RESEARCH BRIEF
EMPLOYMENT

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Hiring Downshift Paves Way for Interest Rate Stability, Boon for CRE Investment

Job growth returns to more familiar, positive territory. Employers added 187,000 new positions in July, the second-slowest month for employment growth since December 2020, when staff counts retracted. July's hiring was nevertheless still 61,000 roles ahead of the monthly average going back to 1980. The drawback in job creation was not unexpected, as the 9.6 million open positions in June was the lowest in two years. Together, these statistics reflect a downshift in the demand for personnel; although, the labor market is still tight in a broad sense. This slowdown to a more typical level of job creation is far from a concern, however, posing positive implications for both the economy at large and commercial real estate in particular.

Softening labor demand may help flatten interest rates. Wage growth for the year ended in July held at 4.4 percent, well below the March 2022 high of 5.9 percent. This easing bodes well for inflation, where rising pay is a contributor. June's headline CPI inflation rate of 3.0 percent is already down two-thirds from its peak last year. This trend may grant the Federal Reserve confidence to hold the overnight lending rate flat at the lower bound of 5.25 percent through the rest of this year, the current scenario favored on Wall Street. After 11 rate hikes in 16 months, an extended period of consistency would do much to buttress financial markets, including investment sales of commercial real estate.

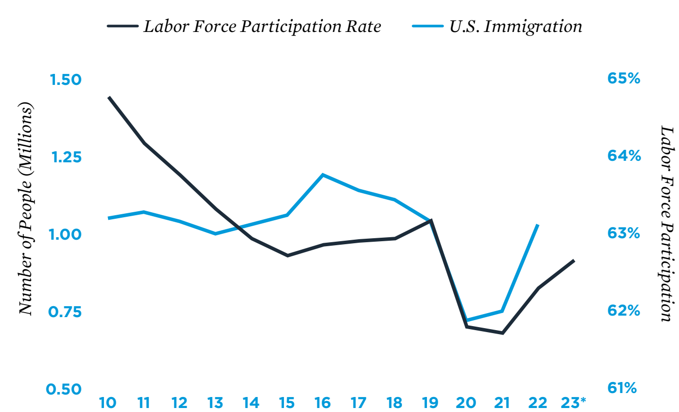
Multiple tailwinds emerging for commercial real estate trading. Higher lending rates, and the rapid pace at which those costs climbed, have been a substantial impediment to commercial property transactions over the past year or so. An end to the current hiking cycle, while not lowering the baseline interest rate, may grant lenders enough stability to pull in their spreads slightly, tempering financing costs for borrowers. Lower and consistent financing rates may be enough for more trades to move forward. Another tailwind for sales may come from consumer attitudes. The indices for both consumer confidence and sentiment, reflecting attitudes about today's economy and where it is going in the near future, have been climbing in recent months. This may be a favorable bellwether for spending and household formation. Both trends would support demand for commercial space, particularly retail and multifamily; in turn, bolstering the confidence of investors who may be on the fence due to uncertain economic prospects.

Immigration's Impact on Multifamily

Tight labor environment may see relief from improved immigration. While labor demand has downshifted, labor supply remains tight. The national unemployment rate fell 10 basis points last month to 3.5 percent as the number of people who were let go or completed temporary jobs decreased from June. The labor participation rate has also held flat at 62.6 percent for the fifth consecutive month. A material shift in labor availability may have to come from outside factors. Due to the global health crisis, fewer than 750,000 people immigrated to the U.S. in 2020 or 2021, the lowest levels since 2003. Data from 2022 suggests that migration into the country is back on the rise.

New households a boon for supply-heavy multifamily sector. Improving immigration and consumer confidence bode well for household formation. While the cumulative impact of elevated inflation has weighed on formations so far this year, projections for the rest of 2023 indicate that the full year total will climb back above 1 million. A deadlocked housing market will direct many of the new households to multifamily rentals, well-timed with the current, record construction slate. Due to this, the national multifamily vacancy rate only shifted up 40 basis points since the start of the year to 5.3 percent in June. Accelerated formations later this year should help keep that measure from exceeding the 1993-2019 average of 5.7 percent, a remarkable achievement given the unprecedented supply pressure.

Tight Labor Market May See Relief from Immigration



** As of June*

Sources: IPA Research Services; Bureau of Labor Statistics; CME Group; Department of Homeland Security; Federal Reserve; Moody's Analytics; RealPage, Inc.

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