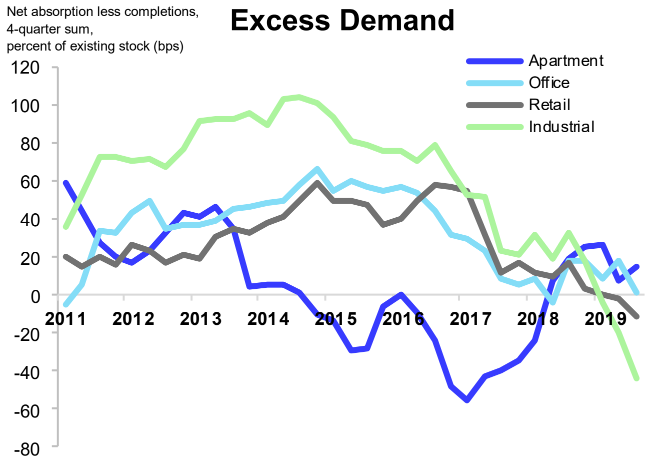
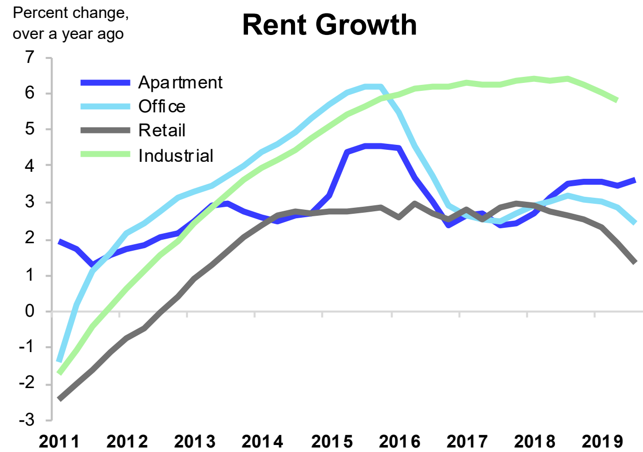
Commercial real estate markets saw mixed results in Q3





Apartment

Fundamentals for apartment markets were strong in Q3. Demand continued at a robust rate and outpaced an elevated level of construction, causing vacancy rates to decline to 5.8%, the lowest level since 2014. Rent growth accelerated to 3.6% over the prior year. Apartment markets were firm even as the homeownership rate posted the largest quarterly increase since 2004 (see reverse). Pent up demand for rental housing since the recession continues to support the apartment sector even as growing numbers of households transition to owning.

Office

The office sector continued to chug along into the third quarter. Supply and demand were in balance, with new stock and leases each totaling around 12.5 million square feet. Vacancy rates were flat at 9.7%. Rent growth decelerated 45 basis points from Q2, growing 2.4% over the prior year.

Retail

The retail sector was subdued in the third quarter with demand and supply growing at a snail's pace. New tenants absorbed a net 8.4 million square feet in Q3, a third of the quarterly average from 2013-2016. With little new construction, however, vacancy rates remained near post-recession lows, at 4.5%. Rent growth decelerated around 50 basis points to 1.3% over the prior year.

Industrial

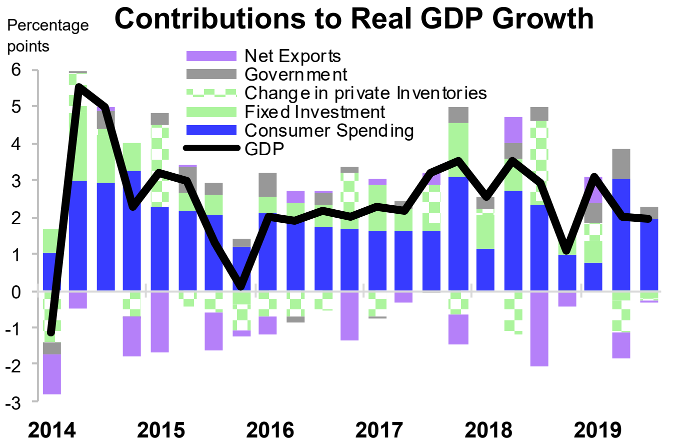
E-commerce continues to grow rapidly, and the need for logistics facilities to ship goods bought online is expected to fuel the industrial property sector well into the future. Nevertheless, demand for industrial properties remains low compared to recent years. Supply is still elevated, however, and has exceeded net absorption for the past four quarters, allowing vacancy rates to edge higher. Rent growth cooled a bit from its pace in 2016-2018, but at 5.1% over the past four quarters, rent growth is still impressive.

Calvin Schnure ■ SVP, Research & Economic Analysis ■ cschnure@nareit.com

Source: Data from CoStar and Nareit 2019.

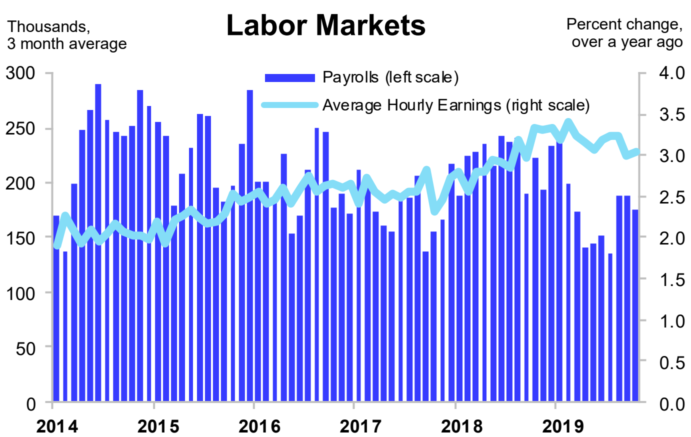
Nareit **Commercial Property Update** 2019: Q3

Economic activity keeps trend in the third quarter



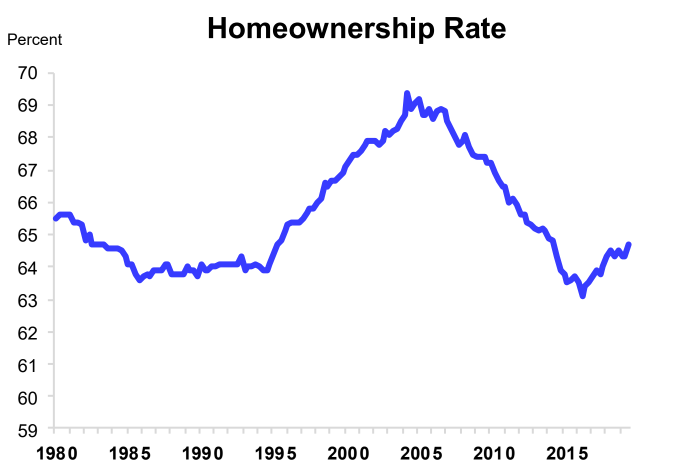
Economic momentum into Q3

The US economy kept pace in Q3 with growth at a 1.9% pace (solid line), little changed from 2.0% in Q2. Trade wars had little direct impact on GDP (purple bars for net exports). Weakness in manufacturing and an uncertain economic environment likely contributed to a 3.8% decline in business investment. Consumers, however, were busy, as spending rose 2.9%, including a 7.6% gain in purchases for durable goods (blue bars). The economy appears resilient despite macro worries.



Labor markets see steady gains

Job growth was modest in October, although the picture was clouded by the GM strike and a decline in temporary Census workers. Nonfarm payrolls rose 128,000. The impact of the auto strike may have been reduced employment as much as 70,000. Payrolls would have been in line with prior months, excluding this loss. The unemployment rate rose to 3.6% as people re-entered the labor force looking for work. Growth of average hourly earnings held steady, at 3.0% over the past 12 months. Despite some noise in the jobs data, there are few signs of a downturn.



Homeownership rebounds

The homeownership rate rose by 40 basis points to 64.7% in the third quarter, the largest quarterly increase since 2004. Homeownership saw little change in 2018 and early 2019 after turning up from the post-crisis low in 2016. Lack of supply and affordability may to be hindering homeownership. Rising homeownership likely reflects increases in household incomes, healthier household balance sheets and rising confidence about the economic outlook.

Calvin Schnure ■ SVP, Research & Economic Analysis ■ cschnure@nareit.com

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