AVISON YOUNG

2017 Annual Review

Avison Young 2018 Forecast

North America and Europe

Partnership. Performance.

CANADA'S BEST MANAGED COMPANIES

Disclaimer

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A Message From...

Mark E. Rose, Chair and CEO

Change and opportunity abound

We have spent the better part of three years debating where we are in the real estate cycle. For 2017, we dragged out a baseball analogy, pondering what inning we were in. We concluded that the real estate industry was in the late stages of the game, but could be headed into extra innings. As we start 2018, the game is still going, but there is a clear and palpable difference. Change is underway and the dynamics on the field are in flux. Our industry needs to decide what to do next.

Interest rates and capitalization rates are still at historic lows. Yields on commercial real estate are still attractive when compared with alternative investments. Equity and debt capital are still plentiful and available, and there is no shortage of demand for real estate investment. Employment data looks good and economies are growing in the major countries in which we operate. While markets are still a little uncomfortable with some government leaders, isolationist politics, and uncertainty of major tax reforms and central-bank policies, we were facing these issues in 2017. As we greet the New Year, however, a critical difference is that change is in motion – change that is positive, powerful and moving very quickly. This is the type of change that creates opportunity and allows for success. Those who cannot accept this new reality will dismiss it at their own peril.

The current interest-rate environment is one contributor to this change – albeit a somewhat limited factor in our view. Interest rates are at historic lows and continue to stay low, but are moving up incrementally, as they really only have one way to go. Short-term interest rates are

being properly – and effectively – normalized by central banks. There is stability and growth in the GDP of the G7, and rising interest rates are typical in this environment. Capitalization rates are another story. Commercial real estate has printed trades at historically low cap rates, but the bid-ask spread is widening – and acting as a brake on transaction volumes in major markets. The theory that interest rates will rise at the short end, but thinning spreads will keep cap rates in place, is not logical or supportable over the mid-to-long term. Cap rates and corresponding return requirements will eventually move as financing acquisitions becomes more expensive.

Occupier behaviour is another source of change that is challenging the market and, we think, more fundamentally driving innovation and performance. Ultimately, these trends will prove beneficial as real estate is used more effectively and with greater cost efficiency. Ideas that have been discussed with occupiers for decades about embracing alternative workplace strategies – including hoteling, mobile workforces and outsourcing – are finally being accepted as strategic and, in fact, have expanded to include flexible office and co-working alternatives. When we begin to anticipate the impact of autonomous vehicles, from suburban/urban rethinks to repurposing of parking lots and logistics configurations, a host of real estate challenges and opportunities opens up.

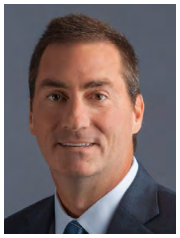
We are also seeing rapid adoption of occupancy strategies that incorporate utilization metrics and return-on-investment calculations. These financial metrics have always been just as important as human resource-related occupancy considerations as the war for talent continues to rage, but they are in vogue as the new, millennial workforce drives a different set of behaviours, allowing decision-makers to make more sense of the financial impact of occupancy.

Technology, including its impact on real estate solutions is, potentially, the most exciting element of change in our industry. Real estate service providers have not only advised occupiers to utilize technology in their occupancy planning, but we have tried to drive owners and occupiers to embrace the mechanization, growth, effectiveness and innovation that come from incorporating technology. Technology adoption (including artificial intelligence) is gaining so much momentum that it is driving profitability and expanding capabilities exponentially.

Finally, wellness in the workplace is another emerging trend that intersects with occupancy solutions, the hunt for talent and technology. Whole health, or the combination of physical and mental wellness, is critical to the success of all enterprises. Sensors that measure workplace conditions are facilitating academic research to quantify enhanced creativity and productivity. Tenants have always observed that a workforce is happier with access to natural light, plants and fresher air, but studies also confirm the tangible economic benefits of employee wellness.

Change is good when it benefits an industry and its stakeholders. Rising interest rates and capitalization rates in 2018 – and beyond – will allow for more traditional pricing of assets based on a risk-adjusted real rate of return. Once the stalemate over prior cycle strategies and underwriting ends, growth should fuel more demand, reduce vacancies and cause rental rates to rise. When this change is combined with efficiencies captured by the latest technologies, we will welcome a new wave of demand, performance and innovation. We encourage our clients to seize the opportunities that these changes present.

At Avison Young, we continue to build out our platform and capabilities to meet the needs of our global clients. From a base of 82 offices in six countries, we are operating and transacting on behalf of clients throughout the globe. In sync with our clients and the industry, we are expecting growth in 2018. Look for continued change and innovation from the world's fastest-growing global commercial real estate services company as we work to meet the needs of our clients by driving global best practices, investing in cutting-edge technology and delivering on our culture of innovation. We are truly honoured to celebrate our 10th anniversary as Avison Young (Canada) Inc. in 2018 and look forward to celebrating many more. On behalf of the board of directors, Principals and the entire Avison Young family, we wish you the happiest, healthiest and most prosperous 2018!



Mark E. Rose
Chair and CEO

Click to Watch Mark Rose's 2018 Commercial Real Estate Forecast Videocast on Avison Young YouTube

A Message From...

Earl Webb, President, U.S. Operations

U.S. assets remain in demand globally

Avison Young continued to build its services platform throughout the U.S. in 2017 and remained focused on providing excellent service for its owner and occupier clients alike. The commercial real estate sector remained strong in most U.S. markets and property types, reflecting global capital demand for U.S. assets along with solid consumer and corporate confidence, which spurred additional employment growth. We added a key office in San Jose/Silicon Valley in late 2017 while bolstering our expertise and resources in our established markets by bringing on great people and adding new and innovative technology solutions. In its first full year of operation at Avison Young, our hotel-brokerage platform grew its business substantially, adding this new dimension to our client-service model.

As we forecasted, an equilibrium was achieved between new supply of space delivered and overall incremental demand for space by occupiers. With modest interest-rate increases readily absorbed by both the debt and equity markets, cap-rate compression largely ceased during the year; however, it did not show material signs of increasing. Simultaneously, overall sales volume across all asset types had dropped by approximately 10% for the first 11 months of 2017 when compared with the same period in 2016. That volume gap is likely to widen further year-over-year when annual figures are calculated due to (1) the significant trading volume that had taken place in the prior years, and (2) the need to create value the old-fashioned way – through active leasing, redevelopment and/or management of assets rather than through trading and financial engineering. This trend is likely to continue through 2018.

Unleveraged returns for core office, industrial and multi-family assets remained in the mid-to-high single digits with retail assets trading at slightly higher yields. Rental rates in major office markets were still increasing, although at a slowing rate than recorded in 2016. Concession packages increased in some of these markets in lieu of rent reductions. In the meantime, rents for prime industrial assets continued to rise, reflecting ongoing growth in e-commerce (primarily) and a technological shift in supply-chain management. Apartment buildings remain in high demand although supply may well be outstripping incremental demand in some urban markets, thus causing rent stagnation.

We expect several factors to influence real estate occupancy and capital-markets activity in 2018. First, with new Federal Reserve leadership, it is unclear as to how many more rate increases, if any, will be forthcoming. We expect, perhaps, increases between 25 to 50 basis points, but those should be readily absorbed by the marketplace. Real estate will provide attractive yields relative to stock and bond alternatives, as the growth rate of the stock market should slow from that of 2017. Second, changes in taxation policy is leading some investors to temper investment activity and also causing occupiers to delay some larger capital projects, as they determine the impact of new legislation. The passage of the Tax Cut and Jobs Act in late December 2017 is likely to benefit our investors and landlord clients in the coming years and we welcome the opportunity to help them navigate the new code.

Essentially, we expect rental stability to prevail in most markets. Although transaction volume will decline again, by as much as 10% to 15% in major markets, pricing should be buoyed by capital demands from all investors, thus offsetting any slight increases in borrowing costs . From an occupier standpoint, the new lease accounting standard is one year away from taking effect and should, undoubtedly, cause occupiers to study the costs and benefits of leasing versus ownership seriously.

All of us at Avison Young very much look forward to working with you to solve even your most vexing real estate investment and occupancy issues, and we wish you the greatest success in 2018.

Earl Webb
President, U.S. Operations

AVISON YOUNG

A Message From...

The Managing Directors of Avison Young

Dedication to innovation will prevail in 2018

After another exciting and successful year in 2017, our team of Managing Directors is optimistic that current underlying economic fundamentals and job growth bode well for commercial real estate markets in 2018.

As we look forward, we recognize that technology will continue to impact commercial real estate services in all areas – including sales and leasing as well as property, project and asset management service lines – so we will continue to adapt to help clients mitigate uncertainty in their properties' valuations and operations. We understand that commercial real estate is changing rapidly due to the demands of the digital age, new office requirements and the rejection of old business norms. In the office sector, workplace and workforce changes have led to diverse space requirements in all markets, while retail and industrial properties continue to be impacted by the rise of e-commerce and the increased use of artificial intelligence, cloud computing and robotics. At Avison Young, we believe these changes come with opportunity and are creating a great time for investors to be bullish on real estate investment opportunities.

We believe that innovation and productivity go hand-in-hand. Avison Young is an innovative company that has redefined the client-service model in the commercial real estate industry. While every competitor is set up as a command-and-control, siloed organization, we are focused on a holistic approach to the client. Our Principal-based ownership model drives this approach. Our service offering is focused on client needs, and a key component of our innovation strategy

> We believe that **innovation** and productivity go hand-in-hand. Avison Young is an innovative company that has **redefined** the client-service model in the industry.

Donna Abood • Thomas Aguer • Charlie Allen • Nicolai Baumann • Jim B
Chris Cooper • Marshall Davidson, Jr. • Ted Davis • Steve Dils • Mart
David Genovese • David Gonzales • Matt Gunning • Stephan Heinen • Je
Greg Langston • Jonathan Larsen • Peter Leroux • Mitti Lieberso
Doug Mereska • Arthur Mirante • Doug Mereska • Greg Morrison • Dan
Wes Schollenberg • Guillermo Sepúlveda • Jason Sibthorpe • Ted Si
Todd Throndson • Brad Totten • G

will be the continued rollout of our comprehensive CRM system.

In 2017, Avison Young continued to execute its ongoing aggressive global expansion program. Our firm grew to more than 2,600 professionals in 82 offices in 74 markets globally. We achieved this growth by continuing to expand our client base, range of services and geographies, and through strategic acquisitions and training programs for our young professionals. For example, we leveraged our footprint in the hospitality real estate sector through the acquisition of Atlanta-based Hotel Assets Group. We also launched a new office in Bucharest, Romania; established a strong presence in Manchester, U.K. through the acquisition of WHR Property Consultants LLP; and opened a San Jose/Silicon Valley location, which will expand our San Francisco Bay Area and Northern California operations. Also in 2017, we acquired Raleigh-based Hunter & Associates LLC and opened a second office in New Jersey through the acquisition of Cresa NJ-North/Central LLC.

In 2018, we will continue to build our reputation and market share in the industry and attract talented, tech-savvy professionals interested in working with a firm with a world-class collaborative culture that respects diversity and puts its clients first and foremost at all times. Our team of Managing Directors will continue to invest in the future of our young professionals in 2018, and focus on developing a happy, healthy workforce that allows us to deliver more leading-edge, innovative services to our clients.

We wish you and your family a very Happy New Year, and we look forward to offering you more market insights in 2018.

Sincerely,
The Managing Directors of Avison Young

Becker • Brian Bellew • Michael Brown • Markus Bruckner • Timothy Convy • Sean Cahill • David Canta • Michael Church
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mpson • Chris Skibinski • Nick Slonek • Michael Smith • Warren Smith • Rand Stevens • Udo Stoeckl • Ted Stratigos
regg von Thaden • Mark Williams • Clay Witherspoon • Cory Wosnack • Alec Wynne

AVISON YOUNG

A Message From...

Investment Management

Megatrends to watch in 2018

At this late point in the economic recovery, many investment managers are scratching their heads as to how to reel in risk and deploy new capital safely. Indeed, with record prices and increasingly lenient lending standards, it would be irresponsible not to contemplate: Haven't we seen this movie before? But, unlike during some prior cycles, we are also enjoying some of the strongest market fundamentals in several decades. Rents are rising and new construction is largely preleased, but this situation is only part of the story. There are increasing opportunities to outperform benchmarks within a diversified portfolio by paying attention to the impact of changes in the nature of work, capitalizing on shifting competitive advantages and the culling of functional obsolescence risks from our portfolios.

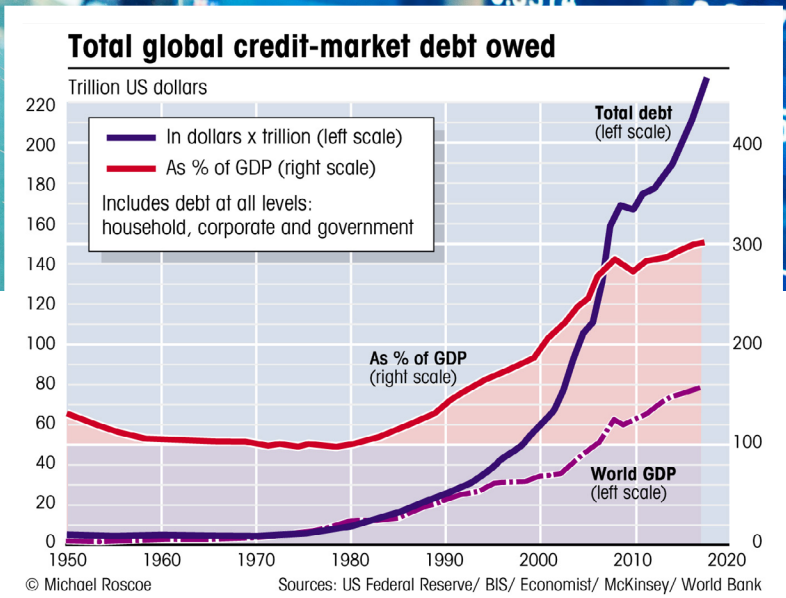
There are three megatrends that warrant closer review:

Technology is increasingly being deployed in the workplace.

The demands on property are evolving rapidly – from demands for higher energy and amenity performance to greater connectivity and cybersecurity. Evolving business models mean that tenants are also increasingly seeking flexibility, including shorter-term leases with more options, use of co-working spaces and improved on-site amenities. New, state-of-the-art properties are leasing at record premiums over second-generation buildings. Landlords who are able to provide improved building performance and flexibility have the pricing advantage.

Globalization isn't over.

While negative trade talk is dominating the headlines, technological developments dissolve borders as quickly as governments erect them. Nimble businesses of the future will relocate functions – or headquarters, if necessary – to secure access to free markets, top talent and acceptable costs. This situation bodes well for some countries and not so well for others. Geopolitical uncertainty has risen, and the calculus around relocation decisions is shifting. The avoidance, or minimization, of regulatory conflicts, punitive tax/trade regimes and barriers to free movement is becoming increasingly important to business continuity and strategic considerations.



Unwinding of quantitative easing and a decade of record-low interest rates in the developed world.

Globally, debt levels have increased exponentially since the turn of the century, and leveraged buyout debt is being blamed for exacerbating the U.S. retail meltdown. Pundits warn that CMBS issuance for high-volatility segments like hotels is relatively undisciplined with high loan-to-value ratios and long interest-only periods. Given the likelihood of interest-rate increases over the next few years, these underwriting parameters could come back to haunt us.

Two strategies for reducing exposure to future debt issues are suggested: As interest rates seem unlikely to go lower, a strategy that extends term on existing debt and shifts allocations to countries with the largest cap-rate-to-interest-rate spreads seems advisable. Additionally, the pruning of sector holdings and structures vulnerable to interest-rate increases will insulate the portfolio in the near term from possible interest-rate shocks.

How fast, and how soon an interest-rate reset will affect the markets remains unknown, but eventually the era of easy money will come to a close. All in all, investor demand is healthy and largely growing for real assets, particularly those with some ability to hedge potential inflation risks (through rent increases) in the future. By "future-proofing" portfolios through culling more vulnerable assets and sectors, improving energy performance and supporting the right amenities, investors can navigate choppy waters with more confidence.

Amy Erixon
Principal and Managing Director,
Investment Management Group


York

Canada

2017 Overview and 2018 Forecast

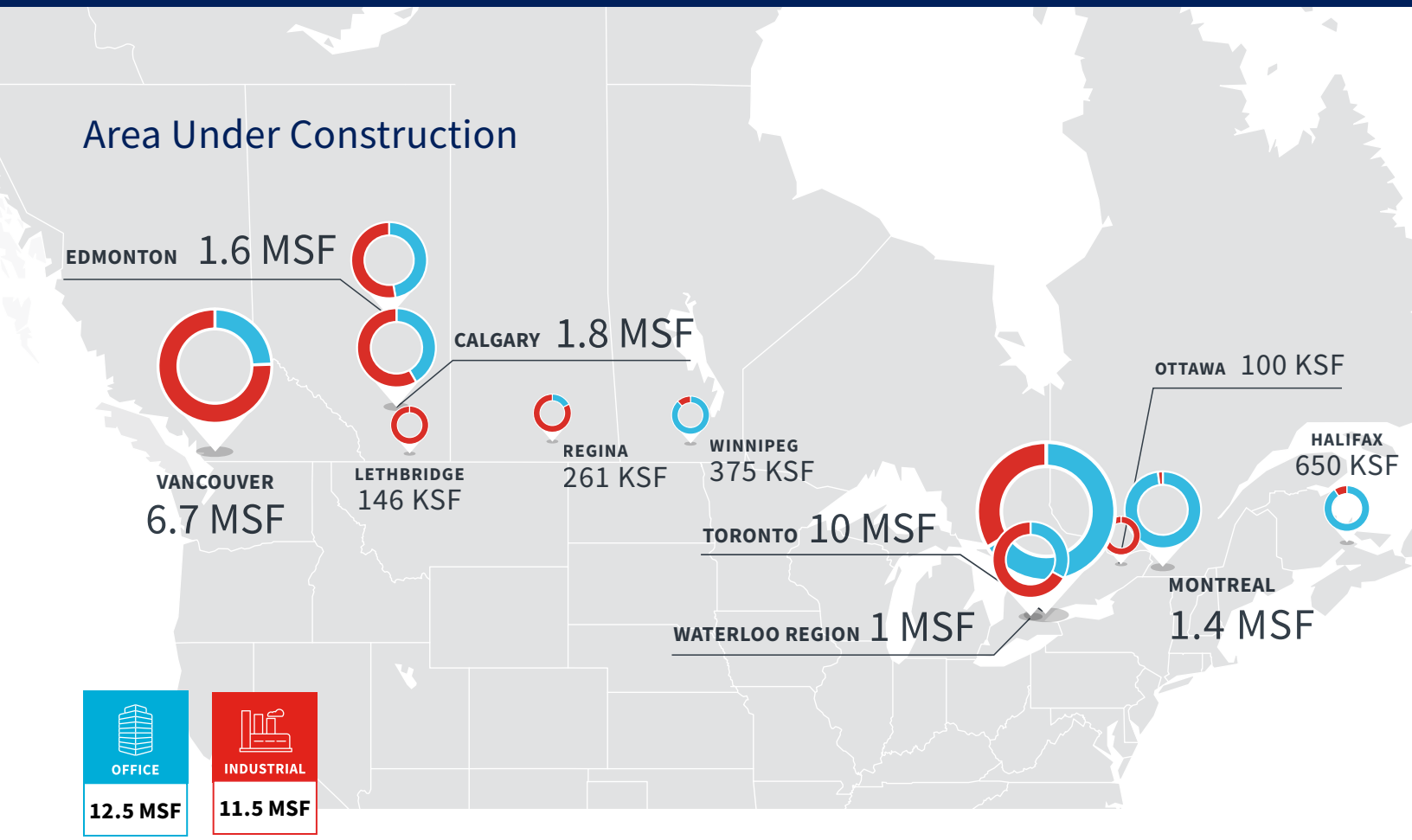
Technological transformation confronts the market's conventional wisdom

Canada's commercial real estate sector continues to possess varying, but largely healthy, property market fundamentals across the country's regions and asset classes supported by a stable economy, which is the envy of the G7 countries. However, there is a sense that we are late in the cycle and a slowdown is inevitable. Stakeholders are having to re-evaluate challenges and opportunities in a technologically transforming world.

Office leasing fundamentals are reasonably sound, and even the challenged markets in Calgary and Edmonton are showing promise. Urban intensification, transit-oriented development, consolidation, technology, workplace design and the war for young talent were common themes that faced occupiers and owners in 2017 and will again in 2018. Ongoing supply-demand imbalances are reflected in varying vacancy rates, development pipelines and rental-rate expectations.

Office development continues briskly and, in supply-constrained markets, product cannot be delivered quickly enough to meet insatiable tenant demand, creating a landlord's market where rental-rate growth exceeds expectations. Almost 12.5 million square feet (msf) was under construction across the country near year-end 2017 (more than half in Toronto). Canada's office vacancy rate is expected to edge up further, to slightly more than 12% by year-end 2018 from 11.8% in late 2017.

Demand from traditional sectors is now augmented by growth in the tech sector and the increasingly prominent co-working movement (e.g. WeWork), which is taking a larger share of the leasing pie. Co-working's rapid growth is attributed to the needs of startups and entrepreneurs, and rising demand for affordable workplaces on flexible lease terms. This growth has the potential to disrupt the office market with new pricing models for office leases and asset valuations. As



the co-working movement gains momentum among large corporate tenants, building owners will weigh whether this disruption is a benefit or a detriment to their assets.

Despite regional disparities, tight conditions prevail across Canada's industrial market with vacancy levels that are half of those in the office markets. A diverse and growing tenant base, fuelled by accelerating e-commerce demand, is pushing the sector to adapt quickly as some markets face a decreasing supply of developable land. With 11.5 msf underway near year-end 2017, Canada's industrial vacancy is expected to finish just below 4% at year-end 2018.

To keep up with e-commerce, developers are planning the next generation of bigger, taller and smarter warehouses that will likely have robots not only working alongside humans inside, but also helping to build the facility. The increasing volume of online purchases will also give rise to more "reverse logistics" providers to handle merchandise returns – a process that requires different facilities than those from which goods are currently shipped.

Consumers' infatuation with faster last-mile delivery of goods may lead to decreasing demand from retailers for large distribution centres and warehouses near major highways. Accordingly, retailers could display heightened demand for smaller facilities near urban populations – intensifying the repurposing and adaptive reuse of obsolete warehouses near core areas. However, the advent of driverless trucks (lowering transportation costs) may allow for more geographical flexibility in the future, which would result in more transactions.

On the retail front, the one constant is change – and 2018 will be no different. Strengths in the sector (high consumer confidence, tight vacancy, balanced new supply; population, immigration and tourism growth) are countered by weaknesses (rising consumer debt and vacancy from failing big-box and department store retailers).

Contrary to widespread belief, bricks-and-mortar retail is not going away, but is in the process of transforming and adapting to serve customers in the wake of technological advancement. While e-commerce is growing faster than in-store sales, it still represents a small fraction of all retail sales in Canada. The most successful retailers and owners will focus on the synergy between clicks and bricks to grow their brands and maximize profits. Traditional retailers are investing heavily in their online presence; and, even though

new businesses may start online, they often require a physical location to engage with consumers and provide a shopping experience. An accelerating trend is online ordering of groceries, led by giants Amazon, Walmart and Loblaws.

While urban malls are benefiting from increasing population density, suburban ones remain relevant. Major retail closures (such as Target and Sears) have resulted in significant vacancy with landlords repositioning the empty space in more optimal ways. These malls also continue to be targets for investment and are increasingly regarded as potential hubs for future mixed-use development (including office, residential and recreational uses) thanks to the under-utilized land surrounding them.

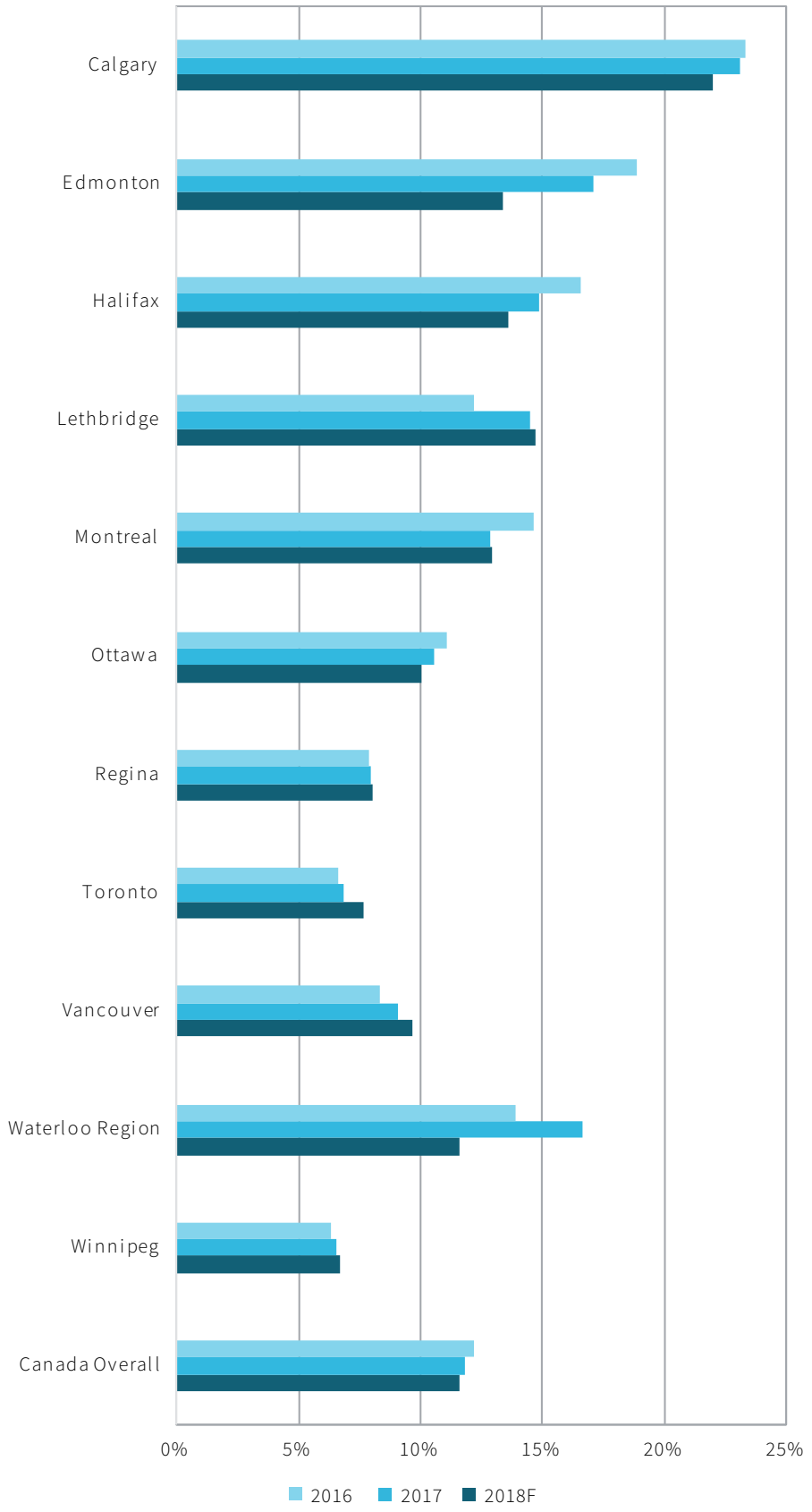
The amount of investment capital being deployed into Canadian commercial real estate has not abated. Although the market is constrained by a lack of product and the lateness of the investment cycle, eager investors are seeking new ways to direct more capital into hard assets – despite rising interest rates. It was another record year in 2017 for investment with an estimated $32 billion worth of property changing hands in Canada's major markets through mid-December – well ahead of the record $28 billion in sales in 2016.

Investment capital gravitated to the country's hottest markets – Vancouver and Toronto – and their prized assets. Canada's other major cities are also seeing their share of investment activity. Calgary and Edmonton's relatively higher investment yields (versus Toronto and Vancouver) are attracting the attention of buyers without existing local exposure, who have the opportunity to acquire assets at discounted prices.

With investment rising to cyclical highs (record-high prices and low cap rates), vendors will continue to cull non-core assets and redeploy the proceeds towards paying down debt, upgrading asset quality, capital preservation and geographic diversification. While pure-play, well-leased assets will remain the target, mixed-use, land-assembly and zoned development sites located in urban cores and serviced by transit will be hot commodities. Irrespective of investment strategy, the challenges of securing product that provides an attractive risk-adjusted return or buying assets at a discount to replacement cost will lead investors to be more disciplined. This increased discipline may constrain investment volumes in 2018.

Bill Argeropoulos
Principal,
Practice Leader, Research (Canada)

Canada Office Vacancy Rates

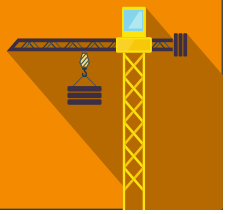


11.8%

Canada's 2017 office vacancy rate, which is expected to edge up to 12.2% in 2018.

Investment capital gravitated to the country's hottest markets – **Vancouver and Toronto** – and their prized assets in 2017.

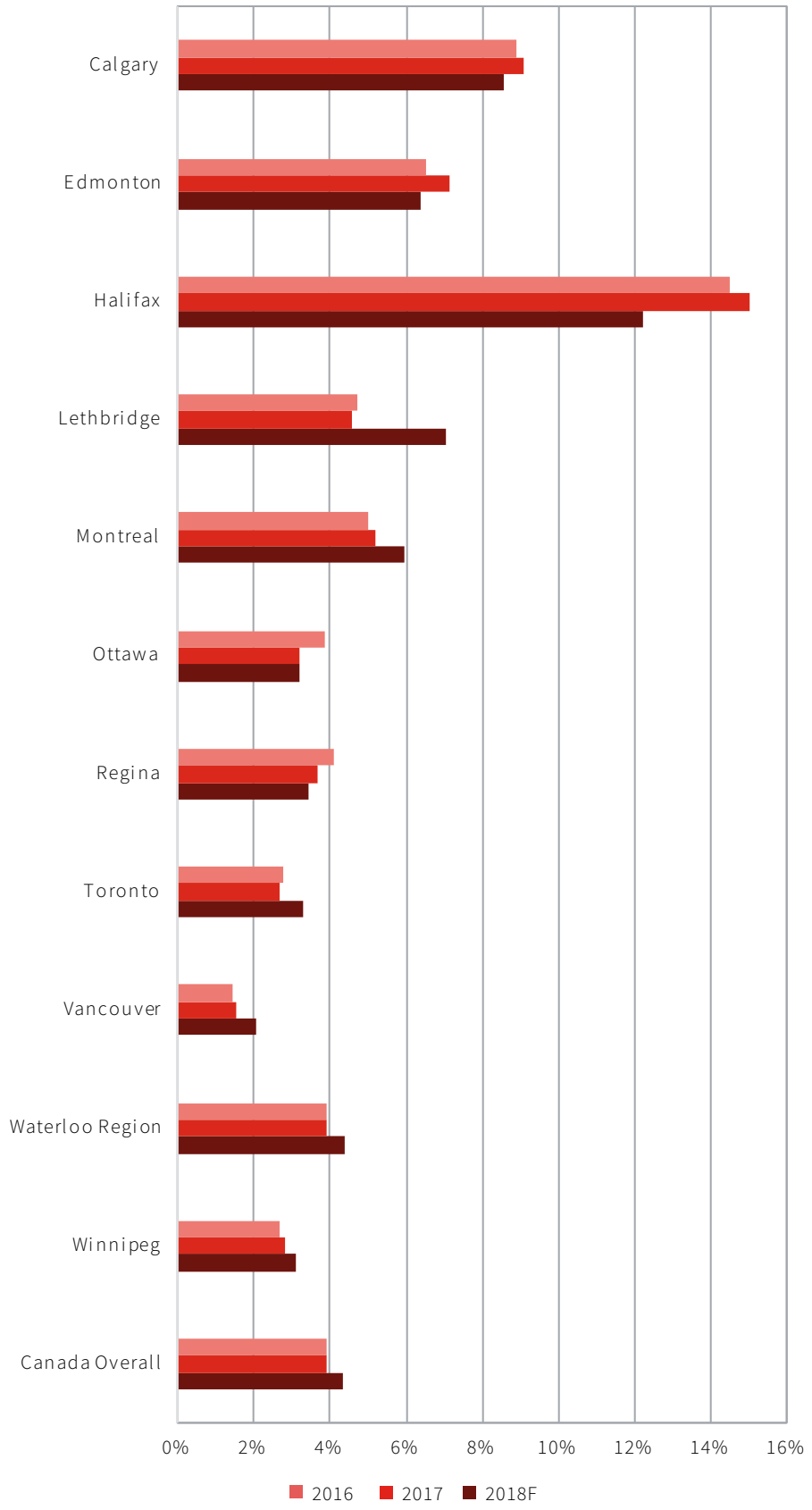
Retail malls are increasingly regarded as **potential hubs for future mixed-use development** thanks to the under-utilized land surrounding them.



3.9%

Canada's 2017 industrial vacancy rate, with Vancouver, Toronto, Winnipeg and Ottawa among the 10 lowest rates in North America.

Canada Industrial Vacancy Rates



United States

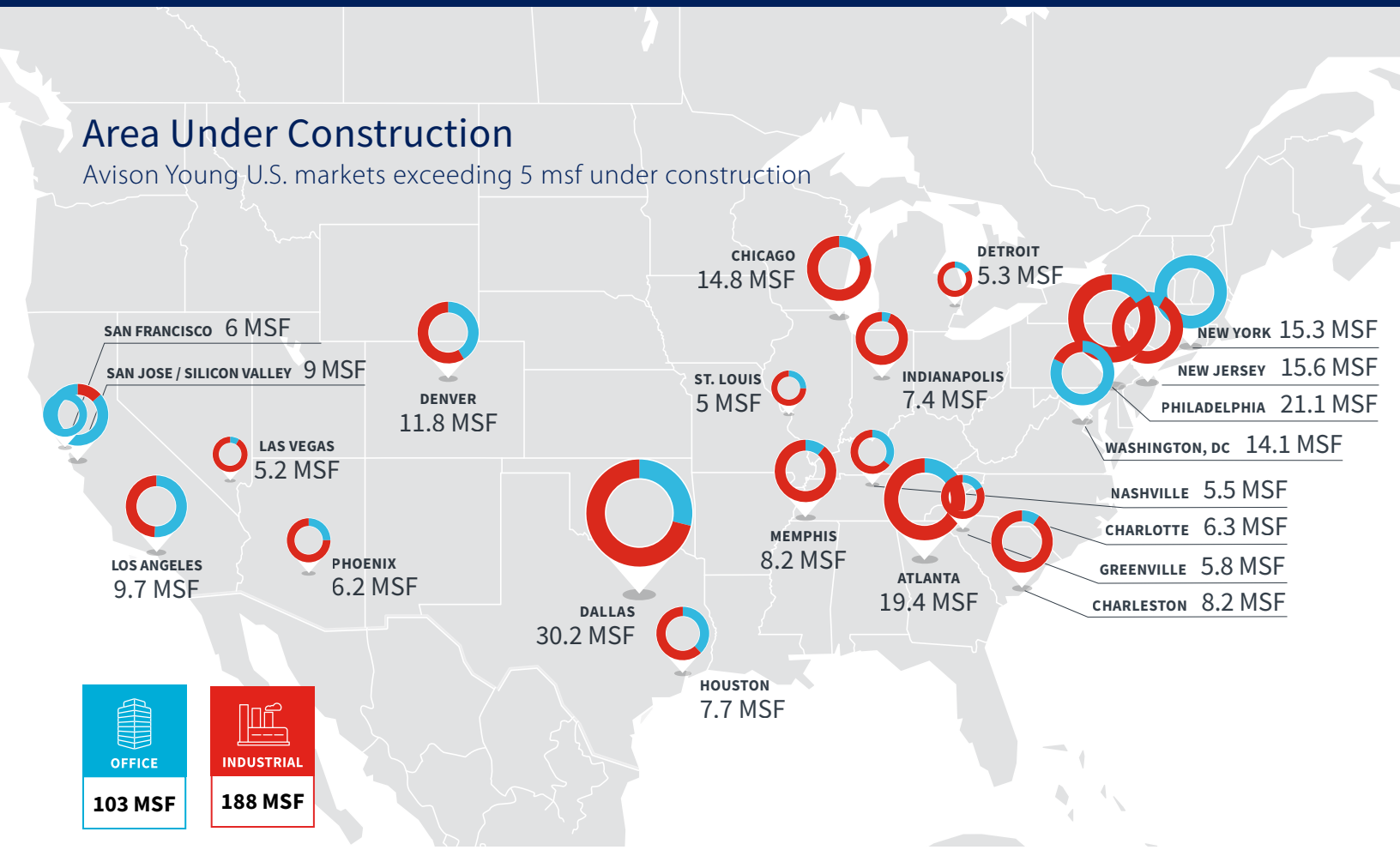
2017 Overview and 2018 Forecast

Demand for modern properties supports robust development pipeline

U.S. commercial property markets demonstrated further strength in terms of vacancy and pricing in 2017 in spite of the often-divisive issues facing the country. While sales transaction volume fell for the second year in a row, domestic and foreign investors continue to view the U.S. as a safe haven with specific markets and property sectors registering gains. The overall unemployment rate fell to 4.1% in October 2017, its lowest level since 2000. The U.S. added on average approximately 170,000 jobs per month in 2017, and the gains have been reflected in increases in consumer spending and business confidence. San Francisco is forecasted to be the tightest U.S. office market in 2018 with a 5.8% vacancy rate, a repeat of the market's 2017 performance.

Trends Avison Young reported at mid-year 2017 for the office sector are forecasted to continue in 2018: renovation and reuse of older and obsolete properties that are often repurposed to alternative property types and a strong push from owners to increase on-site tenant amenities, including shared conference centers and gathering spaces. As well, owners are building ready-to-occupy spec suites to attract smaller tenants and often directly competing with new co-working operators.

Avison Young is tracking 5.2 billion square feet (bsf) of office inventory in 46 U.S. markets, which had an overall vacancy rate of 11.8% near the end of 2017. With new office development in 2018 anticipated to mirror 2017 levels, a nominal increase in total vacancy is expected to occur. The



five largest office markets (New York; Philadelphia; Washington, DC; Chicago and Dallas) are all forecasting vacancy to rise, to some minor degree, by year-end 2018. In many other U.S. markets, vacancy remains in double-digit territory, highlighting the ongoing trend of tenant rightsizing and efficiencies. There was 103 msf under construction in the U.S. approaching year-end 2017 with the following five markets accounting for roughly half of that total: New York; Washington, DC; Dallas; San Jose / Silicon Valley and San Francisco. Office space under construction is 55% preleased with tenants demonstrating demand for new well-located and amenity-rich product.

The U.S. Census Bureau estimates that U.S. retail sales totaled $1.27 trillion in the third quarter of 2017, up an estimated 4.3% year-over-year. Likewise, e-commerce, which represents 9.1% of all retail sales, grew by 15.5% year-over-year. With national name-brand retailers shuttering stores, it is anticipated that successful retailers will need to feature a customer-centric mix of bricks-and-mortar outlets, experiential retail, strong digital storefronts (suitable for both conventional computers and mobile devices) and speedy delivery service. Analytics will play a greater role as retailers embark on targeted and automated marketing campaigns. Landlords and customers have turned to food to fill vacancies, and new eatery options are proliferating across the country. And, in spite of a slowdown for many big-box retailers, IKEA continues to expand in the U.S.

The U.S. industrial market's growth is being fueled by logistics and distribution needs related to the growing adoption of e-commerce and bridging of the last mile in the supply chain. Data redundancy, technology and distribution have all combined to drive vacancy lower, pushing rents higher and spurring a considerable amount of new industrial development. Big data and the Internet of Things will further push demand for data centers. As 2017 drew to a close, the U.S. industrial sector totaled 11.2 bsf

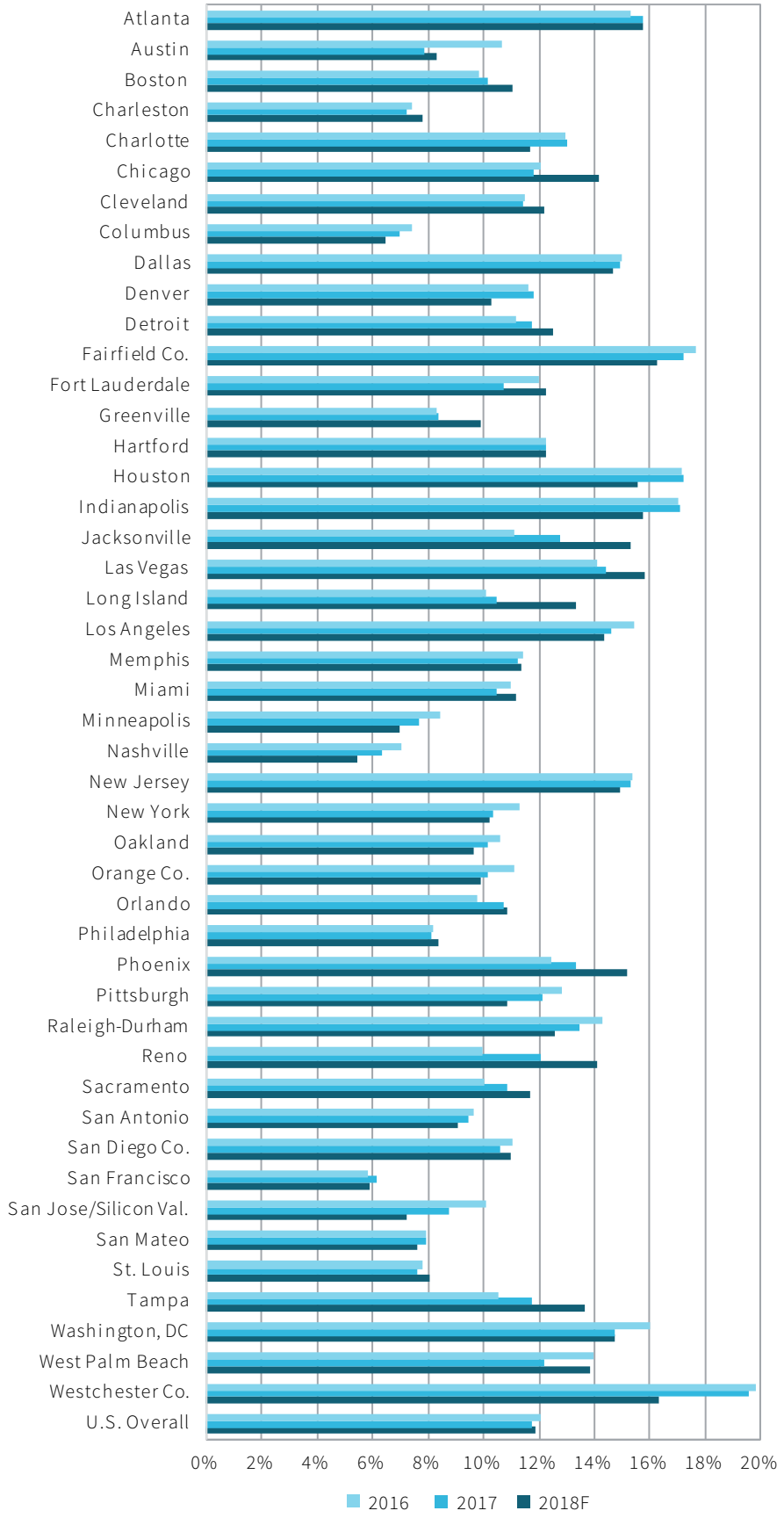
and reported an overall vacancy rate of 5.2 % – a 10-bps dip from year-end 2016. Another 188 msf of new construction is underway. Four U.S. markets dominate industrial development in North America. Dallas leads the way with more than 21 msf under construction. Even with significant development, U.S. industrial vacancy is expected to be approximately 5.4% at the end of 2018. Nineteen U.S. markets are forecasting vacancy to improve year-over-year.

Supported by a period of historically low interest rates, investment sales volume rose each year between 2009 and 2015. In 2015, total volume nearly reached the 2007 peak of $572 billion on the back of a slate of megadeals and portfolio sales. After falling by 9% year-over-year in 2016, transaction volume in 2017 trended still lower through November. Nevertheless, pricing was supported and an abundance of capital chased available deals. Select U.S. markets also reported significant or historic deal pricing. Specific asset classes and markets are outperforming the whole, and this trend is expected to be amplified in 2018. After China led foreign investment in the U.S. in 2016, Canada reclaimed the top spot, by far, with more than $15 billion invested at year-end 2017. Singapore ($6.9 billion) placed second, followed by China ($5.5 billion). Including the Netherlands and Germany, the top five countries accounted for $34 billion in cross-border capital investment in the U.S. in 2017.

The passage of tax reform has the potential to positively shape real estate investment trends in 2018. An abundance of capital remains available for trades, pricing is strong and property markets are registering meaningful development in response to demand for modern properties. These factors will keep the U.S. commercial property market on its current trajectory through 2018.

Margaret Donkerbrook
Principal,
Practice Leader, Research (U.S.)

United States Office Vacancy Rates



11.8%

Office vacancy in the U.S. mirrored Canada in 2017. Vacancy is forecast to increase slightly to 12% by year-end 2018.

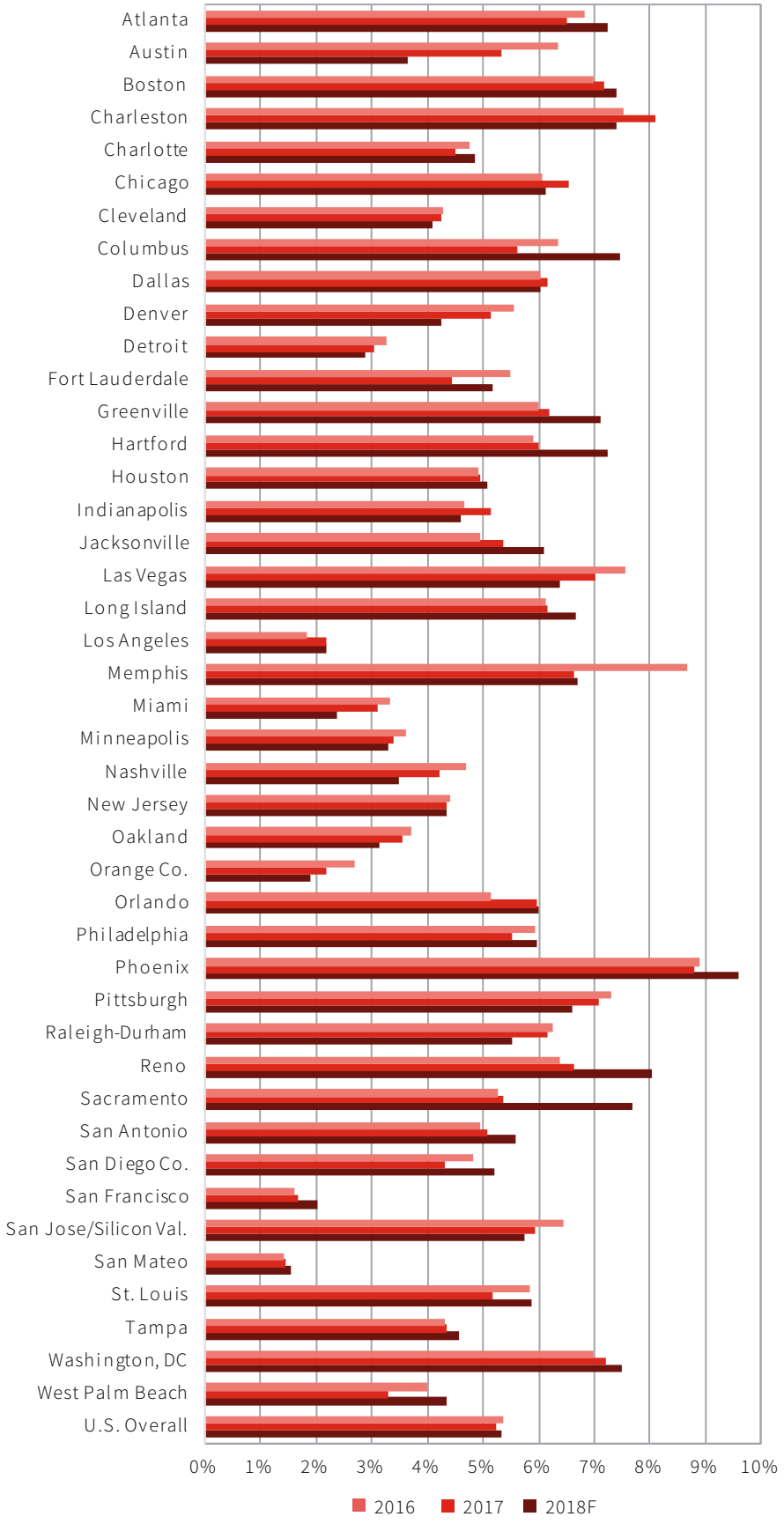
Pricing for well-situated assets was upheld in 2017 even while **total sales volume fell** for the second year in a row.

Retail sales total **$1.27 trillion** in third-quarter 2017. E-commerce accounted for 9% of sales, up 15.5% from third-quarter 2016.

188 MSF

Industrial vacancy is forecast to remain near 5% in 2018, in spite of 188 msf of development in the pipeline.

United States Industrial Vacancy Rates



Canada

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Calgary

Bottom reached and recovery commenced

Sentiment regarding Calgary's economy improved noticeably during 2017 with the Conference Board of Canada declaring that the city's economy reached a turning point towards recovery. Positive GDP growth is occurring in the city, but significant employment and business growth will take longer to arrive as growth moderates going forward.

The majority of business leaders have a positive outlook on Calgary's economy and their own business performance in 2018. Economic downturns often spur innovation and creativity. As Calgary emerges from its recession, new attitudes and approaches towards occupationally challenged buildings and the attraction and growth of economically diverse businesses are being unveiled.

Office

After three challenging years, Calgary's office market took a positive turn in 2017. Occupancy levels in the market began to rise as vacancy decreased due to a combination of stronger leasing activity, the withdrawal of some larger sublease availabilities from the market, and the removal of buildings from inventory due to redevelopment.

Absorption is expected to be flat in the first half of 2018 with positive absorption registered in the back half of the year. Although new supply will be delivered, given the current economic situation, it is forecasted that vacancy will remain below the high-water mark of 26.4% recorded earlier in 2017.

Industrial

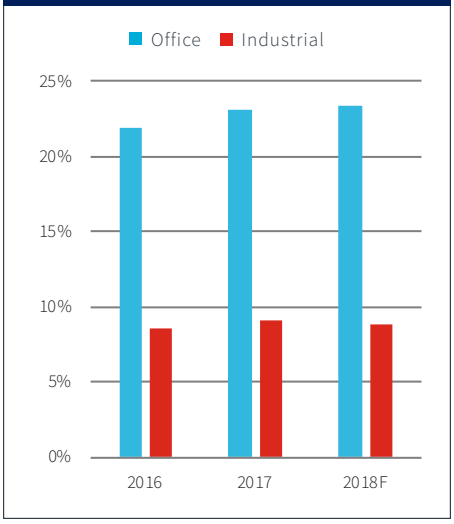
A return to positive economic growth is being reflected in the health of Calgary's industrial market. Demand from the transportation and logistics sector has been driving recent absorption as well as Amazon's decision to develop a 600,000-sf fulfillment centre in nearby Balzac. Industrial vacancy has tightened as the market responded to the provincial recession by slowing construction activity during the past three to four years. Some developers are still taking risks on new development at this time to ensure that new inventory can be delivered in 2018. Their positive outlook on the economy suggests they expect increased demand in 2018 and want to be ready to take advantage of the improving market.

Retail

Vacancy in Calgary's retail market was stable in 2017. With the exception of the central business district (CBD), vacancy rates were consistent with other major markets across Canada as the retail sector was generally less affected by the downturn. Due to high office vacancy, especially downtown, the CBD has registered higher-than-average store closures with few solutions apparent.

Department store closures are part of the continuing evolution in retail. Some shops are getting elbowed out of the marketplace by online retailers (such as Amazon), discount stores and more specialized or "experiential" retail ventures. The impending federal legalization of cannabis also has significant implications for retail opportunities.

Calgary Vacancy Rates



Investment

While both the number and total dollar volume of transactions were up compared with 2016, the average deal size declined in 2017. Calgary's relatively higher investment yields (versus Toronto and Vancouver) are attracting attention from active purchasers. A high proportion of investment in Calgary has been completed by groups that do not have existing exposure to the local market. These groups underwrote Calgary as a market with opportunity and purchased assets at prices not seen in more than a decade. An increasing number of transactions in 2018 are expected to drive investment dollar volume to its highest level in three years.

Edmonton

City poised to return as a leader in growth

Last year marked a period of stabilization as the city and province adjusted to a new economic reality following a sharp decline in the oil and gas sector. Edmonton appears to have weathered the recessionary period, as Alberta is forecasted by RBC Research to recover its position as Canada's provincial leader in real GDP growth in 2018. Recovery signs are evident through increased construction and energy outputs, elevated retail spending, and a levelling off of unemployment and vacancy rates.

Edmonton's economy will continue to expand in 2018. Local analysts are forecasting gradual, sustained GDP growth for the foreseeable future. The rebound is expected to be reflected in stable vacancy rates and increased sales velocity.

Office

Edmonton's office landscape will change dramatically with the delivery of Stantec Tower in 2018. The mixed-use, 66-storey tower will represent the focal point of Edmonton's evolving skyline. With the addition of 622,000 sf of class AA office space will come a flurry of movement. As tenants occupy Stantec Tower, they will vacate 530,000 sf of class A space, and further amplify price competition throughout downtown.

Short-tem downward pressure on rental rates will continue as landlords navigate market conditions. Amid shifting demand, the conversion of office space becomes an increasingly attractive option. Strategic Group announced in 2017 that it will convert 150,000 sf of downtown class C office space to rental apartments, while others are examining thier own opportunities as the city adapts to elevated vacancy levels.

Industrial

Edmonton's industrial market exceeded expectations in 2017. Upcoming construction activity in the Greater Edmonton Area will be accentuated by major projects, adding 1.6 msf of inventory during 2018 and 2019.

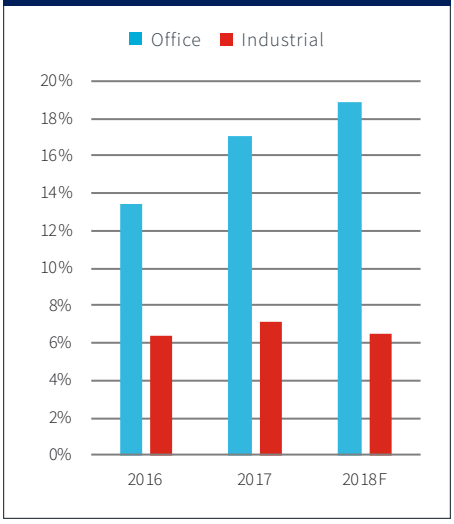
Alberta's energy sector responded to stabilized oil prices with increased drilling activity, which translated into positive absorption in some Edmonton submarkets. Although inventory demand is expected to converge with supply built in 2016 and 2017, Edmonton's industrial districts are not likely to return to the 3% vacancy registered three years ago. Tenants will benefit from competitive options, particularly in the northwest sector where vacancies exist in modern buildings that compete with new speculative construction.

Retail

After two years of contraction, Statistics Canada reported that retail spending grew 7.4% in 2017 and further solidified Alberta as the national leader in per-capita spending. A decline in unemployment, coupled with persistent population growth, will ensure retail consumption levels remain strong in 2018.

Edmonton's downtown core leads the city in modern retail innovation with the development of the 25-acre, mixed-use Ice District now underway. Retail space totalling 300,000 sf will be integrated with residential and office developments, allowing consumers to shop where they live and work. In suburban areas, the city's residential footprint continues to grow alongside new retail developments, which have replaced multi-family as the highest and best use of land.

Edmonton Vacancy Rates



Investment

Edmonton's investment property sales volume in 2017 was similar to that of 2016, but remains approximately 25% lower than average annual sales volume that transacted during the high-growth period of 2010 to 2014.

Capitalization rates are expected to adjust upward following a rise in interest rates in 2017. With further rate hikes anticipated in 2018 and many fixed-term loans maturing in the next year, lenders will be more cautious when renewing financing. Some borrowers will be forced to seek higher-cost alternatives to refinance debt, resulting in higher lending costs and putting upward pressure on cap rates in 2018.

Halifax

Shipbuilding spells steady industrial space demand

Halifax's economy continues to record slow and steady progress with economic drivers, including military, government, financial services, education, shipping and offshore activities such as energy exploration and drilling, contributing to the city's fortunes. Citizens living in small communities throughout Nova Scotia continue to migrate to the city, fuelling population growth and ultimately having a positive impact on the overall commercial real estate market.

Office

Uncertainty seems to be the main topic of conversation regarding the Halifax office market. An influx of office construction has increased vacancy, especially in the central business district, east of Citadel Hill. While millennials and empty nesters are clearly seeking residential accommodation in the downtown core, this trend has not yet resulted in new demand for office space. In fact, many government tenants are leaving the downtown core for the outer reaches of the city. Ongoing road construction, traffic delays and a shortage of parking are major contributing factors as tenants consider relocating from the downtown core.

Industrial

The industrial sector remains cautiously optimistic about vacancy, although it increased during 2017. Shipbuilding continues to support steady demand for industrial space, but Nova Scotia's offshore energy industry has cooled, tempering any potential significant drop in overall vacancy.

With one newly proposed building in the Burnside Industrial Park, some landlords are giving consideration to developing smart industrial buildings with greater energy efficiency and automated building systems, so professionals and tenants in the marketplace will be watching this new potential trend in the industrial sphere. A lack of new construction in recent years may be set to change in 2018 as demand grows.

Retail

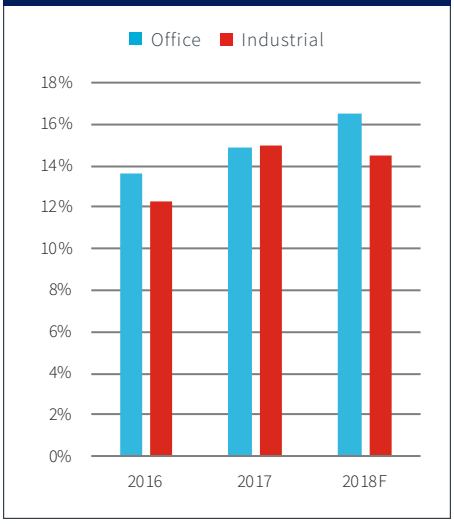
The most significant retail news in the Halifax marketplace in 2017 was the grand opening of an IKEA store (with a Cabela's following closely behind) in the Dartmouth Crossing area. This was not IKEA's first foray into the Atlantic region, but Halifax has not benefited from a physical store since the retailer left the market in the mid-1990s.

Big-box retail destinations and enclosed malls continue to thrive. Following the national trend, closures of some mid-level retail brands are expected, while boutique and discount retailers continue to expand. Startups and mom-and-pop shops continue to play a large role in the retail scene, and landlords have become more amenable to working with this growing class of services.

Investment

Investor interest in class A assets in major urban markets in Atlantic Canada remained strong. Demand for assets in secondary markets has continued to wane in the face of aging populations and a lack of economic growth. Halifax continues to be the regional leader in supporting active retail, office, industrial and multi-family investment transaction sectors.

Halifax Vacancy Rates



With a steady influx of population, Halifax's multi-family investment sector is more active than ever. Many of the developers are local family-owned businesses, strategically building and selling assets to publicly-traded companies and organized syndicates that are both local and from abroad.

Out of the remaining asset classes, grocery-anchored strip plazas are second only to multi-family assets from a demand perspective. Demand for office and industrial assets follows closely behind.

Lethbridge

City remains a stable place to invest

Lethbridge's economy, driven by agriculture and food processing, has been shielded from the boom-and-bust cycles of the energy industry that have affected other Alberta markets, according to the Conference Board of Canada. The construction of Cavendish Farms' potato-processing facility is expected to be a $350-million investment in the area. Lethbridge remains a stable and predictable place to invest.

Office

While office rental rates have remained stable around $15 psf, the vacancy rate dropped slightly to 14.5% in late 2017 – a trend that is expected to continue through 2018. Preleasing has become the norm with an expected surge of new office builds in 2018. Lethbridge is playing catch-up to a big-city trend: co-working office and individual-office rentals. Space sharing among tenants has proven to be pivotal in the growth of businesses – especially new ones – and this trend is set to expand throughout Lethbridge in 2018. Nevertheless, leasing activity in the office market is expected to remain strong.

Industrial

The industrial sector registered significant year-over-year improvement in terms of leasing and sales in 2017. Leasing activity was strong as vacancy dropped to 4.6% from 7%. Large construction suppliers and manufacturers occupied larger facilities. Smaller and medium-sized companies also upgraded, absorbing much of the remaining prime available inventory. Sales picked up due to the lack of available inventory for lease with smaller options, including industrial condominiums, the most popular choice. Deal volume of land sales also increased due to the lack of single-user options, which led to the majority of Sherring Industrial Park selling out and pushing prices from $215,000 per acre up to $230,000 per acre during 2017. Industrial vacancy is forecasted to remain around 4.7% through 2018.

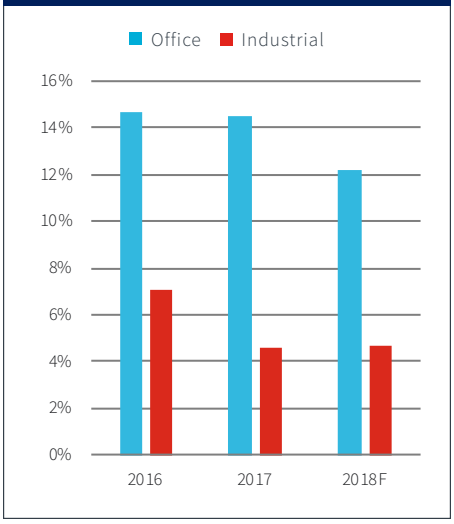
Retail

The retail market slowed in 2017 after coming off a strong 2016. There were pockets of continuous growth throughout all sectors of the city with new national and local tenants, including Marshalls and HomeSense, in each area. However, significant big-box vacancy came to the market in 2017 due to Sobeys, Safeway, Sears and Wholesale Sports closing or announcing upcoming closures. This situation has led to the redevelopment of big-box spaces into smaller mid-size box and commercial retail units that are more affordable and ideal for a broader range of retail and office tenants. This trend is expected to continue through 2018. Larger vacancies will likely be filled through sales to owner-occupiers and local and national developers. New retail development is anticipated.

Investment

The availability of good-quality assets remains tight. One significant sale in 2017 was a 248-unit apartment complex to an out-of-market buyer. Similar deals are expected to occur in 2018 as local investors are starting to feel that cap rates have hit bottom and are likely on the way up. Even with an increase in interest rates, cap rates will likely remain flat through 2018 as there is still demand for good-quality assets. As of late 2017, good assets could be found in the 6% to 8% range.

Lethbridge Vacancy Rates



Montreal

Promising outlook for the metropolitan area

With a record-low unemployment rate, the Greater Montreal Area (GMA) had a great year on all fronts in 2017. Vacancies in all market sectors improved despite being under a cloud of uncertainty due to recent changes in municipal political leadership.

Office

Montreal's office market performed fairly well in 2017 despite double-digit vacancy. Overall vacancy in the downtown core fell steadily, reaching 12% at the end of the third quarter of 2017. Likewise, leasing activity in class A office buildings in downtown Montreal was more stable as total sublease availability decreased to just 80,500 sf late in 2017. Montreal is growing in popularity as a hub for tech firms focused on developing artificial-intelligence systems, resulting in an increasing appetite for office space in the Midtown submarket, which remains attractive to IT companies.

Industrial

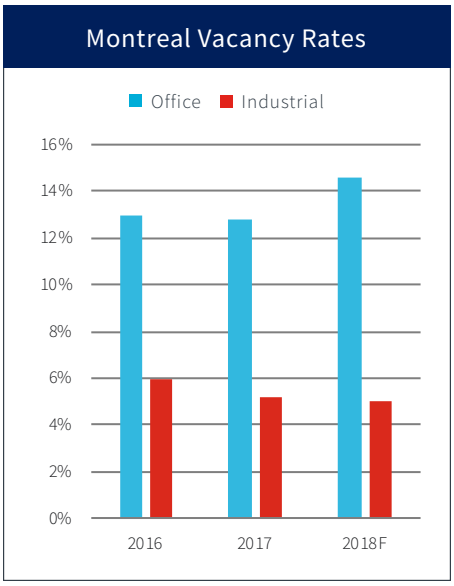
The industrial market registered record-low vacancy in 2017, dipping to 5.2% at the end of the third quarter. This rate is forecasted to drop to 5% in 2018 as just 29,600 sf of new industrial space is currently under construction. The lack of new construction, in addition to the ongoing conversion of existing industrial buildings, should exert upward pressure on industrial rental rates as demand exceeds supply. Limited land availability on the Island of Montreal has forced developers to pursue new construction projects off-island in areas such as the North Shore, the South Shore and Vaudreuil. The most significant industrial transaction in 2017 was the sale of Sears' National Logistics Centre (NLC) located in Ville Saint-Laurent. The 1.54-msf industrial property was purchased by Montoni for $50 million.

Retail

In spring 2018, the west side of downtown Montreal will be home to U.S. retailer Marshalls. The department store, owned by TJX Companies, will occupy 27,000 sf in the Alexis Nihon mall. Later in 2018, the Hudson's Bay Company will open the province's first Saks Fifth Avenue location along with a new Hudson's Bay store in Lasalle. The new 129,000-sf Hudson's Bay store will be located in Carrefour Angrignon shopping centre, while Saks Fifth Avenue will occupy 200,000 sf in the Hudson's Bay signature building in downtown Montreal. One of the most notable transactions of 2017 was Skyline Retail REIT's $32.25-million acquisition of a seven-property portfolio owned by the Jean Coutu Group. The total leasable area of the portfolio, the REIT's first acquisition in the province, is 149,324 sf. The cap rate for the transaction was 6.9%.

Investment

On the investment side, 2017 was a busy year with great investment opportunities in all asset classes. Several major office buildings were sold, including SNC-Lavalin's headquarters (purchased by GWL Realty Advisors for $173 million) and 1155 Robert-Bourassa, bought by Wafra Investment Advisory Group Inc. for $57.9 million. Class AA office buildings in downtown Montreal sold at cap rates ranging from 4.5% to 5.5% with an average price of $373 psf. Both are record values for the Montreal market. Compared with other cities, Montreal remains a fairly affordable choice for investors. Investment activity should remain strong even though interest rates might increase slightly in 2018.



Ottawa

New LRT system bodes well for investment

Historically one of Canada's most stable office markets, Ottawa often gets overlooked because its growth is predictable. Investors often bypass the Canadian capital as attention focuses on the big run-ups or declines in any given year. While 2017 began that way, there were subtle changes in the investment market later in the year that did spark investors' attention. The impending completion of a major phase in the city's transportation infrastructure projects and the immediate launch of phase 2 bode well for the city and should garner more national attention from the investment community.

Office

Industry insiders speculated in early 2016 that vacancy would rise modestly as the federal government continued to shrink its employee footprint and the private sector waited for major construction initiatives surrounding the city's light-rail transit (LRT) project to run their course. As expected, the overall office vacancy rate rose a modest 50 bps year-over-year to 10.6% at the close of third-quarter 2017 with certain market segments improving and areas of weakness readily explained.

The west suburban market is a centre for engineering expertise and product development. However, software developers – particularly gaming and app developers – are taking their office location cues from Shopify. Increasingly, small start-ups and established firms in this sector are looking to locate closer to where young, urban-based professionals live. With densification of the downtown core and the arrival of the LRT, companies are looking for more centrally located offices so that staff can take advantage of the improvements in public-transit infrastructure. This trend will translate into lower vacancy in the downtown core, particularly in class A and B space.

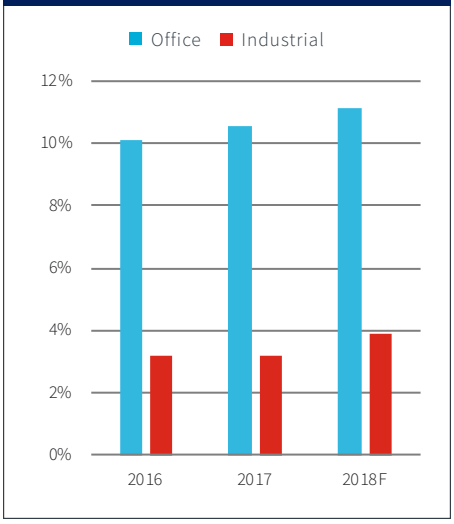
The Kanata market continues to show strength with the likes of Apple taking more space, Thales looking to relocate to the area and Ford evaluating the market in order to be close to like-minded value-add engineering development companies. As a result, upward pressure on rental rates in the Kanata submarket is expected.

The Suburban East submarket is poised to take advantage of the arrival of the LRT. Controlex's vacant property in the Train Yards development is located beside the Tremblay Road transit station and the company will certainly respond aggressively to any government tender that comes to market. A lease in that facility will move the vacancy needle significantly downward in 2018. Bentall's Blair Park of Commerce is also positioned to take advantage of the arrival of the new LRT as it is located within 150 metres of the Blair Road station.

Industrial

Ottawa's industrial market remained tight with vacancy at 3.2% and the priciest net rental asking rate in Eastern Canada. With limited new construction for the owner-operator market, vacancy in this asset class is expected to rise, but modestly, in 2018.

Ottawa Vacancy Rates



Retail

The retail market is likely to register a rise in vacancy for the first time in several years in 2018 as landlords cope with the departure of Sears and Sears Home stores from large urban malls.

Investment

Two significant trades completed in 2017 demonstrated Ottawa's position as a safe haven for acquiring trophy commercial assets. The sale of Constitution Square for $480 million ($453 psf) and the acquisition of a 50% interest in Minto Place for $188 million earlier in the year for a record $460 psf sent very strong signals to the market that trophy assets offered for sale in the national capital area will be well received in 2018.

Regina

Retail vacancy remains low despite churn

Saskatchewan's economy was forced to deal with setbacks and volatility in commodity prices in 2017, while its agricultural sector performed relatively well despite record dry conditions. Given the inter-relationships between its resource-sector economy and exports, concerns about the provincial and regional economies carried through 2017 and are expected to remain sensitive through 2018 and beyond. Regardless, employment grew by 1% in the first three quarters of 2017 and unemployment remained flat at 5.3%. Following negative growth in 2016, Regina's real GDP gain for 2017 is expected to come in at a respectable 1.5%, according to the Conference Board of Canada. Multi-year major infrastructure projects – most notably Regina's Revitalization Initiative and Bypass Highway – are expected to facilitate long-term economic development.

Office

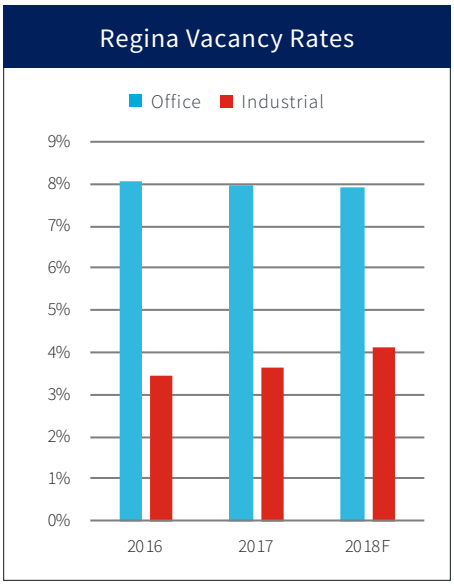
Following a rapid rise in vacancy that has rebalanced the market between landlords and tenants – the result of new construction that began three years ago – office vacancy in Regina began increasing and peaked in mid-year 2016. The third-quarter 2017 vacancy rate, blended between competitive and non-competitive asset classes, was 8% and is forecasted to remain flat through 2018. Government contraction, emerging technology and demographic trends, more efficient space planning, and flex space – all putting downward pressure on absorption – were the market realities of 2017. These trends are expected to continue for the foreseeable future, opening the door to business expansion without any development of new office inventory. The result is an erosion of the average asking rental rate for vacant downtown and suburban space.

Industrial

Regina's industrial market plateaued in 2017 with weaker than normal absorption of both land and floor space. Building inventory reached 22.5 msf at the end of the third quarter with a vacancy rate of 3.7%. Approximately 216,000 sf of new space was under construction, spread out between Ross Park, regional industrial parks and the Global Transportation Hub. Brightenview Development International began construction on its 80,000-sf Global Trade Exhibition Centre. Dream started construction on phase one of Harbour Landing Commercial Campus in south Regina. Serviced land prices range from $200,000 to $500,000 per acre, caught in a price squeeze whereby high development levies and an oversupply of speculative land are at odds with each other. Net asking lease rates on new space are $12 psf to $12.50 psf, while rates for existing space range between $8 psf and $11 psf. Vacancy and lease rates are expected to hold throughout 2018.

Retail

Consumer spending remained stable to strong in 2017, supporting the city's retail market throughout the year. Vacancy sat at 2.8% by the end of the third quarter of 2017 – despite the churn from the loss of large tenants such as Sears. Net asking rates remained consistent, ranging from $14 psf to $25 psf for existing space and $30 psf to $40 psf for new space. Big-box retailers Winners and HomeSense both opened second locations in Grasslands. The Aurora retail development, which will feature Costco, and Acre 21's new regional retail sites in east Regina are underway. The Westerra mixed-use community development has residential units in place and construction is underway on its retail shopping node.



Investment

The investment market remained robust in 2017 despite a relative lack of product. Historic downward pressure on cap rates abated somewhat as concerns over office market vacancy and higher costs of borrowing due to interest rate hikes emerged.

Toronto

Record-breaking 2017 sets the bar high for 2018

The Greater Toronto Area (GTA) recorded a record-breaking year in 2017, setting benchmarks for low office and industrial vacancy, high leasing velocity and investment volume, and development announcements. The market will be hard-pressed to repeat these results in 2018, but will remain active as the region gains increasing global prominence – and the city's Sidewalk Labs project, Amazon HQ2 bid and the federal government's technology superclusters initiative all have the potential to further raise its profile.

Office

A gulf remains between the landlord-favouring downtown and tenant-favouring suburbs. Record-low downtown vacancy (2.7% in third-quarter 2017) led to two notable downtown construction announcements. Work began on the 879,000-sf 16 York St. – downtown's first speculative project in decades – and CIBC's 1.75-msf lease transaction (the market's largest ever), kicking off a two-tower, 2.9-msf development to be known as CIBC Square. Co-working and tech tenants' growing share of downtown leasing activity challenges landlords to consider assets' future mix and will also shape the next development cycle. Low vacancy and rising rents may mute lease transactions in 2018, but further new development announcements are likely.

Suburban markets, offering abundant affordable options, may benefit from tight conditions downtown. Despite double-digit vacancy, delivery of new product continues, showing confidence in the market. New transit infrastructure is creating opportunities – notably the subway's extension to Vaughan (opened in December 2017), providing a link with downtown. The trend toward transit-oriented and mixed-use suburban developments will only intensify.

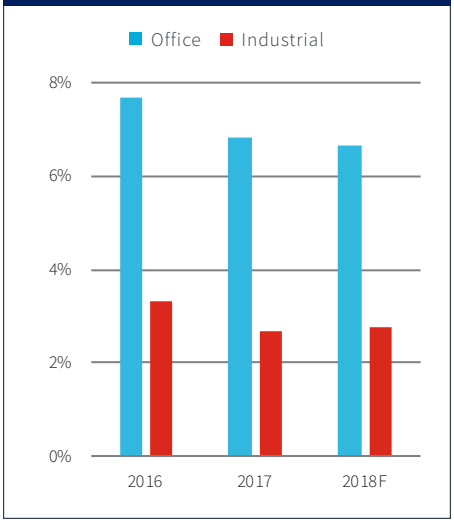
Industrial

Despite ongoing delivery of new product, the market (among North America's largest) remains undersupplied, and more development is needed to meet demand. On the leasing front, demand for spaces less than 100,000 sf in new facilities has increased some landlords' willingness to subdivide large buildings. For now, low interest rates mean user-purchase transactions remain popular. The repurposing of outdated assets will continue apace in 2018 while developers secure land. Suburban locations, such as Milton and Halton Hills, remain hotbeds of construction and leasing activity, but proximity to urban areas becomes increasingly important thanks to e-commerce and logistics needs.

Retail

Urban intensification and the rise of mixed-use development have led to a proliferation of retail in densely populated areas. Meanwhile, major mall owners' years of investment in upgrades are paying off. As e-commerce puts pressure on stores, the repurposing of large retail spaces for other uses will be a trend to watch. WeWork leased two full floors in the Hudson's Bay store downtown and will convert them to office use. The highrise boom and changing property-tax rules will affect street-front owners and occupiers in 2018 and beyond, while the retail sector throughout Ontario will also have to contend with increased costs due to an upcoming hike in the minimum wage.

Toronto Vacancy Rates



Investment

A vast amount of capital chasing limited product kept prices high and cap rates low in 2017 as total investment volume surpassed the previous year's record $12-billion result. Scarcity of product is pushing some investors toward more challenged assets – and/or locations (especially those well-served by transit) – to capitalize on redevelopment or future growth, requiring buyers to assume more risk. Prime assets have changed hands as vendors recycle capital to rebalance or refocus portfolios according to product type or geography, or to pay down debt. Partial-interest sales will continue as a means of mitigating risk. Interest-rate increases may reprice smaller product in 2018, but demand for prime assets will still drive competitive bids and high pricing.

Vancouver

Historic investment levels to moderate due to supply constraints

Investment in BC's commercial real estate assets surged to historic heights in 2017. Investment dollar volume of $5.09 billion in the first half of 2017 alone surpassed all previous annual investment dollar volume records in BC. Total investment in BC in 2017 will surpass $6.5 billion. This performance followed what had been a record year in 2016. Strong prices remained in play as a number of institutional-quality office and retail assets transacted primarily in Metro Vancouver in 2017. Vendors of industrial and multi-family assets also capitalized on strong demand and pricing. The vast majority of BC's commercial real estate sales and leasing activity is located in Metro Vancouver, which includes the City of Vancouver.

Office

Office sales dollar volume in BC in 2017 was comparable with 2016's record-setting dollar value, but did not exceed it due to a lack of supply. Land value underpins the valuation of office assets, particularly in downtown Vancouver, representing a significant barrier to entry for purchasers of traditional income properties. Despite robust demand, no significant office sales in BC are anticipated in 2018. This situation will likely lead sales and dollar volume to decline substantially. Leasing activity remains healthy with vacancy declining steadily in downtown Vancouver and throughout most of Metro Vancouver. Upward pressure on lease rates continues to build, particularly downtown and in other key suburban submarkets. A new development cycle, which kicked into gear in the second half of 2017, will deliver several new downtown office towers between 2020 and 2022.

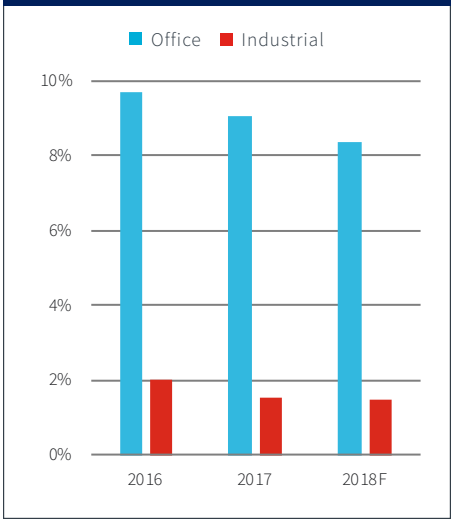
Industrial

Demand for industrial assets reached record heights in 2017 with deal and dollar volume surpassing previous Metro Vancouver records. Near record-low vacancy of 1.6%, rising lease rates and a limited industrial land supply made industrial properties in Metro Vancouver highly valued and prized by owner-operators, developers and investors alike. Questions around supply remain the sole constraint on sales activity. Supply limitations and macroeconomic factors, such as interest-rate increases and trade issues with the U.S., will likely curtail deal and dollar volume in 2018, but another record year may occur.

Retail

Total retail investment in 2017 surpassed all previous records with several notable sales of key retail assets in Metro Vancouver. While demand remains exceptionally strong for retail assets, particularly those with redevelopment potential, supply remains very tight. Lease rates and vacancy remain generally stable with the trend towards e-commerce having a negligible impact to date on vacancy at large regional shopping centres (many of which are already undergoing significant redevelopment as experiential retail destinations). Big-box vacancies have largely not been an issue in Metro Vancouver. Retail commercial real estate sales and dollar volume in Metro Vancouver are anticipated to drop substantially in 2018 due to supply constraints.

Vancouver Vacancy Rates



Investment

Investment activity in 2018 will not likely match 2017, as few core retail and office assets remain in Metro Vancouver that could command a billion-dollar-plus price tag. Supply constraints in all asset classes are forecasted to limit deal and dollar volume in 2018. This expected moderation in activity will be underscored by rising interest rates, U.S. trade uncertainty, Chinese government restrictions on the outflow of Chinese capital, new federal tax policies and potential provincial policy changes under a new government elected in 2017.

Waterloo Region

Increased growth and continuing demand going into 2018

Consistent growth in the local economy continued to drive the Southwestern Ontario market through 2017 and into 2018. The area encompassing Wellington, Waterloo and Brant Counties has registered rising real estate values and sustained transaction volume. The area's diverse economy provides a stable business climate and continues to attract users and investors in search of better returns and product types that are growing scarce in the neighbouring Greater Toronto Area (GTA). The Southwestern Ontario market has also enjoyed a closer connection with the GTA driven by the expansion of transportation nodes as well as numerous announcements of infrastructure upgrades.

Office

Southwestern Ontario's office market demonstrated steady strength throughout 2017 with strong levels of positive absorption. Much of the leasing activity has been driven by the expansion of companies already in the area and new developments in infrastructure, including Waterloo Region's Light Rail Transit system (LRT) and residential developments, which added to an increased need for office space. Companies migrating to Guelph and the Waterloo Region have also resulted in additional demand for space. The area's diversified office market, led by the tech sector, resulted in the office inventory growing by more than 1.5 msf to nearly 14.8 msf in 2017. Similar results are expected in 2018, though the timing of some developments may have some effect on the year's vacancy levels.

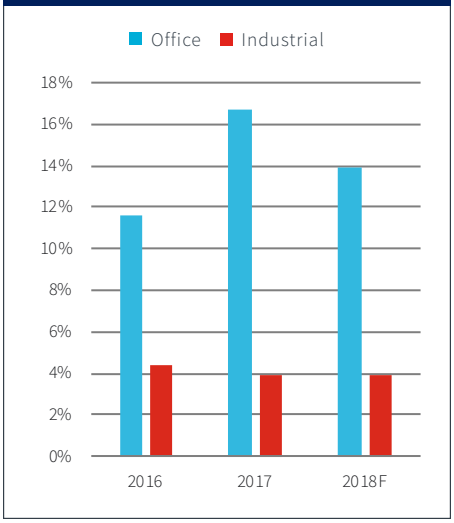
Industrial

The Southwestern Ontario industrial market continues to be one of the backbones of the area with total inventory topping 114 msf. Construction continued in 2017 with a number of new buildings becoming available. Leasing activity has been steady with average rental rates ranging from $4.50 psf to $6.50 psf. Proximity to Highways 401 and 403, as well as access to multiple U.S. border crossings, makes the region a logical expansion destination for companies. Demand through 2018 will continue with older-generation properties being repurposed for non-traditional industrial uses such as data centres and self-storage facilities. Vacancy is forecasted to remain stable through 2018 at 3.9% – despite the delivery of new supply.

Retail

The retail landscape is starting to take shape in the area. This transition has included a number of renovations and upgrades to regional malls. There has also been a repurposing of some properties to feature office, institutional or hospitality uses alongside traditional retail. With recent multi-family developments in the region's city cores, a number of boutique retail users continue to absorb space. As well, new housing has driven development of neighbourhood retail plazas. Retail market performance is expected to continue along these lines in 2018 with increased development on previously underutilized sites and newly zoned retail development lands.

Waterloo Region Vacancy Rates



Investment

The commercial real estate investment market continued its strong performance in 2017. Cap rates diminished slightly during the year thanks to increased demand from out-of-area buyers, including a number of institutional investors. This demand is driven by the lack of product and increased competition in larger markets, pushing investors who are hungry for stronger returns to the area. While the region continues to offer significant opportunity through potential redevelopment and increasing rental rates, demand will continue to be steady. It is anticipated that cap rates will creep higher in 2018.

Winnipeg

Downtown growth continues to rise

Between hosting the Canada Summer Games in 2017 and the grand opening of the Outlet Collection of Winnipeg Mall, construction cranes are dominating the downtown skyline. Downtown has been transformed as mixed-use development continues unabated. The downtown population has increased 2.8% annually since 2006, translating to 16,800 people in total. The median age (between 25 and 29) keeps declining with 51.4% of the downtown population holding a bachelor's degree, an indication that young and educated working professionals are seeking the live-work-play lifestyle in Winnipeg's core.

Office

Demand for downtown office space increased in 2017 with positive net absorption and vacancy decreasing to 6.6% across all building classes as of the third quarter. In spite of this demand, net rental rates remained stable with a small increase of 2% on a year-over-year basis. Class A buildings continue to ask for $20-plus psf, which includes modest inducements. Class B rates are in the mid-teens and rates for class C buildings are in the low double digits. The suburban market was relatively quiet with minimal absorption and average rental rates remaining stable at $13 psf. Some change in absorption will occur in late 2018 as True North Square continues to lease up space during construction. Tower 1 is expected to be completed in late 2018 and the remaining tower will be completed by 2020. The result of this construction will be a two-year uptick in vacancy downtown.

Industrial

The industrial sector continues to see increased demand for multi-tenant investment properties. Southwest Winnipeg offers the most desirable inventory with vacancy below 1% in late 2017 compared with 2.8% for all of Winnipeg. The average net rental rate in southwest Winnipeg was $12 psf with the rest of the city in the $7-psf range. The Conference Board of Canada anticipates a modest expansion with local manufacturing output forecasted to advance by 2% in 2017 and by 2.2% on an average annual basis from 2018 to 2021. Growth will remain healthy in transportation and warehousing at 3% in 2018 following two years of 4%-plus output growth. The wholesale and retail trade sector will also contribute to services growth with output set to rise by 2% in 2018.

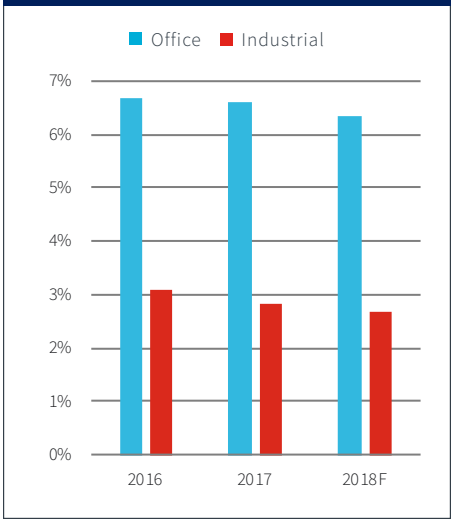
Retail

Winnipeg's stable vacancy rate continues to hover around 5% and is not expected to change significantly in 2018. Despite the closure of major retail brands (such as Sears and HMV), optimism remains high – especially in the southern end of the city. The 400,000-sf Outlet Collection of Winnipeg, which opened in summer 2017, has space for 100 retailers with 92 spaces already leased. Twenty-eight of these retailers are new to the market. IHOP's 6,000-sf restaurant opened in fall 2017 – the first of what could be the restaurant chain's four outlets in Manitoba.

Investment

This is an optimistic time for development in downtown Winnipeg as major multi-family and commercial mixed-use projects are set to reach completion in 2018. More than $900 million has been invested in downtown Winnipeg during the last decade. Phase 1 of the $400-million True North Square project is taking shape and construction on a $165-million, 40-storey commercial/residential tower has started. In the office sector, cap rates are expected to remain steady through 2018.

Winnipeg Vacancy Rates

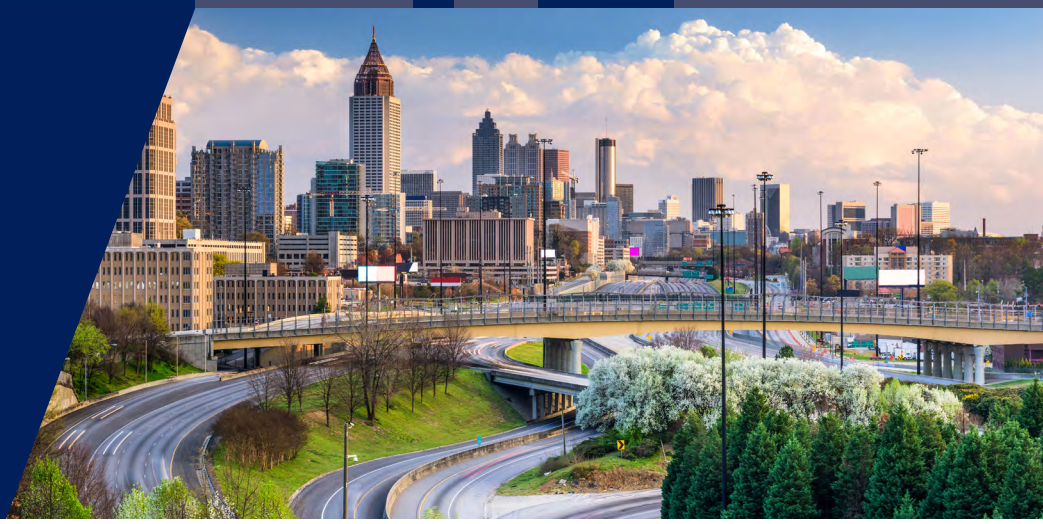


United States

37 Atlanta
38 Austin
39 Boston
40 Charleston
41 Charlotte
42 Chicago
43 Cleveland
44 Columbus, OH
45 Dallas
46 Denver
47 Detroit
48 Fairfield County
49 Fort Lauderdale
50 Greenville
51 Hartford
52 Houston
53 Indianapolis
54 Jacksonville
55 Las Vegas
56 Long Island
57 Los Angeles
58 Memphis
59 Miami
60 Minneapolis
61 Nashville
62 New Jersey
63 New York
64 Oakland
65 Orange County
66 Orlando
67 Philadelphia
68 Phoenix
69 Pittsburgh
70 Raleigh-Durham
71 Reno
72 Sacramento
73 San Antonio
74 San Diego County
75 San Francisco
76 San Jose / Silicon Valley
77 San Mateo
78 St. Louis
79 Tampa
80 Washington, DC
81 West Palm Beach
82 Westchester County

Atlanta

Same story, different year



Job growth and a strong talent pool remain key factors in Metro Atlanta's resurgence across all sectors of the commercial real estate market. As vacancy rates decline, asking rental rates rise and investors continue to show strong interest in the market. Between September 2016 and September 2017, Atlanta added 62,000 new jobs – a 2.3% increase. While the technology and e-commerce industries feed the pipeline of tenants in the market, Atlanta should continue to see growth through 2018.

Office

After a slow start to 2017, the Atlanta office market picked up momentum and is poised for additional growth in 2018. Construction activity remains tempered, keeping the vacancy rate steady at its lowest point since 2008. Class A asking rental rates continue to surge, spurring the overall Atlanta office market to break the $28-psf mark for the first time. New job announcements remain in the headlines weekly, particularly in the technology industry, and point to the market extending its current pace of growth. As long as developers continue to show discipline, the Atlanta office market should remain in landlords' favor through 2018.

Industrial

The industrial market continues to register historic growth, as new product has reached a record high. E-commerce is a driving factor as Amazon and other retailers with a strong online presence repeatedly choose Atlanta for their distribution needs. As an estimated 11.3 msf is expected to enter the inventory in 2018, at 19.4% preleased, the pace of construction should begin to slow to prevent an increase in the vacancy rate during 2018. Asking rental rates, up 17% since 2013, are growing steadily – a situation that should keep landlords in the driver's seat.

Retail

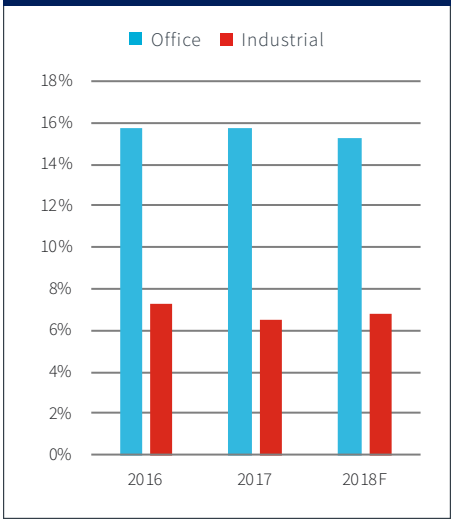
The retail market has begun to change as traditional retailers choose to downsize from brick and mortar stores and focus on an online presence. Due to this switch, construction activity is at a minimum except in a few mixed-use developments such as The Battery, which is attached to the new baseball stadium for MLB's Atlanta Braves. This trend should continue in 2018, pushing asking rental rates up as supply decreases. As the grocery wars have played out, home-goods stores are likely to replace grocery anchors in big-box spaces.

Investment

For the second year in a row, Atlanta was the fifth-most-active investment market in the U.S. through the first three quarters of the year in 2017, according to Real Capital Analytics. Investment volume totaled $8.7 billion through the third quarter, a marginal increase compared with the same period in 2016. The multi-family sector led the pack with more than $4.2 billion in total volume. Sales totaled $1.8 billion for office, $982 million for industrial, $942 million for retail and $746 million for hotel properties.

Although this cycle has already been long, there are no signs that the economy is nearing a turning point. After very little new development in the early part of the decade, Atlanta office and industrial development are in step with demand. Pricing for most quality assets is firm and is likely to remain so. Transaction volume in 2018 should be in line with that of 2017 as long as the economy continues to grow, but borrowing costs are expected to rise.

Atlanta Vacancy Rates



Austin

Robust population, employment and economic growth fuel market

Austin is the second-ranked market to watch in 2018 for overall real estate prospects, according to the Urban Land Institute's *Emerging Trends in Real Estate* report. The region's robust population, employment and economic growth are fueling all commercial real estate market sectors and arousing interest from investors. Projected sustained job growth and demand for all product types through 2018 translate to an optimistic outlook for this historically healthy market. Developers and owners should take Austin's distinctly tech-driven economy, large millennial workforce, and evolving workplace trends into consideration when formulating their strategies for 2018.

Office

Office-using employment growth is expected to carry through 2018 and preserve stability in Austin's office market fundamentals, albeit at a slightly softer pace. Landlords will likely enjoy another year in their favor even as an additional 2 msf of office product delivers in 2018 and stalls vacancy compression. Class A space will remain in high demand in 2018 though tenants may see some relief from landlords offering rental-rate abatement to offset climbing operating costs. Furthermore, as the millennial workforce begins to explore suburban life and high rental rates push some tenants out of downtown, suburban submarkets may see upticks in rental rates.

Industrial

Developers showed a positive response to increasing demand for industrial space with a development pipeline approaching 1.5 msf by the close of the third quarter of 2017. While historically low vacancy rates have prompted speculative development, the average occupancy rate for projects delivered in 2017 was only 48%. Asking rates rose with demand in 2017; however, additional space delivering to the market in 2018 may propel landlords to reduce rates in an effort to retain tenants. Flex space is expected to play a dynamic role in Austin's industrial market in 2018 as the adaptive reuse trend, initiated by creative office and retail users, gains traction.

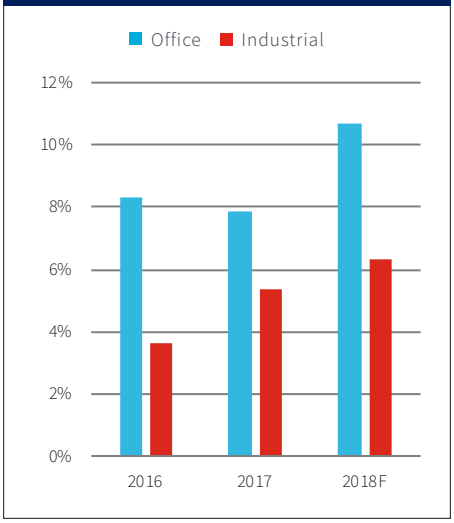
Retail

Anchored by a strongly performing economy, Austin's retail market remains solid and resilient. Austin's retail vacancy rate remains one of the lowest in the country at 3.5%, while a narrow construction pipeline may further bloat rents in 2018. Developers are expected to position new retail construction near neighboring commercial sectors, while landlords adapt to the changing retail landscape by renovating interiors to keep up with both tenant and consumer demand. Retailers, investors and developers should have a bullish outlook on the Austin retail market in 2018 as income and residential growth propel the retail sector forward.

Investment

Given the title of best non-gateway city in the U.S. for commercial real estate investment by DLA Piper, Austin's commercial investment sector is credited with high growth opportunity in 2018. Private and institutional equity penetrated the market throughout the third quarter of 2017 with multi-family sales volume outpacing all other sectors. Population and job growth, the potential of Amazon selecting Austin for its second headquarters and the anticipation of a variety of commercial assets coming online in 2018 mean private and institutional investors will enjoy a competitive and diverse investment landscape, with total annual sales volume expected to outperform that of 2017.

Austin Vacancy Rates



Boston

Demand for lab space underscores growth in health, education services and life sciences

The Greater Boston Area (GBA) continues to add jobs with education and health services recording the largest growth during 2017. The region remains an attractive place to hire, resulting in an unemployment rate that has now remained less than 5% for three consecutive years, sitting at 3.4% in the fourth quarter of 2017. More opportunities are on the horizon as Facebook, Wayfair and Amazon all announced plans to hire hundreds of employees.

Office

The GBA office market continues to tighten due to several factors: The continued migration of tenants from the suburbs, the growth of existing technology, advertising, media and information (TAMI) tenants in Boston, and their subsequent attraction and retention of employees.

In downtown Boston, new developments continue to lease up quickly as more than half of the space under construction is already preleased, as evidenced by commitments from PTC and Alexion at 121 Seaport. Transit-oriented and amenity-rich suburban areas will continue to claim the highest rents outside Boston and Cambridge, especially markets with commuter-rail access on the 128/495 belts. Absorption is expected to stay positive in 2018, supporting a more landlord-favorable market.

The GBA remains the hottest lab market in the country as existing availability has hit an all-time low, resulting in limited options for tenants looking for immediate occupancy. Looking ahead, there will be a surplus of options as almost 2 msf of lab space is currently under construction with expected delivery between 2018 and 2020. Construction of lab space is primarily located in Cambridge, as the desire for proximity to some of the best hospitals, universities and life-science companies in the world has attracted lab/office lab users to an unprecedented degree.

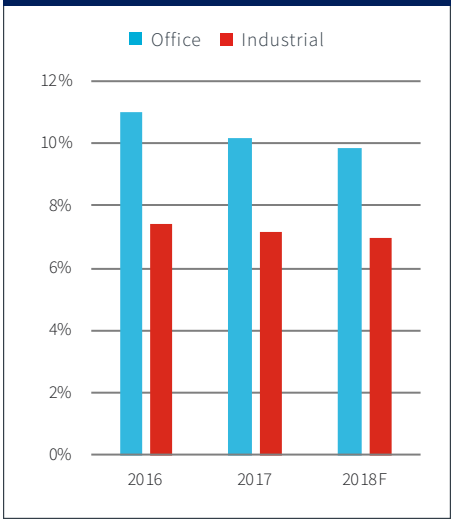
Industrial

The industrial market is expected to stay active in 2018, adopting e-commerce as the catalyst with many companies willing to pay top dollar for distribution centers. Demand drivers for the industrial sector continue to thrive resulting in record-low vacancy rates as leasing volume remains robust across the metro. Inside Route 128, the market has tightened significantly as options have decreased over the years, resulting in asking rents registering enormous growth. With active tenants primarily focused on location and proximity to strong demographics and city centers, sites along Routes 495/128 should continue to expand and produce more inventory.

Retail

Retail operations in the GBA have grown quickly due to a rapid increase in multi-family and office construction in the urban markets, while suburban communities are implementing a strong retail presence, creating live-work-play environments that compete with the city. Tightening market conditions and sustained economic growth this past year are expected to continue to support healthy leasing activity and incremental gains in rental rates into 2018.

Boston Vacancy Rates



Investment

Investment sales volume in 2017 proved strong as pricing remained at peak levels for all assets. Both tenants and developers have been remarkably restrained, using and building space in a highly efficient manner. Office assets are trading less frequently as long-term holds are exercised, whereas trade frequency is up for industrial and flex assets. Signs point to some potential overdevelopment in the luxury-apartment space. As new inventory delivers, this is a sector to watch going forward.

Charleston

Jobs drive growth and change

South Carolina's unemployment rate is at 3.9%, a 17-year low, while the Greater Charleston region (which includes Berkeley, Charleston and Dorchester counties) registered 3.7% in 2017. The tightening labor pool is a result of strong industrial growth within the region, spurring jobs across diverse sectors that include technology, auto manufacturing, aerospace and tourism.

The Port of Charleston is expanding with the Hugh K. Leatherman, Sr. Terminal currently under construction. The terminal is due for completion in 2020 and will nearly double capacity when combined with the existing terminals. The Port of Charleston processed a record 1.21 million TEUs in fiscal-year 2017 and continues to fuel a growing local job base.

Office

The state of the region's office market is best described in one word: change. While challenging, change is bringing exciting opportunities to this burgeoning market. Construction of multiple large-scale, mixed-use developments began in 2017 – several of which will come to market in 2018, adding considerably to the office inventory. Vacancy rates are expected to fluctuate in 2018 as absorption takes hold.

These new arrivals offer office tenants a dynamic, vibrant and convenient working environment well-suited to recruit qualified employees. To remain competitive, existing office property owners should consider investing in and enhancing their properties as the competition improves.

Industrial

The Greater Charleston region's industrial market grew in 2017 to include Orangeburg County – in part a consequence of both Volvo's and Mercedes-Benz Vans' plants coming online in 2018. Combined, these facilities will total 5 msf and create more than 5,000 new jobs. This activity has initiated a surge of automotive suppliers looking to enter the market, which in turn is driving developers and investors to construct speculative projects in an array of sizes and configurations.

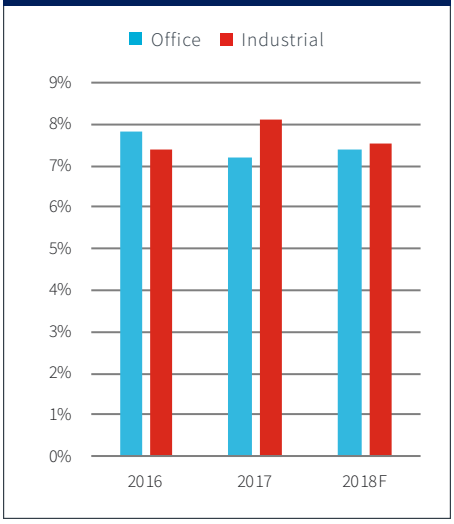
The result will be strong economics and demand in 2018 and for the foreseeable future. Vacancy rates have inched upward as new large products are delivered, slightly outpacing absorption; however, asking rents are stable and increasing quickly in the under-50,000-sf size range. The market should see the delivery of an additional 2 msf-plus of class A distribution space and some repositioning of older products to support the growing manufacturing sector.

Retail

Retail has grown quickly throughout the Charleston region as new shopping center developments follow the multi-family and single-family housing boom fueled by the transformation of the region's economy from service-based to science-and-technology-based. In addition, tourism continues to flourish.

Many new and exciting retail projects are on the horizon for 2018. Upcoming projects are spread throughout the region and include grocers and large mixed-use developments.

Charleston Vacancy Rates



Investment

While long attractive to local investors, Charleston is now considered one of the top 25 best-performing large cities in the U.S., according to the Milken Institute. Institutional stakeholders have taken notice as the market's growing employment base, rising wages and diversified economy have fostered confidence and lowered risk, driving investment to the area and compressing capitalization rates. This trend will likely continue through 2018 and beyond.

Charlotte

Landlords maintain the upper hand

Disciplined construction activity and strong tenant demand kept Charlotte's market conditions favorable to landlords in 2017. The region has become increasingly attractive to investors looking for upside opportunities that are difficult to achieve in high-priced gateway markets.

Office

Sustained job growth continues to drive strong leasing activity in Charlotte's office market. As anticipated, vacancy increased as new product was added to the market, rising 230 bps year-over-year to end the third quarter of 2017 at 13%. The average class A asking rate rose to $28.67 psf, up 10% year-over-year and 27% in the last five years. Of the 2.2 msf underway in the third quarter, 47% was preleased. The market will experience a drop-off in completions by the second half of 2018, which should help vacancy to stabilize. The pace of rent growth will likely slow in 2018. There may be an uptick in concessions, but conditions should remain favorable to landlords in the near term.

Industrial

Industrial vacancy declined 130 bps to 4.5% between third-quarter 2016 and third-quarter 2017 despite 2.8 msf in construction deliveries. The average asking rental rate for warehouse/distribution space ended the third quarter at $4.37 psf, up 5% year-over-year and 34% in the last five years. Projects totaling 4.1 msf were under construction in the third quarter with 45% of the space preleased. With nearly all of that space due for delivery by mid-year 2018, vacancy will almost certainly rise in the next 12 months. Nonetheless, conditions should continue to favor landlords. Structural changes in the retail sector are benefitting industrial properties – a trend that will escalate in the near term. Charlotte's central location with respect to major southeastern transportation corridors makes it a key hub for logistics and distribution firms.

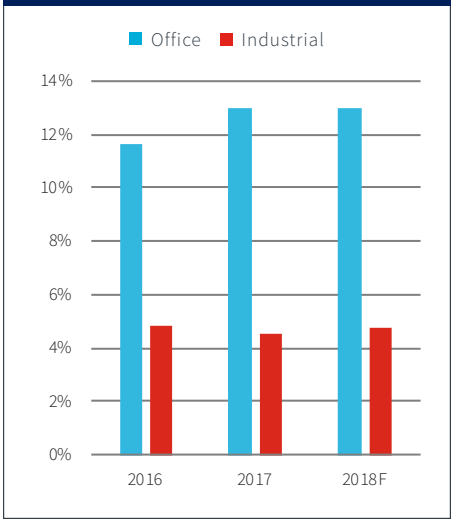
Retail

Retail vacancy ended the third quarter of 2017 at 6%, down 40 bps year-over-year. Retail construction has been modest throughout the recovery, contributing to a notable decline in vacancy despite headwinds facing the industry. Many of Charlotte's large-block vacancies have been backfilled quickly by a mix of traditional and alternative users. Competition continues to grow in Charlotte's highly competitive grocery market. Discount grocer Lidl opened its first three stores in the market in 2017. An influx of new brands in recent years has led existing grocers to increase offerings, revamp stores and lower prices to compete.

Investment

Investment volume in Charlotte surged to $4.5 billion in the first three quarters of 2017, up 29% compared with the same period in 2016. Activity was driven by the $1-billion sale of Ballantyne Corporate Center – the largest real estate transaction in Charlotte's history. The sale included 4.1 msf of office space, four hotel properties and land for future development. Office volume totaled $1.6 billion in the first three quarters, up 55% year-over-year. Multi-family sales totaled $1.2 billion, down 31%. Demand was intense for Charlotte industrial properties with volume totaling $743 million, up 85% year-over-year. Retail volume totaled $403 million, up 46% year-over-year, while hotel sales surged more than tenfold to $566 million. Investor demand should remain strong in 2018 as strong leasing fundamentals and favorable pricing compared with primary markets make Charlotte a key target for investors.

Charlotte Vacancy Rates



Chicago

Industrial sector continues to lead the charge

Chicago's commercial real estate market recorded a decrease in leasing activity throughout 2017 when compared with recent years. Certain office and industrial submarkets recorded an abundance of new construction, ultimately seeing fundamentals negatively impacted. A common theme across all asset classes is that users are choosing to consolidate within existing space. Chicago's economic climate remains positive with unemployment trending downward. There were 11,300 jobs added to the market year-over-year as of September 2017. This economic growth is expected to continue in 2018.

Office

The Chicago CBD office market continued to outperform suburban markets. Vacancy within the CBD was recorded at 11.4% during the third quarter of 2017 compared with 17.5% in the suburbs. Both saw modest increases year-over-year. Construction remains centered within select CBD submarkets such as River West and the West Loop. One of the largest leases signed in 2017 was Bank of America's 533,210-sf lease, which prompted the development of a new 1.4-msf trophy class A tower within the West Loop: 110 N Wacker Drive. This building is expected to break ground in mid-2018.

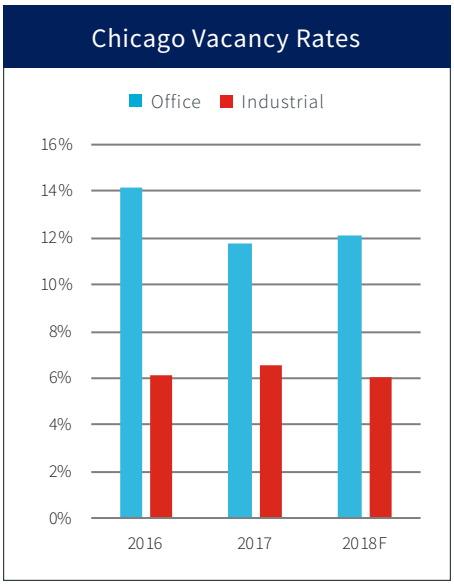
The River West submarket continued to attract developer interest, spurred by strong tenant demand. Notable tenants flocking to the submarket include Dyson, Leopardo Construction and Vital Proteins. This momentum is expected to continue and grow in 2018. With the increase of new supply, developers are becoming more creative with building amenities to attract tenants. An example is Sterling Bay's redevelopment of 311 West Monroe, which will include a bowling alley.

Industrial

Chicago's industrial market recorded a 40-bps year-over-year uptick in vacancy despite increased new construction, reaching 6.5% in third-quarter 2017. During the first three quarters, 18.3 msf was delivered with an additional 12 msf under construction. The I-80 and I-55 corridors received the bulk of construction activity, negatively impacting submarket fundamentals. Developers have been looking at in-fill opportunities due to a lack of land in high-demand submarkets. Brennan Investment Group has stated its intention to develop an 85-acre site within the O'Hare submarket. Major industry drivers continue to be e-commerce and food-related users. This trend is likely to increase due to Chicago's centralized location and existing infrastructure.

Retail

The Chicago retail market has seen an influx of restaurant and lifestyle-focused users, such as fitness and specialty, over traditional retail. The average deal size in 2017 was 2,970 sf – down 12% from the previous year, a sign that users are slimming down on space. Pop-up concepts have become more popular within the market as a way to mitigate both user and landlord risks.

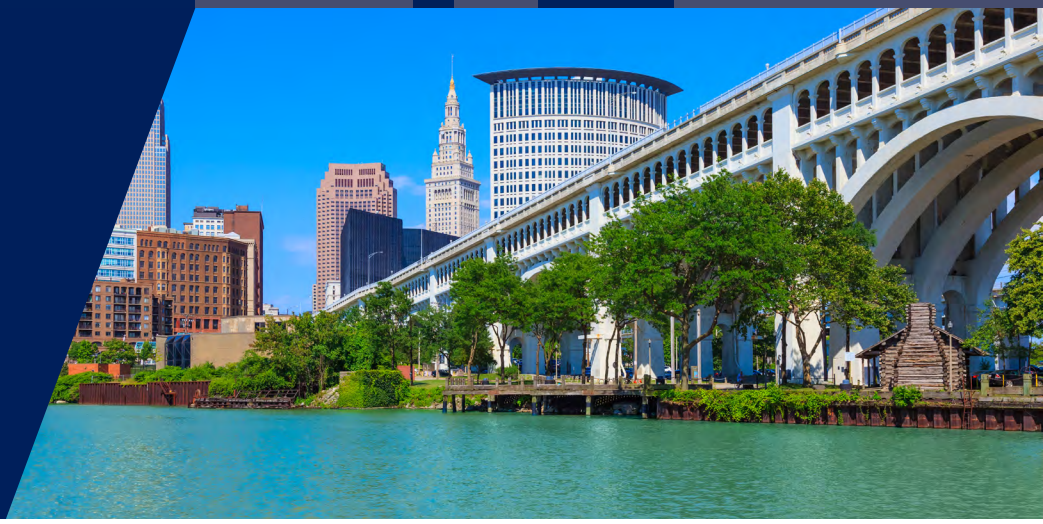


Investment

After a record-breaking 2016, investment activity slowed in 2017. Investment in Chicago's office market saw a 42% drop year-over-year in sales volume. Foreign investment saw a minor uptick when compared with the previous year, primarily from Chinese and Canadian investors. China's HNA Group purchased 181 West Madison for $355 million (or $373 psf). Industrial product remained an investor favorite due to strong fundamentals and the potential for higher returns. Industrial investment dollar volume rose 35% to $2.9 billion through the first three quarters of 2017. With demand from the e-commerce industry high, investors will continue to see industrial product as a viable investment.

Cleveland

Market still showing signs of expansion and stability



Cleveland's commercial real estate market is expected to maintain its consistent progress in 2018. The downtown population surpassed 15,000 residents in 2017, solidifying the city's status as Ohio's most populated business district (with hopes to achieve 20,000 residents by 2020). This recentralization has been catalyzed by a number of commercial-to-residential conversions, new development and the commitment of local business to the city's resurgence. To help boost the economy, the city is looking to attract startups by giving entrepreneurs access to an unprecedented $160 million in funds.

Office

The office market tightened slightly in 2017 in both the suburban and CBD sectors. While overall vacancy decreased 80 bps during the year, the suburban office market continued to outperform the CBD as it maintained its traditional lower vacancy rate. Tenants are often attracted to suburban markets for competitive pricing, proximity to housing and free parking. As the population expands in the CBD, it is expected that the downtown office market will become increasingly competitive with the suburbs. Suburban tenants such as national law firm Fisher Phillips have displayed an appetite to be a part of downtown's newfound energy. This trend is expected to continue throughout 2018. The difference in vacancy between downtown and suburban markets will likely decrease.

Industrial

The industrial market recorded a significant amount of expansion in 2017 as vacancy remained tight at 4.3%. The market has shown high demand for large blocks of high-bay space, sparking many new construction projects throughout the region. The most noteworthy event of 2017 was Amazon's announcement of an 855,000-sf build-to-suit fulfillment center in North Randall. It is expected that the market will stay the course in 2018 as growing companies backfill vacant spaces resulting from new-build product.

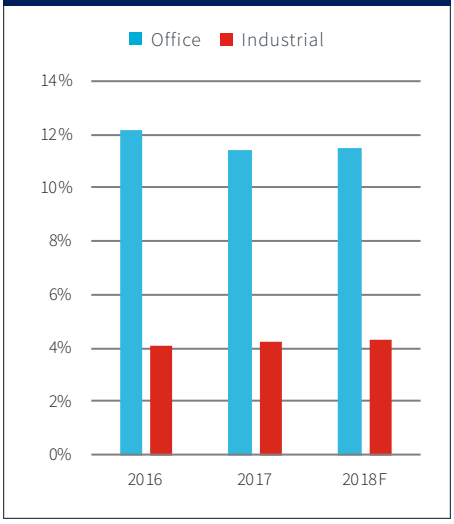
Retail

Cleveland's retail market experienced a broadening of its horizons as a number of new tenants entered the market in 2017. The increase in options is notable in the downtown, coinciding with the increase in residents and workers. Health and wellness organizations moved into the urban setting with tenants such as GrooveRyde, Harness Cycle and RiseNation opening their doors. Net absorption was negative largely due to the departure of big-box tenants such as Sears, which shut its doors at a 300,000-sf location at Southland Shopping Center. However, it is anticipated that Cleveland's retail market will continue to expand and diversify over the course of 2018.

Investment

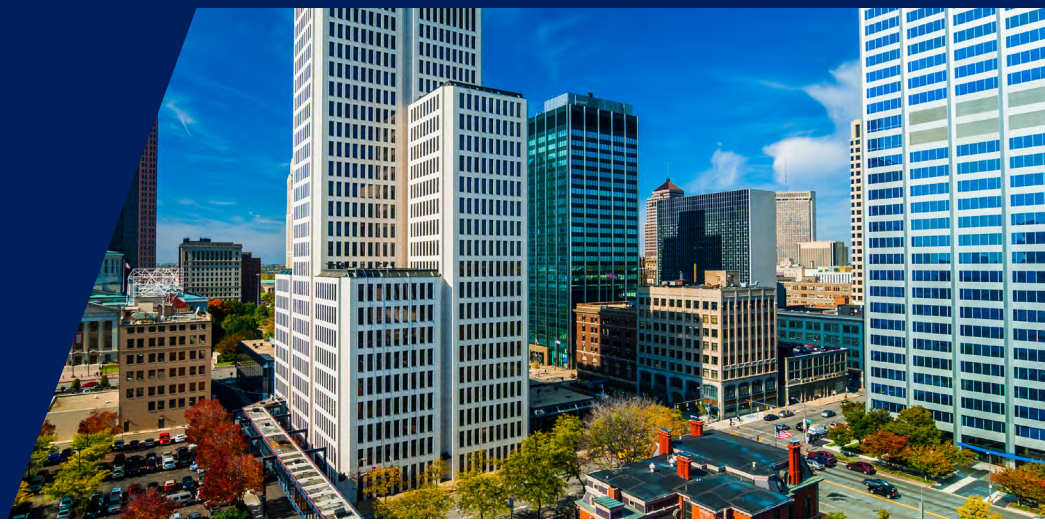
Cleveland's investment market tightened during 2017. The office sector led in investment activity with a number of prominent CBD office buildings and suburban office portfolios trading hands. The largest driver was the sale of Cleveland's premier office tower, Key Tower (1.4 msf), to The Millennia Companies for $267.5 million. Many local investment groups have taken a liking to old office product and are utilizing historic tax credits to revamp the buildings either for creative space or apartment conversions. As financing trends toward less attractive terms, it is expected that more investors who are long-term holders will enter the market looking for stabilized assets as value-add projects become increasingly challenging to uncover.

Cleveland Vacancy Rates



Columbus

State's capital with capital gains opportunities



A solid economy has been cultivated in the Columbus metro area with consistent employment opportunities and an unemployment rate lower than the U.S. average. Amid the region's 10-year development strategy for 2020, all metrics are surging ahead of the anticipated pace regarding job creation and per-capita earnings, with capital investment currently exceeding its set goal. Columbus has presented an offer for Amazon's second headquarters location, placing substantial prominence on the region's educated labor force. This opportunity could lead to 50,000 new jobs. The area is already home to several name-brand business headquarters such as Nationwide Insurance, Wendy's, Chase, Cardinal Health and The Limited Brand (which includes notable retail chains such as Victoria's Secret, Big Lots and Bath & Body Works). The presence of these corporations in the state capital allows people outside of Ohio to see the potential business affiliations that the state has to offer.

Office

The Columbus office market is adjusting to the growing population and demand for space. Vacancy increased 50 bps to 7% through the first three quarters of 2017, foreshadowing a continued increase in 2018, as demand will need to catch up with the development pipeline. The suburban sector of the office market continued to register positive net absorption, mostly concentrated in the Dublin area. As the community steadily expands, interest in the Central Ohio region is reaching an all-time high as a result of employment growth and an affordable cost of living.

Industrial

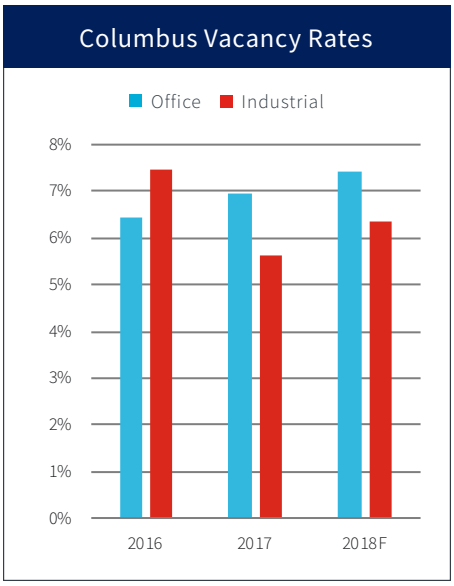
The industrial sector has been registering booming growth and activity due to technological advancements supporting the rapidly growing e-commerce trend. Vacancy in the Columbus area declined through 2017 to 4.2% in the third quarter. Net absorption is back on track and growing, further demonstrating that the industrial market is sought-after both for warehouse needs and the forthcoming medical marijuana industry.

Retail

Retail real estate took a hit in early 2017 due to major retailers closing throughout Central Ohio, but the market has since recorded positive net absorption thanks in part to well-leased shopping centers and no recent store closings. Similar to the office and industrial sectors, retail vacancy declined in 2017, reaching 4.2% in the third quarter of the year. The sector is expected to remain resilient thanks to steady consumer spending and the region's expanding and trendy restaurant scene.

Investment

Private investment is an integral component of the Columbus economy and the commercial real estate market's prosperity. Multi-family property investment continues to spread as the residential population has grown over the past 10 years along with demand for mixed-use buildings. The Columbus



Downtown Development Corporation was created in 2002 to revamp and rejuvenate downtown Columbus with the objective of presenting the public and businesses with incentives to create a live-work-play environment downtown. All commercial real estate investment sectors are set to benefit from this revitalization in 2018. E-commerce and trade warehouses are in demand, resulting in continuous decreases in vacancy and a need for industrial space.

Dallas

People, companies flock to business-friendly area

The Dallas-Fort Worth (DFW) market continued to thrive through 2017. Dallas is widely known as one of the most business-friendly environments in the U.S. Both individuals and major corporations flocked to the metro area to take advantage of the low cost of living and friendly business climate. The cost of living in DFW is roughly 50% lower than in many other major corporate hubs, according to the Dallas Regional Chamber of Commerce. Employment gains have been both robust and broad-based with the financial services, technology and healthcare sectors leading the way. After explosive growth in 2016, the DFW metro settled into a strong, yet sustainable, pace in 2017 – a trend that is expected to continue through 2018.

Office

Impressive employment gains and corporate relocations drove office market expansion throughout the past three years. Major corporate projects that were in the works for years delivered in 2017 including the Toyota, Liberty Mutual and JP Morgan Chase campuses totaling a combined 4.5 msf. These large build-to-suit deliveries resulted in 2017 being one of the best years on record in terms of absorption. Large corporations continue to announce expansion plans in the Dallas market, keeping build-to-suit construction activity high in 2018. However, the construction pipeline has contracted slightly due to major deliveries, indicating that the current development cycle peaked in 2017. While major build-to-suit projects are beginning to wrap up, speculative construction activity has increased to address the growing demand for new product. The current speculative construction pipeline is only 28% preleased, so this space will help to alleviate the tight market conditions upon deliveries. Although a record amount of new product was delivered to the market, vacancy only increased by 20 bps in a year, registering 14.9% in the third quarter of 2017. Strong demand is expected to place continued upward pressure on asking rates through 2018.

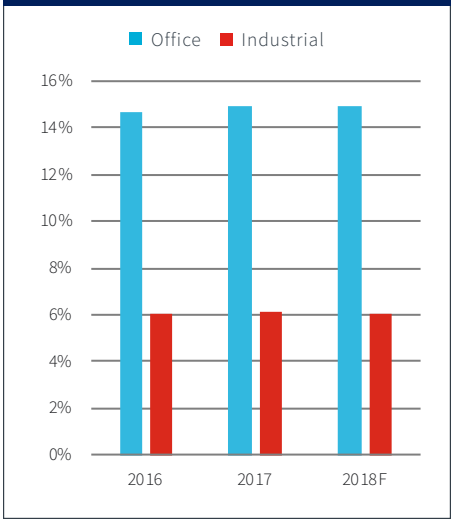
Industrial

The ongoing population boom is driving demand from industrial users, particularly e-commerce suppliers as online shopping grows in popularity. To keep up with the growing demands of e-commerce consumers, distributors are expanding in DFW to improve connectivity and efficiency. The city's vibrant economy and centralized location make Dallas an ideal hub for warehouse and distribution properties. A historic amount of construction activity during the past three years has been met with record-breaking leasing activity and absorption, resulting in a consistently tight industrial market. Demand in the market continues to push rates higher. The DFW industrial market is projected to maintain this high level of activity through 2018.

Retail

Availability of retail space tightened further throughout 2017. The substantial growth in Dallas is supporting high-paying jobs, leading to increased consumer spending and the need for additional retail locations. Average asking rates climbed throughout 2017 and are expected to continue increasing through 2018.

Dallas Vacancy Rates



Investment

Foreign and domestic investors alike are taking notice of the explosive growth that is occurring in Dallas. An increased amount of capital has flowed into the market in recent years. Record highs for office sales occurred in 2017, particularly in Uptown. Uptown commands some of the highest asking rates in Dallas with many corporations choosing the location due to its appeal to young professionals. Investment activity in DFW shows no signs of slowing and is projected to remain high in 2018.

Denver

Record growth begins to slow but indicators still very positive

Denver's economy continues to enjoy the lowest unemployment rate of the major U.S. metro areas, according to the Bureau of Labor Statistics (BLS) as well as the ongoing in-migration of skilled millennials to the city. The Colorado Bureau of Local Affairs indicates total population growth was 1.6% in the Denver-Aurora-Lakewood Metropolitan Statistical Area (Denver MSA) in 2016, down from 2% in both 2014 and 2015. Businesses keep relocating to the Denver MSA, and, according to the BLS, an average of 9,800 jobs were added monthly through September 2017. Denver's strong economy and growing population will support a healthy commercial real estate market in 2018.

Office

After a decade-long sustained growth cycle, demand for office space remained high in 2017. However, developers are more cautious with nearly 5 msf under construction and slowdowns in preleasing and rent appreciation occurring. The vacancy rate increased 150 bps during the first three quarters of 2017 to 11.8% despite strong leasing activity as 2.1 msf of new supply was delivered. The downturn in the energy industry barely affected the office market in 2015 and 2016. The oil and gas sector's recovery will further increase leasing in 2018. Due to increased tenant diversification and the steady absorption of new product, Denver's office market will remain strong in 2018.

Industrial

The industrial market remains very tight with limited options for medium-sized tenants and investors. The construction boom has targeted users requiring more than 80,000 sf, and much of the space is preleased. Rent growth has slowed after the feverish pace set during 2012 to 2015; however, rents will likely continue to rise in 2018. An influx of new product caused a slight uptick in vacancy, yet the market still remains near historic lows. These strong fundamentals proved attractive to developers and investors. Denver's growing population of middle-income workers also drives demand for e-commerce distribution centers. All signs point to a landlord-favorable market for the next few years.

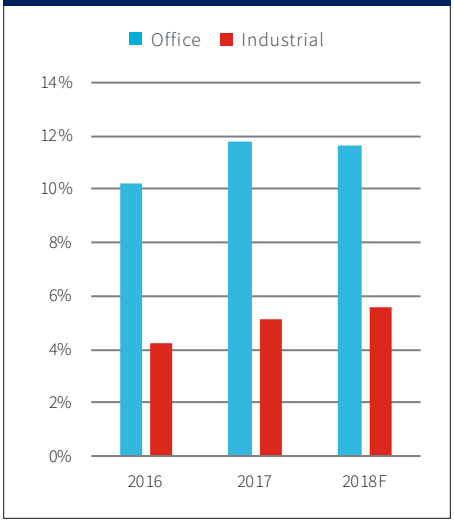
Retail

The expanding population has increased demand for all types of retail space in recent years. Denver's vacancy and rental rates will remain the envy of many retail markets through 2018. Development has shifted from purely retail sites to mixed-use or transit-oriented development. Millennial transplants with disposable income want to live and work near amenities and the expanding Light-rail transit system has fostered new commercial corridors near public transport, favored by municipalities. Leasing will likely slow in 2018 as financing grows more difficult and a shortage of contractors impedes new move-ins.

Investment

Denver's economy and growing population have increased investor interest during the past few years.

Denver Vacancy Rates



Cap rates and pricing remain very attractive, especially to coastal investors seeking greater returns and for whom Denver's combination of demographic indicators and market fundamentals remains a bargain. Downtown and Tech Center submarket office buildings are commanding record prices as are multi-family properties. Institutional investors have also judged the market to be worthy of long-term ownership, further diversifying capital origins. With a projected slowdown in multi-family development, capital flow into industrial keeps increasing. As the Denver market slowly cools in 2018, it will also see a slowdown of new investment. However, the Denver market will be a safe bet for those making capital decisions in 2018.

Detroit

Downtown Detroit's comeback continues

Detroit's CBD, Midtown and New Center markets remain the topic of conversation throughout southeast Michigan. As businesses and residents continue to migrate from the suburbs to downtown, vacancy has decreased while lease rates are steadily rising. Two major developments that delivered in 2017, and helped the overall revitalization, include the Little Caesars Arena (home of the NHL's Detroit Red Wings and the NBA's Detroit Pistons) and Woodward Avenue's QLine rail line. Both developments have bridged the gaps among Detroit's urban submarkets of Downtown, Midtown and New Center. Development set for completion in 2018 includes the delivery of Little Caesars 234,000-sf headquarters in the summer. Two large-scale mixed-use developments are set to break ground in 2018 including the Hudson Site and Monroe Blocks, with both set to deliver in 2022 and total 1.8 msf of office, retail and residential space.

Office

Detroit's office vacancy rate decreased to 11.8% in third-quarter 2017 from 12.5% at year-end 2016. Detroit is still a predominantly suburban market with 84% of absorption having occurred outside downtown in 2017. In response to declining vacancy and positive absorption, the average asking rental rate increased slightly ($0.20 year-over-year) to $19.64 psf. Absorption and vacancy are expected to continue in a positive direction in 2018 while rental rates rise modestly.

The most significant transaction in 2017 was WeWork leasing 80,000 sf at 1449 and 1001 Woodward Avenue. The deal indicated an acknowledgment that a sufficiently sized millennial labor force exists in Detroit to support entrepreneurial business and the co-working concept. The tech industry continues to grow in Detroit with names such as Google and Microsoft committing to leases in the downtown market. Google is relocating into 35,000 sf downtown from the suburbs. After 30 years in Southfield, Microsoft is relocating its regional tech center to 40,000 sf downtown, which will house 200-plus employees. Metro Detroit is still reliant on the automotive industry to spur innovation in manufacturing and technology. As the industry moves towards autonomous vehicles, Metro Detroit will serve as a hub for a transient and highly skilled technology workforce.

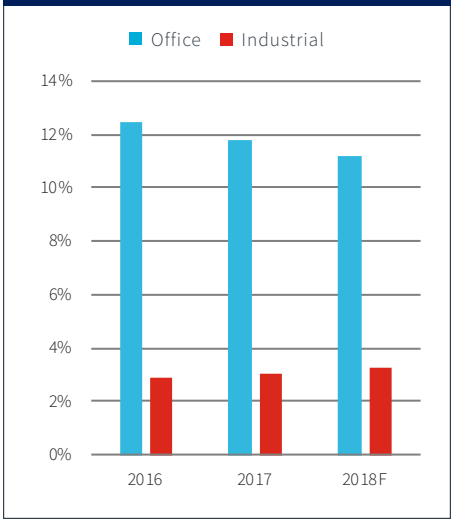
Industrial

Demand in Metro Detroit for industrial and flex space remained virtually unchanged as the vacancy rate in the third quarter of 2017 rose to 3.1% from 2.9% at year-end 2016. The low vacancy reflects a shortage of quality product. As a result, some companies may decide to go to other markets to satisfy supply-chain solutions. Challenges facing the industrial market include a potential slowdown of the auto industry; however, the industrial market remains healthy with disciplined speculative development in suburban Detroit.

Retail

The excitement of Detroit's turnaround continued its momentum throughout 2017 as national retailers, including Lululemon, Bonobos and Under Armour, all made long-term commitments to flagship retail locations in the downtown market. Retail remains an important topic in downtown Detroit as the city is continuing its efforts to become a 24-hour live-work-play city.

Detroit Vacancy Rates



Investment

Continued investment in Detroit will be one of the major business drivers affecting the broader market in 2018. The most notable sale in 2017 was the 450,000-sf Bank of America regional headquarters building in Troy for $74 million ($164 psf). Some large transactions are expected in 2018 as investors who invested early in downtown Detroit begin to take some profits off the table.

Fairfield County

Increased investment on horizon in 2018

In the state of Connecticut, Fairfield County leads all other regions in recovering jobs lost since the Great Recession, according to the Bureau of Labor Statistics. Boding well for the economy was groundbreaking news that the U.S. Department of Defense signed a $3.8-billion contract with Sikorsky Aircraft to build Black Hawk helicopters. A division of Lockheed Martin, Sikorsky has been headquartered in Stratford, CT for more than 85 years and is a significant employer in the Fairfield County market.

As has been the trend in the past few years, the Financial Activities sector added the most jobs in 2017, followed by Health Services, while the Professional and Business Services sector registered year-over-year declines. This trend is anticipated to continue in 2018 as large corporate entities move forward with planned mergers and acquisitions.

Office

Vacancy continued to trend upwards in 2017 and marked continued softness in the overall office market with the Stamford submarket recording the highest vacancy at 24%. A mix of optimism and uncertainty prevailed among owners of the market's largest office buildings. Charter Communications' relocation and expansion of its headquarters to 500,000 sf in 406 Washington Boulevard is a good sign for the Fairfield County market. The move will create more than 1,000 new jobs. However, Charter will be vacating 110,000 sf at 400 Atlantic Street in Stamford, where it is currently headquartered.

Fairfield County is expected to register a gradual but continual backfilling of some of the larger blocks of vacant space in 2018, accompanied by a strengthening of office market fundamentals.

Retail

Leasing continued at a moderate pace in 2017, putting downward pressure on vacancy, which was 3.3% as of the third quarter. While there were fewer lease transactions in 2017 than the previous year, the average deal size was larger. Some of the bigger deals were done by medical practices – a sector projected to increasingly drive retail leasing activity in 2018.

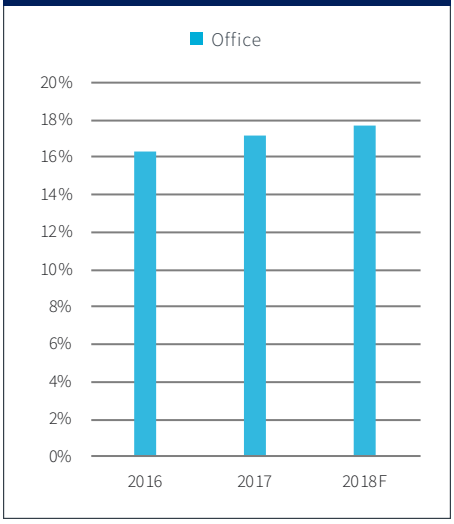
Bucking the national trend, General Growth Partners is moving forward with the construction of a 700,000-sf mall in Norwalk, where the planned anchors include luxury retailers Bloomingdale's and Nordstrom. Anticipated to deliver in 2019, this addition to Fairfield County's retail inventory marks the continued strength of bricks-and-mortar retail in this market.

Investment

On an annualized basis, investment sales growth in 2017 was marginally higher than in 2016, but outperformed the Northeast and Tri-State regions. The office and multi-family sectors drove most of the sales dollar volume – albeit at reduced levels compared with 2016. In the office market, a combination of a falling average price per square foot and higher cap rates are beginning to garner interest from institutional investors, particularly for well-situated, urban-core buildings. Key trades in the multi-family sector, including the sales of a 209-unit building at 66 Summer Street and a 124-unit building at Parallel 41 in Stamford to out-of-state investors, mark continued interest in Fairfield County for core investments.

In 2018, an increase in total sales volume may be registered, as well as further discount sales from sellers keen on beating anticipated interest-rate hikes and even higher cap rates.

Fairfield County Vacancy Rates



Fort Lauderdale

Strong economic fundamentals drive absorption across all asset types

Reinforced by a strengthening economic base, Broward County continues to lead South Florida in job creation, according to the Bureau of Labor Statistics. This foundation ensures investor confidence in the area and provides a safe haven for foreign capital. Furthermore, tenants are increasingly attracted to the area as demonstrated by continued positive absorption recorded throughout the market. This situation has led to declining vacancy, rising lease rates and an increase in development proposals from areas as far south as Dania Beach to as far north as Deerfield Beach. These factors have led Broward County to continually outperform the national average in terms of overall vacancy quarter-over-quarter during the last few years. The strength of the Broward market is expected to remain consistent in 2018.

Office

There is increasing interest in suburban areas of the market and recent vacancy compression has sparked development activity throughout the area. While many of these projects have been in the works for some time, those approaching completion will provide more opportunities for tenants seeking high-quality space at affordable lease rates. Many owners are approaching this opportunity by expanding their properties' amenity bases, maintaining environmentally-friendly designs and improving overall energy efficiency. These projects are becoming increasingly common as South Florida continues to foster environmental sustainability without sacrificing operational efficiency.

Industrial

The Broward County industrial market continues to play an important role in South Florida's global logistics market. The primary driver supporting this role is Port Everglades, which is one of two ports in the South Florida region. As a large port market, Broward County has recorded increased container traffic – which is having an impact on the local industrial market, driving down vacancy and driving up absorption and asking rates. As a result, developers have responded with new product. The industrial market's growth is forecasted to move in tandem with Miami's activity, driven by similar logistical factors.

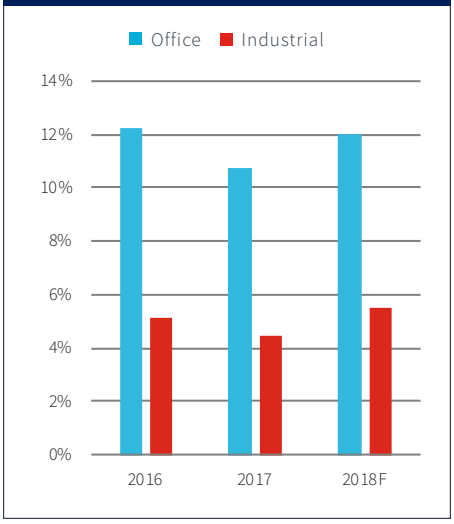
Retail

While demand for retail is likely to remain relatively consistent with recent historical trends, declining vacancy and rent growth have begun to push developers into action. As supply continues to hit the market, vacancy could begin to increase gradually despite the steady absorption that has taken place in recent years. For example, large projects, such as Dania Pointe (a 102-acre mixed-use development), have the potential to lure tenants from strip centers and urban areas to a true live-work-play community. The retail market is expected to continue to perform with emphasis placed on new-to-market assets.

Investment

In response to growing office, retail and industrial markets, investment activity remains strong, especially among urban office properties. Two of the largest sales of 2017 were One Financial Plaza and 200 E. Broward Boulevard for $86.8 million and $81.5 million, respectively. These sales validate investors' interest in downtown Fort Lauderdale's pursuit to become a true live-work-play environment. Also powered by the strength of leasing activity were the sales of multiple retail and industrial assets throughout the county. One of the most notable sales was Duke Realty's $55-million acquisition of Bridge Point I-95 distribution center. Industrial activity such as this showcases the appeal of Broward's industrial market as an affordable alternative to Miami-Dade County.

Fort Lauderdale Vacancy Rates



Greenville

Population growth continues to drive economic expansion

Over the past eight years, Greenville's economic development corporations have been successful at creating stable employment growth. Manufacturing jobs continue to be created in the Upstate. Overall, growth in high-paying office jobs is slowing down. Developers have taken notice and have focused on multi-family and hotel projects, attracting national retailers to the area. These trends have increased property values and caused major tenants to put down roots outside the CBD.

Office

After many years of robust growth in the office sector, demand in Greenville is challenged to keep up with supply. There are ambitious projects on the horizon that will increase the office supply. This situation has caused hesitancy among investors interested in the construction of new buildings as opposed to purchasing and giving a second life to existing ones. The Pelham Road market and Greenville's CBD had their fair share of transactions from both in-state and out-of-state investors. Greenville is transitioning into a tenant's market. As major projects come to completion and inventory increases, property owners may make more concessions for tenants to remain competitive. This will force owners of older buildings in the market to make some necessary improvements.

Industrial

The Upstate industrial market recorded significant inventory growth in 2017. With positive net absorption, vacancy declining slightly and lease rates stable, these landlord-favoring conditions will persist amid increased demand from tenants. Manufacturers are placing a priority on production capability via capital-expenditure projects, but will look to outsource warehousing needs. South Carolina Ports Authority's planned improvements to the Charleston Port and Greer Inland Port will lead to more economic development and growth opportunities within the market.

Third-party logistics companies will be the beneficiaries of manufacturers' production expansions with contract-driven requirements for warehouse space. Incoming and expanding manufacturers have voiced concerns regarding the labor pool, which are currently being addressed by local technical schools.

Retail

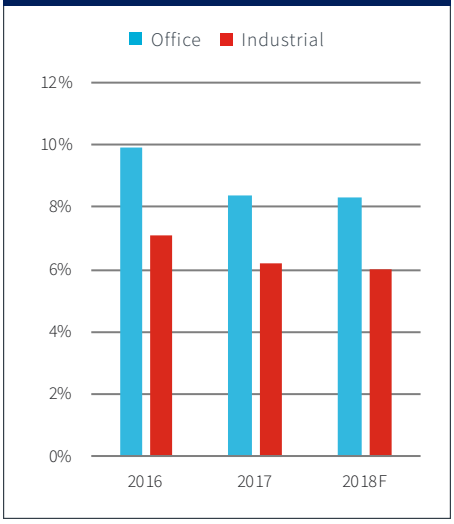
Fueled by growing tourism, national accolades and strong population growth, Greenville's retail market has continued to expand due to national, regional and local tenants. Downtown Greenville's competitive restaurant scene, along with new concepts coming to market, has resulted in the closures of multiple local and regionally owned restaurants. Rents in the CBD rose in 2017, specifically within the retail sector. Suburban markets with strong population growth have seen a rise in grocery-anchored developments, which boast lower vacancy rates. Increased population and job growth, combined with stable construction activity, are expected to drive landlord-favoring conditions throughout 2018.

Investment

Greenville continues to appeal to out-of-state investors as they have seen rental rates increase in the CBD. The industrial investment market will remain strong thanks to BMW's presence in the Upstate. The merger of Palmetto Health Systems and Greenville Health Systems has added strength to medical office investments in the area. Office and retail land owners may find it an ideal time to divest their assets as rental rates are at an all-time high, especially surrounding the CBD.

Jobs continue to be created in the Upstate through expansions in manufacturing such as BMW's recent $600-million investment. Low unemployment numbers and increased demand for an educated, trained workforce will further the growth of the Upstate economy, benefiting retail and tourism. Office users can also be excited about new projects being delivered.

Greenville Vacancy Rates



Hartford

National suppliers look to industrial market

The Hartford market has had to strike a balance between the state's difficult tax climate and the Greater Hartford Area's (GHA) skilled labor pool in order to drive demand for commercial product after coming off strong job growth in 2016. While industrial activity has been on the rise, particularly in the warehousing and distribution sectors, downtown Hartford is also being rejuvenated in a variety of ways – most notably, the continued development of residential units in the CBD. Other factors contributing to Hartford's renewed vibrancy include Hartford's new baseball team (the Eastern League's Hartford Yard Goats) having its first successful season at the recently constructed Dunkin Donuts Park, and the University of Connecticut's recently opened downtown campus bringing students and new retail viability to the Front Street area of the city.

Office

Office vacancy in Greater Hartford decreased 60 bps from the start of 2017 to 12.2% at the end of the third quarter. While much of the leasing activity was driven by large commitments signed in the suburbs, downtown Hartford is now beginning to see urban-migration trends take hold similar to other North American office markets. Companies looking to attract and retain employees are considering downtown Hartford, where they can access a larger labor pool than in the suburbs and provide more of a live-work-play lifestyle. Two notable tenant relocations into the CBD were United Bank's move from Glastonbury into approximately 69,000 sf at Goodwin Square, and Global Atlantic Insurance's move from Simsbury into 22,000 sf at One Financial Plaza.

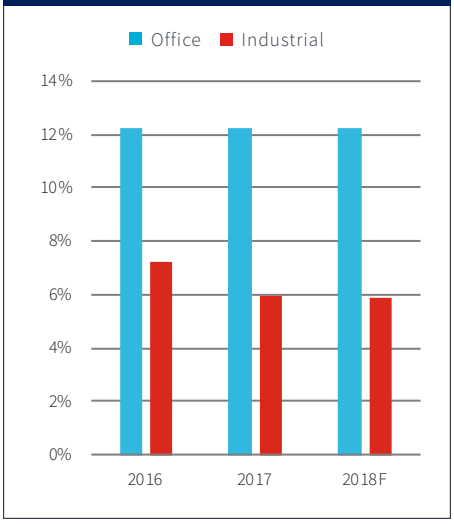
Industrial

Driven by a centralized location within New England and a low cost of rent compared with other Connecticut markets such as Stamford and New Haven, the Hartford industrial market is becoming a standard option for large companies improving their supply-chain operations in the region. National suppliers, influenced by growing e-commerce trends, continue to look to the market as a strategic fulfillment-center location for all of New England or last-mile outpost for the residents of Central Connecticut. In 2017 alone, Staples, Electrical Wholesales, Sleepy's, Walgreens and 3PL Worldwide all signed new leases ranging from 120,000 sf to 300,000 sf. If these sizeable requirements continue in 2018, asking rents can be expected to rise with large blocks of available space becoming more limited and a 1.6-msf construction pipeline already 92% preleased.

Retail

Retail leasing in 2017 remained fairly flat compared with 2016 as brick-and-mortar stores faced the global headwinds of rising e-commerce engagement among consumers and limited office and residential development helping to spur new retail opportunities. While this situation has affected local storefronts and big-box retailers negatively, select retail types – such as restaurant and hospitality options – are more active due to higher levels of disposable income.

Hartford Vacancy Rates



Investment

Investor appetite in Greater Hartford favored industrial assets for the second year in a row in 2017 with office and multi-family product trading less frequently. While office assets continue to yield the highest average per-square-foot pricing, trades are slightly less common and tend to be much smaller in building size compared with industrial trades. With an uptick in warehouse leasing activity in 2017 and a nearly fully leased construction pipeline, investor confidence is expected to remain high in 2018 for supply-chain-oriented assets, while pricing for downtown office buildings will likely increase as the city's business climate improves.

Houston

Economy maintains growth despite obstacles

It was a year of rebuilding for the Houston market in 2017. Despite difficulties related to a slowly recovering energy industry and a historic amount of flooding caused by Hurricane Harvey, Houston managed to maintain a vibrant, diversified economy. In the latest population estimates provided by the U.S. Census Bureau, the Houston region was ranked as the second-fastest-growing metropolitan area in the U.S. The Houston economy has managed to grow despite a stagnating energy industry, placing the city in a favorable position once oil prices finally turn around. Economic conditions in Houston are expected to continue recovering at a slow pace throughout 2018.

Office

While most other product types recovered throughout 2017, Houston's office market continued to be weighed down by a glut of available inventory with tenants vacating sublease space just as large construction projects were delivered to the market. The office market ended 2017 with negative net absorption and the highest vacancy rate recorded in a decade. However, Houston's brightening economic outlook is giving companies a renewed sense of optimism, leading to an uptick in leasing activity and an increasingly diverse mix of tenants in the market. Conditions are also improving on the supply side. The current construction pipeline is one of the lowest recorded in the last five years and tenants are largely finished shedding excess space on the sublease market. While vacancy has reached record highs, available space in Houston has a tendency to disappear quickly in favorable market conditions. Conditions in Houston's office market are projected to improve slowly, but remain tenant-favorable throughout 2018.

Industrial

The industrial market remained as Houston's best-performing product type in 2017. Demand for big-box distribution and warehouse product spiked in the past year due to expansion in the consumer-goods sector and rapid population growth, establishing Houston as a formidable distribution hub. Houston's rapidly expanding consumer base continues to expect faster delivery times and e-commerce suppliers are responding by leasing more space in modern and efficient buildings. Development for this product type is on the upward swing with the market playing catch-up to accommodate demand. Vacancy is projected to remain stable through 2018 with new supply balancing out demand.

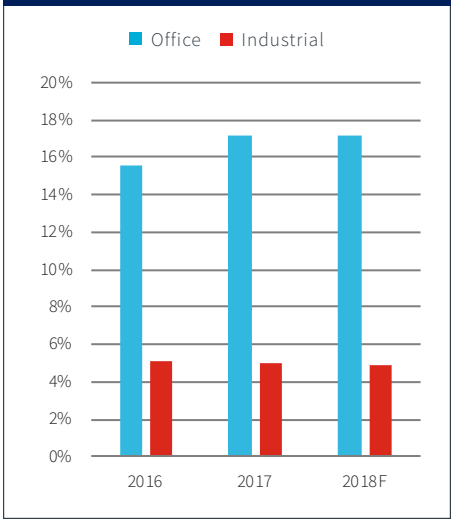
Retail

The retail market continues to catch up with demand caused by the population boom that Houston has experienced, which has translated into a growing consumer base, driving retail sales and demand for retail space. Absorption stagnated in 2017 due to high occupancy and a limited amount of space for retailers to expand into – a trend that is projected to continue in 2018.

Investment

Houston is the nation's fourth-largest metropolitan area and a major engine of global economic activity. Investor interest has returned now that the region has emerged from the energy downturn and is in full recovery mode. Although Hurricane Harvey caused concern, the historic storm did not dampen investor interest in Houston. Many large-scale deals are still in the works. Brookfield purchased Houston Center for $875 million, representing one of the largest transactions ever in Houston. The deal was announced after Harvey. Investor interest is projected to remain on the upswing through 2018.

Houston Vacancy Rates



Indianapolis

Slow start leads to a furious finish

Major announcements from market leaders such as IKEA and FedEx, plus the continued dynamic growth of the technology sector, were the top stories for Indianapolis in 2017. The industrial sector continues to be robust with large-bulk buildings driving demand and interest from national players, who are gobbling up chunks of land for future developments. Strong reports continue to buoy the office sector, but underlying metrics suggest that demand for space is slowing. The industrial sector will continue to lead in 2018. While the office market shows signs of slowing and retail remains questionable, multi-family assets will still be in great demand.

Office

Indianapolis appears to be at the end of a robust sales cycle for institutional-grade office investments. The most recent trophy asset to trade was Market Tower (461,000 sf) in the CBD, which was sold by Zeller Realty to Square Deal Capital, a private equity fund based in Oklahoma City. Vacancy rates remain stable. New product continues to attract tenants in the suburbs at record rental rates for Indianapolis. Activity in the CBD remains strong for buildings that have reinvested in common areas and tenant amenities. As in the suburbs, asking rental rates are at all-time highs. It remains to be seen whether the published asking rates are due to improving market conditions or a function of increased operating expenses, owners resetting base-year expenses for their properties and rising tenant-improvement costs. New construction continues to shift away from traditional large rectangular floor plans to smaller footprints with less rentable square footage and architecturally advanced designs in more urban-amenity areas.

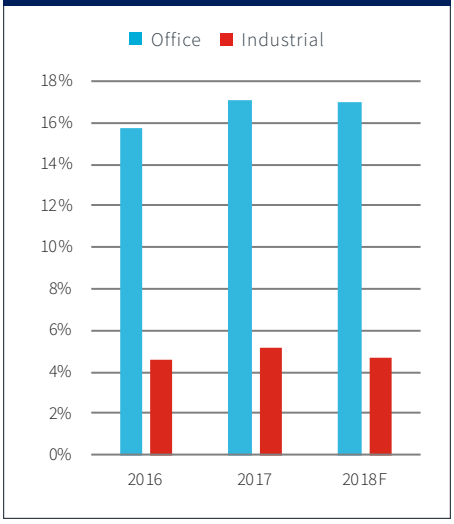
Industrial

Leasing velocity and solid real estate fundamentals continued to inspire developers to commit significant capital for speculative development projects in 2017. Land options in key submarkets remained in short supply for those developers wishing to enter the marketplace. Late in the year, 11 speculative development projects were underway, with the majority in the Southwest submarket in Plainfield and the South submarket in Greenwood, Indiana, which together represent close to 4.6 msf of new industrial product for Central Indiana.

Retail

A flurry of activity has circled around the momentum created by the opening of both an IKEA store and the Top Golf entertainment venue, which are located in the suburban northeast. Fast-casual restaurant chains continue to see Indianapolis as a target market for expansion, but some established brands are retrenching or leaving the market altogether. For example, Portillo's (from the Chicago area) and Yolk are finding Indianapolis a desirable outpost, but brands such as Champps are closing – a situation that will result in the repositioning of some well-located retail assets. Mixed-use projects in the urban core continue to add small chunks of retail space and, as ever, activity has been strong in this product type in these locations.

Indianapolis Vacancy Rates



Investment

Investment activity in all market sectors (except multi-family) slowed in 2017 – a situation that is completely understandable given strong demand and activity in 2016. Industrial buildings are trading as developers provide product, lease up and then sell off to investors at cap rates of 6.5% to low-7%. These rates compare favorably to gateway markets on either coast and, therefore, this trend should continue.

Jacksonville

Region's economic and market fundamentals solid heading into 2018

Economic fundamentals in Jacksonville are strengthening as indicated by a 140-bps drop in the unemployment rate to 3.3% over the trailing 12-month period as of October 2017. More than 24,000 new jobs were added during that same period. Healthy leasing activity and slow, but steady, rental-rate growth was also occurring within top-tier properties. While Jacksonville is considered a tertiary market and, therefore, does not provide the same scale of opportunity as larger cities, investors and companies considering relocation continue to view the area positively, noting its overall quality of life, job growth, limited new construction and excellent relative value.

Office

Office fundamentals remained sound during 2017 with a healthy 260-bps decline in the overall vacancy rate and relatively strong net absorption. Strong demand for quality space persists within the dominant I-95/9A Corridor where the direct weighted average asking rate is up $0.59 psf since year-end 2016 to $20.64 psf FSG. Within this area, Gate Parkway is transforming into a rapidly developing corridor with two new class A office projects under construction by VanTrust Real Estate and Ash Properties, respectively. Downtown Jacksonville also continues to evolve with several residential, mixed-use, transportation and redevelopment projects planned in the urban core. Heading into 2018, investment is expected to continue at a healthy pace as the still growing economy supports overall business fundamentals, including incrementally rising rents and stabilized occupancies and cash flows.

Industrial

Population growth, surging e-commerce demand, a pivotal location along the Interstate 95 corridor, and access to a major port have resulted in a strong industrial market. Jacksonville's position as an expanding logistics hub is fueling industrial development activity and a gradual decline in vacancy, which is expected to settle around 5% in 2018. The Northside and Westside submarkets continue to dominate industrial activity with the Northside's proximity to the port and international airport an increasingly attractive draw. Rental rates will likely continue to record incremental gains in 2018, especially for newly developed space and well-located properties, particularly those close to Amazon and major distribution corridors.

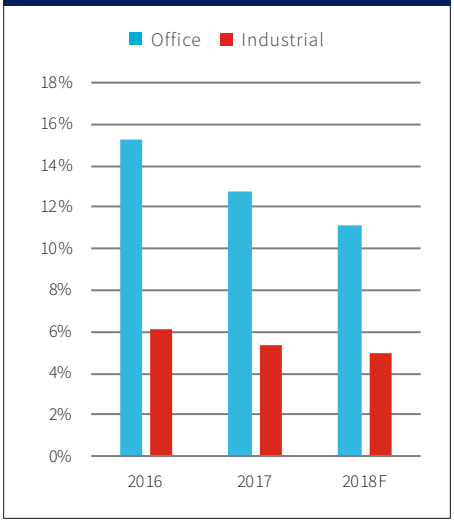
Retail

Jacksonville's retail market remained strong in 2017 with consistent demand for space creating rental growth in the most sought-after areas, particularly within the Beaches and Southside submarkets. There are several prominent new construction projects underway including a new 294,000-sf IKEA outlet at Interstate 295 and Gate Parkway; The Strand, a 250,000-sf development underway by Preferred Growth Properties; and Core Property Capital's Town Center Promenade development. Both supply and demand are well below the peak recorded in 2006, providing credible evidence that the market has room for continued expansion.

Investment

Investment activity during 2017 was down roughly 19% from 2016 with more than $638 million transacted in the office, industrial and retail sectors and investors continuing to actively chase yield. There were 72 transactions totaling slightly more than 9.2 msf with an average cap rate of 7.5%. Forty-one per cent of all investment sales were to private buyers, followed by 33% to publicly listed REITs and 20% to institutional buyers. Users accounted for only 6% of all sales during the year. Class A warehouse product and well-positioned suburban office buildings in the I-95/9A Corridor will continue to be sought-after by institutional buyers during 2018.

Jacksonville Vacancy Rates



Las Vegas

Golden Knights' practice facility spawns new projects

Tourism, population growth and home sales are on the rise as Las Vegas becomes the new home for yet another professional sports franchise. Vacancy across all product types continues to drop going into 2018 as new and expanding businesses take advantage of the latest sports hype in the valley.

Office

It was a good year for the office market in Las Vegas in 2017. Overall vacancy had dropped 140 bps to 14.4% by the third quarter with more than 1 msf of positive absorption. More than 500,000 sf of new office construction was completed in 2017 with several new projects scheduled for 2018 and 2019. A new ice hockey practice facility in Summerlin for the NHL's recent expansion team, the Vegas Golden Knights, has drawn a lot of attention to the west side of town and spawned new office and retail projects nearby. Quality class A office space remains sparse across the valley, pushing average asking lease rates upward as demand increases throughout. Class B office vacancy is expected to drop even further in the next few years as both professional and medical office space leasing increases to satisfy new and expanding businesses.

Industrial

Overall industrial vacancy showed a slight uptick in 2017 due to new product deliveries. More than 5.5 msf was delivered during the year with more than 2.5 msf of positive absorption. Positive growth in the industrial market is expected in 2018 with more projects planned. There is approximately 1.5 msf of industrial product under construction for delivery in 2018. The challenge going forward continues to be finding affordable land for projects greater than 100,000 sf as most developers need a minimum site size of 10 acres. The average asking price per acre is hindering future industrial development on smaller in-fill pieces, forcing developers to buy land further outside the core market. With a focus on new mid-bay and flex space, developers are expected to slow the pace of speculative construction in 2018.

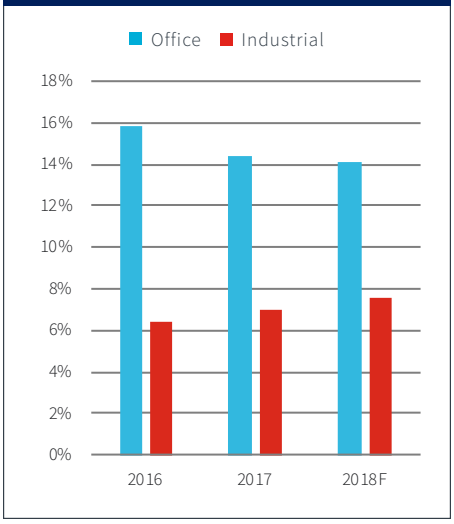
Retail

Retail vacancy was close to 7.5% by the end of 2017. The last time retail vacancy was this low was the second quarter of 2008. More than 1 msf of retail space was delivered in 2017 with approximately 500,000 sf of product under construction for delivery in 2018. During the year, there was slightly more than 1 msf of positive absorption. Grocery-anchored power centers with national tenants continue to do well, while older strip centers are facing challenges. Many of these older centers have been adding more professional and medical office tenants as well as entertainment venues to help attract more customer traffic. As online shopping continues to grow in popularity, more big-box retailers are closing locations. Lease rates in big-box and unanchored centers are likely to drop in 2018 due to uncertainty in the retail market.

Investment

With Las Vegas being seen as the new hot spot for sports, many investors have once again turned their eyes to the city. The challenge for investors interested in Las Vegas is finding available product that will give them a solid return on their investment. Sellers are demanding lower cap rates and buyers remain hesitant.

Las Vegas Vacancy Rates



Long Island

Long Island real estate sectors at strongest levels in eight years

As the overall economy continues to improve on Long Island, commercial real estate is following suit with strong activity and market fundamentals. The labor market continues to support this upswing. The unemployment rate of 4.1% as of October 2017 was unchanged year-over-year. This stability is fueling a healthy local economy and, in turn, real estate industry. This trend will likely continue throughout 2018.

Office

As the demand for office space continues to increase, pushing the vacancy rate down, the Long Island office market, which comprises slightly less than 40 msf of class A and B space, continues to improve. The office market ended the third quarter of 2017 with a vacancy rate of 10.5% for class A and B product. While the health care industry has led the activity over the past five years, other sectors such as financial services have recently begun to show signs of life. The strength is most prevalent in Nassau County, Queens and Brooklyn, as well as western parts of Suffolk. Asking rents have been relatively stagnant; however, incentives are beginning to diminish.

Industrial

The industrial sector continues to lead all other sectors on Long Island in terms of leasing activity, but has begun to frustrate companies searching for viable space. There is a dearth of large, high-cube product on the market and no relief in sight for the remainder of 2018. While the overall vacancy rate in late 2017 was 6.2%, many submarkets throughout Nassau County and the JFK Airport submarket in Queens remain at less than 2%. Rental rates remain at historic highs and, in some cases, have increased nearly 100% since 2015.

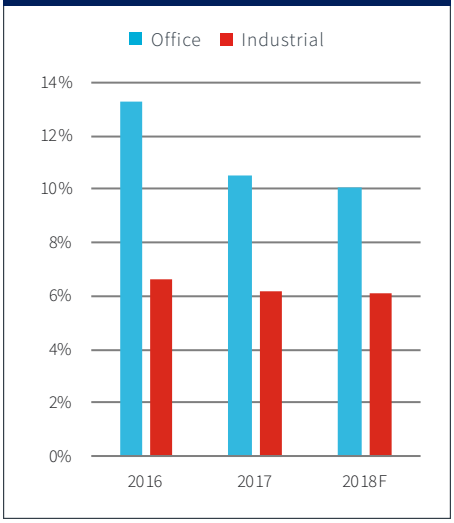
Retail

The Long Island retail market is experiencing much the same issues as the rest of the nation as big-box retailers continue to shrink their presence. Counteracting this trend, local and smaller retailers continue to expand into neighborhood centers and regional shopping centers with a strong resurgence also noted in downtown areas as shopping patterns evolve. In addition, medical demand in retail shopping centers has led to some adaptive reuse projects where large retail vacancies have been filled by multi-specialty medical practices. Despite continued pressure on retailers nationwide from e-commerce, vacancy is expected to remain stable through 2018.

Investment

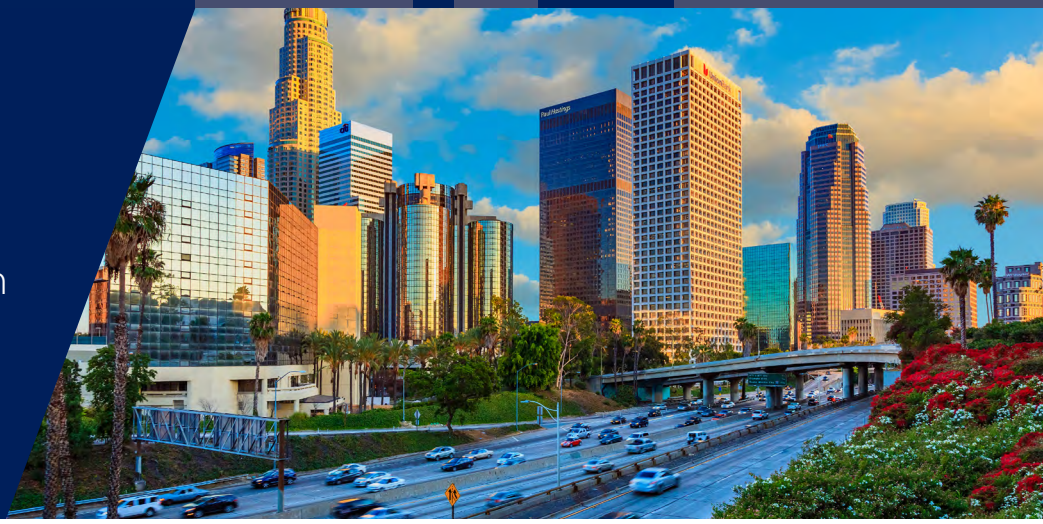
Investment activity continued to slow in 2017, a trend that has occurred since 2015. There are still some remaining office buildings and retail centers coming to the market as their 10-year CMBS loans expire. New investors seem to be more active as some of the troubled product is attracting interest from out-of-market buyers. Interest-rate hikes are expected to continue throughout 2018 and active investors will have to hunt for viable purchase options.

Long Island Vacancy Rates



Los Angeles

Continued business growth in 2018 backed by strong market fundamentals



Steady business growth in Los Angeles brought the unemployment rate to 4.8% as of September 2017 – down 50 bps year-over-year, and the lowest level in 10 years. Employment gains come from a broad range of industry sectors such as: technology, media entertainment, finance, professional services, education and health care. Continued job gains and leasing activity are expected, especially for media, entertainment, and tech companies curating media content, in 2018.

Office

Vacancy increased slightly (30 bps) from year-end 2016 to 14.6% at third-quarter 2017 due to new construction brought online. Nevertheless, companies were still willing to hire more employees and fill office space as proven by the drop in unemployment. Creative office space remains in high demand. The recent purchase of Lacy Studios near downtown Los Angeles is an example of this demand for creative office. The $20-million sale of an industrial property (Lacy Studios) for future use as office space for a production company is illustrative of this trend. Well-located urban assets offer considerable opportunity as they head into their second lives. The bulk of office product under construction possesses some level of creative design. Despite the increase in creative-office demand, office vacancy is forecasted to increase slightly in 2018 as a result of a robust development pipeline, but rents are not expected to fall.

Industrial

The Los Angeles industrial sector ranks among the most competitive in the nation in terms of investing or finding space to lease. Increased demand in 2017 led what was already a very competitive, supply-constrained market to new vacancy lows. Industrial vacancy held steady at 2.2% in 2017 and is expected to dip to 1.8% in 2018, making the hunt for industrial space even more challenging. This situation will benefit landlords and frustrate tenants in the market looking for space. As vacancy further decreases and limited new product makes its way online, rents will continue to rise.

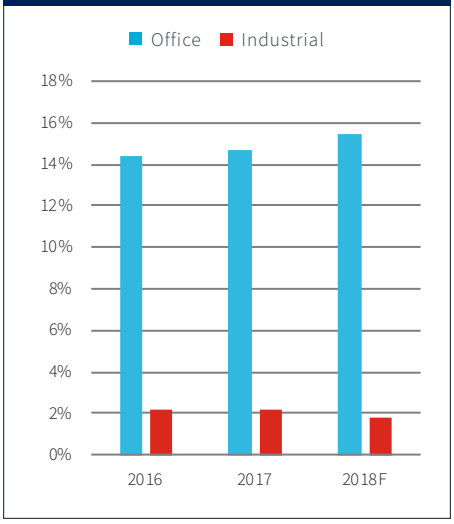
Retail

Throughout Los Angeles submarkets, where new residential has been constructed, retail developments have followed suit with open-air and mixed-use concepts. Retail demand will continue to be innovative in 2018 as new mixed-use developments with residential and retail emerge in and around live-work-play areas.

Investment

At the beginning of 2017 with uncertainty resulting from a new federal administration and concerns about interest rates, many investors took a wait-and-see approach to investing during the first half of the year. Consequently, there was a slowdown in trading compared with 2016 even though fundamentals continued to improve. However, the wall of capital continues to chase exceptionally well-located assets with positive underlying fundamentals or real upside. Cap-rate compression trends will persist across all property types in Los Angeles and there will be modest price increases in 2018, but at a slightly slower pace.

Los Angeles Vacancy Rates



Memphis

E-commerce drives consistent market growth

Known as America's distribution center, Memphis is poised for expansion thanks to the growth of e-commerce and the popularization of last-mile distribution. Fueled by the FedEx World Headquarters, the city has continued to win business in recent years. With healthy vacancy rates in all sectors, the Memphis market has maintained consistent growth and is expected to continue to thrive in 2018.

Office

A handful of large tenants have relocated from the East Memphis submarket into downtown Memphis, highlighting the national trend of movement back into urban cores. This transition has been demonstrated by the relocations of ServiceMaster, Wunderlich, SouthernSun and Orion Credit Union, the opening of Crosstown Concourse and other planned urban in-fill projects.

Notably, class A vacancy in the East Memphis submarket has tightened, putting upward pressure on class A rental rates. This situation is due to a number of larger companies based in East Memphis looking for large blocks of space. As these tenants have relocated, large blocks of space, which are usually hard to come by in East Memphis, have become available. This availability has allowed the market to maintain a healthy supply-and-demand balance. There is strong and continued interest from both occupiers and investors for quality office assets in central locations.

Industrial

With 7.3 msf of industrial construction in various stages of planning and delivery in the Memphis area, the market is anticipating continued momentum with lease-ups. This situation is due to industrial vacancy for class A product reaching all-time lows and increasing demand from e-commerce tenants. Also, Amazon has announced a $72.5-million sorting facility in the area. With developers such as IDI, Hillwood, Panattoni, Core5, Ridgeline and Huntington all well-positioned with development sites in this market, the trend of expansion due to e-commerce is not expected to slow in 2018. As Memphis has quadrimodal access – railways, a nexus of highways, a large inland port, and the largest cargo airport in the country – the area is expected to continue to flourish with the evolution of retail.

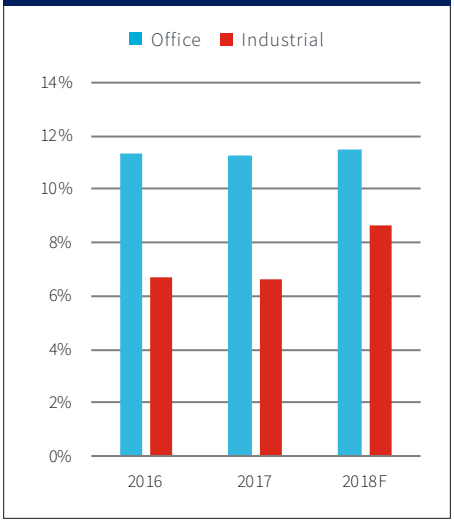
Retail

With the arrival of major retailers such as IKEA, the Seritage development and Crosstown Concourse, the Memphis retail market recorded positive growth in 2017. While the sector has seen closings of a few major retailers, the market has maintained eight consecutive quarters of positive absorption. Fitting with the theme of urban in-fill and the return to city centers, retail growth in 2017 occurred mainly in the Downtown and Midtown submarkets.

Investment

Through the first three quarters of 2017, sales volume totaled $1.3 billion among office, retail, industrial and multi-family assets. Although dollar volume was down year-over-year in 2017 (versus $1.6 billion for the first three quarters of 2016), investment activity in the Memphis market continues to be strong across all product types with the majority of activity occurring in class B assets. Despite a decline in deal volume in 2017, there continues to be an abundance of capital in the market driving up pricing for quality assets in good locations. In spite of increased pricing, slowing capital appreciation and interest-rate hikes, investors' appetite and allocations for real estate remain unaffected. Cross-border and private capital dominated during 2017 and this situation is expected to persist through 2018.

Memphis Vacancy Rates



Miami

Miami becomes hotbed of leasing activity

Miami-Dade's robust economy has served as the backbone for its strengthening real estate market for several years. As of September 2017, the county's non-seasonally adjusted unemployment rate stood at 4.6%, 80 bps below levels recorded near year-end 2016. Total employment was up as well, having grown by nearly 50,000 jobs during the same period. These figures have translated into sustained leasing activity and increased investor interest in such top-performing areas as the Downtown Miami, Brickell, Airport/Doral, Coral Gables and Coconut Grove submarkets.

Office

Positive absorption took place within urban and suburban areas of the county alike throughout 2017. Leasing activity remains consistently strong and global players of all sizes are increasingly interested in high-performing assets throughout the market. Developers are taking advantage of this opportunity as demonstrated by the recent inflow of proposals to the county's many municipalities. Office growth is expected to continue as investors remain bullish toward the long-term health of the market.

Industrial

Over the last few years, Miami has become a hotbed of industrial activity, attracting institutional investors, logistics operators and e-commerce companies alike. Due to this tremendous growth, Miami is now on par with many top U.S. markets such as Los Angeles, New York, Chicago, Atlanta and North Carolina in terms of overall vacancy and total net absorption. With the region boasting occupancy rates above 96%, more than 7 msf of industrial space has been absorbed in the past 24 months. This absorption is partly the result of the recent expansion of the Panama Canal and the dredging of the shipping channel. Miami-Dade has entered a period of unprecedented growth that is likely to continue as post-Panamax ships increase in number.

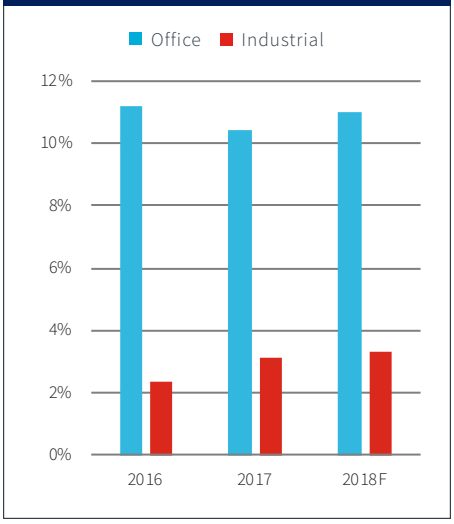
Retail

Many elements fuel the strength of Miami-Dade County's retail market, including the growing millennial workforce and evolution of the live-work-play environment. According to the Bureau of Labor Statistics, the millennial generation will comprise 75% of the American workforce by 2025. With more than 1.2 million millennials living in South Florida, retailers are paying close attention to what is driving their consumption habits and how this behavior will influence the next generation of shoppers. Major mixed-use development projects recently completed or under construction, such as Brickell City Centre and Miami Worldcenter, are excellent examples of retailers positioning themselves at the intersection of these emerging trends.

Investment

Investment activity remains one of Miami's strongest barometers of market health. Through the first three quarters of 2017, sales volume totaled $1.9 billion among office, retail and industrial assets. The largest sale of 2017 was Bayerische Versorgungskammer's acquisition of 1111 Lincoln Road for $283 million, or $1,932 psf. The award-winning mixed-use property was last purchased in 2005 and renovated to include 95,000 sf of office space, 50,000 sf of retail and a 300-space parking garage/event space. Although Miami-Dade's overall investment market has begun to soften, Miami Beach continues to show signs of optimism as demonstrated by sales during the past few years. A small drop-off in total activity is anticipated in 2018, but strength will remain consistent within isolated pockets of the county.

Miami Vacancy Rates



Minneapolis

Activity creates opportunities and challenges for tenants

New sources of capital are pouring into the Minneapolis-St. Paul market, creating growth in select submarkets. The upward pressure on rental rates, landlord concessions and improvement allowances is creating both opportunities and challenges for new and existing tenants. The commercial real estate market gained momentum in 2017 as outside capital, new development and leasing demand increased. Expectations are that 2018 will be similar. Tenants will look to reduce overall cost per employee on a per-square-foot basis by redeveloping existing space. This will be a trend to follow as rental rates continue to push to all-time highs.

Office

Demand for office space remained healthy in 2017. Across all markets, total vacancy was 7.7%. Large deliveries such as T3 and the Millwright Building increased the overall inventory with a further 669,552 sf set to be delivered in 2018. Both the Minneapolis and St. Paul CBDs have large corporations driving the market. The absence of Wells Fargo and Ecolab since 2016 has kept vacancy rates slightly higher in both the Minneapolis CBD and St. Paul submarket. Vacancy is expected to remain much the same in 2018. Desirable spaces will remain in high demand. Construction costs will be monitored closely, as tenants have been willing to pay for new construction in locations that already have low vacancies.

Industrial

The lack of high-quality product in proximity to the urban core is especially difficult for tenants looking for large spaces. This low-vacancy trend should continue through the first half of 2018. Third-party logistics companies are taking the industrial market by storm, increasing demand for warehouse and distribution space in the Twin Cities. Demand for development of large warehouse-and-distribution centers to store raw material has also increased. The push for new speculative developments and the cost of new construction near the interstate will be trends to watch in 2018. In the third quarter of 2017 alone, warehouse-and-distribution centers were the most active product type, registering positive absorption of 566,857 sf.

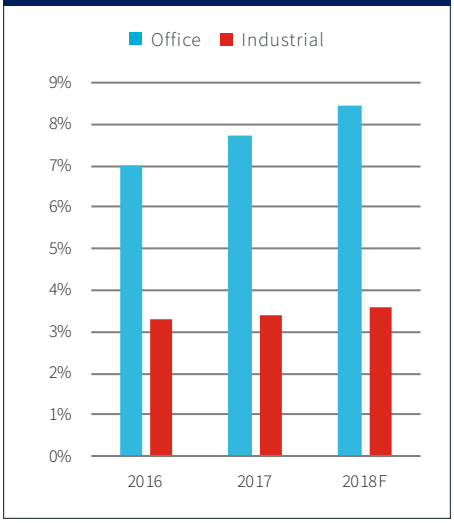
Retail

The Minneapolis retail market landscape has challenges ahead as large vacancies due to store closures put pressure on landlords. Ongoing competition from e-commerce is changing the way that large retailers are doing business, forcing department stores to reposition their shops to better serve consumers and to keep pace with the e-commerce trend. With anticipation of more closures across the nation, developers are proceeding with caution. New to the market and looking to grow are grocery stores such as Hy-Vee and Fresh Thymes. Since both entered the market in 2015, each has opened seven stores across the metro.

Investment

Investor interest continued to make strides in 2017. Investors remain bullish on the investment outlook in the Minneapolis-St. Paul market despite the Federal Reserve increasing interest rates and the expectation of more hikes to come in 2018. Capital markets continue to hit new high-water marks as property values rise. Tenants are willing to pay record-high rental rates for premium locations and new construction. The market's performance in 2018 is expected to track similarly to 2017.

Minneapolis Vacancy Rates



Nashville

Construction surges while vacancy remains in single digits

Robust population and job growth have fueled a resurgence of construction across all sectors in Nashville's commercial real estate market. Unemployment ended the third quarter of 2017 at 2.3%, down from 4.2% a year earlier. While concerns surrounding the lack of transit infrastructure and upward pressure on rental rates are present, the outlook for Nashville in 2018 remains positive.

Office

Nashville's office vacancy reached 6.3% in the third quarter of 2017, up from 5.4% at year-end 2016. Much of this increase can be attributed to the uptick in construction deliveries throughout the past year. The Downtown submarket continues to outperform suburban submarkets as tenants choose to pay premium rents to locate in areas that will attract millennial employees. Almost 1.7 msf is under construction with more than half of the space preleased. Historically, most significant developments stabilize (80% occupancy) before delivery. With this success rate, developers remain optimistic and see the need for more class A product as users continue to seek higher-end space and modern amenities.

Industrial

Net positive absorption totaled 2.8 msf through the first three quarters of 2017, marking 14 consecutive quarters of positive net absorption in the Nashville market. The surge in leasing activity has prompted the return of speculative construction to a historically build-to-suit market. Limited availability, particularly for modern users, drove warehouse rents up 16% year-over-year. Unquenched demand and rising rental rates are driving one of the largest construction cycles in Nashville's history. With 3.8 msf under construction, the market may experience an uptick in vacancy in early 2018 as more product is added to the industrial inventory.

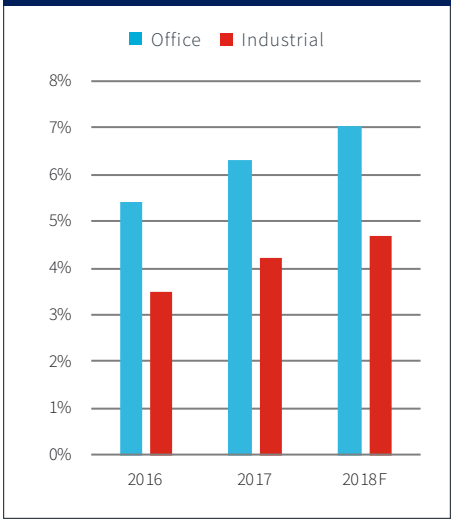
Retail

The retail market is catching up with demand caused by Nashville's exponential population growth, strong economic fundamentals and declining unemployment. The growing critical mass of residents and employees in the downtown area has prompted many national and local retailers to shift their focus from the ever-popular suburbs with Whole Foods becoming the first grocer to enter the urban core by joining a mixed-use project currently under construction. IKEA has also unveiled plans to operate a Nashville store that is expected to open during the summer of 2020. Solid retail tenant interest emphasizes the strength of the market, but recent e-commerce trends and the "Amazon effect" have caused many owners and developers to evolve, focusing on the consumer experience and a smaller footprint.

Investment

Commercial sales totaled nearly $1.9 billion through the first three quarters of 2017 – a 21% decrease compared with the same period in 2016. The decrease in dollar volume was spread across all sectors with the most dramatic drop occurring in the office sector, which reported a 48% decrease. The largest transaction was the sale of Providence Marketplace, a 710,000-sf suburban power center that traded for $114.7 million ($139 psf). While there is still strong interest from investors, the market's growth – coupled with the strength in all sectors of commercial real estate in Nashville – means that owners are reluctant to let go of their assets, creating huge barriers to entry for new investment.

Nashville Vacancy Rates



New Jersey

Industrial market hot, office cool as wild cards loom

The northern New Jersey office and industrial markets stayed the course in 2017. The office market continued to trudge along with limited quality space and a vacancy rate hovering around 15%. The industrial market, on the other hand, is maintaining an active pace as rental rates continue to rise and vacancy remains historically low at 4%. Both the office and industrial sectors are expected to maintain their current trends in 2018.

There are several wild cards that could have a substantial effect on the entire market in 2018 and beyond. The first of these is Congress' reform of the tax code. This includes the elimination of the deduction for local taxes, a reduction of the corporate tax rate and a modification in how pass-through entities are taxed. The second and, perhaps, more important wild card is the legislative agenda of the newly elected governor, Phil Murphy. Murphy's campaign promises included legalizing marijuana, instituting a millionaires tax, raising the minimum wage and reducing tax breaks for corporations.

Office

Tenants in the office market have continued to focus on urban and quasi-urban transit hubs due to demographic shifts in the market. As an example, this shift played out in Mack-Cali's strategic realignment towards Jersey City, Metropark and Short Hills in 2017. The market's shift to the cities has led to the resurgence of Newark as displayed by Edison Properties' commitment to its Ironside Newark project. This trend toward urban and quasi-urban transit hubs is expected to continue.

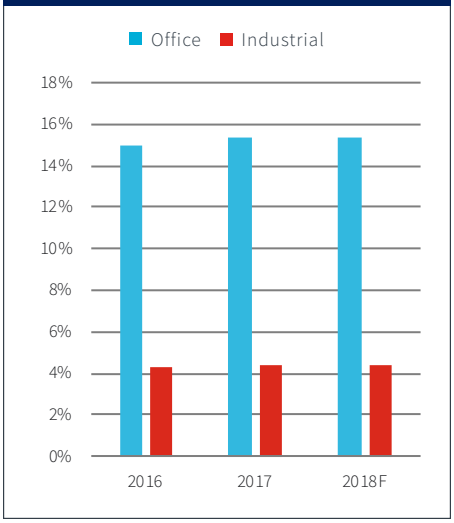
Industrial

New Jersey's industrial market continued its recent success with consistent positive absorption (nearly 8.2 msf in the 12 months ending with the third quarter of 2017) and asking rents reaching all-time highs. The market owes this success to the prosperity of e-commerce, the ports and New Jersey's central location in the Northeast. These factors have caused many large companies, such as Amazon, Target and Wayfair, to invest heavily in New Jersey's industrial market. New infrastructure projects, such as the recent raising of the Bayonne Bridge, will help ensure that the New Jersey market maintains its competitive edge in 2018 and beyond.

Retail

The New Jersey retail market has evolved given the growing presence of e-commerce. It remains a high-demand market due to the density and wealth of its residents. Traditional retailers, such as department stores, have been replaced by urgent-care centers, restaurants and convenience stores. Many mall owners are entertaining plans to redevelop their assets to better serve their tenants' needs. This trend is evidenced by the redevelopment plans of the Monmouth Mall in Eatontown and the off again, on again American Dream Meadowlands project slated to open in 2019. Moving forward, the retail market will continue to shift from traditional shopping to experience-based shopping and services.

New Jersey Vacancy Rates



Investment

Overall investment sales dollar volume through the first three quarters of 2017 was up 13% year-over-year compared with the same period in 2016. It is expected that institutional owners will continue to divest from suburban office in 2018 and be replaced by private investors. The industrial market will remain a seller's market as demand continues to outstrip supply, and transaction velocity in the multi-family market will continue to be low due to the buy-sell gap.

New York

Flight to quality remains a focal point in 2018

New York City's economy, driven in part by private-sector employment growth of 1.7% year-over-year as of October 2017 (a slowing but positive trajectory), remains characterized by a diverse market of opportunity. The numerous job additions during the prior 12 months were spread across the office-using employment sectors of educational and health services, professional and business services, and financial activities, which represent some of the top contributors of this growth. With positive job momentum anticipated across 2018, this trend should translate into continued diverse leasing activity across the city's high-quality assets.

Adding record corporate profits to the equation, time will tell whether the current federal administration's tax cuts will translate into either more job creation or a willingness from occupiers to allocate more dollars to the leasing of new space. From a corporate-owner perspective, additional money could be put into building capital improvements for modernization.

Office

As of the end of the third quarter of 2017, the overall vacancy rate for Manhattan stood at 10.4%, above the 10.2% set at the end of 2016. During this time, several prominent tenants downsized to smaller spaces. (For example, Tommy Hilfiger vacated more than 277,000 sf in Midtown South to occupy 200,000 sf of renovated space in Midtown.) In addition, new product has become available, such as 3 World Trade Center in Downtown, 61 Ninth Avenue in Midtown South, and 390 Madison Avenue and 55 Hudson Yards in Midtown. While a flight to quality has sparked increased leasing activity, rising vacancies are on the horizon in 2018 in those markets that lack newer and more efficient product – a scenario that could push the Manhattan vacancy rate modestly above 11%. A vacancy increase could, in turn, put downward pressure on some near-record-high rental rates.

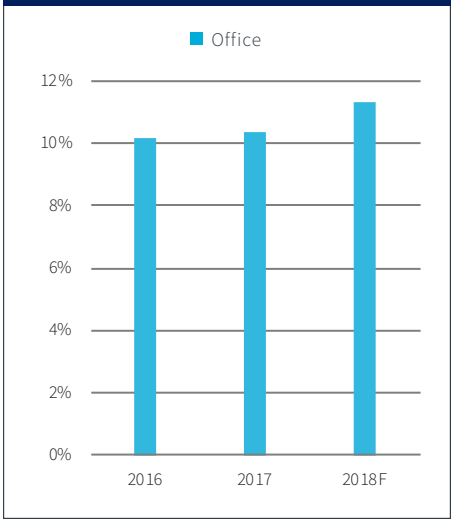
Retail

The retail saga continues to play out just as it has been since the e-commerce disruption began. Most recently, toward the latter end of the third quarter of 2017, more big-box retailers filed for Chapter 11 bankruptcy. Store closures can be blamed on many things, but the common denominator is that the physical space did not meet the criteria of a relevant retail space today. However, all is not doom and gloom for retail leasing, and there is hope for those retailers that are able to adapt to current times and incorporate experiential concepts into their business strategies. For 2018, as rent declines stabilize, more corridors focusing on food, fitness and experiential concepts are expected to develop. With innovation and technology, which are becoming focal points of all new bricks-and-mortar retail strategies, vacant spaces are likely to be divided up and used for non-traditional retail.

Investment

Despite a new Federal Reserve chair being in place at the beginning of 2018, the anticipated interest-rate hikes are expected to continue. Although interest rates will remain low from a historical perspective, slight bumps may be enough to slow transaction volume even further. On the other hand, one key metric to watch is the bid-ask spreads. If these narrow throughout the year, then the shift may be enough to move more investors off the sidelines and put more of their capital to work. In 2018, more capital (both foreign and domestic) could target the quality assets of New York City.

New York Vacancy Rates



Oakland

Stability amid a maturing real estate cycle

This market is thriving in the midst of the current prolonged economic expansion. As it progresses, many real estate decision-makers are keeping a watchful eye on the future and how best to position themselves against slowing growth, a soft landing or market downturn. They are also taking a more disciplined approach to site selection, highest and best use considerations, leasing, capital improvements and capital placement. Demand for commercial real estate continues to prop up the market while creating avenues to new development and renovation. Overbuilding is not a concern as more development is needed to ease demand. The office and industrial markets will favor landlords until developers can bring new product online. These market fundamentals are expected to extend well into 2018 and, possibly, beyond.

Office

Elevated demand should keep vacancy spikes in check during 2018. Current and proposed office construction in the downtown Oakland market will benefit local businesses and tenants looking to upgrade their spaces. The ongoing movement away from private, drop-ceiling build-outs to creative floor plans and space-use efficiency is allowing tenants to capture and retain talent. Asking rents are elevated across all classes and will likely continue rising throughout 2018. Co-working and flexible work space solutions are establishing a foothold in the downtown Oakland market as a growing number of tenants require term, location and amenity flexibility. This trend is expected to continue as office demand and diversity grow.

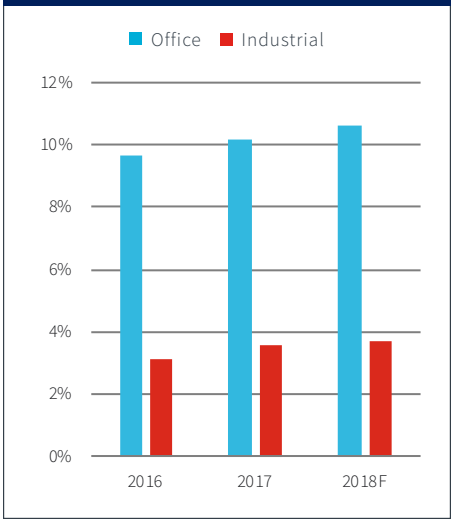
Industrial

There is a supply-and-demand imbalance in the market as growing demand outpaces new supply. Limited development sites and skyrocketing construction costs will further this trend and challenge new development going forward. Another result of this imbalance is the effect on asking rents. With vacancy at historic lows, landlords are capitalizing on strong demand and pushing asking rents higher. The construction pipeline is healthy with 2.2 msf currently under construction and will help alleviate some of the strong demand for modern distribution space, which is limited in this market.

Retail

Demand from retail tenants remains strong as population and job growth continue in this market. With vacancy across all retail types having hovered below 3% for eight consecutive quarters until third-quarter 2017, asking rents are forecasted to move higher in the coming quarters. In an environment where consumers can buy most things online, retailers have had to adapt and differentiate themselves to survive. Consumers' preference for bricks-and-mortar stores remains strong as retailers adapt to ever-changing shopper preferences. As of late 2017, approximately 219,000 sf was under construction with slightly more than 77% preleased, further emphasizing the strong demand for new, well-located product in this market.

Oakland Vacancy Rates



Investment

This is a sellers' market across all property types. Conversely, fewer, and more scrutinized, deals are getting closed. Similar conservatism is expected as the cycle progresses. Investor expectations remain optimistic in this market despite investment sales being down nationally. In the Oakland market, the decrease in sales is more reflective of a lack of product for sale rather than a reluctance to place capital. Capital is flowing, prompting investors to broaden their search geography to secondary and tertiary markets and expand into multiple property types.

Orange County

Enthusiastic demand prevails amid shifting market dynamics

Demand for commercial real estate in Orange County remains robust among investors, developers and occupiers. Rental rates across all sectors remain highly competitive even while increases begin to plateau. This thriving hub for financial services, information technology, logistics and health care is a steady draw for a talented workforce. The ideal geography and high quality of life contribute to the growing population and the preference of employers. Orange County's unemployment rate at the end of 2017 remained low at 3.6%.

Office

Office vacancy started to rise during 2017 after contracting to its lowest point in a decade. Meanwhile, rental rates surged ahead with year-over-year increases as sale prices approached record levels. Rental rates are expected to flatten in response to a 90-bps increase in vacancy and lower absorption during 2018.

New construction starts gained momentum in 2016, and the largest volume of deliveries in almost a decade came online in 2017. Five investment-grade office projects are under construction and amount to 1.9 msf of new inventory, approximately 54% of which is preleased. Construction starts are expected to flatten in 2018, while the trend of redeveloping older properties into creative office will likely be encouraged.

Industrial

Orange County's industrial market has some of the tightest vacancy rates in the U.S., even after vacancy started to increase slightly during 2017. High-tech, aerospace, manufacturing and distribution firms continue to drive demand especially as many older industrial buildings are converted to residential, creative office and self-storage.

Demand has nudged rental rates to surpass pre-recession highs with year-over-year increases that are expected to persist in 2018. Premium prices and the scarcity of land for development have hindered new-construction starts, but demand is expected to propel construction activity at a slow, but sustainable, pace through 2018.

Retail

Orange County remains a highly coveted location for retailers as it is the sixth-most populous county in the U.S. and largest of the 100 wealthiest counties. Baby boomers and millennials will remain influential in retail development in 2018, encouraging ease of access to semi-suburban and mixed-use areas, high-end lifestyle centers and experiential retail.

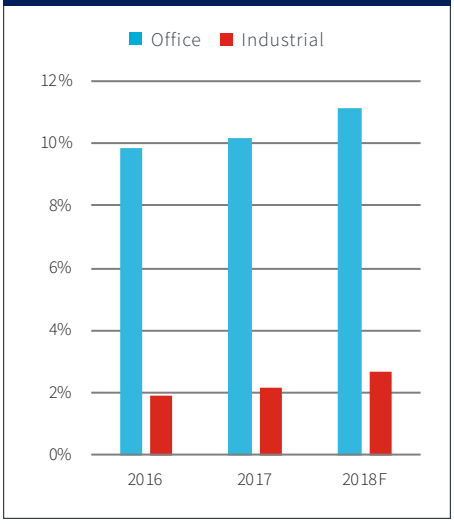
Minimally rising vacancy may persist into 2018 as the market adapts to the modern demands of consumers. While the Orange County retail market remains vibrant and robust, rental-rate growth is expected to decelerate in 2018 after the steep gains that were made in recent years.

Investment

Sales volume scaled back moderately in 2017, yet is still in record territory. Property values are rising across the market as tenants pay an increasing premium for a presence in this vital region. Activity in the office sector picked up in the second half of 2017, seizing the majority of investor attention in the market and generating record-high prices for the third year in a row. Depand for multi-family and industrial assets followed closely behind.

Uncertainty amid the current political climate has not dissuaded investment and development. Quality assets in every sector of the county drive confidence that will carry into 2018. Cap rates remained compressed in each sector during 2017 in a year-over-year trend that is expected to endure in 2018. Short of extreme macroeconomic shifts, trading in 2018 is expected to track similarly to 2017.

Orange County Vacancy Rates



Orlando

Strong leasing fundamentals and sustained job gains fuel growth

Orlando's economy remains very well-positioned to start 2018. Economic fundamentals remain solid, job growth continues at a robust pace, healthy leasing activity is occurring, new class A office development is returning to the urban core and a thriving e-commerce industry continues to foster a dominant industrial market. Demand for space is strong, allowing for continued rent growth.

Office

At the close of 2017, office fundamentals remained strong with robust net absorption and continued incremental gains in asking rents. Sustained leasing activity throughout the year tempered the effect of anticipated space rollover during the first six months, and rental rates continued to inch up in key areas. Downtown Orlando is seeing its first class A office construction in a decade after the highly anticipated Church Street Plaza (formerly Tremont Plaza) broke ground during the third quarter of 2017. The $100-million development is expected to deliver in late 2019. The well-positioned Lake Mary/Heathrow and Southwest submarkets are also benefiting from new speculative development projects.

Leasing activity is expected to remain steady in 2018, and rental rates will continue to strengthen. Investment sales will remain strong as investors continue to scour the market for opportunities.

Industrial

An enviable combination of robust speculative construction, increasing e-commerce demand, healthy job growth and strong leasing activity fueled the industrial market during 2017. The industrial market grew increasingly tight over the course of the year, fueled in large part by a red-hot logistics industry and continued e-commerce demand. Online retailers, most notably Amazon, are driving up both demand for space and asking rents for warehouse space across the nation, and the emerging logistics hub of Central Florida is no exception.

Leasing activity is expected to remain strong in 2018. Rental rates will exhibit continued improvement (albeit at a slower pace) and interest in investment sales will improve.

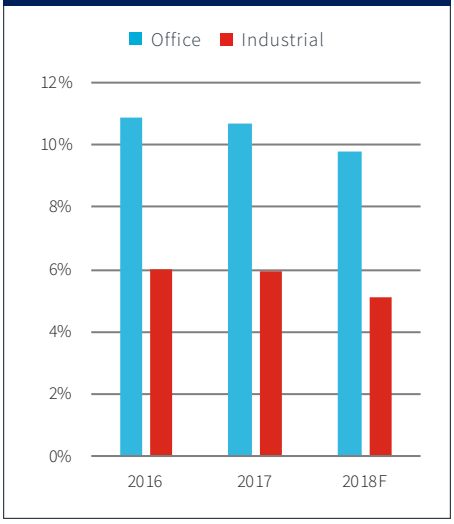
Retail

Orlando's retail market is experiencing renewed vigor, construction is once again rising in key areas. There is demand for larger boxes that have been vacated due to the downsizing and bankruptcies of some major chains from retailers entering or expanding their presence in the market. Current development activity is in direct response to considerable consumer demand, which is serving to keep vacancy low and provide fuel for rental-rate growth after rents were somewhat stagnant over the last several years. Record-breaking tourism of the last few years and a strong, and still growing, local economy are expected to continue to propel growth within the retail sector.

Investment

Investment activity during 2017 was significant with more than $2.2 billion transacted in the office, industrial and retail sectors, which accounted for more than 19 msf. Orlando's overall average cap rate compressed over the course of the year, dropping 60 bps to 7% from year-end 2016. Nearly three-quarters (72%) of all investment sales activity was from private and institutional investors, and approximately 15% was from REITs and publicly listed companies. Cross-border capital continues to chase opportunities in Orlando, accounting for 9% of all investment sales with active buyers originating in Canada, Germany and China. Marked investment interest should continue in 2018 as a strong flow of capital is expected to persist.

Orlando Vacancy Rates



Philadelphia

Fundamentals remain strong as rents rise and vacancies fall

Greater Philadelphia, stretching across three states, ranks as the third-largest regional economy in the northeast U.S. Encompassing southeastern Pennsylvania, southern New Jersey, northern Delaware, and continuing up the I-81 corridor into northeastern Pennsylvania, the overall Philadelphia market experienced strong fundamentals in 2017 that are largely anticipated to persist in 2018. Across the office, retail and industrial sectors, rental rates were up in 2017, while vacancies declined in both the office and industrial markets.

Office

Even with total inventory in the Greater Philadelphia region surpassing 414 msf during 2017, vacancy declined to 8.1%, its lowest point since the first quarter of 2001. Class A office space represented 31.6% of total inventory at 130 msf. Rent growth in 2017 occurred in both class A space and in the overall market with gross rents hitting $27.52 psf and $22.61 psf, respectively, at the close of third-quarter 2017.

Philadelphia's CBD is poised for a shakeup in 2018 as construction of the 1.3-msf Comcast Innovation and Technology Center is set to complete. In the broader Philadelphia region, there is 3.4 msf under construction with 86% preleased. A wealth of new office product is expected to hit the market by year-end 2018. Office inventory is forecasted to climb north of 417 msf with the overall vacancy rate for the market ticking up just 10 bps to 8.2%.

Industrial

Philadelphia boasts a highly active industrial market thanks to a plethora of industrial hubs located throughout central and northeastern Pennsylvania and the Lehigh Valley. Tenants continue to push to locate themselves in these areas due to their exceptional access to major cities throughout the northeastern U.S. Inventory totaled 976 msf with vacancy of just 5.5% as of the third quarter of 2017.

Given the demand for industrial space, 17.7 msf remains under construction as total inventory is predicted to swell to 994 msf by year-end 2018.

Retail

The Philadelphia retail market remains robust with nearly 529 msf of inventory. Even with the addition of 1.9 msf of space during the first three quarters of 2017, retail vacancies remained stable, moving to 4.8% from 4.7%. At $14.42 psf, average retail rents were up more than 3% compared with the same point in 2016.

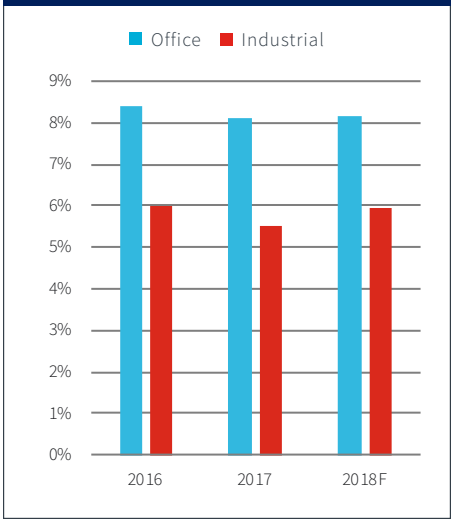
Planned mixed-use projects in the CBD and South Philadelphia are set to bring a significant retail component with them. The forthcoming Lincoln Square development will feature a Target. With 2.4 msf still under construction at the close of third-quarter 2017, the trend of retailers entering the Philadelphia market is projected to continue in 2018.

Investment

More than $5.2 billion in transactions occurred during the first three quarters of 2017, lagging the $5.5 billion in deals that took place during the same period in 2016. At $1.8 billion in volume, office sales accounted for 34.6% of total market activity as the average cap rate for office transactions crept upwards by 30 bps to 7.6%.

Through the first three quarters of 2017, the largest transaction was the $324-million ($183-psf) sale of 1500 Market Street to Nightingale Properties from CommonWealth REIT and Equity Commonwealth. The Philadelphia investment market is anticipated to remain strong in 2018 as out-of-market investors remain attracted to the region's relatively low tax base and high yields.

Philadelphia Vacancy Rates



Phoenix

Phoenix's economy grows increasingly diversified

The economy of the Phoenix Metropolitan Statistical Area (MSA) experienced greater diversification in 2017. Due to lower business taxes and living costs and a growing economy, combined with the city's desirable southwest location, Phoenix's office and industrial sectors are attracting out-of-state businesses. MUFG Union Bank, Quicken Loans, Orbital ATK (an aerospace manufacturer and defense company) and Freedom Financial all signed new leases, demonstrating that companies are recognizing the area's favorable business environment. U.S.-leading in-migration has increased demand for retail, multi-family and health-care products. According to the U.S. Census Bureau, Maricopa County is the fastest-growing county in the country, resulting in an expanding labor force for companies moving from other states.

Office

Phoenix gained 59,900 jobs and unemployment fell by 50 bps to 4% in the 12 months ending in September 2017. Improving office rents and vacancy rates through third-quarter 2017, especially in class A space, reached levels unseen since 2008. This improvement was aided by the slowing pace of deliveries in third-quarter 2017 and increased leasing activity. Net absorption for 2017 was positive for the seventh consecutive year, encouraging development and investment. The Phoenix real estate market entered the latest growth cycle later than most of the country and will continue to expand in 2018.

Industrial

Rents grew 3.5% in 2017 – less than in 2016; nevertheless, leasing activity resulted in absorption of more than 6 msf through the first three quarters of the year. Vacancy rates dropped in 2017 to 8.8% from 9.6% in 2016 – despite nearly 5 msf of new product being delivered. Larger tenants are driving the market, and large distribution users in southwest Phoenix are leading developers to build speculative buildings in excess of 350,000 sf. For example, Lincoln Property Company recently announced plans for a 900,000-sf speculative building in Goodyear. Manufacturing and flex spaces are also benefiting from the economic expansion due to increased manufacturing employment, which grew by 2.8% in the 12 months ending in September 2017. Warehouse space will face greater demand in 2018 from increased e-commerce requirements. Manufacturing jobs are expected to continue moving into the area.

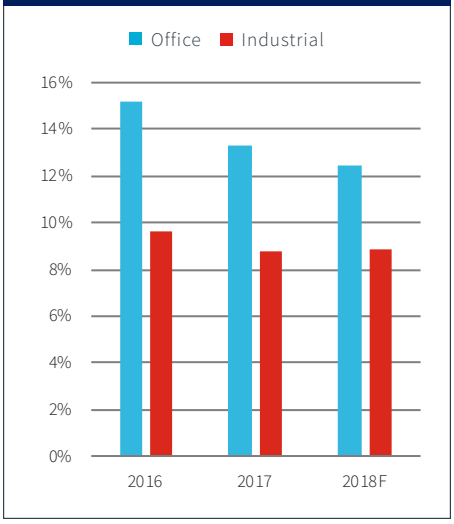
Retail

Retail rental rates for freestanding spaces jumped in 2017 as freestanding vacancy bottomed out at 4.6%. Shopping center rental rates remained stable and vacancy dropped 60 bps in the third quarter alone. Deliveries of new inventory in 2017 were nearly 90% preleased. From 2018 through 2020, retail sales are projected to grow 4.8% to 6.7% annually. The retail market should be supported by positive demographic and employment trends through 2018.

Investment

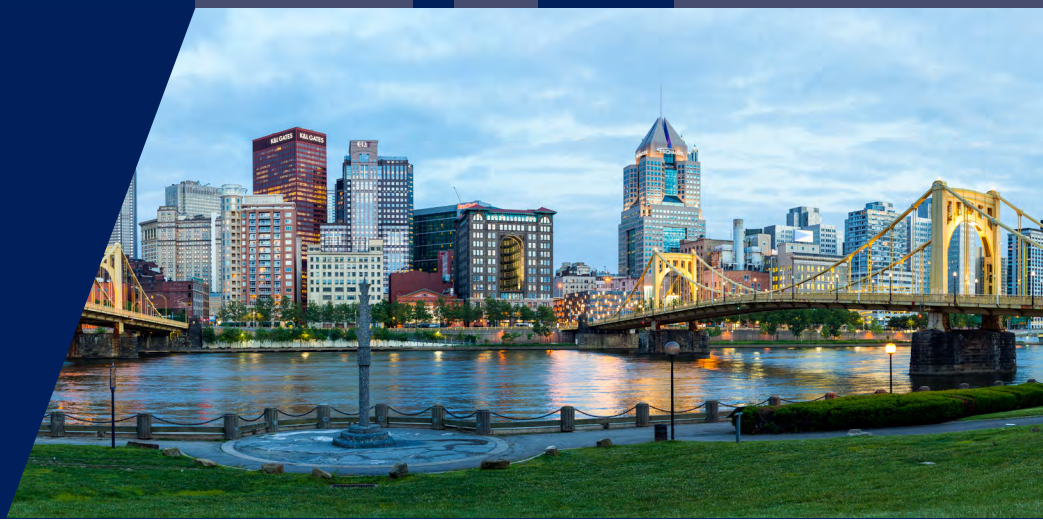
Office transactions slowed in 2017 with fewer value-add opportunities available to investors. Office cap rates were down 45 bps in the third quarter, and dollar volume shrank by 41%. Although Phoenix had favorable cap rates compared with coastal markets, national investor sentiment is trending toward a cycle correction. Medical office space and seniors housing will still attract interest in 2018, but the numbers in the extremely hot multi-family market indicate a slight third-quarter slowdown, while large sales will still dominate real estate media coverage.

Phoenix Vacancy Rates



Pittsburgh

Office leasing activity should rebound



Pittsburgh's commercial real estate market remained stable in 2017 with office and retail leasing activity declining slightly from 2016, while investment and industrial leasing activity remained steady. Investment activity is expected to taper off in 2018, but office leasing, especially in suburban markets, should rebound.

Office

Rental rates for class A and B properties in Pittsburgh's CBD continued to register minor increases year-over-year, while vacancy rose through 2017 to 12.9% in the third quarter. Activity in the CBD included two large companies relocating their headquarters into class A office buildings downtown. Evoqua Water Technologies took 60,000 sf in the former EDMC space in the K&L Gates Center, while Buchanan Ingersoll & Rooney will be leaving One Oxford Center and occupying 142,000 sf in the Union Trust Building in 2019. The Strip District remains a factor in the office market with Oxford Development continuing to acquire land in the area for office use. Chicago developer McCaffrey Investments reached an agreement to redevelop the historic Produce Terminal building. Fort Willow has revealed plans for a new 91,000-sf Lawrenceville office building to be completed in late 2018.

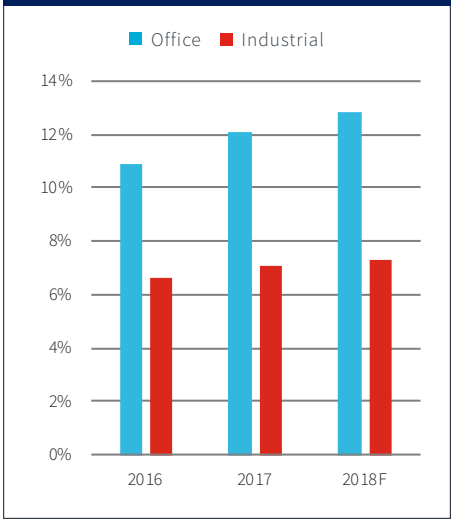
Industrial

Pittsburgh's industrial market continued to see a gradual increase in inventory in 2017, but also realized a small rise in vacancy. Siemens Corp. is consolidating two of its facilities and taking 230,000 sf of space in the former Sony plant in Westmoreland County. Midwood Investment & Development purchased the 79,300-sf Consumer Fresh Produce Building in the Strip District in a five-year sale-leaseback transaction. With tech companies, including Uber and Argo AI's R&D, and advanced manufacturing being located in Pittsburgh's Strip District and Lawrenceville, the Pittsburgh region will continue to attract tech and robotics companies, expanding its nationally recognized status as a technology hub. National pundits believe that Pittsburgh is a legitimate contender to land the new Amazon headquarters, which would drive demand for advanced manufacturing in the region.

Retail

Pittsburgh's retail market remains steady during these challenging times for the retail industry. The strength of the market is still in suburban areas, including Robinson, Cranberry and the McKnight Road corridor. While new restaurants, bars and breweries continue to open in the CBD, it remains underserved for traditional retail as a whole. This situation is consistent with the retail trend in Pittsburgh overall with new developments in Lawrenceville, Hazelwood, Beechview and other areas that are attracting restaurants, bars and office/industrial space, but not traditional retail stores. The former Civic Arena site, under development by the NHL's Pittsburgh Penguins, continues to be considered for a potential retail/entertainment development. Details are expected to come into focus in 2018.

Pittsburgh Vacancy Rates



Investment

Investment activity registered an uptick in 2017 with both local and out-of-market investors participating. There were several noteworthy transactions, including the sale of the Federated Office Tower, a 532,000-sf class A office building in the CBD, to CBRE Global Investors for $96.9 million. Continuing its investment in Pittsburgh, M&J Wilkow purchased 11 Stanwix Street, a 468,000-sf class A office building in the CBD, for $83.25 million. Highgate Capital purchased a 338-unit, multi-family property in the South Hills, known as the Lincoln Pointe Apartments, for $40.25 million. The investment market remained active in 2017 and appears likely to maintain that strength and activity in 2018; however, dwindling product opportunities may slow activity in this hot investment market.

Raleigh-Durham

Increased construction still moderate by historical standards

Raleigh-Durham's affordability, robust population and job growth and highly educated workforce serve as major draws to new residents, businesses and investors. In its most recent *Emerging Trends in Real Estate* report, the Urban Land Institute named Raleigh-Durham the No. 4 U.S. market to watch in 2018 for overall real estate prospects.

Office

Increased construction completions drove Raleigh-Durham office vacancy to 13.5% in third-quarter 2017, up 70 bps year-over-year. Nonetheless, conditions remain favorable to landlords with asking rental rates surging to new highs and strong job growth supporting ongoing tenant demand. The average class A asking rate ended the third quarter at $26.56 psf, up 5% year-over-year and 23% in the last five years. While construction activity has increased notably, developers and lenders continue to exercise restraint and preleasing activity has been solid. Vacancy is expected to track higher in 2018 and the rehabilitation of older, well-located buildings will become increasingly prevalent. Landlords should maintain the upper hand during the next 12 months, but concessions may increase and the pace of rent escalations should moderate.

Industrial

Raleigh-Durham's industrial vacancy rose 80 bps year-over-year to 6.2% in the third quarter of 2017. The increase was driven by a combination of construction completions and a handful of new single-tenant vacancies. Overall fundamentals remain strong with warehouse/distribution vacancy hovering near a 16-year low and asking rates on a steep upward trajectory. The average warehouse/distribution asking rate rose 16% year-over-year and the average flex rate rose 8%. Vacancy will likely increase in 2018, but leasing activity is projected to stay strong with the growth of e-commerce and surging residential and commercial construction fueling tenant demand.

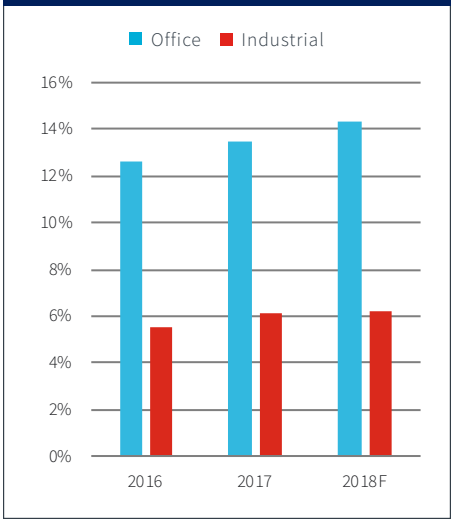
Retail

Raleigh-Durham's retail vacancy ended third-quarter 2017 at 6.9%, up 80 bps year-over-year as a wave of store closures hit the market. While the retail sector is undergoing its most significant structural changes in a generation, Raleigh-Durham's attractive demographics will help it weather the storm. Large blocks have thus far been backfilled in a timely manner by a mix of traditional and alternative users. The market continues to attract new brands with the most recent catch being IKEA. Construction is modest by historical standards – a trend that will continue for the foreseeable future. The region's grocery wars are among the most intense in the U.S. with new brands aggressively pushing into the market and legacy grocers remodeling stores and revamping offerings to remain competitive.

Investment

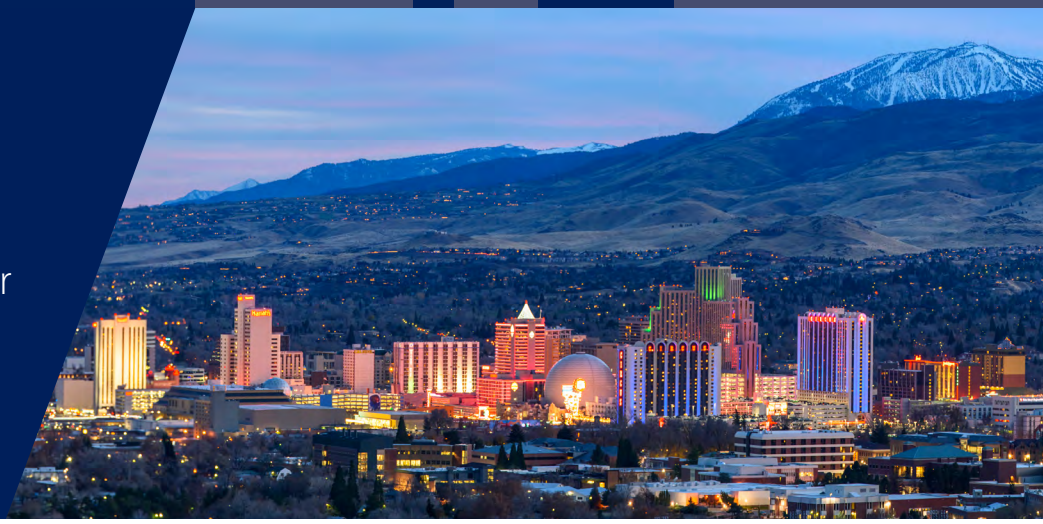
Raleigh-Durham's investment volume totaled $3 billion in the first three quarters of 2017. While multi-family sales made up the largest percentage of overall volume with $1.4 billion in transactions, investment activity for this segment was down 24% year-over-year. Office volume totaled $698 million, up 14% compared with the same period in 2016. Industrial sales totaled $465 million, up 34% due to the sale of a large data center and a handful of recently constructed assets. Retail investment volume totaled $416 million in the first three quarters, down 40% versus 2016, and hotel sales totaled $42 million, down 41%. While investment activity has slowed nationwide, the Triangle region continues to register robust demand as investors increasingly turn their focus to more affordable secondary markets.

Raleigh-Durham Vacancy Rates



Reno

National retail tenants enter marketplace



The outlook for northern Nevada in 2018 is for a repeat of 2017 with new companies moving to town, more job creation and rising real estate values. Tesla Motors will increase its employment count in 2018 as more of its new 16-msf facility comes online. In addition, another major employer is expected to announce a 60,000-acre purchase in the Tahoe Reno Industrial Center in 2018, and numerous technology firms from California are looking to relocate to Nevada to take advantage of its more favorable tax structure. The commercial real estate market will benefit from this growth as demand for investment assets continues to rise and prices continue to escalate.

Office

Reno office vacancy dropped to 12.1% in third-quarter 2017 from 14.1% at year-end 2016. This occupancy growth was mostly fueled by expanding local companies as opposed to new businesses. In the 12 months ending with third-quarter 2017, class A vacancy remained steady at 11.6%; however, asking rental rates have increased significantly. This rental-rate increase had been anticipated for a decade as compressed rates have hurt class B and C product. Almost no new office product will be delivered to the market in 2018, but another year of positive absorption like the past four would decrease vacancy to 10% – and could spur developers to build.

Industrial

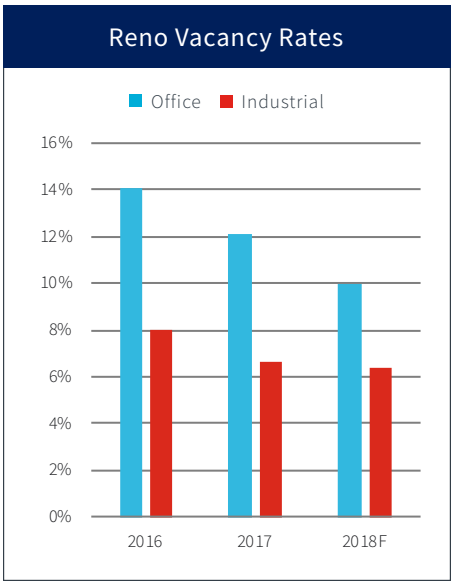
Market vacancy decreased to 6.6% as of the third quarter of 2017 from 8% in 2016 with class A and B industrial product scarce. Asking rental rates increased 5% during that time. At the end of the third quarter, 4.5 msf was under construction with one-third preleased. Developers will continue to deliver on the need for big-box product with several speculative projects of more than 400,000 sf in progress. In-fill projects containing flex and smaller industrial product have also begun. California companies and expansions of e-commerce distributors continue to flood northern Nevada. The market is expected to remain strong in 2018.

Retail

Activity in the retail market continued to produce positive indicators. National tenants are entering the marketplace and positive absorption was recorded in 2017. Commercial sales in northern Nevada have been steady, but a lack of available product for sale and aggressive cap-rate expectations from sellers have slowed the pace. Inventories will likely continue to shrink, pushing up sale prices. Retail vacancy ended 2016 at 15.4% and declined 120 bps through the first three quarters of 2017 to 14.2%. Rental rates continued to increase, averaging $18 psf as of third-quarter 2017. Overall, 2017 was a positive year for both retail leasing and sales. Vacancy will likely continue to decline as average rental rates increase in 2018.

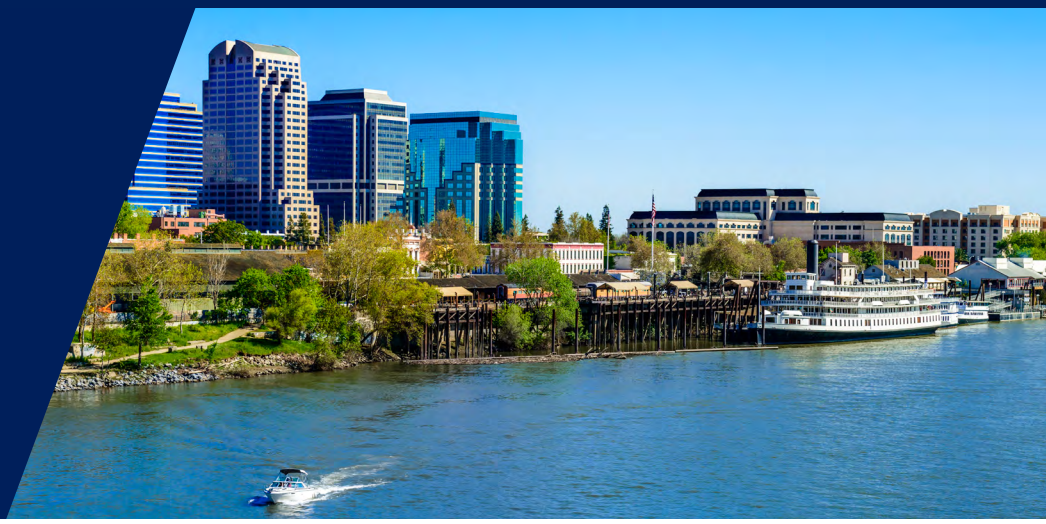
Investment

Demand for investment property remained high during 2017 and a lack of investment-grade inventory will continue in 2018. Multi-family assets will continue to demand the lowest cap rates, followed closely by self-storage projects. New residents will ensure a low multi-family vacancy rate of 3% despite the completion of new units in 2018. With vacancy rates falling in office and retail projects, these types of investments will continue to be in high demand. Cap rates will remain in the 5% to 6.5% range for multi-family assets, while the other sectors of the market will see ranges of 6% to 7.5%, depending on the quality and age of the assets.



Sacramento

Tech and non-government tenants become more active



The Sacramento Valley continued to record positive growth in all commercial sectors during 2017. The valley has become a popular destination for people that have been priced out of the Bay Area and other surrounding markets. Government and health-care industries have historically dominated this market. However, tech tenants, along with other industries outside of government and health care, have recently been more active in the Sacramento Valley. It remains to be seen whether this is a trend that will continue to gain momentum throughout 2018 and beyond.

Office

At the end of the third quarter of 2017, the Sacramento Valley office market recorded a vacancy rate of 10.9%, having registered more than 1 msf of positive absorption in the previous 12 months. Despite strong market growth throughout the valley, rental rates continue to be flat, ending the third quarter of 2017 with an average asking rate of $22.56 psf full-service. Downtown Sacramento attracted considerable attention throughout the year as the industry watched to see what impact a new arena would have on the surrounding area. The new downtown arena has proven to be a tremendous addition to this submarket. There is a new energy surrounding the downtown core. Through the first three quarters of 2017, this market recorded more than 100,000 sf of positive absorption, ending the third quarter with a vacancy rate of 11.1%.

Industrial

The industrial market performed very strongly during 2017 as vacancy decreased 260 bps year-over-year to 5.4% in the third quarter of the year. Asking rents for industrial product in this region increased significantly during 2017 due to a lack of supply. The average asking rate in the Sacramento Valley was $4.94 psf NNN at the end of the third quarter of 2017, up 13% year-over-year. More than 750,000 sf of new industrial product was under construction at the close of the third quarter with 70% preleased. With low vacancy and high demand for industrial product throughout the Sacramento Valley, developers are expected to continue to build in this region – driven by the ever-growing trend of e-commerce.

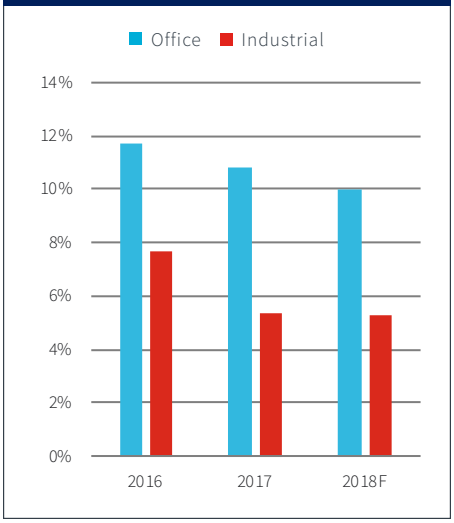
Retail

Retail vacancy stood at 9.1% at the close of the third quarter of 2017 – a decrease of 60 bps year-over-year. Current tenant demand points to continued occupancy growth throughout 2018, especially in the core downtown submarkets. Average asking rates for midtown and downtown retail product are on the rise, while asking rates in suburban cities stayed relatively flat year-over-year.

Investment

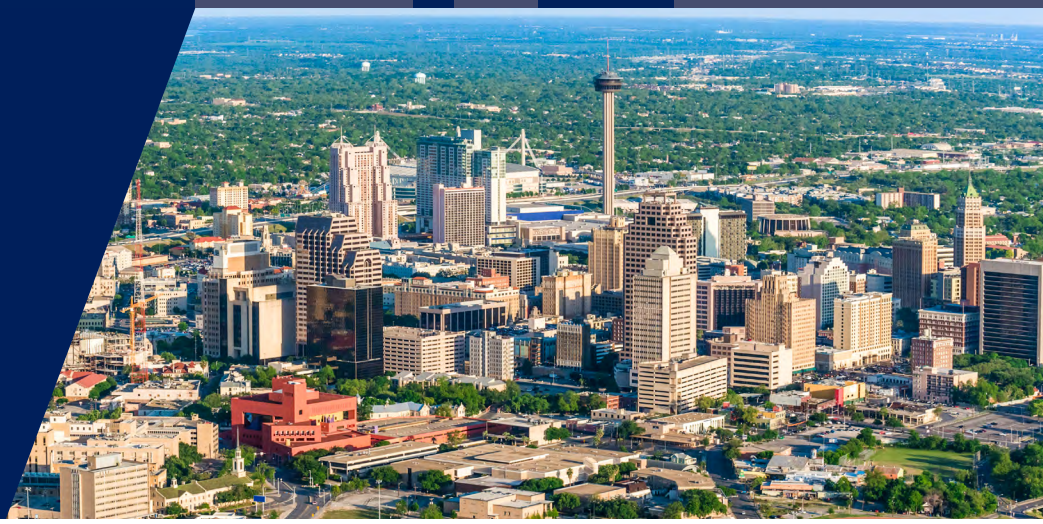
The majority of the investment activity that took place in the Sacramento Valley during the first three quarters of 2017 involved multi-family properties. Cap rates for this type of product are significantly lower than those for office, retail or industrial properties due to lower vacancy rates in multi-family product. An increase in investment activity in all property sectors – particularly industrial – is anticipated in 2018.

Sacramento Vacancy Rates



San Antonio

Population growth fuels demand for new commercial properties



The San Antonio market ended 2017 on a positive note due to an affordable cost of living and a thriving millennial population. Employment continues to grow organically from existing San Antonio businesses. However, San Antonio's affordability is beginning to attract residents and new companies to the area. The IH-35 corridor between Austin and San Antonio continues to record substantial growth and urbanization. San Antonio offers competitive, attractive options for both companies and residents when compared with average costs in Austin. Active job growth in the region has been driven by employment gains in health care, bioscience, aerospace and information technology.

Office

The San Antonio office market has grown considerably in recent years and is now at the point where it is able to accommodate large construction projects with tenants willing to pay higher rates for new product. Nearly 1.2 msf is under construction – the largest construction pipeline recorded in the past decade. The market is digesting what is being built. This situation led to a relatively stable vacancy rate from the previous year even as new space was delivered to the market. Construction began on the 462,000-sf Frost Tower in 2017. It is the first new local office high-rise to be built in 30 years. With 68% of the building already preleased, this tower is revitalizing San Antonio's urban core and has kicked off a wave of new development that is fostering a live-work-play atmosphere. Asking rates in the city's high-growth submarkets continued to rise steadily, particularly those rates for class A office space. Asking rates are projected to continue increasing in 2018. The vacancy rate will likely remain stable through 2018 due to high demand and healthy preleasing in new development.

Industrial

The City of San Antonio has made significant investments in infrastructure, and its location along the Austin-San Antonio IH 35 corridor is positioning the city to emerge as a major distribution hub. Most of San Antonio's industrial demand is located along this corridor. The industrial market remained tight throughout 2017 – a trend that is expected to continue in 2018. Healthy demand for warehouse and distribution space caused a significant increase in absorption in the past two years. As demand continues to create high levels of leasing activity, rental rates are expected to increase at a slow, sustainable pace.

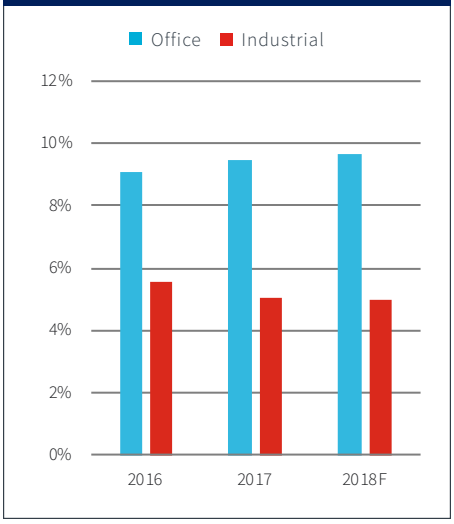
Retail

Population gains are boosting demand for retail – particularly in the downtown area where a significant number of new in-fill multi-family developments have been delivered and absorbed. The result: a live-work-play atmosphere is growing in popularity. Restaurant and retail demand, particularly in areas with robust foot traffic, are expected to remain elevated in 2018.

Investment

San Antonio, a healthy secondary market, has become a target for investors who have been squeezed in primary markets. The San Antonio market has high demand for product from investors, but limited supply for sale. As a result, properties do not stay on the market for long. The new Frost building in downtown San Antonio has garnered the attention of real estate investors around the world. Investment activity is projected to remain elevated in San Antonio throughout 2018.

San Antonio Vacancy Rates



San Diego County

Demand for San Diego CRE is unwavering

San Diego's commercial real estate market remained resilient in 2017 while sales volume grew and leasing demand was solid. San Diego's economic drivers include diverse industries, desirable geography and strong demand from health-care innovators, independent research institutes and defense contractors. Unemployment has remained competitively low amid steady population growth, reaching 4.1% toward the end of 2017.

Office

The office market made steady gains in 2017 with low vacancy and climbing rents. Technology, health care and life-science fuel the region's office growth. By far, the highest rents remain in Central Coast with life-science companies driving the market.

Vacancy remained low but flat in 2017 in a trend that is expected to persist through 2018. Meanwhile, rental rates rose significantly during 2017, and this growth is not expected to slow even as new construction is introduced. Rental rates have not yet reached pre-recession highs. There has been an uptick in office construction with more than 77% of the new space preleased. This trend is expected to perpetuate competition for space in 2018.

Industrial

San Diego's established industrial base supports the military, biotechnology and telecommunications sectors. Rents flattened through 2017 and are expected to remain steady in 2018 in part due to two years of flat vacancy, a moderate decrease in absorption and increased construction. Rents remain above pre-recession levels, while vacancy remains significantly below pre-recession levels.

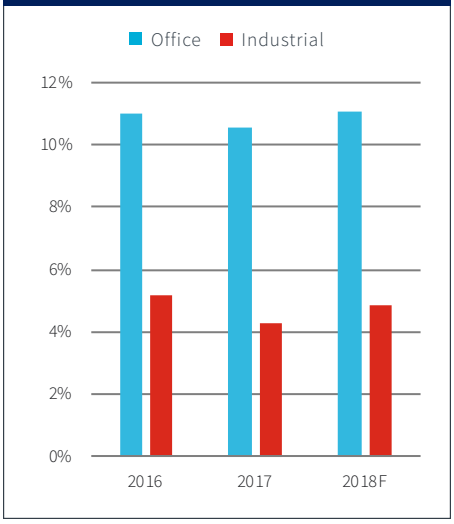
Developers gained confidence in 2017, reaching a post-recession high in volume of new construction starts. Despite strong demand, an increase in construction starts will occur slowly due to limited available land. The North County submarket of Carlsbad is experiencing the overwhelming majority of industrial development, while Otay Mesa, Poway and San Marcos will add inventory in 2018.

Retail

Retail occupancy climbed higher during 2017 in an already tight market. In response, rental rates experienced a strong uptick. Rental rates, which had been somewhat flat during the previous two years, still pale in comparison with pre-recession highs, yet are expected to increase gradually at a more sustainable pace as retail demands evolve.

Many of the same retail trends that are taking place at the national level are seen acutely at the local level in San Diego. The local market is being driven by a dichotomy of demands from tenants ranging from big-box discounters to high-end luxury retailers and experiential retail. Retail growth is expected to continue near residential areas moving forward. Service-oriented retail is anticipated to grow as customers become more accustomed to convenience and personalized services.

San Diego County Vacancy Rates



Investment

San Diego's investment market recorded tepid sales volume in the first half of 2017, while increased momentum occurred in the second half of the year, bringing total volume for the year to levels similar to those achieved in 2015 and 2016. Meanwhile, pricing per square foot is approaching record levels. Investors are drawn to San Diego's multi-family sector where apartment rental rates have reached record levels as the percentage of homeowners has declined further throughout the county.

San Diego's inherent fundamentals are the driving force behind investor appeal. Sales volume for the market as a whole is not expected to veer sharply from current levels during the course of 2018. Any retraction would likely be gradual.

San Francisco

Office market still ranks among strongest in U.S.

San Francisco remains one of the most sought-after cities in the country in which to live and work. Although San Francisco is one of the most expensive places in the world to operate a business, companies continue to expand within the city in order to attract top talent. Large companies continued to absorb big blocks of space in San Francisco during 2017, and 2018 looks to be no different. There are more than 40 office or life-science tenants currently in the market, each looking for at least 50,000 sf. As of September 2017, the city and county of San Francisco's unemployment rate was 2.9%, the second-lowest rate for any county in California, down from 3.2% in September 2016.

Office

The San Francisco office market continued to witness a wealth of activity during the first three quarters of 2017 despite an increase in vacancy. Vacancy throughout San Francisco was up 20 bps year-over-year to 6.2%. Much of this increase was due to a large number of deals signed during 2017 that will not impact absorption until they are delivered. This situation has resulted in existing large-block office availabilities sitting vacant. With the majority of new construction projects now preleased, expanding tenants will be forced to absorb existing available space, resulting in decreased overall vacancy. While the San Francisco office market is showing signs of a minor correction, San Francisco remains one of the strongest office markets in the country for tenants and investors. With its thriving technology sector fueling growth in the region for the past few years, technology companies such as Google, Salesforce, LinkedIn, Dropbox and others will continue to anchor this market moving forward.

Industrial

The industrial market in San Francisco continues to be very tight as vacancy ended the third quarter of 2017 at 1.7%. Companies have been forced to pay premium rents for industrial product in this market. With the combination of industrial product that has been redeveloped into multi-family or office space and extremely high demand for industrial space, this will continue to be a landlords' market for years to come.

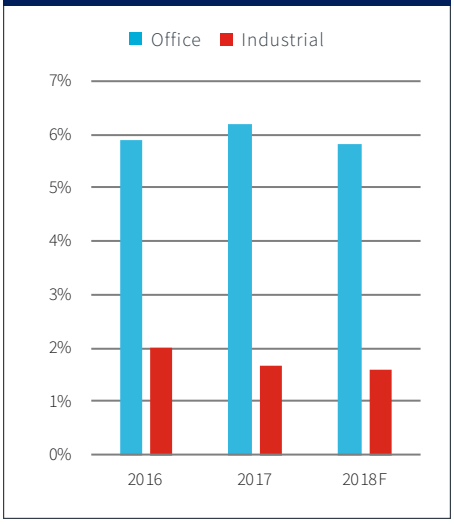
Retail

San Francisco's retailers continue to rely heavily on tourism. Union Square and Fisherman's Wharf are the main attractions for consumers. In the Hunters Point submarket of San Francisco (the former location of Candlestick Park), FivePoint Holdings plans to develop a 550,000-sf shopping center as part of a grander residential and commercial development. A retail development of this size has never been witnessed in the history of San Francisco. This project is set to break ground in 2020.

Investment

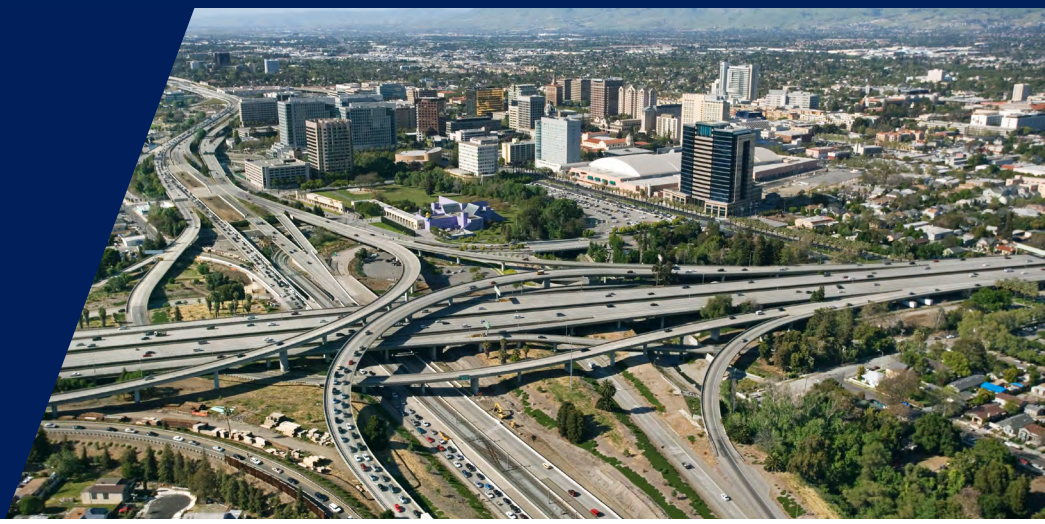
Investment activity in San Francisco totaled more than $4 billion worth of sale transactions during the first three quarters of 2017, outpacing the first three quarters of 2016 when $3.5 billion worth of deals took place. Preleased new construction projects are expected to draw increased attention from investors in 2018.

San Francisco Vacancy Rates



San Jose / Silicon Valley

Tech firms help investment market thrive



Silicon Valley's commercial real estate market performed well in 2017. Home to many of the world's largest tech companies, the region laid claim to nearly 20% of venture capital dollars invested in U.S. companies during the first three quarters of 2017, according to PricewaterhouseCoopers. Job growth continued, although at a somewhat slower pace than in recent years. At the close of November 2017, the unemployment rate stood at only 2.7%.

Occupiers of office and industrial space continued to expand their footprint as Silicon Valley registered record-high absorption during 2017. The large absorption numbers recorded in both office and industrial were due to the completion and occupancy of more than 6 msf of new construction. With more new construction coming in 2018, but on a smaller scale, it is likely the market will again have strong occupancy gains. However, since the occupancy gains are in new inventory, previously existing inventory will measure modest gains, as it did in 2017.

Office

A slight uptick in office vacancy is expected in early 2018 as new office construction reaches completion and remains vacant, a trend that started in 2017. While tenant demand remains strong, it was outpaced by new construction in 2017 – an imbalance that will ease in 2018 as speculative development slows. Asking rates will begin to stabilize in 2018, slowing the recent upward trend. The total amount of sublease space available on the market nearly doubled in 2017. These spaces offer tenants attractive alternatives at discounted rates and will likely be reabsorbed during 2018. Net absorption is expected to be positive due to the completion of the Google campus as well as several preleases from technology firms leasing space in projects currently under construction. Beyond that, occupancy gains in the office sector will be modest at best.

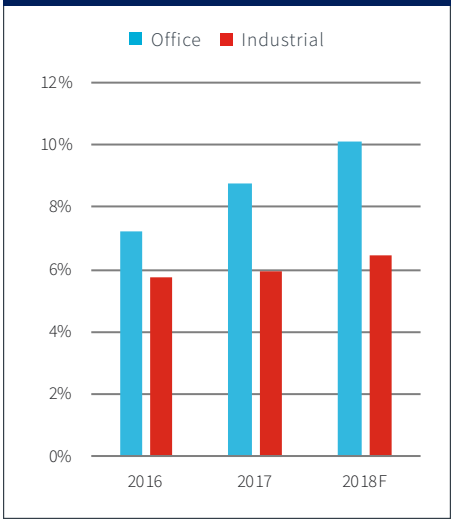
Industrial

The Silicon Valley industrial market recorded modest growth throughout 2017. Vacancy remained at historic lows in 2017 and will likely remain there throughout 2018. Although tenant demand remains high, it will be tough for the industrial market to register large occupancy gains during the year if the amount of available space on the market remains historically low. Vacancy has been below 6% for nearly two years. With little development in the pipeline and limited available supply in Silicon Valley, industrial tenants may begin looking in neighboring regions. An uptick in asking rates in the region will likely accelerate this trend throughout 2018 as supply remains constricted.

Retail

The retail sector in Silicon Valley remained steady throughout 2017. Many retailers have reported that operating expenses, such as increasing wages and health-benefit costs, along with higher rents and expenditures, continue to diminish their bottom line. Additionally, these same operators report that the high cost of housing is making it difficult to find enough minimum-wage workers. As a result, the retail sector in Silicon Valley is likely to continue its steady path during 2018.

San Jose / Silicon Valley Vacancy Rates



Investment

Silicon Valley continued to thrive as one of the nation's most attractive markets for real estate investment in 2017. Tenant demand, largely driven by tech companies, remained steady, and property owners experienced continued rent growth. With the continuation of relatively low cap rates and high-rent leases resulting in large NOI returns, price-per-square-foot numbers are expected to remain near current levels across Silicon Valley through 2018.

San Mateo

Industrial vacancy remains extremely tight

San Mateo County continues to be a major destination for tech companies. With easy access to its revitalized downtown markets via CalTrain from Silicon Valley and San Francisco, companies can attract talent throughout the county. The accessibility to venture capital firms on Sand Hill Road in Menlo Park is another big reason why companies migrate to this area. Properties in downtown markets in San Mateo County during 2017 were in high demand, especially in Redwood City and San Mateo due to the desire of companies to be in a true 24/7 environment. This trend will continue in 2018.

Office

Overall office vacancy at the end of the third quarter of 2017 was 7.9% with 700,000 sf of positive absorption posted in the trailing 12-month period. Average asking rental rates increased 5% year-over-year to reach $55.92 psf full-service at the end of the third quarter of 2017. Developers are extremely active in this market, especially in locations within walking distance of CalTrain stops. As of the third quarter of 2017, more than 1 msf of new product was under construction with more than 800,000 sf of that preleased. Since the beginning of 2015, nearly 2.5 msf of new office product has been delivered to this market. Activity from tech tenants is expected to continue in 2018. As they grow in headcount, some will be pushed out of downtown markets due to the lack of big-block spaces available in these submarkets.

Industrial

The industrial market in San Mateo County is one of the tightest in the country. At the end of the third quarter of 2017, vacancy stood at 1.4%. Quality available industrial space is extremely hard to find. With no new industrial development and the majority of existing tenants renewing at their current locations, there is very little room for new tenants. The industrial market recorded 38,000 sf of absorption during the first three quarters of 2017. Limited growth is expected in 2018 simply due to the fact that there is no room to grow. This situation has caused asking rates to hit all-time highs, averaging $15.60 psf NNN at the close of the third quarter of 2017 – a 16% increase year-over-year.

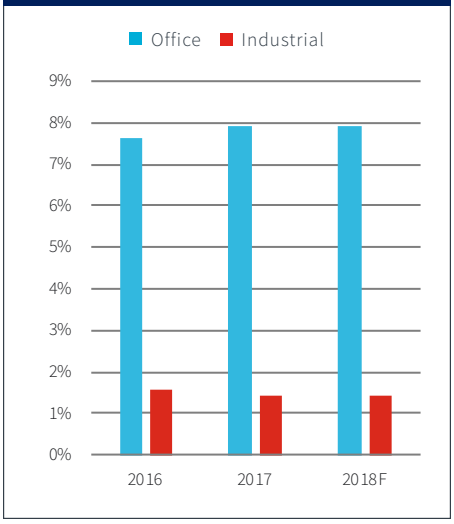
Retail

Retailers preferred to be in the core downtown markets within San Mateo County in 2017. Foot traffic is a key deciding factor for many retailers in this area. Retail tenant demand will continue to be strong through 2018 with rental rates expected to stay steady throughout the year due to limited availability of quality product.

Investment

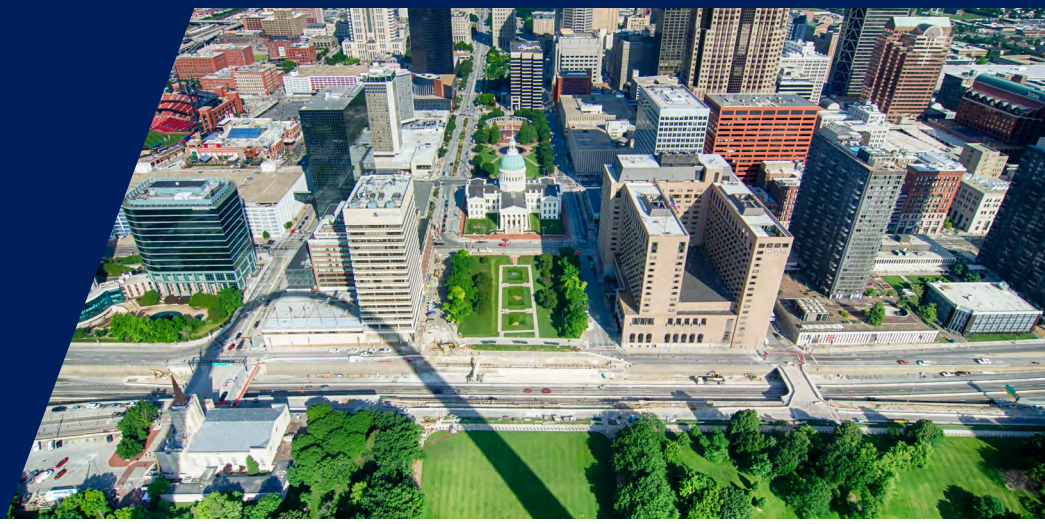
The San Mateo County market was active through the first three quarters of 2017, recording nearly $2 billion in trades. This number was down from more than $3.5 billion traded in the first three quarters of 2016. Despite high demand from investors, available properties were scarce due to the high number of trades that took place during the past couple of years.

San Mateo Vacancy Rates



St. Louis

Office construction expected to continue



The St. Louis metropolitan market is healthy and gaining strength in all categories. Health care, multi-family and industrial have been leading the construction boom with the office sector beginning to pick up. As predicted, Missouri did become a Right-to-Work State in 2017. The recent trend of above-average construction and leasing in industrial and office should follow in 2018 with retail being stable.

Office

The downtown central business district will see its first class A office building since 1989 with Ballpark Village Phase II, a mixed-use development. When completed, this project will include a 117,000-sf office building, a 220-room boutique hotel, a 900-space parking garage, a 30-story apartment tower and 75,000 sf of new retail space. In Midtown, the Central West End continues to attract tech companies and millennials. Microsoft, Cambridge Innovation Center and Accenture have all leased space in this booming corridor, which will continue to enjoy growth through 2018 and into 2019.

Clayton, which is the St. Louis county seat, and the adjacent west county suburbs are experiencing healthy expansion. Build-to-suits for companies such as Centene Corporation, World Wide Technology and Bunge North America are poised to dominate new deliveries in these popular markets. This suburban expansion includes the only large speculative office building, Delmar Gardens III in Chesterfield, which is 80% preleased. In the 12 months ending with the third quarter of 2017, vacancy decreased to 7.6% from 8.1% at year-end 2016, with a 2% increase in average rental rates to $18.60 psf. It is expected that both build-to-suit and speculative construction will continue in 2018.

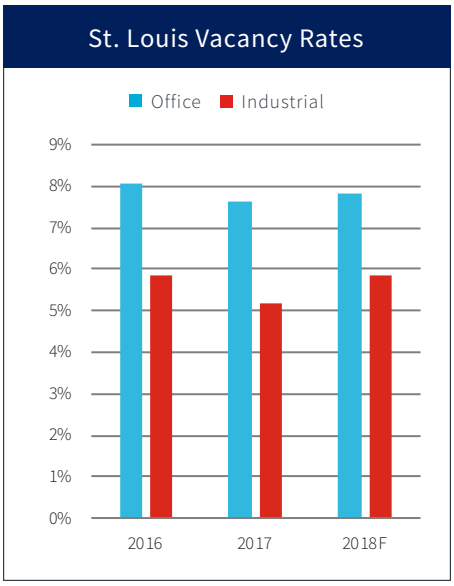
Industrial

Speculative construction of bulk-distribution centers continues. Amazon entered Missouri in 2017, leasing 400,000 sf in two buildings in Hazelwood near St. Louis International Airport. At the end of the third quarter, 3.7 msf was under construction. This figure represented a 14% decrease year-over-year, but is still significantly higher than the long-term average. Of the space under construction, 33% was preleased, leaving large blocks of space available for companies needing to expand or looking to move into the St. Louis market. Vacancy decreased 70 bps through the first three quarters of 2017 to 5.2%, while asking rents increased to $4.48 psf from $4.36 psf.

Many of the existing industrial parks have maximized their build-outs, and developers are now looking for land suitable for new development. New greenfield developments and in-fill development of smaller parcels previously overlooked should occur in 2018.

Retail

The retail market continued to improve in 2017 with overall vacancy decreasing to 5.3% and rents increasing by 2.8%. Rental rates are still rising, although leasing volume was down significantly compared with the previous two years.



This trend should continue in 2018 due to most construction being build-to-suits or preleased, thereby limiting supply.

Investment

The St. Louis market continues to attract outside investors looking for stable markets and better yields. Local buyers with 1031 Exchange funds have also been busy in the marketplace. Although total dollar volume in 2017 was down in all categories compared with the preceding years, per-square-foot prices increased and cap rates compressed. With prices near or exceeding pre-recession highs, more owners are bringing their properties to market. The investment sales market should continue to be healthy throughout 2018.

Tampa

Industrial fundamentals fueled by record e-commerce demand

Tampa Bay continues to experience solid economic momentum, demonstrated by a steadily declining unemployment rate, vigorous job growth (with nearly 46,000 new jobs added in the trailing 12-month period ending September 2017), healthy leasing activity, strong consumer confidence and a robust housing market. Major corporations continue to reaffirm their confidence in Tampa, as recently demonstrated by significant announcements of planned corporate expansions by both AAA and USAA Insurance Company.

Office

Office fundamentals remained solid in 2017 with an impressive decline in the direct vacancy rate of more than 200 bps during the year, healthy net absorption and a notable uptick in asking rental rates. The majority of the market's positive absorption was located in the Gateway, Bayside and Westshore submarkets, although the I-75 Corridor and Downtown Tampa submarkets were also solid performers. Investment activity remained strong and there was continued investor appetite within the urban core. In fact, investment interest has been so vigorous in Downtown Tampa that virtually every class A tower has traded hands during the last five years. Heading into 2018, leasing activity is expected to remain solid, particularly in Westshore, rental rates will continue to strengthen, and investment sales interest will remain strong.

Industrial

Healthy leasing activity is occurring, vacancy and cap rates remain low, and record e-commerce activity continues to shape industrial fundamentals. During 2017, Tampa's industrial market was characterized by compressing vacancies and a rapidly dwindling supply of large blocks of quality space. Strong leasing activity has been fueled in large part by a red-hot logistics industry and continued e-commerce demand as online retailers, most notably Amazon, drive up both demand for space and warehouse-space asking rents. Leasing activity is forecasted to remain steady in 2018 with rental rates expected to exhibit continued improvement (albeit at a slower pace) and investment sales interest likely to improve.

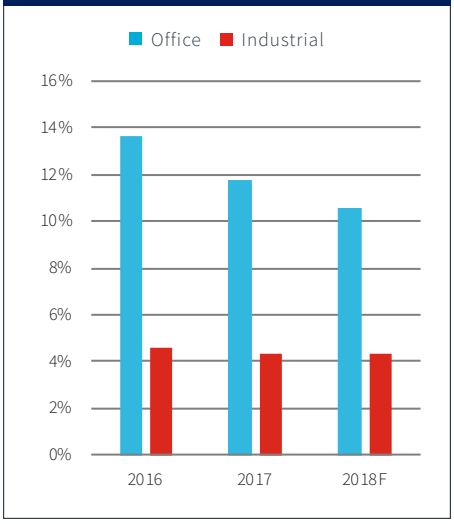
Retail

Grocery, fitness and value store-anchored centers continue to drive the bulk of leasing activity in Tampa Bay as necessity-based retailers remain a strong draw for both small-shop retailers and investors alike. There were no significant multi-tenant retail projects completed during 2016, and nothing substantial in scope broke ground during 2017. Downtown Tampa will soon have a long-awaited grocery store, as The Channel Club, a 22-story residential tower currently under construction in the Channelside area, will include a 36,900-sf Publix once the building is completed. National and regional fast-casual restaurant concepts continue to view Tampa as a viable option for expansion due in part to increased consumer spending.

Investment

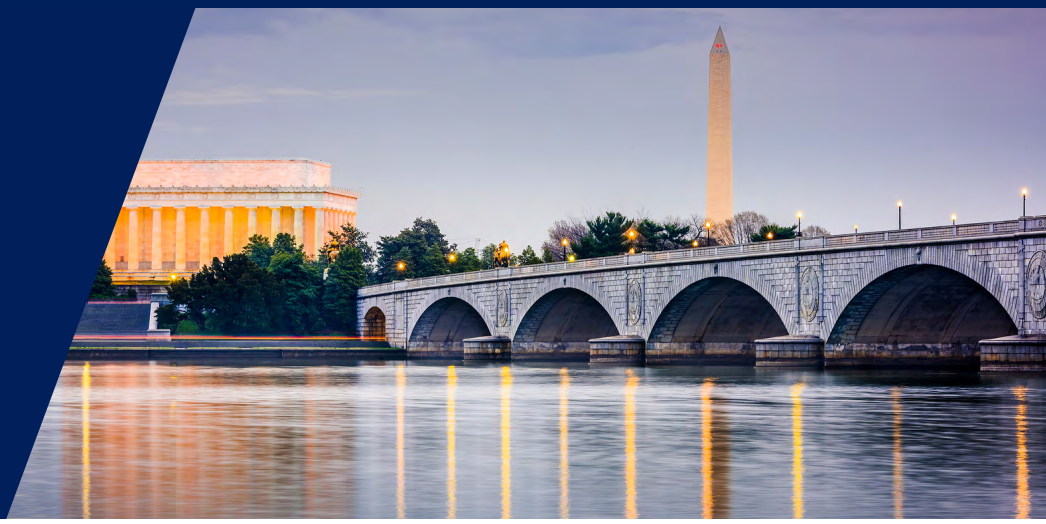
Investment interest continues at a robust pace and significant capital continues to chase deals in the Tampa market with continued strong activity expected in 2018. High competition and low cap rates within primary markets are driving investors to secondary markets such as Tampa, which offers a better relative value for the price. While there is a growing disparity between slow wage growth and significant rent growth in Tampa Bay, institutional and private investors continue to chase investment opportunities, placing increasing levels of equity in their acquisitions. During 2017, there were 139 office, industrial and retail transactions involving properties exceeding 20,000 sf, accounting for total transaction volume of $1.9 billion and 15.3 msf altogether.

Tampa Vacancy Rates



Washington, DC

Market well-positioned to gain traction in 2018



The Washington region's commercial real estate market recorded further gains in 2017 with significant levels of construction in the office sector, additional tightening in industrial product and sustained pricing in investment sales, even while volume decreased. The area's relatively low unemployment rate, job gains and an anticipated uptick in federal-government-contractor leasing kept the market poised for growth again this year. Although there are pockets of concern related to oversupply and uncertainty surrounding the Trump administration, these factors are not expected to have a meaningful negative impact in 2018.

Office

The office market (377 msf) was again characterized by tenant-leaning leasing conditions in 2017 with elevated vacancy and substantial concession packages. As year-end 2017 approached, overall vacancy was on par with year-end 2016 at 14.7%, and 600,000 sf had been absorbed. Rising vacancy has been offset in part by empty buildings removed from inventory for renovation or adaptive reuse. Building deliveries will play a pivotal role in the health of the region's office market as renovated product comes online to compete with commodity class A and trophy assets, particularly in downtown Washington. Demand has not kept pace with supply during the last five years, and that trend will continue in 2018 – hence, the region's overall vacancy rate is expected to edge up by year-end.

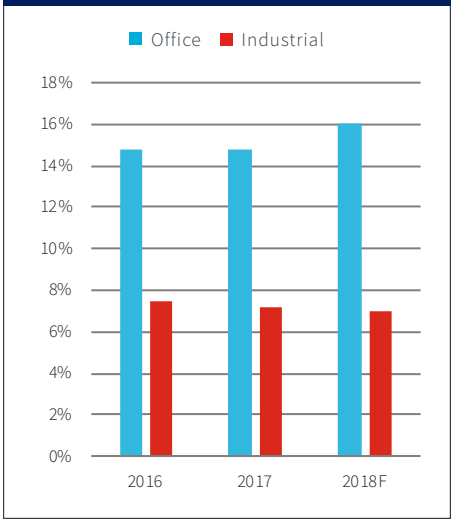
Industrial

The 192-msf industrial market is in full recovery with a firm trajectory toward expansion as vacancy further declines and tertiary markets heat up. E-commerce and big data are two drivers with core tenants absorbing large blocks of space. Undeveloped land along the I-95 distribution corridor is scarce, creating a market for revamping aged in-fill products into modern, last-mile distribution centers. Same-day delivery services and big-box retailers' efforts to gain market share in the e-commerce sector will support this trend well into 2018 as companies seek to expand distribution hubs near Washington. In Northern Virginia, data centers support 70% of the world's Internet traffic, attracting tech firms and supplementary service providers. The U.S. government's transition to the cloud for computing and storage should also contribute to data-center demand. Supply scarcity will likely energize industrial development with leasing activity favoring landlords throughout 2018.

Retail

Growth in Washington retail is driven by amenity-rich and Metrorail-centric mixed-use developments. Key Washington submarkets, such as Tysons, Rockville Pike Corridor and Alexandria, are being transformed by this pervasive trend. This live-work-play movement is supported by the millennial population, which as a group spends historically high amounts on quality dining and luxury products, fueling demand for upscale retail, specialty and neighborhood grocers and a wide range of dining options.

Washington, DC Vacancy Rates



Investment

Sales activity gained momentum in the second half of 2017 – even though overall sales volume declined year-over-year in 2017 – and the area remains an attractive play for foreign investors. Prices were upheld, although the disconnect between seller expectations and buyer bids was a growing concern, particularly in the CBD. Industrial is still a preferred asset, especially in Northern Virginia where interest in data centers is increasing. There is an uptick in large institutional owners in the seniors housing sector, which was once dominated by private investors and public REITs. Despite some concern about the impact of federal political instability on the market, activity is anticipated to pick up early in 2018 with newly energized players poised to take advantage of favorable credit conditions and a favorable tax code.

West Palm Beach

Steady employment growth bolsters leasing activity

West Palm Beach is one of several submarkets that make up the broader Palm Beach County commercial real estate market, which continues to thrive amid steady employment growth and rising household income. The area's wide array of public and private educational institutions continues to develop a talented employment base that has led to economic prosperity. In the past five years alone, total non-farm employment rose 21% and the non-seasonally adjusted employment rate dropped 570 bps to 3.6% as of September 2017. These figures have translated into sustained leasing activity and increased investment interest in top-performing areas of the market, such as Downtown West Palm Beach and Boca Raton. The market's sound economic fundamentals are expected to serve as the foundation for continued investor interest for all types of assets within the CBD.

Office

Among the many office, retail and industrial assets that traded hands in 2017, the largest transaction was Office Depot's acquisition of its headquarters facility in Boca Raton. The 624,000-sf property was purchased in August for $132 million, or $212 psf. The acquisition came as a surprise given that the company has been closing dozens of stores across the country in an effort to cut expenses. This purchase gives Office Depot greater control of its real estate assets and bolsters the strength of the Boca Raton office market. Additional investment activity in high-performing assets, such as Golden Bear Plaza and Peninsula Executive Center, illustrate the confidence in suburban office space as well. This confidence is evident through strong investment activity and also in the county's leasing performance.

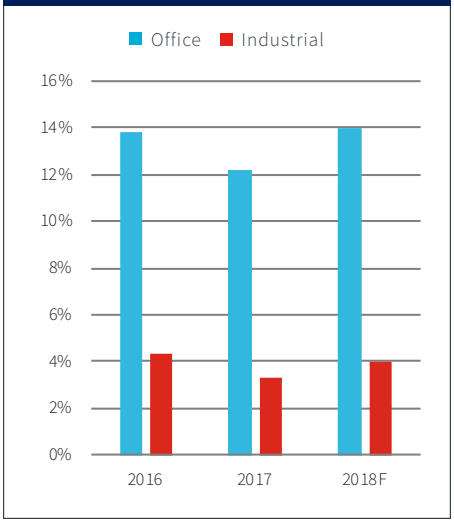
Industrial

Economic growth continues to foster demand for high-quality industrial space throughout Palm Beach County. During the past few years, new deliveries have brought the area out of the shadow of neighboring Broward and Miami-Dade counties, yielding greater attention from tenants and, as a result, investors. Demand for space within projects, such as Turnpike Business Park, has brought these properties to market significantly – and, in some cases, fully – preleased. In response to solid leasing activity, developers are expected to remain bullish on the area, and occupancy levels will likely remain strong through the end of 2018.

Retail

Solid economic fundamentals and steady employment growth continue to make Palm Beach County an attractive retail market. Strong absorption, combined with minimal speculative construction, has paved the way for a consistent decline in vacancy throughout the past cycle, allowing landlords to capitalize by raising rental rates. However, this trend may be changed by recent development proposals for mixed-use projects in areas such as Downtown West Palm Beach and Delray Beach. Retail leasing is expected to remain consistent through 2018. New mixed-use development could attract even greater levels of tenant interest.

West Palm Beach Vacancy Rates

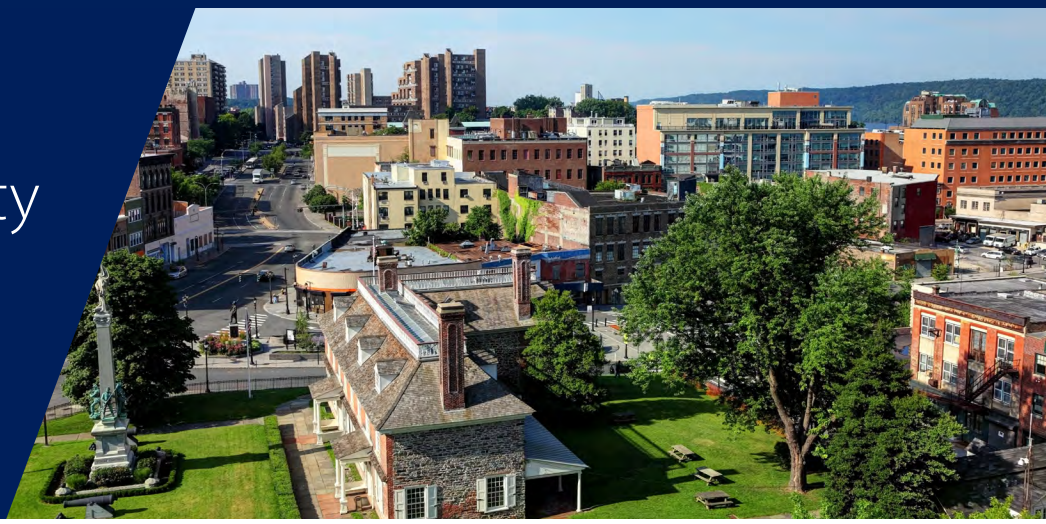


Investment

Investment activity remains strong as investors capitalize on West Palm Beach's asset affordability relative to other markets. Many properties have recently traded hands in response to a significant wave of tenants relocating to more affordable space in the suburbs. This trend is evident across all asset types as overall occupancy continues to drop within urban areas of the county. Furthermore, redevelopment of well-located suburban assets increases the attractiveness of these areas. Suburban assets are expected to remain attractive through 2018 as long as their quality remains competitive with urban properties.

Westchester County

Office and retail buildings set for redevelopment



Labor market indicators for office-using employment point to continued growth in Westchester County with Service-Providing jobs in the lead, followed by health and professional and business services jobs. Tracking solid labor-market fundamentals in health care, demand for medical office space from health-care providers proceeded at a steady pace.While still burdened with persistent and rising vacancy in some of its largest office buildings, the Westchester County market is positioning itself for some significant restructuring as plans for the repurposing of key office buildings continue to gain traction. With a reduced office inventory and assuming no new significant construction takes place, vacancy in Westchester County should start falling in the not-too-distant future.

Office

At 19.5% in the third quarter of 2017, overall office vacancy was up 320 bps from year-end 2016. Excluding the still vacant former IBM and PepsiCo buildings in Somers in the Northern submarket, which total more than 1.6 msf, the overall vacancy rate would only be 14%. While the fate of those major office buildings in the Northern submarket still remains uncertain, repurposing of key office buildings in the East I-287 submarket is projected to contribute to a drop in vacancy there in the future. The East I-287 repurposing projects include the repositioning of 900 King Street in Rye Brook with plans to repurpose the 200,000-sf office building into a 269-unit assisted-living facility. In addition, the repurposing of vacant office buildings at Platinum Mile office park along Corporate Park Drive in Harrison in the same submarket will reduce the office inventory by more than 420,000 sf.

Continued repurposing of obsolete office buildings is expected in 2018. This trend should result in a gradual erosion of excess space and a reversal to positive net absorption.

Retail

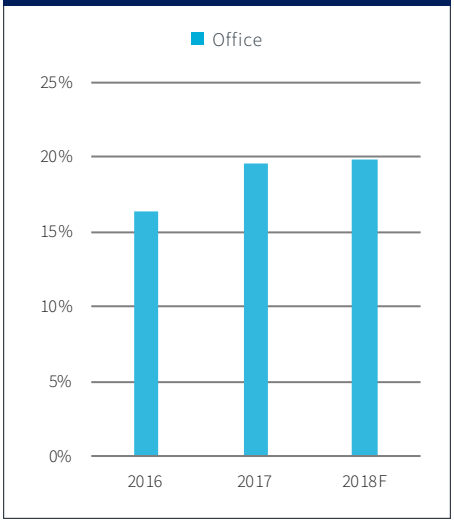
Leasing activity in the retail market was stable in 2017. The vacancy rate hovered at an average of 5.1%, in line with the previous year's performance after having been on a downward trajectory during the previous five-year period. Large malls actively renovated, using technology as a key driver to bolster the shopping experience, while mom-and-pop shops continued to struggle.

On the heels of heated residential development, which is luring more and more Manhattanites to Westchester County, a continued influx of high-end retailers penetrating the market from New York is expected in 2018, as well as continued repurposing of older retail and new retail development as part of mixed-use facilities – such as the Westchester Pavilion in White Plains.

Investment

At mid-year 2017, Westchester's overall sales volume was up 83% year-over-year. The county's overall sales growth outranked that of the Tri-State and the broader Northeast regions, both of which saw mid-year and annual declines by an average of 36% and 25%, respectively. Spurring this growth were the office and multi-family sectors, the latter of which registered a fivefold increase in sales by mid-year 2017 relative to 2016. The top transaction in this sector was the $148-million sale of the 412-unit apartment complex at 255 Huguenot Street in New Rochelle.

Westchester County Vacancy Rates



Office sales recorded a 52% increase compared with the previous year's mid-point, boosted by the landmark sale of 44 South Broadway in White Plains that garnered $138 million. Soft office market conditions and the challenges associated with filling vacant space are prompting some discount sales. The average cap rate of 7.7% across all sectors lags behind the Tri-State regional average of 5.8%, but is edging downwards, principally due to the more active office and multi-family markets.

The outlook for 2018 in the Westchester market calls for continued opportunistic and value-add investment activity – primarily in the office sector.

Mexico

84 Mexico City

Mexico City

Market remains healthy despite risks and challenges

The Mexican economy has recently been confronted by several important challenges from the uncertainty caused by the American presidential election in 2016 to the ongoing NAFTA renegotiation talks and the fiscal and budget revisions in the U.S. All of these external events have contributed to significant depreciation of the Mexican peso. Additionally, the drastic seismic events in September 2017 in central Mexico and the upcoming federal elections have resulted in some signals of attentiveness and caution in the marketplace. Despite all of these uncertainties, the economy has countered most of the pessimistic predictions that affected it in late 2016 and early 2017.

Office

Regardless of the perception of current oversupply in the class A corporate market, nearly 3 msf was absorbed during the first three quarters of 2017 – 30% more than in the same period in 2016. The Mexico City office market remains vigorous with a vacancy rate of 10.8%. However, many observers are viewing the market with caution given the significant amount of new construction that is set to be delivered in the next few years. The space in the pipeline – nearly 21 msf – is equal to one-third of existing inventory.

Industrial

Availability of modern, high-quality industrial space in Mexico City is starting to become scarce. The vacancy rate as of the third quarter of 2017 was only 4.6%. A lack of larger parcels of land and high land prices are some of the main reasons. Average rents increased approximately 12% between third-quarter 2016 and third-quarter 2017. As of the third quarter of 2017, total year-to-date industrial absorption in Mexico City was nearly 15.5 msf, which represents significant demand.

Retail

Mexico's retail real estate sector has become very sophisticated during the last several years. Taking notice of failing models in other parts of the world – and the growing popularity of e-commerce – Mexican developers are constantly exploring new models for their shopping venues and for their mix of tenants and uses. New formats include a mix of entertainment, fashion, food and beverage, culture and services.

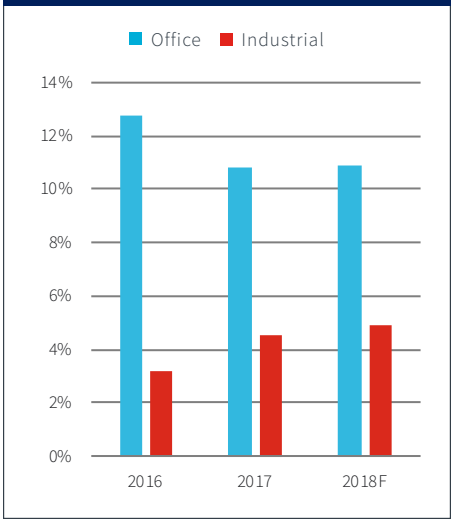
Very large and ambitious projects, such as Mítikah with 1.4 msf in southern Mexico City, are under construction and expected to be delivered to the market in 2018.

Investment

It is expected to be a challenging year in 2018 for real estate investment in Mexico because of the uncertainty of a Mexican electoral year and the NAFTA renegotiation process among other complex local and international socio-political and economic situations.

The Mexican real estate market does not have a significant supply of sophisticated properties for sale (neither rented nor vacant). Therefore, prices expected by owners are often higher than what investors are willing to pay. The cap rates sought by sellers are still very low and at levels observed in other, more institutional markets in less risky economies. Nonetheless, several institutional and private investors are very active and looking for attractive investment opportunities in Mexico.

Mexico City Vacancy Rates



United Kingdom

86 Coventry (Midlands)

87 London

88 Manchester

Coventry (Midlands)

Steady activity continues in the Midlands

While take-up activity was lower than in 2016, the market has performed in accordance with the long-term average, which is expected to be maintained during 2018.

Office

The Coventry (Midlands) market continued to perform well in 2017 with take-up increasing over the course of the year due to the strength of demand for space from the construction, government and professional services sectors. The 240,000-sf pre-let to HMRC – the U.K.'s tax authority – of 3 Arena Central was the largest letting in Birmingham in a decade.

Take-up is expected to continue to increase in 2018 with more companies looking to lease office space in the Midlands due to HS2 – the new London-Birmingham rail link – and the widening gap in occupancy costs between London and the Midlands. With a shortage of grade A stock, prime rents are forecasted to rise in 2018.

Industrial

Following 2016's record take-up, demand in 2017 was more subdued as the political uncertainly and depreciation in the value of the British pound following the U.K.'s decision to leave Europe were felt. This situation is expected to remain the case in 2018 with take-up in line with the long-term average.

A number of major transactions were recorded in 2017 with space let to businesses, including Howdens Joinery (957,000 sf), Jaguar Land Rover (556,000 sf) and XPO Logistics, for a Premier Foods contract (594,000 sf). Rents are expected to remain stable, although more generous lease incentives may be given and shorter lease lengths accepted.

Retail

The retail sector in the West Midlands, along with the rest of the country, has suffered from the impact of e-commerce. That said, the number of shops opening in the West Midlands in 2017 was the highest in three years, according to research by PricewaterhouseCoopers. Birmingham is likely to be the main beneficiary of this demand for flagship stores with schemes such as Grand Central and the Pavilions, which will open in 2018 with Primark pre-letting a 150,000-sf store.

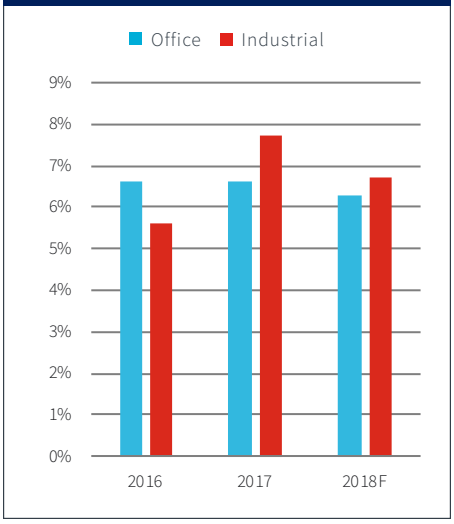
A desire to provide fit for purpose space has led Intu to invest £100 million into the renovation of Merry Hill. Elsewhere in the Midlands, Coventry's 560,000-sf City Centre South scheme will open in 2022 and will be a major retail and leisure destination for the region.

Investment

Coventry (Midlands) has shown very strong investor demand, which has continued to push prices upward, although there is a lack of prime-quality product coming to the market with many developers retaining newly constructed assets. Investment activity in the distribution-warehouse sector across the Midlands was down in value by 23% year-over-year in 2017. The number of deals across the U.K. was down, but the total value of deals was up 18% year-over-year. There is no shortage of investors in the market and there have been several new entrants from overseas, including from Asia and South Africa, as well as Europe.

Strong investor demand is expected to continue in 2018 with prices remaining similar to 2017 levels.

Coventry (Midlands) Vacancy Rates



London

Activity becomes more polarized

Uncertainty over what Brexit means for business remains a central element to news reports, so both optimistic and pessimistic outlooks can be argued for most property markets in 2018.

Office

Views on how Brexit and political uncertainty have affected business confidence in the Central London office market can be argued in different ways.

For the optimist, Deutsche Bank's decision to commit to at least 469,000 sf at LandSec's 21 Moorfields scheme; positive market updates from two London-focused property companies, Derwent London and Great Portland Estates; and third-quarter 2017 showing the highest level of letting activity since 2006 all point to a market with robust levels of demand.

For the pessimist, the number in 2017 of sub-20,000-sf transactions – which represent around 90% to 95% of all transactions – was around 80% of 2015 levels. Anecdotal evidence suggests that the number of viewings is falling. In addition, executives have been shuttling into Europe looking to secure office space to protect their businesses against the possibility of a so-called "bad" Brexit. Going forward, office occupiers are likely going to become more discerning and, outside of large space requirements, drive harder bargains with landlords.

Industrial

Levels of take-up across London and the South East region declined in 2017 due to weaker business confidence. This picture is expected to remain the same during 2018. While supply has increased, it remains constrained in many locations – a result of the continuing repurposing of industrial space to uses such as residential.

The conundrum for many logistics companies and retailers is how to provide last-mile delivery service, particularly as the benchmark performance is moving from same-day to four-hour delivery in London. This situation is likely to result in rent increases in the central area.

Retail

In response to the evolving retail landscape, several major shopping centres are improving their shopping experience. Oxford Street, Central London's main shopping thoroughfare, could be a pedestrian-only zone by the end of 2018, coinciding with the opening of the new Elizabeth Line crossrail service.

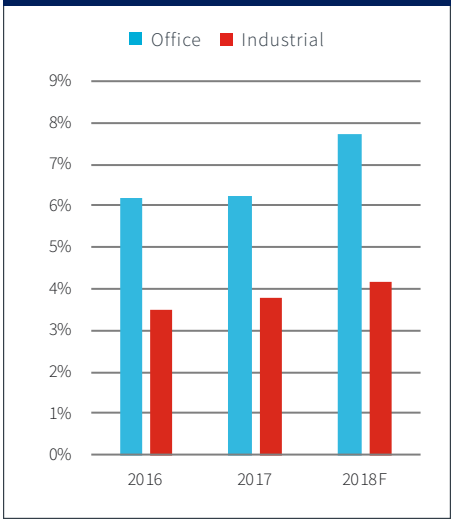
In West London, Westfield London shopping centre is adding an additional 740,000 sf of retail, dining and entertainment space to create a high street of flagship stores. In North West London, it is proposed that the existing Brent Cross Shopping Centre be doubled in size to 2 msf; and north of London, a 400,000-sf extension to Watford's main shopping centre will open this year.

Investment

The office sector is the principal investment market in the city. Interestingly, during the 12 months ending with third-quarter 2017, total investment volume was £16.76 billion in 192 transactions (compared with £14.84 billion and 271 deals in the previous 12-month period). The standout deal of 2017 was the sale of 20 Fenchurch Street for £1.28 billion – arguably, this amount skews the numbers. That said, there is still a market for well-secured income streams, but the definition of "well-secured" is becoming increasingly narrow.

Overseas buyers have again been active, and this trend is expected to continue through 2018.

London Vacancy Rates



Manchester

Second-half performance indicates strong year for North West

The North West market performed well through 2017 with strong rental growth in the industrial sector, high levels of take-up in the office sector and strong demand from international investors.

Continuing upward pressure on industrial rents is expected in 2018 along with speculative office development as a result of strong demand and a number of large unsatisfied requirements.

Office

The office market continued to prosper with total city centre take-up of 938,000 sf through the first three quarters of 2017. Total take-up for 2017 was expected to be in line with 2015 and 2016 levels. High-profile transactions include the Department of Work and Pension taking 77,000 sf at 2 St. Peter's Square and WeWork leasing 55,000 sf at 1 Spinningfields.

Headline rents remained static at £34 psf, while the supply of grade A new-build stock continues to diminish. This trend will likely continue for the next two years as high-profile requirements absorb new space. Headline rents in 2018 are expected to increase to £35 psf for new space and £28 psf for refurbished stock. Co-working and collaboration space has shown the strongest growth.

Industrial

The North West industrial sector had good take-up throughout 2017 (particularly in the second half of the year) and large, quality requirements continued to emerge – so much so that a new round of speculative development is beginning, the first since 2014-15. The speculative development is being driven by strong occupier demand and prime rents rising to £6.50 psf.

The North West market has reached a point where development sites capable of accommodating the increased size requirements of the national 3PL and e-commerce operators (i.e. 500,000 sf to 1 msf) are in short supply with only a handful of sites capable of delivering in 2018-19 and the next batch of sites not deliverable until 2021-22. This situation has put developers in a strong position, which will reinforce rental-rate growth throughout 2018-19.

Retail

It was a mixed year for retailing in 2017 with in-town shopping centres experiencing rental contraction and out-of-town shopping centres and retail warehouses experiencing modest rental growth. Large dominant out-of-town schemes still attract good levels of investor demand.

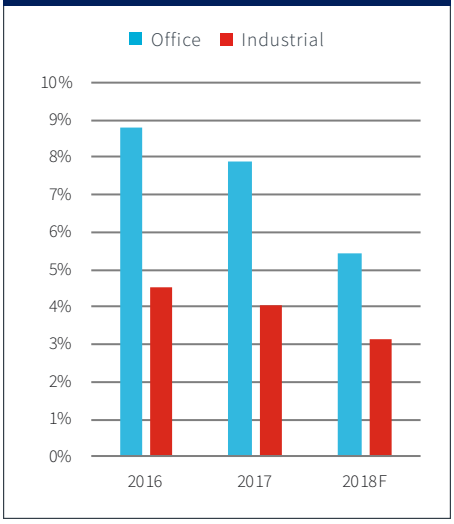
Investment

The North West region showed strong investor demand throughout 2017 with first-half volumes of £1.4 billion, 5% above the five-year average. The third quarter resulted in a six-year high in investment volume (£1.5 billion), boosted by a number of large deals and build-to-rent schemes, as well as the £200-million sale of Birchwood Park to Warrington Borough Council.

Build-to-rent residential investment apartments recorded the most growth as the sector became the third-largest sector in 2017 behind office and retail with industrial in fourth place. Office investment volume was boosted late in 2017 with a number of Manchester City Centre office sales and the £200-million sale of 1 Spinningfields to Schroders.

Continued strong demand for North West investment assets is anticipated in 2018 as investors seek value compared with London and the South East.

Manchester Vacancy Rates



Germany

90 Berlin

91 Duesseldorf

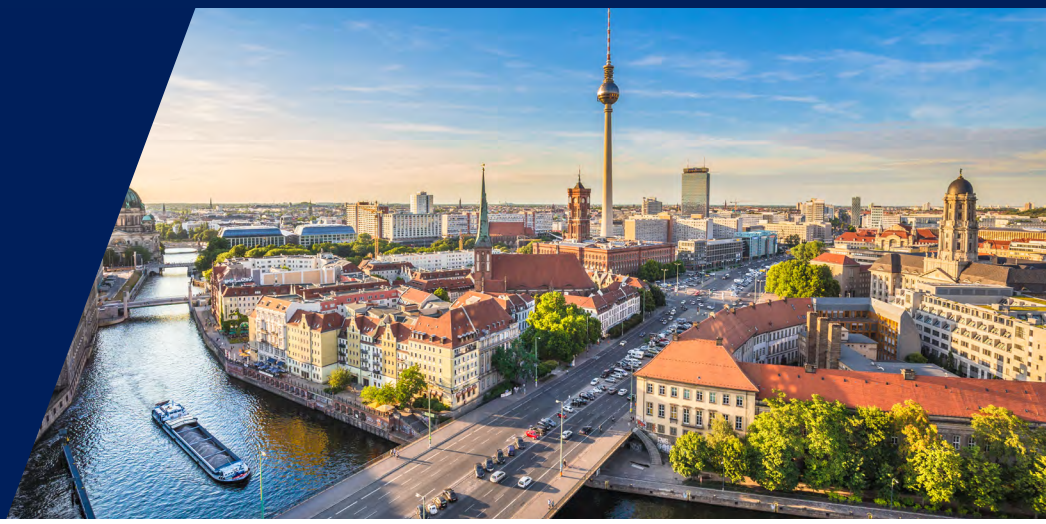
92 Frankfurt

93 Hamburg

94 Munich

Berlin

German capital remains on its remarkable growth path



Some 3.55 million people currently live in Germany's largest city. This number has risen steadily in the recent past and is forecasted to rise by 500,000 to 4 million inhabitants by 2035. The city's economy is growing with purchasing power rising and unemployment decreasing. In addition, Berlin's tourism industry is moving from one record-high to another.

The capital's high quality of life, in combination with strong economic and demographic fundamentals, kept the leasing and investment markets at record highs in 2017, and demand will remain above average in 2018.

Office

For the third year in a row, office take-up was above 800,000 square metres (sq. m) in 2017. This outstanding result kept Berlin in first place in Germany, outperforming Munich's strong office market. More large-scale deals were completed in Berlin than in any other German market. Across all size segments, market activity was noticeably above average, most of all in the mid-sized segment between 2,001 sq. m and 5,000 sq. m. The enormous leasing activity by Zalando AG was striking. Zalando is a major online retailer based in Berlin and closed a number of large-scale deals, amounting to 144,000 sq. m by fall 2017. Overall, e-commerce/trade companies were the most active tenant group. Office vacancy further decreased and is currently less than 3%. Berlin has certainly turned into a landlord's market, and this situation is unlikely to change in the near future. Very limited supply will likely prevent a further rise in office take-up. The renewal of existing leases will become an even more attractive alternative for tenants who might struggle to find new premises. Moreover, rent levels will remain under upward pressure across all submarkets and quality segments.

Industrial

After a strong 2016, take-up rose further in 2017 and noticeably surpassed the 400,000-sq.-m mark, making the year one of the strongest ever. Demand was strongest for new premises. Speculative space is quickly being absorbed by the market and will remain so in the medium term as the market benefits from rising population, economic growth and changing logistics and transportation needs. Prime and average rents have risen and are likely to follow that trend in 2018.

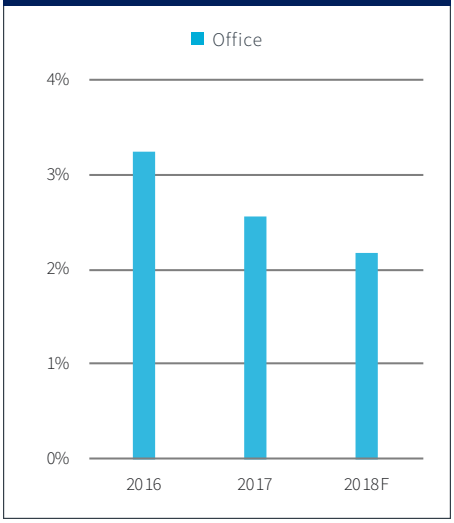
Retail

The bustling Berlin retail landscape remains the top target in Germany for international retailers, who seek to take advantage of the various retail pitches with their unique characters and clientele. Moreover, the rise in population and tourist numbers work in favour of the capital's retail market. Whereas the majority of Berlin's prime pitches are thriving – especially around Hackescher Markt – demand has decreased moderately along the city's prime luxury pitch, Kurfuerstendamm. Overall, prime rents are expected to hold firm in 2018.

Investment

Demand from national and foreign investors for investment product will remain high in 2018. As major assets, such as the Sony Center and the Upper West, were sold in 2017 and availability of product is expected to decrease, investment volumes could fall short in 2018. As in most German markets, investors continued to move up the risk curve in 2017 and showed great interest in value-add product and forward-sale deals. Strong interest and high investment volumes for development land underscore this trend. Accelerated yield compression was recorded between 2015 and 2017 – especially in the office segment, where Berlin now represents the country's prime yield. However, prime yields are likely to have reached their low and all signs point to a gradual stabilization at this level.

Berlin Vacancy Rates



Duesseldorf

Strong leasing and investment market performance

Duesseldorf is located in the greater Rhein-Ruhr area. The metropolitan region has some 10 million inhabitants and is thus one of the largest conurbations in Europe. The region's economy is growing on the back of a solid manufacturing base and an ever more important business services sector. Next to Greater London and Paris, the greater Duesseldorf region is one of the most important locations for direct foreign investment.

Duesseldorf's leasing and investment markets recorded above-average levels of letting and investment volume in 2017. Backed by a strong local and national economy and favourable conditions in the global financial markets, Duesseldorf's commercial leasing and investment markets are expected to remain on track in 2018.

Office

Duesseldorf's office market thrived in 2017 with take-up reaching the 400,000-sq.-m mark. Thus, it was one of the strongest office-letting years of the past decade. Rental activity was high across all size segments, most of all in the segment between 1,001 sq. m and 2,000 sq. m. Furthermore, the number of large-scale deals (greater than 10,000 sq. m) rose noticeably. Once more, the local office market benefitted from a solid and diverse tenant base with the business services sector and banks and financial institutions each generating around 20% of take-up. ITT and public authorities each contributed more than 10%. Office vacancy further decreased, finishing the third quarter of 2017 at 8.1%. Construction activity was steady in 2017 with 193,000 sq. m under construction and approximately 70% already pre-let. However, further speculative projects are at the planning stage and could be pushed into the market in the short term. With demand expected to hold firm and vacancy set to decrease moderately in 2018, rent levels are forecasted to remain stable. Nevertheless, prime rents are facing upward pressure and may rise slightly.

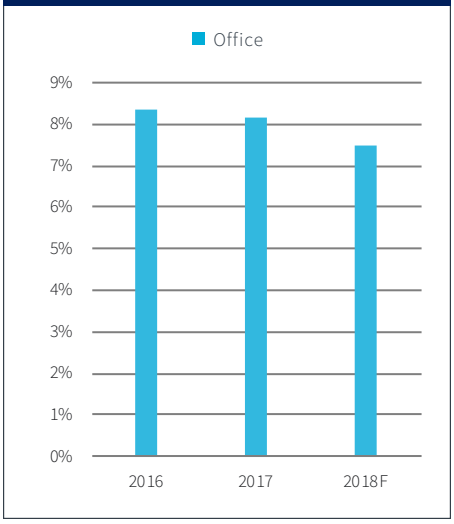
Industrial

Logistics take-up was high in 2017. The previous year's result had already been surpassed by fall 2017. Duesseldorf's excellent infrastructure, its geographically favourable location in Western Europe and its densely populated catchment area make it a top destination for logistics operators. Supply of modern assets available on short notice is very limited. While average rents rose moderately in 2017, prime rents held firm. This trend is expected to last well into 2018.

Retail

Duesseldorf is Germany's fashion capital with international fashion trade fairs and a high number of fashion brands located in the metropolitan region. The city was always a top retail destination in Germany and has managed to secure its outstanding reputation. In the shelter of heavy investments in local infrastructure and new retail developments, Duesseldorf's attractiveness as a shopping destination rose even further in 2017. Prime rents held firm in 2017 and are expected to remain high in 2018.

Duesseldorf Vacancy Rates



Investment

Investment product is somewhat limited in Duesseldorf; however, 2017 was another year of high market activity. National and international investors value the market's overall stability and limited volatility and, thus, have the city in their focus. As a result, national and international investors were particularly active in the office segment in 2017. The accelerated yield compression that was recorded in 2016 lost momentum in 2017. High market activity is anticipated in 2018 with investors competing for product.

Frankfurt

Germany's number-one Brexit beneficiary

Germany's banking and financial-services hub is thriving. Frankfurt is on a growth path in terms of population, office leasing and commercial real estate investment. The city is home to the European Central Bank (ECB) and Deutsche Bank. Moreover, it hosts a tightly knit network of global players in the finance, banking, legal and consultancy sectors. The city's infrastructure (both transport and data connectivity) is outstanding. The quality of life is high and the cost of living comparatively low. Thus, it comes as no surprise that Frankfurt is one of the main beneficiaries of Brexit in Europe. One of the first companies that chose Frankfurt for some of its originally London, U.K.-based staff was Morgan Stanley. The global corporation signed a 10,000-sq.-m prelease in Tishman Speyer's Omniturm project.

Both the leasing and investment markets performed at record highs in 2017. Demand for both office space and investment product will remain high in the months to come.

Office

The Frankfurt office market had one of its strongest years in the past decade in 2017. For the first time in years, the 600,000-sq.-m take-up mark was reached. Frankfurt's leading industry, the banking and financial services sector, was once again ranked first for take-up volume. The market has solid demand overall. Leasing activity was especially high in the large-scale (greater than 5,000 sq. m) segment. Driven by strong leasing activity, vacancy continued to decrease and was 8.5% as of third-quarter 2017. Construction activity rose and office vacancy is forecasted to decrease in 2018 as take-up is set to remain strong and speculative office space is being absorbed quickly. On the back of this development, rent levels will move up. The rise in prime rents is expected to be strongest as companies that opt for Frankfurt because of Brexit are willing to pay top prices for premium space.

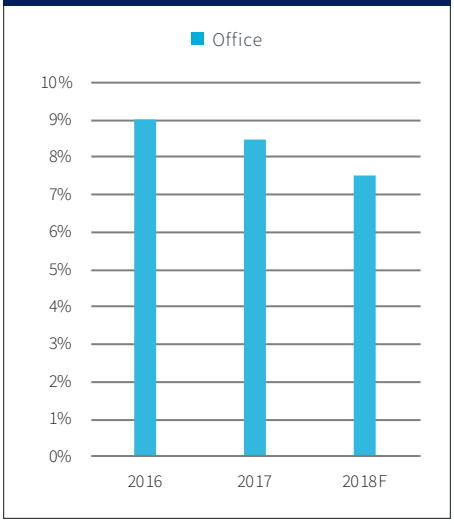
Industrial

Frankfurt is a leading logistics location in Germany with Frankfurt International Airport and outstanding connections to national and international railway, road and waterway networks. Take-up for logistics space was solid and demand lively in 2017. Demand is healthy and has held firm over the past two years. Prime rents are among the highest in the country and are forecasted to remain firm in 2018.

Retail

Retailers show great interest in Frankfurt's prime pitches. The city is the top retail destination of the greater region and records above-average purchasing power and rising population and tourist numbers. In particular, tourists from Asia take advantage of the proximity between Frankfurt Airport and the CBD to go shopping in the main retail areas, such as Zeil and Goethestrasse. Demand for retail space is likely to rise further in 2018 with Brexit coming closer. A number of retail and restaurant concepts from London are considering a move into Frankfurt. High street retail rents are expected to remain at the current levels.

Frankfurt Vacancy Rates



Investment

Frankfurt's real estate assets are in high demand, and many well-known assets changed hands in 2017. Given the comparatively limited supply of product, investors are now reaching out for forward deals – such as Gateway Gardens, a new office location in the vicinity of Frankfurt Airport. Prime yields declined noticeably in 2017; however, as in other German cities, prime yields seem to have reached their low. However, moderate yield compression (outside of core assets) is likely. Investment demand is expected to remain high in Frankfurt in 2018.

Hamburg

High demand but limited product availability

Germany's second-largest city currently has some 1.8 million inhabitants and is forecasted to rise in population thanks to internal migration from the countryside, even though the overall national population is declining. Not only is population growth positive, but tourist numbers have risen steadily – in large part thanks to musicals and concerts. (Hamburg trails only New York City and London in this regard.) The new Elbphilharmonie, an architecturally striking music venue that opened in January 2017 and is considered one of the best concert halls worldwide, helps promote Hamburg's reputation on a global scale. Overall, Hamburg's economic base is diverse with a mix of trade, manufacturing, banks and business services. This diversity is key for an office market that is known for its comparatively limited volatility.

The local office market maintained a high level of activity in 2017. Strong demand will be a characteristic market feature in 2018. This also holds true for the investment market. However, it will be difficult for investors to find available attractive investment product.

Office

Office leasing soared in 2017. It was the fourth year in a row that the 500,000-sq.-m mark was surpassed. With 10 lease agreements signed by fall 2017, the market was particularly buoyant for contracts greater than 5,000 sq. m. The vacancy rate dropped further, reaching 4.5%. Low vacancy applies in particular to high-demand inner-city locations. Tenants looking for attractive office space in Hamburg's CBD and adjacent HafenCity find it more and more difficult to locate appropriate premises due to strong competition for available properties. Construction activity rose moderately in 2017. Some 263,000 sq. m is under construction with more than 50% pre-let. Vacancy is forecasted to tighten in the months to come, especially in the central submarkets. This situation will place upward pressure on rental rates.

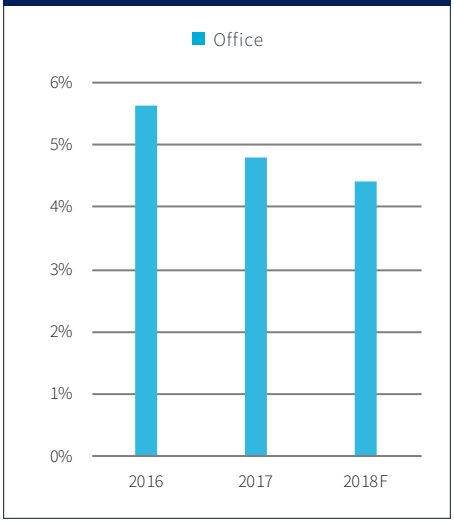
Industrial

After a year of strong leasing activity in 2016, logistics take-up slowed in 2017. Moderate expansion activities from logistics companies, in combination with a lack of large-scale premises with short-notice availability, kept take-up levels in check. In addition, development sites are scarce within the city boundaries – an obstacle for further expansions. While take-up was lower, prime rents held firm and are forecasted to remain at current levels in 2018.

Retail

Although purchasing power is high with the number of tourists and inhabitants rising, retail vacancy has risen in some of the city's prime pitches. The amount of new retail space delivered in recent years, and changing shopping habits have impacted some stretches. Whereas supply is limited in high streets that cater to the mid-market segment, it is in the luxury pitches where vacancy has noticeably increased. The number of pop-up stores occupying vacant space for a limited time is impressive. Accordingly, prime rents are under downward pressure.

Hamburg Vacancy Rates



Investment

Hamburg's commercial real estate investment volume achieved a record high in 2016 that could not be repeated in 2017. It was not a lack of demand that kept investment volumes below 2016's level, but a lack of product. With this situation unlikely to change in the months to come, 2018 will be another year characterized by a lack of major transactions. Whereas yield compression was noticeable across all segments in 2016, the decrease was moderate in 2017. Yields are expected to remain at their current low level in 2018.

Munich

Record performances in leasing and investment markets

Munich is Germany's leading economic region. A strong and solid economy generates GDP and purchasing power at a level that is unmatched in Germany. Unemployment is at record lows. Global corporations headquartered in Munich, together with strong small-and-mid-sized firms, form the base for future growth. Quality of life in the greater region (including the Alps) is very high. The combination of attractive living conditions and excellent employment prospects attract a growing number of people. The population of the Munich metropolitan region is forecasted to rise further.

Both Munich's leasing and investment markets performed at record highs in 2017. Only the lack of supply could limit further growth in the months to come.

Office

Munich's office market remains at record levels. For the third year in a row, take-up far surpassed the 700,000-sq.-m mark. Market activity has increased significantly in the small-and-medium-sized space segment. At the same time, supply has tightened further; vacancy was 3.7% in third-quarter 2017. Munich is clearly a landlord's market. Limited supply not only increases pressure on rents, but limits some companies' expansion plans. Munich will remain a landlord's market in the coming months. Most projects planned for 2018 are already pre-let. Rents will continue to rise, especially in Munich's old town and inside the Mittlerer Ring ("middle ring" highway). However, rental prices in the surrounding area of Munich are also clearly picking up.

Industrial

Home to a strong manufacturing scene and with top infrastructure, Munich is one of Germany's most important logistics locations. However, purchase prices for development land are high, as are construction costs. Thus, logistics-space rents are above average and, in combination with already limited supply, leasing activity slowed considerably in 2017. Take-up was recorded at the lowest level in more than a decade. To meet future logistics demand, more and more developers are considering vertical, multi-floor logistics assets. Whether this type of product will find tenants remains to be seen. Logistics-space rents are forecasted to remain at the current level.

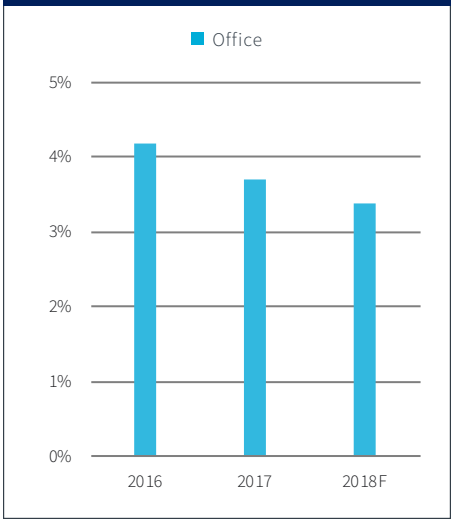
Retail

Munich is the top retail destination in Germany, and an end to that dominance is not in sight. Purchasing power in and around Munich is second to none in Germany. Moreover, the city is growing in population, and tourist numbers are holding firm at record levels. As Munich is a target destination for visitors from Asia and the Middle East, the city's luxury high streets are among the best-performing in Europe. In addition, Munich's historical CBD is a vibrant shopping district, and its unique atmosphere attracts national and international retailers just as much as shoppers.

Investment

Munich is the centre of the strongest economic region in Germany and, therefore, ranks highly in terms of investment volume and overall prime yields. Supply of investment product is still limited across all segments and cannot meet the market's high demand. Yield compression was noticeable, especially within the last two years. In the retail and industrial segments, Munich still records the lowest prime yields in the country. The market will still be limited by the lack of supply in 2018. However, prime yields seem to have reached their low. Only Munich's suburban submarkets might record slight yield compression in 2018.

Munich Vacancy Rates



Romania

88 Bucharest

Bucharest

Fast-developing property market ready for new investment deals

Bucharest has one of the fastest growth rates in Europe with the technology sector expanding rapidly. After significant wage increases during the last four years and a remarkable GDP upsurge, living standards are improving and the real estate market is booming.

Office

With few new deliveries in 2017 and high demand, office vacancy decreased to 9.4% at the end of the third quarter of 2017. Office projects well underway will add substantial new prime products, but will force vacancy to rise in 2018.

The main demand, from the IT & communications industry, continues to produce a large share of the leasing activity – but a reduced income tax will also encourage other businesses and increase demand.

Office occupants from the leading industries are more willing to offer workplace facilities to their employees, while developers are planning to create flexible workplace solutions and amenities or to combine the office element with residential and retail premises nearby.

Industrial

Rising employment and higher salaries and disposable income are creating much higher retail sales and increasing demand for logistics developments. Therefore, expansions, such as DSV with CTPark Bucharest, are expected to be replicated in other key developing cities.

After a long period (since 2009) with no speculative deliveries, the amount of Bucharest logistics facilities stock is now increasing, powered by high demand for new build-to-suit projects. This situation has pulled vacancy down and with limited speculative stock available, any new demand may face a longer-than-usual waiting period.

Prime industrial rents are stable at €3.30 per sq. m to €3.80 per sq. m – a level that makes further development feasible.

Retail

The Bucharest retail shopping centre sector is well-developed, amounting to 1.1 million sq. m of modern stock with a retail density of 600 sq. m per thousand inhabitants and stable prime rents of around €70 per sq. m. Instead of new construction, the emphasis is now on improving the tenant mix and attractiveness of existing premises. Retail sales are expected to continue to increase, as they have annually since 2013, and new brands are either already present or looking to enter the market.

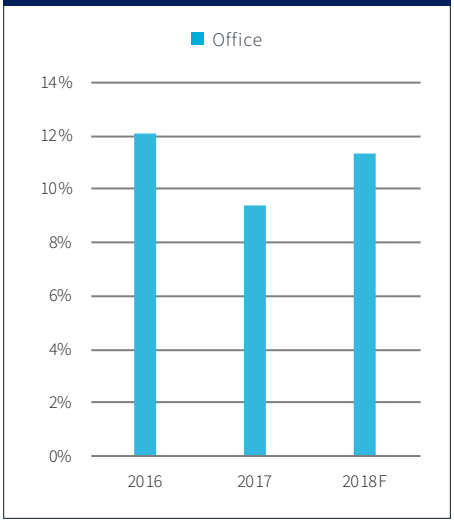
As a result of wage growth, a strong increase in GDP and a well-developed Bucharest retail market, Romania's smaller cities are becoming more attractive for both retailers and developers.

Investment

Although investment volume is far from the peak level achieved in 2007, a number of large deals are in the pipeline, and investor sentiment looks very positive. Market players and institutional investors continue to show interest in prime properties, creating further expansion and acquisition plans. Land acquisitions were very attractive in 2017, the main area being north of Bucharest, where developers continue to plan further residential and office development.

Prime retail yields are compressed from the levels recorded in 2009, but remain at least 100 bps higher compared with the average for the Central and Eastern Europe region. Office yields are perceived as a secure investment with smooth variation, while retail is becoming more attractive as the market matures. Slight yield compression toward the levels registered in 2007 is expected in 2018. This compression will grow capital values and, potentially, drive further commercial property acquisitions.

Bucharest Vacancy Rates



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AVISON YOUNG

Service Line Spotlight

Debt, Joint Venture and Structured Capital

Canada has plenty of capital; U.S. spreads to remain constant

With the exception of tighter lending spreads in the second half of 2017, the debt capital markets in Canada over the past year can best be described as a carbon copy of 2016. This year will bring much the same with plenty of funds for all across the capital stack. One anticipated change will be driven by the expectation of higher interest rates and the impact that they may bring to bear on real estate values and, by extension, lending. The lending community will be wary of the potential for lower valuations due to higher cap rates and may react with tighter underwriting standards, including lower leverage and tighter criteria for property type and location. With a rising interest-rate environment, spreads are expected to remain constant or narrow slightly in late 2018.

While the overall U.S. economy exhibited solid fundamentals, American commercial real estate markets experienced some headwinds in 2017. The year opened with turbulence in the retail sector, the spread between sellers' and buyers' pricing expectations slowed transaction volume, construction financing remained difficult to obtain and the constant anticipation of rate increases kept borrowers on edge. Regardless, the real estate capital markets stayed strong. Lenders were aggressive, CMBS issuance increased compared with 2016, and spreads remained tight. Equity providers pursued assets aggressively with an abundance of capital available for investment. Indicators are positive for 2018. Both debt and equity providers are bullishly seeking investment opportunities.

Norman Arychuk
Broker, Debt Capital Markets Group

Aaron Prager
Director, Capital Markets Group

Enterprise Solutions

Disciplined strategy can add the most value

From a global enterprise-solutions perspective, those companies newer to outsourcing focus primarily on cost-cutting. For some, there are still expenses that can be wrung out of the real-estate-delivery mechanism, and this is where a disciplined portfolio strategy process can add the most value.

But some firms with multiple strongly independent divisions are willing to give up a portion of cost reduction in order to achieve true centralization with meaningful data for analytics purposes. Other companies that may be on the third generation of outsourcing come to the conclusion that cost-cutting has its limits, and that flexibility and nimbleness are also important to the C-suite.

In particular, many tech companies – having been through several rounds of outsourcing and thinking that they may have cut too much – are now more focused on the employee experience, particularly as economies approach full employment. As a result, the commercial real estate vesting concept continues to gain traction, although it can be difficult to realize all promoted gains in practice.

Demand growth remains brisk in the middle-market occupier space. In the past, firms with less than 5 million square feet had trouble getting attention. Today, most of the major service providers compete aggressively for this business, although there can be friction for the client if the work falls between rigidly defined traditional corporate services and broker-team silos.

It used to be thought that the move to one global services provider was inevitable, but that has not come to pass. Occupiers still see service providers – even the biggest – as not being the strongest in every service line and in every global region. In an increasingly complex world, prudent risk management argues against putting all of a firm's commercial real estate service provider eggs in one basket.

Brian Bellew
Principal, Managing Director, Enterprise Solutions

Project Management

Tenants seek high-quality buildings

Office buildings and occupied spaces continue to evolve. In many markets, there is a migration by tenants to higher-quality, new office buildings with abundant natural light and fresh air to support human health and well-being, and energy efficiency and LEED certification to support environmental objectives. In both new and existing office buildings, tenants are paying close attention to planning, design and choice of finishes and furniture to attract and retain the best talent, and ultimately to support medium- and long-term business objectives.

In some cases, private offices are eliminated or moved off the perimeter to allow maximum natural light into the space and a greater seat density. Workplaces are being designed to promote collaboration with a growing recognition that some space is required for quiet concentration. With respect to finishes, there is a small but growing interest in pre-manufactured walls, which are fabricated off-site and delivered for assembly. These prefabricated walls arrive with power and data connections already installed. This innovation allows for faster construction, better quality control and fewer deficiencies. On the furniture front, more and more tenants are purchasing height-adjustable desks to allow employees the option of standing or sitting throughout the work day, which has been found to contribute to their health and well-being.

Another indicator of the growing focus on health and well-being in the built environment is emerging adoption of the WELL building standard by some large tenants, and the 2017 launch of Fitwel. We forecast that the focus on health and well-being in real estate is here to stay and will become more prominent in the years to come. We encourage owners and occupiers of real estate to promote health and well-being in their buildings and spaces.

Rodney McDonald, CMC, LEED AP
Principal and Practice Leader, Consulting and Project Management Services

Property Management

Utilizing technology to the max

The delivery of property management services can be complex and demanding. Success can only be achieved through a team approach that brings together management, operations, accounting and administrative staff along with trusted service providers.

To achieve success, the team must utilize technology to maximize the efficiency and operations of building equipment and systems. The team must be proactive in adapting to trends and workplace needs. On the tenant front, the team must see themselves as service providers and ensure that their tenants/occupants are continuously informed about issues affecting their premises.

Trends impacting management today range from landlords' greater awareness of the critical role that building services, systems and amenities play in the health and productivity of their tenants' workforces, to reinventing the retail experience whereby people meet, shop, eat and have fun. The ongoing expansion of e-commerce has created the need for smart warehouses that support automated warehousing. In residential buildings, amenities can now include concierge services, valet parking and improved cellphone coverage through distributed antenna systems.

Landlords are gradually embracing technology as property management delivers the positive benefits that it brings to building performance, operational excellence and improved net operating income. The utilization of benchmarking software to track tenant relations, market competitiveness, sustainability and energy performance allows managers to critically assess their performance and achieve their goals.

As property managers embrace the future, buildings will need to be flexible to meet the coming needs of our tenants – whatever those needs may be.

Peter Leroux
Principal, Managing Director
Management Services

About Avison Young

Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its principals. Founded in 1978, the company comprises 2,600 real estate professionals in 82 offices, providing value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial, multi-family and hospitality properties.

We're different

We are an integrated full-service commercial real estate service provider with a unique model, culture and approach. The Avison Young difference translates into intelligent solutions that deliver a better client experience and better results.

Our approach is based on partnership, with our clients and across our company. The firm's equity is in the hands of a broad base of principals, a unique ownership structure that creates the incentive for internal collaboration and aligns our solutions, first and foremost, with client objectives. Our principal-led structure places the priority on relationships, not just transactions; on long-term performance, not just the current quarter.

Fastest-growing for a reason

Avison Young is the world's fastest-growing commercial real estate services firm, and we continue to expand globally. The firm's rapid growth is driven by our strategy to build our geographic reach and expertise to improve the value we can offer clients. And this, of course, is being rewarded by the growing number of clients who are coming to us for help.

YEAR FOUNDED

1978

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- Investment acquisition and disposition for owners and occupiers
- Landlord representation—all property types—office, industrial, retail, build-to-suit, land and multi-family

Consultin Services

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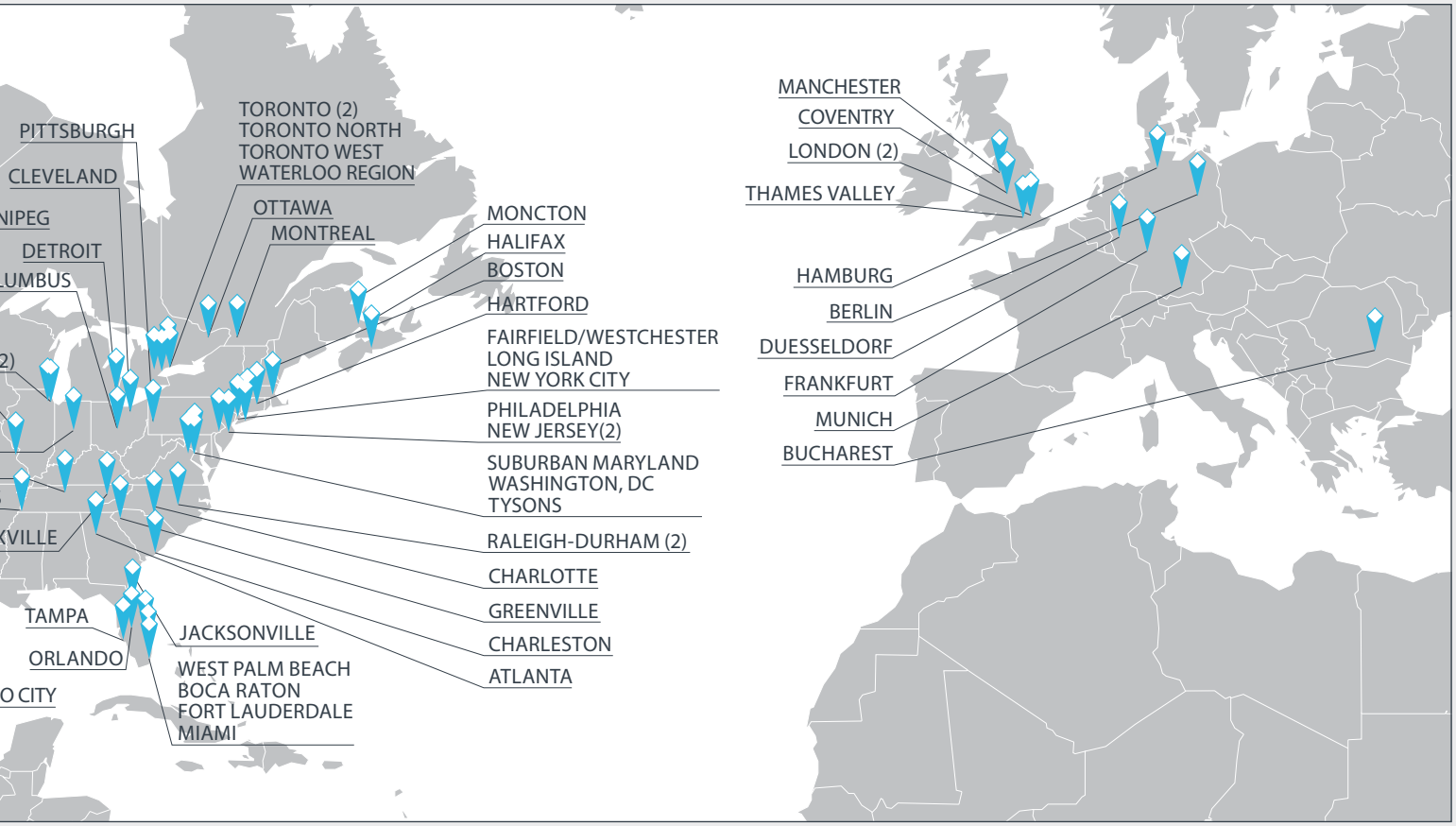

L ESTATE ESSIONALS	AVISON YOUNG OFFICES	BROKERAGE PROFESSIONALS	PROPERTY UNDER MANAGEMENT
600	82	1,100+	100 msf

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- Mezzanine & bridge

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- Lease administration
- Operations consulting
- Portfolio management

Enterprise Solutions

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- Transaction management
- Optimization strategies
- Portfolio lease administration
- Project coordination and reporting

Avison Young Research

Turning information into intelligence

Avison Young's multi-disciplinary group of dedicated research professionals works collectively to deliver market analysis and insights that drive value in real estate decisions. We translate data into market intelligence to help our clients strategically solve their real estate concerns and concentrate on what their businesses do best.

Avison Young regularly produces an array of local, regional and global market research, including quarterly and topical reports, white papers and annual forecasts. Our research is quoted extensively in local, national, business and global media outlets.

Through Avison Young's professionals, our research team engages with a wide variety of corporate, investor and institutional clients to conduct customized research, due diligence and market assessments, as well as demographic and location analysis.

Leveraging in-depth knowledge from our broad services platform with information from internal proprietary and independent third-party data-tracking systems, our clients' real estate decisions are fully supported by best-in-class, interpreted data – true market intelligence.

Avison Young Commercial Real Estate Investment Review

Fall 2017 North America and Europe Investment Review

Avison Young Office Market Report

Mid-Year 2017 North America and Europe Office Market Report

Avison Young Industrial Market Report

Spring 2017 North America and U.K. Industrial Market Report

Architecture of the Fourth Industrial Revolution – Distributed Networks and Artificial Intelligence

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