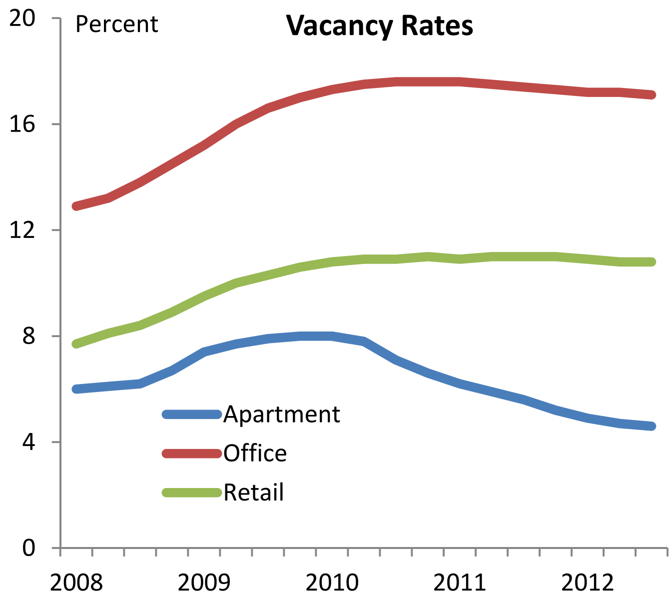
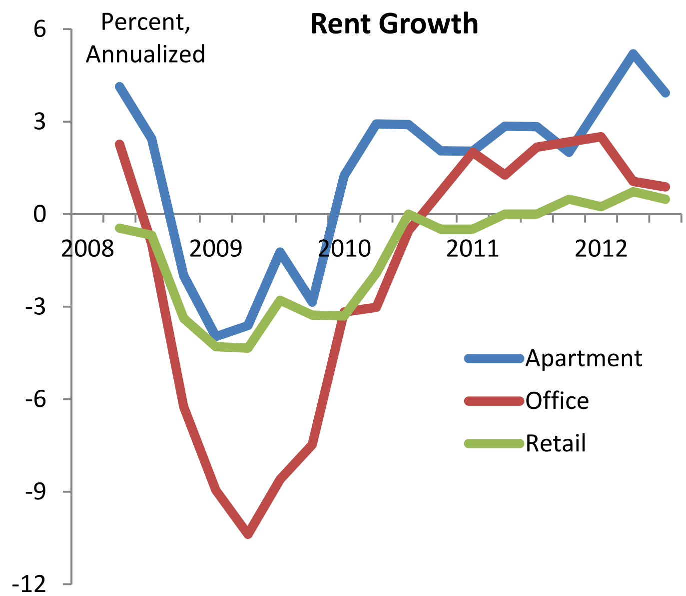
National Association of Real Estate Investment Trusts®

Commercial Property Update 2012:Q3





The apartment sector lost momentum over the summer and early fall, as economic growth and the job market hit another stall. Vacancy rates edged down 10 bps, compared to the 40 bps average quarterly decline since 2010. Rent growth eased as well. Household formation—the main fundamental for apartment demand—is gathering momentum, however (see reverse), indicating further improvements ahead.

The office sector was weak in the second quarter. Low (but positive) absorption met even lower new supply, allowing vacancy rates to dip 10 bps. Rent growth, however, slowed further. Net absorption year-to-date is up slightly from the same period in 2011, while completions are 33% lower. With very little new construction under way, this dynamic should continue for the time being, but the sector won't see any real improvement without sustained job growth.

The retail sector continues to lag, with vacancy rates stuck at 10.8% and rent growth barely positive. Retail sales remain weak. Consumer confidence firmed in October, however, to the strongest in the recovery to date, suggesting some upside risk to an otherwise disappointing outlook.

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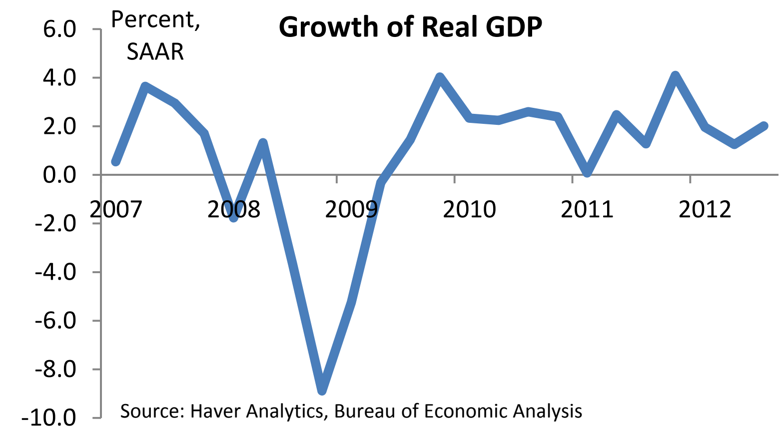
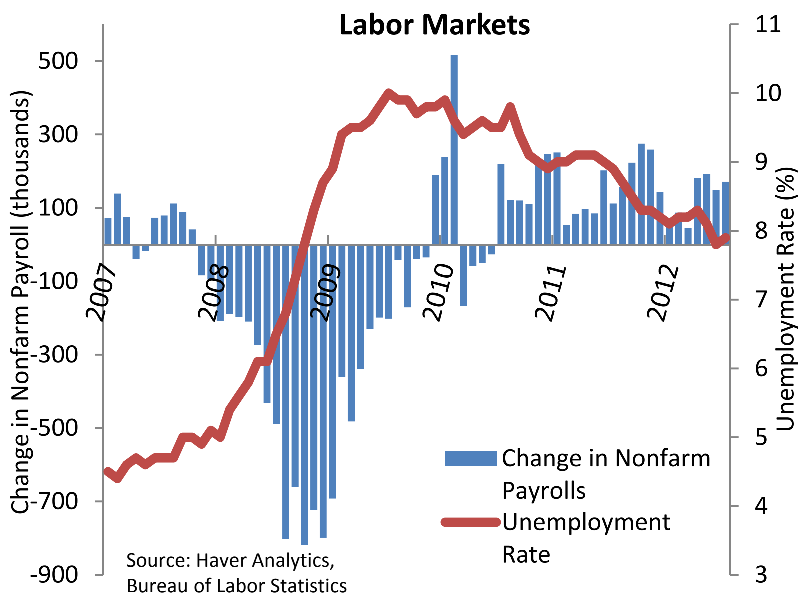
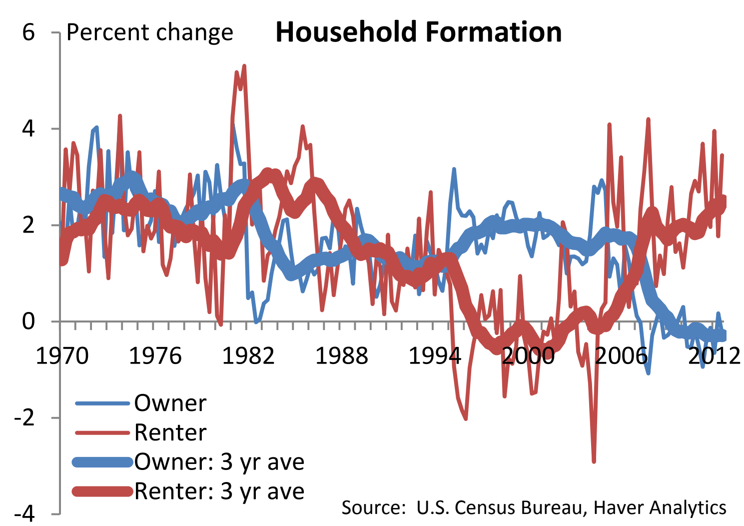
Economic Outlook







Economic Fundamentals

Economic growth continued at a modest pace in Q3. Growth picked up a bit to a 2.0% annual rate on stronger consumer spending and government outlays for defense. Most other sectors were flat, and business investment declined.

Job growth firmed since mid-year. Nonfarm payroll growth in the four months through October averaged 173,000, more than twice the pace of the prior four months. The unemployment rate dropped noticeably in September but moved back a tick to 7.9% in October as new job seekers entered the labor force. Wage growth remains weak, however, and the unemployment rate is high despite recent improvements, and still includes a large number of long-term unemployed.

Household formation accelerated to 1.0% over the 12 months through September, the most rapid since the middle of the housing boom in 2006. Rental households more than accounted for net household formation, rising 1.3 million, while owner-occupied units continued to edge down.

The surge in rental household formation despite weak macro growth reflects the large pent-up demand for apartments, which is likely to propel apartment demand as the recovery continues.

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