August 2019

Global Market Perspective

JLL Global Research

Real Estate Markets Slow but on Track for Robust 2019

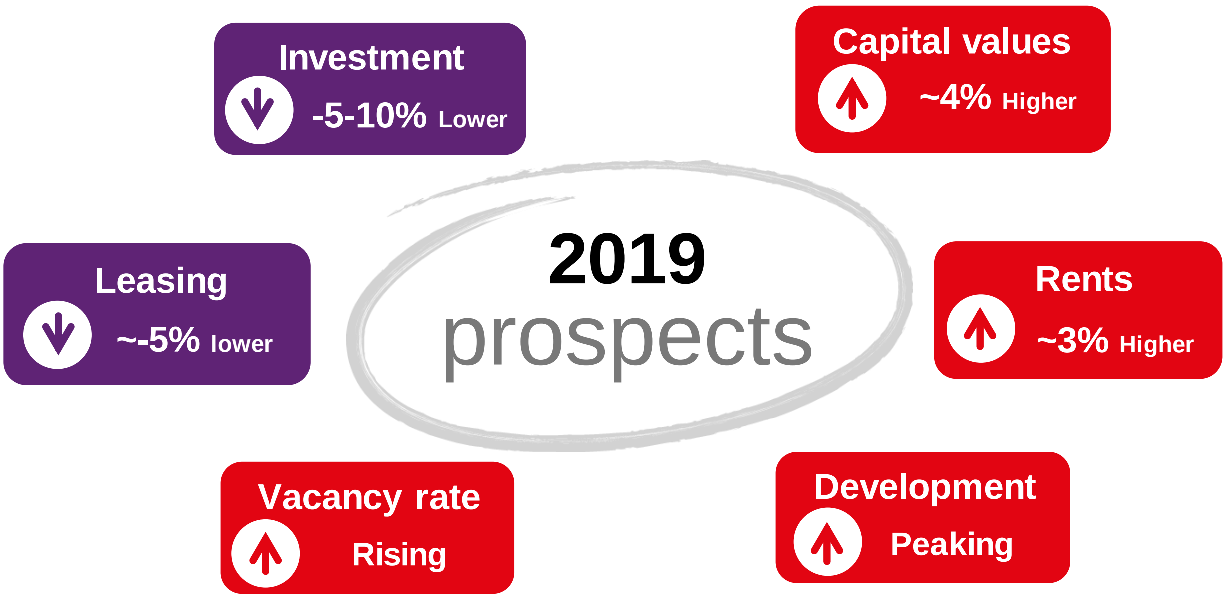
Activity moderating from record levels but remains elevated

Momentum in global real estate markets eased through the first half of 2019 as investment and leasing volumes declined moderately from last year's exceptional levels. However, investor and corporate occupier activity remain healthy and are on track to finish 2019 above historic average levels.

Although fundraising and capital available for deployment into real estate set new highs over the first half of 2019, global investment activity is likely to be marginally lower for the full year. Investors continue to be disciplined, with a growing focus on defensive sectors driven by structural demographic, consumer and technological trends.

Office leasing demand is still largely resilient to slowing economic growth and geopolitical uncertainty but is projected to fall short of last year's record total during 2019. A spike in supply over the next 24 months will reduce constraints on occupier activity in some of the tightest markets, while gradually pushing up vacancy rates. Leasing demand also remains firm in the logistics sector and is expected to keep vacancy rates near record lows through the rest of the year.

Global Commercial Real Estate Market Prospects, 2019



Leasing, vacancy, development, rents and capital values relate to the office sector.
Source: JLL, July 2019

Global real estate investment softens in line with expectations

The second quarter of 2019 saw investment in global real estate continue to cool as year-on-year sales transaction activity dipped by 9% to US$174 billion. This brings H1 2019 investment volumes to US$341 billion, 9% lower than the same period in 2018 but in line with expectations for the year.

Despite slowing economic momentum and geopolitical tensions, the consequent monetary loosening policies by several central banks are flowing through to commercial real estate markets. Risk-free rates continue to plummet, lowering financing costs and widening spreads to property at a time when investors are hungrier than ever for yield. Although prices are elevated across many markets, fundamentals remain sound, underwriting is disciplined, and debt levels are generally modest. Nevertheless, investors are still cautious and selective and we expect global investment in commercial real estate to soften by about 5%-10% to roughly US$730 billion for the full year.

Office leasing volumes remain elevated but below exceptional levels of 2018

At 10.4 million square metres (across 96 markets), gross leasing activity stayed healthy in the second quarter, although volumes are now running below the record-breaking levels of 2018. Year-to-date leasing volumes are down by 5% on H1 2018, a rate of decline that we predict will play out during the rest of the year as demand begins to soften.

Global office vacancy rate falls to lowest point of the current cycle

Defying forecasts once again, the global office vacancy rate fell further in Q2 to 10.8%. This represents the first time the rate has dropped below 11% since 2009. Vacancy decreased in both Europe (to 5.8%) and the U.S. (to 14.5%) but was stable in Asia Pacific (at 10.3%).

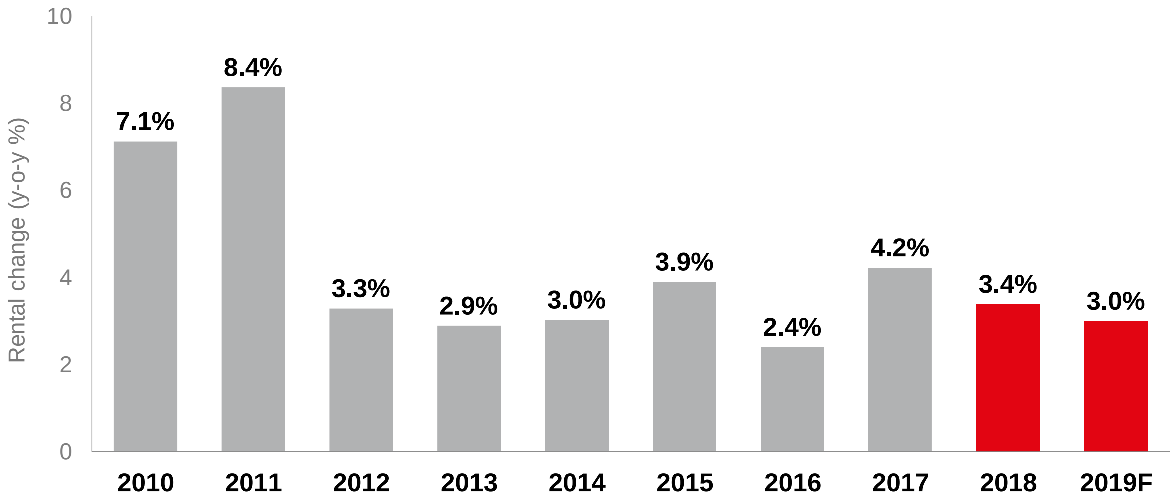
New office deliveries are anticipated to peak this year at over 18 million square metres, with a further 17 million square metres due for completion in 2020, comparable to levels at the height of the last office construction cycle in 2008-2009. With completions in 2019 likely to be one-third higher than in 2018, the global office vacancy rate is expected to start to edge up during the second half of 2019 to finish the year at around 11.3%.

Annual prime rental growth still trending at 4%

Rental growth for prime office space has remained remarkably consistent over the past two years, trending at an annualised average of 3.5% to 4% across 30 global cities. Boston tops the global ranking with rents rising at an annual rate of more than 20%, with Berlin and Singapore also recording double-digit growth.

Aggregate rental growth for prime offices is forecast to stay positive for the rest of 2019, although slowing marginally to around 3% as supply options increase. Boston, Singapore and Berlin are on track to be the top rental performers in 2019.

Rental Growth for Prime Offices, 2010-2019



Unweighted average of 30 markets
Source: JLL, July 2019

Retailers and landlords look to diversification and redevelopment

The retail sector continues to evolve, with landlords and developers retooling centres through redevelopment into mixed-use and via diversification of the tenant mix. Experiences and services will continue to be key in coming years as landlords seek ways to lure shoppers into physical centres.

In the U.S., structural changes are impacting demand with ongoing retailer bankruptcies and the restructuring of store portfolios. Net absorption declined by approximately 45% year-on-year over the second quarter, hampered by the closure of 4,500 retail shops, although the national vacancy rate remains sub-5%. Retail subtypes in the U.S. continue to fare differently, with malls experiencing the most negative impact from store closures. Europe is being similarly impacted by these trends with prime high street shops proving to be the most resilient. A tighter labour market and expected pick-up in wage growth should help to boost demand. In Asia Pacific markets, experienced landlords are trying to differentiate themselves from the competition through unique products and services and targeting niche consumer segments, and there has been generally modest rental growth across the region.

2019 another positive year for global logistics markets

Structural demand drivers including e-commerce and the restructuring of supply chains continue to support global logistics markets, with elevated take-up holding vacancy rates near record lows. Leasing momentum is expected to remain strong, albeit decelerating from recent record levels, which should continue to propel rents higher for the rest of 2019. In the U.S., net absorption rebounded slightly in the second quarter while secondary markets posted the highest rental increases, indicative of widespread strength in market fundamentals. Limited speculative development in Europe is keeping vacancy at historically low levels and contributing to above-average rental growth. In Asia Pacific, leasing demand is still solid, despite trade tensions, contributing to generally modest rental growth across the region.

Hotel investment activity constrained by dearth of opportunities during H1 2019

Global hotel investment activity declined by 18% year-on-year to US$25 billion during the first half of 2019. Activity in EMEA and Asia Pacific continued to be broadly level with last year while a lack of portfolio opportunities contributed to a 30% fall in the United States.

U.S. multifamily market vacancy rate reaches new cyclical low

Demand for multifamily units in the U.S. remains robust, pushing the national vacancy rate down to 4.4%, a new low for the current cycle. With the vacancy rate compressing, effective rental growth in Q2 stayed above 4% on a year-on-year basis, well above inflation. Robust market fundamentals continue to incentivise new development, swelling the new construction pipeline. Increasing supply coupled with slowing demand as the economy cools should cause fundamentals to moderate but remain strong through the rest of 2019.

Investment activity in the institutional residential market in Europe was lower in several markets during the first half of the year following an exceptionally active 2018. Volumes were lower in Germany, France, the Netherlands and Sweden, while the UK saw activity double from the same period last year despite uncertainty impacting the wider residential market. Rent control regulation introduced in several markets so far in 2019 has contributed to investor caution in some locations, though it remains too early to assess the impact of these policies.

In Asia Pacific, buyers were cautious in many markets during the second quarter given broader macroeconomic uncertainty, while mixed leasing demand kept rental growth on a relatively flat trajectory across the region.

The full Global Market Perspective report is only available to our clients. To find out how we can support your global real estate market strategy with research insights and strategic advice, please contact one of the members of the global research team.

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Visit our dedicated **Global Market Perspective website** to explore market performance data and to learn more about recent investment and leasing transactions with our data visualisation toolkit: http://gmp.jll.com/gmp

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