SOLID EXPORTS AND BUSINESS INVESTMENTS DRIVE 6.7 PERCENT SIOR MARKET ADVANCE IN Q2 2018

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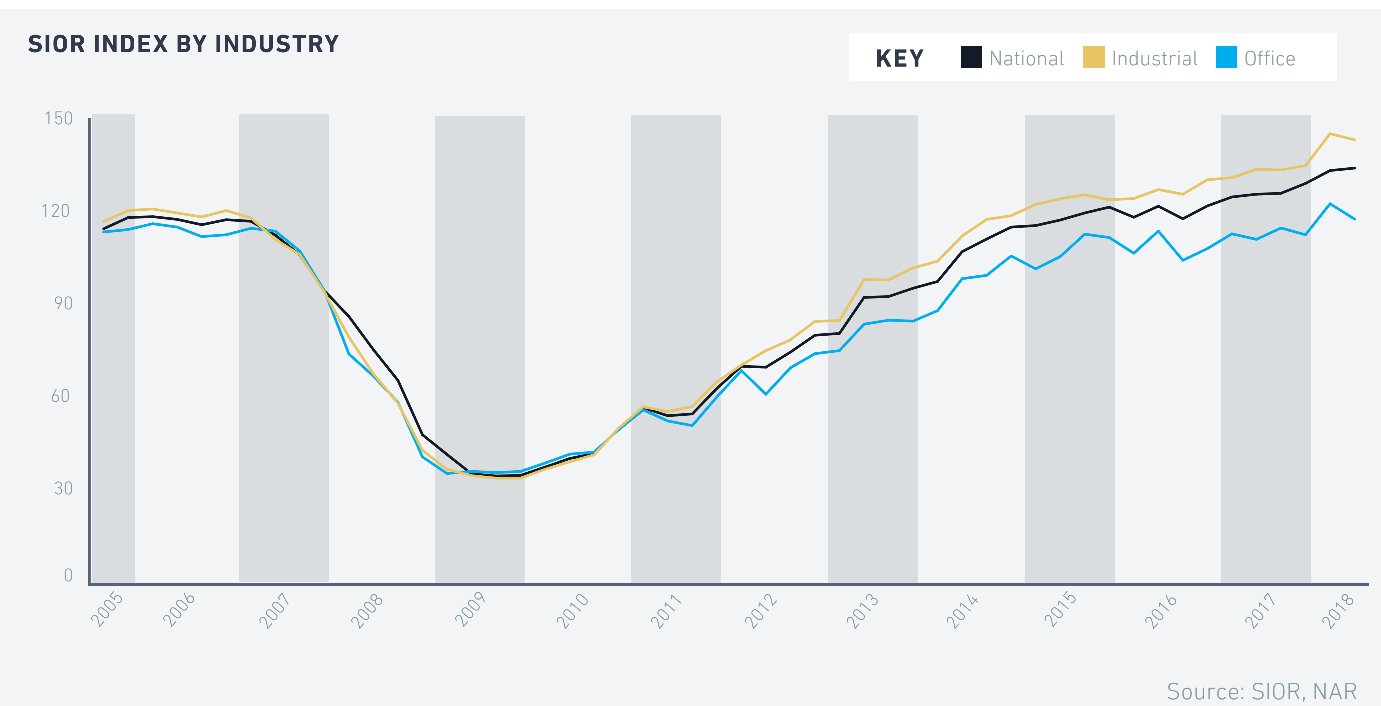
NAR Economic Overview

Economic output in the United States accelerated during the second quarter of 2018. Real gross domestic product rose at an annual rate of 4.1 percent, based on the first estimate from the Bureau of Economic Analysis. The figure marks the strongest quarterly gain since the third quarter of 2014.

The increase in economic activity was broad-based, with solid advances in consumer spending, business investments, exports and government spending. Consumer spending—the main component of GDP—rose at a 4.0 percent annual rate, as the employment landscape continued on an upward path. Consumers spent more on both goods and services. Spending on cars and light trucks picked up speed, to the tune of an 8.4 percent annual rate increase, matched by an 8.7 percent increase in purchases of recreational vehicles and goods. With the homeownership tenure on the rise, and a substantial rise in home values, consumers have been remodeling existing homes, leading to higher spending on furnishings and household appliances, which increased 7.0 percent during the quarter. Consumers also traveled more in the second quarter, as they opened their wallets wider for recreation (up 2.9%), hotels and restaurants (up 7.1%).

Even as the White House imposed tariffs on a wide swath of import products, international trade remained active in the second quarter of the year. Exports rose at a 9.3 percent annual



rate, the strongest quarterly advance in five years, with manufactured goods experiencing noticeable demand abroad (up 13.3%). Imports—a negative factor in GDP calculations—rose at a slight 0.5 percent annual rate, notching a slight improvement in the balance of trade. History indicates that a consistent decline in imports eventually drags down exports as well. The latest bump should be viewed as a one-off bonus.

Increased consumer spending and trade proved favorable for business investments. Nonresidential fixed investment increased at a 7.4 percent annual rate in the second quarter. Corporate investments in equipment rose by 3.8 percent, as companies upped spending on information processing equipment by 12.3 percent, outweighing cuts in industrial and transportation equipment expenses. Investments in intellectual property products—software, research and development—advanced at an 8.2 percent annual rate, spurred by a double-digit increase in software spending, as well as research and development. Investments in commercial buildings was also strong during the quarter, increasing at a 13.2 percent annual rate, nearly matching the first quarter's 13.9 percent advance. Investments in residential real estate declined at a 1.0 percent annual rate, as home construction slowed despite continued demand. In upcoming quarters home construction will need to rise to alleviate the housing shortage.

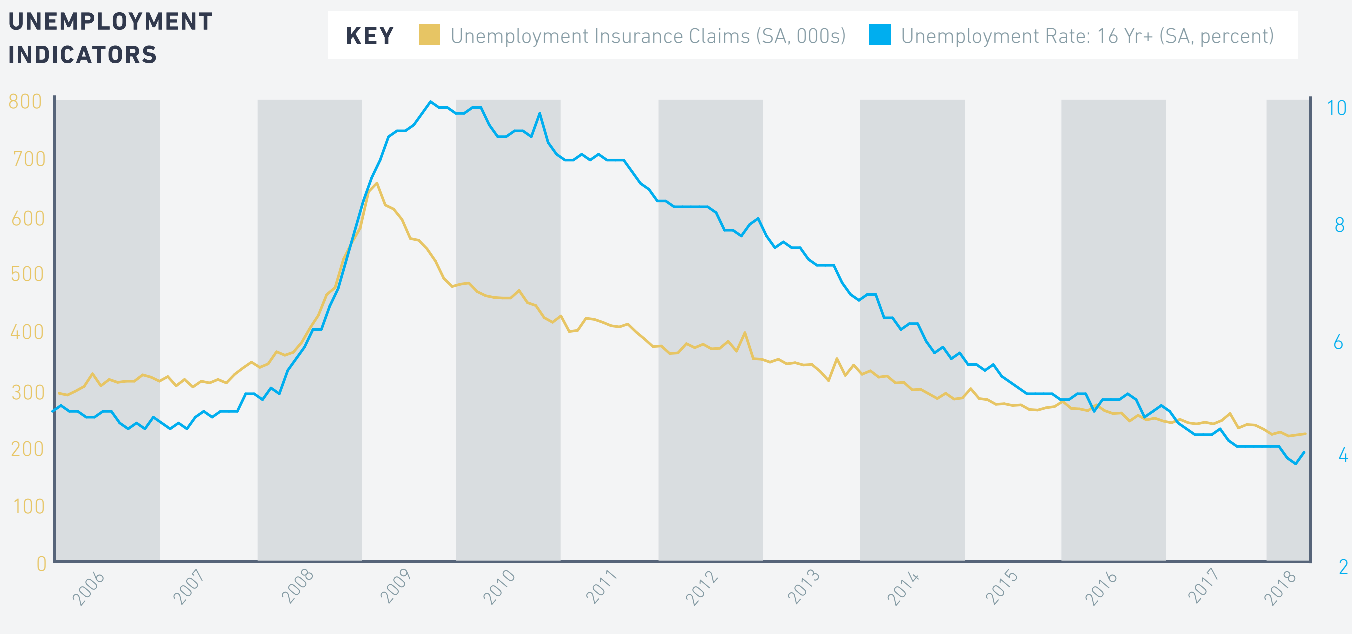
Government spending, the other major GDP component, increased in the second quarter, with a 2.1 percent annual gain. The federal government increased its spending on defense by 5.5 percent, while boosting nondefense programs by a more modest 0.6 percent. State and local governments' spending advanced at a 1.4 percent annual rate. However, it is worth noting that the government spending growth is leading to a larger budget deficit, which may be partly forcing up interest rates.

A strong, positive undercurrent of economic activity came from the employment front in the second quarter. Payroll employment recorded a net increase of 632,000 new jobs, based on data from the Bureau of Labor Statistics. The figure follows in the footsteps of two prior quarters that also saw employment gains exceeding the 600,000 mark.

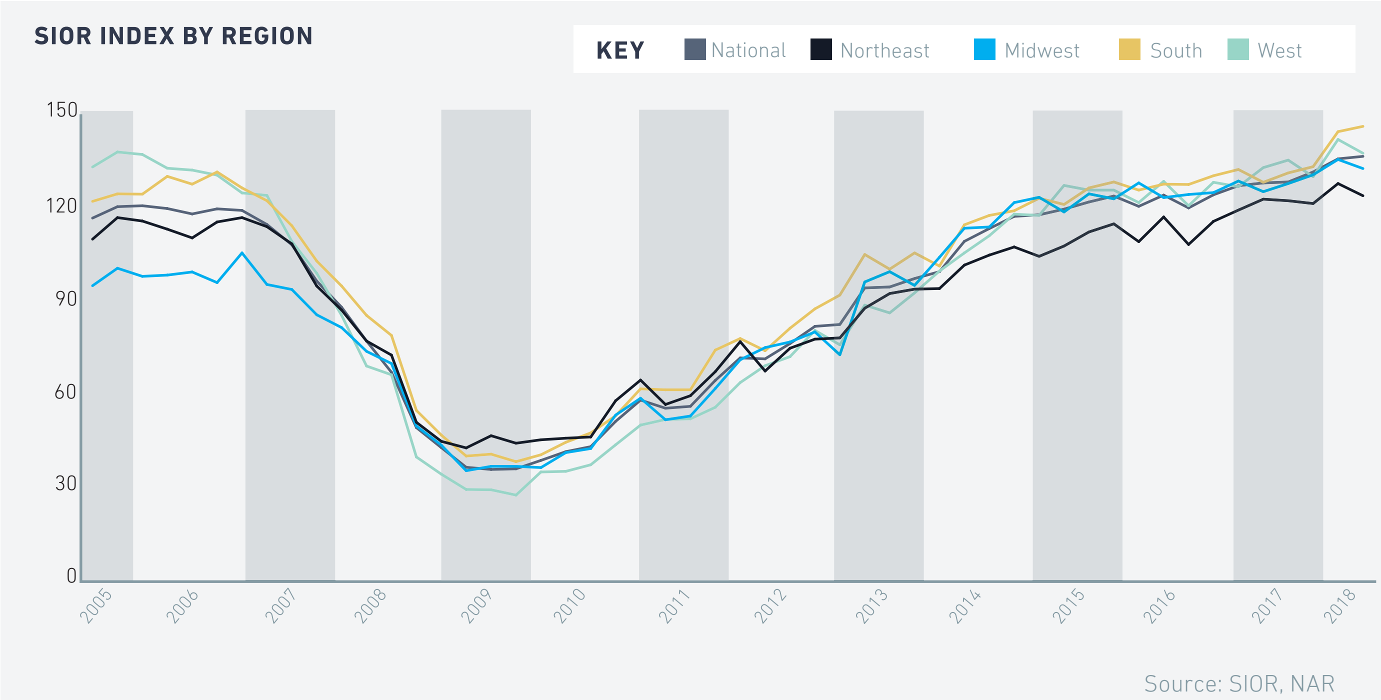
Private service-providing industries provided the bulk of new positions, with 459,000 net new jobs. Within the service industries, the quarter's strongest gains were in the professional and business services and health care, which added 152,000 and 102,000 new jobs. Mirroring consumers' higher spending on travel and recreation, leisure and hospitality contributed a notable 67,000 new positions to payrolls. Transportation and warehousing benefitted from the strong export activity, adding 35,400 new jobs. Financial services added 28,000 new positions. The employment gains in warehousing and office-using sectors bode well for office space, and even more so for industrial properties.

The manufacturing sector also experienced a solid quarter, with the addition of 83,000 new positions to payrolls. While the construction industry has been working through a

UNEMPLOYMENT INDICATORS



Sources: Dept. of Labor, Bureau of Labor Statistics



structural worker shortage, it added 58,000 new positions.

The quarterly unemployment rate declined from 4.1 percent in the first quarter to 3.9 percent in the second. However, on a monthly basis, the unemployment rate ticked up from a cyclical low of 3.8 percent in May to 4.0 percent in June, as more people reentered the labor force, based on data from the BLS. The number of workers employed on a part-time basis for economic reasons declined both from the first quarter, as well as on a yearly basis, by 3.2 percent and 7.3 percent, respectively. The labor force participation rate moved mostly sideways, at 62.8 percent, even with a year ago.

Aided by economic gains, consumer confidence remained elevated, with the Conference Board's Consumer Confidence index advancing by 7.5 percent year-over-year, to 126.9. Separately, the Consumer sentiment index compiled by the University of Michigan also posted an increase in the second quarter of the year to 98.3, compared with the 96.4 value from the same quarter of 2017.

The second half of the year GDP is projected to continue on a positive trend, leading to an economic gain for 2018 of 3.0 percent, based on the latest economic forecast from the National Association of REALTORS®.

SIOR Index Results

Based on the SIOR Commercial Real Estate Index, commercial markets continued displaying solid underlying fundamentals. The SIOR CRE Index, representing second quarter 2018 data, increased 0.8 points from the first quarter of 2018. Compared with the prior year, the index rose by 6.7 percent. The national index, based on 10 variables pertinent to the performance of U.S. industrial and office markets, closed at 135.5. An index value of 100 shows a balanced market, meaning that the current value of the national index is pointing to growing conditions, having surpassed its historical average. The figure represents the highest value since the index's inception in 2005, and the seventeenth consecutive quarter with a value above the 100-point threshold since the Great Recession.

Conditions in office and industrial markets improved at a solid pace. The office index advanced from a value of 113.8 in the first quarter to 118.9 in the second quarter. On a yearly basis, the office index recorded a 5.9 percent gain. The industrial index rose to 144.7 in the second quarter of this year, a 7.1 percent gain year-over-year.

SIOR members reported gains in fundamentals.

- Leasing activity exceeded historical levels for 62 percent of SIORs who responded to a market survey.

- Rents remained positive—85 percent ascertained that rents were above historical trends. Meanwhile, 16 percent indicated that rents were in line with long-term averages, and only one percent of SIOR members considered that asking rents were below those of one year ago.

- Vacancies continued declining, with 74 percent of respondents reporting lower availability rates.

- Subleasing availability also declined, with only four percent of SIOR respondents feeling that there was ample sublease space in their markets; 67 percent considered subleasing to have a small influence on the market.

- New construction of office and industrial spaces moderated, but remained positive, with 43 percent of SIOR members reporting new construction during the quarter, and 20 percent indicating new building development close to historical averages.

- Development conditions continued favoring sellers during the period, with 65 percent of SIORs rating it a seller's market. Investment prices were above costs for 34 percent of respondents.

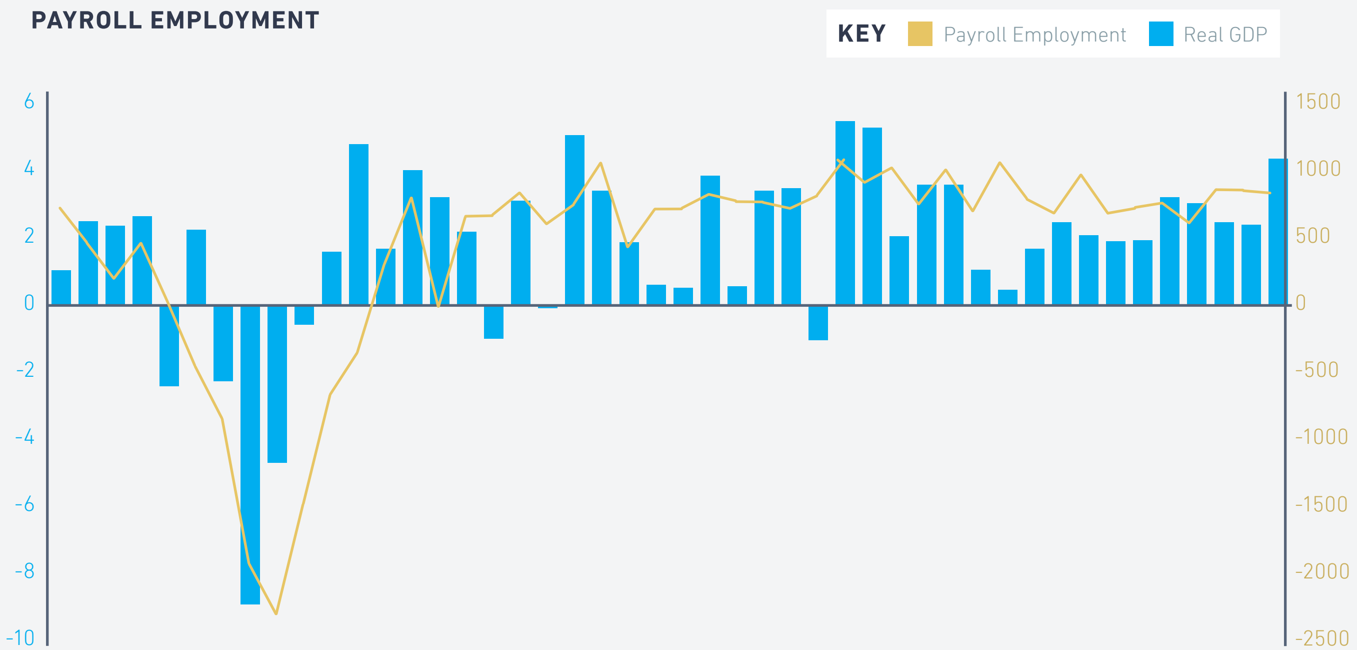
Local economies provided positive contributions to local real estate markets, with 72 percent of SIOR respondents indicating that their local economies were strong and improving. Only six percent of SIOR members felt that their local economy was slowing or contracting. The national economy also delivered tailwinds local markets, with 77 percent of SIOR responses indicating a positive impact upon their markets. Only two percent of SIOR respondents experienced a negative impact upon their markets from national economic conditions (the remainder was neutral).

Regionally, the survey respondents expressed improving conditions during the period. The South posted the highest index value, at 145.1, with a 14.1 percent yearly gain. The West recorded the second highest regional index value, at 136.5, a 3.5 percent advance. The Midwest—with an index value of 131.6—notched a 6.0 percent gain from a year ago. The Northeast rose more modestly, by 0.9 percent from the prior year, to a value of 122.9 during the quarter.

The outlook for 2018 remained positive, as the majority of SIOR members expect conditions to improve—67 percent of respondents indicated growth in the "1-15 percent" range, while 29 percent felt the markets would maintain current levels. Only four percent of SIOR members expected conditions to decline. ▽

For more information on the SIOR Commercial Real Estate Index methodology, visit www.sior.com/resources/commercial-real-estate-index.

PAYROLL EMPLOYMENT



Source: BEA, BLS