WHAT HAPPENED?
On December 13, 2019, the U.S. and China reached a new trade agreement—referred to as the Phase One deal—which they hope paves the way for a larger deal down the road.

Here are highlights (according to U.S. officials): 1) U.S. has agreed to suspend the December 15 tariffs that would have impacted ~$160 billion of Chinese-made goods; 2) U.S. has agreed to cut the rate on existing tariffs from September to 7.5% from 15%; 3) China has agreed to purchase $200 billion of additional U.S. goods over the next two years.

• The deal does not address the thornier issues such as technology transfers, intellectual property and a host of other regulations that some U.S. business groups say hinder their ability to do business in China. These are expected to be negotiated in Phase Two or Phase Three of the ongoing negotiations.

• Stock markets generally reacted positively to the truce. However, the deal does not end the uncertainty as it includes a “snapback” provision: if the Trump Administration views that China is not making good on the terms of the new deal, tariffs could very quickly ramp back up.

• It is also important to note that while some tariffs have been halted or reduced, many others remain in effect. Even after the Phase One deal, 68.5% of all Chinese imports to the U.S. are subject to tariffs; 58% of all U.S. imports to China remain in effect.

WHAT IT MEANS FOR CRE:
• By general consent, the trade dispute has negatively impacted certain aspects of the global economy and will continue to do so. The IMF estimates that the existing tariffs and trade-related uncertainty will shave 0.8% off global GDP growth by 2020.

• Notably, since the trade war intensified, global trade flows have slowed, business confidence has deteriorated, and the global manufacturing sector has also arguably slipped into recession. Similarly, many central banks have continued or commenced easing policies—partially to get ahead of the negative impacts caused by the trade dispute.

• The CRE leasing fundamentals have held up reasonably well since the trade skirmish first began. Regional variations aside, global office and industrial occupancy levels have remained stable throughout the skirmish.

• We do flag, however, a few possible early indications that the trade dispute is starting to impact certain aspects of the property markets. For example, demand for industrial space in certain U.S. West Coast markets was notably slower in 2019. Demand for office and industrial space was also slower in certain Chinese cities this year and export-oriented economies in general lagged behind other markets in 2019.
U.S.-CHINA TRADE WAR UPDATE: Suspension of December 15 Tariffs, Phase One Deal Reached

HOW TO PLAY IT

<table>
<thead>
<tr>
<th>OCCUPIERS</th>
<th>INVESTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade-related uncertainty isn’t going away soon. For markets that are most exposed, this will create additional leverage opportunities for occupiers to negotiate better deal terms.</td>
<td>The trade dispute will continue to create periods of volatility, particularly in the globe’s stock markets. This may increase capital allocations to alternative asset classes such as bonds and property due to their long-term nature and lower measured volatility.</td>
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AVERAGE TARIFF RATES

![Graph showing average tariff rates from January 2018 to September 2019.](image)

Source: Peterson Institute for International Economics
Note: Tariff rates shown are those at the end of each respective month. In some cases, average tariffs rates varied throughout a given month.