CBRE RESEARCH | AMERICAS

REAL ESTATE MARKET OUTLOOK 2020

U.S.

CBRE

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50 YEARS LATER, SAME BUMPY ROADS

2020 could be a pivotal year for the U.S. commercial real estate industry, with geopolitical, economic and local regulatory issues in keen focus. As I turn 50 years old next year, I well remember that we've driven the same bumpy roads before. I think back to my formative years in the 1970s when big events like the end of the Vietnam War, the Iranian hostage crisis, the Cold War and an oil embargo that led to maddening gasoline shortages for American motorists had huge impacts on our economy. The bumps may be different today, but the roads are the same 50 years later. The problem is that our approach to underwriting commercial real estate risks is also the same and needs to adjust to the times.

Our industry in the 1970s was characterized by a slow-and-steady mentality, with long-term leases offering a good hedge against the volatility of the broader market. High inflation led to a nasty recession, making commercial real estate a good inflationary hedge. But the 2010s are the exact opposite, with low inflation and steady job growth leading to a historic economic expansion. The rise of coworking and material increases in license and short-term lease agreements have made the office and retail sector less predictable. The tech disruption of retail is increasingly encroaching on other asset types, including Airbnb's effect on the multifamily and hotel sectors. As inflation and interest rates ticked down, so did cap rates, yet we still underwrite with a 1970s "fear-of-inflation" rule of 50 to 100 basis points added to exit cap rates.

Despite these transformational changes to our business, CBRE's 2020 U.S. Outlook predicts a very good year for commercial real estate. And it can be even better if we help dispel some 1970s thinking, particularly around the fear of inflation. Transaction volume and cap rates are expected to remain largely stable, though we likely will see more fundamental/secular-driven cap rate compression in multifamily and industrial and, due to declining inflation and massive liquidity, some downward pressure on cap rates for other CRE sectors.

2020 will not be without its challenges. We expect some risk of oversupply in industrial and Class A multifamily, but secular shifts that have heightened demand far in excess of historic norms should mitigate material impact on fundamentals, which are expected to stay strong. While retail's overall troubles are well reported, the sector is expected to show good rent growth as it becomes more experiential with limited new construction.

Though business confidence has weakened and business spending has slowed, the office market is more dynamic today than ever before. Reasons for this include strong but slowing office-using job growth, the renaissance of the "new city" (new live-work-play neighborhoods in old-school cities), massive capital expenditure in older office inventory in major CBDs and agile office design. While a lot of the growth is expected in up-and-coming "tech cities," old-school cities and many suburban markets that have what I call the "five pillars of awesome" (talent, infrastructure, foreign capital, live-work-play and low regulatory burden) should shine as well.

As the CRE industry becomes more dynamic and operational risk increases, alternative investments are gaining popularity. As a result, we expect 2020 to be another big year for data centers, alternative forms of industrial like self-storage and alternative forms of multifamily like senior living.

Commercial real estate has changed a lot since the 1970s, but many of the mega geopolitical and economic risks still ring true today. We hope you enjoy CBRE's 2020 U.S. Outlook and that you underwrite commercial real estate with a 2020 "a-lot-has-changed" mentality, particularly since we've been traveling this same bumpy road for at least 50 years.

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ECONOMY

U.S. GDP growth will slow to between 1.5% and 2% in 2020, down from an average of 2.5% over the past five years.

U.S. GDP growth will slow notably next year as various issues create higher levels of uncertainty, including the ongoing U.S.-China trade conflict, slowing global growth and a presidential election. Barring any unforeseen risks, we assess that a recession will be avoided, thanks in large part to the stimulatory effects of the Fed's rate cuts in 2019. Slow growth will continue in 2020, broadly supporting already strong property market fundamentals.

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CAPITAL MARKETS

Investment volume in 2020 should total between $478 billion and $502 billion, on par with the prior two years and one of the strongest years on record.

Amid slower economic growth and global uncertainty, U.S. commercial real estate will remain a haven for investment in 2020. Greater investor caution and buyer-seller disconnects on pricing could moderately reduce volume from 2019 levels. Cap rates should be broadly stable, with slight compression for multifamily assets and slight increases for the other major sectors for an average spread of about 260 bps over 10-year Treasury yields next year. Investors should not count on significant appreciation returns, but income returns will remain steady.

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OFFICE/OCCUPIER

Demand for office space will remain strong in 2020, with absorption forecast to total 20 million sq. ft. Flexible space will continue to increase its share of total office inventory, albeit at a slower pace.

Despite continued positive absorption of office space in 2020, rent growth will slow and vacancy will increase. Leasing activity will remain driven by tech tenants, benefiting markets like San Jose, Austin and Salt Lake City. Flexible office providers will strategically expand their footprint but a drawback by WeWork will significantly slow expansion from previous years. CBRE's forecast is for 51.1 million sq. ft. in completions, a 70-bps increase in vacancy and 1.6% rent growth.

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INDUSTRIAL & LOGISTICS

Absorption gains will be limited in 2020, with available supply outpacing demand by 20 million to 30 million sq. ft. Nevertheless, rents will rise by 5%.

Despite some softening in the industrial & logistics (I&L) market, overall fundamentals will remain strong due to continued e-commerce penetration and demand for logistics space. Rent growth will be driven by newly constructed facilities and infill properties. Although there are potential trade-related risks, resilient consumer spending will buoy the I&L market and mitigate any tariff effects on major hubs relying on port activity.

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RETAIL

Total U.S. retail sales increased by 3.5% year-over-year in Q3 2019 to $1.57 trillion, however more modest growth is expected in 2020 to $1.55 trillion.

Total U.S. retail sales growth is expected to slow in 2020, as consumers become more cautious. Positive net absorption and rent growth in most U.S. markets will be spurred by a lack of new supply and thousands of retail store openings. Malls are benefiting from the refreshing influence of Generation Zers, who prefer to shop in stores and are driving traffic back to brick-and-mortar retail. Many retail assets will convert to mixed uses, creating communities and thriving town centers.

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MULTIFAMILY

The multifamily vacancy rate will edge up by 20 basis points to 4.5% in 2020, remaining under its long-term average of 5.1%.

Multifamily is positioned for continued favorable performance in 2020 but will experience some cooling due to new supply outpacing demand. Completions will match peak levels of recent years. New and potential rent control legislation will remain an industry concern. The best opportunities are in suburban markets, smaller metros and metro leaders, including Austin, Atlanta, Phoenix and Boston.

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ALTERNATIVES

Alternatives account for more than 12% of all commercial real estate investment.

Investment in alternative or specialty sectors has risen steadily in recent years and will continue to attract high levels of investor interest and capital in 2020. Total investment in 2020 will come close to the annual average of $59 billion since 2014 and represent 12% of all commercial real estate investment, up from only 6% at the peak of the last cycle. Alternatives acquisition volume in 2020 likely will match this level.

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DATA CENTERS

New deliveries will increase the primary data center markets' total inventory by 17.3% in 2019, increasing the competition between certain markets in 2020.

The wholesale data center sector continues to evolve as flexibility and agility within IT and real estate strategies drive decisions. Transaction volume remains driven by the adoption of Hybrid IT/multi-cloud access strategies by users. Adding momentum headed into 2020, network connectivity should remain a critical component of overall IT and real estate decisions. Demand will continue as users right-size and adapt their portfolios to handle current and future technologies, such as high-performance computing (HPC) and 5G.

ECONOMY

RESILIENCE DESPITE HEADWINDS

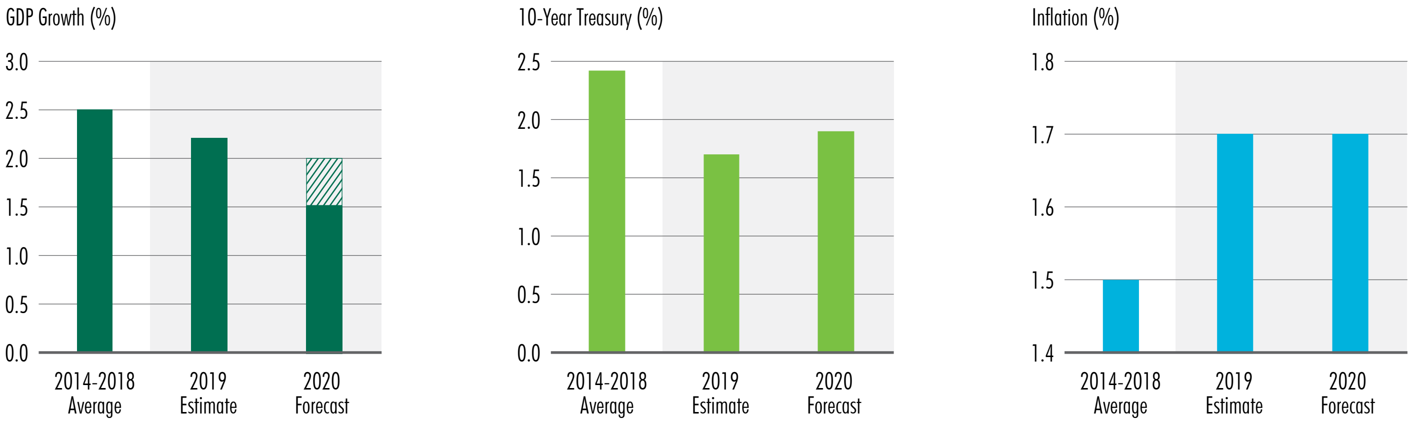
The U.S. economy enters 2020 in relatively good condition, but waning fiscal stimulus and slowing global growth complicated by an on-going U.S.-China trade conflict are clouding the outlook. Nevertheless, CBRE sees property market resilience through 2020. Expectations of growth are underpinned by lower-than-expected interest rates and conditions supporting consumer spending.

BELOW TREND GROWTH ON THE HORIZON

Economic growth likely will slow in 2020. Factors weighing on growth include lower capital expenditures by corporations amid heightened uncertainty in 2019, slowing global growth compounded by on-going trade tensions and waning effects of fiscal stimulus.

CBRE forecasts growth below the estimated long-term trend—near 2.0%—with U.S. GDP growth between 1.5% and 2% for 2020. Importantly, a recession will be avoided, absent unforeseen shocks, primarily due to monetary stimulus and healthy consumer sentiment.

FIGURE 1: KEY ECONOMIC METRICS

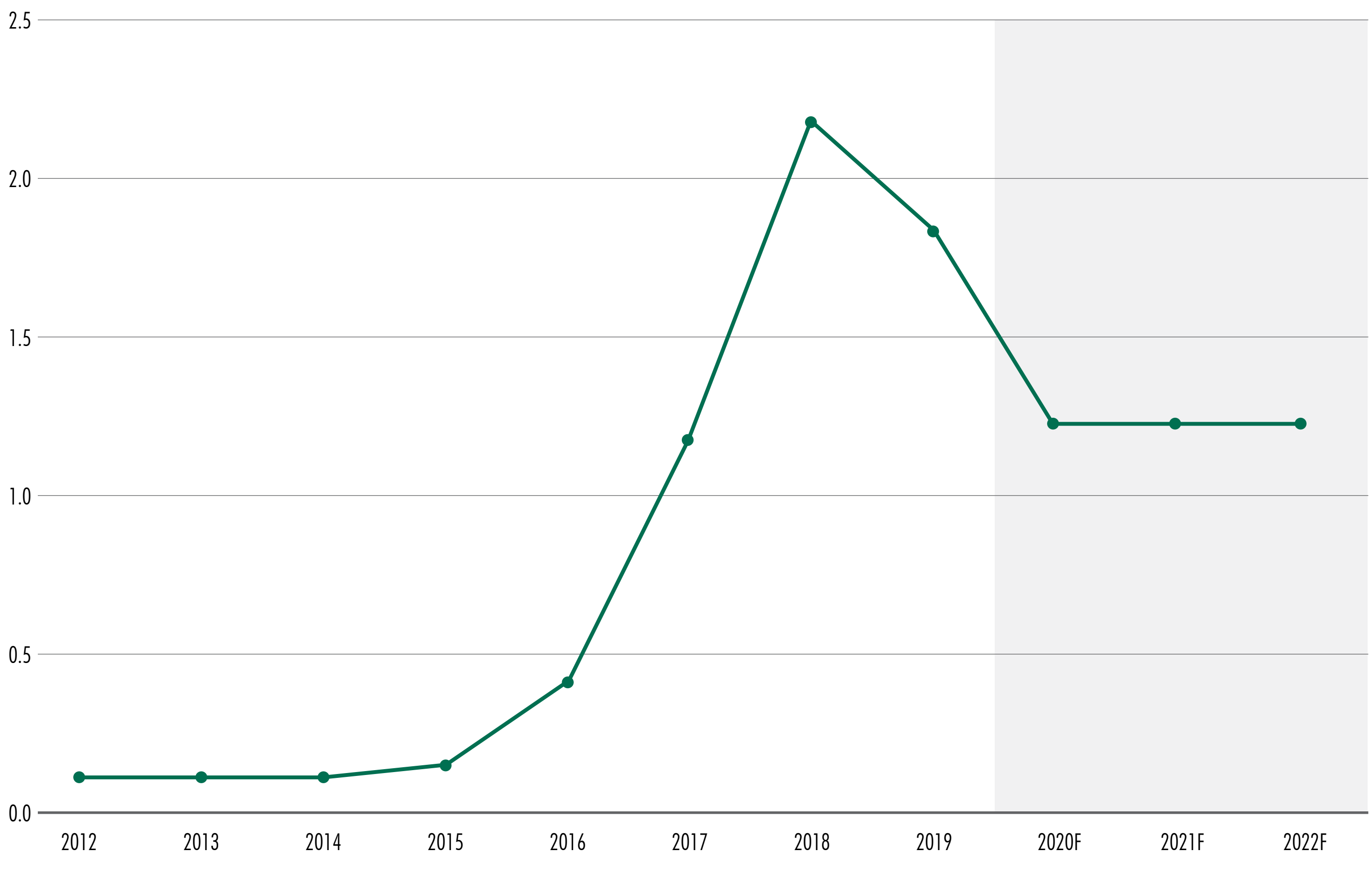


Source: CBRE Research, Q3 2019.

FED TO THE RESCUE

The rapid shift in global monetary policy from tightening to stimulus has caused CBRE to revise its outlook for 2020. The Federal Reserve cut interest rates three times in 2019 and, due to expected slower economic growth, likely will make two more cuts in 2020, lowering the federal funds rate to a range of 1.0% to 1.25%. In addition to rate cuts, various other measures—such as expanding the Fed's balance sheet by purchasing securities—likely will support the economy via financial channels. This shift in policy will provide enough stimulus to prevent a recession, even as growth slows.

FIGURE 2: FEDERAL FUNDS RATE



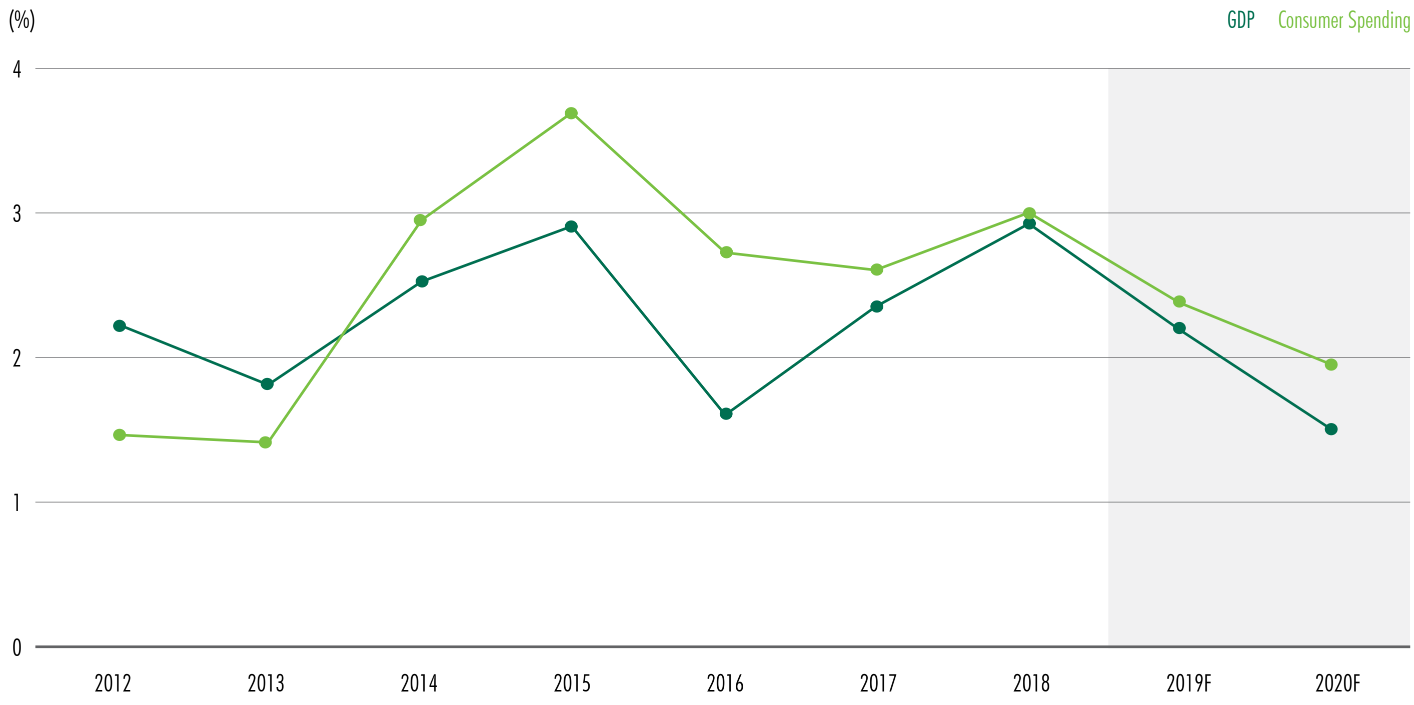
Source: Federal Reserve Bank of St. Louis, CBRE Research, Q3 2019.

SHOPPERS DO THE HEAVY LIFTING

Consumer spending accounts for approximately two-thirds of U.S. economic activity. Low inflation, low interest rates, healthy wage gains supported by a 50-year low unemployment rate and strong consumer sentiment provide a reasonably good outlook for consumer spending in 2020. Given macro-economic uncertainties—particularly associated with U.S. tariffs on consumer goods—CBRE sees consumer spending slowing from 2.4% in 2019 to just under 2.0% in 2020. Nevertheless, spending at this level should propel economic activity and support enough job growth to absorb new entrants into the labor market, as well as some workers who voluntarily left the labor force and are now re-entering the job market.

Slowing economic activity and consumer spending likely will limit inflationary pressure. The absence of price pressures will allow monetary authorities to respond to evolving economic conditions. As measured by the Consumer Price Index, CBRE expects inflation to hold steady at 1.7% in 2020.

FIGURE 3: CONSUMER SPENDING VS. GDP



Source: CBRE Research, Q3 2019.

LOWER GROWTH PRESENTS RISK

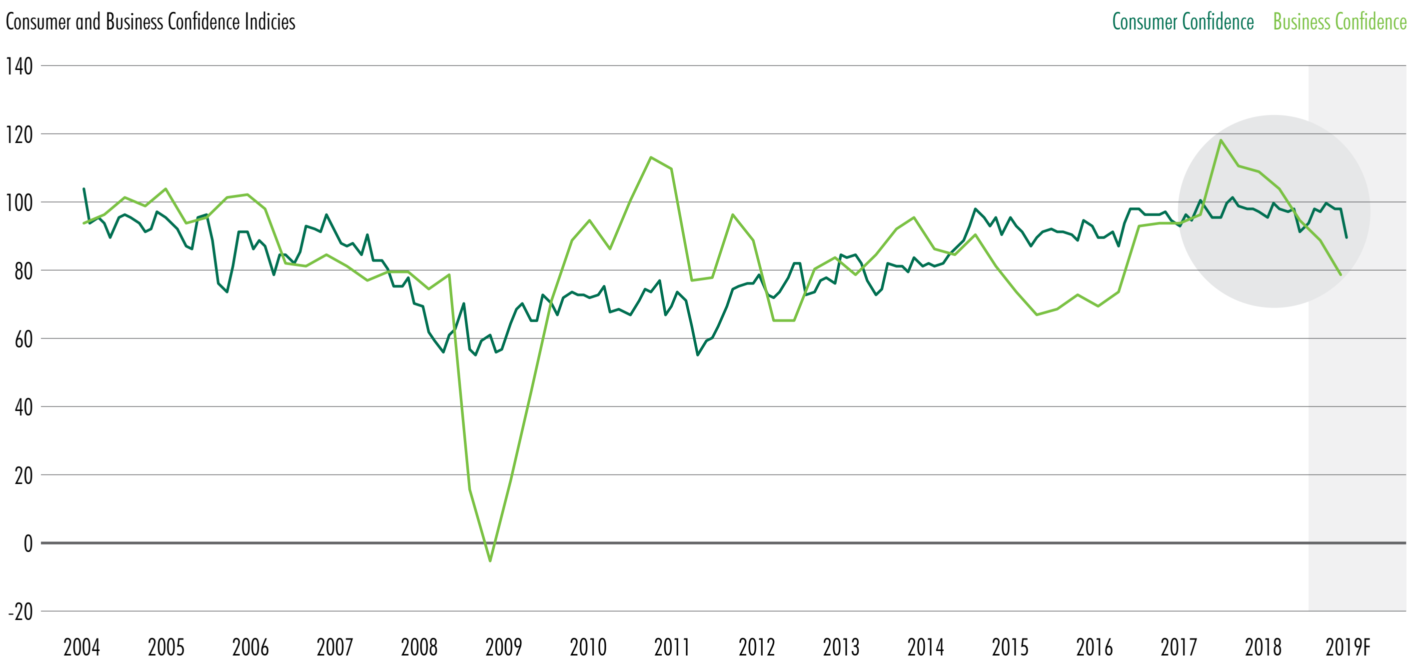
Some degree of risk in 2020 comes from slower growth, which makes the economy more vulnerable to unexpected shocks such as geopolitical conflict that could cause a broader disruption of commerce. Though we will not speculate on the probability of such scenarios, examples of this include a halt in shipments of goods and commodities through key waterways or an escalation in the U.S.-China trade conflict that disrupts global industries, such as technology.

Due to this level of uncertainty, businesses will generally remain defensive throughout 2020, particularly for industries that are vulnerable to any policy changes after the 2020 election. Additionally, a relatively stable U.S. economy amid a weaker global environment creates conditions for a stronger U.S. dollar. Should the dollar appreciate rapidly, dollar-denominated debt defaults could spike—particularly in emerging markets—creating instability in the global financial system.

CRE REMAINS A GOOD BET

A higher degree of policy uncertainty—be it from monetary authorities, national security or questions surrounding industry-specific proposals—will be front and center in 2020 as the November elections approach. Amid this backdrop, CBRE expects slowing but sufficient growth that will generally support strong property market fundamentals. A combination of resilient economic activity, strong property fundamentals, low interest rates and the relative attractiveness of real estate as an asset class are the primary factors supporting our view that 2020 will be a good year for real estate.

FIGURE 4: BUSINESS CONFIDENCE VS. CONSUMER CONFIDENCE



Note: Circle highlights precipitous drop in business sentiment.
Source: Federal Reserve Bank of St. Louis, Business Roundtable, University of Michigan and CBRE Research, August 2019.

CAPITAL MARKETS

U.S. WILL REMAIN A HAVEN FOR INVESTMENT

Expectations for slower economic growth will shape U.S. capital markets conditions in 2020. While investors are increasingly cautious and focused on an investment's potential for downturn protection, investment capital remains abundant. With global bond yields expected to remain extremely low and equity markets likely weaker and more volatile, the stable, solid returns of U.S. commercial real estate will be even more attractive.

Foreign investment should also rebound next year after significant pullback in 2019, as a substantial decrease in hedging costs for many major investor countries (spurred by falling U.S. interest rates) drives more foreign investors to compete for U.S. assets, particularly in "safe haven" core markets. Although U.S. interest rates are expected to remain low, periods of volatility could occur, causing short-term disruptions in the capital markets. This could include fluctuations and short-term increases in currency hedging costs, potentially impacting foreign investment activity in U.S. commercial real estate.

HIGH LIQUIDITY TO CONTINUE

Domestically, low interest rates have fueled demand for debt financing, particularly as low cap rates prompt the use of leverage by some investors to boost returns. Lenders are largely keeping pace with this demand. Increased lending by debt funds, mortgage REITs and other alternative lenders should continue in 2020. Although underwriting was slightly more conservative as of late 2019, lending momentum should remain healthy next year.

Multifamily lending activity is projected to rise due to an expected increase in financing opportunities. Given recent increases to their lending caps, Fannie Mae and Freddie Mac likely will maintain their market share. Other lenders are expected to increase their multifamily volumes as well due to the increase in lending opportunities.

On the equity side, there was nearly $210 billion of available capital focused on North American real estate as of September 2019, according to Preqin. Much of this capital must be deployed in 2020 to meet deadlines promised to investors. Moreover, several major institutional investors, including risk-averse pension funds and insurance companies, plan to increase allocations to real estate next year.

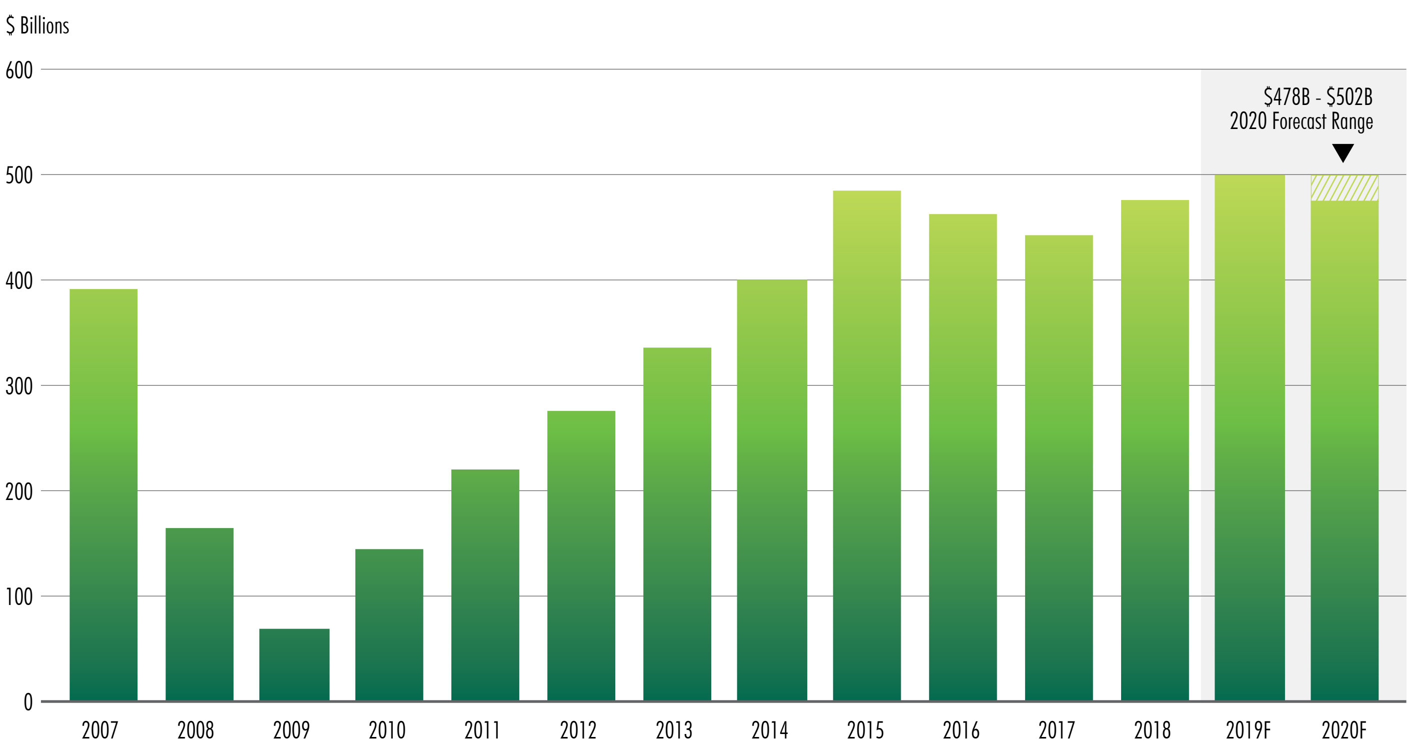
INVESTORS EXERCISE CAUTION

Given this considerable liquidity and a global search for yield, investor interest in U.S. commercial real estate will remain strong in 2020. Nevertheless, investment volume is expected to decrease by between 5% and 10% from 2019 levels as greater investor caution and selectivity coupled with very high asset prices increase the time required to close deals.

A pause in transaction activity could occur ahead of the November 2020 presidential election, which would temper volume in H2 2020. Nonetheless, the approximately $478 billion to $502 billion of investment volume expected in 2020 would be one of the highest annual totals this cycle, on par with 2018 and 2019 levels.

Although appetite for risk generally is decreasing at this late stage in the cycle, some investors continue to look for higher yields given the low cost of capital. As a result, certain fast-growing secondary and tertiary markets, as well as alternative asset types (see alternatives section for more information), likely will see increased investment next year.

FIGURE 5: ABUNDANCE OF CAPITAL TO DRIVE INVESTMENT VOLUMES IN 2020



Note: Historical and forecasted volumes exclude entity-level deals.
Source: CBRE Research, Real Capital Analytics, October 2019.

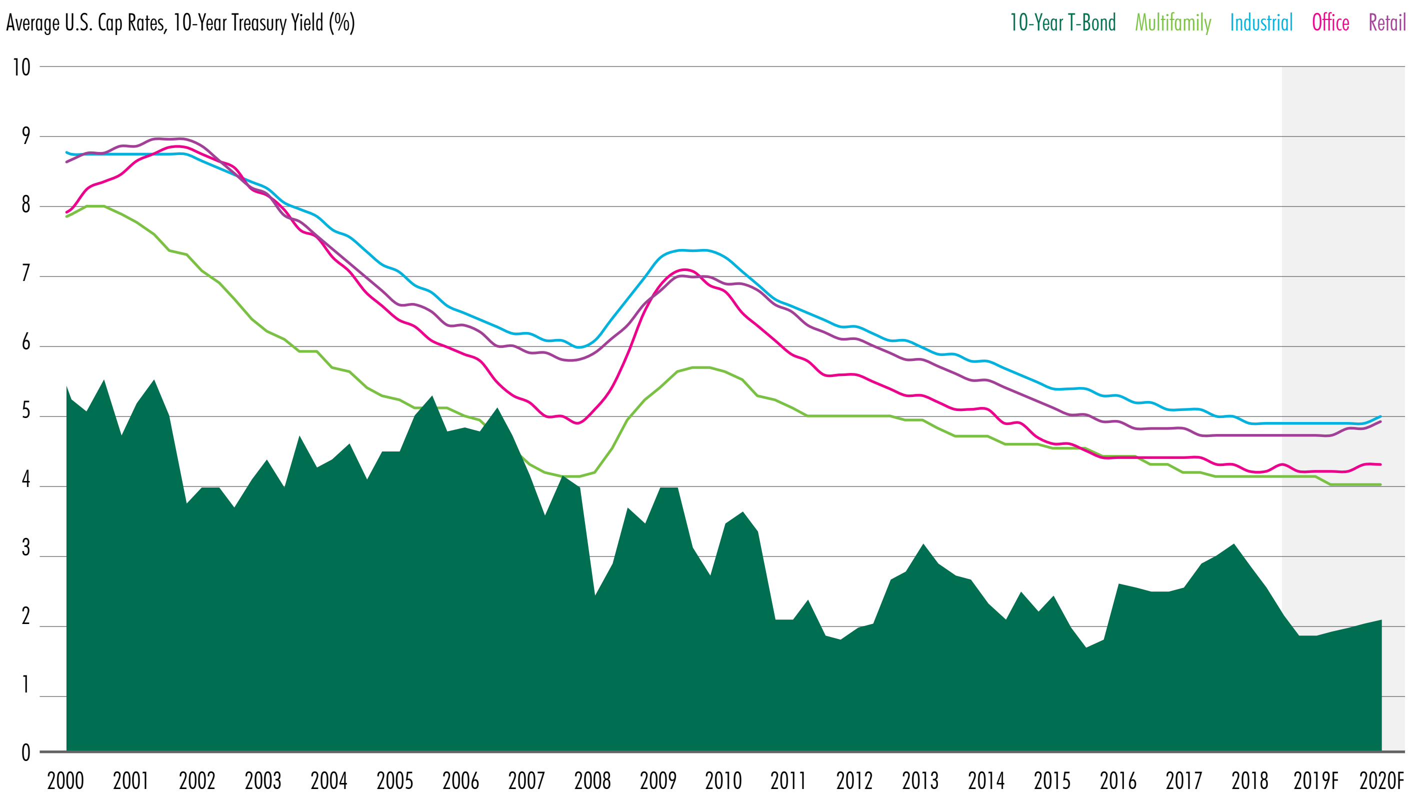
CAP RATES TO EDGE HIGHER BUT INCOME RETURNS WILL REMAIN SOLID

Some property owners will begin to accept lower prices in order to close deals more quickly, but, in aggregate, we anticipate property values will be largely stable next year. However, because NOI is expected to increase faster than property values, cap rates likely will edge up slightly. The minimal increase in the 10-Year Treasury yield anticipated for 2020 will help limit cap rate increases and keep the spread about 200 to 300 bps above the risk-free rate next year.

We expect industrial and office cap rates to increase by 10 bps in 2020 and retail to increase by 20 bps. Multifamily cap rates should decrease by 10 bps, as a period of slower economic growth sustains strong investor interest in rental housing, supporting high valuations but limiting landlords' ability to hike rents and tapering NOI growth. Increased property taxes levied by underfunded municipalities are also putting additional pressure on NOI.

As appreciation in property values slows, total returns should be lower in 2020 than in recent years. However, income returns will remain steady, making U.S. commercial real estate an attractive, reliable option for both domestic and foreign investors to fortify their portfolios at the outset of a year that is guaranteed to have at least some level of geopolitical and economic turbulence.

FIGURE 6: CAP RATE SPREAD OVER RISK-FREE RATE HAS WIDENED



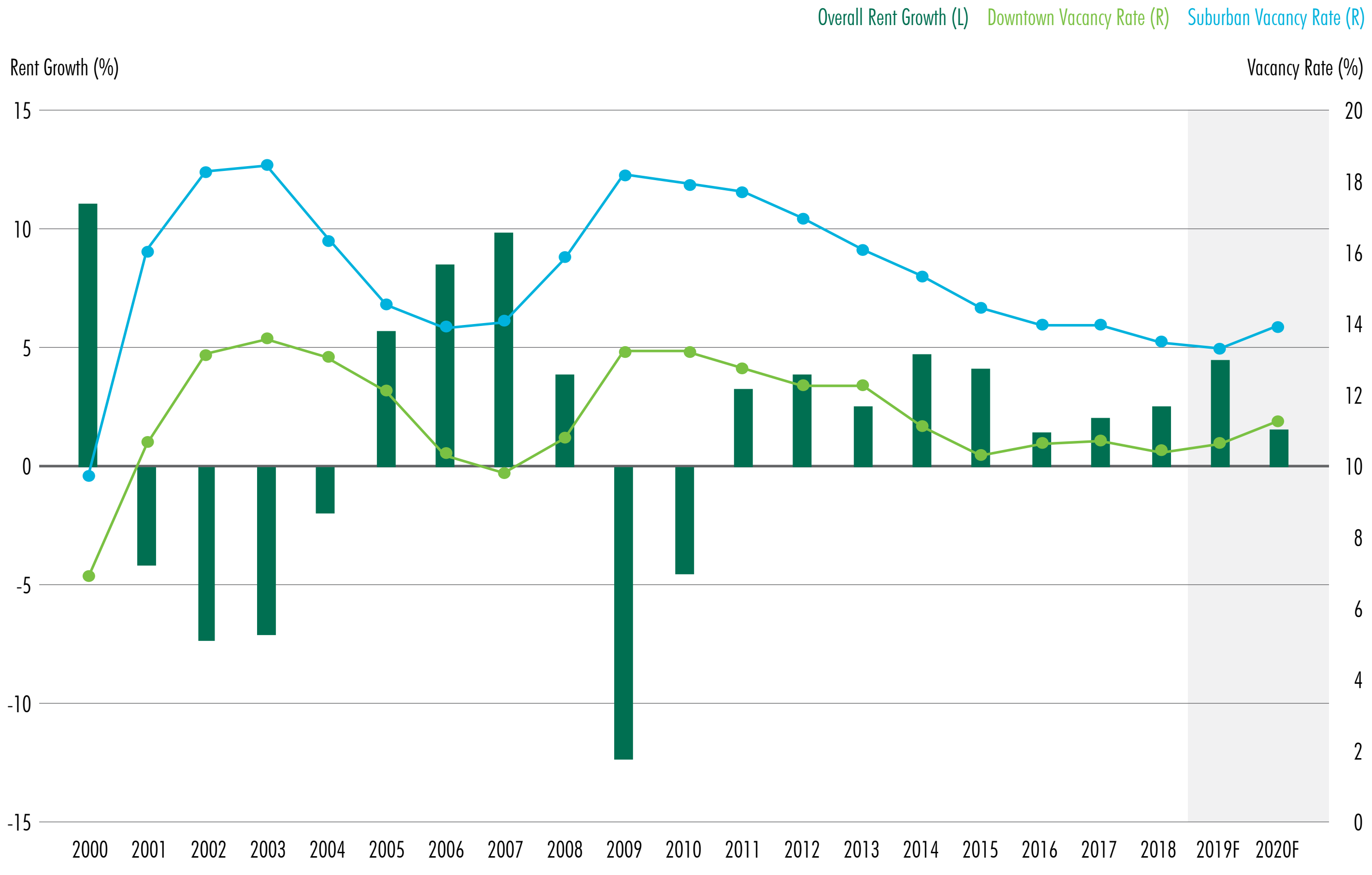
Source: CBRE Research, U.S. Federal Reserve Board, CBRE Econometric Advisors, October 2019.

OFFICE/OCCUPIER

FUNDAMENTALS WILL REMAIN STEADY

Office-using employment is expected to increase by 0.3% or 45,700 jobs in 2020, down from 1.5% between 2018 and 2019. The expected top-three markets for 2020 jobs growth are Austin (2.4%), Dallas/Ft. Worth (1.9%) and Houston (1.6%). Office completions will decrease to an annual total of 51.1 million sq. ft., representing 1.3% of total inventory and down from the 56.4 million sq. ft. total in 2019. Despite the moderate decline, completions will outpace forecast net absorption of 20 million sq. ft., 70% of which is expected in suburban markets, according to CBRE Econometric Advisors (CBRE EA). As a result, the suburban and downtown vacancy rates are expected to increase modestly by 60 and 70 bps, respectively, after generally declining since 2009. Rent growth will slow to 1.6% as a result of moderately weaker market fundamentals.

FIGURE 7: OFFICE RENT GROWTH VS. VACANCY

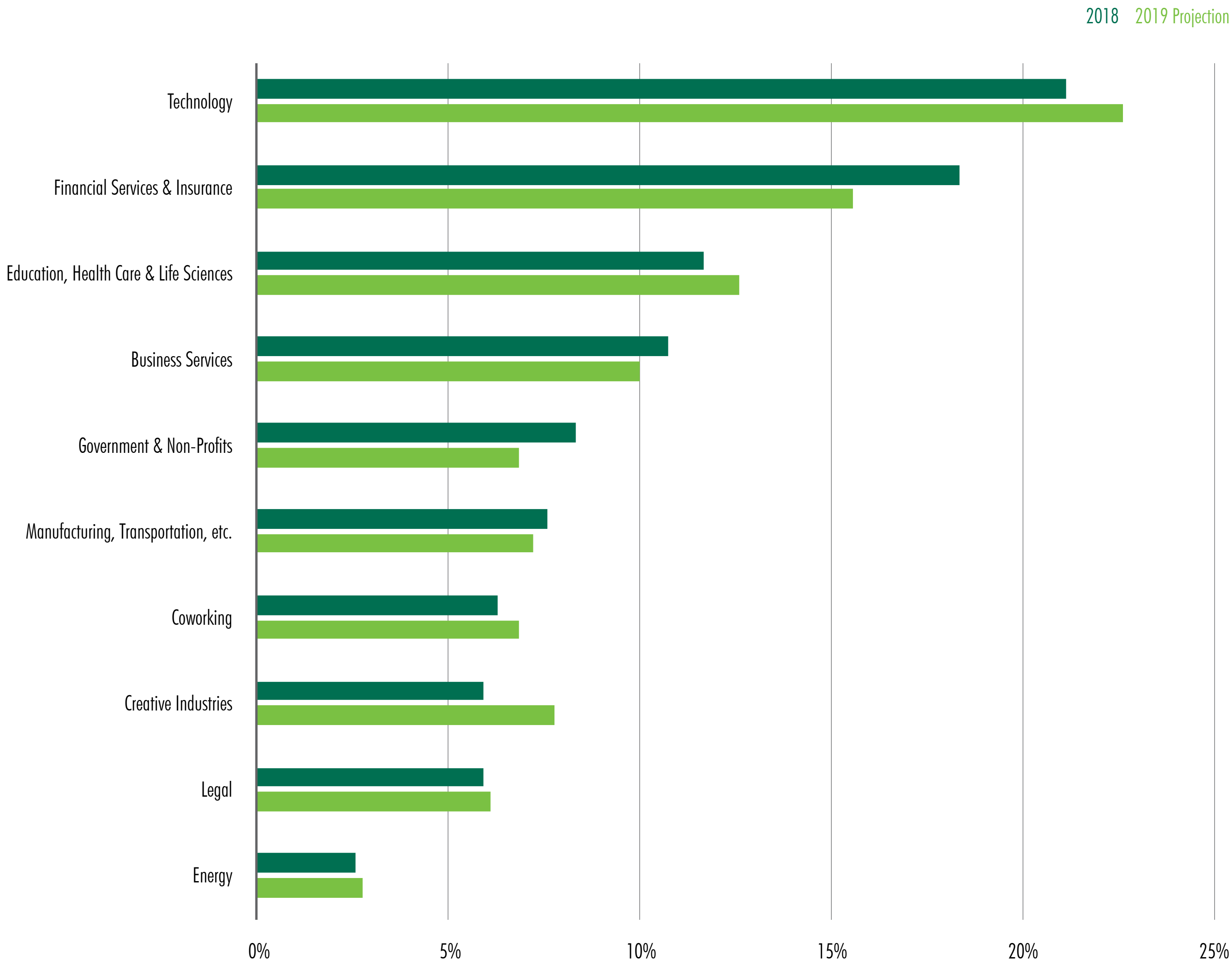


Source: CBRE Research, CBRE Econometric Advisors, Q3 2019.

TECH TENANTS TO DOMINATE 2020 LEASING ACTIVITY

The technology industry, which accounted for 21.6% of overall leasing activity in H1 2019 (Figure 8), should continue to dominate office demand in 2020. As of mid-2019, approximately 4,000 tenants were seeking more than 174 million sq. ft. of office space, with tech tenants representing the largest share.

FIGURE 8: OFFICE LEASING ACTIVITY



Note: The above categories account for more than 90% of leasing activity in 2018 and H1 2019. Projections for H2 2019 were based on actual distribution of leasing activity in H1 2019. Aerospace & Defense is combined with Mfg. & Transportation. Health Care and Education are combined with Life Sciences. Categories not included are Confidential/Undisclosed/Unknown, Other, Retail and Telecom.

Source: CBRE Research, Q3 2019.

HOT MARKETS IN 2020

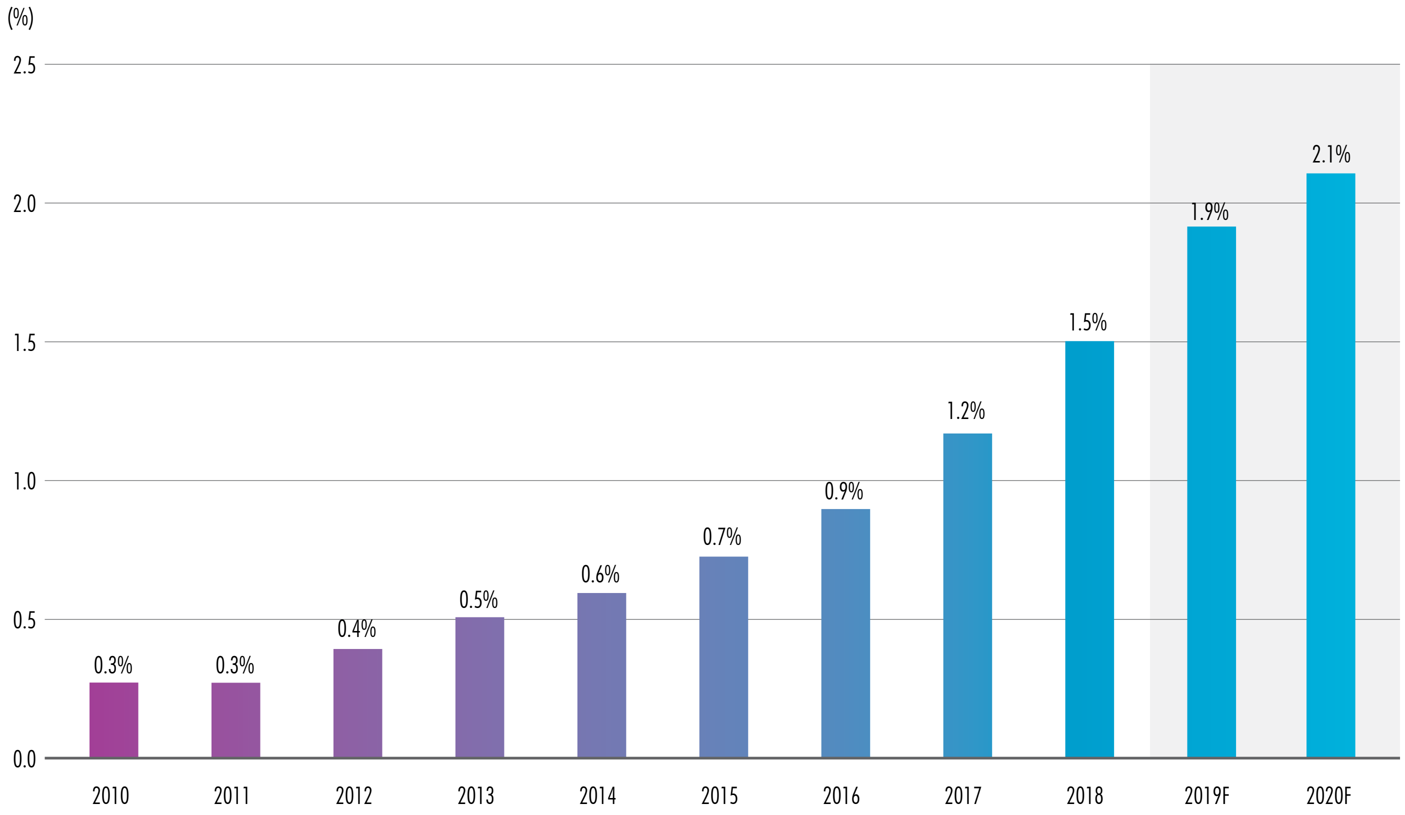
The tech industry is driving strong construction activity in certain markets. Austin, San Jose, Salt Lake City, San Francisco and Nashville will see the highest rates of completions due to increased demand in 2020. San Jose, Salt Lake City and Austin will also have high rates of net absorption next year. A relatively low amount of office completions in Los Angeles will make it the nation's strongest market for rent growth in 2020.

FLEXIBLE OFFICE SPACE GROWTH WILL MODERATE

Per CBRE's recent report, flexible office space inventory had been expected to grow exponentially this year, largely driven by major flex office provider WeWork. Since that report, WeWork has significantly tempered its growth strategy. Given this development, CBRE has adjusted its growth forecast of flex space to 23% this year and 13% in 2020. Flex office inventory should total approximately 87 million sq. ft. by year-end 2020. This growth will come from flex operators with sound operating models that increase their offerings in strategic markets.

The model of engagement between landlords, occupiers and flex operators will continue to evolve in 2020 as the risk tolerance of occupiers and landlords lessens. To hedge this risk, partnership or service agreements between landlords and flex operators will be a prime driver of flexible office space expansion in 2020, allowing landlords more insight into and control over flex operations in their buildings. Occupier demand for flex space should remain strong in 2020 as companies deal with headcount uncertainty and decentralized workforces. Speed, flexibility and low capital outlay will remain at the heart of flexible office space occupancy demand in 2020 and beyond.

FIGURE 9: FLEX OFFICE PENETRATION FORECAST



Source: CBRE Research, Q2 2019.

INDUSTRIAL & LOGISTICS

TIGHT MARKET CONDITIONS CAUSE MORE RENEWALS

The U.S. industrial market will see some dramatic shifts in 2020. Absorption gains will be difficult to achieve with extremely low vacancy rates and limited space options in several markets. Consequently, net absorption will be lower than in previous years. Anecdotally, we are seeing higher-than-normal renewal rates, particularly in the markets with the lowest vacancy rates, and this trend should continue if not accelerate in the near term. Overall, the market will remain stable as e-commerce penetration continues to impact supply chains. As operations become more complex for occupiers, there will be a heightened focus on outsourcing, paving the way for growth in the third-party logistics (3PL) sector.

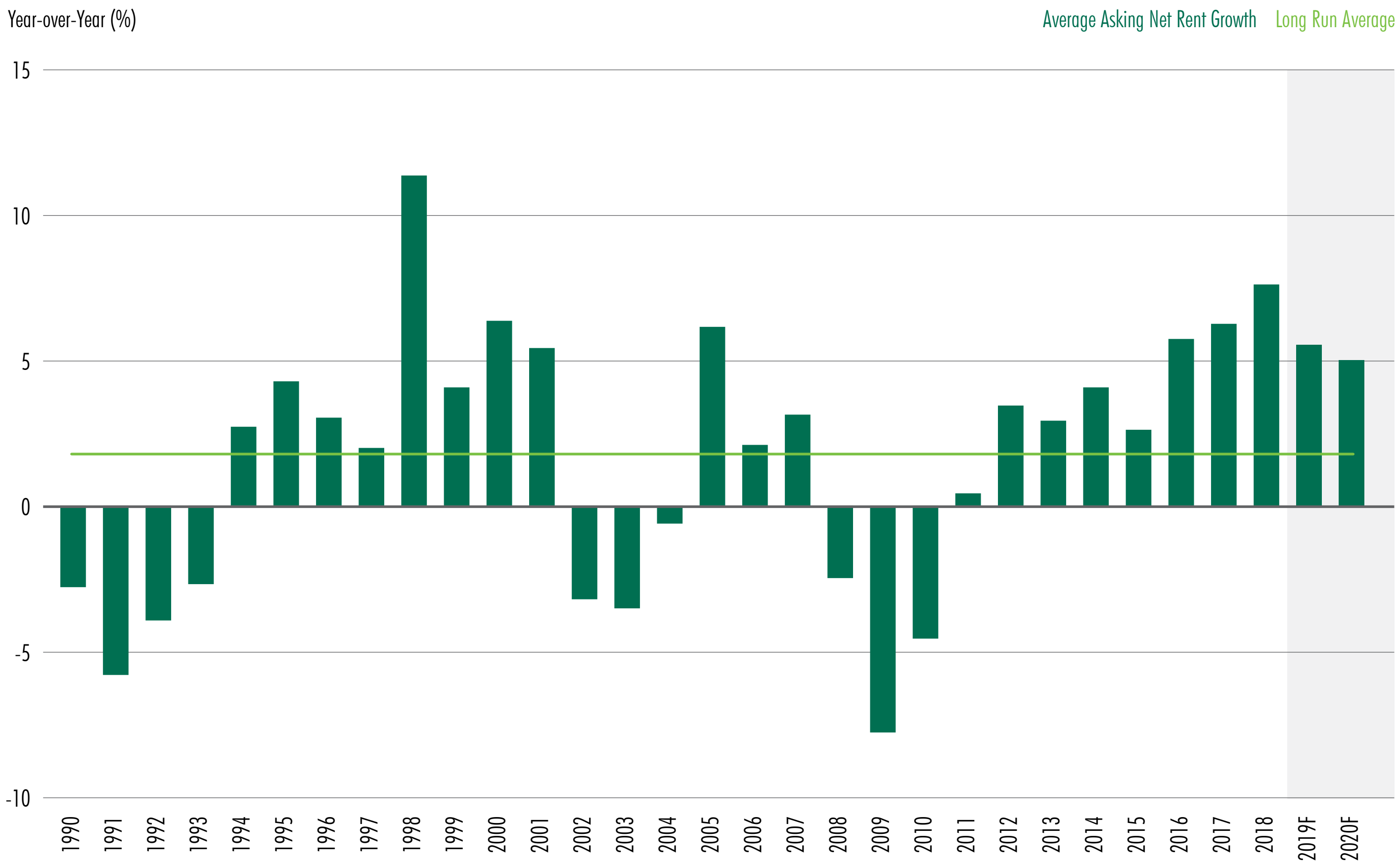
SHIFT IN SUPPLY/DEMAND FUNDAMENTALS

Considering there will be more renewal activity and fewer leases for new space, the consensus between CBRE Research and CBRE's I&L business is that supply will outpace demand by 20 million to 30 million sq. ft.—the first time there will be an overhang of space since the 2008 recession, albeit representing only 0.2% of total industrial inventory. The vacancy rate may increase slightly, but should remain near historic lows in 2020.

STRONG RENT GROWTH FROM NEW CONSTRUCTION AND INFILL

Despite some softening in the market, CBRE forecasts rent growth of 5% in 2020, on par with previous years. Rising rents will be driven by newer product and infill industrial space in supply-constrained markets. High-quality, first-generation Class-A warehouse space typically generates a rent premium. And demand for light-industrial warehouses of less than 120,000 sq. ft. will accelerate as e-commerce companies race to offer same-day delivery to customers. These properties have seen rents rise by 30% in the past five years, whereas big-box rents rose by 15%. Considering that space is very limited in the smaller-size segment, rent growth is expected to continue over the next 12 months.

FIGURE 10: HISTORICAL AVERAGE ASKING RENT GROWTH & FORECAST



Source: CBRE Research, CBRE Econometric Advisors, Q3 2019.

LIMITED EFFECTS OF TRADE CONFLICT

Should the U.S.-China trade conflict persist or deepen, economic growth may suffer and have a negative impact on I&L markets. Nevertheless, I&L market fundamentals remain extremely strong, and trade with China—while important—is not the only demand driver.

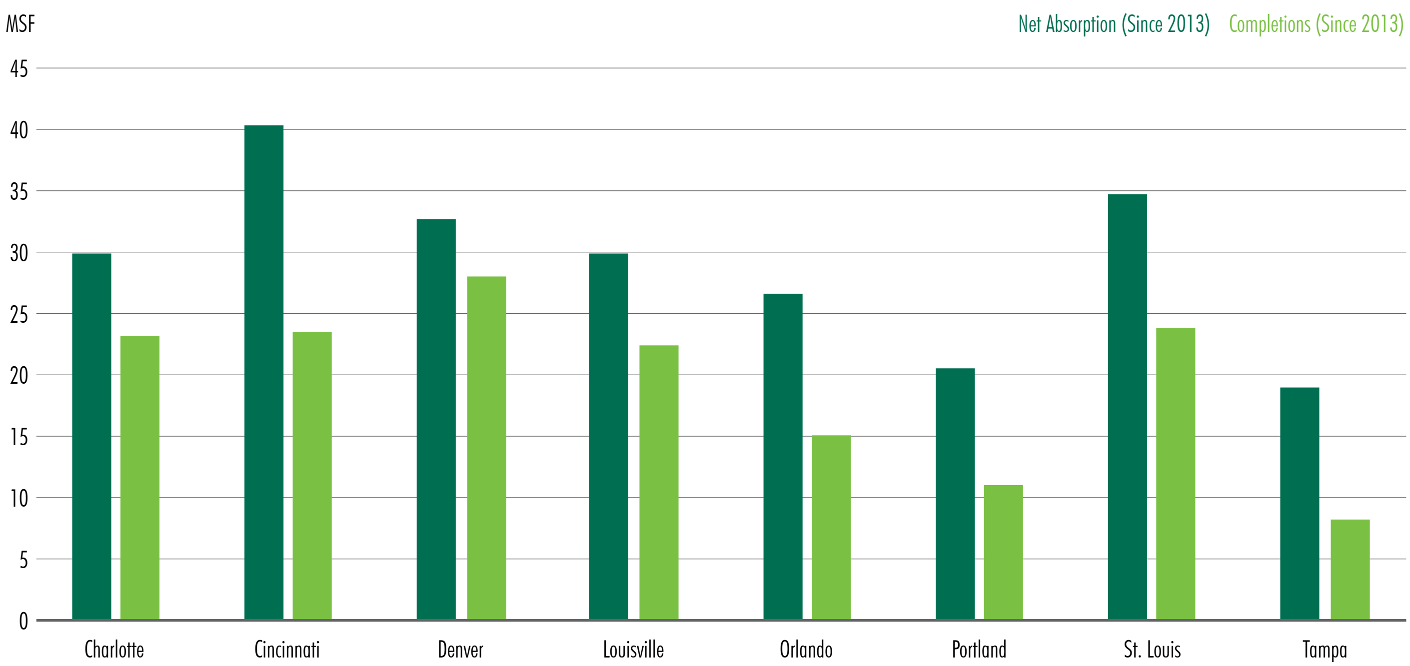
If trade tensions continue, two factors must be watched: consumer spending, which has a direct impact on industrial market dynamics, and supply chain restructuring, whereby import sourcing shifts largely from China to other countries like Vietnam, Malaysia and India. Uncertainty will drive growth in the 3PL segment of the industrial market as companies outsource their operations. This will translate into more 3PL leasing activity—a trend that is already underway.

MARKETS TO WATCH

As user dynamics change with supply-chain growth requiring more facilities across industrial hubs, several secondary markets are becoming desirable from an investment perspective. The major risk to investors in smaller, secondary markets is oversupply and lack of liquidity. Based on an examination of key metrics,[1] CBRE has identified Charlotte, Cincinnati, Denver, Louisville, Orlando, Portland, St. Louis and Tampa as key secondary markets that will offer strong liquidity and relatively high income returns in 2020.

1. New industrial supply relative to the amount of existing inventory, 2014-2018; NCREIF income returns, 2014-2018; net absorption vs. construction completions, five years; current Class A cap rates, Q2 2019; RCA liquidity score, 2014-2018.

FIGURE 11: KEY EMERGING MARKETS, SUPPLY VS. DEMAND



Source: CBRE Research, Q3 2019.

RETAIL

U.S. RETAIL SALES GROW AMID CAUTIOUS OPTIMISM

U.S. retail sales increased 3.5% year-over-year in Q3 2019 to $1.57 trillion. Key economic indicators remain strong, including unemployment at a 50-year low of 3.5%. However, consumers likely will become more cautious in 2020 amid economic and political uncertainty, issues of affordable housing and fear of rising costs due to the U.S.-China trade conflict, all of which could slow retail sales growth.

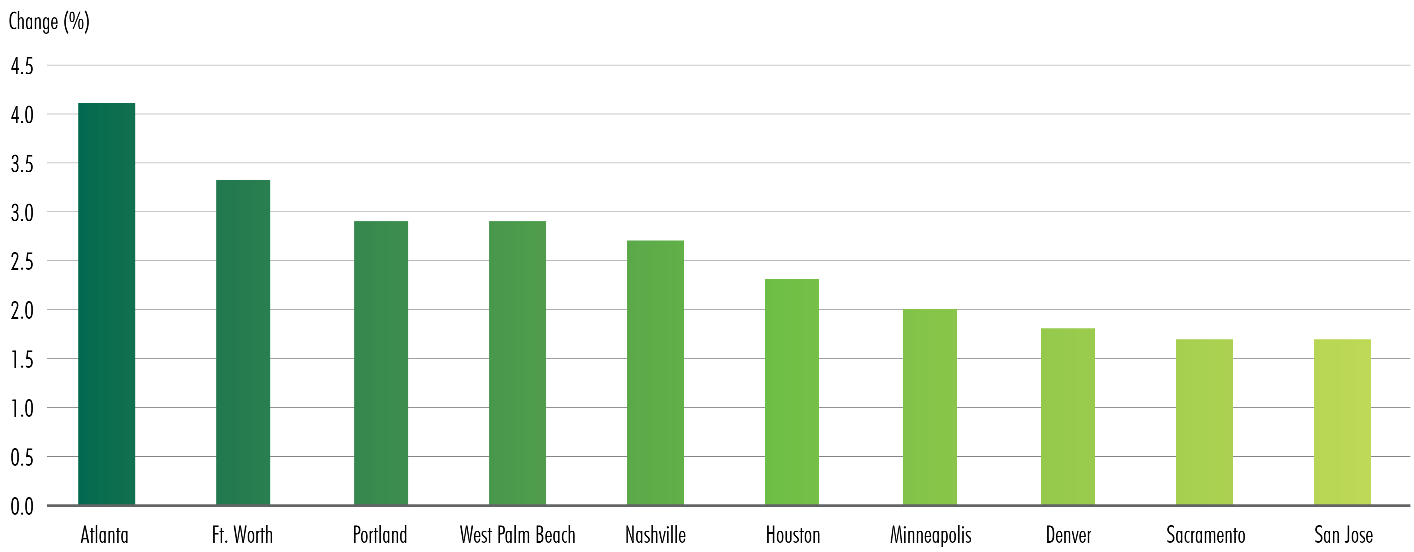
All but four of the markets tracked by CBRE EA are expected to post positive net absorption in 2020 due to limited new construction and more retail stores opening than closing. Rent growth is expected in 44 of the 62 markets tracked by CBRE EA. Atlanta, Ft. Worth, West Palm Beach and Portland will be the top markets for rent growth in 2020. Neighborhood centers, redeveloped malls and new destinations offering food & beverage, entertainment and health & wellness will drive retail absorption in these markets.

PROLIFERATION OF MIXED-USE FROM RETAIL-ONLY

Retail-only may no longer be the highest and best use for many struggling malls and oversized retail assets that are well-positioned to transform into mixed-use town centers in the heart of communities where people want to live, work and play. Integrated new uses beyond traditional multifamily residential, office and hotel are flourishing. Co-living, coworking, recreation and entertainment, sports complexes, universities, public event space and green space are complementing shopping and dining destinations, creating dynamic urban and suburban environments and community connection.

There is no formulaic mixed-use solution to apply across portfolios or regions. Every mixed-use redevelopment is complex, unique and requires translation of broad trends into a specialized approach meeting the needs of each community and providing distinct localization. Development challenges include market demand, design, regulatory issues and zoning. The most problematic hurdles are typically reciprocal easement agreements (REAs) that govern each site. 2020 will be a landmark year for how the industry challenges, amends and restructures these often decades-old REAs to successfully integrate new uses.

FIGURE 12: TOP 10 MARKETS BY RENT GROWTH, 5-YEAR FORECAST



Source: CBRE Econometric Advisors Q3 2019.

TEENS RETURN TO THE MALL

The shifting demographic focus has been mainly on the baby-boomer "silver tsunami" and millennials in recent years. However, Gen Z is a cohort with tremendous spending power positively impacting brick-and-mortar retail, especially shopping malls.

Gen Z (born between 1997 and 2010) has officially entered the economy and will continue to drive traffic back to malls in 2020. This generation spends $143 billion per year and influences an additional $460.5 billion in spending by others, according to eMarketer. They are digital natives who consume collaboratively using all digital platforms to research, cost-compare and connect.

Gen Z favors retailers that offer a seamless shopping experience where purchases originated online are fulfilled in-store. According to a recent study by A.T. Kearney, 81% of Gen Z prefers to shop in stores and 73% likes to discover new products in stores. While the store experience offers Gen Z brand connection and immersion into the trifecta of product, service and consumer experience, it also serves as a form of "retail therapy," providing respite from constant digital engagement.

THE HEALTH OF RETAIL

More retail stores are opening than closing. Thousands of new stores will open nationwide in 2020, including by once online-only retailers that recognize the brand value of a physical store, and by food & beverage concepts, grocers and franchisers. Pop-ups to test brand collaborations, launch new products or test new markets will proliferate in in urban markets and dominant malls.

Health & wellness is still in the early phase of growth, but already is one of the fastest-growing retail sectors fueling rapid expansion across the U.S. Consumers of every generation are spending more than ever on health care to improve quality of life, long-term wellbeing and self-care. New concepts in specialty fitness, beauty, healing collectives, meditation and sleep pods, as well as innovative models for traditional pharmacy, massage and facial concepts, are not just selling products and services; they are building communities of like-minded consumers. These brands are improving experience and loyalty through amenity-rich environments, customization, seamless online apps and subscription or membership-based models.

2020 will be a pivotal year for reinventing the retail landscape with a slowdown in new supply, the integration of sectors and uses in abundant mixed-use redevelopment, and the emergence of new brands.

MULTIFAMILY

MILD SLOWDOWN IN APARTMENT DEMAND

The overall multifamily vacancy rate likely will rise by 20 bps to 4.5%, still below the long-term average of 5.1%. Rent growth will edge down to about 2.4%, just under the long-term average of 2.6%.

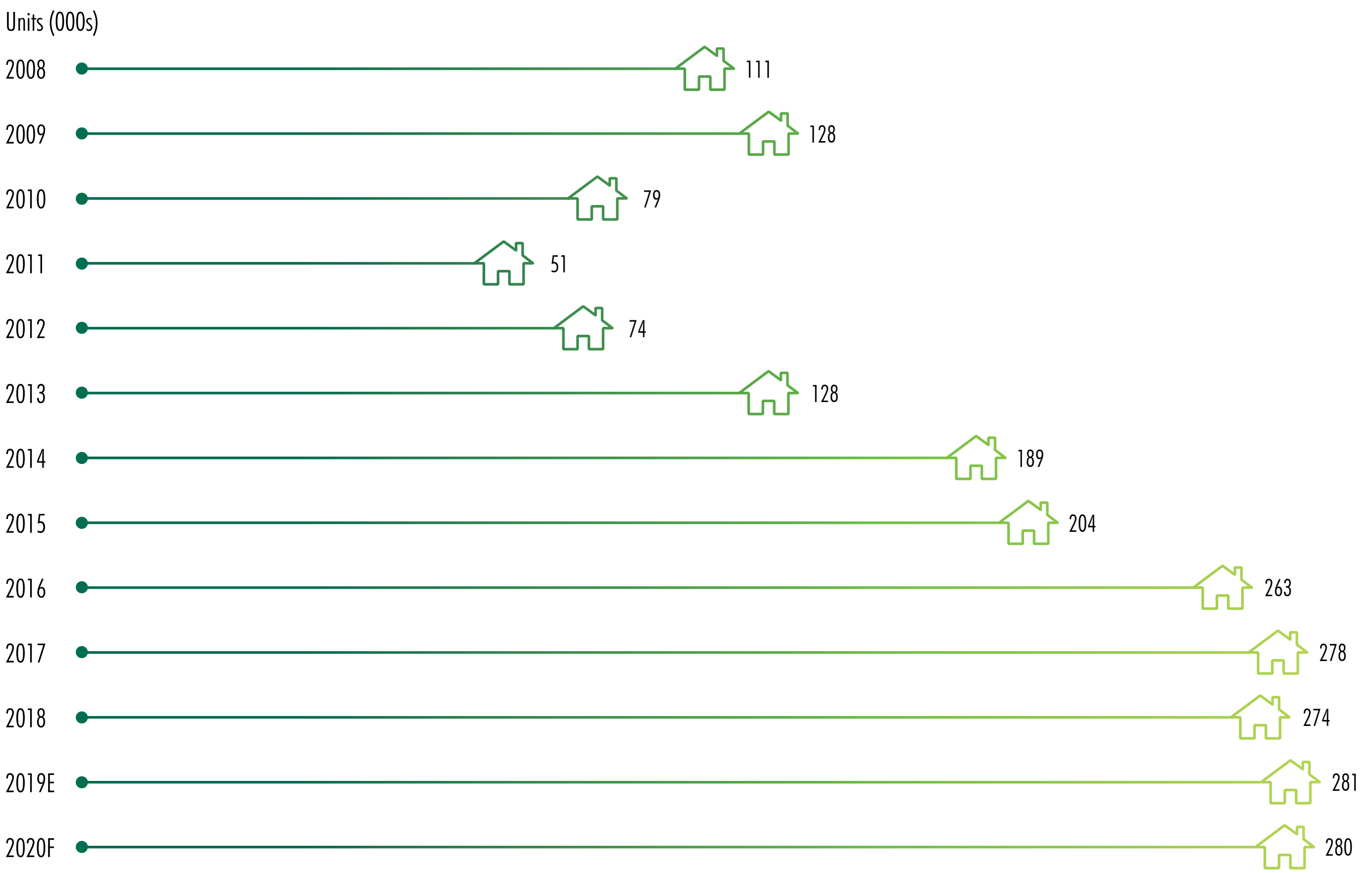
As a result of slower economic growth, apartment demand is projected at 240,000 units in 2020, approximately 20% less than 2019's estimated 300,000 units. Millennials will continue to move into homeownership, albeit at a modest pace due to affordability issues. Nevertheless, multifamily demand will remain sufficient enough to absorb most of new supply and to lower concessions in oversupplied markets.

NEW SUPPLY NEAR CYCLICAL PEAK IN 2020

Multifamily developers will remain very active in 2020. Permits, starts and completions were all at or near this cycle's highest levels in 2019. In 2020, permits and starts likely will fall, but not deliveries. CBRE Research predicts that multifamily completions will total 280,000 units, on par with 2019's estimated 281,000 units.

Development will continue in both urban and suburban locations next year. The geographic emphasis, however, is shifting to the suburbs—both mid-rise "urbanesque" product in the densifying suburbs and garden product in more traditional greenfield locations.

FIGURE 13: MULTIFAMILY COMPLETIONS TO REMAIN ROBUST IN 2020



Source: CBRE Research (2020 forecast), CBRE Econometric Advisors (history, 2019 estimate), Q3 2019. Completions of newly-built communities are counted in the quarter in which the property reaches occupancy stabilization.

RENT CONTROL TO HAVE BIGGER IMPACT IN 2020

New rent regulations have been instituted in a few key markets and many more are being considered to alleviate rising rental housing costs. Housing economists concur that building more housing is a better response to the problem than rent control, but 2020 will bring more debate, possibly more regulation and more unease for the industry.

New rent control legislation was enacted this year in New York, California and Oregon. On the watch list for possible legislation are Illinois and Washington state, along with more restrictive legislation in California. New York Metro's 9.2% year-over-year drop in multifamily investment in the first eight months of 2019 was partly caused by the implementation of new rent control regulations. In California, investment activity was mixed for the same period. Greater Los Angeles had a 9.8% drop in investment year-over-year, but the San Francisco Bay Area had a 7.4% increase. Investment also rose in Portland (23.5%).

SUBURBAN MULTIFAMILY WILL CONTINUE TO OUTPERFORM IN 2020

Buying or building in the suburbs will remain the best bet based on market performance and investment returns. Suburban multifamily will outperform urban, maintaining lower vacancy and achieving higher rent growth.

CBRE Research's top four markets for multifamily performance in 2020 are Austin, Atlanta, Phoenix and Boston. The first three are very high-growth metros by population, households, employment and multifamily demand. Construction is very active in these markets. In Atlanta and Phoenix, development has not ramped up to levels that should cause any concerns. Development in Austin has tapered off. Among the gateway markets, Boston is the star performer.

Investors and developers should also consider smaller metros (e.g., less than 2 million population). While liquidity and overbuilding risks are generally higher in smaller markets, there are several metros with exceptional multifamily performance today resulting from favorable supply/demand fundamentals (steady growth over recent years and only moderate development activity). Many smaller metros are undergoing a significant upgrading of their urban cores, thereby improving quality of life and helping them retain talent.

Seven smaller metros had 4% or higher rent growth as of Q3 2019: Albuquerque, Birmingham, Colorado Springs, Greensboro, Memphis, Dayton and Tucson. They are likely candidates for outperformance in 2020.

ALTERNATIVES

THE LURE OF ALTERNATIVES ENTICES INVESTORS

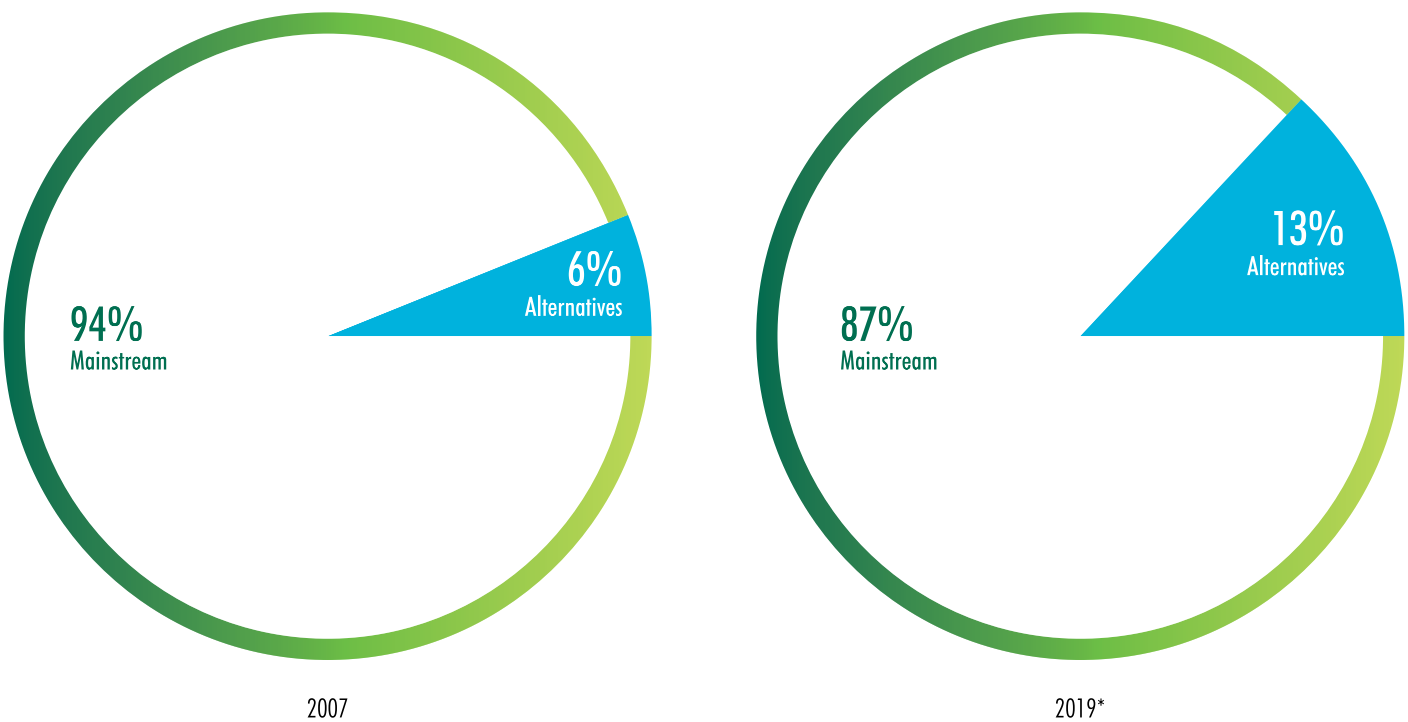
Specialty sectors including self-storage, data centers, medical office, life sciences facilities, seniors housing and student housing have been particularly enticing to commercial real estate investors over the past six years. The same holds true for the year ahead.

Broad interest in alternatives is noted in CBRE's 2019 Investor Intentions Survey, which found that 40% of survey respondents were actively pursuing one or more alternative sectors. Higher yields are one principal attraction of alternatives. Generally healthy market fundamentals and impressive long-term growth potential due to secular shifts in demand are also drawing capital to specialty sectors.

ALTERNATIVES INVESTMENT VOLUME ON THE RISE

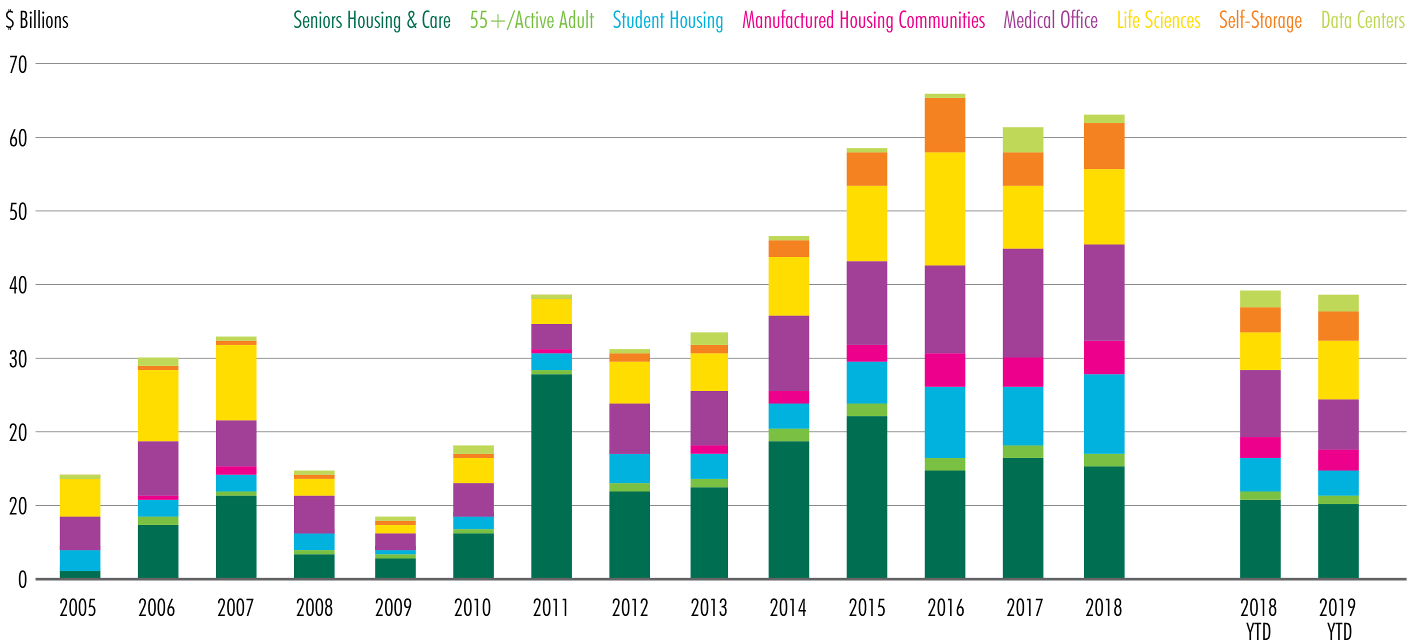
Investment in the major specialty sectors has risen steadily in both volume and market share over the past decade. Volume more than doubled in 2011 and again in 2014. Since 2014, alternatives investment volume has averaged $59 billion annually, accounting for 12% of all commercial real estate investment. At the peak of the last cycle (2007), alternatives investment was half this amount and only 6% of total commercial real estate investment. Preliminary data for 2019 shows that alternatives' market share rose to nearly 13% of total commercial real estate investment.

FIGURE 14: ALTERNATIVES INVESTMENT MARKET SHARE, 2007 VS. 2019 YTD



Source: CBRE Research, Real Capital Analytics, Q3 2019. *2019 is estimated based on data year-to-date through August.

FIGURE 15: HISTORICAL INVESTMENT OF ALTERNATIVE REAL ESTATE SECTORS



Source: CBRE Research, Real Capital Analytics, Q3 2019. Year-to-date through August.

FIGURE 16: ALTERNATIVES INVESTMENT, 2014-2019 YTD ANNUAL AVERAGE

SENIORS HOUSING & CARE	MEDICAL OFFICE	STUDENT HOUSING	LIFE SCIENCES	SELF-STORAGE	MANUFACTURED HOUSING COMMUNITIES	55+/ACTIVE ADULT	DATA CENTERS
$17.2B	$12.2B	$7.3B	$6.5B	$5.0B	$3.5B	$1.7B	$1.7B
31.3%	22.1%	13.3%	11.8%	9.0%	6.3%	3.2%	3.1%

Note: Percentages represent market share of all alternatives investment.
Source: CBRE Research, Real Capital Analytics, Q3 2019. *2019 is based on data year-to-date through August.

FIVE FACTORS THAT ATTRACT INVESTORS TO ALTERNATIVES

The increased interest and buying activity in alternatives have been driven by five primary factors that will continue in 2020:

1. **Yield Premium**
   Even with yield compression in recent years, most alternative assets trade at higher cap rates than conventional real estate. For example, seniors housing (excluding nursing care) and student housing had average cap rates of 6.3% and 6.1%, respectively, in 2019 compared with multifamily's 5.5%, according to Real Capital Analytics. Similarly, the average cap rates for life sciences and self-storage acquisitions were both about 6.1%.

2. **Rising Market Demand**
   The sustained economic expansion over the past 10 years has been a major driver of market demand for alternative assets. Even more powerful, however, have been the structural changes in business, technology, demographics and society leading to significant growth in market demand for most alternatives.

   The growing use of technology has created near exponential growth in demand for off-site cloud storage and data center facilities. Demand for life sciences facilities and medical office buildings has been rising due to technological advances in medicine, changes in how health care is delivered and an increasingly older population. Self-storage has benefitted from individuals and households having smaller homes or remaining in multifamily housing longer.

   Demand for seniors housing has not risen dramatically this decade, but this will change over the next decade as baby boomers reach ages traditionally appealing for seniors housing. The average age of a new resident in an independent-living community is the mid-80s and the oldest baby boomer will turn 74 in 2020. However, the oldest baby boomers represent the target market for active-adult and other age-restricted rental housing.

   Student housing investment opportunity has been driven, in part, by the continued need to update or replace outdated student housing facilities at four-year colleges and universities. Growth in student housing demand, however, has been modest due to flat enrollment nationally. Yet there is wide variation in enrollment, with many colleges bucking national trends and creating good investment opportunities.

3. **Expanded Product Availability**
   The specialty sectors have provided investors with another avenue for investment, particularly important in the competitive U.S. investment landscape over the past several years.

4. **Portfolio Diversification**
   Multi-property investors, particularly institutional investors, demand property diversification in their portfolios. Diversification often can be accomplished through the traditional property types, but greater investment in alternatives has provided another avenue, especially with many investors typically overweighted in office and retail and unable to acquire enough industrial & logistics assets to meet goals.

5. **Transparency**
   Greater transparency in pricing, market performance and operations provides prospective investors with deeper understanding of specialty sectors and greater comfort in investing in them. Improved transparency should also mitigate risk. While coverage of the specialty sectors is not as rich as for the traditional property sectors, there is a rising number of information and performance measurements. Greater transparency will continue in 2020 and help make the specialty sectors more appealing to investors not thoroughly familiar with the product.

INVESTORS FACE THREE KEY CHALLENGES IN ALTERNATIVES

1. **Scale & Limited Product Availability**
   Many investors, especially institutional buyers, need large transactions or the ability to build a sizeable portfolio to justify the learning curve and investment platform needed for alternatives investment. This often is not possible, since the specialty sectors remain quite small compared with the major real estate sectors.

2. **Oversupply**
   Favorable economic conditions and increased demand over the past decade have resulted in a large supply of new specialty product. Most of this space has been readily absorbed, and the new supply has created investment opportunities. But a few specialty sectors now are oversupplied, which will give investors pause in 2020.

   The two sectors where oversupply is more evident are self-storage and seniors housing. Robust construction of self-storage facilities in many markets led to modest rent declines in 2019. The seniors housing construction pipeline has slowed over the past two years, but not enough for occupancy to rebound. The sector had lower-than-usual occupancy and only modest rent growth in 2019.

3. **Operations**
   Each of the alternatives has specialized operations, some of which are highly complex. In the case of seniors housing, management is intensive. Investors often partner with experienced operators for property management; nevertheless, investors need additional expertise.

The investment allure of alternatives will remain very strong in 2020, despite these industry challenges. Specialty-sector investment in 2020 should match the $59 billion annual average of the past six years and account for 12% of total U.S. real estate investment.

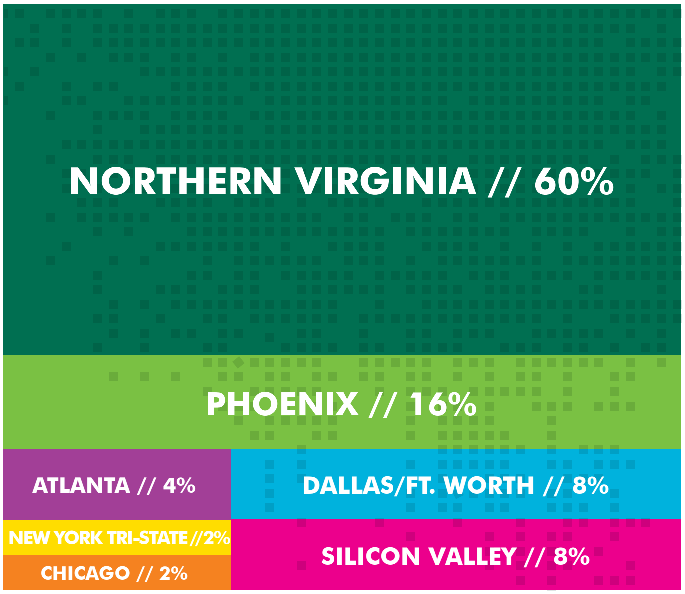
DATA CENTERS

NEW PROVIDERS AND EXPANSIONS DRIVING NEW SUPPLY

The U.S. wholesale data center primary markets—Atlanta, Chicago, Dallas/Ft. Worth, New York Tri-State, Northern Virginia, Phoenix and Silicon Valley—accounted for more than 56% of the record annual absorption in 2018. Another record level of absorption is expected in 2019 as more than 120 MW of pre-leased capacity will deliver before the end of the year. New deliveries will increase these primary markets' total data center inventory by 17.3% in 2019, increasing the competition among certain markets in 2020.

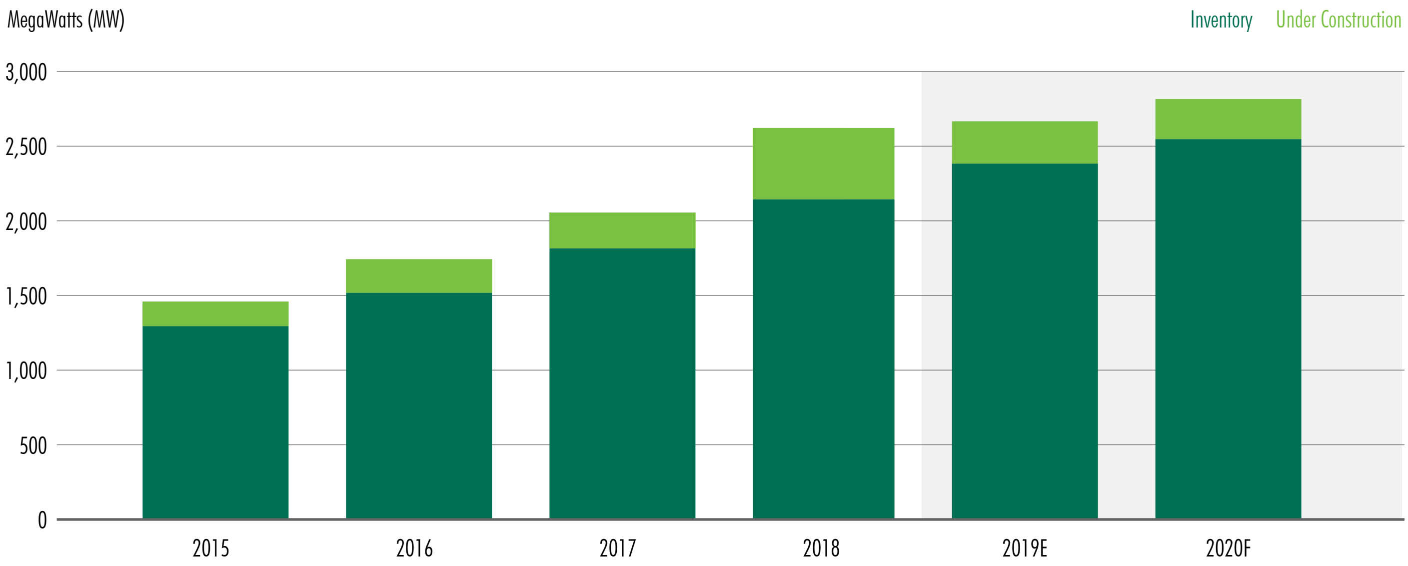
The large amount of new supply comes primarily from two sources: new providers bringing their first capacity online and expansions by existing providers. Competition between providers will continue to drive market pricing and contractual terms, creating aggressive leasing scenarios. End-users seek creative Hybrid IT environments through efficient right-sizing, enabling them to take advantage of both the new supply and government incentives.

FIGURE 18: H1 2019 PRIMARY MARKET % OF TOTAL UNDER CONSTRUCTION



Source: CBRE Research, CBRE Data Center Solutions, Q2 2019.

FIGURE 17: PRIMARY MARKETS TOTAL INVENTORY & UNDER CONSTRUCTION



Source: CBRE Research, CBRE Data Center Solutions, 2019.

ADVANCING TECHNOLOGIES GENERATE DEMAND FOR CONNECTIVITY-BASED DEPLOYMENTS

Enterprise users' hybrid colocation strategies focused on multi-cloud access and density connectivity in 2019. We expect this trend to continue in 2020. Low latency solutions and flexibility remain a staple in the industry as they enable integration of current technologies to maximize performance. We expect providers will offer diverse options that enable an enterprise to establish a streamlined, secure and flexible environment in the market next year. In addition to agility and flexibility, end users are focusing on scalability and network access as they evaluate and integrate 5G and edge deployments into their portfolios. The integration of these new technologies is expected to create higher demand for more fiber access and power to support the resulting infrastructure. This trend may result in an uptick in demand in secondary/tertiary and legacy data centers nationwide.

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