



Colliers International Real Estate Trends2018

Colliers International Silicon Valley Market Forecast Recap

San Jose, California - February 13, 2018 - In its 19th consecutive year, last week Colliers International hosted its annual Trends Event at the beautiful California Theatre in downtown San Jose. The panel event was moderated by Dave Schmidt, Executive Vice President in the firm’s San Jose | Silicon Valley office and a 32-year commercial real estate veteran.



Schmidt (pictured here) reviewed last year’s predictions for gross absorption, net absorption and availability rates in the office, R&D, industrial and warehouse sectors. Here they are:

	Absorption & Availability 2017					
	Gross Forecast	Gross Actual	Net Forecast	Net Actual	Availability Rate Forecast	Availability Rate Actual
Office	13.5M SF	13.03M SF	3.9M SF	5.7M SF	14.50%	12.05%
R&D	7M SF	5.7M SF **	2M SF	620K SF	11.3%	10.6%
Industrial	3M SF	2.25M SF	500K SF	670K SF	3.0%	3.19%
Warehouse	2M SF	1.9M SF	500K SF	155K SF	2.0%	3.11%

** Apple “Spaceship” HQ alone accounted for 3.1M SF

Absorption & Availability 2018			
	Gross Forecast	Net Actual	Availability Rate
Office	8M SF	3M SF	9%
R&D	9M SF	1.5M SF	9.8%
Industrial	2.5M SF	750K SF	3.0%
Warehouse	2.0M SF	500K	<3.0%



The first panelist to speak was Christopher Thornberg, PhD, a Founder and Chief Economist with Beacon Economics. This was “The Big Picture” from Los Angeles-based Thornberg:

Positives

- GDP Growth Outlook for 2018: 3%
- State revenues will look positive
- Labor markets to remain tight, constraining growth
- Rising wages to put pressure on profits
- Exports, business investment to pick up
- California housing shortages will constrain local growth



Negatives

- Fed will continue to tighten (raise rates), yield curve
- Markets look frothy – watch debt levels
- Consumer savings are entering dangerous (low) waters
- Federal deficit will widen sharply
- Political uncertainty to dominate headlines

Thornberg asked the rhetorical question regarding the stock market – are stocks over-valued? His response, “a little but not much.” He went on to predict that while 2018 will have a great deal of volatility in financial markets, last week’s stock market swoon would bounce back pretty quickly. He also noted that since the beginning of the current nine continuous years of economic expansion, we have had five major sell-offs, including the most recent one, pointing out that there were no sell-offs during a placid 18-month expansion from the middle of 2016 until January this year.

He said that venture capital has some \$70 billion in capital to deploy and that he sees no sign of recession for at least two years.

The unemployment rates in San Jose (2.8%), San Francisco (2.4%) and the East Bay (3.23%) are at historic lows. In the west side of Silicon Valley about 14,000 housing permits were issued in recent years – an amount far short of the 40,000 to 50,000 permits needed for new housing units to keep pace with job growth in the region. His biggest concerns were the lack of a quality workforce to fill ongoing employment growth and lack of housing to accommodate the growing workforce.



Marc Maiona, CEO of Irvine-based LeaseCalcs, was the second panelist and may be the foremost expert in the United States on the upcoming changes to accounting for leases by the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB), particularly with respect to the way those changes affect real estate transactions. These new standards are set to be adopted in 2019 and 2020 (depending upon whether a company is private or public). Many



larger corporations have already initiated efforts to implement the new accounting standards. Currently, most leases are considered off-balance sheet costs of conducting business but henceforth, leases will be treated on balance sheets as debts or liabilities. The accounting change is likely to affect debt-to-equity changes for many companies.

There were several key takeaways from Maiona's presentation:

- NNN lease structure will be preferred, as only the net lease rate will be applied toward capitalization.
- Tenants may shift to longer initial lease terms and contractually limit renewals as they may be treated as a capital commitment and financial liability.
- Subleases will be accelerated and may be more financially painful.
- Early renewal vs. relocation decisions will get closer scrutiny and may be executed earlier than historical norms. Consequently, the "should I stay or should I go now" question for tenants will have an even stronger presence in corner offices and board rooms.
- Deals will require greater financial literacy.

Lastly, Greg Valliere, back by popular demand and for the 11th consecutive year, is the Chief Global Strategist and Chief Political Strategist at Horizon Investments, and is widely considered to be one of most intuitive economist and analyst covering politics and the impact politics has on business from his Washington, DC headquarters.

Valliere suggested that he is not at all sure of a so-called "tidal wave" at the polls for the Democrats to retake the House in the fall. It's likely that a good economy could keep more Republicans in their respective seats.

"Trump got his way on stimulus – he got everything he wanted with taxes and by Labor Day we could see 3% GDP or even 3.5% GDP," Valliere said.



He added that as Senatorial races roll in, Republicans may add a seat or two to their current 51-49 majority in the Senate.



Valliere pointed out that the Democratic leadership is “really old.” Nancy Pelosi is 77, Elizabeth Warren is 68, Bernie Sanders is 76 and Joe Biden is 75. He said the Democrats “are a party that really needs to have some new blood” and he mentioned New Jersey’s junior Senator Cory Booker (48), California’s junior Senator Kamala Harris (53) and Los Angeles Mayor Eric Garcetti (47) as a potential future crop of Democratic leaders.

Valliere also shared something that many of us were unaware of: in the next presidential election, California will be the fourth primary state during the election, instead of the last. For the first time in memory, California will have a meaningful impact on a presidential election – and for what has become a nearly one-party state, this is likely to color the political map blue early on during the 2020 election.

The panel concluded with a Q&A from the audience and here are a few of the people that asked questions.



Once again, Colliers International would like to thank the friends, clients and colleagues that attended Trends2018 and we look forward to our ongoing relationships.

We would particularly like to thank our sponsors, without whom the event and afternoon would not have been possible. Colliers truly appreciates their support.



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