OFFICE AND INDUSTRIAL MARKETS REMAIN STEADY IN THE THIRD QUARTER

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NAR ECONOMIC OVERVIEW

With the government shutdown and the budget debate mainly in our rearview mirror, it is easy to overlook the performance of the economy in the third quarter. Following on a 2.5 percent annual growth rate in the second quarter, gross domestic product advanced 2.9 percent in the third quarter. Inventory adjustment was the key reason for the quickening of economic pace. A reversal of inventory is likely in the fourth quarter, which will hold back GDP growth to around 2.0 percent.

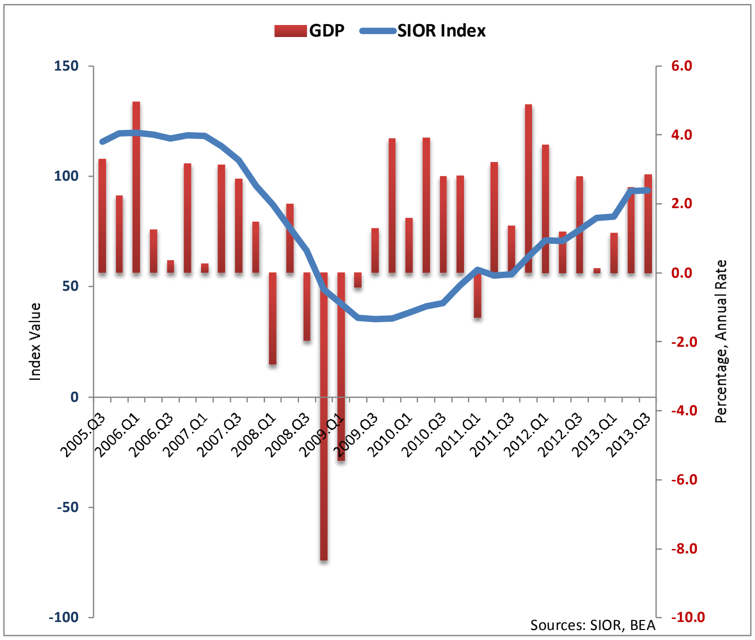
Nonetheless, the upswing in GDP resulted from positive contributions from all main components—consumers, businesses, government and trade. Consumer spending gained 1.5 percent in the third quarter, driven by a 4.3 percent rise in consumption of goods. With the summer season in full swing and piggybacking off a rising tide in residential sales, consumers boosted their spending on durable goods, including cars (up 6.6 percent), furniture and home furnishings (up 12.0 percent), and recreational vehicles and goods (up 11.5 percent). Meanwhile, spending on services rose 0.1 percent.

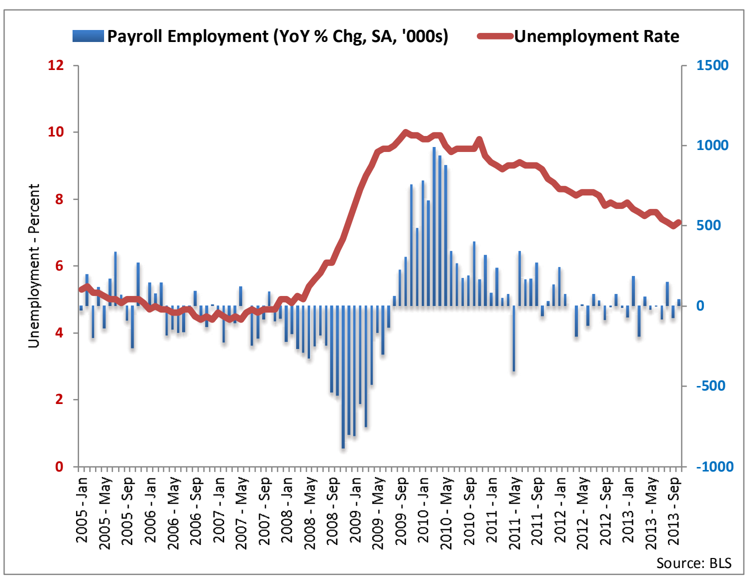
Anticipating the budget wrangling in Washington and the looming possibility of a government shutdown, businesses took a cautious approach to spending in the third quarter. Nonresidential fixed investments rose at an annual rate of 1.6 percent. Underscoring the rebound in commercial real estate, business spending on buildings jumped 12.3 percent in the third quarter, on the heels of a 17.6 percent gain during the second quarter. The noticeable advances point to a strengthening pipeline of commercial developments, as market fundamentals continue to improve.

Business spending on intellectual property products—software, R&D, entertainment, literature—increased 2.2 percent in the third quarter, mostly boosted by investments in software products and R&D. Offsetting the positive figures, businesses cut back on their equipment spending. Business spending on information processing declined 3.9 percent, while spending on transportation equipment decreased 4.1 percent, respectively. Spending on industrial equipment rose at an annual rate of 17.5 percent during the third quarter.

While global economies witnessed slower rates of growth, the U.S. economy posted a positive trade balance in the third quarter. Exports increased 4.6 percent, while imports rose 1.9 percent, leading to a trade surplus of $44.8 billion for the period. The increase in international trade provides for continued strengthening of the industrial sector and improved fundamentals.

Following several years of cutbacks to account for lost tax revenues, government spending posted a modest increase, mostly due to spending at the state and local levels. Federal government spending continued declining, registering a 1.7 percent slide in the third quarter, as part of the





□sequestration.□ □owever, state and local governments—benefiting from smaller but fitter balance sheets—upped their spending by 1.5 percent.

Third quarter economic performance looked moderately positive even from the prism of other major indicators. Existing home sales rose 13.0 percent during the period, accompanied by a 12.8 percent rise in median prices. The Institute for Supply Management indexes for manufacturing and services advanced at a 2.0 percent rate. Consumer confidence climbed 24.6 percent in the third quarter, as employment remained positive.

Payroll employment grew by a net 490,000 jobs during the 3-month period, as the service firms added 422,000 new jobs. The professional and business services industry was one of the main drivers of growth, with 109,000 jobs, followed by retail trade with 101,600 new jobs. Education and health accounted for 79,000 new jobs, with leisure and hospitality adding another 59,000. The □ctober data showed employment growth maintaining momentum, as employers added 204,000 new jobs. The unemployment rate declined from 7.6 percent in the second quarter to 7.3 percent in the third quarter.

The GDP outlook for all of 2013 projects an annual growth rate of 1.7 percent. Payroll employment is expected to rise 1.5 percent, leading to a net 2.0□2.2 million new jobs for the year.

SIOR INDEX RESULTS

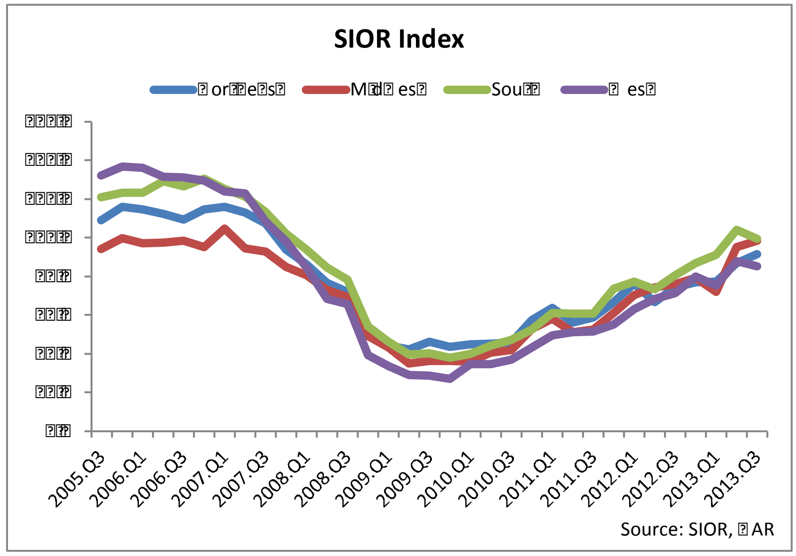
As the economy continued on a moderate path, the office and industrial sectors inched up 0.3 percent in the third quarter. The SIOR Commercial Real Estate Index, representing third quarter 2013 data, increased 0.4 points. The national index, based on 10 variables pertinent to the performance of U.S. industrial and office markets, closed at 93.7, the highest value since the fourth quarter of 2007. □iding the wave of new jobs in business and professional services, the office sector gained 1.3 points to an index value of 86.0. The industrial sector slid 0.1 points, remaining virtually unchanged from the second quarter to an index value of 99.1. Both sectors continued their advance towards a balanced market, signaled by an index value of 100.

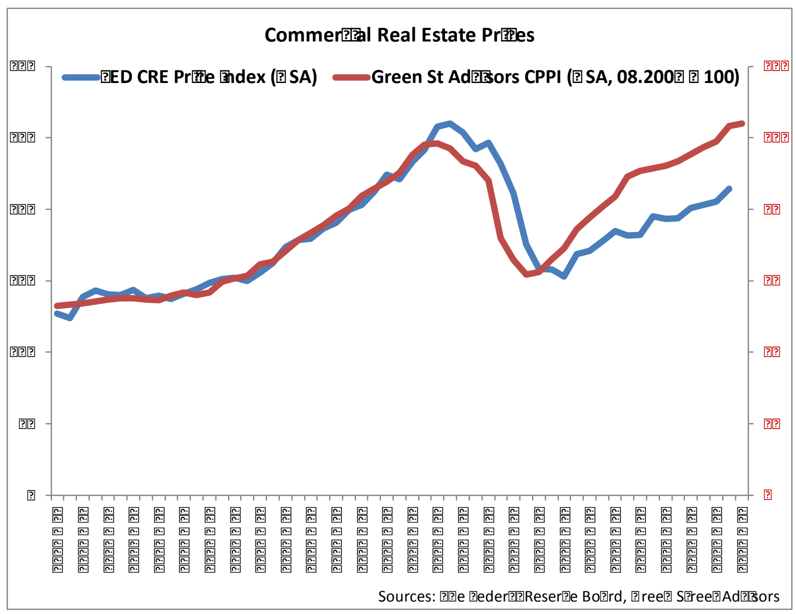
With favorable macroeconomic currents, commercial fundamentals kept a positive pace. □easing and sales activity expanded during the third quarter. A majority of SI□□ members found leasing to have returned to long□term averages, with 91 percent reporting steady or rising rents. Meanwhile, 74 percent of respondents indicated lower vacancies for office and industrial properties. Concessions also declined, with less than 50 percent of SIORs finding moderate to deep discounts on rent. Subleasing availability also declined, with only 10 percent of SI□□s reporting ample sublease space.

Mirroring the growth in business spending on structures, construction of new spaces in SI□□ markets advanced, with 12 percent of respondents reporting rising new construction. Development conditions pointed to an improving landscape, as 50 percent of SI□□ members considered it a buyer□s market. Acquisition prices remain soft, however—they were lower than construction costs in 69 percent of the markets.

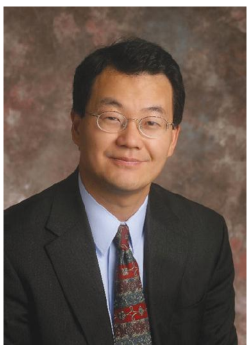
□ocal economic conditions varied across the country. Nationally, 32 percent of SI□□s reported negative impacts at the local level from national trends. The Midwest and Northeast regions notched gains in market fundamentals, rising 3.3 points and 4.7 points, respectively. The South declined 4.7 points and the West slid 2.5 points during the third quarter. However, the South remained the closest region to a balanced market, with an index value of 99.4 (values above 100 indicate improving fundamentals).

Looking ahead, SIOR members expect conditions to continue improving as we move into the last quarter of 2013. However, the expectations for the pace of growth were tempered—76 percent of respondents anticipate better markets in the last three months, compared with 80 percent in the prior quarter.





ABOUT THE AUTHORS



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