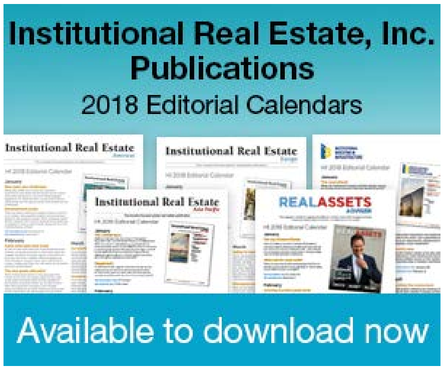
RESEARCH

Industrial sector named strongest property sector of 2017

BY ANDREA WAITROVICH

The U.S. economy has demonstrated surprising resilience in 2017, according to Colliers International. The economy began the year in its usual winter doldrums but has since gathered momentum. If fourth quarter GDP hits a 3 percent pace, as leading forecast models project, this will mark the first time in this cycle that GDP has grown at a 3 percent annualized rate for three consecutive quarters.

Job growth continues to be strong. Employers have been adding an average of 170,000 jobs per month this year, compared to over 250,000 monthly in 2014 and 2015. With the unemployment rate at



just 4.1 percent, and consistently below its 5.1 percent long-term average for over two years now, firms find it increasingly difficult to hire qualified workers for their open positions. Slowing job growth hurts the office property sector most directly.

The industrial sector has emerged as the strongest property sector and the new favorite among investors due to robust fundamentals including record occupancy and rents, as well as net absorption and construction. The sector is booming because occupiers are expanding and modernizing their distribution channels to meet rising demand courtesy of the strong economy and the rapid rise of e-commerce sales, layered on top of strong seaport and rail traffic volumes and manufacturing, all of which are experiencing year-over-year growth this year.

Colliers expects the industrial sector to continue to prosper in 2018 with record construction and asking rental rates, as well as strong absorption and rock-bottom vacancy rates. Demand from retailers will remain robust, but we will see the biggest increases in space requirements from wholesalers and third-party logistics (3PL), which must expand the size and locations of their distribution centers to keep pace with increasing demand from e-commerce and a strong overall economy.

The multifamily sector continues to post historically robust fundamentals. Occupancy remains very strong, though down slightly from this cycle’s crest, as construction peaks while record rent levels are restraining new demand and further rent gains. In 2018, expect continued strong, if less outsized, performance in the multifamily sector as well. In part due to construction labor shortages, deliveries did not crest this year as predicted, pushing the peak into 2018. With rents already far into record levels, affordability is becoming increasingly problematic, hurting demand.

The office sector is losing momentum. The national office vacancy rate has been stuck at virtually the same level for almost two years, albeit at the same occupancy peak as in the last cycle. Rents have similarly been flat in recent quarters. Construction remains elevated but slowing, with 2017 the peak year for deliveries in the current cycle. Investors continue to shift their focus to suburban assets in search of more attractive yields, while suburban offices also see an uptick in its share of leasing as CBDs offer tenants fewer options. In 2018, Colliers expects supply and demand to remain broadly in tandem and stable. The uptick in GDP, and potentially job growth, should spur more need for office space.

And investors continue to flee the retail sector, investing in only the best centers and locations. However, a strong holiday season should have the sector ending on a positive note. But Colliers predicts another wave of store closures and bankruptcies after the holidays and into 2018. Secondary retail centers, especially those in weaker markets, will suffer disproportionately. More retail centers need to convert to other uses before occupancy and rents can regain their

Why Should You Watch Our Market Navigator Series?

Glossary, videos, podcasts, research in the Resource Center

former levels.

SHARE THIS ARTICLE

Twitter LinkedIn Google Facebook

About Us

Contact Us

Leadership

Editorial Board Members

Staff Directory

Glossary

Frequently Asked Questions

Reprints

Careers at IREI

Sponsorship

Our Sponsors

Sponsor Profiles & Interviews

Subscribe

Advertising

Bonus Distribution

Privacy Policy

Terms of Use

Sign up for our FREE Daily News Alerts

Our news alerts are free and delivered to your inbox daily. Alerts cover Real Estate, Infrastructure, Real Assets and Dealmakers.

© Copyright 2017. Institutional Real Estate, Inc. All Rights Reserved. *2274 Camino Ramon, San Ramon, California 94583 U.S.A.* | Telephone +1 925-244-0500 | Fax +1 925-244-0520

Facebook Twitter LinkedIn