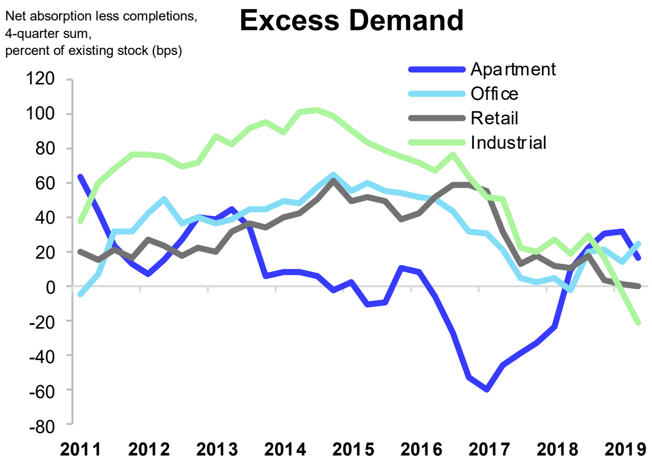
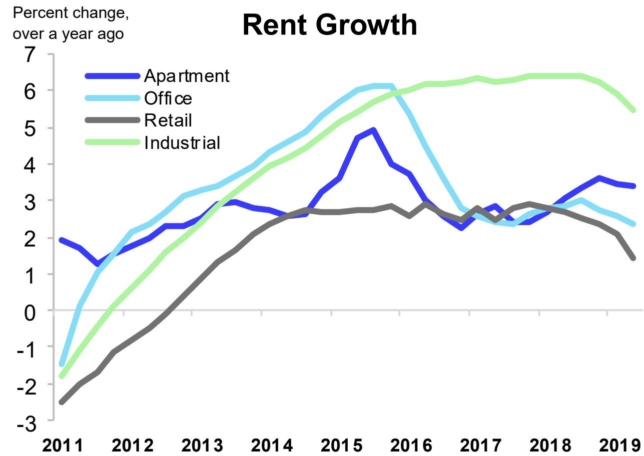
Commercial real estate markets saw mixed results in Q2





Apartment

Demand for apartments was strong in the second quarter of 2019. Adjusting for normal seasonal patterns, net absorption in Q2 was the second highest on record; demand has exceeded supply by 50,000 units over the past four quarters. Tight market conditions pushed the vacancy rate down 30 bps to 5.7%, the lowest since 2001, while rents rose 3.4% over the prior year. Pent up demand is still fueling the apartment sector, even with the rise in homeownership over the previous year.

Office

Office markets tightened in Q2, with demand rebounding after weak performance in the first quarter. The rise in leased space totaled 23.7 million sq ft and well outpaced new supply. Vacancy rates declined to 9.6%, the lowest level since before the financial crisis. Rent growth decelerated slightly to 2.3% growth over the prior year, despite strong demand.

Retail

The retail sector saw little activity in the second quarter, with demand and supply both at their lowest levels in years. Net absorption still fell short of completions by 3.2 million sq ft. The lack of new construction has kept vacancy rates near their recent lows, but weak demand for retail space caused rent growth to decelerate to 1.5% over the past four quarters, the slowest rents have grown since 2013.

Industrial

The industrial sector slowed a bit in the first half of 2019. Net absorption was 30.8 million sq ft in Q2, up slightly from 23.6 million sq ft in Q1 but less than half the 63.2 million sq ft average quarterly net absorption from 2013 through 2018. Rent growth remained elevated, however, at 5.5% over the prior year, more than two percentage points above other sectors. Vacancy rates edged 20 bps higher, but are still near their recent lows. The current softening is likely to be short-lived, as burgeoning shipments of Internet purchases will likely cause a rebound in demand.

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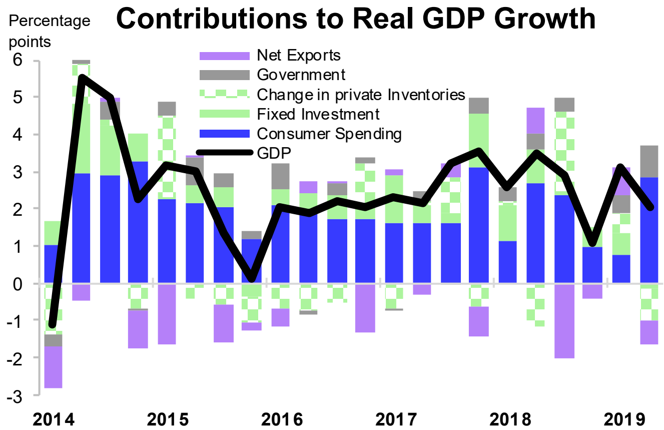
Source: Data from CoStar and Nareit 2019.

Nareit® Commercial Property Update

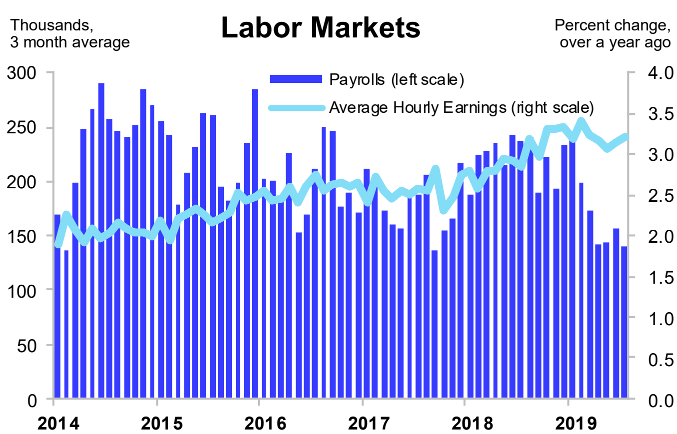
2019: Q2

Economic activity slows to trend in the second quarter



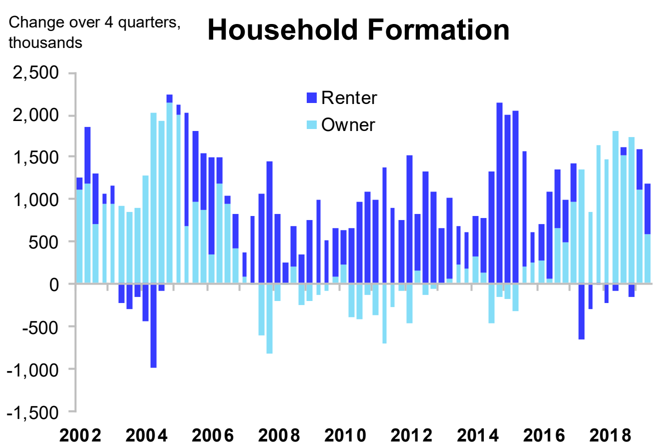
Economic momentum softens in Q2

The US economy slowed back to trend growth in the spring, after getting a boost last year from the 2017 tax cuts. GDP rose at a 2.1% annual rate in Q2, after rising 2.9% in 2018 and 3.1% in Q1. Consumer spending rebounded from a weak Q1 (blue bars, total GDP in solid line) with the largest increase since 2017. Exports fell 5.2%, a possible result of the trade wars. Exports are just 12% of total GDP, however, and the decline subtracted just 0.6 ppt. from headline GDP growth. Business investment spending also declined slightly.



Labor markets soften in July

Labor markets softened in July, in line with the rest of the economy, as the boost from the 2017 tax cuts fades. The economy added 164 thousand jobs, down from the 223 thousand average during 2018. The unemployment rate remained at 3.7% and earnings growth ticked up from 3.1% to 3.2%. While jobs added may not continue at the accelerated pace of 2018, low jobless claims and confidence in manufacturing indicate that labor markets are not in for trouble anytime soon.



Homeownership slows

Household formation slowed over the past four quarters and shifted back towards renter households for the first time since 2016, suggesting that decreased affordability and perhaps a lack of supply is hindering homeownership. Renters accounted for the entire increase in households from 2008 through 2016 as owner-occupied households fell during the mortgage crisis. Homeownership began recovering three years ago, an encouraging sign of improvement in household finances, but has recently given up some of those gains.

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Source: Data from BEA, BLS, U.S. Census Bureau and Nareit 2019.