LOOK OUT, 2019

CBRE runs down its industrial & office market expectations

BY BRANDI SMITH

The new year holds promise for strength and growth, per the recently released U.S. Real Estate Market Outlook from CBRE Research.

On the industrial front, the report highlights record levels of demand generated by e-tailers looking for distribution centers. Alternately, traditional retailers are also seeking logistics space as they adapt to the needs of the online customer. Users absorbed between 75 million to 90 million square feet in the industrial and logistics sector each year since 2013, a trend CBRE's analysts expect will extend into 2019 and beyond. With the Q3 2018 vacancy rate at a historic low of 4.3 percent and not enough new construction to keep up with demand, it's anticipated that rent rates will continue to rise.

Due to the increasing price point on I&L square footage, CBRE also predicts a trend of multi-story warehouse development in 2019. Seven such projects are already in the works in cities such as New York City and San Francisco. Distributors scouring for "last-mile" delivery locations are compromising with smaller infill lots that go vertical. Similarly, expect to see demand for cold storage escalate this year. Online services, such as those offered by Whole Foods and Kroger, only accounted for 3 percent of grocery sales this year, but by 2024, FMI/Nielsen anticipates they'll reach 13 percent, which translates to $100 billion. With only 5.6 billion cubic feet of industrial and/or retail food storage in the market, this side of e-commerce offers potentially explosive growth.

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CBRE's outlook also touches on the "contentious international trade environment" that may threaten

There is a growing shift toward multistory warehouse development in the U.S.

Source: CBRE Reseach, Q3 2018

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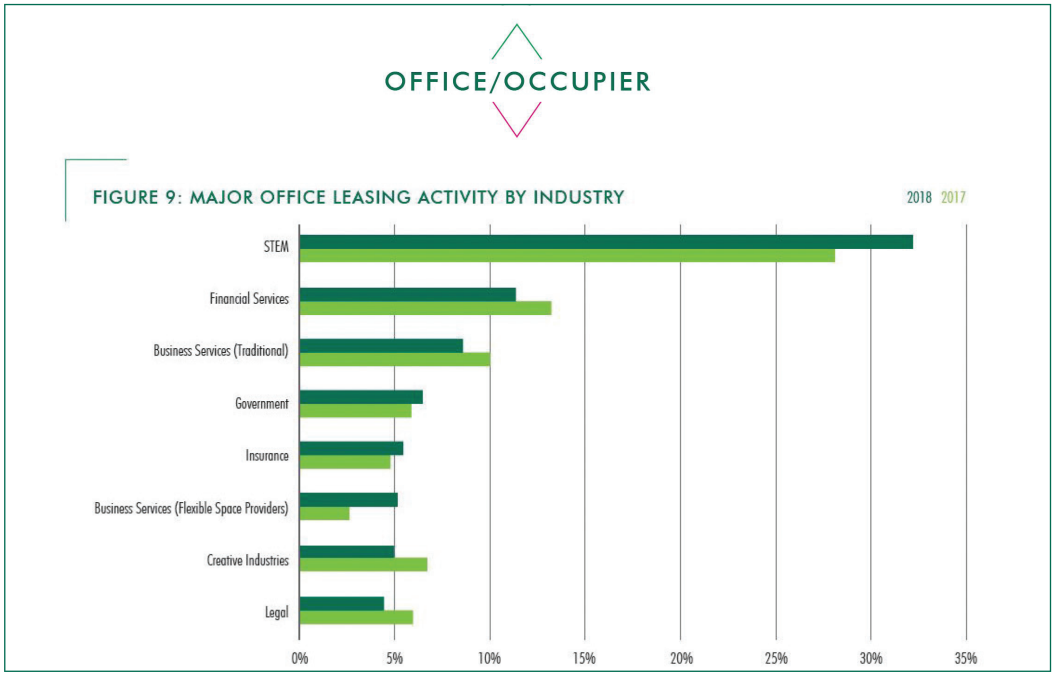
imports and, therefore, the need for warehouse space. Despite concerns, its experts say it's "highly likely that with continued near-full employment, strong hiring, a strong dollar and robust consumer confidence, imports will not level off."

The most fascinating part of CBRE's breakdown of the 2019 office market is the shifting definition of Class A office space. The report attributes that to "lots of adaptive re-use projects, local retail, great live-work-play environments and partnerships with local universities to attract and retain talent." More than ever, users are looking for flexible, experiential offices. Not unrelated, the office market is also benefiting from the rise of coworking companies. They doubled their share of leasing activity between 2017 and 2018.

Though the labor market is still tight and slower job growth is expected in 2019, specific markets are keeping office demand up. STEM users are driving that demand, accounting for more than 30 percent of major office leasing activity. That's great news for Houston and Austin, which are leading the way in the sunbelt and tech markets. Houston and DFW are also two of the Top 5 cities expected to bring in jobs in 2019.

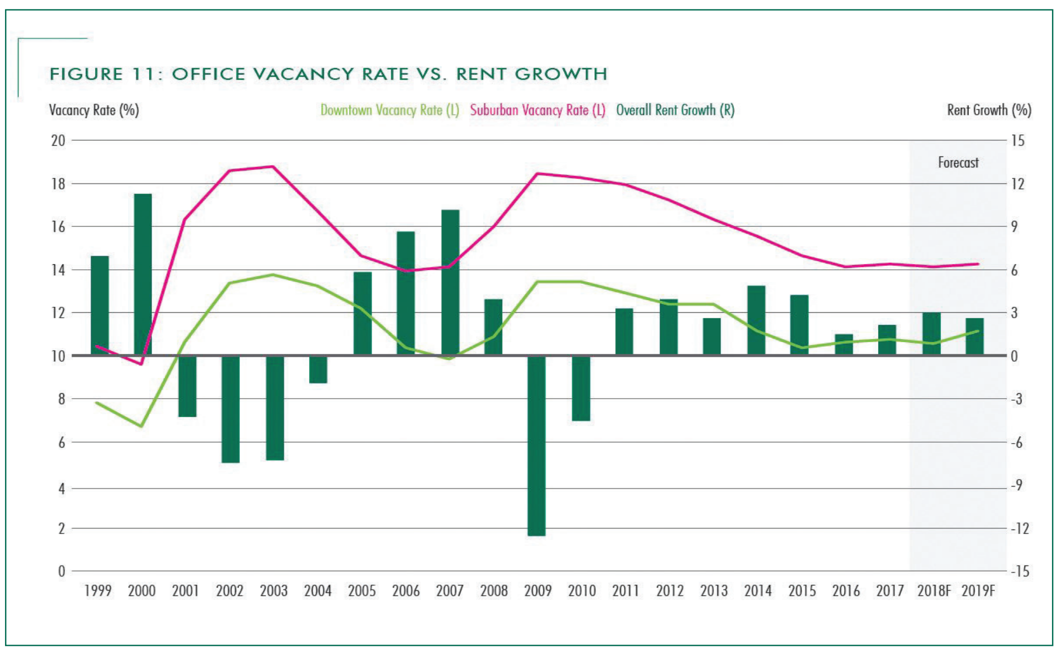
With office vacancy rates hovering around 13 percent, CBRE projects that 54 million square feet of new office product is slated to hit the market this year, which is on pace with 2018. Nearly half of that is being built in cities where lack of supply and increased demand are driving up rent. In other markets, however, the report predicts positive net absorption could slow compared to last year.

Overall, the tone of CBRE's outlook was positive, highlighting the fact that there is still plenty of capital to deploy. Emerging U.S. markets are likely to see a good share of that as investors test "new lows on yield - simply to deploy capital."



Source: CBRE Reseach, Q3 2018

Note: 2018 = YTD through Q3; data includes the 25 largest transactions by sq. ft. each quarter for each of the 54 markets tracked by CBRE Research. STEM includes high-tech and health care/life sciences leasing activity. Business services includes flexible space providers as well as accounting, consulting, employment services and real estate firms.



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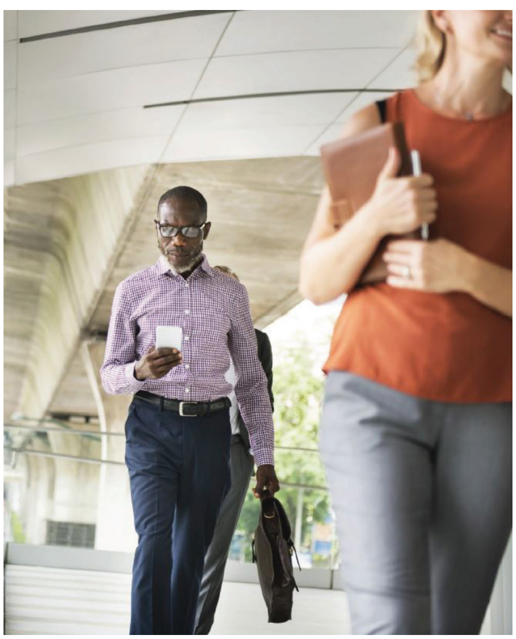

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Connecting employees to their building, available services and extended community through technology will be a focus for landlords and employers alike in 2019.