SLOWDOWN IN BUSINESS INVESTMENTS MODERATES SIOR MARKET ADVANCE IN Q3 2018

By Lawrence Yun, Senior Vice President & Chief Economist and George Ratiu, Director, Quantitative & Commercial Research National Association of REALTORS®

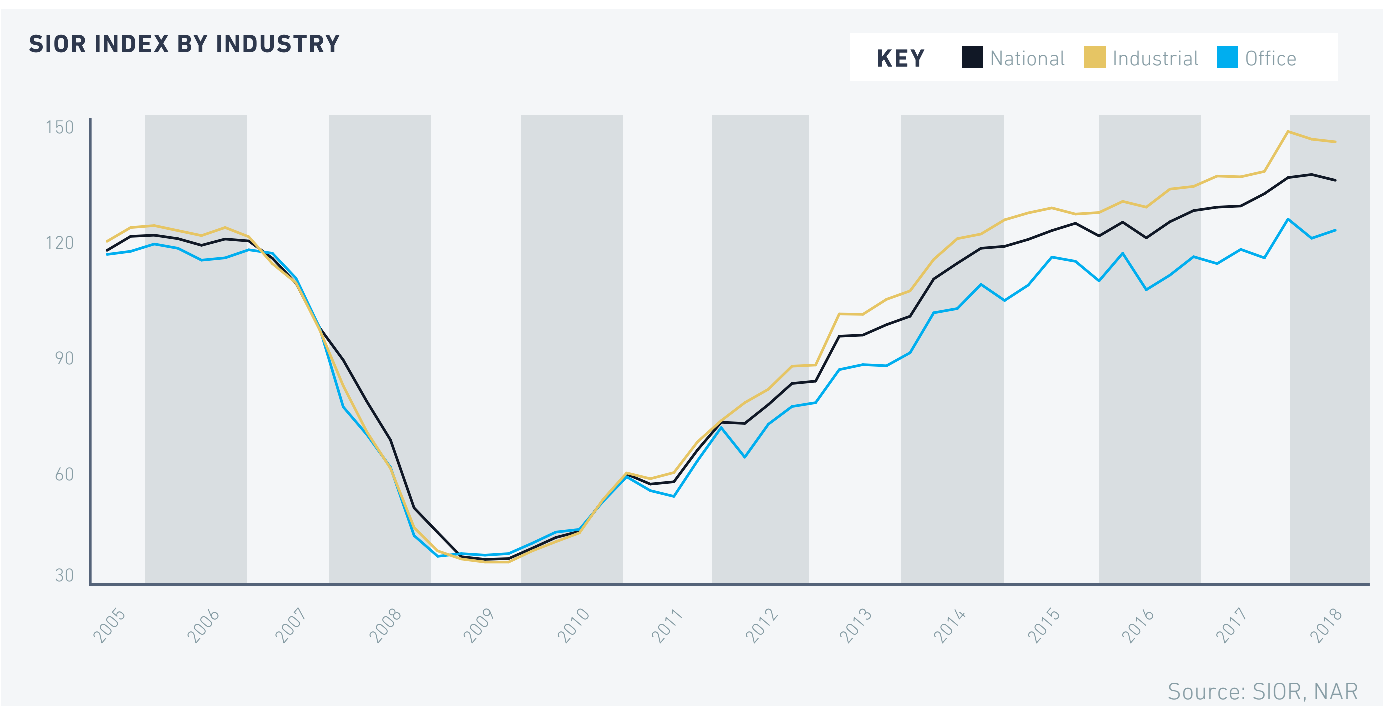
NAR Economic Overview

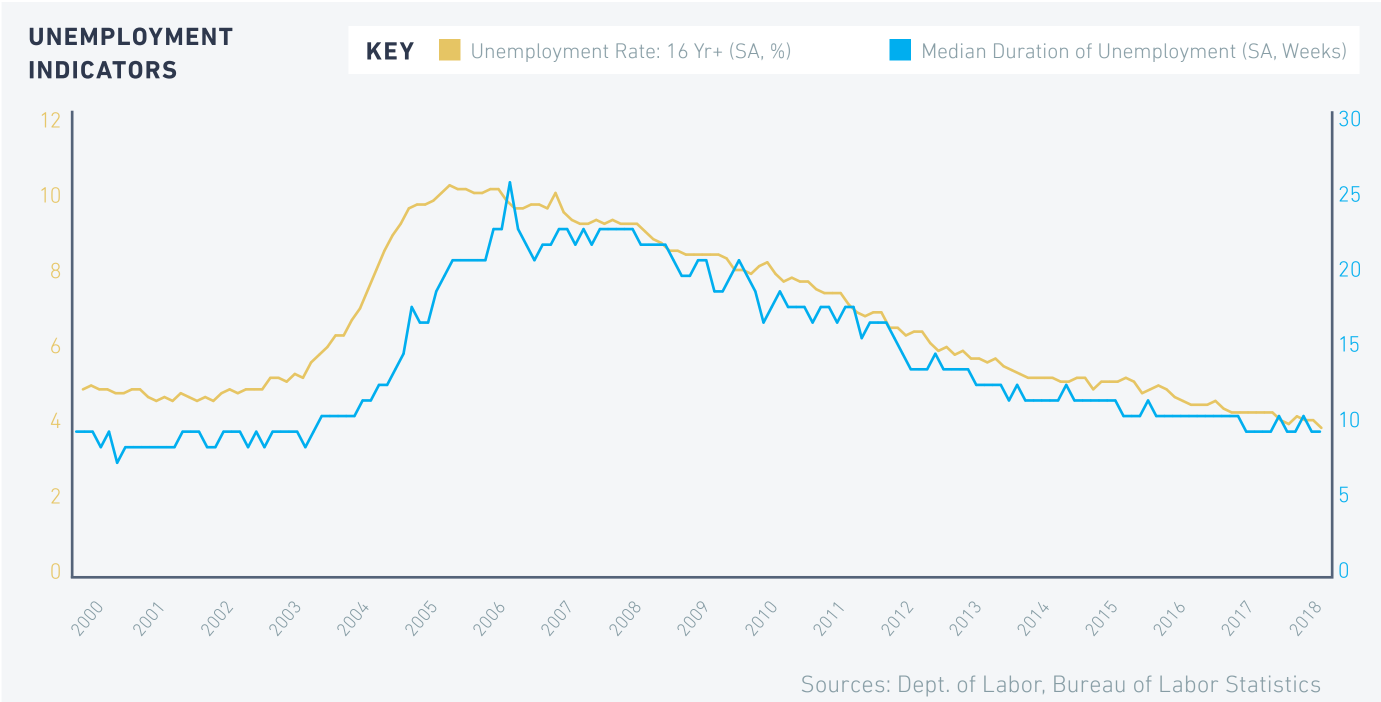
The economy maintained its expansionary momentum during the third quarter of 2018. Real gross domestic product rose at an annual rate of 3.5 percent, based on the first estimate from the Bureau of Economic Analysis. The advance in economic output was underpinned by continued increases in consumer spending and government expenditures.

Consumer spending - the main component of GDP - posted the strongest gain since the fourth quarter of 2014, with a 4.0 percent advance, as confidence in the employment outlook remained on an upward path. Consumers increased their spending for both goods and services. Spending on durable goods was dominated by a 12.4 percent increase in purchases of recreational vehicles and goods, not surprising given that the quarter comprises the traditional summer vacation season. Consumers enjoyed traveling as part of their vacations, with spending at hotels and restaurants up by 7.0 percent.

Homeowners faced with tight housing supply, are extending their tenure and taking the remodeling path, boosting spending on furniture and household appliances (up at a 7.4 percent annual rate). Sales of cars and light trucks also remained on an upward trend, with a 3.8 percent increase during the quarter. The back-to-school season also offered clothing retailers a boost, with sales of clothing and shoes advancing by 11.7 percent.

Business spending lost the momentum it had built during the first half of the year. Nonresidential fixed investment increased at a soft 0.8 percent annual rate in the third quarter, a slower pace compared with the first and second quarters' 11.5 percent and 8.7 percent, respectively. Corporate investments in real estate declined - both commercial (down 7.9 percent) and residential (down





4.0 percent) - leading to the slower pace. Investment in equipment rose by 0.4 percent, with cuts in transportation equipment offsetting higher spending on industrial and information processing equipment. Investments in intellectual property products - software, research and development - advanced at a 7.9 percent annual rate, spurred by a double-digit increase in software spending.

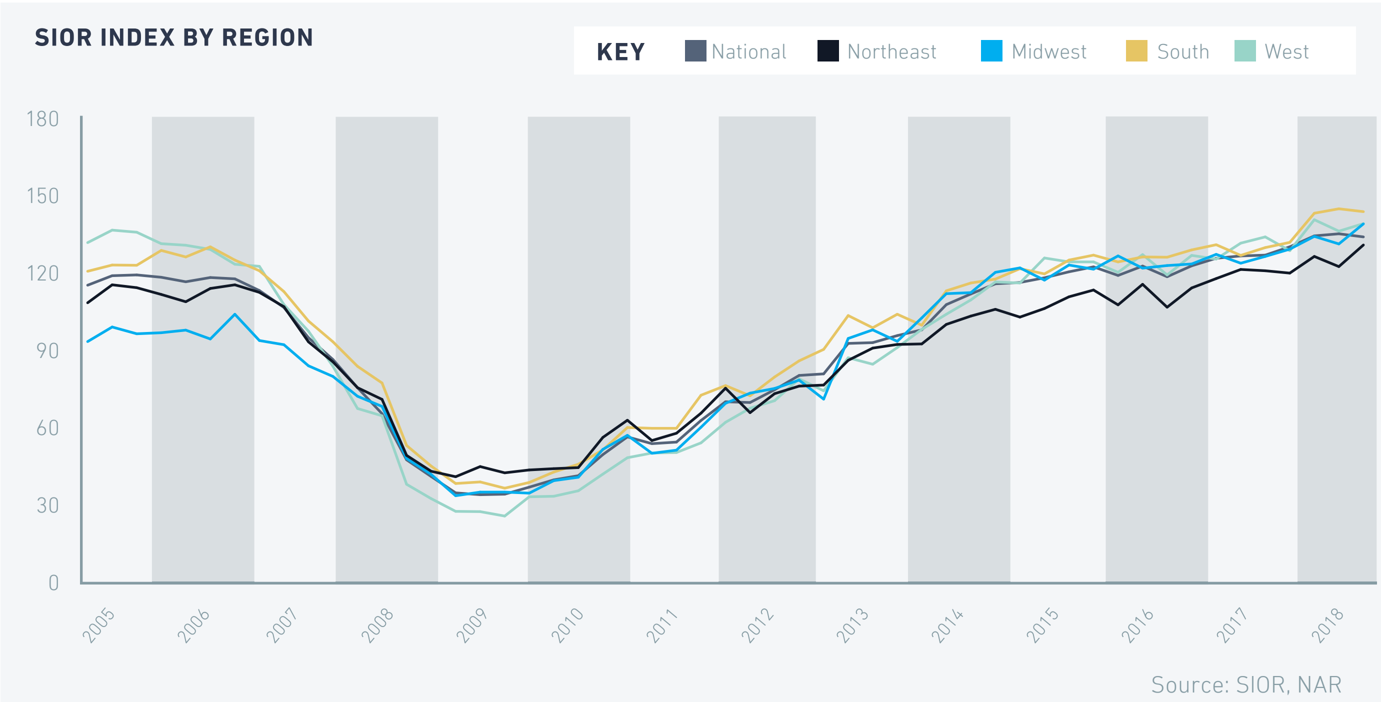
The tariffs that the White House imposed this year on a wide swath of import products led to counter-tariffs being levied by trading partners. The higher prices of U.S. products were being felt in trading activity during the third quarter of the year. Exports declined at a 3.5 percent annual rate, the first quarterly decline since the last quarter of 2016, with manufactured goods experiencing softer demand abroad (down 7.0 percent). Imports - a negative factor in GDP calculations - rose at 9.1 percent annual rate, riding a stronger consumer spending wave.

Government spending, the other major GDP component, maintained an upward momentum, with a 3.3 percent annual gain. Federal government spending was driven by a 4.7 percent increase in defense and a 1.6 percent rise in nondefense expenditures. State and local governments also boosted their spending, with a 3.2 percent annual rate advance.

Positive employment trends remained a solid foundation for the economic expansion in the third quarter. Payroll employment posted a net increase of 569,000 new jobs, based on data from the Bureau of Labor Statistics.

Private service-providing industries accounted for the majority of new positions, with 388,000 net new jobs. Within the service industries, the quarter's strongest gains were in the professional and business services and health care, which added 158,000 and 105,200 new jobs. Transportation and warehousing benefitted from the trade activity, adding 53,300 new jobs. Financial services added 28,000 new positions. Demand for office and industrial properties should remain solid for the balance of 2018, as employment gains in warehousing and office-using sectors add wind in their sails. The manufacturing sector continued boosting its payrolls, with the addition of 45,000 new positions, while the construction industry added 68,000 new positions. As the retail sector continues dealing with store closures, the industry experienced retrenching in employment, as employers cut 6,500 jobs during the third quarter, following 15,100 jobs eliminated in the prior quarter.

The quarterly unemployment rate declined further during the third quarter, moving from 3.9 percent in July to 3.7 percent in September. 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 7.4 percent and 7.2 percent, respectively. The labor force participation rate moved sideways in the third quarter, at 62.8 percent.

Fueled by economic gains, consumer confidence advanced, with the Conference Board's Consumer Confidence index increasing 11.1 percent year-over-year, to 133.7, the highest quarterly value since the third quarter of 2000. Separately, the Consumer sentiment index compiled by the University of Michigan also posted an increase in the third quarter of the year to 98.1, compared with the 95.1 value from the same quarter of 2017.

The second half of the year GDP is expected to continue on an upward trend, leading to a solid economic gain for 2018. Based on the latest economic forecast from the National Association of REALTORS®, GDP is projected to advance at a 3.1 percent annual rate.

SIOR Index Results

Based on the SIOR Commercial Real Estate Index, commercial markets experienced slight moderation in underlying fundamentals. The SIOR CRE Index, representing third quarter 2018 data, decreased 1.2 points from the second quarter of 2018. However, compared with the prior year, the index rose by 7.0 percent, or 5.5 percent. The national index, based on 10 variables pertinent to the performance of U.S. industrial and office markets, closed at 134.3. 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 seventeenth consecutive quarter with a value above the 100-point threshold since the Great Recession.

Conditions in office and industrial markets continued improving. The office index advanced from a value of 118.9 in the second quarter to 120.6 in the third quarter. On a yearly basis, the office index recorded a 4.0 percent gain. The industrial index rose to 143.9 in the third quarter of this year, a 6.7 percent gain year-over-year.

SIOR members reported gains in fundamentals.

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

• Rents remained positive - 82 percent ascertained that rents were above historical trends. Meanwhile, 16 percent indicated that rents were in line with long-term averages, and only two percent of SIOR members considered that asking rents were below those of one year ago.

• Vacancies continued declining, with 61 percent of respondents reporting lower availability rates.

• Subleasing availability also declined, with only five percent of SIOR respondents feeling that there was ample sublease space in their markets; 63 percent considered subleasing to have a small influence on the market.

• New construction of office and industrial spaces remained positive, with 57 percent of SIOR members reporting new construction during the quarter, and 15 percent indicating new building development close to historical averages.

• Development conditions continued favoring sellers during the period, with 68 percent of SIORs rating it a seller's market. Investment prices were above costs for 48 percent of respondents.

Local economies provided positive contributions to local real estate markets, with 75 percent of SIOR respondents indicating that their local economies were strong and improving. Only three percent of SIOR members felt that their local economy was slowing or contracting. The national economy offered a more nuanced impact on local markets, with 56 percent of SIOR responses indicating a positive impact upon their markets, compared with 77 percent in the second quarter. Nine 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 144.0, with a 10.6 percent yearly gain. The West recorded the second highest regional index value, at 139.4, a 3.8 percent advance. The Midwest - with an index value of 139.3 - closed in on the West, with a 9.9 percent gain from a year ago. The Northeast rose solidly, by 8.2 percent from the prior year, to a value of 131.2 during the quarter.

The outlook for 2018 remained positive, but moderated from the first part of the year. SIOR members continued to expect conditions to improve - 56 percent of respondents indicated growth in the "1-15 percent" range, while 35 percent felt the markets would maintain current levels. A growing share of SIOR members - 9 percent in the third quarter vs. four percent in the second - expected conditions to decline.

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

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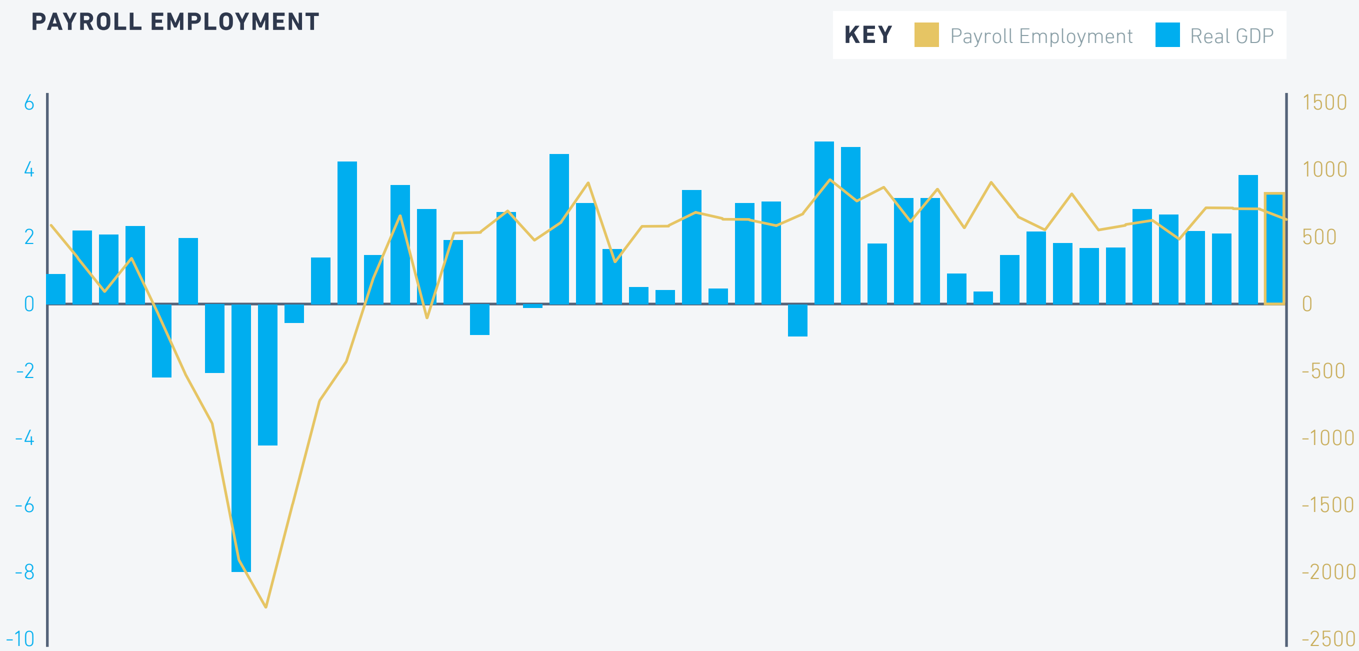

Source: BEA, BLS