



# Making Commercial Real Estate Great Again

**Newmark Grubb  
Knight Frank**

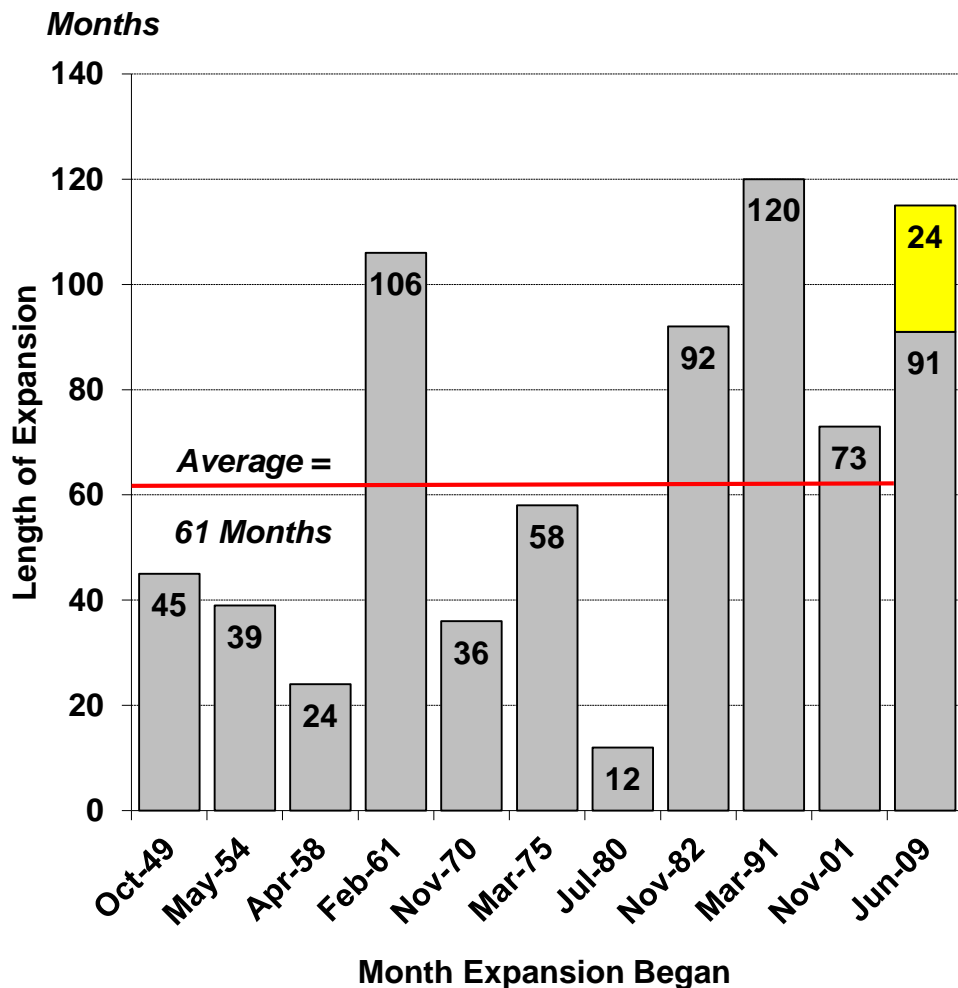
Presented by:

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Director of Research, Americas



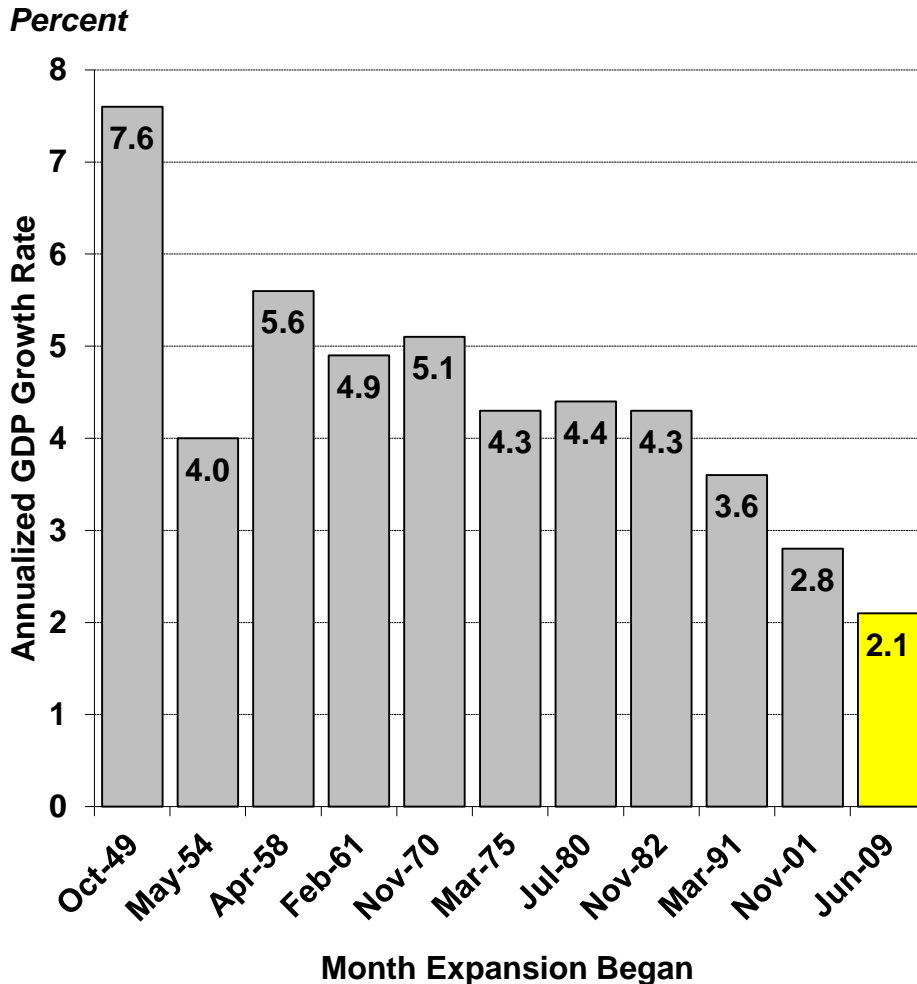
# Economic Expansion: New Lease on Life?



- ◆ Current expansion is in 91st month as of January, 4th longest since WWII.
- ◆ Recessions are hard to predict.
- ◆ Will Trump administration give new lease on life to this expansion?



# Expansion Is Slowest in History



- ◆ Expansions triggered by financial crises are slower.
- ◆ Population & labor force growth are waning.
- ◆ U.S. needs smarter tax, regulatory & spending policies.
- ◆ Boost to animal spirits?

# What's Hot/What's Not: Industrial



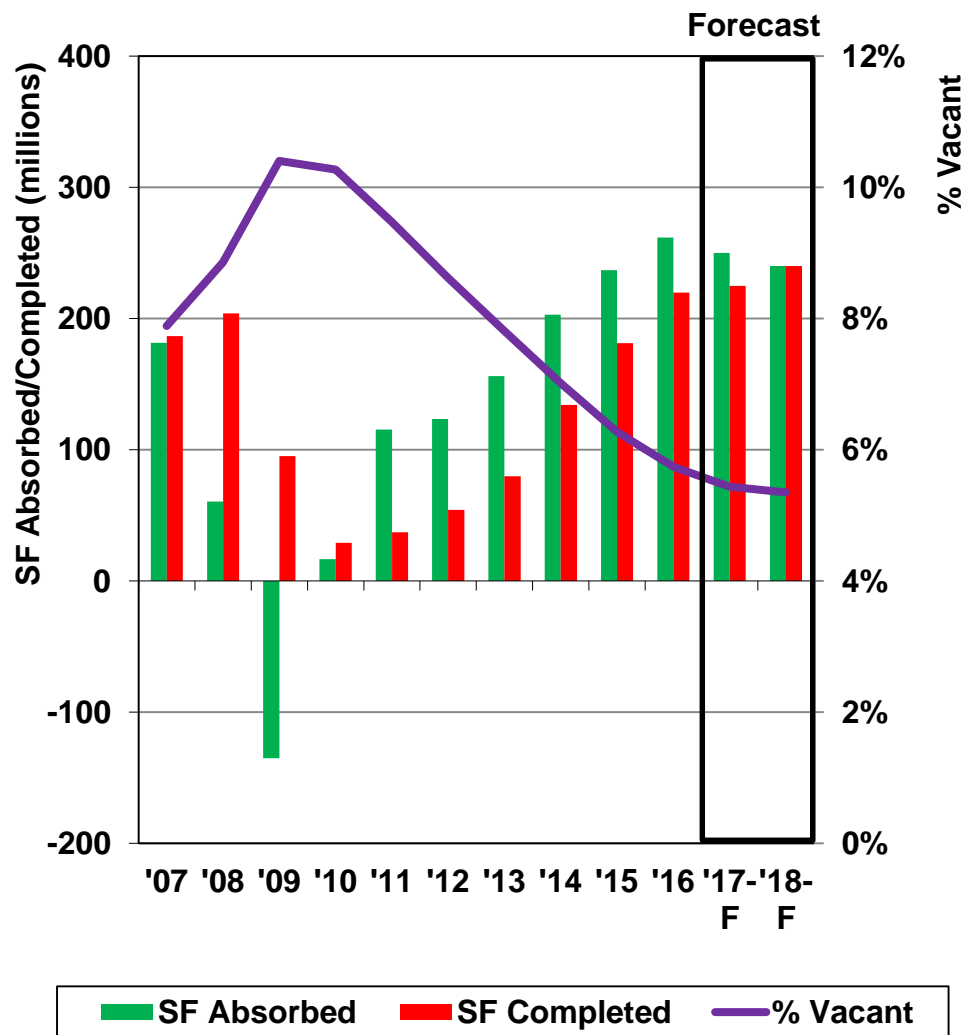
**HOT**: State-of-the-art distribution centers in major logistics hubs, especially those designed for e-commerce users.

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





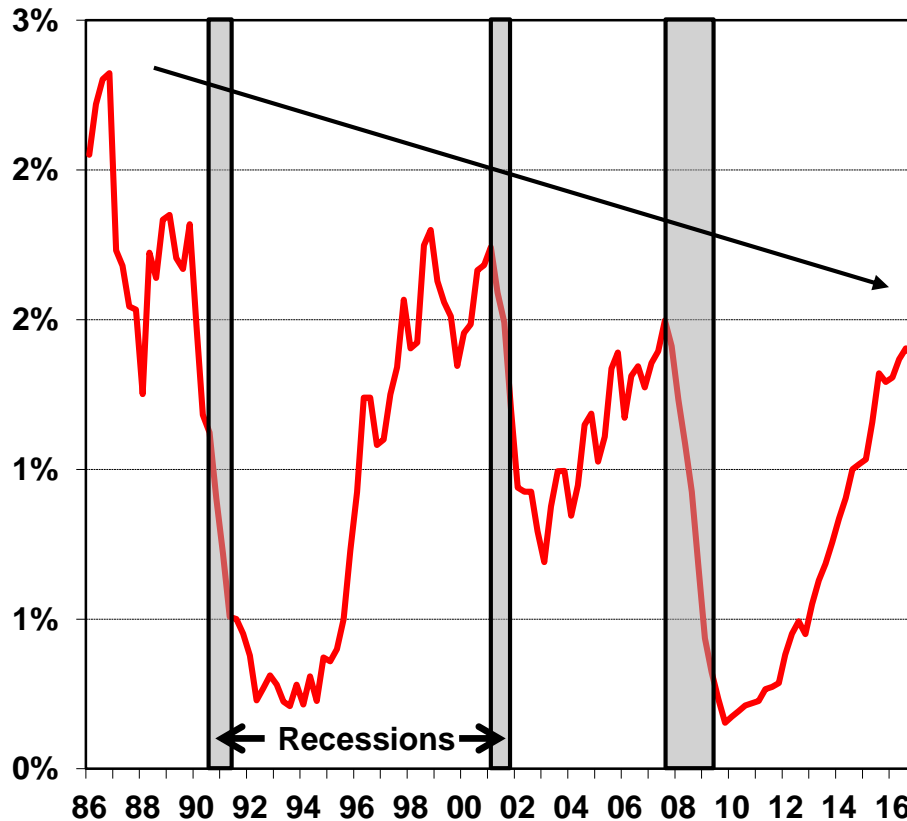
# Market Tightest Since 2000



- Absorption in 2016 rose for 7<sup>th</sup> consecutive year and set new record for 3<sup>rd</sup> consecutive year.
- SF under construction continued to rise in 2016 but trailed absorption of 261.7M SF.
- Vacancy tightened further to 5.7% at year-end, a 16-year low.
- Average asking rents rose by 5.8%, beating office, retail & apartment rents.
- Market expected to tighten modestly in 2017-18.

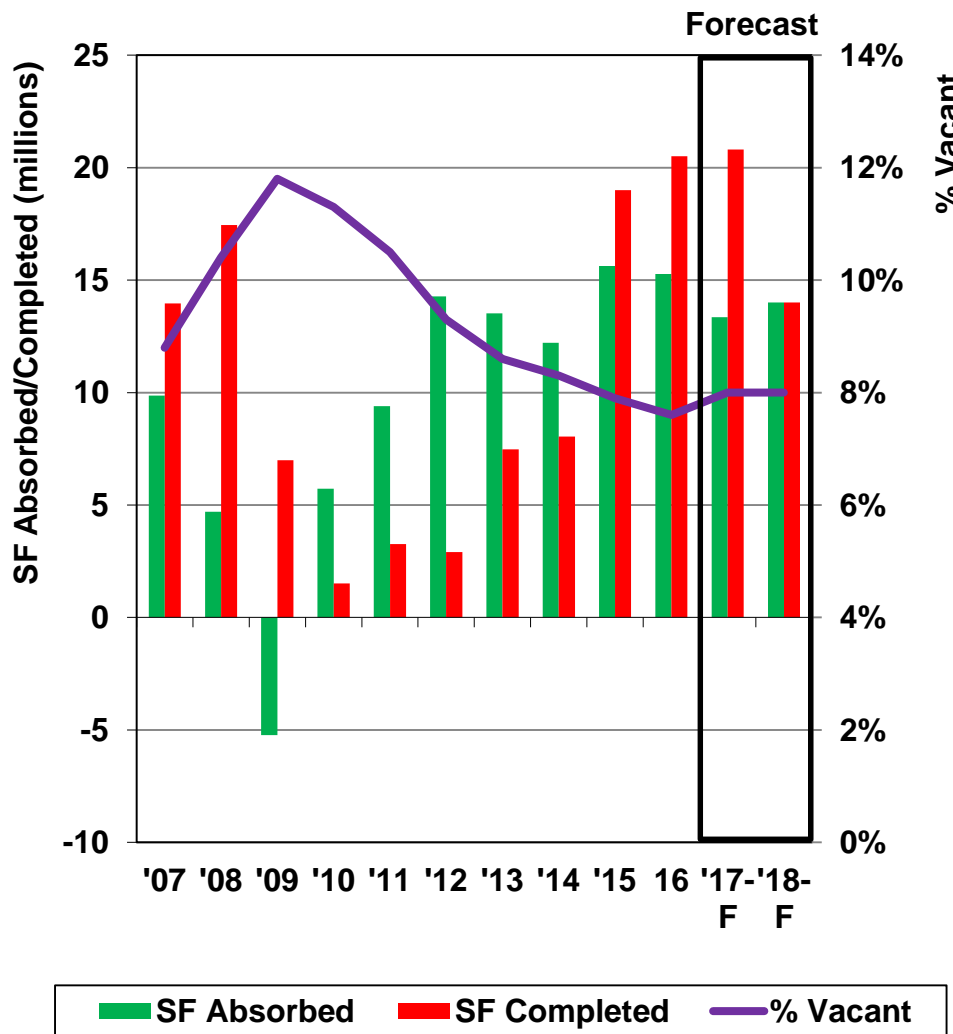


# Industrial Construction Still Low Historically



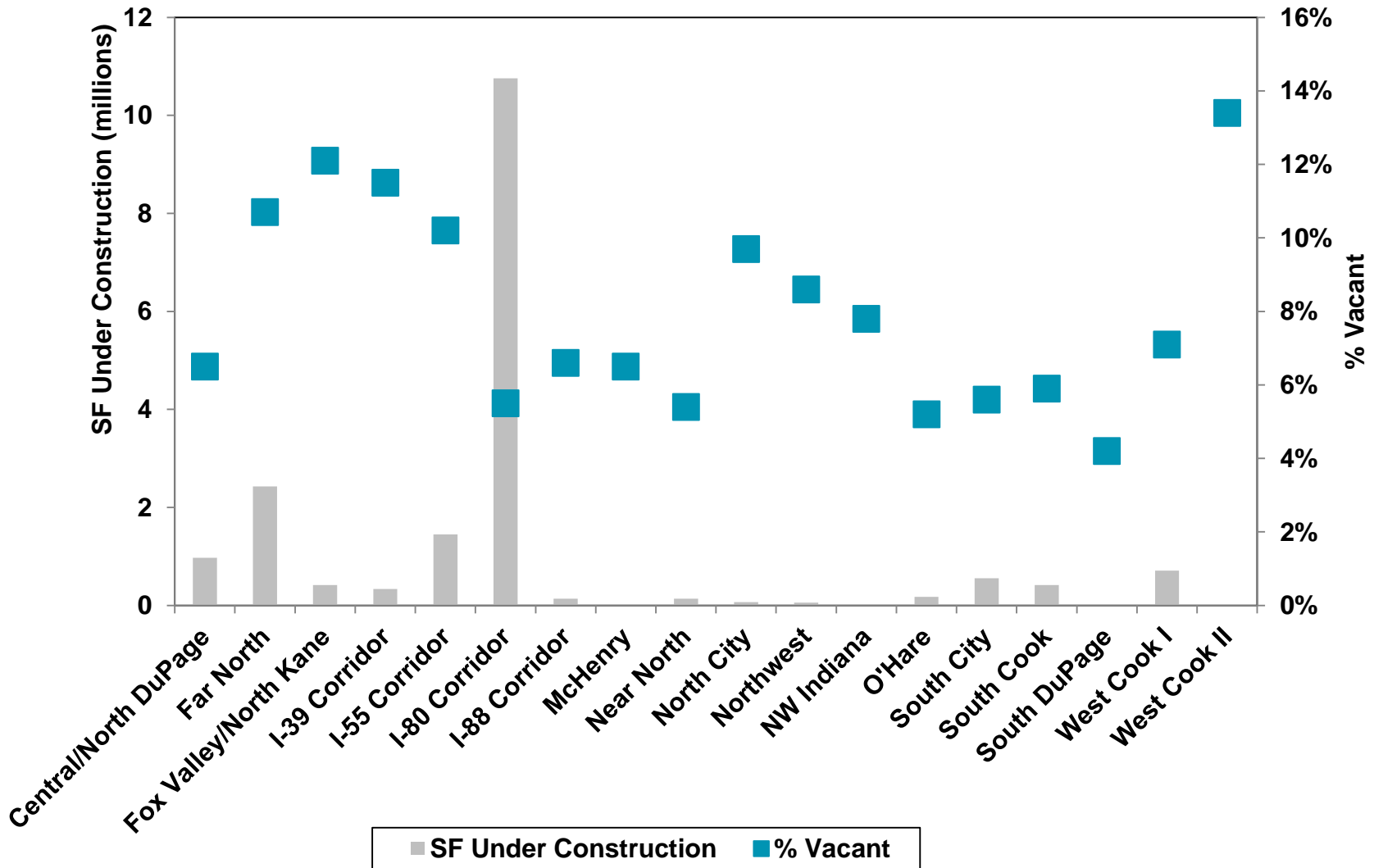
- ◆ Construction remains low compared with prior cycles for office, industrial & retail space.

# Market Nearing Equilibrium



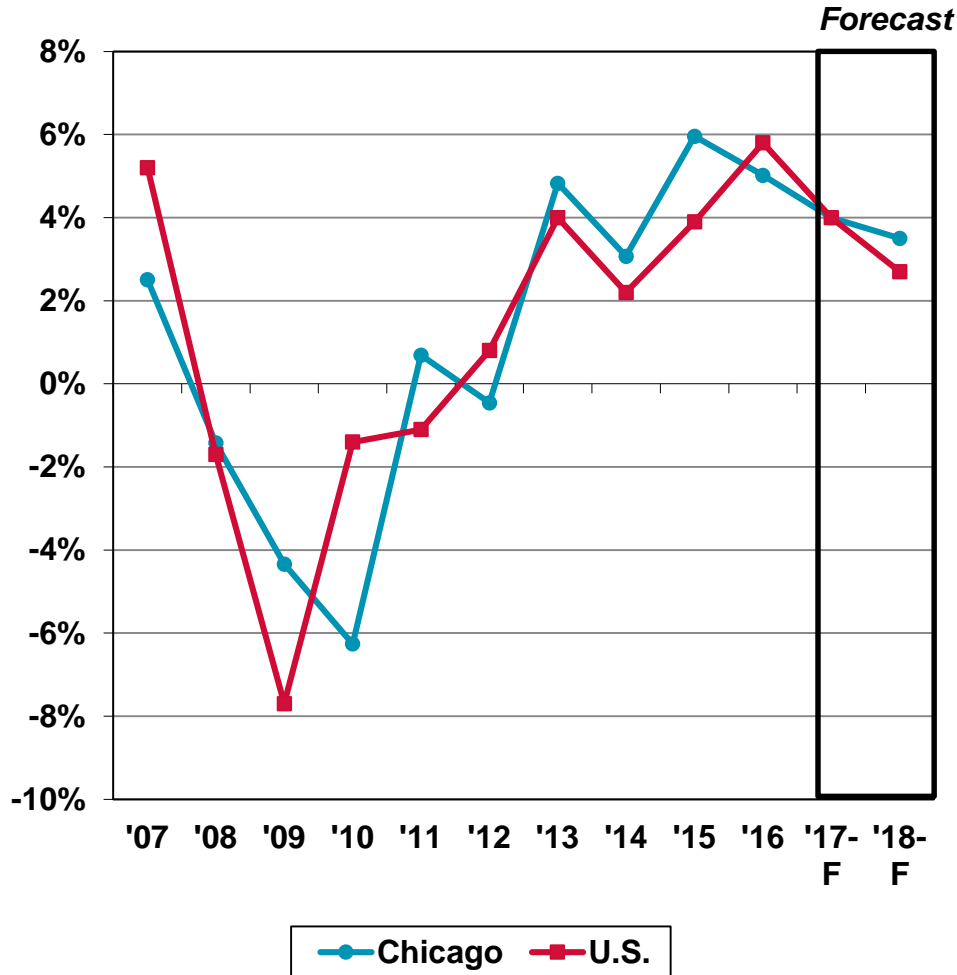
- 4Q16: 7.1M SF absorbed and 6.3M SF delivered.
- Marks 27th consecutive quarter of positive growth.
- Amazon leased 2.0 M SF in Q4

# I-88 Corridor is Construction Hotbed





# Rents Rising at Moderate Pace



- ◆ Industrial rent gain in 2016 exceeded office, retail & apartment increases.
- ◆ Asking rent: \$5.23 in Chicago vs. \$6.03 in U.S.
- ◆ Asking rent change year-over-year: 5.0% in Chicago vs. 5.8% in U.S.
- ◆ Asking rent change from 2012 trough: 21.3% in Chicago vs. 20.6% in U.S.

# Chicago Industrial Market Vs. U.S. @ YE-2016

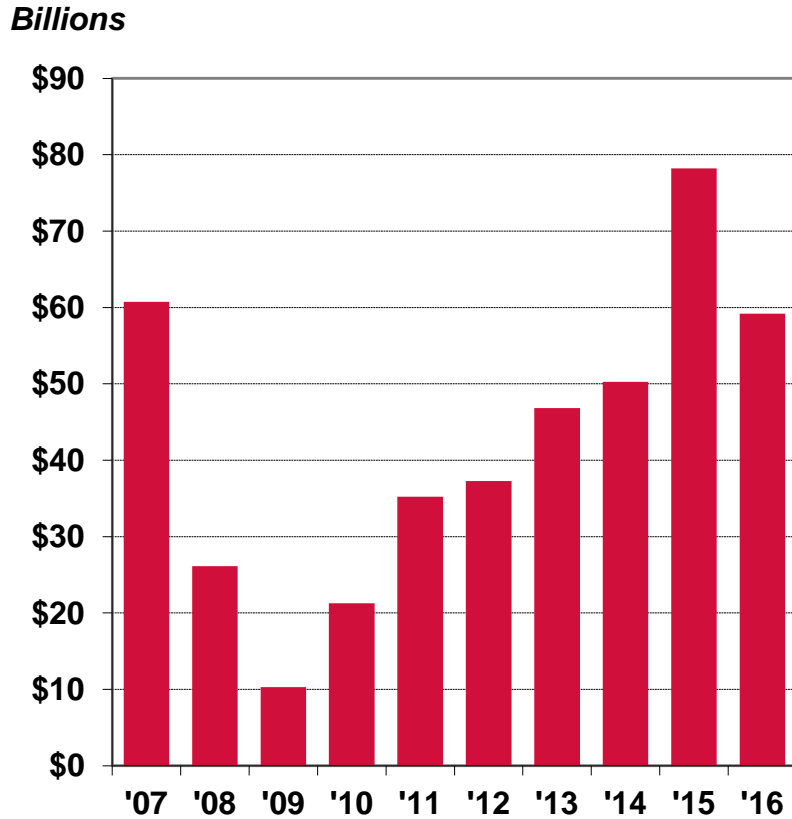


- **Inventory:** largest @ 1.1B SF(counting LA & Inland Empire separately)
- **Construction pipeline:** third largest @ 18.8M SF, behind Dallas & Inland Empire
- **Absorption:** third largest @ 15.3M SF, behind Dallas & Inland Empire
- **Vacancy:** 7.6% in Chicago vs. 5.7% in U.S. Chicago vacancy down from 8.0% a year ago.
- **Asking rent:** \$5.23 in Chicago vs. \$6.03 in U.S.
- **Asking rent change year-over-year:** 5.0% in Chicago vs. 5.8% in U.S.
- **Asking rent change from 2012 trough:** 21.3% in Chicago vs. 20.6% in U.S.

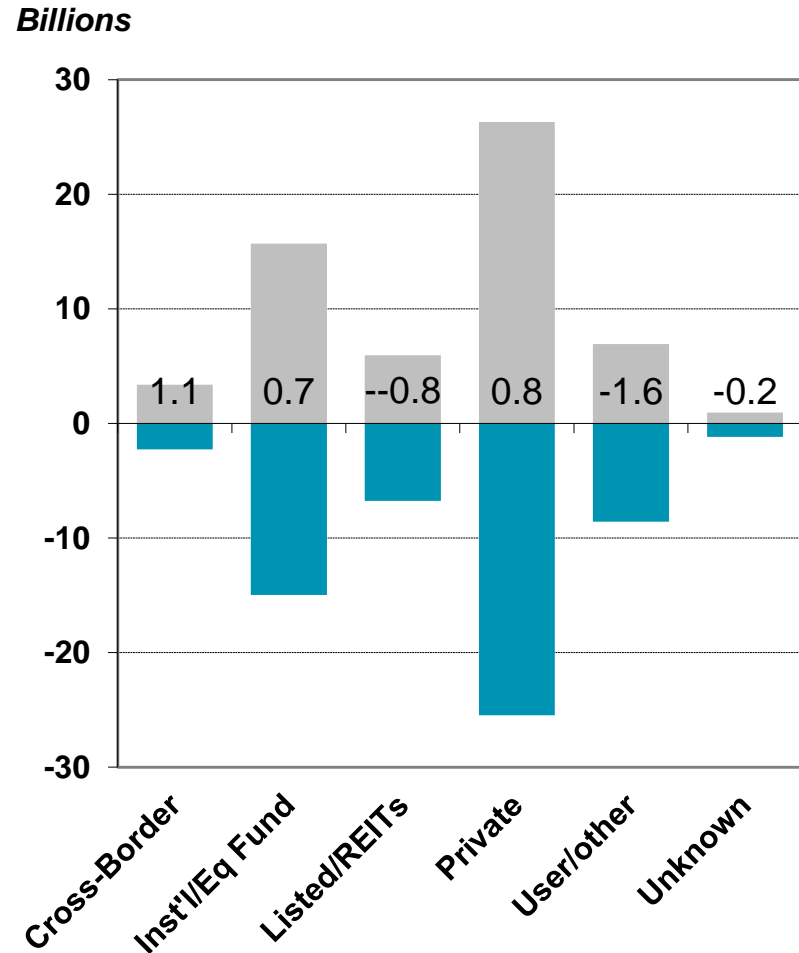
# Sales Off 24% in 2016



### Annual Property Sales



### Net Sales by Buyer Type

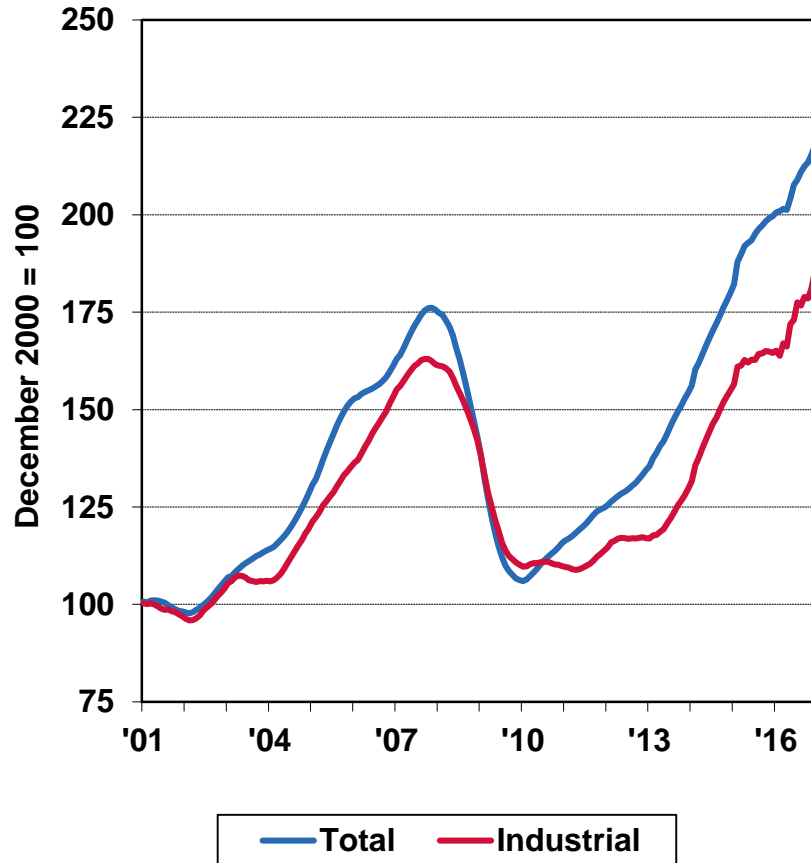


# Prices Still Rising



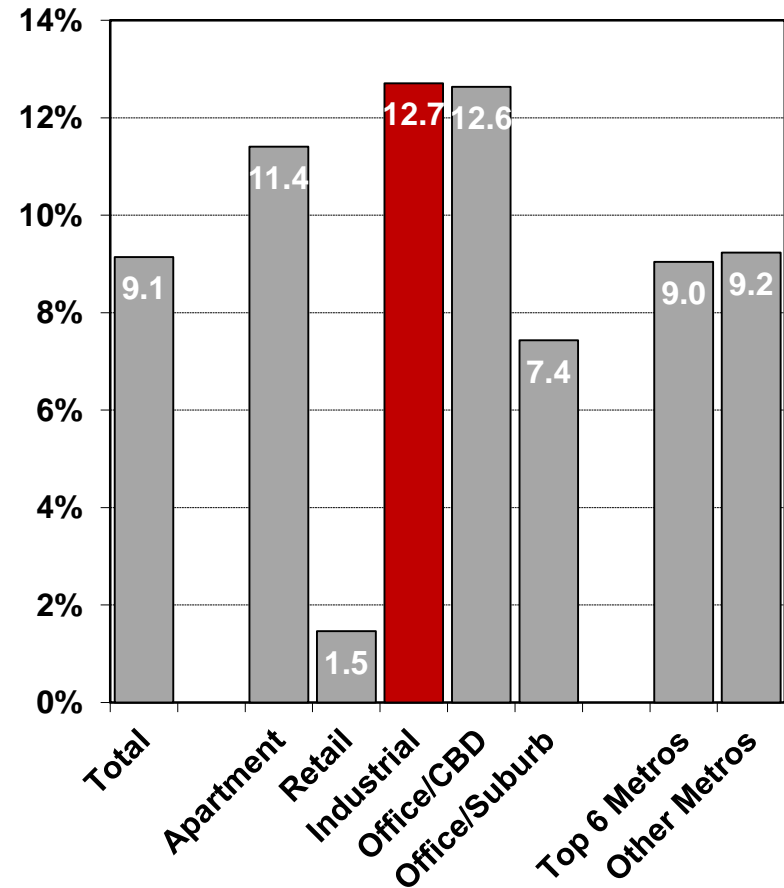
## 15-Year Price Trend

All Property Types

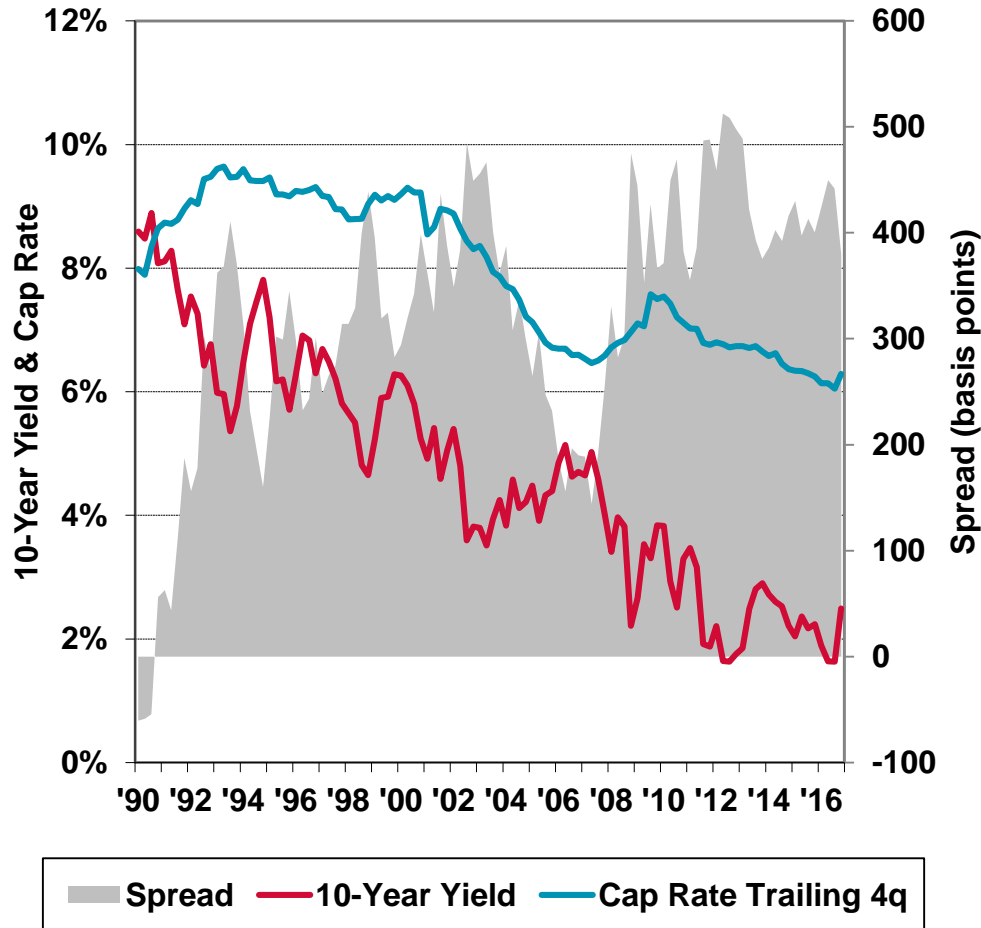


## 2016 Price Change

By Property Type & Market Size



# Spread Still 70 bps Above Long Term Average



- ◆ Interest rates could rise 70 bps before spread compresses to long-term average.



- Fiscal stimulus – tax cuts & infrastructure spending – may postpone next recession at risk of faster rise in inflation & interest rates.
- Labor market already near full employment, so impact on job growth could be muted.
- Policies will support CRE leasing activity, but a faster rise in interest rates could negatively impact cap rates & property values.
- Protectionist trade policies would harm manufacturers, ports & port-dependent industrial markets. But they could spur investment & reinvestment in factories & distribution centers as companies reorient supply chains.