



CCIM Commercial Real Estate Forecast February 2017

Speaker: Dr. Mark Dotzour

- US economy nearing full employment, having grown slowly but strongly under previous administration from 2007-2008 financial meltdown/recession
- Higher interest rates in our future, although they will come slowly
- Economy strengthening which has taken place over past 8 years will lead to labor shortages, wage increases, and some inflation
- Immigration policies must take this looming labor shortage into consideration
- Fiscal responsibility in Congress should shut down grandiose infrastructure projects if they cannot be paid for; labor shortages may restrict these projects as well-who is going to build them if we are at full employment now?
- No one wants costlier imports, so border taxes will be a no-go
- Household net worth improving from low in 2007-08; people who postponed retirement in those days are now able to retire, opening job positions now for Millennials



Dr. Mark Dotzour

Multi-Family Speakers: Matt Rotan, ARA; Moderator: Greg Young, Grandbridge Real Estate Capital; Ryan Epstein, Berkadia

- Investment buyers of Houston MF are willing to buy even though we are in a low cycle, because they have faith in long term trends in Houston
- Rental rates down a bit but investors confident they will return and even surpass previous highs, especially as inner city sites become more expensive
- Greater Houston large enough to absorb ongoing projects, with continuing inflow of population as well as organic growth
- Class A apartment amenities so good that starter homes have trouble competing
- Lots of Houston high-rise tenants are international folk who do not live here year-round
- With promise of rising interest rates, many MF developer-owners are seeking to refinance to lock in today's rates
- Second half of this year should start to see slowly falling vacancies as new product coming on market slows
- 4.75-6.25 Cap rates on investments sales of MF



Matt Rotan, ARA; Greg Young, Grandbridge Real Estate Capital; Ryan Epstein, Berkadia

Land Speakers: Davis Adams, HFF; Moderator: Jane Page, Lionstone; Kirk Laguarta, Land Advisors

Last two years Wall St. money has redlined Houston, while local wealthy investors continue to buy, knowing from experience that land values in Houston move inexorably upward

- Houston has had twenty consecutive years of over 18,000 annual new home starts, surpassing by far any other market in U.S.
- Land transactions will improve moving forward but not to same level as when oil was selling at \$100 bbl +
- Bank regs and conservative lending practices are restricting availability of construction financing for commercial real estate in general, thus slowing down land activity
- Master-planned community development moves forward regardless of availability of financing since the big players work with all equity- they will have lots available for homebuilders when they are needed down the road
- Rate of technological change in the overall economy affects land use, sales, and prices; for example, driverless cars and services such as Uber would require less parking, which makes up about one-third of land allocation currently by developers
- Increasing availability of public transit will also reduce demand for huge parking allocations
- One San Francisco MF developer is offering free Uber with lease signing, thus eliminating the need for cars



Davis Adams, HFF; Jane Page, Lionstone; Kirk Laguarta, Land Advisors

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Industrial Speakers: Rob Stillwell, Newmark Grubb Knight Frank; Moderator: Reed Vestal, Lee & Associates; Tom Lynch, CBRE;

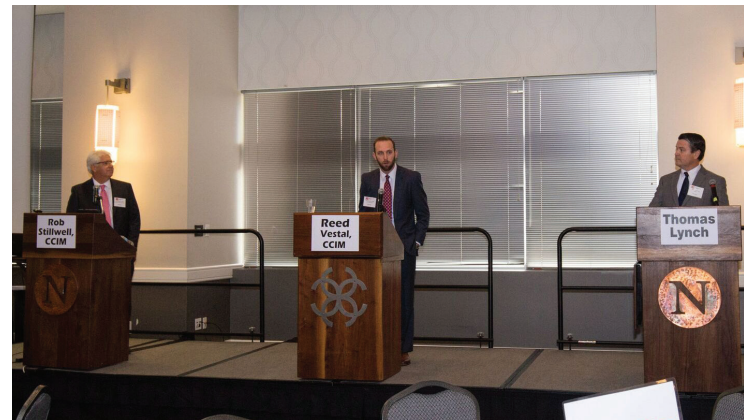
- Absorption is a little slower now but vacancies at all-time low of 5%; the market is in equilibrium
- More new investors are wanting to have "industrial" in their portfolios-this creates problem because owners with good stabilized properties do not want to sell; to redevelop would entail paying much more for land
- Current industrial users are grocers, frozen food storage, eCommerce distribution, petrochemical
- Warehouses are being driven out of inner loop and even inner BW8 by rising taxes and land costs-hard to find affordable land for industrial development inside BW8
- Entitlements/permits making development more expensive and time-consuming; rail-served and navigable sites are harder and harder to come by, and therefore more expensive
- NW and SE sectors are where most industrial activity is
- With increasing population, Houston is drawing distribution activities away from Dallas
- Lots of funds chasing yield in this sector, with cap rates 5-6.25 in Class A and 8-8.5 in Class B
- There is no Spec construction now, only build-to-suit

Retail Speakers: Jason Baker, Baker Katz; Moderator: Debbie Adams, Edge Realty Partners; Matt Reed, NewQuest

- Steady population growth of 100,000 per years means retail is always playing catch-up in Houston-we are adding about 5 million SF per year
- Most centers fully leased, and prospective tenants have hard time finding available premises
- High rents are affecting retailers' bottom lines, as is eCommerce; savvy retailers are trying to harness online sales so that their stores are not just used "as showrooms" for people who come in to see and feel the merchandise, then order online
- Tenants are making do with smaller premises while at the same time demanding landlords invest more in tenant improvements
- Grocers are slugging it out, but Whole Foods has probably maxxed out its growth among wealthy shoppers, leaving H.E.B. to slowly become market leader; prognosis for Randall's is not good
- Competition is fierce among new restaurant concepts, who are big users of retail space; more medical providers are using retail space to be near consumers
- Prepared food sales by grocers are impacting restaurants and pre-packaged food vendors; My Fit Foods just went out of business
- Theaters, bowling, shooting ranges, indoor skiing and surfing concepts, golf, and other entertainment ventures are taking retail space
- ECommerce is eating into sales of brick and mortar stores, and savvy retailers are learning how to treat this as a plus, by integrating online with an in-store "experience" for the shopper
- There is no such thing as a 'loyal customer' any more, with the online shopping options offering far more inventory than any one physical store can offer

Office Speakers: Steve Burkett, JLL; Moderator: Chip Colvill, Colvill Office Properties; Rich Pancioli, CBRE

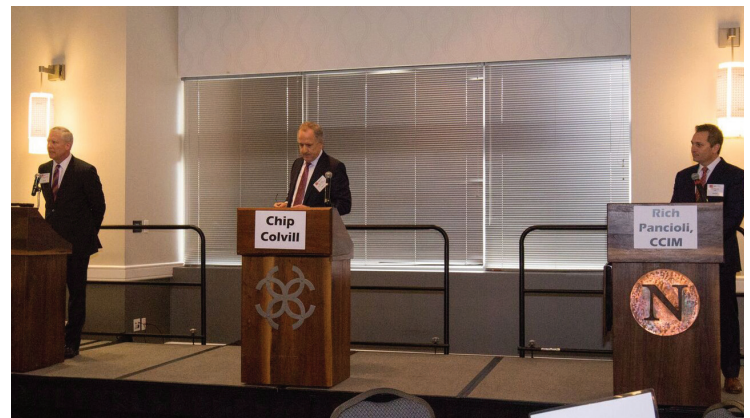
- Demand remains down, and current slump is tenant-driven, not developer-driven; oil & gas will have to come back for vacancies to shrink
- Energy layoffs slowing and sub-leasing is slowly absorbing space glut
- More efficient use of space is also contributing to slow recovery in this sector
- Relocation by corporations to Houston is not a big factor at this time
- There is some absorption by start-up companies taking 5-15,000 SF



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