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C&W Sees GDP Health Despite Equity Jitters

Don't worry about the US economy in 2016—it's the equity markets that need to pick themselves up and dust themselves off. Cushman & Wakefield's US Macro Forecast, released Monday afternoon, is calling for positive economic results for this year despite stock market jitters in the early innings. "Economic turbulence at the start of a new year is nothing new," says Kevin Thorpe, C&W's chief economist. "We have seen it come and go for the past several years without any long-lasting damage to the health of the broader economy." In fact, the Macro Forecast notes that there have been 39 bear markets since 1950, and only 10 recessions, and notes that while it's possible that a prolonged bear market could tip the economy over into recession, it's not probable. "Typically, the volatility drives capital flows back to the US with a refocus on core assets, and that is happening again," Thorpe says. "The key indicators to watch right now are consumer confidence and the labor markets. Those are both telling us that the core of the US economy and the property markets are still in reasonably good shape." Much of the concern sending jitters through the equity markets stems from global events, in particular signs of weakness in the Chinese economy. "The macroeconomic consequences of a hard landing in China—and how that would impact the US economy—tend to be overstated," according to the C&W report, which notes that China's GDP growth could fall below 3% without causing a US recession. "Our current assumption is that China's economy will continue to decelerate while it structurally rebalances, and while it will continue to create choppiness in the marketplace, no hard landing is imminent." Notwithstanding demographic shifts that are putting downward pressure on the labor participation rate, the 2.4% forecast for domestic GDP growth is "quite healthy," C&W says. This level of GDP, coupled with the current pace of job growth, is consistent with the robust level of demand for office and industrial space observed in 2015—and actually stronger than pre-crisis levels, according to the Macro Forecast. On a sector-by-sector basis, office is expected to enjoy an especially bright future in the near term. C&W predicts net absorption in the range of 75 million to 85 million square feet annually over the next two years. And while demand will ease towards the end of the forecast period, new development will continue to lag. As a result, vacancy rates will decline from 14.2% last year to 13% by 2017, while office rent growth will rise to 4.5% by the end of next year. For industrial, C&W expects "a mix of headwinds and tailwinds," yet the sector's overall outlook remains generally upbeat. The headwinds arise from declines in manufacturing activity related to a stronger US dollar and weaker global demand. Nonetheless, C&W sees overall vacancy tightening further, falling from 7.5% in '15 to 7% by the end of this year. "This is on par with the tightest conditions ever observed in the sector; in 2000, the national vacancy rate was 6.9%," the Macro Forecast states C&W sees demand in the retail sector continuing to focus on class A product as well as new space. Vacancy will decline to 7% by year's end, and annual rental growth will average 2% 3% over the next two years, between 2016 and 2017. On the investment front, C&W says the US will continue to be perceived as a safe haven and will remain "the top investment market for those seeking both stability and expected returns. Strong fundamentals in the US will continue to fuel both domestic and foreign investor appetite," which increasingly is encompassing industrial and retail properties along with the mainstays of multifamily and office. **(GlobeSt.com)**

Central Park Tower in Broomfield sells for $83.5M

A Chicago-based real estate investment firm has paid $83.5 million for Central Park Tower in the Interlocken Advanced Technology Environment business park in Broomfield, according to public records. GEM Realty Capital, through the entity GV 385 Interlocken Owner LLC, acquired the 11-story, 343,000-square-foot class AA office building from Boston-based Franklin Street Properties Corp. Prime West developed the LEED Gold certified building at 385 Interlocken Crescent for Franklin Street in 2010. **(BizWest)**

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Logistics Experts Predict Rents, Property Values Will Peak in 2016

Though the U.S. logistics industry has recovered unexpectedly well from the last recession, reaching record highs in occupancy and absorption, experts believe the growth will peak sometime this year. The improvement in the logistics property sector was tied to the simultaneous recovery of the global economy and increased demand for space created by e-commerce companies, who this year expect to see a 23 percent increase in sales, according to a recent report from commercial real estate services firm CBRE. Global online sales will grow to $3.5 trillion by 2019, the company said, pushing demand for industrial properties toward mid-sized and big-box distribution centers located close to major population centers. "E-commerce is a game changer, and its impact goes well beyond the retail sector," said Richard Barkham, CBRE's global chief economist, in the report. At the top of end-users' demand list are "last mile" infill locations in major markets, and as a result, land prices and lease rates for these properties have skyrocketed. These light industrial assets are representing a larger portion of total development, up to a third of all U.S. buildings under construction, according to CBRE. Hahmid Moghadam, chairman and CEO of Prologis, the largest U.S. industrial property owner, said in his firm's fourth quarter 2015 report that the new optimization of the supply chain has resulted in record occupancy levels. "In spite of macroeconomic uncertainty, vacancy rates are at all-time lows," Moghadam noted. "Discussions with our global customers support our view that the power of domestic consumption and the growth of e-commerce will continue to drive demand for well-located distribution space, particularly in the major gateway markets." However, Moghadam also expects that industrial space supply and demand will reach equilibrium by the end of 2016. The market has already experienced 23 consecutive sectors of positive absorption, and for the past five years industrial completions have been at less than half of the long-term average. Developers have caught on, and speculative space is starting to hit various markets, though with seemingly more restraint than in previous cycles. Last year was probably the peak for the growth surge in the space, and demand from tenants and building investors may temper in the next 10 months, according to Craig Meyer, president of industrial brokerage and capital markets for commercial real estate services firm JLL Americas. He says his prediction is backed by his firm's recent Global Logistics Sentiment Survey, which asked for opinions on the industrial property market from 650 logistics experts around the world. In particular, the sentiment received in the survey is that there will be a potential winding down of growth in the Americas this year. More than half of the respondents, 54.2 percent, said they believe rents will peak at some point this year, and most of the global experts agreed that capital values will peak in 2016. "I think cap rate compression is over, I don't see how rates could go any lower," Meyer says. "I do think we've got just solid fundamentals right now, and we've seen average rent growth of about 5.4 percent across all major markets. Foreign investment is high, there's the growth of the urban logistics component, and the Panama Canal expansion should open soon, allowing larger ships with more goods to reach the coasts. For some markets, occupancy might be even too tight, like Southern California, where it wouldn't even really hurt to see a slight increase in vacancy." **(National Real Estate Investor/Robert Carr)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.62	.62	.26
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	1.74	2.09	1.98
30 YEAR TREASURY	2.60	2.88	2.57