

Cooling Economy Reshapes Migration Patterns and Bolsters Monetary Easing Outlook

Proxy job data confirms weakening labor conditions. With the federal government shutdown delaying the release of the BLS employment report, markets are left to rely on alternative data sources. With uncertainty surrounding the timeline for reopening, the Federal Reserve's late-October meeting may proceed without official payroll figures. In their absence, the JOLTS survey and private measures like ADP take on greater weight. In August, job openings were unchanged, while the hiring rate reached its lowest level in a decade, underscoring a slowdown in recruitment even as layoffs remain muted. ADP reported a net loss of 32,000 private sector jobs in September compared with a trailing six-month average gain of around 23,000 roles. The prior two-year norm was over 100,000 roles per month, further reinforcing weakening momentum. This backdrop highlights a softening labor market and strengthens the case for a Fed rate cut at its next meeting.

Rising youth unemployment could slow urban apartment demand. A key feature of current labor market dynamics is the contraction of entry-level jobs spanning both blue- and white-collar industries. As of August, unemployment among 20- to 24-year-olds reached 9.2 percent. Meanwhile, the St. Louis Fed reported an increase in unemployment for recent college graduates aged 23 to 27 to 4.6 percent in July. This age cohort forms a critical renter base in urban cores, and diminished employment prospects along with rising living costs could slow apartment absorption. Although vacancy for both CBD and suburban multifamily properties declined more than 100 basis points year-over-year as of June, leasing velocity from younger renters could weaken and stall the momentum in urban apartments.

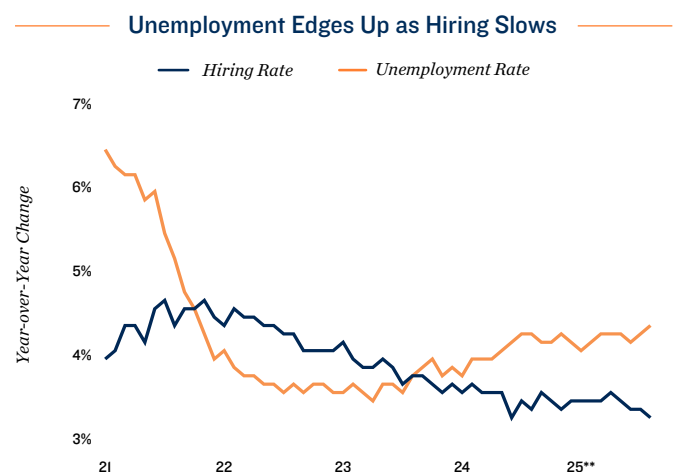
Lock-in effect shifts healthcare needs. Despite an overall decline, ADP's September report showed 33,000 new jobs in education and healthcare, and with the U.S. senior population projected to rise by 7 million over the next five years, medical services hiring should stay resilient. Higher mortgage rates and barriers to new homeownership may also keep many older adults in their current homes. This dynamic is likely to reinforce demand for medical office space and at-home care in metros with large and aging populations. High-cost coastal markets such as New York, Los Angeles and Seattle may see reduced out-migration, reinforcing healthcare employment, as each posted sector growth of more than 5 percent year-over-year as of August.

Large-company hiring fuels Class A leasing. ADP reported that firms with more than 500 employees added over 30,000 jobs in September, while smaller firms lost 60,000, underscoring the scale advantage in weathering rising costs and uncertainty. Hiring strength at major employers should reinforce demand for higher-end industrial and office space, as nearly half of leasing over the year ended in September was concentrated in Class A assets. At the same time, more than 97 percent of firms handling imports employ fewer than 500 workers, implying tariffs may be hampering small businesses.

Shifting yield curve shapes commercial tenant strategies. A cooling job market suggests the Fed may cut rates again at its next meeting; however, the 10-year yield has climbed since the last move, indicating long-term rates may not fall in tandem. Even so, lower short-term borrowing costs can reduce the cost of financing daily needs like payroll and inventory, particularly for office, industrial and retail tenants that rely on revolving credit. This should improve cash flows and help tenants stay current on rent, supporting occupancy levels.

553,000 Jobs Added Year to Date Through September*

23,000 Average Monthly Job Gain, Past Six Months*



* ADP employment figures, does not include government employment

** Through August

Sources: Marcus & Millichap Research Services; ADP National Employment Report; Bureau of Labor Statistics; CME Group; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Real Capital Analytics; RealPage, Inc.