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Each year at Avison Young, we pride ourselves on providing our clients with the best information, services and solutions. At the core of our strategic efforts is a thoughtful look into the future, which begins with our 2015 forecast. Whether you are a tenant, owner, investor or lender, we see four factors that warrant serious reflection in a top-down view of your portfolio this year:

- Long-term level of demand for real estate as a core or alternative investment and associated allocation shifts;
- The obsolescence of certain types of real estate as the pace of technology adoption increases;
- Shifting operational and locational considerations driven by changing demographics, urbanization and transit; and
- Shifts in global monetary policy decisions, commodity pricing, interest rates and inflation.

Each of these factors will shape winners and losers from a location and property performance standpoint in the years ahead. In most of the developed world, we are currently operating in a very positive environment – with liquidity strong and transactional volumes at high levels, property and employment fundamentals improving, and alternative investment choices offering lower yields. These background conditions suggest that now is the optimal time to take a pause and assess where you might be able to balance risk, take profits, and redeploy resources to exploit future market opportunities.

Our enclosed market-by-market report will serve as a helpful roadmap to what we see as the central themes in each of the regions in which we operate. This introduction highlights global trends that will amplify or dampen property and portfolio performance in the near and medium terms.

Global demand remains high, but watch for focus shifts

The global real estate markets sit at different points in the post-2008 cycle with tangible strength in North America and select European markets. We see the Canadian real estate market approaching its cyclical top, and there is broad-based growth in the United States and Mexico. London is the force driving U.K. deal velocity, and a stable-but-cautious Germany is supporting the Eurozone and leading the fight against deflation. Many pundits are anticipating a potential slowdown in Asia. We see this slowdown as manifesting predominately through a large increase in capital flows from this region to other parts of the world.

All of these conditions are set against a global backdrop of the lowest interest rates in history, very low capitalization rates, and record pricing in major and coastal markets.

Real estate has earned its place as a core portfolio holding and is producing favourable total returns against alternative investment options. Increased allocations, combined with an abundance of capital and historically low cap rates, have pushed pricing in gateway markets to new record levels – in some cases ahead of fundamentals. The industry is happy to be the beneficiary of this rising and stable tide, but risks develop when prosperity continues over longer periods. Momentum alone can cause this cycle to continue for some time, but global (free) monetary policies and mountains of capital chasing yield should taper at some point. We believe that an inflection point is beginning to take shape, and these trends should be taken into account as our clients adjust their property strategies.

Let’s take a moment to reflect on known risks: Despite the perception that gateway markets offer baseline stability and lower risks, the return of speculative construction in these locations could result in both softer leasing conditions and accelerated functional obsolescence pressures on landlords and tenants occupying existing assets. At the same time, momentum will likely keep these core markets’ prices rising for some time in the future (as benchmark-bound investors chase the index). Tenants experiencing sticker shock may see some relief by reconfiguring into newly constructed assets, or in considering locations in secondary markets.

Technology continues to re-shape utilization

Rising automation and e-commerce penetration are affecting where work gets done, as are the urbanization trends and changing tastes of millennials around the globe. These trends unfold slowly due to lease terms, but we caution against underestimating the strength of these forces. The office tenant of the future is more seriously embracing mobile technology, smaller space requirements and alternative workplace strategies.

Continued...
The need for traditional amounts of square footage per person is decreasing each day. Retailers are balancing the older, traditional footprint with the change in retail buying patterns, the efficiency of omni-channel distribution, and the changing behaviour of millennials who will make up the largest percentage of the workforce by 2020.

Showrooms and retail floorplates will continue to shrink as technology is embraced and same-day delivery becomes commonplace. There will always be a desire to shop for the experience, but bets on large stores carry significant risk. The growing need for omni-channel distribution, including logistics and data-centre space for online sales, represents investment strategies with future potential. Today’s retailer will replace current offerings with higher levels of automation and services, smaller stores and more real estate – just a different type.

Millennials’ impact – far beyond their years
Millennials could pose the biggest risk and opportunity as their behaviours drive future planning and operating results. The millennial is transient, but focused on live/work/play opportunities in downtown areas. The urbanization of real estate is a real trend with major development occurring to meet the needs of millennials and empty nesters moving to downtown cores and/or close to transit. This trend is manifesting in small cities as well as global gateway centres.

Commodity prices, currency wars, interest rates – good news or bad?
Oil prices impact the markets in multiple ways. Houston, Denver and Calgary occupancy and related rental rates could be undermined by downsizing (and failing) oil and gas companies if pricing pressures continue unabated. This situation could have a positive impact on consumer confidence and global stock markets or fuel the fear of deflationary pressures, depending on how sustained the current commodities cycle proves to be.

When you combine the likely impact of interest-rate changes, volatile oil and other commodity prices, demographic shifts, technological developments, anticipated and unanticipated government intervention and rising global conflicts and terrorism, there is uncertainty (and, accordingly, opportunity) at every turn.

What is clear is that the pricing boost generated by low interest rates (negative real interest rates) has produced a significant portion of the total returns for real estate investments during the last 15 years and will eventually reverse course. The global currency tug-of-war between the Yuan, Yen, Euro, Swiss Franc, Pound, Canadian and U.S. dollars will continue for some time – as a by-product of the shifting environment, not the cause. We believe that interest-rate hikes will start in the U.S., which should have the strength to undo the free money policy in 2016 (but they could start as early as the summer of 2015 with talk “jawboning” them higher). The Federal Reserve could impact the markets by talking about hikes, even before it follows up with actual rate increases. Globally, interest rates will drift higher with the impact modulated by currency movements, both in terms of exchange rates and global capital flows.

At Avison Young, we believe that market corrections are healthy and inevitable, and we seek to ensure that our clients understand salient trends and are incorporating these thoughts into their planning, strategies and tactics. Important undercurrents are daily shaping the world in which we operate. With every risk comes opportunity, if you are ahead of the change.

In 2014, Avison Young continued to build its platform to meet the needs of our clients. We opened our first offices in the United Kingdom and Germany and now have more than 1,700 people in 62 offices and have served clients in more than 30 countries.

Our client-service model eschews traditional business units for Principal-led affinity group structures, and is deeply rooted in our foundational beliefs (including global citizenship), and aligns our best practices, experience and innovation with the needs of our clients.

We wish you all a happy, healthy and prosperous 2015, and look forward to doing business with you in the near future.

Sincerely,

Mark E. Rose
Chairman and CEO
Avison Young
Message from the President, U. S. Operations

Strategic growth in a strengthening market

Our objectives for 2014 were aggressive, yet realistic in terms of needed expansion into new markets when compared with our desire to add depth of resources and capabilities to existing markets. We found excellent partners who fit our culture perfectly and expanded into new U.S. markets in Orlando, Austin, Cleveland, Fairfield/Westchester, Columbus, OH and Oakland in 2014. During that 12-month period, we acquired Atlanta-based The Eidson Group, LLC, Columbus OH-based PSB Realty Advisors, LLC, Austin-based Commercial Texas, LLC, Sacramento-based Aguer Havelock Associates, Inc., New Jersey-based Kwartler Associates, Orlando-based MCRE, LLC and Miami-based Abood Wood-Fay Real Estate Group, LLC.

Equally important was our ability to recruit top industry professionals in virtually all of our service capabilities in key markets such as Washington, DC, New York, New Jersey, Southern and Northern California, Atlanta, Chicago and numerous other markets. Overall, we began 2014 with nearly 1,000 employees in 29 U.S. markets, and ended 2014 with more than 1,200 people in 34 U.S. markets. A few geographic holes remain in our U.S. operation; however, we should be able to address these early in 2015 given the progress we are currently making.

Our best-in-class strategy, coupled with our Principal-led approach, continues to be well-received by investor and occupier clients, as evidenced by the rapid growth in our client base and in our numerous new assignments representing virtually all asset classes. With our recent corporate expansion into key money-center markets in Europe, we are able to meet our clients’ needs not only in North American markets, but increasingly in markets overseas.

In 2013, we reported a recovery concentrated in coastal markets, while 2014 witnessed widespread absorption and recovery in leasing markets. Vacancy across all asset types fell and, with a relatively robust employment environment, rental rates increased, driving values higher. We must remind ourselves that a good deal of this recovery in rents and asset values is driven by the continued Federal Reserve policy of low interest rates. With the end of quantitative easing (QE3) in the second half of 2014, we should start to see a gradual stabilization in bond rates and, in fact, may begin to see a slight uptick in related borrowing costs as lenders begin to price in forward rate increases. However, real estate remains a preferred asset class for most institutional (domestic and foreign) investors, and the yields on quality assets remain well above comparable risk bonds. As such, we feel that the demand for real estate investments will be able to withstand a gradual uptick in borrowing costs that will likely occur in 2015, and demand for assets will continue to outpace supply.

Look for further improvement in office leasing fundamentals overall, vacancy levels to maintain their gradual decline, and rent growth through 2015 to drive values higher. In the multi-residential sector, vacancy may begin to creep upward in some markets in 2015, although 2014 sales are on pace to reach 2013 total volume and this sector will continue to perform well for some time. Retail continues to reconfigure itself to better compete with the still burgeoning online retail market, and we see excellent opportunities for well located power centers and community centers. Finally, economic growth, New Panamax-capable ports and e-commerce will drive gains in industrial markets in 2015.

I hope that everyone has a very successful 2015. All of us at Avison Young look forward to working with you to achieve all of your objectives.

Sincerely,

Earl Webb
President, U.S. Operations
Avison Young
In 2014, as Managing Directors, we guided Avison Young through an unprecedented growth period in the firm’s corporate history by opening new offices outside of North America – in London and Thames Valley, U.K. and Frankfurt, Germany. In addition, we continued our aggressive U.S. expansion program through new-office openings, strategic acquisitions and new hires; we widened our footprint by building out our current platform and adding to our existing business lines. We also strengthened our well-established market share in Canada while capitalizing on increasing Canadian institutional investment in the U.S. and overseas. These accomplishments are just the highlights of a comprehensive, ongoing global growth program driven by our Principal-led, collaborative culture, best-in-class service model and strong desire to put the client first in everything that we do. While helping our clients and their businesses achieve and exceed their goals, we recognize the need to focus on more than the bottom line. In that vein, we have also striven to improve our communities and assist the less fortunate. As Managing Directors, we were extremely proud to lead Avison Young’s first-annual Global Day of Giving in October 2014, holding local philanthropic events in all of our firm’s markets. We will steadily expand these efforts through the openings of additional offices.

The Global Day of Giving, and many other community events that Avison Young employees participate in each year, demonstrate that we are about more than just doing business. We understand the need to focus on sustainability, philanthropy, open communication, inclusiveness, diversity, leveraged technology and, at times, fun-filled social activities. Ultimately, Avison Young’s achievements in business and the community hinge on our people, who are outstanding leaders within the company, industry and numerous charitable organizations. Thanks to the recruitment of established industry advisors and talented young professionals performing key roles, our strategic expansion in the U.S. filled in several key markets and service offerings in 2014. We will continue to provide a co-operative environment where up-and-coming brokers can trade best practices, develop relationships and support one another in their growth and development at Avison Young.

Avison Young’s continued success at attracting and recruiting top talent is evidenced by the growing list of name-brand clients that retained our firm for ongoing projects. Our firm thrives on its geographic, business and human diversity, which has generated exceptional momentum throughout 2014 and into 2015. As a result, we continue to expand our client base in an ever-changing global economic environment. We have succeeded in assisting our diverse clientele through a design-build approach, rather than a cookie cutter one, in all Avison Young markets and asset classes.

However, we recognize that there is still much more to do – and improve upon. Canada, the U.S., U.K. and Germany experienced post-recession improvement in 2014; nevertheless, occupiers are focused on efficiency and cost containment, and those trends will affect the industry for several more years, especially as energy prices remain volatile. That said, time spent with experts on forward planning, innovation and challenges to the status quo will reap exponential returns for business owners and tenants alike. Most of our markets are at or near equilibrium, enabling us to add significant value in strategic analysis and negotiation, and deliver our distinctive capabilities. While 2014 was a very successful year for our company and clients, 2015 will be even better.

On behalf of our entire team, we thank you for your trust, loyalty and respect. We also wish you a healthy and prosperous new year – and look forward to generating more growth opportunities for your business in 2015 and beyond.

Sincerely,

The Managing Directors

Avison Young

Thomas Aguer | Charlie Allen | James Becker
Michael Brown | Sean Cahill | Michael Church
Nick Cook | Christopher Cooper | Steve Dils | Martin Dockrill
Mark Evanoff | David Fahey | Mark Fieder
Christopher Fraser | Jeffrey Heller | Rob Howell
Richard Jankowski | Michael Keenan | Randy Keller
Michael Kennedy | George Kingsley | Joseph Kupiec | Ken Lane
Greg Langston | John Linderman | Keith Lipton
Christopher Livingston | Doug Mereska | Arthur Mirante
Greg Morrison | Bruce Neel | Danny Nikitas | Denis Perreault
Scott Pickett | John Pinjuv | Ray Robinson | John Ross
Pike Rowley | Jonathan Satter | Wes Schollenberg | Ted Simpson
Nick Slonek | Michael Smith | Rand Stephens | Udo Stoeckl
Todd Thronson | Clay Witherspoon | Alec Wynne
As sustainability and "greening programs" have become the accepted standard for office property management, e-commerce, mobile technology and customer interaction are the new keys to success in retail management. Meanwhile, the usage of industrial space is broadening to include e-commerce distribution to provide faster delivery times to customers – and property management is evolving accordingly.

The movement of space utilization and cost-cutting that has dominated the management of office properties in recent years is now being embraced by industrial tenancies. Operating costs have now become an important discussion point in industrial lease negotiations.

With the densification of space utilization, management must address issues related to air quality, tenant comfort, elevator wait times and increased wear and tear on the property. With e-commerce pick-up counters increasingly available at retail stores, there is a greater need to manage increased traffic flow in the form of both customer visits and store merchandise deliveries.

The focus for property management in 2015 will be the development and implementation of capital improvement programs to reposition and renovate older product to better compete with expected new developments. As consumers embrace online shopping, retailers will continue to consider the role of the store, exploring new formats and store footprints. Industrial product is expected to continue to evolve to meet user needs.

Despite minor upward bumps in 2014, the Government of Canada’s 10-year benchmark bond rate trended down steadily during 2014, a decline that accelerated in October. This environment provided very attractive interest rates for owners of real estate, while lenders scrambled for the best product. Underwriting of debt saw little change, with institutions exhibiting the usual bifurcation of approaches to what is acceptable and unacceptable risk. Given the solid performance of Canadian real estate, lenders were hard-pressed to go elsewhere for yield, and 2015 should be a repeat performance, assuming the predicted gentle rise in interest rates takes place.

Barring major unforeseen macro-level economic or geopolitical events, U.S. lenders expect another strong year in 2015. Given the amount of capital that lenders are seeking to deploy (alongside the ever-increasing amount of foreign capital entering the market), interest rates are expected to remain relatively low and the lending environment competitive. In order to increase production levels of new debt originations, lenders are aggressively pursuing opportunities – a situation that is keeping spreads low and leverage levels high. Capital providers with flexibility are considering structured solutions that allow for increased capital deployment into individual assets by funding gaps between senior debt and sponsor equity. With the high level of liquidity, ease of capital in the marketplace and projections for stable economic growth, lenders expect an increase in year-over-year lending volume in 2015.
Shifting dynamics to test Canada’s commercial real estate sector

After enjoying better-than-expected GDP growth in the third quarter of 2014 and an unemployment rate in late 2014 that flirted with pre-recession levels, Canada’s sound commercial real estate sector will face headwinds in 2015. A weakening global economy, sliding oil prices, burgeoning development and a possible U.S. Federal Reserve-led interest-rate hike will create both risk and opportunity.

Demographics, technology and increasing space-planning efficiency are transforming office market dynamics. To meet demand, landlords are offering new, sustainable development and refurbishing existing product to remain competitive. Undeterred by supply-demand imbalances, developers are taking a long-term view with more than 22 million square feet (msf) under construction across Canada (55% preleased and representing 4.3% of existing stock) – with 55% of the total in Toronto and Calgary. With more than 7 msf scheduled for completion in 2015, the Canadian office market will see its vacancy rate rise to 10% by year-end 2015 from 9.4% in late 2014.

Vacancy-challenged assets will see competition as occupiers entertain a plethora of options and greater emphasis is placed on optimizing and future-proofing premises. To support elevated valuations, landlords will hold firm on rental rates, but will be under pressure to increase incentives to retain and attract tenants. Urban-suburban battles will resume with transit-oriented sites the focus.

Urban intensification and retailers’ adaptation to e-commerce continue to alter the retail landscape. Failure to adapt has led to further closings and bankruptcy protection as retailers cull underperforming stores, while foreign brands such as MUJI from Japan put down roots and recent entrants (Target) rethink their strategies. Marketing budgets are expected to increase as stakeholders invest in physical and digital assets, as well as new concepts, and measure consumer habits.

Major mall owners and retailers are broadening the consumer experience, with “bricks-and-clicks” shopping options or new dining experiences – something not available through the Internet. SmartCentres, Walmart and IKEA are testing or deploying various pick-up options for customers’ online orders, emphasizing their desire to compete against online giants such as Amazon.

Loblaws’ and Canadian Tire’s REIT-conversion successes have led Sears and HBC to contemplate monetizing their real estate (via REIT formation or sale-leaseback) to bolster operations in a competitive retail environment.

Largely sporting low, single-digit vacancy rates, Canada’s stable industrial markets claimed eight of the 10 lowest vacancy rates in North America. Growing demand from the U.S. and a weaker Canadian dollar benefit the export sector, but declining oil prices and volatility in global energy demand could put pressure on resource-based Western Canadian markets, many of which currently boast double-digit rental rates and slightly lower vacancy levels versus the manufacturing-laden markets in the East.

Even with limited serviced land in some markets, almost 17 msf of industrial product is under construction (30% preleased) – equating to less than 1% of existing inventory. Although larger bay sizes and higher clear heights are popular, small multi-bay product remains in demand. Larger speculative projects aim to secure leases from major domestic and U.S. retailers planning to expand or establish distribution networks as part of e-commerce and omni-channel strategies, blending warehouse/logistics and retail.

Leasing will remain steady, while development lifts the national industrial vacancy rate to 4.6% by year-end 2015 from 4.2% in late 2014. Emphasis will be on perfecting the supply chain and securing larger land parcels to develop more flexible product near future transportation corridors and growing urban centres.

Dispositions continue to drive healthy investment in most Canadian markets, while the lack of available quality product masks investors’ true acquisition potential. An estimated $22 billion of commercial real estate sold through November 2014. REITs have lost some steam, but pension funds and private investors have filled the void, keeping capitalization rates low for core assets. Historically low yields and limited supply will continue to lead some Canadian institutional capital to look abroad, especially to the U.S., where some markets are perceived as being undervalued. Investors not wishing to buy abroad or engage in bidding wars have opted to pursue development or redevelop existing assets to unlock value.

With the market at a short-term pricing top and limited product available, anxious capital will weigh core versus value-add risk and opportunity in light of escalating development, possible moderating rental growth and higher interest rates. The latter may force some over-leveraged owners to sell, offering reluctant buyers slightly better prices – spurring a new wave of transactions and, ultimately, a re-pricing of assets.

Bill Argeropoulos
Principal
Practice Leader, Research (Canada)
The U.S. economy expanded further in 2014 with business investment bolstering economic progress. The national unemployment rate was less than 6% near year-end; job growth accelerated in 2014 with employment reaching pre-recession levels. The recent drop in oil prices could hurt energy-driven markets, such as Houston, but could also benefit consumers and the retail sector.

After a year of largely widespread occupier demand, rising employment and improved real estate fundamentals, most U.S. cities are forecasting further progress in 2015. As occurred in Canada, the effects of modernization and improved efficiencies were felt as occupiers looked to cut costs. Multi-residential development in the U.S. has been robust for several years, while development of office and industrial properties is on the rise. Renovation and repurposing remain significant trends in many Central Business Districts (CBDs). Supply-chain efficiencies and e-commerce are driving the need for more warehouses and storage facilities.

Overall vacancy in the U.S. office markets that Avison Young tracks (4.1 billion square feet (bsf)) has improved year-over-year (-50 basis points (bps)) and ended 2014 at 13.6%. All but eight markets recorded lower rates compared with year-end 2013, and a flight to quality persists. Office space under construction totaled 73.5 msf at the end of 2014, up from 69.1 msf one year prior, although the percentage of new construction in relation to existing total inventory was virtually unchanged at nearly 2%.

The Avison Young markets with the most office space under construction (6 msf or greater) are New York, Houston, Dallas and Washington, DC. Preleasing is around 50% nationally as build-to-suit activity is common with few projects being built on a speculative basis. Nevertheless, many occupiers of these new buildings are frequently moving from elsewhere within the market, so net occupancy gains are not realized. Development is increasingly focused on urban mixed-use projects as tenants’ desire for live/work/play environments endures.

In the retail market, resilient absorption rates and receding vacancy characterized the sector in 2014, with shopping centers the only segment to register vacancy in the double digits. In addition to labor-market improvements, consumer confidence is at its highest level since the Great Recession. Retail construction did not intensify in 2014 and, nationally, building starts were at their lowest point in more than three years. With no near-term supply concerns, expect upward pressure on rental rates to persist in 2015. Across the country, there remains a high demand for retail in ubiquitous town center developments, with retail center sales activity in 2014 up compared with 2013. Most notable was Kimco Realty Corp’s acquisition of Blackstone Real Estate Partners’ portfolio, which includes 5.6 msf of shopping centers spanning 11 U.S. markets. Also of note was the expansion of grocery retailers with many markets reporting name-brand food store openings.

Avison Young’s industrial markets totaled 9.1 bsf at third-quarter 2014 with rising construction levels and overall vacancy of 7.2% supported by a year of strong demand. At the end of 2014, a total of 93.3 msf was under construction, a 37% increase from 2013 levels. While noteworthy year-over-year, this amount is well under the historic peak (2007) when 180 msf was under development. Cities that comprise the bulk of the construction activity include Los Angeles, Chicago, Atlanta, Philadelphia and Dallas. Tight market conditions and a dearth of big-block opportunities are driving warehouse construction by large occupiers such as Amazon.com, which has projects proceeding in multiple U.S. markets.

Investment sales transactions were up considerably in 2014, and third-quarter volume was 11% higher year-over-year with multi-residential and CBD office properties leading the gains. However, investors are increasingly looking at secondary markets. Likewise, multi-residential and CBD office assets recorded the sharpest cap-rate decline even as all sectors trended lower. Foreign capital continued to seek U.S. property acquisitions and, not surprisingly, the U.S. Northeast, West Coast and Chicago areas garnered the largest share of the nearly $50 billion invested. Canadian investors outpaced the next closest sources of foreign investment – China and Norway – by more than double.

In 2014, pricing recovered further and was bolstered by sustained low interest rates. The potential for interest-rate increases in 2015 could limit further price increases, and sellers may find themselves with a larger gap in the bid-ask spread than existed in recent years. Still, the availability of capital and attractive yields relative to other asset classes will support demand for commercial real estate, and will likely offset any increased cost of funds for the near term.

The maturing economic recovery led to tightening availability in all sectors and positioned the U.S. commercial real estate market for further growth in 2015.

Margaret Donkerbrook
Vice-President,
U.S. Research
U.S. Overview & Forecast

U.S. - Overall Office Vacancy Rate Comparison

U.S. - Overall Industrial Vacancy Rate Comparison

U.S. - Area Under Construction

Avison Young 2015 Forecast
Nation-leading economic performance bolsters retail and multi-residential investment

Calgary boasts one of the most productive and best-paid workforces in the country. Average weekly earnings increased 5.1% year-over-year to August 2014, and the population is expected to reach more than 1.3 million by 2018, largely due to immigration. With oil prices having dropped in response to OPEC’s decision in late 2014 to maintain output levels, the market is expected to experience some challenges in the next 12 to 24 months. However, the business community’s long-term outlook is still positive.

Office

Overall vacancy within Calgary’s office leasing market rose in 2014, reaching 8.6% in the third quarter. Class AA space, however, is extremely limited as appetite for the highest-quality product in the Downtown market remains strong. Five projects comprising 3.9 msf of class AA office space are under construction downtown and are 57% preleased.

Downtown vacancy surpassed 6%, rising due to large amounts of sublease space being placed on the market. This increase can be attributed to companies taking a more conservative approach to their real estate by putting excess space on the market. Sublet space is being used as a tactic by large companies to mitigate their short-term exposure. Their strategy includes taking more space than immediately necessary to allow for long-term growth, then subleasing portions of it with staggered expiries to control their future options.

Retail

At the end of the third quarter of 2014, the Calgary retail environment remained very tight with 2.5% overall vacancy. More than 600,000 sf of new retail projects are slated to come on line between late 2014 and the end of 2015, with the majority being grocery-anchored projects in Calgary’s newest residential developments.

The arrival of U.S. retailers continued with Marshall’s and Nordstrom entering the Calgary marketplace in 2014. Sporting Authority, Cabela’s and Whole Foods are establishing a presence, drawn to Calgary by an optimistic business outlook, low unemployment and strong consumer spending.

Industrial

Industrial leasing and investment activity in 2014 continued to be robust, reducing overall industrial vacancy to 3.9% in the third quarter of 2014 and moving Calgary out of the oversupply situation experienced in mid-2013.

Strong leasing activity began to narrow the delta between closing rates and asking rates, becoming reminiscent of the 2007 market peak.

Investment

The Calgary market again witnessed robust investment sales activity, with more than $1.8 billion allocated to land, industrial, office, residential and retail property purchases. Calgary’s retail market witnessed $280 million in investments of $2 million or greater through September 2014. The majority of these investment dollars were generated by private investors purchasing older street-front retail properties.

A noteworthy trend in Calgary is the number of new purpose-built, multi-residential rental projects under construction in the inner city. Serving as a litmus test for this trend will be the AURA project by Intergulf-Cidex, the former Astoria project now under AIMCo ownership, and the former Kai Tower (Oslo) project being developed by Statesman. Several additional projects are being planned by GWL on behalf of bcIMC, Embassy Bosa and Qualex-Landmark, among others.
Edmonton market to remain strong despite oil uncertainty

Edmonton’s long-term commercial real estate prospects were excellent in 2014. Economic conditions remained favourable through most of the year, yielding steady GDP growth of 4.9% for the capital region. This figure is down marginally from 5.5% in 2013 and 5.7% in 2012, but still surpasses the 2% seen in the rest of Canada. Prospects are down slightly for 2015 as global oil prices decrease, and politically motivated pipeline decisions have introduced a modicum of uncertainty into the market. However, even these worst-case scenarios forecast GDP in the Edmonton region growing by 3% in 2015.

Office

In 2014, Edmonton’s office market had its most important year since Downtown’s last building boom nearly three-and-a-half decades ago. Two new office towers (the Stantec and Edmonton Arena District towers) were announced. These projects followed the announcement of the 600,000-sf Kelly Ramsey Building in 2013. Together, these three developments will add 1.8 msf of class AA office space to the market in 2018-19.

Growing pains are expected through 2015 as landlords and tenants adjust to new office market dynamics. Local landlords have started upgrading their respective properties in an attempt to brace the market against any significant sale-price and lease-rate shocks.

Retail

The retail market remained a major source of real estate growth in the city, buoyed significantly by low unemployment and rising wages. Additionally, the capital region’s population grew by roughly 37,000 people in 2014, including immigration (both interprovincial and international) and natural population growth. Power centres located near the city limits have been the primary focus of development in order to service rapidly expanding residential communities. Two developments bucking this trend are the Edmonton Arena District and the Brewery District, both of which will provide a new standard of high-end retail space in a market that had started to show its age.

Industrial

Edmonton’s industrial sector continued to be the primary economic engine for the region. Industrial GDP grew at an impressive 7.6% in 2014. Land, particularly in the Southeast market, approached $900,000 per serviced acre, while average rental rates for small, multi-bay properties reached $12 psf. Servicing rates are also increasing (mainly as a result of higher labour and materials costs) and can now run between $127,900 and $196,200 per acre. These levels compare with $115,000 and $165,000, respectively, in Vancouver, which is a larger market.

Lower-than-forecast oil prices may put a damper on the rapid pace of development in the industrial sector through 2015. For tenants, however, this situation may offer some measure of respite from a market that had been quickly heating up.

Investment

Investment properties continue to be hot commodities with cap rates significantly exceeding 10-year bond yields. This situation continues a long-term trend of falling cap rates, which have decreased to the 6% range for industrial properties, 5.5% for downtown offices and 5% for retail and residential. This trend is likely to continue through 2015, although Alberta’s resource-reliant economy and falling oil prices have made investors slightly more risk-averse.
Market to show continued resurgence in 2015

The Southwestern Ontario market (made up of Guelph, Kitchener, Cambridge, Waterloo and Brantford) has proven to be attractive to investors. Tenants and owner/users in the market have continued to expand, and companies from outside the area are relocating or expanding into the region. This growth is anticipated to continue in 2015.

Office

The office market has witnessed significant changes. With large tech users such as BlackBerry, Google, Desire2Learn and a multitude of start-ups calling Kitchener-Waterloo (commonly known as “Canada’s Technology Triangle”) home, the impact of the expansion and contraction of these companies shaped the office market during 2014. Much of the absorption was in brick-and-beam buildings, while aging downtown office buildings experienced increased vacancy.

Significant vacancy in Kitchener’s downtown core and the former BlackBerry portfolio continues to drive rental rates down, providing ideal conditions for tenants. As well, there has been a migration of office users outside of the core and closer to Highway 401 in the South Kitchener and Cambridge markets, where employees have an abundance of free parking and the premises are easily accessible to commuters.

Retail

Following years of significant retail development in projects such as Sportsworld in Kitchener and The Boardwalk in Waterloo, there has been a slowdown in new ventures. The redevelopment and repurposing of properties throughout the region for retail use is being contemplated by developers and encouraged by municipalities. Most recently, sites in Guelph and Cambridge – not previously large retail nodes – have attracted large tenants such as Sail and Costco.

Industrial

Demand in the industrial market grew significantly in 2014 with a resurgence of manufacturing and distribution. A number of properties, which were on the market for a year or more, were absorbed with rates recovering from the previous year’s lows and average rents for new buildings ranging between $5.75 and $6.25 psf and second-generation space leasing from $4.50 to $5.50 psf.

There has been an increase in tenants and buyers as well as new industries (such as the production of medicinal marijuana) as financing remained available to support growth in the industrial sector. This absorption of space, as well as continued demand, has spurred new development with such organizations as Cooper Construction, Bentall and HOOPP all offering new buildings in the market.

Investment

The investment market has been active, involving both local private groups as well as large institutional investors looking for value outside the Greater Toronto Area. Several investors are betting on the continued growth of Southwestern Ontario as they buy vacant buildings on a speculative basis and market the sites for lease.

Industrial, office and retail assets were all actively traded in 2014. This demand is expected to continue into 2015, with a likely decline in available supply. Cap rates have hit pre-2007 records in the low-to-mid 6% range for office and high 6% to 7% for industrial. Many investors still see the potential upside of these properties as tenant demand increases and rental rates follow suit.
Nova Scotia in transition, but Halifax remains stable

Rural Nova Scotia continues to attract media attention outlining its struggles with immigration, an aging population and failing municipalities. However, this is part of an economic stabilization process. The province has learned it must react as a coherent entity and replace redundant layers of administration with lean and agile governance systems. Slight economic decline is expected to continue in rural areas through 2015.

Halifax is the stable urban juggernaut of Atlantic Canada. With high concentrations of government, military, private-sector regional headquarters and educational institutions, the metropolitan area is expected to remain healthy for the near future. Developers’ confidence in the city spurred construction of commercial and multi-residential projects, which have led to an overabundance of available space. Vacancy levels have risen as a result of this construction boom, and a slowdown in development is expected as the necessary absorption takes place.

Office

Halifax’s office market experienced the most dramatic increase in vacancy when compared with other sectors. In 2014, the overall vacancy rate increased to 12.8%, a 400-bps increase year-over-year. This significant jump in vacancy can be attributed to new developments in both the suburbs and downtown core. Developments of note include Waterside Centre and the new Nova Centre, which will house hospitality, office, retail, multi-residential and the new World Trade and Convention Centre.

Overall vacancy is expected to remain steady through 2015. Commencements of the many approved office developments have been postponed until further notice, and there is no indication of any major business relocations, closures or acquisitions in the market.

Retail

The retail leasing market remained reasonably flat in 2014 with most tenant activity coming from regional and local businesses. Many national retailers have been cautious on expansion within Atlantic Canada, typically entering the market because of lower density once other urban markets have been saturated. The outlook for 2015 anticipates mild performance and stable vacancy.

Industrial

The industrial market also experienced an increase in vacancy during 2014, rising to 12.3% from 8.6%. The major cause of this increase is directly related to the construction of new product. Confidence from the development community also has led to an overbuilt industrial market. Overall vacancy is expected to retreat roughly 100 bps in 2015 as interest from the oil and gas sector increases and Irving Shipbuilding’s National Shipbuilding Procurement Strategy (NSPS) contract with the federal government commences.

The amount of new industrial supply expected for 2015 is very modest. Most of the planned construction includes owner/user facilities. This situation will also assist with positive absorption and bring the historically stable industrial market back to single-digit vacancy within the near future.

Investment

The wait-and-see policy of many REITs throughout Canada led to moderate performance in the investment sector. Capitalization rates remain steady throughout the multi-residential and commercial sectors, averaging 5.5% to 7% across all asset classes for quality product. Most believe the trend of compressed cap rates has come to an end in Halifax. With interest rates expected to climb, owners and investors will place an emphasis on operations and cost-cutting in an attempt to keep cap rates stable through 2015.
All sectors expected to remain stable in 2015

Lethbridge’s commercial real estate market had another record year in 2014 as all sectors performed well. Rental rates and vacancy stabilized after several years of big gains in some sectors (and despite declines in others), providing improved confidence for developers and investors. Major new projects, underway or being planned for the city’s west side and Downtown, will bring heightened construction activity and spin-off benefits. All sectors are expected to remain stable into 2015.

**Office**

Office vacancy is expected to stabilize in 2015. The office market experienced 25,000 sf of negative absorption in 2014, due to the downsizing of offices as part of a larger trend of providing more flexible work environments. The first quarter of 2015 looks strong for office leasing and absorption. Low interest rates continue to support demand from office users to purchase assets, but a lack of supply and rising prices are turning potential buyers into tenants. Landlords, who have been competing with sellers, are optimistic that positive movement will occur in 2015.

**Retail**

Retail demand was strong in 2014. Further expansion continues in South Lethbridge’s retail core with leasing nearly complete in the final phase of Coulee Creek Common. West Lethbridge, the newest and fastest growing part of the city, will see the completion of West Gate, a six-acre development, and construction of The Crossings commence in spring 2015. The Crossings is a 60-acre development with the first 100,000-sf phase consisting of grocery, pharmacy, family eatery and quick-service restaurant, medical, and dental users.

Overall retail supply is meeting demand, and developers are optimistic about the growth anticipated in 2015.

**Industrial**

As expected at the end of 2013, the industrial market remained balanced through 2014 with average rental rates and vacancy holding steady. Sale pricing flattened after record increases in 2012 and 2013. The largest source of activity emerged from owner-users taking advantage of available credit to purchase property.

By the second half of 2014, supply was very limited and strong demand had pushed most users towards new construction.

With many business owners swapping lease payments for mortgage payments, space in prime properties and older buildings opened up but was backfilled quickly, resulting in tough competition for developers marketing new projects. This trend is expected to continue in 2015 and hold lease rates steady (with slight downward pressure on rates a possibility). Pricing will likely remain flat due to the availability of new construction. Vacancy should remain stable due to a balanced inventory and fewer speculative projects.

**Investment**

Low interest rates, along with plenty of capital, have kept cap rates historically low, dropping them below what was predicted for 2014. Multi-residential assets traded at less than 6% in 2014, and retail product was in the low-to-mid 6% range. This trend is expected to continue throughout 2015, as there is very limited supply.

Office and industrial cap rates have risen 1% to 2% due to lower institutional investor interest in these asset classes. The challenge in the market is to find product that can be stabilized and purchased as existing owners want to hold. Cap rates are expected stay in this range, with dips still possible, as local and regional investors are pressured to place capital in 2015.

In 2015, Lethbridge assets will likely continue to offer 8% to 9% capitalization rates, but properties will be harder to find.
Record number of transactions

For the past few years, economic activity has shown moderate growth in the Greater Montreal Area (GMA). However, the real estate market set a new record in 2014, exceeding the previous record set in 2008, with an overall transaction volume greater than $4 billion.

From a growth perspective, 2015 shows promise as U.S. economic conditions keep improving, boosting export activity and keeping prices in Canadian dollars attractive to American investors. In addition, previously announced major infrastructure investments will improve Montreal’s economy.

Office

Vacancy rates rose to 11.5% from 9.7% during 2014, largely due to the addition of nearly 1 msf of new inventory, the conversion of former industrial buildings to loft-style office space and the rationalization of occupied premises by tenants at lease-renewal time.

Given the drastic increase in available area in 2014 (in addition to the 1.4 msf of office space currently under construction in 13 buildings and the projects still to come in the GMA), vacancy is expected to rise to 12% in 2015.

Retail

Retail sales ticked up slightly in 2014. The popularity of small neighbourhood and community centres is constantly decreasing as they face fierce competition from regional centres, power centres and lifestyle centres featuring American big-box retailers and outlet stores. The impact of such competition results in a rationalization of occupied space and a decrease in rental rates for local retailers. Premium Outlets is the latest retail project to open in the suburbs north of Montreal. Located in Mirabel, the 350,000-sf power centre includes 80 stores.

Industrial

The aging industrial inventory on the Island of Montreal has been undergoing an important transformation recently. Nearly 2 msf was converted to office space, condominium units or retail premises. Nonetheless, 1.2 msf of industrial space is currently under construction in the GMA. However, the vacancy rate remains at 6%.

Improving economic conditions and the re-industrialization of the U.S. could have a beneficial impact on the Montreal market in the next few years. Industrial vacancy is expected to remain stable in 2015.

Investment

In 2014, investment volume reached its highest point since 2008, at more than $4 billion. The most significant transaction was Cominar REIT’s $1.6 billion purchase of 11 shopping centres, three office buildings and one industrial property (mainly in Quebec) from Ivanhoé Cambridge.

Other significant transactions included the purchase of a 50% interest in Quartier Dix30 in Brossard (valued at $400 million) by Oxford Properties, and the sale of the 840,000-sf Bell Campus on Nuns’ Island by KanAm Grund to a Korean fund for $300 million. The Liberty portfolio in Ville Saint-Laurent, totalling 1.7 msf, sold to a group of investors led by Canderel for $280 million, and Ivanhoé Cambridge sold its 50% interest in the Sun Life Building for $138 million. Griffintown’s main promoter, Devimco, also sold two mixed-use properties totalling 315,000 sf to First Capital Realty for $102.2 million.

After a record year in investment volume, market performance is expected to be more modest in 2015. Nevertheless, Montreal’s diversified economic sectors keep providing real estate investors with great opportunities.
Limited fallout expected from government cutbacks

As expected by many observers, the Ottawa market has felt the sting from the Canadian government’s continuing downsizing of the public service in advance of the federal election scheduled for 2015. That said, sectors of the market continue to perform, and those businesses working outside the problem areas continue to invest in the local economy.

With 2015 being an election year, some fresh federal spending could be forthcoming. Ottawa’s market is still in a holding pattern with some sectors enjoying positive traction while others remain stuck in neutral.

Office

The Ottawa office market continues to be under pressure as Public Works and Government Services Canada (PWGSC) sheds old and obsolete product in the wake of continuing government downsizing. Vacancy rates in the greater Ottawa market continue to rise and are expected to surpass 9% for the first time since the fallout in the technology market early in the last decade. The tech sector continues to improve with brisk leasing activity in West Ottawa.

Although availability rates are up, real vacancy rates are in the range of 10% as there are large blocks of space under contract generating rent for their owners. The shadow vacancy rates represented by the sublet market paint a misleading picture and, in fact, this submarket continues to perform reasonably well. By year-end 2015, the Kanata market could conceivably outperform the downtown core in terms of real direct vacancy rates.

Retail

Ottawa’s retail market continues on its strong footing with low vacancy rates despite the weaker employment picture. The addition of 230,000 sf at the Rideau Centre is a boost to Ottawa’s downtown as high-profile U.S. retailers establish beachheads in the city. Also of note in 2014 was the addition of 293,000 sf to the Tanger Outlet Mall – located across a highway from the Canadian Tire Centre – with a hotel also planned for the site.

Industrial

Demand for industrial space remained strong in 2014 from both investors seeking to purchase investment product and owner/users seeking to acquire buildings. The ongoing limited supply of available product across the region will keep sale prices moving upward. Interestingly, there are a few speculative industrial buildings that are scheduled to be available for early 2015. These “lease-only” buildings will have key characteristics that most older industrial stock lacks, specifically 24-foot ceilings and dock loading. Given the tight market, especially for acquisitions inside the Greenbelt, cap rates are expected to continue to remain low.

Investment

Capital market activity remained stable through 2014 with cap rates relatively unchanged across all asset classes. Multi-residential transactions led the way as cap rates in the sector remained at historically low numbers. Given the large amount of activity in recent years, owners’ pricing expectations have increased and yields have fallen.

As vacancy rates in the office market continue to trend upwards as government moves to higher-quality accommodations, institutional landlords continue to battle for positioning in the next phase of core office development. As the federal government continues with its occupancy plan, obsolete product is expected to be demolished or repurposed, and a flight to quality will be the continuing theme among public and major private-sector groups. This trend will prove to be the driving force for new development activity.
Real estate market remains stable as economic growth continues

Economic growth continued to define the Quebec City Region (QCR) in 2014. The private sector has diversified considerably during the past 10 years, allowing for a more vibrant market emphasizing innovation and research and generating higher employment levels. The strong presence of the public sector (education, healthcare, public services) provides the area with stable employment and, as a result, unemployment is among the lowest in Canada (5.4%).

Overall, the real estate market performed well in 2014, with some of the lowest vacancy rates in Canada. Rates are expected to remain low and stable in 2015.

Office

With the delivery of approximately 1.7 msf of office space since 2010 in the QCR, new construction now represents just 140,000 sf. At the end of 2014, the vacancy rate reached 6.4%. During the past few years, office market activity has expanded to new areas, such as Lebourgneuf and Laurier Boulevard in the midtown area. The recent spike in construction activity did not have a significant impact on vacancy, which remains at an average of approximately 6% due to constant demand. A slight increase in the vacancy rate, to 7%, is expected in 2015.

Retail

The retail market has undergone a significant change with the arrival of power centres diversifying the types of retailers operating in the area. Carrefour de la Bravoure, a new $50-million project, opened in 2014. The project includes 40 stores in more than 15 buildings. The largest shopping centre in the QCR, Galeries de la Capitale, also announced a 150,000-sf expansion in 2015. Due to the slow growth of the retail sector during the past few years, severe competition posed by big-box retailers and the popularity of e-commerce, retailers are expected to rationalize their occupied space at lower rental rates.

Industrial

The QCR industrial market consists mainly of owner/users. There are very few tenancies and assets available for sale. As a result, rental rates and selling prices are approaching the cost of new construction.

Due to the scarcity of available industrial land and increasing demand, the Saint-Augustin-de-Desmaures industrial park will expand to include a new 160-acre parcel south of Québec City Jean Lesage International Airport. A limited amount of new industrial land will also be made available and should generate additional construction activity in 2015.

Investment

Significant investment transactions were concluded in the QCR in 2014. The 182,000-sf Beauport power centre ($46.7 million), the 125,000-sf Méricie Building ($18.5 million), the 36,000-sf centre Halles du petit Quartier centre ($11.4 million), and Hôtel Loews Le Concorde ($11.5 million) were sold. In addition, several parcels of land were sold alongside Laurier Boulevard in Sainte-Foy for $11 million.

In terms of public investment, the construction of a new $400-million amphitheatre is well underway. It is expected to fuel the revitalization of the Lower City by attracting other companies. In the mid-term, a new health complex, valued at more than $1 billion, will be delivered in stages between 2019 and 2025 on the Hôpital de l’Enfant-Jésus site, which will include 760 hospital beds.
Economy remains strong; real estate reaches plateau

Despite moderating in 2014, Saskatchewan’s economy generated the fastest job growth and lowest unemployment rates in Canada with employment up 3.5% year-over-year to October 2014. Mixed messages on growth were prevalent in the resource sector, partly due to declines in mining activity and agricultural income. The economy is expected to rebound in 2015, based on a resumption of more typical production levels in the mining and agricultural sectors, and higher exports of manufactured goods due to a weaker Canadian dollar, while the impact of lower oil prices remains undetermined.

Regina is expected to perform well, driven by large multi-year projects such as the city’s $1-billion downtown revitalization initiative (which includes a new stadium), a $1.2-billion major highway bypass route underway to enhance export trade, a new $181-million wastewater treatment plant and $74 million for new university residences.

Population growth is expected to continue despite an ongoing shortage of affordable housing for low-to-middle income earners. Building permits will finish 2014 near record levels, perpetuating a decade-long trend, as construction costs appear to have plateaued.

Office

A balanced market emerged for both landlords and tenants in 2014. Absorption was slow, and this trend is expected to continue for the next few years. Increased vacancy due to new construction and subsequent backfill space, consolidation of government inventory, and previously non-competitive space converting to competitive. The third-quarter 2014 vacancy rate of 6.7% is expected to increase slightly to 7.1% (11.5% for competitive inventory only) in 2015 as two new buildings under construction are delivered. Net lease rates remained stable for good-quality space, while class B space saw a retrenchment in price and incentives emerge in order to attract tenants.

Retail

Retail growth continues in Grasslands, Regina’s premier retail destination. New tenants arriving in the area in 2015 include the Canadian Brewhouse, McDonalds, Ricky’s All Day Grill, SaskTel and Willow Park Wine & Spirits. The city’s eastern retail corridor saw minimal leasing activity in 2014, as new development land in the area is limited. Eastside businesses were content with the location as lease rates remained stable at approximately $18 psf to $25 psf.

Industrial

Regina’s industrial inventory continued to grow during 2014 as inventory reached approximately 17.3 msf. Vacancy was stable at 2.1% with a modest increase expected in 2015. Almost 300,000 sf is under construction as building continues in the new Ross Industrial Park, the Global Transportation Hub (GTH), TransLink Logistics Centre (located in the GTH), Parker Industrial Park (northeast of Regina), Carson Business Park and Great Plains Industrial Park (near White City).

Serviced land ranges from $160,000 to $450,000 per acre in the capital region, while net lease rates on new space remain around $12 psf to $14 psf.

Investment

The investment market was relatively slow in 2014 due to a shortage of supply as activity focused on the sale of smaller privately-held properties. Activity is expected to be slow, with little to no change in cap rates for all asset classes, in 2015.
Sound fundamentals to be tested by new development

The Greater Toronto Area (GTA) commercial real estate market, though fundamentally sound, will begin to face the impact of new development and backfill vacancy in 2015, especially on the office and industrial fronts. The retail landscape will continue its transformation, marrying bricks and clicks, while investors strategically deploy capital with the likelihood of higher interest rates in the near term.

Office

Uneven demand characterized the GTA office market for most of 2014. The flight to quality in both existing and new buildings is apparent, as is the ongoing space-rationalization trend. New developments continued to attract the interest of corporate users, as Sun Life Financial leased 300,000 sf at 1 York Street and LoyaltyOne inked a deal for 172,000 sf at the Globe & Mail Centre, both to be completed in 2016. The first two of seven new downtown towers (RBC WaterPark Place and Bremner Tower) opened in Downtown South. The banks have been busy and are expected to stay active with several large requirements in play, fuelling another development announcement in 2015.

Countering the perceived downtown migration of tenants, the suburbs reaffirmed their enduring appeal. The headquarters for Sobeys and TJX are nearing completion, while KPMG and Aviva have opted to remain in the suburbs, spurring new construction. Development will lift GTA vacancy above 10% in 2015, while tenants will have numerous affordable options.

Retail

Malls across the region are expanding and renovating to attract and retain tenants and shoppers, motivated in part by competition with e-commerce and the Canadian expansion plans of U.S. retailers, including Nordstrom and Saks. Residential development is increasing downtown retail demand, encouraging retrofits of underutilized spaces and locations beyond the traditional street front, such as Loblaws’ planned 20,000-sf location on the second storey of a condo building. Target, traditionally in suburban locales, in 2014 announced a two-storey, 145,000-sf store to anchor a multi-tower, mixed-use development in downtown Toronto.

Industrial

Demand for modern, higher-clear-height space continues to drive new speculative and design-build construction (5.7 msf underway). Toronto West remains the focus of most developer activity, with some renovating or replacing their existing buildings and utilizing infill sites as the major industrial submarkets – Mississauga and Brampton – offer increasingly limited industrial land.

New multinationals (Costco, 1.1 msf) are entering the Vaughan market north of Toronto, putting upward pressure on rental rates. SCI Logistics and Princess Auto ranked among the few large deals of 2014. New completions in 2015 will likely cause a modest vacancy increase, while a number of larger transactions are expected to be completed.

Investment

The recurring theme of abundant capital chasing a limited supply of quality product will continue in 2015. Through the first three quarters of 2014, office and retail portfolio and single-asset sales greater than $100 million powered investment sales volume to more than $8 billion. Low cap rates for quality assets persist, and while private investors and pension funds have filled some of the void left by REITs, some buyers are undertaking development to augment their growth strategies. REITs, while culling some assets, were net buyers in 2014; however, pending interest-rate hikes may curtail their purchasing power.

Blockbuster acquisitions including Bayview Village Shopping Centre ($505 million) by bclMC, Hudson’s Bay office and retail sale/leaseback ($673 million) by Cadillac Fairview and 150 Bloor Street West ($255 million) by the Spanish billionaire owner of Zara underscored domestic and foreign interest in the GTA.
Varied growth expected in 2015

Inverse trajectories categorized the varied velocities of the Toronto West market in 2014 with the industrial side gaining strength in the wake of a slightly waning office market and an underperforming retail sector. This situation, combined with a highly competitive investment market, has 2015 projected to see stratified gains and losses spread across all four major sectors.

Office

Leasing velocity in the Toronto West office market slowed its pace in 2014 and is expected to continue on this slightly downward trajectory. A major trend driving this change is the current flight to quality in Toronto West. Tenants in today’s market are often opting for newer, LEED-certified product over outdated and, operations-wise, more costly class B and C units that may offer lower net rents, but are simply unable to compete with the streamlined efficiencies that new class A product can provide.

Compound this factor with a rising trend toward creating denser, more economically efficient office spaces and the reasons for Toronto West’s somewhat tepid office leasing market heading into 2015 start to become more clear.

Retail

Retailers in the food, personal services and healthcare industries have come off a strong year. These high-margin services have been able to shield themselves from increasing rents imposed by landlords, unlike their fixed-margin counterparts. As the number of tenants able to meet these rents dwindles, the market is facing stalled growth in rental rates.

Big-box vacancies, ensuing from some Best Buy and Staples store closures, are also adding to the strain on the market. Even if such corporations were to shrink their occupied space within their stores, the remaining newly divided vacant spaces would not be suitable to a number of tenants.

Industrial

The positive activity seen throughout 2014 has brought rental and vacancy rates closer to pre-recession levels. Nevertheless, a few gaps remain, primarily with respect to the 300,000-sf-and-greater component of the market. The limited amount of confirmed big-box lease deals in 2014 – significantly lower than years prior to 2008 – is indicative of slowing tenant velocity. The concern lies with how the market will respond when the expected 3.9 msf of speculative development is completed in 2015.

Investment

The Toronto West investment market is very much a seller’s market. Buyers are plentiful in an area where high-value assets are dwindling and cap rates are shrinking, forcing asking rates skyward and driving away potential private investors. The migration of large, institutional corporate buyers into core markets like downtown Toronto will continue in 2015, leaving some of the suburban, more industrially geared product in the hands of aggressive and active bidders, such as REITs.

Though the investment market is robust at present, the movement of interest rates will be the ultimate determining factor as to whether investors will see a softening or a further spike in pricing in the Toronto West market.
Healthy investment levels to remain part of tight BC market

Healthy demand for BC commercial real estate propelled sales activity to the third-highest first-half deal and dollar volume since at least 1998, despite a lack of trophy asset transactions and a significant decline in industrial investment. Overall deal activity in 2014, however, remained comparable with the record levels of investment achieved in 2012 and 2013 due to a handful of significant deals in the second half of the year.

While demand for all asset types is anticipated to remain strong in 2015, limited supply is expected to increasingly constrain deal flow while premium pricing remains standard, particularly for quality, well-located product. Capitalization rates remain compressed – for quality properties in primary markets – in all asset classes.

Office

In 2014, a unique combination of factors, including government dispositions, propelled office sales activity in BC, particularly during the first half. Dispositions of smaller office assets (less than $15 million) supported deal flow throughout the year with few deals greater than $30 million and a handful of transactions larger than $50 million.

With approximately 1.7 msf of office construction underway (in a downtown market of 21.3 msf) and more than 1 msf scheduled for delivery by the end of 2014, expectations for 2015 remain uncertain. Downtown vacancy is likely to exceed 10% by the end of 2015, a significant increase from the 3.9% vacancy rate recorded in 2012.

Retail

Unconventional non-market retail dispositions were responsible, in large part, for deal activity in 2014. Deal velocity remained healthy overall, while total dollar volume was on par with 2013 but muted compared with 2012. Premium assets in primary markets (and increasingly secondary markets) remained difficult to acquire as demand continued to outstrip supply. This trend is expected to persist in 2015 as supply remains constrained; however, purchasers are increasingly less likely to acquire assets in secondary markets where pricing had echoed assets located in primary markets.

Industrial

A lack of available supply hindered sales activity while new speculative construction continued to expand Metro Vancouver’s industrial market in 2014. Vacancy remained at approximately 3.5% to 4% even as new inventory continued to be delivered throughout the year. Government spending tied to port-related transportation infrastructure and bullish sentiment based on strengthening cargo flows through Port Metro Vancouver pushed speculative construction to levels unseen in recent times. It is anticipated that leasing activity will remain strong through 2015, due in part to the ongoing lack of sale product and limited availability of industrial land.

Investment

Capital flows remained strong in the BC investment market in 2014 with limited availability of product serving as the primary constraint restricting market activity. Private investors, both local and foreign, stepped into the breach in a significant way to maintain deal activity as REITs tentatively returned to the market (as sellers) after beating a hasty retreat in 2013.

Institutions remained largely unable to deploy significant capital due to a lack of investment-grade assets of scale. Private investors and wealth management companies will remain at the heart of the BC investment market in 2015 due in part to significant stockpiles of accumulated capital that can rival some institutional investors when the right asset becomes available.
Downtown Winnipeg continuing to be redefined

Several cranes are piercing Winnipeg's skyline as a wide range of new developments, including highrises and the expansion of the RBC Convention Centre, redefine the city core, a process kick-started by the return of the NHL to the city. Winnipeg is also the proud home of the Canadian Museum for Human Rights, which finally opened in September 2014 – a project that was 11 years and $351 million in the making.

Huntingdon Capital and FAM REIT's portfolio sale to Slate Properties was big news in Winnipeg in 2014. This quiet acquisition (for approximately $210 million) took the brokerage community by surprise. Slate's total assets are more than $2 billion, with 102 properties and nearly 11.5 msf under management.

Winnipeg's residential and non-residential building permits grew 9.5% to $900.6 million during the first six months of 2014 (the last six-month period for which figures are available). This level outpaced the national average of 3.6% and represented the strongest growth among metropolitan areas in Western Canada. Commercial building permit values were up 52.6% compared with 2013.

Office
Vacancy in class A and B space remains in an acceptable range, albeit at its highest point in the past decade. However, class C properties are another story, as a few of Winnipeg's historical buildings have seen vacancy rise. Current vacancy numbers are acceptable for well-heeled and vacancy-tolerant existing owners, but challenging for new buyers.

Class A is holding its own with renewals achieving $20 psf net. New rental agreements are few and far between. Creative deals are increasingly necessary for trophy tenants due to the high cost of building out space. Class B owners are under pressure to upgrade their buildings in order to compete for the few choice tenants available. The provincial government remains occupied with a much-anticipated 60,000-sf to 80,000-sf mandate for Manitoba Liquor and Lotteries' new downtown location. This will likely have a positive effect on the market.

Retail
Winnipeg's retail market comprises approximately 19.5 msf. In the past few years, new power centre construction has added more than 4 msf. All sectors, excluding shopping centres, recorded a sharp rise in vacancy in 2013, a trend that continued in 2014. Vacancy, however, remains below 5%. The opening of a new Target store and the construction of another Walmart coupled with a new neighbourhood centre by Hopewell Developments kept the market busy, especially in Winnipeg's fast-growing south end.

Industrial
Winnipeg weathered the latest global economic downturn quite well with only a 50-bps increase in industrial vacancy. The industrial market has achieved equilibrium instead of being skewed in favour of landlords as it typically has in the past. Winnipeg's industrial vacancy rate has remained well below 4% for the past decade.

Investment
The investment market remains buoyant with several trophy assets being acquired or under contract with plenty of suitors. Cap rates remain similar to previous years with no rise in sight. There is no shortage of investor interest and capital with choice properties getting multiple bids. The rationalization of some non-core assets by institutions will bring more inventory to the market in 2015.
Atlanta's commercial real estate market, at last, experienced significant post-recession improvement in 2014. Year-over-year job growth exceeded 2% through the first three quarters of the year, and Atlanta's diverse economy, low cost of doing business and affordable cost of living attracted institutional and local investors and developers. Georgia has once again been ranked the No. 1 state in the U.S. for business by Site Selection magazine. Confidence in the local economy and expected investor demand should drive commercial real estate activity in 2015.

Office
The office market (which consists of nearly 142 msf) experienced steady gains, attributed to sustained expansion among local businesses and a steady influx of relocating tenants. Net absorption through the first three quarters of 2014 totaled more than 1.8 msf, exceeding the 2013 total by more than 400,000 sf. Tenants occupying large blocks of space included WellStar Health moving into 165,000 sf and 112,000 sf at 3624 Providence Road and 793 Sawyer Road, respectively, and Vonage moving into 78,900 sf at The Towers at Wildwood in the Cumberland/Galleria submarket.

While still elevated, vacancy is trending downward. At the end of third-quarter 2014, the vacancy rate was 17.8%, down from 18.7% at year-end 2013. Rent growth has been modestly positive since 2011. Market rents at the end of third-quarter 2014 averaged $20.31 psf. An even better performance, including marked improvement in rent growth, is expected for 2015. Buckhead, Midtown and the Central Perimeter should remain the market's most active areas.

Retail
Retail vacancy ended the third quarter of 2014 at 8.8%, a 90-bps decrease year-over-year, as absorption totaled 2.7 msf in the first three quarters of the year. Although core markets witnessed some improvement in vacancy rates and absorption, average rental rates remained relatively stable at $12.17 psf.

The selective development of mixed-use projects, such as Avalon in Alpharetta and Ponce City Market in Midtown, should remain a focus of Atlanta-area retail development. This sector should continue to tighten gradually while rental rates increase.

Industrial
Atlanta's industrial vacancy rate improved to 8.8% in third-quarter 2014, down 220 bps from year-end 2013. Availability is constrained in numerous submarkets, driving a wave of new construction, more than 60% of which is speculative. Rental rates climbed to $3.40 psf, up from $3.22 psf year-over-year. As rental rates have increased, so has investor confidence.

The most active submarkets were I-20 West and I-85. Deliveries scheduled for 2015 include IDI Gazeley's 196,000 sf at Hamilton Mill, Oakmont's 604,900 sf, known as Skyline/20 West, and DCT's 700,000 sf. IDI Gazeley has begun construction on an 840,000-sf facility in Hamilton Mill, only to be matched by Ridgeline's new 1.1-msf facility in Braselton and Weeks Robinson's 1.5 msf in Forest Park.

Investment
Investor interest remained strong in 2014, with more than $4 billion in transactions completed through the first three quarters. Atlanta's strengthening job market and improving real estate fundamentals have attracted significant investor capital to the region. Investment volume has increased over the last three years, and that trend is expected to continue with prices moving upward during 2015.
High demand, steady preleasing and strong economy buoy market

High demand for space, steady preleasing activity and a strong local economy brought an eventful year for Austin’s real estate markets in 2014.

Continued high demand for office space brought another year of increasing rental rates, decreasing vacancy and the start of several new development projects across the city. Office developers have kicked off more than 3 msf of projects – a strong, albeit conservative, building boom. The trends of low vacancy rates, record-level rental rates and moderate absorption are expected to continue in 2015 as the market awaits new product.

Office

Austin’s commercial office market was characterized by high demand for space and favorable preleasing trends in 2014. Such factors prompted developers to launch numerous projects around Austin, especially in the CBD, Northwest and Southwest submarkets, most of which are set to deliver over the course of 2015 and 2016. A handful of new product delivered in 2014, including Colorado Tower and IBC Bank Plaza, in Austin’s CBD most notably.

Looking forward, those watching Austin’s office market will keep an eye on rising rental and occupancy rates and their effect on demand through 2015. If the high demand for space seen in 2014 continues, the new developments delivering to the market in 2015 will likely have little influence on occupancy rates, resulting in higher rental rates.

Retail

Nearly 1 msf of new retail space was built in Austin during 2014, with almost another 500,000 sf under construction at the start of 2015. The strongest retail sectors over the course of 2014 were shopping centers and general retail properties, both of which recorded rising occupancy and upward rental-rate trends.

Overall, Austin’s retail market remained steady in 2014 with vacancy rates hovering around 5%. Given the strong occupancy and construction trends, along with rapid growth across the entire metropolitan area, retail market activity appears set to continue favorably in 2015.

Industrial

Austin’s industrial market saw promising activity in 2014. Occupancy rates slowly climbed, closing out 2014 around 91%, with rental rates rising as well. About 500,000 sf of industrial product was delivered to the market in 2014 with approximately 800,000 sf under construction heading into 2015. While this is a relatively high level of construction activity for the industrial market, it is important to note that nearly one-quarter of that product is owner-occupied and will have little effect on occupancy.

In 2015, the industrial market is expected to continue its steady performance with decent preleasing activity and positive absorption.

Investment

The commercial investment market in Austin had a strong 2014. Multi-residential investment activity was most notable during the year, totaling more than $1.5 billion in volume. There was significant investment activity in the office sector as well, specifically in Austin’s CBD where the California State Teachers Retirement System took full ownership of three high-profile downtown buildings in the final quarter of the year. As the economy and job growth continue to trend positively, Austin looks set to remain competitive in the year ahead.
Economic conditions in the Greater Boston commercial real estate market remained robust at the end of 2014 as tenants drove more than 13 msf of positive absorption since the middle of 2011. Traditionally tracking well below national averages, unemployment remains in the low 5% range as the area’s renowned knowledge-worker base is in acutely high demand. Expectations in Greater Boston remain high for 2015 given, in part, an elevated perception of the market in a global context and an optimistic outlook on the part of area business managers. Certain macroeconomic concerns remain balanced locally by the recent history of the region’s increasingly diverse mix of industries, including those comprising the region’s occupancy in the 2007 to 2009 mortgage crisis. Although the crisis had profound effects nationally, it made little impact on the Greater Boston market, outside of construction starts and the investment sector.

Office

The Greater Boston office market experienced continued increased demand throughout 2014. Asking lease rates rose across the majority of asset quality levels, most notably for the best assets in preferred locations. Examples include the Greenway submarket in Boston and Kendall Square in Cambridge, where lease rates approached record levels for the 2% of available space now sought by the world’s most famous and deep-pocketed technology companies. Construction starts were also notable throughout the region, with the 2.7-msf construction pipeline including build-to-suit projects for Goodwin Procter and PwC in the Seaport District, and for Natixis at 888 Boylston Street in the Back Bay.

With robust demand for office space expected to continue throughout 2015, a lack of existing availability and competing lifestyle uses for developable property will likely force users to adjust patterns. Large users will increasingly be forced to devise strategies up to three years before lease expirations and consider build-to-suit options. High demand for top talent will accelerate a trend toward more efficient uses of space to counter increasing per-square-foot occupancy costs and absorption in secondary locations.

Retail

Greater Boston retail properties continued to experience rent growth throughout 2014 in both prestigious center-city locations and an emerging set of live/work/play environments, notably deployed along Route 128 and at Assembly Row in the Ring. The urban infill trend, national but especially notable in Boston, will likely accelerate throughout 2015.

Industrial

Industrial demand remains strong, but entirely predicated on product vintage and quality. The newest and most state-of-the-art product has been nearly entirely absorbed; vacancy is prevalent among older and more obsolete facilities. Logistics services and larger retailers serving the prosperous consumer set in New England have driven absorption in the area’s distribution facilities. With better product nearly full, demand will likely shift to other parts of the quality chain.

Investment

With the exception of the continued divestiture of the sizeable Equity Office portfolio, investment focused on value-added transactions in 2014. Core activity was limited compared with preceding years, and properties traded at levels that required aggressive pricing that appears sustainable given current leasing conditions. In 2015, investment activity is expected to be highly selective. Foreign capital with low cap-rate expectations will potentially play a more visible buy-side role.
A steady influx of new residents, traditional job growth, expansion of tourism and improvement in new and emerging sectors of the local economy bode well for the Charleston region. Continued national and international accolades draw visitors from around the world. A world-class deepwater port that serves manufacturers, distributors, exporters and others is creating opportunity throughout South Carolina. A burgeoning IT sector is now competing with markets around the country. These factors, and many others, create a strong and growing market in which to invest, live, work and play. Charleston is on the world stage.

**Office**

Strong job growth and a dynamic influx of residents are driving demand for office space. With limited supply available, vacancy has been dropping for several years. The market is now responding with new office product, build-to-suit opportunities and some innovative reuse of existing and formerly obsolete buildings; however, the supply of new and repurposed office product has fallen behind demand. The result is higher lease rates and a development surge in highly desired locations. This spike has not gone unnoticed by investors, who are driving down capitalization rates for high-profile properties.

**Retail**

Ranked as the No. 1 U.S. city by Condé Nast magazine, Charleston has seen rapid growth in population and tourism, resulting in high demand for additional retail space. Lease rates are continuing to increase, and longer lease terms are being executed. To respond to the growing demand, developers are attempting to build additional space, much of which is not yet available. This situation has forced retailers to wait for available space or choose less desirable locations temporarily. The majority of the suburban growth is occurring in the Mount Pleasant and Summerville submarkets, along with Downtown Charleston as it reacts to increased tourism and residents.

**Industrial**

The Charleston industrial market tightened dramatically in the third quarter of 2014. Incoming businesses and expanding local companies absorbed most of the existing spaces. Confident companies obtaining low interest rates have moved forward with purchasing owner-occupied sites, pushing sales pricing back to replacement costs – a trend not seen since 2007.

While rents have come back to 2006 levels, they still have not risen high enough to justify construction; however, with existing quality space almost fully occupied, speculative construction should begin on a broad basis in 2015. Key drivers, such as the local auto-aero manufacturing cluster, the port, and the expanding services/construction sectors will likely continue to contribute to growth.

**Investment**

Charleston continues to be on the radar of institutional and private investors. Demand for investment-grade properties, especially in prime locations with strong-credit tenants, heavily outweighs supply, creating a highly advantageous market for sellers. Some properties are receiving multiple offers above the asking price with favorable closing conditions for the seller.

The investment market has seen steady or compressing capitalization rates since the start of 2014. Cap rates for class A office, class A industrial and full-service lodging have slightly declined, while class A retail and class A multi-residential cap rates have stayed steady.

For 2015, as long as the present factors compressing cap rates exist – such as low interest rates, a positive economic outlook and constrained supply – a continued low-cap-rate environment is expected.
Improving fundamentals drive investment market

Positive growth impacted all sectors within Chicago’s commercial real estate markets in 2014. Employment jumped 90 bps year-over-year – up 38,300 jobs as of August 2014. The professional and business services sectors continued to lead in job creation, adding 18,600 jobs in the same period. Venture capital funding within the metropolitan area witnessed a tremendous uptick compared with the previous year, up 197.8% at mid-year 2014 with total funding of $133 million, further solidifying Chicago’s role as a thriving start-up hub. Site Selection magazine named Chicago as the 2013 “Top Metro” for corporate relocations and expansions. Looking forward, the Chicago market is expected to record positive growth throughout 2015.

Office

The Chicago office market continued to strengthen as vacancy dipped 70 bps year-over-year to 13.4%. Healthy absorption within the CBD made class A availability in desirable CBD submarkets increasingly tight, encouraging tenants to look at alternate submarkets – such as the Central Loop, which saw vacancy decrease 200 bps.

Construction continued on the two speculative developments within the West Loop submarket. Leasing interest remained strong on both projects with 34% being preleased. The suburban office market witnessed moderate absorption in 2014, and vacancy remained relatively unchanged. Construction remains focused on build-to-suits, such as Zurich North America’s new 734,000-sf campus. Tech firms were involved in four of the six largest CBD transactions in the third quarter, a trend likely to continue over the next few years.

Retail

Retail demand grew as the improving local economy boosted consumer spending. Big-box retailers are expanding into city markets, primarily in growing neighborhoods with residential development. The Maxwell, a recently completed retail development in the South Loop submarket, attracted Nordstrom Rack, Burlington Coat Factory and Dick’s Sporting Goods. Further retail growth is anticipated throughout 2015.

Industrial

Recovery in the industrial sector continued throughout 2014, pushing values past pre-recession levels. At the end of third-quarter 2014, year-to-date net absorption totaled 8.1 msf of space. Vacancy fell to 8%, down 40 bps year-over-year. Rental rates increased during the same period, up 4% and averaging $4.32 psf.

Construction activity has remained active across the market. There were 14 buildings delivered in the first three quarters of 2014 totaling 4.2 msf, with nearly 15 msf under construction. The largest project currently under construction is the 1.7-msf Michelin Tire build-to-suit within the I-80 East submarket. With the influx of new buildings being delivered during 2015, vacancy is expected to see a minimal uptick in certain submarkets.

Investment

Investor appetite for industrial product grew dramatically during 2014. Transactional volume increased 76% year-over-year with more than $2.3 billion transacted through three quarters. Core cap rates continued to decline below pre-recession levels. Appetite for non-core and value-add product is gaining momentum as investors gain confidence with improving fundamentals.

Core CBD office product continued to trade aggressively as vacancy across the CBD decreased. The Irvine Company purchased 300 North LaSalle for $850 million (or $652 psf) at 29% over the 2010 purchase price. As market fundamentals continue to improve, investor demand will likely increase in both core and value-add product.
With a multi-billion-dollar development boom underway, Cleveland is experiencing a level of momentum unseen in a generation. Every facet of the real estate spectrum is enjoying the benefits of this surge. Sparkling new convention facilities are booked for years to come and will play host to the 2016 Republican National Convention.

Cleveland’s world-class healthcare facilities are renowned throughout the globe. The Cleveland Clinic, a multispecialty academic medical center, is Cleveland’s largest private employer and is considered one of the top hospitals in the United States. The new health-tech corridor now contains three major healthcare organizations (not including the Cleveland Clinic), four higher education establishments, and more than 100 health-related service companies and tech firms.

Cleveland is also experiencing an extensive residential construction cycle, with more than 1.5 msf of office space currently being converted for residential purposes. Downtown residency is higher now than it has been in the past six decades. Multi-residential rents have remained relatively low even though occupancy is high. A diverse and dynamic real estate renaissance is underway in Cleveland.

The local unemployment rate was 6.9% as of December 2014, which is slightly above the state average of 5.7%. Stable political leadership both locally and statewide will provide Cleveland with the continuity necessary to build on the progress that the city has enjoyed.

Office

A notable downtown lease in 2014 was signed by Brown Gibbons Lang & Company, which took on 20,000 sf in One Cleveland Center. The overall Cleveland office market has exceeded expectations and recorded positive net absorption in five of the past six quarters. The office vacancy rate dropped to 16.9% in the third quarter of 2014 from 17.2% at the end of 2013. Much of Cleveland’s construction focus has been on the conversion of office buildings to residential units to meet the demand for urban living. The $300-million nuCLEus mixed-use project is scheduled to deliver more than 500,000 sf of new class A office space in late 2016.

Retail

Cleveland’s retail market also reported positive absorption during 2014. As consumer confidence returns to the market, predictions for 2015 include an increase in retail rental rates as well as decreased vacancy. After retail construction completions were virtually non-existent in 2012 and 2013, the Lighthouse Village in Lorain was finally completed in 2014.

Industrial

Cleveland’s industrial market continues to tighten with little speculative development planned. Positive absorption and increasing rental rates continue to be the norm. The vacancy rate dropped to 6.9% in the third quarter of 2014, with class A vacancy closer to 1.5%. Vacancy rates in 2015 are expected to decline by 20 bps. Major construction news includes TimkenSteel’s $41-million facility, which broke ground in November 2014 near the company’s Grambinus plant.

Investment

A white-hot residential market has seen increased demand for class B and C office product to be converted to multi-residential. Downtown residency is expected to nearly double in the next five years. Investors from outside the region continue to focus on opportunities in the Cleveland office market as well. Market capitalization rates continue to move downward; and with no scheduled new deliveries for at least the next 18 months, that trend should continue through 2015.
As South Carolina’s capital and largest city, Columbia is experiencing positive growth among all property types. Major economic drivers in Columbia include the University of South Carolina, the state government and Fort Jackson, the largest basic training facility for the U.S. Army. A growing student body at the University of South Carolina has created additional demand for housing and retail services downtown. Also, an excellent highway system and proximity to the Port of Charleston make Columbia an attractive area for manufacturing and logistics companies. Overall, positive growth across all product types is expected to continue in 2015.

Office
The 2015 office outlook is for vacancy to decline and lease rates to increase, with rental rates in the CBD approaching record highs. A main driver of this trend is the repurposing of older office buildings in the CBD into apartments and student housing. This repurposing trend, combined with lower unemployment and minimal new office construction, should lead to a tighter downtown market, increased demand in suburban markets and an increased interest in office development. Holder Properties announced in 2014 that it will develop a new 130,000-sf class A office building in the CBD.

Retail
As the economic recovery continues, the primary retail trend in Columbia is the arrival of national brands in the area. After the recent introduction of Whole Foods and Urban Outfitters, announcements were made by Trader Joe’s, J.Crew, Nordstrom Rack and Anthropologie for their first Columbia locations. Also, Academy Sports recently opened its second Columbia location. National retailers are expected to continue their expansion into Columbia through 2015 and beyond as new construction and adaptive reuse developments come online. Combining this trend with local retail expansion, the outlook for 2015 is for stable-to-lower vacancy and higher rental rates.

Industrial
The Columbia industrial market’s future growth will depend on speculative development. With several manufacturing companies expanding and others relocating facilities to the area, industrial space has become much tighter with few large blocks of quality space available for immediate occupancy. Developers and county governments have responded to this need for additional space by putting several industrial projects under development; however, a large portion of this new space has already been preleased. Tight availability and higher rents are expected to continue until new speculative projects come on stream to help balance supply and demand.

Investment
With capitalization rates on a national level continuing to decline, institutional and large private investors have begun to focus on smaller geographic markets that may have projects with higher in-place returns and value-add components through repurposing. This is certainly the trend in the market with institutional investors acquiring multiple investment properties in the area during 2014, especially within the industrial asset class. A heightened interest in the area is expected to continue as institutional investors look for ways to raise portfolio returns.
The Columbus commercial real estate market continues to improve as unemployment rates decline. The Columbus metro area has a total population of 2 million people and is growing 1.3% annually. Top employers include Ohio State University, the State of Ohio, JPMorgan Chase, OhioHealth and Nationwide Mutual Insurance. Downtown Columbus, post-recession, remains vibrant, helped by a strengthening Central Ohio economy, favorable interest rates and a continued increase in the number of CBD residential units.

Unemployment in the Columbus market, which was at 4.4% as of December 2014, remains well below the national and state average. The city’s major downtown private employers, including Nationwide Mutual Insurance, AEP, Columbia Gas, State Auto Insurance, Motorists Insurance Group and Grange Insurance, all continue to grow both downtown and elsewhere in Central Ohio.

For the first time in decades, a major CBD multi-tenant, mixed-use office building, 250 High, is under construction. Developed by Daimler Group and Kaufman Development, the 12-story building will include 120 apartments on the top six floors, five floors comprising 136,000 sf of office space, and retail on the ground floor.

Office

Notable lease transactions during 2014 included NBBJ’s 22,500-sf deal at 250 South High Street and Assurex Global’s lease for 10,500 sf at 175 South Third Street. NiSource, the parent of Columbia Gas, will lease 35,000 sf for back-office operations at 200 Civic Center Drive. CoverMyMeds, a healthcare software company, is moving from 12,000 sf in an older CBD office building to a 65,000-sf sublease in a major downtown class A office building – the largest downtown lease of 2014.

The forecast for 2015 is for an additional drop in vacancy rates, in both suburban and downtown markets, due to positive net absorption.

Retail

The Central Ohio retail market experienced its tenth consecutive quarter of positive absorption in 2014. Distinctive tenants that have been entering the market are restaurant and fast food chains. Key sales include the sale of the Trader Joe’s Center (75,859 sf) for $11.2 million and the disposition of Polaris Commons (50,673 sf), which sold for $6.6 million. On the construction end, Giant Eagle grocer completed its 92,000-sf location in Grandview Yard as well as a 92,622-sf location in Dublin.

Industrial

The Columbus industrial market remained solid with vacancy rates dropping to 5.9% in the third quarter of 2014 compared with 6.8% at the end of 2013. However, these record-low vacancy numbers are expected to rise slightly in 2015 once anticipated construction projects are completed. Major leasing and construction projects in 2014 included Nautilus leasing 253,000 sf for a new distribution center at 5415 Centerpoint Parkway in Obetz and Southgate Corp., commencing construction of a 50,000-sf manufacturing building in Licking County.

Investment

There were 16 office-sale transactions in 2014 totaling 754,800 sf. The Canadian investment management company, I.M.C. Diversified Inc., made headlines by purchasing the One Mill Run class A office building (174,300 sf) for $18 million. Alidade Capital, a real estate private-equity company, purchased the United Health Care Center (136,200 sf) in Westerville for $12 million. American Realty Capital Partners purchased 505 North Cleveland Ave. (72,500 sf) for $10 million.
The Dallas-Fort Worth (DFW) metro is the fourth-largest metropolitan area in the nation and continued to grow and diversify in 2014. There are currently 18 Fortune 500 companies headquartered in DFW, and even more large corporate users are focused on the area for future relocations. All economic sectors (excluding manufacturing) experienced year-over-year employment gains, which resulted in broad-based growth. Unemployment fell to 5% in September 2014. The large amount of growth is spurring construction as people continue to follow jobs to the city. Broad-based growth in the DFW metro area is expected to continue throughout 2015.

Office
The Dallas office market continues to be a top performer in the nation. Absorption through the third quarter of 2014 totaled more than 4 msf, already exceeding full-year 2013 absorption. Driven by corporate relocations and expansions, more than 7.4 msf is currently under construction with 70% preleased. The majority of activity is concentrated in large, mixed-use developments in North Dallas, although Uptown and the CBD remained active in 2014. Toyota is moving its North American headquarters to Plano from California and is developing a $300-million corporate campus at Legacy West. Other significant expansions include State Farm, FedEx and Raytheon. Due to healthy space gains, overall vacancy has fallen to 14.6%. Average asking rates have increased to $21.21 psf. Asking rates are expected to continue increasing until new construction becomes available in 2015.

Retail
Retail growth has begun to echo the region’s population, and significant employment gains have boosted consumer spending. Fueling this fire is Nebraska Furniture Mart’s Grandscape development in The Colony. Development in 2014 was concentrated in The Colony, Far North Dallas and Plano, where the majority of corporate expansion is occurring. This trend is expected to continue in 2015 as retailers address growing demand and an expanding population to the north.

Industrial
The Dallas industrial market posted a solid year of gains in 2014. Development ramped up in 2014 with more than 9.1 msf currently under construction. The vacancy rate is at 6%, pushing rental rates to historic highs. The market experienced approximately 11 msf of absorption in 2014. Development has largely shifted toward speculative construction as available space has become increasingly limited. Due to its central location and superior logistical routes, the DFW market is driven by warehouse and distribution properties. Online retail growth will further boost warehouse and distribution properties in DFW in the coming years. Some of the larger deals in 2014 were Procter & Gamble, Williams-Sonoma, Victory Packaging, AdvoCare and Cornerstone Systems. New construction deliveries have slightly alleviated the tight market. Vacancy is projected to increase moderately in 2015 as more new space is delivered to the market.

Investment
Investors remained active in the Dallas market in 2014. Dallas, considered to be one of the nation’s most dynamic markets, has captured the interest of foreign investors looking to place capital in a growing market. All asset classes are trading at healthy levels, although core assets in prime locations continue to be favored by investors. ULI and PwC, in their Emerging Trends in Real Estate report, ranked DFW among the top five markets in the U.S. to watch in 2015. Investment activity is expected to remain strong in 2015.
Denver boasts one of the most competitive housing markets in the United States. This fact was clearly reflected in the success of the commercial real estate market during 2014. The competition to acquire commercial properties was aggressive during 2014 and will remain so in 2015.

Unemployment figures are also a good indicator for the market as a whole, and with a 4% unemployment rate in Denver as of September 2014, it is clear that the commercial real estate sector is thriving. Economic gains will continue through 2015 as people continue to move to the area for the prime business environment and job prospects.

Office

In recent years, the office market has been very successful – and 2014 was no exception. The vacancy rate dipped to 10.4% in the third quarter of 2014 from 11.2% at year-end 2013. Additionally, absorption increased 20% during the first three quarters of 2014 when compared with the same period in 2013.

In 2015, the Denver market will likely see more tenants moving out to suburban properties, such as the Denver Tech Center, as escalating rental rates for premium space in Downtown will be too expensive for many tenants. The market will favor landlords and tenants will see fewer concessions.

Retail

The retail market is slightly behind the curve in terms of recovery, but is definitely on the upswing with increasing rental rates and declining vacancy. Rental rates rose slightly in 2014 to $15.13 psf from $14.97 psf in 2013. Vacancy improved to 5.5% from 6.1% in 2013. There was not a lot of construction activity, with approximately 260,000 sf under construction at the conclusion of 2014. Development activity is expected to intensify as space availability declines in 2015.

Industrial

Metro Denver’s industrial market was very active in 2014 with the retail marijuana industry fueling much of the growth. Vacancy rates continued to decline throughout 2014, ending the year at a 14-year low of 4.6%. Additionally, average asking rental rates increased 6.2% to $7.23 psf at the end of 2014 from 2013. As the industrial market continues to tighten through 2015, it is expected that Denver will experience more speculative development in the industrial sector – a trend not witnessed in many years.

Investment

Denver continues to see an upsurge in investor interest in the market. As of the third quarter of 2014, the industrial investment volume was already outperforming 2013 with approximately $846 million in sales, while 2013’s full-year total was $544 million. Office sales were behind the pace set in 2013, with $1.6 billion in trades as of the third quarter, while 2013 ended with a significant investment of $2.5 billion in office properties. Despite the decline in total office investment, some major properties changed hands during the course of 2014, including Republic Plaza ($480 million), Park Central ($213 million) and the portfolio sale of Denver West Office Park ($120 million).

The multi-residential sector was again the strongest investment asset class during 2014 with the $2.4 billion invested at the conclusion of the third quarter exceeding the $2.2 billion annual total from 2013. This trend is expected to continue through 2015 as the demand for multi-residential space surges as people continue relocating to Denver.
Detroit reset gets a jump-start

With the city’s much publicized bankruptcy plan approved and in the rearview mirror, Detroit is driving the state economy and not letting off the throttle – a situation which will raise the tide for the entire southeast Michigan region. Detroit’s most recognized street, Woodward Avenue, is making headlines again with the construction of the M-1 Railway and a new arena for the NHL’s Detroit Red Wings. Meridian Health announced it will replace its planned 300,000-sf new development with the acquisition of the 1.1-msf Compuware building in partnership with Quicken Loans for an estimated $140 million. Fifth Third Bank is moving its regional headquarters from Southfield, MI to the One Woodward building.

With the resurgence of Detroit’s office market, broad-based recovery of the automotive sector and the growth of the medical and IT sectors, demand for urban living is at an all-time high, and multinational investors are directing their attention towards Detroit’s downtown.

Michigan’s unemployment rate fell to 7.2% in December 2014 from its peak of 14.1% during the recession in 2009. The recent re-election of Republican Governor Rick Snyder will provide continuity on a statewide economic recovery that has seen multi-billion-dollar deficits turn into budget surpluses. Right-to-work legislation is starting to have an impact on business attraction and employment growth.

Office

Detroit office vacancy continues to trend downward, dipping to 19.1% in late 2014 from 19.5% at year-end 2013. Expectations for 2015 are for vacancy rates to continue decreasing at this slow pace through continued absorption. Three major construction projects are expected to complete in 2015, but all are fully preleased. Regional developer Redico’s recent announcement that it will acquire the dormant Bloomfield Park development out of foreclosure gives some momentum to the suburban office market.

Retail

With vacancy still below 10% in a market of more than 236 msf, rents rose slightly in 2014 due to the continued growth of consumer confidence and consumer spending. Innovation and sustainability seem to be leading the way. Fresh Thyme Farmers Market is planning to open stores in Troy, Rochester Hills, Northville and Farmington Hills. Whole Foods has been experiencing enormous success at its current location in midtown, a submarket of downtown, and is currently seeking a second location.

Industrial

Detroit’s industrial market is continuing to show improvement. Vacancy rates decreased to 8.4% in the third quarter of 2014 from 9.5% at year-end 2013. Continued progress in the automotive sector has fueled this upward leasing trend. In late 2014, more than 1.2 msf of new industrial inventory was under construction. Rental rates rose in 2014 due to the infusion of higher-quality inventory.

Investment

The former Wayne County Building (250,000 sf), built in 1897 and located in Downtown Detroit, sold to a New York investment group for $13.4 million (100% vacant). GM acquired the former Lowe Campbell Ewald building in Warren (150,000 sf) for $2 million. I-Star’s recent offer to sell its remaining interest in the One Detroit Center (957,000 sf) to its part-owner, Detroit Pension Fund (which currently has a 10% interest) for $100 million, is probably the best indicator of market value.
Although Fairfield County’s unemployment rate lags the national average, the county’s rate continues to improve—a sign that the local economy is strengthening as the private sector adds new jobs. Fairfield County’s office leasing activity is expected to continue to post modest gains in 2015.

Office

While office leasing velocity is slow, proximity to Manhattan, a 24/7 urban lifestyle and strong demand for multi-residential units are factors that should continue to attract a young and qualified workforce to the region and propel the office market forward. Overall vacancy edged down in the third quarter of 2014 to 21.2% from 21.8% at year-end 2013, and asking rents remained steady throughout 2014.

The county benefitted from a myriad of lease transactions fueled primarily by the technology, healthcare and financial sectors. Recent top lease transactions included Catterton leasing 51,000 sf in Greenwich, Stamford Hospital leasing 46,400 sf in Stamford, GE Capital leasing 42,700 sf in Norwalk and Unilever leasing 30,000 sf in Shelton.

Retail

Retail development in Fairfield County could have a milestone year in 2015 with the Norwalk and Bridgeport submarkets leading the charge. In Norwalk, Lowe’s Home Improvement signed a long-term ground lease for a 150,000-sf retail superstore, which is under construction and slated for completion in spring 2015. Waypointe, a mixed-use retail and residential enclave currently under construction, has already leased 41% of its 60,000 sf of retail space.

General Growth Partners is in the approvals process to build the largest retail development project that Fairfield County has experienced in the past several decades. The project will include more than 750,000 sf of mixed-use retail, restaurants and a high-end anchor, a 150-room hotel, educational and cultural space, and 180,000 sf of public open space. In Bridgeport, Bass Pro Shops, which signed a 150,000-sf lease, will be joined by Starbucks and Chipotle to launch the much anticipated 55-acre Steel Point development site.

Investment

The first half of 2014 witnessed strong sales activity, with five transactions totaling $146.6 million and a high average price of $320 psf. Heading into the fourth quarter of 2014, however, there was only one transaction, for $16.4 million. The year’s largest deal occurred in June when the 372,000-sf Nyala Farms Corporate Center in Westport sold for $130 million ($349 psf). Several new-construction apartment projects also traded hands in Stamford for record numbers, with a high mean of approximately $408,000 per unit. It is anticipated that multi-residential sales will continue to be strong well into 2015.
The 10-county Upstate region of South Carolina boasts one of the fastest-growing economies in the U.S. Southeast and has a population of 1.3 million. The cost of living is approximately 10% lower than the national average, and cultural and recreational opportunities cater to a diverse range of tastes. Thanks to its top-ranked business climate, a world-class research environment and a superb quality of life, diverse companies have found a home in the Upstate area.

In the last decade, the economic drivers have expanded from automotive and engineering companies to a more robust diversification with growth in life sciences, research, plastics, photonics, tourism and the service industry. This diversification is spurring development in all four commercial real estate asset classes.

**Office**

In 2014, the Greenville-Spartanburg area office market showed remarkable resilience. Vacancy rates trended downward by the end of 2014 toward late-2013 levels despite a mid-year 100-bps climb in vacancy resulting from deliveries of new supply.

With job growth prospects looking healthy and the South Carolina economy expected to continue to expand, office vacancies are poised to fall further in 2015, despite additional new class A supply.

**Retail**

Outpacing the national average, Greenville's population growth, combined with a strong economy and falling unemployment, contributed to a strong 2014 for the Greenville-Spartanburg retail market. Vacancy rates continued to decline, falling to 7% at the end of the third quarter of 2014 from 7.4% in 2013. Fueled by its renowned downtown, local charm and nascent tourism industry, Greenville is primed to absorb several mixed-use and multi-residential developments slated for delivery in 2015.

Likewise, infill development along Woodruff Road will continue to drive new development and redevelopment in the corridor. Positive absorption is also expected in the Anderson, Powdersville and Simpsonville submarkets, as well as along the Haywood, Laurens and Pelham Road corridors.

**Industrial**

Greenville's industrial sector shows evidence of strong future growth. The opening of the South Carolina Inland Port generated new demand for high-quality distribution and manufacturing space in 2014, contributing to speculative development announcements. With 700,000 sf of class A supply slated for delivery in the second quarter of 2015, prelease rates are above 80%.

Overall, limited class A inventory will likely drive average rental rates higher, but availability of class B industrial space will keep Greenville’s lease rates averaging $3.25 psf. Expansion of BMW, Michelin and aerospace firms surrounding Boeing will continue to drive export volumes in 2015. Vacancy rates are expected to remain relatively flat at 8%, but distribution and export growth are major contributors to market strength.

**Investment**

The strong appetite for stable, credit-tenant leased investments has substantially compressed cap rates in core U.S. markets. Institutional investors’ willingness to venture into tertiary markets with strong fundamentals and higher risk-adjusted cap rates will bode well for increased investment sales for the Greenville market in 2015.
Market remains strong despite slip in oil prices

Analysts in Houston, which is dominated by the energy industry, kept a close watch on oil prices in the last six months of 2014. After peaking at $107 per barrel (bbl) in June, prices fell below $60 per bbl late in the year. Although prices aren’t expected to rebound to the $100 range anytime soon, a repeat of the 1980s oil crash is not on the horizon either.

The post-recession energy boom elevated Houston to the forefront of an international audience. Population and employment rapidly expanded. Development during this time was significantly preleased, and the city remained well capitalized. ULI and PwC named Houston as the country’s No. 1 market to watch in 2015 in their Emerging Trends in Real Estate report. If low oil prices persist, the Houston commercial real estate market will see the effects in 2015, particularly from merger and acquisition activity. However, fundamentals in the city are strong, and commercial real estate industry experts remain bullish on Houston’s long-term health.

Office

The energy boom continued to make its mark on the Houston office market in 2014. Large-scale projects that have been in the works for years came to fruition, resulting in impressive numbers. As of the third quarter of 2014, more than 6.9 msf had been absorbed, 7.3 msf of new product had been delivered, and an additional 14.2 msf was under construction. Even though the building boom delivered a large amount of space in 2014, pent-up demand and significant preleasing have resulted in a relatively steady vacancy rate of 10.3%.

Asking rates continue to grow at an accelerated pace, increasing by 7.4% in the 12 months ending in September 2014 to $26.65 psf. Large-scale deals began to taper off, a trend that will likely continue for the next few years. The delivery and absorption of space currently under construction will lead to another strong year in 2015.

Retail

Houston’s population boom and strong job growth are fueling the retail market. The Grand Parkway Loop will be completed in 2015, resulting in additional retail opportunities. Retail vacancy is expected to decrease in 2015 as tenants capitalize on increased consumer confidence and spending.

Industrial

As one of the strongest industrial markets in the country, Houston is characterized by significant absorption, low vacancy and healthy rental-rate growth. The third quarter of 2014 represented the 15th consecutive quarter of positive net absorption, 13 quarters of which recorded more than 1 msf. Strong demand has pushed vacancy to a low 4.5%, and asking rates have appreciated to $5.75 psf. New deliveries in 2015 will help alleviate the tight market, particularly in North and Northwest Houston.

Investment

Houston’s economy has caught the attention of foreign and domestic investors. The region is one of the largest secondary markets and, according to Forbes, is poised to become the next gateway city by 2023. In the largest transaction in 2014, AEW Capital purchased a 90% stake in Heritage Plaza from Brookfield Properties for $425.7 million. Well-located, quality product is expected to continue to trade hands in record numbers in 2015.
Market poised for significant growth in 2015

The dynamic of Las Vegas underwent a significant shift in 2014. Thousands of locals and visitors alike flocked to the new large-scale projects delivered in 2014: the LINQ shopping district, the High Roller – the world’s tallest observation wheel located on the Strip – the 1.6-msf mixed-use Downtown Summerlin development and the SLS Las Vegas Hotel/Casino. These additions to the landscape will greatly improve the number of visitors coming to Las Vegas in the year ahead.

Office

Office leasing activity was relatively flat in 2014. While vacancy across the submarkets fluctuated, overall vacancy remained the same. Tenants continued to take advantage of the vulnerable market by finding higher-quality space at lower rates located in more favorable locations. Leasing in lower-quality space has remained slow due to the availability of higher-quality space at reasonable prices. These trends are expected to continue in 2015 until class A lease rates rise enough to direct activity towards class B and C space.

Retail

The local retail market continues to build steam going into 2015. The 1.6-msf, mixed-use Downtown Summerlin development, which opened in November 2014, has become a positive indicator for the valley. The second phase, which will offer highrise condos and office space, will continue to strengthen the project.

Another retail center located in the west submarket, Village Square, has reached critical success in recent years. Westport Capital invested more than $6.5 million in improvements, and occupancy grew to 90% from 45% in just a few years. Sahara Center, which opened in late 2014 and is also located in the west, is a 220,000-sf center that features several big-box stores. This recent significant growth bodes well for the Las Vegas retail market in 2015.

Industrial

Much like the office market, industrial vacancy across the valley continued to decline at a slow pace in 2014. It is very likely that vacancy will dip below 9% in 2015. With a lack of available contiguous space greater than 100,000 sf, and with many large retail and entertainment projects completed in 2014, demand for large warehouse/distribution space is expected to be significant. There are several developers with projects slated to break ground in early 2015. Two such projects are Dermody Partners’ 420,000-sf speculative development in North Las Vegas, as well as Panattoni Development Company’s two 230,000-sf speculative developments in the southwest.

Investment

Multi-residential investments continue to gain momentum from both local and national investors seeking higher yields. Even during the Great Recession, Las Vegas gained at least 4,000 new residents per month. Following drastic improvement in the local economy in 2013 and 2014, this population trend is expected to increase in the years ahead. Multi-residential occupancy is on the rise; and while not robust, development activity has improved. Many existing apartment buildings are primed for renovation and resale, while rents are still well below pre-recession levels. Interest rates are projected to increase moderately in 2015.
Demand gains momentum in all asset classes

Historically low interest rates continue to fuel an improving economy and real estate market recovery on Long Island. As Manhattan and the boroughs continue to experience incredible demand on both the residential and commercial sides, Long Island continues to be viewed as a viable alternative. Demand is gaining momentum in all asset classes with industrial and retail leading the pack. Active industries continue to be pharmaceuticals, warehousing and distribution, healthcare, leisure and hospitality, financial services, professional and business services, construction, and transportation and utilities. There continues to be limited new construction deliveries and a diminishing supply of existing inventory in certain sectors. This situation is contributing to a continued positive outlook for 2015.

Office

The Long Island office market, which comprises more than 40 msf of class A and B space, is still lagging other active sectors, but continues to improve. The office market ended the third quarter of 2014 with a vacancy rate of 16.7%, slightly lower than the second quarter; however, third-quarter vacancy reflected a slight increase year-over-year. In spite of this uptick, the growing success of the healthcare, financial and energy sectors has resulted in healthy activity in all submarkets. Asking and effective rents are continuing their upward trends; and with continued activity forthcoming, positive absorption and lower vacancy rates should prevail in 2015.

Retail

The Long Island retail market is continuing its robust expansion with big-box users and arrivals of national and local retailers on the rise. Florida-based retailer Stein Mart is opening its first Long Island store and plans additional expansion in suburban New York. Both small neighborhood centers and regional shopping centers continue to lease up. This positive growth trend is expected to continue in 2015 with tested retailers continuing to expand and new players entering the market.

Industrial

Long Island has a unique industrial real estate market comprising more than 131 msf of warehousing and distribution with some regional manufacturing remaining. The industrial market was the first sector to show signs of improvement with the most significant growth coming in 2013 and 2014, bringing the vacancy rate down to a healthy 9.9% for Long Island overall. The vacancy for the Nassau and Suffolk submarkets, if broken out, would be 9.7%. There is a severe lack of high-bay, large-footprint product on the market, and both leasing rates and selling prices continue to rise. Activity is expected to continue pushing further east in 2015 as availabilities to the west dissipate.

Investment

Investment activity was slow-paced throughout the Long Island marketplace in 2014 due exclusively to a lack of available product. There is a huge appetite for large multi-residential properties, although the opportunities are few and far between. Any properties which come on the market are selling at strong pricing levels with cap rates at historical lows for good product. Activity has expanded to the fringe areas, and a number of secondary office buildings were sold. Quality retail and office product will likely continue to attract buyers in 2015 as occupancy numbers continue to strengthen.
Industrial to lead in 2015 as office and retail follow

Widespread economic improvement in the Los Angeles market led to an increase in leasing and investment sales activity in 2014. Creative office users led demand for office space in markets such as West Los Angeles. Infill retail space garnered strong interest as retailers demonstrated more confidence regarding consumer spending. Strong retail e-commerce sales translated to an increased demand for industrial space.

In 2015, a further decrease in the unemployment rate is expected, and demand for commercial real estate product should remain high. Meanwhile, cap rates for well-leased buildings should continue to compress, providing an opportunity for investors to seek development or value-add opportunities.

Office

The Los Angeles office market showed positive momentum in 2014 and is expected to experience further vacancy decreases. West Los Angeles led all submarkets in 2014 in terms of performance. This trend is expected to continue well into 2015. The Downtown Los Angeles office submarket has lagged; however, a positive perception of this area is taking shape.

In the overall Los Angeles market, construction activity has accelerated with several projects scheduled to be delivered in 2015. Strong leasing activity in markets such as West Los Angeles, South Bay and Hollywood is expected to accommodate the construction deliveries in 2015. By year-end 2015, the vacancy rate for the entire Los Angeles market should remain below 18% as a broad-based economic recovery accelerates in markets outside of West Los Angeles.

Retail

In 2014, the retail vacancy hovered in the 8% range, an improvement over that of 2013. The increase in the number of mixed-use developments in the Los Angeles market has presented an opportunity for retailers to locate in dense and walkable environments.

There is a total of 1.8 msf of retail space scheduled to deliver in 2015. Projects of note include The Village at Westfield in Woodland Hills and Runway Playa Vista in Playa Vista. The downsizing of big-box department stores is expected to continue in 2015; however, demand for smaller-format stores in urban areas is expected to gain momentum.

Industrial

In 2014, the importance of e-commerce to the industrial market was evident in the large amount of leasing activity that was dedicated to e-commerce distribution centers. The Los Angeles and Long Beach port labor dispute could have short-term implications on tenant demand and investor interest for industrial space. In spite of this, the long-term forecast for the Los Angeles industrial market is positive, as tenant demand is expected to outpace the delivery of buildings and investors anticipate a favorable 2015.

Investment

The average cap rate across all asset classes in 2014 was 6.1% as a lack of product on the market pushed pricing up. Foreign capital flows played a major role in investment sales activity in 2014. In fact, the majority of capital originated from Asia, a trend that is expected to continue throughout 2015.
Sustainable fundamentals spark optimistic outlook

New Jersey’s strategic location, high median household income, educated workforce and quality of life are some of the sustainable fundamentals contributing to a stable and healthy commercial real estate market. With additional tax incentives, relatively low unemployment rates and an influx of residents seeking respite from the high costs associated with New York City, the outlook for New Jersey’s real estate market is optimistic for 2015.

Office

Overall office vacancy dipped to 21.4% in the third quarter of 2014 from 21.9% at year-end 2013. The downward trend is a direct result of owners and investors throughout the state repositioning assets by repurposing antiquated suburban office buildings for alternative uses (medical, educational, etc.) or upgrading existing office buildings with capital investments for base building and/or common-area improvements.

Office space occupancy is expected to increase by approximately 500,000 sf during 2015, in line with the 10-year average for absorption. Fueling this absorption are companies continuing to capitalize on tax and corporate incentives offered by the state government and rising costs in New York City. New construction consists solely of build-to-suit, preleased buildings for companies looking to relocate from older assets, seeking tax incentives or consolidating multiple locations.

Retail

Given the state’s lower unemployment and proximity to New York City, the retail sector continues to expand. Continued growth and strong activity in 2014 have brought investment sales volume for retail properties nearly back to pre-recession levels. Redevelopment of downtown areas and big-box-anchored strip malls continues to be a common trend throughout the state.

Industrial

The industrial market enjoyed another strong year in 2014 with approximately 6.4 msf of net absorption, which continued to help stabilize the market. This significant absorption was up from a four-year annual average of 2.8 msf in 2013. The vacancy rate was 11.9% as of the third quarter of 2014, down from 12.1% at the end of 2013.

The New Jersey Turnpike/I-95 corridor, in which nearly all of New Jersey’s new industrial construction is located, maintains its importance as a distribution hub for the megalopolis of the Northeast U.S. However, with 2.5 msf under construction, certain submarkets may soon be oversupplied. Notwithstanding the current robust construction cycle, industrial buildings and industrial portfolio sales remain the most sought-after component of the state’s real estate market.

Investment

Office building sales increased tremendously in 2014 with $1.3 billion in transactions in the first half alone. Sellers and buyers continued to take advantage of favorable financing and historically low cap rates. With low pricing providing opportunities for new owners, office buildings are being leased up and resold, contributing to investment activity in the sector.

Industrial investments continue to be a primary focus for institutional investors, which often results in bidding wars (especially for newer assets that will retain their value). Owners are often approached off market, as demand from investors and owner/users is high.

Retail and office sales were the only two sectors to record an increase in investment dollar volume in 2014, with cap rates for both increasing slightly. With the fall in fuel prices, consumer spending is expected to increase in 2015 and, in turn, stimulate the retail real estate sector.
New York City’s economic surge continues to swell. The U.S. Department of Labor reports that private-sector employment in New York City grew by 105,400 jobs, or 3.1%, to 3,515,200 for the 12-month rolling period ending August 2014. The city’s unemployment rate fell to 7.3% in August 2014, down 50 bps from July and 150 bps year-over-year.

Office

In Midtown, the class A vacancy rate improved to 10.8% in the third quarter of 2014, a 100-bps decrease year-over-year. Moderate leasing activity throughout the summer months helped to decrease the vacancy rate. The Midtown average class A asking rent was $80.13 psf in late 2014, its highest recorded level since year-end 2008, when asking rents topped $85.55 psf. Plaza continues to be the priciest submarket within Midtown – and the entire New York market – at $133.58 psf.

The Midtown South market experienced the proverbial hot summer, with overall vacancy tightening to 7.4% as of fall 2014, from 9.8% a year earlier. Led by the tech, advertising, media and information (TAMI) sector, the largest lease was by online review site Yelp for 152,200 sf at 11 Madison Avenue. At 225 Varick Street, website builder Squarespace also signed a lease for 100,000 sf. Midtown South class A asking rents closed the third quarter of 2014 at $78.07 psf, a 10% increase from one year earlier.

The pendulum continued to swing in Downtown’s favor as the market continued to emerge as the hottest in Manhattan. The overall Downtown vacancy rate dipped 390 bps during 2014 to 10.9%. The class A vacancy rate, at 11.7% as of the third quarter of 2014, was the lowest since the start of 2013. The value-play attraction of Downtown class A space stood at $53.50 psf, with the World Trade Center submarket asking $67 psf.

Through the first three quarters of 2014, a total of 41 leases of 100,000 sf or more were completed, compared with only 30 a year earlier. Eleven of these deals involved properties larger than 200,000 sf.

Retail

The Manhattan retail market’s progress is illustrated by the number of large commitments made by several department stores. Luxury brand Neiman Marcus agreed to open a 250,000-sf store at the future Shops at the Hudson Yards on Manhattan's West Side. Also, Saks Fifth Avenue announced it will open another 85,000-sf store at Brookfield Place, while a 55,000-sf Saks Off 5th outlet will open Downtown at One Liberty Plaza. Asking rental rents continue to rise with Fifth Avenue representing the highest in the market.

Investment

Throughout 2014, results on a submarket basis provided insight into the shifting tides in the Manhattan market. Across all asset classes, Midtown West remains the sales volume leader over the past five years – a trend that has been consistent through the real estate market recovery. With a 28.6% share of sales volume as of third-quarter 2014, Midtown West’s share fell below 30% for the first time since 2008. Conversely, the steadily upward-trending Downtown submarket finished at a 27.1% share, up from a 5% share only a handful of years ago.
Migration to East Bay expands job growth

The East Bay/Oakland market experienced considerable job growth during the first nine months of 2014. According to State of California statistics, Alameda County gained 14,000 jobs, ending the third quarter of 2014 with an unemployment rate of 5.7%. By comparison, the rate was 11.7% in August 2010. A big reason for the drop is the migration of companies either relocating or expanding to the East Bay from San Francisco and Silicon Valley due to considerably lower rents.

Office

The East Bay/Oakland office market is well-positioned geographically to take advantage of record-high rents in its neighboring markets. A lot of the recent growth in this market has come from San Francisco tenants looking for less expensive ways of doing business. As of the third quarter of 2014, the average East Bay/Oakland asking rent was $2.08 psf full service – 57% lower than that of San Francisco.

Oakland’s CBD has witnessed the most activity in this market since the beginning of 2013 from tenants wanting to relocate from San Francisco. More than 100,000 sf of tenants from San Francisco have migrated to the Oakland CBD, and a handful of expanding tech tenants from San Francisco have shown interest in calling Oakland home in the near future. They would be joining tech companies Pandora Media Inc., Ask.com and Visual Supply Company, among others.

Retail

Retail vacancy stood at 4.8% in the East Bay/Oakland market in the third quarter of 2014. Vacancy has decreased steadily since 2010, when it stood at 7.3%, while average asking rates have increased steadily during the past 24 months. New development projects are fetching anywhere between $45 and $60 psf. With more than 250,000 sf of new retail development underway and another 150,000 sf expected to break ground in 2015, rental rates are expected to continue to increase.

Industrial

The industrial market has recorded more than 4 msf of occupancy growth since the beginning of 2010. Overton Moore’s The Crossings at I-880, a 700,000-sf speculative development in Fremont that broke ground in 2014, preleased 85% of the project to Apple Inc., Living Spaces and Pivot Interiors. By the end of 2015, more than 1.6 msf of new industrial product will be delivered to the market. Of that, 65% is already preleased.

Investment

Investment activity remained high in 2014 for industrial product as investors sought to deploy large amounts of capital in the East Bay/Oakland market. Due to the area’s lack of available inventory and limited vacant land for development opportunities, cap rates continued to compress.

The most significant investment transaction in 2014 was Met Life Realty Group’s acquisition of the 575,000-sf distribution center at Cherry Logistics Center in Newark, which is leased to Amazon.com. This transaction marked the lowest cap rate (4.3%) achieved in the Northern California marketplace in more than a decade. Moving into 2015, industrial investors will find it challenging to place large sums of capital into a market with limited available options.
Steady growth continues amid consistent demand

Orange County’s robust economic recovery is supported by ongoing demand for commercial real estate across all sectors. This thriving hub for financial services, information technology, logistics and healthcare has continued to attract a talented workforce. The region’s ideal geography and bustling tourism trade contribute to a high quality of life.

Orange County boasts one of the lowest unemployment rates in the state, at 5.1% as of September 2014. The draw of employment is translating to increased population and rapidly increasing demand for space. Vacancy is falling steadily as rents continue to climb, triggering much-anticipated development. Developers have been cautious since the recession; however, construction activity is expected to accelerate during 2015.

Office

Economic growth and improving employment rates, combined with strong vacancy and subsequently elevating rents, are fueling leasing activity. Increasingly specific office space requirements will ensure healthy movement into 2015. Construction is seeing an increase in demand for flexible and mixed-use designs that cater to the needs of the evolving modern office worker. Increased demand for medical office space is another dynamic component of the county’s leasing activity.

Vacancy rates have been trending down year-over-year since 2010, settling at 11.2% in late 2014. This trajectory is expected to continue through 2015 as rents keep rising. Total net positive absorption for 2014 reached 650,000 sf in late 2014, and 2015 should see little variance from this level. Timing is ideal for higher-end renovations in advance of expected increases in new-construction activity.

Retail

The diverse demands of a growing population are keeping retail investments attractive. Consumer demand is shifting from goods to services, and this trend is creating vendor movement without hindering demand for space. Vacancy has been declining since mid-2010, dipping below 5% at year-end 2014. A further decline in vacancy is anticipated in 2015, but will likely not reach pre-recession levels of 3%.

Orange County is the sixth-most populous county in the U.S. and the largest of the 100 wealthiest counties. Retailers are highly motivated to maintain a presence here and are driving the positive absorption and escalating rents that are still emerging post-recession.

Industrial

Orange County remains one of the tightest industrial markets in the U.S., placing local quality space at even more of a premium. Consistent demand for limited product is propelling rents upward while vacancy tightens. Construction, aerospace and distribution firms continue to drive demand, especially for buildings exceeding 100,000 sf.

These drivers are, in turn, heightening demand for new distribution warehouses. In the meantime, many older industrial buildings are being converted to residential, creative office and self-storage uses to meet demand. Development picked up in 2014, and increased construction activity is anticipated for 2015. However, demand continues to outweigh development potential, and the valuation of existing inventory is set to continue to rise.

Investment

Orange County’s economic strengths are translating to heightened property values. Investors are rallying around every product type with exceptional attention being paid to abundant high-value assets in the region. The U.S. Federal Reserve is expected to raise interest rates minimally by the second half of 2015, but cap rates are expected to remain compressed. Trading volume is expected to gain traction during 2015 due to commercial real estate’s continuing appeal.
Philadelphia, the East Coast’s second-largest city, has historically outperformed others in recessions and underperformed in periods of growth. As the economic recovery continues to strengthen, the region expects continued slow growth in employment. Unemployment declined to 7.1% as of September 2014, down from 9.9% one year prior. Current development does not match the rapid pace of growth between 1997 and 2008; nevertheless, steady expansion and optimism characterize the market’s ongoing recovery.

Office

Philadelphia’s office market consists of almost 220 msf. Class A office space comprises 59.3% of the region’s inventory. CBD and non-CBD markets posted vacancy rates of 9.4% and 9.5%, respectively, as of the third quarter of 2014. The Main Line, West Chester, Outer Chester County and Lancaster County all reported vacancies in the 5% to 7.5% range.

The redevelopment of existing product in Philadelphia’s established suburbs and CBD is expected in 2015. Philadelphia’s vacancy rates, typically well below the U.S. average, are expected to finish 2015 around 11.2%.

Nearly 340 acres in Philadelphia are designated for the development of innovation centers separately belonging to the University of Pennsylvania, Drexel University and the Philadelphia Industrial Development Corporation. These campuses will function as powerful research centers and business incubators. In October 2014, Comcast broke ground on the Innovation and Technology Center, a 1.3-msf tower, while Brandywine Realty Trust commenced construction in May on the FMC Tower, an 861,000-sf multi-purpose building.

Industrial

Philadelphia’s industrial market continues to surge as Eastern Pennsylvania emerges as a major industrial hub within the Northeast. The market, comprising 512 msf, reported a vacancy rate of 7.1% in late 2014, similar to the national average.

The Philadelphia metropolitan area currently has 20 industrial buildings under construction (comprising 10 msf), which marks the highest level of speculative development since 2006. With downward-trending vacancy rates across the board, Philadelphia’s new construction, leasing and sales are expected to continue their upswings in 2015.

Investment

Single-property office investment sales grew along with the average price per square foot. Office sales comprised the largest transactions of 2014, with the three biggest purchases averaging $147 million. The mean cap rate for office investments is 9.5%, remaining higher than the U.S. average. It is anticipated that cap rates in the Philadelphia region will fluctuate between 8% and 9% through 2018. The purchase and redevelopment of class A and B buildings in areas accessible to public transit is expected to play a large role in the transactional activity of 2015.
Based on its history, Pittsburgh is widely recognized as a resilient city—a reputation that is paying dividends. The ability to withstand economic fluctuations is a reflection of the region’s resolute financial services, healthcare and educational sectors. In recent years, these industries have been the region’s core strength, keeping vacancy and unemployment rates low, but emerging business opportunities continue to gain momentum.

Pittsburgh’s focus on future expansion is a by-product of promising growth in the region’s technology and energy industries. As large corporations continue to set up regional operations, the local market will work to accommodate increased demand in 2015.

**Office**

The Pittsburgh region’s tight office market provides limited opportunities for tenants searching for quality space, with class A vacancy sitting at 7.9% at the end of 2014. As availability remained restricted for the seventh consecutive year, the onus was placed on developers to get new product out of the ground. More than 3 msf of office space is proposed or under construction as a result of increasing demand in the CBD and Greater Downtown area.

Market conditions continue to favor landlords; however, as more product becomes available, a shift could occur, giving leverage back to tenants. The recent growth in rental rates (in excess of $3 psf since 2008) appears to be stabilizing with new development on the horizon.

**Retail**

The retail market continues to enjoy occupancy rates in the mid-90% range in spite of highly inflated triple-net costs. Absorption is strong as major tenants such as Whole Foods, Target, Dick’s Sporting Goods, GetGo, Speedway and multiple restaurant concepts seek new market expansion opportunities. Car dealerships are also expanding—a sign of the increasing consumer demand and confidence of Pittsburgh residents.

Retail construction is the strongest in the Cranberry (North) and South Strabane (South) submarkets, but new product is also available in the South Hills Village Area, McCandless Crossing and Southpointe. Moving into 2015, the retail market will likely continue to flourish along with the economy.

**Industrial**

The region’s industrial vacancy rate continues to decline as user activity remains stable. However, new construction is limited. The region’s largest lease transaction of 2014 occurred in Crafton, PA, where Amazon.com committed to 320,300 sf. Notable demand produced by oilfield companies involved in the Marcellus and Utica Shale plays occurred, but suitable product is very limited for users seeking long-term arrangements for large spaces.

Factors affecting the industrial market moving forward are Shell’s proposed multi-billion-dollar ethane cracker plant and GE’s plans to construct a 125,000-sf facility related to advanced manufacturing and process improvement.

**Investment**

The Pittsburgh market is gaining recognition among national and even international investors. Low vacancy rates and reduced cap rates benefitted owners as properties were marketed and sold for historically high prices. Medical and hospital-related developments, as well as seniors housing, continue to hit the market. With the second-oldest population in the country, Western Pennsylvania has been recognized by investors and developers as fertile ground for new senior-oriented product.

Out-of-town interest has been directed toward lodging and multi-residential conversions in the Greater Downtown area in response to the millennial demand for urban housing. As the Pittsburgh region’s energy and technology sectors continue to develop, investment numbers are expected to increase further during 2015.
Raleigh-Durham

Investment volume expected to remain strong

The Triangle region witnessed significant improvement across all sectors in 2014. Strong job growth fueled increased tenant demand which drove vacancy to pre-recessionary levels for all product types. Exceptional quality of life and low cost of doing business are fueling robust population and economic growth. With three research universities and a significant concentration of technology and R&D companies, the Triangle is recognized as having one of the nation’s most educated work forces.

Office

Office absorption surged in 2014, reaching its highest level since 2008 as class A properties witnessed the strongest demand. While construction activity has increased, tenants will continue to face limited near-term class A options. Class A asking rates increased by nearly 4% in 2014. Increasingly constrained supply, combined with higher-priced new construction, will bend the cost curve sharply upward in 2015.

The largest transaction of 2014 occurred in the Research Triangle Park (RTP) submarket, where Lenovo leased 460,000 sf of former Sony Ericsson space. The CBDs were also epicenters of activity. Vacancy in Downtown Raleigh fell below 8.5%, while vacancy in Downtown Durham dropped below 5%. Citrix became the most recent tech company to plant a stake in Downtown Raleigh, moving into its 170,000-sf, build-to-suit facility.

Retail

Retail vacancy fell below 7% for the first time since 2008 as retailers continued to flock to the rapidly growing Triangle market. The local grocery scene was a significant source of activity. Publix entered the market with its first location in Cary, while Harris Teeter opened additional stores and completed its merger with Kroger. Lowe’s Foods announced one Triangle closure, while specialty grocers Whole Foods and Fresh Market announced new stores. Field & Stream opened its first Triangle store in Cary, Gander Mountain backfilled a former Best Buy in North Raleigh and Golf Galaxy opened its third regional location in Cary. Moderate construction activity is not expected to negatively impact vacancy in 2015.

Industrial

The industrial market witnessed its fourth consecutive year of positive absorption in 2014 with activity coming from a broad base of tenants. The sector is benefitting from a resurgent housing market, a growing e-commerce sector and expanded manufacturing activity. Industrial asking rates grew by more than 7% year-over-year.

At last, low vacancy and strengthening rental rates are spurring speculative development. Projects totaling 161,000 sf were delivered in 2014 with most of the space leased upon completion. Liberty Property Trust announced plans for a new warehouse development that will add up to 462,000 sf to the RTP submarket. More projects, both speculative and build-to-suit, are likely to break ground in 2015 as the market makes up for a decade of limited development activity.

Investment

Capital continued to pour into the Triangle in 2014 as investors maintained a voracious appetite for multi-residential properties. Sales of office and industrial properties also increased notably. Given the relatively low levels of construction, investors recognize that there is a window of opportunity to acquire office and industrial assets at prices below replacement cost while rental rates are rising.

Investment volume should remain strong in 2015. Multi-residential sales are expected to become less dominant as demand increases for office and industrial properties.
Northern Nevada is positioned for a boom. After fierce competition with three states, Tesla Motors chose the region for its new manufacturing plant. The Gigafactory will encompass more than 5 msf and generate more than 6,500 jobs. The entrance of Tesla and other employers will generate billions of dollars during the next 10 years. Lease rates are expected to escalate in 2015. During the past five years, a lack of new construction has intensified demand in the market for all commercial property types. Industrial product is most in demand with companies seeking to relocate and take advantage of the region’s favorable tax structure.

Office
The office market struggled in 2014. Occupancy rates should rise substantially in 2015 due to the lack of new construction. Several new tenants entered the market, but many larger tenants vacated space. Occupancy and lease rates edged up in several submarkets, including the CBD and the Meadowood area. In addition, the end of 2014 saw a significant increase in office sale and lease inquiries.

Retail
The retail market continues to show positive signs. New tenants are entering the marketplace, and the area recorded positive absorption in 2014. The retail vacancy rate ended 2013 at 17.3% and declined 40 bps by the end of 2014. Rental rates remain unchanged at an average of $16.20 psf. Retailers are relocating their businesses to locations with superior exposure at comparable rental rates.

Notable market entrants include: Hobby Lobby, Floor & Décor, Natural Grocers, Cheesecake Factory, Dunkin’ Donuts, Starbucks and Nordstrom Rack. National retailers are returning, and other openings are planned as the market outlook remains optimistic.

Industrial
Reno’s industrial market continued to gain momentum in 2014, but it was Tesla’s announcement that fully energized the sector. It also gained from the Federal Aviation Administration naming Nevada as one of six sites for commercial development of unmanned aerial vehicles (UAVs). The Economic Development Authority of Western Nevada and the Nevada Governor’s Office of Economic Development have been flooded with calls. Ashima Devices committed to bring its headquarters – with 400 research, testing and manufacturing jobs – to the area. Cenntro Motor Company will manufacture electric delivery vehicles and scooters.

Within two years, Cenntro will complete a 250,000-sf manufacturing facility, employing 300 workers and housing its North American headquarters. A large number of businesses are starting, relocating and expanding in industries including e-commerce, logistics, manufacturing, mining, technology, data centers and R&D. In 2014, more than 2 msf was built for Amazon.com, Zulily and San Mar. Reno will add millions of square feet with these industries committed to new construction.

Investment
Commercial real estate investment interest continues to grow as product remains scarce after the supply of bank-owned property dissipated. Prices rose amidst low availability and strong demand, particularly in the case of acquisitions and dispositions eligible for 1031 Exchange tax deferrals.

Demand is expected to increase in 2015 (and rise dramatically in following years) as vacancy rates diminish in the retail and office sectors. Multi-residential occupancy remains high. This asset class continues to hold the most interest to investors. Rental rates rose to support new construction in anticipation of an apartment development boom expected to continue through 2015.
New Kings arena sparks rebirth of Downtown demand

With the NBA’s Sacramento Kings’ new arena opening in fall 2016, the downtown district is preparing for a rebirth. The new arena has created a tremendous amount of buzz within the community and resulted in new office and retail tenant activity in the downtown area. Kings owner Vivek Ranadivé, a Silicon Valley tech entrepreneur, plans to develop up to 475,000 sf of office space adjacent to the arena along with 350,000 sf of retail, a 250-room hotel and 550 residential units.

The challenge for the entire Sacramento Valley moving into 2015 is a lack of new sources of employment to feed the local economy. With the exception of the state government and healthcare companies, the valley lacks major corporate headquarters.

Office

In the third quarter of 2014, the office market experienced year-over-year negative absorption. Despite a slight setback, the market has witnessed almost 2.2 msf of occupancy growth since the beginning of 2012, bringing vacancy back to pre-recession levels (13.9%) at third-quarter 2014.

The Roseville/Rocklin submarket has been the most desirable location for businesses in this region during the past couple of years. As a result, occupancy has grown during 13 of the last 14 quarters, and vacancy declined to 15.1% at the end of the third quarter of 2014. Roseville/Rocklin has evolved as the region’s most upscale submarket during the past 20 years, resulting in higher-than-average absorption during boom years and lower vacancies in recessionary ones. Businesses have chosen this area for its great lifestyle and affordable housing. In 2015, the excitement of the new Kings arena is expected to bring renewed interest from tenants in Downtown Sacramento as well.

Retail

Retail vacancy has declined steadily since 2012 while average asking rates have stayed relatively flat during the same period. Deal activity slowed in 2014 compared with the previous two years despite a healthy amount of demand. Roseville/Rocklin, the strongest office market in the valley, was also the best-performing retail market in 2014 due to its healthy income demographics. The overall Sacramento Valley retail market is expected to remain relatively flat throughout 2015.

Industrial

The industrial market recorded positive absorption in each of the first three quarters of 2014, experiencing almost 2.1 msf of occupancy growth. Average asking rates have slipped during the past 24 months despite strong leasing activity, and ended the third quarter of 2014 at $4.08 psf triple net. The market has shown no signs of a slowdown in 2015. Average asking rates will increase minimally throughout the year as vacancy continues to decline.

Investment

The excitement of the new Kings arena has not only renewed interest in Downtown Sacramento from users, but also investors. A group led by local investment group Buzz Oates Properties purchased 555 Capitol Mall, a 376,000-sf office building adjacent to the new arena project, with ground-floor retail. The owners plan to renovate 555 Capitol with a focus on first-floor retail in anticipation of increased foot traffic and greater tenant activity in the area. Investors are expected to continue this trend in 2015.
San Diego County

Steady and sustainable demand continues

San Diego’s commercial real estate market pushed ahead in 2014, exhibiting year-over-year growth in rents and steadily declining vacancy. The county is known for its desirable geography and remains a vital hub for biotechnology, telecommunications, defense and tourism, which have all contributed to the resilience of the market since the Great Recession.

Population growth and improving employment rates help drive the market, which continues to see an increase in leasing activity. Unemployment stayed low through 2014 (reaching 5.9%) and is anticipated to remain stable through 2015. Expected hiring in the county’s bustling technology sector will sustain economic progress.

Office

Employment is driving the office market. There is demand for creative and flexible space as businesses strive to use space more efficiently while providing improved lifestyle amenities. Technology companies, healthcare innovators and independent research institutes are at the forefront of the growth. San Diego is a leader in supplying employees for these companies.

Vacancy rates are declining after a two-year stall, and rents have been rising quarter-over-quarter on a trajectory that should hold through 2015. More than 1 msf of new inventory is expected to come on line by the end of 2015. A slow increase in construction activity is anticipated in 2015 as demand continues to outpace existing supply.

Retail

Population growth has a strong influence on retail activity, and leasing is recovering at a modest pace. Demand for retail space is ongoing in San Diego County, the fifth-most-populous county in the U.S. As general consumer demand remains reserved and shifts toward service-oriented retail, expect to see an increase in medical- and health-related vendors located in shopping centers.

Approaching the end of 2014, vacancy sat just below 4% – mirroring pre-recession levels. In 2015, vacancy is expected to reach mid-3%, which is closer to historical rates for the area. Delivery volume remains flat as developers remain cautious. Renovations are more likely than a surge in new construction in this well-established market.

Industrial

San Diego’s established industrial base supports the military, biotechnology and telecommunications sectors. Rents have been trending upward quarter-over-quarter relative to a decrease in vacancy. Total net absorption remained positive throughout 2014, and the trend should continue in 2015.

Tightening vacancy and increasing rents are sparking interest in development thanks to an uptick in property values. Persistent demand, generated by e-commerce activity, has reduced retail space needs while increasing demand for warehousing. Further industrial demand should be fueled by continued GDP growth. Industrial sale pricing is currently below peak levels and expected to rise as construction picks up in 2015.

Investment

Secondary investment markets like San Diego are becoming more popular as investors look beyond larger metropolitan markets for more resilient, high-value assets. Investors are making the pricing for these assets more competitive – and more expensive – as low returns on alternative investments free up capital to seek better yields in commercial real estate. With interest rates low, cap rates will remain compressed. Even with new inventory, demand will outpace supply in this historically tight market. Commercial real estate in the county is expected to experience improved values in 2015 as current trends continue.
San Francisco continues to be a hub for technology and innovation by drawing companies from all over the world to its vibrant business climate and talented workforce. As of the third quarter of 2014, the city’s unemployment rate was 4.4%, down a full percentage point from 2013. With almost 20 office tenants in the market for more than 100,000 sf, and with retail and industrial vacancy extremely low, San Francisco is expected to remain lively throughout 2015.

Office
The San Francisco office market remains extremely vibrant with increasing demand and diminishing available space. Vacancy has dropped 130 bps since the end of 2013 and 220 bps year-over-year to 6% at third-quarter 2014. Class A rents have increased by 12% since year-end 2013, ending the third quarter of 2014 at $60 psf.

Preleasing became a common practice in 2014 with nearly 62% of the total 3.6 msf currently under construction already leased. Salesforce recorded the largest lease transaction of the year, preleasing 714,000 sf at Salesforce Tower. Given the consistently high demand, developers have been driven to pursue and obtain more than 3.9 msf of entitlements during the past 24 months from the City of San Francisco. This has brought Prop M, a municipal cap on office development, into effect. Pending projects totaling 3.3 msf are on file with the city, which has only 3 msf left to approve under Prop M through October 2015.

Retail
The retail market is still hot – vacancy looks to remain below 3% as no new retail developments are expected in 2015. Union Square remains the retail hotspot in San Francisco and is benefitting from being the hub of international tourism. In Mission Bay, the NBA’s Golden State Warriors’ new arena and the hundreds of residential units under development will invigorate the area’s retail market.

Industrial
San Francisco is synonymous with innovation and high-quality products, so companies want “Made in San Francisco” on their products to attract consumers. Though companies are willing to pay a premium, many simply cannot produce on a large enough scale to stay in the city. Anchor Steam Brewery, a San Francisco staple since 1896, is one of the exceptions. In the last quarter of 2014, the well-known brewer broke ground on its new 212,000-sf Pier 48 facility as part of the Mission Rock mixed-use development next to AT&T Park. Smaller manufacturers will continue to flood the market – despite increasing rental rates – in order to take advantage of local branding.

Investment
During the first three quarters of 2014, investment activity was nearly double the full-year 2013 total. By third-quarter 2014, investment volume reached nearly $4 billion compared with $2.4 billion for all of 2013.

With full-year stats still being compiled, 2014 was on pace to be the second-highest investment year in San Francisco since 2007. The South Financial District remained a hot spot for investment activity as three of the top five investment transactions of 2014 were located in the area. Investors will remain active throughout 2015 and take advantage of rising rental rates and extremely high demand from local and regional users.
Developers become active again in San Mateo County

For the first time in more than a decade in San Mateo County, a major speculative office development has been preleased. Crossing/900, a 334,000-sf, two-building office project located in Downtown Redwood City, preleased the entire project in the third quarter of 2014 to cloud-storage company Box Inc., which will relocate from Silicon Valley.

Since the first quarter of 2011, the county office market has recorded more than 2.3 msf of occupancy growth, bringing the overall vacancy rate down to 8.9% at the close of the third quarter of 2014. The office market also recorded 14 consecutive quarters of increasing average asking rates, ending the third quarter at $43.32 psf full-service.

Office

The San Mateo County office market experienced more than 560,000 sf of occupancy growth during the first three quarters of 2014. This market also witnessed a 4% increase in average asking rates during the same time period. The office sector is experiencing the most demand since 2007. As of the third quarter of 2014, Avison Young was tracking 17 companies in and around San Mateo County seeking space in excess of 25,000 sf within the next 24 months.

Almost 500,000 sf of proposed new Downtown office projects were submitted by developers to the Redwood City planning department for approval in the third quarter of 2014. With the recent success of the aforementioned Crossing/900 project and Redwood City’s vibrant downtown atmosphere and proximity to public transportation, developers accelerated efforts to get schematics in front of city planners, including the 180,000-sf office development by Lane Partners at 2075 Broadway that was pending approval as of the third quarter of 2014.

In the city of San Mateo, two major speculative office projects broke ground in late 2014: Concar Office Park, a 300,000-sf, three-building office project, and the first phase (210,000 sf) of the 763,000-sf Bay Meadows office development.

Retail

Retail vacancy remained extremely low in 2014. Due to strict development policies in San Mateo County, developers have not been active in this market, resulting in a lack of available options for retailers. Demand is expected to remain strong in 2015 with rental rates climbing throughout the year due to limited availability in the market.

Industrial

The San Mateo County industrial market experienced a slight setback in 2014. This market recorded slightly more than 100,000 sf of occupancy losses through the third quarter of the year. Despite the slight loss in occupancy, average asking rates continued to increase due to the limited amount of available options.

Investment

During the first nine months of 2014, San Mateo County witnessed more than $5 billion worth of investment activity – compared with less than $4 billion in all of 2013. Office trades accounted for 82% of all investment activity, highlighted by the $206-million sale of Parkside Towers in Foster City. Google purchased 934,000 sf from Starwood Capital and Blackstone Group at Pacific Shores Center in Redwood City during the last quarter of 2014. Investors are expected to remain active in 2015 as vacancy continues to decrease and average asking rates continue to rise steadily.
Avison Young 2015 Forecast

South Florida
(Miami, Fort Lauderdale, Palm Beach)

Industrial market gathers momentum

Commercial real estate market fundamentals in South Florida, comprising Miami, Fort Lauderdale and Palm Beach, continue to strengthen as the economy improves and there is a tapered supply flowing into the market. As unemployment decreases, the overall market will see modest gains as vacancy declines, absorption improves and planned development continues to increase. Together, these factors helped market fundamentals progress in 2014 beyond those recorded in 2013. The market is anticipated to post even better results in 2015.

Office

A limited amount of new supply, coupled with improving employment figures, led the office market’s enhanced performance. The overall office vacancy rate ended the third quarter of 2014 at 14.4%, down 110 bps from year-end 2013. As the economy steadily improves, the urban cores of Miami and Fort Lauderdale are experiencing tighter market conditions with the overflow of demand stretching into suburban areas where class A buildings are registering higher occupancy levels.

Forecasts for year-end 2015 are optimistic in the office market as vacancy rates are slated to continue improving. Vacancy is expected to fall to 12.7% by the end of 2015 and demonstrate the improving fundamentals of the asset class.

Retail

The retail sector experienced positive net absorption in 2014 as demand remained high and new supply was limited. Appetite for retail space in 2014 grew slightly as, at the end of the third quarter, the vacancy rate remained at 5.3%. Third-quarter 2014 was stellar in the retail investment sector as dollar volume more than doubled in comparison with one year earlier, increasing to $1.3 billion from $541 million. Even with improving sales, however, the year-end 2014 average price per square foot was expected to fall below the year-end 2013 level.

Forecasts for year-end 2015 remain optimistic as vacancy rates are expected to continue improving and a limited supply of new product is slated to hit the retail market.

Industrial

The surge in demand for industrial space in the tri-county area has led to even tighter market conditions. Even with more than 2 msf of industrial product delivered during the first three quarters of 2014, the sector still experienced positive net absorption, as demonstrated by an improving vacancy rate.

From year-end 2013 to third-quarter 2014, vacancy decreased by 50 bps to 7.1%.

The industrial market is expected to see ongoing advances in 2015, as there should be continued demand for industrial space. Delivery of another 2 msf in 2015 is expected, with vacancy dipping to 5.9% at year-end 2015 from 7.1% at the end of the third quarter of 2014 – a 120-bps decline.

Investment

Investment activity across all sectors remained steady in 2014 and was heavily influenced by the multi-residential and hospitality sectors. The constrained delivery of new supply in the office and industrial sectors is expected to continue to push down vacancy rates in those asset classes during 2015. Among all sectors, cap rates have been compressed and, in some instances, have dipped below previous lows. Cap rates in 2015 will be further compressed as fundamentals continue to see improvement.

The projections for 2015 are optimistic; however, a slowing of the economy could potentially lead to diminished consumer confidence which exerts downward pressure on investment activity.
**Tampa**

**Occupancy improves across all sectors**

Commercial real estate market fundamentals in Tampa have been fluctuating even as the economy shows slight improvement. Unemployment has been declining steadily, but the tightening of the market seems to be aligned with a lack of new supply coming online and upticks in the demand for additional space. The outlook for 2015 remains positive as the forecast anticipates enhanced market conditions.

**Office**

Constrained supply levels have allowed the office market to experience positive net absorption. The overall office vacancy rate at the end of the third quarter of 2014 was 13.9%, dropping 70 bps from year-end 2013. In the meantime, office sales improved between third-quarter 2013 and third-quarter 2014, climbing to $476 million – a 7% increase from the previous year.

Forecasts for 2015 remain positive for the office sector as vacancy is anticipated to continue on its downward trend. Vacancy is slated to fall 260 bps, landing at 11.3% by year-end 2015.

**Retail**

Tampa’s retail market continues to see occupancy improve as vacancy rates maintain a slow and steady descent. Demand for retail space in 2014 maintained an upward trajectory. During the third quarter of 2014, the vacancy rate decreased by 20 bps and settled at 6.4%. However, retail property sales volume took a hit during the third quarter of 2014 as pricing on a per-square-foot basis remained on a downward trend. After hitting a recent peak of more than $150 psf in the fourth quarter of 2013, prices fell below $130 psf.

The outlook for 2015 continues to be optimistic as a further tightening of the market, coupled with a limited supply of new deliveries, should push occupancy and pricing higher than what was achieved in 2014.

**Industrial**

Even with 3 msf of industrial space being delivered during the first three quarters of 2014, the market is still experiencing enough demand that Tampa recorded positive net absorption during the same period. Vacancy fell more than a full percentage point from the end of 2013 to third-quarter 2014 – landing at 8.9%, which was 120 bps below year-end 2013. The third quarter of 2014 saw heightened levels of industrial sales compared with third-quarter 2013 as dollar volume reached $25 million. Sales pricing on a per-square-foot basis increased dramatically after falling to levels not seen in more than three years. Prices in 2014 averaged $54 psf, after dropping to $35 psf at year-end 2013.

Forecasts for 2015 remain bullish on the industrial sector and anticipate improved conditions. Estimates for Tampa’s overall industrial sector in 2015 anticipate vacancy falling to 8%, a decrease of 90 bps from the third quarter of 2014.

**Investment**

During 2014, Tampa experienced varying types of investment activity. Some sectors (most notably office and industrial) saw improvements, while others witnessed flat or declining activity. All sectors had limited new product delivered, which assisted in the improvement of overall market fundamentals.

The outlook for 2015 remains optimistic as new construction is anticipated to remain at low levels – a situation which, in turn, should continue to push down vacancy and capitalization rates and has the potential to increase rental rates during 2015.
Record sales pricing buoys optimism going forward

The Capital Region has demonstrated job creation, strong retail sales and a robust multi-residential market. Washington’s 5.4% unemployment rate compares favorably with the U.S. national average (5.8%). The threats of sequestration have subsided and, with a budget in place, there is some optimism that the federal government will resume leasing in 2015. The region saw growth in data center demand and development as well as warehouse occupancy, a strong multi-residential market, record sales pricing and an appreciable increase in foreign capital flows in 2014.

Office

Washington’s nearly 400-msf office market felt the effects of oversupply in 2014 with most markets experiencing vacancy increases. DC’s vacancy rose to double digits (10%) and Northern Virginia’s reached its highest level in 10 years (18%). The efficiency game continued and reduced space utilization for all tenant types more than offset any gains in office-using employment. Buildings that are new, environmentally friendly and have access to Metrorail and housing are outperforming the market. Leases were dominated by renewals, often in advance of expiries, and by tenants upgrading while taking less space. Lease concessions remain elevated and transactions are taking longer to finalize. Overall, leasing volume was below historical levels in 2014.

Oversupply is likely to carry through 2015 with another 2 msf to be delivered. Anticipated move-outs, such as ExxonMobil leaving more than 1 msf in Northern Virginia, will keep vacancy elevated.

Retail

Live/work/play environments, town centers, and restaurant and specialty foods define retail growth in the region. Transit-oriented development is prominent and projects, such as Pike & Rose in Montgomery County, MD, are successfully attracting retailers. In Virginia, the completion of Metrorail’s Silver Line into Tysons Corner has generated an influx of new consumers.

Elsewhere in Virginia, the 1.4-msf Springfield Town Center reopened in October 2014 after a two-year renovation, and the once-tired 1970s-era mall is now thriving. The second phase of the Silver Line’s extension to Dulles International Airport is underway and will bring further retail growth when completed in 2018.

Industrial

The industrial market fared well in 2014 thanks to positive annual absorption and rental rates achieving a slow but steady upward trajectory. Construction volume has doubled year-over-year and will likely push vacancy higher by year-end 2015. Growing e-commerce, data centers and a New Panamax-enabled Port of Baltimore have, thus far, kept occupancy rates high. Threats of overbuilding are limited due to land constraints in the most desirable locations. Submarkets that are expected to attract new investment include Springfield, Newington and technology hubs in Loudoun County. The largest transaction in 2014 (prior to publication) was Amazon.com’s 200,000-sf new data center lease in the Dulles Corridor.

Investment

With the passing of a federal budget and job creation on the rise, regional investment activity has been revitalized. Acquisitions by international investors have risen significantly since 2011; however, market watchers have reported Washington’s fall in investor survey rankings, and this situation is evidenced by overall lower transaction volume in 2014.

Nonetheless, well-located, stabilized assets in and around the nation’s capital continue to attract strong investor interest. In 2014, PNC Place was sold to TIAA-CREF and Norges Bank Investment Management for $1,075 psf, marking the first time any DC office building has broken the $1,000-psf threshold. This record psf price is an indication of investor interest in the DC market for select trophy-class properties. Outside the Beltway, counter-cyclical investors are pursuing suburban offices as cap rates have risen.
London, U.K.

Walkie Talkie, 20 Fenchurch Street

Strong growth expected until 2019

London’s position as a “world city” has insulated it from the poor economic environment in continental Europe. London’s economy was expected to grow by 4.2% in 2014, slowing down to 3.4% in 2015. It is expected to expand by a further 15% over the next five years to 2019. The challenge for London, therefore, is how to manage this growth both now and in the future.

Office

In 2014, London recorded its highest level of office leasing activity since 2007. The main submarkets all saw take-up levels in excess of long-term averages. Across the main user groups, demand is being driven by growth rather than consolidation, with technology, media and telecommunications the most active sectors.

With the absence of completed space, occupiers are signing preleasing agreements. It is estimated that half the space currently under construction has been preleased. Looking further out to 2016 and using long-term average take-up as a benchmark, only half the required supply of new space is likely to be constructed. Rents rose by 7% in 2014. Continued, and even stronger, rental growth is expected throughout 2015. As a result, many occupiers will have to review what jobs must be London-based or could be moved to cheaper locations.

Retail

London’s prominence as a major tourist destination and the expected increase in visitors from China and the Persian Gulf, due to the relaxation of visa requirements, will support consumer spending and maintain retailer demand for space. Central London continues to experience a chronic shortage of flagship stock on the prime pitches of Bond Street and Oxford Street. Although prime retail rents are now around £1,250 psf per annum, this level is still lower than those in New York, Hong Kong and Paris.

Retailers are also increasingly expanding into office space above their existing stores to add space without drastically increasing their rent. Salvatore Ferragamo (Bond Street) and Nicole Farhi (Conduit Street), among others, have taken this approach.

Industrial

Overall, industrial demand has been steady, and the level of take-up for 2014 was similar to that of 2013. There will be falling supply but, with relatively low levels of speculative development, rents are likely to rise. Developers are adapting to the new market conditions. DP World Gateway is reworking its master plan for a 9.3-msf logistics park east of London. The plan is being revised to create a cluster of “small” (80,000-sf to 200,000-sf) buildings that can be delivered quickly on a design-build basis.

Into 2015, the trend of preleasing distribution facilities will likely continue. In the smaller size ranges, tenant inducements will likely continue to shrink as rents increase and, significantly, lease terms move back in favour of landlords.

Investment

Domestic and overseas investor demand remained high in 2014. Both groups have been attracted by the rental growth seen across all of London’s office submarkets. At the end of 2014, the preferred bidder for the Gherkin building (516,000 sf) was a Brazilian investor group. The £710-million bid reflected an initial yield of 3.8% – a low yield for such a large lot size.

Looking forward into 2015, investor demand is expected to remain strong, and continued headline-grabbing acquisitions of trophy assets are also expected. Away from the headlines, there will likely be steady growth in investor interest in the U.K.’s regional markets.