November 2018

Global Market Perspective - Summary

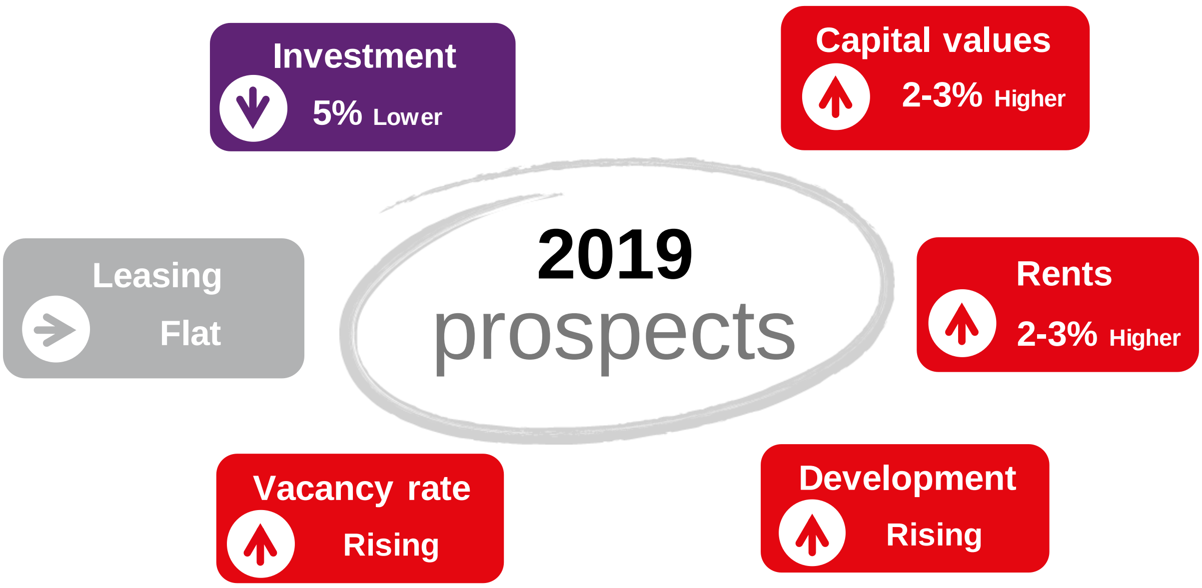
JLL Global Research

Real Estate Markets to Carry Momentum into 2019

Growth likely to moderate from 2018's exceptional levels

Global real estate markets have exceeded expectations as we enter the final quarter of 2018, with investment and corporate occupier activity set to surpass 2017 and finish the year at their highest levels since 2007. However, there are signs that activity is slowing as we move into 2019 and volumes are likely to moderate next year. Office leasing markets remain buoyant and although volumes in 2019 may struggle to exceed the stellar results this year, they will stay well above the 10-year average. Meanwhile in the logistics sector, sustained demand is holding vacancy rates near historic lows and keeping an expanding pipeline in check which, in turn, is driving additional rental growth. Investor demand for real estate is still high with full-year 2018 investment activity on pace to exceed 2017 levels, though volumes are expected to soften somewhat in 2019 due to continued investor selectivity and discipline.

Global Commercial Real Estate Market Prospects, 2019



Leasing, vacancy, development, rents and capital values relate to the office sector.
Source: JLL, October 2018

Global real estate investment stays on course despite elevated uncertainty

Investment in global commercial real estate stayed steady in the third quarter of 2018 with investment volumes of US$170 billion. Thanks to the robust start to the year, total year-to-date activity now stands at US$507 billion, a 7% increase from 2017.

While strong U.S. growth has underpinned the global economy, investors continue to contend with elevated trade tensions and political uncertainty, as well as rising U.S. interest rates and volatility in energy markets. In this environment, real estate investments continue to look attractive. Despite yields staying at record lows in many global markets, occupier fundamentals are still buoyant and, with rental growth forecast to tick over into 2019, the sector is set to remain attractive from a return perspective. We project that global investment in commercial real estate over the full year will edge up slightly relative to 2017 to around US$730 billion. Looking ahead to 2019, global investment is anticipated to decline to around US$700 billion as ongoing investor selectivity and reluctance to recycle capital, due to the difficulty in finding alternative income-producing assets, are likely to limit investment growth.

2018 leasing volumes at highest level since 2007

Office leasing markets remain active across the globe. Volumes are on track to exceed 42 million square metres (in 96 markets) for the full-year 2018 and are at their highest level since 2007. Year-to-date volumes are now 8% higher than 2017, although we saw some softening of activity during Q3, a trend that is expected to continue into the final quarter of the year. Asia Pacific has seen the most impressive leasing activity in 2018, with year-to-date volumes 24% up on a year ago. Europe and the U.S. have maintained steady growth, with their leasing volumes in the year to date 5% above the impressive tally of 2017.

Preliminary projections for 2019 suggest that, in the context of slowing economic growth in most major markets, global leasing volumes are likely to struggle to exceed the elevated levels of 2017 and 2018. Nonetheless, levels in 2019 are still forecast to be around 10% higher than the 10-year average.

A further fall in global office vacancy rates

Despite relatively high levels of new deliveries across the globe, robust occupier demand pushed the global office vacancy rate to a new cyclical low of 11.5% in Q3 2018. In Europe and Asia Pacific the regional vacancy rate fell by 30-40 bps during Q3 to 6.5% and 10.2% respectively, but increased in the Americas to 15% due to an uptick in new supply hitting the U.S. market.

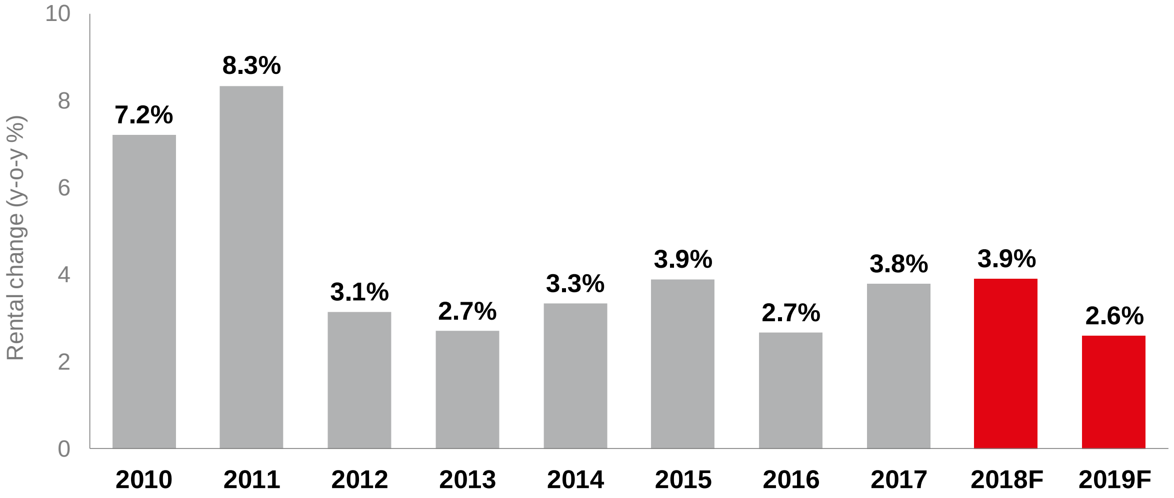
Buoyant end-user demand is encouraging construction activity, with new development over the next two years (2019-2020) projected to be 20%-25% higher than the 10-year average. With elevated new deliveries, the global vacancy rate is expected to rise over the next 12-18 months, pushing above the 12% threshold during H2 2019.

Annual prime rental growth increasing to nearly 4% in 2018

Rental growth for prime offices across 30 global cities continues at a healthy pace and is on track to reach nearly 4% for the full-year 2018, which would represent the strongest annual rental uplift since 2011.

Aggregate rental growth is expected to remain positive in 2019, although slowing to around 2.6% as supply options increase. The top rental performers are likely to include San Francisco and Boston in the U.S. and Singapore and Sydney in Asia Pacific. Several European markets are also predicted to show above-trend rental growth, including late-cycle markets like Madrid and Moscow as well as tech-rich cities such as Stockholm, Amsterdam and Berlin.

Rental Growth for Prime Offices, 2010-2019



Unweighted average of 30 markets
Source: JLL, October 2018

Retail landlords focus on adapting with new tenant mixes and customer service

A growing emphasis on experience and customer service is leading to an expanding share of non-retail tenants such as food and beverage, lifestyle brands and fitness centres, as landlords actively adjust tenant mixes to keep up with changing consumer tastes.

Recent softening in the U.S. retail sector paused in the third quarter, with net absorption rebounding and rents continuing to head upwards, although the spate of store closure announcements this year is now taking effect. While retailer demand remains selective in Europe, signs of a revival in wage growth are supporting the retail sales outlook. In Asia Pacific, landlords are focused on adjusting tenant mixes and customer service, with rents broadly stable across the region.

Sustained demand for logistics space keeps vacancy rates near historic lows

Global logistics markets have maintained their momentum through the third quarter, with record demand holding vacancy levels near historic lows despite an expanding supply pipeline. Net absorption in the U.S. industrial market rose to its highest level of the year during Q3, with annual rental growth accelerating to 6.3% despite an increase in new completions. Meanwhile, occupier activity in Europe is still robust entering the final quarter and full-year take-up is likely to match or exceed 2017's record levels. In Asia Pacific, rents continued to edge up further in most markets as sustained demand keeps supply levels in check. With strong pre-leasing trends and limited speculative construction in many global markets, we expect vacancy rates to remain stable and put further upward pressure on rents.

U.S. drives global hotel investment market

A positive outlook for tourism figures and hotel operating revenues, together with investors' search for yield, is pushing non-traditional hotel investors to invest in the sector. At the same time, there are now more vehicles which enable investors to enter the hotel market through channels other than carrying out direct acquisitions of physical assets, with debt lending and M&A activities both seeing increases. Global hotel investment volumes reached US$43.3 billion over the first nine months of 2018, 5% lower than the same period last year. The Americas was the exception to this trend, posting a 9.2% year-on-year uplift, driven by the United States.

Demand for units in U.S. multifamily market matching supply peak

Multifamily rental fundamentals in the U.S. stayed robust through the third quarter of 2018 with the national vacancy rate declining and the pace of rental growth edging upwards despite the wave of new supply being delivered across the country, bolstered by strong performance in select Sunbelt markets. Development activity across the U.S. is projected to continue into 2019, although developers remain focused on the luxury market segment, with a large share of projects falling in urban-core submarkets. This has driven a divergence in performance, with suburban submarkets witnessing stronger rental growth.

In Asia Pacific, government tightening measures continued to lead to more cautious sentiment in Hong Kong and Singapore. In China, buying momentum held strong in Shanghai's high-end market due to pent-up demand and new supply, although transaction volumes decreased in Beijing.

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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About JLL Research

JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 450 global research professionals track and analyse economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fuelled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

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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