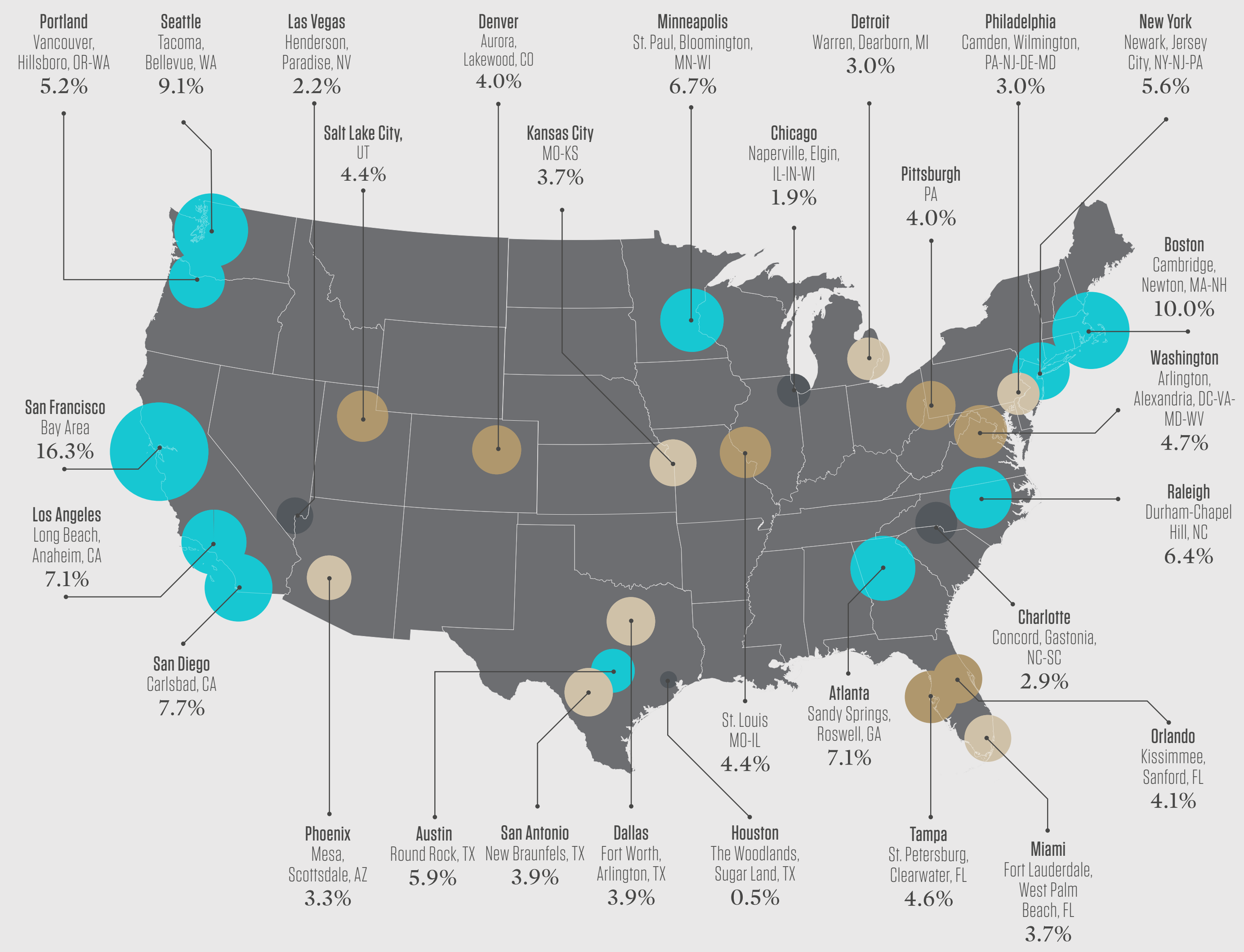
U.S. DASHBOARD

The U.S. recovery has weathered the recent plunge in oil prices, in part thanks to expansion by technology and media firms. Office demand is surging in the cities popular with 'TAMI'

TAMI DRIVES URBAN ECONOMIES ACROSS U.S.

The TAMI sector (Technology, Advertising, Media and Information) has changed the fortunes of particular cities and districts.

Source: U.S. Bureau of Labor Statistics, Newmark Grubb Knight Frank Research



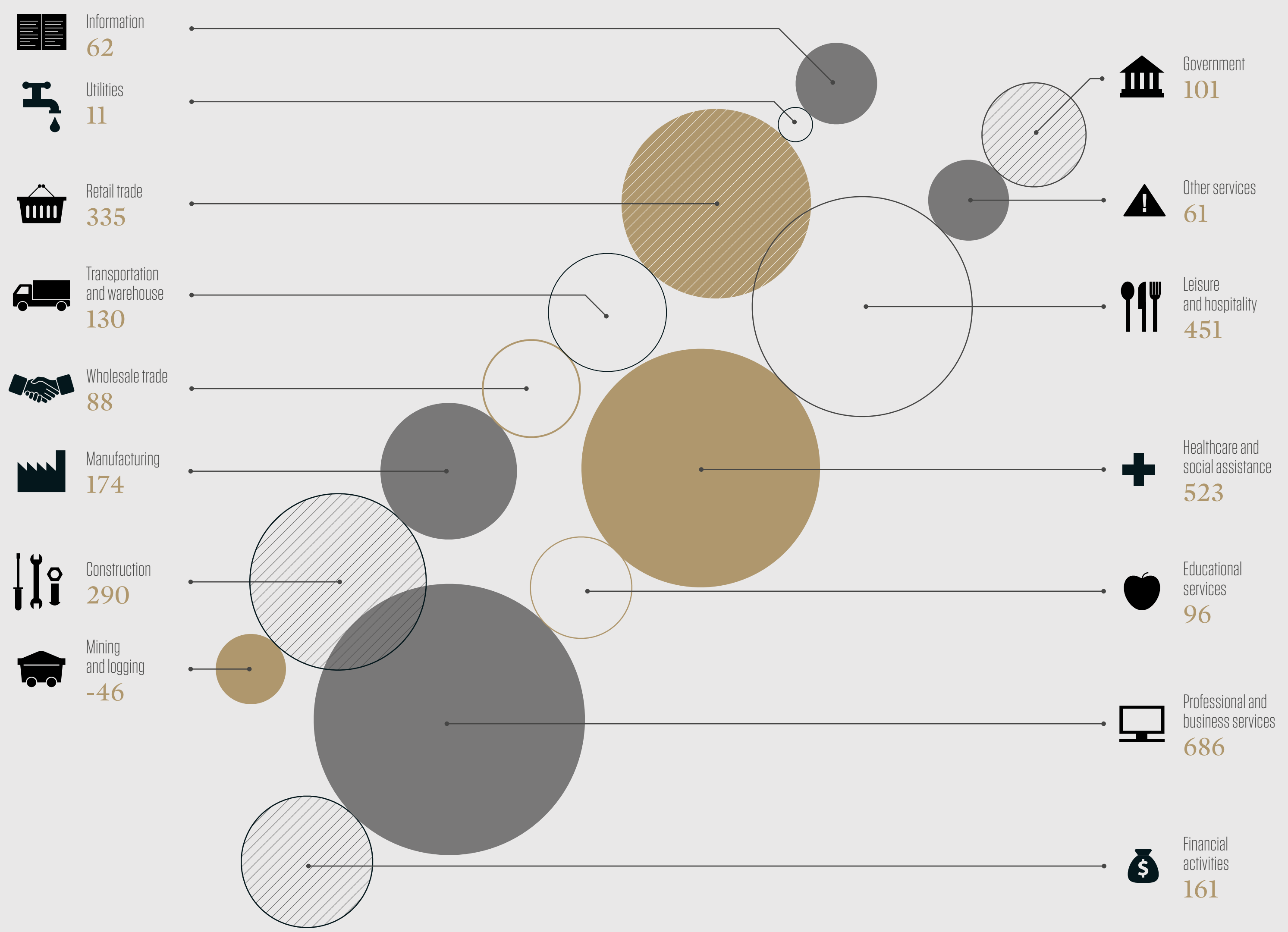
JOB GROWTH IS SURGING

JOB GROWTH PAST 12 MONTHS* (000s)

Job growth, weak in the early stage of the expansion, has gained steady momentum, particularly in sectors related to demand for commercial property.

Source: U.S. Bureau of Labor statistics, Newmark Grubb Knight Frank Research

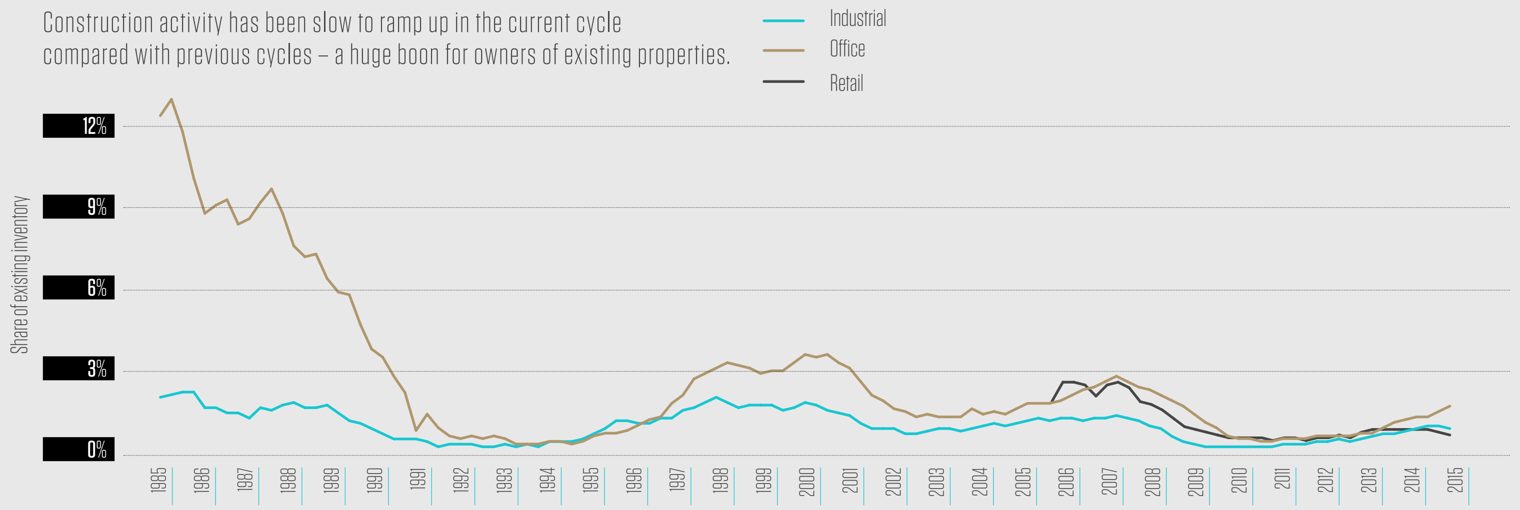
* 12 months ending May 2015



SPACE IS UNDER CONTROL

Construction activity has been slow to ramp up in the current cycle compared with previous cycles – a huge boon for owners of existing properties.

Source: CoStar, Newmark Grubb Knight Frank Research



MARKET FORECAST

Developers and construction lenders have been remarkably disciplined due to increased scrutiny from regulators in the wake of the financial crisis. Expect rents to gain momentum slowly over the next two years.

Another recession will happen eventually, creating excess vacancies and downward pressure on rents. However, we do not anticipate the widespread overbuilding that accompanied some earlier recessions.

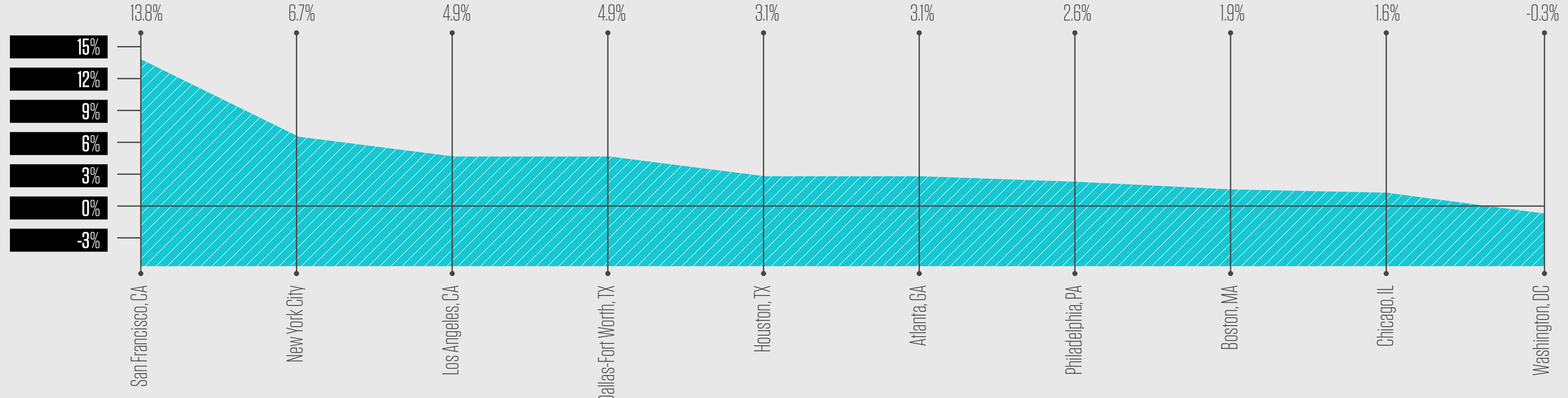
ECONOMIC FORECAST

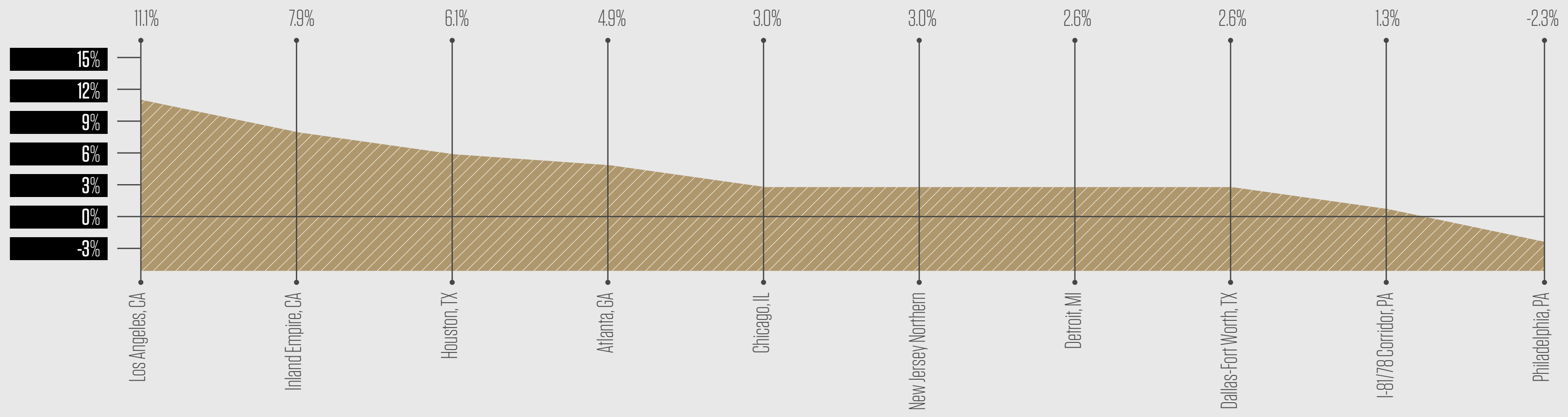
The catalysts that can trigger a recession, such as inflation, asset bubbles or a plunge in consumer and business confidence, appear to be well managed. A recession is unlikely in the next 12 to 18 months.

RENT GROWTH TO CONTINUE

Source: CoStar, Newmark Grubb Knight Frank Research

Asking rents are rising in the low- to mid-single digits across most markets and property types, with double-digit gains in some high-profile technology-driven submarkets.





KEY MARKET DRIVERS

KEY

Aerospace
Healthcare
Financial
Technology
Tourism
Energy
Auto manufacturing
Manufacturing
Science

WEST

Besides the California markets discussed on pages 66 and 67, other Western markets attractive to global investors are Seattle, Denver and Phoenix. Downtown Seattle is being reshaped by Amazon's multi-building urban campus, while Denver continues to expand its extensive light-rail system, which will open a 22 mile line to Denver International Airport in 2016. The housing collapse hit Phoenix hard: the region is growing again at about half of its pre-recession pace.

SOUTH

In Houston, lower oil prices have triggered a wave of sublease space, just as developers are set to deliver some 15 million sq ft of new space, forcing landlords to play defense. Dallas and Austin are more diversified, helping to insulate them from the energy industry restructuring. Atlanta is booming again following a slow post-recession lift off. Charlotte (banking), Raleigh-Durham (technology) and Nashville (diversified economy underpinned by tourism) are catching investors' attention. In Washington, DC, leasing markets continue to feel the hangover from cutbacks in government spending (the 'sequester'), but property investors remain bullish (see page 68).

MIDWEST

Chicago developers are transforming neighborhood after neighborhood to accommodate growing tech firms and the region's vibrant population of Millennials—despite severe fiscal problems plaguing the city and state. Minneapolis-St. Paul and Columbus, smaller markets, are growing steadily. Detroit is in the midst of a surprising turnaround, as the auto industry rebounds and corporate benefactors focus on downtown revitalization.

NORTHEAST

New York has become a technology hub, compensating for the slow recovery of its financial sector (see related article). Boston is home to a thriving biotech industry that is transforming downtown's Seaport District. Growth is traditionally slower in Philadelphia. New Jersey struggles with one of the highest office vacancy rates in the U.S.

37.7833° N, 122.4167° W

SAN FRANCISCO

WRITTEN BY
*Andrea Arata,
Market Researcher,
Financial Analyst,
Newmark Cornish
& Carey*

Strong growth in the tech sector continues to drive demand for offices and homes

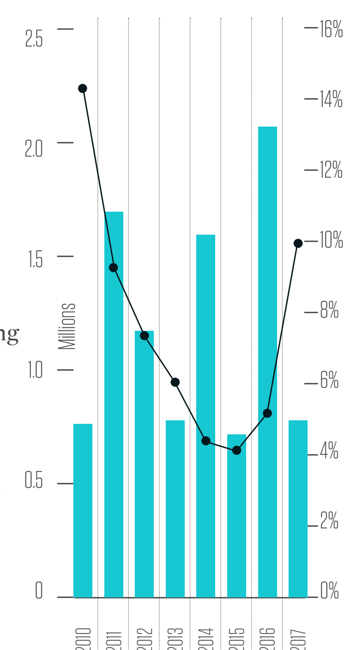
Downtown San Francisco, U.S.

The Bay Area economy has been outperforming most other markets in the U.S., largely due to the strength of the technology industry. Of the 100+ companies on the Fortune list of "unicorns" (companies with a valuation of $1 billion or greater, based on fundraising), 41 are located in either San Francisco or Silicon Valley, including Uber, Airbnb, Pinterest and Square. Venture capital interest in this market remains strong: investments in Bay Area companies in the first half of 2015 totalled more than $15 billion, or about 49% of all investment nationwide. While the technology industry is centred on the city of San Francisco and Silicon Valley (South Bay), the entire region has benefitted from the robust job market these companies have created.

A San Francisco address can give a company an edge in recruiting, and many have moved at least part of their operations here. As a result, increased demand and dwindling supply have driven up asking rents. Annual Class A asking rents in SoMa, the most desirable location for tech tenants, are nearly $75 per sq ft, having increased by more than 140% since the beginning of 2010. Scarce supply in SoMa is driving some tech tenants to the Financial District, particularly to buildings that have been converted from traditional corporate space to more desirable creative space. Other tech tenants, such as Uber and Stripe, are signing leases in buildings that have not yet been built.

OFFICE MARKET KEY METRICS

Source: CoStar, Newmark Grubb Knight Frank Research



Mirroring the high demand for office space, residential space is also in short supply. Young tech workers have long favored life in the city over the suburbs, and San Francisco apartment rents have increased by nearly 15% in the past year to an average of more than $3,450 per month. Median home prices in San Francisco have also increased steeply, to $1,225,000 – 37% above their peak before the city's present housing crisis.

While housing in much of the rest of the Bay Area is less expensive, prices have risen sharply across the region. In response, Facebook is building a 394 unit residential development for its employees in Menlo Park in Silicon Valley, while corporate housing companies are reserving certain percentages of their units for tech clients under contract. For the past few years, many big tech firms in Silicon Valley have provided commuter buses for their employees living in San Francisco. Now, many San Francisco based tech companies are following suit, providing commuter buses for their employees living elsewhere in the Bay Area.

34.0500° N, 118.2500° W

LOS ANGELES

Technology and trade are influencing the shape of the city's economy

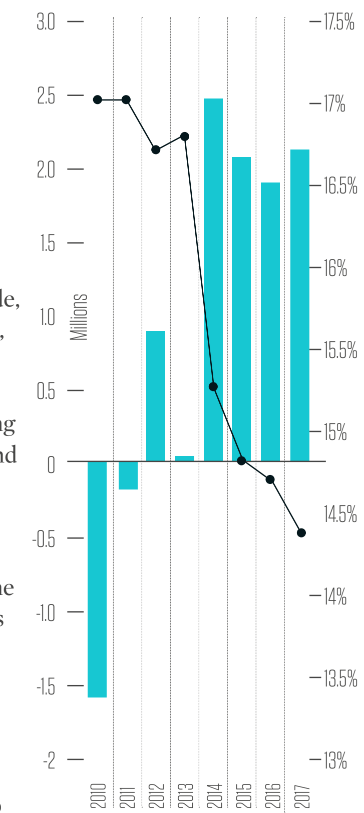
WRITTEN BY
*Tim Van Noord,
Regional Director, Research,
and Mike Rudis, Research Analyst
at Newmark Grubb Knight Frank*

Los Angeles County would rank as the 21st largest economy in the world if it were an independent country. More than 244,000 businesses drive the local economy, concentrated in technology, tourism, international trade, manufacturing and creative industries, including media, entertainment and advertising. However, technology and trade industries in particular are having a significant impact on the economy and the real estate market.

Los Angeles has become one of the nation's leading technology centers. Home to the headquarters of 15 Fortune 500 companies, Los Angeles also ranks among the top regions in the U.S. for the venture capital investment that fuels the growth of young companies. These companies continue to absorb a significant amount of creative space in popular submarkets like El Segundo and West Los Angeles, where prominent high-tech companies including Apple, Google, Amazon, Sony, Yahoo! and Microsoft have offices.

OFFICE MARKET KEY METRICS

Source: CoStar, Newmark Grubb Knight Frank Research



International trade has also been a driving force behind the Los Angeles industrial market, one of the largest markets in the U.S. and always the tightest, with vacancy currently at a nearly invisible 1.3%. The ports of Los Angeles and Long Beach, North America's two busiest, handle almost one third of the entire continent's imports, creating strong demand for warehouse space across Los Angeles and eastward into the deserts of the adjacent Inland Empire market.

While demand is expected to remain strong, it may be influenced by new regulations in the city of Los Angeles that will raise the minimum wage by 67% over the next five years. This could shift industrial demand outside the city if adjacent municipalities do not follow suit.

Investment in Los Angeles, commercial real estate is very strong, with sales volumes surging and cap rates trending lower. Investor demand is fuelled by an influx of money from the Asia Pacific region, where investors have more than doubled their stake in the past 12 months to almost $3 billion.

With its legendary traffic congestion showing no sign of improvement – the Southern California urbanized region, with Los Angeles County at its heart, has a population of 21 million people – substantial investment in transportation infrastructure is being made throughout the region. Metro, highway, bus and rail projects in the pipeline total more than $18 billion. The nation's first high-speed rail system is scheduled to carry passengers between Los Angeles and San Francisco by 2029, strengthening connections between businesses and California's highly trained labor force. The new infrastructure will support the city's growth as a technology and trade hub in the future.

Office buildings at night, Los Angeles

38.9047° N, 77.0164° W

WASHINGTON, DC

Government cuts have impacted the market, but increased hiring by private firms offers cause for optimism

WRITTEN BY
Marianne Skorupski,
Research Manager, Washington, DC,
Newmark Grubb Knight Frank

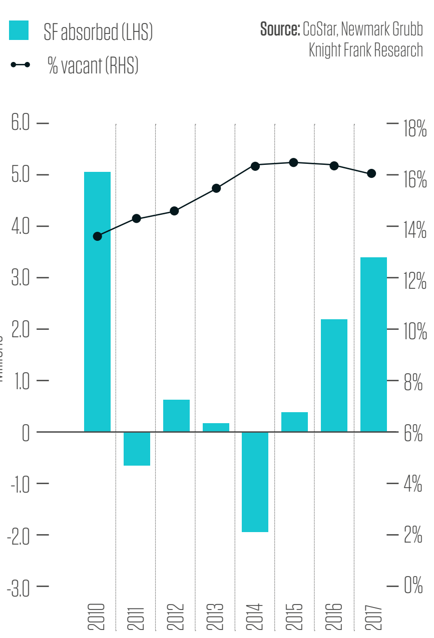
The Washington, DC, metropolitan area continues to struggle towards a sustained recovery from the effects of federal austerity programs. Each of the region's three jurisdictions is experiencing a period of light demand for additional office space, resulting in record high leasing concession packages and an investment sales market at times out of sync with leasing fundamentals.

Close examination shows that the market is bifurcated, with the Class A market – especially trophy assets – outperforming the rest. Dividing office absorption by class, data shows that Class A properties have continued to attract interest, whereas Class B and Class C properties no longer appeal to the needs of many tenants - a reality that is driving the bifurcation of the market. Simply put, demand is present for top of the market space, but largely absent for properties at lesser locations or without robust amenities.

Bigger tenants continue to tour the market well ahead of their lease expirations, as large blocks of high quality space remain rare. This has led to discussions with owners and developers about the redevelopment and additional development potential of their existing properties, particularly in the East End and Central Business District, where many older buildings are awaiting significant pre-leasing before renovations to modernize them can begin. These renovations will add floors, new amenities and upgrades to heating, ventilation and air-conditioning systems.

Washington, DC, U.S.

OFFICE MARKET KEY METRICS



Source: CoStar, Newmark Grubb Knight Frank Research

In early 2015, the National Institutes of Health (NIH) announced a 20 year master plan to shift all employees now located in space leased off-campus back on to the main campus in Bethesda, Maryland. The return to a campus-centric model would substantially impact the market, as NIH leases more than 3.1 million sq ft of office space. The NIH's announcement comes after federal downsizings and consolidations by the Food and Drug Administration, National Institute of Allergy and Infectious Diseases and NIH in suburban Maryland soured the market.

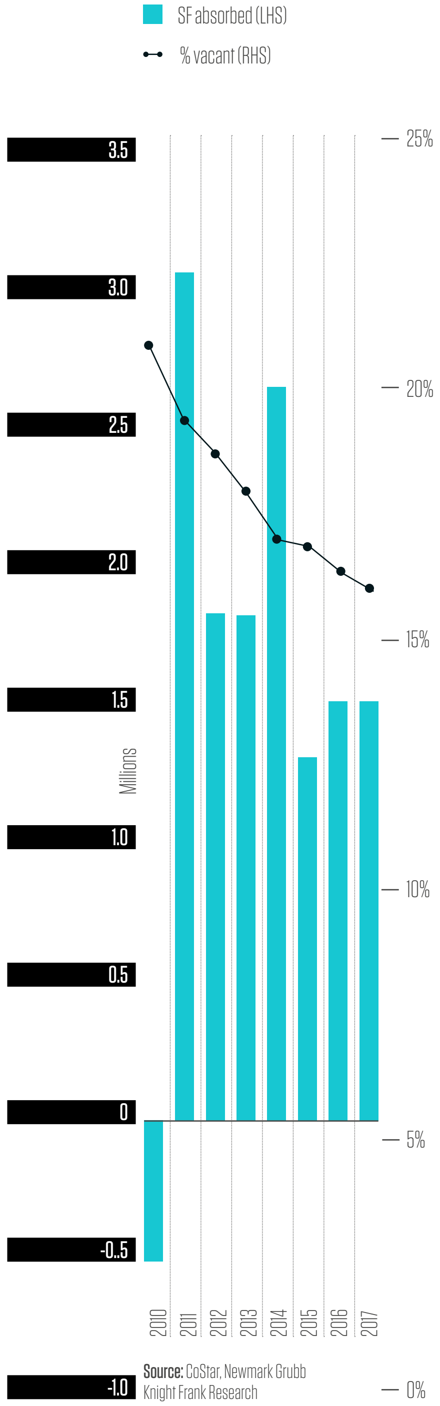
However, despite these headwinds, there are signs of improvement that bode well for the future outlook.

New budget proposals suggest an increase in federal spending over the next few years, which would aid the office market's recovery, especially if additional spending boosts demand among government contractors. This should balance the continued downsizing by the federal government, as it addresses the pending expirations of its leased space over the near-term. Recent increases in hiring within the private sector, especially within the office intensive professional and business services sector, are a cause for optimism in 2016.

41.8369° N, 87.6847° W

CHICAGO

OFFICE MARKET KEY METRICS



Source: CoStar, Newmark Grubb Knight Frank Research

A growing population of Millennials is fostering a new wave of tech industries

As the third largest metropolitan region in the United States after New York and Los Angeles, Chicago is viewed as a 'gateway market', one of a loosely defined group of cities marked by their attractiveness to cross-border investors, corporate occupiers and tourists. Among this elite group of cities, Chicago stands out for its low business and living costs and the higher yields it offers commercial property investors.

Chicago is served by an extensive public transportation system consisting of heavy rail (the L), commuter rail (Metra) and buses. This system has supported Chicago's dense urban core, walkable neighborhoods throughout the city, and mixed-use 'villages' around suburban train stations—a growth pattern that newer, auto dependent cities seek to emulate.

Chicago's growing population of educated Millennials has fostered a robust tech community with companies including Groupon, Gogo and GrubHub progressing from start-up to IPO, and tech giants Google and Facebook opening state-of-the-art offices. The surge in manufacturing has been particularly strong in Chicago, where Goose Island, formerly home to heavy industry, is being transformed into a cutting edge manufacturing and tech district. Recently, the first of its kind UI Labs' Digital Manufacturing and Design Innovation Institute—a start-up hub for modern manufacturers—opened on the island.

Employers including United Airlines, Motorola, Capital One and Hillshire Brands have relocated their offices downtown to gain access to the young and educated workforce living nearby. Both downtown and suburban office vacancy rates are shrinking, while rental rates are rising downtown, but steady in the suburbs. Several new high profile projects are under construction downtown, including two 50 story skyscrapers.

As a mid-continent transportation nexus, greater Chicago is home to the nation's largest industrial market, with more than 1 billion sq ft of space. More than 10.6 million sq ft of new product—an eight year high—is under construction in new, multi-modal logistics parks, high image business parks and infill submarkets.

Chicago's most famous retail strip, Michigan Avenue, continues to reinvent itself with a diverse mix of upscale retailers; many are establishing anchor or brand house facilities to showcase their offerings to a global audience. Retail districts throughout the city are evolving, as new and renovated residential development transforms neighborhood after neighborhood.

The region is not without its challenges: The City of Chicago, Chicago Public Schools and the State of Illinois are struggling under high debt loads, and the city's lagging neighborhoods need investment. As Chicago tackles these challenges, it will remain a magnet for property investors, occupiers and young workers migrating to the city from across the Midwest and beyond.

Cloud Gate (The Bean), Millennium Park, Chicago, U.S.

WRITTEN BY
Craig Hurvitz,
Director of Research,
Chicago, Newmark
Grubb Knight Frank

19.4333° N, 99.1333° W

MEXICO CITY

Increased trade and investment is supporting growth in Mexico City

WRITTEN BY
*Juan Flores, Director of Research;
Ricardo Reyes, Market Research Industrial;
and Stephanie Martínez, Market Research Offices
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With 80% of its exports flowing to the United States, Mexico offers a sophisticated industrial property sector with state-of-the-art product, occupied by U.S. and multinational manufacturers and distributors. This sector has experienced major growth and development over the past decade, driven by foreign direct investment and a recovering U.S. economy. The vacancy rate for modern industrial space in the country is in the mid-single digits.

This surge of trade and investment is benefiting Mexico City, and in turn supporting the real estate market. Mexico City, with a population of more than 20 million inhabitants in its metropolitan area, is the country's main economic engine, generating more than half of its industrial output.

Mexico City's office market, which houses the headquarters of large domestic and international corporations, continues to grow at an impressive pace. The inventory of modern office space stands at 52 million sq ft of which 3.8 million sq ft was delivered in the past year. Another 52 million sq ft is scheduled for delivery over the next three years. About half of all recent development completions are in the CBD, specifically the Polanco, Reforma and Lomas submarkets, with the North Corridor also attracting substantial development. The vacancy is around 11%, down from 15% six quarters ago.

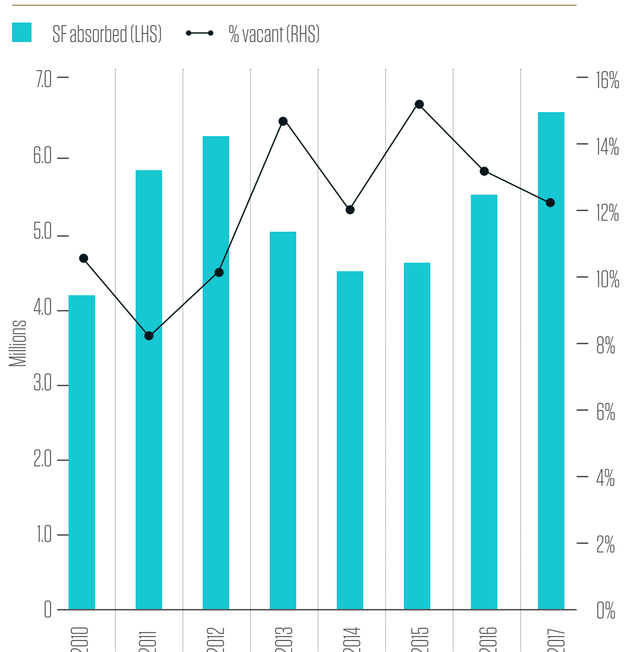
The flow of investment into Mexico's retail property sector is expected to top U.S.$3.5 billion by 2017, which will add 100 new shopping centers with an additional 36 million sq ft of space. About half of this development will occur in Mexico City and its environs.

Mexico is not without its challenges. The peso has declined by almost 20% against the U.S. dollar over the past year, a trend that favors exporters but could restrain consumer spending and stoke inflation as imports become more expensive. The low price of oil is creating revenue shortfalls for the government, while the simmering problems of government corruption and drug-related violence have yet to be resolved.

Despite these challenges, Mexico City continues to enjoy vibrant growth. Construction activity has remained strong through the recent economic turbulence, and—unlike many emerging markets—demand has kept pace. REITs are competing to gain market share and to develop innovative space for increasingly sophisticated occupiers. PwC forecasts that Mexico City will be the seventh richest city in the world by 2025, with a GDP of U.S.$745 billion (after Tokyo at number one, followed by New York, Los Angeles, London, Chicago and São Paulo). This increased wealth and production will create more real estate opportunities for developers, investors and occupiers.

Bolivar Street,
Mexico City,
Mexico

OFFICE MARKET KEY METRICS



Source: CoStar, Newmark Grubb Knight Frank Research

23.5500° S, 46.6333° W

SÃO PAULO

Brazil's super city plans to direct growth towards transport links

WRITTEN BY
*Rodrigo Pela,
Director of Research,
Newmark Grubb Knight Frank Brazil*

São Paulo is South America's economic powerhouse, a global center of finance, commerce, entertainment and the arts. The metropolitan region has nearly 20 million inhabitants, slightly more than half of whom live in the city of São Paulo.

The region is served by a sophisticated, multi-modal transportation system that, although it is expanding, has not kept pace with development, giving São Paulo a reputation for epic traffic congestion. Facilities include local and international airports serving more than 18 million passengers per year, an expanding subway system that is one of the most modern in the world, an extensive bus and train network, a massive cab fleet and South America's largest fleet of private helicopters.

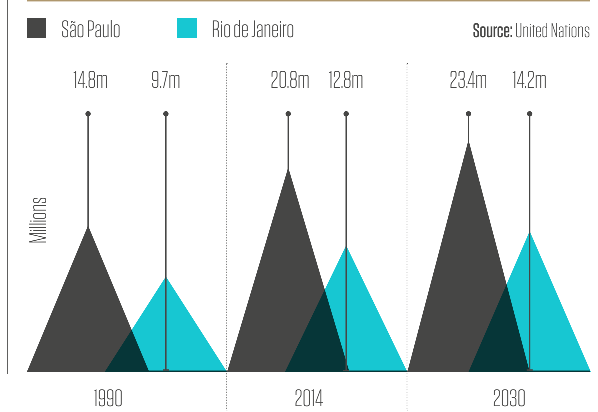
A new city master plan released last year is seeking to better align land use and transportation infrastructure. The plan calls for increasing densities in areas served by public transportation, with the goals of enouraging pedestrian and biking access, discouraging automobile use and protecting existing lower density neighborhoods from encroachment by incompatible high rise development.

The city is home to major companies from all sectors of the economy, notably manufacturing, services, technology, entertainment and hospitality. Development of corporate office space is expanding to the south, where most modern Class A+ buildings are located, and to the west, a newer area where development picked up about two years ago. Major developers and investors including Odebrecht, Brookfield, Tishman Speyer and Bueno Netto have acquired land in these areas, and are building Class A and Class A+ corporate space with Green Building certification. Most new projects are mixed-use developments that incorporate office, retail, services and housing components.

With GDP anticipated to shrink for a second consecutive year in 2015, the office market is contending with tepid demand at the same time that a large amount of new construction is moving through the pipeline. The vacancy rate, a slim 5% in 2011, is expected to hit 23% this year, and rents are expected to fall by 6.8%, the third consecutive year of softening.

Net absorption is expected to increase, however, as companies take advantage of weak conditions to move up to higher quality space. Areas that will receive major new deliveries in 2015 include Vila Olímpia (1.8 million sq ft), Marginal N-S and Berrini (both with about 860,000 sq ft) and Barra Funda (388,000 sq ft).

POPULATION OF SÃO PAULO VS RIO DE JANEIRO
1990 TO 2030

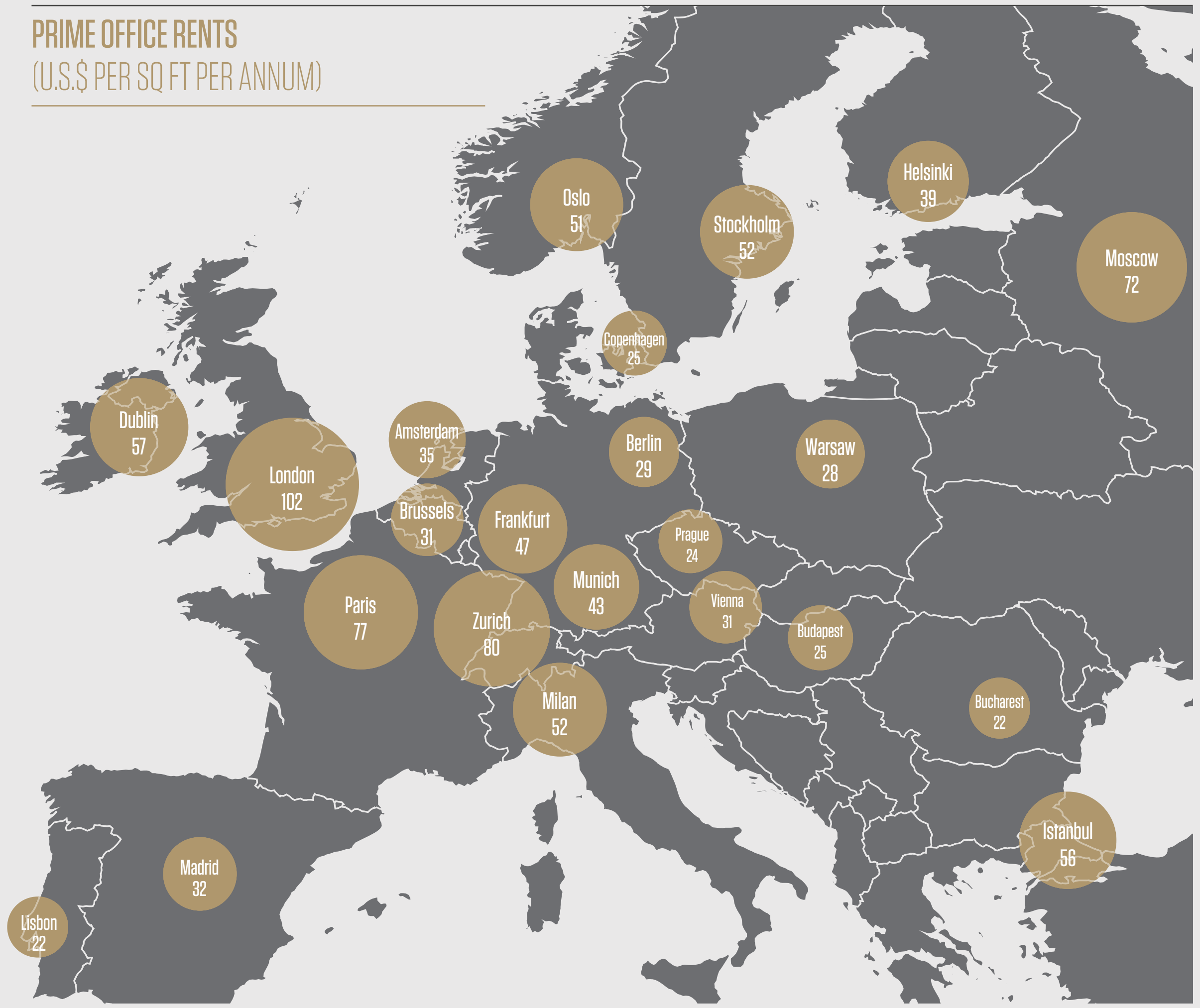


Estaiada Bridge,
Marginal Pinheiros

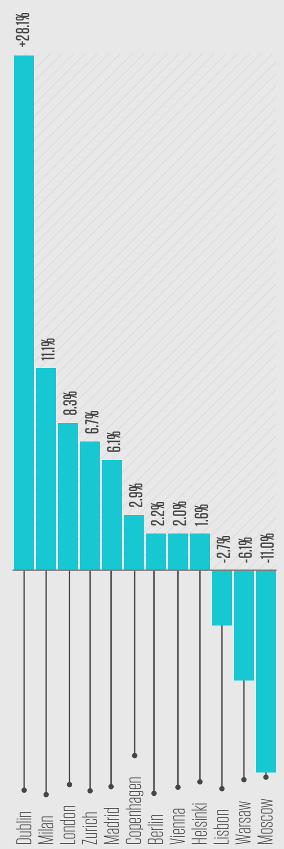
EUROPE DASHBOARD

After years of crisis, the European property market is experiencing an early stage recovery

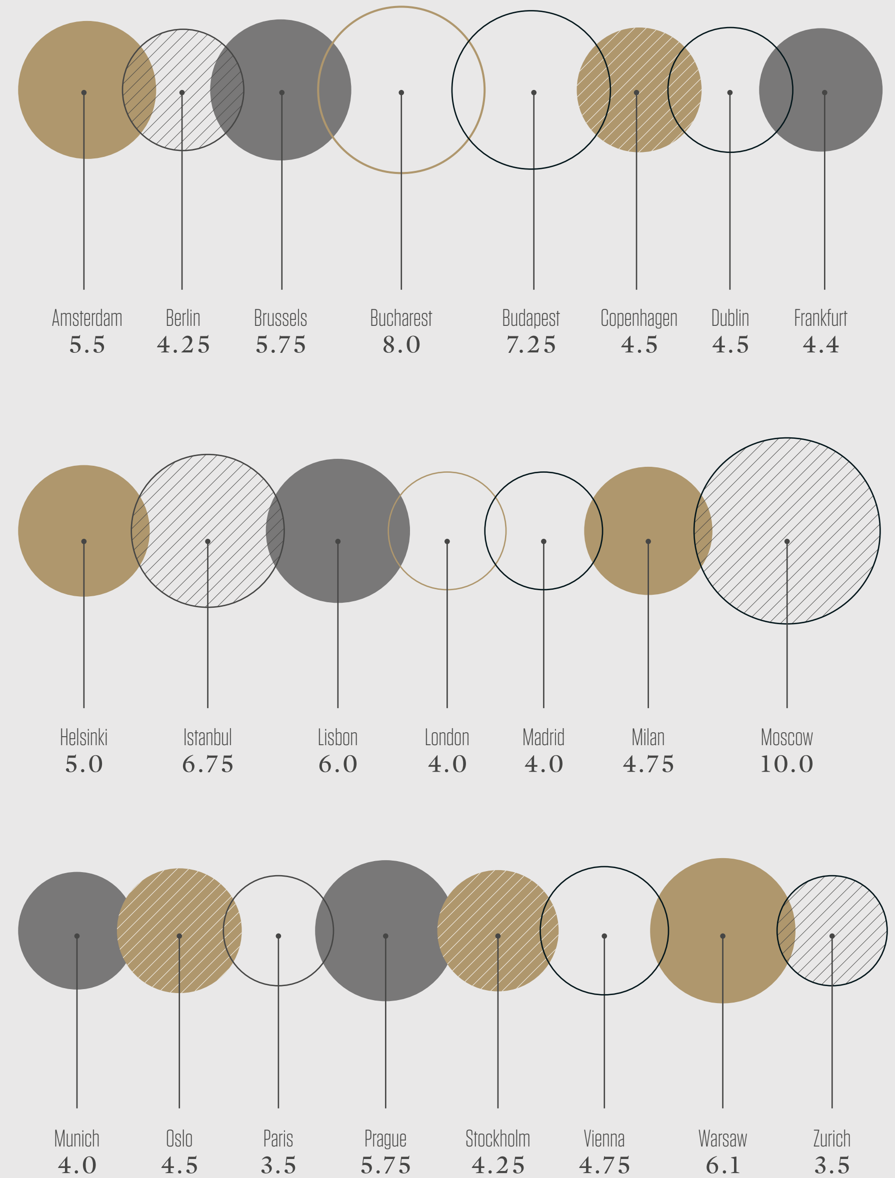
PRIME OFFICE RENTS (U.S.$ PER SQ FT PER ANNUM)



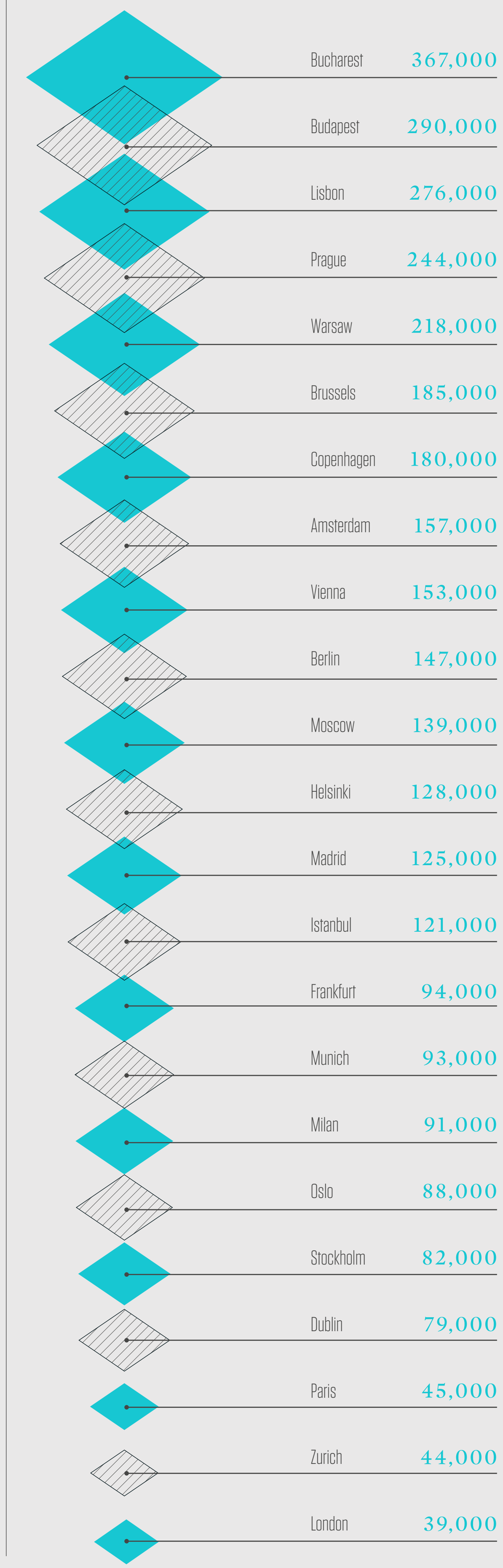
YEAR-ON-YEAR CHANGE (%) (LOCAL CURRENCY RATES)



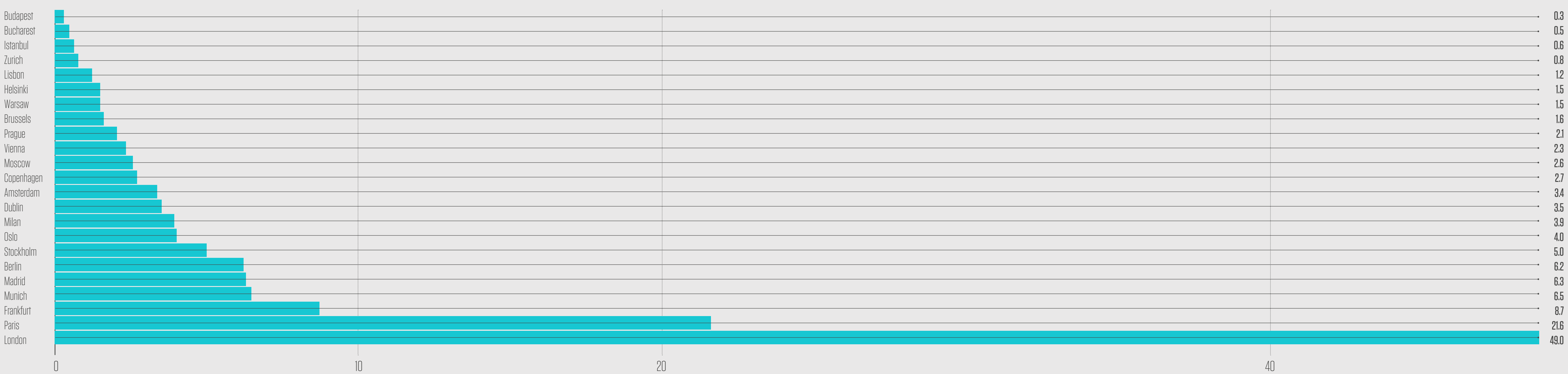
PRIME OFFICE YIELDS (%)



HOW MUCH PRIME OFFICE SPACE DOES U.S.$100 MILLION BUY? (SQ FT)



COMMERCIAL PROPERTY INVESTMENT VOLUMES 12 MONTHS TO Q2 2015



Source: Knight Frank Research / Real Capital Analytics