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Recovery - It's all about the jobs

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Job creation is, and has historically been, a fundamental indicator of economic success. In the Labor Department's July report of performance, the number of new hires by U.S. employers in July reached the highest levels since 2007. Further, job openings have nearly reached their highest level in thirteen years - clearly a sign of improvement in U.S. Labor Markets. They also note that 4.9 million workers were hired in July, the highest level since 2007. Employers reported 4.7 million job openings in July, roughly the same in June, which was at a 13-year high. This good news is only tempered by economists' concern as to whether wage growth would begin to pick up as the amount of available labor in the market declines.

Two real estate sectors reflect this positive news on employment. The industrial market continues to strengthen and many feel it is on the brink of a strong recovery cycle. It is thought that continued increases in the demand for space would be driven by manufacturing but also distribution requirements appear to have strengthened considerably in response to the growth in the e-commerce market. Many feel that demand has caused rental rates to return to pre-recession levels.

Although industrial developers remain cautious, the steady absorption of available space and decreasing vacancy rates has resulted in new construction activity gaining momentum. For the most part, this activity is led by build-to-suit developments. This is in response to many large users' unique space requirements addressing changes in our distribution economy.

The office sector is also responding positively. Locally, Boston and close in office submarkets have shown steady occupancy growth with the CBD vacancy rate dipping below 10% in the second quarter according to a survey by Cushman Wakefield. More distant suburbs, including the 128 Market, retain higher vacancy rates than this level, but are benefitting from the limited supply of space to the east.

Investor demand for Class A office properties remains strong as it has been for the last several years. This is demonstrated by capitalization rates in the mid 6% range for the market as a whole, and even lower - high 5% range for properties in the CBD. Foreign and domestic investors are drawn to this market in ever larger numbers.

These two sectors demonstrate a clearly positive trend as a result of recent economic growth. With sustained low interest rates, job growth and decreasing vacancy rates, the office and industrial sectors appear to have developed a strong trend to recovery. Clearly, job growth is a major catalyst in the ongoing recovery from recent economic hard times.

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