



Commercial Real Estate Markets Update (December 2019)

Capital allocation in commercial real estate has shifted away from office into multifamily and industrial properties. Retail centers are looking for new ways to replace traditional retailers with more experience driven tenants.

Below are key takeaways from the following reports:

Real Insights – The Shifting Preferences of Commercial Real Estate Investors – Newmark Knight Frank – [Report Link](#)

Retail Outlook – How retailer centers are redefining themselves – JLL – [Report Link](#)

Real Insight – The Shifting Preferences of Commercial Real Estate

Investors

Newmark Knight Frank

- In the last 15 years, the allocation of capital by property type has seen a shift away from the once dominant office product and towards multifamily and industrial properties. Apartments have been the largest recipient of capital in the last 5 years.
- Ownership of industrial properties has seen an influx of large-scale institutional investors in the current cycle given the rise in logistics and ecommerce. Large Industrial properties were previously dominated by REITs, and on the smaller product, local developers
- The expectation is that industrial and multifamily will continue its proliferation in the market in 2020, attracting a wider variety of investors. As of Q3, industrial and multifamily accounted for \$80B and \$120B YTD, respectively. They were also the only asset classes above 10% average annual returns through Q3.

Retail Outlook – How Retail Centers are Redefining Themselves

JLL

- Owners of retail centers are looking to bring more of an experience to their visitors and attract tenants that align with that idea. With health and wellness at the forefront of American consumers, fitness studios have proven to invigorate shopping centers, complimented with healthy fast casual restaurant options. Other unique concepts are healthcare clinics and entertainment centers, such as bowling or arcade.
- Mall landlords that are looking at vacant department store space are looking toward redevelopment, as big box retailers are dominating the online market. Some landlords are

incorporating hotels, while others are bringing an office concept to the vacant space, often times co-working office space.

- Developers of retail have been keen on mixed-use as the solution to a struggling time in retail, and mall landlords have a similar opportunity when faced with a vast amount of vacancy. The Live, Work, Play mantra has been adopted to include a diversity of real estate uses and open-air, walkable areas that transform a traditional mall into a lifestyle center.