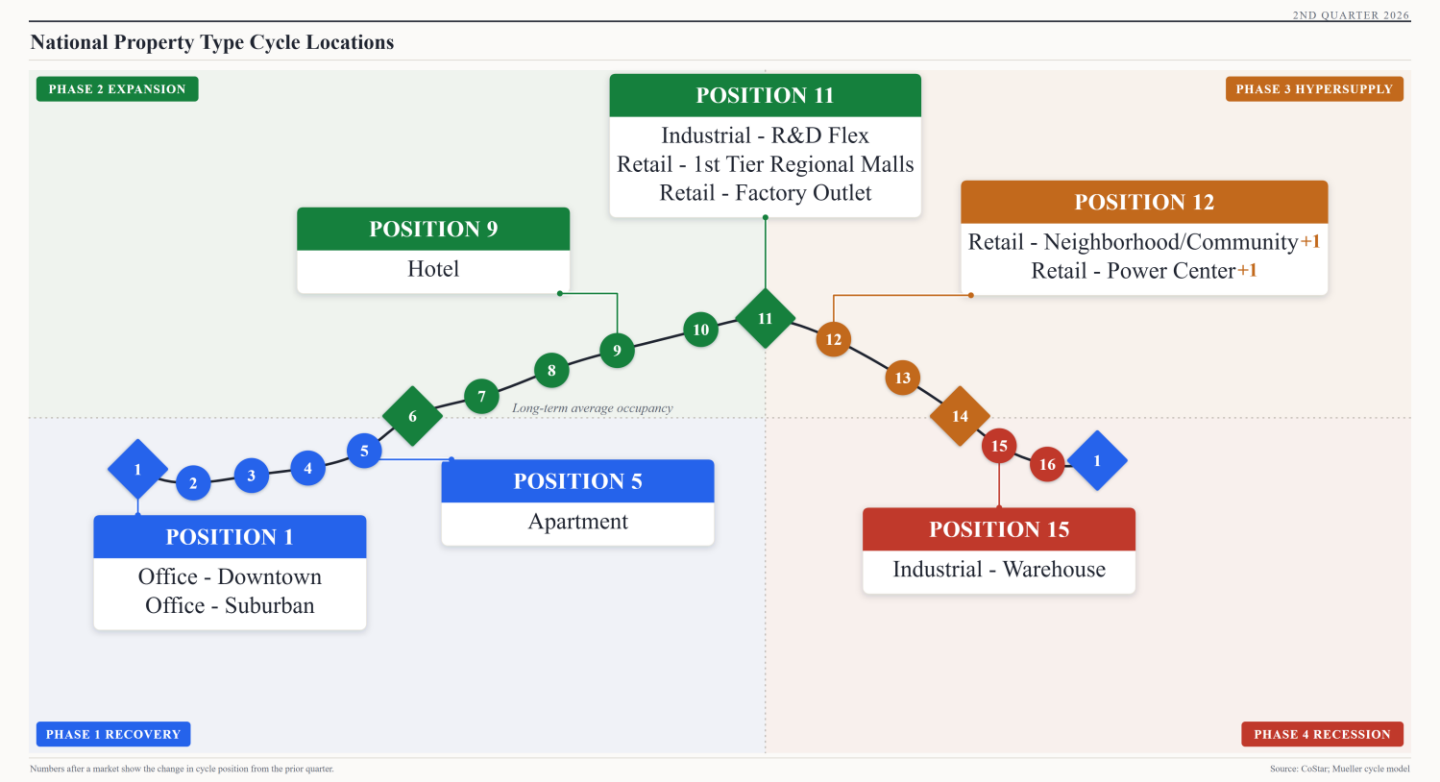
Mueller
Real Estate Market Cycle Monitor
Second Quarter 2026 Analysis – August 2026

The Physical Market Cycle Analysis of 5 Property Types in 55 Metropolitan Statistical Areas (MSAs).

The U.S. economy grew at a 1.5% annualized rate in 2Q26, down from 2.1% in 1Q26. Trade uncertainty, lighter government outlays and inventory drawdowns held growth back, even as spending on AI equipment and software climbed. The labor market slowed sharply, with July payrolls down -23,000 and the unemployment rate easing to 4.1% only because the labor force shrank. Inflation stayed above the Fed's target, with the June PCE index up 3.7% and July CPI up 3.4%, and the Fed left rates alone at its July meeting. 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. Office is finally climbing out of a long demand slump.

Office occupancy **increased 0.1%** in 2Q26, and rents **were up 0.2%** for the quarter and **were up 1.8%** annually.
Industrial occupancy was flat in 2Q26, and rents **were up 0.07%** for the quarter and **were up 1.5%** annually.
Apartment occupancy **increased 0.3%** in 2Q26, and rents **were up 1.0%** for the quarter and **were up 0.8%** annually.
Retail occupancy **increased 0.02%** in 2Q26, and rents **were up 0.1%** for the quarter and **were up 2.0%** annually.
Hotel occupancy **increased 0.4%** in 2Q26, and RevPAR **improved 2.5%** for the quarter and **was up 8.2%** annually.

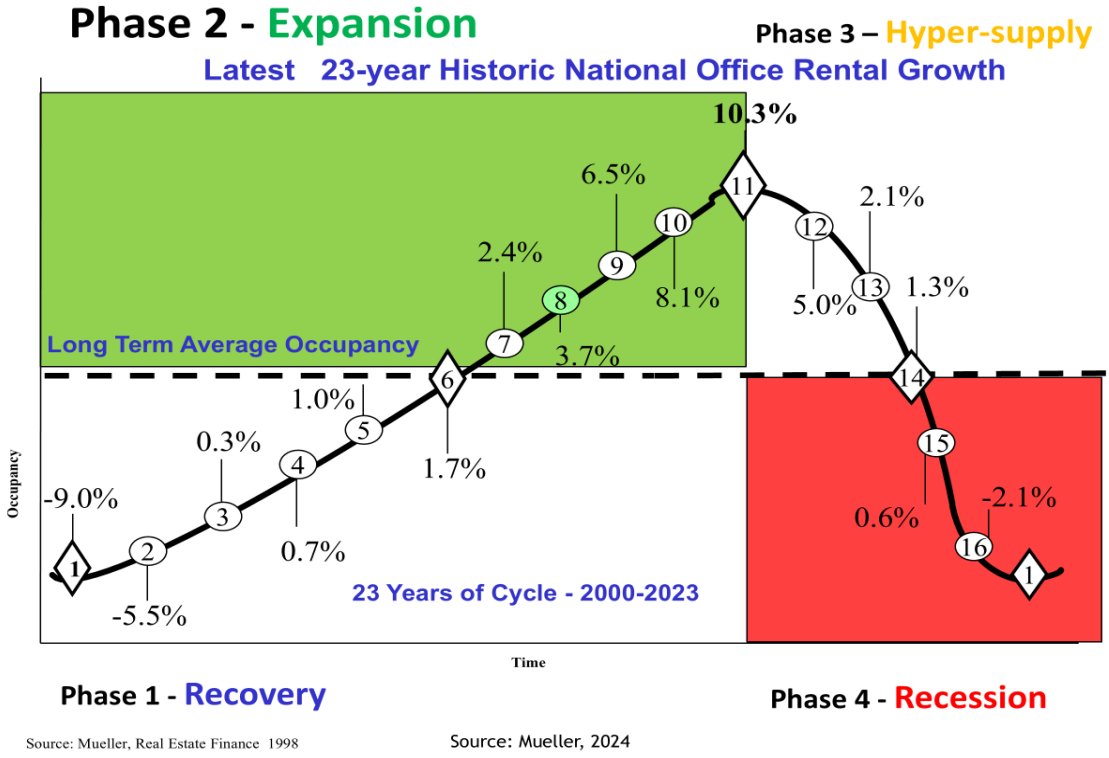


The National Property Type Cycle Locations graph shows relative positions of the property types.

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The cycle monitor analyzes occupancy movements in five property types in 55 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.

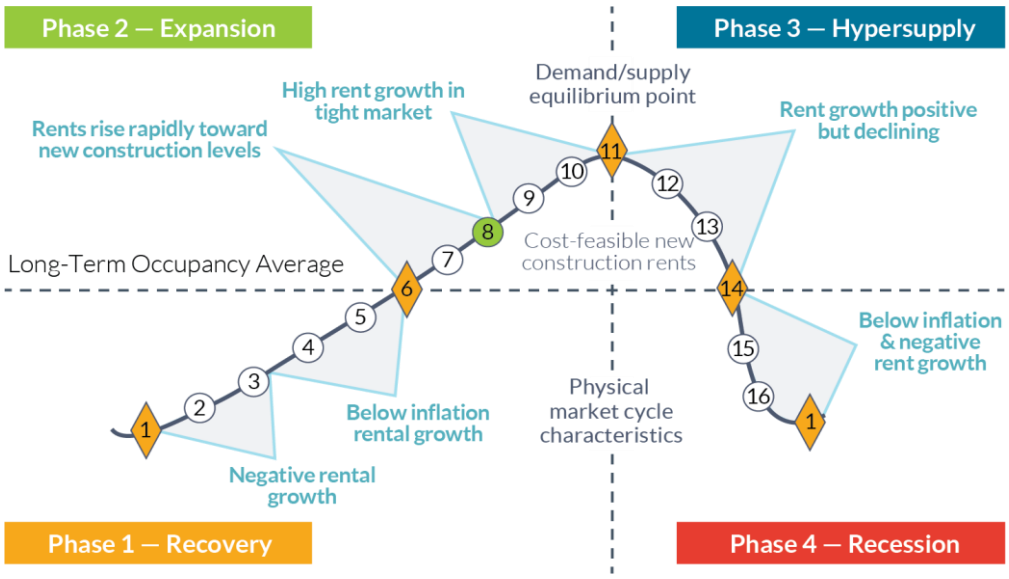
Market Cycle Quadrants



Source: Mueller, Real Estate Finance 1998

Source: Mueller, 2024

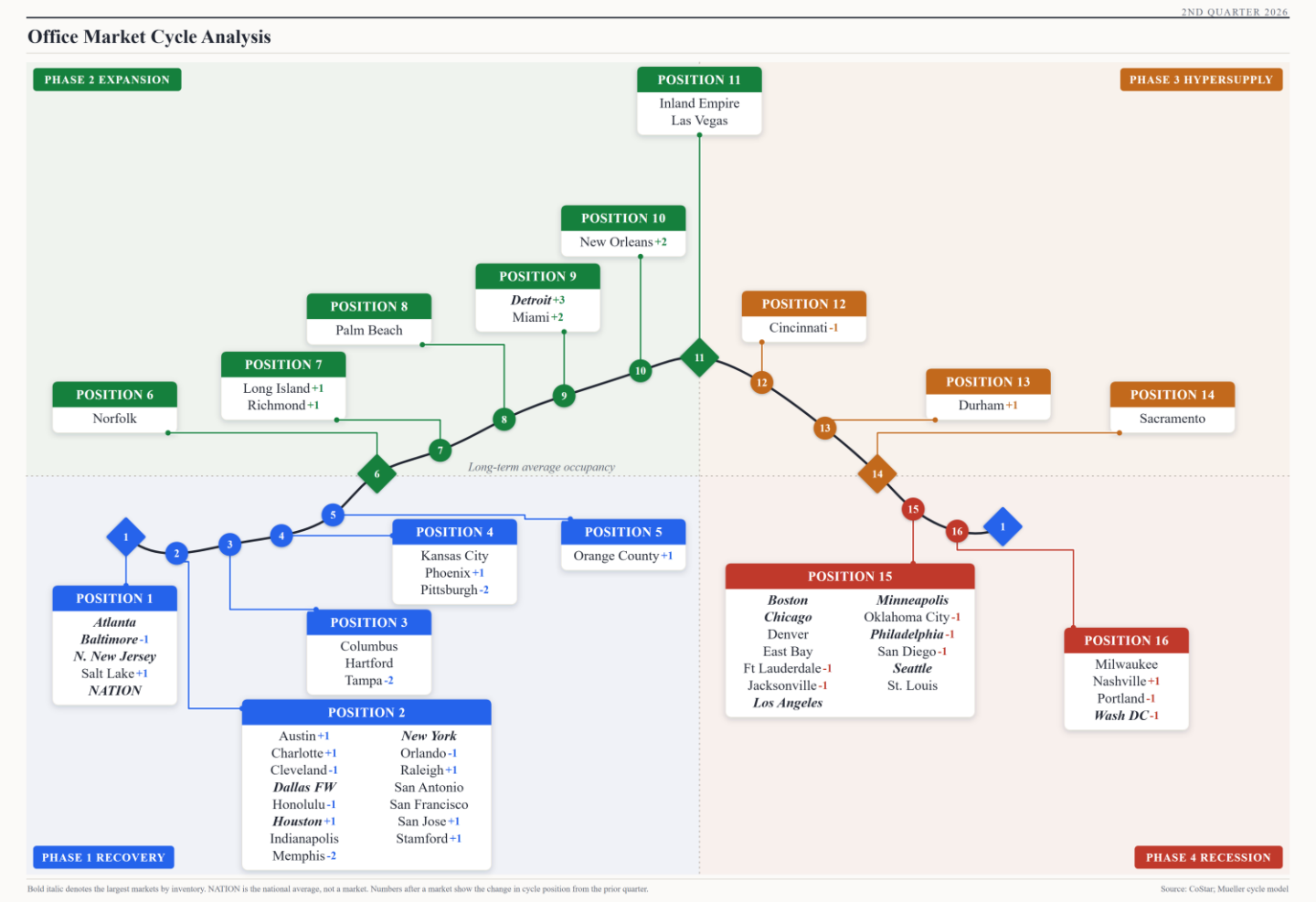
Rental growth rates can be characterized in different parts of the market cycle, as shown below.



Source: Mueller, Real Estate Finance, 1996.

Office

The national office market occupancy level **was up 0.1%** in 2Q26 and **was up 0.3%** year-over-year. The office recovery is now in its second year. Demand has grown for four straight quarters, ending five years of steady occupancy loss that ran to nearly 250 million square feet. Occupancy bottomed in the middle of 2025, by which point new construction had already fallen to a generational low. Net occupancy gains reached 20 million square feet for the year, and 225 million square feet of new leases were signed in the first half. Financial firms in New York, Charlotte, Boston and Dallas pushed office attendance back up and committed to space accordingly. Asking rental rates **were up 0.2%** in 2Q26 and **were up 1.8%** year-over-year.

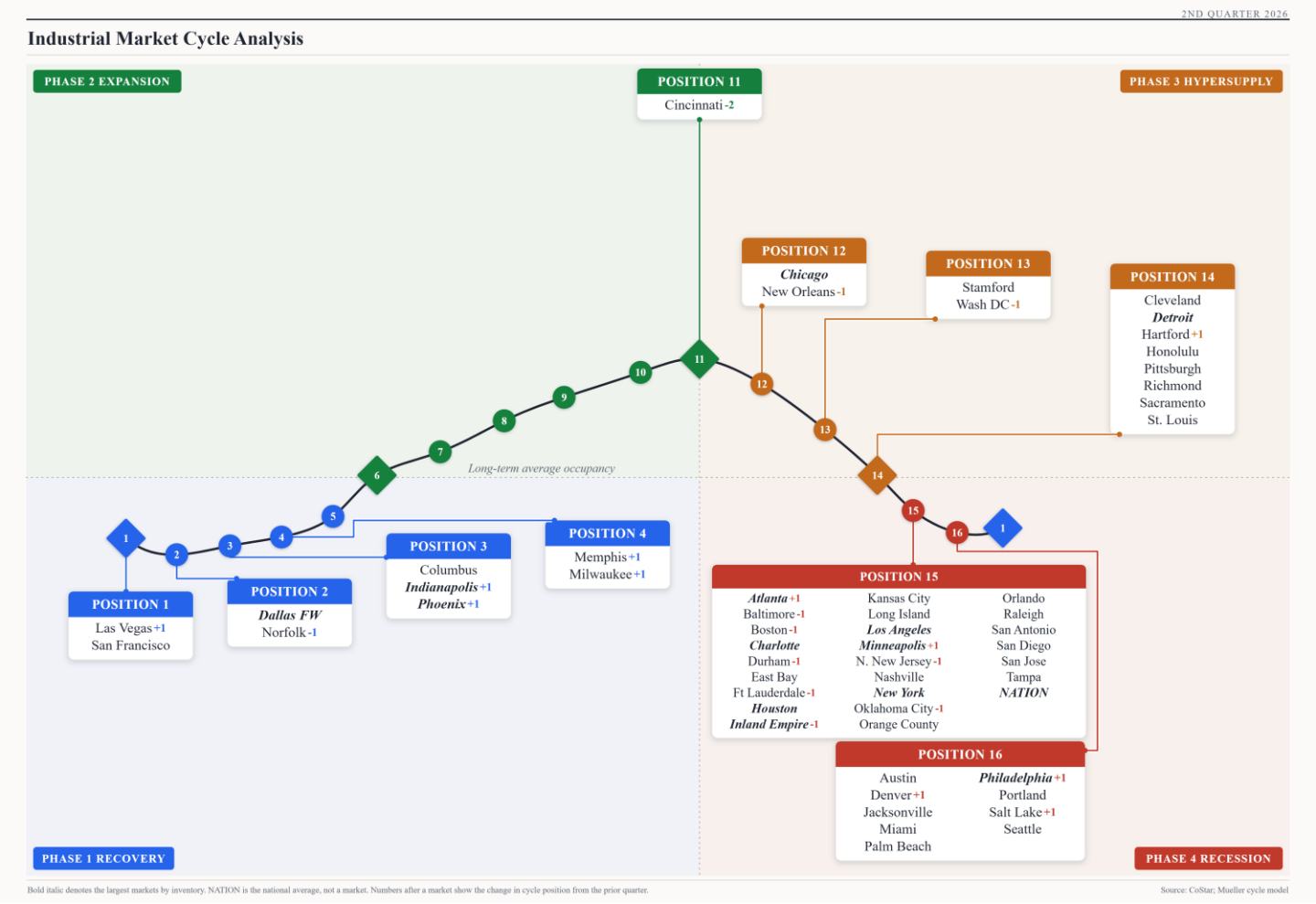


Note: The 14-largest office markets make up 50% of the total square footage of office space we monitor in the 55 markets we cover. Thus, the 14-largest office markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

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 were flat in 2Q26 and **were down -0.2%** year-over-year. Demand stayed soft, held back by choppy port traffic and slow home sales that hurt furniture, appliance and building-material tenants. Net absorption ran 195 million square feet for the year, but new buildings arrived faster than that. Space sat longer before it leased, at a median of more than 5 months against 3.5 months a few years ago. Small bay buildings under 50,000 square feet have much better occupancy than big boxes. Asking rent growth **increased 0.07%** in 2Q26 and annual rent growth **was up 1.5%** year-over-year.

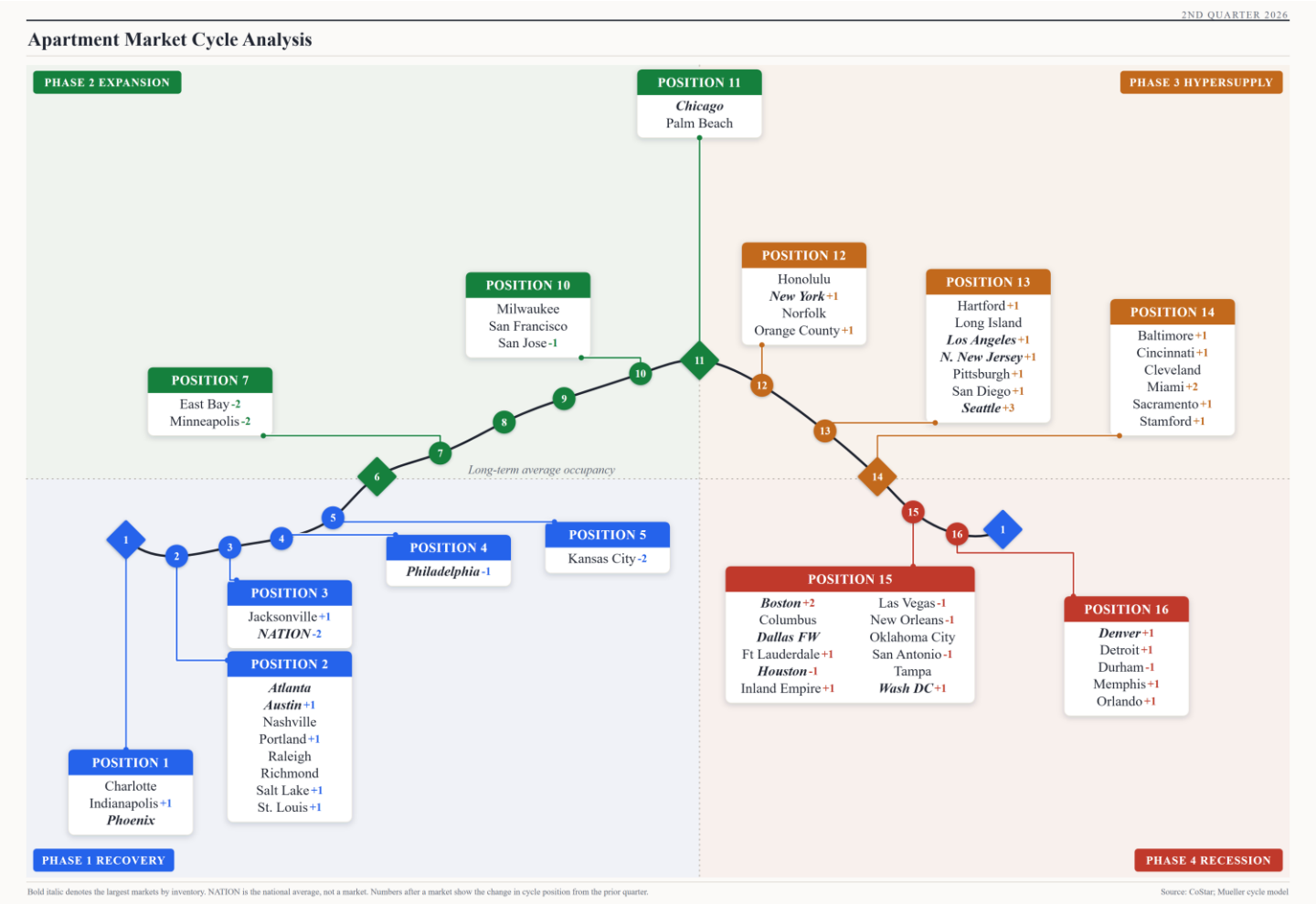


Note: The 13-largest industrial markets make up 50% of the total square footage of industrial space we monitor in the 55 markets we cover. Thus, the 13-largest industrial markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

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Apartment

The national apartment occupancy average **was up 0.3%** in 2Q26 and **was up 0.1%** year-over-year. Demand and supply moved back toward balance, though occupancy conditions are still soft. Renters took roughly 168,000 units in 2Q26, a 17% gain year-over-year and the most in any quarter since 3Q21. Weak job growth and slower household formation hurt leasing far less than expected. Starts fell to about 62,000 units, the fewest since 2012, and the pipeline is down to roughly 575,000 units from 1.2 million at the 2023 peak. Class A buildings took 68% of the quarter's absorption and raised that segment's occupancy, but older buildings kept losing tenants to newer ones. National average apartment rent growth **was up 1.0%** in 2Q26 and **up 0.8%** year-over-year.

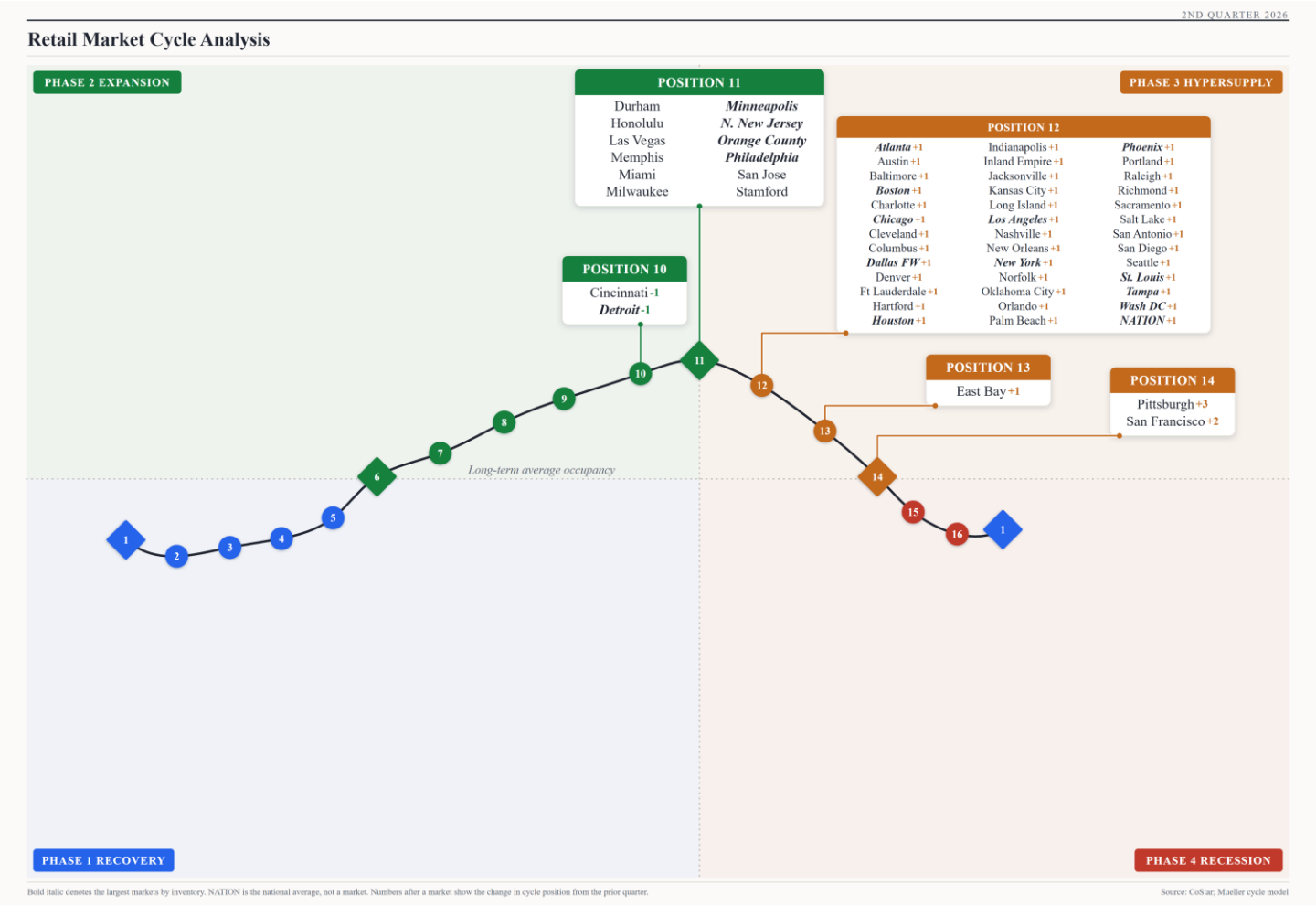


Note: The 14-largest apartment markets make up 50% of the total square footage of apartment space we monitor in the 55 markets we cover. Thus, the 14-largest apartment markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

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Retail

Retail occupancy **was up 0.02%** nationally in 2Q26, and **down -0.08%** year-over-year. Most retail markets moved past the peak as 43 of 55 markets reported a year-over-year occupancy decline. Occupancy remains among the strongest of any property type, even after a heavy year of deliveries. Demand rebounded, with more than 10 million square feet absorbed in 2Q26, the best quarter since late 2023. Announced store openings again outran closings, and grocery, off-price, value, restaurant, fitness and service tenants did most of the expanding. Construction starts held near decade lows, so tenants competed for the few spaces left, chasing renewals and space not yet on the market. The national average retail-asking rents **were up 0.1%** for the quarter and **were up 2.0%** year-over-year.

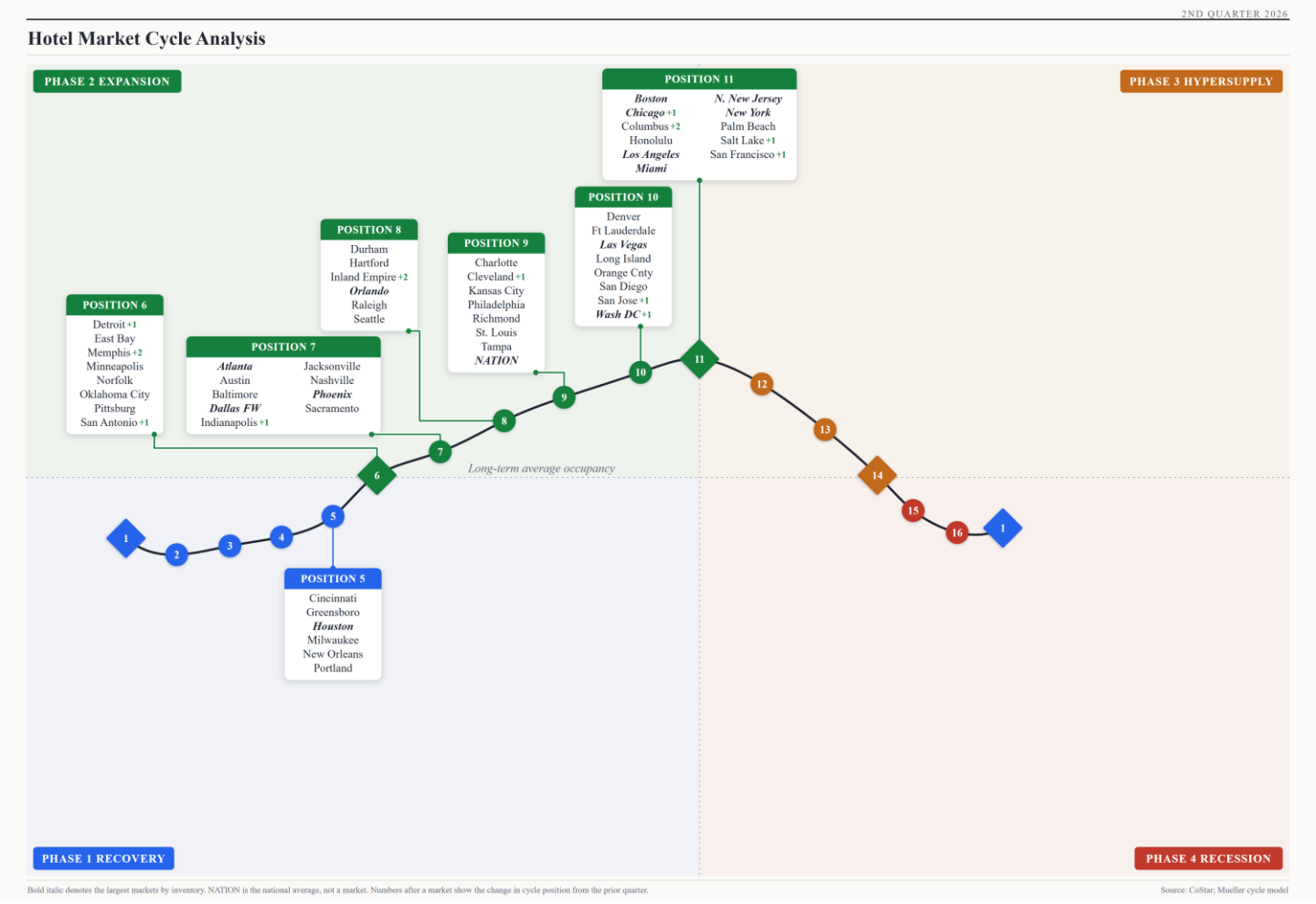


Note: The 16-largest retail markets make up 50% of the total square footage of retail space we monitor in the 55 markets we cover. Thus, the 16-largest retail markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

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Hotel

Hotel occupancies **were up 0.4%** in 2Q26 and **were up 1.7%** year-over-year. Hotel demand held up well, with 11 million more room nights sold in the first half than a year earlier, though overseas visitor counts fell -1.2% in June. Weekday business drove the occupancy gains as corporate and group travel came back after the April tariff scare, while June weekend occupancy rose just 0.7%. Pricing power was strong enough to add more than $5.4 billion in room revenue over the first six months. New supply stayed scarce, growing 0.4% in 2025 against a 1.6% long-term average, with about 142,000 rooms under construction. Luxury and upper-upscale hotels kept pulling away, while economy, midscale and upper-midscale hotels could barely push room rates past inflation. National average Revenue Per Available Room (RevPAR) **was up 2.5%** for the quarter and **was up 8.2%** year-over-year.



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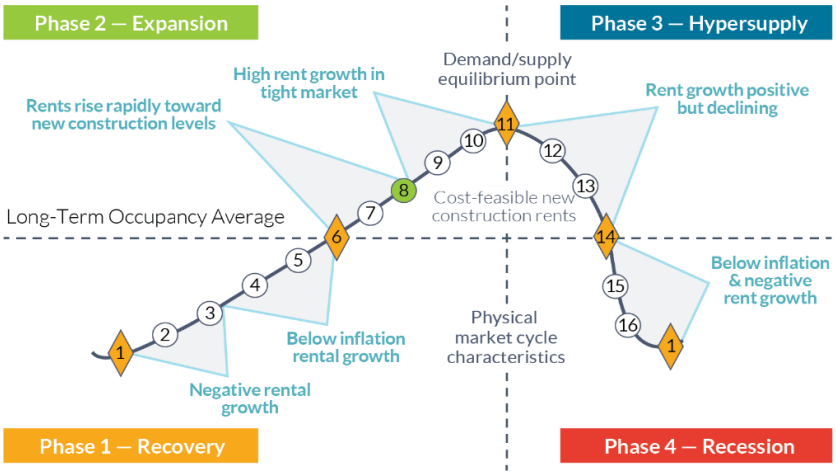
Market Cycle Analysis – Explanation

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 55 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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