



State of the U.S. Economy and Real Estate Market Q2 2025

August 14, 2025



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About RCLCO Fund Advisors

RCLCO Institutional Advisory Services, the predecessor to RCLCO Fund Advisors, LLC (RFA), was formed in 2011. RFA was incorporated in 2013 and registered with the SEC as a registered investment advisor (RIA) in 2014. RFA specifically addresses the complex global investment environment facing pension funds and similar institutional investors. Our broad background across a wide variety of disciplines—including portfolio analysis, development feasibility, and urban planning—makes us uniquely adept at navigating property markets from both a “bottom-up” and “top-down” approach. The team is comprised of more than 30 members with diverse and relevant experience in research, consulting, investment management, property operations, and lending.

RFA is improving the traditional institutional real estate investment model by: providing customized and aligned advisory and investment management solutions to LPs; facilitating partnerships that generate greater LP control and transparency; and driving and achieving long-term objectives in allocation, access, diversification, and performance with greater fee effectiveness.

Summary Point of View

U.S. Economic Summary

As of Q2 2025

2025 Q2 Review

- ▶ The US economy posted strong growth in 2025 Q2 with 3.0% GDP growth. A sharp decline in imports drove much of the growth even as inventory declines curtailed growth. Q2 was the inverse the Q1 report which recorded a spike in imports and inventory buildups in anticipation of increased tariffs.
- ▶ Employment growth slowed markedly to 190K in Q2 as May and June job growth estimates were revised down to a mere 33K total. Despite the drop off in employment growth, the unemployment rate stayed low, averaging ~4.2% for the quarter.
- ▶ Inflation re-accelerated in Q2 after falling earlier in the year. Headline and Core CPI ended the quarter at 2.7% and 2.9%, respectively. Core CPI rose further to 3.1% in July.
- ▶ The Federal Reserve held the fed funds rate steady at 4.25-4.5% in its July meeting, despite political pressure for a cut. The 10-Year UST yield hovered near 4.4% in Q2, ranging from 4.0% in early-April to 4.6% in mid-May. Yields are near ~4.3% as of mid-August.

Near-term Outlook

- ▶ Despite elevated uncertainty, economic growth is expected to slow not stop, and the US looks likely to avoid a recession in the near term.
- ▶ Recent downward job growth revisions provide some evidence that the long-anticipated labor market slowdown may be starting to materialize. Job growth is likely to slow, and could possibly turn negative as companies adjust to tariffs and slower/negative immigration.
- ▶ Inflation is projected to increase further in the near term before gradually returning to normal. Goods prices are particularly vulnerable to increased tariffs.
- ▶ Most economists expect 1-2 cuts of 25 bps each to the federal funds rate this year, taking the target range to 3.75-4%.
- ▶ Tariff implementation has been volatile but has mostly settled for now. Effects are only beginning to be felt but are likely to include:
 - » *In the short term:* Inflationary pressure, slower economic growth and consumer spending, supply chain disruptions, shortages, pullback in foreign capital.
 - » *In the long term:* Potential increase in domestic production and more resilient domestic supply chains should develop. Reduced imports could also lead to reduced availability of manufacturing inputs and some consumer goods.
- ▶ Downside risks include inflation rebounding more than anticipated and interest rate increases due to sustained inflation (near term) and deficits (mid/long term).

U.S. Real Estate Summary

As of Q2 2025

Operating Fundamentals

- *Multifamily* – Completions continued to moderate, with 610K new units added over the last four quarters, outpacing net absorption of 540K units. Overall market vacancy is at a tenant-friendly 9.9%. Institutionally-owned apartments are performing better at 6.2% vacancy. Rent growth rose slightly but remained modest at 0.8%. Fundamentals should improve the next several years as supply and demand balance out.
- *Office* – Fundamentals remained weak, with negative net absorption of 9M SF and new deliveries of 22M SF over the last year. Vacancies rose to 15.9% and annual asking rent growth fell to 1.0%. The sector may be approaching bottom as opportunistic buyers invest in older buildings. Premium offices in top submarkets will likely outperform.
- *Neighborhood Retail* – Performance moderated as net absorption turned negative over the past year. New deliveries were a minimal 3M SF. Vacancy rates rose to 6.0%, but rent growth remained healthy at 3.2%. Fundamentals are expected to be stable in the near term, with vacancy remaining at very low levels.
- *Industrial* – Deliveries moderated to 280M SF over the last year, but far outpaced net absorption of 80M SF, resulting in weakening fundamentals. Vacancy rose to 6.9%, and rent growth moderated to 3.4%. Increased tariffs pose a meaningful risk to demand. Fundamentals will weaken through 2026, but should stabilize in the mid/long term.

Performance & Capital Markets

- Private real estate returns improved in Q2 with trailing 4Q ODCE and NPI returns increasing to 3.5% and 4.3%, respectively. Trailing-year appreciation remained slightly negative in both indices at -0.6% for ODCE and -0.5% for NPI. Annual NPI returns are expected to improve through 2027.
- NPI and ODCE annual income yields were 4.8% and 4.1%, respectively. The NPI yield spread to the 10-Year UST expanded while the spread to Baa corporate bond yields compressed. Both spreads remained well below average.
- Trailing 4Q transaction volumes rose 2% QoQ to \$430B, as tariff uncertainty weighed on investors. Transaction volumes were up for all major property types except apartment.
- Real estate capital markets have opened up and will support increasing transaction volume in coming years. Lending standards are normalizing, and CMBS issuance has increased despite a pullback in 2025 Q2. Real estate has fully repriced at 15-35% below peak, and further correction looks unlikely.

U.S. Property Markets Snapshot and Outlook

As of Q2 2025

Multifamily

- Multifamily vacancy increased over the last year but is expected to decline to near the long-term average through 2028.
- Annual rent growth was slow but is forecast to rebound to the long-term average through 2028 as excess supply is absorbed.

Office

- Office vacancy continued to climb, reaching a record high of 15.9%. It is predicted to remain near that level through 2028.
- Rent growth was positive the past year but was far below the historical average. Rent growth is forecast to remain sluggish.

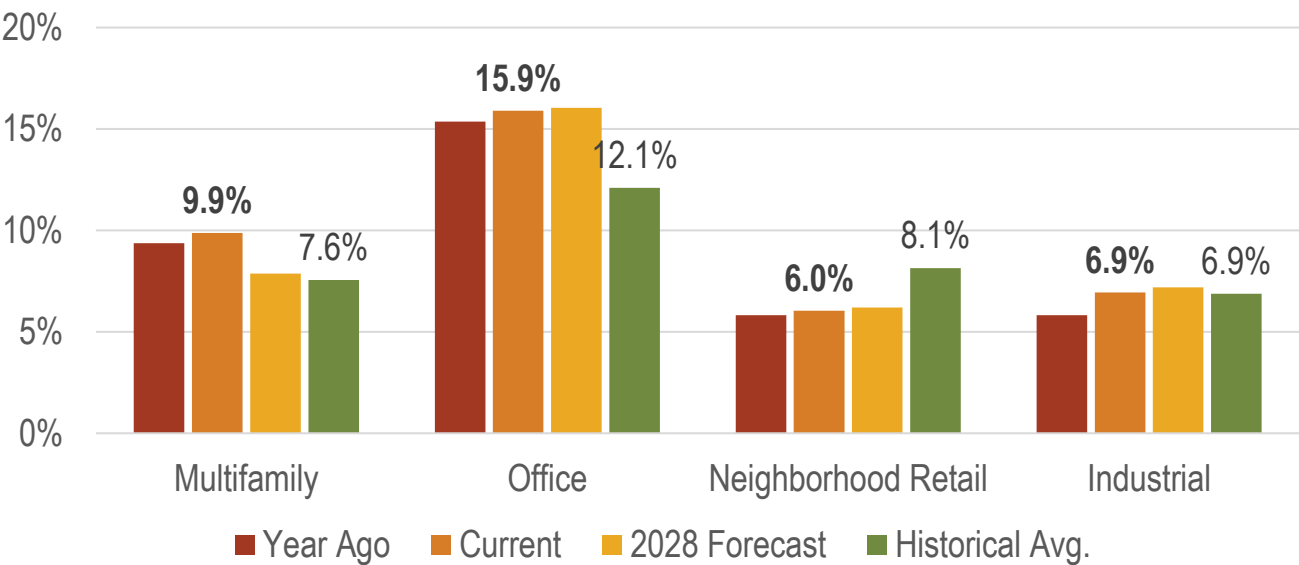
Neighborhood Retail

- Neighborhood retail vacancy rose modestly over the past year. Vacancies are forecast to rise slightly through 2028 but remain below the historical average.
- Rent growth was strong over the last year, and stable growth is forecast to persist, despite moderation.

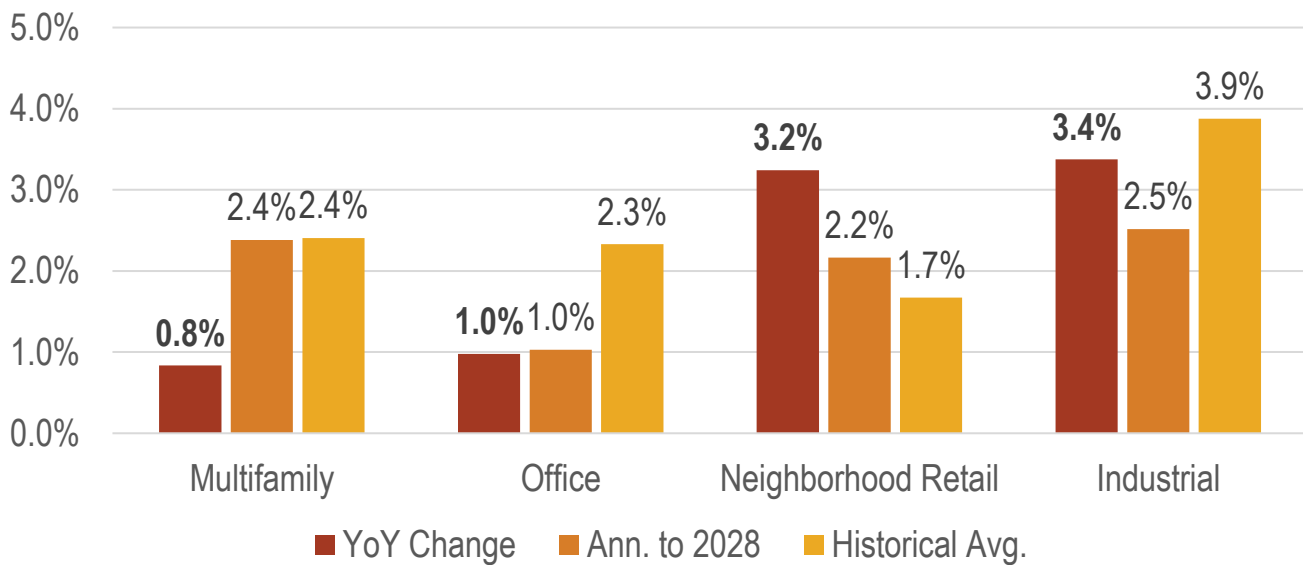
Industrial

- Industrial vacancy rose to the long-term average of 6.9% over the past year. Vacancy is expected to increase further through 2028.
- Industrial rent growth led all property types over the past year, but its outperformance is forecast to moderate over the coming years.

US Vacancy Rates

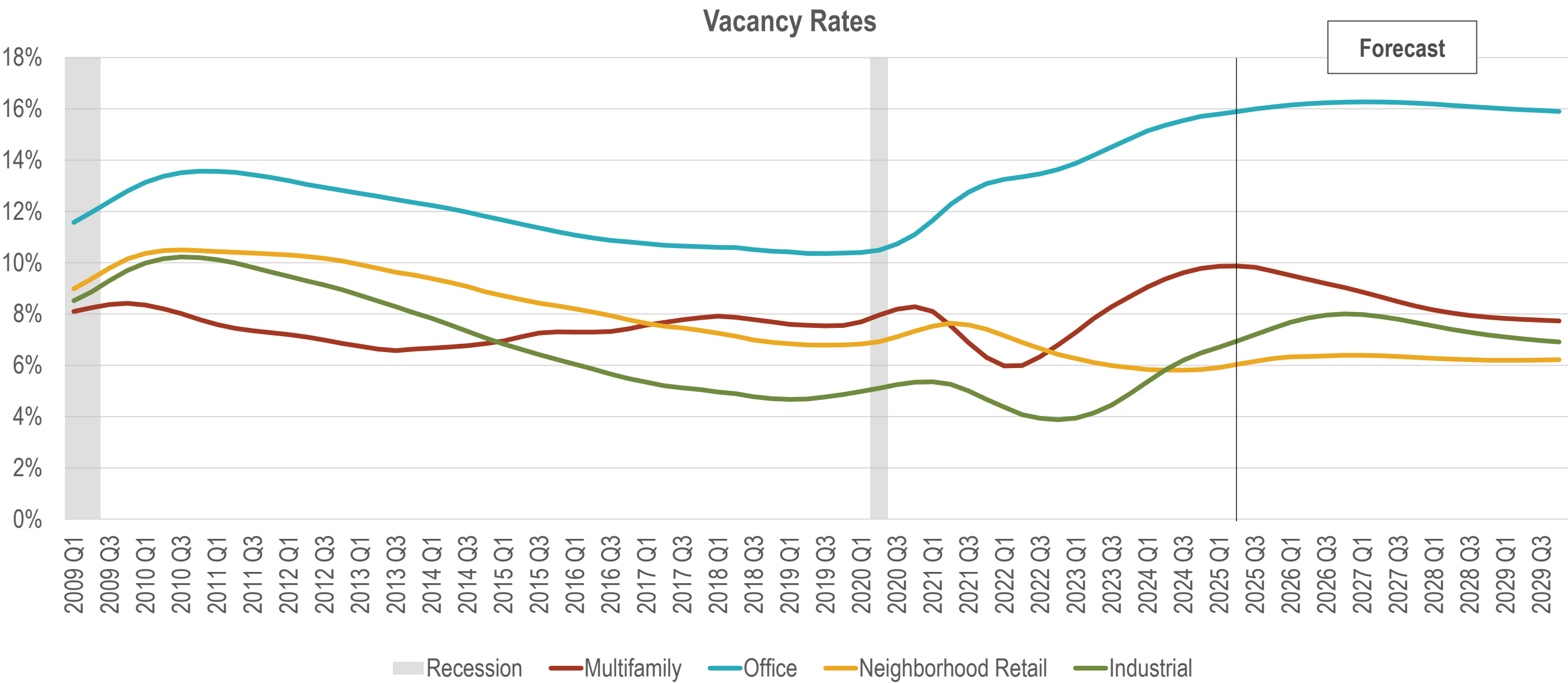


US Rent Growth



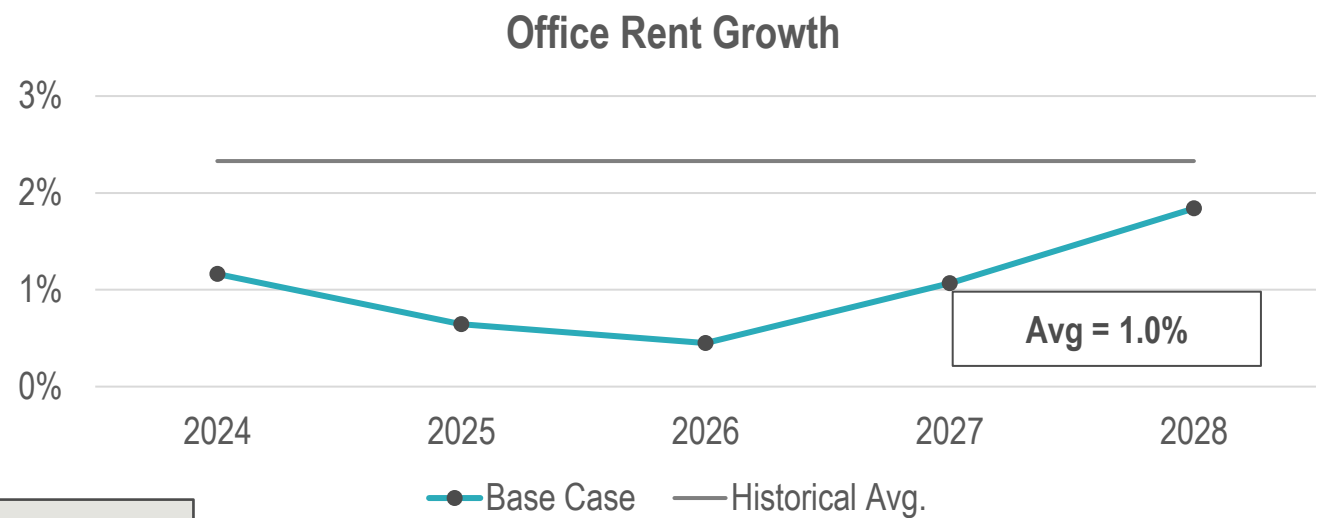
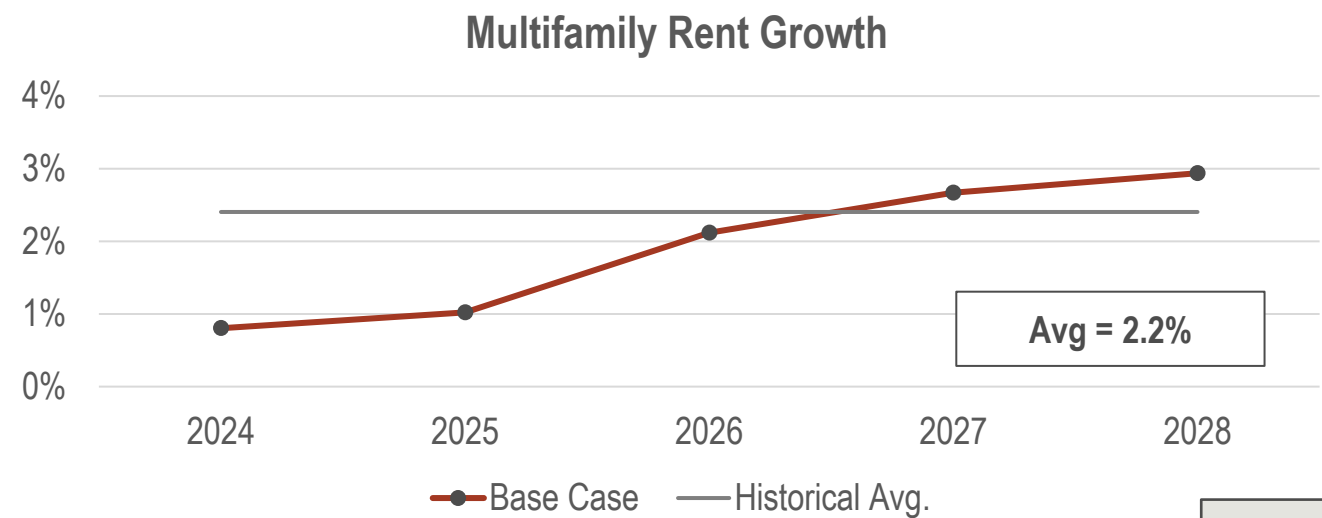
Vacancy Rates At Peak for Apartment, Rising for Industrial

Office Vacancy Rate to Remain High; Retail to Hold Steady Near Current Lows

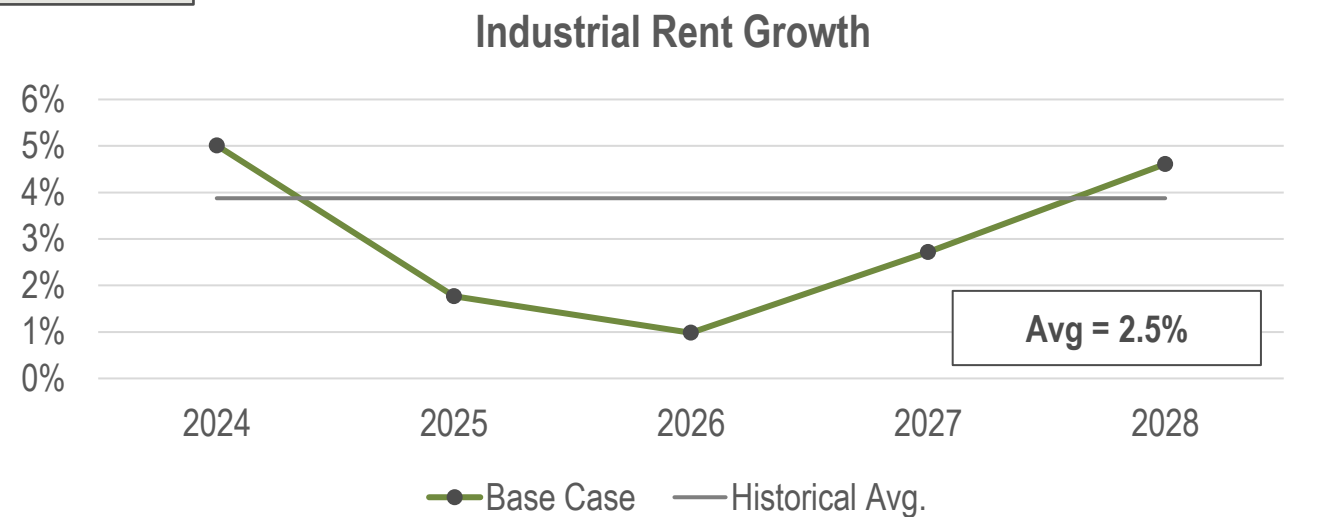
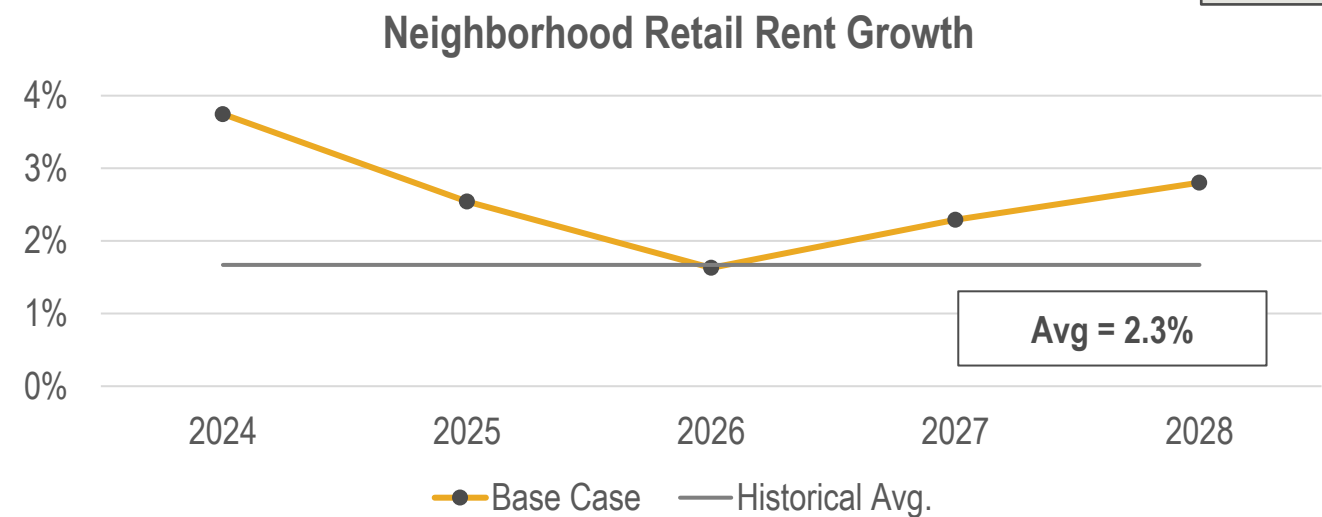


Near-term Industrial Rent Growth to Suffer Due to Tariff Effects

Multifamily and Office to Improve from Recent Lows; Neighborhood Retail to Stay Above Average



2025-28 Averages

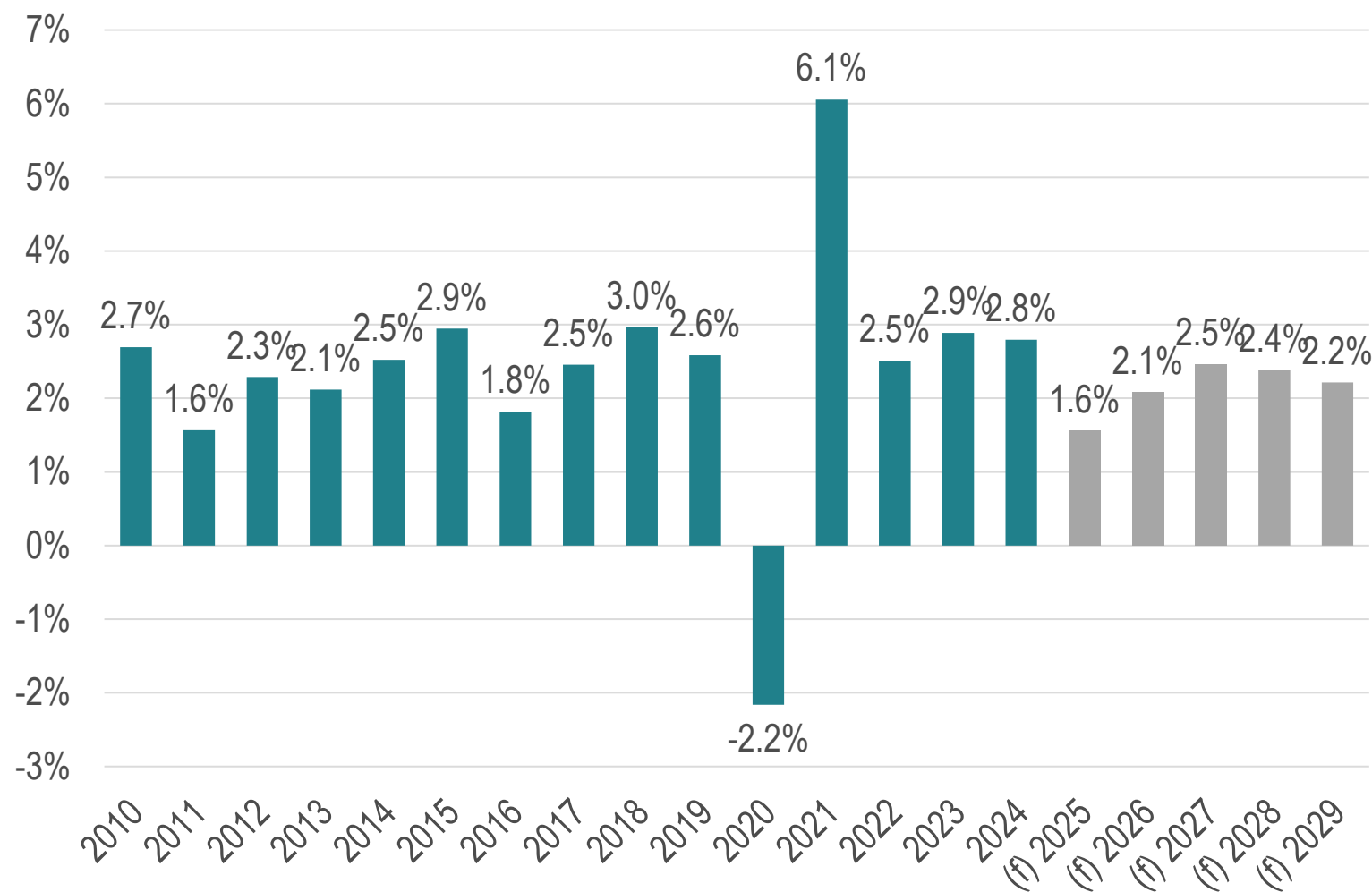


Economy

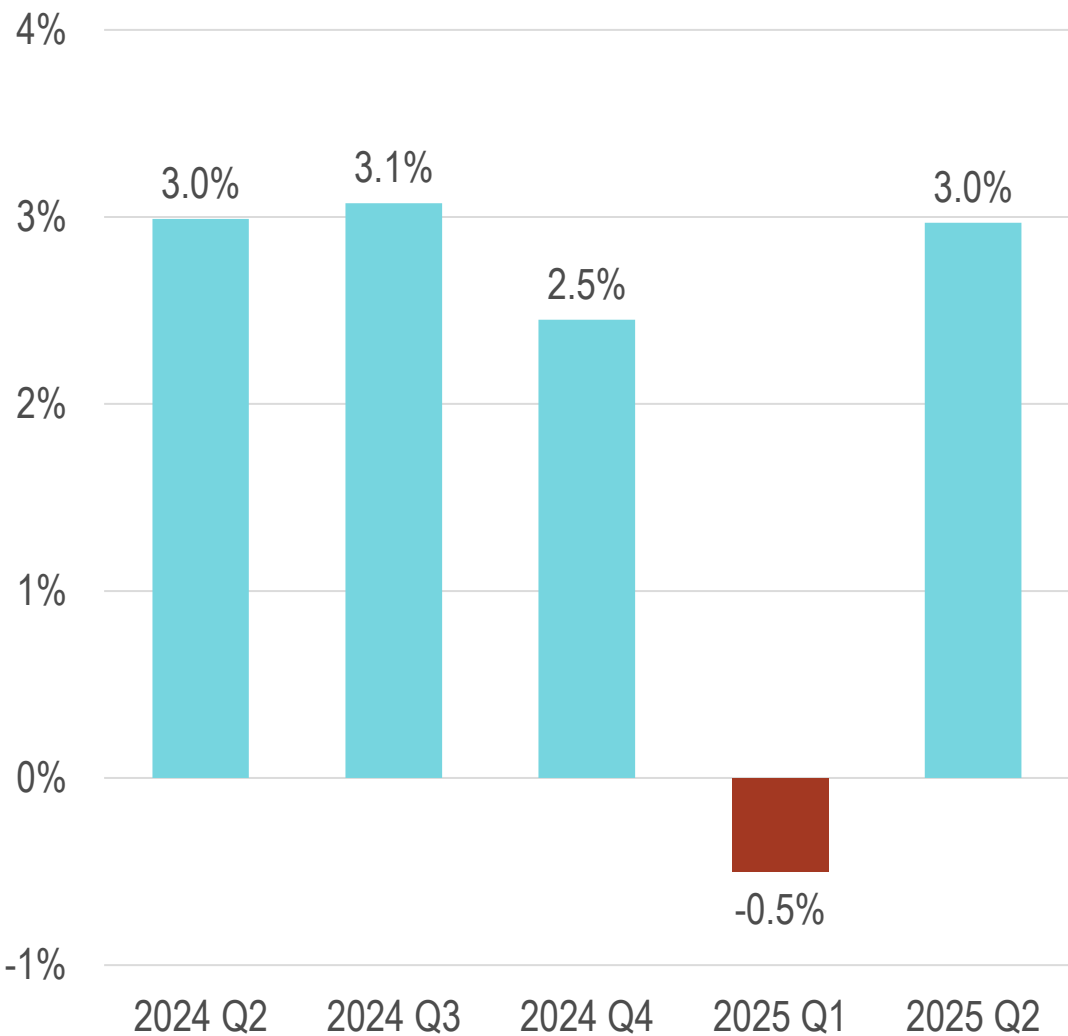
GDP Grew 3% (Annualized) in Q2, Largely Due to Growth of Net Exports

Better Than Expected GDP Growth Also Supported by A Decrease in Imports and Continued Consumer Spending

U.S. Real GDP Annual Change



Annualized Quarterly Change in Real GDP



Probability of Recession Is Moderating as Tariff Policy Settles

De-escalation of US Trade Wars (Especially with China) Has Improved Outlook

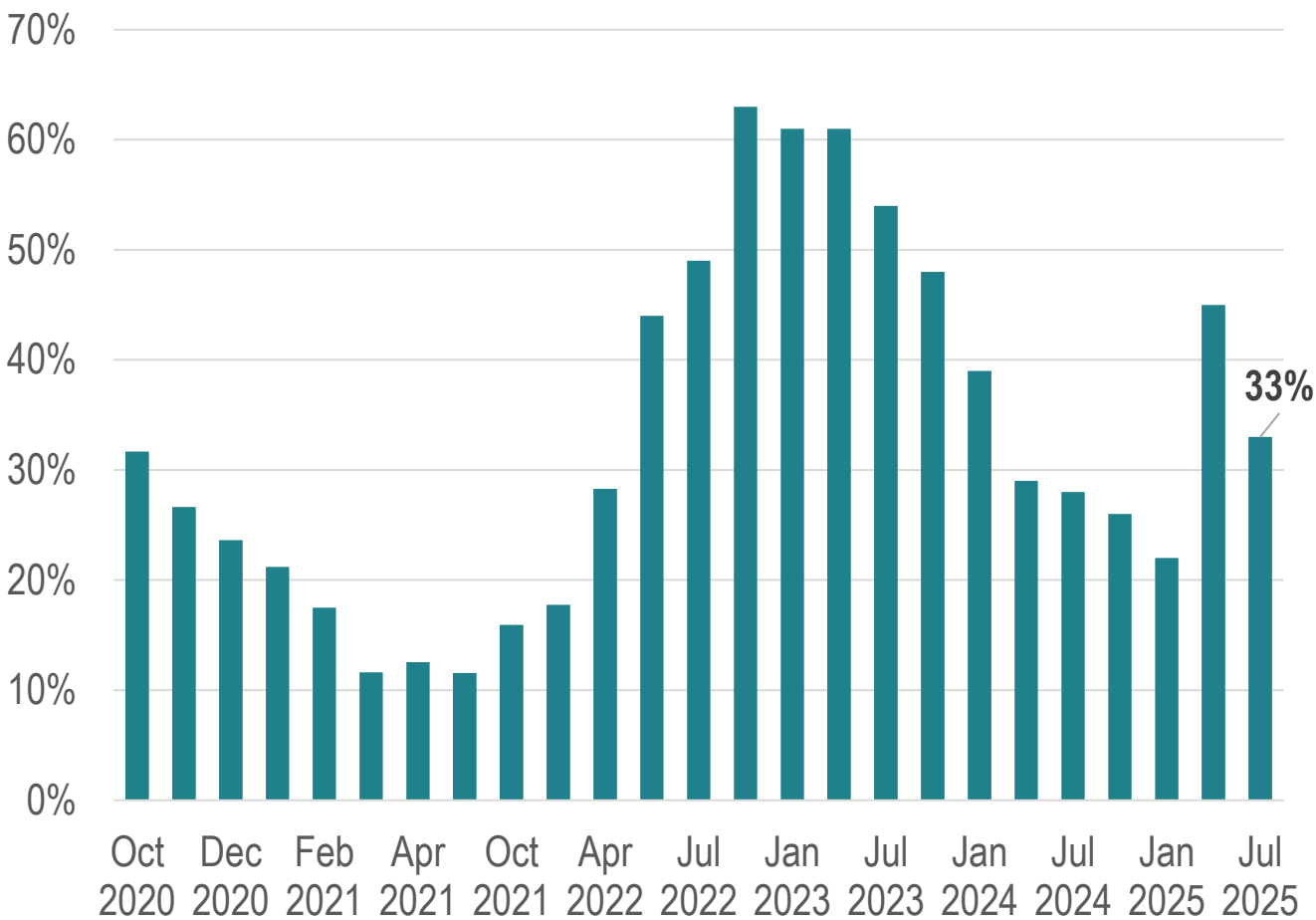
Probability of Recession

	As Of	Time-frame (mos.)	Probability
NY Fed's Treasury Spread Model	Jul-25	12	29%
Goldman Sachs	Jun-25	12	30%
WSJ Survey	Jul-25	12	33%
Oxford Economics	Jul-25	12	35%
Bankrate Survey	Jul-25	12	35%
JP Morgan Chase	May-25	12	40%

Decrease from prior forecast

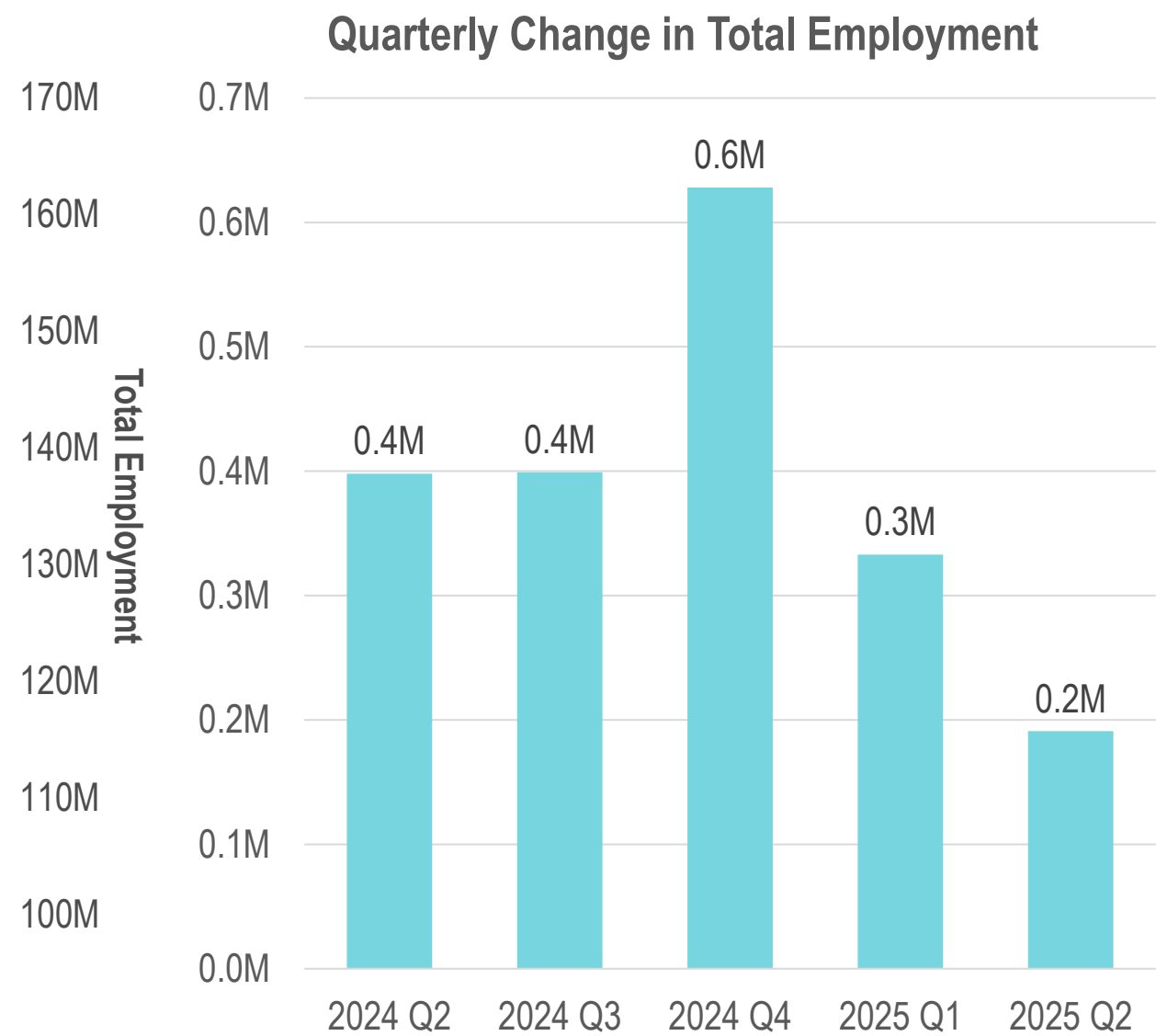
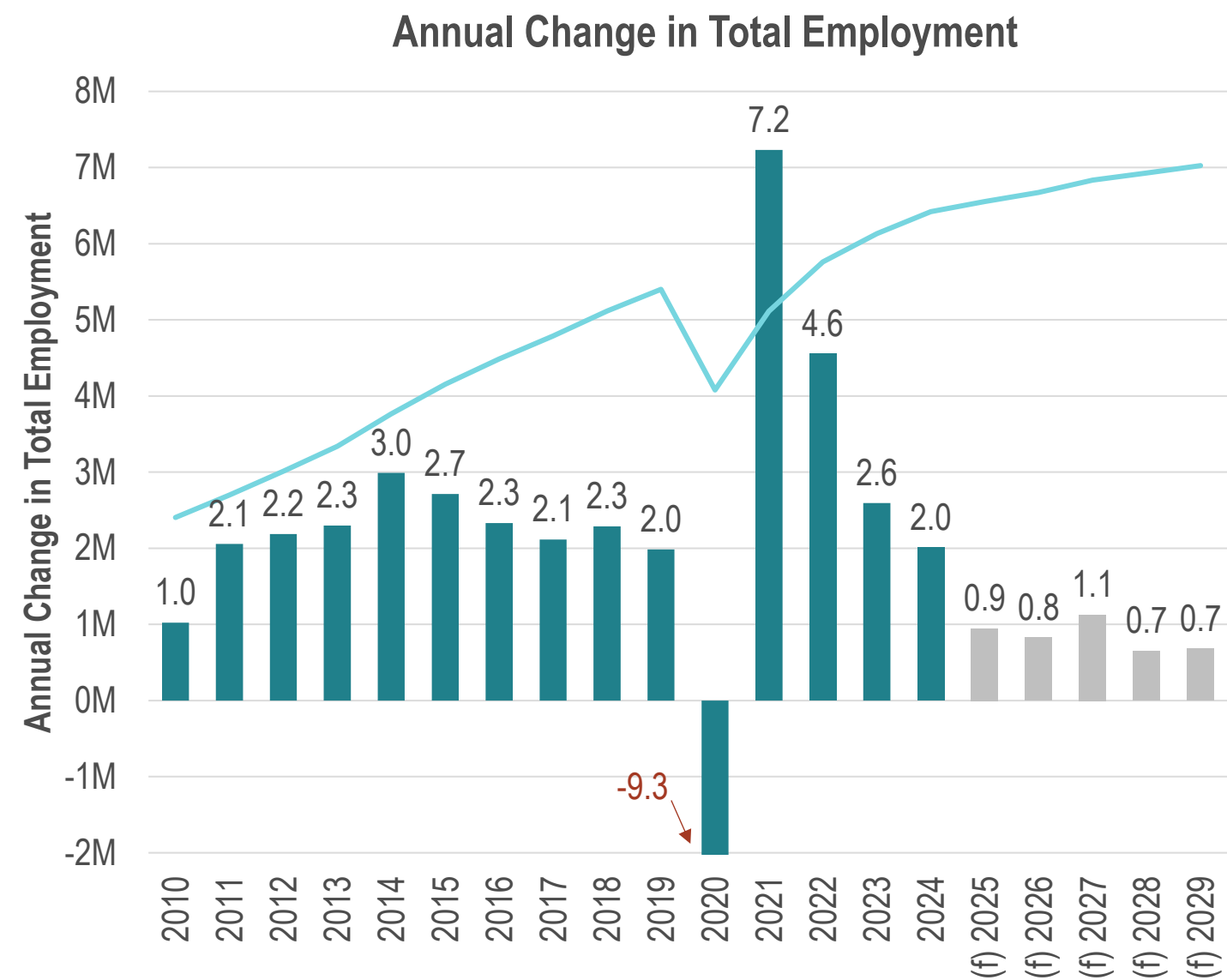
Increase from prior forecast

WSJ Probability of Recession in Next 12 Months



US Labor Market Cooled in Q2, Adding 200K Jobs

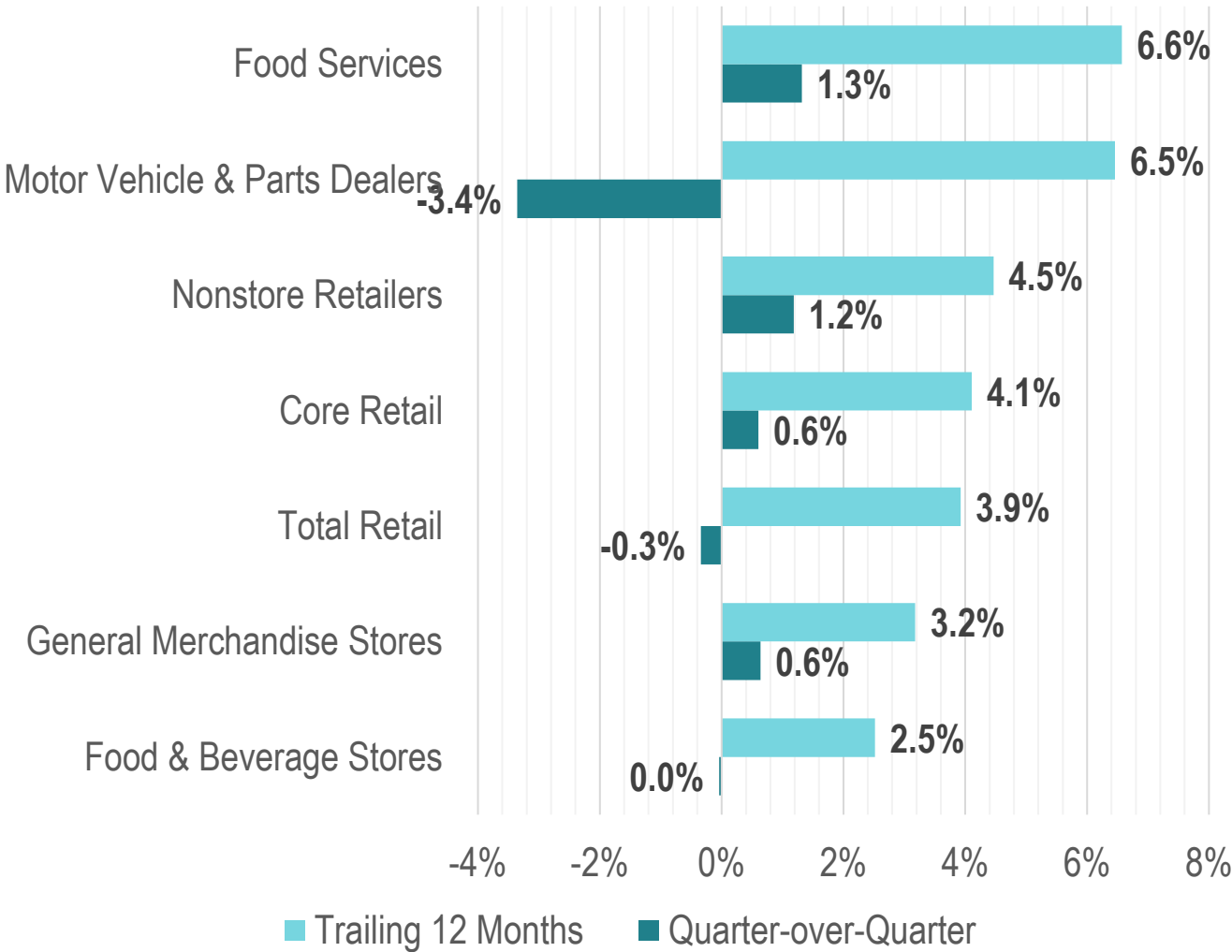
Employment Growth Is Forecast to Continue Cooling and Remain Slow for the Mid-term



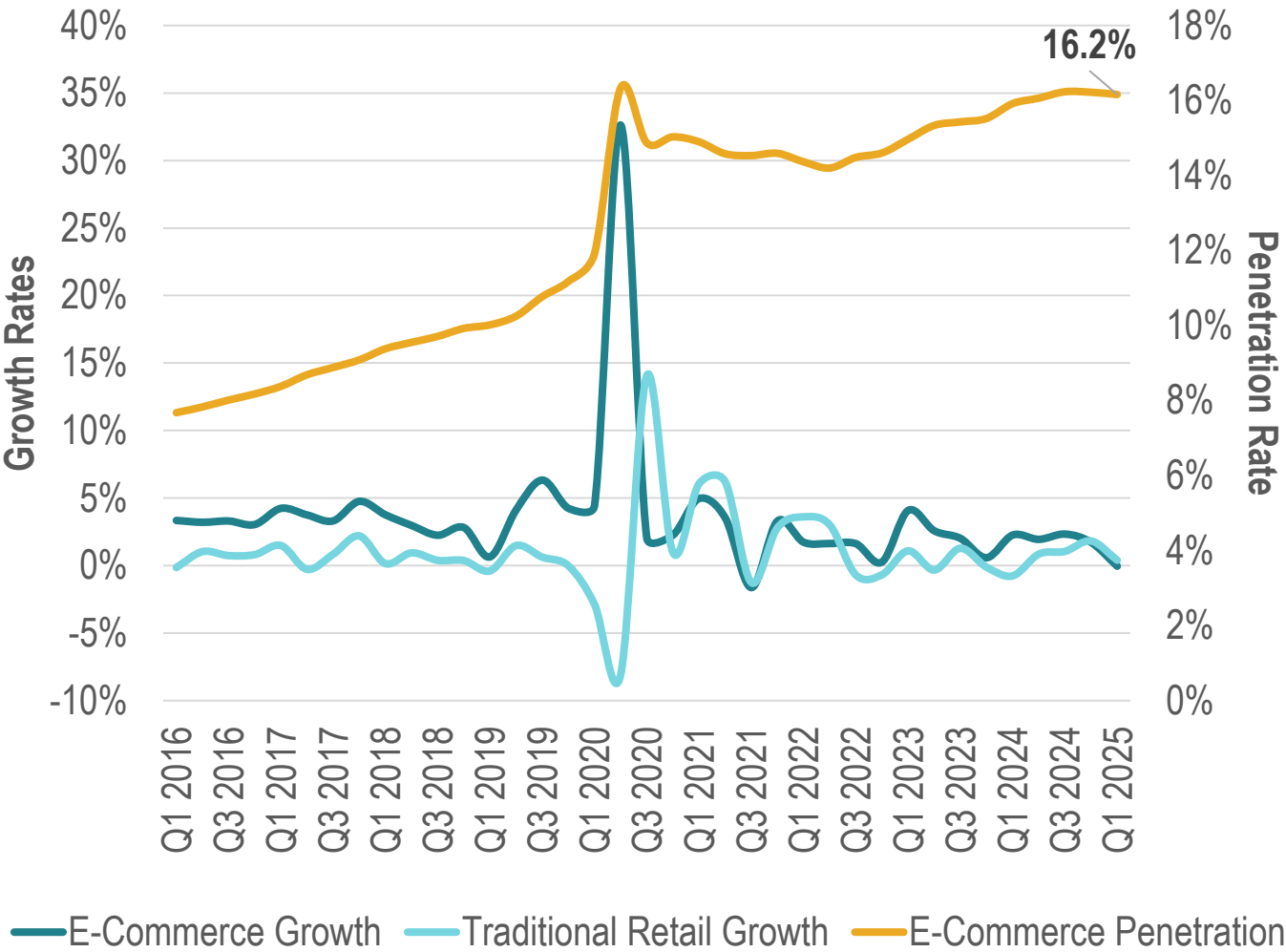
Total Retail Sales Fell by 0.3% in Q2 Amid Tarriff Increases

E-commerce Penetration Was Flat in Q1; Nonstore Retail Sales Growth Registered 1.2% QoQ

Retail Sales Growth (June 2025)



QoQ Retail Sales Growth



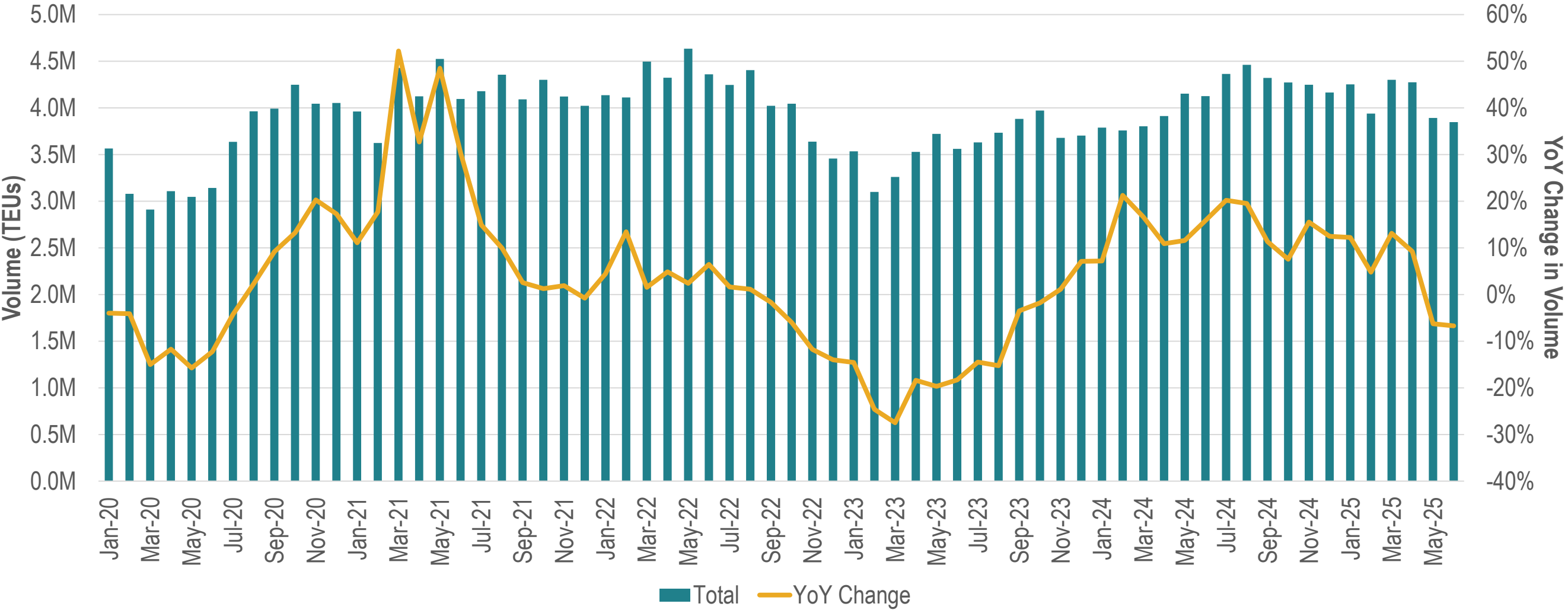
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Note: The chart above includes the five largest retail sectors; core retail excludes motor vehicles, gas stations, building materials, and food services; the US Census Bureau's quarterly e-commerce report releases one quarter in arrears.
Source: Census Bureau; Federal Reserve Bank of St. Louis

Tariffs Continued to Negatively Impact US Port Volume

Shipping Volume Was Down 6.7% YoY Across Large US Ports in June

Shipping Volumes in Large US Ports

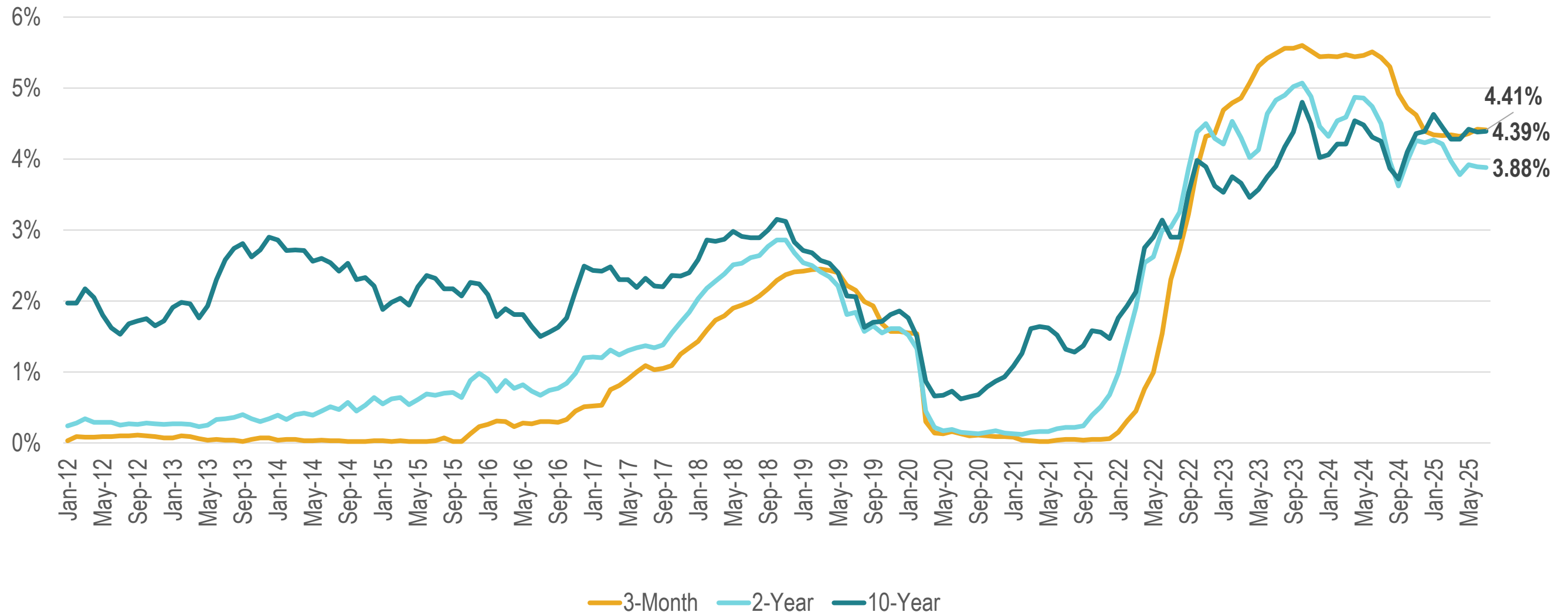


Capital Markets

UST Yield Curve Was Inverted Again for Much of Q2

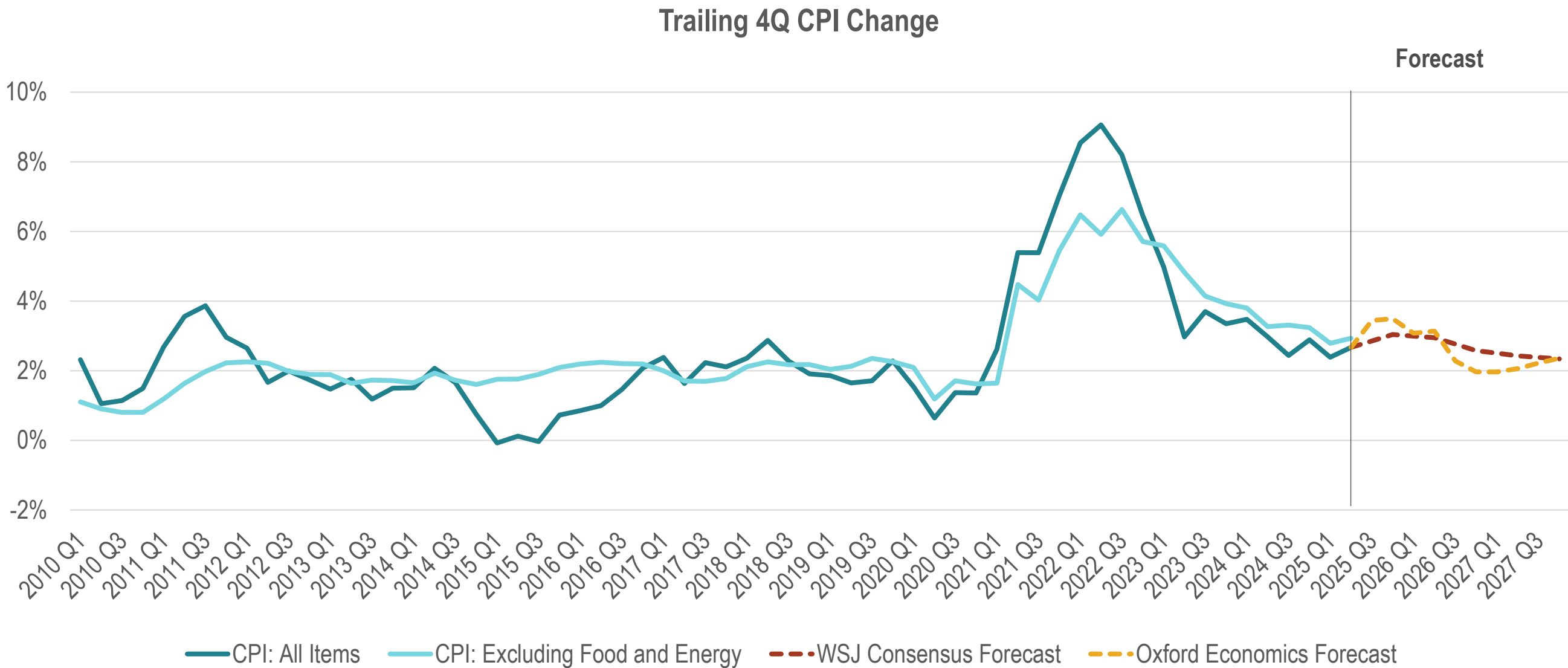
Both 10-Year and 3-Month UST Yields Have Hovered Near 4.4% Over the Past Several Months

US Treasury Yields (Monthly Averages)



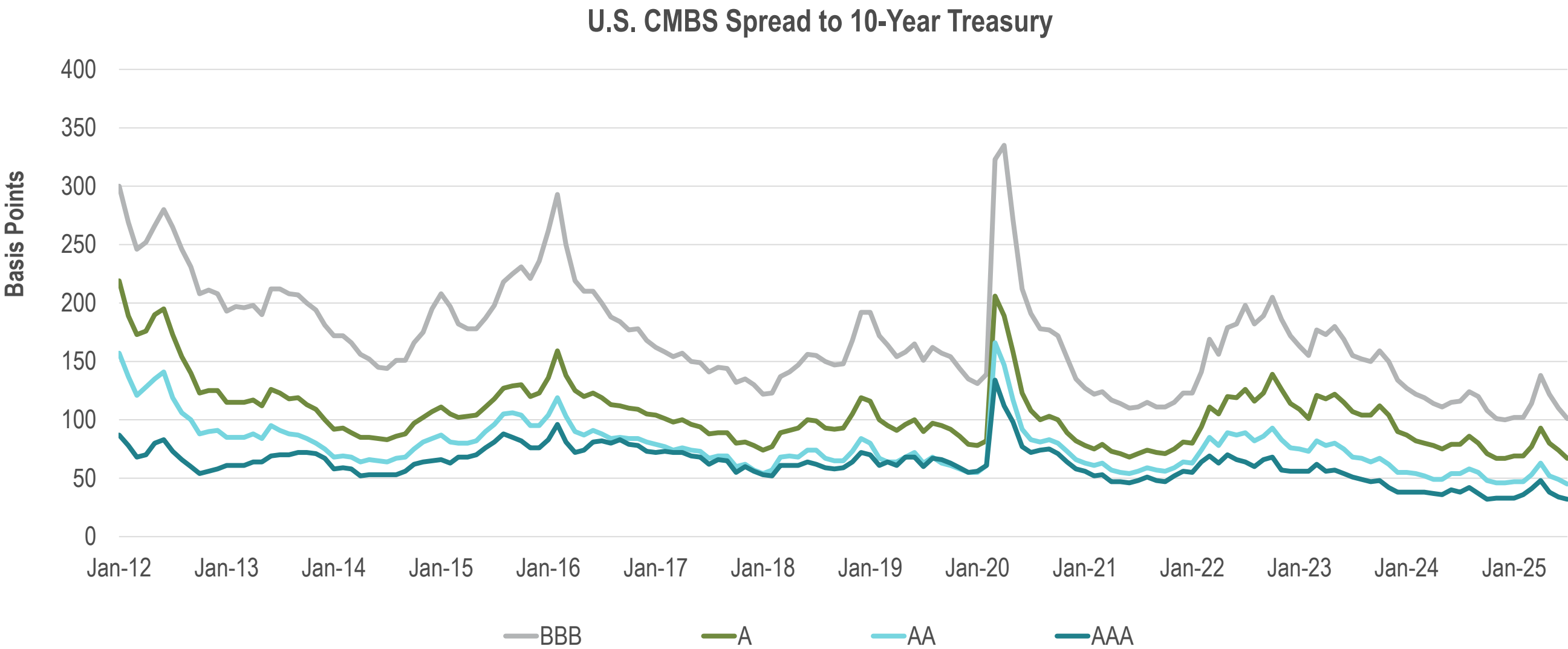
All Items and Core CPI Inflation Rose to 2.9% and 2.7%, Respectively

CPI Inflation Is Projected to Continue Accelerating in 2025 with Risks Skewed Toward Higher Inflation



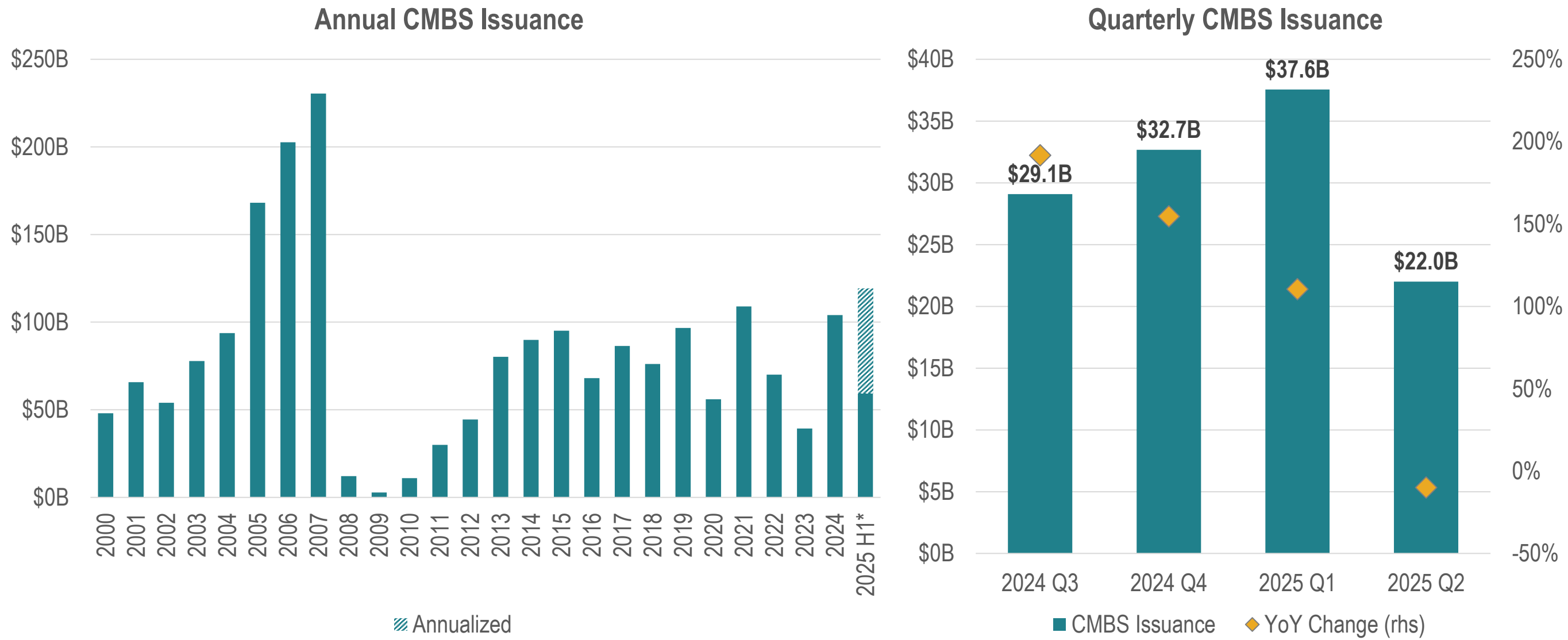
CMBS Spreads to the 10-Year UST Yield Contracted in Q2

Spreads Remain Below Long-term Averages Across Bond Ratings



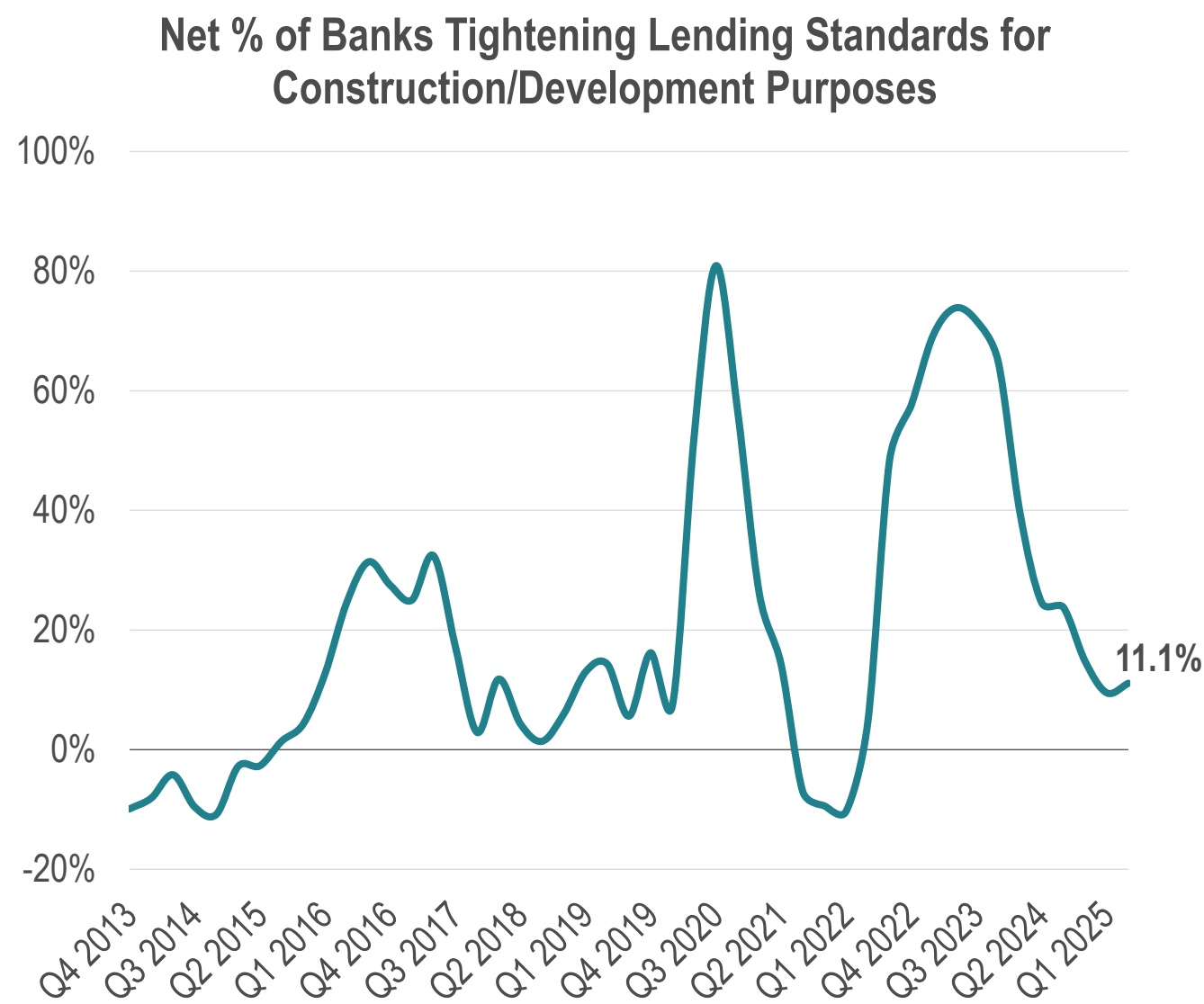
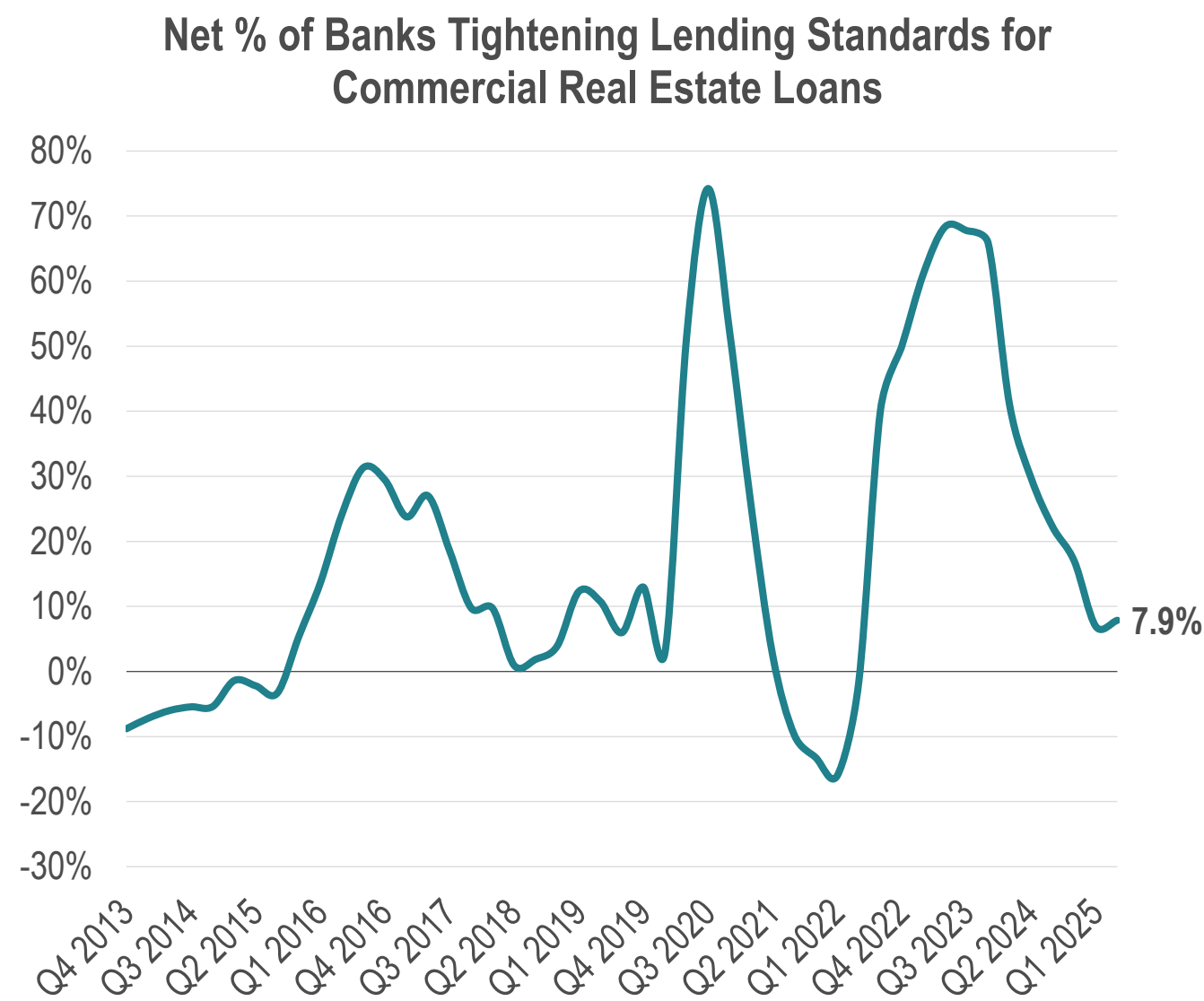
CMBS Issuance Fell 10% YoY in Q2 to \$22B After Strong Q1

Despite the Q2 Slowdown, 2025 CMBS Issuance Is On Track for the Highest Annual Total Since 2007



Share of Banks Tightening RE Lending Standards Ticked Up in Q2

Despite Rising, the Share Remains Far Below 2023 Highs

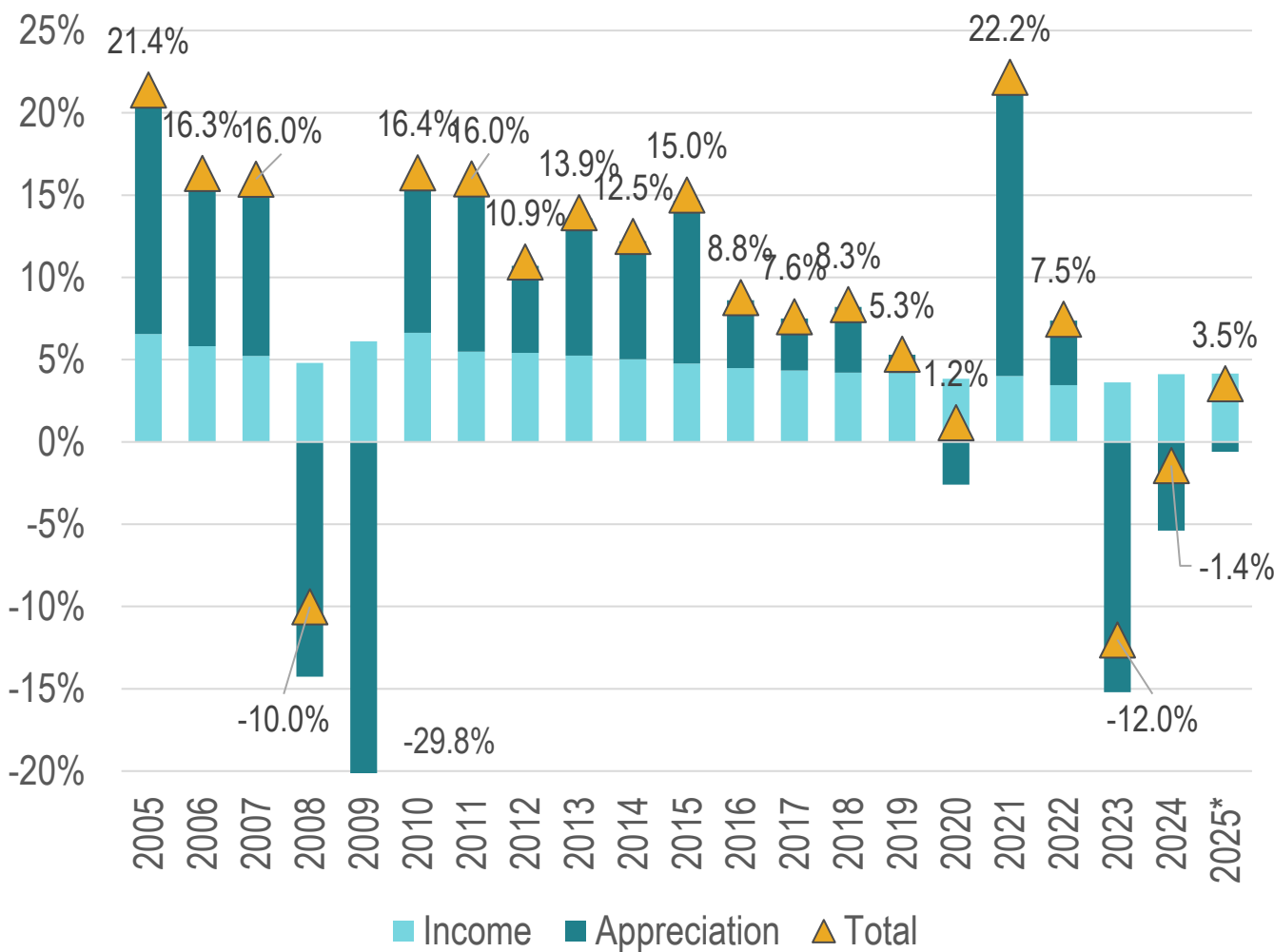


Real Estate Returns

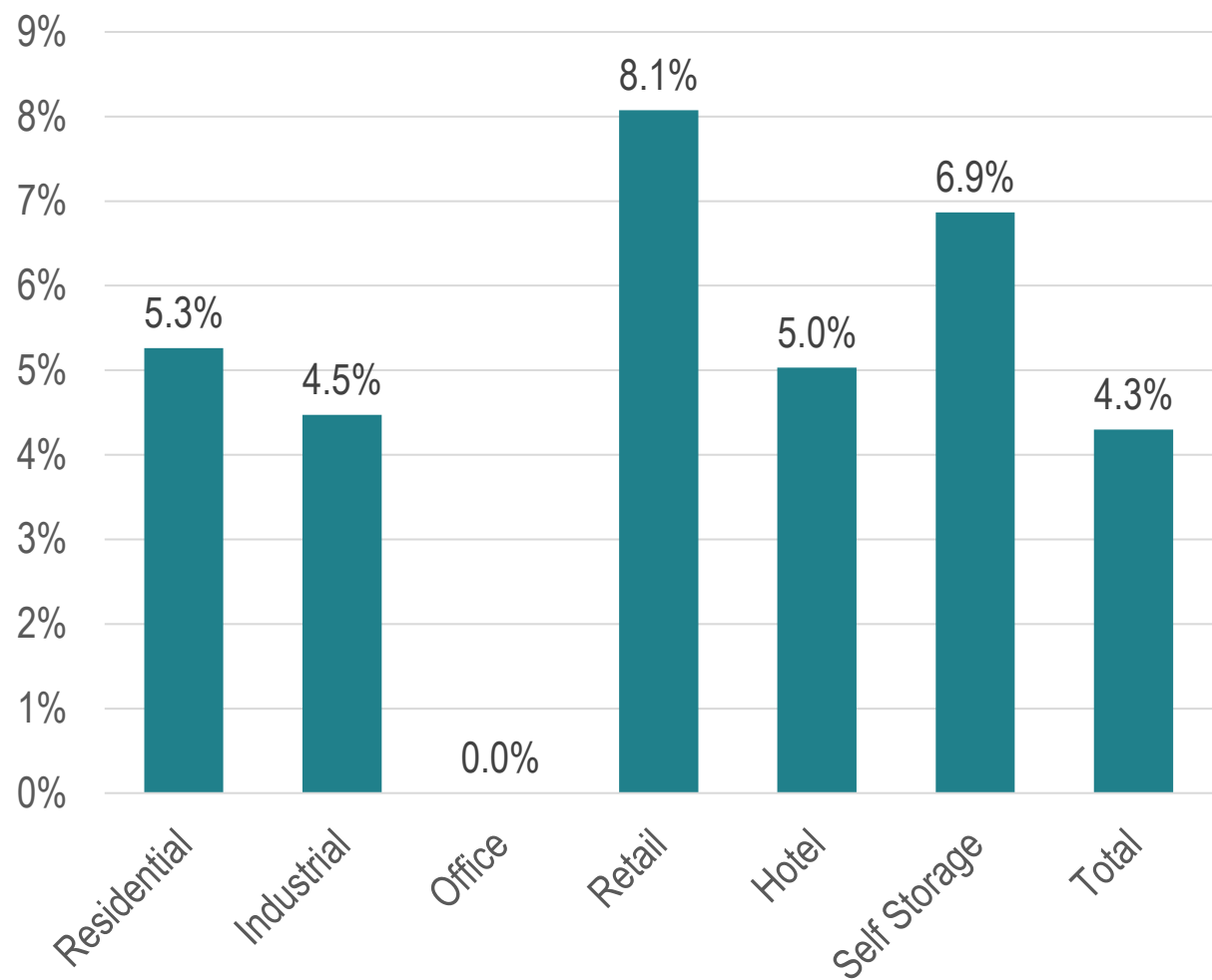
Annual ODCE Returns Were Positive Despite Negative Appreciation

All Property Type Returns Were Positive Over the Last Year, Except for Office Returns Which Were Flat

Annual ODCE Returns



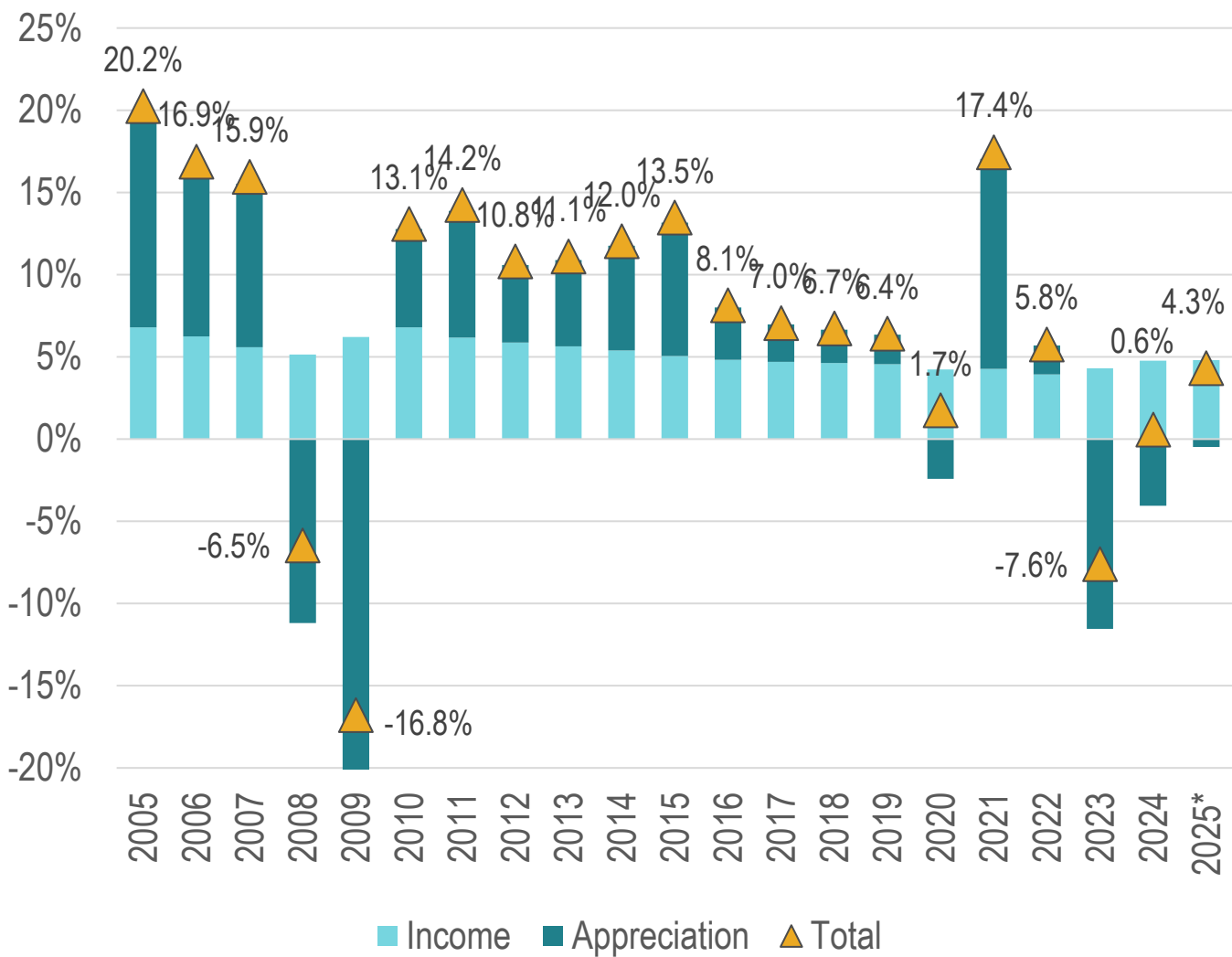
Unlevered 4Q ODCE Return by Property Type



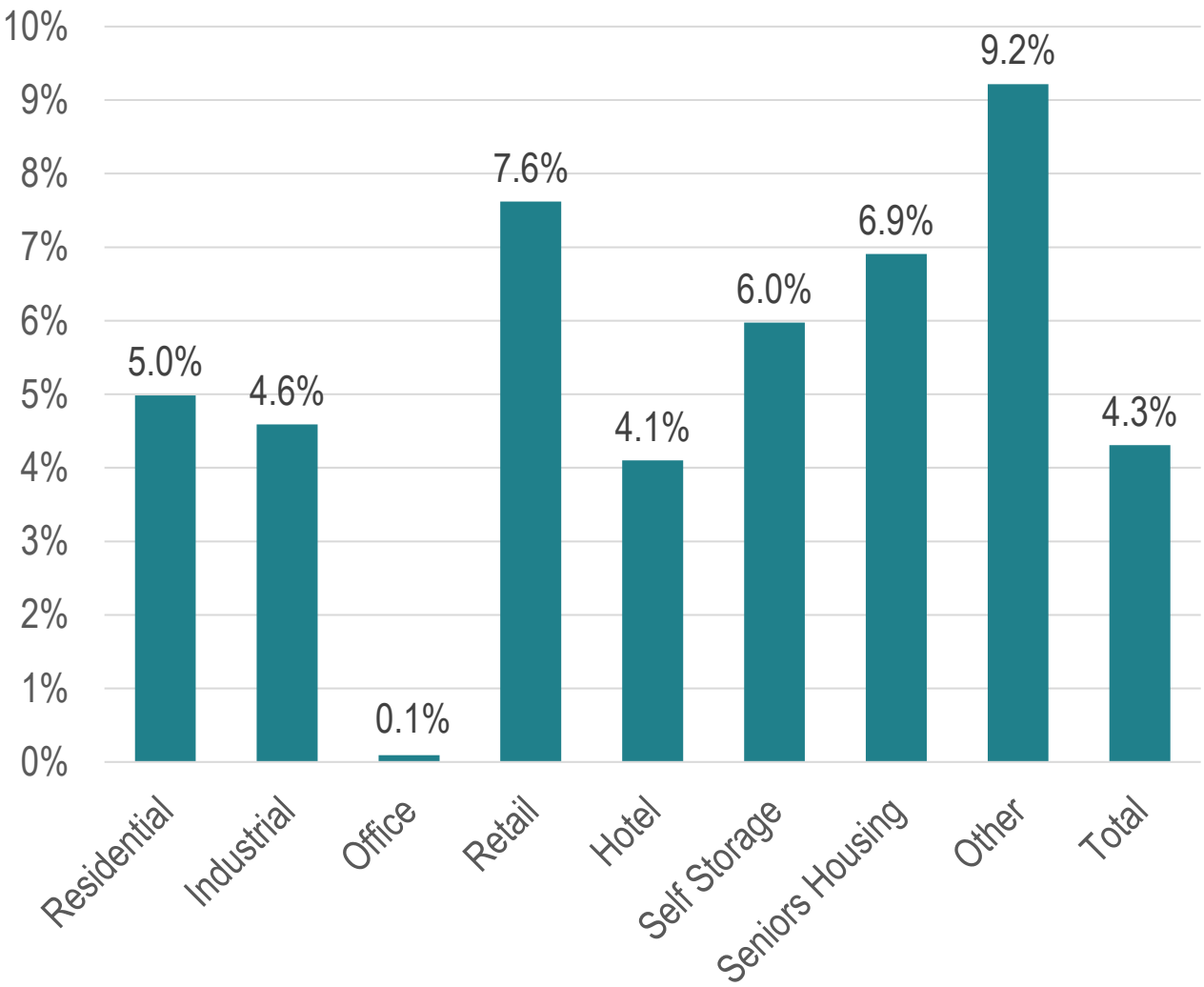
NPI Trailing-Year Returns Improved to 4.3% in Q2

Trailing 4Q Office Returns Turned Positive in Q2 but Continued to Lag Other Property Types

Annual NPI Returns



Rolling 4Q NPI Return by Property Type



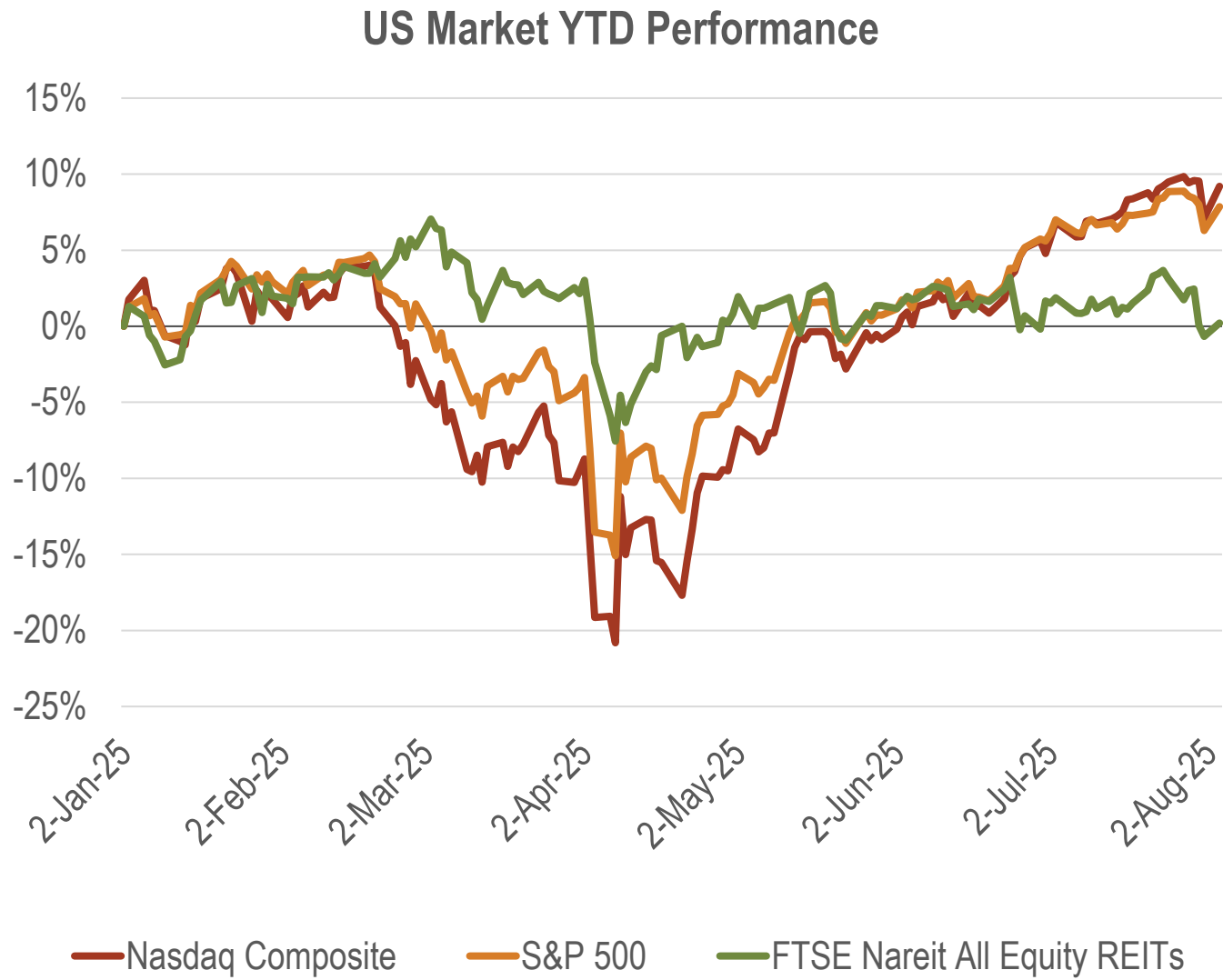
Overall NPI Vacancy Rose YoY but Remained Below Long-Term Avg.

Industrial and Life Science Vacancy Rose while Seniors Housing Vacancy Fell YoY

NCREIF Property Index (NPI) Vacancy Rates					
As of:		2025 Q2			
	Latest Quarter	Change Past Qtr.	Change Past Year	20-Year Avg.	Current vs. 20-Year Avg.
Hotel	35.6%	1.2%	-1.0%	32.7%	2.9%
Industrial	4.0%	0.2%	1.2%	5.9%	-1.9%
Office	13.7%	-0.2%	-0.1%	12.3%	1.3%
Other	6.2%	-1.6%	2.2%	8.6%	-2.4%
Residential	6.0%	-0.2%	-0.1%	6.4%	-0.4%
Retail	7.5%	-0.5%	-0.1%	7.8%	-0.4%
Self Storage	11.6%	-1.5%	0.3%	12.7%	-1.1%
Seniors Housing	10.3%	-0.6%	-1.7%	11.8%	-1.5%
Student Housing	8.5%	1.9%	-0.6%	N/A	0.2%**
Life Science	10.9%	-0.4%	1.2%	N/A	4.0%**
MOB	4.9%	-0.5%	0.0%	N/A	-0.6%**
Total NPI*	7.1%	-0.3%	0.3%	8.2%	-1.0%

Public Equity Performance Has Improved in Recent Months

REITs Underperformed Public Equity Markets Despite Stability; Data Centers and Lodging REITs Overperformed



US Equity REIT Total Returns, 2023 – July 2025

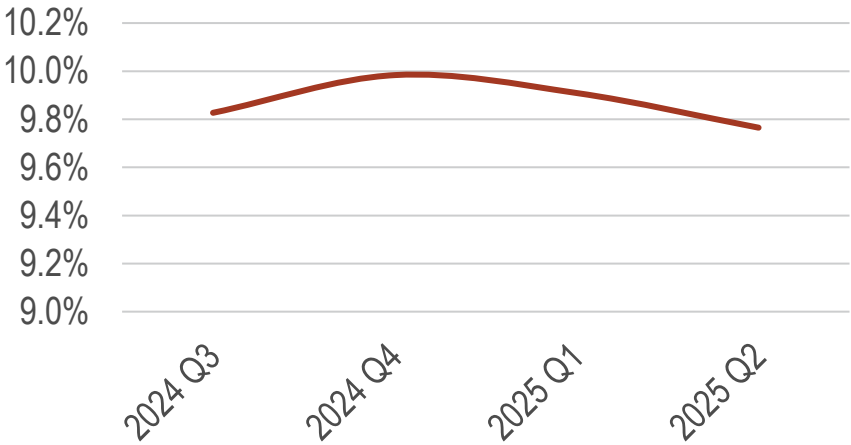
Sector	2023	2024	2025 YTD
FTSE Nareit All Equity REITs	11.4%	4.9%	1.8%
Industrial	19.2%	-17.8%	-0.5%
Office	2.0%	21.5%	2.0%
Retail	10.6%	14.0%	10.6%
Apartments	5.9%	20.5%	5.9%
Single Family Homes	20.6%	0.6%	20.6%
Lodging/Resorts	23.9%	-2.0%	23.9%
Health Care	13.9%	24.2%	13.9%
Self Storage	18.5%	-0.5%	18.5%
Data Centers	30.1%	25.2%	30.1%
S&P 500	4.5%	26.7%	5.5%
NASDAQ Composite Index	6.0%	33.0%	5.5%

Multifamily

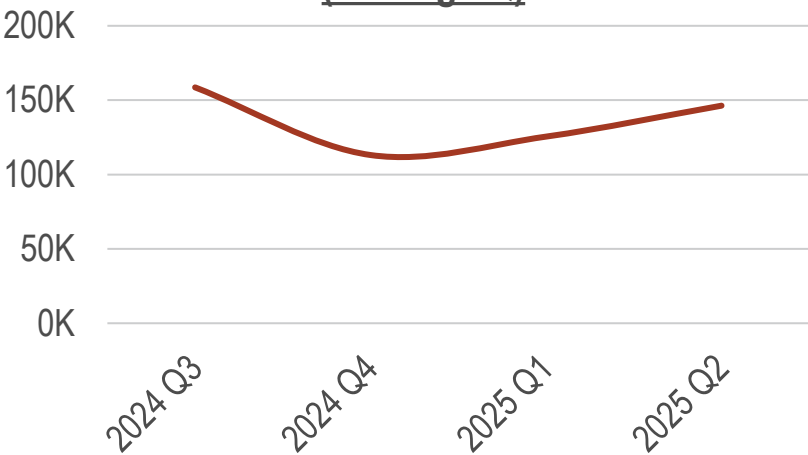
Multifamily Property Market Overview

An Increase in Absorption Supported Lower Vacancy but Rent Growth Slowed in Q2

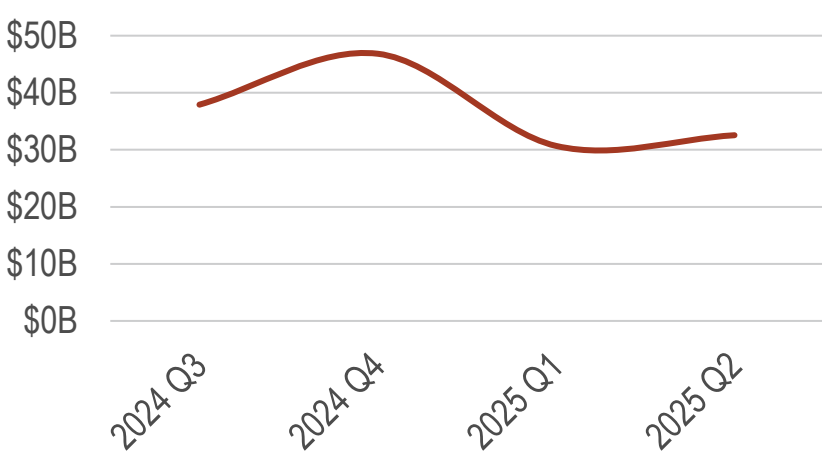
Vacancy: 9.8%



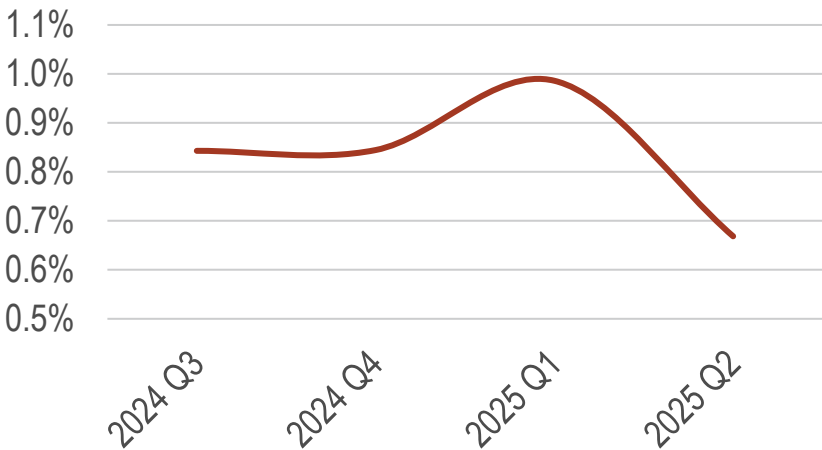
Absorption: 4.5% of Inv.
(Trailing 4Q)



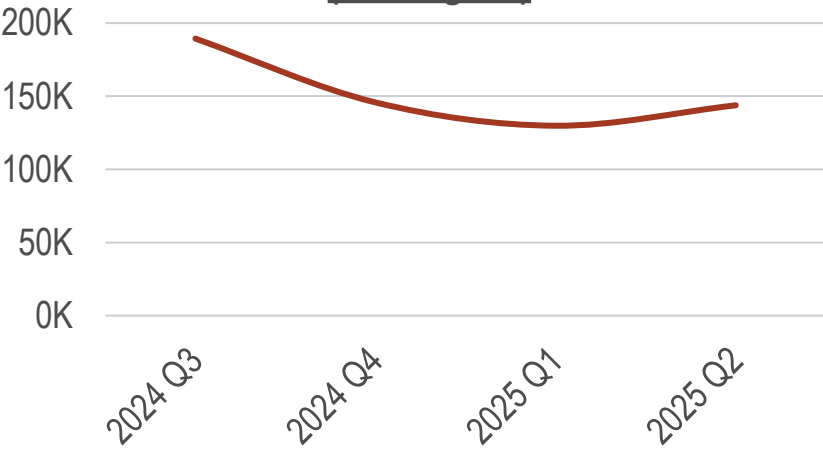
Transaction Volume: \$33B



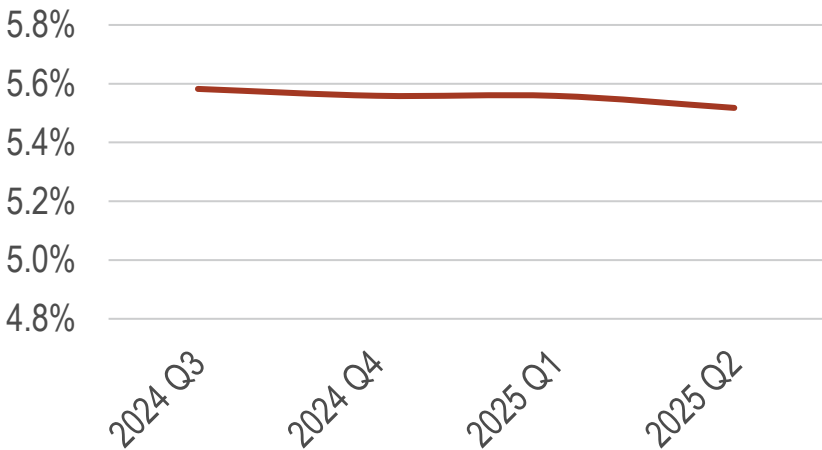
Rent Growth: 0.7%



New Supply: 5.1% of Inv.
(Trailing 4Q)



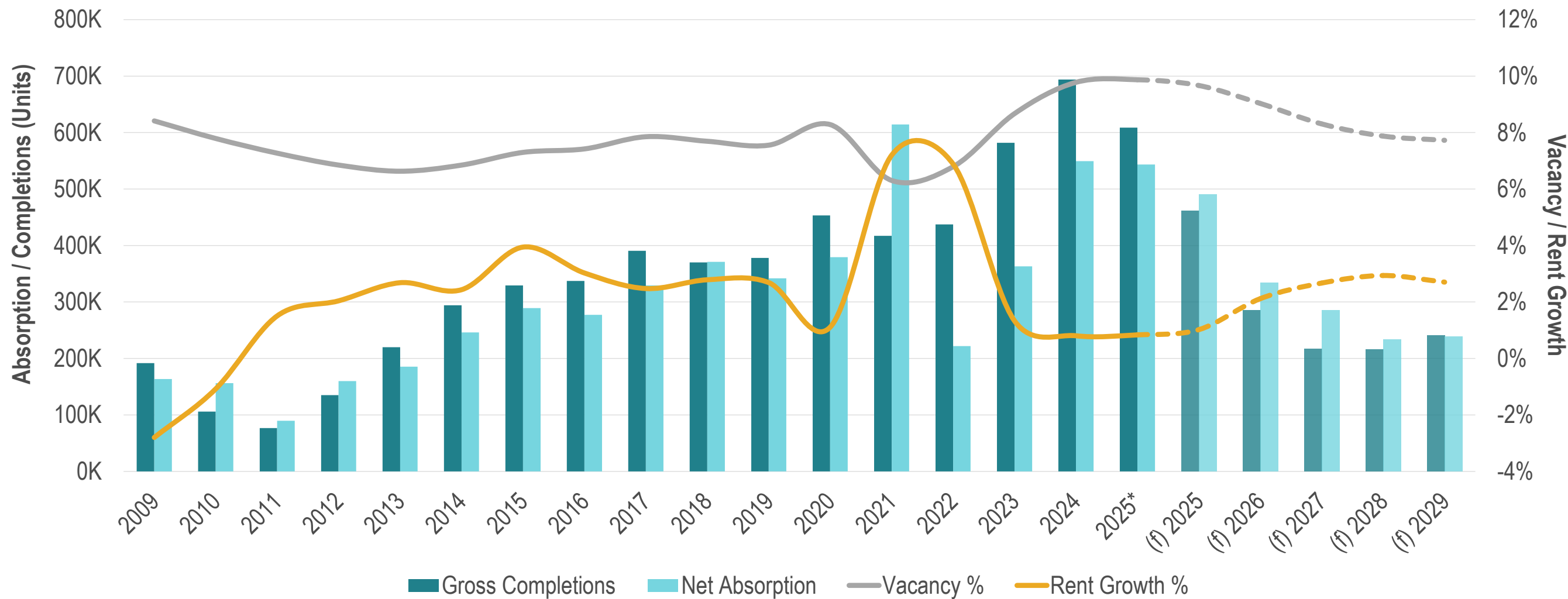
Cap Rate: 5.52%



Absorption Is Forecast to Exceed Supply Through 2028

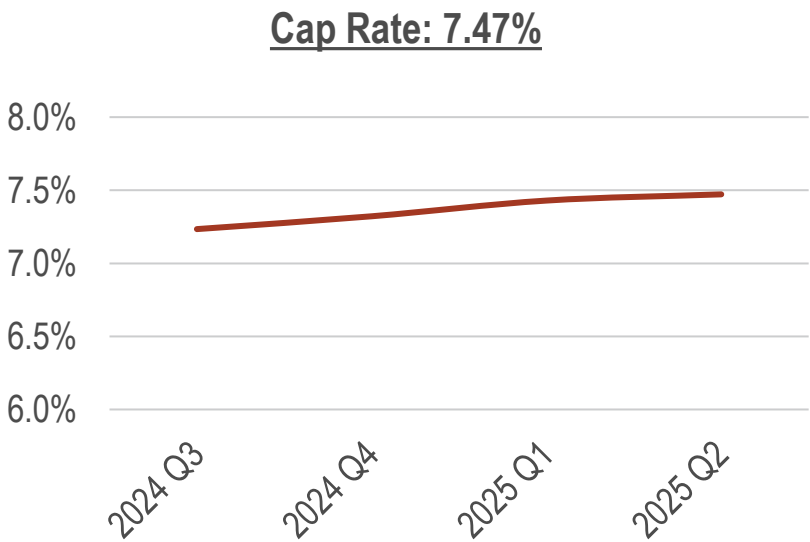
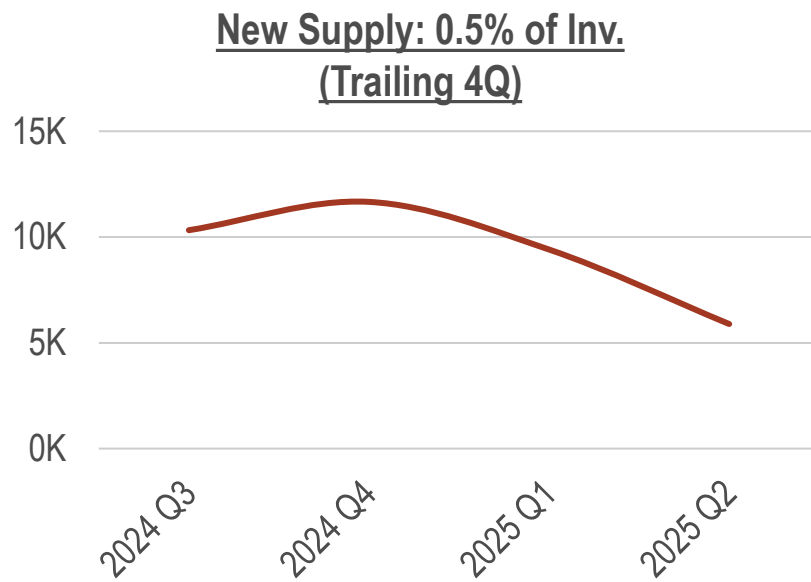
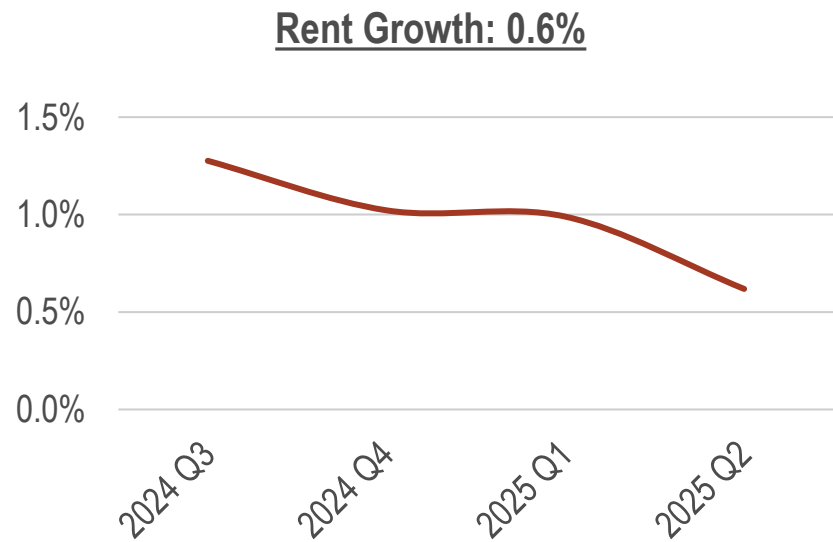
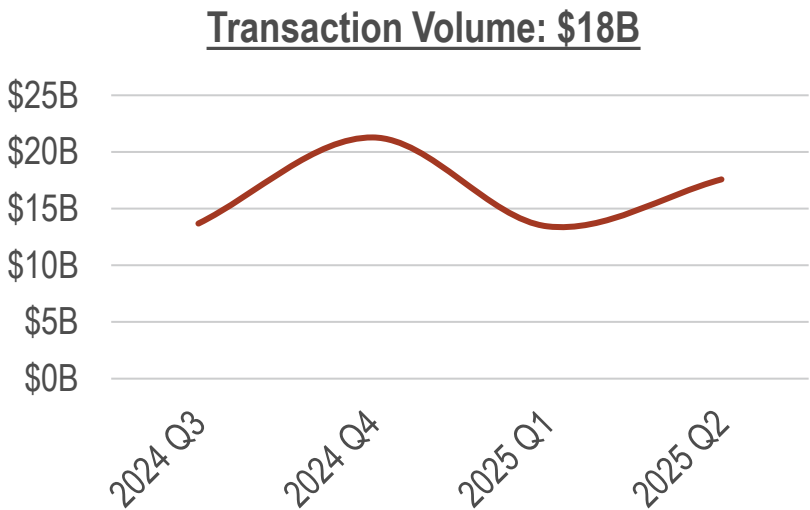
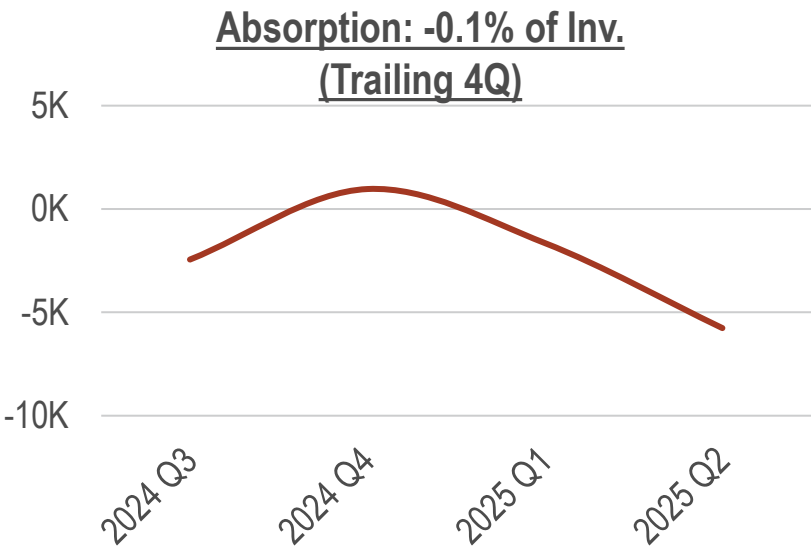
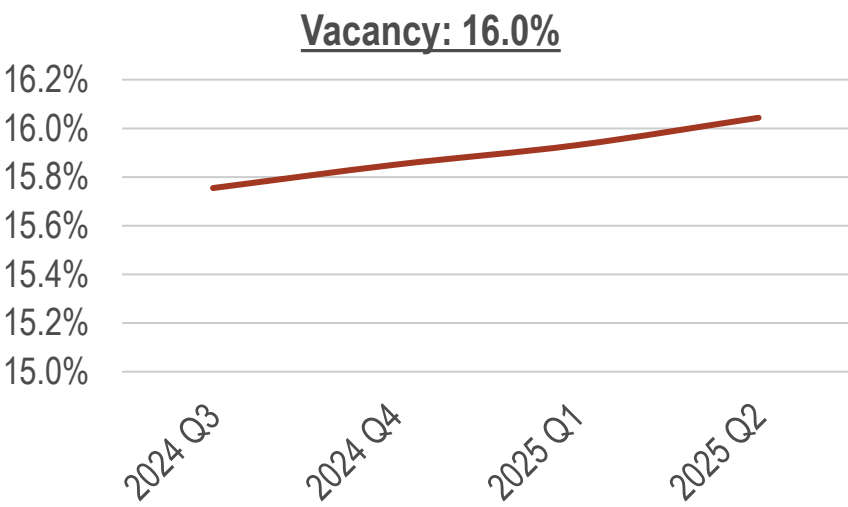
Supply and Demand Rebalancing Will Support Stronger Rent Growth and Lower Vacancy in Medium Term

U.S. Apartment Completions, Absorption, Vacancy, Rent Growth



Office Property Market Overview

Fundamentals Weakened in Q2 as Absorption Continued to Decline



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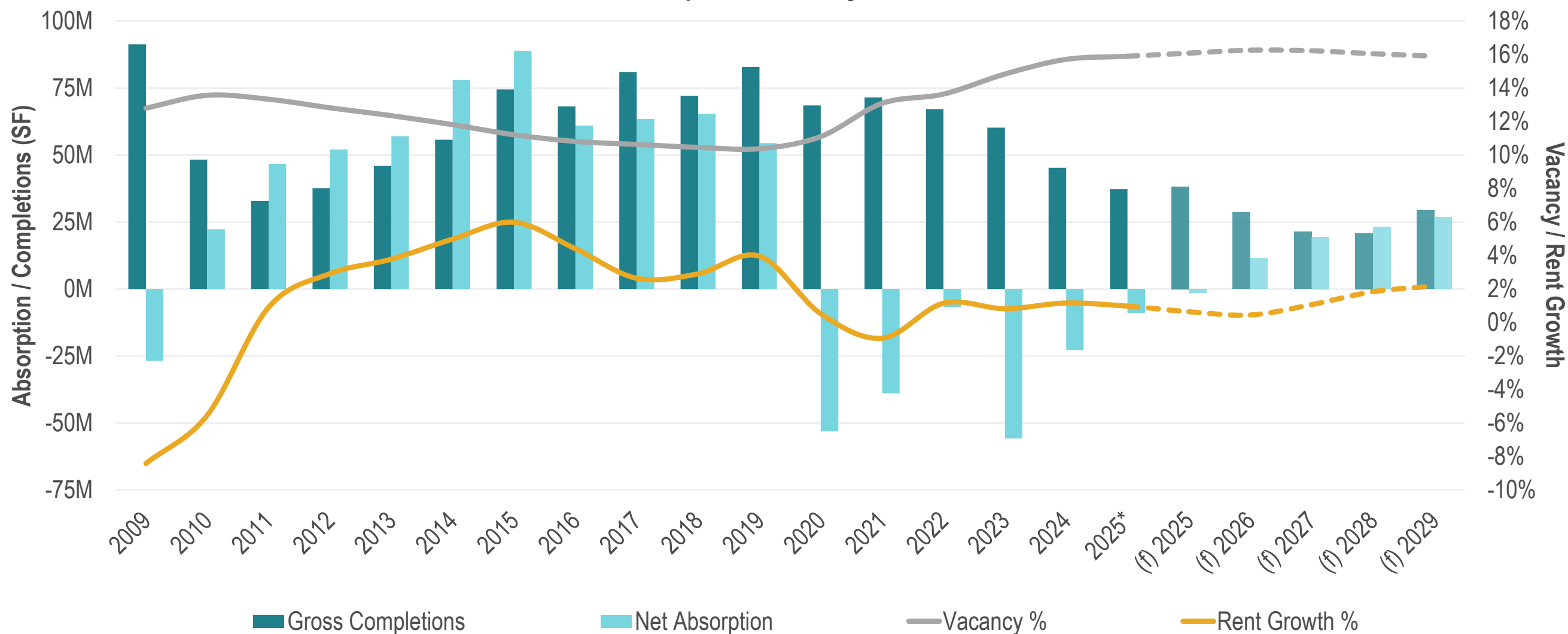
Note: Data are filtered for class A&B; rent growth is based on asking market rent; cap rates are trailing 4Q averages. Source: CoStar; MSCI

SUMMARY
ECONOMY
CAPITAL
RETURNS
MULTIFAMILY
OFFICE
RETAIL
INDUSTRIAL

Fundamentals to Soften Through 2026 Before Improving Slightly

Vacancy Forecast to Climb Above 16% in 2025; Rent Growth to Stay Near Zero Through 2026 Before Improving

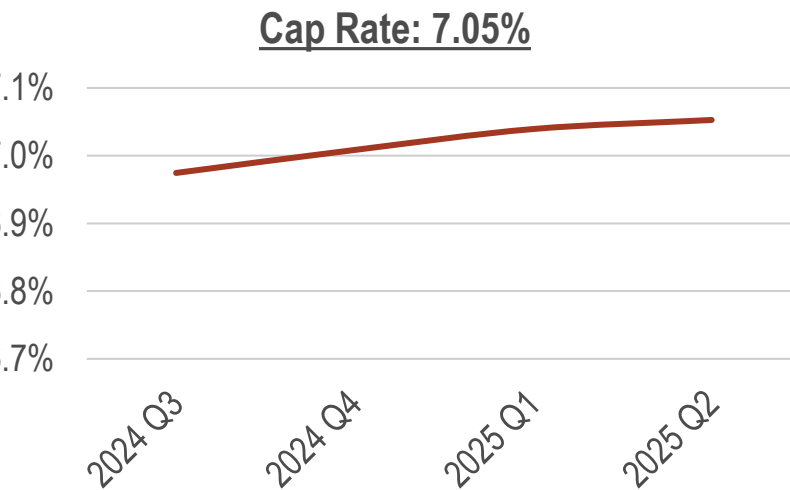
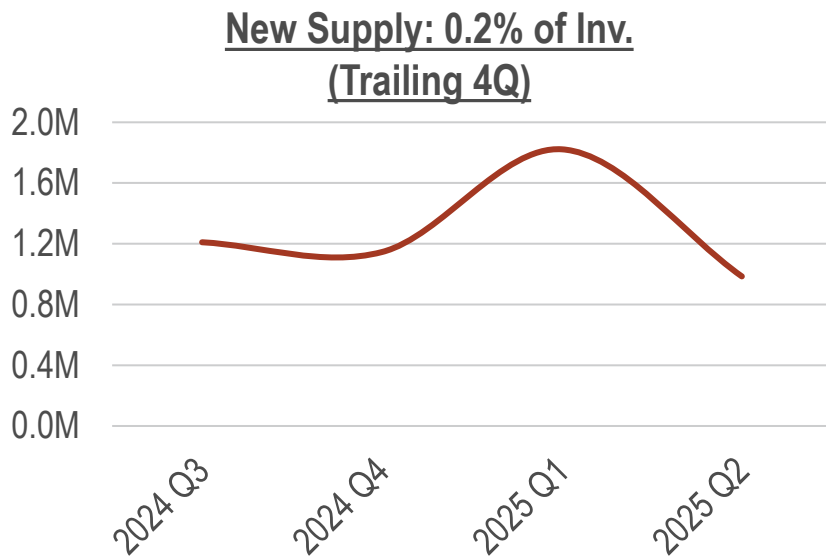
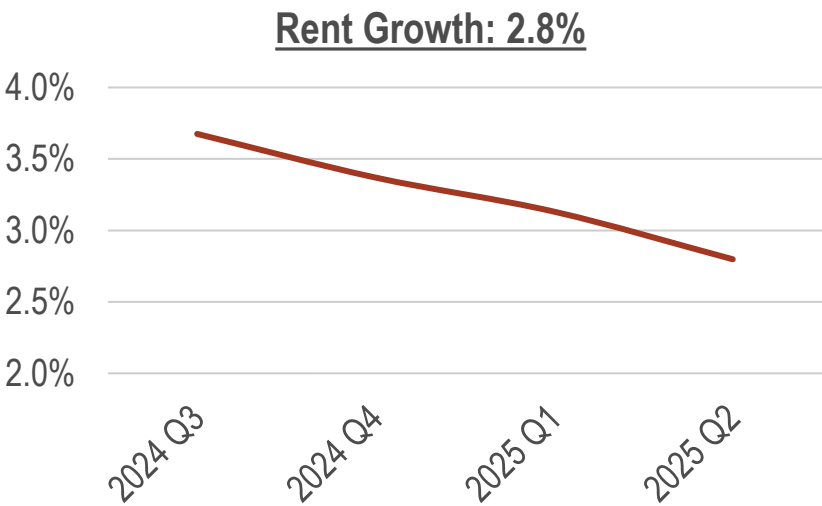
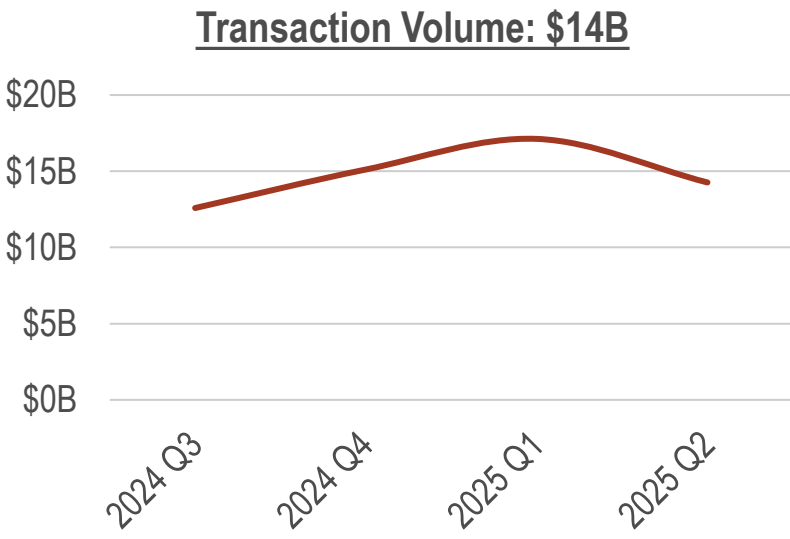
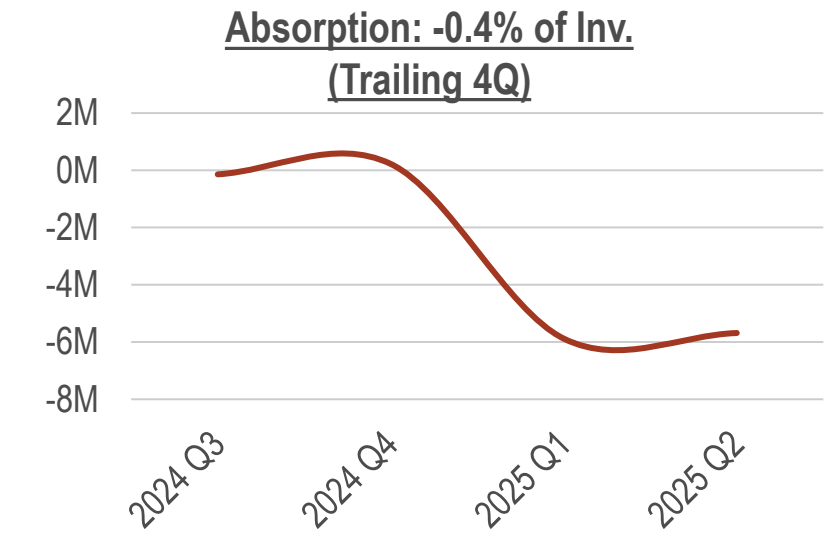
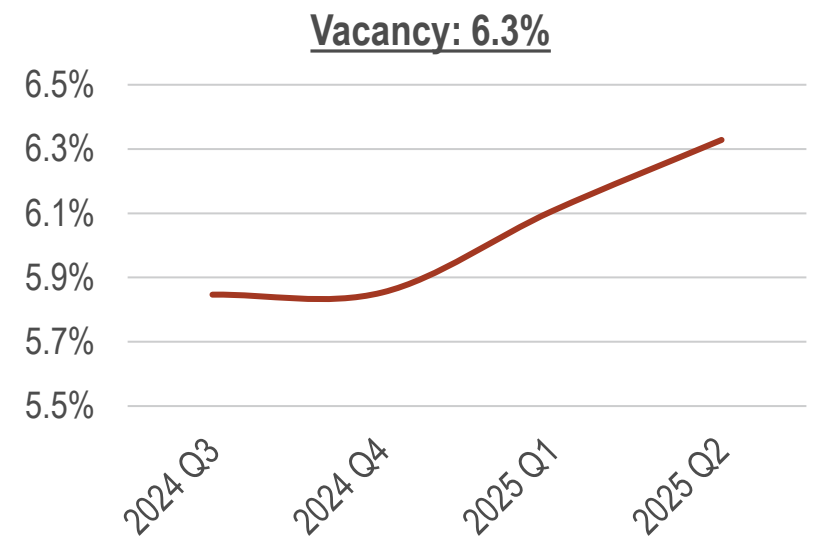
U.S. Office Absorption, Vacancy, Rent Growth



Retail

Retail (Neighborhood Center) Property Market Overview

Fundamentals Softened Due to Negative Net Absorption



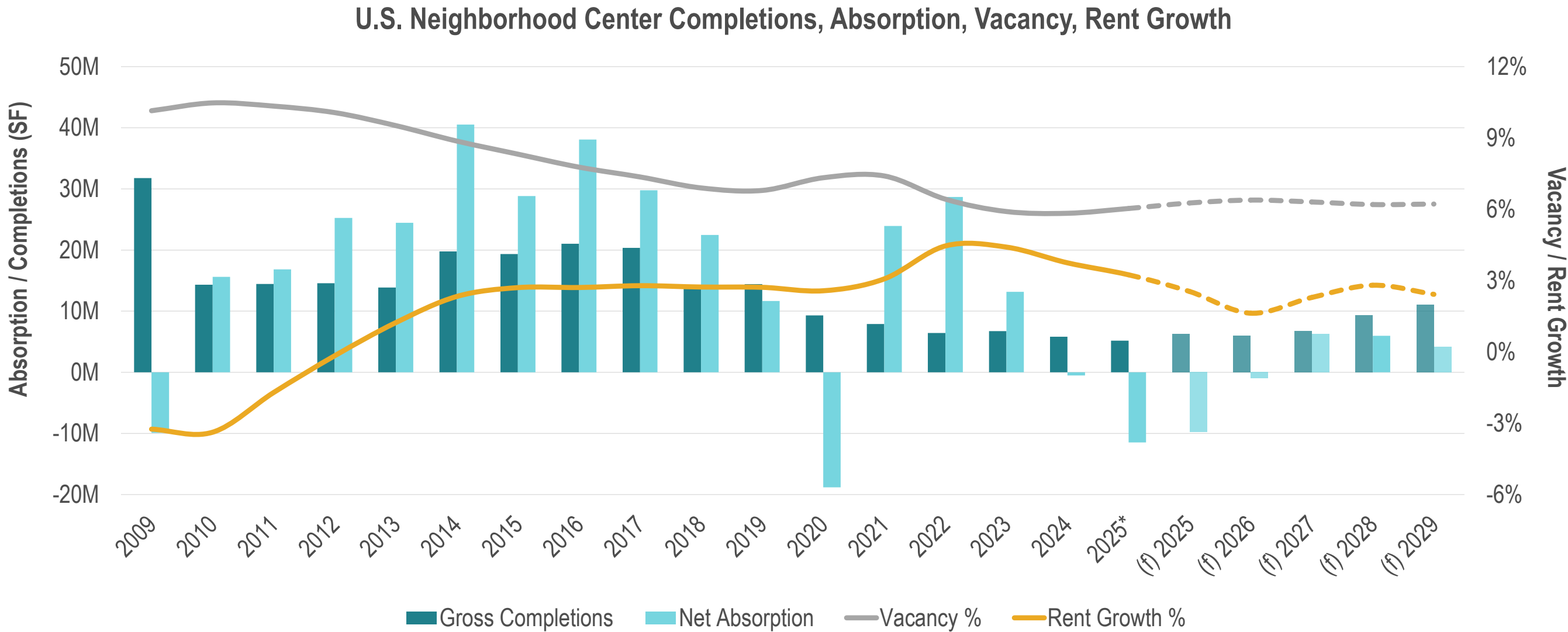
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Note: Data are filtered for neighborhood centers; rent growth is based on asking market rent; cap rates are trailing 4Q averages. Source: CoStar; MSCI

SUMMARY
ECONOMY
CAPITAL
RETURNS
MULTIFAMILY
OFFICE
RETAIL
INDUSTRIAL

Fundamentals Softened as Net Absorption Fell Negative

Rent Growth Is Forecast to Slow Through 2026; Vacancy to Remain Low Over the Next Five Years

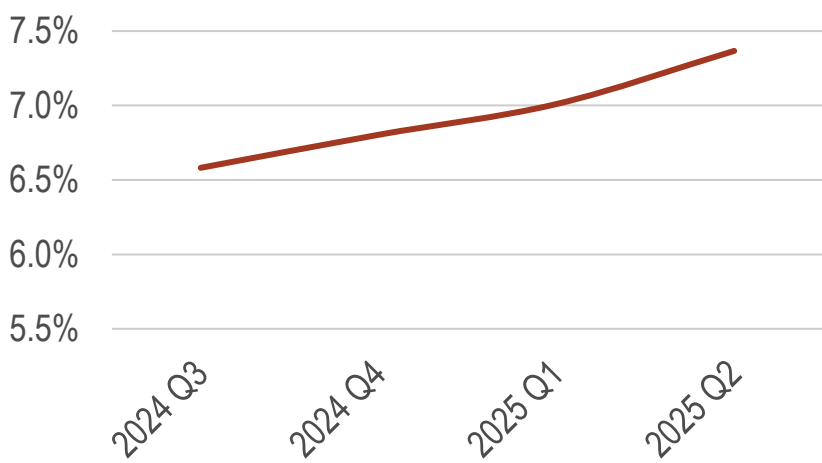


Industrial

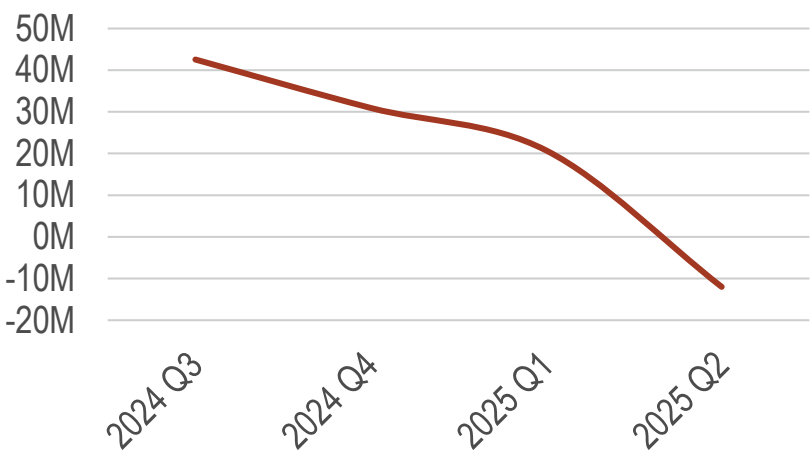
Industrial Property Market Overview

Fundamentals Weakened Substantially in Q2 Due to Falling Absorption

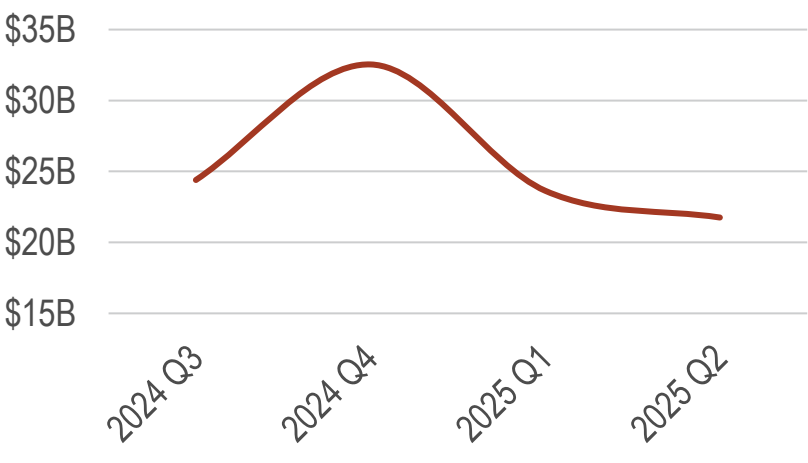
Vacancy: 7.4%



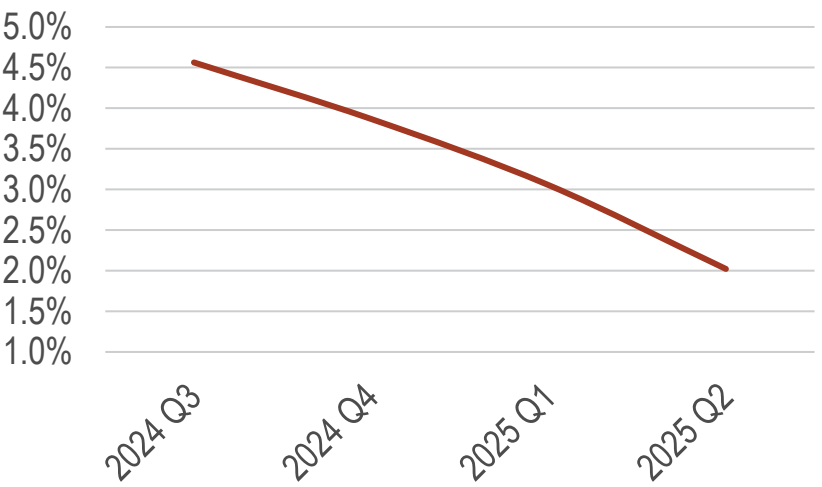
Absorption: 0.4% of Inv. (Trailing 4Q)



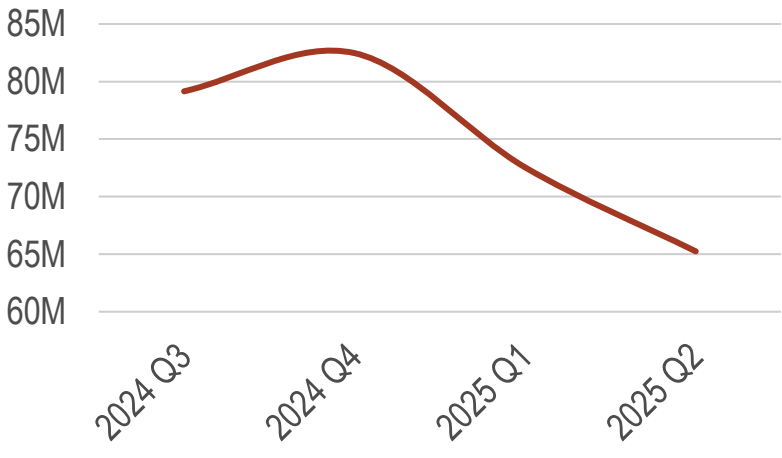
Transaction Volume: \$22B



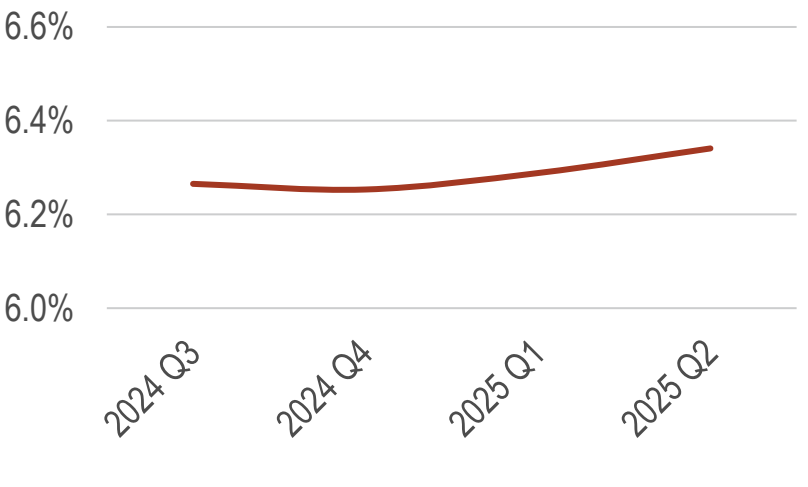
Rent Growth: 2.0%



New Supply: 1.5% of Inv. (Trailing 4Q)



Cap Rate: 6.34%



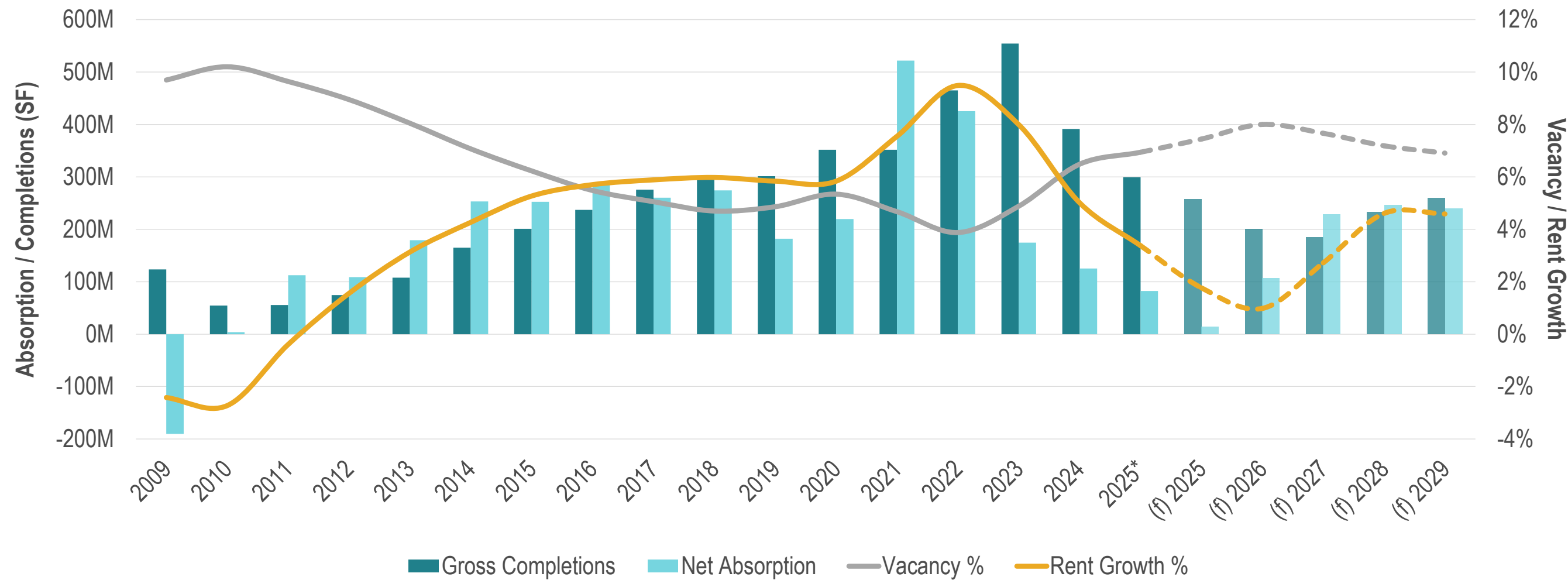
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*Note: Rent growth is based on asking market rent; cap rates are trailing 4Q averages.
Source: CoStar; MSCI*

Fundamentals Cooled as Completions Far Outpaced Absorption

Vacancy Forecast to Rise and Rent Growth to Decline Through 2026 Before Recovering in Following Years

U.S. Industrial Absorption, Vacancy, Rent Growth



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The charts depicted within this presentation are for illustrative purposes only and are not indicative of future performance.



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