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Avison Young's latest report on the CRE industry in the U.S., Canada and U.K. forecasts a generally positive outlook for 2016, but there's some uncertainty.

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Commercial real estate services firm Avison Young has just released its 2016 Canada, U.S. and U.K. Forecast, and while there's some uncertainty, there's still something good for everyone.

With the Great Recession shrinking in the rearview mirror, the global real estate industry has grown healthier and healthier. 2015 was a strong year and Avison Young anticipates more good times in 2016—but it won't be all sunny skies.

Pressed to summarize, in the smallest of nutshells, what the U.S. real estate market will look like this year, Mark E. Rose, CEO of Avison Young, told CPE that it will be "stable but choppy."

For the 4.4 billion-square-foot U.S. office sector, modest improvements are on the horizon. Preleasing will be the dominant factor in new construction, keeping occupancy levels in check; however, the growing practice of users downsizing their workspace to more efficient layouts will prevent any major gains in absorption. In the retail sector, progress is projected to persist due to retailers' tailored response to changing residential trends and lifestyle habits. And for the industrial sector, speculative development, which made a comeback in 2015, will continue to grow as operators move closer to consumers and snap up state-of-the-art space in an effort to accommodate consumers' demand for speedy processing and delivery.

In the U.S., all told there will be the good, and then the not-so-good; again, stable but choppy, with something brewing in the investment arena. "Interest rate increases will reset pricing in an orderly fashion. Yes, pricing needs to be reset; yes, velocity will slow as the bid and ask spreads; and yes, this creates short-term pressure. If liquidity stays high, and interest rates stay at zero or negative, we will continue to pump air into a balloon that will ultimately burst," Rose said.

Canada's real estate market, however, will have its challenges. "The end of the commodities super cycle, uneven employment growth, disruptive technologies, e-commerce and workplace strategies—to name a few—are testing Canada's otherwise stable commercial real estate sector," Bill Argeropoulos, principal with Avison Young, said in a prepared statement. "After entering and exiting a technical recession in 2015, Canada's economy will endure another volatile year in 2016, leading to disparities in regional performance."

The office sector in Canada will experience a repeat performance, with economic volatility and a substantial development pipeline conspiring to hinder the structurally changing sector as they did in 2015. Vacancy will rise but will be tempered by certain demand generators, including the growing interest in co-working spaces and an increasing number of U.S. businesses seeking to establish a presence in the country. In the retail sector, chameleon-like tendencies will persist, with the sector transforming to accommodate market forces. Canada's low dollar and vacancy levels, limited new construction and solid population are in the plus column. However, there are uneven retail sales and GDP growth, and high consumer debt. As for the industrial sector, an expanding distribution and logistics-driven industry will be beneficial, as will the ongoing U.S. recovery.

Across the pond, record levels of capital inflows, strong rental growth and low availability are on tap for

London's real estate market. In the office sector, despite the high pre-recession-like level of construction, substantial demand and constrained supply will keep rental growth on the upswing. The retail sector will maintain its strength, buoyed by such factors as above-average consumer confidence and constrained inflationary pressure. And the industrial sector's limited supply will continue to drive an increase in rental rates.

In terms of investment in the U.S., Canada and the U.K., Avison Young notes that although all three markets are experiencing record-low cap rates, change is afoot. In the report, the firm identifies three trends to watch—market divergence, debt levels and digital disruption—and puts a positive spin on the future. Per the report, "Where there is change, there is opportunity."

The 2016 forecast for the U.S., Canada and the U.K. real estate markets hardly mirror each other. However, as Rose noted, the three markets will be linked by one common thread: "Unprecedented demand for real estate investment driven by the most liquidity our industry has ever seen."

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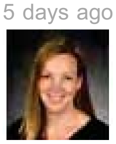

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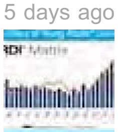

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