February 10, 2021

Global Research

Global Real Estate Perspective - Highlights

Investor and Corporate

Summary

Global economy

- In 2020 the global economy suffered what is expected to constitute its worst calendar-year performance during the modern era of economics, likely contracting by nearly 4%. This sets the stage for a potential bounceback in 2021. With the COVID outbreak reaching record levels, the race has begun to vaccinate a wide enough swath of the population to bring the pandemic under control and enable the economy to recover. The exact path between now and that point remains highly unpredictable, but the economy looks poised to attain growth of around 5% this year, driven by pent-up demand.

Global capital flows

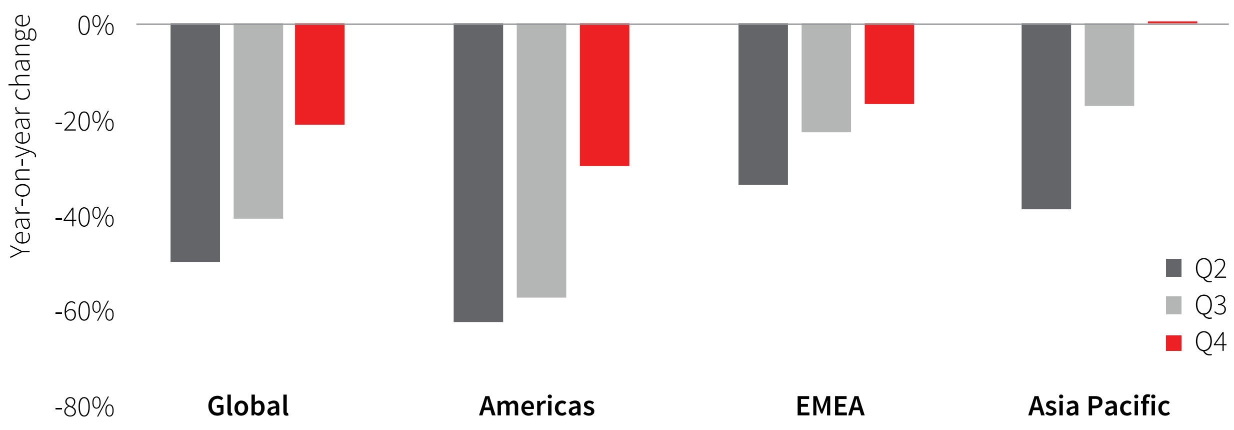
- Full-year direct commercial real estate investment volumes totaled US$762 billion in 2020, falling 28% from record activity in 2019. Strong performance during the fourth quarter, which amounted to US$267 billion (up 65% from Q3 2020), helped moderate the full-year decline. Q4's relative strength was led by a robust rebound in activity in the Americas and the Big 3 in Europe. The uptick in investment volumes caused quarterly declines to further decelerate: -21% year-on-year in Q4 compared to -41% in Q3 and -50% in Q2.

- Travel restrictions continue to hinder long-haul, cross-border capital flows, except for global firms with local presence. As such, the inter-regional share of annual investment remained depressed in the fourth quarter and decreased to its lowest level since 2013. COVID restrictions have favored domestic and intra-regional activity, with the latter climbing to its highest share since the Global Financial Crisis.

- The fundraising environment is still challenging, with closed-end fundraising in 2020 declining 35% year-on-year. However, the average fund size reached an all-time high, underscoring the trend of the larger investment managers gaining greater market share of fund commitments. Despite market volatility, target allocations to the real estate asset class are generally stable or growing. Sources of capital are exploring alternatives to co-mingled funds, with co-investments, joint ventures and separately managed accounts increasingly in focus.

- The logistics and multifamily sectors continue to exhibit strength, with rent collections holding steady. The office sector experienced a moderate recovery in investor sentiment, with investor

Annual change in direct investment volumes by quarter



Source: JLL, January 2021

activity expanding more broadly in global gateway markets. Opportunistic capital remains active and is building conviction for higher-risk opportunities. As pricing discovery continues, we expect this will drive volume gains in this segment of the market, bringing much needed liquidity to sectors such as hotels and retail.

- Appetite for debt risk is divergent and favors sectors and markets benefitting from secular and cyclical shifts. The depth of lender pools is expanding, and loan-to-value (LTV) ratios are stable and climbing in the logistics and multifamily sectors. The office and retail sectors are facing elevated scrutiny of future cash flows, leading to declining LTV ratios and shorter loan terms.

- The pricing impact of the pandemic and extent of the bid-ask gap remains highly varied. Sectors facing greater income uncertainty – of note, parts of the retail and hotels sectors – are experiencing more significant price adjustments. The convergence of buyer and seller pricing expectations is currently limited to assets offering growth or stability, most evident in the living and logistics sectors where bid-ask gaps have come in since the onset of the pandemic.

Corporate Occupiers

- Corporate occupiers are accepting that they may never operate again in the way they did pre-crisis and that the ability to continuously adapt to new and changing conditions will be essential for future success. Having already adjusted to a pattern of intermittent attendance and greater workplace flexibility, companies will also have to lean into and proactively address changing workforce preferences to retain their top talent. Companies should explore solutions that fit and flex with their organization best – particularly the hybrid work model combined with a digital-first approach.

Office sector

- Momentum in the global office leasing market slowed in Q4 on the back of new COVID-19 outbreaks combined with heavier restrictions. Asia Pacific and the Americas recorded lower transactions over the quarter whereas Europe stood out as the exception with a stronger Q4 (+31% quarter-on-quarter). However, this still marks the lowest Q4 volumes in Europe since 2002. Vacancy rates moved up across all regions in Q4 with the global vacancy rate now recorded at 12.9% (+80bps).

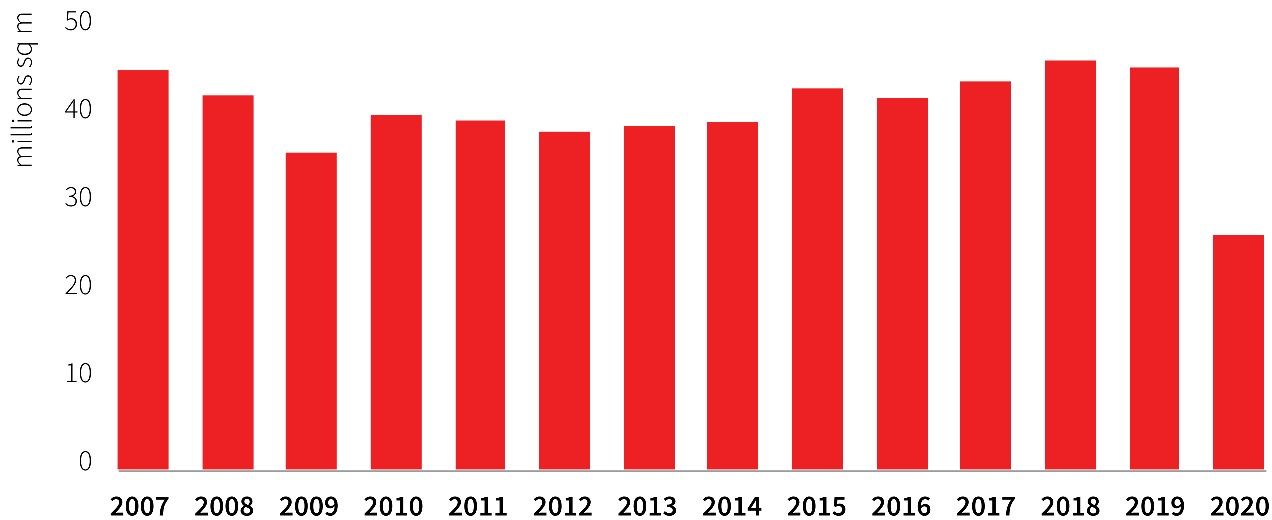
- This year is expected to be one of two halves, with very cautious optimism that the second half of 2021 should lead to the release of some pent-up demand as vaccination rollouts result in reduced restrictions and a move back towards a new normal. Lower workplace density and reconfigurations to handle greater logistical flexibility should help to keep overall office utilization and occupancy more stable than previously anticipated.

- 2020 was a challenging year for the flex market. Flexible office providers saw occupancy drop significantly as new requirements decreased and occupiers looked to either exit or downsize their existing requirements. These difficult conditions have led to a number of bankruptcies, and H1 2021 will continue to provide difficult headwinds. With the rollout of vaccines and more clarity around corporate re-entry strategies, a return to growth later in 2021 is likely. However, there will be changes to the way flex space is consumed. Self-contained managed spaces will prove popular with occupiers seeking more control over their offices as well as COVID-19 secure environments, shorter commitments and more bespoke layouts.

Retail sector

- The 2020 festive season presented retailers with unique challenges as they navigated strict COVID-19 containment measures in countries that have seen a major surge in infections. While the short-term outlook remains uncertain, the arrival of effective vaccines is likely to act as a tipping point as early as the second half of 2021. Most major retail markets are anticipated to see a cautious recovery in leasing activity in 2021, with a further pick-up in 2022.

Global office gross leasing volumes, 2007 – 2020



24 markets in Europe; 50 markets in the U.S.; 22 markets in Asia Pacific
Source: JLL Research, January 2021

- Once the pandemic subsides, there will be considerable variation in the speed and strength of the recovery. Major retail markets are expected to see continued churn in occupiers as many affected retailers are rightsizing their store portfolios to return to profitable growth, although well-capitalized operators and new market entrants are selectively looking for expansion opportunities. Flexible leases will become increasingly important for retailers to test market appetite and mitigate operational risks.

Logistics sector

- Occupational demand for logistics space stayed remarkably resilient in 2020 with record levels of demand in all three global regions. While a variety of factors have fuelled demand, the primary driver in many markets is e-commerce, which saw a surge in growth in large part because of the widespread restrictions placed on physical retail stores.

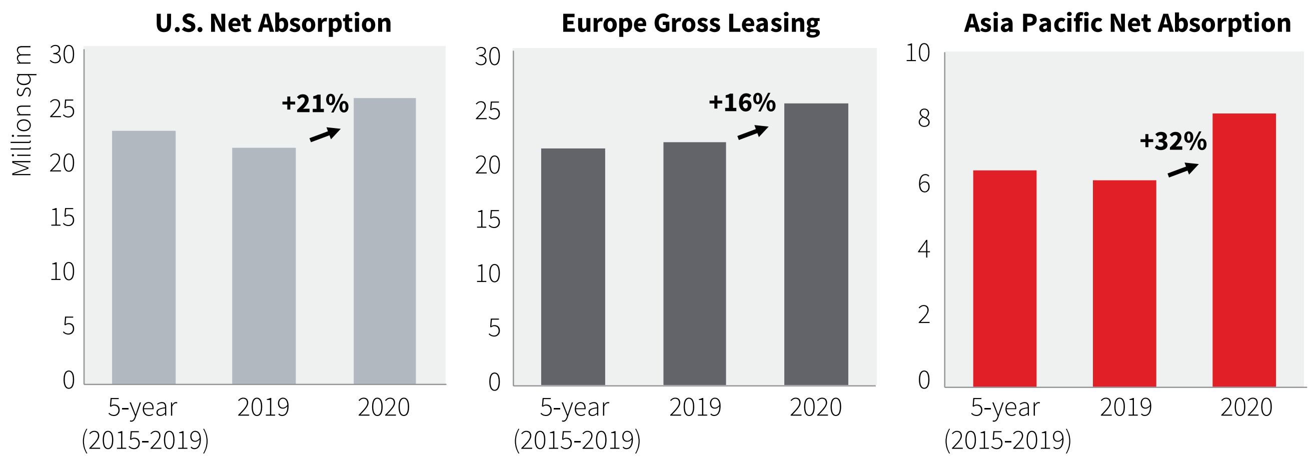
- In the immediate term, the rollout of vaccines is expected to increase pressures on some supply chain infrastructure. This will focus yet more attention on creating resilient supply chains (for example through the re-shoring of manufacturing), which is likely to lead to further demand for warehouse space. Other trends going into 2021 include a greater focus on sustainability and carbon-neutral supply chains, and an increase in last-mile facilities to keep up with online shopping demand in urban logistics markets.

Hotels & hospitality sector

- The global lodging industry experienced a transformational year in 2020. Hotel operators swiftly adopted technological advancements to deliver contactless lodging experiences and hotel investors responded to shifts in hotel demand and leisure traveler preferences by adjusting their investment strategies to acquire assets in less dense markets and resorts. The impact of these events on the hotel and hospitality industry will endure for years to come and in many ways will redefine the travel experience of tomorrow.

- As progress is made around vaccine distribution, a slow and gradual rise in hotel occupancy is anticipated. With record levels of dry powder on hand, private equity groups and high-net-worth individuals (HNWI) are expected to drive the bulk

Regional logistics demand, 2019 – 2020



U.S.: net absorption, based on 55 city markets; Europe: gross leasing (take-up), based on 11 national markets;
Asia Pacific: based on 26 city markets with staggered starting point for some markets, GFA
Source: JLL, January 2021

of liquidity in 2021. While the level of distress across the lodging industry is relatively limited, pressure is building. This dynamic will result in the sale of hotel assets situated in typically tightly held markets.

Living sector

- The resilience of multifamily cash flows became a key theme of 2020, and throughout the pandemic residential rent collections have held at or just below historic norms. As the secondary economic effects of higher unemployment and downward wage pressure have emerged, the sector is beginning to show some signs of stress. This is not widespread, but instead has remained modest and localized to premium urban locations and secondary locations that have a poor local amenity offer.
- In the United States, investors are placing an increased emphasis on the quality and resiliency of income streams, with capital pivoting to multifamily – evidenced by a notable rebound in transaction volumes in Q4. In Europe, residential investment volumes continue to grow, with a lack of available opportunities leading to forward funding and corporate acquisitions as key routes for capital to access the sector. Multifamily investments in the Asia Pacific region have accelerated throughout the crisis with rising volumes in Japan and growing interest in opportunities in Australia and China.

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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