



Mueller

Real Estate Market Cycle Monitor

Fourth Quarter 2023 Analysis – February 2024

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

The prospect of a recession has finally been dropped by most economists, as GDP remained positive, and employment grew at a modest pace in 2023. The Fed stopped raising rates but has postponed dropping interest rates until they see wage inflation stabilize. We expect the 10-year treasury benchmark rate to hover around 4.0% in 2024. Office problems make borrowing in other property types more difficult, reducing transaction volume and depressing new construction starts. We believe this may keep many markets in better balance. The world is still awash in cash looking for good investments.

Office occupancy **declined -0.1%** in 4Q23, while rents **were flat** for the quarter and were up **0.2%** annually.
Industrial occupancy **declined -0.4%** in 4Q23, and rents **declined 1.3%** for the quarter and were up **0.8%** annually.
Apartment occupancy **decreased -0.4%** in 4Q23, and rents **were flat** for the quarter, and were down **-3.0%** annually.
Retail occupancy **improved 1.3%** in 4Q23, and rents **grew 0.5%** for the quarter and were up **3.0%** annually.
Hotel occupancy **declined -0.2%** in 4Q23, and average RevPAR **grew 1.8%** for the quarter and was up **4.9%** annually.

National Property Type Cycle Locations

Phase 2 – Expansion

Phase 3 – Hypersupply



Source: Mueller, 2024

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

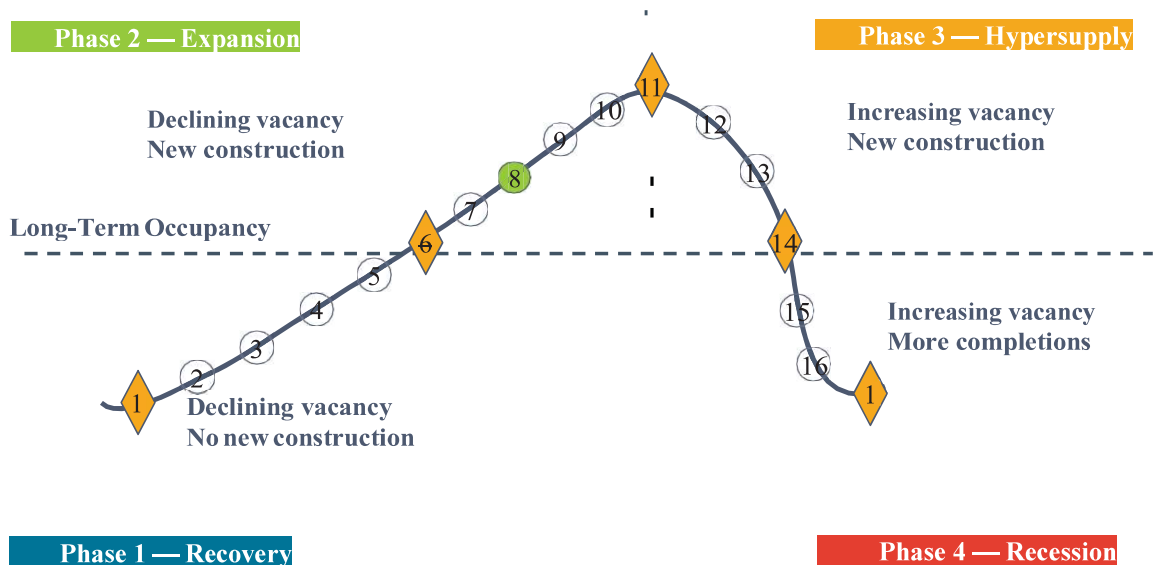
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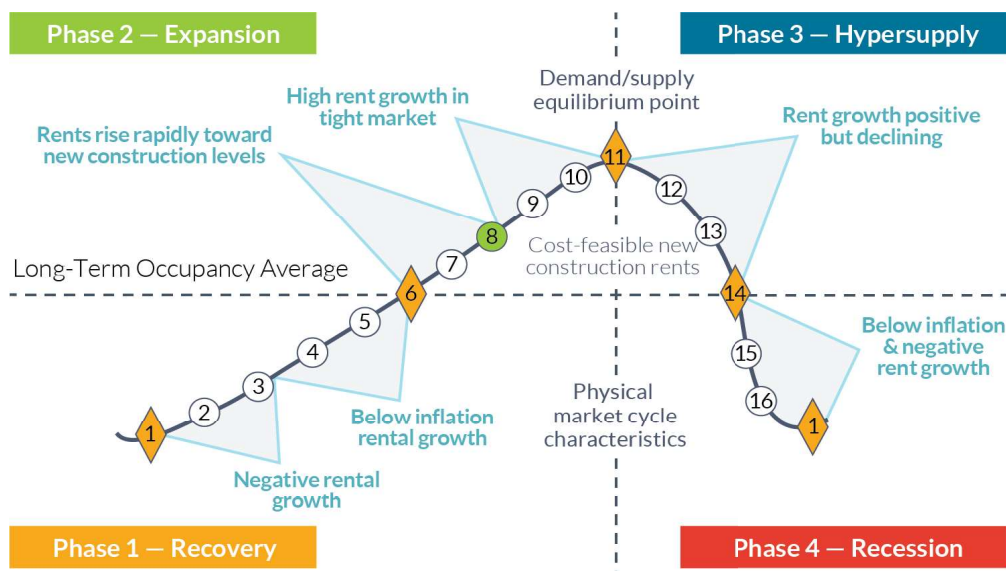
The cycle monitor analyzes occupancy movements in four property types in 54 MSAs. Market cycle analysis should enhance investment-decision capabilities for investors and operators. The five property type cycle charts summarize almost 300 individual models that analyze occupancy levels and rental growth 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, 1996.

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



Source: Mueller, Real Estate Finance, 1996.