

Labor Stability May Lessen Ties Between Leasing and Job Growth

Measured slowdown, with signs of stability. Free from federal shutdown distortions, the December jobs report provided a clearer read on the labor market and reinforced a pattern of slower, narrowly concentrated hiring, even as the unemployment rate stayed contained. Total nonfarm payrolls rose by 50,000 in December. That brings average job growth in 2025 to roughly 49,000 per month, down sharply from more than 167,000 per month in 2024, underscoring a deceleration in hiring momentum. Meanwhile, the unemployment rate edged down to 4.4 percent, pointing to a labor market that remains broadly balanced rather than weakening outright. Separately, the Challenger, Gray & Christmas report showed December had the fewest announced layoffs of the year, while select service industries – particularly those less exposed to tariff-related pressures – continued to add jobs, supporting cautious optimism about economic conditions.

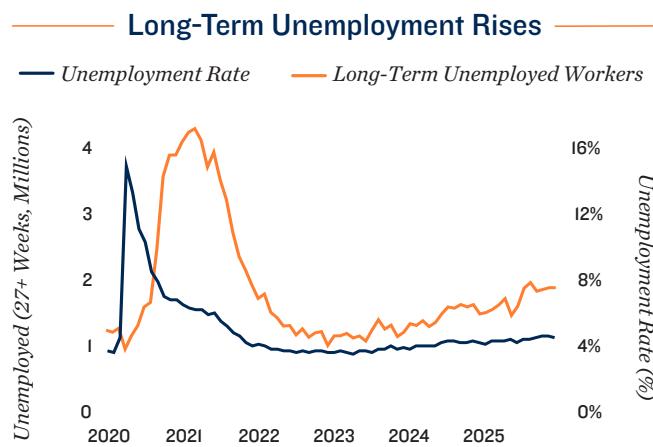
Tariff-insulated sectors support hiring. December jobs data showed a clear bifurcation between goods-producing industries and less trade-exposed service sectors. Goods-producing employment declined by roughly 21,000 jobs in December, while service-providing industries added about 58,000 roles, led by health care and food services and drinking places. This divergence aligns with survey data from the Institute for Supply Management, where the Manufacturing PMI remained in contraction and fell to its lowest level of the year. At the same time, the Services PMI stayed in expansion territory and reached its highest reading of 2025. For commercial real estate, this trend favors tenants less exposed to goods handling, particularly service-oriented retailers. Fast-food and restaurant assets continue to show resilience, with net absorption in the fourth quarter reaching its strongest level since 2021, while vacancy held below 3 percent.

Productivity jump reshapes leasing dynamics. Business labor productivity in the U.S. surged 4.9 percent in the third quarter of 2025, the strongest advance since 2023, as output rose 5.4 percent while hours worked increased only 0.5 percent. This gap highlights companies' ability to meet demand through efficiency gains rather than hiring, potentially reflecting early benefits from artificial intelligence. That dynamic may weaken the historical link between job growth and leasing activity, as some firms expand their footprints without adding labor, while others focus on optimizing existing space.

Worker sentiment slips as mobility slows. The number of long-term unemployed workers rose in December, approaching its highest level since 2021, signaling slower job-finding rather than rising layoffs. This trend aligns with recent data from the Federal Reserve Bank of New York, which showed worker confidence in finding a new job fell to a multiyear low. Together, these indicators suggest rising worker caution and reduced labor mobility. As households grow less willing to change jobs or relocate, domestic migration may slow, increasing the importance of renter retention for multifamily performance.

Labor stability reinforces rate hold. With the unemployment rate declining slightly in December, the Federal Reserve is expected to keep interest rates unchanged at its next meeting as it remains focused on potential inflationary pressures. Average hourly earnings rose 3.8 percent year-over-year, reflecting still-firm wage growth that could contribute to stickier services inflation. Combined with the potential inflationary impact of tariffs, these dynamics are likely to keep the Fed cautious about cutting interest rates in the near term.

584,000 Jobs Added in 2025 **49,000** Average Monthly Job Growth in 2025



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