CRE Execs Put More Faith in the US

When it comes to both the broader economy and the commercial real estate sector, C-suite executives have more confidence in the US than they do in the global landscape. That's the top-line result of a first-ever survey of investment decision makers by Altus Group in partnership with NAREIT and the National Council of Real Estate Investment Fiduciaries, the results of which were issued Monday. "Slow-but-steady US growth is preferable to an inflationary environment for US investors, who anticipate returns will continue to grow, but at a more moderate pace," according to a report accompanying the 2016 Real Confidence survey. "Meanwhile, the financial turmoil overseas is a positive factor for US real estate, which remains a magnet for flight capital, thanks to its reputation as a stable, lower-risk environment, even when returns slow down." The expectation of a slowdown in the pace of returns is pretty much a given when most survey participants said they don't expect values to continue appreciating at the same double-digit pace they've seen in the past few years. On a scale of 0 (no confidence) to 100 (absolute confidence), the value appreciation question posted the lowest score at 20.1. By contrast, CRE executives assessed their confidence level in the domestic economy at 63.3, compared to 45.4 for the global economy. They also rated the state of the US real estate industry at 68.5 and showed better-than average confidence that real estate development will increase, with a 58.9 rating. However, the report notes that the 63.3 rating for the domestic economy is "conservative," rather than brimming with confidence. As one survey respondent put it, "It's hard to be supremely confident in an environment in which this economic recovery and now expansion has been so stutter-stop. I call it the 'It's always something' recovery and expansion. We seem to be getting clear of a hurdle and something blows in from elsewhere." Yet even as domestic returns ebb, "foreign investment capital continues to flow into deals in the US markets, bolstering prices and fueling stiff competition for prize buildings in prime markets, according to the report. It cites the recent Association of Foreign Investors in Real Estate member survey, which found that 64% planned to increase their investments in US real estate this year, while 31% planned to maintain or reinvest their current investment. Most respondents to the AFIRE survey cited the US as "the market with the most stability and best prospects for appreciation around the globe," according to the Altus/NAREIT/NCREIF report. Survey respondents were asked to allocate a theoretical $1 billion in capital into a mix of real estate investment options that would yield the highest return in 2016. The composite portfolio they created included private equity with a 49.3% allocation, followed by REITs with 31.2% of the total capital. On the debt side, private debt received a 13.3% allocation, more than twice the allocation to public debt of 6.2%. Just one participant invested the hypothetical $1 billion entirely in the REIT sector, compared to seven who did the same with private equity. Offers Steven A. Wechsler, president and CEO of NAREIT, "Real Confidence offers perspective on the economic and marketplace factors that will shape our industry from the decision-makers who are leading it." Participants included Jeffrey Furber, CEO of AEW Capital Management; Stephen Furnary, chairman and CEO of Clarion Partners; Richard Kincaid, chairman of the board of Dividend Capital Diversified Property Fund; Mike Miles, managing principal and portfolio manager, Guggenheim Real Estate LLC; and Robert Merck, head of MetLife Real Estate Investors. **(GlobeSt.com)**

Colorado Tech Worker Numbers and Wages Swell

Colorado added 3,088 high-tech jobs in 2015 and finished the year with 187,242 tech workers who contributed nearly $20 billion to the state's economy. The tech job growth amounted to 1.7 percent compared to 2014, according to the annual "CyberStates" report published Thursday by industry group CompTIA. The study found 14,847 tech businesses in Colorado paid a collective $19.9 billion to tech workers, an increase of $900 million compared to 2014. Tech workers represent 9 percent of the Colorado workforce, and the industry's economic activity represented 11.5 percent of the state's economic output for the year, the CyberStates report found. Nationally, the technology industry made up approximately 7.1 percent of U.S. GDP and 11.6 percent of the total private sector payroll, the CyberStates report concluded. Tech added 200,000 jobs and surpassed 6.7 million people employed in the industry nationwide, CyberStates said. The average annual wage of a Colorado tech worker reached $106,400 in 2015, which was 4.4 percent more than the year before and nearly double the state's $53,400 average private sector salary in 2015, the report said. Colorado ranked 13th among states for the number of people employed in tech occupations and ninth nationally for average salary in technology occupations. **(Denver Business Journal)**

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Global Pressures May Slow US Industrial Growth

For several years most of the forecasts about the US economy have been relatively optimistic, but some clouds have begun to appear, and some people worry that a new recession could occur. But NAIOP's new semi-annual forecast on industrial demand predicts that these factors, including trouble overseas, declines in domestic equities markets and a steep drop in oil prices, will have only a modest impact on industrial demand. Although lower energy prices usually translate into greater spending power for consumers, the authors of the report, Dr. Hany Guirguis of Manhattan College and Dr. Joshua Harris of University of Central Florida, say it will take time for this to boost the nation's industrial market. Therefore, in the short-term the drag felt from overseas uncertainty and other factors should limit the growth in demand for industrial space for at least two years. "The forecast remains positive but trends lower, to quarterly rates of around 54 million square feet absorbed by the end of 2016, dropping to roughly 48 million square feet by mid-2017," the economists write. "This is down from the high of more than 60 million square feet absorbed on a quarterly basis last year." They also say that the government's preliminary report of 0.7% annualized growth rate in fourth-quarter GDP shows a reduction in growth rates may be inevitable. However, at the same time, a true recession seems unlikely. After all, unemployment remains relatively low at just 4.9% and consumers continue to display confidence. "Thus, the most likely impacts on industrial real estate markets will be significant slowdowns in the growth rate in markets dominated by energy producers and export-focused manufacturers." But "industrial markets focused on domestic production and distribution to consumers will continue to experience relatively moderate, healthy growth." The overall economic picture brightened just a bit last Friday when the government updated the preliminary report on fourth-quarter growth and found a 1% growth rate. However, Harris tells GlobeSt.com that the NAIOP team used "multiple period forecasts that include upper and lower boundaries, as such the difference of 0.7% to 1% would not change the forecast in any meaningful way." Guirguis and Harris also believe that interest rates and inflation will most likely remain low in 2016 and 2017. And even if storm clouds appear over China or Europe, income producing real estate in the US, including industrial assets, will remain popular with global investors seeking yield. "This means that the direct risk of an asset pricing bubble in real estate is unlikely, and any such risk should emanate from declines in the fundamental space markets." The pair recommends that developers add new supply cautiously, and base these decisions on local market conditions. "The risks of further global market contagion affecting domestic demand cannot be understated. Still, when compared to issues of the past several years — the European debt crisis, for example — today's risks seem relatively less worrisome." Guirguis and Harris offer one final note: "The estimates of national net absorption of industrial real estate presented herein are based, in part, on forecasts of macroeconomic activity in the US. As such, when predictions of macroeconomic activity become more variable and risky, as they have over the past three months, so do forecasts of real estate demand that utilize such predictions as inputs. The two variables whose forecasts have increased in variability the most are GDP and unemployment. It is these core macroeconomic indicators that are putting the most downward pressure on the forecast. If these indicators resume faster growth rates and greater stability, it is possible that net absorption of industrial space could climb above the currently forecast levels." **(GlobeSt.com)**

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Colorado GDP Closer to Average than Neighboring States in 3rd Quarter

The states surrounding Colorado, with the exception of Arizona, were either top or bottom performers in economic growth in the third quarter, according to the Bureau of Economic Analysis. Colorado cut it closer to the middle, with state GDP growing at an annualized rate of 2.4 percent in the third quarter versus a 1.9 percent pace nationally, according to the report released Wednesday. Utah, Idaho, Montana, South Dakota, Nebraska and Kansas all made the top 10 states for GDP growth. After spending years in the shadow of North Dakota's oil boom, South Dakota now boasts the country's hottest economy, with a 9.3 percent growth rate. North Dakota, by contrast, is now in the dumps. Its economy contracted 3.2 percent in the third quarter. West Virginia and Alaska, which also depend on natural resources, were the only other states with shrinking economies last fall. New Mexico, Wyoming, Oklahoma and Texas all came close to stalling in the third quarter, especially Oklahoma and Texas, which had only 0.1 percent GDP growth. Depressed oil and gas prices get much of the blame. New York, Nevada and Washington also had economies growing below 1 percent. Arizona was an exception to the region's top or bottom split. Its economy grew 2.2 percent, just below Colorado's pace. **(Denver Post)**

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Multifamily Buys Top 2015 Commercial Market in Denver Area

Investors from both in and out of Colorado, as well as some from around the world, bought $10.3 billion worth of commercial real estate in metro Denver in 2015 — a record, according to CBRE Group Inc. Multifamily sales led the charge, with more than $4.5 billion worth of apartment buildings trading hands in 2015, followed by office sales. Apartments have been popular places for investors to put capital since the end of the recession, but the metro area's housing situation made complexes especially profitable in 2015, said Matt Barnett, first vice president in CBRE's capital markets multifamily division. Low vacancy rates and high average rents driven by high demand for apartments across metro Denver led to several major apartment acquisitions in 2015, including the record-setting sale of Horizons at Rock Creek, a 1,206-unit apartment complex in Superior, which sold for $255 million, the highest price ever paid in the area for an apartment complex. Bell Partners of Greensboro, North Carolina, was the buyer. Sales volume of office buildings was significantly slower in 2015 than in years past, but still topped $2.7 billion, led by large trades, such as the sale of 1515 Wynkoop for $171 million. Industrial sales lagged a bit from 2014, but more high-value properties traded in 2015 than the previous year for total sales volume of nearly $1 billion. Both retail properties and hotels experienced increases in sales volume over the previous year, with nearly $1.3 billion and $680 million selling in the sectors, respectively. Hotels in downtown Denver had a particularly active year compared with 2014, thanks to high occupancy rates driving investor interest. The Embassy Suites by Hilton Denver Downtown-Convention Center traded hands for $170 million, clocking a record $422,000 per-key sales price. Leasing activity across the major segments of commercial real estate was also strong in 2015, with average lease rates increasing across the board. The average lease rate for office space in metro Denver increasing from $24.63 per square foot in 2014 to $25.62 per square foot in 2015, according to research from Jones Lang LaSalle. The office market did experience some uncertainty over the year as low oil prices caused several energy companies with large operations in Denver to close or downsize, but strong growth in other sectors, especially technology and financial services, and fast population growth pushed the overall vacancy rate in the metro area down from 13.8 percent in 2014 to 13.1 in 2015. The closure of nine Safeway stores in metro Denver in the second quarter of 2015 resulted in some negative absorption in the retail sector, said Newmark Grubb Knight Frank's Justin Kliewer, a managing director specializing in retail."The market is strong enough to deal with the closures," Kliewer said. Ten of 11 submarkets in metro Denver experienced positive absorption in 2015, according to NGKF's data, with 199,589 square feet of positive absorption occurring market-wide. Construction activity was strong in retail, with 793,322 square feet of retail space completed in 2015, with another 456,566 in the pipeline. Among the most notable retail completions in 2015 was the delivery of Elan Union Station, a mixed-use development including ground-floor retail and several stories of apartments. The retail component of the project included a much-anticipated King Soopers. Industrial brokers and builders had another busy year in 2015, with many projects that were speculative when they broke ground filling up by the time they were completed, a sign of the high amount of demand for industrial space in the area. Average rental rates for industrial space increased nearly 17 percent from $6.68 per square foot in the fourth quarter of 2014 to $7.81 per square foot in the fourth quarter of 2015, according to Colliers International. The vacancy rate for industrial space held steady at about 4.1 percent, said Tyson Price, research director at Colliers, and that coupled with increasing rents spurred construction throughout the year. More than 2.6 million square feet of industrial space was under construction at the end of 2015, and users are waiting for the space, with more demand coming, Price said. **(Denver Business Journal)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.63	.62	.26
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	1.88	1.90	2.12
30 YEAR TREASURY	2.70	2.73	2.72