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Media Release

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• Please click on link to view and download Avison Young's *2019 North America, Europe and Asia Forecast*, FULL REPORT:
https://avisonyoung.uberflip.com/i/1071065-ay2019northamericaeuropeasiaforecastjan15-19final

• **Click here to view Avison Young CEO Mark Rose's *2019 Commercial Real Estate Forecast* VIDEOCAST:**
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Avison Young releases 2019 North America, Europe and Asia commercial real estate forecast

CRE 2019: Opportunities abound amidst strong demand, anticipated repricing and strategic change

Toronto, **ON** — Set against the backdrop of a rapidly increasing world population, global GDP growth, relatively strong economies and heightened job creation, real estate markets are thriving. Fundamentals continue to show great strength amidst restrained building activity, strong demand and accordant rising rents. Despite political headwinds such as trade disputes, Brexit, currency fluctuations and interest-rate hikes, quality real estate continues to be occupied and in demand.

These are some of the key trends noted in **Avison Young's *2019 North America, Europe and Asia Commercial Real Estate Forecast***, released today.

The annual report covers the office, retail, industrial and investment sectors in 68 markets within seven countries on three continents: **Calgary**, **Edmonton**, **Halifax**, **Lethbridge**, **Montreal**, **Ottawa**, **Regina**, **Toronto**, **Vancouver**, **Waterloo Region**, **Winnipeg**, **Atlanta**, **Austin**, **Boston**, **Charleston**, **Charlotte**, **Chicago**, **Cleveland**, **Columbus**, **OH**; **Dallas**, **Denver**, **Detroit**, **Fairfield County**, **Fort Lauderdale**, **Greenville**, **Hartford**, **Houston**, **Indianapolis**, **Jacksonville**, **Las Vegas**, **Long Island**, **Los Angeles**, **Memphis**, **Miami**, **Minneapolis**, **Nashville**, **New Jersey**, **New York**, **Oakland**, **Orange County**, **Orlando**, **Philadelphia**, **Phoenix**, **Pittsburgh**, **Raleigh-Durham**, **Reno**, **Sacramento**, **San Antonio**, **San Diego**, **San Francisco**, **San Jose/Silicon Valley**, **San Mateo**, **St. Louis**, **Tampa**, **Washington**, **DC**; **West Palm Beach**, **Westchester County**, **Mexico City**, **Coventry**, **London**, **U.K.**; **Manchester**, **Berlin**, **Duesseldorf**, **Frankfurt**, **Hamburg**, **Munich**, **Bucharest** and **Seoul**.

"While the last few weeks have certainly been a rollercoaster ride for the world's equity markets, the headline is: we continue to feel very positive about opportunities in the real estate environment for the year ahead," comments **Mark E. Rose**, Chair and CEO of Avison Young. "At Avison Young, we believe that more capital is available to move into real estate debt and equity than at any other time. The next wave of investment is not a matter of if or when – it's just a matter of price."

Rose continues: "Understanding demand is the key to navigating the current market. While workplace changes can be confusing – driven by technology, generational trends and the new economy – they largely represent positive developments for our industry. As co-working and flexible-office providers take down a significant amount of space, what we are seeing is a change in tenancy – not a slowdown in occupancy. Leasing is stable – and longer-term in nature – and most businesses retain their office footprint throughout economic cycles."

An office experience is taking the place of the static workplace of prior generations, states the report. Energy, light, collaboration, purpose, sustainability, and health and wellness are as much drivers of the work experience as the underlying businesses.

Industrial is today's property class of choice and will probably regress to the mean, but will still be a driving force as methods of production and distribution continue to evolve. Distribution to the home and the last mile are top of mind among industrial owners and occupiers; accordingly, same-day delivery is the goal of retailers and consumers as the world's population continues to increase.

Rose adds: "On the investment side, as pundits have noted, we are at a pricing top and have been there for a few years. Rising interest rates should be pushing cap rates up and prices down, but demand for real estate and longer-term views on a potential global recession are working to keep pricing within a narrow band. The real estate industry has matured: buyers hold more equity and are generally not chasing deals. This situation has created a tug-of-war between the bid and the ask, and sets up a modest – but healthy – pricing correction even as economic growth takes hold and interest rates rise globally."

On the North American front, though trade was discussed ad nauseam, property markets in the U.S., Mexico and Canada performed well in 2018. The Mexican economy has continued to exhibit resilience in a complex environment despite the volatility and uncertainty surrounding the federal-government-transition process in Mexico and other international factors.

Across the Atlantic, despite a healthy property sector, the U.K. market remains susceptible to political risk – namely Brexit. German markets are exhibiting healthy leasing and investment demand, while a lack of product hinders stronger growth. Significant construction, industrial expansion and sustained prices are forecasted to have positive impacts in Bucharest, Romania.

Meanwhile, co-working office providers have become core occupiers in Seoul, South Korea – the location of Avison Young's first office in Asia.

CANADA

The 10-year bull market in the Canadian commercial real estate sector continued in 2018, supported by the lowest unemployment rate in at least four decades. For several months, the lack of an amicable trade deal with the U.S. was a destabilizing factor on many fronts, but the prospective United States-Mexico-Canada (USMCA) agreement removes some of the doubt. Meanwhile, new federal and provincial measures appear to have stabilized the housing market.

“Strong performances in 2017 and 2018 have led to supply constraints amid a maturing commercial real estate cycle in Canada,” says **Bill Argeropoulos**, Principal, Practice Leader, Research (Canada) for Avison Young. “Activity is expected to remain stable in 2019 with a general supply constraint being the primary brake on property market growth. Meanwhile, occupiers and owners will have to adjust to rapid technological advances during a period of moderating economic growth.”

According to the report, Canada’s **office** sector remained sound in 2018, though softness persisted in Alberta. Competition for office space, especially in downtown markets, continues to underpin the sector’s fundamentals nationwide. Office vacancy declined in almost every market, lowering the Canadian average to 11% near year-end 2018. A similar story is expected in 2019 although vacancy will rise modestly to 11.3% by year-end after construction nearly doubled in 2018.

Argeropoulos notes: “Toronto and Vancouver reaffirmed their presence among North America’s top-performing office markets as Canadian markets captured five of the continent’s 10 lowest vacancy rates.”

The report states that low single-digit vacancy characterized Canada’s **industrial** markets. Overall industrial vacancy continued to decline, falling to a new record-low of 2.9% near the end of 2018 – and is expected to edge lower in 2019. Toronto (1.3%) and Vancouver (1.5%) posted North America’s lowest vacancy rates in 2018 and are projected to rank among the tightest three markets in 2019.

Argeropoulos adds: “Canada’s industrial market outperformed many observers’ expectations in 2018 – and is set to do so again in 2019. Competition from the emerging recreational-cannabis industry will add to the already robust e-commerce demand this year as owners and occupiers continue to grapple with rising land costs and the eroding supply of developable land – most evident in Vancouver and Toronto.”

Retail properties remain the most unpredictable commercial real estate assets in Canada. Retail vacancy remains in flux as a lingering result of the failures of some prominent chains, while big-box chains closed underperforming locations amid the ongoing e-commerce revolution.

“The focus on creating memorable consumer experiences will endure across the Canadian retail landscape in 2019. Significant investment in technology to track millennial behaviour is being made by retailers developing and enhancing their physical locations and online market shares while seeking the correct balance in the symbiotic relationship between bricks and clicks,” says Argeropoulos.

With the final tally yet to come, 2018 was another record year of **investment**, exceeding the previous high of $36 billion set in 2017. Capital is abundant and, in search of higher yields, investors are looking to take advantage of landlord-favouring markets and sectors offering significant rental-rate growth.

He concludes: “Supported by relatively sound leasing fundamentals in almost every market, debt reduction and asset and geographic diversification will continue in 2019, while asset values are expected to remain elevated and cap rates low for prime assets.”

U.S.

"The U.S. market continued to provide fairly predictable returns to investors in 2018 despite some turbulence, both economically and geopolitically. The strong correlation between job growth and real estate value was again demonstrated in 2018 as the U.S. added more than 2 million jobs which, in turn, bolstered occupancy levels as well as consumer confidence," comments **Earl Webb**, President, U.S. Operations for Avison Young. "Vacancy rates across all property types remain low when compared with historically similar market cycles. Capital flows into commercial property in 2018 remained roughly equivalent to those of the prior year, and foreign investors continued to be significant investors across all U.S. property types, especially office and industrial."

Webb adds: "The property markets continued to perform well in 2018, demonstrating resilience in the face of substantial development, and total sales were on track to outpace the 2017 total volume after declining for two years from a peak in 2015.

According to the report, Avison Young is tracking 46 U.S. **office** markets totalling 5 billion square feet (bsf) of inventory. As year-end 2018 approached, overall national vacancy was 12.1%, down 20 bps compared with year-end 2017. San Francisco (3.5%), Charleston (7.1%), Nashville (7.1%) and Columbus (7.7%) recorded the lowest vacancy rates.

"Co-working operators are dominating U.S. office markets as tenants pay up for term flexibility, amenities and the ability to shift long-term lease obligations off their books," says **Margaret Donkerbrook**, Principal, Practice Leader, Research (U.S.) for Avison Young. "Landlords are feeling pressure to renovate older properties to compete; as a result, plug-and-play speculative suites and tenant amenities, such as conference centres and lounge areas, are becoming ubiquitous. Ultimately, there will be some shake-out in the category; however, co-working will remain part of the real estate lexicon."

The report goes on to say that **retail** continues to be the asset type most impacted by change even though consumer spending increased in 2018 – and experiential and service retail outlets are blossoming. E-commerce sales grew by 14.5% year-over-year. Looking forward, online grocery sales and related home-delivery services represent a nascent opportunity for both e-commerce and industrial logistics.

The 10.7-bsf **industrial** market inventory increased by 2% after almost 200 msf was delivered in 2018, but strong leasing demand held vacancy flat at 5%. Distribution-logistics and e-commerce demand led to upticks in construction and speculative development in many key U.S. markets, including Atlanta, Chicago and Dallas – with each having more than 18 msf underway. Overall, the U.S. construction pipeline near the end of 2018 was 19% larger than at year-end 2017, and projects underway were 32% preleased.

Beyond distribution, core data centre markets are expanding to prepare for the arrival of 5G networks; increased cloud usage by consumers and Big Data suppliers; and higher blockchain and AI adoption levels in such markets as Northern Virginia, Phoenix, Chicago, Reno and Dallas. Construction starts are cooling in some metros that are critically land-constrained such as San Jose and West Palm Beach, but most markets feature burgeoning industrial-property-development pipelines. Industrial vacancy is expected to rise slightly by year-end 2019.

Investors remained steadfast in their support of the U.S. commercial real estate market in 2018. Sales were led by the multi-family and office sectors and foreign capital continued to flow into the U.S. Canada was again the top source of foreign capital, accounting for more than $40 billion of transactions and doubling its **investment** in comparison with 2017. France ($8.7 billion), Singapore ($6.3 billion), China ($5.6 billion) and Germany ($4.9 billion) rounded out the top five sources of foreign investment in 2018. Foreign and private capital will continue to sustain the U.S. investment market in 2019.

"Even though year-over-year volumes were fairly consistent in the U.S., activity was uncharacteristically weighted towards the early part of 2018," notes **John Kevill**, Principal and Managing Director of U.S. Capital Markets for Avison Young. "This situation was largely a product of the broader economic volatility, and we anticipate that early 2019 will bring an uptick in transactional activity, particularly with fresh lender allocations and the availability of transitional debt. Expect to see institutional investors buy smaller properties than they typically have been investing in, thereby putting pressure on the private investors who have been dominating the under-$30-million market segment."

Webb concludes: "Our outlook for 2019 remains consistent with that for the prior year. Modest interest-rate increases by the Federal Reserve are expected, but at a much decreased pace. The U.S. economy is strong overall; and with continued job-growth-related occupancy levels healthy, that strength should be maintained. However, the supply of labour, especially skilled labour, will have an impact on operating costs as well as the cost of new construction. Technological innovation – in procurement, occupancy optimization, workplace strategy, supply-chain management and many other areas – will continue to keep our industry in an evolutionary mode."

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Please turn to the listed pages of the report for *Forecast* highlights in specified national and local markets. For additional local and national info/comment, please contact the Avison Young representatives listed below. Thank you.

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