OakNorth Sector Pulse

US REAL ESTATE

September 2025

OakNorth

Industry overview

The US real estate market is entering a period of cautious stabilization after several years of heightened volatility. With borrowing costs gradually easing and capital markets becoming more liquid, transaction activity is beginning to recover. Investors remain discerning, directing capital toward asset classes with clear demand visibility and strong long-term fundamentals. Furthermore, capitalization rate expansion has slowed across much of the market, and in particularly resilient segments of the sector, early signs of compression are emerging. While recovery will not be uniform across the board, 2025 to date is increasingly seen as the bottoming-out point for US real estate, paving the way for differentiated growth trajectories across several differing asset types.

Key sectoral trends

MULTIFAMILY

The multifamily sector has remained resilient in the first half of 2025, with rental demand holding strong as elevated mortgage rates continue to push would-be homeowners into the rental pool. Net absorption rose by more than 20% compared with the same period in the previous year, even as the market faced a historic wave of new supply. Vacancy rates have stabilized at around 8%, following the delivery of over 500,000 new units, one of the largest annual supply additions in recent decades. Although construction starts have begun to slow due to the high cost of capital, rent growth has remained positive, particularly in fast-growing Sunbelt states and major urban centers.

In 2025, multifamily demand stayed strong with steady vacancies and rent growth.

Looking ahead, the sector is expected to face elevated vacancy levels throughout the remainder of the year, as it digests the large pipeline of completions. However, as deliveries begin to taper in 2026 and demand continues to build, vacancy should gradually decline and rent growth is likely to reaccelerate. Underpinning the sector's longer-term resilience are strong demographic tailwinds, affordability barriers to homeownership, and ongoing migration toward high-growth regions, all of which continue to support steady investor interest in core and emerging multifamily markets.

Vacancies ease by 2026 as demand grows, boosting rent growth.

OFFICE

The office sector remains the most structurally challenged across US's commercial real estate market, though some early signs of stabilization are beginning to appear. Market activity is increasingly concentrated in high-quality, sustainable buildings located in gateway cities, where tenant demand is showing signs of recovery and vacancies are beginning to decline. In contrast, poorly located and outdated office stock continues to struggle, with many buildings facing long-term obsolescence. New office construction remains extremely limited, with only around 13 million square feet expected to be delivered in 2025—marking the lowest level of new supply in over a decade. At the same time, capital is cautiously returning to the sector, as seen in the reemergence of selective CMBS refinancings for top-tier properties.

The office sector struggles, with demand shifting to top-tier buildings and minimal new supply.

Over the next six months, demand is expected to remain heavily concentrated in Class A assets that offer strong environmental credentials, premium amenities, and flexible design. The gap between high and low quality office buildings is likely to widen further, as occupiers prioritize space that can help them attract and retain talent. Many secondary and tertiary buildings will face increasing pressure to either reposition or convert into alternative uses, including residential or mixed-use formats. A meaningful recovery in office vacancy rates is unlikely before 2026, but well-located, sustainable properties are expected to lead the sector's eventual rebound.

Demand centers on Class A offices, with recovery not expected until 2026.

INDUSTRIAL / WAREHOUSE

While the industrial sector has cooled slightly from its pandemic-era highs, it remains structurally sound and continues to offer attractive long-term fundamentals. Leasing activity has also normalized, with third-party logistics providers now accounting for the bulk of tenant demand. Developers have begun to pull back sharply, with only around 217 million square feet of new deliveries expected in 2025, which equals a significant reduction from the volumes seen in 2023 and 2024. As this slowdown in construction continues, the market is seeing a slight uptick in vacancy as it absorbs the existing supply. Rent growth has moderated from the double-digit levels seen during the peak e-commerce surge but remains positive, particularly in logistics hubs near ports and major transportation corridors.

The industrial sector stays solid, with logistics demand, slower builds, slight vacancy rise, and steady rents.

Looking forward to the next six months, the reduced pipeline of new supply is expected to help stabilize vacancy rates by 2026, allowing demand to catch up and supporting healthier market dynamics. Rents are projected to grow at a slower but more sustainable pace, buoyed by ongoing e-commerce activity, reshoring of supply chains, and the need for last-mile distribution facilities. Investors are expected to maintain strong interest in the sector, particularly in strategically located assets near key transport hubs and consumer populations. With a continued focus on efficiency, flexibility, and ESG performance, industrial real estate is likely to remain a core allocation in institutional portfolios..

Industrial vacancies should stabilize by 2026, with steady rents and strong investor demand.

RETAIL

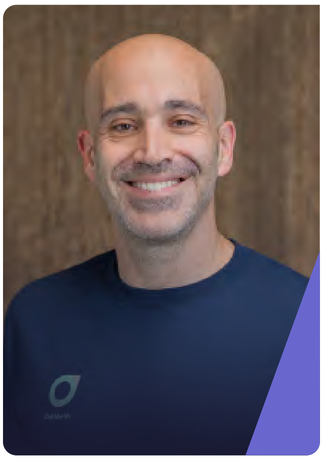
Retail continues to outperform expectations and remains one of the healthiest sectors in US commercial real estate. Vacancy rates are hovering near record lows, thanks in large part to over a decade of minimal new construction, which has kept overall supply tight. Open-air centers, grocery-anchored developments, and necessity-driven retail formats are attracting strong tenant demand, while experiential concepts such as dining, wellness, and entertainment are proving effective at driving foot traffic and maintaining occupancy. Although lower-tier malls continue to face structural headwinds, Class A malls are performing relatively well, with stable occupancy and solid tenant retention.

Retail is strong with low vacancies, tight supply, and solid demand.

The retail sector's fundamentals are expected to remain strong throughout the rest of 2025 and into 2026. With limited new supply on the horizon, landlords remain in a position of strength, enabling them to maintain rental growth and favorable lease terms. We expect capital flows will likely continue to favor necessity-based and experiential retail formats, which have demonstrated resilience through various economic cycles. Additionally, the repositioning of struggling mall assets into mixed-use or alternative developments presents a selective but growing area of opportunity. Retail cap rates are expected to remain stable in the near term, supporting ongoing investor interest in the sector.

Retail stays strong into 2026 with tight supply and steady rents.

After a prolonged period of disruption, we're now seeing the US commercial real estate market find its footing. Stabilizing interest rates, evolving asset class fundamentals, and more rational capital flows are setting the stage for recovery — albeit one that varies widely by sector. At OakNorth, we remain focused on supporting this next phase of growth by backing ambitious borrowers with tailored capital solutions, particularly in sectors showing resilience and long-term demand drivers. Since July 2023, we've already lent over $1.5bn to US businesses, underlining the strong demand we're seeing from borrowers and the opportunity we have to help close the funding gap. Whether it's multifamily housing in the sunbelt or logistics facilities near urban cores, we continue to see strong appetite for financing across the US real estate market."



Ben Barbanel
Chief Lending Officer at OakNorth

Sector spotlight

OAK FUNDING

New Jersey-based real estate lending platform

In July, we provided $21M note-on-note facility to returning customer and New Jersey-based real estate lending platform, Oak Funding to support a new mixed-use scheme in South Bronx, New York.

GOODHOMES

Private real estate investor

Also in July, we provided a $14.7M loan to leading private real estate investor, GoodHomes Communities, to support the development of a new 13-storey multifamily scheme in Silver Spring, Maryland.

DAC DEVELOPMENTS MAC

Chicago-based real estate development and investment firm

In June, we provided a $53M loan to Chicago-based real estate development company DAC Developments and Chicago-based private equity real estate development and investment firm, Melrose Ascension Capital, to help develop a Class A 19-storey residential tower in Downtown Chicago.

SABAL NORTH 12

Real estate investment manager and premier senior housing investment firm

Also in June, we lent $20M to a joint venture between real estate investment manager, Sabal Investment Holdings and premier senior housing investment firm, 12 North Capital, to support their acquisition of three purpose-built Class A memory care facilities.

EQUITYMULTIPLE

New York-based real estate investment firm and lender

In May, provided a $21M note-on-note facility to New York-based real estate investment firm and lender, EquityMultiple, to support a Class A office-led site in Tinton Falls, New Jersey.

SME CAPITAL VENTURES

New York-based private investment firm

Also in May, we provided a $26M note-on-note facility to New York-based private investment firm, SME Capital Ventures, to support a major new residential scheme in Chelsea, Manhattan.