CORFAC International's Trending Topics in Commercial Real Estate

CORFAC International is a global network of 80 independent commercial real estate offices specializing in office, industrial and retail brokerage.

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CORFAC brokers are local market experts who offer best-in-class service to their clients, who range from private investors to global corporations. Four of our members in key markets share their thoughts on trending topics in today's global commercial real estate market.

Brexit and Beyond: London Office Market Thrives

By Alistair Subba Row, Farebrother/CORFAC International, London, United Kingdom

The United Kingdom's departure from the European Union -- commonly known as Brexit -- was expected to have adverse effects on London's office property market. These predictions initially proved accurate as London turnover and transaction volumes sank to a four-year low in the quarter following the referendum.

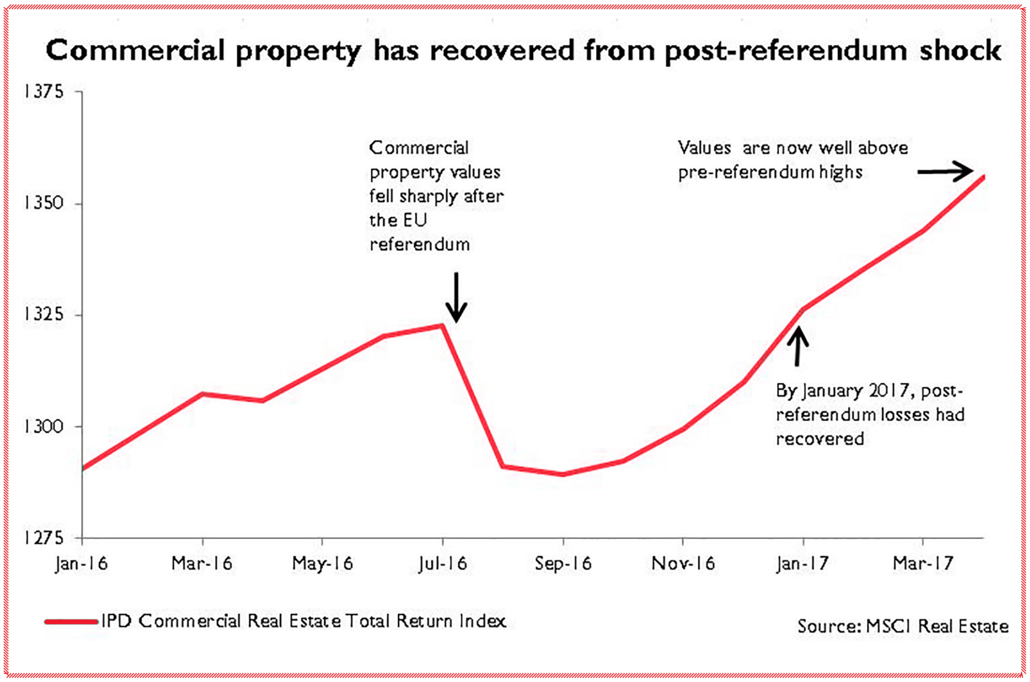
A year later, it's a different story: London's share prices have recovered, transaction volumes are up and big deals are making headlines. Appetite for real estate as an asset class has grown significantly across all sectors and is proving to be a catch-all for global private investors, particularly those from Hong Kong, China and the Middle East.

Little Loss, Mostly Gains

More than 80 percent of investment in Central London in the first half of 2017 came from overseas investors, and Chinese investment in London commercial property has more than tripled since before the referendum. Among the most notable deals were the purchase of 122 Leadenhall Street (the Cheesegrater) and 20 Fenchurch Street (the Walkie Talkie), the latter a UK property investment recorded at £1.3bn. Other significant London-wide investment deals by overseas investors have recorded yields around 4 percent.

Fears of a damaging "Brexodus" -- companies leaving London following the Brexit vote -- are unfounded. Many financial institutions have confirmed their commitment to London, including Deutsche Bank, which recently signed a lease for a new London headquarters. The technology and creative industry sectors have also become a driving force in the market. Facebook, Snapchat, Apple and Amazon have committed to significant office leases along with satellite telecom giant OneWeb, which plans to open a London base.

Office space demand also continues to rise in the



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co-working sector, fueled by the need for cost-efficient and flexible space. The sector accounted for the largest share of space leased in Central London this year, illustrating a structural change in which the market is rapidly embracing new entrants to this sector.

London Still Calling

The London office market achieved nearly £9 billion of transactions in the first six months of 2017. While Brexit and other political changes may have heightened occupational risk, London remains a top destination for global capital investors and worldwide corporations.

Does Your CRE Advisor?

- Understand your current criteria and factors that may drive future changes in your industry, occupancy requirements or investment goals?
- Have in-depth local market knowledge, experience to avoid pitfalls and the resources to provide all possible solutions?
- Have business relationships with other parties that might lead to conflicts of interest in providing the service you are seeking?

Local Expertise Puts Macro-Level Factors Affecting Commercial Real Estate into Perspective

By G. Raymond Lyons, CCIM, MRICS, SIOR, Realty Advisors Ltd., Brokerage/CORFAC International, Toronto, Ontario

There are a wide range of macro-level factors driving today's real estate market. The balance of supply and demand is driven by the strength of the economy and creation of employment, which affects the demand for various types of real estate and space use trends. While there are a wide range of resources to consult, there is no substitute for local market expertise and insights when making space use decisions.

Shifting Market Trends

Current trends in office space point to more employees per square foot as the sector has evolved from private offices to cubicles to open desks without dividers or filing cabinets. Trends in industrial space have shifted from lower-height manufacturing space to smaller incubator space for innovation and larger footprints in fully automated buildings with high ceiling heights for efficient distribution. The supply of residential units has shifted from single-family homes to medium- and high-density multifamily developments. Infill development as well as redeveloping older well-located office, industrial and residential property into new efficient space has accelerated as the economy has recovered, property values have escalated, and population densities have intensified.

Yet what happens to future supply and demand for real estate when macro-level factors are applied? How will real estate be impacted as: interest rates rise; residential property values decrease; recent non-resident buyer's tax, residential rent controls and changes in small business tax rates influence the market; the cost of electricity increases; transportation methods shift allowing workers to commute or collaborate from remote locations; Amazon continues to shift the basis for distribution; the mix in the economy between manufacturing, distribution and innovation shifts; and changes occur in other jurisdictions affecting the relative competitiveness of the market?

Local Market Expertise

In anticipating where the economy and real estate market is headed in the future, an ample measure of caution is required. Any single metric can be overshadowed by unanticipated influences: A rising real estate market can erase the negative implications of poor real estate decisions. Likewise, a single or the cumulative impact of unforeseeable events can adversely affect the merits of a good real estate decision.

While commercial real estate brokers have the benefit of hindsight, real estate decisions going forward must be made with current local data, analysis and sound advice. Real estate decision makers will benefit from working directly with advisors who are immersed in the local submarket and can propose creative solutions in a tight market. When selecting an advisor, consider these questions: Do they understand my current criteria as well as factors that may drive future changes in my industry, occupancy requirements or investment goals? Am I working with a senior advisor with local market knowledge, experience to avoid pitfalls and the resources to provide all possible solutions? What business relationship does the advisor have with other parties that might lead to conflicts of interest in providing the service I am seeking?

In recent years, real estate data has become a readily available commodity rather than a proprietary product from a real estate broker or advisor. However, integrity and local market insights of an experienced broker are key to providing value and helping clients secure optimum real estate solutions.

San Francisco CRE: The Non-Tech Squeeze Is On

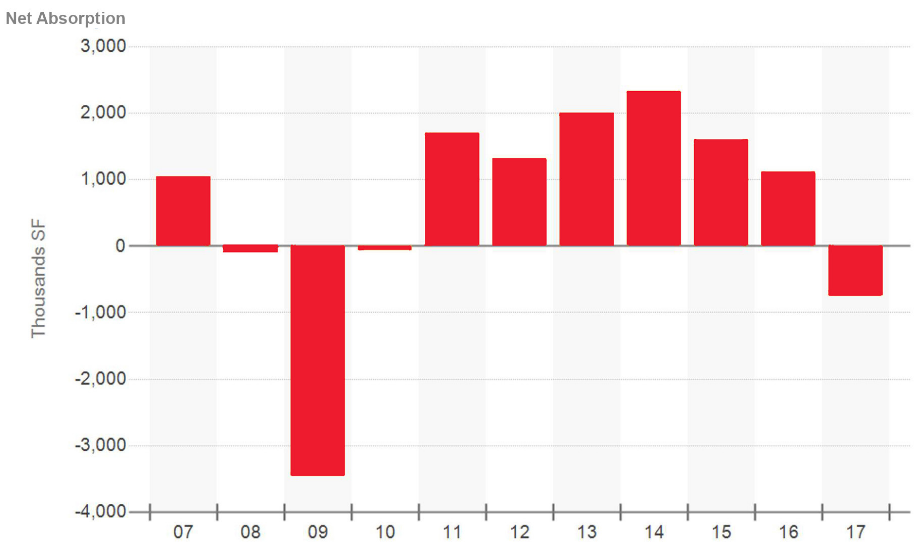
By Tom Martindale, SIOR, TRI Commercial/CORFAC International, San Francisco, CA

San Francisco's commercial real estate market continues to be fueled by the tech industry, but a range of factors indicate a cooling trend is approaching

Tech Continues to Rule the Office Market

Just when it seemed 3 million square feet of deliverable office construction was more than enough

Absorption -- San Francisco Office Market (YTD)



to meet 2017's demand and slow rapid rental rate escalations, it wasn't. Tech companies scooped up major blocks of space (50,000+ square feet) in these new developments. Single-digit vacancy rates and historically-high rental rates in the CBD submarkets will prevail until additional supply becomes available in the next two to three years.[1]

Traditional office tenants must seek non-SF-based opportunities or make difficult decisions to shrink their footprints to maintain reasonable occupancy costs as rents are still too steep for most non-tech business models. As a result, landlords with <50,000 square feet are struggling to lease vacant space, offering increased concessions to benefit smaller tenants. As long as the tech sector is not hit hard by market corrections, traditional space users will be squeezed into those smaller footprints or seek other locations.

TRI Commercial/CORFAC International is cautioning office clients against long-term lease commitments to avoid being locked-in above future market rents. A base term of three to five years, coupled with an option or two to renew the term to maintain control, is the prudent path over the next couple of years.

New Retail Concepts Emerge

As the traditional retail model continues to evolve, newer concepts are coming to the forefront. Two major trends are emerging: Select retailers are securing infill spaces that allow for customers to touch, feel and buy items they have identified online and certain retail brands are opening small footprint concepts in gentrifying neighborhoods.[2]

It seems that rates for the big boxes are falling while, at the same time, rates for trendier spaces are rapidly escalating, at least in the more chic urban enclaves. Recent rate softening can work in some tenants' favor. Assuming this retail modality is fairly constant, some good long-term opportunities exist and it may make sense to secure some of those deals now.

Industrial Moves Out

San Francisco industrial space has shrunk considerably over the past 20 years, replaced by high-rise residential, sports venues and office developments. The out-migration is primarily focused on the East Bay and California's Central Valley, where less-expensive land exists in abundance for large warehouse/distribution structures and truck-staging capabilities abound near Interstate 5.

Employment Factors

Employment continues to be a wild card for the market. San Francisco currently enjoys historically low unemployment under 3 percent, but the big tech players must identify and hire the qualified talent required to fill the millions of square feet they've recently acquired. Another emerging reality is the slowing pace of tech job growth. The questions now are how sustainable will big tech be in the next few years? Can they find qualified talent or will prospective hires look for a more affordable place to live and work? Time will tell.

Short-Term Outlook

If the 10-year historical norms prevail with respect to commercial real estate recession recoveries, and no unforeseen external crisis emerges, San Francisco's market should begin to level in the next 18-24 months. Immediately after the dot.com bust of 1999-2000, office leasing rates dropped nearly 40 percent. The odds of that scenario repeating are slim as many tech companies have established their maturity and enjoy relatively-stable earnings. Yet some decline in commercial real estate valuations is still likely to occur in the near future since markets are cyclical, rates can't climb at their current pace ad infinitum and interest rates have begun to slowly increase.

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[1] *https://www/bizjournals.com/sanfrancisco/news/2017/01/26/san-francisco-office-construction-real-estate.html*

[2] *https://www.bizjournals.com/sanfrancisco/news/2017/08/11/bay-area-hottest-retail-markets-commercial-space.html*

Global Firms Target Orange County, California

By Eric Hinkelman, Voit Real Estate Services/ CORFAC International, Irvine, CA

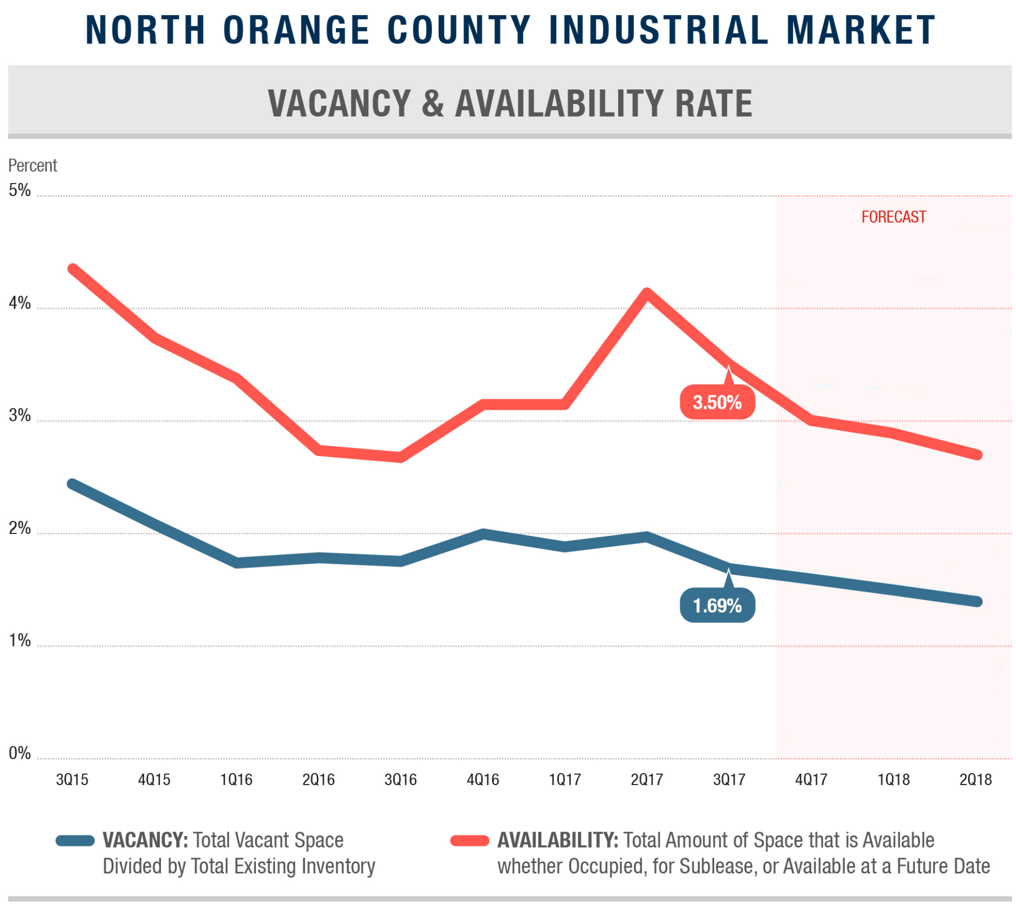
A snapshot view of the companies that are targeting North Orange County, California's industrial market in recent years illustrates a clear shift from an aerospace/defense-centric base to a diverse, international blend of service-related companies.

While many of the attributes that made this region desirable to large companies over 50 years ago still come into play today -- proximity to labor, an array of housing options, excellent freeway access and immediate access to the influential population centers of Los Angeles and Orange County -- the region is adapting to the needs of today's rapidly changing economy.

Local Amenities Attract Global Companies

The North Orange County Chamber of Commerce incorporates nine cities, collectively offering its business partners a unique mix of residential, commercial, educational and cultural diversity. A region whose early roots were based in agriculture, followed by aerospace and defense, is now emerging as a highly sought-after destination for both corporate headquarter facilities and logistics/distribution facilities.

North Orange County provides for a unique confluence of executives, principals and business owners with a qualified labor force, along with several higher learning institutions. Several prominent global companies such as Kraft, Raytheon, Alcoa, Albertsons, Beckman Coulter, United Healthcare, Siemens, Ya-



maha, Bank of America, Mercury Insurance, PepsiCo and ADP have all made substantial investments in large facilities in the county.

Industrial Demand at an All-Time High

As consumer buying patterns have changed with the recent emergence of e-commerce, larger logistics providers are now targeting the area and have their eye on large blocks of warehouse space (+100,000 square feet). Located in close proximity to the ports of LA and Long Beach, John Wayne Airport, LAX and easy access to the 91/5/57 freeways, North Orange County continues to serve as an infill hub for several logistics providers focusing on same day or next day delivery. For example, in early 2017 3PL Global logistics leased the former Yokohama Tire facility in Fullerton (441,000 SF) where they provide distribution and warehouse support services to a wide range of clients.

With the demand for quality distribution space at an all-time high, vacancy rates at record lows and limited land for future development, real estate investors and developers are now competing with one another to control the limited sites in North Orange County to build state-of-the-art industrial/warehouse buildings. With the recent success of the Anaheim Concourse project on the former Boeing campus in Anaheim, other prominent developers like Pacific Industrial and Western Realco are experiencing similar success in Brea and Fullerton on large, well-designed buildings.

Outlook Remains Strong

Expect to see continued growth in logistics, food/beverage and specialty manufacturing as well as import/export industries in this market. The strong fundamentals, ideal location and wide array of industries all combine to make North Orange County a primary target for not only domestic capital, but foreign capital as well.

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