Franklin L. Burns School of Real Estate & Construction Management
UNIVERSITY OF DENVER

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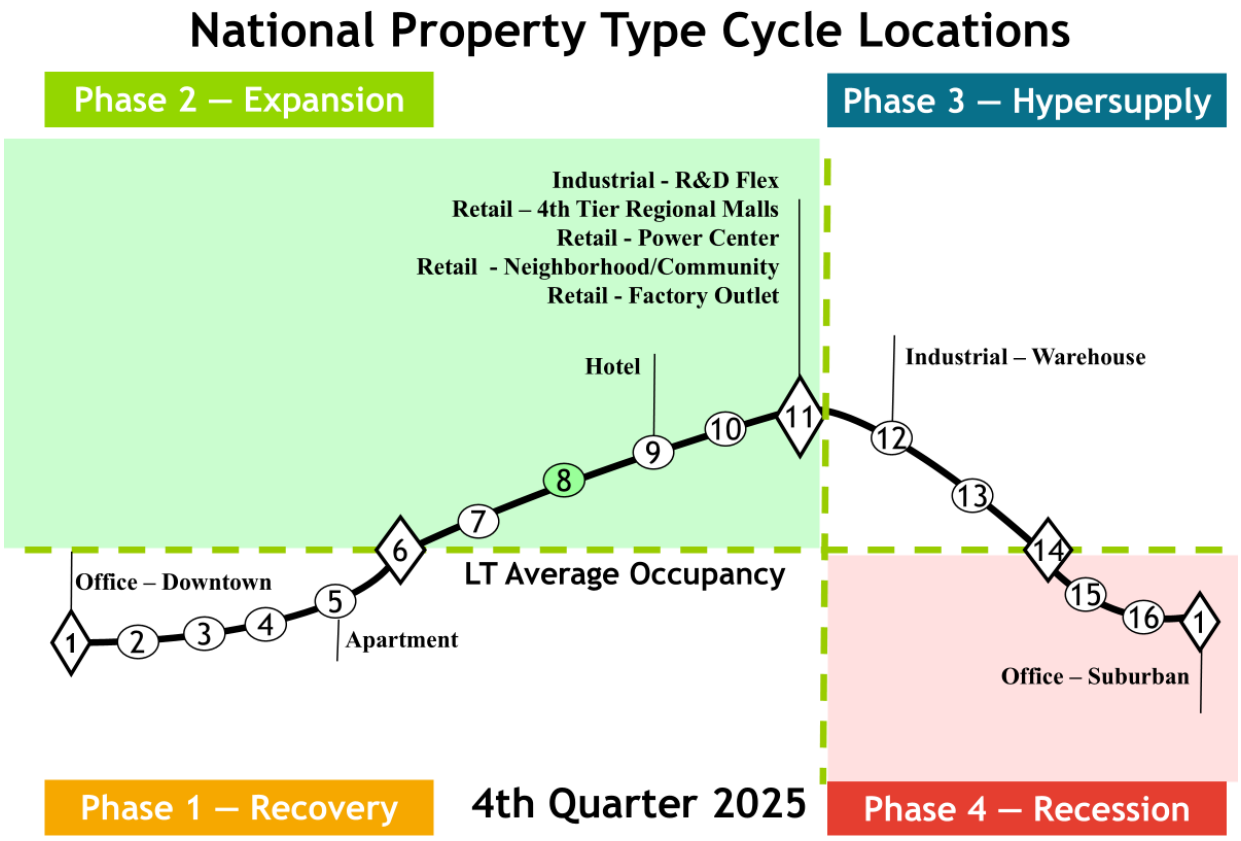
Mueller - Chacon
Real Estate Market Cycle Monitor
Fourth Quarter 2025 Analysis – February 2026

The Physical Market Cycle Analysis of 5 Property Types in 56 Metropolitan Statistical Areas (MSAs).

Welcome my new Co-Author Ryan Chacon, Ph.D., Assistant Professor at DU. We will be upgrading the report over the next year. We have settled on 56 major markets to cover, including separating Raleigh and Durham.

The US economy grew with a 2.3% GDP increase and the stock market hit 50+ new historic highs. Employment growth continued and inflation remained moderate, despite tariffs and other challenges. Occupancy and rent growth have been generally positive in all property sectors and most of the markets we cover. The high cost of construction and debt have muted supply growth, allowing most markets to move back toward equilibrium

Office occupancy **increased 0.2%** in 4Q25, while rents **were up 0.1%** for the quarter and **were up 0.7%** annually.
Industrial occupancy **decreased -0.1%** in 4Q25, but rents **were down -0.1%** for the quarter and **were up 1.3%** annually.
Apartment occupancy **decreased -0.1%** in 4Q25, and rents **were up 0.4%** for the quarter, and **were up 1.1%** annually.
Retail occupancy **was flat** in 4Q25, and rents **were up 0.4%** for the quarter and **were up 2.0%** annually.
Hotel occupancy **was down -0.2%** in 4Q25, and Rev PAR **declined -0.7%** for the quarter and **was down -0.5%** annually.



Source: Mueller, 2025

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

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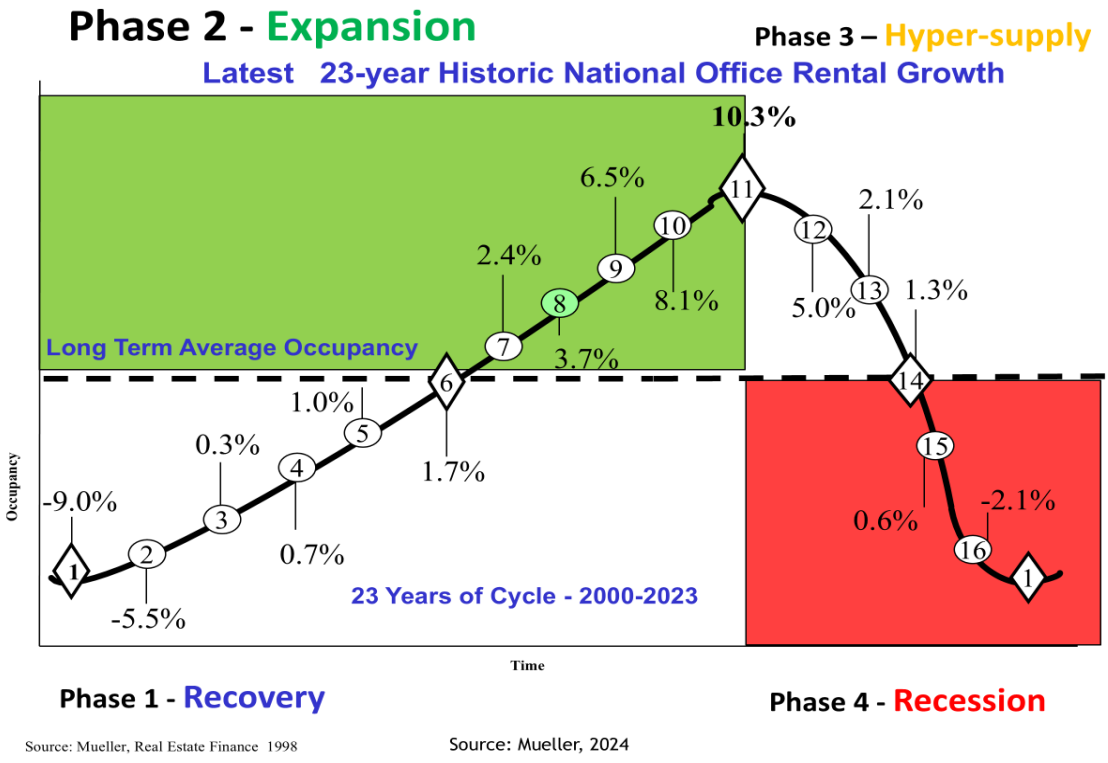
The cycle monitor analyzes occupancy movements in five property types in 56 MSAs. Market cycle analysis should enhance investment-decision capabilities for investors and operators. The five property type cycle charts summarize almost 300 individual models that analyze occupancy levels and rental growth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

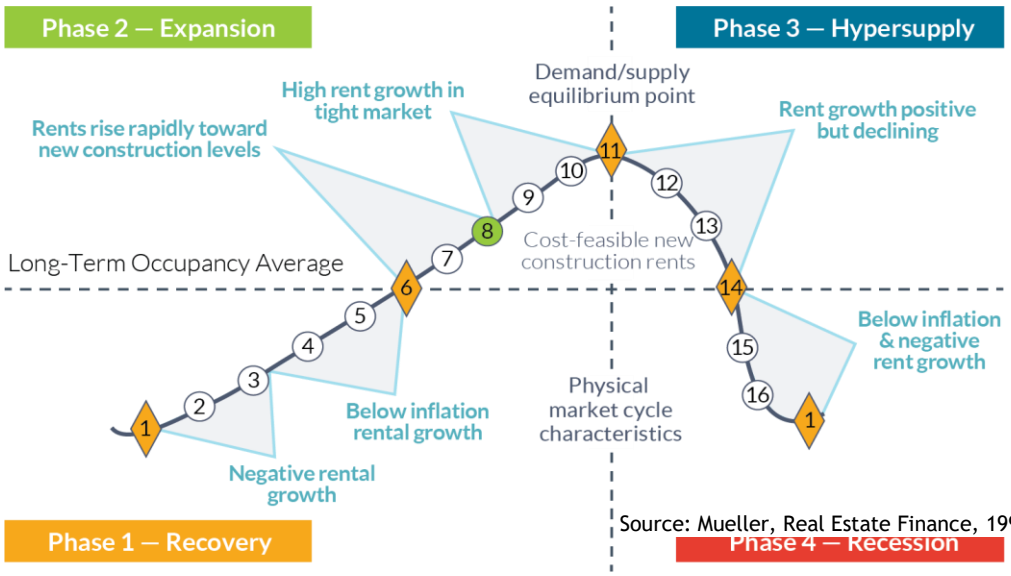
Market Cycle Quadrants



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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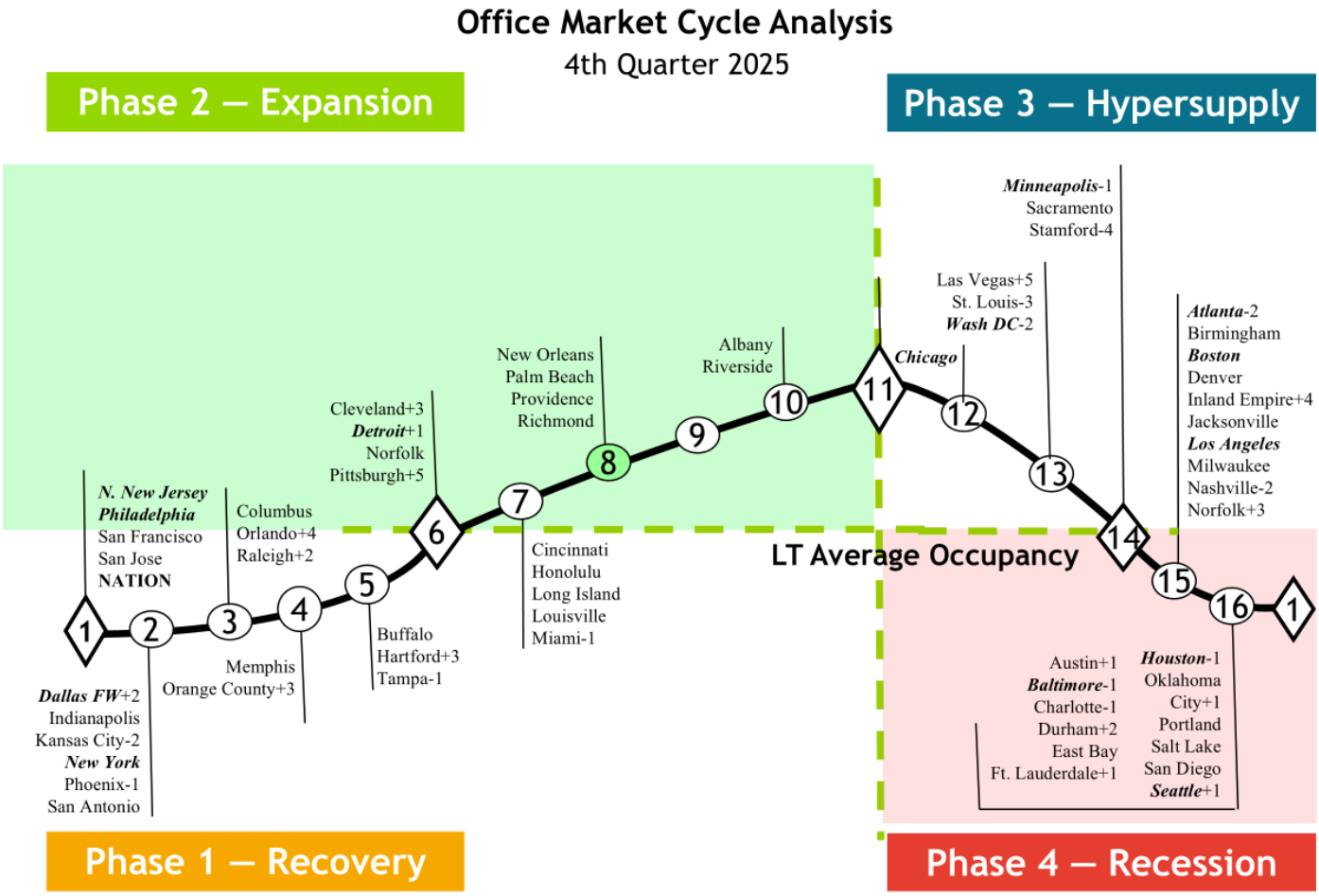
Office

The national office market occupancy level **was up 0.2%** in 4Q25 and **was down -0.1%** year-over-year. Demand improved from "return to office" initiatives by many firms. The occupancy decline slowed to the lowest level since 2020 with the U.S. seeing a record low 40 million square feet of new supply growth, plus 35 million square feet was repurposed or demolished from the office inventory. Premium Class A offices are performing the best, as firms want attractive space. East coast markets such as New York and Palm Beach led in occupancy, while west coast markets including Los Angeles and Seattle had record low occupancy levels. Demand was expanding to older buildings as well. Asking rental rates **were up 0.1%** in 4Q25 and **were up 0.7%** year-over-year.



Source: Mueller, 2025

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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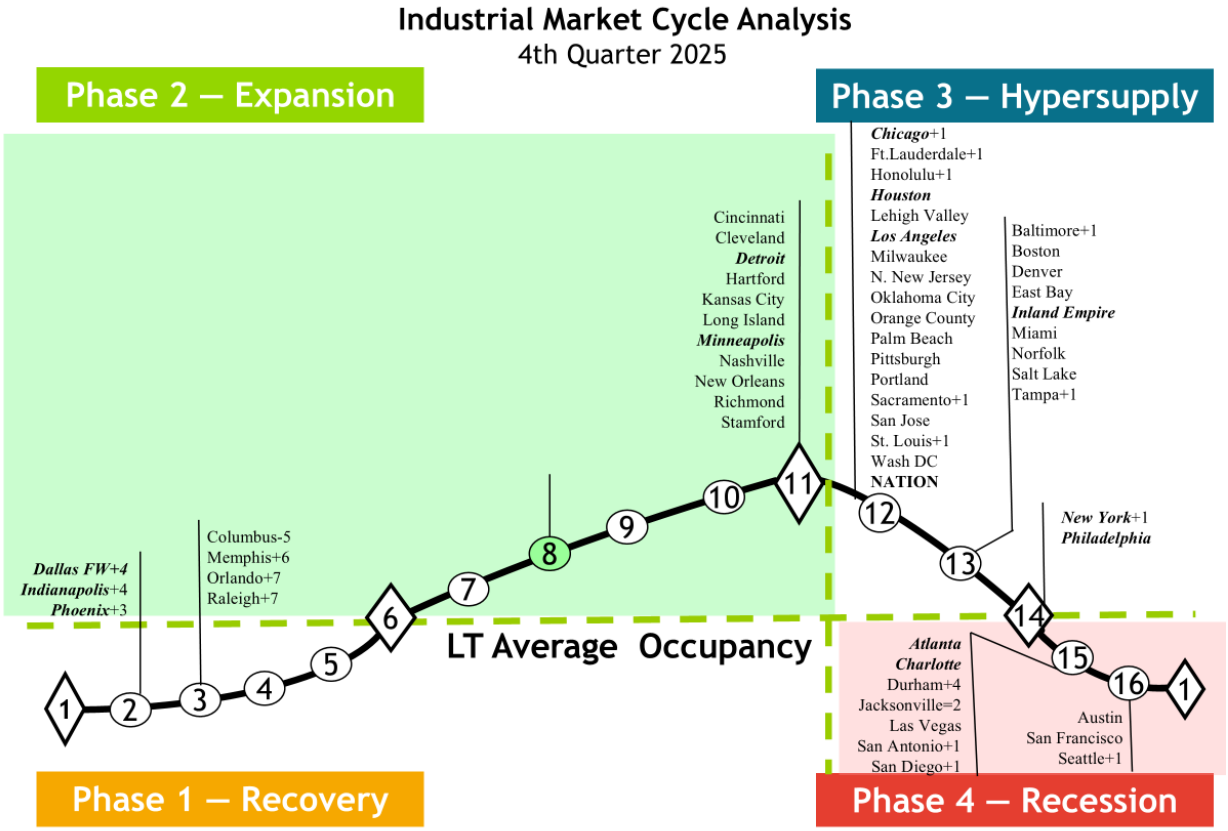
Industrial

Industrial occupancies **decreased -0.1%** in 4Q25 and **were down -0.9%** year-over-year (keeping the national average in the hyper-supply phase of the cycle). Occupancy has now declined for 11 consecutive quarters. Demand continued to be lower than supply and the amount of sublease space on the market increased. The average lease-up time was 5 months, higher than the long-term average of 3.5 months. Small bay industrial has been performing better than bulk industrial with a 4% higher average occupancy rate. Rent growth is now at the lowest level since 2012. Asking rent growth **decreased -0.1%** in 4Q25 and annual rent growth **was up 1.3%** year-over-year.



Source: Mueller, 2025

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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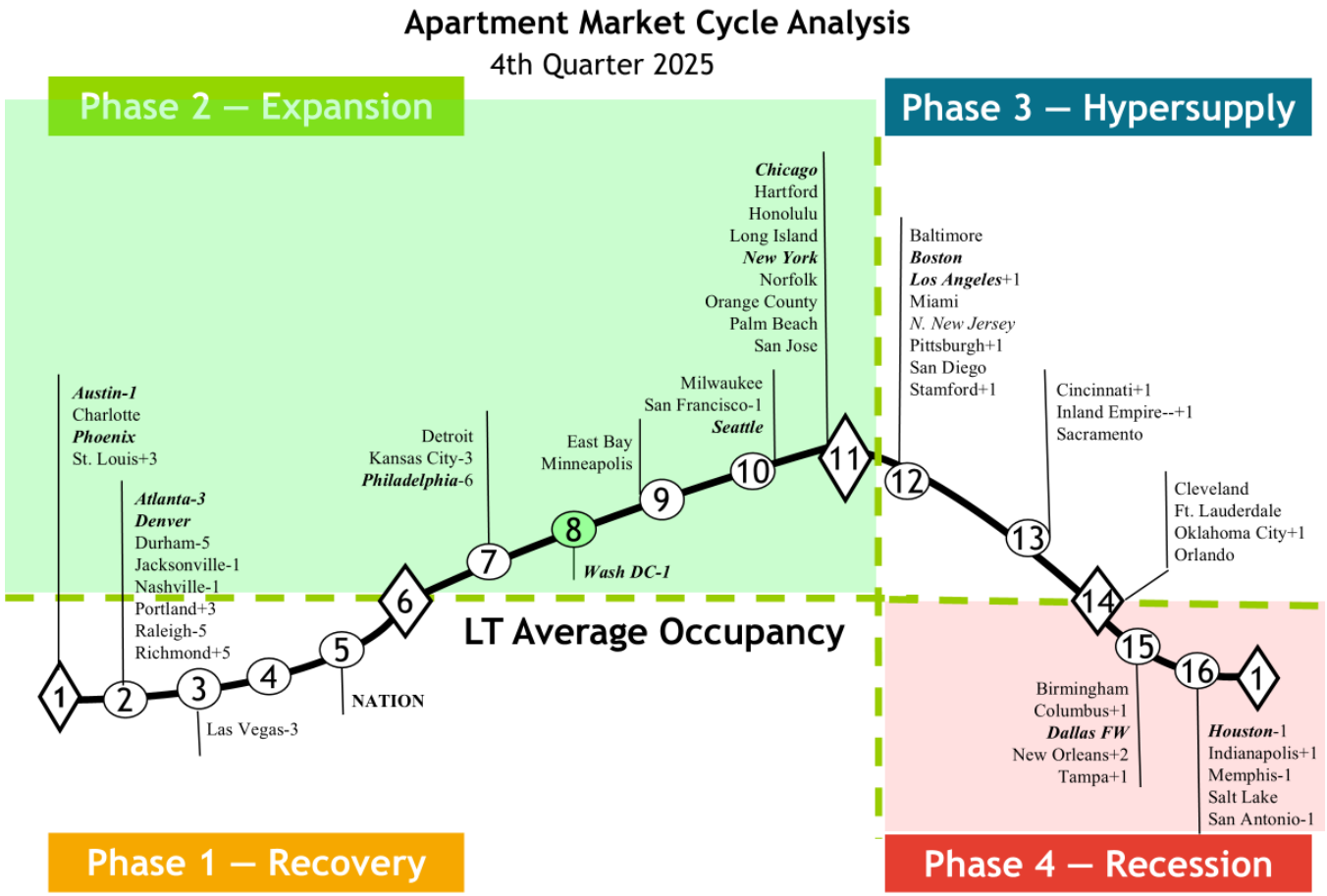
Apartment

The national apartment occupancy average **was down -0.1%** in 4Q25 and **was down -0.6%** year-over-year. Demand continued at a slow pace around 1%, while completions slowed by 30%, but still outpaced demand by a small margin. 55,000 units were absorbed in 4Q25, well below the 100,000 quarterly average over the last two years. The south, southwest and New York were the strongest regions in the country. New buildings have been attracting tenants from older buildings by reducing asking rents and offering incentives (free rent) to fill up and meet their loan requirements. In some areas, free rent has been up to 2.5 months on a one-year lease. National average apartment rent growth **was up 0.4%** in 4Q25 and **up 1.1%** year-over-year.



Source: Mueller, 2025

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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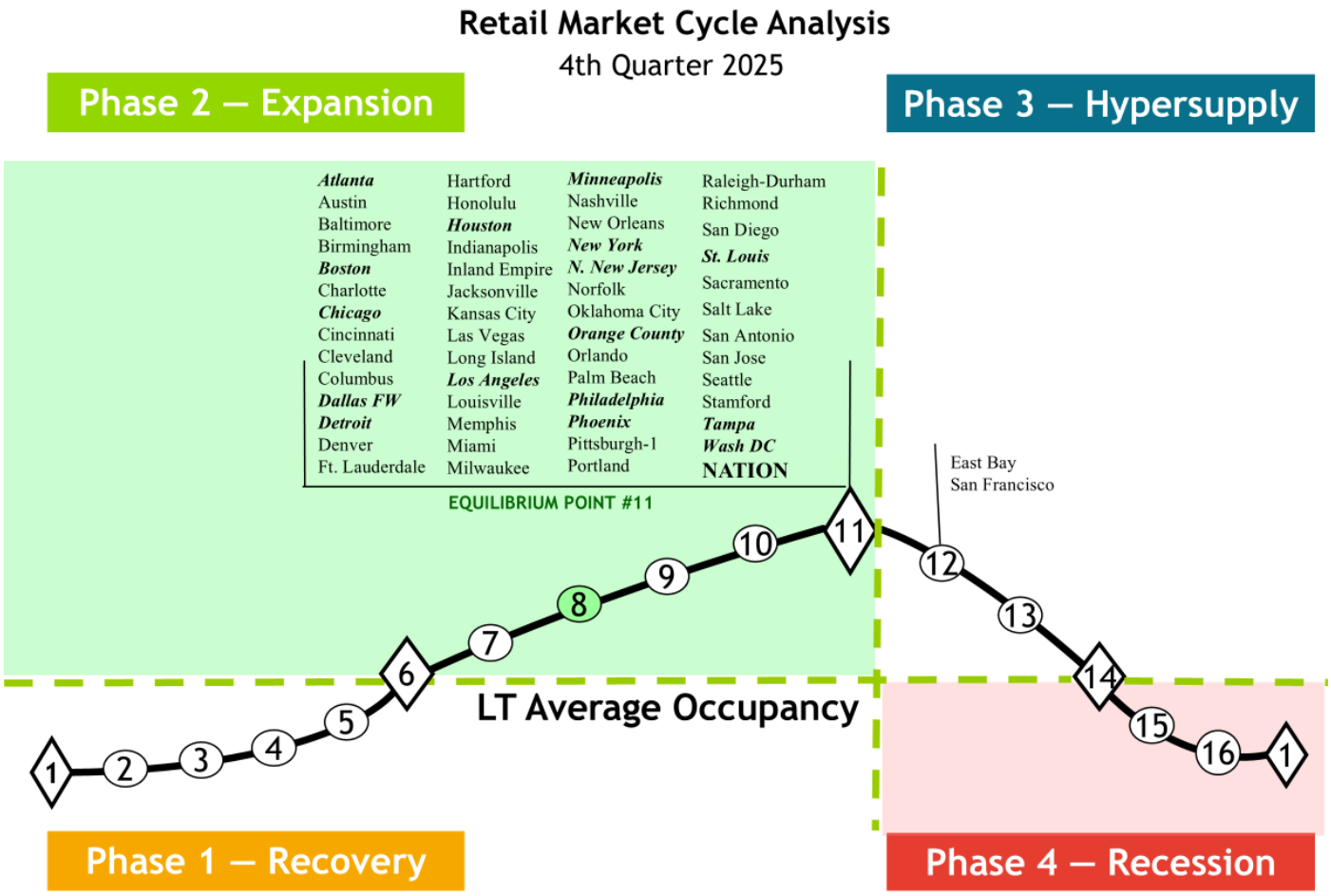
Retail

Retail occupancy **was flat** nationally in 4Q25, and **down -0.2%** year-over-year, mildly off the highest peak-occupancy level in retail history. Retail demand continued to improve, with 90 million square feet of new leases and lease-up time declined to 7.2 months. Leading tenants were in the service, quick-serve, discount and fitness fields. 4Q25 was the first time service tenants leased more space than goods tenants. Both big and small spaces leased well. Store closures decreased by 45% and bankruptcies decreased as well. Supply remained low due to high construction costs and interest rates. The national average retail-asking rents **were up 0.4%** for the quarter and **were up 2.0%** year-over-year.



Source: Mueller, 2025

Note: The 16-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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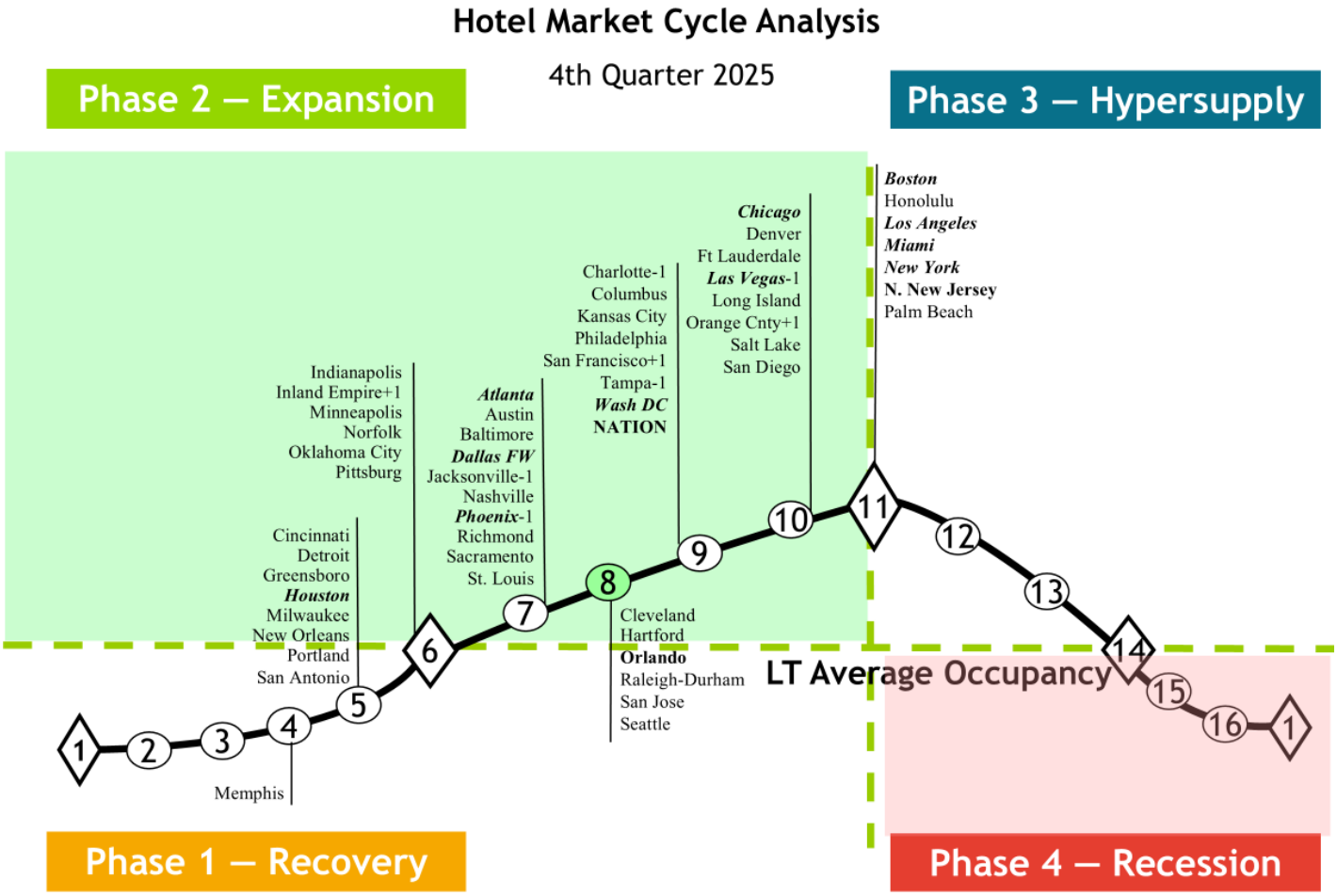
Hotel

Hotel occupancies **were down -0.2%** in 4Q25 and **were down 0.5%** year-over-year. Demand slowed to a level below 2024 but still bifurcated with Luxury in highest demand with room rates up 3%, while business saw occupancy down 1% and room rates up only 0.5%. Economy was hit hardest with occupancy down 3% and room rates down 2%. New construction was down 10% over the long-term average and total supply rose by only 0.7% for the year. National average Revenue Per Available Room (RevPAR) **declined -0.7%** for the quarter and was **down -0.5%** year-over-year.



Source: Mueller, 2025

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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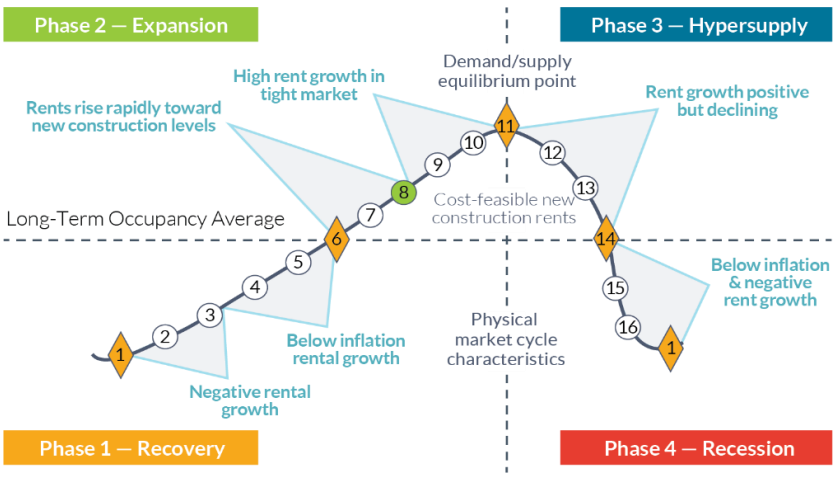
Market Cycle Analysis — Explanation

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 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 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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