SIOR COMMERCIAL REAL ESTATE INDEX CLOSES 2017 AT RECORD LEVEL

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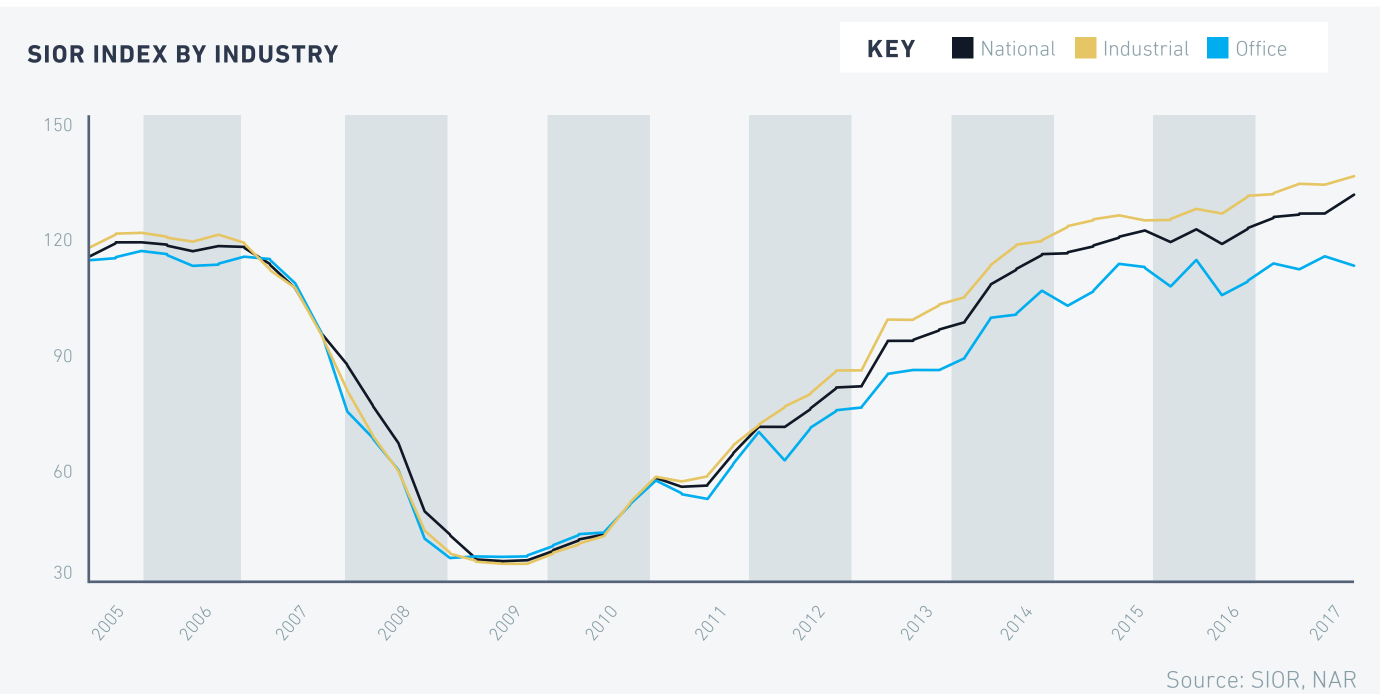
NAR Economic Overview

The economy closed the chapter on 2017 with a positive note, after a year in which capital markets probed new records and tax reform legislative efforts culminated in the Tax Cuts and Jobs Act. Real gross domestic product rose at an annual rate of 2.3 percent for the year, based on the estimate from the Bureau of Economic Analysis. The 2017 fourth quarter GDP figure posted a 2.6 percent gain, marking the strongest last quarter performance in four years.

The economic gain of the fourth quarter of last year came from solid consumer spending, business investments, exports and residential investment. Consumer spending—the main component of GDP—increased at a 3.8 percent rate, the highest quarterly advance of 2017.



Source: SIOR, NAR

The traditional holiday shopping season was clearly reflected in the quarter's figures. Consumers increased their spending on durable goods at a double-digit pace. Purchases of cars and light trucks were up 16.7 percent, while spending on furniture and appliances rose 15.6 percent. Consumer spending on recreational goods and vehicles rose by 13.0 percent. Even the nondurable goods component posted strong numbers, with spending on clothing and shoes rising 13.2 percent. Spending in grocery stores picked up in the fourth quarter, rising at a 7.6 percent annual rate. Spending on services increased a more modest 1.8 percent on an annual basis.

Business investments continued on an upward path in the final stretch of 2017, as companies anticipated a positive resolution to the tax reform initiatives. Nonresidential fixed investment increased at a 6.8 percent annual rate in the fourth quarter. Corporate investments in equipment advanced by double digits—11.4 percent—boosted by spending on information processing and transportation equipment, which rose 9.1 percent and 16.1 percent, respectively. Investment in industrial equipment increased at a 2.6 percent annual rate.

Spending on intellectual property products—software, research and development—advanced at a 4.5 percent annual rate in the fourth quarter of 2017, boosted by a 28.9 percent increase in software investments. Commercial real estate spending rose at a 1.4 percent annual rate, while investments in residential real estate marked the end of the year with an 11.7 percent gain.

International trade remained brisk in the latter part of last year, against an uncertain outcome for the renegotiations of the North American Free Trade Agreement. Exports rose at the strongest quarterly pace in three years, posting a 6.9 percent annual rate gain in the fourth quarter of 2017, with manufacturers shipping more goods abroad. Imports—a negative factor in GDP calculations—jumped at a 13.9 percent annual rate, also the strongest quarterly gain in three years.

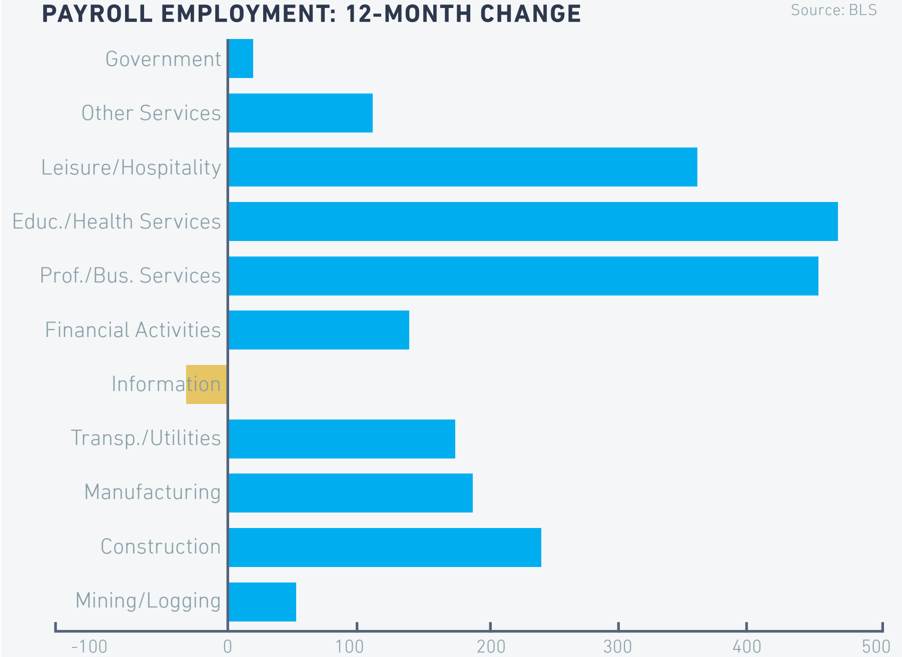
As Congress and the administration engaged in sparring over the government budget, spending on government programs picked up, with a 2.9 percent annual gain in the last quarter. Boosted by the President's commitment to increase military spending, federal defense investments rose at a 6.0 percent annual rate. Nondefense spending was virtually flat, at 0.1 percent. State and local governments' spending increased by 2.6 percent.

The brighter economic picture was also reflected in the employment landscape of the fourth quarter. Payroll employment in the last quarter recorded solid gains, with a net increase of 647,000 new jobs, based on data from the Bureau of Labor Statistics. The figure boosted the yearly total to 2.2 million net new jobs, which brought the total number of jobs created during the 2010-17 period to 17.8 million.

Private service-providing industries provided the bulk of new positions, with 660,000 net new jobs. Government sector jobs declined to the tune of 13,000 positions. Within the service industries, the quarter's holiday season showed up in the leisure and hospitality sector, which had the highest number of new jobs—167,000. With 101,000 new positions, professional and business services accounted for the second highest number, followed by health care and social assistance, with 99,100 new jobs. Financial services added 24,000 new positions, bringing the sector's yearly contribution to 140,000 jobs. The employment gains maintained an upward trend in demand for office space.

The manufacturing sector added 71,000 new positions to payrolls, the strongest quarterly bump since 2012. The wholesale trade sector added 27,600

PAYROLL EMPLOYMENT: 12-MONTH CHANGE



new jobs during the quarter, while the transportation and warehousing sector contributed 37,400 new positions to payrolls. The gains in these sectors mirrored the strong demand trends for industrial properties of the past few years.

The unemployment rate declined from 4.7 percent in the first quarter to 4.1 percent by the end of 2017, based on data from the BLS. The number of workers employed on a part-time basis for economic reasons declined from 5.7 million in the first quarter to 4.9 million in the fourth quarter, a similar figure as in the first quarter of 2008. The labor force participation rate was flat during the fourth quarter of the year, at 62.7.

Consumer confidence found new energy in the last three months of 2017, with the Conference Board's Consumer Confidence index rising by 16.9 percent year-over-year, to 126.0, the highest quarterly value since the fourth quarter of 2000. Separately, the Consumer sentiment index compiled by the University of Michigan also posted an increase in the fourth quarter of the year to 98.4, compared with the 93.1 value from the fourth quarter of 2016. The index continued rising in the first months of 2018, reaching 99.9 in February of this year.

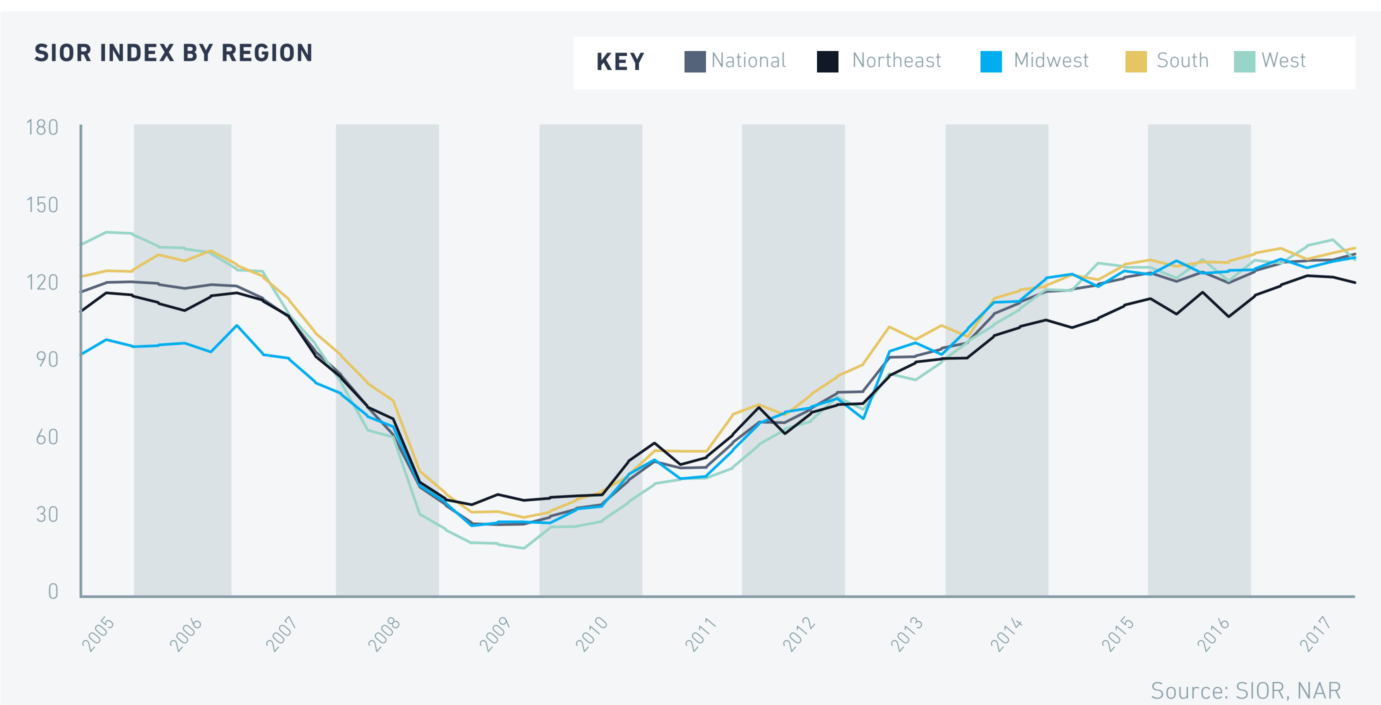
SIOR Index Results

Based on the SIOR *Commercial Real Estate Index*, commercial fundamentals continued improving, in keeping with the broad economic activity. The SIOR *CRE Index*, representing fourth quarter 2017 data, increased 3.2 points from the third quarter of 2017. Compared with the prior year, the index rose by 5.9 percent. The national index, based on 10 variables pertinent to the performance of U.S. industrial and office markets, closed at 130.5. 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 fifteenth quarter with a value above the 100-point threshold since the Great Recession.

Conditions in office and industrial markets diverged, with the industrial index advancing and the office index posting a slide. The office index declined from a value of 116.0 in the third quarter to 113.8 in the fourth quarter. However, on a yearly basis, the office index recorded a 4.1 percent advance. The industrial index rose to 136.3 in the last quarter, a 3.5 percent gain year-over-year.

SIOR members reported moderate gains in fundamentals.

• Leasing activity exceeded historical levels for 57 percent of SIORs who responded to a market survey.



• Rents showed signs of stabilization—80 percent ascertained that rents were above historical trends. Meanwhile, 16 percent indicated that rents were in line with long-term averages, and only 4 percent of SIOR members considered that asking rents were below those of one year ago.

• Vacancies continued declining, with 73 percent of respondents reporting lower availability rates.

• Subleasing availability also declined, with only 7 percent of SIOR respondents feeling that there was ample sublease space in their markets; 59 percent considered subleasing to have a small influence on the market.

• New construction of office and industrial spaces remained positive, with 41 percent of SIOR members reporting new construction during the quarter, and 17 percent indicating new building development close to historical averages.

• Development conditions continued shifting in favor of sellers during the period, with 57 percent of SIORs rating it a seller's market. Investment prices moderated, with 47 percent of respondents indicating prices were above construction costs.

Local economies advanced in tandem with the national conditions during the quarter, with 68 percent of SIOR respondents indicating that their local economies were strong and improving. Only 5 percent of SIOR members felt that their local economy was slowing or contracting. The national economy brightened local markets, with 73 percent of SIOR responses indicating a positive impact upon their markets. In contrast, only 4 percent of SIOR respondents experienced a negative impact upon their markets from national economic conditions (the remainder was neutral).

Regionally, the survey respondents pointed to mixed conditions during the period. The South posted the highest index value, at 132.2, with a 2.2 percent yearly gain. The Midwest recorded the second highest regional index value—129.6. The West—with an index value of 129.0—notched a slide from the third quarter, but remained 1.4 percent higher from a year ago. The Northeast rose 5.0 percent from the prior year, with a value of 120.4 in the quarter.

The outlook for 2018 remained positive, as the majority of SIOR members expect conditions to improve—71 percent of respondents indicated growth in the 1-15 percent range, while 25 percent felt the markets would maintain current levels. Only 5 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.