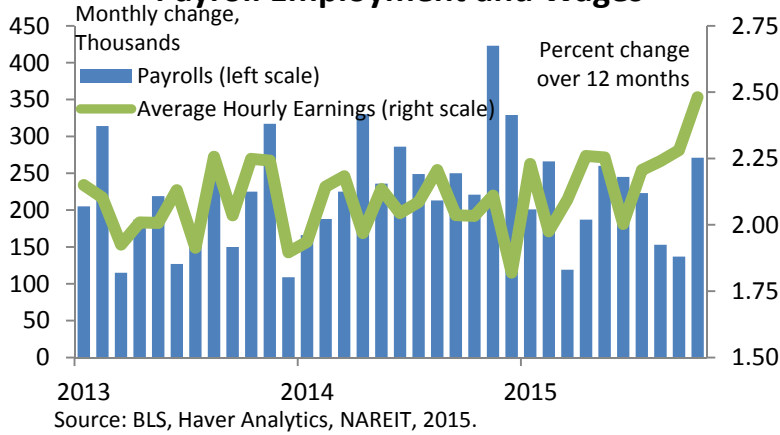




# Economic Fundamentals for Commercial Real Estate

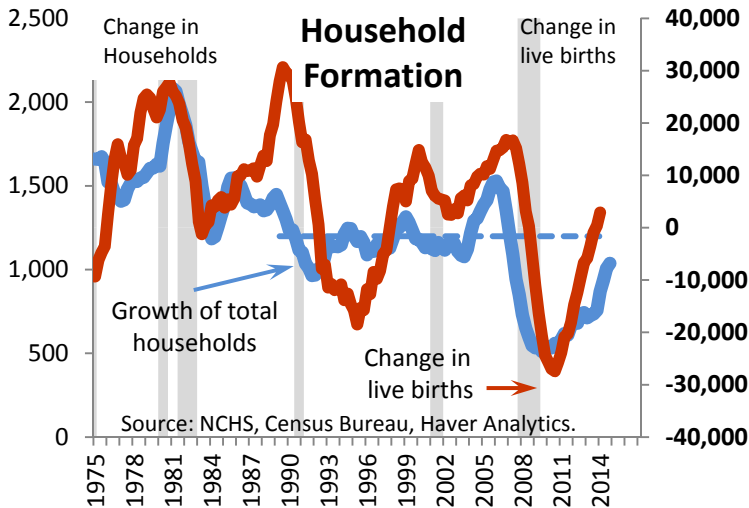
## Payroll Employment and Wages



**Employment growth has been choppy around an improving trend.** Job growth slowed in August and September, largely due to weakness in manufacturing (as goods exports took a hit from China’s troubles) and mining and oil drilling. Job growth bounced back in October, however, with the largest gain all year.

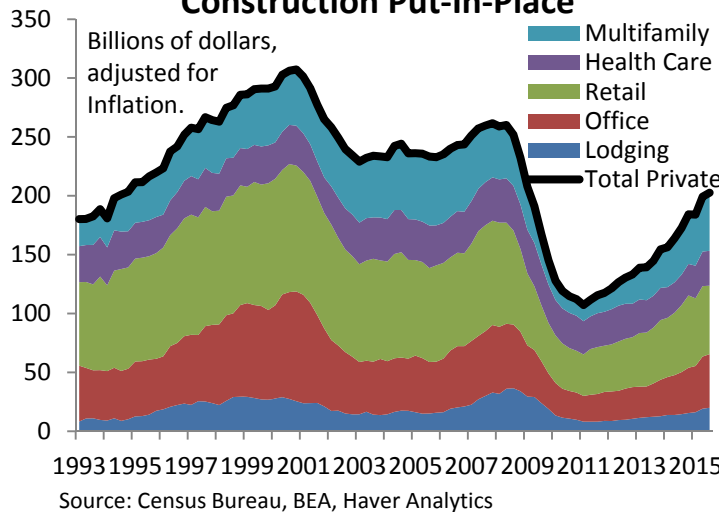
More important than the job growth itself were signs that firmer labor markets are translating into rising wages and incomes. Average hourly earnings jumped, resulting in the fastest 12-month wage growth in more than six years.

## Household Formation



**Household formation continues to recover.** The formation of new households, which is the source of demand for both apartment and housing markets, plunged during the crisis. Millions of people “doubled up” with parents or roommates, generating an unprecedented level of “pent up” demand (*compare household formation, blue line, to prior trend, dash blue*). The birth rate also fell during the recession, but rose in 2014 for the first time since 2007. Continued increases in birth rates may well spur those who are doubled-up to move out to rent or buy—supporting demand for both rental apartments and home purchases.

## Construction Put-In-Place



**Construction is ramping up.** Real construction (that is, adjusted for inflation) of all property types has been on a steady uptrend since the crisis, and indeed has nearly doubled since early 2011. Increases to date, however, only reflect the steepness of the decline during the recession, and activity is barely back to the levels in 1993. While overbuilding is always a potential risk in commercial real estate, those worries appear to be at least a few years away.

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 6, 2015.