

## Employment Growth Decelerating; Implications for Commercial Real Estate

**Job growth picture re-framed in July.** Employers added a net total of 73,000 positions last month, led by the health care and social assistance sectors with the creation of 55,400 and 17,900 roles, respectively. July's hiring was overshadowed, however, by large downward revisions to figures from May and June. Combined, 258,000 fewer jobs were added than previously thought, with headcounts failing to rise by more than 19,000 in either month. Historically, employment estimates are revised up on average. Unemployment has nevertheless been able to stay in the low-4 percent band during this subdued period, although that is largely due to the 794,000-person contraction in the labor force since April. The total number of unemployed people, 7.2 million, is fairly aligned with the most recent recording of job openings, which was 7.4 million. These metrics point to a labor market that is roughly balanced but clearly slowing — a dynamic reflected in varying commercial real estate property performance.

**Robust renter demand unfazed in the second quarter.** The multifamily sector outperformed during the first six months of 2025, recording the net absorption of nearly 390,000 rentals. This is the strongest opening half to a year since at least 1993, pushing vacancy down 150 basis points year over year to 4.3 percent. Demand for rentals has been bolstered by steep barriers to homeownership, including both high home prices and mortgage rates. Nationally, the rental market has quickly recovered from the elevated supply pressure of the previous two years, when more than 1 million units were delivered. If the labor market continues to soften, however, it could slow the pace of household formation in the second half of the year.

**Quieter leasing environment underway in retail, industrial.** Contrasting the multifamily landscape, more space was relinquished than absorbed in the second quarter across both the retail and industrial sectors. In both property types, space consolidation among some tenants, plus a hesitancy to make substantial new commitments amid uncertain trade and economic outlooks, is likely weighing on demand. Between the two tariff-affected sectors, the supply-demand balance is stronger among retail, where construction has been both historically low and declining in recent quarters. The industrial sector, meanwhile, is moving past a period of record construction, which will benefit operations over time, despite elevated vacancy in June.

## Developing Trends

**May and June hiring revisions unusually large.** Employment estimates from the Bureau of Labor Statistics are routinely updated, but this summer's revisions were more than double the absolute mean change, going back to 2003. Most adjustments so far this year have also been downward, when historically, corrections have been biased slightly upward. Although hiring figures from May, June and July will all continue to be updated, the magnitude and direction of recent adjustments suggests this year's employment growth picture will be more subdued than previously anticipated.

**Prospects of a rate cut gains favor with financial markets.** Following the release of the second quarter's modestly positive GDP report, Wall Street participants lowered their expectations for a September rate cut by the Federal Reserve. After the reporting of July's employment details, however, the probability of a cut doubled to over 80 percent. That said, new data will continue to come in before the Fed's September 17 meeting, which could change the picture further.

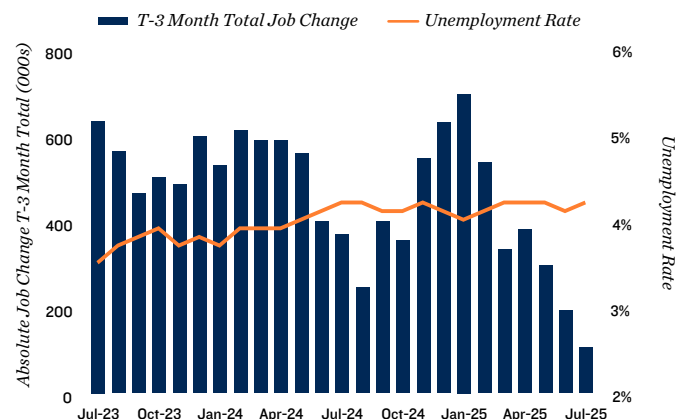
597,000

Jobs Added Year-to-Date Through July

4.2%

Unemployment Rate in July 2025

### Employment Growth Rapidly Decelerating



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