Q4 2019
Construction First Glance

Pre-Release Analysis of Fourth Quarter 2019 Moody's Analytics REIS Findings for Construction Activity

MODEST SLOWDOWN

2019 closed with a slowdown in construction. New completions figures in the Multi-family and Retail sectors experienced a significant pullback relative to the third quarter, and inventory growth in the Office sector also slowed. The Apartment market registered 34,543 new units in the fourth quarter, a 35.9% decrease from the previous quarter, while the Retail sector saw 0.7 million SF of new completions, reflecting a 45.9% decrease from Q3. The Office sector saw 13.7 million SF come online, which translated to a 16% increase in new completions from the previous quarter; this fell short of the previous quarter's growth of 20%.

National vacancies stayed relatively flat in the fourth quarter of 2019 across all three major sectors due to less than stellar absorption. The Apartment and Retail sectors saw a slight increase in the national vacancy rates to 4.7% and 10.2%, while the Office sector's vacancy rate remained the same at 16.8%.

On a similar thread, 2019 as whole was marked by a pullback in construction completions for all three major property types. Completion figures had been on the rise since the recession and peaked in 2017 and 2018 for the Retail and Office sectors, respectively. The Apartment sector saw 184,000 new units completed in 2019, a decrease of 30.5% in annual completions from last year which saw 265,000 units completed. Annual completions for the Office and Retail sectors also decreased by 15.3% to 41.5 million SF and by 46.3% to 5.4 million SF, respectively.

Fourth Quarter 2019 Completions			
	Apt (units)	Off (SqFt)	Ret (SqFt)
Q4 2019	34,543	13,743,000	731,720
Q3 2019	53,884	11,847,000	1,352,000
Q2 2019	52,496	9,871,000	1,804,000
Q1 2019	43,186	6,053,000	1,489,000

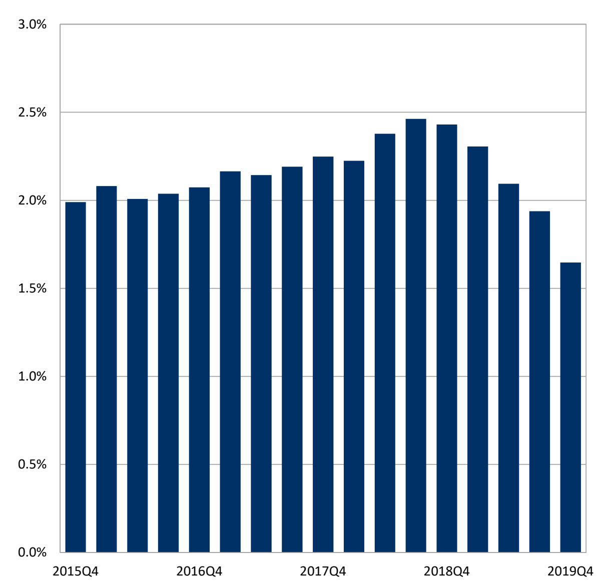
Apartment and office figures are based on 82 metros; retail on 80 metros.

APARTMENT SECTOR

REIS previously expected supply growth to peak in 2019 for the Apartment sector. However, with many projects delayed, the annual completions figure came out to only 184,000 units. A slowdown in supply growth put less pressure on rent and vacancy. Thus, the national vacancy rate increased just 10 basis points to 4.7% and the rent growth registered at 0.5% for the fourth quarter.

From a metropolitan area perspective, Dallas, Charlotte, Houston, Chicago, and Miami, consistent members of Reis's Top 5 list for Apartment completions, introduced 42% of new construction to the market in the fourth quarter. In Dallas alone, 6,365 new units came online. The already high vacancy rate in the metro was pushed up a further 60 basis points

12-MONTH CHANGE IN APARTMENT INVENTORY



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Top Apartment Metros by Completions				
Metro	SqFt	% of Inv.	Inv. growth (q/q)	Inv. growth (y/y)
Dallas	6,365	1.22%	1.23%	3.42%
Charlotte	2,552	1.85%	1.89%	4.70%
Houston	2,008	0.35%	0.35%	0.81%
Chicago	1,899	0.39%	0.43%	1.72%
Miami	1,602	1.15%	1.16%	3.74%

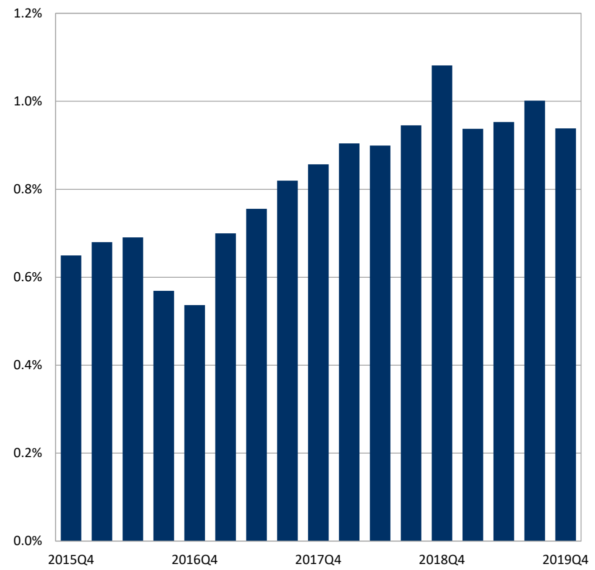
to 6.3%, from 5.7% in the third quarter. Charlotte opened doors to 2,552 new units this quarter and the vacancy rate correspondingly rose 90 basis points to 6.4%. Not surprisingly, Dallas and Charlotte were among the metros with the highest vacancy rate increases for the quarter. Among the Top 5 Apartment metros for completions, none had an effective rent growth higher than 1% in the fourth quarter.

OFFICE SECTOR

Inventory growth in the Office sector has fallen from its peak in 2018 — the annual new construction figure, which registered at 41.5 million SF for all of 2019, represented a 15.3% decrease from 49 million SF of office space completed in 2018. The national vacancy rate has stayed flat at 16.8% for the whole year of 2019. Office completions registered at 13.7 million SF in the fourth quarter, an increase of 16% from last quarter, while other market fundamentals were more subdued. Asking and effective rent growth remained low, registering at 0.5% and 0.6% this quarter.

New office construction was relatively concentrated this quarter. The Herfindahl–Hirschman Index (HHI) for office construction activity in Reis's 82 primary metros increased from 0.075 in Q3 2019 to 0.128 in the current quarter; this indicates that office development was more concentrated in select US metropolitan areas compared to last year and the previous quarter. Reis's Top 5 markets for Office completions introduced 70% of new additions to the market in the fourth quarter. This shows that limited construction activity occurred in most other metropolitan markets.

12-MONTH CHANGE IN OFFICE INVENTORY



Chicago added 3.2 million SF to its inventory, including the addition of the Old Post Office building at 433 Van Buren Street (2.4 million SF) along with 333 N Green Street (583,400 SF). With robust absorption in the market, Chicago's vacancy rate dropped 20 basis points to 17.5%, while the rent grew by 0.3% to $32.11 per SF. New York continued to be a top recipient of office stock in the nation, completing 2.8 million SF of office space in the fourth quarter. The new supply put pressure on rents and vacancies in the metro, resulting in flat rent growth and a 10 basis point climb in the vacancy rate to

Top Office Metros by Completions				
Metro	SqFt	% of Inv.	Inv. growth (q/q)	Inv. growth (y/y)
Chicago	3,235,000	1.26%	1.28%	1.66%
New York	2,800,000	0.76%	0.77%	1.54%
Dallas	1,585,000	0.90%	0.91%	1.56%
Seattle	1,348,000	1.46%	1.48%	3.19%
Phoenix	677,000	0.86%	0.87%	2.66%

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8.1%.

RETAIL SECTOR

Developers have hesitated to introduce new projects in the Retail sector as stores continue to close and the industry transitions along with evolving consumer shopping behavior. Total annual completions in the Retail sector for 2019 came in at 5.38 million SF, which is a 46% decline from the 10 million SF of completions seen in 2018, and a 65% drop from peak completions of 15.3 million SF in 2017. Market fundamentals remained flat in the quarter given market uncertainty. The national vacancy rate has stayed around 10.2% since Q2 2018, while annual asking and effective rent growth registered at 1.2% and 1.3% in 2019.

From a metropolitan perspective, the Top 5 Retail metros for completions covered 97.4% of new additions to the market. Houston remained in the Top 5 metros for new construction, leading this quarter with 226,720 SF of new retail space (only 0.24% of its total inventory). The vacancy rate in the metro rose 10 basis points to 11.8%, while asking and effective rent growth slightly increased by 0.2%.

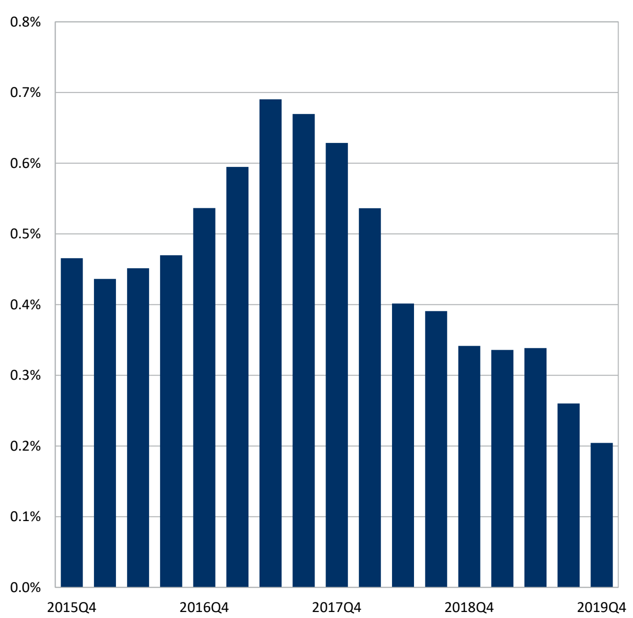
Top Retail Metros by Completions

Metro	Units	% of Inv.	Inv. growth (q/q)	Inv. growth (y/y)
Houston	226,720	0.24%	0.24%	1.02%
Columbus	225,000	0.81%	0.82%	0.82%
Birmingham	123,000	0.97%	0.98%	1.67%
Denver	75,000	0.16%	0.16%	0.24%
Greensboro	63,000	0.39%	0.39%	0.51%

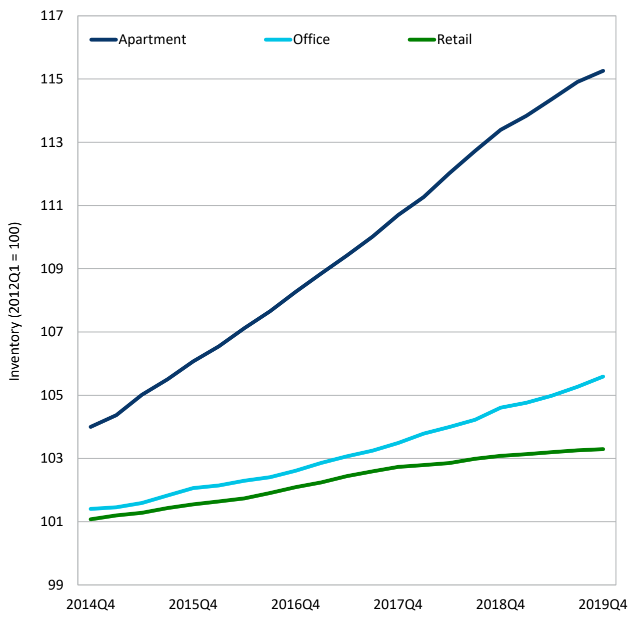
CONCLUSION AND OUTLOOK

The completions figures for this quarter will be back filled due to delayed reporting in construction completion. However, even taking this delayed effect into account, we will still see a slowdown in all three major sectors in 2019. Both inventory growth and absorption were weak during 2019, and market fundamental stayed flat. We still expect to see a fair amount of additions to the market in the Apartment sector in 2020, given planned construction for the year and delayed completions from 2019 that will be pushed off to 2020.

12-MONTH CHANGE IN RETAIL INVENTORY



INDEXED INVENTORY GROWTH



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