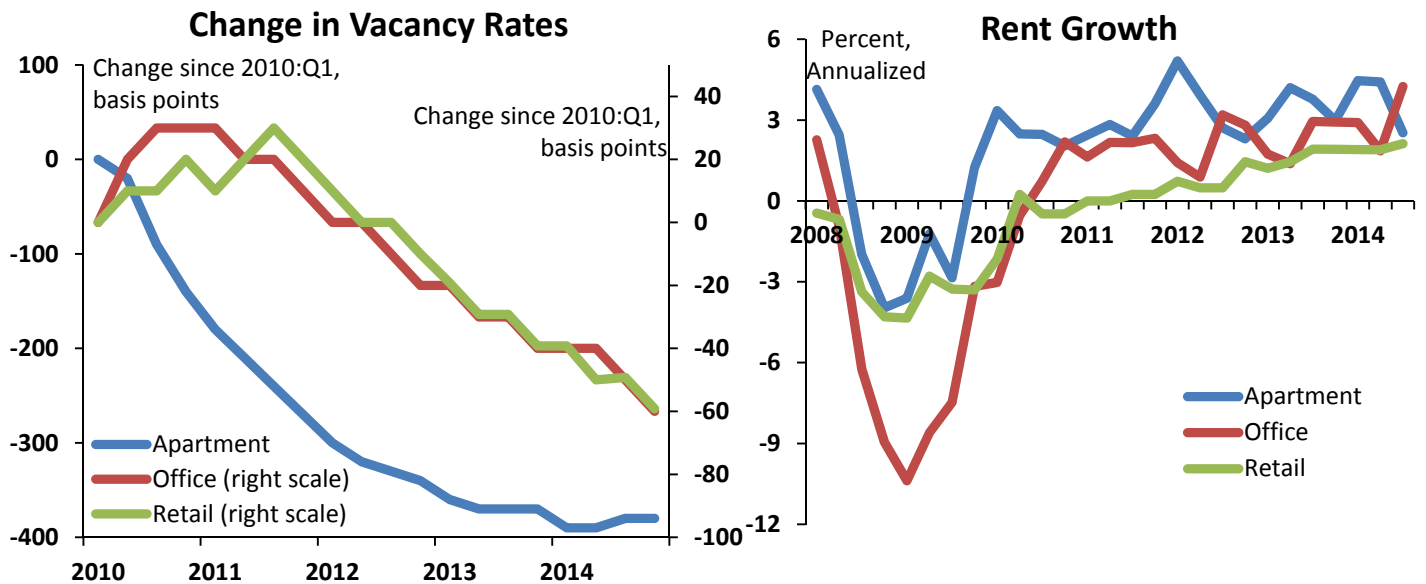


Commercial Property Update 2014:Q4



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The apartment sector remains robust. Vacancy rates continued at 4.2%, a decade-low level that indicates little (if any) excess supply. An acceleration in the national job market has spurred household formation (page 2 has more details) and continues to fuel strong rental demand. Rent growth eased to a 2.5% annual rate; this slowing may be due to seasonal demand weakness during the fall.

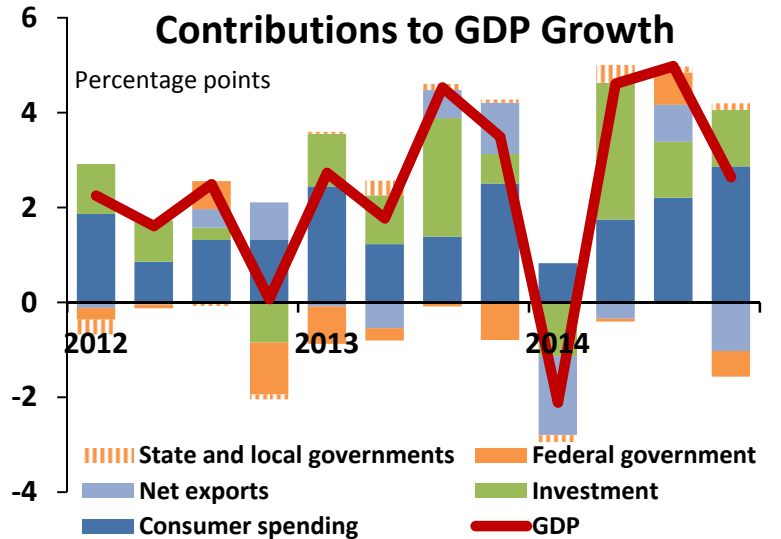
The office sector saw strong growth in demand, bolstered by healthy job gains over the last quarter. Rent growth accelerated to a 4.3% annual rate, the fastest pace in the recovery to date. Absorption rates moved up to a post-crisis high. Vacancy rates continue to edge downward at a slow pace, in line with the trend since 2011. The acceleration in job growth during Q4, however, could signal a more rapid recovery in office markets in 2015.

The retail sector is sluggish. Net absorption for 2014 is 17% behind the previous year, while vacancy rates edged down 10 bps. Rent growth increased ever so slightly from last quarter, to a 2.1% annualized rate – an improvement from earlier years, but barely keeping pace with inflation.



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Economic Fundamentals for Commercial Real Estate



Strong domestic demand supports real estate markets, despite slower overall GDP growth.

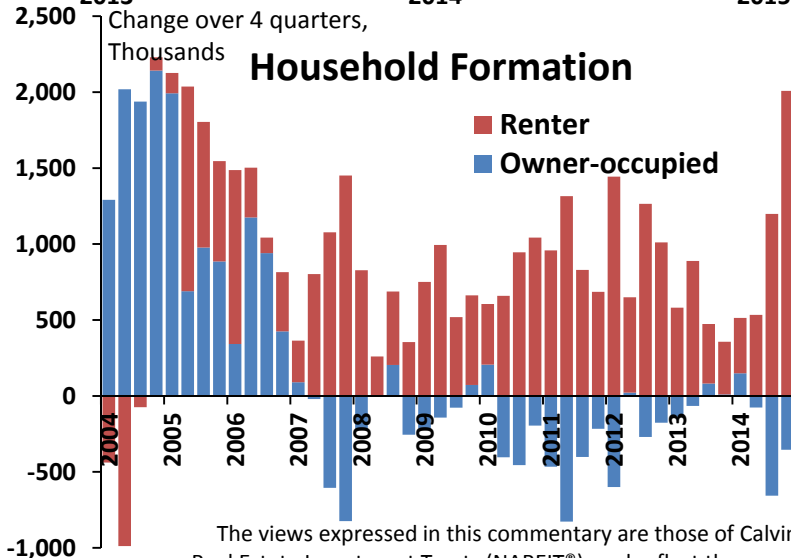
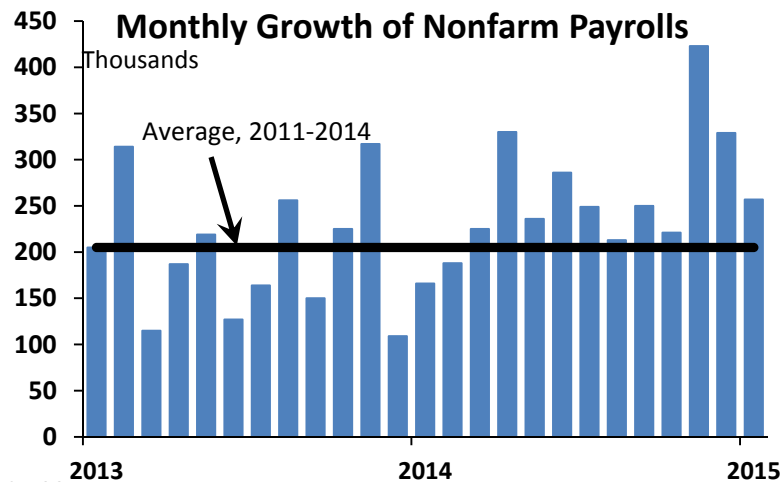
Domestic private demand grew at a 4.0% annual rate in Q4. Consumer spending accelerated to a 4.3% pace, the highest since 2006. Headline GDP growth was held down to a 2.6% pace, however, due to declining net exports and federal military spending.

Surging job growth bodes well for all types of real estate. The job market got off to a roaring start in 2015 with a 257,000 increase in payroll employment in January. This comes on the heels of 324,000 average monthly growth in Q4, the best quarterly performance since 1999.

Average hourly earnings rose 0.5%, suggesting that stronger demand for workers may finally be lifting wages.

Recent trends in hiring, wages and consumer spending indicate that a positive feedback cycle is reinforcing the economy's momentum. These trends will have broad impact on real estate markets: rising incomes fuel consumer spending (retail sector) and demand for housing (apartment REITs and single-family rentals), and, of course, more space for the workers (office REITs).

Robust demand for rental housing bolsters apartment outlook. Total occupied rental housing increased by 2 million units in 2014, a record rise, according to Census Bureau data beginning in 1965. The acceleration in job growth appears to be encouraging the millions of "doubled up" Millennials and others to move out to a place of their own. This "pent up demand" is likely to keep vacancy rates low—and rents and property prices high—even as construction ramps up.



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 February 12, 2015.