

Midyear 2020

COMMERCIAL REAL ESTATE MARKET SENTIMENT SURVEY

Outlook for the United States and Canada

Transwestern and Devencore teamed to solicit insight from their commercial real estate advisory teams across 43 North American offices. Here's what brokers had to say about what's in store for the balance of 2020.

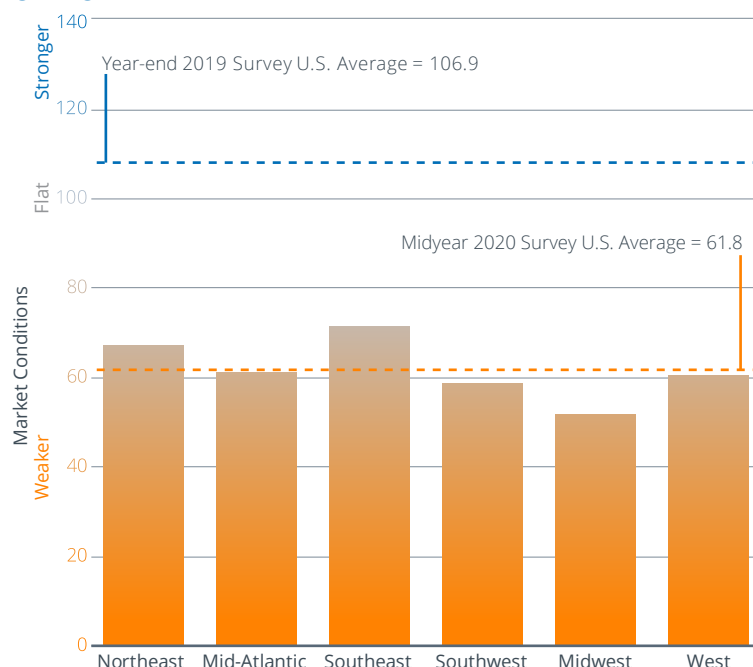
UNITED STATES

Tenant uncertainty, driven by the economic impacts of COVID-19, is writing the script for the second half of 2020. Traditional office space will lag as occupiers pause leasing decisions and implement work-from-home strategies until the pandemic is under control and tenants feel comfortable returning. There is considerable concern about long-term tenant interest in traditional office as work-from-home strategies could offer cost saving alternatives to select tenants, increasing the possibility in reduction of space. Medical office is expected to see a short-term stall as practitioners work through the budget shortfall of temporarily shutting down operations. Brokers are optimistic for long-term growth in a sector where office space is necessary for exams and procedures that cannot be performed via video conference. Industrial, although expected to ebb somewhat, will remain the belle of the ball due to the sharp rise in e-commerce. Across all sectors, the theme consistently echoed is "we're all in this together" which has sparked a remarkable level of creativity and collaboration.

Office Market

- U.S. office market conditions are expected to moderate during the balance of the year.
- The U.S. index averaged 61.8 for the second half of 2020, signaling weaker market conditions as it fell below the 100-neutral zone. The index is well below the 106.9 registered at year-end 2019 and prior to the onset of the pandemic in the United States.
- Nearly half of the respondents believe leasing and walk-throughs will be significantly down during the remainder of 2020, as tenants pause lease decisions for the foreseeable future, instead opting for shorter-term renewals.
- Most respondents expect flat to slightly lower rents over the next six months, with 77% expecting higher concession packages, which signals intense competition for tenants.

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- Select respondents are concerned about the long-term impacts to office demand, as tenants could embrace telework as a long-term solution. However, optimism stems from the occupier side with increased activity from tenants looking to right size office space, as well as potential for suburban demand for affordable, social-distanced options.
- Both landlords and tenants are taking COVID-19 seriously, exerting caution, and working together to keep everyone safe and healthy.
- Approximately 56% of respondents expect development pipelines to decline, while 42% expect development to be flat during the second half of the year.
- Roughly three-quarters expect investment interest and pricing to decline in the next six months. Respondents expressed concern that under-occupied office buildings and tenant uncertainty will challenge investors and lenders to underwrite office acquisitions.
- 40% anticipate cap rates to remain flat. Although this could signal some resilience in capital markets, 33% expect cap rates to rise slightly.

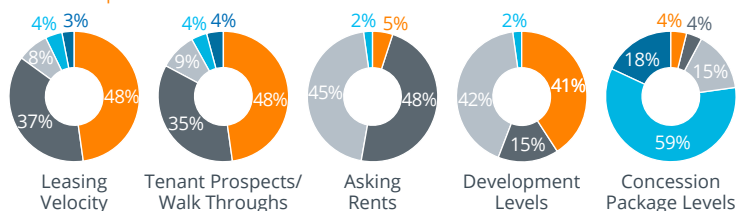
Medical Office Market

- Medical office is expected to soften slightly during the balance of 2020, with the U.S. forecast index averaging 90.1, just below 100 which is considered flat conditions.
- Leasing activity, tenant walk throughs, and development in the medical office sector are all expected to be flat or slightly lower over the next six months. However, 80% of respondents expect asking rents to hold steady with 70% anticipating slightly higher concession packages.
- The long-term outlook of medical office is very optimistic, driven by pent-up demand and need for space to perform procedures and appointments where telehealth would be challenging. However, several tenants remain concerned that rising cases could force a second shutdown, which would impact their bottom line and decision making on future leases. For the time being, short-term renewals are expected along with smaller clinics consolidating locations or being acquired.
- 75% of respondents predict investment pricing will be flat, along with 67% seeing flat cap rates. Although half of respondents expect flat investor interest, 40% believe investor interest will rise.

■ Significantly Higher ■ Slightly Higher ■ Flat ■ Slightly Down ■ Significantly Down

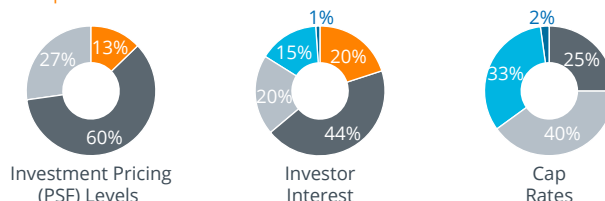
OFFICE MARKET INDICATORS

Share of Respondents

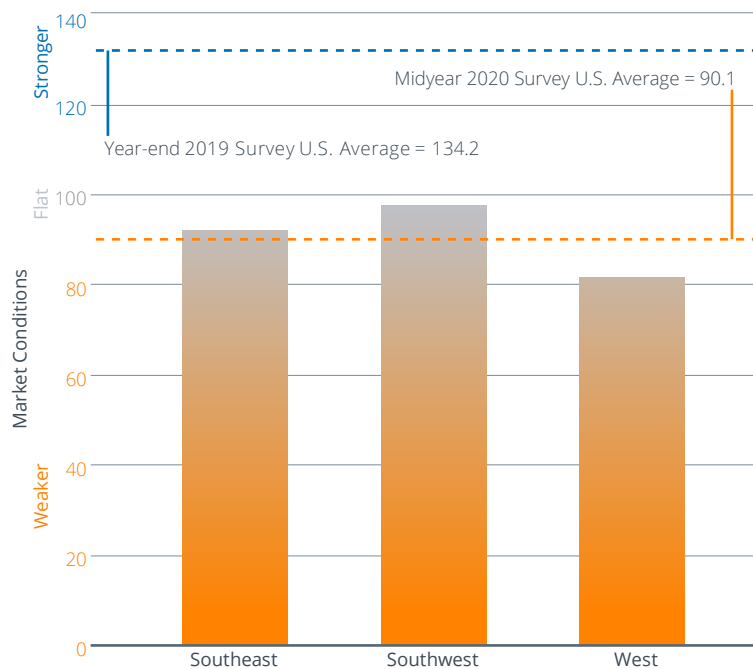


OFFICE INVESTMENT SALES INDICATORS

Share of Respondents



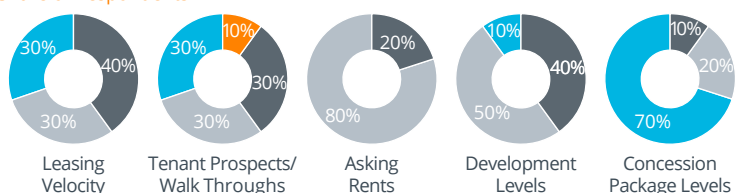
MEDICAL OFFICE MARKET INDEX



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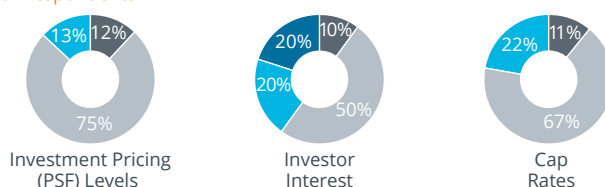
MEDICAL OFFICE MARKET INDICATORS

Share of Respondents



MEDICAL OFFICE INVESTMENT SALES INDICATORS

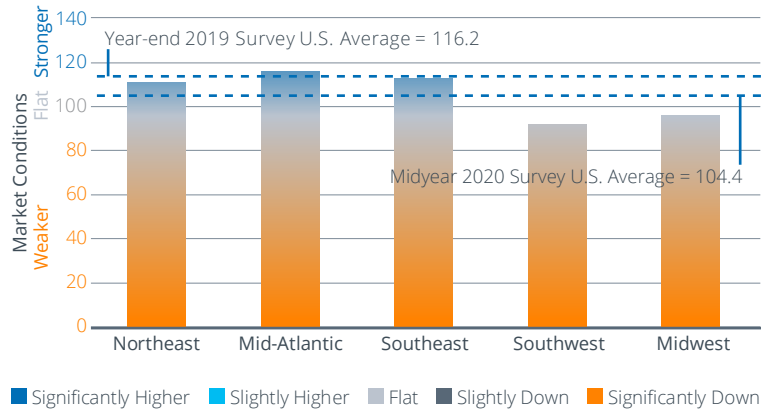
Share of Respondents



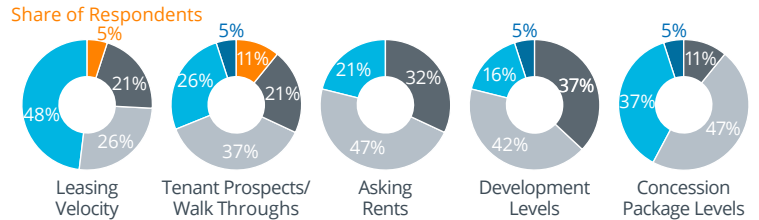
Industrial Market

- The U.S. index averaged 104.4 for second half 2020 industrial market conditions, above 100 which is considered flat conditions. The index is only slightly below the 116.2 registered at year-end 2019 and prior to the onset of the pandemic in the United States.
- Nearly half of respondents expect leasing velocity to rise driven by e-commerce and grocery delivery demand. However, asking rents and development are expected to remain flat. Concession packages are expected to remain unchanged as landlords hold firm on lease economics, but 37% expect them to increase slightly.
- Although respondents expect conditions to be relatively healthy, there is concern about rising COVID-19 cases, which could limit tenant walk-throughs and dampen leasing activity due to restrictions in showing space.
- 42% of respondents expect slightly higher investment interest during the remainder of the year, with pricing remaining steady.
- Half of respondents predict cap rates in the industrial sector will remain flat.

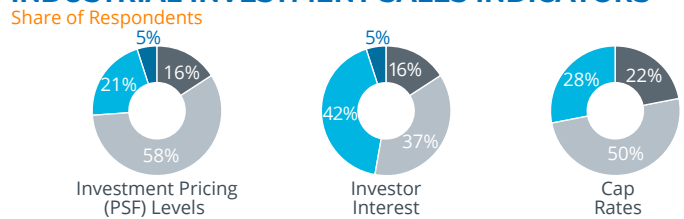
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INDUSTRIAL MARKET INDICATORS



INDUSTRIAL INVESTMENT SALES INDICATORS



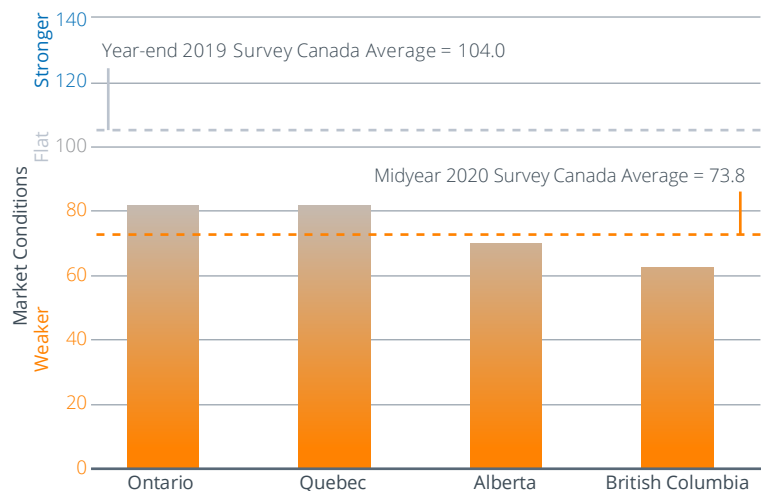
CANADA

The Canadian commercial real estate market is expected to weaken during the second half of 2020, driven by the economic impacts of COVID-19 primarily on the office market. The office index declined 29% since the year-end 2019 survey. Respondents are concerned about how long tenants will delay leasing decisions and favor work from home in the long run. The industrial sector is poised for continued, albeit slightly reduced, growth driven by e-commerce over the next six months. In comparison, the industrial index declined 22% since the year-end 2019 survey, but still reflects stable conditions as respondents expect demand from distributors, 3PLs and manufacturers.

Office Market

- 70% of the respondents expect leasing velocity and tenant prospects to decline during the balance of 2020 as tenants pause leasing and opt to instead sign short-term renewals.
- Half of the respondents expect flat rent, while 57% believe concession packages will rise.
- Market concerns revolve around the unpredictable nature of COVID-19 and the true impact to the market given several tenants are likely to downsize as a result.
- Similar to the United States, select respondents are optimistic about the suburban markets benefiting from increased demand as tenants look to create social distance in the workplace. On

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the flip side, the increase in sublease availability could provide suburban periphery tenants the opportunity to test drive a downtown location at a cheaper cost.

- Respondents note that landlords and tenants are working in concert to keep everyone safe and healthy. Office tenants continue to pay rent, with landlords limiting relief to retail tenants.
- Half of respondents expect development levels to decline during the second half of 2020.
- Roughly 79% of respondents expect investment pricing to remain flat or to decline slightly, while 50% believe interest will remain flat.
- 43% anticipate cap rates to remain flat. Although this could signal some resilience in capital markets, 36% expect cap rates to rise slightly.

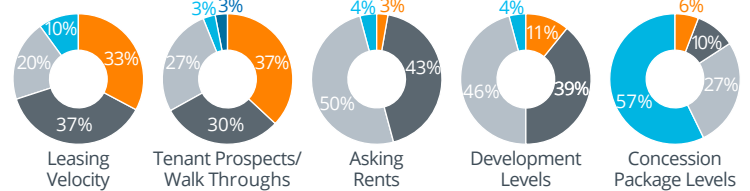
Industrial Market

- Respondents expect conditions to be steady with 54% anticipating slightly higher leasing velocity. However, tenant prospects were somewhat split, with 46% expecting a slight rise and 31% believing they will be slightly down. This is likely due to demand being elevated due to e-commerce, but restrictions limiting tours due to COVID-19.
- Respondents expect pent-up demand stemming from the shutdown. This will likely be driven by distributors and 3PLs. However, demand is also expected from manufacturers, as they look to overstock inventory levels to avoid further supply-chain disruption. A continued concern is lack of options and limited new construction, particularly in the Quebec and Ontario provinces.
- 46% of respondents expect asking rents to remain flat, as landlords hold firm on rent. Half believe concession packages will rise over the next six months.
- 77% expect development levels to remain flat, given limited available developable land in prime areas.
- Nearly half of respondents expect flat to slightly lower investment interest during the second half of the year, with 58% expecting pricing to be flat if not slightly decreasing.
- 54% of respondents predict cap rates in the industrial sector will remain flat during the next six months.
- Regions anticipated to have stronger industrial market conditions during the balance of 2020 include Nova Scotia, Quebec, Ontario and British Columbia.

■ Significantly Higher ■ Slightly Higher ■ Flat ■ Slightly Down ■ Significantly Down

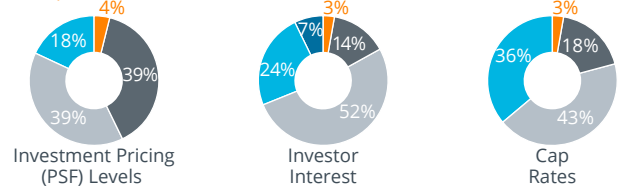
OFFICE MARKET INDICATORS

Share of Respondents

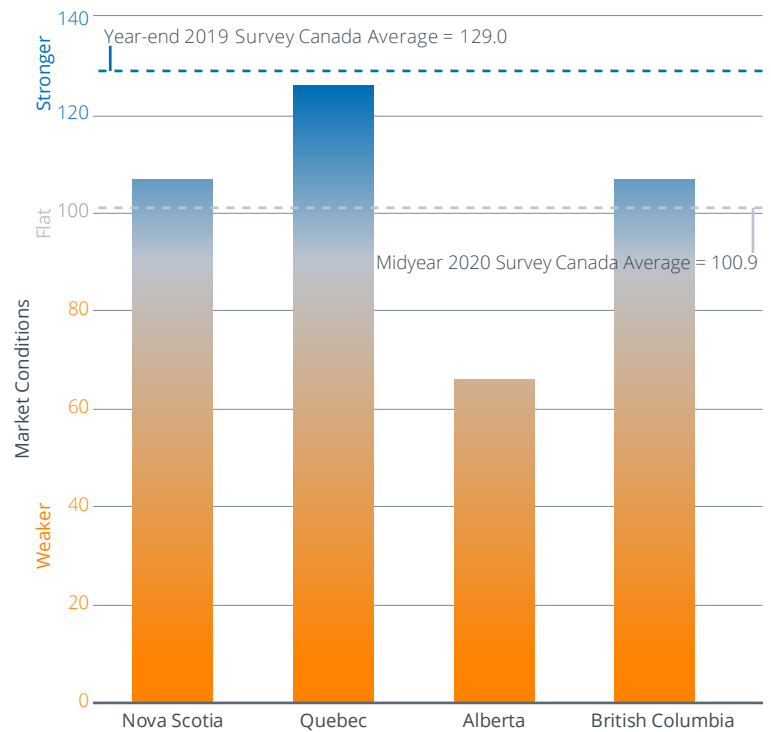


OFFICE INVESTMENT SALES INDICATORS

Share of Respondents



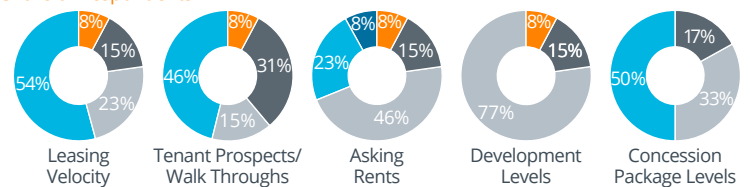
INDUSTRIAL MARKET INDEX



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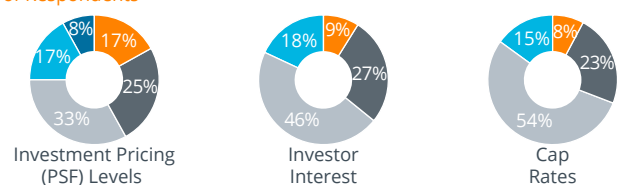
INDUSTRIAL MARKET INDICATORS

Share of Respondents



INDUSTRIAL INVESTMENT SALES INDICATORS

Share of Respondents



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