Q2
2025

REcap

Baker Tilly's award-winning commercial real estate report

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INSIDE THIS REPORT

INTRODUCTION

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Dear Reader,

Markets continue to be reflective of delaying decisions and searching for certainty. The passing of the recent tax legislation should provide some clarity; however, constantly fluctuating trade policies and geopolitical concerns continue to be issues impacting commercial real estate. The Federal Reserve and the executive branch continue to face off on interest rates, with the Fed remaining hesitant on rate cuts due to inflation concerns. Recent economic data has been unconvincing, at least in the Fed's view, that the time is right to move rates downward. Part of this hesitancy may stem from the fact that, subsequent to the last Fed rate cut, 10-year Treasury yields actually increased. At the end of July, the Fed again held rates steady, though notably, there were two dissents to the official board decision.

The transactions and capital markets for commercial real estate specifically were largely 'steady as she goes' in the second quarter with deal volume and fund raising generally even with the first quarter, which is not surprising given the limited change in the capital markets environment. Anyone rooting for lower interest rates to fuel transactions is probably going to be waiting a bit longer. Government activity and economic policy conflict with the Fed's stated goals of minimizing inflation, which is likely to result in the Fed continuing to remain steadfast on holding rates steady until their targets are met, despite significant pressure from the executive branch to lower rates.

Government policy has also raised concerns that could impact real estate directly as aggressive deportation policies are beginning to impact the construction labor force. And tariff policy is being closely monitored for its impact on port activity which is closely tied to industrial demand.

The outlook for 2025 as a whole is less optimistic than it was at the end of 2024. However, the economy and real estate markets specifically have continued to demonstrate a high level of resiliency, which we anticipate will continue through the end of the year.

We appreciate you reading, and hope you enjoy and find this quarter's REcap informative.

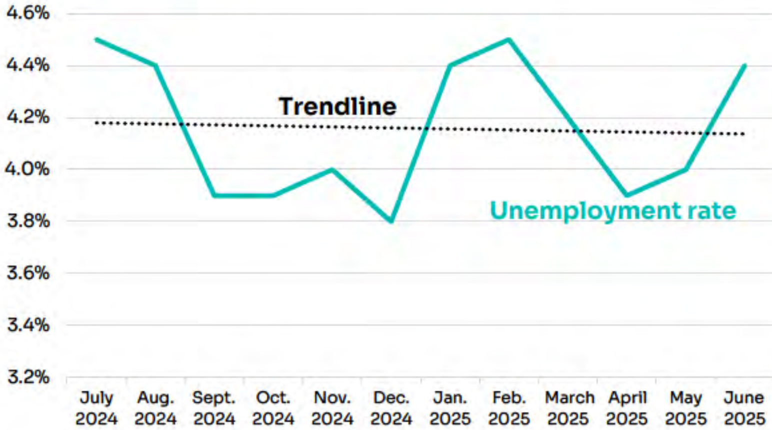
Visit bakertilly.com for additional insights.

General economic overview

Employment levels continue to hover near full employment

Seasonally adjusted unemployment rates, as reported by the BLS, have been effectively flat in 2025, remaining in a tight band between 4% and 4.2%, and ending June at 4.1%.

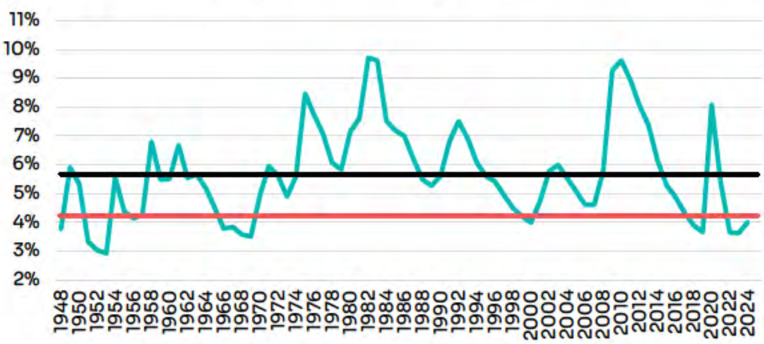
Unemployment rate



Source: U.S. Bureau of Labor Statistics

Looking at the unadjusted numbers in the table to the left, the trend in the quarter was upwards, and we note that the number of individuals unemployed long-term continued to rise. Notably, based on data from the Federal Reserve Bank of New York, the job market for college graduates and young employees (those age 22-27) is significantly worse than the overall market with the most recent data from March noting unemployment of 6.9% for young workers and 5.8% for recent graduates. Lower employment amongst the young would imply that while companies are not cutting jobs widespread, they are also not planning for major growth in the short term. This is consistent with the generally tentative approach many organizations are adopting in the current economic environment.

Average unemployment rate — post WWII era



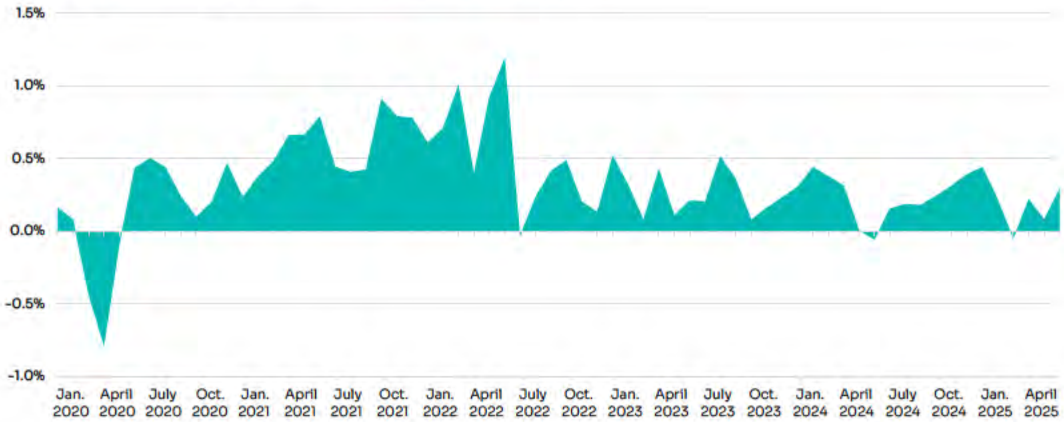
Source: U.S. Bureau of Labor Statistics
Note: Red line represents 2025 average unemployment level; black line represents average since 1948.

The Federal Reserve Bank of Atlanta's GDPNow model estimated second quarter GDP growth at 2.4%, which was below the previously forecasted rate of 2.8%. With most forecasters predicting declining or steady growth at these lower levels for the rest of the year, this is in line with the lack of hiring noted previously.

Tariffs are not yet hitting inflation significantly

Inflation rates for the second quarter were moderate, though the rate spiked slightly in June to end the quarter with the Consumer Price Index (CPI) 2.7% higher than the year before. As of the end of June, food was a major contributor to inflation, rising 3% year over year — above the overall average. Natural gas prices surged 14.2%, making it the only category to increase by more than 10%.

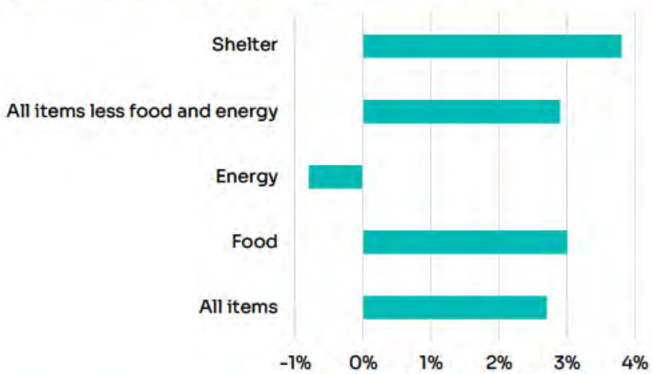
Average monthly CPI inflation since 2020



Source: U.S. Bureau of Labor Statistics

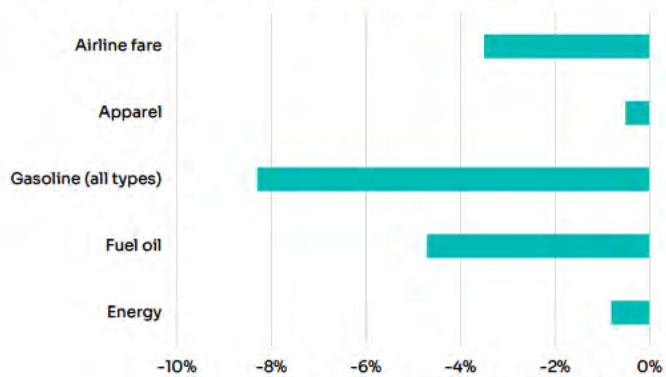
In the second quarter—marking the third straight quarter—energy exerted a downward pressure on overall inflation. Shelter (rent) continued to tick down, lagging actual rent growth which has been at lower levels for some time. All items less energy continue to remain at growth levels well above the Fed's target rate of 2%.

12 month change through June 30, 2025



Source: U.S. Bureau of Labor Statistics

12 month decreases as of June 30, 2025



Source: U.S. Bureau of Labor Statistics

PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX	
Period	**Rate**
May 2025	2.30%
April 2025	2.20%
March 2025	2.30%
February 2025	2.70%
January 2025	2.50%
December 2024	2.60%
November 2024	2.40%
October 2024	2.30%
September 2024	2.10%
August 2024	2.30%

Source: Bureau of Economic Anaylsis

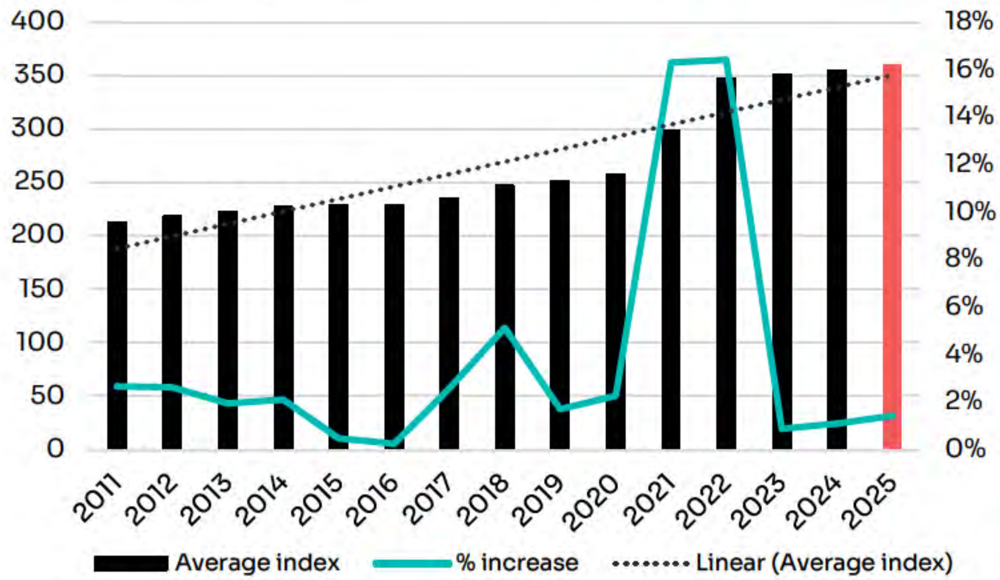
As in the first quarter, several energy categories posted year-over-year declines. Airfare dropped, influenced by reduced domestic travel volumes amid economic uncertainty and a decline in government employee travel, according to BusinessTravelNews.com.

The Personal Consumption Expenditures (PCE) price index published by the Bureau of Economic Analysis trended sideways in the quarter, ending May at 2.3%. The Fed cites the PCE index routinely in its discussion of interest rates, and it appears at this point that the Fed may be waiting until this index hits its stated goal of 2% before making further rate cuts.

Lower construction volume limiting construction cost growth

Second-quarter increases in construction costs, per BLS data, averaged 0.29% per month, an annualized rate of approximately 3.5%. These increases come despite a slowdown in construction activity, as outlined in the RLB Q2 2025 Quarterly Construction Cost Report. The report includes its own construction cost index, which increased at a 4.4% annualized rate in the second quarter.

Historical trend in construction material cost index



Item: materials and components in construction
Source: BLS.gov

Labor remains a challenge in the construction industry, which could be exasperated by deportations and will put significant stress on the industry when volumes increase. We believe there is a significant risk for notable construction cost inflation in the future with the combination of tariffs, labor issues and the current level of inflation relative to demand.

Transaction markets

Volatility and uncertainty are not conducive to investment, which was reflected in Global M&A markets, which exhibited steady but below historical average volume in the second quarter. Global figures were significantly impacted by decreasing sentiment and transaction activity in the Asia-Pacific region, according to a Boston Consulting Group report.

In North America, the environment was better, with volume ending the quarter up significantly year over year. Software was the leader amongst industries with financial and professional services deals also contributing significantly to the number and value of transactions. Charter Communications' $34.5 billion acquisition of Cox Communications was the largest announced transaction of the quarter.

In its 2025 M&A Midyear Report, Bain & Company outlines the numerous roadblocks to deal-making over the last five years but concludes that recent activity seems indicative that market participants are learning to better navigate the economic environment. This is likely to continue as strategic deals and transactions of scale should fuel continued activity.

Equity markets

Global equity markets started the quarter with a huge drop in early April after the announcement of U.S. tariffs, before rallying in May and June as U.S. policy vacillated and softened. By the end of the quarter, markets were up modestly for the year.

	DOW JONES	S&P 500	NASDAQ
Full year 2024 performance	14%	23%	29%
Year-to-date 2025 performance	4%	6%	6%
Q2 2025 performance	5%	11%	18%

Source: Yahoo Finance, through June 30, 2025

MARKET PERFORMANCE

Source: Yahoo Finance, through June 30, 2025

Conclusion

The passing of the One Big Beautiful Bill Act (P.L. 119-21), a tax and spending package, has brought some clarity to select areas of the economy. Still, the broader economic environment remains volatile. Uncertainty around interest rates and tariffs — particularly the latter's potential ripple effects — continues to slow decision-making. As tariff deals are reached and solidified, the foundation for certainty should continue to grow. Job and inflation data from the second quarter offered little to spark either concern or confidence, reinforcing a wait-and-see sentiment that is likely to persist.

Multifamily

In the second quarter of 2025, the U.S. multifamily sector showed signs of stabilization. Following a prolonged period of heavy construction, the sector is witnessing a slowdown in new development projects. This slowdown helps alleviate oversupply pressures seen in some overheated markets, supporting rent growth and occupancy rates as demand begins to outpace new supply.

New development has declined significantly, according to Cushman & Wakefield's Q2 Multifamily MarketBeat, which reported that the construction pipeline has fallen below 500,000 units for the first time since 2017. While construction starts declined significantly, deliveries were down 22% year over year, reflecting developers' pullback in response to elevated financing costs and market uncertainty. As a result, national occupancy improved slightly to roughly 95.6%, according to RealPage.

The multifamily housing market is still experiencing strong support from key demographic trends. Many millennials and members of Gen Z are postponing buying homes due to rising costs, shifting lifestyle preferences and new work patterns, leading them to rent for longer periods. This group tends to prioritize flexibility, urban settings and amenities, which sustains high demand for rental properties, especially in dynamic city areas. At the same time, older baby boomers are choosing to downsize from larger single-family homes into multifamily residences that offer easier living, less upkeep and a stronger sense of community. Together, these diverse age groups contribute to a wide and stable renter base that supports steady occupancy levels nationwide.

Despite this momentum, rent growth remained modest. Rents rose 0.9% year over year, according to Yardi Matrix's June 2025 National Multifamily Report. Many landlords have focused on maintaining occupancy, often offering concessions instead of pushing rents. Investment activity has begun to pick up after a sluggish 2023, with transaction volume and loan origination both trending upward. It is important to note that while these are macro-figures, regionally, performance across the multifamily asset class diverged, as we will discuss throughout this section.

The Midwest

The Midwest region is standing out once again. It posted the strongest rent growth at 3.6%, well above the U.S. average of 1%, according to RealPage. Yardi Matrix data in its June 2025 National Multifamily Report indicates that Chicago led the way at 3.6%, followed by Columbus at 3.3%, Kansas City at 3.2% and Detroit at 2.9%. Another RealPage report noted that mid-tier metros such as Cincinnati, at 3.7%, and Cleveland, at 2.7%, also saw healthy growth, driven by strong demand and limited new construction.

Occupancy rates in the Midwest multifamily market remain remarkably strong, also outperforming the national average and often hitting record levels in early 2025. According to RealPage, occupancy across major Midwest metros averaged about 94.7% in August 2024, compared to a U.S. average of 94.1%, with Milwaukee leading the charge at 95.8%, followed by Chicago, Detroit and Cincinnati.

The only two Midwest markets that fell below the national averages for occupancy were St. Louis and Indianapolis, which were both just below the national mark. Overall, the Midwest continues to exhibit a tight multifamily occupancy profile, with limited new supply, strong lease-up velocity and rent growth momentum.

Despite recent cost increases, the Midwest remains one of the most affordable regions in the U.S. to operate and manage multifamily properties. Relatively lower property taxes, insurance premiums and maintenance costs, coupled with reduced natural disaster risk and a lower cost of living all contribute to more favorable operating margins compared to coastal and Sunbelt markets.

The Sunbelt and Mountain West

The Sunbelt experienced a significant boom in multifamily construction during 2023 and 2024, with major metros such as Austin, Phoenix, Dallas-Fort Worth, Houston, Atlanta, Charlotte and Raleigh delivering thousands of new apartment units. This rapid influx of supply far exceeded leasing demand, resulting in rising vacancies and rent stagnation across much of the region. The imbalance between new deliveries and tenant absorption led to increased competition among landlords, forcing them to adjust pricing strategies and offer incentives to attract renters.

While supply has been high, some reports seem to indicate that the wave may have crested. Many of these high-supply markets are now past their peak for deliveries, and occupancy rates have already begun recovering. Austin, Texas, is a prime example. While the new supply remains relatively elevated, this year's delivery volume totals just over half of 2024's additions. Strengthening renter demand lowered vacancy to 7.1% in the second quarter, according to Marcus & Millichap.

Other metros also reported flat or declining rent growth as they absorbed the impact of aggressive development pipelines. In response to softening conditions, property owners and leasing managers frequently introduced concessions such as one or two months of free rent, discounted deposits and move-in incentives to maintain occupancy levels. According to the Freddie Mac Multifamily's 2025 Multifamily Outlook report, even the popular Sunbelt and Mountain West regions recorded relatively high demand ratios — 5.4% and 4%, respectively — while also experiencing negative rent growth of 2.6% and 1.4%. Specifically, advertised rent growth remained negative in many Sunbelt and Mountain West metros, such as Austin at -4.7%, Denver at -3.9%, Phoenix at -2.6%, and Orlando and Dallas both at -1.2%, per data from Yardi's June 2025 report.

Along with the Sunbelt, the Mountain West regions of the country are seeing the bulk of the new supply but are met with some of the strongest demand. Yardi also reported that, regionally, the Sunbelt has the largest gap between its current occupancy rate and its historical average at 130 basis points. The Mountain West is seeing current occupancy about 70 basis points lower than its 2015-2019 average.

Recent legislation

While information is still being processed, provisions of the One Big Beautiful Bill Act are poised to impact the multifamily sector in several ways:

- Expanded affordable housing incentives: The bill makes permanent the Low-Income Housing Tax Credit (LIHTC) and increases its allocation, which is expected to drive the creation and preservation of affordable rental units.
- Enhanced Opportunity Zone benefits: Opportunity Zone investments have been extended and boosted (notably with a basis boost for rural areas), encouraging capital inflows into multifamily developments in under-resourced communities.
- Bonus depreciation and section 179 reinstated: The reinstatement of 100% bonus depreciation and increased section 179 expensing (up to $2.5 million limit) can enhance near-term cash flow for multifamily developers engaged in renovations or value-add projects.

Collectively, these incentives can create stronger financial tailwinds for multifamily developers, especially those focused on affordable, value-add and Opportunity Zone projects. While the clean energy tax rollbacks in the bill don't directly affect multifamily housing, they may influence construction costs.

Multifamily transactions in 2025's second quarter

In the second quarter of 2025, multifamily transactions of more than $150 million continued to show that, while investors are being more cautious, there's still strong underlying confidence in the asset class. Institutional buyers, like private equity firms and large operators, remained active in the space, zeroing in on large properties with solid fundamentals, despite higher borrowing costs and tighter financing terms. One of the standout deals this quarter came from Harbor Group International, which acquired an 11-property portfolio for over $600 million — a move that highlights growing interest in high-growth, supply-constrained markets, according to The Wall Street Journal. Although the number of mega-deals hasn't bounced back to pre-pandemic highs, investor interest remains steady. Capital is flowing toward assets that offer scale, stable cash flow and long-term growth potential, reinforcing the belief that multifamily remains a resilient and attractive sector for well-capitalized buyers.

BUYER	SELLER	CLOSE DATE	PROPERTIES	PRICE ($M)
Cammeby's	AvalonBay Communities	April 2025	1	$161.50
Crescent Heights	Essex Property Trust	April 2025	1	$239.60
Harbor Group International	Toll Brothers	April 2025	1	$181.75
Normandy Real Estate	Moceri & Roszak and Ares Management Corporation	April 2025	1	$170.00
Rockpoint	Koret Foundation	April 2025	1	$207.20
The Sobrato Organization	Su Development	April 2025	1	$192.85
Centerspace	Cottonwood Communities	May 2025	1	$149.00
Harbor Group International	David Werner, Onyx Partners and Carlton Associate	May 2025	11	~$625.00
The Hamilton Company	DiGiovanni Brothers	June 2025	1	$175.00
JRK Property Holdings	JBG Smith	June 2025	1	$186.00
Kennedy Wilson	Vanbarton Group	June 2025	1	$173.00
MG Properties	Anton Development Company	June 2025	1	$144.00
PGIM and Post Investment Group	Spokane Indian Housing Authority	June 2025	1	$168.40
PonteGadea Inmobiliarai	Related Group	June 2025	1	$165.00

Source: Press releases, SEC filings and published articles

As mentioned, the most significant transaction this past quarter was the Harbor Group International's (HGI) acquisition of 11 Sunbelt multifamily properties across South Carolina, Louisiana, Georgia and Tennessee, paying approximately $625 million for a total of 3,590 apartments, which breaks down to about $174,000 per unit. The garden-style communities, built between 1996 and 2010, had an attractive 95% occupancy rate at the time of the transaction. HGI's move reflects a strategy to capitalize on high-yielding assets in high-growth, supply-constrained Sunbelt markets, leveraging active asset management and value-add renovations to drive returns. This deal highlights HGI's ability to move decisively on large portfolios, especially at a time when perhaps some other well-capitalized firms are stepping back

In April, Crescent Heights, a Miami-based real estate firm led by Sonny Kahn, Russell Galbut and Bruce Menin, made a major multifamily acquisition in Orange County by purchasing the Skyline at MacArthur Place in Santa Ana from Essex Property Trust for $239.6 million. The two luxury high-rise buildings total 350 units, translating to roughly $686,000 per unit — ranking it among the largest multifamily sales in the region's history. Essex had originally acquired the property in 2010 and transitioned it from condos to rental apartments. This purchase reflects Crescent Heights' ongoing strategy of investing in upscale, well-located properties in competitive Southern California markets.

In another transaction eclipsing the $150 million mark, Rockpoint Group, a Boston-based real estate investment firm, acquired The Villages at Cupertino, for $207.2 million. The low-rise, garden-style complex was originally developed nearly 60 years ago and previously owned by the Koret Foundation. The acquisition aligns with Rockpoint's focus on sourcing value-add opportunities in supply-constrained, high-demand submarkets throughout the Bay Area.

Trends and takeaways

There was a massive surge in new apartment construction between 2021 and 2024. Now, with higher financing costs and other expenses across the board, the pace of new construction has slowed sharply. As a result, the supply pipeline is drying up, vacancies are stabilizing, and rents — particularly in mid- and lower-tier apartments — are poised to pick up again later this year.

Occupancy rate recovery is expected to accelerate next year, driving rent growth. According to CBRE's U.S. Real Estate Market Outlook, markets with negative rent growth in 2024 are anticipated to turn positive in 2025, as completions slow considerably following the marked slowdown in construction starts.

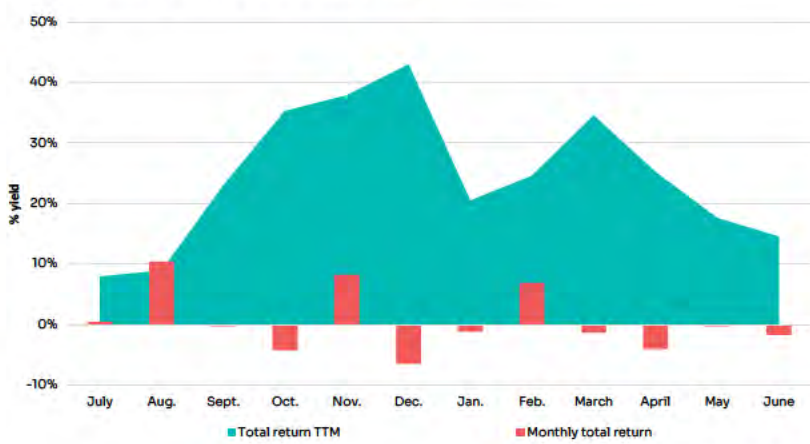
Recent legislation appears to have some favorable provisions. A deeper understanding of its nuances and broader impact will be explored in future REcaps.

High mortgage rates and rising home prices continue to keep would-be buyers in the rental market. The cost-of-owning gap versus renting continues to widen.

REIT returns

REITs have experienced subdued returns through mid-2025, under pressure relative to broader markets. The outlook hinges on near-term economic signals. REIT analysts, such as those noted in MultifamilyDive, expect stronger earnings and fundamentals in the back half of 2025 and into 2026 citing tight housing supply, steady rental demand and potential cuts in interest rates as supportive tailwinds. Still, elevated interest rates as well as macroeconomic and geopolitical uncertainties persist as headwinds for valuation and capitalization rate compression.

Apartment REITs June 2025 TTM



Source: Nareit

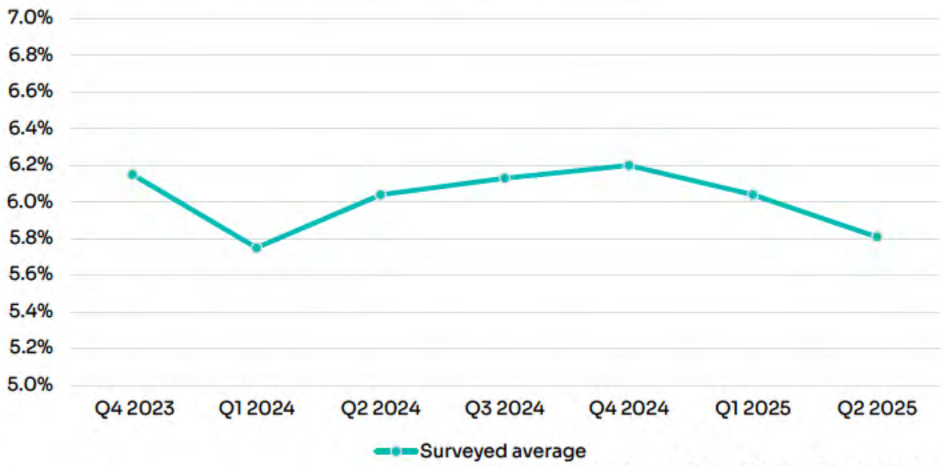
Student housing

Student housing

The student housing sector rebounded in 2024 following a slowdown in 2023, which, as in other asset classes, was largely driven by tightening in the capital markets. Sector fundamentals remain solid in 2025, with both portfolio and one-off transactions on pace with 2024, though still below the peak activity levels of 2022. The sector has experienced rising student enrollment, accompanied by year-over-year rent growth of 4.56%, according to PwC's quarterly Investor Survey. These strong fundamentals across institutions nationally — particularly in the South and universities in the Power Four conferences — further reinforce the sector's positive momentum.

Capitalization rates in the student housing sector have remained relatively stable, with the second-quarter average falling 23 basis points to 5.81% compared to the first quarter. Looking ahead, most investors anticipate continued cap rate stability in the sector over the next six months.

National student housing market capitalization rates



Source: PwC Investor Survey: National Student Housing Market

Supply and demand

The student housing market has seen consistent demand in recent years, with the top 50 university markets averaging 1.15 students per available bed in 2024, according to Walker & Dunlop's 2025 Student Housing Outlook. Occupancy trends in the sector tend to follow a predictable cycle, offering greater stability where other asset classes may face volatility. Unlike traditional multifamily housing, student housing benefits from an extended preleasing period ahead of each academic year, which helps mitigate vacancy risk. Yardi Matrix underscored this trend in its June 2025 Student Housing Report, reporting an average preleasing rate of 79.9% as of May across its top 200 tracked universities.

Despite sustained demand in the sector, new development has tapered off as developers continue to face headwinds in debt and equity markets. The slowdown in construction has created supply constraints in several markets, particularly where demand remains elevated. The imbalance is evidenced by notable housing shortfall for 30 of RealPage's top 175 schools, as presented in Berkadia's 2025 U.S. Student Housing Report. Investors remain closely attuned to capital market conditions, watching for signs of easing that could lead to favorable financing terms for new developments.

Enrollment

After several years of enrollment declines during and after COVID-19, national undergraduate enrollment began stabilizing in 2023 and has shown positive growth since. School leadership continues to prioritize expanding on-campus enrollment, along with the construction of new academic buildings and off-campus student housing developments.

Public four-year universities have seen the most consistent growth in enrollment, particularly among large research institutions and flagship state schools, as shown in the top 10 universities for enrollment growth in the table below. These institutions benefit from rising demand among in-state students and greater affordability compared to private colleges.

RANK	SCHOOL	FALL 2023 ENROLLMENT	FALL 2024 ENROLLMENT	YEAR-OVER-YEAR CHANGE	PROJECTED FIVE-YEAR CHANGE
1	Georgia Institute of Technology	47,961	53,363	5,402	6.7%
2	Kennesaw State University	45,152	47,845	2,693	5.4%
3	University of Illinois - Urbana-Champaign	56,563	59,238	2,675	4.8%
4	Texas A&M University	76,633	79,114	2,481	3.9%
5	University of Tennessee	36,254	38,728	2,474	5.3%
6	University of Mississippi	21,596	23,981	2,385	1.9%
7	Louisiana State University	39,418	41,707	2,289	5.6%
8	Utah Valley University	44,653	46,809	2,156	6.8%
9	University of Kentucky	33,885	35,952	2,067	2.6%
10	University of South Carolina	36,538	38,503	1,965	1.9%

Source: Berkadia 2025 U.S. Student Housing Market Report

Looking forward, several challenges remain: enrollment growth faces uncertainty amid a declining pipeline of high school graduates, potential reductions in public funding and ongoing issues surrounding international student visas.

The South

The South continues to lead the nation in student housing demand, driven by strong and sustained enrollment growth across the region. In 2024, the broader South region absorbed approximately 117,000 beds, outpacing all other regions. This momentum has drawn significant investor attention, with eight of the 10 previously mentioned top-performing universities for enrollment growth located in the South. By year's, Southern markets accounted for more inventory than all other regions combined — totaling 3,314,643 beds, according to Walker & Dunlop's previously referenced report. In comparison, the West had 1,602,219 beds, the Midwest 1,096,330 and the Northeast 892,431.

Strong and sustained enrollment growth at Southern universities has captured investor attention — the Sunbelt led all markets in new deliveries in 2024, adding approximately 62,000 beds. According to a March 27 RealPage article, the top five universities for projected supply growth in fall 2026 are also located in the South. Florida State University leads with 2,604 Purpose Built Off-Campus Student Housing (POSH) beds expected for delivery, further emphasizing the region's strength in the student housing sector.

Student housing transactions in 2025's second quarter

After a sharp 71% year-over-year decline in transaction volume from 2022 to 2023, the student housing market staged a strong rebound in 2024, reaching $8.5 billion in transactions, according to the Walker & Dunlop report — a 43% increase over the prior year. Looking ahead, many expect 2025 to surpass 2024's volume, with approximately $8 billion to $10 billion in multifamily loans maturing this year, potentially driving increased lender activity and transaction momentum.

A review of second-quarter activity highlights several large-scale student housing transactions by prominent institutional players. Notably, many of the assets involved are actively preleasing for the fall 2025 academic year, positioning new owners for a smooth operational transition supported by strong initial occupancy and stabilized performance. Six of the listed 10 transactions include properties located in Southern states, further supporting the regional market's strength. It is also worth noting that for several of these transactions, details such as the price, buyer or seller were not publicly disclosed.

BUYER	SELLER	CLOSE DATE	PROPERTIES	PRICE ($M)
Core Spaces	Arrimus Capital	April 2025	1	Undisclosed
Highlands Vista Group Management	Aspen Square Management	April 2025	1	$42.70
Monument Square Investment Group and Walton Street Capital	Undisclosed	April 2025	1	Undisclosed
Stockbridge Capital Group and Landmark Properties	Undisclosed	April 2025	2	$100.00
Undisclosed	The Ridge Group and Westminster Capital	April 2025	1	Undisclosed
Core Spaces	William Fideli Investments	May 2025	1	Undisclosed
Timberline Real Estate Ventures	Cardinal Group Management and Advisory	May 2025	1	$75.31
Core Spaces	Undisclosed	June 2025	1	Undisclosed
Heitman and Vesper Holdings	TSB Realty	June 2025	1	$62.25
WF Investments	Nuveen	June 2025	2	$55.00

Source: Press releases, SEC filings and published articles

In April, Stockbridge Capital Group partnered with Landmark Properties in a joint venture to acquire Icon Plaza and West 7th Place in Los Angeles. The portfolio traded for $100 million, making it the highest student housing transaction price of the quarter. Together, the two properties offer 704 beds and are located adjacent to the University of Southern California. The acquisition was reportedly driven by the communities' prime location, contemporary construction, strong leasing performance and alignment with the buyers' long-term investment strategy in the student housing sector. According to CoStar, the sellers were listed as Goldman Sachs Asset Management and Greystar Real Estate Partners, though this has not been confirmed in any public press release at this time of this writing.

Another notable transaction in the second quarter was Timberline Real Estate Ventures' acquisition of Hill Place from Cardinal Group Management and Advisory for just over $75 million in May. Originally built in 2009 and currently undergoing renovations, the 840-bed community serves as a significant housing option for students at the University of Arkansas. Looking ahead, the university is positioned as a major supply growth market, with 1,361 POSH beds slated for delivery in fall 2026 — ranking eighth among fall 2026 supply leaders, according to RealPage data.

In June, Heitman and Vesper Holdings formed a joint venture to acquire The Indy from TSB Realty for $62.3 million. According to a press release from TSB Realty, the property was 100% occupied as of early July and offers 543 beds of luxury student housing serving the Kennesaw State University market in Marietta, Georgia. TSB Realty emphasized the strength of KSU's market fundamentals — including record-high enrollment, strong rent growth and consistently high occupancy — which have contributed to the asset's performance and investment appeal.

Prominent student housing player Core Spaces acquired Nine at Columbia in June from an undisclosed seller for an undisclosed amount, though CoStar reports the transaction at $56.8 million. Located adjacent to the University of South Carolina, the 486-bed property features three- to five-bedroom units and offers an attractive amenity package, including a resort-style pool, fitness center, outdoor fire pit, game area, dog park, clubhouse and private workspaces. At the time of sale, the property was fully occupied. This acquisition marks the largest of Core Spaces' three transactions during the quarter.

Trends and takeaways

12-MONTH LEASE STANDARDIZED ACROSS INDUSTRY

The 12-installment lease structure has become the industry standard in student housing, replacing traditional academic-year or nine-month leases. Under this model, tenants make equal monthly payments over a 12-month period, even if occupancy is primarily tied to the academic calendar. This structure benefits operators by providing more predictable and consistent cash flow, reducing seasonal revenue gaps and supporting year-round operational stability. Additionally, it mitigates vacancy risk during summer months when many students are away, allowing properties to maintain higher occupancy and revenue performance metrics. As a result, assets with established 12-month lease structures are increasingly attractive to investors seeking stable, income-producing student housing portfolios.

DECLINE IN INTERNATIONAL STUDENT ENROLLMENT

Recent increases in visa scrutiny and processing delays may limit the influx of new international students to U.S. universities. A potential decline in international student enrollment poses a growing risk to student housing performance, as these students often make up a significant share of off-campus renters, particularly at large public universities. Shorelight estimates that a 20% decrease in new international students could result in a $1.7 billion annual tuition loss for U.S. colleges, which may ultimately reduce housing demand and slow leasing velocity. While some domestic demand may offset the decline, properties may face greater exposure to occupancy risk especially at institutions with large international student populations.

DESIGNS SHIFT TOWARD FUNCTIONALITY, CONVENIENCE AND AFFORDABILITY

Student housing has steadily shifted from luxury-focused developments to more practical and student-focused living options. While resort-style pools and high-end amenities were once common selling points, many new projects now emphasize affordability, convenience and functionality. Students and parents are seeking private spaces that support studying, offer reliable internet, provide secure access and ensure a short, safe commute to campus. Outdoor areas and shared spaces that encourage socializing remain important, but the focus has shifted to features that enhance daily life. This change reflects how the market is evolving to better meet the practical needs of today's student renters.

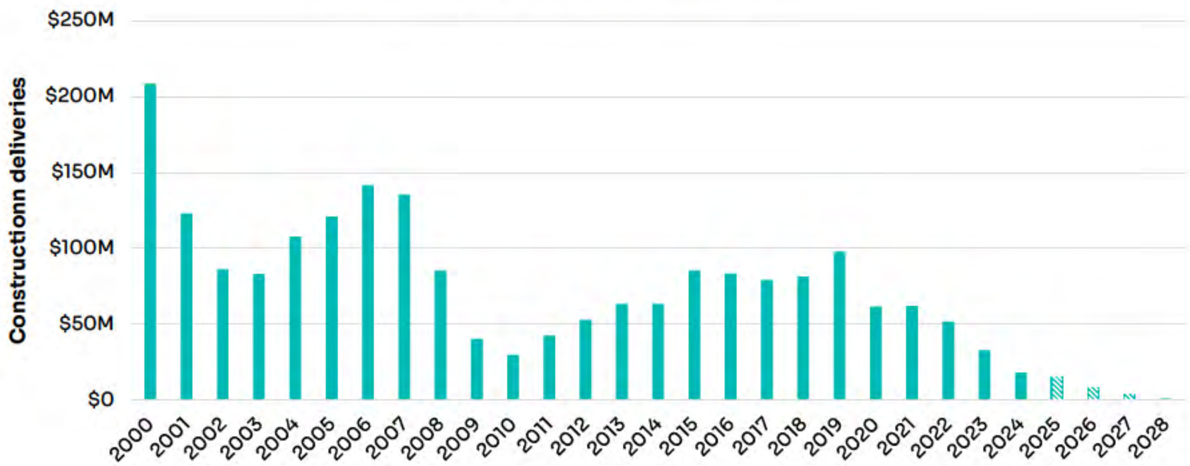
Office

In the second quarter, office sector market conditions were mostly stable. So far, the sector has shrugged off tariff-related turbulence in the broader economy. Post-pandemic recovery themes for office are unchanged: stabilizing leasing volumes and office visitation, a near absence of new supply on the horizon and a flight to high-quality trophy assets. In an increasingly fragmented market, prime office space in big cities is thriving while Class B and C assets struggle to attract tenants and investors. While most market participants believe the office sector has finally hit bottom, the emerging question is how long the sector will remain at current depressed levels. That said, optimism is growing about the prospects for more transaction activity, driven by lenders' growing willingness to accept short sales — after years of 'extend and pretend' — and a surge in private credit funds available to help sponsors refinance and recapitalize assets. Many believe this scenario is necessary for the sector to fully reset to basis levels appropriate for today's market and leasing demand levels.

Office oversupply in the crosshairs

A key factor supporting the stabilization of leasing volumes in markets nationwide is the sharp drop in overall office supply, driven by the astonishing pullback in new construction starts and conversion of office space to alternative uses. According to a recent CBRE report, for the first time since 2018 and perhaps longer, office space demolitions and conversions are expected to outpace new construction deliveries in 2025. CBRE began tracking this data in 2018.

U.S. office construction deliveries



Source: CoStar U.S. Office Market Report and Avison Young Q2 2025 U.S. Office Market Report, July 16, 2025

The post-pandemic softening in office leasing demand has led many owners to convert obsolete office buildings into alternative uses such as apartments and hotels. Even in relatively strong office markets like New York City, the accelerating conversion of underutilized office space to residential is helping revitalize urban areas and keep office supply in check. For example, in May 2025, RXR Realty, Apollo Global Management and SL Green announced plans to convert 918,000-square-feet of space at 5 Times Square building into 1,250 rental units.

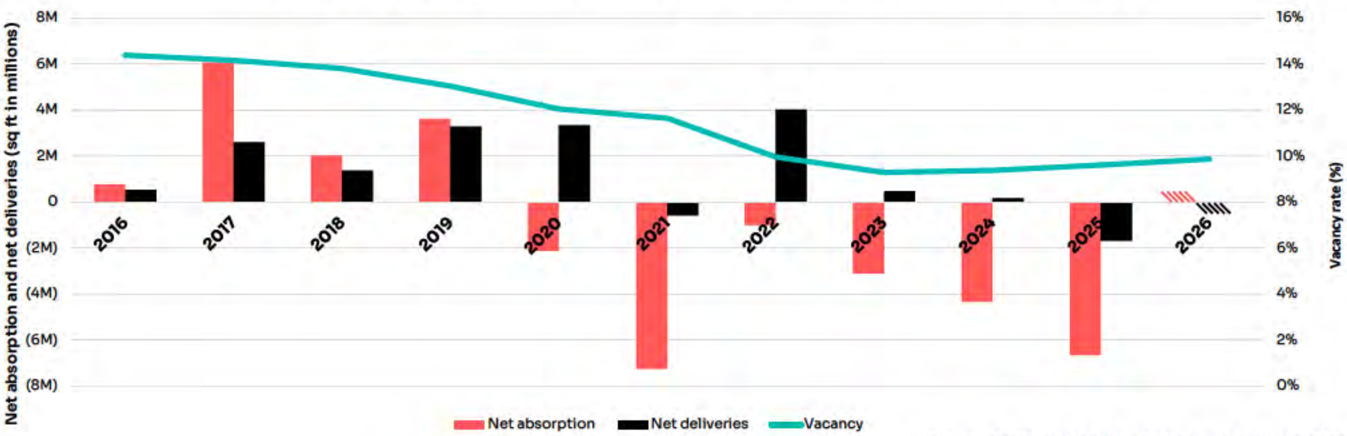
At the same time, market uncertainty, increased construction costs and the persistent high cost of capital make the development of new office space difficult to pencil in most markets. According to Cushman Wakefield, only 2.3 million square feet of new office space was delivered in the second quarter, the lowest level since 2012. Annual deliveries over the next few years are expected to hit record lows not seen in more than 30 years.

Washington, D.C. office market: From darling to distress

Washington, D.C., is emblematic of an office market that is still struggling to regain its footing in the post-pandemic era. Widely considered a darling of the office sector prior to 2020, D.C., has not benefited from the trends that have supported a robust recovery in markets like New York City and South Florida. In recent years, the market has experienced significant negative leasing absorption. The high cost of converting obsolete buildings prevents developers from repositioning assets to meet tenant demand for high-quality Class A space. Today, many Class B and C buildings are selling for land value.

Fueled by its role as the nation's political and administrative center, D.C.'s office market thrived in the 2010s, supported by a stable economic base anchored by the federal government, law firms, professional services and the tech sector. However, the city's prized status began to wane following the COVID-19 pandemic with the shift to remote work. In contrast to New York City where financial services firms were quick to accelerate "return to office" initiatives following the pandemic, federal agencies struggled to get employees back to the office.

Washington, D.C. office net absorption, net deliveries and vacancy

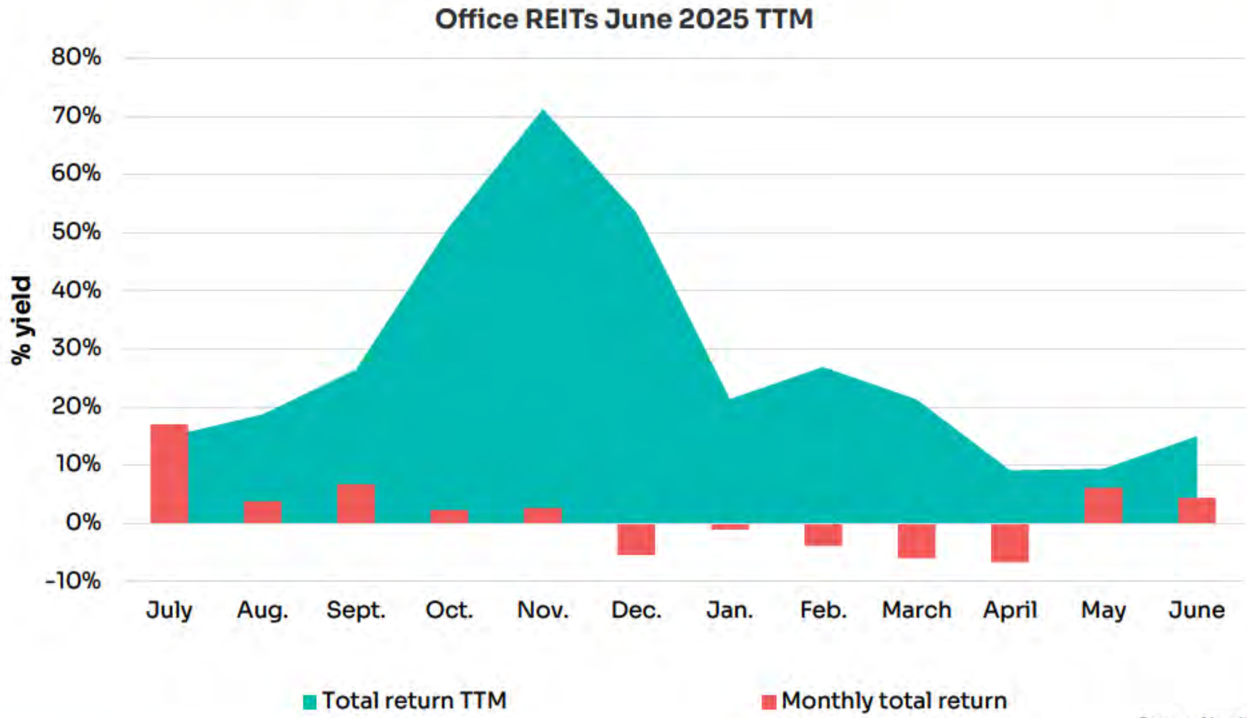


Source: CoStar U.S. Office Market Report, July 16, 2025

Complicating the outlook for D.C. today is the acceleration of the federal government's downsizing of its leased portfolio. According to CBRE, the city lost 850,000 square feet of federal government occupancy in the first six months of 2025. While these cuts are relatively small considering the federal government's 90.0 million square feet of owned and leased space in the D.C. area, the net effect resulted in negative absorption of approximately 400,000 square feet in the second quarter. More cutbacks are anticipated as the General Services Administration (GSA) continues to implement a decade-old policy to reduce its office footprint and maintain a 60% office utilization rate at GSA portfolio properties.

REIT performance

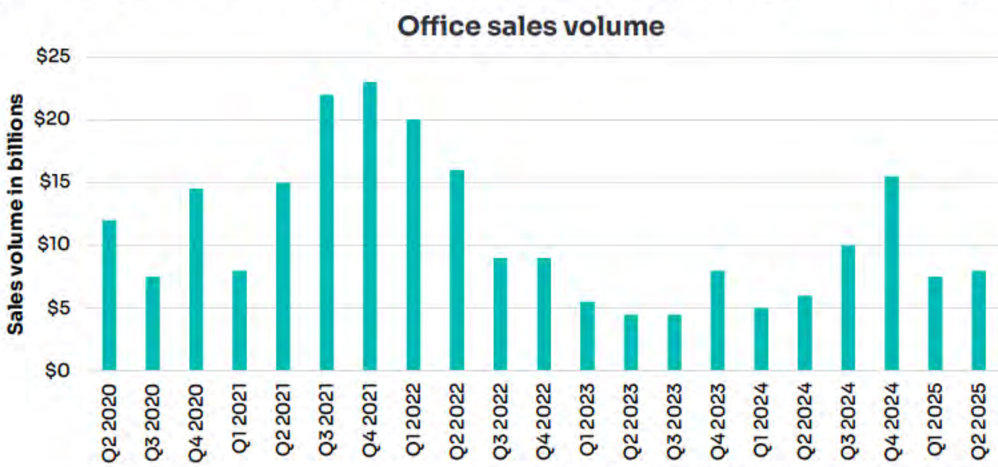
After a 21.5% total return in 2024, office REIT total stock price appreciation and dividends have trended down in the first four months of 2025. They have since rebounded in May and June with year-to-date total returns of -7.5% through June 30, 2025. Office REIT return performance trailed the performance of industrial, retail and residential REITs, which only decreased -0.5%, -1.0% and -1.7%, respectively.



Source: Nareit

Office transaction optimism

After the uptick in office transactions in the fourth quarter of 2024, market participants are optimistic about the possibility of increased office transaction activity going forward. According to Avison Young, office property sales over the past four quarters rose 69% compared to the four quarters ending in the second quarter of 2024.



Source: Avison Young Q2 U.S. Office Market Report, July 16, 2025

Supporting this optimism is an emerging increase in sales of foreclosed properties and distressed debt. According to Trepp, over 15% of office commercial mortgage-backed securities loans are in special servicing. With the growing consensus is that office has bottomed out, many believe additional buyers will enter the market and lenders in turn will be more inclined to accept short sales on troubled loans after years of prioritizing loan modifications and extensions. Alternatively, new private credit funds entering the market are anticipated to provide owners with capital to buy back loans and recapitalize deals.

Office transactions in 2025's second quarter

BUYER	SELLER	PROPERTY CLASS/ LOCATION	SQ. FT. (ROUNDED)	CLOSE DATE	PRICE ($M)
Easterly Government Properties	Principal Real Estate Investors	Class A Washington, D.C.	290,000	April 2025	$118.78
Exelon Corporation	Brookfield Properties	Class A Washington, D.C.	364,000	April 2025	$175.00
Fenway Capital Advisors	Lincoln Property Management and Broad Street Principal Investors	Class A Culver City, CA	315,000	April 2025	$130.00
Synergy Investments	Nuveen	Class A Boston, MA	731,000	April 2025	$227.00
Amazon	RFR Realty	Class A New York, NY	600,000	May 2025	$456.00
DRA Advisors and Flynn Properties	Paramount Group	Class A San Francisco, CA	770,000	May 2025	$177.00
Spear Street Capital	Manulife US Real Estate Investment Trust	Class A Atlanta, GA	585,000	May 2025	$133.75
United States of America	Peterson Companies	Class A Herndon, VA	434,000	May 2025	$246.40
Apple	Jay Paul Company	Class A Sunnyvale, CA	382,000	June 2025	$350.00
Barings	Clarion Partners	Class A Playa Vista, CA	307,000	June 2025	$150.70
Blackstone	Fisher Brothers Management Co.	Class A New York, NY	2,000,000	June 2025	$644.00*
Blackstone	Shorenstein Properties	Class A Bellevue, WA	673,000	June 2025	$218.00
CP Group and Bawag Group	Ardent Cos.	Class A Atlanta, GA	2,200,000	June 2025	$200.00
Drawbridge Realty and KKR & Co.	Shorenstein Properties and Wright, Runstad & Company	Class A Bellevue, WA	212,000	June 2025	$193.00
PG&E Corporation	TMG Partners	Class A Oakland, CA	1,100,000	June 2025	$906.00
Uncommon Developers	Brookfield Properties	Class A Los Angeles, CA	1,040,000	June 2025	$210.00

Source: Press releases, SEC filings and published articles

**Blackstone acquired a 46% stake, valued at $644 million, in the $1.4 billion 1345 Avenue of the Americas building*

Second-quarter notable transaction activity

Owner-user purchases dominated large office transactions in the second quarter. In the largest transaction of the second quarter, PG&E acquired its headquarters in Oakland, California, from TMG Partners for $906 million and plans to consolidate four major Bay Area office locations into the property. Apple acquired a 382,000-square-foot building in Sunnyvale, California, from Jay Paul Company for $350 million. Amazon made a strategic move in May to acquire a midtown Manhattan office tower from RFR Realty following the property's 2024 default on a $224 million loan. The transaction price was $456 million.

In Washington, D.C., Exelon acquired its headquarters from Brookfield for $175 million and the federal government, on behalf of the Central Intelligence Agency, completed a $246 million acquisition of Dulles Discovery 2 in Herndon, Virginia, from Peterson Companies.

Shorenstein Properties was an active seller this quarter with several transactions in Bellevue, Washington. Blackstone acquired a 40% interest in both Block 5 and Block 6 from Shorenstein, valuing the buildings at a combined $545 million. In connection with Wright Runstad & Company, Shorenstein also sold Block 13 to Drawbridge Realty and Kohlberg Kravis Roberts & Co. for $193 million.

Trends and takeaways

The office sector was stable in the second quarter despite volatile macroeconomic conditions. Leasing volumes and office visitation continued to stabilize, with prime office spaces in major cities outperforming struggling Class B and C assets. With new optimism around increased transaction activity, a much-needed market reset for troubled assets may be in store.

Retail

According to Cushman & Wakefield's Q2 2025 U.S. Retail Report, the retail sector entered 2025 amid expectations of recalibration, following the cumulative impact of elevated interest rates, persistent inflation and evolving consumer behavior. These factors contributed to sector-specific headwinds and several notable corporate bankruptcies in late 2024. More recently, the imposition of new tariffs has added to the challenges facing the retail landscape — challenges that have continuously tested the sector since the onset of the pandemic. Each disruption, however, has contributed to the development of a more resilient and adaptable tenant base. As the retail industry continues to evolve, a natural consequence is a measured slowdown in leasing activity while new trends and structural shifts take hold — consistent with the current environment.

The retail sector continues to undergo market adjustment. According to Cushman & Wakefield's report, demand for retail space remained soft in the second quarter, with net absorption totaling negative 6.5 million square feet. While this reflects a slight improvement from the negative 7.1 million square feet recorded in the first quarter, the combined two-quarter performance represents the weakest period for retail space absorption since 2020.

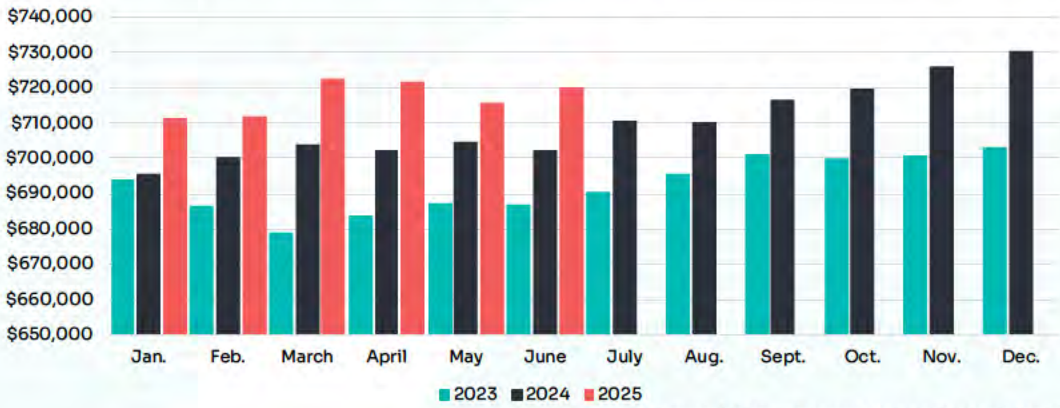
Retailers continue to adopt a wait-and-see approach amid ongoing market uncertainty. Recent abrupt shifts in tariff and trade policy have introduced additional volatility, contributing to a more cautious leasing environment. Real estate costs — already pressured by rising market rents and higher store fit-out expenses — remain a key concern. As a result, many retailers are actively seeking ways to reduce occupancy costs or are deferring leasing decisions until greater policy and market clarity emerge. Notably, store closures have outpaced new openings since the second half of last year, further illustrating the sector's conservative stance.

The retail commercial real estate sector is expected to navigate this period of uncertainty with relatively modest adjustments to its core fundamentals. Cushman & Wakefield's report notes that the national vacancy rate stands at 5.8%, reflecting a 50-basis-point increase over the past year, yet it remains below the pre-pandemic average of 6.4% observed from 2017 to 2019. While vacancy is projected to edge slightly higher through the end of the year, overall market conditions are expected to remain historically tight, supporting moderately positive rent growth over the three-year forecast horizon.

Retail sales

Second-quarter sales exceeded those of the same period last year, with April, May and June recording year-over-year increases of 2.75%, 1.57%, and 2.53%, respectively, according to data from the U.S. Census Bureau. As the uncertainty about tariffs among consumers continues, the National Retail Federation (NRF) reported that 67% of back-to-school shoppers had already begun purchasing items for the school year as of early July. This said, consumers are being cautious, waiting to see how potential tariffs might impact their annual spending habits.

Total retail and food services sales ($ in millions)



Source: US Census Bureau, seasonally adjusted sales
June 2025 figures are advance estimates

Retail market uncertainty continues

According to the BLS, in March 2025, the CPI experienced a modest decline, registering a 2.4% increase compared to the same period last year. Wage growth continues to outpace inflation, and non-farm employment gains during the month exceeded expectations.

Despite these encouraging indicators, which reflect a relatively strong economic backdrop, consumer confidence remains fragile amid ongoing uncertainty. As a result, consumer sentiment fell to its lowest level since 2022.

Retail sales rose 1.4% month over month in March, driven in part by consumers making larger discretionary purchases in anticipation of future price increases. Notable month-over-month growth was recorded in several retail categories, including motor vehicles and parts (up 5.3%), building materials and garden supplies (up 3.3%), sporting goods, hobby and books (up 2.4%), and food services and drinking places (up 1.8%).

Retail vacancy and rental rates

According to Colliers' U.S. Retail Market Statistics report, the national retail vacancy rate rose to 4.3% in the second quarter, representing a 10-basis-point increase from the previous quarter. For the first time since 2020, the U.S. retail market began the year with a higher volume of space available for lease compared to the prior year - largely attributed to a notable rise in store closures. This trend continued into the second quarter, as many of the closures announced in late 2024 have now translated into newly vacant space on the market.

Despite this increase in availability, the underlying demand remains strong. Many of the vacated units, particularly those located in high-traffic trade areas, are expected to be re-leased in a relatively short timeframe, helping to support market stability in the near term.

Colliers also reported that asking rents declined slightly to $25.46 per square foot in the most recent period, reflecting a modest 0.39% decrease. While recent store closures and a softening in retail sales have exerted some downward pressure on rent growth, overall market fundamentals remain resilient, supported by limited availability and steady tenant demand. Backfill activity continues at a healthy pace, with some landlords achieving rent premiums of 40% or more on re-leased spaces.

Retail transactions in 2025's second quarter

The largest transactions in the second quarter were valued lower than the previous quarter. This quarter's top transactions were dominated by high-end, market-dominant retail centers in suburban markets. As seen in the first quarter, second-quarter transactions reinforced institutional interest in high foot traffic, open-air retail centers that provide consumers with an experience along with ample options of shopping and dining. Geographically, the second quarter showed a focus on high-growth markets such as the Sunbelt and West Coast markets, with top transactions in Southern California and Miami.

BUYER	SELLER	CLOSE DATE	PROPERTIES	PRICE ($M)
Alvarez & Marsal Capital Real Estate	Desert Troon Companies	April 2025	1 (Shopping center)	$121.00
The Home Depot	Boylston Properties and JP Morgan Asset Management	April 2025	1	$72.00
EDENS	Barings	May 2025	1 (Shopping center)	$51.20
Bain Capital and 11 North Partners	O'Connor Capital Partners	June 2025	3 (Shopping centers)	~$212.00
Continental Realty Corporation	PGIM	June 2025	1 (Shopping center)	$87.50
Invesco Real Estate	Starwood Capital	June 2025	1 (Shopping center)	$133.20
JH Real Estate Partners	Los Angeles County Employees Retirement Association	June 2025	1 (Shopping center)	$81.00
Nuveen	InvenTrust Properties	June 2025	5 (Shopping centers)	~$306.00
Simon Property Group	Swire Properties	June 2025	1 (Shopping center)	$512.63
Space Investment Partners	Kite Realty Group Trust	June 2025	1 (Shopping center)	$118.50
Terreno Realty	Kimco Realty Corporation	June 2025	1	$49.50
The Macerich Company	Clarion Partners	June 2025	1 (Shopping center)	$290.00

Source: Press releases, SEC filings and published articles

The largest transaction in the second quarter was carried out by Simon Property Group and Swire Properties. Simon Property Group acquired full ownership of Brickell City Centre for $512.63 million, not including up to $36.10 million in additional contingent consideration. With more than 90 retail stores and an ample number of dining options, Simon Property Group has expanded their already-esteemed Miami portfolio, and this transaction allows Simon to strengthen its position to capitalize on the area's growing retail and tourism market.

In an attempt to rotate capital out of California, InvenTrust Properties sold a portfolio containing five shopping centers in Southern California to Nuveen, leaving InvenTrust with one remaining property in the state. For approximately $306 million, Nuveen has acquired over 600,000 square feet of grocery-anchored shopping centers that have occupancy rates over 98%. This purchase reinforces Nuveen's focus on necessity shopping retail centers. After purchasing the portfolio, Nuveen chose Vestar to oversee property management, leasing oversight, marketing and construction management for the five properties in the portfolio.

In June, The Macerich Company purchased Crabtree Mall in Raleigh, North Carolina, from Clarion Partners for $290 million. The Class A retail center holds approximately 1.3 million square feet, with more than 200 current tenants including Apple, Belk and Lululemon. By purchasing the mall, which is located in one of the top Southeastern U.S. markets, Macerich reinforces their focus on market-dominant assets. Through their strong relationships, they believe they can bring in new shoppers by adding top-performing brands in the mall.

In a joint venture between Bain Capital and 11 North Partners, a portfolio comprised of three retail centers in Oklahoma City, Oklahoma, was purchased for approximately $212 million from from O'Connor Capital Partners. Spanning almost 40 acres, the portfolio has occupancy rates over 97%. As seen with Nuveen, this purchase aligns with Bain Capital and 11 North's strategy to invest in retail centers that are necessity-anchored. This transaction shows the growing interest in open-air retail investment as well as the appeal of dominant suburban centers.

Trends and takeaways

CONTINUED PRESSURE FROM VACANCY AND COST INFLATION

The outlook for retail landlords has become slightly less favorable, though income streams are expected to remain stable due to sustained high occupancy levels across most retail centers. Concurrently, the market's gradual shift toward more tenant-friendly conditions may create favorable opportunities for occupiers engaged in new lease negotiations or renewals. Even prior to the implementation of tariffs, store expansion strategies had become increasingly measured and brand specific.

Despite ongoing economic and geopolitical uncertainty, demand from consumer service providers and international market entrants remains a key driver of retail leasing activity. Interest from these segments has held firm. On the supply side, the pipeline continues to lag historical norms and is expected to face additional constraints due to rising construction costs. As a result, national retail vacancy rates are projected to increase moderately, reaching the 6% to 6.5% range by early 2026, before stabilizing as broader economic conditions improve.

TARIFF UNCERTAINTY AND RETAIL DECISION-MAKING

Tariffs continue to be a key source of uncertainty for the retail sector, with the coming months — particularly the back-to-school shopping season — expected to offer critical insights into how both retailers and consumers respond. The evolving nature and unclear scope of tariff measures have made it increasingly challenging for retailers to accurately evaluate potential impacts on supply chains, inventory management and pricing strategies.

This climate of ambiguity appears to be influencing real estate decisions, contributing to a 20% decline in leasing activity year-to-date compared to the same period in 2024. Retailers had already begun exercising greater caution in their expansion strategies, and this hesitancy has become more pronounced. Over the past 12 months, announced store closures have consistently outpaced new store openings, indicating a broader industry-wide retrenchment in physical retail commitments.

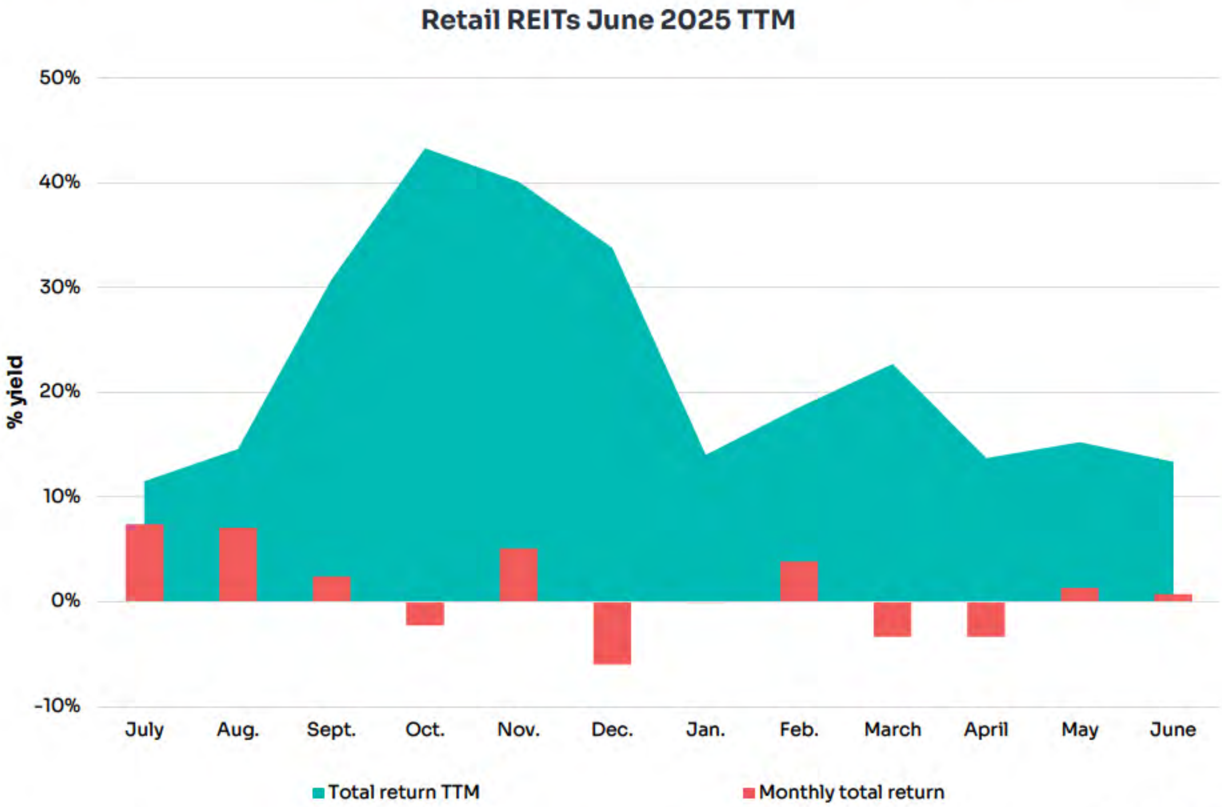
LEASING STRATEGIES AND OWNER RESPONSE

Retailers are increasingly favoring shorter lease terms to maintain flexibility in an uncertain market. At the same time, rising capital expenditure needs driven by evolving tenant requirements and shifting consumer expectations are placing added pressure on landlords. In response, forward-looking property owners are adapting through strategic tenant selection, targeted asset repositioning and proactive capital planning — all aimed at mitigating risk amid potential shifts in consumer spending and economic policy.

REIT returns

According to Nareit, retail REITs saw a little less volatility in the second quarter compared to the previous quarter. Monthly returns remained negative as the second quarter began, with a return of -3.3% in April. In May, retail REITs outperformed their first-quarter numbers with returns of 1.31%, which were followed by another month of positive returns of 0.72% in June.

Second-quarter performance was still hindered by concerns about trade and tariff policy. According to a press release from the NRF, the lack of certainty amongst consumers has created stagnation on household spending. Looking ahead, the passage of the One Big Beautiful Bill Act will support economic growth, but uncertainty about trade policy will continue to weigh on retail sales and, in turn, the performance of retail REITs.



Source: Nareit

Industrial

The second quarter of 2025 saw a surge in industrial sublease availability, which hit a record 225 million square feet, representing a 25% increase from the previous year. According to The Wall Street Journal, many companies, having stockpiled inventory ahead of tariff uncertainties, chose to downsize their footprint instead of locking into new leases. At the same time, new warehouse completions dropped significantly — down 45% year over year to about 72 million square feet — as developers shifted focus toward building high-quality, tenant-tailored space or build-to-suit projects. Savills Midwest regional data shows vacancies climbing to 7.7%, up 80 basis points year over year, as tenants remain cautious and large-block spaces remain unfilled.

Despite a growing industrial vacancy rate, the highest since 2014, rents remained firm due to sustained demand and long-term lease commitments. Many companies are front-loading inventories, prompted by the threat of tariffs and trade disruptions, which continue to support high utilization rates in logistics facilities. These dynamics of resilient rents amidst record sublease growth, reduced speculative supply and increasing vacancies highlight a market in transition, where occupiers and developers are adjusting their approaches amid evolving trade and economic headwinds.

Rents

National in-place rents for industrial space averaged $8.54 per square foot in the second quarter, reflecting an eleven-cent increase from March and a 6.3% rise over the past year, according to CommercialCafe's latest U.S. Industrial Market Report.

CommercialCafe also noted that Midwest industrial rent growth remained modest but showed signs of strengthening. The Twin Cities led the region with in-place rents at $7.32 per square foot, while Detroit and Chicago trailed behind at $7.21 per square foot and $6.50 per square foot respectively, well below the national average of $8.54. CommercialSearch reports that Chicago asking rents edged up despite rising vacancies, reflecting landlords' confidence in long-term demand. Additionally, CRE Daily states that secondary markets across the Midwest saw annual rent escalations in the 3% to 4.5% range, indicating more stable pricing for Class B assets.

In the second quarter, industrial rent trends in the Western U.S. showed mixed signals amid regional disparities. Per CommercialEdge, Western in-place rents remain among the highest nationwide. Orange County exhibited the highest rents at $16.69 per square foot, and Los Angeles followed at $15.23 per square foot, although both markets have seen slower growth compared to earlier in the year as rent acceleration reached a plateau. Meanwhile, Cushman & Wakefield data indicates that the West experienced a slight year-over-year rent decline of 1.9%, even as average asking rents across the U.S. rose to $10.12 per square foot in the second quarter of 2025. Overall, while coastal hubs continue to command premium pricing, rent momentum in the West shows signs of easing, suggesting a subtle shift toward stabilization.

The Inland Empire industrial market continued to cool, with average rents declining for the eighth consecutive quarter. According to CBRE, monthly lease rates fell to around $1.07 per square foot — down roughly 4.5% from the previous quarter — as increased availability and tenant caution softened landlords' pricing power. Sublease space, now widely available at lower rates near $0.90 per square foot, further pressured asking rents and gave tenants greater leverage in negotiations. Despite strong gross leasing activity and ongoing development, the Inland Empire is experiencing a recalibration, with more competitive pricing and a shift toward customized build-to-suit deals to attract long-term commitments.

Vacancy

In the second quarter of 2025, The Wall Street Journal reports that U.S. industrial vacancy rose to 7.1%, its highest level since 2014, as new supply and rising sublease space outpaced tenant demand. Smaller warehouses remained tight, with sub-100,000-square-foot spaces posting a vacancy rate of just 4.4%. As the market normalizes, increases in vacancy appear more reflective of healthy supply expansion than weakening fundamentals.

Midwest vacancies pointed to a softening industrial market marked by modest increases in availability. Savills reports that vacancy rates in the Chicagoland area climbed to 7.7%, up 30 basis points from the first quarter and 80 basis points year over year. This marks the third consecutive quarterly increase, driven by sluggish leasing activity and cautious tenant demand. Across the region, CommercialEdge flagged Chicago with the highest vacancy at 10.9% in April — well above the national average of 8.5% — underscoring elevated supply pressures in key hubs. However, some secondary and smaller markets like Detroit and even Columbus, which dipped to 7.6% in the first quarter, continued to exhibit more balanced conditions, suggesting a bifurcated landscape driven by localized demand dynamics. Overall, rising vacancies in core Midwest metros contrast with stabilizing trends in smaller markets, signaling a region undergoing gradual rebalancing.

Inland Empire's industrial vacancy rate continued its upward trajectory under mild pressure from new supply. CBRE reported that the region's overall vacancy rose by 10 basis points to 6.7%, with both the Inland Empire East (9%) and Inland Empire West (4.8%) submarkets edging higher as new completions entered the market. This increase came despite solid leasing activity, roughly 12.1 million square feet across the region, with new deliveries slightly outpacing tenant demand. Moreover, Savills noted a similar trend, with Inland Empire vacancy easing upward after two previous quarters of decline, landing at approximately 8.7% in the second quarter. Taken together, these figures highlight that while leasing remains active, fresh inventory is contributing to modest pressure across the market.

Industrial power players: The second quarter's biggest movers in logistics real estate

Industrial real estate remains the most transacted commercial asset class in the U.S., with transaction volume reaching approximately $21.4 billion through May and averaging $133 per square foot according to CommercialEdge. Demand for logistics and warehouse facilities remained strong in the second quarter, particularly in markets such as Phoenix, which saw $862 million in transactions and a 14.2% year-over-year increase in pricing. Investors continue to favor the sector for its stable cash flows, long-term lease structures and exposure to supply chain resilience. The overall trend reflects sustained institutional confidence in industrial assets, especially those well-located near major transportation corridors or urban logistics hubs.

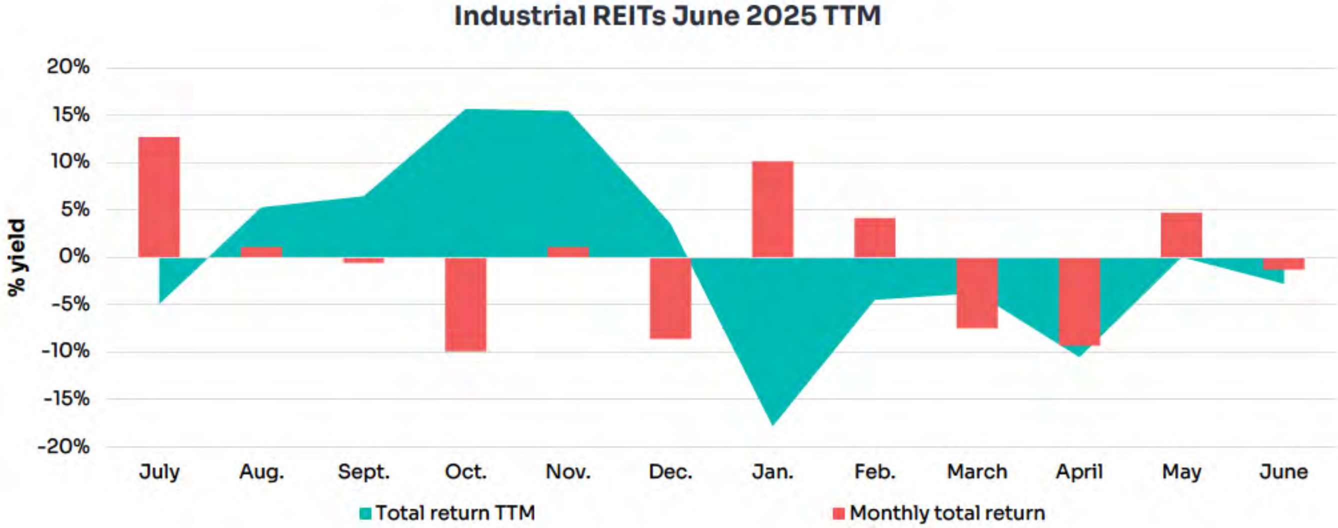
Several major players pursued high-value acquisitions near the end of the second quarter. BlackRock made headlines following the closing of the second quarter by acquiring ElmTree Funds, a private real estate investment firm managing $7.3 billion in net-lease industrial assets. According to Reuters, Blackstone also recently increased its June 3 offer to acquire Warehouse REIT, a U.K.-based industrial landlord, to $666 million as part of its strategy to scale logistics holdings across high-performing global markets.

Earlier this year, Alterra IOS acquired 16 industrial outdoor storage properties for an undisclosed amount in a sale-leaseback deal with TruGreen. In addition to outdoor storage space, the portfolio comprises over 326,000 square feet of building improvements across 34.8 acres and is fully occupied over a 25-year triple-net term.

These transactions illustrate a common thread: Institutional investors are pursuing industrial assets with stable tenants, long lease durations and strategic locations. While the scale and geography of each investment varies, the underlying strategy reflects a continued bet on the durability of e-commerce, last-mile logistics and supply chain reconfiguration. From U.S. metros like Phoenix and Chicago to international markets in the U.K. and Australia, industrial real estate remains a favored target for capital deployment. As capital continues to flow toward this asset class, industrial is likely to retain its position as the most actively traded and strategically prioritized property type in the quarters ahead.

REIT performance

U.S. industrial REITs demonstrated a strong rebound, continuing their positive momentum from earlier in the year. The industrial REIT sector posted solid gains, supported by steady rent growth, low vacancy rates in smaller warehouse segments and investor confidence in the sector's defensive qualities amid economic uncertainties. According to Nareit, industrial REITs outperformed many other property sectors, with total returns averaging around 7% for the quarter. Prologis, the largest industrial REIT, reported increased leasing activity and rising demand across multiple markets, contributing to improved stock performance.



Source: Nareit

Industrial transactions in 2025's second quarter

In the second quarter, high-value commercial real estate transactions remained robust, with industrial assets continuing to dominate the market. Compared to the previous quarter, transaction volume held steady, supported by strong investor demand for logistics and warehouse properties offering stable cash flows and long-term leases.

BUYER	SELLER	CLOSE DATE	PROPERTIES	PRICE ($M)
Morgan Stanley & Co.	Nissan	April 2025	4	~$343.00
W.P. Carey	Brookfield Property Group	April 2025	1	$140.30
Dermody	BGO	May 2025	1	$145.20
Eaton Vance Real Estate Investment Group	Grandview Partners	May 2025	1	$139.00
HINES Global Income Trust	Stonemont Financial Group	May 2025	2	$194.40
EQT Exeter Real Estate Income Trust	Blackstone	June 2025	1	$128.20
EQT Real Estate	CenterPoint Properties	June 2025	4	$264.00
Kiss	CRG	June 2025	1	$121.20
Blackstone	Crow Holdings	July 2025	25	$718.00

Source: Press releases, SEC filings and published articles

Notable transaction activity

Blackstone completed the acquisition of an industrial warehouse portfolio from Crow Holdings valued at $718 million, representing the largest industrial transaction of the quarter. The deal was announced in April and closed on July 1, 2025. The portfolio, primarily located in the Dallas and Houston markets, encompasses 25 properties totaling six million square feet. Crow Holdings developed the properties and retained a 5% stake in the portfolio.

Also in April, Morgan Stanley & Co. expanded its industrial footprint by acquiring a four-property portfolio spanning the Inland Empire, New Jersey, Dallas and Chicago markets for roughly $343 million in a sale-leaseback deal with Nissan North America Incorporated. The portfolio aligns with Morgan Stanley's broader growth strategy of targeting diversified, large-scale logistics assets in key regional markets. It includes nearly 93 acres of land and more than 12 million square feet of industrial space.

Trends and takeaways

In the second quarter, the industrial real estate market showed resilience amid shifting economic conditions. Sublease space surged 25% year over year to a record 225 million square feet as companies downsized ahead of tariff uncertainties. Meanwhile, new warehouse completions dropped 45% as developers focused on high-quality, build-to-suit projects. Despite rising vacancies, the highest since 2014, rents remained stable due to strong demand and long-term leases. Regional differences persisted, with Midwest vacancies rising and rents growing modestly, while Western markets showed signs of rent stabilization.

The industrial real estate landscape is trending towards efficiency and modernization, with companies investing in automation and advanced inventory systems. Resilient energy management will also be a key leasing consideration of industrial users as energy prices surge while these properties compete with data centers for power. Looking forward, industrial is expected to remain the most active and favored asset class as demand for flexible, high-quality logistics space continues.

Capital markets

Notable events and transactions

Relatively stable capital markets have continued to support a moderate level of real estate transaction activity, which included a handful of major transactions in the second quarter:

- In April, Driftwood Capital, a hospitality-focused investor manager, closed on a $1.2 billion portfolio consolidation of 18 branded hotels across the U.S. The portfolio includes 4,203 keys and was touted by Driftwood Chief Operating Officer Carlos Rodriguez Jr. as a "high quality, strategically located portfolio."
- In May, Blackstone announced that it was merging three of its property management firms — ShopCore Properties, Retail Opportunity Investments Corp. and EQ office — under a rebranded entity, Perform Properties. Perform will manager more than 33 million square feet of retail and office space.
- Blackstone announced another large transaction in June, acquiring approximately $2 billion in commercial real estate loans from Atlantic Union Bank. Atlantic Union was planning to offload this debt in connection with a prior merger, and the purchase was on brand with Blackstone's recent strategy of opportunistic investments in debt.
- At the end of the second quarter, Hyatt Hotels Corporation announced it was selling its Playa's owned real estate portfolio for $2 billion to Tortuga Resorts, after acquiring Playa on June 17. Tortuga is a joint venture between KSL Capital Partners and Rodina. The portfolio is comprised of 15 all-inclusive resorts in Mexico and the Caribbean, and Hyatt will continue to manage the properties.

Debt and equity markets

Data centers continued to attract investment in the second quarter, highlighted by two large fund announcements. Overall, the quarter exhibited a steady level of new fund launches primarily targeting debt and core real estate sectors.

PARTIES	AMOUNT RAISED ($M)	TARGETS
BKM Capital Partners and Kayne Anderson Real Estate JV	$1,500.00	Light industrial
Bravo Property Trust	$400.00	Real estate debt
Donahue Douglas	$1,500.00	Office conversions
Faropoint	$915.00	Industrial
Kayne Anderson Real Estate	$1,685.00	Opportunistic real estate debt
KHP Capital Partners	$300.00	Value-add hospitality
Mesirow Financial	$1,250.00	Multifamily
PGIM Real Estate	$2,000.00	Data center development
Starwood Capital Group	$2,860.00	U.S. and foreign real estate debt
StepStone Real Estate Partners V	$4,500.00	Real estate secondaries
Stonepeak	$1,500.00	Data center development

Source: Press releases, SEC filings and published articles

While not a newly announced fund, Brookfield Asset Management continues to attract capital for its fifth flagship real estate fund. Brookfield aims to accumulate $18 billion in the fund by closing, which would be the largest real estate fund on record, according to GlobeSt. The fund will target distressed assets.

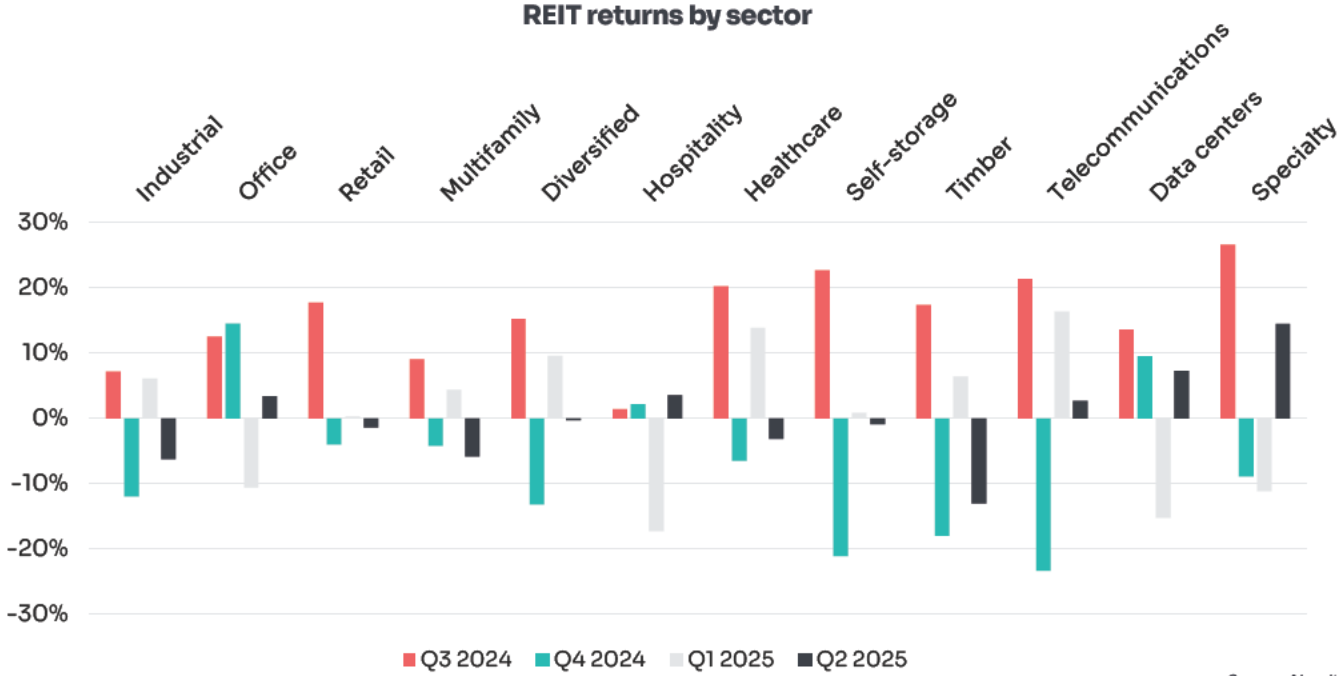
REIT performance and activity

REIT SECTOR	NUMBER OF REITS	JUNE 2025 TOTAL RETURN	2025 YTD TOTAL RETURN	2024 TOTAL RETURN
Office	17	4.43%	-7.52%	21.50%
Industrial	12	-1.28%	-0.52%	-17.78%
Retail	29	0.72%	-1.03%	14.01%
Multifamily	18	-1.67%	-1.68%	12.83%

Source: FTSE™, Nareit, as of June 30, 2025

REIT returns were mixed across both core sectors and the broader market, with data center, healthcare and specialty REITs performing well, while self-storage, telecom and timber lagged. In general, REITs continue to struggle relative to large private equity investors due to lower flexibility attributable to capital markets constraints.

REIT returns by sector



Source: Nareit

There were no REIT merger and acquisition deals announced in the second quarter, marking two consecutive quarters without activity, according to Nareit. Attractive REIT pricing relative to net asset values has failed to materialize in deals, despite some forecasting this since early in the year.

U.S. REITs raised nearly twice as much debt and equity in the second quarter as in the first quarter, totaling $22.5 billion, primarily through debt offerings. REIT property acquisition activity in the second quarter was roughly on pace with 2024, with $11.2 billion in acquisitions.

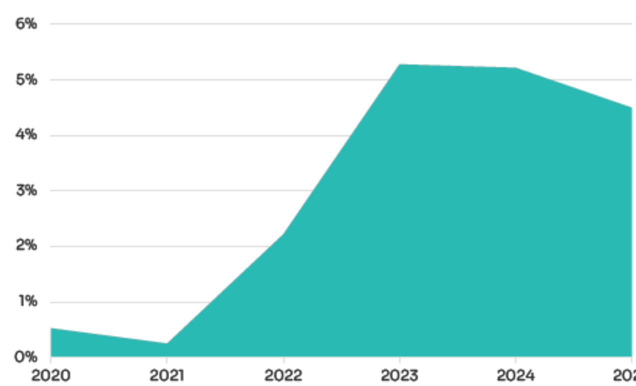
Federal Reserve and Treasurys

As of mid-2025, the Fed has held rates steady, citing uncertainty from uncertain trade deals and their potential inflationary impact. While policy makers remain cautious, contained economic conditions have led some Fed officials to favor rate cuts. The Fed funds target rate has not changed since December of 2024.

DATE	ACTION	FED FUNDS TARGET RATE
March 17, 2022	+25 bps	0.25% to 0.50%
May 5, 2022	+50 bps	0.75% to 1.00%
June 16, 2022	+75 bps	1.50% to 1.75%
July 27, 2022	+75 bps	2.25% to 2.50%
Sept. 21, 2022	+75 bps	3.00% to 3.25%
Nov. 2, 2022	+75 bps	3.75% to 4.00%
Dec. 14, 2022	+50 bps	4.25% to 4.50%
Feb. 1, 2023	+25 bps	4.50% to 4.75%
March 22, 2023	+25 bps	4.75% to 5.00%
May 3, 2023	+25 bps	5.00% to 5.25%
July 26, 2023	+25 bps	5.25% to 5.50%
Sept. 18, 2024	-50 bps	4.75% to 5.00%
Nov. 7, 2024	-25 bps	4.50% to 4.75%
Dec. 18, 2024	-25 bps	4.25% to 4.50%

Source: treasury.gov

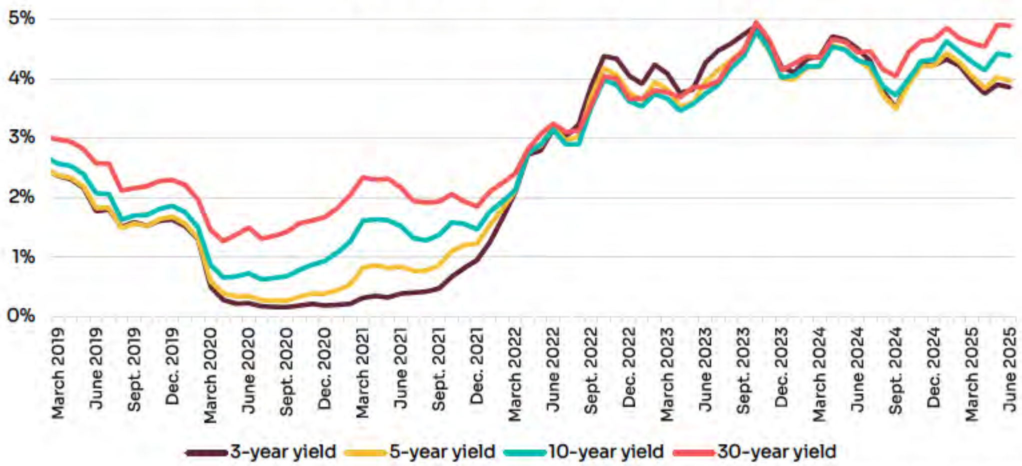
Average Fed funds target rate – 5 years



Source: FXStreet

There are mixed opinions among Fed officials about whether to cut rates and to what extent. Some argue that acting too soon could reignite inflation, which remains above the 2% target. Others warn that rising tariffs and slowing global demand are increasing recession risks. In a July 14 Fox Business interview, Cleveland Fed President Beth Hammack emphasized that the central bank can maintain a safe playstyle due to a 'really healthy' economy. Conversely, a July 9 CNBC article highlights views from other officials who view current inflation pressures as a temporary occurrence and rate cuts are a necessity to support continued economic growth. Unimpressive employment data released on August 1 has heightened market sensitivity, keeping all eyes on upcoming inflation figures. The market's reaction to this data could signal the Fed's next move.

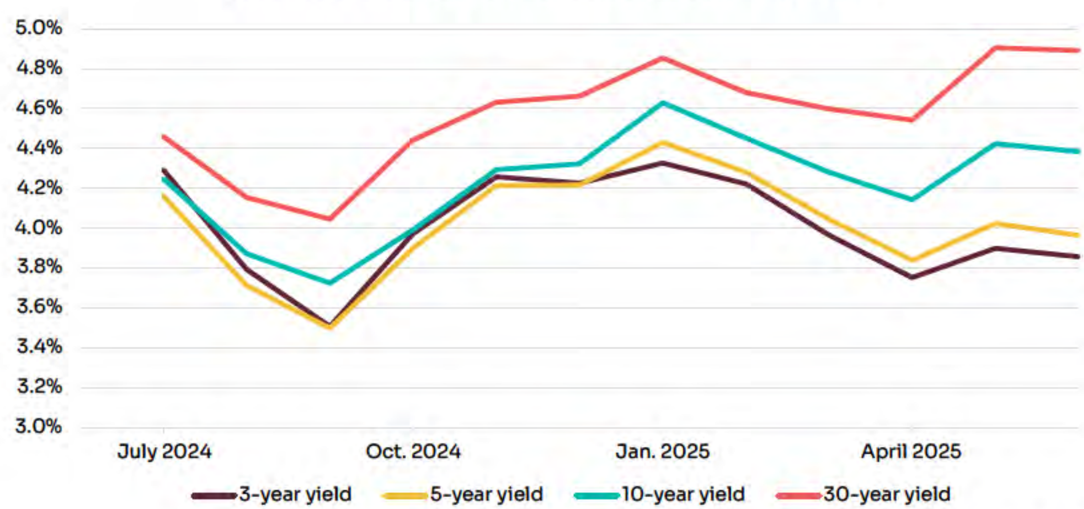
Treasury yields, March 2019 to June 2025



Source: treasury.gov, through June 30, 2025

Yields remain anchored within the high and low points of the second half of 2024. A recent Reuter's article quotes experts expecting Treasury yields to drift higher due to a surge in government debt issuance and waning investor demand. The article notes that bond strategists have continued to overestimate declining yields and rising bond prices over the past year, contributing to diminished confidence in Fed rate cuts and an overall bearish view on bonds. Markets are in a wait-and-see mode as investors look for clearer signals from the Fed on the timing and scale of potential rate cuts. The Fed's decisions directly influence bond yields, capital structure, valuations and overall risk tolerance. Until there is more certainty, market movements are likely to remain constrained.

Treasury yields, 12 months, ending June 30, 2025



Source: treasury.gov, through June 30, 2025

Yields have widened and moved away from inversion over the course of the year, but aside from three-year yields, all durations are approximately equal to or higher than they were at the start of the year.

Activity and valuations

We noted last quarter that yields and interest rates had not declined as much or as quickly as most real estate investors hoped — a sentiment that remains as of this writing, with little favorable movement on those fronts. Despite this, commercial real estate transaction markets kept pace with the first quarter. According to data cited in Old Republic Title's Q2 2025 Economic update, trailing 12-month sales volume was up 24% as of the end of the quarter. Notably, the report highlights that the office sector was leading the charge, as confidence in executing deals in the troubled segment continues to improve.

Creative financing and structuring contributing to volume

We previously noted the challenges REITs face in the current capital markets environment — challenges some are working around through the use of joint ventures, according to Nareit.

Nareit reports that joint ventures are being used by an increasing number of REITs to access capital, particularly for larger platform deals. This approach aligns with strategies used by many private equity investors in building large single-family rental platforms, forming partnerships with health care systems and investing in data centers. Blackstone's joint venture with Digital Realty is a high-profile example of partnering to fund investment, as is Equinix's announced venture with GIC and the Canada Pension Plan Investment Board in October 2024.

Nareit ties the rise in joint venture use by REITs to the increase in interest rates several years ago, noting that partnering with large, cash-rich investors helps avoid missing out on opportunities in the current cycle.

Conclusion

Capital markets remain tight. However, sustained transaction activity has shown that bid-ask spreads have narrowed and investors are becoming more comfortable with pricing. While distress continues to rise, it remains manageable, and fundamentals across most sectors are strong enough to support extensions or other creative solutions in many cases. Capital is available and ready to be deployed, and we remain confident heading into the remainder of the year.

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CONTENT MARKETING AWARDS 2025 WINNER

Award-winning report:
The Content Marketing Institute (CMI) recently honored Baker Tilly with a 2025 Content Marketing Award in the "Best Use of White Paper (One or a Series)" category for our REcap report. The Content Marketing Awards, presented annually by CMI, are the largest and longest-running international program recognizing excellence in content creation, distribution and innovation. Learn more here.

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