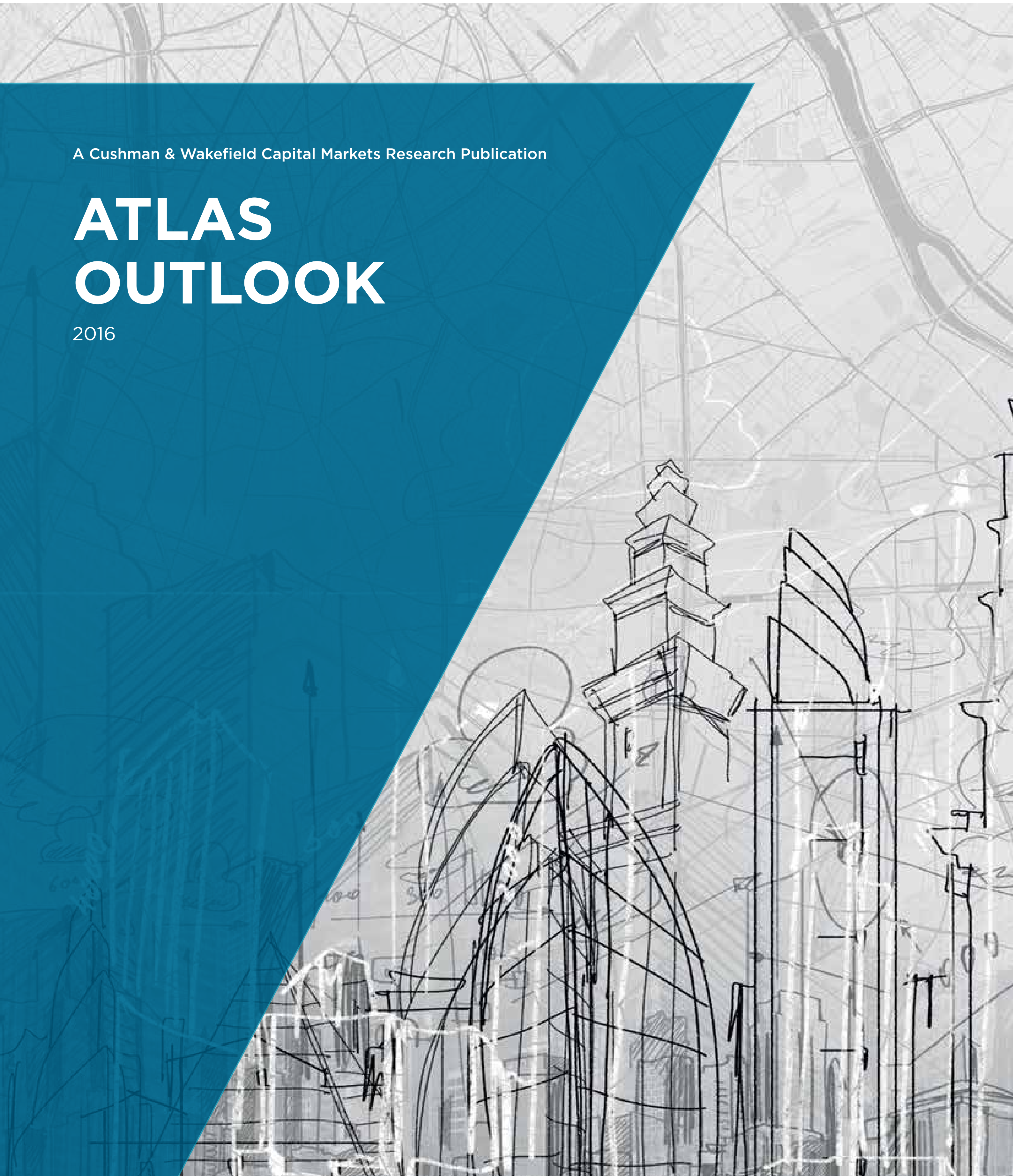
A Cushman & Wakefield Capital Markets Research Publication

ATLAS OUTLOOK

2016



CONTENTS

Welcome to the Cushman & Wakefield *Atlas Outlook 2016*, an update on the *International Investment Atlas* that reviews how the market performed last year and, more particularly, what we should anticipate for the year ahead.

We have examined a series of questions when approaching this publication: what are the key forces driving and transforming the global market? Who will be the winners in this volatile environment? How should a subsequent investment strategy be most advantageously aligned?

Of course, in a highly uncertain but fast changing world, the need for insightful research is increased – but the task of delivering a robust and well-considered view is made more difficult. By bringing together expert opinion from across our capital markets, occupier and research teams around the world, we have sought to answer this challenge and hope you agree we have delivered a concise but thoughtful review of the state of the market and the outlook for the year ahead.

Naturally, any research can only be enhanced by further industry insight. To help us continuously improve our Atlas Outlook, we would value your thoughts, comments or suggestions. Feel free to share these via our Cushman & Wakefield social media channels or by contacting our capital markets or research teams directly.

David Hutchings
Capital Markets Strategy

CHANGE - NOT GROWTH - DRIVES THE MARKET

A positive and longer cycle

The fundamentals of the global property market may vary by city, but overall, they look good, with volumes near record levels, global capital flowing freely, pricing up and occupier markets firming. However, this is a time of great change: in monetary policy, in global politics, in demographics, technology and in the environment. Together, these forces are bringing significant volatility but also new areas of opportunity, as well as a new cycle that is likely to be longer but shallower thanks to low inflation, interest rates and limited development. What is more, we are yet to hit the peak of this cycle, with yields falling further and rents on the rise.

Re-pricing risk

With the interest rate cycle bottoming, new decisions have to be faced – even though property has a significant buffer to work though, given that the risk premium over interest rates has remained elevated more due to a mispricing of interest rates than of real estate. Investors will nonetheless continue to wrestle with the question of what levels of risk and pricing are right for them. The degree to which rental growth accelerates to match build costs and tenant demand spreads to second-tier property as prime rents rise will help determine the right course of action.

Focus on super prime

While economic concerns are somewhat overstated, risks are clearly elevated. Thus, core will be the key theme for many, with super-prime assets in strong demand in all regions. However, demand will have to continue spreading to new markets and sectors to find opportunities at differing points on the risk curve. With markets no longer moving in the same direction, astute diversification will be rewarded.

Emerging Market comeback?

Low inflation and low commodity prices mean the developed world remains in the driving seat. Nevertheless, emerging markets will also see a steady economic improvement in time, and indeed, some could start to stabilize later this year. An increase in investment interest should also emerge both as they continue to develop but also as investors seek out global growth opportunities. Domestic demand in these markets will also increase as both the middle classes grow and their savings and investment needs develop.

Profit taking

Some short-term investors are entering the disposal stage of their investment programme. Additionally, some institutions will also be net sellers thanks to the rise in property's share of the portfolio following recent investment and falls in other asset classes. As a result, more profit takers are likely in 2016. However, for many, allocation targets to real estate are likely to rise further as performance deteriorates in the fixed-interest market. Further, multi-asset investors will appreciate even more the low volatility facets of property performance. Therefore, we can expect a market with more supply and more demand – but potentially not where pricing expectations are aligned.

Changing needs drive the occupier

Low inflation and economic growth mean that cyclical change will be muted, although structural change could be a more significant driver of demand. Ecommerce is clearly a key aspect of this, dramatically changing retail and distribution needs – as are sustainability, technology, urbanisation or re-urbanisation and a densification of cities and work places. As a result, culture, tourism, digital infrastructure and reputation are of growing importance in shaping appeal to workers and businesses alike.

Looking at strategy for the year ahead

The focus should be on assets that work for the occupier – not the banker – with productivity key in what is now an asset, not a sector pick. A search for platforms is therefore likely to accelerate as investors focus on accessing the best local intelligence, with more JVs and M&A emerging. There will be certain common strategic themes to follow, including the potential for "Build to core" in gateway markets, providing modern flexible, retail, office and residential space and feeding demand for modern, urban-based logistics. Moves into other sectors are also likely to accelerate, with mixed-use developments and flexibility of use increasingly desirable, together with a stronger awareness of environmental risks both geographically and in design terms. A focus more on cities than countries or sectors is beneficial, but above all, the mantra will be change not growth as investors seek out security and performance – and find that both stem from the value the property not only creates but also sustains for its occupier.

A SUMMARY OF 2015

Global property trading activity fell in 2015 for the first time in 6 years, albeit edging down just 2.4% to $1.29 tn. This reflected the strength of the US dollar as well as a pullback in Asia, notably for development land. Excluding land, global volumes rose 8.2%, with particularly strong increases for multifamily residential and hospitality, followed by logistics.

Foreign exchange movements played a significant role in both growth and strategy over the year, attracting more investors towards the USA while also diluting volume growth measured in other currencies. According to RCA, while global volumes fell 2% in US$ terms, in euros there was a gain of 17%.

This distortion was most apparent for Europe, with EMEA volumes flat in dollar terms but 23% up in euros while North America saw the fastest growth measured in any currency. In Asia meanwhile, in US$ or euro, with or without land, the region was down as past policy tightening impacted, together with concerns over slowing growth in China and, in many cases, a lack of affordable investment opportunities.

By country, the USA is very much on top, with volumes rising 25% and speaking for 39% of all global trading. China, the UK, Germany and Japan round out the top 5, while the fastest growing larger markets were all in Europe: Italy, Norway, Denmark and Portugal.

A clear focus on core markets has again dominated, with only North America and Western Europe up over the year and the top 25 cities increasing their market share from 44% to 49%. Interestingly however, the final quarter saw a bounce in a range of emerging market regions including Latin America, Eastern Europe and Africa as a search for genuine opportunity still excites some players.

Over the year, global yields fell 18 bp and are now 30 bp below their low point in 2007. The pattern of recovery remains quite divergent however, with yields on aggregate in Europe still above their pre-crisis lows while in other regions they are setting new records.

By investor type, insurance and pension funds increased their activity by 23% with a focus on North America and Europe but the strongest growth was among private equity and sovereign wealth funds.

Cross border players were again the key driver of activity, with foreign investment rising 24% while domestic investment fell 9%, giving foreign investors their highest market share since 2008 at 25%.

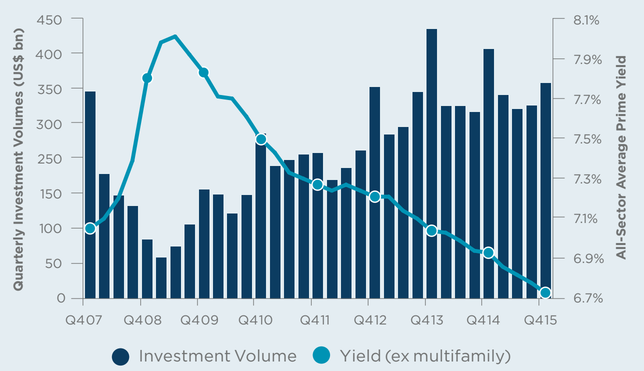
Asian investors overtook North Americans as the greatest source of cross border capital in 2015. However, a higher proportion of this focusses on the regional market and, US and Canadian players combined, remain the dominant global force. The fastest growing source of global capital was the Middle East, with North American global buying actually easing slightly as opportunities at home were more sought after.

Despite dropping 6%, the US remains by far the largest global investor, accounting for nearly 20% of the global cross border total. Hong Kong was in second place followed by Canada, Singapore and China.

2.4%

Global property trading activity fell in 2015 for the first time in 6 years by 2.4%

Fig 1: GLOBAL PROPERTY INVESTMENT VOLUMES



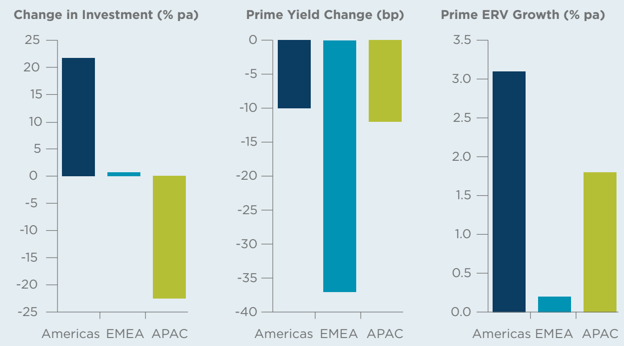
Source: Cushman & Wakefield, RCA, KTI and Property Data: Deals over US$5 mn including land

REGIONAL TRENDS

Significant differences continue to be seen in performance at a regional level, with the Americas leading the way on volume growth, Europe ahead for yield compression and the Americas and Asia top for rental growth.

Yield compression in the Americas was led by Canada and the USA, with Latin America largely flat. In Asia yields have been stable in most markets, with falls in Australia and Japan. Europe meanwhile saw more uniformity with yields down in most markets. In terms of rental trends, growth was relatively low globally, with offices leading ahead of retail and industrial relatively flat. Offices were very much the lead segment for North America while retail and logistics were stronger in Asia. Europe was flat thanks to the scale of falls in Russia and Ukraine, but looking at other markets, real growth has selectively returned in all sectors.

Fig 2: **TRENDS IN THE GLOBAL MARKET IN 2015**



Source: Cushman & Wakefield, RCA, KTI and Property Data; please note that rent and yield exclude multifamily residential

The Investors

As noted, the fastest growing source of global capital in 2015 was the Middle East, with cross border investment up 81%. UAE and Qatar were neck and neck driving this growth, while Kuwait and Saudi Arabia fell back, both investing less than in 2014. Among Asian buyers, growth was led by Singapore and China but there were also strong increases from a range of others including Thailand, Australia and South Korea. European investment globally rose 32% and while Europeans still tend to invest more within their region, this rose at a slower rate (22%).

Looking forward, cross border investors are likely to win further global market share in 2016, with spending forecast to rise around 15-20%, versus a circa 5% fall for domestic buying.

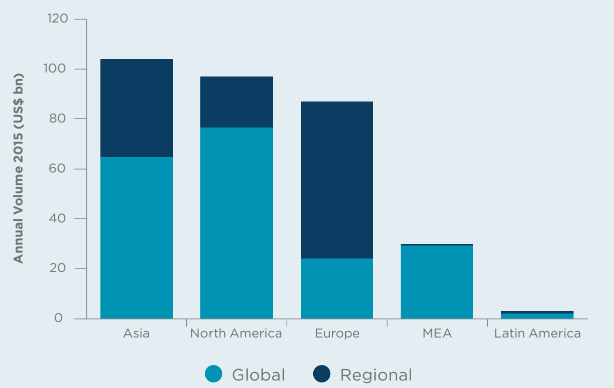
North America will remain the largest global player but activity may again slow as higher interest rates start to influence asset allocators. At the same time, with increasing competition to buy from foreign players, a strong outflow of capital to other global markets is still likely – with Europe remaining a key focus. Some may move towards new markets in search of higher returns while others, led by PE funds, will get ready to take profits.

For some Middle Eastern buyers the persistence of lower oil prices will lead to changes in investment policies, blunting the growth of demand and in some cases leading to divestment. However, a marked rise in uncertainty within the region and volatility in asset prices will at the same time continue to encourage an outward flow of investment. Gateway cities will remain in demand but interest will spread as some investors loosen their risk tolerances in pursuit of higher returns to compensate for lower commodity revenues.

Global investment out of Asia is likely to increase further – potentially exceeding the 30% growth seen in 2015 – with recent events and stock market turbulence adding to the need to diversify and reducing options for safe investment domestically. This will result in activity spreading into new sectors and cities, as well as broadening, as new players emerge.

Among European buyers, ongoing QE and strong buying competition will encourage more to cross borders. The weaker euro may hold back some and changing attitudes towards international risks and the EU could also be an influence but overall, increased interest in global markets can be anticipated as domestic and regional pricing increases.

Fig 3: **SOURCES OF INTERNATIONAL CAPITAL**



Source: Cushman & Wakefield, RCA

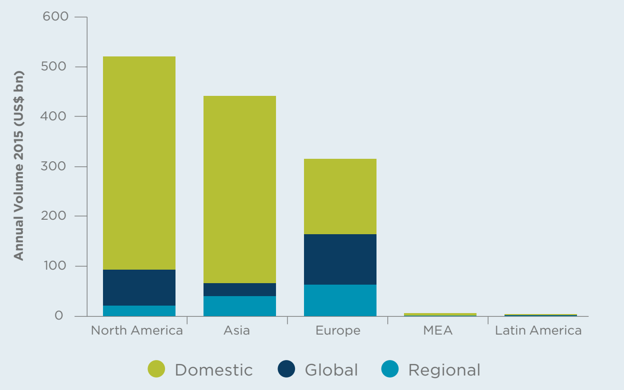
Targets for Investment

North America was the largest overall target in 2015, with Canadian and global funds doubling cross border spending in the USA and taking a 28% market share. In Asia, domestic and global spending both fell back but regional spending increased, targeting core markets such as Japan and Australia. Asian players, domestic buying aside, took a 9% share last year, up from 6.5% in 2014.

The penetration of foreign investment is rising in all markets, if at a different pace. Europe remains the most diverse, with foreign buying at 51.5% of the market last year, led slightly more by regional than global investors. It is worth noting that these figures understate the true level of cross border investment due to the importance of indirect buyers.

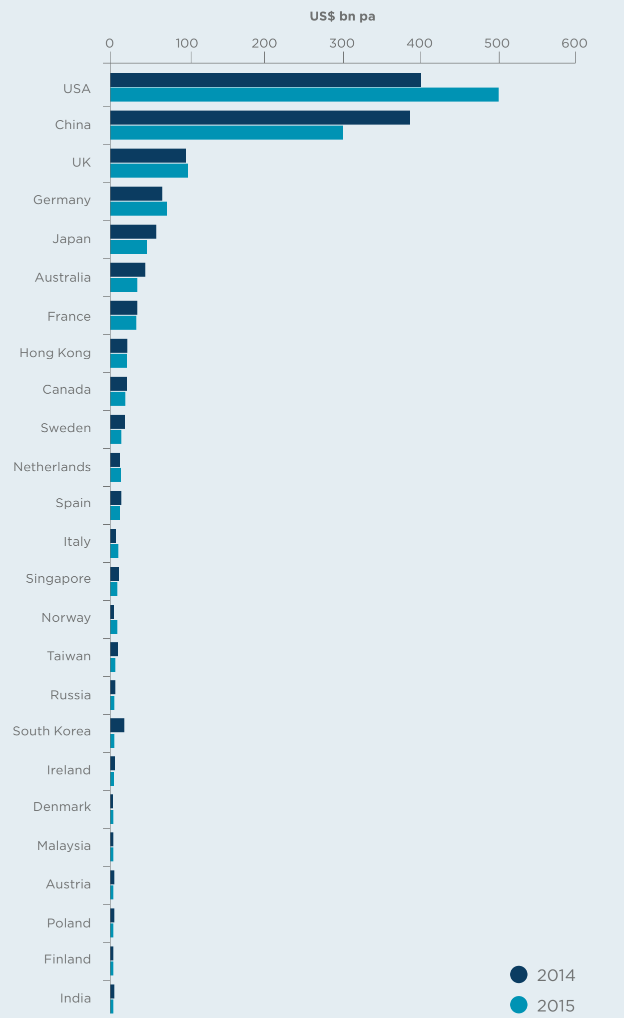
At the top of the rankings by country stands the USA, 67% ahead of China. These two dominate global activity with a combined 62% market share. Among cross border investors meanwhile, the US overtook the UK to claim top spot for the first time since 2007 with volumes rising 118%. Germany moved up to 3rd while China is 4th and France 5th.

Fig 4: **TARGETS OF INTERNATIONAL CAPITAL**



Source: Cushman & Wakefield, RCA, KTI and Property Data

Fig 5: **TOP 25 INVESTMENT TARGETS BY COUNTRY**



Source: Cushman & Wakefield, RCA, KTI and Property Data

CHICAGO, USA

Sector Trends

The main change in sector weightings in 2015 was a further drop in development land sales, down 23.5% to its lowest market share since 2008. Multifamily residential and hospitality saw the strongest increases meanwhile, followed by industrial.

Retail rose very marginally while offices dropped 2.5%. The growth of segments such as hospitality and residential confirms the move towards alternative sectors and alongside others such as healthcare, they will become increasingly mainstream in the years ahead.

The hospitality sector saw growth of 26.3% in 2015, with North American investors dominant – speaking for 55% of activity. Single asset deals in gateway cities were again in strong demand while private equity funds are actively looking at portfolio deals in core and secondary markets.

Multifamily residential rose 27%, taking a 15.6% market share, its highest on record. US buying drove this but Asia also rose strongly due to growth in Japan and China. Europe fell back with a disappointing year in the UK, the second largest market in 2014 after Germany. Would-be buyers were thwarted by a lack of stock but this is likely to change, with strong government support and a growing range of funds targeting the market.

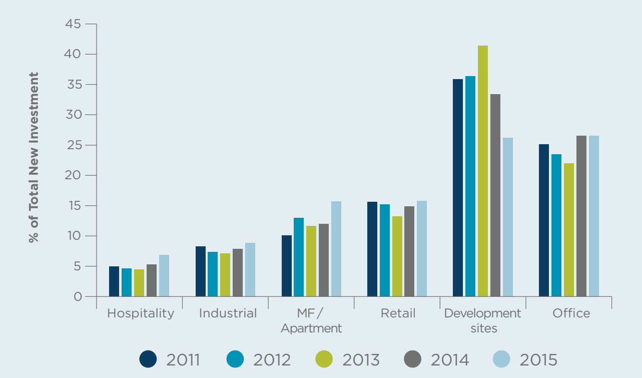
27% ↑

Multifamily residential investment rose by 27% in 2015, taking a 15.6% market share

Industrial is also an increasing focus for global players, with e-commerce, changing technology and retailer expansion spurring the development of logistics, with the US and Europe leading but growth hotspots being seen globally.

Offices also performed well last year and may see increased investor interest as the rent cycle looks increasingly favourable in many markets as more occupiers look towards expansion, albeit with one eye firmly on cost and efficiency. Retail performance was more mixed, with a generally positive backdrop and falling grade A supply, but localised issues impacting.

Fig 6: **SECTOR SHARE OF GLOBAL TRADING**



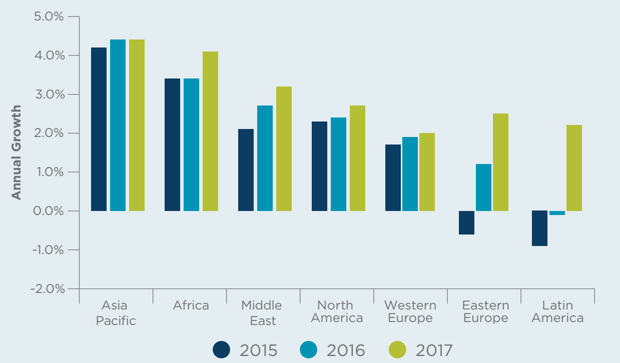
Source: Cushman & Wakefield, RCA

MACRO POSITION

Most forecasters tell us we have a secure, if unexciting, economic growth backdrop – with only Latin America still in recession but GDP growth marginally improved or stable in all regions and with better gains to come in 2017.

Unfortunately, despite this assessment, financial markets are viewing the outlook with more trepidation and it is clear that a whole host of risks could knock us off this stable growth course. Individually these can be viewed rationally and the positives and negatives coming from each recognised. However they are not operating one by one and it is the cumulative effect which is so sapping to confidence, particularly so since a number are set to intensify further.

Fig 7: **ECONOMIC GROWTH AND EXPECTATIONS**



Source: Cushman & Wakefield, Oxford Economics

As if these factors were not enough, other risks could be around the corner if events don't go smoothly, whether that's deflation, rising inequality, or regional instability. Hence these risks will demand a strategic response from investors, with demand for core assets likely to increase and global diversification to be a higher priority.

Monetary policy

Forget the excitement of oil, espionage and high business, perhaps the biggest root cause of today's volatility can be laid at the door of the world's central banks thanks to the changing position of global monetary policy. Currencies specifically and financial markets generally are caught in the crossfire as a new normal starts to develop, but are we at the beginning of the end or merely the end of the beginning? A programme of QE like we have today has never been seen before and hence we cannot know what lies ahead, but should watch for more volatility and a longer race than many still expect. Talk of more rate rises this year is already evaporating but as the cycle starts to turn, tensions will change, with more distressed opportunities emerging.

Politics

Whether it is politics, geo-politics or realpolitik, governments are at the heart of many of the unknowns we face this year. While there are initiatives underway that could herald some improvement, with peace talks in Syria for example, it is just as likely that these inter-connected issues will pave the way for an even more uncertain time next year. The US presidential election is always a major global focus but Europe may be more significant whatever the result of the UK referendum. Indeed, the EU is under pressure as never before, with immigration bottlenecks in the Balkans, Greece struggling with its latest bailout, Ukraine no closer to a solution, Spain and Portugal with new governments and elections drawing closer in France and Germany.

Reform and regulation

Reform is a key area impacting the market, both positively when we look at countries such as India and Spain but also negatively as increased regulation adds to cost and business complexity. Positive reforms will be something investors watch closely and a key factor differentiating between opportunities in many instances. Innovation may also lead to improvements in business efficiency, with the growth of non-traditional lending platforms an example. However, these may be outweighed by increased regulation, which could add to costs and reduce risk taking to the point where early-stage ideas are stifled. While the fear of new regulations can be worse than the reality, Basle III and Solvency II are cases in point, where aims are admirable but the results could distort activity and raise costs. Another example may be the OECD's Base Erosion and Profit Sharing project (BEPS) which aims to cut tax avoidance and treaty abuse; however, it also could have a significant impact on REITs and fund managers, as the benefits of leverage will be impacted and tax leakage will rise, with multijurisdictional investment platforms particularly hit.

Emerging markets

One area that could give some upside surprises is emerging markets. While developed markets are likely to again out-perform this year, for some emerging markets, conditions are already brighter, most notably those embracing reform like India, the Philippines and Mexico. Stronger demand from developed markets will help further, and we may be drawing near a potential end to the slowdown – even if stability is the best we can hope for short term in markets like Brazil and Russia. Interest is increasing among investors, and while a short-term bounce looks unlikely, there is clear potential for a sustainable base to be set in values later this year.

Commodities

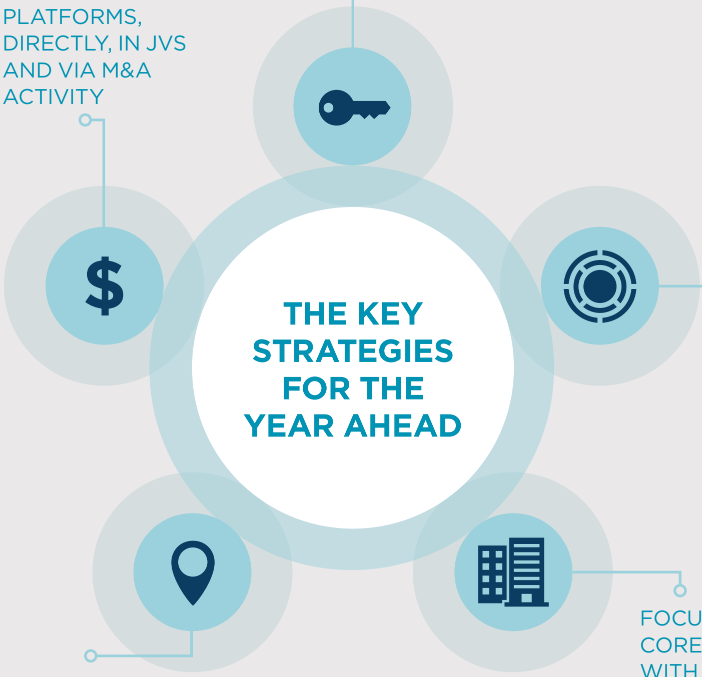
Low commodity prices are a double edged sword, penalising producers but befitting consumers and that looks set to continue for longer than expected with a recovery in prices unlikely this year, with many markets still oversupplied, weaker demand in China, a strong dollar, Iranian exports to recommence and weaker investment demand. However, as these factors germinate we are seeing the first moves towards co-ordination on production which may pave the way for greater stability later this year.

Chinese Slowdown

China is one of the first risk factors many think of in today's global economy, blamed for low oil prices, stock market volatility and weaker growth in markets from Germany to Brazil. However, does it deserve to be on the list as a key driver of risk or should it be congratulated for managing its huge economy's continued development? After all, growth of 7% in China throws up activity equivalent to creating a new Netherlands. The changes being seen may be clumsy at times and certainly add to global volatility but they are necessary, and in the long term, desirable for the world economy.

A TRANSFORMING LANDSCAPE

How change – not growth – is shaping
the investment market for 2016 and beyond



FOCUS ON THE OCCUPIER, NOT THE BANKER

INVEST IN LOCAL PLATFORMS, DIRECTLY, IN JVS AND VIA M&A ACTIVITY

"BUILD TO CORE" IN GATEWAY MARKETS

FOCUS ON FLEXIBLE, CORE PROPERTY, WITH SUPER-PRIME IN DEMAND

CITIES, NOT COUNTRIES, WILL BE KEY

4.2% RISE IN TRADING VOLUMES IN 2016 - WHAT IS DRIVING THIS?

NEW SOURCES OF CAPITAL STILL EMERGING

A STRONG SUPPLY OF DEBT

UNSATISFIED DEMAND AMONG EXISTING PLAYERS IN ALL SEGMENTS

INCREASED PROFIT TAKING WILL BRING MORE STOCK TO MARKET

WHICH REGIONS ARE SET TO SEE THE BIGGEST GROWTH OR LARGEST TOTAL IN CAPITAL DURING 2016?

NORTH AMERICA
(3.8% CHANGE ON 2015)

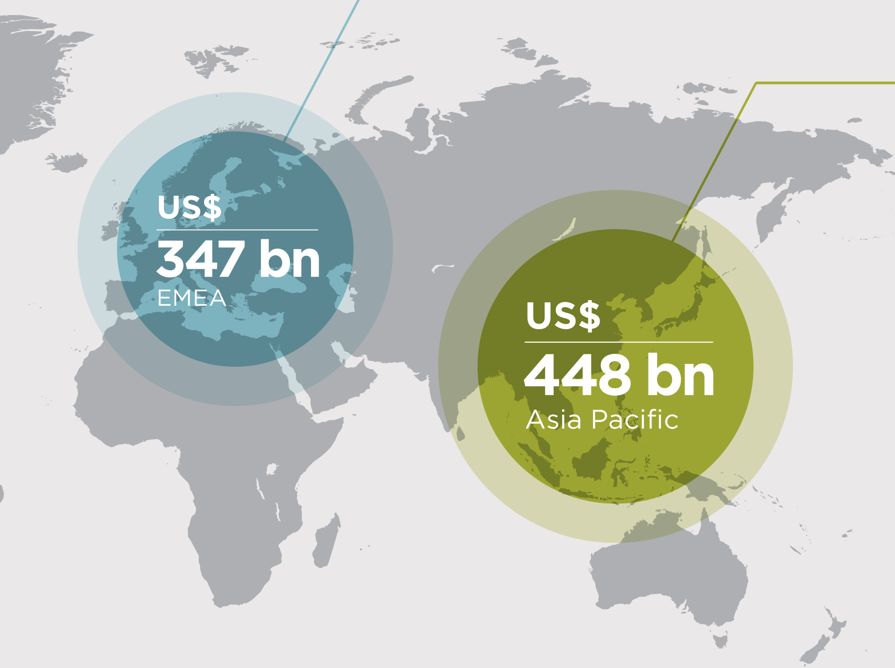
In the US, globally leading economic growth and dollar strength are overlain with tightening policy and November's election.

EMEA
(8.4% CHANGE ON 2015)

Further QE, low cost of capital and uncertainties in the EU stretching from the UK's referendum to mass migration.

ASIA PACIFIC
(1.5% CHANGE ON 2015)

Stabilising growth in China, higher supply levels and robust occupational demand against strong regional investor interest.



LATIN AMERICA
(18.6% CHANGE ON 2015)

Reformed economies to outperform as investors wait for signs that the commodity and real estate markets have hit bottom.

OUR KEY TAKEAWAY FOR CRE INVESTORS?

IT'S NOT ABOUT THE SECTOR

"Investor's should focus on modern flexible and sustainable space in accessible, popular areas as the divisions between sectors are blurred by new living and working patterns."

HONG KONG, CHINA

ASIA PACIFIC

Asian markets generally performed well in 2015, with strong demand compressing yields and positive space absorption typifying core occupier markets.

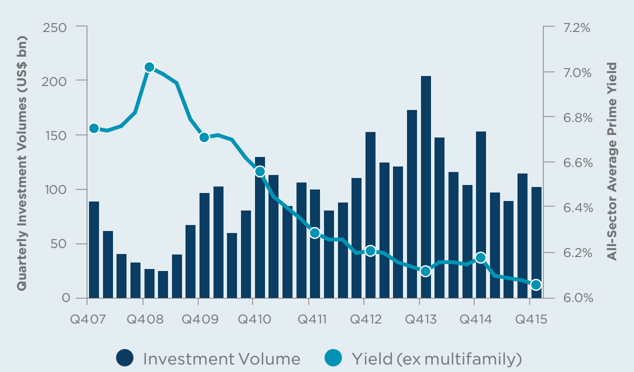
Nonetheless, the real estate sector has not been immune to concerns over the slower economic backdrop and increased caution alongside stock shortages did lead to a fall in investment over the year. While land sales in China were a significant part of this, the loss was broad based across most sectors and all major markets, with only emerging targets such as Vietnam, the Philippines and Thailand showing growth.

Looking ahead, the lead for economic growth looks likely to be taken by India together with smaller South East Asian markets such as the Philippines and Vietnam. Nonetheless, China of course remains an economic powerhouse, and while concerns about its health are creating waves, reports of a hard landing are overdone. Although questions will remain for future years as China's transition continues, a sensible central case for assumptions this year is for slower growth not a reverse.

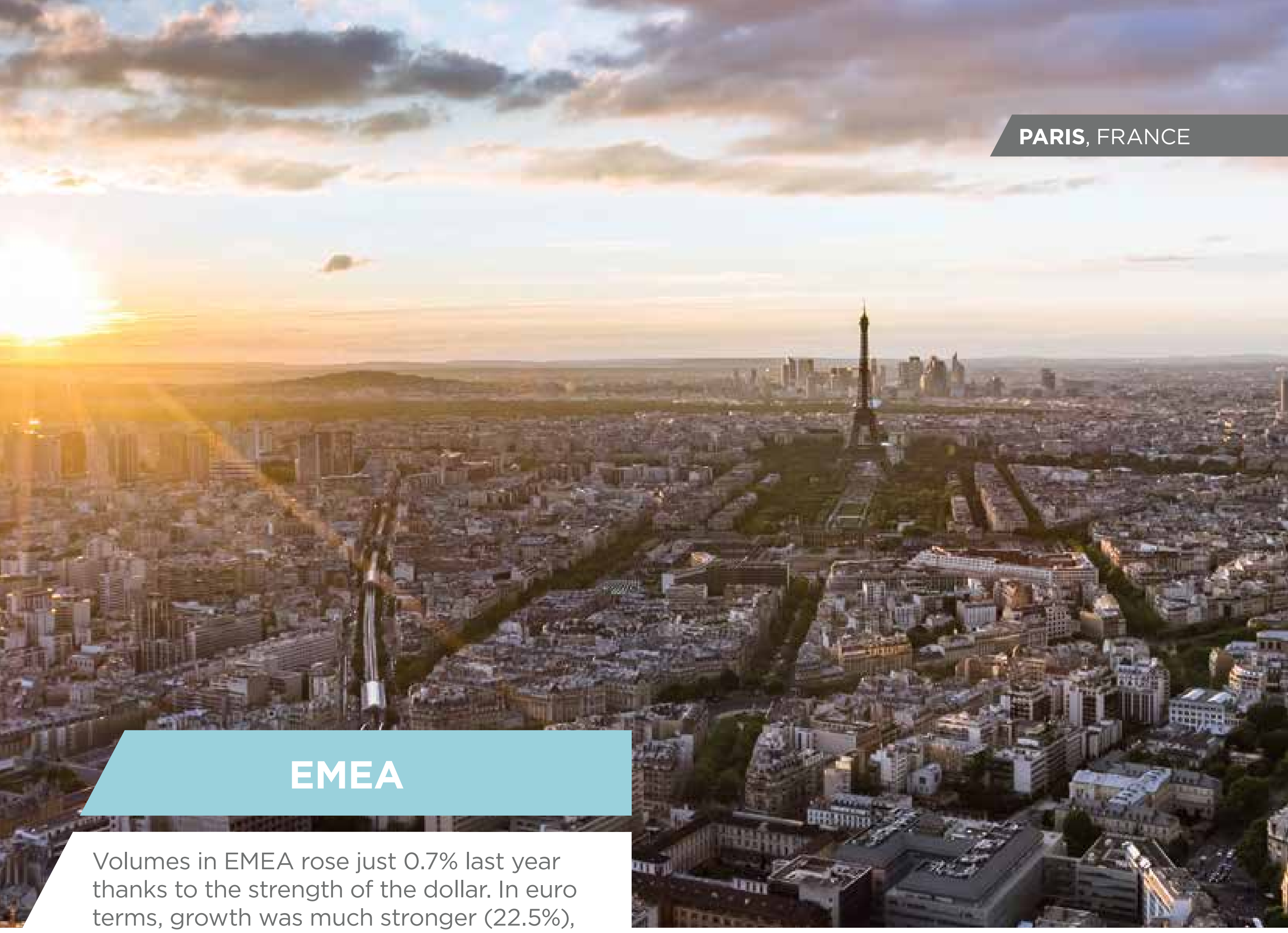
In terms of market conditions, the strongest office locations are tier 1 mainland Chinese cities plus Taipei and Hong Kong, while Sydney and Melbourne saw a marked improvement and several emerging markets ended the year well, particularly outsourcing hubs such as Bengaluru and Manila. The logistics sector meanwhile is still seeing significant changes as it matures and has suffered a shortage of opportunities for occupiers as well as investors. Developers are responding however, flattening rental growth in some locations. In the retail sector, sales were mixed, and this is reflected in property performance, with rents rising in some markets such as Tokyo, Sydney, Manila and Bangkok, but with values slipping back elsewhere.

Economic growth in the region will likely be led by India

Fig 8: **APAC PROPERTY INVESTMENT VOLUMES**



Source: Cushman & Wakefield, RCA



EMEA

Volumes in EMEA rose just 0.7% last year thanks to the strength of the dollar. In euro terms, growth was much stronger (22.5%), with Germany and other core markets leading but demand clearly spreading more widely, with Southern Europe up strongly and quality property in demand in all sectors.

The main source of demand is cross border players, although regional European interest grew at a faster pace than global demand last year. North America is the dominant source of capital nonetheless, while other key non-European buyers were from Qatar, China and Singapore.

The flow of bank-led opportunities is one factor attracting investors to the EMEA market. These spiralled to €86 bn last year and are forecast to hit €70-80 bn in 2016, led by the UK, Ireland, Spain, the Netherlands and Italy. As these assets and portfolios are worked, secondary sales are also starting to feed the market

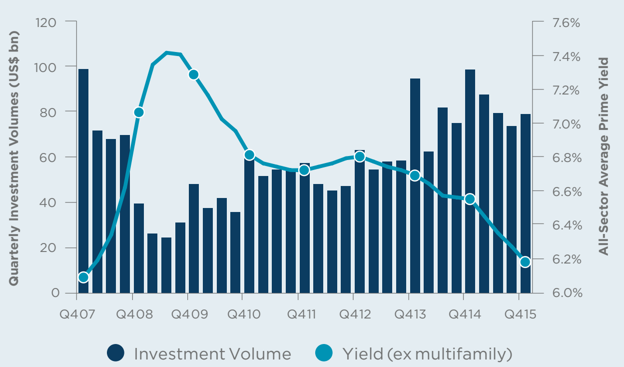
International risks such as the refugee crisis and the UK vote on EU membership may get the headlines, but domestic issues are equally –if not more – pressing to potential performance, with the recovery to date built on temporary boosts such as lower inflation and QE. However, these will remain beneficial in 2016 and what is more, we should also see a less constrained fiscal policy. In terms of performance, this improved economic growth is benefiting occupational markets, with prime rents under slow but sure pressure.

Conditions in the retail sector in particular, have improved thanks to stronger signals on spending as well as e-tailing. Industrial demand is up strongly as retailers and distributors adjust to new distribution needs and the supply pipeline fails to keep pace. In the office sector, falling supply has been the main driver of growth but an increasing number of markets are also seeing better demand as well, leading to improved prospects in a widening range of cities.

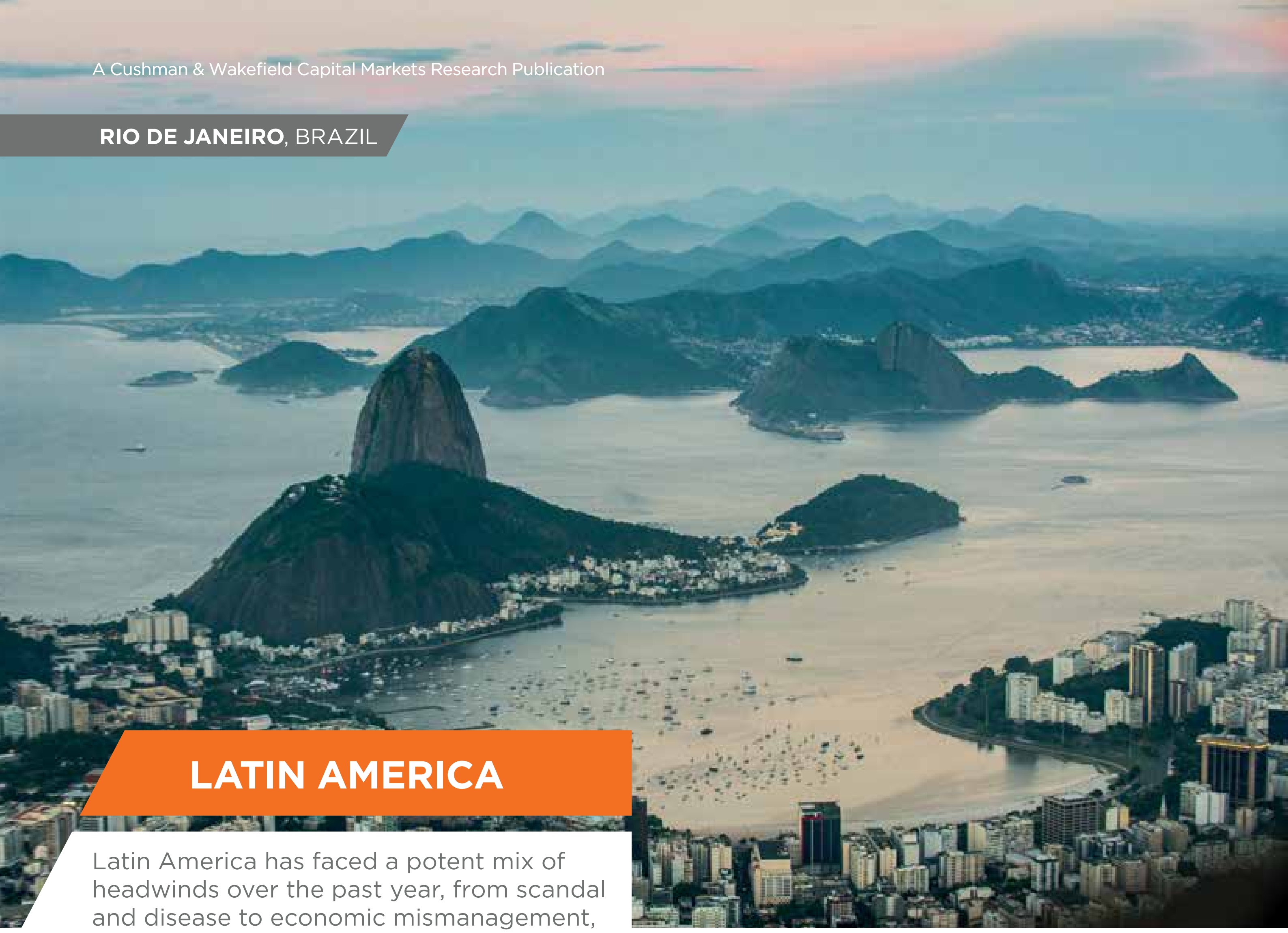
22.5%

In euro terms, regional volume growth was stronger at 22.5%

Fig 9: **EMEA PROPERTY INVESTMENT VOLUMES**



Source: Cushman & Wakefield, RCA, KTI and Property Data



RIO DE JANEIRO, BRAZIL

LATIN AMERICA

Latin America has faced a potent mix of headwinds over the past year, from scandal and disease to economic mismanagement, weak commodity prices and capital flight.

It is hardly surprising, therefore, that the property market has weakened, with investment activity down 53% thanks to falls in domestic and foreign buying. Brazil saw the largest fall in volumes – of over 70% – but Mexico, the largest regional market, was also down sharply. Interestingly however, rents and yields have held relativity firm for prime property.

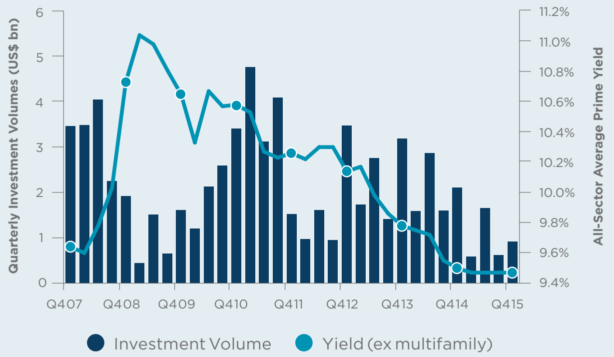
Conditions are set to remain tough this year, with higher US interest rates adding to the region's problems. However, conditions are also far from uniform. Brazil and Venezuela may be in recession but Mexican growth is edging up and Chile, Colombia and Peru are performing well – and it's no coincidence that these three markets are all relatively successful reformers. What is more, there are other areas of reform emerging, from Argentina to Cuba, and potentially Venezuela. Hence while it will take Brazil time to work through its problems, the region overall may be close to bottoming. As a result, it is no surprise that there is growing interest from opportunistic investors and a stabilization in financial markets, as well as the Zika virus, could help turn interest into action later this year.

In Brazil specifically, the hoped for boost of the Olympics is being offset by the ongoing threat of impeachment facing President Rousseff, distracting attention from the much needed reform programme. Brazil's recovery is therefore going to be slow without a marked improvement in commodity prices. Nonetheless, after strong falls over the past 3 years, particularly in net effective rents, the market may be drawing towards its low point. Mexico meanwhile is more promising short term, with domestic demand robust, aided by social security reforms boosting employment.

53.5%

Investment activity fell considerably by 53.5% in 2015

Fig 10: **LATIN AMERICA PROPERTY INVESTMENT VOLUMES**



Source: Cushman & Wakefield, RCA

NORTH AMERICA

North America has remained the driving force behind the global market, with volumes ahead 23.2%, and despite increased caution in recent months, a robust end to the year was seen.

Cross-border investment rose strongly in the USA, by over 70%, helping to offset a drop in domestic activity of 5%, with demand from China, Singapore, Qatar, UAE, Germany and Norway as well as Canada. Overseas investors increased their market share from 10% to the highest on record (18.1%). That may, however, be bettered this year as low global interest rates and the relative strength of the US economy, currency and property markets will keep capital flowing into property.

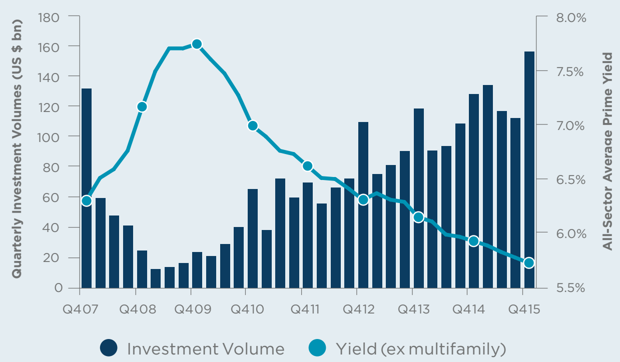
All sectors in the US are seeing improving fundamentals, with apartments and offices performing best. While development has increased, it remains generally balanced with supply. Cities on the North East and Western coasts are leading for innovation-linked industries, but cities in the southern belt are also faring well thanks to demographic trends and service sector growth. Sustainability is steadily gaining significance, whether in avoiding high-risk areas, targeting higher quality construction or undertaking more risk assessments.

Looking ahead, while the US economy may slow, real estate fundamentals should stay solid. The yield spread over bonds will remain attractive as the increase in interest rates will be slower than some expect. If this prevents debt costs rising, further price appreciation is likely for real estate, albeit for prime.

In Canada, slower economic growth, a falling dollar and low oil prices have all hit sentiment; however, high prices and limited availability arguably had more impact on the property market, delivering a 10% fall in volumes, with foreign investment dwindling to its lowest since 2009. In a volatile environment with a low cost of debt however, demand remains high, and while conditions are highly variable city by city, a new government with plans to stimulate the economy via infrastructure spending, may help the market turn the corner this year.

Apartments and offices are the best performing sectors in North America

Fig 11: **NORTH AMERICA PROPERTY INVESTMENT VOLUMES**



Source: Cushman & Wakefield, RCA

A Cushman & Wakefield Capital Markets Research Publication

OUTLOOK & STRATEGY

With new sources of capital still emerging, plenty of unsatisfied demand and a strong supply of debt, the global market is likely to see another robust year in 2016.

What is more, while global uncertainty is boosting demand from some quarters, it is also leading to differing views on how best to invest – producing more willing vendors in a number of markets and hence raising further the potential for volumes to increase. As a result, we forecast a 4% increase in trading this year, which could easily be bettered if current global volatility starts to stabilise.

At the same time, performance is yet to peak, with yields not yet at their floor and a slow improvement in occupational demand pushing rents slowly ahead. The short term cycle favours offices, with growth in prime rents of 4-5% forecast across major gateway cities in the USA such as New York, San Francisco, LA and Boston as well as London, Dublin, Stockholm, Madrid, Sydney, Shanghai and Tokyo.

Retail growth will be sustained in key gateway markets, particularly in the USA, but will be at a somewhat slower rate and generally more selective as retailers adjust their trading platforms. The logistics sector may see growth trends flatten due to a combination of new supply and occupier cost sensitivity, but the market generally will be subject to sustained demand for modern space as retailers and distributors adapt to the need for more rapid delivery times and strong growth is likely in some US and some European markets in particular.

Table 1: **INVESTMENT VOLUMES (INCLUDING LAND AND MULTIFAMILY, ASSETS OVER US$5 MN)**

	VOLUMES IN 2015			2016 OUTLOOK	
	2015			2016	
	US$ bn	Change on 2014	% 2007/8 peak	US$ bn	Change on 2015
EMEA	320.1	+0.7%	76%	347	8.4%
Latin America	3.8	-53.5%	31%	4.5	18.6%
North America	520.4	+23.2%	90%	540	3.8%
Asia Pacific	441.3	-22.5%	158%	448	1.5%
Global	**1,285.5**	**-2.4%**	**100%**	**1,339**	**4.2%**

Source: Cushman & Wakefield, RCA

Table 2: **VALUE CHANGES IN THE GLOBAL MARKET**

	CHANGE IN YIELDS (BP)			CHANGE IN FACE RENTS	
	2015		2016		
	Relative to 2014	Relative to market peak	Relative to 2015	Relative to 2014	Relative to 2015
Europe – West	-43	+19	-25	3.0%	3.2%
Europe – Central & East	-15	+63	-40	-13.2%	1.0%
Middle East	-35	-10	-25	-0.5%	1.5%
Latin America	-3	-13	-15	-1.0%	-0.5%
North America	-20	-49	-10	3.6%	3.0%
Asia Pacific	-10	-66	-20	1.8%	1.5%
Global	**-18**	**-30**	**-20**	**2.0%**	**2.2%**

Source: Cushman & Wakefield, RCA
Note: Middle East rental growth and yields for offices only. Other regions are all-sector excluding multifamily. Rental levels referred to are face rents.
RCA data relates to all deals over US$5 mn, as of Feb 2016. Constant exchange rate assumed in 2016 forecast.

Asia is expected to see a return of positive volume growth in 2016, with land markets stable but a steady increase in demand for built commercial space. Core and core-plus strategies will continue to target Japan and Australia but activity may be held back by a lack of stock. Other markets should offset this however to deliver modest regional volume growth. The key areas of activity are expected to be core cities in China, Singapore and South Korea, as well as core-plus markets such as Taipei, Auckland and secondary cities in core countries.

China should see more activity as policy is loosened to promote growth, but excess supply in many smaller centres will focus interest on tier 1 cities, and on Shanghai in particular. Logistics would also be attractive in China, as in a number of Asian markets, but opportunities are limited with many end-users developing their own facilities and some local authorities less supportive of development since it contributes less tax and employment.

For those ready to take higher risk, speculative development or asset repositioning in core cities may be preferred, led by Tokyo and Sydney. Emerging markets also have potential to gain more interest, which could include investment in local platforms in China to take advantage of any stress or over leverage among local/international developers, or looking at growth in key Indian centres.

The Americas are expected to again perform well in 2016, with a further rise in activity driven by the USA and rising values underpinned by the occupier market. In **Canada**, weak oil driven demand and excess supply in some cities will continue to hold back growth but Toronto and Vancouver in particular will remain in demand where opportunities do present themselves and supply shortages will force some investors to diversify further afield. Prospects for the industrial sector are more bullish, with the lack of modern logistics space continuing to support growth potential.

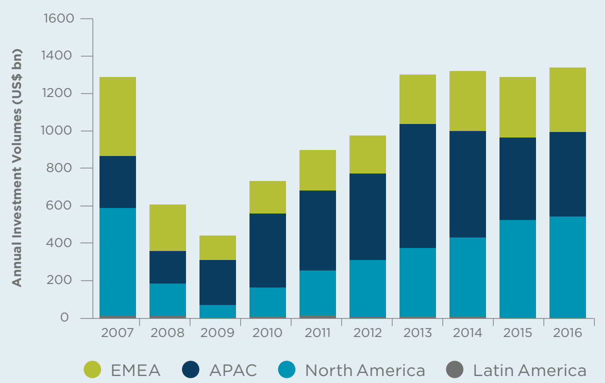
In the **USA**, divergence on interest rate policy will drive the dollar higher and draw capital in, particularly if the economy maintains a steady rate of expansion. Overvaluation of the dollar may start to preoccupy some later this year, but in reality, the pace of interest rate rises is likely to be slower than expected. Core cities with liquidity and economic growth will continue to attract most buyers, led currently by Chicago, LA and Boston. Core-plus interest should focus on mixed-use assets in growth cities such as Miami, Atlanta, Austin, Denver and other tech/lifestyle cities, while office repositioning in gateway cities is a strong option for value-add buyers and alternative property types will also be increasingly sought, such as datacentres and medical offices.

In **Latin America**, interest is slowly returning but buyers are waiting for signs that the bottom has been reached. Mexico may be favoured for a more immediate recovery, driven by the retail or residential sectors, while in Brazil, with assets relatively cheap thanks to rent and exchange rate adjustments, buying ahead of a 2017/18 recovery is likely to make increasing sense later this year. Asset level distress is limited but corporate level distress or financing needs will open up opportunities including sale and leasebacks. Logistics and tier 1 shopping centres are the preferred targets.

In **Europe**, the low cost of capital plus further quantitative easing will underpin asset price inflation and sustain high levels of debt. This increases the risk of capital being misallocated over time but it will also bring good levels of activity and growth in the short term, with volumes forecast to rise 5-10% and yields to fall 30 bp this year. Strong pricing and competition will encourage further diversification into new markets led by Southern and Central Europe but core markets will be in highest demand. The UK's referendum on EU entry may be a distraction for some. Germany will be a number one target for a range of global players, even though the gateways markets of London and Paris will continue to lead overall, with the Nordics also remaining in high demand.

For core players, offices, urban retail and mixed-use schemes in markets such as Paris, Brussels, Copenhagen, Milan and Stockholm may offer the best short-term opportunity. However, for value-add potential, office repositioning or build to core in key markets such as London, Stockholm, Berlin, Paris, Amsterdam and Madrid may be preferred. With yield compression well advanced in most Western markets, value-add potential may be easiest to identify in less recovered Central and Eastern European markets, such as Budapest, Bucharest or Sofia. Meanwhile, opportunistic investments are most readily available via loan portfolio sales or speculative development in leading markets, given that emerging markets such as Russia and Turkey are both higher risk at present.

Fig 12: **GLOBAL PROPERTY INVESTMENT BY REGION**



Source: Cushman & Wakefield, RCA, KTI and Property Data

Table 3: **TARGETS FOR INVESTMENT IN 2016/17**

	AMERICAS	ASIA	EMEA
Core	**Offices** US CBD Gateway cities, led by Chicago, Los Angeles and Boston, followed by New York, San Francisco and Washington plus core Canadian cities (Toronto and Vancouver) **Retail** Core 24 hour gateway cities in USA and Canada **Apartments** Multifamily in top US cities, e.g. New York, Boston, San Francisco, Los Angeles	**Offices** Sydney, Melbourne, Shanghai, Tokyo Singapore and Seoul **Retail and Hospitality** Tokyo, Sydney. Osaka and Singapore **Residential** Japan **Logistics** Singapore, Sydney, Hong Kong, Tokyo and Osaka	**Offices** London, Paris, Stockholm, Munich, Frankfurt and Berlin **Retail** Dominant shopping centres and luxury/flagship high streets, as well as mixed use schemes in core German and Nordic cities; also Paris, London, Milan, Madrid and Brussels **Logistics** London, Paris, Munich, Hamburg, Rotterdam and Antwerp
Core-Plus	**Offices** Core space, growth markets (Miami, Atlanta, Seattle, Denver and other tech or lifestyle cities) Development/repositioning in gateway cities led by New York and San Francisco Suburban offices in core US and Canada cities **Logistics** Core assets in Southern California, New Jersey, Miami and Seattle, as well as Dallas, Chicago and Denver	**Offices** Hong Kong and Seoul; key Indian cities including NCR, Mumbai and Bangalore; Beijing and potentially stronger tier 2 Chinese cities **Retail** Growth markets such as Singapore, Jakarta, Kuala Lumpur and Seoul Retail centres in core areas of Shanghai and Beijing **Residential** Singapore	**Offices** Amsterdam, tier 2 German and UK cities, Prague, Barcelona, Milan, Lisbon, Warsaw plus repositioning/ development in core cities: London, Paris, Stockholm, Frankfurt, Berlin and Madrid **Retail** Retail refurbishment in core cities in Northern Europe; core space in larger cities in Italy, Poland and Spain **Logistics** Tier 2 German cities; Warsaw, Prague and Budapest
Opportunistic	**Logistics** Market servicing key Brazilian and Mexican cities **Retail and residential development** Santiago as well as Mexican and Colombian cities. Retail in tier 1 Brazilian shopping centres **Offices** Mexican cities for short-term gain **Under-rented Class A US office and apartment property** South Florida, Dallas, Chicago and selectively for core assets in tertiary US markets	**Offices in emerging growth markets** Manila, Jakarta and Kuala Lumpur **Retail** Emerging markets such as Hanoi, Bangkok, New Delhi and other top Indian cities **Logistics** Gateway China cities including Shanghai, Beijing and Guangdong, as well as Indian hubs **China** Targeting over-leveraged or distressed developers via investment in local platforms	**Offices** Speculative development and repositioning in core West and Nordic cities, plus let property in the EU East and potentially Moscow **Retail** Major cities in Turkey as well as Eastern markets of the EU, led by Romania, and active management/ development in larger cities **Logistics** Development and units serving large Eastern European cities and peripheral Western European cities, such as Oporto, Barcelona and Milan

Source: Cushman & Wakefield Global Capital Markets

INVESTMENT VOLUMES

GLOBAL INVESTMENT VOLUMES EUR MILLIONS

ABOVE US$5 MILLION EQUIVALENT, EXCLUDES APARTMENTS

COUNTRY	2014	2015	ANNUAL CHANGE	2016 TREND
Argentina	15	0	n/a	
Australia	37,073	32,186	-13.2%	
Austria	2,409	3,546	47.2%	
Bahrain	0	22	n/a	
Belgium	3,408	4,616	35.5%	
Brazil	2,299	549	-76.1%	
Bulgaria	272	226	-17.0%	
Canada	15,105	12,674	-16.1%	
Channel Islands	84	163	94.4%	
Chile	143	23	-84.0%	
China	319,398	272,942	-14.5%	
Colombia	0	0	n/a	
Croatia	92	138	50.2%	
Czech Republic	1,995	1,905	-4.6%	
Denmark	3,731	6,865	84.0%	
Estonia	134	242	80.3%	
Finland	4,378	5,278	20.6%	
France	23,843	24,856	4.2%	
Germany	40,030	55,150	37.8%	
Greece	284	161	-43.2%	
Hong Kong	17,509	19,051	8.8%	
Hungary	617	810	31.1%	
India	4,258	3,396	-20.2%	
Indonesia	594	256	-57.0%	
Ireland	4,489	3,013	-32.9%	
Israel	314	673	114.6%	
Italy	5,118	6,570	28.4%	
Japan	41,985	38,954	-7.2%	
Latvia	95	43	-54.9%	
Lithuania	223	192	-13.9%	
Luxembourg	1,027	903	-12.0%	
Malaysia	3,214	3,956	23.1%	
Mexico	6,157	6,536	6.2%	
Netherlands	9,881	11,587	17.3%	
New Zealand	2,542	2,781	9.4%	
Norway	6,740	13,881	105.9%	
Oman	0	0	n/a	
Peru	0	117	n/a	
Philippines	601	817	35.9%	
Poland	3,134	4,008	27.9%	
Portugal	690	1,766	156.0%	
Romania	1,092	528	-51.6%	
Russia	3,276	2,585	-21.1%	
Saudia Arabia	122	922	657.7%	
Serbia	58	398	582.4%	
Singapore	8,934	8,419	-5.8%	
Slovakia	530	124	-76.7%	
Slovenia	6	81	1269.6%	
South Africa	2,103	1,949	-7.3%	
South Korea	15,205	4,902	-67.8%	
Spain	6,069	6,981	15.0%	
Sweden	15,869	15,972	0.6%	
Switzerland	3,020	3,579	18.5%	
Taiwan	8,311	6,258	-24.7%	
Thailand	718	781	8.8%	
Turkey	650	1,382	112.5%	
Ukraine	4	46	931.4%	
United Arab Emirates	1,303	65	-95.0%	
United Kingdom	78,086	96,800	24.0%	
USA	243,003	329,304	35.5%	
Vietnam	337	1,078	219.9%	

GLOBAL INVESTMENT VOLUMES US$ MILLIONS

ABOVE US$5 MILLION, EXCLUDES APARTMENTS

COUNTRY	2014	2015	ANNUAL CHANGE	2016 TREND
Argentina	18	0	n/a	
Australia	44,862	34,964	-22.1%	
Austria	2,915	3,852	32.2%	
Bahrain	0	23	n/a	
Belgium	4,124	5,015	21.6%	
Brazil	2,783	596	-78.6%	
Bulgaria	329	245	-25.4%	
Canada	18,279	13,768	-24.7%	
Channel Islands	101	184	81.1%	
Chile	174	25	-85.6%	
China	386,503	296,497	-23.3%	
Colombia	0	0	n/a	
Croatia	111	150	34.8%	
Czech Republic	2,415	2,069	-14.3%	
Denmark	4,514	6,865	52.1%	
Estonia	162	263	61.9%	
Finland	5,298	5,733	8.2%	
France	28,852	27,001	-6.4%	
Germany	48,440	59,909	23.7%	
Greece	344	175	-49.0%	
Hong Kong	21,187	20,695	-2.3%	
Hungary	747	879	17.7%	
India	5,153	3,689	-28.4%	
Indonesia	718	278	-61.4%	
Ireland	5,432	3,273	-39.8%	
Israel	379	731	92.6%	
Italy	6,193	7,137	15.2%	
Japan	50,806	42,316	-16.7%	
Latvia	114	46	-59.5%	
Lithuania	269	208	-22.7%	
Luxembourg	1,243	981	-21.0%	
Malaysia	3,889	4,298	10.5%	
Mexico	7,450	7,100	-4.7%	
Netherlands	11,957	12,587	5.3%	
New Zealand	2,886	3,094	7.2%	
Norway	8,157	15,078	84.9%	
Oman	0	0	n/a	
Peru	0	127	n/a	
Philippines	728	888	22.0%	
Poland	3,792	4,354	14.8%	
Portugal	835	1,919	129.9%	
Romania	1.322	574	-56.6%	
Russia	3,964	2,808	-29.2%	
Saudia Arabia	147	1,002	580.2%	
Serbia	71	432	512.6%	
Singapore	10,811	9,146	-15.4%	
Slovakia	642	134	-79.1%	
Slovenia	7	88	1129.5%	
South Africa	2,545	2,117	-16.8%	
South Korea	18,400	5,325	-71.1%	
Spain	7,344	7,583	3.3%	
Sweden	19,203	17,350	-9.6%	
Switzerland	3,655	3,888	6.4%	
Taiwan	10,057	6,798	-32.4%	
Thailand	869	849	-2.4%	
Turkey	787	1,502	90.8%	
Ukraine	5	50	825.9%	
United Arab Emirates	1,577	70	-95.5%	
United Kingdom	94,492	105,154	11.3%	
USA	294,058	357,722	21.7%	
Vietnam	408	1,171	187.2%	

Source: Cushman & Wakefield, Property Data, KTI and RCA. Annual change figures have been calculated based on the total values and not rounded values. Data as at 25 January 2016

YIELDS

GLOBAL YIELDS

COUNTRY	OFFICES	SHOPS	INDUSTRIAL	2016 TREND
Argentina	9.20%	n/a	12.00%	↘
Australia	5.60%	5.00%	7.10%	↘
Austria	4.30%	3.00%	6.90%	→
Bahrain	9.00%	7.00%	8.00%	→
Belgium	5.70%	3.75%	6.90%	↘
Brazil	8.55%	8.45%*	8.90%	↗
Bulgaria	8.50%	8.50%	10.75%	↘
Canada	5.25%	5.50%	6.00%	→
Channel Islands	7.50%	6.50%	8.00%	→
Chile	7.75%	7.50%	9.50%	↘
China	5.75%	5.00%	8.25%	→
Colombia	8.00%	14.00%*	17.40%	→
Croatia	8.25%	8.00%	9.00%	→
Czech Republic	5.75%	5.00%*	6.75%	→
Denmark	4.25%	3.60%	7.50%	→
Estonia	7.30%	7.10%	8.75%	→
Finland	4.40%	4.50%	6.50%	→
France	3.25%	3.00%	6.00%	↘
Germany	3.70%	3.30%	5.90%	↘
Greece	8.30%	7.00%	12.00%	→
Hong Kong	2.80%	1.90%	3.20%	→
Hungary	7.00%	6.75%*	8.50%	↘
India	10.00%	7.00%	11.00%	↘
Indonesia	7.25%	10.00%*	10.00%	↘
Ireland	4.25%	4.00%	5.75%	→
Israel	7.00%	6.50%	7.25%	↘
Italy	4.50%	5.50%*	7.00%	↘
Japan	3.50%	3.60%	4.70%	↘
Latvia	7.00%	6.75%	8.75%	→
Lithuania	7.00%	7.00%	9.25%	→
Luxembourg	5.10%	4.75%	8.00%	↘
Malaysia	6.50%	6.00%*	7.50%	→
Mexico	10.25%	10.50%	11.25%	→
Netherlands	5.50%	4.10%	6.25%	↘
New Zealand	6.50%	6.50%	6.50%	↘
Norway	4.30%	4.40%	6.00%	→
Oman	9.00%	7.50%	9.00%	↘
Peru	9.30%	12.15%	7.95%	→
Philippines	7.00%	n/a	9.10%	→
Poland	5.75%	5.50%*	7.00%	↘
Portugal	5.25%	5.00%	7.00%	→
Romania	7.50%	7.50%*	9.25%	↘
Russia	10.50%	11.00%*	12.75%	→
Serbia	9.25%	7.75%	11.25%	→
Singapore	3.70%	5.50%*	6.80%	→
Slovakia	7.00%	7.50%	7.75%	→
Slovenia	8.50%	7.00%	10.00%	↘
South Africa	8.75%	8.00%*	9.75%	→
South Korea	5.00%	6.70%*	7.80%	→
Spain	4.00%	3.75%	7.00%	↘
Sweden	3.80%	3.90%	6.25%	↘
Switzerland	3.70%	3.20%	5.60%	↘
Taiwan	2.65%	2.25%	2.60%	→
Thailand	7.00%	8.00%*	8.00%	→
Turkey	6.80%	7.00%*	8.75%	→
Ukraine	13.50%	13.50%	14.00%	→
United Arab Emirates	9.00%	6.00%	8.50%	↘
United Kingdom	3.25%	2.25%	4.25%	↘
USA	3.90%	3.09%	5.75%	→
Vietnam	11.25%	12.00%	10.00%	↘

*Shopping Centres
Data as at December 2015
Note: Yields marked in red are calculated on a net basis to include transfer costs, tax and legal fees. Source: Cushman & Wakefield

RESEARCH SERVICES / ABOUT THE REPORT

Our Research Services

Cushman & Wakefield is known the world-over as an industry knowledge leader. Through the delivery of timely, accurate, high-quality research reports on the leading trends, markets around the world and business issues of the day.

We aim to assist our clients in making property decisions that meet their objectives and enhance their competitive position.
For more information, please contact:

Kevin Thorpe
Chief Economist
Global Head of Research
kevin.thorpe@cushwake.com
+1 202 266 1161

Joanna Tano
Head of Operations
EMEA Research
joanna.tano@cushwake.com
+44 20 3296 4232

Nigel Almond
Head of Capital Markets Research
nigel.almond@cushwake.com
+44 20 3296 2328

Erin Can
Marketing & Editorial Manager
EMEA Research
erin.can@cushwake.com
+44 20 3296 4236

About The Report

This report has been written by David Hutchings in the Global Capital Markets team, using data collected by our research teams as well as information available to us from public and other external sources. The transaction information used relates to non-confidential reported market deals, excluding indirect investment and future commitments. All investment volumes are quoted pertaining to deals of US$5 million and above. Alongside Cushman & Wakefield information, data has been used from Real capital Analytics (RCA). Where the data was sourced from RCA, it is as at 25 January 2016.

In respect of all external information, the sources are believed to be reliable and have been used in good faith. However, Cushman & Wakefield cannot accept responsibility for their accuracy and completeness, nor for any undisclosed matters that would affect the conclusions drawn. Certain assumptions and definitions used in this research work are given within the body of the text. Information on any other matters can be obtained from the Research and Capital Markets teams of Cushman & Wakefield.

Sources

Transactional Data
Alongside Cushman & Wakefield information, data has been used from Real Capital Analytics (RCA), Property Data and KTI.

For more information about the report, please contact David Hutchings:

EMEA
David Hutchings
EMEA Investment Strategy
david.hutchings@cushwake.com
+44 20 7152 5029

CAPITAL MARKETS SERVICES

Capital Markets provides comprehensive advice and execution services to clients engaged in buying, selling, investing in, financing or developing real estate and real estate-related assets across the globe. Our solutions are tailored to meet the objectives of private and institutional owners and investors, as well as corporate owners and occupiers.

Whether you are seeking to dispose of an asset in Hong Kong, finance the purchase of a hotel in New York, or structure a complex cross-border portfolio deal in Europe, Cushman & Wakefield's expertise in capital markets is the gold standard.

Located in major markets around the world, our professionals execute customised acquisition and disposal strategies across all major property types. Additionally, we provide our clients with unique access to opportunities and capital sources worldwide. As a global leader in investment transactions, we have an unsurpassed network of buyers and sellers, access to international capital and superior market data.

Our services include but are not limited to:

- Investment Sales & Acquisitions
- Investment Advisory Services
- Investment Strategy and Market Analysis
- Investment Management
- Equity, Debt & Structured Finance
- Corporate Finance & Investment Banking

For further information on our services, please contact:

GLOBAL

Carlo Barel di Sant'Albano
Chief Executive Global Capital Markets & Investor Services
carlo.santalbano@cushwake.com
+44 20 7152 5846

INVESTMENT STRATEGY

EMEA
David Hutchings
EMEA Investment Strategy
david.hutchings@cushwake.com
+44 20 7152 5029

THE AMERICAS
Janice Stanton
Global Capital Advisory
janice.stanton@cushwake.com
+1 212 841 5025

ASIA PACIFIC
Sigrid Zialcita
Asia Pacific Research
sigrid.zialcita@cushwake.com
+65 6232 0875

CAPITAL MARKETS

EMEA
Jan-Willem Bastijn
EMEA Capital Markets
janwillem.bastijn@cushwake.com
+31 20 800 2081

THE AMERICAS
Noble Carpenter
Americas Capital Markets
noble.carpenter@cushwake.com
+1 212 318 9745

ASIA PACIFIC
Gary Hollis
Asia Pacific Capital Markets
gary.hollis@cushwake.com
+65 6393 2328

About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $5 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit **www.cushmanwakefield.com** or follow **@CushWake** on Twitter.

FOLLOW US

@CushWake – Join the conversation with #transform

linkedin.com/company/cushman-&-wakefield

facebook.com/cushmanwakefield

cushwk.co/app

cushmanwakefield.com