



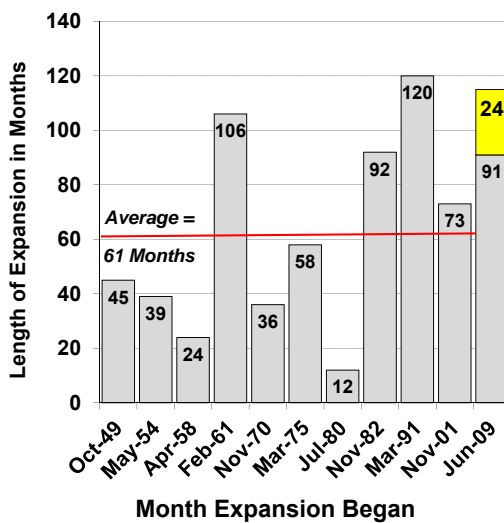
## Making Commercial Real Estate Great Again

Newmark Grubb  
Knight Frank

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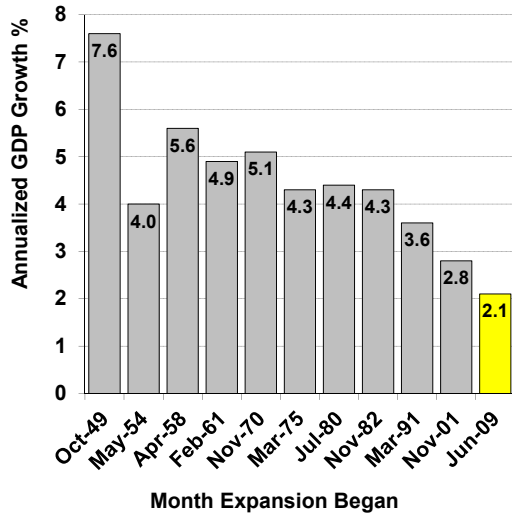
### *U.S. Expansion Cycles, Post WWII*

### 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?

U.S. Expansion Cycles, Post WWII  
**Expansion Is Slowest in History**

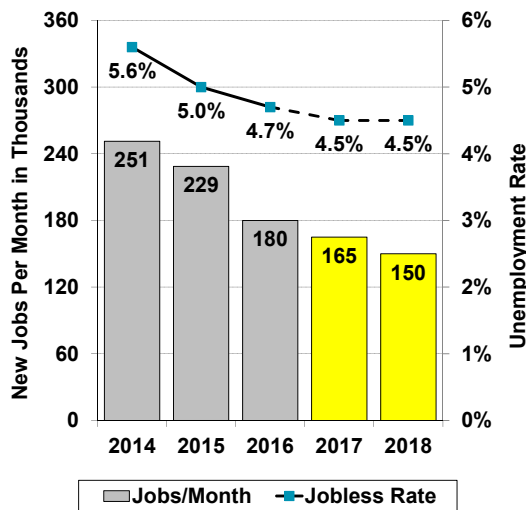


- ◆ Expansions triggered by financial crises are slower.
- ◆ Population & labor force growth are waning.
- ◆ U.S. needs smarter tax, regulatory & spending policies.

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Source: Bureau of Economic Analysis, NGKF

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.

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Source: Bureau of Labor Statistics, NGKF

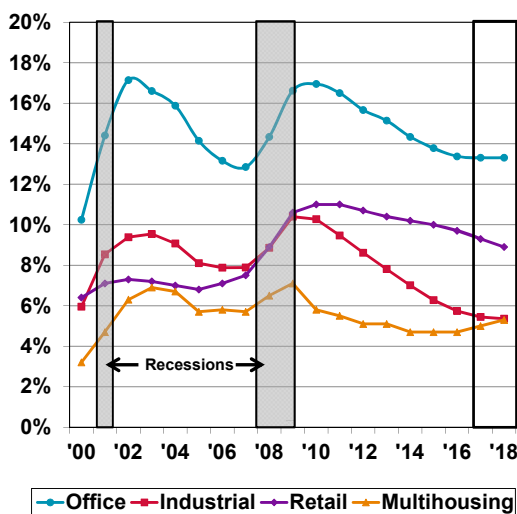
Metros with Populations 1 Million & Up  
**Job Growth: Recession & Recovery**



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Source: U.S. Bureau of Labor Statistics, NGKF

Year-End Vacancy Rates  
**Markets to Tighten Further Except Apartments**

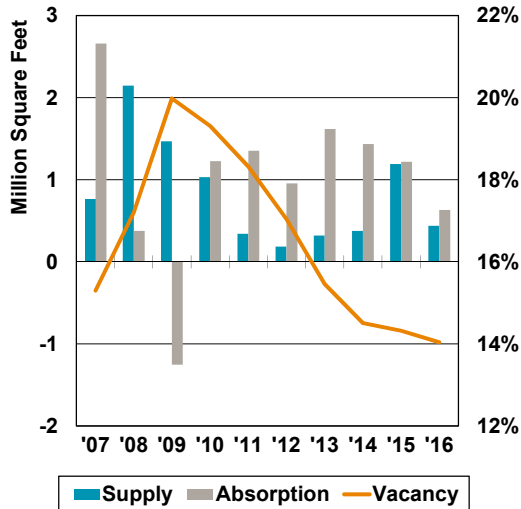


- ◆ Vacancy trend 2017-18: Office leveling out, industrial & retail still falling; apartment rising.
- ◆ 2016 asking rents up 3.2% for office, 5.8% for industrial; will moderate to low single digits in 2017-18.
- ◆ Moderate rent growth, tighter bank lending standards & rising construction costs have kept supply in check.

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Source: CoStar, Reis, Urban Land Institute, NGKF

Year-End Markets  
**Total Denver Office Market**

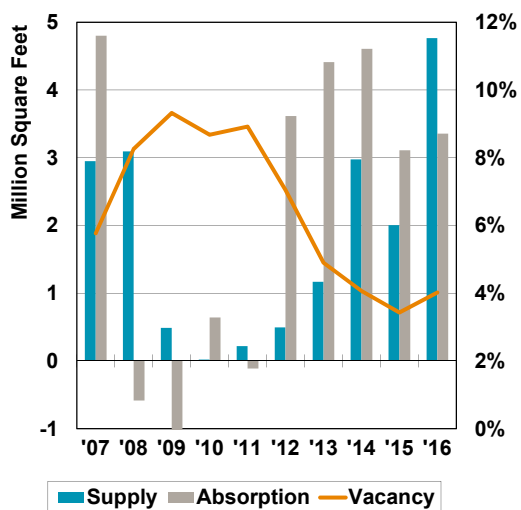


- ◆ 7-year expansion run resulting in total absorption of 8.4 MSF.
- ◆ Vacancy plunged 600 bps from 20% at YE 2009 to 14%.
- ◆ Development pipeline contains 4.5 MSF, 60% pre-leased.

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Source: NGKF Research

Year-End Markets  
**Total Denver Industrial Market**

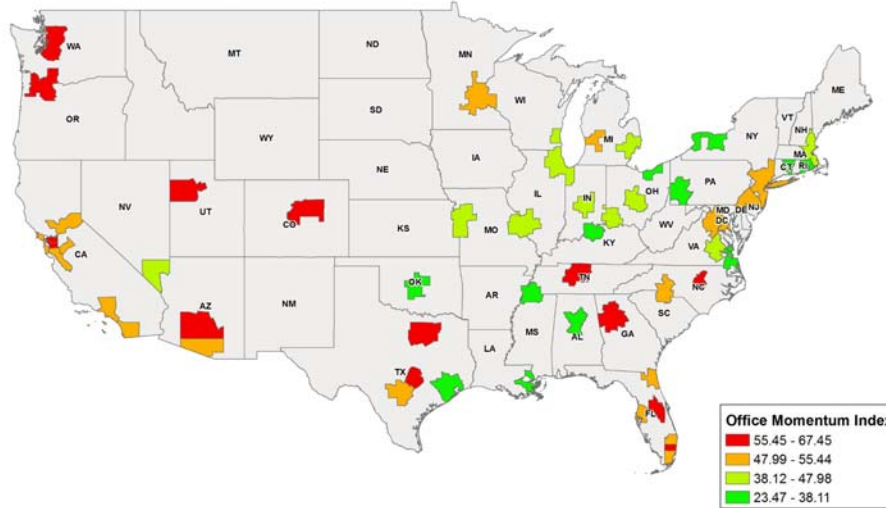


- ◆ Market had strong growth even as pre-leasing slowed from previous years.
- ◆ Reached record levels for rental rates and annual new supply delivered.
- ◆ New supply that delivered vacant will allow space for continued growth in 2017.

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Source: NGKF Research

## Office Momentum Index



**Office Momentum Index**  
 55.45 - 67.45  
 47.99 - 55.44  
 38.12 - 47.98  
 23.47 - 38.11

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Source: NGKF

### Evaluation Criteria

## NGKF Office Momentum Index



Factor #	Factor	Factor Weighting	Data Source
<b>DEMOGRAPHICS</b>		<b>10% of Total</b>	
1	Population Change 2016-2021	2	ESRI
2	Population % Change 2016-2021	2	ESRI
3	Millennials Change 2016-2021	3	ESRI
4	Millennials % Change 2016-2021	3	ESRI
5	Median Household Income 2016	1	ESRI
6	Bachelors Degree 2016	2	ESRI
7	Graduate/Professional Degree 2016	3	ESRI
<b>ECONOMICS</b>		<b>40% of Total</b>	
8	Employment % Change From Prior Peak	1	Bureau of Labor Statistics
9	Employment % Change Year Over Year	3	Bureau of Labor Statistics
10	Employment Change 2016-2021	2	Moody's
11	Employment % Change 2016-2021	2	Moody's
<b>REAL ESTATE</b>		<b>50% of Total</b>	
12	Vacancy Change Past 4 Quarters	3	CoStar, NGKF
13	Rent Change Past 4 Quarters	3	CoStar, NGKF
14	Absorption Year to Date % of Occupied SF	3	CoStar, NGKF
15	SF Under Construction % of Total Inventory	1	CoStar, NGKF
16	Barriers to Entry	1	NGKF

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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.



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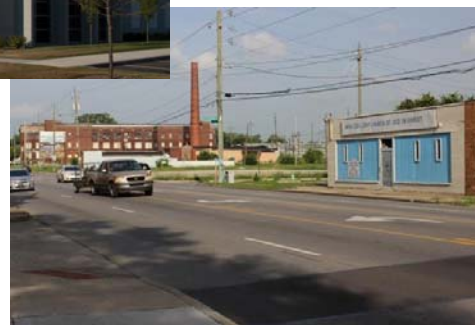
Source: NGKF

## 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.

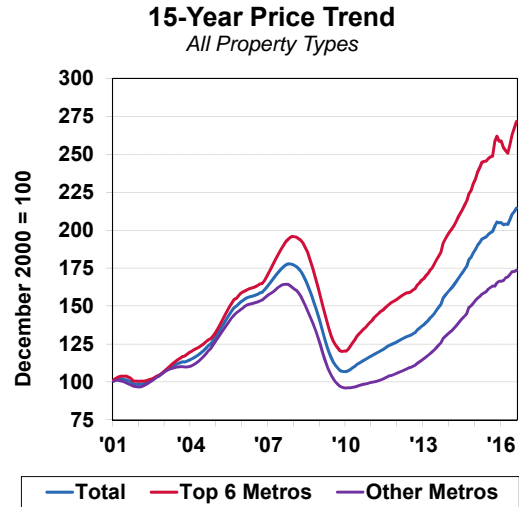
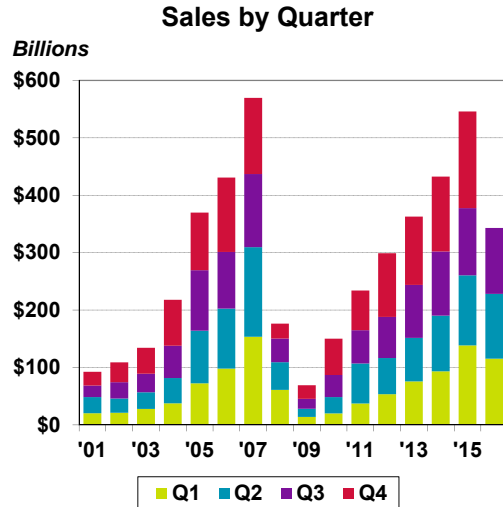


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Source: NGKF

## Commercial Property Sales

### Sales Off 9% YTD; Fed Fears CRE Bubble



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Source: Real Capital Analytics, NGKF

## 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

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