

*November 2019*

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# Global Market Perspective

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*JLL Global Research*

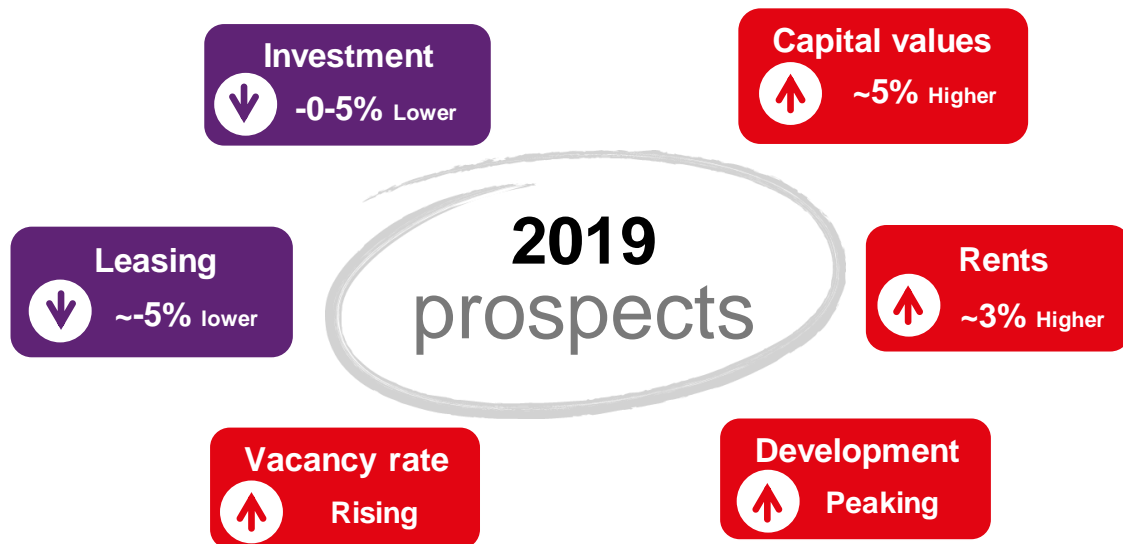


## Real Estate Market Momentum Slowing

### Market fundamentals healthy but trending lower

The synchronised slowdown in the global economy is starting to filter through to real estate market activity with a slight moderation in investment and leasing volumes expected, albeit from record levels. Capital available for deployment into real estate is near all-time highs and investors continue to target the sector, although greater caution and selectivity mean global investment activity is likely to be marginally lower for the full year. Office leasing demand remains healthy but is forecast to fall short of last year's record total during 2019 while a peak in the supply cycle next year will gradually push up vacancy rates. Leasing demand in the logistics sector also remains strong and is driving accelerating rental growth, with a rising supply pipeline moving markets into greater balance by the end of the year.

### Global Commercial Real Estate Market Expected Outcome, 2019



Leasing, vacancy, development, rents and capital values relate to the office sector.  
Source: JLL, October 2019



## **Global commercial investment markets pick up during the third quarter**

The third quarter of 2019 saw an uptick in sales activity as year-on-year transaction volumes rose by 13% to US\$205 billion. This brings the year-to-date 2019 total to US\$550 billion, 1% better than the same period last year.

Returns for private real estate remain stable while public real estate continues to outperform other major asset classes at the global level. With the volume of capital held by funds that is yet to be deployed near all-time highs, investors, though increasingly cautious and selective, remain keen to access the sector. In this environment we expect global investment in commercial real estate to moderate by about 0-5% for the full-year 2019, to roughly US\$750 billion. With Asia Pacific continuing to outperform and activity surprising on the upside in the Americas, the global decline will be primarily driven by weakness in EMEA, particularly in the office and retail sectors.

## **Office leasing volumes healthy but trending downwards**

Global leasing activity remained healthy in the third quarter but volumes slowed to 10.3 million square metres (across 96 markets). Year-to-date leasing volumes are now running 4% below last year, predominantly driven by a slowdown in Asia Pacific. This trend is forecast to continue with global volumes expected to end the year around 5% lower than 2018, with a further slowing of around 10% anticipated in 2020.

## **Global office vacancy rate edges lower**

The global office vacancy rate edged down to 10.6% in Q3, which is expected to be the low point of this cycle. Vacancy rates moved down in Europe (-40bps) and the US (-30bps) and remained relatively stable in Asia Pacific.

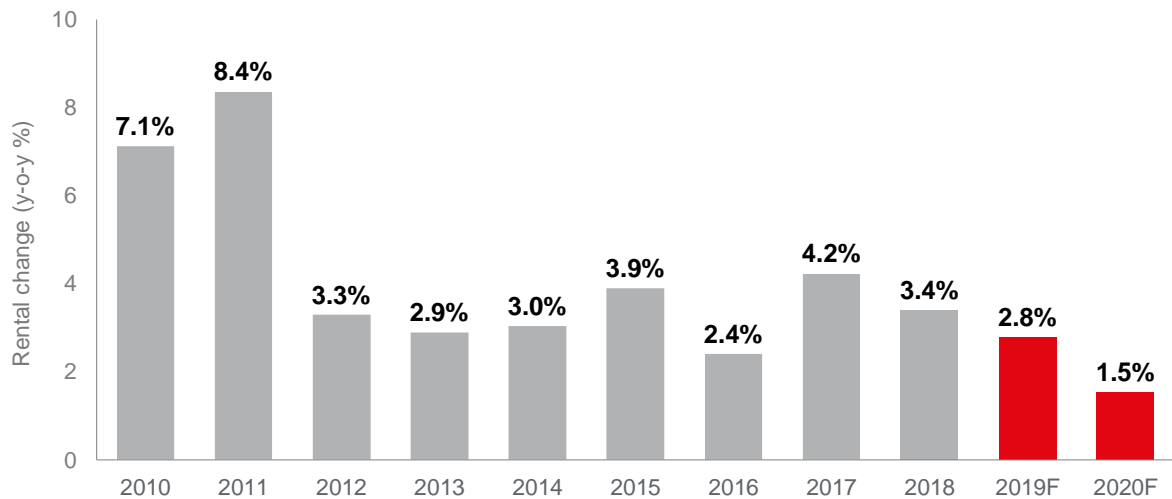
Globally, new office deliveries are expected to reach 17.5 million square metres in 2019 and peak in 2020 at close to 18.8 million square metres. The peak of the cycle varies by region, and is expected to be 2019 in the U.S., 2020 in Asia Pacific and 2021 in Europe. Given the pick-up in completions, the global office vacancy rate is expected to start to move up to 11.2% in 2019 and 11.7% by the end of 2020.

## **Annual prime rental growth slowing but remains healthy**

Prime office rental growth slowed slightly during the third quarter to an annual rate of 3.7% across 30 major global markets. The standout performers achieving double-digit growth were Boston, San Francisco, Berlin, and New York.

Aggregate rental growth for prime offices across the 30 global cities is expected to remain positive for the remainder of 2019, ending the year at around 2.8%. As supply options increase in 2020 growth is expected to moderate further to around 1.5%. Boston, Singapore and New York are on track to be the top rental performers in 2019.

## Rental Growth for Prime Offices, 2010-2020



Unweighted average of 30 markets  
Source: JLL, October 2019

### Experiences and services remain key for landlords to offset retail transformation

Experiences and services will continue to drive retail demand in coming years. Developers remain focused on mixed-use, experience-rich projects that combine retail with residential, hotel and office space, while landlords are increasingly integrating other uses into existing assets.

In the U.S., net absorption declined by roughly 60% year-on-year during the third quarter. One bright spot remains growth in demand for wellness products and services (fitness in particular) among younger consumers. Fitness move-ins have steadily shifted away from freestanding retail to neighborhood centres and malls, supporting demand and keeping a lid on vacancy rates. In Europe many retailers are focused on their transformation towards an omni-channel model while managing their lease liabilities, contributing to a softening in demand for prime space and annual rental declines for both high streets and shopping centres. In Asia Pacific markets, more selective expansion strategies and cautious retail spending have led to muted rental growth across the region.

### Last mile delivery race fuels further demand in logistics markets

Global logistics markets continue to be driven by structural changes, as businesses reset supply chains to shift towards omni-channel distribution models and upgrade to more efficient space. E-commerce firms and traditional retailers are also participating in a delivery 'arms race' to get their products to consumers as quickly as possible, putting increased focus on urban logistics and last mile delivery. This is translating into new demand which is helping to hold vacancy rates near record lows despite higher levels of new completions.

In the U.S., net absorption exceeded the highest rate of new supply growth in three years, pushing vacancy lower and contributing to accelerating rental growth. Annual rental growth also accelerated in Europe, with limited speculative supply keeping vacancy steady. In Asia Pacific, leasing demand remains solid, contributing to generally positive but slowing rental growth across the region.

## **Hotel investment activity constrained by low-yield environment**

Global hotel investment activity marked a minor slowdown of 7% over the first three quarters of 2019, with transaction volumes totalling US\$44 billion. Activity in EMEA during 2019 has been holding close to last year's total following declines in 2018, while Asia Pacific has seen double-digit growth in transaction volumes, led by Singapore, Japan and China. The U.S. market continues to be liquid, although the first three quarters of 2019 have seen a lower level of activity than in 2018.

## **U.S. multi-housing expansion continues**

The U.S. multi-housing expansion continues, with the national vacancy rate reaching a new cyclical low of 3.7% during the third quarter. The strong summer housing season propelled the market, with robust net absorption overcoming what continues to be an elevated development pipeline. The lack of affordable for-sale housing, coupled with favourable demographics, continues to provide a deep pool of renters. Strong demand should keep market fundamentals stable, if not improving, over the near term.

Investment activity in the institutional residential market in Europe remains strong following a robust 2018. Third-quarter volumes rebounded in Germany following a relatively weak first half, while demand remains solid in France, Spain and the Netherlands. The UK also saw activity pick up during the third quarter despite uncertainty impacting the wider residential market. Rent control regulation has come into effect in a number of markets during 2019, though investors are still assessing the impact of these policies.

In Asia Pacific, buying activity remained steady despite broader macroeconomic uncertainty, while mixed leasing demand and policy impacts restrained price growth across the region.

The full **Global Market Perspective report** is only available to our clients. To find out how we can support your global real estate market strategy with research insights and strategic advice, please contact one of the members of the global research team.



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JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 500 global research professionals track and analyse economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fuelled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

Visit our dedicated **Global Market Perspective website** to explore market performance data and to learn more about recent investment and leasing transactions with our data visualisation toolkit: <http://gmp.jll.com/gmp>

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