Commercial Real Estate Market Insights Report

March 2025

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Commercial Real Estate

An Overview

After several years of tightening monetary policy, the Federal Reserve ended 2024 at 4.5% and has kept interest rates unchanged for the second consecutive time so far in 2025. Going forward, although the Fed is expected to continue lowering rates, there's still uncertainty about how the new administration's policies will shape the market in 2025. The full details remain unclear, but commercial real estate is set for improvements in the coming year.

At the beginning of 2025, office demand showed signs of recovery but wasn't strong enough to push net absorption into positive territory, leaving vacancy rates near record highs. The retail market stayed tight, constrained by a lack of new supply, while industrial vacancies continued to climb, contributing to a deceleration in rent growth. At the same time, the multifamily sector remained robust, with demand nearing the peak levels last seen in 2021.

Below is a summary of the performance of each major commercial real estate sector as of February 2025:

At the beginning of 2025, **office** absorption remained negative; however, market conditions improved significantly over the past year. Office move-outs dropped threefold in the year ending February 2025, totaling -20.5 million sq. ft., as more companies reinforced return-to-office policies. Continued negative absorption and new construction deliveries—totaling 24.5 million sq. ft—pushed the national vacancy rate up to 14.1%. Rent growth, however, posted a modest gain of 0.2%, bringing the annual rate to 1.1%. Improvements were seen across all office classes, with reduced outflows compared to the prior year. Among major metros, Boston and Washington, DC recorded the largest losses, while San Francisco's outflows slowed significantly. New York and Sacramento each posted over 1 million square feet of positive absorption, with New York showing a notable rebound from a year-over-year decline of 8.4 million square feet to a gain of 3.4 million square feet.

The **multifamily** sector showed signs of stabilization in early 2025, driven by strong rental demand and a 46% increase in net absorption, reaching nearly 551,000 units. While new supply still outpaced demand by 18%, the gap narrowed, maintaining steady vacancy rates at 8%. Rent growth remained modest at 1.1%, reflecting market balance. Construction slowed, with units under development down 33% year-over-year. High-demand metros, such as Dallas-Fort Worth, New York, and Atlanta, absorbed over 20,000 units each. Meanwhile, rents fell in oversupplied Sun Belt cities like Austin and Denver but grew sharply in Providence and Rochester.

With limited space availability, the **retail** sector continues to post the lowest vacancy rate among commercial property types, despite closures and bankruptcies. While net absorption fell 77% year-over-year, rents still rose by 1.9%, and the vacancy rate increased only 0.1 percentage points, marking the first uptick in nine quarters. General retail led the way in positive absorption and had the lowest vacancy rate at 2.6%. Regionally, Salt Lake City and Norfolk saw rents rise over 6%, while Los Angeles recorded the largest space losses.

After several years of record-breaking growth, the **industrial** sector continued to slow through early 2025 as new supply outpaced demand. Net absorption dropped 42% year-over-year to 114 million square feet, while vacancies rose to 7.0%. Rent growth softened further to 2.0%, though it remains higher than in other sectors. Logistics led absorption, while Flex space saw losses. While the market isn't as tight as its peak, it remains one of the most fundamentally sound asset classes in commercial real estate.

Economy

Job growth (February 2025 compared to March 2020): 5.5%
Inflation (March 2025): 2.8%
Gross Domestic Product (GDP) Q4 2024: 2.4%

In March 2025, the Fed held interest rates steady for the second time in a row at 4.5% despite the overall inflation declining to 2.8% in February. The job market expanded at a slower pace, adding 151,000 jobs and leaving the unemployment rate at a steady 4.1%. Nonetheless, financial markets still foresee monetary easing ahead, assuming policymakers will balance inflation concerns and wider economic risks.

The job market grew more slowly in February

In February, the market added 151,000 new jobs, slightly below the average monthly gain of 168,000 over the past year. This moderate growth kept the unemployment rate steady at 4.1%, remaining within the narrow range observed since mid-2024 and above last year's levels.

Specifically, the total number of job positions increased to 159.2 million in February. Within the past year, the economy has created about 2 million new jobs. Since the onset of the pandemic in March 2020, the U.S. has successfully

Number of Jobs

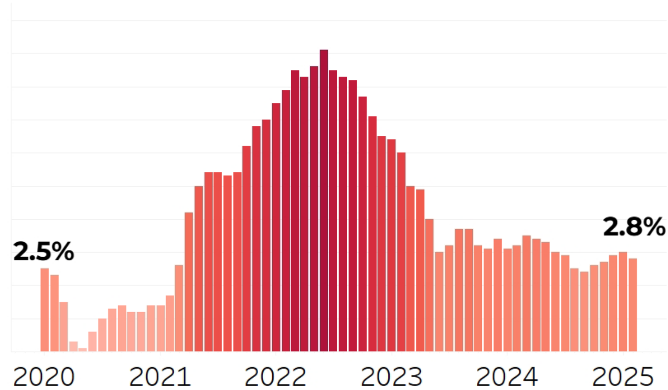
March 2020	**150.9 million**
February 2024	**157.3 million**
February 2025	**159.2 million**

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

Inflation declined to 2.8% in February

Overall inflation declined to 2.8% after briefly rising to 3% in the previous month. Despite this decrease, the Federal Reserve held the interest rate steady for the second time in a row. 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 second time

The Federal Reserve kept interest rates steady in March 2025 for the second consecutive month at 4.5%, following 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 grew more slowly in Q4 2024

During the final quarter of 2024, the U.S. economy expanded at an annualized rate of 2.4%, significantly down from 3.1% in the previous quarter. Consumer spending remained robust, but rising imports contributed to the slower pace of growth. Even so, the U.S. continues to outperform many other countries, reflecting its relative economic strength.

Commercial Real Estate Lending

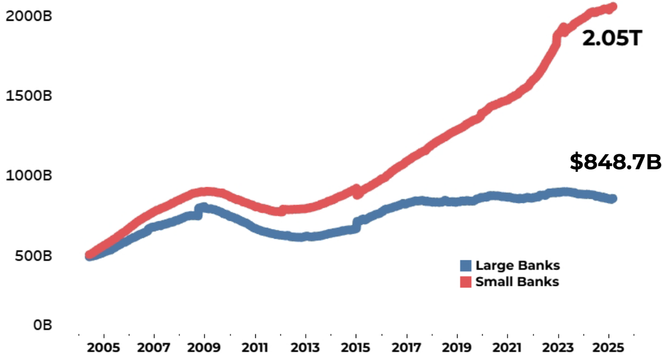
CRE loans (February 2025): $3.01 trillion
Delinquency rate of CRE loans (Q4 2024): 1.57%
Office delinquency rate (Q3 2024): 7.8%

CRE debt increased in February

In February, commercial real estate debt increased to $3.01 trillion, despite the Fed's decision to hold rates steady for a second time this year. Meanwhile, the two anticipated rate cuts later this year are expected to further stimulate CRE investment activity.

By bank size, large domestically chartered banks saw their CRE loan balances to increase to $848.7 billion compared to January, but down from $876.3 billion a year ago. In contrast, CRE lending by small domestically chartered banks continued to expand in February, posting a 2.7% increase year-over-year.

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

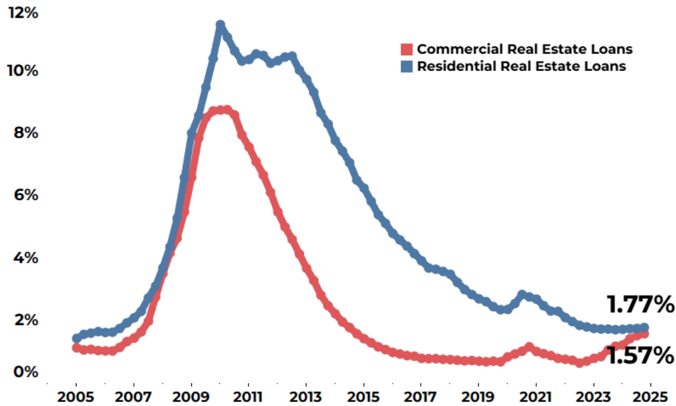


Source: Federal Reserve

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 from the previous quarter, 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%. So, the recent narrowing of this gap suggests that commercial real estate is now facing more pressure than in prior years.

Delinquency rates Commercial vs Residential loans (Q4 2024)

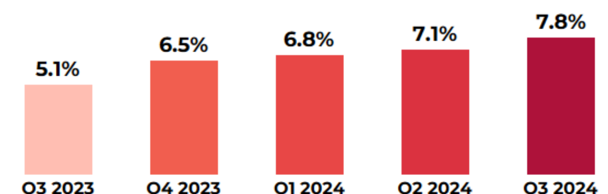


Source: Federal Reserve

Office delinquency rates rose again in Q3 2024

According to the Mortgage Bankers Association, 7.8% of the balance of office property loan balances were 30 days or more days delinquent during the third quarter of the year, surpassing those of loans backed by retail and hotel properties. This is an increase from the 7.1% recorded at the end of the second quarter, and a substantial jump from the 5.1% reported a year ago (Q3 2023). Although demand for office space is improving, concerns continue to grow regarding the health of these commercial loans. Given that delinquent loans backed by office properties represent nearly 30% of the Commercial Mortgage-Backed Securities (CMBS) outstanding, the condition of these office loans has a large impact on the outlook of this sector.

Delinquency rates for loans backed by office properties (Q3 2024)



Source: Mortgage Bankers Association (MBA)

Office

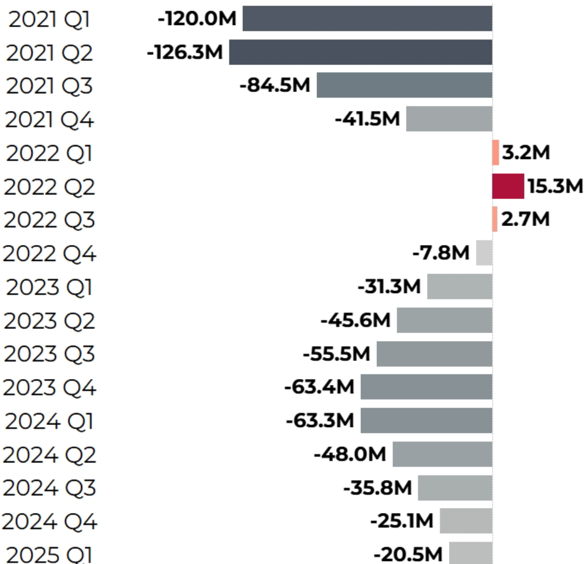
Net absorption in the last 12 months: -20.5 million sq.ft.
Rent growth in the last 12 months: 1.1%
Cap rate: 9.0%

With many companies demanding in-person work, office move-outs declined 3 times in a year ending in February 2025 compared to a year ago, totaling -20.5M SF. However, absorption remained negative. Combined with 24.5 million square feet of new deliveries, this pushed the vacancy rate up to 14.1%. Despite rising vacancies, rent growth ticked up 0.2% and now stands at 1.1%.

All office classes experienced a decline in negative absorption in February 2025, with Class A leading the improvement, dropping 86% year-over-year. Still, Class A posted the highest vacancy rate at 20.5%. Class B showed a 57% rebound in absorption and maintained a stable 12.0% vacancy rate, which remained below the national average of 14.1%. Class C absorption rose by 35%, maintaining the lowest vacancy rate at 5.2%.

Boston, MA, and Washington, DC, saw the largest office space losses. San Francisco's outflows slowed sharply, from -9.0 million square feet in Q1 2024 to -3.4 million square feet in February 2025. Meanwhile, New York, NY, and Sacramento, CA, each absorbed over 1.0 million square feet, with New York rebounding from a -8.4 million square foot deficit to a 3.4 million square foot gain year-over-year.

Net Absorption 12 Mo in sq. ft



Top 10 areas with the largest Vacancy Rates

	2025 Q1	2024 Q1
San Francisco, CA	23.79%	21.72%
Houston, TX	19.66%	19.13%
Dallas-Fort Worth, TX	18.18%	17.74%
Denver, CO	17.58%	16.19%
Austin, TX	17.44%	16.66%
Washington, DC	17.22%	16.54%
Atlanta, GA	16.88%	15.88%
Chicago, IL	16.76%	16.62%
Phoenix, AZ	16.71%	16.09%
Seattle, WA	16.35%	15.26%

Top 10 areas with the lowest Vacancy Rates

	2025 Q1	2024 Q1
Salisbury, MD	1.79%	2.70%
Myrtle Beach, SC	1.82%	1.89%
Wilmington, NC	1.87%	1.50%
Gulfport-Biloxi-Pascagoula, MS	2.14%	1.76%
Asheville, NC	2.20%	2.08%
Huntington, WV	2.25%	2.12%
Lafayette, LA	2.37%	4.20%
Savannah, GA	2.41%	1.67%
York, PA	2.53%	3.10%
Pensacola, FL	2.69%	2.26%

Source: NAR analysis of CoStar data

Multifamily

Absorption of units in the last 12 months: 550,893 units
Rent growth in the last 12 months: 1.1%
Cap rate: 6.1%

As of February 2025, the multifamily sector appears to be stabilizing, supported by strong rental demand and elevated absorption levels. Over the past 12 months, net absorption increased by 46%, reaching nearly 551,000 units, while new deliveries rose by just 4%. Meanwhile, the number of units under construction has steadily declined and now stands 33% below its level a year ago. Despite this, new supply continues to outpace absorption by 18%. As absorption gradually narrows the gap, vacancy rates have remained steady at 8.0%. Rent growth remains modest at 1.1%, reflecting an overall balance between demand and supply.

Although vacancy rates for Class A multifamily properties dropped 0.2% over the year ending February 2025, reaching 10.7%, they remain the highest among all classes, with minimal rent growth of 0.5%. Conversely, Class B properties experienced a 0.4% rise in vacancy to 9.1%, accompanied by slightly stronger rent growth at 0.9%. Still, Class B outperformed in absorption, posting a 43% annual increase compared to 24% for Class A.

While national rent growth remains subdued, some Sun Belt markets are experiencing sharper declines due to oversupply, with rents falling by more than 3% in places like Austin, TX, and Denver, CO. In contrast, metros like Providence, RI, and Rochester, NY, are bucking the trend, posting rent increases above 3.5%—well ahead of the national average of 1.1%.

In large metros such as Dallas-Fort Worth, Austin, TX, New York, NY, and Atlanta, GA, each absorbed over 20,000 multifamily units during the 12 months ending in February. This strong uptake highlights the rental market's durability in these higher-cost urban areas.

Top 10 areas with the strongest 12-month absorption

	2025 Q1	2024 Q1
Dallas-Fort Worth, TX	27,962	15,583
New York, NY	25,755	20,413
Austin, TX	20,565	10,958
Atlanta, GA	20,019	9,707
Phoenix, AZ	19,523	12,167
Houston, TX	18,577	10,177
Charlotte, NC	13,371	7,698
Orlando, FL	13,195	8,501
Seattle, WA	12,199	7,617
Washington, DC	12,072	13,041

Top 10 areas with steepest 12 Mo rent rises

	2025 Q1	2024 Q1
South Bend, IN	6.20%	2.92%
Roanoke, VA	4.63%	2.14%
Harrisburg, PA	4.56%	2.71%
Rockford, IL	4.50%	6.84%
Youngstown, OH	4.17%	5.45%
Gulfport-Biloxi-Pascagoula, MS	4.10%	3.97%
Green Bay, WI	4.06%	3.71%
Lexington, KY	4.05%	5.17%
Shreveport, LA	3.99%	2.12%
Springfield, MO	3.94%	2.79%

Source: NAR analysis of CoStar data

Retail

Net absorption in the last 12 months: 10.5 million sq. ft.
Rent growth in the last 12 months: 1.9%
Cap rate: 7.1%

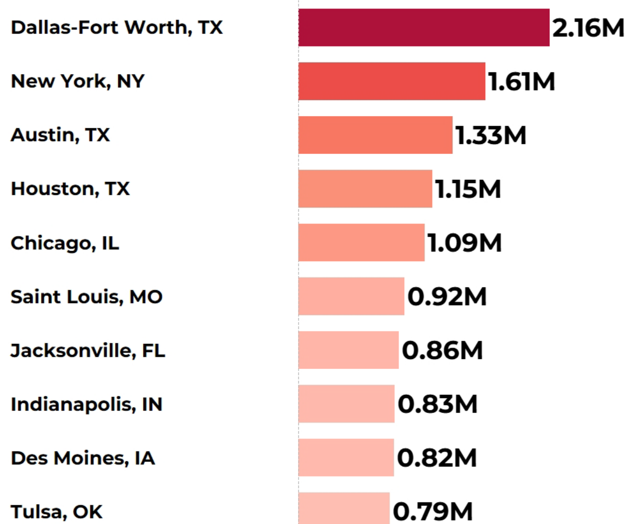
From 2014 to 2017, retail real estate posted strong net absorption before e-commerce began to weigh on demand. The rise of online shopping gradually slowed absorption, a trend accelerated by the pandemic. Over the year ending in February, 12-month net absorption fell by 77%, while rent growth eased from 3.5% to 1.9%. Despite much weaker demand, rents are still growing, just at a slower pace, as tenants compete for spaces in prime locations.

General retail and strip centers contributed roughly 98% of all positive net absorption for the year ending February 2025. Meanwhile, neighborhood centers' absorption dropped to -6.1M SF from 12.6M SF a year earlier. Malls saw 1.9M SF vacated; however, with 2.5M SF more space demolished than delivered over the same period, their vacancy rate held steady at 8.7%, the same as a year before.

Although the retail vacancy edged up by 0.1%, this sector still maintains the lowest vacancy rate – a reflection of tight supply conditions.

General Retail continues to have the lowest vacancy rate at 2.6%. Neighborhood Centers and Power Centers posted the highest rent growth at 2.7% and 2.8%, respectively.

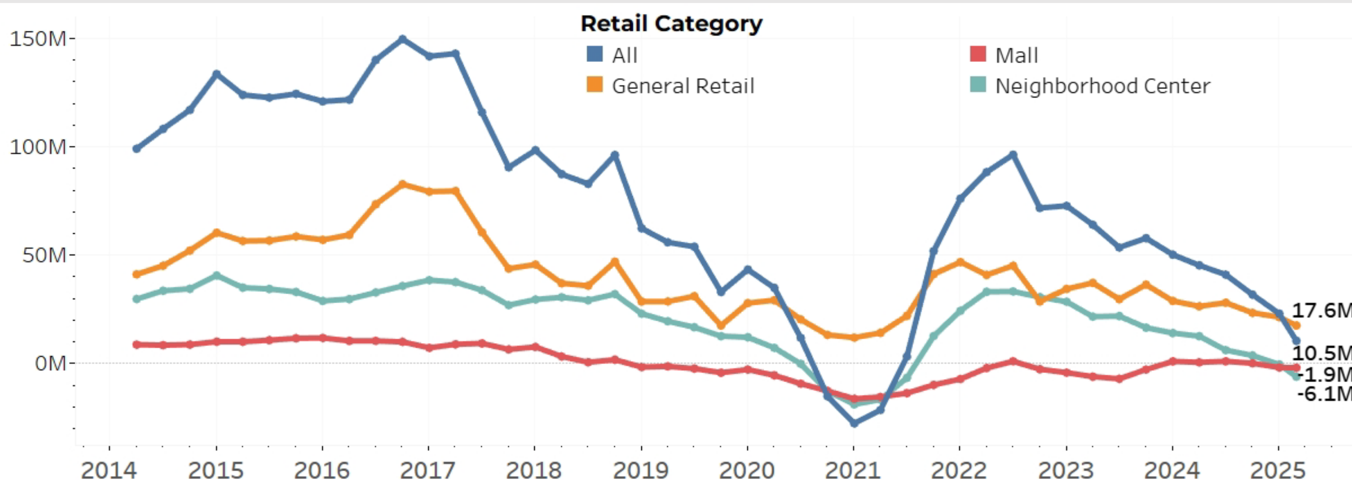
Top 10 areas with the strongest net absorption in the last 12 months



In February 2025, Salt Lake City, UT, Norfolk, VA, and Greenville, SC, recorded rent increases of over 6% year-over-year, while Akron, OH, and Hartford, CT, saw rent declines of over 3.0%.

Dallas–Fort Worth, TX, led the nation in retail absorption, taking in over 2 million square feet. Meanwhile, Los Angeles gave back around 3.1 million square feet, reflecting weaker demand amid the ongoing shift to e-commerce.

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



Source: NAR analysis of CoStar data

Industrial

Net absorption in the last 12 months: 114.0 million sq. ft.
Rent growth in the last 12 months: 2.0%
Cap rate: 7.3%

Following a record-setting year in 2022, the industrial real estate sector is now facing an excess of supply and a decline in demand. Between February 2024 and February 2025, net absorption declined by 42%, landing at 114.0 million square feet. At the same time, new deliveries outpaced absorption by a 3-to-1 ratio, resulting in a 0.9 percentage point increase in the vacancy rate to 7.0%. While rent growth has cooled to 2.0%, it continues to outperform other commercial real estate sectors.

Logistics properties continued to lead industrial absorption, adding 107.3 million square feet over the year ending February. Specialized facilities followed with 10.7 million square feet—up 153% from last year. Meanwhile, Flex space recorded a net loss, with 7.6 million square feet vacated. Rent growth cooled across all industrial segments, with Logistics and Specialized seeing the sharpest drops, down 4.2% and 1.8% year-over-year, now at 2.0% and 1.9%, respectively. Flex rents also dipped 1.8%, settling at 2.1%.

Dallas–Fort Worth, TX led all markets in industrial absorption in February, with Savannah, GA close behind—both exceeding 19 million square feet. Meanwhile, Los Angeles, CA, saw an 8.9 million square foot decline, but still maintains a vacancy rate of 6%, which is below the national average of 7.0%.

February saw notable rent shifts across major metropolitan areas. Cincinnati, OH, topped the list with a 7.5% increase, followed closely by Dayton, OH, at 7.4%. On the other end, Los Angeles, CA, posted the steepest drop at 5.2%, while Austin, TX, and Inland Empire, CA, also saw declines above 1%. Port St. Lucie, FL, and Charleston, SC, reported the highest vacancy rates, both over 15%, underscoring regional imbalances in the rental market.

Top 10 areas with the strongest 12 Mo absorption

	2025 Q1	2024 Q1
Dallas-Fort Worth, TX	22.60M	25.18M
Savannah, GA	19.58M	8.62M
Phoenix, AZ	17.25M	11.66M
Houston, TX	16.31M	19.52M
Inland Empire, CA	10.48M	-1.50M
Chicago, IL	9.54M	16.67M
Kansas City, MO	8.52M	2.64M
Philadelphia, PA	5.52M	5.02M
Austin, TX	5.28M	6.74M
Shreveport, LA	4.91M	-2.34M

Top 10 areas with the weakest 12 Mo absorption

	2025 Q1	2024 Q1
Los Angeles, CA	-8.91M	-14.37M
Memphis, TN	-3.73M	-0.35M
Milwaukee, WI	-3.30M	1.23M
Detroit, MI	-2.65M	5.97M
Charleston, SC	-2.44M	1.71M
San Diego, CA	-2.28M	-2.97M
Miami, FL	-2.15M	2.85M
Reno, NV	-2.11M	0.24M
Baltimore, MD	-2.08M	0.16M
Portland, OR	-2.07M	-1.51M

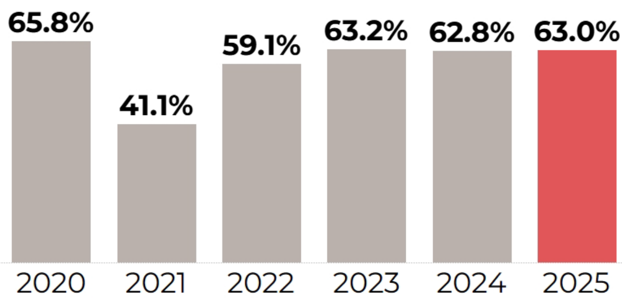
Source: NAR analysis of CoStar data

Hotel

Occupancy rate in the last 12 months: 63.0%
Average daily rate in the last 12 months: $159/room
Revenue per available room in the last 12 months: $100/room

As 2025 begins, the hospitality sector remains steady. Hotel occupancy sits at 63%, still 2.8% below pre-pandemic levels, largely due to the continued influence 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 February



In February 2025, the average daily rate (ADR) for hotel rooms hit $159, up 21% from February 2020. Meanwhile, revenue per available room (RevPAR) rose to $100, representing a 15% increase over the same period.

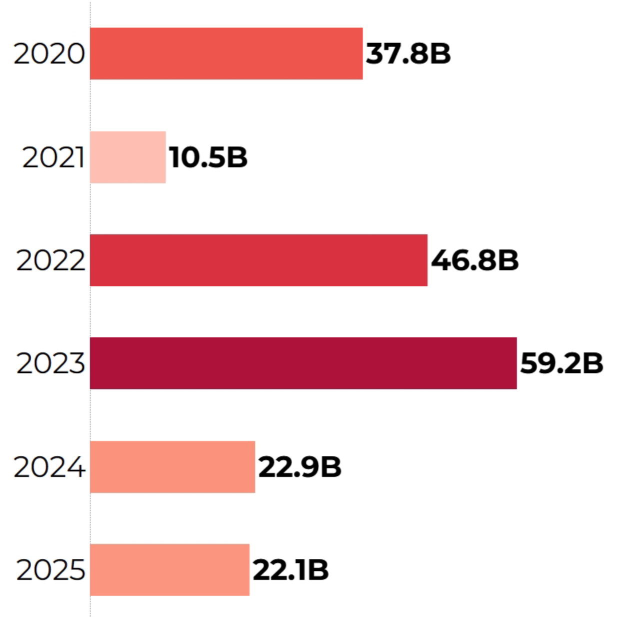
12-month ADR and RevPAR in February

	Average daily rate	Revenue per available room
2020	$132	$87
2021	$96	$39
2022	$129	$76
2023	$152	$96
2024	$157	$98
2025	$159	$100

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 February 2025, 12-month sales volume declined to $22.1 billion, down from $22.9 billion the year prior.

12-month Sales Volume as of February



Source: NAR analysis of CoStar data

At the local level, Hawaii's Kauai Island continues to thrive, with the Average Daily Rate (ADR) soaring 57% and Revenue per Available Room (RevPAR) climbing 50% above pre-pandemic benchmarks. Occupancy remains solid at 70%, reflecting strong tourism demand. Maui Island is performing even more impressively, leading the nation with an ADR of $542 and a RevPAR of $347, both the highest in the country. Meanwhile, New York City stands out with the nation's top hotel occupancy rate at 84%, driven by consistent business and leisure travel.

On the other hand, California's San Francisco/San Mateo and Oakland markets continue to face headwinds, as RevPAR lags 29% and 24% behind pre-pandemic levels, signaling a slower and more difficult recovery path.

COMMERCIAL REAL ESTATE REPORT
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