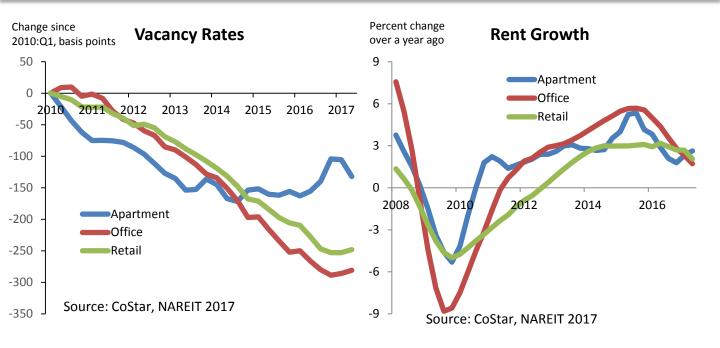


## Commercial Property Update 2017:Q2



**Apartment markets** tightened in the second quarter, as solid demand during the spring leasing season outpaced completions of new units. National vacancy rates ticked back down, reversing a good portion of the increase that had occurred last year. Rents picked up a bit as well, but increases were modest at a 2.6 percent gain over one year ago.

**The office sector** continued to soften in the second quarter. Vacancy rates edged up slightly as net absorption slowed while new supply increased. Rent growth has decelerated significantly over the past year, from a 5 percent pace or more in 2014 and 2015, to less than 2 percent over the past four quarters.

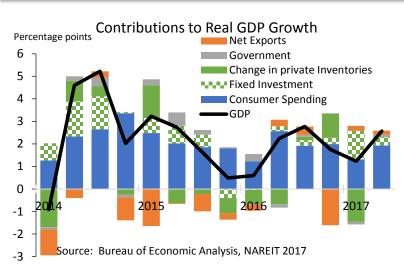
The retail property sector saw further slowing of demand growth in the second quarter, with net absorption dropping to its lowest level in five years. Supply remains in check, however, and vacancy rates moved up less than 5 bps. Rents increased slightly more than 2 percent over the past year, compared to the 3 percent pace in 2014 and 2015.

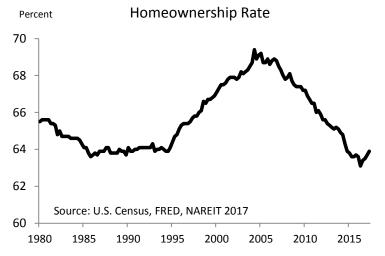


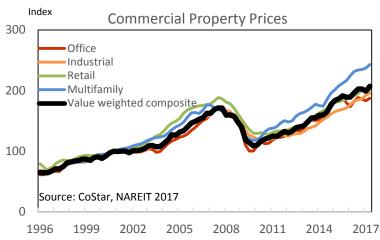
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## **Economic Fundamentals for Commercial Real Estate**







Economic activity picked up in Q2. GDP growth rebounded from a weak Q1 that had been influenced by several temporary factors, including a large drawdown of private inventories (inventory decumulation, green bar, subtracted 1.5 ppts from Q1 but was flat in Q2; total GDP growth in solid line) and lingering issues with statistical adjustments for seasonal factors for consumer spending (blue bars). GDP growth over the past four quarters was 2.1 percent, in line with trends for the past several years. Inflation remains weak, with the core PCE deflator up less than 1 percent.

Home ownership has turned a corner. The homeownership rate slid from a record high of 69 percent in 2004 to reach a bottom of 63 percent last year. Homeownership rates have moved up for four quarters in a row, however, to nearly 64 percent. The shift towards "renter nation" is showing signs of a partial reversal, as attitudes regarding home ownership recover: The number of rental households fell 700 thousand over the past four quarters, the first decline since 2004, while owner-occupied households rose 1.3 million, the largest increase since 2005.

Property prices continued to rise. Price increases regained momentum in the second quarter, lifting the 12-month change to 5.4 percent for the national composite index. Multifamily properties, which have risen nearly 40 percent over the past three years, continue to enjoy solid price gains; prices of industrial moved steadily upward as well. Office property prices recovered from a weak Q1, while prices for retail properties have been flat for the past two quarters.

The views expressed in this commentary are those of Calvin Schnure, PhD, of the National Association of Real Estate Investment Trusts (NAREIT®) and reflect the current views of Dr. Schnure as of July 31, 2017.