Construction First Glance 2015 Quarter 1

Pre-Release Analysis of First Quarter 2015 Reis Findings for Construction Activity

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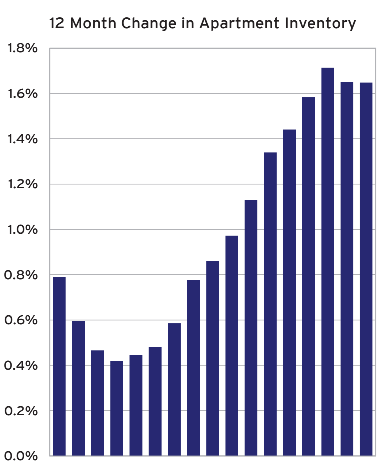
Stumbling Out Of the Blocks

Construction activity got off to a slow start during the first quarter. Although completions are often depressed during the first quarters of calendar years because of inclement winter weather across much of the country, it was nonetheless unexpected. Completions in the apartment sector was the biggest surprise – construction activity is projected to increase significantly in 2015, but that did not materialize during the first quarter. Retail construction also declined during the quarter, but unlike the apartment sector construction in retail is not expected to surge this year. Office completions declined since last quarter, although it remained in line with its historical average. Generally speaking, construction activity across property types remains on an upward trend, just not during the first quarter.

First Quarter 2015 Completions			
	Apartment (units)	Office (square feet)	Retail (square feet)
Q1 2015	29,260	4,547,000	1,962,000
Q4 2014	44,371	7,912,000	2,271,000
Q3 2014	51,584	6,168,000	2,648,000
Q2 2014	42,432	5,555,000	1,905,000
Apartment and office figures are based on 82 metros; retail on 80 metros			

Apartment Sector



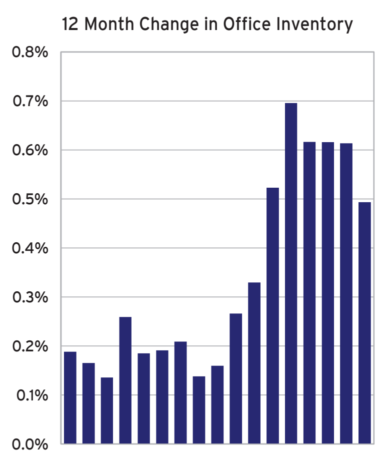
Apartment completions for the first quarter totaled just 29,260 units. This was a surprise because construction activity in 2015 in the apartment sector is projected to surge to levels unseen since the 1980s. For 2015, roughly 241,000 units are expected to be developed. Included in this total are thousands of units that were projected to come online during 2014 but were delayed until this year. Although it was anticipated that many of those units would have been completed during the first quarter, that did not occur. Consequently, the majority of the units in the pipeline will have to be completed during the balance of the year. Moreover, the number of new projects in the pipeline continues to increase, further swelling the completions forecast for this year. The national vacancy rate during the first quarter was unchanged at 4.2% up 10 basis points over the last 12-month period. This was primarily due to rising construction, not falling demand. Demand for apartments remains stout due to the large number of young renters in Generation Y. However, given the strong outlook for construction, we expect that the national vacancy rate will continue to increase this year as the market struggles to absorb construction levels unseen in three decades. While construction will not be uniform across markets, the majority of markets across the country will likely have to contend with rising vacancy rates because demand for apartments will likely not be able to digest all of the new units that should come online.

Top Apartment Metros by Completions				
Metro	Units	% of Inventory	Inv. growth (q/q)	Inv. growth (y/y)
Houston	3,161	0.60%	0.61%	2.59%
Dallas	1,660	0.37%	0.37%	2.73%
Charlotte	1,632	1.58%	1.58%	5.25%
Austin	1,532	0.85%	0.86%	5.10%
Raleigh-Durham	1,315	1.13%	1.14%	6.22%

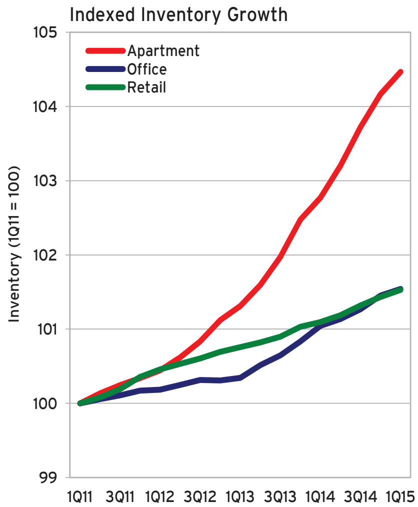
Office Sector

Top Office Metros by Completions				
Metro	Sft	% of Inventory	Inv. growth (q/q)	Inv. growth (y/y)
Houston	1,313,000	0.76%	0.77%	2.79%
Chicago	535,000	0.22%	0.22%	0.10%
New York	470,000	0.13%	-0.05%	-0.08%
San Jose	456,000	0.80%	0.81%	2.66%
Seattle	321,000	0.39%	0.37%	0.89%

Completions in the office sector totaled roughly 4.5 million square feet during the first quarter. Construction activity will trend upward, though at a far more measured pace that in the apartment sector. Construction activity in the office sector is far more selective, primarily occurring in two major ways. First, completions are occurring in growing markets such as Houston where demand for office space is growing along with the metro-level economy. Second, some opportunistic investors and developers are targeting submarkets across the country with a high level of obsolete space that is unpalatable to many existing and potential tenants. In these submarkets a game of musical chairs is going to occur as landlords attempt to entice tenants out of their current buildings. This is because there is not enough growth in demand for office space in these submarkets to fill these newly completed buildings.



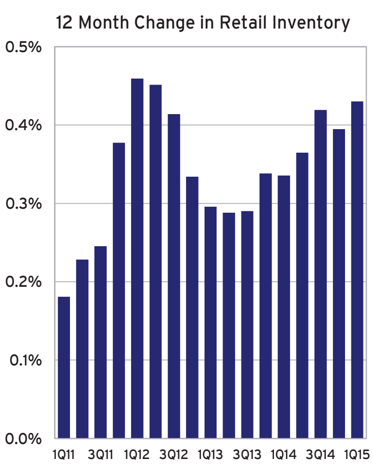
For 2015, roughly 40 million square feet are projected to come online. The ongoing recovery in the economy and labor markets is helping to boost construction activity. Not only are more jobs being created, but increasingly more of these jobs are being created in office-using industries. This is a break from the first few years of the labor market recovery when relatively few office-using jobs were being created. However, construction remains at relatively low levels. This should enable the national vacancy rate to fall at a bit of a faster pace than we have seen in recent years despite the uptick in construction as increasing demand outpaces supply growth.



Retail Sector

Top Retail Metros by Completions				
Metro	Sft	% of Inventory	Inv. growth (q/q)	Inv. growth (y/y)
Dallas	463,000	0.80%	0.80%	0.90%
Miami	313,000	1.23%	1.24%	2.48%
Houston	240,000	0.28%	0.28%	0.83%
Philadelphia	209,000	0.34%	0.34%	0.47%
Palm Beach	144,000	0.55%	0.55%	1.23%

New construction in the retail sector declined during the quarter to 1.96 million square feet, the lowest quarterly level since the second quarter of 2014. This is the major property sector with the most limited new construction. Vacancy rates remain high in many markets across the country which is limiting the demand for new development. In a number of markets vacancy remains high due to structural changes in the economy that have reduced the demand for space over time. In other markets, vacancy remains high due to the supply overhang from the massive construction over the last decade. Regardless of the cause, high vacancy stymies new construction. Consequently, it will take many years for construction to return to more normalized levels.



For 2015 we anticipate that roughly 9.0 million square feet of new retail space will come online. The pipeline continues to grow, but at a pedestrian pace. Meanwhile, the outlook for demand for retail space is slowly improving. The economy and the labor market will provide a boost to consumer spending. Additionally, the massive decline in oil prices that has occurred over the last 9 months has yet to spur consumer spending. Given all of those positives, we anticipate that vacancy will slowly fall during 2015 which will gradually cause the environment for new development of retail space to become more favorable.

Note: History and 2015 inventory addition calculations are for 82 markets for apartment and office; 80 markets for retail.