

## 2016: The Year of Ingenuity.

*Trends Show CRE Success Will Require a Fresh Perspective in the New Year  
– Insights from CoStar Group’s Leading CRE Strategist, Hans Nordby*

With supply waves peaking, asset values at historic levels, and the economic recovery nearly cycling out, 2016 is poised to be a strong year for the US economy and commercial real estate, with only one caveat. The best opportunities may be harder to come by, but when the right ones are discovered, they can yield remarkable results.

In the year ahead, we believe winners will be those who understand the CRE market is evolving, and those who embrace the evolution by capitalizing on the shifts. At CoStar, our analysts and researchers dig into the largest repository of CRE data in the world to discover trends our clients can act on.

Here, we offer up two growing trends we believe will shape the market in the new year – and ways you may be able to use them to your advantage.

### Urban, Premium Space... Where the Office Market’s At.

The office market is in strong shape today. We’re seeing lower absorption yet similar rents, and significantly lower construction activity – and although construction is beginning to pick up, we believe the market will continue to be profitable.

If office rents in general are going through the roof, the demand for top quality office space is going through the stratosphere. Demand for four- and five-star office space has grown at *three times* the rate of lesser quality space over the past year. That’s over 51 million square feet of net absorption, and the difference in demand is staggering. Well situated, appealing, quality office space is going to be easier to lease up – and people are going to pay for it.

### What You Can Do:

- **Renovate to the nines.** CoStar research has shown time and again that when vacancies tighten, renovation pays off. Not only can quality renovations result in significant rent gains – they can typically offer occupancy gains of 10 percent on average. Based on CoStar data gathered across the market, a renovation strategy can generate revenue gains upward of 30 percent.
- **Follow the need.** Since 2007, there is about half as much quality new space available for development. That said, CoStar has determined that some key metropolitan areas, particularly those impacted by the housing bust, have a significant need for the creation of new space. The CoStar Portfolio Strategy team offers its members data about the specific markets that are expected to offer the most construction opportunity in the year ahead.

### Smart Buys in Retail

Arguably, no other market has transformed as much over the past 15 years as retail. Overall, the market is doing well. Consumption is growing steadily; average store productivity is up sharply; and most profits are strong.

For the average retailer, sales per square foot are about 12% higher today than in 2007. That means a few things. Retailers are profitable. They've got cash, and can invest. It's still all about market share and profit growth.

But now, the growth isn't about opening up new stores. It's about investing in technologies to make stores more efficient. It's getting to consumers faster through online advancements. It's about having the right products available, at the right time. This focus is helping retailers generate more cash, and that's helping them to determine which brick-and-mortar stores they want, and which they don't.

More and more, retailers are looking to grow market share by moving out of the suburbs. They're looking for more infill locations, which are often more supply-constrained. They're choosier about the locations in which they want to operate, and this has made competitive retail vacancies tighter than ever.

That core supply is extremely pricey, however – and not always justifiably. For investors that still want to be in the path of growth, there are some specific opportunities that are worth exploring.

#### ***What You Can Do:***

- **The next-best location may be the best location.** There's quality retail in every market. You just have to be in the right location. We believe that "first ring" suburbs – areas immediately surrounding key metropolitan areas – will see stronger appreciation value in the days to come.
- **Consider grocery.** One segment that we believe will continue to hold up well in prime locations is retail grocery. Despite any foreseeable market shifts, this segment is positioned to continue to do well, thanks to demand influencers.
- **Don't guess.** Knowledge is profit. If you do choose to pursue retail opportunities in prime locations or areas with real relatively untapped potential, arm yourself with the full picture. CoStar Market Analytics offers the most accurate information on rents, market demographics, new construction plans, opportunities, and areas to simply avoid, based on what we believe is the most timely, verified, full-coverage data available.

In 2016, insight and new perspectives will shape the CRE game. Visit the URLs below to learn more about how to stay one step ahead in your market, and among your competitors.

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