COLDWELL BANKER COMMERCIAL

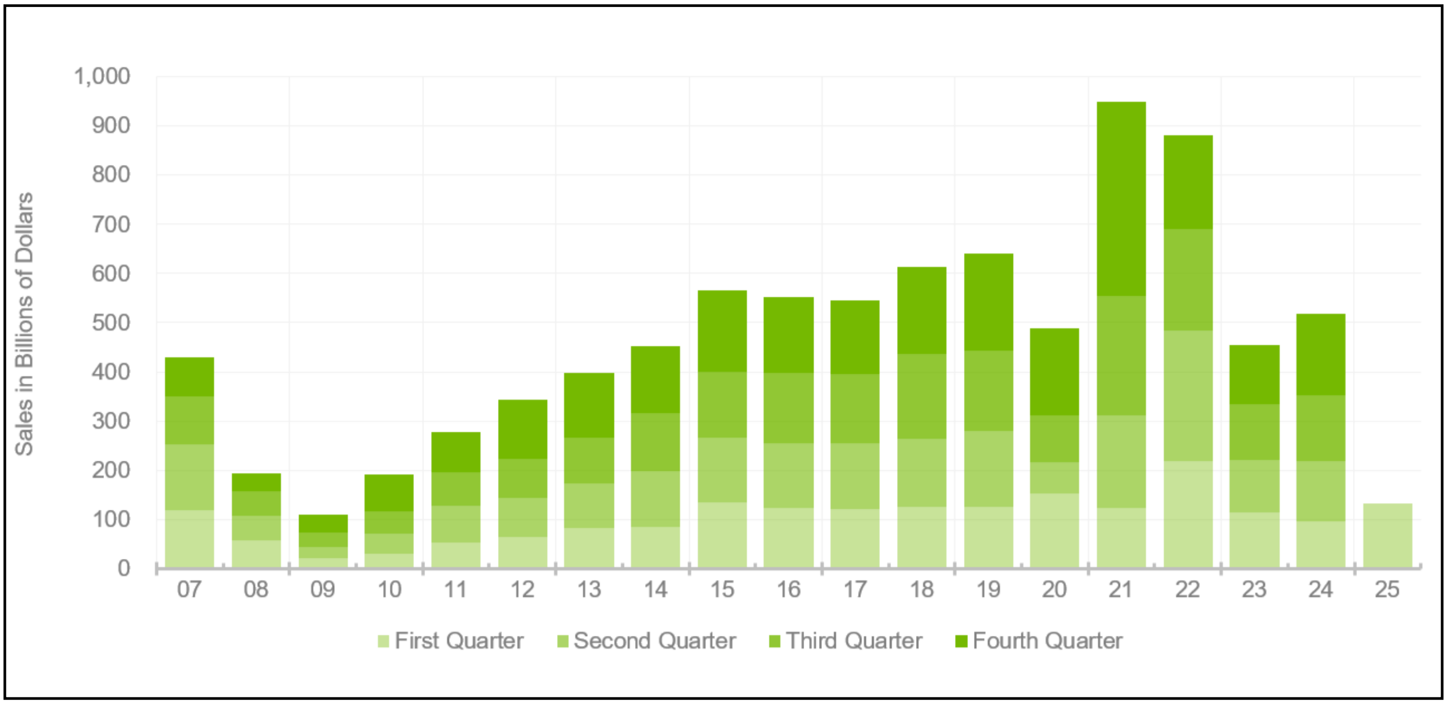
2025 MIDYEAR OUTLOOK REPORT

BUYERS & SELLERS ARE MAKING CONCESSIONS TO CLOSE DEALS; EXPECT ACTIVITY TO RISE IN 2H 2025

EXECUTIVE SUMMARY

CRE activity has increased as buyers and sellers have moved closer together on transactions than at any point in the past 18 months. While challenges such as high interest rates, tariff uncertainty, construction costs, and labor issues still persist, many sellers who were waiting for conditions to improve have adjusted their expectations – and pricing – while buyers have found creative ways to close deals. People are tired of waiting it out, especially at a time when market volatility is high due to economic and political uncertainty. While the expectation last year was 'survive until '25', our Coldwell Banker Commercial® brokerage professionals are seeing buyers, sellers, tenants and landlords increasingly willing to do deals and expect transaction volume could accelerate during the latter half of the year.

Exhibit 1: Commercial Real Estate Sales Volume

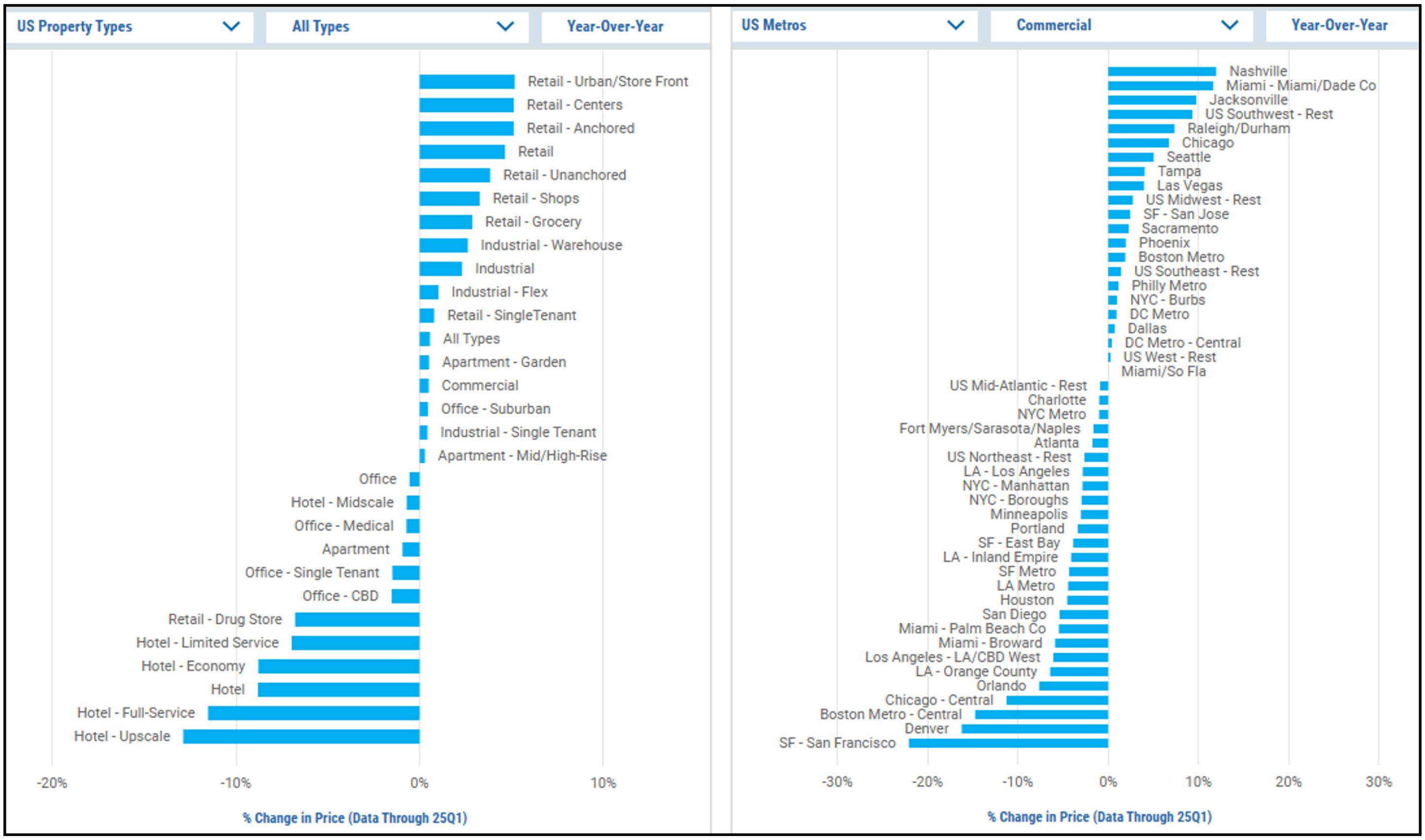


Note: Includes Multifamily, Office, Retail, Industrial, and Hotel
Source: CoStar

Total U.S. commercial real estate volume was $100.6 billion in 1Q25, up 14% year-over-year and individual asset sales were up 24% year-over-year, although both figures are below pre-pandemic levels. Retail assets performed the best, followed by industrial, multifamily and suburban offices while CBD office properties lagged behind, according to MSCI Real Assets.

Activity continues to be concentrated in secondary markets, like Phoenix, Seattle, Chicago, the Carolinas and many suburbs, while traditional gateway markets like NYC, Boston, San Francisco and Los Angeles are still seeing volume declines. Unemployment has held steady within a narrow range of 4.0% to 4.2% since May 2024 and wages grew more than expected with average hourly earnings up 3.9% from a year ago, according to the Bureau of Labor Statistics. Nearly half the job growth came from healthcare, followed by leisure and hospitality.

Exhibit 2: YOY % Change In Price (Through 1Q25), By Sector And Market



Source: Real Capital Analytics (RCA)

Buyer/Seller Sentiment

Both buyers and sellers are making concessions in order to transact rather than continuing to wait. Market volatility caused by tariffs, an uncertain economic outlook and the prospects of continued elevated interest rates for the foreseeable future have driven more buyers and sellers to meet each other compared with the past 18 months. Reversing the trend of the last two years, sales activity greatly surpassed leasing in many markets, according to the 2025 CBC Broker Sentiment Survey (Coldwell Banker Commercial's survey of brokerage professionals within the network) because prices have been reduced and sellers have found creative ways to enhance their returns such as seller financing, to justify the transaction price.

Financing

Seller financing has crept into the discussion across the country and for all property types as sellers look to capitalize on the opportunity to generate extra income and buyers look for alternatives to onerous bank loans. High interest rates have been an impediment to transactions over the past several years since values didn't increase to the point where cap rates were acceptable, which has led many investors to make purchases using cash, 1031 exchanges and loans from local banks, credit unions and private groups. Lending by big national banks has been restricted and remains one of the least favored options for buyers.

Seller financing typically allows a transaction to occur at lower interest rates than traditional lenders. For buyers, that means they can pay closer to the asking price and sellers benefit by seeing additional income from the property after it's sold. Many sellers are receptive to the idea, and in some cases, may require it. Buyers recognize that there may be less stringent terms than banks and deals could involve a lower level of due diligence to qualify the buyer.

CBC® survey results indicate that around the country sellers such as small business owners and retirees who don't need all of the sales proceeds right away are considering this approach. Seller financing has become an attractive way to mitigate tax liabilities and develop an income stream, especially when the sellers own a property outright. It has been a popular vehicle for deals below $10 million but could be utilized for larger transactions as well.

Sales Trends

Currently, owner-users and 1031 exchanges are the predominant buyers of commercial property in secondary and tertiary markets. Property types include medical office users and a variety of industrial and retail tenants. Many of these buyers use cash, and those that need financing are supported by private and small institutional investor groups to close deals.

Construction costs and high interest rates are the biggest concerns for CRE investors. In the wake of natural disasters in several areas of the country, rising insurance costs are a significant concern as well. Brokers reported that labor costs and tariffs are also contributing factors, but not as substantial.

Cap rates vary widely by market and product type. Multifamily, industrial and retail properties command rates as low as 4.0% and can fluctuate up to 8% (for multifamily) and 10% (retail and industrial) while office can go up to 12%, according to data from the CBC Broker Sentiment Survey. The vast majority of brokers surveyed expect cap rates to hold steady or increase within the next six months.

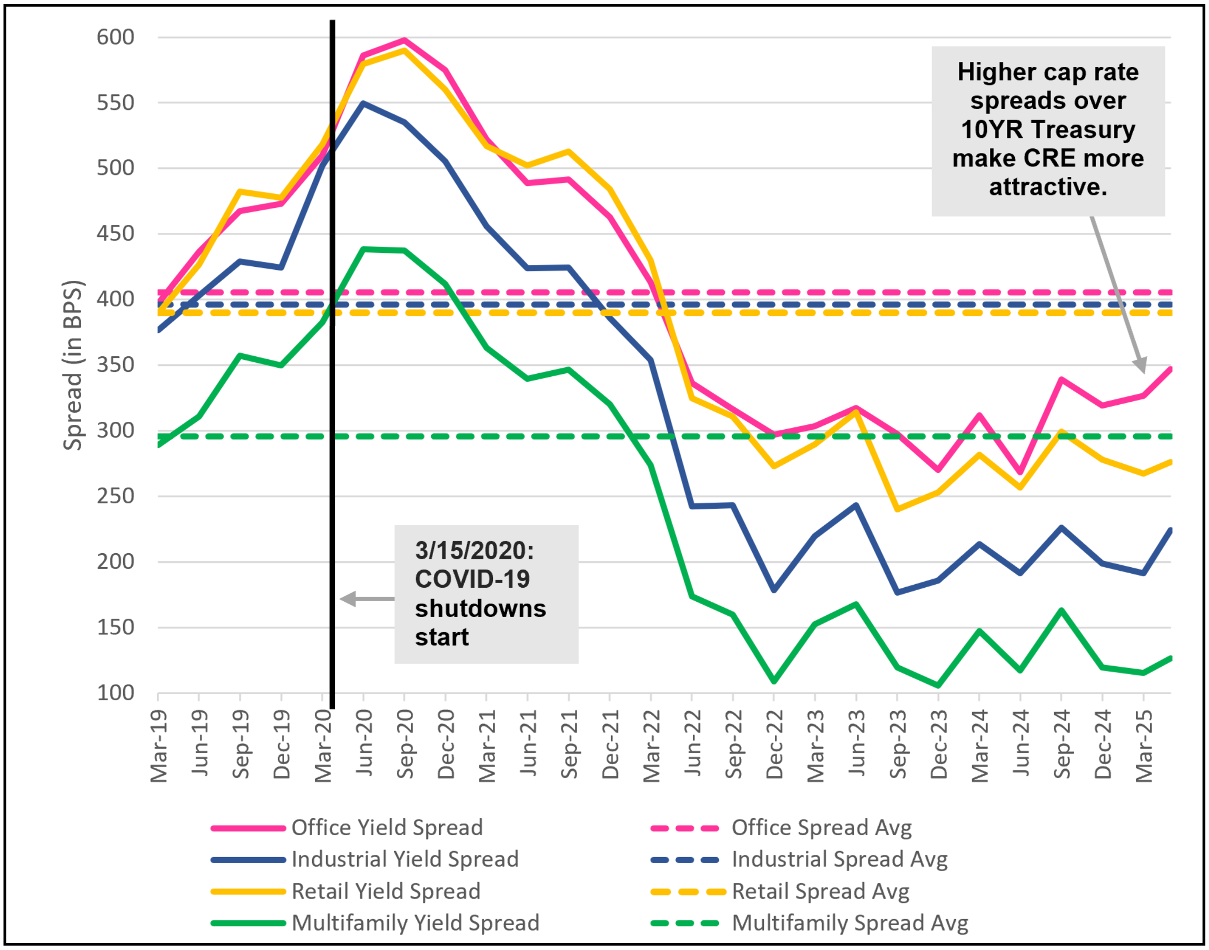
Exhibit 3: Cap Rates – CBC Markets vs US Average

	Bank % Down Pmt	Bank % Interest	Office Cap Rates	Industrial Cap Rates	Retail Cap Rates	Multifamily Cap Rates
CBC AVERAGE	28%	6.96%	7.11%	6.82%	6.78%	5.96%
CBC MEDIAN	25%	7.00%	7.00%	7.00%	6.50%	6.00%
US AVG			7.73%	6.59%	6.93%	5.60%

Source: CBC Broker Sentiment Survey; RCA data for US Average

Nationwide, average cap rates are lowest for multifamily properties at 5.60%, according to RCA data for Q1 2025. Industrial rates were 100 basis points higher at 6.59% while retail cap rates were near 7% and office rates were the highest at 7.73%. With cap rate spreads still rising, we expect CRE to remain an attractive investment.

Exhibit 4: Cap Rate Spread Over 10YR Treasuries, By Sector



Source: CBC Research, RCA, Federal Reserve.

Leasing Trends

After leading the market pulse for 2-3 years, leasing activity has come down quite a bit as sales have picked back up to pre-pandemic levels according to the CBC Broker Sentiment Survey. While downsizing continues, company leaders are seeking space with better amenities to lure employees back to the office a few days a week and will pay higher rates to relocate to Class A buildings. There is little supply pressure from new construction in most markets, but vacancy rates are well above pre-pandemic levels and major markets have availability rates above 25%. Suburban markets are consistently performing better than urban centers across the country.

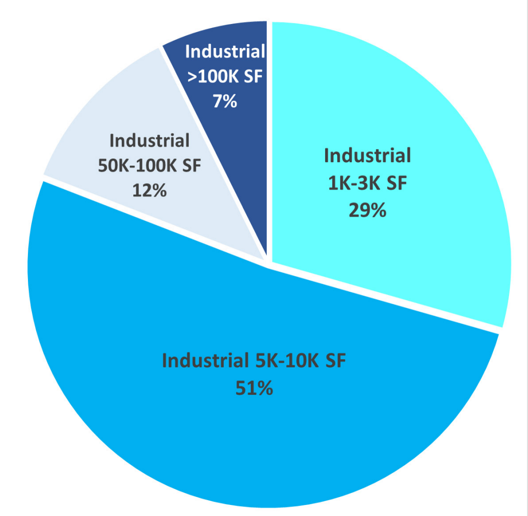
Retail Sector

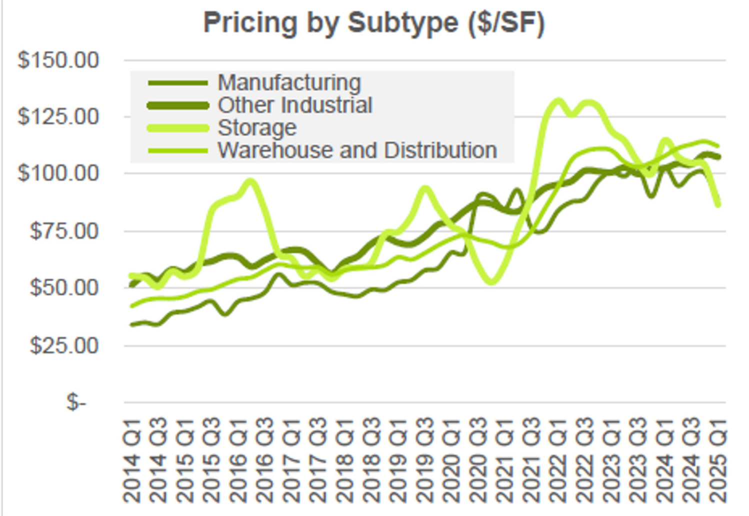
Fast casual food chains, coffee shops, and QSRs with drive-thru's are among the most coveted retail tenants in many markets. These tenants tend to sign triple net leases with rent increases and options built into the long-term leases. Both national brands and mom & pop restaurants and beverage concepts are expanding. Other retailers that are growing include pet stores, boutique gyms, nail salons, dentists, medical offices, banks and educational companies such as after-school academies. Grocery-anchored retail centers, strip malls and drive-thru's are very popular for their consistent foot traffic, attracting all types of investors and restaurants that want to own. With hardly any vacancies and limited new construction, rents and property prices for these spaces continue to rise across our markets.

Industrial Sector

Small warehouses (under 30K SF) continue to be in high demand while big spaces (50K+ SF) are not moving as well. Tariff uncertainty has affected the industrial sector, but the impact is limited. Larger industrial users who are reliant on international trade or supply chains, particularly in coastal markets, have been stalled more than smaller users. In response, most owners are dividing up their industrial buildings into smaller portions and are seeing substantial demand for 2-5K SF, 10-20K SF, and 20-30K SF.

Exhibit 5: Industrial Product Generating The Most Demand For CBC





Source: CBC Broker Sentiment Survey *Source: Altus Group Research*

Niche industries have the ability to support or stifle industrial growth. Policy changes that affect the electric vehicle industry, for example, have resulted in a slowdown of auto and battery manufacturing activity. Conversely, our survey results indicate that market activity in Arizona, Montana, Texas and Florida has benefitted from the construction of high-tech factories, new corporate headquarters, data centers, and hospital systems, which has not only amplified industrial demand in the region but spurred investors to build more housing and retail there.

Across the country, industrial property owners are encouraged to sub-divide large warehouses to attract new tenants. Smaller bays tend to generate higher rents, require fewer concessions and result in faster sales. These smaller spaces have a broader appeal to owner-users and tenants, including non-traditional tenants. For example, some industrial spaces have been converted into sports facilities such as volleyball and pickleball courts as well as ice rinks. Unique amenities such as live-work-play lofts are also in demand. Our survey respondents noted that landlords of large facilities are signing shorter leases and cutting rates to attract tenants.

Office Sector

Similar to industrial, small office space is key to occupancy and increased asking rates. Hybrid work models and "flight to quality" are straining the office market resulting in lower demand for Class B and Class C properties. Nonperforming assets may need to consider a reset by converting them to other uses if the economics are feasible. Property values for large buildings that cater to traditional office users have fallen 40-60% from their peak. CBD offices were the weakest performing sector in 2025, with prices down 6.2% year-over-year in May (according to RCA). In order to retain tenants, many downtown office landlords are signing shorter leases; a quarter are cutting rates, and another quarter are offering TI allowances and turnkey deals. A handful of landlords are signing nontraditional tenants.

Small offices in the suburbs are performing better with higher occupancy and rising rents compared to downtown markets. The greatest demand according to our survey is for 1K-5K SF spaces and medical offices. Professional services are the most active such as CPAs, insurance brokers, lawyers, engineers, doctors, dentists, med spas. Large corporations that have rightsized office space continue to shed square footage.

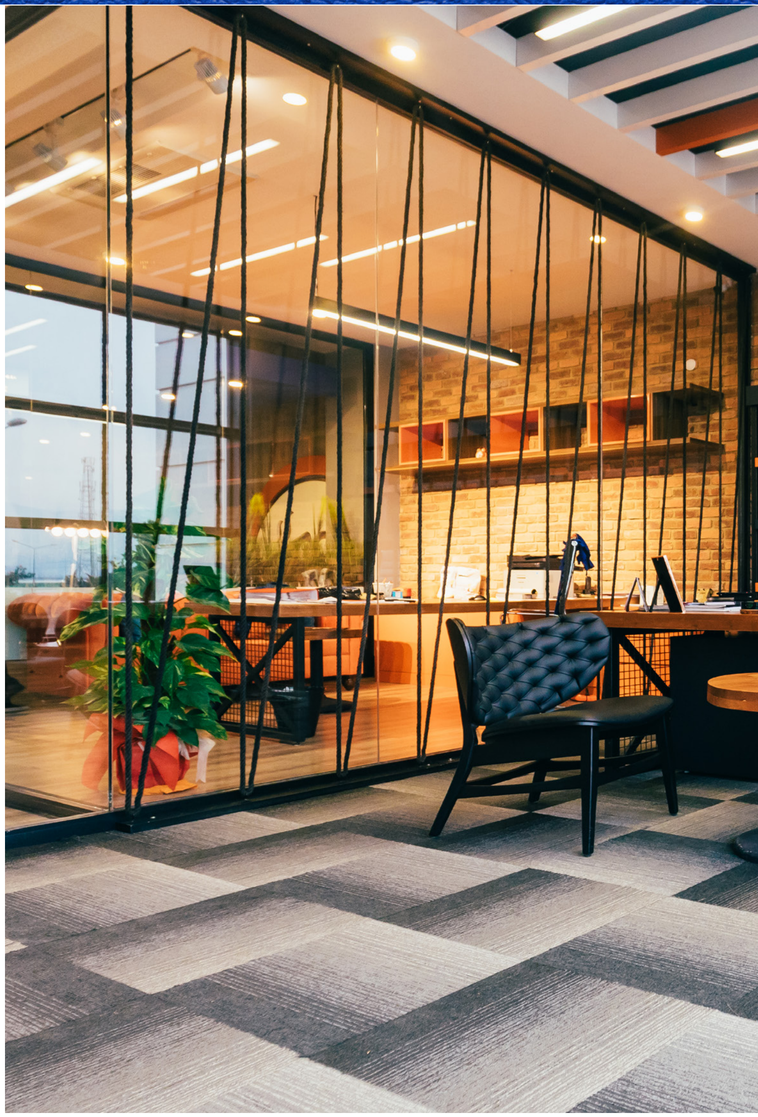
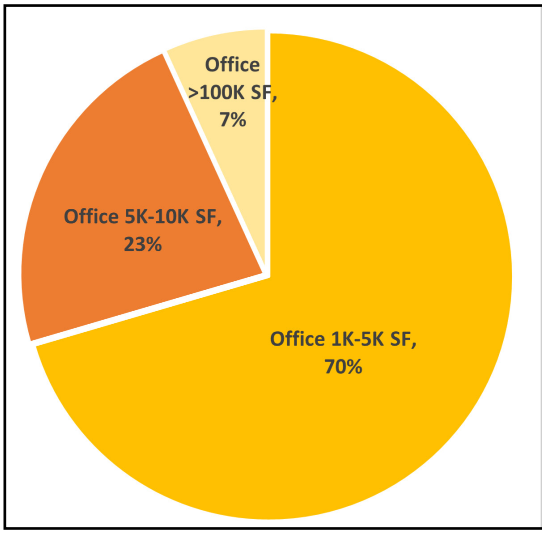
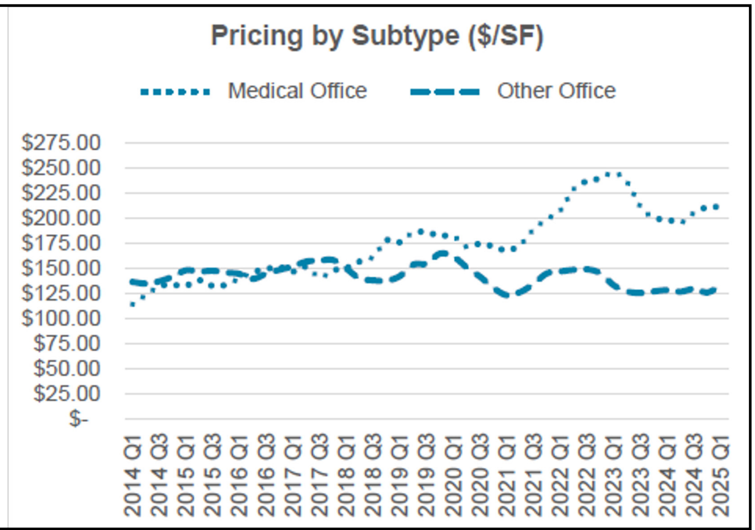


Exhibit 6: Office Product Generating The Most Demand In CBC Markets





Source: CBC Broker Sentiment Survey

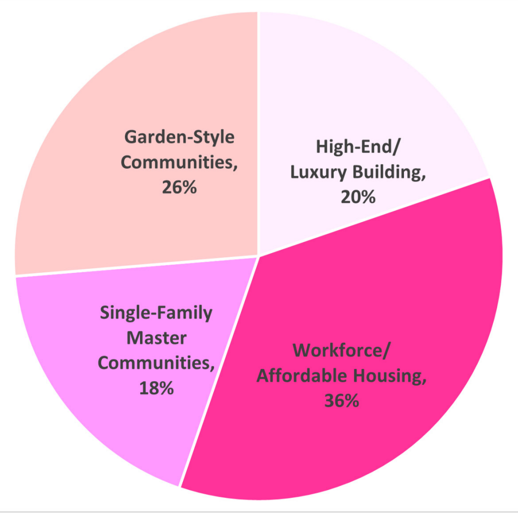
Source: Altus Group Research

Multifamily Sector

Multifamily investors were boosted by rapid rent growth during the pandemic, but a glut of new supply has stalled demand in many markets throughout the Sun Belt. Investors that purchased with variable rate loans are contending with property values that declined from their peaks combined with the prospect of rate hikes to current market levels. There is potential for opportunistic acquisitions should sellers be forced to dispose of assets with less favorable terms.

With higher construction costs due to increases from both materials and labor, new multifamily development is expected to slow and rent rate appreciation should resume. Market conditions vary substantially around the country, but our survey respondents indicated that workforce and affordable housing are expected to be the most popular segment for buyers in the latter half of the year.

Exhibit 7: Multifamily Product Generating The Most Demand For CBC



Source: CBC Broker Sentiment Survey

Transaction Volume Summary

	May 2025		YTD 2025	
	Vol ($b)	YOY	Vol ($b)	YOY
Apartment Total	8.2	-18%	50.5	26%
Garden	4.6	-30%	29.8	18%
Mid/Highrise	3.6	3%	20.7	42%
Single Asset	6.5	-17%	41.3	24%
Portfolio & Entity	1.8	-23%	9.2	39%

Data as of June 24, 2025. Based on properties and portfolios $2.5m and greater.

Source: RCA.

Market Outlook

Looking ahead to the latter half of 2025, there are risks associated with high costs of capital, increased construction costs and volatility related to uncertain economic policies, but that uncertainty has led many sellers to move forward rather than trying to wait for optimal market conditions. Meanwhile, buyers recognize that prices for multifamily, industrial and retail assets may not fall further. Seller financing helps buyers and sellers with the crucial financing element to close a transaction and is expected to be more prominent moving forward as interest rates remain elevated.

Overall transaction activity is expected to increase this year, but investors are wary of market fundamentals that can drastically swing the other way in short periods of time. Long-term investors who are less susceptible to these swings and have cash to invest are utilizing land banking to acquire properties with no immediate plans to build and do not require income-generating assets.

Conclusion

Transaction volume and rental rates are expected to improve in the latter half of 2025, particularly if we see the beginning of declining interest rates, and the sentiment among our professionals is that sales are shifting closer to pre-COVID trends. Buyers and sellers are meeting each other and making concessions to close deals. Although interest rates may hold steady for several years, a minor decline would support additional leasing and sales activity.

Jane Thorn Leeson is Director of Research at Coldwell Banker Commercial.
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Updated: July 4, 2025

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