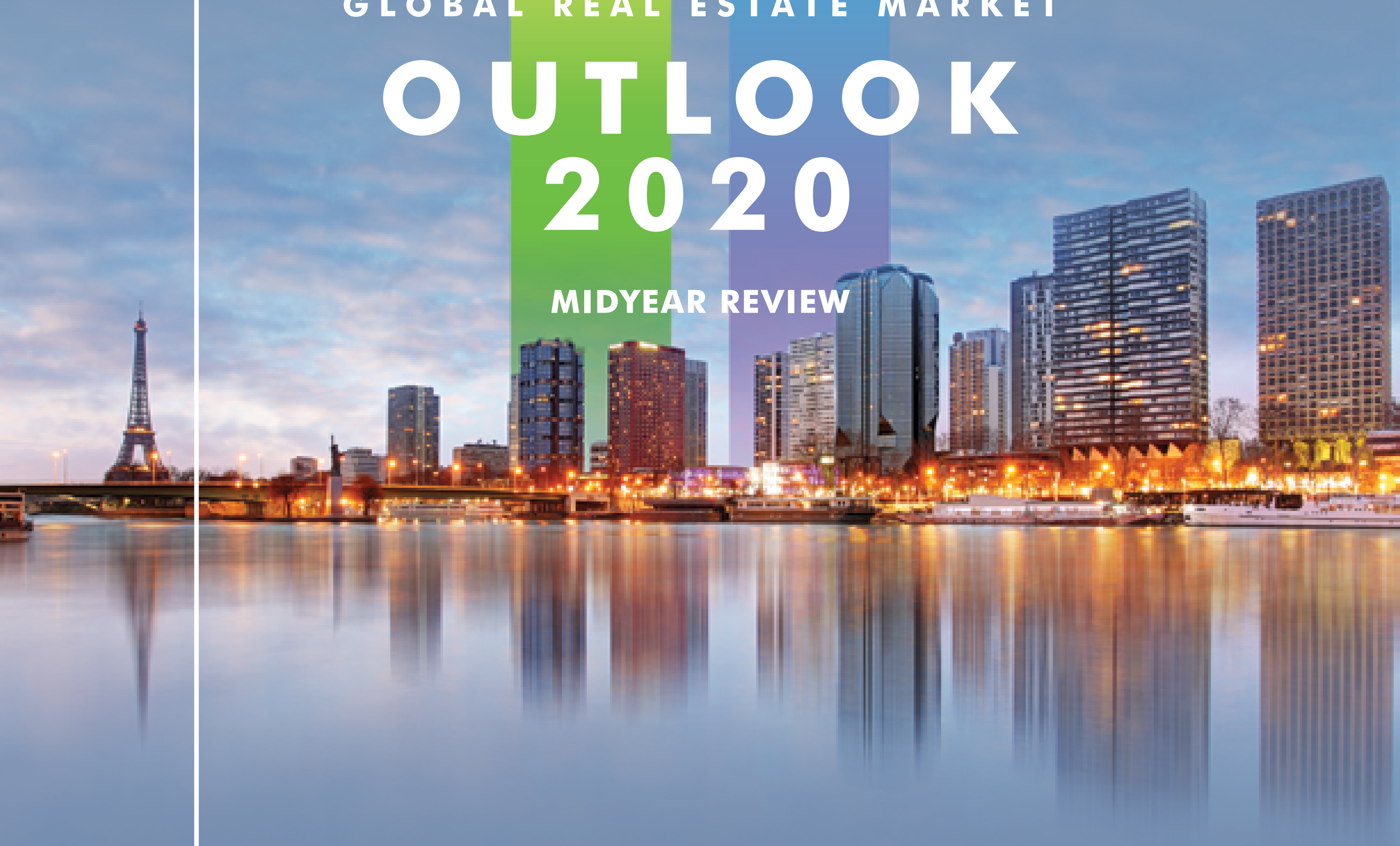
CBRE RESEARCH | GLOBAL

GLOBAL REAL ESTATE MARKET OUTLOOK 2020

MIDYEAR REVIEW



CBRE

INTRODUCTION

COVID-19 remains front of mind for investors and occupiers, despite the recovery in global economic activity that began in April. Real estate activity remains subdued because workers have not yet returned to their offices in the big cities of America and certain parts of Europe. Investors need more freedom to travel and more certainty on economic growth.

Leading indicators suggest that the global recovery will gain momentum in H2 2020 and deliver strong rates of growth in 2021. The virus is relatively under control in Asia and most of the G7 economies (apart from the U.S.), so lockdown restrictions have been eased. Pent-up demand is high as evidenced by rebounding retail sales. And the level of economic stimulus supporting the global economy is bigger than anything seen since World War II. The expected pick-up in real estate demand will lag the improvement in economic growth by between six and nine months.

The recent flare-up of COVID-19 in the U.S. is a risk to this outlook, but local lockdowns, mask wearing and social distancing will bring it under control again. There have been very rapid developments in testing and treatment, and a vaccine may be available before year's end along with therapeutics to relieve symptoms and reduce fatalities.

The virus has significantly boosted the digital economy and real estate will have to catch up. Office employment has been very resilient during the crisis, but patterns of work are changing rapidly and offices will have to respond. The growth of online retail has accelerated demand for industrial assets and is driving rapid evolution of the retail sector. The virus has not lowered the amount of available capital for real estate and, even though investment has paused, it will only take a modest reduction in risk to open the floodgates. As always, first movers will gain an advantage.

We have taken this moment when the economy and market are turning to review the outlook for global real estate. It is exciting, albeit not without challenges. The CBRE Research team that authored this report is always available to assist you. We look forward to working with you as you refine and execute your strategies.

Richard Barkham
Global Head of Research

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ECONOMY

KEY TAKEAWAY

Global GDP 2020: -5.2%
Global GDP 2021: +6.9%

SUMMARY

Challenge

The COVID-19 pandemic caused a dramatic lockdown of economic activity across much of the world, resulting in a recession of historic depths. As government restrictions are lifted, there are nascent signs of recovery.

Outlook

CBRE forecasts that the global economy will stage a strong but volatile recovery through 2021. This will bring about a recovery in property markets as well, but with varying degrees of lag time across regions and property types. Economic performance will be shaped much more heavily than usual by fiscal and monetary policies, as well as health directives.

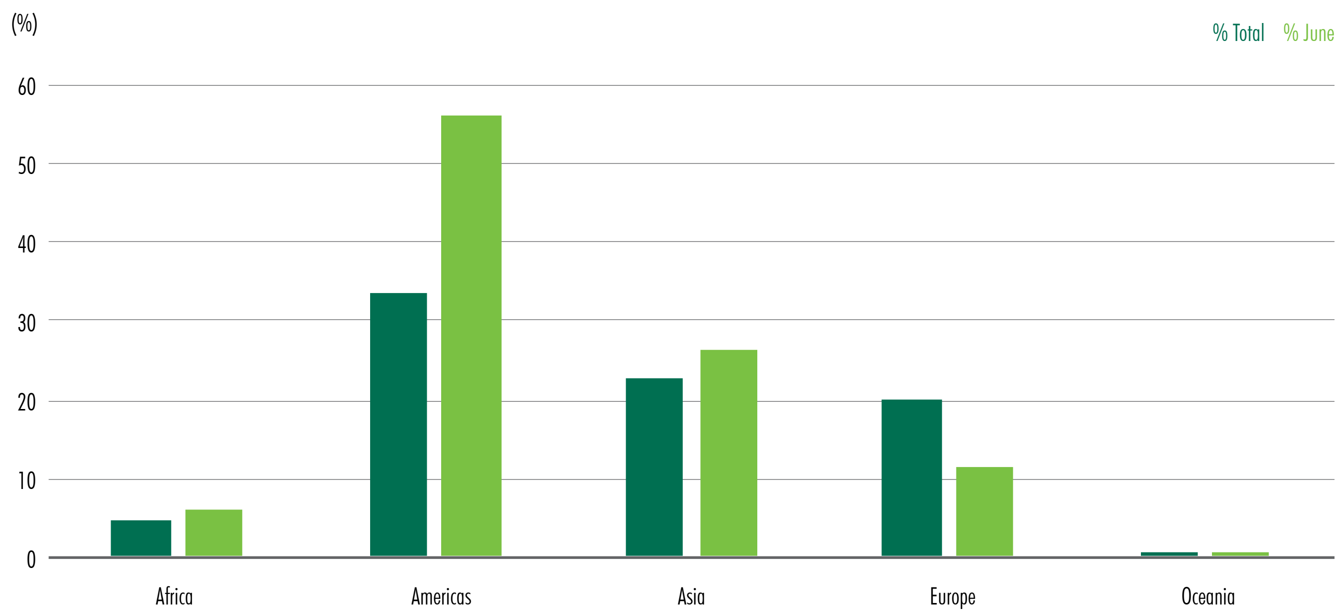
LOCKDOWN CAUSES GLOBAL RECESSION

The economic effects of COVID-19 include staggering job losses, greatly reduced consumer spending and business closures. Though each country has responded with its own unique set of virus control policies, major economies have all instituted an unprecedented level of monetary and fiscal stimulus.

Aggressive measures in some countries, including robust testing, prevented lengthier lockdowns. Many other countries did not take aggressive early actions, resulting in necessary but draconian measures to slow the virus's spread. This has resulted in a historically deep recession, impacting property market fundamentals across the globe.

Most major economies have begun to lift restrictions, allowing for some economic recovery, but South America is now battling a surge in cases during winter in the Southern Hemisphere. Normal activity will not fully resume until a vaccine is available. Public health officials suggest a vaccine may be available in the second half of 2020 but likely will not be widely distributed until 2021.

FIGURE 1: SHARE OF COVID-19 CASES BY REGION



Source: European Centre for Disease Prevention and Control, July 2020.

ECONOMIC RECOVERY IN LATE 2020

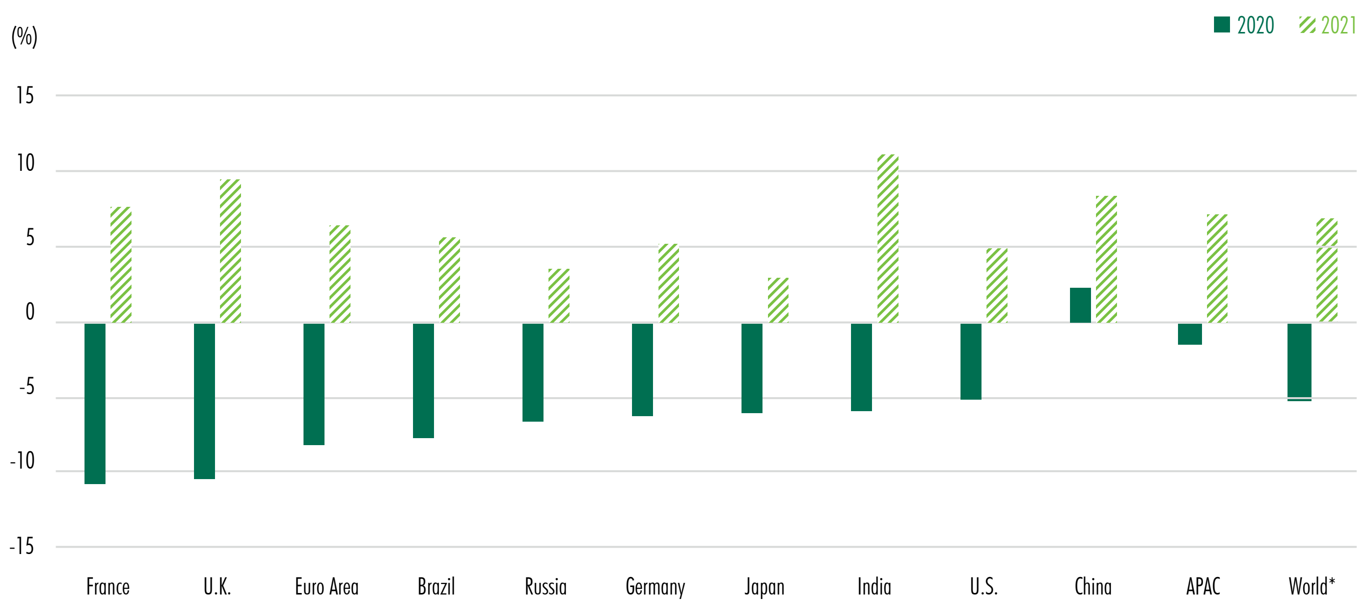
CBRE's baseline forecast is for a severe contraction in GDP of between 5% and 10% this year across the major developed economies. GDPs of the Euro Area, U.S. and Japan are forecast to contract by 8.1%, 5.1% and 6.0%, respectively. The outlook is mixed in other parts of Asia, with growth in China slowing to 2.3% for the year, India contracting by 5.9% and Korea falling slightly by 0.8%.

As restrictions are substantially lifted, CBRE sees a strong economic recovery taking hold in the second half of 2020 and lasting into 2021. In terms of a shape, think of a wide "V" or what some call a "Nike swoosh." GDP growth in most large developed economies is expected to surpass 5% in 2021, with the Euro Area, U.S. and Japan growing by 6.4%, 5.0% and 3.0%, respectively. China, India and Korea are expected to rebound with GDP growth of 8.5%, 11.2% and 3.5%, respectively, next year.

There have been some encouraging signs of recovery: Auto and air travel are increasing and customers are returning to those restaurants that have reopened for dining.

Although CBRE is optimistic that a global economic recovery will be underway in the second half of 2020, its momentum in 2021 will depend on further fiscal stimulus and a vaccine for COVID-19.

FIGURE 2: FORECAST GDP GROWTH, 2020 vs. 2021



*Fixed market exchange rates.
Source: CBRE Research, July 2020.

UNPRECEDENTED FISCAL & MONETARY STIMULUS TO CONTINUE

The U.S. and Japan were the most fiscally aggressive developed economies, with crisis spending totaling 15% and 43% of their respective GDPs. China and the largest economies of Europe deployed stimulus packages of around 5% of GDP. Many of these actions were aimed at stabilizing employment, preserving the supply side of the economy and funding public health responses. Nevertheless, the virus remains active and on-going restrictions continue to weigh on economic activity. This will necessitate varying degrees of additional policy support until activity can freely resume and confidence returns.

Central banks in the U.S., Europe, Japan and the U.K. all lowered their short-term interest rates to zero. In addition, central banks have made robust levels of asset purchases and taken other liquidity actions to stabilize financial conditions. Central bank balance sheets across developed economies have grown by between 5% and 21%, with the U.S. Federal Reserve increasing its balance sheet by 13.5%.

Additional stimulus by the world's largest economies—Europe, the U.S. and China—is forthcoming and will support global economic recovery. EU leaders agreed to a €750 billion (US$850 billion) stimulus package, which is particularly noteworthy because of its united approach to the crisis in Europe. Meanwhile, the European Central Bank (ECB) expanded its asset purchases and maintained low short-term rates.

In the U.S., policymakers have called for additional relief packages in the trillions of dollars, but stronger-than-expected economic data in May and June could temper such proposals. Nevertheless, some amount of additional relief for hard-hit industries and workers is expected. The Federal Reserve has also indicated that it will not increase the federal funds rate beyond its current range of 0 to 0.25% before 2022.

China announced more than $850 billion in new stimulus spending, including for infrastructure, urbanization and other sizeable projects that will help boost growth. China's central bank also has undertaken various measures to ensure ample market liquidity and credit availability.

PAYING FOR STIMULUS

Government debt levels are sharply increasing as fiscal packages are deployed to ensure recovery. How will governments pay for this?

There is no immediate danger that developed economies will be unable to fund their debt because the surplus of global savings is ideal for low-risk government debt. In addition, central banks are actively buying government debt to keep long-term interest rates down and the economy stimulated. Amid a low-inflation environment, this policy mix works well to facilitate large deficit spending.

Central banks must retain their independence to tighten monetary policy through interest rate increases and balance sheet reductions when appropriate. Although governments cannot rely on quantitative easing (asset purchases) alone, renewed economic growth will generate revenue to service debts. Furthermore, potential tax increases and reduced spending could help reduce overall debt-to-GDP ratios beyond the near term. There is a mild longer-term risk that governments might reduce the real value of their debt by not checking against inflation.

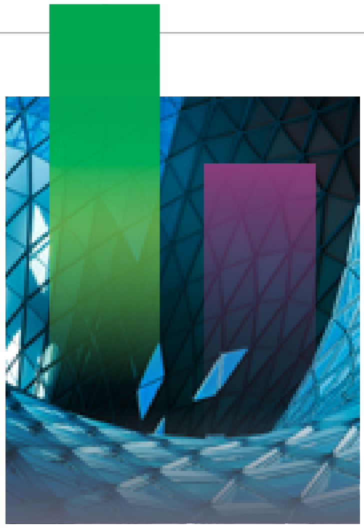
FURTHER FULL-ECONOMY SHUTDOWNS UNLIKELY

Risks to the outlook will remain elevated until effective treatments and ultimately a vaccine for COVID-19 are discovered. Nevertheless, policymakers likely won't execute large-scale shutdowns of their economies again, partly due to economic and political pressures but also because they have a more robust toolkit to combat the virus. This includes testing infrastructure, adequate contingency planning and necessary levels of personal protective equipment for medical professionals.

It is possible that more dramatic measures may be taken, albeit in a targeted fashion. Selective lockdowns will occur only if hospital capacity becomes an extreme issue.

REAL ESTATE LAGS ECONOMIC RECOVERY

The current global recession is unprecedented in the post-war period. A recovery is already underway, aided by an unprecedented level of fiscal and monetary stimulus, as well as pent-up demand. The recession will depress interest rates for at least two years, which will support capital flows to commercial real estate. Companies likely will wait until the economic recovery appears firm and sustainable before they lease more space, meaning that a recovery for commercial real estate will lag the economic recovery by at least six months.



CAPITAL MARKETS

KEY TAKEAWAY

Investors will move down the risk spectrum and seek upside during the economic downturn.

SUMMARY

Challenge

COVID-19 has weighed heavily on global commercial real estate investment. After Q1 investment volume surprised on the upside with a 15% year-over-year increase, Q2 volume was down by more than half year-over-year.

Outlook

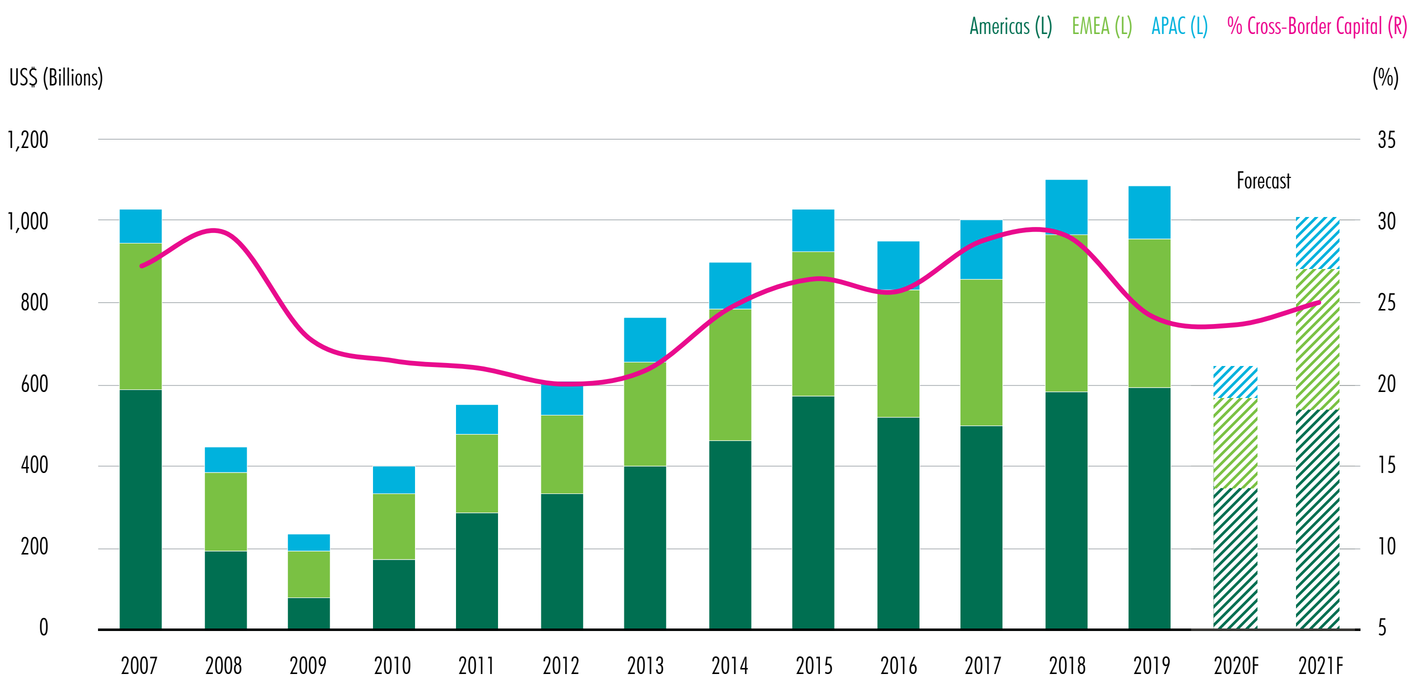
Global real estate investment and lending will fall in 2020. Liquidity remains available as conservative financing continues and private equities hold abundant dry powder. Property values will depreciate, accompanied by moderate yield expansion. Nevertheless, a window for low-cost hedging and discounted public acquisition has opened for global investors, while holdings in logistics and alternative real estate will mitigate risk during the downturn.

INVESTORS WILL MOVE DOWN THE RISK SPECTRUM AND SEEK UPSIDE IN THE DOWNTURN

INVESTMENT VOLUME WILL PICK UP IN 2021

COVID-19 has weighed heavily on global commercial real estate investment. As uncertainty grips markets around the world, CBRE predicts that investment volume will fall by 38% in 2020 and grow by 50% in 2021.[1]

FIGURE 3: GLOBAL REAL ESTATE INVESTMENT & CROSS-BORDER CAPITAL



Source: CBRE Research, Real Capital Analytics (Americas), Q2 2020.

[1] This forecast is a baseline scenario built on a range of indicators including GDP, interest rates and yield spreads.

PRIME ASSETS HIGHLY SOUGHT BY INVESTORS

Well-located, fully occupied office properties and prime logistics facilities continue to trade well. Transactions of single-tenant properties are increasing—a trend also occurring in other world markets like Paris, Boston, Japan, Australia, Germany and Korea, where purchase-for-occupancy or sale-leaseback options offer the potential to minimize risk for both the landlord and tenant.

DEBT MARKETS SUBDUED

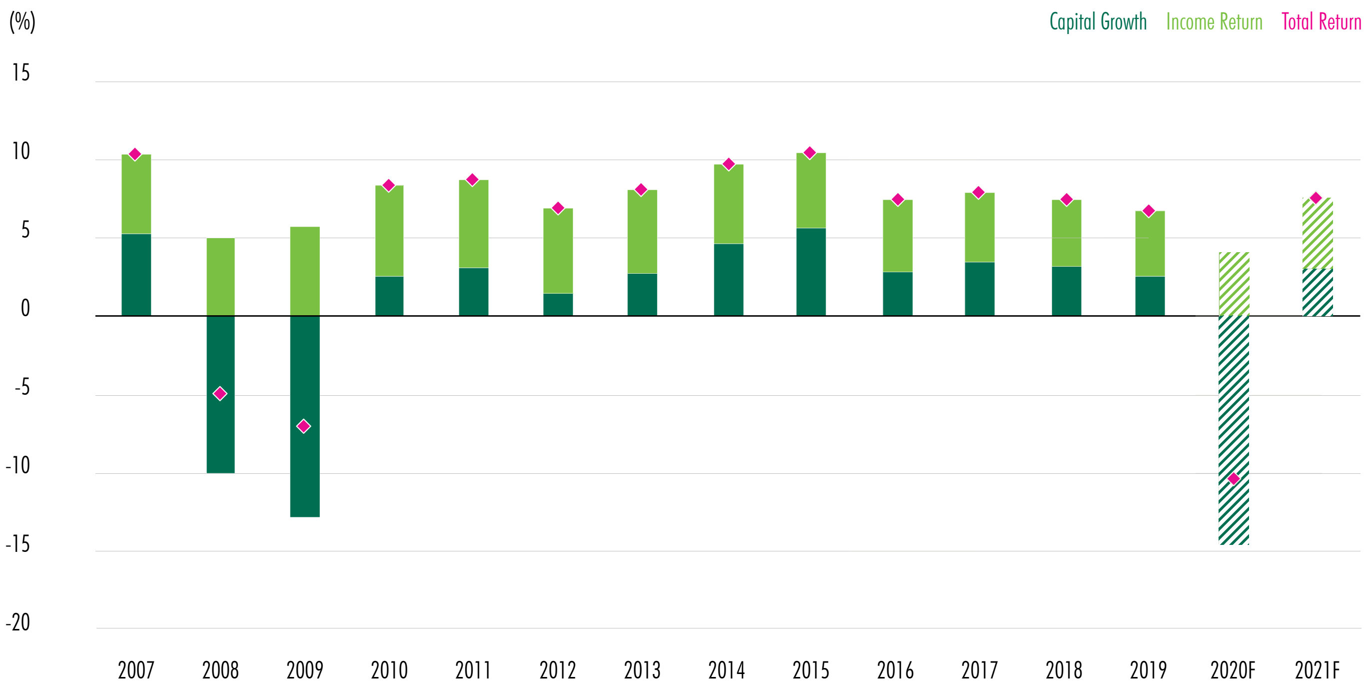
Demand for financing is down due to fewer sales transactions, but the refinancing market remains active. New loans have more restrictive credit standards, such as lower loan-to-value ratios and more assurance on future revenue streams. The cost of borrowing has slightly increased in the U.S., while the risk premium has widened due to lower interest rates.

Nevertheless, the private equity world has ample liquidity. Capital available for real estate investment is estimated at $328 billion globally.[2] Value-add funds remain particularly active as opportunistic investors move down the risk spectrum. Other risk-averse institutional investors, such as pension funds and insurance companies, will continue to invest in core and income-driven assets.

SELLERS EXIT THE MARKET

Property repricing has been moderate and confined to riskier assets. Distressed selling also has been limited. Many investors expect property values to drop significantly based on depressed rental income, but some sellers are taking assets off market rather than making significant price reductions. CBRE's preliminary forecast is for a 14% drop in capital value in 2020 and a 3.4% increase in 2021. Owners who are unwilling to sell at discounts will have to extend holding by a few years—an option not fully available for close-ended funds. A wave of fund expirations in 2021 may possibly motivate fund managers to sell.

FIGURE 4: GLOBAL INVESTMENT RETURNS OUTLOOK



Source: CBRE Research, MSCI/IPD, Q2 2020.

[2] 2020 Global Real Estate Report, Preqin, Q1 2020.

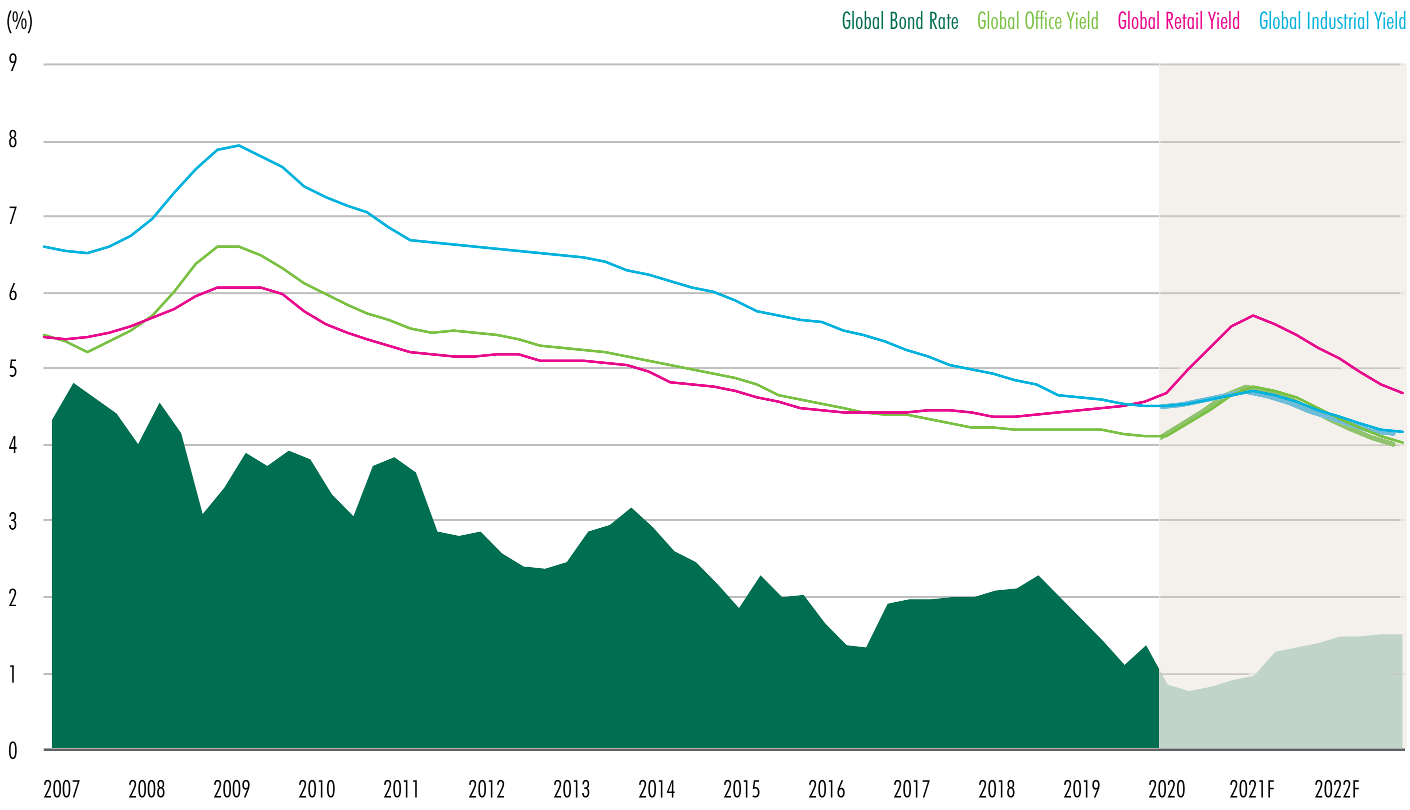
YIELD EXPANSION LIMITED AND SECTOR-SPECIFIC

Compared to retail, the forecasts for yield expansion in the office, industrial and alternative-asset sectors do not appear as strong. By mid-2021, an average primary market[3] may see office yields rise by 50 to 75 bps and industrial yields by less than 25 bps. By then, economic recovery and rising liquidity will start to lower yields. Meanwhile, global bond yields likely will stay low for the foreseeable future, making real estate more appealing.

"These yield forecasts are made with the best available econometric models, but they are only estimates. Although property fundamentals have weakened, liquidity is in good shape, so we may even see yield compression in the industrial sector and for high-grade offices with long-dated income. The zone of uncertainty on pricing is quite wide."

— Richard Barkham
Global Head of Research

FIGURE 5: COMPOSITE YIELDS BY MAJOR PROPERTY TYPES



Source: CBRE Research, Q2 2020.

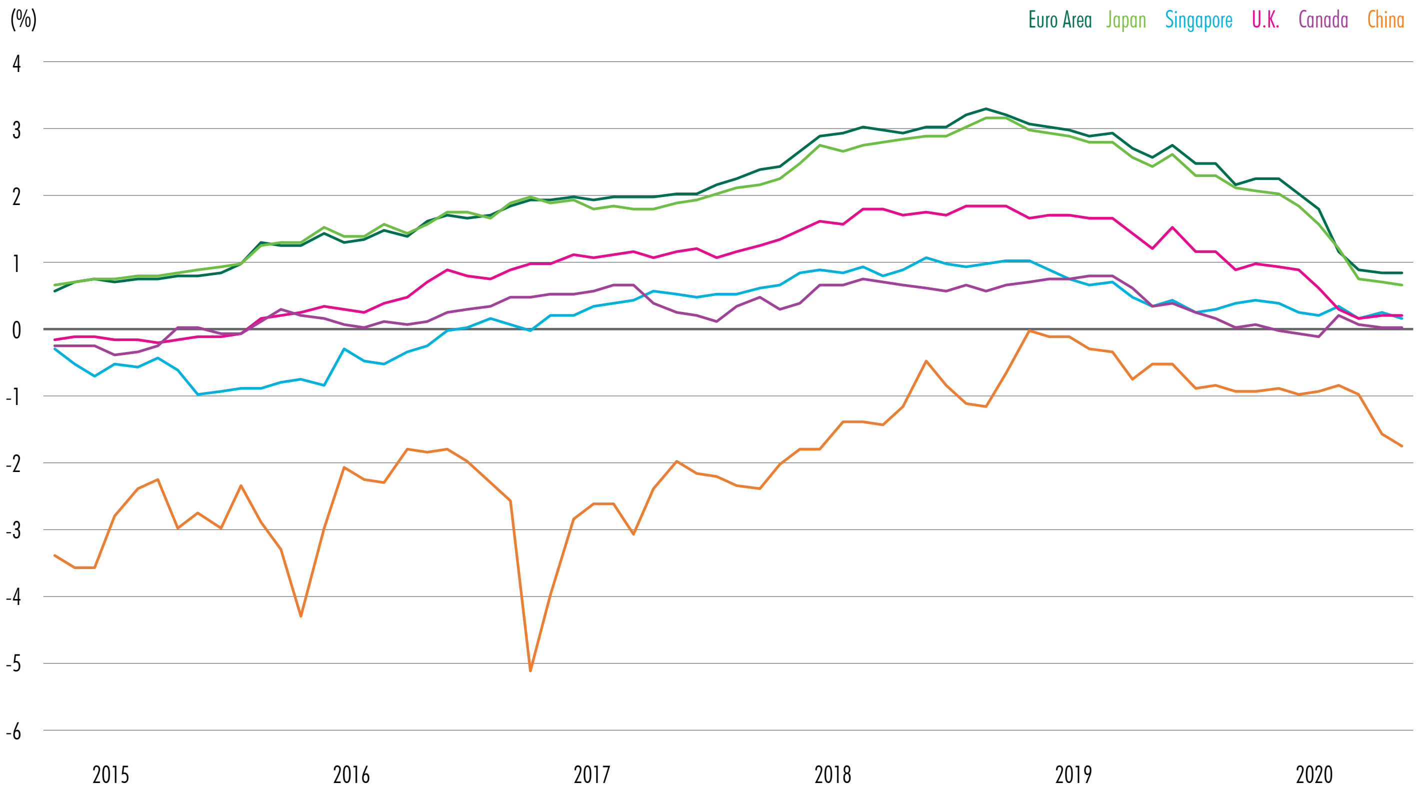
[3] CBRE tracks top 30 markets based on size, growth and price in each sector across 22 countries. Statistics are generic averages.

LOWER HEDGING COSTS FAVOR THE U.S.

Cross-border capital's share of total global investment volume fell to a six-year low of 24% in 2019. Foreign investment in the U.S. plunged by 54% in 2019, partially due to the strong expectation of a fall in the U.S. dollar that increased hedging costs for global investors. However, the dollar rose in March and April 2020 and global investor expectations have now shifted to dollar depreciation. For European, Canadian, Japanese and Singaporean investors, a window of hedging with exceptionally low cost has opened in the U.S. Chinese investors will even secure a 1.8% currency gain on top of asset returns, but capital controls likely will hinder such opportunities.

Similarly, emerging markets like Brazil, whose currency greatly depreciated against the U.S. dollar and the euro, are well positioned to offer higher returns to global investors. However, some countries that are still struggling with virus control have travel restrictions and underwriting challenges that will restrain cross-border capital flows. An upturn in cross-border investment likely will occur in 2021.

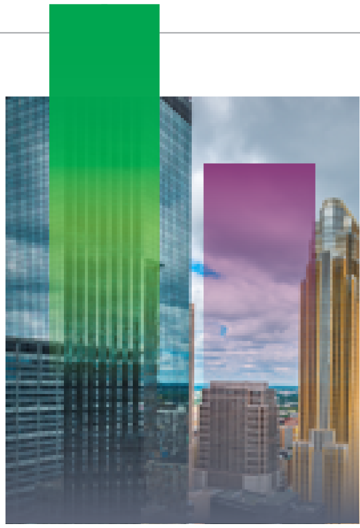
FIGURE 6: HEDGING COST AGAINST U.S. DOLLAR DEPRECIATION



Source: Chatham Financial, CBRE Research, July 2020.

UPSIDE FOR THE DIGITAL ECONOMY

Though the global pandemic was unexpected, real estate market participants had considered a short-lived downturn scenario in a late-cycle world. The search for downturn protection and higher yield motivated many to diversify into alternative property types and secondary markets. Data centers, cold-storage and self-storage facilities are leading examples of growth, riding on fundamental demand drivers such as big data, the Internet of Things, online grocery and labor mobility. Secondary markets, often with less population density, are favorably staged for reopening and some will experience less of a drop in investment activity. For example, Hamburg, Minneapolis and Denver are outperforming in industrial and apartment sales.



OFFICE

KEY TAKEAWAY

Early indications point to resilience for some office-using sectors, but questions remain about longer term demand for space.

SUMMARY

Challenge

The COVID-19 outbreak has caused a range of complex challenges for office occupiers, some short-term solutions for which could become permanent.

Outlook

Some loss of office-using employment will lower leasing demand in all regions this year, dropping take-up and absorption into negative territory. Vacancy rates likely will rise by at least 1 percentage point globally, although this will be tempered by less new development. Rents likely will fall by 3% to 6% in many markets in 2020. Most of the negative impacts on demand and values should be confined to this year, with the potential for a robust bounce back in 2021.

EARLY INDICATIONS OF DEMAND POINT TO RESILIENCE FOR SOME OFFICE-USING SECTORS

SURPRISING RESILIENCE, BUT WEAKER DEMAND FORECAST

Early indications of office demand show that certain office-using sectors are resilient. In the U.S., the drop in office-using employment has been relatively moderate and less in its larger sectors such as financial services, technology and law. In EMEA, office-based employment remains stable and likely will drop by only about 1% this year.

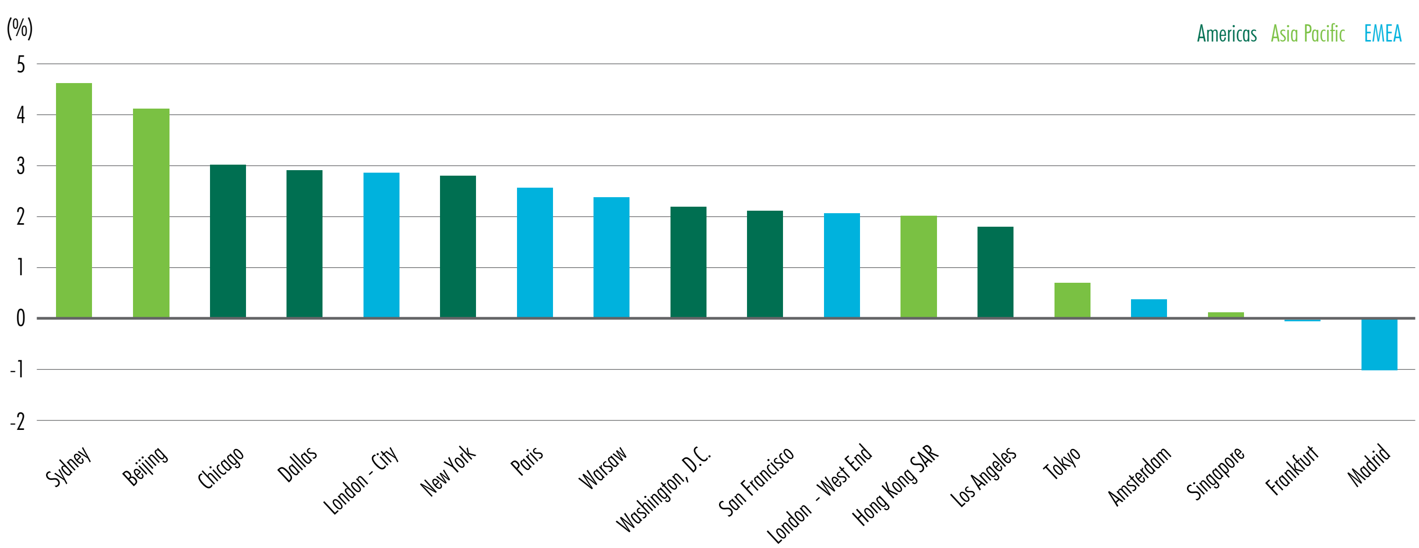
Nevertheless, the COVID-19 recession will dampen leasing activity and increase vacancies this year. In the U.S., 50 million sq. ft. of negative net absorption is forecast for the second half of 2020, contributing to the first annual decline in net absorption since 2009. Across the main European markets, take-up likely will decline by as much as 40%—a steeper single-year drop than any during the Global Financial Crisis (GFC). Office demand in APAC has also weakened this year. Regional net absorption likely will fall by 40% to 50% in 2020, with a rebound in regional office leasing inquiries unlikely until midway through H2. However, signs of a pick-up in China are mildly encouraging and provide hope for a broader regional recovery to pre-pandemic levels in 2021.

RISE IN VACANCY; DEVELOPMENT ACTIVITY HALTED

While vacancy rates are rising, social-distancing measures that require more space between workers should limit the steepness of increase. The U.S. overall office vacancy rate is expected to rise by more than 2 percentage points; most EMEA and APAC markets likely will have increases of between 1 and 2 percentage points.

Curtailed development could produce shortages of prime space in the medium term. In part, this reflects disruptions to materials supply chains and site access, but developers increasingly are shelving or downscaling their development plans. The effect will not be immediate, since projects scheduled for delivery this year were already well underway. In the U.S., more than 55 million sq. ft. of new office space will still be added this year, while completions in the main European markets likely will total more than 5.5 million sq. m. compared with less than 4 million sq. m. last year. In APAC, new Class A supply totals 60 million sq. ft. net floor area (NFA), with the remainder of the year's pipeline likely to be delayed in some major markets such as China and India.

FIGURE 7: FORECAST VACANCY RATE CHANGE, 2020 vs. 2019



Source: CBRE Research, Q2 2020.

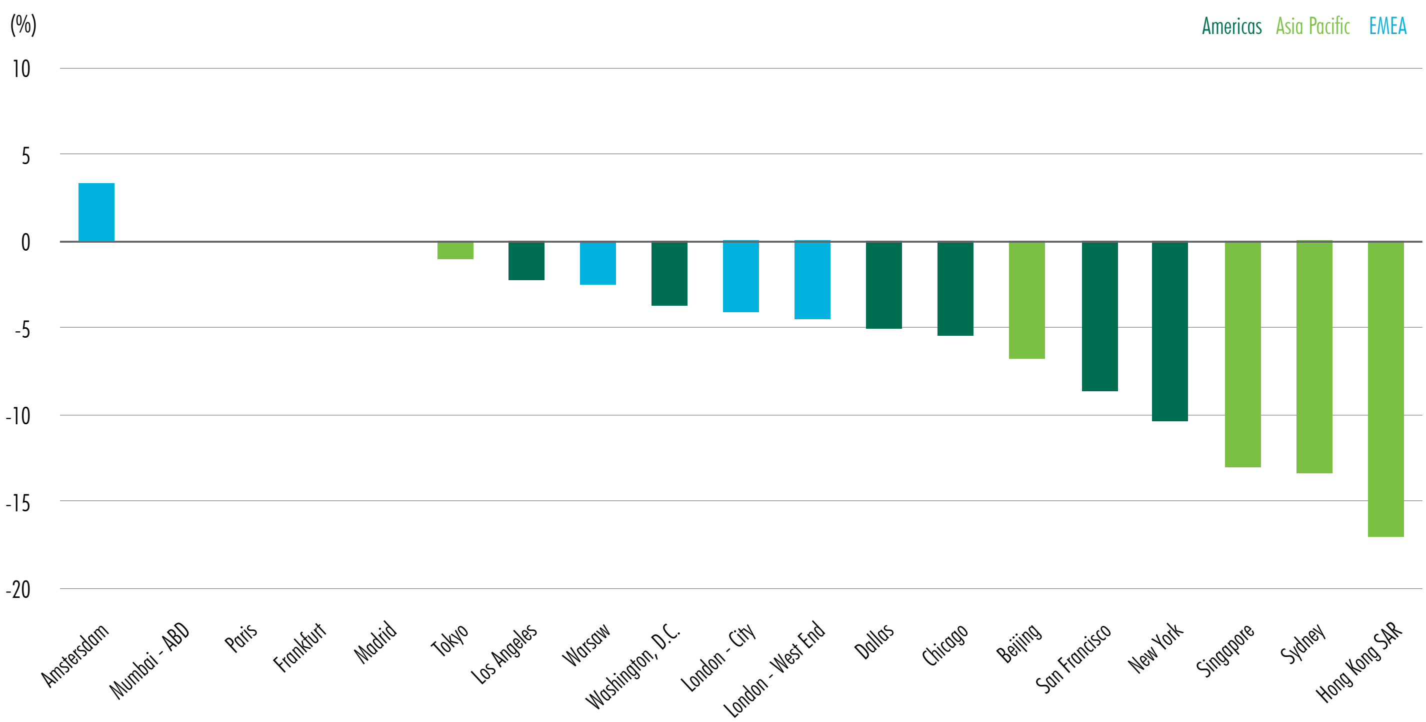
SHORT-TERM FALL IN RENTS

In the U.S., average rents are expected to fall by more than 6% this year—the first annual decline since 2010. Hot markets will include some perennial high-growth cities, such as Raleigh, Nashville, Tampa and Phoenix. Washington, D.C. is expected to be the best-performing gateway market due to the federal government's stabilizing influence as an occupier and to a growing tech sector.

Rental rates in major European cities like London, Dublin and Stockholm are forecast to drop by between 3% and 5% this year. Markets that might buck the trend and record rent increases in 2020 are mainly in Germany and the Netherlands where the impact of lockdowns has been less severe and where vacancy was very tight going into the crisis.

Rents in APAC are expected to fall by between 5% and 10% this year. Rent declines could persist in 2021, albeit at a slower rate. Stronger markets include Japanese regional cities and Taipei, all of which have tightening vacancy and limited new supply. Manila is another city with stronger prospects for rent growth due to healthy demand from IT outsourcing firms.

FIGURE 8: FORECAST RENT GROWTH FOR THE TOP GLOBAL OFFICE MARKETS, 2020



Source: CBRE Research, Q2 2020.
Note: these are full calendar year forecasts.

OFFICES ALIVE AND WELL IN INDIA

Demand for office space in India remains relatively resilient as the country's outsourcing sector continues to evolve, attracting interest from global multinationals. India offers cost-effective real estate and high-skilled labor in sectors such as financial services, technology and software development. The country continues to evolve as a service-oriented economy, generating strong demand from Indian companies. Additionally, limits on the viability of work-from-home initiatives due to a general lack of home offices—especially for younger workers—will lessen the impact of remote working on office space take-up. However, the shutdown of India's economy and the imposition of travel restrictions will cause a short term disruption in leasing activity.

FIGURE 9: OFFICE LEASING IN INDIA, 2015-2019

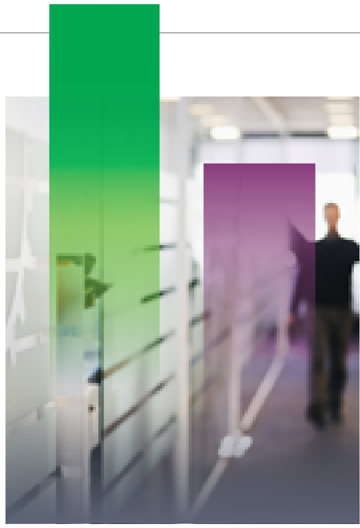
Source: CBRE Research, Q1 2020.

MORE FLUID SPACE OPTIONS AHEAD

The COVID-19 outbreak has caused a range of complex challenges for office occupiers, some short-term solutions for which could become permanent as companies resume office-based working with social distancing. Less employee densification in office space will come at a price, as companies modify space and implement technologies that support employee health management. This capital expenditure will come at a time of severe pressure on revenues and likely will be offset by greater flexibility and other financial concessions from landlords.

The work-from-home experiment has proven technically possible, but at what cost to corporate culture, collaboration and innovation? Any increase in remote-working represents a headwind to office demand, with wider ramifications in terms of location priorities for investors and occupiers.

Overall, in addition to marking a clear shift in the cycle, 2020 will be a watershed year in the changing role of the office as a high-quality, point-of-contact destination in a far more fluid portfolio of space solutions.



OCCUPIER

KEY TAKEAWAY

Occupiers will aggressively adopt a more hybrid way of working.

SUMMARY

Challenge

The reopening of workplaces is occurring in phases, with countries that have adequately lowered the rate of COVID-19 infections, such as Greater China, Korea and Vietnam, returning to a more normal state of office usage. Meanwhile, the U.S. and EMEA are just beginning to phase employees back into the office, starting with essential workers.

Outlook

In a recent Global Occupier Sentiment Survey by CBRE, 61% of respondents from multinational companies expect to adopt a more hybrid way of working. Achieving successful portfolio strategies that efficiently integrate traditional leased space, remote work and flexible office space will be the challenge for occupiers in the years ahead.

OCCUPIERS WILL AGGRESSIVELY ADOPT A MORE HYBRID WAY OF WORKING

WORKERS SLOWLY RETURN TO THEIR OFFICES

The need to maintain low workplace density and ensure adequate social distancing is requiring employers to institute schedules that have a combination of some employees working in the physical office and others at home. This reentry process will progress throughout 2020 as occupiers learn more about the impact of loosened restrictions and seasonality on virus infection rates.

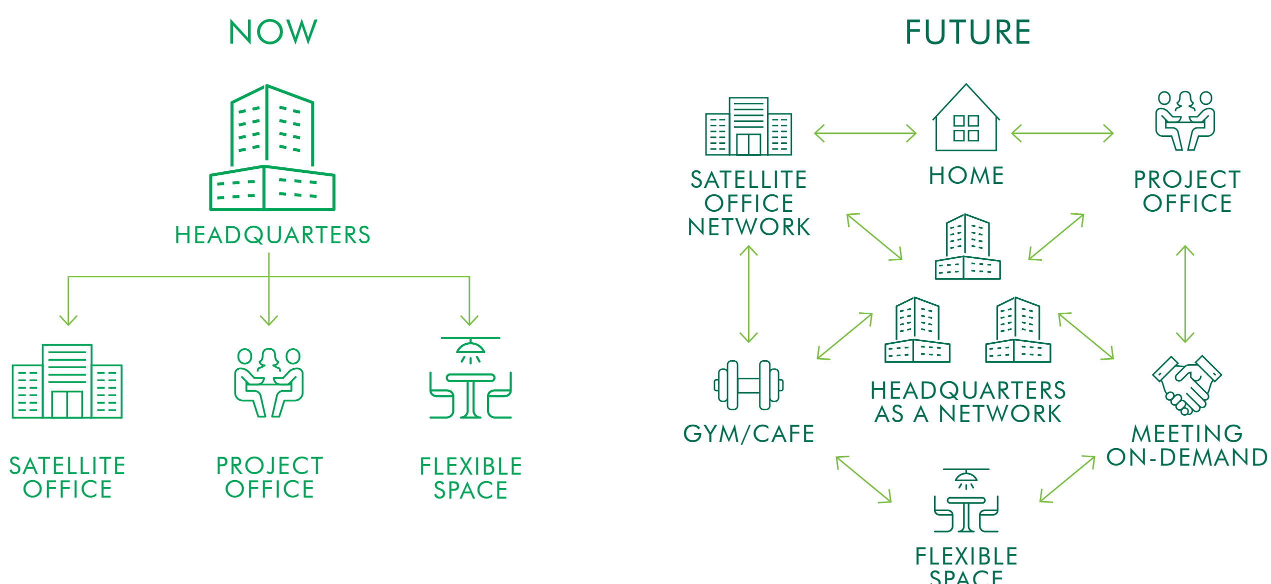
FACILITIES MANAGEMENT TO THE FOREFRONT

An enhanced focus on health and safety is expected this year, including general health screening at access points, provision of cleaning and personal protective equipment and frequent sanitization of work areas. Indoor air quality likely will climb up the occupier agenda—a trend that may lead to more demand for buildings with sustainability and wellness features. Most occupiers are not spending capital to dramatically reconfigure their space, as social distancing guidelines are believed to be temporary until the virus retreats. Occupiers are instead focused on modifying space through signage, closure of some common areas and reducing overall capacity.

ADOPTION OF HYBRID WORKING ACCELERATES

The widespread adoption of remote working has largely been deemed a success. There remain some challenges, but the trend likely will become a permanent feature of the global office landscape. Global surveys conducted by CBRE suggest that many occupiers will increase adoption of remote working after the COVID-19 pandemic ends and will increase their technology investment to support it. This does not suggest a full-time remote workforce but rather one that will have more choice over where they work, creating a more hybrid workforce not bound by the barriers of a physical office to remain productive.

FIGURE 10: FLEXIBLE WORKING AS A NORM



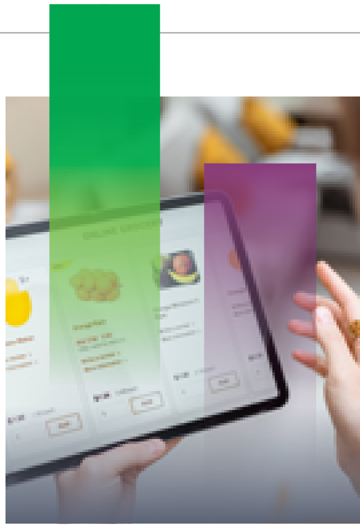
Source: CBRE Research, Q1 2020.

A SHIFT TO SHORT-TERM LEASING AND THE SUBURBS?

As their current leases expire, many occupiers are choosing short-term renewals due to economic uncertainty. Others are not renewing altogether. In some markets—especially those in mass transit-dependent urban areas—companies are considering satellite or suburban locations to provide convenience. The process of portfolio rebalancing will take at least three years before occupiers achieve an equilibrium that satisfies lower density for social distancing and higher levels of remote working.

THE LASTING IMPACT OF COVID-19

Trends around remote working and healthy offices will have the most lasting impact after COVID-19. The workplace likely will be less centralized, with more widely distributed teams that interact in a more controlled manner. All offices will have to offer environments and services that promote the physical health and mental well-being of employees. Nevertheless, great offices of the future will do what great offices of the past have always done: serve as important hubs for the human elements and experiences that technology alone can't provide.



RETAIL

KEY TAKEAWAY

While still playing an important role in meeting consumer demand, physical retail will be re-imagined.

SUMMARY

Challenge

The surge in online spending stabilized after panic-buying subsided and consumers gradually returned to brick-and-mortar retail upon easing of restrictions. Meanwhile, some retailers faced supply chain challenges during the shutdown and converted closed physical stores to regional fulfillment centers to meet the increase in online-order demand.

Outlook

Changes in consumer demand and behavior, digitalization and a transitory surge in e-commerce sales will reshape retail. Creative solutions during COVID-19 to engage consumers, generate sales and fulfill online orders will become permanent shifts in the way retailers operate. While retailers will consolidate store locations (largely non-essential) to optimize their real estate portfolios, physical stores will still play a valuable role as retailers strive to expand their omnichannel platforms and increase profitability.

PHYSICAL RETAIL STILL PLAYS AN IMPORTANT ROLE IN MEETING CONSUMER DEMAND.

PENT-UP DEMAND AND NEW SHOPPING BEHAVIORS WILL SHAPE THE REBOUND

Rebounding consumer confidence and purchasing power will be macro drivers of the retail recovery. However, consumers will spend more cautiously and selectively due to continued economic uncertainty and a less-secure employment market.

Global consumers appear eager to return to brick-and-mortar retail for services and products that are not available online like beauty services, health & wellness and dining. Discount retailers in the Americas and EMEA should benefit from an increase in consumer bargain shopping during the recession. Although value retailers are not as prevalent in APAC, outlet centers in major domestic tourism markets should benefit. Consumers will also benefit from inventory clearance sales by many retailers this year.

FEWER BUT HIGHER-SPENDING TRIPS

Shopping behavior will shift away from pre-pandemic experiential retail and leisurely cross-shopping to much more intentional shopping trips. Consumers will shop less frequently but spend more per visit, resulting in higher conversion opportunities for retailers as evidenced by an increase in average receipts of between 10% and 15% in Italy and Spain since reopening, according to CBRE Research.

Ongoing caution around personal safety and social distancing in the COVID-19 era will lead to consumers favoring open-air shopping centers and retail parks over enclosed malls. Consumers also will favor locally based retailers until they are comfortable with traveling longer distances.

SOCIAL DISTANCING BOOSTS THE DIGITAL ECONOMY

As the COVID-19 pandemic caused the shutdown of nonessential retailing worldwide, digitally enabled brands ranging from fitness to apparel with the ability to maintain customer connection through content engagement and generate sales via e-commerce were the most resilient.

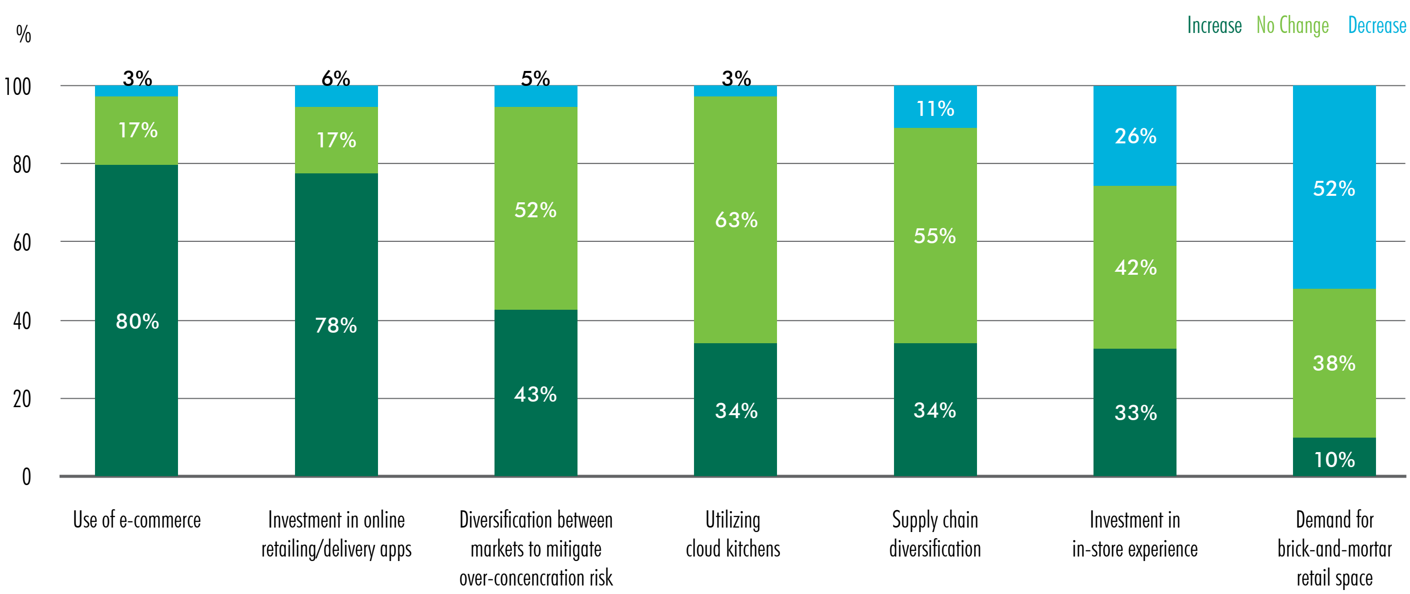
Adaptation to the digital world for many retailers was born out of necessity to increase sales, expand customer reach, provide on-demand delivery services and create brand awareness beyond using traditional flagship locations. But in a post-pandemic world, these shifts in strategy will become permanent. In a recent CBRE survey of retailers in APAC, approximately 80% of respondents plan to increase their use of and investment in e-commerce and delivery apps.

Creative strategies that involve e-commerce, live streaming and virtual reality will keep product offerings in front of consumers no matter where or how they shop. Balmain was the first fashion house to use mobile video provider TikTok to feature its collections. Retailers like Burberry, Valentino and Marc Jacobs are also using gaming apps that feature their products to attract consumers.

Retailers are increasingly using data science, artificial intelligence and multiple delivery options to meet the increased consumer demand for convenient, contactless fulfillment of online purchases.

Delivery and click-and-collect options are prevalent worldwide, while curbside pick-up at physical retail locations without the need to leave your car is widespread in the U.S. Curbside pick-up has been a lifeline for U.S. brick-and-mortar retailers during COVID-19 and is part of the phased reopening of retailers nationwide. Because of its popularity, many retailers likely will make it a permanent offering.

FIGURE 11: APAC RETAILERS' EXPECTED COVID-19-RELATED SHIFTS IN BUSINESS STRATEGY



Note: Data as of May 21, 2020, N = 179.
Source: CBRE Research, May 2020.

PHYSICAL RETAIL'S EVOLVING ROLE IN E-COMMERCE GROWTH AND SUPPLY CHAIN MANAGEMENT

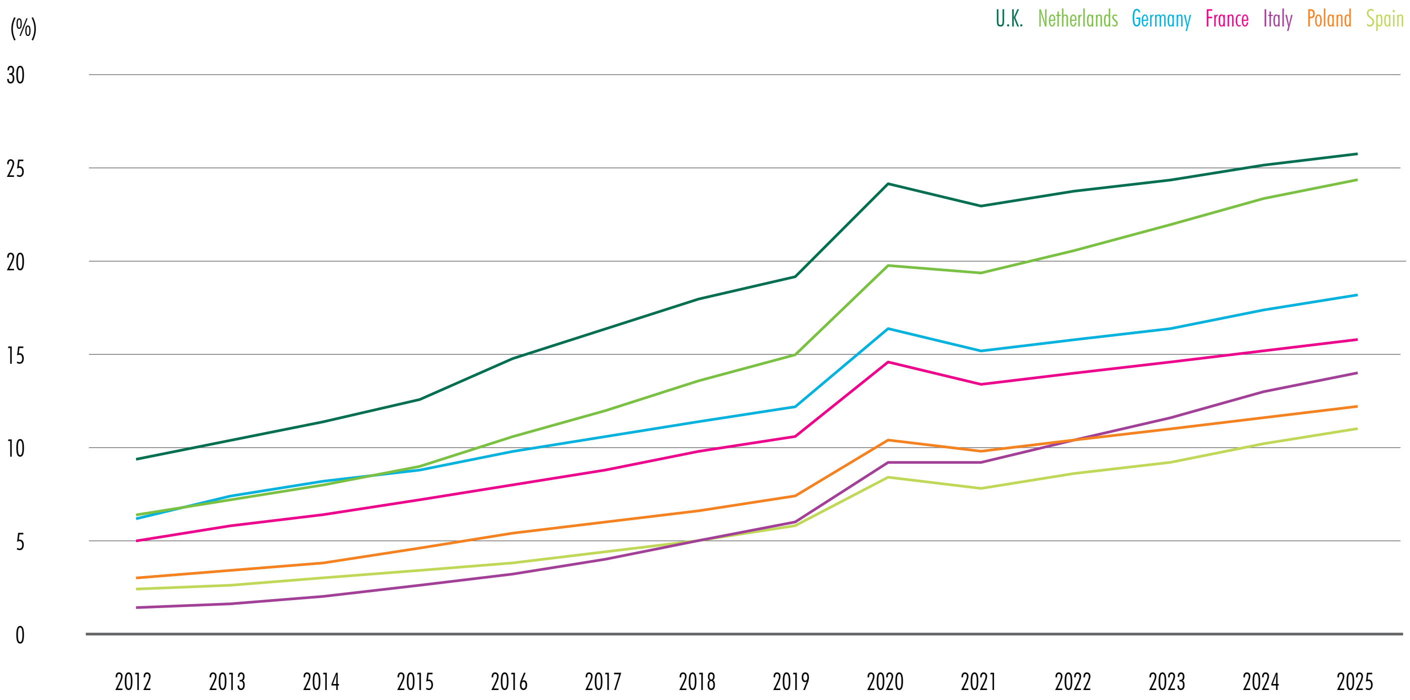
Growth in online sales has accelerated rapidly due to nonessential store closures and consumer isolation, such as Mainland China, Singapore, Australia, the U.S. and the U.K. However, the migration toward e-commerce during COVID-19 has not been enough to offset the overall drop in retail sales worldwide, thus reinforcing the role of physical stores.

The surge in online spending stabilized after panic-buying subsided and consumers gradually returned to brick-and-mortar retail upon easing of shutdowns in certain regions. However, the COVID-19-related spike in e-commerce sales will have a lasting impact on the way retailers operate in the future.

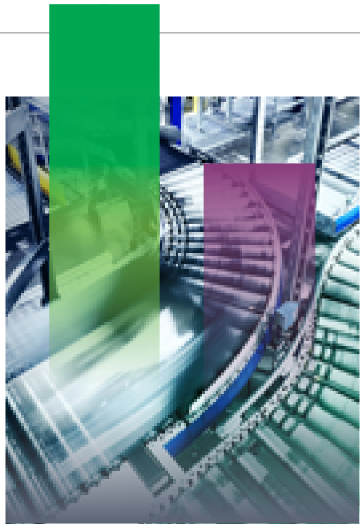
Several retailers faced supply chain challenges during the shutdown and converted closed physical stores to regional fulfillment centers to meet the increase in online-order demand. Across the U.S., retailers like Bed, Bath & Beyond and Whole Foods used some stores solely to fulfill online orders. Lululemon successfully mobilized its stores throughout the U.S. and Europe to fulfill e-commerce orders using smart labels that track inventory.

As retailers strive to expand their omnichannel platforms and increase profitability, they will better integrate online and offline operations to expand their overall retail presence. Physical stores can be leveraged for both seamless brand experience and purchase fulfillment. Many retailers will reevaluate, consolidate and restructure their portfolios to optimize their physical locations while maximizing consumer reach. This will result in fewer store locations for several brands, but greater reinvestment in strategic repositioning and more innovative store formats.

FIGURE 12: EMEA ONLINE SALES % OF TOTAL RETAIL SALES



Source: Forrester, Euromonitor, CBRE Research, June 2020.



INDUSTRIAL &LOGISTICS

KEY TAKEAWAY

The industrial & logistics sector will continue to show strength and resilience amid global recession.

SUMMARY

Challenge

While traditional demand drivers like manufacturing output, consumer spending and global trade took a drastic hit from COVID-19, e-commerce has kept the industrial & logistics real estate sector thriving as stay-at-home orders increased on-line shopping worldwide.

Outlook

E-commerce and shifts in supply chain strategies will keep industrial real estate one of the best-performing commercial property types for the foreseeable future. First-generation big-box space will capture most of the demand. Meanwhile, demand for final-mile warehouse and distribution centers near large population centers will also increase, leading to more redevelopments in the coming years.

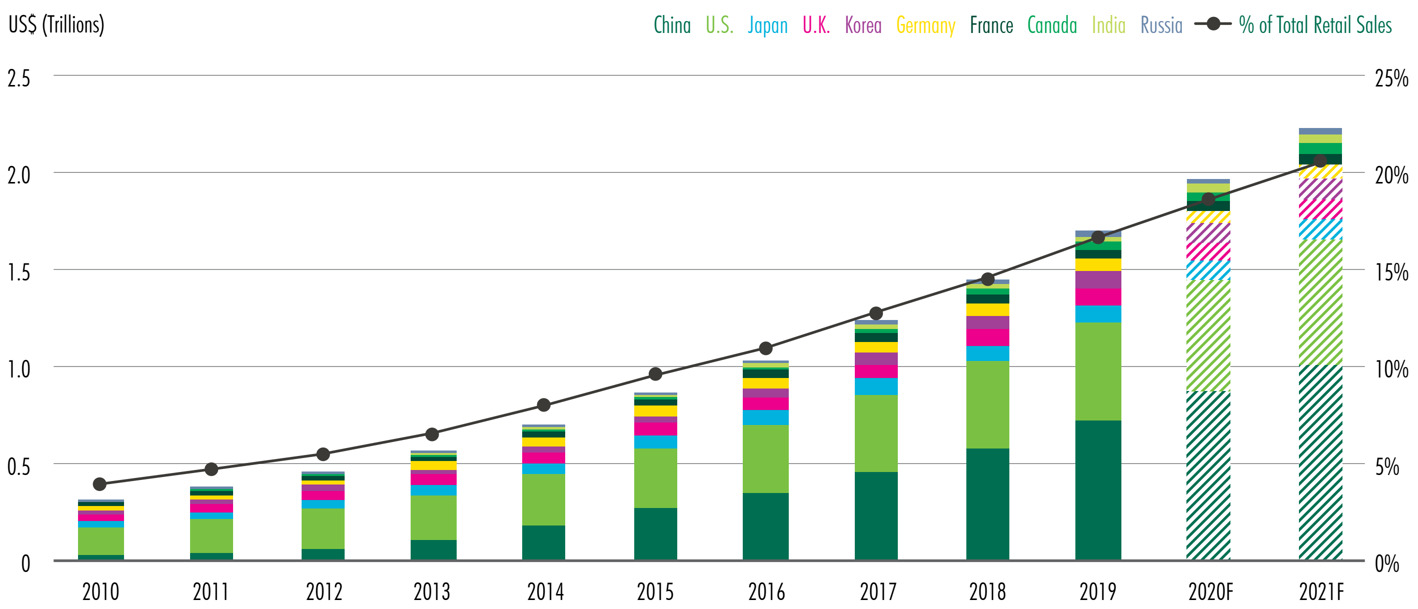
STRENGTH AND RESILIENCE AMID GLOBAL RECESSION

THREE SOLID SOURCES OF DEMAND

While there are short-term headwinds from the global recession, the long-term outlook for industrial & logistics (I&L) remains positive for three key reasons:

1. **E-commerce will increase its share of total retail sales**. As it has been for more than a decade, online sales will be the biggest catalyst for both activity and change in industrial real estate over the next cycle. Increasing demand for goods bought online, especially food, will fuel the need for distribution facilities at a pace much higher than in the current cycle.[4] Euromonitor forecasts that online sales as a percent of total retail sales in the top 10 countries for e-commerce penetration will rise to 21% by 2021 from 17% in 2019.
2. **Retailers and manufacturers will increase their "safety inventory."** To ensure inventory levels are adequate to quickly meet demand, retailers will insist that vendors keep higher amounts in stock, thus increasing the demand for warehouse space. The Institute for Supply Management (ISM) Manufacturing Inventories Index rose for a second consecutive month to a level of 50.5 in June.
3. **Diversification of supply chains will occur either throughout Asia or through reshoring to North America and Europe.** Supply chains that rely on Mainland China have been disrupted by U.S.-imposed trade tariffs and the COVID-19 pandemic. Other factors like rising labor costs and intellectual capital concerns also may drive companies away from Mainland China and into other parts of Asia, Europe, Mexico and even the U.S., especially as automation improves.

FIGURE 13: E-COMMERCE SALES BY COUNTRY, % OF TOTAL RETAIL SALES



Source: Euromonitor, Q2 2020.
Note: Does not reflect the COVID-19 impact.

[4] See recent U.S. MarketFlash.

CORE, URBAN LOGISTICS HUBS WELL SUPPORTED IN RECESSION

Established markets near large population centers will face low risk for negative fundamentals during the recession. Emerging logistics hubs near seaports or inland ports will have moderate risk in the short term from generally high levels of speculative development (particularly in the U.S.) potentially creating a supply/demand imbalance. Secondary and tertiary suburban markets that rely on local economics likely will see the most softening during the downturn but could provide institutional owners and investors long-term yield opportunities.

E-COMMERCE, FOOD & BEVERAGE, MEDICAL AND 3PL USERS DRIVE DEMAND

Occupiers that pose a low risk to industrial real estate portfolios include e-commerce, food & beverage (grocery), medical, data providers and national third-party logistics providers (3PLs). These have been the most active industries during the pandemic and will continue to expand in the long run. In the U.S., larger-size space blocks are preferred. An increase in sublease space availability is expected in the coming months as occupiers temporarily decrease their existing footprints, especially near ports of entry with less imports.

Overall warehouse demand in Asia Pacific was stable in Q1, supported by resilient e-commerce demand and surging last-mile delivery requirements from companies selling fresh food. Australia and Greater Tokyo registered spikes in demand from grocery stores for short-term leases to house more inventory for online deliveries—a trend that likely will continue.

NEW SUPPLY COMING ONLINE DESPITE BRIEF SLOWDOWN IN NEW CONSTRUCTION

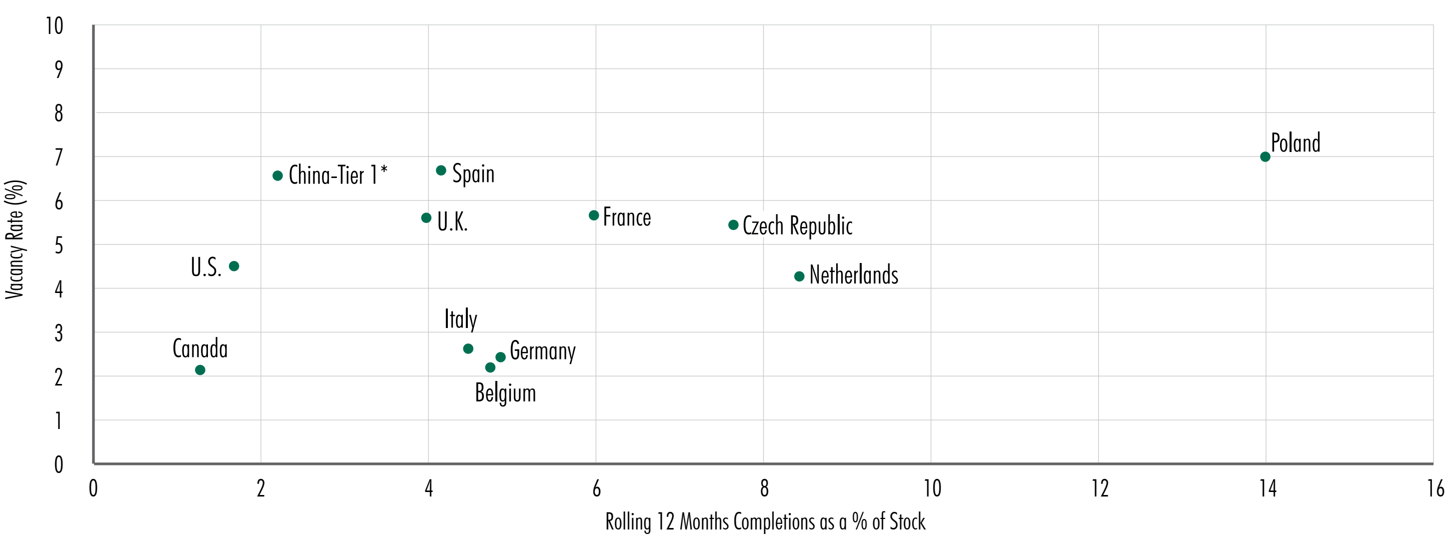
Despite a relatively brief suspension of new construction in some markets, most of Asia Pacific's 74 million sq. ft. of new supply in 2020 will be delivered as scheduled—a 12% increase from last year.

In the U.S., after a temporary halt, construction ticked up in May with 35% preleased. This likely will have a marginal impact on vacancy rates.

The average vacancy rate in the U.S. and Europe remained relatively low with completions on a rolling 12-month basis as a percentage of total inventory relatively tempered for most markets.

In EMEA, logistics occupiers have shifted their requirements to build-to-suit (BTS) development, lowering the number of speculative projects under construction. The increasing demand for BTS has tightened vacancy rates across most European markets. Supply for new facilities is even tighter and has pushed up rental rates over the past few years, especially in urban locations—a trend that should continue next year.

FIGURE 14: COMPLETIONS AS % OF TOTAL INVENTORY VS. VACANCY RATE BY COUNTRY



Source: CBRE Research, Q1 2020.
*Includes Beijing, Shanghai, Guangzhou and Shenzhen.

SUPPLY CHAIN RESILIENCE AN EMERGING THEME

The COVID-19 pandemic has increased companies' adoption of "China Plus One" strategies to add manufacturing facilities outside of China, which were already underway due to the U.S.-China trade conflict and rising labor costs. Strengthening supply chain resiliency and continuity is now a major concern and will lead to less centralized supply sourcing as companies diversify.[5]

Even before the pandemic, e-commerce as a percentage of total retail sales was expected to rise steadily over the next decade, with CBRE Research projecting it to reach 39% by 2030. In APAC, the trend has accelerated significantly over the past 12 months, with China and Korea registering e-commerce penetration of 24.1% and 41.4%, respectively—up by 5.5% and 6.4% year-over-year as of April. The pandemic likely will push online sales even higher and increase the demand for industrial real estate, especially modern Class A space, particularly in the U.S.

E-commerce and grocery retailers will further shore up their last-mile locations and outsource their costly operations to 3PLs. As e-commerce accounts for a greater share of total retail sales in coming years, occupiers may be willing to pay more for modern urban distribution centers, leading to an increase in redevelopment projects.

OMNICHANNEL WILL BE FOCAL POINT

Retailers will continue taking an omnichannel approach to distribution, combining their brick-and-mortar store portfolios with their expanding e-commerce distribution center network. This has implications for building owners and investors, who will need to reposition their assets for the new reality of combining retail and distribution centers.

Many demand drivers that correlate with increases in e-commerce sales and the subsequent need for more inventory bode well for older industrial real estate inventory. The need for reverse logistics operations also will grow, with more retailers and 3PLs utilizing space specifically designed to warehouse and sort returns. And storage of additional "safety inventory" will be required for quick replenishment of fulfillment centers.

[5] For more information on the Asian supply chain, see CBRE's "ViewPoint: Refocusing Supply Chains in the COVID-19 Era."

MULTIFAMILY

KEY TAKEAWAY

Multifamily sector remains relatively recession-proof.

SUMMARY

Challenge

Following a strong start to the year, both U.S. and EMEA multifamily investment fell significantly due to the COVID-19 pandemic.

Outlook

The pause in multifamily investment will be short-lived because of long-term demographic drivers and social trends, including growth in young population and lack of affordable housing. Capital targeting investment in the sector is at historically high levels and the mix of investors is more diverse than ever. This will continue to support the evolution of the global multifamily market.

MULTIFAMILY SECTOR REMAINS RELATIVELY RECESSION-PROOF

In the past two U.S. recessions, multifamily rents declined less and recovered faster than those of other asset classes. CBRE expects a similarly solid performance throughout the COVID-19 downturn, particularly in the less mature EMEA markets, that will boost investment allocations to the sector.

U.S. JOB LOSSES LOWER DEMAND

Substantial job losses in the U.S. and very high unemployment (13.3% in May) led to a significant decline in multifamily demand and rents in Q2. Effective rental rates (including rent concessions) fell an average 1.0% in Q2.

From the cyclical peak in Q3 2019 to the expected trough of the market cycle in Q4 2020, the average rental rate should drop by 8.8% and the vacancy rate should increase by more than 3 percentage points. Most of the deterioration in market performance will occur in Q2 and Q3. Steady recovery is expected through 2021 and full recovery by early 2022.

A high level of unemployment brings a degree of uncertainty about the multifamily outlook but the same was true during the Global Financial Crisis, after which demand grew strongly.

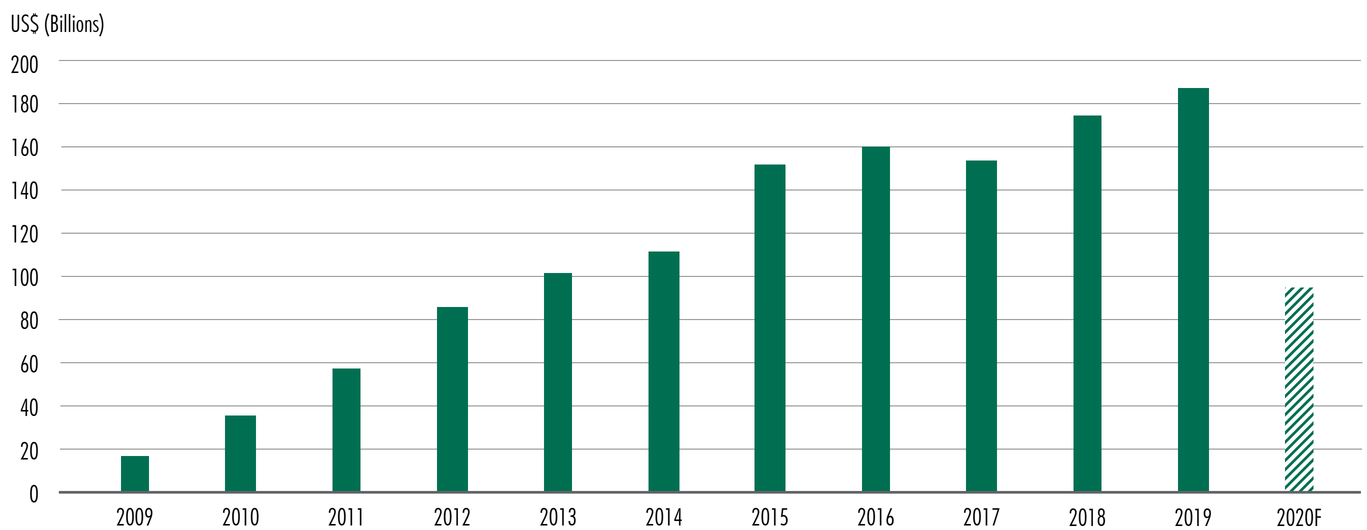
So far, weakening fundamentals have not had much impact on the multifamily property market. Mortgage delinquencies, defaults and requests for forbearance were minimal in Q2. The only notable increase has been for small multifamily assets (less than 50 units).

In terms of investment, 2020 began strongly with $39.8 billion of total multifamily investment in Q1, up 2.9% year-over-year. Sales activity declined significantly in Q2, though did not totally halt given the large capital pipeline for financing. Private buyers stayed in the game, while public companies, international capital and institutional buyers moved to the sidelines.

The government-sponsored agencies (Fannie Mae, Freddie Mac and FHA) remain very active, giving multifamily a significant advantage over other asset types. Banks and life companies have also stayed active in financing multifamily, though are less aggressively seeking business.

Investor appetite for multifamily product remains high. Once rents stabilize by the end of the year, investment will steadily rise. Total investment volume for the year, however, is expected to be half of last year.

FIGURE 15: U.S. MULTIFAMILY INVESTMENT



Source: CBRE Research, Real Capital Analytics, Q2 2020.

EUROPEAN INVESTMENT TO SURGE IN 2021

Europe's multifamily sector saw record investment of more than €15 billion in Q1, more than double the Q1 volume of a year ago and boosted by several large portfolio trades. In addition to continued investment in well-established multifamily markets like Germany, several transactions occurred in relatively new markets, such as Heimstaden's €1.4 billion acquisition of the Residomo portfolio in the Czech Republic.

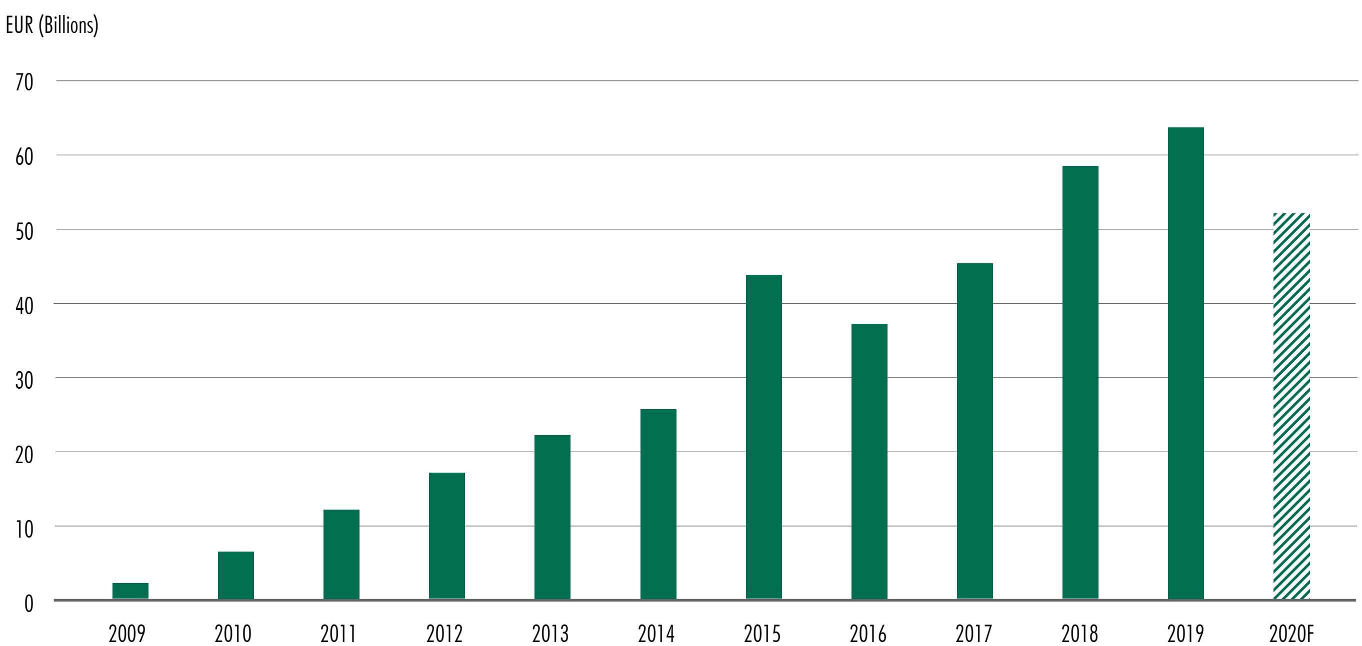
Although the widespread shelter-in-place rules hindered new sales, many of those that were already underway have proceeded to closing. Nevertheless, investment activity declined in Q2. Current forecasts are for investment volume to fall this year, followed by a modest 2% increase to €53 billion in 2021 and a more significant rebound from 2022 onward.

PRICING STABLE THROUGH 2021

Pricing for stabilized multifamily investments in Europe has remained largely stable over recent months. This is particularly evident in the more active and established markets of Germany, the Nordics and the Netherlands. Rent collection rates have been generally stable. For example, Grainger PLC reported a 94% rent collection rate in H1 its U.K. properties, while Germany's Vonovia reported a 99% rent collection rate in April.

There may be short-term risks to rents as some COVID-related government stimulus measures end. The sustainability of rents in the medium term will clearly be scrutinized, particularly in markets where unemployment remains high. Nevertheless, in many core European markets, residential rents should perform well over the medium and longer term, particularly in those markets that are undersupplied. However, more conservative rent growth projections, particularly for non-core assets, combined with higher financing costs may lead to a mismatch in pricing expectations of buyers and sellers.

FIGURE 16: EUROPEAN RESIDENTIAL INVESTMENT



Source: CBRE Research, Q2 2020.

For the remainder of this year, investors likely will primarily target existing properties with high occupancy and sustainable rent levels, as well as forward funding developments in well-established residential locations. The flow of new supply should begin again in Q3. High-quality assets will continue to attract investors and support core-asset pricing.

IMPACT OF COVID-19 TO CHANGE THE WAY WE LIVE

Residential property markets are seeing early impacts of COVID-19. For example, in the U.K. there has been an 80% increase in searches for garden apartment rentals. The pandemic may lead to more people working from home (WFH) as employers adopt a hybrid model (see Figure 10). Current location preferences are largely dictated by employment prospects, with well-established trends of migration to cities and surrounding commuter hubs by professionals. However, WFH means employees are less geographically constrained, especially as companies look to add satellite or suburban locations (see Occupier Section). While cities won't lose their wider appeal, particularly for young professionals, WFH may deepen the "commuter hubs" as households that are less constrained by travel time look further afield. The layout of homes also will change from the need for more designated office space. A more flexible approach will be required of multifamily housing operators to appeal to a broad range of occupiers.

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HOTELS

KEY TAKEAWAY

COVID-19 is presenting unique challenges for the hotel industry, but demand will eventually return.

SUMMARY

Challenge

The hotel industry has always bounced back after major recessions, but COVID-19 may prove the ultimate test. As regional economies reopen, travel is picking up.

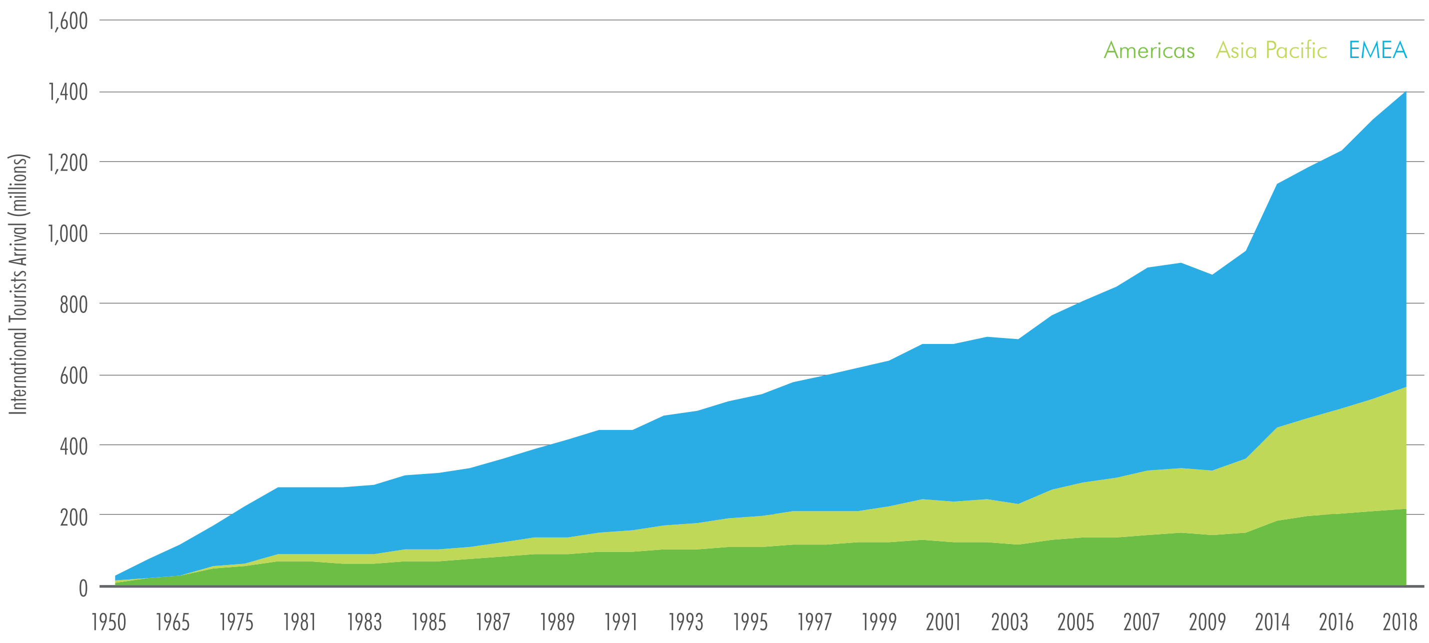
Outlook

Hotel occupancies will remain much lower than normal until corporate, group and international travel resumes. Less available working capital will result in the permanent repurposing of some properties and drive an increase in investment sales in the second half of this year.

COVID-19 IS PRESENTING UNIQUE CHALLENGES FOR THE HOTEL INDUSTRY, BUT DEMAND WILL EVENTUALLY RETURN

The COVID-19 pandemic is presenting the global hotel industry with perhaps its severest challenge ever. While the depth of this recession is extraordinary, the industry has overcome many downturns. Of the 11 recessions since 1938, the last two in 2001 and 2008 were by far the worst, taking revenue per available room (RevPAR) between four and five years to recover to pre-recession levels. The travel industry is one of the most important global economic drivers and time after has time found ways to bounce back from downturns. After 9/11 and the Global Financial Crisis (GFC), it took just two and half years on average for demand to recover in the U.S. and occupancy never dropped below 85% of pre-recession levels.

FIGURE 17: INTERNATIONAL TOURIST ARRIVALS BY WORLD REGION, 1950-2018

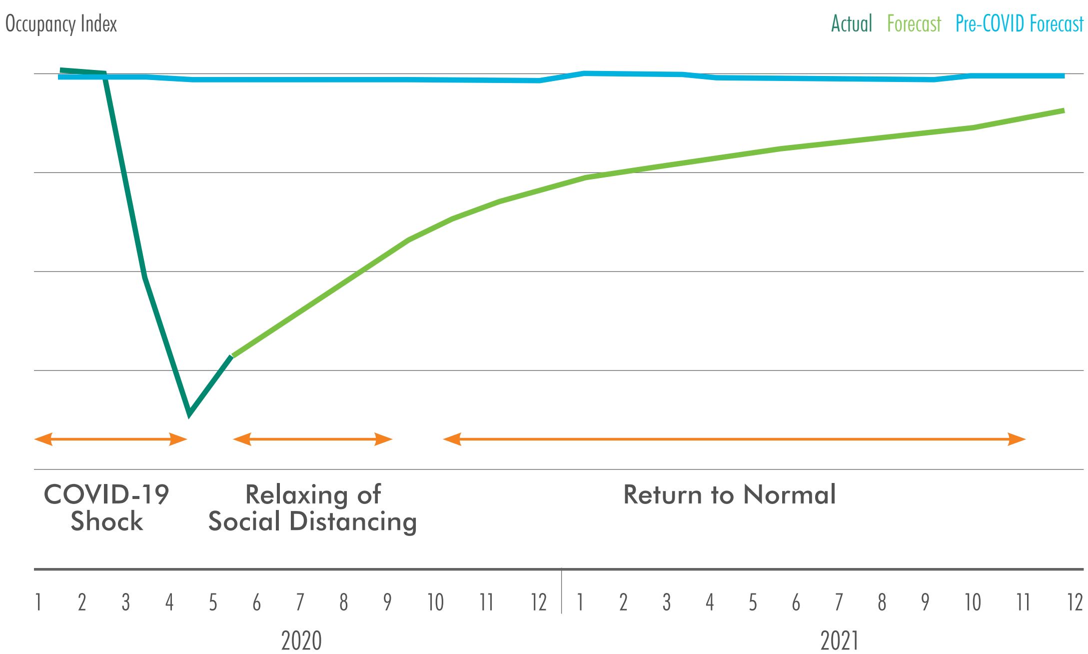


Source: United Nations World Tourism Organization, 2019.

TRACKING THE RECOVERY

As social distancing requirements are lifted, pent-up demand for leisure travel will support the first wave of recovery. Many U.S. Southeast coastal markets have achieved occupancy levels of more than 70% on weekends between late May and early June. Leisure travel is expected to account for the bulk of hotel demand in Europe and the Americas this summer, and occupancies will remain very low compared with pre-recession expectations. The industry will not fully recover until corporate travel, group meetings and conventions and international travel resume in earnest, which may not happen until there is a vaccine or widely available treatment for COVID-19.

FIGURE 18: FORECAST TRAJECTORY OF HOTEL OCCUPANCY RECOVERY



Source: CBRE, Q1 2020.

HOTEL FINANCES HARD HIT

Analysis of key operational indicators for European capital cities, based on HotStats data for open hotels in April and May, showed that an 83% average annual decline in hotel turnover caused a 131% decline in gross operating profit (GOP). Despite hoteliers reducing operating expenses, fixed costs have weighed heavily on the bottom line. In the U.S., the average monthly cash burn rate of a closed hotel is estimated at US$488 per room when accounting for a minimal amount of fixed costs, excluding rent and debt servicing. And while APAC is leading the global recovery in terms of hotel demand, a surge in COVID-19 cases in Singapore and Hong Kong SAR in April resulted in a reintroduction of containment measures, which caused monthly average hotel GOP per available room to plunge to negative US$13.90 for the region (HotStats, 2020).

FIGURE 19: EUROPEAN KEY CITIES, HOTEL TOTAL REVENUE & GROSS OPERATING PROFIT, MARCH & APRIL 2020 YOY CHANGE

Source: HotStats, CBRE Research, 2020 – based on open hotels.

STATE SUPPORT HAS SHIELDED THE HOTEL SECTOR

State-backed support such as loans, grants and tax breaks has so far shielded many hoteliers from the full force of COVID-19. Furlough programs, for example, have enabled operators to reduce their staff costs, which generally account for the lion's share of a hotel's operational expenses. Recognizing that in many markets hospitality could be one of the last business sectors to recover, some government programs are being extended; however, these measures likely will end before hotel revenues have fully recovered, thus presenting further financial liquidity challenges.

BID-ASK SPREAD TO NARROW

A lack of available working capital likely will be most acute among the non-diversified and/or smaller owners and operators, with low cash reserves and/or limited access to credit lines. The cost of reopening, including new measures to ensure the safety of staff and guests, will cause some owners to consider repurposing their assets and some amount of secondary hotel assets to remain permanently closed. Investors remain keenly interested in prime assets, albeit for large price reductions and with certain conditions. Unsurprisingly, owners are reluctant to sell at a significant discount. Depending on the trajectory of recovery and any further pressure on working capital, the bid-ask delta likely will narrow on future opportunities and result in the closing of deals.

ALTERNATIVES

KEY TAKEAWAY

Technological and demographic trends underpin the long-term growth of alternatives.

SUMMARY

Challenge

The new norm under COVID-19 poses operational challenges to specialty real estate, including student housing, seniors housing and leisure and entertainment. As opportunistic capital shrinks, investors are drawn to high-quality alternative assets for stable income.

Outlook

COVID-19 has long-term implications for certain alternative real estate sectors. Accelerated growth of health care innovation, flexible working and digital solutions will drive increased demand. Investors and operators likely will favor portfolio acquisitions and Class-A assets despite relatively low yields. Consequently, yield expansion in alternatives is expected to be moderate.

TECHNOLOGICAL AND DEMOGRAPHIC TRENDS UNDERPIN THE LONG-TERM GROWTH OF ALTERNATIVES

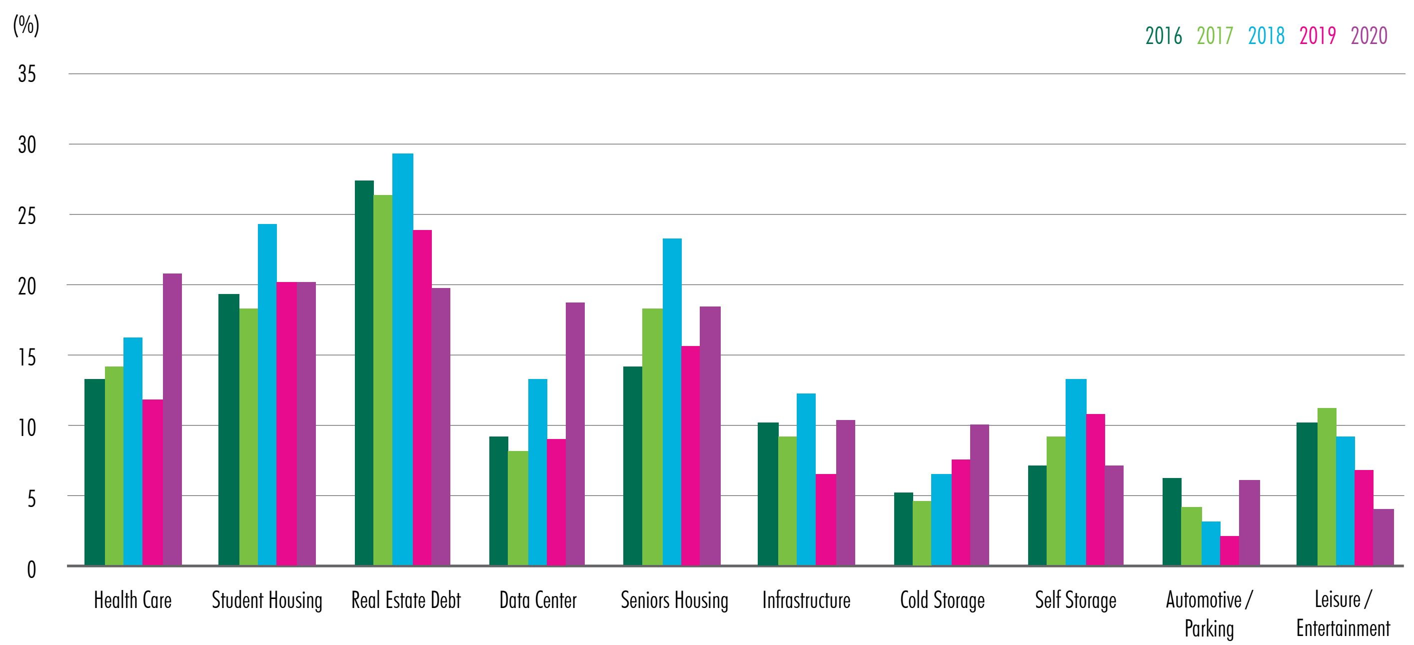
POPULARITY OF ALTERNATIVE REAL ESTATE ACCELERATES

Alternatives are specialty operational real estate with lower inventory, less turnover and higher yield. Over the past five years, alternatives investment averaged about $90 billion a year globally, more than double the peak in the previous cycle. Recent CBRE investor surveys found that 60% of respondents are actively pursuing one or more alternative sectors, led by data centers and health-care facilities.

Investor attraction to alternatives is generally from higher yields, stable income and diversification. Some alternative sectors, such as health care[6] and student housing, historically offer downturn protection.

Long-term demographic, technological and social changes present generational opportunities for specialty players to grow the market as well as their market shares. Growth of the elderly population is driving demand for seniors housing and nursing care. The growing middle class in emerging markets and their demand for higher education is supporting the student-housing market. And the recent explosive growth of online grocery and pharmaceuticals has fueled the cold-storage industry, while the ever-growing digital economy and widespread adoption of cloud-based services supports the growth of data centers.

FIGURE 20: INVESTOR PURSUIT OF ALTERNATIVES INVESTMENT, 2016-2020



Source: CBRE Investor Intentions Survey, 2020.

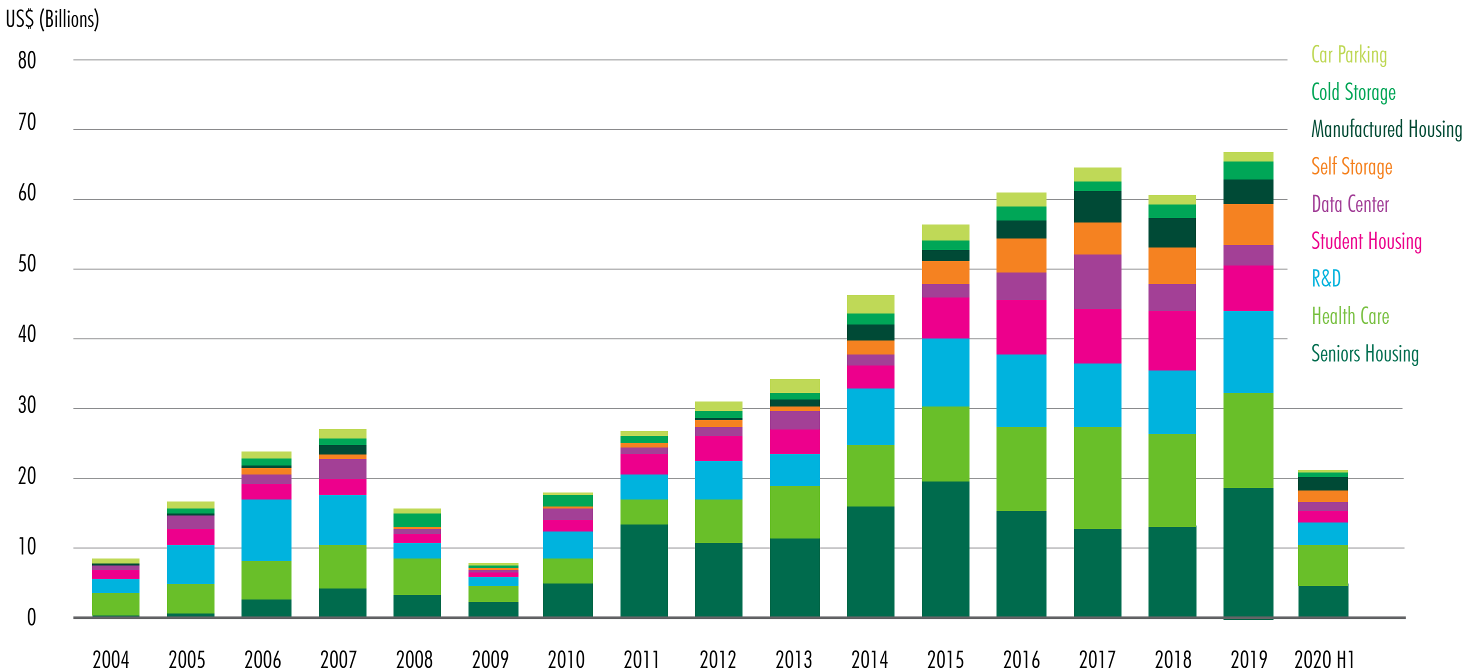
[6] Mainly medical office and life science properties.

MATURING OPPORTUNITIES BY REGION

The required operational expertise has historically confined alternatives investment to owner-occupiers. But institutional and private investors are increasingly attracted to the sector by its greater long-term capital appreciation rate. New capital sources are highly desired because some operational assets, such as data centers, need a high initial investment and capital efficiency. As a result, more core-plus and value-add investors are expected to partner with operators.

Alternatives account for approximately 12% of all commercial real estate investment in the Americas, with the U.S. being the most established and active market. Despite an anticipated drop in total investment due to COVID-19, investors remain interested in leading sectors like seniors-housing, medical-office, life-science, data-center and cold-storage facilities.

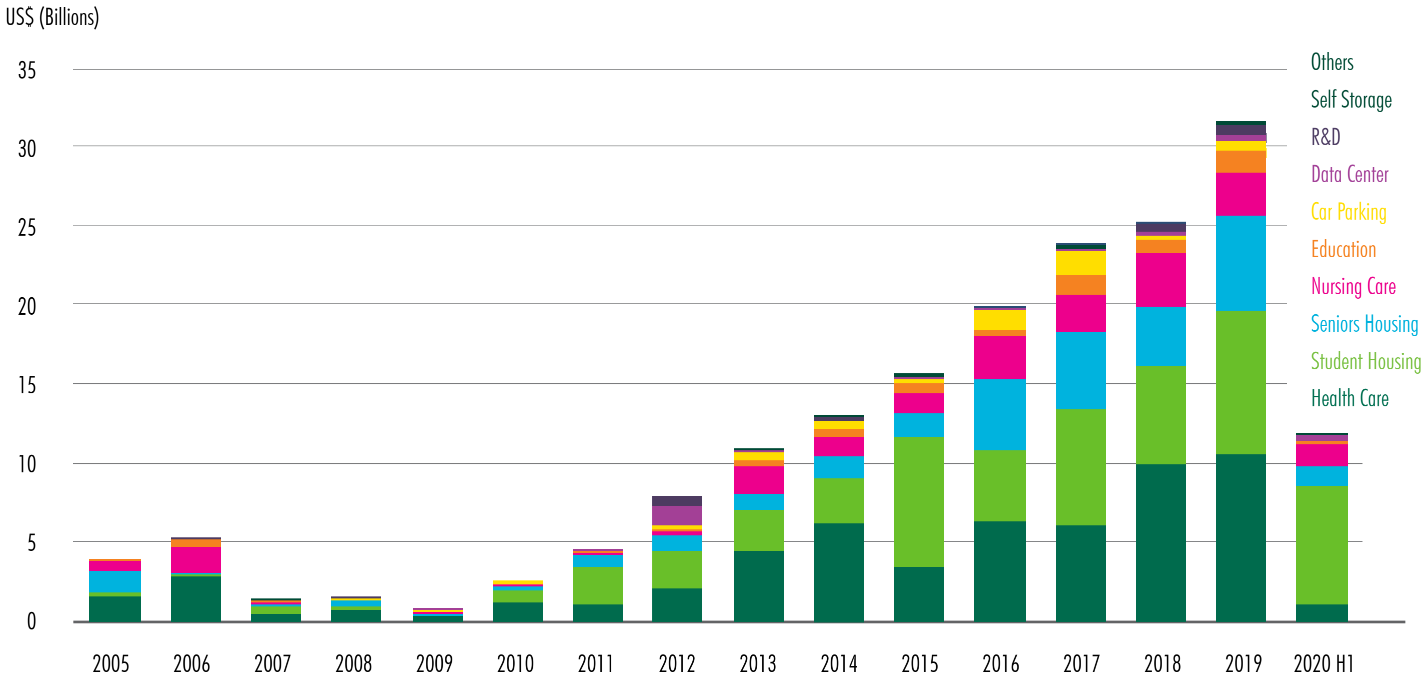
FIGURE 21: CAPITAL FLOWS TO AMERICAS ALTERNATIVES, 2004-YTD 2020



Source: CBRE Research, Real Capital Analytics, June 2020.

Investment in alternative real estate has been steadily increasing in EMEA. Alternatives' share of total EMEA real estate investment exceeded 16% in 2019. Health care, student housing and seniors housing are attracting the most capital. Student housing may struggle in the short term due to COVID-19, but the U.K. will remain a magnet for international students and higher yields in northern European markets will offer strong appeal for investors.

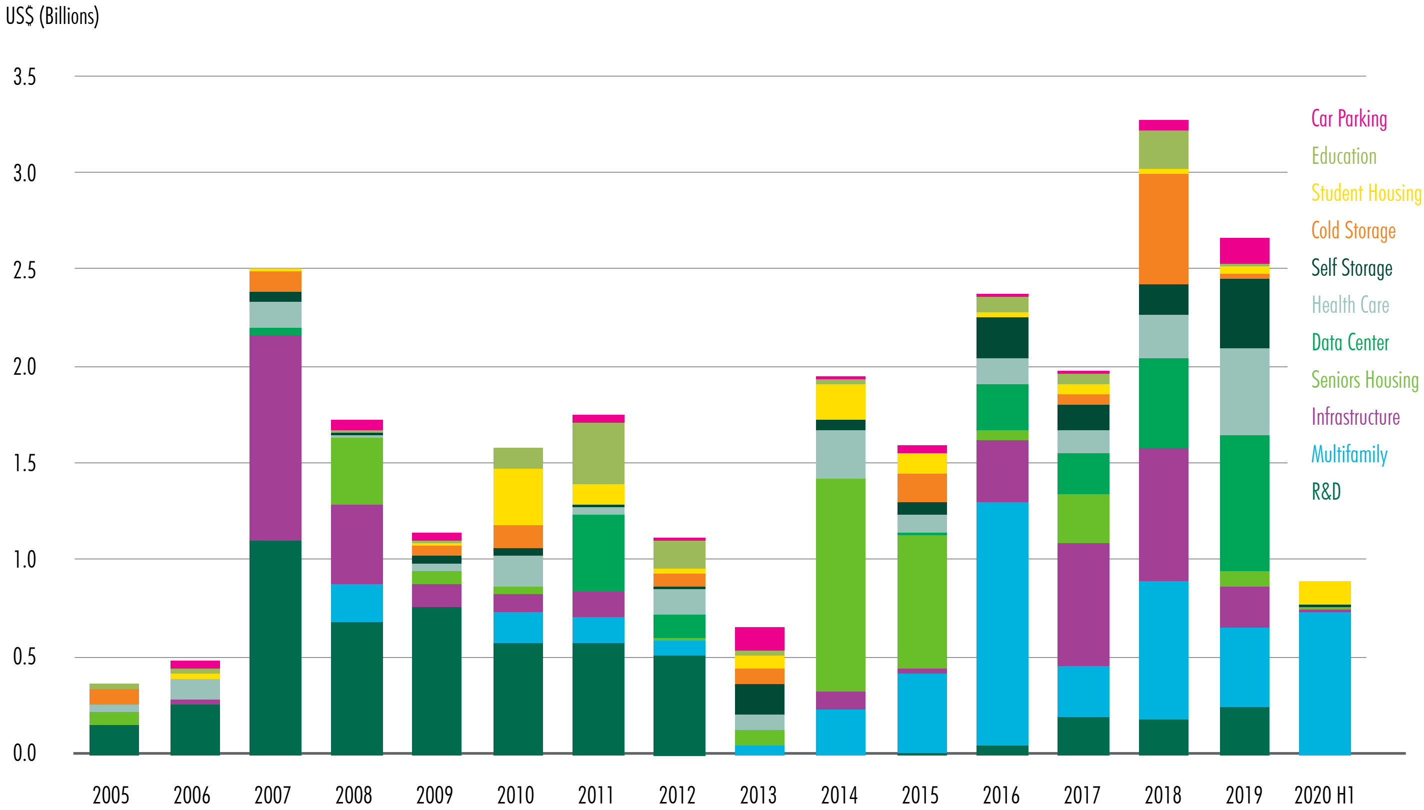
FIGURE 22: CAPITAL FLOWS TO EMEA ALTERNATIVES, 2005-YTD 2020



Source: CBRE Research, Real Capital Analytics, June 2020.

Capital flows to alternatives are relatively small in Asia Pacific due to fewer available assets. The health-care and data-center sectors are growing rapidly in Japan and China. CBRE's most recent Investor Intentions Survey found growing demand for alternative assets in Asia Pacific.[7] New development and expansions by international operators likely will accelerate. However, some markets may require tax reforms and loosening of capital restrictions to boost investment fundamentals.

FIGURE 23: CAPITAL FLOWS TO APAC ALTERNATIVES, 2005-YTD 2020



Source: CBRE Research, Real Capital Analytics, June 2020.

FIGURE 24: U.S. ALTERNATIVE ASSET YIELDS COMPARED WITH GENERAL INDUSTRIAL

CLASS-A YIELD COMPARISON	2018	2019	2020F
General Industrial	4.6%	4.5%	4.7%
R&D	5.1%	4.9%	5.2%
Student Housing	5.5%	5.3%	5.4%
Cold Storage	5.9%	5.7%	5.8%
Health Care	6.0%	5.8%	5.8%
Data Center	6.5%	6.0%	6.0%
Self Storage	6.0%	5.8%	6.1%
Seniors Housing	5.8%	5.9%	6.1%

Note: These yields are for U.S. assets, but can be used as a global benchmark.
Source: CBRE Research, Q2 2020.

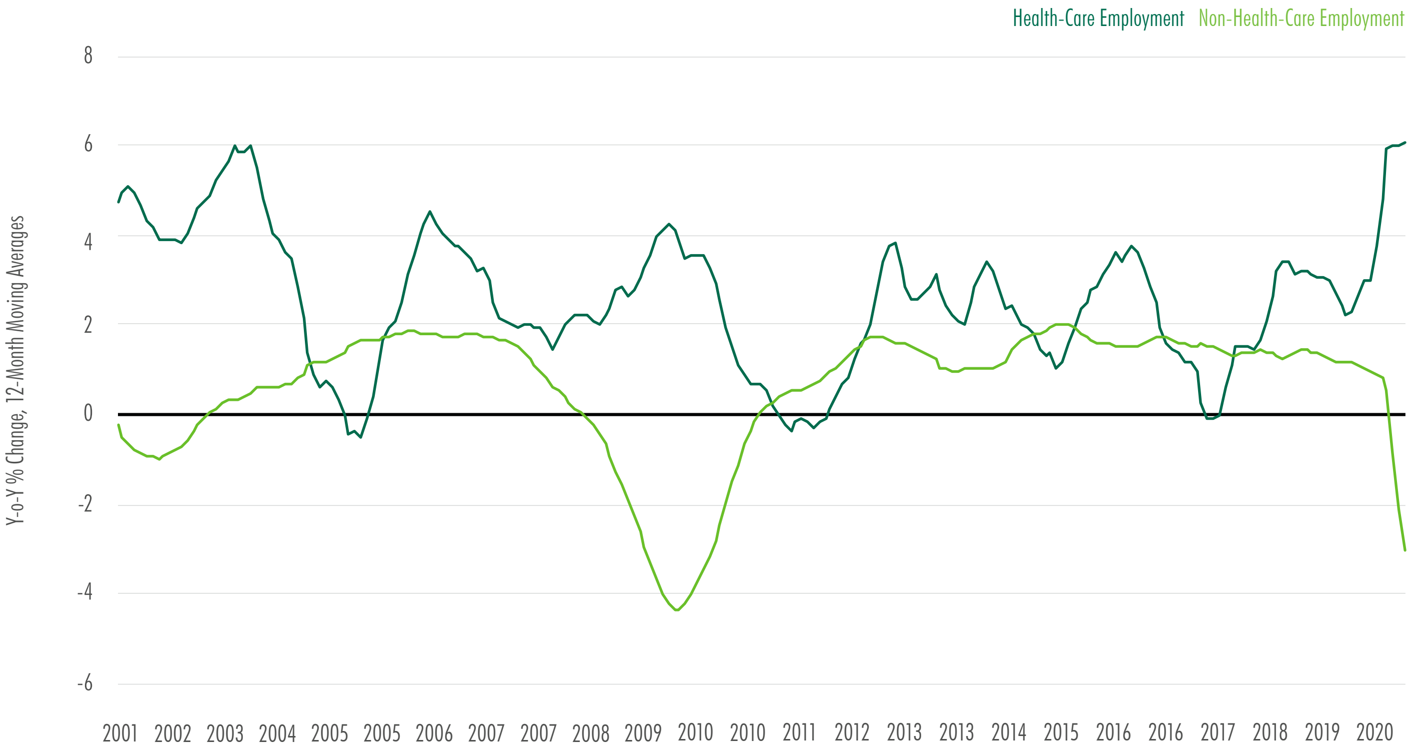
[7] Read more at Asia Pacific Investor Intentions Survey 2020.

DATA CENTER, HEALTH CARE AND COLD STORAGE OPPORTUNITIES AND RISKS

The following table highlights data center, health care and cold storage facilities as alternative investments, and details the opportunities and risks for each.

Overview	DATA CENTER	HEALTH CARE	COLD STORAGE
	Already accommodating advancements in Big Data, Industry 4.0 and the Internet of Things (IoT), data centers will benefit from increased adoption of flexible and remote working.	COVID-19's impact on health-care systems is only beginning to unfold. Health-care facilities are in high demand and their service offerings are evolving at an unprecedented rate.	One of the most sought-after asset classes for opportunistic investors and increasingly institutional capital, this niche subsector of the industrial market is poised for growth from e-commerce expansion.
Opportunities	Tier I markets with strong infrastructure and power supply like Northern Virginia, Silicon Valley, London, Frankfurt, Singapore and Tokyo offer the best market fundamentals. The next in line are those with strong population and tech job growth such as Atlanta, Toronto, Beijing, Shanghai, Dublin, Madrid and São Paulo. Industry consolidation and international expansion will drive investment. Average yields are 5.0% to 6.0% for Class A assets, and less for core hyperscale facilities.	Health-care employment tends to grow at a faster pace in economic downturns, translating into more space absorption and greater rental income for owners. Of the two main health-care property types, life sciences has a typical Class-A yield of between 4.5% and 5.5%, while medical office yield is more stabilized at around 6%.	Growth in online food sales, particularly for perishables and refrigerated/frozen foods, has piqued investor interest in cold-storage facilities, leading to yield compression. Opportunities include sale/leasebacks, joint ventures with cold-chain operators and build-to-suit development near major population centers. Conversions from dry to cold warehousing may also present opportunities for experienced investors and developers. Despite elevated CAPEX and OPEX, cold storage commands higher rent premiums than do dry warehouses.
Risks	As data-center supply grew over the years, average rent flattened or edged down in primary markets. As enterprises continue to adopt "cloud first" strategies, they outsource greater portions of their overall IT demand to third-party cloud providers, shrinking existing footprints. Sustainability is another major consideration, ranging from the availability and cost of green, renewable energy to data sovereignty and environmental regulations.	Due to the specialized nature of these facilities, build-to-suit development is required with high investment and maintenance costs. On the occupier side, startups, clinics and other small businesses need affordable real estate solutions and access to talent pools—an increasing challenge in tightening markets. Changing regulatory requirements or industry reform may bring additional pressure to investors, asset managers and space users.	From the occupier perspective, foodservice companies may need to reduce their cold storage footprints given reduced capacity by restaurants in the COVID-19 era. Also, investors may find it difficult to capitalize on opportunities without specialized knowledge of the sector. Since these facilities require highly technical features, capital expenditures are significant. Also, operating expenses are typically high as refrigerated warehouses have one of the highest electric consumption rates in the commercial building sector.

FIGURE 25: COUNTERCYCLICAL HEALTH-CARE EMPLOYMENT – THE U.S. EXAMPLE



Source: U.S. Bureau of Labor Statistics, CBRE Research, June 2020.

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