

Mueller

Real Estate Market Cycle Monitor

Third Quarter 2025 Analysis – November 2025

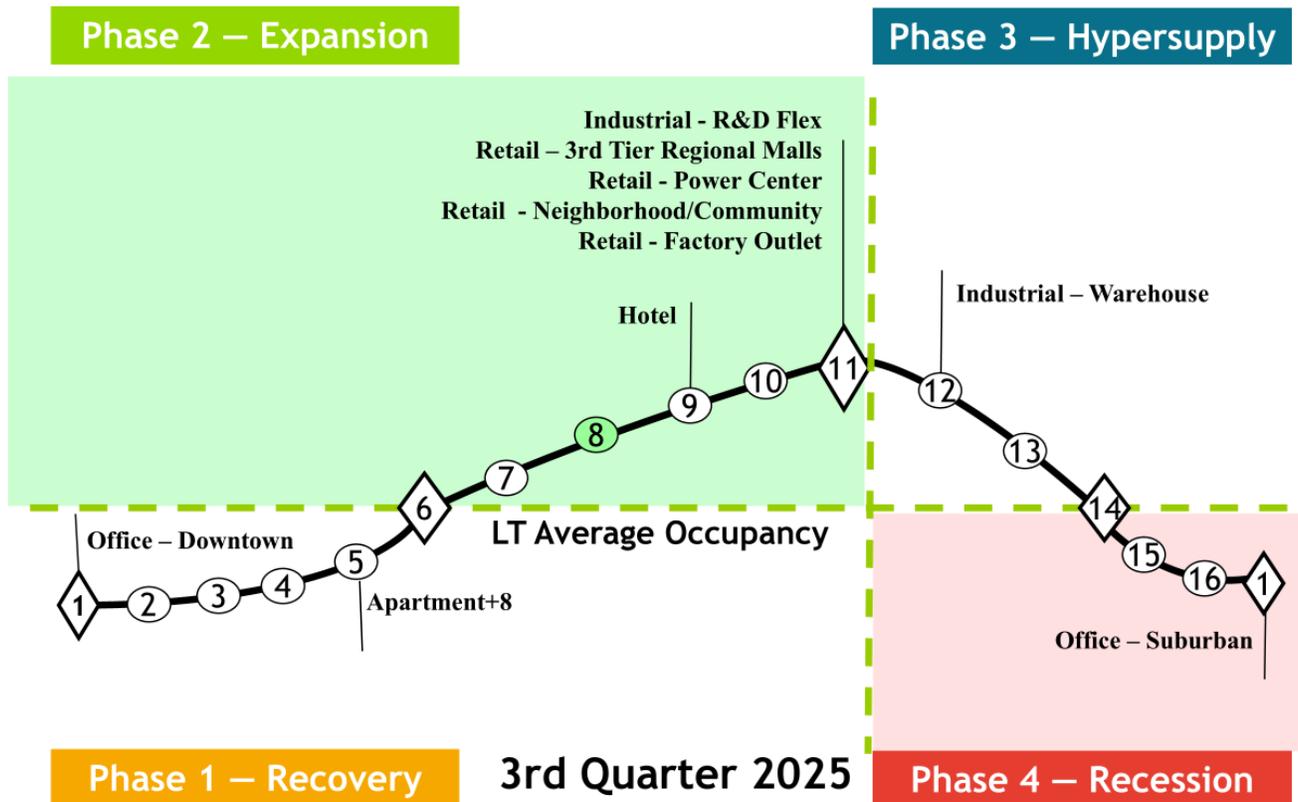
The Physical Market Cycle Analysis of 5 Property Types in 54 Metropolitan Statistical Areas (MSAs).

MAJOR UPDATES to the report are included. We have reviewed city growth and added several additional markets to the report increasing the number from 54 to 59 in most property types. A special report on the changes will be out soon.

The US economy grew - yet again - and the stock market retained high levels. Employment growth had positive surprises – even with a government shutdown, remaining stable with continued moderate increases. Property sectors and cities had mixed results, but low supply growth continued to allow for occupancy improvements in general. Sales transactions increased and there has been an average sale price increase across the country, year-to-date.

Office occupancy **increased 0.1%** in 3Q25, while rents **were up 0.1%** for the quarter and **were up 0.7%** annually. Industrial occupancy **decreased 0.1%** in 3Q25, but rents **were up 0.4%** for the quarter and **were up 1.6%** annually. Apartment occupancy **was flat** in 3Q25, and rents **were up 0.4%** for the quarter, and **were up 1.6%** annually. Retail occupancy **was down -0.1** in 3Q25, and rents **were up 0.5%** for the quarter and **were up inc%** annually. Hotel occupancy **was down -0.2%** in 3Q25, and Rev PAR **grew 0.2%** for the quarter and **was up 0.8%** annually.

National Property Type Cycle Locations



Source: Mueller, 2025

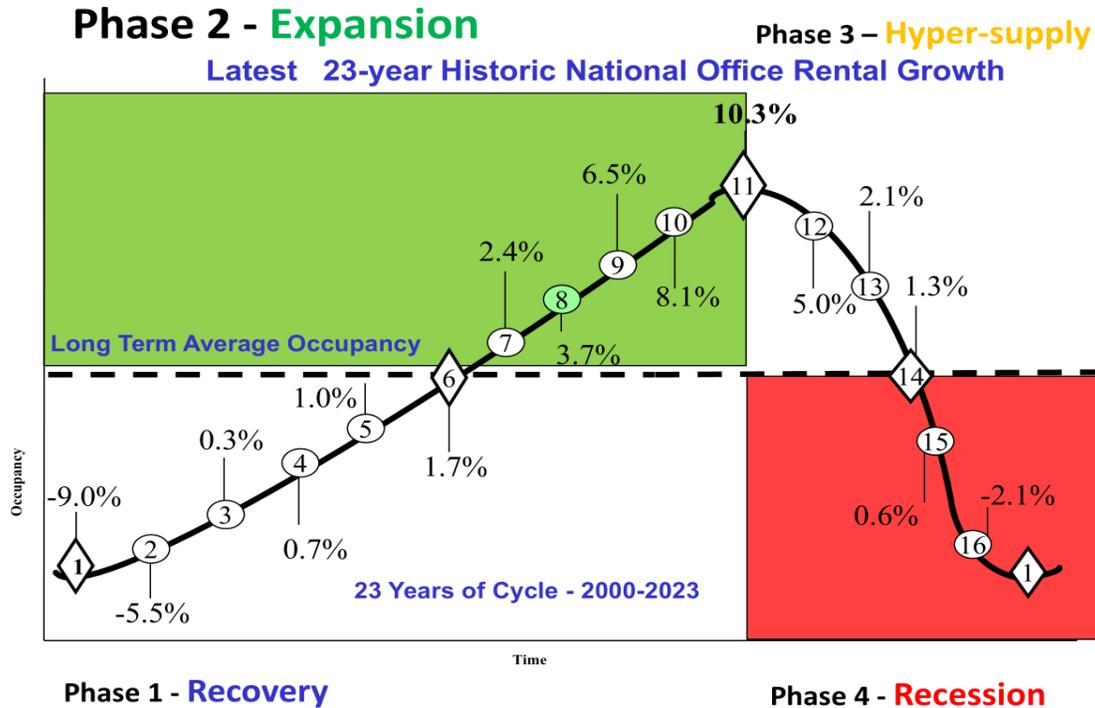
The National Property Type Cycle Locations graph shows relative positions of the sub-property types.

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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.

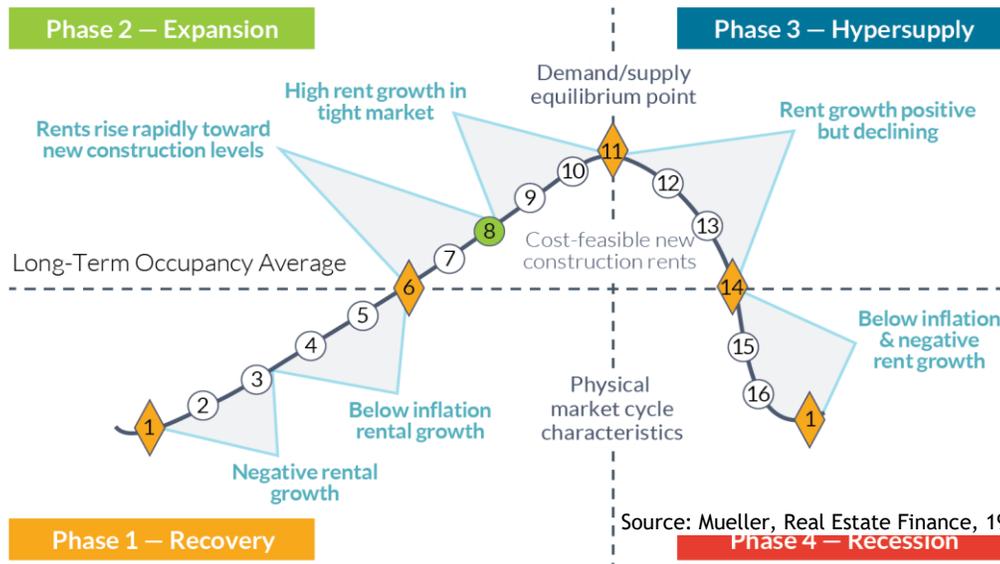
Market Cycle Quadrants



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.

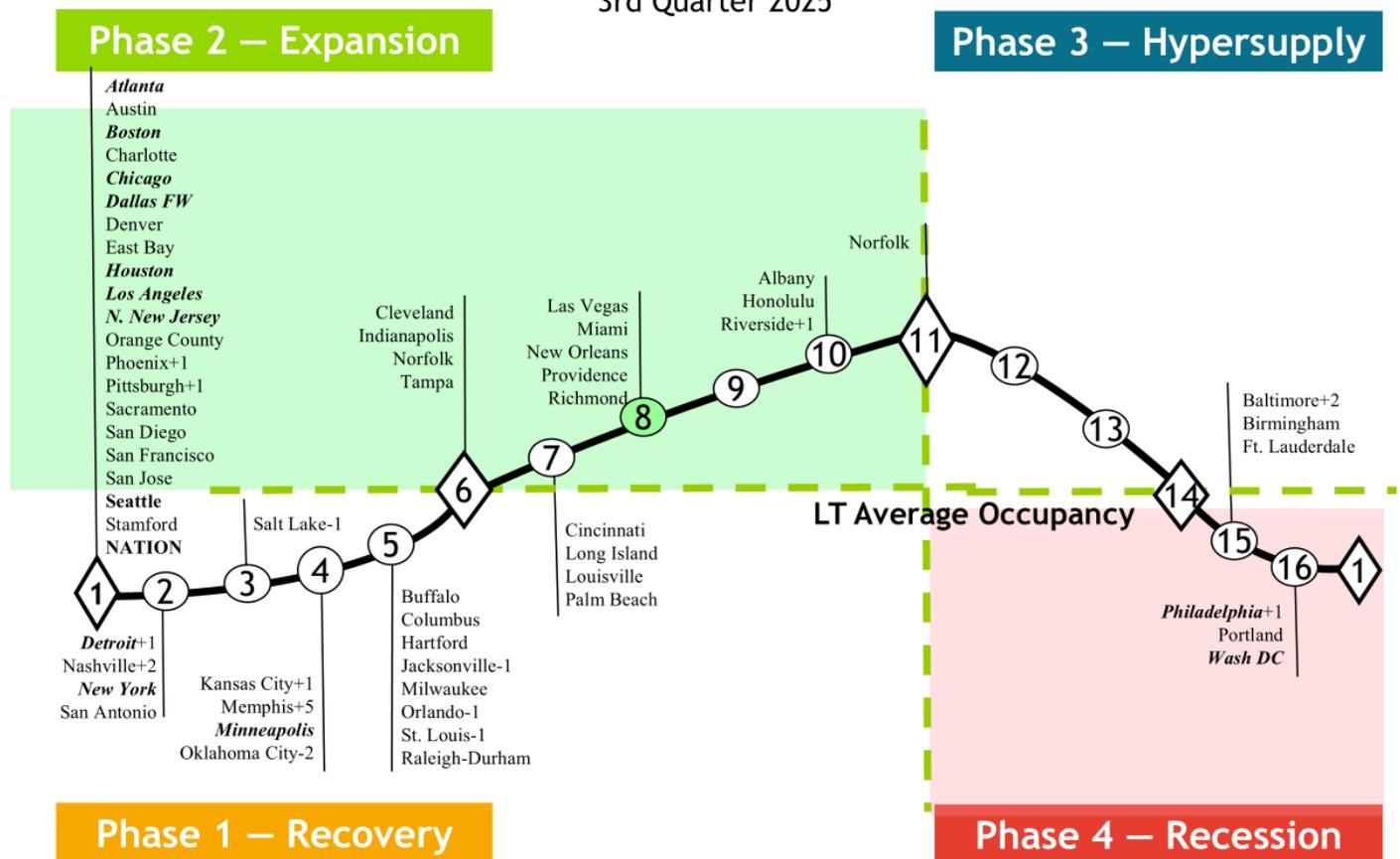
Source: Mueller, Real Estate Finance, 1996.

Office

The national office market occupancy level **was up 0.1%** in 3Q25 and **was down -03%** year-over-year. Demand rebounded in 3Q25 with positive net absorption. New York and Dallas/FW led the way, while Chicago, Los Angeles and Washington DC still struggled. Demand was still concentrated in class A and top location buildings (including some older buildings). Many large tenants renewed their existing space with smaller footprints, allowing small tenants to get into top buildings. New supply was finally low, with only 11 million square feet delivered in 2025 so far. Asking rental rates **were up 0.1%** in 3Q25 and **were up 0.7%** year-over-year.

Office Market Cycle Analysis

3rd Quarter 2025



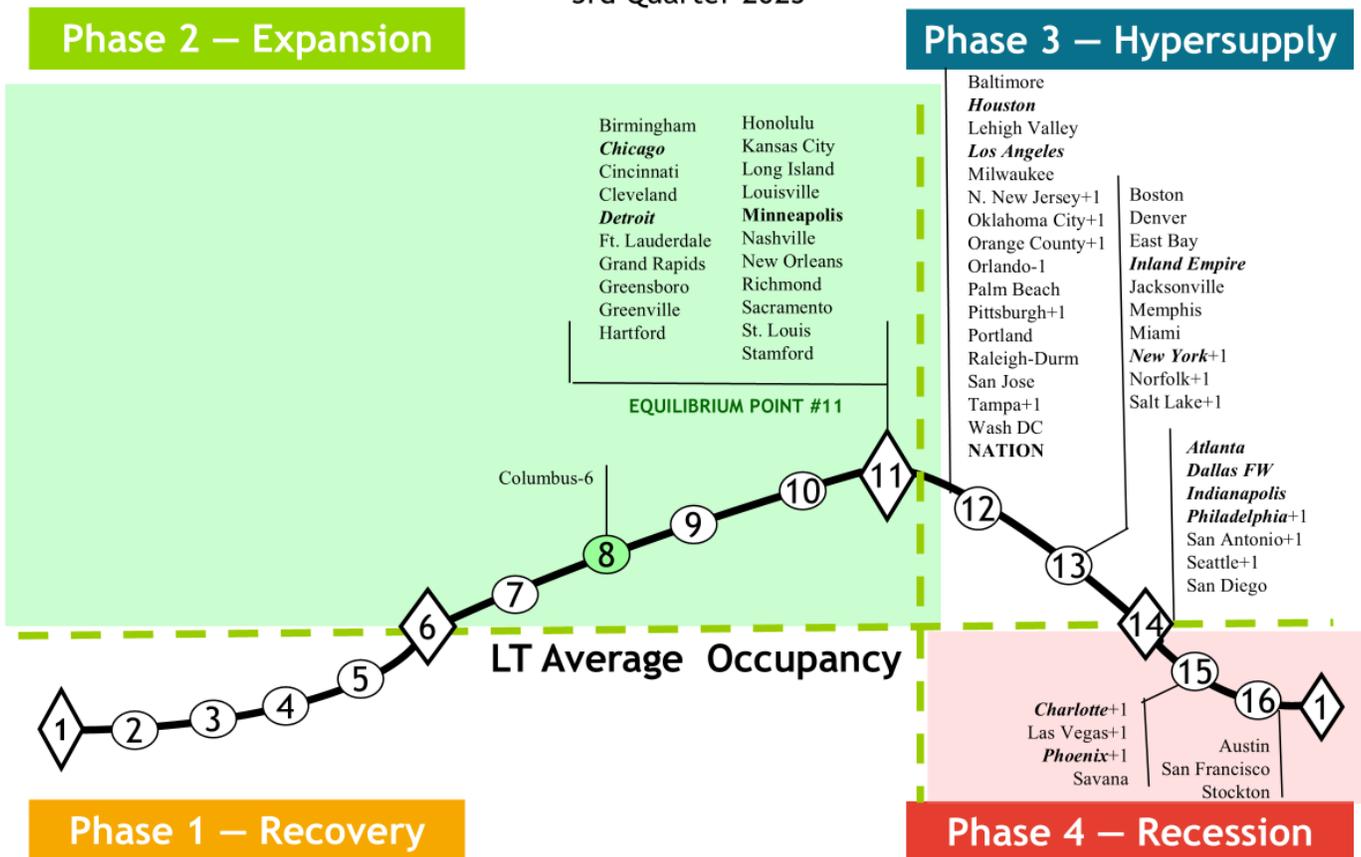
Source: Mueller, 2025

Note: **The 12-largest office markets make up 50% of the total square footage of office space we monitor in the 61 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.

Industrial

Industrial occupancies **decreased 0.1%** in 3Q25 and **were down 0.9%** year-over-year (keeping the national average in the hyper-supply phase of the cycle). Demand has been positive, but weaker due to international trade uncertainty. Amazon has leased almost 60 new fulfillment centers and 50 new inbound cross-dock facilities since 2023. Most markets have shifted to renters having the leasing advantage and lease up times have increased from 3 to 5 months. Logistics properties between 100k and 500k are the worst sector with vacancy over 10%, while small bay space has performed best in 2025. Asking rent growth **increased 0.4%** in 3Q25 and annual rent growth **was up 1.6%** year-over-year.

Industrial Market Cycle Analysis 3rd Quarter 2025



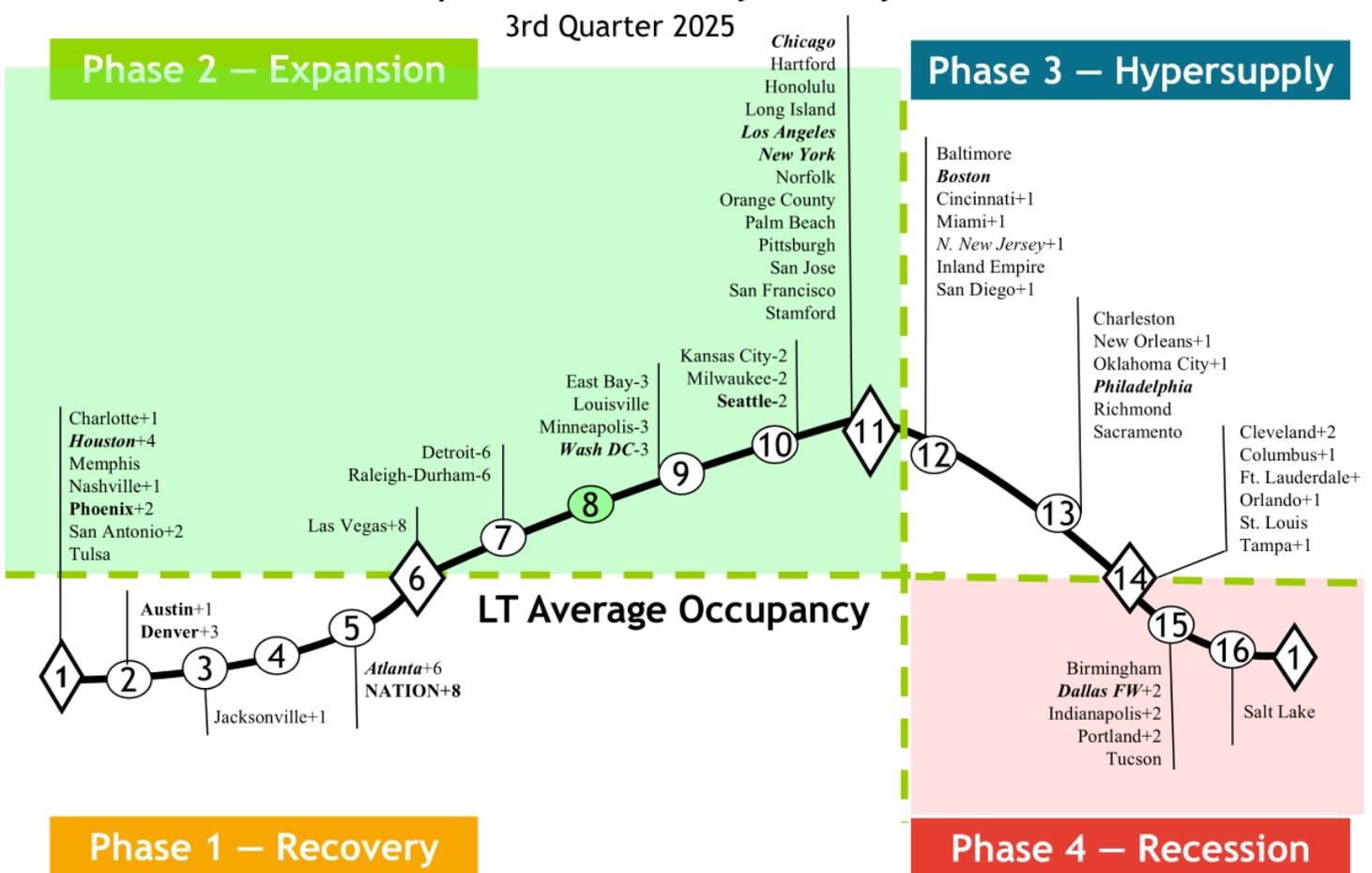
Source: Mueller, 2025

Note: **The 13-largest industrial markets make up 50% of the total square footage of industrial space we monitor in 51 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.

Apartment

The national apartment occupancy average **was flat** in 3Q25 and **was down -0.1%** year-over-year. Job growth was up 1% year over year – allowing for positive demand growth in apartments, unfortunately the strong supply growth of the past four years has continued – not allowing occupancy to rise. 3Q25 saw 114,000 units absorbed with the southwest and New York leading the demand growth. New properties are stealing tenants from older buildings using lower asking rents – this has caused existing B&C properties to experience occupancy declines. We do believe that a turning point should happen in the next 3 quarters and have moved the national average from the Hypersupply to the Recovery phase (1) of the cycle. National average apartment rent growth **was up 0.4%** in 3Q25 and **up 1.6%** year-over-year.

Apartment Market Cycle Analysis



Source: Mueller, 2025

Note: **The 12-largest apartment markets make up 50% of the total square footage of 59 multifamily 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.

Retail

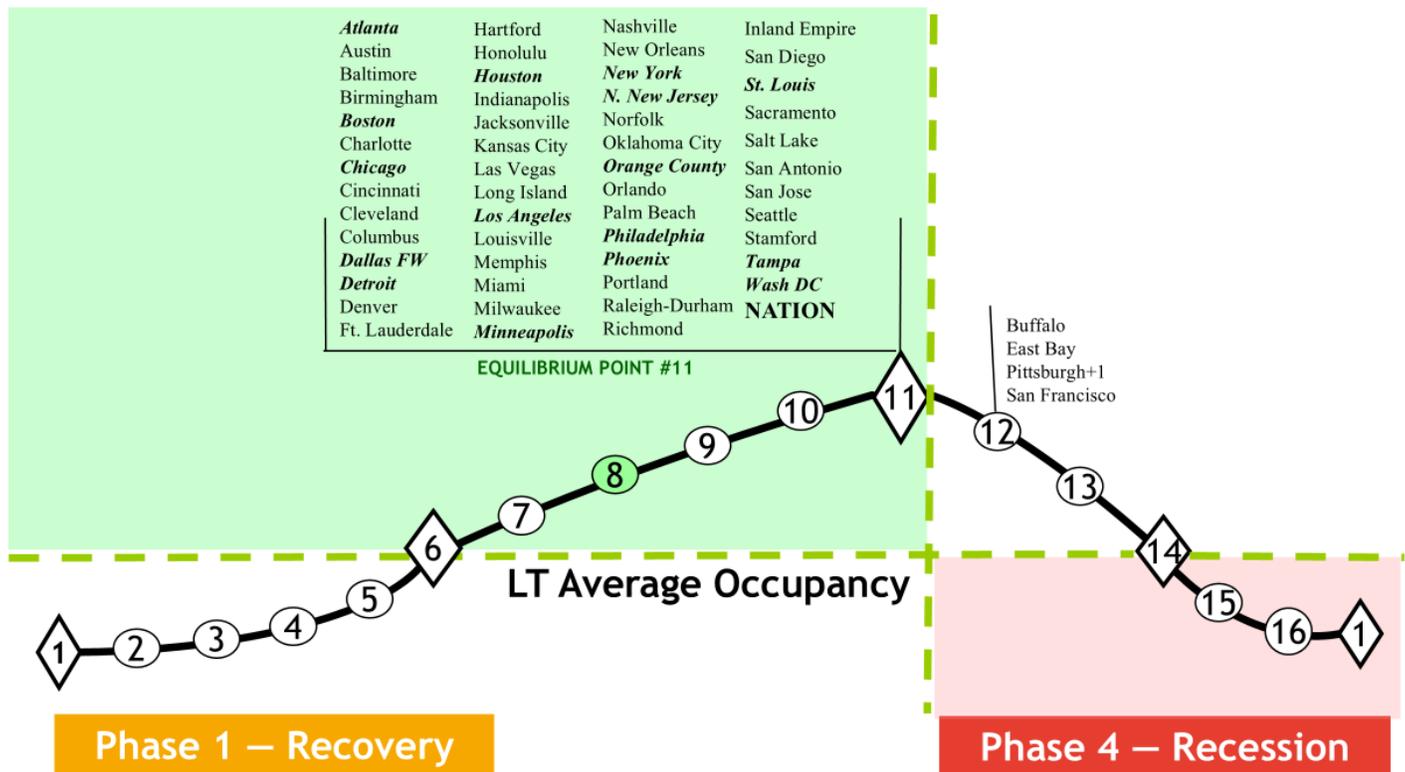
Retail occupancy **was down -0.1%** nationally in 3Q25, and **down -0.3%** year-over-year, mildly off the highest peak-occupancy level in retail's history. Retail sales were up 4.2% year-over-year, causing demand to turn positive in 3Q25. There were 91 million square feet of move-ins, while store closures and bankruptcies slowed - causing available space for rent to be 12% below the 10-year average. Lease up time was also down to a historic low. Free standing, small format and inline space have been in the highest demand. Supply is still slow due to the high finance and construction costs, thus little speculative space is being built. The national average retail asking rents **were up 0.5%** for the quarter and **were up 1.9%** year-over-year.

Retail Market Cycle Analysis

3rd Quarter 2025

Phase 2 – Expansion

Phase 3 – Hypersupply



Source: Mueller, 2025

Note: **The 15-largest retail markets make up 50% of the total square footage of retail space in the 59 markets we monitor.** Thus, the 15-largest retail markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

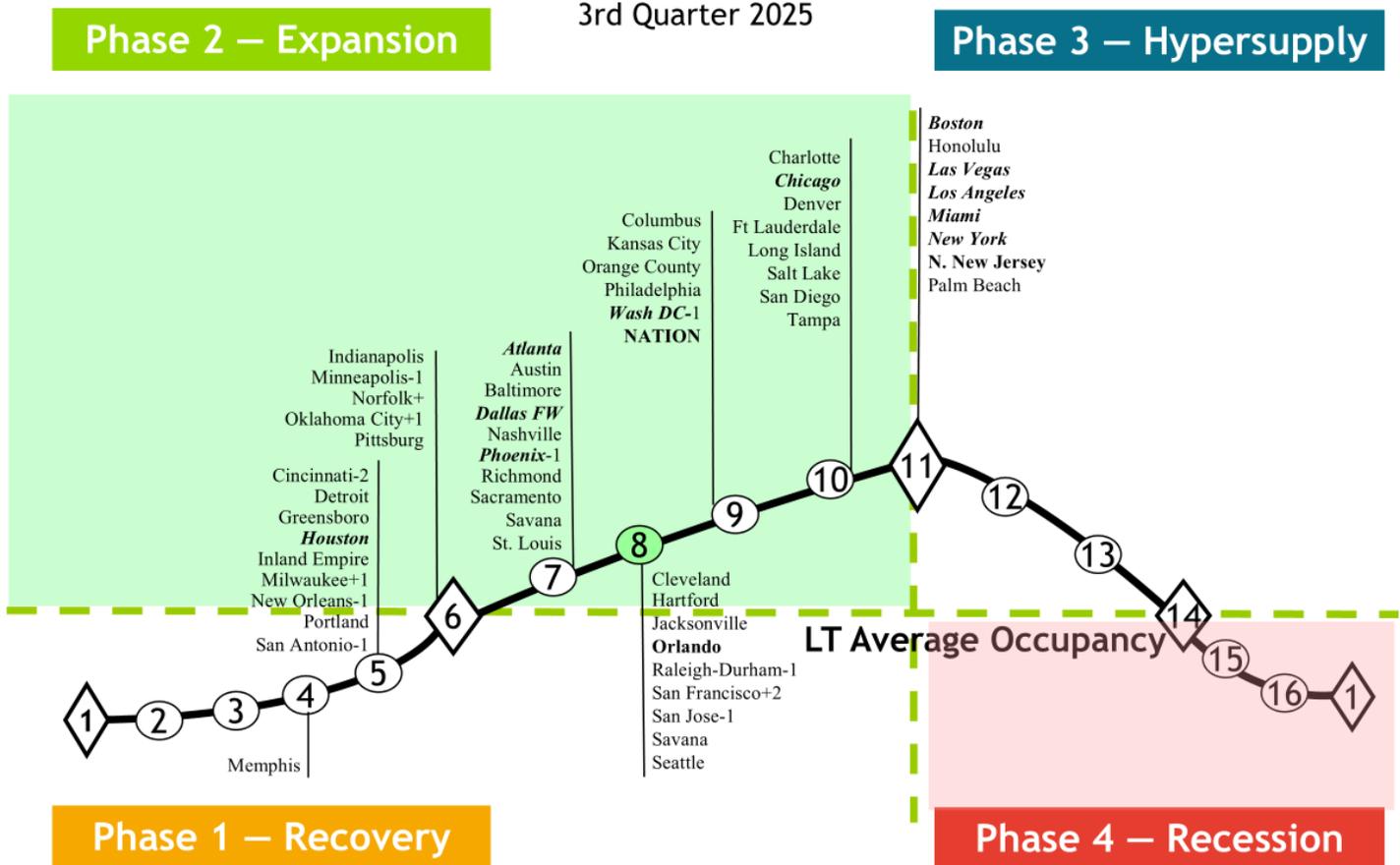
Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress or move backward in their 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.

Hotel

Hotel occupancies **decreased -0.2%** in 3Q25 and **were down 0.5%** year-over-year. The post-pandemic demand growth has ended and pricing power is gone. Corporate travel was restrained by cost concerns, and group demand declined as well. International inbound travel declined by 3% while outbound travel increased by 2%. Performance bifurcation continued with luxury travel up 3% and economy travel down 2%. The good news was supply remained low at only 0.7% with major markets expanding only 0.4%. National average Revenue Per Available Room – (RevPAR) **increased 0.2%** for the quarter and **up 0.8%** year-over-year.

Hotel Market Cycle Analysis

3rd Quarter 2025



Source: Mueller, 2025

Note: **The 13-largest hotel markets make up 50% of the total square footage of the 58 retail 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.

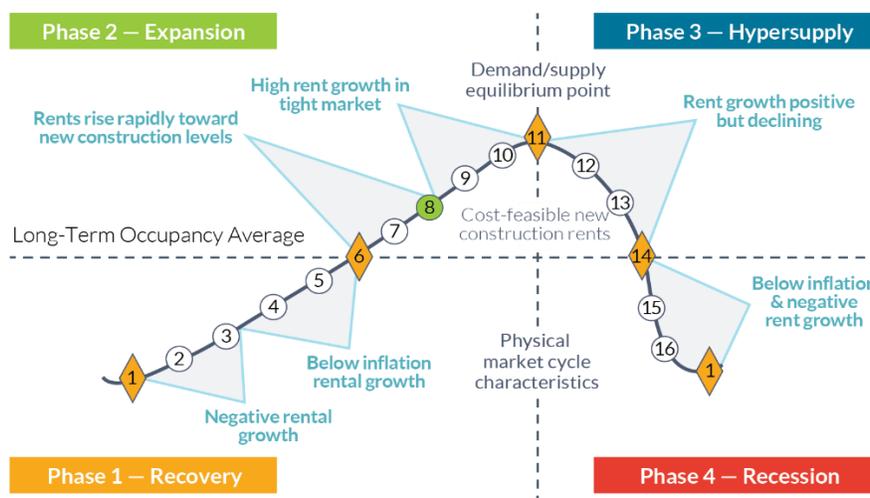
Market Cycle Analysis — Explanation

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, 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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