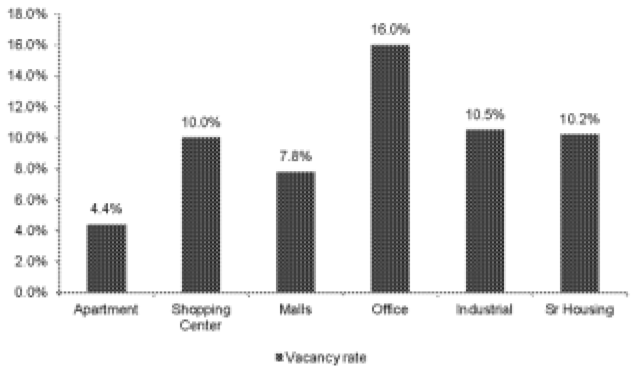
CRE fundamental slowing, but still growing

Fundamentals in 3Q demonstrated relatively steady vacancy rates with some moderation in rent growth, particularly in the Apartment space, which should come as no surprise. More volatile and generally slowing job growth trends have combined with still elevated supply to drive rent growth at the national level lower by 70bps versus 2Q as landlords collectively pushed occupancy over rate with vacancy falling 10bps q/q. Rents in the Office markets also moderated from last Q, but remained healthy at +2.8% nationally, according to data from Reis, while vacancy held steady. In NYC, office net absorption showed a nice pick up from recent quarters according to JLL data, although market rents decelerated in 4 of the 5 major CBD office markets in 3Q, with DC the lone exception. Shopping center trends also demonstrated some moderation with rent growth off by 10bps from 2Q's level and vacancy up 10bps, likely due to Sports Authority related vacancy, though vacancy has been hovering near 10% since early 2015. Malls have found some equilibrium as well with the national vacancy rate at 7.8% in 3 of the past 4 quarters, while rent growth has been in the +2.0-2.2% range for the past year and a half. Healthcare, and more specifically, Sr. Housing trends were positive in 3Q, with rent growth improving by 60bps to +3.8%, while vacancy fell by 10bps q/q. Notably, construction as a percent of inventory fell, albeit modestly in the Q.

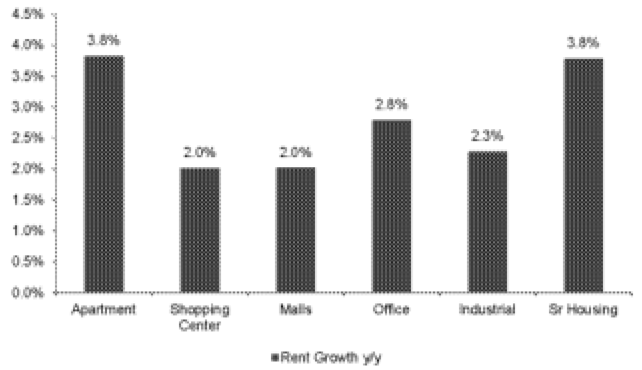
Figure 9: Vacancy rates



3Q16	Vacancy rate	Q/Q Trend
Apartment	4.4%	-10bp
Shopping Center	10.0%	10bp
Malls	7.8%	-10bp
Office	16.0%	0bp
Industrial	10.5%	0bp
Sr Housing	10.2%	-10bp

Source: Deutsche Bank, REIS, NIC

Figure 10: Rent growth



3Q16	Rent Growth y/y	Q/Q Trend
Apartment	3.8%	-0.7%
Shopping Center	2.0%	-0.1%
Malls	2.0%	0.0%
Office	2.8%	-0.3%
Industrial	2.3%	-0.2%
Sr Housing	3.8%	0.6%

Source: Deutsche Bank, Reis, NIC

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