

Mueller

Real Estate Market Cycle Monitor

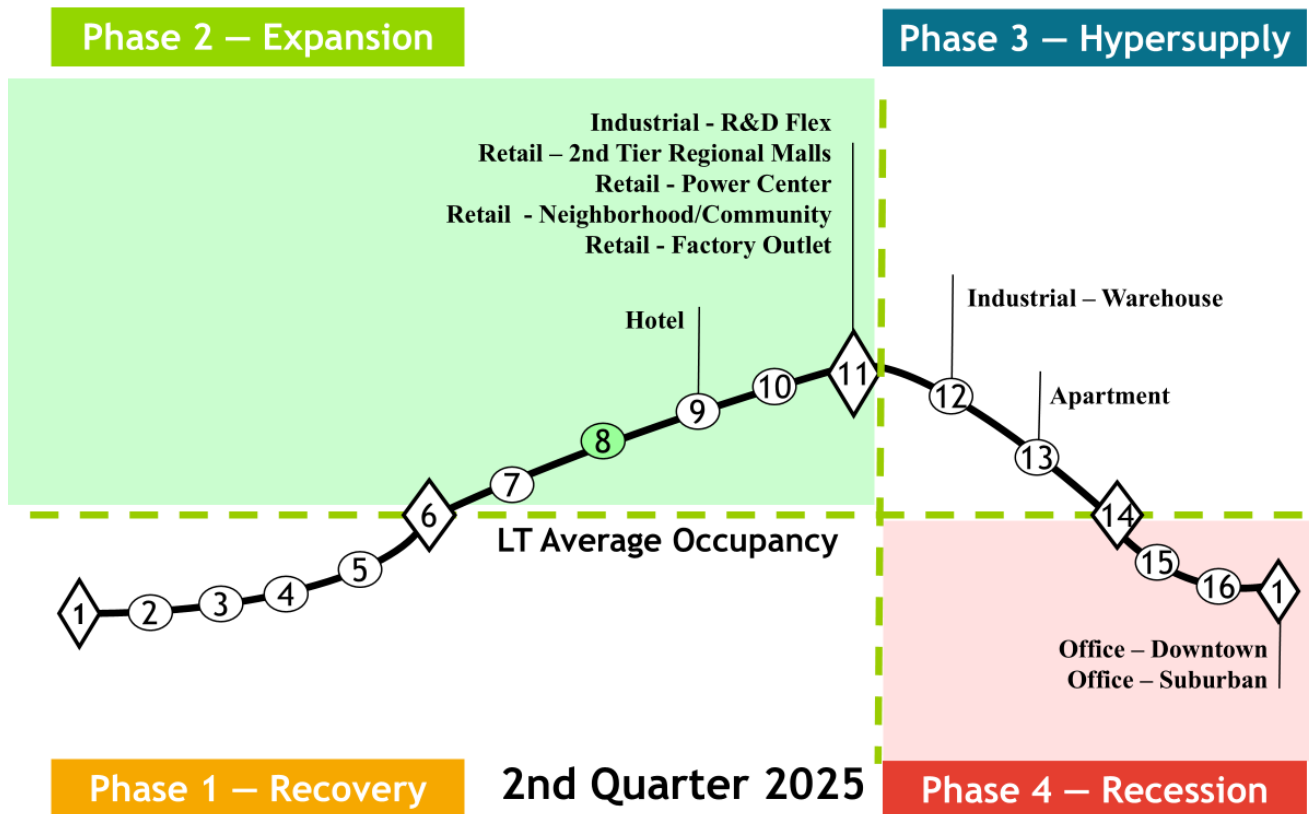
Second Quarter 2025 Analysis – July 2025

The Physical Market Cycle Analysis of 5 Property Types in 54 Metropolitan Statistical Areas (MSAs).

The US economy continued to grow at a moderate rate and expectations were positive, but cautious, allowing the stock market to return to previous highs. Employment growth remained stable with continued moderate increases. Inflation increased but at a level less than expected by economists. Many real estate property sectors saw very minor occupancy improvements due to increased demand with continued low supply growth. Sales transactions improved moderately allowing property prices to stabilize and cease the last three year decline

Office occupancy **declined -0.1%** in 2Q25, while rents **were up 0.1%** for the quarter and **were up 0.6%** annually. Industrial occupancy **increased 0.5%** in 2Q25, but rents **were down -0.2%** for the quarter and **were up 1.7%** annually. Apartment occupancy **was flat** in 2Q25, and rents **were up 0.6%** for the quarter, and **up 0.9%** annually. Retail occupancy **was flat** in 2Q25, and rents **were up 0.3%** for the quarter and **were up 2.0%** annually. Hotel occupancy **was up 0.3%** in 2Q25, and Rev PAR **grew 0.5%** for the quarter and **was up 1.9%** annually.

National Property Type Cycle Locations



Source: Mueller, 2025

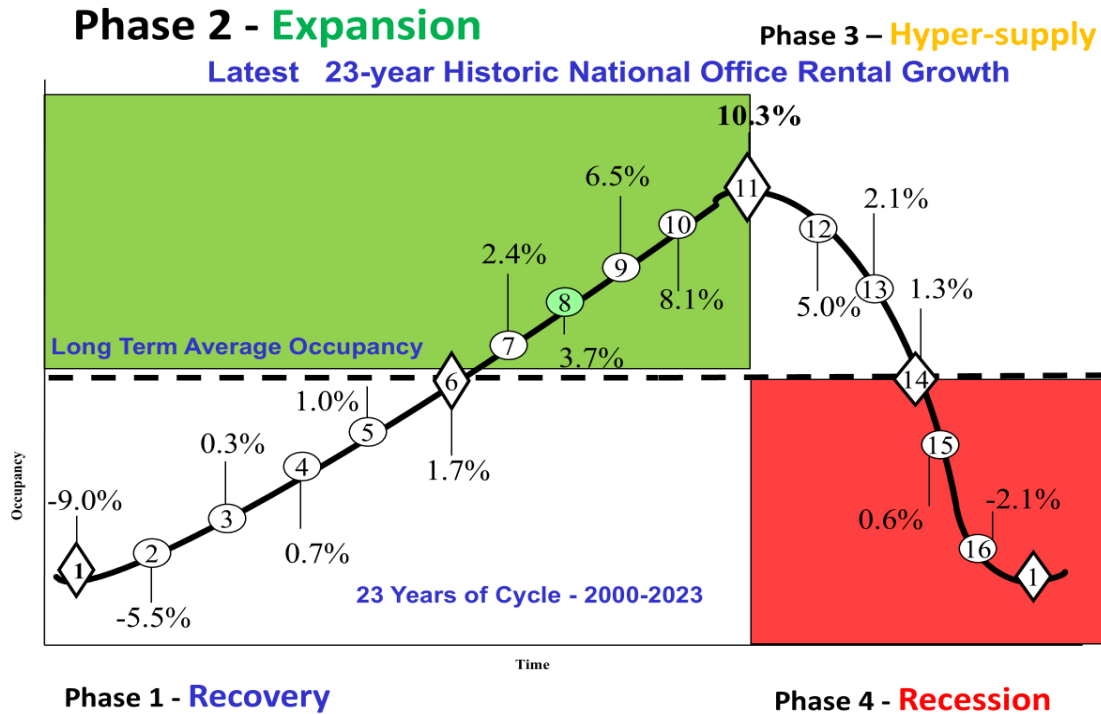
The National Property Type Cycle Locations graph shows relative positions of the sub-property types.

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The cycle monitor analyzes occupancy movements in five property types in 54 MSAs. Market cycle analysis should enhance investment-decision capabilities for investors and operators. The five property type cycle charts summarize almost 300 individual models that analyze occupancy levels and rental growth rates to provide the foundation for long-term investment success. Commercial real estate markets are cyclical due to the lagged relationship between demand and supply for physical space. The long-term occupancy average is different for each market and each property type. *Long-term occupancy average* is a key factor in determining rental growth rates — a key factor that affects commercial real estate income and thus returns.

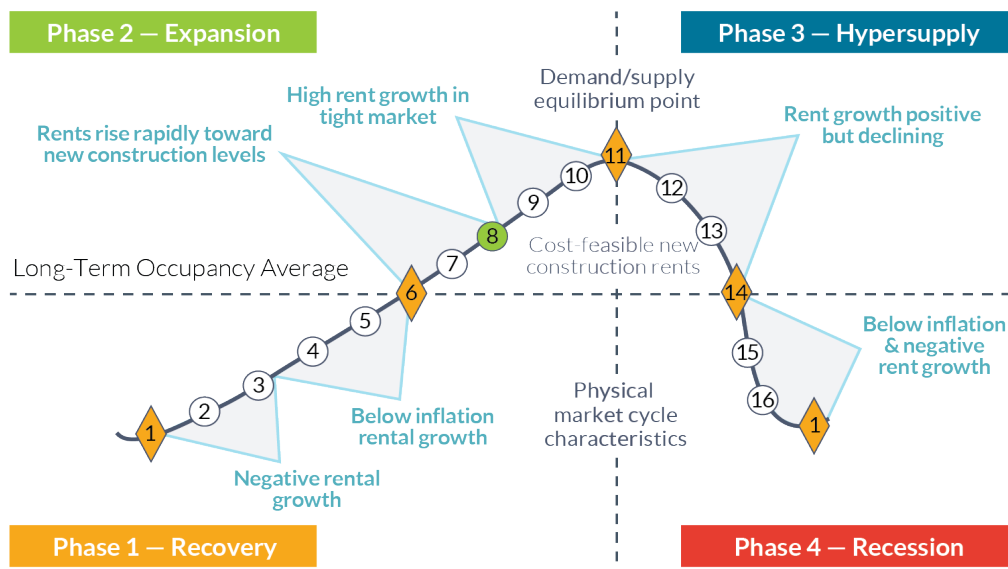
Market Cycle Quadrants



Source: Mueller, Real Estate Finance 1998

Source: Mueller, 2024

Rental growth rates can be characterized in different parts of the market cycle, as shown below.



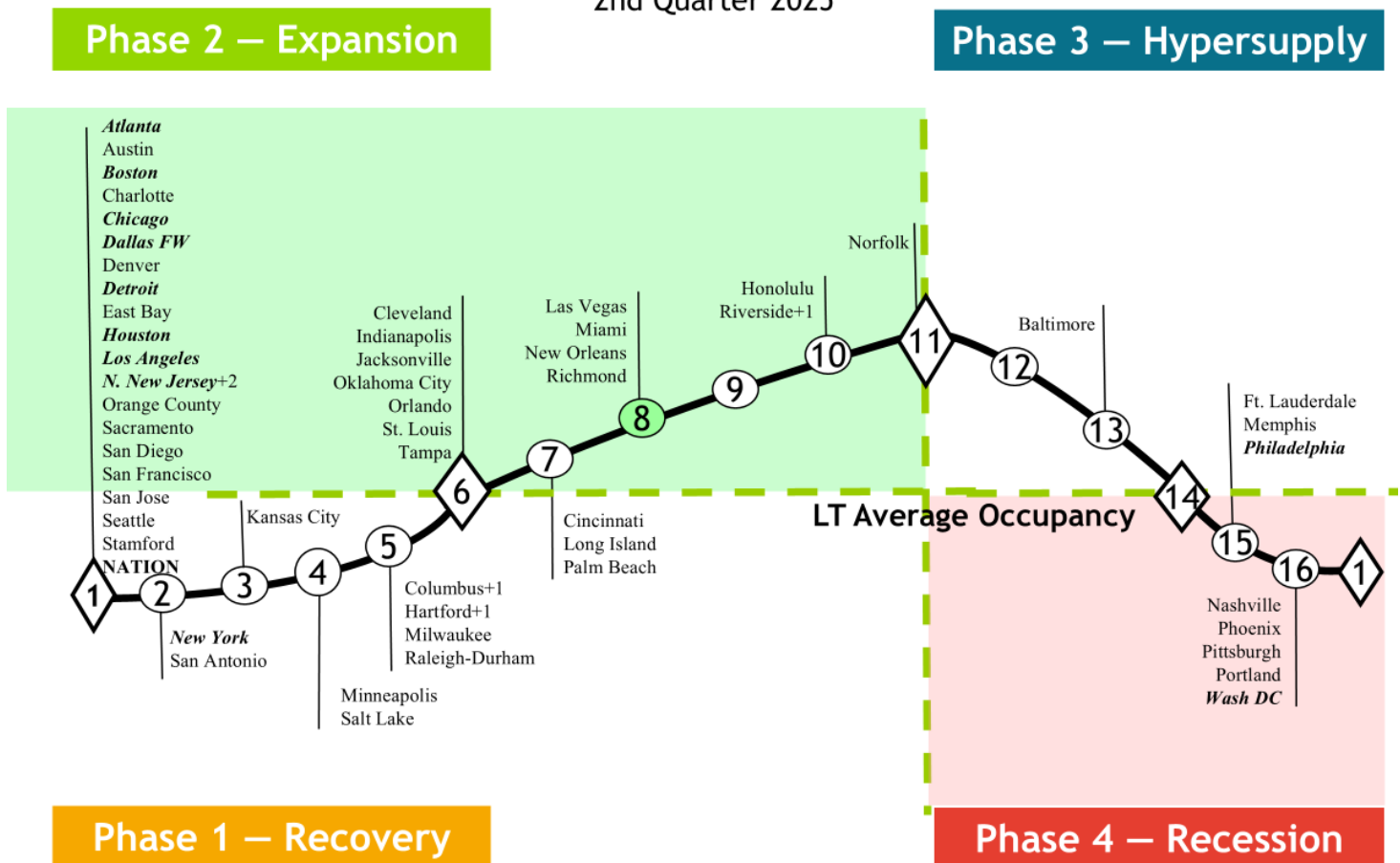
Source: Mueller, Real Estate Finance, 1996.

Office

The national office market occupancy level **was down -0.1%** in 2Q25 and **was down -03%** year-over-year. Financial services firms hiring has been the major office demand contributor. But only half the markets we cover have benefited. Also, the biggest recipient has been 1st tier premium space and newly completed buildings. Good news here is that there is very little large-block 1st tier space available, so many large firms have to release their existing space. While new lease volume has returned to almost pre-pandemic levels the average lease signed is 15% smaller than the historic average. Supply has slowed to historic lows, but is still not zero with over 80 million square feet still under construction. Asking rental rates **were up 0.1%** in 2Q25 and **were up 0.6%** year-over-year.

Office Market Cycle Analysis

2nd Quarter 2025



Source: Mueller, 2025

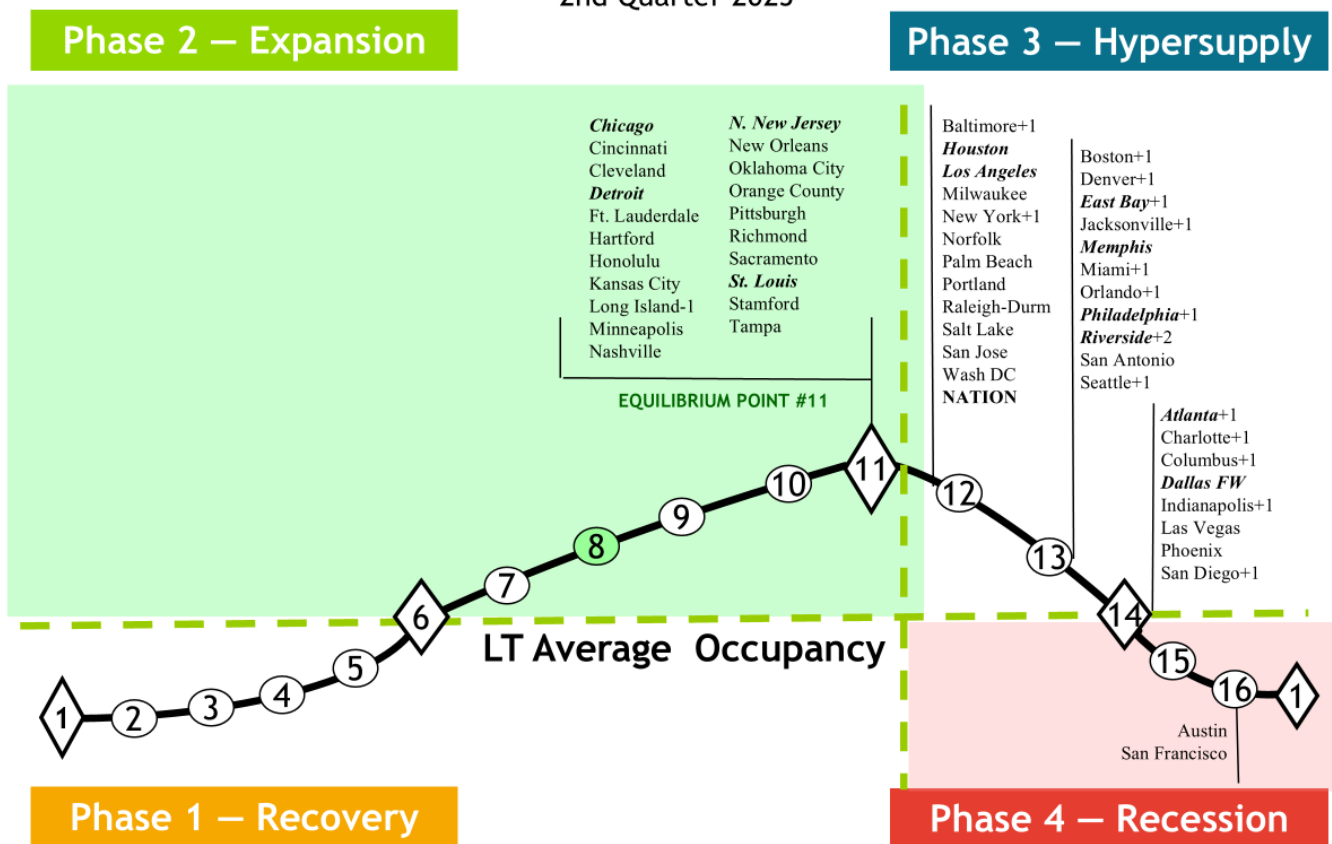
Note: The 11-largest office markets make up 50% of the total square footage of office space we monitor. Thus, the 11-largest office markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

Industrial

Industrial occupancies **increased 0.5%** in 2Q25 and **were up 0.4%** year-over-year (keeping the national average in the hyper-supply phase of the cycle). Tariffs continued to put a drag on demand in 2Q25 as tenants paused to see the outcome. International shipments into the US continued to decline, resulting in decreased leasing volumes. Lease-up time increased from 3.5 months in 2024 to 5 months in 2Q25. Demand was well below the strong supply growth, but the supply growth rate started to slow in 2Q25. Sub-lease space available also increased by 1% in 2Q25. Asking rent growth **declined -0.2%** in 2Q25 and annual rent growth **was up 1.7%** year-over-year, a substantial slowing from the previous quarter.

Industrial Market Cycle Analysis 2nd Quarter 2025



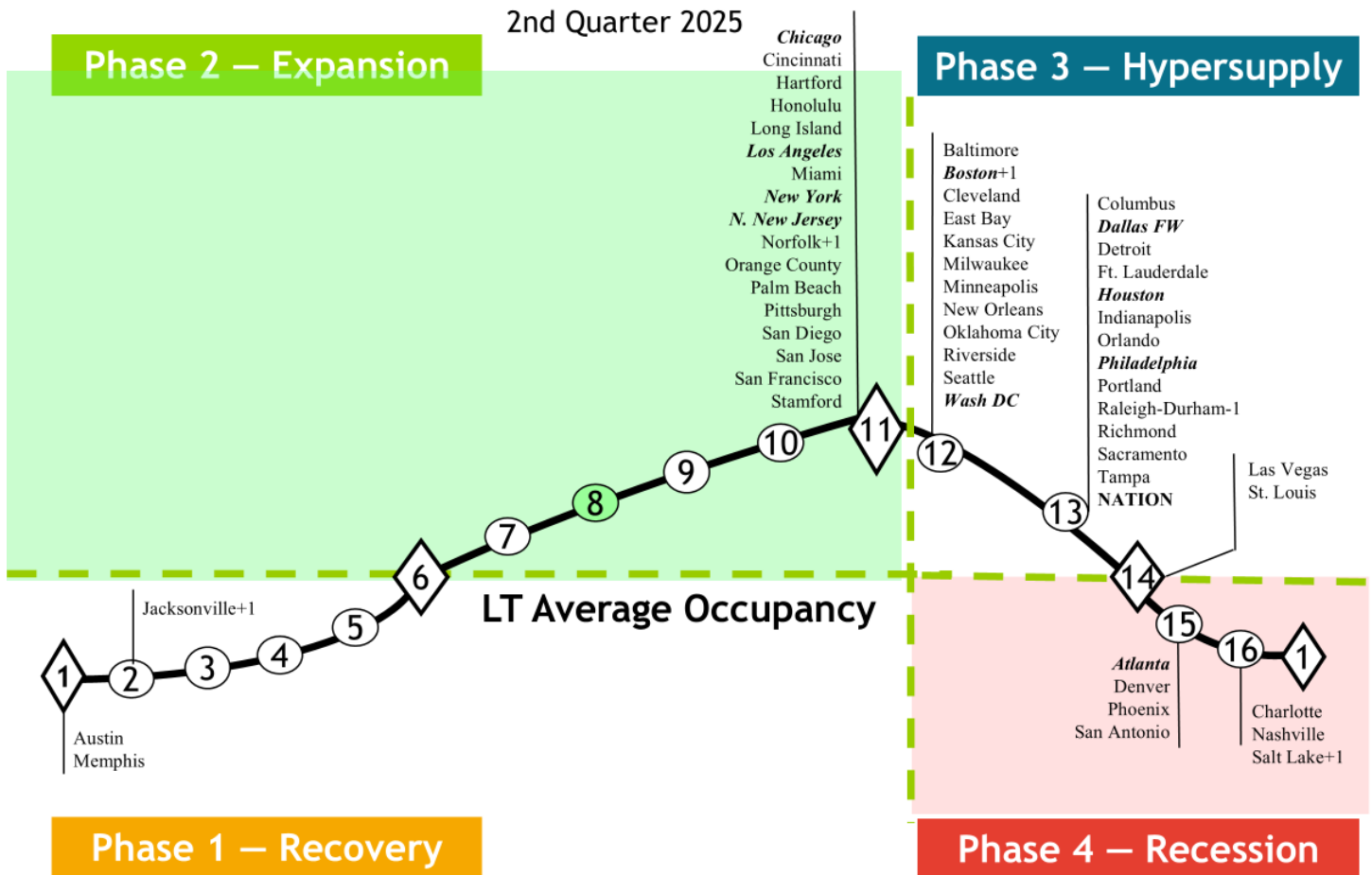
Source: Mueller, 2025

Note: The 12-largest industrial markets make up 50% of the total square footage of industrial space we monitor. Thus, the 12-largest industrial markets are in ***bold italic*** type to help distinguish how the weighted national average is affected. Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

Apartment

The national apartment occupancy average **was flat** in 2Q25 and was **up 0.4%** year-over-year. This may be a turning point in the cycle as the 6+ million unit housing shortage in the US is driving strong demand in most cities. Employment grew by 1% and the Generation Z group is now hitting their prime rental age. Supply growth moderated and was 30% below the previous year, allowing many markets to move back toward equilibrium levels. National average apartment rent growth **was up 0.6%** in 2Q25 and **up 0.9%** year-over-year.

Apartment Market Cycle Analysis



Source: Mueller, 2025

Note: The 10-largest apartment markets make up 50% of the total square footage of multifamily space we monitor. Thus, the 10-largest apartment markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

Retail

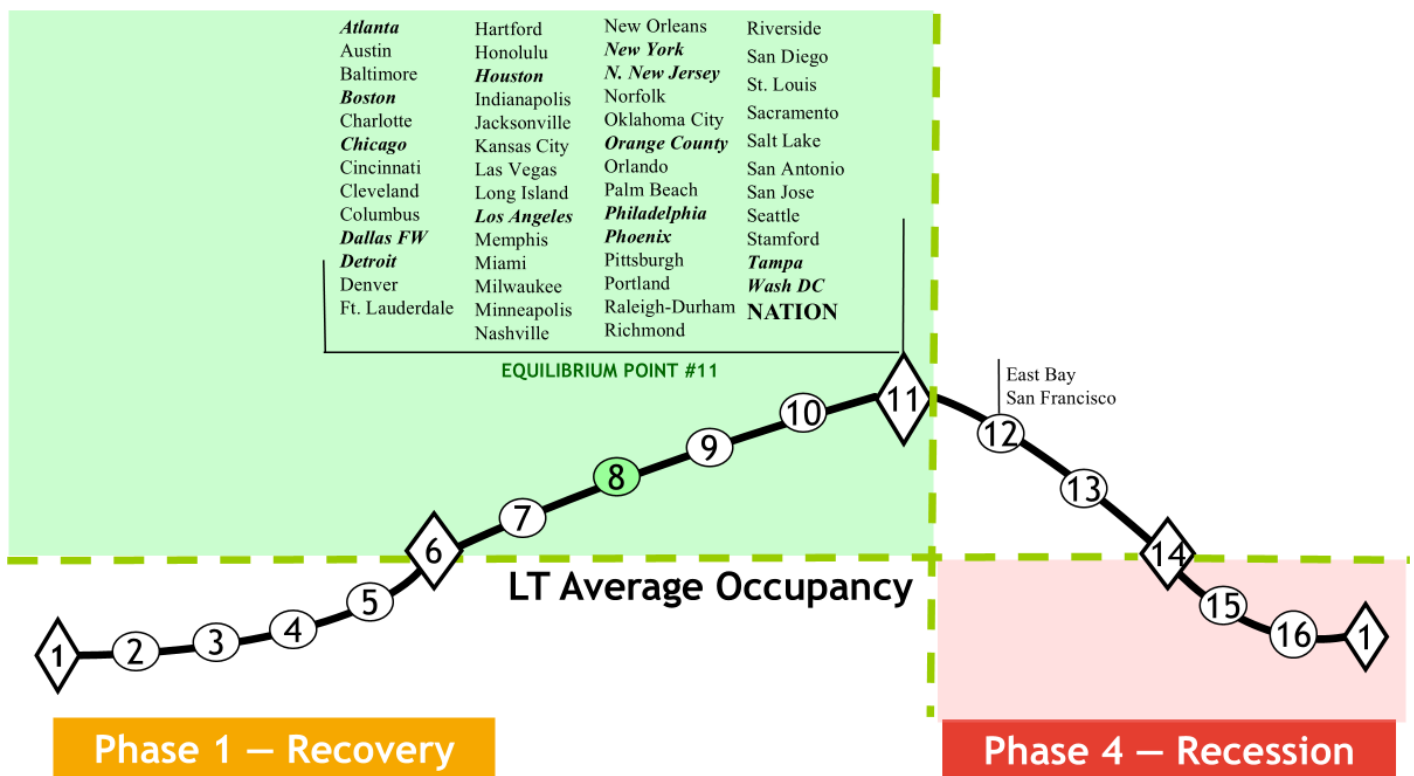
Retail occupancies **were flat** nationally in 2Q25, but **down -0.2%** year-over-year, just off the highest peak-occupancy level in retail's history. Demand declined as increased costs and decreased retail sales caused an increase in bankruptcies. Competition from Ecommerce and value retailers also muted demand. There was also a 20% increase in move-outs as leases expired. Supply growth continued to be constrained and was 30% of the pre-pandemic average. The bright spot is that there is strong demand to backfill quality class A space. The national average retail asking rents **were up 0.3%** for the quarter and **were up 2.0%** year-over-year.

Retail Market Cycle Analysis

2nd Quarter 2025

Phase 2 – Expansion

Phase 3 – Hypersupply



Source: Mueller, 2025

Note: The 14-largest retail markets make up 50% of the total square footage of retail space we monitor. Thus, the 14-largest retail markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

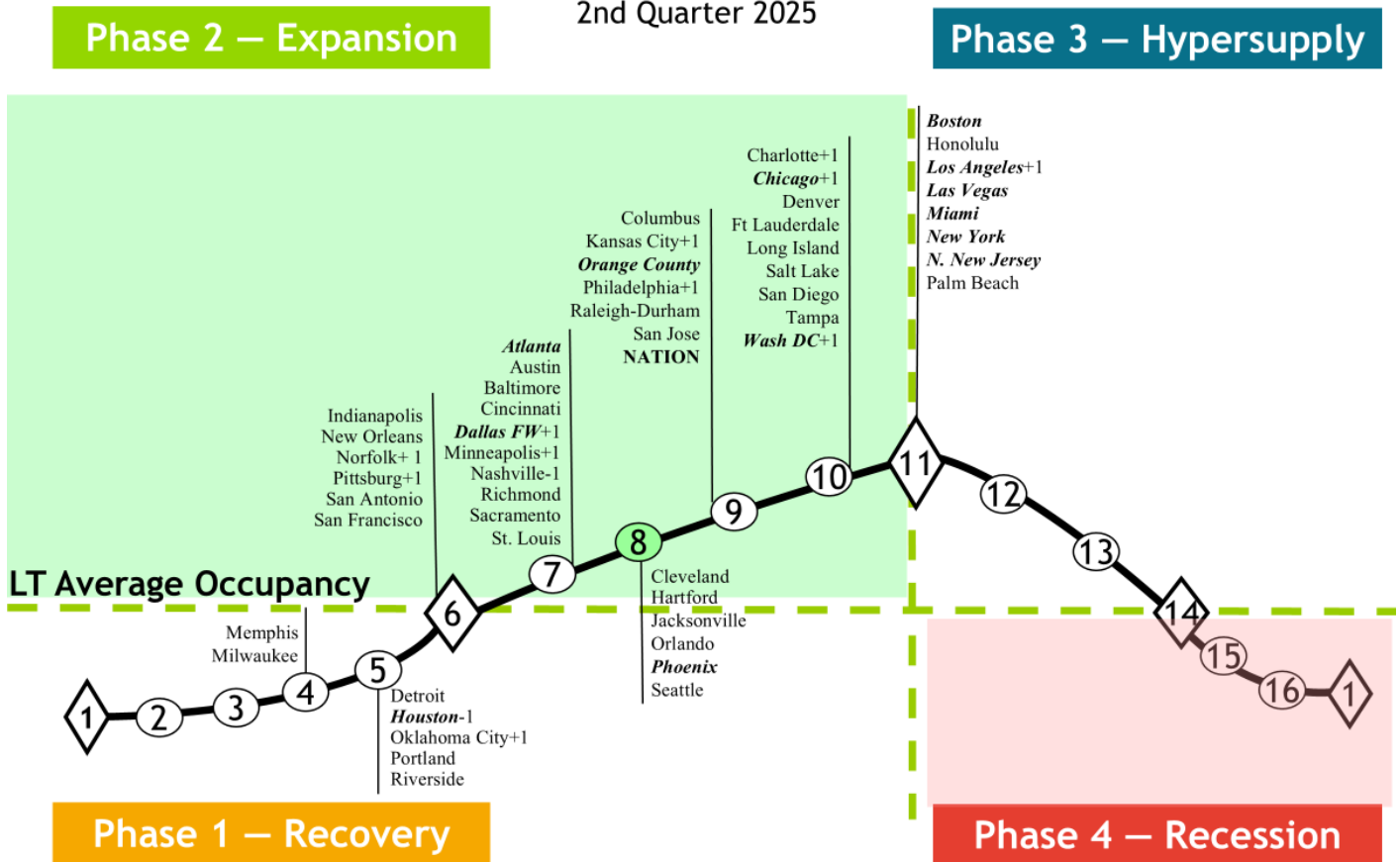
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Hotel

Hotel occupancies were **up 0.3%** in 2Q25 and **up 1.3%** year-over-year. Travelers have become more cautious. Cruise pricing became more aggressive creating more competition for recreational hotels. Thus, the spring travel season created moderate demand growth. Fortunately, supply growth was low at a level 10% below the post pandemic growth rate, allowing many markets to improve slightly. National average Revenue Per Available Room – (RevPAR) was **up 0.5%** for the quarter and **up 1.9%** year-over-year.

Hotel Market Cycle Analysis

2nd Quarter 2025



Source: Mueller, 2025

Note: The 14-largest hotel markets make up 50% of the total square footage of retail space we monitor. Thus, the 14-largest hotel markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

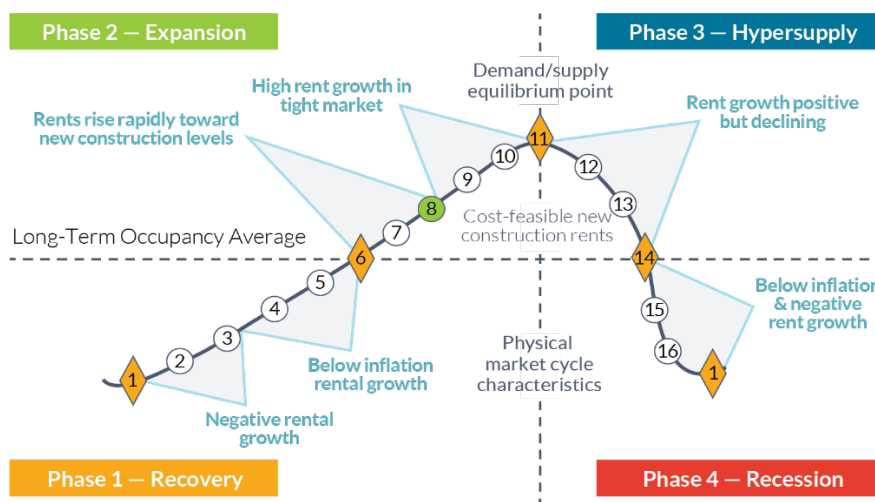
Market Cycle Analysis — Explanation

Supply and demand interaction is important to understand. Starting in Recovery Phase I at the bottom of a cycle (see chart below), the marketplace is in a state of oversupply from either previous new construction or negative demand growth. At this bottom point, occupancy is at its trough. Typically, the market bottom occurs when the excess construction from the previous cycle stops. As the cycle bottom is passed, demand growth begins to slowly absorb the existing oversupply and supply growth is nonexistent or very low. As excess space is absorbed, vacancy rates fall, allowing rental rates in the market to stabilize and even begin to increase. As this recovery phase continues, positive expectations about the market allow landlords to increase rents at a slow pace (typically at or below inflation). Eventually, each local market reaches its *long-term occupancy average*, whereby rental *growth is equal to inflation*.

In Expansion Phase II, demand growth continues at increasing levels, creating a need for additional space. As vacancy rates fall below the *long-term occupancy average*, signaling that supply is tightening in the marketplace, rents begin to rise rapidly until they reach a cost-feasible level that allows new construction to commence. In this period of tight supply, rapid rental growth can be experienced, which some observers call “rent spikes.” (Some developers may also begin speculative construction in anticipation of cost-feasible rents if they are able to obtain financing). Once cost-feasible rents are achieved in the marketplace, demand growth is still ahead of supply growth — a lag in providing new space due to the time to construct. Long expansionary periods are possible and many historical real estate cycles show that the overall up-cycle is a slow, long-term uphill climb. As long as demand growth rates are higher than supply growth rates, vacancy rates should continue to fall. The cycle peak point is where demand and supply are growing at the same rate *or equilibrium*. Before equilibrium, demand grows faster than supply; after equilibrium, supply grows faster than demand.

Hypersupply Phase III of the real estate cycle commences after the peak / equilibrium point #11 — where demand growth equals supply growth. Most real estate participants do not recognize this peak / equilibrium’s passing, as occupancy rates are at their highest and well above long-term averages, a strong and tight market. During Phase III, supply growth is higher than demand growth (hypersupply), causing vacancy rates to rise back toward the long-term occupancy average. While there is no painful oversupply during this period, new supply completions compete for tenants in the marketplace. As more space is delivered to the market, rental growth slows. Eventually, market participants realize that the market has turned down and commitments to new construction should slow or stop. If new supply grows faster than demand once the long-term occupancy average is passed, the market falls into Phase IV.

Recession Phase IV begins as the market moves past the long-term occupancy average with high supply growth and low or negative demand growth. The extent of the market down-cycle is determined by the difference (excess) between the market supply growth and demand growth. Massive oversupply, coupled with negative demand growth (that started when the market passed through long-term occupancy average in 1984), sent most U.S. office markets into the largest down-cycle ever experienced. During Phase IV, landlords realize that they could quickly lose market share if their rental rates are not competitive. As a result, they then lower rents to capture tenants, even if only to cover their buildings’ fixed expenses. Market liquidity is also low or nonexistent in this phase, as the bid–ask spread in property prices is too wide. The cycle eventually reaches bottom as new construction and completions cease, or as demand growth turns up and begins to grow at rates higher than that of new supply added to the marketplace.



Source: Mueller, Real Estate Finance, 1996

This research currently monitors five property types in 54 major markets. We gather data from numerous sources to evaluate and forecast market movements. The market cycle model we developed looks at the interaction of supply and demand to estimate future vacancy and rental rates. Our individual market models are combined to create a national average model for all U.S. markets. This model examines the current cycle locations for each property type and can be used for asset allocation and acquisition decisions.

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