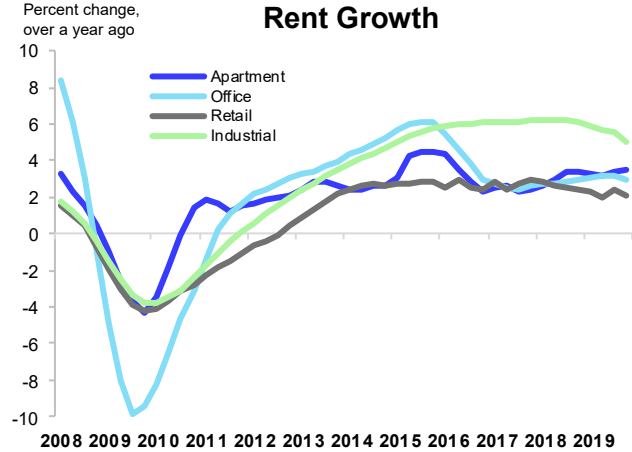
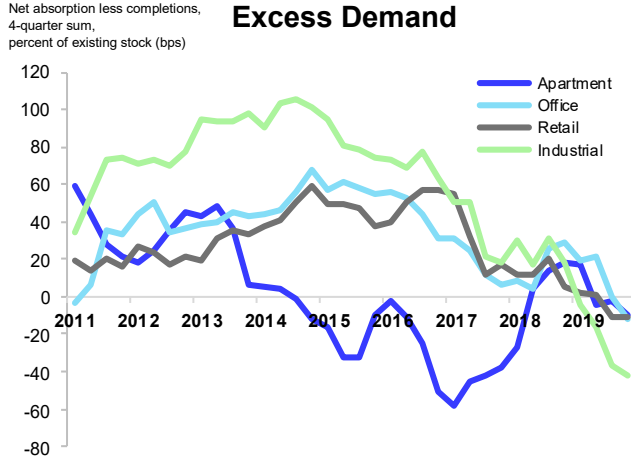


## Commercial real estate markets cool off in Q4



### Office

Demand for office space has been unimpressive considering the pace of job growth. Net absorption, or the growth of demand, was 46.2 million square feet in 2019, compared to 84.9 million in 2015. Total occupied space rose 0.7%, or less than half the pace of office-using employment. New workplace environments continue to curtail demand for office space.

Supply remains in check, however, and vacancy rates have been stable for the past year and a half, at 9.8%. With vacancies well below the 13.3% peak in 2010, rents have risen 2.9% annually since 2017.

### Apartment

Demand for apartments remains robust, with net absorption running 300,000 units or higher for the past three years. There has been little or no excess demand (chart), however, as construction activity has kept pace, leaving vacancy rates stable but low. Rent growth has been moderate, picking up slightly to 3.5% over the past four quarters. This is a full percentage point higher than two years ago. Rent growth would likely be higher except that high rents are causing challenges with affordability in most major metros.

### Retail

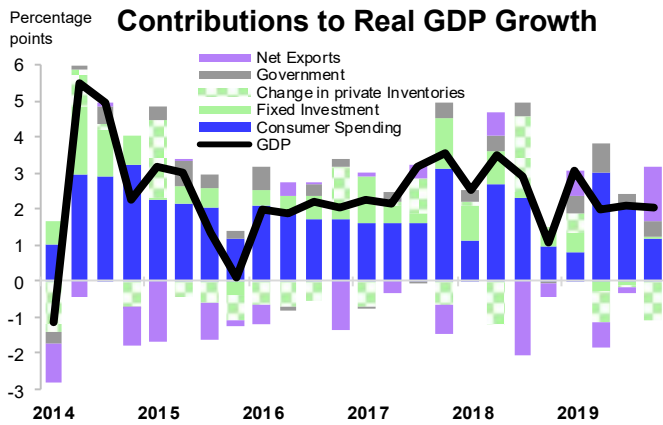
Demand for retail space continues to slacken. Net absorption slowed over the past four quarters to 30.8 million square feet, well below the 100+ million square feet pace annually from 2014 through mid-2017, as e-commerce continues to force changes in the retail environment. With little or no new construction, vacancy rates are stable at 4.5%. Rent growth, however, slowed to 2.1% over the past year due to the weak demand.

### Industrial

The industrial sector is also cooling off a bit after being the star performer for several years as e-commerce fueled demand for logistics facilities to store and ship goods purchased online. Net absorption decelerated to 150 million square feet in 2019, just over half the pace of demand growth in 2016. Construction continues at a rapid pace, however, and vacancy rates have begun to tick up. The sector is still hot, and even with some slight slowing, rents rose 5.0% over the past four quarters.

Calvin Schnure ■ SVP, Research & Economic Analysis ■ [cschnure@nareit.com](mailto:cschnure@nareit.com)

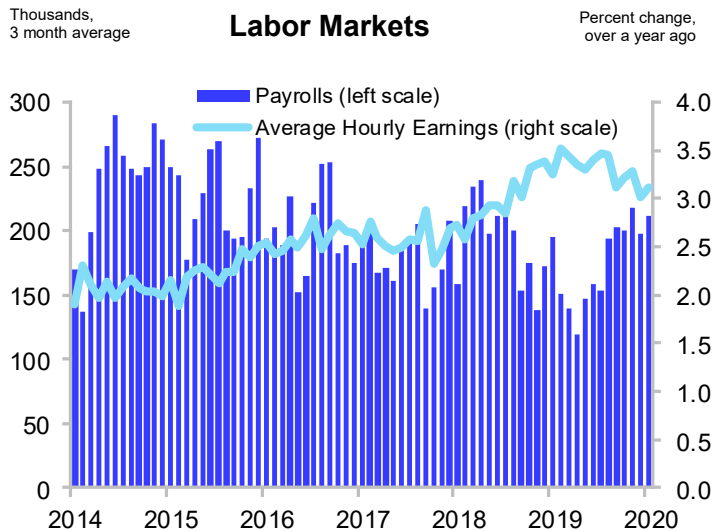
## Economic activity was steady in 2019:Q3&Q4



### Economy carries momentum into 2020

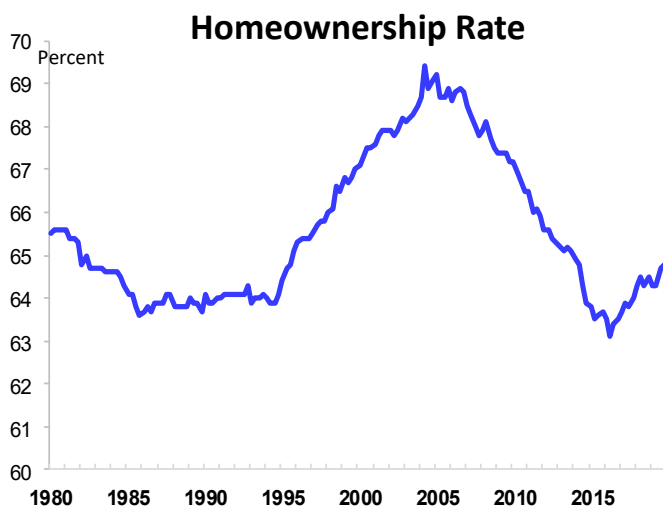
The U.S. economy grew at a steady 2.1% annual rate in both Q3 and Q4 and maintained momentum into the new year. Growth in 2019 as a whole was 2.3%, a bit slower than the above-trend pace in 2018, when tax cuts had provided a temporary boost to growth. Consumer spending grew 2.6% in 2019. Business investment fell in the second half of the year, however, as trade wars reduced the demand for manufactured goods and factory capacity.

The coronavirus injects new uncertainty into the outlook. While the initial impact of production shut-downs in China appeared limited, both the virus and the potential economic damage continue to spread rapidly. REITs, and commercial property markets in general, have been resilient to prior shocks that originated outside the U.S. due to the domestic nature of real estate. The growing likelihood of dislocations inside the country, however, suggest no sector will escape unscathed.



### Job market, wage growth slowing

Job growth slowed in 2019 to an average monthly increase of 175,000, the lowest since 2011. Average hourly earnings also slowed to a 3.1% increase over the past 12 months from a 3.5% pace earlier last year. The low unemployment rate is drawing job seekers back into the labor force. Labor force participation by prime-age workers continues to recover and suggests more room for growth ahead.



### Homeownership rebounds

The homeownership rate increased in Q4 to 64.8%, the highest since 2014. Most of the increase since 2016, surprisingly, has been among Millennial and Gen X households. The housing crisis may have delayed homeownership for many younger households, but recent increases suggest that “renter nation” may not have been a permanent change. Rising ownership bodes well for the economy.

Calvin Schnure ■ SVP, Research & Economic Analysis ■ [cschnure@nareit.com](mailto:cschnure@nareit.com)