January 2026

Commercial Real Estate Insights Report

NATIONAL ASSOCIATION OF REALTORS®

Commercial Real Estate

An Overview

Labor market conditions continued to weaken toward the end of 2025, as hiring slowed and revised data showed weaker job growth than previously reported. In response to these conditions, the Federal Reserve shifted toward policy easing, delivering multiple rate cuts at the second half of 2025. Inflation showed signs of easing, while overall economic growth remained resilient, supported by steady consumer spending. Financial conditions, however, have been slower to adjust, with borrowing costs only beginning to edge lower. As a result, the full benefits of monetary easing for investment and commercial real estate activity are likely to emerge gradually in the year ahead.

Office markets showed gradual stabilization, with demand improving from last year's lows but vacancy still elevated and rent growth restrained by ongoing concessions. In multifamily, solid underlying demand contrasts with lingering oversupply, keeping vacancy high and rent growth at historically weak levels despite slowing construction. Retail conditions reflected cautious improvement, as demand recovered modestly and pricing remained comparatively strong, even while new supply and weaker segments weighed on the outlook. Across industrial properties, the cycle continued to cool, with excess supply pressuring vacancy and rents, though narrowing imbalances point to a slow move toward normalization.

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

The **office** market showed early signs of stabilization in December, with demand finally turning slightly positive after a prolonged period of losses, even as overall conditions remain fragile. Vacancy edged higher, and rent growth softened, underscoring landlords' continued reliance on concessions. Class A continued to anchor demand despite elevated vacancy, Class B showed steady improvement with relatively healthier fundamentals, and Class C remained under pressure but retained the lowest vacancy. Regionally, performance was uneven, with some large markets still losing tenants while others showed clear signs of improvement.

The **multifamily** market continues to show resilient demand, but excess supply from prior construction remains a drag on fundamentals, keeping vacancy elevated and rent growth muted. Absorption remains steady, though new deliveries continue to outpace demand, limiting pricing power as the sector moves through a softer leasing period. Class A and B conditions have cooled, while Class C continues to outperform on rents despite ongoing tenant turnover. Regionally, large urban markets remain more resilient, while oversupplied Sun Belt metros continue to face pressure.

Retail showed tentative improvement toward the end of the year, with demand turning modestly positive and rent growth remaining the strongest among major property types, supported by low vacancy. That said, conditions remain fragile as new supply continues to enter the market faster than demand, keeping upward pressure on vacancy. Performance varies by segment, with general retail holding up best, while neighborhood and power centers face weaker absorption despite relatively strong rent growth.

Conditions in the **industrial** market reflected a gradual rebalancing, with excess supply still present but pressures beginning to ease compared with earlier quarters. Vacancy moved higher, and rent growth slowed, reflecting a market still adjusting after several years of rapid expansion. While logistics properties continue to anchor demand and specialized facilities show pockets of growth, flex space remains under pressure. Even so, the pace of imbalance has begun to ease, suggesting the sector may be approaching a more stable phase as excess supply is gradually absorbed.

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Hospitality performance remained stable in December 2025, with occupancy at 62.2%, still roughly 4% below pre-pandemic levels as remote work and softer corporate travel continue to weigh on major business markets. Even so, revenue fundamentals strengthened, with both ADR and RevPAR well above 2019 benchmarks, supporting healthy profitability. Investment activity cooled, however, as elevated borrowing costs and ongoing economic uncertainty tempered investor appetite.

Economy

Job growth (December 2025 compared to March 2020):5.8%
Inflation (December 2025): 2.7%
Gross Domestic Product (GDP) Q3 2025: 4.4%

Economic conditions softened through late 2025 as job growth slowed and labor market revisions pointed to weaker momentum, prompting the Federal Reserve to deliver 3 rate cuts to support the economy. While inflation eased and growth remained resilient, financial conditions have only begun to adjust, suggesting that the full impact of policy easing on borrowing costs and commercial real estate activity will likely unfold gradually into 2026.

Employment Gains Continue to Slow

December saw job growth of 50,000, closely matching the 2025 monthly average of 49,000 but well below the 168,000 monthly average in 2024. Revisions further weakened recent trends, with October payrolls adjusted downward from a loss of 105,000 to 173,000, and November gains trimmed from 64,000 to 56,000.

Total employment reached 159.5 million in December. Over the course of 2025, job growth totaled 584,000, a sharp slowdown compared with the 2.0 million increase in 2024. Since March 2020, the economy has added more than 8.6 million jobs.

Number of Jobs

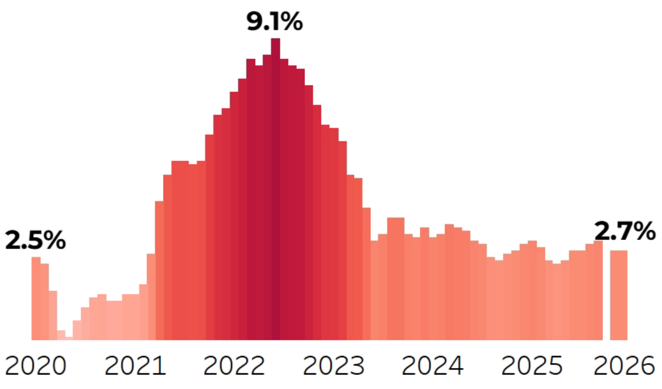
March 2020	**150.9 million**
December 2024	**158.9 million**
December 2025	**159.5 million**

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

Inflation holds at 2.7% in December

Inflation held steady at 2.7% in December. While recent rate cuts are aimed at supporting economic growth, slowing rent growth, which accounts for roughly 40% of CPI, could help ease inflation even further in the months ahead.

Inflation



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

The Federal Reserve delivers 3rd rate cut

Despite inflation holding at 2.7% in both November and December, job growth remained weak throughout 2025, prompting the Federal Reserve to deliver a third rate cut at its December meeting and lower the target range to 3.50%–3.75%. Long-term rates have been slower to respond, with the 10-year Treasury yield edging up to 4.14%. Still, the Fed's continued easing signals a shift toward more supportive financial conditions, which could gradually improve borrowing conditions for the commercial real estate sector.

Economy Expands at an even Stronger Pace in the 3rd quarter.

The initial estimate shows U.S. real GDP rising at a 4.4% annual rate in Q3 2025, accelerating from 3.8% in Q2. Growth reflected stronger consumer spending, higher exports, and increased government spending, while a decline in investment tempered gains. Imports also fell, which added to GDP. Real final sales to private domestic purchasers increased 3.0%, slightly faster than in Q2, pointing to steady underlying demand. Inflation pressures were firmer during the quarter, with the gross domestic purchases price index rising 3.4% and the PCE price index increasing 2.8%.

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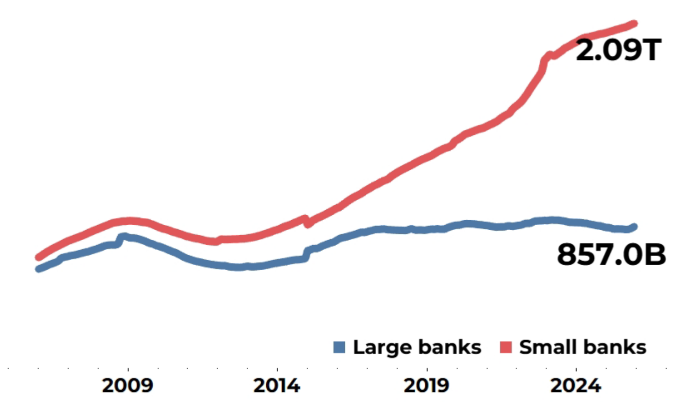
Commercial Real Estate Lending

CRE loans (December 2025): $3.07 trillion
Delinquency rate of CRE loans (Q3 2025): 1.56%

CRE debt stayed at $3 trillion in December
Commercial real estate debt continued to rise in December, reaching about $3.07 trillion and reinforcing signs of gradual stabilization after an extended period of muted growth. While borrowing conditions remain tight, recent months show a steady firming in lending activity.

By bank size, large U.S. banks began to re-expand CRE exposure, with loan balances rising to roughly $857.0 billion, rebounding from a recent low near $840 billion in September. Smaller domestic banks also continued to grow their CRE portfolios, with balances climbing to about $2.09 trillion, maintaining their role as the primary source of lending growth.

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

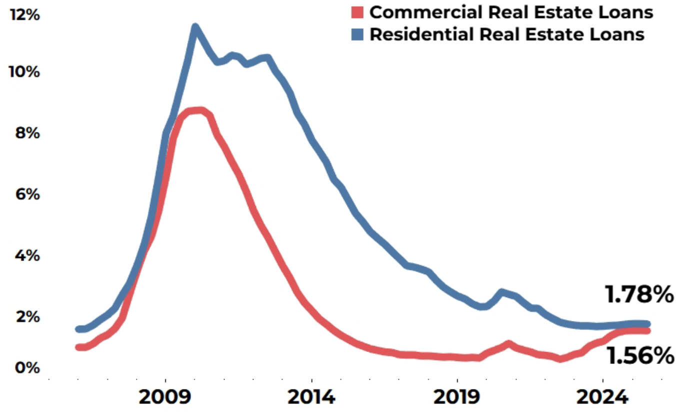


Source Federal Reserve

CRE Loan Delinquencies Show First Decline in Three Years
Federal Reserve data shows that commercial real estate loan delinquencies decreased slightly to 1.56% in Q3 2025 after nearly three years of gradual increases. This is about 0.2 percentage points below residential loan delinquency rates. For comparison, delinquencies stood at 0.72% in Q2 2022 and rose steadily until Q3 2025. From a longer-term perspective, CRE loan delinquencies remain historically low, consistently staying below 3.5% over the past decade.

This pullback may reflect the first signs of relief following the Fed's September rate cut, and the additional reduction delivered in October and December could help reinforce this improvement in coming quarters.

Delinquency rates Commercial vs Residential loans (Q3 2025)



Source Federal Reserve

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Office

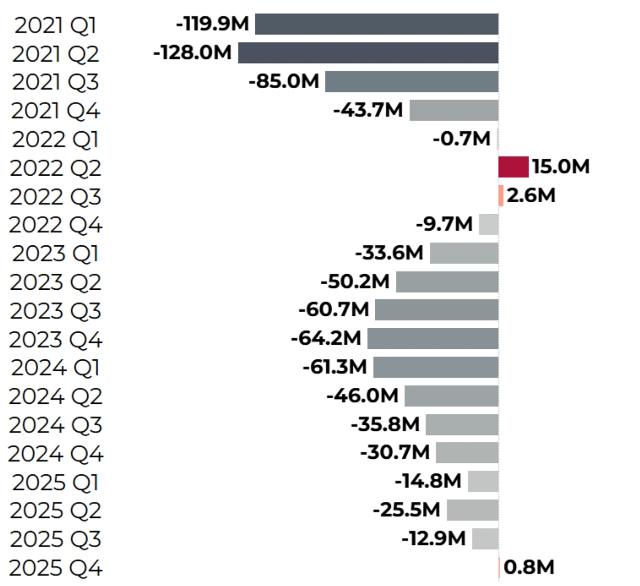
Net absorption in the last 12 months: 0.8 million sq. ft.
Rent growth in the last 12 months: 0.8%
Cap rate: 9.0%

The office sector showed both progress and ongoing challenges in December. Annual net absorption continued to recover and turned positive at 0.8 million square feet, compared with a loss of 30.7 million square feet a year ago. Vacancy edged up to 14.0%, while rent growth eased to 0.8% from 1.7% last year, reflecting continued use of concessions.

Class A remained the primary driver of demand, absorbing 18.8 million square feet over the past year while improving vacancy to 20.1%, still the highest among office classes. Class B posted meaningful improvement, with annual losses narrowing from 19.2 million square feet to 12.9 million, while maintaining lower vacancy at 12.4% and rent growth of 1.2%, above the national average. Class C continued to lose tenants at a similar pace to last year, vacating 4.4 million square feet, while retaining the lowest vacancy rate at 5.4%.

Regionally, Washington, DC recorded the largest occupancy losses at 3.7 million square feet, while Boston showed notable improvement, with outflows easing from 6.8 million square feet a year ago to 1.0 million square feet in December.

Quarterly Net Absorption 12 Mo in sq. ft



Top 10 areas with the largest 12 Mo Absorption

	2025 Q4	2024 Q4
New York, NY	3.31M	2.11M
Dallas-Fort Worth, TX	2.61M	0.79M
Houston, TX	2.42M	-1.05M
San Francisco, CA	2.36M	-2.03M
Northwest Arkansas, AR	2.35M	0.42M
Cleveland, OH	1.50M	-1.09M
Nashville, TN	1.39M	0.36M
Detroit, MI	1.24M	0.25M
Phoenix, AZ	1.23M	-2.49M
Charlotte, NC	1.20M	-0.64M

Top 10 areas with the lowest 12 Mo Absorption

	2025 Q4	2024 Q4
Washington, DC	-3.73M	-4.27M
Chicago, IL	-2.49M	-5.74M
Philadelphia, PA	-1.68M	-0.69M
Denver, CO	-1.57M	-1.90M
Los Angeles, CA	-1.44M	-4.15M
Portland, OR	-1.44M	-0.57M
Salt Lake City, UT	-1.17M	-0.33M
Atlanta, GA	-1.00M	-1.44M
Boston, MA	-0.95M	-6.80M
Milwaukee, WI	-0.84M	0.17M

Source: NAR analysis of CoStar data

Multifamily

Absorption of units in the last 12 months: 437,897 units
Rent growth in the last 12 months: 0.3%
Cap rate: 6.1%

The multifamily sector continues to show solid underlying demand, but excess supply from prior construction cycles remains a drag on fundamentals, limiting rent growth and keeping vacancy elevated. 12-month absorption declined 19% from a year ago but remained within a tight range, while new deliveries dropped 26% yet continued to exceed absorption by 19%. Vacancy rose to 8.5%, and rent growth slowed to a cycle low of 0.3% as leasing activity softened during the winter months.

By class, Class A recorded absorption of 197 thousand units in December, with rents slipping 0.1% and vacancy holding at 10.2%, pointing to stable but soft conditions. Class B saw weaker 12-month absorption of 286 thousand units, alongside a rise in vacancy to 9.8% and a decline in rent growth to -0.1%, signaling cooling momentum in the mid-tier segment. Class C continued to post net move-outs, though rent growth remained positive at 1.1% and vacancy stayed lowest in the sector at 6.3%.

National rent growth slowed further to 0.3% in December, as ongoing oversupply continued to pressure several Sun Belt markets. Sarasota, Fort Myers, and Naples, FL experienced the sharpest declines, with rents falling more than 6%. In contrast, San Francisco, CA led the nation with rent growth of 5.9%, followed by South Bend, IN at 4.7%, both well above the national average.

At the metro level, large urban markets such as New York City, NY, and Dallas-Fort Worth, TX absorbed more than 20,000 units over the past year, underscoring resilient demand in major population centers. Meanwhile, Gulfport-Biloxi-Pascagoula, MS, and Brownsville-Harlingen, TX, recorded net move-outs of more than 100 units.

Top 10 areas with the strongest 12-month absorption

	2025 Q4	2024 Q4
New York, NY	27,704	28,994
Dallas-Fort Worth, TX	25,059	26,287
Austin, TX	19,665	19,912
Atlanta, GA	19,565	19,103
Phoenix, AZ	15,161	17,996
Charlotte, NC	14,313	12,419
Seattle, WA	9,592	11,671
Nashville, TN	8,904	10,255
Denver, CO	8,824	7,988
Houston, TX	8,536	17,636

Top 10 areas with steepest 12 Mo rent rises

	2025 Q4	2024 Q4
San Francisco, CA	5.89%	2.82%
South Bend, IN	4.72%	6.16%
Rockford, IL	4.24%	5.87%
Springfield, MO	4.08%	4.04%
Norfolk, VA	3.82%	2.95%
Springfield, MA	3.79%	4.47%
Peoria, IL	3.64%	2.99%
Flint, MI	3.62%	3.18%
Reno, NV	3.53%	2.26%
Dayton, OH	3.51%	3.26%

Source: NAR analysis of CoStar data

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Retail

Net absorption in the last 12 months: 0.9 million sq. ft.
Rent growth in the last 12 months: 2.0%
Cap rate: 7.3%

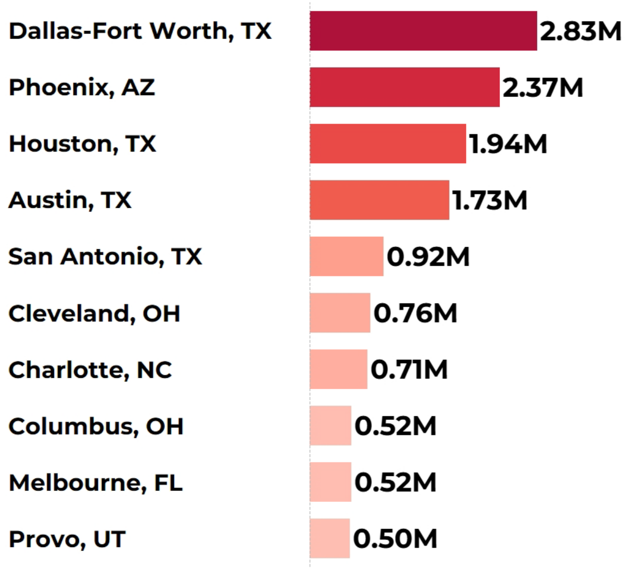
Retail activity was robust in 2014 through 2017, but the rapid expansion of e-commerce started to slow demand, a shift that the pandemic later intensified. After two consecutive quarters of losses, the sector returned to modestly positive absorption at 0.9M SF, while rent growth edged up to 2.0%. Despite lingering headwinds, retail continues to post the strongest rent growth and the lowest vacancy among major commercial property types.

Retail vacancy held at 4.3% in December, though conditions remain soft as absorption is only marginally positive and 12-month deliveries rose to 29.1M SF. With limited inventory removal and ongoing new supply, vacancy pressure could build in the months ahead.

General retail remained the most resilient segment, absorbing 13.4M SF over the past year, down from 18.8M SF a year earlier. Neighborhood Centers recorded the largest pullback with 8.8M SF vacated, followed by Power Centers at 2.6M SF.

General retail continues to carry the lowest vacancy at 2.6%, while Neighborhood and Power Centers led rent growth at 2.6% and 2.7%, respectively.

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

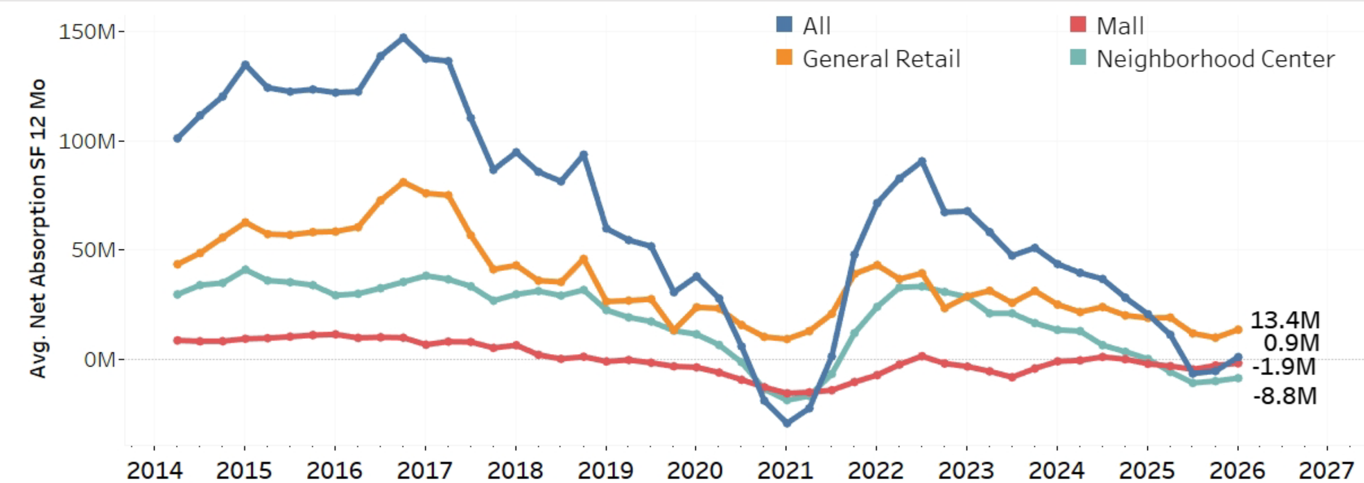


Source: NAR analysis of CoStar data

In December, Raleigh and Charlotte, NC, led the nation in rent growth at 8.5% and 8.0%, while San Francisco, CA, saw rent declines of more than 3.4%.

Dallas-Fort Worth, TX, and Phoenix, AZ, drove retail absorption with gains above 2 million square feet. Los Angeles, Atlanta, Chicago, Buffalo, and Saint Louis each recorded losses exceeding 1 million square feet amid economic and population pressures.

Net Absorption 12 Mo by type (Q1 2014 – Q4 2025)



Source: NAR analysis of CoStar data

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Industrial

Net absorption in the last 12 months: 112.6 million sq. ft.
Rent growth in the last 12 months: 1.3%
Cap rate: 7.3%

Following its peak in 2022, the industrial sector has continued to cool. Over the year ending December 2025, net absorption fell 42% year over year to 112.6 million square feet, while completions continued to outpace leasing by roughly two to one. Even so, the excess supply pushed vacancy up to 7.5% and slowed rent growth to 1.3%. Although supply still exceeds demand, the market shows signs of improvement, with the gap narrowing from recent quarters, suggesting the worst of the imbalance may be passing.

Logistics properties remained the backbone of demand, absorbing 91.9 million square feet over the past year. Specialized facilities also expanded, adding 28.1 million square feet, while flex space lagged, posting 7.4 million square feet of net move-outs. Rent growth eased across all formats, with specialized space slowing to 0.6%, flex rents moderating to 1.2%, and logistics rents easing to 1.6%.

Dallas-Fort Worth led the nation in industrial absorption, adding 28.2 million square feet over the year, followed by Phoenix at 19.0 million square feet. Houston also ranked among the top markets with nearly 11 million square feet absorbed, though this represents a sharp pullback from 21.6 million square feet a year earlier. Meanwhile, Memphis and the Lehigh Valley saw significant givebacks, each vacating more than 4 million square feet, highlighting the uneven nature of the slowdown.

Rental conditions varied widely across metros in December. Columbus posted the fastest annual rent growth at 6.8%, with Houston and St. Louis close behind at 5.4% and 5.3%, respectively. At the other end of the spectrum, Los Angeles and the Inland Empire recorded rent declines of 4.0% and 3.8%. Vacancy levels were similarly dispersed, ranging from 14.9% in Charleston to just 1.1% in Anchorage.

Top 10 areas with the strongest 12 Mo absorption

	2025 Q4	2024 Q4
Dallas-Fort Worth, TX	28.21M	21.01M
Phoenix, AZ	19.04M	13.72M
Columbus, OH	13.36M	2.93M
Houston, TX	10.91M	21.63M
Kansas City, MO	10.20M	4.00M
Indianapolis, IN	9.22M	3.12M
Washington, DC	7.32M	7.66M
Spartanburg, SC	6.04M	1.19M
Chicago, IL	5.63M	9.32M
Charlotte, NC	5.11M	3.36M

Top 10 areas with the weakest 12 Mo absorption

	2025 Q4	2024 Q4
Memphis, TN	-5.25M	-1.07M
Lehigh Valley, PA	-4.07M	-1.88M
Detroit, MI	-3.99M	-0.49M
Baltimore, MD	-3.55M	-1.25M
Cleveland, OH	-3.00M	0.76M
Atlanta, GA	-2.98M	8.99M
Stockton, CA	-2.47M	1.09M
Boston, MA	-2.46M	-0.43M
Milwaukee, WI	-2.35M	-1.36M
Akron, OH	-1.91M	1.18M

Source: NAR analysis of CoStar data

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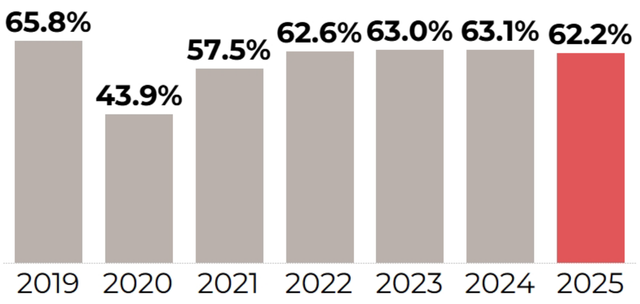
Hotel

Occupancy rate in the last 12 months: 62.4%
Average daily rate in the last 12 months: $160/room
Revenue per available room in the last 12 months: $100/room

The hospitality sector remained stable in December 2025, with occupancy at 62.2%, still a few points below pre-pandemic levels. Remote work and softer corporate travel continue to weigh on business-oriented markets, leaving the recovery uneven. Even so, ADR and RevPAR remain above 2019 benchmarks, supported by steady leisure and mixed-purpose travel demand.

12-month Occupancy Rate in December



The average daily rate (ADR) for hotel rooms hit $160, up 22% from December 2019. Meanwhile, revenue per available room (RevPAR) rose to $100, up 16% from the same period.

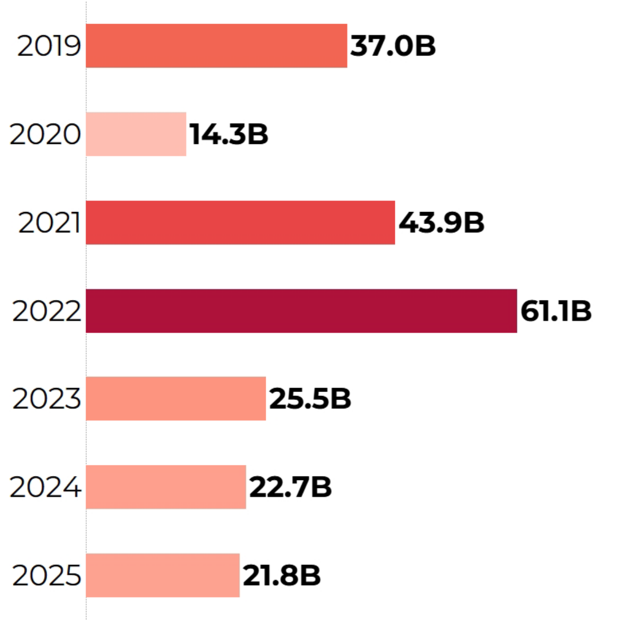
12-month ADR and RevPAR in December

	Average daily rate	Revenue per available room
2019	$132	$87
2020	$103	$45
2021	$125	$72
2022	$150	$94
2023	$156	$98
2024	$159	$100
2025	$160	$100

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

Hotel investment activity softened over the past year, with 12-month transaction volume slipping to $21.8 billion in December 2025 from $22.7 billion a year earlier. The slowdown reflects a more cautious investor stance as elevated borrowing costs and economic uncertainty continue to weigh on deal flow, despite generally stable hotel fundamentals.

12-month Sales Volume as of December



Source: NAR analysis of CoStar data

Kauai Island, Hawaii, continues to rank among the strongest hospitality markets, with ADR and RevPAR running more than 56% above pre-pandemic levels and occupancy remaining elevated at 74%. Maui sets the pace on pricing with the nation’s highest ADR at $539 and RevPAR at $341, while New York City leads in occupancy at 84%, supported by both business and leisure travel.

By contrast, Texas West and Oakland, CA, remain slower to recover, with RevPAR still more than 23% below pre-pandemic levels.

COMMERCIAL REAL ESTATE REPORT
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