

## Office & Industrial Property Outlook

In a recent survey of commercial real estate executives, NAI Global has found that the industrial market will outperform the office sector for the next six months. Respondents indicated that, when it comes to supply, there is a moderate supply in the office leasing market but low inventory in the industrial market, and note that several factors are driving demand in both sectors, including:

- 2016 US Presidential election outcome and impact on the economy
- Growth of professional services fueling office demand
- Increased demand for industrial space by consumer product companies

The survey was conducted among NAI Global Member firms. NAI Global is one of the world's leading commercial real estate companies, comprised of independently owned and operated firms. NAI Global has more than 375 offices strategically located throughout North America, Latin America, Europe, Africa and Asia Pacific, with over 6,700 local market professionals, managing in excess of 400 million square feet of property. Of the survey respondents, three-quarters expressed particular knowledge about their local office leasing market, while two-thirds noted expertise in the industrial leasing market.

### State of the Markets

#### Office

Over half the respondents (53%) say that when considering the number and quality of inquiries they are receiving, their office leasing market is flat, while over one-third (37%) say it is hot or heating up and one in ten (10%) say it is cooling down or cold. Looking ahead into 2017, half (50%) say their office leasing market will be flat, over two in five (42%) say it will be hot or heating up and less than one in ten (8%) say the office market they serve will be cooling down or cold. When it comes to the current state of the office market, over two in five (43%) say there is a moderate supply with few choice properties available. Three in ten say there is low inventory with less than one in five (16%) saying there is little new construction and over one in ten (14%) say there is adequate new construction. One in five say there is oversupply in their local market and less than one in ten (6%) say there is a building boom to meet anticipated demand.

About half (51%) indicated that office rents are increasing, with 44% responding that rents are decreasing and 5% responding office rents are decreasing in their markets. Over half (53%) say landlords are offering rent concessions and improving amenities to attract and retain tenants. Thirteen percent are actively marketing property outside local markets to attract prospective tenants. Eleven percent say owners are doing nothing to help attract new tenants.

## Industrial

When asked about industrial leasing activity, over two-thirds of survey respondents (67%) say the industrial market they serve is hot or heating up, three in ten (30%) say it is flat and just 3% say it is cooling down or cold. For the next six months, almost two-thirds (64%) anticipate their industrial market will be hot or heating up, one-third (33%) say it will be flat and just three percent say they expect the industrial leasing market will be cooling down or cold.

Compared to the office sector, survey participants see more fluctuation with industrial market supply. Two-thirds of respondents say there is low inventory with over two in five (45%) saying there is little new construction and one in five (20%) saying there is adequate new construction. Almost one-quarter (23%) say there is moderate supply with few choice properties available in their area. Eight percent say there is a building boom to meet anticipated demand. Only three percent note that there is oversupply of the industrial market in their area.

## Where Is the Growth?

In the office market space, seven in ten respondents (71%) say they are receiving the most inquiries for new office space from professional services. Over half (52%) say they are hearing from tech and/or growth companies while three in ten (29%) are hearing from medical and pharmaceutical companies and one in ten (10%) from manufacturing support companies.

The majority (61%) of inquiries on new office space come from mid-sized companies with 11 – 100 employees; small companies with between two to ten employees represent one-third, and large companies with over 100 employees account for just two percent of office leasing inquiries.

Comparing office sales to leases, half the respondents (49%) say there has been an increase in sales of office properties in their markets while two in five (39%) say there has not and over one in ten (12%) are not at all sure.

Almost half the respondents (46%) say that there has been an increase in sales of office properties in their market, with more institutional investors (46%) than individual investors (32%) buying office properties. One in five say that business owners are the primary buyers of office property in their market.

In the industrial sector, three in five respondents (61%) say consumer product companies are driving industrial demand in their market, over half (52%) say it is coming from manufacturing, while three in ten (29%) say the demand is coming from retail and less than one in five (17%) from energy companies.

The survey identified multiple drivers of industrial growth. Half the respondents (51%) say the expanded footprint of established companies is the primary driver of growth in their area, over one-third (36%) say growth is coming from company relocations, one-third (32%) from the emergence of their market as an industry hotspot. Three in ten (30%) cite their areas' above average quality of life, cost of living, attractiveness and/or commute. Nearly one-quarter (24%) of the respondents point to the availability of new space tied to growth.

Over three-quarters of respondents (77%) say in their market there are more industrial leases while over one in ten each say there are more industrial sales (12%) or they are not at all sure (11%).

Are the markets tied together? Half of respondents (50%) say the local industrial market has a moderate impact on the local office, retail and/or multi-family sectors while two in five (39%) say it has a low impact. Much smaller numbers say the industrial market has a significant (6%) or no impact at all (5%) on the local office, retail and/or multi-family sectors. Respondents in certain markets noted that completion of major infrastructure projects, including transportation improvements, airport and shipping port expansions will have a positive impact on all commercial real estate sectors.

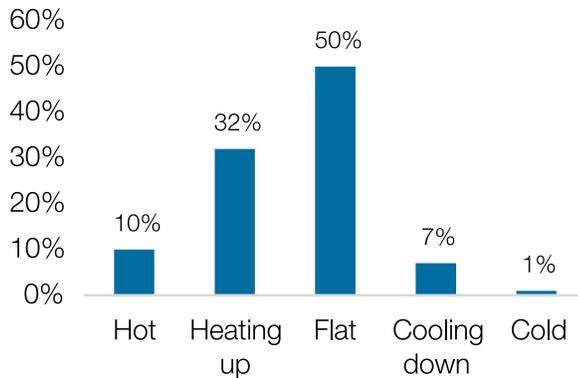
Thinking of the overall markets and looking ahead over the next year, over one in ten say that job growth and opportunity (12%) and the impact from the 2016 US presidential election (11%) are key drivers that will have the most impact over the next year on commercial real estate. Ten percent of the survey participants believe the overall global economy will be a key driver, with slightly fewer citing interest rates (8%) and tax issues (7%) as primary growth drivers.

# Real Estate Outlook Survey

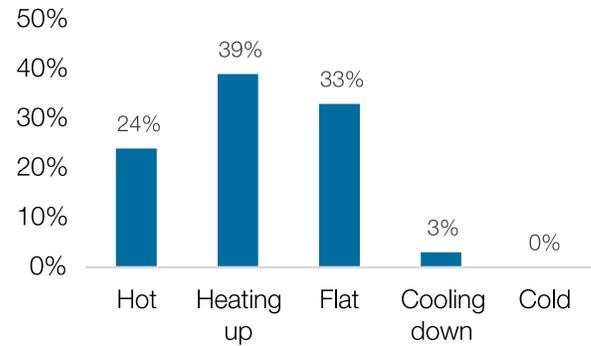
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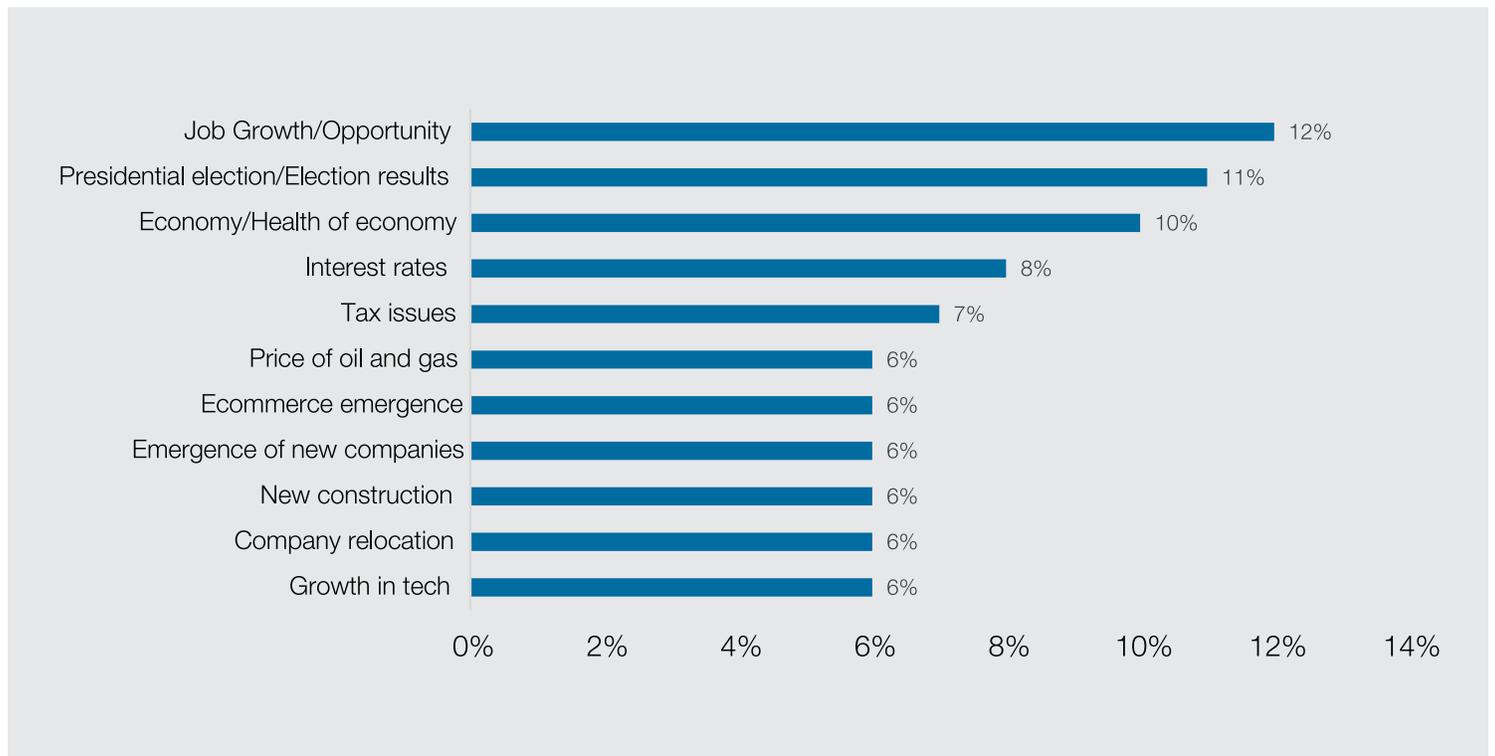
## Office Market Leasing Next 6 Months



## Industrial Market Next 6 months

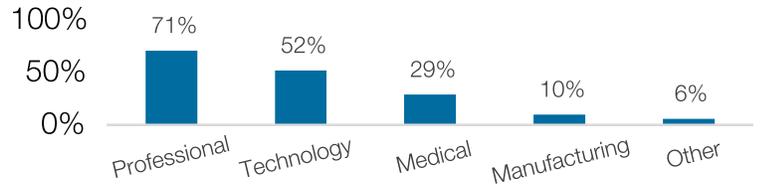


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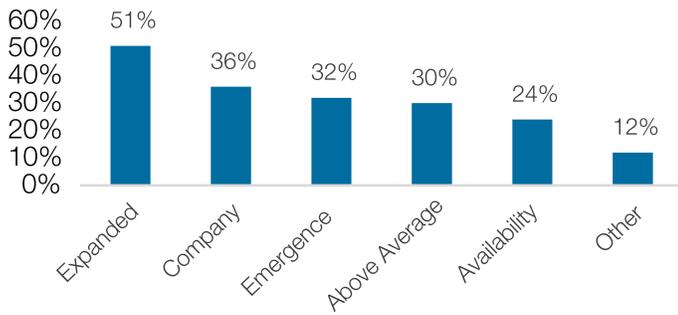
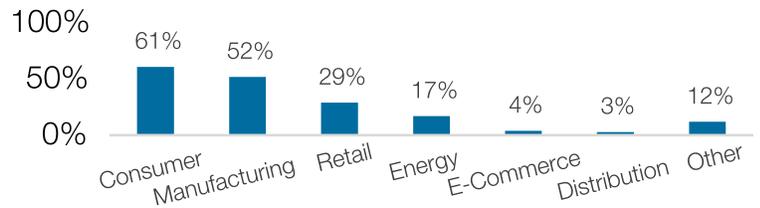
## Companies Driving Office Demand

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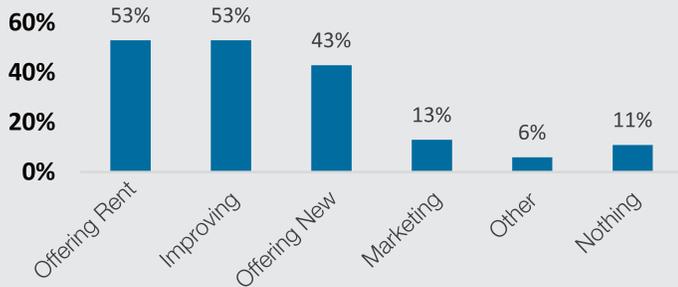
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When it comes to the industrial sector, three in five respondents (61%) say consumer product companies are driving industrial demand in their market, over half (52%) say it is coming from manufacturing, while three in ten (29%) say the demand is coming from retail and less than one in five (17%) from energy companies.



## Driving Industrial Growth

Looking at the drivers of industrial growth, half of respondents (51%) say the expanded footprint of established companies is driving the growth in their area, over one-third (36%) say it is coming from company relocations, one-third (32%) from the emergence of their market as an industry hotspot, three in ten (30%) from the above average quality of life, cost of living, attractiveness and/or commute and one-quarter (24%) from the availability of new space.



## Landlords Attract Tenants

In looking at what landlords are doing to attract and retain tenants, over half of respondents say they are offering rent concessions (53%) and improving amenities (53%) while over two in five (43%) say landlords are offering new tenant incentives.

## Impact of Local Industrial Market

Are the markets tied together? Half of respondents (50%) say the local industrial market has a moderate impact on the local office, retail and/or multi-family sectors while two in five (39%) say it has a low impact. Much smaller numbers say the industrial market has a significant (6%) or no impact at all (5%) on the local office, retail and/or multi-family sectors.

