AVISON YOUNG

2020 FORECAST

UNITED KINGDOM

LONDON

Contents

Ten trends you need to know about for 2020

National and local property market outlooks

#1

Lower for longer

LIVING WITH LOW INTEREST RATES

With inflation seemingly nailed to the floor across most of the western world, there are few signs that interest rates are set to rise any time soon[1]. "Lower for (even) longer" remains the mantra for investors.

On the surface it's a great environment for property investing; low interest rates offer a warm bath for real estate, keeping it competitive against other asset classes[2]. Capital continues to flow into the sector, as investors seek out the unique combination of income return and capital preservation that real estate offers over time[3].

But with the real estate cycle slipping into its second decade, the uncertainty felt by many investors about whether current pricing is sustainable seems justified. Real estate might be enjoying an extended period of popularity, but in large part this is due to the backdrop of economic weakness (hence low interest rates) and heightened political uncertainty across the globe – issues which also bring risks for the property sector.

A slowing global economy, with few signs of a sustained pickup in global trade, will impact occupier demand. Productivity growth has been low and while unemployment levels have fallen sharply in many countries, inflation has not risen meaningfully[4].

Central banks currently have little ability to raise interest rates, robbing them of room to manoeuvre if – or more likely when – a slowdown turns into a recession[5]. With governments seemingly devoid of effective policy initiatives, the impact on rental income in the event of a protracted recession could be significant and prolonged.

So, what's the answer for real estate? Avoid investing at these historically high prices? We think not, for several reasons.

First, while risks are apparent, a significant recession does not look imminent. Downturns are most often triggered by interest rate rises, following a bout of inflation due to excessive growth, which is hardly the case at present[6]. Shocks are always a possibility – but the risk of an all-out trade war seems to be receding. Markets may fluctuate, but a huge pool of Asian capital lies waiting to invest in good quality assets when the opportunity arises, which will help provide a floor for values[7]. Conditions hardly appear "set fair" but the external drivers pushing investors towards real estate are likely to remain in place for a while yet. Second, in most markets there are few signs of overbuilding or "irrational exuberance" in the structuring and financing of real estate transactions. The triggers for the periodic self-destruction that characterised many previous real estate cycles are largely absent. Real estate remains vulnerable to economic and political events, globally and at home, but the same is true of other asset classes. Income is king, so investors should go "back to basics" with a laser focus on managing properties and tenants well, and stress-testing their financing against future turmoil in the credit markets.

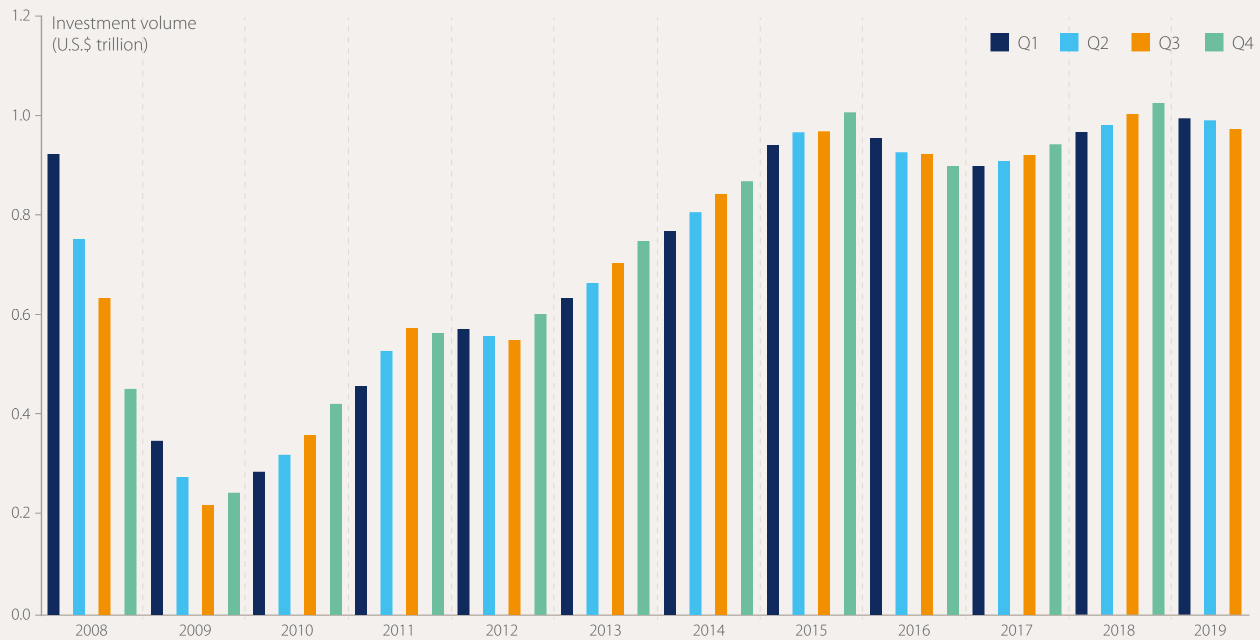
Third, savvy investors are seeking out new channels of opportunity. Climate change, impact investing, placemaking, the technological revolution and a host of other issues are reshaping our economies and cities.

They bring new challenges, but also new opportunities to create sustainable long-term value in the built environment[8]. Those who accurately detect the current shifting of the tides, and swim with the stream rather than against it, will prosper.

The search for yield continues. Indeed, further yield compression is expected on secure, long-duration assets that still look attractively priced relative to fixed income. But investors need to enter the market with their eyes wide open to the potential downsides, and with clear strategies in place to weather the turbulence that may be lurking over the horizon.

> **On the surface it's a great environment for property investing; low interest rates offer a warm bath for real estate, keeping it competitive against other asset classes**

12 MONTH ROLLING GLOBAL INVESTMENT VOLUME



Source: Real Capital Analytics

#2

Power to the people

HOW POPULISM IS CHANGING THE WORLD

With the U.S. in election mode, Britain still struggling with Brexit negotiations and discontent still rife across huge swathes of the global political landscape, 2020 will be another year when the fallout from populism will be distracting governments from attending to some of its root causes.

When the Developed World Populism Index concluded in 2017 that populism was at its highest levels since the late 1930s[1], many feared an impending avalanche of political extremism. The successes of U.S President Trump and Nigel Farage, leader of the U.K.'s Brexit Party, gave new impetus to the populist coalitions emerging across a range of countries – but a series of subsequent national elections failed to deliver the dramatic changes of government that once looked likely[2]. Europe, in particular, breathed a sigh of relief.

The sense that a bullet had been dodged was, and remains, misplaced. The underlying issues which drove populist movements haven't gone away – quite the opposite. Populist politicians typically prosper during periods of general discontent by focussing on one or two key issues that resonate most strongly with the electorate: big business, big government, immigration, regional independence, climate change…whatever happens to be the issue du jour[3].

This explains why populism often creates coalitions which transcend conventional political divides; the far Right and far Left coalesce around something they have in common, albeit for different reasons - politics does indeed make strange bedfellows. If anything, the range and strength of populist groups is increasing.

The fact that such movements rarely end up forming a national government misses the point. Mainstream parties are scrambling to claw back support, and thus the populist agenda becomes incorporated into mainstream manifestos. The objectives may be watered down a little to appeal to a broader cross-section of the electorate, but the populists are succeeding in changing the focus of the political agenda.

Where the shift in position is measured, thoughtful and strategic in nature, this process should be welcomed. However unpalatable the rhetoric may be to some, this is democracy in action: politicians responding to the "will of the people". But problems can arise when knee-jerk policies are introduced to tackle specific issues, not recognizing – or wilfully ignoring – the unintended consequences that may follow.

Real estate often finds itself caught up in this process, which is increasingly playing out on the local rather than national stage. City authorities are stepping in where central governments fear to tread. Housing affordability is a case in point: Berlin has already announced a residential rent freeze for five years and New York has expanded its housing rent controls to cover around one million units[4]. In London, Mayor Sadiq Khan intends to make rent controls a cornerstone of his 2020 re-election campaign[5].

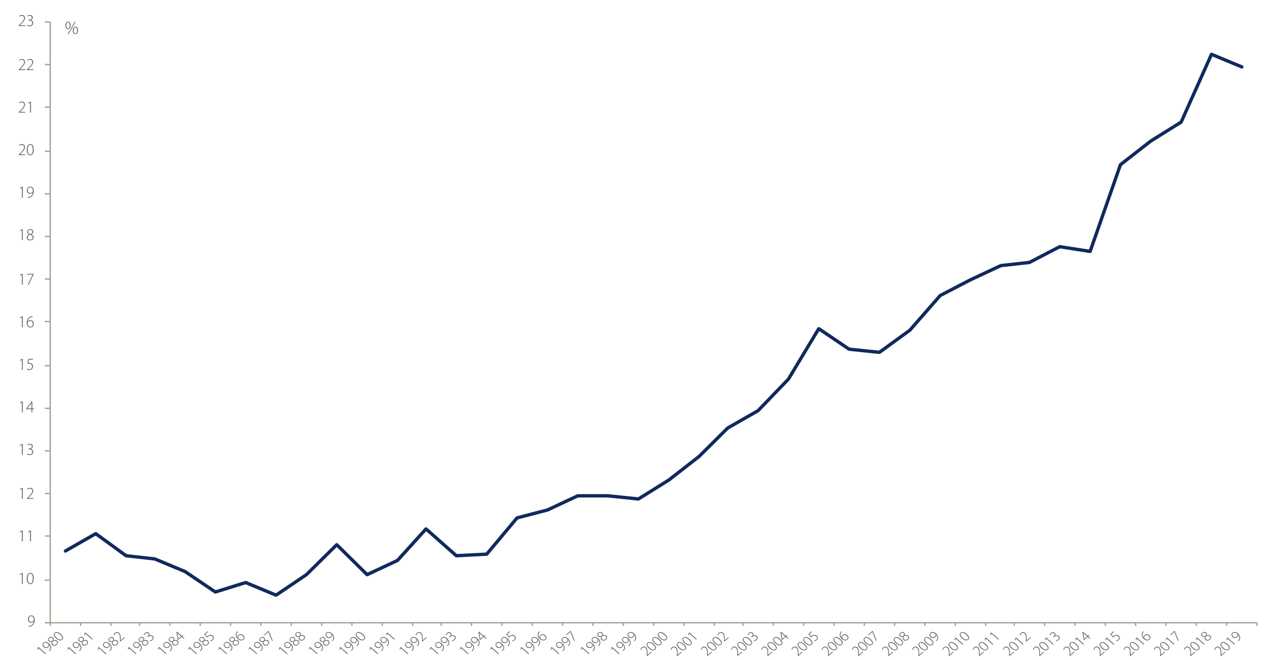
Economists may continue to debate the effectiveness of such measures – the research evidence is mixed[6] - but landlords are left dealing with the immediate impact on the market.

Cities will also continue to take the lead on climate change, bypassing central government inertia on the topic. CDP, a non-profit organization, which supports environmental reporting by cities and corporates, notes that five cities including Paris, San Francisco and Canberra have set 100% renewable energy targets city-wide, while thirteen cities including Boston and Sydney plan to be climate or carbon neutral by 2050[7].

Whatever their views on the issues concerned or the effectiveness of particular policies, landlords, developers and occupiers need to pay increasing attention to local political activism, as today's street protests increasingly signal tomorrow's policy initiatives.

Landlords, developers and occupiers need to pay increasing attention to local political activism, as today's street protests increasingly signal tomorrow's policy initiatives

AVERAGE VOTE SHARE OF POPULIST PARTIES IN ELECTIONS ACROSS EUROPE



Source: Timbro Authoritarian Populism Index (2019)

#3

(De) globalization

A PARADIGM SHIFT?

Globalization's most significant impact on the real estate sector has been the rapid growth in cross border flows of capital into investment markets around the world[1]. While they may fluctuate in the short term, these flows are set to accelerate over the coming years as rising wealth in Asia targets investment grade real estate in the west.

Occupational markets have also been transformed. Globalization has been the defining feature of the business environment of the last 50 years, as corporates have expanded into new markets, production and back-office functions have been offshored and supply chains have internationalized. Here, however, the longer-term trend may be shifting. Heading into 2020, multinational companies are rethinking global footprints to find a new balance between cost-efficiency and business effectiveness[2]. Consumer demands for greater social and environmental awareness from the companies they buy from are encouraging a shift in priorities[3].

On average, affluence and living standards have benefitted hugely from the rapid internationalization of almost every aspect of trade and commerce[4]. But averages can be misleading. Many parts of Western Europe and North America continue to struggle with the impacts of de-industrialization. The benefits of economic growth have not been uniform; perceived inequality has risen sharply[5] and the financial crisis has left lasting scars.

Reactions against the "globalization of culture" used to be viewed as a distinctly xenophobic phenomenon – yet consumers across the globe are seeking out authentic local products and pushing back against the uniform array of multinational brands that typify many shopping centers. The frustration of dealing with a call center halfway round the world is felt by many.

Even from a purely economic standpoint, globalization feels past its peak[6]. The world has already wrung most of the "quick wins" from expanding the reach of World Trade Organization (WTO) rules. The same can be said of the efficiencies to be gained from off-shoring manufacturing and streamlining global supply chains[7].

Political calls to "bring home our manufacturing" play well to a populist audience, but they echo thinking already taking place in many boardrooms[8]. The fact that those new facilities may house more robots than traditional employees gets less publicity. But global companies who are seen as destroying jobs in their home country, unfairly avoiding taxes or ignoring the carbon footprint of their activities are damaging their brand in the eyes of a new generation of customers.

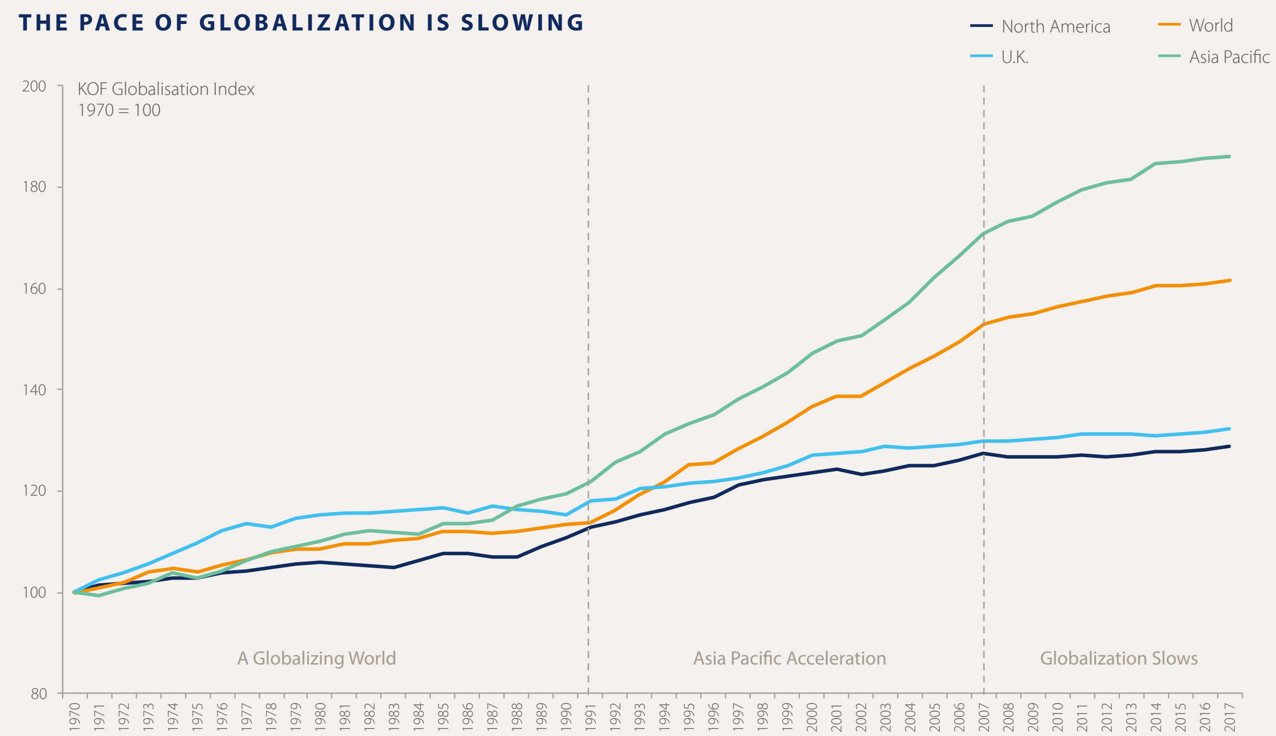
The resulting shift in favor of localization – or at least regionalization – of activities may only be evident at the margins for now, but it is gathering pace. Nearshoring has a commercial imperative; it enables shorter delivery times and greater localization of products, allowing companies to meet consumer demands and react to trends more quickly.

The implications for real estate are profound. Manufacturing facilities (if not necessarily employment) will see renewed demand. Logistics networks will focus more on integrating local and regional hubs, rather than simply connecting efficiently to major ports that are the gateways from Asia. Shopping centers offering a wider range of locally sourced food and beverage, products and services will be differentiated from their competitors, breathing new life into a retail sector desperately in need of reinvigoration.

Globalization is not dead, but it is changing. Investment capital will continue to flow around the globe. But for occupiers, integrating operations in different parts of the world will focus on maximizing quality, access to talent and innovation rather than solely on cost reduction[9].

Nearshoring has a commercial imperative; it enables shorter delivery times and greater localization of products, allowing companies to meet consumer demands and react to trends more quickly

THE PACE OF GLOBALIZATION IS SLOWING



KOF Globalisation Index[10], Avison Young

#4

Building resilience

CITY RESPONSES TO CLIMATE CHANGE

As warning signs of an ongoing climate emergency are becoming more dire and harder to ignore, it is no longer just the scientific community sounding the alarm. Radicalized social protest movements, climate activists young and old and even municipal politicians and bureaucrats are joining the vast majority of the world's climate scientists in reaching a consensus and understanding of the potential social and economic costs of climate change.

The demand for a response is growing, and cities around the globe are developing urban resilience strategies to ensure economic, social and environmental sustainability. They are recognizing their responsibility to mitigate the impacts of extreme weather events on local people, property and infrastructure. By 2030, according to the UN, unless there is significant investment to make cities more resilient, natural disasters may cost cities worldwide $314 billion annually and climate change could push up to 77 million more city residents into poverty[1]; lower income groups tend to be worst affected by climate change, and least able to recover from the effects[2].

Urban authorities also need to adopt meaningful regulation to compel more sustainable development, and to champion the use of technology to measure and reduce energy consumption and emissions from buildings.

Cities have started working together on the issue. The C40 Cities Climate Leadership Group, comprising 94 cities around the world that represent a quarter of the global economy and 70% of the global CO_2 emissions[3], is one such powerful agent for change. Canadian cities including Montreal, Toronto, Vancouver and Calgary have appointed chief resilience officers (CROs) and are developing localized strategies thanks to their involvement in the 100 Resilient Cities Network[4].

The World Green Building Council and the International Energy Agency have highlighted the need for the built-environment sector to significantly reduce its carbon footprint and emissions[5]. New York City's Climate Mobilization Act, which was passed in April 2019, could prove a game changer for North America. It sets a carbon emissions limit for large NYC buildings, and will provide a model for other global cities to emulate[6]. In 2019, the U.K. became the first major economy in the world to pass laws mandating net zero greenhouse gas (GHG) emissions by 2050 and cities such as Nottingham, Bristol, Oxford, Cambridge and Manchester all have ambitions to reach net zero GHG emissions through more localized initiatives[7].

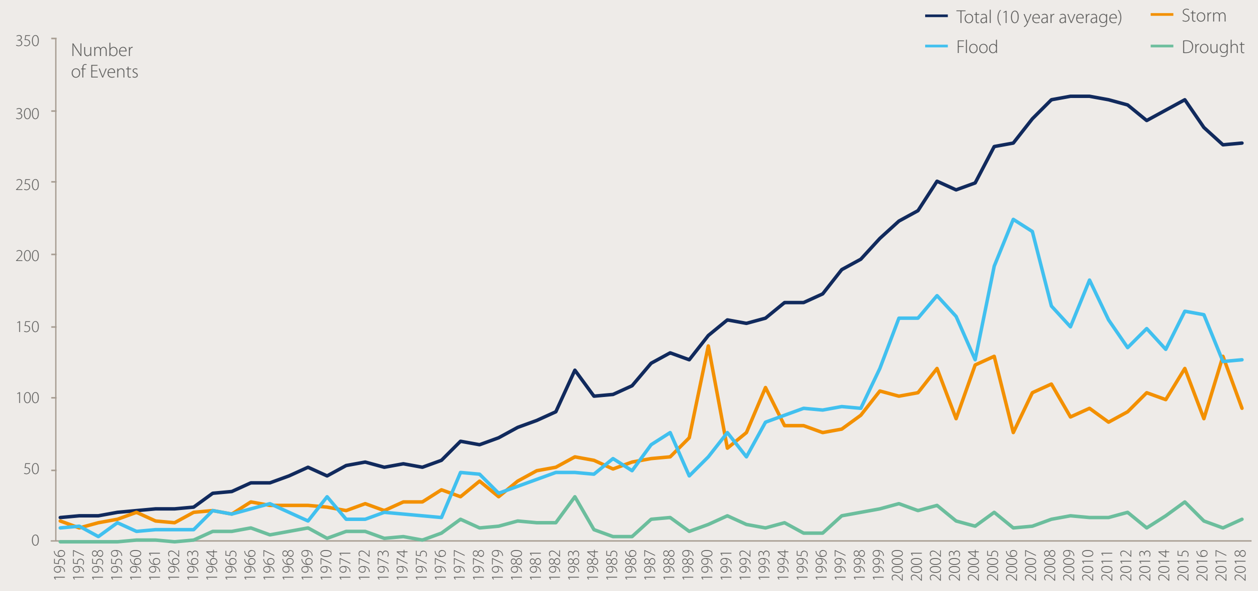
Adopting urban resilience strategies represents a fundamental shift in how we build cities. It will require substantial funding from both the public and private sector, creating significant finance and investment opportunities for private and institutional real estate investors.

It will also need specialized construction and project management expertise to tackle new technologies, building codes and materials[8]. Existing assets will need to be refurbished and retrofitted to meet updated emissions targets. All this will drive demand for new service offerings; from benchmarking of new technology and construction standards to educating the investment industry on which assets will not only deliver strong returns but contribute to the sustainability and health of our built environment.

The introduction of new policies and regulations may be a challenge for the unprepared. However, the real estate industry is perfectly placed to lead a major component of our response to the climate emergency. Around 70% of the global population will live in cities by 2050[9], yet 60% of that new urban settlement has yet to be built[10]. The challenge is also a huge opportunity.

The demand for a response is growing, and cities around the globe are developing urban resilience strategies to ensure economic, social and environmental sustainability

EXTREME WEATHER EVENTS (GLOBAL)



Source: The Emergency Events Database (2019)

#5

(Place)making an impact

SOCIALLY RESPONSIBLE INVESTING

In recent years, we've seen growing recognition of the power of good placemaking in creating vibrant and successful developments and neighborhoods. In 2020 the focus on "place" will increase, accelerated by an emerging priority amongst institutional investors: impact investing.

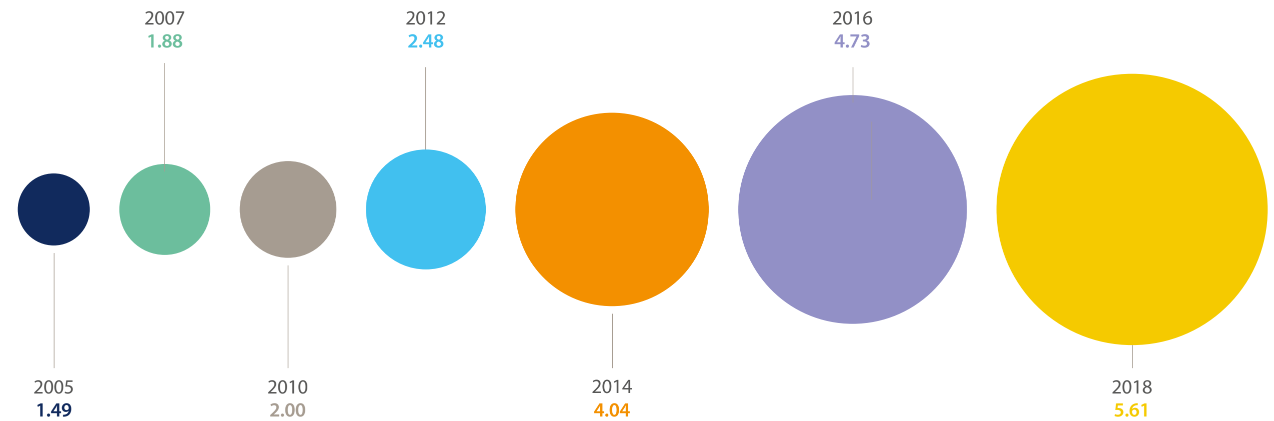
Successful placemaking requires a deeply considered, multi-dimensional response to the factors that come together to create liveable, sustainable and vibrant neighborhoods that are embodied by – and rooted in – the built environment[1].

Mixed-use schemes have long sought to capitalise on the potential benefits of combining multiple occupational uses within a single development. Contemporary thinking now recognizes that a new property development offers opportunities to go further in providing a local response to issues of growing community concern[2].

They can address concerns such as the environment and climate change; housing affordability and social exclusion; and a pushback by corporate occupiers and individuals against inauthentic, sterile environments with no "sense of place".

Private sector recognition that this can enhance rather than detract from return on investment parallels a shift in government policymaking on both sides of the Atlantic. In the U.S., the government is encouraging investors to consider social impact by offering tax breaks for development in 8,700 "opportunity zones" to support underserved communities[3].

ASSETS MANAGED UNDER ESG* CRITERIA BY U.S. INSTITUTIONS (U.S.$ TRILLION)



Source: US SIF Forum for Sustainable Investing (2018)

**ESG: Environmental, Social, Governance*

In the U.K., the Social Value Act commands the public sector to deliver social, economic and environmental benefits with each project[4]. As a major client and partner for placemaking and regeneration projects, the public sector is beginning to influence the delivery of social outcomes at scale.

More broadly, we are seeing a societal shift in attitudes towards the very nature of capitalism. The ongoing aftermath of the financial crisis coupled with rising concern over climate change and social equality are fuelling a surge in populist politics that is challenging conventional free-market economics[5]. Consumers, clients and employees – particularly from younger generations – increasingly demand that the organizations they deal with recognize their wider obligations to society[6]. Companies that have a "sense of purpose" embedded in their culture will increasingly be at an advantage. Last year, over 180 top U.S. CEOs signed up to a new Statement on the Purpose of a Corporation, committing their companies to operate not just for their shareholders, but for the benefit of all stakeholders – including customers, employees, suppliers, and communities[7]. Corporate attitudes are clearly changing.

Interestingly, this parallels a shift which is starting to occur within the real estate investment community. The growing interest in socially responsible investing is now being focused on "impact investing" – investment undertaken in order to generate specific social or environmental benefits in addition to financial gains[8]. At present, investors seeking such opportunities are leaning into sectors such as later living, affordable housing and healthcare, all of which have obvious social outcomes but are still within the traditional sphere of investing.

More individuals are now focussing on the SRI credentials of the funds and organizations they choose to invest their savings and pensions with. As the level and sophistication of scrutiny increases, institutional investors seeking to tap into this growing pool of funds will have to make genuine efforts to balance social outcomes with financial ones.

The interests of various players therefore seem to be converging. Schemes and neighborhoods where placemaking has created positive environments, combining multiple uses and respecting local communities, are likely to be more commercially successful[9, 10]. Where they are also seen as socially and environmentally responsive, they will be doubly attractive to the talent occupiers are competing for. They therefore offer the kind of investments that tick multiple boxes for institutional investors desperately searching for yield in a market short on opportunities.

Impact investors seeking to capitalise on a growing pool of socially-aware investors could soon become the champions of social and environmental change in our cities.

Companies that have a "sense of purpose" embedded in their culture will increasingly be at an advantage

#6

The rebirth of retail

THE REINVENTION OF THE RETAIL SECTOR

Shopping is no longer just about getting goods into the hands of consumers. Retailing has grown to encompass a fully immersive and integrative experience that invites and holds the public's attention. It stimulates their desire to engage with brands, embark on sponsored journeys of the mind and body and interact with a like-minded community of fellow customers[1].

A reimagining of what retail engagement means for consumers has returned us to the modern equivalent of the traditional town square, a central destination that intentionally blends uses including retail, workspace and leisure with residential space and accessible rapid transit options[2].

The impersonal and transaction-focused nature of e-commerce, while efficient and appealing to cost-focused customers, has left many shoppers seeking to re-engage with experiential retail in search of a renewed sense of community[3]. This has sparked a renaissance of what it means to be a retailer in the age of online shopping.

Microsoft's first European store, in London, allows you to sit in a McLaren for a virtual driving experience

Experiential retail is incorporating digital and mobile technologies such as virtual and augmented reality and social media platforms in ways unheard of just five years ago

Experiential retail is incorporating digital and mobile technologies such as virtual and augmented reality and social media platforms in ways unheard of just five years ago[4]. These tools are being used to keep people engaged - specialized showrooms are integrating multiple offers, from food and beverage areas to hands-on opportunities for in-store product personalization. Curating brand experiences that build and reinforce customer loyalty in immersive environs represents a new phase of retailing the public is only now beginning to perceive[5].

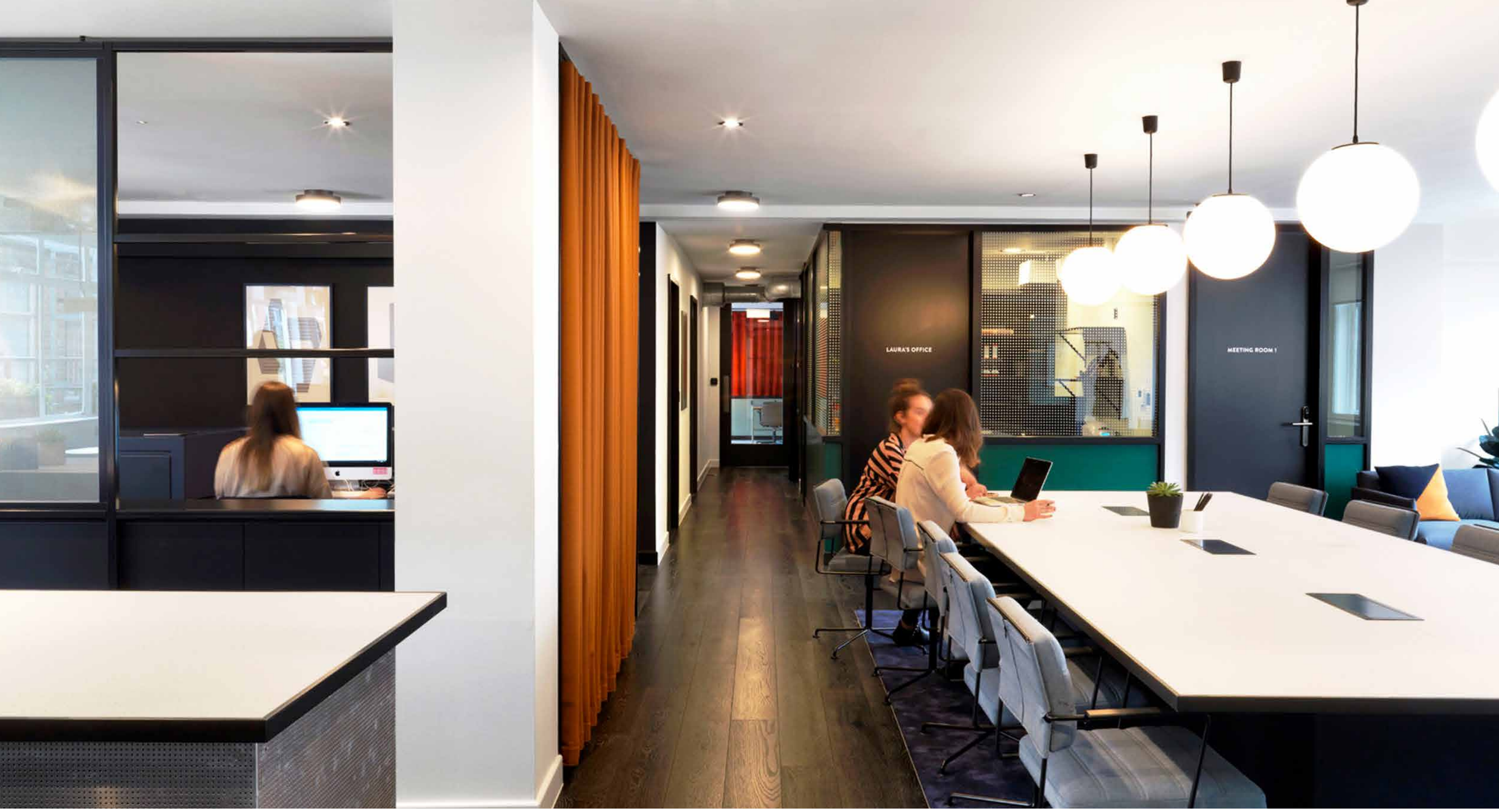
While online activity remains a comparatively small portion of total retail sales[6], its impact on traditional storefront retail has been dramatic. Vacated shopping centers, high streets, strip malls and big-box power centers serve as highly visible victims of the rapidly evolving retail landscape. Yet many of these assets have appealing characteristics - from site configuration and building construction to proximity to rapid transit lines, arterial roads and high-density residential or employment areas[7]. Much of our former retail space is therefore ideal for adaptive reuse or redevelopment.

While retail generally remains a key component of any reimagining of the local environment, a complete community of complementary uses is required to boost public and consumer engagement. Investments in the public realm and a focus on walkability produce improved returns across the whole spectrum of stakeholders[8].

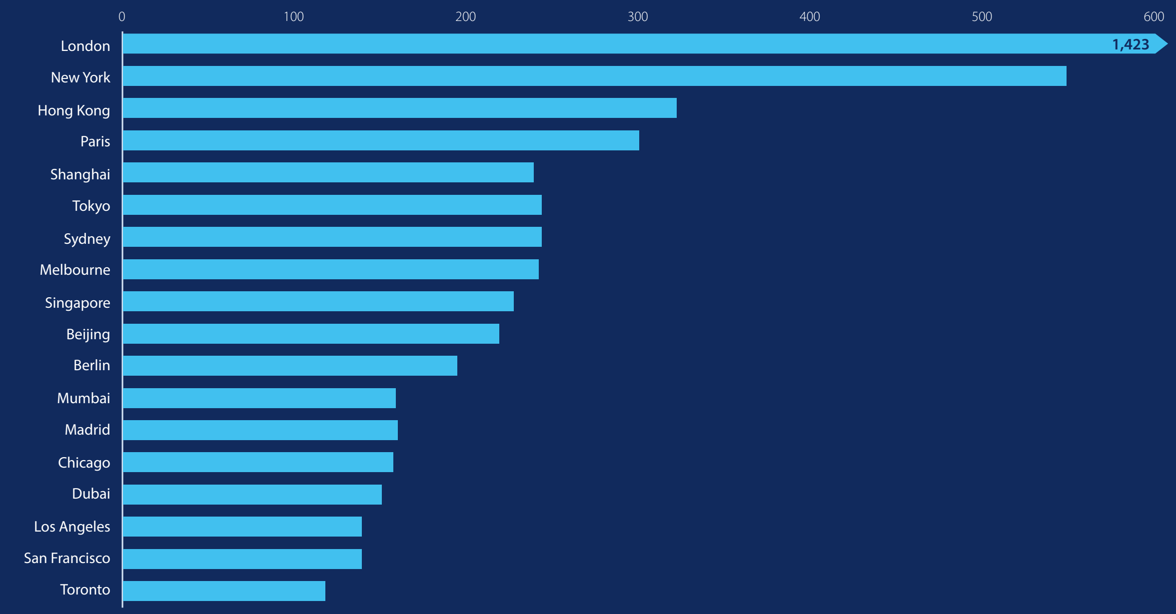
While internet sales will continue to expand, many pure-play online retailers are discovering the need for bricks-and-mortar locations as an essential part of an omni-channel strategy. While unlikely to roll out a traditional large-scale store network, many e-tailers are turning to physical locations as a way to promote and showcase new products, and as a channel for reverse-logistics[9].

Pop-up stores in a variety of forms are also driving demand for physical retail outlets. Short-term leases provide flexibility, with opportunities to experiment and to exploit unique spaces. Where these are tied to holidays, product launches or celebrity involvement they can attract publicity and boost consumer appeal substantially.

The ongoing evolution of existing retail-focused assets towards more complete communities of activity that better integrate residential and commercial uses will likely be the most influential retail trend for the next five years. Ongoing investment and visionary thinking are being employed to put communities back at the heart of projects in ways that will deliver long-lasting value for a wider range of stakeholders and facilitate the rebirth of retail.



NUMBER OF FLEXIBLE OFFICE CENTERS BY CITY



Source: The Instant Group (2019) Instant Insight.

#7

Let's talk about flex

THE FUTURE OF FLEXIBILITY

Forget anything you've read in the newspapers, flexible offices are here to stay and will remain one of real estate's hottest growth areas in 2020. The world is in the early stages of a transformational period as the technological revolution takes over from globalization as the primary driver of business change. For all sorts of reasons, workplace flexibility is at the forefront of occupiers' minds.

As a market disruptor, it's not surprising that WeWork received disproportionate levels of attention for cancelling its public offering. But we all know its instincts are correct. With shorter business cycles, innovation at a premium, and talent expecting workplaces that more seamlessly integrate with their lives, how office space is being used is in a major state of flux[1].

Flexible offerings currently account for up to 5% of space across most major office markets[2]. Within ten years, this is expected to make a transformative leap to 15-30%. That's because this is no longer just about freelancers and start-ups, this is smart thinking across all businesses. For occupiers and institutional owners, the future is the core-and-flex combo.

The talented individuals that employers want to target are increasingly drawn from the Millennial and Gen Z cohorts[3]. Like it or not, this talent is making new demands for, amongst other things, work/life integration and a more dynamic work environment[4]. Occupiers are having to respond by securing the right types of spaces in the right places, then managing them effectively to create the environments, plural, that the best employees are looking for. Cellular offices, cubicles, open-plan desks and quiet meeting spaces are not mutually exclusive; each is suited to a particular type of work[1]. Staff are looking to employers to provide the type of space they need, when and where they need it[5].

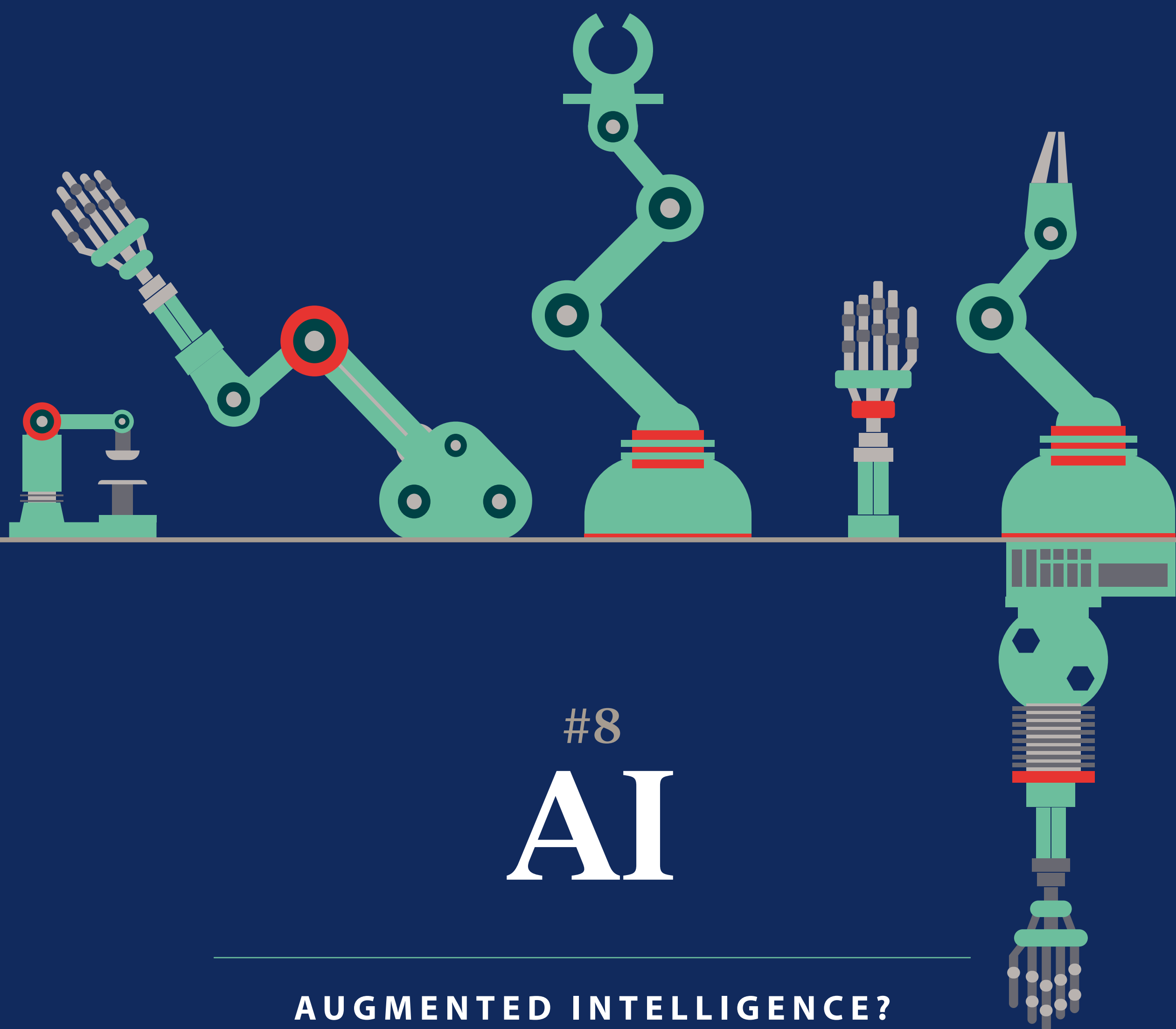
There is also a growing need for occupiers to flex in and out of space to react to economic cycles, to reconfigure it to drive efficiencies and to remain nimble by adapting space to special projects or assignments[6]. Integrating short-term solutions into their portfolio mix will generate efficiency savings, facilitate business responsiveness to new opportunities, fuel growth and reduce operational risks. Occupiers are willing to pay a premium for space that helps put this strategy into practice.

For institutional owners, the threat is not that core leases will be consigned to history, but that the market is now more nuanced; 'space as a service' requires a combination of offerings – not just in terms of lease length, but in the level of landlord servicing provided[7]. A string of major owners including Tishman Speyer, British Land, EQ office, WashREIT, Landsec, Irvine Companies, Boston Properties and Hines have already turned over parts of their portfolios to flexible offices, and more will follow[8].

We think owners will eventually commit up to 20% of their portfolios to flexible space, and at these levels the capital markets don't currently think it materially impacts valuations. Certain institutional owners will push deeper than others into the sector; those that get it right can expect to reap the rewards. New products, operating models and partnerships are evolving to support diverse business needs and provide differentiation around factors such as workplace experience, branding and security. While the lease arbitrage model at scale might have been called into question, new management/partnership agreements are likely to smooth the way for future opportunities. Additionally, we predict more operators will look to own the real estate.

Flexible office providers already account for more space take-up than any other sector in every major market around the globe. At some point, consolidation is inevitable. During 2020, this transformation of the office sector will continue apace.

Flexible offices are here to stay and will remain one of real estate's hottest growth areas in 2020



#8

AI

AUGMENTED INTELLIGENCE?

Get ready to make new friends in 2020 - your cobot will soon be on its way. Robotic process automation (RPA) won't – necessarily - take your job, but it will transform it. A collaborative robot will make your life easier, helping you work quicker and smarter by willingly taking on those lower-value tasks clogging up your working day.

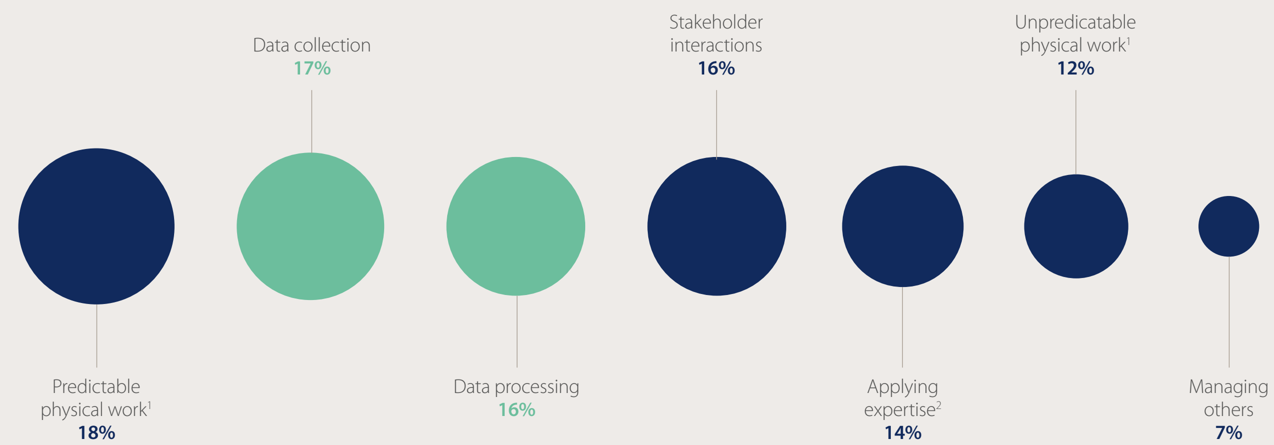
Disappointingly, not everyone will be sitting next to their very own C-3P0 or BB-8. There will be some physical automation, akin to the robots we already see in warehousing and manufacturing. But for workers who focus on knowledge rather than products, most RPA is likely to be software or app based, enabling you to automate workflows across multiple interfaces[1]. Either way it's near future now… RPA is getting cheaper, more efficient and more embedded in cutting-edge organizations with every passing year.

RPA adoption is a fast-emerging trend that crosses all industries[2], with major real estate implications due to the cumulative effect on the type and number of jobs required across different businesses. The McKinsey Global Institute estimates about 30% of the activities in 60% of all occupations could be automated[3].

Back-office functions, which tend to be clustered in more cost-effective secondary and tertiary cities around the world, will be significantly affected; think of the routine information processing that goes on within banking, insurance and accounting[4]. Hot-bed offshoring locations will also be substantially impacted; offshoring is not going away, but robotics will replace some elements of human behavior and activities.

Less obvious is the impact on organizations, or individual jobs, where such processing is currently intertwined with more client-facing tasks. Separating the wheat from the intellectual chaff of everyday work will boost productivity and creativity, with as yet unforeseeable implications for organizational structures and working practices.

TIME SPENT IN ALL U.S. OCCUPATIONS



[1]Unpredictable physical work (physical activities and the operation of machinery) is performed in unpredictable environments, while in predictable physical work, the environments are predictable.

[2]Applying expertise to decision making, planning and creative tasks.

Source: McKinsey & Co (2016)

A collaborative robot will make your life easier, helping you work quicker and smarter by willingly taking on those lower-value tasks clogging up your working day

For real estate in particular, the scope and pace of these advances should cause us to focus on the processes embedded in our industry. From research and investment decision-making to project management and building engineering, our use of technology and automation to process and manage information is in its infancy[5]. That's in addition to staple company activities where opportunities to deploy RPA abound - such as financial management, invoicing, recruitment and HR. One of the big four management consultancies already uses RPA in the onboarding of thousands of new employees each year[6].

Before the real estate sector can benefit from the transformative efficiencies and profitability improvements that RPA and AI will deliver, there is some less glamorous blocking and tackling required. As an industry we need to be much better at collecting and taking back control of the data we have access to, and combining it with third party sources in order to unite the currently fragmented real estate data landscape.

Technology will help, but the first step is a change in mindset.

Transparency of data about our urban environment has a long way to go. As an industry, we don't yet have clarity over what meaningful information we have and what other data potential strategic partners within real estate might own. The increasing availability of such data has seen prices fall, and the current focus on Smart Cities is rapidly accelerating the range of public and private providers[7].

If the industry is going to optimize its use of automation and artificial intelligences, it needs to start assessing its data needs and acting on them. Within those organizations that are already doing so, the cobots are coming…

#9

Wishing well

THE NEW FRONT IN THE WAR FOR TALENT

This is how it used to work just a few years ago: the real estate industry provided the building, the tenant provided the people to put in it every day. The office was a shell within which people got on with their jobs. At the end of the day the workers went home – maybe via the gym, depending on their personal choice. Coffee machines and on-site canteens helped reduce time "wasted" away from the desk. Hours worked was the unofficial metric of employee commitment[1]. Employers were concerned about absence, but mainly in the context of productivity and efficiency.

Not anymore. In recent years, revolutions in working practices have driven a radical shake-up in office design and fitout, forging new relationships between landlord and tenant[2]. Changes in technology and the rise of the sharing economy have transformed our thinking about the nature of work and the workplace. "Space as a service" is now in common parlance[3], but most often thought of in the context of flexible lease terms. In truth, offices are now a joint venture partnership within which owners and occupiers collaborate to provide workspace as a service to their most important customer: the employee.

As the "war for talent" heats up, wellness has become the new frontier for HR departments around the world. Property managers and landlords are becoming their key allies. Employees generally, and younger generations in particular, are becoming more health conscious . The global wellness market has expanded to be worth U.S.$4.2 trillion[4].

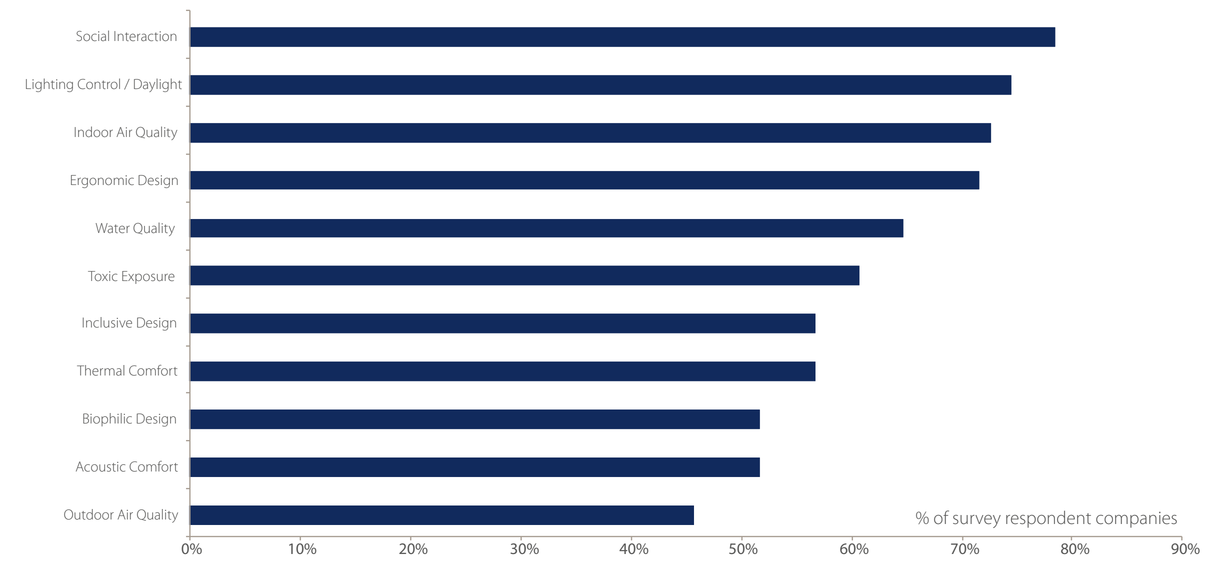
Lifestyle, diet, exercise and work-life balance are recognized as key contributors to mental as well as physical health.

As the boundaries between our work and private lives have become more blurred, so we now expect our employers not just to focus on our wellbeing, but to really care about it. The physical structure and location of a building have a huge part to play in helping companies look after their staff. This includes the creation of spaces that support neurodiversity and those with neurological differences or mental health issues[5].

Good natural light and air quality – preferably using environmentally friendly natural ventilation - are essential[5]. Buildings should also support active lifestyles: an attractive staircase to encourage people away from elevators, cycle racks and showers, maybe a gym[6].

This is particularly crucial in multi-tenant buildings where occupiers have limited opportunities to tailor space to their needs. Catering outlets that provide a range of healthy products are increasingly valued – either within the building or close by - accommodating individual dietary preferences and sustainably sourced from local suppliers rather than multinational chains.

STRATEGIES TO PROMOTE EMPLOYEE HEALTH AND WELLBEING

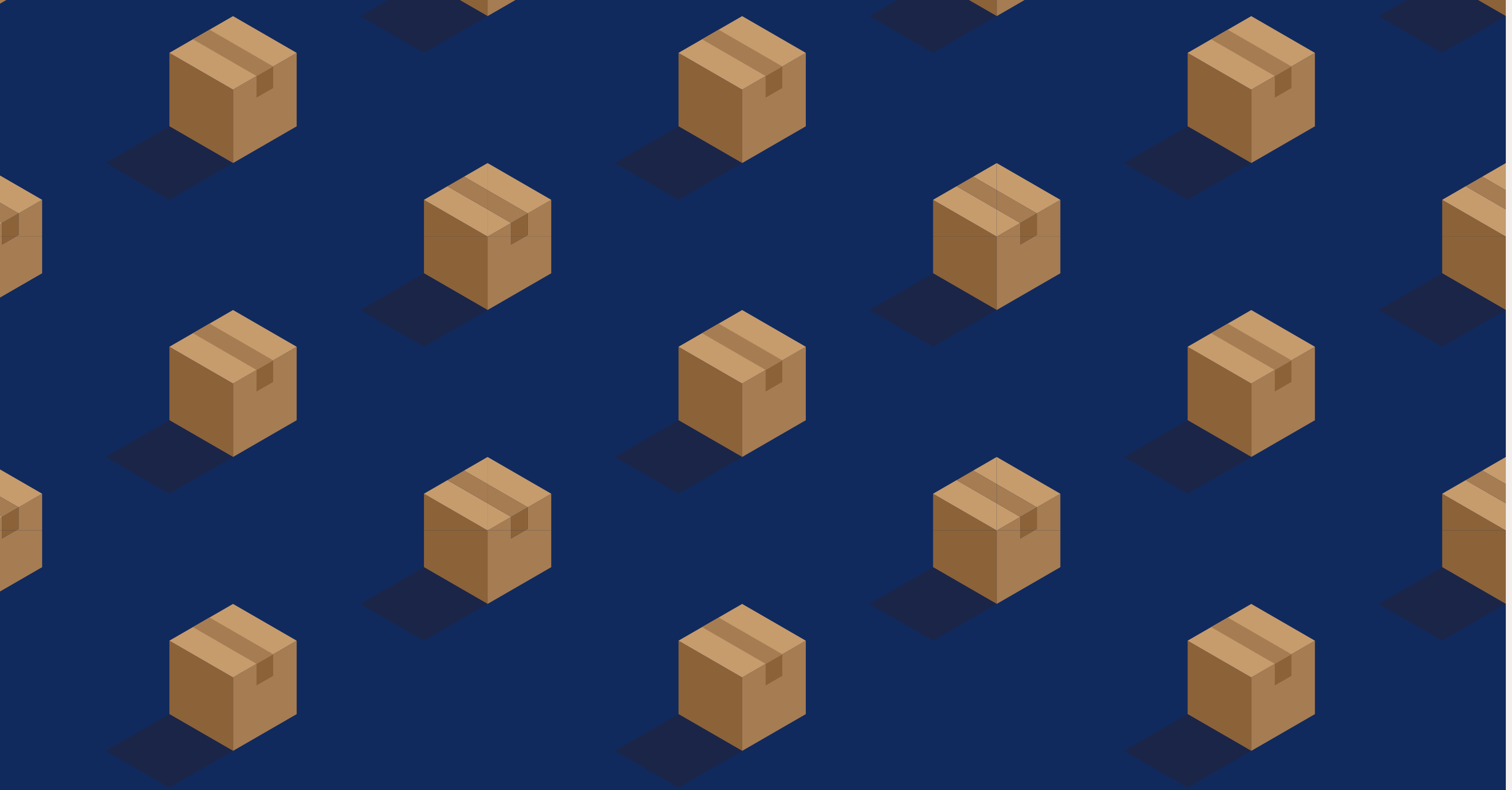


Source: Green Health Partnership & GRESB (2019) [10]

Community building is also critical[7]. It's predominantly been mixed-use buildings that have understood that connectivity of people is key to the holistic success of places. But now we see single occupier and multi-let offices striving to create a sense of place and community. Companies want spaces that instil a sense of pride in their workforce and provide an environment in which people thrive[8].

It is easy to be cynical about corporate initiatives to improve employee wellbeing. But "enlightened self-interest" is a true win-win for both forward-thinking employers and their staff. Happy, healthy employees are more engaged, more productive and less likely to leave[9]. Happy companies are less likely to walk away from a co-operative landlord and a building that supports their efforts. For owners and occupiers alike, a focus on wellness will be increasingly key to maintaining a healthy bottom line.

The physical structure and location of a building have a huge part to play in helping companies look after their staff



#10

Heavy lifting

LOGISTICAL CHALLENGES

Logistics may be the darling of the investment market but, as we all know, it's tough at the top. Viewed superficially, it seems a simple story: booming demand for robot-filled warehouses to support an ever-expanding array of online retailers. The reality is more complex.

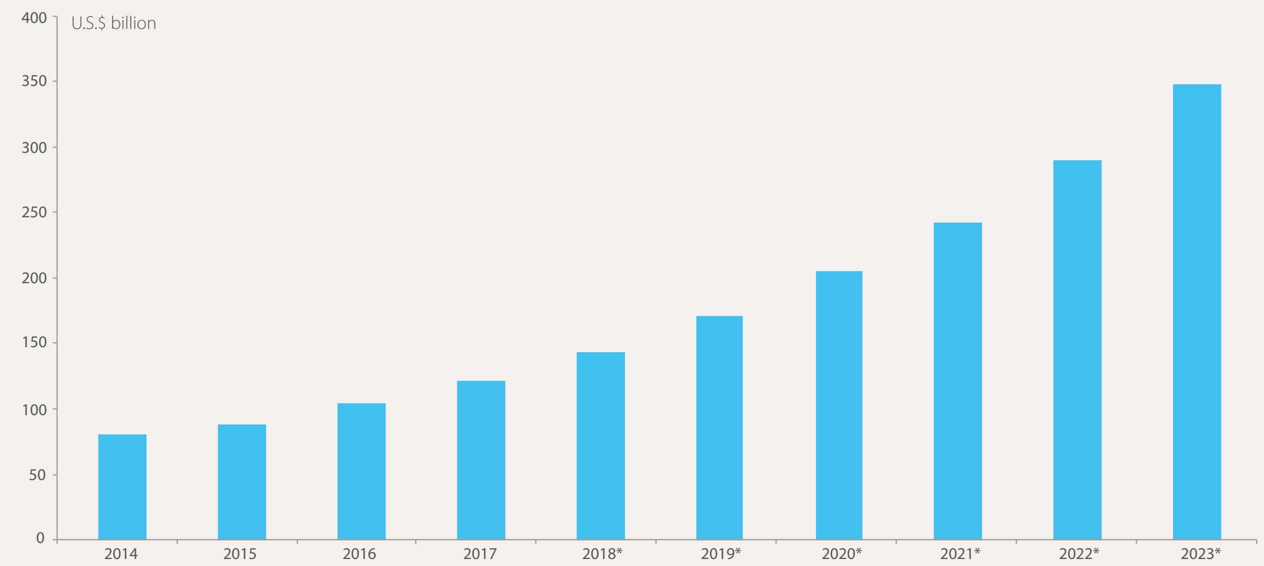
Automation is undoubtedly coming but, for now at least, e-commerce warehousing is a labor-intensive business … and it's short of people[1]. In the U.S., the largest facilities need 2,000 to 3,000 FTE workers, which is difficult to sustain with unemployment at record lows[2]. The U.K. is already short of warehouse workers - and with eastern Europeans making up 15% of the workforce[3], this is likely to worsen with immigration levels falling sharply ahead of Brexit[4].

Alongside "last mile" delivery, the current hot topic is reverse logistics – the process of dealing with unwanted goods returned by online purchasers.

These can run to 40% or more of goods sold in some segments, representing a huge financial and operational headache for retailers[5].

Some run dedicated warehouses or outsource the process to specialist operators. Reintegrating returns into the supply chain is highly labour-intensive, requiring careful handling of goods that arrive in various conditions and irregular volumes. Where processing costs are simply too high, products can end up being discarded[6].

VALUE OF U.S. E-COMMERCE PRODUCT RETURNS



Source: Business Insider Reverse Logistics Report (2018)

**estimate/forecast*

Retailers are recognizing the problem and starting to take action. Some price the costs into their products or charge for returns, others block customers with a history of "excessive" returns[7]. Consumer sentiment is changing, recognizing the carbon costs associated with deliberate over-ordering of goods – but this will take time to permeate through the population as a whole. Ease of returns is currently a key factor in consumer willingness to shop online, so the problem is likely to get worse in the years ahead.

Logistics companies are addressing their employment problem by shifting their attention to locations offering cheaper and more available labour. The trend of moving to non-prime locations is set to continue, securing access to new labour pools as well as greater pre-let property opportunities. In the U.K., Amazon has been responsible for 20% of all distribution space of over 100,000 sf leased in the past three years, and most of this has been outside core locations[8].

Companies are also adopting new initiatives to make logistics facilities more attractive places to work. Health and wellbeing may be discussed more often in an office context, but concern has rightly spread to sheds[9] with many now offering exercise areas such as outdoor gyms and running tracks, and better access to healthier food via in-house restaurants or food trucks[10]. In the warehouse environment, there is a growing focus on better ventilation and air quality, in some cases including the use of moss in "living walls" to absorb airborne contamination.

With labour shortages and cost reduction a perennial challenge in an industry where margins are tight, many companies are already looking at investments in automation and robotics. Both technologies are growing fast; the logistics sector accounts for almost two thirds of all robotics units sold globally, a market which is forecast to grow rapidly.

The technology is now easier to install, helped by modular building designs, and continual software advances are rapidly making all forms of automation more effective and energy efficient.

The technology is not yet at a stage where it's materially reducing staff numbers – and the investment required is not small. Further moves towards automation could prompt consolidation as those companies with stronger balance sheets operating at scale develop a competitive advantage. For the time being, the battle to attract and retain the right employees at an acceptable cost continues in the logistics sector just as it does elsewhere.

Reintegrating returns into the retail supply chain is highly labour-intensive

And finally...

One other issue we think it's important to know about going into 2020.

Future growth

THE OPPORTUNITIES AND CHALLENGES OF CANNABIS LEGALIZATION

"Oh, the times they are a-changin' …"

In March 1992, then U.S. Presidential candidate Bill Clinton created headlines around the world with his admission that he had experimented with cannabis but didn't like it and "didn't inhale"[1].

Fast forward to the U.K. General Election last December and the Liberal Democrats, one of the U.K.'s main political parties, pledged to legalize cannabis and tax it to raise £1.5bn to fight crime[2]. Party leader Jo Swinson admitted smoking the drug at university, saying "and I enjoyed it[3]. "The revelation barely rated a mention in the press.

With political and social easing over cannabis leading to policy changes worldwide - in particular for medical use – this presents the real estate industry with a new opportunity in 2020[4].

Canada kick-started the process back in 2018 when it became the first G20 country to fully legalize cannabis.

Meanwhile, in the U.S., a patchwork of state legislation has resulted in 33 states and the District of Columbia legalizing the drug for medical use. Across the Atlantic, the European Union is considering harmonizing rules around a legalized medical cannabis industry - tipped to be worth €116 billion by 2028[5].

A whole range of by-products is already filling shelves around the world. Cannabidiol (CBD), a non-psychoactive chemical extracted from the plant, is a popular ingredient in food, drink and beauty products. This market is expected to be worth $22 billion in the U.S. alone[6].

The big opportunity for the real estate industry in 2020 is centered on how the expansion of the drug for medical use will open up new markets. National governments are starting to issues licences; Germany agreed three in 2019, which will take the market in the country from €135 million to €1 billion this year[7].

Where regulation allows, real estate opportunities range from research and development through to cultivation and manufacturing facilities. Science parks are likely to house sophisticated lab space and offices. There will be increased take-up of facilities to support plant growth, product manufacturing and distribution.

Canopy Growth, the world's largest publicly traded cannabis company, is a good example of the real estate potential[8]. It has 5.4 million square feet of operations in Canada, which includes indoor and greenhouse cultivation, as well as processing and manufacturing spaces for products that include vapes, food and beverages[9].

Potential opportunities are not restricted to those countries that legalize cannabis for use - medical or otherwise.

The U.K. is currently Europe's largest exporter of the plant for medical purposes, despite its existing tough stance on usage[10]. Countries such as Malta, Greece, Denmark, Spain, Portugal, Israel, and Australia are expected to emerge as large exporters – but as more licences are issued, there will be more focus on domestic growing and manufacturing.

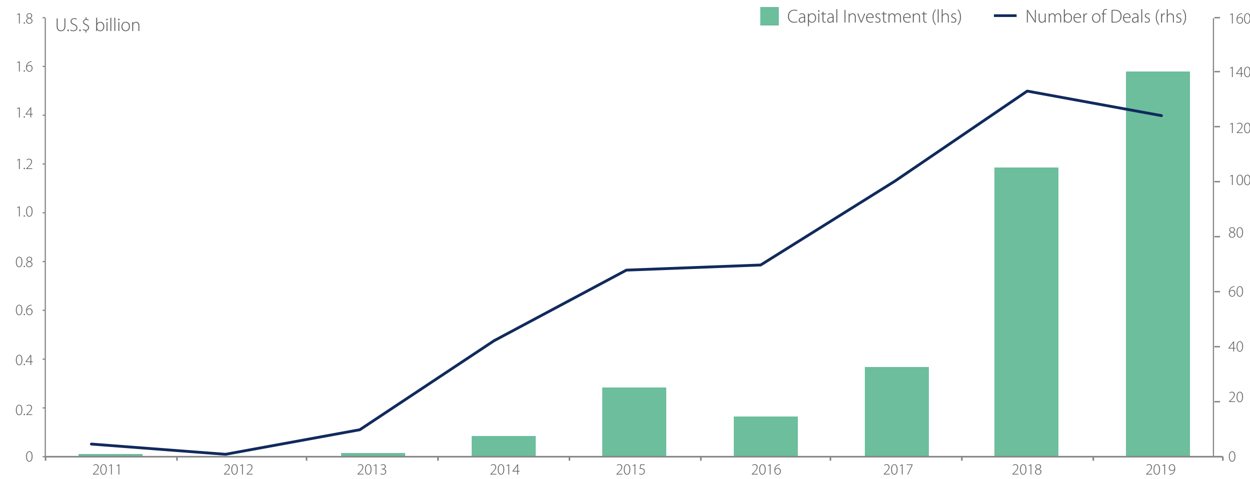
Another sign of the sector's potential is the interest from venture capital. Investments in the U.S. cannabis market hit record levels in the first five months of 2019 when U.S.$1.6 billion was raised across 126 deals[11]. Today's venture capital targets tomorrow's institutional investments.

For those with an eye on future opportunities, Canadian companies are the ones to watch. In 2019, Canopy Growth bought German medical cannabis company C3, Spanish producer Cafina and U.K. skincare and wellness outfit This Works[12]. It also signed up to buy U.S. rival Acreage in a $3.4 billion deal which will finalize if – or more likely when - cannabis is fully legalized in the U.S.[13]. Also last year, Canadian medical company Tilray set up a Portuguese research and cultivation campus[14] while Canadian producer Aurora took over Portuguese competitor Gaia Pharma and won a tender to produce and distribute cannabis in Germany[12].

They are thinking ahead. Savvy real estate players are doing the same.

Potential opportunities are not restricted to those countries that legalize cannabis for use

VENTURE CAPITAL FUNDING FOR CANNABIS START-UPS



Source: Pitchbook (2019)[11]

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Our Ten Trends commentary has been prepared based on the market knowledge and experience of Avison Young professionals around the world, along with the following sources.

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2020

NATIONAL OUTLOOK

2020

UNITED KINGDOM

UNITED KINGDOM

EXECUTIVE SUMMARY

- Brexit has dominated the political and economic agenda since the EU referendum, and 2020 looks unlikely to be very different, with the focus now on the U.K.'s future trading arrangements.
- Sentiment in the office occupier market remains resilient and we expect demand to hold steady across London and the regional U.K. cities.
- Industrial demand has been underpinned by the strong growth in e-commerce and requirements for last mile delivery facilities which have generally insulated the sector from the political and economic headwinds that have affected other sectors.
- The retail sector is facing issues that won't go away in 2020 irrespective of the direction Brexit takes, as the challenges are long term and structural.
- The search for income has become increasingly challenging, and we expect investors to continue bidding aggressively for assets that offer long-term secure income with strong covenants.

ECONOMIC OUTLOOK

THE BIG BREXIT

New Year, new uncertainty? Brexit has dominated the political and economic agenda since the EU referendum, and sadly 2020 looks unlikely to be very different. True, a Conservative majority government is now in a position to push through the withdrawal deal negotiated by Boris Johnson in 2019. But with the focus shifting to debate over the U.K.'s future trading arrangements with the EU, considerable uncertainty still remains.

Once the U.K. leaves the EU at the end of January, it will enter a transition period during which existing trade regulations remain in force whilst the future trading arrangements are negotiated. The Conservative manifesto states, and Boris personally is adamant, that a deal will be concluded by 31 December 2020 - with no extension. In practice this is likely to prove extremely difficult to achieve.

The U.K. will seek a deal that maintains as much of the £650 billion trading relationship between the U.K. and the EU as possible and which includes the service sector. But Johnson is also looking for a level of freedom to diverge from EU policies and standards, for example on state aid to industry, that Europe will find unpalatable.

The unexpectedly large majority of around 80 MPs gives Boris more room for manoeuvre in the negotiations with Europe, allowing him to concede on important points for the EU in order to secure a deal. Though time is against him.

Trade deals typically take years to negotiate at the best of times - the EU's discussion with Canada took seven years - therefore a speedy conclusion to discussions seems unlikely. To allow for time to ratify a deal, it must be concluded by mid-2020, otherwise Boris will have to decide whether to break his pledge and ask for a one or two year extension, or the prospect of a no-deal Brexit looms once again. Further uncertainty awaits either outcome.

Any material moderation of Brexit-related uncertainty would boost the confidence of businesses that are growing weary of reacting to deadlines which are serially pushed back. Investment levels have remained well below expectations, with the Bank of England suggesting the U.K. lost out on around 25% of business investment as a result of the Brexit vote, which has in turn contributed to the continuation of the U.K.'s productivity problem. As things stand, we see little reason to expect a significant recovery in 2020.

With the focus shifting to debate over the U.K.'s future trading arrangements with the EU, considerable uncertainty still remains.

SLOW AND LOW

Coupled with ongoing domestic problems, the U.K. will undoubtedly feel the pressure of sluggish global economic growth. Trade tensions between the U.S. and China have moderated somewhat, and the global slowdown in manufacturing has eased, but geopolitical and economic risks remain. That said, the U.K. has become accustomed to elevated political uncertainty in recent years and the economy has continued to grow, albeit at a moderate pace. We expect economic growth to remain muted, with 2019 growth of around 1.2% maintained at 1.1% in 2020.

The labour market is showing early signs of cooling and a moderation in jobs growth is anticipated in 2020, albeit from levels of almost unprecedented strength.

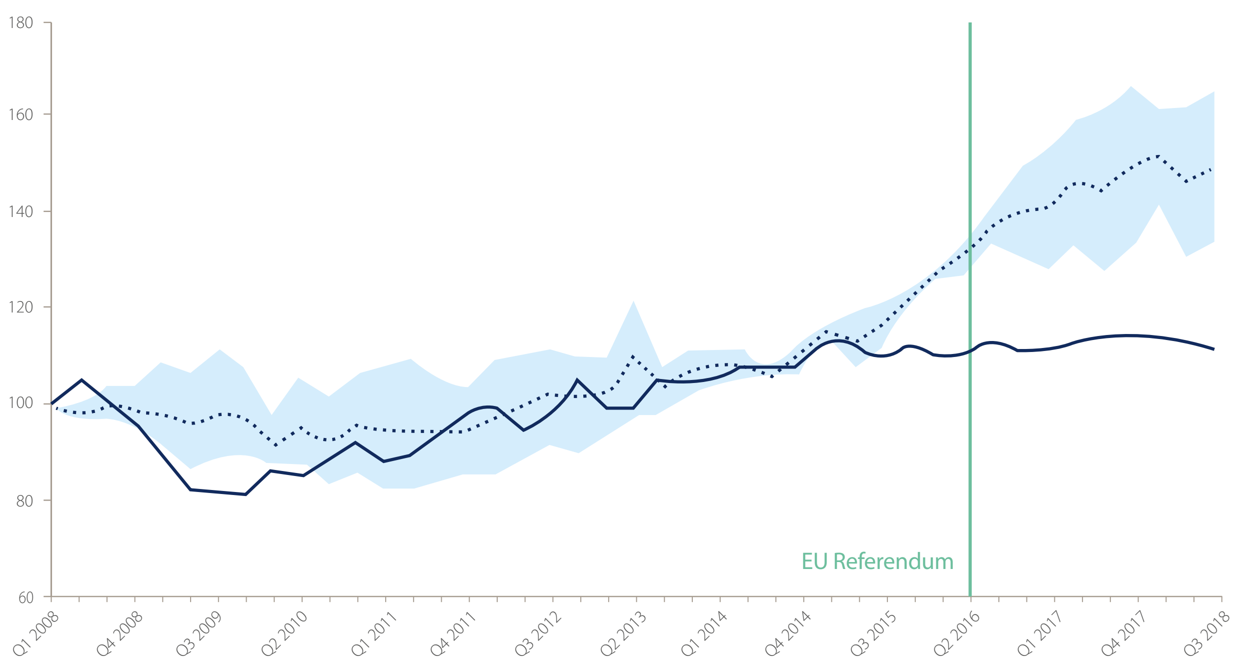
Any slowdown in the jobs market would moderate real pay growth which has been slowly creeping up to the levels seen prior to the financial crisis. The ongoing lack of productivity improvement could also curb the wage growth seen over the last year, as could higher inflation fuelled by a possible Brexit-related depreciation leading to a deterioration of real household income. Coupled with ongoing caution surrounding Brexit and a slowdown in the housing market, this means the rate of spending growth is set to moderate this year. Despite this, we expect optimism about personal finances to remain fairly robust and consumer spending will continue to drive the economy.

LACK OF INTEREST – LET'S GET FISCAL

At the start of last year, interest rates appeared to be on an upwards trajectory but the record low unemployment rate through 2019 has not been accompanied by the higher inflation that the Phillips Curve would have predicted. Energy price caps imposed by Ofgem in the autumn meant inflation dipped to a three-year low late in the year. It is expected to weaken further in the first half of 2020 before returning closer to the Bank of England's 2% target. A lack of inflationary pressures, as well as the subdued economic performance, will mean that the base rate remains low for the foreseeable future.

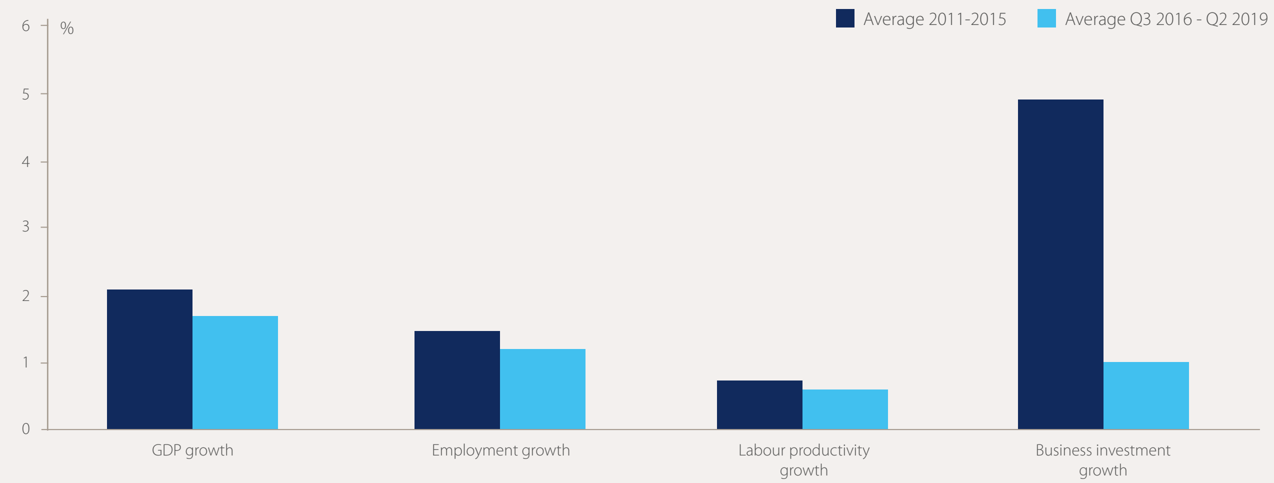
The efficacy of monetary policies has reduced considerably following years of monetary easing and very low interest rates. Fiscal policies will need to play an increasing role in boosting growth in 2020 and thereafter, which the Conservative manifesto suggests will be the case. Their commitment to addressing the looming climate crisis through decarbonisation and improvement in air quality suggests policy measures will be introduced early in the new administration's program.

BUSINESS INVESTMENT AFTER PREVIOUS RECESSIONS (INDICES: PEAK IN GDP=100)



Source: Bank of England

MACRO INDICATORS BEFORE AND AFTER EU REFERENDUM



Source: ONS

Sentiment in the occupier market remains resilient and we expect demand to remain steady across London and the regional U.K. cities.

GFK CONSUMER CONFIDENCE INDEX

Source: GFK

CHANGING DEMAND

GREEN GROWTH

Unprecedented change is required across cities in the U.K. in order to address one of the most pressing issues in our lifetime – climate change. In 2020, we expect increased awareness within companies of the social and environmental impact of their real estate decisions.

There is likely to be a rise in the number of companies signing the Net Zero Carbon Buildings Commitment and setting zero-carbon targets for the development and operations of their property portfolio. We expect this trend to start at company headquarters and will thus be largely focussed on London and the core U.K. cities.

To attract and retain talent, wellness will also continue to move up occupiers' priority lists, which will be reflected in the space they occupy. By the end of 2019 the U.K. had over 32m sq ft, in more than 1,300 projects, registered to achieve the WELL building standard, representing around 6% of the global total. At over 1 million sq ft, 22 Bishopgate is London's first major development to incorporate wellbeing at such a scale. Albeit, large wellness projects are in the minority; currently over 90% are below 20,000 sq ft, most of which are individual occupiers undertaking fit-out changes. The WELL standard remains fairly new but is set to become the industry norm in the medium term.

ON DEMAND

The U.K. life science sector is set to see significant growth with the government unlocking £600 million of funding for the sector which already contributes £70 billion and 240,000 jobs across the U.K. economy. Market leading life science clusters can be found dotted across the U.K. in Cambridge, Oxford, Manchester and Edinburgh as well as London. With substantial investment earmarked for the sector we expect growth in the established cities to extend to emerging centres including Newcastle, Leeds and Bristol.

The U.K.'s tech sector has bucked the trend of weaker business investment in recent years. Venture capital companies continue to plough money into the sector, with a record £8.6 billion invested in the year to September 2019. The U.K. remains a prime destination for tech investment in Europe, attracting almost 50% more VC funding than its next competitor, Germany.

The flexible office sector is another that has seen rapid growth over the past few years and is expected to continue to evolve in 2020, particularly in London. The market has been saturated with new operators and with so much choice available to tenants, some operators are unable to achieve the required occupancy or rental levels. As a consequence we expect the market to start consolidating. Regardless of this flexible space will still have a crucial role in the office market as tenants will continue to demand greater flexibility. This is partly a reflection of the uncertain economic and political backdrop in 2020, but mainly reflects an ongoing drive to improve workplace efficiency and effectiveness.

We expect some large requirements for modern workspaces to come forward in the U.K. regions during 2020 primarily through the next phase of the Government Property Agency's hubs programme and a major programme of consolidation by BT. Supply remains constrained across the U.K. office market and the development pipeline is limited to a few U.K. cities. Supply in London is tight but construction starts could pick up during 2020. Outside the capital, speculative development is mainly concentrated in Manchester, with a few schemes in Birmingham. This suggests 2020 will be another year dominated by pre-lets, with occupiers well advised to start their search sooner than they might have done in the past.

Sentiment in the occupier market remains resilient and we expect demand to remain steady across London and the regional U.K. cities. Any positive decisions around Brexit trade deals should see an improvement in business sentiment, decision making and a reawakening of pent-up demand. The imbalance between supply and demand is supporting rents, with average rental value growth for the U.K. office sector expected to increase by 1.8% in 2020, close to the 2019 level.

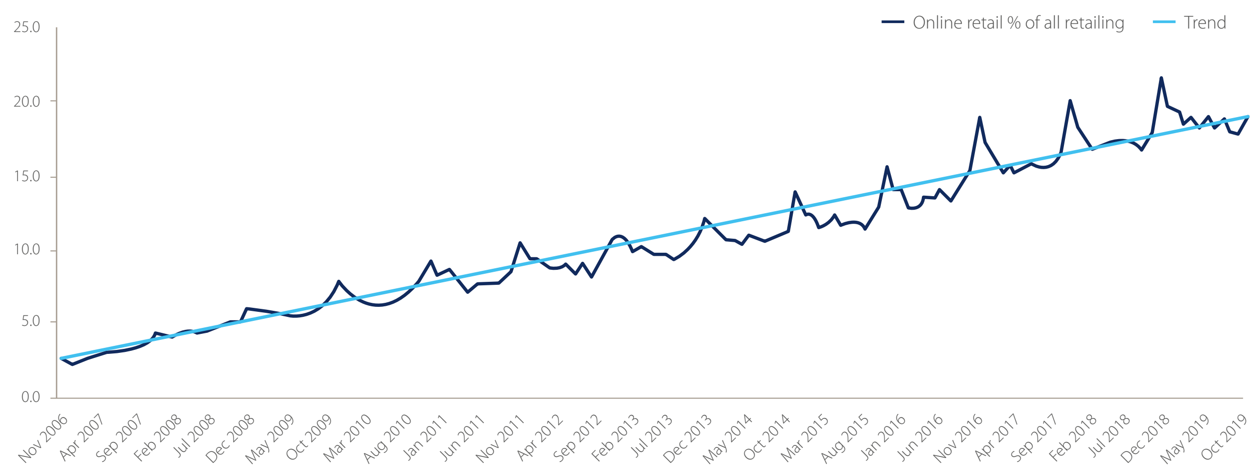
A (RE)TAIL OF TWO SECTORS

THE REVITALISATION OF RETAIL

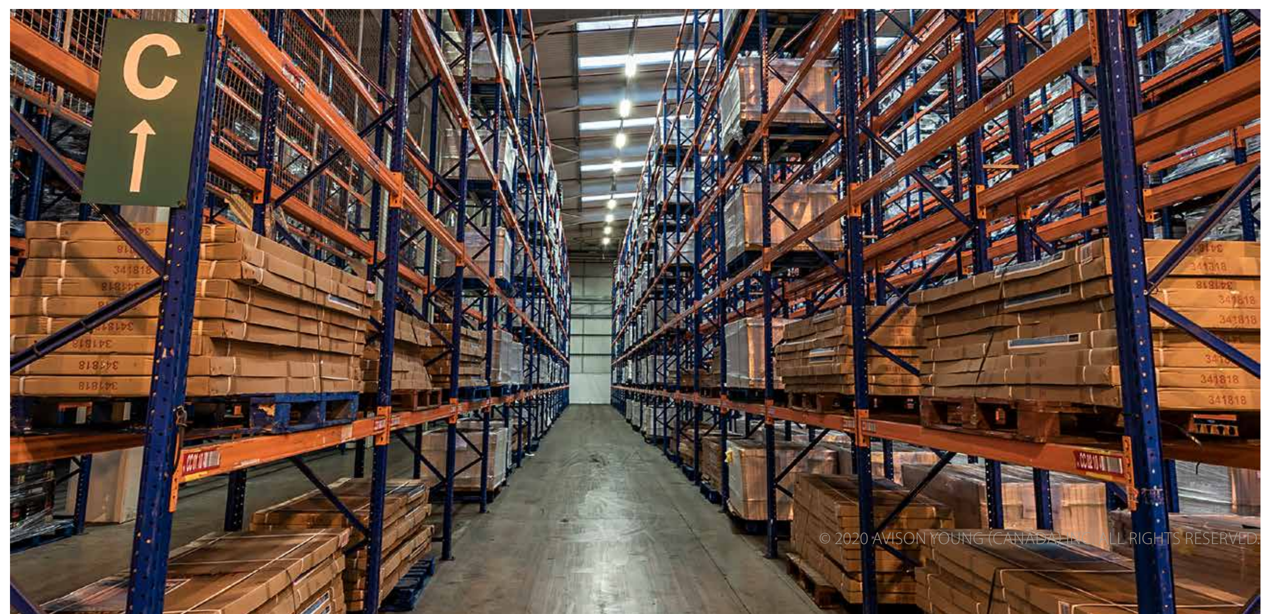
The retail sector is facing issues that won't go away in 2020 irrespective of the direction Brexit takes, as the challenges are long term and structural. The process of adjustment is painful for many retailers and terminal for some – so it's little surprise that we expect store closures to continue in 2020, especially amongst large chain multiples. We anticipate further rent reductions as most retailers believe they are paying above market rents. Consequently, we expect rental values to fall in 2020 and 2021. Although, there are pockets of relative resilience in the market including supermarkets and super prime stores, particularly in in London.

To succeed, many retailers are rethinking their physical store portfolios and repositioning their offer to entice consumers into their shops. We expect an ongoing shift towards experiential retailing across the U.K., with John Lewis, Samsung, Microsoft, Zara, Dyson and others all rolling out new 'concept' stores. We expect repurposing of high streets and shopping centres to accelerate, with more mixed-use schemes cropping up. The lines between residential, retail, leisure and employment space will become increasingly blurred across our U.K. cities.

ONLINE RETAILING AS A PROPORTION OF ALL RETAILING



Source: ONS



THE RISING WAREHOUSE

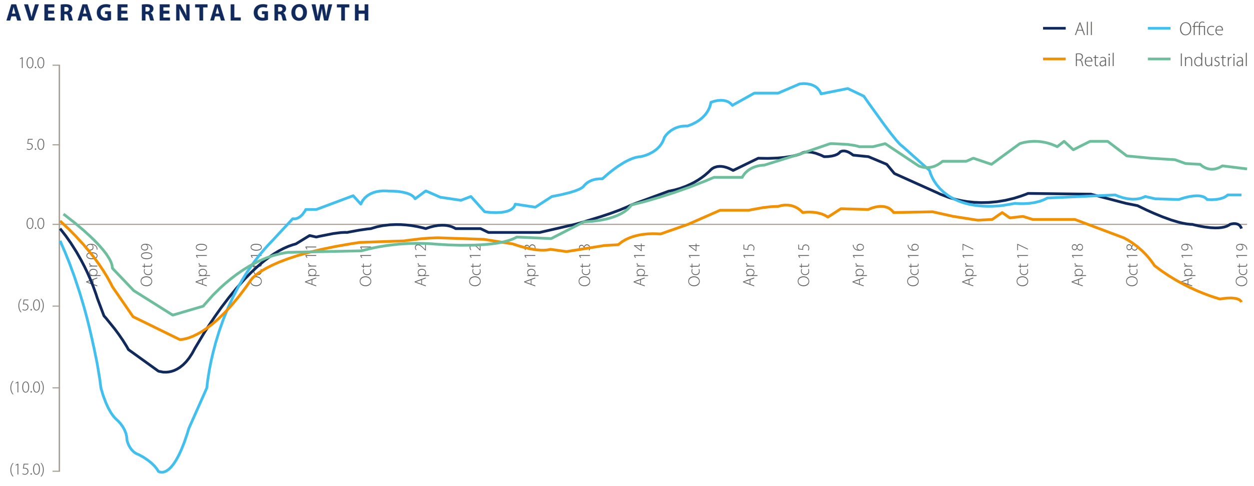
Industrial demand has been underpinned by the strong growth in e-commerce and requirements for last mile delivery facilities which have generally insulated the sector from the political and economic headwinds that have affected other sectors. We have seen a rise in speculative development in many U.K. cities, particularly those with good land availability and connectivity. In London, the lack of land availability, and the higher values, have restricted development and driven up rents.

Industrial take-up has been robust in 2019 and we expect the increase in supply coming to the market to be absorbed, albeit speculative development may slow. We expect the imbalance between demand and supply to moderate in 2020 but remain sustainable and supportive of healthy rental growth.

Current concerns surrounding the costs and availability of labour are likely to become more acute as the U.K.'s immigration policies are tightened, with occupiers now increasingly seeking to improve operational efficiency through at least partial automation. The development of new technology in warehouses is changing in the way developers and occupiers view their space. This is consequently influencing the specifications and dimensions of new developments. The logistics industry's new-found reliance on automation and robotics will change the landscape for big sheds but the need for larger, more efficient warehouses remains the primary necessity for logistics operators and occupiers in the U.K.

The development of new technology in warehouses is changing in the way developers and occupiers view their space. This is consequently influencing the specifications and dimensions of new developments.

AVERAGE RENTAL GROWTH



Source: MSCI

INVESTMENT POST LATE-CYCLE

We are undeniably late in the economic cycle and we are perhaps due another slowdown. However, just as a recession appears unlikely, there is little sign of overheating in the property market either. Overall lending in the commercial real estate market remains under control, and well below the levels seen prior to previous economic downturns. We therefore anticipate the property cycle has some time yet to run, given the global weight of capital targeting real estate, the lower interest rate environment and adequate availability of debt.

Investment activity slowed in 2019, largely a result of increased caution from investors because of Brexit. The lateness in the cycle also comes with undeniable risk and in 2019 we saw pricing adjusting somewhat across a number of cities and sectors, with the 'Big Nine' average prime yield increasing 23 bps during the first three quarters of the year. Consequently, investors are likely to continue to take a defensive stance when allocating capital in 2020.

The search for income has become increasingly challenging, and we expect investors to continue bidding aggressively for assets that offer long-term secure income with strong covenants, although the supply of such opportunities continues to diminish. The 'alternatives' sector will therefore continue to attract attention, particularly those segments underpinned by robust demographic demand or supported by structural shifts within the economy. Infrastructure, healthcare, student accommodation and senior living all provide much sought-after resilience against any cyclical downturn and will see strong demand in 2020.

Overall lending in the commercial real estate market remains under control, and well below the levels seen prior to previous economic downturns.

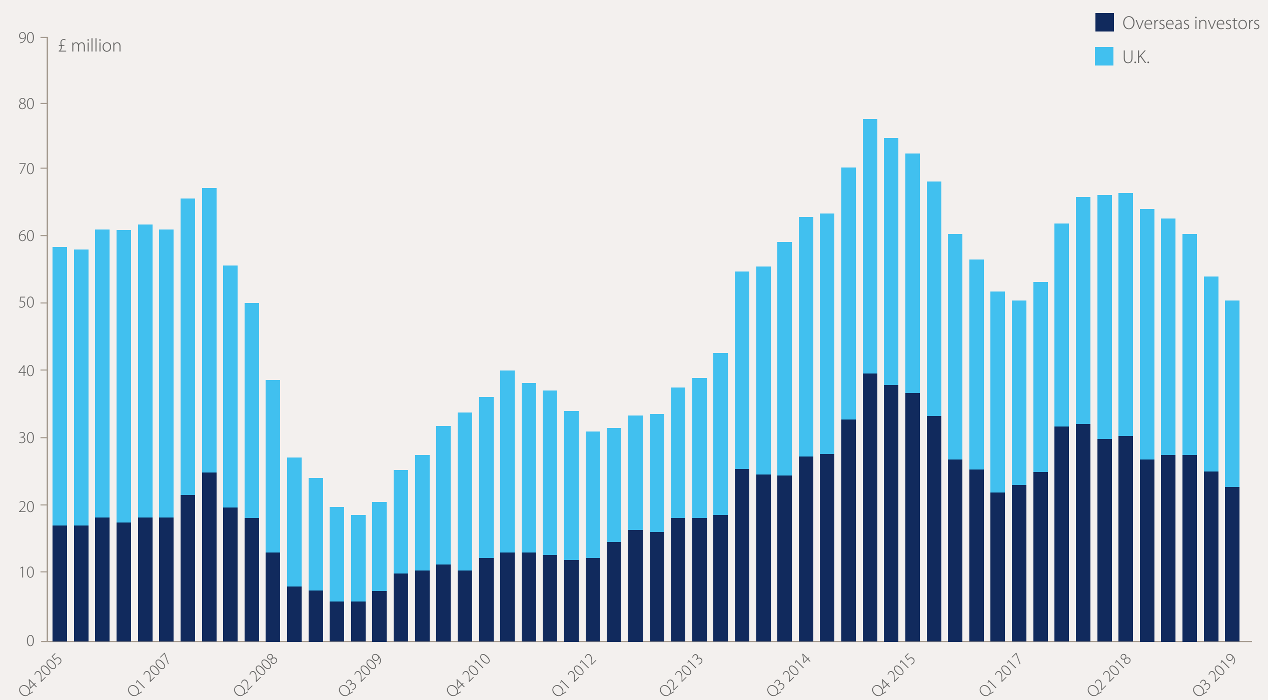
WHO'S BUYING?

The likely volatility of sterling throughout 2020 will have a large bearing on the level of overseas activity across the U.K. Despite uncertainty over Brexit, the U.K. remains a safe haven for many investors given its transparency, liquidity and governance. This makes the U.K. commercial property sector look attractive to many overseas investors – particularly in the High Net Worth sector, and especially if such investors are also looking to diversify their holdings away from domestic markets which are experiencing their own political or economic turbulence.

U.K. Institutional investors have largely been quiet in 2019, holding above average cash balances in fear of early redemption, particularly for those with high proportion of retail assets and being forced to sell under distress. Although, the large weight of money will drive institutional investors to return to the market particularly in an extended low interest rate environment.

Local authority investment continued to be robust in 2019, with several councils purchasing failing shopping centres in order to revitalise their town centres. We expect this trend to continue in 2020 with councils actively involved in placemaking. However, the 100 bps jump in the cost of borrowing from the Public Works Loan Board (PWLB) is likely to impact local authorities cash flow and therefore pricing, but we expect appetite for borrowing to continue as reduced funding from central government for local services is unlikely to reverse.

ROLLING ANNUAL INVESTMENT TRANSACTION VOLUMES



Source: PropertyData

THE EVOLUTION OF VALUE

Assets that offer yield, longevity and secure income remain investors top picks. Coupled with currently favourable supply conditions and resilient occupier demand, this bodes well for the prime industrial and office sectors in many U.K. markets. At the other end of the spectrum, retail remains an area of concern and investor appetite for risk is limited. Given the stress on tenants, and ongoing CVAs continuing to deteriorate rental growth and capital values, challenges in the retail sector are unlikely to reduce in 2020.

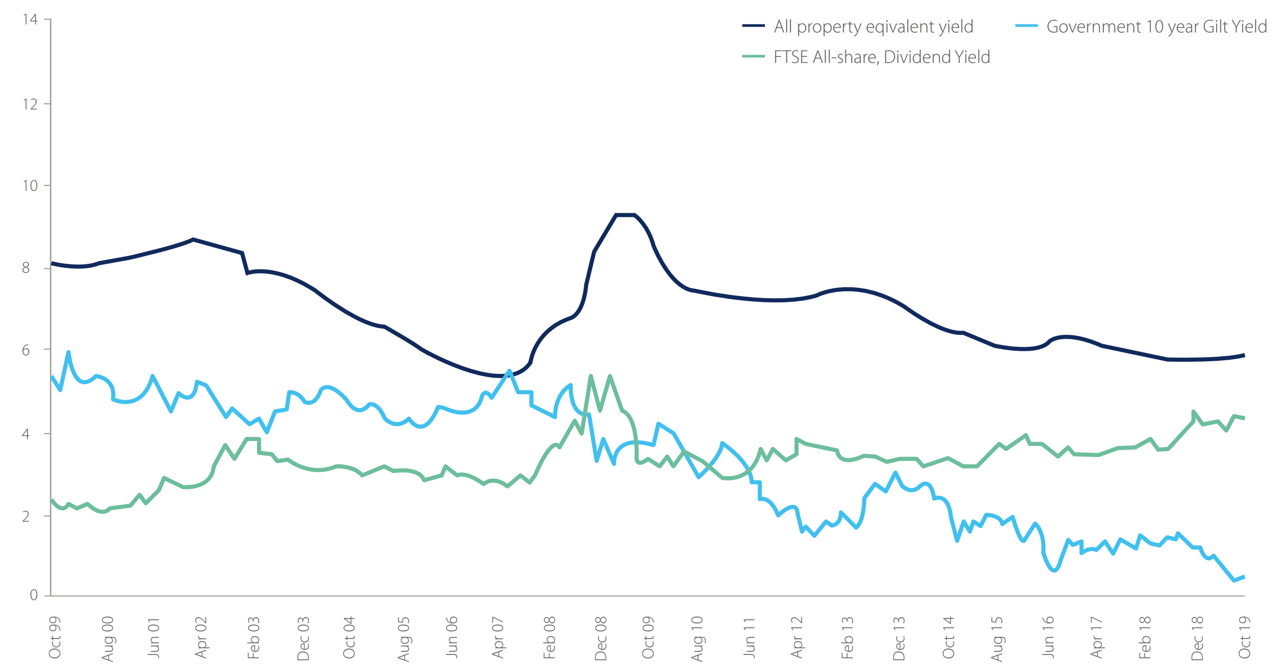
Institutional investors are also transforming the private rental sector (PRS) through large scale investment in the build-to-rent market. Affordability issues will continue to underpin demand for rental properties, particularly in high employment growth areas where low to middle income earners are priced out. The structural undersupply of homes will continue to drive demand in the PRS sector.

Shared ownership is another residential market to watch. Greater support from central government, through grant funding and enabling reforms for private investment has opened up the asset class to private investors. A number of investors seeking long-term, inflation protected income from real estate investments, have deployed a considerable amount of capital into the asset class over the past few years and we expect this trend to continue in 2020.

We are seeing an increase in the prevalence of impact investing, whereby investors are looking to actively generate positive social and environmental change in addition to financial returns. Whilst a small portion of the real estate market, an increasing number of major players are incorporating wider objectives into their investment strategies. Areas of focus include reducing carbon emissions, revitalising business and residential spaces, and regenerating communities with a positive social or environmental impact. We expect more investors to enter the market as attention on these issues increases and major institutions will come under ever greater pressure to respond in the coming years.

Overall, we remain of the view that the level of income return available, combined with strong defensive characteristics, make commercial real estate an attractive asset class in this lower interest rate environment. Property yields remain attractive against government bonds and equity. Furthermore, the U.K.'s regional cities and even London offices offer a positive yield spread over Tier 1 global cities. This will be attractive to investors taking a long term view or who are more bullish on the outcome of the Brexit process.

GILTS VS PROPERTY VS EQUITIES



Source: MSCI, FTSE

AVISON YOUNG

2020

LOCAL OUTLOOK

2020

LONDON

LONDON

EXECUTIVE SUMMARY

- The diversity of the London office market will continue to be of paramount importance to ensure the on-going success of London as an international business centre.
- Subdued development activity matched by strong demand for larger prime office space is pushing rental values up across some London submarkets.
- Retailers are increasingly utilising their London flagship stores to drive success through customer experience, underpinned by London's ability to attract customers from a wide geography.
- There will be an increased focus on housing provision and meeting delivery targets, as Sadiq Khan looks to get re-elected as Mayor of London in May 2020.

THE DIVERSITY OF THE LONDON OFFICE MARKET

London continues to drive the U.K. economy, accounting for 24% of economic output and powering employment growth. Much of this growth stems from London's status as a key financial centre, with the sector accounting for a quarter of total employment. It is also a significant driver of office demand across the city.

In September 2019, London ranked second in the Z/Yen Global Financial Centres Index, just behind New York. Furthermore, the 2019 Bank for International Settlements survey found that daily trading in London's financial markets has increased by 29% since 2016 due to strong levels of FX trading, with London's already dominant share of daily volumes rising from 37% to 43% over the period.

In an increasingly connected world, exceptional digital and infrastructure connectivity will be paramount to continued economic growth. The Mayor of London has set in motion several infrastructure projects to better meet rising demand. Fibre is currently being installed throughout London, in addition to the provision of full mobile coverage on the tube network, initially starting with the Jubilee Line which will receive full mobile coverage in March 2020.

Office buildings increasingly hold a WiredScore digital connectivity certification which assigns a rating to a building's digital performance, acting as an assurance to both occupiers and potential investors. Across London, there is currently 15 million sq ft of space under this scheme, which is projected to rise further as technology plays an increasingly key role in the continued growth of London.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↓	↑
Vacant Space	↓	↑	↓
Construction Levels	↑↑	→	↑
Leasing Volume	→	↓	→
Investment Volume (all sectors)		↑	

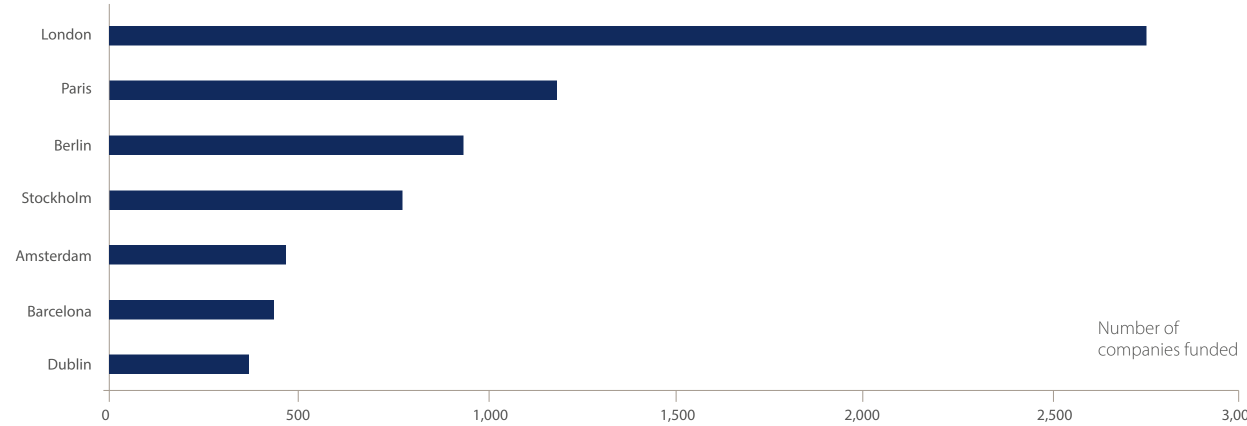
London's occupier market continues to diversify with a growing tech industry attracted by London's availability of talent and capital, both of which may be relatively dependent on the U.K.'s relationship with the EU. According to Eurostat, London is the most educated city in Europe with the highest proportion of tertiary educated residents; and a diverse workforce speaking over 230 languages, of which a significant proportion work in creative industries.

London has a growing FAANG (Facebook, Apple, Amazon, Netflix & Google) presence with larger tech occupiers acting as an anchor to drive tech clustering elsewhere in the city. Netflix launched a new 160,000 sq ft requirement at the end of 2019, which will increase its London office presence by around 700%, and help its expansion into the U.K. market. In addition, Google is currently building its King's Cross landscraper HQ to house 7,000 employees; Facebook recently took additional space in King's Cross for its new HQ and Apple and Regus brand No18 let the entire office element of Battersea Power Station, also acquiring 100,000 sq ft at 22 Bishopsgate, EC2 in late 2019. Amazon has an existing HQ at Principal Place, EC2 which houses 5,000 employees.

London also accommodates a growing SME presence, of which some expand to become tech unicorns (billion dollar start-ups). According to data from Tech Nation and Dealroom, London currently has 45 tech unicorns with a combined value of £116 billion; and produces one in five tech unicorns that originate in Europe. This is underpinned by significant venture capital investment which continues to rise despite market uncertainty. In 2019 alone, Greensill, a fintech company, raised a total of $1.6 billion in funding from Softbank.

London has long been considered the fintech capital, but 2020 is likely to see growth in hybrids such as proptech and legaltech that have been slower to adapt new technologies. Furthermore, London's existing presence as a centre for life sciences, supported by the strength of its universities and research institutions, is likely to create further hybrid companies within medtech, driving efficiencies in medicine and pharmaceuticals.

NUMBER OF TECH COMPANIES RAISING FUNDING, 2015 – SEPTEMBER 2019



Source: Dealroom and Atomico

CITY

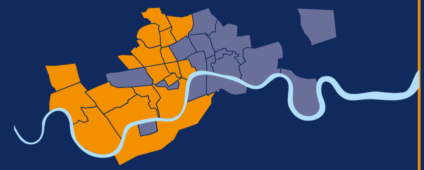
Take-up in the City market has remained very strong, with levels on average 150,000 sq ft above the 10-year average since the EU referendum. Take-up is likely to remain stable in 2020, driven by a healthy underlying level of demand, although supply continues to remain constrained.

Occupiers with large requirements will continue to have limited options. There are multiple instances of major occupiers having to search through a number of locations, or where occupiers have agreed an off-market deal due to an existing landlord-tenant relationship.

As a result of recent strong pre-letting activity, space under construction is currently close to 50% let. However, there are indications that the pipeline may start to increase in 2020 with several large developments rumoured to be commencing construction. These include 40 Leadenhall Street, EC3 (900,000 sq ft), One Leadenhall, EC3 (500,000 sq ft) and Elizabeth House, SE1 (1.2 million sq ft), which may alleviate the pressure on supply.

Although rental levels remained relatively stable during the first half of the year, the City has recently seen some upward pressure due to constraints on supply. Shoreditch and Clerkenwell which have previously seen very strong rental growth may slow in 2020, and City Core could potentially catch-up due to strong demand and increasingly limited supply.

Landlords are able to achieve premium terms and shorter voids by producing a best in class building. However, where only a minor redevelopment or refurbishment is undertaken, buildings are seeing extended void periods and inferior rental terms. Record rents are achieved for 'super-prime' space in the City, where the correct blend of amenities and public realm has taken rents above the prime level for their respective submarkets.



WEST END

West End take-up for the first three quarters of 2019 was higher than at any point since 2013 and this is likely to continue in 2020 despite very limited development supply. Overall, the under construction West End pipeline is 71% pre-let and without a sufficient level of development stock, the coming months may see occupiers turn to other markets to fulfil larger space requirements.

There are still many occupiers that prioritise the West End over other markets, as demonstrated by recent leasing evidence where record rents have been achieved for prime space outside the traditional core. This is particularly true for larger floor plates in the West End which are particularly limited given the market's historic planning restrictions. There are currently just 12 buildings over 100,000 sq ft under construction in the West End, of which seven have been entirely pre-let.

There is an increasing divergence between the rental levels achieved for Grade A supply and second-hand supply, which often sees significantly extended letting void periods. This has been termed a "honeymoon market" in which if space has not been let within two months, landlords need to prepare for a long haul with expensive void costs to deal with.

EAST LONDON

2020 may see a boost to East London take-up as occupiers struggle to find suitable space to meet their larger requirements elsewhere, and increasingly look for more affordable rents, with the City and West End rents increasingly topping £80.00 per sq ft.

The Elizabeth Line will improve connectivity and therefore the occupier perception of East London markets. Space is increasingly marketed as offering excellent transport connectivity and therefore continued demand will be reliant on the Elizabeth Line arriving soon, although recently announced delays throw a spanner in the works. With Stratford and Canary Wharf currently very public-sector focused, limited availability elsewhere may result in occupiers from a wider range of sectors acquiring space in East London.

London's occupier market continues to diversify with a growing tech industry attracted by London's availability of talent and capital

INVESTMENT MARKET

Brexit related uncertainty has undermined turnover for central London assets during 2019, with volumes to Q3 less than half that of the preceding year. A decrease in demand from buyers has coincided with a lack of available stock, although there is a weight of money waiting for greater economic certainty. 2020 is likely to see an increase in stock if certainty returns to support seller confidence. Core stock is particularly attractive to buyers in the current uncertain market, due to the surety of income. Increasingly, European cities are at a substantial yield premium to London, with prime yields in Paris and Frankfurt now below 3%, over 100 bps below the City Core prime yield. This strategically positions London as an attractive location for investment, supported by a very robust occupational market.

Year-end 2019 saw a return to strong buyer interest in long-income trophy properties attracted by relative pricing, with strong buyer interest likely to continue for 2020 following greater certainty brought by the December general election. 2020 may see yields start to compress as we expect strong buyer interest to return to drive pricing upwards. We have seen a return of German, Malaysian and North American investors to the London market after a 5 year hiatus in some instances. Notable investments include Brookfield's purchase of a 50% stake in London Wall Place for £354 million, EPF's purchase of Premier Place for £330 million and DEKA's acquisition of 40 Chancery Lane for £121 million.

Demand for value-add stock has recently picked up as buyers recognise the strong occupational market and potential low supply, which may translate into an increase in development pipeline stock next year. M&G recently announced its purchase of "Gotham City", 40 Leadenhall Street for £355 million which upon completion in 2023 will provide over 900,000 sq ft of Grade A space. Other examples include Mitsubishi's purchase of the London Television Centre, SE1 for £145.6 million, BT's £120 million sale of its Newgate Street, EC1 HQ to a fund run by Orion Capital Managers, and CBRE GI's purchase of 280 Bishopsgate, EC2 for £183 million.

CUSTOMER EXPECTATIONS

The increase in demand for serviced office space has characterised the office market during the latter half of this decade and will undoubtedly continue into the 2020s, although with some consolidation on the horizon. 2020 is likely to see a flight to quality over quantity by operators in order to maximise occupancy and profitability in an increasingly over-supplied market, and one in which occupier expectations are changing.

SMEs and large corporates will continue to require an element of flexibility, supported through improvements in technology which enable remote working. The growth in demand for serviced offices from SMEs, which make up 99.9% of London businesses, has caused a subsequent fall in demand for smaller units which come into direct competition with serviced offices. Void periods for conventional space extend up to 18 months in extreme examples, therefore landlords are updating their offer to a fully-fitted provision termed Cat A+, offered to tenants on flexible release terms, in order to properly compete.

2020 is likely to see an increase in the variety of serviced office provision, all centred on the importance of flexibility to occupiers of all sizes. Mainstream serviced office operators too are changing their models to reflect a greater variety of requirements; WeWork for example has grown its 'WeWork HQ' brand to appeal to corporates. Furthermore, landlords are increasingly looking to attract and retain traditional tenants by offering an element of serviced offices in-house to allow temporary expansion or project space.

The growth in serviced offices has also highlighted the increasing importance of space as a service to promote health and wellbeing, and therefore buildings achieve record rental levels and high occupancy when these elements are considered. Google's new HQ which is currently under construction at King's Cross will provide next-level amenity provision including a running 'trail', sports hall, floor-to-ceiling windows to enable natural light, retail units and an amphitheatre.

In the retail sector, a shift towards greater online spending against a backdrop of rising costs and squeezed profit margins, is presenting a major challenge to retailers. The changing retail market has caused several retailers to now utilise their London flagship stores as a means of driving brand image through customer experience; personalisation of products and interactivity through technology. This is creating pockets of retailers that are able to significantly outperform the market.

Perhaps the most high profile example in London is the Samsung facility at King's Cross which does not call itself a store and in which there are no tills. Customers can decorate walls with digital graffiti and race cars with the latest VR technology; in addition to it being a showcase of its latest high-profile digital products. It is not just tech companies however that are utilising technology to optimise customer experience, the Zara flagship store in Stratford has smart mirrors with technology that recognises the items you holding, in addition to robot powered pick-up locations and self-scan registers.

London's prime retail markets have a reach that extends far beyond their immediate vicinities, acting as a beacon to domestic and international tourists. According to Mastercard's Global Cities Index, London ranks second highest in Europe after Paris for number of visitors, but records the highest total spend by overnight visitor with £13.5 billion, compared to £11.5 billion in Paris.

The growth in online spending has altered customer expectations with individuals and businesses now expecting to receive goods faster, more cheaply and and in a more flexible manner. This is putting increasing pressure on industrial supply to meet demand, exacerbated by new entrants to the industrial market which are improving the efficiency of operations through technology and innovation, putting operating models and profitability under strain.

INDUSTRIAL INTENSIFICATION

Changing expectations and the historic erosion of London's industrial stock to residential use continues to limit its industrial supply. The Government has now recognised the erosion of industrial stock has gone too far; London vacancy currently stands below 8% with some boroughs achieving vacancy rates well below these levels. Under Policy E7 of the London Plan, due to be adopted in 2020, construction of residential stock on industrial land must ensure there is no net loss in industrial floorspace capacity within designated SILs AND LSISs. Whilst we have seen some evidence of industrial intensification allocations in the planning system to manage the no net loss principle, it is not yet at the levels required to manage target vacancy rates at 5% and 8% for land and floorspace respectively.

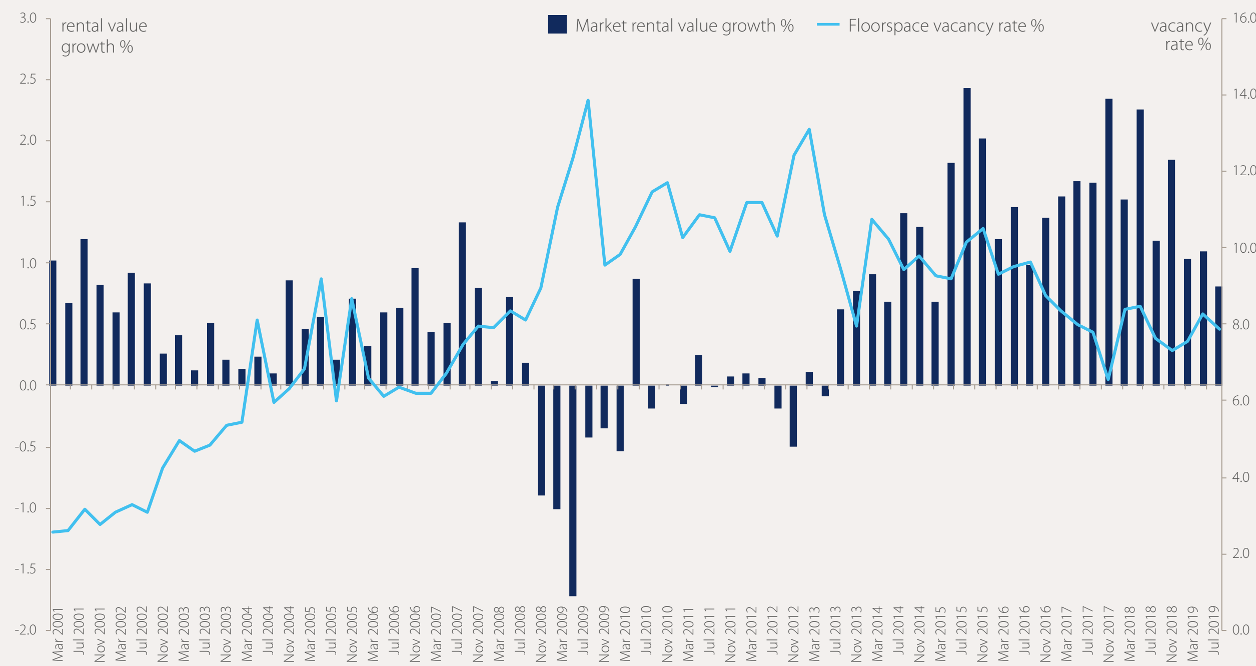
Mutli-storey development, whilst a feature of some international markets, is a potential new addition to the London market with some developers considering taking on the associated risk. Gazeley has proposed a development of a multi-storey urban logistics hub totalling 426,000 sq ft across three storeys. Plans submitted to Newham Council have received objections, although these are likely to be resolved in 2020.

The development is the first of its kind in the U.K. and if successful, London is likely to see an increase in multi-storey industrial developments.

In addition, Formal Investments are currently preparing for the construction of a new facility at Rectory Park, Hounslow which will provide underground industrial space. The ground works are projected to last a further six months, after which the two year construction period will begin. The project won the Mayor's Award for Innovation in Planning in 2018 for its innovative design.

Drawn from the London Plan, co-location developments are increasingly viewed as a solution to both shortages in industrial and residential supply. The Mayor's London Plan has stated that an additional 65,000 homes a year will be needed to keep up with rising population and demand, particularly at affordable levels. There are currently few developments with planning permission for co-location in the pipeline; however this is expected to rise in 2020 with several important mixed-use developments currently at the planning application stage in London.

LONDON INDUSTRIAL RENTAL VALUE GROWTH AND VACANCY



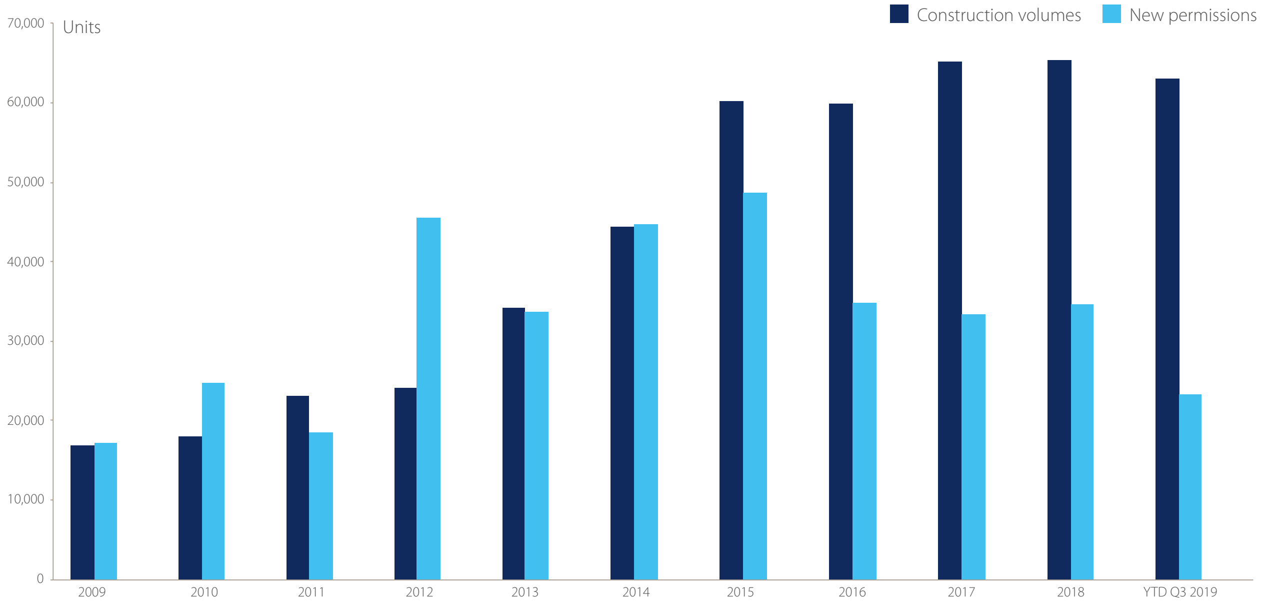
Source: MSCI

LONDON'S HOUSING CRISIS

In 2016, the Mayor of London committed to building 116,000 new affordable homes by 2022, including homes on a social rent, living rent and shared ownership basis. As of June 2019, just over 40,000 affordable homes had started construction, just 36% of the target. Private developments with over 10 units are obligated to deliver a minimum of 35% affordable housing to meet the target, however to date just 24% of projects have met this target. In the lead up to the May 2020 mayoral election there is likely to be an uptick in affordable housing development and a tightening of loopholes that allow developers to ignore the targets, at least in the short term.

The rising importance of Build to Rent (BTR) to solving London's housing crisis cannot be understated. The proportion of London's population who rent rather than own their property is increasing. In 2016, just 28% of households lived in the private rented sector; however this is expected to rise to 40% by 2025 which will put particular pressure on the housing industry to provide suitable rented accommodation. According to a report by London First, 15,000 BTR units have been built to date, with a further 19,000 under construction and 38,000 going through planning.

LONDON RESIDENTIAL CONSTRUCTION VOLUMES AND NEW PERMISSIONS



Source: Molior

Wembley Park, owned by Quintain, is the largest build to rent development in the U.K. due to provide a total of 5,000 homes over several phases. The scheme comprises 78% PRS and 22% affordable housing. Three sites are due for delivery in 2020 providing over 1,600 residential units, in addition to other uses. Placemaking and amenity provision is increasingly considered important to ensure the success of BTR. If the housing sector is to come close to tackling London's growing housing crisis, the speed of delivery of placemaking is going to be critical and with Build to Rent's absorption rates being swifter than traditional sales, Build to Rent has to form a more significant part of proactive planning policy across the capital, irrespective of who wins the mayoral election in May.

2020 is likely to see a further increase in the level of BTR provision as developers grapple with uncertainty in domestic and overseas markets and de-risk, particularly within larger regeneration areas. However, more proactive policy from key decision makers is required to ensure the industry creates homes more quickly. In addition, investment into affordable housing looks set to follow the same growth path. Until recently, affordable housing was the sole preserve of housing associations but according to the latest figures from City Hall, the number of affordable home starts in London doubled from 2018/2019 to 2019/2020 and is expected to grow further as institutional investors increase their exposure to the sector. However, to make sizeable inroads into the creation of housing, more innovation will be needed to create a greater depth and variety of affordable housing to meet the varying needs across London.

HOTELS

The London market performed especially well in 2019 with revenue per available room increasing 4% over the year to November 2019. This was due, in part, to a major uplift in North American visitors which increased 11% over the year to August 2019. Healthy hotel market performance has been driven partly by the weakness of sterling relative to other currencies, in addition to the popularity of events which attracted significant tourism throughout 2019. Key drivers included the London Games and All Points East music Festival, conferences such as Roots Tech and BSC Expo, and sporting highlights such as the ICC Cricket World Cup.

Further strong demand is expected for 2020 as the capital continues to benefit from both domestic and overseas tourism with the UEFA Euro 2020 football championships likely to generate a significant boost. Hotel development continues to be high in response to strong occupational market fundamentals and 2020 is projected to see a further addition of 9,627 new rooms in London including the completion of Zedwell Piccadilly Trocadero, W1 and The NoMad London, WC2. Avison Young tracked 25 hotel sales in London in 2019, equating to £3.2 billion of investment (59% of the UK total). 2020 is likely to see further strong investment levels as hotel investment opportunities continue to attract both international and institutional money. The political certainty brought about by the general election in December 2019 has improved the outlook for London hotel investment, with yields likely to remain stable or possibly show some sharpening in the year ahead due to lack of available stock.

There continues to be a significant weight of capital with multiple investors looking at hotel investment opportunities

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