Commercial Real Estate Activity: Mixed

November 30, 2016

The Beige Book report for November, which summarizes comments received from businesses and other contacts outside the Federal Reserve, suggested that economic activity during the most recent period "continued to expand" with most districts noting "modest" or "moderate" growth. Commercial real estate leasing activity was decidedly mixed, although most Districts cited an improvement in the demand for industrial space. In **Philadelphia**, growth in leasing experienced a bit of a "lull," while in **New York**, office availability rates climbed higher and in **Boston,** office leasing volume was "flat." Commercial real estate lending was described as "strong" in the **New York** and **Philadelphia** districts. Of note: sales to foreign buyers are expected to accelerate in the Pacific Northwest, as demand for regional exposure shifts to the U.S. following the imposition of a 15% tax on foreign buyers in Vancouver, Canada.

Economic Growth Characterization by District

	October Beige Book Report (through October 7th, 2016)	**November Beige Book Report** (through November 18th, 2016)
"Moderate" Growth:	Chicago, **Dallas,** San Francisco	**Boston, Minneapolis**, and San Francisco
"Modest" Growth:	Atlanta, Cleveland, **Richmond, St. Louis**	Atlanta, **Chicago**, **Dallas** and St. Louis
"Other" (positive)	Boston ("modest to moderate pace") **Kansas City** ("rose slightly") **Minneapolis** and **Philadelphia** ("grew slightly")	**Cleveland**, Kansas City and Philadelphia ("slight pace of growth")
"Other" (neutral/negative)	New York ("no change")	New York ("remained flat") **Richmond** ("mixed" activity)

Source: Federal Reserve **Bold** = change from prior report.

WAGES/EMPLOYMENT/PRICES:

Employment continued to expand during the period, with the largest gains coming in the **Richmond, Chicago, St. Louis**, and **San Francisco** Districts. As in the past four Beige Books, wage growth was characterized generally as "modest," but seven districts--**Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, and Dallas**--noted that labor markets were tightening. Staffing services reported rising wages or difficulty filling positions without wage increases in a majority of the Districts. In **Boston**, activity has been sufficiently high that staffing firms' revenues are up 10% - 25% year-over-year.

A **Boston** contact noted that the growth of high-tech firms was slowing, while competition for contractors in the **Seattle** area had eased somewhat. In **Atlanta**, construction industry contacts continued to cite difficulties finding enough workers, often resulting in project delays. While construction labor shortages were easing in **Austin** and **Houston**, they remained acute for certain trades in **Dallas-Fort Worth**. Energy firms noted that while layoffs were "mostly done," there was little hope for recovery in employment levels in the coming year if oil prices remained below $50/barrel. On the pricing front, contacts in the **Philadelphia, Cleveland, Atlanta, St. Louis,** and **Minneapolis** Districts reported increases in the cost of building materials.

RETAIL:

A majority of Districts reported higher retail sales, although reports from ground freight carriers were mixed. Retail sales were strongest in the **Boston, Minneapolis, and San Francisco** districts, with "weakening" sales in **Cleveland** and **Dallas**. In **Cleveland**, the market for distribution workers remained "tight,"--a situation which had led to upward wage pressure. Several districts, including **San Francisco**, reported challenges for brick-and-mortar stores stemming from the shift to online purchasing.

Below, we detail specific comments by District on commercial real estate.



District	Comments on Commercial Real Estate
Atlanta	"Most commercial real estate contacts noted improvements in demand resulting in rent growth and increased absorption, but cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of nonresidential construction activity had picked up from one year ago, with many reporting backlogs greater than one year. Reports from contacts on the pace of multifamily construction varied, with roughly half indicating that the pace had increased from the year-earlier level and the rest suggesting that the pace had leveled off or slowed. Looking forward, most… expect the pace of nonresidential construction activity to increase slightly over the next quarter."
Boston	"Commercial leasing activity was flat or up modestly…office leasing was also flat in greater Hartford. However, Connecticut continued to see fairly robust activity in the industrial property market…office rents in downtown Providence remain too low to justify new office construction. In Boston, office leasing volume was flat and one contact said the rate of growth of high-tech firms was slowing. However, Boston's office vacancy rate continued to decline slowly, thanks to the paucity of new construction in recent years. Contacts reported that lending terms for construction loans continued to tighten. While some investors reportedly are nervous that property prices in prime commercial real estate markets such as Boston are poised to decline moving forward, the most sought- after properties in the Boston area continued to trade at record prices...the outlook among contacts was cautiously optimistic, on balance, and most agreed that it was too soon to predict the impact on commercial real estate markets of the incoming Trump administration."
Chicago	"Demand for nonresidential construction grew little on balance, with increases in the industrial and office sectors offsetting declines in other markets. Commercial real estate activity edged up from an already robust pace, with contacts reporting gains across most segments. Commercial rents inched up, commercial vacancy rates again decreased slightly, and the availability of sublease space was little changed."
Dallas	"Apartment occupancy remained fairly stable at high levels and rents rose in most major metros except in Houston, where persistent declines were noted. Contacts expect apartment construction and rent growth to moderate next year. Office leasing activity was mostly unchanged from the previous report, with continued strength in Dallas-Fort Worth and ongoing weakness in Houston."
New York	"Commercial real estate markets have been mixed in recent weeks. Since the beginning of October, office availability rates have risen in Manhattan, Long Island, Westchester, and Fairfield counties, while they have held steady in northern NJ and across upstate NY. Industrial real estate markets…have strengthened throughout the District, with rents rising rapidly, and availability rates slipping to multi-year lows across NY State, and holding steady at multi-year lows in northern NJ…office construction starts have picked up across most of the District."
Philadelphia	"Nonresidential real estate contacts…reported that construction and leasing activity remained steady at healthy levels, which represents a bit of a lull in leasing growth compared with the prior period. However, demand has grown incrementally over many years, such that rents and cranes have risen and contractors remain busy, especially for office space and multifamily housing in urban areas, and warehouse space along the interstate corridors."
Richmond	"Commercial real estate leasing rose moderately in recent weeks, while vacancy rates varied across submarkets. Across the District, industrial leasing activity rose moderately. A Baltimore agent stated that distribution warehouse leasing was healthy. A Richmond agent said leasing and sales of large industrial spaces increased. Most sources continued to report a sluggish office market; however, commercial agents in Charlotte and Richmond reported decreasing vacancy rates, and strong leasing activity. Rental rates were mostly unchanged. A…Charlotte source reported "booming" commercial construction. However, multifamily construction slowed somewhat since the previous report."
San Francisco	"Commercial construction activity, sales, and leasing continued to expand at a strong pace. Shortages of qualified labor and materials held back growth in construction activity…however, a contact reported that competition for contractors in the Seattle area had eased somewhat. Contacts expect real estate investment by foreign buyers to pick up in the Pacific NW following the recent enactment of a tax on foreign buyers in Vancouver, Canada."

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