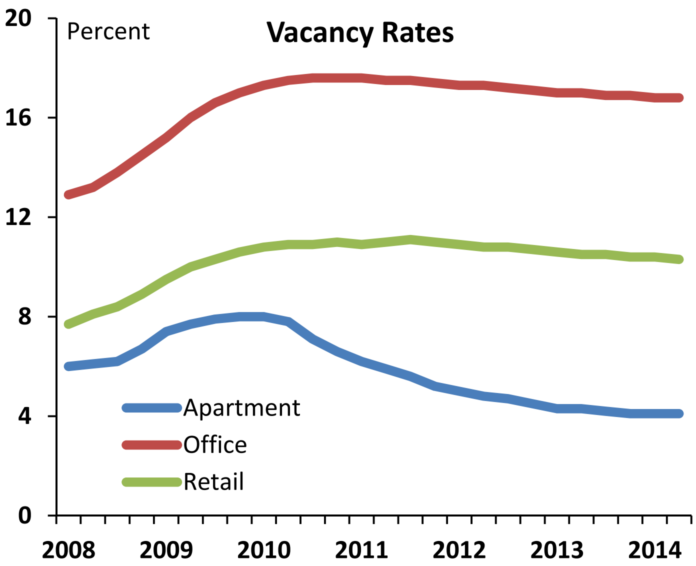
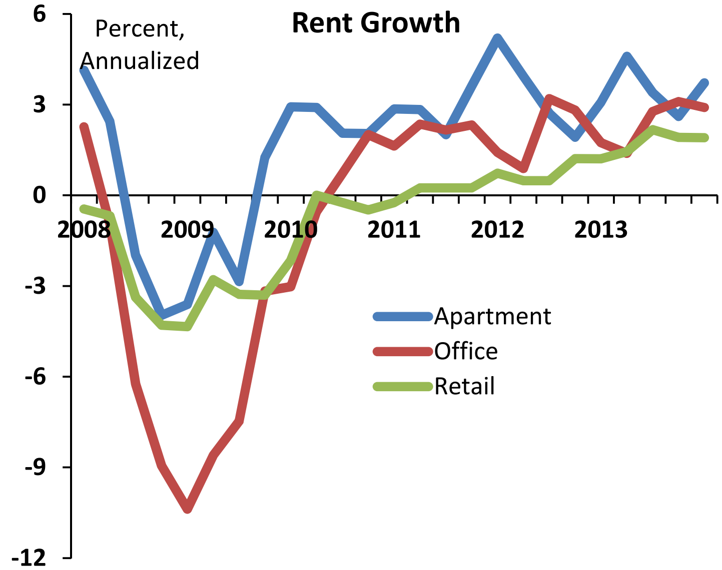
Commercial Property Update 2014:Q2





The apartment sector remains strong, fueled by a pick-up in job growth that has spurred new lease signings (see reverse side for a discussion of accelerating job growth and demand for rental housing). Completions increased in the second quarter, but robust demand has kept vacancy rates at cyclical lows despite this ramping up of new supply.

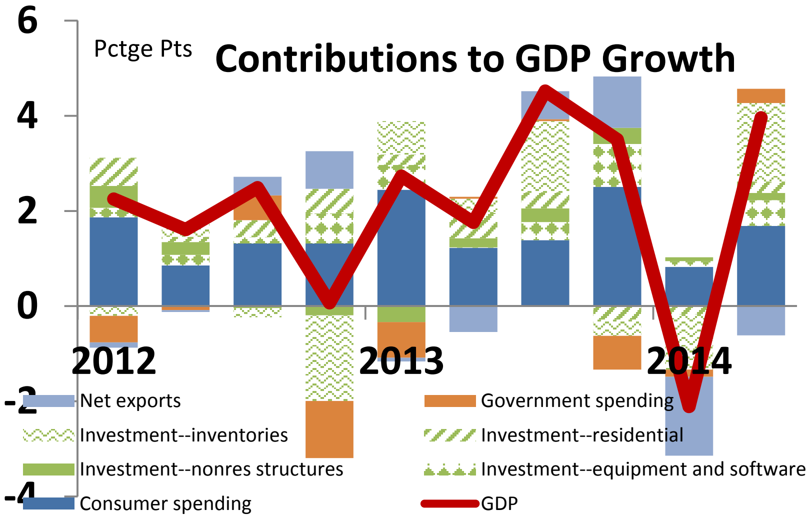
The office sector slowed in the second quarter as net absorption decreased, despite the robust national job growth. Completions were also below Q1, but were a bit ahead of absorption, leaving vacancy rates flat at 16.8 percent. Vacancy rates are still less than a percentage point below their 2010 peak, which has served to damp growth of effective rents. The outlook for office properties, however, has brightened as momentum builds in the job market, especially given the low level of new construction.

The retail sector remains the laggard of the main property sectors. Absorption rate in the first two quarters of 2014 averaged barely half last year's pace, and the national vacancy edged down just 10 basis points in Q2. Landlords have little pricing power in such a market environment, and rent growth was flat at a 1.9 percent annual rate.

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

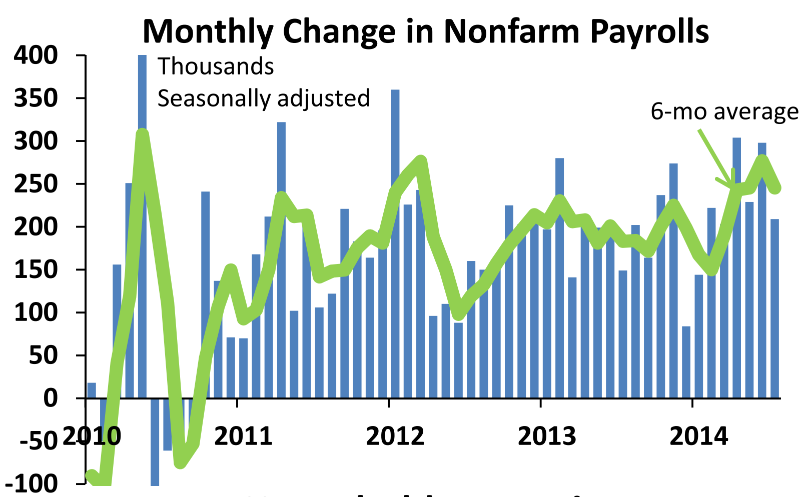
National Association of Real Estate Investment Trusts®

Economic Outlook

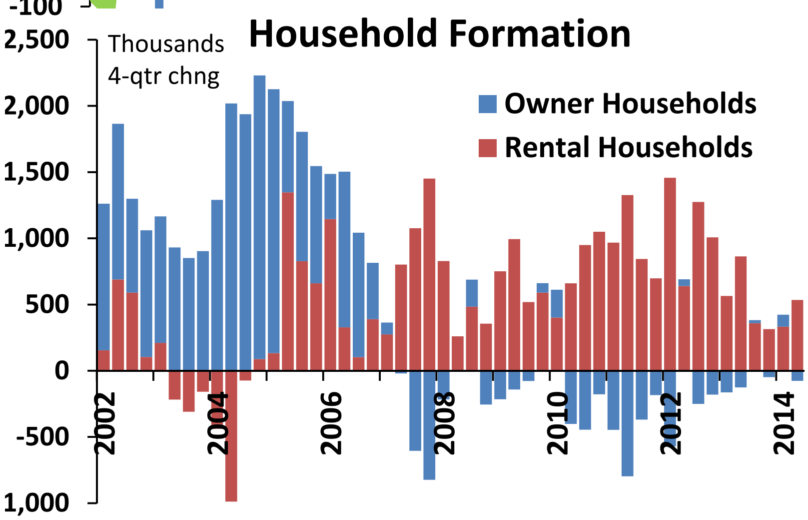


Economic Fundamentals

Economic growth rebounded in the second quarter from its dismal Q1 performance. In addition to weather-related effects on construction and consumer spending, two other sectors made notable contributions to the swing: inventories (wavy green filled bars) made a large subtraction from Q1 growth as stocks were drawn down, but snapped back in Q2; and net exports (light blue bars) were a large drag in Q1 and a smaller drag in Q2. Weak growth at trading partners, esp. in Europe, hurts U.S. exports.



Job growth has steadily accelerated in 2014, with net payroll growth above 200,000 for six months in a row—the longest streak of sustained robust job growth since 1997 (monthly job growth in blue bars, six-month average in green line). The macroeconomy and job market are now showing signs of positive feedback: stronger GDP means firms hire more workers, boosting incomes, which they spend, reinforcing GDP. Also see next bullet for another positive feedback channel that is strengthening.



Household formation moved up in the second quarter. The increase was entirely due to new rentals, which have growth at a 3.3% rate in 2014, nearly twice the 1.8% average over the prior ten years. This surge in demand for rentals gets a strong boost from the improving labor market, as Millennials with new jobs are able to move out of shared apartments or parents' homes and sign a lease of their own.

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 August 7, 2014.

REIT.com®
All Things REIT™
1875 I Street, NW, Suite 600, Washington, D.C. 20006-5413
Phone 202-739-9400 Fax 202-739-9401