

Gruen Gruen + Associates

Holiday Greeting and 2016 Forecast

The economic expansion will continue in 2016.

More than ever, to thrive through the economic cycle will require acute sensitivity to consumer and business preferences for specific real estate product features, amenities, and services. These will need to vary to reflect the unique demographic, economic, and cultural make-up of the geographic markets in which developments are located.

MACRO-ECONOMIC OUTLOOK

The Federal Reserve will raise the federal funds rate. However, with limited-to-no inflation pressures and low rates of labor force participation, **interest rate increases will be small and gradual.** Global economic weakness and political turmoil will increase the **appeal of the U.S. as a safe haven, which will support domestic real estate asset prices.**

The current business expansion in the U.S. will be maintained through 2016 due to increases in household formations, continued household recovery from the housing market collapse, the "consumer dividend" from low oil and gas prices, growth in housing development and investment in existing housing, and improving labor markets (including small wage rate growth).

Thriving Through the Economic Cycle

A variety of risks, including domestic political uncertainty, heavily indebted foreign borrowers in U.S. dollars, and social and political disorder in some foreign countries, could interact to curtail the U.S. economic expansion. In some of those fast-growing regions which were the first to recover from the Great Recession, the expansion is in the "late innings." Many cities not located in gateway and major metro markets yet to fully capitalize on the digital economy can still find opportunities to accelerate their rates of economic growth. Investors and developers will thrive through the economic cycle by anticipating and serving the rapidly changing tastes, priorities, and preferences of diverse populations and demanding businesses which must constantly innovate to stay ahead of their competitors.

Gruen Gruen + Associates wish you and yours a healthy, happy, peaceful, and prosperous New Year.

REAL ESTATE OUTLOOK

Apartment: 2016 will be another positive year for apartment investment and development, although in select markets, apartment developers will need to carefully monitor increases in apartment unit supply to avoid delivering product into overbuilt markets. Demographic- and behavioral-driven factors (including the deferral of marriage, overhang of student debt, and high cost of for-sale housing in preferred urban coastal and major metro markets, and because highly-educated millennials comprise the largest population category) are primary reasons for the positive outlook for apartments. The type and scale of apartment projects and amenity and service packages (including arrangements for delivery of e-commerce packages and food, bicycle storage, car sharing, and areas for pets) that will be most market responsive will vary by geographic market and specific demographic segments present in those markets.

Industrial: Development and investment of industrial space in 2016 will continue to benefit from a variety of factors, including a major shift toward smaller ("last mile") distribution centers in or near major cities and fewer, but larger, highly-automated distribution facilities as e-commerce continues to grow. Growth in manufacturing and distribution of building/housing materials will also support the demand for industrial space.

Retail: Low gasoline prices will benefit restaurants and entertainment uses most as well as support continued strong car and truck sales. Consumer services including spas, health and fitness services, and pet care, will help offset the decline of traditional shop space tenants due to an increasing share of consumer retail expenditures made through cyberspace.

Office: Selective office space development and investment opportunities will continue in amenity-laden, transportation supportive, mixed-use environments. Employment growth in technology and professional, technical, and business services sectors in urban, high-density, markets to which talent is migrating will generate continued growth in office space demand. "18-hour" cities with strong educational and healthcare bases offering economic opportunities, affordable housing, and quality ease of life represent the other type of markets best positioned to hold their strength through the economic cycle.

Hotel: Turmoil in some foreign markets will cause more U.S. leisure travelers to vacation domestically. In addition, foreign investors, especially Asian, will buy U.S. hotel properties in gateway and major metro markets.

