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U.S. QUARTERLY MARKET UPDATE: 1Q25

MACROECONOMIC OUTLOOK

- **GDP** growth slowed sharply in the first quarter, driven significantly by imports spiking as firms and consumers pulled forward purchases to get ahead of tariffs. The economy contracted by a real annualized growth rate of -0.3%, the lowest growth rate since early 2022.
- **Employment** growth remained healthy, with an average of 152,000 jobs added in the first quarter of 2025, just below the monthly average for 2024. The unemployment rate rose by 30 bps YoY but remained in the low 4% range through March.
- **Inflation** maintained a downward trajectory toward the Fed's 2% target, with YoY growth decelerating to 2.4% in March from 3.5% one year ago. The steady deceleration in inflation may stall in the coming quarters if, as generally expected, tariffs contribute upward pressure on prices.
- **The Policy Rate** was unchanged following the most recent FOMC (Federal Open Market Committee) meeting, with the target federal funds rate holding at 4.25%-4.50%. Uncertainty on the growth outlook along with potentially higher prices will make the Fed's policy path more challenging.
- **10-yr Treasury** remains in the low 4% range. Weaker growth outlook may contribute to downward pressure on long-term rates.
- **Consumer/Business Sentiment** has declined in recent months driven by heightened uncertainty in response to the threat of tariffs. Many firms have paused decisions and consumer confidence fell to decade-lows.

Although recent readings from key macro indicators still point to a relatively healthy economy, the impact of recently announced tariffs and the heightened uncertainty have cast a shadow on the near-term outlook. As firms re-evaluate and potentially downscale previously planned investments, job creation and economic growth could be more subdued than previously anticipated. And while this should result in a reduction in broader commercial real estate demand, weaker user demand should be partially counterbalanced by lower interest rates and an even greater reduction in construction activity.

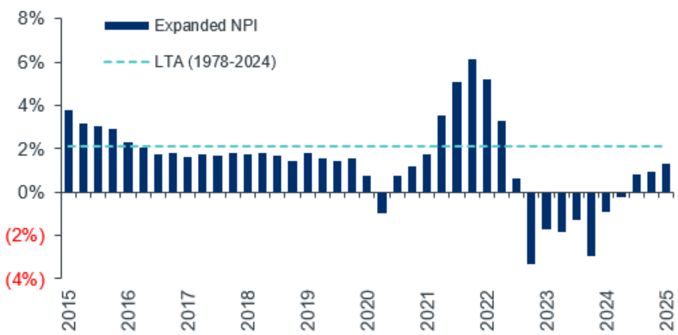
METRIC	BASE CASE: PROBABILITY 60-70%	DOWNSIDE: PROBABILITY 30-40%
GDP	**No Recession** 2025 +1.3% 2026 +1.4% 2027 +2.3%	**Recession (4 qtrs of negative growth: 3Q25-2Q26, quarterly average: -0.6% YoY)** 2025 +0.5% 2026 +0.4% 2027 +3.0%
Employment	Unemployment modestly elevates Avg. 4.8% through 2027	Unemployment reaches 7.1% in 2026 Improves back to 4.2% by 2029
Inflation	Accelerates modestly to +3.7% in 2025 Then decelerates to 2% target by 2027	Accelerates to +3.4% in 2025 Then slows to +1.7% in 2026, +1.8% in 2027
Monetary Policy	Fed cuts 50-75 bps in 2025 Then 50-75 bps in 2026 to neutral level of 3.0%	Substantial rate cuts Policy rate lowered to sub-1% levels by 2027
10-Yr Treasury	Holds range of 4.0%-4.25% through 2030	Declines to 3.6% in 2025 Then trends back to 4.0%-4.25%
Consumers	Retail sales decelerate near term: 2025 +3.0%, 2026 +2.1% then accelerate to +4.0% by 2029	Sales decline near term: 2025 +1.0%, 2026 +1.1% Then rebound to +5% growth by 2027
Business	Fixed non-residential investment slows near term: 2025 +0.8%, 2026 -0.2%; improves to +3.7% in 2027	Investment and confidence decline: 2025 -0.7%, 2026 -3.1%, 2027 rebounds to +5.0%

Sources: Moody's Analytics, BLS, BEA, FRED, Clarion Partners Global Research, April 2025. Note: Forecasts were provided by Moody's Analytics as of 4/2025. The downside forecast corresponds with Moody's Analytics' S2 Downside forecast. Forecasts have certain inherent limitations and are based on complex calculations and formulas that contain substantial subjectivity and should not be relied upon as being indicative of future performance. Past performance is not indicative of future results. Please see the important disclosures at the end of this presentation.

COMMERCIAL REAL ESTATE OUTLOOK

Investment performance[1]**:** The Expanded NCREIF Property Index (NPI) registered a QoQ total return of 1.29% in 1Q25, the third consecutive quarter of positive returns. Capital appreciation contributed to this improved performance, totaling 0.11% during the quarter - the first positive reading since 2Q22. Quarterly returns were positive across all major property sectors.

QUARTERLY TOTAL RETURN, PRIVATE REAL ESTATE



Source: NCREIF Property Index, Clarion Partners Investment Research, 1Q25.
Note: Expanded NPI includes all NPI properties and all qualified alternative assets. Alternative assets include storage, senior housing, data centers parking and others).

Debt capital markets: Following a period of narrowing spreads, credit availability has tightened in recent months in light of heightened tariff-related volatility. Despite this recent trend, credit remains more readily available for favored property types.

Equity capital markets: CRE transaction volume totaled $98 billion in the first quarter – a sharp decline from the previous quarter but an 11% increase from 1Q24, according to MSCI/Real Capital Analytics[2]. Gains over the previous four quarters were led by improved industrial and multifamily sales. Although recent datapoints on performance are encouraging, renewed uncertainty pertaining to economic growth and the path of interest rates may impinge on near-term investment sales.

Real estate occupier demand: Property fundamentals, particularly for institutional-quality assets, remain healthy, with positive rent growth and above-average occupancy levels across most property sectors, apart from commodity office and life sciences. However, growing uncertainty as to near-term business investment and hiring plans could create headwinds to occupier demand in some sectors.

Real estate supply: Construction starts have declined across most property sectors, driven by tighter lending conditions, elevated building costs and increased return requirements. Considering slowing economic growth, the reduction in near-term completions is a favorable trend for market fundamentals. Construction starts should remain muted throughout the foreseeable future, as the combined effects of the recently enacted tariffs and stricter immigration policies result in higher development costs.

PROPERTY TYPE OUTLOOK

INDUSTRIAL / INDUSTRIAL ADJACENT

Industrial: The sector saw net absorption improve in the first quarter of 2025 over the same period in 2024, but it remained below the first quarter historical average. Construction deliveries of 49 MSF exceeded 28 MSF of net absorption in 1Q25.[3] Annual net absorption of 150 MSF was also 25% below the sector's annual long-term average. Class A warehouse, however, continued to see better annual net absorption (+164 MSF) than Class B (-57 MSF). Vacancy should stabilize soon as supply has decreased quickly. New construction starts fell to 35 MSF in 1Q25, 69% below peak levels two years ago.[4] Active supply underway totals 213 MSF (1.3% of stock), down 121 MSF year-over-year (YoY) and now back in-line with long-term average annual deliveries. Average asking rents remained flat YoY but modestly increased 0.2% QoQ.[5]

Industrial Outdoor Storage:[6] Historically a fragmented sector, larger institutional investors are entering the space, driven by the potential for higher yields and strategic value additions, such as enhanced security, vehicle charging infrastructure, and larger sites to accommodate storage and maintenance. Supply is especially tight in urban port locations, allowing landlords strong rental pricing power. While the outlook for the sector is positive, investors need to remain focused on end-user retention.

OUTLOOK	INDUSTRIAL	IOS	COLD STORAGE
Drivers	• Demographics • Innovation • Shifting Globalization	• Demographics • Innovation • Shifting Globalization	• Demographics • Innovation
Demand	Soft	Medium	Soft
Supply	Medium	Low	Low
Cap-Ex	Low	Low	High
NOI Growth	Strong	Strong	Soft
Total Return	Positive	Positive	Soft

HOUSING

Multifamily: Apartment market fundamentals continued to improve in Q125, supported by early signs of the supply wave easing and unseasonably strong demand. More than 70k units were completed in Q1, bringing the trailing four quarter total to 447k units, or 2.6% of stock. That represents a slight decline from Q324 when trailing annual completions peaked at 2.8% of stock. Net absorption remained positive for the 9th consecutive quarter, surpassing 100k units in the first quarter, the 2nd strongest Q1 dating back to at least 1996. On an annual basis, the absorption rate accelerated to 3.4% of stock, nearly 2x faster than a year ago. The combination of strong demand and easing supply led to a 20-bps QoQ decline in the national vacancy rate, which now stands at 4.8%, 40 bps below the long-term average. Effective rent growth accelerated to 0.9% YoY but remains muted due to the widespread use of concessions[7]. Tenant retention has trended higher (55.3%), and renewal rent growth remains strong at 3.7% YoY, offsetting some of the weakness in new lease rent growth. Institutional quality starts are down about 30% YoY which will be a tailwind for the sector in the coming years[8].

Single Family: The Single-Family Rental (SFR) segment continues to outperform other rental types, but rent growth is slowing as for-sale and for-rent inventory rises. The number of for-sale listings rose to 1.3 million in March 2025, up 20% YoY[9]. SFR vacancy increased to 6.3% in Q1, up 20 bps from last quarter, and 100 bps from a year ago[10]. Despite the increase, SFR vacancy remains on par with the 2015-2019 average and the number of for-sale listings remains about 40% below the long-term average dating back to 1999. Rent growth for the SFR segment remains healthy but moderated 60 bps from a year ago to 3.4%[11]. Sun Belt markets continue to lag the nation as new apartment and BTR supply creates increased competition.

Manufactured Housing: Affordability, demographics and limited supply pressure are key tailwinds in favor of the MFH sector. Total shipments of manufactured housing units have generally declined since the 1990s, falling to an annualized rate of 108k units in Q1 2025[12]. The shipment rate remained relatively stable from last quarter and remains about half of the long-term average. The lack of significant supply has propelled rent growth in the range of 5-6% over the past year[13].

Student Housing: The Fall 2025 leasing season is now halfway over and data from Yardi Matrix suggests a slight slowdown in pre-leasing compared to a year ago. As of March 2025, the estimated pre-leasing rate reached 67.1%, 60 bps behind March 2024. Asking rent growth decelerated to 2.5%, the lowest month for annual rent growth since July 2021.[14] Performance varies by campus as some schools continue to push double digit rent increases, while others are flat to slightly negative.

OUTLOOK	MULTIFAMILY	MANUFACTURED HOUSING	SFR/BTR
Drivers	Demographics and Housing		
Demand	Strong	Strong	Strong
Supply	Elevated	Low	Low
Cap-Ex	Low	Low	Medium
NOI Growth	Strong	Strong	Strong
Total Return	Positive	Positive	Positive

Note: Multifamily supply is elevated but declining sharply.

OFFICE

The office sector continues to languish from diminished occupier demand due to the persistence of remote/flexible work patterns. However, there are some signs that the sector may be stabilizing. The national office vacancy rate rose by 10 bps YoY to 19.0% but has now remained around 19% for five straight quarters.[15] Trailing four quarter net absorption as of 1Q25 was solid at 15.1 million sf (its highest level since 2022), although it was still well below the long-term average of 39 million sf. Supply-side pressure continues to alleviate, with trailing four quarter completions as of 1Q25 totaling 18.9 million sf, the lowest level in more than a decade. Additionally, national asking rent growth picked up, reaching 0.9% YoY, though leasing concessions remain quite elevated.[16] High-quality buildings continue to attract an outsized share of demand and stand to benefit as the pipeline dissipates.

OUTLOOK	COMMODITY OFFICE
Demand	Soft
Supply	Low
Cap-Ex	High
NOI Growth	Soft
Total Return	Challenged

RETAIL

Neighborhood and community centers reported only 1.3 million square feet of completions in 1Q, slightly above the previous low of 1.2 million square feet in 2Q 2022 and the second-lowest quarterly level since 1990.[17] Meanwhile, the total square footage of shopping centers under construction in 1Q amounts to less than 0.3% of existing stock.[18] Quarterly absorption came in at -3.9 million sf, driving the availability rate 10 bps higher to 6.6% – but in the context of minimal construction, this suggests that landlords, in the aggregate, may be prioritizing rental growth over sheer occupancy, a dynamic apparent in such markets as Raleigh, South Florida, and Seattle, where availability rates remain above 2023 lows but rental growth continues to be healthy.[19] U.S. annual asking rent growth came in at 2.0%, slightly below the 4Q annual growth rate of 2.2%.[20]

OUTLOOK	STRIP CENTER	MALL
Drivers	Demographics, Innovation, and Shifting Globalization	
Demand	Strong	Soft
Supply	Low	Low
Cap-Ex	Medium	High
NOI Growth	Strong	Soft
Total Return	Positive	Challenged

HEALTHCARE

Life Sciences: Fundamentals softened further in 1Q25, due in large part to heavy supply growth and lackluster leasing. Both start-ups and established firms continue to cut costs, reducing headcount and footprint in response to the still-challenging funding environment and in preparation for leaner times ahead. As a result, the vacancy rate rose by 150 bps during the first quarter to 30.5% across the three largest U.S. life sciences markets: Boston, San Francisco, and San Diego, while non-same-store average asking rent growth decreased by 6.3% YoY.[21] It is important to stress that high quality sponsors and locations have fared much better and a substantial amount of new supply is not competitive with class A product. Construction activity has declined substantially over the last two years but remains relatively robust (4.9% of stock is underway), which will contribute to further downward pressure on occupancy rates and rent growth through the near term.[22]

Medical Offices: Demand remained strong, and deliveries continued to slow, resulting in the trailing twelve-month U.S. occupancy rate increasing by around 30 bps from one year ago to 92.6% in 1Q25 (75 bps above the average since 2018).[23] Same-store asking rents improved by 1.8% YoY, a solid, but slowing pace from the 2023 high of 2.9%.[24] Going forward, supply-side dynamics continue to look favorable with the sector's under-construction pipeline receding to just under 20 MSF (2.2% of stock), while construction starts have fallen sharply (60% decline in trailing twelve month starts since 3Q22 peak).[25]

Seniors Housing: Through 1Q25, U.S. senior housing market conditions continued to tighten, with net absorption outpacing completions for a 16th consecutive quarter.[26] As a result, occupancy rates have improved from sub-80% levels in 2021 to 88.0% in 1Q, while average rent growth was 3.9% YoY.[27] The sector's construction pipeline remains in check, with units under construction equating to just 2.6% of existing stock, which is well below the 7% construction rate observed at the height of the previous supply wave from 2016 to 2020.[28] Looking ahead, propelled by the demographic tailwind, specifically the growth of the 80+ year-old population, which is projected to expand by 4.3% per year through 2029,[29] the sector appears poised for strong rent growth.

OUTLOOK	LIFE SCIENCES	MEDICAL OFFICE	SENIOR HOUSING
Drivers	• Demographic • Innovation • Shifting Globalization	• Demographic • Innovation • Housing	• Demographic • Innovation • Housing
Demand	Soft	Strong	Strong
Supply	Elevated	Low	Low
Cap-Ex	Medium	High	High
NOI Growth	Soft	Moderate	Strong
Total Return	Challenged	Positive	Positive

SELF-STORAGE

As of 1Q25, fundamentals remain relatively soft, due in large part to subdued home sales activity and house-hold movement. Same-store "move-in" rents continue to decline as owners reduce rates to preserve occupancy. However, the pace of these declines has improved from -4.5% YoY in 1Q24 to -1.7% YoY in 1Q25.[30] Conversely, existing customer rate increases (ECRIs) remain healthy and have helped to offset the continued decline in move-in rates. This has resulted in flat-to-slightly-down revenue growth YoY. Self-storage demand should improve over the next couple of years considering the anticipated recovery in home sales activity. Additionally, the national construction pipeline continues to decrease (2.9% of existing space is underway),[31] another tailwind for the sector moving forward.

OUTLOOK	SELF-STORAGE
Drivers	Demographics and Housing
Demand	Soft
Supply	Moderate
Cap-Ex	Low
NOI Growth	Moderate
Total Return	Moderate

DATA CENTERS

Strong demand for data centers continues, supported by rapid AI adoption and continued investments in cloud computing. Public market commentary from Q125 was generally positive, suggesting that new leasing remains within expectations despite economic uncertainties. As of the latest broader market data (2H24), the vacancy rate for primary data center markets fell to a record-low 1.9% from 3.7% a year earlier.[32] The data center under-construction pipeline in primary markets climbed to a record high of 6,350 MW underway at the end of 2024, more than double the total from a year prior.[33] However, around 75% of this pipeline is pre-leased.[34] This sharp supply/demand imbalance has maintained upward pressure on rents, with the average asking price across primary wholesale colocation markets for a 250- to 500-kW requirement rising by 12.6% YoY to $184 per kW/month.[35]

OUTLOOK	DATA CENTERS
Drivers	Demographics and Innovation
Demand	Strong
Supply	Elevated
Cap-Ex	High
NOI Growth	Strong
Total Return	Positive

HOTEL

Most large markets saw moderate, or higher, RevPAR growth in 1Q25. Over the quarter, revenue per available room (RevPAR) was $92.08, up 2.2% compared to a year ago.[36] RevPAR growth was slightly weaker in the largest 25 markets (2.2%) than all other U.S. markets (2.4%).[37] The national average was likely dragged down by Las Vegas, which saw 1Q occupancy 4.8% below and average room rates 10.2% below the same period in 2024, translating to a 14.4% decline in RevPAR. 16 of 25 top markets saw RevPAR growth above 2.5%, while nine markets were above 5%, including Washington, Philadelphia, New York, San Francisco, and Chicago (but not Boston or Seattle), while New Orleans (which hosted the Super Bowl) and Tampa (which saw hurricane-related demand) finished #1 and #2.[38]

OUTLOOK	HOTELS
Demand	Moderate
Supply	Moderate
Cap-Ex	High
NOI Growth	Soft
Total Return	Challenged

METRIC	CURRENT QUARTER (1Q25)	PRIOR QUARTER (4Q24)	PRIOR YEAR (1Q24)	20-YR LTA
Real Gross Domestic Product Growth (Annualized %)	-0.3%	2.4%	1.6%	2.1%
Total Employment Growth Y/Y	1.2%	1.2%	1.5%	0.9%
Office-Using Employment Growth Y/Y	0.0%	-0.3%	-0.7%	1.2%
Unemployment Rate	4.1%	4.1%	3.8%	5.8%
Consumer Price Index (CPI) Chg. Y/Y	2.7%	2.7%	3.2%	2.6%
Avg. Hourly Earnings Chg. Y/Y	3.9%	4.1%	4.2%	3.1%
Retail Sales Growth Y/Y	4.1%	3.8%	1.8%	4.2%
Total Residential Starts (000s, SAAR)	1,393	1,392	1,407	1,189
Multifamily (000s, SAAR)	381	374	345	338
Single Family (000s, SAAR)	1,012	1,018	1,062	851
Existing Single-Family Median Home Price Chg. Y/Y	3.4%	4.7%	4.9%	4.1%
Existing Single-Family Home Sales (000s, SAAR)	3,737	3,767	3,740	4,503
Fed Funds Rate (Effective)	4.3%	4.7%	5.3%	1.7%
3-mo. Treasury Yield	4.3%	4.6%	5.5%	1.7%
10-yr Treasury Yield	4.5%	4.3%	4.2%	2.9%
BBB Corporate Bond Yield	5.2%	5.4%	5.6%	4.9%
High-Yield Corporate Bond Yield	7.1%	7.0%	7.6%	7.6%

Sources: Moody's Analytics, BEA, BLS, U.S. Census Bureau, NAR, FRB, FRED, Clarion Partners Global Research, 25Q1.

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1 NCREIF, 1Q25.

2 MSCI/Real Capital Analytics. 1Q25.

3 CBRE-EA, 1Q25. Note: Figures are preliminary and total market net absorption is calculated by Clarion Partners based on quarterly change in occupied stock using vacancy rate.

4 CBRE Research, 1Q25.

5 CBRE-EA, 1Q25.

6 Clarion Partners Investment Research.

7 CBRE-EA, 1Q25.

8 Real Page, 1Q25.

9 National Association of Realtors (NAR), Moody's Analytics, March 2025.

10 U.S. Census Bureau, March 2025.

11 John Burns Real Estate Consulting, February 2025.

12 U.S. Census Bureau, March 2025.

13 Public Filings on behalf of Equity Lifestyle Properties, Sun Communities, and UMH Properties, Q1 2025.

14 Yardi Matrix, April 2025.

15 CBRE-EA, 1Q25.

16 CBRE-EA, 1Q25.

17 CBRE-EA, 1Q25.

18 Cushman & Wakefield, 1Q25.

19 CBRE-EA, 1Q25; Cushman & Wakefield, 1Q25.

20 CBRE-EA, 1Q25

21 JLL Research. 1Q25.

22 JLL Research. 1Q25.

23 RevistaMed, 1Q25.

24 RevistaMed, 1Q25.

25 RevistaMed, 1Q25.

26 NIC MAP Vision. 1Q25.

27 NIC MAP Vision. 1Q25.

28 NIC MAP Vision. 1Q25.

29 Moody's Analytics. 1Q25.

30 Yardi Matrix. 1Q25.

31 Yardi Matrix. 1Q25.

32 CBRE, H2 2024.

33 CBRE, H2 2024.

34 CBRE, H2 2024.

35 CBRE, H2 2024.

36 STR, 1Q25.

37 STR, 1Q25.

38 STR, 1Q25.