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Economy Expands More than Expected in the Third Quarter as CRE Well-Situated for New Year

GDP growth was strong heading into the shutdown period.

The U.S. economy grew at an above-consensus annual rate of 4.3 percent in the third quarter, a two-year high. Gains to real gross domestic product were driven by greater consumer spending, particularly on nondurable goods and services, as well as increased government outlays and a rise in net exports. This momentum is unlikely to be repeated in the fourth quarter, however, given the impact of the federal government shutdown and the slight drop in private domestic investment. Overall, GDP is on track to expand by about 2 percent for the calendar year.

Drop in residential investment a multifamily tailwind. Residential fixed investment, largely a measure of spending on new housing construction and part of the GDP tabulation, declined last quarter. As new supply tapers, homeownership barriers remain high, keeping many households in the renter pool. National multifamily vacancy fell to 4.6 percent in the third quarter, down 100 basis points from the same time last year and the trailing three-decade average. Lower vacancy was supported by fewer deliveries, with 2025's completion total marking a three-year low. This allowed some momentum to return to rent growth, with gains primarily channeled through renewals. Structural drivers for rental demand and a continued deceleration in development next year bode well for the multifamily outlook.

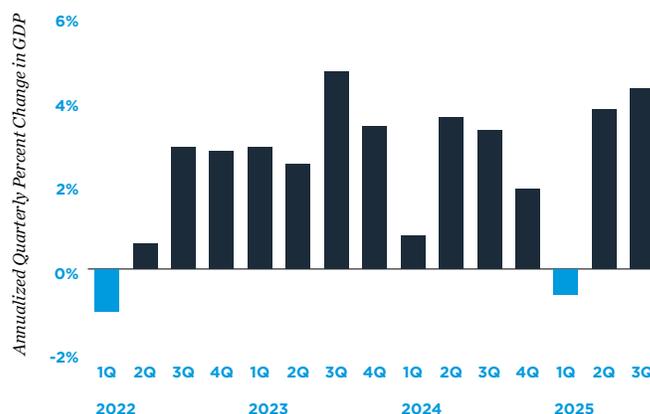
Retail properties well set for possible consumer hesitancy. Retail vacancy was also below average in the third quarter. September's reading of 4.9 percent was 80 basis points under the trailing 20-year mean, and only a 40-basis-point increase from Dec. 2024, despite the net relinquishment of over 13 million square feet earlier this year. Net absorption turned positive in the July-to-September period, though with minimal construction activity supporting backfilling prospects. Retailers may nevertheless keep expansion plans conservative for the near future, given continued uncertainty about U.S. trade policy and lower consumer confidence. Although total savings are up this year in aggregate, disposable personal income was unchanged in the third quarter, which could lead to less spending at stores and restaurants in the immediate future.

Momentum building in office operations. Restrained development is also a tailwind for the office sector. In 2025, the fewest amount of office was completed since 2011. Amid this slowdown, office space demand has improved, with more than 127 million square feet absorbed on net over the 18 months ended in September. Tenants are generally favoring newer, smaller, suburban offices. However, top-tier, amenity-rich Class A properties in select major markets are also drawing strong demand. An even smaller construction pipeline for 2026 should limit options for modern space. This could potentially direct some demand to older, updated stock, and push office vacancy down for the third straight year.

Construction activity a lingering headwind for industrial assets.

In contrast to the office sector, existing industrial properties continue to contend with elevated new-supply pressure. Completions have exceeded the long-term average in each of the past nine years, resulting in a cumulative 20 percent increase in stock. This sustained development wave has pushed national vacancy up to the 8 percent threshold. Roughly half of that space was contained within just 10 major markets, however, allowing about a third of major metros to record third-quarter vacancy rates below the U.S. mark.

— Topline GDP Growth Improves in the Third Quarter —



Sources: IPA Research Services; Capital Economics; CoStar Group, Inc.; Federal Reserve; RealPage, Inc.; U.S. Bureau of Economic Analysis