RESEARCH BRIEF
EMPLOYMENT

IPA INSTITUTIONAL PROPERTY ADVISORS

JUNE 2025

May Hiring Brings Positives for Retail, Multifamily CRE But Not Borrowers

Generally positive labor report carries caveats. Employers brought on 139,000 new personnel on net in May, marking the second-most active month for hiring this year, behind only April. This most recent job creation tally, however, trails the 2024 monthly average by about 29,000 positions. Last month's greater headcount was also highly concentrated, with 90 percent of the net employment gain stemming from the private education, health services, leisure and hospitality sectors. At the same time, the professional and business services sector shed 20,000 temporary service positions, while the Federal government also relinquished 22,000 jobs. Although May's hiring figures exceeded expectations, the composition of those additions nevertheless reflects a quieter labor market in many fields.

Momentum still present for dining-related retail. Hiring at bars and restaurants totaled 30,200 positions last month. This increased labor demand correlated with a restaurant/bar/fast-foot vacancy rate of roughly 3.0 percent in the first quarter. Vacancy for these establishments has held in the low-3 percent band since late 2021, as move-ins by Starbucks, Chick-Fil-A, Texas Roadhouse, Chipotle and other retailers have contributed to positive net absorption so far this year. Looking more broadly, the retail sector as a whole noted negative net absorption in the opening three months of 2025 — the first quarterly loss since the pandemic. Yet the 4.5 vacancy reading was only 20 basis points above the record low. Some retailers are closing stores due to challenges in their own operations or industry, but limited availability suggests quality floorplans will be readily backfilled by other tenants.

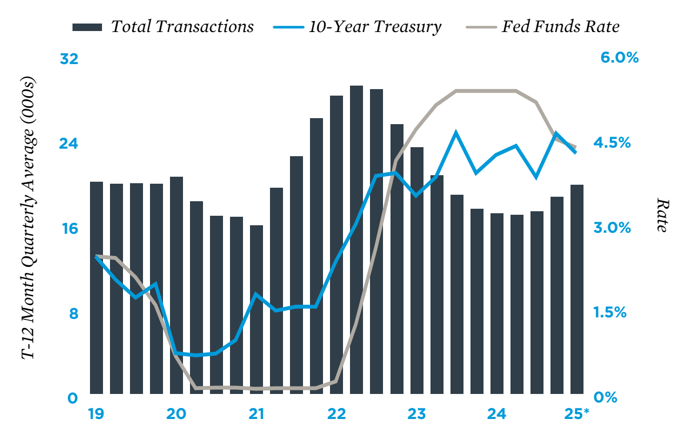
After swift inflection, multifamily sector's future progress laid out. The slowdown in monthly hiring from an average of 168,000 jobs in 2024 to 124,000 so far in 2025 aligns with a step back in multifamily net absorption from last year's near-record volume. Renter demand growth was nevertheless above average in the first quarter of this year, pushing the overall vacancy rate down further to 5.0 percent — 60 basis points below the long-term mean. This same dynamic was reflected across more than half of major metros nationwide, including pandemic-challenged markets like San Francisco and development hot spots like Phoenix. With construction entering a down cycle and a major near-term drop in mortgage rates unlikely, the apartment sector's demand-supply balance appears structurally sound.

Financial Market Trends

Rate cuts potentially pushed further out. May's employment growth reinforced Wall Street's confidence that the Federal Reserve will hold the overnight lending rate unchanged in June and July. A majority of participants, however, still expect at least one 25-basis-point cut by December. The Fed is likely waiting to see how the nation's evolving public policies affect price and labor stability. April trade data showed a sharp drop in imports following tariff announcements. How subsequent ameliorations will influence shipping going forward is still unclear. Preemptive stockpiling has also delayed the impact to consumers broadly so far. That is likely to change in the coming weeks.

Borrowing cost outlook may be loosening market. In addition to fewer signs of an impending reduction to short-term interest rates, longer-term rates are also likely to stay elevated for the near future, if not climb higher. The Trump administration's deficit-expanding budget goals would prompt additional Treasury issuance at a time when major acquirers of U.S. debt, such as the Fed, China and Japan, are pulling back. An oversupply of notes on the debt market would put upward pressure on yields. For commercial real estate investors seeking financing benchmarked to those rates, motivations to wait for lower borrowing costs are dwindling. Transaction activity appears to reflect this. The trailing 12-month quarterly average count of trades has increased since a low point in the first three months of 2024.

Early Signs of Transaction Market Improvement



** Through 1Q; Transactions include apartment, retail, office, industrial, hospitality, self-storage and senior housing sales $1 million and greater*

Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Real Capital Analytics; RealPage, Inc.