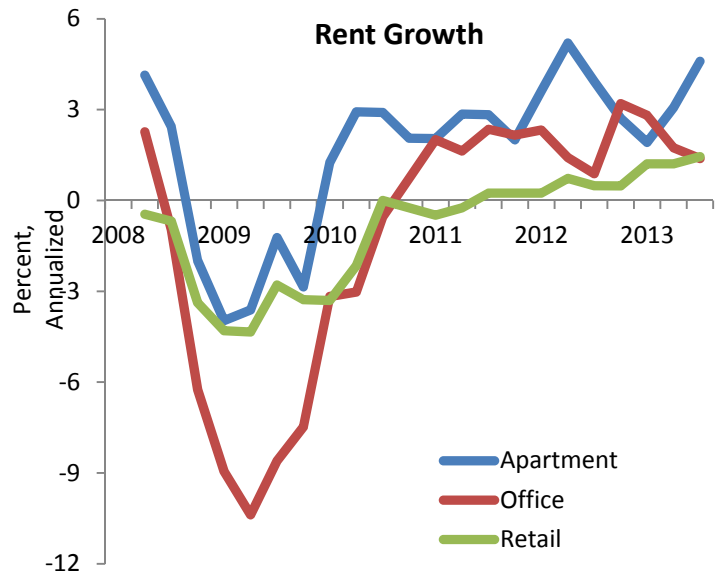
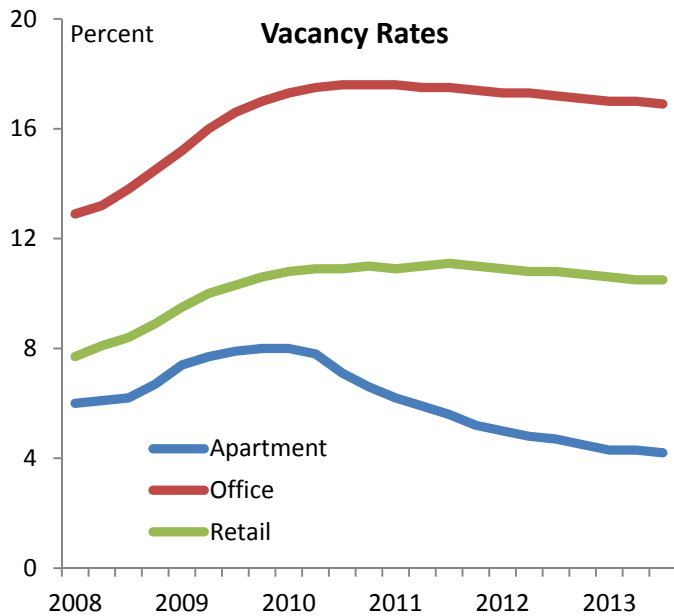


Commercial Property Update 2013:Q3



©Reis Services, LLC 2013. Reprinted with the permission of Reis Services LLC. All rights reserved.

Apartment demand remains strong, with vacancies moving still lower in Q3 and rent growth picking up. New supply coming on the market is expected to lead to some softening in selected metro areas, including Washington, DC. The growth of “shadow demand”, i.e. some 4 million “missing” households doubled up with family or roommates (see reverse), will support national apartment conditions well into the future.

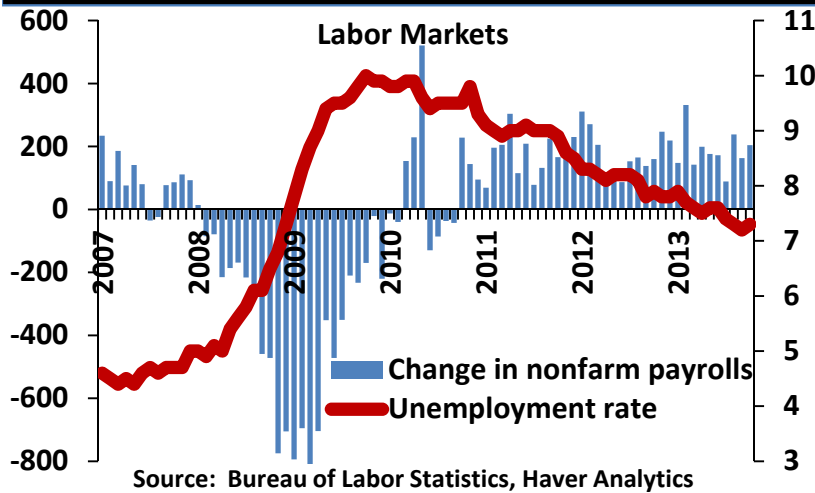
The office sector continues to recover slowly. Vacancy rates ticked down another 10 bps as weak absorption was met by even weaker completions. Rent growth slowed in the face of stubbornly high vacancies and modest national job growth. Central business district markets are outpacing suburban markets.

The retail sector shows few signs of a meaningful recovery. Vacancy rates of neighborhood and community centers have not declined appreciably and rent growth has only recently risen above inflation rates, meaning there has been little to no recovery in real rents. Regional malls, which have a different tenant mix and customer base than neighborhood and community centers, are faring somewhat better.



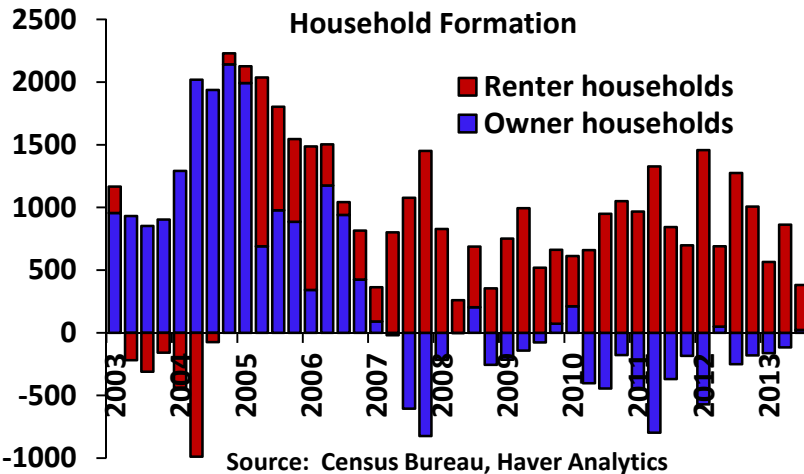
Calvin Schnure
 Vice President, Research
 & Industry Information
 cschnure@nareit.com
 202-739-9434

Economic Outlook

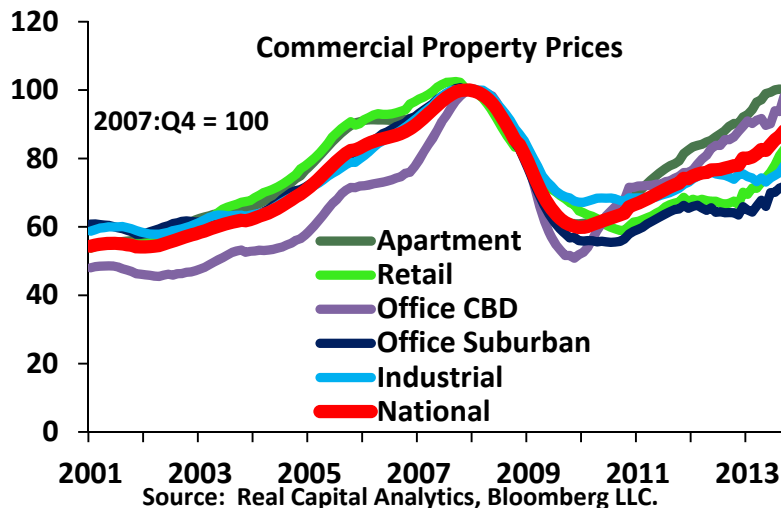


Economic Fundamentals

Job growth struggles forward, averaging 200,000 in Aug-Oct, up from 180,000 in the first seven months of this year. The unemployment rate ticked up in October to 7.3%; the decline since 2010 reflects moderate job growth but also discouraged workers and retiring Baby Boomers. The labor market recovery lacks vigor and will need to generate more jobs and higher incomes before the overall economy hits on all cylinders.



Household formation lost steam, to less than 400,000 over the past four quarters, well below the trend of 1.2 million per year. Owner occupied households stabilized as the foreclosure crisis fades but rental household growth stalled. In the years ahead, though, the 4 million “missing” households doubled up with family or roommates will provide sustained demand for apartments, but only after the job market improves.



Commercial property prices rose in the third quarter, despite higher interest rates and the government shutdown. Price gains across all property types accelerated to 4.9% Q/Q, the strongest quarterly gain since mid-2005. Prices on retail properties, which had lagged until recently, are catching up with a 23.5% increase over year ago. Apartment and CBD office prices are roughly in line with their pre-recession highs, while suburban office remains well below prior levels.

The views expressed in this commentary are those of Calvin Schnure, PhD, of the National Association of Real Estate Investment Trusts (NAREIT®) and reflect the current views of Dr. Schnure as of November 21, 2013. Neither Dr. Schnure nor NAREIT undertakes to advise of any future changes in the views expressed herein.