

CBRE RESEARCH

2018 GLOBAL
**REAL ESTATE
MARKET
OUTLOOK**



CBRE

INTRODUCTION



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The global economy began 2018 in its best shape since the Great Financial Crisis ended in 2009. All the major economic regions are growing at or above trend, and economic policy—both fiscal and monetary—remains expansionary.

Recent tax cuts and a booming stock market in the United States have created a high degree of business and consumer confidence that supports further spending. While there is some upside potential from a revival in productivity growth, we expect a moderate easing of growth in the second half of 2018 due to rising interest rates and any “unexpected” shocks that may arise.

Inflation surprised on the downside in 2017. While we expect global price pressures to remain moderate in 2018, due to the continued effects of globalization, technology and demographics, inflation will trend up, with the U.S in the lead. There is no reason for a rapid rise in interest rates but we are on the slow road to monetary normalization. We should expect further periods of equity markets volatility as the world adjusts to the changing interest rate outlook.

Real estate markets are buzzing with innovation. A new class of occupier is rethinking the office sector by using technology to provide a broader range of services, more flexibility and a greater sense of place. These “coworking” operators have yet to be fully “cycle-tested,” but they appear to understand how the service sector is evolving. Within the industrial & logistics sector, which remains blisteringly hot, third-party logistics (3PL) and e-commerce operators are racing to build networks that can handle same-day fulfillment and product returns as efficiently as possible. New transportation methods continue to change what is feasible. Within retail, the luxury sector has seen revival in 2017 and dominant centers continue to thrive by offering a combination of choice, innovative dining options and leisure.

Investor activity in 2017 surprised on the upside in EMEA and Asia Pacific, and moderated slightly in the U.S. The long-term benefits of investing in real estate remain in play—namely, good income return relative to bonds, long-term capital safety and opportunities to add value by investment and repositioning. Change and innovation only add to the strategies that can be adopted by real estate investors.

At CBRE, we are realistic about the likelihood of short-term volatility but optimistic about the future. In this report, we provide our outlook for the year ahead and describe the factors that are driving the marketplace. We look forward to helping you achieve your real estate objectives in 2018. Don't hesitate to contact us for further advice.

GLOBAL

ECONOMY 5

Positive outlook, with improved growth and modest rises in inflation and interest rates

For the first time since the 2008 Global Financial Crisis, the global economy is in fine form, with the major developed economies and China growing at or above trend. Falling unemployment and rising house prices have pushed global consumer confidence to its highest level since 2005. Businesses are responding with higher levels of capital expenditure. Events to watch out for in 2018 are further turbulence in bond and equity markets as the U.S. Federal Reserve reduces quantitative easing, and a potential for heightened trade tensions between the U.S. and its major trade partners.

CAPITAL MARKETS 10

Corporate acquisitions will continue to shape the investment market in 2018

A modest decline in global investment volumes is expected in 2018. The U.S. is far along in the economic cycle, but tax cuts are beneficial. Markets in EMEA and Asia Pacific have been at full capacity in terms of volumes of investment sales, and lack of properties for sale is expected to constrain activity in 2018. As the cycle matures, demand for M&A-type transactions is expected to grow, as investors are increasingly resourceful in finding real estate opportunities.

PRICING 14

Prime yields (cap rates) stable overall in 2018, supported by positive investor sentiment and capital availability

Overall, cap rates will largely be stable globally in 2018, as strong investor sentiment, capital availability and economic growth offset slightly rising interest rates. Cap rates may rise or fall in specific locations, but moves will be small either way.

OFFICE 16

Leasing fundamentals positive; constrained by tight labor supply

Most of the world's major office markets enter 2018 supported by healthy leasing fundamentals and business sentiment, as they were in 2017. Three factors will influence markets more strongly in 2018: the growth of coworking operators, limited new hiring due to cyclically-low unemployment rates, and increased development completions in some cities.

GLOBAL

RETAIL 20

Buoyant consumer confidence driving retail demand

The divergence of rents and yields for prime and secondary locations is expected to continue in 2018 as attention turns to re-purposing secondary and tertiary retail space. The growth of e-commerce remains the single most dominant trend in the industry, making the retail environment highly competitive. However, ever more sophisticated food & beverage operators, particularly in malls and other retail destinations, provide an effective “place-making” strategy to generate pedestrian flow. We continue to see online retailers move into the physical retail environment.

INDUSTRIAL & LOGISTICS 24

E-commerce continues to drive solid industrial & logistics demand

Buoyant consumer spending and an upturn in global trade drove the I&L market last year. Economic conditions will remain favorable for the I&L market in 2018 and key structural changes—e-commerce and the transformation of the supply chain—will continue to be a major force.

MULTIFAMILY 30

Star performer of the U.S. commercial property market

Income-producing residential assets are a small but growing part of the commercial property market in many parts of the world. But in the U.S., they are a full-fledged powerhouse. U.S. multifamily assets attracted \$150 billion in investment last year—one-third of total commercial property investment and ahead of office, the historical leader. The U.S. multifamily sector will remain attractive to users and investors this year, thanks to continued strong occupier demand.



GLOBAL ECONOMY

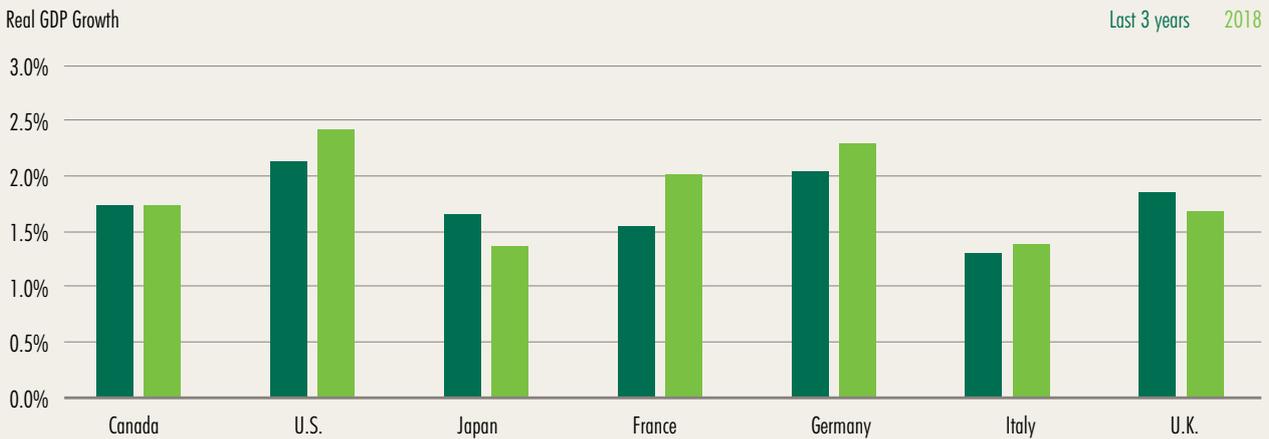
Positive outlook, with improved growth and
modest rises in inflation and interest rates

GLOBAL ECONOMY

For the first time since the 2008 Global Financial Crisis, the global economy is in fine form, with the eurozone, the U.S. and China growing at or above trend. Falling unemployment and rising house prices have pushed global consumer confidence to its highest level since 2005. Businesses, encouraged by higher stock prices, are responding with higher levels of capital expenditure. Economic growth in most countries will be higher in 2018 than in the past three years (Figure 1).

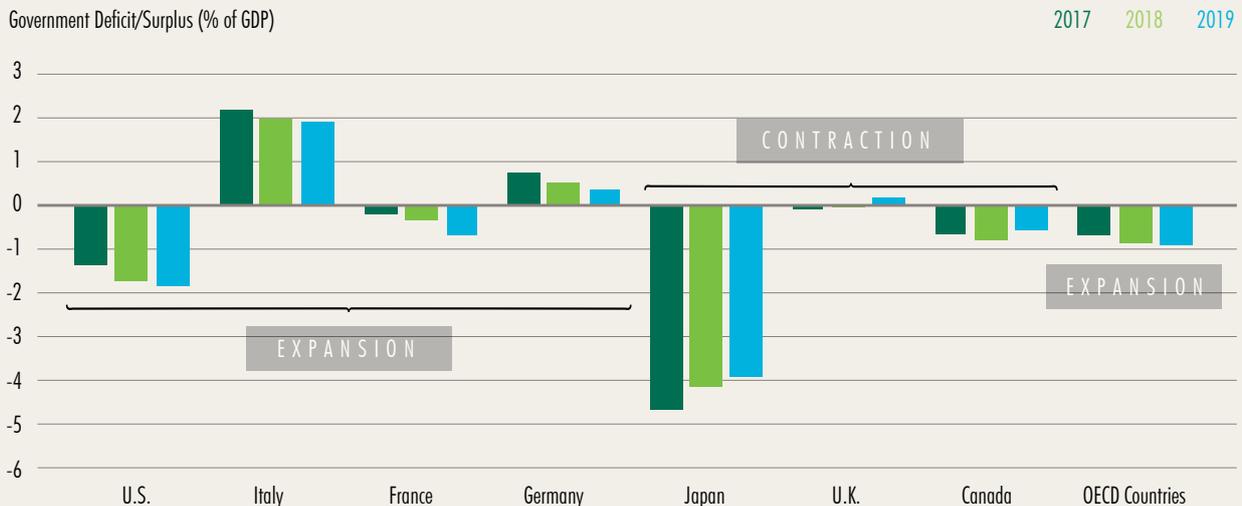
Tax reform in the U.S. has received a great deal of attention because of its potential contribution to long-term business efficiency and its short-term stimulation of the economy. However, the U.S. budget represents only a mild fiscal stimulus that, combined with increased spending by Germany, France and Italy, will offset fiscal contraction in Japan and Canada. Overall, the global economy will receive a slight boost from the main developed economies in 2018 (Figure 2). Just as important for the global economic outlook is the continuing cyclical surge in investment and consumption in Europe, which has had a positive impact on world trade.

FIGURE 1: GROWTH BETTER IN 2018



Year-over-year GDP growth comparison, measured from year-end.
Source: Various national statistics, forecast - CBRE Research, 2018.

FIGURE 2: MILD FISCAL EXPANSION



Source: Macrobond, CBRE Econometric Advisors, January 2018.

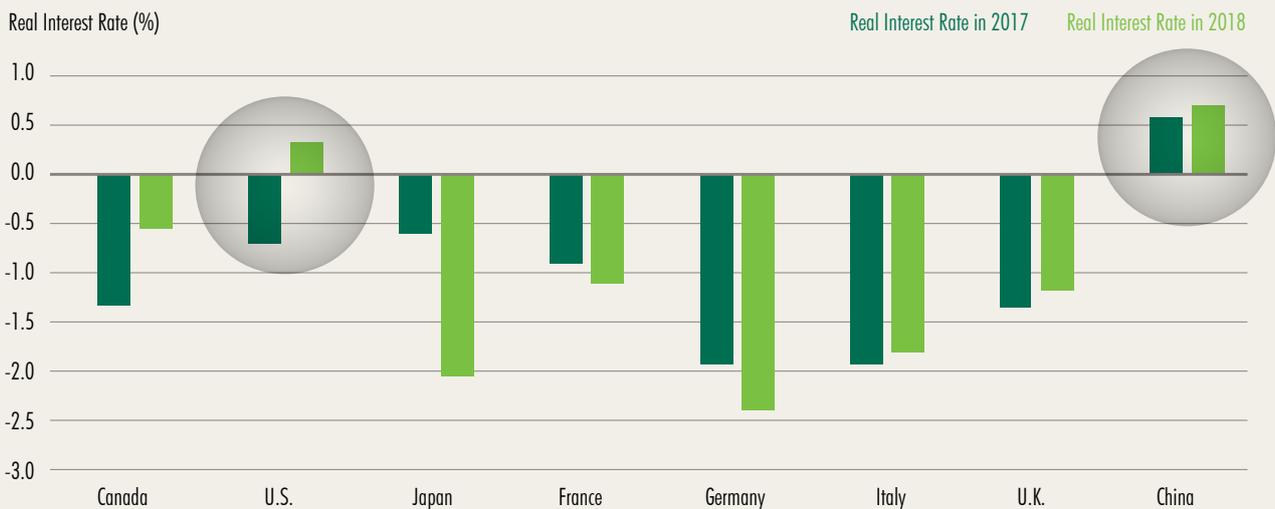
GLOBAL ECONOMY

We will hear a lot about **interest rate** hikes by the U.S. Federal Reserve in the next 12 months but, worldwide, real interest rates (adjusted for inflation) remain in negative territory and will continue to stimulate growth (Figure 3).¹ This situation will gradually change over the course of the year and, beginning in 2019, the U.S. may face a small real interest rate rise for the first time in many years. This could cause market turbulence similar to what was seen in early February, particularly if real interest rates in China also continue to rise. However, in part due to continued monetary stimulus in Europe and Japan, there is no reason to think this will derail global growth.

One major surprise in 2017 was the weakness of **global inflation**, despite a major pick-up in economic growth and a substantial fall in unemployment in the U.S. and Europe. It is likely that we will at least see inflation trend higher in 2018, particularly in the U.S., where unemployment may fall meaningfully below 4% for the first time since the 1960s. However, at a global level, labor is abundant and wage growth will remain constrained, so we think inflation will continue to surprise on the downside in 2018 (Figure 4).

¹ Real interest rates are defined as the current actual rate of interest minus the expected rate of inflation. Economists think that real interest rates are more important for driving the economy and asset values than actual or nominal rates. For example, if interest rates are 1.5% and inflation in the year ahead is expected to be 3%, the real interest rate is negative 1.5%.

FIGURE 3: REAL INTEREST RATES NEGATIVE



Source: Oxford Economics, CBRE Econometric Advisors, January 2018.

FIGURE 4: CORE INFLATION REMAINS WEAK



Source: Oxford Economics, CBRE Econometric Advisors, January 2018.

Global labor markets are worth considering in greater depth because of their implications for inflation and bond rates. In Europe, the official unemployment rate is now 8.7% versus the cyclical low of 7.2% in 2007. In the U.S., the unemployment rate of 4.1% is at its lowest level since December 2000, albeit the labor force participation rate has dropped to 62.7% from 66.4% in 2006. Although unemployment is falling, there is a much bigger structural issue in play: The global economy is still reverberating from the huge increase in the supply of labor that long preceded the Great Financial Crisis.

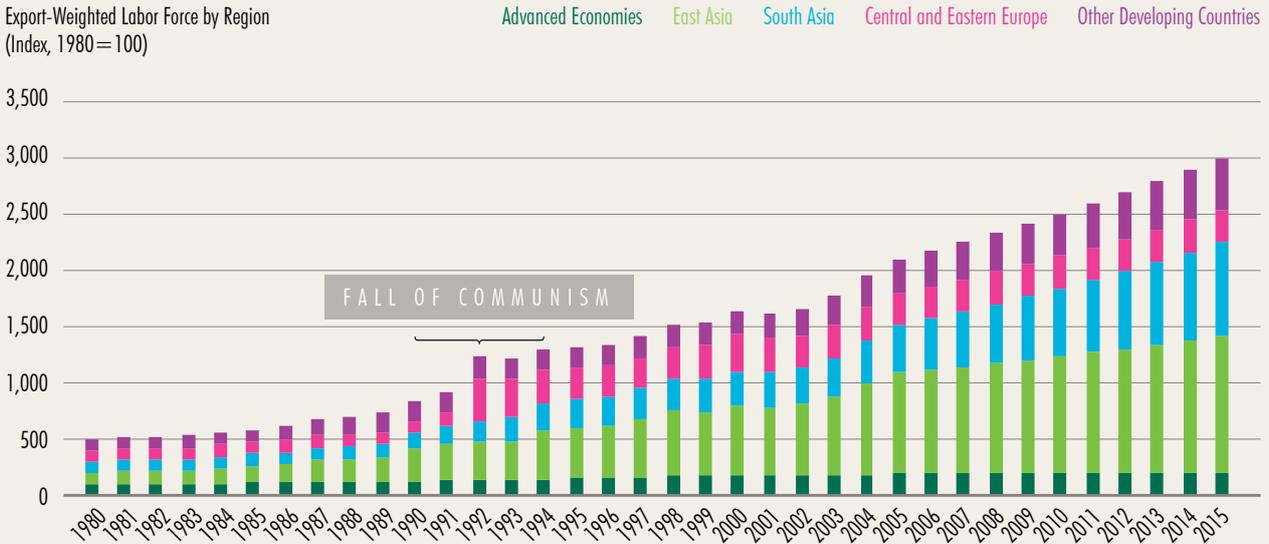
South Asia (Vietnam, Indonesia, India), where manufacturing activity is growing rapidly.² More than any other factor, excess labor explains the low growth of wages over the past 20 years and the resulting low levels of inflation. It is possible that President Trump’s trade agenda, particularly the harder line with China and the renegotiation of NAFTA, will add greater protection to U.S. markets, but this will not alter the global balance of demand and supply for labor. This points to continued low inflation and interest rates in the longer term.

Figure 5 shows that the global supply of labor has risen inexorably since the fall of communism in Europe and the “open doors” policy in China. More low-cost labor awaits in

² See ‘The Future of Global Manufacturing Report’, CBRE 2017 <https://www.cbre.com/research-and-reports/The-Future-of-Global-Manufacturing>

FIGURE 5: WORLD LABOR SUPPLY

Export-Weighted Labor Force by Region
(Index, 1980=100)



Source: IMF World Economic Outlook 2007, CBRE Econometric Advisors, 2018.

FIGURE 6: GLOBAL GROWTH AND POLICY OUTLOOK

	Growth	Inflation	Fiscal Policy	Monetary	Upside	Downside
U.S.	Robust	Rising gently	Expansionary	Tightening		Bonds / Stocks
U.K.	Slowing	Falling	Neutral	Neutral	Brexit	Brexit
Europe	Robust	Rising gently	Expansionary	Neutral		Anti-EU Politics
Japan	Robust	Rising gently	Contractionary	Neutral		
China	Robust, but slowing	Rising	Contractionary	Tightening		Trade war
India	Picking up	Rising	Expansionary	Neutral	Reform	

Source: CBRE Research, Q1 2018.

WHAT TO WATCH OUT FOR

- **Bond market turbulence.** The U.S. Federal Reserve is reversing its quantitative easing (QE) policy and will remain a net seller of securities in 2018 to reduce the size of its balance sheet. However, the fact that other central banks around the world are still pursuing QE will dampen the impact of the Fed's actions in 2018. This limits the possible rise in the 10-year U.S. Treasury rate. The key factor to watch for is a potential change of policy by the European Central Bank and the Bank of Japan to end QE earlier, but ultimately it is low inflation that will keep a lid on bond rates.
- **Heightened trade tensions.** The U.S. is in the process of resetting its trading arrangements with China, Korea, Mexico and Canada. Punitive actions may provoke retaliation by these countries. China, for instance, could decide to stop buying U.S. Treasuries. We do not think there will be a trade war, because of the negative effects for all countries, but “brinkmanship” would be damaging to economic sentiment but it is a possibility.
- **A slowdown in China.** We think growth in China will slow to 6.2% from the current level of 6.9%. The housing market, which drives as much as 30% of GDP growth and is a lead indicator, is already showing signs of weakness.
- **A stock market sell-off.** Stock markets, particularly the S&P 500, surged in 2017. Improved economic growth with low inflation is supportive of values, but an upside surprise on wage growth would probably provoke another sharp sell-off.

An aerial view of a city skyline, likely San Francisco, with a green tint. The image shows a dense cluster of skyscrapers and buildings, with the Golden Gate Bridge visible in the distance on the right. The overall atmosphere is hazy and bright, suggesting a clear day with some atmospheric haze or a high-angle shot.

CAPITAL MARKETS

Corporate acquisitions will continue to shape the investment market in 2018

KEY POINTS

Investment managers will continue to see assets under management grow by an annualized 6.2% (PwC, 2017)—particularly in alternatives such as real estate—driven by pension fund contributions and private wealth. Pressure on investors to deploy capital will therefore remain strong.

Global capital will play an ever-greater role in local real estate investment markets.

M&A-type transactions are increasing, as investors are more and more resourceful in finding real estate opportunities.

M&A-type deals will also attract global investors, who are less likely to invest in trophy assets.

Despite growth in assets under management, investment volumes are expected to decline modestly in 2018 as investors hold on to assets longer.

U.S. investment volumes are expected to remain flat to slightly down. However, recently enacted tax law changes may benefit commercial real estate owners and developers.

Markets in EMEA and Asia Pacific are at full capacity in terms of volumes of real estate sales.

Yields for prime product in gateway markets likely will remain stable in 2018. There is the potential for yield compression in certain markets and in secondary locations in gateway cities.

REAL ESTATE INVESTMENT INDUSTRY CONTINUES TO CONSOLIDATE

The global asset management industry will continue to see rapid growth in assets under management (AUM). Global AUM are forecast to grow by an annualized 6.2% between 2016 and 2025 (PwC, 2017), driven by inflows from high-net-worth individuals and retirement savings. Growing transparency, diversification strategies and an ongoing search for yield will result in investments in alternatives doubling in the 2016-2025 period. This will fuel further competition among investors for product in these sectors.

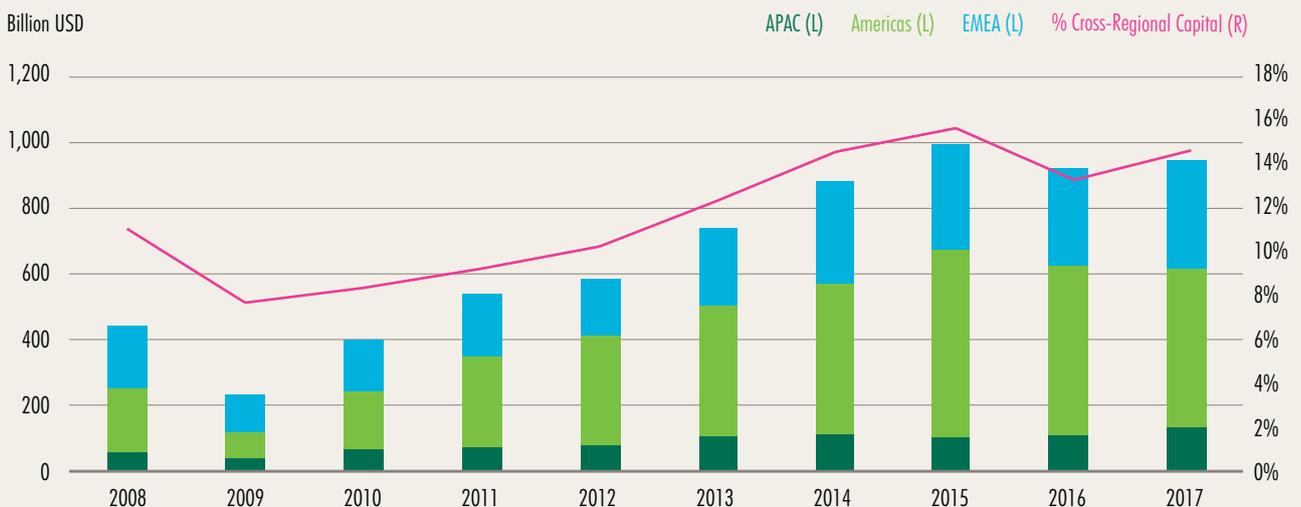
Global capital markets have become increasingly intertwined—a trend paralleled in the real estate market. After years of global investors targeting real estate, global capital is an established force in local investment markets. Despite capital controls in China, money continues to find its way into gateway markets, and cross-regional capital³ is currently responsible for 15% of total buying activity. These investors will continue to influence the investment market by wielding their substantial AUM.

Historically, U.S. capital has dominated cross-border capital flows into real estate. However, Asian capital has become increasingly active of late. In EMEA, this was illustrated by several large entity-level deals, most notably the sale of Blackstone’s Logicor platform to China Investment Corporation for US\$14 billion. Across the board, the focus of Asian investment activity in the U.S. has been large trophy assets—mostly Manhattan office towers, as exemplified by the US\$2.2 billion purchase of 245 Park Avenue by HNA Group.

These “mega deals” are part of a broader consolidation in the mature phase of the economic cycle. Led by Asia Pacific, 2017 saw very strong M&A activity, reflecting the demand for efficiency and economies of scale. As the cycle matures further, demand for M&A-type transactions in the real estate market will grow, as more general investors seek exposure to real estate.

³ Acquisitions outside the region of domicile of the investor. Regions are defined as Africa, Asia, Europe, Middle East, North America, Pacific and South America.

FIGURE 7: GLOBAL REAL ESTATE INVESTMENT AND CROSS-REGIONAL CAPITAL



Source: CBRE Research, Real Capital Analytics, Q4 2017.

PRODUCT BECOMES INCREASINGLY SCARCE AS THE ECONOMIC CYCLE MATURES

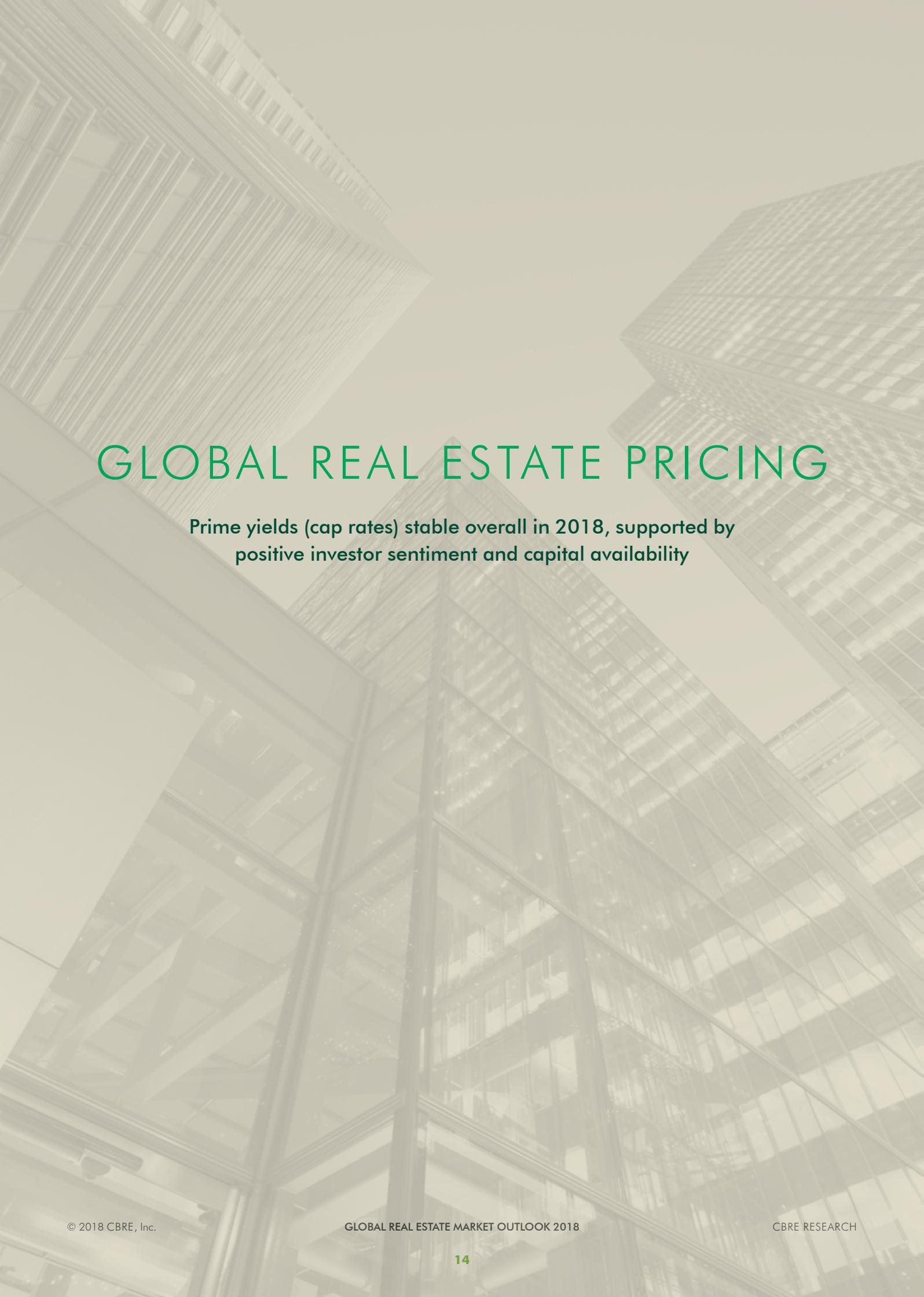
Investors' main challenge in 2018 is sourcing core deals. Better-than-expected global economic growth and strong occupier fundamentals have buoyed investor sentiment, and global investment volumes are at elevated levels. However, the lack of product in core markets is hampering further turnover growth, and investment turnover overall is expected to remain stable or modestly decline in 2018.

Investment volumes in the U.S. have softened in the past 18 months. Increasing levels of new supply have weakened the prospects for rent growth, making investors a little more cautious. On the upside, however, economic growth is solid and consumer and business spending are expected to grow in 2018. Tax reforms are beneficial for commercial real estate owners and developers, particularly for those with exposure to multifamily housing. As home ownership becomes less attractive financially, the demand for multifamily will increase. On balance, U.S. investment volumes likely will be mildly down in 2018.

The Asia Pacific market was supported by several mega deals in 2017, two of which totaled US\$8 billion. Investment activity will remain strong in 2018, although volumes will decline slightly in

the absence of similar high-profile transactions. Buying activity will be led by global fund managers—mostly private equity real estate funds deploying capital they've raised over the past three years—and Asia-based institutional investors operating either directly or indirectly through fund managers. Investment activity by REITs will moderate, as it becomes increasingly challenging to secure product with attractive yields. As such, REITs likely will focus on asset management and understanding occupier requirements to boost direct returns.

EMEA posted record highs in investment turnover in 2017. However, most of the major EMEA investment markets are approaching full capacity, with limited room for further growth in 2018. The main driver of investment growth in EMEA over the past 24 months has been investor appetite for German real estate, which grew 9% year-over-year. While this remains high, volumes will be held back by scarcity of product. France will have the greatest potential for growth in 2018, following positive investor reactions to Emmanuel Macron's victory in the May 2017 election. The U.K. saw a bounce-back in investor volumes in 2017, driven by landmark deals in Central London and the U.K.'s share of the big logistics platform deals. With these trophy assets having traded in 2017, availability of product in this segment will be limited and a continued recovery looks unlikely in 2018.



GLOBAL REAL ESTATE PRICING

Prime yields (cap rates) stable overall in 2018, supported by positive investor sentiment and capital availability

GLOBAL REAL ESTATE PRICING

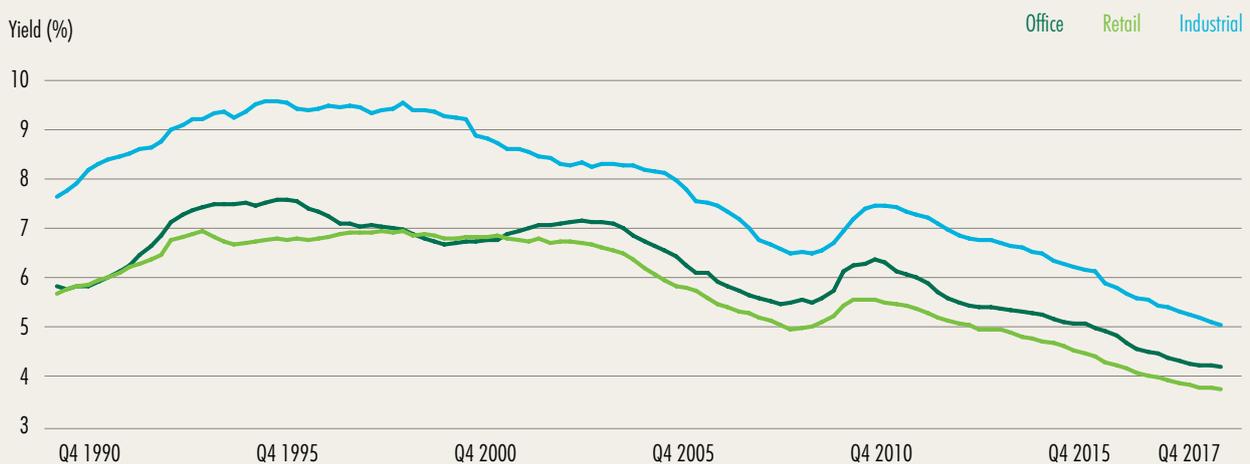
The global decline in real estate cap rates that began at the end of the financial crisis in Q4 2009 continued in 2017. The decline was more modest than in previous years, and some signs of stabilization emerged in Q4.

Industrial & logistics cap rates fell the most (-29 basis points) last year and office cap rates fell by a relatively small amount (-12 basis points) (Figure 8). Market progress in the retail sector is a more nuanced story. Overall, global average yields on prime retail assets fell by 12 basis points, with firm pricing in Europe and Asia Pacific. In the U.S., however, retail cap rates have increased, particularly for power centers, because of fears that

internet-based retailers are taking market share. U.S. multifamily real estate saw cap rates fall by 3 basis points last year.

Figure 9 analyzes the factors that drove cap rate compression in 2017 and provides an outlook for 2018. Our view is that, overall, cap rates will be largely stable globally in 2018, as strong investor sentiment, capital availability and economic growth offset gently rising interest rates in some parts of the world. Some markets in the U.S. could see a slight increase in cap rates, particularly weaker secondary markets.

FIGURE 8: GLOBAL COMPOSITE YIELDS



Source: CBRE Research, Q4 2017.

FIGURE 9: FACTORS DRIVING CAP RATES

Category	Driver	2017	2018
Economics	Bond rates	Low, stable - supportive	Gently rising - neutral
	Base rates	Low, stable - supportive	Gently rising - neutral
	Growth	Improving - supportive	Strong - supportive
	Inflation	Weak - supportive	Gently rising - neutral
Real estate	Rents	Growing - supportive	Easing, new supply - neutral
	Spreads	Compressing - neutral	Compressing - neutral
	Sentiment	Positive, cautious - supportive	Positive, cautious - supportive
	Equity	Abundant - strongly supportive	Abundant - strongly supportive
	Debt	Cheap, available - strongly supportive	Cheap, available - strongly supportive
OVERALL		STRONGLY SUPPORTIVE	SUPPORTIVE

Source: CBRE Research, Q1 2018.

GLOBAL OFFICE MARKET

Leasing fundamentals positive; constrained by tight labor supply

Most of the world's major office markets enter 2018 supported by healthy leasing fundamentals and business sentiment, as they were in 2017.

Two factors will influence markets more strongly in 2018: constraints on labor supply reflecting cyclically-low unemployment rates, and increased new office supply in some cities.

EMPLOYMENT GROWTH WILL TRANSLATE INTO MODEST INCREASES IN LEASING ACTIVITY

Underlying business sentiment is strongly positive around the world, but this won't necessarily translate into markedly stronger office-based employment or leasing activity in 2018. Labor shortages, combined with a range of space and portfolio efficiency measures, will restrain take-up levels.

In the U.S., office-using employment growth is expected to rise by about 212,000 (up 1.1%) in 2018—positive, but well below the 2017 increase of 353,00 jobs. An unemployment rate of 4.1% (January 2018)—the lowest since December 2000—is a constraint on further job growth. As a result, we project net U.S. office absorption of around 32.1 million sq. ft. in 2018, down from 50.1 million sq. ft. in 2017.

In Asia Pacific, net Class A office absorption climbed to around 44 million sq. ft. in 2017, compared with 28 million sq. ft. when the market bottomed out in 2013. We expect the 2018 figure will be broadly unchanged from 2017, with demand supported by robust leasing activity in India and upgrading of premises in Japan as new supply comes on stream. An unemployment rate

In the U.S., office-using employment growth is expected to rise by about 212,000 (up 1.1%) in 2018.

of about 3% or less in most Asian markets is a constraint, but the financial sector has been more active since late 2017 and will remain a key source of demand. The business process outsourcing (BPO) sector will see reduced demand because of the U.S.'s reshoring policy, tax reform and the automation of low value-added processes.

Europe looks stronger due to higher labor availability. Most major markets, with the likely exception of London, will see another good year for office-based employment growth (albeit slower than in 2017). This will support further gains in leasing activity. After growth of around 3% in 2017, we expect European office leasing to rise by 5% in 2018. Leasing momentum is strongest in Spain, the Netherlands and Italy, with Germany, the U.K. and France seeing slower growth.

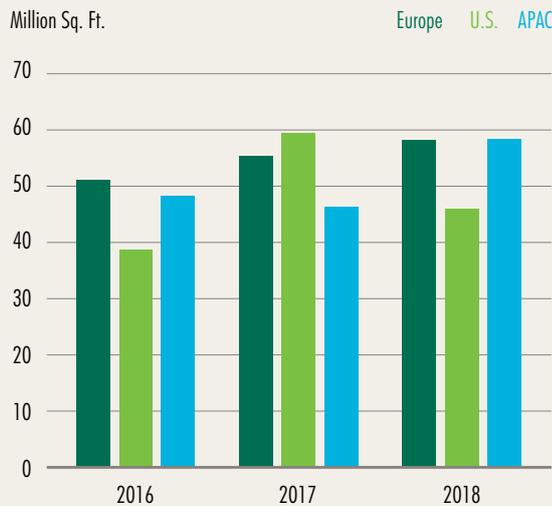
TECHNOLOGY REMAINS A PROMINENT SOURCE OF LEASING DEMAND

The technology sector has been a primary driver of leasing demand in all regions and is expected to remain so in 2018. In the U.S., the sector has accounted for nearly 20% of major office leasing activity in recent years. In leading tech cities like San Francisco and Seattle, as well as emerging, lower-cost tech hubs like Charlotte and Phoenix, it will remain strong in 2018. Similarly, in Europe, leasing by the tech sector eclipsed both financial services and business services in 2017 and is expected to do so again in 2018. In some tech-dominated cities such as Berlin, Amsterdam and Barcelona, demand growth in this sector is producing stronger rental growth in the main tech district than in the prime market. In Asia Pacific, tech companies are growing just as rapidly, but many larger Asian firms are building their own headquarters, which limits their contribution to leasing markets.

DEVELOPMENT PATTERNS DIVERGING

While development activity is picking up, we will see variable shifts in the supply side of the market in 2018.

FIGURE 10: OFFICE DEVELOPMENT COMPLETIONS, 2016 -2018



Source: CBRE Research, 2018.

Class A new completions in Asia Pacific will rise to a historic high of more than 60 million sq. ft. net floor area in 2018, a 26% year-over-year increase. Although net absorption will increase for the year, the region’s vacancy rate will rise by around 1 percentage point to 13%. India and China will each account for roughly 35% of the Asia Pacific supply of new Class A office space in 2018. Most new projects are outside the CBD. With more opportunities in new locations and infrastructure improvements in decentralized areas, occupiers will look harder at the feasibility of urban-to-suburban relocation.

Development in the U.S. is likewise highly concentrated, with five key markets (Manhattan, San Francisco, San Jose, Washington, D.C. and Seattle) accounting for nearly half of all construction in progress. Overall completions peaked at 61 million sq. ft. in 2017, and projected completions in 2018 total

47 million sq. ft.—still the second-highest annual total since 2009. Downtown vacancy rates will likely edge up more than suburban.

In Europe, further falls in vacancy are expected in 2018 in most major cities, except for some late-cycle markets such as London and Dublin, and some of the smaller Central and Eastern European locations. This reflects still-low levels of development in most markets, although aggregate completions in 2018 likely will top 53.8 million sq. ft. for a second successive year.

OCCUPIERS STRIVING FOR WORKPLACE AGILITY

Occupiers will strive for greater workplace agility, flexibility, portfolio efficiency and improved user experience in 2018. While not all these issues are new, the combination of labor scarcity, growing demands for a quality working environment and accelerating technological innovation indicate that we are on the cusp of a major change.

Many occupiers are looking for space-efficiency gains, while also reinvesting savings into workplace enhancements to improve amenity levels that will attract and retain employees. This approach needs to acknowledge the reality of a workforce that is increasingly mobile in at least two senses. Firstly, personal devices and cloud technology are expanding employees’ choice of work locations so that, for many, the office itself is just one of several possible places to work. Secondly, greater choice of work environments within the office is being reinforced by activity-based working, supported by apps and smart sensor technologies to track and predict workplace occupancy.

These shifts are encouraging landlords and developers to offer more amenities in their buildings, as well as supporting rapid growth in the flexible office sector. A growing range of flexible office formats is available to occupiers today, providing high-quality space for short-term lease commitments. We expect corporations’ interest in third-party flexible space to grow as these models become more widely tested and understood. The situation in Asia Pacific illustrates this: Coworking centers accounted for less than 5% of total leasing volume in 2017, but the number of centers is rising at a rate of more than 20% per year.

'HOT MARKETS' – OFFICES

A quick overview of the markets we expect to outperform in rent growth over the next few years.

Asia Pacific has six of the top-15 office markets for projected rent growth over the next three years. EMEA also has a fair share of the higher rent growth markets, with Germany, Spain and the Netherlands all having cities in the top 15. Markets in the Americas are expected to see slightly more subdued rent growth, apart from certain secondary cities where rents will grow at a faster rate than elsewhere.

In Asia Pacific, rent growth will be predominantly led by Singapore. The market will see an escalation in Class A rents amid a flight to quality, coupled with limited new supply in core locations. Guangzhou will see similar rent growth confined to the CBD. Rent growth in Bangalore will remain solid, as occupiers remain willing to pay a premium for locations with good infrastructure. In Australia, strong rent growth

in Brisbane and Perth will be driven by the revival in the raw materials sectors.

In the U.S., Phoenix, Tampa, Orlando, San Diego and Sacramento will see the strongest rent growth in the next three years. Rent growth in secondary cities reflects the increasingly rich amenities relative to the cost of living offered by these markets, attracting both population and businesses. Many of the fastest-growing U.S. markets are emerging tech hubs, due to their lower occupancy costs.

Within EMEA, the German and Spanish economies continue to grow strongly. Madrid and Barcelona are forecast to see between 3% and 5% annualized rent growth over the next three years. Tech hubs such as Berlin, Amsterdam and Stockholm are also forecast to perform well.

OFFICE RENTS FORECAST



*All our forecasts are based on a per annum percentage increase over the next three years (geometric mean). Source: CBRE Research, 2018.

GLOBAL RETAIL MARKET

Buoyant consumer confidence driving retail demand

The past year has seen plenty of headlines about the struggles of brick-and-mortar retail, particularly in the U.S., but the facts point to change and dynamism, not demise. More stores were opened in 2017 than in the previous year, and we think this will continue in 2018. The healthiest aspect of the new openings is that many are new brands and not simply extensions of existing ones.

In the U.S., consumer confidence is approaching its highest level since 2000. The buoyant job market, the continued growth in the stock market and the fiscal reforms put in place by the Trump administration have all been key contributors.

In Europe, consumer confidence rose to a 17-year high in November 2017.⁵ In the U.K., by contrast, consumer confidence hit a four-year low at the end of 2017.⁶ Uncertainty around the outcome of Brexit negotiations, rising inflation and stagnating wage growth have all been contributing factors.

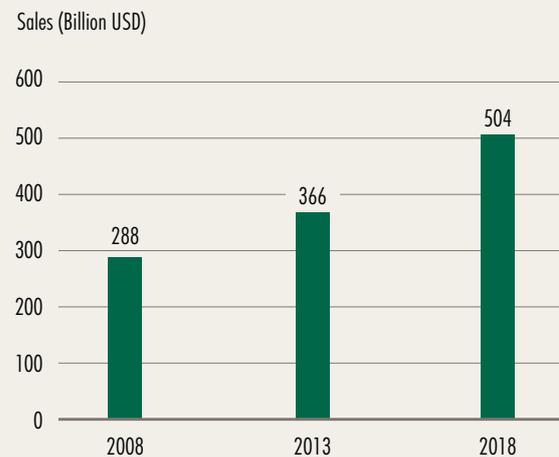
In Asia Pacific, China's recent economic revival has had clear regional growth benefits: More than 55% of Chinese imports come from surrounding countries in the region. While not at a cyclical high, consumer confidence in the region is solid and improving.

Globally, consumer demand for off-price and discount merchandise shows no signs of declining. Occupiers expanding in 2018 will likely come from these sectors. The economic downturn of almost a decade ago has not been forgotten. Despite current consumer confidence, consumers will not accept inflated prices and will go the extra mile to find a bargain. The discount/low-price sectors will continue to perform well, as consumers will persist in incorporating bargain hunting into their buying behavior.

⁵ Thomson Reuters, FT (November 2017).

⁶ GfK consumer confidence barometer (December 2017).

FIGURE 11: SALES OF DISCOUNT STORES WORLDWIDE (2018)



Source: Statista, 2018.

At the other end of the spectrum, luxury brands retain their appeal with certain consumers looking for quality, design and rarity value. The mid-price sector appears to be the most at risk in 2018. With the growth of discounters and continued success of luxury retailers, many mid-price retailers are struggling to find a point of difference.

Class B and C malls in the U.S., along with the high streets of small and medium-sized cities in Europe that are home to mid-priced retailers, are devising new strategies to attract consumers. This allows brand startups with only an online exposure to test the market and provides owners the chance to drive footfall and optimize the tenant mix. Shopping center owners love the variety and excitement that pop-up shops can bring, as do consumers. The growth of brokers marketing short-term leases and the entry of innovative coworking operators into the retail sector will continue in 2018. The recent acquisition of Lord & Taylor for US\$850 million should be seen as the first of a series of retail investments rather than just a one-off transaction.

GLOBAL RETAIL MARKET

The growth of online retail remains the single most dominant trend in the industry, but it should not be overstated.

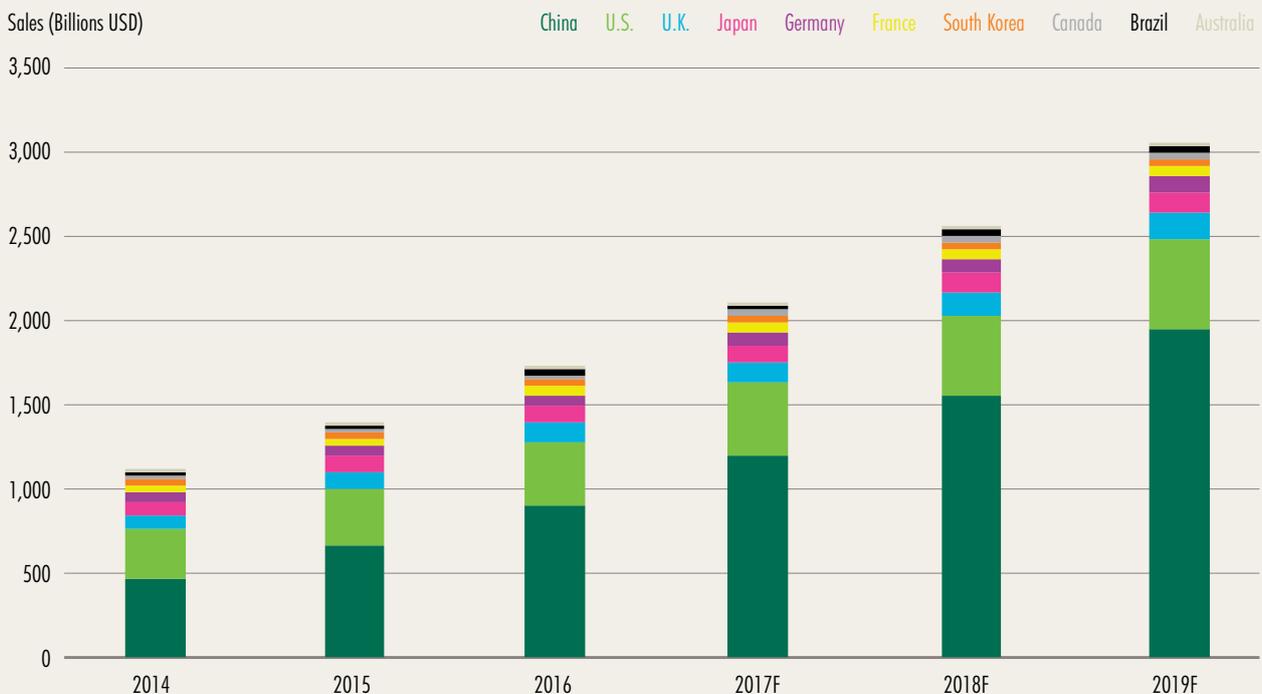
E-commerce is only 9% of total retail sales in the U.S. and 12% in the U.K. Moreover, the growth of dining out, particularly in malls and other retail destinations, is almost as powerful and provides a counter to revenues lost from physical stores. We are also increasingly seeing online retailers moving into the physical retail environment, such as Warby Parker and Missguided. Nevertheless, the growth of e-commerce and its increasing ability to provide same-day fulfilment makes the retail environment highly competitive.

The divergence of rents and yields between Class C locations and the rest will continue, with the locations that offer retailers the best opportunity to establish their brands becoming increasingly desirable and sales in weak locations declining due to online competition. Around the world, attention is turning to re-purposing Class C and in some cases Class B retail space. Some very interesting strategies are emerging, with malls being converted for education uses or health and leisure activities

such as ice rinks. In some cases, malls can be converted to offices and residential use, albeit with major capital expenditures. Sensible, proactive land use planning policies are urgently required in many locations to facilitate the transformation of retail space, allowing as much as possible to be saved and revitalized.

As retail yields in top locations continue to fall, investors can find attractive pricing in value-add assets in secondary locations. The addition of an appropriate food & beverage offer, as well as exploring the more radical solution of adding residential, will become a more common strategy for enhancing value. Food & beverage offerings in conjunction with retail have grown rapidly over the past year. This trend will continue in 2018 with a greater focus on ensuring the offer in place meets specific consumer demands. The assets in question may work better as a hybrid mix of retail and logistics, or may benefit from adding residential or flexible office space. The savvy investor will recognize this and take advantage of opportunistic moments in the market cycle.

FIGURE 12: E-COMMERCE SALES (2014–2019)



Source: Statista, January 2018.

'HOT MARKETS' – RETAIL

A quick overview of the markets we expect to outperform in rent growth over the next few years.

Global consumer confidence is at a cyclical high, with consumers in Asia Pacific particularly optimistic about future spending plans. Regionally, EMEA dominates the picture with nine of the top-15 markets for rent growth. Despite Asia Pacific's economic buoyancy, retail rents in the most sought-after locations in Asia Pacific are forecast to show only modest growth over the next three years.

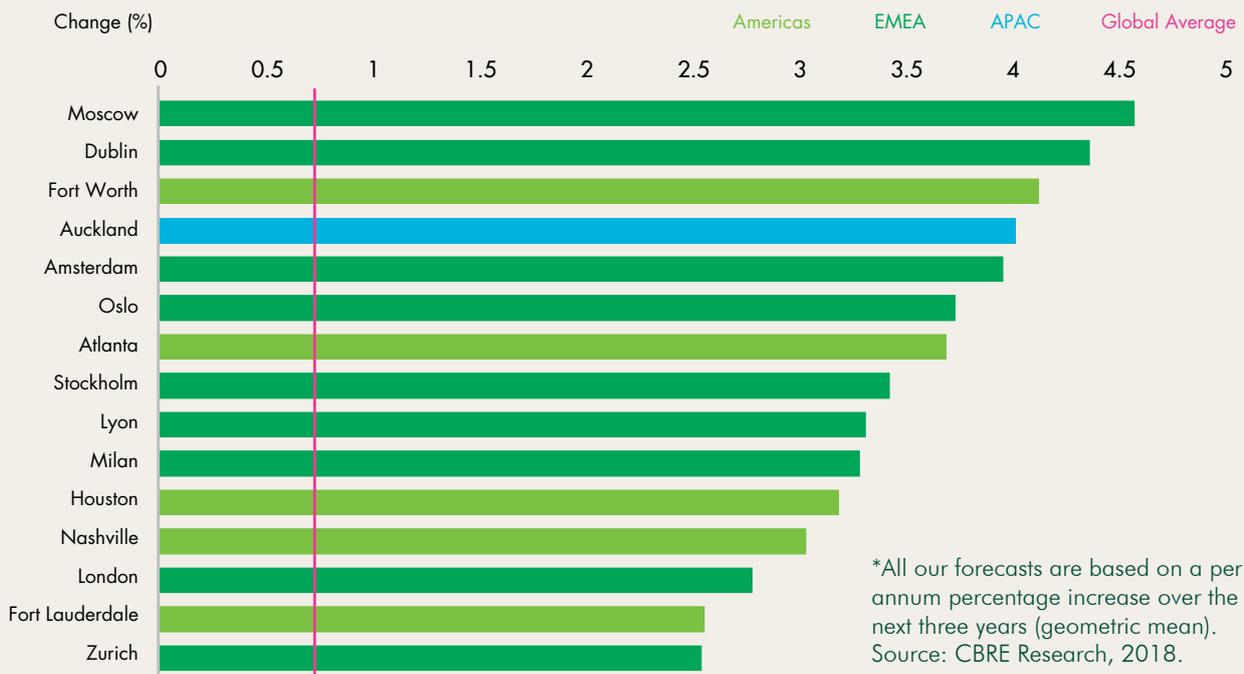
In EMEA, Moscow and Dublin are showing forecast retail growth of more than 4%. Moscow, after several years of rent declines linked to the fall in oil prices and sanctions, is now seeing a rebound thanks to economic revival, rising oil prices and relative value compared to other European retail markets. Dublin's retail market is growing at a similar rate, boosted by strong national economic growth and elevated levels of tourism. Rents in

several northern continental European markets, including Oslo, Amsterdam and Stockholm, are forecast to grow above 3%, benefitting from strong economic growth relative to the rest of Europe.

In the U.S., the fastest-growing markets are generally in the Sun Belt. Retail rents in secondary cities are growing at a faster rate than in the dominant markets of New York and Los Angeles. The improving outlook for oil prices has lifted economic growth in Texas, delivering a boost to retail rent growth.

Asia Pacific, with the exception of New Zealand, will see fairly sluggish rent growth of less than 1% over the next few years. However, despite a slight improvement in retail sales in Hong Kong, China and Singapore, retailers are showing a cautious approach to expansion.

RETAIL RENTS FORECAST •





GLOBAL INDUSTRIAL & LOGISTICS MARKET

E-commerce continues to drive strong industrial & logistics demand

The global economy and the industrial & logistics (I&L) market continued to expand in 2017. Our view is that economic conditions will remain favorable this year in the I&L market and the structural factors that have been so key to this expansion—e-commerce and the transformation of the supply chain—will remain a major force.

E-COMMERCE DRIVES INDUSTRIAL OCCUPIERS WORLDWIDE

Omnichannel retail and the growth of e-commerce have been the primary drivers of demand during this cycle. Consumer requirements for speedy service have forced everyone in the retail supply chain—manufacturers, suppliers, distributors and retailers—to carry more inventory in more locations. Last-mile delivery schemes have been a key focus, generating greater requirements for urban logistics space such as multi-story warehouses in densely populated areas. Overall, e-commerce has boosted demand for warehouse and logistics space of all types, leading to record-low availabilities and record-high rents. Interestingly, although the current economic cycle is well-advanced, we are still at an early stage in the development of e-commerce and omnichannel retailing. With global

e-commerce sales forecast to grow by 20% annually, demand for high-quality, well-located industrial real estate will not wane anytime soon.

Asia Pacific is the largest e-commerce market with more than US\$1 trillion in sales in 2016. This is projected to double by 2019. E-commerce companies continue to expand their market share with new locations, such as the world’s largest internet retailer entering Australia last year. The demand generated by the regional expansion of e-commerce supply chains, coupled with expected regional economic stability, allows us to project

Omnichannel retail and the growth of e-commerce have been the primary drivers of demand during this cycle.

FIGURE 13: ASIA PACIFIC RENT GROWTH



Source: CBRE Research, Q4 2017.

GLOBAL INDUSTRIAL & LOGISTICS MARKET

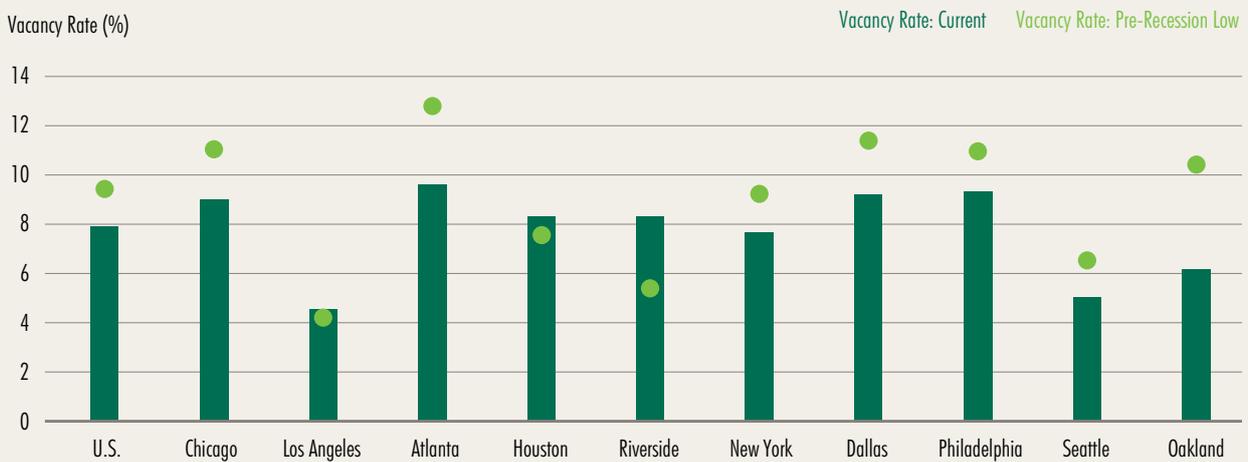
widespread rent growth in Asia Pacific. Growth in Asia will be led by Beijing, Shanghai, Guangzhou and Shenzhen, while Auckland and Melbourne are set to drive gains in the Pacific. In Europe, an acceleration of consumer spending (growing at its fastest rate since before the Global Financial Crisis) is driving regional logistics markets. As the handling of products ordered online requires up to three times more space than a conventional sale, e-commerce is a major driver of logistics real estate demand. In the U.K., about one-third of all logistics take-up can currently be attributed to online sales fulfilment, with Germany, France and other key markets in the region catching up quickly.

In the Americas, supply chain and e-commerce dynamics have fueled growth at different rates across the region. The U.S. and Canada have led the way, with users aggressively leasing space in response to both persistent economic growth and the secular changes brought about by e-commerce. This has led to record-low vacancy rates and record-high rents in virtually all

markets in both countries. Similar conditions are expected in 2018, with the economy projected to remain stable and e-commerce supply chains continuing to expand.

In Latin America, after several years of uncertainty, the markets are beginning to stabilize. One year ago, Mexican markets were in flux in the expectation of trade disruption following the U.S. presidential election. However, these concerns were not realized and the major manufacturing and distribution hubs both on the U.S. border and in the interior of the country recovered quickly. The threat from trade disruption has not gone away, but the renegotiation of NAFTA looks likely to be a more considered process than it did in 2017. Record levels of demand in Mexico are projected in 2018. Conversely, Brazil is slowly emerging from a deep recession that significantly impacted user demand. Positive year-end figures in both export activity and consumer behavior boost our demand outlook. We project a rise in net leasing, which will stabilize both vacancy rates and rents.

FIGURE 14: U.S. VACANCIES VS. PREVIOUS LOW



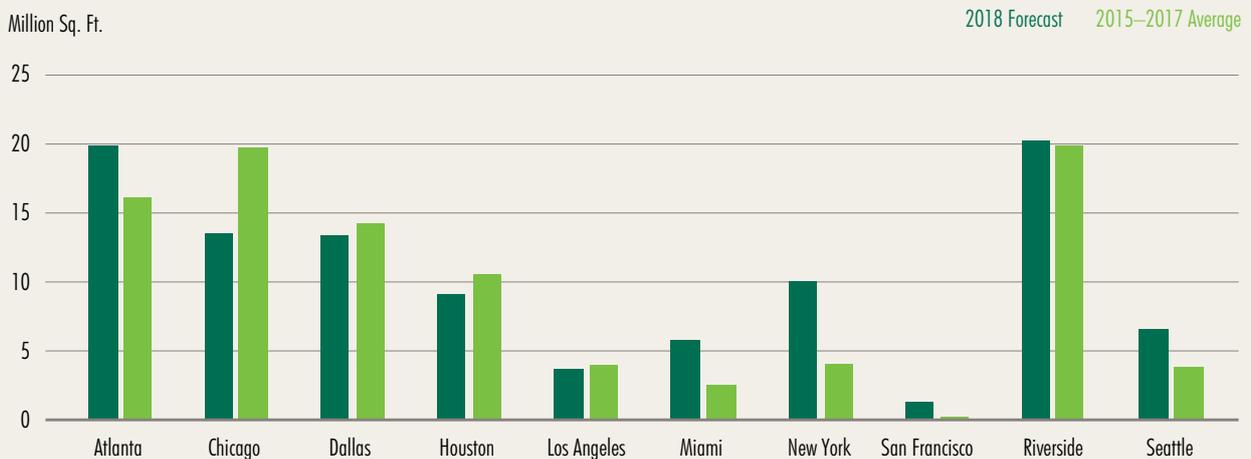
Source: CBRE Econometric Advisors, Q4 2017.

LOW RISK OF OVERSUPPLY AS MARKET REACHES EQUILIBRIUM

Despite massive user demand in the major logistics hubs worldwide, developers have exercised remarkable discipline. This is partly due to the difficulty in obtaining suitable sites to accommodate either large hubs or focused local distribution nodes. On one hand, this has left occupiers with little choice and rapidly rising occupancy costs. This has somewhat removed the risk of oversupply. Nowhere is this trend more evident than in the U.S., where completions have trailed demand (measured by net absorption) for 28 of the past 30 quarters since Q3 2010. Construction in the U.S. is increasing, however, with delivery levels just below previous cycle peaks and a construction pipeline that indicates another year at this level. New supply has been disproportionately concentrated in U.S. gateway markets and key Latin American manufacturing and distribution hubs such as Mexico City and Sao Paulo.

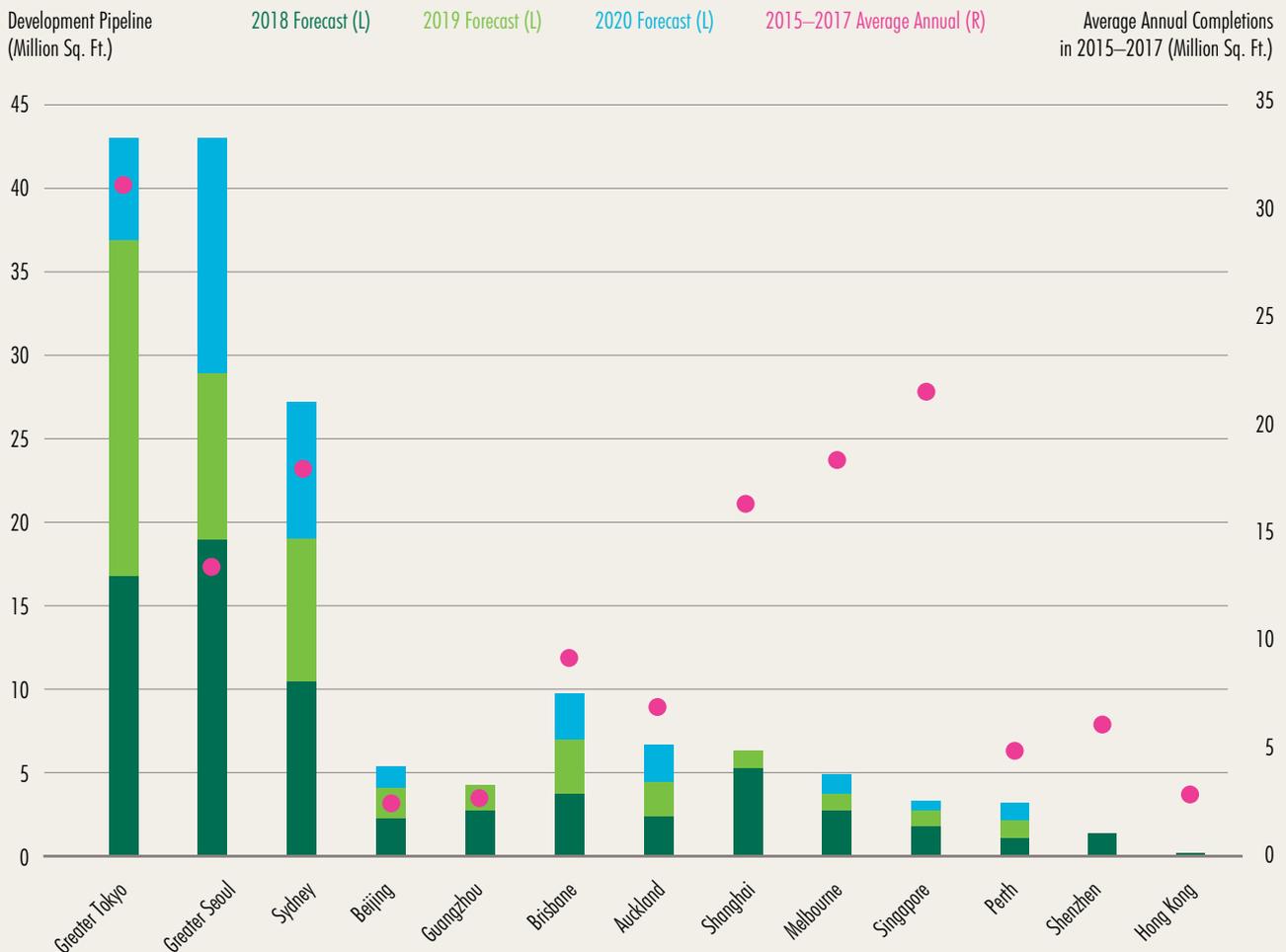
In Asia Pacific, construction of new logistics supply has been constrained. New supply currently under construction and forecast for delivery by 2020 in major Asian Pacific markets will either equal or fall below the five-year annual historical average. New supply will exert limited downward pressure on rents, with only Greater Tokyo and Sydney expected to see year-over-year growth of new supply. Markets with higher-than-average vacancy and/or forecast rising vacancy rates, such as Greater Tokyo, Shanghai and Seoul, will see a bifurcation between prime/Class A and second-generation/Class B properties, as users continue their flight to newer and modern facilities. In China, occupiers are advised to sign new leases ahead of a decline in new logistics supply in 2019.

FIGURE 15: U.S. DELIVERIES, AVERAGE AND FORECAST



Source: CBRE Econometric Advisors, Q4 2017.

FIGURE 16: MAJOR ASIA PACIFIC DELIVERIES, AVERAGE AND FORECAST



Source: Hong Kong Rating and Valuation Department JTC, CBRE Research, January 2018.

In Europe, capacity constraints are driving changes in user behavior and new development. This applies particularly to land and labor. On the one hand, this will shift occupier demand and development activity to established hubs where there is still room for expansion. On the other hand, new locations will appear on the radar. The construction of a mega-distribution center in Dutch Lelystad is illustrative. However, in all cases, new hubs must meet requirements for easy transportation and good access to labor to succeed. Development plans that do not take these elements into account should be viewed with caution.

'HOT MARKETS' – INDUSTRIAL

A quick overview of the markets we expect to outperform in rent growth over the next few years.

Overall, the industrial sector should continue benefitting from the structural changes to global supply chains brought about by the growth of online retailing and buoyant consumer sentiment. World regions have relatively equal shares of hot markets.

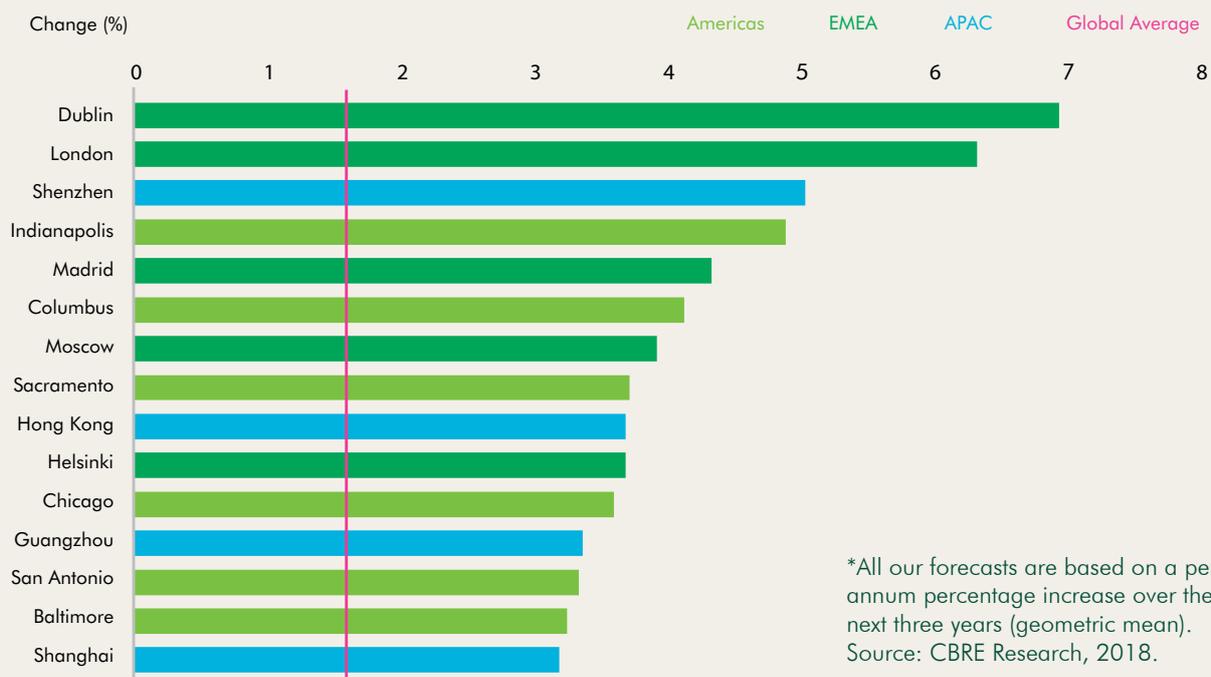
In EMEA, Dublin and London will see the highest rent growth due to lack of available supply and to strong demand for logistics space driven by population growth, rising incomes and e-commerce. Both these markets are characterized by smaller multi-tenant sites, rather than big logistics facilities, due to constrained space. The same applies to Northern European markets, such as Helsinki, where a lack of available land prevents further industrial

development. Improving economic fundamentals will underpin future growth in Moscow and Madrid.

In the U.S., rent growth is expected to be strongest in midwestern markets such as Indianapolis, Columbus and Chicago, where net absorption has been particularly high over the past year. Hubs on the East and West coasts are expected to continue to perform well, boosted by their proximity to major markets and tight availability.

In Asia, industrial markets near the largest manufacturing hubs are forecast to show the greatest rent growth. Hong Kong, in particular, is expected to see high rent growth due to the land constraints on further industrial construction.

INDUSTRIAL RENTS FORECAST*



*All our forecasts are based on a per annum percentage increase over the next three years (geometric mean). Source: CBRE Research, 2018.



MULTIFAMILY

Star performer of the U.S. commercial property market

Income-producing residential assets are a small but growing part of the commercial property market in many parts of the world. But in the U.S., they are a full-fledged powerhouse. U.S. multifamily assets attracted \$150 billion in investment last year, more than office—the historical leader—and one-third of all commercial property investment in the country. The U.S. multifamily sector will remain attractive to users and investors in 2018.

OCCUPIER DEMAND FOR MULTIFAMILY HOUSING HAS BEEN STRONG SINCE 2007

Demand for U.S. multifamily housing has been very strong since 2007 and shows no sign of cooling. At first, rising demand was a result of the housing crash, with mortgages being difficult to obtain. Since then, steady economic expansion, the large young millennial population and the substantially increased appeal of urban living have all contributed to historically high levels of multifamily demand. These factors will continue to provide positive influences on the market in 2018.

Although millennials are expected to continue to move into homeownership—the oldest millennials will turn 38 in 2018—this trend is only moderate so far. Rising single-family home prices and mortgage rates, coupled with recent tax reform that limits mortgage interest deductions, will also serve to restrain the move to homeownership.

URBAN RENAISSANCE IN CORE SUBMARKETS

Approximately 40% of the 916,000 units added to the U.S. market since 2013 is in urban-core submarkets. This large amount of new supply has reduced occupancy levels and rent growth in urban cores, resulting in effective rent declines and slower lease-ups of new projects. This trend, which on the positive side is helping to make urban cores more affordable, will continue in 2018 but begin to abate in 2019 as deliveries fall.

Apart from temporary market imbalances, this urban development activity has been transformative for American downtowns and for the multifamily market as a whole. Over the past decade, urban cores have reemerged as attractive places to live, work and play. The continued revival of urban cores should translate into solid long-term returns for multifamily investment.

Multifamily's niche sectors, such as seniors housing and student housing, will remain appealing to investors in 2018.

SUBURBS, NON-CORE AND NICHE MULTIFAMILY ASSETS OFFER HIGH INVESTOR APPEAL IN 2018

In the short term, U.S. suburban multifamily markets remain in relative balance and offer the best rent growth. Moreover, the rental prospects might be even better for Class C product, which had benefitted from relatively low levels of new supply and median-income growth in recent years.

Multifamily's niche sectors, such as seniors housing and student housing, will remain appealing to investors in 2018. Yields in these sectors have fallen, but are still higher than for conventional multifamily. For example, in Q4 2017, cap rates for seniors housing, including portfolio sales, averaged 6.4%, compared with 5.6% for conventional multifamily cap rates, according to Real Capital Analytics.

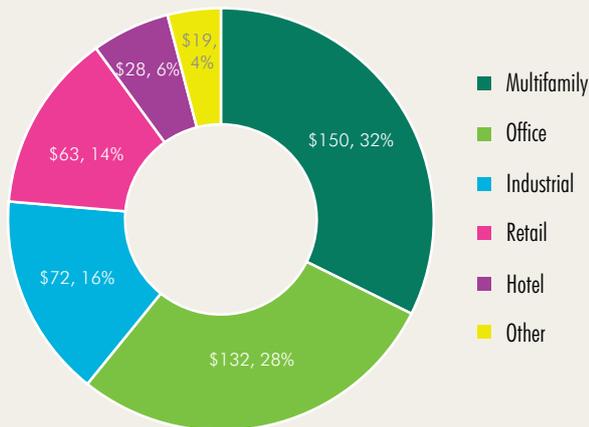
Investors' interest in seniors housing is rising, particularly in the independent-living and age-restricted segments, which are benefitting from baby boom demographics. The latter category represents both for-rent and for-sale housing built for older households (often referred to as "55+" or "active adult"), but without the array of social and health-care services associated with traditional seniors housing. This segment will create opportunities for investors over the next decade.

MULTIFAMILY

MULTIFAMILY HOLDS TOP POSITION IN 2017 U.S. INVESTMENT

The U.S. multifamily sector's \$150 billion acquisitions total in 2017 represented 32.4% of all investment in U.S. commercial real estate, topping the office sector for the third consecutive year. Investors see the sector as dynamic, able to overcome the modest overbuilding of the urban areas, and being in a strong defensive position to weather the next recession. Multifamily is impacted by economic cycles, but the impacts tend to be shorter and less pronounced than for other property sectors.

FIGURE 17: MULTIFAMILY, THE LARGEST SECTOR FOR U.S. INVESTMENT



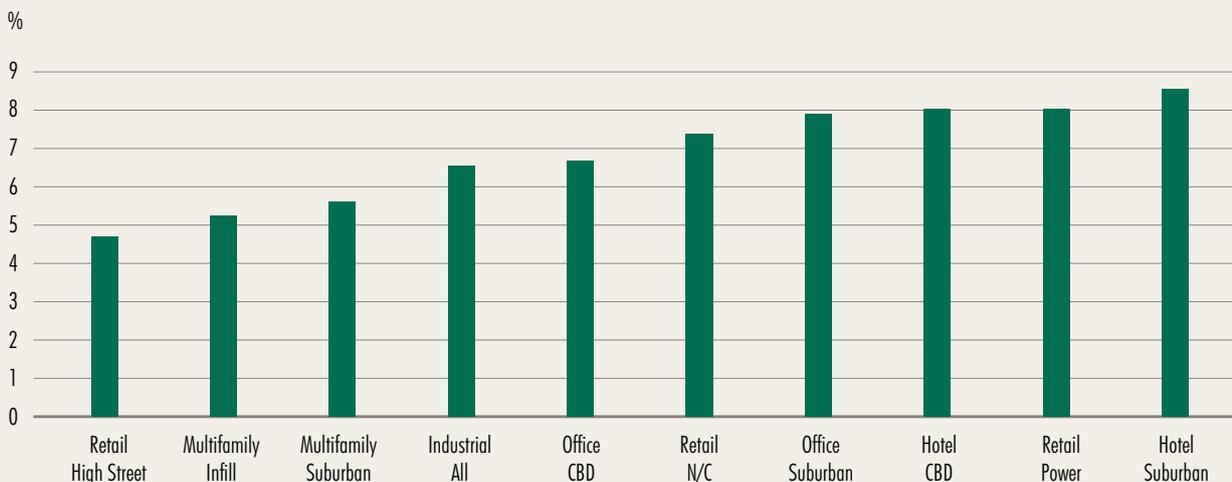
Source: CBRE Research, Real Capital Analytics, Q4 2017. Figures in Billion USD.

Multifamily's sustained low cap rates also reflect the sector's strong position and appeal in the investment world. CBRE's H2 2017 North American Cap Rate Survey found that the sector's cap rates remained the lowest among all property types (excluding high-street retail, which is, by definition, all Class A product). At year-end, multifamily cap rates averaged 5.23% for infill product and 5.59% for suburban. Cap rates for Class A assets in most medium to large U.S. markets are under 5%.

INCREASED GLOBAL APPEAL

U.S. multifamily investment is increasingly recognized as an opportunity by foreign investors. While direct foreign investment comprised only 7.9% of total U.S. multifamily investment in 2017, cross-border capital is coming into the sector through many other routes. Investment funds are one of the principal vehicles capturing this international capital. Equity partnerships and development are additional paths for foreign investors to participate in the marketplace. Other countries, such as the U.K., are particularly active in developing the multifamily asset class to meet the social need for housing, as well as strong investor demand.

FIGURE 18: MULTIFAMILY MAINTAINS LOWEST CAP RATES AMONG PROPERTY SECTORS



N/C = grocery-anchored neighborhood/community mall.
Source: CBRE Research, Q4 2017.

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