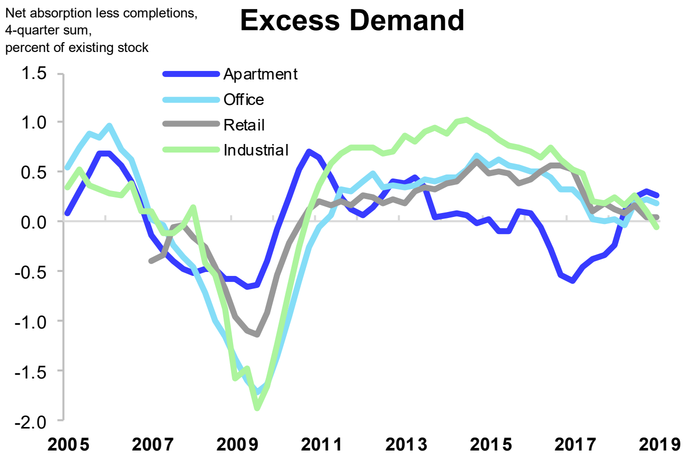
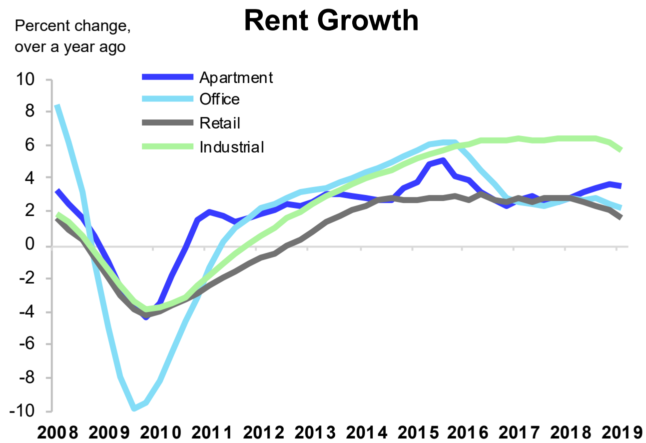
Commercial real estate markets got a slow start in 2019





Apartment

Apartment markets were alone among major property sectors in posting solid results the first quarter, with net absorption of 68 thousand units. Excess demand kept vacancy rates near lows for this expansion, at 6.0 percent. Rents rose 3.2 percent over the past four quarters, in line with recent trends. Apartment markets are benefitting from solid demand for rental housing.

Office

Office markets softened in the first quarter, with net absorption slowing to 7 million square feet, the lowest since 2011. Supply outpaced demand by 2.4 million square feet, causing vacancy rates to tick up 10 bps to 9.8 percent. Vacancy rates are still near the low for this expansion, however, even with this slight increase. Rent growth decelerated a bit to a 2.1 percent increase over the past four quarters. The outlook for office markets is favorable, as ongoing job growth is likely to generate future demand for office space.

Retail

Retail fundamentals continued to chug along in the first quarter. Demand growth slowed, but the sector had less of a deceleration that other sectors, mainly because net absorption had already been at low levels; in fact, the 8 million square feet of net absorption was a bit above the recent low in 2018:Q2. Supply was in line with demand, keeping vacancy rates at 4.4 percent. Rent growth continued to cool, to 1.5 percent growth over the prior year.

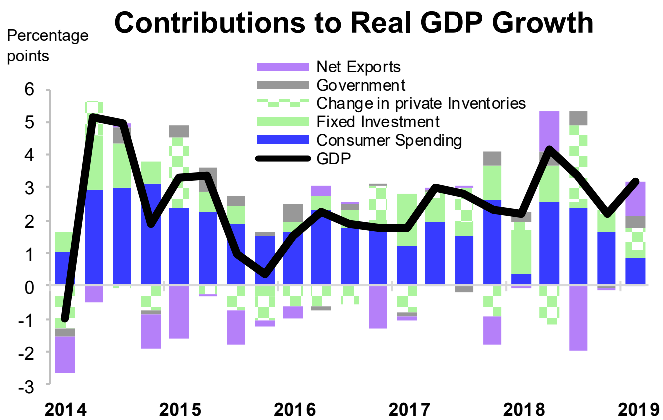
Industrial

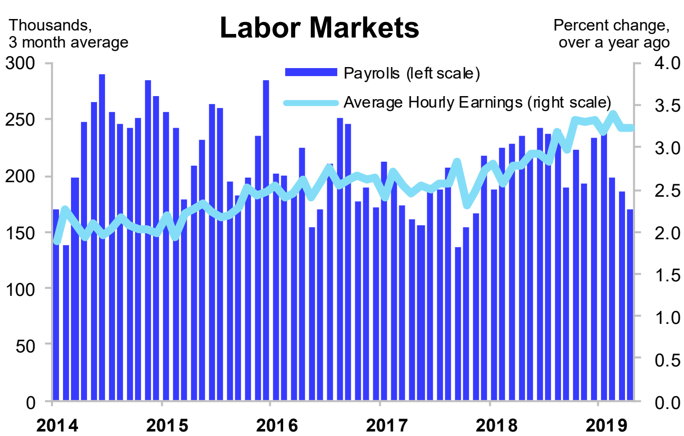
Demand for industrial space slowed significantly, with net absorption of 24 million square feet, the lowest since 2012. The industrial sector has benefited from the tailwinds of e-commerce due to the rising need for logistics facilities to deliver goods bought on the Internet. There has been little sign of slowing of the fundamental drivers in this market, however, so the recent softness is likely to be short-lived.

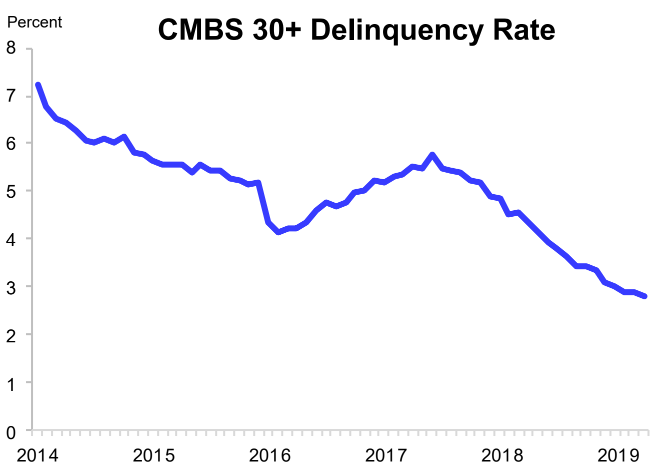
Calvin Schnure ■ SVP, Research & Economic Analysis ■ cschnure@nareit.com

Source: Data from CoStar and Nareit 2019.

Economic activity strengthens in the first quarter







Economic momentum surprises in Q1

Growth in the US economy surpassed expectations in the first quarter, with GDP rising at a 3.2 percent annual rate. Increases in net exports and private inventories (gray and green checkered bars, total GDP in solid line) contributed to higher overall growth and helped offset the slower growth of consumer spending (blue bars), which contributed 0.8 ppt to GDP, significantly lagging prior quarters.

Labor markets bounce back

Job growth beat expectations in April, with a 263,000 increase in nonfarm payrolls. The monthly jump in job growth, however, was largely a recovery from unusually weak growth in February; the average monthly job gain over a three month period has trended down in 2019. The unemployment rate fell to 3.6 percent in April, partly due to a decrease in labor force participation. The ongoing improvement in labor markets has supported wage growth, and average hourly earnings rose 3.2 percent rate over 12 months, in line with March.

CMBS delinquencies decline

The CMBS delinquency rate declined in April to 2.8 percent, a new post-crisis low. This decrease bodes well for the CRE economy, as delinquency rates tend to rise when building owners have shortfalls in cash flow; as a result, rising delinquency rates are often an early warning sign of a CRE downturn, while declining delinquencies signal the sector's health. The overall decline comes from the payoff of lower-quality loans issued prior to the crisis, plus new loans originated since the crisis that have extremely low delinquency rates.

Calvin Schnure ■ SVP, Research & Economic Analysis ■ cschnure@nareit.com

Source: Data from BEA, BLS, U.S. Census Bureau, Trepp and Nareit 2019.