



TRANSWESTERN[®] DEVENCORE



2020

COMMERCIAL REAL ESTATE MARKET SENTIMENT SURVEY

OUTLOOK FOR THE UNITED STATES AND CANADA
JANUARY 2020

Transwestern and Devencore teamed to solicit insight from their commercial real estate advisory teams across 43 North American offices. Here's what brokers had to say about what's in store for 2020.

UNITED STATES

Gingerly expansion is expected in 2020, driven by medical office and industrial while the office market nears flatter conditions. Although the office sector should remain relatively steady, political turmoil and the elevated construction pipeline in select markets give respondents pause. Medical office could help boost the overall office market, while select practitioners opt to lease space in traditional office buildings. Respondents expressed concern relating to rising build-out costs, coupled with changes in regulations which could further impact how medical tenants utilize space. And it is no surprise that respondents anticipate industrial to continue outperforming due to tight market conditions and healthy expectations for e-commerce activity.



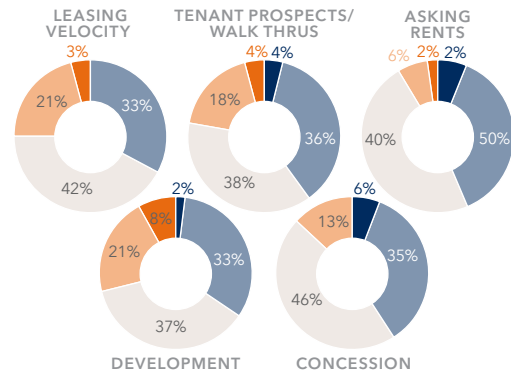
OFFICE MARKET



- U.S. office market conditions are expected to continue improving, albeit at a moderated pace.
- The U.S. index averaged 106.9 for 2020 office market conditions, signaling expansion above the 100 neutral zone, but still down from 111.2 from the 2019 outlook.
- A little more than half of the respondents believe that office asking rents will be slightly to significantly higher in 2020, elevated by new construction deliveries.
- 40% of respondents expect leasing velocity and tenant prospects to be flat in 2020, as tenants now require more time to finalize decision processes. Currently, 46% of respondents anticipate tenants will take nine months or less to sign a mid-sized deal; this compares to 64% for leases signed during 2019 and 86% for deals inked during 2018.
- Market concerns revolve around ebbing consumer confidence given the upcoming elections and potential recession. However, several respondents noted pockets of pent-up demand could occur over the year from tech and medical tenants.
- Another factor impacting overall demand is tenant densification, measured by leased square footage by employee, which respondents expect to continue in 2020 (61%) but at a decelerating pace compared to 2019 (76%). Tenants are getting creative with space efficiency with many opting to densify space in order to upgrade quality.

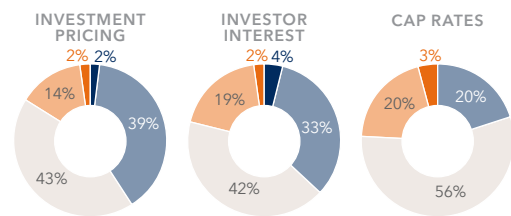


OFFICE MARKET INDICATORS
2020 OUTLOOK



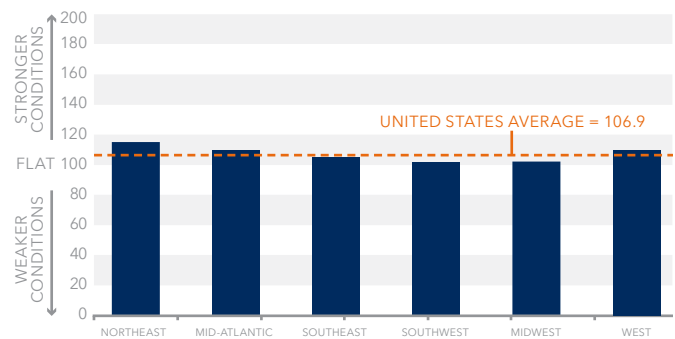
Source: Transwestern

OFFICE INVESTMENT SALE INDICATORS
2020 OUTLOOK



Source: Transwestern

OFFICE MARKET INDEX | BY REGION



Source: Transwestern

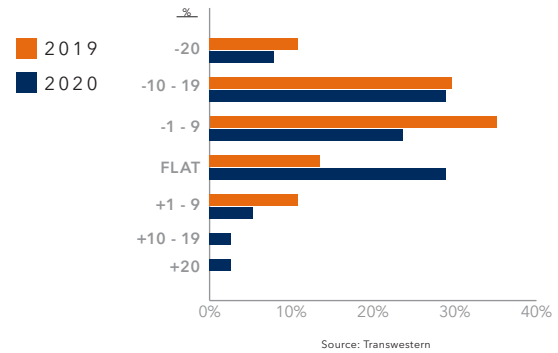


OFFICE MARKET

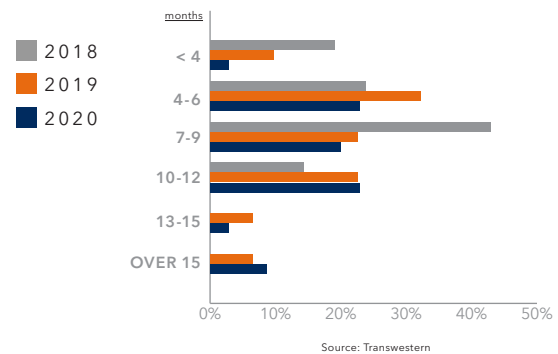


- Approximately 69% of respondents expect development pipelines to be flat or slightly higher in 2020, with select markets showing concern of oversupply and rising construction costs.
- 81% of respondents expect concession package levels to be flat or slightly higher in 2020, signaling intense competition for tenant leasing.
- 80% of respondents expect investment interest and pricing to be flat or to rise slightly in 2020, and 56% anticipate capitalization rates to remain flat, signaling resilience in capital markets.
- Regions anticipated to exhibit stronger office market conditions in 2020 include the Northeast, Mid-Atlantic and West.

CHANGE IN OFFICE SPACE ALLOCATION PER EMPLOYEE



LENGTH OF OFFICE LEASE DECISION PROCESS





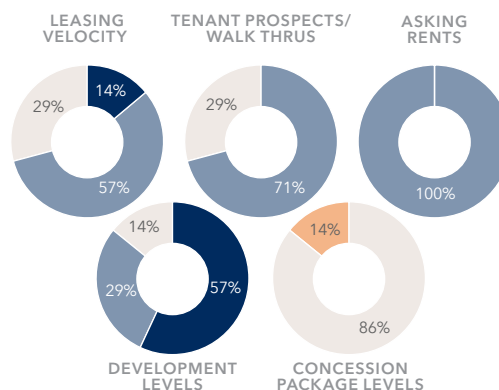
MEDICAL OFFICE MARKET



- Medical office will handsomely outperform in 2020, with the U.S. forecast index averaging 134.2, well above 100 which is considered flat conditions.
- Leasing activity, tenant walk throughs, asking rents and development in the medical office sector are all expected to be higher in 2020. Notably, all respondents expect asking rents to be slightly higher in 2020, driven by robust demand.
- Of concern for respondents is the higher, growing costs to build out medical space as well as healthcare regulations, which could impact how medical office is utilized.
- Most agree that there will be little, if any, change in concession package levels for medical office space.
- 71% of respondents predict cap rates in the medical office sector will be flat to slightly up compared to 2019, with all respondents expecting investor interest to rise over the year.

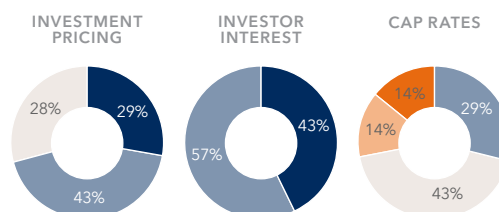


MEDICAL OFFICE MARKET INDICATORS 2020 OUTLOOK



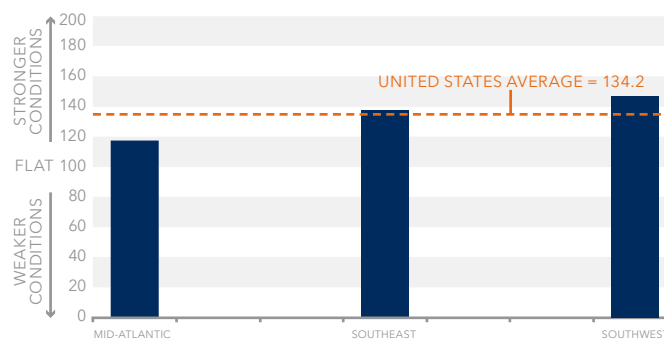
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MEDICAL OFFICE INVESTMENT SALE INDICATORS 2020 OUTLOOK



Source: Transwestern

MEDICAL OFFICE MARKET INDEX | BY REGION



Source: Transwestern

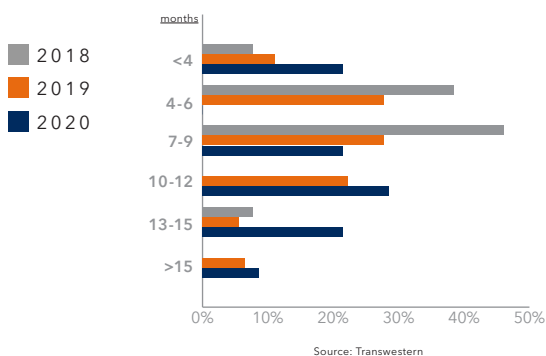


INDUSTRIAL MARKET

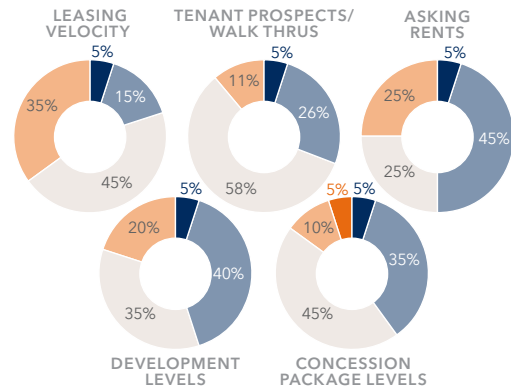


- The U.S. index averaged 116.2 for 2020 industrial market conditions, down slightly from 122.1 for the 2019 outlook, but above 100 which is considered flat conditions.
- Although respondents expect conditions to be healthy, there will be slight deceleration in leasing velocity and tenant walk throughs as some markets have limited availability of new product tenants desire most.
- Half of respondents expect asking rents to rise, with most expecting development levels to remain flat to slightly higher. In select markets, such as Houston and Dallas/Fort Worth, respondents fear overbuilding. Generally, low supply, coupled with high demand from e-commerce, is forecasted to drive the market.
- Of concern for respondents are rising construction prices and lack of available land to build. However, in select markets the economics of infill are starting to pencil favorably.
- Most agree that there will be little, if any, change in concession package levels for industrial space.
- 70% of respondents predict capitalization rates in the industrial sector will remain flat or rise slightly during 2020.
- 65% of respondents expect higher investment interest in 2020, with pricing remaining steady to slightly increasing.
- Regions anticipated to have the strongest industrial market conditions in 2020 include the Northeast, West, and Mid-Atlantic.

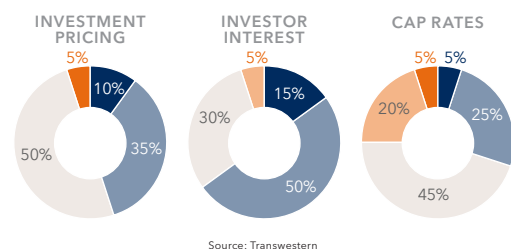
LENGTH OF INDUSTRIAL LEASE DECISION PROCESS



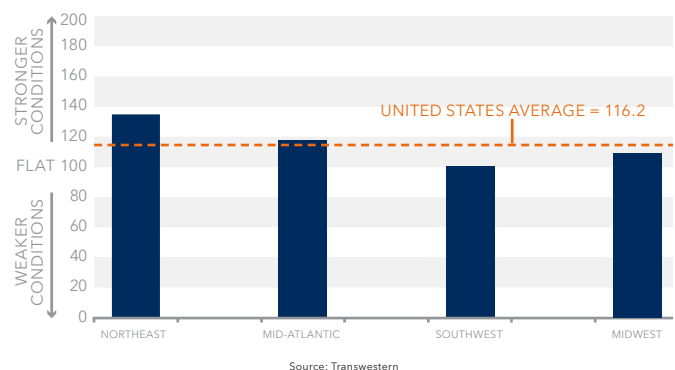
INDUSTRIAL MARKET INDICATORS 2020 OUTLOOK



INDUSTRIAL INVESTMENT SALE INDICATORS 2020 OUTLOOK



INDUSTRIAL MARKET INDEX | BY REGION



CANADA

The Canadian commercial real estate market is expected to perform well in 2020, as economic conditions remain healthy and job growth is steady. Except for Alberta, the major Canadian provinces like Ontario, British Columbia and Quebec all showed robust conditions. Similar to the United States, the industrial sector continued to outperform with tight market conditions and healthy expectations in 2020.



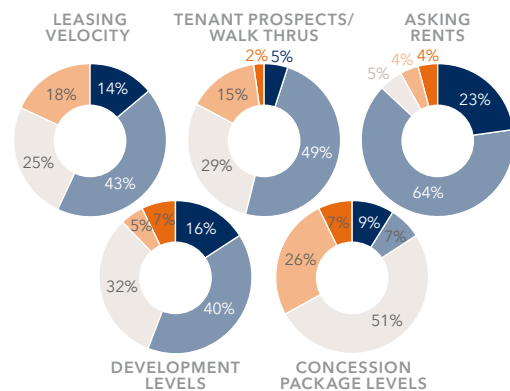
OFFICE MARKET



- Just over half of the respondents expect leasing velocity and tenant prospects to pick up during 2020, with 86% expecting stronger rent growth over the year. Respondents contribute this to the steady economic climate coupled with growth in industries such as tech as well as the service sector.
- The majority of respondents anticipate tenants will take anywhere between 7 to 12 months to sign a mid-sized deal. In tighter markets, lease decisions are expected to take even less time due to competing offers for the same space. Very large blocks are sparse, rents are up, incentives are coming down; these are the signs which will trigger new developments.
- Market concerns stem from political and trade impacts as well as rising construction costs.
- Demand has been affected by tenant densification, which respondents expect to continue in 2020 but at a slightly decelerating pace compared to 2019. In 2020, 62% of respondents expect tenants to continue to reduce space per employee, compared to 63% for 2019 leases. Respondents state the rise of telework and cost savings have been notable drivers for tenants to reduce space.
- Approximately 56% of respondents expect development levels to be higher in 2020. Respondents in Quebec, Ontario and British Columbia state scarce quality space availability, while those in Alberta are concerned about high vacancy rates due to deteriorating market conditions.

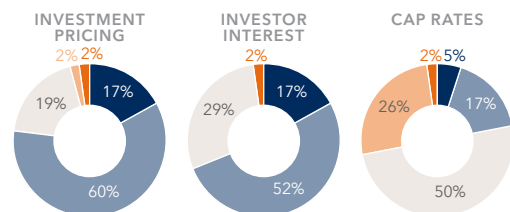


OFFICE MARKET INDICATORS 2020 OUTLOOK



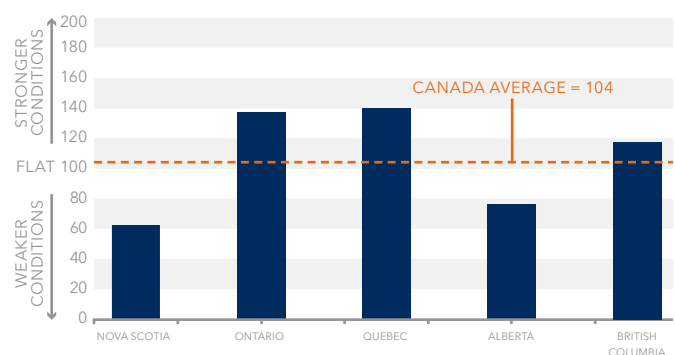
Source: Transwestern, Devencore

OFFICE INVESTMENT SALE INDICATORS 2020 OUTLOOK



Source: Transwestern, Devencore

OFFICE MARKET INDEX | BY REGION



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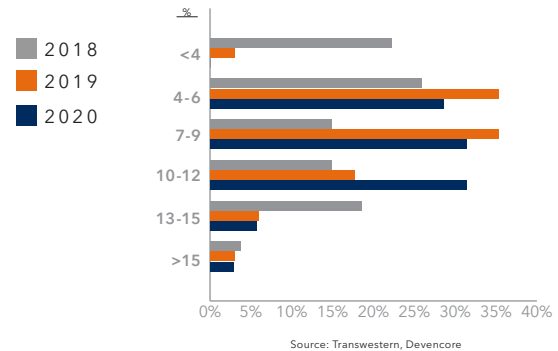


OFFICE MARKET

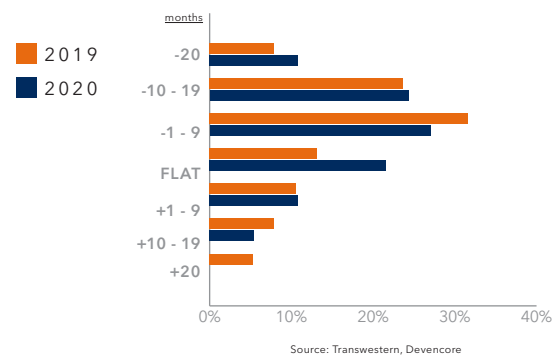


- 77% of respondents expect concession package levels to be flat or slightly lower in 2020.
- Roughly 70% of respondents expect investment interest and pricing to rise in 2020, with half of respondents expecting cap rates to remain flat.
- Regions anticipated to have stronger office market conditions in 2020 include Ontario, Quebec and British Columbia.

CHANGE IN OFFICE SPACE ALLOCATION PER EMPLOYEE



LENGTH OF OFFICE LEASE DECISION PROCESS





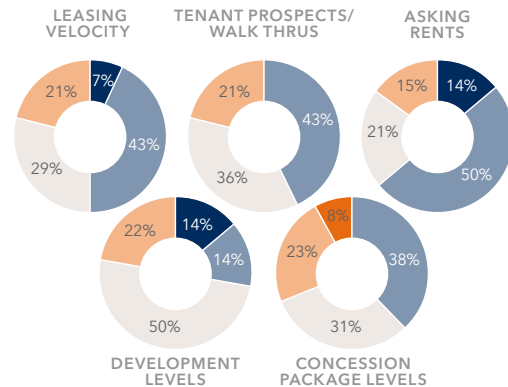
INDUSTRIAL MARKET



- Respondents expect conditions to be steady with most anticipating flat to slightly higher leasing velocity and tenant walk throughs. There is a sharp divide between regions, with respondents in Quebec and Ontario stating that the scarcity of available space is forcing tenants to renew, while respondents in Alberta are experiencing a flight to quality as tenants take advantage of lower rates due to available space.
- Market concerns stem from the current political environment, especially surrounding the energy sector. Despite this, 64% of respondents expect asking rents to rise, as the limited availability in select markets continues to spike rents. Additionally, land costs are on the rise as the availability of good sites continue to decrease.
- Half expect development levels to remain flat, given limited available developable land in prime areas.
- 69% anticipate flat to slightly rising concession package levels for industrial space.
- 57% of respondents predict cap rates in the industrial sector will remain flat during 2020.
- 86% of respondents expect higher investment interest in 2020, with pricing remaining steady to slightly increasing.
- The attraction for industrial investment by the capital markets continues to be high.
- Regions anticipated to have the strongest industrial market conditions in 2020 include Ontario, Quebec and British Columbia.

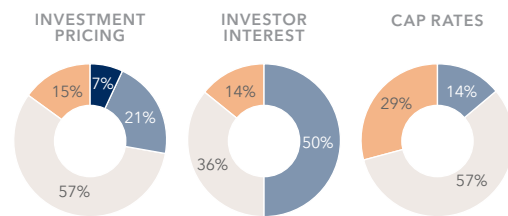


INDUSTRIAL MARKET INDICATORS 2020 OUTLOOK



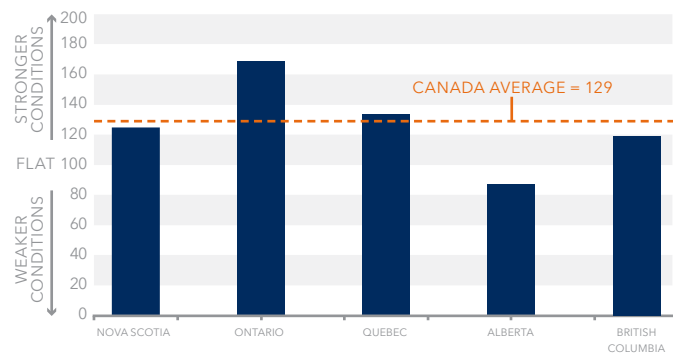
Source: Transwestern, Devencore

INDUSTRIAL INVESTMENT SALE INDICATORS 2020 OUTLOOK



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INDUSTRIAL MARKET INDEX | BY REGION



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