Asset availability, lending guidelines and/or flexibility and global markets will likely be the largest and most influential factors affecting investment sales."

KURT WESTFIELD
WC Equity Group

dential, not office, is the highest and best use at peak."

Growth in fundamentals has begun to ease, says CBRE. The firm reports that overall net absorption slowed to 7.1 million square feet in Q3, down 46% from the year prior and representing the weakest quarterly total since Q1 2014. "The decline stemmed entirely from weaker demand in downtown markets, which posted 1.7 million square feet of negative absorption," says CBRE, which is forecasting a gradual increase in vacancies in 2017 as new supply begins to come on line.

MULTIFAMILY: Across the 123 apartment markets covered in the monthly survey conducted by Yardi Matrix, the pace of Y-O-Y rent growth has moderated in recent months. Average rents nationwide have actually declined since peaking in August, albeit by only $5 over a three-month period. "Despite the moderation, we once again stress that the multifamily market will be in good shape going forward," according to Yardi Matrix. Even as it's moderating, rent growth remains 200 bps above the long-term average and fundamentals continues strong.

"The occupancy rate for stabilized properties—at 95.8%—has moved only slightly despite the addition of 300,000 new units in 2016," according to Yardi Matrix. "That reflects robust absorption in most metros that we expect will continue, no matter who occupies the White House. In fact, while the results of the recent US election—with Donald Trump winning the presidency and Republicans gaining complete control of Congress—will bring major change in policies, producing both opportunities and challenges for commercial real estate, the basic strength of the multifamily market is likely baked in by demographics and social trends."

INDUSTRIAL: In contrast to the office and multifamily sectors, industrial gathered strength as 2016 went along. "Between the record-breaking activity in the second quarter and the lull that summer months often bring, many expected more normal growth patterns for industrial real estate in Q3 2016," says a report from Colliers International. "But industrial sector fundamentals powered forward in the third quarter to reach new heights—net absorption crushed the previous record, construction reached all-time highs and asking rental rates rose for the 13th consecutive quarter."

Colliers attributes the growth to ongoing demand for e-commerce as well as solid economic fundamentals. "Industrial rents remain a relatively small portion of overall supply chain expenses and as such, we expect to see warehouses absorbed at an elevated rate for the foreseeable future," the firm says. "Only an unexpected disruption to the overall economy will slow the flow of industrial demand in the coming year."

RETAIL: 2017 will bring "another strong year for retail investment sales as investors continue to chase higher yields in the real estate sector," says John Tennant, senior director with Franklin Street of Atlanta. A majority of retail REIT activity will continue to focus on core/core plus markets "and you will continue to see these companies prune certain underperforming assets from their portfolios. REITs will continue to look for deals in the urban core with strong demographics and incomes, and you will see a continued increase in the amount of street-front and mixed-used retail they will be carrying in their portfolios."

For their part, says Tennant, retailers will continue to position stores "in the center of the strongest submarkets where their core customers are. Developers will be able to secure higher rents for the A+ locations that meet these retailer requirements. The complexity of these unique mixed-use deals will require developers to stay disciplined to keep their deals on budget as commodity prices for steel and concrete continue to rise, coupled with a tightening labor pool."

HOTELS: In the Hotel Horizons® forecast report issued earlier this month, CBRE Hotels' Americas Research is projecting that the US lodging industry will achieve an annual occupancy rate of 65.3% in 2017, down just a basis point from the 65.4% all-time record occupancy level expected for this year.

"Conventional wisdom says that at such high occupancy levels, hoteliers should have the leverage to implement strong price increases," says R. Mark Woodworth, senior managing director of CBRE Hotels' Americas research. "However, like for much of 2016, you need to throw conventional wisdom out the window."

The firm's projections for high occupancy aren't matched by concomitant projections for ADR growth: 3.3% for 2017. Although this represents a real ADR change of 1.7% Y-O-Y, CBRE says the pace of ADR growth has been falling since 2014 and is expected to continue weakening through 2019.

The mix of strong and not-so-strong growth projections for the hotel sector dovetails with the industry's 2017 outlook as a whole. "From China's slowing economy to the inevitability of rising interest rates, commercial real estate will face headwinds in 2017," Kessler says. "But there are tailwinds, too, propelling surging sectors from student housing to logistics spaces, and in the way Millennial and Boomers are fueling new development in rising urban areas.

"CRE may be buffeted by hard-to-gauge crosswinds, though, as the dust settles from Brexit and the US presidential elections, and as uncertainly swirls around the status of government regulations, critical tax policies and other key directions of the new administration and the new Congress," he concludes. "With additional issues such as looming debt maturities and the opportunities for recapitalizations and distressed purchases as a result of the maturities, 2017 promises to be a news-making year in CRE."—***With additional reporting by Jennifer LeClaire*** ◆