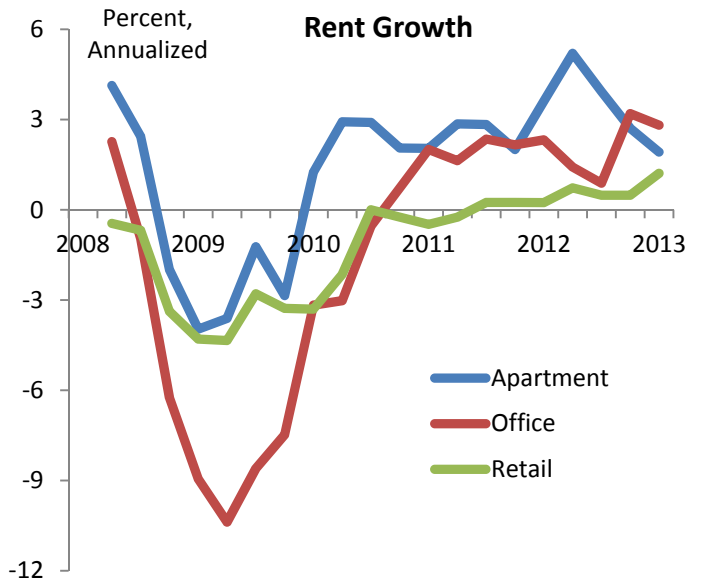
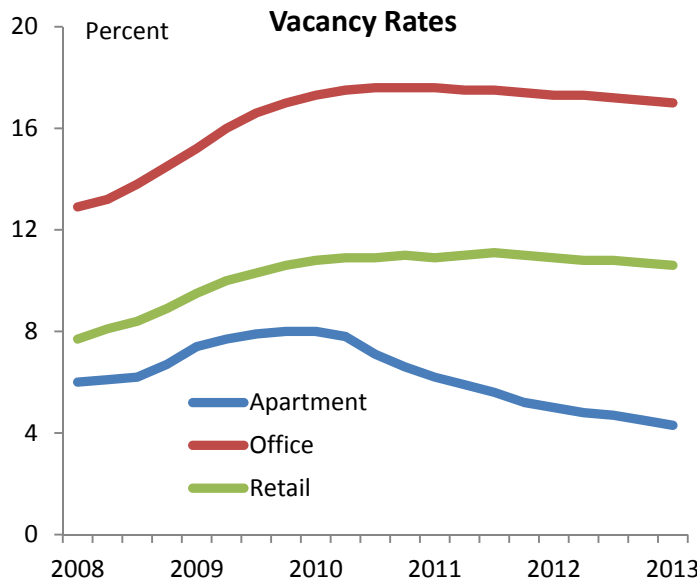


Commercial Property Update 2013:Q1



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The apartment sector slowed in the first quarter, with rent growth decelerating to a 1.9 percent annual rate. Vacancy rates continued to decline, however, to new cyclical lows. Winter and early spring is a seasonally slow period for rentals, and fundamentals for the sector remain solid even as the recovery in the home sales market gathers speed (see reverse for the latest information on household formation).

The office sector posted slight gains as vacancy rates edged down another 10 basis points, in line with recent trends. Rent growth decelerated to a 2.8 percent annual rate after jumping above 3 percent growth in the fourth quarter. Recent news on the job market shows that employment conditions are recovering, suggesting that the office sector will see stronger gains in the second half of this year.

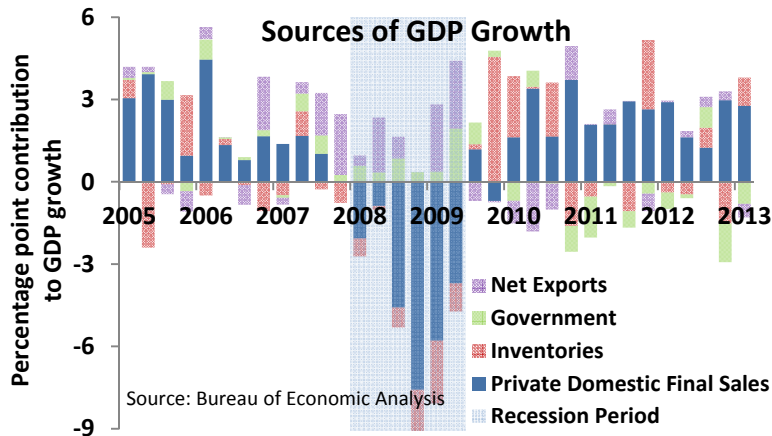
The retail sector continues to lag, and vacancy rates remain within a half percentage point of their peak in 2011. Rent growth firmed a little. Neighborhood and community shopping centers show few signs of recovery yet, while regional malls and super malls have fared somewhat better.



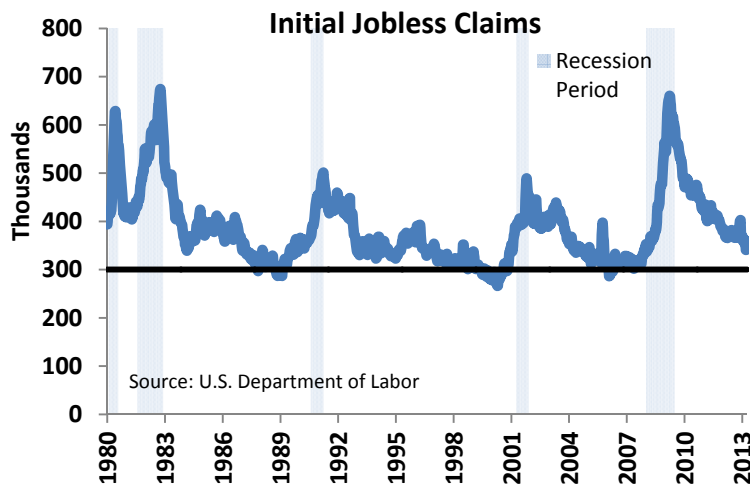
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Economic Outlook

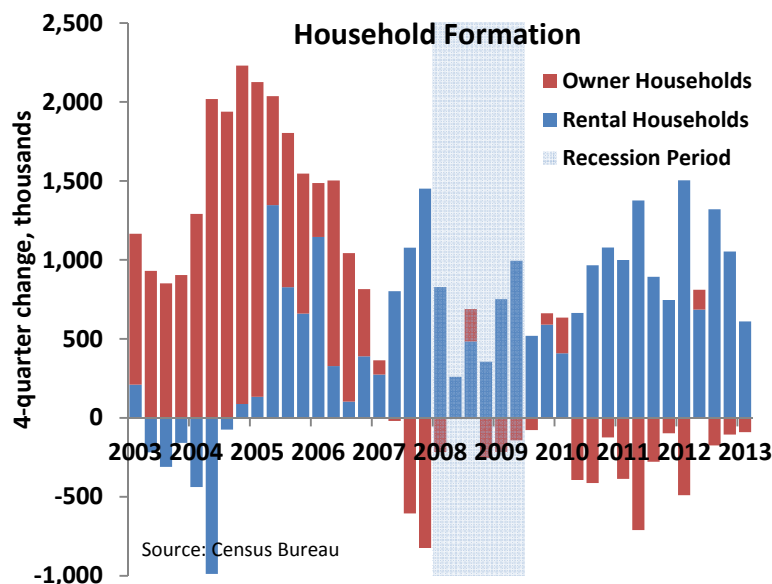
Economic Fundamentals



Economic growth has been choppy of late due to swings in volatile components— inventories, net exports and government spending. Private domestic final sales, which represent the consumer and business spending that is the core of an economic recovery, have gained momentum over the past half year. The increases in baseline growth are likely to offset the drag from the sequester.



Labor markets are gradually returning to normal. Initial jobless claims are less than half their level during the recession, and are approaching the 300,000/week mark reached in previous cycles. Job growth has firmed as well, with monthly gains in nonfarm payrolls averaging nearly 200,000 YTD through April. Businesses remain cautious about hiring, though, and job growth needs to rise appreciably in order to reduce the unemployment rate.



Household formation slowed in the first quarter due to a drop in homeowner households, while the number of rental households rose 300,000. On a four-quarter basis, growth of rental households has cooled a bit after surging in 2012. The pace of formation of new rental households remains well above historical trends, bolstered by the several million young adults who during the recession moved back with parents or doubled-up with roommates.