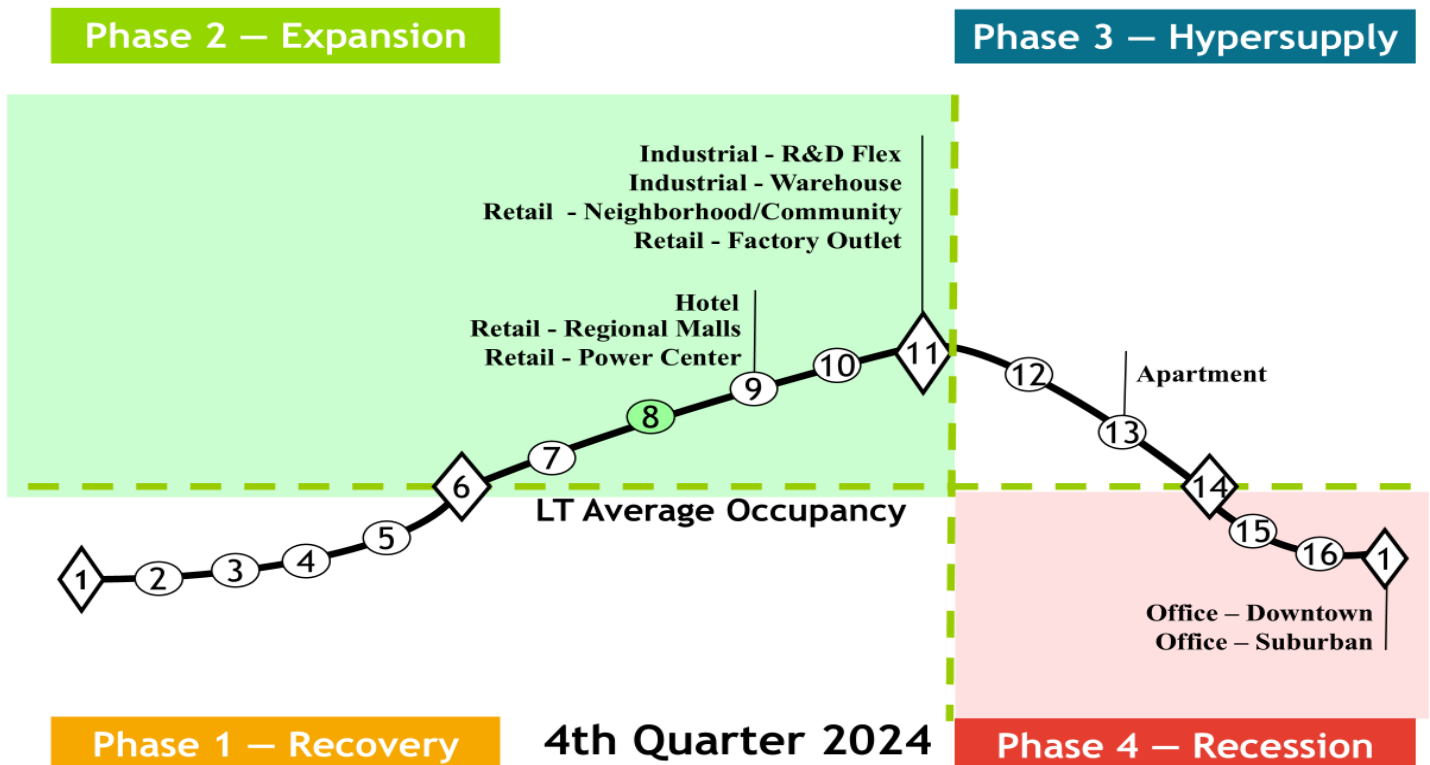# Mueller
Real Estate Market Cycle Monitor
Fourth Quarter 2024 Analysis – February 2025

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

The US economy ended the year on optimistic note with a new business friendly government coming into power in January. GDP grew at 2.3% in 4Q24, employment growth continued at a solid pace in 4Q25 with an above-average forecast of 256,000 jobs added in December (improving demand in most property types). Stock market and home price gains gave wealthier households the confidence to increase spending during the holidays. The Fed had two small rate cuts in 4Q24 that helped real estate transaction volume increase. Inflation fell from its high in 2022, but that progress has slowed in 4Q24, thus the real estate financial cycle appears to have bottomed and turned positive in 4Q24.

Office occupancy **was flat** in 4Q24, while rents **were up 1.5%** for the quarter and **were up 3.6%** annually.
Industrial occupancy **declined -0.3%** in 4Q24, but rents **were up 3.4%** for the quarter and **were up 6.8%** annually.
Apartment occupancy **decreased -0.1%** in 4Q24, and rents **were up 1.2%** for the quarter, and **up 5.2%** annually.
Retail occupancy **was flat** in 4Q24, and rents **were up 2.3%** for the quarter and **were up 6.4%** annually.
Hotel occupancy **was up 0.9%** in 4Q24, and Rev PAR **grew 3.1%** for the quarter and **was up 9.1%** annually.

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.
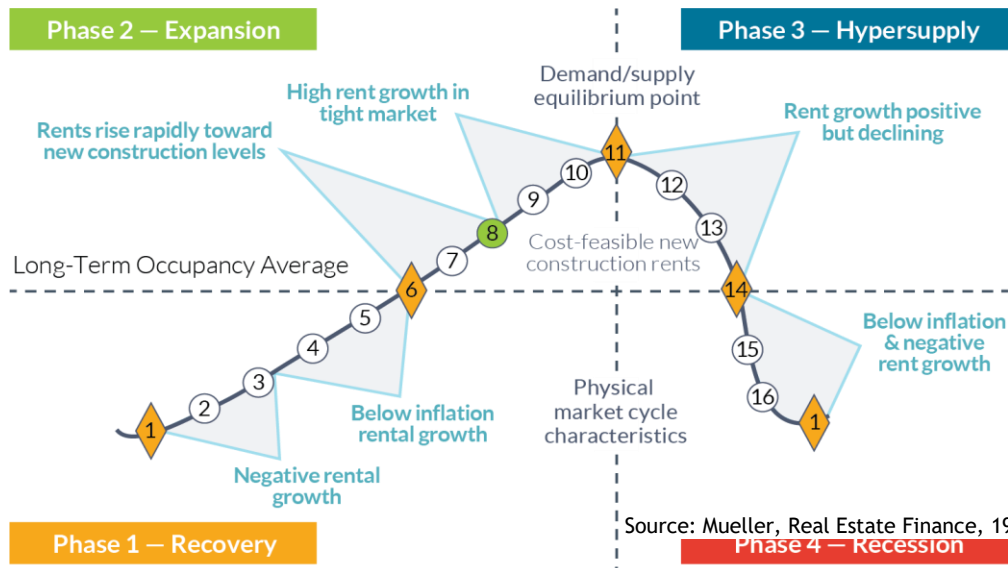
Market Cycle Quadrants
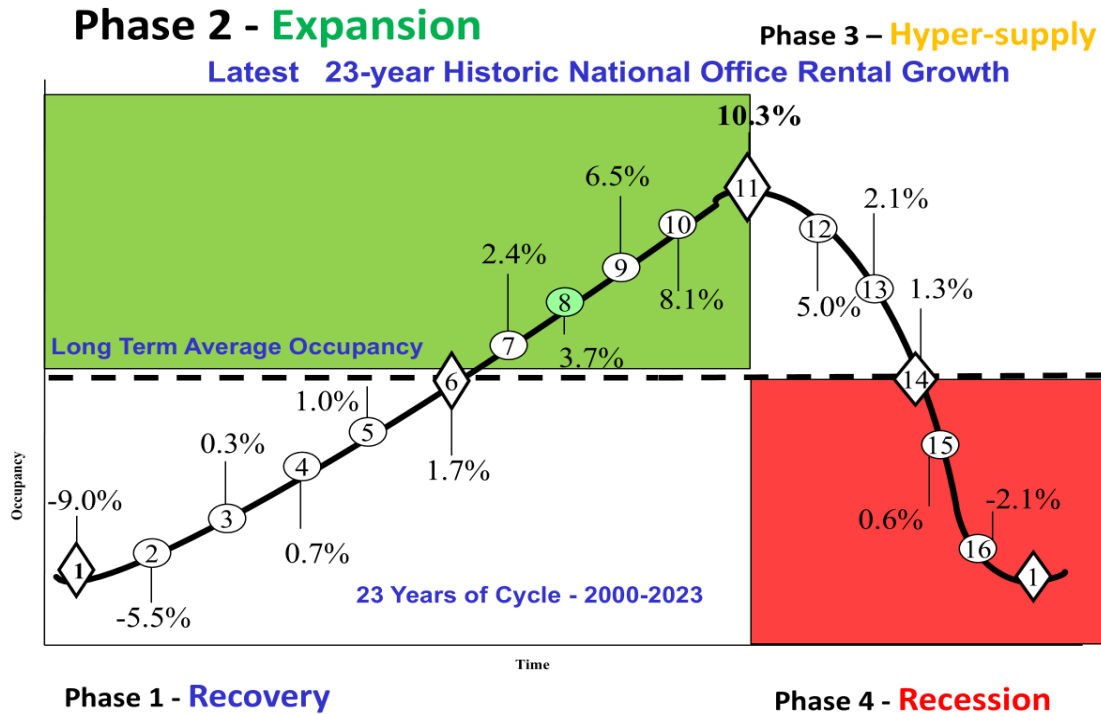
Source: Mueller, Real Estate Finance 1998

Source: Mueller, 2024

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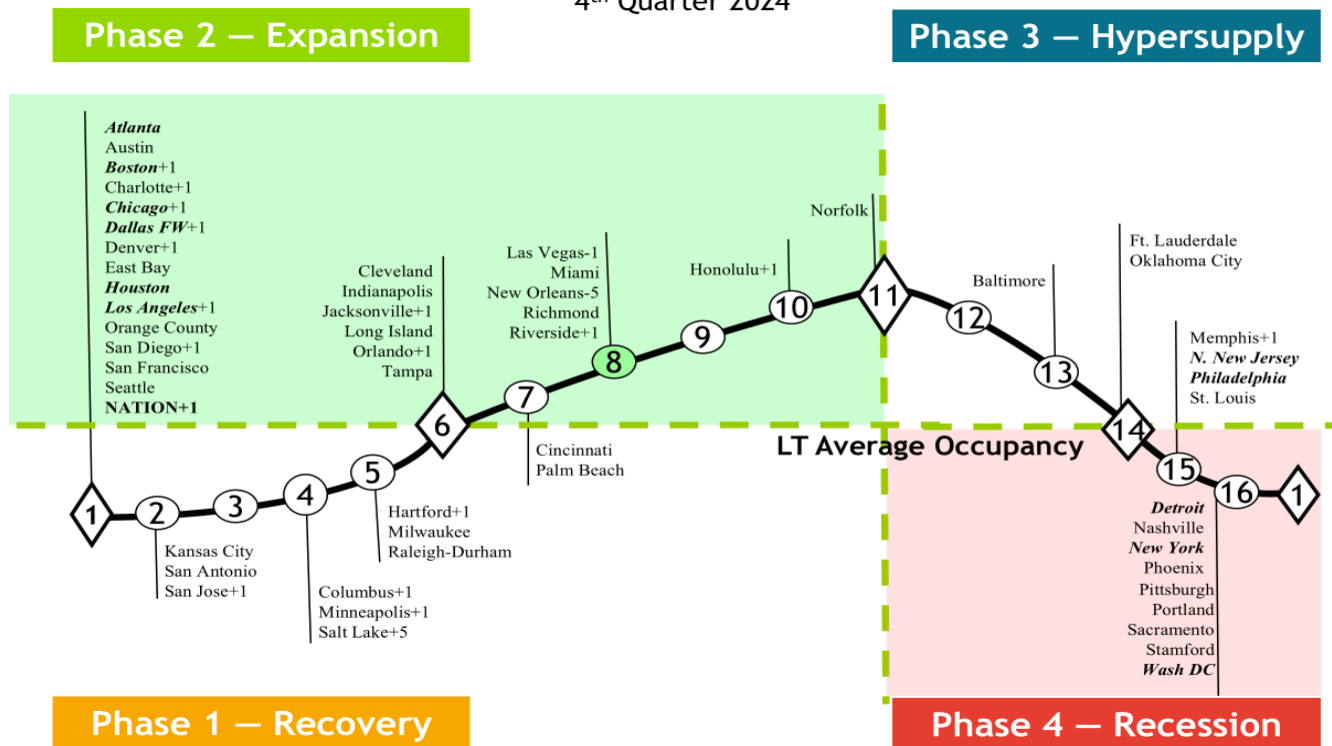

Source: Mueller, Real Estate Finance, 1996.

Source: Mueller, Real Estate Finance, 1996.

Office

The national office market occupancy level **was flat** in 4Q24 and **was down -0.9%** year-over-year. Office demand turned positive with medical office demand increasing by 4% followed by artificial intelligence (AI) and legal firms in leasing more space. Prime locations and premium class A space had the highest demand. However, firms with leases expiring are typically still leasing 10-20% less space than they had previously. Half of the markets we cover have seen positive demand in the second half of 2024, led by New York. Some secondary and most tertiary markets have also seen resurgent demand. The major economic base industries in each city really drive the demand. Unfortunately, another 5 million square feet of **NET new supply** caused the national occupancy level to remain the same. Asking rental rates **were up 1.5%** in 4Q24 and **were up 3.6%** year-over-year, driven up by newly completed properties and premium Class A leasing – but growing concessions continue to depress net effective rents.

Office Market Cycle Analysis
4th Quarter 2024

Phase 2 — Expansion

Phase 3 — Hypersupply

Atlanta
Austin
Boston+1
Charlotte+1
Chicago+1
Dallas FW+1
Denver+1
East Bay
Houston
Los Angeles+1
Orange County
San Diego+1
San Francisco
Seattle
NATION+1

Cleveland
Indianapolis
Jacksonville+1
Long Island
Orlando+1
Tampa

Las Vegas-1
Miami
New Orleans-5
Richmond
Riverside+1

Honolulu+1

Norfolk

Ft. Lauderdale
Oklahoma City

Baltimore

Memphis+1
N. New Jersey
Philadelphia
St. Louis

Cincinnati
Palm Beach

LT Average Occupancy

Hartford+1
Milwaukee
Raleigh-Durham

Kansas City
San Antonio
San Jose+1

Columbus+1
Minneapolis+1
Salt Lake+5

Detroit
Nashville
New York
Phoenix
Pittsburgh
Portland
Sacramento
Stamford
Wash DC

Phase 1 — Recovery
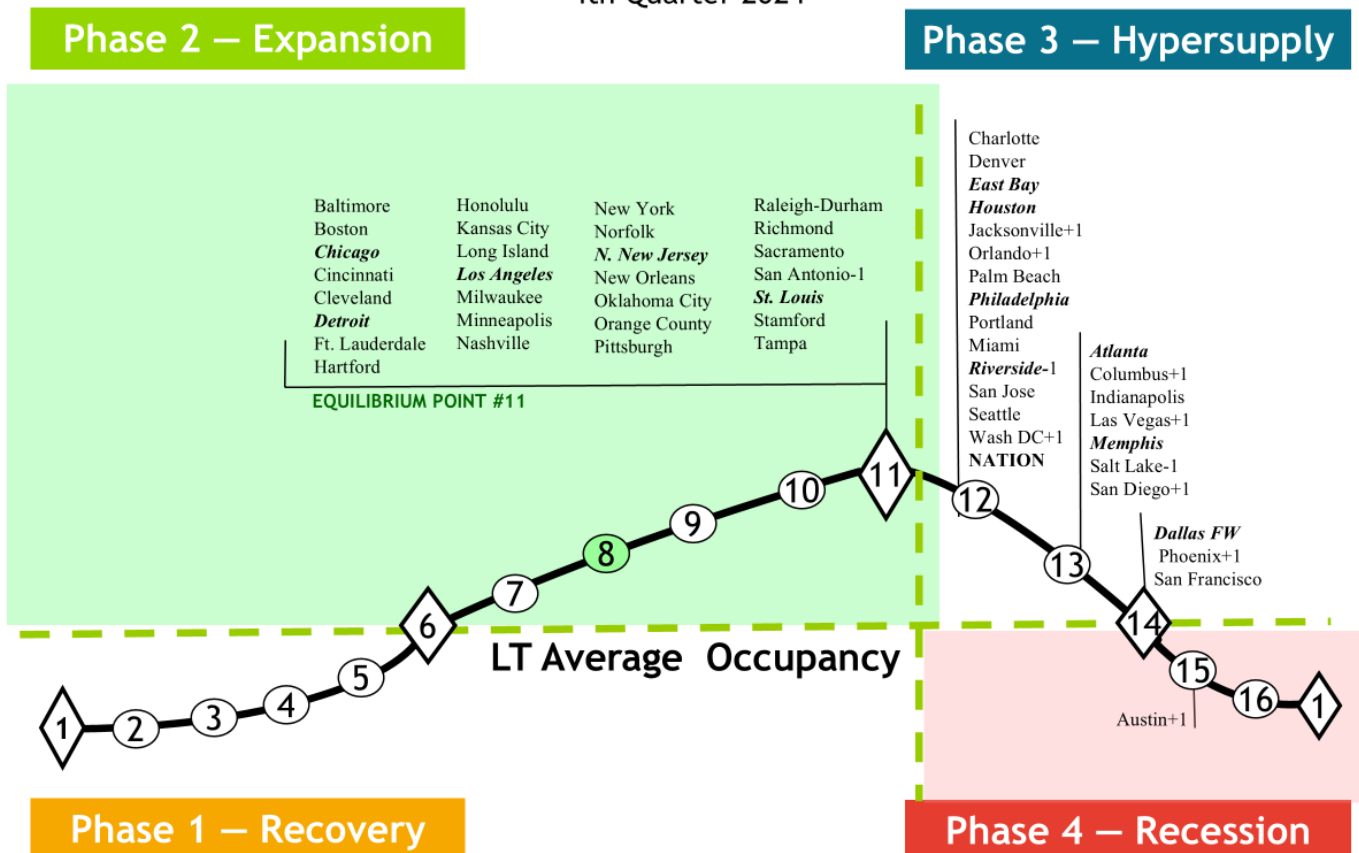
Phase 4 — Recession

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 **decreased -0.3%** in 4Q24 and **decreased -1.2%** year-over-year (placing it at the hyper-supply point #12 on the cycle chart). Warehouse users lost confidence, slowing space demand in October and November until the elections were completed. That pause continued as Trump announced he would use tariffs to bring manufacturing back to the US. New supply growth continued to slow, allowing net absorption to remain mildly positive in 4Q24. Bulk warehouses over 100,000 square feet are still in over-supply, with an occupancy rate averaging 91%, but Amazon did start leasing additional space in 4Q24. Small warehouse space is now in short supply with much higher occupancies. Asking rent growth **was up 3.4%** and annual rent growth **was up 6.8%** year-over-year.

Industrial Market Cycle Analysis
4th Quarter 2024

Phase 2 — Expansion

Phase 3 — Hypersupply

Baltimore	Honolulu	New York	Raleigh-Durham
Boston	Kansas City	Norfolk	Richmond
Chicago	Long Island	*N. New Jersey*	Sacramento
Cincinnati	*Los Angeles*	New Orleans	San Antonio-1
Cleveland	Milwaukee	Oklahoma City	*St. Louis*
Detroit	Minneapolis	Orange County	Stamford
Ft. Lauderdale	Nashville	Pittsburgh	Tampa
Hartford			

EQUILIBRIUM POINT #11

Charlotte
Denver
East Bay
Houston
Jacksonville+1
Orlando+1
Palm Beach
Philadelphia
Portland
Miami
Riverside-1
San Jose
Seattle
Wash DC+1
NATION

Atlanta
Columbus+1
Indianapolis
Las Vegas+1
Memphis
Salt Lake-1
San Diego+1

Dallas FW
Phoenix+1
San Francisco

LT Average Occupancy

Austin+1

Phase 1 — Recovery
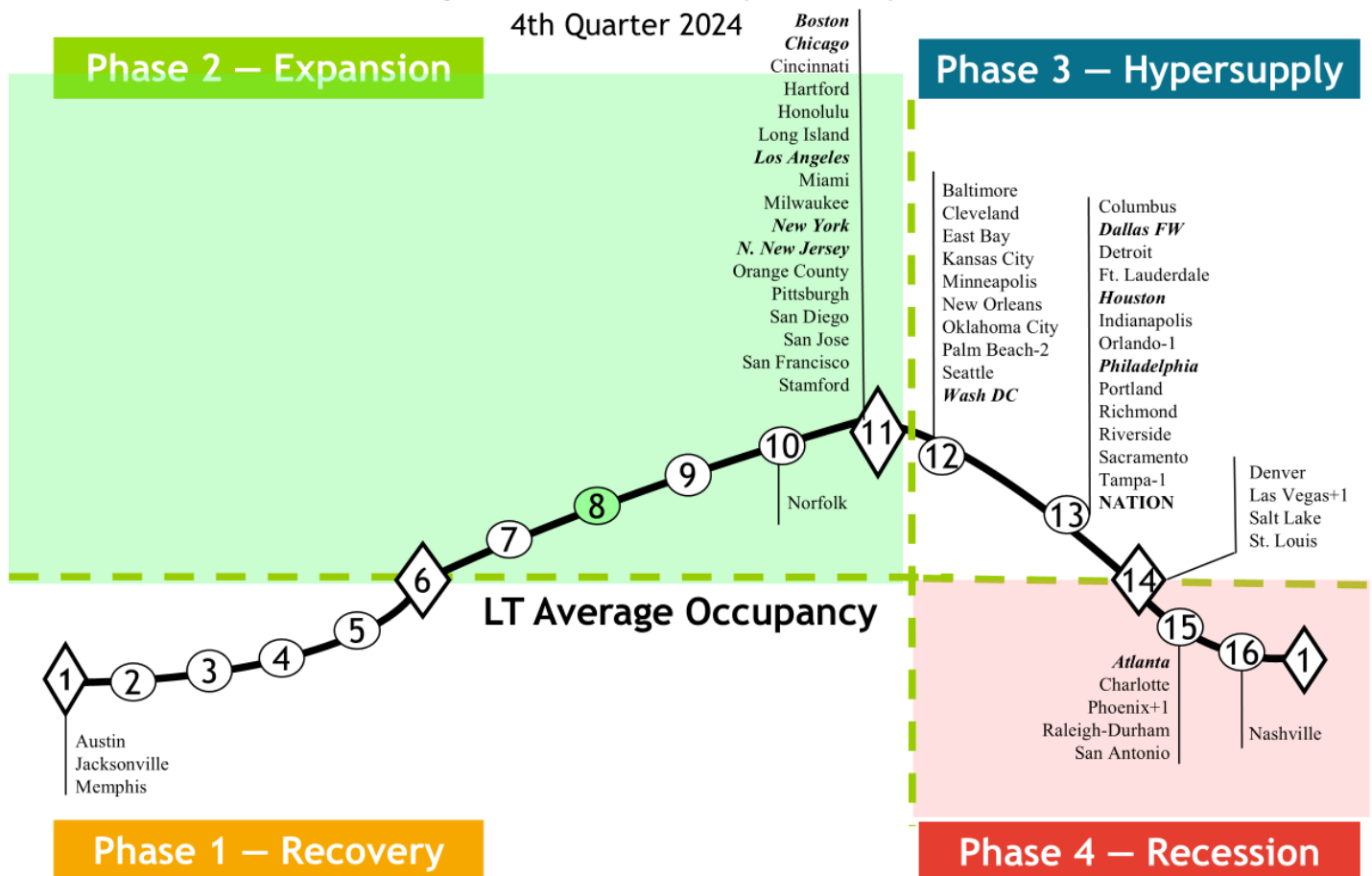
Phase 4 — Recession

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 **declined -0.1%** in 4Q24, but was **up 0.3%** year-over-year. Demand continued to grow in 4Q24 with positive economic growth, lower inflation, and less renters leaving to buy a house. About 110,000 apartments were leased bringing the total for the year to over 550,000 units, a 68% increase over 2023. Supply growth was strong at 500,000 units with the highest growth in the South and West, creating lower occupancy levels in those regions and slower rental growth. The Northeast and Midwest had modest supply growth keeping those markets closer to equilibrium, thus allowing for higher rental growth than the national average. National average apartment rent growth **was up 1.2%** in 4Q24 and **up 5.2%** year-over-year.

Apartment Market Cycle Analysis
4th Quarter 2024

Phase 2 — Expansion

Phase 3 — Hypersupply

Boston
Chicago
Cincinnati
Hartford
Honolulu
Long Island
Los Angeles
Miami
Milwaukee
New York
N. New Jersey
Orange County
Pittsburgh
San Diego
San Jose
San Francisco
Stamford

Baltimore
Cleveland
East Bay
Kansas City
Minneapolis
New Orleans
Oklahoma City
Palm Beach-2
Seattle
Wash DC

Columbus
Dallas FW
Detroit
Ft. Lauderdale
Houston
Indianapolis
Orlando-1
Philadelphia
Portland
Richmond
Riverside
Sacramento
Tampa-1
NATION

Denver
Las Vegas+1
Salt Lake
St. Louis

Norfolk

11 12 13 14 15 16

10 9 8 7 6 5 4 3 2 1

LT Average Occupancy

Atlanta
Charlotte
Phoenix+1
Raleigh-Durham
San Antonio

Nashville

Austin
Jacksonville
Memphis

Phase 1 — Recovery

Phase 4 — Recession

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.
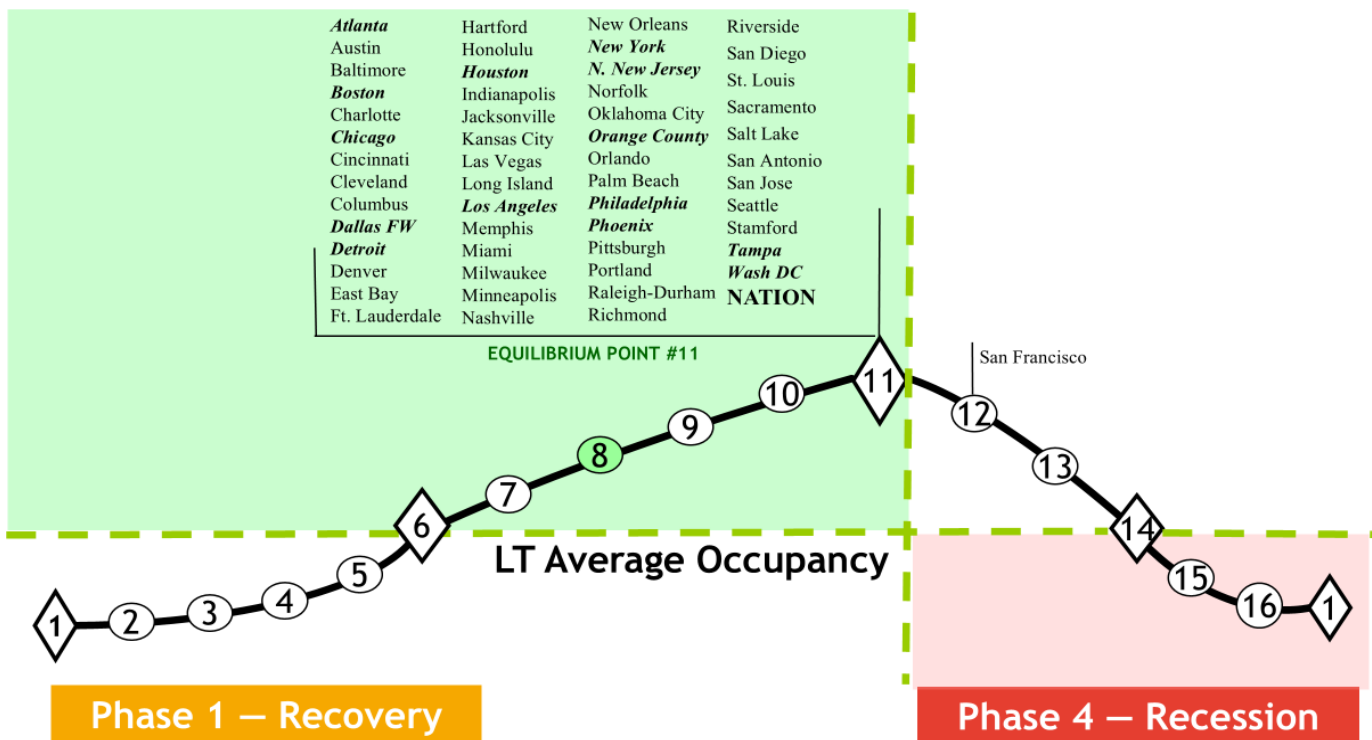
Retail

Retail occupancies were **flat** nationally in 4Q24 and **were down -0.1%** year-over-year, maintaining the highest peak-occupancy level in retail history. Consumer spending was up 5.2% in 4Q24, propelled by Black Friday ecommerce sales rising 14.6% in 2024, while sales at physical stores rose 0.7%. Retail sales increased 3% year-over-year (inflation adjusted) helping to keep demand strong. Constrained supply over the past 15 years has allowed retail space to fill to peak occupancy. Grocery anchored centers and food/beverage have been the strongest growth tenants with the most shopper visits. The national average retail asking rents **were up 2.3%** for the quarter and **were up 6.4%** year-over-year.

Retail Market Cycle Analysis
4th Quarter 2024

Phase 2 — Expansion

Phase 3 — Hypersupply

Atlanta	Hartford	New Orleans	Riverside
Austin	Honolulu	*New York*	San Diego
Baltimore	*Houston*	*N. New Jersey*	St. Louis
Boston	Indianapolis	Norfolk	Sacramento
Charlotte	Jacksonville	Oklahoma City	Salt Lake
Chicago	Kansas City	*Orange County*	San Antonio
Cincinnati	Las Vegas	Orlando	San Jose
Cleveland	Long Island	Palm Beach	Seattle
Columbus	*Los Angeles*	*Philadelphia*	Stamford
Dallas FW	Memphis	*Phoenix*	Tampa
Detroit	Miami	Pittsburgh	*Tampa*
Denver	Milwaukee	Portland	*Wash DC*
East Bay	Minneapolis	Raleigh-Durham	**NATION**
Ft. Lauderdale	Nashville	Richmond	

EQUILIBRIUM POINT #11

San Francisco

LT Average Occupancy

Phase 1 — Recovery

Phase 4 — Recession

Source: Mueller, 2025

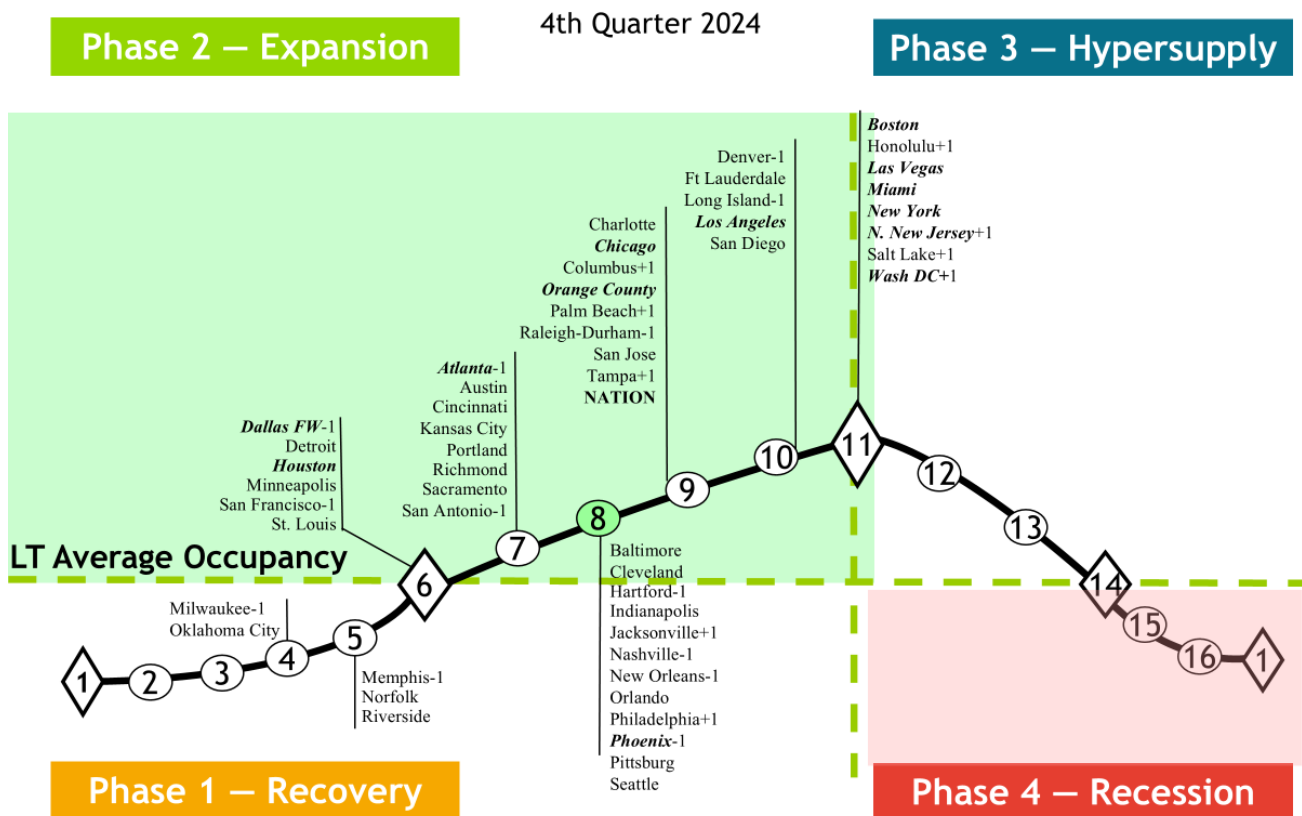Note: The 14-largest retail markets make up 50% of the total square footage of retail space we monitor. Thus, the 14-largest retail markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

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 were **up 0.9%** in 4Q24 and **up 1.0%** year-over-year. Demand for vacation and resort properties slowed, as the higher costs of living and travel became a concern for many consumers. The post-COVID "revenge travel" trend seems to be coming to an end. Demand for conference travel continued to improve as people are excited to get together. Demand for business travel seems to have bottomed out and may be on the rise soon. New hotel supply remained low as completions ended the year at only 150,000 rooms. Luxury is the one segment that remained strong, as wealthy individuals were feeling good with the strong stock market and increased value in their homes. National average Revenue Per Available Room – (RevPAR) was **up 3.1%** for the quarter and **up 9.1%** year-over-year.

Hotel Market Cycle Analysis
4th Quarter 2024

Phase 2 — Expansion

Phase 3 — Hypersupply

Boston
Honolulu+1
Las Vegas
Miami
New York
N. New Jersey+1
Salt Lake+1
Wash DC+1

Denver-1
Ft Lauderdale
Long Island-1
Los Angeles
San Diego

Charlotte
Chicago
Columbus+1
Orange County
Palm Beach+1
Raleigh-Durham-1
San Jose
Tampa+1
NATION

Atlanta-1
Austin
Cincinnati
Kansas City
Portland
Richmond
Sacramento
San Antonio-1

Dallas FW-1
Detroit
Houston
Minneapolis
San Francisco-1
St. Louis

LT Average Occupancy

Milwaukee-1
Oklahoma City

Memphis-1
Norfolk
Riverside

Baltimore
Cleveland
Hartford-1
Indianapolis
Jacksonville+1
Nashville-1
New Orleans-1
Orlando
Philadelphia+1
Phoenix-1
Pittsburg
Seattle

Phase 1 — Recovery

Phase 4 — Recession

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.
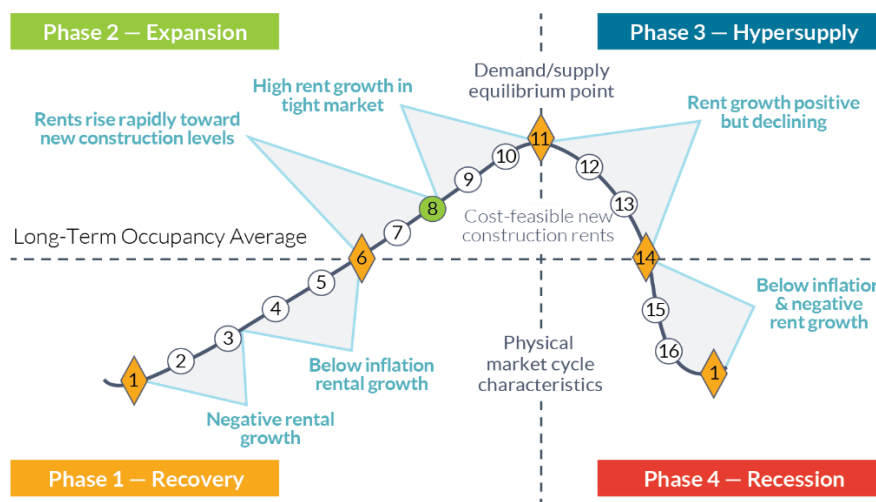
Source: Mueller, Real Estate Finance, 1996

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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