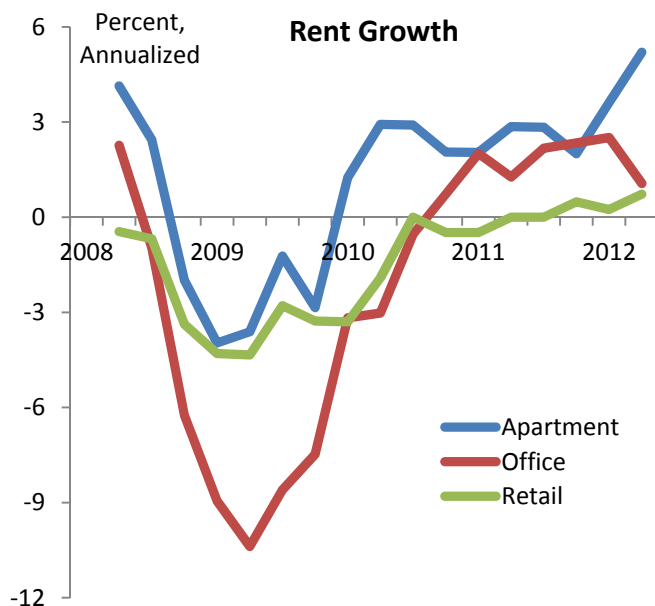
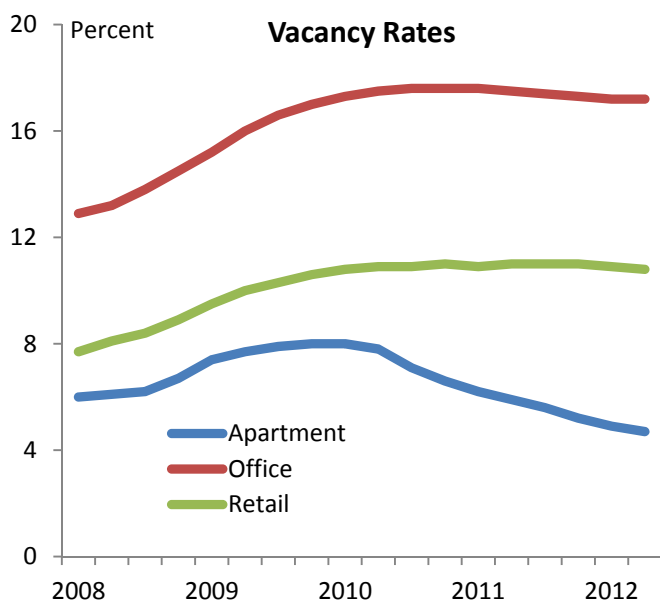


Commercial Property Update 2012:Q2



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The apartment sector posted a strong second quarter, with vacancy rates declining another 20 bps to 4.7%, the lowest since 2001. Rent growth accelerated during the spring leasing season, and many apartment REITs raised their FY2012 earnings guidance. New construction is ramping up, but remains well behind the growth in demand, indicating the sector will likely tighten further in the months and quarters ahead.

The office sector was flat in the second quarter, as job growth stalled. Vacancy rates were unchanged at 17.2% and rent growth slowed. The job market improved a bit in July, with nonfarm payrolls rising 163,000 (chart on opposite page). Unemployment remains elevated, however, and job growth will need to strengthen appreciably (to 200,000+ per month or better) before the outlook for office properties improves.

The retail sector shows little improvement through mid-2012. Vacancy rates were unchanged at 10.8%, rents edged slightly higher. Consumer spending remains weak and retail sales slowed in the spring, due to weak job growth, concerns about the fragility of the domestic economy, and potential shocks from the fiscal cliff and the Euro area crisis.



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Economic Outlook

Economic Fundamentals

Economic growth slowed further in Q2, to a 1.5% annual rate. Weak consumer spending on durables accounted for the deceleration; non-durable goods and services maintained their prior trend, and business CAPX in equipment accelerated.

Home sales have stabilized and prices are rising. Housing contributes directly to GDP through construction, and also indirectly through spending on furniture, appliances, and stronger net worth.

Job growth slowed to a crawl in Q2 as hiring was weak across all major sectors, and the unemployment rate moved back up. Employment growth recovered a bit in July, with a net job gain of 163,000, about in line with population and labor force growth—but not fast enough to bring down the unemployment rate.

The July employment report sent two messages: (1) the modest pick-up in job growth alleviated concerns that the economy might head into another recession, but (2) the economic recovery so far has little vigor.

Consumer sentiment soured in late spring and early summer. Current economic conditions softened a bit, reflecting labor market woes; expectations fell further on concerns about potential impact of the Euro area crisis and the US “fiscal cliff”.

