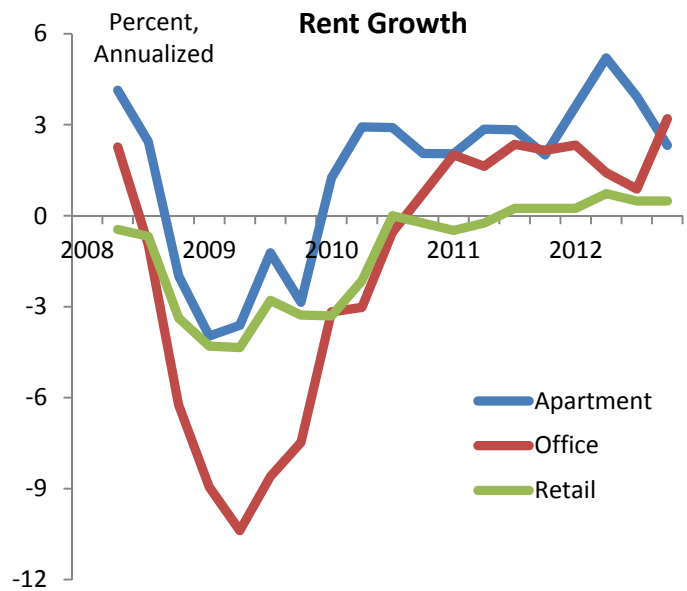
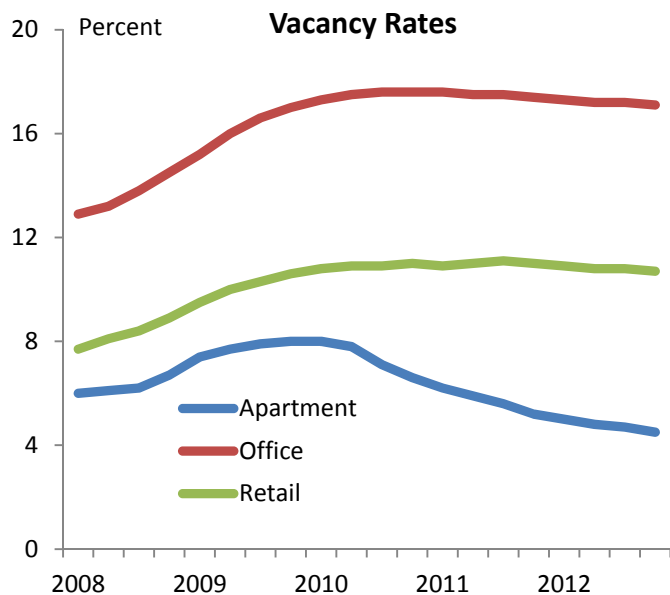


Commercial Property Update 2012:Q4



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The apartment sector continued to firm through the end of 2012, with the national vacancy rate declining another 20 bps, to 4.5 percent. Absorption picked up, and the large number of “doubled up” households represents a significant source of future demand. New supply is ramping up as well (see reverse). Given the magnitude of the pent-up demand, most markets will be able to support the new deliveries. Rent growth slowed Q/Q on a seasonal basis; year-to-year increases accelerated.

The office sector improved—slightly—but high vacancies remain a challenge. Vacancy rates ticked down 10 bps in Q4 after having been flat in Q3; still, at 17.1 percent the vacancy rate remains well above historical norms. Recently-released figures show stronger job growth in late 2012 than previously reported; we expect the office sector to post more significant improvements as hiring accelerates later this year and next. Rents rose 0.8 percent in Q4, the strongest gain so far of the recovery.

The retail sector shows few signs of improvement. Vacancy rates moved down 10 bps but there is little growth in rents. Within the retail sector, regional malls are outperforming while neighborhood and community shopping centers are stagnant.



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Economic Outlook

Economic Fundamentals

Economic growth was mixed in late 2012. Slower inventory accumulation and a drop in federal defense spending (pink and green bars at left) subtracted from GDP, while private domestic sales (blue bars) posted moderate gains. Auto sales were 15.2 million in January, up 10 percent from a year ago, suggesting that consumer spending has some momentum to offset the recent rise in payroll taxes. Further cuts in government spending, though, will slow growth in 2013:H1.

Job growth picked up in the fourth quarter to average 200,000 per month, from an average of 130,000 the prior six months. Employers appear hesitant to hire, however, with the economic outlook still tentative. Monthly job gains of 250,000+ are considered a healthy labor market. The unemployment rate has been little changed at just under 8 percent.

Construction spending turned up in 2012, with multifamily leading the way. Construction outlays on multifamily were up 57 percent in December over a year ago... but still well below pre-crisis trends. Office construction was up 25 percent over year ago, while retail construction was little changed.

