July 2018

JLL Research Report

Snapshots

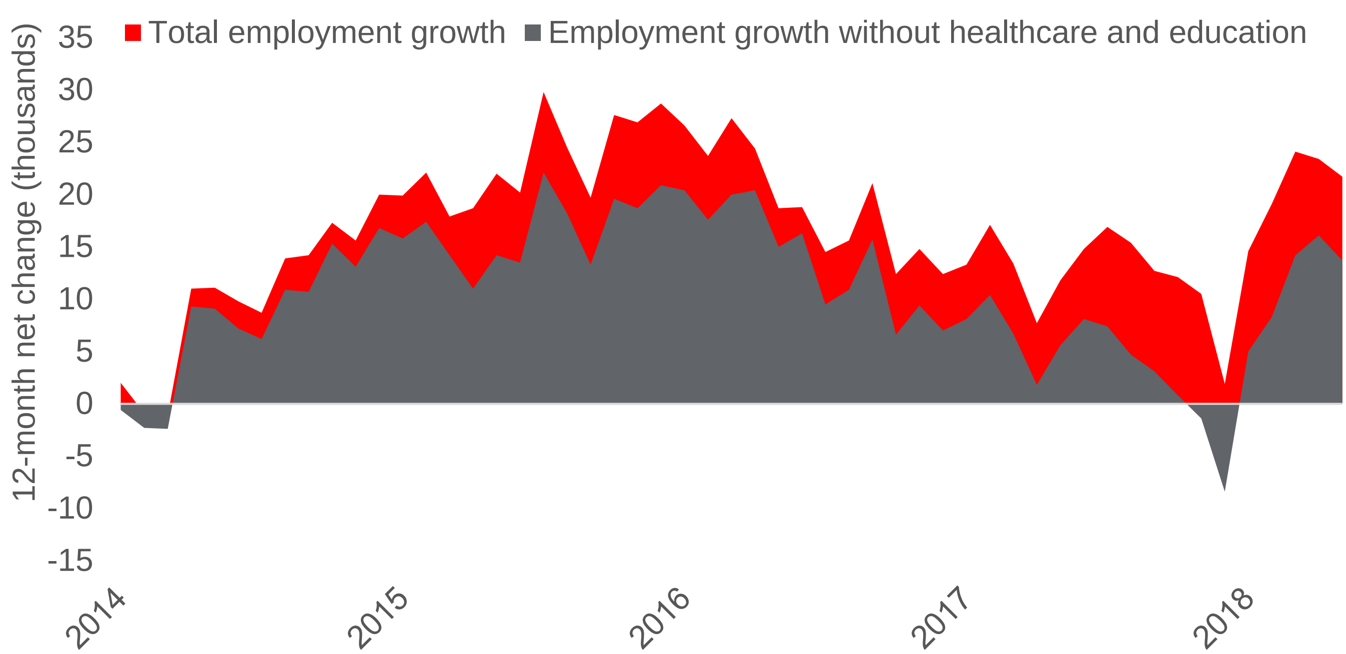
Capturing real-time trends and commercial real estate insight

Baltimore

July 16, 2018

Snapshot

Beyond healthcare and education, growth in 2018 has trended more diverse amongst employment sectors



- Job growth in Q2 across the Baltimore metro economy outside of healthcare and education was the strongest in nearly two years. The trend has helped push Baltimore's annual job growth rate to 1.5%, which is on par with the national average.
- Baltimore would have posted significant job losses at the end of 2017 without abnormally strong education and healthcare growth, but job growth outside of the sector has rebounded during the year to levels not seen since 2016.
- The employment gains have been spread across office and industrial occupying sectors. Professional and business services, the region's primary office-using sector, grew by 5,600 jobs, while industrial-using sectors added 4,900 jobs over the same period. The uptick in gains in industrial-using job sectors follows a record year for net absorption: Baltimore posted 4.8 million s.f. of industrial positive absorption in 2017. Sustained warehouse and logistics leasing volume and major pending move-ins suggest positive employment trends will carry into the latter half of 2018.

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Source: JLL Research

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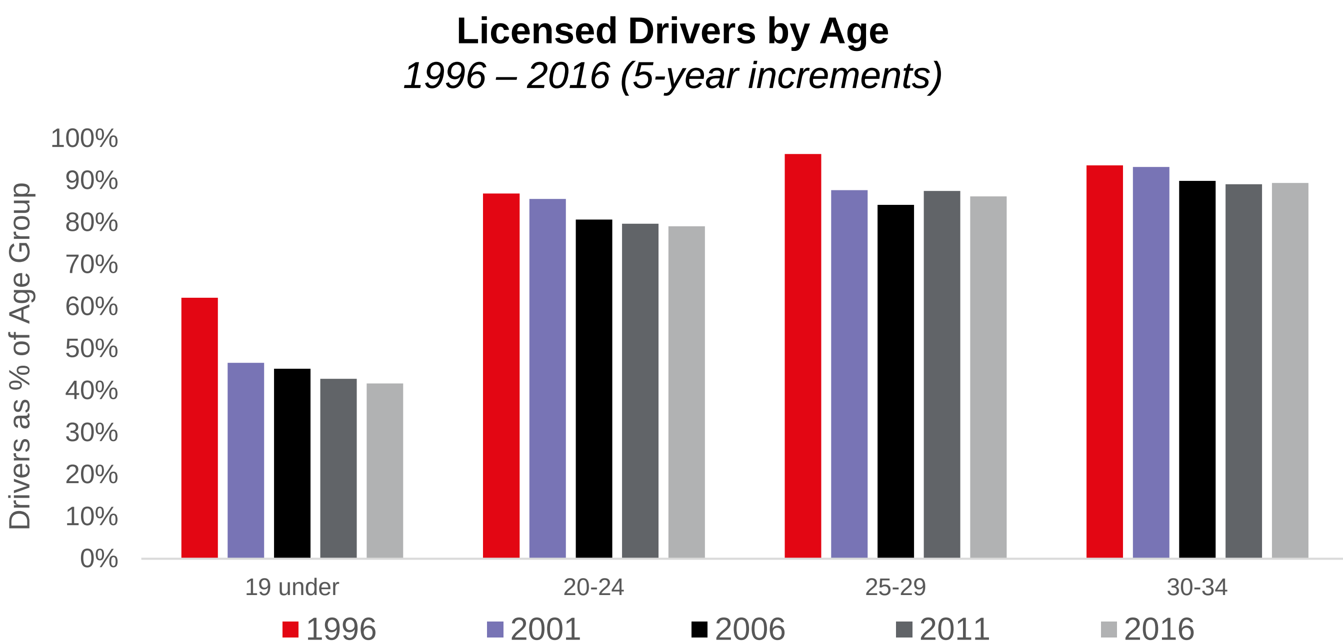
Boston

July 16, 2018

Snapshot

Appeal of driving on the decline?



- From 1996 to 2016, the percentage of Americans with a driver's license dropped for all ages 34 and under, with the most dramatic drop for teenagers (19 and under). In 1996, 62.1% of teenagers had a driver's license but by 2016, that number had fallen to 41.7%.
- Among young adults, the declines are smaller but still significant. From 1996 to 2016, that percentage dropped from 87% to 79% for 20-to-24-year-olds, and 96% to 86% for 25-to-29-year-olds.
- These trends are likely driven by several factors including continued urbanization, shifting preferences, and the increase in mobility options enabled by the sharing economy. Regardless of the cause, transit-oriented development that support a live-work-play lifestyle will continue to be in demand.

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Source: JLL Research, Federal Highway Administration

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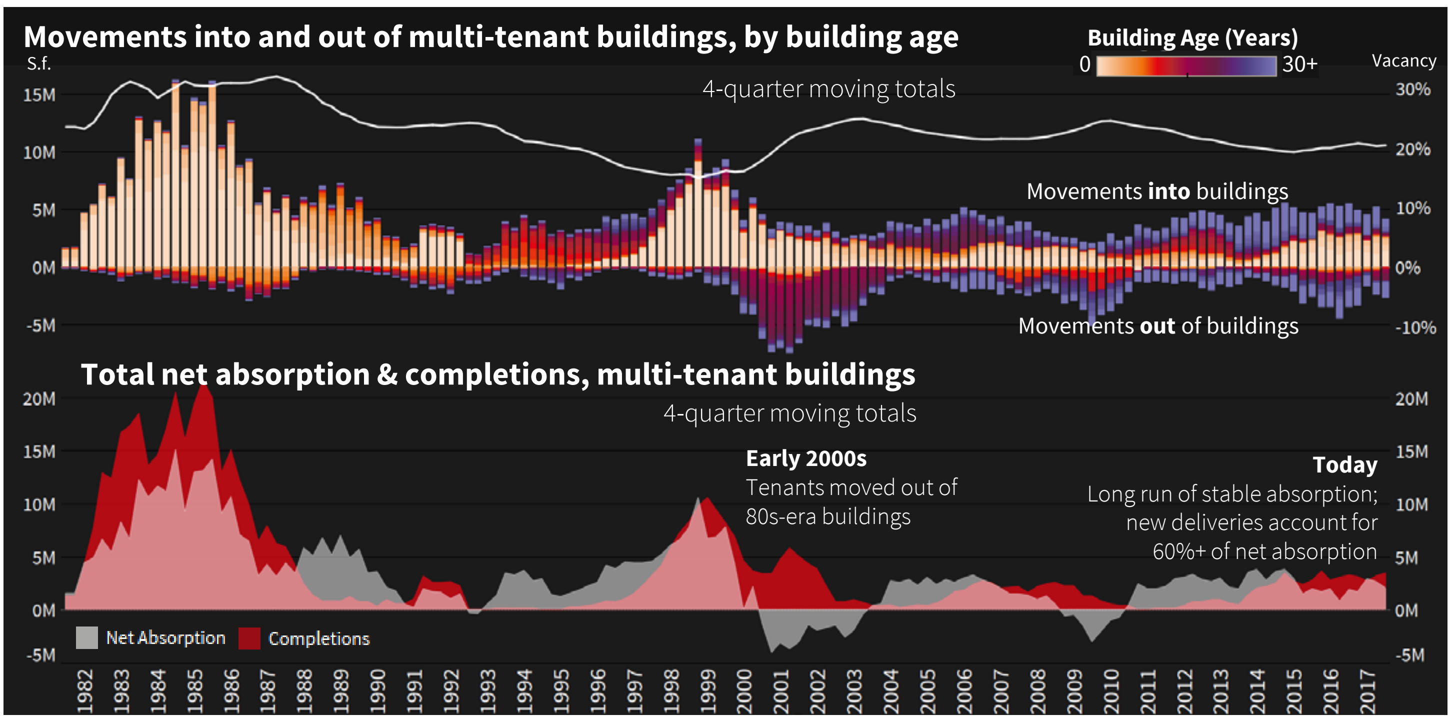
Dallas - Fort Worth

July 16, 2018

Snapshot

Dissecting dallas office demand



- "Flight to quality" has been a feature of the market for years – but we can now visualize it for the first time.
- Move-ins are above the axis and move-outs are below the axis. Most tenant movements into buildings happen in the newest construction – something is that is true of most cities.
- When available, new buildings account for the bulk of absorption. During times of limited new construction, older buildings play a larger role.
- During market downturns (2002, 2009), older buildings were more readily affected as move-outs surged.
- Absorption levels today appear to remain strong. Despite quarter-to-quarter fluctuations, the running total has been similar for at least two years and stable for 7 years.
- Some of the sharp cyclicality of the past (mid 80's, late 90s) has disappeared from the market, which is indicative of greater market maturity.

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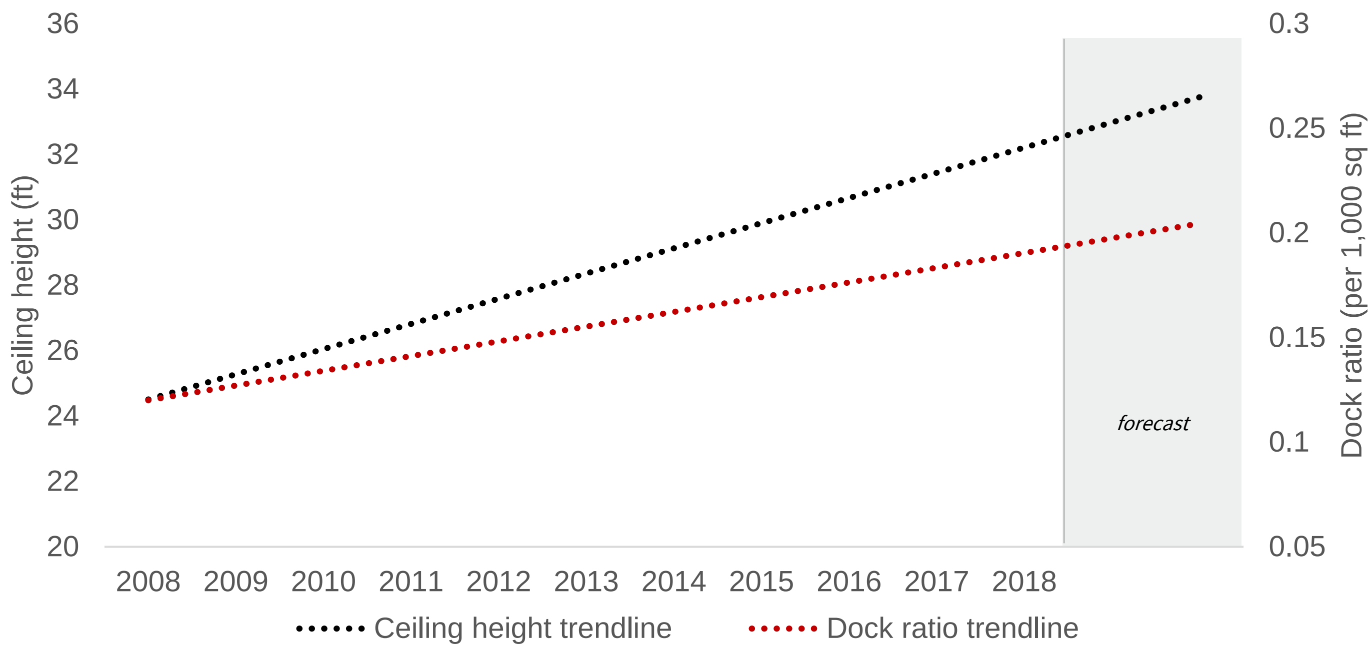
Source: JLL Research Marketsphere, Class A and B Multi-tenant

Denver

July 16, 2018

Snapshot

Multi-story warehousing—will it happen here?



- While in recent years the trend in warehousing was wider buildings, lately the talk has all been about *taller*. With New York, Los Angeles, Seattle, and now San Francisco seeing two-story construction, is it only a matter of time for other cities?
- Denver's average warehouse ceiling height measured 27.7' a decade ago; today, that figure has climbed to 32.0'—or 14.4% taller. Although rising nearly one-half of a foot each year seems high, it would take until 2037 (19 years) for Denver to reach a 40' average (a height for which two-story buildings might make more sense). Another check on local multi-story warehousing is this: unlike the City of Angels or The Emerald City, Denver is not as geographically constrained, with mountains on only one side and a much smaller population than the major coastal gateways. All this in mind, we'd argue that it's unlikely to see any multi-story warehouses popping up in our metro.

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Source: JLL Research

- In addition to ceiling height, the number of loading docks is a building feature that is becoming increasingly popular in the US. In our metro, the weighted ratio of docks per 1,000 square feet has seen a gradual increase to just over 0.18, or 1 dock for every 5,500 square feet. Following the trendline, if appetite for industrial space continues to remain positive, 1 dock for every 5,000 feet can be expected by 2020.

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Source: JLL Research

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Indianapolis

July 16, 2018

Snapshot

Indianapolis office market at a glance…

Key market indicators		
Supply		**Y/Y chg**
Inventory	32,897,858	▲
Direct vacancy rate	17.2%	▲
Total vacancy rate	17.6%	▲
Q2 2018 completed construction	0 s.f.	▼
YTD completed construction	0 s.f.	▼
Under construction	374,380 s.f.	▼
Demand		**Y/Y chg**
Q2 2018 net absorption	-88,703 s.f.	▼
YTD net absorption	79,614 s.f.	▲
Pricing		**Y/Y chg**
Overall asking rent	$20.59 p.s.f.	▲
Class A asking rent	$22.77 p.s.f.	▲
Class B asking rent	$18.32 p.s.f.	▲

Q2 2018 notable lease transactions		
Tenant	**Type**	**Size (s.f.)**
Defenders, Inc.	Renewal	112,014
Marion County Public Defenders	Renewal	67,177
American Structurepoint	Relocation	66,990
Carrier Corp.	Relocation	56,494
Wolters Kluwer	Renewal	42,491
BMO Harris	Renewal	38,000
Fifth Third	Renewal	35,000
Key Bank	Renewal	22,548

- After a slow start to 2018, leasing velocity really picked up the pace during the second quarter. In fact, Q2 saw the largest amount of leased square footage during a single quarter in over a year! Occupancy growth was limited though by the continued trend of a few large corporate users downsizing or exiting the market.
- Tenant demand for space in “Live-Work-Play” areas continues to drive local office development. The Downtown areas of Carmel, Fishers and Indianapolis account for six of the eight projects already under construction or about to break ground in the metro area.
- New office developments coming online combined with consistent tenant demand should help carry over the momentum built during the start of 2018 into the second half of the year. In addition to the current construction pipeline, a handful more projects are close to getting the green light.

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Source: JLL Research

Los Angeles

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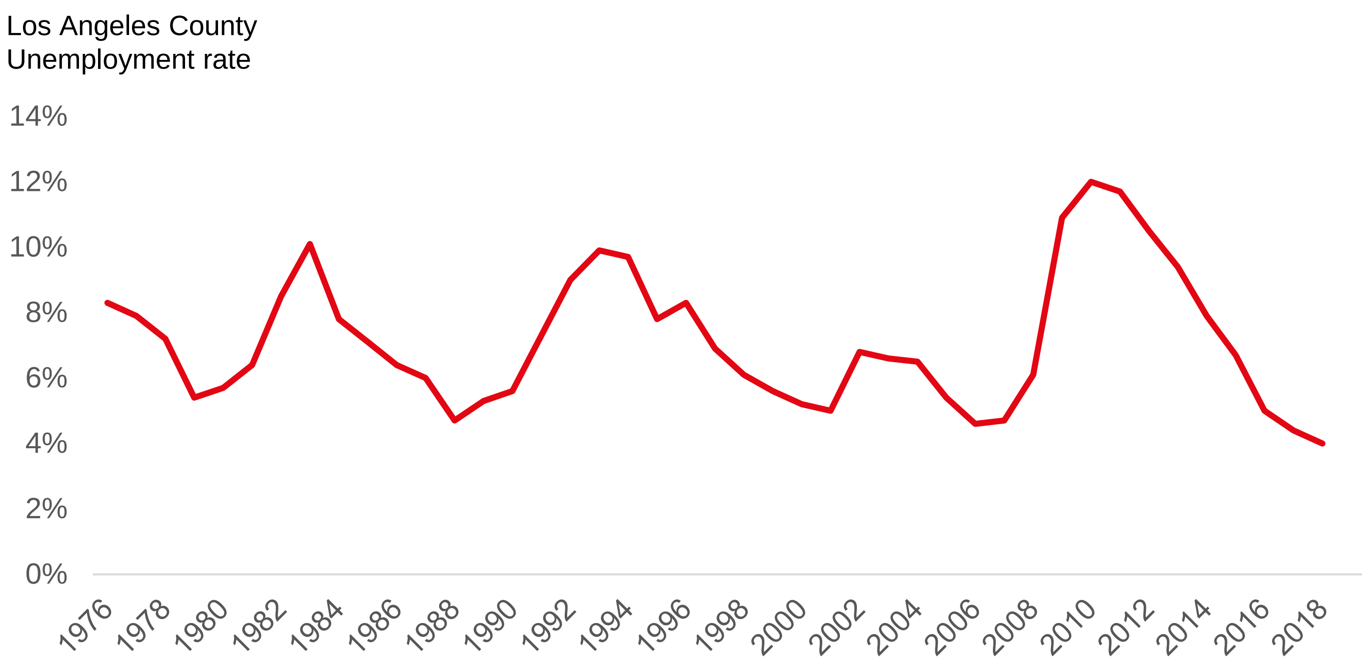
Snapshot

Record low unemployment good news for the office sector



- The County unemployment rate reached four percent, the lowest on record. Sectors which added the most jobs included leisure and hospitality, technology and construction which grew 4.7, 3.7 and 3.0 percent respectively just over the last 12 months.
- Within the office using sector, 33,300 new jobs were created in the last 10 years. Over the same period of time, occupancy increased 2.8 million square feet with much of the demand coming from new media and tech.
- The strong economy is likely to support additional growth in the office sector. With only 2.6 million square feet of product under construction representing less than 1.4 percent of the market's total inventory, new supply isn't likely to exceed demand.
- Sectors such as banking and legal services, which have been right-sizing for the past few years are now beginning to take on additional space. We anticipate continued growth from tech, media and entertainment to support additional demand.

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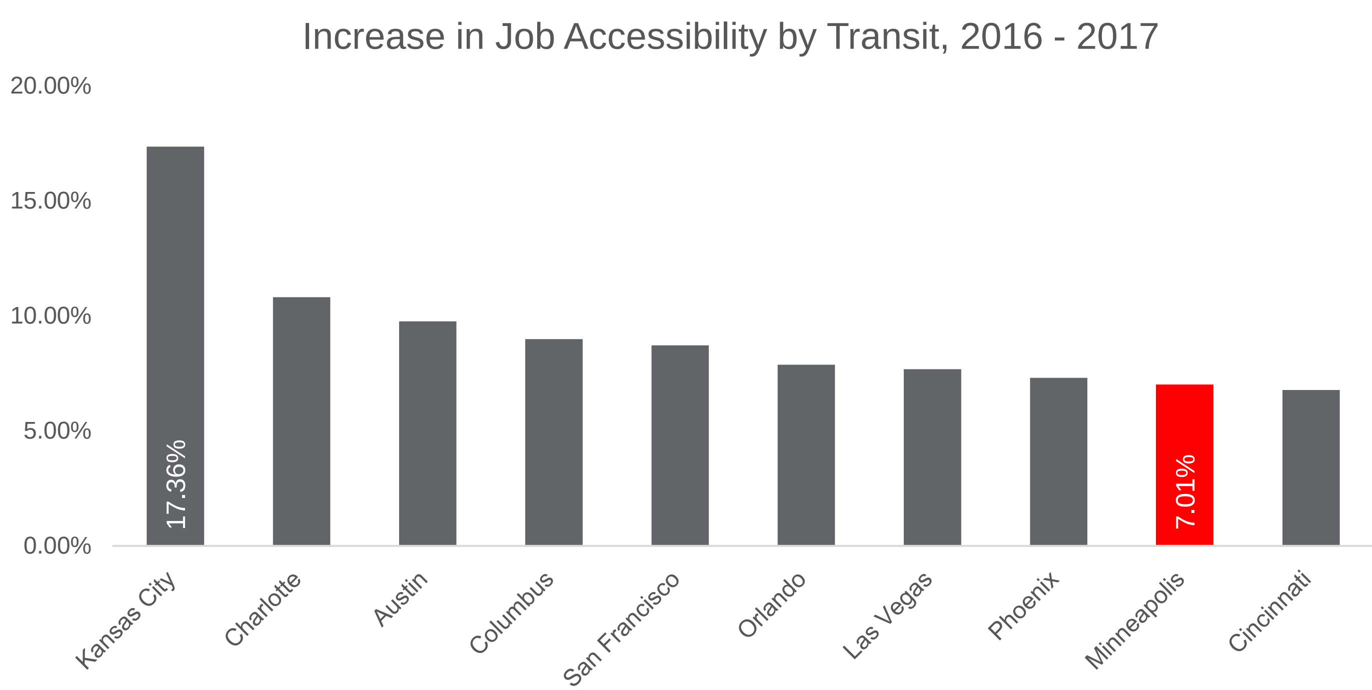
Source: JLL Research

Minneapolis-St. Paul

July 16, 2018

Snapshot

Minneapolis-St. Paul experiences top ten increase in job accessibility by transit



According to the University of Minnesota's Accessibility Observatory, the average working in the metro can reach 18,029 jobs within 30 minutes via transit. This statistic places Minneapolis-St. Paul 13th in the nation with an overall increase of 7.0 percent more jobs accessible by transit than last year

A portion of this increase comes from total job growth. The metro posted a 2.1 percent gain in total employment in the time period coinciding with the study. A likely factor attributing to the growth in accessibility has been the Metro Transit A Line, according to the Observatory.

Kansas City, which ranks 40th nationally saw a major bump with 17.4 percent growth topping established large metros like New York, San Francisco and Chicago. Among all primary markets, San Francisco is the only city to land top ten growth in this category.

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Source: JLL Research, University of Minnesota

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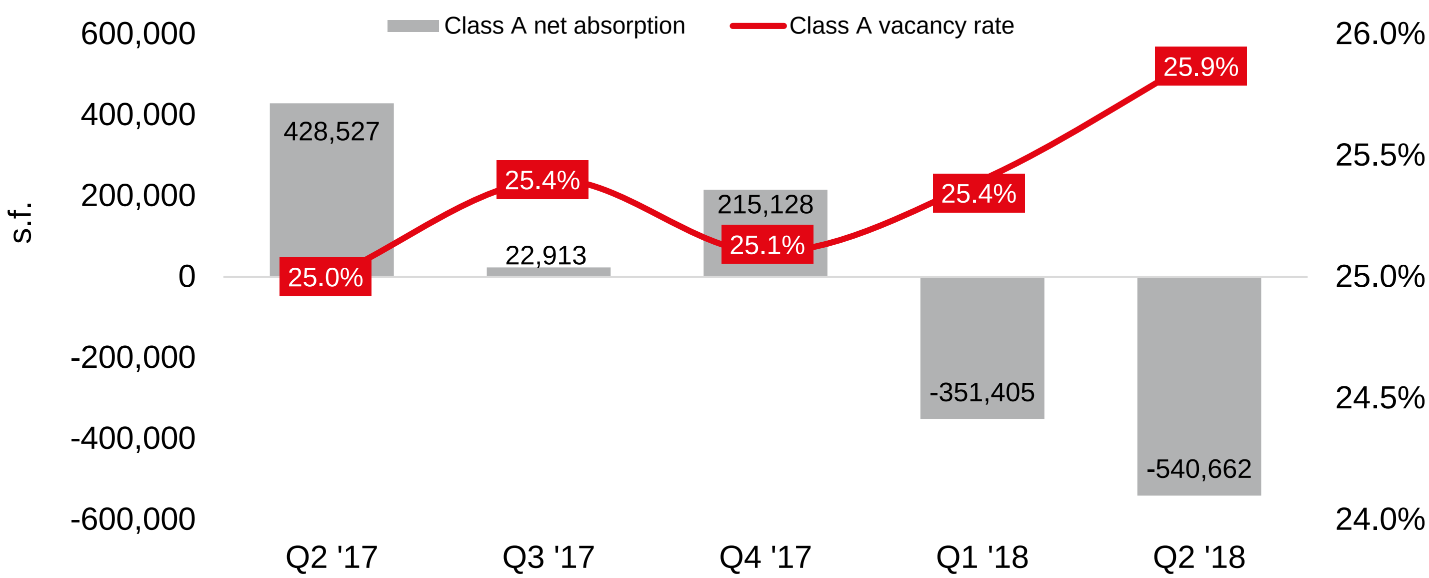
New Jersey

July 16, 2018

Snapshot

Parsippany submarket weighs heavily on state's Class A vacancy rate at mid-year

Northern and Central New Jersey Class A office market



- Decelerating leasing velocity had kept the Northern and Central New Jersey Class A vacancy rate near the 25.0 percent level for the past year.
- However, the Class A vacancy rate approached 26.0 percent during the second quarter of 2018, in the wake of 540,660 square feet of negative net absorption. This represented the largest volume of negative quarterly absorption since early 2017.
- More than one-half of this negative absorption was traced to activity in the Parsippany submarket, where additional large block vacancies boosted the Class A vacancy rate above 34.0 percent compared to 31.5 percent in early 2018.
- Contributing to the recent uptick in the Parsippany Class A vacancy rate was 122,680 square feet available at 11 Waterview Boulevard, while 72,400 square feet of direct space was marketed at 20 Waterview Boulevard.

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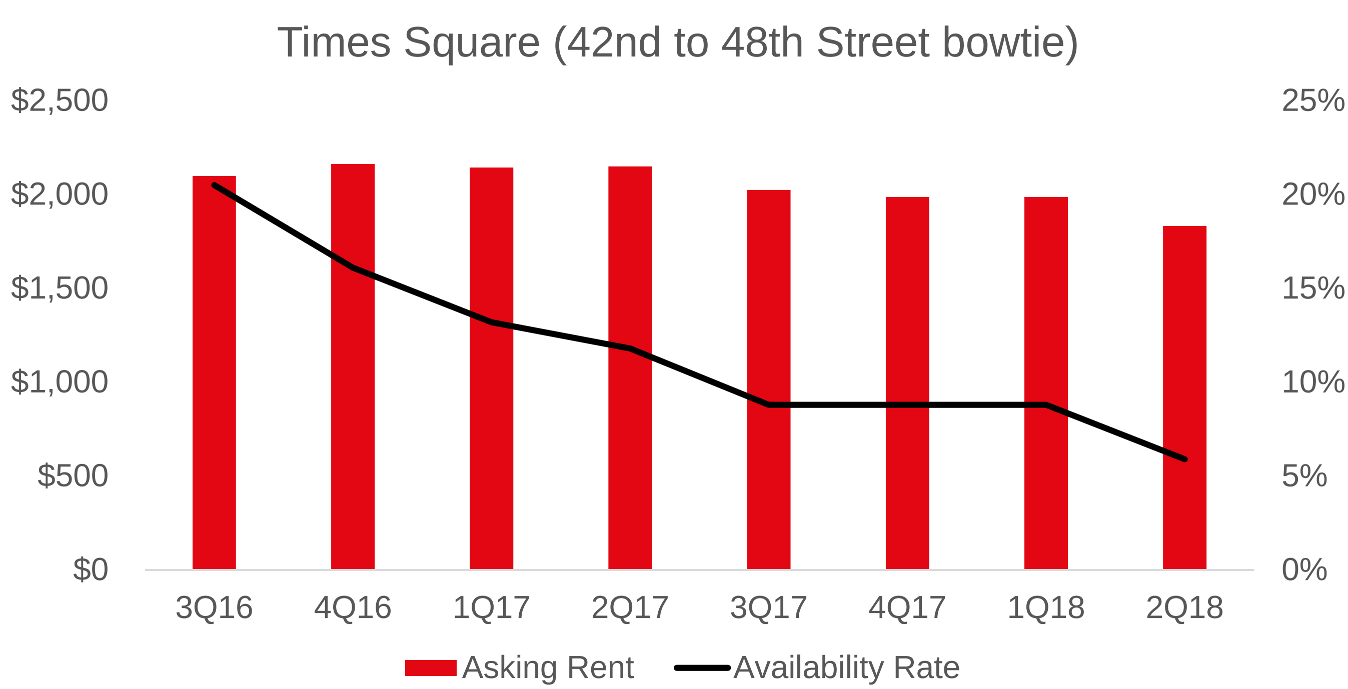
Source: JLL Research

New York Retail

July 16, 2018

Snapshot

Times Square is on a roll



- Times Square continues to show signs of prosperity as availability in the corridor dropped to 5.9 percent in the second quarter, the lowest of all submarkets tracked by JLL Research.
- The area benefited from the marked decrease in asking rents that has been observed city-wide; the current average of $1,833 psf represents a 17.3 percent decrease year-over-year.
- Recent entrants to the submarket include **McDonalds**, which signed a lease for 9,000 square feet at 1530 Broadway, and **Covergirl**, which leased 10,000 square feet across five floors in a 10-year deal at 719 7th Avenue.
- Retailers continue to take note of the unmatched branding opportunities the submarket provides; for example, the Covergirl store will be the first-ever in the company's history and will have nearly 6,000 square feet of LED signage.

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Source: JLL Research

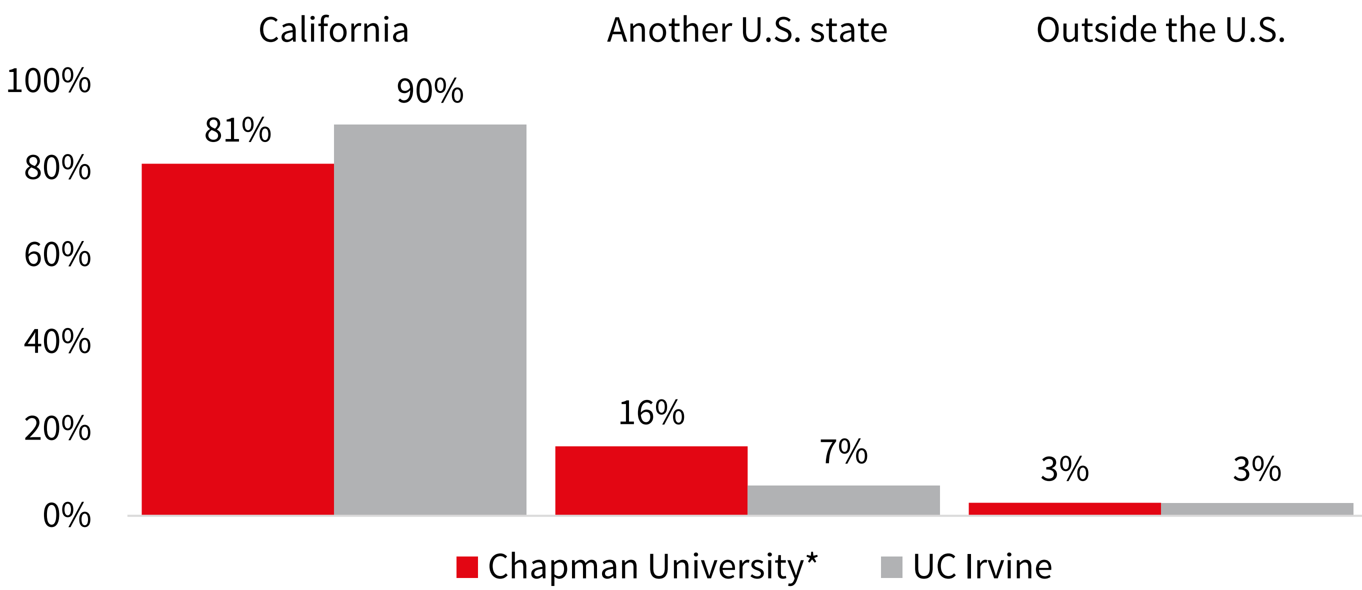
Orange County

July 16, 2018

Snapshot

How good is OC at keeping college grads in CA? As it turns out, really good

% of OC university students that stay in CA after graduation.



*Data for Chapman reflects 2016 numbers (UC Irvine reflects 2017 data)
Note: data for Cal State Fullerton is not available.

- Having a strong educated workforce is a crucial component of innovation and economic development for any region. For this reason, graduate retention has been a focal point among cities and metros across the United States.
- Reports released by two of Orange County's major universities, UC Irvine and Chapman University, show that the vast majority of graduates prefer and are successful in finding desirable employment within the state.
- Moreover, Chapman has also reported that 86 percent of their graduates that find employment within the state stay in the LA/OC region.
- As the OC economy continues to prosper, sustained job growth, driven by innovation and growth in the technology and life science industries, as well as a projected 3 percent annual increase in income levels in the region are expected to continue the retention trend.

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Source: JLL Research, UC Irvine, Chapman University

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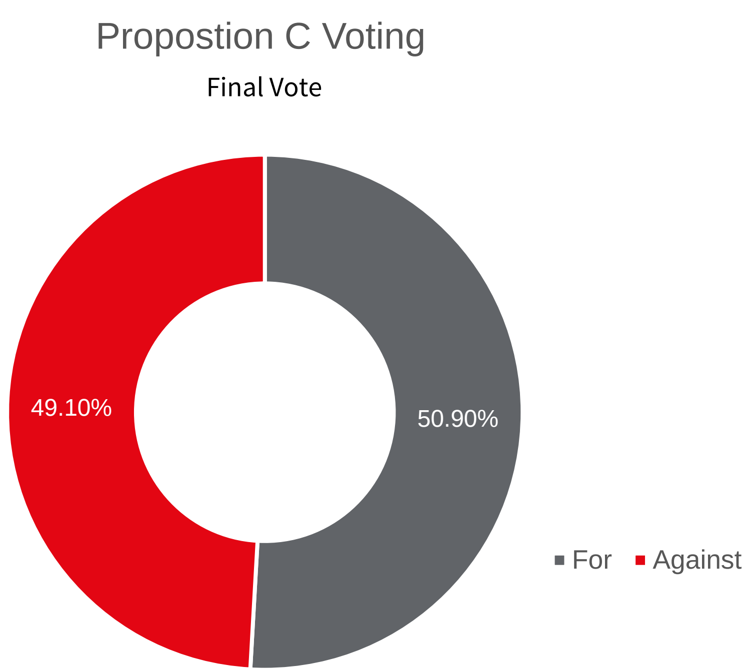
San Francisco

July 16, 2018

Snapshot

San Francisco - Proposition C update



- Proposition C, which passed on the June ballot, imposes an increased gross receipts tax on commercial real estate.
- The tax is solely placed on commercial real estate with annual rental revenue exceeding $5M for office and $1M for industrial.
- San Francisco residents submitted a petition, and as a result, the tax legislation only required a simple majority to win. Final voting numbers were 50.9% for and 49.1% against.
- Additional revenue from the increased tax will be split between the city's general fund and early education/child care for lower income families.
- The increased tax would most likely be passed along to tenants through their respective lease structures and will put upward pressure on already high rents.
- Despite passing in June, there are potential November ballot measures that could repeal Proposition C.

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Source: JLL Research

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Metro DC

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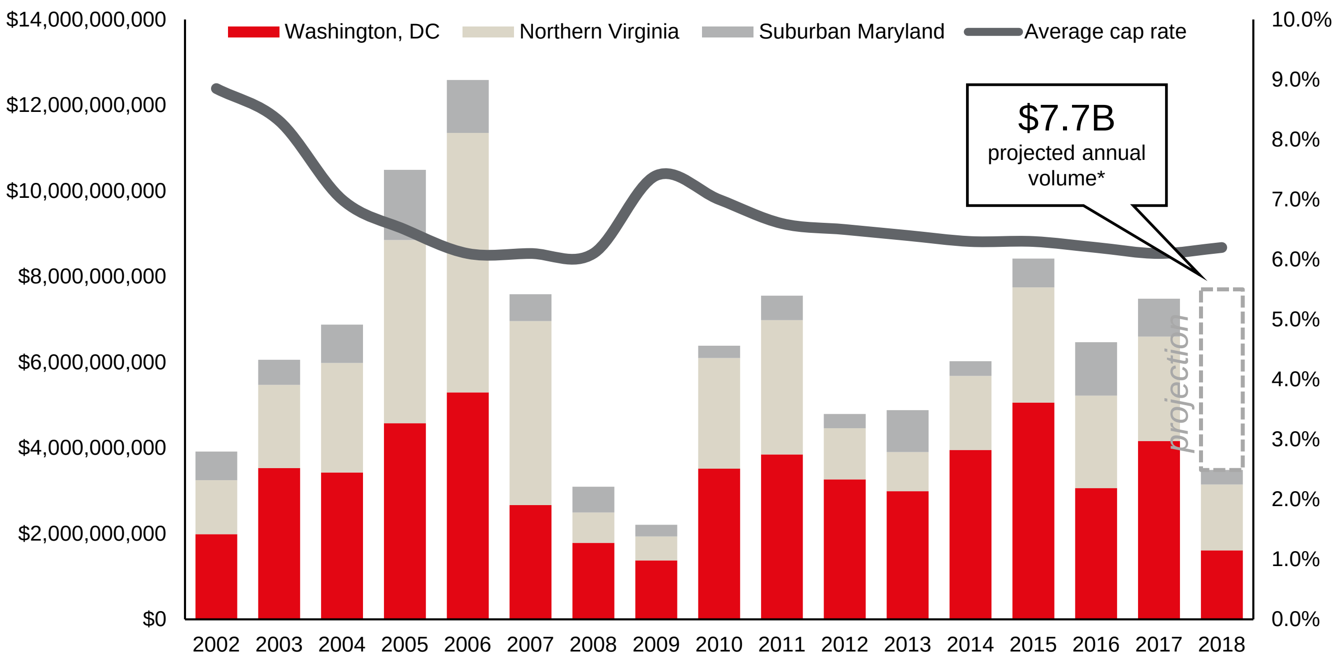
Snapshot

Office sales volume slowed compared to Q1's breakneck pace, but remains on pace to exceed 2017's activity



- After an active Q1 in which more than $2 billion of office assets traded hands, office investment sales across Metro DC resumed a more typical pace in Q2, registering $1.4 billion with Washington, DC seeing eight trades and Northern Virginia seeing 18 trades.
- A lack of current offerings in some of the region's most popular segments has inhibited volume. The downtown Trophy market posted a record sale with the closing of 900 G Street NW and a recap in Q1 and 2099 Pennsylvania is projected to close by the end of Q3, but no other Trophy buildings are on the market. In comparison, six Trophy sales closed each year in 2016 and 2017.
- Federal-government-leased offerings are equally scarce, which is especially true of large, single-tenanted buildings, only three of which are currently on the market across the region.

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Source: JLL Research

- That said, the market remains on track to exceed 2017 levels and record its second-strongest year in more than a decade. While the average deal size to date this year measured $84 million, we expect a considerable uptick during the next few quarters, considering some mega deals currently on the market. Washington Harbour in Georgetown is under contract for $415 million, and other assets that have recently been placed on the market, including the four-building Tower's Crescent complex in Tysons (~$460 million) and 1001 Pennsylvania Avenue NW downtown (~$750 million) will push overall volume. JLL projects that these trades, as well as others in the pipeline, will fuel $7.7 billion of volume across 2018.

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Source: JLL Research