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*CRE in
the News*

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Tech Job Growth Continues to Create Demand for Office Space

- › Higher education is key to hiring more tech talent, so employers are locating in cities with the most highly educated populations
- › Between 20 and 25% of current office leasing activity is related to technology jobs, particularly computer and mathematics occupations
- › Stark contrast to previous cycle, when leasing was driven by new financial services and business analyst occupations
- › In total 1M new computer and mathematics occupations have been created over the last seven years, bring the total to 4.1M computing and 167K mathematics jobs in the US today. Of these new jobs, 85.4% are in office-using industries

Too Much WeWork Makes Investors Nervous

- › C&W study found that 8 buildings that traded hands since 2016 where WeWork occupied more than 40% of office space all sold with above-average cap rates: from 50 – 100+ basis points higher than average in most cases
- › Of the 9 buildings to trade hands where WeWork occupied less than 40%, 5 traded at significantly lower cap rates than average
- › WeWork meanwhile continues to add more components to its business in an attempt to diversify, now managing spaces entirely occupied by the likes of IBM/Amazon
- › In related news: Moody's pulled its WeWork rating, saying it didn't have enough information to continue grading the company

Distribution Centers Being Built Faster than They Can Be Staffed

- › 452M SF of warehouse space will be built by the end of 2019
- › 452,000 workers required to staff the new supply (1/1000)
- › To get there, future employment growth will need to average 226,000 jobs/year, well ahead of the 180,300 jobs averaged between 2013-2017
- › Some investors looking to build in traditionally overlooked markets in rural areas to create jobs that might entice workers from a larger radius to relocate to the area
- › Distribution centers have become more automated in recent years, and with the labor pool so tight, that trend is expected to accelerate

Industrial Cap Rates Will Continue to Compress

- › Average cap rate for industrial assets has dipped to a record low of 7.0%
- › Demand continues to outpace supply, resulting in higher rent growth and compression in cap rates
- › At the peak of the last cycle, average industrial cap rate was 7.2%, and reached 8.7% in 2010
- › Expect strong demand for last mile assets to continue
- › Atlanta ranks #4 among top industrial markets, with an average asking rate of \$4.27 NNN, 6.2% vacancy, 8.7% annual rent change, and 14.5M SF under construction (Transwestern)

Growing Demand for Healthcare Services Threatening to Outstrip Supply

- › More than 150,000 healthcare practitioners will join the workforce in the next two years, creating total demand for MOB space nationwide of 150-225M SF by the end of 2019
- › Today, only 110M SF of available medical off space in existing and under construction buildings in the U.S.
- › U.S. population driving the demand: 65+ growing at a rate significantly outpacing growth (14x) of those 64 or younger

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Uncertainty Fills the Gulch

- › Vote today regarding \$1.75B in public financing for the project, via extension of Westside TAD (tax allocation district) lifetime (+10 yrs. to 2048)
- › At assumed cost of \$5B, incentives would pay for 35% of the project
- › If extended, the portion of tax revenues that are withheld in support of developing the Gulch can't be funneled into the city's General Fund
- › CIM's most ambitious plan would add 9.3M SF of office space, which is more than half of downtown's existing inventory
- › Possible HQ2 Site, though CIM believed to be in discussions with alternative Fortune 500 company to anchor the site

Sound Bites

REITS Rebound

- › For 3 mos. ended 8/31, the S&P US REIT Index grew 8.3%, outpacing the S&P 500's 7.9% increase
- › Data center and cellphone tower REITs led the charge, and are benefiting from rapid growth in data usage led by e-commerce players and video-on-demand providers

Chinese Capital in US Drying up?

- › Chinese investors became a net seller in 2Q for the first quarter since 2008. Sold \$1.3B, bought only \$126M
- › Escalating trade tensions with the U.S., tighter regulation on citizens making foreign investments, and rising prices have all contributed to Chinese companies unloading U.S. assets

Multifamily Rents Have Stopped Growing in Major Markets Across the Country

- › Rent growth has slowed nationwide for the 4th straight year
- › Most new construction has been in the Class A sector of the MF market, thanks to high construction costs
- › Homeownership within the Millennial demographic increased 1.2% from the second quarter of 2017 to the same period of this year – millennials may be starting the suburban migration

Opportunity Zone Update

- › Youngwoo, Equity Multiple to Raise \$500M OZ Fund
- › Such funds must deploy at least 90% of their capital into opportunity zones, and are subject to a twice-yearly check according to the law

Key Takeaways

- › 9/10/18: Crude barrels trading at \$67.54
- › CCN: Crypto market cap to hit \$80T in 15 years
- › 9/10/18: Justin Bieber and Hailey Baldwin Register for Marriage License at NYC courthouse

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