RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT MAY 2023

April's Jobs Report a Positive for Real Estate, but Signs for Caution Ahead

Labor market continued to grow in April. Employers created 253,000 positions in April, up from the 165,000 jobs added in March but below the year-to-date monthly average of 285,000. Hiring last month spanned most sectors, ranging from technical health care and professional services roles to hourly restaurant positions. April's employment growth, paired with a reduction in the labor force, was enough to dip the unemployment rate back down to a historical low of 3.4 percent. Unemployment has held under 4 percent since January 2022, the longest such stretch in five decades. These metrics underscore the near-term demand for labor, bolstering current real estate performance.

Strong early year job growth aiding multifamily sector. Despite recent layoff news, several sectors — including business and professional services, as well as financial activities — grew headcounts last month at a faster-than-average pace. The accelerated hiring in fields with strong compensation potential bodes well for short-run housing demand as income insecurity can be a major constraint to household formation. While a net 117,400 apartments were vacated last year, multifamily net absorption returned to positive territory in the opening quarter of this year and is projected to proceed along that path for the near future. Although a robust delivery pipeline will push vacancy up, elevated mortgage rates and home prices continue to direct many newly-formed households to rentals.

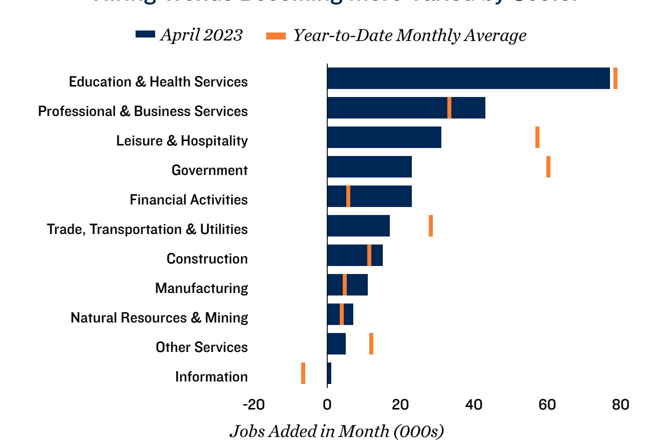
Restaurant hiring reflects consumer trends, property needs. While down from recent months, 31,000 leisure and hospitality jobs were created in April, with 25,000 of those at bars and restaurants. These hiring trends reflect a persevering demand on behalf of consumers for social activities, even in the face of climbing prices. Retail sales at eating and drinking places were up 13 percent year-over-year in March, bolstering the demand by such tenants for commercial space. The national retail vacancy rate has held at 4.7 percent since June 2022, backstopped by a more-than-decade low in availability for single-tenant net-lease properties. A minimal supply pipeline should help preserve operations in the near-term.

Tide May Be Turning

Multiple factors point to upcoming labor market cooldown. While April was a generally favorable month for job creation, more signs are pointing to choppy waters ahead. The most recent count for job openings was at 9.6 million, the lowest in nearly two years. Building on this trend, the largest payroll contraction in April was with temporary help services at -23,300, as professional services firms consolidate resources. The banking sector also entered into a new bout of disruption at the start of May, which could have hiring implications in the weeks ahead. While net employment growth is likely to continue this month, labor dynamics are set to become more complicated.

Market consensus still favors Fed rate hike pause. After raising the overnight lending rate by another 25 basis points on May 3, the Federal Reserve indicated they would take a data-dependent approach to any further policy decisions. While hiring accelerated last month and inflation remains above the Fed's 2 percent target, with Core PCE climbing 4.6 percent year-over-year in March, Wall Street does not expect the governing committee to raise rates in June. Financial markets are still responding to the most recent banking seizure, which is likely to cool lending activity and upward pricing pressure. A potential default on national debt is also approaching, posing even more severe implications.

Hiring Trends Becoming More Varied by Sector



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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; CME Group; Federal Reserve; MSCI, Inc.; RealPage, Inc.