U.S. Research Report

State of the U.S. Market and 2019 Outlook

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The Long Economic Expansion Looks to Slow – Property Markets Will Follow

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In this market briefing, Colliers International outlines current conditions for the U.S. economy and the major property markets, and provides an outlook on what we can expect in the coming year and beyond. We take stock of key economic and market indicators, including the changing global backdrop. This analysis was prepared by Colliers' national research team, with input from Colliers' top professionals throughout the U.S. practice.

Since the Great Recession officially ended in June of 2009, our economy has recorded more than 110 consecutive months of positive growth – the second longest in our nation's history, and soon to become the longest, if (as seems most likely) we can sustain the growth into next summer.

We've also enjoyed 97 straight months of job growth, already the longest in our history. Indeed, many young adults have known nothing but an improving economy and favorable job prospects for the entirety of their professional careers.

These conditions have supported a long bull run in financial markets generally, but especially in property markets. We reported last year that occupancy rates and rents for most property types in most markets are above their long-term averages and at or near their high points in this cycle; conditions have generally improved further in the 12 months since.

But if the economic skies are still mostly sunny, there are gathering clouds on the horizon: rising inflation and interest rates, slowing global growth and a flattening yield curve, among other end-of-cycle signals. And there are clear signs that the best years of this property cycle are now behind us. Investment returns are barely half their 2015 level.

In these pages, we summarize the state of our economy and property markets, as well as speculate about what's likely to transpire in the coming years based on available indicators, global economic influences and probable policy directions from Washington.

Key Takeaways

- **Despite current strength in economic drivers, slower economic** and **job growth** will soon begin to challenge property fundamentals.
- **Tapering global growth, fading fiscal stimulus** and **rising interest rates** are combining to slow our economy, while **escalating trade tensions** represent a significant downside risk. Expect a **material slowdown (but not necessarily a recession) by mid-2020.**
- The **industrial sector** will continue to be the top-performing property type, and the sector most favored by investors. Much of its gains have come at the expense of the beleaguered **retail sector**, where the shakeout is still far from over, despite recent successes in omnichannel retailing.
- The **multifamily** sector's strong demand shook off the supply challenges of the past couple of years. It will perform relatively well during a downturn due to structural changes and cyclical dynamics favoring renting over homebuying.
- Supply and demand dynamics in the **office sector** have remained broadly balanced. This notoriously cyclical sector should perform relatively well in the next downturn, as construction has been relatively moderate and the new coworking segment may provide a downside buffer.
- Though property markets peaked for this cycle in 2015, **leasing and sales transaction activity** remain robust and pricing firm. Both may slow sharply in the next two years, along with **price appreciation and rent growth.**
- **Tenants** and **investors** alike should adopt **more defensive strategies** in advance of the slowdown. Tenants will want to seek out flexible terms, while landlords look to shed underperforming assets.

A Snapshot of Current Economic and Market Conditions

Almost everything seems to be going well with the U.S. economy: households are consuming, businesses are investing, manufacturers are producing and government is spending. Surveys of both consumers and business leaders remain near multi-decade highs, which translates into stronger consumer spending and business investment. A pickup in government spending is also helping, fueled by the January 2018 Bipartisan Budget Act — government contributions to GDP growth this quarter were the strongest since early 2016.

Add it all up, and the U.S. economy is on track this year to record its strongest performance of this cycle. But below the surface, signs are emerging that after almost a decade of uninterrupted, if fitful growth, a slowdown is starting to take hold. Business investment is slowing in response to downshifting global growth, tensions with our trading partners are escalating and interest rates are trending up, making borrowing more expensive and riskier. Rising interest rates are also constraining the housing market. Often early indicators, home sales and home price appreciation are cooling — potentially signaling an end to this economic cycle.

Nonetheless, today's economic conditions remain robust and supportive of strong property fundamentals, with vigorous job growth given the lowest rate of unemployment in 50 years.

Property Markets

U.S. property markets have clearly benefited from the late-cycle fiscal stimulus that fostered this year's strong economy. Fundamentals in all sectors are as strong or stronger than they were at the peak of the last cycle, and vacancy rates are at their lowest points in at least a decade.

*The **industrial** sector has extended its outperformance into a fourth consecutive year.*

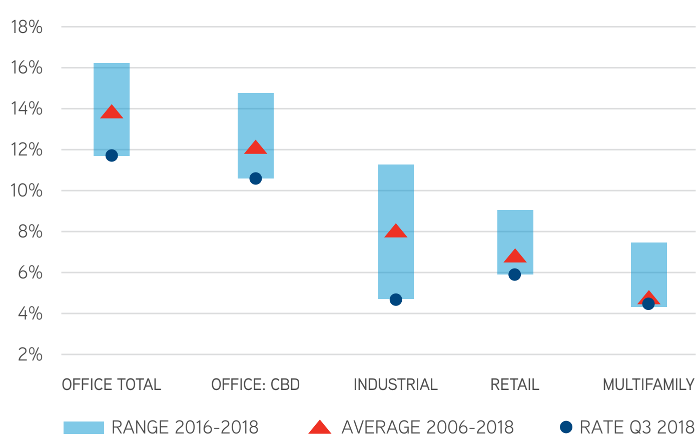
- The industrial market is benefiting from a confluence of cyclical and structural factors: support from the prolonged U.S. economic expansion is being augmented by demand from rapidly evolving e-commerce and logistics dynamics. About a third of post-Great Financial Crisis (GFC) demand for industrial space has been attributed to e-commerce, a trend expected to continue for several more years.
- Construction volumes are significant and rising, but thus far, have been more than offset by robust demand. As of Q3 2018, average vacancy was a low 4.9%, while rent gains continue to be strong.
- Although virtually all metro markets now have industrial projects underway, the nation's dominant distribution hubs—Southern California's Inland Empire, Dallas-Fort Worth, Atlanta and Chicago—represent a quarter of the 268 million square feet currently underway.

***Retail** real estate has suffered for the same reason industrial has outperformed — disruption by e-commerce, among other factors.*

- Traditional "brick and mortar" retailers are struggling to remain competitive in today's rapidly innovating retail environment. Retailer bankruptcies and store closures remain exceptionally high despite the favorable consumer and business environment, with announced store closings outpacing planned openings by 80% so far this year; Toys R Us, the Gap, Mattress Firm and Sears/Kmart are among the high-profile victims.
- Although this shake-out will continue, an upturn in consumer spending during 2018 has provided the industry with some breathing room. Same-store sales and foot traffic are growing again at a range of traditional retail chains, and their new internet initiatives are gaining traction. Although retail sales growth no longer translates as directly into demand for retail space, surviving chains are beginning to benefit from competitors' store closures.
- Construction of new retail space has been at historically low levels for a decade, allowing overall sector vacancy to gradually trend down and rents to stabilize. New mixed-use projects — often with a limited retail component — are beginning to replace obsolete retail properties as (ironically) "last mile" fulfillment/ distribution centers for e-retailers.
- The retail real estate market continues to bifurcate: well-located, well-tenanted centers are healthy and increasingly dominant, while Class B/C malls and centers continue to lose tenants and become candidates for redevelopment.

While the industrial and retail sectors are a study in contrasts, recent multifamily and office trends exhibit many parallels. Both sectors peaked in mid-decade and then spent several quarters essentially rangebound, but both have seen gains in 2018, as described below:

Property Vacancy Rates by Sector: 2006 - Q3 2018



Sources: CoStar, Axiometrics, and Colliers International

*A strong pickup in **multifamily** demand is outpacing still-significant construction activity.*

- Vacancy showed little movement in 2016-17 because new completions and net absorption were closely matched; however, the sheer volume of new product entering the nation's apartment markets caused rent growth to soften in many metros.
- This year's acceleration in economic growth has translated into stronger rental demand, reducing vacancy by 70 basis points (BPS) to date (to only 4.2%) and supporting greater rent gains.
- Although this recent performance likely has been enhanced by multifamily's characteristic midyear strength, underlying market trends are showing marked improvement.

*The U.S. **office** market has also gathered pace during 2018 after a flat 2017 performance.*

- Reduced completions combined with healthy net absorption reduced office vacancy to 11.8% (down 30 BPS this year) by Q3 2018, a new low for this cycle. Two dozen metros have single-digit vacancy — generally tech-driven markets like San Francisco, Austin and Seattle, as well as rapidly growing second-tier cities like Orlando, Nashville and Portland.
- Recent improvement has focused in the nation's suburban office markets, while central business districts (CBD) — where vacancy is lower but construction more significant — have held steady.
- WeWork and other providers of coworking office space have joined technology companies by signing sizable leases in a growing number of cities. Rent growth has strengthened in response to renewed demand pressures.
- Although the office sector's construction pipeline is large and continues to expand, it remains well below the levels reached in previous up-cycles thanks to more conservative lending practices, widespread construction labor shortages and escalating input costs.
- Unlike the industrial sector, new office supply remains highly concentrated, with two-thirds of all building area now underway, located in only 10 metro markets.

Capital Market Activity

Real estate capital market activity has also improved in 2018. Transaction volume through Q3 2018 is 11% above its level for the comparable period last year and is approaching the total closed in 2015 — the peak sales year for this cycle. While all four core sectors have shared in this year's gains, multifamily and office — perennial investor favorites — have posted the highest sales totals and the strongest price appreciation to date.

Because of the high prices and limited opportunities in primary U.S. metros, investors continue to concentrate in more secondary markets, which are enjoying double-digit growth in investment activity and much stronger price increases than in the primary (largely coastal) metro markets. Despite the rising interest rate environment, real estate cap rates have yet to show any meaningful impact; transaction cap rates have been flat to slightly decreased year to date. In fact, cap rates for all four sectors have now converged to the bottom of their historic range.

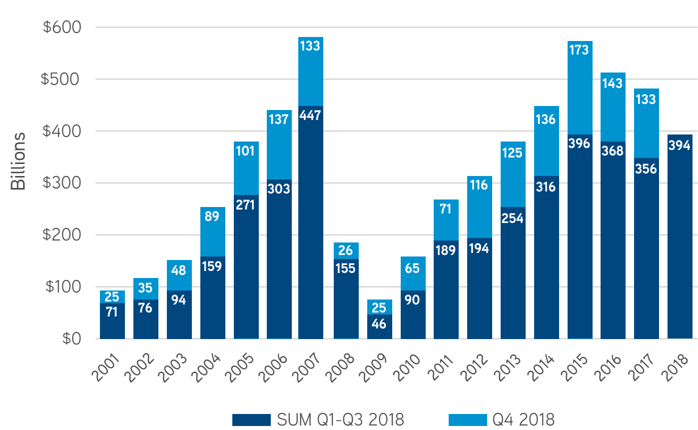
Outlook for 2019 — Our Base Case

Today's economic conditions are moderately strong, especially when compared with the relatively weak growth that has characterized most of this business cycle. But signs are emerging that suggest a more sizable deceleration is coming. Notably, deteriorating trade and slowing global growth are starting to drag on domestic growth, while rising interest rates seem to be curbing business investment and interest-sensitive consumer spending such as home purchases.

Most importantly, the Federal Reserve Bank seems determined to cool the economy. September's 25-basis-point hike in the federal funds rate was the eighth increase since the Fed began normalizing policy in late 2015. The Fed has also started to reduce the massive balance sheet it accumulated during its "quantitative easing" program. Interest rates are rising on all types of debt, from car loans and mortgages to business loans. This will ultimately translate into declines in consumer and business borrowing and curb spending and investing.

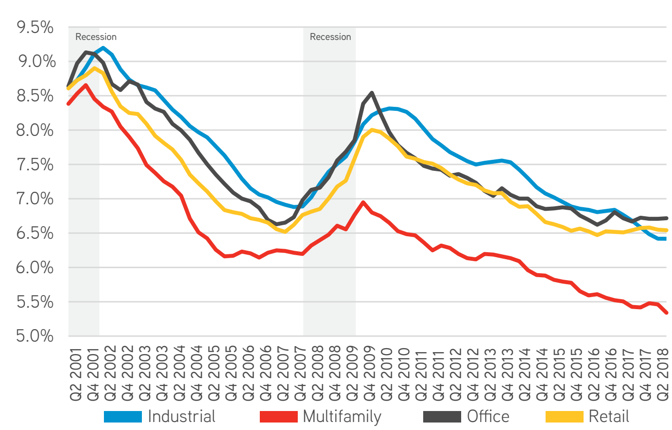
U.S. Commercial Real Estate Transaction Volume

Transactions > $2.5M ($ Billions)



Source: Real Capital Analytics, Inc.

Real Estate Capitalization Rates



Sources: Real Capital Analytics, Inc. and Oxford Economics
Note: Cap rates based on a two-quarter moving average.

Although the most recent Fed guidance has seemed less definitive on its future course, the market and most analysts anticipate another hike this month and two to four next year, as both inflation and wage growth exceed their targets. Labor shortages and rising tariff impacts are two key drivers, though falling gas prices have helped to moderate inflation recently.

Several other factors are conspiring to slow growth in the next few years. The fiscal stimulus from tax cuts and stepped-up federal spending will begin fading. Moreover, economic growth is softening around the globe, particularly among our leading trading partners (China, the Eurozone, the U.K. and Japan), exacerbating the slowing trend in trade due to ongoing trade disputes. Finally, greater financial market turbulence may reduce investment as risk perceptions adjust upward.

In our base case, we assume the Fed will successfully engineer a "soft landing", which will slow growth without triggering a recession with falling output and major job losses. After full-year growth of about 3% in 2018, we expect GDP to moderate to the mid 2%-range next year and the mid 1%-range in 2020. Job growth will continue but slow, both due to worker shortages now and falling employer demand as the economy slows.

The decelerating economic environment can be expected to weigh on U.S. property markets, but the impacts will vary by sector:

*The **industrial** sector will continue to lead performance but will moderate from its recent fever pitch.*

- Construction volumes are high and rising as developers struggle to meet outsized demand; the sector's already low vacancy rate continues to decline, though the supply gap has been closing.
- External indicators point to robust fundamentals in the short term. Hiring for industrial-related positions including warehouse workers, truck drivers and couriers are at all-time highs. Loaded inbound container volumes at top U.S. seaports as well as domestic truck and rail traffic are all up this year and e-commerce sales continue to surge. The nation's major container ports and dominant distribution hubs will continue to outperform.
- Looking beyond 2019, significant headwinds loom: labor shortages and rising wages; escalating trade disputes with major trading partners; and expectations of reduced global growth in the coming year. With domestic economic growth also forecast to slow, industrial space demand is expected to step down from its recent frenetic pace.

*The **multifamily** market's 2018 improvement will likely be limited to this year.*

- Demand will soften in response to moderating job growth, declining immigration levels and the aging of millennials out of the prime renting age groups.
- Additional support for the sector may come from the for-sale market, however. A slower economy and rising interest rates will induce some potential homebuyers to defer purchases until conditions improve, driving more demand for apartments. Home sales statistics have already been weakening for several months.
- As the sector's still-sizable pipeline of new product delivers, multifamily conditions will soften, and achievable rent growth will cool.

*Conditions in the **office** market are also likely to gradually soften as 2019 progresses.*

- While demand for office space will moderate in response to lower job creation, a significant volume of projects already under construction will begin to enter the market. Vacancy will trend upward and rent growth will ease as market conditions become more competitive for landlords.
- Unlike the industrial pipeline however, new office development is highly concentrated in a handful of metro areas. San Francisco alone has 17 million square feet of new office product underway — the second highest in the country, and an outsized 5.3% of its base. But its office market is extremely tight, with single-digit vacancy and escalating rents. Major tech firms are pre-leasing entire buildings here before they even break ground, reducing the apparent market risk of such a surge of new construction.
- Several other metros on the top 10 list for new office supply are also tech centers with very low vacancy rates, such as Austin and Seattle. The near-term prospects of markets with elevated vacancy and outsized supply pipelines — such as Dayton, OH and Dallas-Fort Worth — are more worrisome.

*The **retail** sector will continue to struggle.*

- There is simply too much retail inventory in the U.S., especially in the "commodity" general merchandise category (i.e., department stores) and in secondary markets. Demand for retail real estate will continue its weak post-GFC trend as the industry's ongoing rationalization process plays out.
- Despite the recent pick-up in consumer spending, retail will continue to be the most vulnerable of the four sectors — to a slowing economy, higher inflation or spiking gas prices. As with office, the implications for particular markets or centers are nuanced, requiring careful analysis at a more micro level.

*The recent return to growth in real estate **sales** volume is unlikely to continue much longer.*

- Recent months have seen a spike in capital market volatility as an abrupt downdraft in equity prices began in October and continued into November. This environment of greater uncertainty will make investors more cautious and risk averse.
- Bid-ask spreads will likely widen and transaction activity will decline, but should remain at relatively healthy levels from a historic standpoint. The long-anticipated adjustment in cap rates — and, by extension, re-pricing of assets — may soon begin to unfold.

Considering The Down Side: A Recession Scenario

In a perfect scenario, the Fed is able to rein in inflation while still allowing the economy to grow, albeit more slowly: the soft landing. Such strategies are simple in concept and notoriously difficult to execute. There are too many variables outside the Fed's control: federal fiscal and trade policies, global financial markets and unforeseen "black swan" events that destabilize industries.

So, if there is a recession, what might it look like? Although as predictable as the score of the 2020 Super Bowl game, we can speculate as to its broad contours based on economic history in the context of today's conditions. For one thing, we're unlikely to see a repeat of the last recession. After all, the Great Financial Crisis (GFC) earned its moniker for a reason. And it was also unusually focused on the property sector. Absent a set of financial and economic conditions equivalent to those that prevailed in 2008 — and current conditions are in no way comparable — the next downturn will most likely be less severe, shorter and more targeted on specific regions and industries.

Which ones? Below we consider a few scenarios. But if the next recession is more typical of other post-WWII downturns, it will last no more than a year, likely three to four quarters, and we will experience a net loss of economic output of about 2%, along with a similar loss in employment, or about three million jobs (See table).

As we peer into the future of a slowing economy, two conditions quite out of the ordinary may limit the ability of Washington to counter the next one. First, though interest rates are rising, they are at historically low rates for this late stage of the cycle. Typically, the Fed reduces interest rates by about five percentage points when fighting a recession. Yet the federal funds rate currently is only 2.25% and may top out near 3% in the near term, limiting the Fed's ability to ease monetary policy and encourage new investment should a recession occur.

Second, the federal government generally increases spending (i.e., adopts supportive fiscal policies) during a recession to raise aggregate demand. However, in this case, since the government is already spending massively, and the budget deficit is nearing $1 trillion (that's trillion with a "T") annually. Given already profligate spending, it's unclear what Washington's appetite will be to increase spending yet further, particularly with a divided Congress. Because of these monetary and fiscal policy constraints, we have to consider the possibility of a longer and deeper downturn than we currently anticipate.

U.S. ECONOMIC RECESSIONS (1960 TO PRESENT)

NAME	PERIOD RANGE	DURATION (MONTHS)	% GDP DECLINE	% JOB LOSS	KEY DRIVER(S)
Recession of 1960-61	Apr. 1960 - Feb. 1961	10	-1.6%	-2.3%	Fed tightening
Recession of 1969-70	Dec. 1969 - Nov. 1970	11	-0.6%	-1.0%	High inflation; Fed tightening
Recession of 1973-75	Nov. 1973 - Mar. 1975	16	-3.2%	-2.8%	Oil price shock engineered by OPEC
Recession of 1980	Jan. 1980 - Jul. 1980	6	-2.2%	-1.3%	Fed raises interest rates to 20% to fight stagflation
Recession of 1981-1982	Jul. 1981 - Nov. 1982	16	-2.7%	-3.1%	1979 energy crisis. Fed tightens to fight inflation.
Recession of the early 1990's	Jul. 1990 - Mar. 1991	8	-1.4%	-1.4%	1990 oil price shock; banking and Savings & Loan crisis
Recession of the early 2000s	Mar. 2001 - Nov. 2001	8	-0.3%	-1.9%	Dot-com bubble bursts
Great Financial Crisis (GFC)	**Dec. 2007 - Jun. 2009**	**18**	**-5.1%**	**-6.3%**	**Subprime mortgage crisis**
Summary Statistics for all Recessions	Average	12	-2.1%	-2.5%	
	Minimum	6	-0.3%	-1.0%	
	Maximum	18	-5.1%	-6.3%	
Summary Statistics all Recessions except GFC (7 recessions)	Average	11	-1.7%	-2.0%	
	Minimum	6	-0.3%	-1.0%	
	Maximum	16	-3.2%	-3.1%	

U.S. Bureau of Labor Statistics via St. Louis FRED data base, Wikipedia and Colliers International.

Sector Outlooks in a Recession

Every recession is unique in terms of its causes and characteristics, and its severity and impacts. The relative and absolute performance of the major property sectors will depend significantly on the nature and intensity of the downturn. In this section we present sector outlooks based on the "typical" recession described previously.

- ***Industrial** should continue to outperform.* Industrial demand derives from trade flows, business investment and consumer spending (notably, housing and retail) rather than simply job growth. Its comparatively short construction period means industrial supply adjusts to changing market conditions more quickly than the other sectors, dropping rapidly at the beginning of a downturn and limiting oversupply. Continued demand from e-commerce companies and related third-party logistics (3PL) firms will cushion the downturn's impact on the sector's traditional demand drivers.
- *We expect **retail** will be weakest going into the next downturn;* it never fully recovered from the last recession, and continues to grapple with perennial oversupply and structural changes caused by rising internet sales penetration. The industrial sector will continue to benefit at the expense of retail.
- ***Multifamily** is generally the most counter-cyclical sector; it* will likely fare relatively well as demand favors renting rather than homeownership in a declining and uncertain economy. Construction has begun to exceed previous cycle peaks, however, and may not adjust as quickly to changed conditions as it has in the past.
- ***Office** should hold up better than it has in earlier recessions.* Construction in this cycle has been comparatively subdued, and is largely concentrated in the tightest metro markets. Nevertheless, demand for office space is tightly linked to job creation, so it will suffer declining occupancy until employment growth regains traction. The other great unknown: How will coworking space perform through a downturn? WeWork and many of its competitors are still loss-making start-ups. They could take a serious hit if many of their tenants opt to save money during a downturn by working at home instead of leasing space. On the other hand, established firms may take advantage of the flexibility that coworking companies offer by leasing blocks of space from them rather than committing to a traditional office lease.

Recession Triggers and Metro Outlooks

The impact that a recession would have on individual metros and regions largely depends on the industry in which the output and employment losses are concentrated. Based on an analysis of economic cycles over the last 50+ years, we have identified four different industries as potential triggers for our 2020 recession scenario. In the following paragraphs, we briefly consider each of them.

1. Tech. This recession would be centered in the nation's heretofore high-growth technology sector, as was in the 2001 dot-com bust. The tech sector has matured since that time, and now includes a number of large, highly profitable firms. It is no longer all about designing and building computers; social networking, customer resource management (CRM) and other business lines have become increasingly important. Once highly concentrated in Northern California's Silicon Valley, the industry has diversified geographically over time to become a significant employer in major cities across the country. Nonetheless, tech start-ups that rely on venture capital while they develop and grow their businesses continue to be an essential feature of this industry.

Affected employment sectors: Although manufacturing continues to be important for early industry leaders like San Jose, the information and professional/scientific/technical sectors better reflect the composition of today's tech workforce.

Most impacted metros: Based on the location quotients calculated from Q3 2018 employment levels, metro economies with the greatest tech concentration (Location Quotient or "LQ") are:

1	San Jose	(LQ 2.7)	West
2	Washington	(LQ 2.2)	MidAtlantic
3	San Francisco-Oakland	(LQ 2.1)	West
4	Boston	(LQ 1.7)	Northeast
5	Seattle	(LQ 1.6)	West

2. Trade. A trade-focused recession could occur if reciprocal imposition of larger tariffs on a wide array of goods escalates into an all-out trade war with multiple trading partners.

Affected employment sectors: A trade war would have broad impacts on the U.S. economy, as we rely on imports for a large proportion of our consumer goods and manufacturing inputs. Metros that handle the import/export and distribution of goods would be most affected. This role would be reflected in their wholesale and retail trade, and utilities/transportation and warehousing employment.

Most impacted metros: Based on the location quotients calculated from Q3 2018 employment levels, major metro economies with the greatest trade concentration are:

1	Memphis	(LQ 2.1)	South
2	Riverside-San Bernardino	(LQ 1.6)	West
3	Dallas-Fort Worth	(LQ 1.4)	South
4	Indianapolis	(LQ 1.3)	Midwest
5	Chicago	(LQ 1.3)	Midwest

3. Energy. Several U.S. recessions since 1960 have been sparked by a sudden and significant spike in oil prices. In such instances, consumers and energy-intensive businesses suffer, while the nation's oil industry benefits. By contrast, a sudden drop in oil prices translates into more consumer spending and improved corporate profitability — but pain for the domestic oil industry.

With the development in the past decade of horizontal drilling and fracking, the U.S. oil industry has become an important source of growth, helping the U.S. economy to emerge from the deep 2008-2009 recession. Although small in size, the industry's capital-intensive operations have a large multiplier effect. This illustration will focus on the nation's oil metros, which can greatly affect their local economy and real estate markets but cannot single-handedly cause a U.S. downturn.

Affected employment sectors: Petroleum-industry employment is part of the mining sector.

Most impacted metros: Only nine metro economies exhibit a significant concentration in mining employment.

1	Bakerfield	(LQ 7.0)	West
2	Oklahoma City	(LQ 6.7)	Midwest
3	Houston	(LQ 5.3)	South
4	Tulsa	(LQ 3.2)	Midwest
5	Pittsburgh	(LQ 1.8)	Northeast
6	San Antonio	(LQ 1.7)	South
7	Dallas-Fort Worth	(LQ 1.6)	South
8	New Orleans	(LQ 1.6)	South
9	Denver	(LQ 1.5)	West

4. Finance. Monetary policy tightening (i.e., interest rate increases) has led to several recessions — in 1960, 1969, and perhaps most famously, in 1981, when the Volcker Fed pushed rates to 20% in an effort to tame runaway inflation. The 1990-1991 downturn resulted from higher interest rates and the Savings & Loan crisis. The Federal Reserve could overshoot in its current effort to normalize monetary policy and trigger a downturn. Alternatively, plummeting equity markets or a crisis in some part of the financial system could occur, as with the GFC.

Affected employment sectors: Interest rate increases affect the overall U.S. economy, especially interest rate-sensitive sectors like housing. Metros that serve as financial centers would register the greatest direct effect.

Most impacted metros: Major metro economies with the greatest concentration in the finance/insurance/real estate sectors are:

1	Phoenix MSA	(LQ 1.6)	West
2	Tampa, FL	(LQ 1.5)	South
3	San Antonio	(LQ 1.5)	South
4	Dallas-Fort Worth	(LQ 1.4)	South
5	New York MSA	(LQ 1.4)	Northeast

Strategic Implications: Adopt a More Defensive Posture

The severity of the coming economic slowdown, or the risk of a recessionary downturn, cannot be predicted with certainty. But the abundance of signals from economic and financial trends — and from property markets themselves — suggest greater prudence is warranted as we look ahead to 2019 and 2020.

Owners and investors can reduce their near-term risk exposure and position themselves to take advantage of the cycle's turn. In general:

- Harvest gains to lock in returns now, and reduce downside risks through pruning of assets likely to underperform in a downturn.
- Evaluate existing portfolio; identify and sell weak assets and properties in underperforming locations.
- Evaluate debt profile. Reduce debt and extend loan terms to lock in today's low fixed rates wherever possible.
- Dial back acquisitions and new construction.
- Be aggressive in filling property vacancies with strong credit tenants; lengthen lease terms.
- Negotiate early renewals with longer-term leases (and inflation adjustments) to bridge the expected period of weakness.
- Build up cash position to take advantage of buying opportunities when prices fall.
- Underweight the most cyclical sectors (office and hotel) and rotate into more recession-resistant sectors: apartments, student housing, net-leased properties, healthcare.

For tenants, the risks and opportunities are roughly the opposite:

- Rightsize space needs preemptively, and avoid long-term lease commitments at peak rents, particularly if the need arises to downsize.
- Consider short-term flexible tenancy options, such as afforded by coworking and other nontraditional leasing arrangements.
- Longer term, look for opportunities to lock in favorable lease terms once rents decline.

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