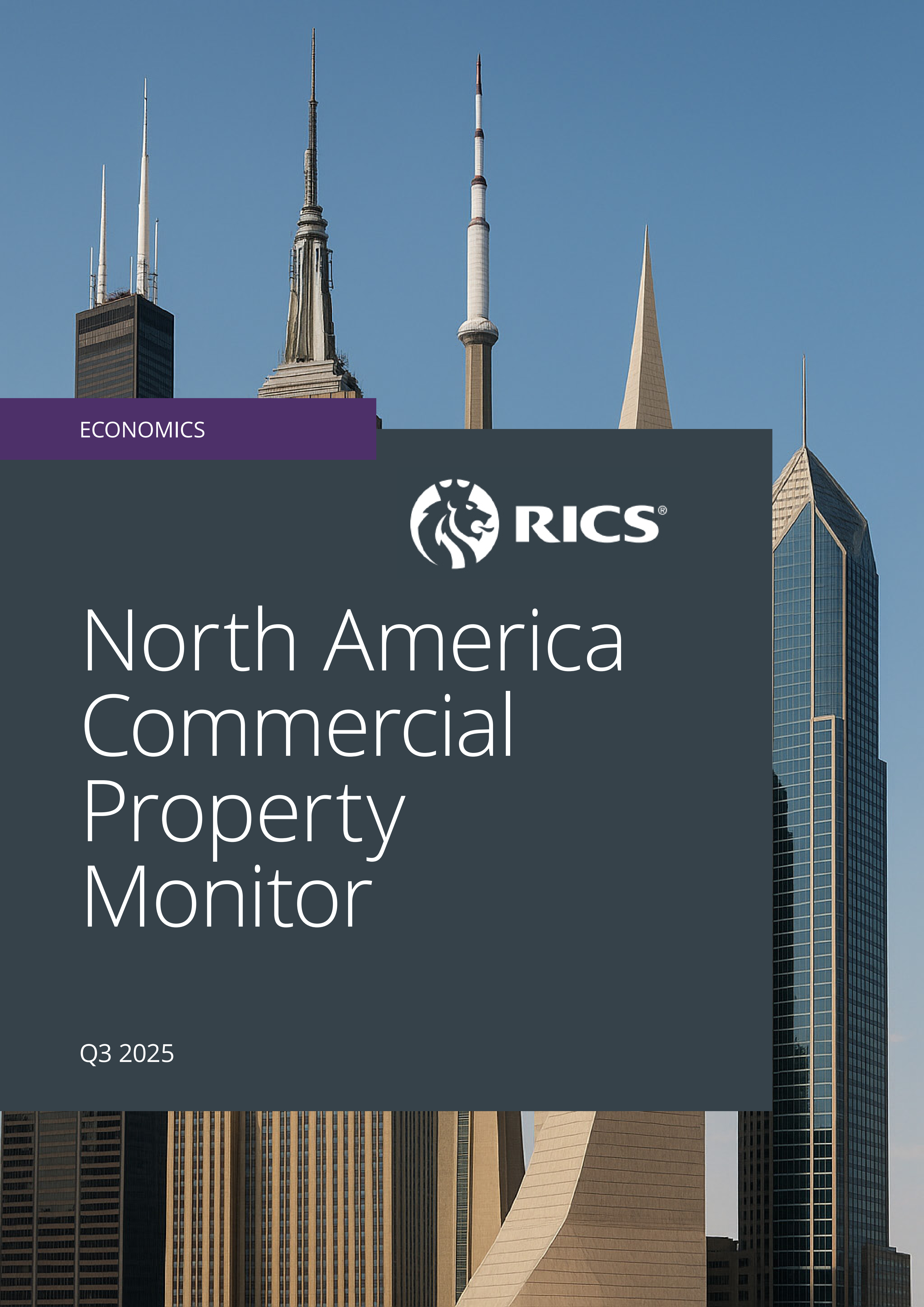


ECONOMICS

North America Commercial Property Monitor

Q3 2025

ECONOMICS

Feedback points towards cautious optimism within the investment market

- Perceptions on the current state of CRE cycle turn more positive
- Credit conditions and investment demand improve further
- Twelve-month expectations remain firm for prime assets but more subdued for secondary counterparts

The Q3 2025 RICS Global Commercial Property Monitor results point to improving sentiment across both the US and Canada. As shown in Chart 1, the headline Commercial Property Sentiment Index (CPSI) in the US strengthened further, rising from +1 last quarter to +9. In Canada, the index turned less negative, moving from -10 to -5.

Reflecting this improvement, the share of respondents who view their commercial real estate (CRE) market as being in downturn has declined in both countries (Chart 2). In Canada, the proportion, though still elevated, fell sharply from 50% in Q2 2025 to 41%, while in the US it dropped from 28% to 20%.

Credit conditions improve

As shown in Chart 3, credit conditions strengthened notably in both markets. In the US, the net balance for credit availability rose from +30% to +48%, while in Canada it moved firmly into positive territory at +17%, up from +2% previously.

This more supportive credit environment appears to be feeding through to stronger investment demand. In the US, the all-property investor demand gauge increased by 9pp, reaching a net balance of +32%. In Canada, it shifted into moderately positive territory at +8% (from 0% last quarter).

Demand for office space in particular strengthened sharply, with the US net balance jumping from +29% to +53%, and Canada improving from -2% to +21%. Respondent commentary continues to highlight a clear bifurcation within the office sector, with robust demand for prime space contrasting against elevated vacancy rates in secondary stock.

Investor sentiment toward the retail sector has also improved further. The US net balance increased from +22% to +30%, while Canada moved out of negative territory, rising from -5% to +7%.

Prime assets and alternatives expected to outperform

Looking ahead, twelve-month capital value expectations (Chart 4) remain firm across all prime asset classes in the US. In Canada, the outlook is flatter, though still marginally positive. As seen in recent quarters, a clear divergence between prime and secondary assets persists, with sentiment remaining negative for secondary properties.

Among alternative asset classes, data centres are projected to deliver the strongest performance over the coming year in both countries in terms of capital value growth. This reflects heightened investor interest driven by rapid growth in AI, cloud computing, and digital infrastructure demand. Similarly, multifamily assets standing out in the US as displaying a solid outlook for capital values over the year to come, with aged care facilities exhibiting particularly strong projections in Canada.

Chart 1 - Commercial Property Sentiment Index

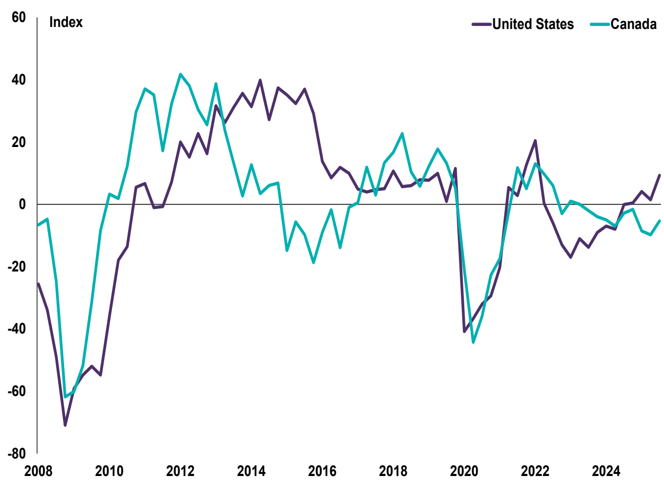


Chart 2 - Proportion of respondents citing a downturn

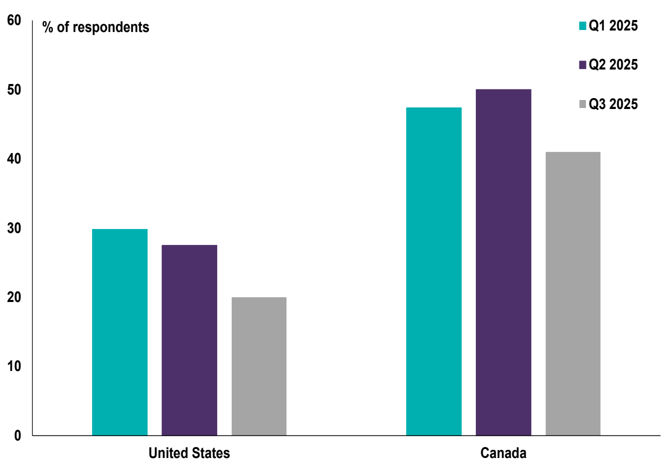


Chart 3 - Current Credit Conditions

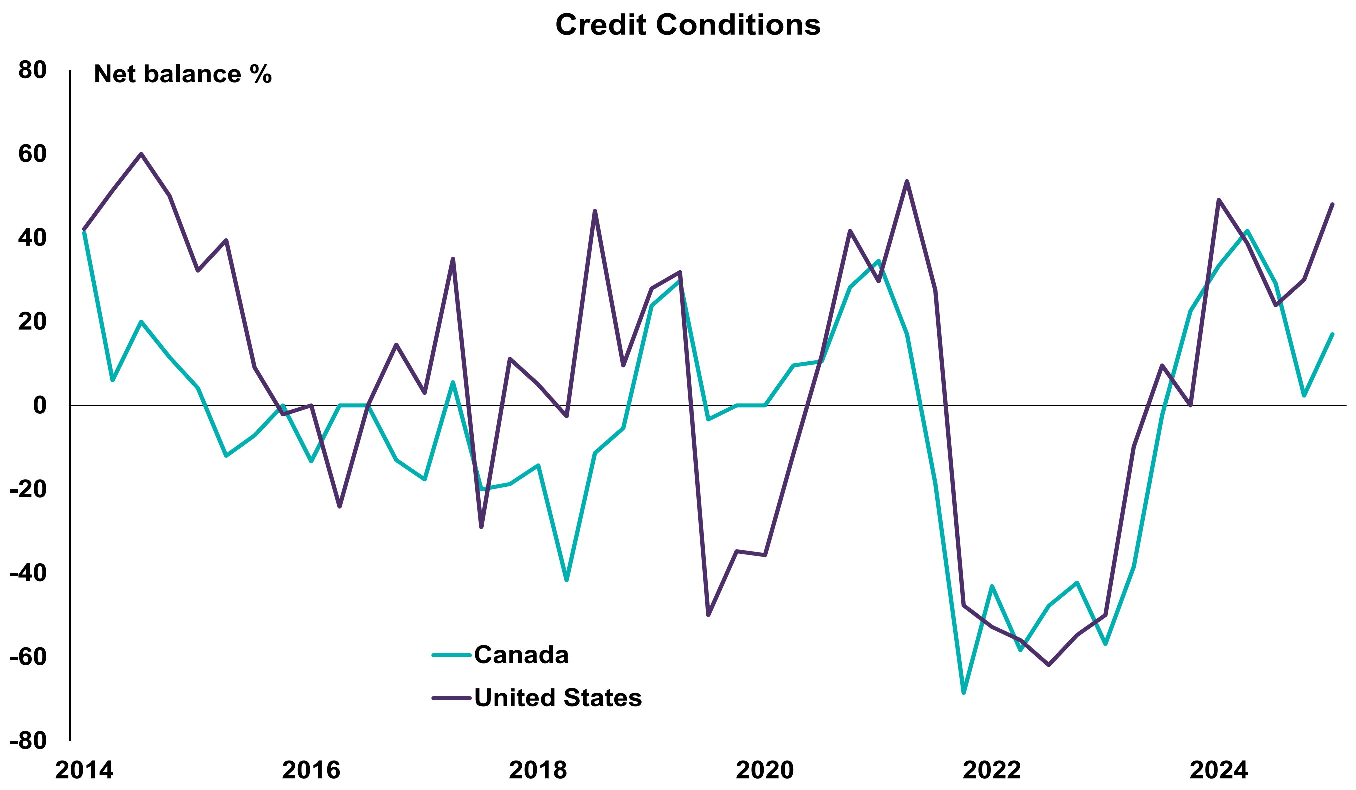
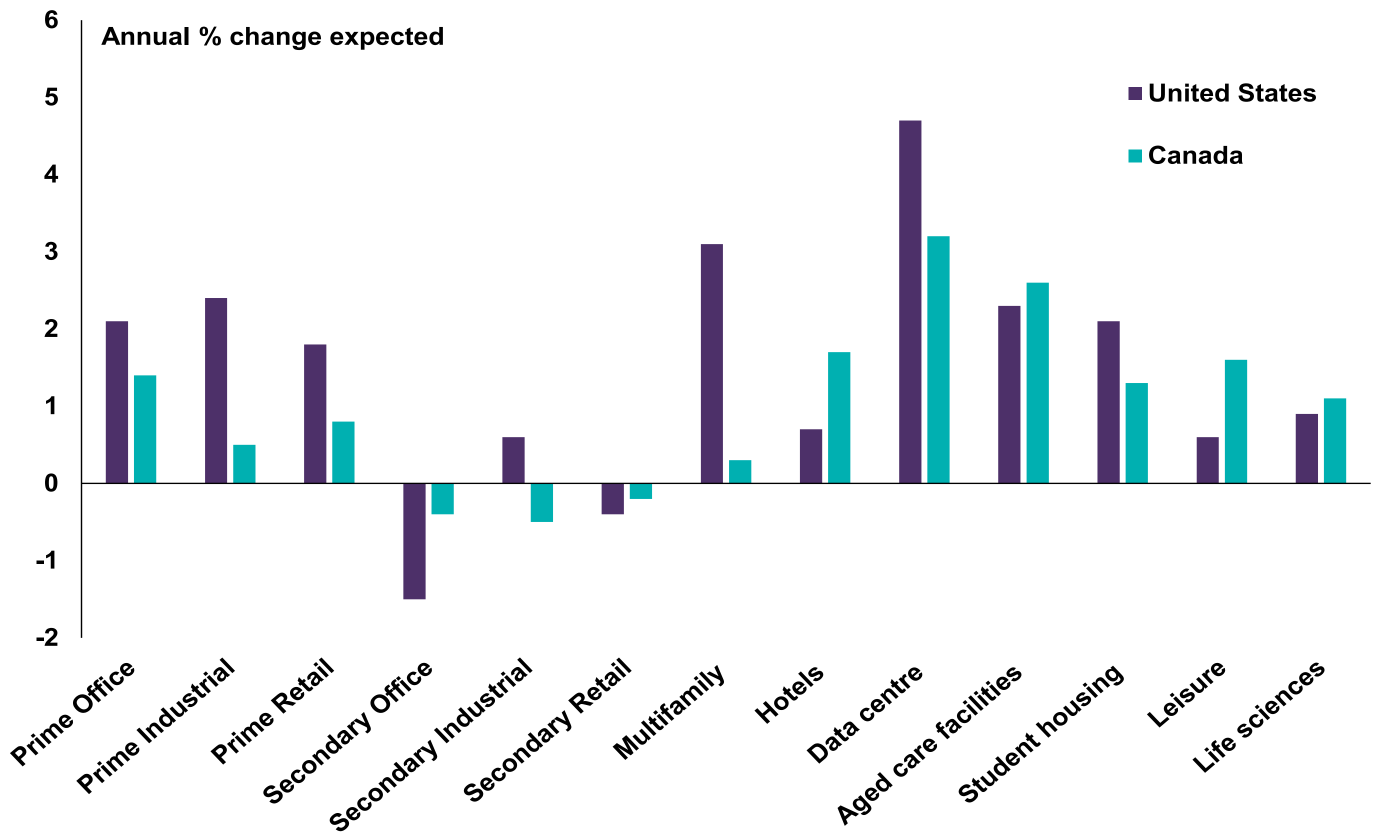


Chart 4 - Twelve-month Capital Value Projections



Regional comments from survey participants

Canada

As Trump continues to weaponize uncertainty, the world goes on defense. Eventually, new trade relations will be established. Some companies will create a US presence and put out more expensive goods. When the US employment rates tick up with new industrial jobs as a result, it may soften the blow of more expensive goods at home. Until the US repatriation of jobs and industry policy has played out, the voters have no choice but to hope the plan actually works. - Barrie

Canada's economic health is not good. Economics is one issue, the prospect of Alberta and Quebec separartion yet another. Canada's credibility on so many fronts is in serious trouble. - Calgary

Tariff costs imposed by the USA on Canadian products is still having an impact on the market's confidence that the system cancel survive and thrive without them. - Cambridge,Ontario

Occupants are waiting with baited breath as to credit conditions. It is generally expected that a decrease in rate of 0.25% to 0.50% are expected in the market - and will be in part dependent on any moves the US makes in it's rates (again expectations are that Government badly wants rates to drop given it's intereference with the Fed and the regional Bank Governors. Long-term impacts of this meddling are not yet know as to wether the market will care or celebrate the interference. - Charlottetown

Lots of interest in the multi-family market. - Edmonton

Generally strong for most sectors, other than office which is weak. - Halifax

We are in an uneasy time due to Trump's tariffs and the necessity to renegotiate CUSMA (Canada, United States, Mexico trade agreement) in 2026. - Halifax

Sales are new starts for all residential strata developments are slowing. - Kelowna

An unpromising, employment-repelling and investment-repelling market. - Toronto

Considerable uncertainty given the upheaval in the economic relationship between Canada and the US and the global instability. - Toronto

Like most major financial centres, Toronto's AAA market is on fire with BTW, general growth, and a strong move to quality. - Toronto

Market is weak, supported by Government spending, particularly across Infrastructure. - Toronto

Recovery in the office market but other sectors remain soft. - Toronto

The Canadian economy is very sluggish and being negatively impacted by the US tariff issues. However, in spite of this industrial continues to do well with imbedded rents still below somewhat lowered market rents from two to three years ago. Office is a story of two economies: class A core office is doing well, while secondary located class B & C is struggling badly. Again, Class A retail has recovered better than expected and is doing well. Multi-family in Canada has always remained consistent. - Toronto

The commercial real estate market is starting to show signs of recovery as limited to no new development is occurring in the Greater Toronto Area. Lower interest rates will help the investment market heading into 2026 although the impact of tariffs has created significant uncertainty for the Canadian economy. The recovery will be uneven depending on the asset class and location. Further tariff shocks could potentially derail the recovery although this is offset by the lack of new development. - Toronto

The industrial sector remains the only asset class demonstrating positive performance. Retail development activity is minimal, and the segment remains largely stable but stagnant. In contrast, office developments are largely on hold due to market uncertainty. While the Greater Toronto Area residential market remains relatively stable, the condominium sector within Toronto is experiencing a significant downturn, approaching its lowest point. - Toronto

Well situated properties in stable markets are starting to get attention and appeal from investors, office is slowly but steadily is making its return. - Toronto

Many market participants are in denial as to how conditions are getting worse. - Vaughan

Canada and the USA are in the midst of redefining their future working relationship. It will be interesting to see how tariffs impact the Free Trade agreement currently in place with Canada, Mexico and the USA. - Windsor

The Manitoba market has the highest sale-to-new-listings ratio in Canada, which show a high seller demand. This is a 3.6% increase from last year. Relative to Canada the Manitoba Market is still affordable. The average price of a home is 390,000. - Winnipeg

United States

Pricing for newly constructed multifamily assets are still quite low (less or equal to replacement cost). There will likely be a lag in capital appreciation as new supply in the PNW markets becomes constrained (permits for new projects is quite low) as current deliveries absorb. - Bellevue

Boston (25Q2): Office continues bifurcation with A+/Trophy outperforming A, B/C. Labs hit by "perfect storm" – decreased VC, excess delivery of space, cratered demand. Ind (whse) softening conditions for new/existing secondary/tertiary space. MF stable, but student housing impacted by contraction of foreign students. Senior Housing favorable demand/demographics with supply constraints facing operating challenges. Prime retail stable. Wait-n-see and case-by-case postures remain popular. - Boston

Market is ok for now. - Charlton

Chicago city and Class B and suburban office, especially in Cook County with its worsening unfunded governmental pension obligations, seems like an intractable problem. For many of these buildings demolition and redevelopment as a non-office use may be the only solution - but the land value is likely a lot less than the typical mortgage balance. It figures to be years of unhappiness for lenders and owners in that crucible. - Chicago

The Dallas market remains fairly strong, with an expanding population driving new development and demand for goods and services. - Dallas

Commercial & Retail holding steady. Industrial slow. - Greenville, Sc

We're into the fall season in our vacation market and stabilized rents, perhaps even lower rents, are expected until mid-February of 2026. - Myrtle Beach

The overall market conditions remain buoyant and demand steady, but the volume of transactions has declined in the 2nd quarter as many companies delay making property decisions until there is more clarity in the global economic trends. We are hopeful of a 3rd and 4th Quarter upturn as companies become more confident in the diection of their property strategy. - Nashville

1. Tenants are gravitating toward top-tier, amenitized, well-located office space. Class A "best in class" properties are seeing stronger absorption and rent growth, while B/C assets lag or stagnate.
2. Flex space (co-working, hybrid offices) is outpacing traditional office leasing growth in NYC, especially in the outer boroughs.
3.For trophy, well-located, amenitized Class A properties, vacancies are compressing and rents are pushing upward. - New York

In most major US markets take of two cities. Prime trophy or refurbished stock, low vacancy. Older stock poorly located with no amenities, no refurbishment sitting vacant and over leveraged making up the bulk of each markets vacancy. Seems to be a push to get folks back in office. Too early to see impact. - New York

Regional comments from survey participants

So much of real estate is psychological - location, competition, etc. - and at the moment landlords and lenders and investors are screaming that high-end space will set the pace and low-end (i.e., B- and lower) space will have to be converted to another use, massively upgraded if possible, or demolished. Sounds schizoid, because it is. Not everyone wants to pay $300 per sf rents. Things are getting wound up fast. - New York City

Commercial real estate in Oakland is in a transitional phase, with office vacancies remaining high and valuations well below pre-pandemic levels. Industrial and retail markets are also softening, with rising vacancy rates and slower demand. At the same time, limited new construction may help balance oversupply in the long run. Lower prices are creating opportunities for investors and for repurposing older properties into housing or mixed-use projects. The outlook depends heavily on safety! - Oakland

Inflation 3-5% - Orlando, 34769

We are still in vastly uncertain times - San Francisco

While not completely immune to national and international trends, Santa Barbara is a niche market characterized by numerous high income individuals, limited supply of land, and a - deserved - reputation as a very nice place to live and work. - Santa Barbara

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the facilities management market.

Methodology

Survey questionnaires were sent out on 11 September 2025 with responses received until 15 October 2025. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1507 company responses were received.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale. The Commercial Property Sentimet Index is an unweighted average of the OSI and ISI. Regional indicators are weighted using estimates of the stock of commercial property provided by LaSalle Investment Management, and are adjusted on an annual basis.

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Delivering confidence

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