

Recent Job Creation Buoy Multifamily Sector, Provides Clarity on Interest Rates

Hiring eases after strong final stretch of 2024. Employers kicked off 2025 by creating 143,000 jobs in January, compared with an average of 166,000 per month last year. About 66,000 of the positions added in January, nearly half the overall net gain, originated from health services fields, while another 34,000 came from retail trade. Although the concentration of hiring momentum within only a handful of industries may signal some softening, overall the labor market has been performing well recently. More than 500,000 jobs were created in the last two months of 2024 — almost a third of the year’s total growth. Even when accounting for January’s smaller reading, the average number of positions added on net over those three months was 237,000 per period, which is above the 2014–2019 mean.

Recent employment growth underpins multifamily momentum.

Above-average hiring in the final months of 2024 corresponded with greater-than-expected new demand for rental housing. The end quarter of last year noted the strongest period for multifamily net absorption nationally since mid-2021, when pent-up housing demand was released post-vaccine. This led to a drop in the U.S. vacancy rate to 5.2 percent in 2024 after the rate rose 320 basis points over the prior two years. With new supply pressure easing by about a third from last year and low unemployment of 4 percent encouraging household formation, the sector is well-positioned for further improvement.

Labor market and inflation conditions support rate hold. Ongoing job creation, a low unemployment rate by historical standards and inflation persistently in the upper-2 percent bound are likely to dissuade the Federal Reserve from reducing the overnight lending rate at its next meeting in March. Following 100 basis points of cuts last year, the Fed left their benchmark rate unchanged in January. While not a part of the institution’s official discourse, the potential inflationary implications of a broad trade dispute between the U.S. and its partners may also be influencing the Federal Open Market Committee to hold rates flat for the immediate future. Although not as conducive to investment activity as further reductions, greater clarity on the near-term outlook for short-term interest rates may enable more commercial real estate investors to finalize their decisions. How these economic factors affect longer-term interest rates, such as the 10-Year Treasury, will also play a role in commercial real estate transaction activity and whether it shifts to the upside.



Developing Trends

Evolving trade policies pose potential risks. On February 4, additional tariffs of 10 percent took effect on imports from China, while intentions for 25 percent duties on goods from Canada and Mexico were delayed for 30 days. It is possible these policies will change as the three countries negotiate. While additional taxes on foreign goods brought into the U.S. could potentially increase demand for domestic substitutes, increasing the need for manufacturing space, multinational supply chains are not easily rerouted. In the meantime, the immediate costs would likely raise inflation, which could impact both consumer and business spending decisions.

Recent White House actions a mixed-bag for D.C. offices. The Trump administration has taken steps to return federal employees to offices five days a week, in line with some major private sector employers. Meanwhile, the scope of certain agencies, such as USAID and the Consumer Financial Protection Bureau, are being reduced. This creates a mixed outlook for federally owned office space, particularly in Washington, D.C. As many of these offices are over 50 years of age, they may not align with general tenant preferences, which could weigh on the metro’s office sector fundamentals in the short term.

143,000 Jobs Created in January 2025

4.0 Unemployment Rate as of January 2025

Small Group of Sectors Continue to Drive Hiring

