AEW RESEARCH & STRATEGY

U.S. Economic & Property Market Perspective

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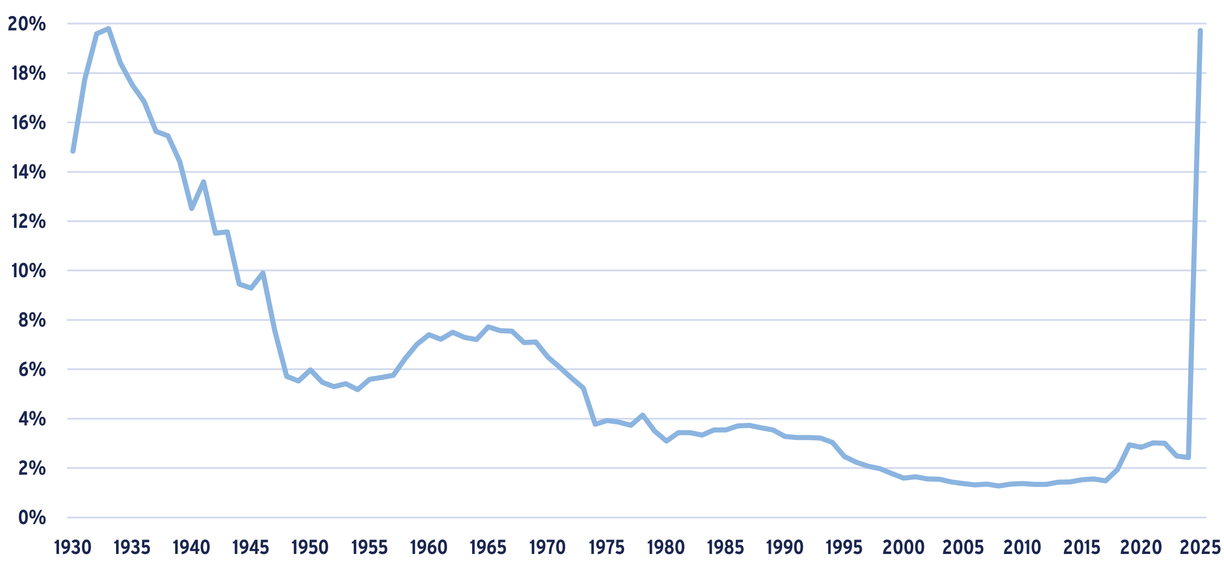
90+ Days that Shook the World

Bookended by "Liberation Day" on April 2nd and the President signing into law the "One Big Beautiful Bill" on July 4th, the past 90+ day period is arguably the most consequential period of federal government policy change in the U.S. since the onset of the Global Financial Crisis (GFC) in the latter part of 2008 and early 2009. In this brief period, the Trump administration, with the support of the Republican-controlled Congress and, in some cases, the Supreme Court, has moved rapidly, largely through executive order, to re-order large swathes of the U.S. economy and society more broadly, with particular focus on America's relationship to the rest of the world via immigration, trade and foreign aid. At the same time, pressure has been brought domestically on institutions including universities, law firms and media companies to reshape behavior across hiring practices, curriculum, research and political expression.

Arguably, the dramatic fiscal and monetary policies undertaken during the GFC were in response to rapid and widespread economic contraction and the very real possibility of global financial system collapse. Today's extraordinary trade, immigration and fiscal policies appear to be a reaction to concerns that a significant part of the electorate has regarding longer-term economic, demographic and societal change.

Most significantly, on April 2nd, the President imposed baseline 10% trade tariffs on all U.S. trading partners with additional "reciprocal" tariffs on individual countries. Market reaction was swift and severe, with massive simultaneous selloffs in the U.S. equity, fixed income and dollar exchange markets. In response to market reaction, the reciprocal tariffs were largely delayed, ostensibly allowing for trade negotiations, but have since re-percolated back into U.S. trade policy. Currently, the U.S. effective tariff rate, adjusted for trade weightings, stands at approximately 20%, the highest level since the peak of the Great Depression in 1933 and dramatically above the prior average of approximately 2.5%.

FIGURE 1: U.S. AVERAGE TRADE WEIGHTED EFFECTIVE TARIFF RATE



Source: The Budget Lab at Yale, as of July 15, 2025

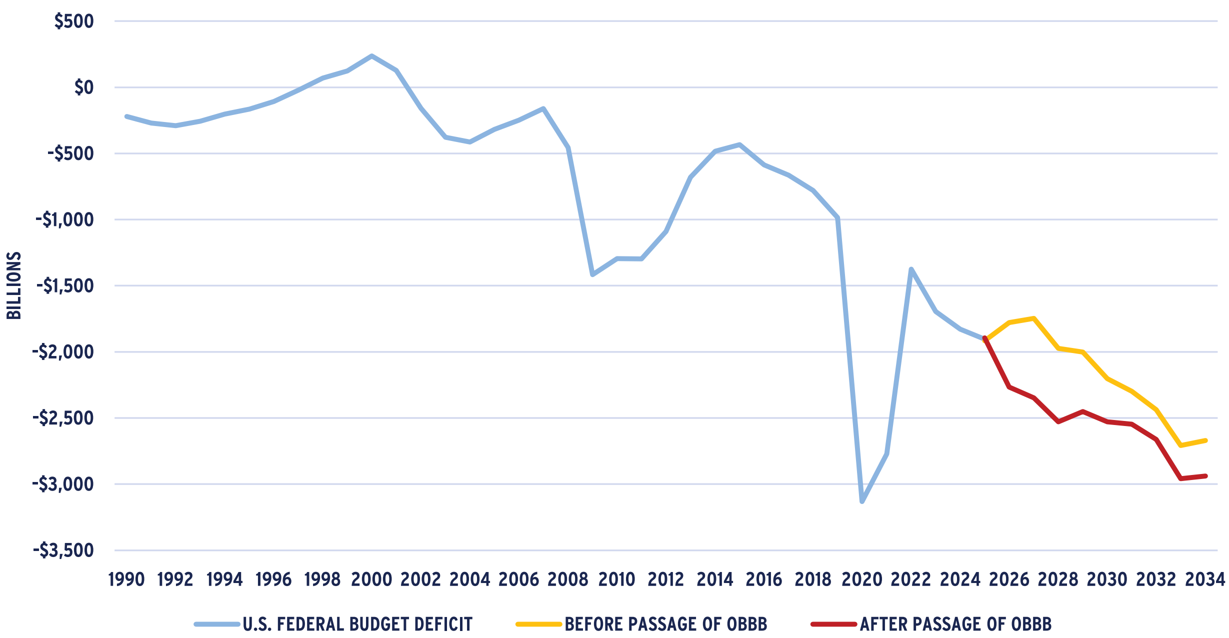
With U.S. tariff levels generally falling for more than 50 years, few market observers or investors have any direct experience with periods of broadly rising tariffs and, therefore, have limited ability to predict the ultimate impact on areas such as future trade volume, overall economic growth and inflation. Rather, most projections of tariff impacts are based on more narrowly focused tariff increases on specific products or countries such as the first Trump administration's tariff policy with China. Recently, Moody's economist Mark Zandi noted that for every 100-basis point increase in the effective tariff rate, expected inflation is likely 10 basis points higher[1]. Given the extreme increase in the overall effective tariff rate since April 2nd, expected

[1] *Moody's Talks - Inside Economics. Episode 218. May 30, 2025. "Rules of Thumb"*

inflation could rise significantly, but markets so far are not pricing that outcome into asset valuations. The slowing economy is also weighing on services pricing and partially offsetting the tariff impact on goods.

The 90+ day period ended with the passage and signing of landmark legislation making permanent and expanding the tax rate regime instituted in 2017 during the first Trump administration while simultaneously reducing future federal government spending on areas such as low-income health insurance (Medicaid) and nutritional assistance (SNAP). The bill does include numerous potentially positive items for commercial property investors such as expansion of low-income housing tax credits (LIHTC), making permanent federal opportunity zones and continuation of capital gain deferral through 1031 like-kind exchanges, though these come at a potential cost in terms of likely widening of the federal budget deficit and possibly higher borrowing costs. To this point, the Congressional Budget Office recently updated its assessment of the budgetary impacts of the bill and concluded that OBBB will add roughly $3.5 trillion of additional cumulative deficits over the next ten years on top of the nearly $20 trillion of new federal debt expected had there been no change to current policy.

FIGURE 2: PROJECTED U.S. FEDERAL BUDGET DEFICIT BEFORE AND AFTER PASSAGE OF OBBB

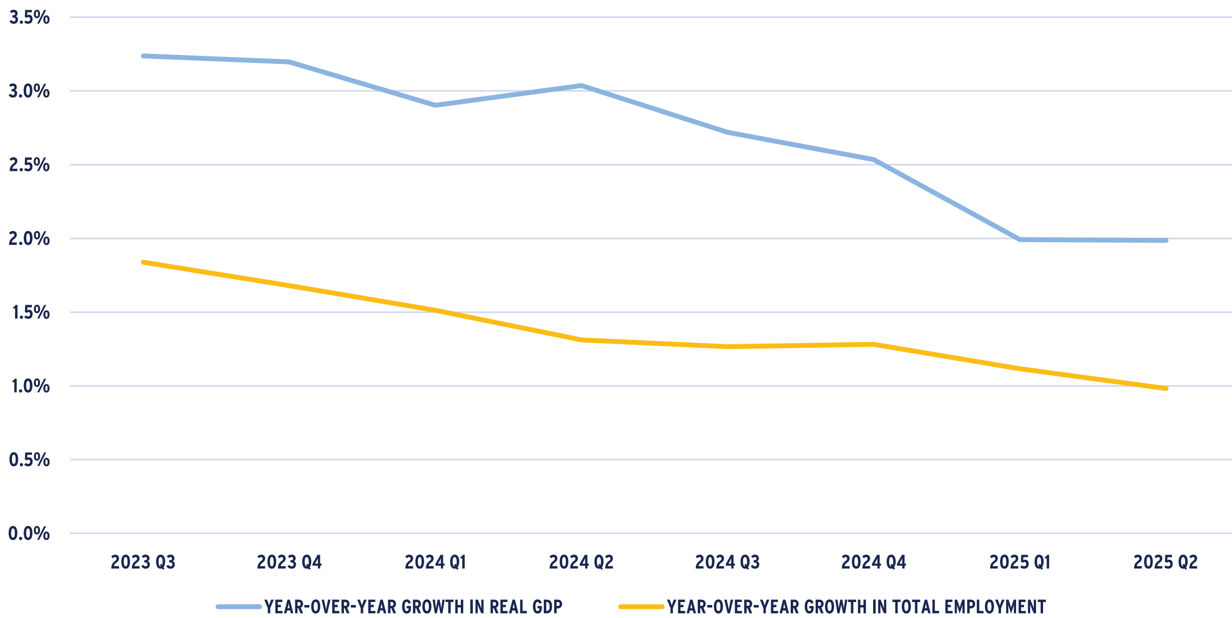


Source: Congressional Budget Office (CBO), as of July 21, 2025

Against this backdrop, U.S. economic activity has clearly continued to slow. Through the middle of the year, U.S. real GDP growth showed year-over-year growth of 2%, down from annualized growth of more than 3% as recently as mid-2023. For its part, annualized total employment gains have slowed to just 1%, also down from nearly 2% in mid-2023. More significantly, the most recent government assessment of employment showed almost no new jobs in the country during May and June following the April's Liberation Day announcements[2]. The release of the report prompted President Trump to dismiss the commissioner of the Bureau of Labor Statistics (BLS). While the decision drew significant public attention, some observers have expressed concern that it could further weigh on business and consumer confidence. This development follows a series of pointed remarks from the administration regarding Federal Reserve Chair Jerome Powell and the Federal Open Market Committee (FOMC), particularly in light of their cautious stance on adjusting monetary policy until the economic effects of recent tariff changes — including potential inflationary impacts — are more clearly understood. Similarly, to the benefits of free trade, the importance of central bank independence to the anchoring of inflation expectations is widely regarded as economic orthodoxy and the uncertainty introduced by the President's recent actions are likely to add additional uncertainty to the perceived veracity of future government data releases as well as soundness of U.S. monetary policy.

[2] *Bureau of Labor Statistics, Employment Situation. August 1, 2025*

FIGURE 3: U.S. REAL GDP AND TOTAL EMPLOYMENT GROWTH



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

While the One Big Beautiful Bill makes permanent prior tax cuts that were set to expire this year, most consumers will not see any increase in after-tax income until they file for and receive their federal tax rebate next year as all of the new tax cuts such as the new higher standard deduction and favorable tax treatment for tipped income or overtime are accessible only through the tax filing process. By contrast, tariffs are taxes on the consumption of foreign produced goods, and the tariffs are collected as the good enters the country. To the extent that these new taxes are passed on to the final consumer, the impact of higher prices will show up in household budgets much sooner. The Budget Lab at Yale University, for example, estimates that the new effective tariff rate impact on the average household will be an increase in aggregate cost of goods consumed of $2,400[3]. As such, we anticipate continued slower economic growth as businesses and consumers digest the large and rapid changes that are unfolding around them.

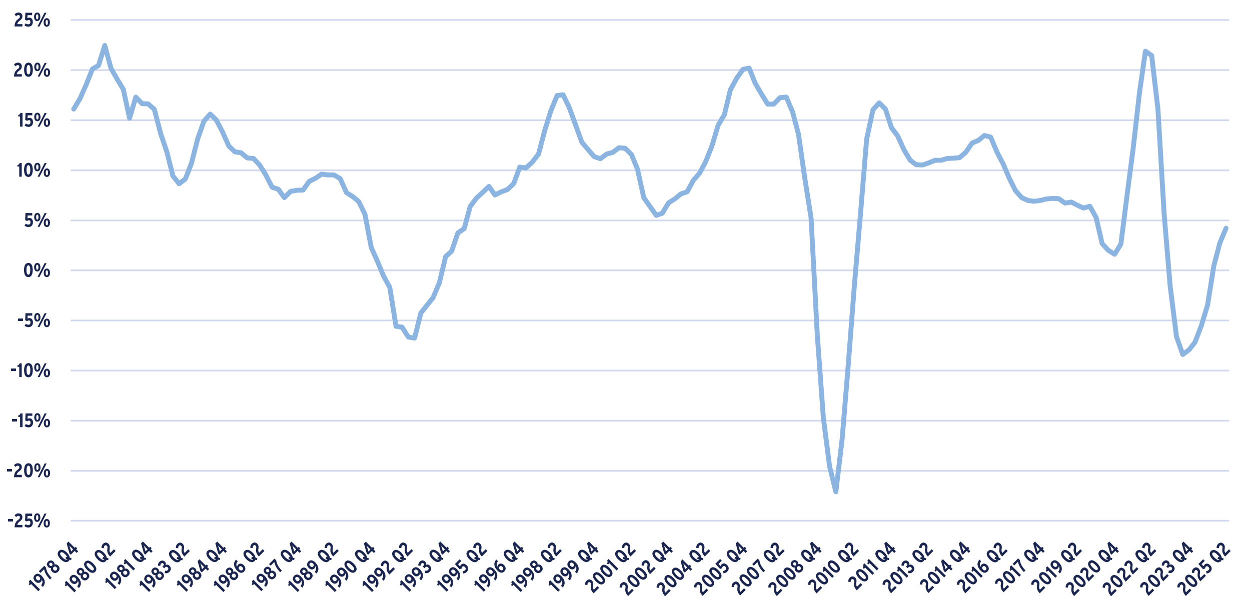
Ironically, slower growth resulting from the President's trade policies will likely create the conditions for the Federal Reserve to resume lowering short-term policy rates, possibly as early as the September meeting, but any decline in longer-term Treasury bonds yield will be determined by the bond market, not the FOMC. If the new tariff scheme is successful in reducing future trade deficits, foreign Treasury bond purchasers will likely have fewer dollars from trade to recirculate into U.S. assets generally and Treasury bonds specifically. Overall, we see the U.S. yield curve steepening in the near term as any decline in short rates is not fully matched by declines in long yields.

[3] *The Budget Lab at Yale. State of U.S. Tariffs. July 7, 2025*

Commercial Property Outlook

Property valuation cycles are long. Indeed, since the start of the NCREIF Property Index in 1978, there have been only three periods of negative year-over-year total return, suggesting average cycle length of nearly 15 years. All economic and property cycles have characteristics in common, but they also have elements that are unique. Looking ahead, we are reminded of Maya Angelou's admonition "if you don't know where you are coming from, you don't know where you are going." For U.S. commercial property, the past few years have been marked by valuation decline accompanied not by broad economic contraction (i.e., recession) but by generally growing property earnings (net operating income). This stands in marked contrast to the period of negative returns during the financial crisis (2008-2009) and the banking crisis of the early 1990s.

FIGURE 4: YEAR-OVER-YEAR RETURN OF THE NCREIF PROPERTY INDEX (NPI)



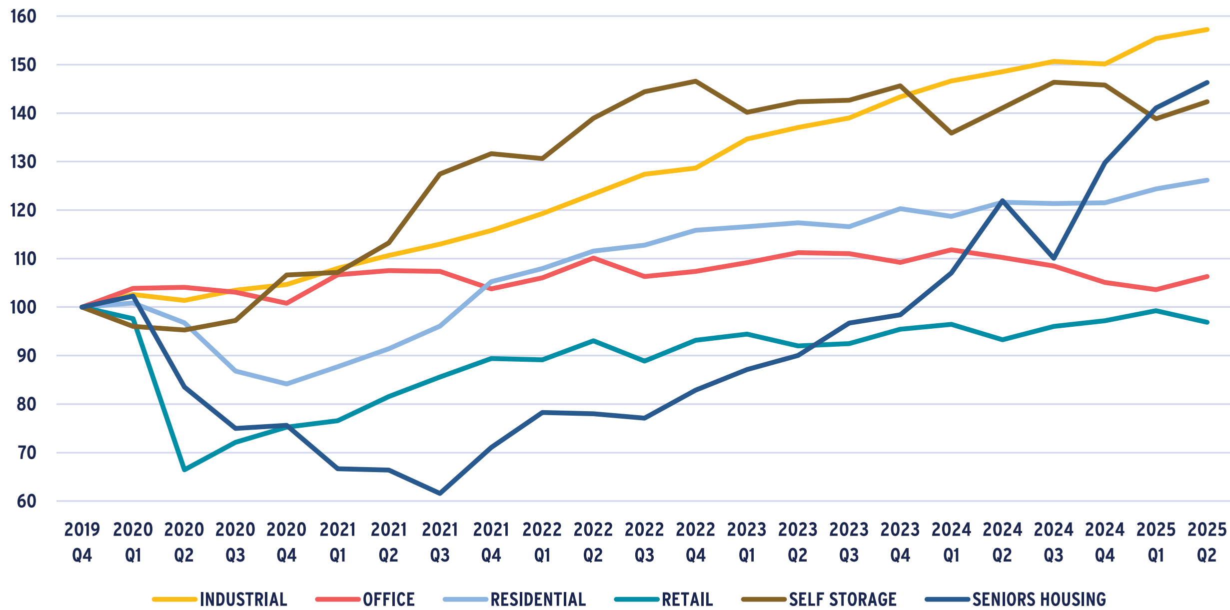
Source: NCREIF

U.S. commercial property entered the beginning of the next property valuation up cycle during the second half of 2024, and we believe the current property up cycle will be different from past periods in several important ways.

First, the amplitude of the valuation component of property return will likely be muted with respect to past cycles. Property values, like the value of all income-producing assets, change for two reasons: the income produced by the property changes or the way investors value that income changes. For real estate, the latter is captured by the property cap rate, the yield investors demand to hold a property given the current property income and expected future growth in the income stream. As with bonds, values rise when investors demand less yield. For the reasons discussed, we do not expect a significant near-term decline in Treasury bond yields and, by extension, do not anticipate near-term yield compression for most real estate assets as well.

Second, property income growth over the next several years will, in aggregate, be slower than property income growth during the early years of valuation recovery in prior cycles. As noted above, the value declines of the past few years have occurred without an accompanying economic recession. If there has been no cyclical decline in property operating metrics such as occupancy and rent, there is not likely to be go-forward growth at levels typically seen during periods of recovery.

FIGURE 5: NOI GROWTH BY PROPERTY SECTOR (INDEX, 2019 Q4 = 100)

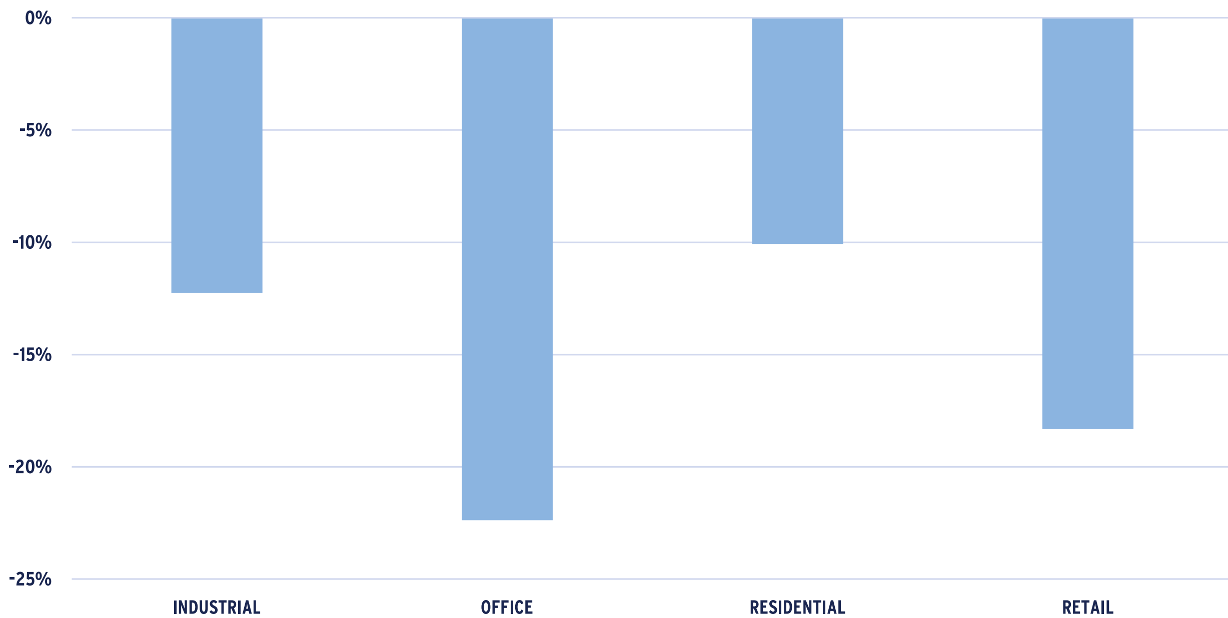


Source: NCREIF

There will, of course, be exceptions. In Figure 5, we show aggregate net operating income (NOI) from the quarter before the pandemic (2019 Q4) began through the most recent quarter. Each property sector followed a unique path over this period with extremely sharp NOI declines in 2020 and 2021 in sectors such as retail and seniors housing, which were more sensitive to pandemic restrictions. Since the end of 2021, however, growth in seniors housing NOI has steadily accelerated, while NOI growth in most other sectors has moderated. This divergence is expected to continue over the next several years as seniors housing enjoys recovery from the pandemic period that is more like true cyclical recovery as most other sectors experience conditions typically referred to as "late cycle slowdown."

Finally, and perhaps most significantly, the current property valuation up cycle may continue much longer than previous cycles and, the longer the cycle continues, the greater the likelihood that property NOI growth in other sectors will re-accelerate. This conclusion is rooted in observations of property market supply responses, which we believe will be less robust than in previous valuation recovery cycles. Currently, there is very little aggregate construction underway in seniors housing, retail, and office, and construction is slowing rapidly in most industrial and apartment markets. Following more than two years of steady value declines, most property values today are below estimated replacement cost. Proprietary data from our portfolio suggests current values ranging from 10% to 25% below estimated replacement cost and we suspect that is true broadly across institutionally owned commercial properties. In this environment, the incentive to deliver new property is greatly reduced. Additionally, material and labor pricing (and availability) seem likely to remain unpredictable, at least in the near-term, as near daily pronouncements on new or changing tariff levels combined with near certain acceleration of deportation of undocumented labor keep new development planning more difficult. If new supply remains muted, the period in which rents can rise to levels that support new construction becomes elongated and the inevitable point in all cycles where new supply moves ahead of demand growth moves farther into the future.

FIGURE 6: CURRENT VALUE RELATIVE TO ESTIMATED REPLACEMENT COST



Source: AEW Research, 2025 Q2

Conclusion

The past 90+ days have been remarkable. In a very short period, the President, by proclamation, has restructured global trade and Congress, by the narrowest of margins, has locked-in structurally lower tax rates for the foreseeable future. These changes will be very difficult for future administrations to reverse. Larger deficits, now structurally in place, make new higher tariff revenue addictive for future lawmakers and tax relief once given is politically painful to take away. The long-term impacts of these changes are, of course, unknown. In the near term, we expect continued slower aggregate growth as the negative impacts of tariffs on consumption are felt immediately, while any stimulus to new domestic production or benefits of additional tax relief is still to come. At the same time, a floor under yields likely persists with investors pricing in sustained higher yield premia in response to greater federal funding needs and uncertain expectations of tariff-related inflation. In short, we anticipate additional steepening of the yield curve, even if the Fed resumes cutting short rates later this year and into 2026.

Leaving aside the sector-specific positive NOI recovery story in seniors housing today, we do not expect near-term widespread outsized property sector NOI lift. There will, as always, be differential growth by property sector and by market, but the differences will be narrower than in past cycles. Again, there has been no cyclical decline in regional economies to give support to underwriting cyclical recovery. As such, we believe this next valuation up cycle will be less about picking the correct property sector or market and more about picking the correct asset and growing its income through prudent asset and property management. While this is always an important component of property investment return, in a time where little or no amplification of property income growth from compressing yields can be counted on, property income growth will be the primary source of future value creation.

Property Sector Updates

Office

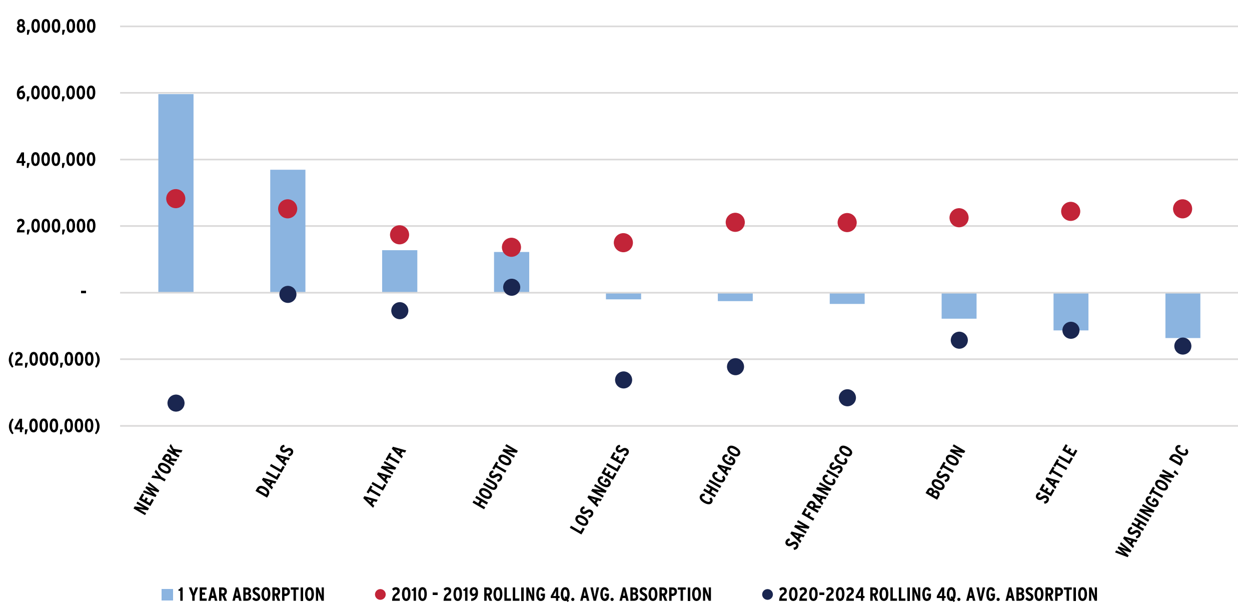
The outlook for the office sector remains difficult, with persistently high vacancy rates limiting landlord leverage, even among premium properties. Tenants continue to hold bargaining power when relocating or resizing, and although a handful of newly constructed, high-end buildings have secured favorable leasing deals, these are the exception, not the norm. Overall, the market remains weighed down by weak leasing activity and high availability in both new and ongoing developments. Notably, New York stands apart, where strong return to office momentum driven by finance and legal firms has supported demand for prime space.

Leasing activity, both new and renewal, declined slightly in the first half of the year and currently sits around 70% of its pre-pandemic pace, per CoStar. Though top-tier properties have performed better through tenant consolidation, total vacancy rose modestly by 10 basis points to 19.1% in Q2, while availability stayed flat at 24.8%, according to CBRE. Sublease space shrank, now making up 2% of vacancy, but direct vacancy crept upward to 17.1%. Although the previous year ended on a high note for absorption, Q2 reversed course with a negative net absorption of 113,000 square feet.

Despite more firms requiring in-office presence, this has only marginally lifted overall space demand. Often, these policies coincide with downsizing, employee exits, or location shifts, resulting in complex outcomes. New York again bucks the national trend, showing sustained strength with five consecutive quarters of positive absorption, while other urban markets continue to grapple with space givebacks and lackluster demand due to economic uncertainties. Longer-term, the offsetting impacts of labor-saving technology (e.g. AI) versus return to office mandates remain uncertain.

Currently, absorption trends across the top 10 markets remain sharply divided. New York, Dallas, Atlanta, and Houston posted positive net absorption over the past year, with New York and Dallas notably exceeding their long-term pre-pandemic averages. In contrast, several major markets, including Boston, Seattle, and Washington, D.C., continue to underperform, with annual absorption levels remaining well below their historical (2010–2019) and around their post-pandemic (2020–2024) rolling average. This bifurcation highlights the uneven pace of recovery across major metros, reflecting varied demand fundamentals and market-specific headwinds.

FIGURE 7: ANNUAL VS. LONG-TERM AVERAGE ABSORPTION



Source: CBRE, as of 2025 Q2

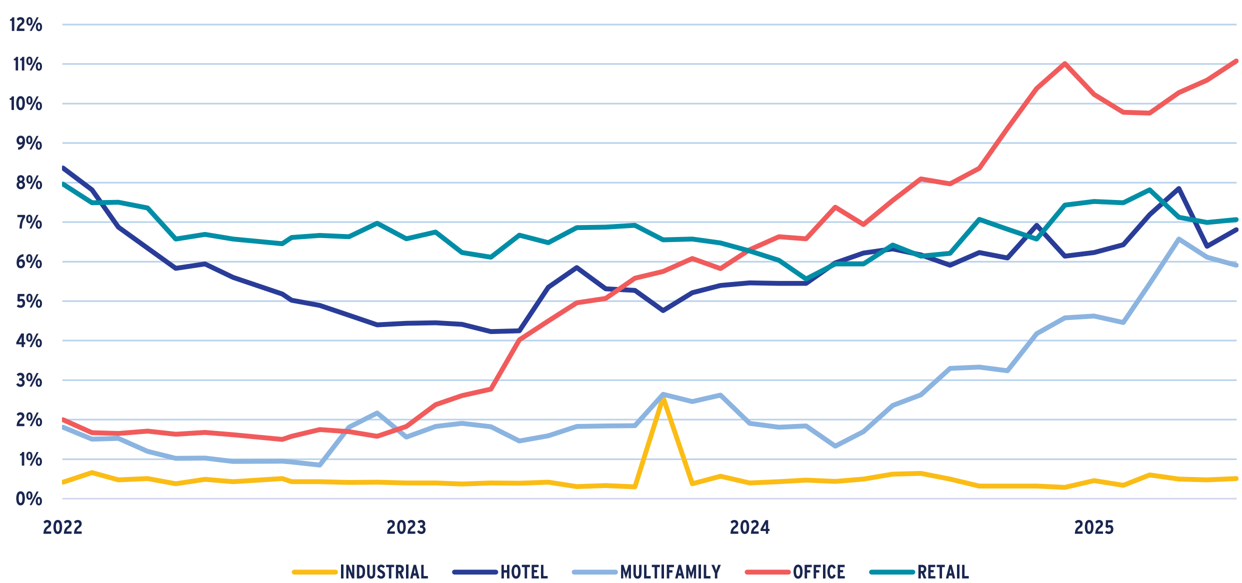
The above patterns point to a diverging landscape in the U.S. office markets. The outperformance of markets like New York and Dallas, with annual absorption that has exceeded long-term historical averages, highlights the strength of demand in select geographies. Conversely, markets such as Boston, Seattle, and Washington, D.C. remain weaker, performing closer to their post-2020 trend levels. This divergence may reflect broader shifts in migration patterns, economic drivers, and space utilization preferences. Continued monitoring of these dynamics will be important for understanding the sustainability of recent gains and identifying potential inflection points in market recovery.

Overall, tenant behavior has trended toward reduced space requirements. Although the volume of lease agreements is nearing pre-pandemic levels, the average square footage per lease has declined by roughly 15%. We anticipate this downsizing momentum will persist, especially as larger companies with extended lease terms (typically 7 to 10 years) begin to recalibrate to evolving market conditions. Despite headcount growth among these organizations, it has not yet counterbalanced changing patterns in office space utilization. According to CoStar, approximately 37% of leases executed before the pandemic remain active—these contracts are characteristically long-term, cover more extensive areas, and are often located in central business districts of major urban hubs.

More optimistically, confirmation of value losses highlighted by appraisal and public market pricing indices is gaining more clarity as transaction volumes move higher. Sellers and lenders appear more willing to move on from stressed investments as more buyers get comfortable with the risk-adjusted return potential at reset values. There remains a wide divide between buildings with value and those without and the path forward seems to also vary widely ranging from demolition and repurpose to necessity support and strategically relevant. The impact on aggregate values, however, continues to play out with private equity adjusting at a more measured pace relative to the dynamics seen in the public markets. Through 2025 Q2, NCREIF's value weighted cap rate index for office reflected an increase of 180 basis points from pre-pandemic lows, rising to 5.9% in the second quarter from 5.7% in the first quarter, though a 20 basis points decline from year-ago levels. For comparison, the REIT implied office cap rate is currently estimated to be nearly 8% according to Green Street.

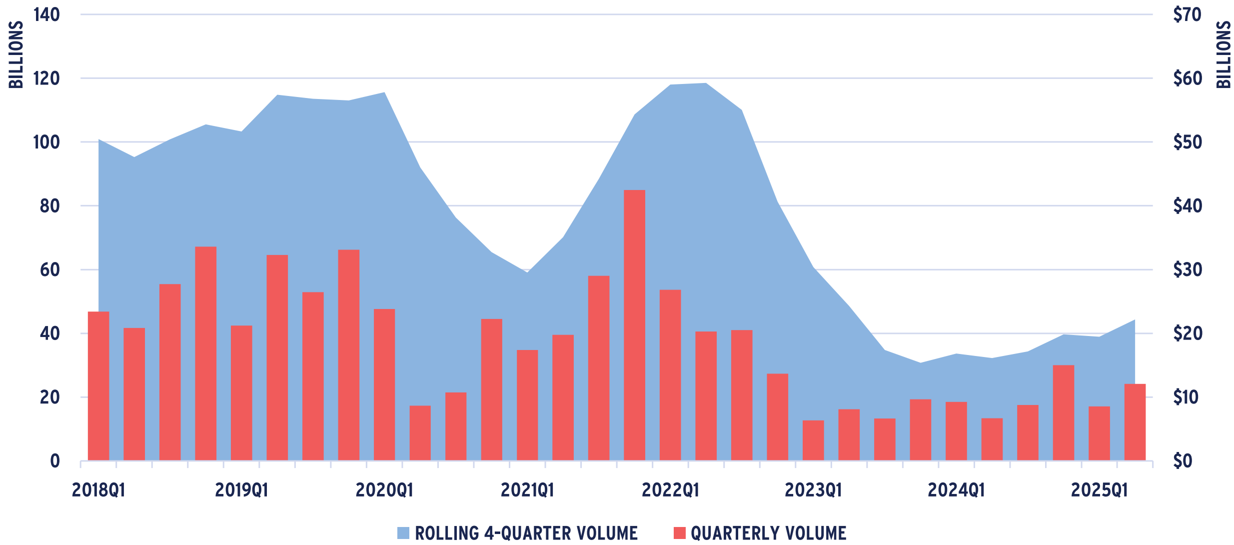
The need to transact persists amid a wave of near-term office loan maturities, with signs of strain continuing to grow. For example, the delinquency rate for CMBS office loans stood at 11.1% in June. Meanwhile, 16.4% of outstanding CMBS office loans were in special servicing as of the end of the quarter.

FIGURE 8: CMBS COMMERCIAL MORTGAGE DELINQUENCY RATE BY PROPERTY SECTOR



Source: Trepp, as of June 2025

FIGURE 9: OFFICE TRANSACTION VOLUME (ASSETS $20+ MILLION)



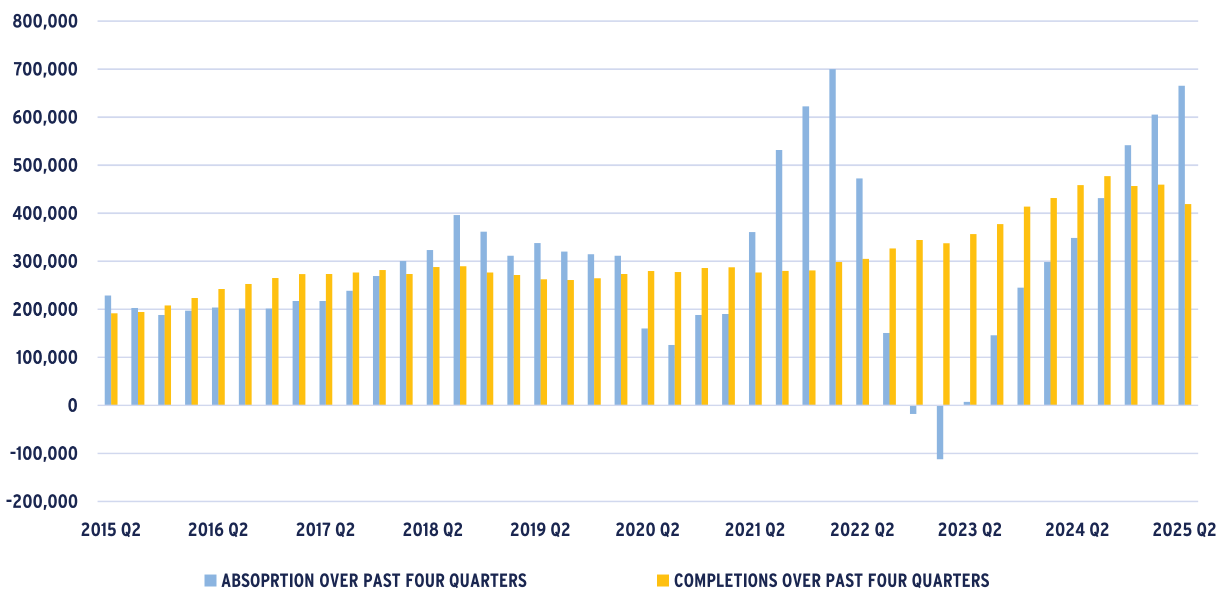
Source: MSCI/Real Capital Analytics 7/29/2025

OFFICE	
VACANCY RATE	19.1%
12-MONTH HISTORICAL TREND	
VACANCY CHANGE	↔
RENT	↔
ABSORPTION	↓
COMPLETIONS	↓
CAP RATES	↔ (↓ top quartile)
TRANSACTION VOLUME	↑

Apartment

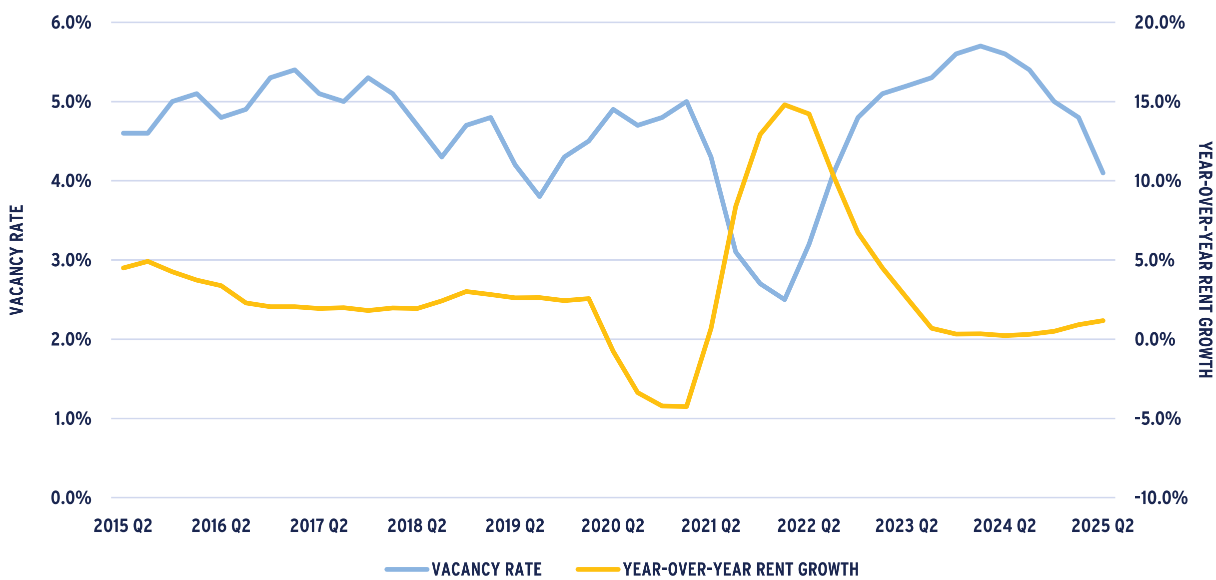
Apartment leasing momentum accelerated steadily through the first half of 2025 as high mortgage rates continue to restrain both renter transition to ownership as well as sales by existing owners with lower in- place mortgage rates. Through June, total U.S. homes sales are running at a four-million-unit annualized pace, far below the more than five million pre-COVID norm and a level last seen during the financial crisis. Reflecting this, the overall apartment vacancy rate reported by CBRE-EA shows a decline from a cycle high of 5.7% at the beginning of 2024 to 4.1% currently. Despite this, year-over-year rent growth remains muted, particularly as compared with the outlier years of 2021 and 2022, as many markets are still absorbing post-COVID supply surge. With supply now slowing, we expect additional near-term vacancy improvement leading to firmer rent gains in 2026 accelerating through 2027 and 2028.

FIGURE 10: APARTMENT DEMAND AND SUPPLY GROWTH VS. VACANCY RATE



Source: CBRE-EA, 2025 Q2

FIGURE 11: APARTMENT VACANCY RATE AND RENT GROWTH

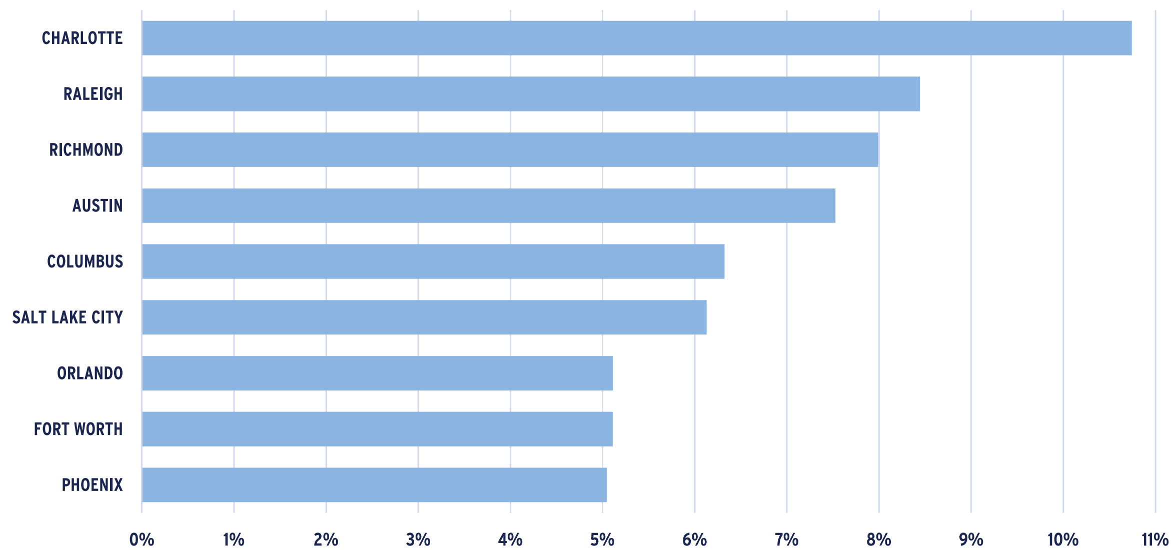


Source: CBRE-EA, 2025 Q2

While overall apartment supply is slowing, new supply is still working through, most visibly in high-growth Sunbelt metro markets such as Charlotte, Raleigh, Austin and Phoenix. In contrast, coastal markets, and some smaller Midwest metros that never materially overbuilt are seeing lower overall vacancy rates and faster occupancy tightening. As such, there remains significant near-term variation in expected rent growth with stronger gains expected in smaller Midwest markets over the next 1-2 years, giving way to faster growth in most Sunbelt markets during the latter part of 2027 and into 2028.

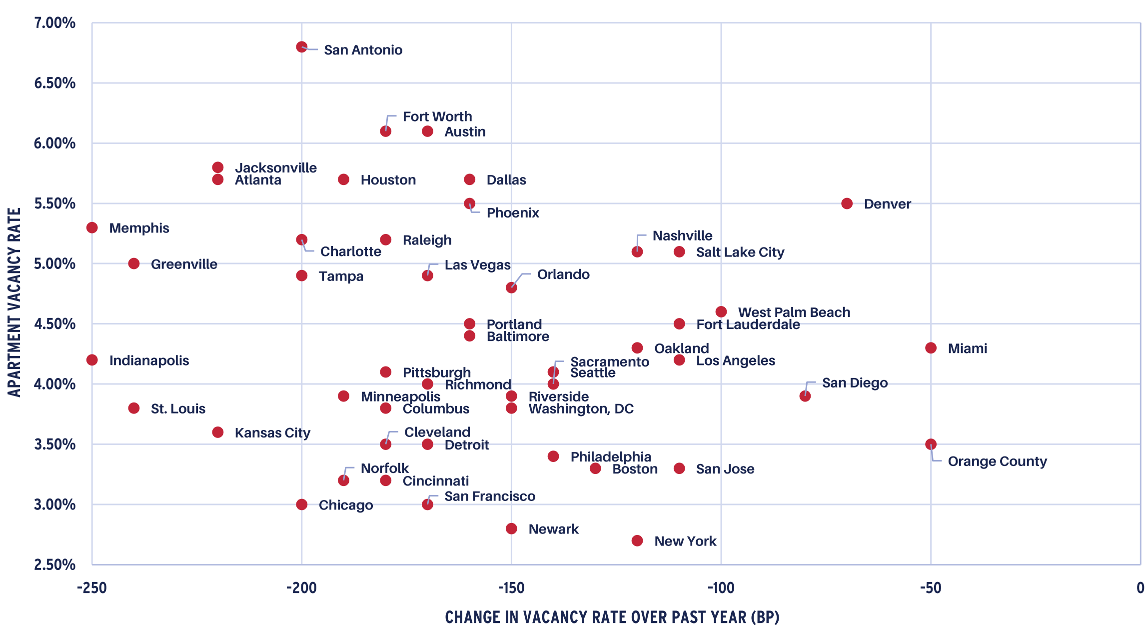
Apartment markets are not yet reflecting impacts from the recent flurry of federal tariff, tax and spending policy changes. Longer-term rental rate growth is, of course, governed by renters' ability to pay and any future price inflation from tariffs that would reduce renter disposable income is yet to come. On the income side, the One Big Beautiful Bill does modestly increase after-tax income for many renters through increased standard deductions and child tax credits as well as providing limited tax relief for tipped workers and overtime pay. Offsetting this, cuts to Medicaid and nutrition assistance will pressure some lower income households. Additionally, resumption of most student loan repayment schedules will bear on affected renter households.

FIGURE 12: APARTMENT MARKETS WITH 5% OR MORE OF STOCK CURRENTLY UNDER CONSTRUCTION



Source: CBRE-EA, 2025 Q2

FIGURE 13: CURRENT APARTMENT VACANCY RATE AND CHANGE IN VACANCY RATE OVER PAST YEAR



Source: CBRE-EA, 2025 Q2

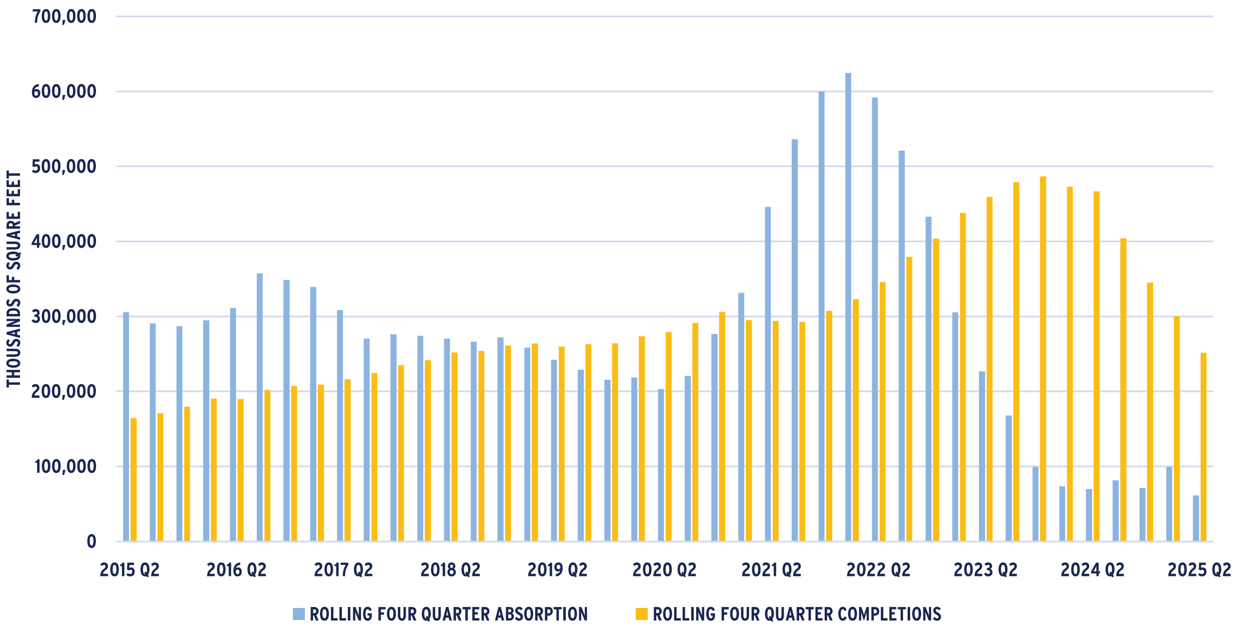
RESIDENTIAL

VACANCY RATE	4.1%
12-MONTH HISTORICAL TREND	
VACANCY CHANGE	↓
RENT	↔
ABSORPTION	↑
COMPLETIONS	↓
CAP RATES	↔ (↑ top quartile)
TRANSACTION VOLUME	↓

Industrial

During the first half of 2025, the U.S. industrial market recorded the weakest four-quarter period of space absorption since the financial crisis. While it might be comforting to blame some of this on the uncertainty created by tariffs and other changes in national trade policy, this weakness has been present for some time with an average quarterly net absorption of less than 20 million square feet (msf) over the past ten quarters. This stands in stark contrast to the demand surge during and immediately following the pandemic with annualized net absorption averaging 400 to 500 msf between the middle of 2021 and the end of 2022. For perspective, pre-COVID U.S. industrial net absorption was typically 200 to 300 msf.

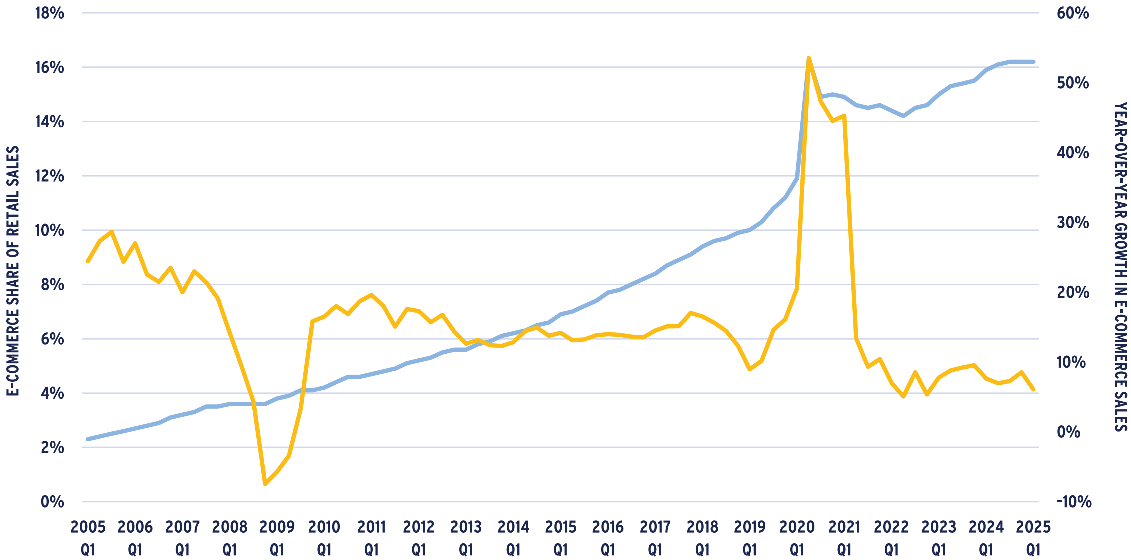
FIGURE 14: INDUSTRIAL SUPPLY AND DEMAND



Source: CBRE-EA, 2025 Q2

To some degree, today's muted absorption reflects a "pull forward" of demand, likely accelerated by the pandemic and the various policy responses to the pandemic designed to stimulate aggregate demand. We see this perhaps most clearly in various measures of e-commerce growth and penetration. Figure 15 highlights the incredible growth in e-commerce sales during the pandemic period and the commensurate increase in e-commerce share of retail activity. This growth manifested in sudden outsized demand for distribution space, particularly in areas directly tied to regional and national distribution such as coastal port markets or final demand (i.e., last mile distribution). Since then, e-commerce sales growth has normalized at still impressive growth rates averaging 6%-8% per year and the e-commerce share of total sales has continued to grow but at a more moderate and sustainable rate.

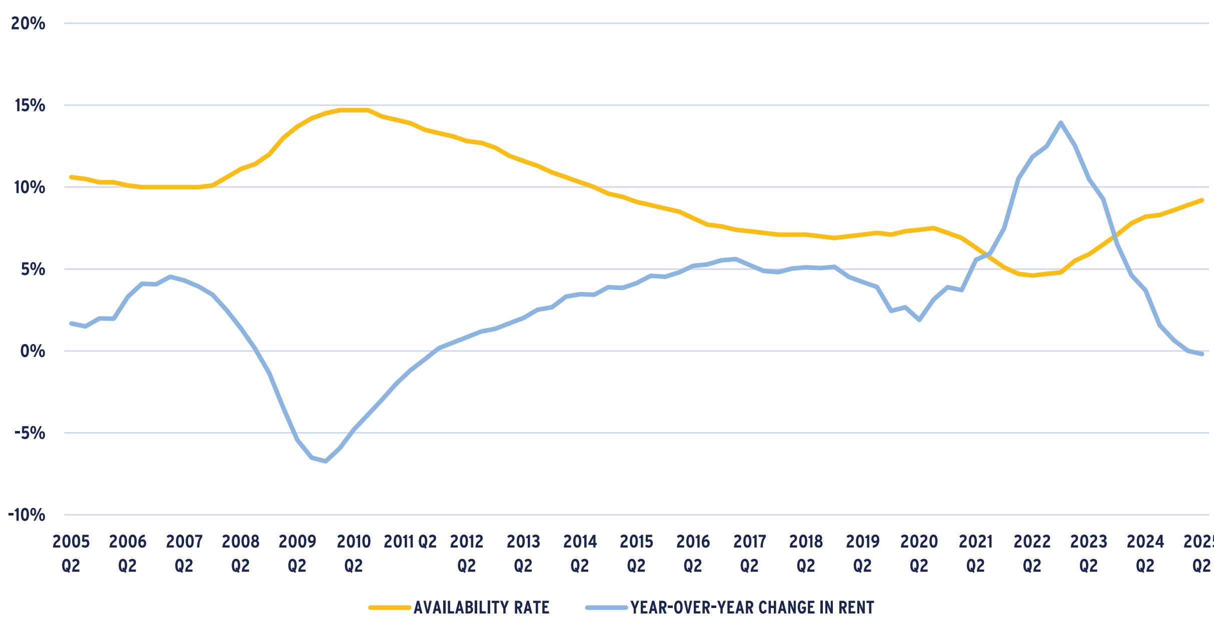
FIGURE 15: E-COMMERCE SALES GROWTH AND SHARE OF RETAIL SALES



Source: Census

Not surprisingly, the earlier period of surging demand, well ahead of new supply, resulted in rapidly falling availability and rising rent. Indeed, by the end of 2022, year-over-year growth in average industrial rents briefly touched 15% nationally and much higher levels were recorded in specific markets where this supply and demand phenomena was most acute, such as Southern California. In response to rent and value growth, industrial space completions rose quickly during 2023 and 2024, just as the surging demand began to normalize, resulting in today's higher-than-average availability rate of 9.2% and no year-over-year average rent growth.

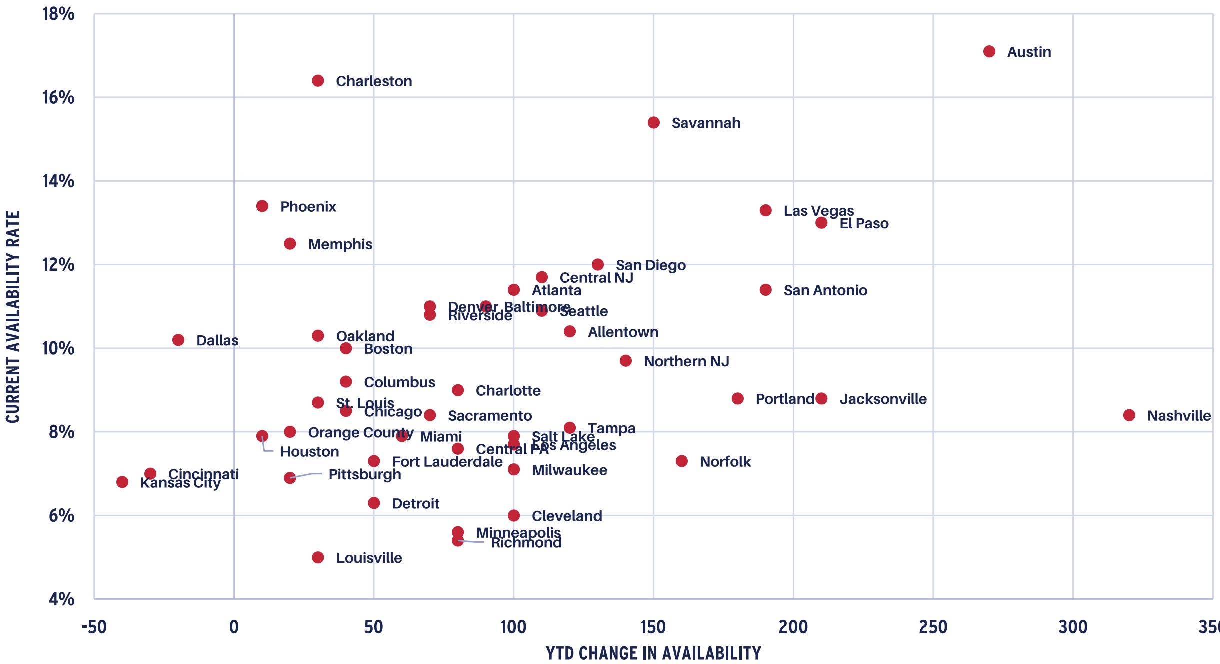
FIGURE 16: INDUSTRIAL AVAILABILITY AND RENT GROWTH



Source: CBRE-EA, 2025 Q2

As noted earlier, the past 90+ days have seen the most consequential changes in U.S. tariff and trade policy in many years, and many of these changes are not yet finalized and are only just beginning to be seen in fundamental economic data such as trade volumes in the various ports, inventory levels and absorption. While there has been some degree of normalization after the shock of "Liberation Day," the market still faces significant uncertainty. Per CBRE, availability has increased in nearly three quarters of tracked markets (Figure 17) with the highest levels of availability now recorded in markets such as Charleston, Savannah and Austin and the greatest increases this year in markets such as Nashville and, again, Austin.

FIGURE 17: AVAILABILITY RATE AND YTD CHANGE IN AVAILABILITY BY MARKET



Source: CBRE-EA, 2025 Q2

While lower than the extreme levels announced on and around Liberation Day, the effective tariff rate with China remains near 50% across all goods. This is particularly concerning for West Coast ports, already seeing significant volatility in cargo shipments from China. For example, the ports of Seattle and Tacoma reported a 9.4% reduction in trade volume in May from the previous year and a 15% reduction in June. Similarly, the Port of Los Angeles reported a 5% decrease from the previous year in May but an increase of nearly 8% in June.

Tariffs aside, other recent policy changes are more mixed for the industrial property market. On the positive side, the OBBB provides immediate expensing for "qualified production property," raises R&D credits, and expands small-business expensing, all potential tailwinds for manufacturers and logistics users investing in domestic capacity. At the same time, executive actions on immigration and deportation are likely to further strain an already limited pool of skilled trades and warehouse labor, elongating construction timelines and nudging wages higher, especially in Sunbelt and Midwest manufacturing corridors relying on immigrant labor.

Against this backdrop, we expect near-term leasing activity in port markets to remain soft as tenants continue to assess tariff impacts on their businesses. Overall, vacancy/availability is expected to level off in late 2025 and begin tightening in 2026 as the supply pipeline continues to slow. Looking ahead, we expect demand to continue normalizing toward pre-pandemic drivers including more sustainable e-commerce growth, just-in-case inventorying, 3PL expansion, etc. At the same time, general economic uncertainty and tariff-related inflation concerns should help slow new industrial construction even more. Near-term rent growth will likely be more modest relative to previous expectations; however, long-term rent growth expectations remain solid.

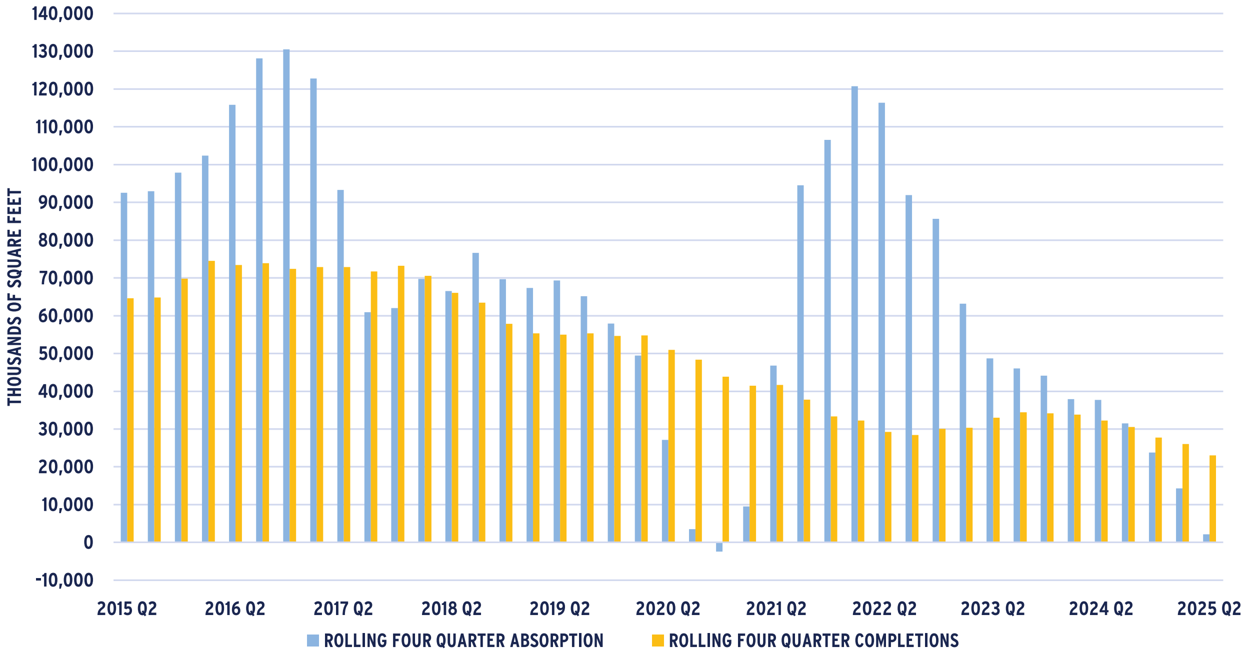
INDUSTRIAL

AVAILABILITY RATE	9.2%
12-MONTH HISTORICAL TREND	
AVAILABILITY CHANGE	↑
RENT	↔
ABSORPTION	↓
COMPLETIONS	↓
CAP RATES	↑
TRANSACTION VOLUME	↑

Retail

Reflective of heightened economic uncertainty of the past few quarters combined with increased bankruptcies and recent store closures nationally, aggregate demand for retail property slowed significantly during the first half of 2025 and the slowdown was felt across all retail property categories. With almost no net absorption of space over the past four quarters, the overall retail availability rate rose slightly despite historically low levels of new space delivery.

FIGURE 18: ROLLING FOUR QUARTER ABSORPTION AND COMPLETIONS OF RETAIL PROPERTY



Source: CBRE-EA

TABLE 1: TOP TEN MARKETS BY NEW SPACE DELIVERED OR UNDER CONSTRUCTION

	NEW SPACE UNDER CONSTRUCTION OR DELIVERED YTD (000S)	SHARE OF STOCK
Houston	1,139	0.7%
Phoenix	734	0.7%
Las Vegas	583	1.1%
Austin	553	1.6%
Boston	495	0.6%
Dallas	474	0.5%
Long Island	438	1.0%
Fort Worth	432	0.8%
San Antonio	430	0.9%
Cincinnati	427	1.2%

Source: CBRE-EA as of 2025 Q2

Overall, retailers are responding to economic uncertainty with a cautious, wait-and-see approach, particularly due to shifting tariff and trade policies. Rising real estate costs, inflation and weakening consumer confidence have fueled conservative leasing strategies, with many retailers reducing expansion plans or delaying decisions altogether. In early 2025, store closures outpaced openings and net absorption turned negative for two consecutive quarters, the first time since the pandemic.

Per CoStar, retail store closings in the U.S. are surging in 2025, with nearly 6,000 closures announced through midyear, almost double the figure from the same period in 2024. This contrasts with 3,960 store openings year-to-date. Major closure announcements include Rite Aid and At Home, both in Chapter 11. Despite this, vacancy rates remain historically low, with many vacated spaces being rapidly re-leased, suggesting resilience in the sector[4].

In the near-term, tax and spending changes in the One Big Beautiful Bill are mixed for consumer demand. On the positive side, expanded standard deductions and child tax credits combined with possible tax relief for tipped workers and overtime pay should give consumers, particularly lower income households, some additional spending capacity. For households in higher tax states, the increase in the state & local tax (SALT) deduction should also be additive. On the negative side, reduced spending for Medicaid and nutrition assistance (SNAP) will constrain some lower income households. Similarly, the ending of various student loan repayment deferrals will likely crimp spending as well. With respect to new, higher tariffs, the overall impact on consumers is uncertain and will depend in large part on the degree to which this new consumption tax is absorbed by producers and importers or is passed on to the end consumer directly.

RETAIL	RETAIL	N&C SHOPPING CENTER	LIFESTYLE & MALL	POWER CENTER
AVAILABILITY RATE	4.9%	6.8%	5.6%	5.4%
12-MONTH HISTORICAL TREND				
AVAILABILITY CHANGE	↑	↑	↔	↑
RENT	↔	↔	↑	↓
ABSORPTION	↓	↓	↓	↓
COMPLETIONS	↓	↑	↓	↓
CAP RATES	↔	↑	↔	↓
TRANSACTION VOLUME	↑	↑	↑	↑

[4] *"Rising US store closings on pace for record year". Linda Moss. CoStar News. July 8, 2025.*