RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT

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Retail and Health Care Hiring Paint Opposite Pictures for CRE

Non-cyclical and strike-impacted sectors log modest job creation. Last month welcomed 199,000 new positions as the labor market continued to exhibit resilience. Still, November's headline number fell a fair bit below the trailing 12-month average of 240,000 roles as hiring velocity slows. While the overall growth eased back, hiring was still aggressive in non-cyclical sectors like health care and government, as well as in industries affected by recent labor disruptions, like manufacturing. Health care led in hiring last month with an above-average 77,000 added jobs. The 30,000 new positions in motor vehicles and parts manufacturing largely reflected the return of workers from strikes.

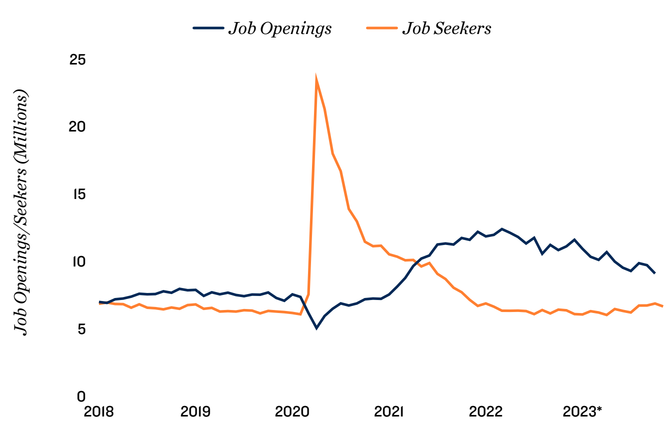
Retail presents a mixed employment reading. Both gains and losses were recorded in retail payrolls entering the holiday season. On one hand, bars and restaurants added 38,300 jobs, showing continued consumer demand for social dining. Notably, this payroll gain was nearly matched by a 38,000 job decline in the retail trade sector, specifically in department stores and in furniture, home furnishings, electronics, and appliances. This could be an early sign of consumers pulling back on discretionary spending as excess savings burn off. Necessity and food-based retailers, however, will still capture consumer demand and backstop tenant demand for retail space through any potential near-term pullback in consumer spending. Single-tenant assets exemplified this as the sector's vacancy rate held at a record-low rate of 4.3 percent entering the fourth quarter. Consistent demand has also facilitated strong rent growth, with the overall average asking rate expected to reach a new record high of $22.24 per square foot by year-end.

Health care hiring reinforces positive sector performance. Job creation in health services reflects the need for the aid provided at medical offices and senior housing facilities. In November, ambulatory health care services in offices added 36,000 roles, while nursing and residential facilities welcomed 17,000 jobs. Consistent hiring shows that facilities are finding ways to draw talent. This coincides with positive net absorption in both the medical office and senior housing sectors for the last nine quarters. Still, not all medical labor needs are being met, as health care positions account for half of all job openings. Further improvement in the labor environment will be necessary as an aging population creates a need for expanding services.

Labor shortage shows signs of ebbing. The unemployment rate fell to 3.7 percent last month. Still, the number of unemployed persons in November showed little change month-over-month at 6.3 million, which, according to recent data, is 2.4 million roles shy of job openings. This divide peaked at 6.1 million in early 2022. The narrowing gap between available jobs and those looking for work is welcome after a labor shortage dominated headlines. A normalizing rate of quits and separations also speaks to a more stable workforce for companies, granting both a better understanding of space needs and stabilizing wage growth. This is a good sign for the Federal Reserve as well, which feared a wage-price spiral during its inflation-fighting interest rate hiking spree.

Fed is widely expected to take a cautious approach in policy changes. Following November's employment release, the CME FedWatch expected there would be no change to the federal target interest rate at the December Federal Open Market Committee's meeting, ahead of the CPI reading. This would keep the federal funds rate in the 5.25 to 5.50 percent band. Caution from the Fed to avoid a misstep, potentially tipping the economy into a downturn, is giving financial markets time to stabilize and allowing commercial real estate buyer/seller expectations to realign. While a soft landing scenario is still in sight, inflation remains above the Fed's long-run target rate of 2 percent. Investors still generally expect interest rate cuts by the second half of 2024 as the economy slows, an additional boon for transactions going forward.

Labor Shortage Trends Lower



** Job openings through October; Job seekers through November*

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