



Emerging Trends in Real Estate[®]

The global outlook for 2019



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“Real estate demand is moving more quickly than at any other point in my career. Landlords are having to delve into the operations of the business in a way that’s more akin to hotels and in a way that we’ve never had to do before.”

Global investment manager,
Global Emerging Trends in Real Estate 2019

Executive summary

Real estate investors are facing a test of nerve in 2019 as concerns around economic uncertainty rise while, at the same time, they are forced to overhaul traditional business and valuation models in response to rapidly-changing consumer demands.

Though cross-border investment activity has held up well against a backdrop of political uncertainty, trade wars and slowing economic growth in key markets across the world, the industry is now firmly in risk-off mode amid growing speculation of a global recession, if not this year then possibly in 2020.

The note of caution evident from the surveys and interviews conducted last year for all three regional *Emerging Trends in Real Estate*® reports has become more pronounced among the 27 industry leaders canvassed for this *Global Emerging Trends* edition. The indications are that allocations to real estate continue to rise – it is still a favoured asset class – but the criteria for deployment at this late stage in the property cycle are more stringent than ever. Summing up the mood, one global fund manager says: “No-one’s in a hurry.”

Though cautious, the senior property professionals interviewed for this report suggest that there is still a reasonable outlook for real estate in 2019, not least because the economic uncertainty has put interest rate rises on hold, notably in the US. A lower-for-longer monetary policy – even if temporary – usually benefits real estate over other asset classes.

The interviewees also believe the continuing build-up of “dry powder” – especially in Asia – will “temper” the effects of a slowdown, helping prevent a sharp fall in values. They draw further comfort from there being lower leverage in the system and lower levels of supply in most markets compared with the final stages of the last cycle. The downturn, whenever it comes, is expected to be of a relatively gentle “garden variety” rather than a repeat of the global financial crisis.

But real estate is no longer just about the cyclical rise and fall of returns, however difficult they may be to predict. What the three regional reports reveal – and this global edition reinforces – is an industry coming to terms with an altogether greater challenge – and opportunity – presented by the structural impact of technological, social and demographic trends on the built environment.

“I definitely don’t see exuberance because the political environment doesn’t lend itself to it. That doesn’t mean you stop investing, far from it, but you become more cautious. One way or another, the political uncertainty trickles down in the way you think about your assets.”

Global investor,
Global Emerging Trends in Real Estate 2019

Technology, particularly mobile technology, has put much more power in the hands of the consumer, which is driving change across the retail, hospitality, office and industrial sectors. Society as a whole is responding to new affordability constraints, expectations and value systems that are fundamentally changing how we live, work, shop, study and play. One of the most prominent outcomes, with particular impact on real estate, is the extraordinary growth of the sharing economy.

The rise of alternative real estate investments, particularly those such as student housing, co-living and co-working with operational businesses, has been an invaluable stepping stone for the industry as the idea of space as a service has taken hold – something flagged in *Emerging Trends* for some time now.

Back in *Emerging Trends Europe 2017*, the CEO of a UK REIT declared: “Twenty years ago we had tenants; now we have customers. In 20 years’ time we will have guests.” That statement showed some prescience but, if anything, it underestimated the speed with which the attributes of the hospitality sector are being brought to bear across real estate. Co-living and co-working, in particular, have shot up the *Emerging Trends* sector rankings over the past two years.

Real estate owners in all sectors must now adapt to how space is best designed, constructed, operated and managed, but also respond to the challenge of what other services they should offer occupiers to stay ahead of the game.

As we discuss in Chapter 3, such radical change requires capital expenditure, more acceptance of operational risk and associated expenses, and a fresh assessment of the returns that can be expected from real estate. As one interviewee says, it would also require an “originality of vision”.

Previous editions of this report have talked about a “value shift” away from the bricks and mortar to the service aspects of real estate. In addition to existing players trying to transform their businesses, new entrants from outside the traditional property sector are starting to exploit this opportunity, unencumbered by the constraints of outdated real estate systems.

But those property owners that recognise they are now in a consumer-driven business, and act on it, will at the very least protect income, and put themselves in position to be among the winners in the real estate world of the future.

Chapter 1

Managing expectations

“In good times and bad there is always demand for really good, modern product that meets the expectations of occupiers. Over time, high-quality assets that have been repositioned and include all the amenities that today’s market requires, these are the assets that perform best in a downturn and recover first from a downturn.”

Global investment manager,
Global Emerging Trends in Real Estate 2019

The political and economic uncertainty of the past year is destined to persist in key markets throughout 2019, and yet real estate continues to attract capital and demonstrate its enduring appeal as an investment asset class.

According to Real Capital Analytics (RCA), acquisitions of income-producing commercial real estate increased by 3 percent to \$963.7 billion in 2018, the third highest annual total on record after 2007 and 2015.

Behind the headline number there is the ebb and flow of capital around the regions, notably a resurgent US market where investment activity was up 19 percent. Investment in Asia Pacific was only 2 percent off its 2017 record volume. Europe was down 10 percent albeit largely due to sharp falls in the UK and France.

The fact that overall global deal volume increased at all is testimony to the strength of demand for the income real estate offers, given the turbulent geo-political and economic conditions for investment in 2018. If anything, however, 2019 is likely to present a greater test of the industry's collective nerve.

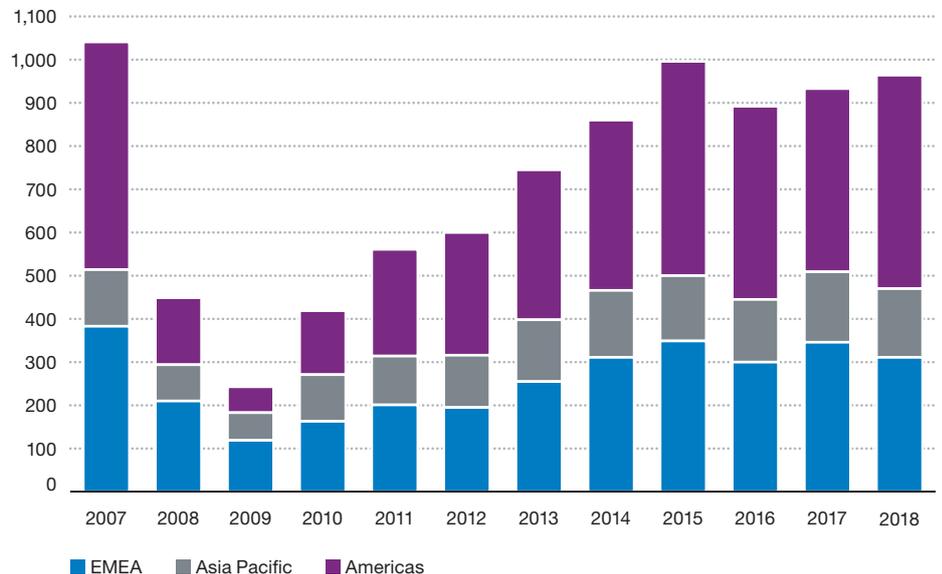
The trade wars between the US and China and a slowdown in both economies led to a sharp fall in global equity markets at the end of last year. Equities have since rallied but the concerns have not abated for either the US or China. The main Eurozone economies are also slowing down and the anti-globalisation rhetoric from the Trump administration is getting worse. In such a fragile and febrile climate, some economists are predicting a global recession. Others are forecasting a "synchronised global deceleration", if not this year, possibly in 2020.

Quite how real estate transaction volumes will measure up this year against 2018 remains to be seen. As the interviews for this global edition of *Emerging Trends* indicate, the industry is largely in risk-off mode, with investment strategies already informed by real estate being in a prolonged late cycle. Yet, in what remains a low-return environment there is confidence nonetheless in real estate out-performing other asset classes, at least during 2019.

Summing up the mood, one global fund manager says: "Investors are very comfortable with their real estate allocations and might add to them. It's just, no-one's in a hurry."

"The main challenge for all of us is just being late cycle," adds a US player. "You have to be more cautious at this point in the cycle broadly speaking – just intelligently investing. If people want to stay in cash, that's easy, and there is a time and place for that. But if you decide not to be in cash you have to think about the alternatives, and the one that makes sense is real estate. I don't think real estate money flows are going to go to zero."

Figure 1-1 Global capital flows 2018 (\$ bn)



Source: Real Capital Analytics

Period of transition

The industry leaders canvassed for *Global Emerging Trends* all take comfort from the fact that there is lower leverage in the system and lower levels of supply in all regions than in previous cycles. But in light of the worsening economic backdrop to investment, pricing of core real estate – a long-running concern in all three regional reports – becomes more of an issue than ever. Referring mainly to Europe, one global player believes the market is at a “transition point” as a result of current pricing and changes to monetary policy. “Real estate assets are being sold at a level that probably makes sense if you think you’re in an era of perpetual QE (quantitative easing). But if you see QE unwinding and bond yields rising, which we do, then real estate yields are going to follow,” he says. “The challenge for strategists is that I think we remain in that transition phase for 12, 24, maybe even 36 months. But eventually the magnetism of long-term pricing will assert itself.”

In other words, a correction is coming sooner or later. As all three regional reports show, investors and fund managers are revising their strategies according to their own appetite for risk, albeit stopping short of moving into secondary locations as they did in the previous cycle. The US and European industries show a lot of faith in manage-to-core. There is perhaps more appetite for valued-added investments in Asia Pacific. But this “transition phase” is also witnessing a move by hitherto equity investors into real estate debt – now acknowledged as a classic defensive strategy.

Most important of all is the shift of capital into alternative real estate – a move that in theory overrides the cyclical uncertainties for investors but also has wider consequences for the industry. As one interviewee notes, alternative assets are “more institutional” now than in the last cycle. “One thing that the downward shift [in yields] has caused – and this might be a positive outcome – is that it has pushed investors into more peripheral versions of the asset class, such as student housing. Real estate is a more diverse and accessible asset class now than it was 10 years ago.”

This move into alternative real estate – often with an operational aspect to it – is not simply a late-cycle impulse. It signals a much more structural transition for the industry as it seeks to adapt to technological change and meet the rapidly changing demands of occupiers and consumers. This fits with the idea of space as a service – well trailed in *Emerging Trends* for several years – and it is gaining traction, according to the interviewees for this global report. All of them stress the importance of asset management in the absence of yield compression but also that the objectives are evolving too. As one puts it, asset managers are effectively “becoming operators as well as allocators”.

When asked about the main challenge facing the industry today, one global manager says: “Just understanding tenant demand. People talk about how technology is changing real estate, but a lot of emphasis is on the physical structure. Our emphasis is really trying to understand how the tenant’s business is changing.”

“The kind of deals we’re looking at, the bar is extremely high. When we do the underwriting, we have to build in the downside case, and the downside cases are more severe now than they have been in the past three to five years. We are being cautious.”

Global fund manager,
Global Emerging Trends in Real Estate 2019

In Chapter 3, we examine this clash between technology and business as it affects the retail, office and hospitality sectors. The threat of asset obsolescence is now widely acknowledged and so, necessity being the mother of invention, we are starting to see a positive response from the industry.

“It is becoming more and more important that anything we build is sufficiently flexible – not just catering for our users,” concludes one global fund manager. “Shopping centres need to be more flexible to accommodate different shop sizes for different types of retailers. Whereas office buildings need to be super-flexible on different workplace uses. Flexibility is extremely important simply because we don’t know what the future will be, but we do know that things are changing faster than ever before.”

US – investment up as economy is expected to slow

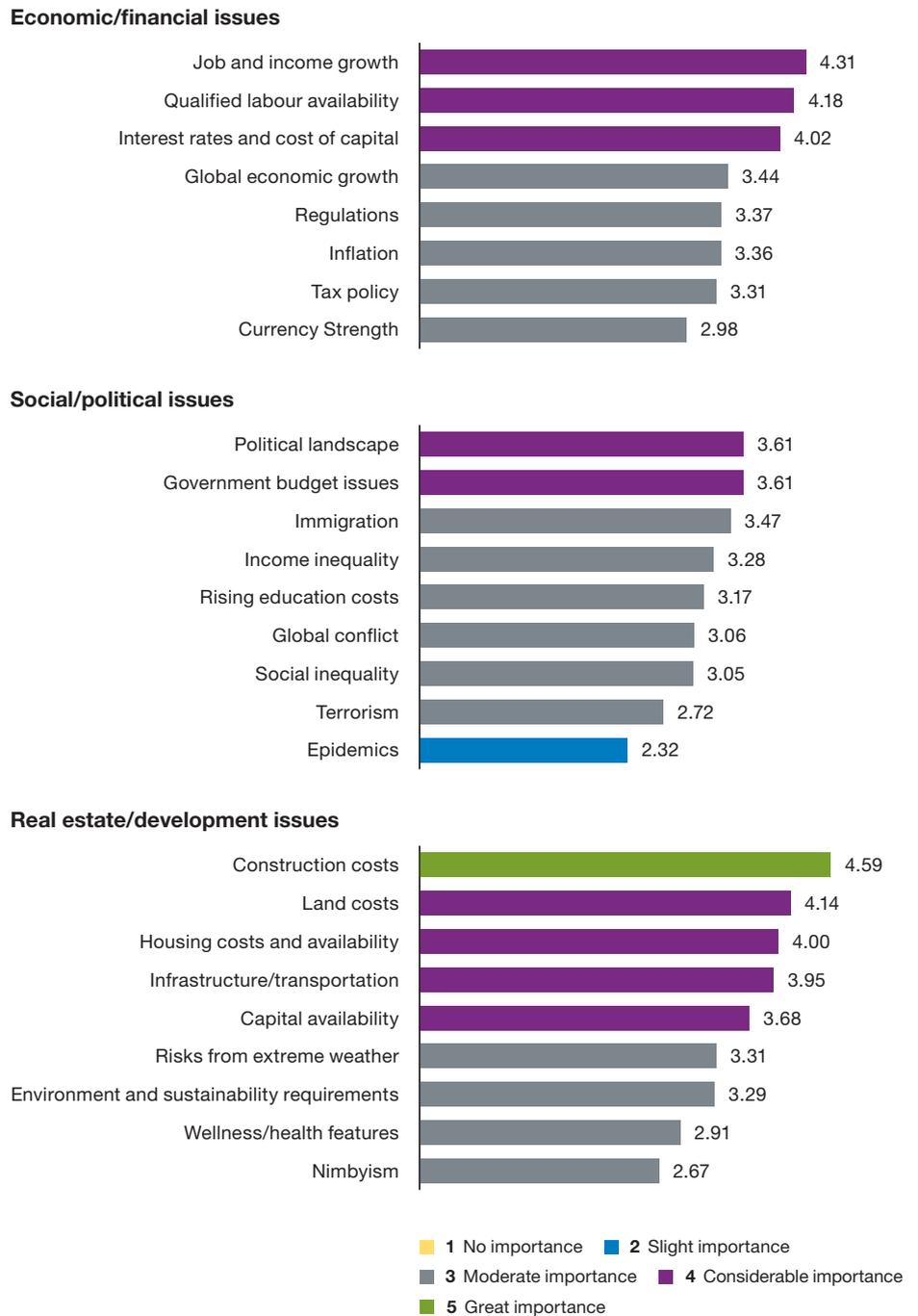
Investors completed \$470.7 billion of transactions of \$10 million and greater in the US in 2018, a 19 percent rise on 2017, according to RCA, as domestic institutions increased their net holdings for the first time in six years.

Though the US also benefited from cross-border flows out of Canada, France, Germany and Singapore, RCA says it was the resurgent domestic activity that saw the world’s largest real estate market reverse two successive years of declining volumes.

It was a remarkable and welcome turnaround, but as *Emerging Trends US and Canada* observes, there was a sense last year that some investors wanted to “get in while the getting seems to be good” during this late-cycle period.

Since the turn of the year, the outlook has dimmed. Though the uncertainty associated with the government shut-down is over now, trade tension between the US and China continues, and it is potentially serious for real estate. “If the President remains on this track, the tariffs will continue to have a dampening effect on the US economy and contribute to slower, possibly negative, GDP growth, which ultimately will cause companies to reduce their expansion, if not contract,” says one *Global Emerging Trends* interviewee.

Figure 1-2 Importance of issues for US real estate in 2019



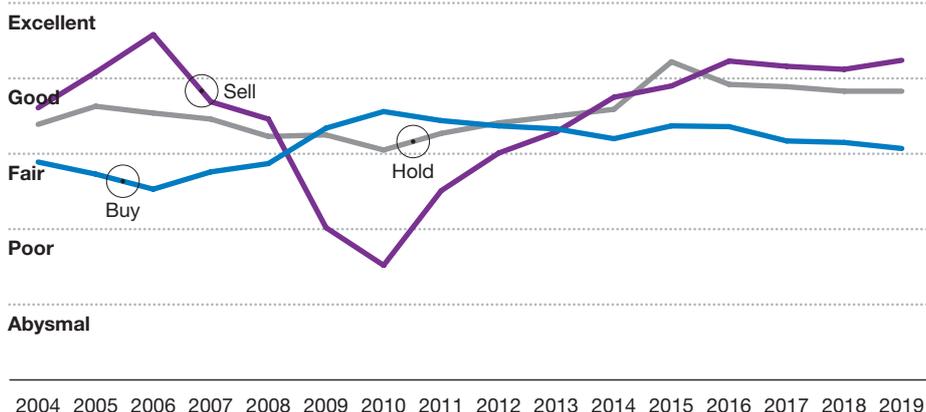
Source: *Emerging Trends in Real Estate US and Canada* survey 2019

Expectations of a US economic slowdown – forecasters have been erring towards 2020 rather than 2019 – were strong enough in January to force the Federal Reserve to “pause” its programme of interest rate increases. Keeping rates lower for longer is invariably positive for real estate, and yet the industry leaders canvassed for this report believe it’s no more than a reprieve. According to one interviewee, the main challenge facing the industry in the US in 2019 is “moving deftly when we know the economy is going to change”.

No-one is expecting a repeat of 2007-08 but instead more of a “garden-variety” slump with the reasonable hope of a swift recovery. “You’ve got a little bubble now where growth in prices in the single-family market is more about a lack of new supply than it is about income growth. They’ve gotten disconnected and that’s a problem,” says one interviewee. “But is the housing market going to lead the downturn and therefore we’re going to have a geographically widespread downturn in the US? Probably not.”

It is worth pointing out too that the “hold” option in the *Emerging Trends US and Canada* buy/sell/hold barometer is unchanged from last year, reflecting the old property axiom that “sometimes the best deal is the one you don’t make”. One way or another, investors are refining strategies to account for slowing growth and late-cycle risks.

Figure 1-3 **Emerging Trends US barometer 2019**



Source: *Emerging Trends in Real Estate US and Canada survey 2019*
 Note: Based on US respondents only

“We’re suggesting to our investors that change is coming but you can use diversification to help mitigate the localised impacts of that,” says one US player. “You should diversify the economic drivers your portfolio is exposed to. Don’t put all your investments into the tech markets that have been the darlings of this cycle. Mix it up. Get some exposure to energy and manufacturing. Get some government cities like Washington DC into your portfolio.”

As this interviewee concludes: “Investors haven’t changed their view on the role of real estate. They still like the sector and they like its income. But this is not the moment to go big.”

“One of the things that makes us think the downturn is potentially tempered is that you do have a lot of capital support there and this capital is not highly leveraged.”

Global fund manager,
Global Emerging Trends in Real Estate 2019

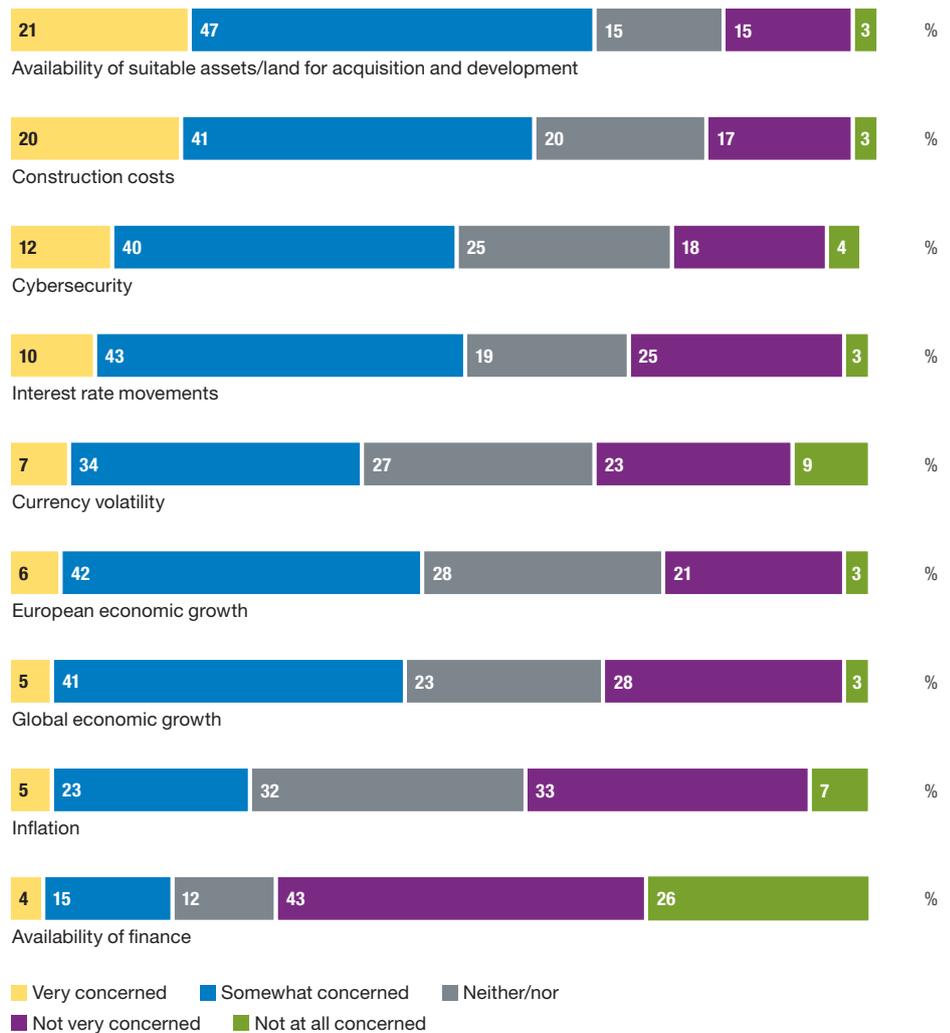
Europe – macro concerns hit investor sentiment

For several years the key concern for Europe’s real estate industry has revolved around the pricing and availability of suitable assets, and it is a challenge made more difficult by an increasingly uncertain economic outlook.

The second half of 2018 was marked not just by Italy falling into recession but by the slowdown in growth in Europe’s two major economies – France and Germany – as well as the continuing Brexit-induced blight hanging over the UK. All of this uncertainty has continued into 2019 and it is, with the exception of the UK, in stark contrast to this time last year.

A strong decline in consumer confidence is at the heart of the latest economic woes, despite employment levels holding up well across Europe. “That doesn’t help overall property sentiment although investors are starting to become more disciplined about where to invest and where not to invest – much more so than, say, six months ago,” notes one *Global Emerging Trends* interviewee.

Figure 1-4 Importance of issues for European real estate in 2019



Source: *Emerging Trends in Real Estate Europe* survey 2019

Disciplined or not, RCA says investment activity across EMEA dropped by 10 percent to \$310.1 billion in 2018, albeit 2017 was a particularly strong year. RCA attributes the fall to the markets struggling against high prices, concerns over slowing economic growth and the potential fall-out from Brexit.

With the faltering performance of the major economies so the prospect of even modest interest rate rises has receded, at least into 2020, which should breathe some more life into European markets, according to the industry leaders interviewed for this report. As one observes: “There is still a differential between bond yields and what’s achievable from real estate.”

The question is, for how long? “I strongly suspect 2019 could still be another good year,” says one interviewee. “But we’ve had a correction in equities markets and multiples have come down. We haven’t had a correction of pricing in the real estate market, so on a relative basis the sector must be looking less attractive now than it did in September, October of last year. But we certainly haven’t seen a tailing off in capital raising for some of the larger funds.”

He adds: “Real estate has benefited from quantitative easing, and as QE reverses some of that benefit is also going to reverse. In so far as the changes in pricing were justifiable under one bond yield level, if those bond yields unwind and they’re not replaced by GDP growth, then we’ve got to have a pricing correction.”

Other investors are heartened by the sheer weight of capital still bearing down on European real estate, possibly acting as a buffer in the event of a slowdown and helping prevent a sharp fall in values.

“Clearly there is a lot of money sidelined to invest,” concludes one fund manager. “At the same time, the investment product available is not meeting those demands as investors become more disciplined. Some are climbing up the risk curve to a more value-added type of strategy, but all in all, a lot of money will simply not get invested due to the lack of good product and a more cautious approach.”

“A lot of investors have dry powder and as the market slows they are going to be looking for opportunities. London is a great example. We’ve held back from investing in London but as things play out this year, we do think there’s going to be some interesting opportunities.”

Global fund manager,
Global Emerging Trends in Real Estate 2019

Asia Pacific – rising allocations offset concerns over China

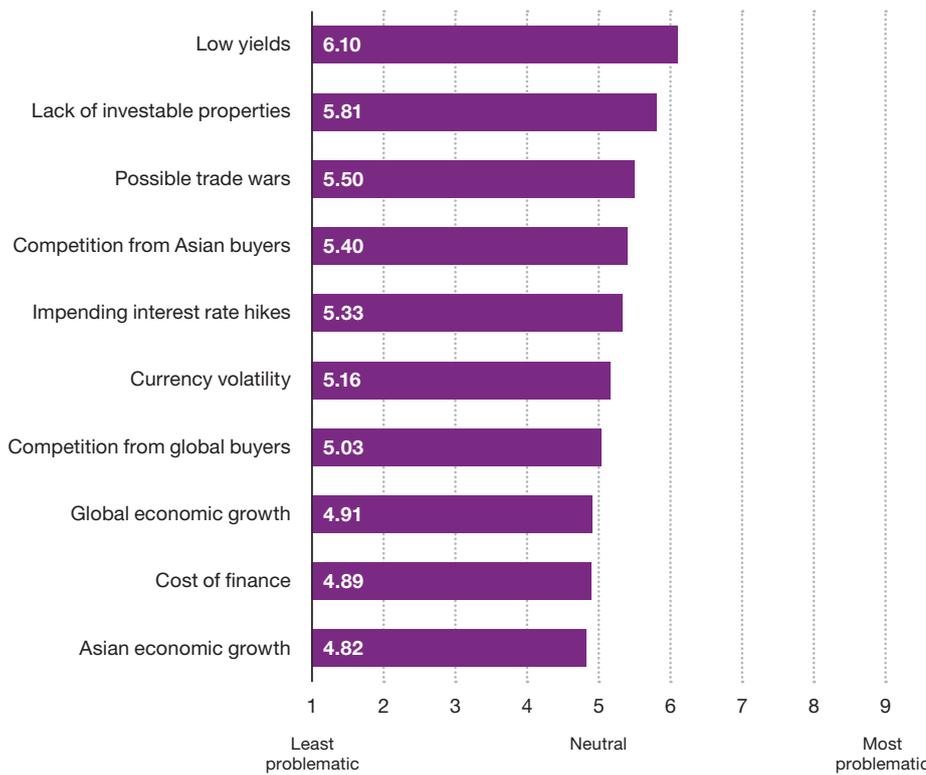
Real estate fundamentals in Asia Pacific remain robust. Following rising investment activity in many markets in 2018, pricing is strong, sustained by ever-growing volumes of institutional capital piling up in the region’s biggest economies.

The stand-out market was Seoul, which recorded its strongest year for commercial real estate investment ever in 2018 after a 50 percent surge in activity compared with 2017, according to RCA. Boosted by demand from domestic and cross-border buyers, average yields for office and retail properties fell to a new low of 4.5 percent. The South Korean capital is now on a par with Tokyo as an investment market.

Yet RCA says Seoul did show some signs of slowing in the fourth quarter, reflecting the caution creeping into the region’s real estate markets as a result of rising headwinds, particularly around China’s slowing economic growth.

A big driver of Asia Pacific growth, China saw its own economic growth come in at 6.6 percent in 2018 – down from 6.8 percent in 2017 and its slowest pace since 1990. China’s economic performance is also compounded by the country’s ongoing trade dispute with the US.

Figure 1-5 Importance of issues for Asia Pacific real estate in 2019



Source: *Emerging Trends in Real Estate Asia Pacific 2019 survey*

“Capital has to find a home, and real estate is seen as a safe refuge. Virtually all the funds we’re dealing with have increased their allocation to real estate.”

Asia Pacific interviewee,
Global Emerging Trends in Real Estate 2019

Unsurprisingly, RCA says investment deals in China declined by 14 percent in 2018, which skewed the overall volume in Asia Pacific – \$159.1 billion, or 2 percent down on 2017.

Even so, interviewees for *Global Emerging Trends* contend that there is good reason for real estate investors to remain positive about the region in 2019, not least because the US Federal Reserve has pulled back on US interest rate hikes – a key influence on rates across Asia Pacific.

Says one: “We do not have an over-built or over-leveraged situation. Across most major office markets, we have low vacancy rates, good take up and not a lot of supply issues on the horizon. And as a result of the Fed turning dovish, the rise in base rates has stopped, so the spreads in a lot of markets are pretty healthy and attractive.”

As with other regions, sky-high pricing for core commercial and residential assets is a challenge and a concern in some markets. But if anything, allocations to the region’s real estate are rising, according to *Global Emerging Trends* interviewees.

“We have got this surplus liquidity,” says one, “and as a result, investors are having to take a more diverse view of the market. They’re taking a different view of risk, accepting a greater degree of risk than hitherto, and they’re also moving to other asset classes.”

As a result, value-added and develop-to-core are increasingly popular strategies while alternative real estate – such as self-storage, data centres, student accommodation and senior housing – are starting to take hold in some, if not all, markets. Another consequence is that emerging markets, such as Vietnam and India, are attracting attention.

Once again, however, the likes of Melbourne, Sydney, Tokyo, and Osaka are to the fore in *Emerging Trends Asia Pacific*’s city rankings. When it comes to investment prospects for 2019, the slow-but-steady returns offered by gateway cities in developed markets still have an enduring and widespread appeal.

“You could question whether cap rates [for logistics] are appropriately reflecting the long-term risks. But I am not concerned because I don’t see interest rates going up – I am not taking a big risk over the next two to three years.”

Global investor,
Global Emerging Trends in Real Estate 2019

Logistics leads in all three regions

Logistics has been the most consistently attractive mainstream real estate sector over the past decade, and it continues to prove its popularity with investors, despite concerns over pricing around the world.

In each of the three regional *Emerging Trends* reports, logistics real estate remains the go-to investment for the coming year among survey respondents and interviewees. The positive sentiment is borne out by global industrial investment sales, which RCA says totalled \$147 billion in 2018 – a new record.

As is widely accepted, the sector is benefiting from the growth in e-commerce, alongside rising consumer expectations around product availability and speed of service.

It is easy to understand why investors remain so bullish towards the sector when, according to the annual Prologis Logistics Rent Index, vacancy rates in many markets stood at or near record lows in 2018. Rents rose 8 percent in the US and China while Europe’s 5 percent represented a near doubling in growth from 2017.

“Logistics is a success story,” says one *Global Emerging Trends* interviewee. “Everywhere we have logistics across the world we find the tenants, and the rents are going up, but they are not crazy rents. There is real demand for logistics.”

A US investor agrees that occupier demand is strong but adds: “What’s really unusual is that supply has been disciplined for so long. That’s what has really led to rental growth.”

Table 1-1 Capital trends by property type, 2018

	Americas		EMEA		Asia Pacific	
	Volume (\$ bn)	YOY (%)	Volume (\$ bn)	YOY (%)	Volume (\$ bn)	YOY (%)
Office	127.4	0	132.4	-10	84.7	1
Industrial	85.0	38	37.0	-25	24.7	15
Retail	68.4	33	54.3	-16	32.9	-6
Hotel	39.2	51	23.0	-8	12.8	13
Residential	160.4	14	57.9	10	3.3	-67
Senior housing and care homes	13.5	-19	6.1	-17	0.6	-33
Income properties	493.8	16	310.7	-10	159.1	-2
Development sites	17.7	8	14.5	-18	687.9	5
Total	511.6	16	325.2	-11	847.0	3

Source: Real Capital Analytics

The main debating point with logistics, however, is over pricing, which is acknowledged as historically strong – good if you’re an existing owner but a potentially big call for buyers at this late stage in the cycle. The debate is arguably at its loudest in Europe, where RCA recorded a sharp decline in industrial investment activity in 2018. At the same time, Cushman & Wakefield reported that the overall European logistics yield dropped 14 basis points to 5.95 percent in 2018 – the first time it had fallen below 6 percent since 1992.

“Prime stock is priced to perfection,” says one European fund manager, who favours forward-funding developments as a “relatively risk-free” means of adding 100 to 150 basis points to the yield – but only in supply-constrained markets. “There is a structural shift in demand for modern logistics space as a result of the changes in e-commerce and how that plays out. But it’s not an endless game of just keeping on building additional space. For now, where we have sought to add space, we believe that it’s not so much in the rental growth but in the sustainability of demand.”

Today, e-commerce fulfilment accounts for about 20 percent of new leasing in the US – the most mature market – which suggests plenty of headroom yet for long-term growth in last-mile, logistics as online sales continue to grow. It is worth noting, too, that online sales generate three times the demand for warehouse/distribution space compared with in-store sales. The rapidly increasing replacement cost of logistics space is considered another tailwind for owners of existing assets.

Yet most of the industry leaders canvassed by *Global Emerging Trends* also believe that investing successfully in logistics real estate – for all its inherent attractions – is getting harder the longer this cycle continues. One interviewee describes the sector’s “great trajectory, straight up” since the global financial crisis. But he adds: “That game is over. From this point forward, there is going to be real differentiation between individual market dynamics from one market to the other. The markets that are supply-constrained for political, physical or economic reasons are going to perform a lot better than markets that are unconstrained.

“We are getting a bit concerned about the pricing. The returns are still relatively healthy for the development of assets but we are definitely more cautious about putting money to work when we see the latest investments being brought to us.”

European fund manager,
Global Emerging Trends in Real Estate 2019

Retail – establishing a new equilibrium

The growth in e-commerce is not the whole reason behind the rise of logistics, and nor does it necessarily sound the death-knell for bricks-and-mortar retailing although the received wisdom would suggest otherwise on both counts.

According to *Emerging Trends US and Canada*, however, the “retail Armageddon” headlines that emerge with every announcement of store closures tend to obscure the fact that stores are also being opened, and that the US retail industry remains robust and diversified.

What is definitive is that many retailers are adjusting their total footprints to fit a new era of “omnichannel” retailing. As the report says, a new equilibrium with fewer square feet of retail space per capita is being established.

At the same time, the latest RCA data reveal that the volume of sales of US shopping malls increased an extraordinary 846 percent in 2018. This increase is mainly attributable to sales of the poor to middling malls rather than the best-performing malls with firm tenancies tied to high-income consumers. As RCA says, many of the malls in the latter category were subject to successful refinancing activity in 2018.

If anything, the “retail Armageddon” headlines are reverberating more loudly now in Europe than in the US. But there is the same opportunity to reposition or replace surplus space to meet the needs of the consumers more effectively, as we discuss in Chapter 3.

Chapter 2

Cross-border capital flows

“Among US and European pension funds and insurance companies I see an increase in allocations to real estate, and within that allocation a slight increase to Asia Pacific. I see that trend continuing because the institutional market has continued to grow. The opportunities are there.”

Global investment manager,
Global Emerging Trends in Real Estate 2019

Cross-border capital flows are critical to the overall health of the world's major real estate markets and so when investors from China – among the biggest players of all – cut back on their overseas acquisitions, the industry takes notice.

According to RCA, China's overseas investment activity was 60 percent lower in 2018 than the previous year as a result of government controls on outward bound capital. The trend is likely to continue in 2019.

The pull-back from China was well flagged and industry leaders interviewed for *Global Emerging Trends* appear sanguine about its impact. Says one: "We are seeing some of the Chinese capital selling their assets globally but as a percentage of the total stock, it's relatively minor."

Another global player comments: "The money coming out of China is reduced but this is in my view a technical pause which the government has imposed. Eventually the money will get out of China, probably in a more organised fashion. The money is still coming from Korea and it's starting to come from Japan. I think the global capital flows are still there and the availability of money for real estate is still there."

Indeed, some interviewees believe that Japanese institutional investors could become a force overseas once again, albeit not to the same extent as they were in the early 1990s. RCA data show that they presided over a sharp decline in investment activity in their domestic market last year but at the same time, big pension fund mandates were awarded in Europe. "Japanese investors have started their programmes, and it's still very deliberate, very selective, really focused on income and core. But it is positive from a capital flows standpoint," says one interviewee.

Another important aspect of capital flows is that though they are generally depicted as long-term players in Western markets, many Asian investors are making short-term bets too. At a Global Capital Markets Forum during the ULI's 2019 European Conference one of the talking points was currency volatility and how hedging costs have informed the decision-making by some, if not all, Asian investors. By and large, they have benefited from lower hedging costs in Continental Europe than in the UK and the US. As one industry leader noted at the forum: "South Korean investors were looking at [mainland] Europe more because the currency swap on a five-year basis was accretive to [mainland] Europe at 85 basis points, negative to UK – minus 35 because of the volatility of sterling – and about 100 basis points negative to the US."

Amid all this speculation over outbound Asian capital, however, the money moving in the other direction is often overlooked. And according to some *Global Emerging Trends* interviewees, Western institutions are increasing their allocations to Asia Pacific in a search for higher returns or as part of a diversification strategy. As one global manager says: "Last year we did \$1.5 billion in Asia; three years ago, it was zero. And that's \$1.5 billion I don't have to put into German offices where it is difficult to find value."

The motivation is much the same in the US, despite the government's protectionist policy, according to a US-based interviewee. "I would say US real estate investors are more global in their mindset than ever. That's in part because of the cycle. They know they need to diversify their exposure. It's one of the few tools that investors have to mitigate risks. They don't want to be solely exposed to the US economy if indeed we are late cycle. You've got state and city pension plans looking offshore to an extent that they haven't done historically. Globalisation is not going to be undone by protectionism."

Top cities for real estate investment in 2019 ...

Canada	Europe	Asia Pacific
Toronto	Lisbon	Melbourne
Vancouver	Berlin	Singapore
Montreal	Dublin	Sydney
	Madrid	Tokyo
United States	Frankfurt	Osaka
Dallas/Fort Worth	Amsterdam	Shanghai
New York-Brooklyn	Hamburg	Ho Chi Minh City
Raleigh/Durham	Helsinki	Shenzhen
Orlando	Vienna	Seoul
Nashville	Munich	Guangzhou
Austin		
Boston		
Denver		
Charlotte		
Tampa/St Petersburg		



... and how countries fared in 2018

Table 2-1 Transaction volumes, 2018

Americas			EMEA			Asia Pacific		
	Volume (\$ bn)	YOY (%)		Volume (\$ bn)	YOY (%)		Volume (\$ bn)	YOY (%)
United States	470.7	19	Germany	76.3	-4	China	31.3	-14
Canada	20.2	-15	United Kingdom	67.6	-14	Australia	28.8	-2
Brazil	1.5	-34	France	37.6	-13	Japan	28.8	-26
Mexico	0.8	-58	Spain	23.3	1	Hong Kong	25.7	32
			Netherlands	21.9	3	South Korea	22.7	43
Total	493.8	16	Total	310.7	-10	Total	159.1	-2

Source: Real Capital Analytics

Sources: Emerging Trends in Real Estate United States and Canada 2019, Emerging Trends in Real Estate Europe 2019, Emerging Trends in Real Estate Asia Pacific 2019



“If we look at our forecasts for real estate, Europe two years ago was the strongest region of the three. It’s now the weakest, largely because we’ve seen a huge decline in yields, particularly for prime assets, and we haven’t seen that being reflected in optimism on the rental side.”

Global investor,
Global Emerging Trends in Real Estate 2019

“Our sense is that we are looking at more of a garden-variety slowdown as compared to a more structural collapse, which then makes us think there are still going to be opportunities to be found.”

United States interviewee,
Global Emerging Trends in Real Estate 2019

“If we have more pressure on the political side from the EU - the euro, the political establishment, Brexit, Italy – that could draw attention from international investors to Germany because it will still be seen as a safe haven.”

European interviewee,
Global Emerging Trends in Real Estate 2019

“I think we can expect major intervention across European markets from Japanese and Korean investors in the months and years to come.”

Asia Pacific interviewee,
Global Emerging Trends in Real Estate 2019

Table 2-2 Global capital trends by property type, 2018

	Volume (\$ bn)	YOY (%)
Office	344.6	-4
Industrial	146.7	11
Retail	155.7	3
Hotel	75.0	20
Apartment	221.6	9
Seniors Housing & Care	20.2	-19
Income Properties	963.7	3
Dev Site	720.1	4
Total	1,683.8	4

Source: Real Capital Analytics

Chapter 3

Operating in the new world

“People don’t know what their business will look like in five years, let alone 10 or 15 years, so why on earth would they sign up to long leases?”

Global investment manager,
Global Emerging Trends in Real Estate 2019

As long as real estate has existed, obsolescence has been a challenge: buildings have always deteriorated, and the way people use them has changed. But today the issue is acute.

The regional *Emerging Trends in Real Estate* reports show that obsolescence is a growing concern for asset owners across the globe, against the backdrop of rapid changes in technology, demography and social norms.

Technology, particularly mobile technology, has put much more power in the hands of the consumer, which is driving change across all sectors. And as new generations become workers and consumers, different social values and choices are influencing where and how people work and shop – and underpinning the rise of the shared economy.

As a result, the entire orientation of how real estate is built, owned and managed will need to change. “The customer used to be the capital markets, but now it is the person using the building,” one *Global Emerging Trends* interviewee says.

Assets will need to be adapted to meet the needs of the people using them more effectively, or converted to entirely new uses. Real estate owners will need to become operational businesses, and learn very different skills than they required even five years ago. At the heart of this will be understanding what the person using a building wants and delivering it seamlessly.

At the very least, those that get this right will be better placed to preserve the value of their portfolios and businesses. But more optimistically, this is also an exciting prospect for the industry to reinvent itself as a consumer-driven business. Those that fully embrace the values of their customers as well as the role of technology and a strong service culture stand to increase the value of their assets and business.

This transformation also requires a redefining of value for the industry. How do you ascribe a financial value to these formats and this new approach, as consumer demand drives the industry away from comfortable long-term leases? This will also involve understanding the value of some uses of real estate that have never been combined, or perhaps never existed before.

“From an asset management perspective, attention needs to be given to maintaining assets and keeping them up to date in terms of what’s demanded in the market for services and amenities. That’s a very big part of our thinking right now.”

Global investment manager,
Global Emerging Trends in Real Estate 2019

In this respect, much of the attention to date has fallen on retail property owners, where, as *Emerging Trends Europe* highlights, there is a huge dilemma: “You’ve got to spend to stand still, and that’s not a natural state of mind for a lot of property investors.” But as the interviewees for this global edition suggest, much the same risk exists in all sectors – those property owners that do not respond to structural change will see their assets permanently re-rated and a potential destruction of value. Even assets that were once prime could see values permanently reduced. “We live in a world that is increasingly have and have not, and those who don’t evolve will perish,” one interviewee says.

The challenge ahead

The challenges do vary according to sector but all are affected by the possibility of accelerated obsolescence, and while well known, they bear repeating.

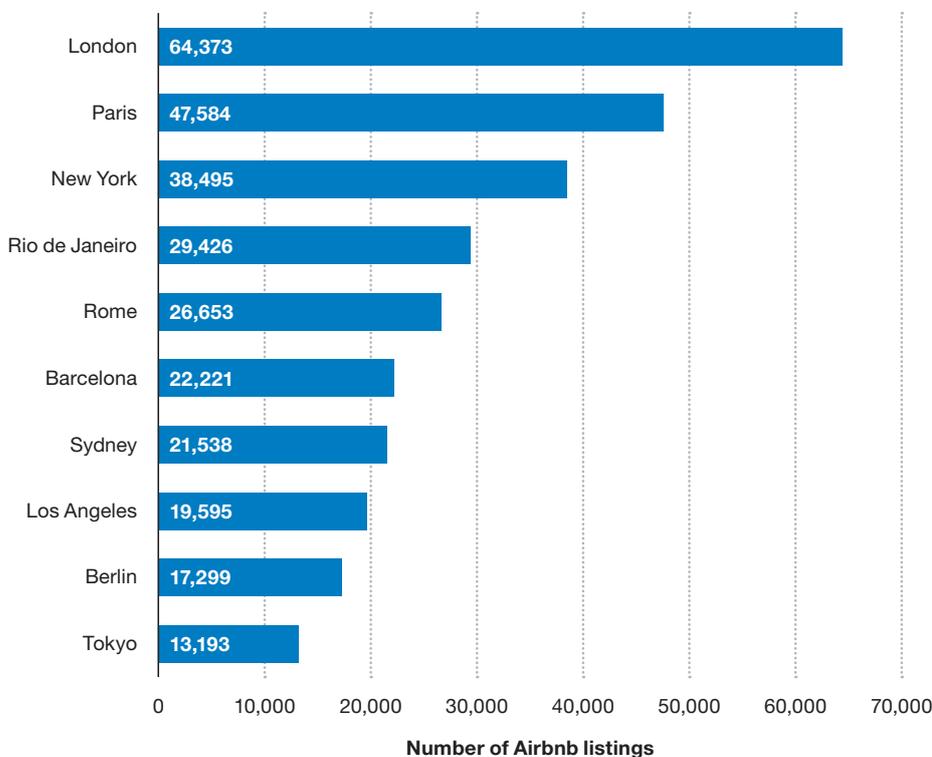
Retail is the first sector that comes to mind, with the continued growth of online retail sales reducing the number of physical stores for many legacy retailers. Though some online retailers are going multi-channel and opening bricks-and-mortar outlets, between 2017 and 2021 online sales are expected to jump from 10.2 percent of all retail sales globally to 17.5 percent. Retail property owners will have to adapt to maintain their relevance.

In hospitality, the arrival of Airbnb essentially created millions of square metres of extra supply at the touch of a button, and the rise of online travel agents fractured the traditional relationship between hotel groups and their customers. As a result, travellers for both business and leisure are turning away from traditional hotels and looking for more bespoke experiences.

If retail and hospitality are in the thick of the fight, offices are closer to the beginning of a revolution. Flexible and co-working offices, particularly WeWork, dominate the headlines, and JLL predicts that this type of space will account for around 30 percent of corporate office portfolios by 2030 compared with 5 percent today.

The growth of remote working enabled by technology, coupled with the more efficient use of existing space through practices like agile working, suggests that the amount of traditional offices occupied on long-term leases will shrink in future. This raises the question of how owners stay relevant for their occupiers and what happens to excess supply.

Figure 3-1 Airbnb listings in select major cities worldwide as of September 2018



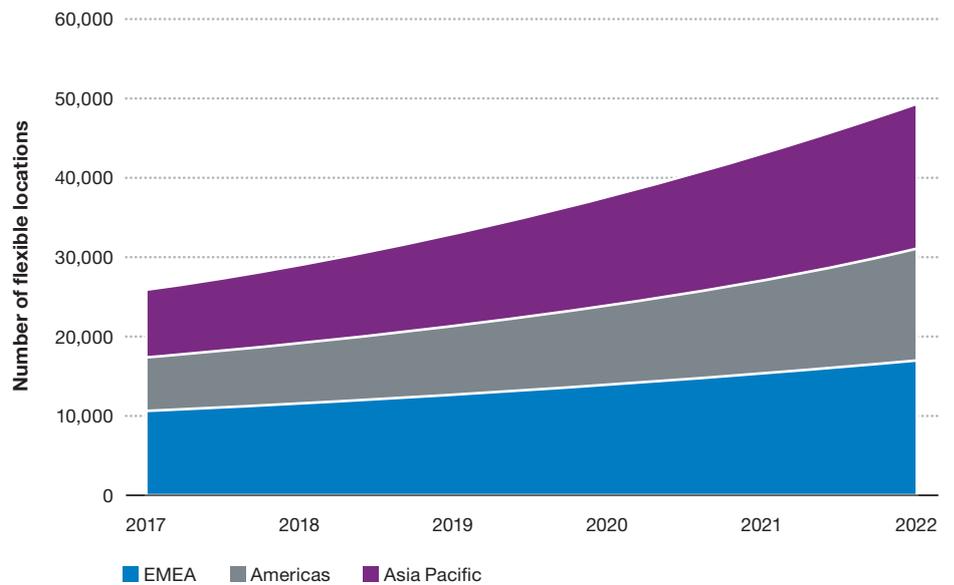
Source: Savills via Statista

The residential and industrial sectors seem to be more insulated from changes in how their space is used, because of the positive balance between supply and demand created by rising house prices in large cities globally and the advance of e-commerce. But even here there are issues to address. Residential owners must find ways to provide the services tenants increasingly demand, from broader trends that have seen the segmentation of housing for different generational groups, to logistical issues such as parcel delivery, a big challenge in older assets.

Industrial is perhaps storing up problems for the future around the design of buildings in sectors where the technology of the occupier is advancing rapidly, as they start to incorporate robotics and automated vehicles. The location of industrial is also shifting nearer the city, so these assets will have to integrate within the broader urban fabric.

How do owners ensure their buildings are physically, technologically and existentially fit for the world of today and tomorrow? In short, assets are being adapted, and if they cannot be adapted, converted to new uses. Within this broad analysis, there is a move to mixed-use buildings and places, greater specialisation within sectors, and also a realisation that real estate companies will need to provide a service for customers in which the physical asset is just one part.

Figure 3-2 **Flexible workspace forecast**



Source: *The Instant Group*

British Land shifts to mixed use

In its move to become a “specialist in mixed-use places”, British Land has done away with the roles of head of offices and retail and instead installed an overall head of real estate. The UK REIT is adding 69,676 square metres of retail to its Broadgate estate in the City of London, which was once entirely offices and leased to financial services firms. It has also set up its own flexible office brand, and is moving into the rented residential sector.



Image: The Exchange co-working scheme, London, UK

“If you look at full-service hotels, you have an entire block in the heart of the city dedicated to a physical structure and business model that is obsolete,” one interviewee says. “Large city-centre hotels often have multiple restaurants that are unused for the majority of the day outside breakfast; room service provision that people don’t want; oversized rooms and furniture that people don’t use.”

Where possible, unused amenities are being converted to new rooms, and in general there is a move to better communal areas and a greater number of smaller, design-led rooms, all of which increases the potential revenue of the space available.

This theme of understanding how to make more of under-utilised communal space is visible across multiple sectors. In the residential world, co-living is an extension of this idea. And in offices, there is a shift towards agile working practices or occupiers having a small amount of fixed space supplemented by flexible space. As a consequence, companies are occupying a smaller overall amount of space but using it more intensely and intelligently, with a focus on well-designed, multi-functional communal areas.

Green Street predicts that these trends will mean total global office demand will reduce by 2-3 percent. That is not much as a percentage, but as an absolute number would mean millions of square metres of surplus office real estate over the coming years.

Adapting to survive

It may only historically account for about 5 percent of global real estate investment volumes, but hospitality is a good place to start when it comes to how owners of assets are adapting them for the modern world. “Five years ago, if you had asked people, they would have said that hotels were one of the asset classes that were most susceptible to obsolescence, but today good hotels are seen as a safe haven because they’ve survived the onslaught of Airbnb,” one global investor says.

That is partly because the hospitality sector has responded rapidly to the changing needs and wants of its customers, both in its business model – creating more bespoke brands for target groups – and the physical positioning of the assets its customers use.

“The majority of out-of-town, non-core business parks will disappear, or at the very least move away from office use. The better-connected parks could be attractive from a logistics perspective. Investors will be looking at the land value rather than the property value.”

Global fund manager,
Global Emerging Trends in Real Estate 2019

The fight against obsolescence is even more bloody in the retail sector although interviewees are not despondent. “We’ve crossed the Rubicon,” one says. “Retail didn’t change for 40 years, and it needs to become relevant to people’s lives again. People have accepted things need to change, and they are now looking to the next 40 years rather than the past 40 years.”

Not only must retail contend with the rise of e-commerce but also a more general change in consumer behaviour. “People are looking for experience, rather than just another piece of clothing,” one interviewee says. Department stores are on the decline across the world, but those that are enduring are offering cooking classes or tutorials. Leisure in all forms – from food and beverage, to cinemas to hipster bowling alleys to mini golf and virtual reality – are finding an increased presence in malls and town centres.

In Asia, the evolution of retail is very much tech-led, and cutting-edge innovation in this early-adopter of a region can be expected to spread around the globe. Consumers can walk through a store like Decathlon, pay for items via their phones without taking them to a checkout, and have them delivered to their home within three hours.

In China, technology recognises smart phone IP addresses and faces. It knows when a customer has walked into a store, gives information to staff about previous buying history before creating bespoke offers. Paying via Alipay or WeChat is the norm, making the shopping experience as frictionless as possible.

In the US, Amazon Go stores also forgo cashiers. Customers sign in using their mobile phones with sensors tracking which goods they buy. Meanwhile, supermarket chain Ahold Delhaize USA, is about to trial driverless mobile stores that bring customers a selection of groceries when summoned by an app.

Alibaba gets smart online and in-store

At Alibaba’s Hema grocery store chain in China, shoppers can buy goods using their smartphones, have dinner at an in-store restaurant, and their groceries will be delivered within 30 minutes. It has also built a shopping mall in Hangzhou featuring stores from its online platform, with the same cashless, instant-delivery technology.

Old into new

Increasingly the future of real estate is mixed use. A huge opportunity in retail at the moment lies in converting unwanted space – in town centres, malls and out-of-town retail parks – into complementary uses to magnify value. Other sectors are also undertaking major conversions of use class, and indeed designing mixed-use buildings with flexible space from the outset to future-proof value. Mixed use has gone beyond placemaking, and putting restaurants and bars in a large, campus-style development.

In the UK and to a lesser extent Continental Europe, where the turmoil is not yet as fierce, owners of traditional town centre retail schemes are examining the possibility of knocking down existing retail space and building new residential. “There is a huge under-supply of residential, and the government is determined to increase supply,” one interviewee says. “So, the conclusion is that the obsolete retail stock gets converted to residential, with the retail elements of schemes made smaller, healthier and more valuable.”

In shopping malls in the US, owners are looking at converting department store space to offices, including co-working, residential or logistics. And it is an easy leap of the imagination for big-box retail stores to become distribution centres for online retail, given the configuration of these units and the good transport access.



Image: The Amazon Go app has enabled checkout-free shopping in bricks-and-mortar stores in the US.

Both in-town retail and shopping mall owners in Europe and the US are looking to the example of Scandinavia and even the ancient world to convert retail space to more community-focused uses and therefore make schemes more relevant for local communities.

“You might have a two million square feet mall, but in future only one million square feet of that will be retail,” one investor says. “The function remains the same, it is a place for people to meet, but you are going back to the original function of the civic centre, or the bazaars of the ancient world, where people would get their information and find everything they need. We need to work out how to bring schools, libraries, health centres and offices into shopping malls, and make them real public-private partnerships.”

LaSalle gets medical aid for Nashville mall

The 100 Oaks Mall in Nashville, Tennessee, was an early pioneer when it comes to changing use for retail. In the early 2000s, around half the 82,683 square metre mall was empty. Vanderbilt University Medical Center took 34,838 square metres for an outpatient clinic, and such was the success of the conversion that LaSalle Investment Management bought the mall for its core fund three years later.

There is also a demographic issue at play – a lot of retail schemes are fashion-led and therefore inherently aimed at the young. But the population in almost all regions of the world is ageing, and centres can reposition themselves to serve older consumers. “Centres in some parts of Europe may become more like community centres,” one interviewee says. “You’ve seen examples in Italy, where centres are struggling so they are moving towards healthcare or childcare. In Italy, grandparents might look after children, take them to childcare and then use healthcare facilities or more targeted retail offerings.”

In other sectors the direction of travel towards changing uses is similar. Hotels and residential schemes are adding co-working facilities, recognising that the traditional working pattern of heading to an office for nine hours a day, five days a week is changing.

The Twentytwo skyscraper being built by AXA Investment Managers – Real Assets in London will allow occupiers to take fixed space on conventional leases and give them access to flexible offices that they can expand into and out of as needs be. There will be incubator space for start-ups. Equally important, the building will include 13,935 square metres of amenities in its 120,773 square metres, such as a food hall, members club, health centre, gym and educational facilities.

CloudKitchens fulfils a new use for old assets

Last year, former Uber chief executive Travis Kalanick bought a majority stake in a retail company called City Storage Systems for \$150 million. One of the firm’s subsidiaries is CloudKitchens, which buys older city-centre properties, such as the Coca office and retail building in San Jose, and turns them into kitchens. The business enables restaurants to fulfil orders from apps like Deliveroo and Uber Eats. Deliveroo is undertaking a similar strategy, buying land and building shipping-container type units to house kitchens.

Beyond the conversion of retail, some office real estate is being converted to residential and hotels. And food delivery platforms like Deliveroo and CloudKitchens, the new company of former Uber chief executive Travis Kalanick, are taking obsolete real estate – offices, shops and industrial land – and using it to create kitchen space for delivery-only restaurants.

Sustainability debate

Sustainability is of course a huge issue when it comes to future obsolescence and value. It is widely accepted that buildings will lose out if they fail to meet the regulatory standards of governments and the expectations of occupiers. If anything, the debate in the office sector has moved on to the environmental merits of adapting older stock versus creating new buildings.

“Given the cost and environmental impact of developing new buildings, redevelopment and refurbishment have to become more important in future,” one interviewee says.

While newer buildings today almost always highlight their sustainability and energy efficiency credentials, one developer says: “We’ve been able to achieve better results in our older buildings in terms of energy efficiency than a lot of new buildings. They have older systems that need to be replaced and upgraded, but they have very significant benefits. Because they are glass and mass as opposed to just glass, they have better heat transfer rates. You need to fix the windows and revamp the heating system but that is easy.”

And the debate about new versus old goes beyond issues of sustainability. There is an interesting divergence in the office world now, with occupiers broadly favouring either new buildings where they have a blank canvas they can tailor to their needs, or older, characterful buildings, from converted warehouses and factories to office buildings from the 1950s and before.

What gets squeezed out are office buildings that are not old enough to be cool, nor technologically advanced enough to be modern. “You used to have a situation where everyone wanted column-free floor plates, but that was just for trading desks. Now, people want nooks and crannies, people want personal space and variety. People want to work in buildings that have a patina, rather than just a faceless glass box,” one interviewee says. As long as a building can be fitted with fibre optic cabling throughout to allow fast wifi, it can be made fit for purpose.

“Those 1970s and 1980s glass boxes in Midtown Manhattan were once the prime real estate, but now people look to the new buildings in places like Hudson Yards, or the converted buildings in places like Brooklyn,” another investor says. “Maybe in future some buildings in Midtown might have to become cheap alternatives for back office functions.”

“We underwrite deals for hotels with small rooms and big common areas, and instead of looking at 180 rooms, you now have 280. That is more potential revenue, and these kinds of hotels are also much more efficient to manage.”

Global fund manager,
Global Emerging Trends in Real Estate 2019

Lessons in hospitality

As well as adapting how physical space is used, real estate owners in all sectors need to adapt how it is operated and managed, a challenge just as great.

Other sectors look to hospitality to learn from its innovations, realising that they need to apply the same strategies as a part of the real estate business that is uniquely close to its customer, and has to refill space that is vacated every day by guests.

“I think it is becoming clear that in almost all sectors and especially office, retail and residential, people are incorporating that hospitality element,” one investor says.

“The role of the landlord and space provider has changed,” one operator in the office space says. “It is no longer okay to just give people a box and then not speak to them for the next 10 years. People want you to design, develop and manage the space for them. They want you to provide amenities, experience and help to create a community.”

This requires a fundamental shift in the mindset and organisational structure of traditional property companies. A small example: the asset management of a multimillion square foot office portfolio might previously have been undertaken by a team of five to 10 people.



Image: 25hours Hotel Bikini, Berlin, Germany

But a single small to medium-sized flexible office space might have just as many full-time dedicated staff members, many of whom will have to be hired from outside the real estate sector. Creating community and experience does not come easy to an industry that until very recently provided space not service. “That is why large co-working brands have been able to steal a march,” one investor says. Traditional landlords have started to fight back with organisations such as The Crown Estate in the UK and Tishman Speyer in the US starting their own brands.

Design-led brands set the pace in hotels

European operator 25hours Hotels epitomises the current trend for design-led hotels with small rooms and large common areas, alongside brands like Yotel, which is backed by Starwood, and Citizen M. At 25hours, common areas serve as workspaces during the day before becoming bars and restaurants in the evening. Each hotel is different, and they often involve the refurbishment of older buildings.

Traditions hold back change

The industry is in many senses being held back from embracing a customer-focused approach to business by its reliance on incumbent methods – lease structures, valuation models or partnerships with local authorities.

With the adaptation of shops, for instance, civic and community services may well bring people back into centres, but they cannot match the rent that retailers used to pay. “You want the civic element to be self-sustaining, but that may not always be the case,” one investor says.

Budget-constrained local authorities have been cutting back on these services for years so are unlikely to pay. To reimagine retail it will take the creation of new public-private partnerships and innovative financing solutions, such as income strips – long-term, forward-funding deals between public bodies and private sector property investors. This trend has more traction in countries, such as Sweden, where there is more investment in public services. For example, CityCon has a public library in its shopping centre in Kista.

Lease structures make it difficult to add new uses to shopping malls – large retailers often have the right to break their lease if certain other retailers leave or space is converted to new uses. In US malls, it is common for department stores to own their own footprint. It will take real partnership with these customers to bring them on board in the process of change.

Above all, changing use away from retail will destroy a lot of value for existing owners and lenders. “The big issue for retail owners is that current valuations preclude them being able to engage in alternative uses,” one investor says. “They are leased at high rents that will fall and the cap rates are wrong, 4.5-6 percent.”

In some areas where retail is struggling the most, the value of the residential that could be built if defunct retail assets are demolished is lower than the cost of construction. “The development appraisal is the challenge. A brick costs the same wherever you put it,” one investor says. Indeed, respondents to the European and United States and Canada editions of *Emerging Trends* invariably highlight their concern over rising construction costs.

“We’re paying a lot of attention to the back of house, and how we can help retailers fulfil that delivery capability.”

REIT investor,
Global Emerging Trends in Real Estate 2019

While it might seem counter-intuitive, owners that do not invest to convert or improve obsolete retail may just be exhibiting rational self-interest. “If you are a leveraged investor, you might know that the equity value of the scheme that you own is zero,” one investor says. “With that in mind, the only value the property has for you comes from the leases that are currently in place. So why would you invest money in the property or do anything that reduces the income from those leases?”

It will take some time before those willing to step in and undertake the process of repositioning retail get the chance. “The private market takes a long time to reflect the reality, which is clear to see from values in the public market,” one investor says. “Every owner in the private market has a story about why their specific piece of real estate is different and won’t suffer like everything else.”

“This is a five-year or more process that will cost a lot of money,” another investor adds. “We are making offers on retail schemes where the owner says, it is worth 100, and we say it is worth 10. But things will change. In a few years capital structures mean people will be forced to accept reality.”

“This will take originality of vision, and that is there,” one interviewee says. “But it will also take time.”

Redefining value

All of these factors lead on to a much broader question: what is a valuable asset today? The question has become much more complex than it once was across all sectors.

It is clear that to avoid obsolescence and remain relevant in the modern world, real estate will need to provide that amenity and experience that the ultimate end users require, be they office workers, shoppers or residents. “In the 21st century, the key question is how does a building make you feel,” one interviewee says. Real estate still has to overcome the hurdle of measuring how a building makes you feel, let alone begin to ascribe a value to that feeling.

Technology will be key in measuring feedback from people – both in terms of what they say they like about a building, and how they actually use it in practice – and in creating a clearer link between new uses and value. Owners will need to forge closer ties with occupiers, to collaborate and analyse what is working for the people using buildings, day in and day out. The owners who can assess how people want to feel about a building and fulfil that hitherto intangible demand will be the most likely to avoid their assets becoming obsolete. But this process is still in its infancy.

How do you put a value on space that no one is directly paying for? Buildings like Twentytwo are innovative in their blend of uses and the amount of amenity they offer. But how will a future buyer value it? “You are seeing a lot of these hybrid buildings, which might include offices, hotels and apartments, and buildings in future will need to be valued in a different way,” one interviewee says.

This raises a wider issue: some sectors, like flexible offices or co-living, are so new that the real estate industry, in particular investors and valuers, have not yet reached consensus about how to value them. Valuing an office building with 20-year leases is something the sector has been doing for decades. Valuing flexible office space full of tenants who can break leases with a few months’ notice is much harder. “You have all of these business models that have never been seen before, and the capital market has not evolved yet to work out how to value these assets,” one investor says.

The provision of best-in-class service should ensure that occupancy rates and the fees people are willing to pay for space in these sectors remain high – and that value is maintained.

Even so, on a very simple level, it seems clear that in future, owning real estate will be a more cost-intensive business.

“Core investors are also not really considering the increasing capex that comes from decreasing lease lengths,” one investor says. “In Continental Europe, if you had a 10-year lease, you would maybe start thinking about capex in year eight. Now those leases are down to three to five years, so you have to undertake that maintenance much more frequently.”

On top of this, investors must factor in bigger operational teams, the technology required to measure asset use and customer satisfaction, and more intensive use of assets – all of which costs money.

This is something all owners of real estate will need to consider in future. Over the long term, the extra investment required may erode net returns. But done right it will at the very least protect income, and offer the possibility of becoming one of the winners in the real estate world of the future.

“Using office space more densely, as co-working and hot-desking do, means it’s used more intensively, so greater capex is required.”

Global fund manager,
Global Emerging Trends in Real Estate 2019

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