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UNIVERSITY OF DENVER

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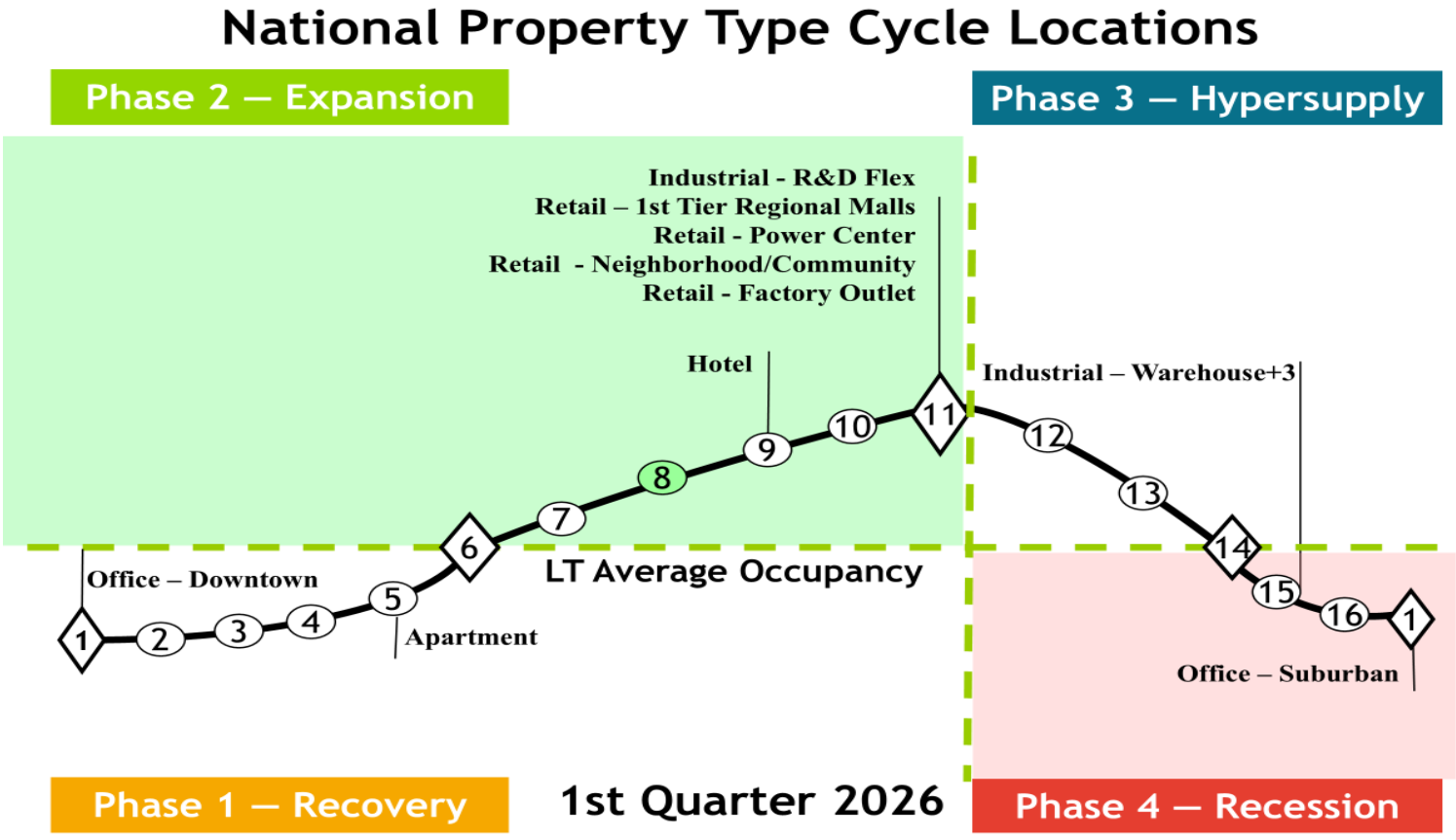
Mueller - Chacon
Real Estate Market Cycle Monitor
First Quarter 2026 Analysis – May 2026

The Physical Market Cycle Analysis of 5 Property Types in 56 Metropolitan Statistical Areas (MSAs).
The U.S. economy grew at a 1.6% annualized rate in 2026Q1, supported by consumer spending and AI-related business investments. The labor market saw an early hiring burst with 130,000 jobs added in January and an unemployment rate stabilizing around 4.3%. However, inflation proved persistent, with the PCE index increasing at a 4.5% rate. Commercial real estate property type trends are quite different, with low supply allowing retail and hotel to do well, while oversupply continues to hurt industrial and apartment, and office is hurting from slow demand growth.

Office occupancy **increased 0.1%** in 1Q26, while rents **were up 1.1%** for the quarter and **were up 1.0%** annually.
Industrial occupancy was flat in 1Q26, but rents were flat for the quarter and **were up 1.5%** annually.
Apartment occupancy **decreased -0.1%** in 1Q26, and rents **were up 0.9%** for the quarter, and **were up 0.2%** annually.
Retail occupancy was flat in 1Q26, and rents **were up 0.4%** for the quarter and **were up 2.3%** annually.
Hotel occupancy **increased 0.05%** in 1Q26, and RevPAR **improved 1.4%** for the quarter and was **up 5.9%** annually.



Source: Mueller, 2026

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

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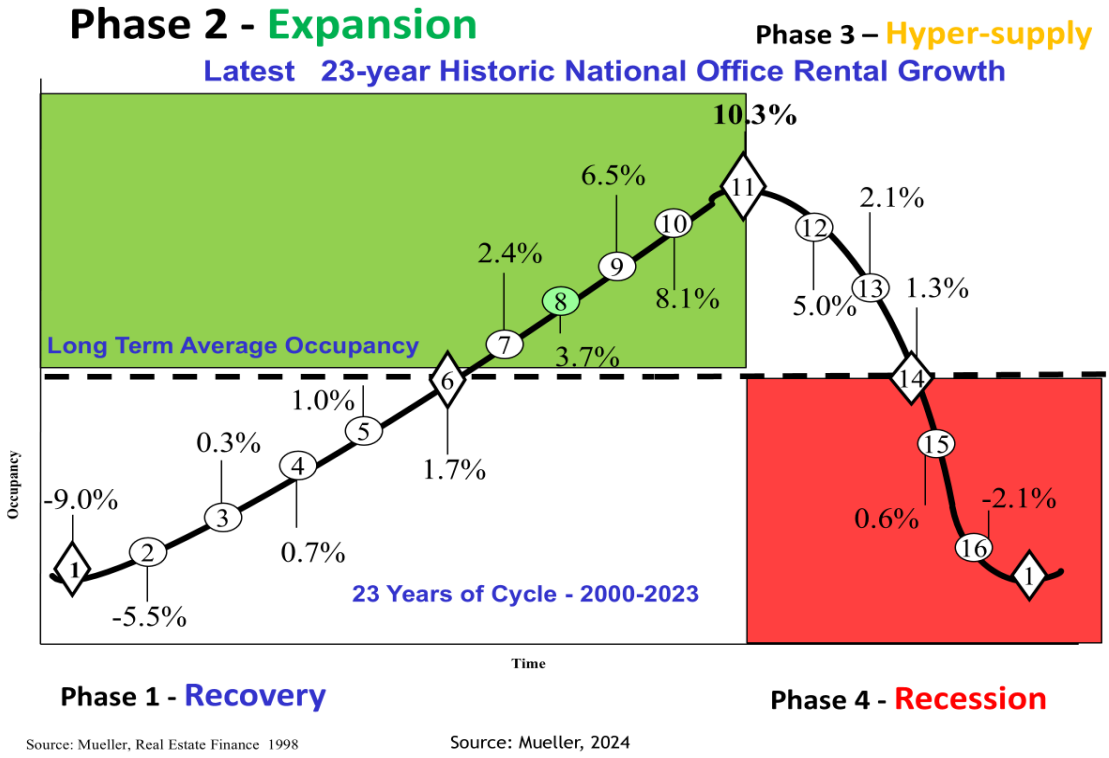
The cycle monitor analyzes occupancy movements in five property types in 56 MSAs. Market cycle analysis should enhance investment-decision capabilities for investors and operators. The five property type cycle charts summarize almost 300 individual models that analyze occupancy levels and rental growth 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. The ***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.

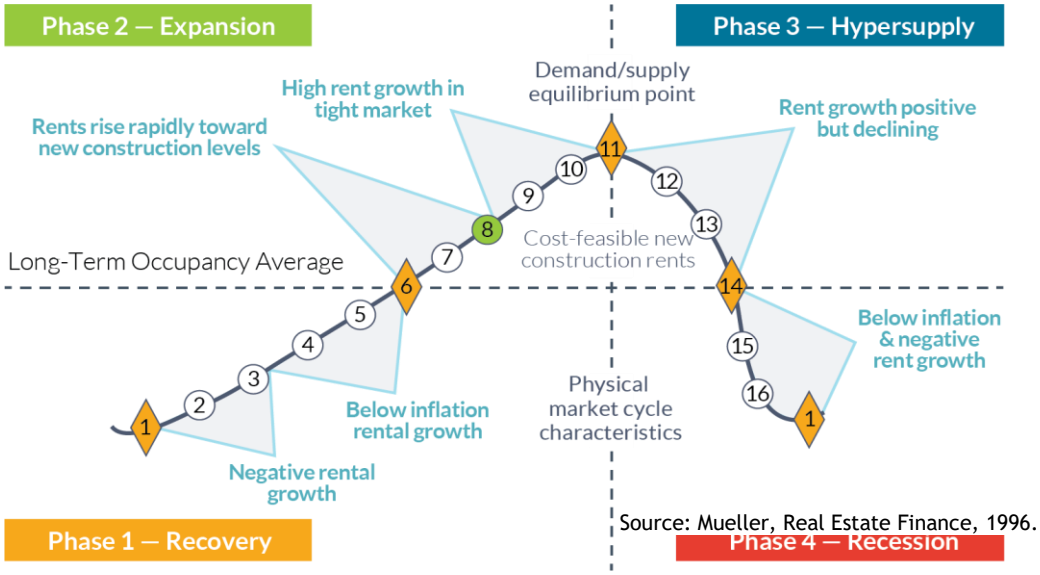
Market Cycle Quadrants



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.

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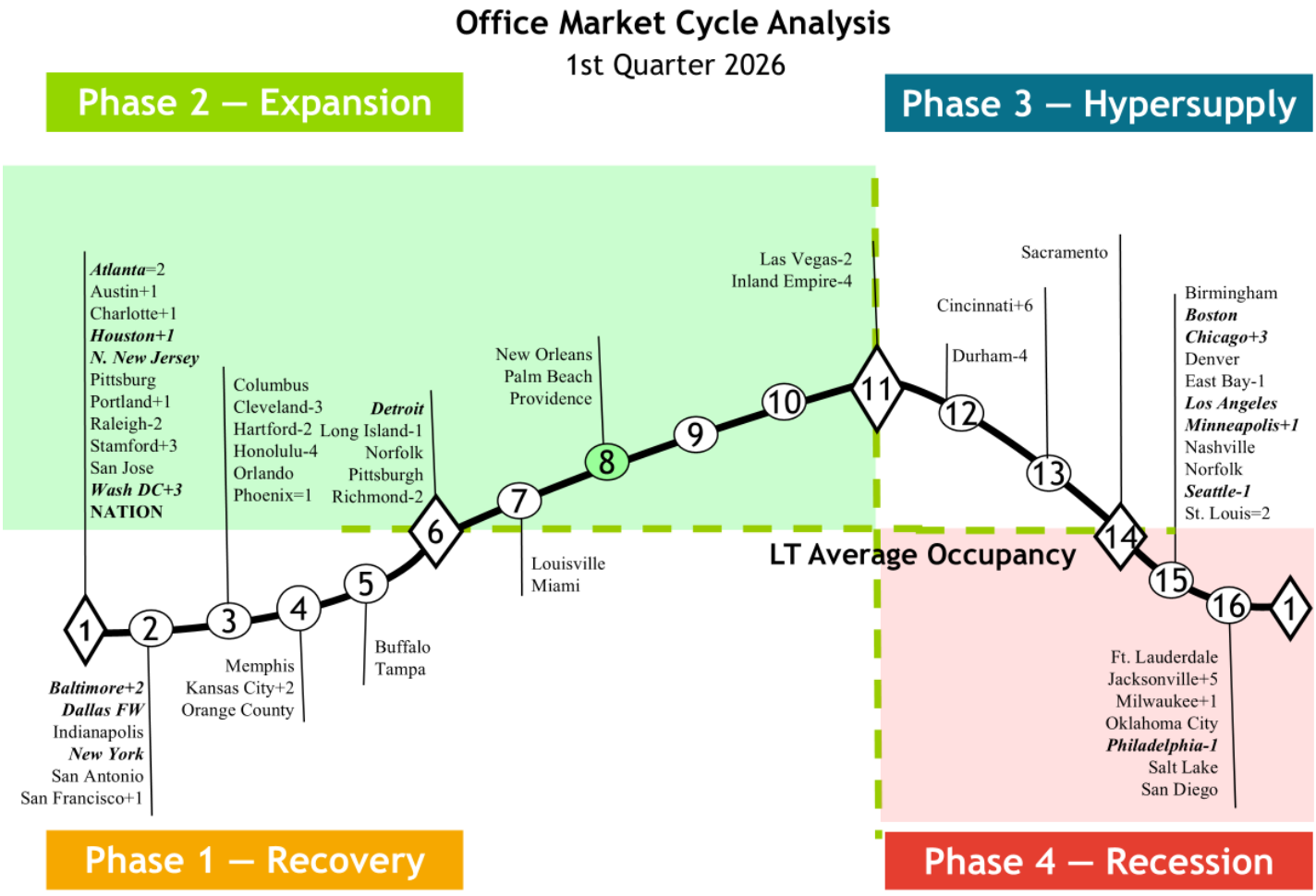
Office

The national office market occupancy level **was up 0.1%** in 1Q26 and **was up 0.1%** year-over-year. Demand was slow as job growth was not happening in the office-using sector much, except for AI in certain cities. New supply continued at a historically low level. 115 million square feet of new leases were signed in 26Q1. Average lease size was down 15%. There are building winners in each market that have average occupancies over 90% and losers that are below 75%. Building location is important in some major cities like New York where well-located class B buildings are doing fine, but almost nowhere else. Suburban is doing better than downtown in many smaller markets. Asking rental rates **were up 1.1%** in 1Q26 and **were up 1.0%** year-over-year.



Source: Mueller, 2026

Note: The 14-largest office markets make up 50% of the total square footage of office space we monitor in the 56 markets we cover. Thus, the 12-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.

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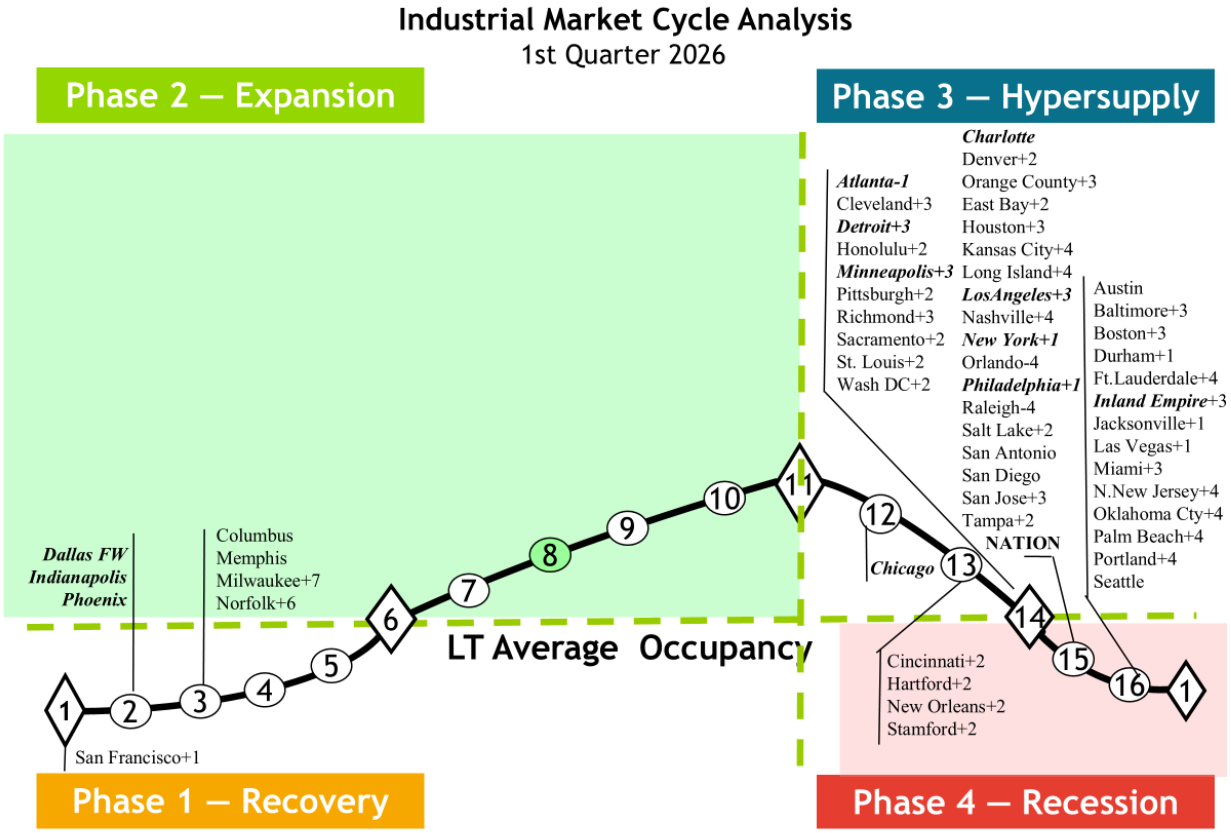
Industrial

Industrial occupancies **decreased -0.1%** in 1Q26 and were **down -0.5%** year-over-year (placing the national average in the recession phase of the cycle). Supply continues to outstrip demand, giving tenants more bargaining power. Average lease-up time has increased from 3.5 to 5 months. International trade continues to be volatile and uncertain, providing asymmetric risk to the downside, particularly for coastal markets and inland "port" markets that break bulk from sea containers. Asking rent growth was flat at 0.0% in 1Q26 and annual rent growth was **up 1.5%** year-over-year.



Source: Mueller, 2026

Note: The 13-largest industrial markets make up 50% of the total square footage of industrial space we monitor in 56 markets. Thus, the 13-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.

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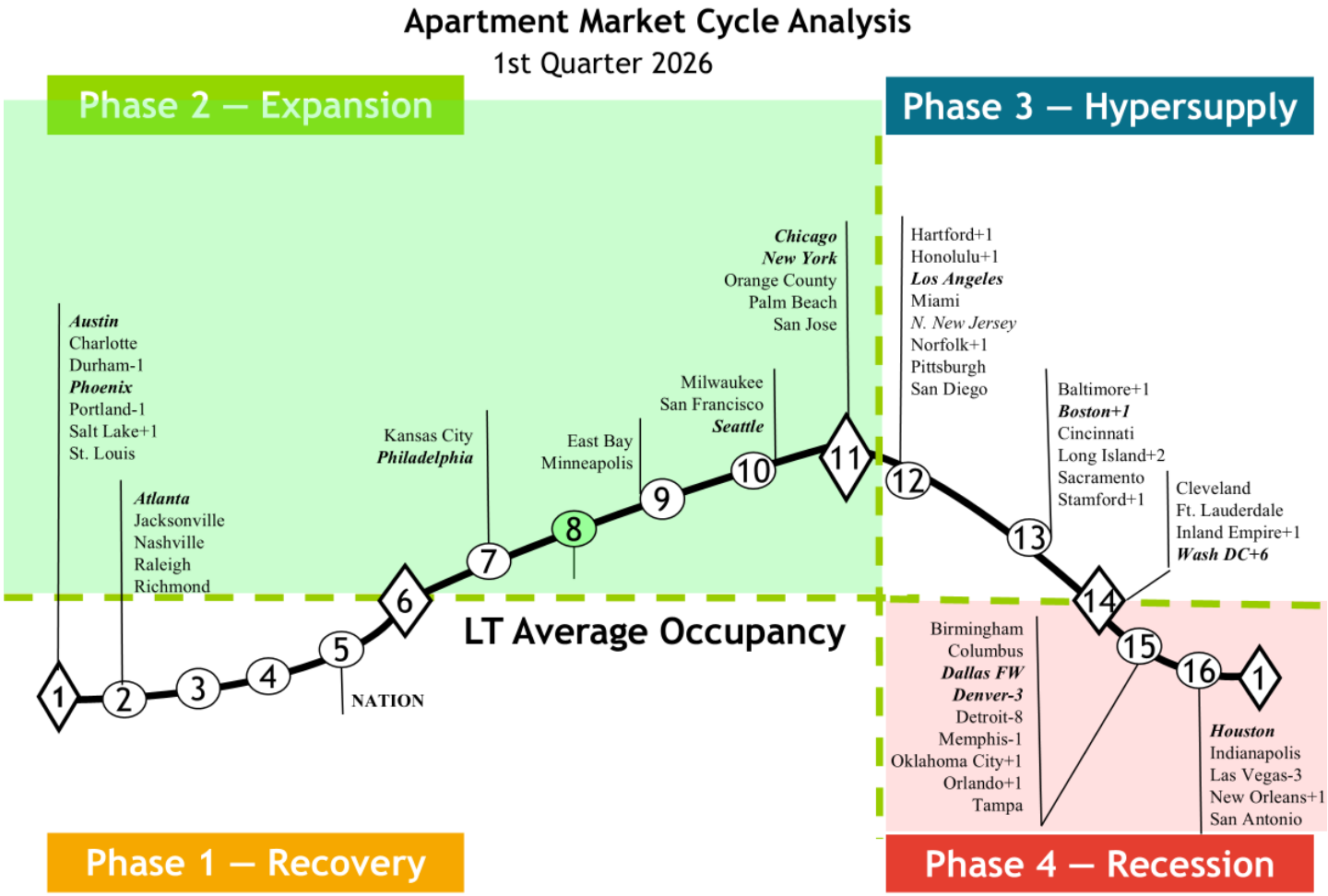
Apartment

The national apartment occupancy average **was down -0.1%** in 1Q26 and **was down -0.3%** year-over-year. Weak job growth muted new demand growth. New annual supply of 470,000 units outpaced new leasing of 412,000 units, so net absorption was down 30% year-over-year. New buildings continue to steal tenants from older buildings with creative incentives and free rent. Nationally, suburban apartments are generally "doing better" in terms of occupancy and steady rent growth, benefiting from affordability and more square footage. National average apartment rent growth **was up 0.9%** in 1Q26 and **up 0.2%** year-over-year.



Source: Mueller, 2026

Note: The 12-largest apartment markets make up 50% of the total square footage of 56 apartment markets we monitor. Thus, the 12-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.

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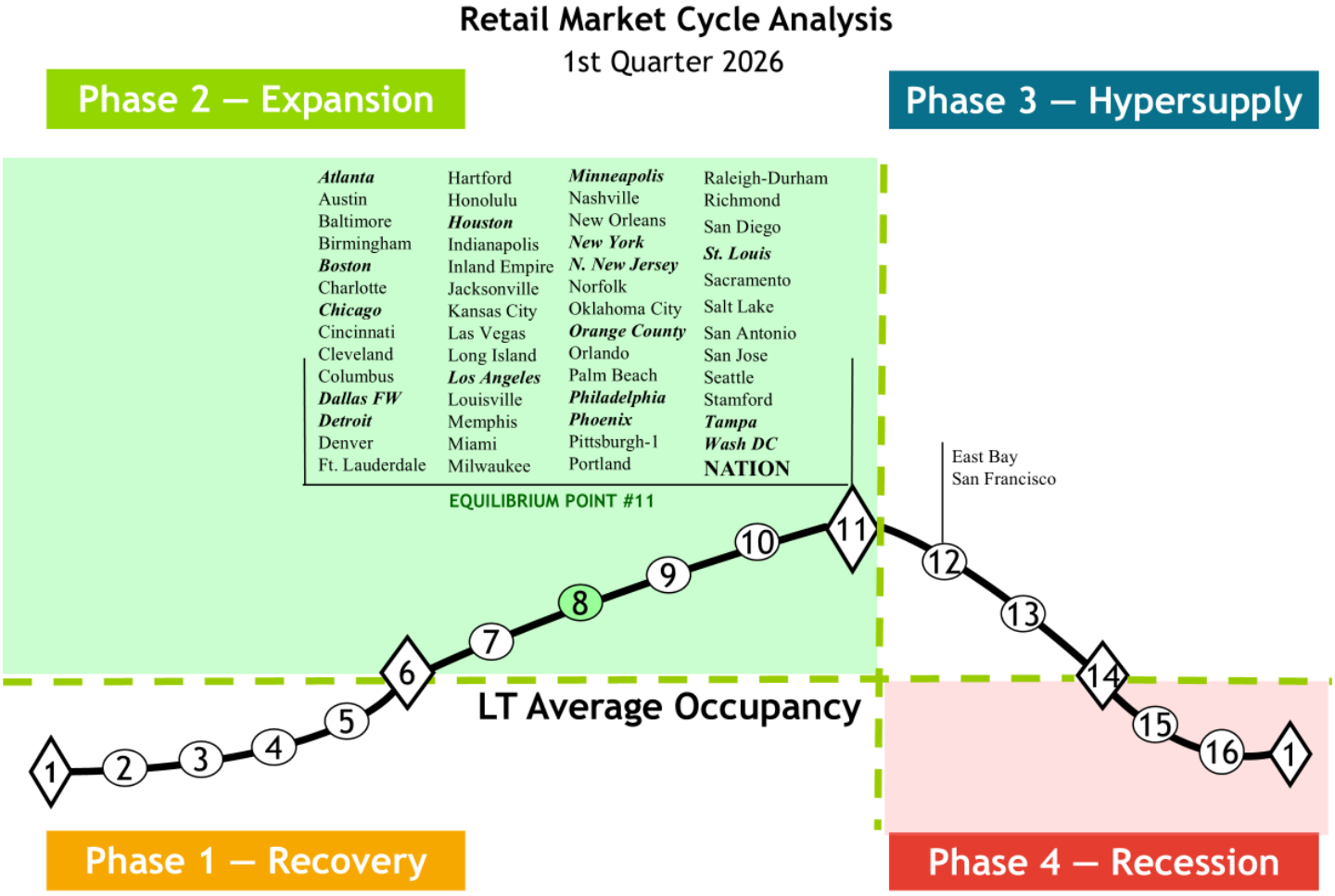
Retail

Retail occupancy was flat nationally in 1Q26, and **up 0.2%** year-over-year, very close to the historic all-time peak-occupancy level. Even though the 1st quarter is a seasonally weak leasing time, strong backfill demand absorbed all the multi-location and mom & pop retail store closures. 54 million square feet were leased in 1Q26. Lease-up time is at a multi-decade low. The Midwest and Sunbelt markets have performed the best. The national average retail-asking rents **were up 0.4%** for the quarter and **were up 2.3%** year-over-year.



Source: Mueller, 2026

Note: The 15-largest retail markets make up 50% of the total square footage of retail space in the 56 markets we monitor. Thus, the 15-largest retail 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.

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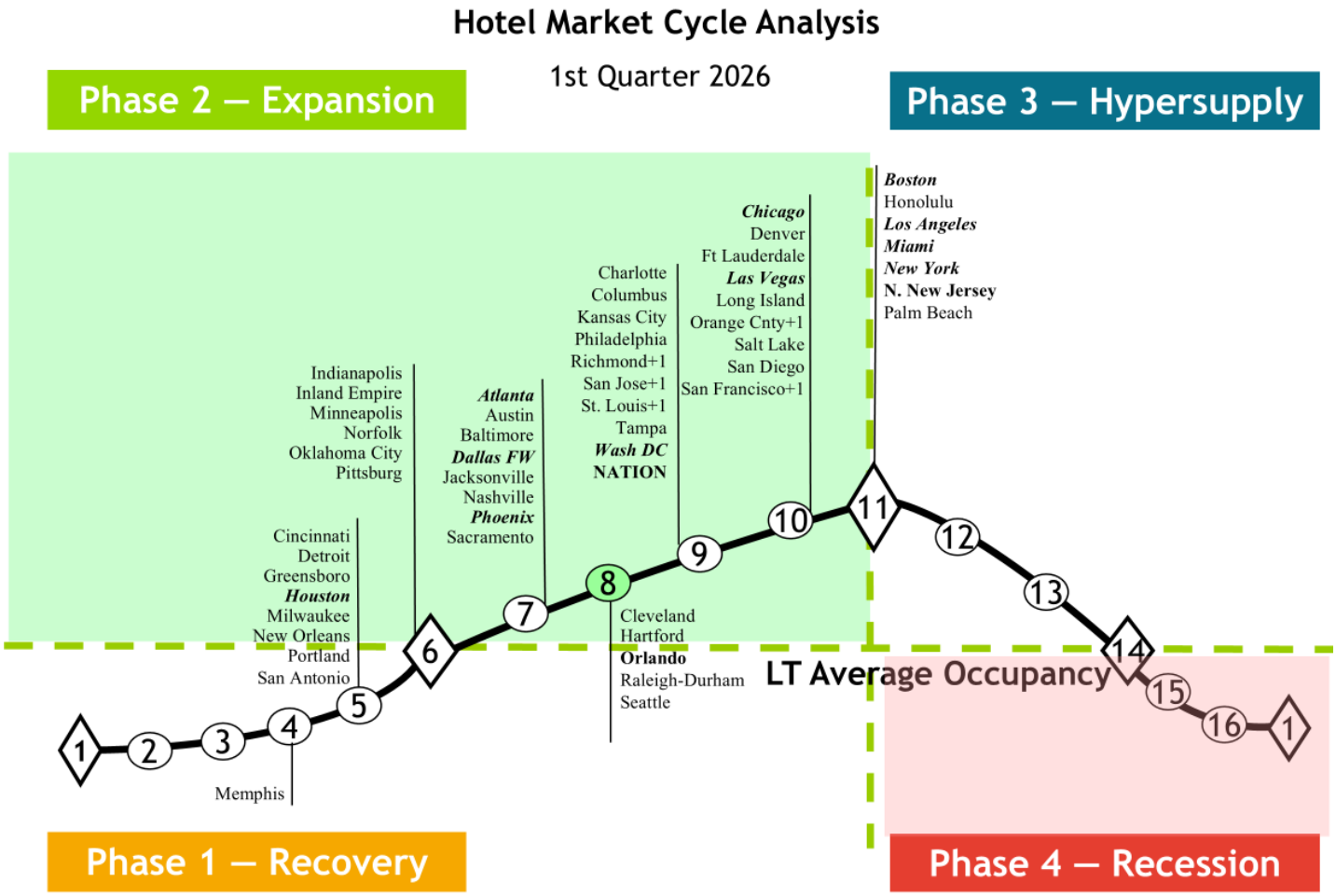
Hotel

Hotel occupancies **were up 0.05%** in 1Q26 and **were up 0.2%** year-over-year. Healthy demand growth occurred in 1Q26 with high-end and limited-service hotels leading the way. Economy-class hotels did not do well. Conference demand was up 2% year-over-year. New construction continued at a historic low due to high costs. 70% of new construction was in the limited-service property type. Most new luxury hotels have a condominium component and prefer to have the condo units sold before they start construction. National average Revenue Per Available Room (RevPAR) was **up 1.4%** for the quarter and was **up 5.9%** year-over-year.



Source: Mueller, 2026

Note: The 13-largest hotel markets make up 50% of the total rooms of the 56 hotel markets we monitor. Thus, the 13-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.

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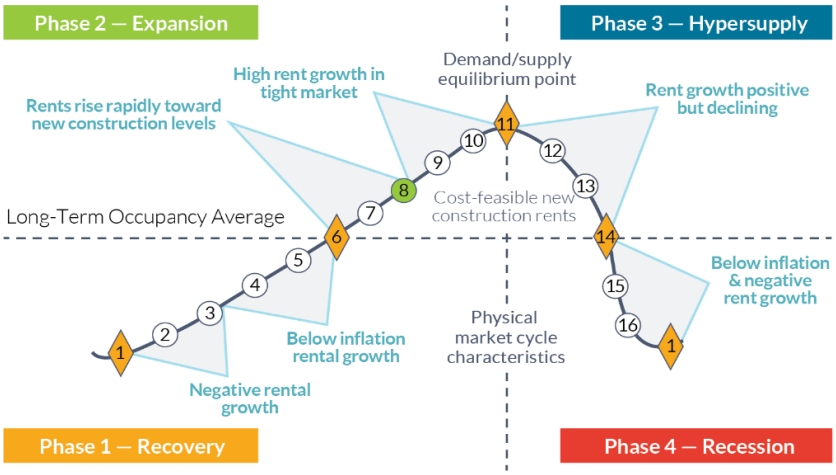
Market Cycle Analysis — Explanation

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 occupancy rates rise above 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 (point 8 on the cycle chart). 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, occupancy rates should continue to rise. 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 the 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 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 56 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 occupancy 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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