US COMMERCIAL PROPERTY OUTLOOK

COVID-19 will leave year-end capital values 9% lower

- **Overview** – The spread of the coronavirus across the USA and the various containment measures will bring many businesses to a standstill. This will be reflected in rising vacancy across all four major real estate sectors. Rents will come under downward pressure and will generally fall, with the notable exception of the industrial sector, where some tenants are already seeing some upside. When the investment market resumes later in the year, we think investors will be nervous around real estate cashflows and will require additional yield to transact. The combination of these factors means that capital values will fall by 9% this year, although in our base case, they grow by 8% in 2021.

- **Economic Backdrop** – Efforts to curb the spread of the coronavirus will drive a massive drop in GDP this year. We are predicting a contraction of 5% y/y, before a 7% y/y bounce-back in 2021. This recovery will be reliant on strong fiscal and monetary policy support, meaning that the Fed Funds Rate will stay at current lows over the next two years. We also see Treasury yields staying close to 0.5% through to 2021.

- **Investment Market** – We have little doubt that investment activity will fall off a cliff in Q2, with Q3 also set to be weak. When the market does hum back into action, we expect uncertainty to limit any immediate resurgence. Concerns over future cashflows and a potential re-pricing of risk mean that we expect all-property yields to be 35-40bps higher by year end and this will only be partially reversed in 2021.

- **Office Market** – Many office occupiers can of course conduct their business remotely. But there will certainly be a reduction in expansionary activity, while some firms will struggle. Assets with a substantial serviced office tenant base are likely to be particularly exposed to the downturn. Overall, we don't expect a huge correction, with asking rents to fall by around 1.5% this year and then regain the same amount next year. Capital value falls will be in the double-digits this year, but these will also bounce back.

- **Retail Market** – The retail sector was already set to struggle over the next few years, but the coronavirus will sound an early death knoll for some struggling retailers. We therefore expect vacancy to rise and landlords will have to be creative to maintain footfall and drive value for retailers. Grocery-anchored schemes have some in-built protection, but other retailers in those malls are still likely to struggle. The yield shifts we expect in retail are larger and are not fully reversed even by the end of 2022.

- **Industrial Market** – There are signs that some industrial occupiers are benefitting from the increased amount of online spending, while some retailers may look to increase their storage capacity in the long-term. We expect vacancy to rise though, which will see rental growth slow markedly this year. But capital values should only fall by 3.5% this year before growing by 10% in 2021 and another 7.5% in 2022.

- **Apartment Market** – The dramatic rise in unemployment this year will put downward pressure on apartment demand. Fortunately, new supply will also be limited as developers hold back new units. We still expect vacancy to rise, but not substantially, meaning that rents will only tick 1% lower. Yield rises will drive a 10% fall in capital values this year, but these will mostly be made up in 2021.

- **Detailed Forecast Tables**

NB: Given the fast-moving market conditions, this edition of the US Commercial Property Outlook focuses only on national sector trends and excludes the usual coverage of the major gateway office markets.

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Executive Summary

Chart 1: Leading indicators point to a dramatic drop in GDP in Q2, but we expect a short-lived downturn.

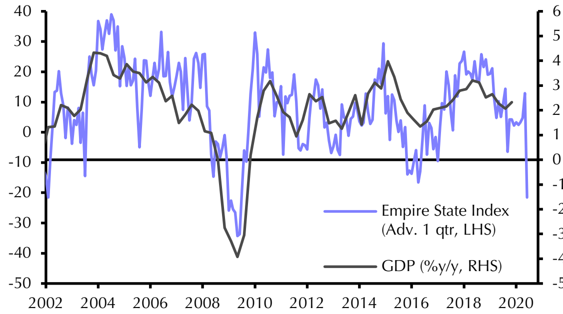


Chart 2: Indeed, much of that lost output will be made up in H2 2020 and 2021.

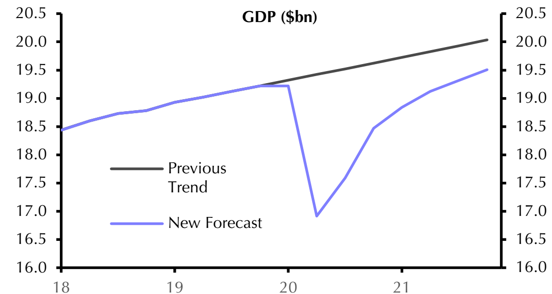


Chart 3: Real estate investment will fall significantly in the next few quarters before bouncing back.

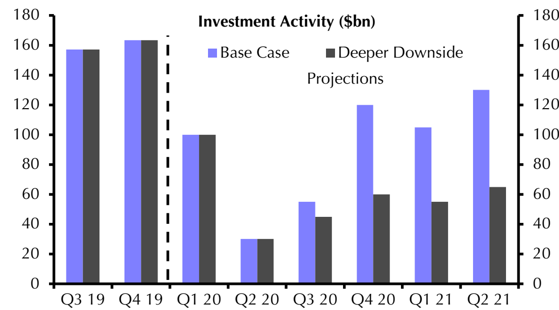


Chart 4: The rise in credit spreads points to concerns around risky asset prices.

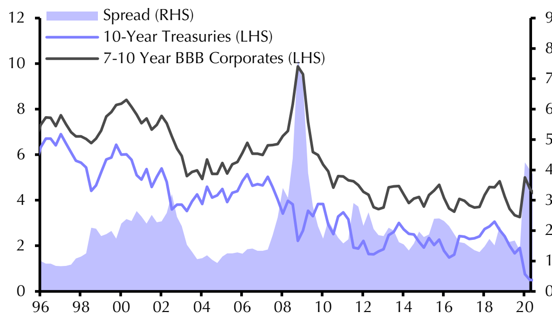


Chart 5: As such, we expect all-property yields to end the year around 35-40bps higher in our base case.

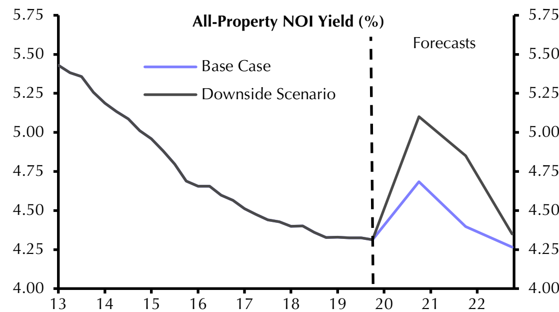


Chart 6: Asking rents will see small declines, apart from industrial, where rents could tick higher.

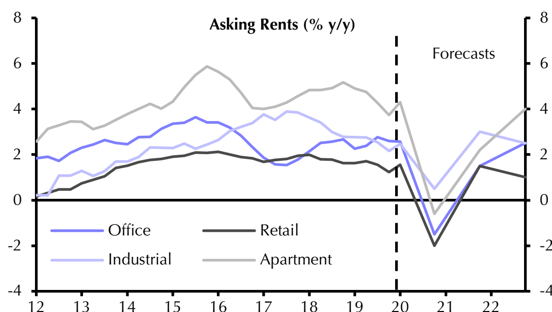


Chart 7: The retail sector's headwinds mean that capital values are set to see net falls in the next three years.

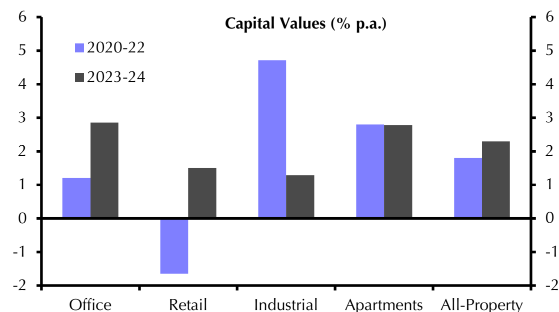
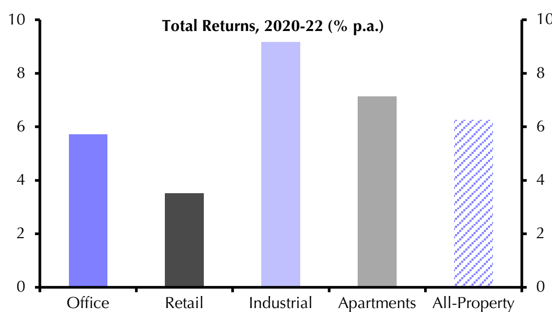


Chart 8: On the other hand, industrial will be the strongest performer over the next five years.



Sources: Newmark Knight Frank, Refinitiv, REIS, MSCI, Capital Economics

Economic Backdrop

- *The rapid spread of coronavirus in the US has transformed the economic outlook. A sharp fall in output in Q2 is now inevitable as containment measures intensify. But the hit is expected to be temporary and with the Fed providing almost unlimited monetary support and Congress delivering a huge fiscal stimulus, recovery should be swift into next year.*

- Widespread lockdowns in response to the explosion in COVID-19 cases, will deliver an enormous hit to economic activity from mid-March. The Empire State manufacturing survey, which covers mostly the first week of March, showed business conditions falling to recessionary levels. They will have deteriorated sharply since. (See Chart 9.)

- Containment of the outbreak is expected to result in a sharp fall in GDP during Q2, with current estimates at -12% q/q. (See Chart 10.) Activity is expected to rebound as restrictions are eased in subsequent quarters, though GDP will still contract by 5% y/y in 2020 before rebounding by 7% y/y in 2021. That would leave the level of GDP at end-2021 slightly lower than without the coronavirus impact. (See Chart 11.)

- Ahead of the epidemic, underlying retail sales had revived, suggesting consumption was on course for growth of 1.5-2.0% annualised in Q1. (See Chart 12.) Swathes of discretionary spending have dried up since. Although lower gas prices will help consumers and the recent fiscal package should support incomes through the worst of the crisis, the hit to equity markets points to a sharp drop in confidence. As labour market conditions deteriorate, that is likely to intensify and consumer demand is expected to follow a similar pattern to GDP over the coming quarters.

- The surge in non-farm payrolls in January and February showed the jobs market was healthy pre-virus, but the latest indicators point to a dramatic deterioration. Early reports hinted at a huge rise in state-level claims and were confirmed by the unprecedented surge in initial jobless claims to 3.3 million last week. (Chart 13.) Early job losses will be concentrated in leisure, retail and transport, which account for about 25% of non-farm employment.

- In past downturns, the percentage decline in employment was at least as big as the fall in real GDP, which implies that the unemployment rate could hit 20%. (See Chart 14.) But we think employers will hold on to workers if they think the shutdown will only last a month or two. As a result, the unemployment rate is expected to rise only to 12% in Q2, before falling back as activity returns to normal.

- The crisis will push headline CPI inflation down from 2.3% in February to near-zero. The drop in global oil prices will quickly feed through to gasoline, which will reduce headline CPI inflation by around 2%-points. (See Chart 15.) Core inflation will also take a hit, though deflation remains unlikely.

- The Fed's initial action to slash interest rates to near-zero pulled Treasury yields down sharply. But yields climbed again as interbank spreads widened and signs of market stress emerged, with corporate bond yields rising sharply. Further Treasury measures, including asset purchases and emergency loans, have reversed this over recent days. We expect the Fed to continue to intervene heavily and this should keep short rates close to zero and 10-year Treasury yields around 0.5% for the next year or so. (See Chart 16.)

Economic Backdrop

Chart 9: Empire State Headline Index & Real GDP

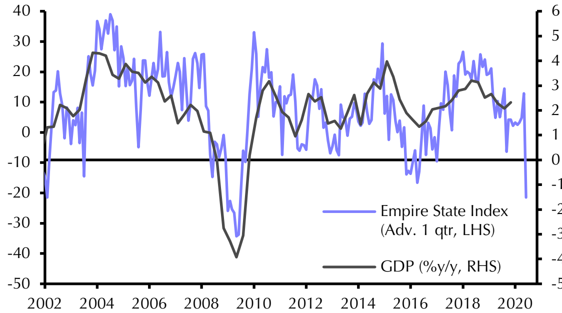


Chart 10: Real GDP (%q/q Annualised)

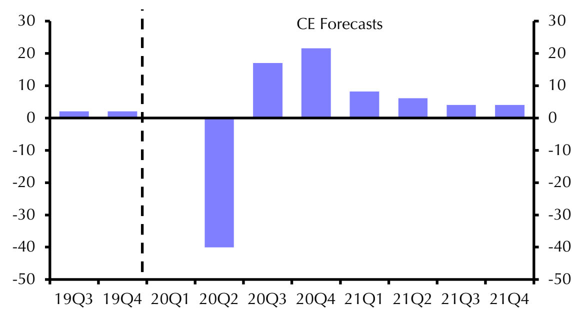


Chart 11: Real GDP ($bn)

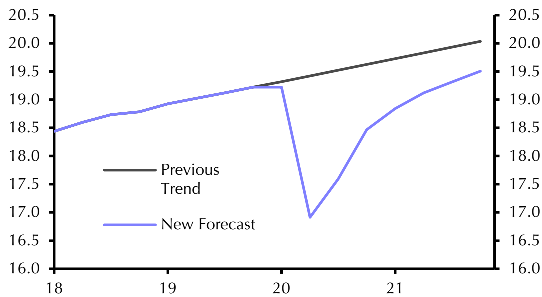


Chart 12: Retail Sales Ex Autos, Food, Gas & Bldg Mat.

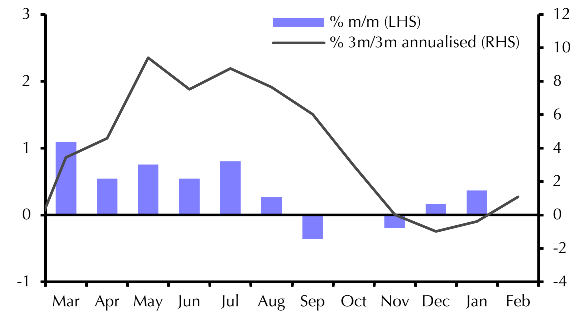


Chart 13: Initial Jobless Claims (000s)

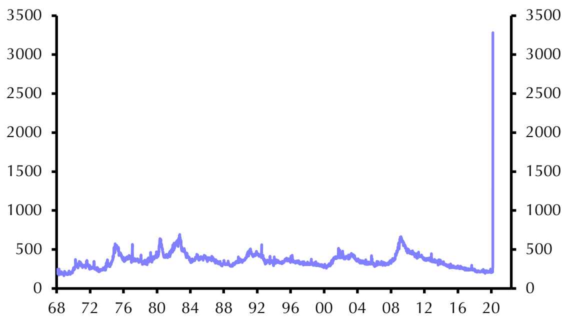


Chart 14: GDP, Employment & Hours Worked (%y/y)

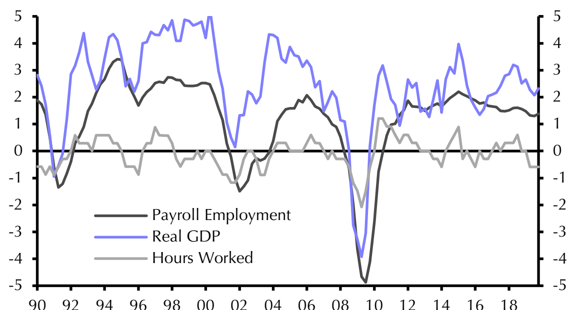


Chart 15: Core and Headline Inflation (%)

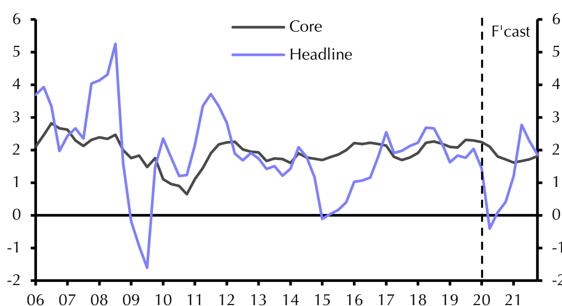
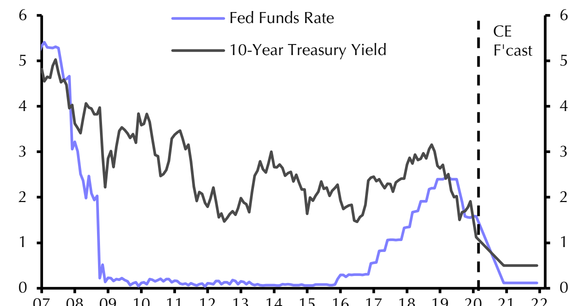


Chart 16: Interest Rates (%)



Sources: Refinitiv, Capital Economics

Investment Market

- *The falls in asset prices in the last couple of months highlight investors' concern at the potential economic fallout from the COVID-19 virus. While property valuations have, in theory, improved, this will count for little in the face of an economic recession and hits to property cash flows, no matter how short-lived this downturn could be. Even in our relatively sanguine base case, we expect NOI yields to be 50bps higher at the all-property level by the end of this year. Providing the economic effects prove temporary though, we think positive sentiment towards the asset class will see yields correct back down in 2021-22.*

- Commercial real estate investment activity was a little weaker in 2019 than in 2018. (See Chart 17.) That said, following the spread of COVID-19 across the US, we expect investment activity to contract sharply this year and have estimated a fall of around 45% compared to 2019 in our *base case*. (See Chart 18.) This would be a far more severe one-year fall than immediately after either the 9/11 terror attacks or in the first four quarters of the GFC from August 2007.

- This sharp drop in activity will be partly driven by a pricing mis-match between buyers and sellers, as seen in previous periods of market uncertainty. CBRE have already noted that over 50% of buyers on previously negotiated deals have been asking for discounts before completing. While the majority of these have been for up to 5%, some have been more substantial. As such, it wouldn't be hard to see small discounts agreed to get deals through in the next few weeks.

- As noted in our recent *Focus*, our starting point for considering the outlook for yields is the relative valuation of real estate against other asset classes. Since our Q1 *US Commercial Property Valuation Monitor* was published, equity earnings yields have risen as prices have fallen further, meaning that there would be little improvement in Q1 valuations. (See Chart 19.)

- What's more, with a sharp drop in GDP likely and landlords' income streams set to come under downward pressure, the real picture is far worse. At the same time as Treasury yields have plumbed new lows, corporate bond yields have risen, meaning that corporate bond spreads are the largest they have been since 2009. (See Chart 20.) This points to a sharp rise in the risk premium for assets that rely on companies being able to pay off debts, suggesting a pessimistic read-through for property prices.

- That said, our base case does not assume a repeat of the GFC. So, we aren't predicting a similar-sized response in commercial property pricing, in part because we don't expect to see the extent of forced selling that was such a feature of the last downturn.

- Nevertheless, our best guess is that all-property NOI yields will end the year around 35-40bps higher than where they started 2020, taking the yield to 4.7% and unwinding the yield falls seen over the last four years. (See Chart 21.) Thereafter, with the economy recovering its lost output, we think decent prospects for real estate will support a pick-up in transactions and yields being competed lower. (See Chart 22.)

- We already had concerns over retail sector pricing and the nature of the economic downturn has only served to heighten the risks to the sector. We therefore expect yield rises to have the greatest effect in retail. (See Chart 23.) Industrial, on the other hand, may benefit both in the short-term and long-term as immediate changes to shopping behaviours may persist even in a more "normal" state of the world.

- This said, a more prolonged period of shutdowns and uncertainty would be far worse for property markets. In a scenario in which this lasted for a full year, we could see yields more like 70-100bps higher by year-end and perhaps only recovering 20-30bps of this by the end of 2021. (See Chart 24.) This would imply a capital value fall of around 20%.

Investment Market

Chart 17: US Commercial Property Investment ($bn)

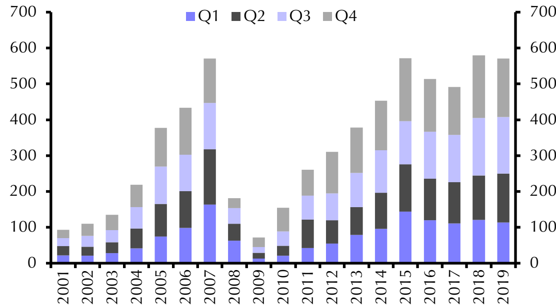


Chart 18: COVID-19 Scenarios for Quarterly Investment Activity ($bn)

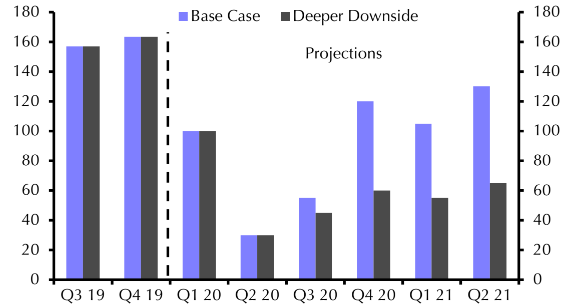


Chart 19: All-Property Valuation Scores

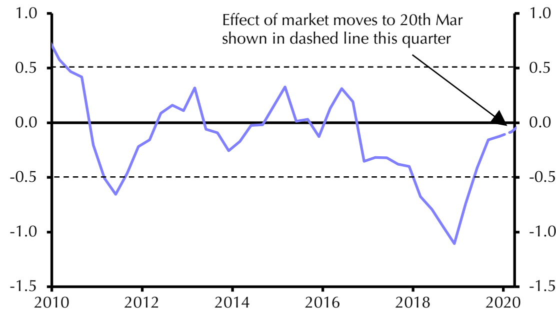


Chart 20: Corporate Bond Yield Spread over Treasuries (%)

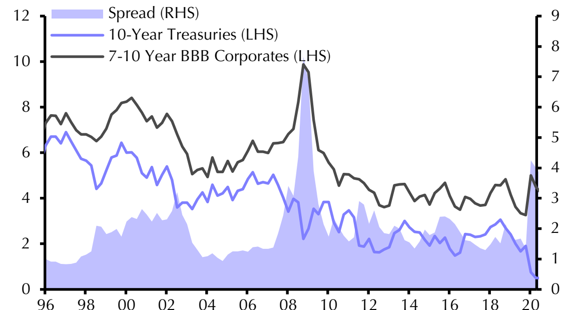


Chart 21: All-Property Yields (%)

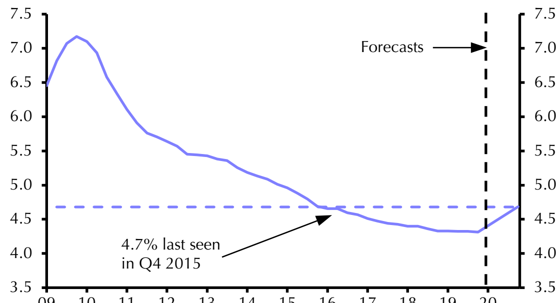


Chart 22: All-Property Yield Shift Forecasts (bps)

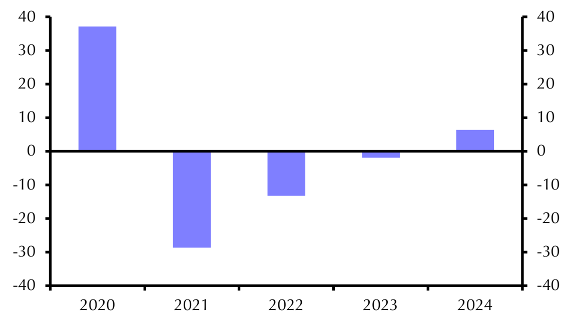


Chart 23: Yield Impact on Capital Values (%pts)

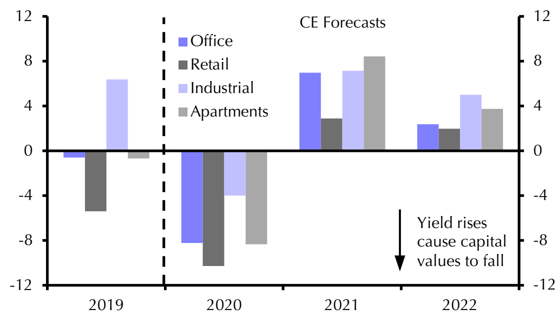
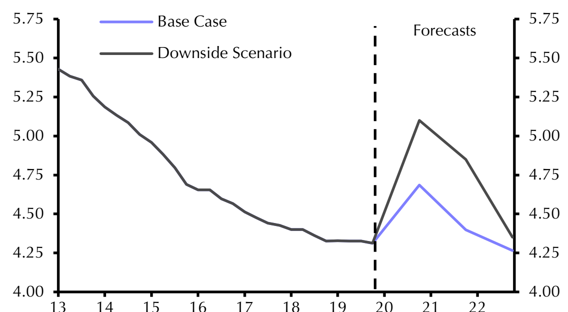


Chart 24: All-Property NOI Yield Scenarios (%)



Sources: MSCI, Refinitiv, Newmark Knight Frank, Capital Economics

Office Market

- *With the increased ability to work remotely, many office occupiers will fare reasonably well in the short-term, preventing a sharp drop in absorption. However, question marks around the future of WeWork and serviced office providers more generally, pose downside risks. For now, we think that rents will see a small fall this year, before bouncing back in 2021. Capital values are likely to take a hit of around 10% this year but should also bounce back over the next year or two.*

- The office sector saw an improvement in occupier demand as 2019 wore on and concerns of a recession diminished. (See Chart 25.) However, the spread of the COVID-19 virus means that the apparent upturn is out of the window, for now at least. Indeed, with office occupier demand often best proxied by employment growth, the huge downgrades that we have made to our labour market forecasts point to a steep drop in absorption this year. (See Chart 26.)

- Nevertheless, there is some relatively good news amongst all this. For a start, although total employment is likely to fall dramatically in this downturn, its focus will be different to the past. Indeed, with the proliferation of remote working and the increased ability for other office-based employees to work from home, this part of the economy should hold up well. (See Chart 27.) What's more, we don't expect the downturn to be as long or as deep as during the GFC.

- As a result, the short-term occupier response is likely to be far more muted this time around, as many businesses will be operating at close to normal levels. That's not to say absorption will be unaffected. After all, many office occupiers are client facing businesses. Moreover, it is unlikely that firms will be signing new leases, less still signing up to take additional space, over the next quarter or two. As a result, we still expect absorption to turn negative this year. Nevertheless, we expect a rebound next year as latent demand comes through, pushing 2021 absorption above recent levels. (See Chart 28.)

- However, the relatively sanguine story for much of the market may not be echoed across all occupiers. WeWork has garnered lots of media attention recently due to its struggles to secure funding. And, with many smaller firms being forced to operate at home or seeing business fall markedly, there must be question marks over the viability of some serviced office sites. This could keep vacancy elevated and weigh on office rents beyond just this year.

- For now, though, our best guess is that vacancy rises by around 150bps this year and then falls back by 100bps next year. (See Chart 29.) This would be consistent with a fall in asking rents of around 1.5% this year. (See Chart 30.) Effective rents will see a bigger reduction – the annual fall could be closer to 3% in 2020 – as landlords are forced to offer more concessions to existing and prospective tenants. (See Chart 31.) With vacancy still elevated next year, we don't think this fall in effective rents will be fully made up in 2021.

- What's more, higher vacancy could dampen rental growth in future and prevent rents getting back to their trend. In the coming weeks, we'll be examining how this might play out in different cities, considering their starting points and how their key sectors might be affected.

- Combining these rent forecasts with our yield forecasts points to capital values falling by around 10% this year. (See Chart 32.) The peak to trough decline is likely to be larger than this, but we expect an improvement by year-end. Most of those falls will be recovered in 2021 as confidence improves and rental growth returns. Nevertheless, total returns will be negative this year and the three-year return for office assets is likely to be less than 5.5% p.a.

Office Market

Chart 25: Office Net Absorption (Million Sq Ft)

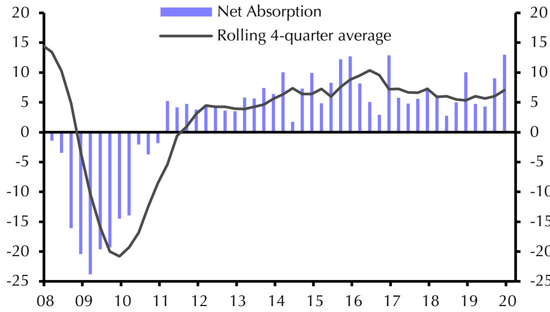


Chart 26: Employment and Net Absorption

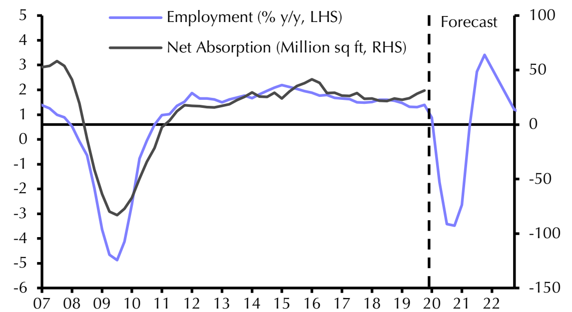


Chart 27: Employees Who Can Work From Home (%)

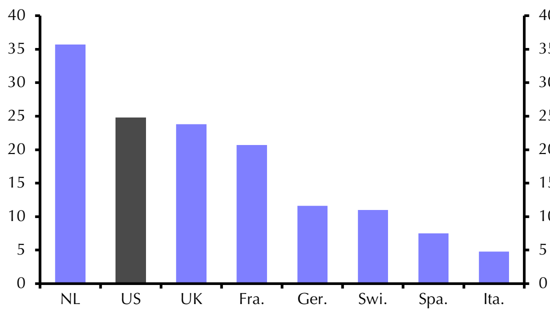


Chart 28: Office Net Absorption (Million Sq Ft)

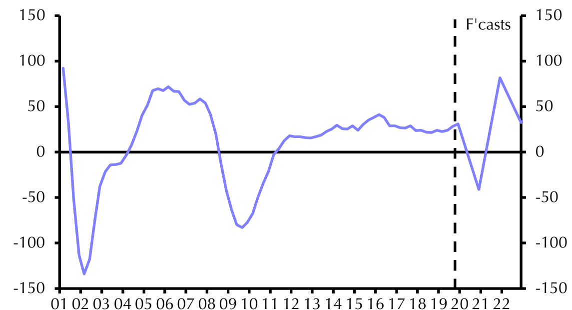


Chart 29: Office Vacancy (%)

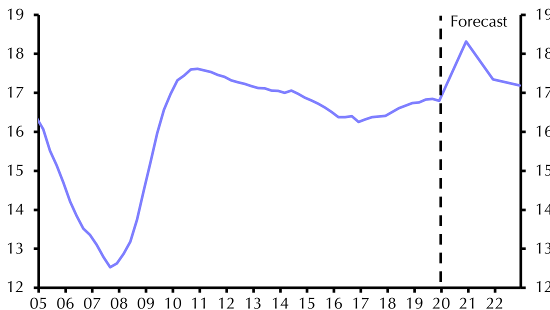


Chart 30: Change in Vacancy and Asking Rents

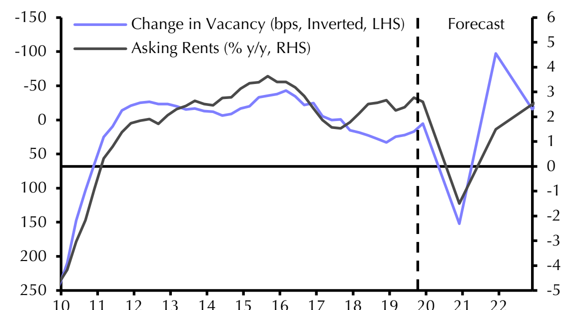


Chart 31: Asking and Net Effective Rent Forecasts

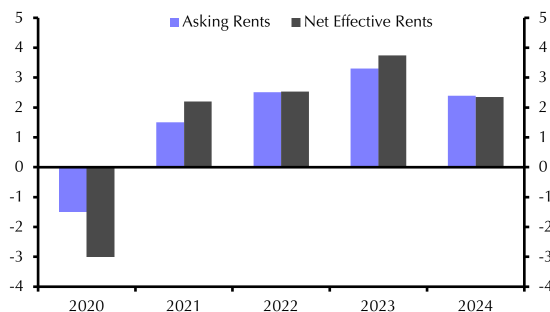
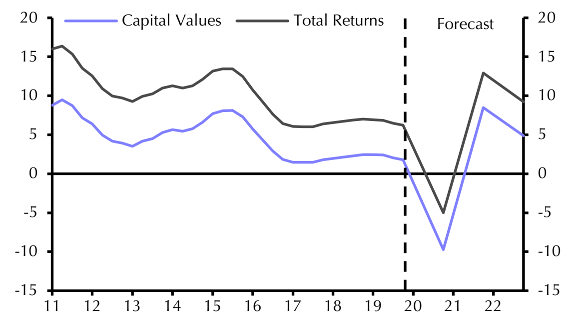


Chart 32: Capital Values and Total Returns (% y/y)



Sources: BLS, Eurostat, MSCI, Refinitiv, REIS, Capital Economics

Retail Market

- *The economic effects of the coronavirus will push the retail sector into recession this year. We expect falling revenues for many retailers to lead to rises in vacancy. And for those retailers who stay afloat, many will need support via reduced rental terms, meaning that quoted rents will have to fall. While there may be an upturn in 2021, there could be some parts of the sector that take longer to recover.*

- For a sector that was already under pressure, the spread of the COVID-19 virus is going to exacerbate the challenges faced by retailers. We had already expected vacancy to rise a little this year as more retailers struggled in the face of weak physical store sales growth. But the outlook now is far bleaker. (See Chart 33.)

- For a start, we would expect to see a notable rise in the proportion of retail spending being conducted online – a figure that was already growing rapidly. (See Chart 34.) Those retailers with either no online offering or poorly configured websites stand to lose market share to those who have easily-navigated websites, as well as online-only retailers. At the very least, footfall will reduce in the short-term, making many more stores unprofitable.

- Furthermore, sales of discretionary items will plummet both in-store and online as consumer confidence wanes. (See Chart 35.) Major purchases will be pushed back. And expenditure on dining out and other leisure expenditure will fall dramatically too. For example, cinema ticket sales were down by 70% y/y in the seven days to 19th March. (See Chart 36.) Supermarkets and convenience stores are likely to be a relatively bright spot.

- On top of the hit to domestic spending, there will be a significant short-term reduction in tourist spending. This will have the greatest effect on high streets in the major cities, but there is likely to also be an impact on outlet malls.

- This comes at an already-tough time for retailers, reflected in absorption numbers that have been softening since mid-2015 as retailers have struggled for profitability. (See Chart 37.) Admittedly there was a small rebound in 2019 after 2018 saw a net zero absorption, but that resurgence came to an end in Q4 2019, when absorption turned marginally negative again.

- The poor outlook for physical store retail sales means that net absorption is likely to face a renewed hit this year. Without additional funding support, there are likely to be more retailers going bankrupt given the likely drop in sales volumes. Indeed, although our base case doesn't look like the 2007-10 period again, the direct hit to the retail sector could see absorption falling by a similar amount. We have pencilled in a 1% reduction in occupancy this year.

- One small mercy for the retail market is that new completions are likely to drop back as work stops on new schemes for a number of months. But that won't stop vacancy rising by a full percentage point. As a result of all this, we are predicting a 2% fall in asking rents this year, which could see net effective rents fall by a full 4% y/y. (See Chart 38.) Operators of regional and super-regional malls are likely to see even bigger declines in rents. We expect a partial recovery next year, but with the sector facing structural headwinds, this will be subdued.

- This poor rental outlook, along with our expectations that yields will rise sharply, means that retail capital values will fall this year before rebounding in 2021. (See Chart 39.) Despite the bounce next year, the structural decline of the sector means that total returns will average just 3.5% p.a. over both a three-year and five-year period. (See Chart 40.)

Retail Market

Chart 33: N&C Centres Vacancy (%)

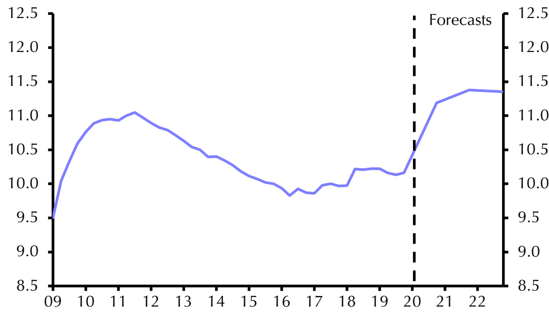


Chart 34: E-Commerce Retail Sales

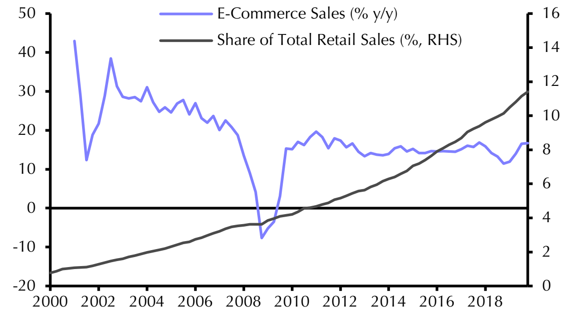


Chart 35: Bloomberg Consumer Confidence Index

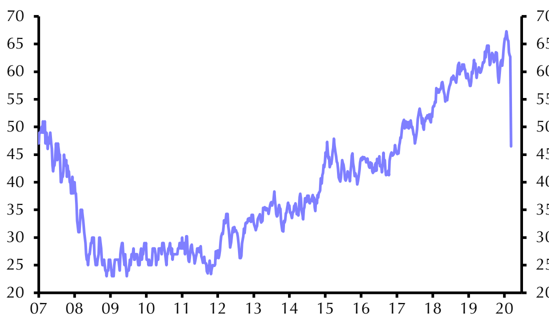


Chart 36: Box Office Sales ($ Million, Weekly)

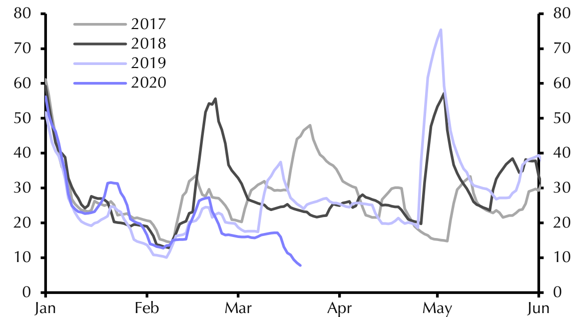


Chart 37: N&C Centre Net Absorption (Million sq. ft.)

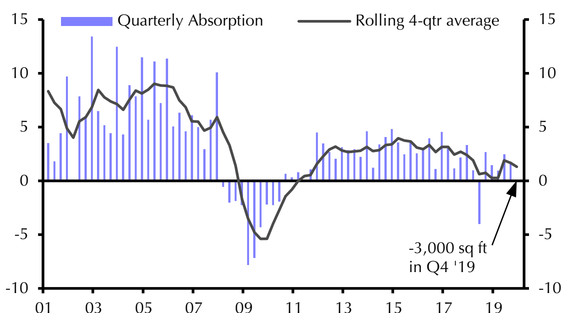


Chart 38: N&C Centre Rental Values (% y/y)

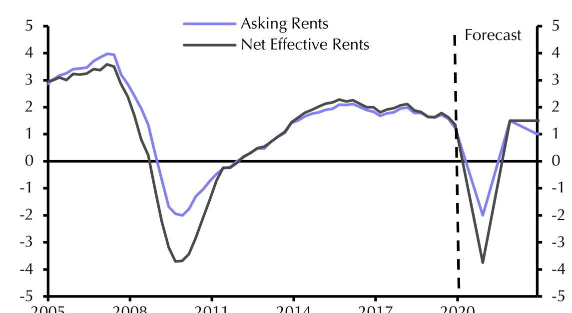


Chart 39: Retail Sales Volumes and Retail Capital Values (% y/y)

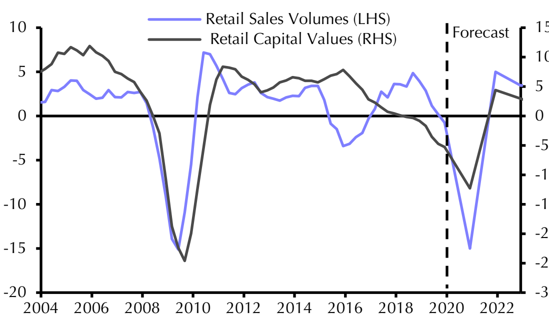
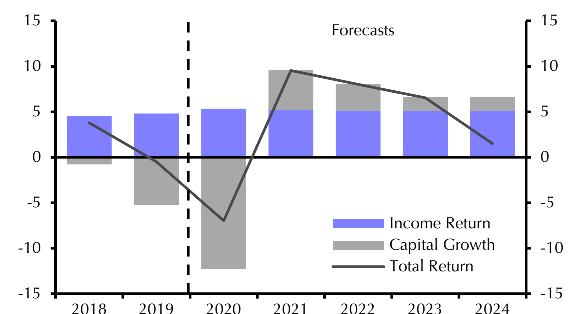


Chart 40: Retail Total Returns (% y/y)



Sources: Bloomberg, MSCI, Refinitiv, REIS, US Box Office, CE

Industrial Market

- *Increased demand for home delivery and requirements for more logistics capacity in some retail sectors is likely to partially offset a wider slowdown in take-up. Nevertheless, we have downgraded our rental growth expectations for this year, from 1.7% to 0.5%. With rents still growing and industrial property seeing the smallest yield rises, it will be the only sector that enjoys positive total returns this year, albeit at just 1%. A bounce-back in demand and rental growth in 2021 should push returns close to 15% next year on the back of renewed yield declines, leaving the industrial sector as the relative bright spot over the next two years.*

- We had previously laid out *the case* for industrial producing the strongest performance of the four sectors this year. Clearly, the major change to the economic backdrop will have a significant effect on returns across all sectors. But we still expect the industrial sector to see the best performance this year as we see occupier demand holding up relatively well.

- Of course, firms are likely to defer major expansion or rationalisation plans in the current climate, meaning that absorption is likely to slow. (See Chart 41.) On top of this, the slowdown in demand for some retail goods will depress take-up of new space by many affected retailers. And, for any retailers that go bust, it's likely that their warehousing space will be returned to landlords, pushing up vacancy.

- However, with sales slowing, warehousing space could become even more vital for some retailers, particularly if they have to close their (more expensive) stores. What's more, there are already signs that some retailers are seeing an increase in demand for their wares. (See Chart 42.) Supermarkets are perhaps the most obvious example. But, sellers of home gym equipment, computing hardware and games consoles are also benefiting. Online garden furniture retailers could also profit over the coming months.

- Amazon is likely to be one of the key beneficiaries, as it offers a wide range of goods, simple checkout and fast delivery. Indeed, Amazon has been amongst a handful of retailers announcing new hiring and has seen its stock price outperform over the last few weeks. (See Chart 43.)

- It's likely that the shutdowns will also reduce construction activity too, which will prevent vacancy from rising too sharply. Nevertheless, we expect overall vacancy to rise from just under 10% at the end of 2019 to 11%-11.5% by the end of this year. (See Chart 44.) Thereafter, it is likely to drift lower.

- With vacancy set to rise this year, rental growth will slow. However, unlike the other sectors, we aren't expecting industrial asking rents to see an outright decline on an annual basis this year. (See Chart 45.) This differs from net effective rents, which we expect to face a small fall this year as landlords are forced to offer more concessions. (See Chart 46.)

- In line with our predictions that industrial yields will see the smallest rise this year and that headline asking rents will stabilise rather than fall, the outlook for capital values is not as negative as in the other sectors. Nevertheless, we still have capital values falling by 3.5% this year. But as yields fall back in 2021 and rental growth resumes, we see capital growth bouncing back to 10% next year. (See Chart 47.)

- This would see total returns stay positive this year at around 1%, rising to nearly 15% in 2021. This would support the industrial sector outperforming the other three sectors over the next three years. (See Chart 48.) However, our forecasts for 2023-24 point to weaker performance for the sector as interest rates rise.

Industrial Market

Chart 41: Distribution Warehouse Net Absorption (Million Sq. Ft.)

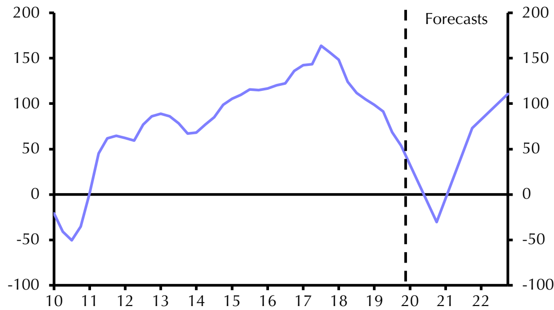


Chart 42: Same-Store Retail Sales (% y/y)

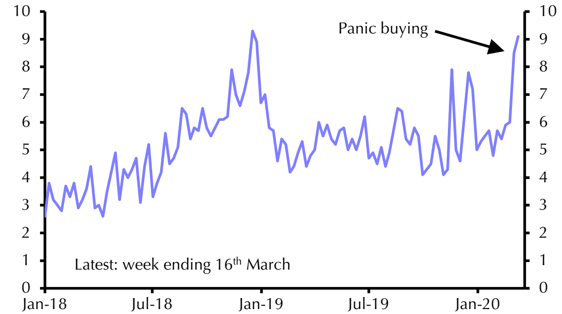


Chart 43: Amazon Share Price Outperformance (100=Peak)

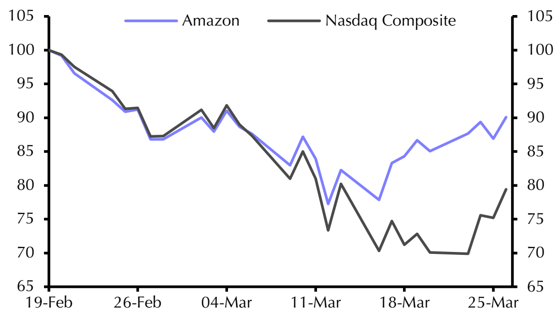


Chart 44: Distribution Warehousing Vacancy (%)

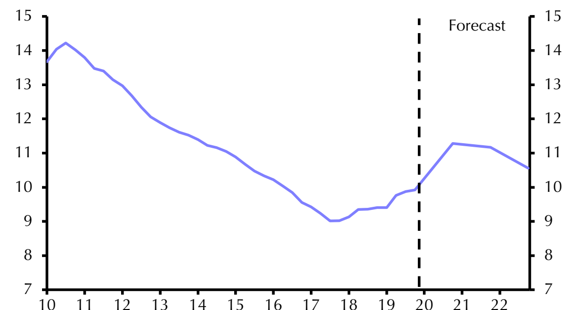


Chart 45: Distribution Warehouse Vacancy and Asking Rents

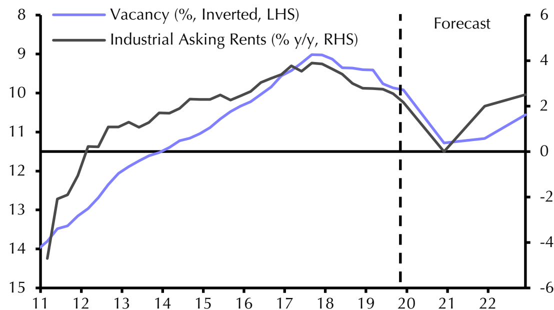


Chart 46: Distribution Warehouse Asking and Net Effective Rents

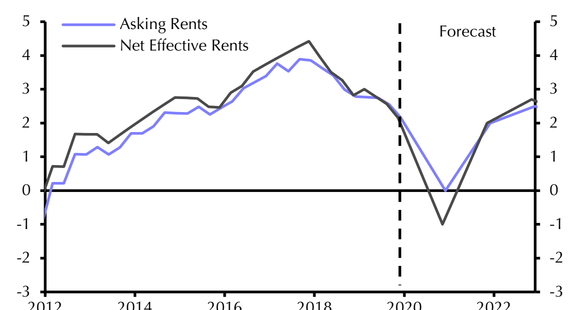


Chart 47: MSCI Investment Measures

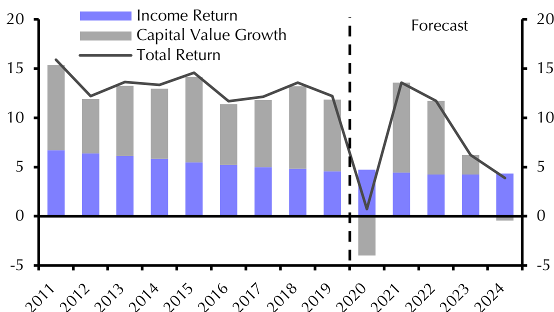
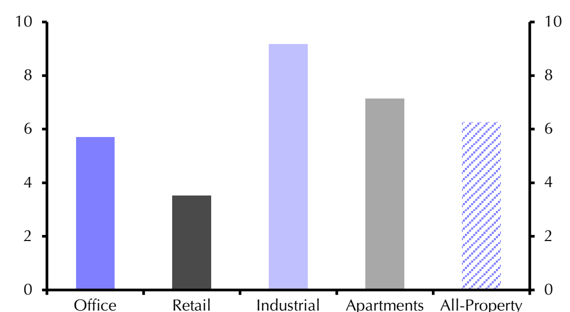


Chart 48: Total Returns by Sector (% p.a., 2020-22)



Sources: Bloomberg, MSCI, Refinitiv, REIS, Capital Economics

Apartment Market

- *The disruption caused by the coronavirus will hit apartment search activity, and even with developers holding back completed units from the market, new absorption rates are set to hit record lows. But with households unable to move, overall vacancy rates will see a more modest rise. Assuming the virus is brought under control, vacancy will fall back over the second half of the year. This will drive a small fall in rents. When combined with our expectations for yield rises, this will cause capital values to fall by around 10% this year.*

- Favourable weather conditions put apartment starts on a strong footing at the turn of the year. While volatile, the 619,000 annualised units started in January was the highest since July 1986. But disruption to supply chains and workers staying at home due to the coronavirus mean starts are set for a sharp slowdown in the second quarter. We anticipate a drop to 225,000 annualised, and then a recovery to 320,000 annualised by end-2021. (See Chart 49.)

- Strong starts of rental properties over the past couple of years had implied a large number of new units would enter the market in 2020. (See Chart 50.) But we expect that developers will hold units off the market until most of the disruption from the coronavirus has passed.

- Indeed, stay-at-home orders will prevent Americans from seeking out a new apartment, and the spike in unemployment will hit household formation. We therefore expect a sharp decline in the three-month absorption rate for new units, to 40% in the second quarter, a record low. (See Chart 51.)

- But a short-term collapse in turnover will have less of an impact on overall vacancy rates. After all, existing tenants will have difficulty seeking out a new apartment or buying a home. That said, there will be some tenants at the end of leases who will take the opportunity to move in with friends and family while the outbreak plays out. We therefore anticipate a rise in the apartment vacancy rate to 5.5% in the second quarter. (See Chart 52.) It will then trend down, but longer-term damage to income and savings will keep it above its end-2019 rate of 4.7% over the next two years.

- The collapse in GDP in the second quarter means there will be some decline in rents. (See Chart 53.) Landlords will not be able to push through a rent hike while the economy is shut down. And, even once activity starts to get back to normal, it will take time for incomes to recover, particularly as rents are already at a record high in comparison to earnings. (See Chart 54.) Rent arrears are also set to rise, although the boost to unemployment insurance and the checks sent to most households should help soften the impact.

- That said, the anticipated short-lived nature of the crisis suggests the hit to rental growth will be smaller than that seen during the financial crisis. We expect annual effective rental growth will bottom out at around -1% y/y in the third quarter, and then see a recovery to 2% y/y by end-2021. (See Chart 55.)

- A rise in yields from 4.1% in the final quarter of 2019 to 4.5% by year-end means capital value growth will turn negative. We expect values to drop by around 10% this year. That will push total returns down to -6%. (See Chart 56.) Much of that drop will then be reversed over the next couple of years, with capital value growth reaching around 9% by the end of 2021, pushing total returns up to 13.5%. And over the five-year forecast horizon, we expect apartments to produce the second-best returns, after industrial.

Apartments Market

Chart 49: MF Housing Starts (000s Ann.)

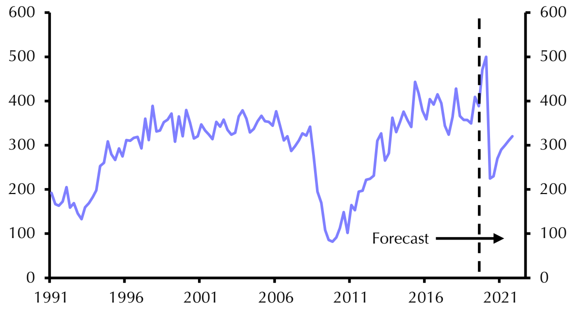


Chart 50: MF Starts for Rent & Completions

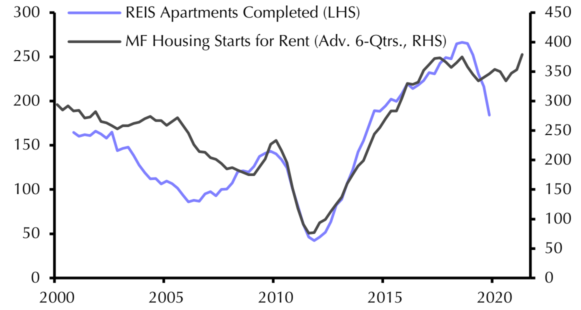


Chart 51: Three-Month Absorption Rate (S. Adj., %)

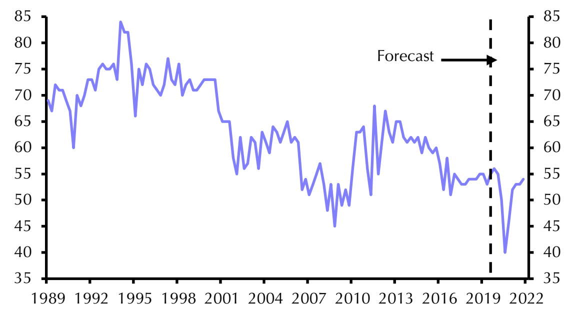


Chart 52: REIS Apartment Rental Vacancy Rate (%)

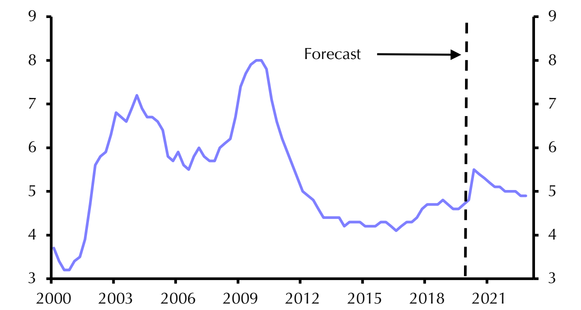


Chart 53: Real GDP & CPI Rental Growth (% y/y)

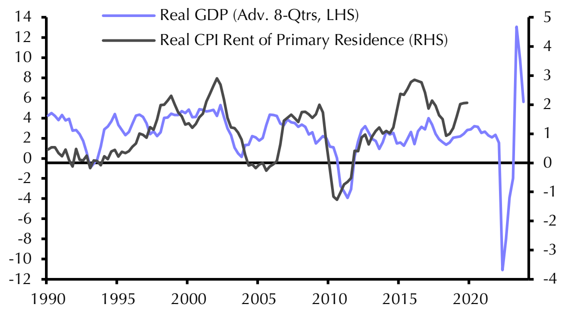


Chart 54: Rent Share of Earn. (Index, 90-15 Avg. =100)

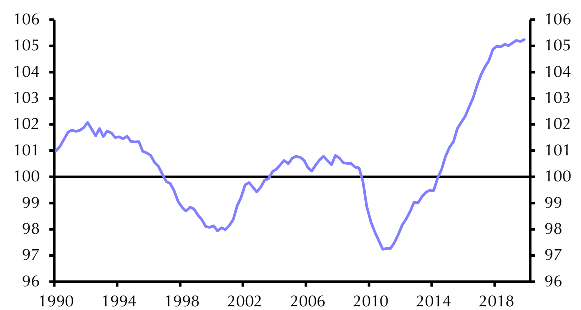


Chart 55: REIS Effective Rental Growth (% y/y)

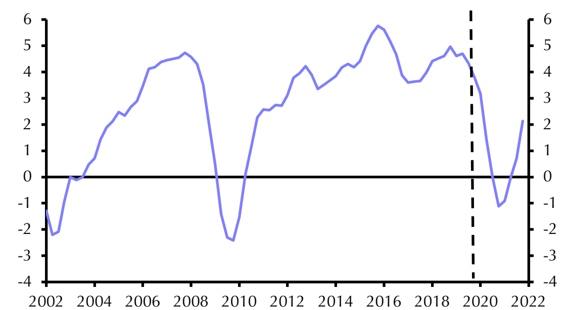
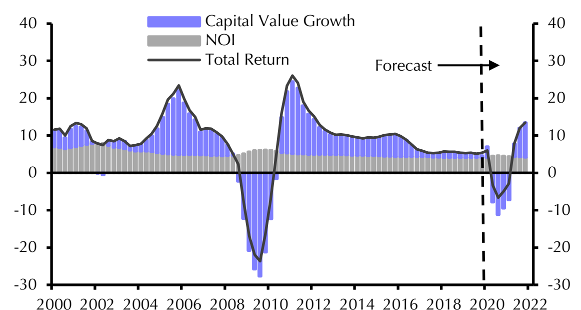


Chart 56: Apartment Returns Breakdown (%)



Sources: Refinitiv, REIS, MSCI, Census Bureau, Capital Economics

Main Forecasts

	2019	2020	2021	2022	2023	2024	Annualised 2020-2024
ALL PROPERTY							
Rental value growth, % y/y	2.6	-1.0	2.0	2.6	3.0	2.7	1.9
End year NOI yield, %	4.32	4.68	4.41	4.27	4.25	4.31	-0.5
Capital value growth, % y/y	1.5	-9.0	8.3	6.1	3.5	1.1	2.0
Total return, % p.a	5.8	-4.3	12.7	10.4	7.7	5.4	6.4
OFFICE (38%)							
Rental value growth, % y/y	2.6	-1.5	1.5	2.5	3.3	2.4	1.6
End year NOI yield, %	4.22	4.60	4.30	4.20	4.15	4.20	-2.1
Capital value growth, % y/y	1.8	-9.7	8.5	4.9	4.5	1.2	1.9
Total return, % p.a	6.3	-5.0	12.9	9.2	8.8	5.5	6.3
RETAIL (17%)							
Rental value growth, % y/y	1.2	-2.0	1.5	1.0	1.5	1.5	0.7
End year NOI yield, %	4.80	5.35	5.20	5.10	5.10	5.10	30.0
Capital value growth, % y/y	-5.3	-12.3	4.4	3.0	1.5	1.5	-0.4
Total return, % p.a	-0.5	-7.0	9.5	8.0	6.6	1.5	3.7
INDUSTRIAL (19.5%)							
Rental value growth, % y/y	2.2	0.5	3.0	2.5	2.5	2.5	2.2
End year NOI yield, %	4.32	4.50	4.20	4.00	4.00	4.10	-22.0
Capital value growth, % y/y	7.3	-3.5	10.1	7.5	2.5	0.1	3.3
Total return, % p.a	12.2	1.2	14.6	11.7	6.7	4.4	7.7
APARTMENT (25.5%)							
Rental value growth, % y/y	3.7	-0.6	2.2	4.0	4.0	4.0	2.7
End year NOI yield, %	4.12	4.50	4.20	4.00	4.00	4.10	-2.5
Capital value growth, % y/y	1.1	-9.9	9.3	9.0	4.0	1.6	2.8
Total return, % p.a	5.4	-5.3	13.7	13.1	8.1	5.8	7.1

Key US Economic Forecasts (Year Average)

	2017	2018	2019f	2020f	2021f
GDP, % y/y	2.4	2.9	2.3	-5.0	7.0
5-yr swap rate, % (end-period)	1.9	2.2	2.6	-	-
10-yr Treasury yield, % (end-period)	2.41	2.69	1.91	0.50	0.50
CPI inflation, % y/y	2.1	2.4	1.8	0.4	2.0
¥/$ (end-period)	113	110	108	105	110
$/€ (end-period)	1.20	1.15	1.12	1.10	1.05
Household spending, % y/y	2.6	3.0	2.6	-5.0	8.1
Unemployment rate %	4.4	3.9	3.7	7.5	6.2
Payroll Emp. % y/y	1.3	1.6	1.1	-2.9	2.4
Hourly Compensation, % y/y	3.1	3.0	3.8	0.5	0.9
Case-Shiller house prices, % y/y in Q4	6.1	4.9	3.5	-3.0	0.0

Sources: Refinitiv, Capital Economics