Commercial Property Update

2018: Q1

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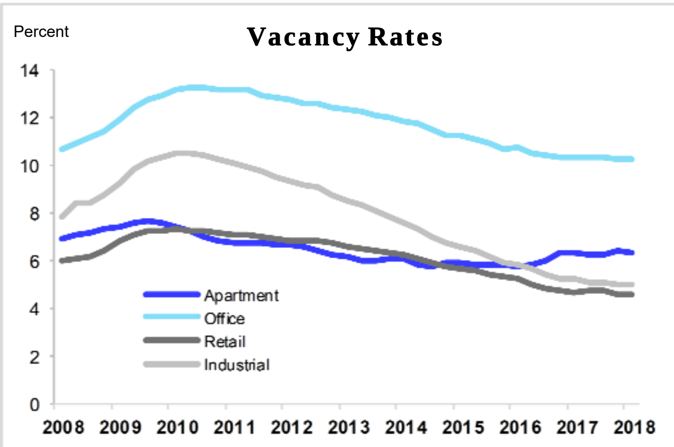
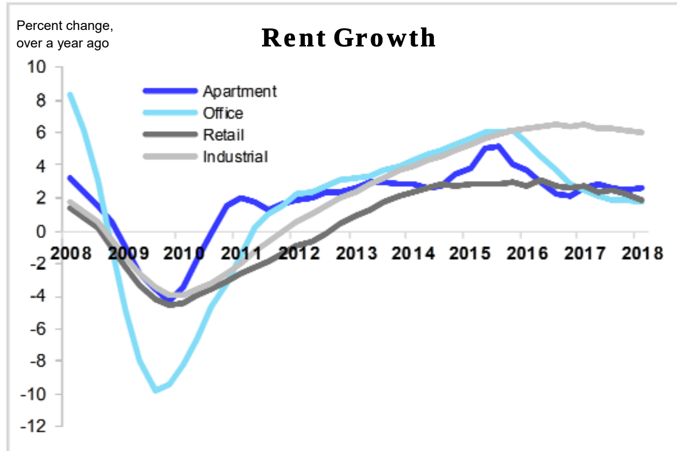




Apartment

Apartment markets remain tight, with vacancy rates moderately low despite robust construction. New supply has eased a bit in recent quarters, with 290,000 units completed over the past four quarters, compared to 330,000 completions one year earlier. Vacancy rates ticked down as a result, to 6.3 percent. Rent growth was steady at 2.6 percent; high rents have contributed to affordability problems, as a record number of households are paying more than 30 percent of income on rent, limiting landlords' ability to raise rents.

Office

Office markets have been soft for the past two years. Net absorption slowed to 60.7 million square feet over the past four quarters, compared to 71.6 million square feet one year earlier. Construction remains in check, however, and supply and demand were essentially balanced in the first quarter, leaving the vacancy rate unchanged at 10.3 percent. Rents have grown slowly over the past year, rising 1.7 percent, well off the 6 percent pace the sector enjoyed in 2015.

Retail

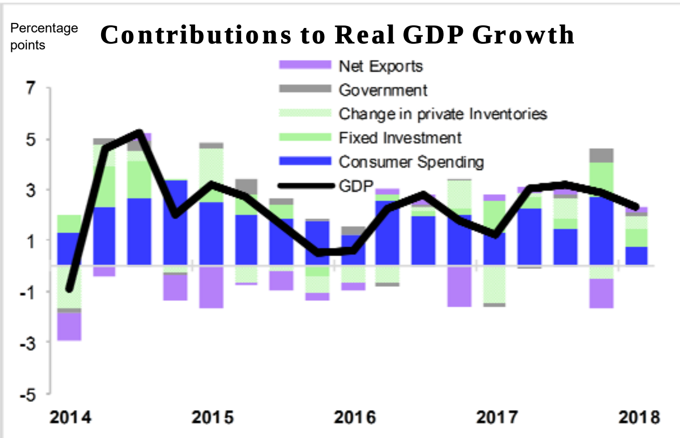
Store closings and retailer bankruptcies caused net demand for retail space to weaken further in the first quarter, slipping to 13.4 million square feet, which is half the average pace over the past two years. Construction has also been low, however, and completions were in line with the growth of demand, leaving the vacancy rate flat at 4.6 percent. Rent growth decelerated to a 1.8 percent increase over the past year, the slowest rent growth since 2013.

Industrial

Demand for industrial properties continues to grow rapidly, with net absorption over the past four quarters totaling 248 million square feet, or 1.6 percent of existing stock. After ramping up the prior three years, new construction has nearly caught up to demand, leaving the vacancy rate unchanged at 5.0 percent. Rent growth continues to outpace other sectors with 6.0 percent growth over the prior year.

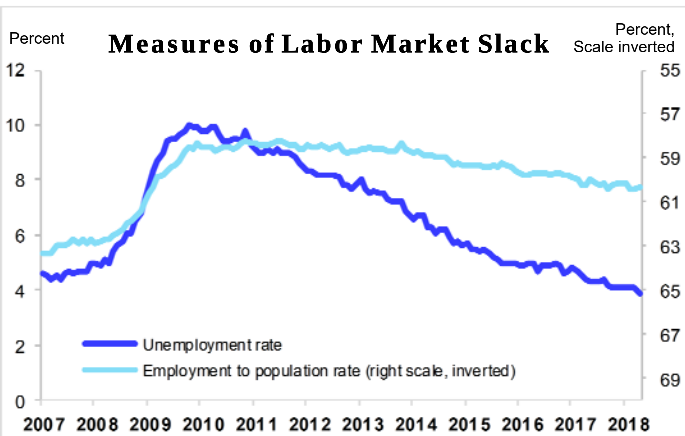
Source: Data from CoStar and Nareit 2018.

Economic Fundamentals for Commercial Real Estate



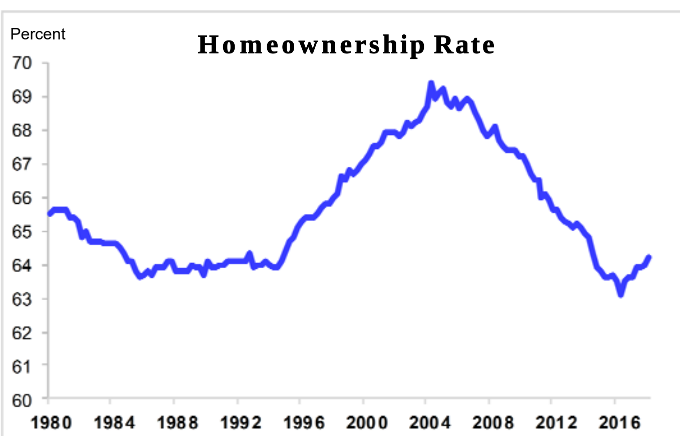
Economic activity slowed in Q1

The economy continues to grow at a trend-like pace, although GDP growth slowed a bit to a 2.3 percent annual rate in the first quarter of 2018. Auto sales fell, contributing to weak consumer spending in Q1 (blue bars; total GDP growth in solid line). Fixed investment (green bars) made a modest positive contribution to growth, while change in private inventories (green checkered bars), government (gray bars), and net exports (purple bars) each added 0.4 percent or less to overall GDP.



Unemployment falls to 3.9 percent

Labor markets continue to firm, despite soft readings on payroll employment the past two months. Nonfarm payrolls rose 135,000 and 164,000 in March and April, respectively, compared to an average of 190,000 the prior twelve months. Nevertheless, the unemployment rate fell to 3.9 percent, the lowest since 2000. This decrease occurred as fewer people were actively looking for work; a broader measure of labor market slack, the employment-to-population ratio (light blue line, scale inverted) suggests labor markets are not so tight.



Homeownership continues to rebound

The homeownership rate rose to 64.2 percent in the first quarter, more than a percentage point above the recent low reached in early 2016. Unlike past periods of rising homeownership, however, the increase comes not from households moving from rental apartments into homeownership, but rather from sales of single family rentals to new owners. Apartment markets continue to enjoy robust demand, as discussed on the first page of this report.

Source: Data from BEA, BLS, U.S. Census Bureau and Nareit 2018.