2018 Annual Review

Avison Young 2019 Forecast

North America, Europe and Asia

Partnership. Performance.

BEST MANAGED COMPANIES CANADA Platinum member

Contents

A Message From...

Mark E. Rose, Chair and CEO

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

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. In all markets where Avison Young has operations, fundamentals continue to show great strength with 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.

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. Yes, the velocity of capital transactions will swing up and down over short-, intermediate- and long-term cycles, but when you look at the charts, those swings recover very quickly. Investors are seeking cash-flowing real estate assets as primary investments to go along with alternatives as part of their diversification strategies.

Leasing is stable and, although skeptics think otherwise, occupancy does not recede with just a discussion of oncoming crises. Leasing is longer-term in nature and most businesses retain their office footprint throughout economic cycles.

It is true that, for more than a decade, government

intervention, quantitative easing and near-zero interest rates have fueled significant growth in asset pricing – across all financial sectors – to record levels. Global property sales volumes peaked in 2015, and after a two-year decline in volume, 2018 levels were on pace to meet 2017 volume. Performance and returns are relatively stable because of tenant absorption, disciplined supply, and stubbornly low capitalization rates.

As pundits have noted, we are at a pricing top and have been there for a few years. Along this journey, capitalization rates declined in lockstep with interest rates, but in 2019, we are in a rising-interest-rate environment. Rising interest rates should be pushing capitalization 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.

We also believe that workplace changes – primarily driven by technology, generational trends and the new economy – represent largely positive developments for our industry. As co-working and flexible-office providers take down a significant amount of space, we are seeing a change in tenancy – not a slowdown in occupancy. Adding to the confusion are stories of changes in space usage, disruption, and changes brought on by efficiencies gained from technology. Changes to U.S. and IFRS accounting standards are having a significant impact on how we account for leases. Flexible short-term leases and licenses are now considerations, as all businesses will need to capitalize the traditional lease on their balance sheets while the cash flow remains unchanged. Occupiers are looking for flexibility in lease terms and tenant fit-outs that meet the needs and views of a changing, millennial-led workforce. An office experience is taking the place of the static workplace of prior generations. Energy, light, collaboration, purpose, sustainability, and health and wellness are as much drivers of the work experience as the underlying businesses.

We are pointing out all of these factors because our ability to sort through the "noise" is crucial to planning and advising. Offices are becoming more efficient, but population growth is swelling and employment is strong. 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.

Changes in usage have also challenged certain property types. The last two years have been bruising for retail assets as Amazon's story stole the narrative. The U.S., for example, has an abundance of obsolete retail inventory, but showrooms, physical distribution and experiential retail are still important and thriving. Retail investment is stable and will once again produce significant returns when class B and C shopping centres are repurposed. All of these issues are scary in the absence of information, but are quite positive and healthy as the e-commerce and distribution sectors mature and commercial property cements its place as a top-tier financial asset.

The real estate industry's ascension to mature status has tended to lag the rise of other sectors as personal and institutional capital allocations, combined with investors' strong personalities, have powered the industry narrative and thwarted innovation. At last, old-school and indifferent landlords and service providers have been pushed by the tech demands of users and, specifically, the momentum of co-working users and operators. Advances in technology, flexible office configurations, co-working practices and evolving workplace models are important trends that your real estate service providers can help you with and incorporate into your real estate strategy.

At Avison Young, we are envisioning the future of real estate services and it, too, is all about innovation as we align our partnership structure to exceed the needs of our clients. By building a global platform that is governed by our private, Principal-led company, we can take a longer view, invest in our clients and deliver solutions at the client and assignment levels. Our partners are tied together with the ownership of common shares in one company. This structure builds trust and collaboration with our client-relationship managers and client decision-makers.

We are the only global, full-service, privately held, Principal-led service provider in our industry and we rank client solutions above public shareholders. Avison Young is also a leader in global citizenship and corporate social responsibility, and we invest in the development, training, health and wellness of our staff. This competitive advantage has now been strengthened as we look forward to closing on the transformational acquisition of GVA in the United Kingdom. With this acquisition, Avison Young strengthens its position as a safe pair of hands in approximately 120 offices in 25 countries around the world for the benefit of our clients.

On behalf of the Principals, the staff and the Board of Directors of Avison Young, we wish you a very healthy, happy and prosperous 2019!

Mark Rose

Mark E. Rose
Chair and CEO

Click to Watch Mark Rose's 2019 Commercial Real Estate Forecast Videocast on Avison Young YouTube

A Message From...

Earl Webb, President, U.S. Operations

Strong economics fuel further growth in property markets

Avison Young had another highly successful year in 2018 in the United States as we focused on expanding our service capabilities in most of our markets and broadening our owner and investor client bases. While Avison Young did not open offices in any new U.S. markets during the year, we did add a number of new professionals and organizations to deepen our talent pool in virtually every U.S. office.

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. The Tax Cuts and Jobs Act signed December 2017 took full effect in 2018 and provided corporations with the tax relief needed to make added investments in people and infrastructure, resulting in continued space absorption and some new construction. Tariff-induced trade conflicts, while certainly disruptive to certain industries and some of Avison Young's clients, were largely absorbed by manufacturers and consumers in 2018 without significant disruptions in supply chains, resource availability or product sales.

The Federal Reserve continued to raise interest rates in small increments, creating slightly higher borrowing costs. Lending standards remain rigorous enough to stifle aggressive new construction with most lenders requiring substantial equity investment and/or significant preleasing completed. 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.

As in the prior year, unleveraged returns for quality assets remained in the high-single-digit range. Rent fundamentals remained strong with rising rents seen in most office and industrial markets, steady multi-family rents and ongoing weakness in big-box retail. Concession packages continued to creep upward as owners/landlords strived to maintain stabilized cash-flow levels and satisfy lender-coverage ratios. In the industrial sector, the ongoing growth of online purchasing and shifting supply channels have made the last mile of the retail/delivery system extremely valuable as tenants seek to obtain optimal distribution timing and ensure product availability.

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 labor, especially skilled labor, 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. Avison Young embraces all of these changes and is constantly pushing the envelope of innovation to streamline processes and assist our clients with their strategic real estate management, leasing and monetization needs while also providing many other innovation-driven improvements in service. Real estate returns should be maintained with growth in rentals offsetting slightly increased return requirements driven by rising financing costs. Transaction volume is expected to be at approximately the same level recorded in both of the preceding two years with continued strong demand from foreign investors. As well, we anticipate new investment via Opportunity Funds due to their preferential treatment of capital gains. Occupiers will continue to focus on reducing costs while providing employees, especially the burgeoning millennial workforce, with optimal workplace environments. Live-work-play environments will remain at the forefront of much urban development intended for emerging millennials and retiring baby boomers alike.

All of us at Avison Young look forward to working with you in 2019 and we wish you tremendous success in all of your endeavors in the new year.

Earl Webb
President, U.S. Operations

A Message From...

The Managing Directors of Avison Young

New year full of opportunities following game-changing 2018

Avison Young will begin an exciting new era in 2019 after formally agreeing in November 2018 to acquire GVA, one of the U.K.'s leading and most diverse real estate advisory-led businesses. This transformational acquisition, expected to close in first-quarter 2019, underpins our ambition and intent to significantly expand our footprint in Europe and beyond. Once completed, the deal will reposition Avison Young on the global commercial real estate services stage. The combined entity is slated to have 5,000-plus professionals in approximately 120 offices across 25 countries. We are excited by the international collaboration potential and the opportunity to continue to build our unique partnership model.

The company's growth is focused on supporting our Managing Directors group at the local and regional levels to deliver a higher level of service. Our Principal-based ownership structure helps align our people with clients' needs. Our growth through investments is entirely aimed at meeting client goals and ensuring that we can serve all of your commercial real estate needs.

The GVA agreement followed a C$250-million, preferred-equity investment in Avison Young in July 2018 by Caisse de dépôt et placement du Québec (CDPQ), one of Canada's leading institutional fund managers, to turbo-charge our company's strategic growth plan. Avison Young made its first investment under its strategic partnership with CDPQ by acquiring leading U.K. firm Wilkinson Williams LLP and opening a new office in London's West End in August. In November, we opened our first office in Asia – in Seoul, South Korea. We will continue to be disciplined about deploying this capital in the right markets at the right time and within the right economic parameters.

Also in 2018, we acquired Vancouver-based Alcor Commercial Realty Inc. and Edmonton-based Veritas Management Services Inc.; launched a new life-sciences specialty practice group; and

> **Our growth through investments is entirely aimed at meeting client goals and ensuring that we can serve all of your commercial real estate needs.**

Donna Abood • Thomas Aguer • Charlie Allen • Nicolai Baumann • Jim
Tim Convey • Chris Cooper • Marshall Davidson, Jr. • Ted Davis •
Christopher Fraser • David Genovese • Dale Griesser • Matt Gunn
Greg Langston • Jonathan Larsen • Peter Leroux • Mitti
Doug Mereska • Arthur Mirante • Greg Morrison • Danny Nikitas
Guillermo Sepúlveda • Jason Sibthorpe • Ted Simpson • Ch
Todd Throndson • Brad Totten • Gregg von Thaden • Rand

conducted innovation challenges for our Managing Directors and the Emerging Leaders group. We strongly believe that the cultivation of an environment characterized by collaboration, diversity, inclusion, community service, transparency and wellness (both physical and mental) is equally critical to success.

With our exceptional growth comes the responsibility to expand our infrastructure and systems to serve our growing list of multi-market, cross-border and corporate-solutions clients. Our Managing Directors team has undertaken a significant collaborative effort to identify and execute on this critical part of our strategic plan. Throughout 2018, our local offices continued to strengthen core disciplines, making key hires and acquisitions while providing our owner and occupier clients with best-in-class real estate solutions. At the same time, we furthered our commitment to develop the next generation of real estate professionals through one-on-one mentoring and the excellent leadership training and resources of Avison Young University.

We continue to emphasize leadership in all of our client-service and business-development efforts as well as our Diversity and Inclusion group, health and wellness initiatives, awards and recognition programs, and the publication of our annual *Global Citizenship Report*. This report outlines yearly progress on our corporate social responsibility, sustainability and philanthropy strategy, including our Earth Day challenges and annual global Day of Giving.

We earned many awards and accolades in 2018. For example, *Real Estate Forum* magazine named Avison Young one of the Best Places to Work in Commercial Real Estate, and we achieved Platinum status with Deloitte's Canada's Best Managed Companies program. The Platinum status is a distinction that celebrates the entire Avison Young family and is a testament to our culture, strategy and, most of all, our people.

We wish you a happy and healthy New Year, and look forward to working with our new colleagues and clients across the globe in 2019.

Sincerely,

The Managing Directors of Avison Young

Becker • Brian Bellew • Michael Brown • Markus Bruckner • Sean Cahill • David Canta • In-Joon Choi • Michael Church
Steve Dils • Martin Dockrill • Bill Ehret • Amy Erixon • Mark Evanoff • Mark Evenson • David Fahey • Michael Fay
ning • Stephan Heinen • Jeffrey Heller • David Jewkes • Michael Keenan • Randy Keller • John Kevill • Ken Lane
Liebersohn • John Linderman • Christopher Livingston • Frank Loeblein • Corey Martin • Jayne McColl
s • Denis Perreault • Josh Peyton • Scott Pickett • John Pinjuv • Robert Rae • Pike Rowley • Wes Schollenberg
hris Skibinski • Nick Slonek • Michael Smith • Warren Smith • Rand Stephens • Udo Stoeckl • Ted Stratigos
el Waites • Tom Walsh • Mark Williams • Clay Witherspoon • Cory Wosnack • Alec Wynne • Stan Yoshihara

A Message From...

Investment Management

Market segmentation and proptech on the rise

As this investment cycle edges toward a record duration, property fundamentals remain healthy due, in large part, to construction being concentrated in the markets where absorption is strongest. Rather than create a consensus view, we are seeing more divergence in investor behaviour. Investors chasing returns are increasingly moving toward development and/or secondary-market strategies, while those investors looking to reduce risk are targeting well-designed debt products and creditworthy long-term leased investments. There is also a growing divergence in operating strategies. Leading large investors are culling assets unsuited, or uneconomical, to upgrade and are deploying new capital to renovate and develop the next generation of high performance buildings. They are also experimenting with (and making operating investments in) property technology companies (proptech), working to improve both operating performance and tenant experience. Some hope to become early leaders in an emerging industry with its sights on transforming the workplace.

Due to strong capital flows, rising interest rates have not had much effect on cap rates globally to date. The REIT market encountered some headwinds early in 2018 as interest rates rose, and public market consolidation is accelerating. By year-end, the stock market correction caught up with REIT repricing, except in Canada where REITs outperformed the TSX by 1500 basis points. The push to add property as a publicly traded segment worldwide continued with Sweden and Singapore launching REIT markets in 2018, joining a host of Asian countries that did likewise the last few years. Development levels remained below long-term averages despite tight market conditions and strong leasing volumes, leading to real rental-rate increases across most markets and property sectors.

Trailing 12-month total returns for property improved the most in Europe and Canada in 2018, after several years of weaker performance than the U.S. markets. With a scarcity of high-quality product coming to market and late-cycle market conditions prevalent, many asset managers (along with larger investors) are looking to deploy capital in their current portfolio to enhance competitive position and/or capitalize on cost savings and/or revenue enhancement opportunities by deploying new technology, including sensors, building-automation systems and tenant apps, among other strategies.

Proptech became a household term in the industry in 2018 when the amount of money allocated to the sector increased at least tenfold. Building-certification efforts also increased, particularly in new developments. In Canada, 80% of all new-construction projects obtain environmental certification, as do 40% of new buildings in the U.S. WELL, Fitwell and related wellness certifications increased in popularity in 2018, achieving a tenfold increase from the previous year in North American markets. In recent years, numerous studies designed to document the value impact of increasing ventilation, natural light and acoustical performance were completed. These studies have found remarkable improvements in employee productivity and cognition, and reduced absenteeism. While the benefits of these investments have yet to be incorporated into appraisal methodologies, conclusive results of multiple

What exactly does it mean to be in a "Smart Building"?

Greater productivity and comfort, lower costs and environmental impact

IoT-SUPPORTED TECHNOLOGY, SENSOR INFORMED MANAGEMENT, AI	ENERGY ENHANCED, GRID INTEGRATED, RENEWABLE, BATTERY STORAGE	HEALTH CONSCIOUS, NON-TOXIC, DAYLIT, WELL VENTILATED, QUIET	FLEXIBLE (SPACE CONFIGURATIONS, USES, FINANCIAL ARRANGEMENTS)	DIGITALLY HIGH PERFORMING, SYSTEM CONNECTIVITY, CYBER SECURE

studies show that higher performance translates into faster lease-up, higher rental rates and tenant retention, and improved occupant satisfaction.

Technology is changing users' expectations of landlords as well as requirements for space performance, including data integrity and privacy, workplace sustainability and configurational flexibility. Indoor air and light quality improvements, long monitored in Europe, are moving onto the radar of leading North American operators as IoT technology facilitates easy collection of this data. Co-working solutions, including startup incubators, are some of the hottest categories, securing nearly 25% of leasing volume in major markets around the globe.

Predictions for the year ahead: 1) increased use of data analytics to inform capital investments and tenant-relocation decisions. Data analytics will also form the basis of building-operations improvements; 2) consolidation pressure in the REIT sector where many companies are trading at steep discounts to NAV, and on the proptech sector as winners and losers become more evident and scale becomes more important; and 3) modest property-level returns as real rental-rate increases offset cap-rate pressure from rising interest rates. On the services side, there is growing divergence in strategies and results between legacy providers and tech-forward disrupters. That divergence is likely to increase in the years ahead.

Amy Erixon
Principal and Managing Director,
Investment Management Group


karma
CAMBIE St

Canada

2018 Overview and 2019 Forecast

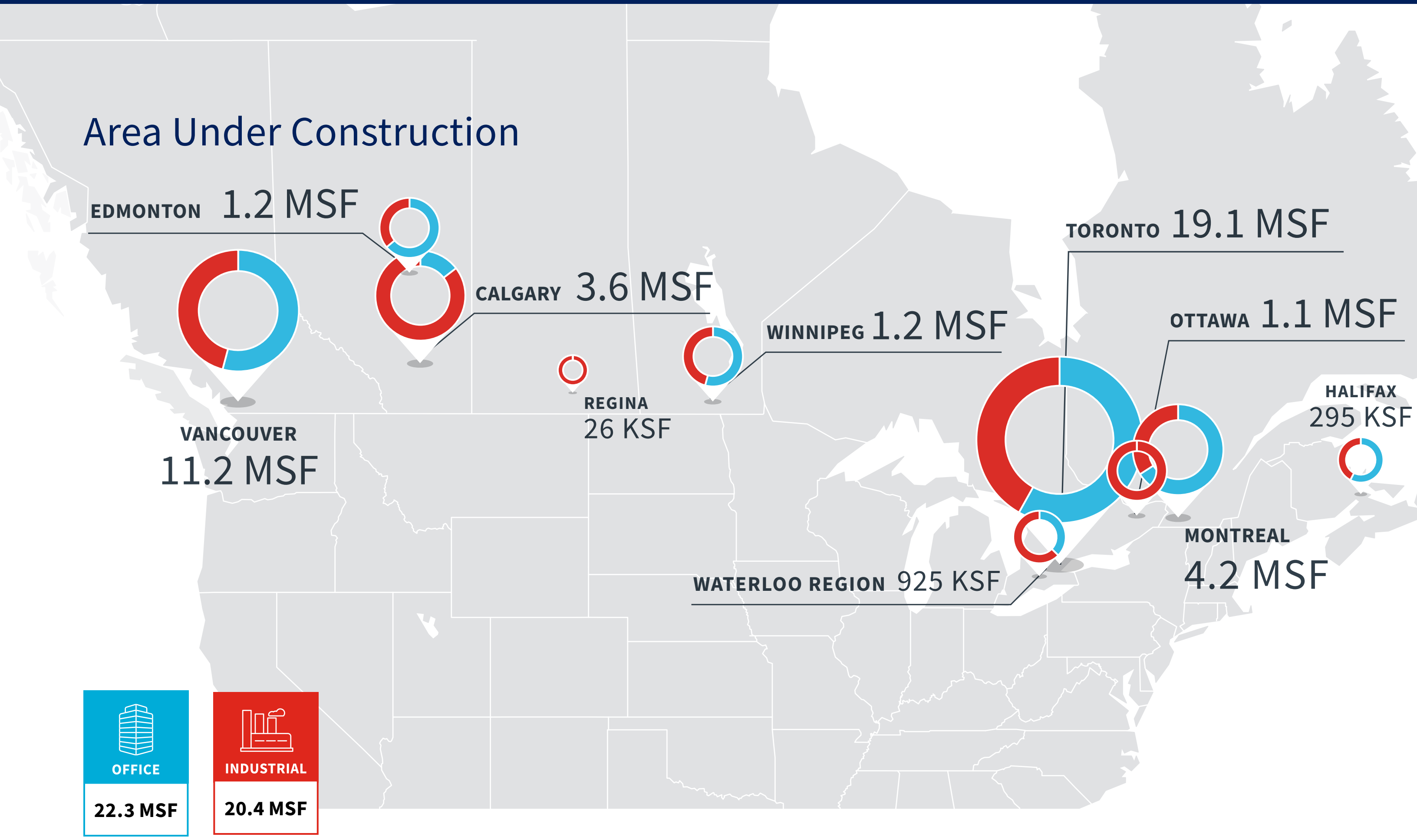
Strong performance leads to supply constraints amid maturing cycle

The 10-year bull market in the Canadian commercial real estate sector continued in 2018, supported by the lowest unemployment rate (5.6% in December) 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. Activity will remain stable in 2019 with supply constraints in the property markets hampering growth in some sectors as occupiers and owners adjust to rapid technological advances amid moderating economic growth.

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. The rapid growth of domestic and global technology and co-working firms – part of Canada's emerging innovation economy – challenges owners and occupiers, adding to demand from established sectors.

Office vacancy declined in almost every market, lowering the Canadian average to 11% near year-end 2018. 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. A similar story is expected in 2019 although vacancy will rise modestly to 11.3% by year-end, thanks to a supply-demand imbalance. Robust demand in the absence of near-term new supply has pushed rental rates higher, creating landlord-favouring conditions in some downtown markets. Developers responded in earnest as office space under construction nearly doubled during 2018 to more than 22 million square feet (msf) – with half in Toronto and a further one-quarter in Vancouver.

Area Under Construction



Tight conditions and upward pressure on rents in some downtown markets with little or no near-term supply relief mean that suburban markets – particularly those with assets offering rapid-transit connectivity and other urban amenities – could stand to benefit from burgeoning tenant demand during the next couple of years.

Canada's industrial market outperformed many observers' expectations in 2018 – and is set to do so again in 2019. Insatiable demand, similar to that prevalent in the office market, is outpacing new supply and driving rents higher. Bolstered by e-commerce, large-format distribution/ fulfilment centre space will remain a key catalyst for growth, as evidenced by Amazon's leases for 1 msf and 600,000 square feet (sf) in Toronto and Calgary, respectively. Competition from the emerging recreational-cannabis industry will add to the already robust e-commerce demand in 2019 as owners and occupiers continue to grapple with rising land costs and the eroding supply of developable land – most evident in Vancouver and Toronto.

Low-single-digit vacancy characterized the nation's industrial markets. Overall 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. With developers trying to stay ahead of demand, the amount of industrial space under construction rose to more than 20 msf late in 2018 – up from almost 14 msf at year-end 2017.

The sector will continue to operate at, or near, capacity until new supply is able to catch up with demand – in other words, the trends characterizing 2018 will underpin the market's performance again in 2019.

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. Divergence in the retail spectrum has become more apparent as discount and luxury retailers flourish at the expense of the mid-market category, while growth in consumer spending is slowing under pressure from high consumer-debt levels and rising interest rates.

The focus on creating memorable consumer experiences will endure in 2019 with food halls, fitness and wellnessoriented services making their mark. 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. Pop-ups remain prominent, sometimes leading to more permanent establishments. Meanwhile, retail landlords will direct investment to upgrading assets to their maximum potential, in some cases opting for redevelopment of properties with excess land to add complementary mixed-use elements. Other investors have overhauled their retail strategies to follow the growing urbanization trend.

Following Canada's legalization of recreational cannabis in October 2018, a scramble for retail locations began in markets across the country – the outcome of which will begin to be seen in 2019 when the phased legalization of edible products and concentrates will also take effect. Demand from new international entrants will continue to be part of the Canadian retail landscape.

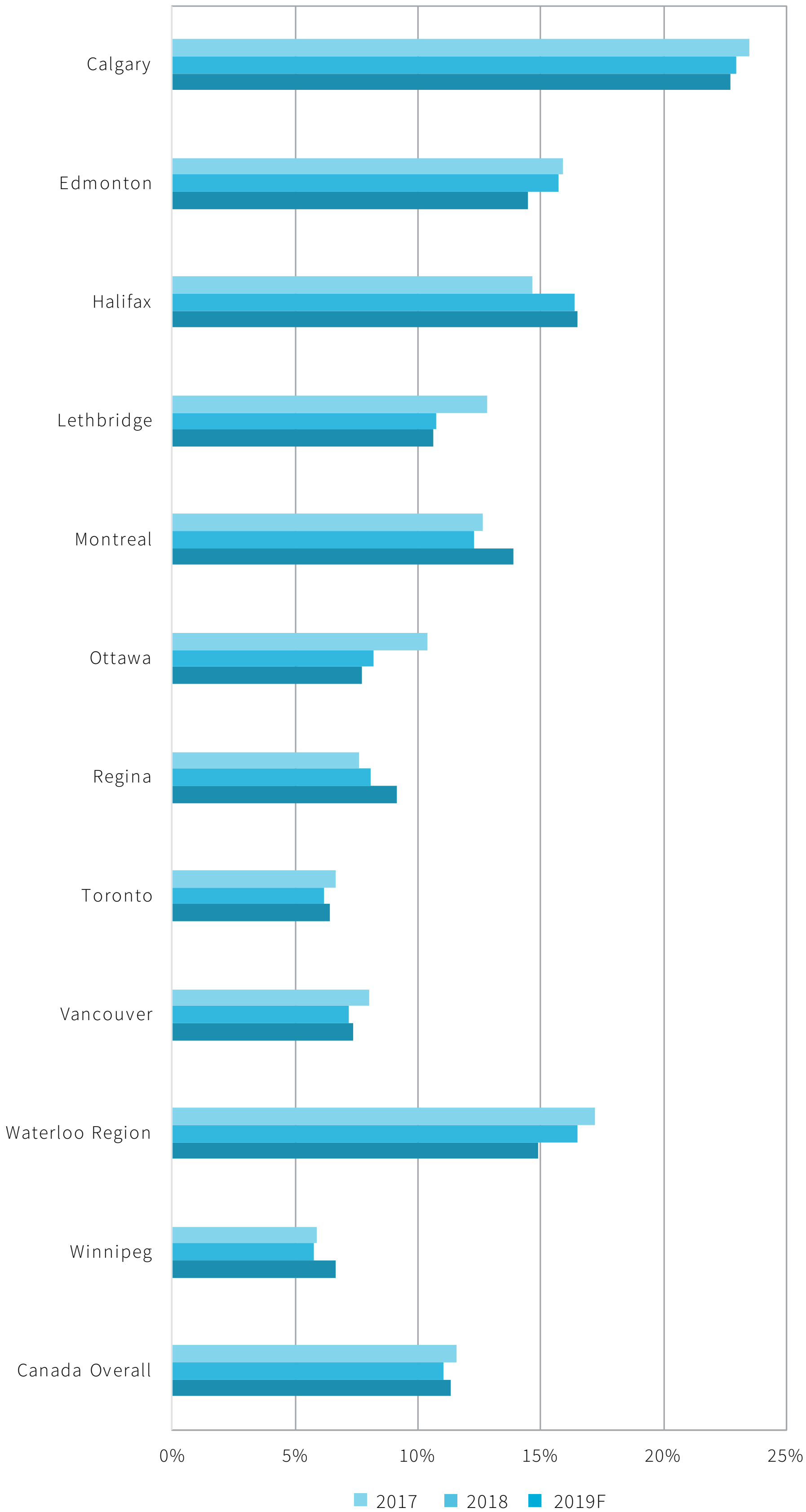
Investors remain enthusiastic about Canada's commercial property market – despite rising interest rates, demand outpacing available supply, and the length of the investment cycle – supported by relatively sound leasing fundamentals in almost every market. With the final tally yet to come, 2018 was another 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 (mainly Vancouver and Toronto) and sectors (primarily office and industrial) offering significant rental-rate growth. Retail assets are also popular, albeit subject to greater scrutiny and headwinds. A lack of available product is reinforcing itself as some potential vendors hold on to their assets despite record-high prices because no desirable capital-deployment alternatives are present; and, perhaps, amid strong competition and moderating returns, potential buyers who find today's prices exorbitant are concentrating on improving or redeveloping their existing assets to boost returns. Other investors will turn to partnerships or joint-venture opportunities to mitigate risk.

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. In the office sector, while buyers continue to show interest in properties with unconventional tenant and lease-term profiles, the perceived creditworthiness of co-working and emerging technology companies has the potential to impact future asset valuations.

Bill Argeropoulos
Principal,
Practice Leader, Research (Canada)

Canada Office Vacancy Rates



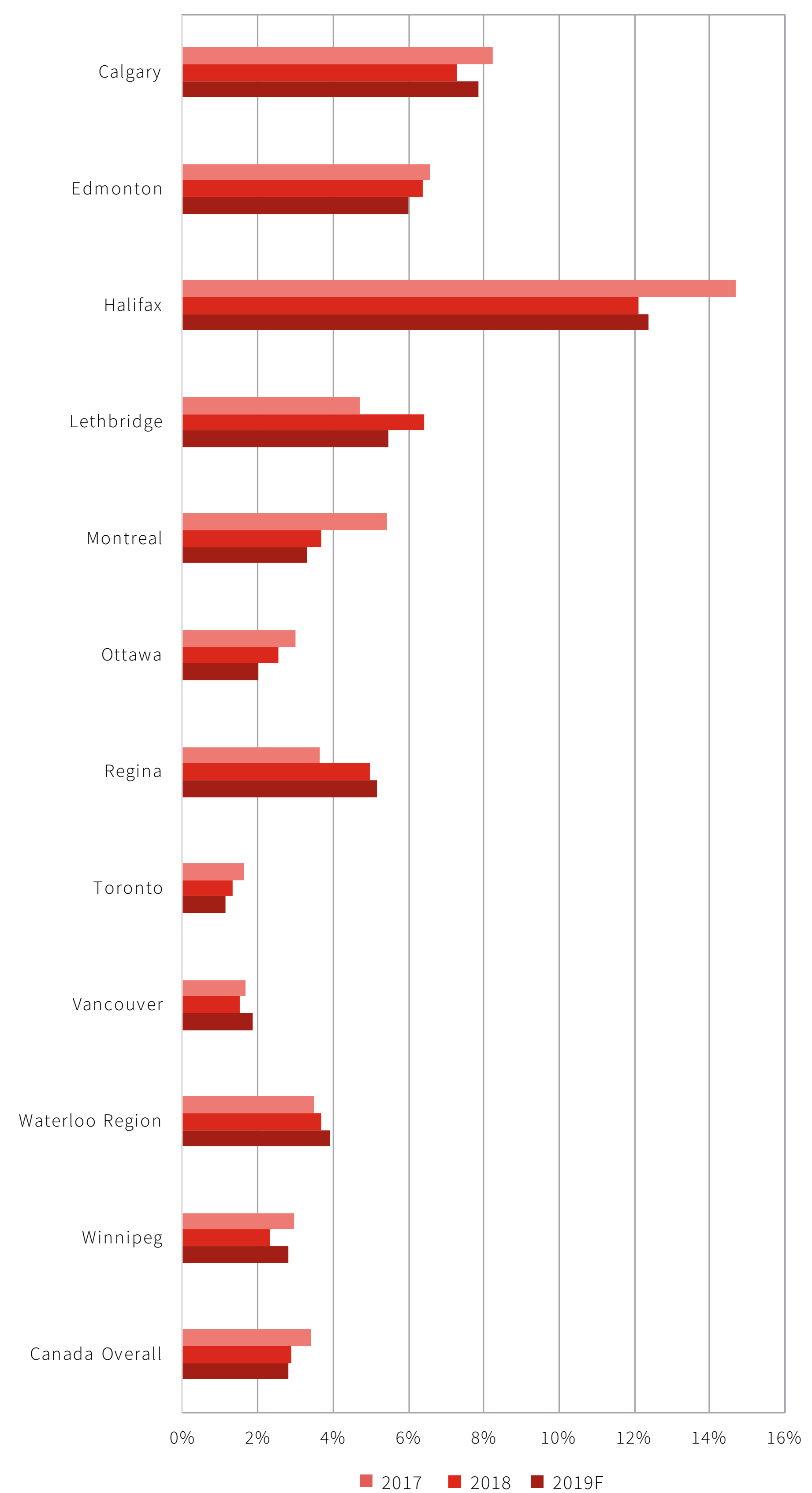
Capital is abundant and investors look to take advantage of landlord-favouring markets and sectors offering significant rental-rate growth.

Retail properties remain the most unpredictable commercial real estate assets in Canada – amid the ongoing e-commerce revolution.

2.9%

Canada's record-low industrial vacancy rate in 2018, with Toronto (1.3%) and Vancouver (1.5%) the lowest in North America.

Canada Industrial Vacancy Rates



United States

2018 Overview and 2019 Forecast

Expanding economy lifts U.S. commercial real estate markets

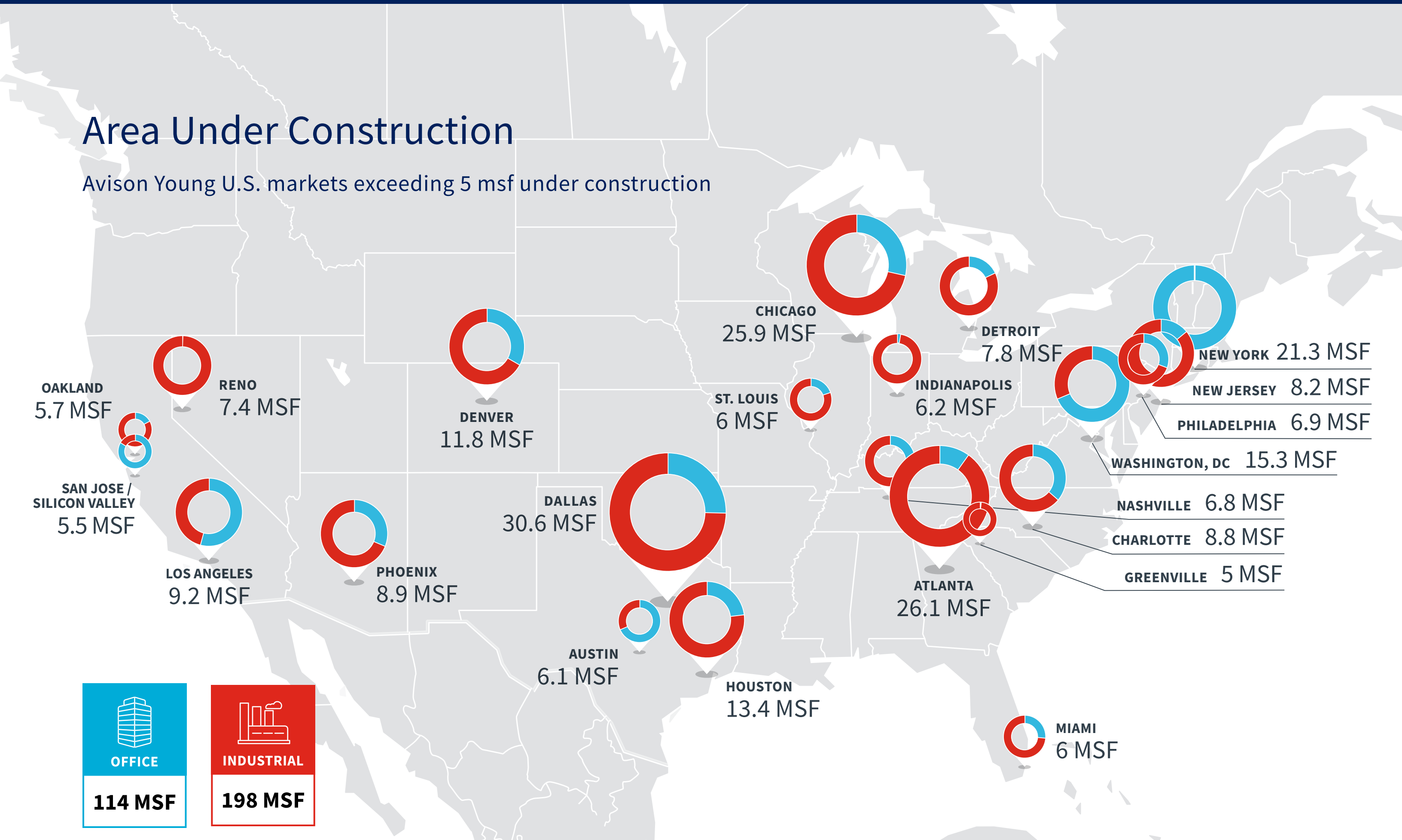
A growing U.S. economy and high consumer confidence are having a positive impact on the commercial real estate market. The national unemployment rate, 3.9% as of December 2018, compared to 4.1% one year earlier, with the largest gains occurring in office-using professional and business services, which added 583,000 jobs in 2018. Despite these positive indicators, growth may be hampered in coming months by several factors, including anticipated interest-rate hikes from the Federal Reserve and potential negative effects of global trade tensions and Brexit. Businesses are already feeling the effects of higher payrolls resulting from the tightening labor market and competitive hiring environment.

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. Avison Young is tracking 46 U.S. office markets totaling 5 billion square feet (bsf) of inventory. As year-end 2018 approached, overall 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. WeWork is now the largest tenant in Manhattan. Landlords are feeling pressure to renovate older properties to compete; as a result, plug-and-play speculative suites and tenant amenities, such as conference centers and lounge areas, are becoming ubiquitous. As well, property owners are entering the co-working sphere by various means, including partnering with operators or developing their own co-working brands. Ultimately, there will be some shake-out in the category; however, co-working will remain part of the real estate lexicon.

Area Under Construction

Avison Young U.S. markets exceeding 5 msf under construction



The total office construction pipeline increased 9% year-over-year to almost 114 msf, preleased at a rate of 53%. The markets with the most product underway were New York (21.3 msf), Washington, DC (10.5 msf), Dallas (7.8 msf) and Chicago (7.4 msf); together they accounted for 41% of the U.S. total. In spite of strong preleasing levels, the overall U.S. vacancy rate is forecasted to edge up by year-end 2019.

Consumer spending increased in 2018, totaling $1.34 trillion in the third quarter, according to the U.S. Census Bureau. The figure should climb further in 2019 as retailers employ ever-more sophisticated analytics and targeted advertisements to gain market share. E-commerce transactions represented 9.8% of all third-quarter retail sales and grew by 14.5% year-over-year.

In recent years, several big-box and name-brand retailers have declared bankruptcy and shuttered their doors, but other retail categories are expanding. Millennial-focused service retail – featuring services not available to consumers online, such as fitness centers, experiential concept stores, entertainment outlets, eateries and neighborhood-convenience or gourmet-grocery stores – has joined expanding off-price clothing retailers to fill the leasing void. 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.

Land constraints could dampen future development opportunities beyond 2019, but these supply headwinds also promote higher rental rates. Multi-story warehouses recently appeared in a handful of U.S. markets, but are common elsewhere globally. In addition to announced projects in Seattle and New York, vertical warehouse design will soon be more common in densely populated metro areas. Beyond distribution, core data center 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. Vacancy is expected to rise slightly by year-end 2019.

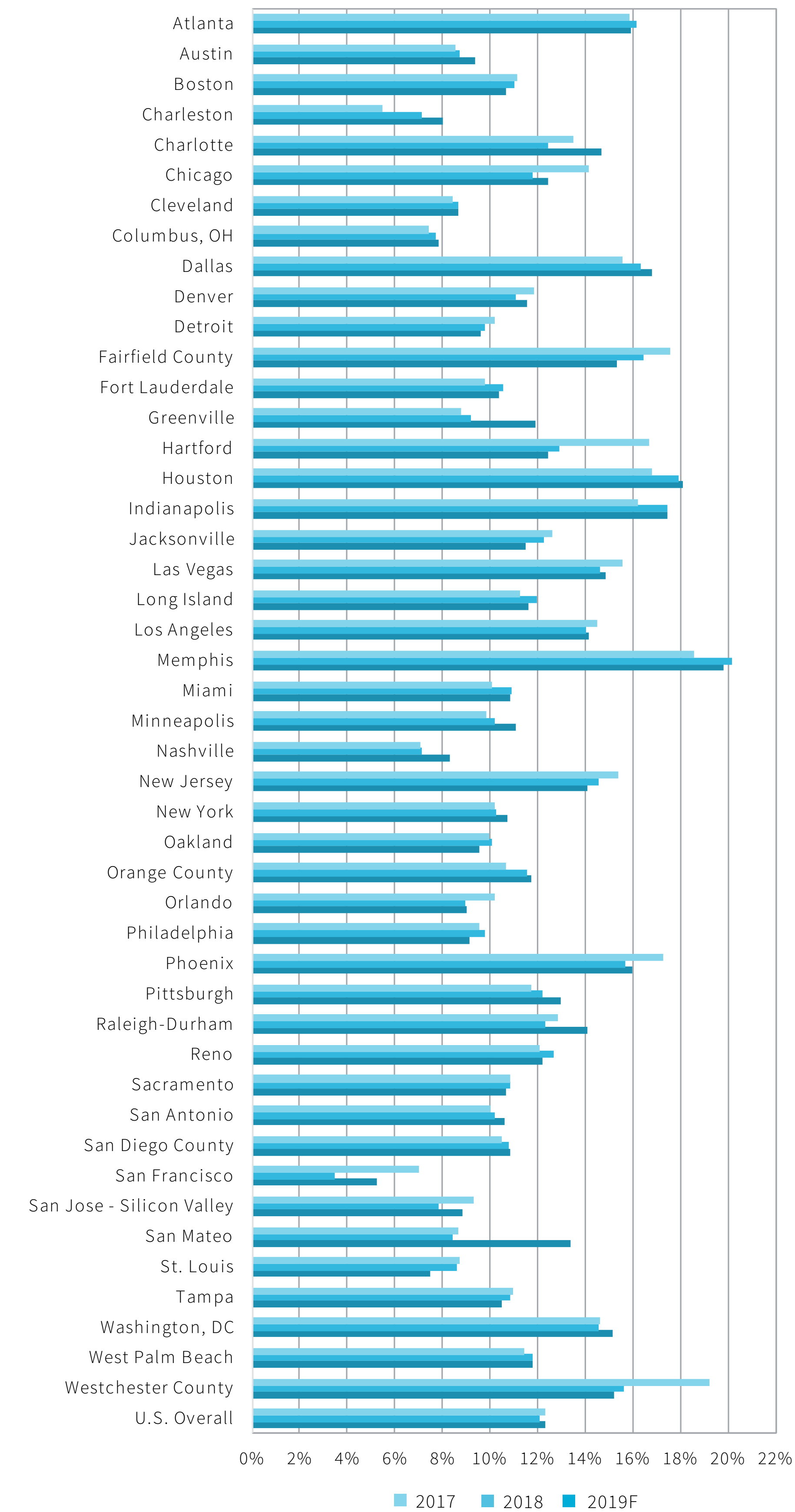
Investors remained steadfast in their support of the U.S. commercial real estate market in 2018. As the end of the year approached, total transaction volume was on track to exceed 2017 levels – even though activity has decreased gradually from the post-Great Recession peak of $569 billion achieved in 2015. Sales were led in 2018 by the multi-family and office sectors, which comprised 54% of overall volume, roughly matching their 2017 combined share (59%). Foreign capital continued to flow into the U.S. and Canada was again the top source, 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.

Opportunity Zones (OZ) and Qualified Opportunity Funds (QOF) were created as part of the Tax Cuts and Jobs Act enacted in December 2017 and provide a new path to investment. By investing in a QOF, an investor could defer and reduce capital gains taxes on a prior investment and eliminate or reduce taxes on the gains associated with the QOF investment. And, since QOFs are currently self-certified, new funds are being announced on a seemingly daily basis. Although it is relatively early in the process, there is so much money staged to pour into QOFs that there may not be enough qualified investment opportunities to satisfy the demand. Further, it is speculated that the preferential treatment of capital gains will produce a downward pressure on yields for OZ investments and the supply-demand disequilibrium is likely to provide additional downward pressure. It remains to be seen whether these downward pressures will result in an imbalance in returns relative to the risks of the investment, especially given that some OZs are by definition in designated areas that investors have traditionally avoided. Looking ahead, implementation of QOFs, technological advancements and the general positive sentiment among buyers are likely to drive investment to above-recent levels in 2019.

A substantial supply pipeline and some economic uncertainties bear watching; however, an abundance of capital remains available for trades to support investment sales through 2019. As well, high preleasing levels, low existing-space availability and ongoing business expansions will keep office and industrial vacancy rates in check overall for the next several quarters.

Margaret Donkerbrook
Principal,
Practice Leader, Research (U.S.)

United States Office Vacancy Rates



12.3%

Office vacancy forecast to remain firmly in double digits in 2019 in face of new development.

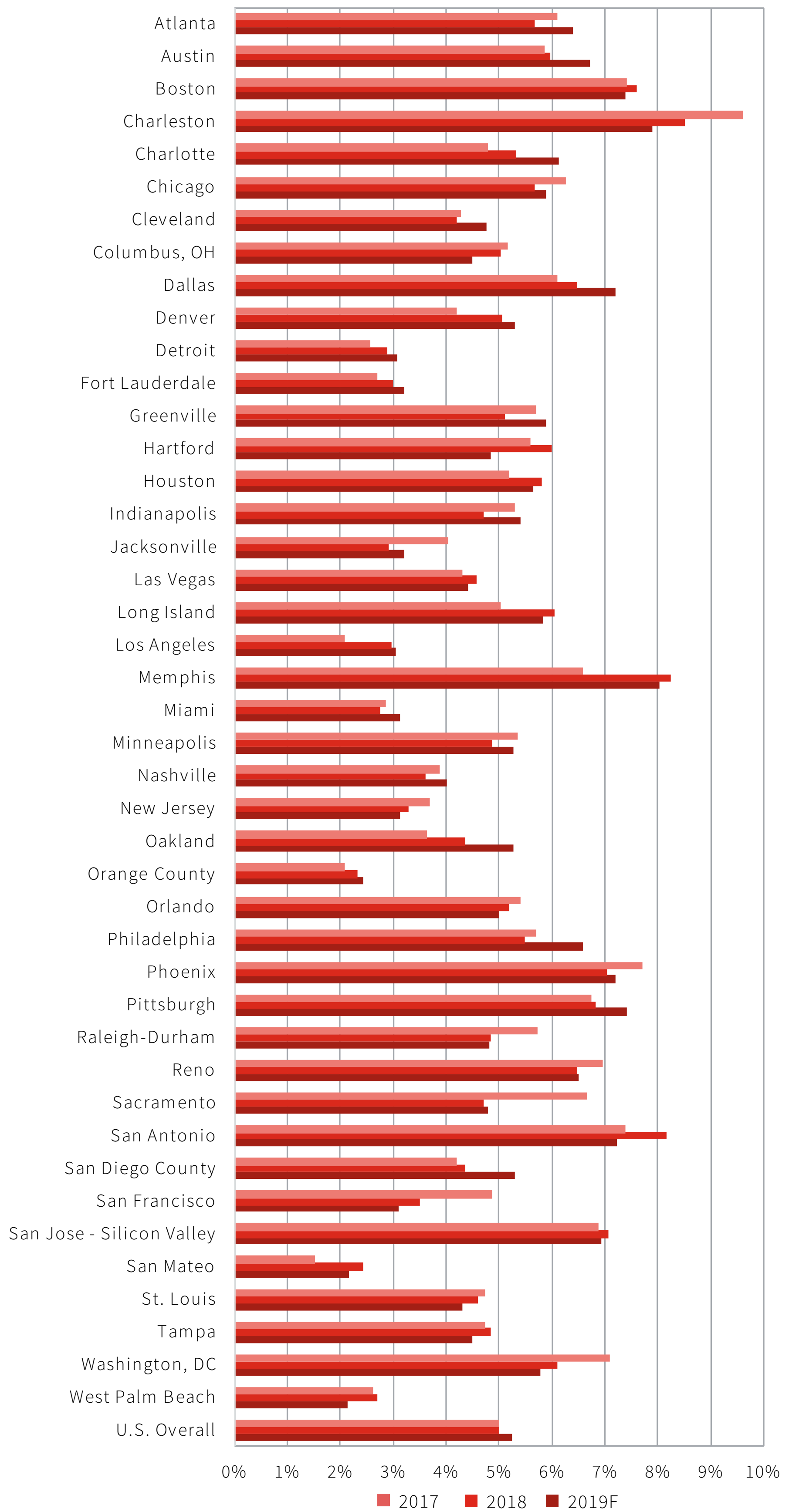
Pricing held steady in 2018 with tenants seeking ever-greater amenities.

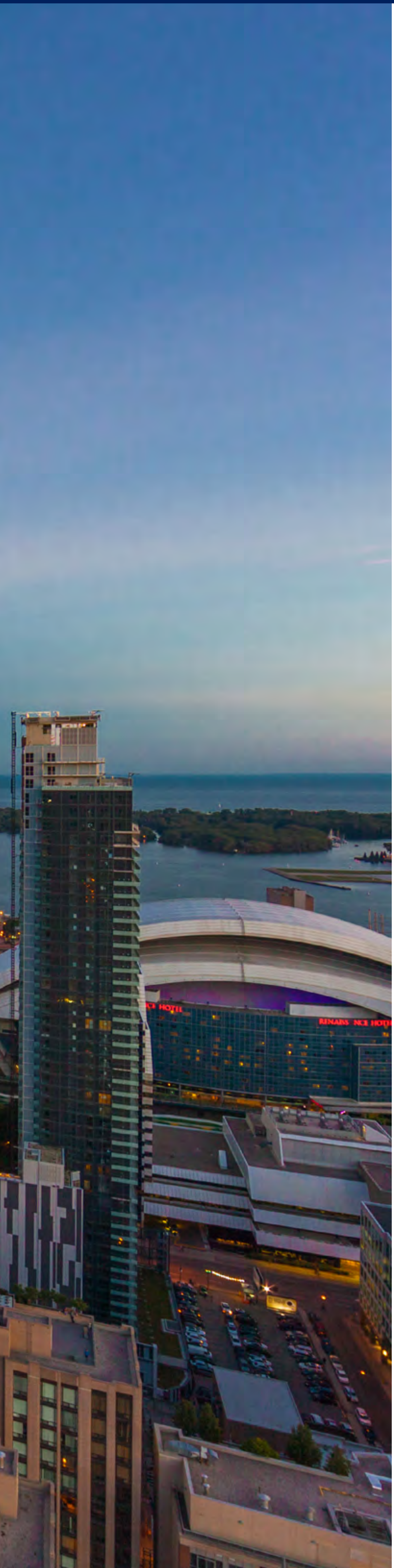
Service and experiential retail filling the leasing void while e-commerce sales grew by 14.5% year over year.

5%

The U.S. 10.7 bsf industrial market maintained its low vacancy in 2018 in spite of rising construction totals.

United States Industrial Vacancy Rates





Canada

Calgary

Industrial and retail markets growing, office remains challenged

Calgary is struggling to find its groove. While GDP growth is forecasted to be a country-leading 2.5% in 2018 and 2.3% in 2019 among major Canadian cities, according to the Conference Board of Canada's *Metropolitan Outlook, Autumn 2018* report, the unemployment rate stubbornly remains higher than 8%, the highest for a major Canadian city. The retail and industrial markets are registering strong demand and new construction, while the office sector remains close to 25% vacant with ample space available for lease.

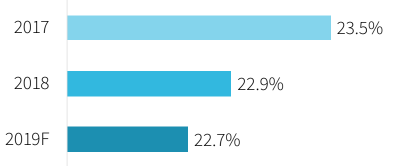
This dichotomy is expected to persist in 2019 with strong demand and construction in the retail and industrial markets, while the office market continues to explore ways to diversify, evolve and find tenants.

Office

Calgary's office vacancy found its bottom for this downturn and has stabilized, hovering within the 22% to 24% range over the last 24 months. Most deals being completed today are less than 10,000 sf. This shift in demand is prompting landlords to make some tough decisions about repositioning their buildings to attract smaller tenants.

With the last remaining significant office building under construction – TELUS Sky (460,000 sf) – expected to be completed early in 2019, vacancy is forecasted to spike upon its delivery and decline slowly thereafter.

Office Vacancy Rates: Calgary

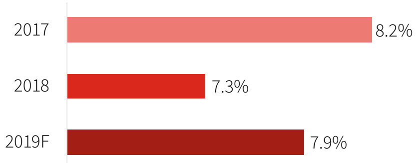


Industrial

Growth returned to the greater Calgary industrial market in 2018. Absorption of space improved dramatically – reaching its highest level since 2014 – with major leases including Amazon's new 600,000-sf fulfillment centre in Balzac. Robust leasing activity has triggered a new round of development with more than 3 msf of speculative construction, primarily large-bay distribution space, to be added to inventory during the next year.

The current forecast is for continuing positive absorption and falling vacancy rates throughout 2019 as the level of activity in Calgary's industrial market is anticipated to remain robust.

Industrial Vacancy Rates: Calgary



Retail

Calgary's retail market remains healthy with the exception of the downtown, which is directly influenced by the lagging vacancy in the office market. Notable big-box retailer closures resulted in vacancy increases in suburban areas in 2018. Alberta's embrace of private recreational cannabis sales has added to demand for retail space.

Increased construction of new retail centres in fast-growing suburbs and ground floor/street front retail in innercity mixed-use developments

is expected in 2019 along with the remerchandising of closed big-box locations. Immediate opportunities in existing areas will continue to be in limited supply. Meanwhile, it is expected that the upcoming completion of the Calgary Ring Road in 2021-22 will shift traffic patterns and retailers' location decisions.

Investment

Demand from investors remains strong for Calgary properties. High-quality industrial and retail product with stable tenant rosters are the most highly sought after assets. Meanwhile, office properties are viewed as value-add opportunities and investors are picking up assets at the lowest prices seen in decades.

Office investor sentiment could be impacted by a number of factors in 2019, including the upcoming provincial election, further announcements regarding the curtailment or expansion of LNG and petrochemical production, and uncertainty surrounding the construction of new pipelines. Conversely, positive sentiment in Calgary's industrial and retail investment markets has remained unchanged for the past two years, and the pursuit of opportunities is forecasted to increase in 2019.

Edmonton

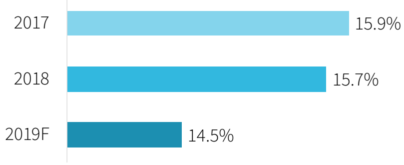
Economic diversification presents new opportunities

Edmonton appears to have weathered the recessionary period felt across Alberta in 2015 and 2016. Office and industrial vacancy rates stabilized in 2018 while several construction projects were completed. Consumer spending is at near-record levels, and wages have begun to return to pre-recessionary levels, supporting strong investment in retail property. An emerging tech industry, public investment in infrastructure and legalization of cannabis are supporting a positive economic outlook for Edmonton in 2019.

Office

The long-anticipated opening of the Stantec Tower took place in the fourth quarter of 2018. The net effect of Stantec Tower will be 98,000 sf of positive absorption as tenants expand into new class AAA space. Downtown Edmonton has introduced 1.8 msf of premium office space in the past three years; however, for the foreseeable future, there will not be any significant additions to inventory. Rather, landlords are becoming innovative in how they repurpose obsolete office space to remain competitive in the market. The downtown market boasts several examples of class B and C office properties being converted to residential and hotel uses.

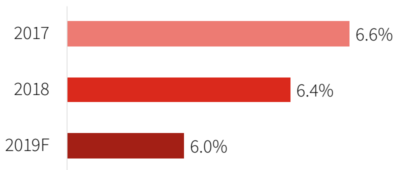
Office Vacancy Rates: Edmonton



Industrial

An influx of 1.6 msf was delivered in the Greater Edmonton Area during 2018 with the notable completions of the Aurora Sky cannabis production facility and the Ford Motor Company's distribution centre in the developing industrial area south of Edmonton. Vacancy is expected to remain stable in 2019, as it did in 2018. The ongoing uncertainty surrounding the Trans Mountain pipeline expansion serves as a setback to an accelerated recovery in Alberta's oil and gas industry; however, Edmonton's economy is sufficiently diversified that the court-ordered suspension of the project did not produce a negative shock to the industrial market. Rental rates are expected to begin levelling off in 2019 as there has been a saturation of large-format buildings and limited well-located parcels of land are available inside Anthony Henday Drive. There are several competitive options available in the northwest and south sectors of Edmonton, where larger pockets of space are becoming available and can be demised to accommodate a variety of tenants' size requirements.

Industrial Vacancy Rates: Edmonton



Retail

Some major projects came to completion in 2018, including an expansion at South Edmonton Common and the Premium Outlet

Collection, as well as Costco at the Edmonton International Airport, representing the first developments in the burgeoning commercial park on airport land. The legalization of recreational cannabis established a new retail sector nearly overnight and, in many cases, tenants were securing leases with rents at above-market rates to position themselves in the new marketplace. Looking ahead, ICE District will open its premium food hall, the first of its kind in the Edmonton area, adding to the revitalization of the downtown core.

Investment

Cautious optimism surrounds the investment landscape in Edmonton. Many institutional investors returned to the market in 2018, accounting for half of total investment volume as of the third quarter ($1.4 billion). Serving as a bellwether for the Alberta economy, industrial investment sales more than doubled year-over-year. Multi-family investment slowed significantly, while office investment was muted until ICE District's Edmonton Tower was purchased for a record-breaking $400 million – the largest commercial real estate transaction in the city's history. Capitalization rates are expected to adjust upward following recent bumps in interest rates with further Bank of Canada rate hikes expected in 2019.

Halifax

Local tech hub continues to expand

Halifax remains the calm, consistent economic engine of the Maritimes. The market's core sectors, including military, government, shipping, universities, offshore industries, and financial services, remained steady in 2018. There are cautiously optimistic signs of new growth and progress. The push to diversify the economy to capitalize on the region's assets is starting to pay dividends. The population reached a new high thanks to inter-provincial and international migration. More local and international students are now choosing to stay in Halifax after graduation. An uptick in tourism is having a positive effect on the economy. Cruise ship traffic increased 27% year-over-year, bringing an estimated 300,000 guests to shore.

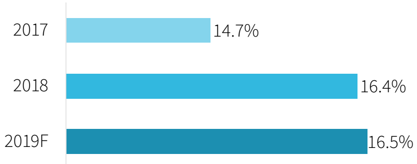
The city's tech hub continues to expand with the arrival of many high-growth innovative companies. The region now has more than 1,000 companies in IT, gaming and interactive media. To meet demand, Volta, the city's major tech incubator, recently tripled its office space. According to Expert Market (a leading B2B comparison website), the city's emerging Innovation District is now one of the largest tech hubs in the country.

Canada's Ocean Supercluster, a consortium of Atlantic Canada-based companies, has recently opened in the new $14.7-million Centre for Ocean Ventures and Entrepreneurship (COVE) development. This supercluster is one of only five to win a share of almost $1 billion in innovation funding from the federal government.

Office

The additions of the Nova Centre and Queens Marque have introduced a significant amount of class A inventory, bumping the downtown vacancy rate up to 18%. This increase is putting pressure on landlords – especially owners of older buildings – to lower net rental rates, add incentives or improve building amenities. It will take a few years for the current supply to be absorbed. This factor may also lead to older office buildings being repurposed or redeveloped for residential use.

Office Vacancy Rates: Halifax



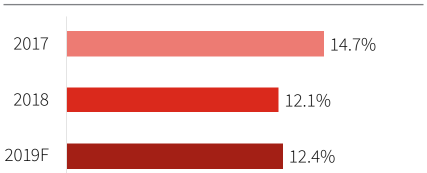
Industrial

The industrial sector remains strong with positive absorption. Manufacturing continues to be robust, led by Irving Shipbuilding's federal government shipbuilding contracts. The first of the new Arctic patrol vessels was completed in summer 2018, shortly before

plans to build another ship were announced. Oil and gas exploration is ramping up again with BP Canada Energy Group receiving approval to begin new offshore drilling. A recent partnership with the Offshore Energy Research Association of Nova Scotia and Morocco's Office National des Hydrocarbures et des Mines to conduct geoscientific research will encourage offshore exploration firms, which hope to find an estimated 120 trillion cubic feet of gas and 8 billion barrels of oil. With Halifax serving as

Canada's Atlantic gateway, the local transportation and logistics sectors will continue to grow. With the final 2018 total yet to come, shipping container volume at the Port of Halifax was on track to match the record set in 2017.

Industrial Vacancy Rates: Halifax



Retail

Retail vacancy rates changed little in 2018 with no major closures in the region. The new IKEA and Cabela's have driven some new retail developments in Dartmouth Crossing, including a new Kent Building Supply and a 24,000-sf Princess Auto.

Investment

Demand for quality commercial investment properties in Halifax remains strong. The city's diverse economy and steadily increasing property values create a safe haven for investors across Canada and the globe. Properties remain at a discount compared with large metropolitan areas such as Toronto and Vancouver.

Lethbridge

Market remains predictably stable

The Lethbridge and area market registered growth in 2018 and this trend is expected to continue in 2019. The emergence of cannabis retailers is largely responsible for pushing retail sector vacancy downward. While vacancy in the office sector is declining, expected new construction will help offset demand.

Office

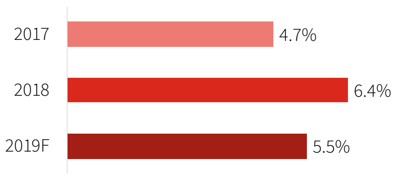
Office rental rates have remained stable around $15 psf, while vacancy rates dropped to 10.7% in late 2018 from 12.8% at year-end 2017. There is increasing demand for office space in the suburban areas of the market – a factor which will likely spark new construction in 2019. Tenants are finding that the suburban areas offer ample parking and comparable lease rates to the downtown area for brand new high-quality buildings. Demand for downtown space is expected to remain consistent. Declining office vacancy will begin to exert upward pressure on rental rates in 2019.

Office Vacancy Rates: Lethbridge

Industrial

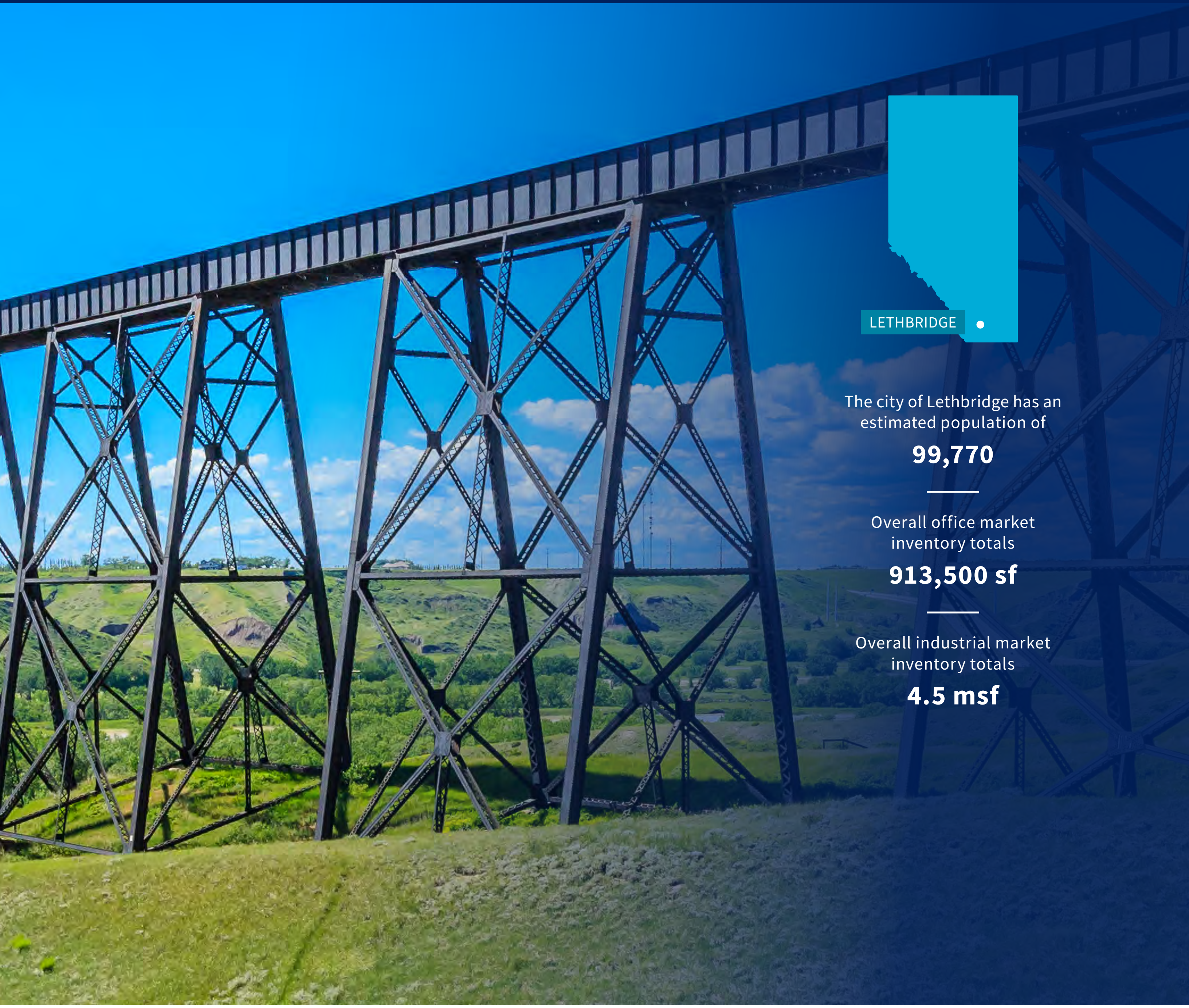
Lethbridge's industrial sector moved back toward historical norms during 2018. Vacancy rose to 6.4% by the third quarter, from 4.7% in 2017 as medium-sized industrial condo units (ranging from 4,000 to 10,000 sf) came online. While leasing activity decreased year-over-year, the market is still healthy. Sales remain strong with industrial condo options being the most popular choice. Land sales also stabilized at $230,000 per acre as the number of available parcels at Sherring Industrial Park dwindled. The City of Lethbridge is planning a new phase of industrial development on land to the north of Sherring Industrial Park between the park and the new Cavendish Farms food processing plant. Industrial vacancy is forecasted to drop to 5.5% by year-end 2019, as there is little new forthcoming inventory.

Industrial Vacancy Rates: Lethbridge



Retail

Coming off a slow 2017, retail activity rebounded in 2018. All retail nodes in Lethbridge recorded activity involving a diverse group of local and national retailers. With



nearly 130,000 sf of vacant mid-to-large-format retail space being backfilled in south Lethbridge (the city's most dense retail node), vacancy in that area is at an all-time low. The advent of retail cannabis, following federal legalization of marijuana, has applied considerable leasing pressure to otherwise stagnant vacancy. If the demand for retail space (including CRU, pad and mid-box) continues, Lethbridge will see pressure on retail inventory for the next 12 to 18 months with land values and lease rates holding firm.

Investment

There was little investment activity in Lethbridge in 2018 as good-quality assets at acceptable cap rates remained hard to find. Crombie REIT offered a retail site for sale that is shadow-anchored by a grocery store, but the cap rate proved too low for buyers in the market. RioCan REIT put a couple of retail sites on the market earlier in the year with a similar result. Required cap rates for investors have gone up. For example, an office-building sale closed in December 2018 at a cap rate of 7.3%, and the sale of a new multi-family complex is set to close in 2019 at a 6.25% cap. With interest rates increasing, cap rates will rise or remain flat through 2019 as there is still demand for good-quality assets. As of late 2018, good assets could be found in the 6% to 8% range.

Montreal

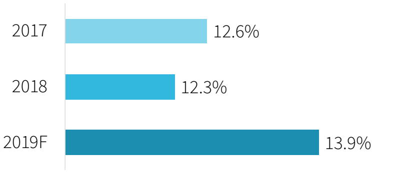
Industrial space remains in high demand

Steady business growth within Montreal's city limits brought the unemployment rate down to a record-low 6.9% as of October 2018 – down 140 bps year-over-year. Employment gains came from several sectors, including high-tech, service, construction, transportation and manufacturing. Construction activity has increased steadily in recent years and is expected to remain healthy throughout 2019.

Office

Office market conditions remained stable in the Greater Montreal Area (GMA) in 2018 as vacancy rates decreased slightly, reaching 12.3% at the end of the third quarter. Considering the decreasing vacancy, the office market in Montreal is shifting in the landlords' favour; however, this trend could change in 2019, as several projects will be completed, adding approximately 805,000 sf to the office inventory. The most significant construction project underway in the downtown core is the 40-storey National Bank head office, which is to be delivered in 2022.

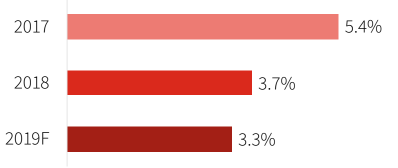
Office Vacancy Rates: Montreal



Industrial

Industrial space remains in high demand after the vacancy rate reached a record-low 3.7% in the third quarter of 2018. Vacancy will continue to drop in 2019 as no significant new development will be completed. The shortage of available industrial land on the Island of Montreal continues to force large companies to relocate to the outskirts of the city. The most significant project under construction is the new IKEA distribution centre in Beauharnois. The total area of the warehouse, expected to be delivered in late 2019, will be 1.2 msf, divided into three units.

Industrial Vacancy Rates: Montreal



Retail

Hudson's Bay Company announced the opening of a 45,000-sf Saks Off Fifth on the first floor of the Eaton Centre in 2015. The store was intended to open in late 2018;

however, due to several factors, Hudson's Bay decided to cancel the project. Decathlon, the French sports retailer, will take the space earmarked for Saks with an opening date scheduled for fall 2019. On Sainte-Catherine Street, Canada Goose and Mackage both opened flagship stores in late 2018. The legalization of cannabis for recreational purposes, healthy economic conditions and low unemployment rates should help boost retail sales in 2019.

Investment

One of the market's most significant industrial investment transactions of 2018 was the acquisition of a portfolio of nine industrial buildings by Fiera Properties from Investors Group for a total sale price of $82.5 million. The portfolio comprises 928,807 sf and traded at an overall cap rate of 6.96%. Average cap rates remain stable in the metropolitan area as class A office assets in downtown Montreal trade at 5% cap and an average of $411.43 psf, while class B assets sell at 5.9% cap and $277.58 psf. The investment market is getting more aggressive as Montreal offers fewer attractive investment opportunities than in recent years and purchasers' appetite for product remains very strong. Several significant office investment transactions are expected to close in 2019, likely pushing total investment volume in 2019 above 2018.

Ottawa

Vacancy expected to decrease across all assets

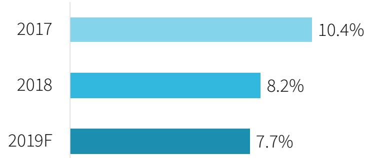
Led by strong employment, Ottawa's commercial real estate market will continue to improve in 2019 and should end the year with further decreases in vacancy rates across all asset classes. The arrival of phase I of Ottawa's Light Rail Transit (LRT) system in the spring will continue to spur mixed-use development in the nation's capital throughout 2019 and beyond.

Office

Ottawa's office market continues to tighten with the downtown core and the west Ottawa technology hub in Kanata leading the way. With limited new construction underway, the class A market has continued to tighten with net effective rental rates beginning to approach historic highs in that asset class. The class B market, which suffered after the exodus of Public Works and Procurement Services Canada (formerly known as PWGSC), has rebounded with face rental rates recovering as the class A market continues to tighten. Vacancy in the core is expected to fall below 6% by the end of 2019.

The Kanata market continues to improve to the point where new construction is slated to commence in 2019 on two projects that would add another 140,000 sf to the inventory by 2020 with about 50% of that preleased. Strong growth in the technology and engineering sectors will continue to sustain the Kanata market. As the Department of National Defence continues its migration to its campus on Moodie Drive, increasing pressure will be placed on phase II of the LRT project to come in ahead of schedule.

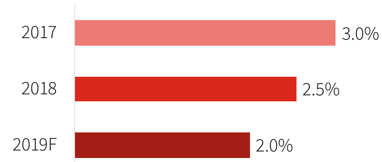
Office Vacancy Rates: Ottawa



Industrial

Vacancy in Ottawa's industrial market fell 50 bps to 2.5% in 2018. More than 1 msf of inventory is set to be added to the market in 2019, but with 96% of that space preleased to Amazon, the vacancy rate will actually drop further in 2019 to 2%. As a sector characterized by older stock with relatively low-ceilinged assets, the Ottawa industrial market could benefit from some speculative development in 2019.

Industrial Vacancy Rates: Ottawa



Retail

Ottawa's retail sector benefits from one of the most stable employment markets in the country. With employment increasing, retail sales in the nation's capital are

expected to continue to perform well. Regional mall owners continue to adjust to the realities of online shopping and the closure of former retail icon Sears in Canada in 2018. The regional malls affected are in the midst of remerchandising, and projects with a mixed-use flavour appear to be the frontrunners from a partial-redevelopment perspective. The arrival of storefront cannabis retailing in Ontario will undoubtedly create some market turmoil in 2019 – depending on individual retailers' perspectives on recreational cannabis use. Cannabis retailers are not expected to have access to enclosed regional malls in 2019.

Investment

All asset classes continue to perform well when brought to market in Ottawa – a trend that could continue through 2019, barring any global economic crisis that might upset world financial markets. Well-located office assets with government tenancies continue to attract sub-6% cap rate bids on existing income, and smaller, locally scaled investment properties continue to set highwater marks for vacant office and industrial properties on a price-per-square-foot basis. Development land along the LRT in Ottawa, or even in proximity to it, will set record prices in 2019.

Regina

City swept up in burgeoning cannabis industry

Saskatchewan's economy and commercial sectors were expected to be tense in 2018. However, the province reported improvement and Regina posted real GDP growth of 2.2% in 2018, and this growth is expected to continue through 2019. Following respectable employment growth in 2017, Regina's unemployment rate rose to 6.8% in 2018. Economic Development Regina was instrumental in the creation of Protein Industries Canada (PIC), which secured more than $153 million in federal investment and approximately $200 million in private-sector commitments. The PIC supercluster is a Western Canadian initiative with the head office and specialization (agriculture technology, venture capital, processing of plant-based protein crops) to be in the Regina area. The city is also being swept up in Canada's burgeoning cannabis industry with OneLeaf Cannabis planning to build a production plant.

Office

Limited new construction in 2018 kept vacancy rates (blended between competitive and non-competitive asset classes) at 8% as of the third quarter. Vacancy is likely to rise in 2019 to 9.2% as demand has been sporadic. Presently, it is a tenant's market and will likely remain so for the foreseeable future. Notable exceptions to the trend include suburban or non-CBD office space, for which demand remains healthy, and class A downtown space, which is expected to have a vacancy rate less than 4% by the end of 2019. Thus far, owners of suburban space have been able to maintain contract rents and avoid offering tenants the same incentives as their downtown counterparts. Negative absorption of approximately 20,000 sf occurred in 2018, and limited growth is anticipated for 2019.

Office Vacancy Rates: Regina

Industrial

The realignment and stabilization of assets in Regina's industrial market continued in 2018. Building inventory reached 22.7 msf at the end of the third quarter with a vacancy rate of 5%. Brightenview Development International erected the 80,000-sf Global Trade Exhibition Centre and is expecting its first tenants

to open in the spring of 2019. Dream HL Commercial finished construction on phase I of Harbour Landing Commercial Campus in south Regina, a service-oriented "Industrial Prestige" development. Serviced land prices range from $200,000 to $500,000 per acre. Net asking lease rates on new space average $13 psf, while existing space commands rates of $9 psf to $10 psf. Vacancy and lease rates are expected to rise slightly in 2019.

Regina has an estimated metro area population of

253,220

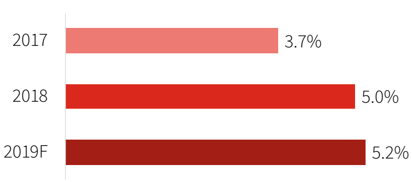
Overall office market inventory totals

7.1 msf

Overall industrial market inventory totals

22.7 msf

Industrial Vacancy Rates: Regina



Retail

Consumer spending remained stable in 2018, supporting Regina's retail market throughout the year. Vacancy rates rose slightly to 3% by the end of the third quarter. Rental rates are still holding their own, ranging from $20 psf to $35 psf for existing neighbourhood and regional centres, and $32 to $42 psf for brand new space. The Aurora retail centre east of Regina celebrated its first completion with the opening of Costco. Development is set to continue with a Landmark Cinemas and several food and beverage retailers still to come. Acre 21 continues to add to its Greens on Gardiner project in east Regina, complementing newly opened anchor Save-On Foods.

Development in the Harbour Landing and Westerra neighbourhoods continues with Sherwood Co-op beginning construction on two new projects – a grocery store and a gas bar, respectively.

Investment

The investment market remained stable in 2018. Downward pressure on office lease rates could provide buying opportunities for investors in 2019, while cap rates will likely rise slightly.

Toronto

Supply constraints remain market's Achilles heel

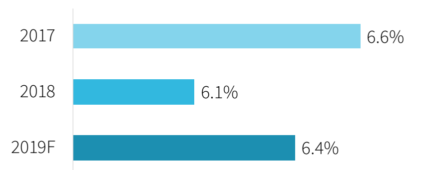
The Greater Toronto Area (GTA) commercial real estate market once again outperformed expectations in 2018, even after doubts that 2017's record-setting results could be repeated. With meaningful new supply 18 to 24 months away, landlord-friendly conditions will persist in the office (mainly downtown) and industrial markets, pushing rental rates higher. The retail sector remains in flux in the e-commerce age, while on the investment side, sellers look to capitalize on record-high asset values and buyers' abundant capital.

Office

Due to unquenchable demand for office space from co-working and tech tenants in Toronto's bustling downtown market, GTA-wide vacancy reached a near-decade-low 6.1% in late 2018. Meanwhile, record-low vacancy (1.9%) defined Toronto's downtown and will do so again in 2019. Competition for space is fierce with no meaningful relief available until new supply comes online starting in 2020. Consequently, downtown landlords will have the upper hand in lease negotiations, achieving significant lift on rental rates as they mark rents to market. Developers have responded with an unprecedented 10 msf-plus under construction downtown and more than 11 msf overall. Notable downtown announcements in 2018 included The Well, Bay Adelaide Centre North and 160 Front St. W.

While the relocation of some suburban-based tenants downtown continues as they are drawn to a tech-savvy millennial labour pool, a downtown-suburban affordability and availability gap persists. However, suburban landlords are not only urbanizing their assets, but focusing more on transit-oriented development. Record-low vacancy and rising rents downtown may spell better results for the suburbs in the next 12 to 18 months.

Office Vacancy Rates: Toronto

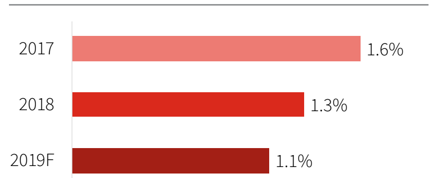


Industrial

Sound fundamentals underpin the supply-starved industrial market with vacancy at an all-time low of 1.3% – the lowest level in North America – and rents and development on the rise. The region remains a magnet for e-commerce-related warehouse and logistics operations – evidenced by Amazon's 1-msf fulfillment centre and UPS' largest Canadian distribution centre, both being built in Caledon. While the food sector was behind some of the biggest lease deals, the film industry has leased large blocks of space, including North America's largest sound stage, in Markham. The legalization of recreational cannabis will spur additional demand, while limited supply, increasing land

costs and development charges remain obstacles for 2019.

Industrial Vacancy Rates: Toronto



Retail

Landlords and retailers continually

test physical and online strategies to attract the shifting habits of consumers, especially tech-savvy millennials. Despite some closures, Toronto's urban and suburban settings remain fertile ground for international brands entering Canada. Experiential retail concepts, such as food halls and entertainment, fitness and wellness centres, are on the rise. Meanwhile, the frenzied race for cannabis store locations may pose a risk of oversaturation. Mall owners with excess land or residual large vacancies are looking to diversify future revenue streams by developing mixed-use offerings, including multi-family, to capitalize on the rental boom.

Investment

Demand for commercial real estate assets continues to outstrip supply as buyers look to take advantage of record-low vacancy and rising rents across most asset types – all amid elevated asset values and the prospect of higher interest rates. Significant appreciation and the lack of trophy assets available for sale downtown have turned some investors' attention to the suburbs. Meanwhile, capital continues to flow into the industrial sector, which is benefiting from what appears to be sustained rental-rate growth, tenant demand and an active owner-user market. A supply-demand imbalance will keep cap rates for most sectors historically low in 2019 as eager investors recycle capital across geographies and asset types.

Vancouver

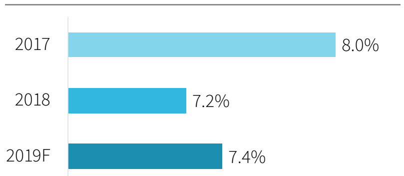
Momentum likely to moderate after two years of record investment

Investment in BC commercial real estate remained near record levels in 2018 but will not repeat the historic deal and dollar volume achieved in 2017. BC's first-half 2018 investment dollar volume hit the second-highest total on record, but that momentum did not carry through the second half. The majority of BC's investment market is located in Metro Vancouver. Robust pricing remained a characteristic of the market in 2018, particularly for office and industrial assets, despite a moderation in overall deal volume (and institutional acquisitions specifically) when compared with the previous year. Retail and multi-family assets remain attractive, but prices and demand were tempered by recent municipal, provincial and federal government policies addressing housing-affordability issues. The value achieved for retail assets in recent years, particularly in Metro Vancouver, was often tied to the redevelopment potential of the asset if residential uses were involved.

Office

Office sales declined in 2018 when compared with the record-setting years of 2016 and 2017, but remained historically strong. With some notable exceptions, the majority of significant office acquisitions occurred outside the downtown core with institutional buyers acquiring assets from mostly institutional vendors. That may change in 2019 with the potential disposition of the Bentall Centre, a downtown office and retail complex acquired by China's Anbang Insurance in 2016 for $1.06 billion, which is widely rumoured to be available in light of the unwinding of Anbang's Canadian real estate portfolio. This situation may lead dollar volume to rise in 2019. Leasing activity remains very healthy with vacancy tightening steadily downtown and throughout most of the region with accompanying upward pressure on rents. A new development cycle, which started in late 2017, will deliver several new downtown office towers between 2020 and 2023 with almost all having enjoyed substantial preleasing activity.

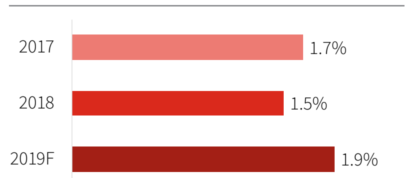
Office Vacancy Rates: Vancouver



Industrial

Demand for industrial assets remained historically high in 2018 but is unlikely to surpass the record amount of investment activity registered the year previous. New record lows for vacancy and record-high lease rates, combined with a constrained industrial land supply, have made industrial properties highly valued. Questions around supply remain the primary constraint on sales activity in 2019 as record-high industrial land prices encourage developers to develop strata projects instead of buildings for lease.

Industrial Vacancy Rates: Vancouver



Retail

Total retail investment in 2018 remained historically strong but

declined when compared with the sector's record-setting investment environment of 2017. A portfolio sale involving four casinos, a hotel and land holdings, which Avison Young classified as a retail transaction, represented a substantial portion of retail dollar volume in 2018. While demand remains exceptionally strong for retail assets, particularly those with redevelopment potential, supply remains very tight. Sales and dollar volumes are anticipated to decline in 2019 despite the likely disposition of a 50% interest in a national portfolio of shopping centres that includes two substantial assets in BC. As many retail assets of scale in both Metro Vancouver and secondary markets have traded in recent years, pricing appears to be stabilizing in 2019 after years of gains.

Investment

While investment activity did not match the record set in 2017, the investment activity level in 2018, once finalized, will end up as the second-highest on record. Supply constraints in all asset classes are forecasted to limit deal and dollar volumes in 2019. This expected moderation in investment activity, after the two most active years in market history, will be underscored by slower price escalation and the potential stabilization of the land market as certainty around housing affordability measures and government and fiscal policy starts to manifest.

Waterloo Region

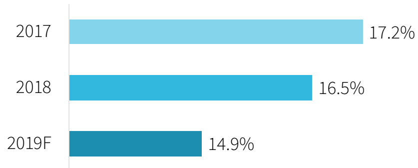
Market growth attracts investors and users

Southwestern Ontario (including the regions of Wellington, Waterloo and Brant) recorded significant new development and investment through 2018. The area, which boasts a diversified economy, strong labour market and availability of real estate product, is located west of the Greater Toronto Area (GTA) and only 45 minutes from Pearson International Airport. The market has registered consistent population growth, up to a current 775,000, while numerous companies have expanded or relocated to the area.

Office

The Waterloo Region's office market has been stable and driven by the major markets in Kitchener's core and Sportsworld area (Highway 401 and Highway 8), Waterloo and Guelph. Inventory increased nearly 300,000 sf during 2018 to 15.2 msf. The region's light-rail transit (LRT) system's initial construction has been finalized, and testing has commenced. The LRT's construction, combined with the intensification of residential condo development in the cities' downtown cores, have driven tenants and new commercial development to the Waterloo Region's markets. A number of new developments are planned in each of the office nodes, specifically in downtown Kitchener. The area recorded a 400-bps decrease in vacancy during 2018 to 16.5%. The expansion of users currently in the market and new companies moving to the growing region have produced the notable absorption. It is anticipated that the office market will continue to record positive absorption through 2019 as new class A product is developed.

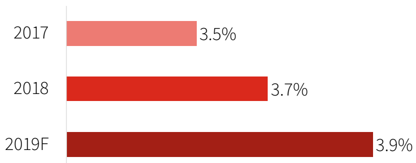
Office Vacancy Rates: Waterloo Region



Industrial

A strong industrial market continued in 2018 and is anticipated to persist through 2019. Industrial inventory increased by 2 msf during 2018 while vacancy remained relatively steady, rising slightly to 3.7% from 3.5% year-over-year. Absorption of industrial product has been driven by distribution companies and some manufacturing firms, as well as building conversions to technology and food uses. Available product continues to be scarce – especially buildings available for sale. Construction is expected to continue in 2019 though zoned and serviced land is becoming harder to secure.

Industrial Vacancy Rates: Waterloo Region



Retail

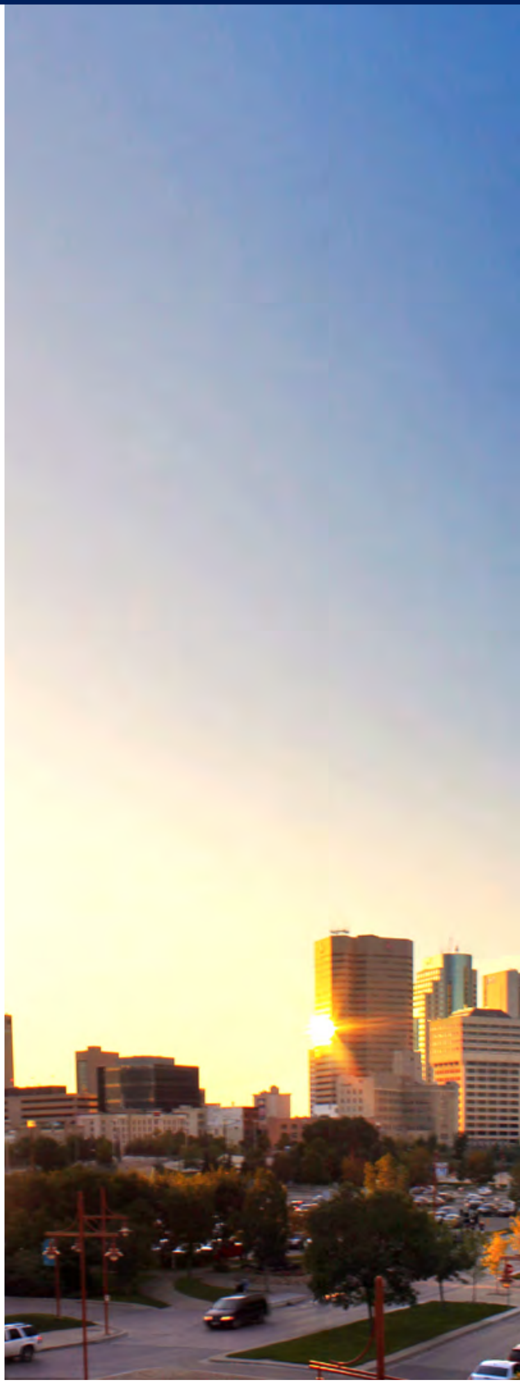
The area boasts a number of regional malls and big-box retail properties along with smaller neighbourhood shopping centres supported by the growing population and diverse employment. A number of the regional mall owners have formulated plans for future repurposing and redevelopment, including more diverse retail tenancies and pad sites. As well, a conversion of a portion of some properties to office use has also been planned with construction anticipated to commence in 2019.

Investment

Cap rates continued to decline through 2018 for all classes of product in the Southwestern Ontario market. These rates are projected to hold or increase slightly through 2019. Demand is significant from both local and out-of-area investors eyeing a growing market and tenant demand. The close geographical location to the GTA and expanding road and rail infrastructure are also variables factoring into investors' strategic attraction to the market.

Winnipeg

Winnipeg's new developments create larger opportunities than ever before

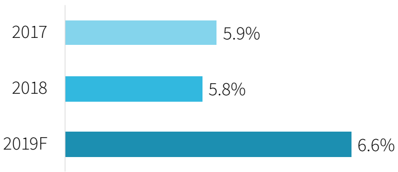


Winnipeg has long had a slow, consistent pace of development–but change has begun to disrupt the static market. With new developments, including the class A, 365,000-sf True North Square (TNS) office building, industrial developments such as CentrePort (Canada's only inland tri-modal port, serving air, rail and truck) and multi-family investment developments on the rise, new construction activity is generating new leasing and investment activity. Mixed-use developments are on the rise in downtown Winnipeg, while single-use developments are more common in the suburbs. The TNS development will also feature multi-family rental units (to be completed in 2019) as well as hotel and residential condo towers to be completed later.

Office

With the completion of Tower 1 at TNS, vacancy in the office sector increased in 2018. Tower 1 added 365,000 sf of class A office space to the market with approximately 60% of the building preleased in 2018. While the building set new benchmarks for rental rates, absorption of the remaining vacant space is expected to be slow in 2019. Winnipeg has been on the radar of international companies such as French videogame developer Ubisoft, which officially moved into its 3,200-sf premises at 250 McDermot Avenue in 2018. Leasing activity in the office market is forecasted to grow steadily as tenants start moving into TNS, although vacancy will increase to 6.6% in 2019.

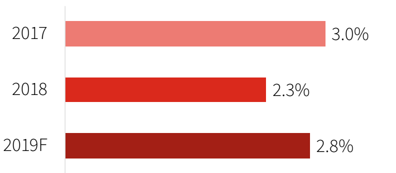
Office Vacancy Rates: Winnipeg



Industrial

CentrePort, now serviced, recorded an uptick in land sales, as there is demand for shovel-ready land. The development is of significant size and close to key transportation routes. Also, new developments in South Winnipeg, such as Bishop Grandin Crossing, bring much needed mixed-use development. Bishop Grandin Crossing is proposed to be developed in stages through 2021 and involves office, retail, industrial and multi-family components. The industrial sector is forecasted to have an overall vacancy rate of 2.8% by year-end 2019.

Industrial Vacancy Rates: Winnipeg



Retail

With the legalization of recreational cannabis, the retail market picked up in 2018 as the first five pot stores in the city opened up shop. No major

retail development has occurred in this sector since the completion of Outlet Collection Mall in 2017, although that project has led to the development of additional retail and multi-family developments within walking distance. Retail investment is expected to grow in 2019 as infill development comes to new neighborhoods.

Investment

There has been a rise in multi-family development in Winnipeg directed towards luxurious rental accommodations as well as more affordable rental units for students around the University of Manitoba (U of M). There are numerous multi-family developments being built near U of M as there has been demand from local as well as international students. Lastly, Artis REIT is building a new mixed-use downtown residential tower, which will offer ground-level commercial space and is slated to be completed in 2020. At 40 storeys, the development will be the tallest apartment complex on the Prairies. Overall, the market remains strong with limited inventory and interest from local and outside investors resulting in steady cap rates.

United States


LEASING
RETAIL & SWAPMEET

Atlanta

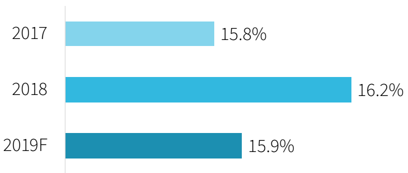
Market rental rates reach new heights

New job announcements continue to dominate Atlanta's headlines even though the market recorded a decrease in absorption activity in 2018. However, as vacancy has remained stable, asking rental rates continue their upward trend. Between September 2017 and September 2018, Atlanta added 57,000 new jobs, a 2.1% increase. While technology and e-commerce industries feed the pipeline of tenants in the market, Atlanta has begun to see a shift back towards more traditional tenants seeking space.

Office

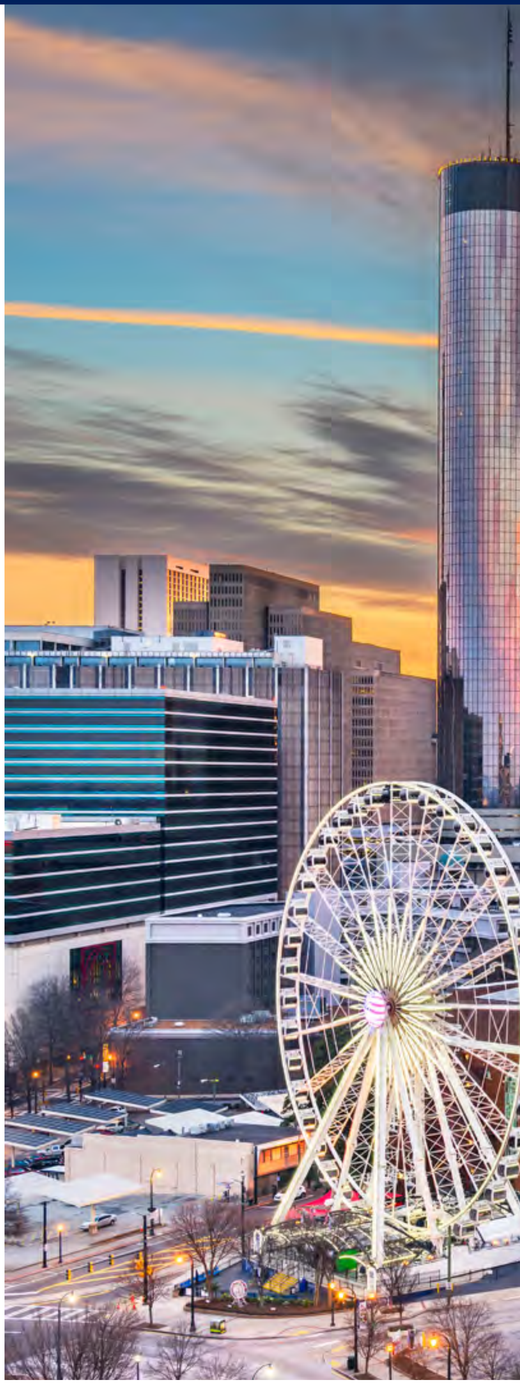
After a strong finish in 2017, the local office market recorded a slowdown during the last six months of 2018. Negative absorption recorded in the second and third quarters of 2018 pushed vacancy slightly higher. Construction activity remains tempered, and the relatively few projects in the pipeline have recorded strong preleasing activity. Class A asking rental rates continue to surge, up 4.6% year-over-year, spurring the overall Atlanta office market to break the $29-psf mark for the first time. New job announcements remain in the headlines weekly and point to the market's shift back to a positive performance. As long as developers continue to show discipline and leasing activity remains high, growth is expected to continue in the market through 2019.

Office Vacancy Rates: Atlanta

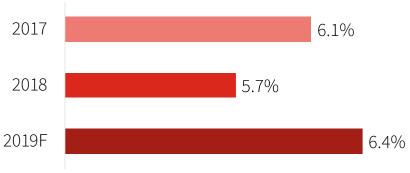


Industrial

Construction activity is the main topic of conversation in the Atlanta industrial market. Currently, a record 23.5 msf is underway with no signs of slowing down. Fortunately, the market continues to record positive absorption, which has allowed the vacancy rate to remain stable as so much new inventory comes online. Asking rental rates are increasing steadily, seeing a 7.6% increase year-over-year, and the average is at a record high for the market. As long as the pace of absorption keeps up with the amount of new space entering the market, Atlanta's industrial market should see positive momentum during 2019.



Industrial Vacancy Rates: Atlanta



Retail

The vacancy rate in the Atlanta retail market remains on a downward trend. Landlords were able to take advantage of Toys “R” Us vacating its locations and raise asking rental rates for those sites that had long been below the market average. Such retailers as Costco, Total Wine and Marshalls are currently expanding in the metro area; therefore, landlords have numerous options to backfill the vacated space. Rental rates are up 2.9% year-over-year and, as construction activity remains tempered, rental rates are expected to increase as available space remains limited.

Investment

For the third year in a row, Real Capital Analytics named Atlanta one of the top five most active investment markets in the U.S. (through the first three quarters) in 2018. Investment volume totaled $12.7 billion through the third quarter of 2018 as the Lenox Park office sale was the 18th-largest sale in the U.S. during the third quarter. The multi-family sector led the pack with more than $5.3 billion in total volume. Sales totaled $2.7 billion for office, $2.5 billion for industrial, $1.4 billion for retail and $513 million for hotel properties. As market fundamentals continue to tighten, vacancy decreases and rental rates increase, investors will remain interested in Atlanta throughout 2019.

Austin

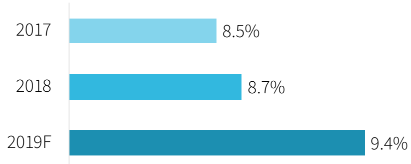
Population growth will remain key determinant of market health

Positive net migration and economic diversity have played pivotal roles in the success of Austin's commercial real estate sector in recent years, a trend that is expected to persist through 2019. The demographic makeup of Austin's population has contributed to a tight, rapidly growing labor market that, in turn, has drawn employers, investors and developers to the region and prompted growth in all commercial real estate sectors. Austin's overall outlook for 2019 is positive with the city placing in the top 10 overall real estate prospects in the Urban Land Institute's *Emerging Real Estate Trends* report for the eighth consecutive year.

Office

Major office relocations and expansions, which boosted the success of the market in 2018, are projected to carry through 2019 and hold leasing velocity steady while preserving low vacancy rates and appreciable rent growth. Preleasing rates are at an all-time high thanks to large corporate tech users assuming large blocks of space in yet-to-be-delivered projects. Developers have taken notice of office-using employment growth against the corresponding lack of space and have stacked the local development pipeline to the extent that, should all proposed and under-construction inventory deliver, the city's office inventory would increase by 50% by 2023.

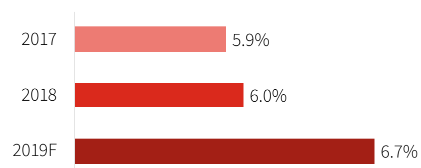
Office Vacancy Rates: Austin



Industrial

Due to Austin's smaller size and location between major distribution hubs such as San Antonio and Dallas, the industrial market is largely flex and warehouse-focused – and highly dependent on the local economy for growth. Austin's tech industry has had a direct impact on the metro's industrial market as indicated by demand keeping pace with the delivery of new product, along with an additional 1.9 msf under construction by the close of the third quarter of 2018. Persistent low vacancy, positive net absorption and steady asking rates seen throughout 2018, as well as the expectation that locally driven industries will grow alongside population, allow for an overall positive outlook for Austin's industrial market in 2019.

Industrial Vacancy Rates: Austin



Retail

Gains in consumer buying power and positive net migration will continue to underpin the success of Austin's retail market in 2019 despite the

changing global retail landscape. Increasing demand as a product of population and income growth, as well as the overall lack of retail development, have allowed for brisk rental-rate growth to upwards of $100 psf in high-demand areas and low vacancy in Austin's retail inventory. With little development in the pipeline and a presumed increase in high-paying tech jobs, the local retail market is well-positioned for sustained rental-rate growth and vacancy compression in 2019.

Investment

Multi-family sales volume and pricing continue to lead Austin's investment market, though industrial sales have recorded volumes well above average. National portfolio sales have increasingly included Austin assets, indicating the region's ability to compete with other major metros for investor capital – a trend that is projected to advance through 2019. Asset pricing for all product types has been, and is likely to remain, on the rise thanks to rent growth and increased competition for assets in the market. With the prospect of new deliveries reaching the market in the coming quarters, the increase in investor opportunities and diversity of assets will be considerable.

Boston

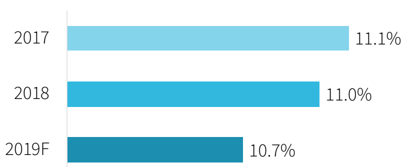
Office market tightness creates spillover effect

The Greater Boston Area (GBA) enjoyed great success in 2018 as the region continued to expand as an economic vanguard led by the life-science and technology sectors. Primarily driven by professional services, followed by the health care industry, the GBA had added more than 123,000 jobs as of September. This total outpaced 2017 in terms of job growth with a 4.7% employment increase in 2018, compared with a 1.3% increase throughout all of 2017. With the unemployment rate at 2.9% as of September – well below the national average – inflation has increased slightly. This situation is being reflected in a bustling commercial real estate market where average asking rents continue to increase across all asset types.

Office

The GBA continues to reaffirm its position as one of the top-performing office markets in the nation with average rents and overall office supply continuing to grow. Net absorption exceeded 2 msf in 2018 – the highest amount since 2015. In the urban market, downtown Boston remains the breadwinner for the GBA, accounting for more than 70% of net absorption in 2018. Across the Charles River, Cambridge remains one of the tightest office markets in the nation with virtually no vacancy thanks to an unmatched life-science sector. This tightness, in turn, has created a spillover effect whereby companies that are trying to grow or relocate to Cambridge have had to turn to Boston or the suburbs.

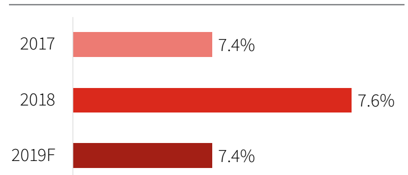
Office Vacancy Rates: Boston

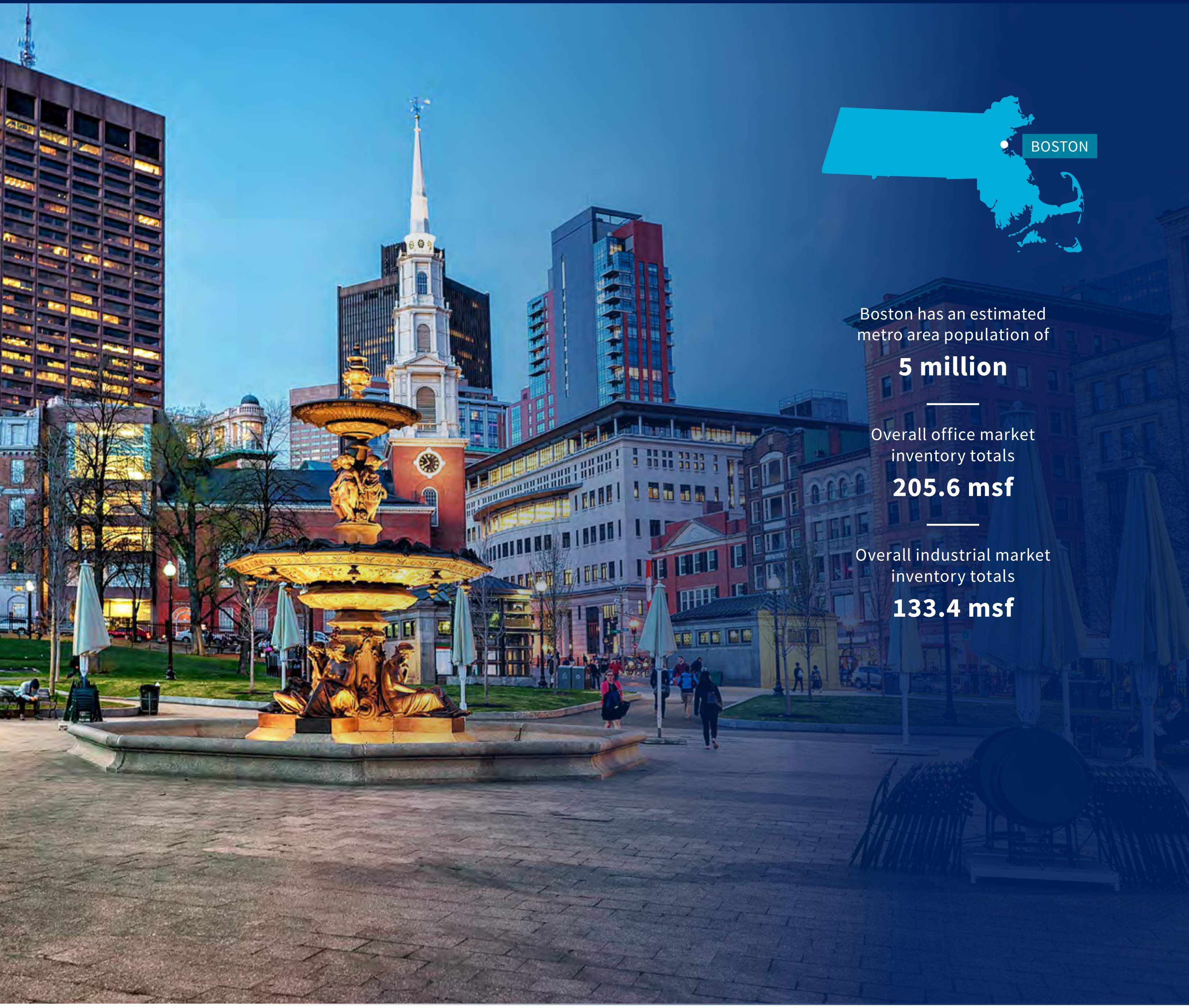


Industrial

The industrial market in the GBA remained tight in 2018 with the overall vacancy rate (7.6%) remaining less than 8% for the third straight year. Due to strengthening market conditions and the depleted supply of available industrial inventory, particularly in the urban markets where industrial asset repositioning is becoming more common as demand for residential and office space rise, speculative construction is growing along the 495 Belt. Of the 1.4 msf under construction, more than 60% is being built on a speculative basis, almost all of which is located along the 495 Belt.

Industrial Vacancy Rates: Boston





Retail

The retail scene throughout the GBA remains volatile in the suburbs yet more stable in the urban markets of Boston, Cambridge and Somerville, where most of the commercial development and population growth are taking place. In the suburbs, large mixed-use developments along the 128 Belt have given way to new retail that complements growing office and residential inventories, while larger big-box stores have been negatively impacted by growing e-commerce trends taking place globally.

Investment

After a slower start compared with 2017, the investment sales market was increasingly active throughout 2018 with the office sector continuing to drive sales volume and transaction frequency. Though down slightly year-over-year in terms of overall sales volume, the investment landscape throughout the region has become more diverse with noticeable investment increases for industrial and lab product. Looking ahead, investment sales volume and deal frequency are expected to remain similar to 2018 levels due to the variety of capital sources that continue to feed Greater Boston's increasingly diverse investment sales market.

Charleston

A destination for business

Although Charleston has long attracted tourists, it has increasingly become a business destination. The airport expansion and increased number of direct destinations, which now include London, U.K., position Charleston to benefit further from domestic and foreign direct investment.

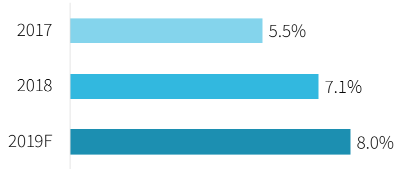
The Charleston Peninsula continues to flourish, adding taller office, residential and mixed-use developments. Expanding centers of employment and living are resulting in a burgeoning restaurant and night-life sector in new areas.

Meanwhile, the suburban markets have matured to become self-sustaining communities with housing, jobs, schools, retail and health care facilities. Like other markets registering rapid growth, the region struggles with infrastructure, talent and housing-affordability shortages. Initiatives are underway to address these issues so that the region remains a desirable place to live, work and play.

Office

Low vacancy and rising lease rates on the Charleston peninsula have led to new office development north of the Historic district, further shifting the CBD. While the west side attracts health sciences and related users, tech companies are dropping anchor on the east side. These employers seek locations to take advantage of the lifestyle their employees enjoy. Given the region's low unemployment rate and competition for top talent, this trend is expected to continue. Zoning in both areas allows for increased building height, density, adequate parking and amenities necessary to attract and retain talent. With these dynamics in the CBD, a shift of price-conscious office users to the suburbs is expected. Owners of existing buildings will need to reinvest and renovate to remain competitive.

Office Vacancy Rates: Charleston



Industrial

The industrial market remained strong in 2018 as major manufacturing facilities expanded and continued to hire. The completion of Volvo's plant and Mercedes-Benz Vans' expansion put pressure on the workforce while fueling interest from auto suppliers around the world.

Vacancy pushed downward slightly while new speculative inventory persists. The market is expanding geographically to combat workforce, congestion, land and construction costs. Going forward in 2019, more foreign direct investment is anticipated along with the emergence of new

enterprises, such as e-commerce. The SC Port Authority's sixth terminal under construction and second inland port, now fully operational, are positioned to help with increased import/export and container traffic.

Industrial Vacancy Rates: Charleston

Retail

Charleston remains a growth area for regional and national retailers. Retail grew throughout the region in 2018 following single- and multi-family developments. As new product came online, older centers were revitalized, while vacant stores were demised to accommodate smaller footprints and non-retail occupiers. Vacancy rates remained low while base rents stayed level. Many developments under construction will open their doors fully leased in 2019. Although the nature of retail has shifted, the demand for brick-and-mortar locations will persist, as tenants are prepared to pay to occupy these locations.

Investment

Charleston, sometimes referred to as Silicon Harbor, is performing well and will continue to be one of the top inbound investment markets in the southeastern U.S. in 2019. Institutional investors have flocked to the region, constructing thousands of multi-family units, millions of square feet of industrial space and significant amounts of higher-quality office buildings. With a rising interest-rate environment and an inevitable shift in cap rates, declining transaction volume is expected in the latter half of 2019. Increased construction costs will hinder the development of new speculative product in 2019 until adequate absorption takes place.

Charlotte

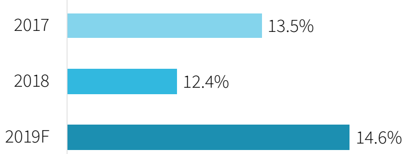
Rising construction and occupancy costs challenge landlords and tenants

Charlotte's business-friendly environment and rapidly growing population are supporting strong leasing fundamentals across all commercial real estate sectors. Landlords maintain the upper hand despite an increase in construction activity, and tenants continue to face rising rental rates. The top challenges cited by brokers in the current environment are rapidly escalating construction costs and an extended deal cycle as tenants adjust to today's economic realities.

Office

Charlotte office vacancy declined to 12.4% in the third quarter of 2018 thanks to sustained tenant demand and limited construction completions. The average asking rate rose by 8%, and the average class A rate breached the $30-psf mark for the first time. Owners of two Charlotte office buildings pushed asking rates to a new high water mark of $40 psf. The rise of co-working tenants was among the top trends in 2018 with WeWork and Spaces announcing a combined five new locations in Charlotte. Vacancy will trend higher in 2019 as more than 2.4 msf is set to be delivered. Tenants may gain some additional negotiating power, but overall fundamentals will remain in landlords' favor.

Office Vacancy Rates: Charlotte



Industrial

As expected, industrial vacancy increased in 2018 as a wave of construction hit the market. More than 20 msf has been delivered in the last five years in response to torrid tenant demand. While vacancy has increased, it remains in healthy territory after rising from a record low of 4% in 2017. Tenant activity is projected to be robust in 2019 as Charlotte benefits from a growing focus on last-mile delivery and an increase in domestic manufacturing activity. Amazon announced plans for its fourth Charlotte distribution center in 2018, bringing more than 1,500 jobs to the region. With 5.6 msf scheduled for delivery in the next 12 months, vacancy is projected to rise closer to 6% by year-end 2019. Rental-rate growth is likely to moderate.

Industrial Vacancy Rates: Charlotte

Retail

The Charlotte retail market has demonstrated incredible adaptability

Charlotte has an estimated metro area population of

2.5 million

Overall office market inventory totals

51.6 msf

Overall industrial market inventory totals

180.9 msf

in the face of a wave of closures by national brands. Well-located large blocks of vacant space have been readily backfilled, some by new retailers and others by alternative uses such as call centers, self-storage and creative office. Vacancy ended the third quarter of 2018 at just 4.3% – down 40 bps year-over-year. Rental rates are at historic highs but are likely to moderate going forward, as they are approaching the limits of what some retailers can pay. Charlotte will remain a landlords' market in 2019, but conditions may shift heading into 2020 as additional new product is delivered.

Investment

Charlotte investment volume totaled $3.6 billion in the first three quarters of 2018 – down 21% compared with the same period in 2017. Activity was down for all asset classes with the exception of multi-family sales, which increased by 36%. Office sales were back in line with historical norms at $948 million following unusually high volume in 2017 due to the $1-billion sale of Ballantyne. A new office price record of $590 psf was set with the sale of the recently constructed 615 South College Street. Industrial sales totaled $532 million, and retail sales were $315 million. The Charlotte market has likely reached its peak in terms of both volume and pricing, but investors will continue to be drawn to the region, which is an affordable alternative to gateway markets.

Chicago

Metro area adds 35,100 jobs

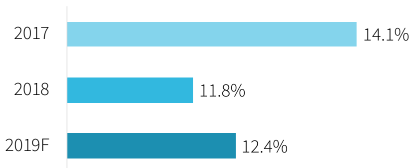
Commercial real estate fundamentals in Chicago's office and retail sectors declined in 2018 when compared with 2017; however, the industrial market continued to see significant growth in leasing velocity and construction. The unemployment rate continues to drift downwards as the talent pool within the market is attractive to corporations. As of September 2018, the Chicago metropolitan area had added approximately 35,100 jobs year-over-year.

Office

The Chicago office market continued to see moderate leasing activity in 2018. However, most of it was concentrated within the CBD, which recorded a total of 9.4 msf leased through the first three quarters – compared with 5.6 msf in the suburbs. Facebook, Google, Pinterest, Salesforce, Career Builder and Madison Capital have all recently announced major expansions in the CBD, which will increase local workforces as well as real estate footprints.

New developments are also centralized in the CBD and are garnering record-setting rents as tenants seek higher levels of efficiency as well as sophisticated workspaces and amenities. Increased shadow space, combined with a projected 3.4 msf of additional office space being delivered in the CBD during 2019, will likely increase vacancy. Of the 3.4 msf projected, 87% will be located in the West Loop.

Office Vacancy Rates: Chicago



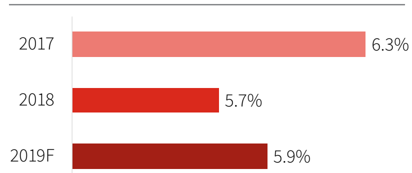
Industrial

Chicago's industrial vacancy rate recorded a 60-bps drop through the first three quarters of 2018, down to 5.7%. During the same period, 51 buildings totaling 14.1 msf were delivered to the market – a 42% decrease year-over-year. Despite the decrease in new product delivering to the market, there has been an increase in the amount of new product breaking ground. Over the next 12 months, the market is expected to gain an additional 18 msf, much of which will be built on a speculative basis.

Restructured taxes and incentives in bordering states have sparked growth in both leasing velocity

and construction. Southern Wisconsin registered an increase of 322% in construction activity year-over-year, while Northwest Indiana's leasing activity increased by 54% in the same period.

Industrial Vacancy Rates: Chicago



Retail

The Chicago retail market posted a slight increase in vacancy when compared with 2017, up 10 bps to 7%. With vacancy trending up, there has been a decrease in leasing activity with 4.8 msf leased through the first three quarters of 2018, compared with 6.9 msf in the same period one year earlier. The arrival of a new tenant and technology-driven store could start a new trend: Amazon Go opened its first Chicago location, providing a cashier-less store and a grab-and-go theme with customers using apps to make purchases.

Investment

Investment activity in Chicago's office sector recorded a total of $5 billion in sales volume during the first three quarters of 2018, up from $3.1 billion in the first three quarters of 2017. One notable sales transaction was the sale of 600 W. Chicago Avenue in the River North submarket, which sold for $510 million. The property traded between Equity Commonwealth and Sterling Bay. As in 2017, the Chicago industrial sector continued to be a popular investment opportunity with $4.3 billion invested during the first three quarters of 2018. Of this activity, 47% took place during the third quarter.

Cleveland

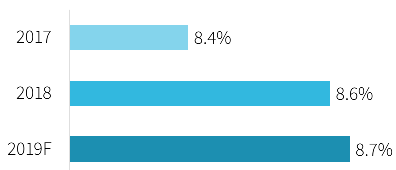
Slow, stable economic expansion forecasted

Steady business growth brought the northeast Ohio unemployment rate to 4.5% as of October 2018 – down 20 bps year-over-year. Vacancy rates followed suit by maintaining stability across property sectors. The City of Cleveland has focused heavily on downtown housing development to create a vibrant live-work-play environment and stimulate business growth. This effort was showcased by two new 30-plus-story multi-family projects, the largest downtown residential projects in more than 40 years, which commenced in 2018.

Office

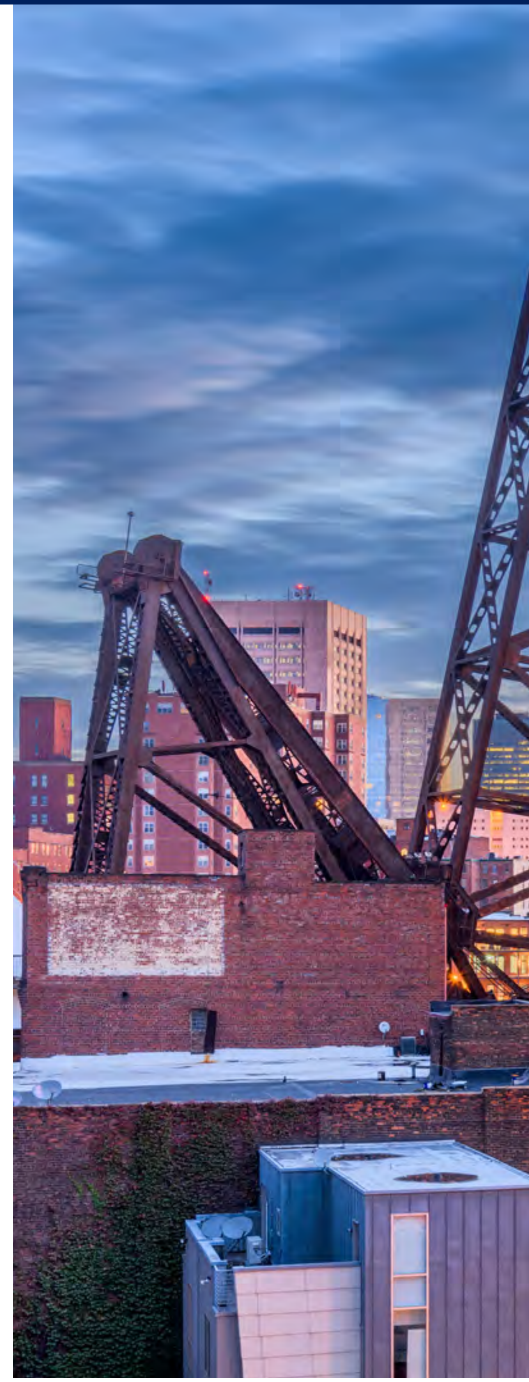
The northeast Ohio office market showed signs of strength despite a slight 20-bps bump in vacancy in 2018. Cleveland's CBD office market continued to benefit from the downtown housing boom as CBD occupancy increased 50 bps year-over-year. In September, PNC announced it plans to backfill a 165,000-sf vacancy at its downtown office tower by relocating 500 employees from the suburbs. Charlotte-based Babcock and Wilcox announced plans to relocate its headquarters to the East End redevelopment outside of Akron. The move will retain 600 employees and is estimated to create an additional 100 jobs. Despite the focus of many companies shifting to the urban core, the suburban office markets are expected to maintain lower vacancy rates than Cleveland's CBD for the foreseeable future.

Office Vacancy Rates: Cleveland

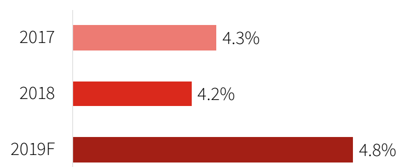


Industrial

Demand for industrial space in northeast Ohio continued to outpace supply in 2018. Vacancy dipped to 4.2% at year-end 2018 from 4.3% at year-end 2017, while approximately 2.1 msf of new inventory was delivered. With the number of large blocks of space in existing assets diminishing, developers are looking to meet demand in 2019 by delivering a further 4 msf. With around 69% of these new deliveries preleased, it is anticipated that opportunities to backfill space in existing assets will become more prevalent in 2019.



Industrial Vacancy Rates: Cleveland



Retail

While concerns around the future of retail linger with the disruption brought by e-commerce, demand for in-store shopping remained evident in the Cleveland market in

2018. Grocery-anchored centers and destination retail, such as new mixed-use developments, remained most appealing to creditworthy tenants. As of October 2018, vacancy rates in these asset classes had dropped 30 bps year-over-year. Threats imposed by departing big-box retailers, particularly in class B and C assets, were met with opportunistic repurposing projects to uses such as light industrial, medical and self-storage. While such projects help landlords reduce vacancy, brand-conscious tenants will continue to opt for right-sized footprints in class A spaces, shifting uncertainty to the lower end of the market.

Investment

The steady resurgence of Cleveland's CBD office market gave confidence to investors in 2018 and spurred five high-profile transactions. The most prominent transfer involved Cleveland's second-largest office tower, 200 Public Square (1.27 msf), purchased by local real estate mogul Scott Wolstein and DRA Advisors of New York. The four other notable transfers included Tower at Erieview (851,000 sf), 925 Euclid (1.3 msf), 1111 Superior (616,000 sf) and AECOM Center (575,000 sf). With more than half of Cleveland's prominent office assets trading hands in the trailing 36 months, investors will likely shift their focus to opportunities in the suburban markets in 2019.

Columbus

Steady success in central Ohio

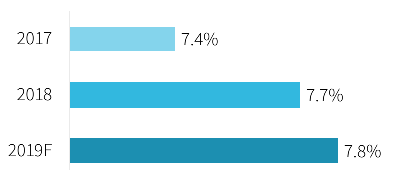
Columbus' fortunes are on the rise. As most of its Midwestern neighbors experienced declining population, Columbus' population nearly doubled between 1960 and 2017. In 2018 alone, housing prices in the central Ohio region rose 9.2%, and they are expected to continue rising sharply.

Office

With the local economy growing and diversifying, demand for office space is strong and steady, and vacancy rates are trending downward. Because land in Columbus is relatively cheap and the capital city has recorded years of solid rental-rate gains, sales volume in this market is currently the highest in Ohio. Additionally, in comparison with Cincinnati and Cleveland, Columbus boasts a pro-business tax structure and a highly educated workforce, along with relatively lower business costs. The average office sale in Columbus in 2018 hovered around $1.8 million with an 8.5% cap rate. Stability is a meaningful asset to Columbus, and while the market has registered mediocre growth, recent rental-rate gains have been strong.

The Columbus office market is expected to maintain its performance in 2019 as the economy and job creation continue to grow. Vacancy rates are expected to face upward pressure as absorption slows and new construction projects are completed. Rental rates are expected to grow at a modest rate as well.

Office Vacancy Rates: Columbus

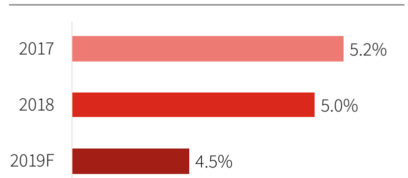


Industrial

Industrial deliveries rose significantly in Columbus in 2018 with 1.1 msf delivered in the third quarter alone. While vacancy rates remain at near-record lows, they are steadily rising. Asking prices per square foot have increased when compared with 2017 and sit slightly above the national average. The rental rates mirror this trend, having increased steadily to sit marginally above the national average. Macy's contributed greatly to high net absorption with its lease of 1661 Rail Court (673,930 sf).

Industrial deliveries are expected to increase in 2019, as more than 2.3 msf was under construction in late 2018. Deliveries are set to skyrocket in the spring. This shift in supply is expected to cause a slight rise in the vacancy rate before leveling out.

Industrial Vacancy Rates: Columbus



Retail

With Columbus' strong economic

and population growth, rental rates have increased significantly over the last few years. Asking prices for retail increased almost 30% year-over-year in 2018. Average cap rates hovered slightly below 8%, significantly lower than in the past. Retail deliveries boomed towards the end of 2018, increasing the vacancy rate to just under 20%.

This vacancy rate is expected to remain steady well into 2019 and increase towards the end of the year as new space is delivered with a significant spike occurring mid-year.

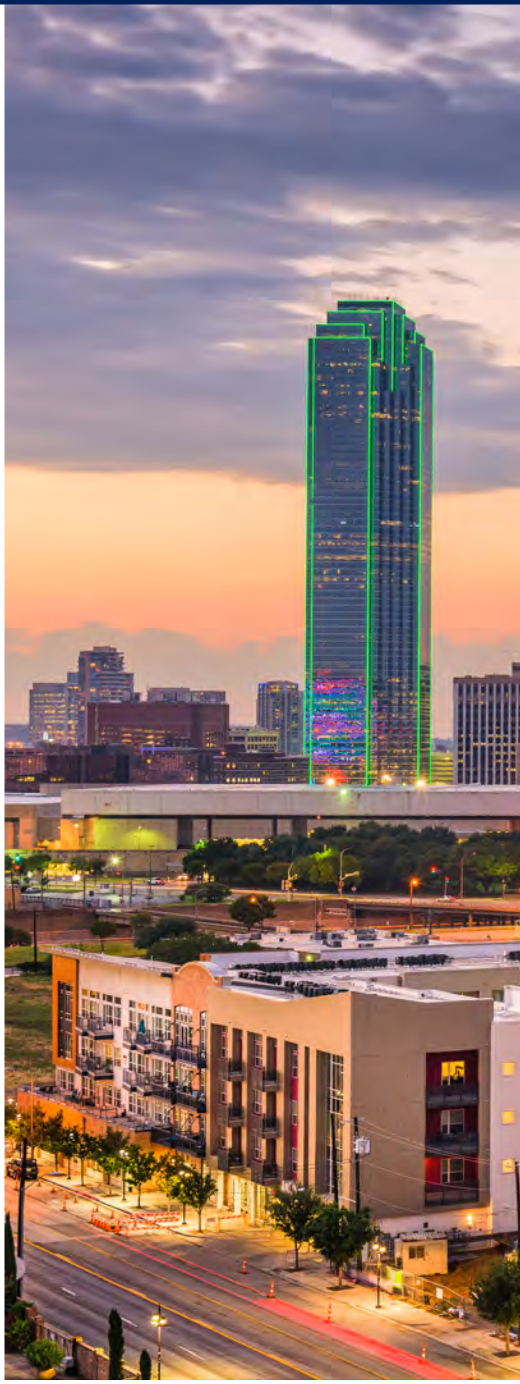
Investment

Investment in Columbus remains on the rise as corporations and investors demonstrate strong interest in the market. Sales volume in third-quarter 2018 was nearly double that of the second quarter. Foreign investment advanced in 2018 with Toronto-based Dream Industrial REIT completing two purchases totaling $61 million in the Columbus New Albany market.

With interest rates continuing to rise in 2019, cap rates will trend slightly upward. Steady activity in the central Ohio market will continue as investors flock to tertiary markets for a better return on investment. Industrial and multi-family investments will continue to lead the way with out-of-state investors.

Dallas

Strong employment growth fuels investment

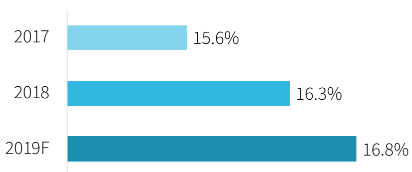


The outlook for Dallas in 2019 is quite good, especially following the most recent *Emerging Trends* report by PwC and ULI, which named the area as the top market favored by investors for 2019. The report highlighted the metro's strong growth and gateway market liquidity. Dallas continues to post record population and job growth, consistently producing the top numbers for the entire country. According to the Bureau of Labor Statistics, a total of 109,400 new jobs were created in the trailing 12 months up to November 2018. This momentum occurred across every sector and also helped Dallas reach a major milestone as the market surpassed 1 million office-using jobs. This expansion is poised to continue through 2019, though the pace will likely taper from record highs as it did in 2018. However, even with slightly moderating growth, 2019 should be another banner year. Accordingly, the metro will once again rank as one of the country's most desirable markets in which to live and work.

Office

Absorption for 2018 followed the same trajectory as that of 2017, cooling from the highs of 2015 and 2016 but remaining above the 10-year average. The majority of this absorption remained single-tenant build-to-suits, the biggest of which was Liberty Mutual's 1.1-msf campus. Even excluding owner-occupied properties, absorption was 1.25 msf, though much of that was in newly built space as the flight-to-quality trend of recent years continued. With 7.6 msf set to deliver in 2019, and 76% of that space preleased, the trend is expected to continue as older, unrenovated and class B assets fight to keep up. Rental-rate growth is likely to continue moderating in the face of possible softening demand and new stock delivery.

Office Vacancy Rates: Dallas

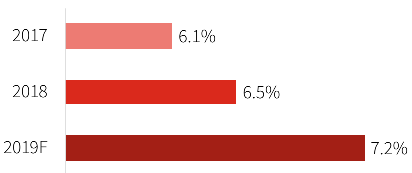


Industrial

Industrial continues to benefit from online-retail distribution, strong population growth, and ample developable land. Construction and absorption momentum continued their previous pace in 2018 but will likely dip slightly in 2019 as demand has cooled, construction costs have risen, and 13 msf of product is set to deliver in 2019 with 80% of the space still available. Industrial does stand to be one of Dallas' biggest beneficiaries of the new Tax Cuts and Jobs Act's Opportunity Zones program (the federal program that encourages investment in select areas through preferential tax treatment of capital gains) as the majority of projects are in areas that have historically been

manufacturing and distribution hubs.

Industrial Vacancy Rates: Dallas



Retail

Retail in Dallas is more durable than in many other markets as the area is known as a shopping destination. Absorption continued to moderate but was still quite healthy in 2018. The substantial population growth in Dallas is supporting high-paying jobs, leading to increased consumer spending and the need for additional retail locations. Vacancy will likely remain below 5% in 2019 with most uncertainty around larger big-box retailers and anchor tenants in malls as they cope with adapting to changing demographics and consumers' spending habits and brand loyalties.

Investment

Transaction volume was nearly $20 billion in both 2017 and 2018 with industrial and multi-family assets leading the way. This trend should continue through 2019 as more investors take notice of Dallas' growth and stability.

Denver

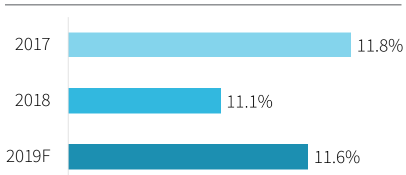
Office market cools, but retail and industrial remain hot

Denver's frantic rates of economic and population growth are abating. In the trailing 12 months to November 2018, a total of 2,508 jobs were added monthly, compared with 4,467 per month in the prior 12-month period. Once boasting the lowest unemployment rate of all major U.S. metro areas, Denver is now 80 bps above the lowest rate, tied with four other regions at 3%. With the population swelling 2% annually from 2012 to 2017, its growth is projected to slow to 1.2% annually from 2018 to 2023. This moderated population expansion slowed mounting housing cost increases in 2018. Positive economic trends continue, partly due to energy market stabilization and an increase in technology companies. Recently opened technology offices include Strava, Xero, Marketo, Gusto, Thanx, Granicus, SwitchFly, Accelo and OpenTable. Netflix opened a new office in Boulder, where 33% of office space is occupied by tech firms.

Office

Through the third quarter of 2018, improving vacancy rates and positive absorption indicated that recent deliveries are being leased. Vacancy declined 70 bps year-over-year to 11.1% in third-quarter 2018, and the nine-year streak of positive annual absorption continued with 3.2 msf absorbed. Average rental rates increased 3.8% year-over-year. Class A rates for space constructed since 2010 in the CBD reached an average $43.31 psf. Asking rates have grown at unprecedented levels due to new construction projects charging high premiums, particularly in the LoDo and Platte River submarkets. Increasing rig counts and oil and gas prices brought about a period of stability in energy-company office occupancy in 2018. A diversifying tenant base will enable the office market to remain strong in 2019.

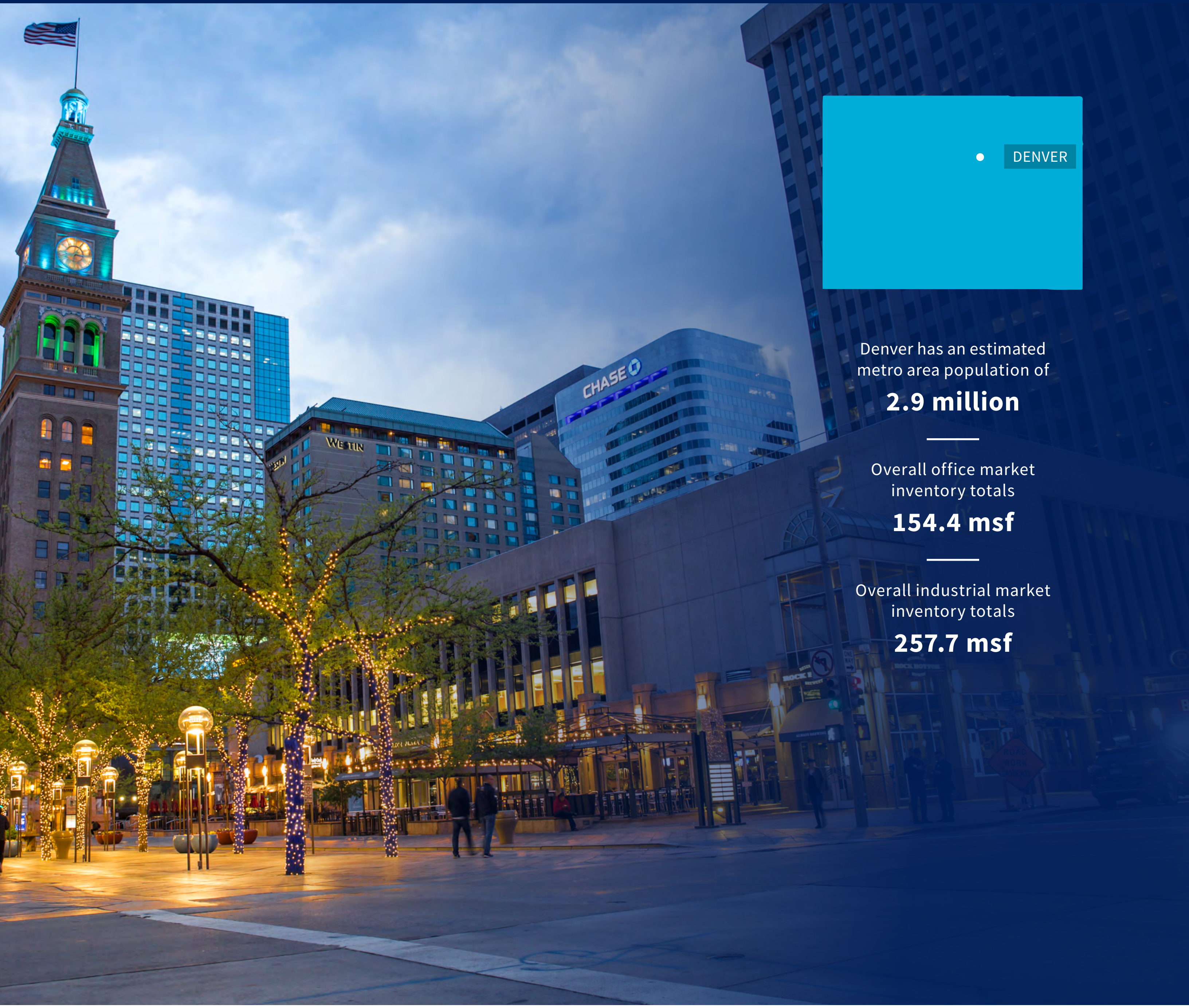
Office Vacancy Rates: Denver



Industrial

Demand for large-scale fulfillment centers impacted Denver's industrial leasing and construction activity in 2018, increasing warehouse demand. Advanced manufacturing was historically the purview

of aerospace and defense, but health care and bioscience have increased leasing. Swisslog Healthcare opened its 80,000-sf development, manufacturing, training and education facility, and Boulder Botanical and Bioscience Labs moved its headquarters to the former General Electric manufacturing site. Vacancy remains low at 5.1% and will be stable in 2019 as 58% of the 7.9-msf pipeline is preleased.



Industrial Vacancy Rates: Denver

Retail

The median household income in Denver has reached more than $73,000 per year, putting Denver on the map as a location for high-end retail. Vacancy reached a near-decade-low of 4.6% in 2018. The average asking rate remained flat at $18.97 psf NNN, possibly indicating a price ceiling after increasing 5.2% annually for five years. Slow rent appreciation and stable vacancy are expected to characterize the market in 2019.

Investment

Cap rates had been declining since 2014 but recorded consecutive quarterly increases during 2018. Although office leasing softened slightly, Denver's investment market remains strong. When compared with prices in tier-one markets across the country, Denver's office product price continues to be attractive to buyers. The average industrial price per square foot continues to increase slightly, approaching $110 psf as development still lags. Investment is likely to cool slightly in 2019; however, healthy market fundamentals will continue to draw capital.

Detroit

Downtown Detroit's comeback continues

Detroit's CBD, Midtown and New Center submarkets continue to rebound. As businesses and residents migrate from the suburbs to downtown, vacancy rates in these submarkets have decreased, while lease rates are rising.

Two major developments that delivered in 2018 and helped the revitalization of the city are the Mike Ilitch School of Business and the Shinola Hotel. The business school has played a vital role in bridging the gap between Detroit's Midtown and Downtown markets, while the Shinola Hotel has added 130 rooms to Detroit's luxury-hotel market.

Developments set to deliver in 2019 include the 234,000-sf Little Caesar's world headquarters and Dan Gilbert's City Modern project, which will bring 400 residential units to the historic Brush Park neighborhood. There could be a hospitality and residential bubble brewing downtown as multiple projects are hitting the market simultaneously.

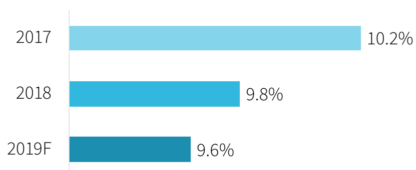
Lastly, a large-scale mixed-use development broke ground on the former J.L. Hudson Department Store site. It is expected to consist of 1.4 msf and stand 912 feet tall, making it the tallest building in the state of Michigan.

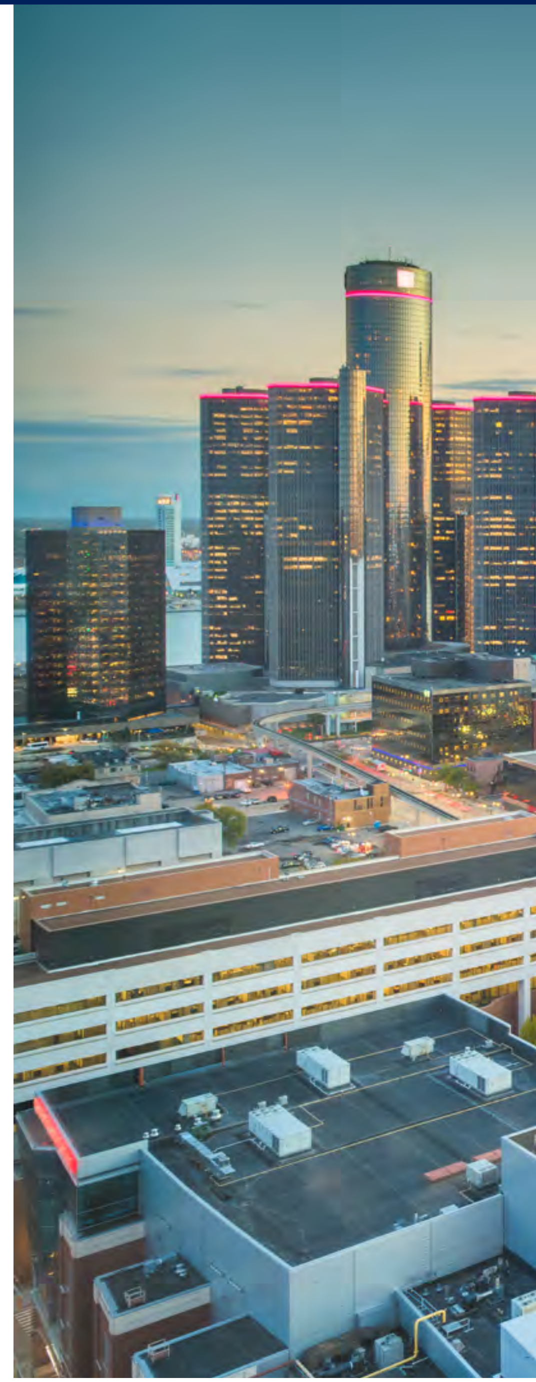
Office

The office vacancy rate decreased to 9.8% in third-quarter 2018 from 10.2% at year-end 2017. Detroit is still a heavily suburban market with 84% of absorption happening outside of downtown in 2018. In response to declining vacancy and positive absorption, the average asking rental rate increased $4.36 psf year-over-year to $24 psf. Absorption and vacancy rates in 2019 are expected to continue in a positive direction while lease rates rise.

The most significant transaction of 2018 was LinkedIn's lease of 75,000 sf in the downtown Sanders Building. The tech industry continues to grow in Detroit after LinkedIn, Google and Microsoft committed to leases in the downtown market. Google relocated from the suburbs, taking up 35,000 sf. After 30 years in Southfield, Microsoft relocated its regional tech center to the downtown, moving 200-plus employees into 40,000 sf. Metro Detroit is reliant on the automotive industry to spur innovation in manufacturing and technology. As the industry moves towards autonomous vehicles, the region will serve as a hub for a highly skilled technology workforce.

Office Vacancy Rates: Detroit

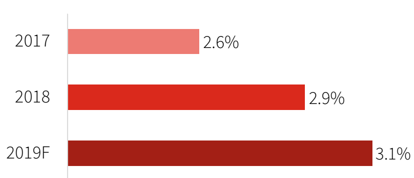




Industrial

The Metro Detroit market for industrial and flex space saw little change as the vacancy rate in the third quarter of 2018 rose to 2.9% from 2.6% at year-end 2017. The low vacancy illustrates the shortage of quality product. As a result, some companies may decide to go to other markets to satisfy supply-chain requirements. Challenges facing the industrial market include the slowdown of the auto industry. However, the market remains healthy with limited speculative development in the suburbs.

Industrial Vacancy Rates: Detroit



Retail

The excitement of Detroit's turnaround maintained its momentum throughout 2018 as Plum Market, Shinola and Madewell all made long-term commitments to flagship downtown retail locations. Retail remains an important component in the city's efforts to become a live-work-play location.

Investment

Continued investment in Detroit will be the major business driver affecting the market in 2019. The most notable sale in 2018 was Ford Motor Company's purchase of the 600,000-sf Michigan Central Station building in Corktown. The deal signals that growth is spreading beyond the city core and into the surrounding neighborhoods. Larger transactions are expected in 2019 as legacy downtown Detroit owners begin to bow out of the market.

Fairfield County

Stronger employment numbers spell positive real estate results

In the state of Connecticut, Fairfield County continues to recover jobs lost since the Great Recession with a 3.7% unemployment rate as of September 2018 representing an improvement from its 2017 annual average rate of 4.5%. As has been the trend in the past few years, the service sector added the most jobs in 2018, followed by finance and health services, while the professional and business services sector posted a year-over-year decline. This trend is expected to continue in 2019 as large corporate entities move forward with planned mergers and acquisitions. Stronger employment numbers have translated into positive year-over-year results for all asset types in Fairfield County.

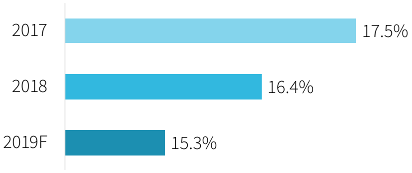
Office

The tide turned in 2018 as overall vacancy trended downward with the Eastern submarket recording the lowest vacancy at 13% as of third-quarter 2018.

A mix of optimism and uncertainty prevailed in some of the market's largest office buildings. Boding well for the Fairfield County market is Charter Communications' commitment to occupy 500,000 sf of the planned 750,000-sf Gateway site at 406 Washington Boulevard in Stamford and use the space for its headquarters, which will create more than 1,000 new jobs.

Over the next year, a gradual backfilling of some of the larger vacant blocks of space and a strengthening of office market fundamentals are expected to occur.

Office Vacancy Rates: Fairfield County



Retail

Leasing continued at a moderate pace in 2018, putting downward pressure on the vacancy rate, which reached 3.3%.

While there were fewer lease transactions in 2018 than in the previous year, the average deal size was larger. Some of the bigger deals were effectuated by medical practices, a sector that is projected to increasingly drive retail leasing in 2019.

SONO Collection, a 700,000-sf mall in Norwalk, is under construction. The anchors will be luxury retailers

Bloomingdale's and Nordstrom. Anticipated to deliver in mid-2019, this addition to Fairfield County's retail inventory marks the continued strength of brick-and-mortar space in the market as only Toys "R" Us returned a mid-box retail site of 36,000 sf during 2018 with no big-box vacancies on the horizon in the county.

Investment

On an annualized basis, investment sales growth in 2018 was significantly

Fairfield County has an estimated metro area population of

949,921

Overall office market inventory totals

42.4 msf

higher than in 2017. The office and multi-family sectors drove most of the dollar volume.

In the office sector, a falling average price per square foot and higher cap rates have attracted private-equity investors from New York's Tri-State area. Transactions in 2018 included the sale of Shippan Landing, a six-building, 770,000-sf class A waterfront complex that sold for $148 million during the second quarter, and 535 Connecticut Avenue in Norwalk, a 180,000-sf class A office building which sold for nearly $16.5 million in the third quarter.

Key trades in the multi-family sector, such as the sale of the 183-unit apartment building Element One for $78 million, or $426,230 per unit, mark lower cap rates and greater demand in the Fairfield County market for core investments. An increase in total sales volume is possible in 2019 as well as further discount sales from sellers who are keen on bargains in office and have a desire to beat the anticipated interest-rate hikes and increasing cap rates for apartments.

Fort Lauderdale

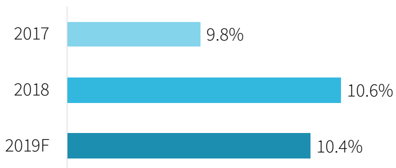
Employment gains and new development fuel market

Strengthening economic fundamentals continue to bolster Broward County's commercial real estate market. According to the Bureau of Labor Statistics, Broward County once again had the lowest unemployment rate in South Florida with a record-breaking 2.8% leading into 2019. The opening of the Brightline high-speed rail system has positioned Broward County as an attractive location for businesses, drawing growing interest from the insurance and technology sectors. An increasing millennial population also continues to spur new development in key markets. Investor confidence is expected to remain strong in Broward County during 2019.

Office

Broward County's office market held steady with positive net absorption recorded at the end of 2018. Average asking rates continued to increase despite the sustained trend of tenants consolidating their office space. Land constraints continue to present an obstacle for the Broward office market as most remaining supply has been zoned for residential use. Despite this situation, investors remain confident in the market as significant class A office developments are underway in both Downtown Fort Lauderdale and Pembroke Pines. As new class A office product delivers to the CBD in 2019 and interest rates create downward pressure on pricing, rental-rate growth in the CBD may begin to level off. As the market remains healthy and demand for affordable high-quality space outside the urban core persists, it is likely that the outer suburban submarkets will increase their average asking rates to narrow the spread between their assets and the CBD.

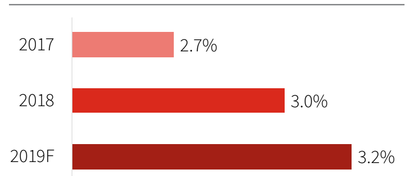
Office Vacancy Rates: Fort Lauderdale



Industrial

Broward County's robust industrial market was strong leading into 2019 after the market continued to tighten throughout 2018. Construction activity picked up near year-end 2018 with 3.4 msf in the development pipeline, most of which is speculative space, indicating significant investor confidence in the sector. As the industrial market faces significant land constraints, it is likely that industrial product will continue to trade for a premium and lease rates will climb in 2019. As demand continues to outstrip available supply, Broward County's industrial market is expected to grow alongside robust economic conditions and strengthening demand for e-commerce.

Industrial Vacancy Rates: Fort Lauderdale



Retail

The retail market in Broward County remained healthy as the overall vacancy rate for the county remained at 3.8% during 2018. Well-positioned retail space

remains in high demand amid the recent closures of big-box retailers in South Florida. Land constraints have encouraged the development of major mixed-use projects in emerging neighborhoods like Dania Beach, Hallandale and Sunrise, where the few remaining undeveloped parcels of land are being snatched up by investors. One of the largest mixed-use projects being constructed in South Florida, Dania Pointe, recently completed its first phase of construction with the second phase due for completion in fall 2019. Broward County's retail market activity is expected to continue at a steady pace in 2019 as population growth fuels the need for new development.

Investment

Investment activity was strong in Broward County during 2018 with more than $1.2 billion in total sales volume recorded across the office, retail and industrial sectors. Despite the upward pressure on cap rates created by rising interest rates, Broward County's overall average cap rate remained relatively flat at 6.9% – likely offset by the downward pressure from rent growth. More than 89% of all sales activity was split evenly between private and institutional investors. Robust investment activity is expected to continue in 2019 as Broward County establishes itself as an affordable alternative to Miami-Dade County.

Greenville

Vintage town becomes modern city

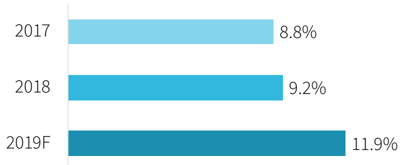
The Greenville region is rapidly gaining popularity as a tourist destination. With the market featured in national and international publications, hotels remained booked year-round. Many hotels are under construction with more in the pipeline. Increasing visitor traffic, combined with a growing population, is strengthening the thriving economy. Anchored by BMW, Michelin and other auto-related manufacturers, advanced manufacturing maintains a strong presence. The growth of these key players has had a multiplier effect on other industries in the area.

The scale and character of downtown Greenville is starting to shift. Historical two-to-four-story downtown buildings are being overshadowed by eight-to-15-story developments. The vintage town is beginning to take on the look and feel of a modern city.

Office

The office market remained healthy through 2018. While vacancy was low, the highest was in Greenville's CBD. An addition of 150,000 sf of office space in the heart of Main Street is scheduled to be delivered in late 2019. With this delivery already fully leased, vacancies should level off and occupancy rates start to rise. Greenville's city council has made this development a priority in the downtown master plan and has included a specific focus on attracting new-to-market office tenants. Current owners are renovating their common areas to keep up with new construction.

Office Vacancy Rates: Greenville

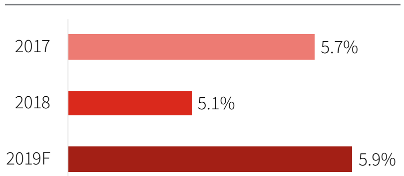


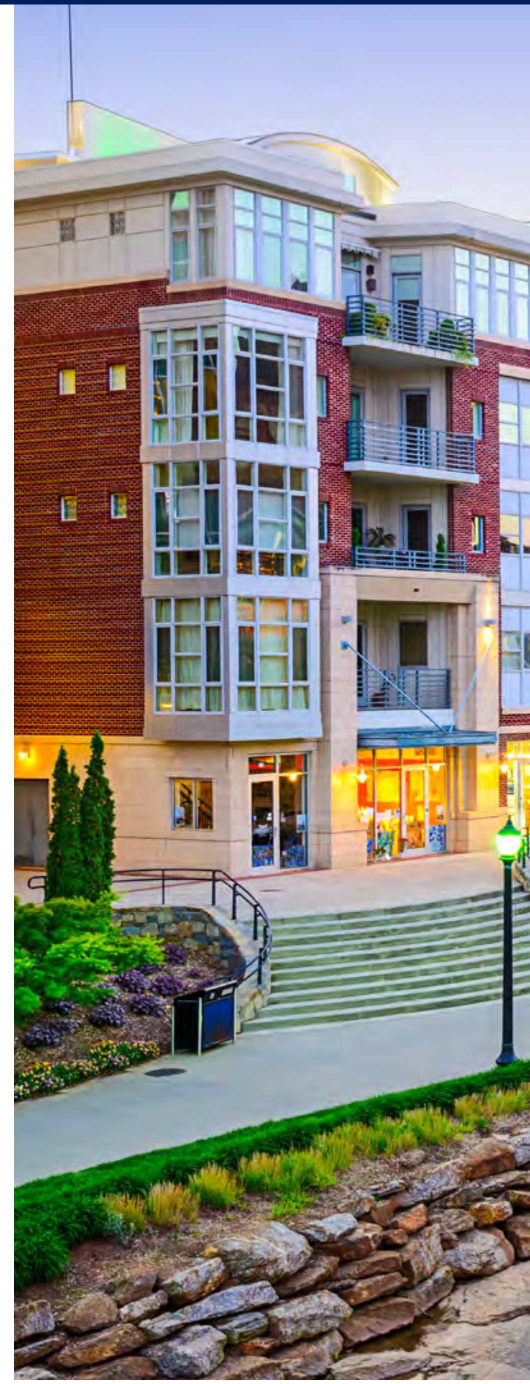
Industrial

The industrial sector was robust in 2018. With several large deliveries and speculative buildings under construction, vacancy rates remained tight as rental rates increased. As new companies entered the market and existing companies announced expansions, demand grew for class A product to meet operational needs.

Landlords will enjoy rising rental rates in 2019. Despite new buildings entering the market, low vacancies among class A and B product will remain. The skilled labor shortage will diminish as higher-learning institutions continue to receive grant money to provide students with hands-on training.

Industrial Vacancy Rates: Greenville





Retail

The Upstate region has posted continued job, population and tourism growth, helping to fuel a strong retail market. Downtown Greenville is on the map with population growth and increased tourism activity. National, regional and local tenants call Main Street home, causing rental rates to rise along the thoroughfare. Rates have climbed higher in smaller towns' downtowns as well – most notably Traveler's Rest with the help of the Swamp Rabbit Trail System, a 22-

mile recreational trail system with numerous businesses and restaurants along it. Suburban retail has remained resilient while strong traffic corridors record historically low vacancy rates. The retail market is anticipated to continue to improve in 2019 as job and population growth remain strong.

Investment

The investment market should remain strong in 2019 with continued population growth, job creation and income growth above the national average. The Upstate market is attractive to investors, as Morgan Stanley and Mapletree Investments made major investments in the market during 2018. Morgan Stanley acquired a 16-building, 1-msf, $285-million medical office-building portfolio and a 331,000-sf industrial speculative building in Greenville for $21 million. The Mapletree acquisition included two buildings on White Horse Road in Greenville totaling 540,000 sf. A tremendous foundation has been built in the Upstate with the inland port in Greer, the world's largest BMW production facility, Michelin's long-term commitment to the region and Clemson University's world-class engineering, automotive and real estate programs continuing to expand and gain global recognition.

Hartford

City fosters live-work-play lifestyle

A renaissance has been taking place throughout Greater Hartford over the last several years, driving steady employment growth and positive net absorption for the office, industrial and retail markets throughout 2018. Once deemed a "commuting city," Hartford is now fostering a downtown live-work-play lifestyle that is enticing employers to consider a location here due to the skilled labor that the city is starting to attract and retain. While Central Connecticut's industrial backbone has helped the overall market remain stable, most of the commercial growth is taking place in urban Hartford. Since the start of 2015, more than 750 fully occupied apartment units have been built downtown (currently at 97% occupancy) with 300 more units under construction. The city also recently welcomed its first professional double-A baseball team, the Yard Goats, along with a mixed-use sporting venue development. UConn's downtown campus opened its doors, bringing in a younger demographic and more retail viability to the CBD. Most notably, Hartford received its first commuter-rail line, which has only grown in popularity since its inauguration in mid-2018 and created the need for additional railcars and new stops.

Office

The Greater Hartford office market is starting to break a historical trend during which rental rates in the suburbs were comparable to those in the CBD. With the revitalization of downtown Hartford taking place, vacancy has declined steadily since the start of 2017. This trend, coupled with the conversion of a large block of available office space to residential use in 2016, has tightened the available inventory in the city, creating a rental-rate premium of more than 25% when compared with the suburbs.

Office Vacancy Rates: Hartford

Industrial

Centrally located between the economic hubs of Boston and New York City, the Hartford industrial market reaffirmed its position as one of the top warehouse-and-distribution markets in New England. Thanks to competitive rents and the unmatched accessibility to New England's vital transportation corridors, I-91 and I-84, the market has welcomed a plethora of notable companies. Staples, Electrical Wholesaler and Walgreens all recently signed new leases for more than 125,000 sf, while JC Penney's renewal of its 2-msf New England logistics center signaled that the market is in good standing.

Industrial Vacancy Rates: Hartford

Retail

The rise of e-commerce has resulted in some larger stores closing down in Hartford's suburbs. While this trend is expected to continue in the long term,

above-average disposable incomes in Hartford's suburbs are expected to sustain the much-needed business of big-box retailers. In the city, Hartford's overall retail scene is a different story with several mixed-use developments adding a variety of restaurants and storefronts. And, demand for more amenities is on the rise as the city's residential base grows.

Investment

The multi-family sector led investment in Greater Hartford during 2018 following a two-year span in which the industrial market was at the top of the leaderboard in terms of investment volume. Evidenced by a significant gap in multi-family and industrial cap rates, investor appetite is gearing more towards higher cap rates, which are becoming less achievable in the established and reliable Central Connecticut industrial market. Investment in retail and office product remained limited throughout 2018 with the exception of downtown Hartford, where investors with longer-term holds are now able to cash out thanks to the urban migration trends finally taking hold in the city.

Houston

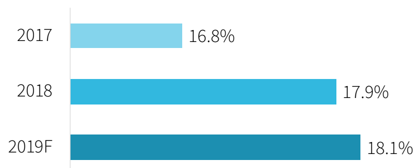
Strong employment, population growth fuel market activity

Houston's 2019 commercial real estate market outlook is a repeat of 2018 – increased activity in almost every sector. Houston's surging population, low unemployment and increased activity at Port Houston are contributing factors to the city's robust economy. Houston's port was recently ranked first in foreign tonnage and second in combined domestic and foreign tonnage. An increase in interest rates is a potential drawback for 2019 that could detrimentally affect all sectors.

Office

The Houston office market continues to follow the gradually recovering energy market. Perception is important: Although large availabilities exist, many spaces are not suitable due to location, size or configuration. The momentum playing out in the flight-to-quality trend – whereby firms are opting for office efficiency and smaller footprints in newer properties – signifies investor confidence in Houston despite the region's higher leasing costs. Although new speculative development will be limited as demand warrants, build-to-suit development will continue due to the flight-to-quality trend. Overall, net absorption will be nominally positive for 2019. Tenants will remain in the driver's seat, and transaction volume and leasing activity are likely to rise as occupiers lock in low rental rates, a factor which will drive down vacancy. The commercial real estate market is incredibly resilient in Houston, and it continues to march on a steady path to recovery.

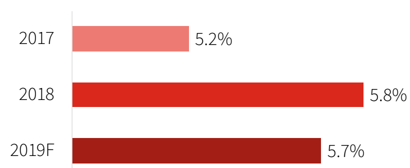
Office Vacancy Rates: Houston



Industrial

The industrial market remains Houston's best-performing product type as expansions by big-box retailers such as Best Buy and Conn's HomePlus continue in order to satisfy increased consumer demand. Rapid population growth has established Houston as a distribution hub. Due to Port Houston's expanded activity, more industrial construction is projected, but it will be slightly lower than 2018's pent-up levels. E-commerce suppliers are leasing space in newer and more efficient buildings to meet the expectations of their growing consumer base. Warehouse/distribution space will account for most new buildings and net absorption in 2019. Strong leasing activity and absorption are expected throughout 2019, along with stable vacancy, unless the new supply outpaces immediate demand.

Industrial Vacancy Rates: Houston



Retail

The retail market continues to respond to the demand caused by Houston's population boom. The population surge has translated into a growing consumer base, driving retail sales and demand for space. Pizza and hamburger brands will continue to enter the metro as new grocery store openings are completed. With occupancy levels steady around 95%, the retail market recorded little absorption in 2018, and no change is projected during 2019. Houston will see a new trend emerge in 2019 as food halls open in office buildings and retail centers.

Investment

Investor activity in all market sectors – except multi-family – slowed in 2018. This situation was understandable, considering that the previous year's investment total was a five-year high. Investor interest has returned to the nation's fourth-largest city as it emerges from the energy downturn and completes its full economic recovery. An increase in interest rates will be the factor to watch in 2019, but Houston's commercial real estate market will continue to benefit from the city's strong employment, population growth and global energy-capital status.

Indianapolis

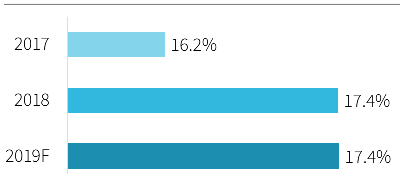
Industrial market remains pacesetter

The commercial real estate narrative for 2018 was the rollout of the redevelopment of the former GM stamping plant site now known as Waterside. This mixed-use development, which consists of 106 acres on the near west side of the Indianapolis CBD, is slated to evolve over a 15-year development cycle and will create an opportunity to activate the waterfront views paralleling the White River. FedEx's announcement that it plans to invest $1.5 billion in expanding and upgrading its sorting hub located at Indianapolis International Airport is sure to fuel additional demand for industrial space from logistics companies. Indianapolis was one of 20 finalists for Amazon's HQ2 project; while it was not selected, lessons learned in the process could bode well for future corporate attractions and retentions.

Office

Vacancy remained stable in 2018, but signs of a teetering market are starting to appear as the gap between the direct space available for lease and reported vacancy continues to widen. The underlying inventory will start to impact overall reported vacancy rates by the third quarter of 2019. Ground has been broken and the anchor tenant has been identified for the new 180,000-sf Bottleworks office project in the CBD. Developed by Hendricks Commercial Properties of Beloit, WI, this development will anchor the northern end of the Massachusetts Avenue corridor. Asking rental rates remain stable on the high end but could surpass the $30-psf threshold for the first time in 2019.

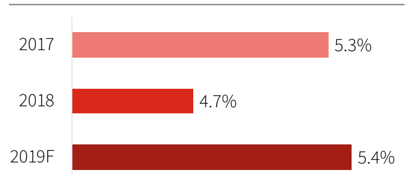
Office Vacancy Rates: Indianapolis



Industrial

Leasing velocity and solid real estate fundamentals continued to inspire developers to commit significant capital for speculative development projects in 2018. Land options in key submarkets remained in short supply for those developers wishing to enter the marketplace. Even with the land challenges, the Central Indiana market has 17 different speculative projects being brought to the market that will provide an additional 6.7 msf of new product in 2019. Two key submarkets where the majority of the new space is being brought to the market are the Southwest submarket in Plainfield and the Northwest submarket in Whitestown, followed by the emerging markets of Greenwood and Whiteland South submarket.

Industrial Vacancy Rates: Indianapolis



Retail

Retail-related users are focusing their research and attention on the Westfield community due to the growing Grand Park Sports Campus, which receives more than 2 million participants in youth and college sporting events. Retail outlets and net lease rates continue to command top-of-market prices. Another significant project of note is the 17-acre mixed-use development known as the Yard in Fishers, IN. Announced projects include St. Elmo's Burger Study concept, and Sun King Brewery will also plant its flag there in 2019.

Investment

Investment activity in the industrial sector continues to lead the way as developers land long-term credit tenants and sell to institutional investors at reasonable returns. Chicago-based Zeller Realty re-entered the CBD market with its recent acquisition of Capital Center from Hertz Group, and BMO Plaza traded to Redico after a short hold period by Hearn Company. Additional class B and C buildings in the CBD are under contract and have the potential to be repositioned as mixed-use developments in 2019.

Jacksonville

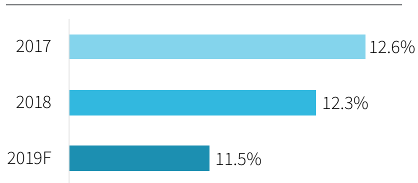
Population growth driving rent increases, development and investment in core

Accelerating investment sales and leasing activity, coupled with strong economic fundamentals, continues to fuel the Jacksonville market. There has been a significant uptick in developer and investor interest in downtown Jacksonville over the last year with several significant projects planned within the urban core. Market-wide, investor optimism remains strong and Jacksonville is very well-positioned to perform well in 2019.

Office

Office fundamentals remained sound during 2018 with an incremental 30-bps decline in the overall vacancy rate from year-end 2017 and healthy net absorption. The I-95/9A Corridor continues to attract a dominant share of leasing activity, and the urban core is exhibiting renewed vigor. Town Center One, a 160,000-sf class A building that was 71% preleased by health care IT company Availity, delivered during the third quarter, and the 218,700-sf Town Center Two building is under construction and scheduled for completion in summer 2019. Asking rental rates have registered incremental gains, growing by 4.6% over the last year, and class A rents are expected to continue to climb in 2019. Plans also continue to move ahead for the massive mixed-use development known as the District with developer Elements of Jacksonville recently closing on the project's 30-acre site.

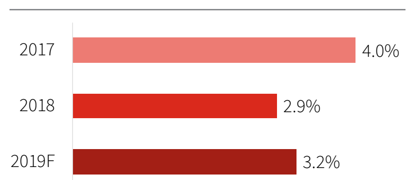
Office Vacancy Rates: Jacksonville



Industrial

Surging e-commerce demand, a pivotal location along the I-95 corridor and access to a major port continue to bolster Jacksonville's position as an expanding logistics hub. During the fourth quarter of 2018, New Jersey-based LaRose Industries announced it had selected Jacksonville over Tampa for a planned manufacturing and distribution facility, and major developments are moving ahead for UPS (which is planning a $196-million expansion), Pattillo Development, and Kansas City-based NorthPoint Development. These three projects alone will add another 1.3 msf of industrial space upon completion. A sustained incremental increase in asking rental rates during 2019 is expected, along with strong continued net absorption in well-located distribution facilities and steady lease-up in newly delivered speculative projects.

Industrial Vacancy Rates: Jacksonville



Retail

Consistent population and job increases are translating into strong economic fundamentals in Jacksonville and are fueling demand for new retail development.

According to a recent study released by the Urban Land Institute (ULI), Jacksonville is at the forefront of an emerging trend in urban growth. The city has the largest percentage of its urban population in what the study describes as "emerging economic centers" in the U.S. The ULI study specifically named the Riverside and Town Center areas as examples of such centers. Jacksonville's urban core is also attracting the attention of retail developers and lifestyle tenants. Investment activity remains healthy and is expected to continue throughout 2019.

Investment

Investors continue to pursue quality investment opportunities in Jacksonville, and overall volume during 2018 was up 108% from 2017 with more than $736 million transacted in the office, industrial and retail sectors. There were 65 transactions totaling slightly more than 12.8 msf with an average reported cap rate of 7.4%. Approximately 40% of all investment sales were to institutional buyers, followed by 35% to private buyers and 21% to publicly listed/ REIT buyers. Cross-border buyers and users accounted for only 4% of all sales during the year. Class A warehouse product and well-positioned suburban office buildings in the I-95/9A Corridor and within the urban core are expected to continue to be sought-after investments during 2019.

Las Vegas

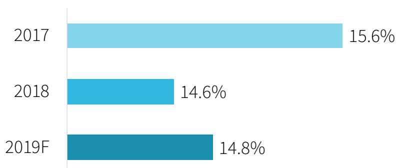
New developments bring class A office space

While Las Vegas' recovery from the Great Recession was sluggish, leasing and sales activity is now as hot as ever. The population increased by nearly 2% in 2018 and growth is expected to escalate in the next few years as hockey, baseball and football teams change the scenery across the Las Vegas Valley. McCarran International Airport often exceeds four million visitors per month, and the overall hotel/motel occupancy rate is almost always greater than 85%. What was once a town surrounded by gambling and night-time entertainment is slowly becoming a destination for several sporting venues.

Office

Office leasing velocity has been very positive in the south and southwest submarkets and slower in central and eastern submarkets. New development projects that recently broke ground will bring much needed class A office space to the southwest. Corporate relocations and call-center-support operations have accounted for the bulk of new absorption. Overall demand for office space in Las Vegas continues to strengthen with 2018 absorption being the healthiest registered in recent years. Las Vegas' office job market added approximately 7,000 new jobs during 2018 with less than half going to the medical office market.

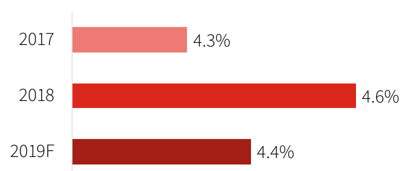
Office Vacancy Rates: Las Vegas



Industrial

Absorption in the mid-bay industrial market peaked in 2017 due to the lack of new inventory. Mid-bay and flex spaces are highly desired in the southwest submarket, and the demand has directly pushed up lease rates for those product types in the area. While absorption plateaued in 2018, lease rates and sale prices spiked. The increased costs of land, labor, materials and capital, combined with sustained demand from end users for e-commerce distribution facilities, will continue to drive prices higher in 2019. Higher prices are likely to constrain absorption in 2019 – as they did in 2018.

Industrial Vacancy Rates: Las Vegas



Retail

Much like the local office market, the retail sector is enjoying a rise in leasing activity. Many of the high-quality centers are approaching full

occupancy, allowing landlords to become more selective with their tenant mix. Restaurant spaces are still the most desirable, regardless of the center's category. More health-conscious quick-serve restaurants are coming to the centers. Leasing activity in the mid-size and big-box product types has increased; however, with the demise of large-format stores such as Toys "R" Us, Kmart, Sears and Mattress Firm, more big boxes are becoming available and pushing vacancy upward. Many of these vacancies are being filled by furniture and home-product stores as well as family entertainment and fitness centers.

Investment

In the current economic climate, Las Vegas remains a seller's market. Sustained investor demand continues to put downward pressure on cap rates despite increasing interest rates. The private investors who have grown accustomed to high returns are having a difficult time meeting the expectations of sellers. The institutional investment market is active with numerous recent transfers of investment-grade real estate having occurred. Multi-family and industrial products are still the most active. Given the existing construction trends and projected growth, the Las Vegas investment market is anticipated to remain strong in the foreseeable future.

Long Island

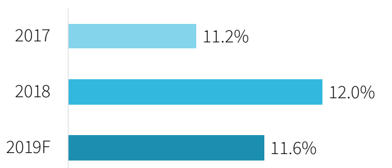
Island's real estate sectors show continued improvement

Real estate sectors across Long Island continue to thrive and are expected to receive a further boost from the recent announcement by Amazon that it will locate part of its HQ2 on Long Island. The domino effect of Amazon's presence will likely ignite another round of expansion in both the commercial and residential markets. The labor market, which has been one of the key drivers to this point, is now at levels which may begin to hinder growth due to a shortage of workers. With unemployment at 3.1% in October 2018, Long Island will need to find ways to attract and keep young professionals in the workforce. This trend will likely continue throughout 2019.

Office

Demand for office space continues to increase, keeping the vacancy rate at healthy levels. The Long Island office market includes Nassau and Suffolk counties and consists of nearly 40 msf of class A and B space. The office market continued to strengthen in 2018, posting a third-quarter vacancy rate of 11.2% in class A and B product and 12% overall. Banks, insurance companies and the health care industry continue to lead the leasing activity with several major expansions of operations in the market. Asking rents are beginning to increase in some areas, usually in buildings with below-market vacancies.

Office Vacancy Rates: Long Island



Industrial

The industrial sector is still the most active sector on Long Island; however, viable space is scarce and buildings that come onto the market are usually sold or leased quickly before any marketing campaign. This trend is frustrating some companies looking to expand or relocate, especially if they cannot act quickly enough. While the overall vacancy rate was 6% in third-quarter 2018 (up from 5% at year-end 2017), many submarkets throughout Nassau County and the JFK Airport market in Queens remain below 2%. Rental rates continue to increase on a quarterly basis. Further evidence of the strength in the industrial market are four new speculative industrial projects that have recently been announced in Hicksville, Melville and Queens – the first such speculative construction in the market for 15 years.

Industrial Vacancy Rates: Long Island

Long Island has an estimated metro area population of

2.9 million

Overall office market inventory totals

42.6 msf

Overall industrial market inventory totals

133.2 msf

Retail

The region's retail market remains the slowest sector as big-box retailers continue to close. Recent Long Island big-box store closures include Kmart and Sears, leaving some large vacancies to fill. In some cases, medical and other non-retail uses are filling the void in the affected centers, but large blocks of vacancy remain. By contrast, downtown locations and villages continue to thrive with local and smaller retailers competing for space in neighborhood centers and downtown areas.

Investment

Investment activity leveled off in 2018; however, sales that did take place were generally at higher prices than in the recent past. This factor is due primarily to increases in office and industrial rents which, in turn, are driving up values. Although cap rates have risen along with interest rates, higher rents have propped up the underwriting and prevented any decrease in prices. Interest-rate hikes are expected to continue throughout 2019, and active investors will have to adjust to maintain their desired rates of return.

Los Angeles

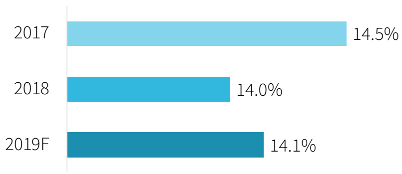
Commercial real estate fundamentals remain steady as some prices level

Steady job growth and Los Angeles' economic strength drove unemployment to a decade-low of 4% in 2018. Demand for workers is largely being driven by a vibrant millennial-centric economy. This workforce is powering the local economy across a broad range of industries and has increased demand for space that will persist in 2019. That said, there appear to be modest headwinds in sales velocity.

Office

Technology, media and entertainment submarkets predominantly employing millennials were the benefactors of robust leasing activity in 2018 and will remain the leading submarkets in 2019. These submarkets include: Hollywood, West Hollywood, Marina Del Rey/Venice, Downtown L.A. and Burbank. Hollywood and Downtown L.A. have the greatest demand for office space, and it is no surprise that these areas have some of the highest concentrations of young professionals.

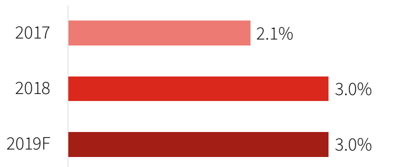
Office Vacancy Rates: Los Angeles



Industrial

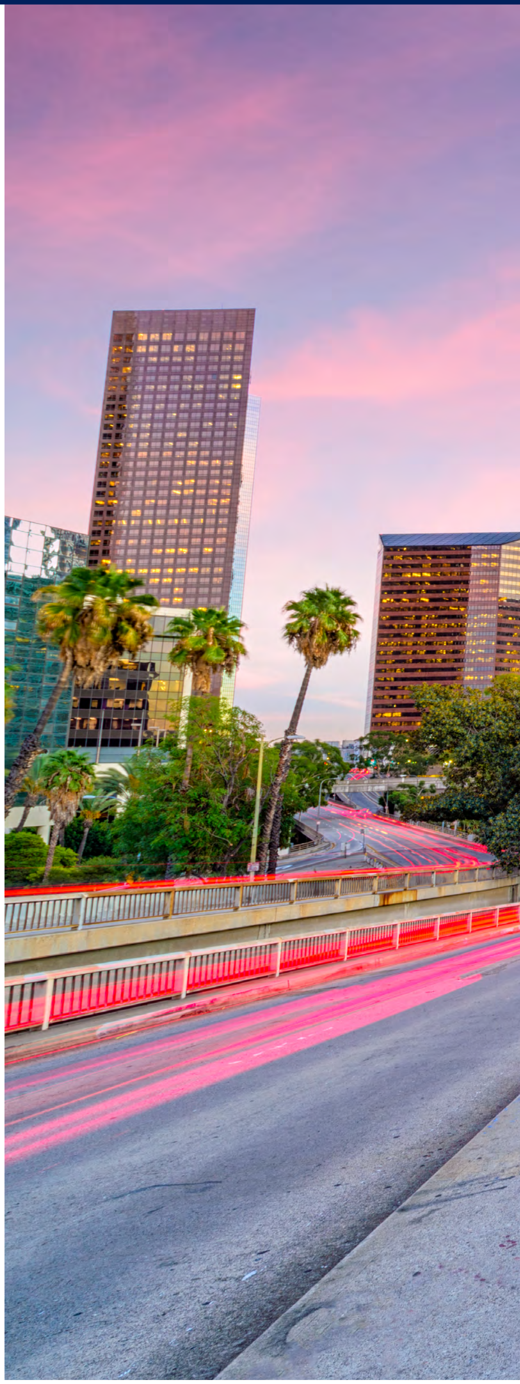
Los Angeles has recorded historic-low vacancy for industrial product during the past several years. As a result, the development pipeline expanded in 2018. The amount of industrial space under construction in the Los Angeles market is more than 4 msf. A continuation of current fundamentals and relatively stable leasing activity is expected through 2019.

Industrial Vacancy Rates: Los Angeles



Retail

Retail vacancy, around 4%, is at its lowest level in 10 years. The average asking rental rate for the Los Angeles market rose 6.5% year-over-year in 2018 and was up 13.4% compared with the 10-year historical average. Despite these metrics, demand has waned in recent years. Annual net absorption for 2017 was less than a third of what it was in 2016. Muted annual net absorption is forecasted for 2018. Leasing velocity appears to have slowed as well after 25% less retail square footage was leased in 2018 compared with 2017.



Investment

Sales of commercial real estate assets in Los Angeles have been strong for the past five years. Cap rates are expected to rise as there is a direct correlation with long-term interest rates, which have already risen. However, there is a lag – and so far, there has not been much pressure – on cap rates. When they do rise, that would not necessarily translate to lower values so long as good market fundamentals continue, such as increasing rents and NOIs. Also, despite low cap rates for the best-quality properties, Southern California's major metro areas are still a bargain compared with other cities such as New York, Vancouver, Canada; and San Francisco. Abundant capital – including debt and equity, foreign and domestic – continues to flow into the market. That said, there appears to be a modest pricing gap, which has put some pressure on sales velocity. Buyers have exhibited increased caution as due diligence and financing requirements have created some minor headwinds. To that end, while the market should perform relatively well in 2019, the level of transaction volume recorded in 2018 is not expected to be repeated.

Memphis

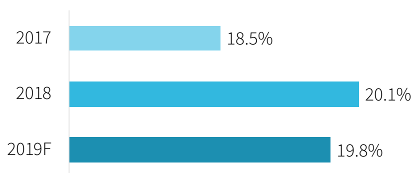
Robust fundamentals attract new occupiers, developers and investors to market

Economic fundamentals in Memphis strengthened in 2018 with the unemployment rate sinking as low as 3.5% – the lowest level since 2001, according to the Bureau of Labor Statistics. Industries with the most job growth during the year included manufacturing, financial activities, leisure and hospitality, and professional and business services sectors, helping to fuel growth across virtually all commercial real estate markets.

Office

Several high-profile corporate relocations, the completion of new speculative office buildings, and robust leasing activity all contributed to an active office market in 2018. Although the East Submarket has long been a preferred location for occupiers in Memphis, the momentum of the Downtown office market is growing. It has been nourished by major corporate relocations and expansions, including headquarters for ServiceMaster, SouthernSun Asset Management, and AutoZone. Developers have announced several new mixed-use projects for the Downtown market, many of which include an office component. If these projects as currently planned come to fruition, an additional 750,000 sf to 1.2 msf of office product could be added to Downtown's limited class A inventory.

Office Vacancy Rates: Memphis



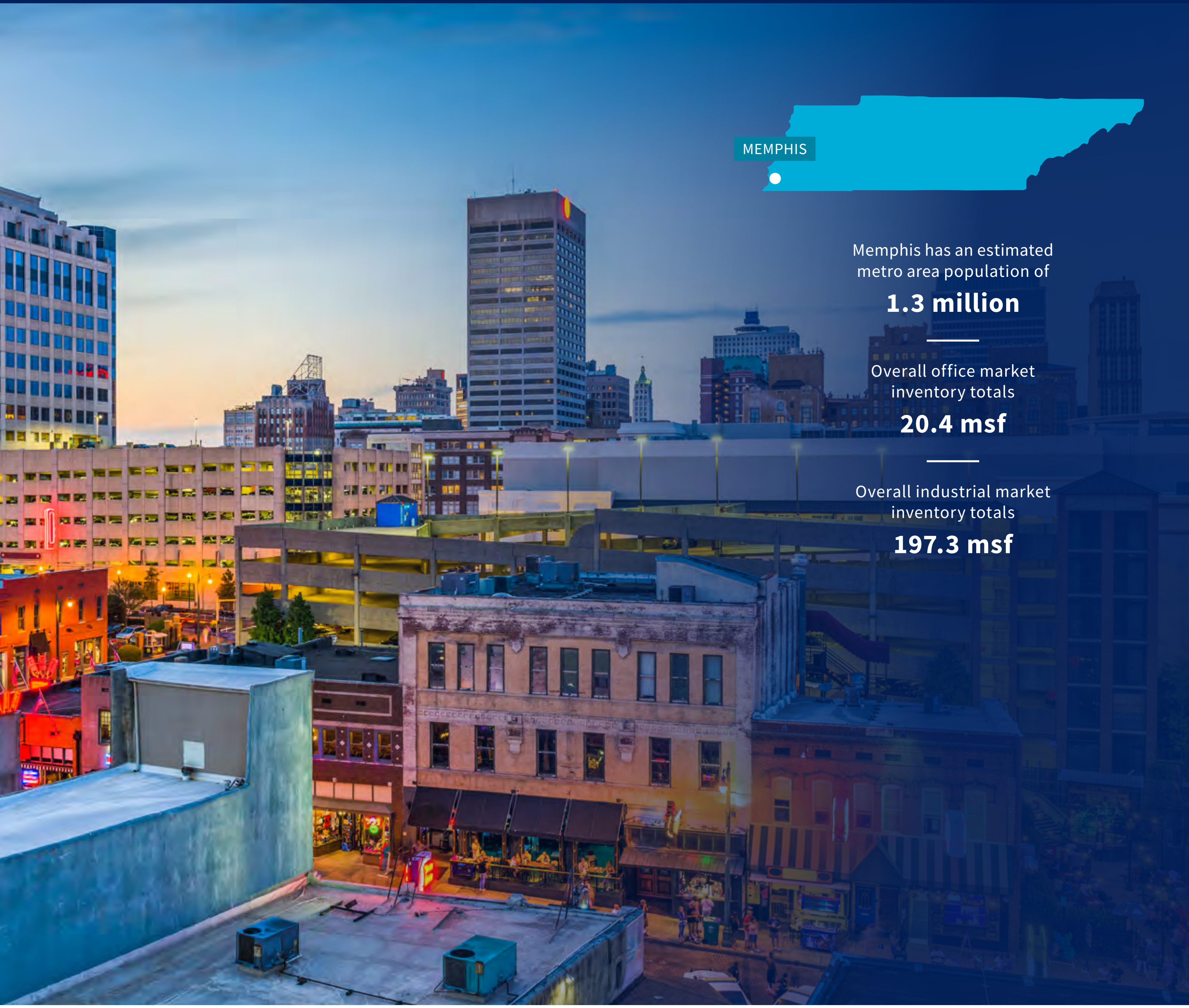
Industrial

Memphis boasts a strong industrial market thanks to its central geographic location, multimodal-transportation infrastructure and affordable rental rates. The delivery of more than 3.7 msf of speculative product through the first three quarters of 2018 put upward pressure on vacancy rates; however, occupier demand has remained steady, and the speculative product that is set to deliver in 2019 is expected to fill at a healthy pace. Although the majority of new industrial development has been concentrated in the outlying DeSoto, Marshall and Fayette County submarkets, developers are beginning to show renewed interest in building new product in the Southeast submarket, a trend that is likely to last through 2019.

Industrial Vacancy Rates: Memphis

Retail

The Memphis retail market has performed well this cycle, considering the volatility of the retail sector nationally. Although the retail



sector will be impacted as national retailers, including Sears and Target, close some Memphis-area stores in response to bankruptcy and/or declining sales, healthy consumer demand has paved the way for several brands, including Trader Joe's, REI Co-op, The Container Store, and Nordstrom Rack to enter the market. Most new large-scale retail development over the next several years will occur as part of mixed-use concepts.

Investment

Investment volume across all property types through third-quarter 2018 totaled $1.1 billion with the industrial ($539 million) and multi-family ($438 million) markets together accounting for 88% of total volume. The upward trend continues and investor demand remains strong and healthy, but the cap-rate environment continues to give some investors concern. Foreign capital continues to be active mostly due to a willingness to take on a higher level of risk and the significant amount of capital that needs to be invested. Underwriting is becoming more stringent and interest rates continue to cause concern, putting upward pressure on cap rates and widening the bid-ask spread. The pace of investment activity is expected to last through 2019 as strong economic growth and the appeals of secondary markets, which offer unique advantages to both sellers and buyers, draw investors to the market.

Miami

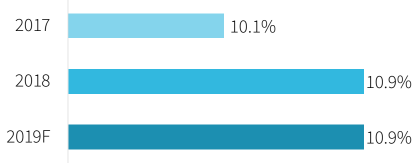
New development signaling investor confidence

Miami's commercial real estate market remains well-positioned at the start of 2019. Economic fundamentals remain strong as the region experiences continued population growth and positive job creation. Improved transit initiatives and the opening of the Brightline high-speed rail service have created regional connectivity and an attractive business climate for talent recruitment. Demand for space is strong in the market and healthy leasing activity is expected to continue in 2019.

Office

Leasing activity remained steady during 2018 despite Miami experiencing the global trend of tenant downsizing as employers continue to allocate less space per employee. Net absorption remained positive throughout 2018, and average asking rents continued to inch upwards. As vacancy rates rise and new office product is delivered to the market through the end of 2019, rental-rate growth can be expected to decelerate slightly. Co-working space will continue to have a significant impact on the market in 2019 as the sector continues to expand its footprint in Miami. Landlords may need to decide whether co-working tenants should be considered competition or if they can be seen as business partners and a solution to a short-term vacancy problem.

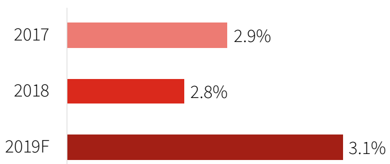
Office Vacancy Rates: Miami



Industrial

Miami's tight industrial market is surging due to the unwavering demand of e-commerce. Already considered an international trade city, Miami is now establishing itself as one of the world's leading e-commerce hubs with the recent delivery of Amazon's newest 855,000-sf fulfillment center in Opa-Locka. Miami International Airport also recently launched Amazon's twice-daily freight service, Amazon Air. Despite the county's land constraints, significant industrial developments will continue to deliver in 2019 and will further increase rental rates. Strong leasing activity is expected to continue in 2019 as growing consumer confidence fuels e-commerce demand. As available supply of developable land diminishes near the urban core, the emerging U.S. trend of multi-story warehouses may be on the horizon in a few years.

Industrial Vacancy Rates: Miami



Retail

Miami's vibrant retail market continued to thrive in 2018 in the form of new mixed-use developments breaking ground across the county. Miami's strong population growth and large percentage of millennial residents continue to fuel demand for live-work-play communities. Phase one of the retail component in the Miami World Center, a transformative mixed-use megadevelopment in downtown Miami, is scheduled to deliver by the end of 2019.

Improved mass transit has also further encouraged the construction of transit-oriented developments. Toward the end of 2018, the overall retail vacancy rate in Miami-Dade County was 3.8%, which falls 80 bps below Florida's average and is a sign of Miami's resilience against the nationwide bankruptcies of big-box retailers. Steady population growth and a robust economy will continue to create opportunities for growth in Miami's retail sector.

Investment

Investment activity in Miami remains strong. Approaching the end of 2018, investment sales volume totaled $2.1 billion across the office, retail and industrial sectors. Despite the upward pressure placed on cap rates from rising interest rates, Miami's overall average cap rate actually trended downward in the third quarter of 2018 after a consistent upward trend since mid-year 2017. Opportunity Zones (the federal program that encourages investment in select areas through preferential tax treatment of capital gains) will present attractive investment vehicles for developers in 2019. Investors are already educating themselves on these advantages and some have begun raising capital for Opportunity Zone funds. Strong investment activity is expected to continue in 2019 as positive economic conditions persist.

Minneapolis

Market continues to exhibit sound fundamentals

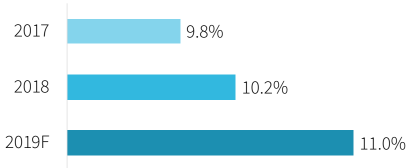
Minneapolis-St. Paul continues to exhibit sound fundamentals with very low unemployment (2.2% as of September 2018). Organizations have moved away from the one-to-one model of worker-to-desk ratio. Simply put, businesses are putting more people to work in less space. Rental rates continue to push to all-time highs in both the office and industrial sectors. Landlords' tenant allowances will not cover the tenant improvements needed in today's market given the substantial increase in construction costs. These trends are expected to persist in 2019.

Office

The overall vacancy rate in the Minneapolis-St. Paul office market reached 10.2% in the third quarter of 2018. Several innovative landlords have introduced speculative built-out suites in an attempt to compete with co-working space, which typically will include furniture, a simplified leasing process and lease terms ranging from three to five years. The combination of flexibility and amenities will be required by both occupiers and landlords in an attempt to attract and retain talent.

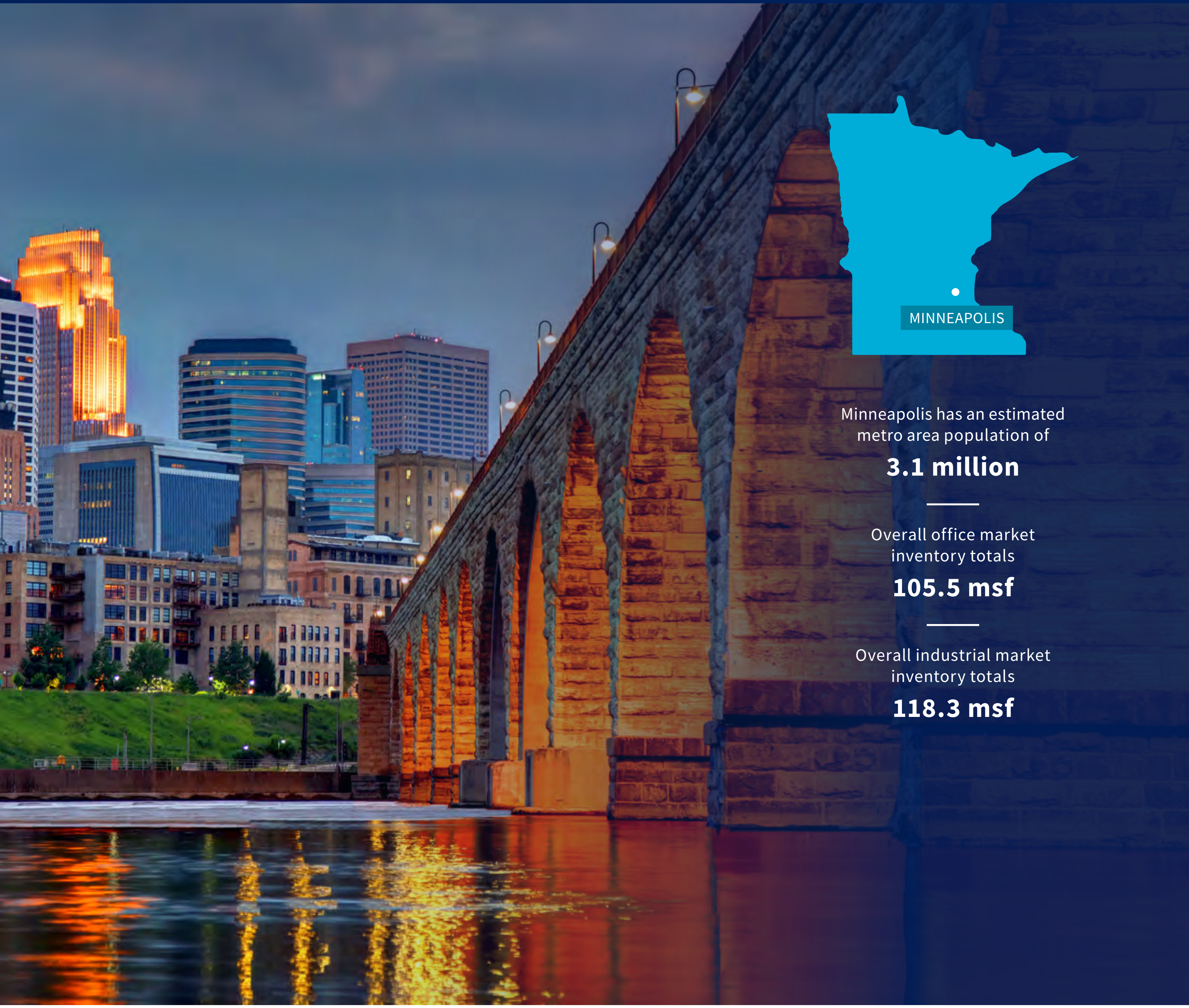
The amount of office space under construction increased to 1.5 msf in the third quarter of 2018 from 400,000 sf at year-end 2017. Of that, 1.25 msf was under construction in the Minneapolis CBD, including the 850,000-sf Dayton's Project set for delivery at the end of 2019 – but with none of the space preleased to date.

Office Vacancy Rates: Minneapolis



Industrial

The industrial market is clearly reaping the benefits of a healthy economy. Construction, manufacturing, transportation and warehousing employment growth are trending upward in the Twin Cities metro area, which added 33,400 jobs in the 12-month period ending September 2018. Growth in the Twin Cities is driven by e-commerce and has motivated developers to pursue speculative developments across the seven-county metro. There was 2.6 msf under construction as of third-quarter 2018, and while overall vacancy trended downward in 2018, the Minneapolis metro is forecasted to post a slight uptick in 2019 due to the delivery of new product. While developers are monitoring tenant demand closely as they continue to prepare remaining land sites for development, the construction pipeline reflects optimism for 2019 and beyond.



Minneapolis has an estimated metro area population of

3.1 million

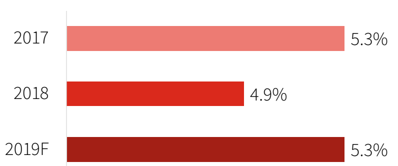
Overall office market inventory totals

105.5 msf

Overall industrial market inventory totals

118.3 msf

Industrial Vacancy Rates: Minneapolis



Retail

The growing presence of e-commerce continues to affect brick-and-mortar retail stores. Sears, Herberger's and Toys "R" Us vacated locations across the Minneapolis-St. Paul metro retail market, causing overall big-box vacancy to increase in the third quarter of 2018. Retail will continue to be affected by large vacancies through 2019.

Investment

Investors remained active in the first half of 2018. The rise in overall dollar volume through the first three quarters was fueled by the sales of multiple significant office buildings in the Minneapolis CBD. The largest of these transactions was the $320-million sale of the City Center to Samsung. Investor interest is expected to continue in 2019 with interest rates rising modestly. Groups seeking yield will continue to look at secondary markets like Minneapolis for valued assets relative to coastal markets.

Nashville

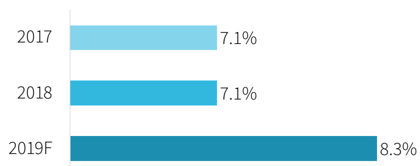
Downtown growth continues to rise

Nashville continues to register solid economic momentum demonstrated by steady tenant demand and vigorous job growth. Major corporations continue to reaffirm their confidence in Nashville as recently demonstrated by AllianceBernstein and Glockstore.com, which will be relocating their corporate headquarters to Nashville. Additionally, Amazon plans to make Nashville the home of a new East Coast operations hub, which will house the tech and management functions of the company's retail operations division and bring an estimated 5,000 new jobs to the city.

Office

Nashville's office market was characterized by rising vacancy, an increase in rental rates and a significant drop in absorption levels in 2018. Vacancy rates throughout the market continued to rise throughout the year in response to multiple tenants leaving large blocks of space for new construction. Despite the flight to new construction, vacancy remains below the 10-year average of 8.7%. At the end of third-quarter 2018, more than half of the square footage under construction was located in the CBD, where average asking rates have recorded an unprecedented 52% increase over the last five years. Tenants who have been experiencing a landlord-driven market will be relieved in 2019 as an additional 1.5 msf is expected to deliver, providing more options for users. Vacancy rates are expected to fluctuate as absorption takes hold.

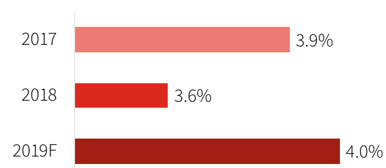
Office Vacancy Rates: Nashville



Industrial

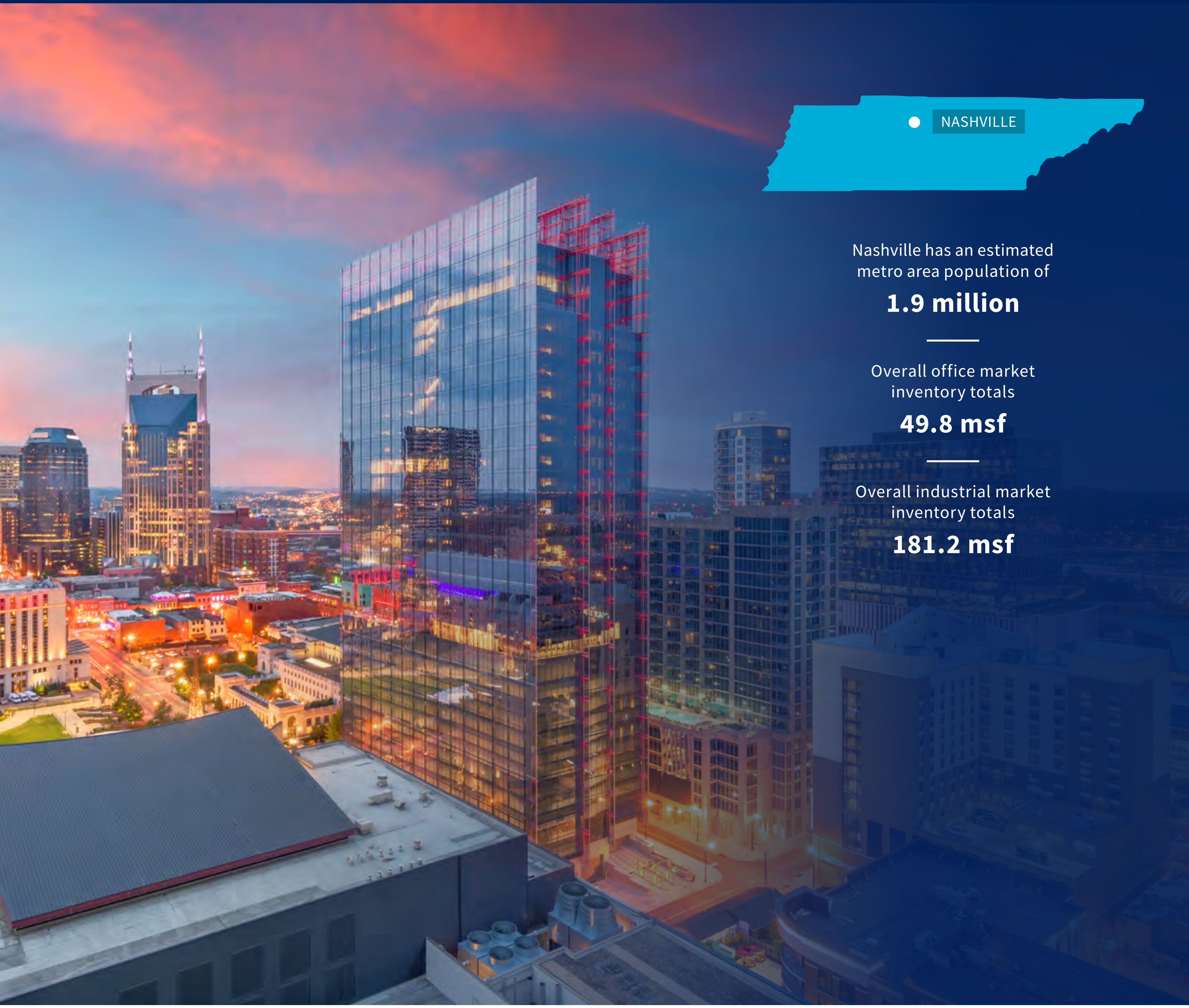
Motivated by steady tenant demand and tight market conditions, speculative construction continues to dominate the Nashville industrial market. Of the 3.9 msf underway at the end of third-quarter 2018, all was speculative construction, indicating that developers remain bullish on the market and are banking on dynamic tenant demand. E-commerce is a driving factor in the market as numerous logistics companies, including XPO and CEVA, have expanded their presence in the region in response to Amazon and many other retailers' growing online presence.

Industrial Vacancy Rates: Nashville



Retail

Fueled by growing tourism, national accolades and strong population growth, Nashville's retail market remains solid and resilient. Many new retail projects are on the horizon with



development shifting from traditional retail to mixed-use or transit-oriented development. Downtown Nashville has seen growing demand for retail as residential development, which historically was absent from the core, has been cultivated. Publix has cemented a deal for its own downtown urban grocer within the Capitol View development. The forthcoming Publix will add amenities for the downtown's rapidly growing population, which has more than doubled in size since 2010, as well as the ever-expanding ranks of office workers and hotel guests.

Investment

In response to growing office, industrial and retail markets, the Nashville deal flow was robust through third-quarter 2018 with total investment volume up 27% from the same period in 2017, due primarily to strong office and multi-family activity. Multi-family sales continued to outpace all other sectors with $1.2 billion in dollar volume, followed by office sales at $668 million. The office sector registered a significant increase in dollar volume, which was up 124% from the same period in 2017. The largest transaction was the sale of One Nashville Place, a 24-story office building in the CBD that traded for $140 million ($340 psf), a price that is 40% higher than what the building last sold for in 2014.

New Jersey

New Jersey looking to ride the Amazon wave

Northern New Jersey markets continued to follow 2017 trends in 2018 as the industrial market remained strong with high rents and low vacancy, retail continued to evolve and the office market was uninspiring.

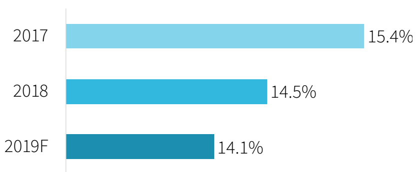
With the recent announcement that half of Amazon's HQ2 is moving to Long Island City, there is a growing hope that the adage, "A rising tide lifts all boats," will hold true for the New York metropolitan area. The New Jersey office, multi-family and retail sectors will look to capitalize on the influx of new employees and support companies created by Amazon's decision.

In 2019 and beyond, New Jersey will face challenges in attracting and maintaining business. The first is the extremely high cost of doing business, including corporate and individual taxes, and the high cost of living in the state. The second is demonstrating that even with improvements in technology, New Jersey's proximity to major business centers such as New York City, Philadelphia, Boston and Washington, DC is still important.

Office

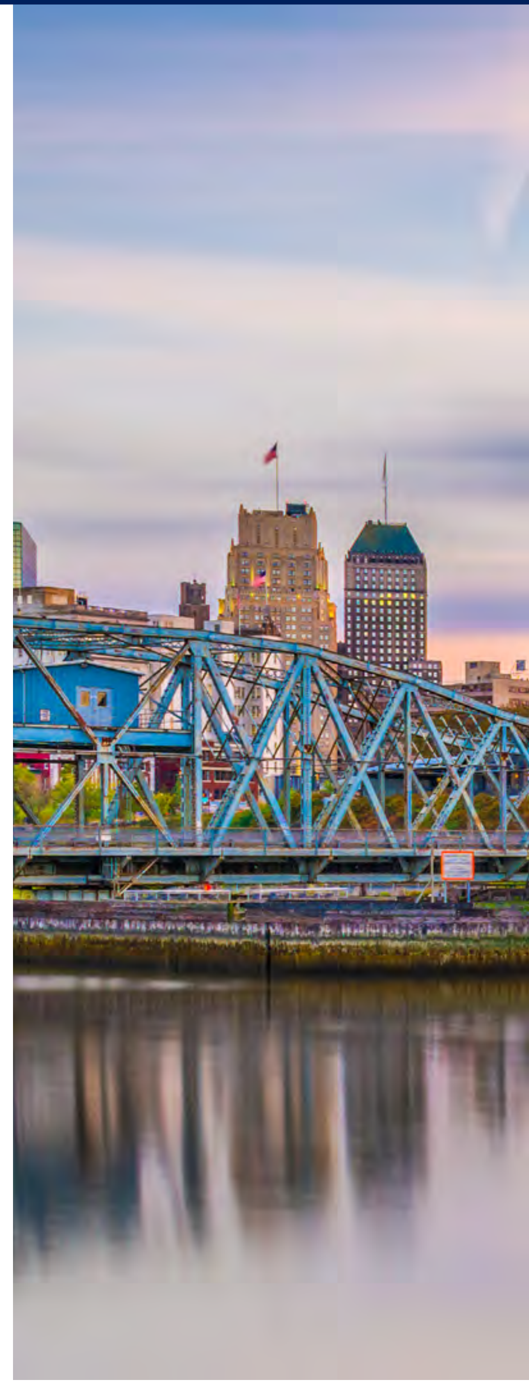
The office market has been plagued by an aging inventory with limited quality space available. Owners across the state are evaluating their stock to determine whether it makes sense to renovate in response to the needs of growing technology-dependent, amenity-hungry tenants or repurpose to meet seemingly insatiable industrial and multi-family market needs. Accordingly, the vacancy rate is expected to decline as obsolete properties are removed from the inventory and 20,000-to-50,000-sf tenants begin to occupy more space in the market.

Office Vacancy Rates: New Jersey

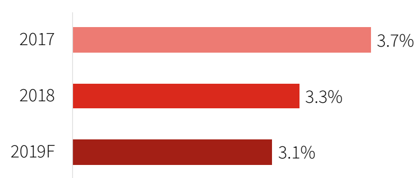


Industrial

The New Jersey industrial market maintained its strength in 2018 with positive absorption (19 msf in the 12 months ending with the third quarter of 2018) and a vacancy-rate drop to a once unfathomable 3.3%. Users and investors alike are driven to New Jersey's I-95 submarkets, servicing the e-commerce needs of the highly dense and wealthy northeast section of the country. These trends will likely continue in 2019 with the only potential speed bump being rising interest rates.



Industrial Vacancy Rates: New Jersey



Retail

The retail market in New Jersey in 2018 was marred by numerous retail giants such as Toys "R" Us and Sears closing. For some landlords,

this situation was a welcome occurrence, as many of these stores had long-term below-market leases; however, for others, these massive departures have wreaked havoc as they struggle to keep vacancy down. Through 2019 and beyond, growth is expected in the urban retail markets, such as Jersey City and Newark, with tenants looking to support the growing residential population in those markets, while the suburban retail market is expected to struggle.

Investment

Overall investment dollar volume dropped more than 7% through the first three quarters of 2018 versus the same period in 2017. Opportunity Zones (the federal program that encourages investment in select areas through deferred taxes on capital gains) are going to play a large role throughout the country in 2019, especially in New Jersey, due to the wealth of its residents and the quality of the shovel-ready projects in New Jersey's Opportunity Zones.

Due to tight timing and potential tax savings, the tax-deferment program has the potential to attract many first-time real estate investors, creating significant sales in a very short period.

New York

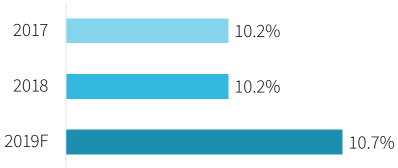
Large corporations remain active, help mitigate supply concerns

The New York City real estate market showed steady gains overall across the office sector from a leasing and sales standpoint in 2018. While the retail segment fared better on the rental front, property sale transactions were few in number. The city's record-low unemployment rate and positive job additions among the health, professional and business services, and financial industries helped mitigate some concerns of oversupply related to new construction as these same industries led the way in preleasing activity. A strong economy fueled by steady job growth is expected to prevail in 2019, and further gains across the area's real estate market are anticipated.

Office

Approaching the end of 2018, the vacancy rate of 10.2% for the Manhattan office leasing market remained on par with year-end 2017, while total annual leasing activity represented a post-2014 high. While leasing velocity got a boost from the highest levels of co-working transactions thus far, some of the city's largest employers took advantage of increased corporate profits and capitalized on lower taxes introduced in 2018's tax-reform package. As a result, several preleasing deals were announced by large corporate tenants well before new construction completion. These deals included JPMorgan's prelease of more than 400,000 sf at 390 Madison Avenue as well as Pfizer's for 800,000 sf at 66 Hudson Boulevard (expected completion in 2022). While the market has a sustained appetite for efficiency and modernization, sublease space – put on the market due to either consolidation (Conde Nast at 1 World Trade Center) or the desire for newer product (Third Point leaving space behind at 390 Park Avenue for 55 Hudson Yards) – could push the vacancy rate slightly higher by year-end 2019.

Office Vacancy Rates: New York



Retail

The supply of retail space throughout Manhattan in 2018 outweighed tenant demand, a trend expected to persist throughout 2019. Although asking rental rates have come down, landlords remain flexible in their participation in the cost of a store build-out. To that end, shorter-term leases and smaller space requirements are expected to gain prominence. In addition, while the retail market is expected to stabilize in the second half of 2019, expect pop-up shops and alternate space uses focused around food, fitness, medical and experiential concepts to prevail throughout the year.

Investment

The New York City investment sales market recorded a rebound year in 2018. While the peak for investment sales was $77 billion in dollar volume in 2015 before a 56% decline over the next two years, the market is back on the rise. From a pricing perspective, a peak was also reached in 2015 and followed by a subsequent deceleration as bid-ask spread expectations between buyers and sellers contributed to the decline. However, through most of 2018, it appeared as though more cash reserves were put to work, resulting in an increase in overall transaction volume for the full year above its 10-year average. The return of billion-dollar deals funded by domestic capital sources (e.g. Google's $2.2-billion acquisition of 75 Ninth Avenue), on the heels of a time when foreign capital ruled the investment market, also contributed to the increase. Developers and office owners are expected to forge ahead in 2019 with stable-to-rising activity. In addition, Opportunity Zones (the federal program that encourages investment in select areas through preferential tax treatment of capital gains) are expected to have a positive impact on investment sales.

Oakland

Development catching up to demand

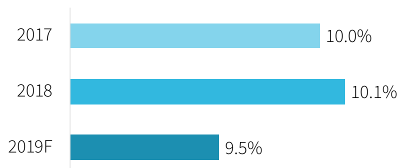
The Oakland market is well-positioned to capture demand across all property types. The unemployment rate for the Oakland-Hayward-Berkeley metropolitan division was 2.9% in September 2018, down 50 bps year-over-year. The multi-family market is exploding. With more than 4,600 units under construction in downtown Oakland alone, the market is poised to accommodate the growing population while catering to the office and industrial employee base. The outlook for 2019 remains optimistic but somewhat tempered compared with the strong expectations that were forecasted for 2018.

Office

Office vacancy has averaged 10% quarterly since the fourth quarter of 2016. With office deliveries and high leasing activity expected in 2019, overall vacancy will likely remain near this mark throughout the year. Tenants continue to strive for efficiency as they invest savings into amenities that will attract and retain employees. Older, class B buildings are selling and landlords are renovating as class A landlords capitalize on demand and push asking rents.

Demand for office space has been heightened by large-block tenants searching for large creative options in downtown Oakland. When space options do not exist in preferred markets, companies explore options near their employee base – for example, some San Francisco tenants have moved or expanded to the East Bay. Available sublease space rose during the second half of 2018. Consolidations, cost savings and tenant relocations are responsible for the majority of this new sublease growth.

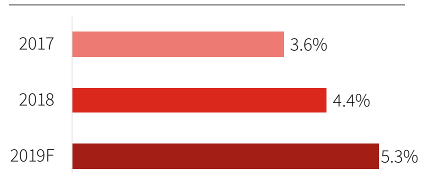
Office Vacancy Rates: Oakland



Industrial

The e-commerce wave is growing. More leases are going to tenants focused on their piece of the e-commerce supply chain. Whether a property is needed for storage, handling or last-mile logistics, the Oakland market has become a key location in facilitating the industrial needs of online retailers. The region's growing population base and changing consumer habits require shippers to get more products to consumers faster and more cost-effectively. Developers are finally catching up to the growing demand. The amount of product under construction – totaling 4.7 msf in third-quarter 2018 – is higher than it has been since the fourth quarter of 2000. This influx of new product will bring much needed modern distribution facilities to the market.

Industrial Vacancy Rates: Oakland



Retail

As of third-quarter 2018, retail vacancy stood at a historic low of 2.7%. Slightly more than 450,000 sf of retail space was under construction with 95% preleased. The dwindling amount of space available for lease has contributed to rental-rate growth as landlords push rents higher for any new space coming to the market. Population and employment growth are forecasted to remain positive over the short term. These economic drivers will keep demand for retail space strong over the next few years. Shifting consumer habits, coupled with the rise of e-commerce, will challenge traditional retail going forward.

Investment

Institutional and private investors regularly have the Oakland market on their radar. Demand for investment-grade properties – especially along transit or distribution lines with high occupancy and quality tenants – continues to outweigh supply, creating an advantageous market for sellers. There is a tremendous amount of liquidity, and record-setting prices are expected across all property types over the next year. Interest rates are rising in line with the expectation that no negative effect on real estate transactions is likely during 2019.

Orange County

Consistent fundamentals support bright spots for investors

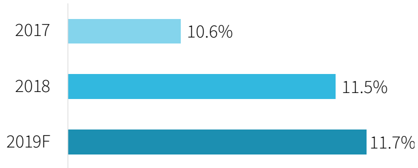
Southern California's Orange County commercial real estate market registered healthy demand in 2018, and the economy is in a solid position to adapt to macroeconomic changes expected in 2019. Construction cautiously expanded in response to high rents and sale prices. The county's ideal geography, high quality of life and highly educated labor pool continue to drive the economy. Unemployment remained extremely low in 2018 – a situation which, in addition to the existing housing shortage, poses challenges for growing companies. Orange County is a desirable secondary market, and as interest rates climb and lending slows, constricted inventory will likely keep rental returns competitive with other resilient markets.

Office

Office space registered a gradual vacancy increase over the past two years, while rent increases remained undeterred. Construction momentum contributed to vacancy with 2 msf delivered in 2018 and 1.4 msf of mostly speculative space under construction at year-end 2018. But construction has not reached the highs of the previous cycle, indicating that an oversupply is unlikely to burden vacancy levels during a slowdown.

Demand for efficient co-working space is trending heavily, and developers are responding with more collaborative space and high-end amenities to retain top tenants. Growth and the addition of tech industry tenants will likely be needed to retain educated millennials who are being priced out of the market.

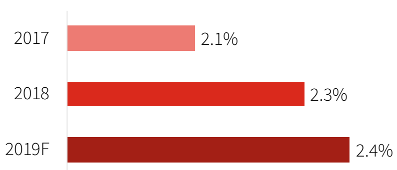
Office Vacancy Rates: Orange County



Industrial

Industrial demand remained tight in 2018 as record-low vacancy persisted, pushing rents to record highs. Even with a modest spike in speculative construction, supply trails demand. Last-mile warehousing needs are contributing to construction, while larger tenants increasingly look to options in the neighboring Inland Empire. Supply constraints leave limited options for tenants needing to expand or relocate within the county, leading to the redevelopment of existing space for more efficient use. As developers remain cautious, rental rates are anticipated to grow in the coming year, albeit at a slower pace.

Industrial Vacancy Rates: Orange County



Retail

Retail remains a vibrant and pronounced highlight of Orange County, where baby boomers and high-income households influence the development of suburban retail, mixed-use plans, high-end lifestyle centers and experiential retail. Retailers are motivated to occupy the sixth-most populous county in the U.S. and largest of the 100 wealthiest counties, keeping the sector resilient.

Vacancy approached pre-recession

lows in 2018 and may rise minimally in 2019 as brick-and-mortar spaces adapt to e-commerce by providing services and experiences over goods. Rents climbed in 2018 to post-recession highs, yet remained distant from pre-recession peaks.

Investment

Investment sales volume for all tracked sectors in 2018 has performed similarly to the previous three years of record highs. Pricing is also at record levels, while rental returns are high. Rental-rate growth is expected to decelerate across most sectors in 2019, a situation which may keep cap rates compressed until interest rates climb further.

Office inventory led the way in investor demand for the sixth consecutive year. Trading is expected to become more reserved as vacancy continues to grow and an uptick in speculative development is added to the market. A slight downward trend in pricing may emerge in 2019.

Investor interest in multi-family has yet to be exhausted as record-high rental rates persist in a market that, according to the U.S. Census Bureau, has one of the lowest home-ownership rates in the U.S. Robust construction activity in multi-family has not been enough to meet demand, a trend that is poised to continue through 2019.

Orlando

Demand for space remains strong as industrial dominates

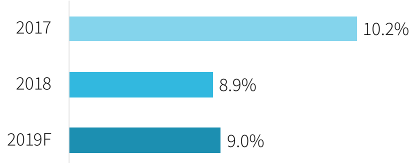
Orlando's economic foundation is solid in early 2019 with job creation continuing to fuel growth and an overall sustained decline in the unemployment rate. Healthy leasing activity is occurring, net absorption continues to outpace new construction and a red-hot e-commerce industry continues to bolster a dominant industrial market. Demand for space remains strong, and continued incremental rent growth is expected throughout 2019.

Office

Leasing activity in Orlando has been tempered only by a lack of large blocks of quality space in high-demand areas. Developers continue to plan innovative mixed-use projects with substantial office components in primary areas. Several mixed-use developments are gaining traction across Orlando and getting closer to being built, including two major developments in the urban core. Miami-based MEC Development Associates is planning a 41-story tower adjacent to the Orange County Courthouse, and SED Development is planning a $200-million sports and entertainment complex that will become the official home of the NBA's Orlando Magic. Lincoln Property Company is also beginning to market the second phase of its SunTrust Plaza at the Church Street Station development.

Leasing activity will likely remain steady during 2019 – and that means rental-rate increases in the most sought-after areas will continue to exhibit some acceleration.

Office Vacancy Rates: Orlando

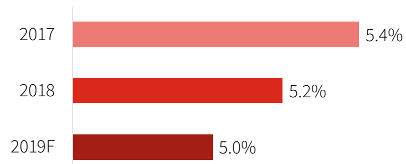


Industrial

Speculative construction starts continue to be outpaced by robust tenant demand for quality industrial space. Orlando's primary industrial submarkets reported strong leasing activity along with increasing rental rates during 2018. Steadily increasing e-commerce demand, in conjunction with one of the strongest employment-growth markets in the nation, has resulted in an increasingly tight local industrial market. Growth has begun to push westward into the Silver Star and Northwest submarkets, where several large industrial developments – notably the Park @ 429 and Princeton Oaks – have experienced strong preleasing activity.

Investor optimism remains very strong to start 2019, and logistics companies and retailers are expected to drive the majority of overall industrial demand with continued steady interest in prime development sites.

Industrial Vacancy Rates: Orlando



Retail

Orlando's enviable economic engine continues to perform with the metro area recording the highest rates of job expansion, population growth and retail sales gains within

Florida's primary metro areas in 2018. Orlando also has a $70-billion tourism industry that is driving much of the new development activity, particularly on the south side. Retail optimism remains strong as several key development projects move through the construction pipeline, vacancy continues to contract and rental rates continue to record gains. The Lake Nona, Horizons West, Winter Garden, Waterford Lakes/Oviedo and Lake Mary/Heathrow areas remain dominant players. Continued record-breaking tourism and a strong and growing local economy are expected to propel further growth within the retail sector.

Investment

The overall U.S. economy remains very strong with business and consumer confidence near historic highs and unemployment at or near a historic low. In Orlando, the office, industrial and retail markets remain firmly entrenched in the expansion phase of the development cycle with both interest rates and construction costs beginning to rise. Investment activity was significant during 2018 with $2.1 billion transacted within these three sectors accounting for nearly 16 msf. Investment sales interest is expected to remain strong during 2019 as investors continue to scour the market for opportunities, although fewer transactions for core assets are expected.

Philadelphia

Office rents continue to rise as market remains tight

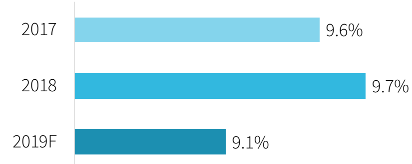
Greater Philadelphia is a broad market stretching across three states and serving as home to more than 1.5 million people. Encompassing Southeast Pennsylvania, Southern New Jersey and Northern Delaware, this tri-state region holds the title of third-largest regional economy in the northeastern U.S. The overall Philadelphia market posted strong fundamentals in 2018, and these are on track to continue in 2019. Rental rates were up and vacancies declined across the office, retail and industrial sectors.

Office

Despite a slow leasing environment, vacancy is at a 17-year low (9.7% as of third-quarter 2018) and below that of other major U.S. markets. Class A office space represented 48.5%, or 117 msf, of total inventory and achieved its highest average rental rate ($25.74 psf) in five years in the third quarter of 2018. Center City submarkets, as well as prominent suburban submarkets, also registered rental-rate growth year-over-year.

As of the end of the third quarter of 2018, there was slightly more than 1 msf of construction in the pipeline due to complete in 2019. Availability rates also remain low, suggesting the market will tighten as rents are projected to rise.

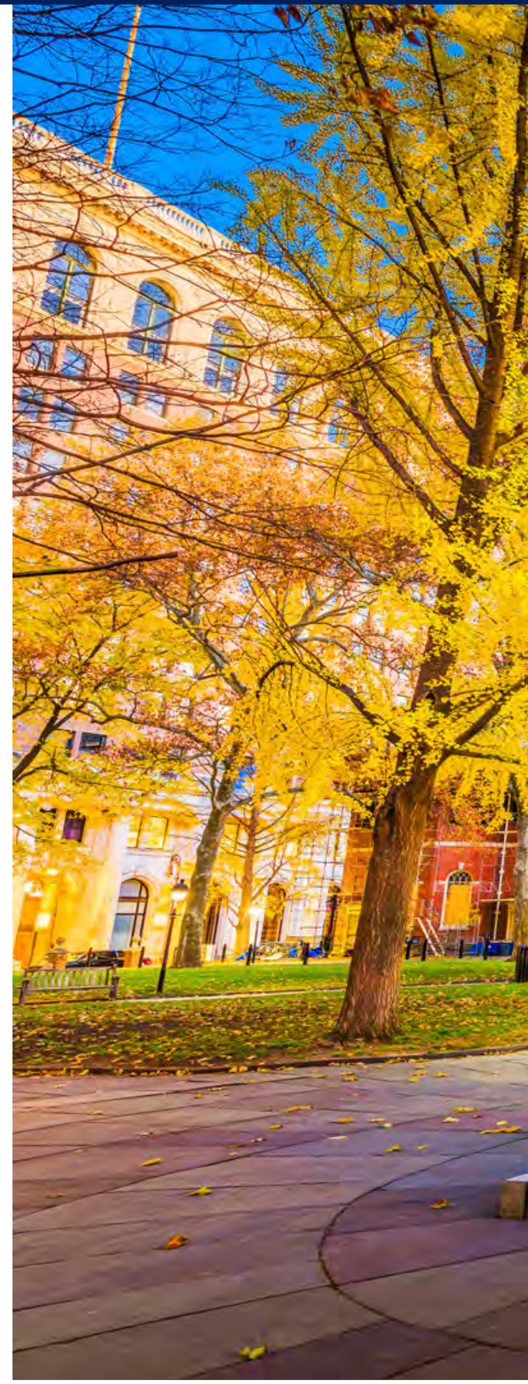
Office Vacancy Rates: Philadelphia



Industrial

With abundant available land in northeast Philadelphia and quality access to highways, the Greater Philadelphia area industrial market remains active. As of the third quarter of 2018, inventory totaled 317 msf with vacancy at 5.5% – down 20 bps year-over-year. A total of seven buildings totaling 290,000 sf were delivered to the market by the third quarter of 2018.

The need for retailers to optimize their supply chains, mixed with Philadelphia's convenient location, sets the Greater Philadelphia industrial market up for a promising 2019. Given the demand for industrial space, 4.7 msf remains under construction as total inventory is

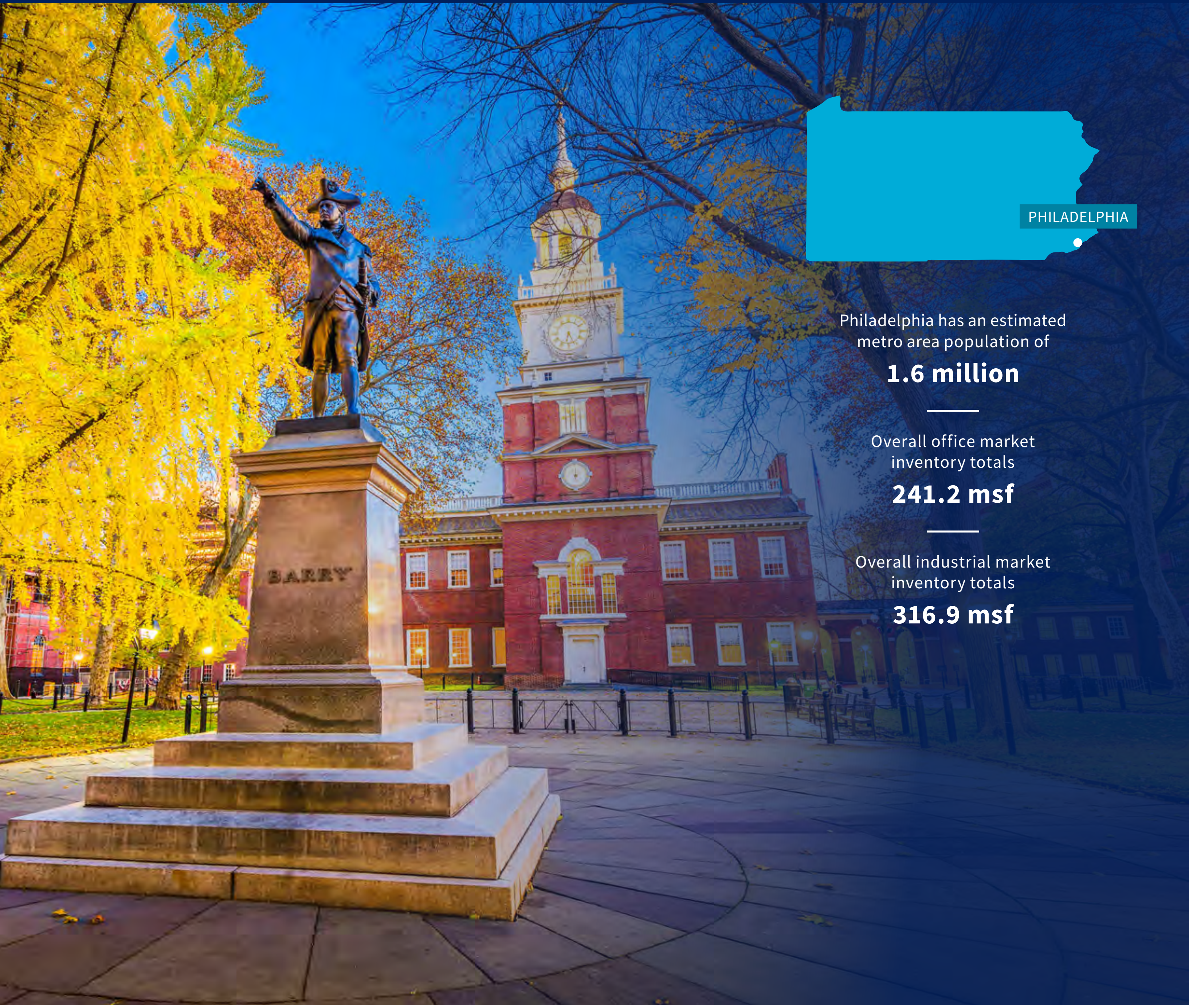


expected to grow to 324 msf in 2019.

Industrial Vacancy Rates: Philadelphia

Retail

While the closures of such well-known stores as Kmart, Sears and Toys "R"



Us throughout the Philadelphia area are hindering shopping centers, the market holds on through the increasing emergence of grocers, fitness centers and more experiential retail shops. In a retail inventory of 327 msf at the end of the third quarter of 2018, a total of 1.15 msf was under construction.

Spanning three city blocks, the redevelopment of the 800,000-sf Gallery Mall into the new upscale Fashion District of Philadelphia is expected to complete by September 2019. The project has a heavy emphasis on experience-oriented tenants and will feature a City Winery, an AMC Theatre and a plethora of traditional-mall tenants, including Burlington Coat Factory, Polo Ralph Lauren, Guess and more.

Investment

More than $5.8 billion in transactions occurred during the first three quarters of 2018, $9.6 million ahead of the same period in 2017. Office sales accounted for the largest portion of market activity at $2.5 billion and comprised 43% of total sales during the first three quarters of 2018 in the Greater Philadelphia area.

Out-of-market investors are projected to remain interested in Philadelphia's relatively high cap rates, indicating that its investment market should remain strong in 2019.

Phoenix

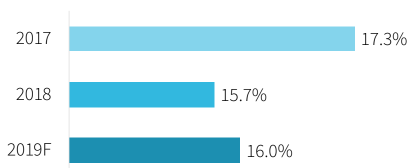
Technology businesses showing greater interest in Phoenix

Phoenix's favorable business climate and growing labor force remain attractive to companies looking to expand or relocate and have contributed to the economy's growth. Employment grew 3.8% in the 12 months ending in September, led by construction at 12.5% and information technology at 6.5%. The technology sector has expanded in Phoenix, exhibiting growth of 300% in the number of companies over the past five years, primarily due to a lower cost of living compared with traditional technology hubs. Technology-oriented real estate is in greater demand, including data centers, health care, office and advanced manufacturing facilities. Data centers in particular have expanded rapidly, currently accounting for 1.6 msf, ranking sixth in the country by capacity. Phoenix is on pace to reach the fifth spot in the next year with Iron Mountain, EdgeCore, CyrusOne, QTS Data Centers, Digital Realty, EdgeConneX and Aligned Data Centers having announced new developments or expansions of their current properties.

Office

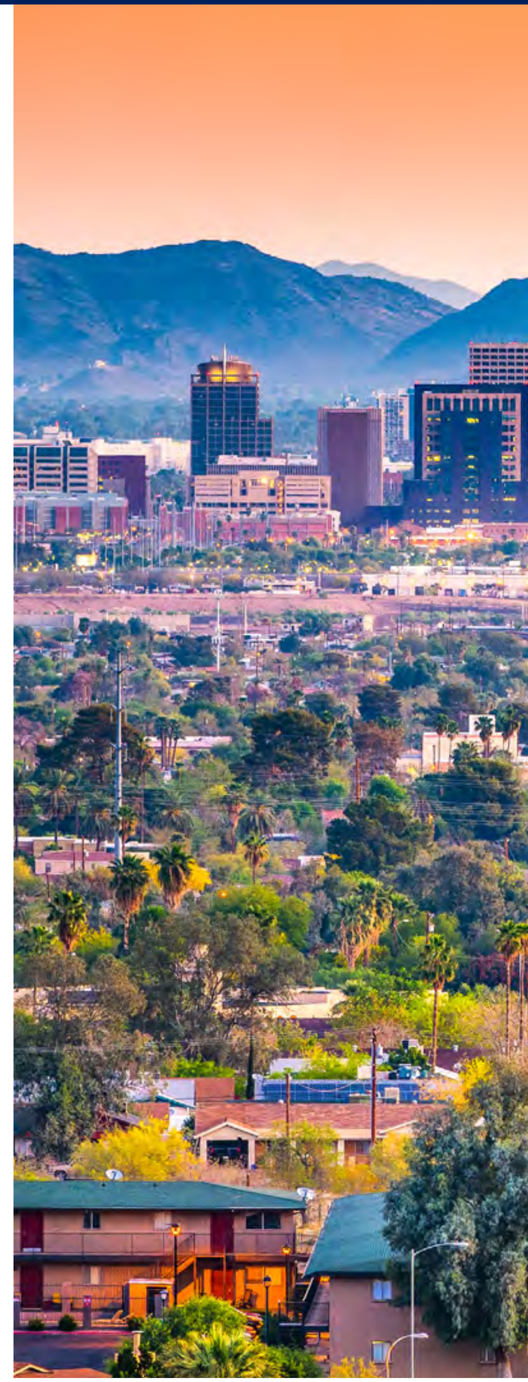
Unemployment in Phoenix reached a historical low of 3.8% in April 2018 and increased slightly to 4.2% through September. In the 12 months leading up to that point, nearly 64,000 jobs were created, resulting in improving performance in the office market. In third-quarter 2018, vacancy (15.7%) and average rents ($24.99 psf) reached 10-year highs. Absorption (2.1 msf) was positive for the eighth consecutive year and has consistently outpaced deliveries. The increase in rental rates is steady, showing no indication of cessation. Owners and developers will continue to enjoy strong fundamental trends through 2019.

Office Vacancy Rates: Phoenix



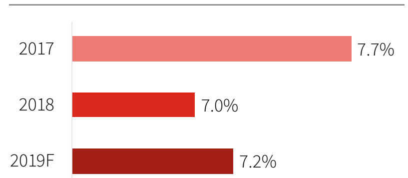
Industrial

Manufacturing employment grew 5.4% during the 12 months ending in September 2018 with logistics and transportation benefiting from e-commerce expansion. In addition to these traditional uses, data centers are evolving into more high-quality flex space due to the emergence of new technologies and processing power closer to where the data is generated. Rental and vacancy rates are stable, showing little change over the year and remain near historical averages. Third-quarter absorption was down slightly, at 891,253 sf, but year-over-year absorption was strong at 5.3 msf. Rental rates will resume appreciation as space in the pipeline is absorbed, and 31.2% is preleased,



indicating positive occupancy trends will endure into 2019.

Industrial Vacancy Rates: Phoenix



Retail

The rise of high-paying jobs in

technology and health care has led high-end retailers to maintain their interest in the Phoenix market. The average asking rate ended the third quarter at $15.69 psf, up 4.3% year-over-year, with nine submarkets asking more than $20 psf NNN. From third-quarter 2017 to third-quarter 2018, lease escalations in select submarkets ranged up to 12.5%, while vacancy decreased to 7% in the third quarter – its lowest point since 2008. Square footage under construction reached its lowest point since 2012, indicating tight market conditions in 2019.

Investment

Investment volume in 2018 exceeded that of 2017 with industrial sales totaling $796 million in the third quarter, bringing year-to-date volume to $1.8 billion. In the largest industrial sale of the quarter, Downtown Phoenix Technology Exchange was purchased by Digital Phoenix Van Buren for $175 million ($609 psf). Office sales through third-quarter 2018 exceeded 2017 and 2016 volumes in the corresponding periods, and third-quarter cap rates averaged 7.5%, up from 6.9% earlier in 2018. Recent office cap rates are down slightly after values grew in 2018 from 8% in third-quarter 2017. Retail cap rates have ranged from 6.3% to 6.9% since 2016. Retail sales volumes increased 32% to $1.5 billion after declining slightly in 2017.

Pittsburgh

Office and industrial markets well-positioned for growth in 2019

Pittsburgh's commercial real estate market recorded declines in retail and investment activity in 2018, while the office and industrial sectors registered increases in transaction velocity. The Pittsburgh market again demonstrated that many suburban-based companies are moving to innercity or urban locations to attract and retain a younger workforce.

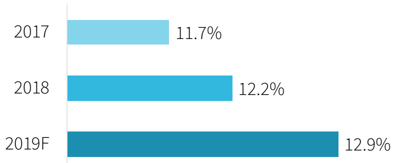
Further momentum is expected in 2019 in the development and leasing of big-box distribution and fulfillment centers in certain suburban markets, while a number of new office buildings, especially in Pittsburgh's fringe market (between the CBD and the suburbs) will either be breaking ground or delivering occupancy in 2019.

Office

Both the CBD and suburban office markets in Pittsburgh remained relatively stable in 2018 with a slight uptick in class A asking rental rates despite a very nominal decrease in real occupancy due to the influx of several large blocks of sublease space, which are still leased, but not occupied. The historically wide gap in full-service class A asking rental rates between office space in the CBD and suburban buildings narrowed somewhat in 2018 and previous years. Select significant transactions included Philips' lease of 230,000 sf in the urban East End at Bakery Square, while Facebook announced it would establish a new tech hub in the Strip District and lease 105,000 sf at District 1500.

Office leasing activity across most major submarkets is expected to be very active in 2019 as large blocks of sublease space are reabsorbed and new construction continues in the Strip District and Lawrenceville areas. The CBD office market will remain strong, although the full-scale renovation of 525 William Penn Plaza and the landlord's campaign to lease 700,000 sf will keep rental rates in check.

Office Vacancy Rates: Pittsburgh

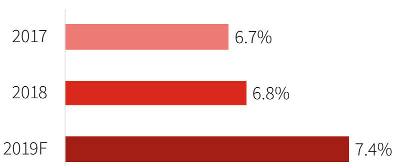


Industrial

The industrial market remains tight with vacancy hovering between 6% and 7%. The demand for big-box distribution and last-mile fulfillment centers from companies such as Amazon and FedEx has resulted in speculative industrial construction. A number of developments underway in the western suburbs and airport corridor will add to the industrial inventory.

Demand in the industrial market in 2019 will continue to focus on new class A distribution space and, despite the added inventory of new quality space, rental rates will continue to increase at a moderate pace.

Industrial Vacancy Rates: Pittsburgh



Retail

Pittsburgh's retail market continued to struggle with competition from e-commerce, and several suburban malls fell victim to distressed conditions in 2018. There is much debate and speculation as to how these former mall properties will be repurposed for alternative uses such as distribution, recreation or medical facilities. Some progress and clarity with these distressed assets is expected in 2019 as investors, entrepreneurial developers and community-oriented agencies strive to secure economic and operational benefits from these former retail centers.

Investment

Investment activity slowed significantly across most product types in Pittsburgh during 2018 when compared with historical highs. No major CBD office building sales were recorded. The most active sector for investment was multi-family, where a number of 300-plus-unit apartment complexes were sold with the average price per unit rising from $111,000 to $149,000.

Despite the rising interest-rate environment, investment activity should increase across the Pittsburgh market in 2019. Although the multi-family sector is showing signs of over-building with vacancy rates creeping upward, the market will continue to garner investment from outside the region.

Raleigh-Durham

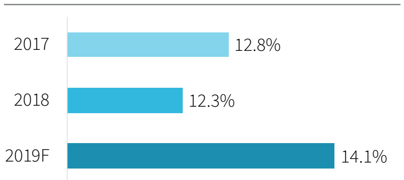
Outstanding leasing fundamentals drive record-breaking investment

In its recently released *Emerging Trends* in Real Estate report, the Urban Land Institute named Raleigh-Durham (RDU) the No. 3 market in the U.S. to watch for overall real estate prospects in 2019. The region's quality of life, robust population and job growth, and highly educated workforce are supporting sustained business expansion and healthy leasing fundamentals. In the fourth quarter of 2018, Advance Auto Parts and Pendo chose RDU for their corporate headquarters, resulting in more than 1,000 new jobs for the region.

Office

The RDU office market outperformed expectations in 2018 as a lull in construction deliveries through the first three quarters of the year kept vacancy in check and asking rental rates spiked by 6%. Tenant demand is projected to remain robust in 2019, but a substantial increase in deliveries over the next 12 months will push vacancy higher. Nonetheless, an oversupply is not a concern in the near term. With no slowdown in sight for rising construction costs, tenants need to be prepared for additional steep increases in rental rates and tenant-improvement costs in 2019. Tenants may gain a small increase in concessions as new product is delivered, but the market will largely continue to favor landlords.

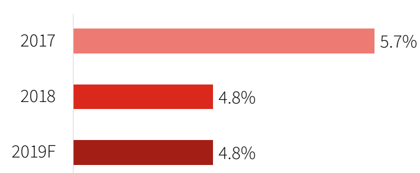
Office Vacancy Rates: Raleigh-Durham



Industrial

Modest construction completions and strong leasing activity contributed to a decline in industrial vacancy in the first three quarters of 2018. Among the most notable announcements of the year, Amazon chose Garner for a four-story, 2.6-msf fulfillment center that will generate 1,500 jobs. While 1.5 msf is scheduled for delivery by year-end 2019, more than 80% of the space has been preleased or will be owner-occupied. There is a need for more modern, high-bay speculative facilities in the market, but developers are challenged to make the numbers work given high land and construction costs. Leasing activity should remain strong in 2019, keeping vacancy steady and placing additional upward pressure on rental rates.

Industrial Vacancy Rates: Raleigh Durham



Retail

In a testament to the market's resilience, RDU retail vacancy has held steady at or less than 7% for five years despite the impact of highly

publicized closures by national brands such as Sears, HHGregg, Gander Mountain and Kroger. Newly vacant large blocks present unique opportunities for better utilization of space and stronger rental rates at well-located centers, and many have been backfilled quickly. The story should be the same in 2019. RDU will remain a top destination for new-to-market retailers, and construction will be limited to prime locations, infill sites and urban mixed-use projects. Experiential retailers and value brands will continue to dominate activity, while more digital-native retailers will venture into brick-and-mortar locations.

Investment

RDU registered another year of record-breaking demand from commercial real estate investors in 2018. Sales totaled $3.9 billion through the first three quarters, up 27% compared with the same period in 2017. The increase was driven by a surge in office sales, which totaled $1.7 billion in the first three quarters – an increase of 130%. Multi-family sales remained strong, despite abundant new supply, with volume totaling $1.7 billion. Investors will continue to seek opportunities in the region in 2019, but 2018 is likely to be a peak year for RDU in terms of both volume and pricing. More projects will come to market in 2019, but a widening gap between buyer and seller expectations may slow deal closings.

Reno

Explosive industrial growth sparks market

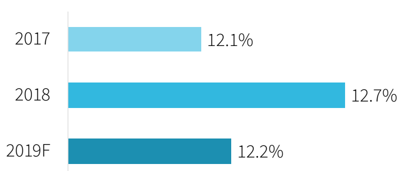
Northern Nevada continued its robust growth pattern through 2018. All indications point to a continuation of job and population growth well into 2019 and beyond. A number of companies announced plans to relocate their businesses from other states into the area in 2019. Blockchain, LLC closed escrow on 67,000 acres in the Tahoe Reno Industrial Center. The company has an aggressive plan to develop a high-tech park along with commercial and residential components over the next 10 years. Rental rates for all types of commercial property are expected to continue to rise, and the commercial real estate market will likely record significant value appreciation in 2019.

Office

Positive absorption in the office market continued for the seventh straight year in 2018. The average class A asking rate climbed to $26.40 psf FSG in 2018 from $25.20 psf in 2017. However, new construction now requires rates of $36 psf FSG to be viable.

Office vacancy increased to 12.7% in 2018 from 12.1% at year-end 2017 but is expected to fall in 2019. The Downtown submarket recorded negative absorption in 2018, but vacancy decreased in the two major suburban markets. Reno will continue to grow steadily with the largest impediment to that growth being a labor shortage.

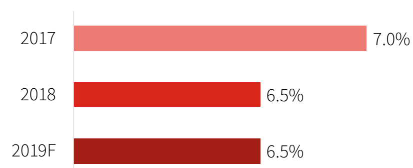
Office Vacancy Rates: Reno



Industrial

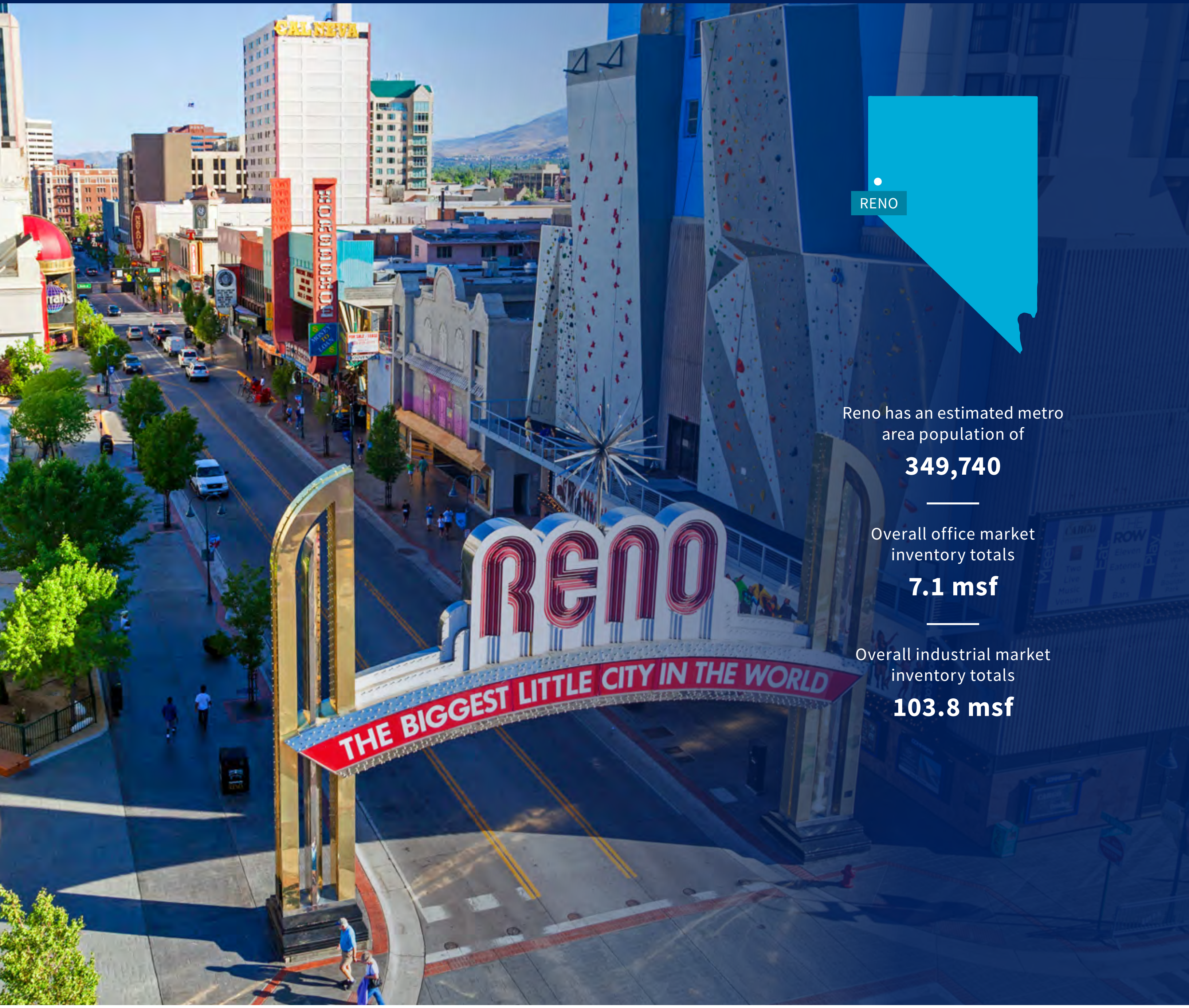
Overall market vacancy decreased to 6.5% in the third quarter of 2018 from 7% in 2017. Meanwhile, asking rental rates increased more than 5%. There is currently 7.3 msf under construction with nearly 75% of that preleased or designated as build-to-suit. Developers have continued to deliver big-box product with speculative projects reaching 800,000 sf. Infill projects containing flex and smaller industrial product have continued to strengthen with rental rates climbing to more than $10 psf NNN for the first time in market history. The market is expected to remain strong in 2019 as manufacturing and e-commerce distributors continue to flood northern Nevada.

Industrial Vacancy Rates: Reno



Retail

Positive indicators continue to define the retail market. National tenants continue to enter the marketplace, and positive absorption was recorded in 2018. Commercial



Reno has an estimated metro area population of

349,740

Overall office market inventory totals

7.1 msf

Overall industrial market inventory totals

103.8 msf

sales in northern Nevada have been steady, but a continued lack of available product for sale and aggressive cap-rate expectations from sellers have slowed the pace. Inventories will likely continue to shrink, pushing up sale prices. Retail vacancy ended 2017 at 13.8% and declined 90 bps through the first three quarters of 2018 to 12.9%. Retail rental rates increased, averaging $18.60 psf NNN on an annual basis as of third-quarter 2018. Overall, 2018 was a positive year for both retail leasing and sales. Vacancy will likely continue to decline and average rental rates should increase in 2019.

Investment

The investment market's performance in northern Nevada during 2018 was a repeat of 2017. High demand and low supply fueled higher pricing for all types of investment properties. This high demand will likely persist in 2019 for all property types – especially multi-family.

Although a number of large multi-family projects are coming online in 2019, rapid population growth should lead to the absorption of these new units. Industrial real estate will continue to lead the way in terms of the development of new facilities. Several million-square-foot-plus users have announced plans for relocations or expansions in the area in 2019.

Sacramento

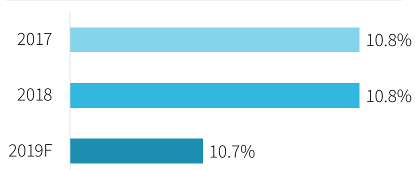
Average office asking rate surpasses $24 psf

The Sacramento Valley continued to post strong growth in all commercial sectors during 2018. The government and health care sectors have historically dominated the market, and this situation persisted in 2018 as much of the new development was spearheaded by the ongoing growth of those two industries. Employment in the Sacramento Valley continued its upward climb, supporting economic growth in the region. As of September, the unemployment rate in Sacramento County was 3.6%, according to the Bureau of Labor Statistics – down 60 bps year-over-year.

Office

Leasing activity in the Sacramento Valley office market was strong throughout 2018. Total vacant office space measured 7.5 msf at the close of the third quarter, translating to a 10.8% vacancy rate. There was little variance in the vacancy rate over the course of the year. However, looking back further, vacancy has fallen 160 bps since the third quarter of 2016, when overall vacant space measured more than 12% in the Sacramento Valley office market. Average asking rates climbed to an average $24.24 psf FSG at the close of the third quarter, a 5.6% increase year-over-year. The third quarter marked a significant achievement for the Sacramento Valley as the average asking rate surpassed the $24-psf mark for the first time since 2009. Going forward, it is likely that occupancy growth will continue as tenant demand remains high and no new speculative construction is slated for completion until Bannon Investors' 90,000-sf 2555 Natomas Park Drive is delivered in fourth-quarter 2019.

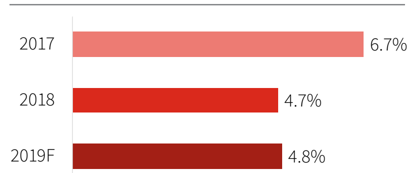
Office Vacancy Rates: Sacramento

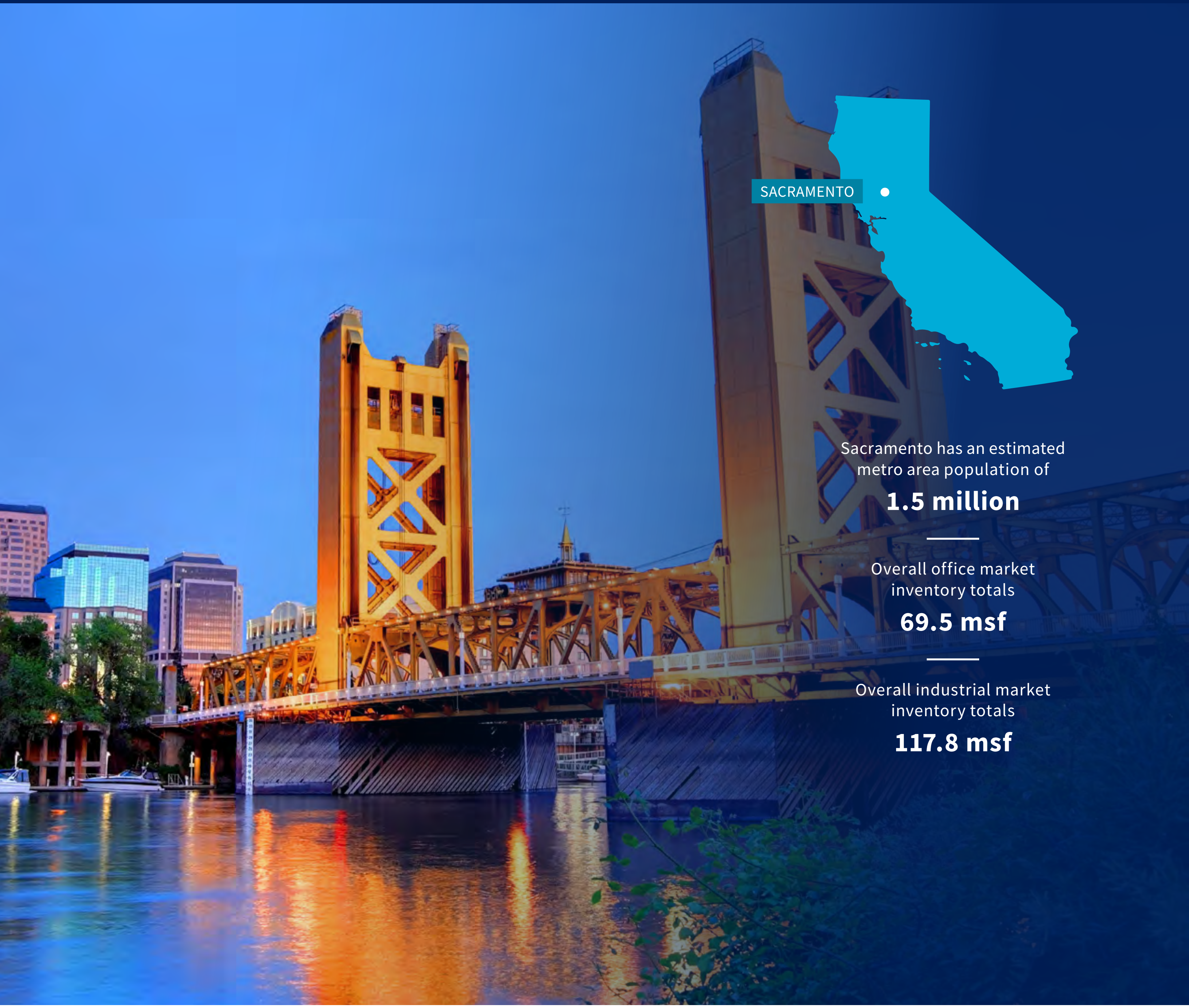


Industrial

The industrial sector in the Sacramento Valley recorded huge gains throughout the first three quarters of 2018. At the close of the third quarter, vacant space totaled 5.5 msf, down 29% from one year earlier and representing a vacancy rate of 4.7%. Asking rents for industrial product increased significantly during the year due to a lack of supply. The average asking rate was $5.76 psf NNN at the end of the third quarter of 2018, up 18% year-over-year. More than 890,000 sf of new industrial product was under construction at the close of the third quarter. With low vacancy rates and high demand for industrial product throughout the Sacramento Valley, developers are expected to continue to build in this region.

Industrial Vacancy Rates: Sacramento





Retail

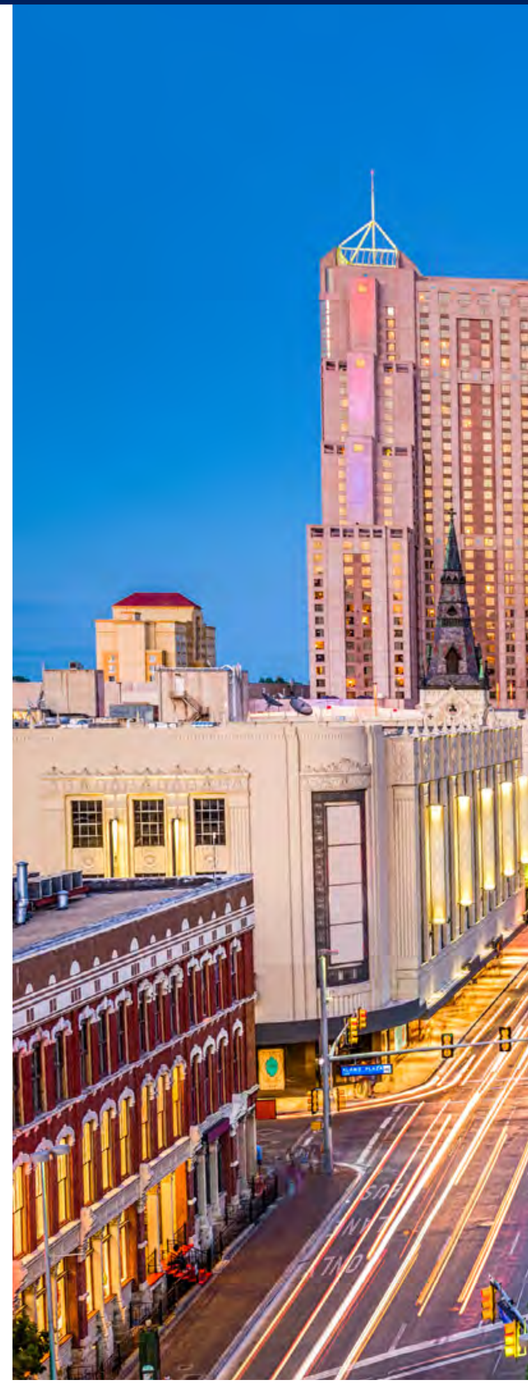
Retail vacancy stood at 7.4% at the close of the third quarter of 2018 – relatively flat from one year earlier. Despite little change in occupancy levels during the year, asking rates for retail space in the Sacramento Valley increased during the 12-month period ending at third-quarter 2018. At the close of the third quarter, the average asking rate stood at \$15.27 psf NNN, up 8% year-over-year. Current tenant demand points to continued occupancy growth throughout 2019, especially in the core downtown submarkets.

Investment

Investment in the Sacramento market picked up considerably during the first three quarters of 2018. Total volume topped out at more than \$3.6 billion for all product types. This increase was led by investment in multi-family properties and closely followed by the office sector. Although retail and industrial property trades remained strong during the year, total investments were down year-over-year. Investment activity in all property sectors is expected to remain strong in 2019, but large gains year-over-year will be hard to achieve at this point in the cycle following two record years.

San Antonio

Rapid growth and affordability continue to push recovery

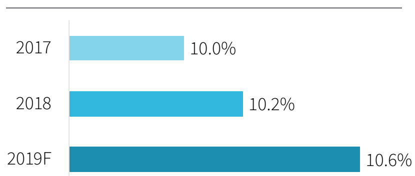


The San Antonio market recorded another year of healthy recovery and growth in 2018. Steady growth in population, employment and GDP, along with increasing out-of-town investor interest are helping position the area for another positive year in 2019. However, extremely low unemployment, uncertainty surrounding government spending, rising interest rates and volatility in international markets and politics may restrain the market's full potential. Even with these factors present, all market types posted positive absorption and growth in 2018. Fundamentals point towards another positive year as the current economic and business cycles continue their transition to a more moderate pace for 2019. New construction in the urban core will help continue the recent wave of development that is pushing the CBD towards a true live-work-play atmosphere that will attract more young talent.

Office

More than 1.6 msf of new office product is set to deliver in 2019, including two high-profile CBD properties, Frost Tower and The Soto. Of that 1.6 msf, more than 65% is preleased. This supply increase will help keep vacancies low – and rental rates growing. Certain outside mechanisms, such as the recent tax code change that no longer allows parking to be treated as an expense, will mean suburban buildings that offer free parking will become more competitive against traditional CBD alternatives. In the CBD, the United Services Automobile Association recently purchased 40% of the existing class A supply downtown and will convert it to single-tenant occupancy. This conversion will result in long-term downtown tenants fighting over the last remaining spaces. Co-working will continue to be an industry disruptor as its footprint expands and its influence on flexible lease structures will force landlords to consider new tenant acquisition and retention methods.

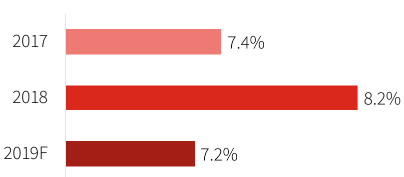
Office Vacancy Rates: San Antonio



Industrial

Approximately 1 msf of new industrial inventory has been delivered each year since 2011, and the market has absorbed the majority of it. Most of San Antonio's demand remains along the IH-35 corridor connecting the area to Austin, helping position the city as a major distribution hub. There will be 2.8 msf of new inventory delivered in 2019 with half of that space already preleased. This measured pace and steady demand should keep vacancies consistently low and rental-rate growth at a slow, sustained pace.

Industrial Vacancy Rates: San Antonio



Retail

Strong, consistent population growth and well-paying, secure jobs have boosted retail demand in recent years. Until recently, local retail rental-rate growth outpaced most of the nation. However, rental-rate escalation has cooled recently as more product has been delivered, but will likely continue to climb through 2019. Vacancy rates are expected to remain low even with an additional 2.2 msf of inventory set to be delivered.

Investment

San Antonio has positioned itself as a healthy secondary market with steady demand and growth in sales volume and pricing. The area has become an attractive alternative for investors who may have been pushed out of primary markets. In all asset classes, investors are hoping for higher returns, moving away from pricier core properties and seeking value-add opportunities such as low-occupancy suburban assets or obsolete class B and C buildings in downtown areas.

San Diego County

Long-term resilience driven by location, workforce, growing tech

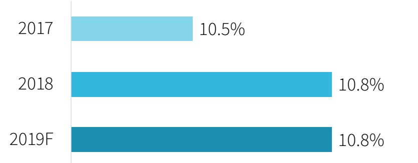
Stable fundamentals are expected to support San Diego commercial real estate as a slowdown of the current economic cycle emerges. Employment remains very strong even as companies right-size and make location adjustments. Developers are building high-tech and upgraded spaces to attract and retain quality tenants and a highly educated workforce. San Diego benefits from heavy demand for space from life sciences, mid-sized and startup tech companies, health care, and sectors that work closely with the U.S. military. The market's long-term resilience is driven in part by desirable geography within Southern California, also making it a vital hub for logistics with Mexico.

Office

The office market is evolving with growing demands for creative and collaborative space. San Diego is staying competitive with top tech cities by developing high-quality spaces that tenants appreciate and fostering a talented labor pool. At year-end 2018, an uptick in redevelopment and new construction nudged vacancy levels slightly upward, while rents reached record highs.

Record employment gains have helped San Diego's office market sustain historically low vacancy levels. Tenants are increasingly willing to pay a premium for modern new inventory.

Office Vacancy Rates: San Diego County



Industrial

San Diego's industrial market is limited in supply, holding vacancy at historic lows for three years running and lifting rental rates to record highs at year-end 2018. The long-present military, aerospace, precision manufacturing and advanced technology sectors all contribute to the tight market.

After minimal construction activity during the economic recovery, momentum picked up around the county in 2018. More than 2.8 msf of new inventory was under construction at year-end as developers became emboldened to take on new projects where limited opportunities are available. Rental rates are expected to plateau as the market adjusts to new inventory.

Industrial Vacancy Rates: San Diego County

Retail

Retail vacancy registered an uptick during 2018 after strong occupancy gains for the past seven years, triggering a slight retraction in rental rates at year-end 2018. Rental rates approached pre-recession highs for the first time in 2018.

Some volatility is expected as the market adapts to evolving consumer expectations and a growing population, but trending high-end and experiential retail – combined

San Diego has an estimated metro area population of

3.3 million

Overall office market inventory totals

89.8 msf

Overall industrial market inventory totals

126.6 msf

with the need for more mixed-use development – will continue to push rents up. Residential areas continue to see the majority of retail growth.

Investment

Investment dollar volume for all tracked sectors in 2018 was on par with the past three years of elevated investor activity, indicating a stabilization at this point in the recovery. The office and multi-family sectors hold the strongest appeal for investors.

Investor interest in the office sector has been consistent over the past five years, and upward trends in rent (due to constricted inventory) make San Diego a secondary market with an upside while interest rates rise.

Sales volume in the multi-family sector registered a deceleration in 2018 after rapidly heating up post-recession. In spite of record occupancy and rental rates, construction starts slowed during 2018 due to regulatory restrictions and increasing construction costs. While cap rates are expected to stay compressed for the coming year, moderate-but-steady returns may compete with more volatile investment alternatives in the current economic climate.

San Francisco

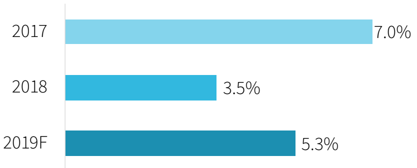
Tech capital intensifies tenant demand

In San Francisco's commercial real estate market, 2018 proved to be a year for the books with the largest transaction in the city's history, the delivery of Salesforce Tower, with asking rates pushing record-breaking levels of $100 psf, and large blocks of available space leasing faster than ever before. It is safe to say tech companies will continue to establish their footprints in 2019 despite the ever-increasing cost. With a booming tech industry and an unemployment rate at 2.2% in September 2018 – down from 3.1% one year earlier – all signs point to growth in San Francisco's real estate market in the years to come.

Office

The strong economic fundamentals of the Bay Area drove increased demand despite limited supply in 2018. The office market tightened significantly as vacancy decreased 350 bps during the year to 3.5%. Construction activity was tempered by exorbitant construction costs and Prop M legislation, which limits new development to 875,000 sf annually. Approximately 2.6 msf of space was delivered in 2018 with all of it preleased except for Salesforce Tower. This situation resulted in increasing pressure on rental rates with the South Financial District breaking records, commanding $80.67 psf FSG, and SOMA district at $76.82 psf FSG. San Francisco remains one of the strongest office markets in the country and will maintain its momentum in 2019. With tech companies' appetite for top talent, the possibility of looking elsewhere, such as the East Bay and Peninsula, will soon be the only option.

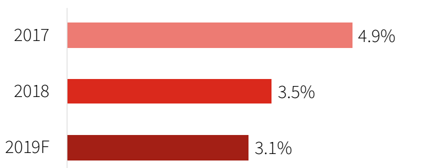
Office Vacancy Rates: San Francisco



Industrial

The San Francisco Bay Area's industrial market maintained low vacancy with solid demand in 2018. At the end of the third quarter, the tech capital registered its lowest-ever vacancy rate at 3.5%. With limited development space available at premium prices, warehouse companies are forced to relocate elsewhere, such as the Tri-Valley or Sacramento/San Joaquin Valley markets. No new industrial developments were delivered in 2018, and the outlook for 2019 is not different.

Industrial Vacancy Rates: San Francisco



Retail

As of the third quarter of 2018,

retail vacancy reached 3%, a slight decrease from the figure one year earlier. San Francisco continues to be a healthy environment for retail due to the booming tourism industry, low unemployment rate and increased income all driving consumer demand. Due to a strong economic base and high density, retail remains a tight market, particularly in the Union Square and Financial District submarkets. The overall vacancy rate is still among the lowest in the nation. Experience-focused retail, food service and fitness centers will continue to dominate leasing transactions as rent growth has softened.

Investment

The investment sector recorded more than $3 billion worth of sales during the first three quarters of 2018 – which is a 13% decrease even compared with just the first half of 2017. Reasons for the decline include rising interest rates and investors having less confidence now that the Bay Area's economic expansion has matured. The first half of 2018 recorded an average cap rate of 4.6%. Going forward, San Francisco's tech growth is expected to maintain – and assure – overall economic stability.

San Jose/Silicon Valley

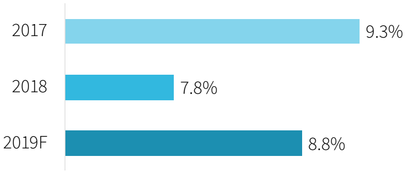
Industrial vacancy falls to historical lows

Silicon Valley continues to lead the nation in job growth as its thriving tech industry strengthens the local economy. Home to many of the world's largest tech companies, five cities in Silicon Valley each claimed more than $100 million in venture-capital funding during the third quarter of 2018 alone. Job growth continued to thrive, albeit at a somewhat slower pace than in recent years. At the close of September, the unemployment rate in Silicon Valley stood at only 2.4%, down 60 bps from one year earlier.

Office

The Silicon Valley office market has recorded tremendous growth in recent years, and 2018 was no different. Tech companies continued to expand with record-breaking deals in terms of size. During the first three quarters of 2018, more than 20 deals larger than 100,000 sf were signed by companies expanding their footprints in Silicon Valley. Net absorption measured more than 4.8 msf in the first three quarters, bringing the total occupancy growth in the Silicon Valley office market to nearly 31 msf since 2011. Going forward, net absorption will be strong due to the completion of the Google campus, and several other forward-commitments from technology firms leasing space in projects under construction. However, leasing velocity will slow in existing inventory as asking rates have hit a peak. Asking rates will begin to stabilize, slowing the upward trend measured in recent periods as deal velocity slows.

Office Vacancy Rates: San Jose/Silicon Valley

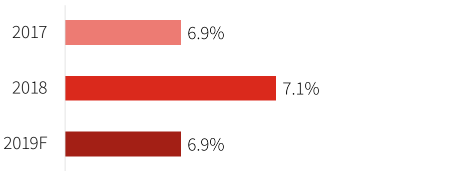


Industrial

The Silicon Valley industrial market grew modestly in 2018. Vacancy was at historically low levels and will remain so during 2019 as little new inventory is in the pipeline. Although tenant demand remains high, it will be tough for the industrial market to achieve large occupancy gains during the year if the amount of available space on the market remains at such low levels. Industrial tenants are

restricted in the search for new space and may begin to look in neighboring regions. Asking rates in the region recorded an uptick during 2018 and will continue this trend throughout the year as supply remains constricted.

Industrial Vacancy Rates: San Jose/Silicon Valley



Retail

Retail in Silicon Valley remained steady throughout 2018. With a thriving local economy, increasing population and growing incomes, retailers reap the benefits. At the end of the third quarter, nearly 930,000 sf of new retail space was under construction with the largest project being a 415,000-sf expansion of the Westfield Valley Fair Mall in Santa Clara, which is expected to be complete in spring 2019. The retail sector is expected to continue its steady path through 2019.

Investment

Silicon Valley continued to thrive as one of the nation's most attractive markets for real estate investment in 2018. In recent years, the most notable shift in the investment market has been some of the region's largest tenants' transition to landlord status. Google and Apple have purchased and developed many of their own locations in recent years.

The pace of investment will likely slow in 2019 as high prices reduce cap rates and investors begin to pull back capital.

San Mateo

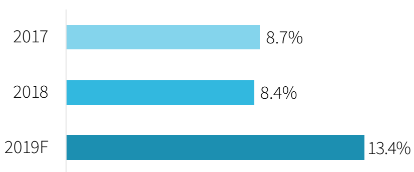
Tech companies attract talent from throughout Bay Area

San Mateo County continues to be a sought-after destination for tech companies. With easy access to its revitalized downtown submarkets via CalTrain from Silicon Valley and San Francisco, companies can attract talent from throughout the greater Bay Area. The accessibility to venture-capital firms on Sand Hill Road in Menlo Park is another big reason why companies choose to migrate to the area. San Mateo County boasts an unemployment rate of just 2.1% as of October 2018, down from 2.4% measured one year earlier. Job growth in the region is felt throughout the San Mateo County office market with increasing tenant demand. San Mateo County is likely to measure increased occupancy gains and rental-rate growth due to the continued demand from expanding tech companies in the region.

Office

Overall office vacancy at the end of the third quarter of 2018 was 8.4% with 731,000 sf of positive absorption posted in the trailing 12-month period. Posting an average asking rate of $57.84 psf FSG at the end of the third quarter of 2018, rents in this market increased by 2% year-over-year, a noticeable slowdown in pace from previous annual gains. Developers are extremely active in the market, especially in locations within walking distance to CalTrain. As of the third quarter of 2018, there was more than 3 msf of new product under construction – with more than 2.6 msf of that product preleased. Since the beginning of 2015, nearly 3.5 msf of new office product has been delivered to the market. Activity from tech tenants is expected to continue in 2019. As some tech tenants grow in head count, they will be pushed out of downtown submarkets due to the lack of available large-block spaces.

Office Vacancy Rates: San Mateo

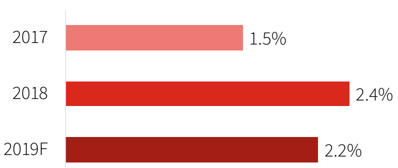


Industrial

The industrial market in San Mateo County is one of the tightest markets in the country. At the end of the third quarter of 2018, vacancy stood at 2.4%. Quality available industrial space is extremely hard to find in this market. With no new industrial development and the majority of existing tenants renewing at their current locations, there is very little room for new tenants. Little growth is expected in 2019, as tenants are restricted in available-space options and could be forced to seek out space in neighboring markets. This situation has caused asking rates to hit all-time highs, averaging $16.68 NNN at the close of the third quarter of

2018 – a 14% increase year-over-year.

Industrial Vacancy Rates: San Mateo



Retail

In San Mateo County, retailers prefer to be in the core downtown markets as many in the region have undergone extensive renovations in recent years, bringing a new vibrancy to the retail market. Foot traffic is a key determinant for many retailers in the area. Retail tenant demand will continue to be strong in 2019 with rental rates expected to stay steady throughout the year due to limited availability of quality product.

Investment

The San Mateo County investment market maintained momentum in the first three quarters of 2018, measuring more than $2.2 billion in trades across all property types, an increase year-over-year. Despite high demand from investors in this market, available properties on the market were minimal due to the high number of trades that have happened over the past couple of years.

St. Louis

Market continues to attract out-of-town investors

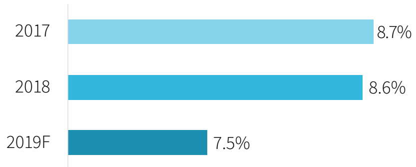
The St. Louis metropolitan market is healthy and gaining strength in all categories. Multi-family and industrial have been leading the construction boom with office beginning to pick up. The trend of above-average construction and leasing in the industrial and office sectors is expected to persist through 2019. Several major mixed-use projects will be delivered or will commence construction in 2019. Delivering in 2019 are Ballpark Village (700,000 sf of office, retail, hotel and multi-family) in Downtown St. Louis, The City Foundry (338,000 sf of office and retail) in Midtown, the Armory District (130,000 sf of office) in Midtown, and Union Station (75,000-sf entertainment district) in Downtown St. Louis.

Office

New office construction is rapidly preleasing with only 25% available. In Downtown St. Louis, the office tower at Ballpark Village has attracted tenants PwC and WeWork, which will account for approximately 60% of the building's occupancy. The Midtown corridor continues to attract high-quality tenants and projects; the City Foundry is 82% preleased, and the Armory District is 25% preleased. In addition to redevelopment projects, Midtown is home to the CORTEX innovation district, which continues to attract high-tech companies and startups.

Clayton, the St. Louis County seat, and the adjacent west county suburbs are registering healthy expansion. Build-to-suits are poised to dominate the market – for example, World Wide Technology closed on a 15-acre parcel in the fourth quarter of 2018 for future expansion. In the past year, vacancy was stable at 8.6% (down 10 bps year-over-year from 8.7%), while the average rental rate increased 2.9% to $20 psf FSG. It is expected that the trend of build-to-suits competing with speculative construction will continue in 2019.

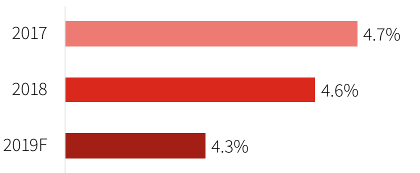
Office Vacancy Rates: St. Louis



Industrial

Speculative construction of bulk-distribution centers continues unabated. As of third-quarter 2018, a total of 4.8 msf was under construction – a 5% increase year-over-year. NorthPoint Development is building a 205,000-sf speculative warehouse/distribution facility in north St. Louis County. With a significant portion preleased, only 39% remains available. Vacancy remained steady at 4.6% through 2018, while the average asking rents increased to $5.36 psf NNN from $5.24 psf NNN.

Industrial Vacancy Rates: St. Louis



Retail

The retail market continued to improve in 2018 with overall vacancy decreasing to 4.6% and the average rent remaining flat at $15.09 psf NNN.

Prices are still rising although leasing volume was significantly lower in 2018 than in the previous two years. This trend should continue in 2019 as most construction projects are build-to-suits or preleased, thereby limiting supply. Top Golf opened in the St. Louis County suburbs in 2018 as the firm achieved its second-highest-grossing opening to date. Nearby, Chesterfield Outlets is in the redevelopment planning stages with plans to reposition the property as an entertainment district. St. Louis' third-largest grocer, Shop N'Save, shut down 16 area locations with typical store footprints greater than 40,000 sf.

Investment

The St. Louis market continues to attract out-of-town investors, particularly from coastal markets, who are looking for stable assets and better yields. With the increased media attention on Opportunity Zones (the federal program that encourages investment in select areas through preferential tax treatment of capital gains) investors are expected to shop for properties in these designated areas. Investment sales volume is expected to maintain its pace in 2019 in all categories. With prices close to or exceeding pre-recession highs, many owners are considering the disposition of their properties.

Tampa

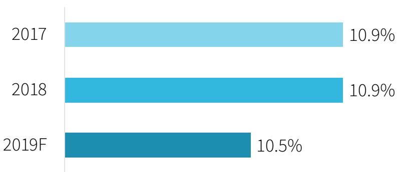
Speculative office development resumes

Tampa Bay continues to register solid economic momentum demonstrated by vigorous job growth, healthy leasing activity, strong consumer confidence and steady population gains due to in-migration. The urban cores on both sides of Tampa Bay are slowly changing due to transformative residential condo and commercial developments in Tampa and St. Petersburg. Speculative office construction is also on the rise once again.

Office

Tampa Bay's office market is evolving as the spread between construction costs and asking rents has narrowed to the point where developers are preparing to break ground on several speculative construction projects. Overall asking rental rates grew 3.9% over the course of 2018 with the average class A rate increasing 3.5%, and rents within high-demand space will rise further in 2019. Major developments expected to break ground in 2019 include the first building at Midtown Tampa in Westshore, the first new trophy class A office towers at Water Street in the urban core, the seventh building at Renaissance Park in Northwest Tampa and a 270,000-sf class A office development called Skycenter at Tampa International Airport. Heading into 2019, expectations are that strong leasing activity will continue and investor optimism will remain robust for well-positioned, quality assets.

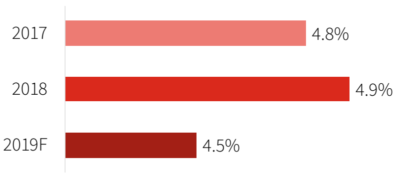
Office Vacancy Rates: Tampa



Industrial

Healthy macroeconomic fundamentals, strong investment activity and unrelenting demand for distribution space continue to fuel the expansion of Tampa's industrial market. Leasing activity has been strong, investment interest continues unabated, and rental rates are registering notable gains, having grown by nearly 5% during 2018. Logistics companies and retailers are expected to drive the bulk of industrial demand in 2019 with continued appetite for prime development sites. Absorption of distribution space should remain solid well into 2019 with rental rates continuing to grow, albeit likely at a somewhat lessened pace as the additional 4.6 msf of new supply underway begins to catch up with demand.

Industrial Vacancy Rates: Tampa



Retail

Several highly anticipated mixed-use development projects are altering downtown Tampa's skyline. Most notably, the massive Water Street Tampa project will bring up to 1 msf of

retail and cultural space to the urban core (along with the downtown area's first Publix), and the Channelside Bay Plaza was recently redeveloped as an engaging urban mixed-use waterfront development known as Sparkman Wharf. Although the Bay Area has had its share of retail closures over the last year, several recession-resistant grocery, discount and necessities retailers, including Aldi, Lucky's, Sprouts, Earth Fare, Fresco y Mas, Bealls Outlet, HomeCentric and Five Below, are looking to expand. Grocery-anchored centers are expected to attract the most significant investor interest during 2019.

Investment

Investor interest continues at a steady pace and significant capital continues to chase deals in the Tampa market. Overall transaction volume during 2018 was down 7.2% from 2017 with $1.8 billion transacted in the office, industrial and retail sectors, but that decline was due in large part to a shortage of investment offerings rather than a lack of investor appetite. There were 155 transactions totaling slightly more than 16.5 msf with an average reported cap rate of 7.5%. Despite slowly rising interest rates and the after-effects of a rancorous mid-term election cycle, Tampa's investment climate is expected to continue to perform well in 2019 with activity fueled by business expansion, strong job growth, consumer confidence and overall strong fundamentals.

Washington, DC

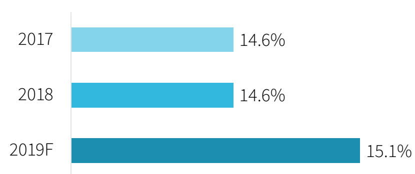
New occupiers, federal government, available capital will propel region

The Washington region's robust economic performance and expanding tenant base supported 2018 occupancy gains in the office and industrial sectors, while retailers deployed experiential-concept shops to attract consumers. Available capital and rising interest in Opportunity Zones (the federal program that encourages investment in select areas through preferential tax treatment of capital gains) and their financial advantages should sustain investment activity. Net absorption was better than expected in 2018, and the market is well-positioned to face the headwinds from the development pipeline. As well, after a long pause, the federal government is actively pursuing new leases.

Office

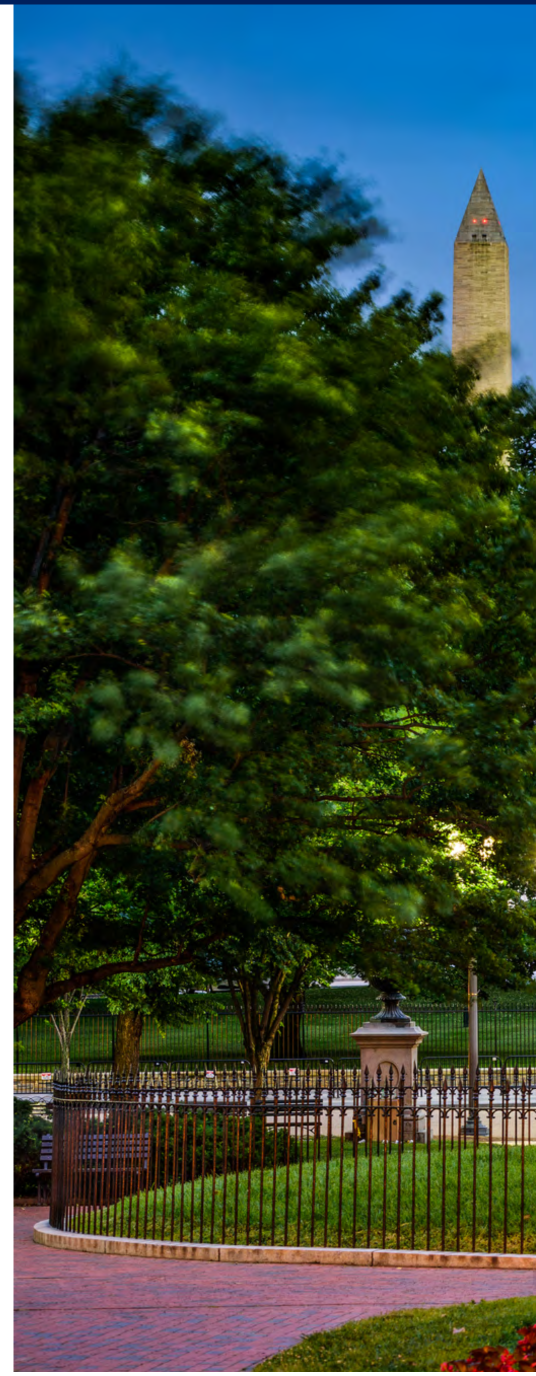
The office market remained largely tenant-favorable in 2018 and the region gained 2.7 msf of occupancy – mostly in class A space. Much of the absorption was attributable to preleasing in buildings that were completed during the year, but represented existing tenant relocations. Notably, the Whittle School, a new-to-the-market specialty user, leased an entire 666,000-sf property in the District. Growth among co-working firms continued, contributing to the take-up as well as influencing space layouts and amenities offered by landlords. At the same time, deliveries brought available space to the market, leaving the overall vacancy rate (14.6%) unchanged year-over-year. The market has benefited in recent years from the relocation of several companies, including Nestlé and Amazon Web Services. In the near term, Amazon's HQ2 initial occupancy will be roughly 500,000 sf while its total buildout will take years to realize, and the overall vacancy rate is expected to tick up by year-end 2019 as a supply-demand imbalance persists.

Office Vacancy Rates: Washington, DC



Industrial

The industrial market saw demand from a wide spectrum of users in 2018, including Amazon, Sofive Soccer Centers and Frito-Lay, and the construction pipeline increased 156% over year-end 2017 levels. In land-constrained Northern Virginia, trades associated with data-center development continued – a trend that will be difficult to sustain as land becomes even more scarce and more expensive. Elsewhere, a lack of affordable, light-manufacturing space pushed demand from the region's strong service industry to tertiary submarkets like Frederick County, where vacancy fell substantially.



With preleasing levels accounting for 81% of incoming supply, vacancy will likely decline in 2019 and allow rental-rate growth to accelerate as developers find ways to pencil deals in the expanding marketplace.

Industrial Vacancy Rates: Washington, DC

Retail

Experiential retail and new concepts, such as cashier-less check-out, Capital One Café and Starbucks Signing Store, are attracting shoppers and interacting with the community. The largest Whole Foods in the metro region is set to open in 2019 at The Boro in Tysons, and the 70,000-sf flagship store will include a food hall, craft brewery and demonstration kitchens to transform the suburban office locale to a 24/7 neighborhood. In Loudoun County, developers are embedding new customers by placing new residential units in a struggling shopping center.

Investment

Overall investment sales volume in 2018 was on track to meet prior-year totals despite a minor slowdown in transactions closed in the third quarter. Institutional and private investors continued to dominate the market, while investment from public REITs dropped notably. Sales volume was led by the office sector, while industrial sales took a step back due to the absence of a deal similar to the significant portfolio sale that occurred in 2017. Nevertheless, rising interest rates and the gap between buyer and seller expectations created friction for some deal closings. The availability of supply and continuous liquidity in capital markets are anticipated to drive overall deal volume higher in 2019, while the introduction of the Federal Opportunity Zones program could bring new sources of capital to the region.

West Palm Beach

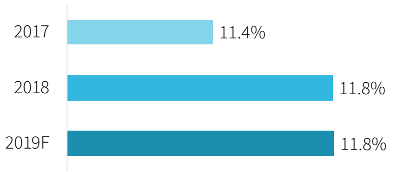
Steady economic growth prompts new development

Palm Beach County's robust economy continues to spark the commercial real estate market. The favorable tax environment in Florida has lured many new businesses to Palm Beach County, creating significant job growth in the financial services and technology sectors. This business growth, in combination with the strong in-migration of a younger demographic, is fueling development of new class A office space and mixed-use projects in key submarkets. Persistent positive economic fundamentals are expected to translate into healthy leasing activity during 2019.

Office

At the close of 2018, market fundamentals remained strong with sustained healthy leasing activity. Despite enduring some tenant downsizing as employers continue to allocate less square footage per employee, leasing activity remained steady with rental rates registering healthy growth during the first three quarters of 2018. Palm Beach Gardens is getting its first new class A office development in nearly a decade with the construction of the DiVosta Towers project, which is scheduled to deliver its first tower in early 2019. While new proposed class A office developments within West Palm Beach indicate a revitalization of the CBD, demand for more affordable high-quality office space within suburban submarkets will continue in 2019. A marked increase in class B rents can be expected as available supply declines.

Office Vacancy Rates: West Palm Beach



Industrial

Palm Beach County's industrial market continued to tighten in 2018 as ongoing growth of e-commerce fueled the sector across South Florida. Approaching the end of 2018, strong leasing activity and a limited supply of industrial product brought the overall vacancy rate to an impressive low of 2.7%. A significant employment gain in the manufacturing sector also indicates healthy demand for industrial product. Persistent demand paired with a slow construction pipeline will likely compress the already tight industrial market in Palm Beach County and generate further rental-rate growth in 2019.

Industrial Vacancy Rates: West Palm Beach

Retail

The Palm Beach County retail market remained healthy during 2018. Two major mixed-use projects, 4th & 5th Delray and Atlantic Crossing, are currently underway in Delray Beach with both slated for delivery in 2019. The multi-family development boom that occurred in Palm Beach County during 2018 is driving new retail development in key underserved submarkets with projects such as Uptown Boca, which

West Palm Beach has an estimated metro area population of

1.5 million

Overall office market inventory totals

27.6 msf

Overall industrial market inventory totals

43 msf

recently broke ground in West Boca Raton. Although the county has experienced the closures of big-box retailers, including Sports Authority and Toys "R" Us, similar spaces are often backfilled by such newer big-box retailers as Lucky's Market or non-traditional retailers like gym operators. There is also demand for these large boxes for redevelopment purposes. Steady economic and population growth will continue to fuel the retail sector in 2019.

Investment

Investment activity remained robust in Palm Beach County during 2018 with total sales volume of $994 million in the office, retail and industrial sectors through the first three quarters of the year. Higher interest rates placed upward pressure on cap rates as the county's overall average cap increased slightly to 6.6%, a 60-bps increase year-over-year as of the third quarter of 2018. With the U.S. Federal Reserve likely to implement at least two more interest-rate increases in 2019, investment activity may cool slightly, but overall demand will remain steady as strong in-migration and business growth continue to make Palm Beach County a highly sought-after investment market for local, national and international institutional and private investors.

Westchester County

County positioning itself for significant restructuring

Labor market indicators for office-using employment in Westchester County during 2018 pointed to continued growth for 2019 with service jobs in the lead, followed by health, education and professional and business services positions. In line with solid labor market fundamentals in the health care sector, demand for medical office space from health care providers proceeded at a steady pace.

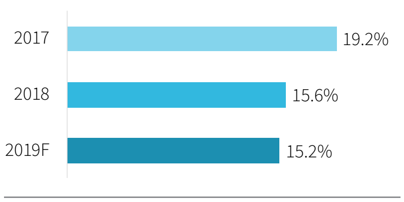
While still burdened with persistent and rising vacancy in some of the market's largest office buildings, Westchester County is positioning itself for some significant restructuring as plans for the repurposing of key office assets continue to gain traction. With a reduced inventory, and assuming no new significant construction takes place, office vacancy will likely begin to decline in the not-too-distant future.

Office

Overall office vacancy, at 15.6% in third-quarter 2018, was down 390 bps year-over-year. The decrease was attributed to the former IBM Somers campus being removed from the market as the entire 1-million-square-foot-plus campus is set to be repurposed as a science, technology, engineering and math (STEM) high school (grades 9 to 12). The repurposing of this campus and other properties in all submarkets is acting to bring the overall market to an equilibrium point that it has not experienced in quite some time.

Continued repurposing of obsolete office buildings is expected in 2019. This activity should result in a gradual erosion of excess space and, eventually, positive net absorption and increased rental rates. In addition, new tenants in the market and exiting expansions will add to positive absorption and lower vacancy.

Office Vacancy Rates: Westchester County



Retail

Retail leasing activity was stable in 2018 although vacancy is expected to spike during 2019 as locations vacated by major chains such as Toys "R" Us, Sears and Kmart are returned to the market throughout the county. Walmart closed its only Westchester store in the White Plains CBD but is in the market to open a new one in a more traditional suburban setting. In some cases, medical uses have also made their way into well-located retail plazas.

Investment

Through the third quarter of 2018, Westchester County's overall commercial real estate sales volume was up 41% year-over-year. The top transaction in the

apartment sector during 2018 was the $101-million sale of the 416-unit apartment complex at 32 Nob Hill Drive in Elmsford.

Office sales recorded a 22% increase year-over-year through the first three quarters of the year with the sales of the International Drive Campus in Rye Brook ($55 million) and the 50 Main/11 Martine complex in White Plains ($53 million) leading the way. Soft office market conditions and the challenges associated with filling vacant space in older buildings needing significant capital improvements are prompting some discount sales.

The outlook for 2019 in the Westchester market is for continued opportunistic and value-add investment activity, primarily in the office sector. Also likely to be on the market is a large flex portfolio of three parks totaling approximately 3 msf by Mack-Cali Realty Trust. Pricing should be interesting in that the buildings make up the only flex product in the market and are more than 90% occupied, but are of marginal design and construction and in need of capital improvements. There will continue to be explosive multi-family construction, primarily in three communities: Yonkers, New Rochelle and White Plains, all of which are serviced by easy and quick rail transportation to Manhattan.


PALACIO DE BELLAS ARTES

Mexico

Mexico City

Investment, domestic trade, private consumption to trigger demand

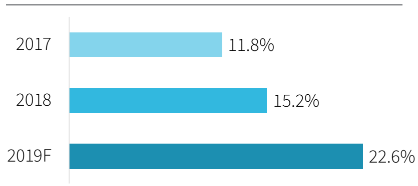
The Mexican economy has continued to exhibit resilience in a complex environment despite the volatility and uncertainty surrounding the federal-government-transition process in Mexico and other international factors. After Mexico, Canada and the United States reached a new trilateral trade agreement (USMCA), the increased certainty for Mexico has been reflected in positive business activity, particularly in the area of services and e-commerce.

According to Bank of Mexico (Banxico) and Ministry of Finance and Public Credit (SHCP) and International Monetary Fund (IMF) estimates, GDP growth is projected to increase modestly to 2.3% in 2019 from 2.1% in 2018 and gradually approach 3.0% in the medium term with private consumption and investment as the main drivers.

Office

The Mexico City office inventory is expected to grow 13% in 2019 compared with the third quarter of 2018, ending 2019 with a total inventory of 75.7 msf and an estimated availability rate of 22.6%. Deliveries in 2019 will represent 55% of the total currently under construction, indicating that the current development cycle will peak in 2019 and the construction pipeline will contract thereafter. The Insurgentes, Periferico Sur and Periferico Norte submarkets continue to attract developers' interest, spurred by strong office space demand (from both government and private companies). Two of the largest leases signed in third-quarter 2018 were preleases by an undisclosed government department and TV/media company Total Play located in Insurgentes and Periferico Sur, totaling 477,900 sf.

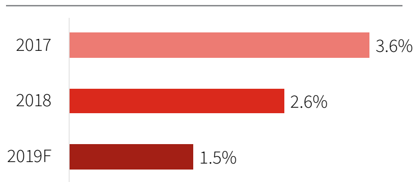
Office Vacancy Rates: Mexico City



Industrial

Mexico City's industrial market availability rate decreased 100 bps year-over-year to 2.6% in the third quarter of 2018 with vacancy expected to fall as low as 1.5% in 2019. The class A weighted-average asking rent was US$5.90 psf per year. There is no concern about a possible oversupply, and market prices are expected to rise further as demand grows.

Industrial Vacancy Rates: Mexico City



Retail

Mexico City's retail market has new challenges to compete for consumers: a growing middle class with higher disposable income and nearly 9 million inhabitants demanding new and innovative retail concepts.

As of October 2018, the retail market inventory was 74.4 msf with some notable recent deliveries, including Artz Pedregal (667,000 sf) and Parque Antenas (1.2 msf). New

retail deliveries for 2019 are set to add 2.1 msf to the Mexico City real estate market by the end of 2019. The new concept for shopping malls includes a mixed-use commercial offering with entertainment and community spaces.

Investment

Mexico City continues to be a great place to invest with demographics that drive economic activity supported and encouraged by private consumption in the long term. The real estate business in Mexico City is a long-term business; therefore, real estate investment trusts (REITs, known as FIBRAS in Mexico) in the Mexican Stock Exchange (BMV) have reported a 128% yield for their shareholders over the last seven years as of September 2018. More than $8.1 billion had been funded, and portfolios collectively totaled more than 1,700 properties. FIBRAS' objective is to create the maximum amount of sustainable shareholder value over time by leveraging structure, competitive rents, quality assets and operational efficiencies. Developers and owners are taking advantage of the opportunities for investment in commercial real estate. The new federal administration has inherited an economy with strong domestic fundamentals and solid macroeconomic stability.

United Kingdom

Coventry (Midlands)

Midlands continues to perform strongly

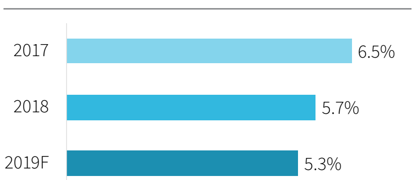
The Midlands commercial real estate market is dominated by the industrial sector with steady activity in the office field. Retail, meanwhile, is a tale of two markets.

Office

The Midlands market continued to perform well in 2018, particularly in the major conurbations of Birmingham and Coventry city centres. Following the landmark preletting of 239,000 sf to HMRC at Three Arena Central in 2017, there were no transactions greater than 100,000 sf in 2018. Some 478,000 sf was let during the first three quarters. Transactions were led by companies and organisations providing public services with occupiers such as Network Rail and Jacobs Engineering taking space on the strength of the HS2 rail project.

Serviced office providers are also looking actively in Birmingham, and strong activity is anticipated through 2019 and 2020.

Office Vacancy Rates: Coventry (Midlands)



Industrial

Notwithstanding Brexit uncertainty, the industrial market performed strongly throughout 2018 with take-up of spaces greater than 100,000 sf in line with the record 13 msf recorded in 2016. The year was marked by a number of large build-to-suit deals at Segro and Roxhill's East Midlands Gateway, which included lettings to Amazon for 1.25 msf and XPO Logistics for 650,000 sf for a Nestlé contract.

The level of demand encouraged speculative development as nearly 3.4 msf of projects commenced during the course of 2018. Panattoni Development entered the U.K. market, commencing nine major new developments in the Midlands totalling nearly 2.2 msf. Strong demand continues to drive rental-rate growth with asking rents rising as high as £7.25 psf in 2018 from a previous average of £6.50 psf. Demand is expected to remain buoyant throughout 2019, driving further rental growth and supporting additional speculative development.

Industrial Vacancy Rates: Coventry (Midlands)

Retail

There are winners and losers across the region with quality covered centres offering strong brand awareness and experiential opportunities succeeding, together with convenient and accessible out-of-town destinations – at the expense of smaller, more traditional high streets and centres that are facing decline. The strength of the regional economy is supporting strong centres, as illustrated by Hammerson's proposal for a major

city-centre extension to its existing retail holdings in Central Birmingham. The proposal includes a 283,000-sf mixed-use scheme on the Martineau Galleries site close to the proposed HS2 station on Curzon Road.

While pressure on rents will be evident across the market, increasing polarisation is expected between the successful experiential and convenient retail destinations and secondary locations, where vacancy rates are likely to increase.

Investment

The Midlands investment market remains robust and is supported by a strong occupier market driven by a structural shift in demand. However, there are increasing concerns over the outcome of the Brexit negotiations, which could have a material effect on investment activity. There is significant demand for speculative distribution warehousing, as there is a shortage of income-producing assets available to purchase. The distribution and warehouse sector in the Midlands increased in value by more than 4% year-over-year in 2018. The number of transactions across the U.K. remained the same, but the total value of deals was down by almost 13% during the same period.

London

Markets remain susceptible to political risk

The potential effects of Brexit have been, and will continue to be, debated at length in Parliament and across the media. Despite this uncertainty, the U.K. economy continues to be in good health. The outlook for 2019 is dependent on politics and whether there will be a general election that results in a change of government.

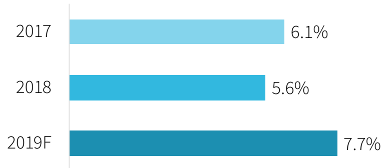
Office

Ten years on from the 2008 financial crisis, the remarkable thing is that supply and demand have remained largely in balance for most of the period. Despite low interest rates, developers have managed the supply pipeline properly. Currently, 49% of the development pipeline is prelet and, across the market, vacancy rates remain low.

Although the opening of the new Elizabeth underground line has been delayed until autumn 2019, occupiers have shown a willingness to pay a premium to be near its stations. Occupiers have also been willing to use serviced offices and pay a premium for flexibility.

The outlook for rental rates remains flat, although incentive packages are likely to increase.

Office Vacancy Rates: London

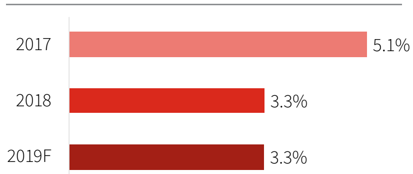


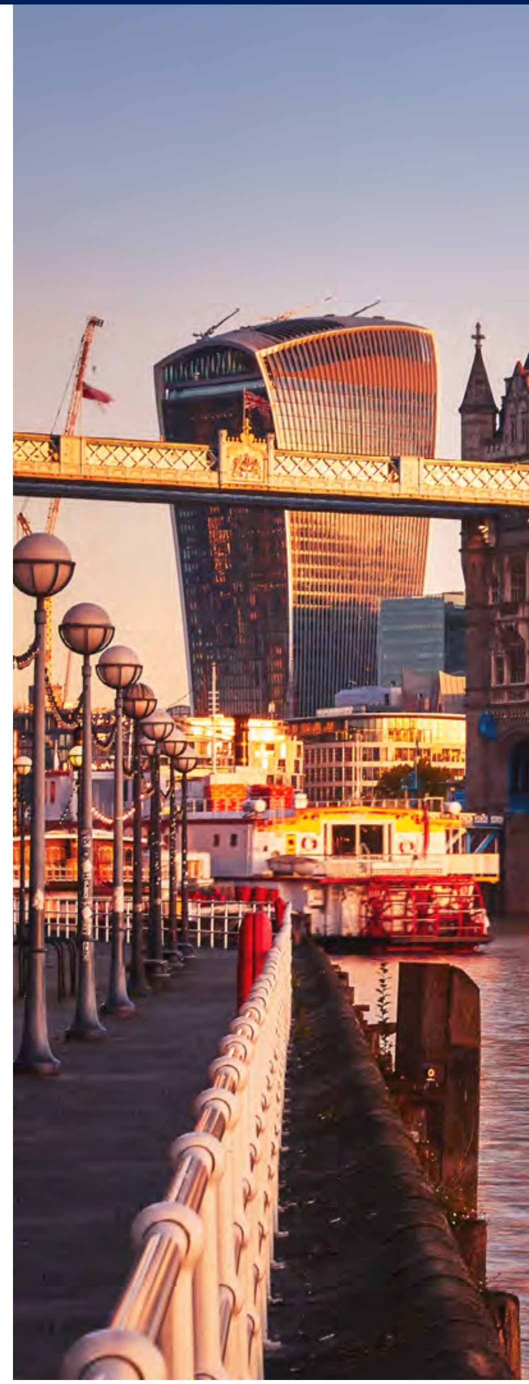
Industrial

A scarcity of good-quality buildings has resulted in rental-rate increases in suburban centres. Rents in Orpington have increased to an average £18 psf from £13 psf for small units. Demand remains strong, particularly from businesses that need to be close to their customers.

The high cost of land close to Central London has led Gazeley, a property company specializing in European logistics, to announce the planned construction of a 426,000-sf speculative three-storey warehouse in Silvertown, which is 2.5 miles from the City of London. The scheme is firmly aimed at the last-mile logistics market.

Industrial Vacancy Rates: London





Retail

In common with the rest of the U.K., more secondary high streets and shopping centres are suffering from increasing vacancy rates and a reduction in rental values because of weak consumer spending and a shift to online sales. Even the strongest locations have seen more muted rental growth, in the range of 0% to 2.4%, in prime West End and City of London locations. One feature of the London retail market has been the development of new retail and leisure

destinations forming part of larger mixed-use schemes. One example of this trend is Coal Drops Yard, where Samsung will open a 20,000-sf "creative and digital playground" as part of the 145,000-sf scheme. Further so-called placemaking schemes are proposed around major transport and infrastructure developments.

Investment

In the 12-month period ending with third-quarter 2018, the total value of transactions in the Central London office market declined 6% compared with the prior 12 months with the net initial yield at the end of the period drifting up to 4.41% from 3.86%. It is noticeable that the period of large capital outflows from China is ending, as the Chinese government has introduced capital controls. More than 40% of investment by value had come from China in 2017.

As Chinese investors withdraw from the market, their place has been taken by South Korean and Singapore-based investors. Such a transition has always been a feature of the U.K. investment market and, in particular, the Central London office market – as one group slows down its investment, another will step in.

Manchester

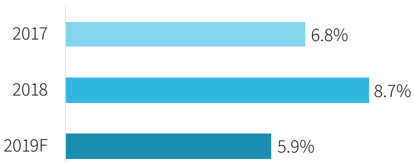
Office sector remains the most dominant

The North West market continued to perform well through 2018. The office sector remained the most dominant during 2018, comprising 32% of the recorded investment transactions, followed by the multi-family and student housing sectors at 26% and industrial at 21%, respectively.

Office

Manchester's total city centre take-up through the first three quarters of 2018 was more than 1.2 msf, surpassing the total for all of 2017. Total take-up for 2018 set a new record, exceeding 1.7 msf. High-profile transactions included HMRC taking a prelet at Three New Bailey for 157,000 sf, Booking.com leasing 225,000 sf at Enterprise City and Handelsbanken taking 40,000 sf at 101 Barbirolli. Demand remains strong and is expected to be so through 2019. Headline rental levels rose to £35 psf on average in 2018 with grade A refurbished space showing the greatest rental growth as rents approached £30 psf, up from £28.50 psf one year earlier. Headline rents will likely rise above £35 psf for new space and be established at £30 psf for refurbished stock in 2019.

Office Vacancy Rates: Manchester

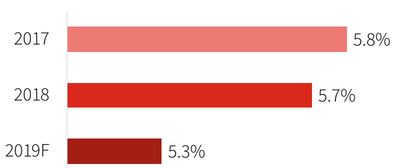


Industrial

The North West industrial sector posted strong take-up throughout 2018. While large tenant requirements exist, some occupiers will hold off decisions until the outcome of Brexit negotiations is known. Speculative development has continued to gather pace, and demand for land has driven record prices paid. Prime rents have increased to £6.50 psf, driven by a lack of sites capable of accommodating the increased size requirements of national 3PL and e-commerce operators. Demand for smaller and mid-box units has now made new development in this sector viable.

Key transactions in 2018 included 346,000 sf let to Royal Mail at Omega Warrington, and Bericote's 360,000-sf prelet to an online retailer at Haydock together with a speculative single unit of 523,500 sf.

Industrial Vacancy Rates: Manchester



Retail

Manchester is one of the largest commercial and retail centres in the U.K. Significant investment in the city includes the £1-billion Manchester Airport transformation, which will create 167,000 sf of retail food-and-

beverage space. Other projects include the Northern Gateway development by Manchester City Council and an Asian consortium, and the £850-million Manchester Mayfield mixed-use scheme.

A clear pattern is emerging with ground-floor commercial space often being acquired by food-and-beverage operators and independent retailers as opposed to more traditional highstreet retailers. Traditional retailers are more focused on dominant retail locations

such as the Arndale Shopping Centre and Manchester Fort shopping park. These destination-retail centres continue to experience strong levels of tenant demand as retailers seek to reposition themselves in the multi-channel age.

Investment

North West region investment volumes during 2018 were below 2017 levels but still demonstrated strong investor appetite. Total investment volume for the first half was £1.35 billion, broadly in line with first-half 2017 and above the 10-year average. The third quarter showed a slowdown with £406 million transacted – 47% below the 10-year third-quarter average.

Despite trailing other sectors, retail volumes in Manchester remained healthy, accounting for 19% of investment transactions – despite difficult trading conditions which resulted in a number of retailers entering receivership. High-profile transactions included M&G Real Estate's forward-purchase of Rochdale Riverside for £80 million, and the Qatari investment house's acquisition of a 149,000-sf Tesco Extra supermarket and an accompanying retail parade in Oldham for £50 million.

The region is expected to continue to perform well in 2019 due to its strong fundamentals and relative value compared with London, although a slow start to the year is likely due to the Brexit backdrop.

Germany

Berlin

Lack of product hinders stronger growth

More than 3.6 million people reside in the German capital, making it the country's largest city. Population growth has been above average in recent years and is forecasted to remain so, reaching 4 million by 2035.

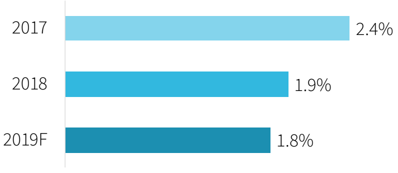
Berlin's economy remained on its growth path in 2018 with employment and purchasing power rising, and economic fundamentals indicate further expansion in 2019.

Demand for office space and investment product was unbroken in 2018. Berlin's strong demographic and economic fundamentals, in combination with its high quality of life, will keep leasing and investment demand above average in 2019. However, leasing and investment volumes will be kept at bay again in 2018 due to a lack of product.

Office

By September 2018, office letting volume was 595,000 square metres (sq. m) – a strong result from a long-term perspective but still a 23% year-over-year decrease. It was not demand that was lacking but, rather, office supply. Office vacancy is below 2% – too low for growing companies to move quickly into new and larger premises. Nevertheless, 2018 was another very strong year for the office market as construction activity increased (with almost 1 million sq. m under construction and more than 50% prelet), and companies with longer planning horizons have taken advantage. Almost 50% of letting volume was generated by prelettings. This result included almost all deals greater than 5,000 sq. m. Overall, the market is solid and very well-diversified with leasing activity strong across all industries and size segments. Demand is expected to remain high, quickly absorbing vacant space. A noticeable rise in vacancy is not expected before 2020. Accordingly, rent levels will continue to face upward pressure in 2019.

Office Vacancy Rates: Berlin



Industrial

Berlin is a logistics hub between Western and Eastern Europe. And with some 6 million people residing within the metropolitan region of Berlin Brandenburg, e-commerce plays an important role. In 2018, the

market could not equal 2017's strong performance despite high demand. All of Germany's top five markets deal with the disadvantages of the bustling investment market, as pricing is more attractive and land more available outside the major hubs. Consequently, rents will continue to experience upward pressure in 2019.

Retail

Berlin is the darling of international retailers operating in the German

market, largely due to steady population and tourism growth. Overall, demand is stable, but it varies noticeably between locations, as does rental-rate growth. Going forward, rents will be stable in the busiest retail stretches and likely to decrease in locations where space demand is subdued.

Investment

Berlin's commercial investment volume again surpassed the €7-billion mark in 2018, thanks to buoyant market activity. The biggest deals were the sale of a Hilton Hotel for €297 million and of a portfolio of buildings at Leipziger Platz for some €300 million. Berlin properties will continue to be in demand among national and international investors seeking to benefit from low vacancy and potential lease-rate increases, especially in the office and logistics sectors and corresponding development areas. In the office segment, Berlin sets the prime yield for Germany (2.80% net initial), which decreased slightly in 2018. Yields also decreased in secondary locations and for core-plus and value-add assets. As leading economists expect the European Central Bank to raise interest rates in late 2019 at the earliest, yields will likely remain low.

Duesseldorf

Leasing market displays healthy demand, investment sector outperforms

Duesseldorf is the most important economic hub in the western area of Germany. The North Rhine-Westphalia state capital is located in the greater Rhine-Ruhr Area which, with 10 million residents, is one of the largest regions in Europe. The city has a high quality of life, moderate living costs and offers excellent transport connections. These factors make it North Rhine-Westphalia's number-one city for foreign direct investment, according to fDi Markets.

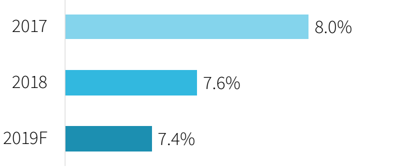
Duesseldorf's leasing markets recorded healthy demand and activity in 2018. Meanwhile, the investment market achieved a record high. Given the favourable conditions in global financial markets and a solid local economic environment, leasing markets will proceed at a steady pace and investment activity will continue to thrive in 2019.

Office

Office leasing activity was solid in 2018 with annual take-up again above the long-term average and demand healthy across all industries. Driven by a 36,000-sq.-m lease signed by Deloitte, consultants were again the most influential tenant group. Demand was focused on the city's core and central submarkets.

Office vacancy continued to decrease in 2018, most noticeably in Duesseldorf's CBD. Although the vacancy rate is the highest among Germany's top five markets (still greater than 7%), supply of modern office space is becoming scarce. Accordingly, a rise in class A rents is on the horizon and average rents face upward pressure; however, office construction rose during the year. Some 66% of space under construction was prelet at the end of 2018. With office take-up at the level of the long-term average in 2019, new office space is expected to be absorbed quickly. Office vacancy is likely to remain around 7%. Meanwhile, rents will be stable, except in certain locations and class A office buildings that show potential for moderate increases.

Office Vacancy Rates: Duesseldorf



Industrial

After high take-up in 2017, leasing volume decreased in 2018 because of a lack of supply. Duesseldorf has the most industrial space under construction among Germany's top-five markets. The bustling metropolitan region with some 10 million residents is of high interest to logistics operators. As proposed projects are intended mainly for owner-occupiers, supply-demand tension is unlikely to ease significantly, and availability of modern assets sought at short notice will remain very limited. While average rents rose moderately in 2018, prime rents held firm. For 2019,

rents are expected to hold firm.

Retail

Duesseldorf's retail market was very dynamic in 2018. Leasing activity in the city's prime pitches was among the highest in Germany – no surprise given that Duesseldorf is Germany's No. 1 fashion metropolis. Duesseldorf is the top shopping destination in the region and its prime pitches record very strong foot traffic. However, retailers also face difficulties paying the current very high rents. Consequently, prime rents have decreased moderately, and this trend is likely to continue in the near future.

Investment

Three key transactions during 2018 were the sales of the Metro headquarters, the former IKB headquarters and the Stadttor, each for more than €200 million. As a result, Duesseldorf recorded extraordinary investment volume close to €4 billion and will continue to appeal to investors in 2019. But it remains to be seen whether the city can use its new status as an alternative to Berlin for startups to drive further investment demand. Generally, even in Duesseldorf, investors go up the risk curve, a tendency that can be observed offcore. For 2019, however, yield stabilization is expected.

Frankfurt

Market enjoys buoyant leasing and skyrocketing investment

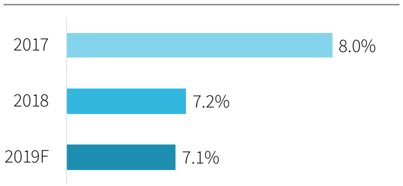
Located in the heart of Germany, Frankfurt is the country's leading transport and financial centre. The city has progressed on an expansion path in recent years, and strong fundamentals indicate further growth in terms of population, office leasing and investments. Frankfurt hosts the European Central Bank, Deutsche Bank and another 300 financial services institutions. They are accompanied by a network of global players operating in law and consultancy. Frankfurt's advantages include outstanding data connectivity and nationwide transportation infrastructure – especially Frankfurt Airport with some 65 million passengers annually. As its quality of life is high and the cost of living low by international standards, Frankfurt is likely to be one of the main beneficiaries of Brexit in Europe.

While Frankfurt's leasing markets kept performing at a high level, investment activity skyrocketed in 2018.

Office

For the second consecutive year, take-up surpassed the 600,000-sq.-m mark. Co-working operators were important contributors to the strong result, signing approximately 20 deals totalling more than 55,000 sq. m. Moreover, a number of large-scale deals closed, including a 35,000-sq.-m lease by Commerzbank. Across all size segments, leasing activity rose noticeably, but primarily in the small-sized segment (less than 1,000 sq. m). The vacancy decline accelerated during the year. This trend is likely to lose momentum, as a number of major projects will be completed in 2019 and large amounts of speculative space are still available. With demand strong, rent levels are forecasted to remain high. In select locations, there is still room for a rise in rents.

Office Vacancy Rates: Frankfurt



Industrial

Frankfurt was the busiest cargo airport in Europe by volume of goods loaded in 2017, making the region Germany's major logistics hub. Therefore, take-up for logistics space remained high in 2018. Speculative space is quickly

being absorbed, and this trend will continue in the medium term as the market benefits from a rising population, economic growth and changing logistics and transportation needs. Rents are among the highest in the country and face upward pressure.

Retail

Retail demand was high in 2018. Retailers value the increasing population and tourist numbers along with the high consumer purchasing

power. Moreover, Frankfurt is the top shopping destination in the greater Rhine-Main area, which has 5.7 million residents. Local residents and tourists enjoy shopping along Frankfurt's pedestrian zones in proximity to the historical city center. The latter received a facelift in 2018 and will become an even stronger tourist destination. Retail rents in Frankfurt's CBD are among the highest in the country. They held firm in 2018 and are forecasted to do so again in 2019.

Investment

Frankfurt received growing attention from investors in 2018 thanks to its potential to benefit from Brexit. Furthermore, as the only German city with a remarkable skyline, Frankfurt has more prominent assets that can be traded and more highrise buildings currently under construction. A major forward-sale deal and the largest deal of the year was the sale of the Omniturm (€700 million). However, this was just the peak in a series of large-scale deals, all pushing the annual investment total to the extraordinary amount of almost €10 billion. Due to the high demand from national and international investors, prices rose again and yields for all sectors, from value-add to core, again fell. For the next few months, stable yields are expected.

Hamburg

Office leasing accelerates, investment market booms

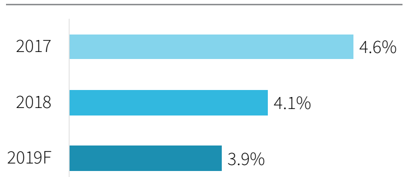
With some 1.8 million residents, Hamburg is Germany's second-largest city. Hamburg has also registered growing tourist numbers and has certainly made a strong impression with international tourists. The main driver is the new philharmonic concert hall, Elbphilharmonie. In addition, tourists love the city's musical landscape, the third-largest in the world after New York City and London.

The Hanseatic city has a strong and diverse economic base spanning from Airbus manufacturing to banks, publishing, business services and IT. Strong pull factors are an overall liberal mindset, good infrastructure and a high standard of living at comparatively low costs. Hamburg's attractiveness is underscored by Google's and Facebook's decisions to locate their German headquarters in the city.

Office

Office leasing activity accelerated throughout 2018. Demand was high; and by the end of the year, take-up amounted to approximately 500,000 sq. m, in line with the long-term average. A higher annual letting volume was within reach, but limited office vacancy has become an obstacle for fast-growing companies that need new premises and cannot wait for new construction. Although construction activity rose in 2018, the vacancy rate will likely decline further and drop below 4% in 2019. Backed by solid demand, rent levels will rise further across all office submarkets. There is also potential for a further rise in prime rents in the months to come.

Office Vacancy Rates: Hamburg



Industrial

As Hamburg is Europe's third-largest harbour and a major transportation hub, the logistics sector is a pillar of the city's economy. After a year of strong leasing activity in 2016, logistics take-up slowed in 2017 and swelled again in 2018. Prime rents rose in 2018 with average rents set to follow suit. Logistics space will remain in high demand, but new construction is barely enough to keep up. However, space scarcity and congested roads promote new initiatives, such as a new leading electro-mobility project. Hamburg is planning a white label hub (a single facility used by multiple logistics operators) for package delivery.

Retail

Despite Hamburg's position as a top shopping destination in the north of Germany, above-average consumer purchase power and strong tourism numbers, there is vacant retail space in the CBD. In many cases, the gap between landlords' and retailers' rent expectations is wide and lease negotiations take time. However, retail demand remains healthy.
A good example of interest in Hamburg's most frequented pitches is retailer H&M, which recently

introduced two new concepts in Mönckebergstraße: H&M Home and ARKET. Moreover, H&M operates its new-concept and traditional stores within walking distance of each other. The attractiveness of Hamburg's prime pitches is also underscored by the opening of a physical location by Germany's biggest online retailer, Zalando, in Große Bleichen. As a number of retail projects are underway in the CBD and HafenCity, prime rents will remain under downward pressure.

Investment

Full-year 2017 investment volume was surpassed by the end of the third quarter of 2018 with some €4 billion in sales having occurred. By year-end 2018, investment moved to a record annual result of almost €6 billion, offering impressive proof that the northern metropolis is still an appealing investment destination. Investors are willing to move up the risk curve with the purchase of value-add product or forward deals like the sale of Axel Springer Quartier (€400 million). In addition, Hamburg's development land purchases in 2018 rose in terms of both prices and volume, and some interesting projects have been announced as developers attempt to meet the high demand. Yields will, therefore, remain low, given stable economic conditions.

Munich

High demand, limited product – the lack of supply is striking

Munich, the Bavarian capital, is the heart of Germany's strongest economic region. Traditionally, the greater Munich metropolitan area records very low unemployment, strong GDP growth and consumer purchasing power unmatched elsewhere in Germany, according to GfK.

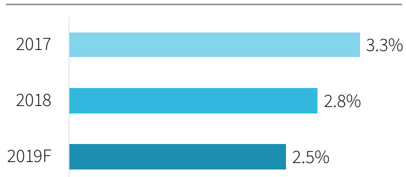
Munich's population continues to grow and is forecasted to rise 10% by 2030, to 1.6 million. The city's remarkable economic growth, a relaxed lifestyle; and to some of Germany's most attractive recreation destinations, including the Alps and the alpine foothills, make it a sought-after living destination. Tourists also value the city's popular events, including world-famous Oktoberfest.

Demand for lease space and investment product remained steady in 2018, but low vacancy and limited product kept both leasing and investment volumes at bay.

Office

Munich's main market feature in 2018 was the very low office vacancy rate (2.8% in the third quarter). Although high demand was a given in 2018, many tenants' space requirements could not be met. While companies with a longer planning horizon and strong financial means can find attractive new office space in one of the many projects under construction, firms needing to expand or move at short notice often either have to stay in their old premises or move further out of the city. Munich is clearly a landlord's market, and the more peripheral locations benefit from the tight vacancy situation. Nevertheless, Munich's take-up again surpassed the impressive 900,000-sq.-m mark. Rents will continue to rise across all submarkets in 2019. Office vacancy is forecasted to decrease further despite rising construction activity, and is not expected to rise noticeably before 2020.

Office Vacancy Rates: Munich



Industrial

Munich is an economic powerhouse, home to many market leaders and a strong logistics hub. However, purchase prices for development land are at a peak, as are construction costs. Supply cannot meet demand, keeping take-up low; therefore, rents, already among the highest in Germany, face continued upward tendencies. Especially for e-commerce, the pressure is high to find alternatives, and more and more projects will include space for urban logistics services trying to integrate logistics compatibly in the city context.

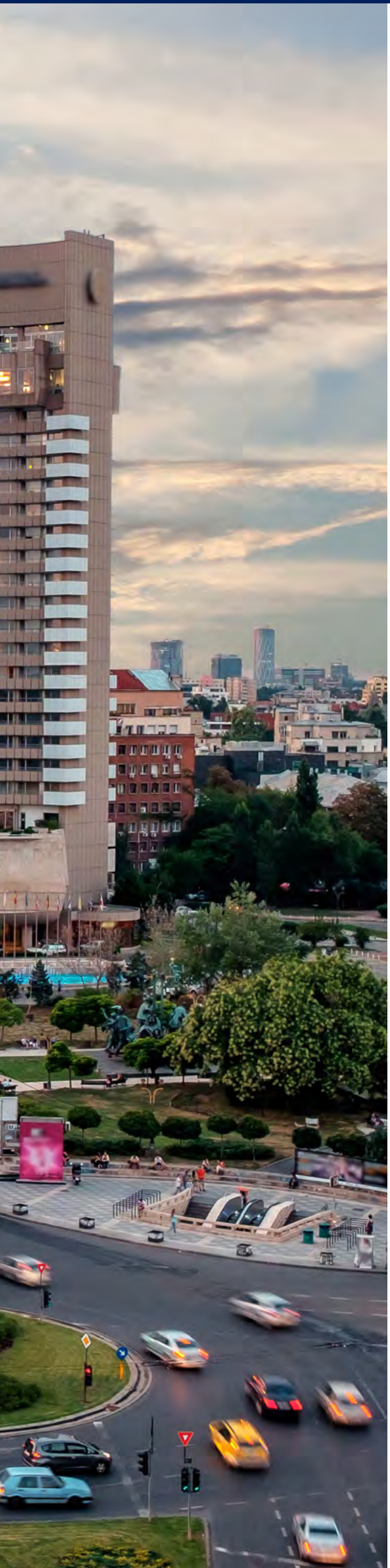
Retail

Munich will continue to hold the pole position in Germany's retail landscape in 2019. The

strong combination of very high consumer purchasing power, booming tourist numbers and a highly attractive retail landscape are the fundamentals for high retail demand and leasing activity. Munich's Kaufingerstraße is likely to remain the country's most frequented retail pitch. Accordingly, retail rents in Kaufingerstraße are the highest in Germany. Demand for retail space remains steady in Munich as retailers seek space both for pop-up and new flagship stores. Retail rents in Munich's historic CBD are forecasted to hold firm in 2019.

Investment

Trends from 2017 were consolidated in 2018, and the 2017 annual result of €5.3 billion in sales was exceeded by far with some €6.4 billion in transactions. Prices for all assets remain at peak levels against the backdrop of record-low vacancy. New construction will not provide any relief, as projects are already almost entirely prelet and yields remain under pressure, especially outside the core. Seeking yield in the strong economic environment, investors focus increasingly on Munich's outlying area, where prices have tightened significantly. Munich represents Germany's retail and logistics prime yields and virtually matches Berlin's core office yield. Thanks to its strong economy, Munich will continue to foster strong real estate demand – and remain an investment safe haven.



Romania

Bucharest

Significant construction, industrial expansion and sustained prices to have positive impacts

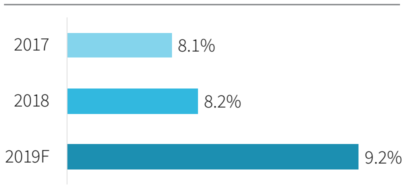
Bucharest's sustainable economic growth and overall strong fundamentals provide reasons for long-term optimism in all real estate asset classes. Significant levels of construction in the office sector, additional expansion in industrial product and sustained investment-sale prices are expected to have a positive impact on transaction flows in 2019.

Office

Leasing activity slowed in 2018 but still exceeded 300,000 sq. m. The existing, mostly speculative, development pipeline exceeds 500,000 sq. m. If the majority of it is delivered on schedule in 2019 and 2020, rental and vacancy rates will face pressure. However, several proposed projects have been delayed in recent years; and with demand uncertain, some projects are expected to be postponed.

The IT & communications sector remains the main driver of office demand. Co-working space is increasing in importance, both in terms of demand and as an option for small-to-medium-sized, or short-term, office leases.

Office Vacancy Rates: Bucharest



Industrial

The industrial and logistics market was characterized by steady growth in both supply and demand in 2018. Demand was represented mainly by new take-up with fewer renewals and renegotiations compared with previous years. With modern warehouse stock of around 4 million sq. m, Romania still lags most Central and Eastern European (CEE) countries.

Prime industrial rents are stable at €3.30 per sq. m to €3.80 per sq. m – a range that makes further development feasible.

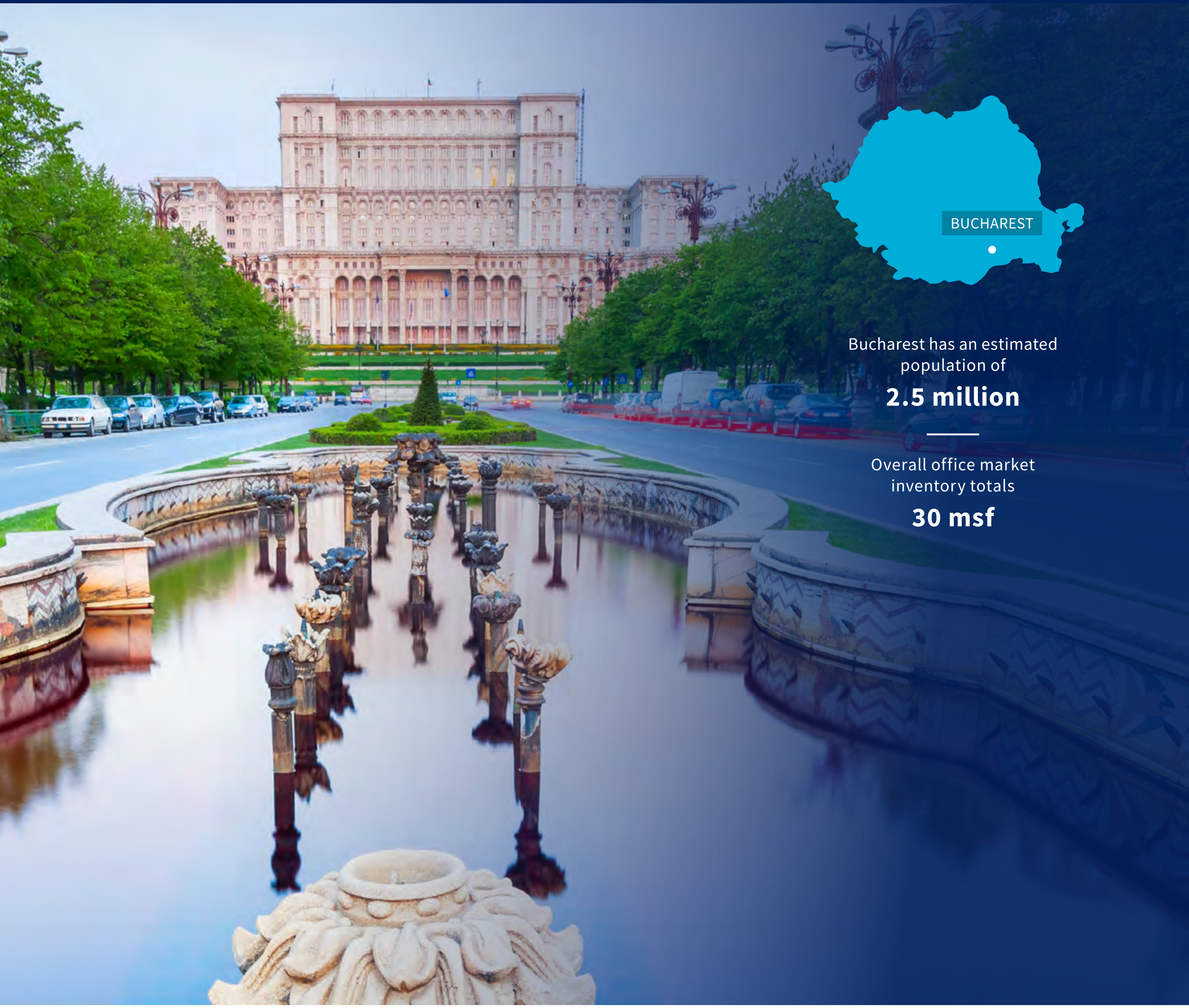
Retail

Bucharest’s shopping-center density of approximately 610 sq. m per thousand residents is the highest in Romania, and the city’s retail market is maturely developed, amounting to 1.12 million sq. m – a

third of the entire country’s stock.

Although the city generates approximately a quarter of the nation’s GDP, average income exceeds the national average by 39%. That gap has been reduced in the past five years from 44%, reflecting increasing wages outside Bucharest, where retail sales are also booming.

Marginally affected by e-commerce, so-called offline sales within traditional retail schemes



remain high with prime rents stable around €70 per sq. m and shopping center owners looking to increase leisure components and consolidate the tenant mix. It is expected that the sector will require more advice from specialists to face any further challenges.

Investment

Bucharest's real estate market experienced strong investor demand in 2018. After several years in which new investors monitored, and considered investing in, Romania, new capital transactions were announced in the last months of 2017 and continued throughout 2018. In the context of yield compression in the more developed markets of the CEE, Romania represents an attractive option under acceptable risk conditions.

Prime yields have remained roughly the same as in 2017 with the prime office yield dropping 25 bps to 7.25%, while the average retail yield increased 25 bps to 7.00%. There is very soft downward pressure on industrial yields with prime value at 8.5%.

South Korea

Seoul

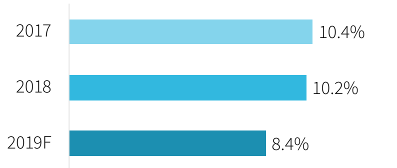
Co-working office providers become core occupiers

Real GDP increased at an annual rate of 2% in the third quarter of 2018, according to the Bank of Korea (BOK). Investments in construction and equipment continued to decline, whereas exports and consumption increased. Employment growth is expected to show moderate recovery in 2019 with 160,000 new jobs projected. Employment in manufacturing is expected to soften gradually; however, the office leasing market is expected to remain sluggish for the time being, since employment in the service industry is expected to remain low.

Office

South Korea's overall office vacancy rate was 10.2% as of the third quarter of 2018, representing a marginal decline from 10.4% at year-end 2017. Recent trends in co-working, which is a fast-growing sector in Seoul, made providers such as WeWork and local brands (such as FastFive and Spark-plus) some of the core occupiers in the office market. Numerous new leases were concluded in the CBD and Gangnam Business District (GBD). The vacancy rate is expected to drop to around 9% in 2019, as deliveries of new inventory are expected to decrease 50% compared with 2018. Consequently, such incentives as free rent (which has been aggressively offered to tenants) are also expected to decrease, leading to a rise in average net rents.

Office Vacancy Rates: Seoul



Industrial

According to Statistics Korea, the e-commerce market is showing rapid growth due to the widespread use of Internet and smartphones. Thus, the e-commerce market size is expected to expand up to KRW 100 trillion by 2019. While existing distribution companies such as Lotte, Coupang, and Shinsegae are planning to make large-scale investments in the field, Internet-platform companies such as Naver and Kakao are also showing high interest in the market. As a result, investment in and demand for logistics centres in the Seoul metropolitan area are constantly increasing – as well as concerns over the development of logistics centres in the urban area.

Retail

The Consumer Composite Sentiment Index (CCSI) showed a slight decline in 2018 due to negative domestic factors (such as a low employment rate) and external factors (including the US-China trade conflict).

Meanwhile, South Korea and China started to make progress in 2018 on a potential settlement of their dispute over deployment of the Terminal High Altitude Area Defence THAAD system. As a result, political tensions

between the countries have eased somewhat, leading to an increase in South Korean retail purchases by Chinese consumers. Online sales remain strong, while mixed-use shopping malls – which include shopping, food and beverage, entertainment, and leisure in a one-stop destination – are expected to continue to propel growth in the retail sector. On the other hand, off-line stores appear to be declining, especially in the case of small shops.

Investment

The BOK base rate rose 25 bps to 1.75% in November 2018. As a result, mortgage interest rates may rise slightly and have some impact on office investment. Seoul's office market – which showed the largest transaction volume in 2018 (KRW11.13 trillion through the first three quarters of the year) – is expected to maintain its momentum in 2019. In addition, competition for core assets in Seoul is expected to become even more intense, since not only domestic pension funds and institutional investors, but also foreign investors, are continuously showing high interest in acquiring assets in the Seoul office market.

Service Line Spotlight

Debt, Joint-Venture and Structured Capital

Spreads expected to remain competitive

Yields on Government of Canada bonds started 2018 by moving higher and then faded through mid-year, only to climb to previous heights and beyond at year-end. This volatility in the bond market was met by institutional lenders with a tightening of spreads for quality real estate. Demand by lenders for solid real estate was – and remains – strong.

Canadian debt capital was in good supply throughout 2018 and is expected to be abundant again in 2019. With the anticipation of higher bond yields and lending rates in 2019, spreads are expected to remain competitive and not widen. Higher lending rates will likely have an impact on leverage amounts. Lenders will continue to look not only to quality real estate, but also to successful sponsorship in 2019, sensing the lateness in the current cycle.

In the U.S. market, 2019 is forecasted to be another robust year. Due to the current cycle's prolonged strength, there is concern regarding the stability of some non-real estate sectors of the economy. Despite that concern, real estate fundamentals appear balanced. Capital providers still have plenty of capital to invest across asset classes as they remain competitive while focusing on prudent underwriting. The new Opportunity Zones program that was part of the recent U.S. tax-code revision is the subject of much focus and excitement. As targeted investment funds form, the U.S. real estate community is moving quickly to match supply with that demand.

Norman Arychuk
Broker, Debt Capital Markets Group

Aaron Prager
Director, Capital Markets Group

Enterprise Solutions

One size doesn't fit all

In years past, vested and integrator CRE outsourcing models were popular. Bigger occupier clients could afford the time and energy to make them work.

More recently, corporate users have discovered these models' inherent flaws. These occupiers are now more open to a behaviour-based competitive bidding process and models grounded in openness, trust and mutually developed performance criteria. In these models, incentives are built upon a strong relationship and a meeting of the minds from the start to drive the best service and financial outcomes.

Similarly, occupiers are now more willing to bifurcate the provision of global services, as it has become harder to get big service providers to focus on multiple small transactions with consistent quality. Large deal fees had previously subsidized this process, but now competitive pressures have squeezed margins, resulting in a service shortfall. Smaller and mid-sized service providers with specialized expertise are now teaming up successfully to serve clients of all sizes given the corporate realization that one size does not necessarily fit all.

The key for occupiers is to get the right service providers in place with the right number of KPIs, retaining the best vested-model elements while increasing flexibility and value. Hiring and sustaining the right account talent is also paramount.

Overall, the entire process – from bidding to selection to transition to steady-state operation – has become more challenging. Successful leading occupiers long ago shed the commodified approach to real estate. Now, they are more open to behaviourally driven, democratized reviews and trust-based relationships with a stable of talented service providers that enhance their flexibility and properly align expertise.

Brian Bellew
Principal, Managing Director,
Enterprise Solutions

Project Management

Tenants seek more collaborative solutions

Across many markets, the project management business line has seen continued increases in real estate construction costs and tenants seeking ways to make the most efficient use of space. The increase in construction costs – as high as 30% year-over-year in some Canadian and U.S. markets – is primarily due to higher material and labour costs. Economic and political factors, such as tariffs, indicate that the trend is likely to continue.

A robust economy is driving tenants to look for strategies that minimize their long-term risks involved with business growth. Tenants are seeking creative ways to decrease the overall investment involved with occupying new space by decreasing their square-footage requirements, designing spaces for future flexibility and seeking the best value when building out space. These revised strategies are directly influencing tenants' desire for collaborative solutions from the real estate services team as they seek amenities, space flexibility and building efficiencies.

The net effect on project management is higher demand for the project manager to lead the conversation on workplace strategy. Therefore, a shift is starting to occur whereby clients engage project managers ahead of designers and architects to provide the workspace strategy and assemble the right team members to execute it.

This shift, in tandem with increased use of technology, has resulted in solutions that increase efficiencies while managing scope, budgets and time. Good project management provides a competitive advantage for tenants.

Rodney McDonald, LEED AP
Principal and Practice Leader, Consulting and Project Management Services

Property Management

Redefining the property manager's role

The integration of emerging technologies and workplace strategies into all property types is rapidly redefining the role of the property manager. A manager's focus has expanded beyond just the physical aspects of the property to workplace needs, tenant experiences and property amenities. The growing sophistication and expectations of tenants as they integrate smart technologies into their own businesses and lifestyles require managers, in turn, to implement technology-based solutions to make the right decisions to meet their tenants' needs.

To be successful, managers will have to grow their knowledge of the way data is collected, managed and analyzed. Most importantly, they will have to learn how the data can be used to improve tenant satisfaction and retention.

There are endless possibilities in the ways that new technologies can assist managers in directing the profitable operation of their properties. Many tasks that required human resources and educated estimates in the past can now be quantified. Take, for example, a shopping centre that utilizes drones to assess the number of vehicles parked on the property at any given time, their traffic patterns and the average length of stay.

In the future, managers will need to have a mindset that combines technological knowledge, lateral thinking and a service-based attitude. They will need to embrace continuous learning to be better informed so as to make better decisions. Though the future for a property manager may appear challenging, it has never been more exciting.

Peter Leroux
Principal, Managing Director,
Real Estate Management Services

About Avison Young

Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its principals. Founded in 1978, the company comprises 2,700 real estate professionals in 85 offices, providing value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial, multi-family and hospitality properties.

We're different

We are an integrated full-service commercial real estate service provider with a unique model, culture and approach. The Avison Young difference translates into intelligent solutions that deliver a better client experience and better results.

Our approach is based on partnership, with our clients and across our company. The firm's equity is in the hands of a broad base of principals, a unique ownership structure that creates the incentive for internal collaboration and aligns our solutions, first and foremost, with client objectives. Our principal-led structure places the priority on relationships, not just transactions; on long-term performance, not just the current quarter.

Fastest-growing for a reason

Avison Young is the world's fastest-growing commercial real estate services firm, and we continue to expand globally. The firm's rapid growth is driven by our strategy to build our geographic reach and expertise to improve the value we can offer clients. And this, of course, is being rewarded by the growing number of clients who are coming to us for help.

YEAR FOUNDED

1978

REA PROF

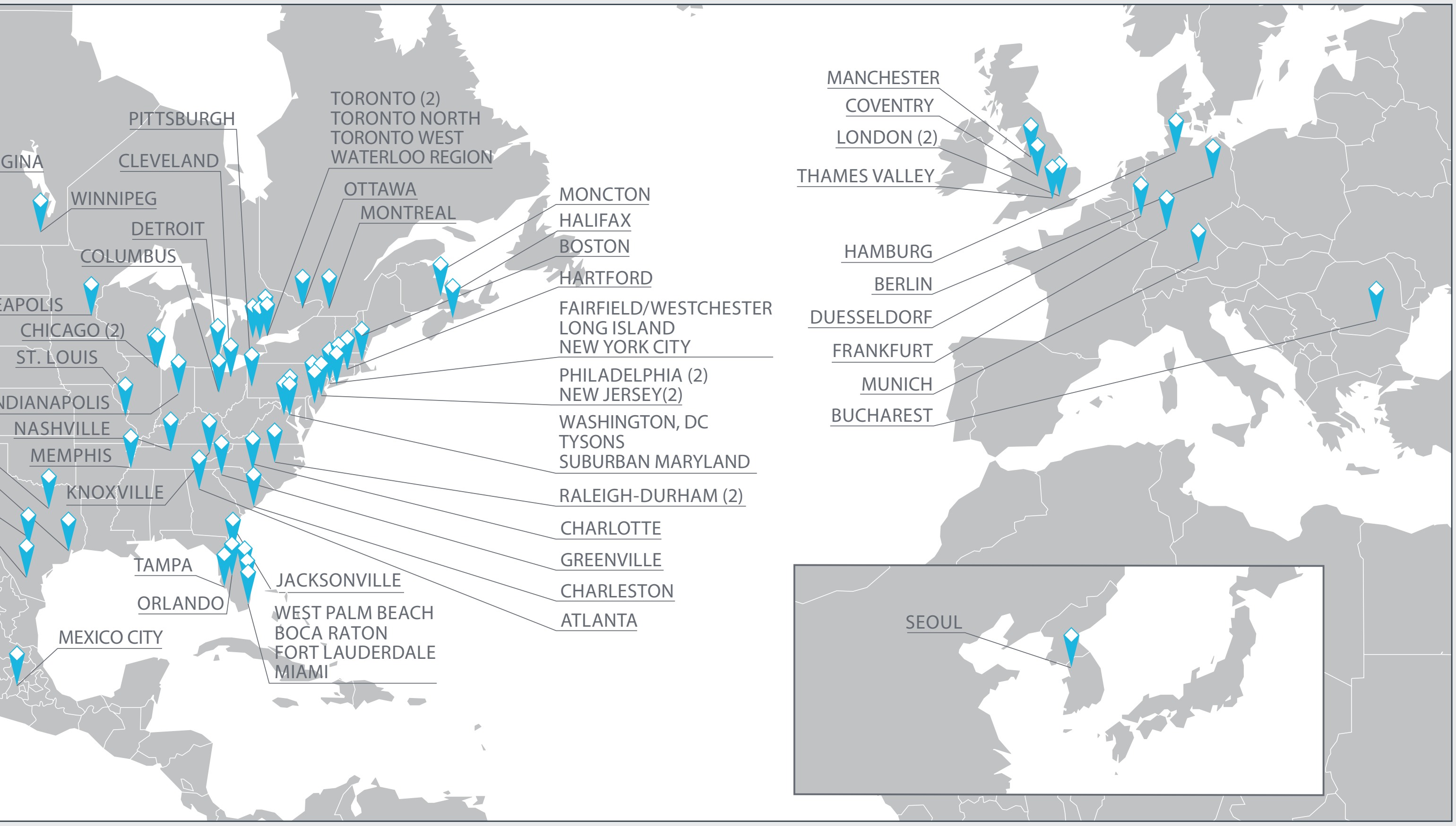
2,

Transaction Services

- Tenant representation, lease acquisition and disposition
- Investment acquisition and disposition for owners and occupiers
- Landlord representation—all property types—office, industrial, retail, build-to-suit, land and multi-family

Consultin Services

- Portfoli
- Valuatic
- Benchm
- Transac
- Asset ra
- Mergers
- Workpla
- Acquisit disposit
- Propert



L ESTATE ESSIONALS	AVISON YOUNG OFFICES	BROKERAGE PROFESSIONALS	PROPERTY UNDER MANAGEMENT
700	85	1,200	110 msf

g & Advisory

o review and analysis
on and appraisal
marking
tion management
tionalization
s and acquisitions
ace solutions
tions and
ions
y tax services

Investment Management

- Acquisitions
- Asset management
- Portfolio strategy
- Capital repositioning

Debt Capital Services

- Permanent and construction
- Structured finance
- Portfolio mark to market
- Mezzanine & bridge

Management Services

- Project management
- Property and operations review
- Property/facility management
- Financial reporting
- Lease administration
- Operations consulting
- Portfolio management

Enterprise Solutions

- Integrated services coordination
- Transaction management
- Optimization strategies
- Portfolio lease administration
- Project coordination and reporting

AVISON YOUNG

Avison Young Research

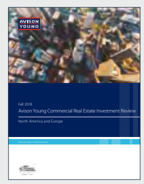
Turning information into intelligence

Avison Young's multi-disciplinary group of dedicated research professionals works collectively to deliver market analysis and insights that drive value in real estate decisions. We translate data into market intelligence to help our clients strategically solve their real estate concerns and concentrate on what their businesses do best.

Avison Young regularly produces an array of local, regional and global market research, including quarterly and topical reports, white papers and annual forecasts. Our research is quoted extensively in local, national, business and global media outlets.

Through Avison Young's professionals, our research team engages with a wide variety of corporate, investor and institutional clients to conduct customized research, due diligence and market assessments, as well as demographic and location analysis.

Leveraging in-depth knowledge from our broad services platform with information from internal proprietary and independent third-party data-tracking systems, our clients' real estate decisions are fully supported by best-in-class, interpreted data – true market intelligence.



Avison Young Commercial Real Estate Investment Review

Fall 2018 North America and Europe Investment Review

Avison Young Office Market Report

Mid-Year 2018 North America and Europe Office Market Report

Avison Young Industrial Market Report

Spring 2018 North America and Europe Industrial Market Report

Intermodal Logistics in the Greater Toronto Area

Topical Report on the Relevance of Intermodal in the E-Commerce Era

Follow Us

Avison Young news, press releases and market reports

Avison Young listings and deal announcements

Connect with Avison Young groups and professionals

Get market insight from Avison Young's CRE experts

Watch videos from Avison Young for industry updates

See photos from our favourite places and spaces

Contact Us

Canada Research

Bill Argeropoulos, Principal Practice Leader, Research (Canada)
416.673.4029
bill.argeropoulos@avisonyoung.com

United States Research

Margaret Donkerbrook, Principal Practice Leader, Research (U.S.)
202.644.8677
margaret.donkerbrook@avisonyoung.com

Mexico Research

Guadalupe Cos, Head of Marketing and Research, Mexico
+52 (0) 55 4742 3920
guadalupe.cos@avisonyoung.com

United Kingdom Research

Iain Rackley, Principal Consulting and Advisory Services
+44 (0) 20 7041 9997
iain.rackley@avisonyoung.com

Germany Research

Inga Schwarz
Head of Research, Germany
+49 (0) 40 360 360 41
inga.schwarz@avisonyoung.com

Romania Research

David Canta
Managing Director
+40 727 737 894
david.canta@avisonyoung.com

South Korea Research

Myeonghan Yu
Senior Manager, Research
+82 2 3775 7236
myeonghan.yu@avisonyoung.com

Corporate Communications

Sherry Quan, Principal, Global Director of Communications & Media Relations
604.647.5098
sherry.quan@avisonyoung.com

Canada

Toronto (HQ)
T 416.955.0000

Calgary
T 403.262.3082

Edmonton
T 780.428.7850

Halifax
T 902.454.6185

Lethbridge
T 403.330.3338

Moncton
T 506.388.1202

Montreal
T 514.940.5330

Ottawa
T 613.567.2680

Regina
T 306.559.9000

Toronto (North)
T 905.474.1155

Toronto (West)
T 905.712.2100

Vancouver
T 604.687.7331

Waterloo Region
T 226.366.9090

Winnipeg
T 204.560.1500

United States

Atlanta
T 404.865.3663

Austin
T 512.474.2411

Boca Raton
T 954.903.1800

Boston
T 617.250.7600

Chapel Hill
T 919.968.4017

Charleston
T 843.725.7200

Charlotte
T 704.531.5550

Chicago (Downtown)
T 312.957.7600

Chicago (Suburban)
T 847.849.1900

Cleveland
T 216.609.0303

Columbus, OH
T 614.840.0700

Dallas
T 214.559.3900

Denver
T 720.508.8100

Detroit
T 313.209.4120

Fairfield/Westchester
T 203.614.1260

Fort Lauderdale
T 954.903.1800

Greenville
T 864.334.4145

Hartford
T 860.327.8330

Houston
T 713.993.7700

Indianapolis
T 317.210.8801

Inland Empire
T 951.267.2770

Jacksonville
T 904.512.0540

Knoxville
T 865.450.8883

Las Vegas
T 702.472.7979

Long Island
T 516.962.5400

Los Angeles
T 213.935.7430

Los Angeles (North)
T 323.851.6666

Los Angeles (Santa Monica)
T 310.899.1800

Los Angeles (West)
T 424.265.9200

Memphis
T 901.231.1400

Miami
T 305.446.0011

Minneapolis
T 612.913.5640

Nashville
T 615.727.7400

New Jersey (Northern)
T 973.898.6360

New Jersey (Central)
T 732.983.4800

New York
T 212.729.7140

Oakland
T 510.254.4255

Orange County
T 949.757.1190

Orlando
T 407.440.6640

Philadelphia (Center City)
T 215.383.2690

Philadelphia (Suburban)
T 610.276.1080

Phoenix
T 480.994.8155

Pittsburgh
T 412.944.2130

Raleigh-Durham
T 919.785.3434

Reno
T 775.332.2800

Sacramento
T 916.563.7555

San Antonio
T 210.714.8080

San Diego
T 858.201.7070

San Francisco
T 415.322.5050

San Jose/Silicon Valley
T 408.377.4300

San Mateo
T 650.425.6420

St. Louis
T 314.862.5000

Suburban Maryland
T 301.948.9870

Tampa
T 813.288.1800

Tysons
T 703.288.2700

Washington, DC
T 202.644.8700

West Palm Beach
T 561.721.7000

Mexico

Mexico City
T +52 (55) 4742 3900

United Kingdom

Coventry
T +44 (0) 24 7663 6888

London
T +44 (0) 20 7101 0200

London (West End)
T +44 (0) 20 7101 0200

Manchester
T +44 (0) 161 228 1001

Thames Valley
T +44 (0) 1494 540 000

Germany

Berlin
T +49 (0) 30 920 320 000

Duesseldorf
T +49 (0) 211 220 70 0

Frankfurt
T +49 (0) 69 962 443 0

Hamburg
T +49 (0) 040 360 360 0

Munich
T +49 (0) 89 150 02 50

Romania

Bucharest
T +40 374 084 000

South Korea

Seoul
T +82 2 3775 7350

AVISON YOUNG

Intelligent
Real Estate
Solutions

avisonyoung.com

BEST MANAGED COMPANIES CANADA | Platinum member