Marcus & Millichap

Research Brief

EMPLOYMENT

June 2018

Competition for Staff Invigorates Office Space Demand; Labor Shortage Could Emerge in Second Half of Year

Developing Trends

With 223,000 jobs added last month, May became the 92nd straight month of employment additions and the unemployment rate dropped to 3.8 percent. The unemployment rate hasn't been this low since April of 2000.

Employment growth supports apartment demand. The expanding job market will drive increasing household formations with high propensities to rent and boost absorption during the key spring leasing season. The tight national vacancy rate in the first quarter, of 5 percent, produced overall rent growth at 4.5 percent.

Federal Reserve's difficult balancing act. The strength of the labor market supports the Fed maintaining a hawkish stance, yet it will be cautious not to push short-term rates above the 10-year treasury, for fear of signaling a pending recession.

Labor market enters a new paradigm. For the first time on record, the number of job openings exceeds the number of people out of work and seeking employment. At the end of April, job openings stood at 6.7 million while the number of unemployed sat at 6.3 million. But despite this abnormal condition, employers and the economy have found ways to keep employment expanding at a quickened stride.

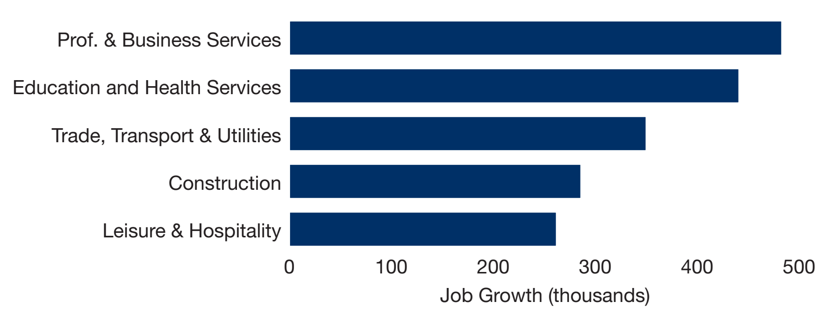
Office-using employment driving down vacancy. Over the past 12 months, the professional and business services sector has been expanding at a faster pace than overall employment, driving up office demand. The sector added almost 500,000 jobs and grew at 2.5 percent compared to the national rate of 1.6 percent. The increased hiring drove down the national office vacancy to 13.8 percent in the first quarter of this year. New construction has also been highly concentrated. The top 10 markets for 2018 deliveries account for 56 percent of the square footage being completed. Furthermore, new supply additions continue to run below the levels witnessed during the 2000's, which has helped maintain a declining vacancy rate with demand rising.

Class B and C office buildings outperforming. Since 2012, Class B and C office rents have seen higher growth rates than Class A properties nationally, a trend that continued in 1Q, as Class B and C buildings expanded rents by 2.2 percent compared to 1.7 percent for Class A assets. With demand for Class B and C properties significantly higher than the limited new supply to those classes, vacancy rates show Class A buildings at 16.3 percent and Class B and C properties sitting at 12.3 percent.

223,000 Job Gain May 2018

3.8% Unemployment Rate in May 2018

Y-O-Y Employment Top 5 Growth Sectors Through May 2018



Sources: Marcus & Millichap Research Services; BLS

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