



MAY 2026

Commercial Real Estate Market Insights Report



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Commercial Real Estate

An Overview

Economic conditions remained mixed in May, with payroll growth holding steady and prior months revised higher, while unemployment stayed at 4.3%. Job gains continued to show uneven industry performance, led by leisure and hospitality, local government, and health care, while financial activities declined. Inflation increased to 4.2%, driven largely by renewed energy price pressures, while core CPI remained more moderate. The Federal Reserve kept rates unchanged at its last meeting in April, while the 10-year Treasury yield rose to 4.48% in May, keeping borrowing conditions tight for commercial real estate. GDP growth was revised lower to 1.6% in Q1, but remained above the prior quarter, with underlying private demand still positive despite elevated inflation.

Below is a summary of the performance of each major commercial real estate sector in May of 2026:

The **office** market continued to move toward stabilization in May, with annual demand turning positive after a prolonged period of occupancy losses. Stronger absorption helped lower the vacancy edge and supported modest rent growth, though the recovery remains gradual and uneven. Class A continued to drive leasing despite v and Class C retained the tightest vacancy while still recording tenant move-outs.

The **multifamily** market maintained steady demand in May, with absorption still above long-term norms despite slowing from last year. Supply remains the main constraint, as deliveries continued to exceed absorption, though the gap narrowed as completions declined. Vacancy edged lower, and rent growth improved modestly, but elevated supply continues to limit pricing power. Across classes, Class A showed gradual stabilization, Class B remained softer, and Class C retained the strongest rent growth despite continued tenant move-outs.

Retail continued to adjust to structural shifts tied to e-commerce and the pandemic, but fundamentals remained tight relative to other property types. Demand strengthened in May, while rent growth continued to lead major sectors despite some moderation, preserving retail's pricing advantage. Vacancy edged higher as new supply continued to enter the market, and limited inventory removal could add modest upward pressure if demand remains uneven. General retail remained the strongest segment, while Malls and Neighborhood Centers continued to record move-outs, though losses moderated significantly from a year ago.

Industrial fundamentals continued to normalize in May as the sector worked through supply that had been added after its 2022 peak. Demand improved meaningfully from a year earlier, and the supply-demand imbalance narrowed sharply, signaling progress toward rebalancing. Still, deliveries continued to exceed leasing activity, keeping vacancy elevated and rent growth restrained. Logistics remained the primary source of absorption, specialized facilities showed selective strength, and flex space remained under pressure with continued move-outs.

Hospitality conditions remained stable in May 2026, although occupancy continued to lag both pre-pandemic levels and recent-year trends as remote work and softer corporate travel weighed on business-focused markets. ADR and RevPAR remained well above 2019 levels, helping support operating performance. Investment activity stayed restrained, with elevated borrowing costs and economic uncertainty continuing to limit investor demand.

Economy

Job growth (May 2026 compared to March 2020):5.4%

Inflation (May 2026): 4.2%

Gross Domestic Product Q1 2026(2nd Estimate) : 1.6%

Employment Growth Holds Steady in May

Total nonfarm payroll employment increased by 172,000 in May, similar to April’s revised gain of 179,000, while March was revised up to 214,000. Job gains were concentrated in leisure and hospitality that added 70,000 jobs, led by food services and drinking places, while local government gained 55,000 and health care added 35,000. Financial activities lost 22,000 jobs and is down 107,000 since its recent peak in May 2025. Revisions to the prior two months were positive, raising March and April payrolls by 93,000 from previously reported figures.

The unemployment rate was unchanged at 4.3% and has remained within a narrow range since July 2025. The number of unemployed people changed little at 7.3 million, while long-term unemployment remained elevated at 2.0 million and is up 524,000 over the year. Overall, the report points to a labor market that continues to expand, though gains remain uneven across industries.

Number of Jobs

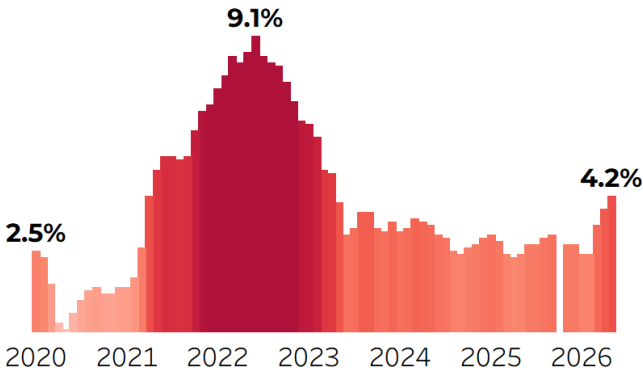
March 2020	150.9 million
May 2025	158.5 million
May 2026	159.0 million

Source: NAR analysis of U.S Bureau of Labor Statistics data

Inflation Rises to 4.2% in May

Inflation rose 0.5 percent in May, easing from 0.6 percent increase in April, while the annual rate increased to 4.2 percent from 3.8 percent. Energy prices rose 3.9 percent and accounted for over sixty percent of the monthly gain, while food prices increased 0.2 percent and shelter rose 0.3 percent. Core CPI increased 0.2 percent in May and 2.9 percent over the year, suggesting more moderate underlying price growth despite renewed energy pressure.

Inflation



Source: NAR analysis of U.S Bureau of Labor Statistics data

The Federal Reserve Holds Rates

The Federal Reserve kept its policy rate unchanged at its last meeting in April at a target range of 3.5% to 3.75% while continuing to assess incoming economic data. Meanwhile, the 10-year Treasury yield rose to 4.48% in May, reflecting renewed market uncertainty following instability in the Middle East. The move higher in long-term yields suggests that external risks and investor sentiment continue to shape borrowing conditions alongside Fed policy. As a result, financial conditions remain tight, limiting near-term relief for commercial real estate borrowing costs.

GDP Growth Revised Lower in the 1st Quarter

Real GDP increased at a 1.6% annual rate in Q1 2026, revised down from 2.0%, but still above the 0.5% gain in Q4 2025. The revision mainly reflected weaker investment and consumer spending. Growth was supported by exports, investment, consumer spending, and government spending, while higher imports partially offset the gain. Underlying private demand remained positive, with real final sales to private domestic purchasers rising 2.4%, although inflation pressures stayed elevated, with PCE prices up 4.5% and core PCE up 4.4%.

Commercial Real Estate Lending

CRE loans (May 2026): \$3.10 trillion

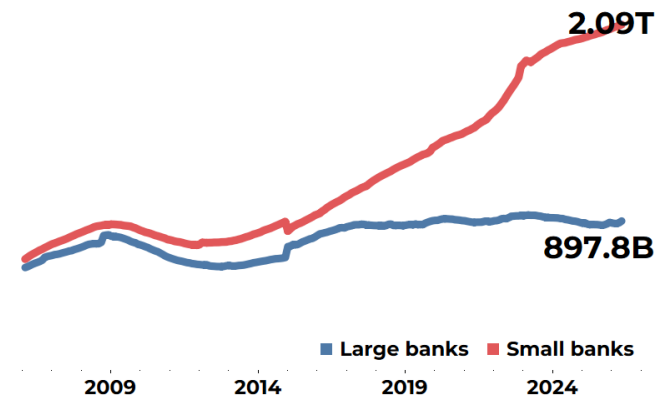
Delinquency rate of CRE loans (Q1 2026): 1.58%

CRE debt stayed at \$3 trillion in May

Commercial real estate debt continued to rise in May, reaching about \$3.10 trillion and reinforcing signs of gradual stabilization after an extended period of muted growth. While borrowing conditions remain tight, recent months show a steady pace of lending activity.

By bank size, smaller domestic banks continued to drive CRE lending growth, with balances increasing to about \$2.09 trillion in May 2026. Large U.S. banks also continued to expand their CRE exposure, with loan balances rising to roughly \$897.8 billion, though at a slower pace than smaller lenders.

Commercial Real Estate Debt for Small and Large Banks (May 2026)

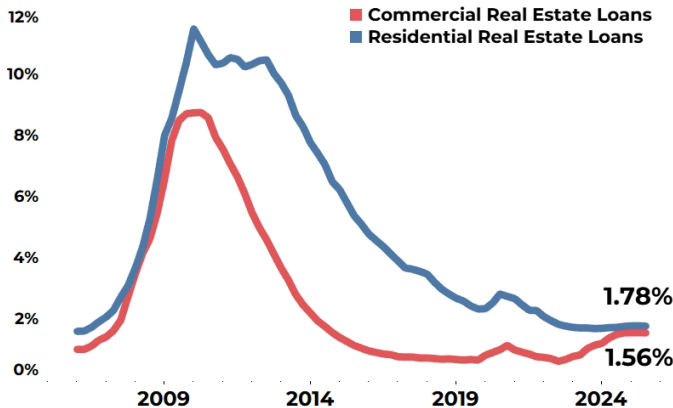


Source Federal Reserve

CRE Loan Delinquencies held tight

Commercial real estate loan delinquencies remained unchanged at 1.58% in Q1 2026, according to Federal Reserve data. After nearly three years of gradual increases, this pause may point to early signs of stabilization in CRE credit conditions. While CRE loan delinquencies have reached a 10-year high, the current rate remains far below the levels seen during the 2008 financial crisis, suggesting that credit stress is still relatively contained. Delinquencies also remain about 0.2 percentage points below residential loan delinquency rates.

Delinquency rates Commercial vs Residential loans (Q1 2026)



Source Federal Reserve

Office

Net absorption in the last 12 months: 16.2 million sq. ft.

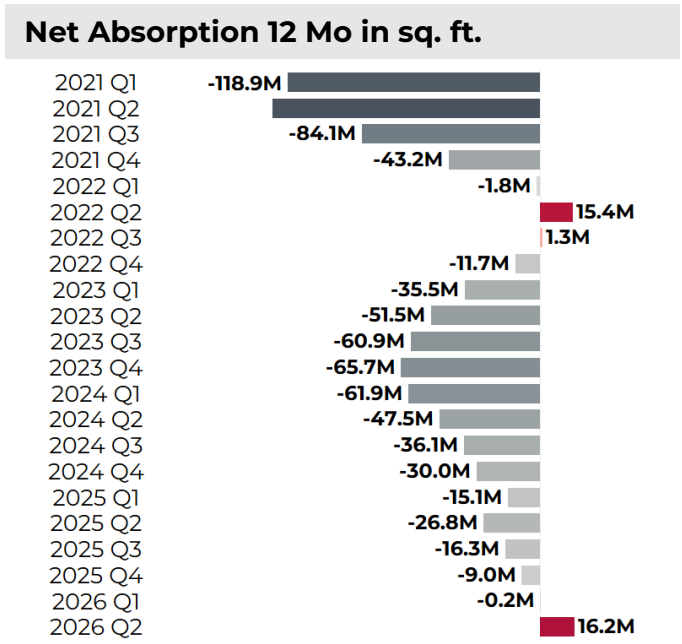
Rent growth in the last 12 months: 1.4%

Cap rate: 9.0%

The office sector showed a more meaningful step toward stabilization in May. Annual net absorption rose to 16.2M SF, a sharp reversal from the 26.8M SF decline recorded a year earlier and a notable break from the sector’s extended stretch of occupancy losses. The improvement in demand helped vacancy edge down to 13.9% and supported a slight increase in rent growth to 1.4%.

Class A remained the primary driver of leasing, with absorption rising to 29.1M SF for the year ending in May, up from -1.5M SF a year earlier. Vacancy improved to 19.8%, though it remained the highest among classes, while rent growth edged up to 1.2%. Class B losses narrowed from 16.8M SF a year ago to 9.1M SF, with vacancy lower at 12.5% and rent growth holding above the national average at 1.5%. Class C recorded 3.4M SF of move-outs but retained the lowest vacancy at 5.4% and the strongest rent growth at 1.7%.

At the metro level, May vacancy was lowest in Huntington, WV, at 1.7%, while San Francisco recorded the highest rate at 21.3%, followed by Houston at 19.6%.



Top 10 areas with the lowest Vacancy Rates		
	2026 Q2	2025 Q2
Huntington, WV	1.71%	1.85%
Davenport, IA	1.77%	2.81%
Gulfport-Biloxi-Pascagoula, MS	1.78%	1.95%
Lafayette, LA	2.11%	1.99%
Myrtle Beach, SC	2.27%	2.15%
Asheville, NC	2.30%	3.24%
Wilmington, NC	2.45%	2.06%
Hickory, NC	2.59%	2.12%
Spartanburg, SC	2.69%	3.37%
Savannah, GA	2.69%	2.37%

Top 10 areas with the highest Vacancy Rate		
	2026 Q2	2025 Q2
San Francisco, CA	21.26%	22.83%
Houston, TX	19.58%	19.86%
Denver, CO	18.19%	18.23%
Dallas-Fort Worth, TX	17.59%	18.24%
Washington, DC	17.35%	17.73%
Chicago, IL	16.85%	17.12%
Seattle, WA	16.77%	16.74%
Los Angeles, CA	16.66%	16.44%
Atlanta, GA	16.47%	16.92%
Phoenix, AZ	16.04%	16.75%

Multifamily

Absorption of units in the last 12 months: 411,068 units

Rent growth in the last 12 months: 0.6%

Cap rate: 6.2%

The multifamily sector maintained steady demand in May, with activity still above long-term norms despite slowing from last year. Over the past 12 months, absorption fell by 21% but remained above the prior decade's median. Deliveries declined 25% yet continued to exceed absorption by 12%, although the supply-demand gap kept narrowing. Vacancy edged lower to 8.4%, while rent growth increased to 0.6% as elevated supply continued to limit pricing power.

By asset tier, Class A posted 12-month absorption of 159,000 units in May, down 31% from a year earlier. Vacancy declined by 1.2% to 9.7%, and rent growth turned positive at 0.6%. Demand still exceeded new deliveries by 24%, supporting gradual stabilization. Class B absorbed 283,000 units, an 10% annual decline, while vacancy edged down to 9.8% and rent growth rose slightly to 0.4%, pointing to softer mid-tier conditions. Class C continued to record net move-outs but maintained the strongest rent growth at 1.0%.

National rent growth remained limited at 0.6% in May as elevated supply continued to weigh on several Sun Belt markets. Sarasota, Naples, and Fort Myers, FL, posted the sharpest declines, with rents falling by more than 4%. San Francisco, CA led rent growth at 9.0%, followed by San Jose, CA at 5.7%, both well above the national average.

Large urban markets continued to anchor multifamily demand, with New York City, NY, Dallas-Fort Worth, TX and Phoenix, AZ each absorbing more than 20,000 units over the past year, underscoring resilience in major population centers. In contrast, Cleveland, OH, continued to post net move-outs exceeding 470 units.

Top 10 areas with the strongest 12-month absorption

	2026 Q2	2025 Q2
New York, NY	29,123	28,756
Dallas-Fort Worth, TX	22,782	25,712
Phoenix, AZ	20,123	16,867
Austin, TX	18,725	20,955
Atlanta, GA	18,383	20,559
Charlotte, NC	12,484	14,505
Denver, CO	9,330	9,022
Orlando, FL	8,816	10,407
Nashville, TN	8,211	9,716
Boston, MA	7,757	5,476

Top 10 areas with steepest 12 Mo rent rises

	2026 Q2	2025 Q2
San Francisco, CA	8.97%	5.11%
San Jose, CA	5.68%	2.94%
Norfolk, VA	4.66%	2.87%
Rockford, IL	4.50%	5.17%
Peoria, IL	3.99%	2.84%
Fort Wayne, IN	3.99%	2.26%
Youngstown, OH	3.68%	3.67%
Albany, NY	3.63%	2.74%
Reno, NV	3.51%	3.06%
Lancaster, PA	3.44%	2.47%

Source: NAR analysis of CoStar data



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Retail

Net absorption in the last 12 months: 12.2 million sq. ft.

Rent growth in the last 12 months: 1.8%

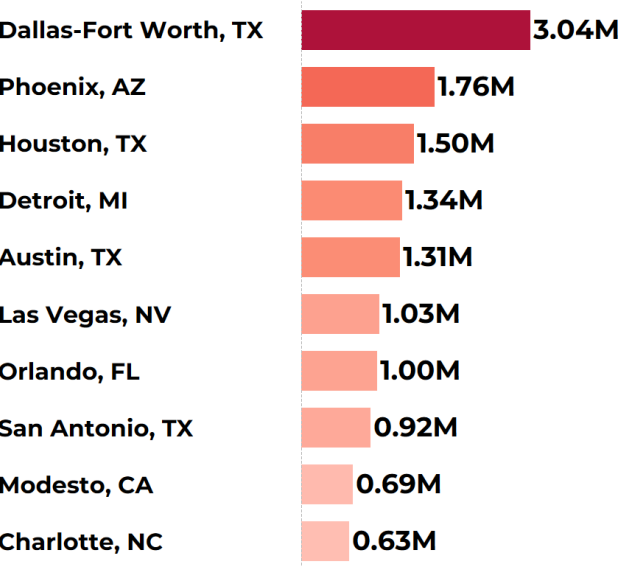
Cap rate: 7.4%

Retail activity expanded strongly from 2014 through 2017, although e-commerce growth began to temper demand, a shift that accelerated during the pandemic. In May 2026, annual net absorption accelerated to 12.2 million square feet, while rent growth eased to 1.8%, though it remained the strongest among major property types. Vacancy edged up to 4.4%, reflecting 12-month deliveries of 29.1 million square feet. Continued supply additions, combined with limited inventory removal, could place modest upward pressure on vacancy in the months ahead if demand remains uneven. Even with this modest upward pressure, retail fundamentals remained comparatively tight, preserving the sector's pricing advantage over other property types.

General retail remained the strongest segment, absorbing 12.0M SF over the past year, outperforming 11.3M SF absorbed a year earlier. Malls recorded the largest pullback, with 0.6M SF vacated, while Neighborhood Centers also posted losses of 0.5M SF, though move-outs moderated significantly from a year ago.

General retail continued to post the lowest vacancy at 2.7%, while Neighborhood and Power Centers led annual rent growth at 2.5% each.

Top 10 areas with the strongest net absorption in the last 12 months

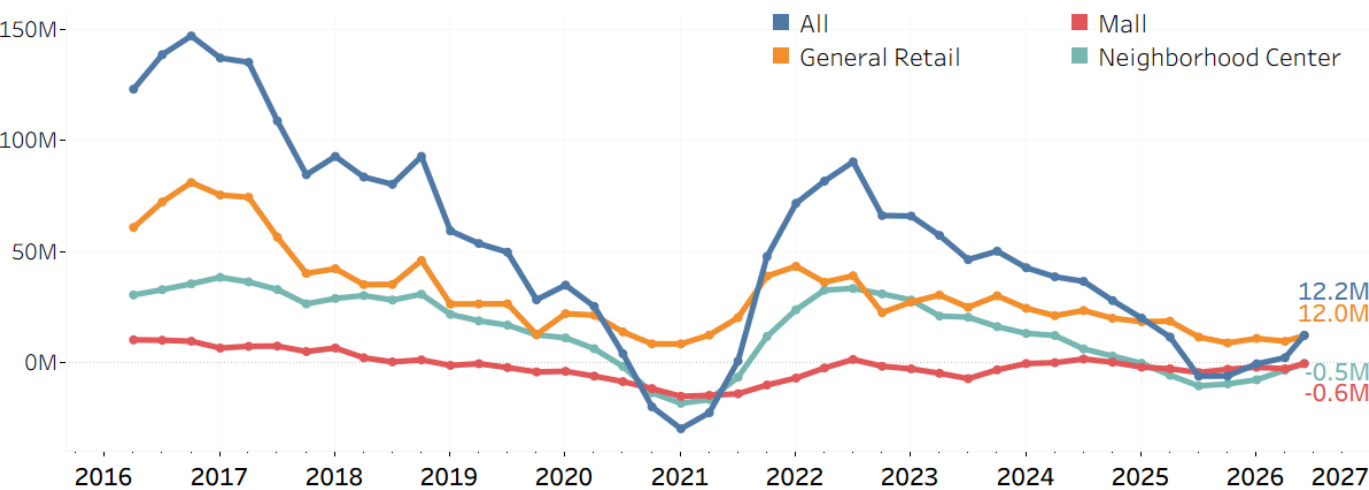


Source: NAR analysis of CoStar data

In May, Charlotte, NC, and Minneapolis, MN, posted the strongest rent growth, at 6.5% and 5.8%, respectively, while Pittsburgh, PA, saw rents decline by more than 2.4%.

Dallas-Fort Worth, TX, led retail absorption, with gains exceeding 3 million square feet. Atlanta, GA and Boston, MA recorded losses of 1.4 million and 1.2 million square feet, respectively.

Net Absorption 12 Mo by type (Q1 2016 – May 2026)



Source: NAR analysis of CoStar data

Industrial

Net absorption in the last 12 months: 149.4 million sq. ft.
Rent growth in the last 12 months: 1.3%
Cap rate: 7.3%

Since its 2022 peak, the industrial sector has continued to normalize. In the 12 months ending in May 2026, net absorption jumped 61% year over year to 149.4 million square feet, though deliveries still exceeded leasing activity. Continued supply pressure kept vacancy elevated at 7.5%, while rent growth slowed to 1.3%. Nevertheless, the year-over-year supply-demand imbalance narrowed sharply from over 300% a year ago to 50%, signaling meaningful rebalancing even as the market continues to work through excess inventory and pricing power remains restrained.

Logistics properties remained the primary source of industrial demand, absorbing 125.4M SF over the past year. Specialized facilities added 31.2M SF, while flex space remained under pressure with 7.2M SF of net move-outs, reflecting weaker demand in that segment. Rent growth moderated unevenly, with specialized space slowing to 0.8%, while logistics and flex rents held at 1.4% and 1.7%, respectively. Vacancy ranged from 4.4% for specialized facilities to 8.4% for logistics and 8.8% for flex.

Dallas-Fort Worth led industrial absorption, adding 29.7 million square feet over the past year, followed by Phoenix at 21.8 million square feet. In contrast, Boston, MA and Saint Louis, MO recorded notable declines, with 3.4 million and 3.0 million square feet vacated, highlighting uneven adjustment across logistics-heavy and slower-growth metros.

Metro-level rent performance remained highly varied in May. Hagerstown, MD, led with 6.2% annual rent growth, followed by Lehigh Valley, PA, at 6.1%, while Los Angeles and Denver, CO, posted declines of 4.0% and 2.3%, respectively. Vacancy ranged from 14.3% in Charleston, SC to 0.9% in Anchorage, AK, underscoring continued market-by-market divergence.

Top 10 areas with the strongest 12 Mo absorption

	2026 Q2	2025 Q2
Dallas-Fort Worth, TX	29.73M	25.12M
Phoenix, AZ	21.80M	14.21M
Houston, TX	16.45M	15.90M
Indianapolis, IN	13.31M	1.80M
Columbus, OH	12.54M	6.81M
Chicago, IL	8.87M	2.82M
Atlanta, GA	8.22M	1.71M
Washington, DC	6.85M	8.73M
Cincinnati, OH	6.59M	2.26M
Savannah, GA	5.50M	22.17M

Top 10 areas with the weakest 12 Mo absorption

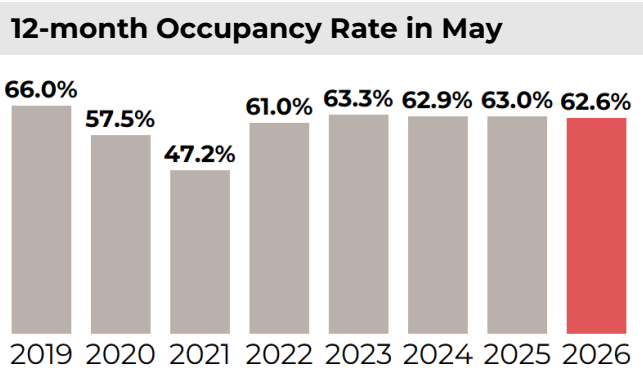
	2026 Q2	2025 Q2
Boston, MA	-3.38M	-4.15M
Saint Louis, MO	-2.97M	3.65M
Los Angeles, CA	-2.73M	-6.07M
Seattle, WA	-2.53M	0.87M
Lehigh Valley, PA	-2.19M	-1.00M
Rochester, NY	-1.85M	1.12M
Portland, OR	-1.83M	1.59M
South Bend, IN	-1.56M	1.31M
Peoria, IL	-1.50M	-0.12M
New York, NY	-1.42M	1.27M

Source: NAR analysis of CoStar data

Hotel

Occupancy rate in the last 12 months: 62.6%
Average daily rate in the last 12 months: \$162/room
Revenue per available room in the last 12 months: \$101/room

The hospitality sector remained relatively stable in May 2026, with occupancy at 62.6%, still slightly below both pre-pandemic levels and recent-year trends. Remote work and softer corporate travel continue to weigh on business-oriented markets, contributing to an uneven recovery. Even so, ADR and RevPAR remain above 2020 levels.

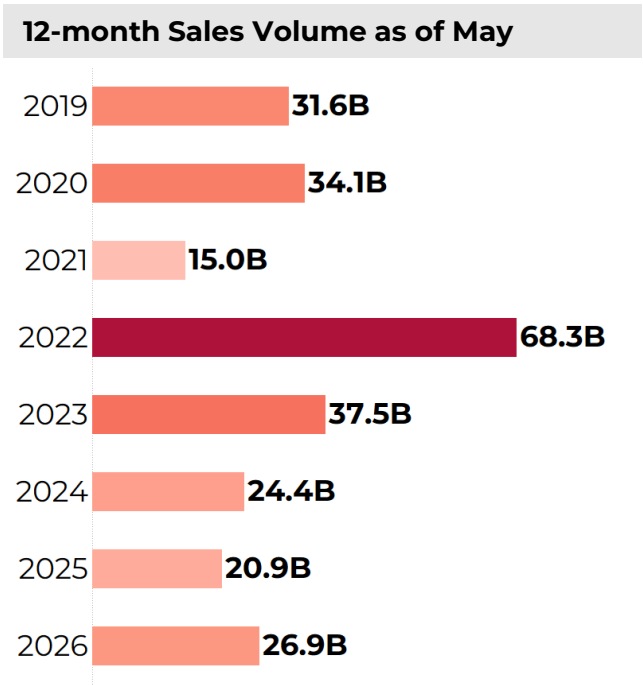


Hotel ADR reached \$162 in May, up 24% from March 2020, while RevPAR rose to \$101, a 17% increase over the same period despite occupancy remaining below pre-pandemic levels.

	Average daily rate	Revenue per available room
2019	\$131	\$86
2020	\$126	\$73
2021	\$101	\$48
2022	\$139	\$85
2023	\$154	\$97
2024	\$158	\$99
2025	\$160	\$101
2026	\$162	\$101

ADR is the total revenue/number of rooms.
RevPAR is ADR x occupancy rate.

Hotel investment activity improved modestly over the past year, with 12-month transaction volume increasing to \$26.9 billion in May 2026 from \$20.9 billion a year earlier. The gain points to a gradual return of capital, though elevated borrowing costs and broader economic uncertainty continue to limit deal activity despite generally stable operating conditions.



Source: NAR analysis of CoStar data

Kauai Island, Hawaii, remained one of the strongest hospitality markets, with ADR and RevPAR more than 62% above pre-pandemic levels and occupancy elevated at 71%. Maui led the nation in pricing, with the highest ADR at \$531 and RevPAR at \$351, while New York City posted the strongest occupancy at 84%, supported by business and leisure demand.

In contrast, San Francisco/San Mateo and Oakland, CA continued to lag, with RevPAR still 3.1% and 6.8% below pre-pandemic levels, respectively.

COMMERCIAL REAL ESTATE REPORT

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