



**CBRE**

**GLOBAL ECONOMICS, REAL ESTATE PRICING  
& OUTLOOK FOR 2017**

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**BREXIT**



**TRUMPISM**

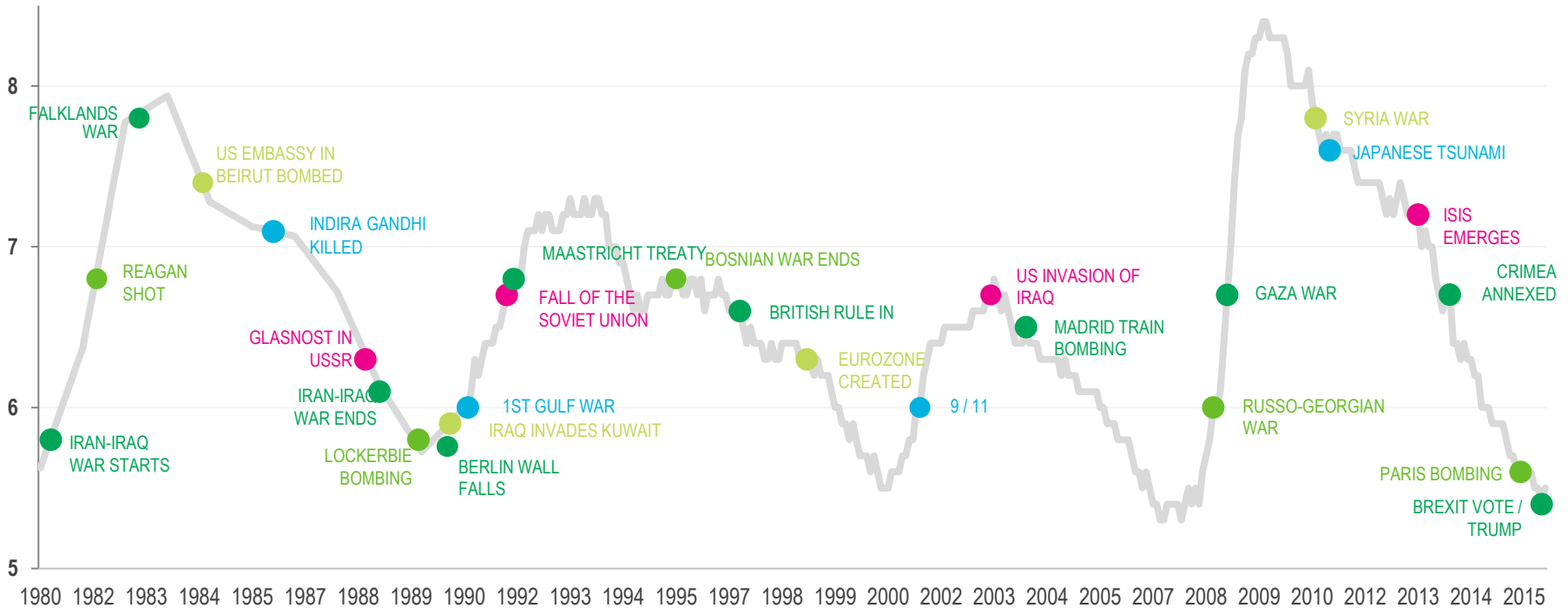


# EURO-TRUMPISM



# LET'S GET GEOPOLITICS IN PERSPECTIVE

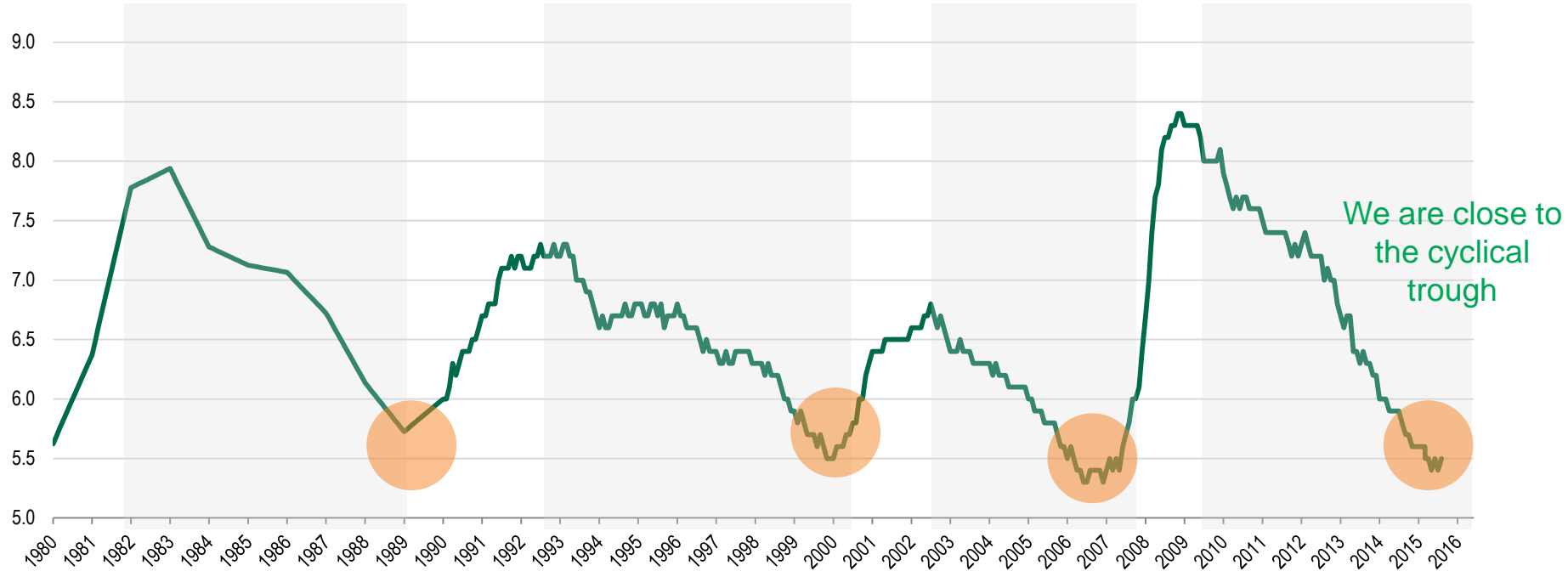
G7 COUNTRIES, UNEMPLOYMENT RATE (%)



Source: CBRE Research, Macrobond, IMF, WEO.

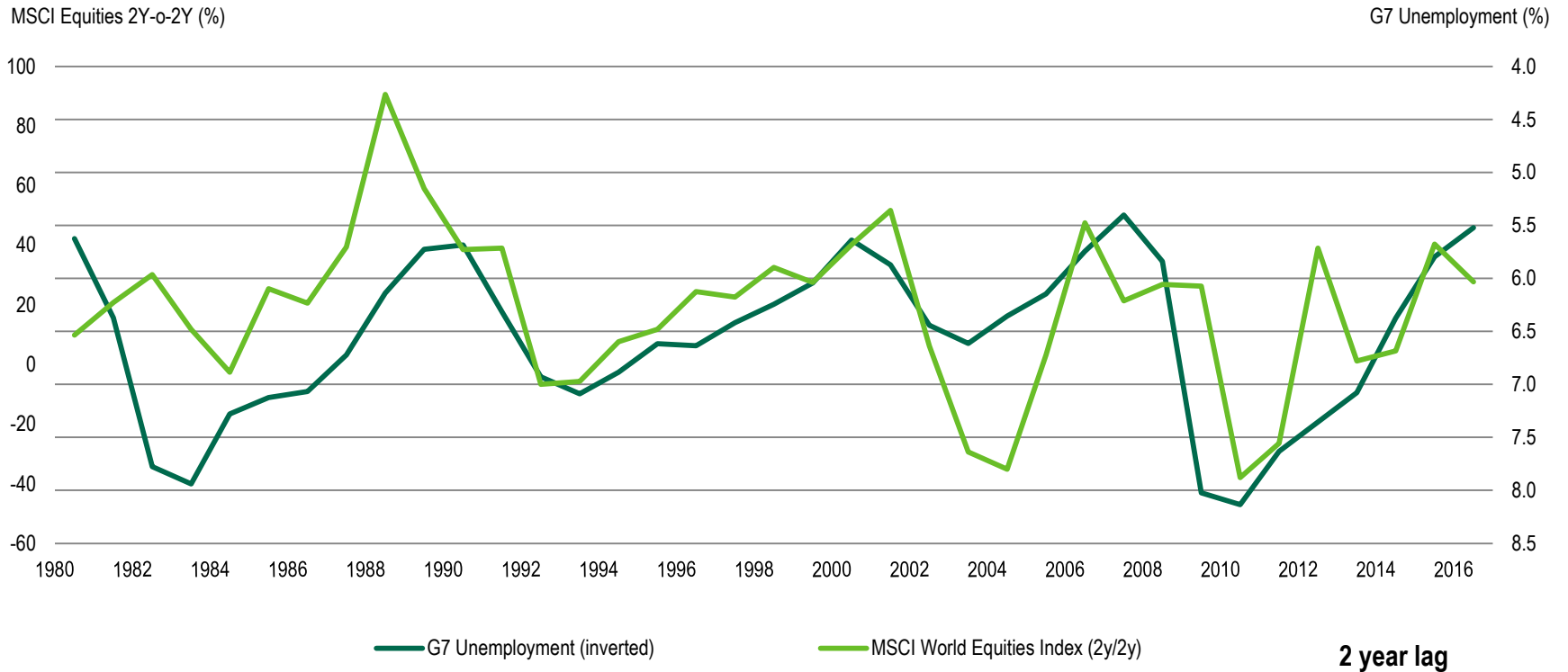
# ONLY THE CYCLE MATTERS

G7 Countries Unemployment Rate (%)



Source: CBRE Research, Macrobond, IMF, WEO.

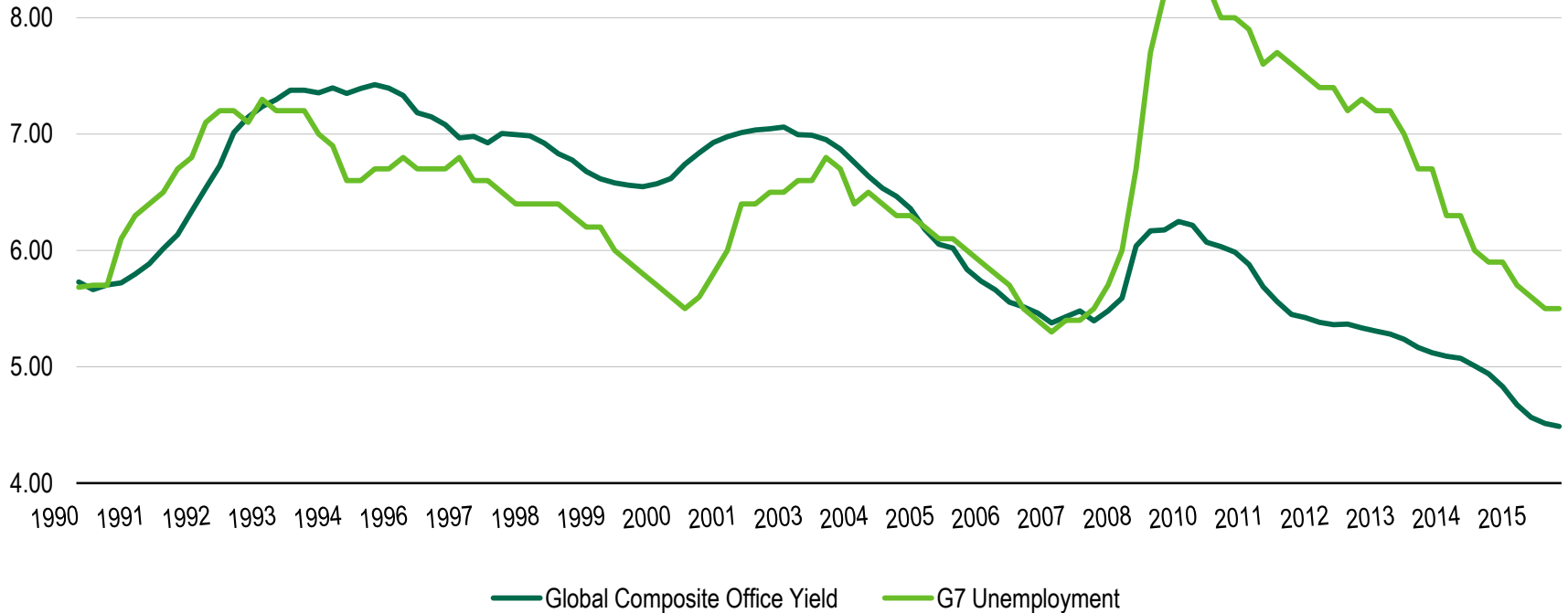
# THE CYCLE DRIVES WORLD EQUITY VALUES



Source: CBRE Research, Macrobond, MSCI, 2016.

# ...AND WORLD REAL ESTATE VALUES...

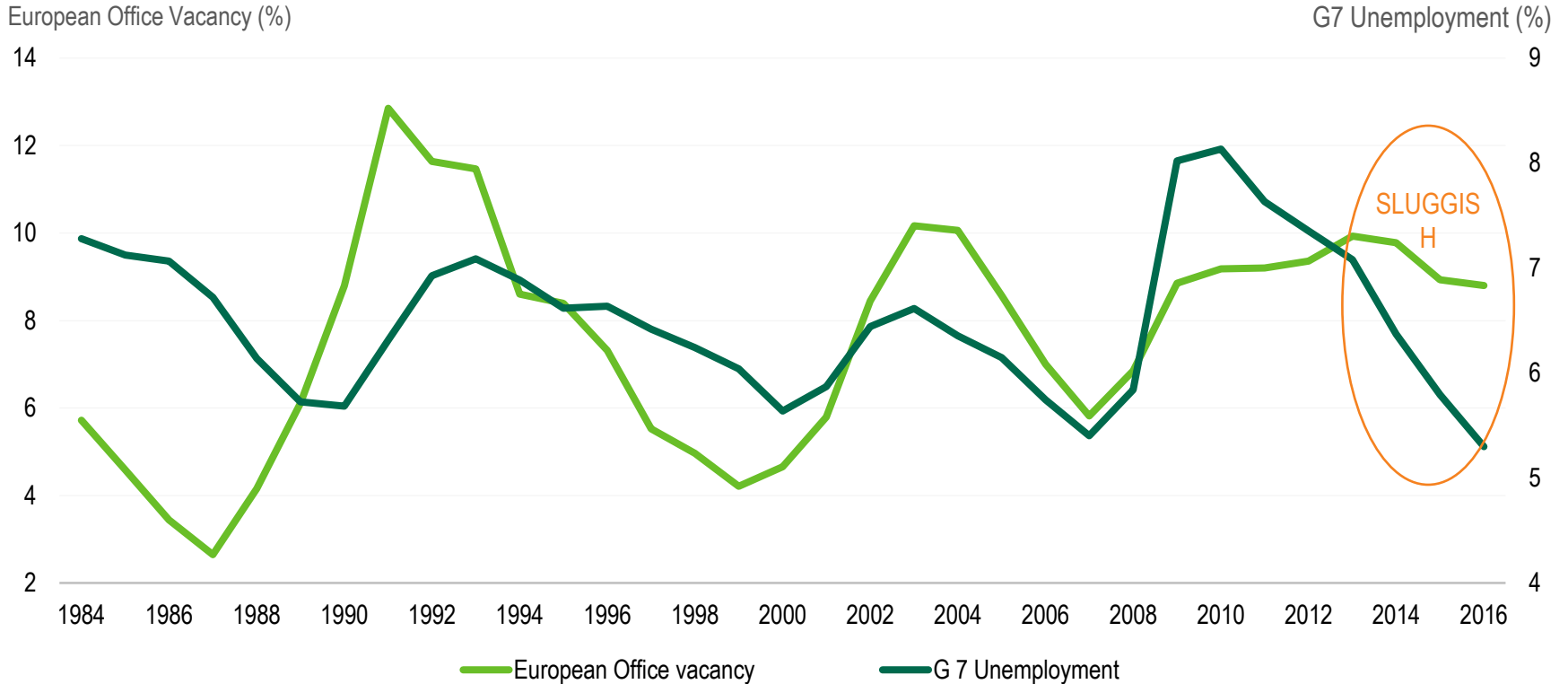
G7 Unemployment and Global Composite Office Yield (%)



Source: CBRE Research, Macrobond, 2016.

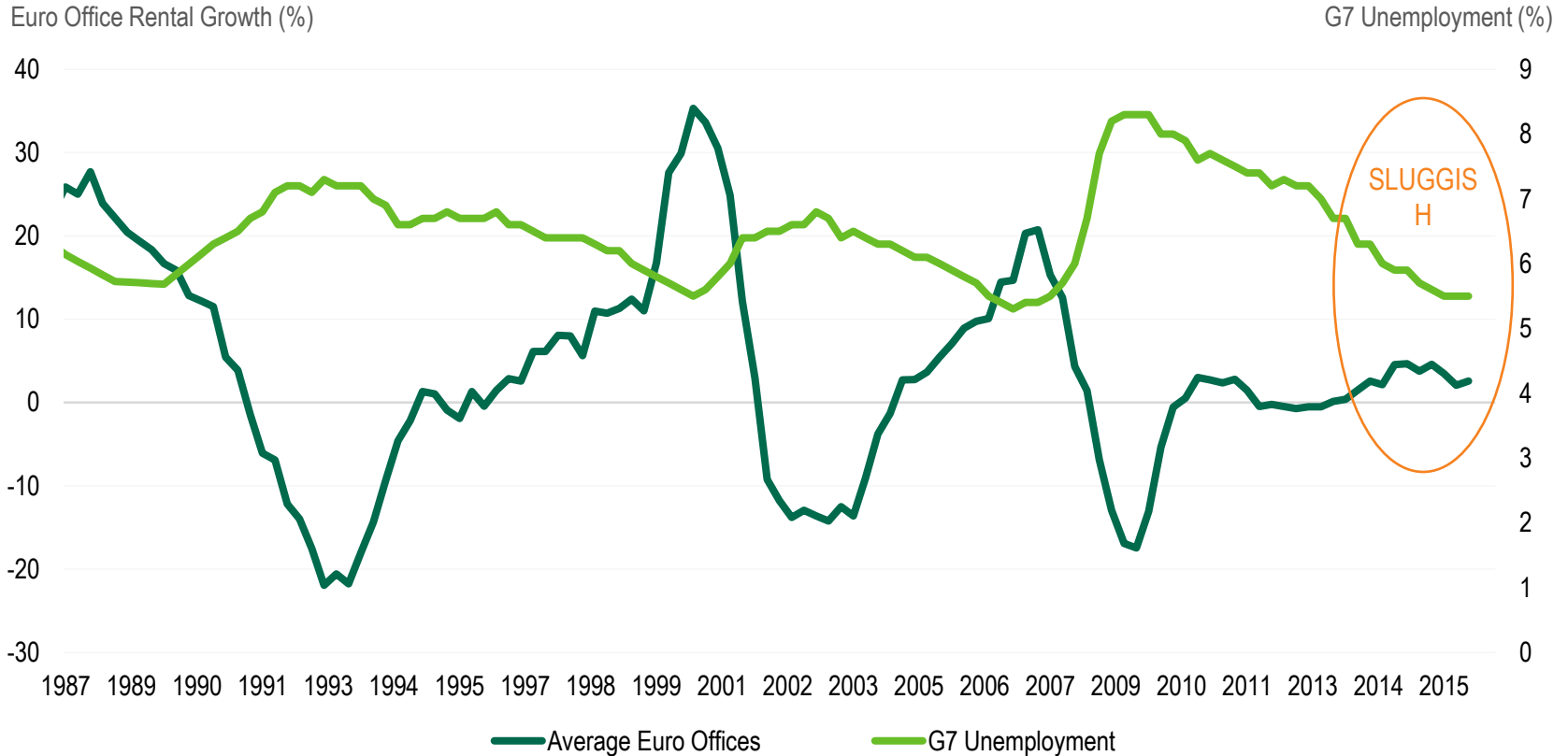


# ...AND FUNDAMENTALS (EUROPEAN OFFICE VACANCY )



Source: CBRE Research, Macrobond

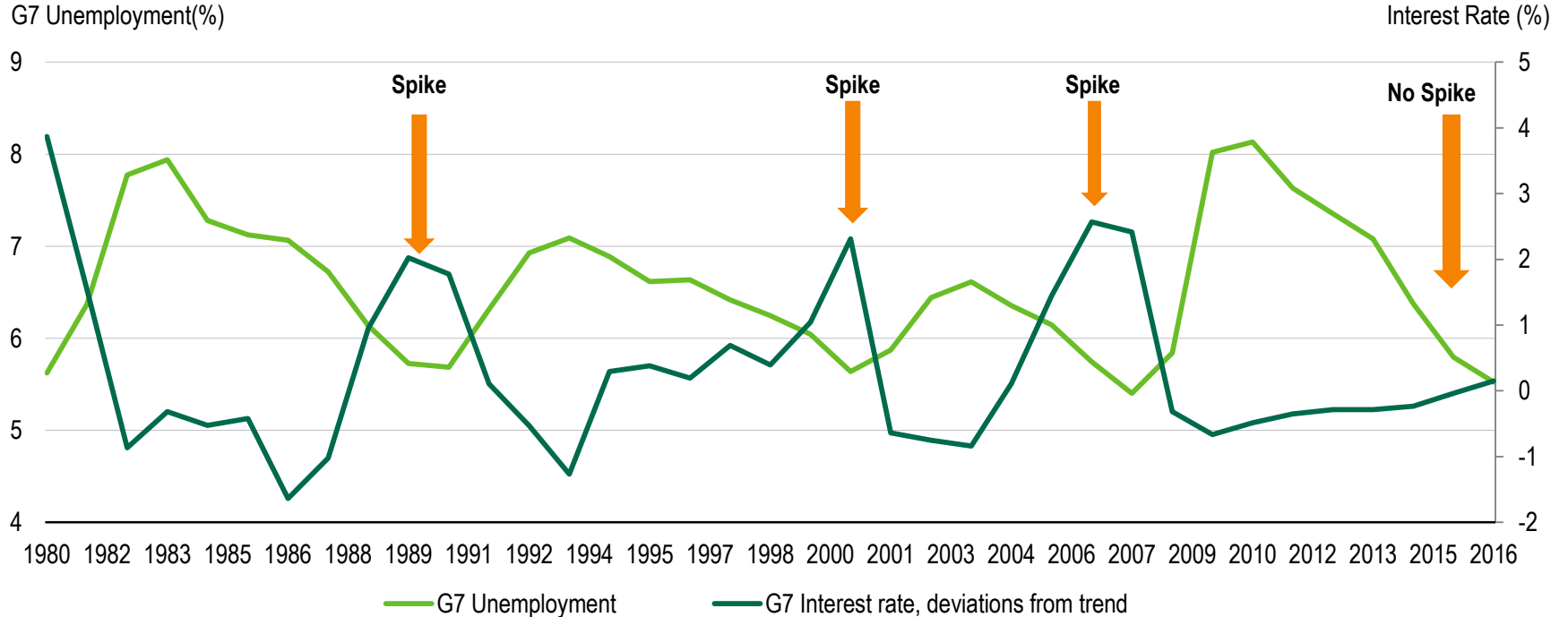
# AND RENTAL PRESSURE



**GEOPOLITICS RARELY BRINGS  
THE CYCLE TO AN END**

# INTEREST RATES ARE KEY TO THE END OF THE CYCLE

## G7 INTEREST RATE, DEVIATIONS FROM TREND AND G7 UNEMPLOYMENT



Source: CBRE Research, Macrobond, 2016.

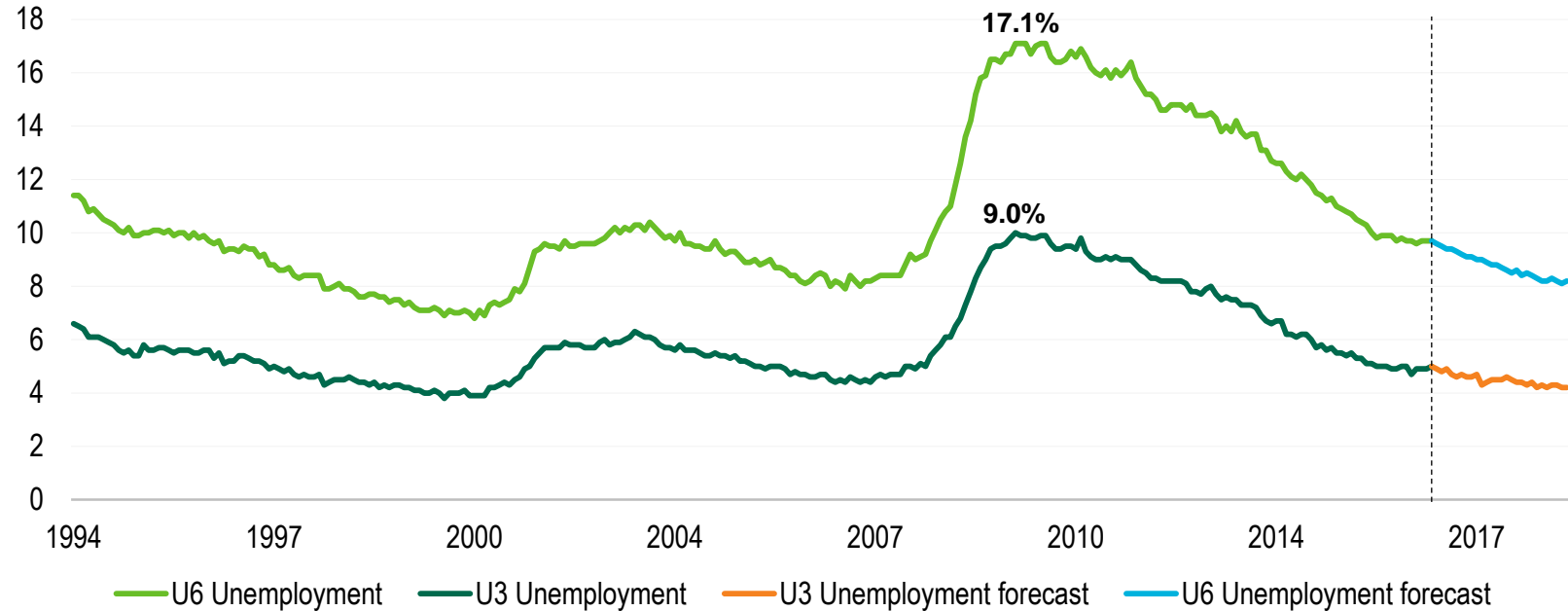
**SO WHY IS IT  
NOT HAPPENING?**

**ITS BEEN A VERY  
TOUGH RECOVERY**



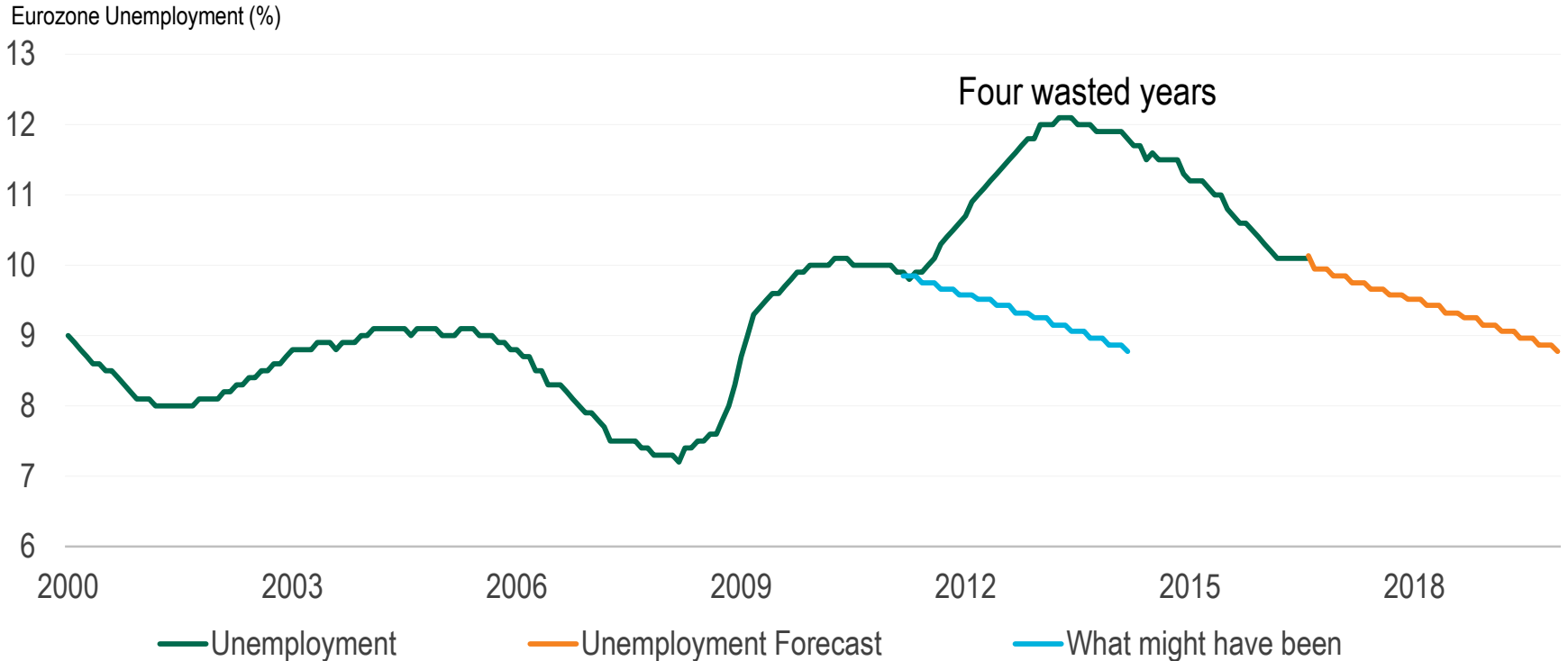
# THE U.S. WAS VERY BADLY DAMAGED BY THE GFC

U.S. UNEMPLOYMENT (U3 AND U6, %)



Source: CBRE Research, BLS, Q3 2016.

# THE EUROZONE CRISIS WAS A MAJOR HICCUP

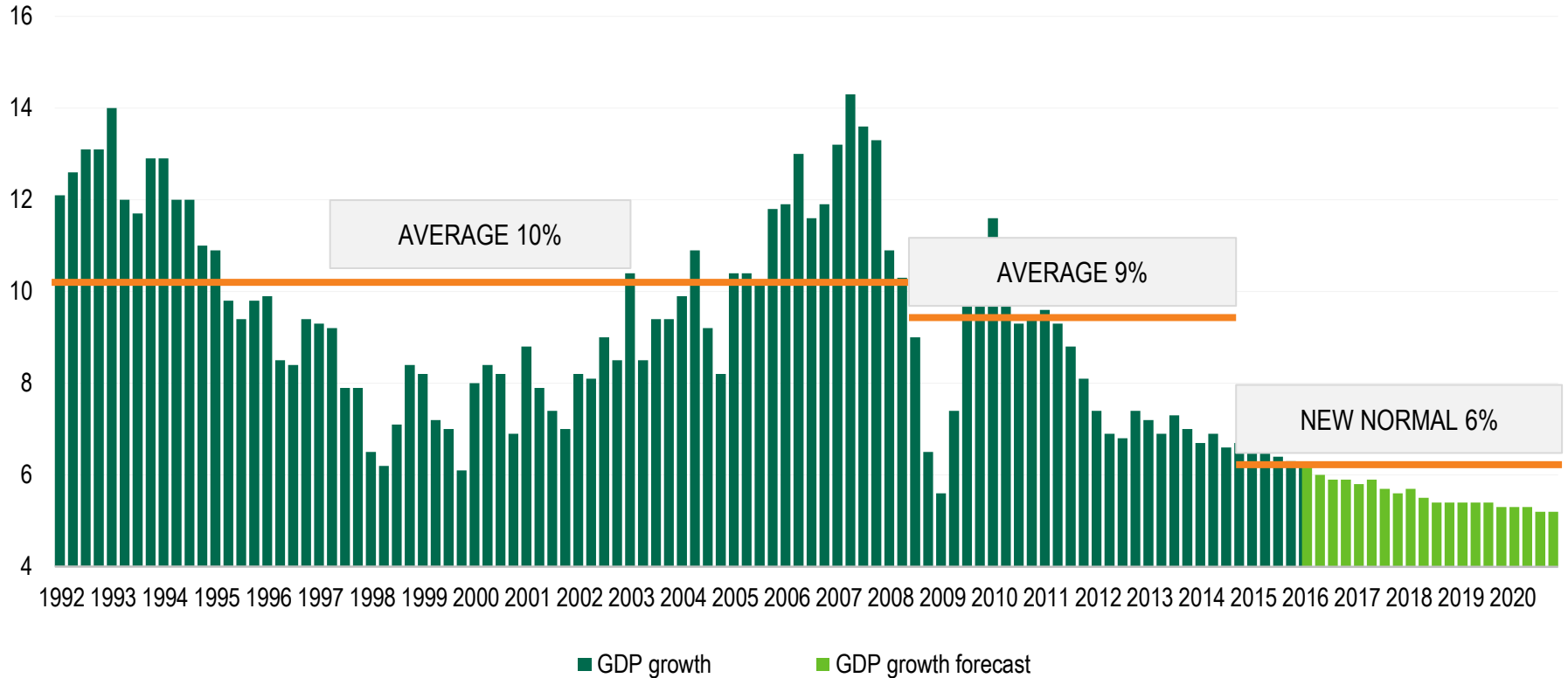


Source: CBRE Research, Macrobond, Q3 2016.



# THE RISE AND SLOWDOWN IN CHINA IS PART OF THE STORY

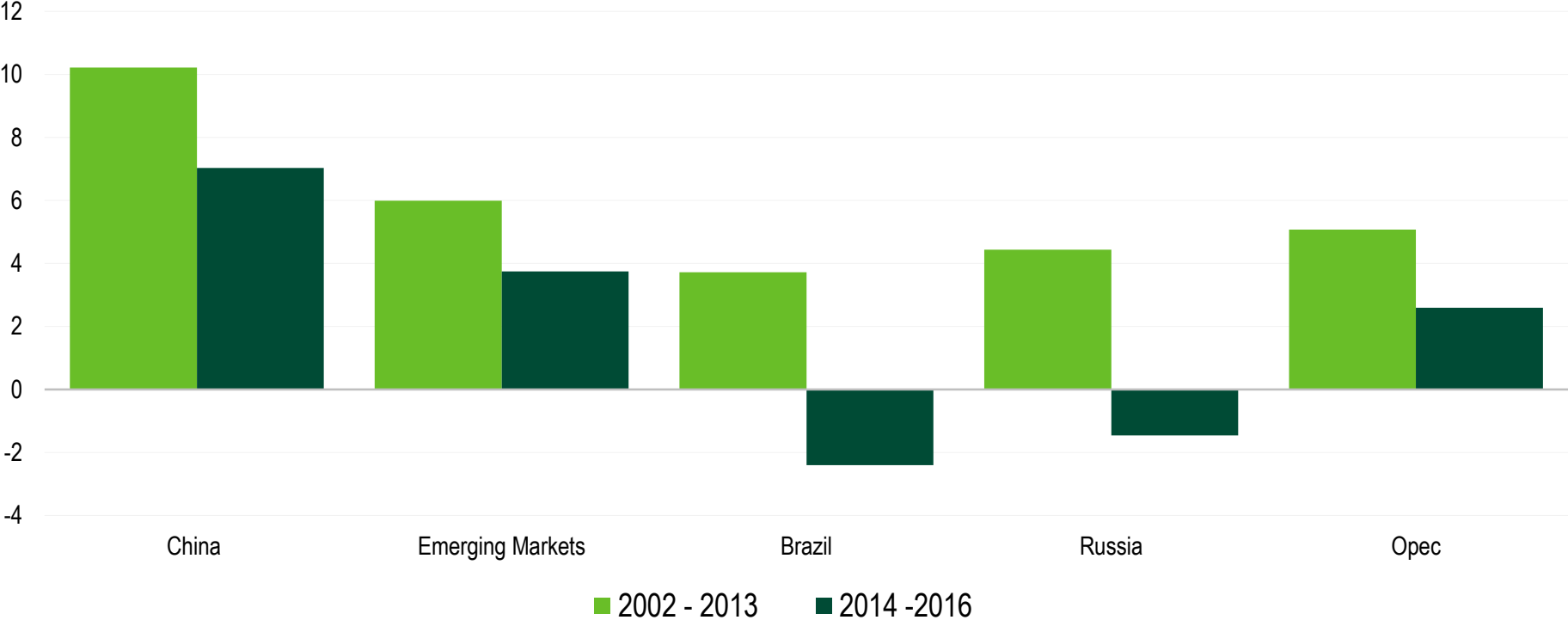
China GDP Growth Y-O-Y (%)



Source: CBRE Research, Macrobond.

# MOST RECENTLY AN EMERGING MARKETS CRISIS

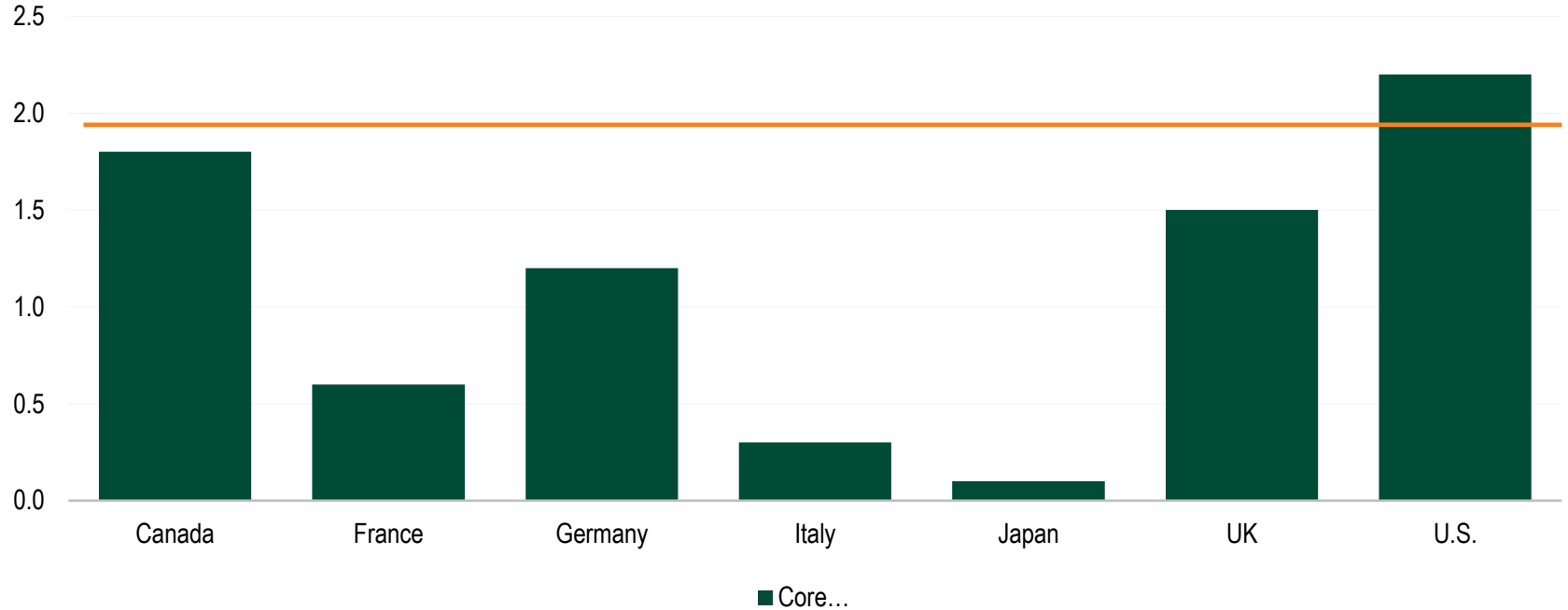
Average annual GDP growth (%)



Source: CBRE Research, Macrobond.

# DEMAND SHOCKS HAVE KEPT INFLATION DANGEROUSLY LOW

Core CPI Inflation vs. Target



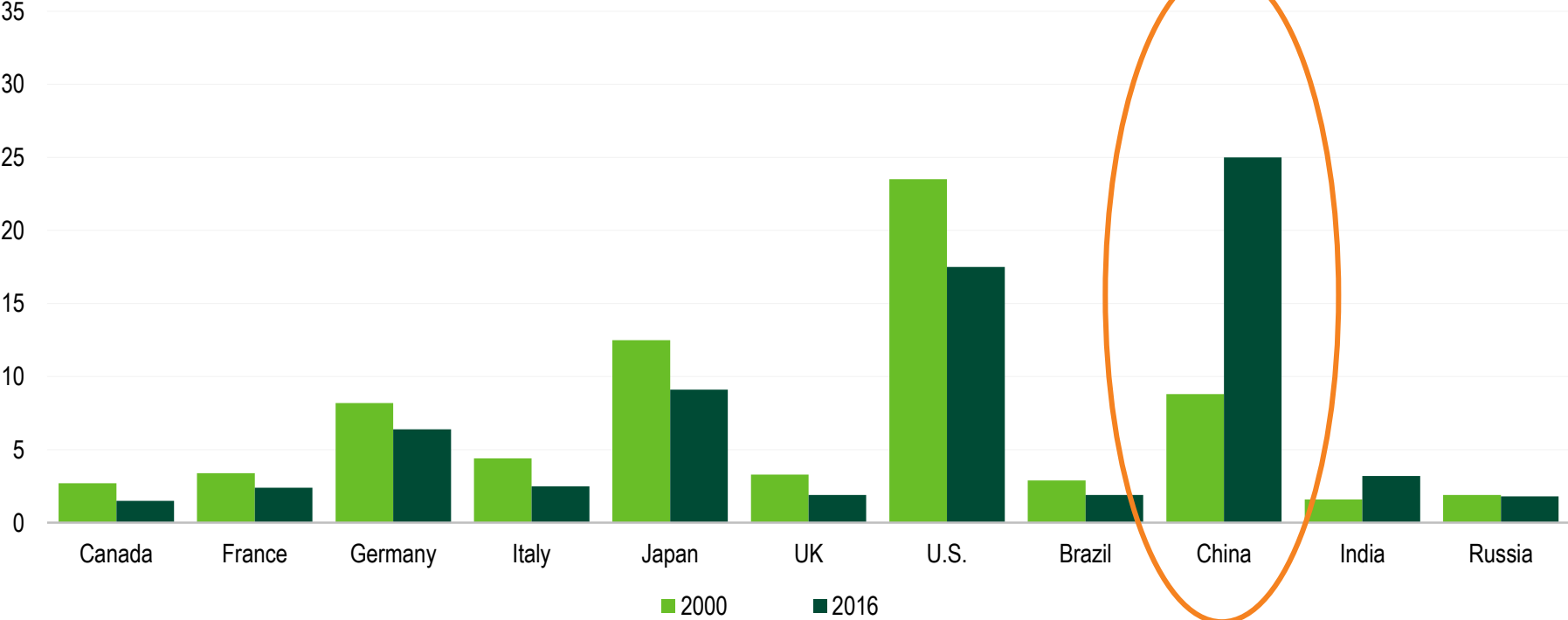
Source: CBRE Research, Macrobond, Q3 2016.

# THERE IS A BIGGER PROBLEM OF GLOBALIZATION



# TRADE SHOCK FROM CHINA

Share Of World Manufacturing Output (%)



Source: CBRE Research, Macrobond.

# REMEMBER THE FIRST OIL SHOCK?

PUMPS  
CLOSED

STOP  
YOUR  
MOTOR  
PLEASE  
NO  
SMOKING

When did you last  
change your oil?

SHELL REGULAR



SUPER REGULAR  
Low Lead



SUPER SHELL



# CAPITAL RECYCLING THEN



OPEC

THE WEST



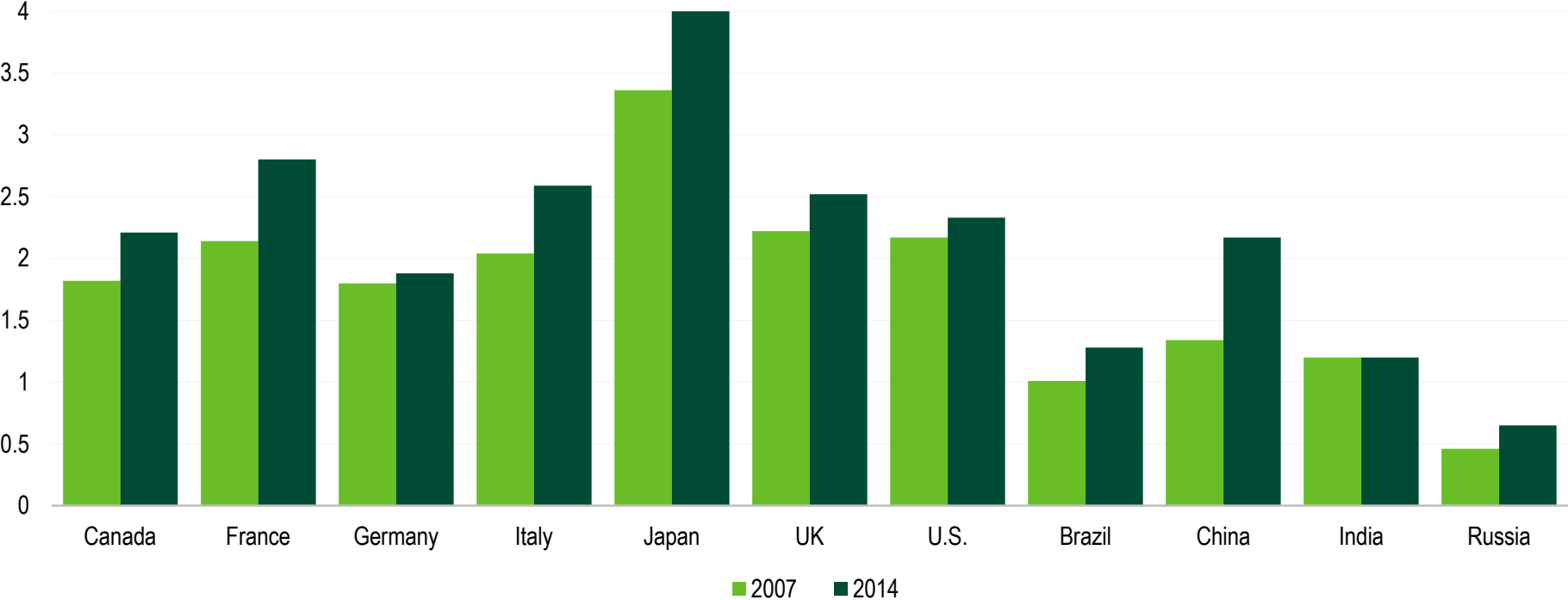
# CAPITAL RECYCLING NOW





# THE WORLD HAS FAILED TO DE-LEVER

Change In Debt To GDP By Country 2007 To 2014 (%)



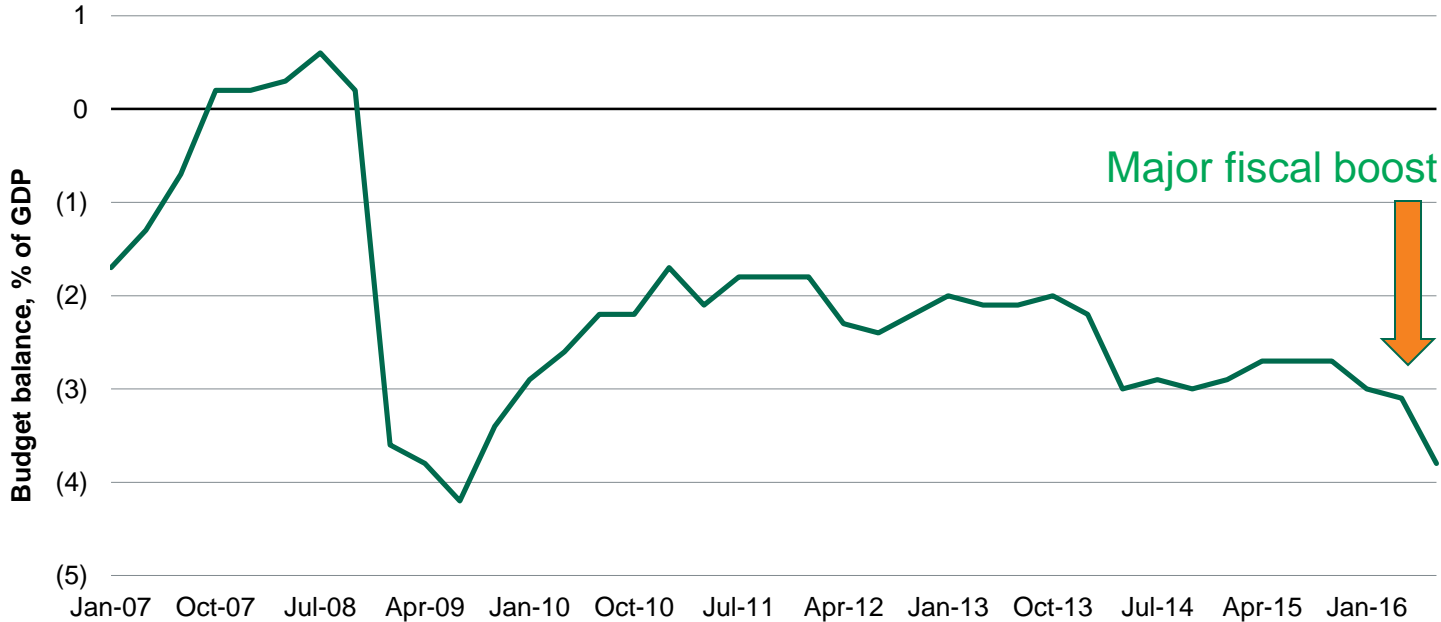
Source: McKinsey Global Institute, CBRE Research, 2016.

BACK TO THE CYCLE?



# THE CHINESE STARTED IT

China, Central Government Budget Balance, % of GDP



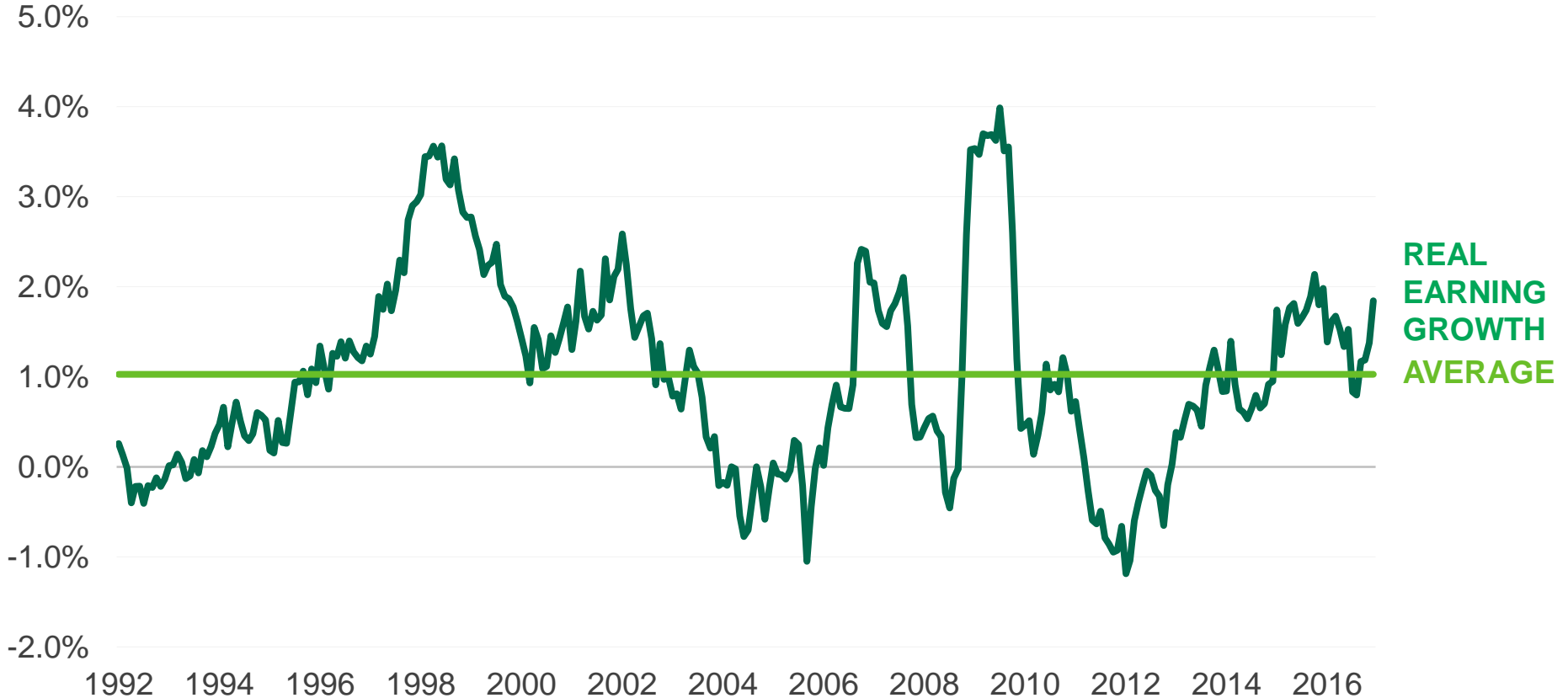
Source: CBRE Research, Macrobond, 2016.

**TRUMP IS  
ALSO ON  
THE CASE**



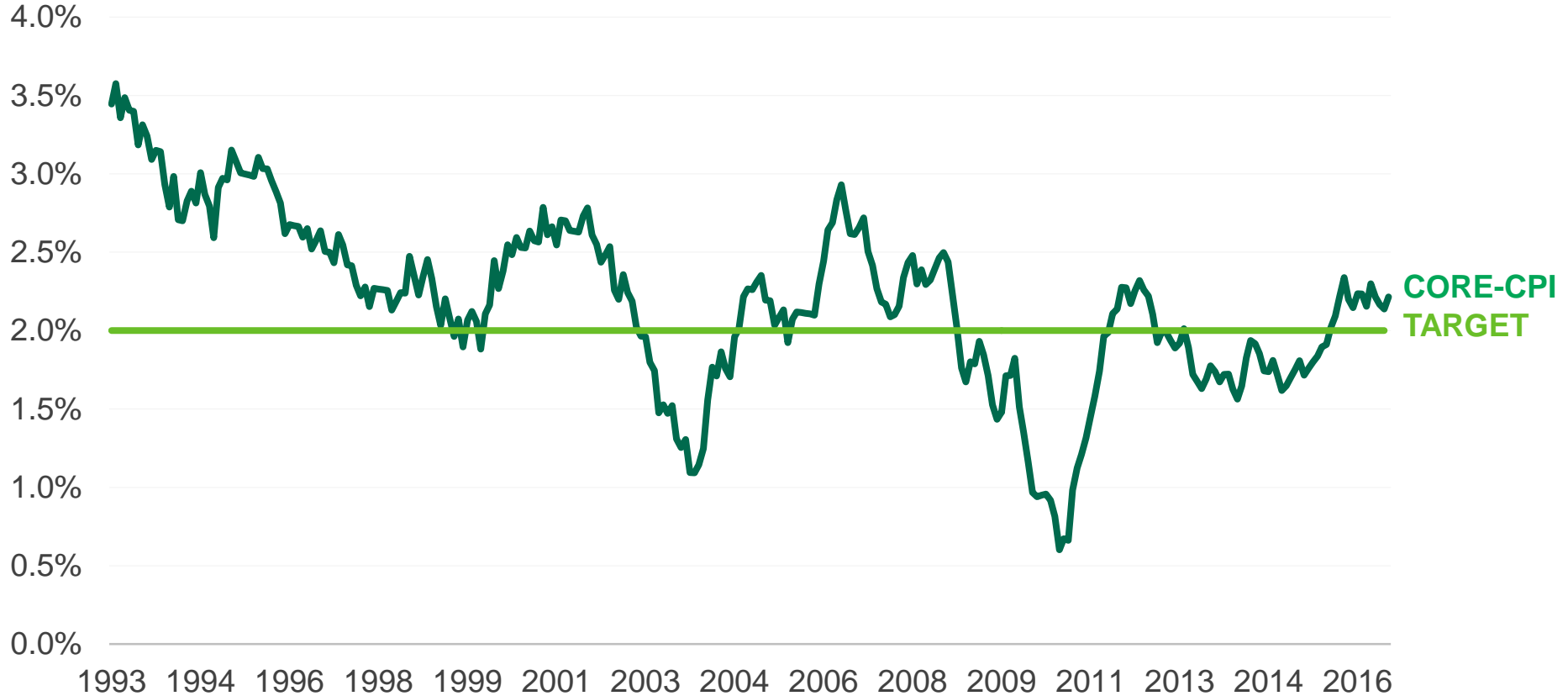
# REAL WAGES ARE GROWING STRONGLY

US REAL EARNINGS GROWTH



# INFLATION IS TRENDING UP

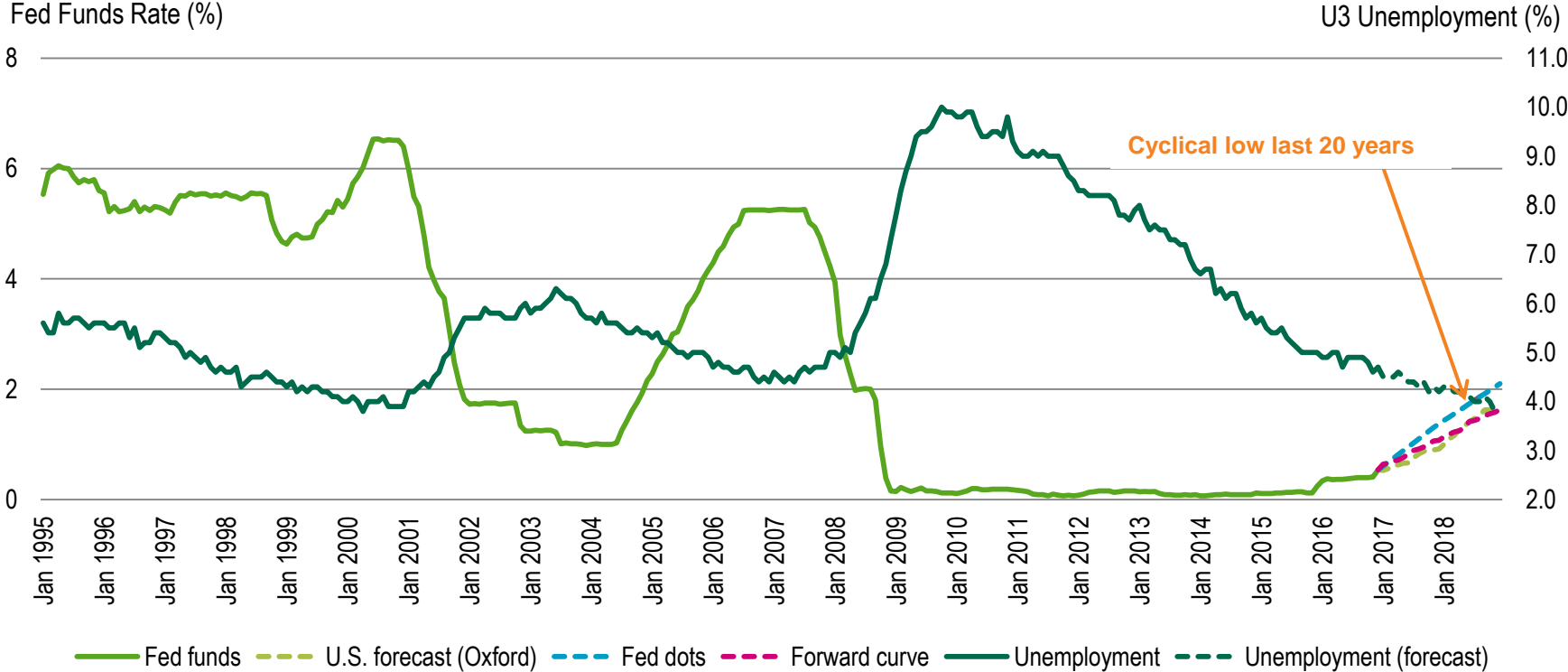
US CORE CPI



**A MONETARY POLICY  
RESPONSE SHOULD BE  
EXPECTED**



# SHORT RATES HEADING UP

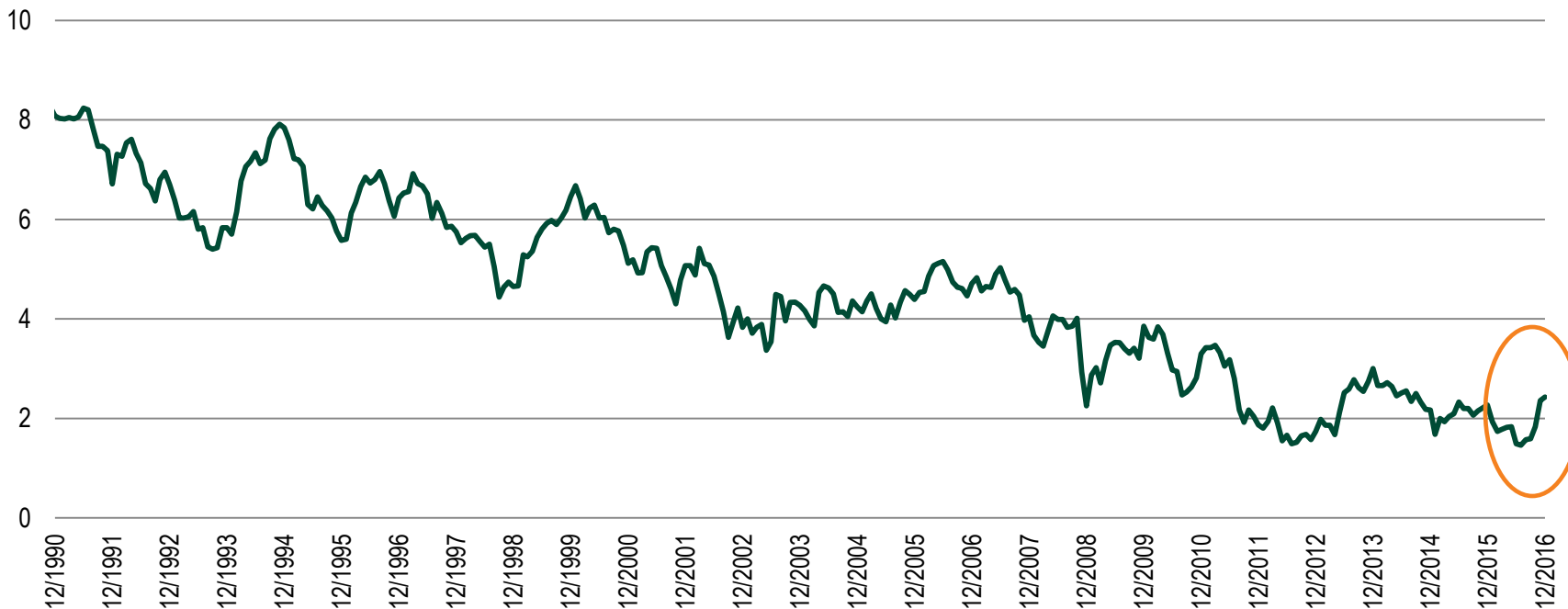


Source: Atlanta Federal Reserve, Bureau of Labor Statistics, Macrobond, CBRE Research.  
CBRE



# LONG RATES HAVE ALREADY MOVED

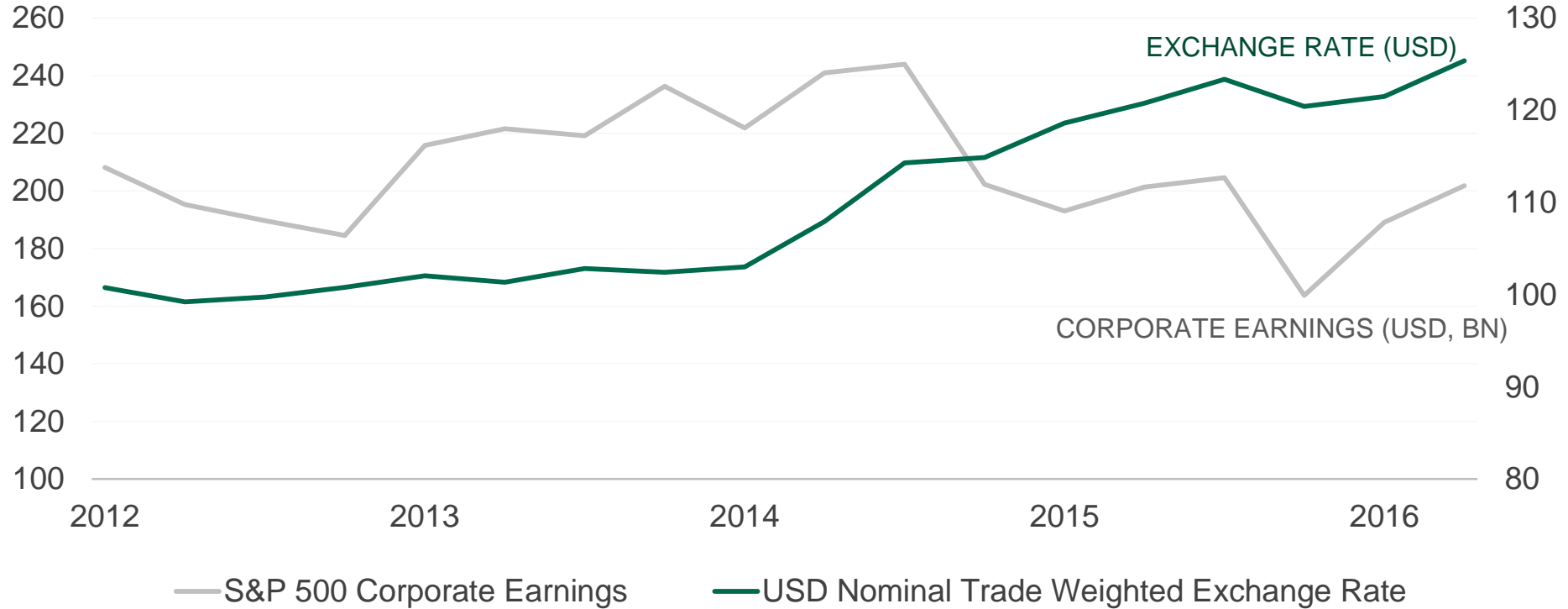
US Government 10 Year Bond Yield (%)



Source: Macrobond, CBRE Research, 2016.

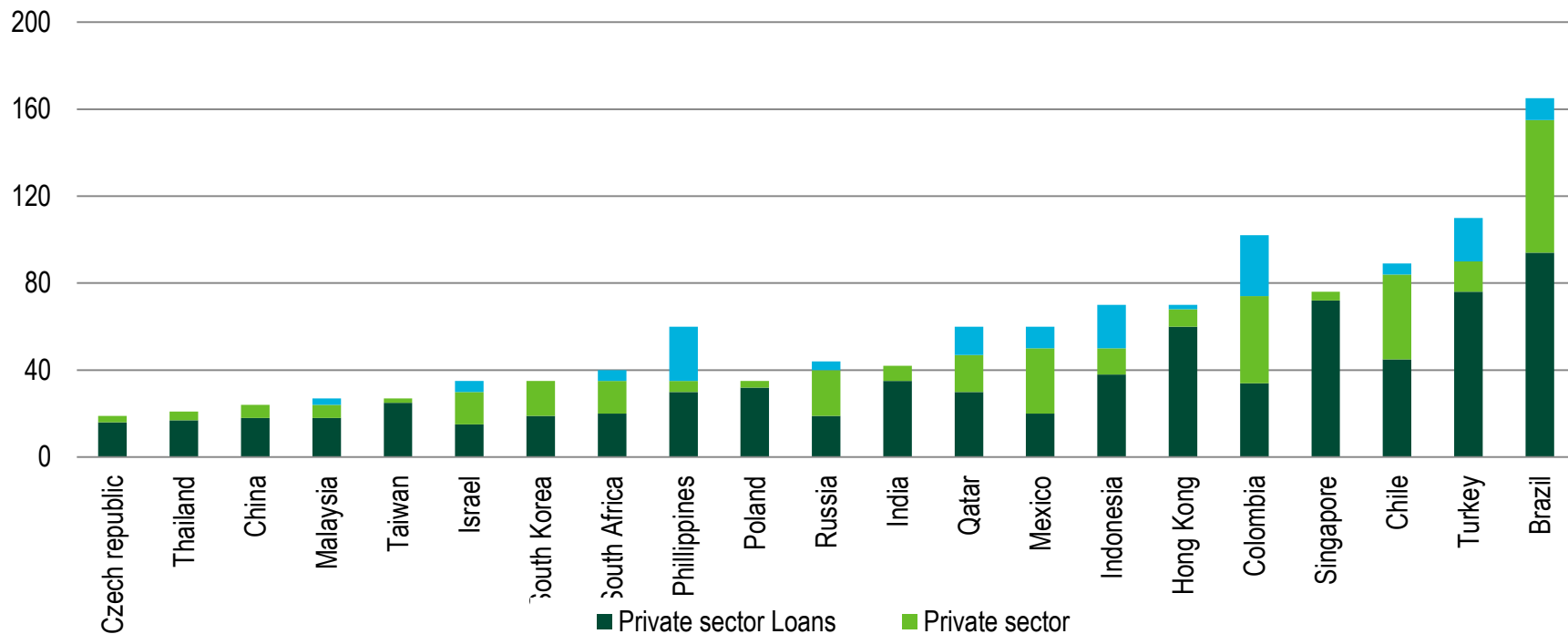
# AN ERA OF DANGEROUS DOLLAR STRENGTH

S&P 500 CORPORATE EARNINGS, USD NOMINAL TRADE WEIGHTED EXCHANGE RATE



# EMERGING MARKET \$ DEBT

Exports of Good Services & Income Receipts (%)



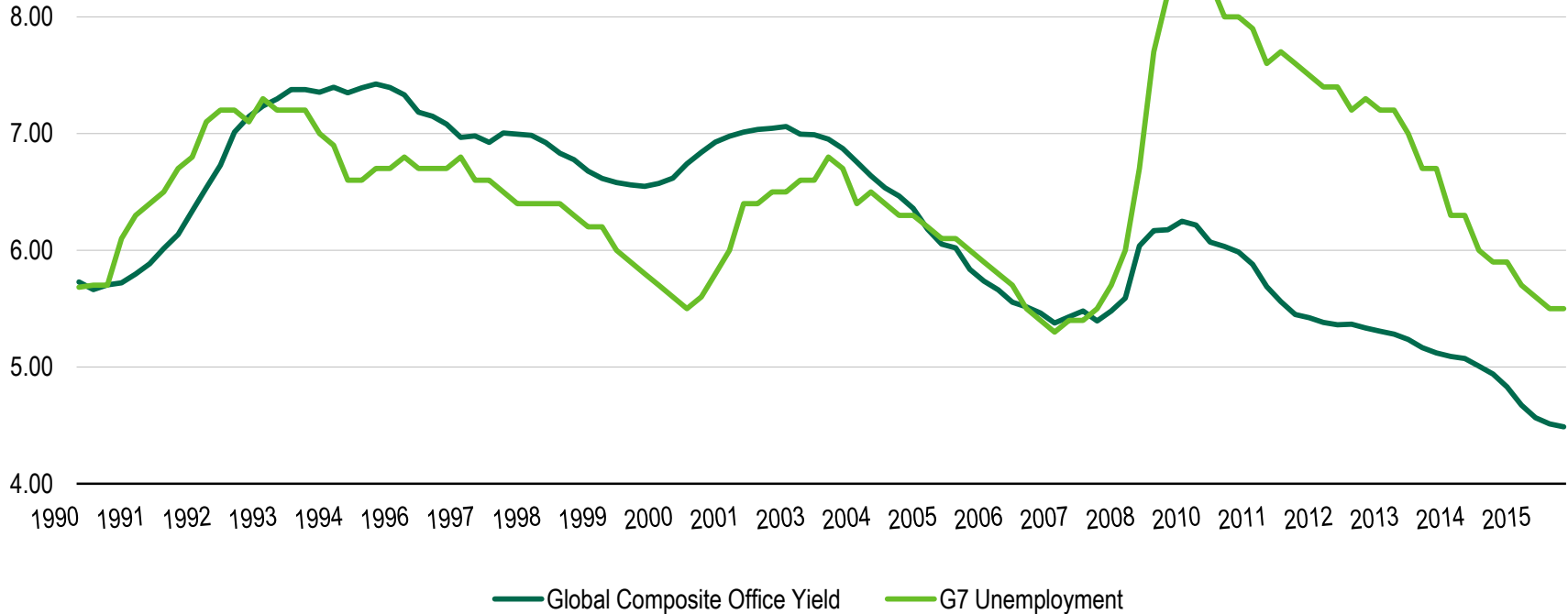
Source: CreditSights, Bloomberg Business review, BIS, BAML Index Data, Haver, 2016.



# OUTLOOK FOR GLOBAL REAL ESTATE PRICING

# WORLD REAL ESTATE PRICES

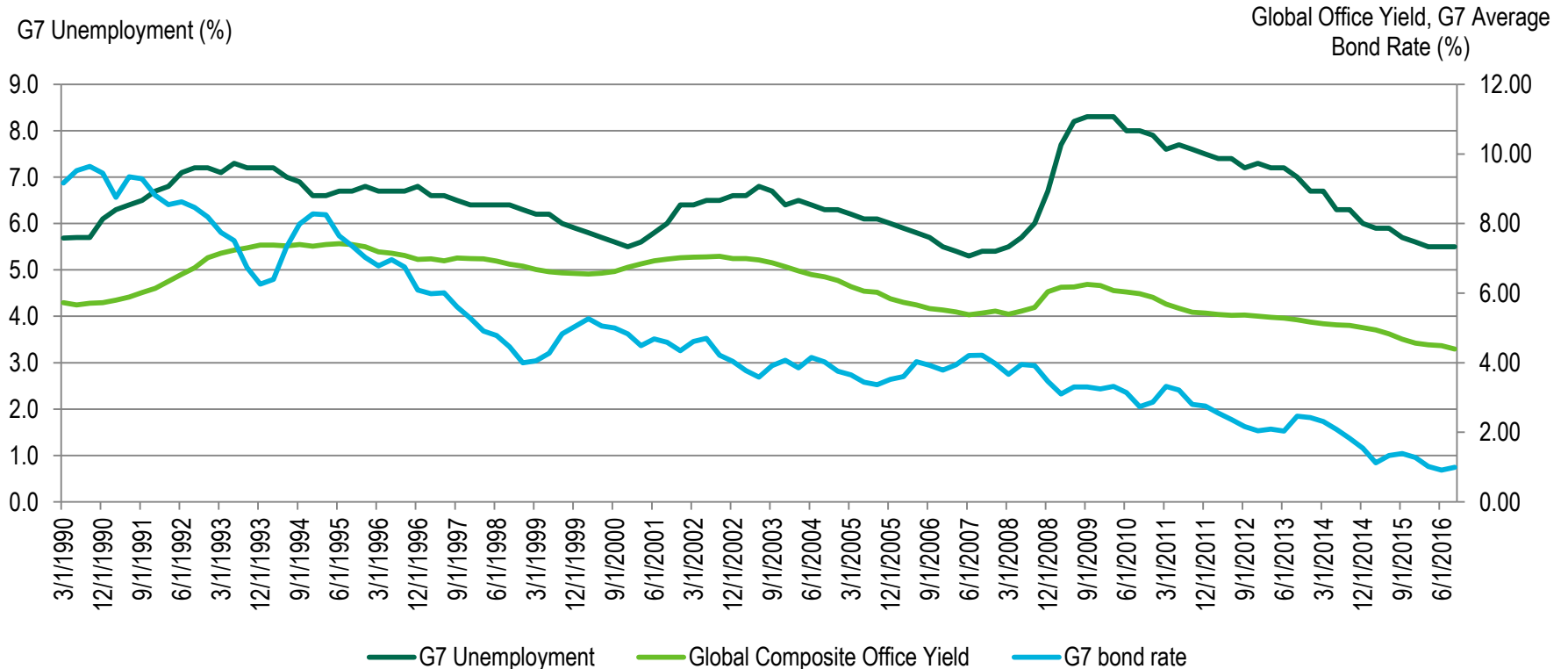
G7 Unemployment and Global Composite Office Yield (%)



Source: CBRE Research, Macrobond, 2016.

# ACTUALLY TWO KEY DRIVERS

## GLOBAL OFFICE YIELDS VERSUS G7 BOND RATES AND G7 UNEMPLOYMENT



Source: CBRE Research, Macrobond, 2016.

## KEY COEFFICIENTS

- 70 bps G7 bonds
- 50 bps G7 unemployment

SOURCE: CBRE RESEARCH

# CONCLUSIONS





- **Globalisation has thrown up many problems**
  - *Political volatility will be with us for some time*
  - *Fiscal stimulus - immediate response – correct*
  - *Trade and immigration checks – longer term response - wrong*
- **Capital glut diminishing**
  - *Rates depressed in medium term, but end in sight?*
- **Cycle alive and well**
  - *Demand shocks had moderating impact – this will reverse*
- **End of cycle**
  - *Will driven by the U.S. – will unfold in emerging markets*

- **Real estate (firm conclusions)**
  - *Fundamentals and rent pressure will protect values for 24 months*
  - *But the era of yield compression is over – bond rates win in medium term*
  - *Next recession probably reasonably mild*
- **Real estate (speculative conclusions)**
  - *Regime shift – back to a higher inflation higher interest rate world*
  - *More higher yielding bonds to compete with prime real estate*
- **Questions to be answered**
  - *Will de-globalisation affect cross border capital flows?*

**CBRE**

**THANK YOU**

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