in Q2 2025, up from the initial 3.0% reading and rebounding from a 0.5% decline in the first quarter. Growth was supported by stronger consumer spending and fewer imports, though weaker business investment tempered the overall pace. Softer price growth during the quarter provided some relief, suggesting cost pressures eased slightly. The upward revision points to a more resilient economy than initially reported, even as investment weakness signals caution about the momentum's strength going forward.

Commercial Real Estate Lending

CRE loans (August 2025): \$3.03 trillion

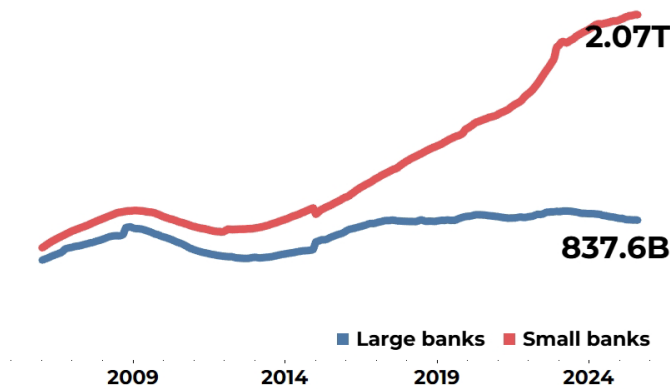
Delinquency rate of CRE loans (Q2 2025): 1.57%

CRE debt stayed at \$3 trillion in August

In August, total commercial real estate debt held steady at \$3 trillion, as the Fed's steady policy on interest rates kept financing conditions largely stable. Looking ahead, markets anticipate a cut in the coming months, which could ease borrowing costs and boost CRE investment.

By bank size, large U.S. banks continued to scale back their CRE loan holdings, falling to \$837.6 billion from \$861.7 billion a year earlier. Meanwhile, smaller domestic banks grew their CRE portfolios, with balances up 2.4% year over year.

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

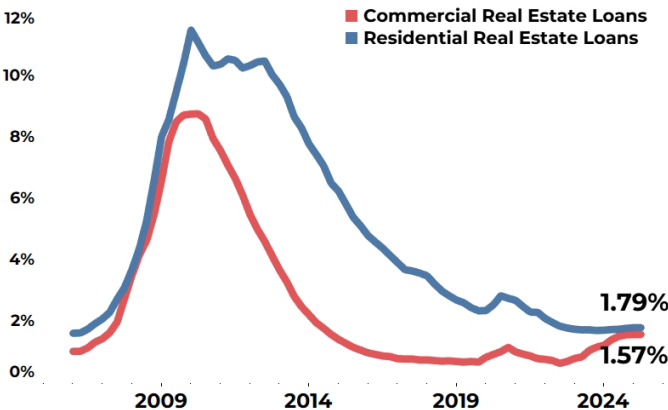


Source Federal Reserve

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. Although commercial delinquencies have historically hovered near 1% over the past decade, residential delinquencies have 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 (Q2 2025)



Source Federal Reserve

Office

Net absorption in the last 12 months: -12.0 million sq. ft.

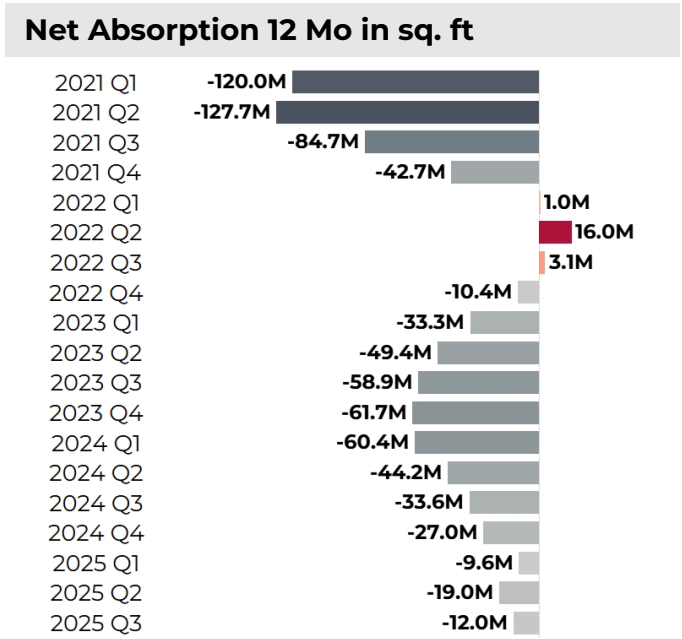
Rent growth in the last 12 months: 0.9%

Cap rate: 9.0%

The office market is still posting negative absorption, but losses have narrowed considerably. After declines of more than 60 million square feet in 2023, absorption declined by a much milder 12 million square feet in the year ending August 2025, marking a steadier trend rather than a rebound. Vacancy is holding at 14.1%, while landlords continue to offer concessions, keeping rent growth modest at 0.9% year-over-year.

Class A remains the cornerstone of absorption in the office sector, with 10.2M SF absorbed, though it still carries the highest vacancy rate at 20.3%. By contrast, Class B vacated 15.8M SF but maintains a more modest vacancy rate of 12.3%, and its rents grew 1.2%, outpacing the national average. Meanwhile, Class C offices continued to post negative absorption, vacating 6.1M SF in the year ending in August, which lifted 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 5.7 million square feet a year ago to 2.3 million in August 2025.



Top 10 areas with the largest 12 Mo Absorption		
	2025 Q3	2024 Q3
New York, NY	5.25M	-1.87M
Northwest Arkansas, AR	1.97M	0.79M
Dallas-Fort Worth, TX	1.88M	0.62M
Kansas City, MO	1.56M	-0.39M
Phoenix, AZ	1.46M	-2.29M
Charlotte, NC	1.07M	-1.17M
San Francisco, CA	0.80M	-4.17M
Austin, TX	0.68M	1.27M
Greensboro, NC	0.68M	0.03M
Provo, UT	0.63M	0.33M

Top 10 areas with the lowest 12 Mo Absorption		
	2025 Q3	2024 Q3
Washington, DC	-4.04M	-5.48M
Chicago, IL	-3.77M	-2.85M
Boston, MA	-3.27M	-5.68M
Denver, CO	-2.63M	-0.82M
Los Angeles, CA	-2.26M	-4.95M
Seattle, WA	-1.78M	-2.86M
Detroit, MI	-1.44M	0.25M
Portland, OR	-1.36M	-1.52M
Philadelphia, PA	-1.20M	0.31M
Fort Lauderdale, FL	-0.88M	0.64M

Multifamily

Absorption of units in the last 12 months: 505,573 units

Rent growth in the last 12 months: 0.9%

Cap rate: 6.1%

As of August 2025, the multifamily housing market continues to show early signs of stabilization. Net absorption held steady at 505,573 units, while the completion of new units fell 18%. Units under construction have declined for two years and are now 33% below last year's levels. Although new supply still exceeds demand by 13%, the gap is narrowing. Vacancy inched up to 8.2%, while rent growth eased slightly to 0.9% year-over-year, suggesting that current pressure may be temporary as demand gradually catches up to supply.

Class A vacancies remain the highest at 10.2% as of August 2025, though the segment posted modest year-over-year rent growth of 0.7%. Class B vacancies rose to 9.5%, up 0.3% from last year, yet it absorbed 36% more units than Class A over the past 12 months. Rent growth for Class B slowed to 0.6%, reflecting weaker pricing power. Class C, meanwhile, continued to lose tenants, vacating three times as many units in the year ending August as a year earlier, though it still posted the strongest rent growth at 1.5%.

National rent growth held at just 0.9%, with oversupply pressuring several Sun Belt markets where rents dropped more than 5% in Naples, Fort Myers, and Sarasota, FL. By contrast, San Francisco posted the strongest gains at 6.6%, followed by South Bend, IN, at 5.9%, both far exceeding the national average.

Large metros such as New York City, Dallas-Fort Worth, Austin, and Atlanta absorbed more than 20,000 multifamily units through August, underscoring steady demand and the resilience of rental housing in high-cost urban areas. In contrast, markets like New Orleans, LA, and Lansing, MI, recorded net move-outs, with each losing more than 200 units.

Top 10 areas with the strongest 12-month absorption

	2025 Q3	2024 Q3
New York, NY	30,096	24,149
Dallas-Fort Worth, TX	26,460	23,660
Atlanta, GA	21,293	17,278
Austin, TX	20,874	16,693
Phoenix, AZ	16,533	17,545
Houston, TX	15,189	16,961
Charlotte, NC	14,990	11,097
Seattle, WA	12,729	10,639
Washington, DC	10,719	12,972
Philadelphia, PA	10,584	9,850

Top 10 areas with steepest 12 Mo rent rises

	2025 Q3	2024 Q3
San Francisco, CA	6.61%	1.70%
South Bend, IN	5.94%	5.80%
Rockford, IL	4.81%	5.33%
Rochester, NY	4.49%	4.39%
Lansing, MI	4.39%	3.87%
Youngstown, OH	4.20%	5.42%
Harrisburg, PA	4.06%	3.20%
Beaumont, TX	4.02%	3.39%
Flint, MI	3.97%	3.00%
Chicago, IL	3.90%	2.46%

Source: NAR analysis of CoStar data

Retail

Net absorption in the last 12 months: -8.7 million sq. ft.

Rent growth in the last 12 months: 1.8%

Cap rate: 7.2%

From 2014 to 2017, retail properties saw strong absorption, but the growth of e-commerce began to limit demand, a trend the pandemic later reinforced. In the 12 months ending in August, absorption dropped from 29.4M to -9.7M SF, while rent growth eased from 3.1% to 1.8%. Still, retail maintains the fastest rent gains among all commercial property sectors.

After holding steady for more than two years, the retail vacancy rate rose for the second time in 2025, reaching 4.3%. The increase came as 24.7M SF of new supply entered the market, while demand lagged and absorption turned negative.

General retail was the only category to post positive net absorption of 10.6M SF for the year ending in August, as all other segments recorded losses. Neighborhood centers posted 12-month absorption of -12.2M SF, compared with 3.3M a year earlier. Malls vacated 4.0M SF but offset that by removing 4.6M from inventory, lowering their vacancy rate to 8.7%.

General Retail had the lowest vacancy rate at 2.7%, while Neighborhood Centers and Power Centers led in rent growth at 2.4% and 2.3%, respectively.

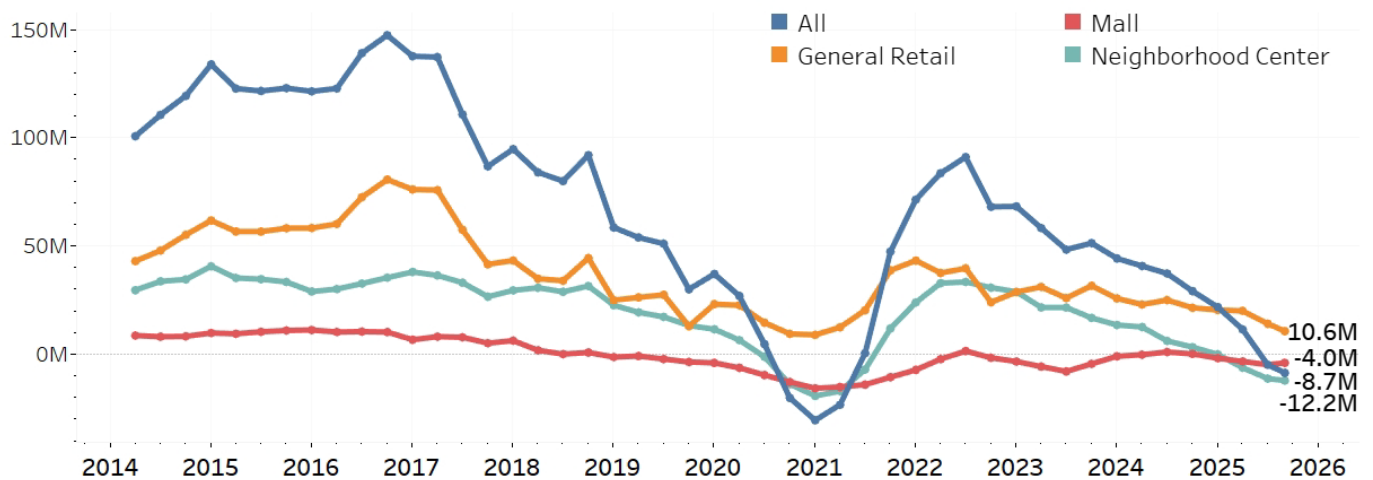
Top 10 areas with the strongest net absorption in the last 12 months

Dallas-Fort Worth, TX	1.73M
Houston, TX	1.69M
Phoenix, AZ	1.54M
Austin, TX	1.29M
Las Vegas, NV	0.72M
San Antonio, TX	0.68M
Des Moines, IA	0.64M
Norfolk, VA	0.60M
Cleveland, OH	0.47M
Indianapolis, IN	0.46M

In August, Raleigh and Charlotte, NC, posted the strongest 12-month rent growth at 7.0% and 5.3%, while Pittsburgh, PA, saw rents decline by more than 2.7%.

Dallas-Fort Worth, Houston, 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

Industrial

Net absorption in the last 12 months: 61.0 million sq. ft.

Rent growth in the last 12 months: 1.6%

Cap rate: 7.3%

After a strong 2022, the industrial sector has slowed amid excess supply and softer demand. Over the 12 months ending August 2025, net absorption fell 54% to a decade-low 61 million square feet. Completions outpaced demand 4 to 1, lifting vacancy by 0.9 points to 7.5%. Rent growth eased to 1.6%, underscoring the sector’s cooling momentum.

Logistics properties remained the main source of industrial demand, contributing 60.2 million square feet in the year through August. Specialized facilities added another 6.4 million square feet, while flex space moved in the opposite direction, with 5.2 million square feet vacated. Rent growth slowed across all industrial types, with logistics and specialized facilities posting the sharpest declines, down 3.2% and 2.9% year-over-year to 1.7% and 1.5%. Flex rents also fell 2.0% to 1.4%.

In August, Dallas–Fort Worth, TX, and Savannah, GA, led the nation in absorption, adding 21 million and 18.6 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 12.5 million square feet absorbed over a year ending in August 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.

Rental performance varied widely across U.S. metros in August. Dayton, OH, led with 8.0% growth, followed by Nashville, TN, at 6.6%. On the downside, Los Angeles, CA, posted the largest drop at 4.5%, and the Inland Empire, CA, declined 3.3%. Vacancy rates ranged from a high of 15.9% in Port St. Lucie, FL, to just 0.6% in Anchorage, AK, underscoring significant regional differences.

Top 10 areas with the strongest 12 Mo absorption

	2025 Q3	2024 Q3
Dallas-Fort Worth, TX	20.99M	24.26M
Savannah, GA	18.59M	10.94M
Phoenix, AZ	14.33M	13.94M
Houston, TX	13.65M	21.67M
Columbus, OH	7.20M	0.54M
Kansas City, MO	5.91M	3.11M
Washington, DC	5.71M	5.24M
Inland Empire, CA	4.73M	13.63M
Spartanburg, SC	4.60M	1.87M
Austin, TX	4.50M	7.74M

Top 10 areas with the weakest 12 Mo absorption

	2025 Q3	2024 Q3
Memphis, TN	-6.32M	-0.80M
Baltimore, MD	-5.26M	-0.25M
Los Angeles, CA	-4.17M	-12.49M
Stockton, CA	-4.17M	2.23M
Milwaukee, WI	-3.77M	-0.20M
Detroit, MI	-2.94M	-0.28M
Boston, MA	-2.88M	-0.94M
Lehigh Valley, PA	-2.66M	-0.52M
San Diego, CA	-2.35M	-1.76M
Atlanta, GA	-2.34M	9.17M

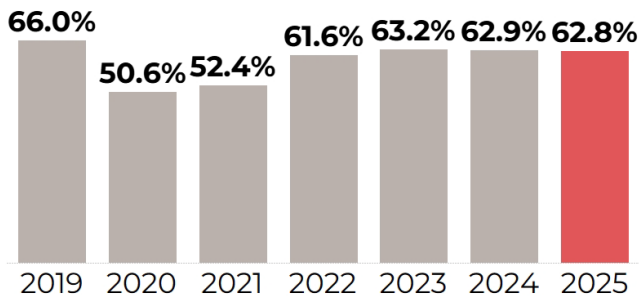
Source: NAR analysis of CoStar data

Hotel

Occupancy rate in the last 12 months: 62.8%
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 August 2025. Hotel occupancy stands at 62.8%, still 3.2% 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 August



The average daily rate (ADR) for hotel rooms hit \$160, up 22% from August 2019. Meanwhile, revenue per available room (RevPAR) rose to \$101, representing a 16% increase over the same period.

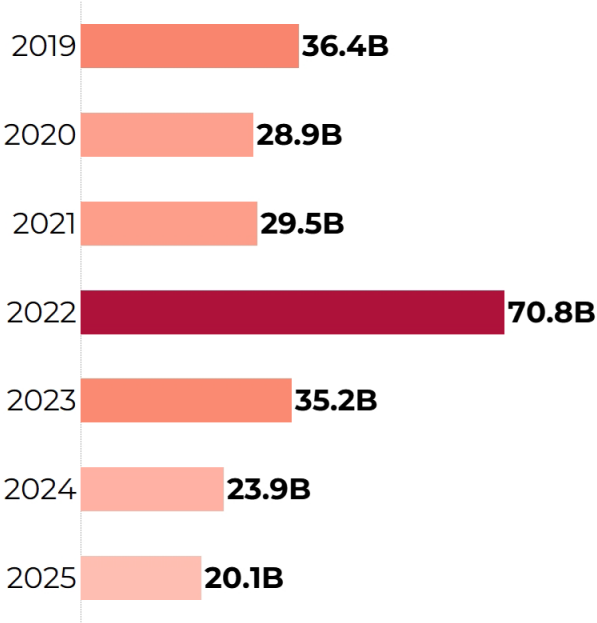
12-month ADR and RevPAR in August

	Average daily rate	Revenue per available room
2019	\$131	\$87
2020	\$117	\$59
2021	\$113	\$59
2022	\$144	\$88
2023	\$154	\$98
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 \$20.1 billion in August 2025 from \$23.9 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 August



Source: NAR analysis of CoStar data

At the metro level, Kauai Island, Hawaii, continues to post robust hospitality metrics, with ADR and RevPAR both up 57% from pre-pandemic benchmarks. Occupancy holds steady at 73%, underscoring strong visitor demand. Maui Island leads the nation with the highest ADR at \$549 and top RevPAR at \$295, while New York City claims the highest occupancy at 84%, 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 26% and 27%, respectively, pointing to a slower recovery trajectory.

COMMERCIAL REAL ESTATE REPORT

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