Marcus & Millichap

Research Brief

EMPLOYMENT

May 2018

Continued Job Creation Bolsters Household Formations; Supports Space Demand For Commercial Real Estate

Developing Trends

The labor market added 164,000 jobs in April. This marks the 91st straight month of employment additions as the unemployment rate dropped to 3.9 percent, the lowest since 2000. Tight labor conditions, however, could mute employment expansion going forward despite elevated demand for hiring from employers.

Manufacturing employment adding to industrial demand. In the past 12 months, manufacturing jobs increased by 241,000, with 24,000 jobs created in April. Rising employment in the manufacturing sector points to increased industrial space requirements over the past year, which has increased the already high demand for distribution sites. The combination of rising demand drivers will push the national industrial vacancy below 5 percent by the end of the year, with rent growth above 6 percent.

Year-to-date employment growth signals economic acceleration. Employment additions in the first four months of 2018 outpaced the previous two years over the same time frame, with 799,000 jobs added. The quickened pace of job growth should accelerate commercial real estate demand across all sectors, as companies expand payrolls and operations.

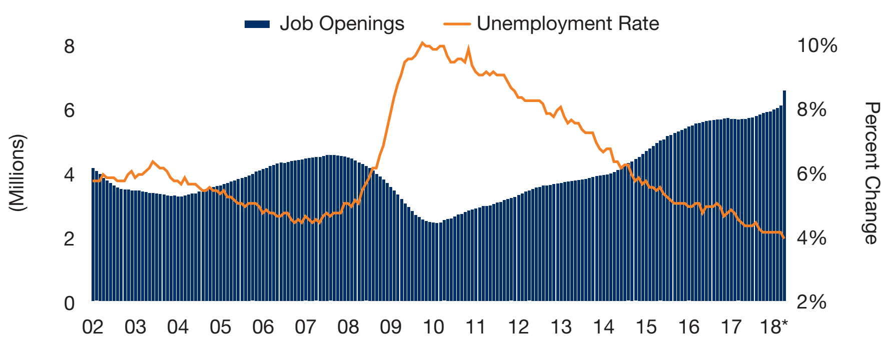
Increased employment setting stage for escalating apartment demand. The number of workers unemployed or working part-time involuntarily moved to the lowest level in the expansion, at 7.8 percent. It peaked at 17 percent in 2009. Many of these workers making the jump from part-time to full-time employment are young adults living with their parents. Now that they are employed full-time, a good deal of them should be able to move out and form their own households. Currently, 23 million young adults live with their parents. After peaking in 2016, the number of young adults living at home declined by 400,000 last year, a sign of pent-up household formations releasing.

Class B and Class C apartments poised for gains. A large percentage of these newly formed households will have a high propensity to rent and be drawn to Class B and C apartments. The expanding demand for Class B and Class C properties will keep their vacancy rates tight and uphold rent growth that has outpaced Class A properties, which are contending with elevated supply additions. In the first quarter of 2018, Class B and C apartment rents advanced 4.7 percent and 5.3 percent respectively, reflecting the positive demand for units at those price points, while Class A units saw slower growth at 4.3 percent.

164,000 Job Gain April 2018

3.9% Unemployment Rate in April 2018

Employment Market Tighest Since 2000



* Through April

Sources: Marcus & Millichap Research Services; BLS

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