RESEARCH BRIEF

EMPLOYMENT

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Hiring Slowdown Reinforces Likely Rate Cut Bolstering CRE Investment Thesis

Labor market weakens. Sluggish on boarding persisted in August, with nonfarm payrolls rising by only 22,000 positions as the unemployment rate edged up to 4.3 percent. Job growth remained narrowly concentrated, led by health care with a gain of 46,000 roles. Meanwhile, federal government, manufacturing and wholesale trade each shed more than 10,000 jobs. In July, the number of unemployed persons topped job openings for the first time since 2021, further underscoring reduced hiring. The softening employment market has reinforced expectations of a rate cut by the Federal Reserve at its next meeting and put downward pressure on the 10-year Treasury. More accommodative monetary policy may provide modest relief for commercial real estate investors, but weaker labor conditions could pressure select property fundamentals over the coming quarters.

Job strain fuels multifamily divide. The underemployment rate, which includes those who are working less than they want, climbed to 8.1 percent in August, rising faster than the headline rate. This signals broader weakness, particularly among lower-wage workers, which may weigh on household formation for middle- to lower-income renters. High barriers to homeownership, however, should support demand from upper-income renters, who are better positioned to withstand labor market softness. These households are likely to backstop Class A performance, with vacancy roughly matching the Class B and C rates at 4.4 percent in June after a sharper year-over-year decline. Annual rent growth for upper-tier apartments was also near 3 percent, compared with about 2 percent for lower-tier properties.

Efficiency gains offer partial relief from tariff impacts. Manufacturing lost 12,000 jobs in August, partly reflecting tariff-related pressures, while professional and business services shed 17,000 positions amid volatility in office-using industries. Productivity gains, which may partially be driven by A.I., may be helping tenants absorb some of this strain. In the second quarter of 2025, productivity rose at a 3.3 percent annualized rate — the strongest since 2020 — while unit labor costs fell 0.2 percent. Softer wage growth and expanded automation may shield some businesses from rising costs and support leasing. Even so, trade policy uncertainty continues to cloud the outlook, with tariffs on steel and aluminum raised to 50 percent in August.

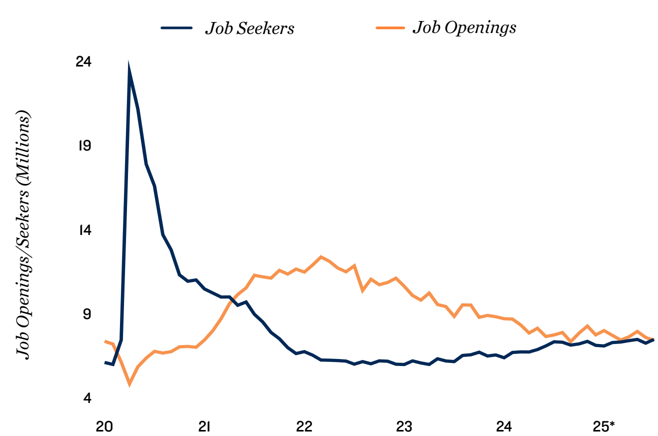
Supply Headwinds to Persist Despite Policy Easing

Labor and cost pressures restrain construction activity. Trade and immigration policies weigh on the construction industry, which lost 7,000 jobs in August. The foreign-born participation rate fell to 66.4 percent — down from 67.7 percent a year earlier — while average hourly earnings rose 4.2 percent year over year, which is one of the highest recordings across sectors. Reduced labor supply and elevated business costs are likely to keep constraining construction pipelines for all property types, even with expectations for lower interest rates.

Soft hiring sets stage for rate cuts. Weaker job growth is expected to prompt the Federal Reserve to cut the overnight rate at its next meeting, barring an inflation surge. This should help real estate investors, as a rate cut would ease pressure on long-term yields and reduce policy uncertainty, but with the 10-year Treasury near 4 percent, further declines may be limited. Relief will likely be felt most by borrowers tied to short-term debt, such as developers and corporate tenants. Lower financing costs may improve the feasibility of manufacturing projects and other capital-intensive office and industrial use cases.

598,000 *Jobs Added Year to Date Through August*	4.3% *Unemployment Rate in August 2025*

Labor Market Gap Narrows



* Through July

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