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## Global Real Estate Trends, Brexit and Opportunities for 2016/2017

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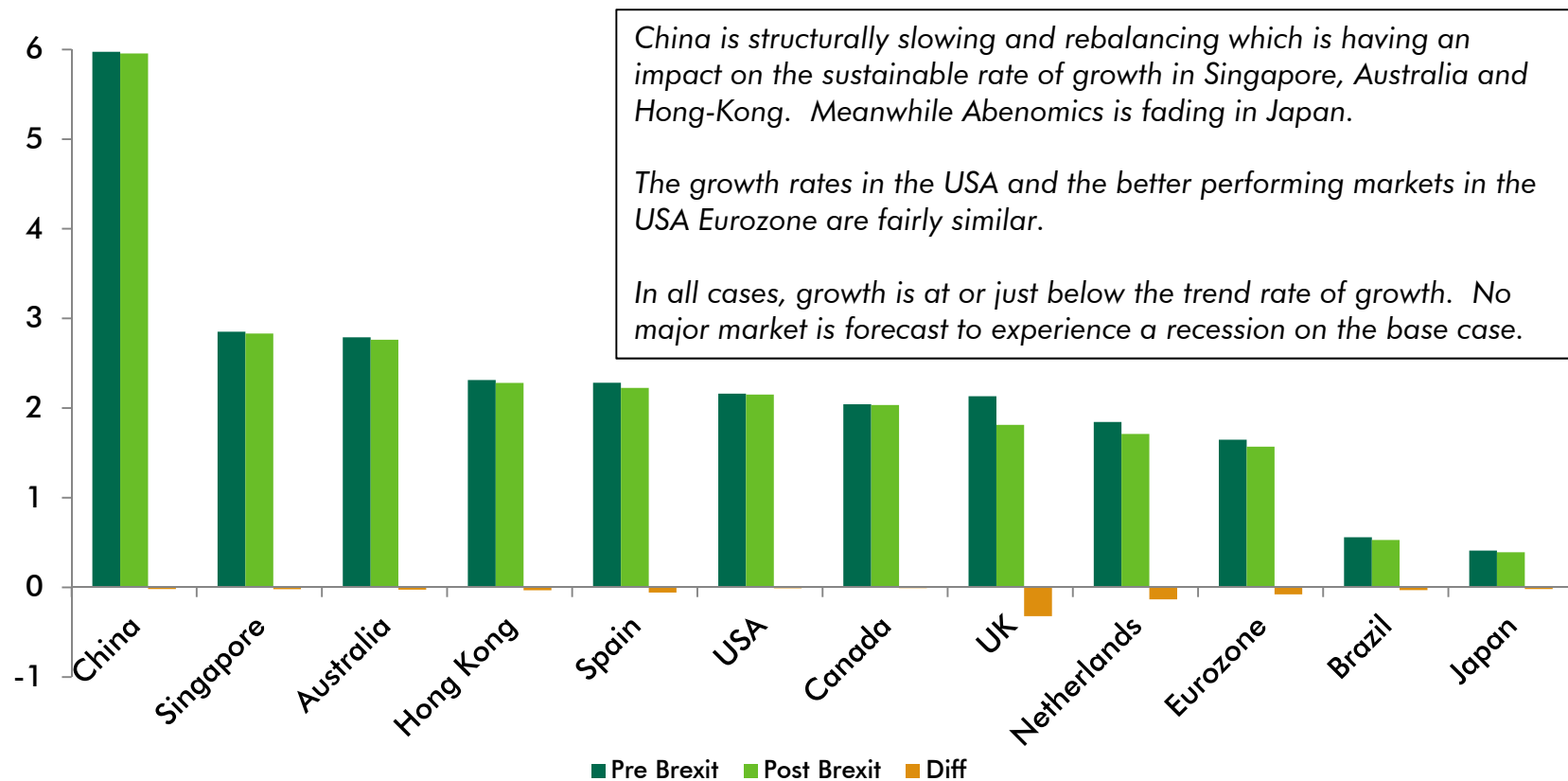
# BREXIT & THE OUTLOOK FOR GLOBAL REAL ESTATE MARKETS

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**CBRE**  
GLOBAL  
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# The Base Case Outlook Is Pretty Boring & Benign

Major Market GDP Forecasts, 2016-2020, % PA.



Source: Oxford Economic Forecasting.

## But Confidence In The Base Case Is Unusually Low

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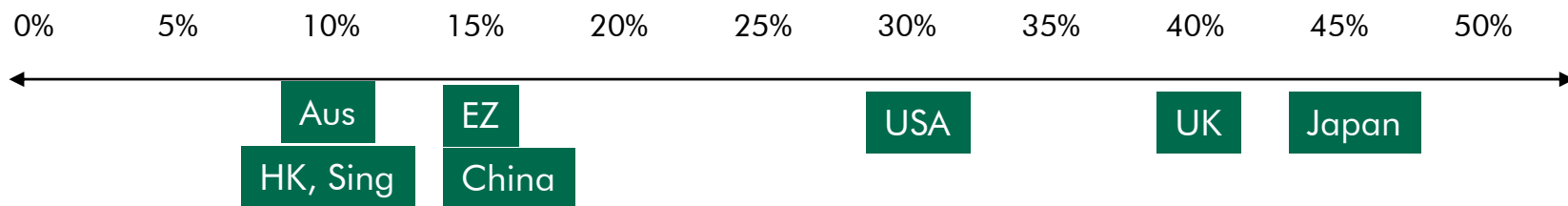
### WE LIVE IN A HIGHLY UNCERTAIN WORLD

- Powerful deflationary forces
- Elevated leverage
- Massive central bank distortion of asset prices
- Damaged banking system
- Poor demographics
- Heightened social division

### FORECASTING UNCERTAINTY

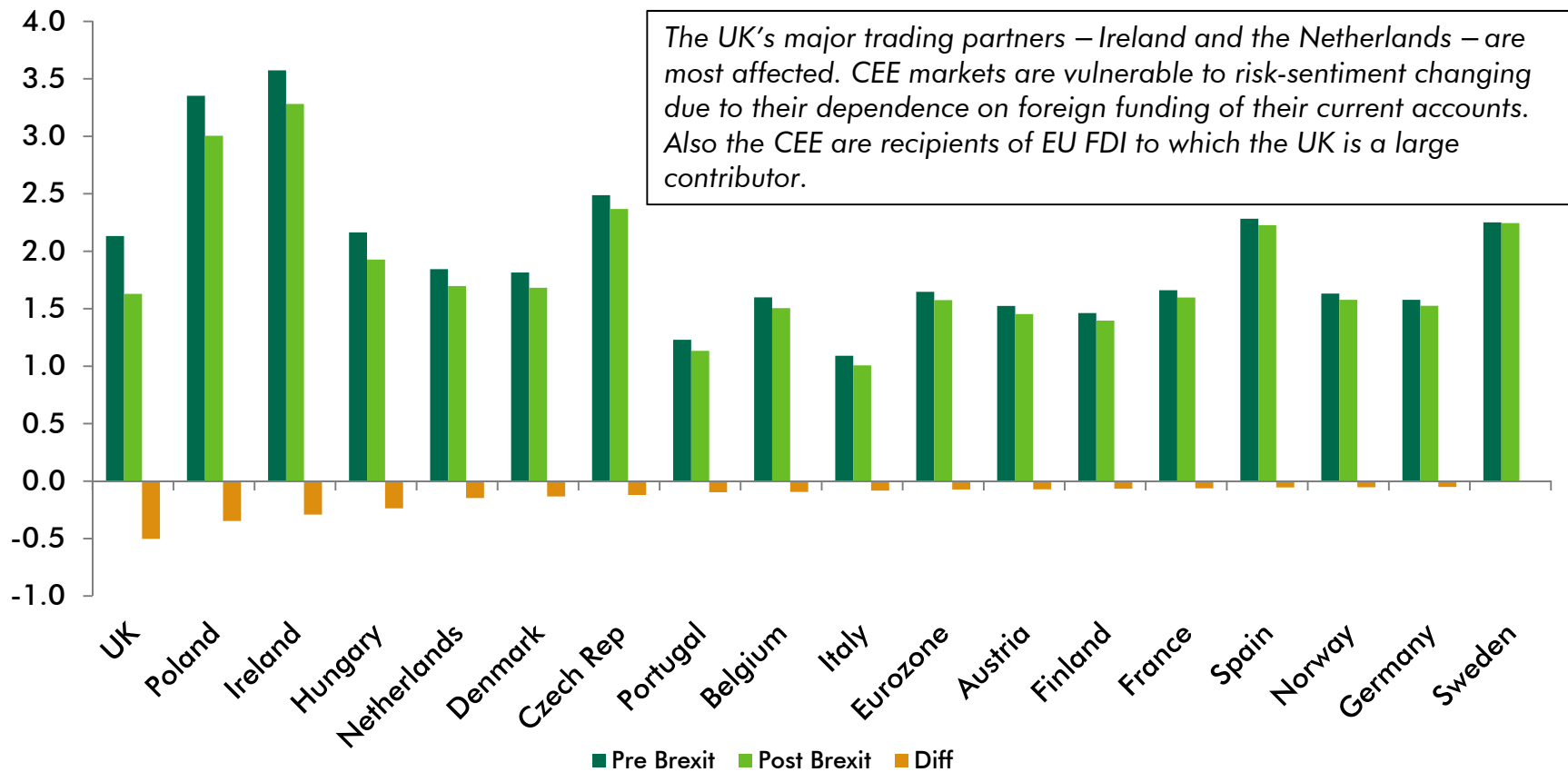
- The OEF only assigns a 45% probability to the base case (historic average c60%)

### PROBABILITY OF MAJOR MARKETS FALLING INTO RECESSION



# The Macro Demand Impact Of Brexit Is Marginal In Most Markets

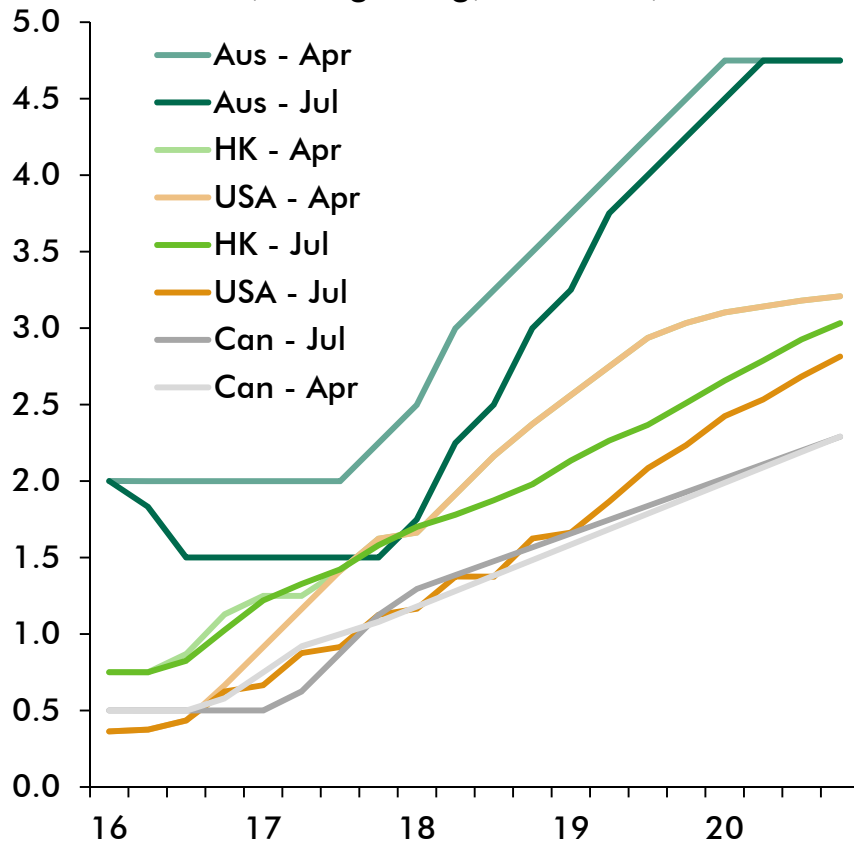
GDP Forecast, % pa, 2016-2020.



Source: Oxford Economic Forecasting.

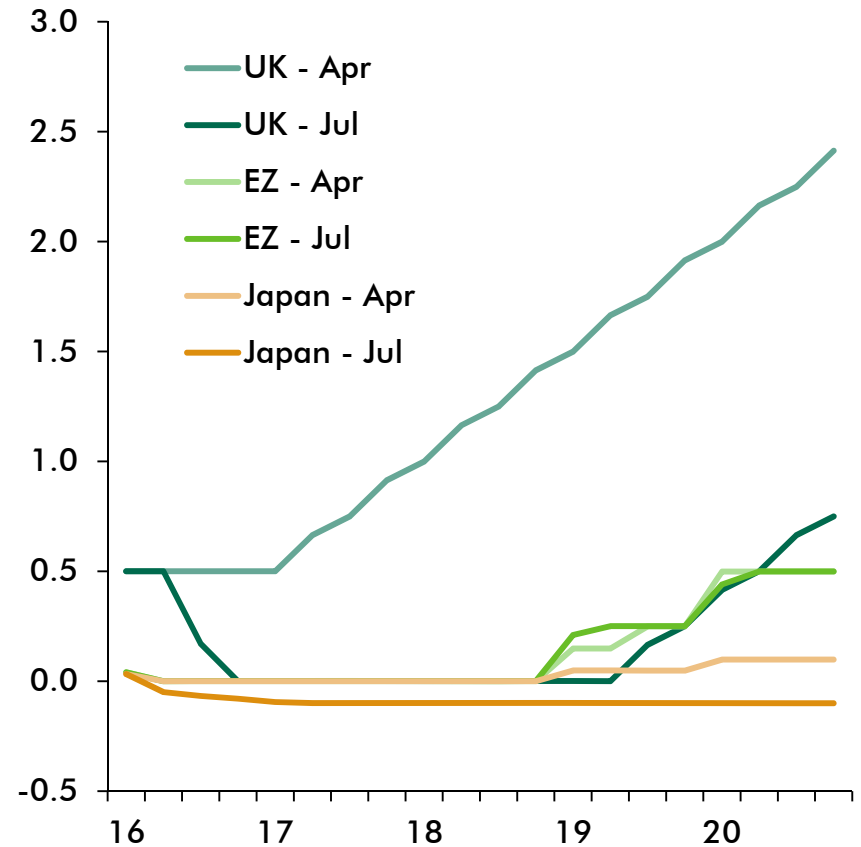
# The Major Impact Has Been On Monetary Policy Forecasts

Central Bank Policy Rates, % -  
USA, Hong Kong, Australia, Canada.



Source: Oxford Economic Forecasting.

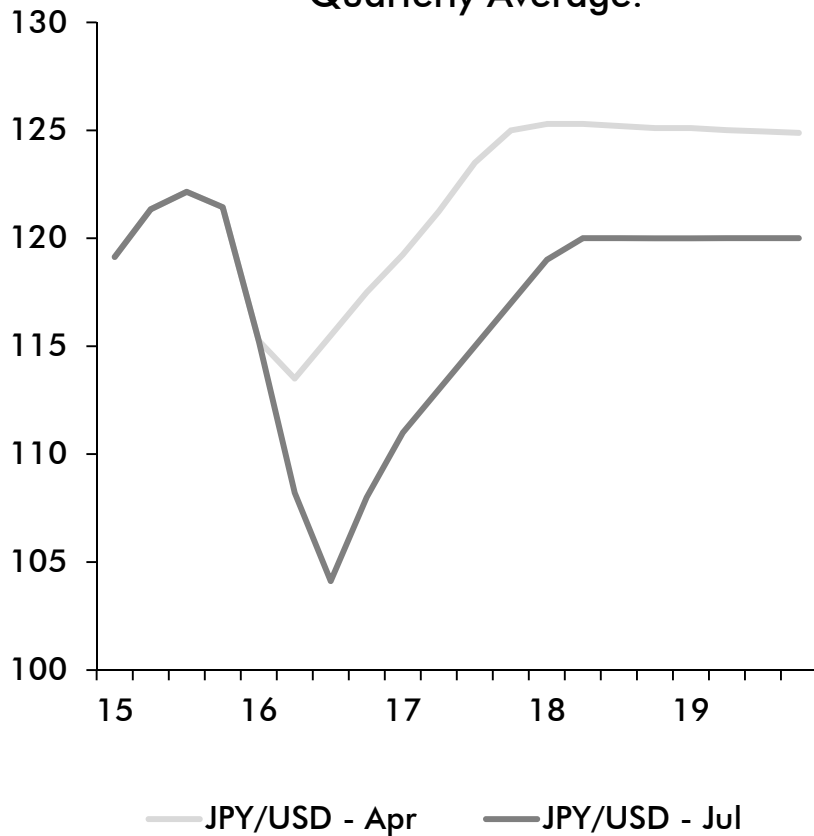
Central Bank Policy Rates, % -  
Eurozone, UK, Japan.



Source: Oxford Economic Forecasting.

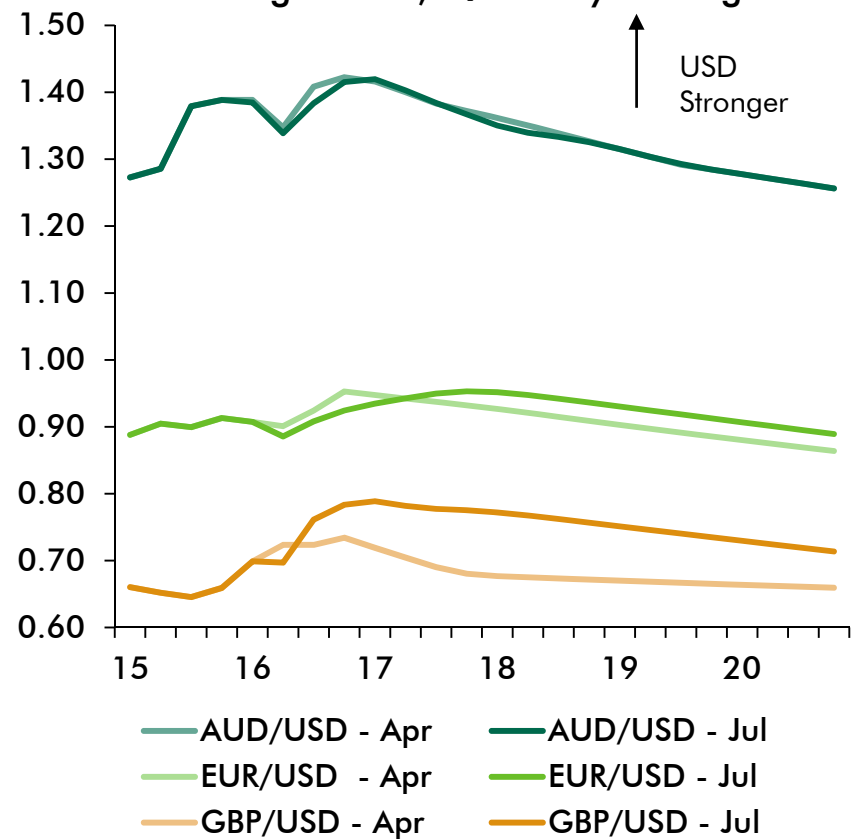
# Cheap Sterling Is A VERY Powerful Automatic Stabilizer

JPY/USD Exchange Rate, Quarterly Average.



Source: Oxford Economic Forecasting.

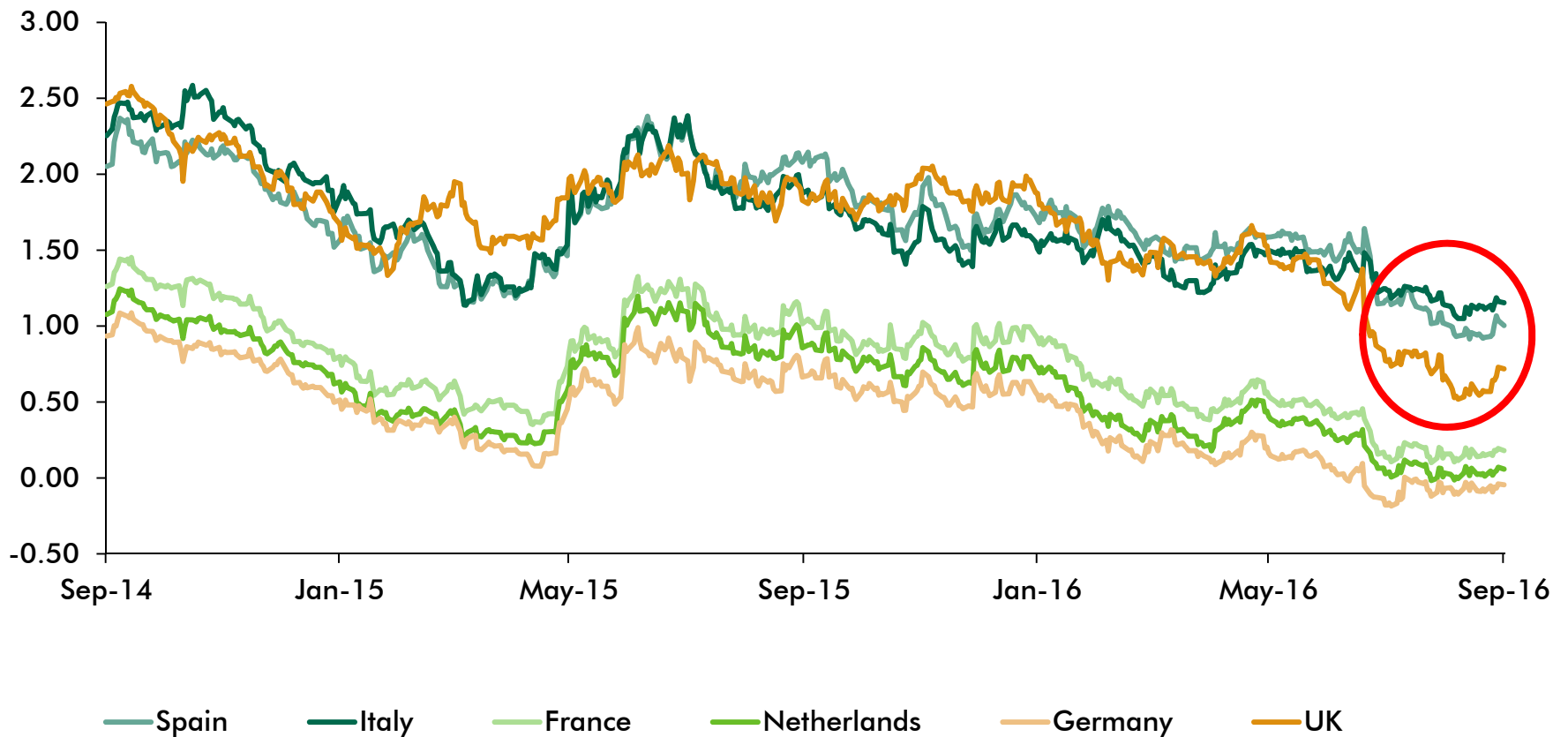
Aussie Dollar, Euro & Sterling Exchange Rates, Quarterly Average.



Source: Oxford Economic Forecasting.

# Manipulated Bond Yields Continue To Force Capital Into Real Estate

10 Year Government Bond Yields, %.



Source: Reuters.



# The UK Economy Is Outperforming Admittedly Awful Expectations

## Citi Economic Surprise Index - UK.



The Citigroup Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance [been] beating consensus. The indices are calculated daily in a rolling three-month window. The weights of economic indicators are derived from relative high-frequency spot FX impacts of 1 standard deviation data surprises. The indices also employ a time decay function to replicate the limited memory of markets.

Source: Citi

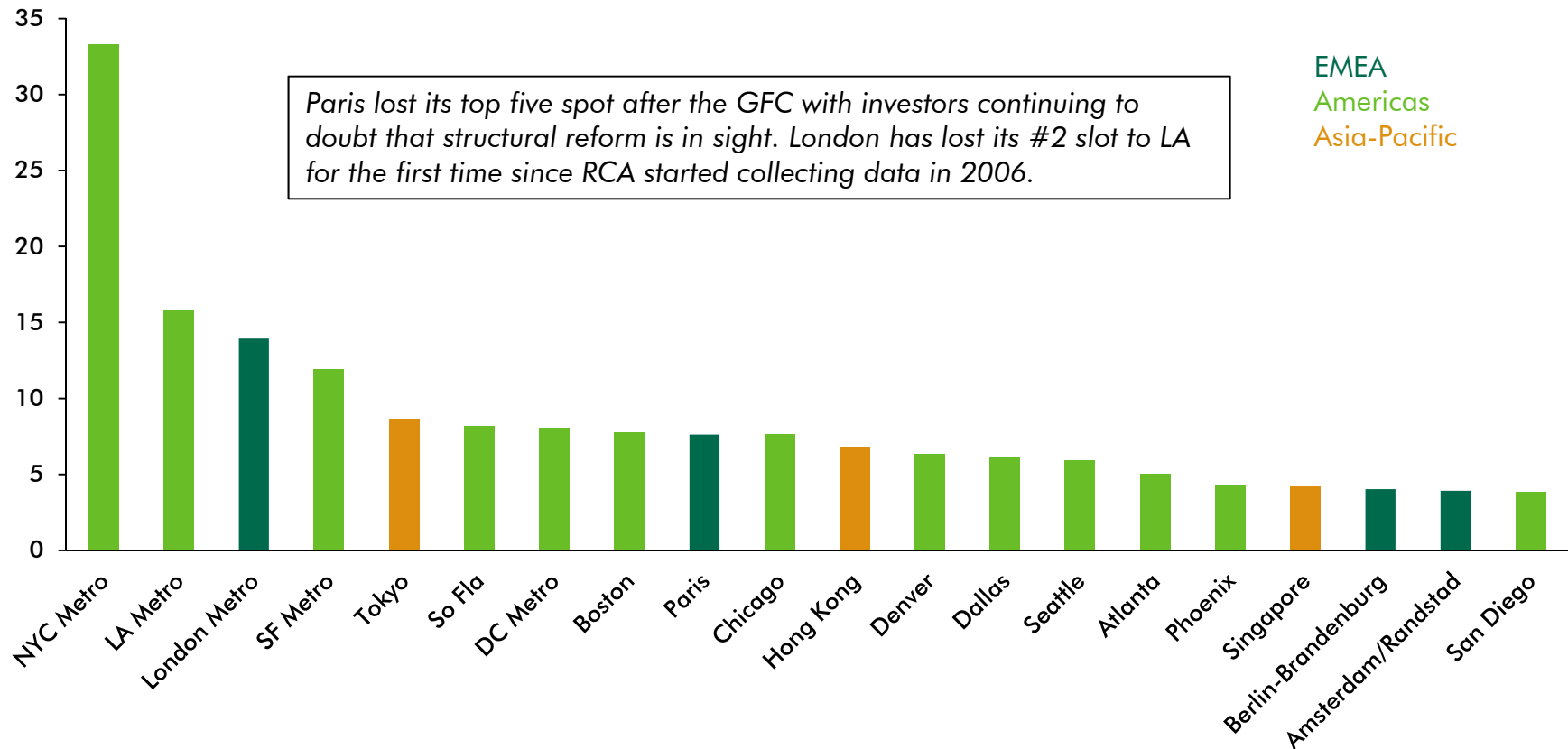
## European CRE Markets Are At Risk From Another Political Surprise

Country	Date	Risk
Spain	June 26 <sup>th</sup> 2016	Parliamentary elections could bring in a left-wing populist anti-austerity party promising <b>Catalonia an independence referendum</b> . This would severely undermine both the stability of the economy but the investment case of buying into a structurally reforming market.
Czech Republic	October 2016	Two rounds of Senatorial elections in a country notorious for its opposition to joining the Euro but very close links to the Germany.
Italy	TBD October 2016	A <b>constitutional referendum</b> mandating massive reform of the Senatorial system to enable the reformist Prime Minister Matteo Renzi to initiate badly needed structural reforms. A loss would be seen as bad for the economic outlook. If Renzi lost he would likely resign as PM.
Germany	TBD February 2017	Presidential elections – ceremonial role but as Austria showed this could still provide a valve for a protest vote with the far right Alternative For Germany (AfD) polling well.
Netherlands	By 15 <sup>th</sup> March 2017	Parliamentary elections. Geert Wilders' far right Freedom Party is vocally calling for a <b>NEXIT referendum</b> – immigration a key issue.
France	23 <sup>rd</sup> April & 11 <sup>th</sup> June 2017	Presidential election. Marine le Pen's far right <b>National Front</b> almost guaranteed to go through to the second-round run-off – the question is whether she could actually win. She will likely campaign on the promise of a <b>FREXIT</b> referendum.
Hungary	TBD April 2017	A further large majority for the far right President Victor Orban is expected. Orban has already said he is considering a <b>referendum on leaving the Schengen Area</b> rather than the EU as a whole, but free movement of labour is seen as a non-negotiable issue by the European Commission. Note Orban's close ties to Putin.

Source: National governments.

# London Lost Its #2 Position To LA In H1 2016

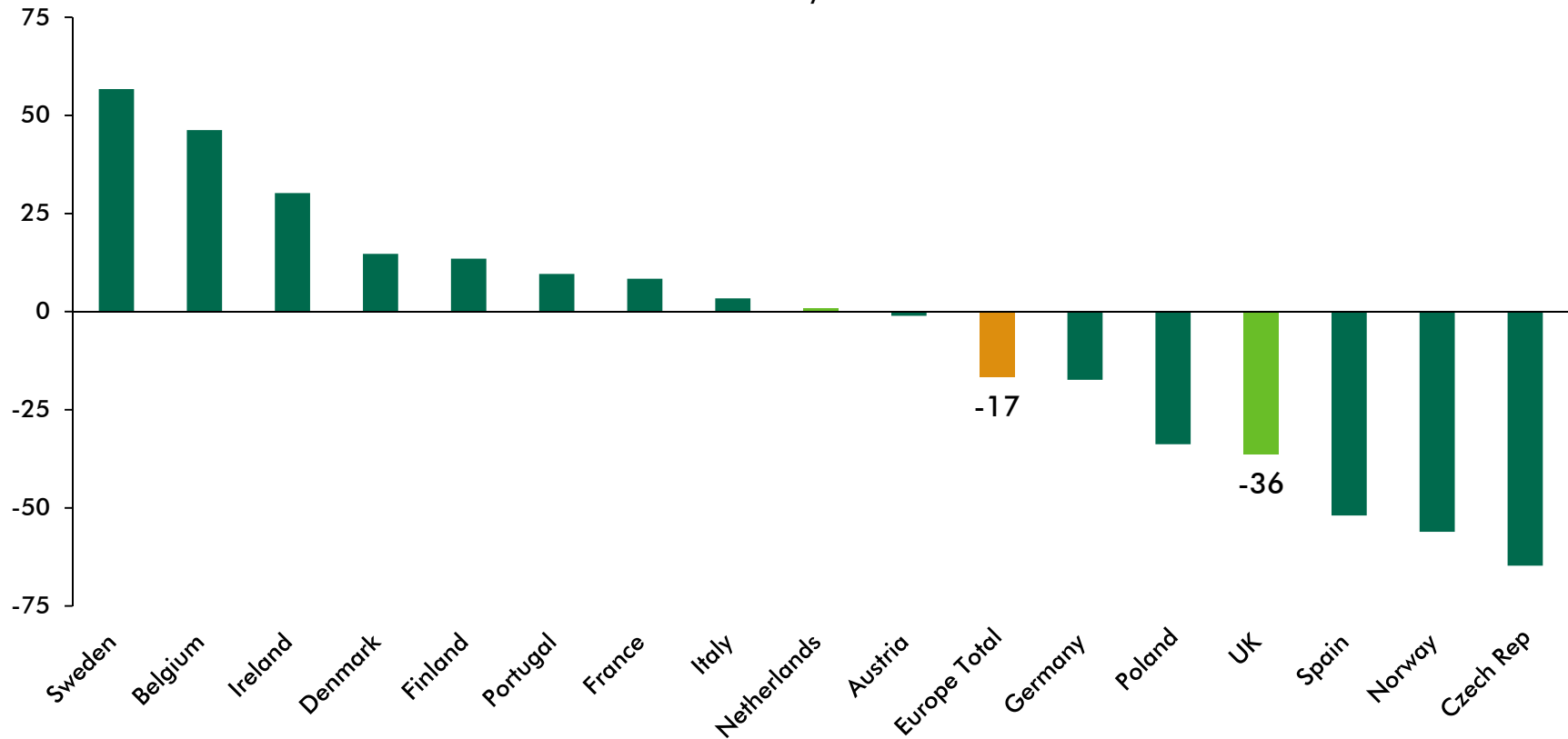
Metro Areas With The Highest Deal Volume In H1 2016 – USD bn.



Source: Real Capital Analytics.

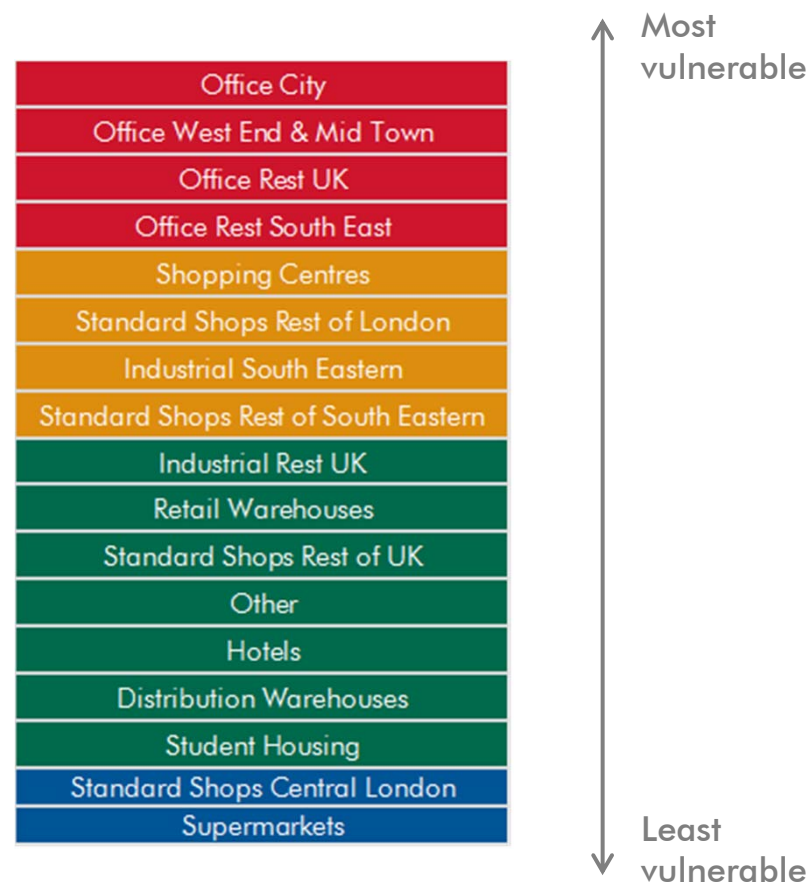
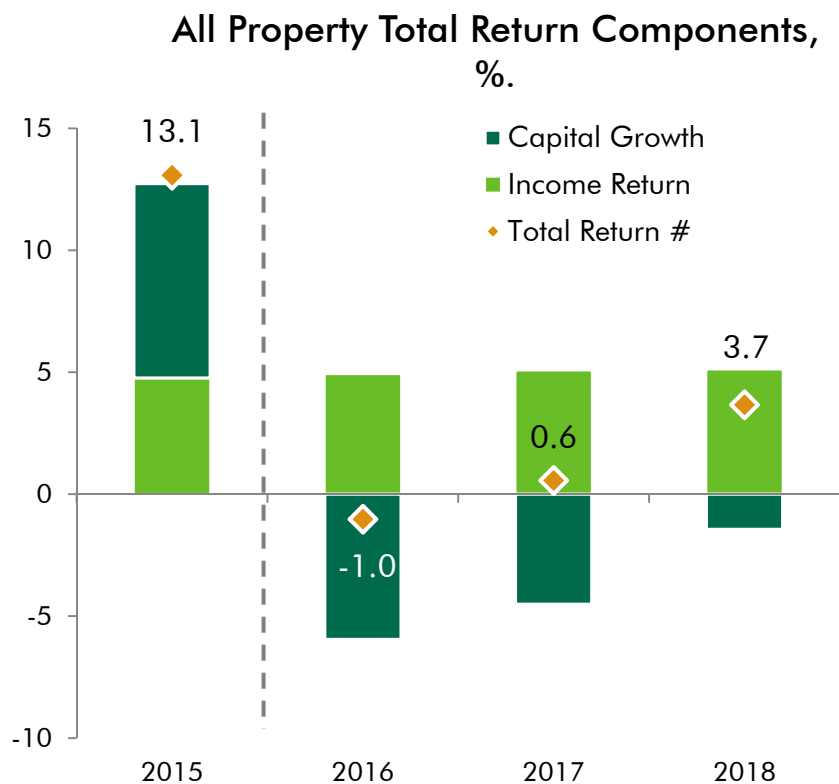
# The UK Was A Major, But Not The Only, Drag On Deals

Investment Volumes By Country,  
% H1 16/H1 15.



Source: CBRE EMEA Research.

# BREXIT Accelerates The UK Downturn We Were Already Expecting



Source: IPD Annual Index, CBRE Global Investors June 2016

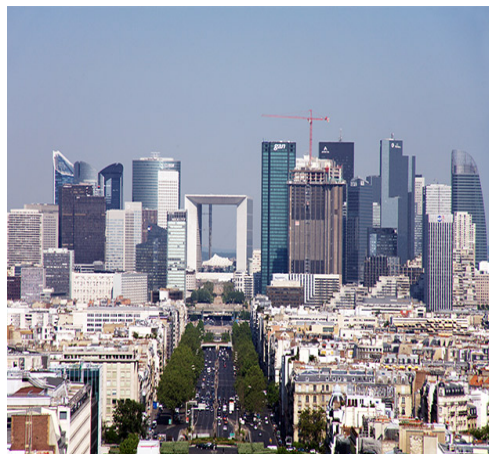
## Central London Offices Facing The Perfect Storm?

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- Peak pricing achieved
- A slowdown in growth?
- A 2018/19 supply glut
- Uncertainty associated with the EU Referendum
- Business rates revaluation

# City Winners And A More General Flight To Quality

	Frankfurt	Paris	Dublin	Amsterdam	Luxembourg
Fund Management			●		●
Derivatives	●				
Shares	●	●		●	
Euro fx	No Clear Alternative to London				
Banking	●		●		●
Insurance	●	●			
Hedge Funds	Likely to be less affected				



Sources: PMA, FT.com

□The sensible choice [for businesses] is not to stay in a land that could leave Europe one day but to make a choice to invest long term in a land that will always stay in Europe□

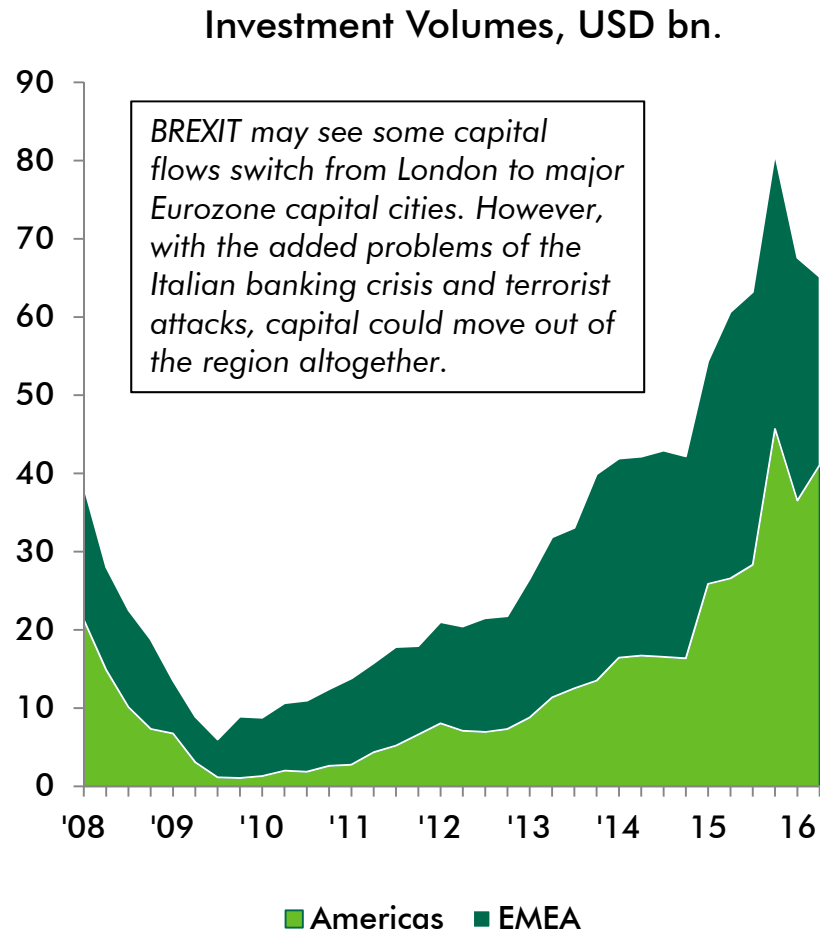
**Valérie Pécresse**  
President of Île-de-France region

□London is 10 times the size of Frankfurt, if just 1% of its business comes here [to Frankfurt], that would be a 10% increase for us□

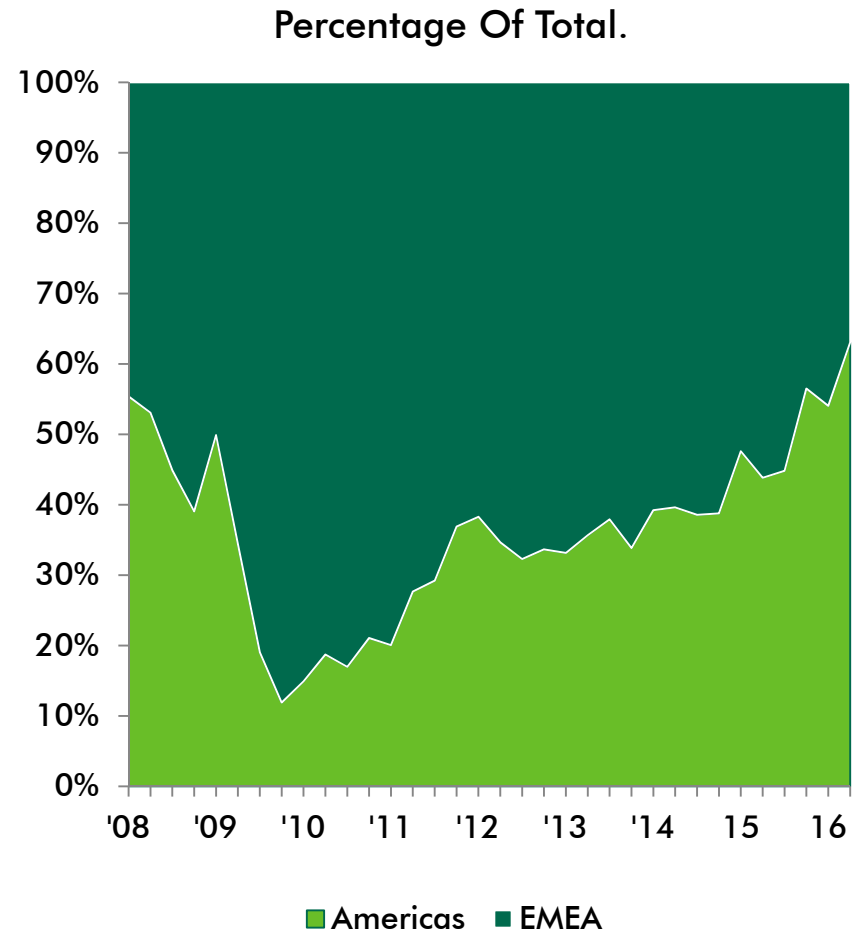
**Hubertus Vath**  
President of Frankfurt's financial industry organization



# Or Does Europe Lose Out In General?



Source: Real Capital Analytics.



Source: Real Capital Analytics.



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