

Labor Market Nears 2024's End in Solid Position, Aiding Commercial Real Estate

Employment growth resumes earlier trends. Hiring hit a six-month high in November as weather- and labor relation-related disruptions to job creation in October gave way to a subsequent rebound. The 227,000 net new roles in November, combined with the prior period's 36,000-person addition, result in a mean gain of 131,500 positions per month. This is below the average of 191,000 from the first nine months of the year, as well as what was typical across the 2014–2019 period. Last month's employment growth solidified that October's subdued hiring was an aberration without refuting the fact that the labor market is softening — a trend underlined by the 10-basis point-rise in the unemployment rate to 4.2 percent. Onboarding at the sector level nevertheless revealed some key takeaways.

Stronger office space absorption reflected in hiring. Employment figures in many of the traditionally office-using sectors were favorable last month. The addition of 26,000 jobs in professional and business services erased the 23,000-role contraction in October, while headcounts in the information segment held flat following a drop in the prior month. Financial activities firms also recorded their best month for hiring since July 2023. These trends bode well for the office sector after the third quarter reported the strongest 90-day period for the property type's net absorption since the end of 2021. This boost helped the national office vacancy rate hold steady year over year for only the second time in the post-pandemic era. This stability was consistent across Class A, B and C properties, with suburban offices in smaller markets performing relatively better in aggregate.

The stage is set for improved multifamily performance next year. November's job creation also revealed sustained hiring in the less business-cycle sensitive sectors that have been the backbone of employment growth this year. Combined, the education, health services and public sectors added 112,000 personnel last month, supporting consumer activity and demand for housing, including apartments. The multifamily sector noted an even more positive third quarter for net absorption than office properties. The July–September 2024 period achieved the third-highest apartment absorption reading on record, excluding pandemic disruptions. While new renter demand for the year will not quite match historic completions, fewer deliveries expected going forward amid sustained renter demand tailwinds set the stage for vacancy and rents to both improve nationally in 2025.



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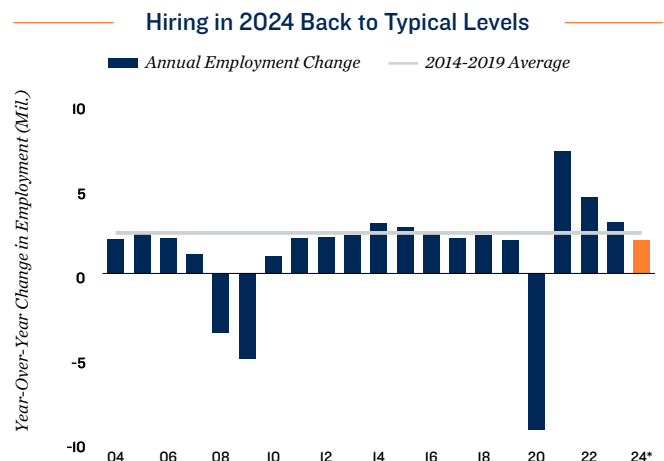
Developing Trends

Fed contemplates rate cut. Generally slower hiring, paired with a higher unemployment rate, add credence to the prospect of an interest rate cut this month. At the same time, core PCE inflation — the Federal Reserve's preferred pricing pressure gauge — has been sticky at 2.8 percent since September. Financial markets, however, appear to favor a reduction. The probability of a December 25-basis-point cut to the overnight lending rate increased from 71 percent to 88 percent following the November employment report. November's CPI report will be the last major data release before the December 18th decision.

New year to bring new crosswinds for the economy. The economy will end 2024 on solid footing with the expected creation of over 2 million jobs and estimated GDP growth around 2.7 percent. Potential new policies from the next presidential administration, such as the recent discussion of 25 percent tariffs on imports from Mexico and Canada, would raise short-term inflation pressures. Yet, bond yields in recent weeks have trended lower. The 10-Year Treasury yield has dipped about 30 basis points from its post-election peak to around 4.1 percent. As a common lending benchmark, if this trend continues, it could help some commercial property transactions pencil.

1.98 Million Jobs Created Year-to-Date through November

2.42 Million Jobs Created on Average per Year from 2014-2019



* Through November

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; CME Group; Federal Reserve; Moody's Analytics; RealPage, Inc.