

The background of the slide is a photograph of five business professionals sitting around a white conference table in a modern office setting. They are engaged in a discussion, with some looking at laptops and others at each other. The scene is brightly lit, likely from large windows in the background.

Occupier Outlook

United States Overview:

The Economy and Its Impact on Commercial Real Estate

Cresa Research | Q1, 2025

COMMERCIAL REAL ESTATE MARKET AT CROSSROADS: BALANCING RECOVERY, HIGH RATES, AND EVOLVING WORK TRENDS

OCCUPIER OUTLOOK

Executive Summary

Macro Economic View

- Inflation showed a 2.4 percent increase over the past 12 months, which is lower than economists predicted.
- In March 2025, the U.S. economy added 228,000 jobs, exceeding expectations, while the unemployment rate remained stable at 4.2 percent.
- Homes sales in March fell 5.9 percent, the biggest drop since 2022 as buyers remain concerned by rising economic uncertainty.
- Rising tariffs and other restrictive policies are making mid- to long-term demand for consumer goods uncertain – particularly non-durable goods – and may slow decision making for companies.

Office Market

- Positive demand momentum from the second half of 2024 continued into 2025 as net absorption posted modest but meaningful gains in the first quarter.
- Office demand remains complex and highly variable across markets, with only about half of the nation's top 50 markets seeing positive demand in the first quarter of 2025.
- Leasing velocity is making meaningful gains, but deal sizes remain around 15 to 20 percent below historic levels.

Industrial Market

- Eleven consecutive quarters of increasing vacancy rates is shifting leverage to the occupier.
- Warehouse/distribution lease rate year-over-year growth has slowed to near 2 percent, the lowest level in the past 10 years.
- The U.S. industrial market is on the tail of a record development wave, but quarterly net supply additions are on pace to fall below the pre-pandemic three-year average by the second half of 2025.

Economic Overview



The US Economy Stumbles as Uncertainty Weighs on Growth

The early months of the new administration have been bumpy for investors and the broader economy as policy initiatives, particularly those related to trade and the size of the federal workforce have generated uncertainty. The immediate response has caused equity markets and consumer sentiment to sink, weighing on continued economic expansion.

Entering the first quarter of 2025, the U.S. economy was carrying momentum with steady GDP growth, resilient consumer spending and strong business investment. Expectations are now for the economy to slow as businesses and consumers react to the prospect of higher prices driven by the possibility of higher tariffs across trading partners. Still, consumer spending, a primary driver of recent economic growth, remains strong as households continue to deploy savings accumulated during the pandemic and a robust job market.

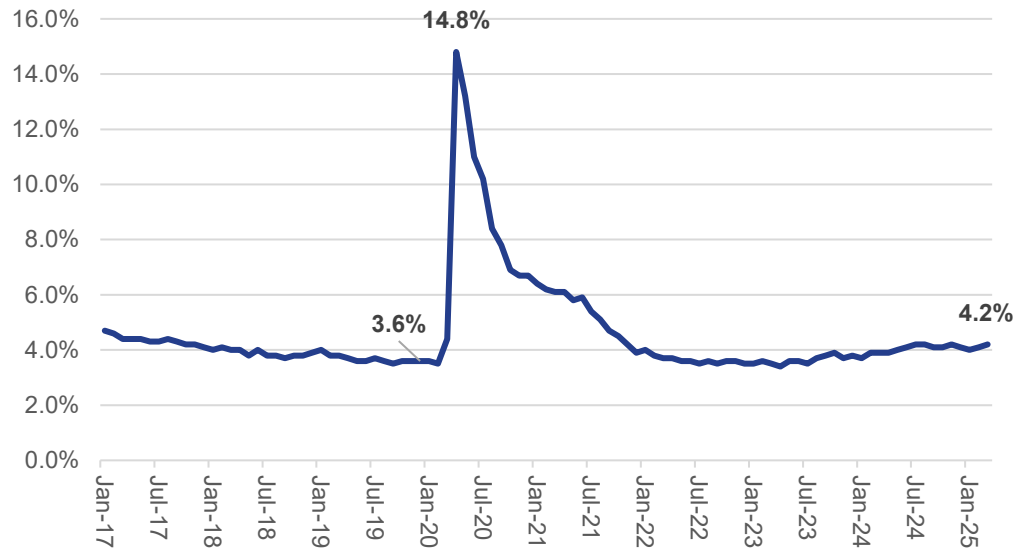
Inflation has fallen from its peak in 2022 but remains above its target rate. The labor market is showing signs of slowing down, with job creation volume down in the first three months of 2025, compared to the previous year. Nevertheless, the labor market has been durable, and unemployment is still low in relation to historical averages.

Unemployment

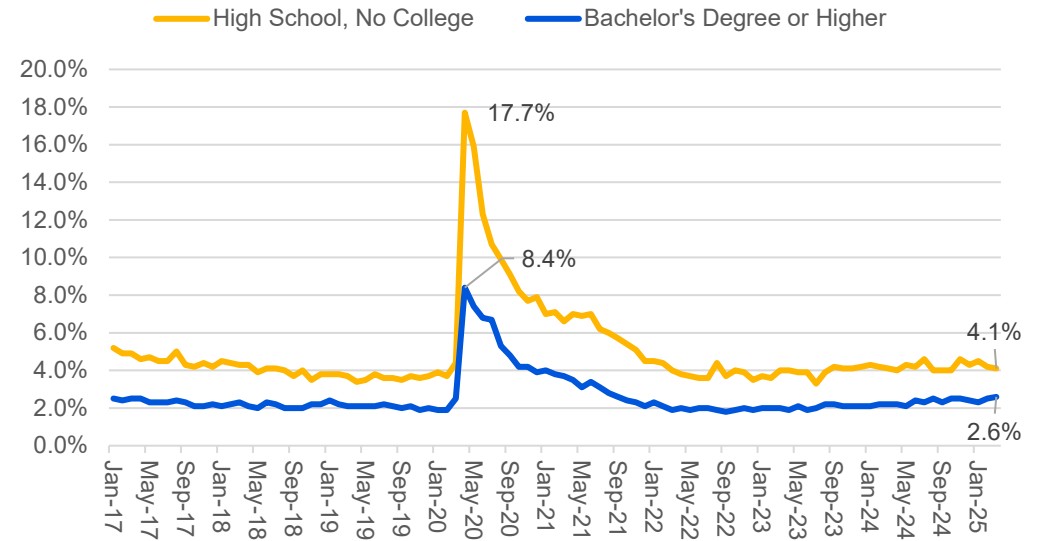
Unemployment Steadies after Drifting Higher

Unemployment ticks higher but is still low by historic standards. The market is closely watching for additional Fed rate reductions, but volatile inflation is making the timing murkier. College-educated employees remain near full-employment despite recently announced layoffs in the tech industry. Additionally, lower-skilled service-oriented jobs along with the healthcare sector are the main drivers of job growth. The looming threat of additional tariffs and a potential recession may negatively impact employment in the near- to mid-term.

Total Unemployment: (United States)



High School Only vs. Bachelor's Degree or Higher



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>; Seasonally adjusted

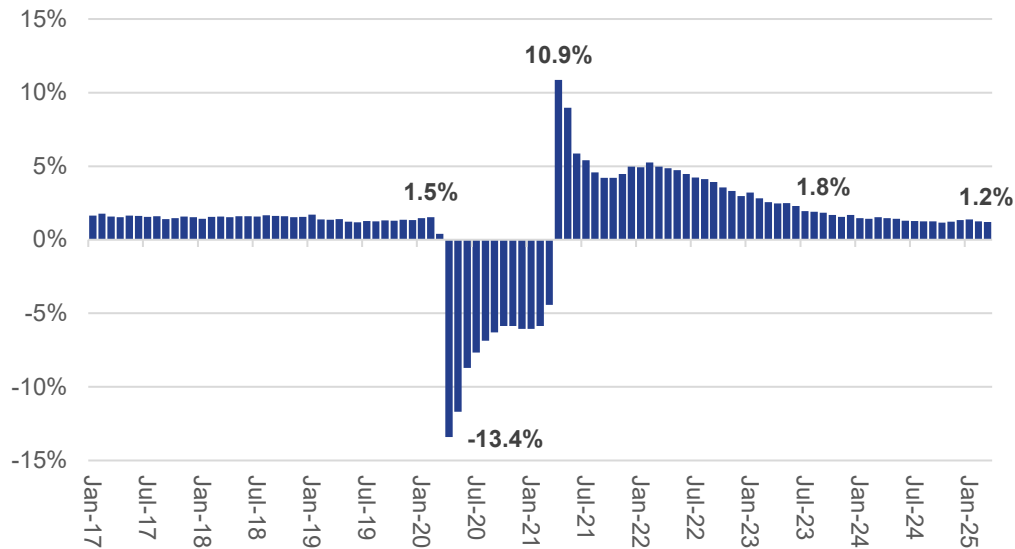
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>; Seasonally adjusted

Employment

Job Creation Slows to Pre-Pandemic Levels

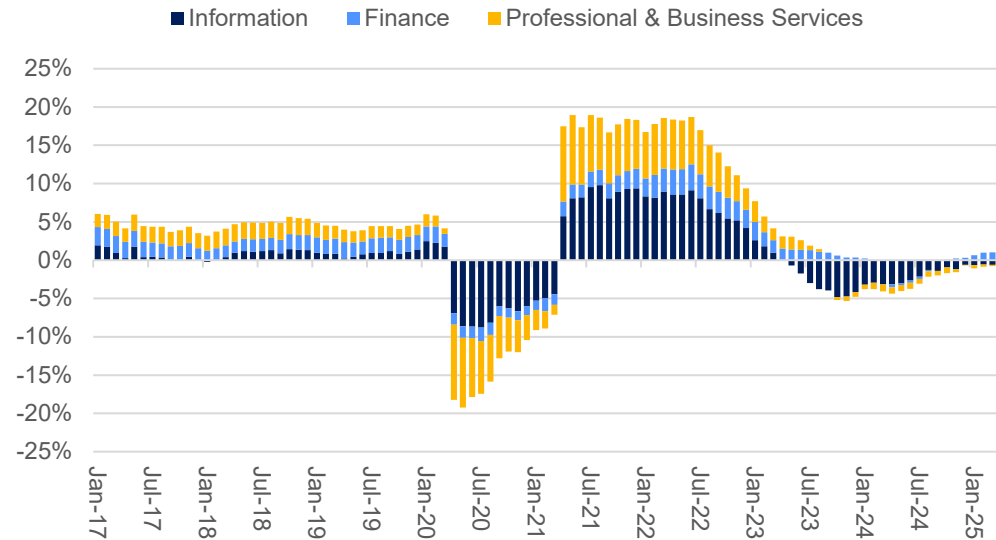
Total nonfarm employment rose by 228,000 in March, despite looming concerns over the broader economy. Gains occurred in healthcare and the transportation and warehouse sectors. Not surprisingly, federal employment declined in conjunction with the new presidential administration’s focus on efficiency. Office-occupying job creation has essentially come to a halt with anemic increases in the finance sector, while the information and professional and business service sectors shed jobs.

All Job Sectors (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>, Not seasonally adjusted

Office-Occupying Jobs (12-Month Change)



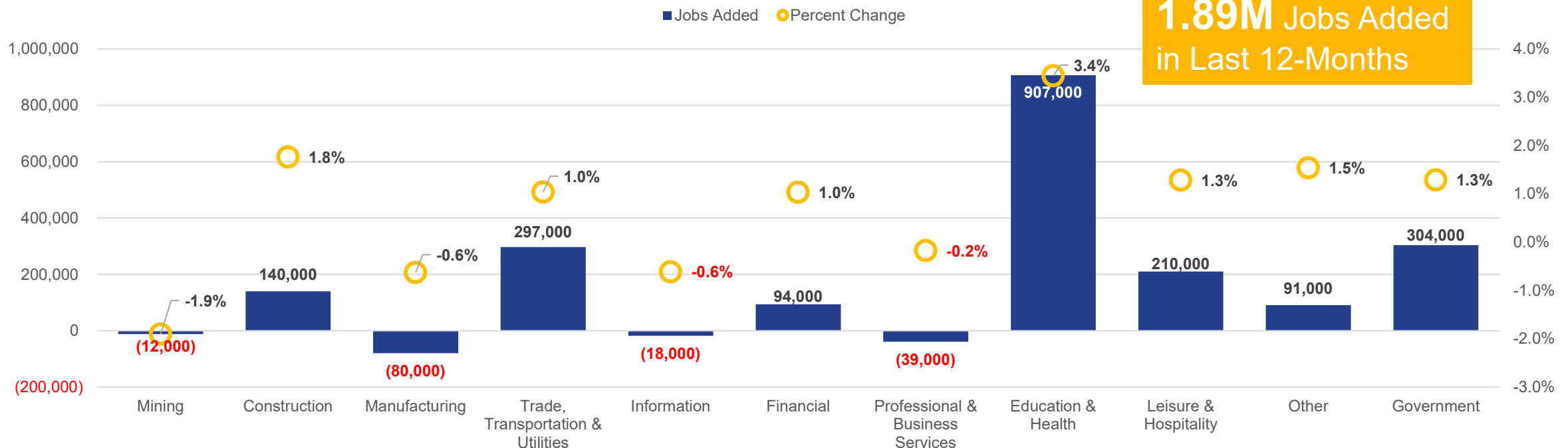
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>, Not seasonally adjusted

Employment

Education and Healthcare Sectors Lead the Way

Education and health services continued strong growth, with over 900,000 jobs added in the past year, representing a 3.4 percent increase. The jobs being added are not concentrated in office-occupying sectors. The manufacturing sector pulled back over the past year, while the construction and trade, transportation, and utilities sectors added approximately 440,000 jobs.

Job Creation by Sector (12-Month Change)

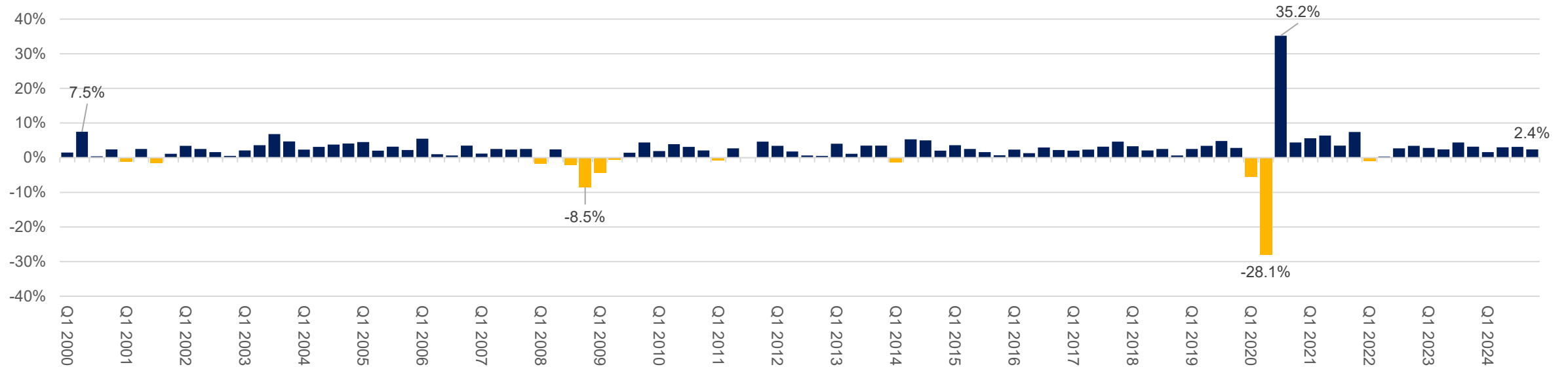


GDP

Gross Domestic Product Posts Ninth Consecutive Quarter of Growth

The GDP has expanded for the past 11 quarters, remaining remarkably consistent over that time despite much debate about the health of the broader economy. According the Bureau of Economic Analysis, the most recent quarter showed GDP increasing at a 2.4 percent rate, which trailed the gains of the two previous quarters GDP increase. Still, it continues a strong period of expansion. The *Bureau of Economic Analysis* reported the increase in GDP was driven by consumer and government spending.

Real GDP Percent Change from Preceding Quarter: Q4 2024

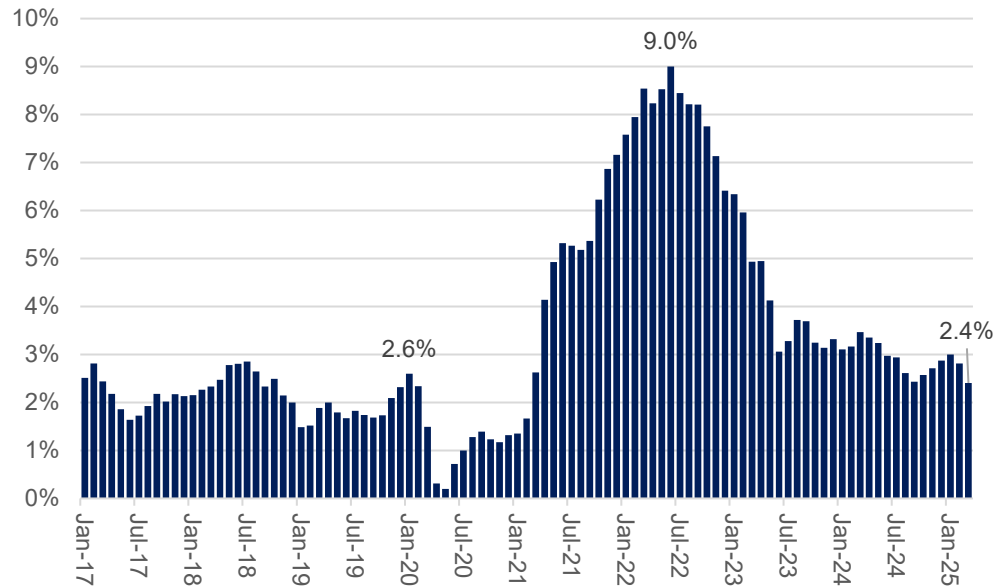


Inflation

Inflation Remains Elevated

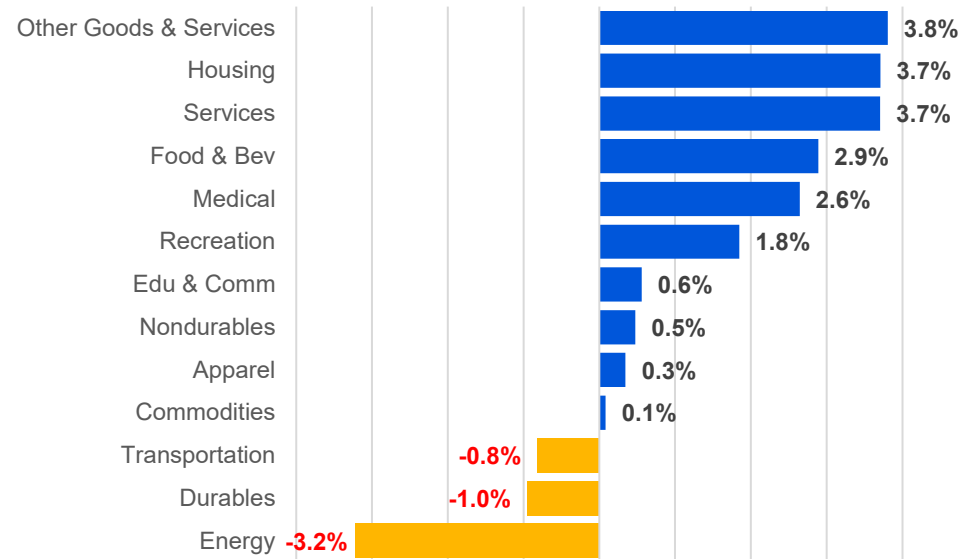
The March 2025 Consumer Price Index (CPI) from the Bureau of Labor Statistics reported that inflation has dropped for two consecutive months after rising for the second half of 2024. Pre-covid rates were typically 2-3 percent annual increases, indicating the US economy has stabilized. Indexes that increased in March include other goods & services, housing, food & beverages, and medical, while energy and durables decreased.

Consumer Price Index (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>
 Note: Seasonally adjusted, Data pulled April 2025.

Consumer Price Index by Sector (12-Month Change)



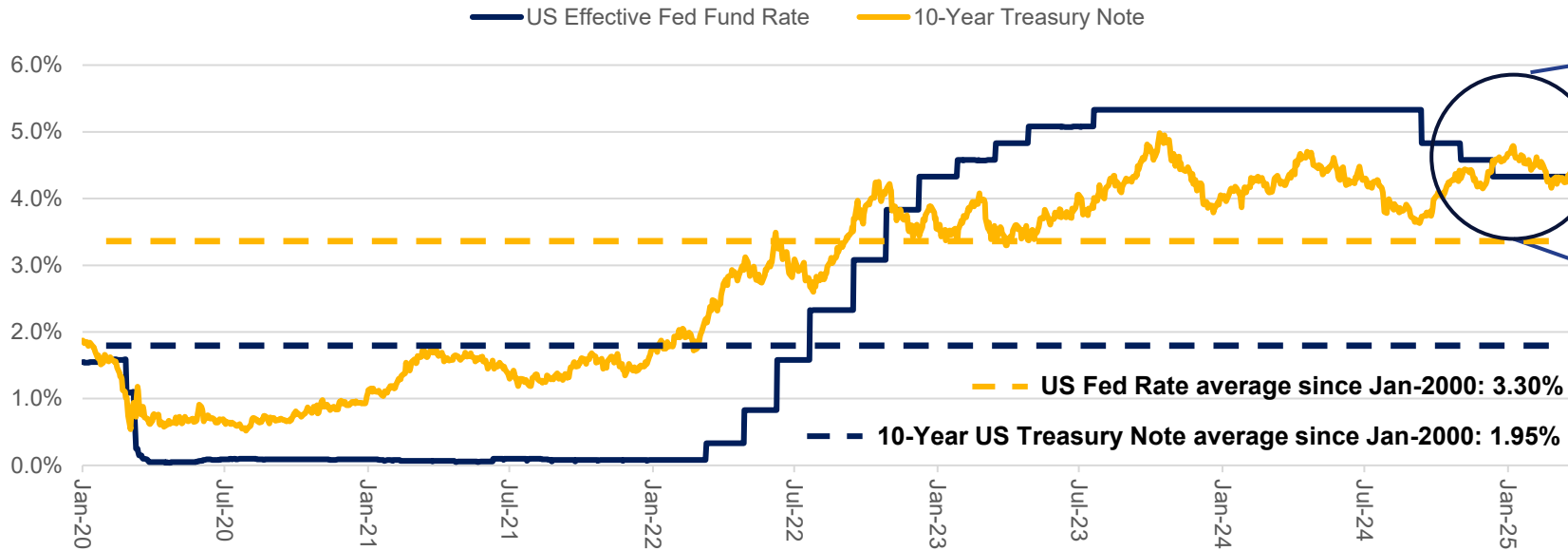
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>
 Note: Seasonally adjusted, Data pulled April 2025.

Monetary Policy

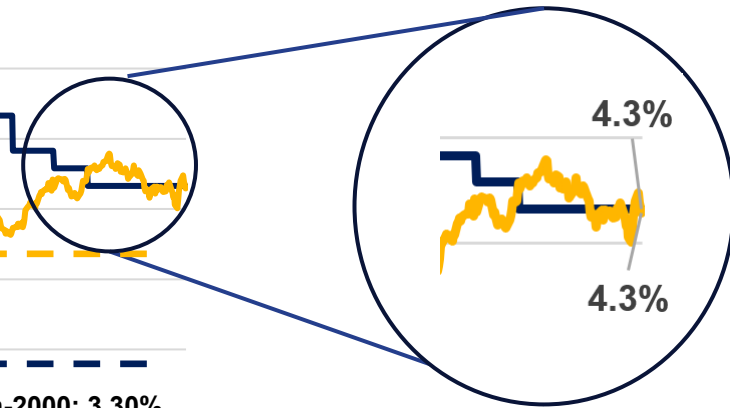
The Fed Lowers Rates for First Time in Four Years

On November 7, 2024, the Federal Reserve cut rates an additional 25 basis points, after lowering interest rates by 50-basis points in September, the first decrease in more than four years. The most recent March 2025 meeting of the Federal Open Market Committee (FOMC) held the federal funds rate at 4.25 to 4.50 percent, marking the second consecutive meeting where the rate remained unchanged.

US Effective Fed Fund Rate & 10-Year Treasury Note



10-Year Treasury Passes US Fed Fund Rate



When the 10-year treasury note yield is higher than the US effective rate, it indicates that investors are demanding higher returns on longer-term bonds. The result is typically higher mortgage rates and higher interest rates on other debt like credit cards.

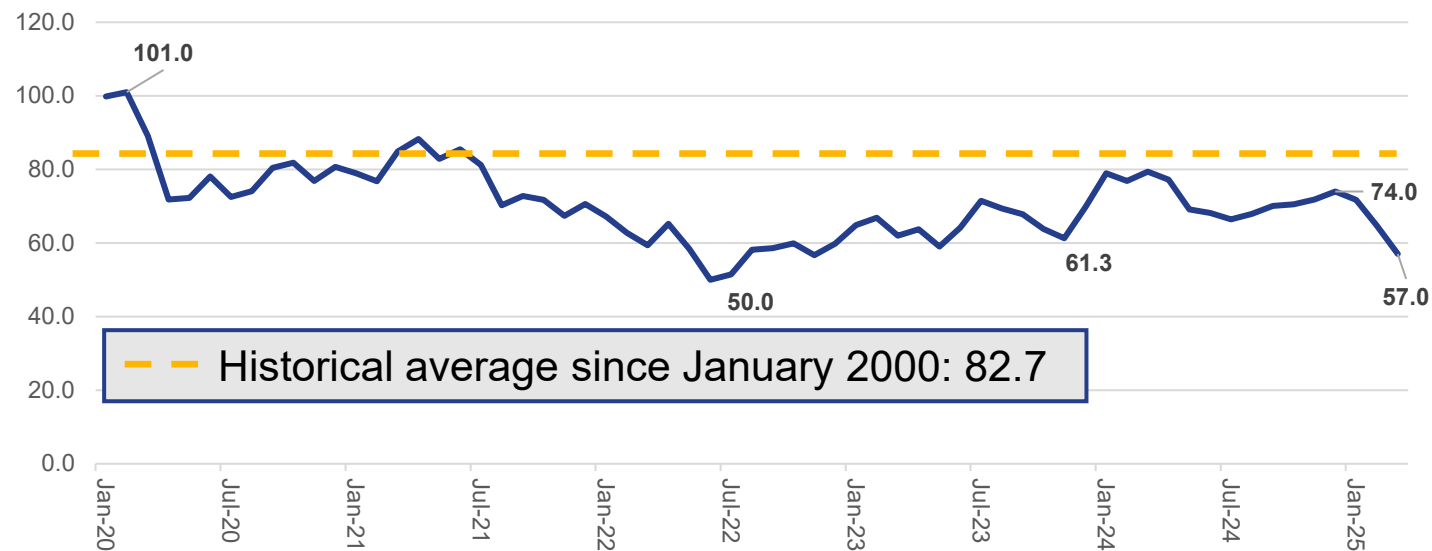
Source: Federal Reserve Economic Data, <https://fred.stlouisfed.org>; Data is through April 15, 2025
 Wall Street Journal; Data is through April 15, 2025

Consumers

Consumer Sentiment Moves Higher

The Consumer Sentiment Index fell to 57, the lowest level since November 2022, marking the fourth straight dip. The decline was attributed to rising inflation fears and worries about economic policy uncertainty, such as tariffs. While consumer spending remains strong, durable goods are still lagging, representing a reluctance to spend money on higher ticket items. **Sentiment has now lost more than 30 percent since December 2024.**

Consumer Sentiment Index: (United States Total)



Consumer Sentiment Index

Consumer sentiment is a statistical measurement of the overall health of the economy as determined by consumer opinion. It considers people's feelings toward their current financial health, the health of the economy in the short-term, and the prospects for longer-term economic growth.

Source: Federal Reserve Economic Data, <https://fred.stlouisfed.org>;

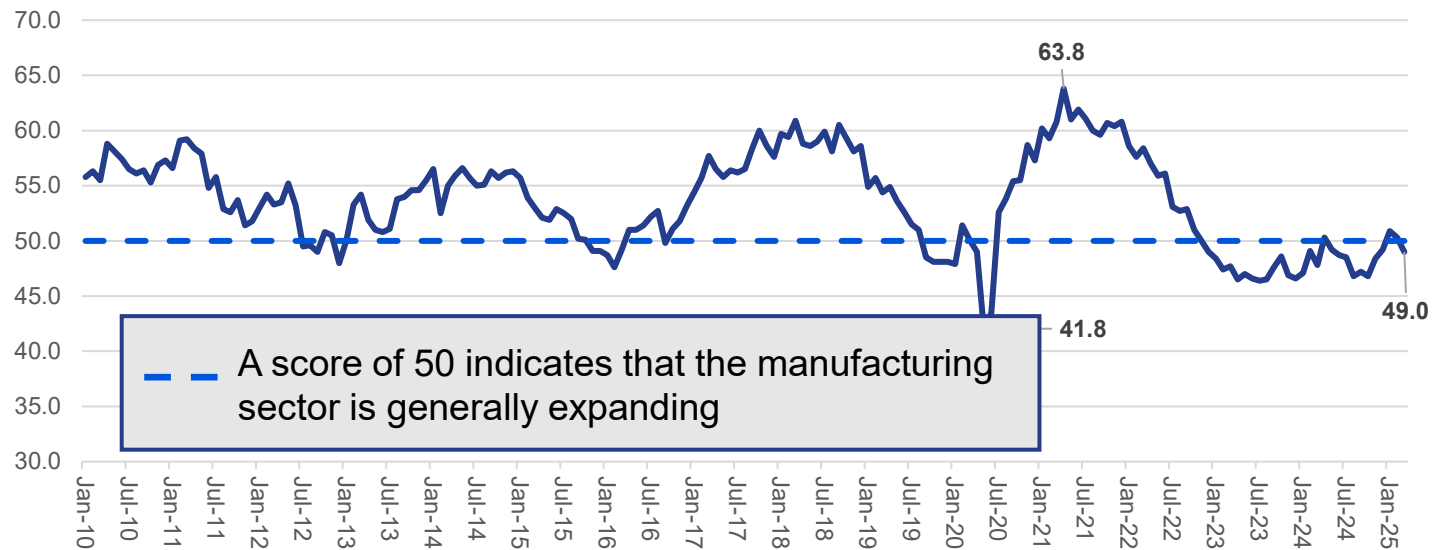
Note: Data thru March 2025 (UMCSNT)

Consumers

ISM Manufacturing PMI Trails after Peaking in May

The Institute for Supply Management (ISM) Manufacturing PMI (Purchasing Managers Index) for March 2025 registered at 49, indicating a contraction in the U.S. manufacturing sector. This represents a decline of 1.3 bps from February's reading. ISM reported that demand and production retreated, and de-staffing continued as companies responded to demand confusion. Price growth accelerated due to tariffs, causing new order placement backlogs, supplier delivery slowdowns and manufacturing inventory growth.

ISM Manufacturing Index: (United States Total)



ISM Manufacturing PMI

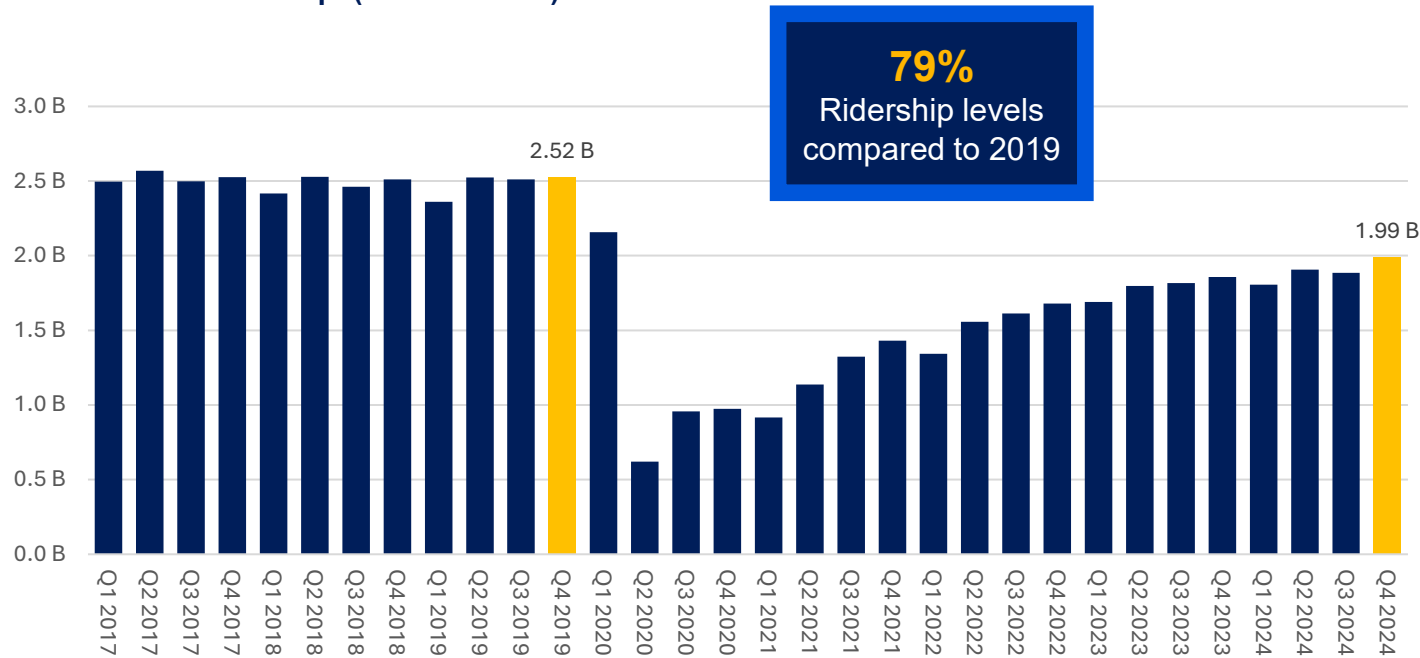
The ISM Manufacturing Index is a key economic indicator that measures the level of demand for products by surveying purchasing managers at manufacturing companies. The PMI is based on five major components: new orders, production, employment, supplier deliveries, and inventories. The index is seasonally adjusted to account for differences in weather, holidays, and other factors. A reading above 50 percent indicates that the manufacturing sector is generally expanding; below 50 percent indicates that it is generally contracting.

Public Transit

Public Transit Levels Off

A good indicator of the health of an urban core, and by extension the downtown office market, is the use of public transportation. Public transit ridership jumped to nearly two billion in the fourth quarter. Still, the highest rate since the start of the pandemic. Based on several additional indicators, return-to-office momentum has appeared to stabilize, but given the new administration’s view on return-to-the office, it may shift in the future.

Public Transit Ridership: (United States)



79%
Ridership levels compared to 2019

A Fare to Remember

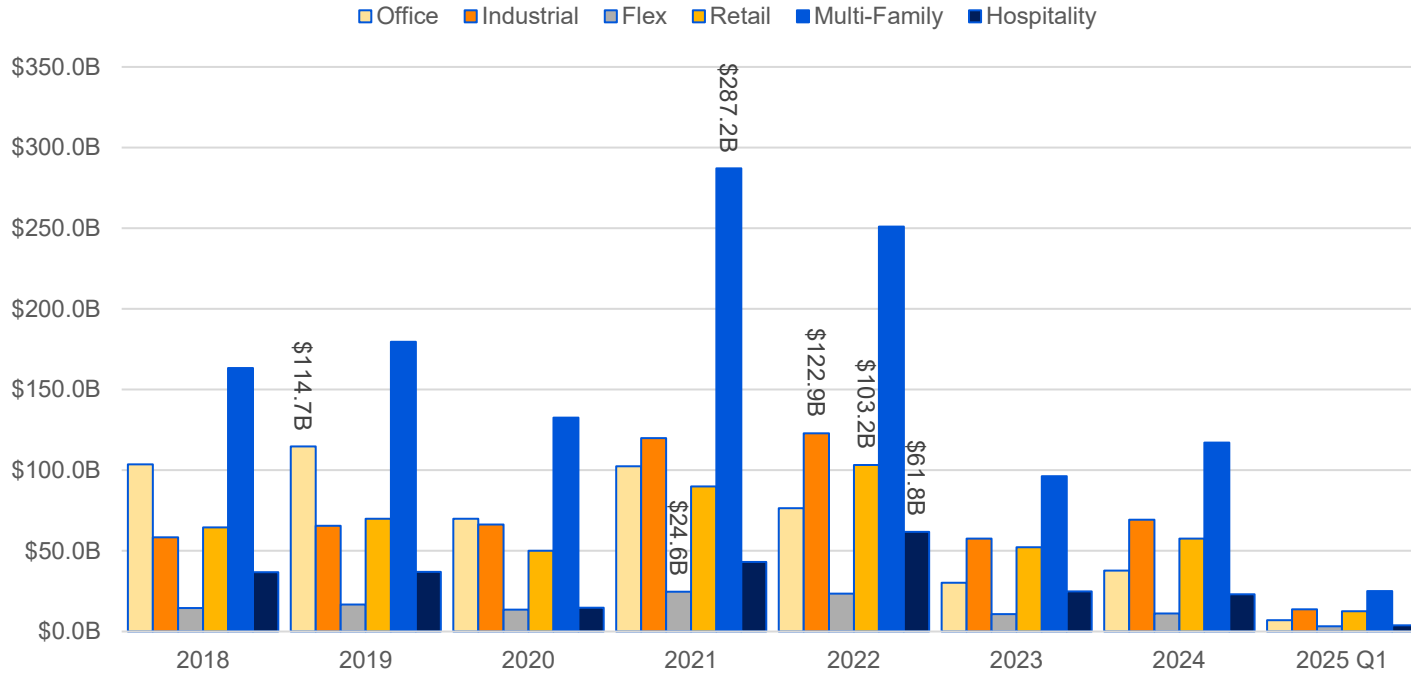
Public transportation has been reliably consistent since the turn of the century. Sky-rocketing gas prices temporarily encouraged public ridership in 2008 but quickly dropped back to historic levels. During the first year of the declared pandemic, ridership was cut in half (52.8% decrease). The economy opened wider in 2021, but ridership still only increased 3.1 percent from the previous year. The beginning of 2022 marked the beginning of the economy opening back to near pre-pandemic levels, yet ridership on public transportation ended the fourth quarter of 2024 at 79 percent of the average ridership of 2019, the last full-year before the start of the pandemic.

Source: American Public Transportation Association Quarterly Ridership Report. [Ridership Report - American Public Transportation Association \(apta.com\)](#)

Capital Markets

All Asset Types Recover From Down 2023

Sales Volume by Asset Type (United States)



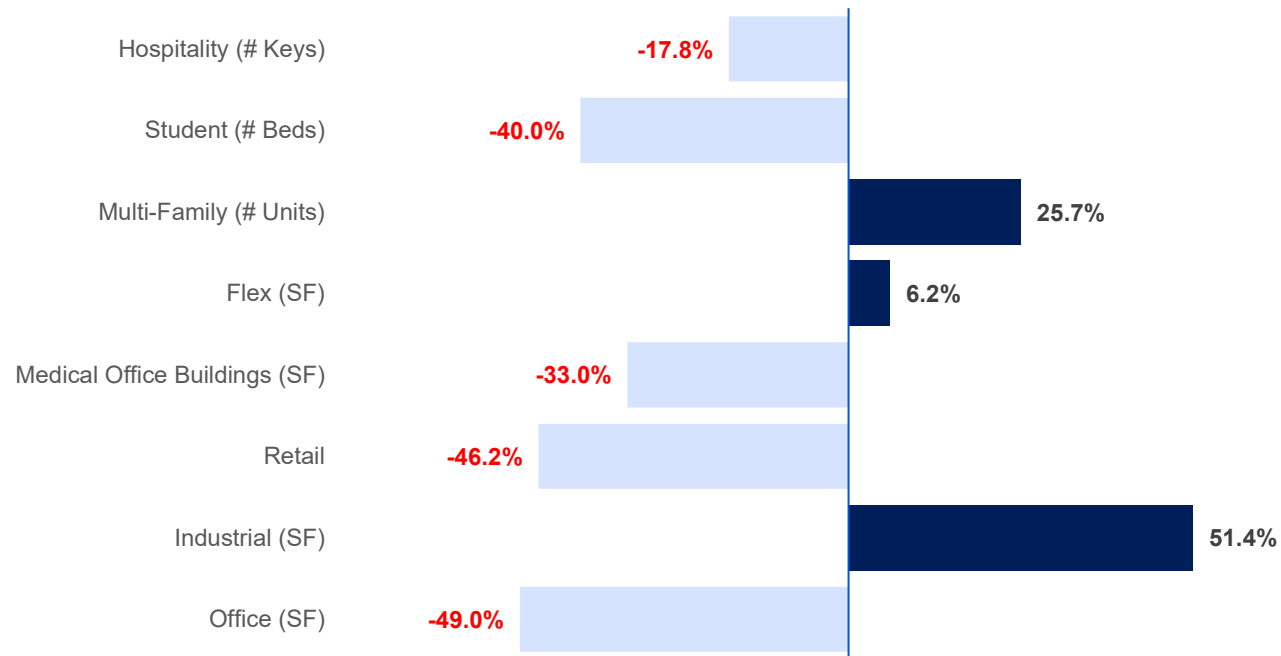
After peaking in 2021, the sales volume for all asset types have quickly fallen. Demand within the office space asset type has led to a steep decrease in sales volume, but higher interest rates, rising costs, and a cloudy economic landscape have hindered capital markets across all asset types. The least volatile asset type has been retail, which has remained remarkably stable. Both multi-family and industrial asset types quickly fell after peaking in 2021 and 2022. Sales volume in 2024 for all asset types – except for hospitality – has passed totals from 2023. Overall sales by all asset types was muted in the first quarter of 2025.

Source: CoStar and Cresa; thru Q1 2025

Capital Markets

Construction starts for industrial properties, despite falling sharply in the past year, are still well-above levels from 2015 through 2019. Not surprisingly, office and retail asset types are far below pre-Covid levels.

Average Construction Starts Per Quarter by Asset Type (United States)
(Q1 2015 – Q4 2019) vs. (Q1 2020 – Q1 2025)



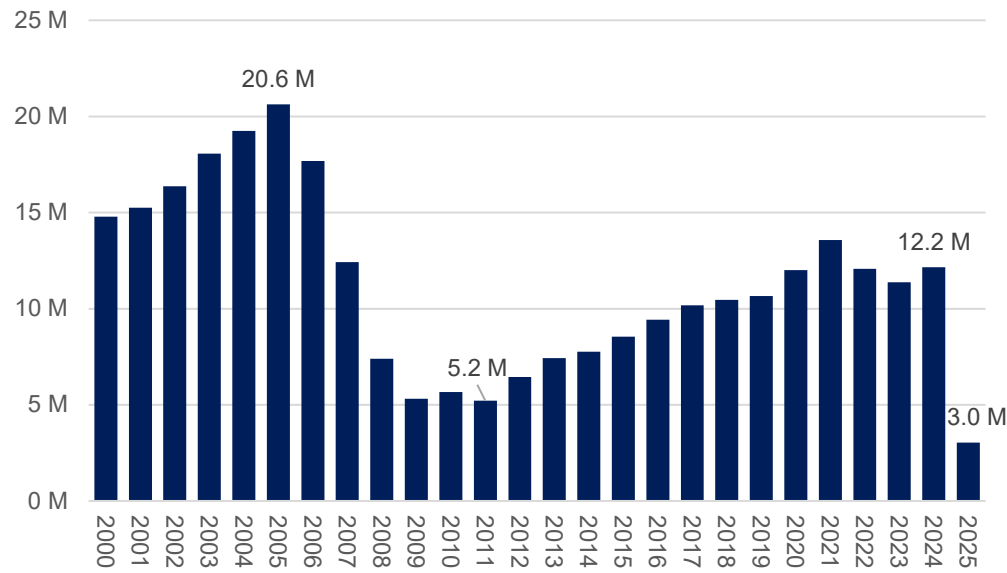
New office space has generally paused, with the number of demolitions nearly equal to new office deliveries. Industrial and flex space projects under construction are above historic averages. While multi-family starts are still above averages compared to pre-Covid, the number of starts for new units is slowing. Meanwhile, the student housing boom of the 2010s has lessened in the past 12-months.

Housing

Housing Starts Pick Up, as Interest Rate Cut Encourages Developers

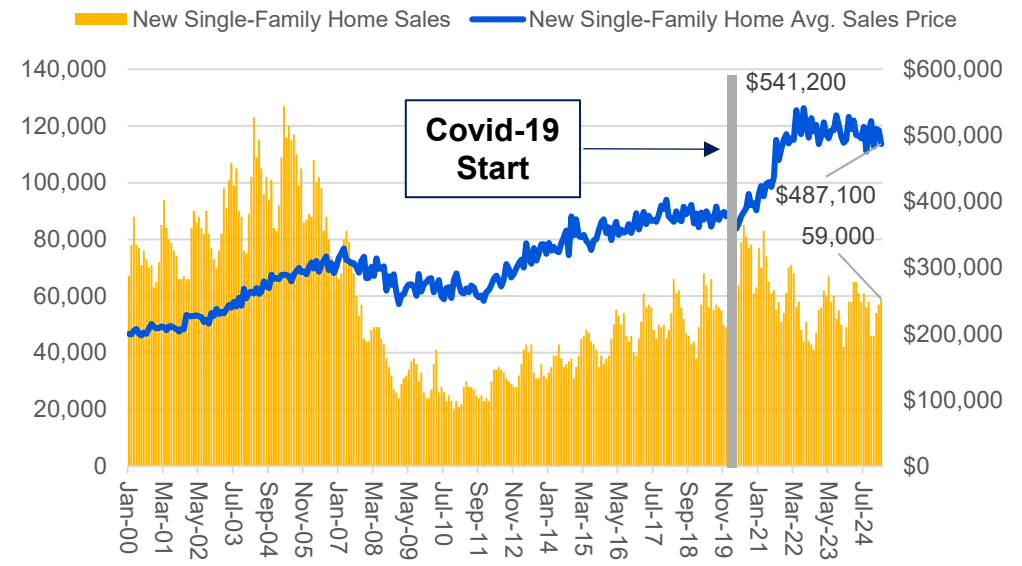
The number of residential housing starts soared at the start of the pandemic, while sale prices reached record highs in 2022. This growth is being tempered as mortgage rates remain elevated, labor and material costs rise, and supplies remain scarce. During 2023, home starts declined from the previous two years but remain near pre-pandemic levels. Meanwhile, prices have begun to stabilize as demand softens. After passing an average sale price of over \$540,000 to end 2022, prices have fallen to \$487,100 to close February of 2025, a decrease of approximately 10 percent. Nevertheless, the average sales price for new single-family homes is over \$100,000 higher compared to pre-Covid levels.

Single-Family Residential Housing Starts



Source: U.S. Census Bureau, <https://census.gov/construction>
 *Note: Data thru February 2025

Single-Family Homes: No. of Sales vs. Avg Sales Price



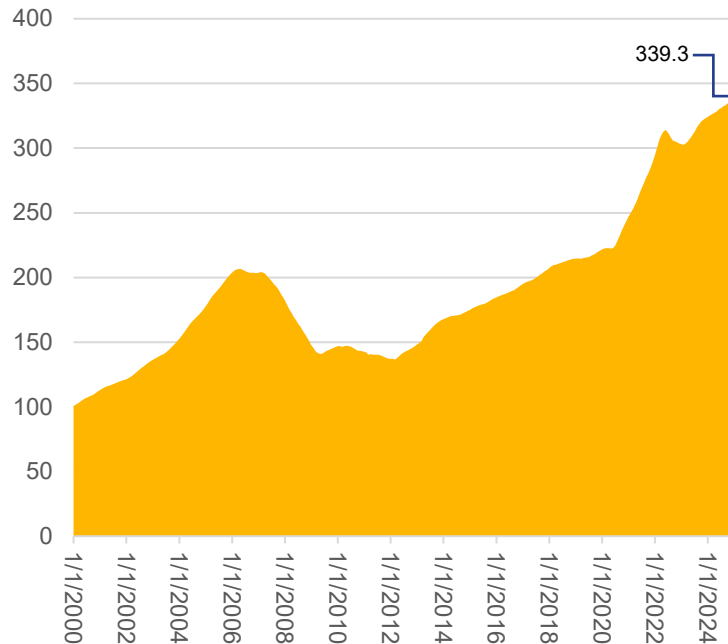
Source: U.S. Census Bureau, <https://census.gov/construction>
 Note: Data thru January 2025

Home Price Index

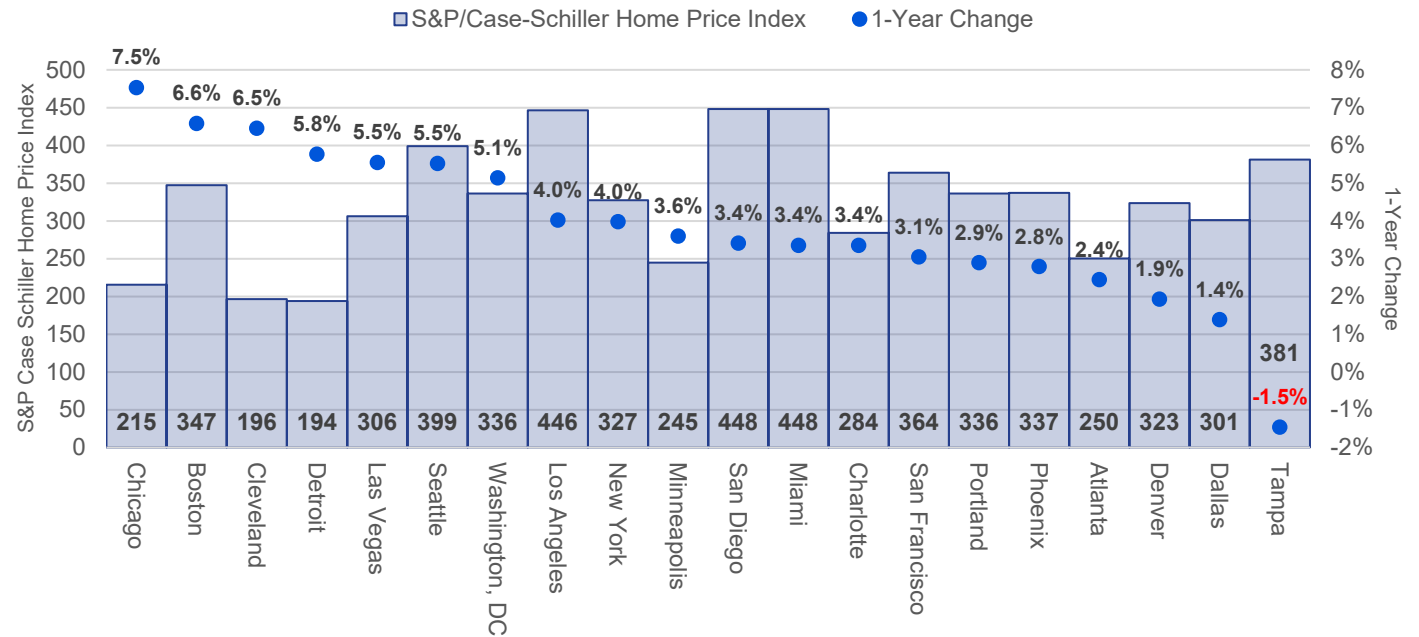
Case-Schiller Home Price Index Keeps Setting Record Highs

The Case-Schiller Index is an economic indicator that measures the monthly change in the value of the U.S. single-family home market. The 20-City Home Price Index briefly peaked in June 2022 and dropped for eight straight months, before ticking higher for the past two years closing March at a record high. San Diego and Miami hold the highest Home Price Index, followed closely by Los Angeles. Chicago, Boston, and Cleveland increased the most in the past 12-months, while Tampa, fell 1.5 percent in the past year.

Home Price Index: 20-City Average



S&P/Case-Schiller Home Price Index



Source: S&P Dow Jones Indices LLC, S&P/Case-Schiller U.S. National Home Price Index [CSUSHPINS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CSUSHPINS>, March 2025.

Industrial Trends



The US Industrial Market Slows as Occupiers Consider Next Move

As rent growth puts on the brakes in the broader industrial market, occupiers are moving into a position of leverage. Nevertheless, due to the record rent growth during the pandemic, many leases are still renewing at higher rates after being marked to market. Vacancy has now drifted higher for eleven consecutive quarters, but with new spec development beginning to subside the vacancy increases have notably slowed. The elephant in the room is the unpredictability of rising tariffs and how this may impact the logistics and manufacturing market in the short and long-term. This uncertainty will likely result in some hesitancy in the next three to six months as companies with complex supply chains chart a path forward. Even as consumer sentiment declines, the American consumer spending continues to be strong, but this will be watched closely all sides as a predictor of future demand.

Industrial Tenant View

- Increased vacancy can be tied to warehouse/distribution buildings, generally comprised of logistics occupiers.
- The small bay industrial market is outperforming logistics properties 100,000 square feet or larger, with vacancy below 4 percent.
- Anticipated tariffs could potentially raise requirements for manufacturing space, but this may take time to meaningfully materialize.

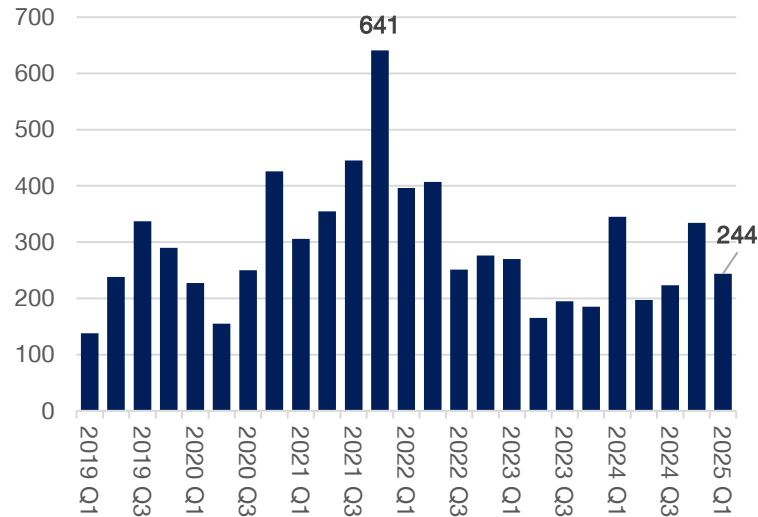
Capital Markets

Industrial Sales Velocity Stabilizes

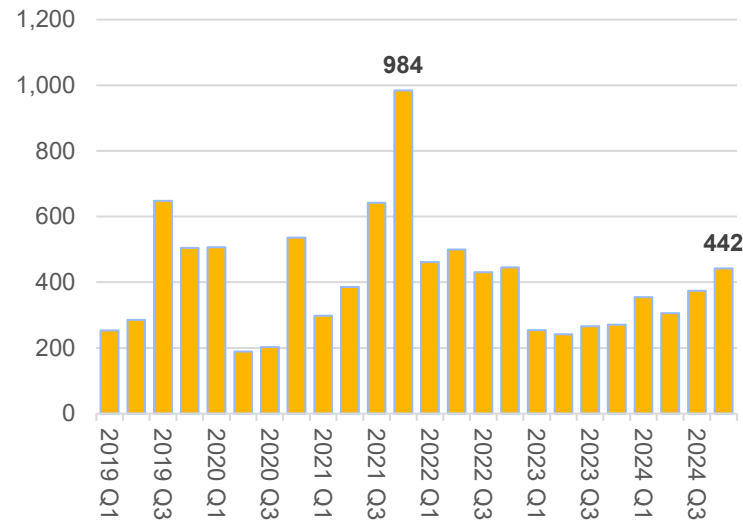
Strong demand caused industrial sales velocity (number of sales) to nearly double in the year following the Covid lockdown. Warehouse/distribution spaces consist of nearly 70 percent of the sales volume in 2023. **Strong demand in manufacturing caused sales to spike in the first quarter of 2021, before falling back to historic levels.** Both warehouse/distribution spaces and flex spaces have leveled off in the past two years. Warehouse/distribution sales jumped in the first quarter of 2025.

Industrial Sales Velocity: (United States)

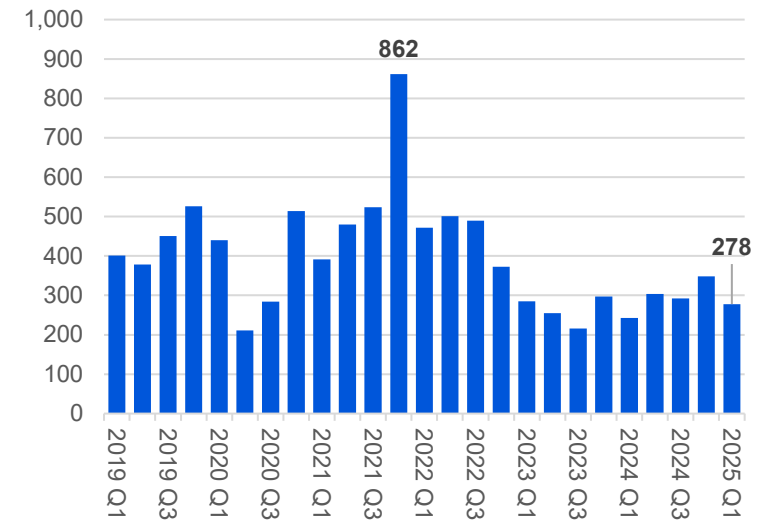
Manufacturing



Distribution



Flex



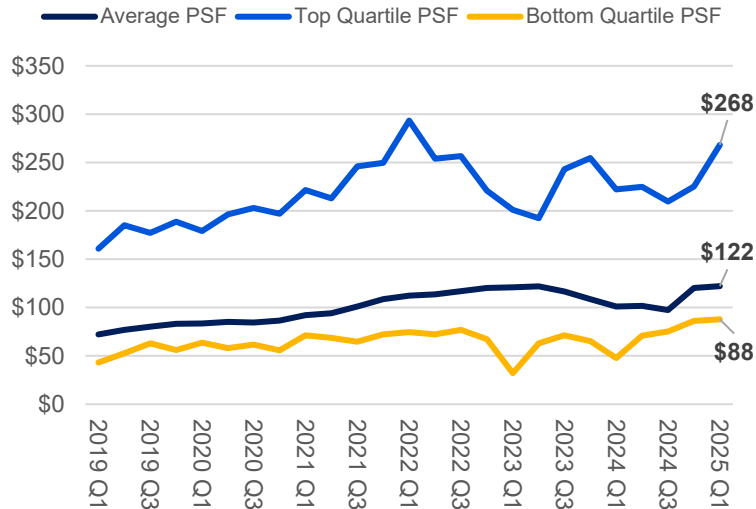
Capital Markets

Sales for top-end manufacturing properties spiked in the first quarter of 2025 on a per square foot basis

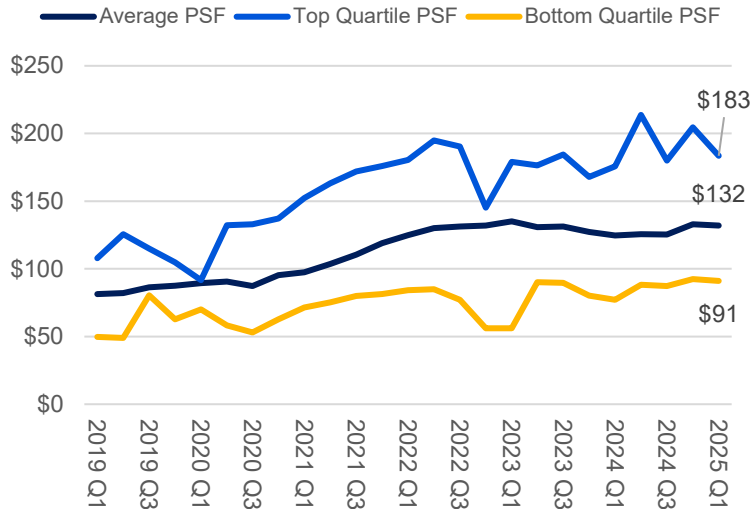
The average sales price per square foot of industrial properties remained steady in the first quarter. However, the average price per square foot of manufacturing space reached its highest level during the first quarter of 2025. Averaged realized prices per square foot for both manufacturing space and distribution space have each increased more than 60 percent compared to the start of 2019, while flex spaces increased 30.1 percent over the same period.

Average Industrial Sale Price/SF (United States)

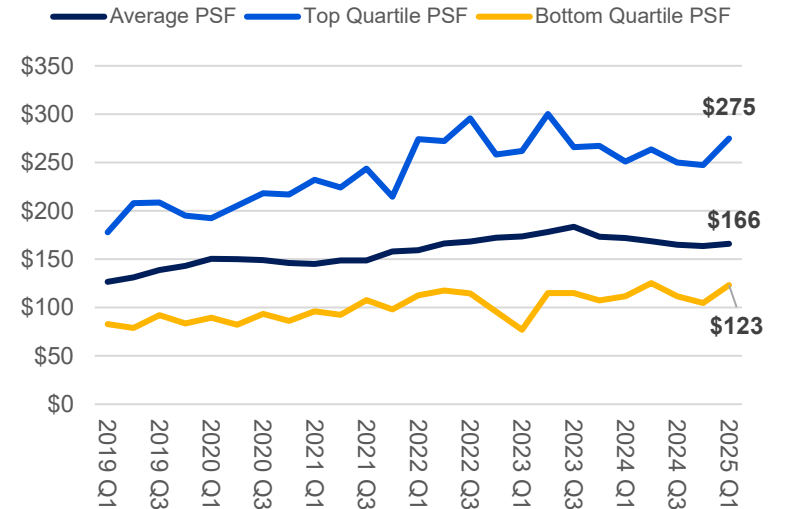
Manufacturing



Distribution



Flex



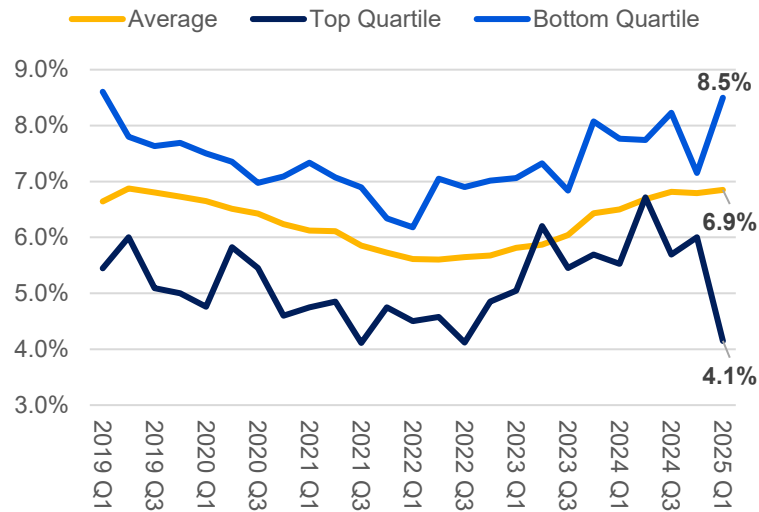
Capital Markets

Industrial Cap Rates Float Higher as Risk Increases

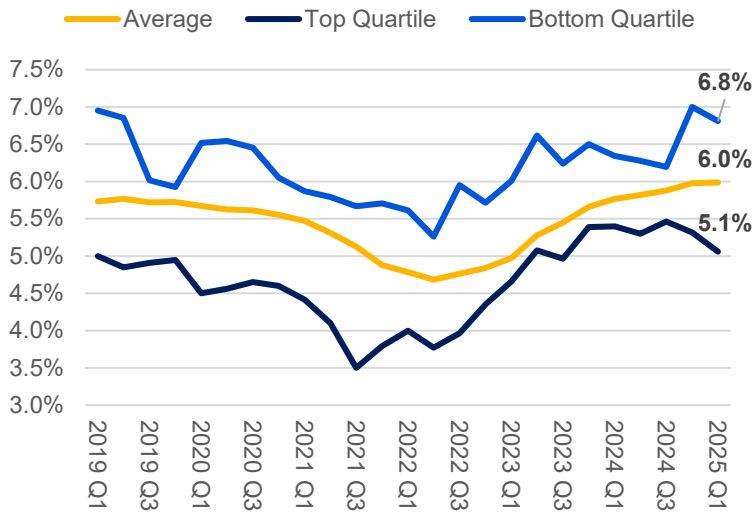
Economic volatility, increasing borrowing rates, and rising construction costs have pushed cap rates for industrial properties higher in the past 24 months. This **higher risk has slowed overall prices paid for industrial assets increased**. While there is still money available for investment in a stable asset class, the lack of available top-quality properties with modern amenities is causing hesitation in capital markets. The Fed cuts in interest rates this past fall may spur additional investment.

Industrial Cap Rates (United States)

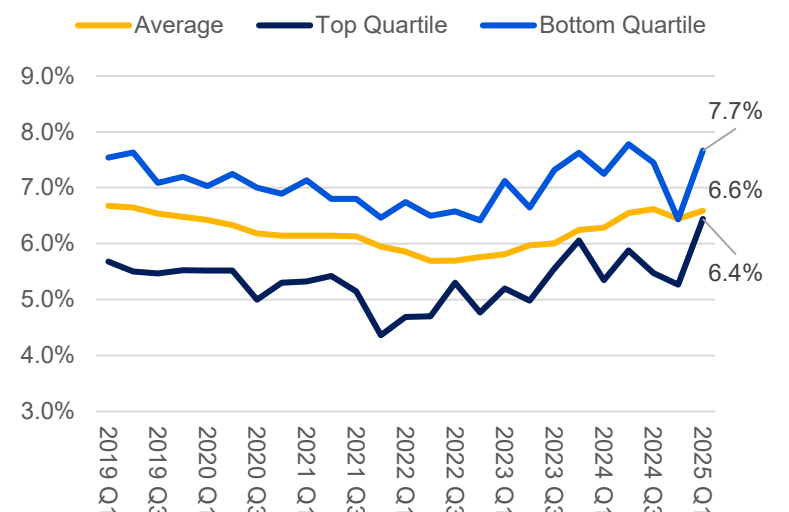
Manufacturing



Distribution



Flex



Source: Real Capital Analytics and Cresa; thru Q1 2025

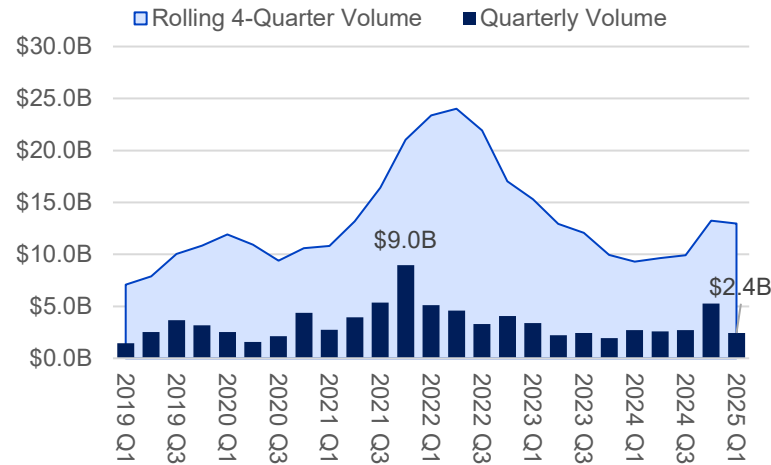
Capital Markets

Industrial Sales Volume Improves

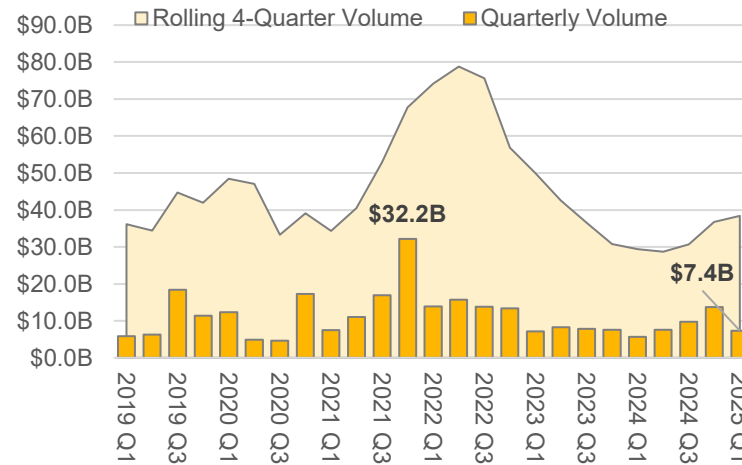
Sales volume for the trailing 12-months, while trailing 2022 and 2023 levels, is comparable to pre-pandemic levels. Higher prices have pushed volume higher, despite the number of total sales declining from prior years. The sales volume for both manufacturing and distribution properties have been trending higher in the past year, while sales volume for flex properties has been steady.

Industrial Sales Volume: (United States)

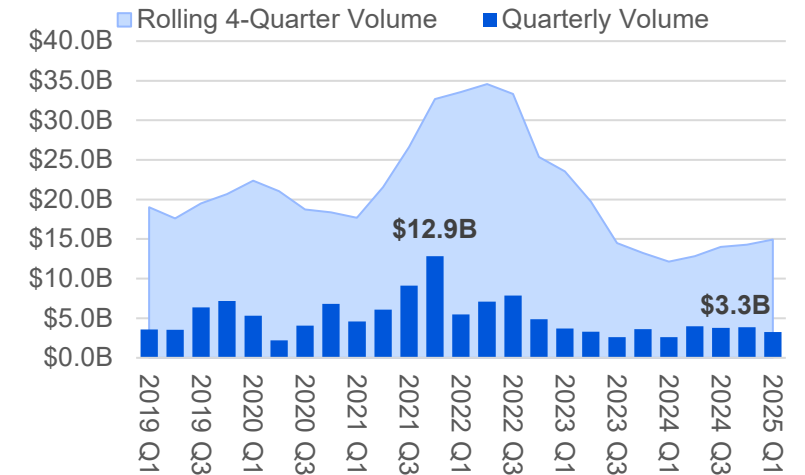
Manufacturing



Distribution



Flex

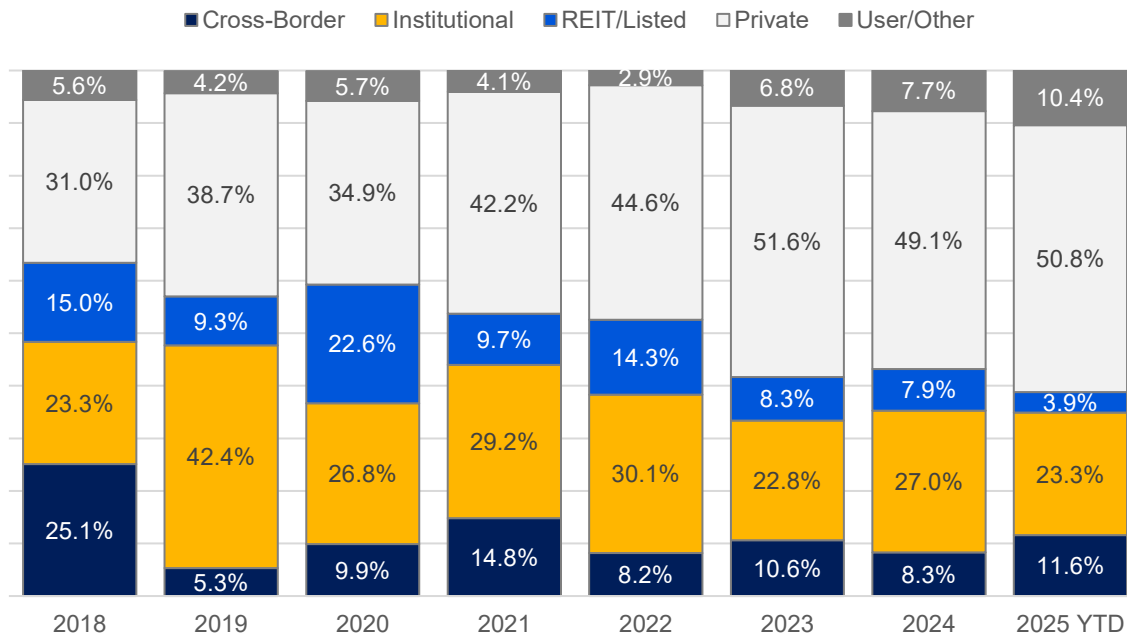


Capital Markets

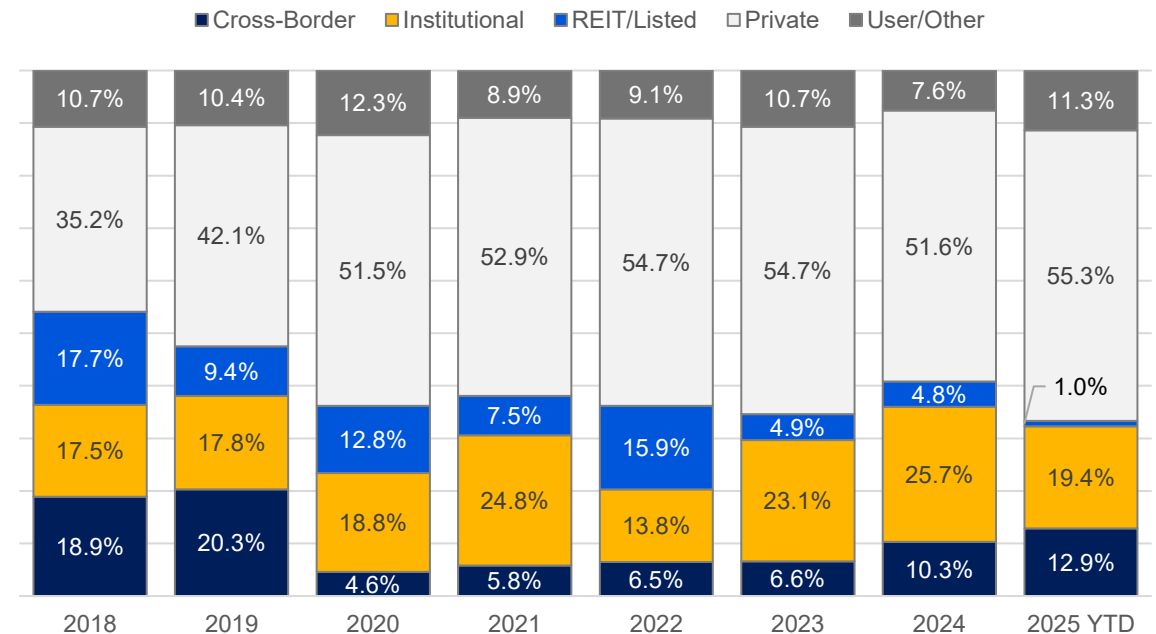
Industrial Capital Composition

Capital markets were very active in 2021 and 2022 before quickly slowing, due to both interest rates and rising costs, but also lack of investment grade industrial supply. Private investors have been active buyers in the industrial market, while REITs have generally been less active. REITs have also trended lower on the sell-side, meaning they are generally holding their existing assets longer. Cross-Border investors have been more active sellers in the past five quarters, looking to take profits as they held their investments over the past five years.

Industrial Buyer: (United States)



Industrial Seller: (United States)



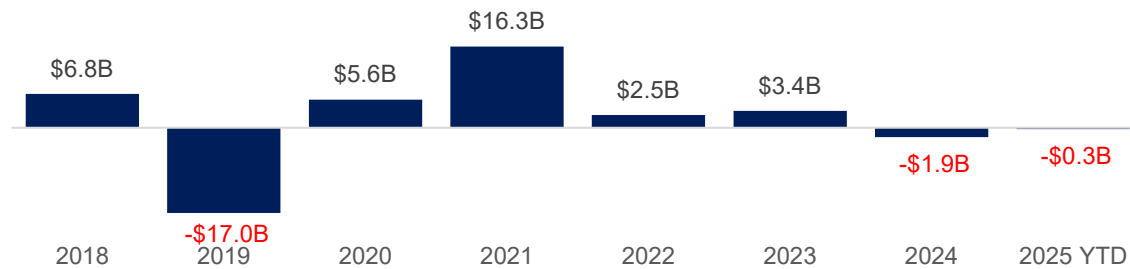
Source: Real Capital Analytics and Cresa; thru Q1 2025

Capital Markets

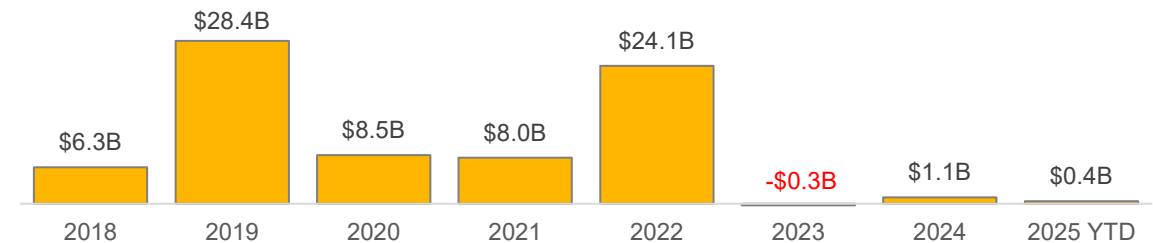
Industrial Capital Flows: Net Acquisitions

While private investors have been more bullish on the investment side, they have generally been more active sellers in the industrial asset type, more actively selling than buying for the past seven years. Meanwhile, institutional investors have made big bets on the buy-side as they have acquired more than disposed of industrial assets in each of the past seven years.

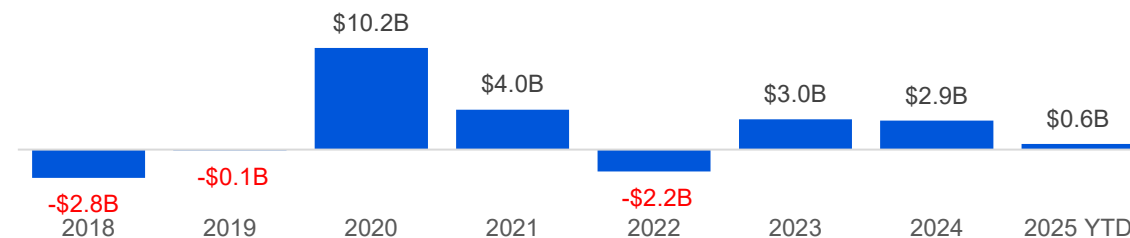
Cross-Border



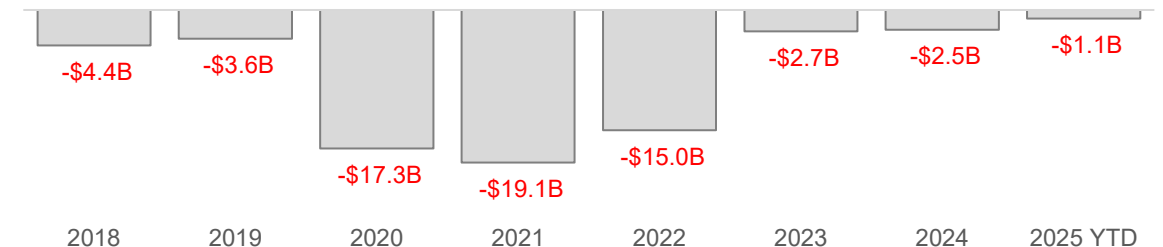
Institutional



REIT/Listed



Private



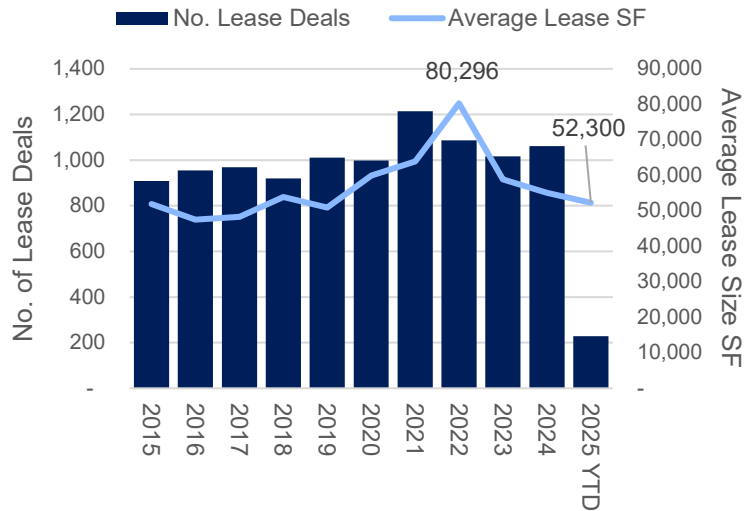
Leasing Trends

Transaction Size is Smaller than 2022, Reverts to Historic Averages

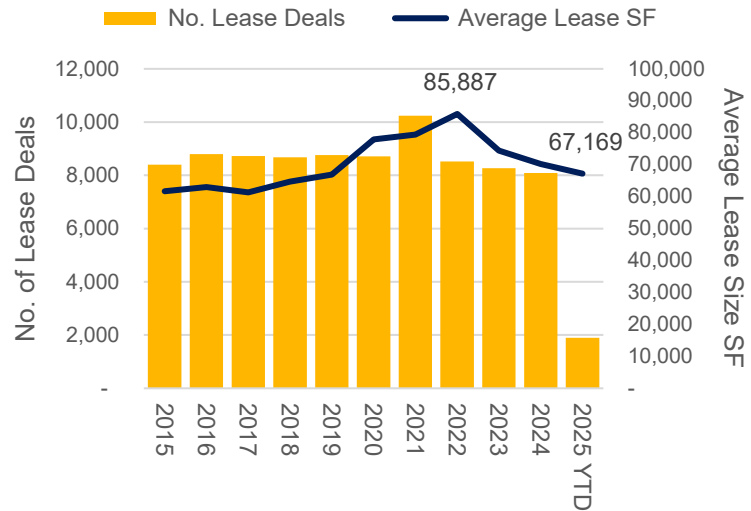
Lease deal sizes in 2022 were higher for all industrial property types compared to the first quarter of 2025. After beginning to spike in 2020, average deal sizes have reverted closer to historic averages. The number of lease deals for manufacturing, distribution, and flex spaces are on track to align with the past two years.

Historic Industrial Activity – Average Deal Size

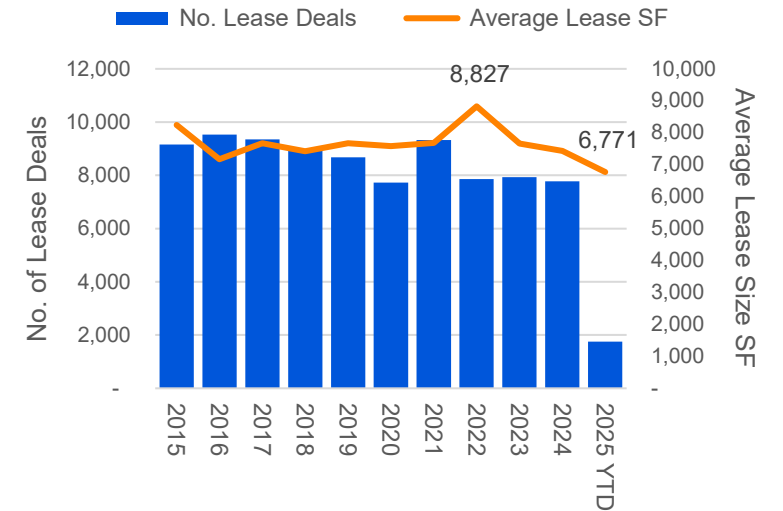
Manufacturing



Distribution



Flex

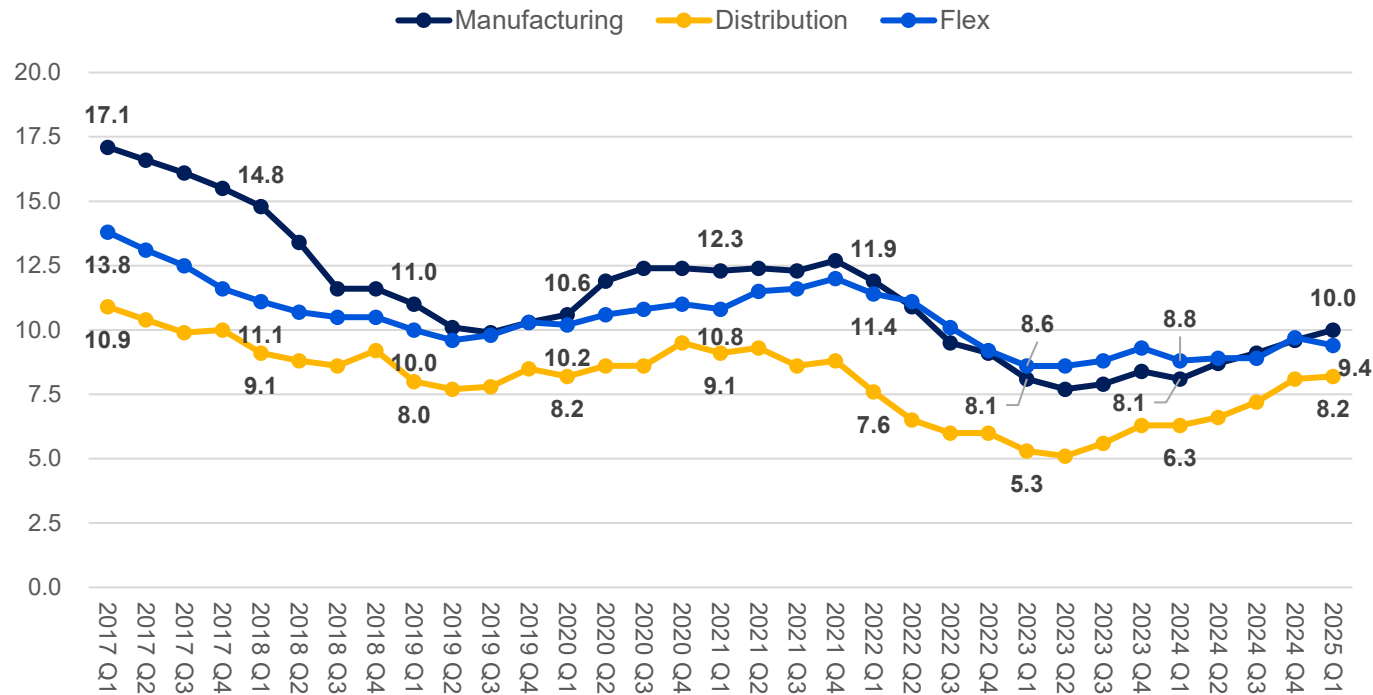


Source: CoStar and Cresa; thru Q1 2025

Leasing Trends

Months to Lease Properties Generally Declines Over the Past Three Years

Months-To-Lease



The number of months to lease industrial properties have generally trended lower in the past seven years, bottoming out in 2023 before moving higher.

Distribution spaces have taken 2.9 months more time to lease since the start of 2023.

Manufacturing spaces have taken 1.9 months more time to lease since the start of 2023, while flex space have taken a little than a month more to lease.

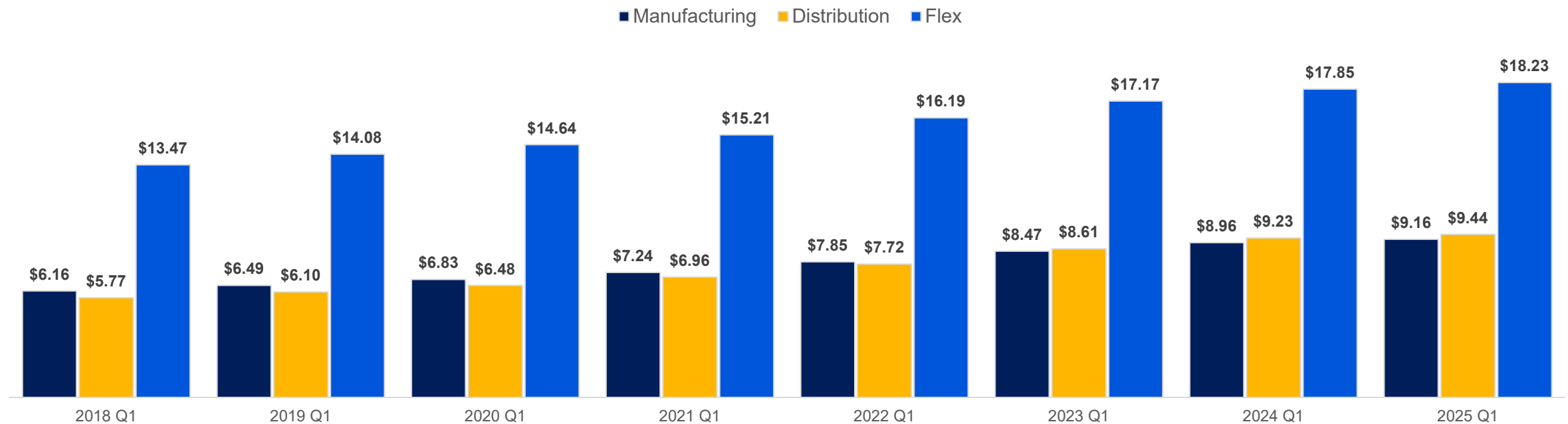
All three industrial asset times are generally reverting to historical averages.

Market Rent

Industrial Rents Growth Slows

Industrial rates have steeply increased since the end of 2019, particularly distribution space, which has increased by nearly 50 percent in the past five years. Nationwide, average logistics asking rates have increased every quarter since 2017 until the past quarter that saw flat rates from the previous quarter. It should be noted that some markets that underwent dramatic rate increases have experienced rates moving lower. While rates are generally expected to increase, landlords will need to wait for demand and absorption to catch up before rates see a meaningful increase.

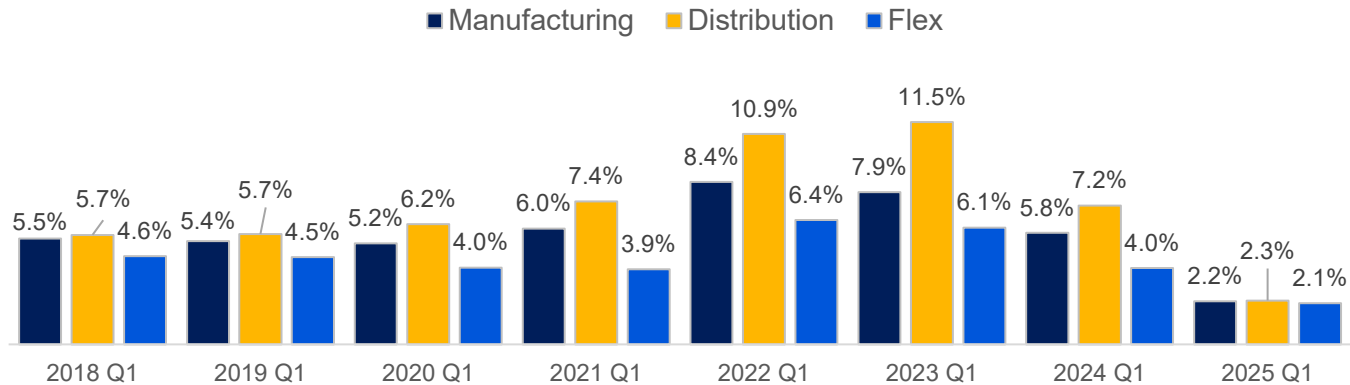
Industrial Lease Asking Rates (\$/SF): (United States)



Market Rent

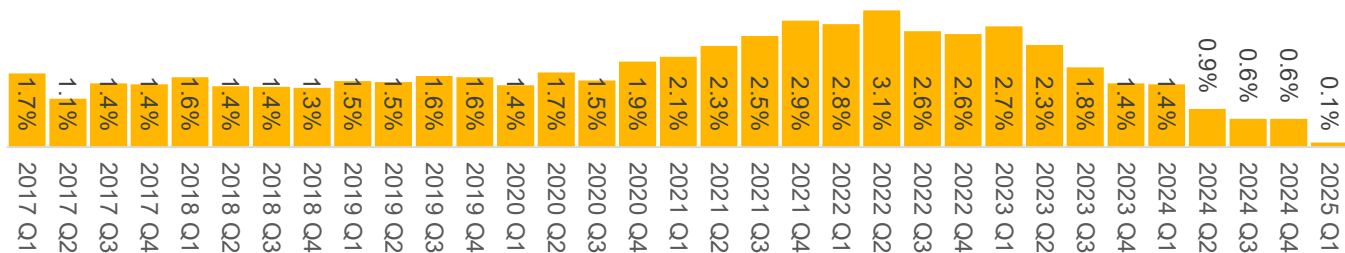
Direct Asking Rent Growth Dips Below Pre-Pandemic Levels for the Past Year

Industrial Asking Rent Annual Increase: (United States)



Industrial lease rates have generally stalled after an extended run of big increases. Still, the compounded annual growth rate (CAGR) for distribution spaces has increased 6.9 percent per year since the start of 2017, while manufacturing spaces have increased 5.6 percent and flex spaces increased 4.3 percent during the same time. While it is unlikely rates will meaningfully decline, other incentives like TIs and abatements may become more negotiable for occupiers.

Distribution Asking Rent Quarterly Increase

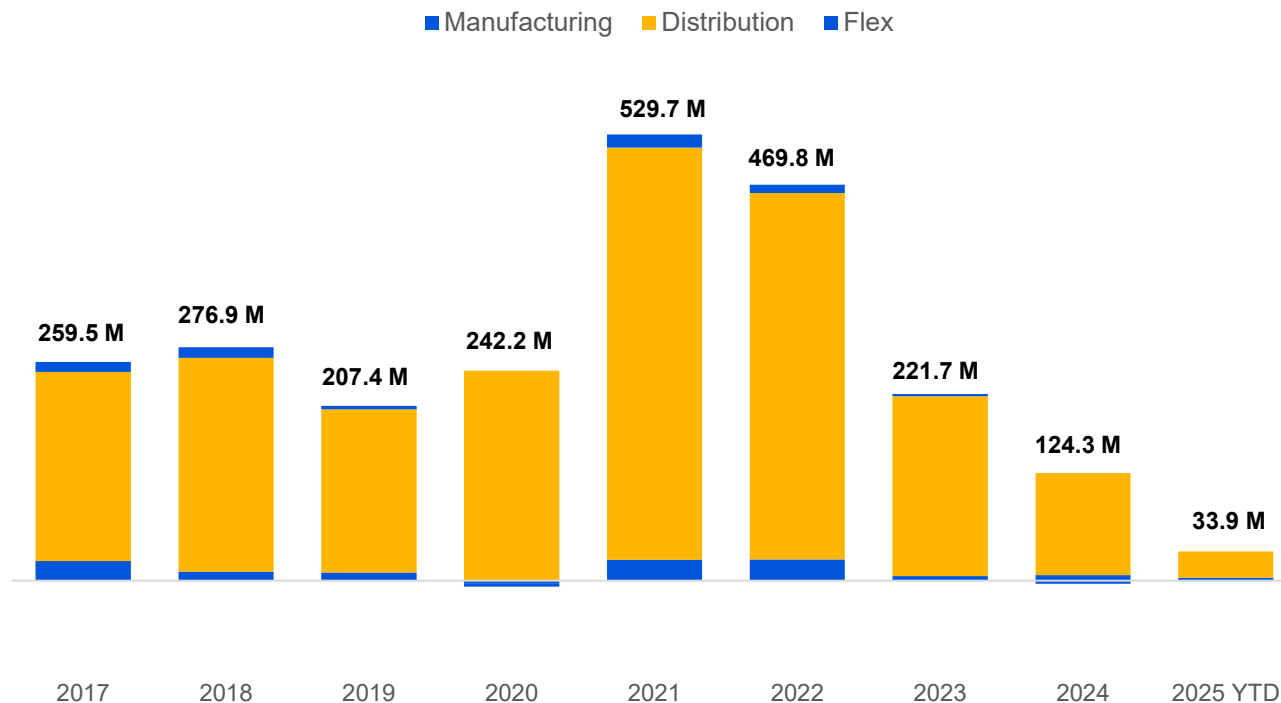


Source: CoStar and Cresa; thru Q1 2025

Absorption

Industrial Absorption Dramatically Slows

Industrial Net Absorption (SF): (United States)

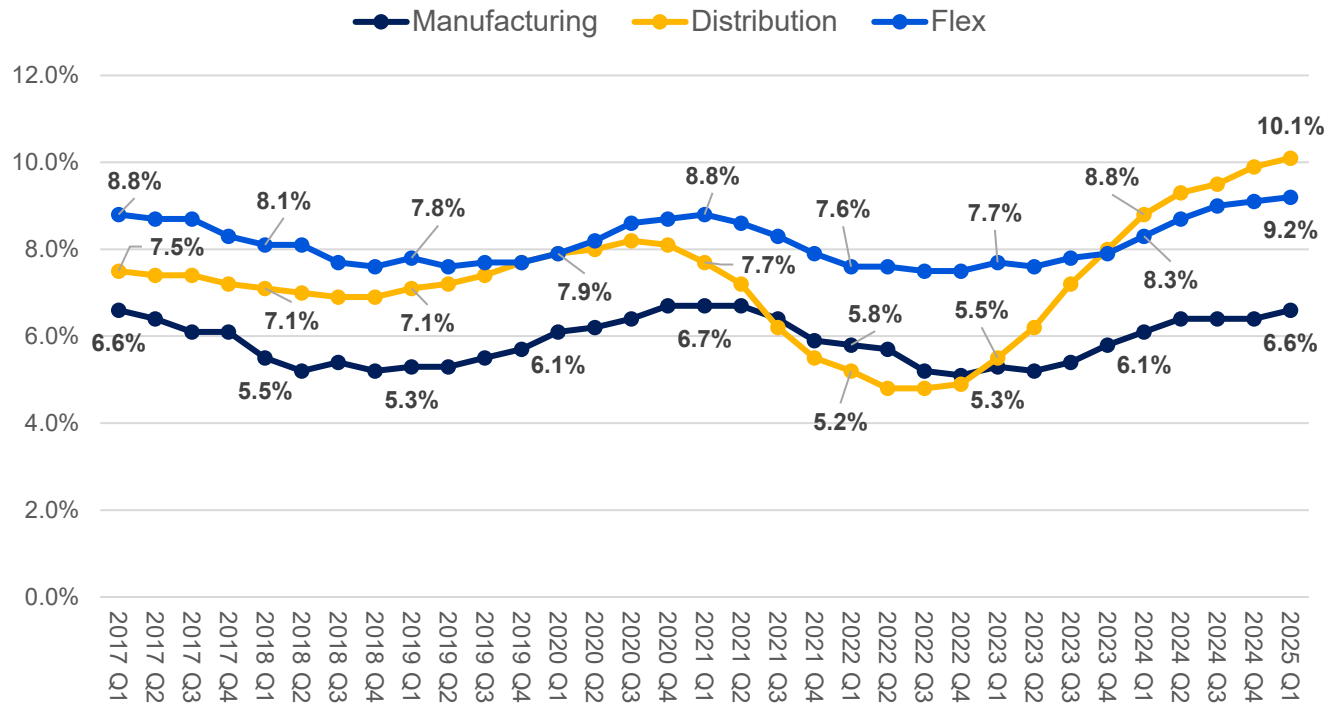


After a record-breaking 2021, absorption has experienced a slowdown. Some of this can be explained by economic conditions softening with overall imports slowing. Absorption in 2024 was at the lowest level in the past seven years. Nevertheless, with the amount of new construction being delivered and ongoing demand over the next several quarters will likely keep absorption near or above historical averages as occupiers take space. Absorption in first quarter of 2025 is projected to outpace 2024 net absorption.

Direct Vacancy

Industrial Vacancy Moves Higher as New Product Delivers

Industrial Direct Vacancy: (United States)

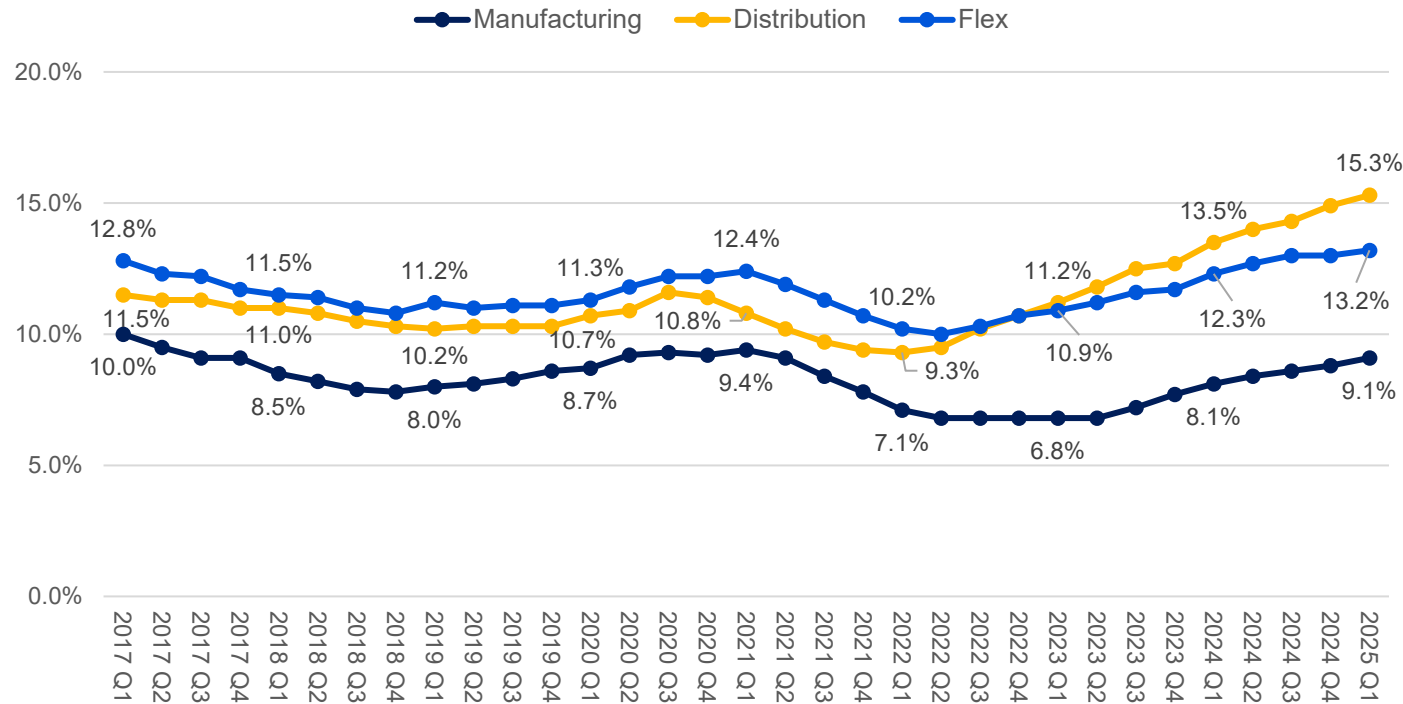


Direct vacancy is approaching historical averages after spending 2021 – 2023 near historic lows. It is likely that the large amount of new construction being delivered contributed to the increase. Large retailers are still looking to shore up distribution facilities, so they are better positioned for future growth. Manufacturing space has remained low due to increased demand as more companies move operations back closer to US markets to stabilize supply chains. The impacts due to the uncertainty around tariff increases is still unknown. It may increase attractiveness for distribution spaces as retailers look to hold inventories at higher levels, but it also may create hesitancy for further investment as companies await a clearer picture. Areas that are within certain areas like free trade zones (FTZs), will likely be highly desirable for some occupiers of space because of their ability to avoid initial costs related to rising tariffs.

Availability

Industrial Availability Drifts Higher

Industrial Availability Rate: (United States)

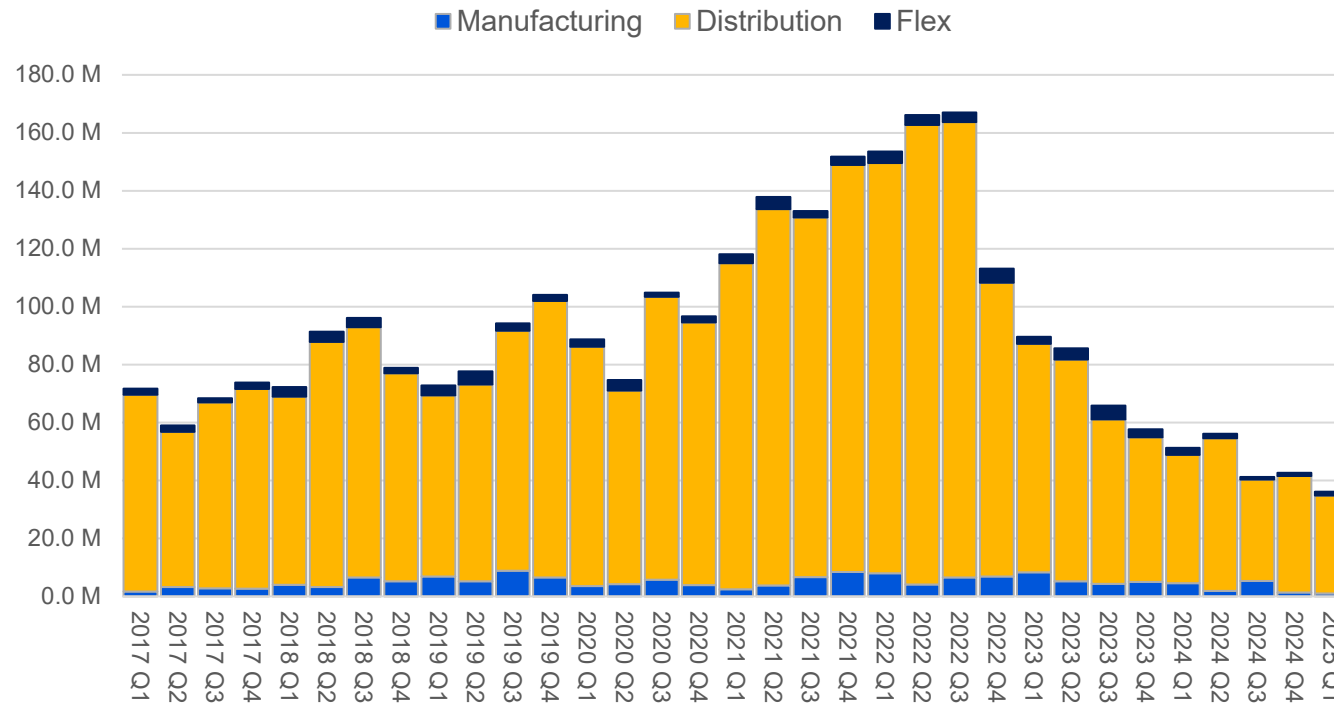


The availability rate includes the amount of space that is being marketed as available for lease, regardless of whether the space is vacant, occupied, available for sublease or available at a future date. Therefore, the availability rate may be a more accurate depiction of the market during this volatile period than the direct vacancy rate. **Availability in the distribution asset type jumped from 9.3 percent over the past three years to 15.3 percent to close the first quarter of 2025.**

Construction

Industrial Construction Starts Fall Sharply

Industrial Construction Starts: All Types (United States)

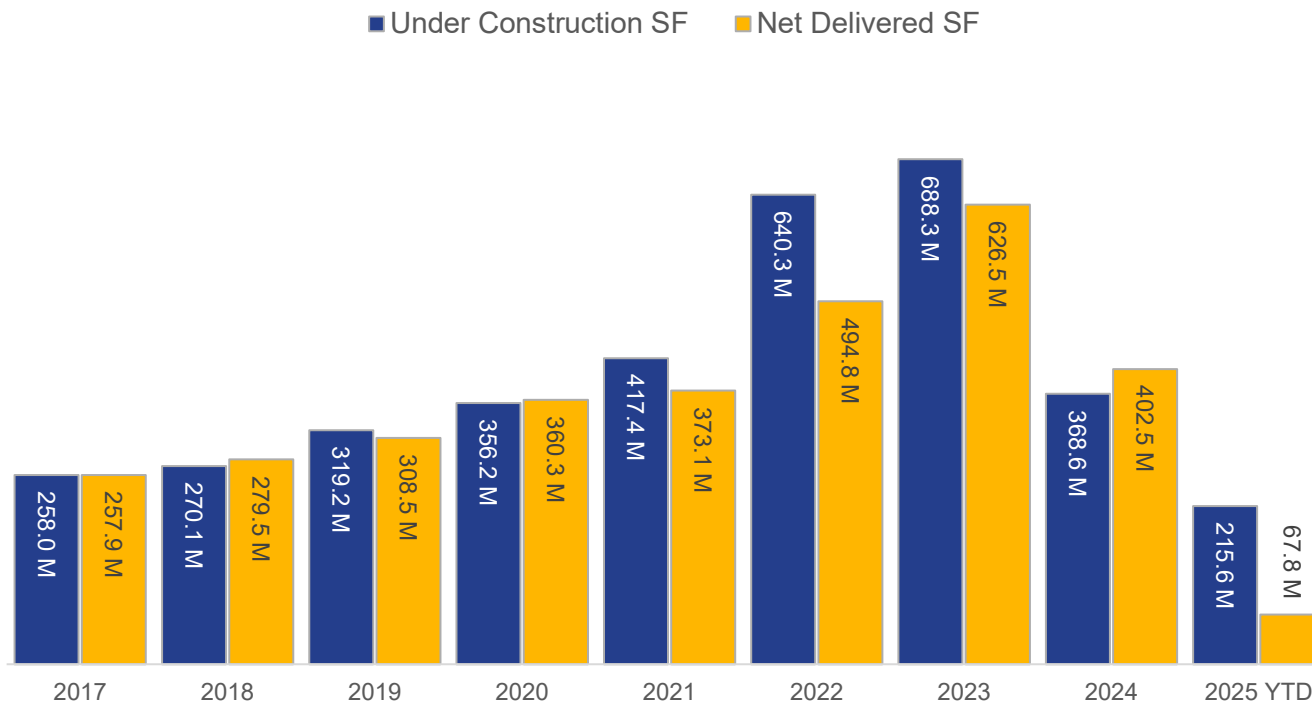


New industrial construction starts topped 167 million square feet in the third quarter of 2022. Starts for 2023 were comparable to pre-pandemic levels. However, given the torrid pace of construction and rising construction costs, elevated interest rates, and supply chain constraints, the number of new industrial starts has dramatically slowed. It is expected that construction starts will dip further in 2025 before falling back in line with pre-pandemic levels moving forward. **The number of quarterly industrial starts by square footage has dropped for eight of the past 10 quarters.**

Construction

New Industrial Projects Slam on the Brakes

Industrial Under Construction – All Types (SF): (United States)



Industrial inventory grew nearly 3 percent in 2023, an increase not seen in the United States in the past 30 years. Under construction projects have slowed as developers are taking a more cautious approach as interest rates increase, construction costs rise, and the amount of time to complete a project has lengthened. However, the demand for manufacturing and flex spaces remains resilient, likely resulting in a temporary lull in the breakneck speed of new construction starts. **The total industrial space square footage under construction has dropped by more than two-thirds since the start of 2023.**

The problem with the real estate market is **the market itself.**

THE MARKET SEES YOU AS A **TARGET.**

THE MARKET CHASES THE **DEAL.**

The stakes are high for occupiers. Real estate is expensive and inflexible. With the pandemic, labor dynamics, and economic instability, all bets are off.

THE MARKET IS SHORT TERM AND **REACTIVE.**

THE SYSTEM FAVORS **LANDLORDS** NOT OCCUPIERS.

It's time to go beyond the market and uncover how your commercial real estate can drive your goals, not impede them.

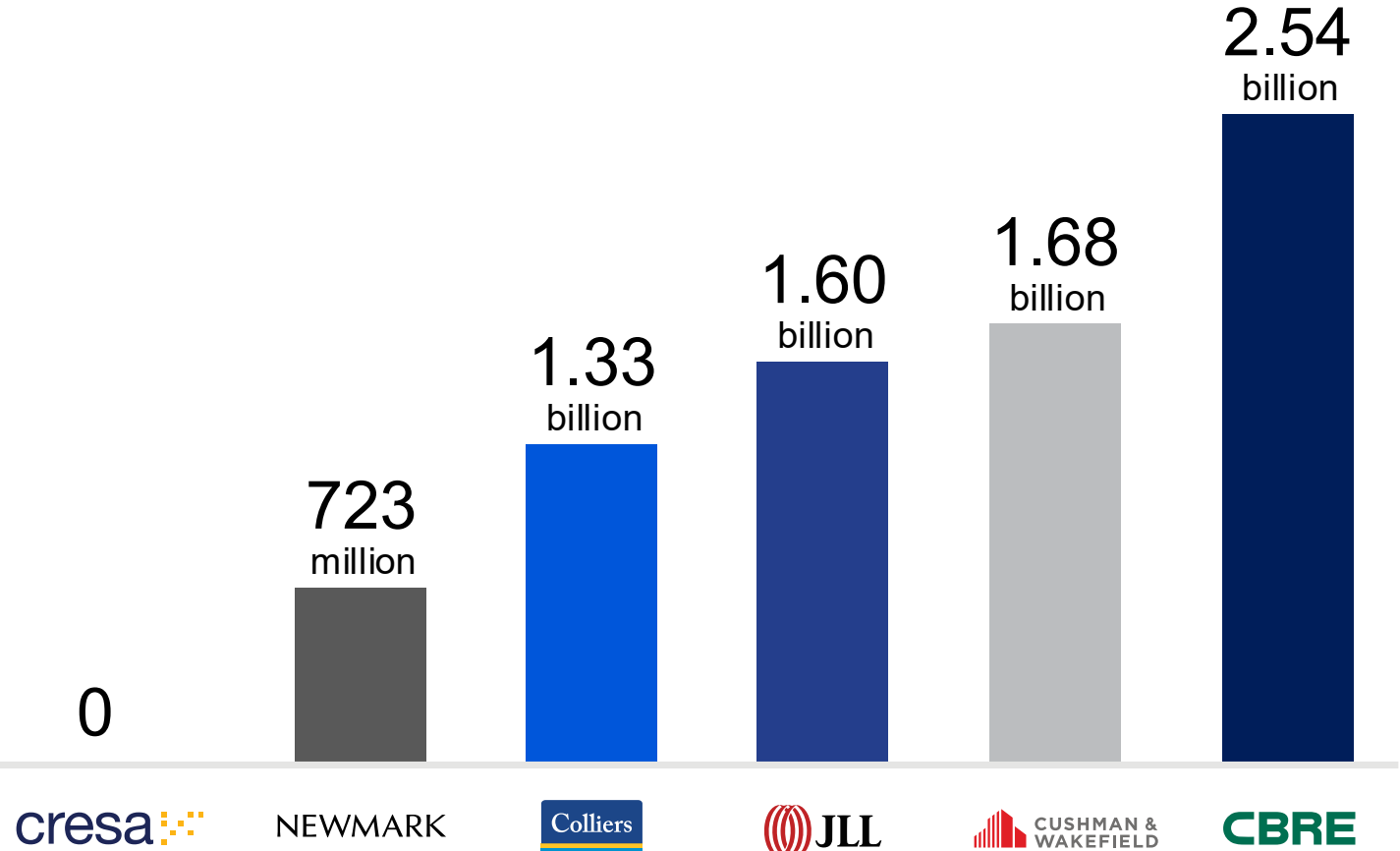
How We're Different

As the world's largest corporate real estate provider committed exclusively to serving occupiers, we're in a league of our own.

We offer creative solutions, unbiased advisory services and executive leadership on every account.

We believe this combination of transparency and executive involvement generates the superior service our clients have come to expect from Cresa.

Billions of square feet are represented on the landlord's behalf nationally. Cresa never does business on behalf of landlords.





Visit cresa.com
for more information.

Cresa is the world's leading global commercial real estate advisory firm that exclusively represents occupiers and specializes in the delivery of fully integrated real estate solutions. Our purpose is to think beyond space, strengthening those we serve and enhancing the quality of life for our clients. Delivered across every industry, Cresa's services include Transaction Management, Workplace Solutions, Project Management, Consulting, Lease Administration, Technology, Investment Banking & Capital Markets and Portfolio Solutions. In partnership with London-based Knight Frank, Cresa provides service through 16,000 people, across 380 offices in 51 territories.



AUTHORED BY
Craig Van Pelt
Head of Research
cvanpelt@cresa.com