

THE SIGNAL REPORT: GLOBAL GUIDE TO CRE INVESTING IN 2021

MARCH 2021

KEY TAKEAWAYS

The Signal Report: Global Guide to CRE Investing in 2021

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Global property markets are set to bounce back in the second half with investors leading the way:

1. Consensus is that there will be a widely distributed vaccine by mid-2021 in most advanced countries and some emerging markets.
2. Economic outlooks have been revised upwards for 2021 and many are calling for a surge in H2 activity. Asia Pacific remains the global frontrunner.
3. The capital markets are recovering faster than the leasing markets, and with tremendous capital and pent-up demand for assets, conditions are ripe for further acceleration. At the same time, we will continue to see more diverse transaction structures compared to pre-COVID-19.
4. Sheds, Beds, Meds and niche assets remain attractive but only so much product is available.
5. A synchronized growth scenario is forming that will lift multiple sectors, markets and product types heading into 2022.
6. While the cycle and the pandemic often dominate thinking, structural shifts in business and social behavior must be accounted for in strategy – and increasingly this will be led by ESG.

WHEN DOES THE LIGHT TURN GREEN FOR INVESTORS?

GLOBAL SUMMARY: As with 2020, global economies, leasing markets and capital markets will march to the tune of the pandemic situation, resulting in a high level of synchronicity across these different drivers of the investment market. In contrast to the prior global recession, we expect to see investment activity lead the leasing markets primarily due to strong financial conditions globally. Conditions are consistently more positive in the Asia Pacific region, though as the vaccines get rolled out all regions are expected to end 2021 with strong momentum.

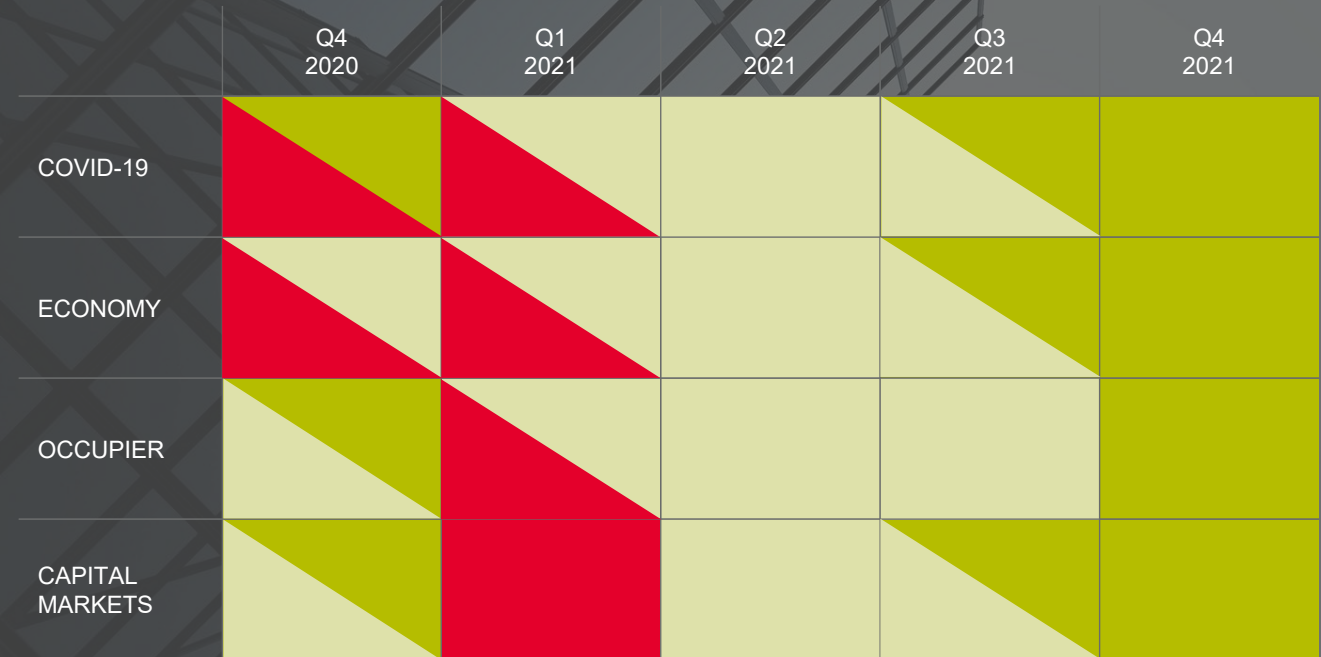
FIRST QUARTER: The virus continues to do significant economic damage and induces more stay-at-home restrictions. The new variants of the virus weigh on confidence. More fiscal support is on the way, but the virus will continue to disrupt and suppress sales activity in Q1 in most parts of the world.

SECOND QUARTER: Virus waves abate, restrictions loosen and vaccinations accelerate—albeit unevenly. The combination results in improving economic performance boosted further by greater fiscal support. Global real GDP quickly moves towards 5% growth. Occupiers become more active, but with much of the world still working from home, travel limited etc., leasing activity (aside from logistics) improves but modestly. With the end of the pandemic market in sight, investors step up activity, adjusting pricing expectations and drawing sellers into the market opportunistically.

THIRD QUARTER: Second quarter trends accelerate. Workers begin returning to the office in North America and Europe. Travel slowly returns. Global economies accelerate with a large swath of the global economies recovering to pre-pandemic output levels. Growing confidence among occupiers and investors drives improvement in activity albeit with one eye on when policy supports will start to be removed.

FOURTH QUARTER: The global economy is firing on all cylinders, though it will still take some time for global labor markets to fully recover. Pent up demand and an extremely permissive financial environment push a “sugar-high” boosted economic recovery. Some distressed opportunities emerge but remain fewer and further between relative to the Great Financial Crisis. Price adjustments harden for lower quality offices and high vacancy retail, but the more common experience is that buyers reduce discount requirements resulting in an extremely dynamic market at year’s end.

- Uptrend/Strong Improvement
- Turning Point/Slight Improvement
- Sluggish/Below Potential



Source: Cushman & Wakefield

REGIONAL INVESTMENT

WHO WILL LEAD THE UPTURN?

GLOBAL: We face an uneven recovery but one with investors leading as low interest rates, abundant liquidity and a lack of alternatives drive demand. Regional trends will differ, with developed markets outperforming emerging markets and Asia leading all regions. However, differences in growth by city, submarket and sector will be more significant as industries continue to adapt to a post-COVID-19 digital world.

ASIA PACIFIC: Leading regional economies have been global leaders in containing the pandemic, contributing to strong rebounds in liquidity in H2 2020, notably in South Korea and Greater China. Aggressive responses to contain new virus strains are liable to weigh on activity in early-2021 before easing as vaccinations contain the virus. Resumption of international travel is necessary for full recovery in liquidity. Investor demand will continue to be biased towards industrial and residential assets, though continued economic momentum, combined with recovered physical office occupancy, will support broadening liquidity.

EMEA: Investors will be on the front foot in Europe as soon as conditions allow, but the occupier recovery will be more protracted, with business failures and unemployment set to rise well into late-2021, if not 2022. As a result, investors will be risk averse, focusing on core markets and long-term growth stories, notably once again in “alternative” market sectors: “beds, meds and sheds.”

LATIN AMERICA: Exit from the pandemic and subsequent economic recovery will tend to lag developments in other regions, which will weigh on investors ability to develop conviction. Global capital flows will remain restrained for the foreseeable future. Investments will be primarily domestic or regional, focused on the major cities with growing emphasis on logistics and residential opportunities in core markets. Work from home will be more limited in the region, which could support an office recovery.

NORTH AMERICA: Transaction activity will remain constrained until enough people are vaccinated, spurring a return to office and revitalizing urban living. At that point, office leasing and sales will begin to gain traction with buyers and sellers becoming more convicted on underwriting. Strong investor demand persists for logistics and residential, particularly suburban. Debt markets continue to provide attractive executions, especially as banks become more active as early as Q2.

- Uptrend/Strong Improvement
- Turning Point/Slight Improvement
- Sluggish/Below Potential

	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
GLOBAL	Turning Point/Slight Improvement	Sluggish/Below Potential	Turning Point/Slight Improvement	Turning Point/Slight Improvement	Uptrend/Strong Improvement
ASIA PACIFIC	Uptrend/Strong Improvement	Turning Point/Slight Improvement	Turning Point/Slight Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement
EMEA	Turning Point/Slight Improvement	Sluggish/Below Potential	Sluggish/Below Potential	Turning Point/Slight Improvement	Uptrend/Strong Improvement
LATIN AMERICA	Sluggish/Below Potential	Sluggish/Below Potential	Sluggish/Below Potential	Turning Point/Slight Improvement	Turning Point/Slight Improvement
NORTH AMERICA	Turning Point/Slight Improvement	Sluggish/Below Potential	Turning Point/Slight Improvement	Turning Point/Slight Improvement	Uptrend/Strong Improvement

Source: Cushman & Wakefield

PROPERTY INVESTMENT

WHICH TYPE WILL LEAD THE UPTURN?

LOGISTICS, RESIDENTIAL AND LIFE SCIENCE: These three are the pandemic “winners.” However, office and retail become interesting risk-adjusted bets. Polarization looms in all sectors as changing working, living and shopping patterns continue to disrupt the status quo.

Logistics will be a key benefactor of this trend, and supply chain changes will be an added driver of demand in some areas. But keep an eye on the construction side and pricing—it is rarely a good sign when the industry begins labeling sectors “bullet-proof.”

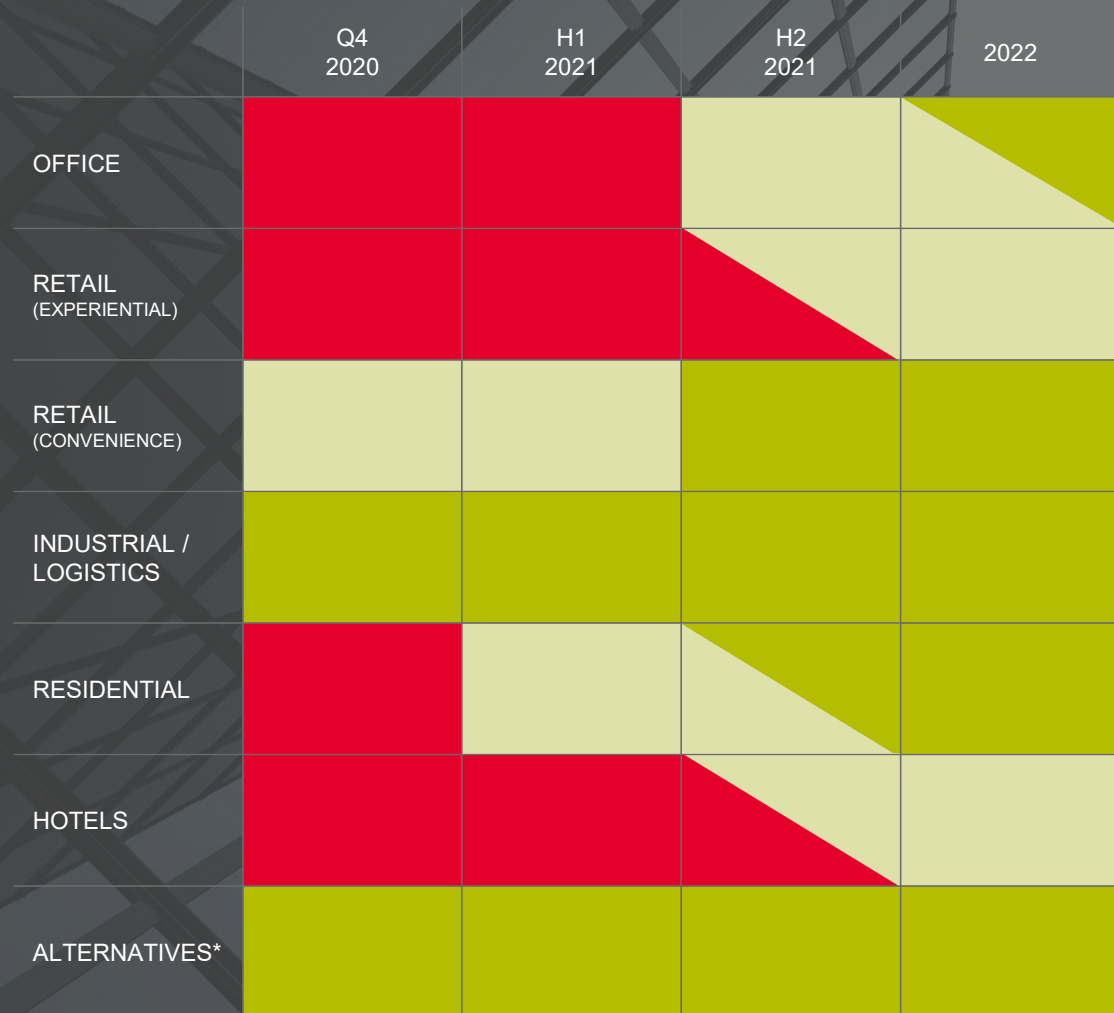
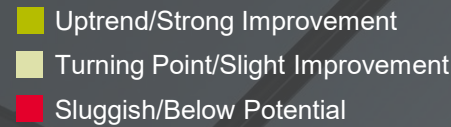
RESIDENTIAL: Multifamily faces near-term headwinds in the form of back rent and the very real potential wave of evictions, particularly in the U.S. Global markets will experience varying impacts on asset performance and valuations depending upon whether they lean towards tenant protections. However, housing cannot go virtual. Many secondary, non-global gateway markets have maintained positive metrics through the crisis, showing signs of resilience in the sector overall. Demographics also indicate long-term strength in this sector and often an undersupply of the right product.

RETAIL: The revolution in retail is still in its early days, but the role of strong retail in anchoring destination and convenience locations is clear. Repricing will open opportunities in 2021, with some upside potential if vaccine programs move quickly. Amid negative sentiment, investors are at risk of overlooking areas of relative strength. A surge of pent-up demand is coming—2022 will be a big year for retail.

HOSPITALITY: Hospitality will gain quickly as vaccine programs develop but markets that depend on business and international travel are liable to lag. Nonetheless, with more automation, operational efficiencies and more flexible business models—all accelerated by the pandemic—hotel real estate should be on investor radars.

OFFICE: Markets face turbulence as WFH develops but modern flexible space in core locations is part of the solution. Demand will polarize, with tenant and sub-location key to value. Few companies are going 100% remote. Office will thrive again.

Repurposing existing assets is a major area of opportunity, including mixed-use and specific sector prospects such as supporting click and collect and “last meter” inner-urban logistics and evolving areas of tech infrastructure.



Source: Cushman & Wakefield

*Data centers, self-storage, life science

COVID-19 UPDATE

PAINFUL Q1, THEN BRIGHTER DAYS

GLOBAL: Q1 will be difficult for most parts. The virus continues to spread and the new variants introduce new downside risks to economies. On balance, the outlook calls for most developed markets to turn the corner towards the end of the third quarter with emerging markets following in early-2022.

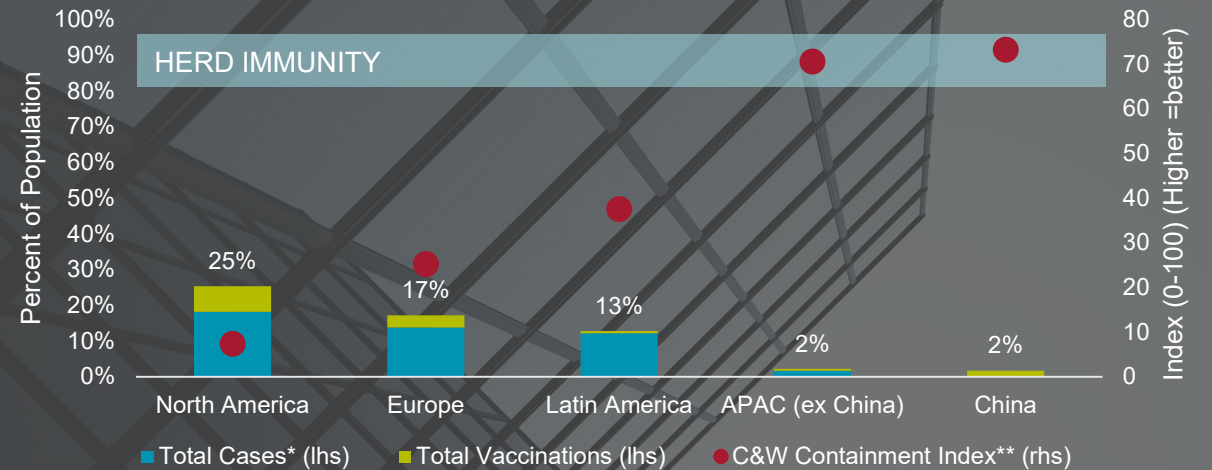
ASIA PACIFIC: Although COVID-19 is now relatively under control in most Asia Pacific countries, its population density puts the region at mid-high risk until vaccines are more fully deployed. The sheer size of the regional population and diversity in governance represent significant obstacles to full vaccination across the region. As such, vaccination progress is likely to be multi-paced across the region.

EMEA: COVID-19 case numbers have been elevated once more in Q1 and associated business and social restrictions have slowed the recovery. Moreover, while some countries are ahead in terms of vaccinations—notably Israel, UAE and the UK—general progress has been slower. As a result, restrictions will only loosen at a measured pace in Q2 as warmer weather returns, accelerating in H2 as most of the population is vaccinated.

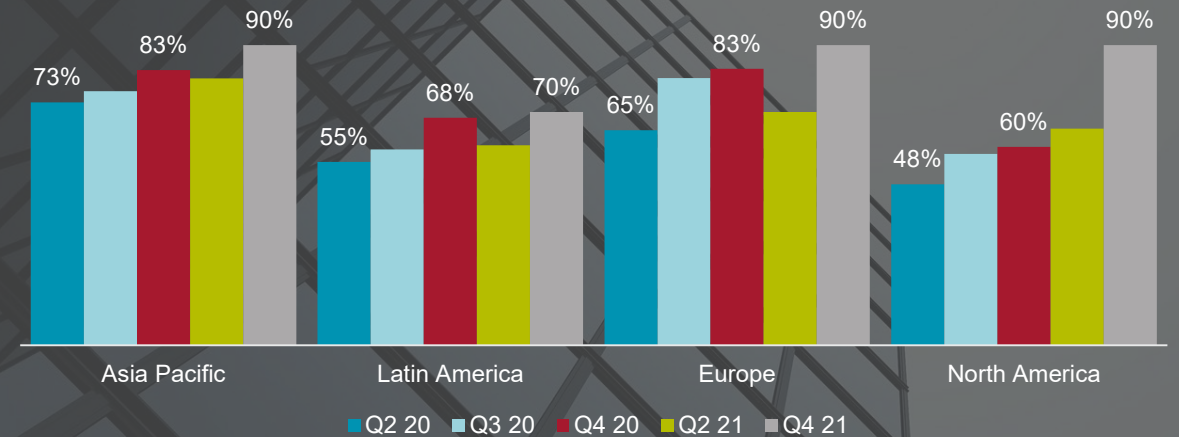
LATIN AMERICA: Vaccination has started in several countries and further mitigation measures are reducing new cases, led by Brazil, Mexico, and Colombia. Markets remain apprehensive because of ongoing uncertainty about the rate and effectiveness of immunization and because several countries have yet to implement vaccine plans. The outlook baseline assumes that COVID-19 vaccination gathers pace during the second half of 2021, though slower than in Europe and North America.

NORTH AMERICA: New cases numbers are falling throughout much of North America in response to both individual changes in behavior and government action. Restrictions will likely begin loosening with the onset of warmer weather just as vaccines become more widely available. At the current pace, the U.S. will reach the lower bound of herd immunity in late-June. Regions with greater economic stress and/or more business-oriented environments will tend to reopen more quickly—and vice versa— following the pattern to date.

GLOBAL PANDEMIC SITUATION OVERVIEW



ECONOMIC OPENNESS



Source: Our World in Data, Cushman & Wakefield Research *Estimated by taking total deaths and assuming 0.7% case fatality rate. **The index captures recent mortality levels relative to lockdown stringency. A high score means that a country/region has achieved fewer deaths with less restrictions.

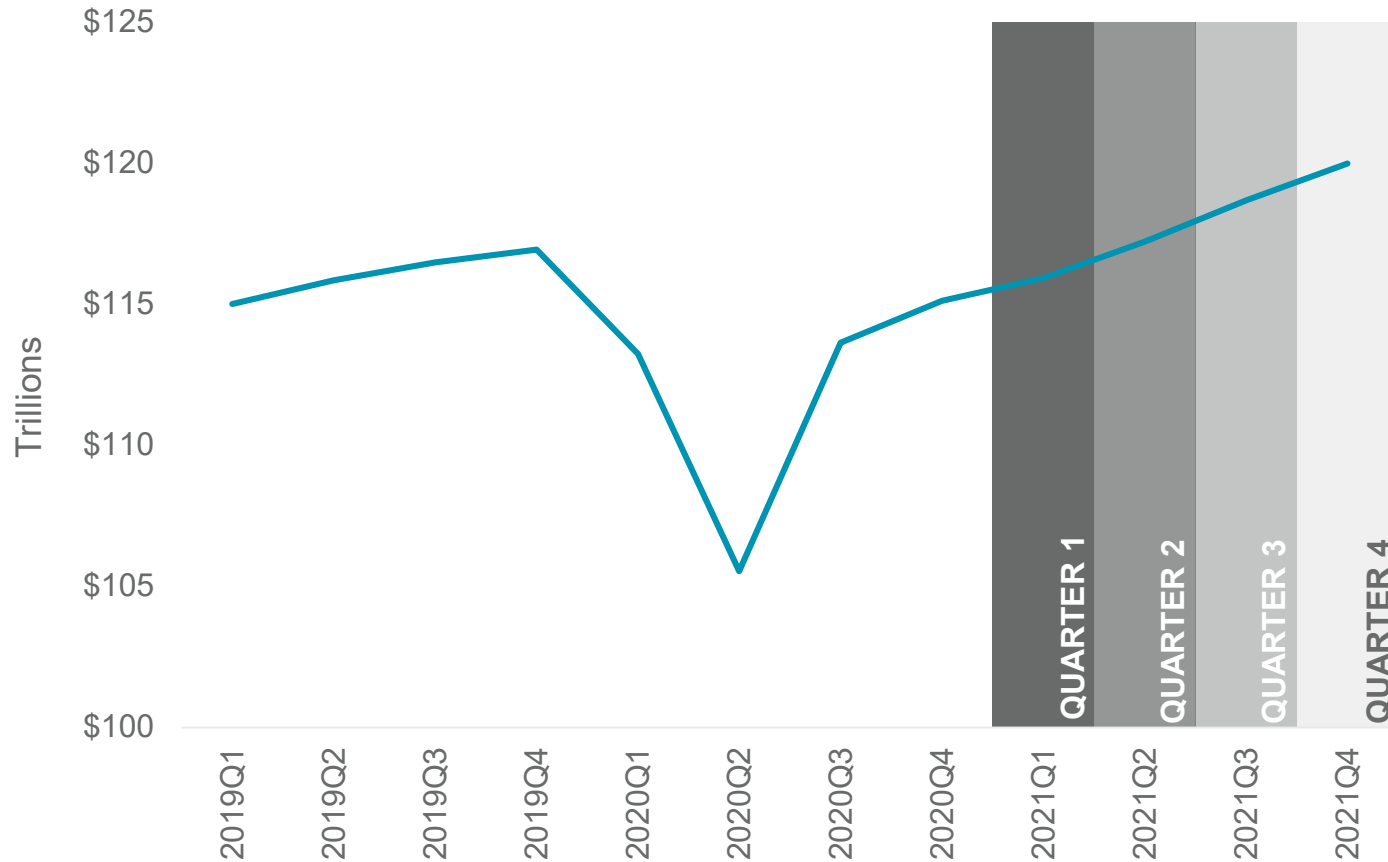
THE ECONOMY



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A PATH FORWARD

GLOBAL REAL GDP



Source: Various government agencies, Moody's Analytics

Q1

- Virus continues to spread; renewed lockdowns in spots
- Slowing momentum in colder climates slows and reverses some labor market improvements, hitting leisure and tourism industries hardest
- Merchandise trade and industrial production gains slow
- Consumers continue to save above trend

Q2

- Warmer weather and pace of vaccinations lifts spending on services
- Since most countries contracted sharply in Q2 2020, YoY growth rates appear strongest
- Private sector investment, production and trade re-accelerate
- Services and retail, reopening slowly, gather pace across most economies

Q3

- Vaccinations allow for a pickup in travel and tourism—though still tepid
- Consumer spending on services accelerates significantly, allowing a cohort of nations to recover to pre-COVID-19 GDP levels
- Fiscal support for the economy starts to wane—focus begins to shift to high debt levels
- Inflation expectations improve amidst budding transition from fragile recovery to expansion

Q4

- Vaccinations allow many advanced nations to reach critical thresholds for reopening
- International travel and migration continue nascent improvement
- Private investment continues to accelerate
- Global consumer spending makes a full recovery to pre-COVID-19 levels

REGIONAL ECONOMIC UPDATE

LABOR MARKETS SLOWER TO RECOVER

GLOBAL: Global real GDP is expected to advance at a healthy clip of 5.4%, led by Greater China and select APAC markets such as Australia, Indonesia and South Korea. Further fiscal policy support (which is likely) in the U.S. would have benefits beyond the country's borders, pulling forward the global recovery. With global unemployment having peaked in Q2 2020 at 7.1%, improvements in job growth—which is estimated to reach 1.2%, or nearly 27 million jobs—further lowers the unemployment rate to 6.2% (70 bps above pre-COVID-19 levels) by year-end 2021.

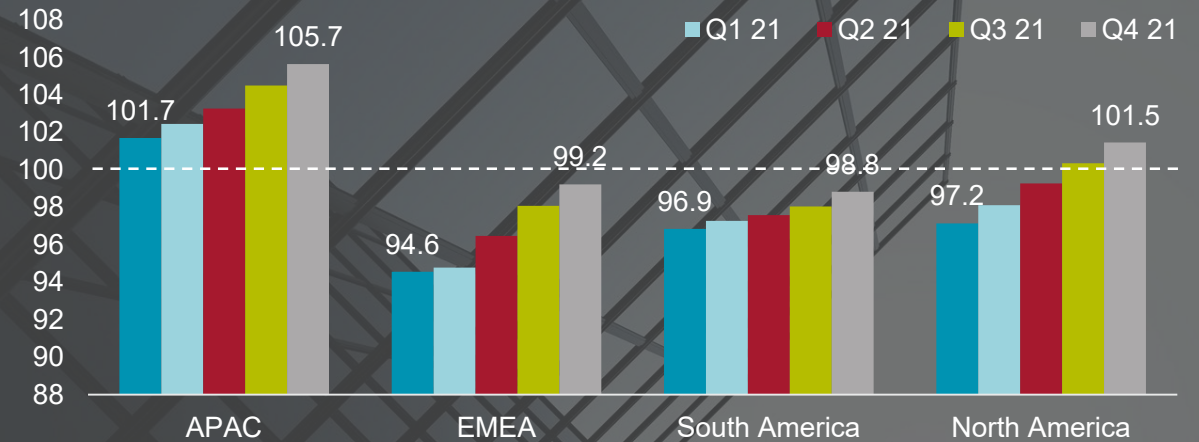
ASIA PACIFIC: The rosier outlook is for APAC/Greater China, with economic growth expected to reach 7.0% for the region. Some bifurcation in APAC's performance emerged in late 2020, which should continue in 2021. But the overall unemployment rate is slated to fall to 4.3% by year-end, just 20 bps above pre-COVID-19 levels. Forecasted employment growth of 1.3% will yield nearly 20 million new jobs for the region.

EMEA: Renewed lockdowns in late-2020 and large economies that depend on international travel will weigh on the outlook, particularly in Q1. Combined with a structurally slower-to-adjust labor market and significant policy support, employment is expected to decline by -0.5% (or 1.3 million jobs) in 2021. This will delay the peak in unemployment until the middle of 2021 before sustained improvements are anticipated.

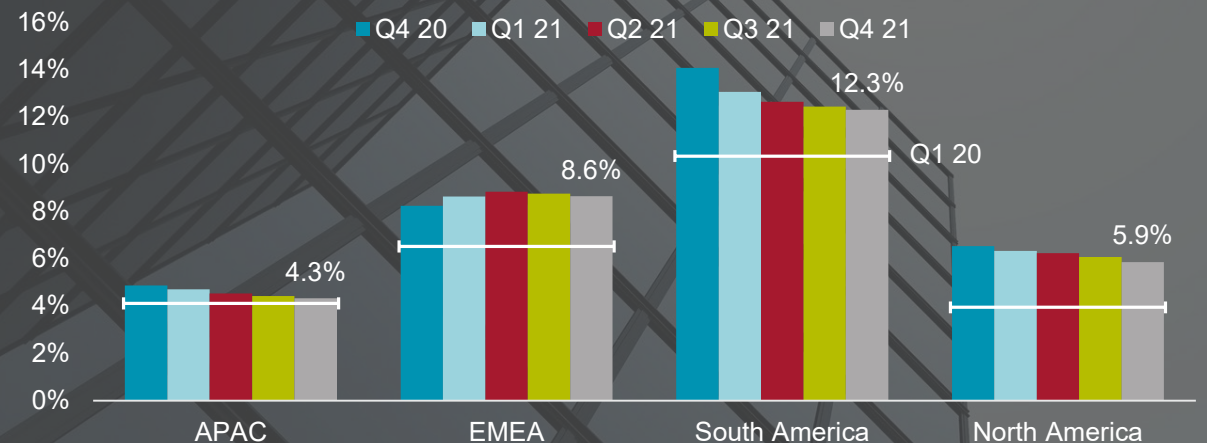
SOUTH AMERICA: Pre-COVID-19, the region was in a weaker position than others. Unemployment had been rising since 2014, from a low of 6.8% to 10.2% by year-end 2019. With some of the strictest lockdowns, and impacted by weaker global demand, this region faces a longer road to recovery. A rebound will lag a broad pickup in global momentum and an improving commodities/trade backdrop. Still, with the worst employment decline globally (-10.1%) in 2020, the region will see the fastest anticipated growth rate in 2021 (2.3%) outside of emerging APAC.

NORTH AMERICA: With the U.S. among the most aggressive countries in terms of policy responses, it will drive the tone for the region—indeed, a better outlook for fiscal policy raised the forecast for 2021 U.S. real GDP growth rate by 90 bps, from 4.1% to 5.0%. Trade and production links tie the fate of Canada and Mexico to the U.S., and a broader pickup in global industrial production, commodities demand, and trade activity. Job growth eased heading into 2021 but is forecast to reach 3.7 million in 2021. The unemployment rate—far from its Q2 2020 peak of 11.3%—is expected to fall below 6% by year-end 2021, hitting 5.9% in Q4 2021.

OUTLOOK FOR REAL GDP (Q4 19 = 100)*



OUTLOOK FOR THE JOBS MARKET (UNEMPLOYMENT RATE)



Source: Various government agencies, Moody's Analytics, Cushman & Wakefield Research. Note: Real GDP aggregated using underlying data in PPP terms.

MAJOR GLOBAL AND REGIONAL ECONOMIES

	PEAK-TO-TROUGH % DECLINE IN REAL GDP	PROJECTED 2021 REAL GDP GROWTH	RECOVERY TO PRE-COVID-19 REAL GDP LEVELS
MAINLAND CHINA	-9.71%	8.73%	2020 Q2
TAIWAN	-1.16%	4.59%	2020 Q3
AUSTRALIA	-7.29%	4.52%	2021 Q1
HONG KONG	-9.20%	7.47%	2020 Q1
SOUTH KOREA	-4.40%	3.80%	2021 Q2
INDONESIA	-7.55%	5.24%	2021 Q2
RUSSIA	-4.98%	2.16%	2021 Q3
POLAND	-9.27%	3.72%	2021 Q3
U.S.	-10.14%	5.00%	2021 Q3
SINGAPORE	-13.89%	5.36%	2021 Q4
BRAZIL	-11.00%	3.82%	2022 Q1
GERMANY	-11.69%	2.96%	2022 Q1
CANADA	-12.98%	4.59%	2022 Q1
INDIA	-25.20%	7.46%	2022 Q1
JAPAN	-10.45%	2.04%	2022 Q2
ITALY	-18.04%	5.19%	2022 Q3
NETHERLANDS	-9.91%	1.48%	2022 Q4
MEXICO	-18.74%	3.84%	2022 Q4
UK	-21.21%	2.50%	2022 Q4
FRANCE	-19.02%	5.47%	2023 Q1
SPAIN	-22.19%	5.43%	2023 Q4



RECOVER
SOONER

Shaded markets are those that:

1. Recover to pre-COVID-19 output by 2021 Q4.
2. Whose economies are projected to grow by 4.5% or more in 2021.

RECOVER
LATER

Source: Various government agencies, Moody's Analytics, Cushman & Wakefield Research.

Note: Underlying real GDP data in PPP terms

OCCUPIER TRENDS

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GLOBAL OCCUPIER TRENDS

CONVENTIONAL SECTORS

RESIDENTIAL: Global residential trends are largely split between homeownership and rentals. In 2020, home values generally increased while rental rate growth softened, even for markets where rental growth persisted. The high-cost global gateway cities will continue to experience acute pain through the next two years while secondaries that have been beneficiaries of migration will bounce back more quickly. Overall, green shoots of residential recovery are projected to show in the second half of 2021 with a rebound in rent growth by year end 2022.

OFFICE: 2021 will be the year of sorting out the work from home impact on occupancy needs. Expect a more agile work approach requiring a smaller footprint. However, after a year of retrenching, occupiers will start to make longer-term commitments and the volume of leasing activity will pick up materially in the second half of 2021.

RETAIL: Convenience/necessity retail was resilient in 2020 and we expect that momentum to build in 2021, despite rental headwinds from an overall higher vacancy environment. By contrast, experiential retail has been far more challenged due to pandemic restrictions. It will only begin to turn the corner in the second half of 2021, though managing through the fallout will take some time longer, especially in the U.S.

LOGISTICS: The pandemic accelerated the already strong growth of e-commerce, increasing occupier demand for logistics real estate and condensing several years of online sale penetration into 2020 alone as many global consumers shifted online for a wide variety of goods. Demand for industrial real estate was also boosted on the production side by manufacturers seeking to build safety stock, and with demand supported in the long-term by producers seeking to shorten supply chains.

HOSPITALITY: The sudden shift in market fundamentals driven by COVID-19 led to a notable price gap between hotel real estate buyers and sellers last year. However, as businesses get set to reopen, this gap will narrow, bringing opportunities for operators and investors alike. Indeed, structural changes such as growing incomes and the ongoing shift to an experience economy support the sector's long-term prospects, underpinned by a lack of virtual substitutes for hotel accommodation.

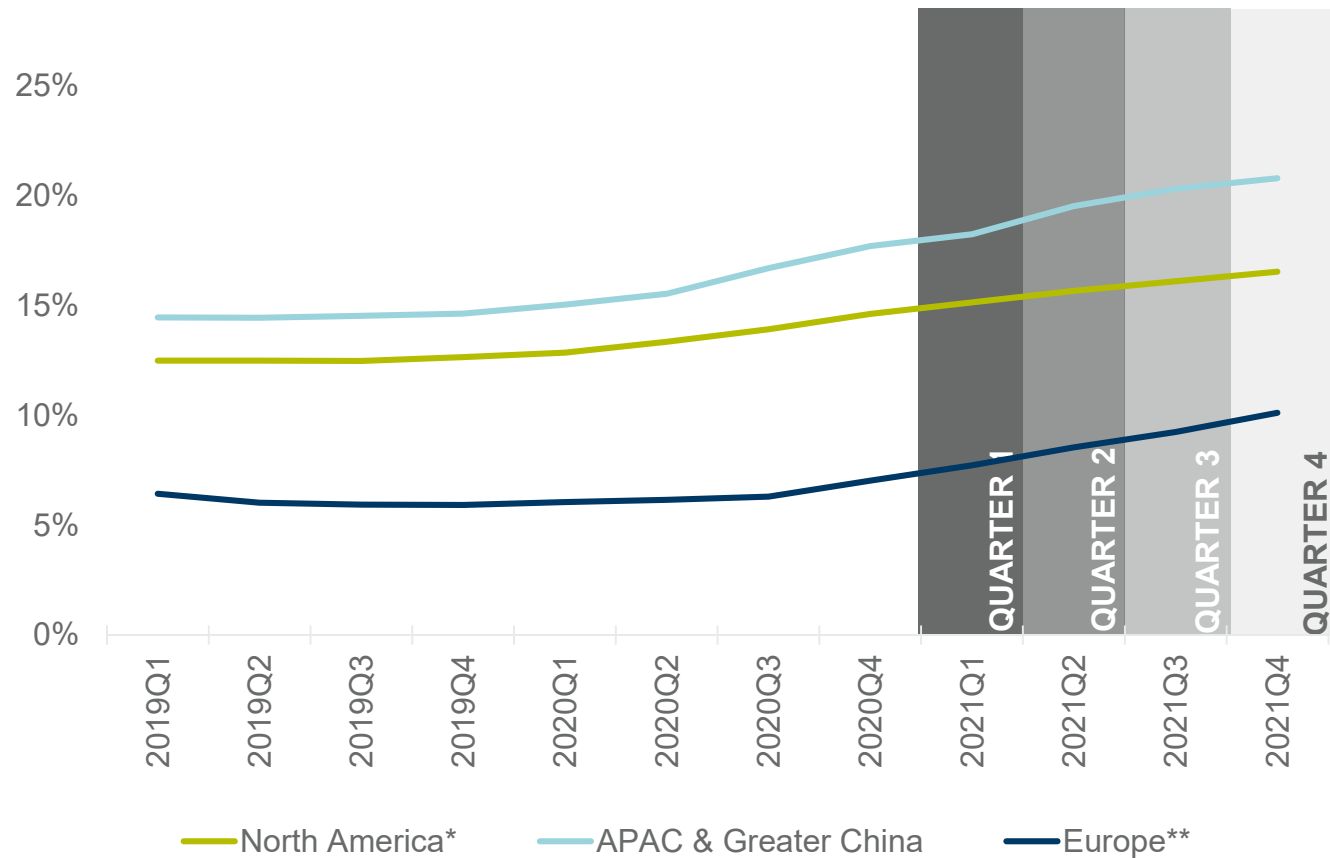
- Uptrend/Strong Improvement
- Turning Point/Slight Improvement
- Sluggish/Below Potential

IMPACT ON BUSINESS ACTIVITY	2020 IMPACT	2021 H1	2021 H2
OFFICE	Sluggish/Below Potential	Turning Point/Slight Improvement	Uptrend/Strong Improvement
RETAIL (EXPERIENTIAL)	Sluggish/Below Potential	Sluggish/Below Potential	Turning Point/Slight Improvement
RETAIL (CONVENIENCE)	Turning Point/Slight Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement
INDUSTRIAL / LOGISTICS	Uptrend/Strong Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement
HOTELS	Sluggish/Below Potential	Sluggish/Below Potential	Turning Point/Slight Improvement
RESIDENTIAL	Turning Point/Slight Improvement	Turning Point/Slight Improvement	Uptrend/Strong Improvement

Source: Cushman & Wakefield

GLOBAL OFFICE OUTLOOK

OFFICE VACANCY RATE



Source: Cushman & Wakefield Research. Note: *Excludes Mexico. **Excludes Russia and Turkey.

Q1

- Slowdown in leasing activity, largely in all regions west of Asia Pacific
- Coworking stress starts to hit market
- Negative absorption in Americas as sublease space continues to rise
- Demand positive in Greater China
- Recovery in APAC demand positive but slow (outside of preleasing activity)

Q2

- Leasing activity picks up from Q1
- Coworking stress still filtering through
- New deliveries continue to outpace demand, pushing vacancy higher in all regions
- Greater China leads with new demand, but still delivers 10+ msf more, sustaining upward vacancy path

Q3

- Leasing activity picks up from Q2
- Flight to quality trend becoming increasingly clear
- Vacancy path increasingly driven by supply-side, particularly in Europe and North America
- New supply ramps up, nearly doubling pace in APAC/Greater China

Q4

- Leasing activity accelerates further
- Demand positive in APAC/Greater China and accelerating
- Negative absorption in hardest hit countries less severe than prior quarters
- New supply elevates vacancy, nearly two times more deliveries in H2 in APAC/Greater China
- High-quality assets clearly leading the recovery

GLOBAL INDUSTRIAL OUTLOOK

TOTAL E-COMMERCE REVENUE FORECAST, \$B



Source: Statista Digital Market Outlook 2020 | Note: Percentage is compound annual growth rate divided by average growth rate per year. Revenue figures refer to gross merchandise value; Forecast adjusted for expected impact of COVID-19

COVID-19 amplified the growth of e-commerce as lockdowns and safety concerns prompted more consumers to shop online. As a result, **several years of online sales growth were condensed into 2020 alone, causing logistics-related leasing to support fulfilment to surge. We expect the continued growth of e-commerce to bolster demand of industrial real estate.**

AMERICAS

- 2020 marked an all-time high for new leasing and expansions with over 650 msf of leasing activity.
- At 5.2%, U.S. vacancy remains anchored near historical lows (4.8%).
- Rent growth remains impressive. Average asking rents for all classes of logistics product grew 6% year-over-year, with institutional-grade logistics product up 12%.

EUROPE

- Q4 2020 take-up across Europe was the strongest on record with all regions up year-over-year.
- Impressive year-over-year gains in take-up occurred in Central & Eastern Europe (+28%) and Western Europe (+10%).
- European prime asking rents grew 14% year-over-year in Q4 2020 with broad-based gains. Central & Eastern Europe (+21%), Southern Europe (+18%) and Western Europe (+12%) saw the strongest gains.

ASIA PACIFIC

- Throughout Asia, logistics and industrial leasing remains brisk, and market conditions are tight.
- Across Greater China, vacancy fell 220 bps in 2020 to 12.5% with vacancy in Mainland China falling 210 bps to 12.9%.
- Similarly, logistics vacancy in Singapore fell 190 bps to 10.1%, while vacancy in industrial parks in Vietnam fell by 80 bps.
- Strong leasing and tight market conditions translated to impressive rental growth with average asking rents for all classes of space rising 8% in Mainland China and 6% across Greater China.

GLOBAL OCCUPIER TRENDS

ALTERNATIVES

HEALTHCARE: After some early setbacks, the sector has rebounded as healthcare workers quickly returned to work. Sectors that have been particularly strong are urgent care, where testing demand is strong, and outpatient care, where patients can get treated without having to go to a hospital. In the U.S., employment in both categories is higher than it was before the pandemic. Demand for MOBs is still high. Sales volumes for 2020 were nearly on par with 2019 and cap rates tracked the same, but Class A saw cap rate compression.

SINGLE-FAMILY RENTAL: Single-Family Rental (SFR) has become a hot topic among investors over the past year for a few reasons. First, the sector is undersupplied. Additionally, pre-pandemic trends that benefit the sector were accelerated in 2020—migration to suburbs and secondary markets, millennials aging into family formation and growth, and tenant desires for increased space given work from home. The build-to-rent (BTR) segment will see more deliveries in 2021, but still well below demand levels, and therefore key metrics such as occupancy, new trade out rent growth, and renewal rates will continue to outperform conventional residential in 2021.

DATA CENTERS: Global demand has increased as a result of the pandemic. In the U.S., absorption tallied 680 MW for 2020, a record driven by major cloud services taking down large capacity thanks to emergency adoption by corporations as their employees were sent home. Over half of this total was in Northern Virginia, and vacancy across all major markets decreased 7%. Nearly three GW is under construction around the world, also a record.

STUDENT HOUSING: Purpose-built student housing has beaten expectations in terms of leasing and occupancy in the fall of 2020, except for campuses that were hard-hit by COVID-19 infections. Taking the U.S. as an example, the PBSH private sector rents were effectively flat for the 2020-2021 school year. Additionally, the sector maintained a high-80% to 90% occupancy rate for the fall 2020 semester as it benefitted from the shutdown of on-campus housing while students attempted to maintain some semblance of the university experience even though classes were held virtually. Early pre-leasing for Fall 2021 has slowed with flagship state schools performing better than other segments.

SENIOR HOUSING: The pandemic has shifted operators' priorities from participating in a luxury amenities race to a clear focus on housing as a healthcare service, boosting features such as having a medical director on staff and facilitating telehealth access for residents. Bifurcation between the best and the rest is more pronounced than ever. Pricing discounts and declining occupancy rates have permeated the market, and it will be at least another year of pain in the industry before NOI truly turns around. Active adults will continue to encroach into independent living demand even though seniors are entering senior housing with higher acuity needs. Within a decade, all Boomers will be 65 or older, so long-term demand for the segment is robust.

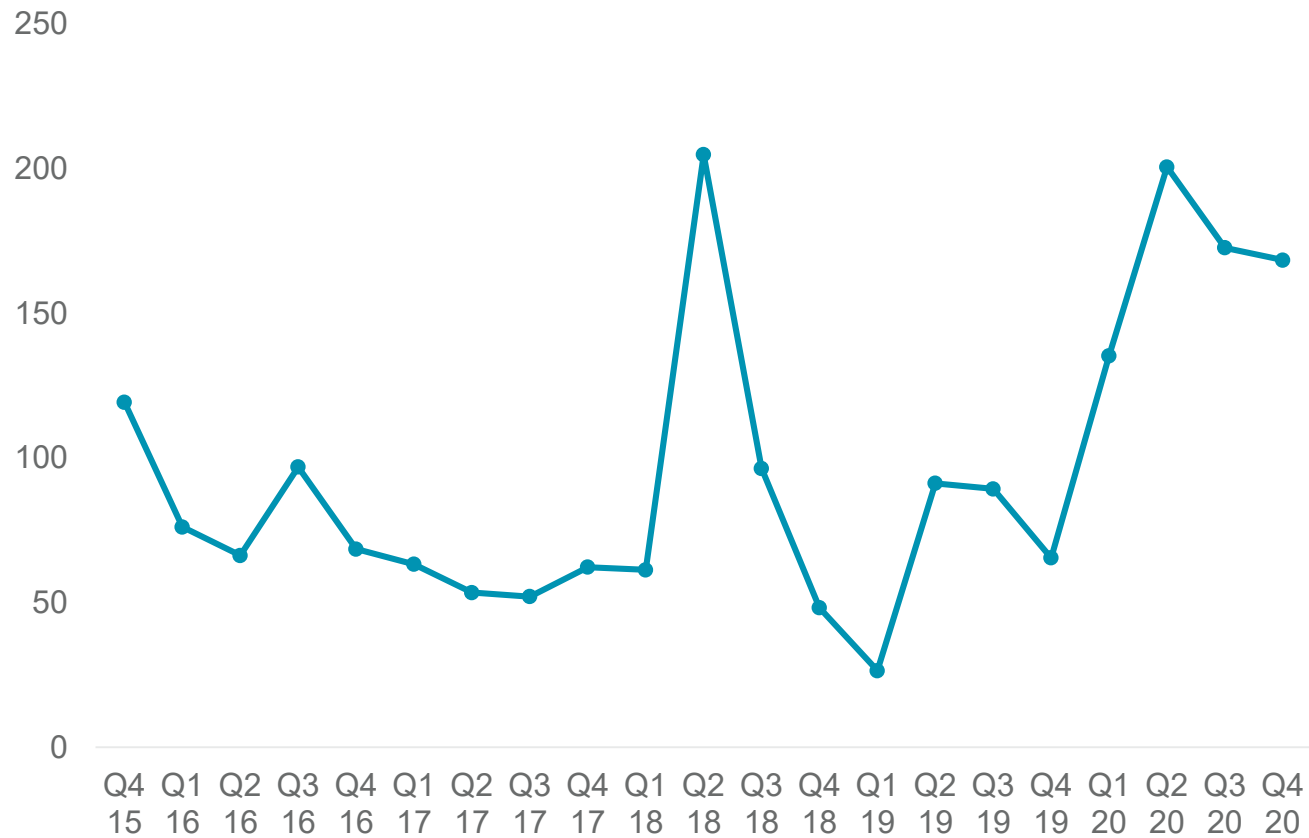
- Uptrend/Strong Improvement
- Turning Point/Slight Improvement
- Sluggish/Below Potential

IMPACT ON BUSINESS ACTIVITY	2020 IMPACT	2021 H1	2021 H2
MEDICAL OFFICE			
SINGLE-FAMILY RENTAL			
COLD STORAGE			
STUDENT HOUSING			
SENIOR LIVING			
DATA CENTRES			
SELF-STORAGE			

Source: Cushman & Wakefield

GLOBAL DATA CENTER OUTLOOK

U.S. ABSORPTION (MW)



U.S. absorption in 2020 set a record, with consistent good quarters throughout. Expect more major cloud services leasing in 2021, and colocation to bounce back late in the year and throughout 2022. Many large fund managers are trying to invest in the sector, though operational assets for sale are increasingly difficult to find.

Major markets in Europe tightened throughout 2020, with Frankfurt, Paris, and Dublin particularly tight.

Primary and secondary markets throughout **APAC continued to benefit from expansions for cloud and financial tenants.**

CAPITAL MARKETS

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CAPITAL MARKETS

ARE INVESTORS AHEAD OF THE CURVE?

OVERVIEW: Capital markets have labored under a yoke of uncertainty over the last year. 2021 promises to lighten that weight progressively at which point low base rates, high capital availability for debt and equity, and attractive valuations relative to other asset classes suggest a far more rapid recovery than in past downturns.

TRANSACTION VOLUME: Activity accelerated globally in Q4 2020 though it was still down YoY in most cases. The acceleration was particularly strong in the Americas and relatively weaker in Europe compared to the third quarter. Investors are likely to delay transactions in Q1 amid renewed pandemic stresses and increasing certainty in sight. We then see accelerating liquidity through the end of the year as the office sector recovers, joining already strong conditions for logistics and residential assets.

EQUITY: Dry powder abounds across global regions, sitting at or above historic records. New fundraising, however, has been weak. We expect flows into real estate to resume as confidence in the broader recovery strengthens globally. REIT prices will continue to recover, enabling REITs to become more active while flows stabilize and then turn positive at open-ended core funds.

DEBT: The debt markets recovered far more quickly compared to equity across regions. However, liquidity is concentrated in the most favored product types at lower LTVs. All-in costs are generally at or below pre-COVID-19 for these assets. Over the course of 2021, we expect to see deal profiles and lender pools widen. For example, we expect banks to become more active in the U.S.

PRICING: Valuations have broadly risen for industrial, life science and select residential assets globally while office and retail assets have experienced downward pressure, partially offset by declines in base rates. Office valuations have been more resilient in Europe, Asia Pacific and demographically favorable U.S. markets. Looking forward, favored sectors continue to appreciate while rising liquidity enables price discovery in the office and retail sectors. This will result in markdowns, albeit less severe than had been feared and focusing on secondary assets.

- Uptrend/Strong Improvement
- Turning Point/Slight Improvement
- Sluggish/Below Potential

	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
VOLUMES TRADED	Turning Point/Slight Improvement	Sluggish/Below Potential	Turning Point/Slight Improvement	Uptrend/Strong Improvement	Turning Point/Slight Improvement
EQUITY AVAILABILITY	Uptrend/Strong Improvement	Uptrend/Strong Improvement	Turning Point/Slight Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement
DEBT AVAILABILITY	Uptrend/Strong Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement
PRICING	Sluggish/Below Potential	Sluggish/Below Potential	Turning Point/Slight Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement
BOND RATES	Uptrend/Strong Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement	Uptrend/Strong Improvement	Turning Point/Slight Improvement

Source: Cushman & Wakefield

DEBT CAPITAL FUNDING AVAILABILITY

BANKS: Banks have been highly selective in lending over the course of the last year, having built up significant CRE exposure over the course of the last cycle. They have also been preoccupied with business lending. Banks, particularly U.S. banks, reserved aggressively against losses in their loan books, but are now releasing capital. Combined with attractive funding spreads on CRE loans, banks will become increasingly active through the year in the U.S. but less so in Europe.

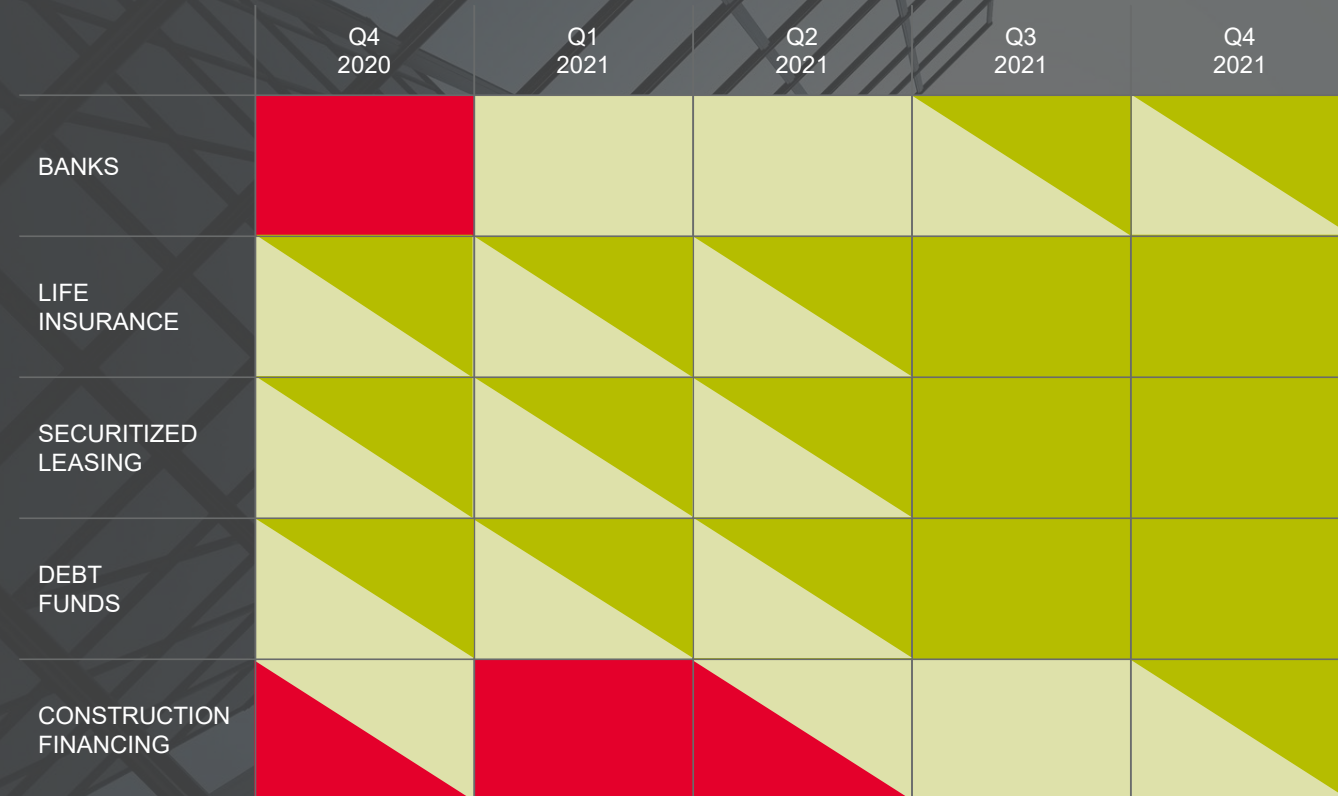
LIFE INSURANCE: Life companies pulled back from CRE lending in the middle of 2020 in favor of corporate debt securities. However, as spreads and yields plummeted there, insurers have increased CRE allocations. Lender appetite is focused on favored product types and lower LTVs, but rising market competition and improving cash flow visibility will see deal profiles widen through the year.

SECURITIZED LENDING: Securitized lending markets are the most connected to broader fixed income markets, and as such, were the first markets to reopen following the initial shock. Spreads have retraced to pre-COVID-19 levels in most tranches, and SASB volumes have recovered as well. However, liquidity will not be fully restored until it becomes possible to include retail and hospitality product in conduits. This is not likely to happen until there is more certainty around these cash flows.

DEBT FUNDS: Debt funds have become increasingly active with the reopening of CLO issuance markets and repo line financing. They are the primary source of transitional and higher LTV funding in the market presently. They will remain active backed by significant dry powder accumulated in recent years and will face downward pressure on lending rates as competition grows.

CONSTRUCTION FINANCING: Construction financing has traditionally been dominated by banks, particularly regional lenders. As such, lender pools are extremely limited in the present market outside of industrial and select residential construction. Conditions are more favorable in APAC compared to EMEA and the Americas, but even in China authorities are working to moderate speculative construction lending. In Europe, debt funds are entering the market, increasing liquidity, albeit at a higher lending cost.

- Uptrend/Strong Improvement
- Turning Point/Slight Improvement
- Sluggish/Below Potential

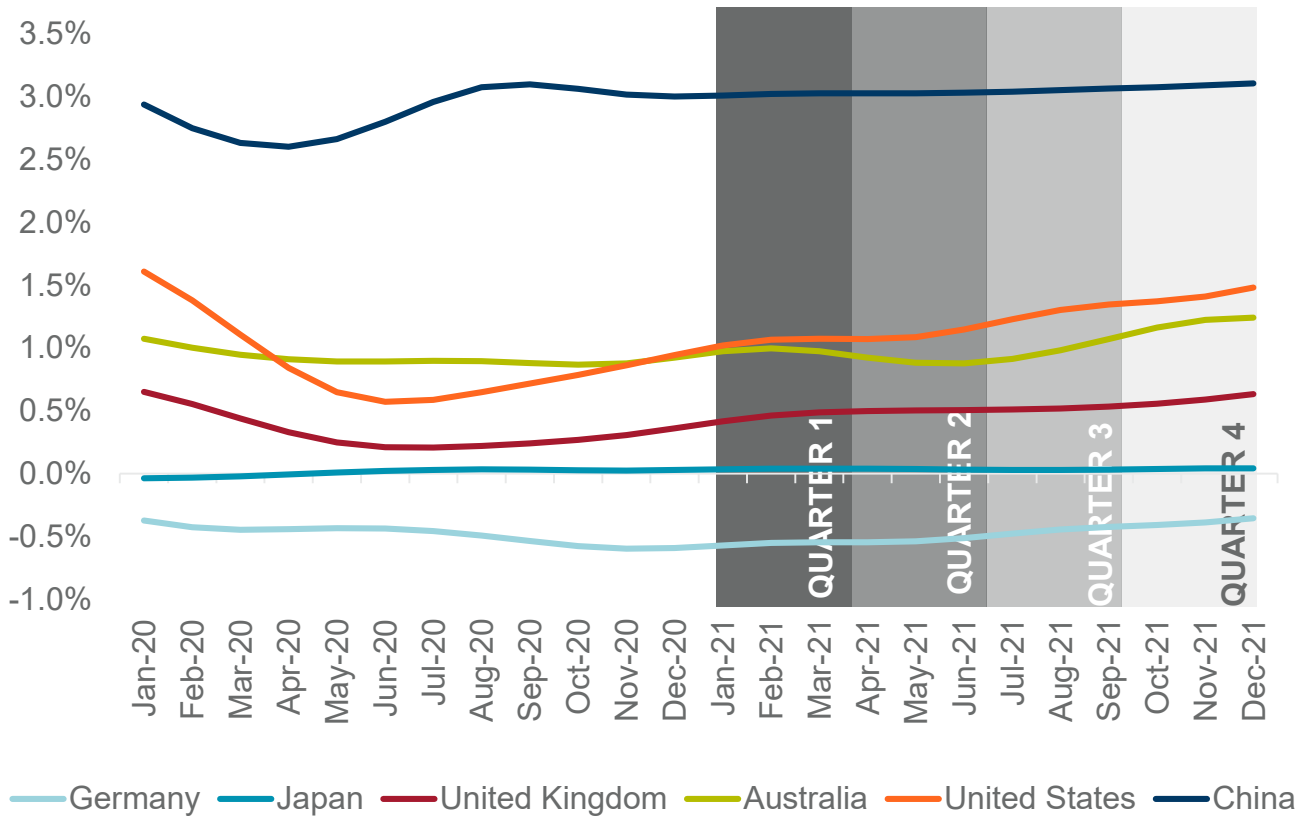


Source: Cushman & Wakefield

INTEREST RATE OUTLOOK

10-YEAR GOVERNMENT BOND RATE

10-Year Government Bond Rate



OVERALL: Bond yields will remain below, often well below, pre-COVID-19 levels, providing a highly stimulative backdrop for property demand and pricing globally. Diminishing uncertainty around the pace of economic recovery will start to place upward pressure on yields but increases will remain moderate.

Q1

Markets look past virus cases and new strains in many countries towards vaccine deployment and fiscal stimulus, namely in the U.S., upgrading growth and inflation forecasts accordingly. This in turn drives increases in yields, though not uniformly.

Q2

Yields are broadly stable outside the U.S. where increases in yields presume passage of a large fiscal package.

Q3

Developed world economies reach lower bounds of herd immunity ranges, resulting in sharp drops in case counts and increasingly economic momentum. Transitory inflation begins to arise as demand recovers more quickly than supply in consumer sectors. The combination places upward pressure on yields as more bearish outlooks leave the market.

Q4

Largely a continuation and acceleration of third quarter trends into year-end. Increases in yields are capped by commitments by global central banks to maintain accommodation for an extended period even in the face of transitory inflation.

Source: Moody's Analytics Forecasted, Cushman & Wakefield Research

EQUITY CAPITAL

INVESTORS DRIVING THE MARKET

INSTITUTIONAL CORE FUNDS: These funds activity rebounded strongly in the fourth quarter, particularly in the Americas and EMEA. Some of the open-ended funds have been dealing with redemption queues while pension and insurance funds have strong funding conditions due to gains in public equities and fixed income portfolios. Investment activity has been focused on logistics and residential, whereas funds have taken a wait and see attitude on their office assets. As the year progresses, we expect to see increased certainty around office and urban underwriting generally, which will lead to greater activity on both the acquisition and disposition side.

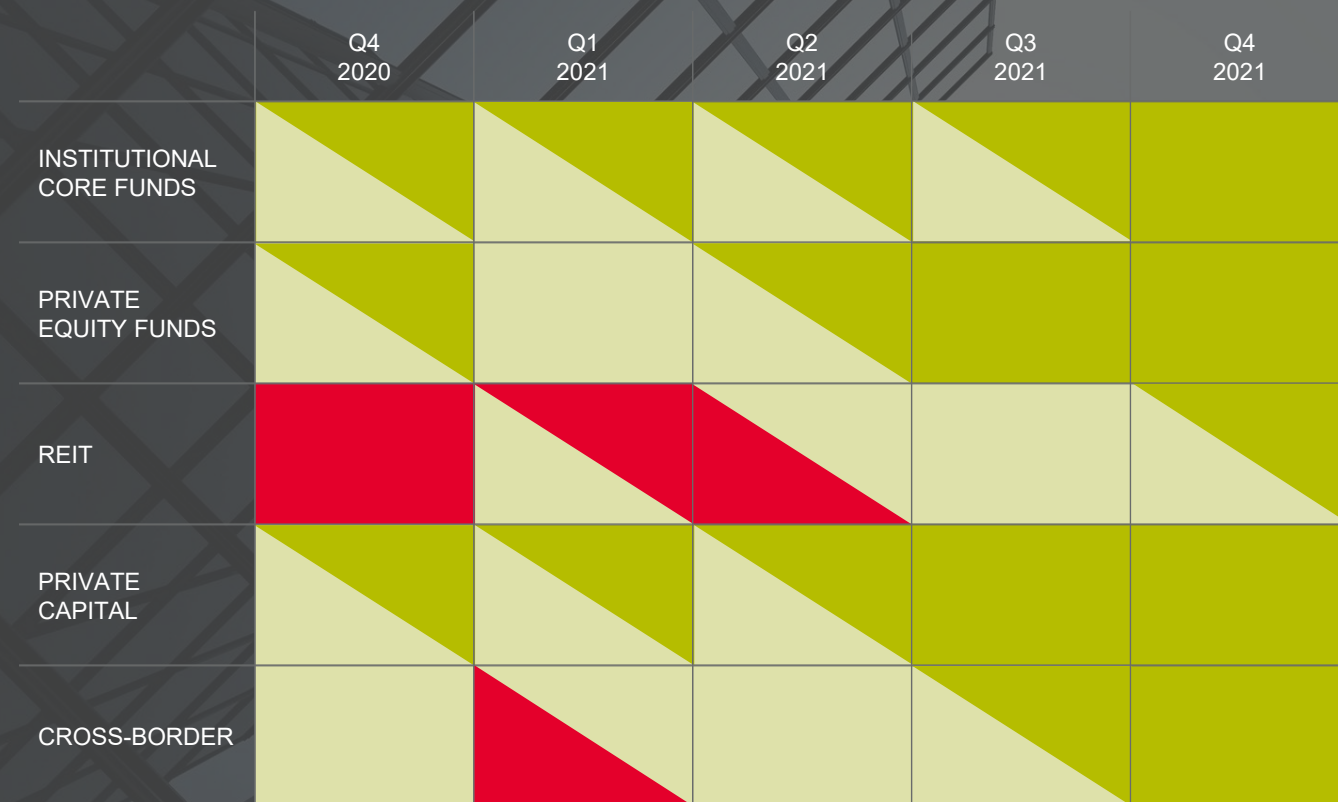
PRIVATE EQUITY FUNDS: Like institutional core funds, these funds also became much more active in Q4 2020 across regions but down more compared to prior years relative to the core funds. Activity was stronger in APAC, weaker in EMEA, with the Americas in between. Funding conditions are at record levels in this sector, and many investors having been waiting years for pricing disruption. As pandemic uncertainty wanes over the year, we expect to see these investors re-engage with the market, first slowly then rapidly.

REIT: REITs have been the most impacted capital sector, dependent as they are on their stock prices. APAC REIT stocks have been more resilient, which has supported higher levels of activity compared to the Americas and EMEA. Rebounding prices helped drive a rebound in activity in the fourth quarter but to a lesser extent than the better capitalized groups. We expect to see further recovery in the REIT market, combined with the aforementioned increased underwriting confidence, to drive a gradual improvement in activity from the second quarter onward.

PRIVATE CAPITAL: Private capital has been the most resilient capital group through the downturn, tending to be internally funded, less dependent on travel for diligence and less sensitive to short-term market volatility compared to other capital groups. We expect private capital will continue to engage the market through 2021 as other capital groups increase activity, providing buyers for private sellers, who can then redeploy sale proceeds, all or in part.

CROSS-BORDER INVESTMENT: Cross-border investment accelerated in the fourth quarter, particularly in the Americas where volumes were up YoY. Cross-border capital is well-funded and has appetite for investment, particularly in logistics and residential, but travel restrictions remain an issue for both global and regional investment flows. As travel normalization is likely to lag overall reopening, this will mean somewhat slower recovery compared to domestic capital except for those players with a global footprint.

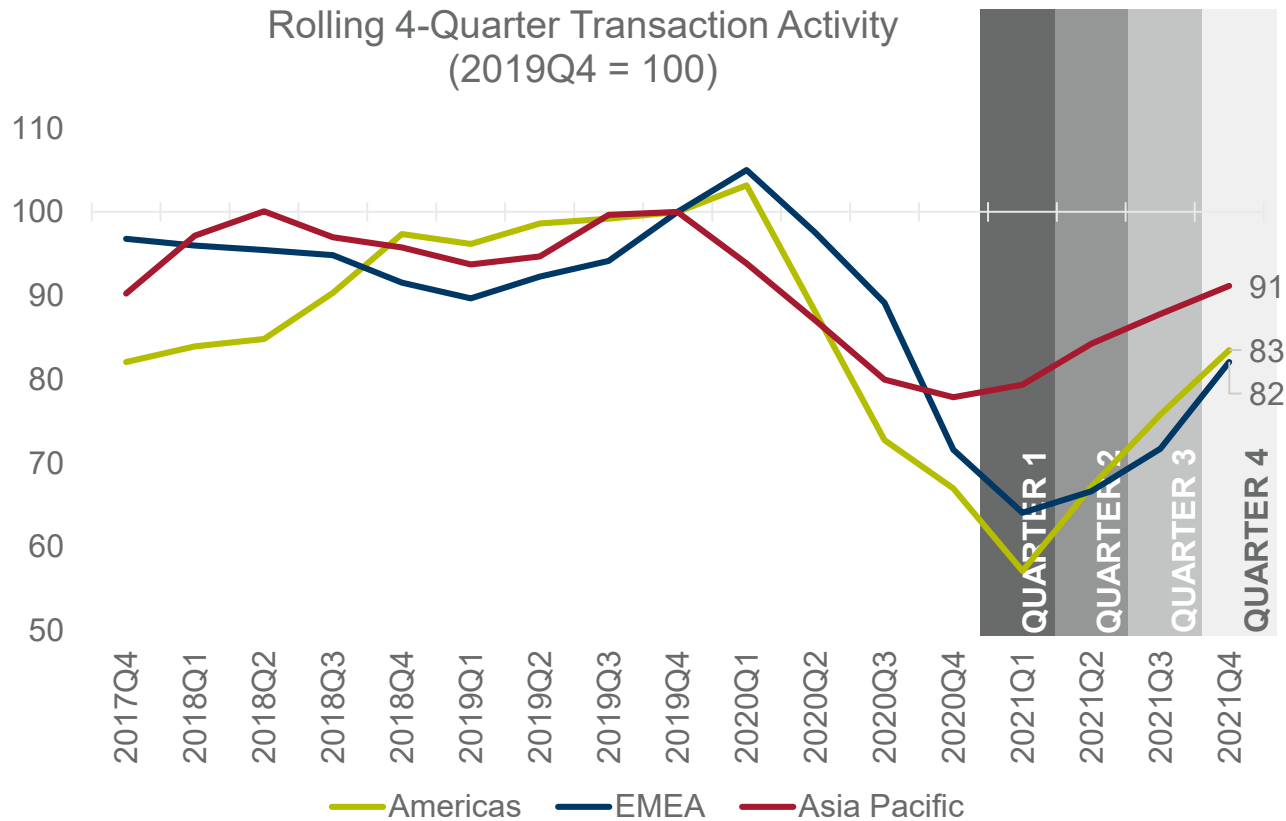
- Uptrend/Strong Improvement
- Turning Point/Slight Improvement
- Sluggish/Below Potential



Source: Cushman & Wakefield

TRANSACTION VOLUME

ALL PROPERTY TYPES (EX. LAND)



OVERALL: Transaction activity will remain restrained in the first half of the year. Investors delay capital actions as vaccination efforts proceed globally. Industrial and residential liquidity is consistently strong throughout the year while office, and to a lesser extent retail and hospitality, pick up momentum in the second half of the year. While these patterns are active globally, they are most pronounced in EMEA and the Americas compared to Asia Pacific where domestic investment markets have remained strong and are primarily “waiting” for global capital flows to resume.

Q1

Typically, Q1 is the least active quarter of the year across regions even in normal market environments. New virus waves and lockdowns exacerbate the seasonal slowdown in transaction activity globally.

Q2

Transaction activity rebounds seasonally, particularly in Asia Pacific. Better virus containment, combined with progress on vaccine efforts, attract more buyers and sellers to the market, the former hoping to get ahead of the post-pandemic market. Industrial and residential markets are strong throughout, but here we start to see improvement in the office market.

Q3

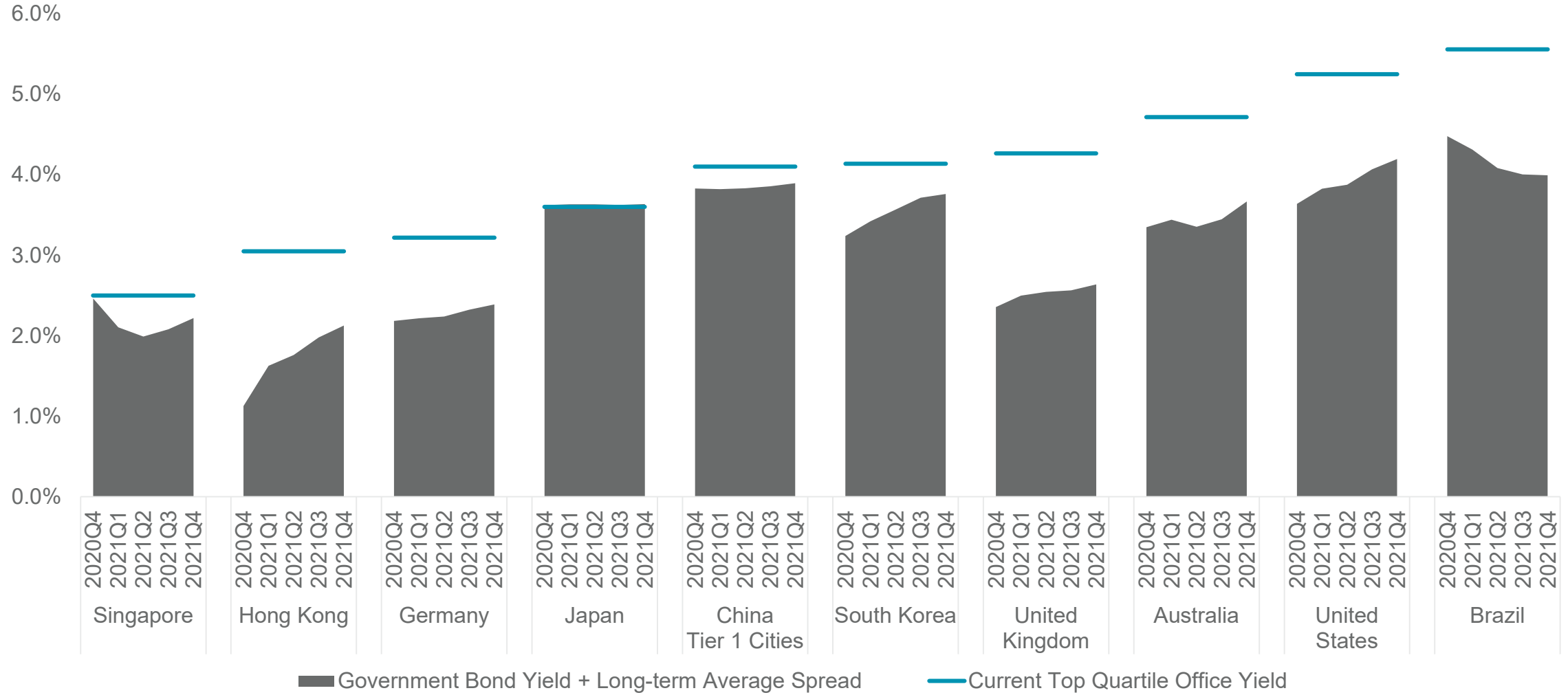
Liquidity accelerates again globally due to the combination of fiscal measures (mostly U.S.) and vaccination progress and the resulting improvement in economic fundamentals.

Q4

The virus is contained in most developed countries globally. Domestic and international travel is increasing in that order. Dense urban centers are reviving. Workers return to offices. This contributes to a combustible environment as large sale backlogs combine with a similarly full tank of capital to drive a historically strong fourth quarter.

SPREADS PROVIDE CUSHION AGAINST RISING RATES

GLOBAL OFFICE YIELDS



Source: RCA, Moody's Analytics Forecasts, Cushman & Wakefield Research

INVESTMENT RECOMMENDATIONS



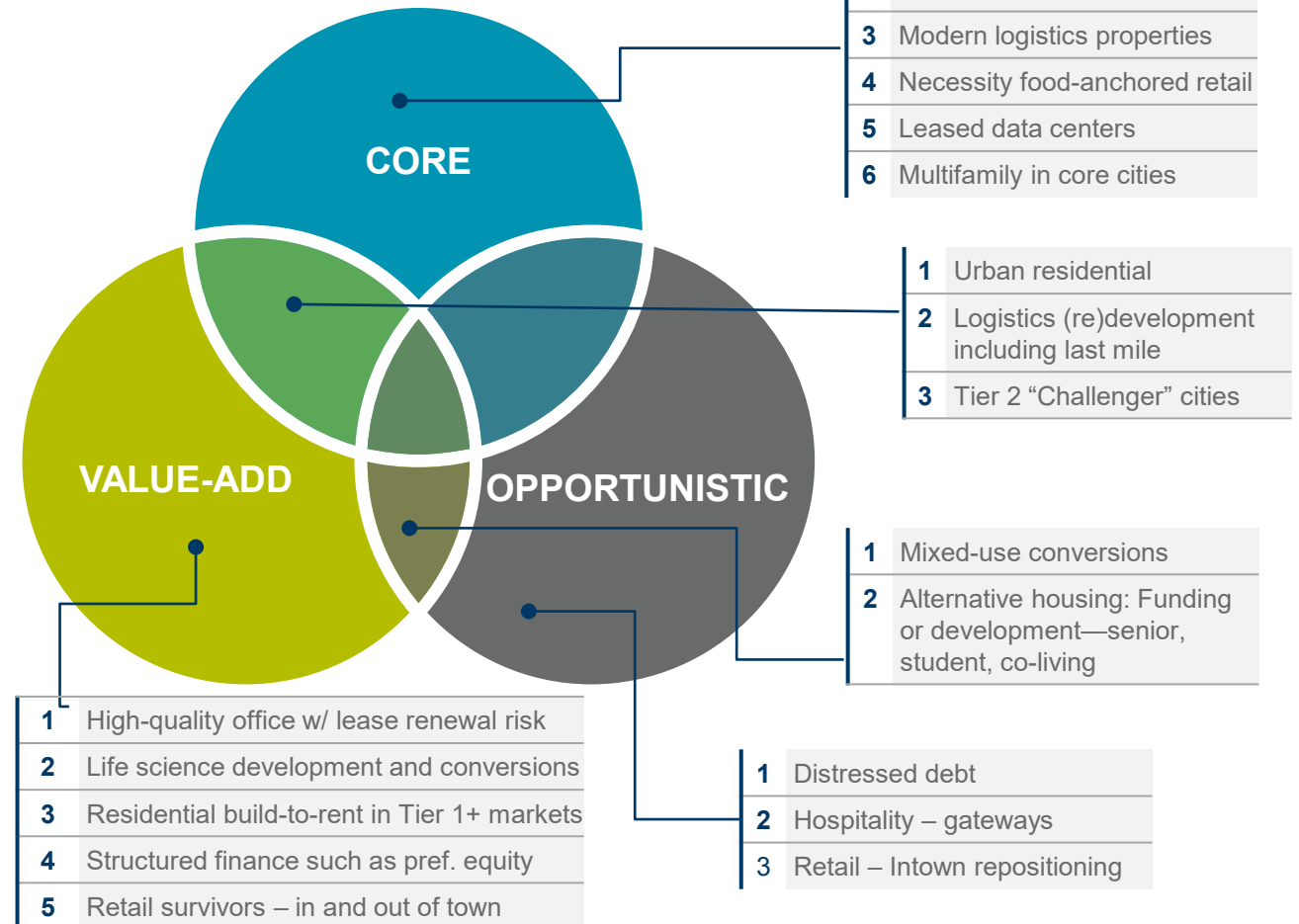
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INVESTMENT IDEAS

FEED THE OCCUPIER

More than ever, investment success will depend on each investor's ability to position their portfolio to benefit from evolving occupier needs.

- We face an uneven recovery with winners and losers and a significant acceleration in structural changes.
- Beds, sheds and meds are firmly part of the mainstream market post-pandemic. Investors need to pay particular attention to the operational aspects of these property sectors and should also consider mixed-use schemes to harvest synergies.
- With limited supply of the assets everyone wants, pricing will increase as will development potential.
- For all assets, defining their “reason to be” for occupiers will be key—what do they add?
- Winning cities may differ from the past, with quality, amenity and cost coming to the fore.
- Repurposing existing assets is a major area of opportunity, including mixed-use and specific sector prospects.
- Demand for yield and term will bring greater opportunity for sale and leasebacks for buyers and sellers.
- Strong debt availability adds to performance potential, but risk aversion brings more opportunity in providing development and structured finance.
- Market access may be optimized via recapitalizing existing structures.
- Indeed, platform potential including public to private, remains significant, particularly in adding AUM and in well-focused vehicles where management can add value.
- A growing challenge in new and existing assets will be improving their ESG profile—without which they risk becoming unusable and irrelevant in the global market. Indeed, a new appraisal of performance may be needed to include non-financial targets.



REGIONAL IDEAS

INVESTMENT IDEAS: BY REGION

AMERICA	
CORE	<p>Office: Life science markets (e.g., San Francisco Peninsula, Boston, San Diego, Raleigh-Durham); high growth-high skill markets (e.g., Austin, Dallas, Denver, Toronto); well-leased Class A suburban office, particularly in walkable locations; single tenant credit office.</p> <p>Residential: High-growth sunbelt and mountain west markets, particularly stabilized class A and B properties in suburban submarkets.</p> <p>Retail: Pandemic resistant strategies, notably grocery-anchored centers in moderate to high income suburban locations; convenience stores in heavy transit areas; unanchored centers with necessity and convenience uses, quick service restaurants).</p> <p>Logistics: Modern logistics assets located in primary markets serving large population centers (e.g., Southern California, Dallas/Fort Worth, Atlanta, Chicago, Miami, and Greater New Jersey).</p>
VALUE-ADD	<p>Office: Core strategies but with near-term lease maturities, lower building quality/location; life science conversions of single-story office/flex product; post-pandemic beneficiaries of urban reflation (Gateway markets + Seattle) with quality focus; high growth-medium skill markets (e.g., Atlanta, Charlotte, Phoenix, Nashville, Orlando); political risk premium markets (e.g., Portland, Seattle, Minneapolis, Chicago); capitalize on motivated sellers (e.g., corporate disposals of partially vacant properties, long-term institutional holders reducing office exposure; private equity at end of fund lives).</p> <p>Residential: Same markets as Core but venture into Class C, urban submarkets, build-to-core, repositioning of B/B- assets; urban reflation markets with opportunity in transit adjacent assets; niche strategies (single family rental, coliving), particularly in higher cost markets.</p> <p>Retail: Power centers that have enjoyed continuous operations; Prime malls/shopping centers, particularly open air, in high income and/or high growth markets/submarkets where surrounding demographics differentiate core-plus vs. value-add.</p> <p>Logistics: Infill-sited Class B/C product in major markets that have good accessibility allowing them to serve as the last link for e-commerce fulfillment. Class A/B product with near-term rollover in low vacancy markets where leasing demand has been active to take advantage of the historically strong rent growth of the past five years as these assets offer the prospect of leasing quickly with upside gains as rents are marked to market.</p>
OPPORTUNISTIC	<p>Office: Core-plus/Value-add markets but less well-located/built assets and/or with near-term lease expiries; Class A office in energy-driven markets (Houston, Edmonton & Calgary); Class B mall to mixed-use redevelopment; redevelopment/repositioning of 80s build suburban in select infill locations.</p> <p>Residential: Senior housing; build-to-core in high barrier markets; office/retail conversions to residential.</p> <p>Retail: Non-prime mall to repositioning and/or redevelopment; Urban high street retail; Retail developments near colleges or live entertainment venues (e.g., stadiums); Parcelization/densification of shopping centers occupying large sites; Zoom towns and exurban markets benefiting from COVID-19 migrations.</p> <p>Logistics: Development in secondary inland distribution hubs and housing hot spots (e.g., Indianapolis, Louisville, Cincinnati, Phoenix, Austin, Tampa, Denver, and Nashville).</p>

REGIONAL IDEAS

INVESTMENT IDEAS: BY REGION

LATIN AMERICA	
CORE	<p>Office: Fully stabilized trophy buildings in Faria Lima and Itaim major markets of Sao Paulo.</p> <p>Retail: S&LB with the main big box retailers (tier 1) of Sao Paulo and Rio de Janeiro.</p> <p>Logistics: Prime distribution centers with long-term leases, built-to-suit, sale & lease back platforms in Sao Paulo, Mexico City and Santiago.</p>
VALUE-ADD	<p>Office: Class A building in CBD regions of Santiago (Chile), Lima (Peru) and Sao Paulo (Brazil).</p> <p>Retail: Brazilian (tier 1) shopping centers with proven resilience.</p> <p>Residential: Mexican and Colombian cities, in infill high transit locations of Santiago, high-end residential (apartments) in trend districts of Sao Paulo.</p>
OPPORTUNISTIC	<p>Platforms: Brazilian logistics, especially in Sao Paulo as long-term strategy.</p> <p>Office: Class A buildings in Mexico and Bogotá (COL).</p> <p>Retail: Brazilian (tier 2) groceries anchors and shopping centers with low pricing and high yield.</p> <p>Industrial: Infill distribution product, class B and development in secondary markets. Also, markets servicing key Brazilian and Mexican cities. As well as in the main cities of the Andean region.</p> <p>Alternatives: Development in data centers (urban areas and tier 2) in Sao Paulo, Bogota and Santiago. Also, Self-storage in Sao Paulo and Santiago (urban areas and tier 2).</p>

REGIONAL IDEAS

INVESTMENT IDEAS: BY REGION

EMEA	
CORE	<p>Offices: Long-term investment in core locations in Germany and the Nordics plus London, Paris, Amsterdam Madrid, Barcelona and Zurich.</p> <p>Retail: Outlet centers, grocery-anchored schemes and flagship high streets as repricing takes effect in core cities.</p> <p>Logistics: Urban warehousing in core cities motorway warehousing serving tier 1 and 2 cities plus manufacturing and transport hubs.</p> <p>Managed Residential, Build-to-Sell and Senior Living: Nordics, UK, Ireland, Germany, Spain and the Netherlands. Affordable focus.</p> <p>Alternatives: Data Centres in hub and tier 2 cities, healthcare and other social infrastructure, focused on Germany, Netherlands, Nordics and UK.</p>
CORE PLUS/VALUE-ADD	<p>Offices: Repositioning in core cities and leased assets in select tier 2 cities, tech, life sciences and culture-led, including Prague, Dublin, Stockholm, Helsinki, Vienna, Milan, Lisbon and Polish cities for medium-term gains.</p> <p>Retail: Dominant retail parks in larger cities in the UK, Germany, Sweden and Spain. Repricing to bring long term and repositioning potential in town.</p> <p>Logistics: Developing urban logistics and leased assets around tier 2/3 cities including eastern European supply chain hubs and consumer markets.</p> <p>Student Housing: Forward commitments and development in major academic hubs.</p> <p>Hotels: Opportunities in re-capitalizing overextended owners and operators in select tourism-driven markets with the recovery path underpinned by the access to large domestic and regional sources of demand and development/forward commitments on economy/mid-scale hotels in gateway cities.</p>
OPPORTUNISTIC	<p>Offices: Land banking ahead of spec development and repositioning in core Western cities, plus leased property in the EU East and Moscow.</p> <p>Retail: Repositioning and active management/ development in larger western and central European cities.</p> <p>Logistics: Development serving large Central & Eastern European cities and peripheral Western cities.</p> <p>Africa and UAE: Schemes serving key hubs for technology and hospitality.</p> <p>Hotels: Resorts accessing regional and domestic markets and cities with good medium term recovery potential including repositioning/rebranding.</p> <p>Alternatives: Development in life sciences (urban areas and tier 2, data centres (Central and Eastern Europe) and self storage.</p>

REGIONAL IDEAS

INVESTMENT IDEAS: BY REGION

GREATER CHINA	
CORE	<p>Offices: Tier 1 cities—Beijing, Shanghai</p> <p>Logistics: Tier 1 and the surrounding cities</p> <p>Data Centers: Tier 1 cities, Hong Kong</p> <p>Retail: Non-discretionary retail and premium quality shopping centers in tier 1 cities and provincial capital cities.</p>
VALUE-ADD	<p>Offices: Tier 1 cities and provincial capital cities. Hong Kong.</p> <p>Urban Regeneration / Conversions: Across range of asset classes in tier 1 cities and provincial capital cities.</p> <p>Residential / Build-to-Rent: Deepening residential / build-to-rent in tier 1 cities and provincial capital cities.</p>
OPPORTUNISTIC	<p>Cross Product Types: Underperforming assets for upgrade or conversion; pre-distressed asset or over-leveraged developers, via investment in local platforms.</p> <p>Urban Regeneration / Conversions: across range of asset classes via JV/partnership with local developers.</p> <p>Hospitality: Post pandemic tourism bounce locations, hubs notably Hong Kong. Conversion opportunities and taking advantage of distress.</p> <p>Alternatives: Self-storage, cold storage, carparks</p>

REGIONAL IDEAS

INVESTMENT IDEAS: BY REGION

ASIA PACIFIC (EXCLUDES GREATER CHINA)	
CORE	<p>Offices: Sydney & Melbourne (premium), Tokyo, Osaka, Seoul</p> <p>Logistics: Singapore, Sydney, Seoul, Tokyo, Osaka</p> <p>Data centers: Tokyo, Seoul</p> <p>Retail: Non-discretionary retail and locally-popular destination retail.</p> <p>Residential and Senior living: High-density cities with aging population: Tokyo and Osaka.</p>
VALUE-ADD	<p>Offices: Singapore, Brisbane, Fukuoka, Nagoya, Hokkaido, Seoul, key Indian cities (NCR, Mumbai and Bangalore)</p> <p>Logistics: Hubs linked to China's Belt and Road and cold-storage logistics across the region.</p> <p>Retail: Community malls</p> <p>Alternatives: Data centers, student housing and medical serving core cities.</p>
OPPORTUNISTIC	<p>Offices: Best-in-class developments meeting revised (post-COVID-19) design, safety and technology standards.</p> <p>Retail: Growth markets in South East Asia still under provided for in physical retail. Also New Delhi and other top Indian cities.</p> <p>Logistics: Development across the region, Ho Chi Minh City, Indian hubs</p> <p>Deepening Residential / Build-to-Rent Markets: Australia, Singapore</p> <p>Data Centers: Growing regional capital cities in South East Asia.</p> <p>Hospitality: Post-pandemic tourism bounce locations, hubs notably Singapore. Conversion opportunities and taking advantage of distress.</p> <p>Self-storage: Across the region</p>

THE SIGNAL REPORT: GLOBAL GUIDE TO CRE INVESTING IN 2021

MARCH 2021

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