



TRENDS FOR 2020

Global Real Estate Trends Set to Shape the Next 12 Months

December 2019 | Investment Research

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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