Newmark Knight Frank

Knight Frank

GLOBAL OUTLOOK 2019

FORECASTS FOR REAL ESTATE IN THE WORLD'S LEADING CITIES.

The Global Cities

Amsterdam
Berlin
Beijing
Bengaluru
Birmingham
Boston
Brisbane
Delhi
Dubai
Dublin
Frankfurt
Geneva
Hong Kong
Jakarta
Kuala Lumpur
London
Los Angeles
Madrid
Melbourne
Mexico City
Moscow
Mumbai
New York City
Paris
San Francisco
Seoul
Shanghai
Singapore
Sydney
Tokyo
Vancouver
Warsaw
Washington DC

Contents

Executive Summary	02
Key Opportunities	03
Chief Economist's Outlook	04
Office Occupier Outlook	08
Office Capital Markets Outlook	10
Industrial & Retail Outlook	12
Prime Office Yields vs Cost of Finance	14
Prime Residential Forecasts	16
Global Strategies	18
Risk Radar	22
Opportunities Radar	24
Contacts	27

Note: All prices are in US dollars.

Executive Summary

The coming 12-months will see a shift in focus for property investors as they respond to a more uncertain global economy and the rising cost of debt. **Liam Bailey, Knight Frank's Global Head of Research,** sets out ten opportunities for the year ahead.

Trade tensions, political events, and an increasing debt burden alongside rising interest rates will all conspire to make 2019 a challenging year for the global economy.

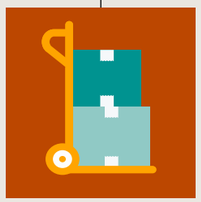
We expect a moderate economic deceleration in worldwide GDP growth, and the change in the economic landscape will demand a response from property investors.

Higher interest rates and the end of quantitative easing means we are reaching the end of the 'everything bubble'. For the past decade it was enough for investors to buy property in major gateway markets and the generosity of central banks would help ensure strong returns.

The shift towards a more normalised monetary policy means that investment strategies will change as investors focus on income, asset management, specialist sectors and development opportunities to secure outperformance as debt costs rise.

In this report, we have set out Knight Frank's view on likely market performance in 2019 and highlight opportunities across commercial and residential markets globally. We have considered the outlook for rents, yields, transaction volumes, and have set out our thinking on global debt markets and the outlook for property lending.

We see ten key opportunity areas for investors in 2019



1 European logistics

Yes, the sector is already very popular with the past two years seeing record investment volumes. However, we believe key markets in mainland Europe are set to benefit from rental growth. We favour core markets where the barriers to entry are high (such as Hamburg, Barcelona and Venlo) but also ultra large opportunities with good labour pools that can still service major conurbations.

2 Second tier office markets

The likes of Madrid and Warsaw, where occupier markets have been slower to hit the expansion phase offer a compelling investment and development opportunity.

3 Global R&D hubs

Tight development pipelines mean that locations such as Boston, the San Francisco Bay Area, Amsterdam and London will deliver strong future rental growth.

4 Senior living

The biggest global demographic trend underpins this sector, which is still embryonic in most markets. While most activity will be in suburban and ex-urban locations, we believe the strongest returns will be captured by the operators who deliver a true urban offer in major global centres.

5 Private rental sector/Multifamily

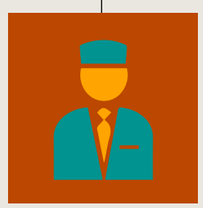
Where the US has led, the UK and Europe have followed with burgeoning pipelines of stock delivered in 2018. For 2019 we like Amsterdam, Berlin, Dublin and Madrid for their employment growth and strong economic fundamentals.

6 Flexible offices

Office occupiers from all sectors and of all sizes are seeking product that better aligns real estate to their disrupted, fast moving operational reality. Flexible space with high degrees of customer service and flexible leases will be in demand particularly in tech dominated markets such as Berlin, London, Boston and Singapore.

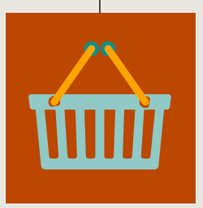
7 Healthcare

Western European countries including the UK, France, Germany, Spain, The Netherlands and the Nordics are expected to lead the way in terms of attracting capital into healthcare in 2019. The uniting key factors include rapidly ageing populations, formalised healthcare infrastructure, significant GDP spend on health and social care, and increasing privatisation of the sector.



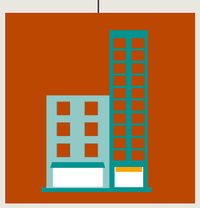
8 Hotels

Hotel operators who can leverage technological innovation, and capitalise on data capture will deliver enhanced performance and returns. Expect increased investment in London as well as UK and European regional centres.



9 Retail

The rise of online has turned sentiment against retail and pricing has in many markets moved accordingly. Many good (though not necessarily prime) assets with strong fundamentals are mispriced. On the basis of strong fundamentals, we are leaning towards retail warehousing in Australia, flagship high street shops in Madrid and Paris, and UK food-stores.



10 True mixed-use

The retreat of retail from CBDs demands a radical approach to mixed-use and place-making opportunities. The scale of the issue will mean those developers who can engage with city authorities and other stakeholders will win.

Chief Economist's Outlook

Jitters over rate rises and volatile financial markets should not deter property investors from focussing on the opportunities in the Global Cities.

James Roberts
Chief Economist, Knight Frank

The prime yield compression stage of the property investment cycle has either completed, or is close to the end, in the leading global cities. However, tight development pipelines over several years have created leasing supply crunches, particularly for offices and logistics property. This is coinciding with stronger occupier demand. We see the search for returns pushing investors up the risk curve to pursue refurbishment and development opportunities; or diversifying into the specialist sectors.

In the coming years, investors will adapt to a world with fewer certainties, but plenty of opportunities for those prepared to be more adventurous.

Volatile markets

When judging the outlook for global property markets in the next few years, the forecaster encounters contradictory signals. The International Monetary Fund (IMF) is predicting worldwide GDP growth to decelerate from 3.7% in 2018 to 3.5% in 2019. This suggests a year of continued expansion, just at a slightly reduced pace. However, financial markets are currently volatile and concerned about the outlook, as leading central banks are expected to tighten monetary policy next year and beyond.

The risk for the global economy is that policymakers may hike rates too aggressively and derail growth. Moreover, the US is ready for higher rates, but is the same true of those economies who peg their currencies to the dollar? After all, China's economy appears to be slowing. This creates a double risk for a number of nations in the Middle East and Asia who now have economies that are significantly exposed to both the US and China.

The rollercoaster ride for equity and bond markets are also symptomatic of wider concerns. Geo-political risks abound, from the Brexit saga in the UK, to the trade confrontation between the US and China, to fresh storm clouds gathering over Italy. After years of buoyant expansion, the tech sector faces widespread concerns over the sustainability of its rapid growth.

What will all this mean for real estate in the coming years?

Rate cycle

Often the property world views a rising interest rate cycle with too much dread. Rate hikes will increase the cost of debt, although no central bank wants to slow lending to the point of causing a downturn. Policymakers look to curb excess while allowing sustained growth. The Bank of England steadily raised interest rates from 2004 to 2007, but commercial property yields hardened. This was because a buoyant occupier market, and the resulting rental growth gave property investors the confidence to buy.

> *"We see the search for returns pushing investors up the risk curve to pursue refurbishment and development opportunities; or diversifying into the alternatives."*

Higher interest rates will cause money to flow into banks, which they can earn more income on by lending to the wider world than purchasing government bonds. Under pressure from the finance director to lend, origination teams will extend more finance to property investors in the coming years.

Improving expectations on rental growth should give more investors the confidence to make leveraged buys, particularly given the supply problems found across global occupier markets. We see this being particularly the case in the coming years, as financial markets have often over-estimated the pace at which monetary policy will tighten, while the property world has under-estimated how quickly leasing supply is eroding. The temptation to buy vacant properties for a quick refurbishment is likely to be high in nearly all the key global cities, due to years of constrained development and lots of pre-letting. A common theme emerging when researching this report was that vacancy rates are falling, partly due to the pipeline issues already mentioned, but also thanks to rising demand.

War for talent

More investors will have the confidence to pursue strategies involving rental growth because, in the cities covered by this report, so many of the necessary ingredients for higher rents are in place. Rapid expansion by technology firms and coworking operators are a recurring theme around the world. Typically they are seeking high quality, well located offices, as employers want wow-factor offices that promote staff satisfaction and collaborative working.

This reflects the fact that so many major economies are either at or close to full employment, creating a battle among employers for the best workers. We see wage inflation picking up in 2019, and alternative ways to retain staff, like providing an exciting work environment, will appeal more to corporations in this context.

Financial & Business Services employment in the Global Cities

Millions of jobs

Source: Oxford Economics

Note: The global cities includes - Amsterdam, Beijing, Bengaluru, Berlin, Birmingham, Boston, Brisbane, Delhi, Dubai, Dublin, Frankfurt, Geneva, Hong Kong, Jakarta, Kuala Lumpur, London, Los Angeles, Madrid, Melbourne, Mexico City, Mumbai, New York, Paris, San Francisco, Seoul, Shanghai, Singapore, Sydney, Tokyo, Vancouver, Warsaw, Washington DC. The figures are for the Metro area.

Demographics are behind the growing staff shortages, and the political backlash against immigration across the world will deepen the problems of occupiers trying to recruit talent. If workers struggle to move geographically, the jobs must go to them, and we see corporations becoming more global, plus venturing into tier two cities looking for staff. That these locations can potentially offer staff a better quality of life, through lower house prices and shorter commutes, will add to the appeal for firms expanding their office networks.

Oxford Economics are forecasting financial and business services employment in the cities covered by this report to increase by 2.6 million jobs between 2019 and 2021. This could mean office demand increases by 287 million sq ft; the equivalent of more than three times the office space found in Singapore.

Fuelling tech

Moreover, if workers are in short supply, companies will use automation, artificial intelligence (AI) and machine learning to free up people for higher value tasks. This will fuel the tech revolution further, and create more of the start-up firms who flock to the coworking centres. Also, greater use of IT in scientific R&D is drawing more jobs in industries like life science into city centres, adding a new dimension to the tech wave.

Inevitably, this brings us back to the stock market wobble for tech of late. This is undoubtedly a significant risk for the outlook, although compared to the last big tech industry correction in 2001, there is a larger share of profitmaking firms who have been trading for years (or decades) rather than months. Moreover, there is evidence that tech is creating an economy all of its own – of services that exist because of the presence of tech – from online fraud prevention, to cyber security, to the battle to curtail fake news.

Overall, we believe there is a compelling global case for continued rental growth across the Global Cities. This is equally true of those locations that face the political rollercoaster of populism, as office rental growth has been in evidence in some US and UK cities in 2018, undaunted by the Trump presidency and Brexit.

Buildings with beds

Around the globe, occupier and investment demand are adjusting to the changing landscape of how we shop. E-commerce has boosted demand for logistics property, but left many older shopping centres with empty units that can be hard to fill. This is a global phenomenon that requires property investors to adapt fast. Developers are seeking locations for suburban warehouses for local deliveries. Shopping centre owners are considering radical redevelopment plans to replace some of their floor space with other uses. This has moved beyond leisure uses, with hotels and residential property entering the mix.

This is one reason why the expression 'buildings with beds' is rising in popularity in the real estate world, as the mix of property uses evolves to reflect societal needs and consumer lifestyles. Buildings with beds come in many forms, with care homes and retirement living reflecting the ageing population phenomenon which is becoming a pressing issue across geographies.

As developing economies become wealthier, more money becomes available for higher education and holidays, driving demand for student accommodation and hotels. Moreover, flexible lifestyles, plus affordability issues, are pushing private rented sector housing up the property agenda.

Active investors

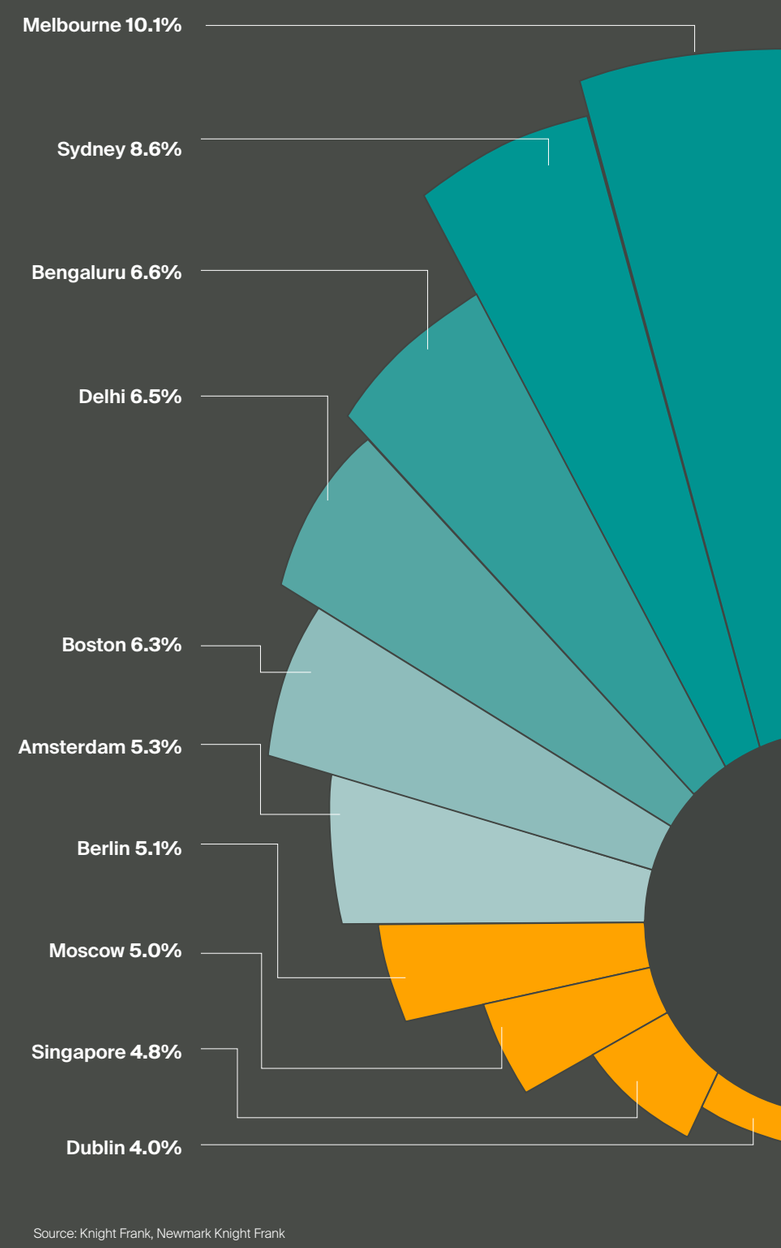
Consequently, opportunities in property are there for those prepared to be active investors: through diversifying into new sectors, buying in different cities (either abroad or tier two, or both), and seeking assets that can be redeveloped or proactively managed. This will allow the investor to remain a step ahead of the rate tightening cycle, whose pace we suspect could be slower than many assume. Rental growth due to thin development pipelines and better-than-expected occupier demand, are now central to the outlook for property investment markets.

> *"If workers are in short supply, companies will use automation, artificial intelligence and machine learning to free up people for higher value tasks. This will fuel the tech revolution further, and create more of the start-up firms who flock to the coworking centres."*

2.6m

increase in jobs forecast by Oxford Economics in the financial and business services employment between 2019 and 2021.

Office rental growth forecast in 2019 – the global Top 10



Source: Knight Frank, Newmark Knight Frank

Office Occupier Outlook

Tightening supply across the Global Cities is set to drive rental growth, in many cases exceeding long-term average levels.

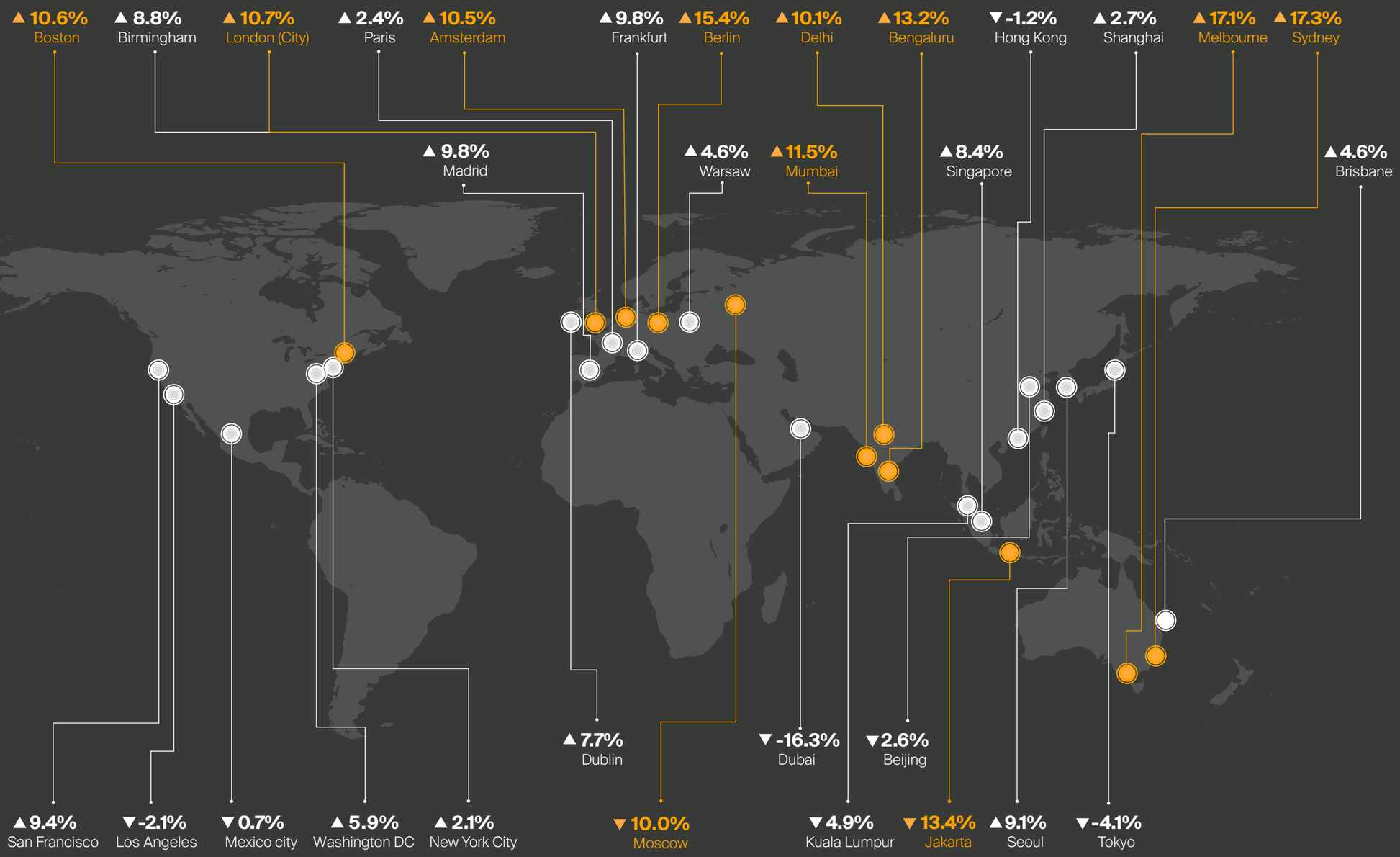
Tight supply

Forecast vacancy rate - 2018 vs 2021

Rank	City	2018	2021
1	Berlin	2.0%	2.2%
2	Paris	2.1%	2.4%
3	Hong Kong	2.3%	2.4%
4	Tokyo	2.5%	2.9%
5	Bengaluru	3.2%	3.2%
6	San Francisco	3.4%	3.2%
7	Melbourne	3.8%	7.6%
8	Sydney	3.9%	5.4%
9	Beijing	5.1%	5.0%
10	London	6.2%	5.1%
11	Shanghai	6.5%	6.5%
12	Dublin	6.7%	8.7%
13	New York	7.2%	7.7%
14	Frankfurt	7.6%	6.9%
15	Boston	8.0%	7.2%
16	Dubai	9.0%	7.0%
17	Singapore	10.6%	8.8%
18	Seoul	11.0%	9.8%
19	Warsaw	11.1%	10.2%
20	Madrid	11.6%	9.0%
21	Moscow	12.5%	9.0%
22	Brisbane	12.7%	11.8%
23	Washington DC	13.3%	15.6%
24	Mexico City	13.9%	12.1%
25	Los Angeles	13.9%	15.2%
26	Delhi	16.5%	15.0%
27	Mumbai	19.8%	14.0%
28	Kuala Lumpur	20.0%	21.0%
29	Jakarta	25.1%	23.7%

Source: Knight Frank, Newmark Knight Frank

Global hotspots - Forecast office rental growth
Three years to Dec 2021

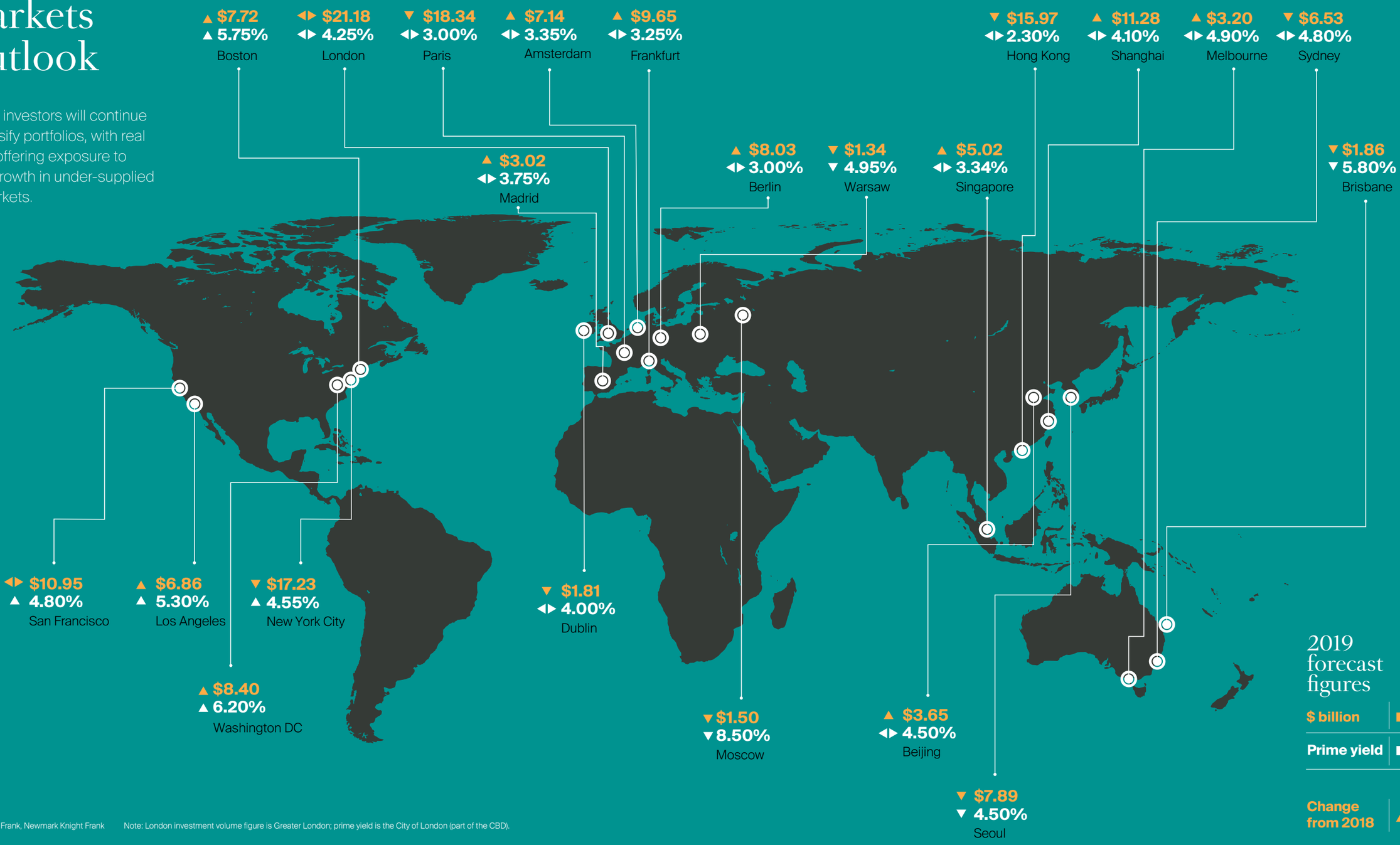


Source: Knight Frank, Newmark Knight Frank, Sumitomo Mitsui Trust Research Institute

Office Capital Markets Outlook

In 2019, investors will continue to diversify portfolios, with real estate offering exposure to rental growth in under-supplied city markets.

Global investment – Forecast offices sales volume ($ billions) and prime yields for 2019



Source: Knight Frank, Newmark Knight Frank Note: London investment volume figure is Greater London; prime yield is the City of London (part of the CBD).

Industrial & Retail Outlook

Industrial & Logistics

The ongoing e-commerce revolution has fuelled unprecedented occupier and investor demand for industrial and logistic property. In the digital age, pure-play e-retailers or e-marketplaces, together with more traditional (and hence challenged) bricks and mortar retailers, are busy trying to create competitive advantage in a fast changing operational landscape.

To do so they increasingly look to real estate, with the warehouse, both individually and collectively in the form of a distribution network or supply chain, being very much in focus. Increased global occupational demand for warehousing has led to similar demand from real estate investors with some $130bn invested in global industrial property during 2018, according to RCA – a volume some 55% above the ten year average. The structural challenge facing the occupier is not disappearing and hence there will be no let-up in this investor demand across key global markets during 2019 and beyond (see chart).

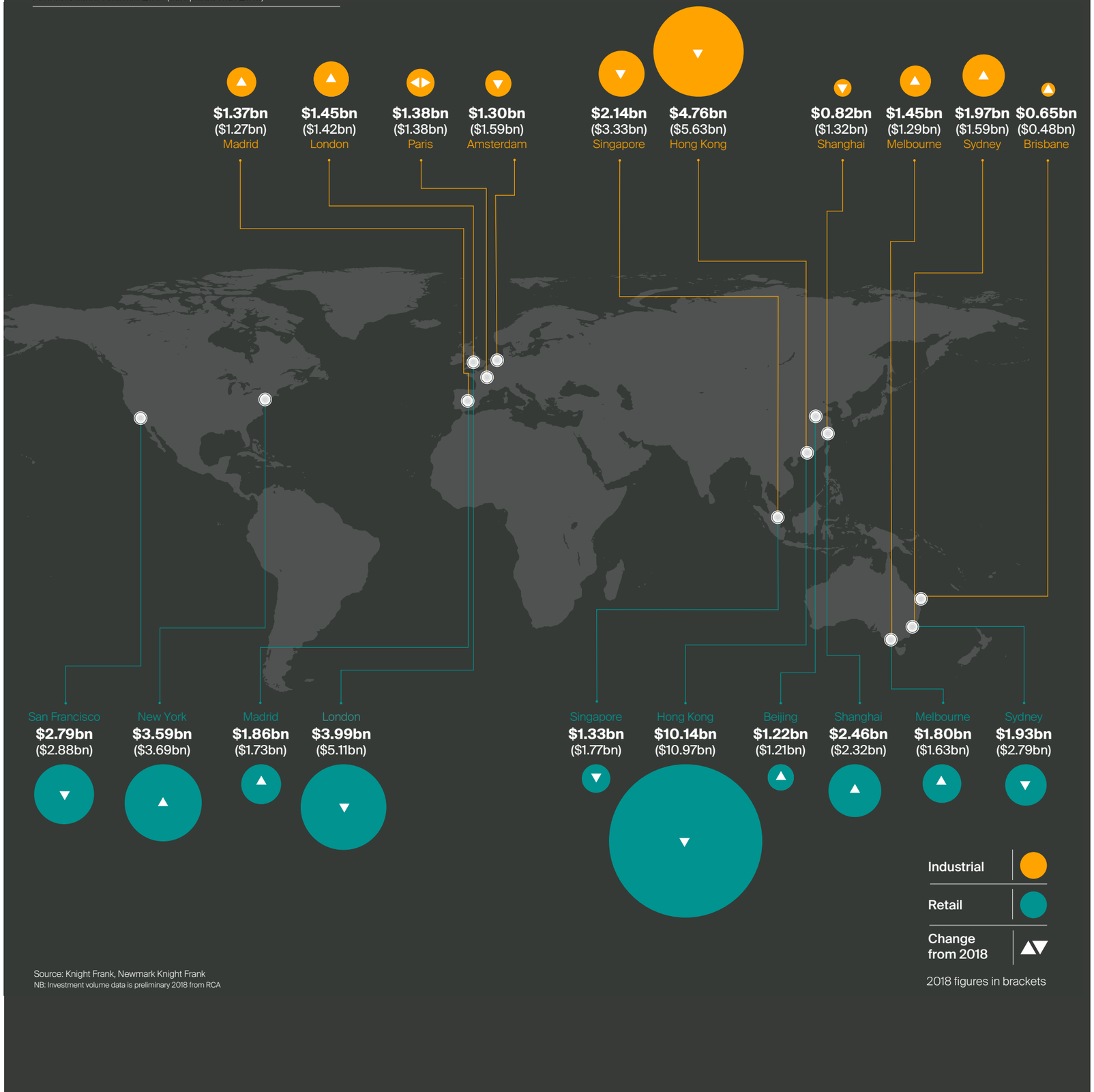
> *"Increased global occupational demand for warehousing has led to similar demand from real estate investors with some $130bn invested in global industrial property during 2018."*

55%

2018 Global industrial property investments 55% above the ten year average

Global industrial & logistics and retail centres

Forecast sales volumes 2019 (compared with 2018)



Source: Knight Frank, Newmark Knight Frank
NB: Investment volume data is preliminary 2018 from RCA

The attraction is furthered as a shift towards automated warehouses requires sizeable capital investment by the occupier, pushing them towards longer leases or, at the very least, more regular re-gearing of leases. Industrial investment will increasingly become a long-term income play.

Retail markets

Young, urban, cosmopolitan, high growth and progressive – these are the common denominators across the ten global cities in which we expect retail investment volumes to be highest in 2019. Interestingly, these demographics also lend themselves to e-commerce and online penetration is significantly higher-than-average in all of these cities.

This is proof that an online retailing hotbed can still be a magnet for retail real estate investment, with growing recognition that stores increasingly work in harmony with e-commerce, rather than in conflict. To what degree are investment markets consistent with occupational ones? Hong Kong, London and New York also feature in the Top 5 most expensive trading locations globally, while Sydney ranks in the Top 10 on both measures. Macro-economic stability and a strong occupational base obviously remain central to investment decisions, but not to the subordination of the very lifeblood of anything retail-related – consumers.

> *"Hong Kong, London and New York all also feature in the Top 5 most expensive trading locations globally, while Sydney ranks in the Top 10 on both measures."*

Prime Office Yields vs Cost Of Finance

Knight Frank and Newmark Knight Frank's debt and finance experts in New York City and London comment on the market outlook.

Newmark Knight Frank, Debt & Structured Finance

Recent equity market volatility have weighed on capital market executions, as well as both fixed rate CMBS and floating rate CLOs.

However, we think that the impact is ultimately short-lived. Debt players remain optimistic about capital markets early on in 2019 with cash accumulating on the sidelines from patient investors attempting to wait out the volatility.

While some lenders are using a wait-and-see approach in the short-term, no major groups have indicated that they will rethink their long-term lending strategy. In fact, lenders have continued to enter the debt space throughout 2018, with several groups accelerating their debt platforms with a focus on 2019.

Traditional equity players have found the risk/return profile of the debt space even more palatable as the cycle continues, and have been able to leverage their own expertise to succeed. Overall, despite more entrants to the debt space, lenders remain disciplined and have opted to compete on pricing instead of offering more leverage or accepting poor credit.

"While some lenders are using a wait-and-see approach in the short-term, no major groups have indicated that they will rethink long-term lending strategy."

Knight Frank Finance, Debt Advisory

Despite ongoing political uncertainty, European debt markets remain in good shape.

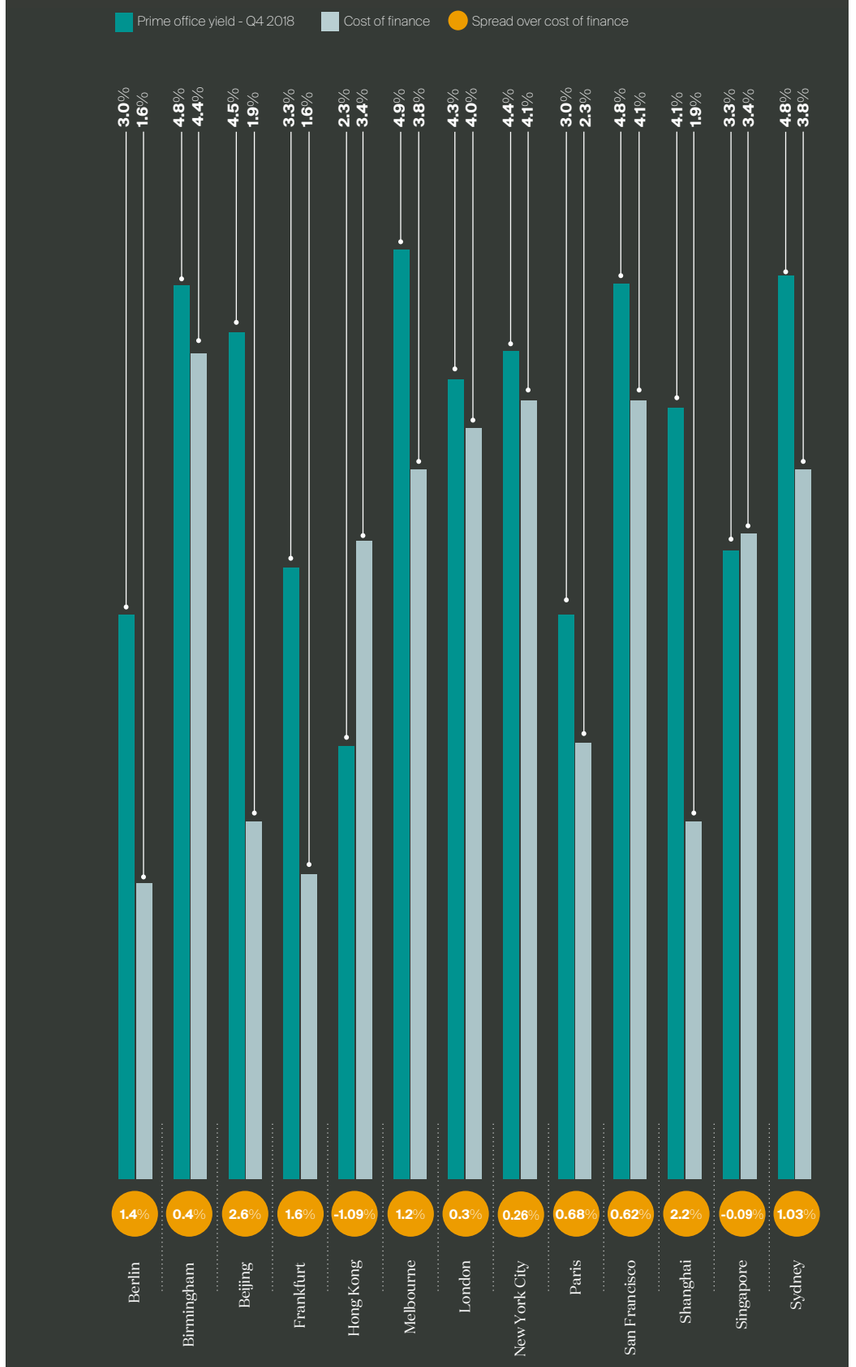
Senior margins have been squeezed by heightened competition resulting from an increasing supply of debt providers across Europe. In late 2018, one prime office deal in London attracted a margin of 105 bps, the lowest we have seen in some time. The UK and Ireland saw senior margin reductions of 25 bps throughout 2018, and Spain (-75 bps) benefitted from a recovering residential market, hence renewed interest from lenders who struggled to achieve desired returns in more established European markets.

As political uncertainty grows, swap rates have come down, signalling a reduction in the overall cost of debt.

In 2019, we expect development finance to become more readily available, with certain lenders open to providing speculative commercial finance (albeit reserved for strong, experienced and well capitalised sponsors). The European CMBS market will gain importance for investment banks looking to manage their exposure to commercial real estate.

On the whole, this year will be a good time to borrow with both margin and cost of funds reducing, generating enhanced returns for leveraged buyers. Lenders continue to be selective, but appetite will remain strong.

Prime office yields vs the cost of finance



Source: Knight Frank, Newmark Knight Frank, Macrobond. Note: The cost of finance equates to the relevant 10 year swap rate, plus an estimated lending margin compiled by Knight Frank and Newmark Knight Frank in early December 2018.

"In 2019, we expect development finance to become more readily available, with certain lenders open to providing speculative commercial finance (albeit reserved for strong, experienced and well capitalised sponsors)."

Prime Residential Forecasts

Luxury residential price growth is slowing. Not everywhere, and it is not plunging; this is not 2008, but our Prime Global Cities Index, which tracks the movement in prime prices across 43 cities worldwide, although still rising, is doing so at its slowest rate since 2012. The proliferation of property market regulations, the rising cost of finance, uncertainty surrounding Brexit and in some markets, a high volume of new prime supply, is weighing on prime prices.

More muted growth is the main story for 2019 forecast. Of the 15 cities monitored, the key European cities of Madrid, Berlin and Paris, lead our forecast for 2019 with growth of 6%. Still positive, but marginally down on 2018, the normalisation of monetary policy, weaker economic growth and a fragile political landscape post-Brexit will influence demand, but their relative value will remain a key driver.

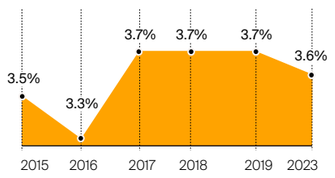
Markets that have been the recipients of new macro-prudential measures in 2018 such as Hong Kong and Singapore will slip down the rankings as buyers adjust to the new tax landscape.

Of the 15 cities, Sydney, London and New York City sit mid-table with forecasts of 0%-2% growth. A lack of new supply is supporting Sydney's prime market. In London, changes to stamp duty have now been fully absorbed, suggesting activity could strengthen once political uncertainty in relation to Brexit starts to recede. In New York City, luxury prices are recalibrating as the market grapples with the new federal tax law, higher mortgage rates, and the absorption of high supply volumes in recent years.

Luxury house prices are now a distinct asset class, a safe asset viewed by the wealthy as a viable alternative to government bonds. However, luxury housing has become more homogenised over the last decade which has led to greater synchronicity when it comes to market cycles. Local policy interventions and economic shifts have the capacity to disrupt these ties but broader macro themes from the rising cost of finance to wealth creation, not to mention the desire to have a foothold in some of the world's most transparent and prestigious neighbourhoods, will keep them in check.

Global economy in good shape...

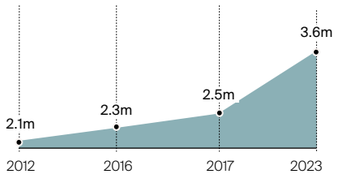
Global GDP (%)



Source: IMF World Economic Outlook Oct 2018

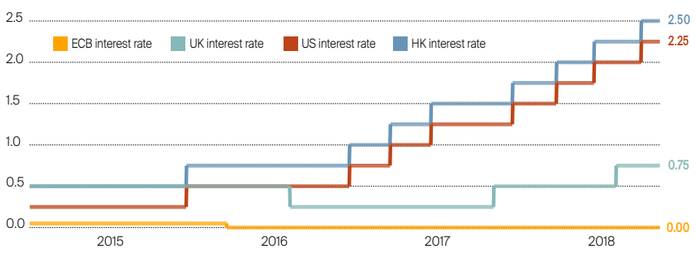
...and is supporting wealth creation

No. of individuals with $5m+



Source: Wealth-X

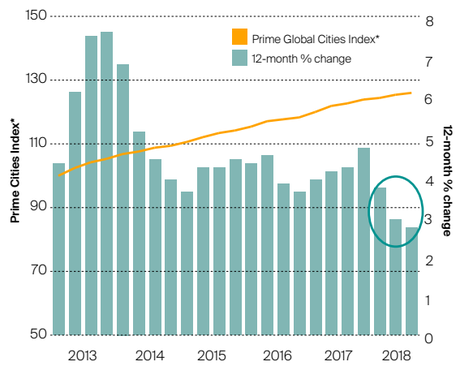
But the rising cost of finance and more property regulations...



Source: Knight Frank, Macrobond

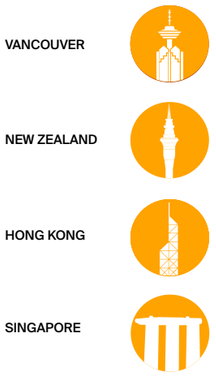
...has led to slower rates of prime price growth

Prime prices performance (Indexed, 100 = Q1 2006 & 12-month % change)



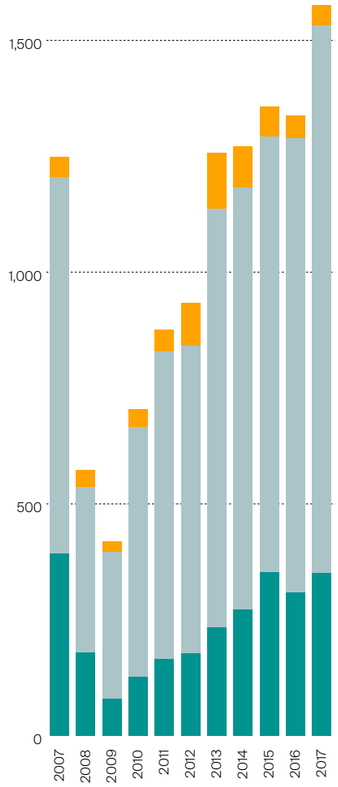
Source: Knight Frank *Tracks the movement in prime prices across 43 cities worldwide.

Markets that saw new property market regulations in 2018



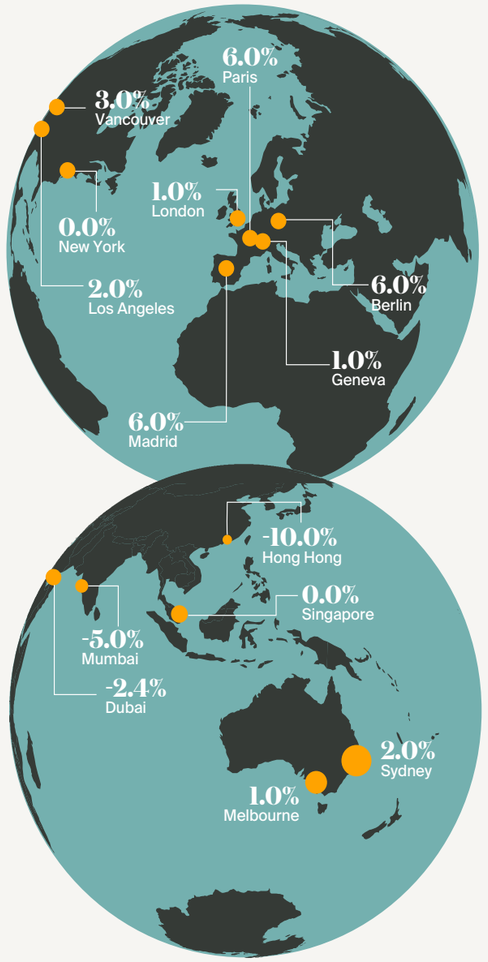
Despite higher cost of finance and lower price growth, cross-border capital flows continue to rise

Global investment volumes ($)
Excluding developments



Source: RCA

Prime residential price growth forecast



Year to Dec 2019	
Madrid	6.0%
Berlin	6.0%
Paris	6.0%
Vancouver	3.0%
Sydney	2.0%
Los Angeles	2.0%
Geneva	1.0%
Melbourne	1.0%
London	1.0%
Singapore	0.0%
New York City	0.0%
Dubai	-2.4%
Mumbai	-5.0%
Hong Kong	-10.0%
Average	**1.0%**

Source: Knight Frank

Global Strategies

Knight Frank's sector experts give their views on the outlook for real estate in 2019, and beyond.

"Occupiers have taken flight to quality space, as they recognise real estate not as a cost to manage downwards, but as a strategic device capable of facilitating business transformation."

Occupier markets

Dr Lee Elliott,
Global Head of Occupier Research

Despite great geo-political uncertainty and relatively moderate levels of growth over the last three years, global occupational markets have shown resilience with many achieving record or near-record levels of demand. Business disruption has necessitated transformation. As a result, occupiers have taken flight to quality space, as they recognise real estate not as a cost to manage downwards, but as a strategic device capable of facilitating business transformation.

The corporate real estate decision has strategic relevance and is increasingly aligned to the realities of the operating environment. Consequently, flexibility, quality and service are all in demand, as occupiers are both disrupted by tech-enabled new market entrants, and challenged by a fierce war for tech and creative skills. Over the next three years, global markets, generally short of high quality supply, will see no shortage of demand and no reluctance on the part of occupiers to pay for the very best space.

Real estate capital markets

Will Matthews,
Head of Commercial Research

As attention turns to 2019, the fundamental drivers of the current global investment cycle remain intact. The macroeconomic story is still supportive of rental growth in many developed markets. Property yields are relatively attractive compared with other sources of long-term income, despite a gradually rising tide of market interest rates. As a result, capital targeting the asset class continues to swell, driven by an evolving mix of institutional investors, private equity funds, and private wealth. Nevertheless, this intense focus raises its own challenges.

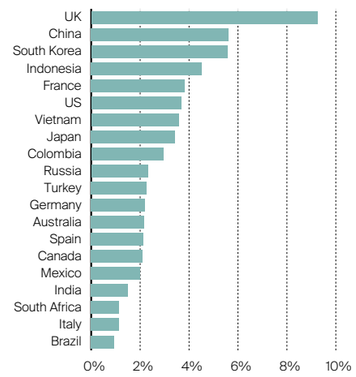
Yields have compressed to very low levels, forcing some investors to seek opportunities further up the risk curve in order to maintain returns. Second and third tier locations may offer this, but sometimes at the expense of liquidity. Forward-thinking investors are turning to specialist property sectors, reliant on structural rather than cyclical drivers, but these come with additional management requirements. To deploy capital at scale in any sector will increasingly require investors to consider the purchase of entities, not just individual properties. Overall, 2019 will be another strong year for global investment, albeit one that will see a further evolution in the characteristics of purchases.

Retail

Stephen Springham
Head of Retail Research

Online continues to be the single largest driver of structural change in retail markets globally. However, the mindset is slowly changing, particularly in mature online markets where actual experience is not necessarily consistent with perceived logic. The historic view was that online and physical retail were distinct; online could plug gaps in coverage, obviate the need for more expensive physical space and see retailers significantly downsize their footprint. In reality, most retailers are seeing a more symbiotic relationship between online and physical stores. Yet, the role of the latter is changing and traditional performance metrics no longer apply. This is driving huge structural change across all aspects of retail real estate markets, including property valuations and investments. There is a long way to go before the full ramifications are fully understood. The future of retailing is not about online. Nor is it about traditional stores. It is about both, and how the two seamlessly interface.

E-Commerce Retail market spend
% of GDP 2018



Source: Mintel

Multihousing

Gráinne Gilmore,
Head of UK Residential Research

Already an established asset class in the US, multihousing – residential blocks built specifically to rent – is starting to gain traction in Europe and Australia. The search for long-term income has encouraged institutions to look at residential investment options in markets characterised by a sharp rise in the proportion of people living in rented accommodation. For example, in the UK, one in ten households were living in the private rented sector in the early 2000's. That has now risen to one in five households, and in the coming years, it is forecast that a quarter of all households will be living in privately rented accommodation.

The granularity of residential renting, with the ability to find a new tenant relatively swiftly, means that investors can expect true net yields, with no large void periods, no large tenant incentives and no rent-free periods; which would be typical of commercial investments.

Healthcare

Mandip Bhogal, Associate, Healthcare

Despite the lack of social care funding and a shortage in the skilled labour force, the healthcare sector has remained resilient and robust over the past 12 months, particularly in direct comparison to other property types and the wider investment classes.

Due to the domestic nature of the sector, with an ageing population and a shortfall of good quality care home stock fit for 21st century care, appetite for development will remain strong in the year ahead.

We estimate that there is circa $4.4bn of UK private equity and circa $25bn of overseas private equity looking to enter the UK care home market in the coming years. Investors are attracted by the long dated income that healthcare real estate presents, typically comprising 30-year lease terms, with either Retail Price Index-linked or fixed uplifts.

Student accommodation

Matthew Bowen,
Partner, Residential Research

We estimate that global investment into student accommodation reached over $15bn in 2018, marking the third consecutive year of investment at this level. In 2019, the increasing appeal of specialist property is likely to push the global volume invested in student property even higher.

In 2019, the UK market will continue to be driven by bulk purchases as new entrants and existing investors look to consolidate and acquire additional scale. Yield compression will continue in many UK cities.

On a global level, we expect the following key themes: Asia Pacific capital will play a bigger role in the cross-border investment market, with the UK as a target market. Cities in Europe are attracting international students in greater volumes, and this trend is likely to continue. Demand for UK student accommodation will be robust, despite Brexit, thanks to a 7.6% rise in overseas student applications for the academic year 2018/2019. We also see investment in Asia-Pacific increasing, particularly in Australia.

Hotels

Philippa Goldstein, Hotel Analyst

International leisure travel is on the rise, spurred on by the growth in air travel, an expanding middle class, and a population with greater desire and means to travel as disposable income rises.

Mobile connectivity is providing brands with the opportunity to explore new ways of interacting with customers. Data generation continues to proliferate with cloud-based systems progressively being rolled out in order to capture and gather guest intelligence, thereby transforming the level of insight. Digital check-in and the use of AI in hotels will increase in the years to come, becoming the new norm.

Additionally, scaling and environmental efficiencies will not only offer higher operating margins, but help connect with Millennials and Generation Z, who expect a high level of environmental responsibility from businesses.

"On a global level, we expect the following key themes: Asia Pacific capital will play a bigger role in the cross-border investment market, with the UK as a target market. Cities in Europe are attracting international students in greater volumes, and this trend is likely to continue."

Risk Radar

This year's forecasts coincide with significant geo-political risks, most of which are manageable.

James Roberts
Chief Economist, Knight Frank

Compared to a year ago, many investors are cautious on growth prospects. Much of the apprehension arises from geo-political concerns, which is playing out in the form of financial market jitters. Despite the nervous sentiment, the actual data on the economy for much of the world remains relatively stable. This suggests the global economy is in a strong position to weather stormier conditions, should they appear. Below are the four key risks we have identified to the forecasts in this document.

US-China trade war

Both sides are now feeling the effects of the opening shots of the trade confrontation between the US and China. Unsold soybeans are piled up in the US, while PMI data for late 2018 suggested China's manufacturing sector is slowing. This probably contributed to the two sides agreeing a 90 day moratorium on new tariffs in December. Because of the wider geo-political factors behind the confrontation, we do not see a speedy conclusion. However, there is now on both sides a desire to limit further damage.

Risk level: 4

Tech sector growth

Between August and December 2018, the Nasdaq 100 index fell by 17%, as investors became concerned over whether the tech sector can maintain the heady levels of growth seen in recent years. A tech slowdown would have major implications for real estate occupier markets, who have benefitted from significant demand from this sector in recent years. However, it is worth remembering that many tech firms today are larger, better financed and more profitable than was the case during the 2001 technology shares crash.

Risk level: 3.5

Brexit

UK politics is presently in an uncharacteristic period of volatility and deadlock. A 'hard' Brexit, whereby the UK defaults to a WTO border with the European Union, would be a step into the unknown for the economy. The impact would be greatest on manufacturing industries in the UK, but will reverberate around Europe; with implications for Ireland, northern France, and German exporters. Opportunities will emerge for non-EU countries to sell more goods to the UK. Also, British ports outside the English Channel will see more traffic. However, we note that recent votes in the UK Parliament suggest advocates of a 'hard' Brexit are not in the majority.

Risk level: 3.5

Rising interest rates

Rather than a risk, in many key global economies, tightening monetary policy is either an on-going reality or a near certainty. The debate is whether central banks could tighten by too much too soon, and tip the economy back into a downturn. However, major central banks have been guiding hawkishly and acting dovishly for some time – effectively, hinting at a faster pace of increase than has actually occurred. We expect them to continue to pursue a gradual pace of normalisation, and indeed some central banks may even start to loosen policy again in 2019 if circumstances become concerning. One possibility is China, should its economy slow abruptly; another is the UK should a 'hard' Brexit occur.

Risk level: 3

Opportunities Radar

What are the potential opportunities emerging now that could drive new growth in the future?

James Roberts
Chief Economist, Knight Frank

At times like the present, when downside risks are numerous, it is easy to overlook the fact that there are always upside opportunities. In 2008-2009, the banking crisis was reaching its peak, which dominated our attention. However, the digital revolution, sharing economy and the emergence of the Chinese consumer, which have led economic growth in the last decade, were also there as overlooked trends.

This beckons the question: what are the germinating opportunities today that deserve more analysis from investors? Here are four we believe deserve your attention.

5G

In May 2018, certain districts of the Qatari city of Doha became the first in the world to receive a 5G mobile telephone service. For most of the world, roll-out is expected to occur in 2019 and 2020. 5G will deliver much faster broadband speeds, provide the means by which autonomous vehicles communicate with each other, and facilitate the 'internet of things' where devices around a home, office or factory interact.

Another wave of the digital revolution will maintain growth momentum for office demand in the tech-oriented Global Cities, like Amsterdam, Berlin, Bengaluru, and San Francisco.

The grey workforce

Despite the huge focus on millennials, in many Global Cities, job creation in recent years has in some locations been faster for the older demographics. In the UK, since January 2017 employment of people aged 50+ has increased by 4.1%, compared to just 1.3% growth for 16-34 year-olds. Ageing societies around the world mean that more employers are encouraging staff to delay retirement, or become independent consultants. Those who left the workforce to start families are now finding more opportunities to return to their careers.

As older age groups account for a bigger share of the workforce, we see retailers and the leisure industry adapting in response. This could lead to new types of stores and entertainment appearing in city centres, aimed at a more discerning clientele with deeper pockets.

> *"Another wave of the digital revolution will maintain growth momentum for office demand in the tech-oriented Global Cities, like Amsterdam, Berlin, Bengaluru and San Francisco."*

People in finance

Since the global financial crisis, there has been a surge of money flowing into index-tracking funds. Also, more trading decisions are made by computers. JP Morgan estimate that 60% of US share deals now source from passive funds or automated trading, leaving humans making fewer decisions. However, recent market volatility could encourage investors to rethink, as index-trackers follow the markets lower and algorithms struggle with volatility.

Consequently, we may see the financial sector bring more people back into the process, to sense check the decisions of machines, and decide when it is time to deviate from index tracking. A movement back to managed funds could see increased demand for office space in key financial districts around the world, like New York City, London and Hong Kong.

Coworking

Coworking has had a transformational impact on office markets all over the globe in 2018, and while some markets are approaching maturity, on a global level we expect to see continued momentum in 2019. Traditional landlords are rapidly entering the market, while economic uncertainty in some regions in 2019 will encourage more occupiers to seek flexible office options. Some large corporations use coworking as a launch pad for getting staff to work in new ways.

It will also be interesting to see how much progress is made on extending the concept beyond offices. WeWork already has its offshoots, namely WeLive (shared housing) and WeGrow (education). This could create additional opportunities for the real estate sector.

Contacts

Knight Frank Global Research

Liam Bailey
Global Head of Research
liam.bailey@knightfrank.com

James Roberts
Chief Economist
james.roberts@knightfrank.com

Sherin Gooi
Assistant Economist
sherin.gooi@knightfrank.com

William Matthews
Head of Commercial Research
william.matthews@knightfrank.com

Dr Lee Elliott
Head of Occupier Research
lee.elliott@knightfrank.com

Nicholas Holt
Head of Asia-Pacific Research
nicholas.holt@asia.knightfrank.com

Kate Everett-Allen
Partner Residential Research
kate.everett-allen@knightfrank.com

Newmark Knight Frank Research

Jonathan Mazur
Senior Managing Director
National Research
jmazur@ngkf.com

Alexander Paul
Senior Managing Director
National Research
apaul@ngkf.com

Global Property Services

Andrew Sim
Capital Markets
andrew.sim@knightfrank.com

William Beardmore-Gray
Occupier Services & Commercial Agency
william.beardmore@knightfrank.com

Lord Andrew Hay
Residential
andrew.hay@knightfrank.com

Rupert Johnson
Valuation & Advisory
rupert.johnson@knightfrank.com

Anthony Duggan
Consultancy
anthony.duggan@knightfrank.com

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Please note that this report has been published at a time of heightened geo-political and financial markets risks. These risks include the trade confrontation between the US and China, evidence that the Chinese economy may be slowing, the move towards Brexit in the UK, the Italian government's budget, volatile equity markets, and the expectation that many leading developed economies could see rate hikes in the future. A future deterioration in any of these factors could adversely impact the forecasts published in this report.