

Cooling Costs, Rigid Ratios
Operating Expenses Revisited

Stewart Rubin, Senior Director,
Head of Strategy and Research
Matt Wnek, Director
Marshall Swett, Associate

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Key Points

- **Cumulatively, expenses have outrun income.** Since 2019, operating expenses have grown faster than income in the apartment (28.5% vs. 24.2%), office (19.7% vs. 14.7%), and retail (19.0% vs. 14.5%) sectors. Industrial remains the sole exception, with cumulative income growth (49.0%) modestly ahead of expense growth (44.1%).
- **The near-term inflection has reversed.** Over the trailing year, headline expense growth has moderated to roughly flat or negative in apartment (-1.0%), office (-1.0%), and retail (-0.5%) sectors, **while income has weakened in tandem** (apartment -0.7%, office -1.6%, retail +0.4%). Industrial is the exception in the other direction: expenses (+4.7%) have re-accelerated above income (+2.8%).
- **OERs remain elevated except in the industrial sector.** Apartment (42.3% to 43.8%), office (41.6% to 43.4%), and retail (32.3% to 33.5%) OERs are all higher than pre-COVID, while industrial has edged lower (26.3% to 25.4%). The same broad pattern was identified in 2023, but is now driven by different underlying forces.

Introduction

Effective Gross Income (EGI) is only one of the two components of Net Operating Income (NOI). Operating expenses are often the less scrutinized of the pair, yet they are no less consequential to property performance. In the 2023 New York Life Real Estate Investors (NYL REI) Strategy and Research Group white paper, *Operating Expenses Rising*,[1] we documented a period in which expenses across apartment, office, and retail were climbing faster than income, resulting in rising operating expense ratios (OERs) and cash flows that had become more sensitive to any softening in revenue.

We revisit the topic in 2026 because the expense side of NOI has once again moved into focus. Inflationary pressure is re-emerging through a different channel than the post pandemic-era demand surge, this time through the supply side via energy-market disruption and more broadly through the deglobalization and the reshoring of supply chains, and a labor market adjusting to shifts in immigration. Tariff activity and higher input costs raise the risk that categories which had begun to cool could reaccelerate, including insurance, utilities, maintenance, and wages.

In 2023, rising OERs were primarily a story of a rising numerator: expenses, led by insurance, surging well above trend and outpacing income. In 2026, expense growth has decelerated sharply; on a year-over-year basis several categories, most notably insurance, are now flat to declining across every major property type. And yet OERs remain elevated and continue to grind higher for apartment, office, and retail. The reason is that

[1] Stewart Rubin and Dakota Firenze. (2024, Winter). *Operating Expenses Rising.* New York Life Real Estate Investors Strategy & Research Group publication in AFIRE Summit Journal.

income growth has stalled or turned negative. Margin pressure today is increasingly a denominator story: it is weak revenue, more than runaway costs, that is keeping expense ratios higher than pre-pandemic levels.

The property types diverge more than the national averages suggest, and so do individual markets. Industrial continues to enjoy the lowest sensitivity to revenue shocks but is the one sector where expense growth is currently re-accelerating. Apartment expense growth has cooled meaningfully, helped by softening insurance, real estate taxes, administrative and maintenance expenses along with a wave of new supply that has pressured both rents and, indirectly, some cost lines, but income has cooled with it. Office remains the most challenged at the aggregate: expenses continue to rise even as income falls, and the sector's high OER makes its NOI acutely sensitive to further revenue erosion. Retail is the most improved on a year-over-year basis, with income growth now marginally outpacing expenses. Beneath these national figures, the greatest dispersion is geographic. High-growth markets with a demonstrated ability to absorb new supply, along with traditionally supply-constrained coastal markets where demand has remained resilient, are generally holding OERs down through income growth. By contrast, overbuilt Sunbelt markets and more stagnant coastal and midwestern metros are seeing ratios rise as expenses increase, income declines, or both.

Income, Expense, and OER by Property Type

The first table to the right compares cumulative growth in property-level income and expenses per square foot over the trailing year and since Q2 2019. The second compares operating expense ratios over the same period. Industrial is the only sector where income outpaced expenses over the full period, and thus the only sector with a lower OER than pre-COVID.

Income & Expense Growth

Property Type	Year/Year		Q2 '19 to Q2 '26	
	Income	Expenses	Income	Expenses
Apartment	-0.7%	-1.0%	24.2%	28.5%
Industrial	2.8%	4.7%	49.0%	44.1%
Office	-1.6%	-1.0%	14.7%	19.7%
Retail	0.4%	-0.5%	14.5%	19.0%

Source: NCREIF Query Tool. As of Q2 2026. Calculated using a 4-Qtr rolling total.

The higher the OER, the more sensitive a property's NOI is to decline in EGI. Office (43.4%) and apartment (43.8%) are therefore the most exposed among the four sectors analyzed here; industrial (25.4%), with its predominantly net-lease structure and thin expense load, is the least. However, as noted in our 2023 report: expense-reimbursement clauses embedded in net and modified-gross leases do not fully insulate owners, because as gross occupancy cost rises to reflect higher expenses, base rent must eventually adjust downward to keep total rent at market. Reimbursements change who writes the check first, not the market's ceiling on total occupancy cost.

Operating Expense Ratios (OER)

Property Type	Q2 '19	Q2 '26	Change
Apartment	42.3%	43.8%	+
Industrial	26.3%	25.4%	-
Office	41.6%	43.4%	+
Retail	32.3%	33.5%	+

Source: NCREIF Query Tool. As of Q2 2026. Calculated using a 4-Qtr rolling total.

We now examine each major property type in turn, pairing the national income, expense, and OER trends with market-level analyses.

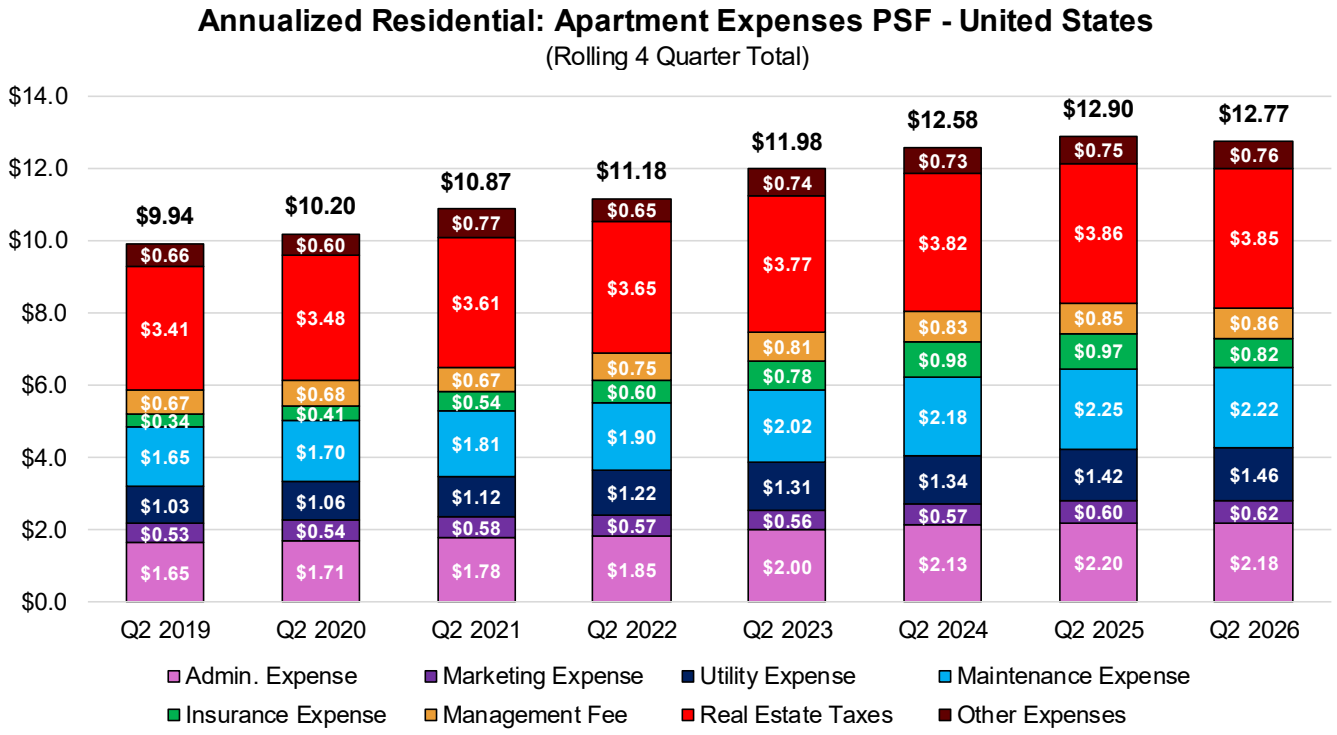
Methodology

This analysis draws on the NCREIF Property Index (NPI), using actual reported income and operating expenses for institutionally owned apartment, industrial, office, and retail properties, which we express on a per-square-foot basis for comparability. Geographies are defined using Core-Based Statistical Areas (CBSAs) rather than MSAs, so some markets correspond to sub-metro divisions. Because sample sizes vary by property type and market and can be small at the metro level, certain readings, especially expense items with a low dollar base, exhibit large percentage swings that should be read as directional rather than precise.

Apartment

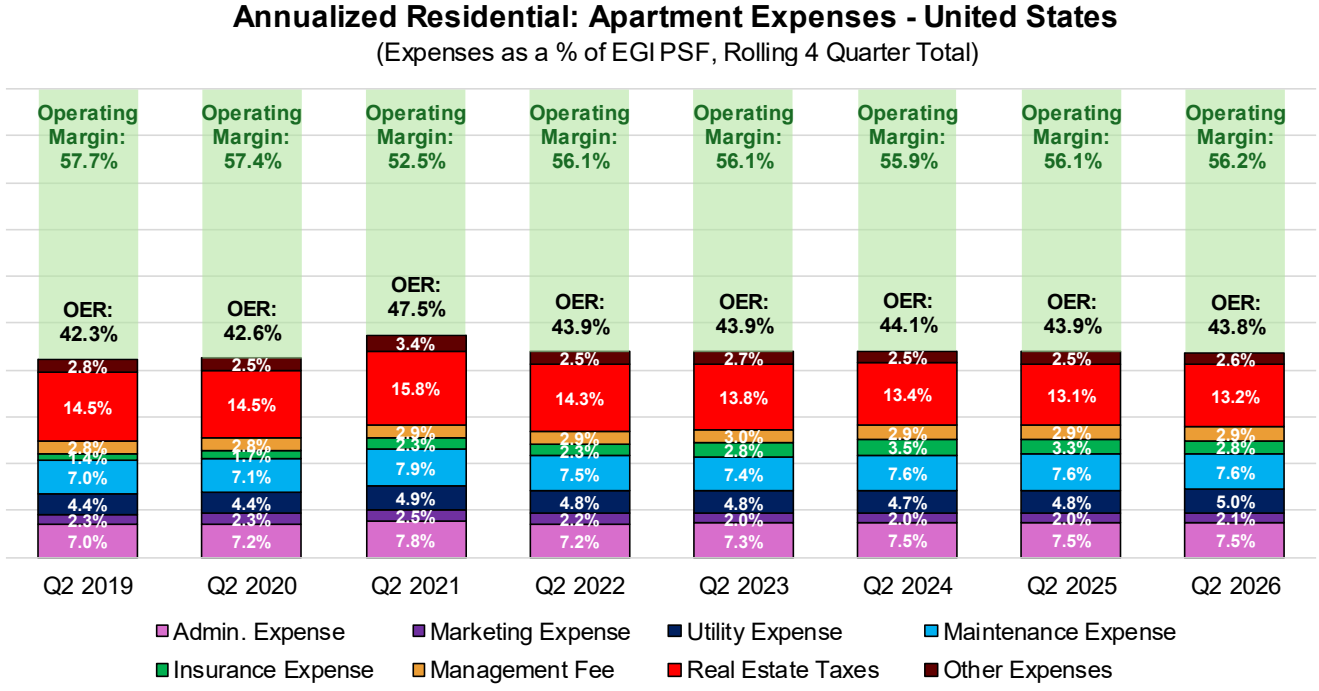
Income, Expense, and OER Trends

The apartment sector remains one of the most expense-affected of the four, but its trajectory has changed markedly since the last study. Operating expenses per square foot rose from $9.94 in Q2 2019 to a peak of $12.90 in Q2 2025 before easing to $12.77 in Q2 2026, the first year-over-year decline in the series, at -1.0%. Income moved almost in lockstep, slipping -0.7% over the same year.



Source: NCREIF Query Tool. As of Q2 2026

The result is an OER of 43.8% as of Q2 2026, up from 42.3% pre-COVID but essentially flat versus the prior year and well below the 47.5% pandemic peak reached in 2021, when rent softness collided with rising costs.

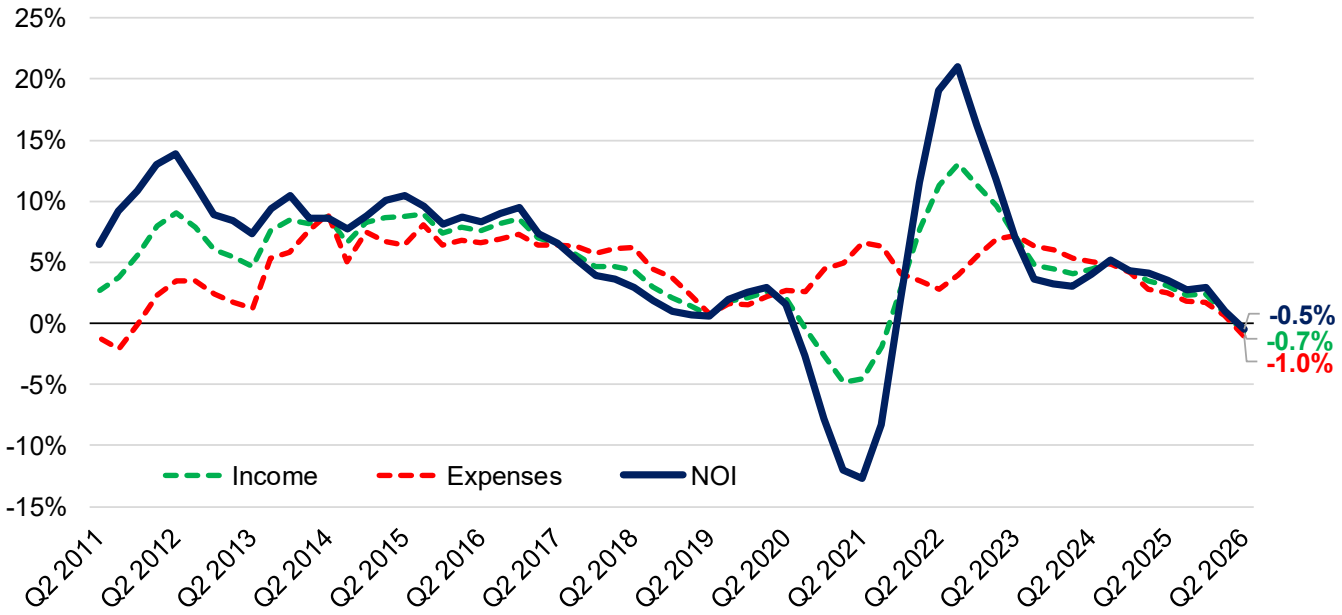


Source: NCREIF Query Tool. As of Q2 2026

The cumulative picture still shows expenses outrunning income at 28.5% versus 24.2% since Q2 2019, which is why the OER sits above its pre-pandemic level. But the recent inflection is unmistakable: the chart below shows income, expense, and NOI growth all converging toward zero in 2026 (NOI -0.5%).

Residential: Apartment Income, Expense, and NOI Growth: United States

(yr/yr growth, Rolling 4 Quarter Total)



Source: NCREIF Query Tool. As of Q2 2026

As a result, the overall apartment OER is elevated because income has stopped growing while the earlier expense increases remain embedded in the base.

Expense Categories and Drivers

Real estate taxes remain the largest single expense line item, but their contribution to recent growth has been muted. Their 0.3% contraction over the past year likely reflects falling property income and declining appraised values. Maintenance (-1.1%) and administrative (-0.8%) costs turned slightly negative as well, potentially tied to lower total income and reduced occupancy costs. Insurance, which was rising above trend in the previous study, fell 15.4% year-over-year in Q2 2026 after several years of double-digit gains. Utilities (+2.6%) and marketing (+2.9%) continued to rise modestly. Against a pre-COVID CAGR of +4.1% for total expenses, the current -1.0% print represents a substantial deceleration.

Year-Over-Year Growth Rate of Residential: Apartment Expenses: United States

Yr/yr growth rate as of:	Admin. Expense	Marketing Expense	Utility Expense	Maintenance Expense	Insurance Expense	Management Fee	Real Estate Taxes	Other Expenses	Total Expenses	Total Income	Net Operating Income
Q2 2026	-0.8%	+2.9%	+2.6%	-1.1%	-15.4%	+0.9%	-0.3%	+1.7%	-1.0%	-0.7%	-0.5%
Q2 2025	+3.4%	+4.9%	+6.2%	+3.1%	-1.4%	+2.3%	+1.0%	+3.2%	+2.5%	+3.1%	+3.5%
Q2 2024	+6.7%	+1.8%	+2.5%	+7.6%	+26.9%	+2.1%	+1.5%	-1.7%	+5.0%	+4.5%	+4.0%
Q2 2023	+8.1%	-1.9%	+7.6%	+6.7%	+29.6%	+8.6%	+3.3%	+13.7%	+7.2%	+7.1%	+7.1%
Q2 2022	+3.8%	-1.1%	+8.0%	+5.0%	+11.5%	+12.2%	+1.2%	-16.0%	+2.8%	+11.3%	+19.1%
Q2 2021	+3.8%	+6.0%	+5.8%	+6.2%	+30.2%	-2.2%	+3.5%	+28.9%	+6.6%	-4.5%	-12.7%
Q2 2020	+4.0%	+2.7%	+3.6%	+3.0%	+22.7%	+2.3%	+2.1%	-9.6%	+2.7%	+2.0%	+1.5%
Q2 2019	-6.5%	+3.5%	+2.1%	+0.9%	+6.0%	-1.8%	+3.1%	+3.3%	+0.7%	+0.7%	+0.6%
15 Years Pre-COVID CAGR	+5.4%	+3.1%	+3.9%	+3.6%	+2.3%	+3.8%	+5.9%	-0.6%	+4.1%	+4.6%	+4.9%

Market Level Analysis

The national averages mask wide geographic dispersion. We examine the leading and lagging metros for income growth, expense growth, and OER change, and whether each OER move is being driven by the numerator (expenses) or the denominator (income).

Residential: Apartment Income PSF Change by Market: High to Low

Rank		Change	Q2 2026	Q4 2019
1	West Palm Beach, FL	83.2%	$7.18	$3.92
2	Fort Lauderdale, FL	64.7%	$6.95	$4.22
3	Tampa, FL	50.1%	$6.16	$4.11
4	Miami, FL	49.7%	$9.09	$6.08
5	St. Petersburg, FL	44.9%	$6.52	$4.50
6	Anaheim, CA	41.3%	$10.35	$7.32
7	Raleigh, NC	39.8%	$5.16	$3.69
8	New York, NY	39.3%	$14.06	$10.09
9	Charleston, SC	38.7%	$6.11	$4.40
10	San Jose, CA	35.1%	$11.35	$8.40
	United States	**22.1%**	**$7.29**	**$5.97**

Residential: Apartment Income PSF Change by Market: Low to High

Rank		Change	Q2 2026	Q4 2019
1	San Antonio, TX	-19.4%	$3.63	$4.50
2	Baltimore, MD	-6.5%	$5.13	$5.49
3	Oakland, CA	-5.3%	$7.89	$8.33
4	Washington, DC	-1.9%	$8.44	$8.61
5	San Francisco, CA	0.3%	$12.75	$12.71
6	Seattle, WA	8.6%	$8.99	$8.28
7	Houston, TX	10.0%	$5.03	$4.57
8	Minneapolis, MN	10.6%	$5.90	$5.34
9	Austin, TX	11.0%	$5.87	$5.29
10	Portland, OR	15.7%	$6.39	$5.52
	United States	**22.1%**	**$7.29**	**$5.97**

Source: NCREIF Query Tool. As of Q2 2026. Income PSF calculated using a 4-Quarter rolling total.

The income leaders share a clear identity. Two archetypes dominate: transformative Sunbelt metros that absorbed enormous in-migration and rent growth (West Palm Beach, Fort Lauderdale, Tampa, Miami, St. Petersburg, Raleigh, Charleston), and supply-constrained coastal markets that added relatively little new stock and thus preserved pricing power (Anaheim, New York, San Jose). Those that experienced low-income growth or contraction are the opposite: overbuilt Sunbelt markets where a deluge of deliveries suppressed rent growth (San Antonio, Houston, Austin) as well as coastal and Midwest markets that never fully recovered post-pandemic demand (Baltimore, Oakland, San Francisco, Seattle, Portland, Minneapolis). San Francisco's slightly positive reading may signal an early turn worth monitoring, particularly as the city recovers under new leadership and benefits from AI-driven growth.

Residential: Apartment Expenses PSF Change by Market: High to Low

Rank		Change	Q2 2026	Q4 2019
1	West Palm Beach, FL	74.6%	$2.98	$1.70
2	Durham, NC	53.5%	$2.16	$1.41
3	Fort Lauderdale, FL	52.6%	$2.95	$1.93
4	Tampa, FL	51.6%	$2.74	$1.81
5	Santa Rosa, CA	49.1%	$3.84	$2.58
6	San Jose, CA	47.3%	$4.42	$3.00
7	Phoenix, AZ	45.6%	$2.20	$1.51
8	St. Petersburg, FL	45.3%	$3.07	$2.11
9	Orlando, FL	42.9%	$2.59	$1.81
10	Charlotte, NC	42.1%	$2.28	$1.60
	United States	**26.6%**	**$3.19**	**$2.52**

Residential: Apartment Expenses PSF Change by Market: Low to High

Rank		Change	Q2 2026	Q4 2019
1	San Antonio, TX	-17.3%	$2.00	$2.42
2	San Francisco, CA	-2.3%	$5.13	$5.25
3	Baltimore, MD	-2.2%	$2.15	$2.20
4	Houston, TX	9.1%	$2.58	$2.36
5	Washington, DC	10.6%	$3.68	$3.33
6	Dallas, TX	12.7%	$2.90	$2.58
7	Fort Worth, TX	17.8%	$2.49	$2.11
8	Philadelphia, PA	19.2%	$3.68	$3.08
9	Arlington, VA	19.9%	$2.96	$2.47
10	Oakland, CA	20.5%	$3.75	$3.11
	United States	**26.6%**	**$3.19**	**$2.52**

Source: NCREIF Query Tool. As of Q2 2026. Expenses PSF calculated using a 4-Quarter rolling total.

Expense growth tracks the same transformative-Sunbelt geography as income, as the markets that saw the fastest value appreciation and in-migration also saw the fastest increases in property taxes, insurance (climate-exposed Florida markets in particular), and wage-linked operating costs such as administrative, maintenance, and management expenses. West Palm Beach tops both lists. The low end is more mixed, featuring overbuilt Texas metros with comparatively lower climate risk (San Antonio, Houston, Dallas, Fort Worth) and a set of coastal markets (San Francisco, Baltimore, Oakland, Philadelphia, Washington) where soft fundamentals gave landlords little room to increase spending.

Residential: Apartment Operating Expense Ratio (OER) Change by Market: High to Low				
Rank		Change	Q2 2026	Q4 2019
1	Oakland, CA	10.2%	47.5%	37.4%
2	Denver, CO	7.1%	40.0%	32.9%
3	Durham, NC	6.7%	47.4%	40.7%
4	Santa Rosa, CA	6.1%	42.7%	36.6%
5	Portland, OR	6.1%	45.2%	39.1%
6	Nashville, TN	6.0%	47.9%	41.9%
7	Los Angeles, CA	5.5%	47.3%	41.8%
8	Washington, DC	4.9%	43.6%	38.7%
9	Frederick, MD	4.9%	42.8%	37.9%
10	Austin, TX	4.6%	53.7%	49.1%
	United States	**1.5%**	**43.8%**	**42.2%**

Residential: Apartment Operating Expense Ratio (OER) Change by Market: Low to High				
Rank		Change	Q2 2026	Q4 2019
1	Miami, FL	-3.8%	40.0%	43.9%
2	New York, NY	-3.7%	41.6%	45.3%
3	Fort Lauderdale, FL	-3.4%	42.5%	45.8%
4	West Palm Beach, FL	-2.0%	41.5%	43.5%
5	Bridgeport, CT	-2.0%	39.8%	41.8%
6	Charleston, SC	-1.9%	47.5%	49.4%
7	Philadelphia, PA	-1.8%	38.3%	40.1%
8	Dallas, TX	-1.6%	51.4%	53.0%
9	San Francisco, CA	-1.0%	40.3%	41.3%
10	Anaheim, CA	-0.8%	39.1%	39.9%
	United States	**1.5%**	**43.8%**	**42.2%**

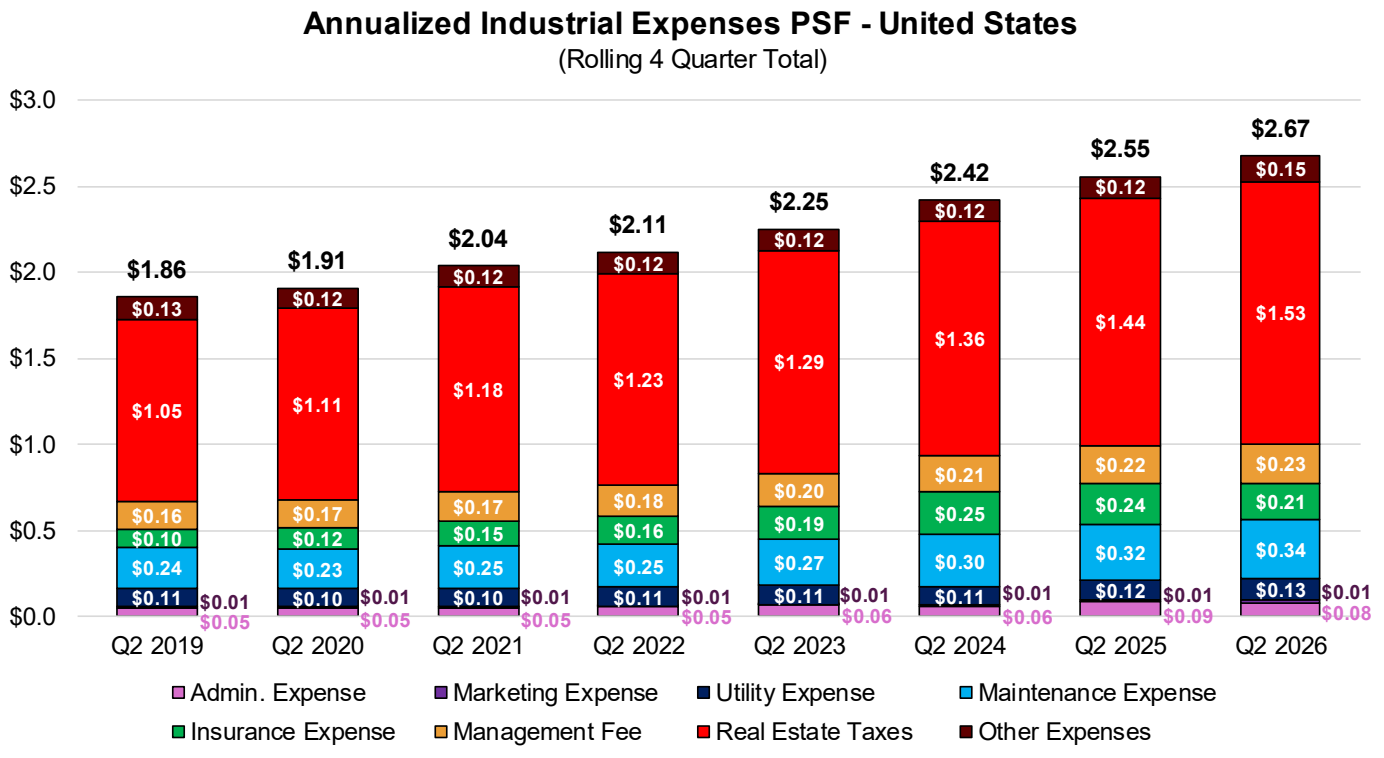
Source: NCREIF Query Tool. As of Q2 2026. OERs calculated using a 4-Quarter rolling total.

OER movement illustrates the numerator-versus-denominator distinction by market. The OER increasers are split into two groups. Oakland is a denominator story, with income falling -5.3% while expenses rose 20.5%, causing the ratio to increase even though costs were not extreme. Portland and Santa Rosa are similar stories. Durham, Denver, and Nashville are more of a numerator story, as expenses in these growing markets ran faster than income could follow amidst elevated supply and decreased pricing power. Among the markets that experienced OER contraction, several markets demonstrated notable strength. New York, Bridgeport, Charleston, Anaheim, Miami, Fort Lauderdale, and West Palm Beach posted income growth strong enough to outpace even sizable expense increases, pulling their ratios down. Dallas, Philadelphia, and San Francisco benefited from more modest expense growth.

Industrial

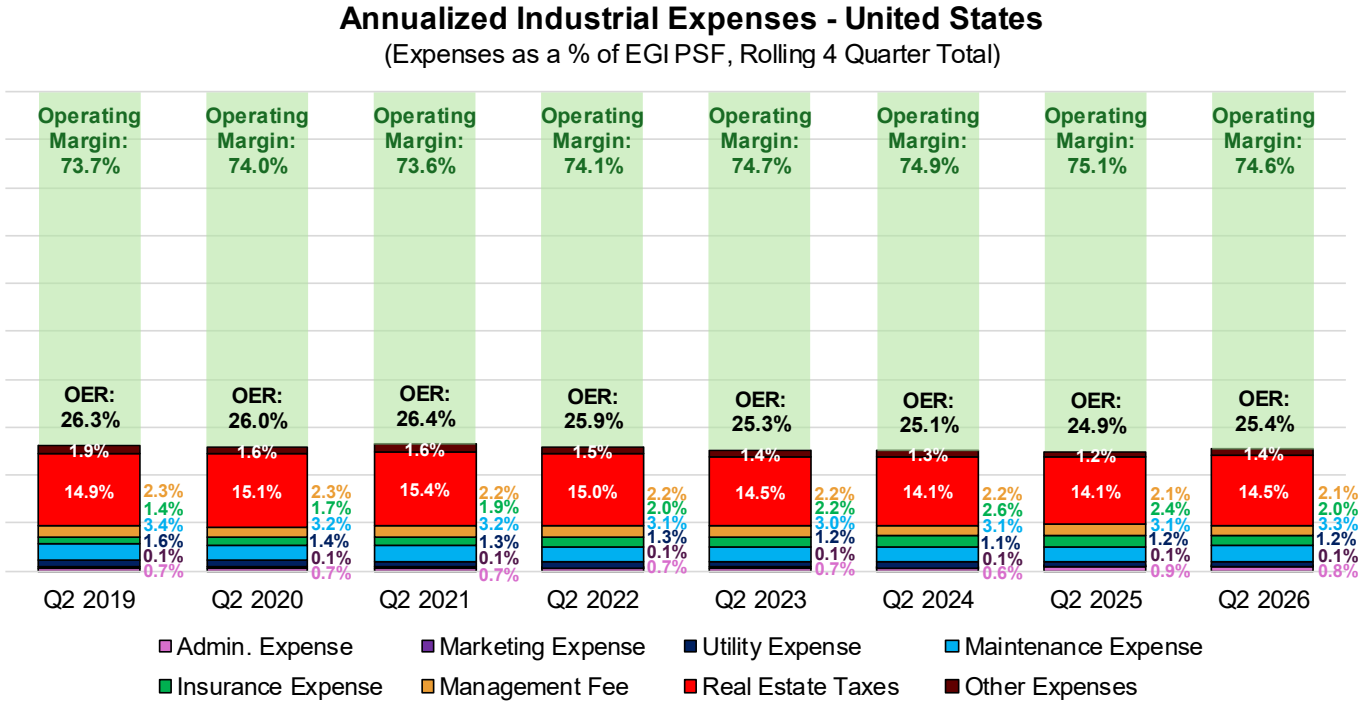
Income, Expense, and OER Trends

Industrial remains the standout sector and the only one of the main four where cumulative income growth (49.0% since Q2 2019) still exceeds cumulative expense growth (44.1%). Operating expenses per square foot rose steadily from $1.86 in Q2 2019 to $2.67 in Q2 2026.



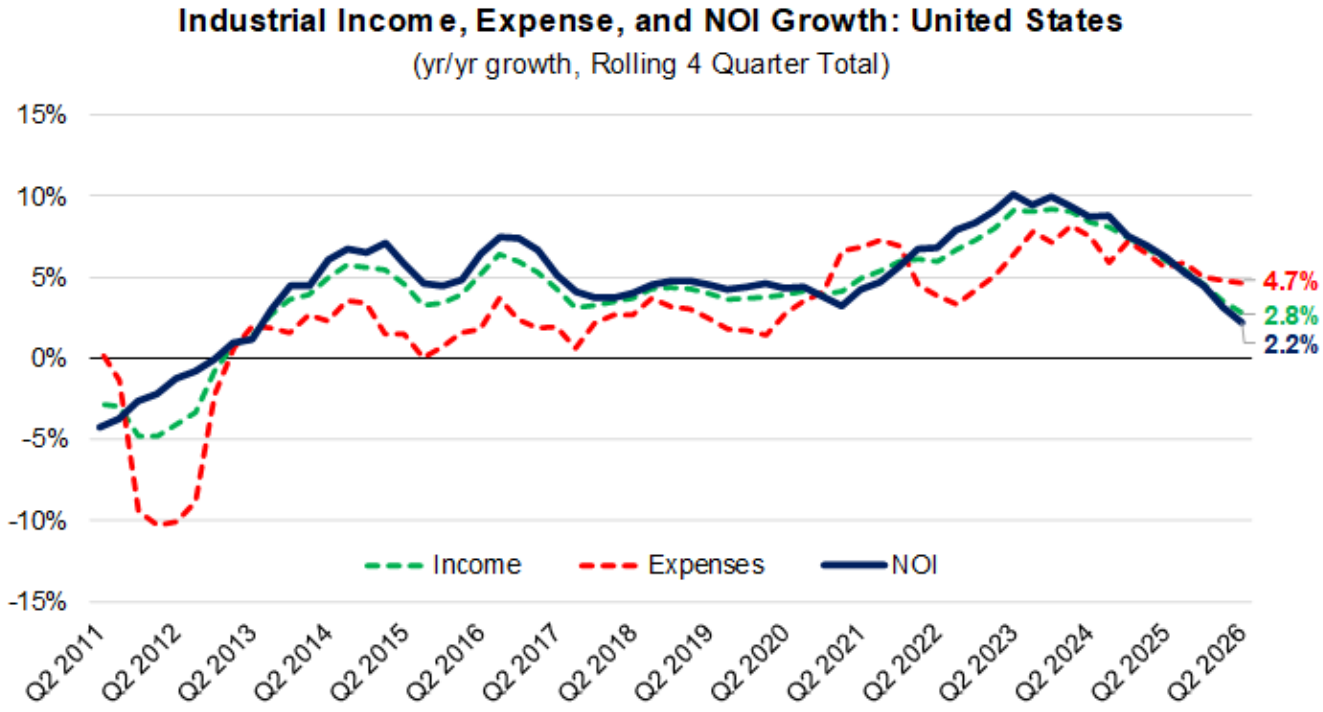
Source: NCREIF Query Tool. As of Q2 2026

The OER edged down to 25.4% from 26.3% pre-COVID, keeping industrial by far the least expense-sensitive property type, with an operating margin near 74.6%.



Source: NCREIF Query Tool. As of Q2 2026

The near-term signal, however, contrasts from other sectors. Where apartment, office, and retail expenses have gone flat or negative year-over-year, industrial expenses re-accelerated to +4.7% in Q2 2026, comfortably above income growth of +2.8% and pushing NOI growth down to +2.2%. Industrial is thus the one sector where the numerator is currently the more active variable, a reversal from its 2019–2024 record of income-led outperformance.



Source: NCREIF Query Tool. As of Q2 2026

Expense Categories and Drivers

Real estate taxes dominate the industrial expense stack, reflecting the appreciation in industrial land and building values driven by e-commerce and logistics demand. Taxes rose +5.9% year-over-year, the single largest contributor to the +4.7% total. Utilities (+9.4%) and maintenance (+7.5%) also rose meaningfully. As in every other sector, insurance fell (-12.6%), confirming the cross-sector softening of the property-insurance market. It should be noted that because the industrial expense line items, other than real estate taxes, each constitute only 0–3% of every dollar of income (as detailed in the OER chart above), they are prone to large percentage swings, as displayed by administrative and marketing expenses in the table below.

Year-Over-Year Growth Rate of Industrial Expenses: United States

Yr/yr growth rate as of:	Admin. Expense	Marketing Expense	Utility Expense	Maintenance Expense	Insurance Expense	Management Fee	Real Estate Taxes	Other Expenses	Total Expenses	Total Income	Net Operating Income
Q2 2026	-7.7%	+71.3%	+9.4%	+7.5%	-12.6%	+4.1%	+5.9%	+19.7%	+4.7%	+2.8%	+2.2%
Q2 2025	+48.6%	-19.3%	+11.2%	+6.2%	-2.3%	+3.8%	+5.7%	-1.6%	+5.6%	+6.0%	+6.2%
Q2 2024	-6.7%	+9.1%	-3.1%	+12.8%	+29.7%	+6.9%	+5.4%	+1.0%	+7.5%	+8.4%	+8.7%
Q2 2023	+17.4%	-4.7%	+3.2%	+6.1%	+16.5%	+10.0%	+5.3%	-1.3%	+6.4%	+9.1%	+10.1%
Q2 2022	+2.6%	+10.6%	+3.3%	+1.9%	+10.8%	+4.4%	+3.7%	-0.3%	+3.8%	+6.0%	+6.8%
Q2 2021	+5.7%	+5.4%	+0.2%	+5.5%	+21.3%	+2.8%	+7.0%	+5.4%	+6.9%	+4.9%	+4.2%
Q2 2020	+5.7%	-20.9%	-7.9%	-1.7%	+22.3%	+1.5%	+5.1%	-11.7%	+2.7%	+3.9%	+4.3%
Q2 2019	+19.1%	+7.5%	-3.8%	+6.3%	+4.7%	+2.7%	+3.1%	-8.9%	+2.5%	+4.0%	+4.6%
15 Years Pre-COVID CAGR	-1.4%	+0.3%	+0.8%	-1.3%	+1.1%	+2.8%	+2.8%	-1.2%	+1.4%	+1.7%	+1.8%

Market Level Analysis

The post-COVID industrial income story has been a rising tide that lifted all boats to varying degrees, with only two markets in NCREIF's sample experiencing income contraction since 2019.

Industrial Income PSF Change by Market: High to Low

Rank		Change	Q2 2026	Q4 2019
1	Riverside, CA	90.0%	$3.08	$1.62
2	Cambridge, MA	88.1%	$4.68	$2.49
3	Boston, MA	86.8%	$3.20	$1.71
4	Newark, NJ	84.3%	$4.16	$2.26
5	New York, NY	74.7%	$5.32	$3.04
6	Miami, FL	72.5%	$3.59	$2.08
7	Trenton, NJ	69.1%	$3.17	$1.87
8	Tacoma, WA	68.7%	$3.21	$1.90
9	Reno, NV	61.3%	$2.10	$1.30
10	Lakewood, NJ	61.1%	$3.36	$2.08
	United States	**46.2%**	**$2.63**	**$1.80**

Industrial Income PSF Change by Market: Low to High

Rank		Change	Q2 2026	Q4 2019
1	Kenosha, WI	-6.3%	$1.60	$1.71
2	Kansas City, MO	-0.2%	$1.60	$1.60
3	Lake County, IL	5.2%	$1.81	$1.72
4	Arlington, VA	12.9%	$3.72	$3.29
5	Charlotte, NC	18.5%	$1.92	$1.62
6	Houston, TX	19.6%	$2.27	$1.90
7	Tampa, FL	20.1%	$2.08	$1.73
8	Fort Worth, TX	24.3%	$1.83	$1.47
9	Denver, CO	25.2%	$2.62	$2.09
10	Austin, TX	26.2%	$3.39	$2.68
	United States	**46.2%**	**$2.63**	**$1.80**

Source: NCREIF Query Tool. As of Q2 2026. Income PSF calculated using a 4-Quarter rolling total.

The income leaders are overwhelmingly port- and gateway-adjacent logistics markets where supply is physically constrained and demand is anchored by trade and last-mile distribution: Riverside–San Bernardino (the Inland Empire), the Newark–New York–Trenton–Lakewood corridor, Tacoma, Miami, and Boston/Cambridge. Reno stands out as a transformative interior hub. The lower end of the income growth list clusters in the Midwest (Kenosha, Kansas City, Lake County, Chicago's exurbs) and in growing markets that overbuilt their industrial pipelines (Houston, Fort Worth, Austin, Denver, Charlotte), where abundant developable land allowed supply to outpace demand and cap rent growth.

Industrial Expenses PSF Change by Market: High to Low				
Rank		Change	Q2 2026	Q4 2019
1	Boston, MA	112.3%	$1.08	$0.51
2	Louisville, KY	93.5%	$0.39	$0.20
3	Jefferson, GA	92.5%	$0.22	$0.12
4	Riverside, CA	85.1%	$0.67	$0.36
5	Cambridge, MA	82.8%	$1.27	$0.69
6	Tacoma, WA	80.1%	$0.74	$0.41
7	Providence, RI	75.5%	$0.74	$0.42
8	Vallejo, CA	74.4%	$0.60	$0.34
9	St. Louis, MO	72.2%	$0.49	$0.28
10	Miami, FL	68.6%	$0.99	$0.59
	United States	**42.7%**	**$0.67**	**$0.47**

Industrial Expenses PSF Change by Market: Low to High				
Rank		Change	Q2 2026	Q4 2019
1	Kenosha, WI	-32.5%	$0.31	$0.46
2	Kansas City, MO	-23.4%	$0.37	$0.48
3	San Antonio, TX	-14.1%	$0.59	$0.69
4	Charlotte, NC	-13.9%	$0.41	$0.47
5	Arlington, VA	-6.8%	$0.77	$0.83
6	Phoenix, AZ	2.2%	$0.49	$0.48
7	Chicago, IL	12.0%	$0.57	$0.51
8	Marietta, GA	14.5%	$0.40	$0.35
9	Salt Lake City, UT	16.2%	$0.61	$0.53
10	Elgin, IL	18.0%	$0.57	$0.48
	United States	**42.7%**	**$0.67**	**$0.47**

Source: NCREIF Query Tool. As of Q2 2026. Expenses PSF calculated using a 4-Quarter rolling total.

On the expense side, the top gainers are mixed and, in several cases, reflect increases from a very low base (Boston +112.3%, Louisville +93.5%), which magnifies percentage moves. On the low end, the biggest expense declines occurred in less dynamic Midwest markets (Kenosha -32.5%, Kansas City -23.4%) and overbuilt Sunbelt markets (San Antonio -14.1%, Charlotte -13.9%).

Industrial Operating Expense Ratio (OER) Change by Market: High to Low				
Rank		Change	Q2 2026	Q4 2019
1	Louisville, KY	7.3%	25.6%	18.3%
2	St. Louis, MO	5.5%	30.3%	24.8%
3	Tampa, FL	5.3%	31.7%	26.4%
4	Lake County, IL	4.7%	39.7%	35.0%
5	Boston, MA	4.1%	33.8%	29.7%
6	Vallejo, CA	3.8%	23.8%	20.0%
7	Fort Worth, TX	3.3%	31.3%	28.0%
8	Jefferson, GA	3.2%	17.1%	13.9%
9	Seattle, WA	3.1%	27.4%	24.3%
10	Indianapolis, IN	2.9%	28.6%	25.6%
	United States	**-0.6%**	**25.4%**	**26.0%**

Industrial Operating Expense Ratio (OER) Change by Market: Low to High				
Rank		Change	Q2 2026	Q4 2019
1	San Antonio, TX	-15.0%	22.1%	37.1%
2	Charlotte, NC	-8.0%	21.2%	29.2%
3	Phoenix, AZ	-7.9%	21.5%	29.4%
4	Kenosha, WI	-7.5%	19.3%	26.8%
5	Kansas City, MO	-7.0%	23.0%	29.9%
6	Reno, NV	-5.8%	17.6%	23.4%
7	Arlington, VA	-4.4%	20.7%	25.1%
8	Camden, NJ	-4.1%	21.2%	25.4%
9	Marietta, GA	-3.9%	20.8%	24.7%
10	Salt Lake City, UT	-3.8%	27.0%	30.8%
	United States	**-0.6%**	**25.4%**	**26.0%**

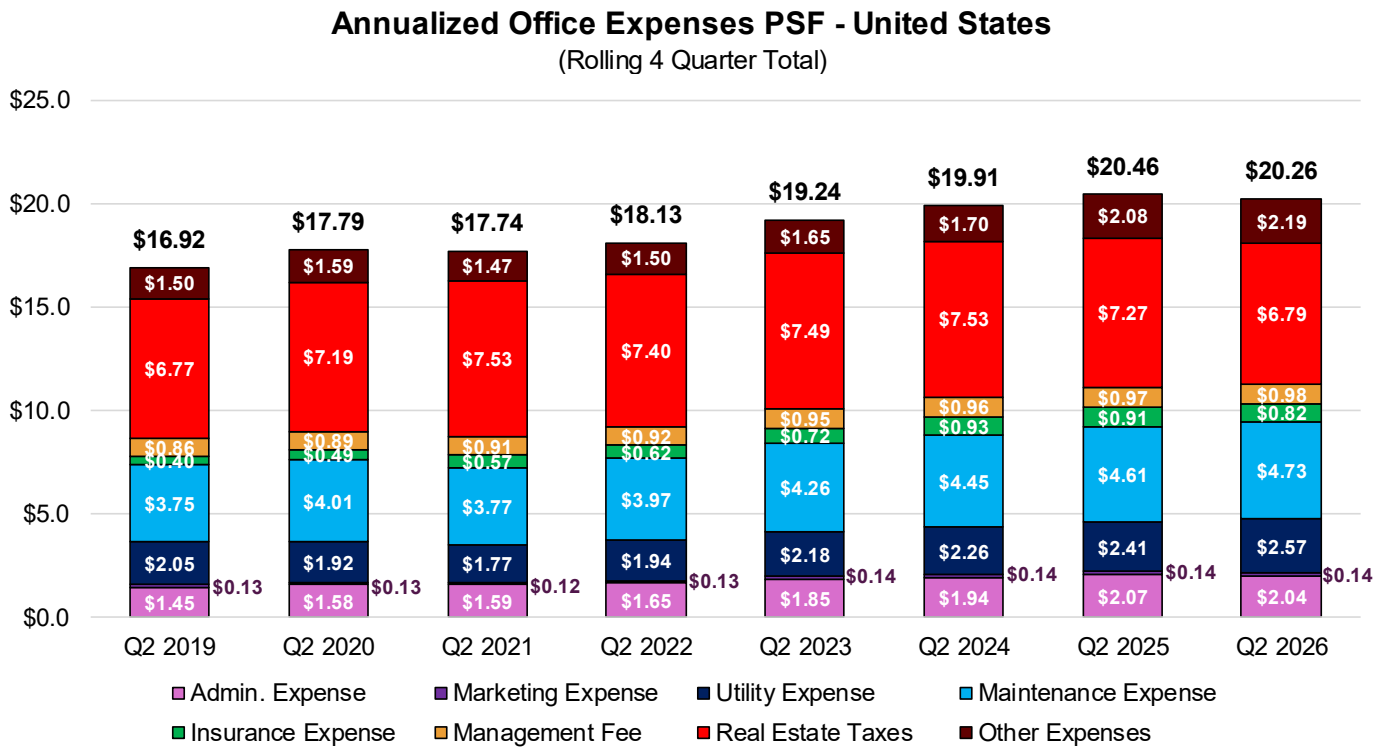
Source: NCREIF Query Tool. As of Q2 2026. OERs calculated using a 4-Quarter rolling total.

The OER movers reconcile the two sides. OER increasers are predominantly a numerator story in which markets such as Louisville, St. Louis, Boston, and Tampa where expenses (often off a small base) rose faster than even solid income gains. OER reducers are driven by falling expenses: San Antonio's OER dropped 15 percentage points as expenses fell 14.1%, and Charlotte, Phoenix, Kenosha, Kansas City, Arlington, Marietta, and Salt Lake City tell similar stories.

Office

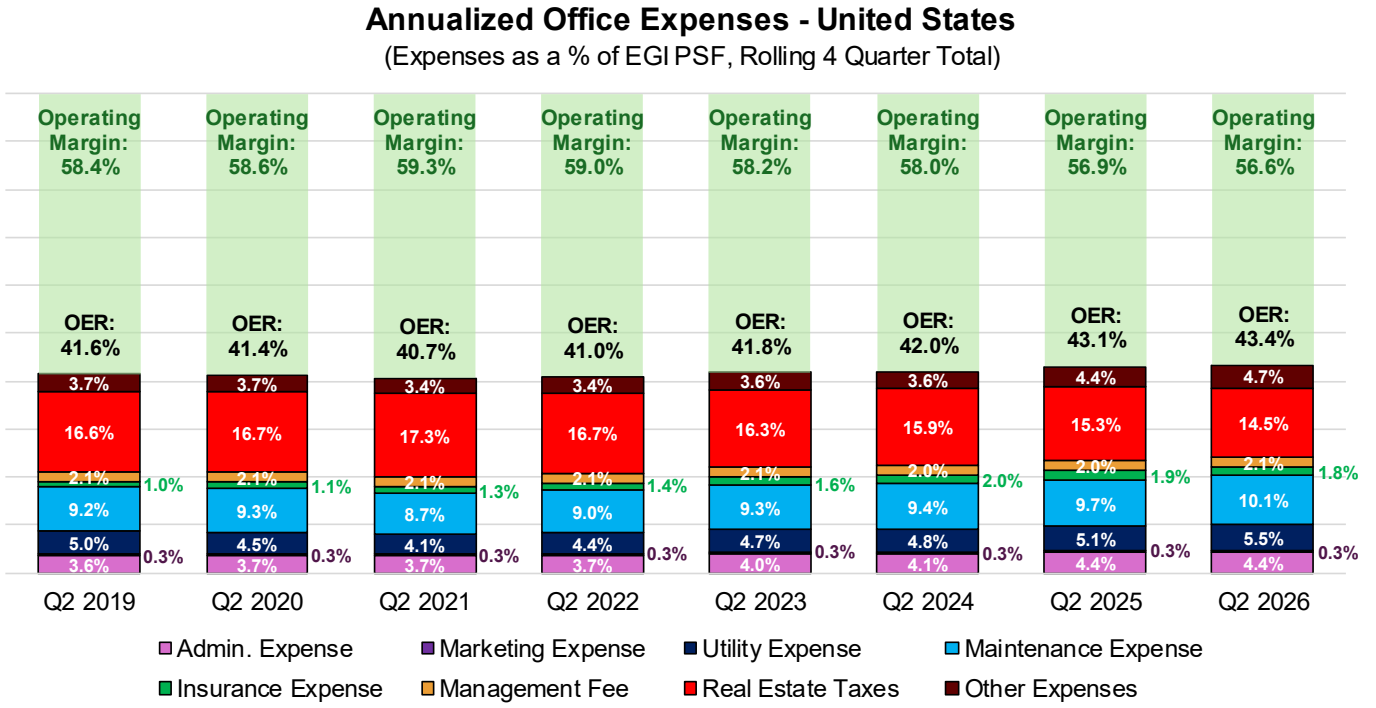
Income, Expense, and OER Trends

Office overall remains the most challenged of the four sectors. Operating expenses per square foot rose from $16.92 in Q2 2019 to $20.26 in Q2 2026, while income growth has been anemic, up just 14.7% cumulatively against 19.7% for expenses.



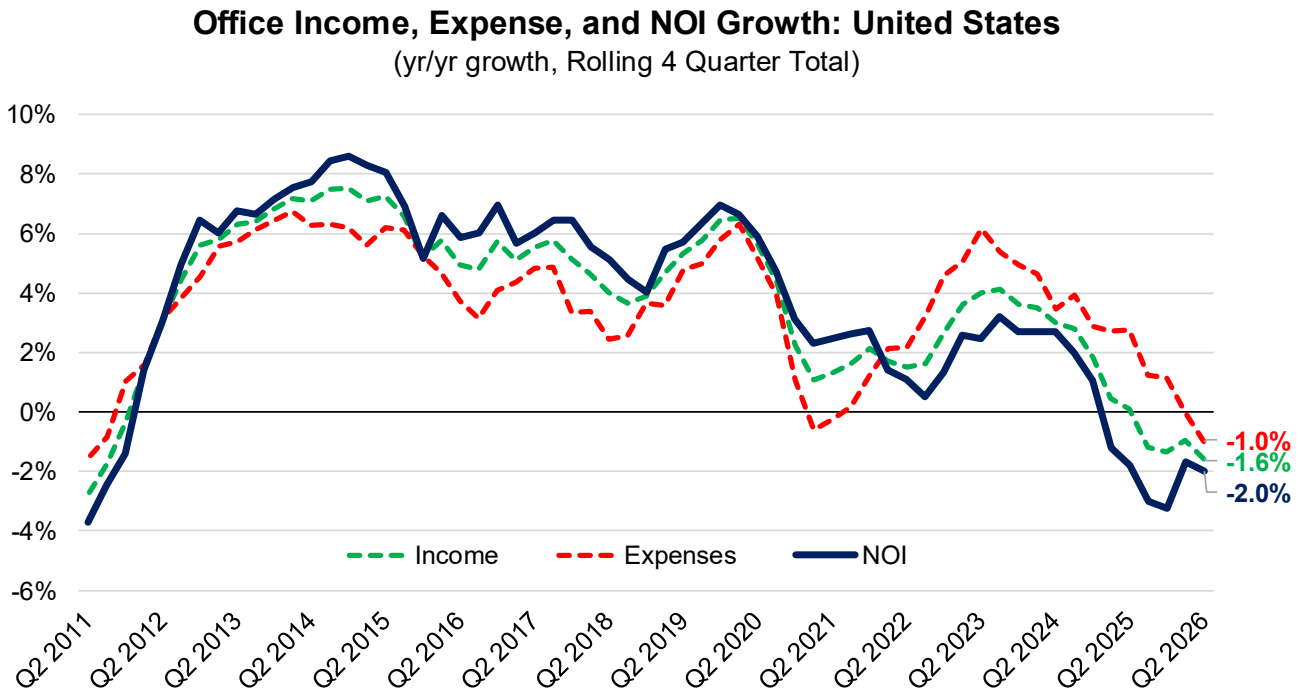
Source: NCREIF Query Tool. As of Q2 2026

The OER has climbed from 41.6% pre-COVID to 43.4% today, and the operating margin has eroded from 58.4% to 56.6%.



Source: NCREIF Query Tool. As of Q2 2026

On a year-over-year basis, both expenses (-1.0%) and income (-1.6%) are falling with the faster income decline pushing NOI down -2.0%, the weakest of any sector.



Source: NCREIF Query Tool. As of Q2 2026

Office is the sharpest illustration of why a rising OER is not always an expense problem. Even with expenses now declining year-over-year, the ratio remains elevated and NOI is contracting, because income is falling faster than costs. For office, the denominator has been the dominant driver of margin deterioration throughout the post-pandemic period, as the persistency of remote and hybrid work schedules hollowed out occupancy and rents in many markets.

Expense Categories and Drivers

The office expense table illustrates a telling data point: real estate taxes, the largest line item, fell -6.7% year-over-year and have been declining for multiple periods. This is the fiscal representation of the office value correction. As assessed values are marked down to reflect distressed pricing and higher vacancy, the tax burden finally follows. Utilities (+6.8%) and maintenance (+2.8%) continue to rise, and insurance again fell (-10.4%). The combination of declining taxes and softening insurance is what tipped total office expense growth negative, even as the physical cost of operating older, less-occupied buildings remains high.

Year-Over-Year Growth Rate of Office Expenses: United States

Yr/yr growth rate as of:	Admin. Expense	Marketing Expense	Utility Expense	Maintenance Expense	Insurance Expense	Management Fee	Real Estate Taxes	Other Expenses	Total Expenses	Total Income	Net Operating Income
Q2 2026	-1.6%	+0.0%	+6.8%	+2.8%	-10.4%	+1.5%	-6.7%	+4.9%	-1.0%	-1.6%	-2.0%
Q2 2025	+6.5%	-1.4%	+6.5%	+3.4%	-1.4%	+1.0%	-3.4%	+22.9%	+2.8%	+0.1%	-1.8%
Q2 2024	+5.0%	-0.7%	+3.9%	+4.5%	+27.6%	+0.5%	+0.6%	+2.9%	+3.5%	+3.0%	+2.7%
Q2 2023	+12.0%	+12.0%	+12.3%	+7.3%	+16.1%	+3.8%	+1.2%	+10.1%	+6.2%	+4.0%	+2.5%
Q2 2022	+3.6%	+4.6%	+9.6%	+5.2%	+9.0%	+0.7%	-1.8%	+2.1%	+2.2%	+1.5%	+1.1%
Q2 2021	+1.2%	-8.3%	-8.0%	-5.8%	+17.3%	+2.7%	+4.8%	-7.9%	-0.3%	+1.3%	+2.5%
Q2 2020	+8.9%	+3.0%	-6.4%	+6.8%	+20.6%	+3.0%	+6.1%	+6.3%	+5.1%	+5.6%	+5.9%
Q2 2019	+1.6%	+0.3%	-1.1%	+5.0%	+3.0%	+5.5%	+6.2%	+10.5%	+4.8%	+5.3%	+5.7%
15 Years Pre-COVID CAGR	+4.0%	+3.8%	+0.9%	+2.9%	+2.1%	+3.5%	+5.7%	+2.0%	+3.6%	+3.9%	+4.1%

With the highest effective OER of the four sectors and a still-declining income line, office NOI is acutely exposed to any further erosion in occupancy or effective rent. For investors, mitigating expenses offers only limited relief when the gross income denominator is the main problem. More leverage lies in leasing, tenant retention, and, in many cases, capital decisions about whether to reposition or exit.

Market Level Analysis

For investors, the wide dispersion across markets explored below is key, as national office average blends strong markets with structurally impaired ones.

Office Income PSF Change by Market: High to Low

Rank		Change	Q2 2026	Q4 2019
1	Durham, NC	90.2%	$11.55	$6.07
2	Cambridge, MA	44.7%	$18.24	$12.61
3	San Diego, CA	40.3%	$12.02	$8.57
4	Montgomery County, PA	39.9%	$8.45	$6.04
5	Anaheim, CA	37.8%	$9.01	$6.54
6	Boulder, CO	34.3%	$9.97	$7.42
7	San Jose, CA	31.9%	$14.22	$10.78
8	Dallas, TX	30.8%	$9.54	$7.29
9	Marietta, GA	29.0%	$8.68	$6.73
10	Raleigh, NC	21.3%	$7.38	$6.08
	United States	**10.9%**	**$11.67**	**$10.52**

Office Income PSF Change by Market: Low to High

Rank		Change	Q2 2026	Q4 2019
1	Bridgeport, CT	-28.3%	$6.24	$8.71
2	Nassau County, NY	-16.1%	$8.05	$9.60
3	Minneapolis, MN	-13.1%	$6.56	$7.55
4	Salt Lake City, UT	-9.5%	$5.79	$6.40
5	Seattle, WA	-8.8%	$10.11	$11.08
6	Portland, OR	-6.0%	$7.48	$7.96
7	Baltimore, MD	-5.8%	$9.31	$9.88
8	Atlanta, GA	-2.2%	$7.61	$7.79
9	Nashville, TN	-1.0%	$6.68	$6.74
10	Lakewood, NJ	-1.0%	$6.57	$6.63
	United States	**10.9%**	**$11.67**	**$10.52**

Source: NCREIF Query Tool. As of Q2 2026. Income PSF calculated using a 4-Quarter rolling total.

The income leaders are a group of innovation-driven markets and life-science markets (Durham, Cambridge, Boulder, San Diego) and secondary urban or suburban cores with specialized demand (Montgomery County PA, Anaheim, Marietta), alongside strong office hubs (Dallas, San Jose, Raleigh). The losers embody the sector's structural problems: commodity suburban office in the Northeast (Bridgeport, Lakewood, Nassau County) and less dynamic gateway/regional markets (Minneapolis, Seattle, Portland, Baltimore). The dividing line in office is increasingly quality: specialized, well-amenitized, or research-oriented space versus generic commodity space.

Office Expenses PSF Change by Market: High to Low

Rank		Change	Q2 2026	Q4 2019
1	Cambridge, MA	59.8%	$6.49	$4.06
2	Orlando, FL	55.5%	$2.94	$1.89
3	Fort Lauderdale, FL	54.1%	$4.03	$2.62
4	Chicago, IL	51.6%	$7.00	$4.62
5	San Jose, CA	49.9%	$4.59	$3.06
6	Montgomery County, PA	43.6%	$3.36	$2.34
7	Boulder, CO	40.2%	$4.55	$3.24
8	Baltimore, MD	40.0%	$4.65	$3.32
9	San Diego, CA	34.2%	$4.42	$3.29
10	Anaheim, CA	28.2%	$3.90	$3.04
	United States	**15.9%**	**$5.06**	**$4.37**

Office Expenses PSF Change by Market: Low to High

Rank		Change	Q2 2026	Q4 2019
1	Salt Lake City, UT	-21.3%	$1.94	$2.46
2	Phoenix, AZ	-10.9%	$2.30	$2.59
3	Minneapolis, MN	-10.2%	$3.57	$3.98
4	Austin, TX	-10.0%	$4.46	$4.96
5	Sacramento, CA	-2.7%	$2.63	$2.70
6	Nashville, TN	-2.2%	$2.24	$2.29
7	Washington, DC	-0.8%	$5.71	$5.76
8	Raleigh, NC	2.7%	$2.02	$1.97
9	Miami, FL	4.7%	$4.23	$4.04
10	Charlotte, NC	5.5%	$2.64	$2.51
	United States	**15.9%**	**$5.06**	**$4.37**

Source: NCREIF Query Tool. As of Q2 2026. Expenses PSF calculated using a 4-Quarter rolling total.

Office expense growth divides into two groups that the OER table then reconciles. One is the income-winning markets: Cambridge, San Jose, Montgomery County, Boulder, San Diego, and Anaheim nearly all also top the office income table, so rising costs simply accompany rising rents and the OER effect is muted or favorable. The second group is markets where expenses climbed but income did not to the same extent: Orlando (+55.5%), Fort Lauderdale (+54.1%), Chicago (+51.6%), and Baltimore (+40.0%). These four reappear at the top of the office OER-increase table, confirming a numerator-driven squeeze, different from the denominator contraction afflicting Bridgeport and Nassau County. The lower end of the expense spectrum includes Salt Lake City, Phoenix, Minneapolis, and Austin where owners pared spending as fundamentals softened. Notably, several (Phoenix, Austin, Salt Lake City) posted OER declines boosted by falling expenses rather than rising income.

Office Operating Expense Ratio (OER) Change by Market: High to Low				
Rank		Change	Q2 2026	Q4 2019
1	Bridgeport, CT	22.9%	66.7%	43.8%
2	Nassau County, NY	21.2%	61.8%	40.6%
3	Baltimore, MD	16.4%	50.0%	33.6%
4	Orlando, FL	15.2%	47.2%	31.9%
5	Chicago, IL	15.0%	67.9%	52.9%
6	Fort Lauderdale, FL	11.0%	42.6%	31.6%
7	Lakewood, NJ	9.7%	50.3%	40.6%
8	Portland, OR	8.3%	45.3%	37.0%
9	Seattle, WA	8.2%	39.5%	31.3%
10	San Francisco, CA	8.0%	44.1%	36.1%
	United States	**1.9%**	**43.4%**	**41.5%**

Office Operating Expense Ratio (OER) Change by Market: Low to High				
Rank		Change	Q2 2026	Q4 2019
1	Durham, NC	-12.3%	24.9%	37.2%
2	Marietta, GA	-7.3%	36.9%	44.3%
3	Phoenix, AZ	-6.2%	35.0%	41.3%
4	Austin, TX	-5.4%	36.4%	41.7%
5	Salt Lake City, UT	-5.0%	33.5%	38.4%
6	Raleigh, NC	-5.0%	27.4%	32.3%
7	Sacramento, CA	-4.3%	36.4%	40.7%
8	Charlotte, NC	-4.0%	31.7%	35.7%
9	Dallas, TX	-3.6%	43.2%	46.8%
10	Anaheim, CA	-3.2%	43.2%	46.5%
	United States	**1.9%**	**43.4%**	**41.5%**

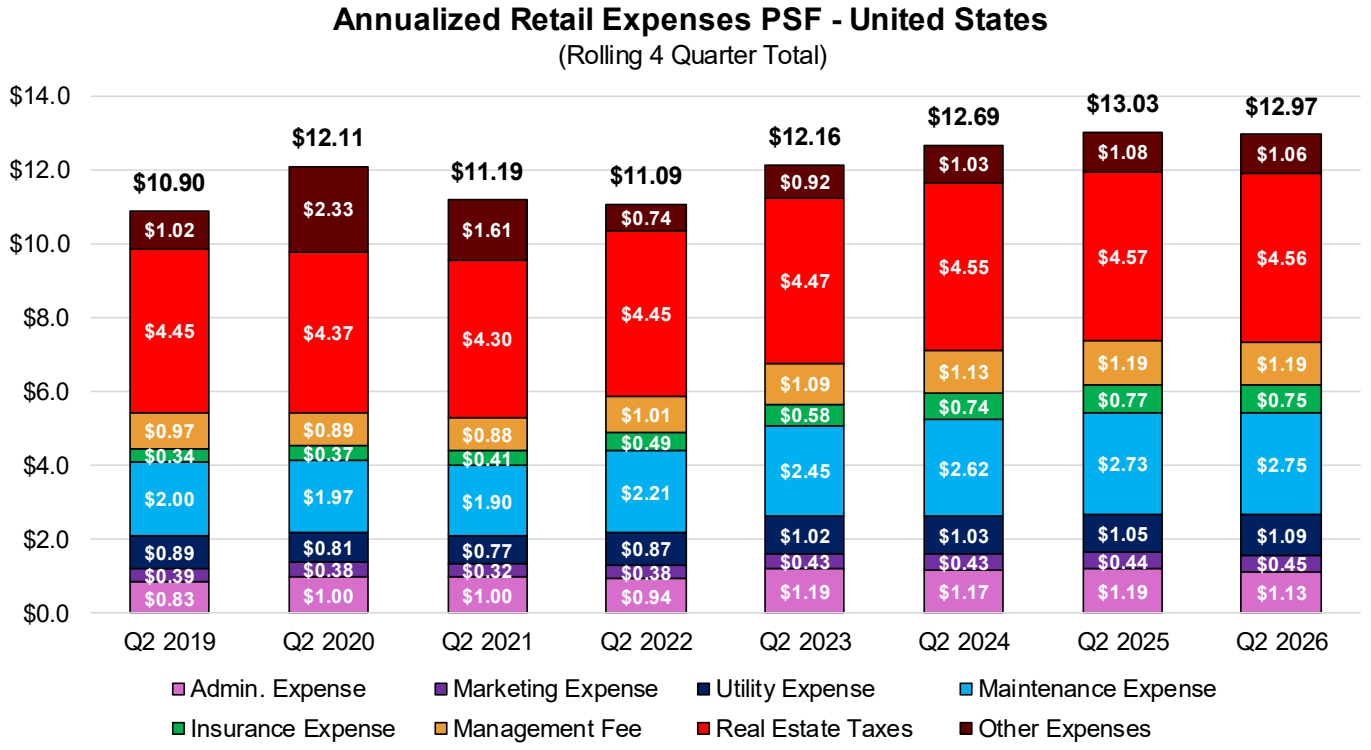
Source: NCREIF Query Tool. As of Q2 2026. OERs calculated using a 4-Quarter rolling total.

The office OER movers map almost perfectly onto the income table, underscoring the denominator thesis. The largest OER increases occur precisely where income collapsed. Bridgeport (income -28.3%) and Nassau County (income -16.1%) top both lists, and Baltimore combines falling income (-5.8%) with sharply higher expenses (+40.0%) for a two-sided squeeze. The OER decreases occur where income surged: Durham's 90% income gain pulled its OER down 12% despite rising costs, and Marietta, Raleigh, and Dallas tell the same income-led story. A handful of Sunbelt markets (Orlando, Fort Lauderdale) defy the pattern with expense-driven OER increases, but the dominant office signal is that where the ratio is rising, it is usually because the income denominator is falling, not because operating costs are running away.

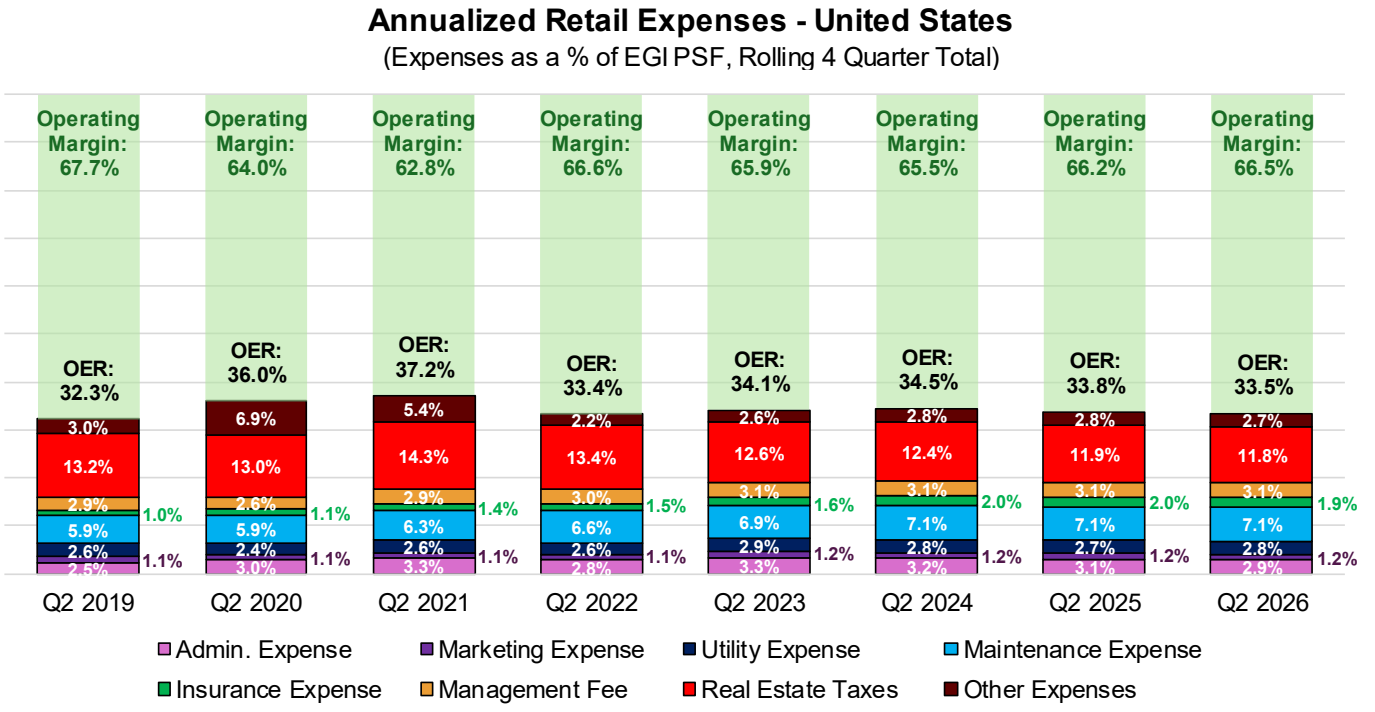
Retail

Income, Expense, and OER Trends

Retail experienced the lowest cumulative expense growth at the time of the 2023 study, and the same is true as of 2026. However, this expense growth (19.0% since Q2 2019) has continued to outrun income (14.5%), lifting the OER from 32.3% pre-COVID to 33.5%.

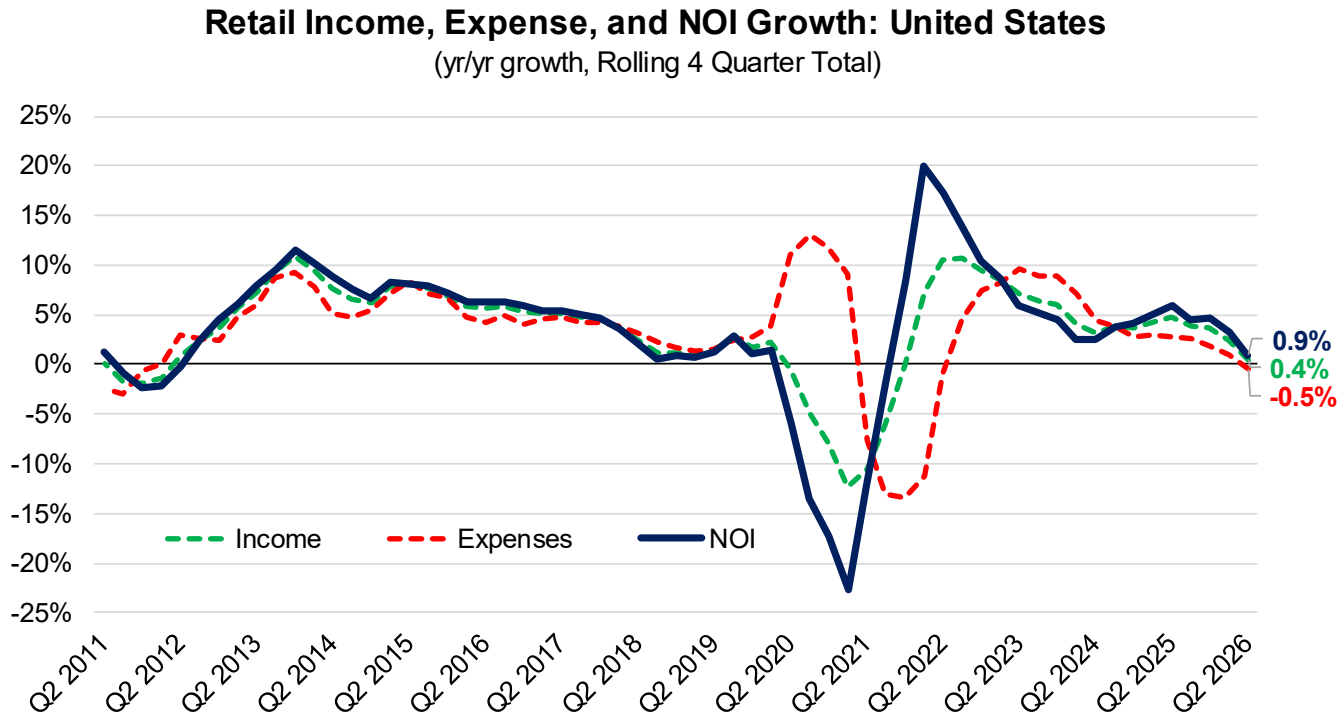


Source: NCREIF Query Tool. As of Q2 2026



Source: NCREIF Query Tool. As of Q2 2026

Despite this, retail is quietly the most improved sector on a near-term basis. Operating expenses per square foot eased from a 2025 peak of $13.03 to $12.97 in Q2 2026 (-0.5% year-over-year), while income edged up +0.4%, producing the only positive NOI growth of the four sectors, at +0.9%. After years of impairment, retail's revenue line has finally stabilized just as its expense line has cooled.



Source: NCREIF Query Tool. As of Q2 2026

This gives retail the opposite image of office. Whereas office has a denominator problem, retail is enjoying denominator stabilization at the same time its numerator cools. Years of limited new development, backfilled vacancies, and disciplined operations appear to be paying off in steadier cash flows.

Expense Categories and Drivers

Real estate taxes remain the largest category and were roughly flat (-0.4%) year-over-year. Administrative costs fell (-5.3%), 'other' expenses declined (-1.4%), and insurance eased (-2.9%). This was a smaller insurance decline than in the other sectors, but a decline nonetheless. Utilities (+3.4%) were the main source of upward pressure. The net effect is a total expense line down -0.5%, broadly consistent with the pattern across property types: the categories that drove the 2021–2024 surge have stopped rising, and in several cases have reversed.

Year-Over-Year Growth Rate of Retail Expenses: United States

Yr/yr growth rate as of:	Admin. Expense	Marketing Expense	Utility Expense	Maintenance Expense	Insurance Expense	Management Fee	Real Estate Taxes	Other Expenses	Total Expenses	Total Income	Net Operating Income
Q2 2026	-5.3%	+1.1%	+3.4%	+0.7%	-2.9%	-0.3%	-0.4%	-1.4%	-0.5%	+0.4%	+0.9%
Q2 2025	+1.7%	+3.9%	+2.7%	+4.3%	+4.3%	+5.4%	+0.5%	+4.8%	+2.7%	+4.8%	+6.0%
Q2 2024	-1.2%	-0.4%	+1.0%	+6.6%	+26.2%	+3.6%	+1.8%	+11.5%	+4.4%	+3.2%	+2.5%
Q2 2023	+26.8%	+13.4%	+17.3%	+11.0%	+19.0%	+8.2%	+0.4%	+24.2%	+9.6%	+7.1%	+5.9%
Q2 2022	-6.4%	+16.8%	+12.3%	+16.6%	+20.1%	+15.1%	+3.5%	-54.0%	-0.9%	+10.5%	+17.3%
Q2 2021	+0.3%	-13.6%	-4.7%	-4.0%	+10.2%	-1.3%	-1.5%	-30.7%	-7.6%	-10.6%	-12.3%
Q2 2020	+19.7%	-3.0%	-9.4%	-1.4%	+9.2%	-8.3%	-1.8%	+127.4%	+11.1%	-0.4%	-5.9%
Q2 2019	+0.2%	-3.9%	-2.4%	+0.6%	+5.3%	-1.7%	+2.3%	+9.4%	+1.5%	+1.3%	+1.2%
15 Years Pre-COVID CAGR	+4.2%	+3.1%	+2.9%	+1.4%	+2.3%	+2.4%	+3.8%	+2.0%	+2.9%	+2.7%	+2.7%

Retail's moderate OER (33.5%) leaves it less revenue-sensitive than office or apartment, and with income growth now marginally positive, the sector offers a more balanced NOI profile than at any point since the pandemic.

Market Level Analysis

Retail Income PSF Change by Market: High to Low

Rank		Change	Q2 2026	Q4 2019
1	Marietta, GA	92.8%	$9.72	$5.04
2	Nashville, TN	74.6%	$8.35	$4.78
3	Newark, NJ	53.3%	$7.78	$5.07
4	Phoenix, AZ	42.1%	$9.14	$6.43
5	Fort Worth, TX	41.9%	$9.22	$6.50
6	San Diego, CA	35.1%	$15.18	$11.24
7	Atlanta, GA	32.0%	$8.21	$6.22
8	Nassau County, NY	28.5%	$10.14	$7.89
9	Las Vegas, NV	26.1%	$25.83	$20.48
10	Richmond, VA	25.5%	$5.24	$4.17
	United States	**13.5%**	**$9.67**	**$8.52**

Retail Income PSF Change by Market: Low to High

Rank		Change	Q2 2026	Q4 2019
1	New York, NY	-31.4%	$12.84	$18.71
2	Cambridge, MA	-26.0%	$8.70	$11.77
3	Denver, CO	-16.6%	$5.69	$6.83
4	Lakewood, NJ	-15.6%	$8.89	$10.53
5	Boston, MA	-13.1%	$7.38	$8.50
6	Dallas, TX	-11.0%	$7.60	$8.54
7	Everett, WA	-8.1%	$8.37	$9.11
8	Frederick, MD	-7.0%	$9.20	$9.89
9	Oakland, CA	-5.8%	$9.14	$9.70
10	Charlotte, NC	-5.6%	$6.82	$7.22
	United States	**13.5%**	**$9.67**	**$8.52**

Source: NCREIF Query Tool. As of Q2 2026. Income PSF calculated using a 4-Quarter rolling total.

Retail income growth favors growing Sunbelt markets (Marietta, Nashville, Phoenix, Fort Worth, Atlanta, Las Vegas, Richmond) plus select affluent suburbs (Newark standing in for Northern New Jersey; Nassau County for Long Island). The income losers are led, strikingly, by New York City itself (-31.4%), reflecting the slow recovery of urban-core retail rents, alongside a mix of higher-cost coastal markets (Cambridge, Boston, Oakland, Everett, Frederick) and a few overbuilt or softening markets (Denver, Dallas, Charlotte).

Retail Expenses PSF Change by Market: High to Low				
Rank		Change	Q2 2026	Q4 2019
1	Marietta, GA	97.7%	$2.69	$1.36
2	Nashville, TN	63.1%	$2.00	$1.22
3	San Francisco, CA	46.4%	$6.42	$4.38
4	San Diego, CA	41.1%	$4.37	$3.09
5	Richmond, VA	41.1%	$1.44	$1.02
6	Montgomery County, PA	40.8%	$2.84	$2.02
7	San Jose, CA	39.1%	$7.31	$5.26
8	Newark, NJ	38.0%	$3.47	$2.52
9	Nassau County, NY	37.4%	$3.31	$2.41
10	Atlanta, GA	37.2%	$3.18	$2.31
	United States	**17.0%**	**$3.24**	**$2.77**

Retail Expenses PSF Change by Market: Low to High				
Rank		Change	Q2 2026	Q4 2019
1	Providence, RI	-16.8%	$1.78	$2.14
2	Cambridge, MA	-16.6%	$3.54	$4.24
3	Lakewood, NJ	-14.8%	$2.60	$3.05
4	Dallas, TX	-11.6%	$2.94	$3.33
5	Everett, WA	-8.4%	$1.95	$2.13
6	Houston, TX	-7.3%	$3.01	$3.24
7	Boston, MA	-6.2%	$2.80	$2.98
8	Arlington, VA	-2.8%	$2.86	$2.95
9	Chicago, IL	-1.7%	$3.56	$3.62
10	New York, NY	0.1%	$6.10	$6.09
	United States	**17.0%**	**$3.24**	**$2.77**

Source: NCREIF Query Tool. As of Q2 2026. Expenses PSF calculated using a 4-Quarter rolling total.

Retail expense growth is led overwhelmingly by growing markets. Marietta (+97.7%) and Nashville (+63.1%) top both the retail income and retail expense tables where surging rents dragged operating costs up with them, joined by high-cost California tech metros (San Francisco, San Diego, San Jose), Richmond, and affluent suburbs (Montgomery County, Newark, Nassau County, Atlanta). The areas experiencing either expense contraction are a mixed bag featuring Providence (-16.8%), Cambridge (-16.6%), Lakewood, Dallas, Houston, and Boston, several of which are simultaneously income losers, meaning both lines fell together. The single most telling entry is New York, which posted the lowest retail expense growth of any market (+0.1%) yet the second-largest OER increase (+14.9%) painting a clear denominator story, since the ratio rose almost entirely because income collapsed -31.4%, not because costs grew. San Francisco had the opposite experience: the top retail OER gainer (+15.3%) driven by a +46.4% expense surge against more modest income growth. Retail thus displays clean examples of both mechanisms operating at once.

Retail Operating Expense Ratio (OER) Change by Market: High to Low				
Rank		Change	Q2 2026	Q4 2019
1	San Francisco, CA	15.3%	51.0%	35.8%
2	New York, NY	14.9%	47.5%	32.5%
3	Denver, CO	9.5%	47.7%	38.2%
4	Lake County, IL	7.6%	58.9%	51.3%
5	Frederick, MD	6.2%	33.4%	27.2%
6	Washington, DC	5.6%	45.4%	39.8%
7	Montgomery County, PA	5.6%	34.1%	28.5%
8	Oakland, CA	5.1%	36.8%	31.7%
9	Camden, NJ	4.7%	41.3%	36.6%
10	Cambridge, MA	4.6%	40.6%	36.0%
	United States	**1.0%**	**33.5%**	**32.5%**

Retail Operating Expense Ratio (OER) Change by Market: Low to High				
Rank		Change	Q2 2026	Q4 2019
1	Austin, TX	-5.4%	33.4%	38.8%
2	Providence, RI	-5.1%	28.3%	33.4%
3	Newark, NJ	-5.0%	44.6%	49.6%
4	Miami, FL	-3.6%	26.6%	30.2%
5	Nashville, TN	-1.7%	23.9%	25.6%
6	Fort Worth, TX	-1.6%	36.5%	38.1%
7	Phoenix, AZ	-1.1%	24.2%	25.3%
8	Arlington, VA	-1.1%	27.9%	28.9%
9	Chicago, IL	-1.0%	39.3%	40.3%
10	Houston, TX	-0.8%	31.4%	32.2%
	United States	**1.0%**	**33.5%**	**32.5%**

Source: NCREIF Query Tool. As of Q2 2026. OERs calculated using a 4-Quarter rolling total.

The retail OER movers are the most mixed of the four sectors, but the numerator/denominator lens still organizes them. Several top increasers have stories of income collapse: New York (income -31.4%) and Denver (income -16.6%) where the ratio rose despite no unusual expense growth. Others are numerator stories tied to growth, where expenses surged faster than even strong income (San Francisco/Redwood City, Richmond and Nashville among the expense leaders elsewhere in the data). The markets that experienced OER contraction were largely income-led improvements. Newark and Nashville posted powerful income gains that outran their expense increases. The retail map lacks a single clean narrative, which is itself the finding: retail's geographic outcomes are being set by idiosyncratic local supply, tenant mix, and urban-versus-suburban recovery dynamics rather than by one dominant national force.

Conclusion

The theme identified in our 2023 study has largely held: operating expense ratios remain above pre-COVID levels for apartment, office, and retail, and industrial remains the sole sector with a lower OER and cumulative income growth higher than that of expenses. What has changed about OERs is the source of the pressure.

In 2023, expenses were the catalyst. Insurance, utilities, maintenance, and administrative costs were climbing well above trend, and expense growth was outpacing income across nearly every sector. In 2026, that engine has largely stalled. Year-over-year expense growth is flat to negative in apartment, office, and retail, and insurance, the fastest-growing category three years ago, is now declining in every sector. Yet OERs remain elevated, because income growth has weakened at the same time. The margin pressure of 2023 was a numerator story; the margin pressure of 2026 is increasingly a denominator story. Industrial is the lone exception, the one sector where expenses are currently re-accelerating (led by lagging property taxes) even as its income advantage narrows.

Looking forward, the outlook carries both upside and downside risks. The expense side has cooled, but forces such as deglobalization and reshoring, tariffs, energy-market volatility, and a shifting labor market could be upward push factors for insurance, utilities, maintenance, and wage inflation. As international supply chains continue to decouple and tariffs feed through to material prices, insurance costs face renewed upside risk, both because replacement costs are higher and because the odds of catastrophic climate events have trended upward concurrently.[2] Maintenance costs and wages are similarly exposed to increased material costs as well as local labor-market dynamics, and the effects of shifting immigration policy,[3] varying by market. Real estate taxes carry regulatory risk that depends on the jurisdiction, but absent any change in tax rates, they will rise as appraised values rise and fall as values decline. Utility prices could climb as demand for power increases amid the artificial intelligence buildout and the onshoring of manufacturing.[4]

That said, artificial intelligence may have potential to prove deflationary for certain operating-expense line items, streamlining administrative costs and giving owners the ability to spend less on marketing or on management fees at the individual-property level. The income side of the OER equation also enjoys a potential tailwind. Although higher material and construction costs represent an upside risk to certain operating expenses, they simultaneously raise replacement costs and, by constraining new supply, make existing properties relatively more valuable, affording owners increased pricing power. The magnitude of this dynamic will vary by market and property type, but it is a significant theme that should bolster CRE fundamentals in the aggregate.

In a dynamic environment defined by constant demand and supply side shifts, a competitive edge will be enjoyed by CRE investors who attend to both maximizing revenue through strategic leasing and positioning as well as disciplined management of the expense line that ultimately determines NOI.

[2] Stewart Rubin and Dakota Firenze. (2021, Spring). *Rather Than the Flood.* New York Life Real Estate Investors Strategy & Research Group publication in AFIRE Summit Journal.
[3] Population Estimates Program Staff, U.S. Census Bureau. (2026, January 27). *New Population Estimates Show Historic Decline in Net International Migration.* U.S. Census Bureau.
[4] Stewart Rubin, Matt Wnek and Marshall Swett. (2026, July). *The Power Premium: A New Differentiator in Industrial Investing.* New York Life Real Estate Investors Strategy & Research Group.

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