CBRE RESEARCH

2016

Global

REAL ESTATE MARKET OUTLOOK

CBRE

CONTENTS

THE OUTLOOK FOR 2016

ECONOMY

+2.6%

global GDP growth

Expect 2016 to be a year of volatile stock markets but steady global economic growth. Consumers in the U.S., EU and many parts of Asia Pacific are spending the gains from rising incomes, low interest rates and low commodity prices. Keep an eye out for financial turmoil emanating from emerging economies, the fallout from further currency depreciation in China and some weakness in the manufacturing sector.

RENTS

+2.2%

annual rent growth across all property types globally

Overall, prime rents will increase moderately in 2016. Most markets in the Americas (mainly the U.S.), Europe and the Pacific will see gains across all commercial property types, but rents will flatten or fall in many Asian and emerging markets. Some office markets, including Dublin and San Jose, are very hot.

CAPITAL MARKETS

+4%

global investment sales volume growth

Global investment activity will remain strong, however the pace of growth will slow after six years of recovery and price appreciation. Low borrowing costs and the prospects of rent growth and volatility in other asset markets mean the pool of capital targeting real estate will remain substantial. On balance, there will be downward pressure on cap rates, but less strong than in recent years due to the slow rise in U.S. interest rates and weaker demand for assets from oil-based economies.

OFFICE

+6%

rental growth in nine markets

Vacancy in U.S. and European markets will fall further in 2016, due to positive net absorption and limited new development. In Asia Pacific, the slowdown in China, coupled with substantial amounts of new supply, will give occupiers the upper hand in negotiations in many locations. However, not all new stock will meet occupiers' requirement in some markets.

RETAIL

+6.6%

global retail sales growth

Retail sales will grow strongly in 2016, particularly through e-commerce channels. The best malls and brick-and-mortar retailers are drawing in more customers through "placemaking," innovation, expanded food-and-beverage offerings and improved customer service. Not all malls, however, have fully embraced the new omni-channel retail environment, but they will need to.

RESIDENTIAL

+3.7%

global house price growth

House prices are appreciating at their highest rate since the crash thanks to easier mortgage availability and falling unemployment, a trend that will continue for a while. This is even happening in China, where house prices in tier-one cities will rise despite the broader deceleration of the Chinese economy.

INDUSTRIAL

+23%

global e-commerce sales growth

E-commerce will continue to reshape the logistics market. Demand for big-box space will remain strong, but logistics users will ramp up efforts to secure smaller in-fill locations to meet growing consumer expectations for same- and next-day delivery of online orders.

Source: CBRE Research, Oxford Economics and eMarketer, 2016.

INTRODUCTION

The most reliable way to forecast the future is to try to understand the present.
–John Naisbitt

In this Global Real Estate Market Outlook, we hope to provide you with analysis and insights on the factors that we believe will shape and influence property markets in 2016. We anticipate 2016 to be a generally good year for the property markets despite the onset of negative sentiment amid turmoil in stock markets and emerging economies.

We begin with our outlook on the global economy, which we expect to grow in 2016. The current environment of variable but improving growth in the developed world, alongside low interest rates and low inflation, is very supportive of consumers and commercial real estate markets.

There are some big potential risks, for sure. Interest rates are rising in the U.S. and the U.K., which is weakening economic sentiment. The Chinese economy is decelerating and the yuan is likely to depreciate, creating destabilizing ripple effects in other major currencies. Most likely, there will be a financial crisis in one or more emerging economies related to the repayment of dollar-denominated debt. Overall, however, we think the global economy is strong enough to withstand these challenges, chiefly due to the health of the consumer sector, though sentiment will be volatile over the year.

We then look at the state of commercial rent values and the capital markets. We expect that both prime rents and capital values will post further moderate gains in 2016, with the U.S. and Europe outpacing Asia Pacific, which will continue to adjust to China's slower rate of growth and elevated levels of new development completions. Rents in average-grade properties will remain stable but firm.

While the outcome of the global economy is slightly uncertain, there are longer-term forces shaping the commercial real estate markets. We provide insights on four major property types—office, retail, industrial and residential—highlighting the key trends and ideas that will shape each of these sectors in 2016 and beyond. One thing we are convinced about: it is not "business as usual" in global real estate markets. As you will read, e-commerce is a game changer and its impact goes well beyond the retail sector.

We hope you enjoy this report and look forward to working with you in the coming year.

Richard Barkham
Global Chief Economist, CBRE

CHAPTER 1: GLOBAL ECONOMY

1. GLOBAL ECONOMY

GROWTH, BUT WITH HIGHLY VOLATILE SENTIMENT

The outlook for the economy and real estate is generally positive, but financial turmoil in emerging countries and the energy sector will create headwinds in 2016

Figure 1: Global Policy in 2016

	Share of World GDP	Fiscal Policy	Monetary Policy
Canada	2.1%	Tightening	Expansionary
France	3.3%	Tightening (mild)	Expansionary
Germany	4.6%	Loosening (mild)	Expansionary
Japan	5.6%	Tightening	Expansionary
Italy	2.5%	Tightening	Expansionary
U.K.	3.9%	Tightening	Expansionary (mild tightening)
U.S.	24.6%	Neutral	Expansionary (mild tightening)
Brazil	2.5%	Tightening	Expansionary (tightening)
China	15.6%	Loosening	Contractionary (loosening)
India	3.0%	Tightening	Contractionary (mild loosening)
Russia	1.7%	Tightening	Contractionary (mild loosening)
Overall balance	**69.4%**	**Neutral**	**Expansionary**

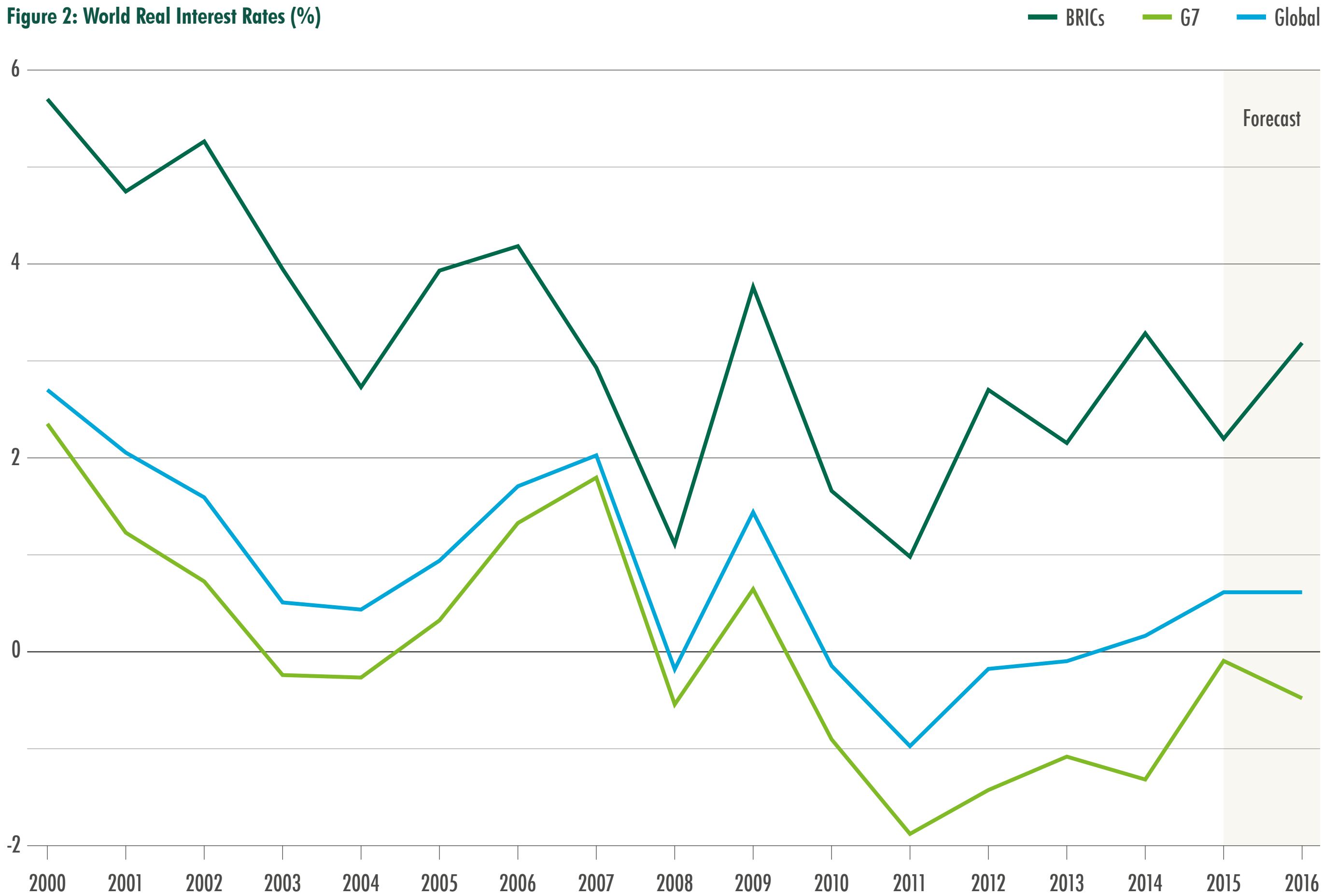
Source: International Monetary Fund, CBRE Research, 2016.

Moderate economic growth, low inflation, low interest rates and bouts of pessimism—these are the factors that have characterized the economy for the past few years, and they will continue in 2016.

This environment has been—and should continue to be—supportive of commercial property values. We are also now observing an international recovery in house prices. Gently rising interest rates in the U.S. will not derail the global economy or destabilize core real estate markets, although highly priced gateway cities may see some volatility as the flow of oil money eases back.

On balance, the forces acting on the global economy in 2016 are positive. Figure 1 summarizes the key economic policies of the G7 economies and the key emerging markets. (In market

Figure 2: World Real Interest Rates (%)



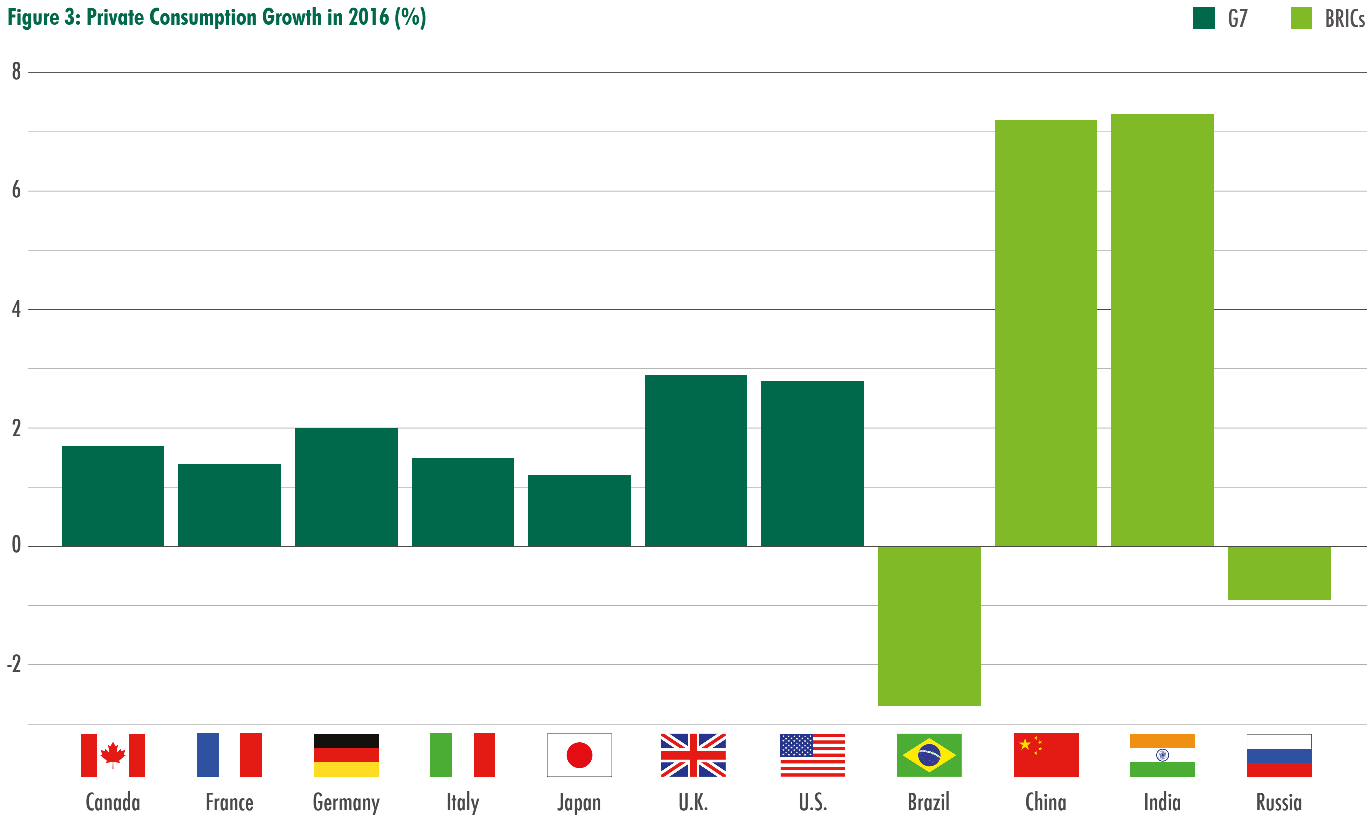
Source: IHS and Oxford Economics, CBRE Research, 2016.

value terms, these 11 countries account for 69% of global output.) Fiscal policy will tighten in the G7, as governments try to stabilize their ratio of debt to GDP. However, this fiscal contraction will be very mild compared to recent years and will help to keep long-term interest rates down. It will also allow governments to build up "firepower" to counteract the next economic downturn.

Monetary policy will remain extremely expansionary, with interest rates remaining well below their "neutral" levels in the G7. The U.S. and the U.K. are expected to gently tighten their monetary policies slightly. In the emerging markets, Brazil may have to undertake further tightening to combat inflation, but China, India and Russia will loosen. The extent of the Chinese government's monetary stimulus will be an important determinant of sentiment and activity in the global economy in 2016.

Importantly, real interest rates will stay negative in the G7 (Figure 2), and this should be kept firmly in mind as the media

Figure 3: Private Consumption Growth in 2016 (%)



Source: Oxford Economics. CBRE Research. 2016.

focuses on gradual increases in short-term interest rates in the U.S. and other worries. It bears repeating that in 2016—and likely into 2017—G7 interest rates will be set at levels that are highly supportive of consumers, which are the dominant part of the global economy. This will still be true even if the U.S. hikes interest rates four times in 2016.

In term of politics, there are two events to watch—the U.S. presidential election and the U.K. vote on membership in the European Union (Brexit). We don't expect either of these to have a substantive effect on global growth, although they have the potential to create a short-term hiatus in investment spending in the U.S. and the U.K.

The dominant cyclical factor is consumer spending (Figure 3), which is currently benefiting from a host of positive factors, including low oil and commodity prices, low interest rates, falling unemployment and rising house prices. Consumer spending could easily surprise on the upside in the U.S. and the EU.

Investment will be supported by growth and low interest rates, although the recession in the energy sector is a negative. We expect dollar strength to continue and believe that it will prompt additional capital investment globally as U.S. firms strive to remain competitive in world markets.

The weakest growth in the G7 will occur in Japan. However, we expect growth to resume in 2016 as tight labor markets and the continued stimulus due to "Abenomics" boost consumer spending.

Growth in China, the most important of the emerging markets, will continue to slow.

Growth in China, the most important of the emerging markets, will continue to slow. However, there are some signs of stabilization at the start of 2016. Since the first half of 2015, the government has been taking steps to stimulate growth, including cutting interest rates, boosting credit availability, reducing the reserve ratio requirement and relaxing home purchase restrictions. The results of these policies are beginning to show through. Chinese house prices have stabilized and are improving in tier-one cities, retail sales are rising, vehicles sales are robust and the service sector is expanding. We expect further housing market stimulus in 2016, and since the housing market accounts for 10% of GDP (by our estimates), this will help offset the weakness in the industrial sector.

The outlook for other emerging markets is gloomier. The slowdown and economic transition of the Chinese economy has transmitted demand shocks to those economies with a heavy dependence on commodity exports, and increases in supply have exacerbated the situation. This will be a key area to focus on in 2016, and it is possible we will see an emerging-market crisis, similar to that of 1998.

One of the key risks for 2016 arises from indebtedness in emerging markets, which, since 2009, have taken on US$3.3 trillion of dollar-denominated debt. In 2016, many emerging markets will grapple with a toxic combination of declining export earnings and rising debt repayments, which could trigger defaults. Brazil, which is in the middle of its worst recession in decades, is a possible trouble spot.

Oil producers also face a tough time due to the excess supply that has resulted from the rise of the U.S. fracking industry and the recent lack of solidarity within OPEC. With additional supply likely to come on line from Iran, low oil prices are set to persist through to 2017. However, low oil prices are a major boost to the G7 and other developed economies, even oil producers like the U.S. and the U.K.

Moreover, we should be careful not to be overly pessimistic on emerging markets. Some are very well positioned. India, on the basis of lower inflation and continued economic reform, looks set for improved growth. Mexico, with abundant labor and close links to the U.S. economy, will also do well.

WILL EMERGING MARKETS DERAIL THE GLOBAL ECONOMY?

A key risk for the global economy in 2016 is that low growth, currency weakness and rising U.S. interest rates will erupt into a financial crisis in emerging markets.

Banks, companies and governments in these countries are responsible for servicing and repaying the very large stock of dollar-denominated debt that has built up, particularly since 2009. State and private companies have issued dollar-denominated bonds and then deployed the cash in higher-interest emerging-market bank accounts. U.S. banks have lent money to hedge funds at low U.S. interest rates, many of which then channeled it into emerging-market debt. Funds have also flowed into emerging-market banks via the interbank and euro dollar markets.

According to the Bank for International Settlements (BIS), "Dollar credit to non-U.S. residents grew faster owing not only to more rapid growth in emerging market economies over the last six years. Dollar credit also expanded owing to its substitution for local currency credit. The total stock of dollar credit in emerging markets is US$3.3 trillion, 33% of the global total."[1]

Figure 4 summarizes the problem. It examines hard currency borrowing in the form of corporate bonds, cross-border lending and government debt. It is not the full picture, as many countries have foreign currency reserves, particularly in Asia, but it indicates where problems might emerge, namely Latin America—in particular, Brazil.

An emerging-market debt crisis would hit the global economy through a rapid fall in economic sentiment and stock markets. The Russian bond default in 1998 is a good guide to what might happen.

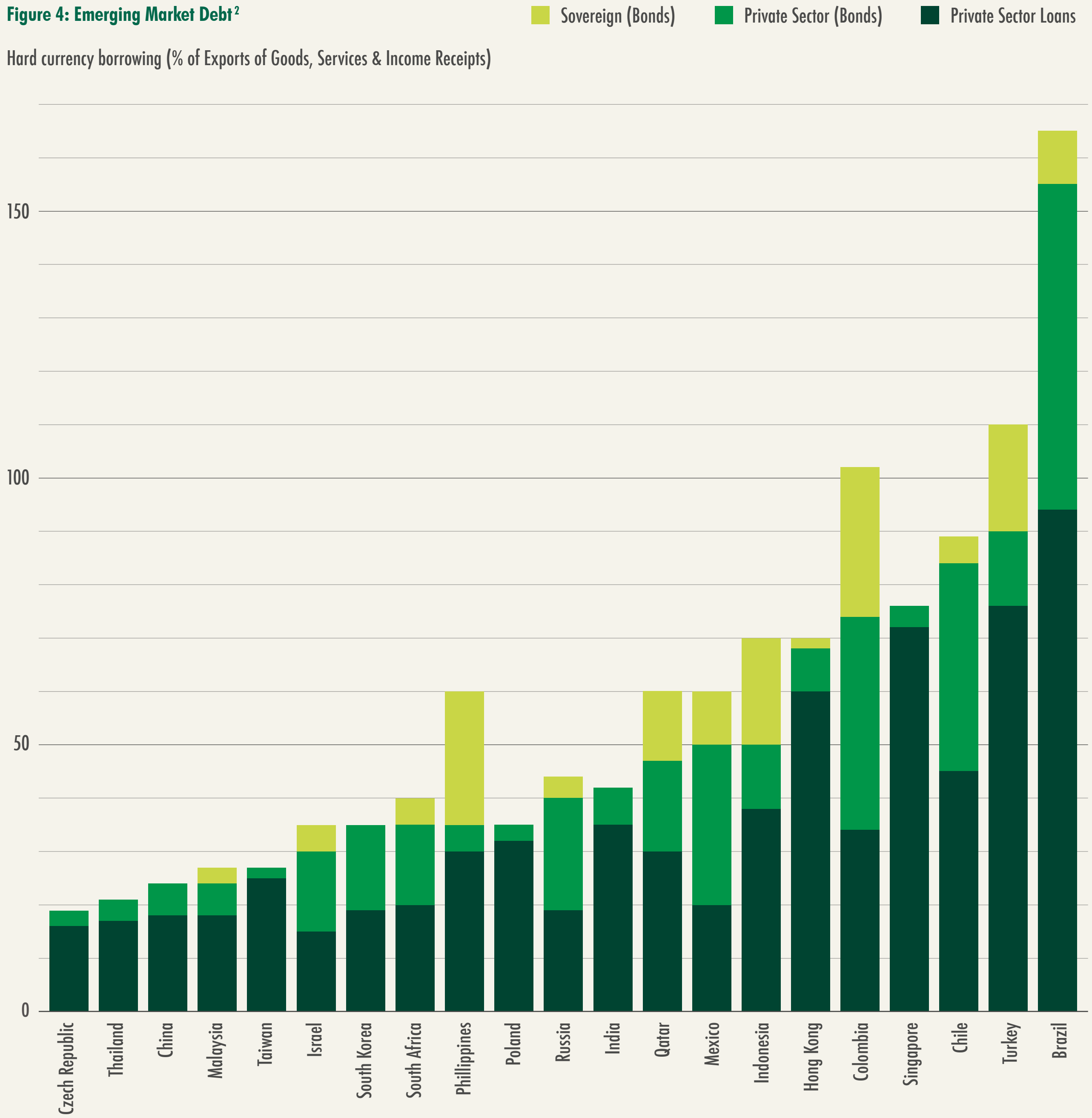
Defaults would raise fears about the viability of private equity firms that have invested in emerging-market debt—and the banks that have faced them. In the worst case, it would reduce global growth from the 2.6% increase that is expected (according to Oxford Economics) to around 1.8%, but it would not cause a major recession.

Overall, however, we are cautiously optimistic. The increasing strength of consumers in the U.S. and EU provides substantial momentum to the current economic cycle. We will get some negative economic news, but, as has been the case for each of the last seven years, the economic and real estate reality will be better than expected in most places.

1. Bank For International Settlements, Quarterly Review, December 2015, p27.

Figure 4: Emerging Market Debt[2]

Hard currency borrowing (% of Exports of Goods, Services & Income Receipts)



Source: CreditSights, Bloomberg Business review, BIS, BAML Index Data, Haver, 2016.

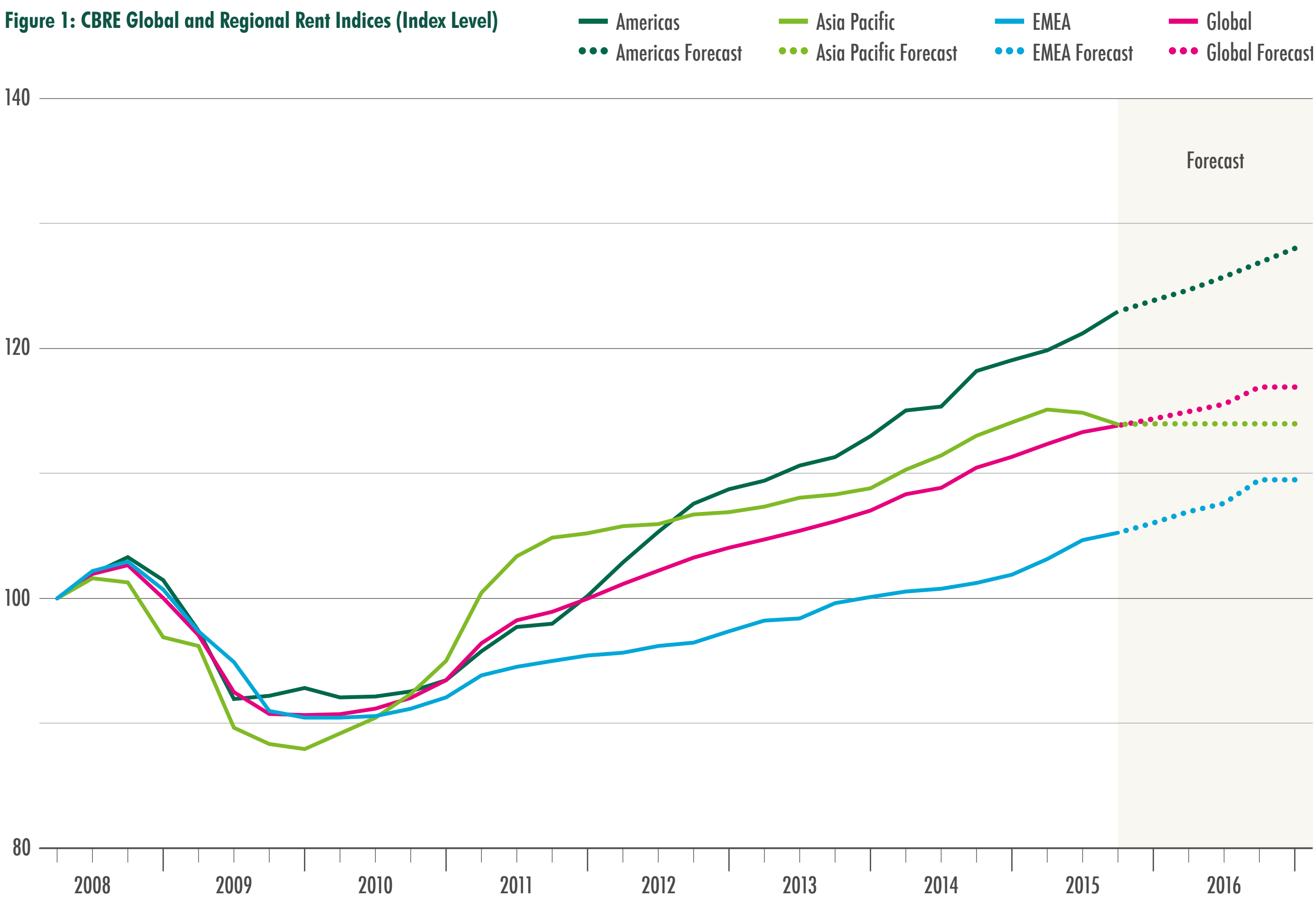
2. *"Emerging Markets Are Facing a Big Foreign FX Debt Bill"*, Tracy Alloway, Bloomberg Business Review based on CreditSights Research.

CHAPTER 2: GLOBAL RENTS

GLOBAL RENTS UP DESPITE SOME WEAKNESS IN ASIA

Rents will climb, but growth will be unsynchronized, with Americas and EMEA accelerating and Asia Pacific petering out

Figure 1: CBRE Global and Regional Rent Indices (Index Level)



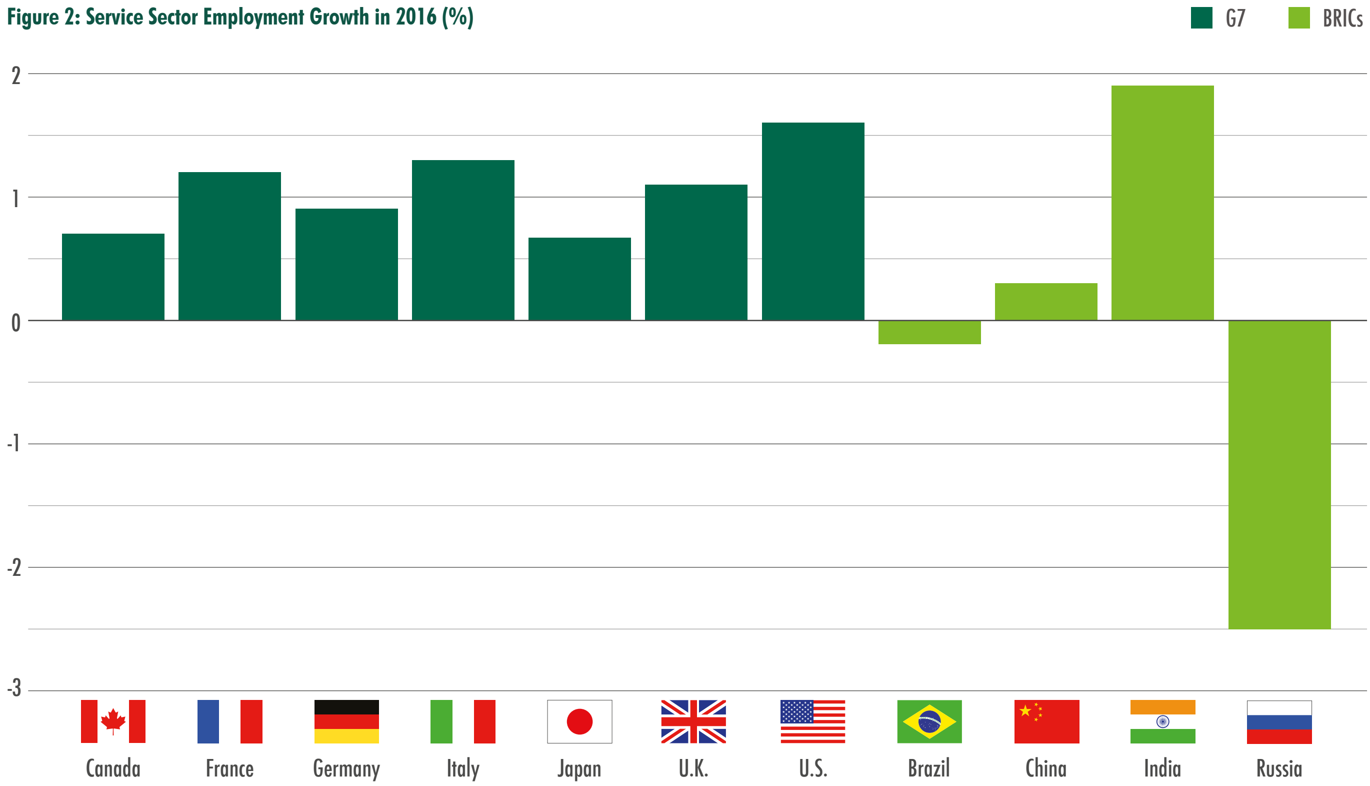
Source: CBRE Research, 2016.

In 2015, prime rents across the three major commercial property types—office, industrial and retail—grew 2.8% globally, according to advance estimates of CBRE's Global Rent Index (Figure 1).

Asia Pacific saw signs of weakness, with rents falling 0.2% in 2015 due to the economic slowdown in China and other Asian markets, as well as increased supply in some markets. The Americas and EMEA fared relatively well in 2015, with annual rent growth of 4.0% and 4.1%, respectively.

In 2016, we expect prime rents across all property types to grow 2.2% globally.

In 2016, we expect prime rents across all property types to grow 2.2% globally. The Americas—thanks to the strength of the U.S.—is forecasted to lead rent growth among the regions, with rents expected to grow 3.4%, as consumption growth and rising employment levels will stimulate demand.



Source: Oxford Economics, CBRE Research, 2016.

In EMEA, we anticipate all-property prime rents to grow 3.2% in 2016. Consumer spending will be the main demand driver, stimulated by pent-up demand and further quantitative easing by the European Central Bank.

For Asia Pacific, we expect rents to remain flat, due to the region's economic slowdown, which is being driven largely by the decelerating Chinese economy and oversupply in certain markets.

PRIME OFFICE RENTS

Global prime office rents grew 2.8% during 2015 due to the global expansion of the business services sector and strong take-up by the technology sector.[3] Prime office rent growth for 2015 was strongest in the Americas, at 4.7%, followed by EMEA, at 2.1%, and Asia Pacific, at around 1.6%.

We expect prime office rents to continue to rise in 2016, as office-related employment for most major countries increases (Figure 2).[4]

3. In the U.S., the tech sector accounted for one-fifth of leasing activity in the office sector in 2015. In EMEA, tech sector take-up accounted for approximately 16% in 2015. In Asia Pacific, tech sector take-up is robust.
4. We use Oxford Economics forecasts on service sector employment for Brazil, Canada, France, Germany, Italy, the U.K. and the U.S. For China, India, Japan and Russia we use overall employment, as specific service sector forecast figures are not available.

PRIME INDUSTRIAL RENTS

Global prime industrial rents expanded 2.7% in 2015 due to continued demand for larger modern logistics facilities in existing and emerging global hubs, as well as "last-mile" delivery centers in major metros. In Asia Pacific, rents remained flat regionally. By contrast, the Americas and EMEA saw increases in industrial rents, with growth of 5.9% and 2.1%, respectively. We expect this trend to continue in 2016, with modest-to-strong growth for industrial rents across all regions, including Asia Pacific, largely thanks to the transformative impact of e-commerce.

PRIME RETAIL RENTS

Global prime retail rents, representing the best shopping center and high-street locations, decelerated to 2.7% growth in 2015 from 5% growth in 2014 due to a degree of weakness in Asia. The sluggishness of luxury sales in Asia will continue to weigh on prime retail rents in the region, and the rate of growth in Japan and the Pacific is expected to slow after two years of rapid escalation thanks to strong leasing demand from international luxury retailers. The Americas and EMEA[5] recorded growth of 2.9% and 6.9%, respectively, in 2015. We expect overall retail conditions in the G7 countries to improve in 2016 amid growth in consumer spending. The slowdown in emerging markets will constrain prime retail rent growth due to a weaker outlook for luxury sales, particularly in Asia.

5. EMEA recorded rental growth due to limited availability in prime retail stock.

"HOT" OFFICE MARKETS

Despite the relatively modest overall outlook for office rents in 2016, we are expecting to see the emergence of a number of "hot" markets that will record above-trend rent growth over the next two years (Figure 3).

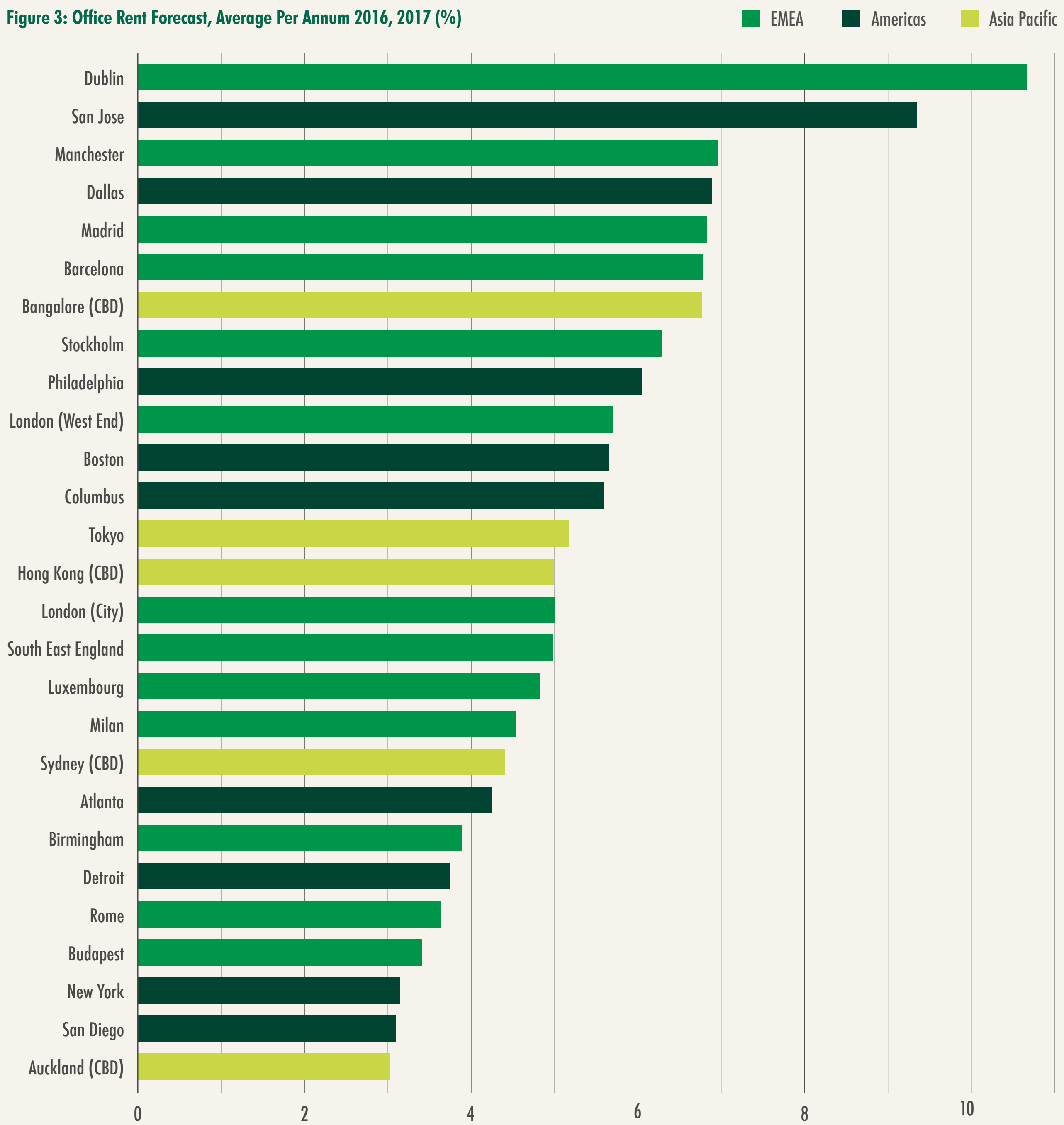
EMEA is at the forefront of these hot markets and has six cities in the top 10, including Manchester, Madrid and Barcelona. This positive outlook for European cities is evidence of a recovery that is broadening and deepening across the region, with a lack of new supply coming through in 2016.

The strongest rent growth forecast for 2016–2017 is in Dublin, where we expect to see an average of 10.7% growth per annum. This double-digit growth is supported by robust demand and a sharp decrease in vacancy levels. After 2017, however, a strong supply surge in the Irish capital will lead to a fall in rents, a pattern that could be repeated in other hot markets.

In the U.S., San Jose, Dallas, Philadelphia, Boston and Columbus are likely to see rental growth above 5.5% per annum. Each city has a different economic story, but all are supported by the growth of the U.S. economy, particularly the technology sector, and a relatively muted new supply pipeline.

Hot markets in Asia Pacific are more scarce. The clear exceptions to this are Bangalore (CBD), Tokyo, Sydney (CBD) and Hong Kong (CBD), which are expected to see average rental growth of at least 4.4% per annum over the next two years. Cost-saving initiatives like offshoring are driving demand from business process companies in Bangalore. Office demand in Tokyo is being driven by the expansion and upgrade needs of domestic corporations. Sydney is benefiting from employment growth as well as from the demolition and conversion of office properties to residential properties. In Hong Kong, rent growth is driven by the lack of new supply, coupled with sustained demand from mainland Chinese firms.

Figure 3: Office Rent Forecast, Average Per Annum 2016, 2017 (%)



Source: CBRE Research, 2016.

CHAPTER 3:
CAPITAL MARKETS

CHANGES IN THE WIND?

Global commercial real estate investment activity will remain robust, but the pace of growth will slow after six years of recovery and expansion

Excess global savings, low bond yields and an under-allocation to real estate in Asia have driven strong growth in global commercial real estate investment over the past six years, with global investment turnover in H1 2015 nearly five times above the H1 2009 low.

For 2015 as a whole, we expect global activity to be around 13% higher than in 2014 in local currency terms.[6] Overall, our expectation is that global real estate investment will increase by around 4% in 2016 in local currency terms, and continue to grow further in 2017 and 2018, albeit at a slower rate. However, as we look to 2016 and beyond, regional trends will begin to diverge.

Asia Pacific is in the midst of a slowdown, with total property investment activity in the first three quarters of 2015 already down by about a quarter compared to the same period in 2014. This is due to difficulty in sourcing investment product, low initial yields, the economic slowdown in China and some major investors being more focused on outbound (rather than domestic) investment opportunities. We expect these trends to continue to weigh on Asia Pacific markets in 2016.

However, there are some countries in the region that we expect to buck this trend. In India, the relaxation of restrictions on inbound investment into real estate could radically change that market. In Japan, it is likely that there will be more properties available for sale from investors, as they consider exit strategies for investments made as early as in or around 2012. These properties will serve to meet buoyant demand for acquisitions, leading to higher investment turnover.

By contrast, investment activity in the Americas continued to grow strongly in 2015, a trend that is expected to continue into 2016, driven by strong fundamentals, income growth expectations in the U.S. and the exemption of overseas pension funds from the 35% withholding tax on the proceeds of real estate dispositions, known as FIRPTA.[7] The picture elsewhere in the region is patchier, mainly due to economic factors. Economic growth is still good in Mexico and Chile, but Brazil is in recession and Canada's economy has been dampened by weak commodity prices. Threats to continued expansion come from lack of availability of investment product, worries about the path of U.S. interest rate rises, some early signs that credit conditions are becoming less favorable to borrowers and the strength of the dollar.

Investment activity in the Americas continued to grow strongly in 2015, a trend that is expected to continue into 2016.

In EMEA, investment turnover has continued to grow at over 15% per annum, with some of the major markets—especially France and Germany—particularly strong. Investment into the U.K. slowed in 2015. This was partly due to a lack of available product, but it is likely that the U.K. cycle is close to a peak and the investment momentum appears to have passed to the Eurozone countries.

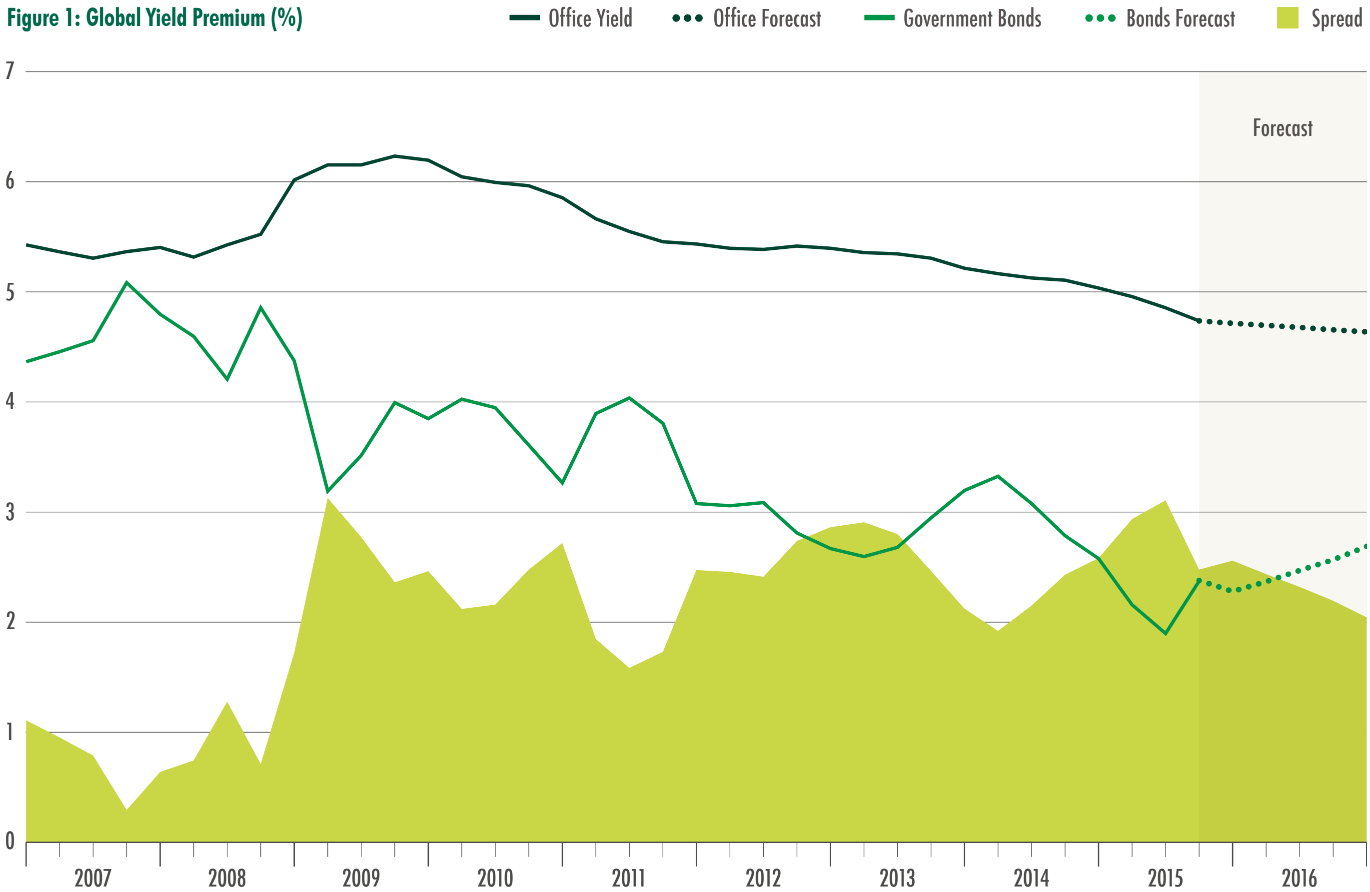
DEBT MARKETS

An increase in lending has been one of the drivers of higher global investment activity in recent years. Heading into 2016, however, this is an area to pay close attention to.

The general trend in Asia is that the relaxation of lending conditions is coming to an end, largely due to the imposition of higher capital requirements and stricter regulatory regimes.

6. We expect global activity in 2015 to be 7% higher than in 2014 in dollar terms.
7. Foreign Investment in Real Estate Property Tax Act.

Figure 1: Global Yield Premium (%)



Source: CBRE Research, 2016.

This is increasing the cost of capital for banks, which is prompting them to deploy less capital to real estate lending and charging higher margins.

This is creating an opportunity for some non-bank lenders. Non-bank lending is already an important part of the market in the Americas and EMEA, and has been instrumental in driving down the cost of debt in those regions, so the presence of these players in Asia may have the same effect. China is a significant exception to the more general trend in Asia, with the government pushing for more liquidity (opening up the onshore corporate bond market, for example) and relaxing lending terms.

In EMEA, after improving for several years, lending terms in the U.K. and Germany have stabilized in recent quarters. For most of 2015, the trend has been for the rest of EMEA to converge on these markets, leading to an overall improvement in lending conditions in the region.

There remains abundant debt capital in the U.S., although there were some indicators that pointed to the market moderating in Q3 2015. The 25-basis-point increase in the Federal funds rate implemented in December 2015 is not expected to have a material impact on U.S. capital markets in the near term.

PRICING

In an increasing number of markets, the yield or cap rate for prime property has set new lows, causing many experienced real estate investors to wonder about the sustainability of pricing levels. Nowhere is this more evident than in the global gateway cities that attract the majority of international capital flows. In Europe, for example, just three cities—London, Paris and Frankfurt—accounted for 40% of non-European investment over the last decade.

A key driver of this trend has been the increase in allocations to real estate by institutional investors from bonds, the yield on which has fallen steeply since the Global Financial Crisis. Despite the low (by historic standards) yield on prime real estate, the yield gap between property (based on the average yield in 31 global gateway cities) and government bonds (based on an average across the same markets) remained close to its peak of 2.6 percentage points as of the end of Q3 2015. At the global level, therefore, while this pricing advantage for real estate is maintained, it is hard to see what could trigger a significant re-pricing in the sector.

CAN WE BE CERTAIN THAT CAP RATES WON'T EXPAND?

In what direction will cap rates move in 2016? There are several good reasons to think that they will expand in 2016 after years of compression. Short-term interest rates are rising and upward pressure on inflation in the U.S. could push bond yields out. Turbulence in financial markets—perhaps caused by an emerging-market default—could impact stock markets, sentiment and investment flows. Cash inflows into oil- and commodity-producing states are substantially down, so the recycled capital outflow is likely to decline in 2016. Finally, China might continue to post negative economic news, raising fears about the health of the global economy.

However, these negative factors have to be balanced against the positives, which are substantial. The world economy will still have a very substantial "glut" of savings, and the oil producers only account for around 40% of this. Moreover, the flow of capital from China is likely to increase, as the country, prompted by the award of Special Drawing Rights by the International Monetary Fund, further liberalizes its capital account.

Cap rates do not tend to move out when economic growth is positive because investors seek to secure the gains from rent growth. Investors have ample capital to deploy, and at times of increased financial stress in recent years, have preferred core real estate assets. Also, as indicated above, the real estate spread is still very generous. Finally, there is still substantive momentum in the marketplace.

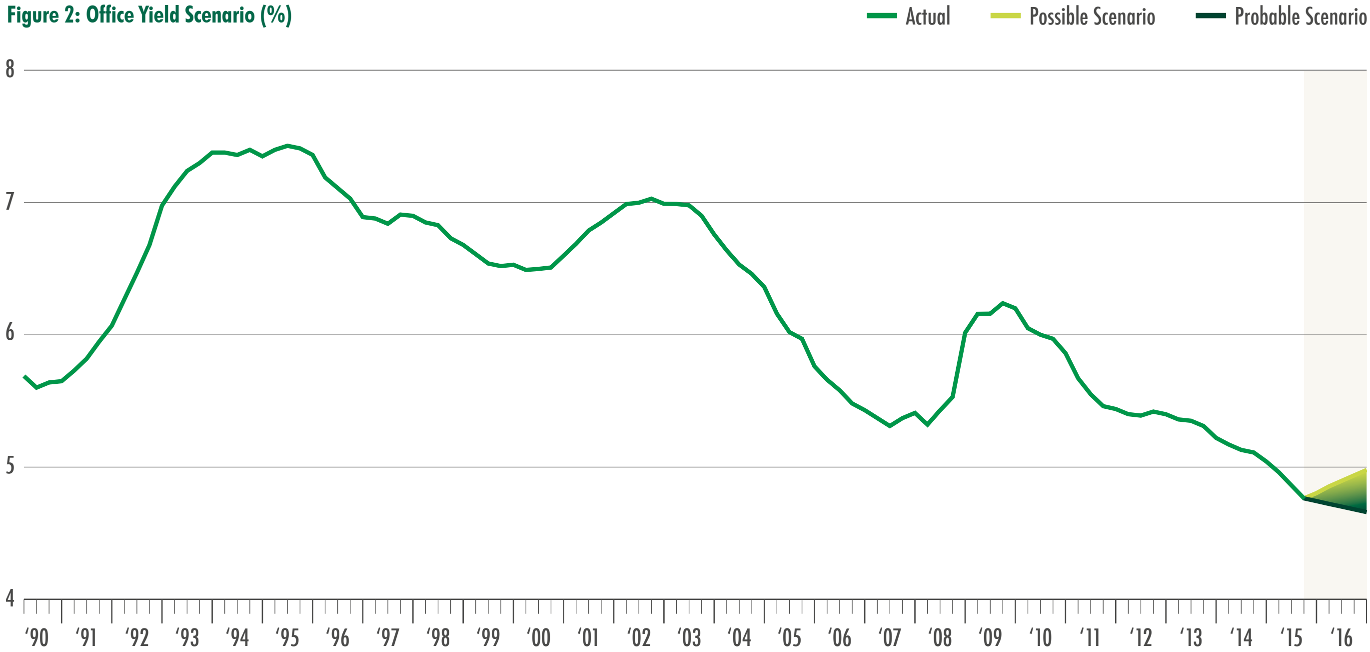
So, what might actually happen? Figures 2, 3 and 4 show our cap rate scenarios for 2016. Economic growth, rising rents, capital flows and momentum support the argument for a further fall in yields. Rising interest rates, financial turbulence and caution induced by current pricing levels suggest a small outward shift. We present the range of possible outcomes.

Our view is that there will be a further small decrease in cap rates in all sectors. However, we acknowledge that there is the risk of a small uptick in cap rates in Asia, particularly in the retail sector in Greater China, and some key gateway cities elsewhere (including New York, Los Angeles and Washington, D.C., in the U.S. and London, in Europe).

INTERNATIONAL CAPITAL FLOWS

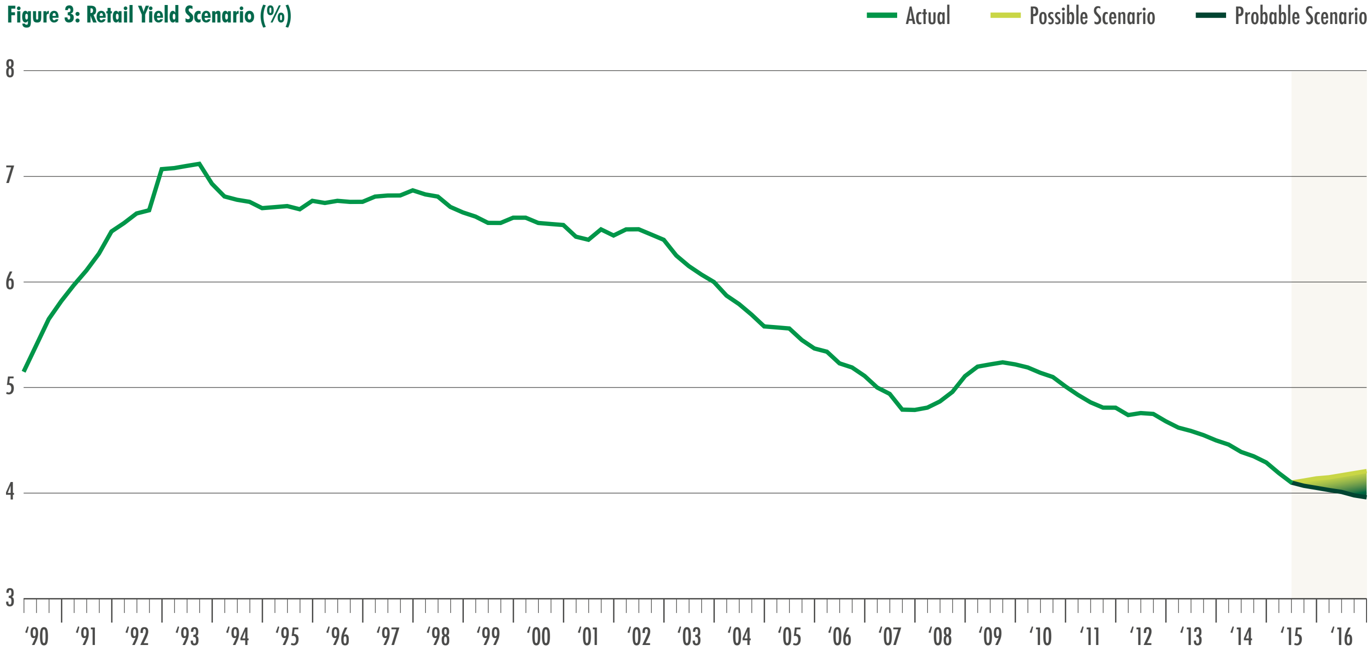
International capital flows, particularly those across regions, have an importance over and above their proportion of transactions. They tend to be concentrated in key cities, are

Figure 2: Office Yield Scenario (%)



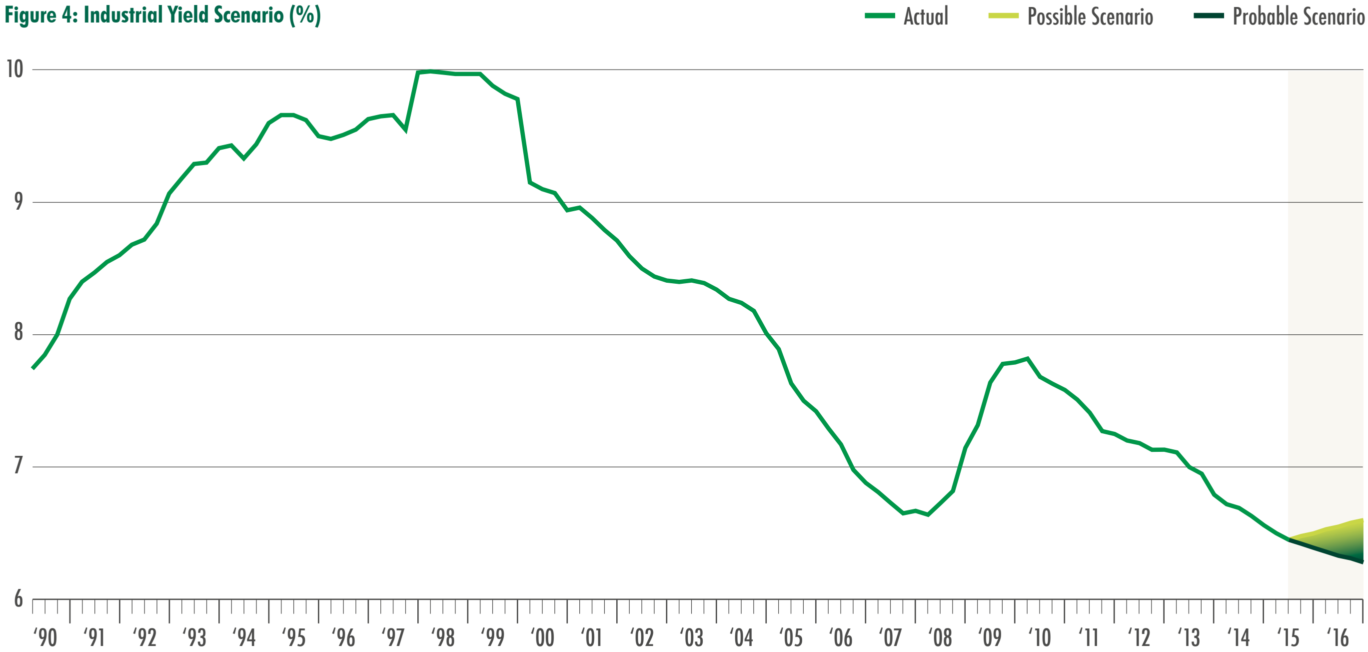
Source: CBRE Research, 2015.

Figure 3: Retail Yield Scenario (%)



Source: CBRE Research, 2015.

Figure 4: Industrial Yield Scenario (%)



Source: CBRE Research, 2015.

watched as an indicator of the overall health of the property investment market and serve as a pricing benchmark for other, less liquid markets.

2015 has already seen a number of changes in the pattern of cross-regional investment, and there are a number of others that we expect will become significant in the near term.

The Chinese economic slowdown has had a profound effect on economic growth on the rest of the Asia Pacific region, and seems to have resulted in investors from some countries becoming less active in real estate markets globally. We think this is a temporary trend. In any case, this is being replaced by increased flows from other Asian countries—particularly Singapore and Taiwan. There is also a strong expectation that Japanese institutions are set to increase their overseas acquisitions significantly, driven by the need to diversify and to push up investment yields. This could have a significant impact on global property markets given the size of Japanese institutional investment funds, although it could take some time for activity to build up.

The persistently low price of oil has had an impact on capital flows out of the Middle East, and this is likely to continue. However, two of the largest sovereign wealth funds, ADIA and QIA, have increased their investment activity outside the region substantially, and there has also been a sharp increase in outflows of private investment.

Looking ahead, it does seem likely that outflows to all asset classes from sovereign wealth funds could slow, although as most are thought to currently be below their target allocation, the effect of this should be less evident for real estate.

JUDGMENT: THE OUTLOOK FOR CAPITAL VALUES IN 2016

Prime property values grew strongly in 2015, as they have done every year since the Global Financial Crisis. With bond yields at long-term lows, investors have been attracted to the higher-income returns provided by real estate and the ability to grow their income at least in line with inflation. Investors have also observed the longer-term economic, political and cultural revival of the world's major cities in which much prime prioperty is located, and have decided to invest in that.

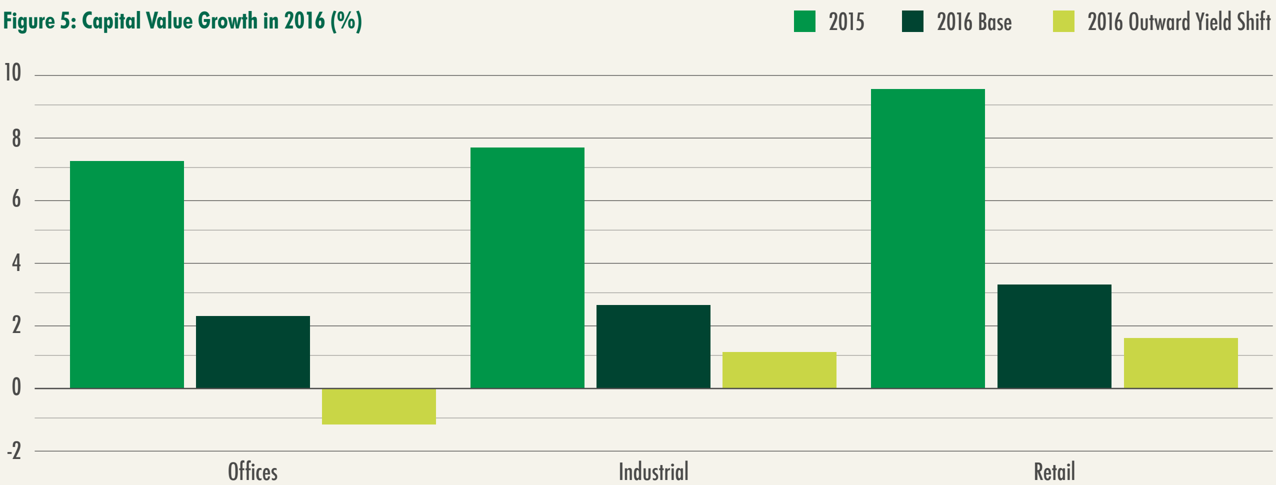
While the economic environment will remain positive for real estate in 2016, we sense that investors are becoming unwilling to push real estate cap rates too much lower because of the upward, but gentle, trajectory of U.S. interest rates and instability in emerging markets, particularly China.

On the other hand, investors do have a large amount of capital to deploy and, even with relatively low cap rates, real estate returns in 2016 and 2017 look compelling. So, as we have described elsewhere, our base case is for further prime yield compression, albeit at a slower rate than in 2015.

Combined with rental value growth, this moderate yield compression will produce a value uplift in all sectors in 2016. However, the growth in values will be lower than in 2015 and we have a sense that, by 2017, values may start to plateau out.

In our discussion of prime global cap rates, we describe the possibility of a small increase. Figure 5 shows the impact that this would have on capital values. In the industrial and retail sectors, values would still rise due to rental growth. The office sector would see a slight fall in value.

Figure 5: Capital Value Growth in 2016 (%)



Source: CBRE Research, 2016.

CHAPTER 4: OFFICE

TECH SECTOR IN THE LEAD AS WORKPLACE STRATEGY COMES OF AGE

Most U.S. and European office markets will tighten in 2016 as demand will keep outpacing supply, but Asia Pacific markets will be more mixed as cost-conscious occupiers scale back leasing

European office net absorption is expected to have grown by 9% in 2015, according to preliminary estimates, with further growth of around 14% anticipated in 2016. The U.K. is further into the cycle than the rest of Europe. Having seen explosive growth in 2013–2014, London will see slower growth in office-based employment than in recent years, and comparatively weaker net absorption. By contrast, the major German markets will see further strength, as, belatedly, will Paris. Spain and parts of Central and Eastern Europe will build on the improvement that we began to see in 2015.

In the U.S., net absorption is expected to reach its highest level since 2006, fueled by the addition of over half a million office-based jobs. Absorption has been positive in most markets through 2015, but highly concentrated. The top five markets for absorption year-to-date through Q3 2015—Dallas-Ft. Worth, Houston, Manhattan, San Jose and San Francisco—accounted for around a third of all U.S. net absorption.

This geographic pattern reflects the initial role of the energy and technology sectors in driving the U.S. office market recovery. The recent divergence in the fortunes of these industries—energy softening while technology continues to prosper—serves as a reminder that while the U.S. office market as a whole will tighten in 2016, the speed and extent of the tightening in individual metro areas will depend strongly on local job growth in the major office-using industries.

Occupier activities in Asia Pacific are increasingly being driven by cost-reduction objectives, which are heavily influencing leasing and location decisions.

In Asia Pacific, the impact of moderating economic growth and weaker sentiment will affect office markets in 2016. The strong expansionary demand shown by domestic occupiers in recent years is expected to moderate in 2016 and, in aggregate, we expect office demand in the region to remain steady, compared with a 30% increase in net absorption in 2015.

Occupier activities in Asia Pacific are increasingly being driven by cost-reduction objectives, which are heavily influencing leasing and location decisions, with decentralization in Asia and centralization in some Australian markets. Among the major cities, Bangalore, Shanghai and Tokyo are expected to show continued strong leasing momentum, in part because the abundance of good-quality space coming on to the market is proving to be attractive to domestic and international occupiers.

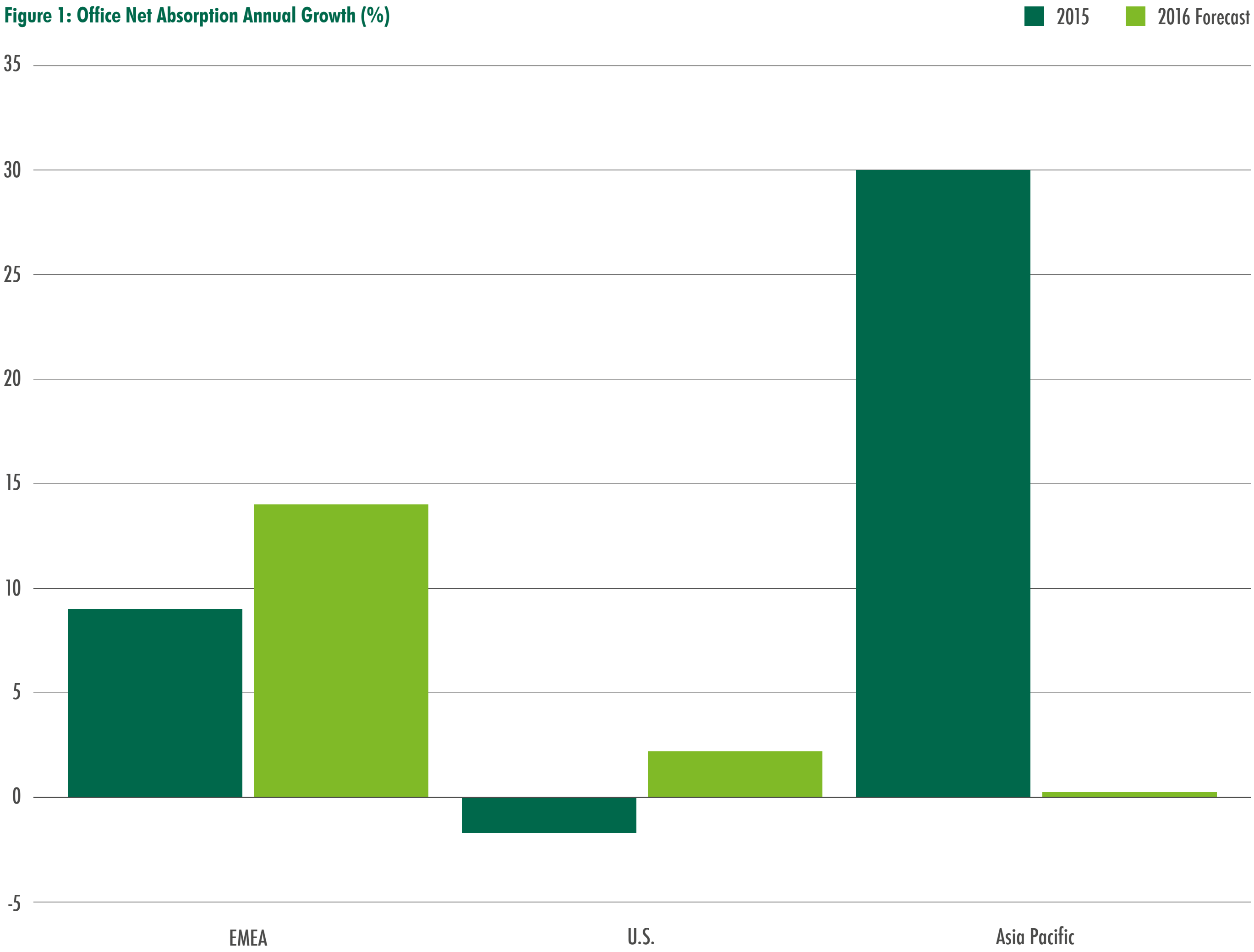
WILL CONSTRUCTION CATCH UP TO RISING DEMAND?

Vacancy rates in Europe have begun trending downwards and, with some exceptions, we expect this to continue through 2016. Development activity has been weak in most markets in the recent past, partly because of constraints on the availability of development finance. New starts are beginning to pick up in only a limited number of cities, including Dublin, Barcelona, Vienna and most Central European cities.

As a result, aggregate completion levels are likely to be marginally down in 2016, with speculative activity accounting for a minority of the total in Western European markets, but a higher proportion in Central and Eastern European markets. The clear exception to this is London: nearly 700,000 sq. m. (7.5 million sq. ft.) commenced construction over 2015, and new deliveries will push sharply higher over the course of 2016.

In the U.S., the combination of strengthening demand and limited development will push vacancy rates down to almost their 2006–2007 pre-recession low points. New development deliveries are expected to fall by over 25% compared with 2015 due to hesitancy around 2012 to initiate development. In absolute terms, this represents only a third of the pre-recession

Figure 1: Office Net Absorption Annual Growth (%)



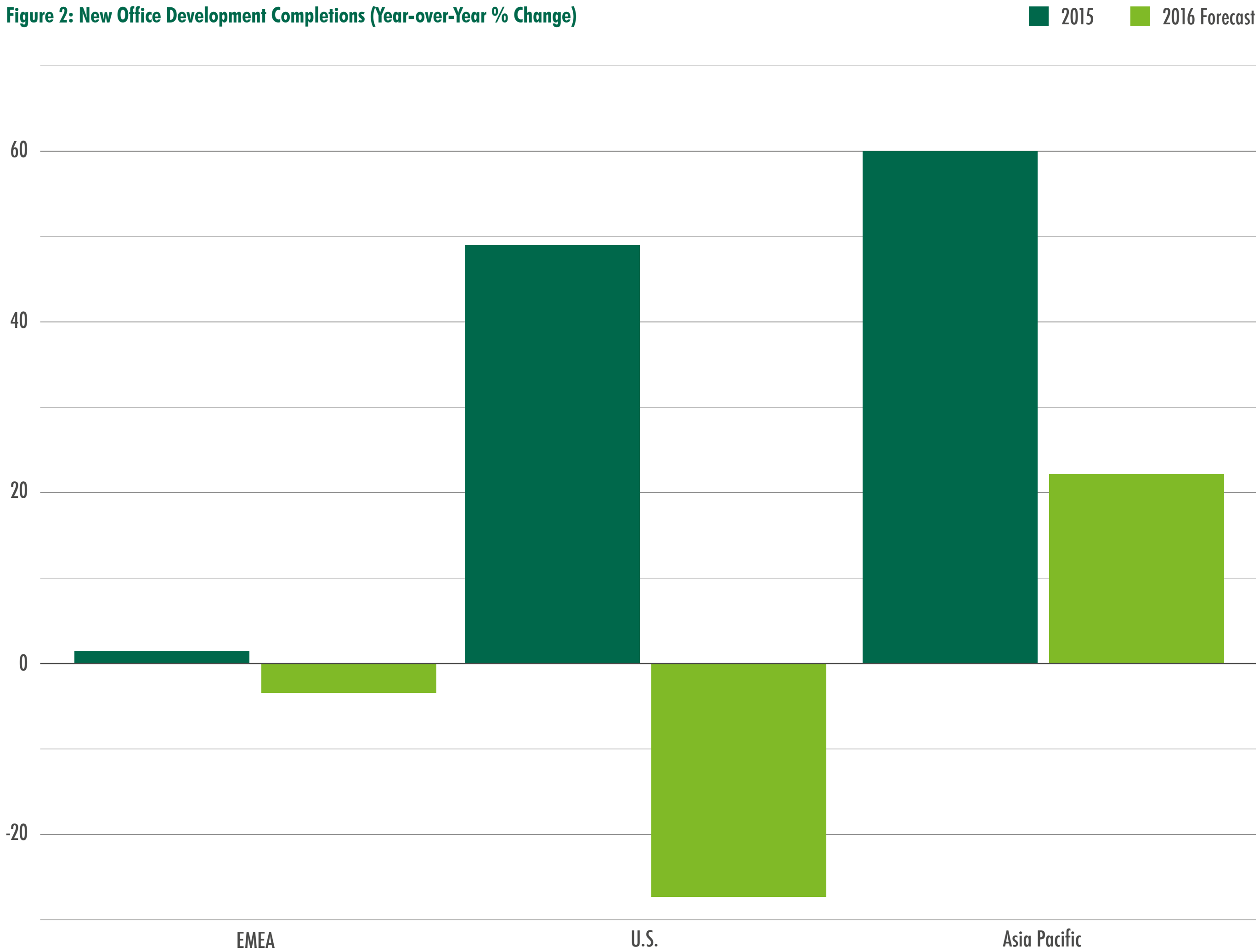
Source: CBRE Research, 2016.

peak in 2008. In strong markets, long development lead times are unable to keep pace with demand. In weaker markets, development is not yet viable because of a combination of weak rents and rising construction costs.

In Asia Pacific, Grade A development completions across the group of major cities (including Shanghai, Bangalore, New Delhi, Shenzhen, Guangzhou, Jakarta, Tokyo, Mumbai) are expected to total over 61 million sq. ft. of new space in 2016, around 20% higher year-over-year and heavily concentrated in certain fast-growing markets.

A surge in new supply in parts of India (Bangalore, New Delhi and Mumbai) and China (Shanghai, Shenzhen and Guangzhou),

Figure 2: New Office Development Completions (Year-over-Year % Change)



Source: CBRE Research, 2016.

as well as Jakarta, will push overall vacancy rates for the region above 11%. Supply conditions will make it challenging for landlords to retain tenants and, with disposals of surplus secondary backfill space also rising in certain markets, the competition between new buildings and existing buildings is expected to intensify. However, occupiers may still find it difficult to identify suitable stock that meet their office requirements.

TECH'S STARRING ROLE IN THE OFFICE MARKET RECOVERY

A common theme across office markets in all regions has been the importance of the technology sector[8] as a driver of demand. In Europe, take-up by tech occupiers has exceeded that of banking and finance tenants in each of the past four years.

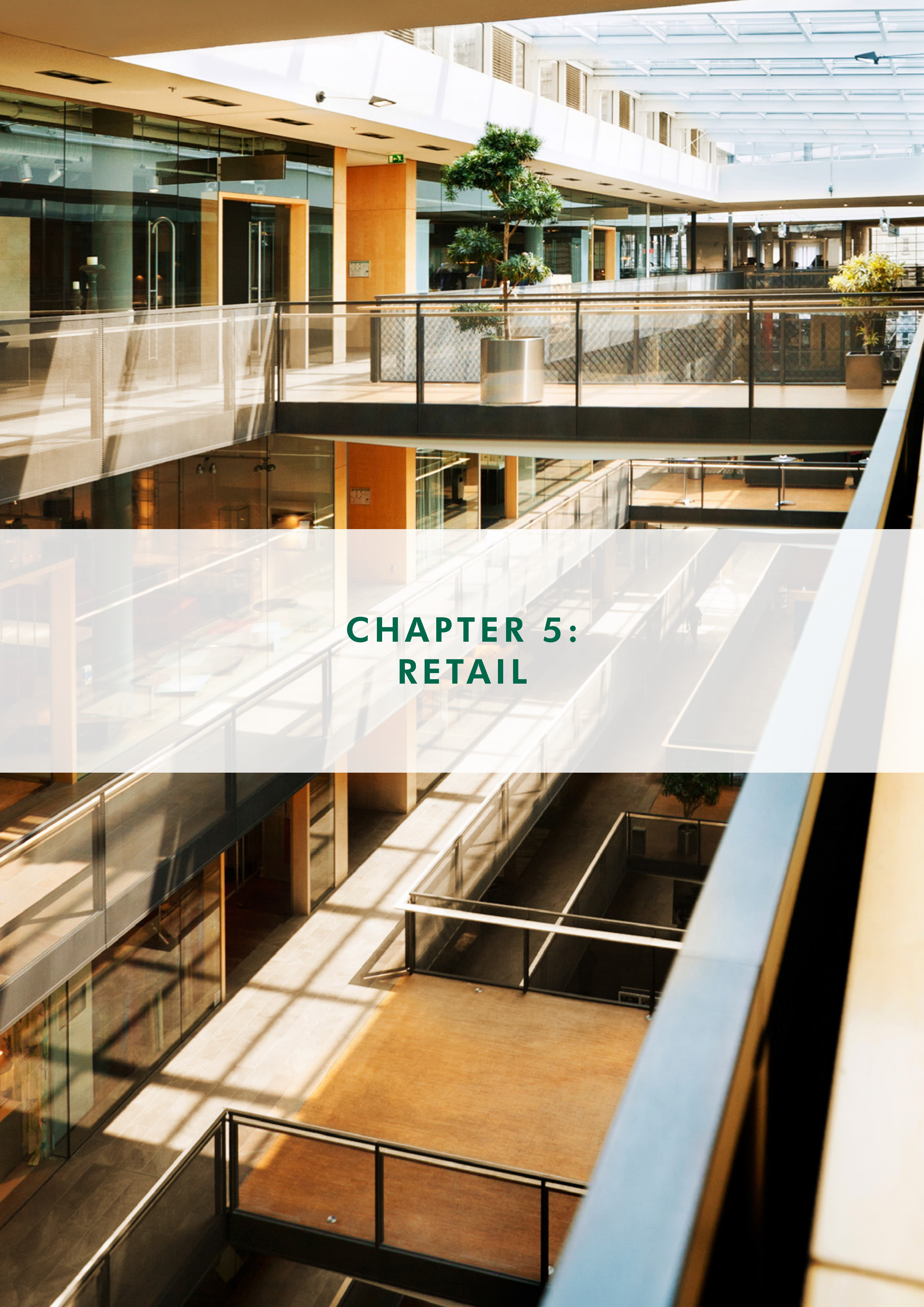
The growth of the tech sector, particularly new media and internet services and software, will continue to drive markets. Cities with a strong representation of such knowledge-intensive services, such as Stockholm, Zurich, Paris and Dublin, will see stronger demand. Leading tech markets and submarkets across all regions will account for an expanding share of leasing demand despite doubts over the sustainability of some tech company valuations.

Closely linked, we see a growing advantage for cities and submarkets that offer strong amenities and live-work-play dynamics that appeal to the highly skilled and much sought-after tech employees. The war for tech-talent will remain extremely intense. CBRE's *Global Occupier Survey,* to be released later this year, finds that occupiers will need to provide high-quality, flexible workspace in order to support employee collaboration, satisfaction and performance.

The locational consequences of tech-driven changes to the office environment will vary markedly. In Europe, demand is focused strongly on CBD core markets, reflecting the fact that international tech occupiers are, for the time being, less cost-sensitive than others. In the U.S., the picture is more nuanced. Suburban markets that offer a favorable business climate and strong amenities—as well as some cost discount—are all able to compete for occupiers against downtown locations.

In Asia Pacific, the greater concern over costs means that more of the large transactions will be concentrated in cheaper decentralized areas, even as smaller tech startups cluster in CBD locations in order to attract talent. In some of the bigger markets, such as China and India, decentralization will be aided by the fact that a high proportion of good-quality new supply, and new infrastructure, is concentrated in decentralized submarkets or emerging new CBDs.

8. Information and communications sector activities, including telecoms, computer software development, IT consultancy and Internet media.



CHAPTER 5: RETAIL

EXPERIENCE-DRIVEN RETAIL DRIVING SALES AND FOOT TRAFFIC

Retailers and mall operators are adopting new strategies to draw in shoppers, which, coupled with stronger consumer sentiment, should increase demand for retail space

Consumer confidence is on the rise. The Nielsen Global Consumer Confidence Index is at its highest level in nine years due to economic growth, falling unemployment and rising house prices. So 2016 is likely to be a good year for retail sales, albeit with some regional variations.

Heading into 2016, sentiment is strongly up in the U.S. Sentiment is also rising in the U.K. and most Continental European markets, but it is drifting down in the majority of markets in Asia Pacific, with the steepest declines in Taiwan, Malaysia and Hong Kong.

Despite weaker economic growth and declining sentiment, Asia Pacific, with its retail-favorable demographics, fast-growing middle class and higher-trend growth, will still see healthy retail sales growth. According to eMarketer,[9] Asia Pacific will see total retail sales growth of 8.8% in 2016, while the U.S. will see growth of 3.3% and Western Europe will see growth of around 1%. Overall, global retail sales are forecast to grow by 6.6%.

If the growth of total retail sales is expected to be good, the forecast for e-commerce growth is little short of spectacular. Worldwide e-commerce sales, according to eMarketer, will grow by 23% in 2016. In Asia Pacific and the U.S., e-commerce sales will grow by 30% and 13%, respectively. To put this in context, in the first seven months of 2015, 10 billion packages were delivered in China.[10] If we extrapolate these figures, 2016 could easily see 20 billion packages shipped. At present, e-commerce sales account for 7% of global total sales, but it is forecast to rise to 12% in four years' time.

Stores and malls play a fundamental role in people's lives by fulfilling immediate needs and providing leisure and entertainment opportunities. Hence, we do not see the growth of e-commerce as a threat to the sector. CBRE's *How Consumers Shop Survey* indicates that 87% of consumers in EMEA still visit a store to buy their products. The growth in retail rents, shown in Chapter 2, is largely based on healthy demand for stores by retailers.

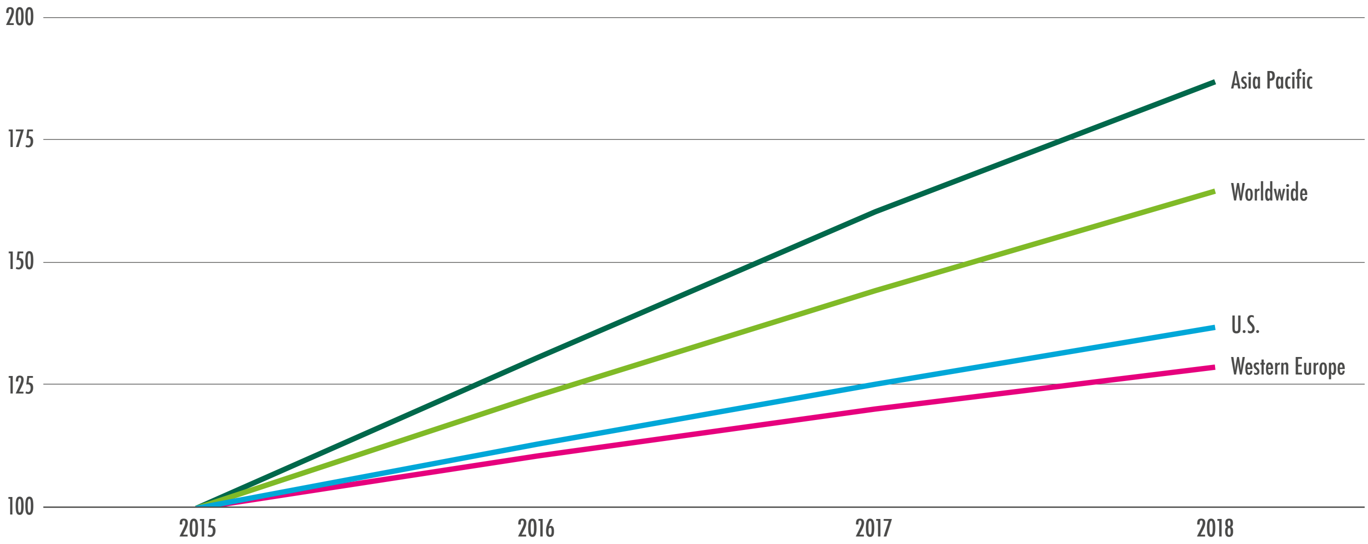
E-commerce is certainly a challenge for the sector, not least because of the rapid evolution of mobile technology and the creativity of digital content providers. Sales on Cyber Monday in 2015 hit new highs in the U.S., with mobile devices accounting for as much as 53% of total sales volumes on that day.

A cool and engaging social media presence, particularly Snapchat, is increasingly essential for fashion retailers. Lisa Pomerantz, senior vice president of global communications and marketing at Michael Kors, noted: "We're always looking to tell our brand story on the platforms our fans are using and loving. Snapchat provided a unique opportunity to take our All Access Kors strategy a step further, allowing us to share intimate, behind-the-scenes moments from our runway show with fans around the world."[11]

As well as a compelling retail and leisure offer, successful malls and town centers now require two-way digital communications strategies that encompass websites, smartphone apps, social media, games and email marketing. The best-run malls are adopting business-to-business apps to communicate real-time footfall information to retailers. In the face of an increasingly rapid and effective e-retail world, malls and stores are using omni-channel strategies to create customer engagement. Not every shopping center has figured this out yet, but they will need to.

9. www.eMarketer.com, December 2015
10. Andy Rothman, Sinology, Matthews Asia, September 2015
11. www.drapersonline.com, 4 March 2015

Figure 1: E-Commerce Sales Growth, 2015–2018 (Index Level)



Source: eMarketer, CBRE Research, 2015.

Outside of cyberspace, mall owners are focusing on their comparative advantage in the experience economy. Ian Anderson of CBRE describes it in the following way:[12]

Retail is reinventing itself. Specifically, malls and shopping centers are focusing on one key advantage e-commerce can't address: an unparalleled consumer experience. In order to achieve this experience, retail venues are transforming from locations designed to transact merchandise into dynamic and diverse settings to which consumers will gravitate. In effect, malls and shopping centers are striving to become the active town centers they once replaced. This process can be called "placemaking."

Part of the transformation to provide an unparalleled experience is physical. To compete with revived, 24-hour, live-work-play downtowns, malls and shopping centers are aspiring to create a similarly stimulating environment. Consequently, new, predominantly open-air shopping centers offer town squares, sidewalks, streetlamps and tree-lined streets. Places to gather are emphasized, providing shoppers with the opportunity to socialize, linger and be entertained.

Super-regional malls are revamping their exteriors to be more inviting, rather than fortresses with small pockets for entrances. They, too, are enhancing their properties with a renewed emphasis on areas to gather and socialize—in essence, creating a more appealing venue in which to linger.

More ambitiously, developers are incorporating other land uses into retail projects, integrating apartments, condos, offices and hotels into developments to create 24-hour centers of activity.

12. CBRE 2016 Americas Real Estate Market Outlook.

In order to truly become a "place," mixed uses are ideal. For example, Tysons Corner Center, located just outside of Washington, D.C., is being transformed from a mall into a mixed-use development. Other, more recent projects, such as the Village at Westfield Topanga in Woodland Hills, California, is emblematic of a mixed-use retail venue that has effectively become a new town center for the San Fernando Valley.

In Asia, the emphasis is different but the theme is the same—there it's called "retail-tainment." In the power centers, the focus is on brands, with an emphasis on evolving the tenant mix to feature new, cool retailers as well as established luxury brands.

The youthful demographics of Asia has also created a powerful trend in entertainment for young families. In a recent interview, Victor Guo, president of the Mall China Information Centres, refers to the excellent local orientation of IKEA-anchored malls in China.[13] Another example is the LIVAT Mall in Beijing, which provides comprehensive entertainment options for children, including play space and swimming facilities for babies!

In Europe, value and accessible luxury retailers are particularly active, reflecting the continent's sluggish economic recovery. In many markets, the rise of affordable luxury will continue to overshadow the "real" luxury segment. As elsewhere, food-and-beverage operators will demand more space, particularly in shopping centers. The market is responding quite quickly to consumers who want to see better-quality, more innovative and healthier eating options.

In fact, aside from the growth of e-commerce, the most powerful trend within physical retail, all over the world, is the expansion of space occupied by food-and-beverage operators. It's a social trend driven by millennials, but one in which shopping centers have an absolute advantage over e-commerce.

The LIVAT Mall in Beijing provides comprehensive entertainment options for children, including play space and swimming facilities for babies.

"Millennials view dining out as a social event (i.e., a chance to connect)," notes the National Restaurant Association.[14] Moreover, according to Bloomberg Business, "they tend to favor fast food, deli food and pizza restaurants over coffee shops, high-end dining and casual dining. Their diversity and interest in new things draw them to more ethnic restaurants too."[15]

A recent CBRE survey of 21,000 consumers in 21 European markets found that a third of shoppers visit a shopping center just to eat or drink. In the 16–24 age group, this increases to almost 40%. A third of young people also feel that there is a lack of top-quality restaurants available in shopping centers.

13. Zhengli Guo MallChina Newsletter,Wechat on 27th Dec 2015

14. http://www.restaurant.org/Manage-My-Restaurant/Marketing-Sales/Specialty-Promotions/Generation-Now-Marketing-to-your-Millennial-audien

15. Michelle Jamrisko, "American's Spending on Dining Out Just Overtook Grocery Sales for the First Time Ever; BloombergBusiness," 14 May 2015

According to MasterCard, one in three millennials (18–29 years old) in Asia Pacific are eating at fine dining establishments at least once a month, more so than those 30 years old and above. Many of the frequent fine diners are millennials from China, on average visiting more expensive establishments two or three times a month. This is higher than the average for millennials across the region and higher than any other age group.

So brick-and-mortar retail, which has certainly had some ups and downs since the Global Financial Crisis, faces a better market in 2016, but it needs to continue to adapt and change. Experience-driven retail, which includes fine dining, education and family entertainment—all customized to the needs and wants of the local catchment—will be the key to success in 2016.

Experience-driven retail, which includes fine dining, education and family entertainment—all customized to the needs and wants of the local catchment—will be the key to success in 2016.

RETAIL DEVELOPMENT TRENDS DIVERGE WIDELY

In 2016, global shopping center development activity will be dominated by Asia Pacific, where about 5.9 million sq. m. (64 million sq. ft.) is expected to deliver in 2016. The large volume of supply will make it challenging for landlords in the region to retain quality tenants, especially in Mainland China, where supply will be most plentiful.

The pipeline is smaller in Europe, with only 3.4 million sq. m. (37 million sq. ft.) expected to come on line in 2016. Most development in Western Europe is occurring in the form of expansions to existing schemes, with only a handful of significant new projects being built.

Development in the U.S. remains muted. Over the past year, retail completions totaled around 4.7 million sq. m. (51 million sq. ft.)—the most since 2012, but far below the 2005 peak of 15 million sq. m. (161 million sq. ft.). While the construction pipeline is growing, it will remain well below pre-recession levels. Among major the retail segments, lifestyle centers and malls will see the most development as a percentage of existing stock.

CHAPTER 6: INDUSTRIAL

REVOLUTION OR EVOLUTION? E-COMMERCE AND GLOBAL LOGISTICS

As e-commerce sales skyrocket, logistics users are seeking "last-mile" distribution points within major cities to facilitate same- and next-day delivery of goods

The rise of e-commerce is having far-reaching implications for supply chains across the world. According to eMarketer, global sales on the Web will grow to US$3.5 trillion, representing 12% of total retail sales by 2019, so change is set to continue.

Online retailing is becoming an inherently more complex operation that demands a larger variety of goods, smaller package sizes and increased frequency of deliveries from warehouses. This increases demand for a variety of modern logistics properties and locations.

For the past two decades, the bulk of demand has been focused on large distribution spaces in the main gateway markets, as manufacturers and distributors have established anchor or hub locations along key transportation networks near major population hubs.

While the need for these big-box spaces will continue, demand has begun to diversify, with users looking to smaller markets and smaller spaces in order to meet more stringent consumer demands and gain a speed-to-market advantage.

Compressed delivery requirements are becoming the norm, which is placing extreme pressure on supply chains.

For logistics operators, the expansion of online shopping means more parcels entering the system. At the same time, consumers are demanding that those parcels reach them more quickly. Compressed delivery requirements—next- or same-day—are becoming the norm, which is placing extreme pressure on supply chains. The result is that the "last mile" of delivery will continue to be the key focus for logistics users in 2016.

Several operators are creating networks whereby a string of smaller delivery sites on city fringes can be coordinated through one or more hub warehouses in strategic locations. In the near term, the demand for these last-mile facilities will be strongest in mature, high-value cities such as Tokyo, Los Angeles and London, where the focus is on operational efficiency that can drive quicker delivery times.

By contrast, in emerging regions like Southeast Asia, India, Central and South America, and Central and Eastern Europe, occupiers are still expanding their service networks to sufficiently support e-commerce and widen their customer base, broadening the geographic demand for warehouse space. In these regions, user demand is growing, but focused on building a strong distribution foundation that can reach consumers in a reasonable amount of time, rather than fine-tuning the supply chain, with a focus on maximum speed to market.

In response to user demand, the supply side has begun to evolve. One of the most notable features of the current cycle has been the relatively tepid development market and the slow addition of new logistics product. For example, since 2010 in the U.S., completions have been less than half of the long-term average despite net absorption that has been, on average, 20% greater than the long-term average.

On the whole, the discipline shown by developers has led to steady rent growth, with many markets close to their previous cyclical peaks. This rent growth, coupled with tight availability, particularly in the key hub markets, has created a steady global development market—one that has posed little risk of oversupply—which is expected to continue into 2016.

In Asia Pacific, according to CBRE estimates, 45.6 million sq. ft.[16] of new supply is set to deliver in 2016, which is roughly

16. Major markets of China, Hong Kong, Japan, Korea, Singapore, Australia and New Zealand.

in line with the 2010–2015 historical yearly average of 40.8 million sq. ft. Development will be focused in Tokyo, Seoul and Singapore, which collectively will account for almost 54% of new supply in the region.

In EMEA, 2016 is forecast to be one of the strongest years for development in the current cycle. However, as is the case around the world, the development activity forecast is still significantly below the levels seen at the last peak in 2007. Also notable is the mix of projects, with most being developed on a build-to-suit basis, a contrast to the 2007 peak, when the bulk of construction was speculative.

Finally, in the Americas, where the development market is the strongest, supply and demand is forecast to reach a balance for the first time in nearly a decade. As has been the case throughout the cycle, construction is largely concentrated in the large U.S. gateway markets and key Latin American manufacturing and distribution hubs such as Mexico City and São Paulo. However, as user demand has evolved, the development market has as well.

In the U.S., in particular, developers are responding to the demand for smaller warehouse spaces meant to solve the last-mile problem and filling that niche with new Class A facilities.

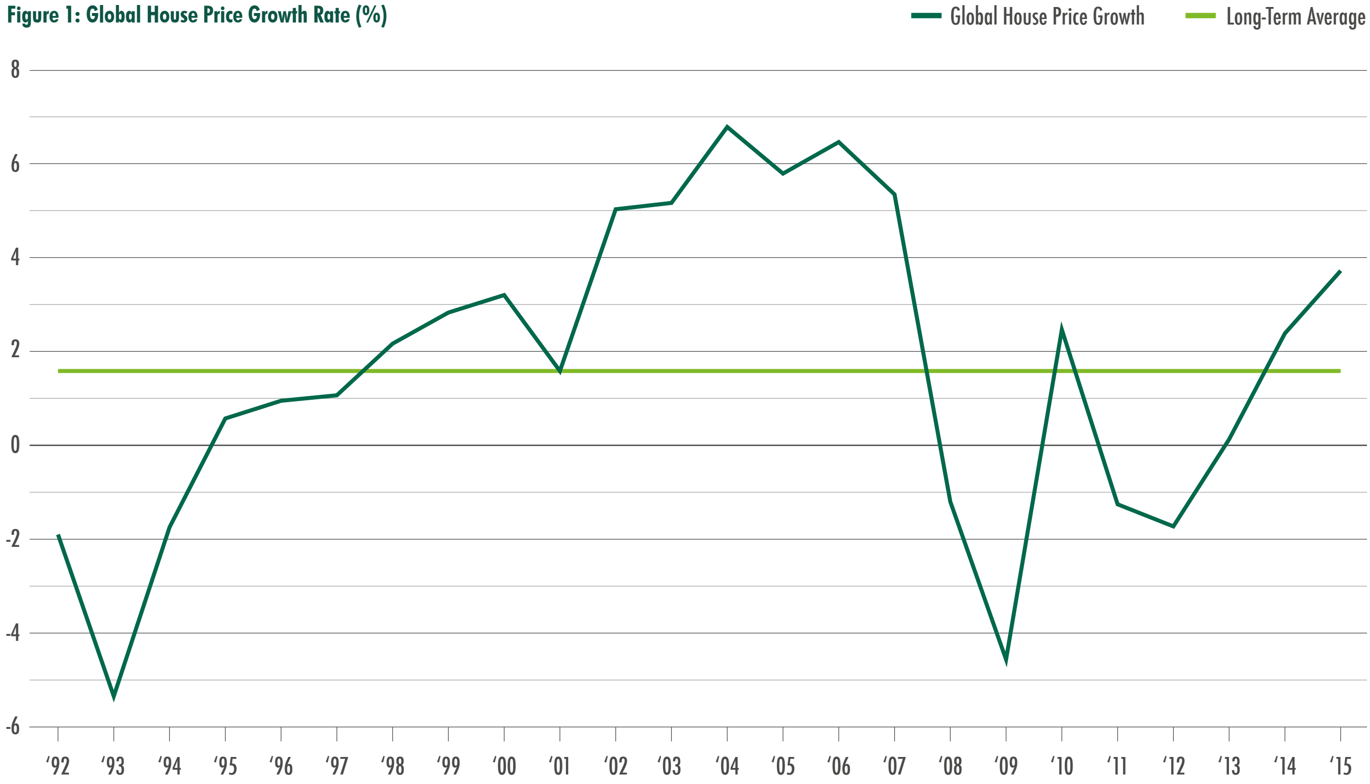
In the U.S., in particular, developers are responding to the demand for smaller warehouse spaces meant to solve the last-mile problem and filling that niche with new Class A facilities that are also smaller (or easier to divide into smaller spaces) and located closer to the urban core. These light industrial properties are representing a larger portion of total development—up to a third of all buildings under construction—a departure from previous years, when virtually all development was concentrated in the big-box bulk warehouse segment.

CHAPTER 7: RESIDENTIAL

GLOBAL HOUSING IN FULL-SCALE RECOVERY IN 2016

House prices are climbing in most parts of the world, but the pace of growth varies widely by country and region

Figure 1: Global House Price Growth Rate (%)



Source: Federal Reserve Bank of Dallas, CBRE Research, 2016.

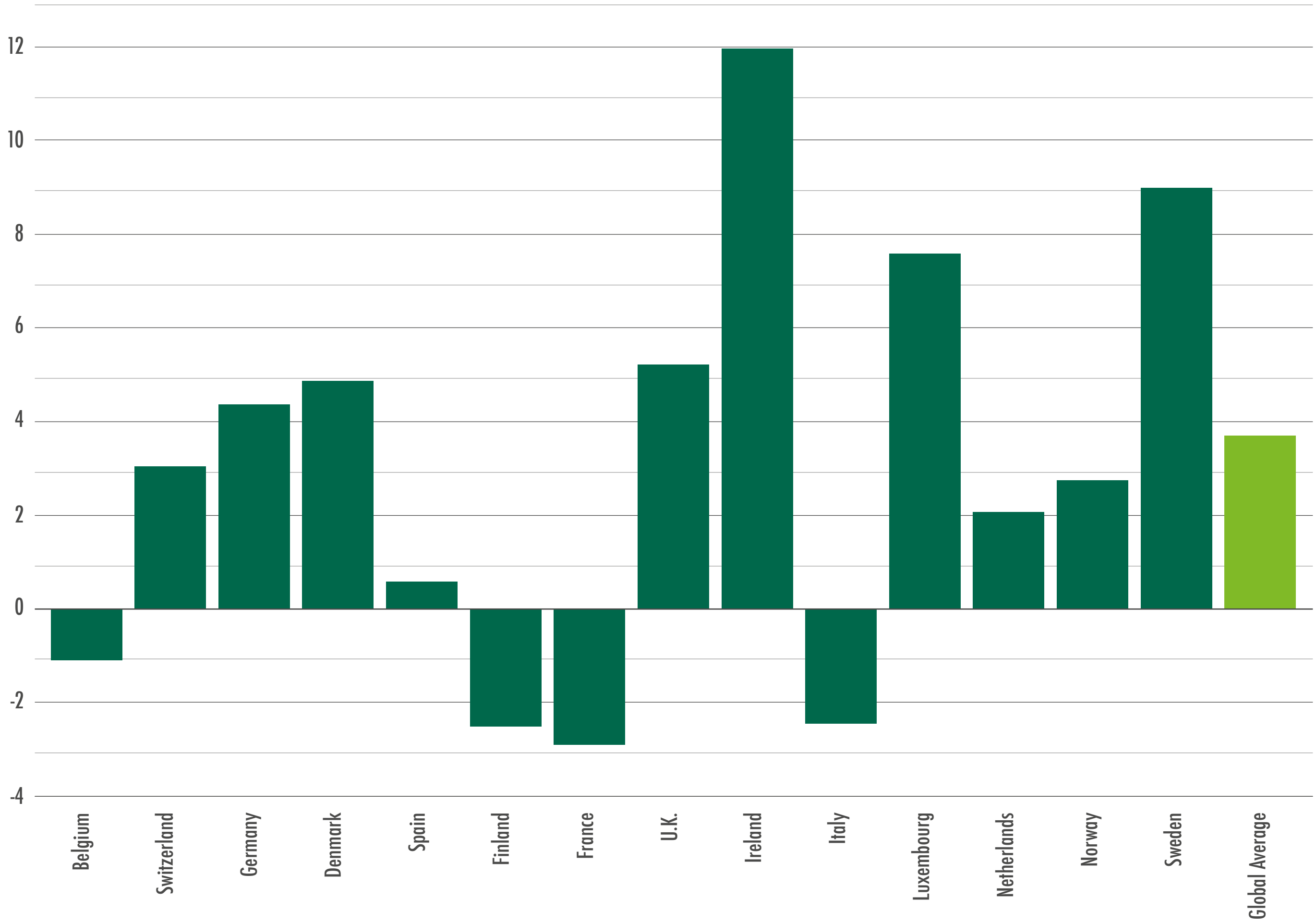
Six years after the Global Financial Crisis shook the world's property markets to the core, a full recovery of the housing market is finally on the horizon. With 2013 heralding in the first tangible signs of improvement, 2015 saw global house price growth rise to 3.7% annually, up from its lowest point of negative 4.6% in 2009 (Figure 1). All data in this chapter reflects data as of Q2 2015. All year-over-year comparisons are Q2 2014–Q2 2015. This is more than double its long-term average (1.6% from 1992–2015) and a clear signal that we are truly in recovery mode.

In general, following any sort of significant dip in the market, the first stage of recovery tends to see a surge, reflecting pent-up demand, which, after a period, settles down to a more sustainable level of growth. At a global level, the current rate of growth is at its highest since the crash, and it will probably continue to grow strongly for a while before flattening out.

Not all countries are recovering at the same rate. The U.K.'s recovery, which started in earnest in 2013, is well established, with 8% growth in house prices recorded in 2014 and 5.3% growth logged in 2015. This follows a low of negative 12.9% in 2008, and brings current growth rates on a par with the average pre-crash level. London outperformed the U.K. over the last year, experiencing growth of 9.1%.

Ireland, still in the first throes of recovery, has shown extremely strong growth over the last year, with house prices

Figure 2: European House Price Growth Rate in 2015 (%)



Source: Federal Reserve Bank of Dallas, CBRE Research, 2016.

appreciating by 12% and Dublin enjoying growth of 21.6%. Similarly, Edinburgh saw growth of 20%. However, these levels are expected to settle in the coming years, in line with familiar post-recession patterns.

Throughout the rest of Europe, the prognosis is varied (Figure 2). Spain, France and Italy have been slow to recover, all seeing dips in 2015, while Sweden, Luxembourg and Norway are well on their way, seeing growth in house prices during the same period.

However, a slow recovery can be an advantage. In Paris, investors are taking a long-term view, with its property market attracting more international attention than it has in 15 years despite a 2.8% fall in prices. Similarly, Barcelona and Madrid are markets to watch in terms of investment.

U.S. MULTIFAMILY BOOSTED BY CYCLICAL AND STRUCTURAL FORCES

2015 was another strong year for the U.S. multifamily market. Multifamily investment, which has been buoyant for several years, set a new record again in 2015, with US$125 billion invested, reflecting a 15% increase over 2014's US$108 billion.

Moreover, demand again outpaced the substantial and above-trend delivery of apartments by a wide margin. This imbalance offered continued support to already-established trends in multifamily fundamentals—tighter markets and strong rent growth.

Much of the new supply that was expected in 2015 was delayed and will appear on the market in 2016. Hence, in 2016, we are anticipating the biggest single-year number of completions since the booms of the 1970s and 1980s.

Fortunately, we expect solid population growth and job creation to continue throughout 2016. Net absorption will likely increase in 2016 and reach levels roughly 25% above the long-run average. However, the wave of new supply will put some upward pressure on vacancy.

There is a common misconception that recent multi-family demand is concentrated in urban centers and driven by millennials. While urban fundamentals and millennial demand have been strong, suburban markets have also recovered and baby boomers are playing a significant role in apartment demand. This is particularly true of suburban markets that have developed an urban feel—markets with reasonable levels of walkability and a diverse retail presence.

In 2016, U.S. multifamily investment will remain very active. We forecast an approximate 5% gain for total acquisitions volume to about US$131 billion. Negative influences on investment—slightly cooling fundamentals and high pricing—should be more than offset by positive influences, including large amounts of capital sitting on the sidelines ready to be invested and still favorable demand trends.

The U.S. has been showing real signs of recovery since 2013, with growth levels in 2015 reaching 4.7%. Major cities such as New York and Los Angeles have outperformed the nation as a whole. In New York, the market is more or less at its pre-crash strength. By contrast, Chicago, with growth of 1.2% over the last year, is only just starting its recovery.

Canada was less affected by the crash overall, with its lowest point coming in 2010, when house prices dropped 4.2%, but it has recorded average growth of 2.9% over the last six years, above the country's long-term average of 2.8%.

Many markets in Asia remain strong and stable despite economic volatility, mainly as a result of government interventions.

Many markets in Asia remain strong and stable despite economic volatility, mainly as a result of government interventions. Shanghai experienced growth of 6.2% over the last year, a whiplash effect following the relaxing of government interventions imposed to moderate the market since 2013. Beijing experienced 12.0% growth, also due to government intervention to counteract the recent market slowdown. Hong Kong experienced 20% appreciation despite government attempts to cool the market, with growth being supported by severely constrained supply levels and still-low interest rates.

Singapore, on the other hand, experienced a 3.7% drop-off as sales volume remains lukewarm and prices are falling at a more measured pace. The latter suggests that the market may be approaching its trough in the next 12-18 months.

In the Pacific, Australia showed some resilience in 2015, with growth of 6.9%, well above the long-term average of 3.9%. Sydney performed notably well, experiencing 12.9% growth over the last year. New Zealand, at a similar stage of recovery, had growth of 6.2% in 2015. We expect the Australian market to cool in 2016 due to slower employment growth.

THE WORLD'S PRICIEST RESIDENTIAL MARKETS

Figure 3: Top 10 Most Expensive Residential Markets

	Market		Average Property Price US$ Per Sq. Ft.
1	Hong Kong		1,411
2	London		1,025
3	New York		842
4	Paris		827
5	Singapore		817
6	Tokyo		771
7	Los Angeles		671
8	Milan		549
9	Rome		528
10	Edinburgh		512

Prices converted from pounds to U.S. dollars. Exchange rates as of Q2 2015.
Source: CBRE Global Living: A City-by-City Guide, 2015.

Taking a world view, Hong Kong, London and New York hold the highest average property prices on a price per sq. ft. basis heading into 2016. While it is entirely probable that, as a result of the natural ebb and flow caused by varied market impactors, these will periodically shift position within the top three, it is unlikely that any of them will be jilted any time in the near future.

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