



U.S. Commercial Real Estate Overview & Forecast

**Newmark Grubb
Knight Frank**

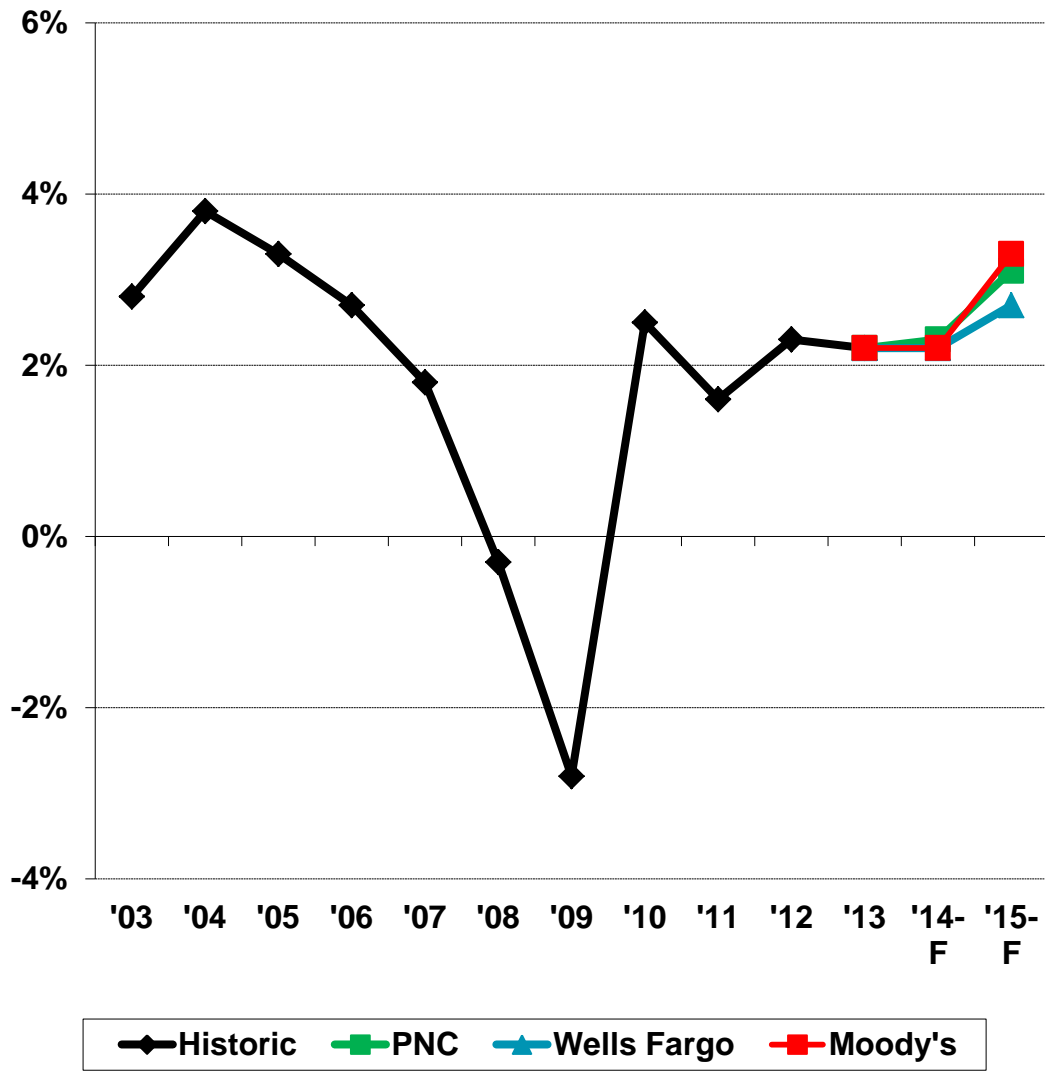
Presented by:

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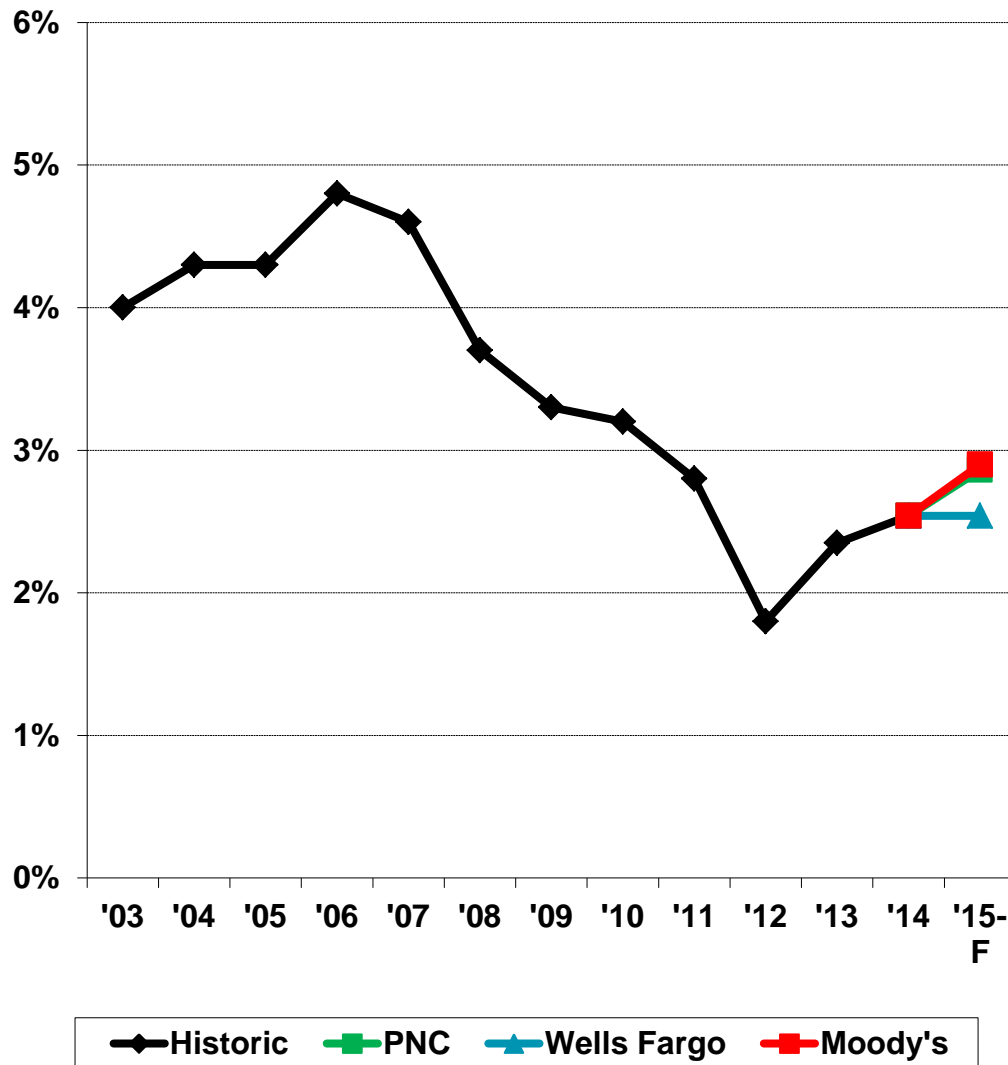
2015: Strongest Expansion In 10 Years



- ◆ 2014 got off to a slow start due to harsh winter, but growth escalated in the remainder of the year.
- ◆ 2015 looks stronger, buoyed by business cap-ex, construction, and low oil prices leading to a modest uptick in consumer spending.
- ◆ The Outlook for 2015 GDP is strong. Moody's forecasts 3.3%, PNC 3.1% and Wells Fargo 2.7%. 2015 is expected to bring the strongest expansion of GDP since 2005.

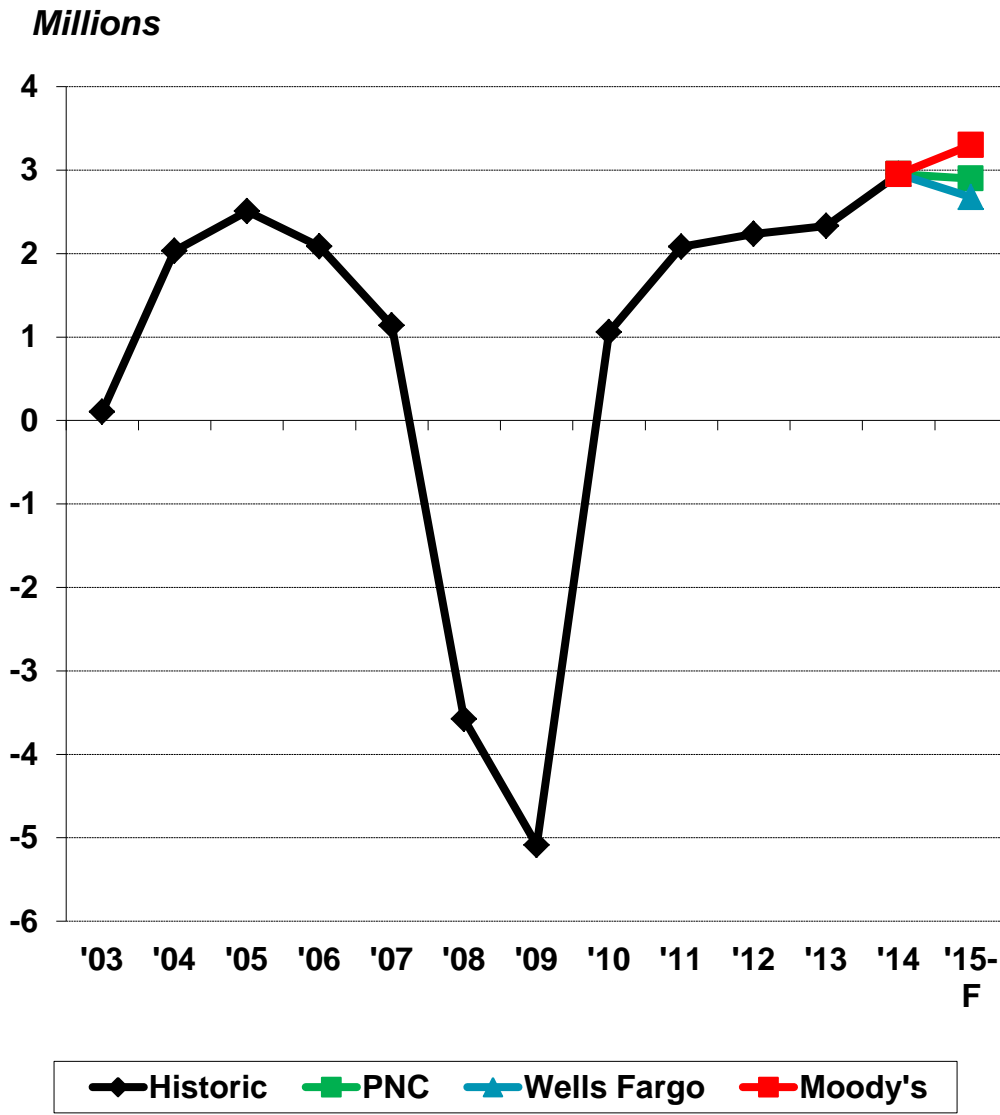


Interest Rates Expected to Rise Slowly



- ◆ The 10-year Treasury yield, which began 2014 at 3.00% and was expected to rise, ended the year at 2.17%. It has fallen below 2,00% in early January.
- ◆ The Federal Reserve is expected to begin raising the short-term federal funds rate in the summer of 2015.
- ◆ The plunge in oil prices and slowing global growth will restrain inflation, giving the Fed room to keep rates low if they so choose.
- ◆ Analysts expect the 10-year yield to rebound slightly in 2015 but remain low by historic standards.
- ◆ 10-year yield should be $\approx 4\frac{1}{2}\%$ in vigorous recovery cycle.

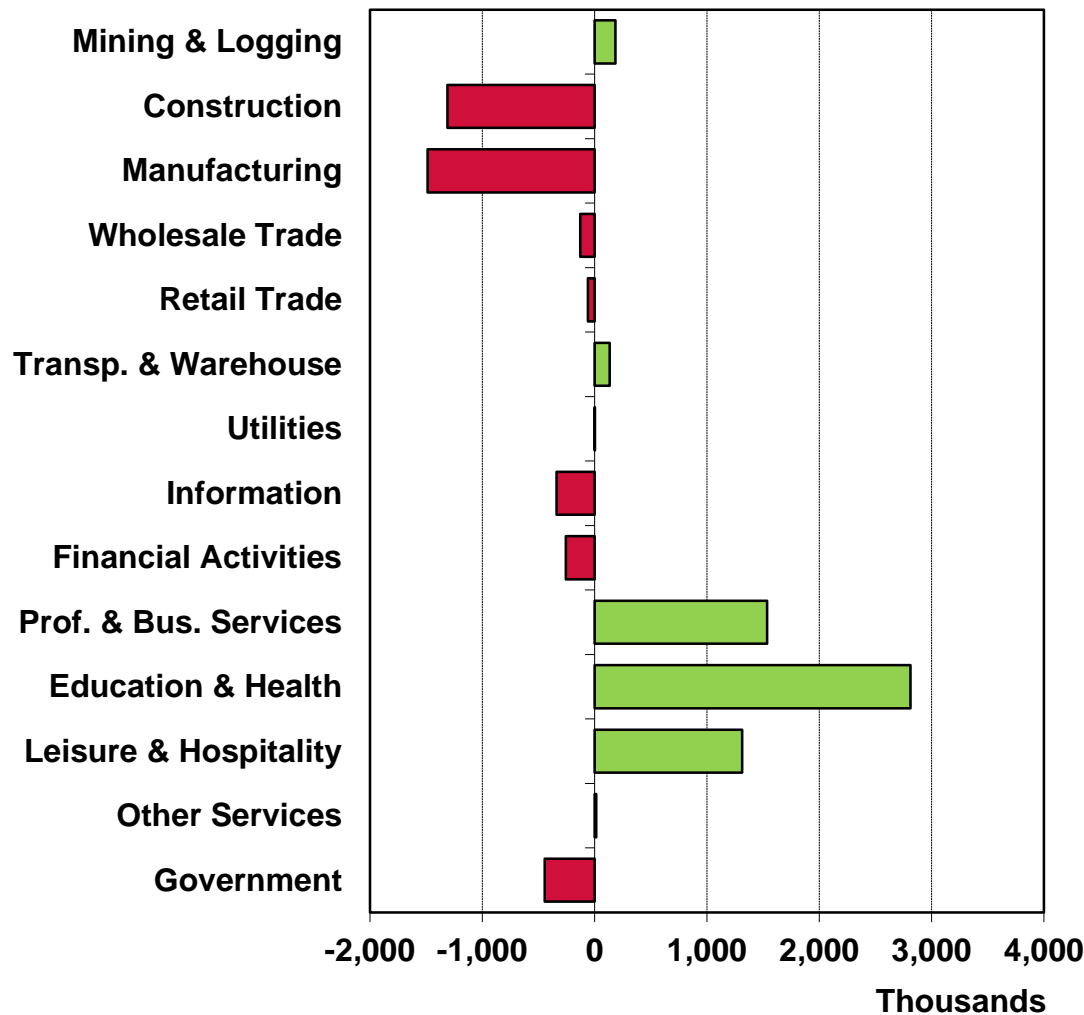
2014 Job Growth Strongest Since 1999



- ◆ Hiring surged in 2014 as employers added just shy of 3M-plus net new payroll jobs, the highest level since the tech-bubble year of 1999.
- ◆ Analysts expect hiring to remain strong in 2015, although only one of the three analysts plotted in the adjacent chart expect job creation to accelerate this year (Moody's).
- ◆ Slowing global growth could restrain hiring at U.S. multi-nationals.



Recovery Uneven Among Sectors



- ◆ Since January 2008, when total employment hit its pre-recession peak, the sectors of education and health services, professional and business services, and leisure and hospitality have added 5.7M net new payroll jobs, while the manufacturing and construction sectors trail their pre-recession peaks by a combined 2.8 million jobs, as of December 2014.



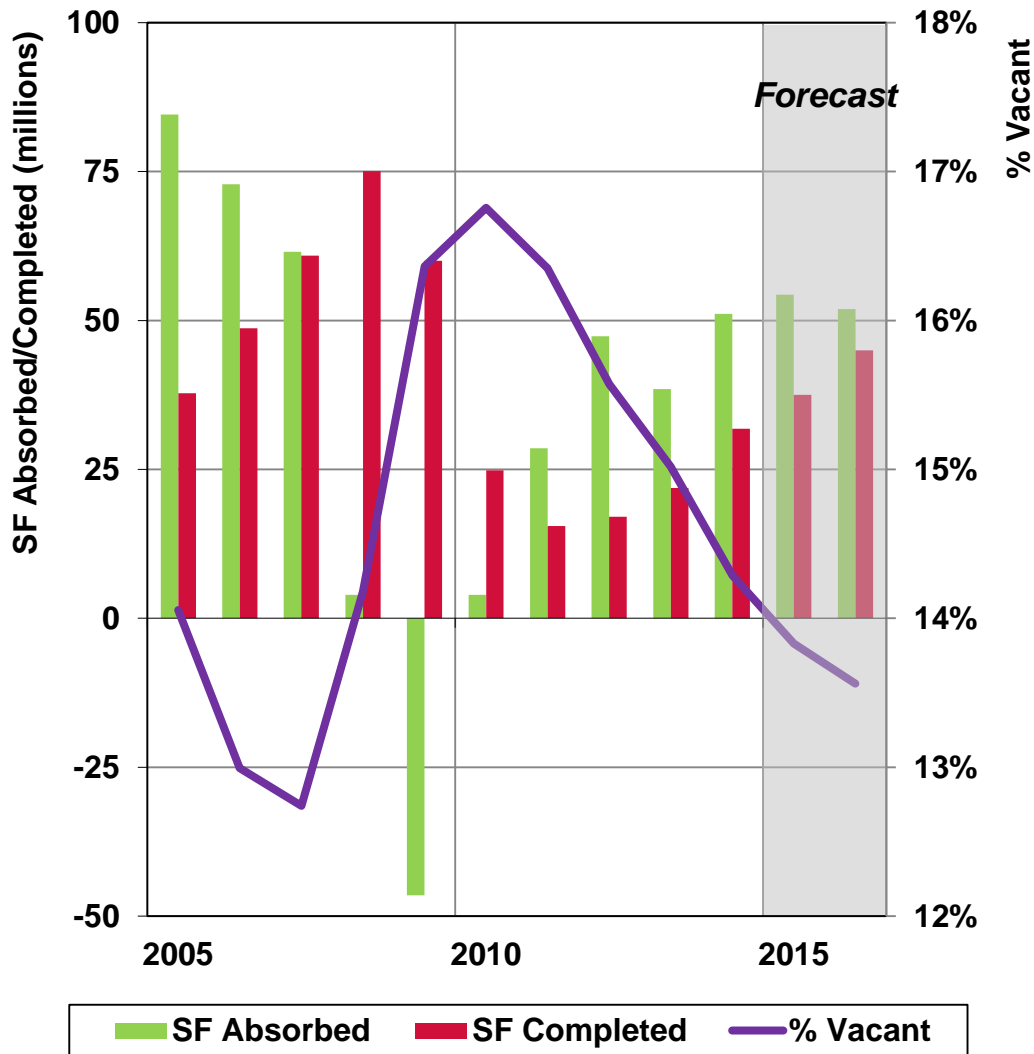
You Think Stocks Are Volatile?



1. Saudi Arabia keeps pumping.
2. Iraq invades Kuwait.
3. Demand from China
4. Recession, financial crisis
5. Fracking + demand slows

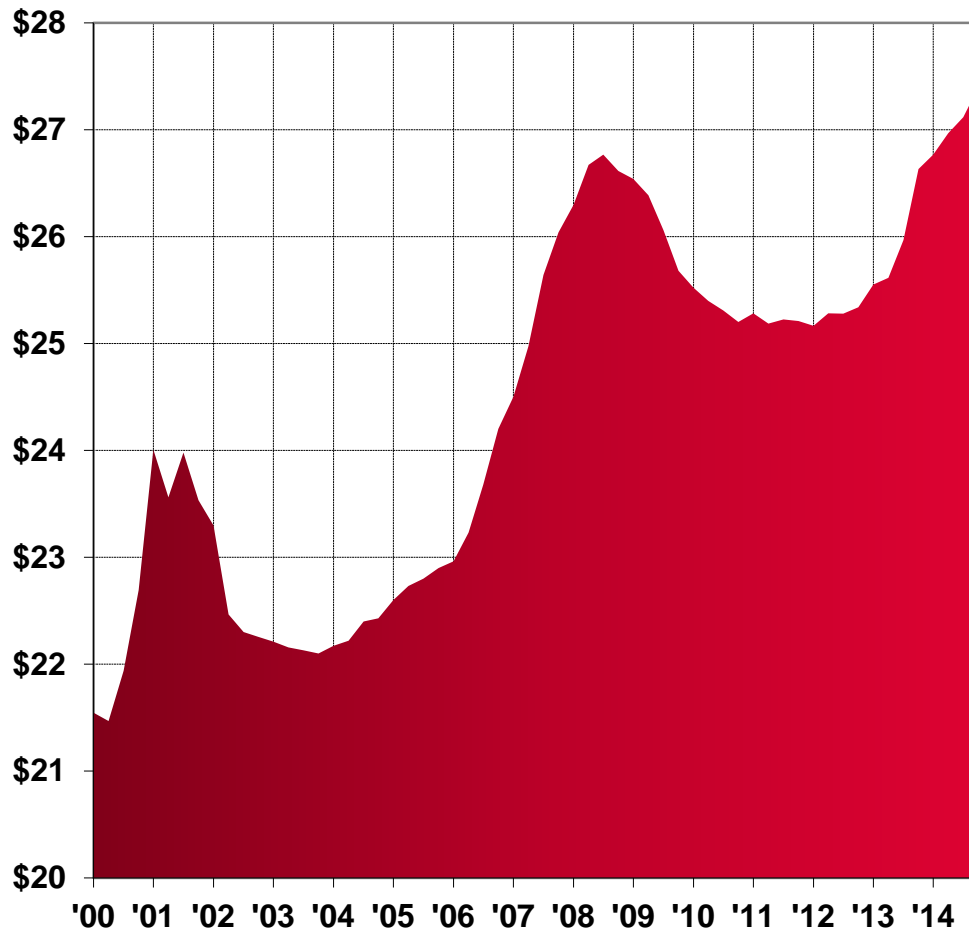
- Oil Price Forecast, Year-End 2015:**
- NYMEX futures contracts: \$56.32
 - Energy Information Admin.: \$67
 - Kansas City Fed: \$70
 - Moody's: \$80

Momentum Is Accelerating



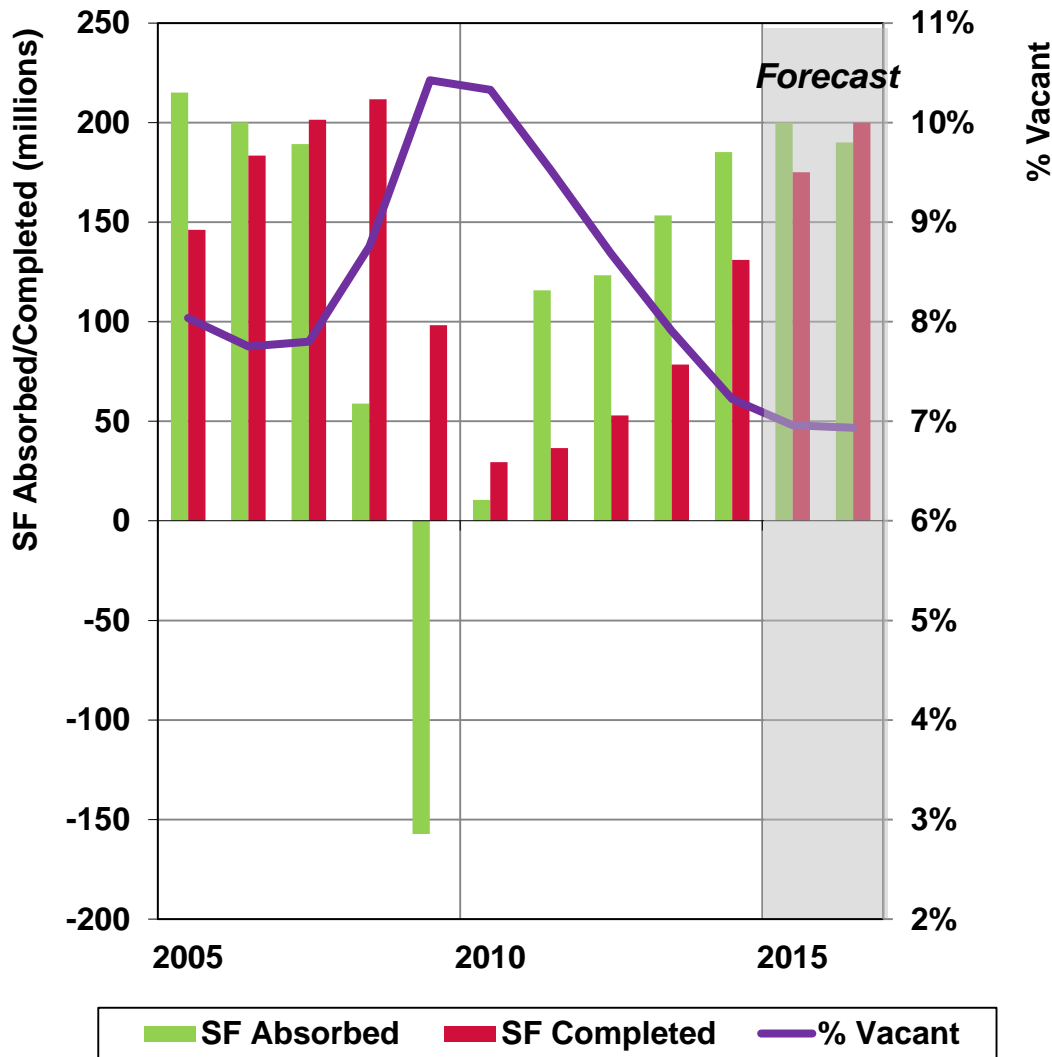
- The office leasing market is heading into 2015 with a full head of steam.
- For 2014, absorption of 51.1M SF easily trumped completions of 31.8M SF.
- Vacancy ended 2014 at 14.3%, down from 15.0% at year-end 2013.
- With job growth the strongest since 1999, look for vacancy to end 2015 at 13.8% and 2016 at 13.6%.

Expect Rent Gains of 4-5% in 2015-16



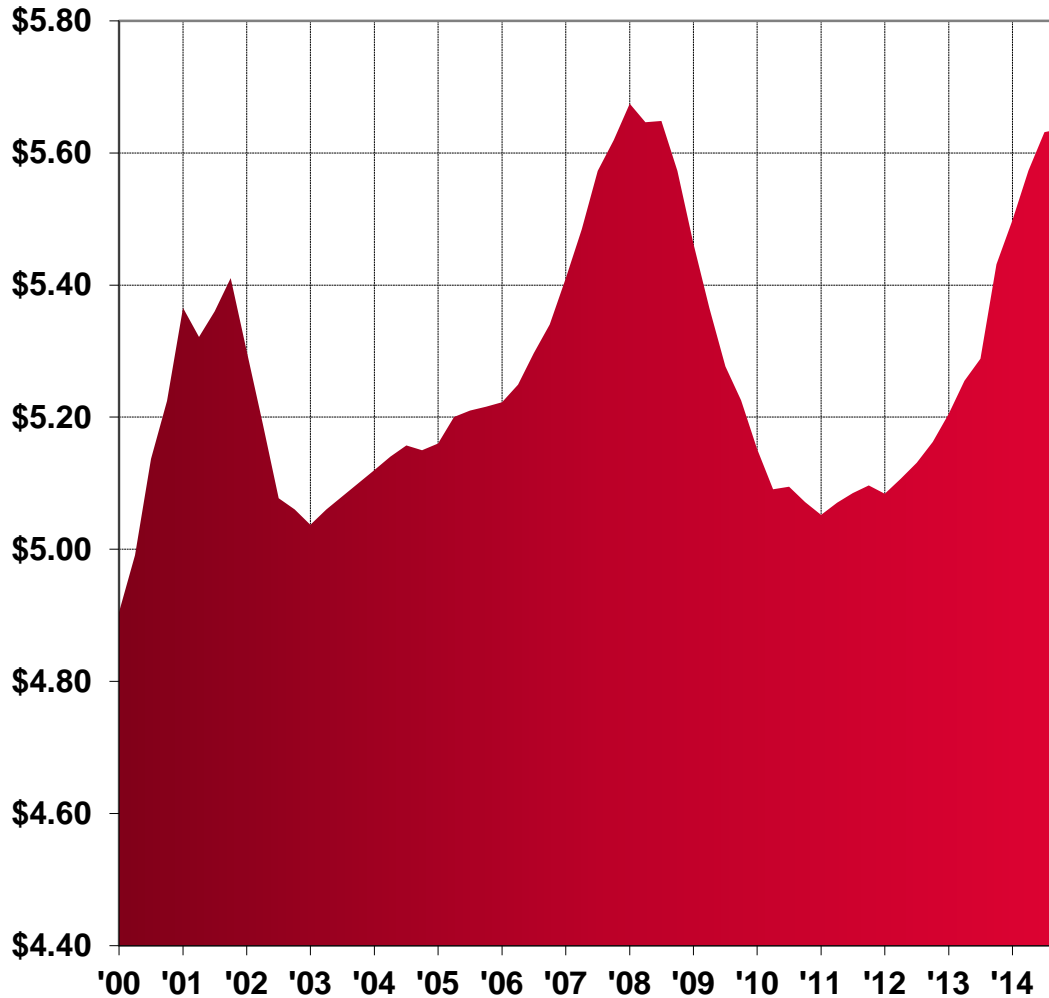
- ◆ The average asking rental rate ended the fourth quarter at \$27.40/SF, gross, up by 1.0% over the quarter and 2.9% from a year ago.
- ◆ Rent in San Francisco surged by 16.3% in 2014, followed by Charleston with a gain of 12.5%—the only two markets above 10.0%.
- ◆ Several markets posted flat-to-slightly-negative rents in 2014, including Northern and Southern NJ, Fairfield Co, CT and Milwaukee.

Market Will Peak In 2015-16



- The industrial leasing market is gaining momentum.
- For 2014, absorption of 185M SF exceeded completions of 131M SF.
- Vacancy ended 2014 at 7.2%, down from 7.9% at year-end 2013.
- With GDP expected to hit a 10-year high in 2015, look for vacancy to fall further, ending 2015 at 7.0% and 2016 at 6.9%.

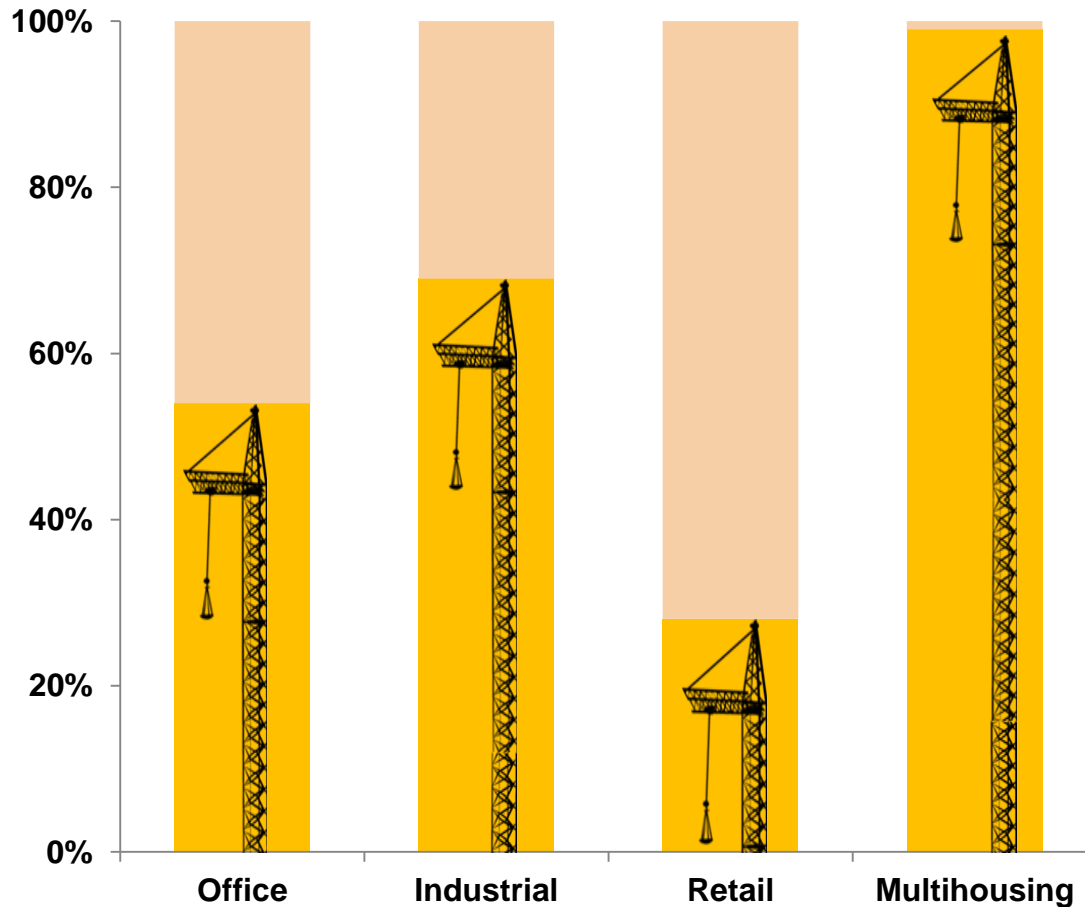
Expect Rent Gains of 3-4% in 2015-16



- ◆ The average asking rental rate ended 2014 at \$5.64/SF, triple net, up by just a penny from Q3. The yearly gain was more impressive—an increase of 21 cents or 3.8%.
- ◆ Of the 53 markets tracked in the survey, eight markets posted double-digit rent gains in 2014, led by Denver at 16.1%. Seven of the eight markets were in the Western U.S.

Space Under Construction, % of Prior Peak

Supply Chasing Demand



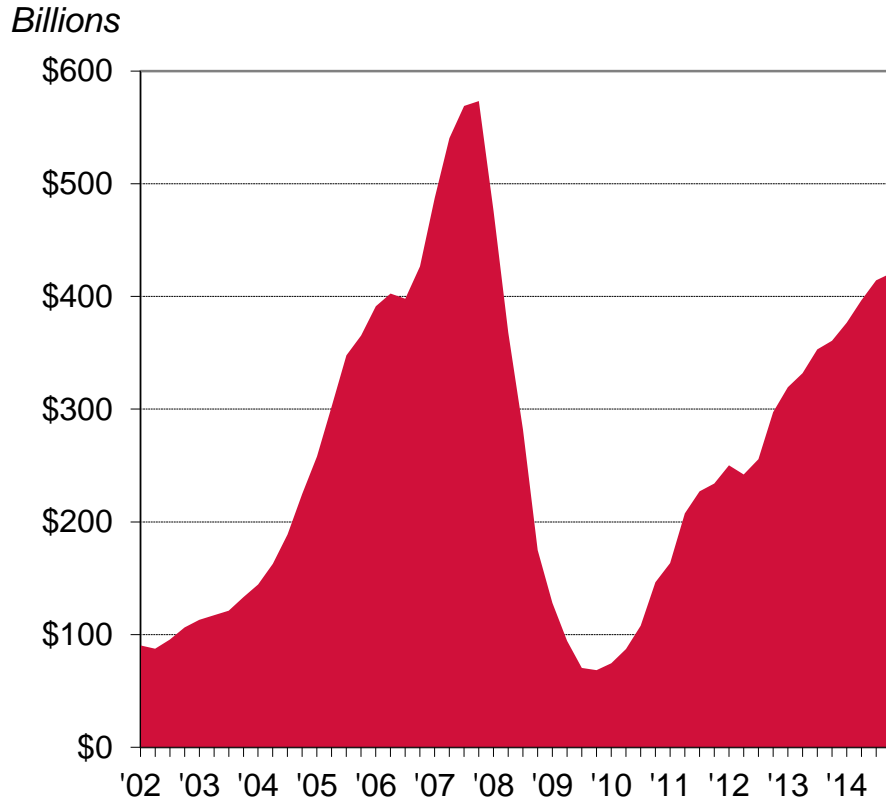
The multihousing construction pipeline is 99% of the prior peak with much of the new construction occurring in downtowns and nearby mixed-use neighborhoods, which have become locations of choice for millennials and empty nesters alike.

Sales Rising, Cap Rates Sinking

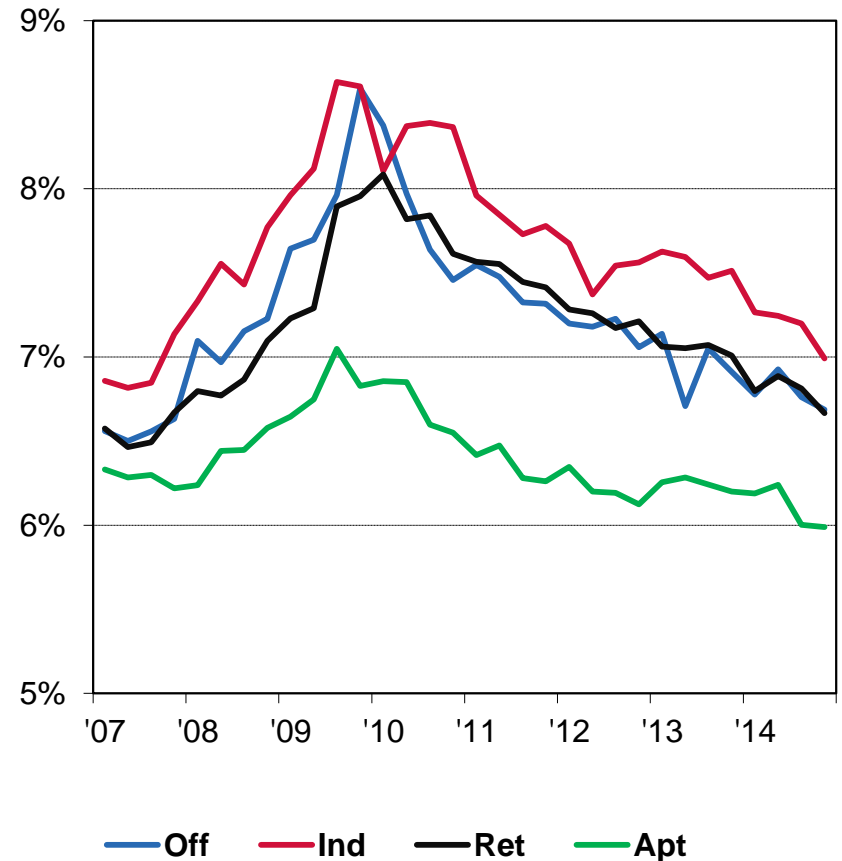
2014 Sales Up 17%, Average Cap Rate Down 20 BPS Past 4 Qtrs.



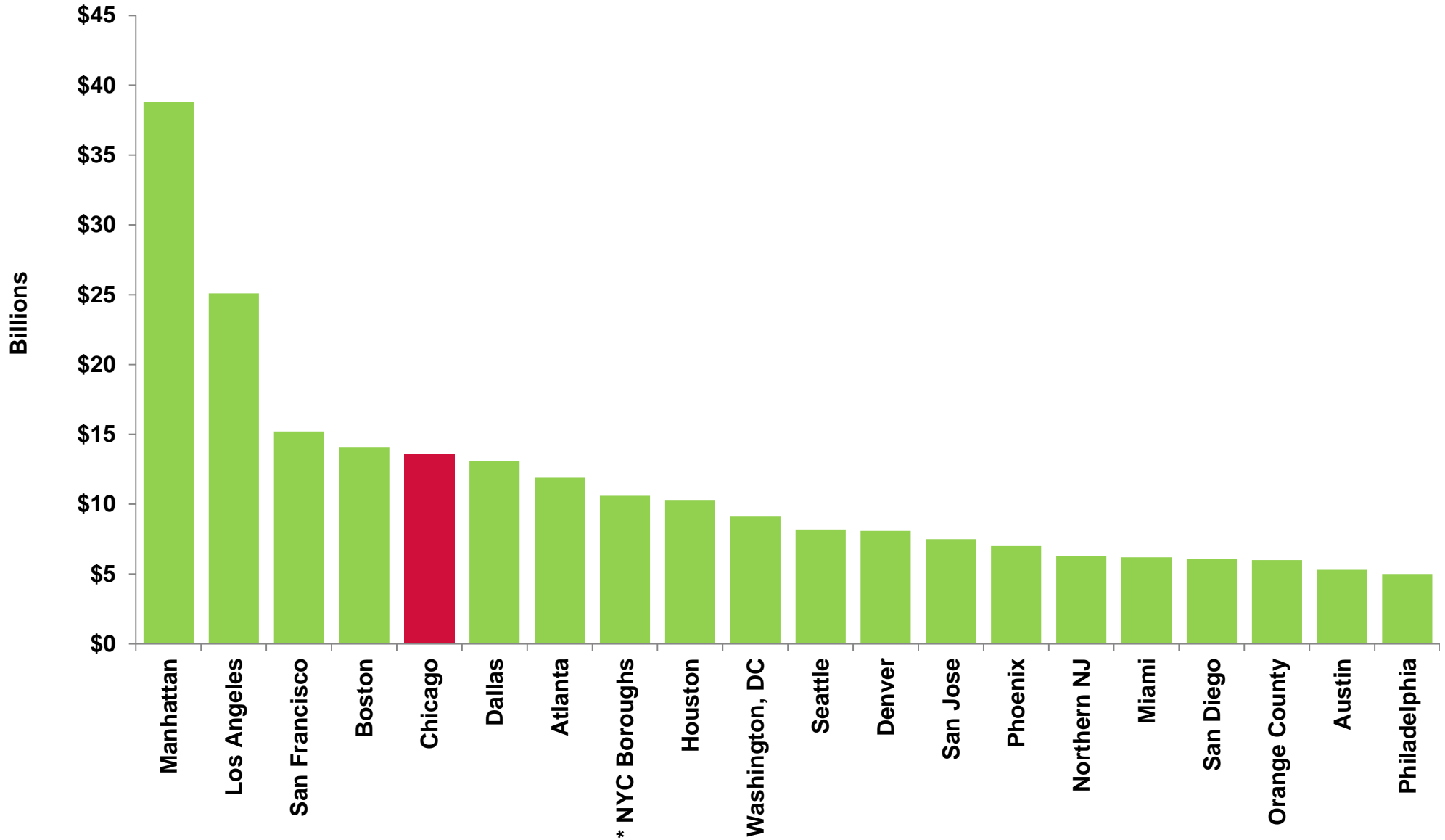
CRE Investment by Quarter
Rolling 4-Quarter Totals



Average Quarterly Cap Rates

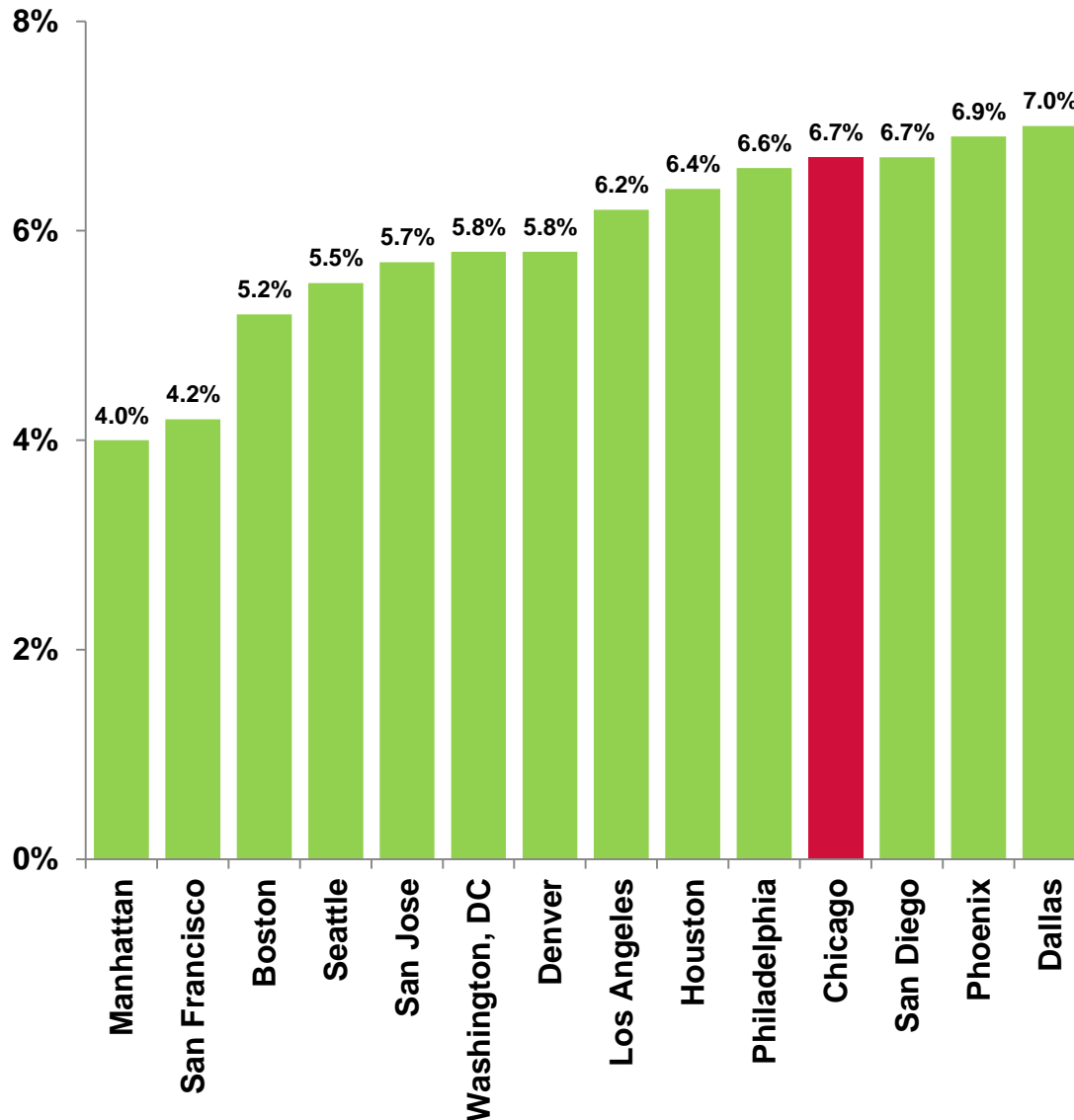


Chicago Fifth Strongest Sales Market in U.S.



Office Cap Rates, Selected Markets

Chicago Still a Bargain



- ◆ Cap rates on office buildings in Manhattan and San Francisco have trended lower in the past year as strong demand in those cities continue.
- ◆ Liquidity and projected rent growth have pushed some notable sales in the New York and San Francisco markets towards cap rates in the 3-4% range.