

Lackluster Labor Report Carries Implications for Commercial Properties

Job losses exceeded gains in February. Total employment decreased by 92,000 roles last month. Labor disputes within Kaiser Permanente were largely responsible for a 28,000-position decline in health care, a sector that has contributed 36,000 new jobs per month on average over the past year. Even if healthcare hiring had performed per that benchmark, the headline payroll count still would have declined, with most sectors outside financial activities and trade reporting contractions. February's employment change highlights an ongoing headwind to the labor market. Since May, after the implementation of new tariffs, the U.S. employment base has declined by 19,000 jobs on net.

Softer hiring dynamics headwind for multifamily. Similar to the drop in total employment, the number of job openings has also been declining, falling to about 6.5 million at the end of 2025, the lowest number since late 2020. Fewer employment opportunities will likely weigh on household formation and population migration, impacting demand for housing. This may become a material headwind for apartment buildings in lease-up or for properties competing with those facilities for renters. At the end of last year, 34 percent of units built since 2019 were offering concessions averaging 10 percent off asking rent. While rents still increased on average at renewal last year, the longer it takes recently completed properties to stabilize, the more likely this downward pressure is to spread to the rest of the market. Across the entire multifamily landscape, regardless of building age, the share of units offering a concession was nearly 24 percent, the second-highest rate in more than five years.

Consumer patterns supportive of storefronts. Retail spending was up 3.2 percent year-over-year in January, above inflation. This real improvement in consumer spending at retailers, aided by aggregate income and investment gains, bodes well for a retail sector that has already recovered from a stretch of negative net absorption led by drugstore closures in the first half of 2025. While some retailers have already announced closures for 2026, the outlook is more positive, with the national vacancy rate beginning 2026 at 4.8 percent, 90 basis points below the long-term average.

Developing Trends

Long-term unemployment climbing but not severe. While the unemployment rate edged up 10 basis points last month to 4.4 percent, it remains below the 2000-2025 average of 5.7 percent. The number of people who have been without a job for over 26 weeks has also been rising, comprising about 25 percent of the unemployed as of February. That share is, nevertheless, much lower than the 46 percent high in April 2010, when fewer than half as many jobs were open as now. This offers upside potential for these individuals to find opportunities even in the current labor market.

Fed facing new hurdles. The shift of the labor market into a much slower phase could, all else being equal, put pressure on the Federal Reserve to lower the overnight rate. However, the Brent crude price of oil increased by more than 12 percent the week ending March 6 amid military conflict with Iran and disruptions to shipping through the Strait of Hormuz. While energy costs will increase most in Asia and Europe, uncertainty around how the conflict will unfold leaves pathways for inflation to rise in the U.S.

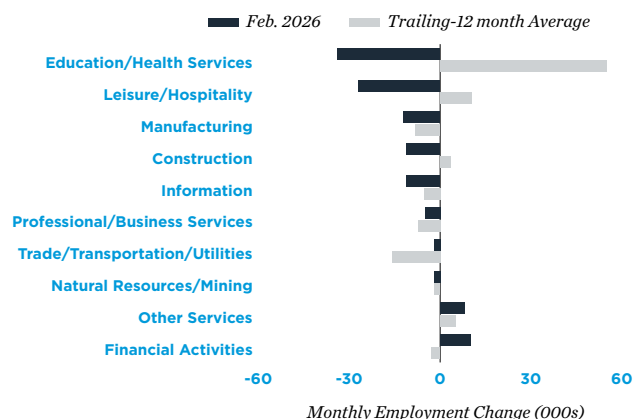
-19,000

Net Job Change:
May 2025-Feb. 2026

+20 Basis Points

Change in Unemployment
Rate: May 2025-Feb. 2026

Most Sectors Reported Losses Last Month



Sources: IPA Research Services; Bureau of Labor Statistics; Challenger, Gray & Christmas; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; RealPage, Inc.