



# TRENDS FOR 2020

## Global Real Estate Trends Set to Shape the Next 12 Months

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### Executive Summary

With the year drawing to a close, we turn our attention to the outlook and identify the major occupier and investment trends that we expect to influence market conditions and investment performance in 2020 and beyond.

#### Global

We identify **four key global trends** that are set to have a significant aggregate impact:

- 1. More Employment Growth to Come:** The current cycle continues to be driven by employment rather than productivity, while the stable outlook for global GDP growth points to another year of steady real estate returns.
- 2. Low Supply Environment Persists:** The ongoing low supply environment continues to support prospects for rental growth, enhanced by a strong link with employment growth in the current cycle.
- 3. Further Scope for Yield Compression:** Past interest rate increases have been weighing on real estate pricing, but the shift toward looser monetary policy paves the way for further yield compression in 2020.
- 4. Cross-Border Flows Weakening:** Cross-border investment flows are weakening in the Americas and Europe, reflecting a wider slowdown in trade liberalization. Asia Pacific is bucking the trend.

Alongside the common global trends, there are also differences in the outlook across regions and sectors. We identify **ten region-specific trends** that reflect opportunities to benefit from diversification by strategy and geography.

#### Americas

- 1. Office Demand to Slow as Key Drivers Moderate:** Office absorption is facing headwinds from the slowing pace of employment growth and uncertainty about flexible office demand.
- 2. Office Tenant Expectations Continue to Rise:** Spending on tenant and building improvements is rising sharply as owners adapt to changing tenant requirements.

- 3. Rising Debt Availability Across the Risk Spectrum:** Debt origination volume continues to rise, while debt funds are raising competition and pushing traditional lenders up the risk curve.
- 4. Increasing Regulatory Burdens for Apartment Owners:** Regulation is increasing in response to societal need for affordable housing, impacting the pass-through from rental to income growth.

## Asia Pacific

- 1. Occupier Demand to Moderate:** Weaker economic growth points toward softer real estate demand in 2020, although net absorption of office and logistics space should remain positive.
- 2. CBD Affordability Becoming Stretched:** Affordability is being stretched in the central business districts (CBD) of major cities, pushing occupiers toward cheaper submarkets and driving non-CBD rental growth.
- 3. Logistics Demand Supported by Online Growth:** Logistics has become more closely aligned with the consumer cycle, while rising online spending points to significant growth in space requirements.

## Europe

- 1. More Rental Growth in Low Vacancy Office Markets:** Vacancy rates in major European office markets are below average and set to remain low enough to support further rental growth in 2020.
- 2. Further Signs of Retail Distress to Emerge:** As online retail share continues to grow across Europe, recent experience in the United Kingdom suggests a challenging period ahead in other core countries.
- 3. Apartment Volume Share Set to Level Off:** The apartment sector remains popular but recent growth may be curbed by headwinds including low yields and increased rent controls in major markets.

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