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## Avison Young's Mark Rose on Where CRE Market's Headed

June 7, 2017

By Dennis Kaiser

Connect Los Angeles is coming up on June 21<sup>st</sup> at the newly-completed Hotel Indigo in DTLA. The [Market Outlook and Industry Overview](#) panel will explore how things look from the perspective of the C-Suite.

Connect Media asked Avison Young's Mark Rose, who will be speaking at Connect LA, to share insights on the state of the CRE industry, his outlook for the rest of the year, as well as provide an overview of the key factors driving deals.

Q: What is the state of the industry today including the biggest trends, drivers and concerns?

A: Commenting on the state of the industry requires a country-by-country, state-by-state and province-by-province review. The U.S. is going through a correction, but Canada is coming out of one. The U.S. looks to be a leader in interest rate hikes this year, which is leading to a bid ask gap. This gap will continue until the direction of interest rates is more clear. U.S. lawmakers are creating a pause as well. Stated objectives for healthcare, governmental regulations, business and tax policy are less scary than the environment of uncertainty. Business leaders and real estate occupiers and owners just want to know what the rules are. If this isn't resolved soon, it could be a disappointing year.

Q: What is the outlook for the year ahead?

A: For the year ahead, more uncertainty, but a U.S. economy that is strong and growing. There is a wall of debt and equity to capitalize real estate. It's now a matter of price in the face of rising interest rates. A repeal of Foreign Investment in Real Property Tax Act (FIRPTA) could create tremendous liquidity and offset higher interest rates. This year and 2018 will look like more of the same, and will start and stop with every piece of legislation debated by Congress. With that said, we are in the beginning stages of a cyclical correction that should work its way through until the end of 2018.

Other than fiscal and interest rate policy, technology trends are the big driver. Trends to continue watching include investors pivoting toward industrial at the expense of office and retail, and premium rents paid for new high-performance assets as compared to second-generation office and retail. This is about much more than squeezing bodies into less space. It's about cybersecurity, power resiliency and connectivity becoming top 5 relocation considerations. Also watch for big service companies investing heavily in technology and technology companies.

Q: What are some of the ways companies are adjusting to the changes and challenges?

A: Change is inevitable. Pricing expectations must narrow, and new money will underwrite for 5- to 10-year holds that will assume different growth rates, higher interest rates and increased cost savings driven by incorporation of renewable technology around the globe. Retailers and office occupiers must face a changing world driven by technology. Showrooms will shrink, industrial — meaning distribution and omni-channel logistics — will continue to grow, and the workforce will be impacted by myriad technologies including automation, process engineering and implementation of clean technology.

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