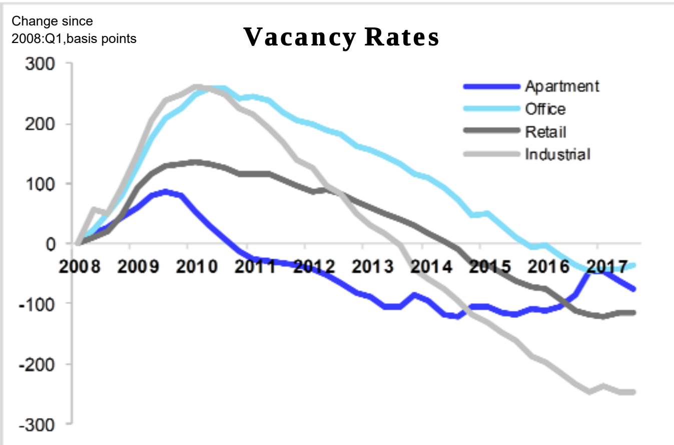
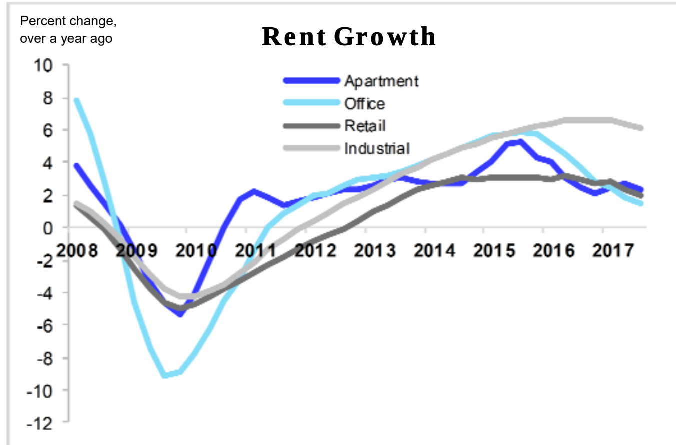
Nareit Commercial Property Update

2017: Q3

Calvin Schnure ■ Senior Vice President, Research & Economic Analysis ■ cschnure@nareit.com, 202-739-9434





Apartment

Apartment markets saw vacancies move back down, for the second quarter in a row, after some softness in the sector following some bunching of new supply in 2016. Demand outpaced supply in Q3 by a wide margin with the second-largest net absorption in three years. At 5.8 percent, apartment vacancy rates are still 40 basis points above this cycle's low of 5.3 percent reached in the third quarter of 2014, but recent strength in demand for rental housing suggests that vacancies may continue their recent downtrend. Rent growth decelerated slightly to a 2.4 percent increase compared to one year ago.

Office

The office sector softened in the third quarter. Supply outpaced demand for the third quarter in a row, causing vacancy rates to increase slightly. Vacancy rates, however, remain near the low for this cycle. Rent growth decelerated slightly to a 1.5 percent increase over the previous year.

Retail

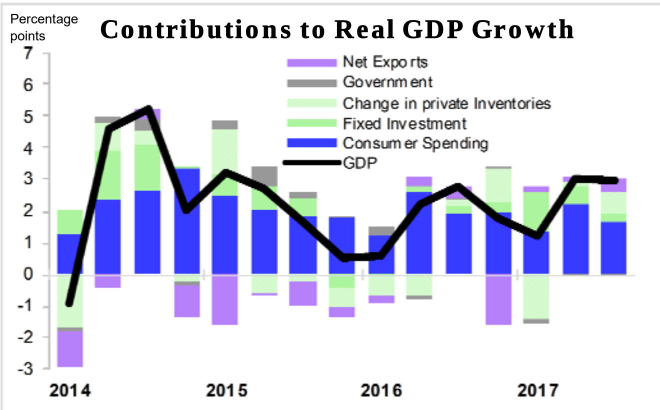
New retail space remains in check as both completions and net absorption have decelerated over the past year. Supply slightly edged out demand in the third quarter, causing vacancy rates to tick up, to 5.2 percent. Vacancy rates are still near recent lows. Rent growth slowed by 30 basis points in Q3 to 2.0 percent growth compared to the third quarter of 2016.

Industrial

The industrial sector continues to benefit from strong underlying trends that will push future growth, as E-Commerce drives demand for logistics facilities used in the shipment of goods purchased online. Supply and demand were in line with each other in the third quarter, however, as construction has steadily risen, which left the vacancy rate unchanged from the previous quarter. Rent growth saw mild deceleration, but still posted greater than 6.0 percent growth over the prior year.

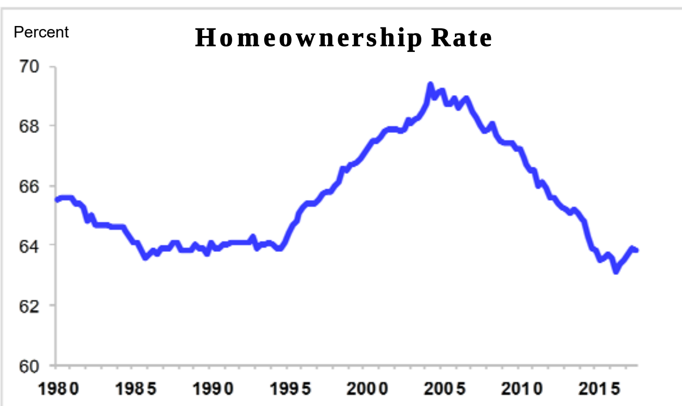
Source: Data from CoStar and Nareit 2017.

Economic Fundamentals for Commercial Real Estate



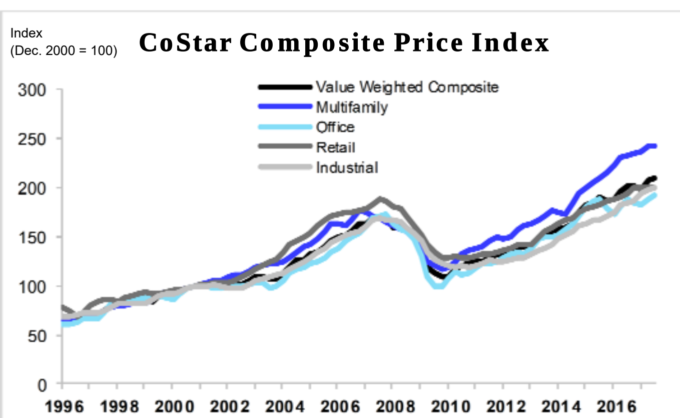
Economic activity kept pace in Q3

GDP rose at a three percent annual rate in Q3 despite hurricanes hitting multiple parts of the U.S. Some of that growth, however, was due to temporary factors that are unlikely to continue. In particular, increases in private inventories (green checkered bars; total GDP growth in solid line) added 0.7 percentage points to overall growth, compared to only 0.1 percentage points in Q2. This increase helped compensate for the deceleration in consumer spending growth, which contributed 1.6 percentage points to total GDP compared to a 2.2 percentage point contribution in the previous quarter.



Homeownership ticks down

Homeownership edged down from the previous quarter, after a year of steady increases. Ownership in Q3 still stood 70 basis points above this cycle's low point of 63.1 percent. The financial crisis forced many to become renters, but based on recent trends in household formation (owner occupied households increased by 755 thousand over the past year), the homeownership rate appears to be back on an up trend.



Moderate increase in property prices

Commercial property prices lost some momentum in the third quarter, but still showed solid 12-month gains across sectors. Industrial properties were top performers with an 8.7 percent increase, double that of multifamily properties, which posted a 4.4 percent increase. Office and retail properties showed slower price appreciation, but both still had increases of roughly 2.5 percent over the past year. The value-weighted composite price index is nearly 25 percent above its pre-crisis peak in 2007.

Source: Data from BEA, U.S. Census Bureau, CoStar, and Nareit 2017.