Making Commercial Real Estate Great Again

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U.S. Expansion Cycles, Post WWII
Economic Expansion: New Lease on Life?

- Current expansion is in 91st month as of January. It's the 4th longest since WWII.
- Will Trump administration give new lease on life to this expansion?
- Boost to animal spirits?

Source: National Bureau of Economic Research, NGKF
Expansions triggered by financial crises are slower.

- Population & labor force growth are waning.

- U.S. needs smarter tax, regulatory & spending policies.

**U.S. Expansion Cycles, Post WWII**

Expansion Is Slowest in History

**Employment Growth & Unemployment Rate**

Labor Market Could Tighten Further

- Job creation has decelerated as labor market approaches full employment.

- Labor market could tighten further without triggering inflation if it attracts more workers into the labor force, assuming they are qualified.

- About 2.7 million potential workers aged 25 to 54 still sidelined by recession.

**Source:** Bureau of Economic Analysis, NGKF
**Where Are the Hot Growth Markets?**

*Metros with Populations 1 Million & Up*

**Job Growth: Recession & Recovery**

- **Year-End Vacancy Rates**
  - Markets to Tighten Further Except Apartments
  - **Forecast**
    - **Vacancy trend 2017-18:** Office leveling out, industrial & retail still falling; apartment rising.
    - **2016 asking rents up 3.2% for office, 5.8% for industrial:** Will moderate to low single digits in 2017-18.
    - **Moderate rent growth,** tighter bank lending standards & rising construction costs have kept supply in check.


Source: CoStar, Reis, Urban Land Institute, NGKF
Year-End Markets

Total Denver Office Market

- 7-year expansion run resulting in total absorption of 8.4 MSF.
- Vacancy plunged 600 bps from 20% at YE 2009 to 14%.
- Development pipeline contains 4.5 MSF, 60% pre-leased.

Source: NGKF Research

Year-End Markets

Total Denver Industrial Market

- Market had strong growth even as pre-leasing slowed from previous years.
- Reached record levels for rental rates and annual new supply delivered.
- New supply that delivered vacant will allow space for continued growth in 2017.

Source: NGKF Research
### Evaluation Criteria

**NGKF Office Momentum Index**

<table>
<thead>
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<th>Factor #</th>
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<th>Factor Weighting</th>
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<td>Population Change 2016-2021</td>
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<td>Bachelors Degree 2016</td>
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<td>REAL ESTATE</td>
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<td>Vacancy Change Past 4 Quarters</td>
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<td>CoStar, NGKF</td>
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<td>Rent Change Past 4 Quarters</td>
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<td>Absorption Year to Date % of Occupied SF</td>
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<td>CoStar, NGKF</td>
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<td>SF Under Construction % of Total Inventory</td>
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<td>CoStar, NGKF</td>
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<td>Barriers to Entry</td>
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Source: ESRI, Bureau of Labor Statistics, Moody’s, CoStar, NGKF
What's Hot/What's Not: Office

**HOT:** Tech & creative firms like the brick & timber vibe of old industrial districts with good transit connections. Rents can match Class A towers in financial district.

**NOT:** 1980s-vintage suburban office campuses, although these remain more popular in low-density markets like Dallas.

Source: NGKF

What's Hot/What's Not: Industrial

**HOT:** State-of-the-art distribution centers in major logistics hubs, especially those designed for e-commerce users.

**NOT:** Manufacturers struggling with weak exports, slow global growth and strong dollar.

Source: NGKF
**Commercial Property Sales**

Sales Off 9% YTD; Fed Fears CRE Bubble

**Sales by Quarter**

- Sales by Quarter chart showing billions of dollars for different years.

**15-Year Price Trend**

- 15-Year Price Trend chart for all property types.

**The Trump Effect**

- Concern over length of expansion has been replaced by view that fiscal stimulus – tax cuts & infrastructure spending – will prolong expansion at the risk of rising inflation & interest rates.
- This will be good for leasing markets but will pose some issues for investment market.
- Office market close to equilibrium.
  - Shared workspaces (WeWork) could expand further.
  - Creative office designs may have already peaked.
  - Suburban demand could heat up in 2017-18.
- Industrial on a secular growth spurt as sales shift online
  - Retailers signed 60% of all leases above 500,000 SF in 2017; Amazon signed 15%.
  - Trade barriers would disrupt supply chains.
- Retail is restructuring as sector adapts to online competition.
- Apartment is near end of very hot cycle

*Source: Real Capital Analytics, NGKF*