RESEARCH BRIEF

Marcus & Millichap

THIRD QUARTER FUNDAMENTALS

NOVEMBER 2025

CRE Fundamentals Meet Expectations in the Third Quarter, Outlook Could Considerably Strengthen if Uncertainty Abates

Multifamily sector's main hurdle starting to abate. Third-quarter performance metrics offer some key insights for each major commercial property type. For the multifamily market, demand growth is moderating, but so is new supply, allowing for potential balance.

- While still down 100 basis points year-over-year, the U.S. multifamily vacancy rate ticked up to **4.6 percent** in the third quarter as demand stepped back from recent high marks.
- Construction activity has been a major challenge for the sector. Markets like Austin, Dallas-Fort Worth, Charlotte, Denver, Nashville and Phoenix are experiencing **lease up pressure** amid high numbers of recent openings.
- The development wave may be **starting to abate**, however, which will help stabilize markets, specifically those with strong economic drivers.
- Metros with limited development like Chicago, Cincinnati, Cleveland, Detroit, Minneapolis-St. Paul and San Francisco have outperformed, with rent growth north of **5 percent**.

Office properties gaining. The office market continued to post positive performance in the third quarter, signaling modest recovery in some metros for this property type.

- Nearly **38 million square feet** of office space was absorbed on net in the third quarter, the sixth consecutive positive period.
- This helped pull the national vacancy rate down 30 basis points to **16.4 percent** in September.
- San Jose noted one of the more significant vacancy improvements over the past year, with the metrowide rate **down 230 basis points** to 17.7 percent at the end of the third quarter.
- Vacancy fell 210 basis points in New York City, 170 basis points in Milwaukee and 160 basis points in Orange County.
- Cleveland, Indianapolis, Miami-Dade, the Inland Empire and Tampa-St. Petersburg are the **least vacant** major office metros.

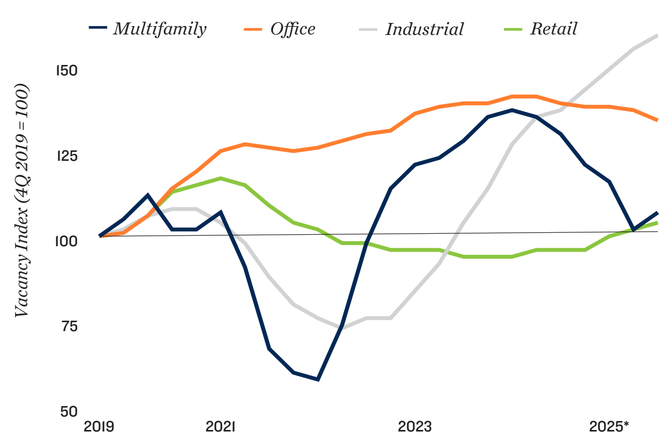
Industrial tenants still digesting recent development. Years of heavy supply pressure are still influencing the industrial sector.

- Nearly **20 million square feet** was absorbed from July to September after a negative second quarter. Increased construction, however, still pushed vacancy to a 12-year high of **7.8 percent**.
- About **3.5 billion square feet** has been completed over the past decade, a significant volume of space that is still being absorbed, especially in major port and trans-shipping hubs.
- On the other hand, many other markets have welcomed minimal development for several years, aiding vacancy.

Retail properties holding up. While development is minor in most markets, a slowdown in leasing amid economic uncertainty has affected vacancy.

- Net absorption was positive in the third quarter, but vacancy still edged up to a below-average **4.9 percent**.
- Vacancy was **below 3.5 percent** in Northern New Jersey, Boston, Indianapolis, Miami-Dade and Minneapolis-St. Paul.
- While most markets noted slight vacancy upticks, well-located space, especially in centers with a higher concentration of necessity retailers, **remains in demand** by investors.

Vacancy Shifts Since 2019 by Property Type



* As of 3Q

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.