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U.S. QUARTERLY MARKET UPDATE: 2Q25

MACROECONOMIC OUTLOOK

- **GDP** growth in the second quarter rose to an annual rate of 3.0%, following a negative first quarter, fueled by a sharp decline in imports and sustained consumer spending. Despite this positive reading, slowing business investment and inventories suggest a deceleration in underlying growth in the coming months.
- **Employment** growth has begun to deteriorate, with material downward revisions to May and June data. Year-to-date, approximately 550,000 jobs have been added with the unemployment rate increasing by 20 bps YoY to 4.2%, remaining near historical lows through June.
- **Inflation** edged upwards into mid-year, with YoY growth rising to 2.7% in June from 2.4% the previous month, as price increases for select tariff-sensitive goods accelerated – an early indication of tariff pass throughs.
- **The Benchmark Policy Rate** was unchanged, holding at 4.25%-4.50%, as above-target inflation and sustained employment growth prompted the Fed to maintain a modestly restrictive policy rate following its July meeting.
- **10-yr Treasury** continues to hover in the low-to-mid 4% range. While softening economic growth should prompt a decline in yields, concerns regarding the widening of the federal deficit and resurgent inflation are likely keeping yields elevated.
- **Consumer/Business Sentiment** declined through the first half of the year, with lingering tariff uncertainty weighing on decision-making for both consumers and business.

While tariff-induced uncertainty persists, recent trade deal announcements have provided greater clarity on future effective tariff levels, creating better guideposts for corporate decision making. Our base-case macroeconomic outlook remains constructive for real estate, supported by modestly positive GDP and employment growth. Private real estate values appear to have bottomed out with a new cycle commencing. Healthy market fundamentals across most real estate sectors, combined with improved debt market liquidity and limited construction activity, should support private real estate moving forward. We expect private real estate to generate attractive income growth, especially in property types that benefit from thematic, structural demand drivers that are supportive of long-term growth and can bolster performance through potential headwinds.

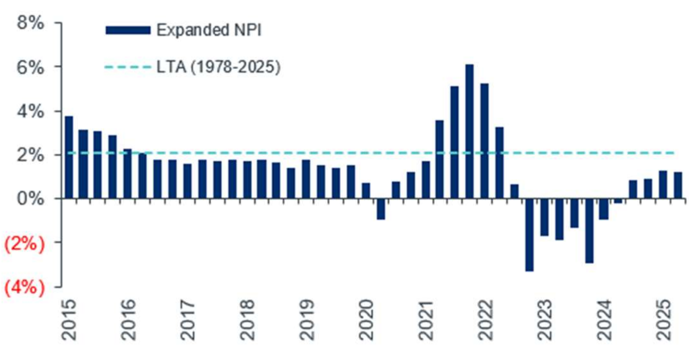
METRIC	BASE CASE: PROBABILITY 60-70%	DOWNSIDE: PROBABILITY 30-40%
GDP	**No Recession** 2025 +1.5% 2026 +1.3% 2027 +1.7%	**Recession** Negative growth 2Q26-4Q26 averaging -2.2% YoY 2025 +1.4% 2026 -0.6% 2027 +0.7%
Employment	Unemployment modestly rises Avg. 4.5% through 2027	Unemployment reaches 5.5% in 2026 Improves back to 4.3% by 2029
Inflation	Accelerates modestly to +3.2% by 2026 Then approaches 2% target by 2027	Accelerates to +4.0% in 2026 Then slows to +1.4% in 2027, +1.6% in 2028
Monetary Policy	Fed cuts 25 bps in 2025 and 50-75 bps in 2026 Reaches neutral level of 3.0% by 2027	Policy rate cuts delayed by inflation Then consistent cuts to 3.0% levels by 2028
10-Yr Treasury	Holds range of 4.0%-4.3% through 2030	Declines to 4.3% 2027, holds at this level through 2029
Consumers	Retail sales decelerate near term: 2025 +2.9%, 2026 +2.4% then accelerate to +3.7% by 2029	Sales decelerate near term: 2026 +0.7% and 2027 +1.2%, then rebound to +6.0% growth in 2028
Business	Fixed non-residential investment slows near term: 2025 +1.7%, 2026 -0.6%; improves to +2.2% in 2027	Fixed, non-residential investment declines by 5.2% in 2026 and 1.2% in 2027, rebounding to +5.7% in 2028

Sources: Moody's Analytics, BLS, BEA, FRED, Clarion Partners Global Research, July 2025. Note: Forecasts were provided by Moody's Analytics as of 7/2025. The downside forecast corresponds with Moody's Analytics' S7 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]**:** A new real estate cycle appears to be underway with private real estate returns stabilizing. In 2Q25, the Expanded NCREIF Property Index (NPI) registered a QoQ total return of +1.23%, marking a fourth consecutive quarter of positive returns, with income the primary driver. However, capital appreciation was positive for a second consecutive quarter, after turning positive in 1Q25 for the first time since 2Q22. Quarterly returns were positive across all major property types, led by the senior housing (2.08%), retail (1.94%) and self-storage (1.62%) sectors.

QUARTERLY TOTAL RETURN, PRIVATE REAL ESTATE



Source: NCREIF Property Index, Clarion Partners Investment Research, 2Q25.
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: Despite continued volatility, debt markets have regained liquidity, as demonstrated by the broad availability of debt capital across all lender types, particularly for favored property sectors.

Equity capital markets: Deal flow improved modestly through midyear, with CRE transaction volume totaling $214 billion through the first half of the year – a 13% increase from 1H24, according to MSCI/Real Capital Analytics[2]. This improvement in transaction volume was largely driven by industrial and retail, as well as notable upticks in office and senior housing deal activity.

Real estate occupier demand: Although market conditions have softened relative to previous quarters, demand fundamentals remain intact, with decent job creation and spending supporting net absorption and maintaining above-average occupancy levels across most property sectors. However, tariff-induced uncertainty, and the resulting contraction in hiring and business investment, may restrain near-term demand.

Real estate supply: Supply pressure across most property sectors continues to abate, as elevated development costs and increased return requirements constrain development starts. Construction cost growth has reaccelerated in recent months, reversing the steady decline from post-pandemic highs. Subdued construction activity observed across most property sectors should persist, as higher construction complicate efforts to plan and budget for new projects.

PROPERTY TYPE OUTLOOK

INDUSTRIAL / INDUSTRIAL ADJACENT

Industrial: The sector continues to see contrasting fortunes between class A and B/C product. Class A continued to see positive net absorption (+22 MSF in 2Q and +134 MSF in the trailing four quarters) compared to Class B/C (-21 MSF in 2Q and -58 MSF in T4Q). Construction deliveries of 52 MSF exceeded net absorption in 2Q25 but have seen a sharp slowdown from the 100 MSF delivery pace during 2023 and 2024.[3] U.S. industrial vacancy increased 40 bps quarter-over-quarter (QoQ) to 6.6%, just below its long-term average (LTA). Upward pressure on vacancy rates should ease soon, with construction decreasing meaningfully. New construction starts of 46 MSF in 2Q were 60% below peak levels in 2022.[4] Active supply underway totals 188 MSF (1.1% of stock), down 112 MSF year-over-year (YoY) and now below LTA annual deliveries. Average asking rents fell -0.2% 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. Just 1% of stock has been added to the market over the last two years and the average asking rent is 14% above 2022, as its availability remains historically tight and below industrial overall[7]. 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	Low	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 2Q25, as steady job creation and affordability challenges in the single-family, for-sale market support strong demand. In line with the traditional seasonality trend, demand accelerated in the spring with net absorption approaching nearly 190k units in 2Q, 3.8% of stock on a trailing 12-month basis. Just over 80k units were completed in 2Q, bringing the YTD total to just over 165k. On a trailing 12-month basis, the rate of completions fell to 2.4% of stock in 2Q, down from a peak rate of 2.8% in 3Q24. The combination of healthy demand and moderating supply pressure contributed to a 70-bps QoQ decline in the national stabilized vacancy rate which now sits at 4.1%. Despite the healthy leasing environment, effective rent growth remains muted (1.2%) due to the widespread use of concessions and investors' high priority on occupancy. Tenant retention remains above average (55%), and renewal rent growth remains strong at 3.9% YoY, offsetting some of the weakness in new lease rent growth. Institutional quality multifamily starts over the trailing 12 months are down 23% YoY, which will be a tailwind for the sector in the coming years.

Single Family: Single-Family Rental (SFR) continues to outperform other rental housing types, but rent growth is slowing as for-sale and for-rent inventory rises. The number of for-sale listings rose to 1.5 million in June 2025, up 16% YoY. SFR vacancy declined to 5.5% in 2Q, down 80 bps from the last quarter, but 10 bps higher than a year ago. The 12-month trailing average vacancy rate of 6.0% remains 30 bps below the 2015-2019 average and the number of for-sale listings remains about 30% below the long-term average dating to 1999. Rent growth for the SFR segment remains healthy but moderated about 100 bps from a year ago to 3.0%. Sun Belt markets continue to lag, as new apartment and BTR supply creates competition.

Manufactured Housing: Affordability, demographics and limited supply pressure are key tailwinds in favor of the manufactured housing (MFH) sector. Total shipments of MFH units declined significantly between the late 1990s and early 2010s and have remained very low since that time. In 2Q25, the annualized rate of new MFH shipments (107k) remained mostly unchanged (-0.8%) from 1Q25. The rate also remains roughly half of the long-term average dating to 1959. The lack of significant supply has propelled rents to grow in the range of 5-6% over the past year.

Student Housing: The Fall 2025 leasing season is approaching the final stretch and data from Yardi Matrix suggests a slight acceleration in pre-leasing activity compared to a year ago. As of June 2025, the estimated pre-leasing rate reached 85.3%, 160 bps ahead of the same time in 2024, but 100 bps below June 2022, the year occupancy reached its recent peak. Asking rent growth decelerated but remained positive at 1.3% year-over-year, a continuation of a longer deceleration trend. However, rent growth for the entire leasing season has averaged 3%. Performance varies widely by campus as some schools continue to push double digit rent increases, while rent growth at select schools, many of which have a significant number of beds under construction, is 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 highest quality office properties are holding on to their pricing power. Outside of these super prime office assets, the national office vacancy rate rose by 10 bps YoY to 19.1% but has now remained around 19% for six straight quarters.[8] Trailing four quarter net absorption as of 2Q25 improved at 0.4% of existing stock (its second-highest level since 2022), although it was still well below the long-term average of 1.3% of stock. Supply-side pressure continues to alleviate, with trailing four quarter completions as of 2Q25 totaling 18.1 million sf, the lowest level in more than a decade. Additionally, national asking rent growth picked up, reaching 1.1% YoY, though leasing concessions remain quite elevated.[9]

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

RETAIL

Neighborhood and community centers reported 1.3 million square feet of completions in 2Q, marginally above the 1.2 million sf recorded in 1Q and the previous post-1990 low of 1.1 million sf in 2Q 2022.[10] The total square footage of shopping centers under construction in 2Q amounts to less than 0.3% of existing stock, suggesting there is no meaningful supply response in the offing.[11] Quarterly absorption came in at -2.6 million sf (it was -5.7 million sf in 1Q), driving the availability rate 10 bps higher to 6.8%. In the context of minimal construction, this likely suggests that landlords, in the aggregate, may be prioritizing rental growth over sheer occupancy, a dynamic that occurred earlier in such markets as Raleigh (3.6% availability rate in Q2 2025, vs. post-COVID low of 3.2% in 4Q 2023) and Miami (4.2% availability in 2Q 2025 vs. 3.3% in 2Q 2024).[12] U.S. annual asking rent growth came in at 2.1%, slightly below the 1Q annual growth rate of 2.2%.[13]

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 for commodity life sciences softened further in 2Q25, 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 challenging funding environment and in preparation for leaner times ahead. As a result, the vacancy rate rose by 150 bps during the second quarter to 32.0% 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 6.8% YoY.[14] 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 (our estimate is only 15% of new stock is competitive). Construction activity has declined substantially over the last two years but remains relatively robust (4.4% of stock is underway), which will contribute to further downward pressure on occupancy rates and rent growth through the near term.[15]

Medical Offices: Demand remained strong while deliveries continued to slow, resulting in the trailing twelve-month U.S. occupancy rate increasing by roughly 20 bps from one year ago to 92.6% in 2Q25 (60 bps above the average since 2018).[16] Same-store asking rents improved by 1.7% YoY, a solid, but slowing pace from the 2023 high of 2.9%.[17] 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 (50% decline in trailing twelve month starts since 3Q22 peak).[18]

Senior Housing: Through 2Q25, U.S. senior housing market conditions continued to tighten, with net absorption outpacing completions for a 17th consecutive quarter.[19] As a result, occupancy rates have improved from sub-80% levels in 2021 to 88.6% in 2Q, while average rent growth was 4.1% YoY.[20] The sector's construction pipeline remains in check, with units under construction equating to just 2.3% of existing stock, which is well below the 7% construction rate observed at the height of the previous supply wave from 2016 to 2020.[21] 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,[22] the sector appears poised for strong rent growth.

OUTLOOK	LIFE SCIENCES	MEDICAL OFFICE	SENIOR HOUSING
Drivers	• Demographics • Innovation • Shifting Globalization	• Demographics • Innovation • Housing	• Demographics • 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 2Q25, fundamentals remained relatively soft, due in large part to continued subdued home sales activity and household movement. Same-store "move-in" rents continue to decline as owners reduce rates to preserve occupancy. However, the pace of these declines has moderated significantly from -4.5% YoY in 1Q24 to -0.3% YoY in 2Q25.[23] Conversely, existing customer rate increases (ECRIs) remain healthy and have helped offset the 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 with the anticipated recovery in home sales activity. The national construction pipeline also continues to decrease (2.7% of existing space is underway),[24] 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 cloud computing investments. 1Q25 public market commentary was generally positive, suggesting that new leasing remains within expectations despite economic uncertainties. As of 1Q25 broader market data, the vacancy rate for most primary data center markets remained favorable despite the significant YoY inventory increase. Northern Virginia had the lowest vacancy rate, below 1%, Atlanta saw its vacancy drop more than 500 bps to 3.6% while Phoenix fell to 1.7%.[25] The data center construction pipeline saw primary markets grow more than 40% YoY and remains active with more than 5,000 MW currently underway.[26] However, more than 80% of this pipeline is pre-leased.[27] While rent growth has somewhat moderated compared to last year's record highs given the persistently active supply, average asking rent continued to rise in 1Q and was led by Chicago, Northen Virginia and Atlanta across primary markets, all three of which saw mid-teen percentage growth rates YoY.[28]

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

HOTEL

Over the quarter, revenue per available room (RevPAR) was $106.88, down 0.5% compared to a year ago.[29] RevPAR growth was slightly stronger in the largest 25 markets (-0.3%) than all other U.S. markets (-0.6%).[30] The national average was dragged down by New Orleans (-10.0%) and Las Vegas (-8.8%). The Sun Belt generally underperformed (Phoenix, Nashville, Houston, Dallas, and Atlanta), although all three Florida metros comfortably exceeded the national growth rate (Orlando at +6.6%, Miami at +3.6%, and Tampa Bay at +2.5%). The strongest overall performers were San Francisco, St. Louis, Orlando, New York, and Chicago. Southern California also did well.[31] With international visitor volumes waning in recent months, the continued pullback in foreign visitors is a major headwind for the hotel sector.

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

METRIC	CURRENT QUARTER (2Q25)	PRIOR QUARTER (1Q25)	PRIOR YEAR (2Q24)	20-YR LTA
Real Gross Domestic Product Growth (Annualized %)	3.0%	-0.5%	3.0%	2.2%
Total Employment Growth Y/Y	1.1%	1.2%	1.4%	0.9%
Office-Using Employment Growth Y/Y	0.1%	-0.1%	-0.8%	1.1%
Unemployment Rate	4.2%	4.1%	4.0%	5.8%
Consumer Price Index (CPI) Chg. Y/Y	2.5%	2.7%	3.2%	2.6%
Avg. Hourly Earnings Chg. Y/Y	3.8%	3.9%	4.0%	3.1%
Retail Sales Growth Y/Y	4.1%	4.5%	2.6%	4.2%
Total Residential Starts (000s, SAAR)	1,327	1,401	1,343	1,180
Multifamily (000s, SAAR)	408	386	332	339
Single Family (000s, SAAR)	919	1,015	1,010	842
Existing Single-Family Median Home Price Chg. Y/Y	1.7%	3.3%	5.2%	3.9%
Existing Single-Family Home Sales (000s, SAAR)	3,627	3,737	3,630	4,472
Fed Funds Rate (Effective)	4.3%	4.3%	5.3%	1.7%
3-mo. Treasury Yield	4.4%	4.3%	5.5%	1.7%
10-yr Treasury Yield	4.4%	4.5%	4.4%	2.9%
BBB Corporate Bond Yield	5.7%	5.2%	5.8%	4.9%
High-Yield Corporate Bond Yield	7.5%	7.1%	7.7%	7.6%

Sources: Moody's Analytics, BEA, BLS, U.S. Census Bureau, NAR, FRB, FRED, Clarion Partners Global Research, 2Q25.

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1 NCREIF, 2Q25.

2 MSCI/Real Capital Analytics. 2Q25.

3 CBRE-EA, 2Q25. 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, 2Q25.

5 CBRE-EA, 2Q25.

6 Clarion Partners Investment Research.

7 Clarion Partners Global Research, CBRE-EA, 2Q25.

8 CBRE-EA, 2Q25.

9 CBRE-EA, 2Q25.

10 CBRE-EA, 2Q25.

11 Cushman & Wakefield, 2Q25.

12 CBRE-EA, 2Q25; Cushman & Wakefield, 2Q25.

13 CBRE-EA, 2Q25

14 JLL Research. 2Q25.

15 JLL Research. 2Q25.

16 RevistaMed, 2Q25.

17 RevistaMed, 2Q25.

18 RevistaMed, 2Q25.

19 NIC MAP Vision. 2Q25.

20 NIC MAP Vision. 2Q25.

21 NIC MAP Vision. 2Q25.

22 Moody's Analytics. 2Q25.

23 Yardi Matrix. 2Q25.

24 Yardi Matrix. 2Q25.

25 CBRE, 2Q 2025.

26 CBRE, Cushman & Wakefield Q1 2025.

27 Cushman & Wakefield, 2Q 2025.

28 CBRE, H2 2024.

29 STR, 2Q25.

30 STR, 2Q25.

31 STR, 2Q25.