

# Real Estate Outlook

Edition 4, 2020



## Please wait, recovery on hold

04

Global  
overview

10

APAC  
outlook

16

European  
outlook

22

US  
outlook

# Content

## 04

Global overview



## 10

APAC outlook



## Our research team

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Darnesha COLLIER  
Kurt EDWARDS  
Nicola FRANCESCHINI  
Zachary GAUGE  
Tiffany GHERLONE  
Gunnar HERM

# 16

European outlook



# 22

US outlook



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Fergus HICKS  
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Amy HOLMES  
Courtney LEE  
Sean RYMELL  
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# Global overview



**Fergus Hicks**  
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Rise in virus cases threatens recovery,  
while vaccine presents an **exit route**.





A widespread rise in virus cases threatens the economic recovery, though positive news on vaccine trials points to brighter prospects for 2021. Investment activity remains subdued. Real estate capital value movements have varied by sector and showed small falls at the all property level in the third quarter. So far there is limited distress in the market, but we expect some investment opportunities to be generated.

## Macroeconomic overview – Renewed lockdowns to weigh on economy in final quarter

COVID-19 continues to have a pervasive global impact. As of 9 November, the World Health Organization reported a total of 50 million cases and 1.25 million deaths worldwide. Following a sharp drop in new cases over the summer in northern hemisphere countries, there was a widespread increase in new cases moving into the autumn. Part of the rise almost certainly reflects increased testing for the virus, but nonetheless it is also due to an underlying increase in the number of cases. In response, some US states and many European countries have implemented new lockdowns, with some at the national level. By contrast, Australia, now entering its spring, has seen a sharp fall in new cases and ended the lockdown it implemented in Melbourne over its winter months.

The virus is impacting the economy in different ways, which can be seen in three broad areas. First, manufacturing, industry and construction, which after the initial shock have been able to implement social distancing protocols into their production processes and been able to continue operating. Second are the knowledge and intangible industries such as technology, software and finance, which have been able to continue to operate effectively outside of their normal office environments. Finally, are those sectors which involve in-person human interaction and continue to be hit hard, with a full recovery unlikely until the virus is gone. These are the retail, hospitality, tourism and leisure sectors.

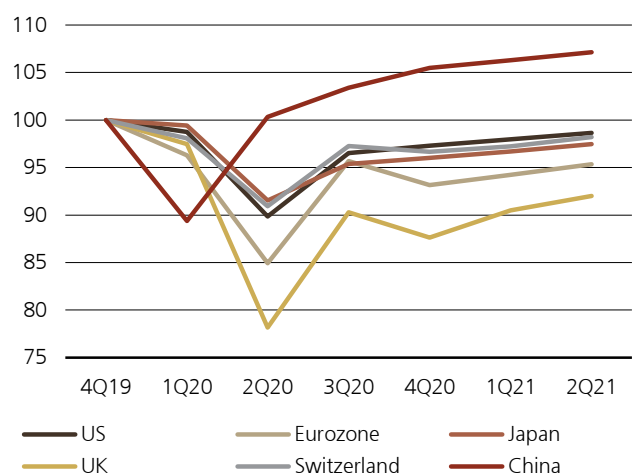
The rise in virus cases and new lockdowns create a clear risk to the economic recovery. Indeed, the latest economic forecasts are for some countries to slip back into negative growth in 4Q20 (see Figure 1). A sustained recovery in 2021 will rely on a vaccine becoming widely available. Trial results released so far have found both the Pfizer-BioNTech and Moderna vaccines to be highly effective. Three conditions must be met for a vaccine to be successful. First, it must be possible to rapidly manufacture and distribute a vaccine at scale. Second, governments and health systems must be able to effectively organize inoculation for the targeted population. Finally, the population must have the confidence in and be willing to take a vaccine which has been developed at record speed.

Central banks were quick to support their economies at the start of the pandemic. They cut interest rates to zero, implemented new QE spending – for the first time in some countries such as Australia and Canada – and introduced new lending programs for businesses in need. As the second wave of the virus hits, the central banks have less ammunition.

However, the European Central Bank is expected to increase the size of its asset purchase program in December while the Bank of England announced an additional GBP 150 billion of QE asset purchases at its November policy meeting. Rather, central banks have been explicitly calling on governments to provide any additional support necessary via fiscal stimulus.

The UK announced an extension of its furlough support scheme until March next year to accompany its new lockdown in November. In the US, an agreement by Congress on a new fiscal programme looks unlikely until after the new president is sworn in, in January. The IMF has changed its guidance on government debt since the Global Financial Crisis (GFC) and is now not recommending a rush to austerity to pay off increased debt once the pandemic has ended. Nominal GDP growth is above nominal interest rates and means that higher debt loads are now thought to be sustainable. This will be a relief for the increasing number of countries where debt is now above 100% of GDP. Ultimately, debt will need to be addressed in one of four ways, or a combination of: higher taxation, reduced spending and austerity, inflation or default. Governments can delay this difficult choice until a later date.

**Figure 1: Real GDP forecast** (index, 4Q19 = 100)



Source: Oxford Economics, November 2020

Another area of concern is the level of scarring which the economy will suffer following the downturn and how quickly jobs can be re-deployed in the most affected industries. Weak investment spending by firms in 2020 is set to have an enduring impact on the productive capacity of the economy. According to Oxford Economics the expected drop in investment spending (including housing) in 2020 varies by country, from 1.7% in the US, 5.0% in Japan, 9.6% in the Eurozone and 13.4% in the UK, while it is forecast to rise by 5.3% in China. These differences will impact on the growth potential of these economies once the pandemic has eventually passed.

## Capital markets – Investment activity remains subdued

Real estate investment activity remained subdued in 3Q20. Despite lockdown restrictions being eased in the summer, international travel remained challenged and continued to impinge on the real estate transaction process, particularly for cross-border investors. According to Real Capital Analytics, global transaction volumes were down 33% in USD terms in the first three quarters of the year compared to 2019. After adjusting for seasonal effects activity slipped 5% in 3Q20, to leave it 52% below the level in the final quarter of 2019.

With new cases of the virus rising and lockdowns being implemented again in many countries, transaction activity looks likely to remain subdued in the final quarter of the year. Traditionally the last quarter has been a time when activity levels have been higher as investors try to complete deals before the end of the year. Despite these impediments, investors continue to target the asset class, with Preqin reporting USD 338 billion of capital targeting real estate globally as of November 2020. We expect activity to pick up in 2021, but this is very much dependent upon the virus easing and vaccination becoming available. If the virus is not brought under control and lockdowns continue, real estate investment activity would also likely remain subdued.

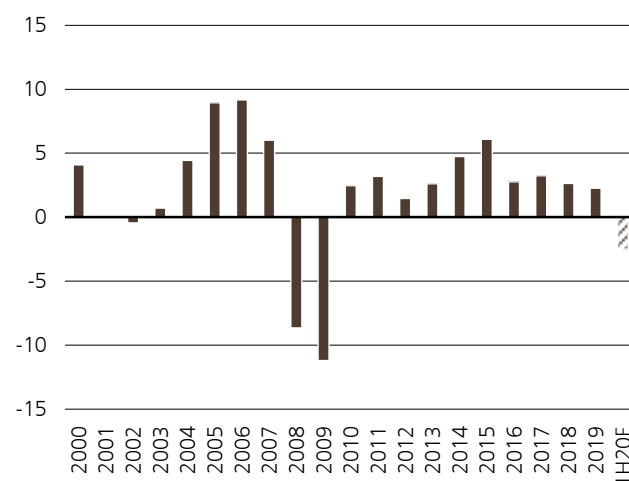
Following the initial uncertainty over the impact the virus would have on the economy and real estate market, some clarity has emerged on property pricing. Real estate capital values have held up well given the scale of the economic downturn. Based on data released so far, we estimate that global real estate capital values fell around 2.5% in the first half of the year (see Figure 2). Moreover, initial data for 3Q20 show that declines eased from 2Q20. In the US capital values were pretty flat, according to NCREIF data, falling just 0.3% QoQ. According to MSCI the pace of decline in the UK slowed to 1.0% QoQ, while in both Canada and Ireland it eased to 1.4% QoQ.

Big differences in sector performances remain, reflecting investor sentiment and the way that the crisis is affecting different property types. Office values continued to show small falls in 3Q20, making for a year-to-date drop in the low single digits of 2-4% for the four countries previously mentioned. Falls in retail capital values have been much more significant, ranging from 9% in the US for the year-to-3Q20 to 15% in Ireland. Industrial values, on the other hand, have been much more resilient and rose in all four countries in 3Q20. This left them down 0.6% so far this year in the UK and up 3.3% in the US.

Overall, these trends suggest that the total return on global real estate for 2020 will be around zero, and possibly slightly positive. Trends in cap rates and yields mirror those seen in capital values. Of the 332 city-sector markets we monitor globally the share reporting a rise in yields fell to 20% in 3Q20 from 30% in 2Q20 and 32% in 1Q20. The increases were by far focused on the retail sector. By contrast office yields were fairly flat, while industrial yields fell in 42% of the markets covered, were unchanged in 52% and increased in just 6% of markets. This reflects strong investor appetite for logistics property and an aversion to retail, where price correction is taking place. For offices, flat yields reflect some uncertainty over the prospects for the sector going forward due to the impact of home working.

**Figure 2: Global real estate capital values**

(local currency, unleveraged, % change)



Source: MSCI; NCREIF; UBS Asset Management, Real Estate & Private Markets (REPM), November 2020

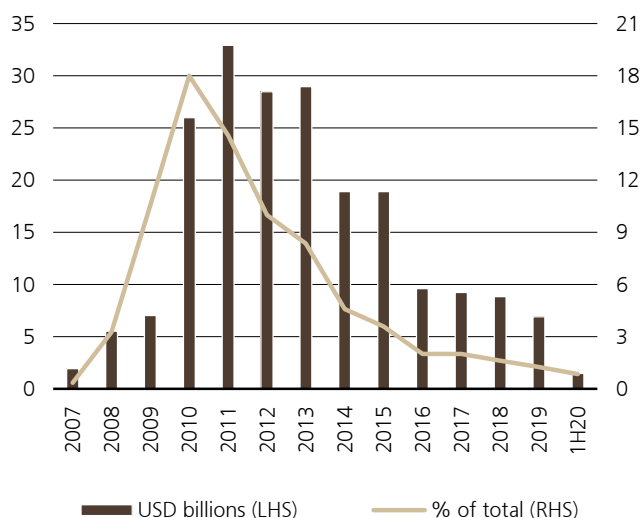
Following their initial recovery in April and May, REIT markets have remained fairly range-bound. REIT prices for global developed markets were down 24% for the year to the end of October. Apart from industrial, the sector indices were also range-bound after their subsequent rebound following the initial sell-off as the virus struck. Industrial REIT prices on the other hand continued to rise. Having been broadly flat in the first half of the year, prices (in USD terms) rose subsequently to leave them 14% higher by the end of October than they were at the start of the year. The stronger showing for industrial on listed markets mirrors sentiment in private markets. A key question for investors going forward is how much rental value growth logistics property will deliver and what level of valuation it supports.

## Strategy viewpoint – Limited signs of distress so far

Historically, economic recessions have gone hand-in-hand with downturns in the real estate market, which have forced owners to sell assets for a variety of reasons. For example, they might have breached loan covenants by breaking loan-to-value ratios (LTV) or missed debt and interest payments. Alternatively, investors may be forced to sell assets to generate liquidity to meet other financial obligations. Similarly, real estate funds may need to sell assets to generate liquidity to meet redemption requests from their investors.

During the GFC, it took time for distress to work its way through the system to final asset sales. For example, according to Real Capital Analytics, distressed asset sales in the US peaked in 2011 at USD 33 billion, 14.6% of that year's total transaction volume (see Figure 3). Distressed sales remained elevated until 2013, after which they began to ease off. So far, we have seen relatively few distressed asset sales in this downturn, though we are still in the early stages of distress working its way through the system. For example, during the first half of the year distressed asset sales in the US were just 0.8% of the total transaction volume.

**Figure 3: US distressed asset sales** (USD, % total)



Source: Real Capital Analytics, 2Q20

In general, we do not expect to see the same levels of distress in this crisis that we did during the GFC. This is due to several reasons. First and foremost, although the speed and depth of this recession has been much greater than that of the GFC, the economy is expected to recover to pre-crisis levels sooner.

For example, Oxford Economics expects the advanced economies to reach their pre-crisis level of output by 1Q22, while it took a further three quarters to regain that level of output in the GFC. This is clearly very much dependent upon how the pandemic evolves and the ability to make a vaccination widely available. Second, in the run-up to the pandemic lending by banks and non-bank lenders against real estate assets was more restrained and had not reached the levels seen in the credit boom prior to the GFC, when lending standards eased substantially. Loan covenants and LTVs have been stricter this time, giving borrowers more of a cushion should values fall or market distress be experienced.

However, we do expect to see some distress arising due to the pandemic, and we expect it to be focused on those sectors where future income and capital values are suffering the most. Primarily this means the hotel and retail sectors, where we have seen the sharpest falls in capital values so far. The value declines may see loan covenants breached for some assets and result either in investors being forced to sell assets, injecting more equity into properties by paying down debt, or result in properties being re-possessed by lenders and subsequently sold on. Office values have held up well so far, though weaker assets which experience capital value decline and are the most exposed to the impact of home working and structural change on the sector could also be potential areas of distress.

For investors looking to deploy capital, distress in the market can lead to opportunities to buy assets at below market prices and create good investment opportunities. The scope for repositioning retail assets and converting them to other uses is a good example. However, investors must be careful in determining the value of assets for sectors like hotels and retail, where the outlook is most uncertain. They should also have strong business plans in place for how they would manage and potentially reposition any distressed asset purchases.






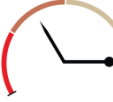







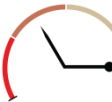





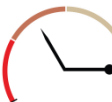






Hence distressed asset sales, although potentially painful for the original owners and lenders involved, can present investment opportunities at the right price for new investors. Overall, the focus of investors looking for lower risk, core assets at the moment has been the industrial and logistics sector. Residential and multifamily has also been an area of interest and is seen as more resilient.

However, investors are also expressing more interest in alternative sectors, such as medical offices, data centers and laboratory space. Investors will likely continue to focus on these sectors moving into 2021 given uncertainty over the traditional commercial property types. Although for the time being they remain small relative to the overall investment universe, identifying new and growing real estate sectors will be key for investment success moving into 2021 and beyond.







## Real estate investment performance outlook

2019 performance and 2020-22 outlook are measured against the country-sector's long-term average total return, with a margin of 100bps around the average described as "in line with long-term average". The long-term average refers to the period 2002-19. The red underperformance quadrant refers to negative absolute total returns, either in 2019 or the 2020-22 outlook.

		LTA	Office	LTA	Retail	LTA	Industrial	LTA	Multifamily
North America	Canada	9.5		10.3		10.1		n/a	
	United States	7.9		9.9		9.9		8.3	
Europe	France	8.0		10.1		9.1		n/a	
	Germany	4.5		5.5		7.3		n/a	
	Switzerland	5.6		6.3		n/a		6.3	
	UK	7.5		5.9		9.5		n/a	
Asia Pacific	Australia	10.3		10.1		10.8		n/a	
	Japan	5.3		5.5		5.9		5.2	

 : Performance 2019
  : Outlook 2020-2022

 : Underperformance (negative absolute returns)  
 : Underperformance vs. long-term average  
 : In line with long-term average  
 : Outperformance vs. long-term average

Source: UBS Asset Management, Real Estate & Private Markets (REPM), November 2020.

Note: Abbreviation LTA: long-term average. A performance forecast is not a reliable indicator for future results.

# APAC outlook



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The rabbit hole runs deep and  
investors must stay prepared.



Economic indicators point to a brighter than expected near-term outlook. However, weak business and consumer sentiments could negate impact from relaxation of social restrictions. Lower transaction activity reflects the increasingly cautious attitude of investors. Occupier performance may trend weaker in the new reality.

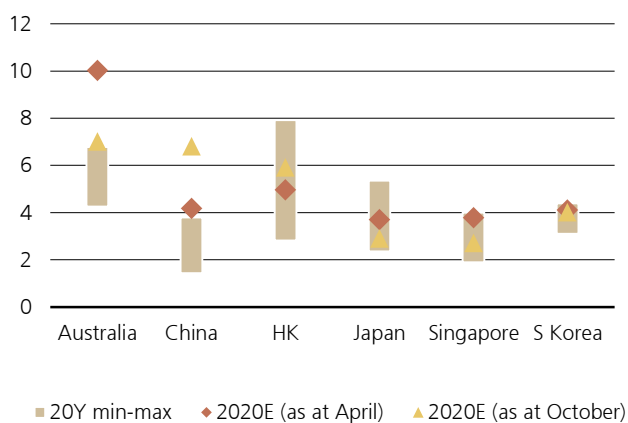
## Real estate fundamentals – Navigating the rabbit hole

‘The rabbit-hole went straight on like a tunnel for some way, and then dipped suddenly down, so suddenly that Alice had not a moment to think about stopping herself before she found herself falling down what seemed to be a very deep well.

Down, down, down. Would the fall never come to an end?’

The much beloved classic Alice's Adventures in Wonderland, by Lewis Carroll, celebrates its 155<sup>th</sup> anniversary this year. As the protagonist Alice tumbles down a hole in pursuit of a rabbit, she enters a warped reality and gets lost in a realm of improbabilities. Nothing there remains the same for long, and not everything makes sense. In real life, as the world grapples with the COVID-19 pandemic, there are parallels to be drawn between Alice's wonderland and the current world we live in. Obviously the economic rabbit hole we are in is deep, and the landing could be painful, as already evident in the global malaise. But even as we slip down the rabbit hole, real estate investors in APAC do have the relative benefit of the time to look for a softer landing.

**Figure 4: Unemployment rate** (estimation, %)



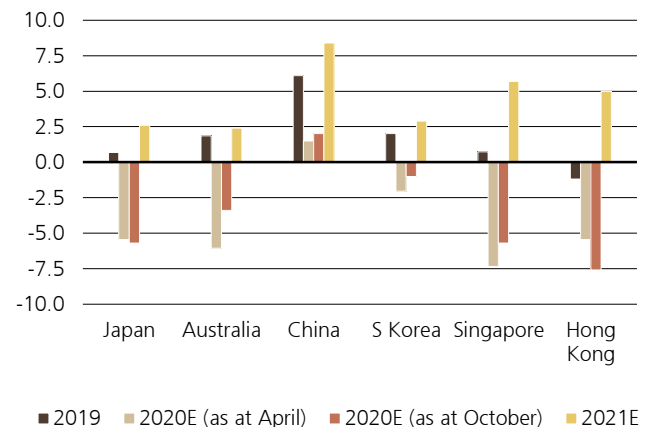
Source: Oxford Economics; CEIC, as at 19 October 2020

APAC was the first region to take the hit from early waves of infections. Arguably, most of APAC has arrested and slowed down the contagion through early intervention and by displaying unyielding will to lock down entire economies for periods of time. It is not yet business as usual in Asia, even as some economic indicators do point to better than expected upgrades in our near-term outlook. In the previous editions of this report, we have consistently focused our attention on the unemployment rate, as it is indirectly related to underlying demand for commercial real estate.

At the onset of the outbreak in April 2020, unemployment rates in 2020 were forecast to surge to and beyond 20-year highs in many countries (see Figure 4). In the case of Australia, that figure was estimated at a sobering 10-13%. As the impact of the pandemic became clearer, coupled with forthcoming support measures by governments, the APAC labor market calmed down steadily.

According to the IMF in October 2020, effective lockdown measures taken early during an epidemic may lead to faster economic recovery. These medium-term gains offset the short-term costs of lockdowns, leading to positive overall effects on the economy. This is precisely what is happening in APAC. New Zealand, Vietnam, China, Singapore and Japan are but a few of the successful case studies of a first-in and first-out model of virus containment. There are inevitable second or even third bouts of outbreaks, such as in the state of Victoria in Australia or Beijing in China. However, these examples have again been suppressed rather decisively. Most APAC economies are forecast to see positive growth in 2021, with China leading the way at 7.6% (see Figure 5). While a low base effect certainly enhances the optics of the uptick in near-term economic growth, it is important to highlight that this improvement in outlook is increasingly based on actual and progressive economic results.

**Figure 5: GDP growth** (estimation, annual, real %)



Source: Oxford Economics; CEIC, as at 12 October 2020

Even though the past quarter looked more promising, it is too early to rest on one's laurels. APAC needs the global economy to improve in lockstep. Most support measures are tapering towards the end of the year and government coffers are finite. The rabbit hole is long and winding, and the landing is hardly in sight. Pressure will pile up in the coming months if there is still no sign of medical progress. While the descent may appear to be less bumpy now, being prepared to break the fall and recover is important if APAC economies and real estate markets are to stand on their feet once again.



## Retail

'I can't explain myself, I'm afraid, sir,' said Alice, 'because I'm not myself, you see.'

Retail sales performance in the key APAC markets saw only marginal improvement. According to Oxford Economics data, in Australia household consumption was a key drag as the savings rate shot up from 6.0% in 1Q20 to 19.8% in the second quarter of 2020. On a 3-month moving average annual basis, Australia's retail sales growth came in at 8.9% in August 2020, even as a resurgence of virus cases saw the state of Victoria effectively locking down in July. China saw healthier retail sales performance, recording a 0.5% YoY growth in August, the first time this metric was positive this year. We can expect the boost from the Golden Week holidays to show up in consumer spending in the next quarter. Markets such as Hong Kong and Singapore are more reliant on inbound tourist expenditure because of the small domestic consumer base, and they continue to see weak retail sales.

In the near-term, the lack of inbound tourists and weak retailer sentiments will nullify the relaxation of social restrictions as domestic consumers continue to tighten their purse strings. We are forecasting a drop in prime retail rents in the range of 6-10% in most APAC markets in 2020. Hong Kong will fare worse and is likely to end the year with rent levels at two-thirds of what it was in early 2020. The e-commerce assault on the sector is staying unabated and should intensify after the pandemic. We continue to prefer the barbell model in retail, favoring essential retail on one end and prime retail on the other end of the spectrum.

## Office

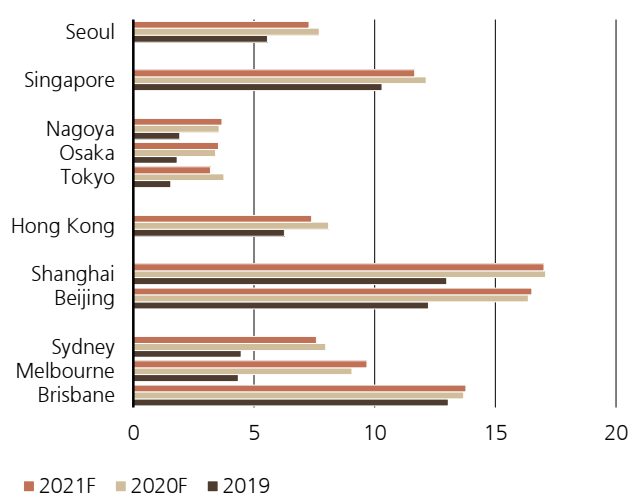
'I knew who I was this morning, but I have changed a few times since then' said Alice.

Occupier sentiments in the office sector are waning after holding firm for most of the year. Government rebates and concessions can only go so far to support occupancy costs and are not permanent. As the global economy continues to remain lethargic, businesses are feeling the pressure on their topline. To be fair, we have not seen abrupt corrections in prime office rents, but we do expect absorption levels to drop by more than 40% this year. Landlords are increasingly open to the idea of working hand in hand with tenants to offer mutual support with the aim of ensuring that occupancy rates do not fall off the cliff. Obviously, rents and incentives will have to be adjusted but in the mid to long-run, the post-pandemic leasing risk is much lower for landlords that are able to hold on to their tenants now.

We expect the Japanese office markets to be the most resilient in APAC (see Figure 6). Tight vacancy rates (less than 2.5%) and a limited supply pipeline put Japan in a good position, bolstered by Japanese corporates sitting on strong balance sheets.

Sydney and Melbourne have had a good run over the last few years, and affordability concerns on the back of a weakening business environment now threaten to be a key drag on their office markets. In the case of Shanghai and Beijing, whilst the pandemic resulted in some construction delays, development is still expected to be somewhat elevated in the next two years. Emerging decentralized locations compound the underperformance of the Chinese prime office segment, particularly in a prolonged period of poor business sentiments and a flight towards affordability.

Figure 6: Office vacancy rate (%)



Source: PMA, as at 22 October 2020

New-economy occupiers, such as those in the technology and media sectors, continue to display deep appetite for office space in the region. The growing hostility towards China's technology firms by the US and India is causing many Chinese technology behemoths to seek new pastures in the South East Asia region. That has set Singapore up nicely to benefit from its hub position in the region, even as overall rents continue to trend down. And indeed, just over the past few months, we saw the likes of Bytedance, Alibaba and Tencent expand their physical presence, with a few firms even basing their regional headquarters in the city-state. It is estimated that technology firms have absorbed close to 400,000 square feet of office space in Singapore in this year alone, and that the same level of demand is likely to be repeated in 2021 based on current enquiries.

## Industrial

'If everybody minded their own business,' the Duchess said, in a hoarse growl, 'the world would go around a deal faster than it does.'

This statement cannot be true in today's globalized world. The world would go round *slower* if everyone and every country decide to keep to themselves. The underlying premise of the



logistics sector is the interlinkages between economies, consumers and businesses, no matter globally or domestically. While there appears to be a pivot towards de-globalization, supply chains are not disappearing totally. They are being redistributed and relocated, some domestic some regional. It is fair to say that the industrial sector is in a two-speed situation, where the trade and manufacturing segment is moving at a slower pace than the fulfilment and e-commerce segment.

Weak global demand is the overwhelming headwind for manufacturing and trade reliant countries. The pandemic distracted us from the Sino-US trade tensions that were felt badly across most of Asia in 2019 but have never really gone away. What COVID-19 did was to tilt the weight of the problem from the supply side (supply chain disruptions) towards the demand side. Regardless, the impact on industrialists in APAC remains negative. This puts a dampener on overall rent growth in the industrial sector in the near-term. Post-pandemic we can expect to see greater regionalization of supply chains, and even the on shoring of production. The latter probably will be more prevalent in countries with bigger domestic markets such as Japan and Australia, in fact increasing the demand for industrial real estate. Other countries such as Singapore will shift towards high value-add manufacturing that is not easily replicated.

The common view is that as consumption moves online due to social distancing requirements, that will effectively cement the role of logistics in *the new normal*. Will consumers continue to shop virtually after COVID-19? Probably not in totality, but the virus outbreak has been the catalyst leading to a greater adoption of e-commerce amongst the wider population. In Japan and Australia where e-commerce penetration is not deep by the developed world standard, untapped potential in the logistics sector is yet to be fully exploited even as investment interest has run ahead. In China, the consumer class group continues to swell and steep logistics costs due to transportation is expected to drive the demand for well-located infill sheds, even after ten years of phenomenal growth.

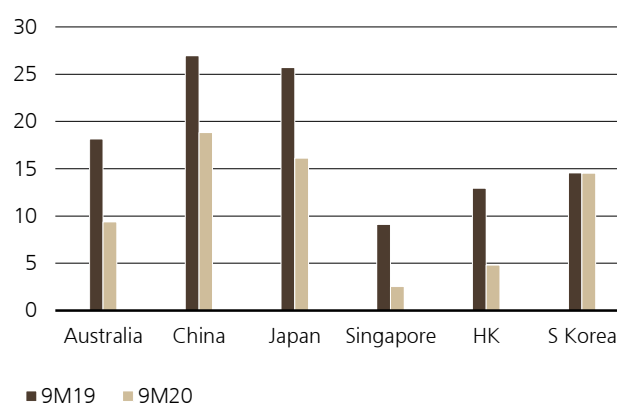
## Capital markets – Running on the spot

‘It takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!’ said the Queen.

According to preliminary data from Real Capital Analytics (RCA), total transaction volumes of APAC commercial property fell by approximately 37% YoY in 9M20 (see Figure 7). During the GFC, commercial property investments fell by more than 60% in a similar time period between 2008 and 2009.

The half-full mentality tells us that despite a turbulent year, investors continued to be active in APAC commercial real estate transactions with pricing staying rather firm. That says a lot about the prospects of and interest in APAC real estate. Given that due diligence and site inspections are mostly out of the question, it is heartening to still see major deals being concluded, even if some of these transactions were already underway before the pandemic. On the contrary, the half-empty attitude will remind us that the rabbit hole could extend deeper, and it will take a significant leap of confidence for investors to start underwriting transactions again. Thus, we could be in for a long period of investment latency. This is anyone’s guess.

**Figure 7: Commercial real estate volumes (USD billion)**



Source: RCA, as at 22 October 2020

South Korea has been the steadiest performer this year in terms of investment volumes. This is the vindication of how markets that can control the spread of the virus are able to garner the confidence of investors. Also, accounting standards reform in the insurance sector in Korea led to some insurers restructuring their real estate portfolios. This in turn saw fervent activity in the buying and selling of commercial property involving insurance companies.

Investment volumes in the Australian commercial real estate market fell by more than 48% YoY in 9M20, mainly due to deteriorating sentiments around the COVID-19 situation as well as enhanced lockdown measures in the state of Victoria. To that end, 3Q20 transaction volumes were down by more than 61% from the same quarter last year, as travel restrictions prevented investors from conducting any due diligence. Industrial and office assets with long WALE and strong tenant covenants were high in demand by core investors.

China saw a marked YoY increase in investment volumes in the second quarter of the year, which coincided with the period in which the outbreak was brought under control. In late June, however, a second wave of virus infections led to the reinstatement of lockdowns in Beijing and some parts of Hebei province. In part, that episode probably caused

investors to decide to adopt a wait-and-see approach, even though China proved its mettle in overcoming the virus resurgence. To that end, third quarter investment volumes plummeted by 51% YoY, leading to a 30% YoY drop in transaction activities in the nine months to September.

Investment activity in Japan was lackluster in the past three quarters, dropping by approximately 37% YoY compared to the same period last year. A closer examination tells us that the decline was led by sharp falls in retail and hospitality transactions. This can be attributed to owners deciding to hold on to their assets for another year in view of the postponement of the Olympic Games. What has been helping to prevent a massive write-off in malls and hotels is the government-led campaign to encourage domestic travel and spending, and that indirectly buys time for many operators as they hold on for positive news on the virus front.

In Singapore, the shortage of assets for sale resulted in transaction volumes falling by 92% YoY in 9M20. We expect that institutional investors and family offices will continue to cast their eyes over opportunities in the Singapore commercial property space. Commercial real estate investment activity in Hong Kong fell by 63% YoY in 9M20. We are hearing of greater interest in older office developments as well as warehousing facilities. The return of mainland China investors will be much awaited in the next few quarters.

## Strategy viewpoint – Japan's telecommuting experiment

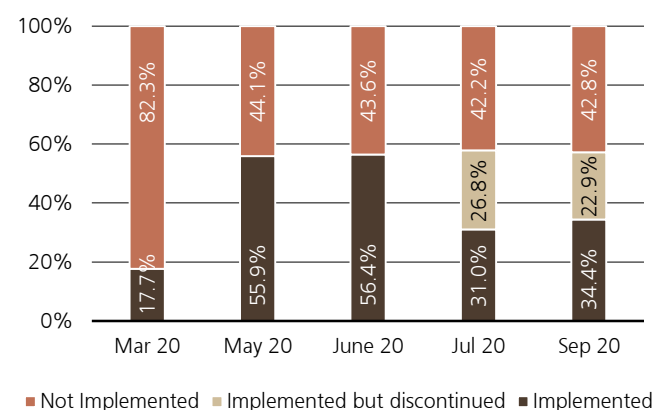
'But it's no use going back to yesterday, because I was a different person then.' said Alice.

Office markets globally are bracing themselves for the structural impact of remote working that will persist even after the virus episode is behind us. The new normal appears to be a reduction in office space requirements as companies and employees alike adapt to working from home. Japan is no exception; major employers such as Fujitsu are already rethinking existing office footprints in the longer-term. While headlines like these captivate the imagination of the futurist, the case in Japan is less straightforward. Fundamentally, we agree that the pandemic will boost the acceptance of working from home in Japan. That is only to be expected, especially as commute timings can be as long as three hours (both ways) for many salarymen who do not live near the CBD in cities such as Tokyo. However, it is more complicated than that.

There is a general reluctance amongst Japanese companies to adopt telecommuting protocols. During the peak of the pandemic when a state of emergency was activated, we saw almost 56% of Japanese firms entering into some form of remote working arrangement, up from the 18% before the

pandemic (see Figure 8). However, as the situation started to be brought under control, almost half of the firms that had remote working arrangements discontinued them. As at September 2020, that ratio had stabilized at 34%, just double the share of March 2020. The telecommuting experiment seems to have come full circle.

**Figure 8: Telecommuting: Share of businesses in Japan**



Source: Japan Ministry of Internal Affairs & Communications, Tokyo Metropolitan Government, as at 22 October 2020

There are many reasons why there is a pushback against telecommuting. For one, SMEs make up close to 90% of Japan's companies and the costs of remote working (infrastructure and productivity loss) are felt more strongly in these smaller outfits. Secondly, Japan is arguably a high-tech nation with traditional preferences. For instance, fax machines and hanko seals are used extensively in daily life, and the value of physical interaction is a top priority in the society. Thirdly, while the technology, finance and education sectors are the fastest adopters of remote working, they make up only 9% of the Japanese economy. In contrast, manufacturing and wholesale retail contribute more than 35% of Japan's GDP, and these are the sectors that are the least capable of implementing telecommuting given the nature of these businesses. Lastly, average home sizes in Tokyo are less than a fifth of that in the US and Australia. Working from home may not be the most desirable situation for most Japanese households.

All said, we are not suggesting that the Japan office sector is immune to the structural wave of telecommuting. No office market can go back to the way it was before COVID-19. In the case of Tokyo, if just a third of companies implement some form of remote working for their employees, our back of the envelope calculations estimate that this could translate into almost a 5% drop in office absorption from March 2020 levels. There will be some weakness in office occupier performance, but that will not move the needle too much. The key risk is that the pandemic drags on for longer than expected, and the corollary of that will be a permanent altering of mindsets and attitudes towards remote working, even in a culturally seeped society such as Japan.

# European outlook



**Gunnar Herm**  
Head of Real Estate Research  
& Strategy – Europe

**Subdued fundamentals persist** as the second wave breaks around Europe.





Europe remains in a somewhat gloomy situation despite strong 3Q GDP growth numbers. Occupier demand has been very subdued for all asset classes apart from logistics, while investment volumes have been down as investors struggle to visit assets and become more nervous about the market outlook. As a result, we are not expecting strong momentum going into 4Q causing most countries to have a weak 2020.

## Real estate fundamentals – Underwhelming recovery thus far

The third quarter saw record GDP growth in most European countries as lockdowns eased and a majority of more normal life functions could resume over the summer. This led to a record increase in Eurozone GDP (+12.7% QoQ)<sup>1</sup>. However, as this metric is usually measured on a quarterly basis, this says more about the dismal performance in 2Q20 than any real form of recovery. Following a peak to trough contraction of 15%, the Eurozone has still only recouped two thirds of the lost output.

Moreover, as autumn bites most countries have been struggling with resurgent case numbers and most major markets have introduced more restrictions over the last month. At the time of writing, France had just reimposed a nationwide lockdown, although there are more exemptions this time round. Most forecasters are expecting a gloomy winter as consumers have mostly exhausted their savings from the first lockdown and unemployment is expected to creep up, particularly in countries where work support schemes have expired.

In terms of real estate markets, the pandemic has radically reconfigured the nature of occupier demand. Offices had been benefitting from relatively low construction rates and robust demand, particularly for grade A floorplates. However, the pandemic has put most expansion plans on hold and led many to speculate that many companies will no longer need an office due to the now established practice of mass homeworking. Additionally, serviced office occupiers such as WeWork and IWG have seen significant falls in revenue as their customers have taken full advantage of the flexibility of the model and cancelled memberships. As a result, take-up has fallen by around 33% on a rolling annual basis while vacancy has begun to tick up in several major markets, most notably London which saw vacancy rise to 6.5% from a level of 3.9% at end-2019<sup>2</sup>.

It is difficult to gauge the effect of this on the total market as most available data sources focus on prime assets only. These have been the most resilient throughout the crisis and have seen rents maintained despite a rumored increase in incentives. Availability of prime stock remains fairly low as well, with leasing levels remaining fairly robust. However, it is surely only a matter of time before we see rental falls. It is worth noting that Eurozone rents increased by 1.9% YoY but fell by -0.4% QoQ, indicating there has been a marked momentum shift.

There is also likely to be a divergence between prime and secondary assets. Companies will most likely still need a head office, but various back and middle offices can be surrendered and the employees either integrated into the head office or told to work from home. We expect this to put downward pressure on landlord's net operating income (NOI) in the next few years, and we have already observed instances of companies maintaining offices but significantly downsizing their footprint.

The retail sector is still struggling as the crisis continues. While certain categories of retail sales have benefitted – such as DIY and grocery – the overall reduction in mobility has still not been reversed as infections rise and governments reintroduce restriction measures. Store closures are increasing as a result of both administrations and reduction in the number of stores by viable retailers. Inditex for instance, the owner of Zara, announced the closure of 1,200 of its 7,200 stores around the world by the end of 2021. This will most severely impact the high street and shopping center markets. While on the other end of the spectrum, retail warehouses should be more defensive due to a lower exposure to shoes and apparel, sectors which have suffered the worst drop in sales over the lockdown period. As a result prime rents tumbled, falling by 4% in just one quarter.

This has put more pressure on retail landlords at a time when many were struggling with defending occupancy and rental tones. We have seen prime high street rents decline by around -9% YoY, with UK centers suffering more than continental Europe<sup>2</sup>. London for instance, saw rents in the West End fall by around -25% YoY, as the impact of COVID-19 kept the summer tourist trade away, while other major UK cities saw comparable declines of around 25-30% YoY<sup>2</sup>. A silver lining of the pandemic is that it is accelerating structural changes and forcing landlords to really start thinking about how to make the best of struggling retail assets. There has been a significant increase in change of use applications, with the most favored target sectors for converting retail premises to being last mile logistics, student accommodation and residential.

The industrial and logistics sector on the other hand has benefitted massively from the pandemic as e-commerce rates have surged and many companies have begun looking to repatriate various elements of their production. Take-up has risen strongly across Europe as demand has surged from a variety of occupiers. Amazon has been particularly acquisitive, having acquired over 600,000 sqm of warehouse space to date in the UK alone. On the back of this strong demand, there has been strong rental growth of around 2.5% YoY<sup>3</sup> across the Eurozone with most forecasters expecting this positive momentum to continue despite the pandemic<sup>2</sup>.

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<sup>1</sup> Oxford Economics, 3Q20

<sup>2</sup> CBRE, 3Q20

<sup>3</sup> UBS Evidence Lab, 3Q20

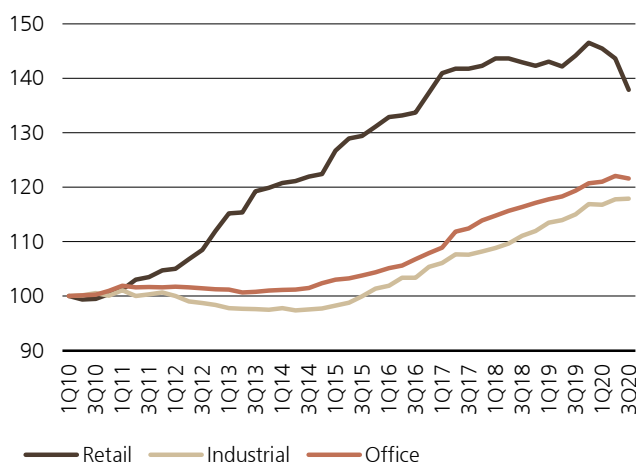


An interesting growth area has been online grocery retail, which was previously a very niche area of e-commerce. Penetration rates in the US have increased from 7-8% pre-pandemic to 23% at the most recent reading. This is likely to be mirrored across Europe as consumers have grown to trust online grocery ordering, and occupiers are becoming increasingly innovative and data-driven in their solutions to meet the increased demand.

Added to this has been the rising emphasis on the concept of resilience following the disruption of the pandemic. While production centers in Asia have now largely returned to their former levels of functioning, the experience of COVID-19 has convinced many CEOs to emphasize de-risking their supply chains, even at the price of greater overhead costs.

As a result, we have seen rental growth for prime industrial assets of around 1.5% YoY, with vacancy remaining at very low levels in most centers (see Figure 9). This is most pronounced in the urban logistics segment, where there continues to be issues with unlocking land for development. Most operators are still reporting difficulties accessing warehouse space of sufficient quality in the right locations. However, we expect rental growth to remain moderate going forward due to the very modest profit margins of most companies in the logistics sector. This begs the question of whether fairly modest increases are enough to compensate on tenant risk arising due to the relatively bespoke nature of modern logistics warehouses.

**Figure 9: Eurozone prime rental indices (1Q10 = 100)**



Source: CBRE, 3Q20

## Capital markets – Markets quiet but pricing largely firm

The pandemic has naturally put a strain on real estate capital markets as a combination of travel national restrictions, uncertainty about valuations and weaker economic fundamentals has caused many real estate investors to put their plans on hold. 3Q20 rolling annual volumes were down 43% at quarter end, while the YTD figures were down by around 20%. Of the main sectors, offices were down around 50%, retail around 40% (but from an already low level) and industrial down around 10%<sup>4</sup>.

A key feature of the market now is a shrinking investment universe. Many major commercial sectors have been severely impacted by the crisis, with the more niche sectors either remaining resilient or benefitting. Offices, for example, are by far the biggest and most liquid sector in most jurisdictions and currently there are serious doubts about how much and what type of office space companies will require in the future. Hotels have seen the most dramatic fall from grace, having been one of the favored alternatives pre-COVID-19. Investment in the sector is down roughly 70% YoY as the tourist industry remains in severe distress, with little hope of an immediate bounce back. Even retail had been attracting a few investors sniffing out countercyclical opportunities<sup>4</sup>. However, this interest evaporated following the lockdowns and requirements for most shops to close.

The sector which has benefitted on the other hand is logistics. This has been the clear winner due to even more rapid e-commerce growth than before the crisis. However, industrial does not make up more than 25% of the investment universe in any European market. This sector has seen rapid yield compression as investors have been focusing on a very small sample of assets, with yields now standing at 3.5-4% in the core Western European markets. We will discuss this sector more in our strategy viewpoint.

Similarly, investors have shown keen interest in the private-rented sector, though it remains a very niche market in most locations and as such assets have been trading at high valuations. Finally, food stores have seen pricing tighten as supermarkets have a much lower trading frequency than other types of retail assets. The fact that they have remained open during the pandemic has proved attractive to investors.

<sup>4</sup> RCA, 3Q20

What has emerged is a discrepancy between volumes and pricing (see Figure 10). There has been little evidence of yields moving out for core office assets, while logistics has compressed even further and retail nudged out only slightly (+10bps). This has likely led to the mismatch between buyers' and sellers' expectations, which is likely to further restrict deal flow. This does of course vary by sector; most major logistics markets saw prime yield compression of 10-25bps over the quarter and even more compression seen on an annual basis. Meanwhile, multiple retail markets saw outward movement of 25-50bps.

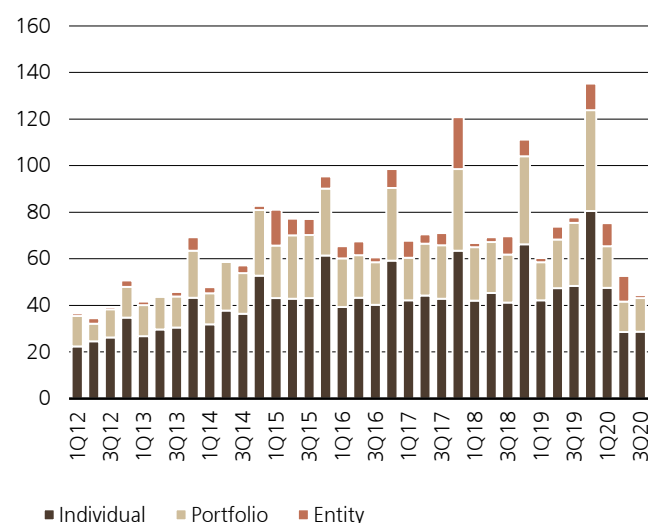
Offices remain one of the most gripping sectors, with the majority of prime yields remaining stable and some even compressing further QoQ. This is in spite of mounting evidence of very weak net absorption and rising tenant incentives, which indicate rental falls must surely follow.

The only market to see outward movement was Liverpool in the UK (hardly a big market), while several other markets such as Milan and Luxembourg City actually saw yields compress further. There is an argument that these are prime yields being quoted and there has certainly been far more resilient demand for grade-A office stock (both in occupier and capital markets) during the pandemic. However, we would expect even the more resilient assets to take a hit eventually, particularly if economic activity does not recover in 4Q20.

Another interesting feature of the market has been the growing tendency of operators to engage in sale and leaseback transactions. Amazon has long been a pioneer of this approach through developing bespoke warehouses, bringing them to market with a rentalized mezzanine floor and as a result achieving a higher price than is standard. Retailers have begun doing this in earnest as well, particularly with respect to their warehouse network. This has provided these operators with more liquidity as activity has fallen, while giving investors access to more sought-after assets. As a result, sale and leaseback transactions have risen from 7% of the market in 2015 to 13% in 2020. We have previously forecast this would happen over the medium-term, however, COVID-19 appears to have brought this process forward.

The outlook for the investment market is highly uncertain but appears to be propped up by excess liquidity. Fundraising has fallen back and there is still a significant amount of dry powder targeting commercial real estate. Added to this, the ECB has provided stronger than expected support to the market in the form of an additional EUR 300 billion in its pandemic emergency purchase programme (PEPP). This is likely to sustain the low real returns of sovereign and high-quality corporate bonds at least until end-2021. While this form of policy measure will not save investors from deteriorating fundamentals forever, it certainly provides valuable time to ride out the worst of the pandemic's impact.

**Figure 10: European investment volumes (EUR billion)**



Source: RCA, 3Q20

## Strategy viewpoint – Logistics: from flavor of the month to the only game in town

A very well-known story over the past decade has been the transformation of the logistics sector from its perception as a grubby, uninteresting sector to being the apple of investors' eyes. The Amazon effect and all the other associated drivers have been discussed ad nauseam and matched with eye-watering amounts of capital.

Just before the pandemic broke, we were starting to take the view that logistics was becoming too highly priced, particularly in the core Northern markets of the UK, Germany, Netherlands and most recently France. This view has now shifted again. Despite appearing to be nearing the end of its bull run, the pandemic has injected yet more vigor into the golden sector. If you include deals in contract, investment volumes for the first 10 months of the year are almost equivalent to those in the same period in the previous years, a stellar performance considering the malaise hanging over the general market (see Figure 11). Volumes have moderated by just 2%, compared with market-wide declines of 30-70%.

As discussed above, this has come at a price; it is now barely possible to find a yield above 5% for a sector which has traditionally had a high-income return. Indeed, such is the ferocity of bidding processes where very often assets brought to market are selling at higher than the initially quoted yield.

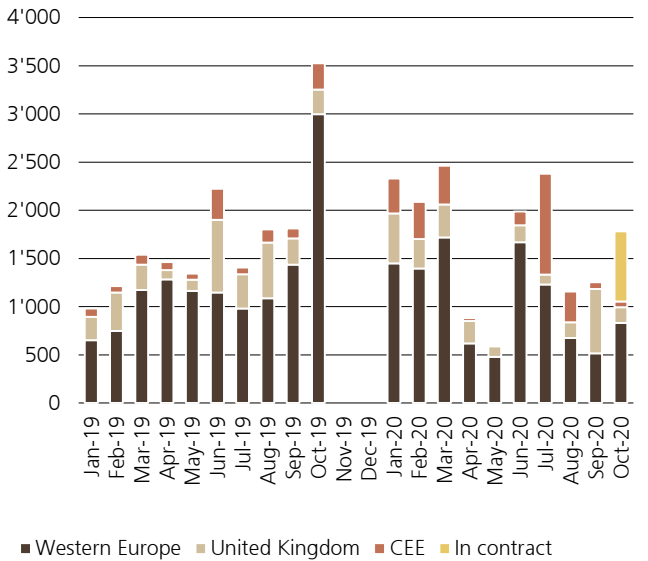
The obvious question here is: *Are investors overpaying?* On the one hand, there are good reasons for this re-surge in pricing. In 2020, e-commerce growth rates reached levels not previously expected until around 2030. The growth has been broad-based, however, niche sectors such as online grocery retail have seen volumes more than double. This has led to record high levels of take-up as online retailers and the supporting third-party logistics (3PL) companies clamor to secure enough space. The constant recurring theme we have heard from agents, investors and academic commentators alike, is that there is not enough logistics space. This appears to be reflected in the investment market as well, as sales of development sites have been very high in 2020, most of it aimed at logistics. In addition to this, there have been various schemes to repurpose retail warehousing and shopping sites to provide last mile logistics facilities.

Added to this is the theme of nearshoring. This has been on investors' radars for a while but has really come to the fore following the experiences during the pandemic. Increasingly, de-risking of operations and full end-to-end visibility have been pushed up the agenda at the expense of cost control. In a recent McKinsey survey, 43% of directors said they would actually trade higher costs for greater resilience. This could drive further demand for warehouse stock within Europe.

However, there are risks for investing into the sector at such low yields. Logistics operators have seen a decline in gross profit margins over the past five years, despite rising revenues from e-commerce (see Figure 11). This is due to various factors, most notably a shortage of drivers, rising construction costs and the far greater granularity of e-commerce distribution. Added to this, many traditional logistics operators have exposure to operational industries affected by the pandemic and as such there have been instances of rental non-payment among certain tenants.

Whatever your view, the key to understanding a logistics real estate investment at these prices is thinking hard about how future-proofed the asset and the location are. If you are buying at sub-5% it will take more than 20 years to recoup the investment (assuming flat rents and capital values). As many of these mega sheds are typically quite bespoke and single let, this provides a real risk that investors need to become comfortable with. Good understanding of the local market and careful underwriting of the tenant covenant are key to delivering positive outcomes for clients in this sector.

**Figure 11: Logistics investment volumes (EUR million)**



Source: RCA, 3Q20

# US outlook



**Tiffany Gherlone**  
Head of Real Estate Research  
and Strategy – US

Economic recovery begins even as the pandemic intensifies. **Real estate continues to adapt.**





Transaction volume is beginning to improve from the mid-year stall even as investors await clarity on comparative lease rates and required risk premiums. The next six months should bring measurable improvement compared to the last six months.



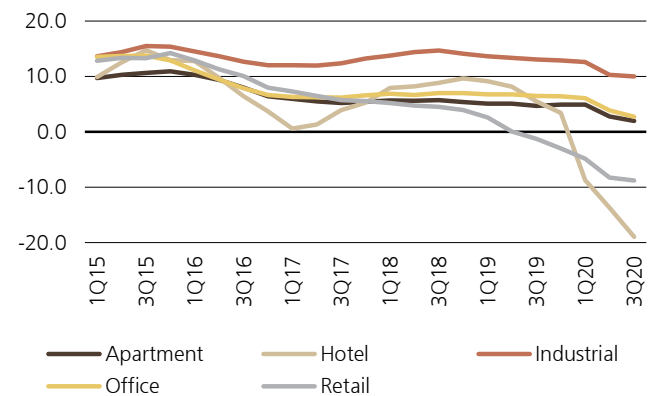
## Real estate fundamentals – Looking forward

The US is showing the first signs of recovery from a historic downturn. The NCREIF-ODCE Fund Index shows income return offset depreciation in private commercial real estate supporting positive total return, with wide dispersion among property types (see Figure 12). A complete return to steady economic growth is still at risk as US metros struggle to flatten infection rates. However, rent collection statistics show that the majority of tenants are current on their payments. Quantitative easing supports persistent wide spreads. As an income-driven investment with opportunity for long-term appreciation, real estate is posited well relative to other asset classes.

The hotel and retail sectors continue to be the most impacted by the lingering effects of the pandemic. Most development sites have resumed work. More time is needed to understand whether delayed development deals will deliver back-to-back, or gradually over time. The office, apartment and industrial sectors have deteriorated in the short-term, as would be expected in an economic downturn. But generally, these properties remain open, with some opportunity to adapt to current conditions.

Cash flows are being impacted, even though efforts to smooth over short-term losses for long-term recovery should have some success. Investors are incentivized to provide workouts to most tenants and borrowers. Uncertainty is high, which means discount rates face upward pressure. Ultimately, we expect opportunities, but not a flood of distressed transactions.

**Figure 12: US real estate returns across property types**  
(rolling four-quarter total return, %)

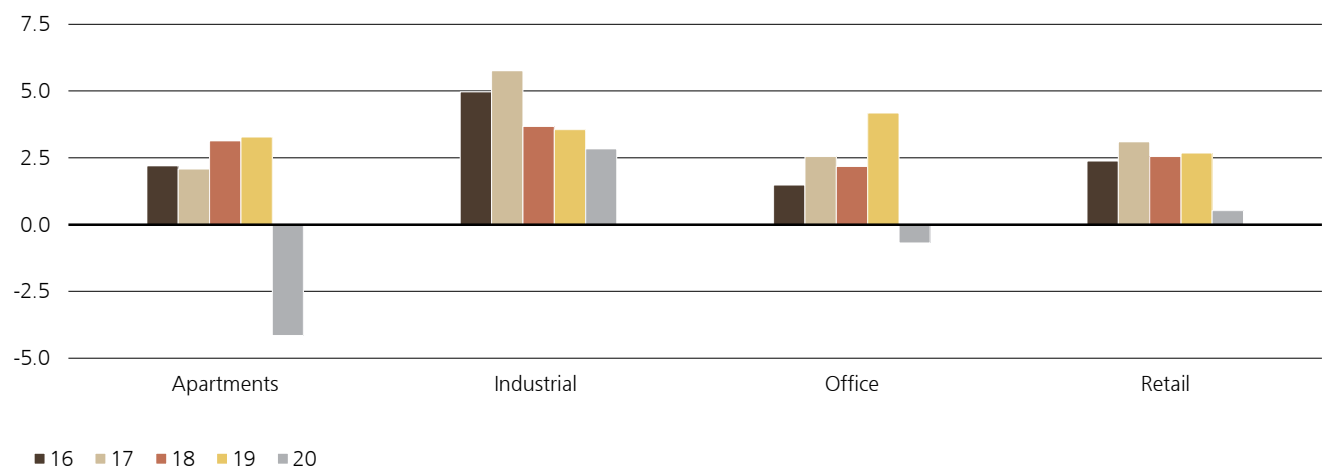


Source: Data shows unlevered NCREIF Property Index returns filtered for only ODCE managers. Past performance is not indicative of future result, September 2020.

Divergent sector return performance remained exaggerated over the quarter (see Figure 12). Hotel returns sharpened their decline as travel remains restricted. Apartment and office returns remain in negative territory on a rolling four-quarter basis. Retail returns continued to decline but at a noticeably reduced pace from 2Q20, exaggerating the still healthy industrial performance.

Consumers and investors are expected to remain cautious as lingering health and safety precautions restrain recovery growth. The US does not yet have universal control over the current health crisis; management and containment vary broadly by state and region. However, national year-to-date sector fundamentals did not contract as much as initially anticipated (see Figure 13), illustrating the resiliency of real estate investment.

**Figure 13: Property sector rent growth** (year-over-year change, in quarters ended 3Q20, %)



Source: CBRE-Econometric Advisors, 3Q20. Note: retail rent growth only reflects Neighborhood, Community and Strip Shopping Centers, thus excluding Malls, Lifestyle and Power Centers

## Apartment

Apartment sector vacancy has risen slower than initially anticipated even as supply remains elevated (see Figure 14). 3Q20 vacancy is up 80bps from one-year ago; partially a result of job loss but also impacted by an uptick in homeownership. Average asking rents are down 4.1% YoY; indicating that landlords are letting rent slip as they work to sign tenants. The speed of near-term apartment sector growth will likely be determined by the pace of employment recovery.

### *Necessity, not immunity*

The essential nature of housing keeps the apartment sector functioning. Some stimulus, unemployment benefits and eviction moratoriums are expiring without clear replacements. The labor market is improving but results are uneven. Properties with tenants in heavily-impacted industries remain at highest risk. Most downtowns are under pressure, and this is likely to continue with downtown office vacancy rising faster than the suburbs.

## Industrial

Despite the delivery of 74 million square feet during the quarter, 3Q20 industrial availability was unchanged from 2Q20 at 7.6%, 50bps higher than one year ago. Sector rent growth slowed to 2.8% YoY (see Figure 13), not far from the sector 10 year average growth rate of 3.1%.

### *Plenty of gas left in the tank*

As public gathering remains restricted, the 2020 holiday shopping season is likely to be dominated by online shopping and consumer direct shipping, allowing industrial to maintain a position as the least volatile sector. The bones of industrial could be reshaped as tenant needs are adapting, including more automation and cold storage options.

## Office

Total office vacancy rose to 14.0% in the third quarter as seven million square feet of new supply delivered into a market with rising availability. Preliminary 3Q20 data shows total office rent fell by 0.7% from one year ago. Downtown vacancy has risen to 12.6%, 240bps above one-year ago; while suburban vacancy, at 14.8%, is up by 170bps, narrowing the gap between the subsectors.

### *Persistent uncertainty*

Office tenants are weighing the option of either reducing space as they move to a remote work platform or increasing their required square footage to create a more socially-distant workplace. The net effect will likely be lower demand, and supply will adjust lower over the coming years to seek new equilibrium. New capital improvement projects are difficult to justify until these decisions are sorted. Stress in downtown leasing is likely to persist into 2021.

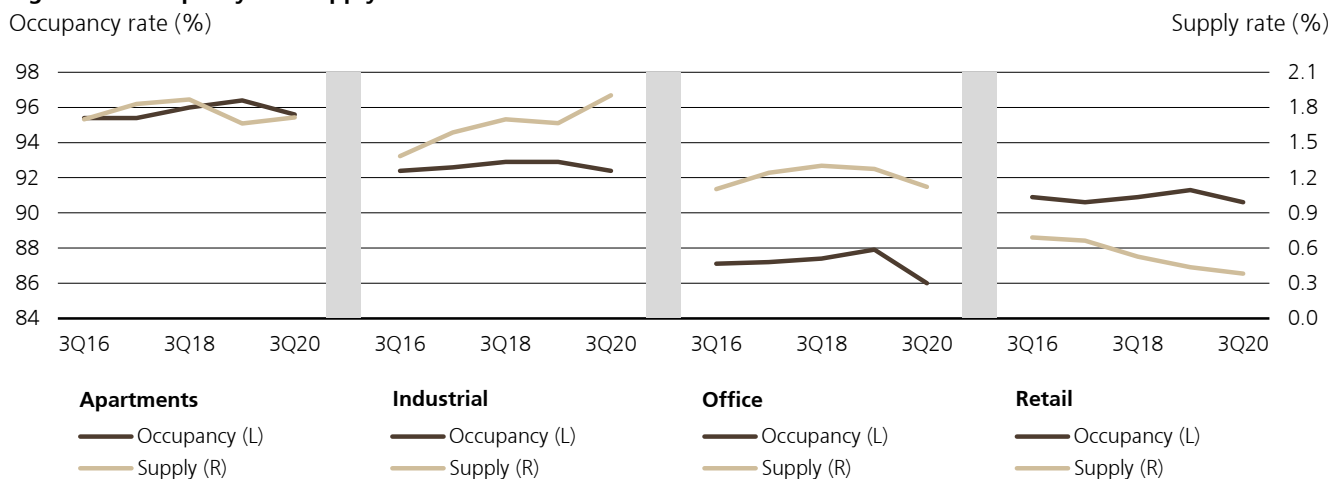
## Retail

Neighborhood, community and strip center retail completions are low, but online retail competition is heating up. 3Q20 saw the availability rate rise to 9.4%. Asking rent data is based on space listed with brokers, and because only high-quality space is listed as available the rent data will begin to skew higher. The data shows a 0.5% YoY asking rent increase as the most troubled retail space is converted to new uses, disappearing from the sector entirely.

### *Agility required*

Online retailers are expected to dominate the 2020 holiday shopping season with some initiating Black Friday sales in late October and early November in an effort to snare market share. Reactivation of pandemic restrictions will hurt independent brick and mortar stores and restaurants, particularly businesses unable to adapt to flexible and online strategies.

**Figure 14: Occupancy and supply trends**



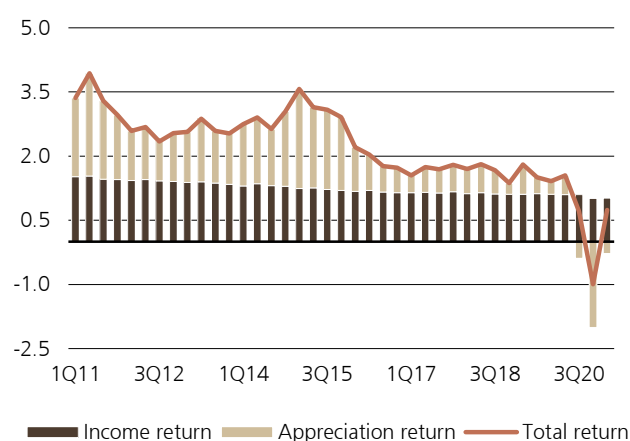
Source: CBRE Econometric Advisors, 3Q20. Note: Supply is shown as a completion rate (i.e. completions as a percent of existing inventory). Note: retail occupancy and supply rates only reflect Neighborhood, Community & Strip Shopping Centers, thus excluding Malls, Lifestyle and Power Centers.

## Capital markets – Beginning to awaken

Property-level returns improved during the third quarter as a smaller decline in value was more than offset by income. Only the industrial sector produced positive appreciation. Even though total return remains slightly positive year-to-date, values have declined in aggregate during every quarter of 2020 so far (see Figure 15).

**Figure 15: US property returns**

(QoQ, %)



Source: NCREIF Property Index, 3Q20.

Note: Past performance is no guarantee for future results.

Interest rates are expected to remain low for years to come. Stimulative measures from the US Federal Reserve moved short-term interest rates to zero in March 2020. On the long-end of the curve, the US 10-year Treasury rate is below 1.0%, pushing real estate spreads well above-average (see Figure 17). The higher risk premium implied by wide spreads reflects uncertainty around future occupancy rates, leasing velocity and income growth expectations.

While all downturns bring uncertainty to capital markets, the 2020 pandemic-led downturn has brought several challenges unique to real assets: travel restrictions, site closures and backlogs in municipal permitting processes. These challenges continue to stall investment volumes and tenant leasing. However, as economies begin to adapt, investors should be able to institute protective measures and resume due diligence and leasing tours.

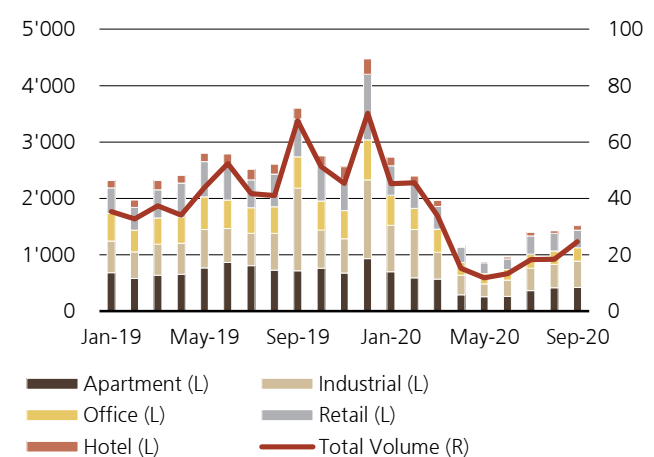
Interest rates are low. Spreads available in private real estate are well-above the long-term average, which should encourage greater transaction volume in coming quarters. Debt markets are loosening and lenders are favoring high-quality credit, long-term leases, multifamily and industrial properties.

September 2020 transaction volume is double the low point seen in May but just a third of what it was in September 2019. Figure 16 shows the sharp decline and tentative rise in total commercial and multifamily sales in the US during 2020. With persistently wide spreads, increased rent collection and cautiously competitive lenders, the US is likely to experience increased transaction activity as firms seek to complete trades by year-end. Optimism in the transaction market and cross-border investment should improve during 2021.

**Figure 16: US transactions**

Count of properties

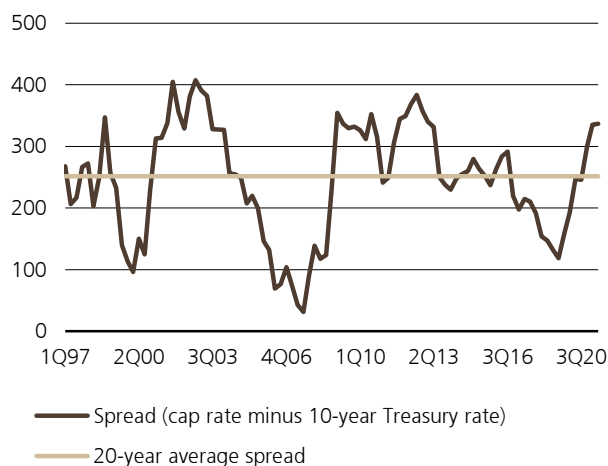
USD billion



Source: Real Capital Analytics, 3Q20. Includes entity-level transactions.

With limited sales restricting the availability of current pricing data, investors remain cautious. Although many lenders are open and able to lend, the near-term focus will be on managing portfolio stress and working out terms for existing loans, while extending new debt to the highest-quality deals.

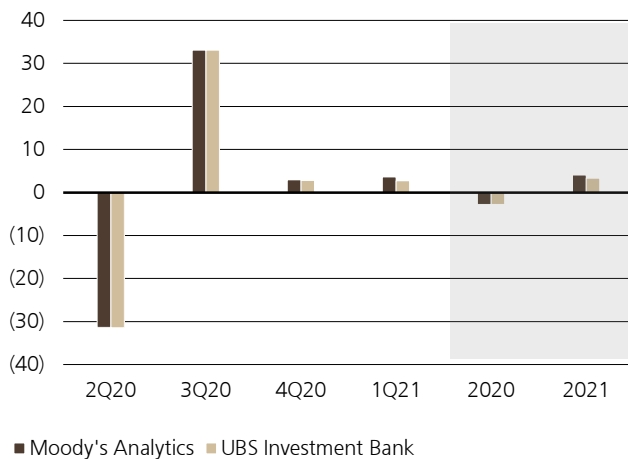
**Figure 17: Commercial real estate spread (basis points)**



Sources: NCREIF Fund Index – Open-end Diversified Core Equity; Moody's Analytics, 3Q20.

Preliminary third quarter GDP data shows an annualized growth of 33.1% (see Figure 18). Optimism for modest, positive, economic growth during the fourth quarter leads to a GDP forecast of about negative 3.5% for calendar year 2020 – an improvement from previous forecasts. Recovery will be slow given virus flair-ups and stalled stimulus negotiations.

**Figure 18: US real GDP growth (% annualized)**



Source: Moody's Analytics as of 9 November 2020 and UBS Investment Bank as of 6 November 2020.

Unprecedented stimulus flowed through the federal government and Federal Reserve to businesses, consumers, states and municipalities during the second quarter. Direct financial support helped establish a floor on the severity of short-term decline and helped communities, tenants and customers. However, near-term growth faces headwinds as pandemic restrictions outlasted the initial fiscal stimulus. Negotiations on further stimulus remain stalled.

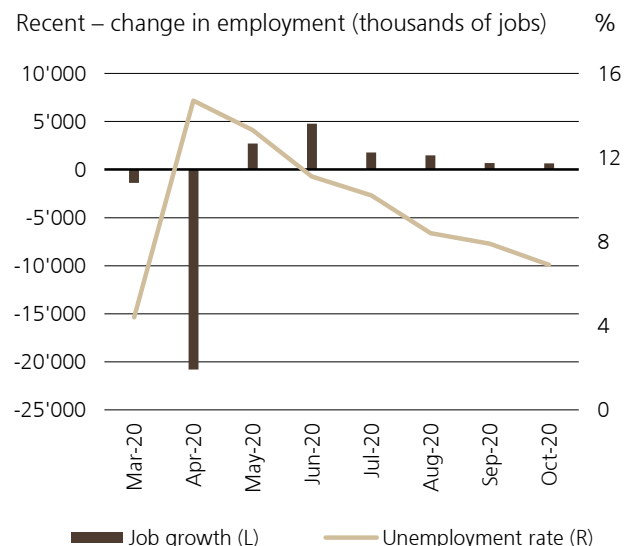
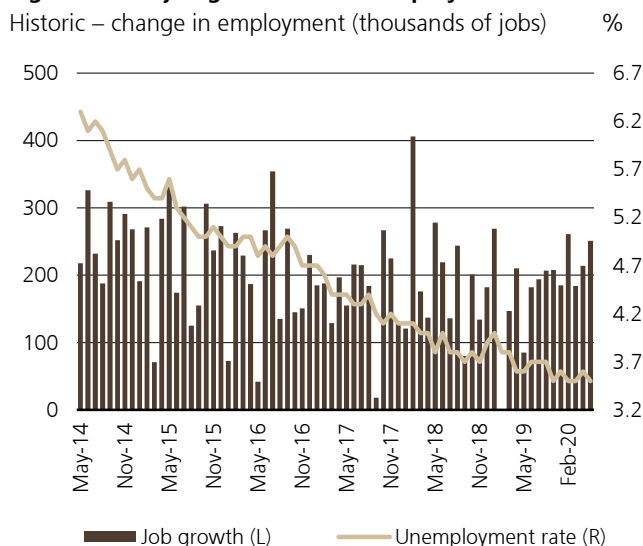
The unemployment rate shot up to 14.7% in April and almost immediately began to decline as Payroll Protection Program loans were approved (see Figure 19). The US unemployment rate was 7.9% for the month of September, which means 11 million Americans remain out of work, depressing consumer demand, particularly for services. Regional differences should play an important role in determining the trajectory for metro level downturns and recoveries.

## Strategy viewpoint – Dexterity required

State and metro variations in public health procedures may have widened the gaps around near-term economic potential. The momentum of future job growth will depend on finding a medical solution that limits a systemic resurgence of the virus and supports confidence in the potential for growth. The positive test results for the Pfizer-BioNTech and Moderna vaccines are steps towards that outcome. Downtown locations should show renewed potential in 2021, but the trajectory of growth is muted in the near-term compared to sites that are less dense and less dependent on mass transit.

Uncertainty continues around two key inputs to private real estate pricing: future cash flows and current transaction metrics. As data becomes available, there is every reason to expect that investors will adjust their underwriting. Necessity-driven, low-capex industrial and apartment assets remain in favor by investors in the near-term. Investments with lower risk tenant profiles and stronger cash flows will likely be most attractive to lenders.

**Figure 19: US job growth and unemployment rate**



Source: Moody's Analytics, September 2020

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